Wolf Receivables Financing Plc

Re-performing Debts ABS – UK

Ratings

Note class	Rating	Notional (GBP m)	Notional (% assets[1])	Advance rate	Coupon[2]	Final maturity
Senior notes	A SF	100.6	55.7	55.7	Sonia 1-month + 3.25%	Dec 2034
Junior notes	NR	79.9	44.3	n/a	3.0% fixed base rate + 4.0% additional rate	Dec 2034

1. 120-month portfolio collections as expected in servicer business plan
2. Sonia refers to the 1-month compounded daily Sonia rate with a floor at 0%. The senior notes margin will step-up to 4.25% from the fourth anniversary of the closing date.

Scope's quantitative analysis is based on the portfolio dated 31 December 2021 provided by the seller and its agents. Scope's Structured Finance Ratings constitute an opinion about relative credit risks and reflect the expected loss associated with the payments contractually promised by an instrument on particular payment date or by its legal maturity. See Scope's website for the SF Rating Definitions.

Transaction details

Purpose	Financing
Issuer	Wolf Receivables Financing Plc
Originators	Unsecured consumer debt lenders and credit providers in the UK
Servicer	Lowell Financial Ltd (Lowell Financial)
Back-up servicer	Equiniti Gateway Limited (Equiniti Gateway)
Seller	Lowell Portfolio I Ltd (Lowell Portfolio)
Issuer account bank	HSBC Bank Plc (HSBC)
Servicer and Lowell Solicitors collection account bank	National Westminster Bank (NatWest)
Overdales Legal Limited collection account bank	Barclays Bank Plc (Barclays)
Interest rate cap provider	Goldman Sachs International (Goldman Sachs)
Closing date	22 April 2022
Payment frequency	Monthly (20th of each month)

Wolf Receivables Financing Plc is a GBP 315.4m gross-book-value (GBV) securitisation of UK re-performing unsecured consumer debt accounts. These re-performing unsecured consumer debt accounts were paying over the last 6-month period immediately before the cut-off date, as per the transaction eligibility criteria. The notes will be backed by a very granular portfolio of more than 356,000 accounts, mostly related to re-performing unsecured debt accounts under payment plans. The liability structure features a strictly sequential and combined principal repayment waterfall. The rated senior notes will benefit from a liquidity reserve that covers senior expenses and senior interest shortfalls. Interest payments on the junior notes will cease in the event of collateral collection underperformance (subordination event), effectively accelerating the repayment of the senior notes. To mitigate the transaction's interest rate risk (non-interest bearing assets against floating-rate senior notes liabilities), the structure includes a five-year interest rate cap agreement on the senior notes.

Rating rationale (summary)

The rating reflects the transaction's legal and financial structure, the underlying collateral's quality, Lowell Financial's experience and incentives as transaction servicer, and the transaction's exposure to key counterparties.

The rating is primarily driven by the expected recovery amounts and timing of collections from the UK re-performing unsecured consumer portfolio. The expected collections and timing assumptions consider the portfolio's characteristics as well as our economic outlook for the UK and assessment of the servicer's capabilities. The rating is supported by the overcollateralisation available to the senior notes, the protection provided by liquidity reserve, and the interest rate hedging agreement on the senior notes.

The transaction is exposed to the following key counterparties: Lowell Financial as servicer; NatWest and Barclays as the collection account banks; HSBC as issuer account bank, facility agent and cash manager; and Goldman Sachs as senior notes interest rate

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Related Research

General Structured Finance Rating Methodology, December 2021

Non-Performing Loan ABS Rating Methodology, August 2021

Methodology for Counterparty Risk in Structured Finance, July 2021

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cap provider. Counterparty risk is mitigated by the credit quality of the counterparties, structural mechanisms such as the replacement rating triggers, and the limited time exposure. We have assessed the credit quality of the counterparties considering public information.

Rating drivers

Positive rating drivers

Highly granular portfolio. The portfolio is exposed to more than 356,000 debt accounts, making the asset pool among the most granular in the securitisation market. This feature protects the portfolio's performance against idiosyncratic borrower credit risk and ensures stable cash flows.

Positive selection. Pool assets are selected to achieve the best performance. Borrowers have some of the best internal scores assigned by the servicer. Other selection criteria, including those relating to originators, current balances and vintage concentrations, have performed the strongest of the transactions featured in historical data available to us, which spans a period of almost 15 years.

Simple structure. The transaction is static and the notes will amortise fully sequentially. Issuer available fund leakage is limited to a base interest of 3% on the junior notes and is subject to a collection performance trigger.

Liquidity protection. A cash reserve mitigates liquidity risk in the event of a servicer disruption. Further mitigation comes from the combined waterfall, under which all pool collections can be used to repay the rated notes' outstanding balances as well as senior expenses and interest.

Negative rating drivers and mitigants

Macroeconomic risk. Inflation in the UK is reaching record levels and efforts by the Bank of England to contain it may be complicated by geopolitical tensions in Eastern Europe. A possible future scenario which combines high interest rates and high inflation has never been tested, but we would expect it to adversely impact the disposable income of borrowers. The fast-amortising pool is expected to mitigate this risk.

Originator concentration. Although the pool is well diversified, with positions originated by a wide range of UK loan/credit card providers, top two originators (we grouped the two originators as one exposure given their close ties) represent more than a third of the pool. Originator concentrations are mitigated by pool selection criteria that limits assets to re-performing debt accounts.

Interest rate mismatch. The senior notes pay a floating interest rate while the pool assets do not earn any interest, creating a mismatch of interest flows. A five-year interest rate cap agreement on the senior notes mitigates this risk.

Upside rating-change drivers

Higher pool collections than expected by the servicer. Should the pool perform as defined in the servicer business plan or even better in the first 12 months, then the fast deleveraging of the senior notes will protect them against future possible macro-economic inflation shocks and the note could be upgraded**.**

Downside rating-change drivers

Reduction on borrower's available income. Failure to reduce high inflation by the Bank of England. Increase in energy costs and in other key commodity prices or austerity measures triggering a serious economic recession in the UK and unemployment rise which could impact the note rating negatively.

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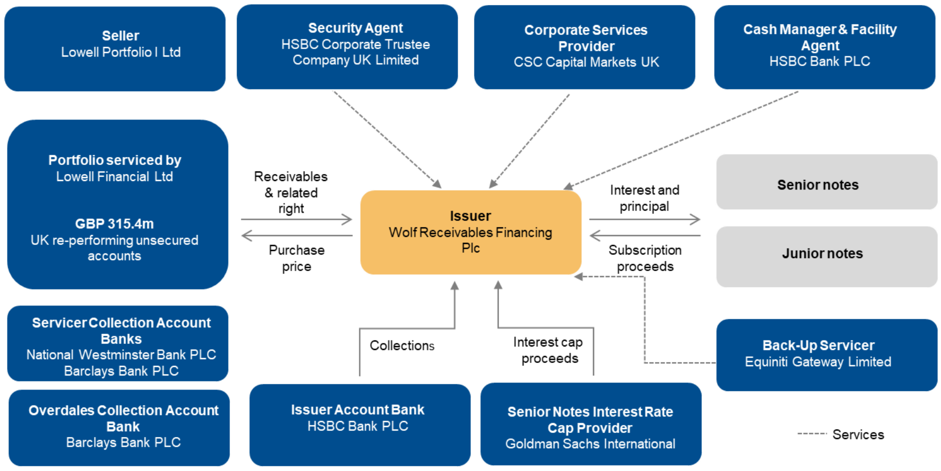
1. Transaction summary

Wolf Receivables Financing Plc is a GBP 315.4m GBV securitisation of UK re-performing unsecured debt accounts. The unsecured receivables were acquired by Lowell Financial during the past 10 years and were originated by a group of unsecured lenders and credit providers operating in the UK.

The portfolio relates to more than 356,000 accounts and most of the assets are serviced internally by Lowell and under payment plans set up by Lowell.

NatWest and Barclays will be the servicer collection account banks. HSBC will be the issuer transaction account bank. Goldman Sachs will provide the senior notes interest rate cap. Equiniti Gateway will be appointed at closing as the back-up servicer and would replace Lowell Financial as initial servicer, at the discretion of the security agent, upon a servicer termination event.

Figure 1. Simplified transaction diagram



Source: Transaction documents and Scope Ratings

2. Macroeconomic environment

Inflationary pressures and rising interest rates weigh on borrower's ability to pay

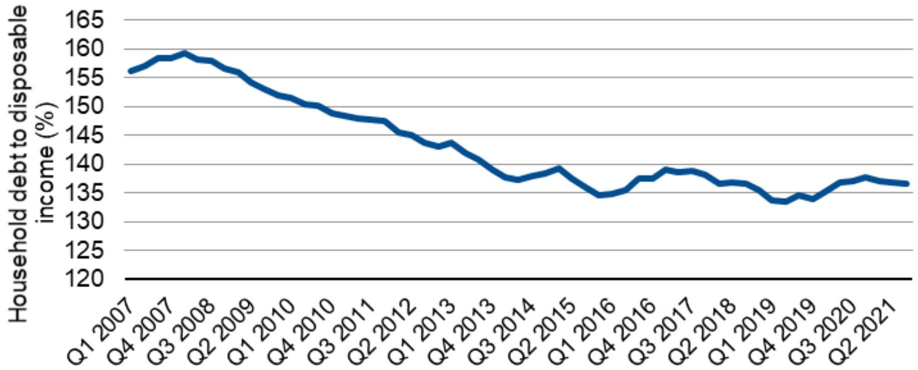
UK inflation has risen rapidly and significantly, with the consumer price index up to 5.5% in the 12 months to January 2022. This is the highest 12-month consumer price index in the National Statistic series, which began in January 1997. The last time it was higher was in in March 1992, when it stood at 7.1%. The official forecast is for inflation to breach the 7% hurdle by spring.

To contain inflation, the Bank of England raised its base rate by 0.15% in December and another 0.25% in February. The consensus is that the base rate will continue to increase, potentially reaching 2% by the end of the year.

Interest rate shifts and/or new Covid lockdowns may increase inflationary pressures, which, combined with rising rates, weigh on disposable income and the affordability of payment plans.

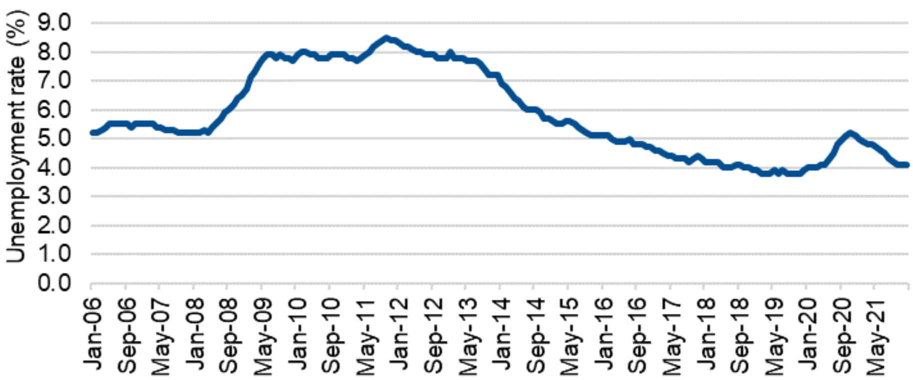
It is unclear whether the Bank of England can return inflation to the targeted 2%, especially with geopolitical tensions in Eastern Europe further fuelling the rise in energy and key commodity prices.

Figure 2. Debt affordability in the UK



Source: OECD and Scope Ratings

Figure 3. Unemployment rate in the UK



Source: Office for National Statistics and Scope Ratings

3. Lowell group overview

We deem Lowell Financial to have significant experience in servicing the transaction assets located in the UK. We consider the servicer to have the knowledge, skills, systems, and resources to perform the key role of servicing the debt accounts backing the rated notes. Further comfort is provided by Lowell's strong experience spanning more than 17 years in purchasing and servicing mostly non-performing unsecured assets and the regulation of its activities by the UK's Financial Conduct Authority.

Lowell group is one of Europe's largest providers of credit management services in terms of revenues and assets under management. It is also the third largest debt services business. Lowell group provides a range of credit management services in three regions: i) the UK; ii) the German-speaking European countries (Germany, Austria and Switzerland); and iii) the Nordics (Sweden, Norway, Denmark and Finland). Lowell is majority owned by international private equity fund Permira V Funds. Lowell was established in 2004. In 2015, it was merged with GFKL and rebranded as Lowell. In 2018, it acquired Lindorff's Nordic business.

Lowell group's main activities are to acquire and collect mostly unsecured non-performing debt accounts (debt purchases) and provide third-party collection services such as early-stage collections, business process outsourcing, contingent collections, trace services and litigation.

Lowell group has a strong customer focus, emphasising the fair treatment of customers as well as risk management. Lowell's business also benefits from its broad geographic reach and balanced revenue mix. Lowell's development of one of the most extensive consumer databases in the UK creates a competitive advantage with regards to predictive capabilities, helping with developing effective servicing strategies.

3.1. Servicing strategies and processes

Around 89% (of the total pool nominal balance) of the accounts in the eligible pool to be securitised are on payment plans.

A payment plan is set in Lowell's system for an agreed date, amount and frequency. Although borrowers have a wide range of payment options, direct debit is the most common, representing nearly 80% of all payments in the last three years.

Lowell recognises that at any time a customer may require support above its standard strategy. Customised strategies could therefore be negotiated to adapt to the customer's specific financial situation.

Lowell has aligned to its customer needs its systems and processes to enable front-line agents to create bespoke strategies for customers requiring additional specialist support, whether temporary or permanent.

All front-line staff are trained to identify triggers that indicate the need for additional support. Lowell then discusses additional options with the customer, with both agreeing on a strategy.

4. Portfolio characteristics

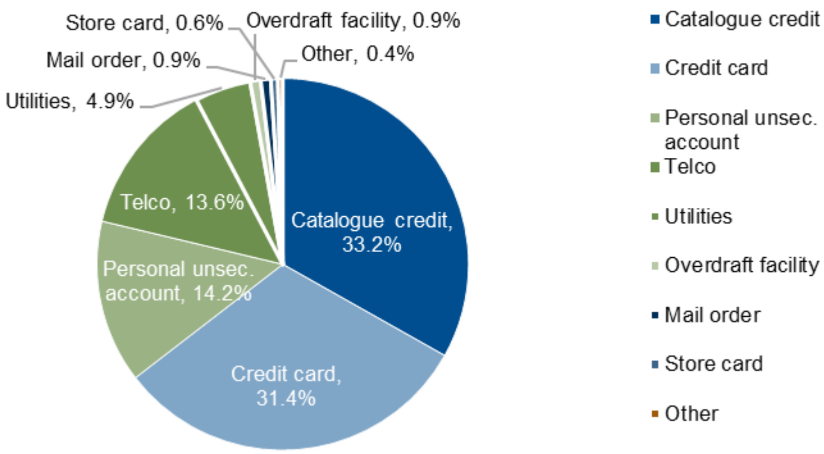
Very granular pool which protects the transaction from idiosyncratic borrower credit risk and ensures stable collections

The portfolio is very granular with over 356,000 accounts that are spread throughout the following parts of the UK (England has 86.7% of the total pool principal balance, Scotland 6.0%, Wales 5.6% and Northern Ireland 1.6%). The pool relates to unsecured consumer debt such as catalogue credit (33.2%), credit cards (31.4%), personal unsecured accounts (14.2%), telco (13.6%), utilities (4.9%), overdraft facilities (0.9%), mail order (0.9%), store cards (0.6%) and other (0.4%). The portfolio debt has an average balance of GBP 884.

Most of the portfolio (89.8%) is serviced by Lowell, with the remaining serviced by external debt management companies and debt collection agencies. The weighted average age of debtors in the pool is 44 years and most have paid by direct debit in the last three years (nearly 80%). In addition, the majority of such debts (83.9%) are regulated by UK consumer credit regulations.

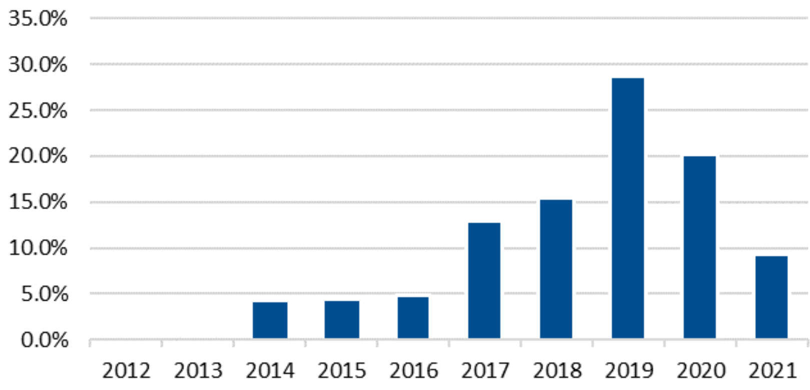
92.3% of the positions in the pool were originated in the past 15 years (from 2007 to 2021) and were acquired in the past 10 years (from 2012 to 2021) by the seller. These debts were originated by a variety of UK unsecured consumer lenders and credit providers.

Figure 4. Portfolio distribution by unsecured product



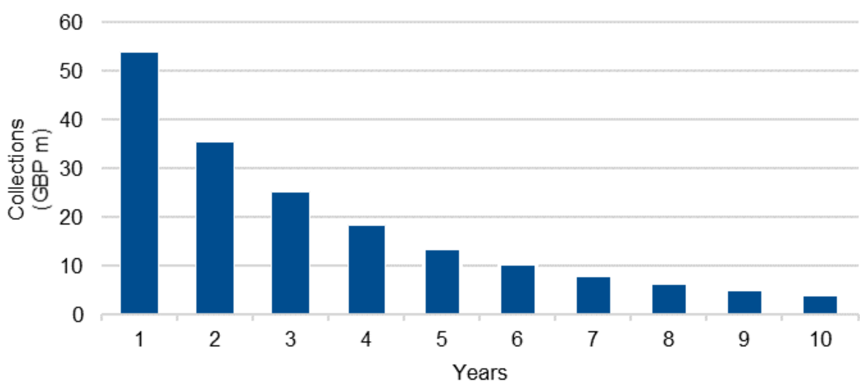
Source: Transaction Tape and Scope Ratings

Figure 5. Pool distribution by Lowell debt acquisition year



Source: Transaction data tape and Scope Ratings

Figure 6. Pool expected collections as per servicer business plan



Source: Servicer business plan

5. Portfolio analysis

Under our NPL ABS Rating Methodology, we test the resilience of a rated instrument against deterministic, rating-conditional stresses. We apply higher stresses as the instrument rating become higher.

Base case collections of GBP 185.6m expected over 15 years

We have determined expected base case collections of GBP 185.6m over the next 15 years from the paying accounts, considering rating-conditional collateral haircuts.

5.1. Pool selection

5.1.1. A re-performing pool

Eligibility criteria ensures the pool concentrates most of the recoveries

Typical unsecured NPL pools are split into i) non/low-payers and payers; and ii) re-performers. The latter generally constitute a minority, ranging from a few percentage points to a third of the pools, while concentrating most of the recovery.

To identify and select re-performers, Lowell has defined eligibility criteria based on the accounts' performance over the past six months. In the six months until the cut-off date, eligible accounts in the pool have made either six net positive monthly payments, or five net positive monthly payments at 80% or more of the due amount.

This selection process is supported by:

- **Historical performance data:** eligible accounts have recovered to date 3.6 times more as a percentage of balance at acquisition than all accounts in Lowell's UK portfolio; and
- **Post-selection pool characteristics:** eligible account holders are among the best rated according to Lowell's internal paying score, reflecting the borrowers' above-average disposable income.

5.1.2. Additional positive pool characteristics

The pool exhibits other characteristics supporting high recoveries in addition to its inclusion of re-performers. These include:

Low balances: 74% of the accounts have a balance lower than GBP 1,000, while 89% have a balance lower than GBP 2,000. Lower balances generally drive higher performance due to their affordability and ensure portfolio granularity.

Young vintages: 75% of the balance has defaulted in 2015 or later. Younger vintages outperform older ones. This is thanks to the high employment rate in the UK since the 2008 financial crisis as well as the refined servicing process that leverages on new technologies to maximise borrower engagement.

5.2. Pool historical performance

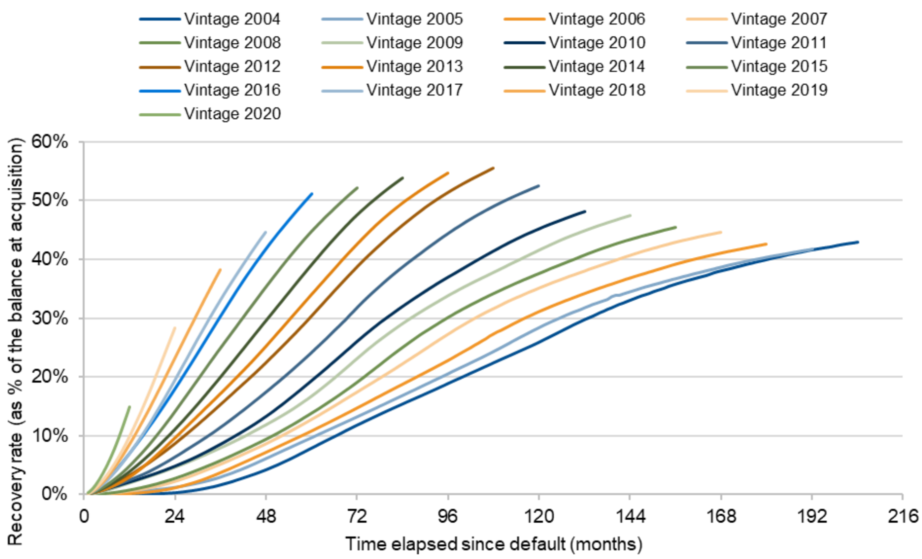
We reviewed almost 15 years of account-level historical performance data in the context of this rating analysis. We present in this section our findings for eligible accounts (approximately 4m accounts have met eligibility criteria at some point since 2007).

5.2.1. Default vintage analysis

Strong YoY improved performance does not allow for usual vintage curve extrapolation

The recovery rate and recovery timing have improved year on year since 2010. Consequently, the usual extrapolation of vintage recovery rate curves overestimates future cash flows as the speed of collections would imply a 100% recovery rate on recent vintages in an average scenario.

Figure 7. Recovery rates by default vintage



Source: Lowell, Scope Ratings

5.2.2. Re-default risk analysis

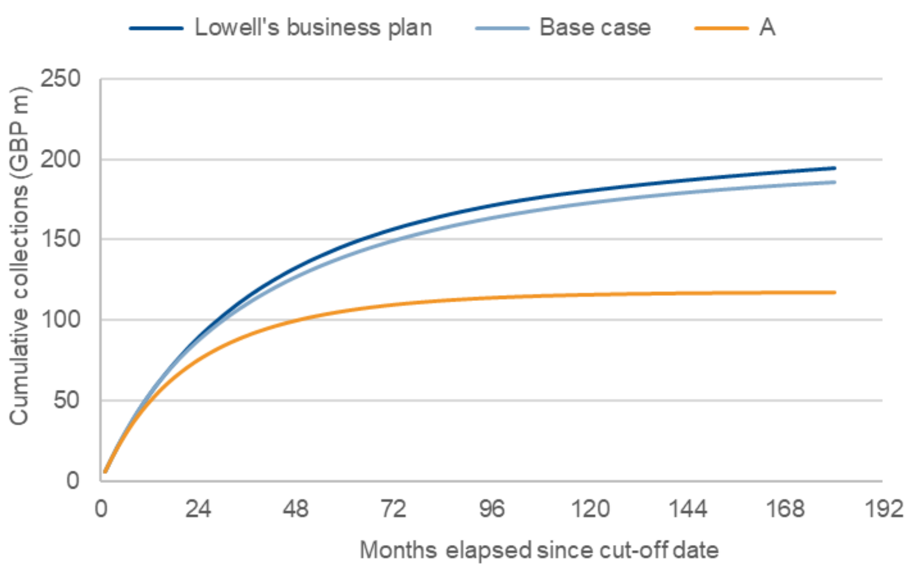
A more robust default rate model

As an alternative to a recovery rate model, the re-performing nature of the assets allows us to use a default rate model. To estimate the expected repayment schedule, we use payment plan information as well as past payment performance at account level. We have inferred default rate curves from the historical payment performance and payment plan database provided by the servicer. This approach leads to base case cumulative default rates of 30% over 24 months and 76% over 120 months. These figures were then stressed up to 54% and 98% in the A rating scenario based on calibrated historical volatility.

5.3. Cash flow projections

We expect GBP 185.6m of collections over the 180 months following the cut-off date in our base case. This reduces to GBP 117.1m in the A rating scenario, equivalent to discounts of 5% and 40% respectively on figures in the servicer business plan.

Figure 8. Cumulative collections versus servicer business plan



Source: Scope Ratings

6. Key structural features

6.1. Capital structure

At the closing date, the issuer will use both senior and junior notes proceeds to pay the portfolio purchase price to the seller (Lowell). Upon payment of the purchase price, the issuer will own the portfolio of unsecured consumer debt obligations and related ancillary rights, with a GBV of GBP 315.4m. Part of junior notes' closing proceeds will be used to fund the transaction's cash reserve fund, the initial set-up expenses, and costs incurred by the issuer for the senior notes interest rate cap agreement.

Senior notes benefit from overcollateralisation and liquidity from issuer cash reserve

The senior notes' credit support comes from the overcollateralisation associated with pool collections expected over the life of the transaction. The senior notes also benefit from a liquidity cash reserve, fully funded at the closing date and available to cover issuer senior expenses and senior note interest shortfalls.

Senior noteholders will receive a floating-rate coupon every month linked to the 1-month compounded daily Sonia. Junior noteholders will be paid a monthly base fixed-rate coupon, unless there is a subordination event associated with pool cash collection performance, which would trigger a redirection of proceeds to accelerate senior note repayment. Once senior notes are fully repaid junior noteholders on top of the base fixed-rate coupon will also get and additional fixed-rate coupon of 4%.

Leakage limited to junior notes base interest

The notes will amortise fully sequentially, meaning that under the combined waterfall certain junior items are paid only when senior notes are fully repaid. This protects senior noteholders as it prevents leakage of monies to junior noteholders or to the seller until the rated senior notes are fully redeemed.

6.2. Liquidity reserve

Liquidity reserve supportive of rated notes' interest and issuer senior expenses

The transaction benefits from an issuer cash reserve funded at closing with part of the proceeds from the junior notes. At closing date, this reserve will be equal to 4.5% of the senior notes' initial balance. After closing, it will amortise in line with the senior notes' amortisation (4.5% of the senior notes' outstanding balance), down to its floor level of GBP 0.5m. Once the outstanding balance of the senior notes at any interest payment date is less than or equal to the floor level of GBP 0.5m, the whole amount will be released to repay any outstanding balance on the senior notes.

In a scenario of servicer disruption, we have identified liquidity coverage of around one year of senior expenses and senior notes interest. Our calculations consider the cash reserve target before it reaches its floor level and assumes senior notes' coupon costs relating to the current one-year Sonia swap rate and the annual administrative expenses cap (GBP 150,000).

We believe that the significant number of accounts in the portfolio (over 356,000) combined with the low implied credit risk of the Lowell group justifies the significant liquidity coverage that is present in the transaction. Servicer disruption risk is further mitigated by the back-up servicer appointed at the closing date, which would replace Lowell as servicer within 30 calendar days following a servicer termination event, at the discretion of the security agent.

6.3. Subordination event

Subordination event feature increases protection for senior noteholders

Should the cumulative realised collections be less than 90% of the cumulative expected collections as per the initial servicer business plan, a subordination event will occur, deferring the junior notes' base interest to the benefit of the senior notes. A subordination event is a curable event and offers additional protection to senior noteholders should the collections deviate from the servicer forecast as of the cut-off date (31 December 2021).

6.4. Priority of payments

Strictly sequential combined waterfall

The structure features a combined priority of payments. Portfolio collections, the cash reserve and any interest earned on the issuer account bank will cover the respective items in sequential order.

The combined priority of payments, together with the liquidity reserve and the appointment of the back-up servicer at closing, is adequate to address the liquidity needs of the rated senior notes.

Figure 9: Simplified available funds and pre- and post-enforcement priority of payments

	Available funds
A	The proceeds of any amounts advanced by the junior noteholders under the junior facility agreement to be received into the transaction account following the calculation date
B	Any other amounts standing to the credit of the issuer accounts at the end of the previous collection period
C	Portfolio collections (including principal and any late payment fees as permitted under underlying borrower debt agreement)
D	Balance on issuer liquidity reserve account
E	Issuer transaction account, earned interest
F	Interest cap receipts due to interest rate cap agreement
G	Any seller-repurchased assets or indemnity amounts paid to the issuer due to a breach of the affected receivable eligibility criteria

	Pre-enforcement priority of payments
1	Tax
2	Security agent, facility agent, cash manager and account bank expenses, followed by the remaining senior administrative expenses (senior administrative expenses only being capped at GBP 150,000 per year)
3	Senior servicing fee
4	Senior notes interest
5	Top-up of liquidity reserve to required amount (required amount reduces to zero in post-enforcement waterfall)
6	Any senior expenses above the administrative expenses cap amount
7	Issuer retained profit
8	If no subordination event, base junior notes interest (becomes subordinated to senior notes' full principal repayment in post-enforcement waterfall)
9	Senior notes principal, until repayment in full
10	Senior notes step-up margin (from the fourth anniversary of the closing date)
11	Any premium amount due to the replacement of the interest rate cap provider
12	Additional junior notes interest
13	Junior servicing fee
14	Junior notes principal, until GBP 1
15	Subordinated item to junior noteholder (deferred purchase price)
	Post-enforcement priority of payments
1	Tax
2	Security agent, facility agent, cash manger and account bank expenses, followed by the remaining senior administrative expenses (senior administrative expenses only being capped at GBP 150,000 per year)
3	Senior servicing fee
4	Senior notes interest
5	Issuer retained profit
6	Senior notes principal, until repayment in full
7	Any senior expenses above the administrative expenses cap amount

8	Senior notes step-up margin (from the fourth anniversary of the closing date)
9	Any premium amount due to the replacement of the interest rate cap provider
10	Base junior notes interest
11	Additional junior notes interest
12	Junior servicing fee
13	Junior notes principal, until GBP 1
14	Subordinated item to junior noteholder (deferred purchase price)

In both waterfalls, only when senior notes are fully repaid can the issuer's available funds be used to repay junior notes or any items below the senior notes' repayment in the priority of payments. This feature benefits senior noteholders as it prevents pool collections being used to repay junior noteholders or the seller. Further protection to senior noteholders comes from the transaction subordination event, which will redirect junior notes base interest into the repayment of senior notes in case portfolio collections performance deteriorates.

6.5. Servicer fees and structure costs

Servicing fee structure mitigates potential conflicts of interest

The servicing fee structure is designed to mitigate potential conflicts of interest between the servicer and the noteholders, through performance-based servicing fees ranging from 3.5% to 5.0%. Servicer fees include servicing costs, adding to the transparency and simplicity of the fee structure.

Other senior costs, which are not the security agent, facility agent, cash manager and account bank expenses, are capped at GBP 150,000 a year.

6.6. Interest rate risk

Interest rate risk mostly mitigated by senior notes cap rate agreement

The transaction is exposed to interest rate risk as assets bear no interest while senior notes pay a floating rate to noteholders. The risk of increased interest rates is mitigated through a five-year interest rate cap agreement on the senior notes. The issuer will enter into the hedging agreement with Goldman Sachs. The interest rate cap agreement entails compensation for the issuer whenever the 1-month compounded daily SONIA exceeds the 1.5% strike rate. The notional of the interest rate cap hedging agreement will be based on the senior notes' scheduled hedged notional balances.

Interest rate risk on the senior notes is further mitigated by the issuer's cash reserve fund, which can also be used to cover any interest shortfall on the senior notes.

6.7. Accounts

HSBC's high credit quality and replacement trigger mitigates counterparty exposure

The issuer holds its transaction account with HSBC. The high credit quality of HSBC and the replacement trigger within 30 calendar days upon loss of the minimum required rating are effective at mitigating this counterparty exposure, in accordance with our counterparty risk methodology (see counterparty risk section for further details).

7. Cash flow analysis and rating stability

We analysed the transaction's specific cash flow characteristics. Asset assumptions were captured through rating-conditional gross recovery vectors. The analysis considers the capital structure, the coupon payable on the notes, the interest hedging structure, the servicing fee structure, and the transaction's senior costs.

The respective rating assigned to the notes reflect the instrument expected losses over their weighted average life commensurate with our idealised expected loss table.

7.1. Rating sensitivity

We tested the resilience of the rating against deviations in the main portfolio input parameters: the recovery rate and the recovery timing of the portfolio. This analysis has the sole purpose of illustrating the sensitivity of the rating to input assumptions and is not indicative of expected or likely scenarios.

The following shows how the results for the senior rated notes change compared to the assigned credit rating in the following scenarios: i) a decrease in recovery rates by 10%, two notches; and ii) an acceleration of long-term redefault rate reducing collections window by 10%, two notches.

8. Sovereign risk

Sovereign risk does not limit the transaction's rating

Sovereign risk does not limit the senior notes' rating. The risks of an institutional framework meltdown or legal insecurity are immaterial for the rating.

For more insight into our fundamental analysis of the UK economy, refer to our press release, dated 10 December 2021 (Scope takes no action on the United Kingdom).

9. Counterparty risk

The transaction's counterparty risk supports the rated instrument's rating. We do not consider any counterparty exposure to be excessive. The limited exposures, the generally high credit quality of the counterparties and the downgrade and replacement mechanism support the rated instrument. The counterparty roles of issuer account bank (HSBC) and senior notes interest rate cap provider (Goldman Sachs) are material. However, the transaction's downgrade and replacement language, within 30 calendar days upon a counterparty's loss of a minimum BBB rating by Scope, is effective at mitigating counterparty risk, with the remaining risk immaterial.

9.1. Servicer disruption risk

Back-up servicer appointed at closing date

Servicer disruption risk in the event of Lowell's insolvency is mostly mitigated by the issuer's cash reserve. We estimate that the liquidity reserve can cover around one year of issuer senior expenses and senior notes interest. This risk is further mitigated by the appointment of a back-up servicer at closing date. In the case of a servicer termination event and at the discretion of the security agent, the back-up servicer is expected to be fully operational within 30 calendar days.

The transaction's main servicer termination events include: i) a failure by the servicer to pay that is not cured within five business days; ii) a material breach by the servicer of its obligations that are not cured within 30 calendar days; iii) the servicer ceasing or threatening to cease its activities, iv) the implementation of an acceleration notice or enforcement notice; v) a downgrade of the public rating of the servicer group entity (Garfunkelux Holdco 2 S.A.) to below CCC+ by S&P and/or Fitch or below Caa1 by Moody's; and vi) the pool's cumulative collections being lower than the 75% expected in the servicer business plan.

9.2. Commingling risk

Scope considers commingling risk as material and has sized it

Most of the portfolio debtors will pay into Lowell's main collection account with NatWest. Daily, the estimated amount of cash relating to the transaction in that account will be swept into Lowell's collection trust account (also held with NatWest) within one business day and swept (including the cash sweep true-up amount) into the issuer account held with Barclays every week.

A small portion of the debtors in the pool pay into the distressed collections account held either by Lowell Solicitors or Overdales Legal Limited. All such monies will be swept into Lowell´s main collection account bank on a weekly basis.

In the event of Lowell's insolvency, all debtors and debt management companies will be notified to redirect their payments from Lowell's main collection account into the issuer account. This effectively eliminates cash-commingling risk.

While Lowell is solvent, cash-commingling risk is material as debtors and (to a smaller extent) debt management companies first pay into Lowell's collection account rather than directly into the issuer account. The weekly collection cash sweeps from Lowell's collection trust account into the issuer account adds to this risk. However, partial mitigation to this risk comes from the daily sweeps from Lowell's main collection account into the servicer collection trust account. Please note that the servicer collection trust account, should benefit from the separation of rights in case of a servicer default.

We determined potential cash-commingling risk in the event of Lowell's insolvency by sizing 63 bps of portfolio losses in the first month of the transaction's life. This calculation considered factors that include the weekly sweeping frequency from the seller's collection trust account into the issuer account, the estimated time needed to redirect borrower payments, and the public rating of the Lowell's parent entity (Garfunkelux Holdco 2 S.A.).

9.3. Counterparty risk from account bank

Our base case incorporates an expected weighted average life of 1.8 years for the senior notes. This short timeframe reduces counterparty risk regarding issuer account bank HSBC. Given HSBC's high credit quality, the risk of losses following a default of the entity is sufficiently remote and therefore immaterial for the rated notes. We have assessed the credit quality of HSBC using public information as well as public ratings. The risk regarding this counterparty is also mitigated through a replacement trigger within 30 calendar days upon loss of its minimum required rating.

9.4. Counterparty risk from senior notes interest cap provider

Goldman Sachs provides the senior notes interest rate cap that protects the transaction from increases in 1-month compounded daily Sonia. The risk of losses in the event of a default of this counterparty is sufficiently remote and therefore immaterial for the rated senior notes. We have assessed the credit quality of Goldman Sachs using public information and public ratings. A replacement trigger within 30 calendar days upon loss of a minimum required rating for Goldman Sachs also mitigates this risk.

10. Legal structure

10.1. Legal framework

This securitisation is governed by English law and represents the true sale of the assets to a bankruptcy-remote vehicle, represented by CSC Capital Markets Limited, the corporate service provider. The special purpose vehicle is essentially governed by the terms in the documentation.

10.2. Use of legal and tax opinions

Tax-efficient set-up and issuer perceived to be a bankruptcy-remote special purpose vehicle

We reviewed the English legal and tax opinions produced by a reputable law firm with significant experience in international securitisation. These provide comfort on the issuer's legal and tax-efficient structure and support our general legal analytical assumptions.

The English legal opinion confirmed the right of separation in case of a servicer default for amounts held in Lowell's collection trust account. The legal opinion also confirmed that in an event of Lowell's insolvency, its creditors and its insolvent administrator would be prevented from contesting the validity of the equitable assignment of the receivables or the trust under the seller collection account declaration of trust.

The issuer is a public limited company incorporated and based in England, established as a securitisation company subject to the securitisation law. The issuer has the authority to enter into transaction documents, exercise and perform its obligations, and issue notes. The issuer's obligations under an English court would be recognised as legal, valid and binding in accordance with the transaction documents. The transaction documents are governed by English law and would be recognised by the courts in England, where the issuer is located.

The issuer is owned by its parent (Metis Bidco Limited), which we understand to be for tax reasons, associated with servicing VAT cost optimisation. All the issuer's assets (receivables, seller cash collections and issuer transaction account) are subject to the security granted and/or the trust created under the security documents for the security agent and ultimate benefit for the noteholders. Therefore, we understand that the validity or priority of the security interest should not be affected by the insolvency of the issuer's parent. This risk is further mitigated by the parent's share pledge in favour of the security agent and for the ultimate benefit of noteholders.

Based on transaction documentation as well as representations and warranties made by the notes' issuer, this entity's features are consistent with those of a bankruptcy remote entity, such as contractual restrictions related to limited recourse, non-petition and debt limitations.

The tax opinion considers the structure to be tax-efficient, i.e. no taxes apply, except for the minimum retained profit tax and VAT in the context of the issuer's contracted services.

Scope analysts are available to discuss all the details surrounding the rating analysis

11. Monitoring

We will monitor this transaction based on performance reports from the management company as well as other available information. The rating will be monitored continuously and reviewed at least once a year, or earlier if warranted by events.

Scope analysts are available to discuss all the details surrounding the rating analysis, the risks to which this transaction is exposed and the ongoing monitoring of the transaction.

12. Applied methodology and data adequacy

We analysed this transaction using our General Structured Finance Rating Methodology dated December 2021, Non-Performing Loan ABS Rating Methodology dated August 2021 and Methodology for Counterparty Risk in Structured Finance dated July 2021. All are available on our website, www.scoperatings.com. Lowell has provided Scope, among others, with timeseries data showing almost 15 years (from 2004 to Q3 2021) of monthly historical payments at account level and static data tape information as of the final cut-off date. The historical data covers at least one full economic cycle in the UK and two periods of significant economic stress related to the Great Financial Crisis during 2008 and 2009 and the pandemic crisis which started in March 2020. We have reviewed and analysed the findings related to an agreed-upon procedures report performed by a reputable audit firm. On Scope´s view the small random sample of only 59 accounts out of more than 356,000 accounts, seems to be too small and therefore we have considered its relevance to be weak.

I. Summary of portfolio characteristics

Our analysis was based on the portfolio as of 31 December 2021.

	Wolf Receivables Financing Plc
Current pool balance	**GBP 315.4m**
Number of debt accounts	356,927
Share of pool in payment plans*	89.1%
Share of pool not in payment plans*	10.9%
Weighted average age of borrower**	44 years
Share of pool serviced by Lowell (excluding accounts managed by debt management companies and debt collection agencies)*	89.8%
Share of pool externally serviced by other debt management companies*	10.2%
Share of accounts regulated by UK Consumer Credit Association*	83.9%
GBP-denominated account*	100.0%
Pool distribution by top three product types*	Catalogue credit (33.2%), credit cards (31.4%) and personal unsecured (14.2%
Pool distribution by countries*	England (86.7%), Scotland (6.0%), Wales (5.6%) and Northern Ireland (1.6%)
Share of pool by direct debit payment method in the last three years*	Nearly 80%
Share of pool not in litigation*	96.7%

*by total current pool principal balance
**weighted by current pool principal balance

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