8 September 2023

Structured Finance

Charlotte 2023 Funding plc

Project Finance CLO

Ratings

Notes	Rating	Notional (GBP m)	Notional (% of assets)	CE (%)	Coupon	Final maturity
Class A	AAA_{SF}	482.8	68.5	31.5	SONIA + 1%	May 2046
Class B	NR	222.1	31.5	0	SONIA	May 2046
Subordinated Loan	NR	8.0				

Scope's quantitative analysis is based on the portfolio dated 29 August 2023 (cut-off date). 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 a particular payment date or by its legal maturity. See Scope's website for the SF Rating Definitions.

Transaction details

Purpose	Liquidity/funding
Issuer	Charlotte 2023 Funding plc
Originator	Banco Santander S.A., London Branch (Santander)
Servicer	Banco Santander S.A., London Branch
Account bank and cash manager	Banco Santander S.A., London Branch
Trustee	U.S. Bank Trustees limited
Agent and liquidity account bank	Elavon Financial Services DAC
Corporate services provider	Intertrust Management Limited
Closing date	8 September 2023
Revolving period	2.2 years (scheduled to end in November 2025)
Payment frequency	Quarterly, 15th day of February, May, August and November

Charlotte 2023 Funding plc is a revolving cash securitisation of a portfolio composed of project finance (PF) loans originated in the UK in the ordinary course of business by Banco Santander S.A., London Branch. The proceeds from the notes will be used to acquire the beneficial interest over the portfolio from the originator.

Rating rationale (summary)

The rating reflects the legal and financial structure of the transaction, the quality of the underlying collateral, the capabilities and incentives of Santander as the originator and servicer, and the exposures to main counterparties.

The rating accounts for the credit enhancement of the Class A notes and the available excess spread, the strictly sequential amortisation of the two classes of notes after the revolving period, liquidity coverage through a reserve and a facility, and the revolving nature of the portfolio. The rating also reflects the default risk of the portfolio and recoveries upon default. Scope's analysis incorporates credit estimates for the concentrated positions and the transaction's mitigants against adverse portfolio migration during the revolving period including loan eligibility criteria and portfolio limits.

The rating addresses exposures to the key transaction counterparties: i) Banco Santander S.A., London Branch as account bank, cash manager, originator and originator trustee, servicer, liquidity facility provider and subordinated loan provider; ii) Elavon Financial Services as principal paying agent, agent bank, liquidity account bank, registrar and transfer agent; iii) U.S. Bank Trustees as trustee; and iv) Intertrust Management as corporate services provider. Scope considered the materiality of counterparty risks, the transaction's methods to mitigate such risks, for example, counterparty replacement provisions, and counterparty ratings by Scope or public ratings to assess the issuer's exposure to such risks.

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Related Research

General Structured Finance Rating Methodology; January 2023

Counterparty Risk Methodology; July 2023

CLO Rating Methodology; April 2023

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Bloomberg: RESP SCOP

Rating drivers and mitigants

Positive rating drivers

Significant credit enhancement. The Class A notes benefit from a 31.5% credit enhancement at closing provided by subordination. There is also excess spread available to support the rated notes that can be used to pay towards the principal deficiency ledgers.

Experienced originator and servicer. Santander is an experienced project finance lender in Europe with a longstanding track record and well-tested processes and models.

Sequential amortisation. No principal payments can be made towards Class B notes before Class A notes after the revolving period since principal payment priorities are fully sequential.

Interest coverage. In addition to the excess spread, further Class A interest coverage is provided by the liquidity reserve and liquidity facility. Principal collections can also be used to cover Class A interest as a last resort.

Negative rating drivers and mitigants

Revolving portfolio. The characteristics and credit quality of the portfolio may migrate during a revolving period of about two years after the closing date. This risk is mitigated by the originator’s expertise, eligibility criteria, further loan conditions and portfolio limits in the transaction. Scope also has visibility over replenishment targets.

Concentration. The portfolio is highly non-granular with 41 borrowers, all of which are located in the UK and the largest borrower constitutes 6.9% of the portfolio drawn balance at closing. Scope has conducted credit estimates for eight borrowers totalling 42.5% of the portfolio drawn balance at closing.

Construction projects. 26.2% of the portfolio commitment balance is construction projects at closing. Scope expects lower recovery rates for construction projects because the value of the projects will not be consolidated until completion of the construction phase.

Frequency mismatch. Most of the projects pay semi-annually while the notes pay quarterly. This mismatch could negatively affect available liquidity on a payment date. A liquidity facility is set up and sized accordingly to specifically address this risk.

Upside rating-change drivers

A better-than-expected portfolio at the end of the revolving period could positively affect the rating.

Faster-than-expected portfolio amortisation could positively affect the rating of the Class A notes by increasing the credit enhancement after the revolving period.

Downside rating-change drivers

Worse-than-expected asset performance, reflected in a higher-than-expected default rate or lower-than-expected recovery upon asset default, could negatively impact the ratings.

Significant deterioration in Santander’s credit quality could negatively affect the rating as Santander’s counterparty risk is only partially mitigated by the transaction’s structural mitigants.

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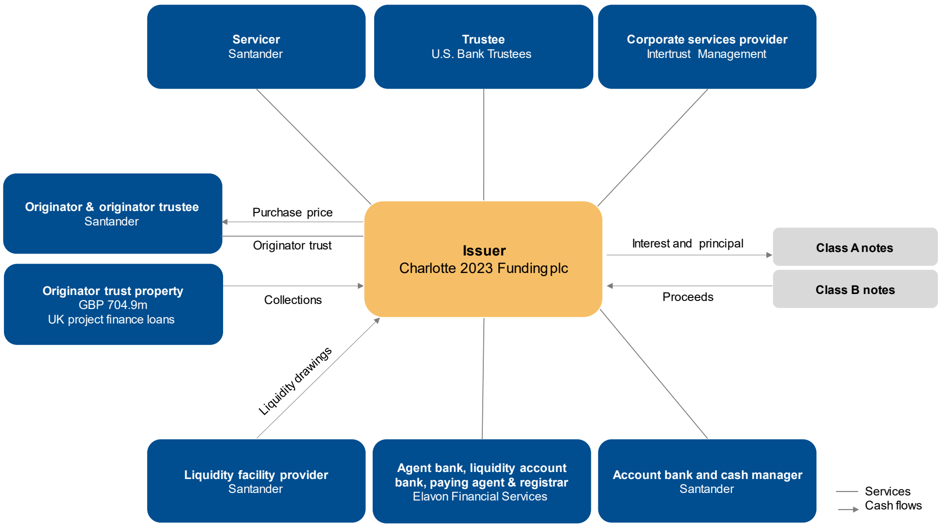
1. Transaction summary

Figure 1: Simplified transaction diagram


Servicer
Santander
Trustee
U.S. Bank Trustees
Corporate services provider
Intertrust Management
Originator & originator trustee
Santander
Purchase price
Originator trust
Originator trust property
GBP 704.9m
UK project finance loans
Collections
Issuer
Charlotte 2023 Funding plc
Interest and principal
Proceeds
Class A notes
Class B notes
Liquidity drawings
Liquidity facility provider
Santander
Agent bank, liquidity account bank, paying agent & registrar
Elavon Financial Services
Account bank and cash manager
Santander
Services
Cash flows

Source: Transaction documents, Scope

Charlotte 2023 Funding plc (the transaction) is a revolving cash securitisation of a GBP 704.9m portfolio composed of PF loans originated in the UK by Banco Santander S.A., London Branch. The assets' economic interests are legally transferred from the originator to the issuer through a declaration of trust. The portfolio collateralises two classes of sequential notes. The most senior Class A notes benefit from subordination of 31.5%.

The transaction features about a two-year revolving period that can be shortened subject to trigger events. The revolving portfolio must satisfy eligibility criteria, further loan conditions and portfolio limits, which include top borrower concentration, sectoral concentration, construction assets concentration, and weighted average life (WAL) limits.

The portfolio is composed of 48 loans and 41 borrowers/projects at the cut-off date, all of which are denominated in GBP and located in the UK. 73.8%[1] of the portfolio is composed of operational assets. 36.4% of the portfolio is in the private finance initiatives (PFI) sector, 29.6% is in infrastructure, 21.2% is in renewables and 12.8% is in utilities. The largest project constitutes 6.9% of the portfolio drawn balance. The portfolio's WAL is 5.4 years, not counting the revolving period and assuming no default and no prepayment.

The capital structure features a liquidity reserve funded by the subordinated loan at closing and a liquidity facility available to the cash manager to offset potential shortfalls resulting from the frequency mismatch between assets and liabilities. Excess spread provides additional credit support for the rated notes since it can be used to sequentially pay towards the shortfall in the principal deficiency ledgers (PDLs). Principal losses of the portfolio accumulate in the PDLs in reverse order of seniority.

2. Originator, seller and servicer

Santander Corporate & Investment Banking is Santander Group's global business division that supports corporate and institutional clients through its subsidiaries across multiple continents. The Global Debt Financing team provides tailored debt and finance solutions under the division, including structured finance and project finance products. Thus the originator, Banco Santander S.A., acting through its London branch in the UK,

[1] Percentages and weighted averages are based on commitment balance of the loans in this report, unless stated otherwise.

benefits from centralised and group-wide origination and operations in its ordinary course of business.

2.1. Business positioning, origination and underwriting

Experienced PF lender in the UK

Santander is among the top 3 PF lenders in the world and the UK by number of deals[2], and it is well-known as a top financing and debt advisory house in the renewables sector.

Santander combines local and global capabilities for PF origination. PF activity is regulated via a global risk framework applicable to all local units but complemented by local frameworks. While the origination team is responsible for initial credit recommendation, the local or global risk department is responsible for transaction review, rating and approval processes depending on the transaction. Santander limits underwriting risk based on its rating policy. Scope considers the workflows for originating and executing the PF transactions to be effective, limiting credit risk in accordance with the bank's appetite.

Internal models specific to project finance

Santander has specific internal models for PF facilities, helping it profile the probability of default and the loss-given-default of a project. The scoring models combine qualitative and quantitative aspects of a project and take widespread PF risk metrics as inputs. We believe the internal analysis Santander performs is comprehensive and so we have leveraged it while conducting Scope's asset analysis.

2.2. Monitoring and servicing

Proactive monitoring processes

All PF transactions are subject to a monitoring report to be prepared and reviewed annually. Santander also conducts quarterly reviews of internal ratings and potential provisions through risk committees. Monitoring frequency, level and other specific actions are determined through the assignment of a Santander Customer Assessment Note (SCAN) flag, providing an indication on the positions' performance. Workouts of delinquencies and defaults are delegated to the local teams.

Servicing is carried out by experts familiar with the projects. The origination, risk and monitoring teams involved in the origination of new exposures are also responsible for servicing. This is done with adequate oversight and does not result in a conflict of interest because each team is responsible for monitoring or signing off on recommendations from one of the other teams.

2.3. Portfolio management and alignment of interests

Santander's net economic interests are well aligned with those of noteholders through significant risk retention in the transaction.

The portfolio management team is responsible for portfolio replenishment, compatibility with operating guidelines as well as reporting requirements. The separation of functions between portfolio management and loan servicing teams prevents conflicts of interest when part or all of the projects are collateral for balance sheet transactions.

3. Asset analysis

3.1. Initial reference portfolio[3]

Most projects are fully operational

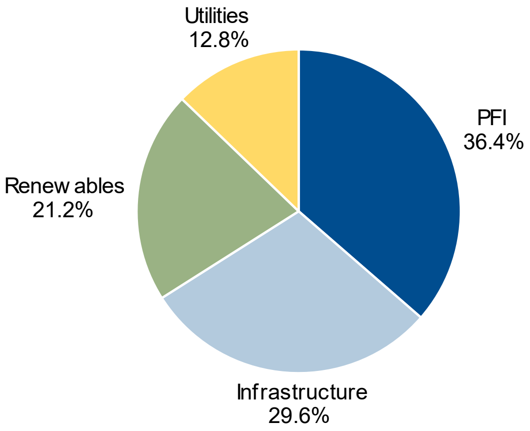
The GBP 704.9m reference portfolio comprises 48 GBP-denominated first-lien PF loans at cut-off date stemming from 41 projects originated in the UK. The portfolio is concentrated in terms of borrowers, with the top borrower concentration at 6.9% of the portfolio drawn balance. Most projects (73.8%) are operational.

The portfolio contains PPP/PFI (36.4%), infrastructure (29.6%), renewables (21.2%) and utilities (12.8%) projects, further diversified by sub-sectors such as schools, offshore

[2] Infralogic (Inframation) League Tables FY 2022, as of 14 March 2023
[3] A snapshot of the portfolio can be found in Appendix I.

wind, fibre optics, gas pipelines and others. Three of the facilities have an undrawn commitment amount totalling GBP 28.0m.

Figure 2: Sector distribution by total commitment



Source: Reference portfolio tape (Santander)

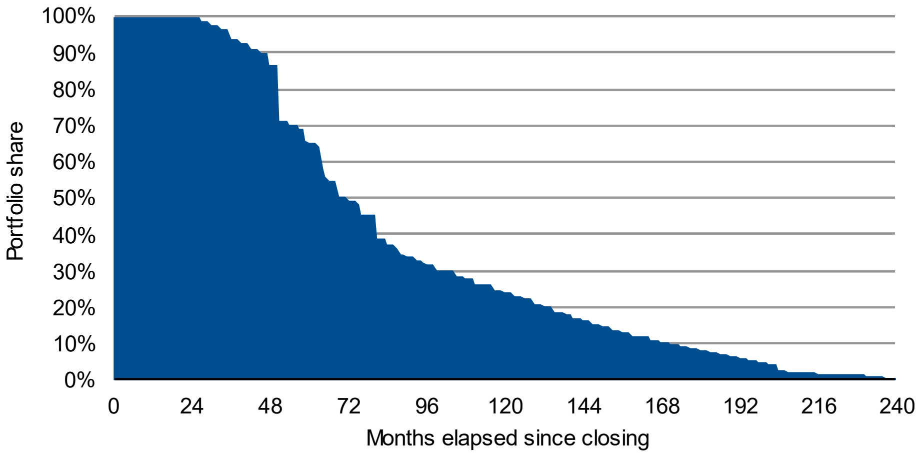
Significant portion of cash flows linked to UK government

72.9% of the portfolio is production-based and 56.9% has a government off-taker according to Scope's evaluation. Production-based projects are less risky than demand-based projects as they benefit from volume and/or price-fixed revenue contracts. Furthermore, projects with an offtake agreement signed with a governmental entity also benefit from stable and predictable cash flows.

None of the facilities in the portfolio have their SCAN status marked as intensive, as per the eligibility criteria. The weighted average internal rating (5.7) of the portfolio is slightly better than Santander's overall PF loan book and is equivalent to a BBB- credit quality as per Santander.

The weighted average remaining maturity of the portfolio is 7.9 years, and the latest maturity date is March 2042. The risk of drift in portfolio composition is partially mitigated by the presence of long-maturity assets in the portfolio. 28.7% of the portfolio is expected to amortise and be replenished during the revolving period (see **Figure 3**).

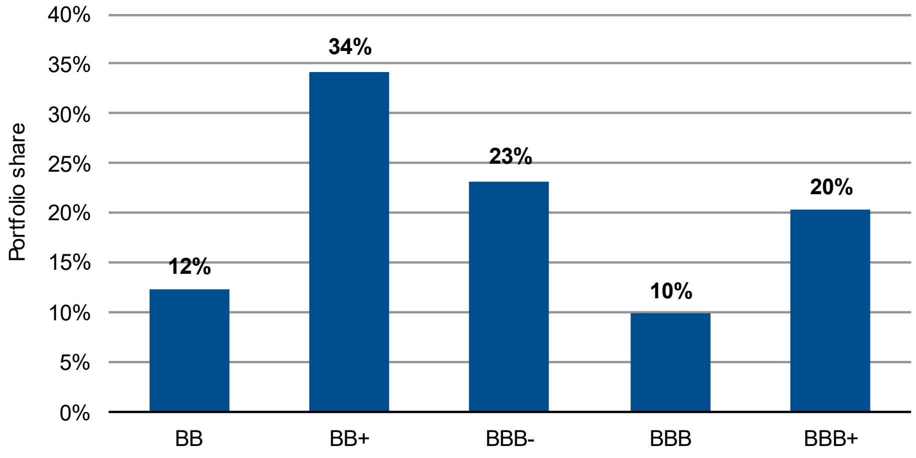
Figure 3: Amortisation profile



Source: Reference portfolio tape (Santander) and Scope

The weighted average credit quality of the portfolio is BB+ according to Scope's assessment. The resulting credit quality distribution is presented in **Figure 4**. Scope's approach uses a combination of internally produced credit estimates and scoring/mapping. It is described further in section 3.3.

Figure 4: Credit quality assumptions as per Scope's assessment



Source: Reference portfolio tape (Santander) and Scope

3.2. Replenishment

Initial portfolio will change by replenishments

The initial portfolio will change due to the replenishments during the revolving period from the closing date until November 2025. Scope expects the general risk profile to remain the same given the eligibility criteria, further loan conditions, portfolio limits, target replenishments and Santander's expertise.

3.2.1. Eligibility criteria and further loan conditions

Loans present in the initial reference portfolio and further loans to be included during the revolving period must satisfy the eligibility criteria. They ensure the loans are first-lien PF loans originated by Santander in the ordinary course of business and the loans' lawful inclusion in the transaction through a declaration of trust. The other main criteria are presented in **Figure 5**. Taken in isolation, the eligibility criteria are not restrictive enough to prevent portfolio drift during the revolving period.

Figure 5: Simplified loan eligibility criteria

1)	Final maturity not later than March 2044
2)	An internal rating not lower than 4.4
3)	SCAN status is not intensive or worse
4)	Performing (no delinquencies or defaults)
5)	No disputes between borrower and originator
6)	Located in the UK and GBP-denominated
7)	Not bearing a fixed rate of interest and no linkage to GBP LIBOR

Source: Transaction documents

Further loan conditions apply to new loans that can be added to the portfolio during the revolving period. These conditions contain the main mitigants against portfolio migration.

Figure 6: Further loan conditions

1) Further loan satisfies the eligibility criteria

2) Acquisition of further loan would not result in the breach of any of the portfolio limits

3) If possible, the further loan is scored by Scope, and the servicer has performed an estimation in good faith and concluded the addition of such loan does not pose a significant risk to the rating of Class A notes.

4) If a further loan would constitute above 5% of the portfolio (as % of commitments), the servicer is required to obtain a credit estimate from Scope before its inclusion.

5) If a further loan would constitute above 5% of the portfolio (as % of commitments) and it has an internal rating of less than 5.0, the servicer is required to obtain a rating agency confirmation (RAC).

Source: Transaction documents

The second item in the further loan conditions allows the cash manager to tap into Class B to draw cash, increasing the asset balance so that portfolio limits are satisfied along with the inclusion of a further loan.

3.2.2. Portfolio limits

Presented in **Figure 7**, the portfolio limits are only partially restrictive and potentially allow a deterioration in credit quality or reduction in available excess spread, for instance. Nonetheless, sector distribution limits and construction assets limits are credit-positive for the transaction. These limits only apply during the revolving period.

Figure 7: Portfolio limits

1) Top borrower concentration not greater than 8.5% of the outstanding portfolio balance

2) Sectors shall not exceed the following industry limits:

Industry	Limit[4]
PFI	45.0%
Infrastructure	45.0%
Renewables	35.0%
Utilities	22.5%
Other	15.0%

3) WAL of portfolio not greater than eight years

4) Aggregate drawn balance of all loans which relate to projects which are under construction and not yet operational not greater than 31.5% of the outstanding asset balance

Source: Transaction documents

3.3. Portfolio modelling assumptions

Concentrated-portfolio approach using a Monte Carlo simulation

Scope's analysis represents a long-term view on the portfolio's credit performance and incorporates the credit quality of the initial pool, further loan conditions and portfolio limits, while the two-year revolving period is reflected in the amortisation profile and WAL of the portfolio. We have used a concentrated-portfolio approach and analysed the portfolio on a loan-by-loan basis using a Monte Carlo simulation. For each loan, we assumed: i) a

[4] Expressed as a percentage of the lower of (i) the outstanding principal balance of the loan portfolio as at the closing date and (ii) the combined outstanding principal balance of the Class A and Class B notes.

specific default probability; ii) a specific recovery upon default; and iii) asset correlation factors between the loans.

We have modelled the credit quality of the portfolio by: i) conducting credit estimates on eight borrowers representing 42.5% of the portfolio; and ii) using Scope's mapping/scoring approach on the remaining loans. Loan-level recovery rate assumptions and correlation factors are in line with other transactions of a similar nature.

The mapping/scoring approach uses a regression model that considers the main characteristics of each project: the operational status, the sector, the type of revenue risk, the weighted-average life and the debt-service coverage ratio.

The mapping results show alignment with Santander's internal risk assessment while reflecting marginally better differentiation. The mapping was calibrated in the context of similar transactions and was recently back-tested by conducting complete credit estimates on a targeted selection of eight projects covering a range of characteristics.

3.3.1. Default rates

The Monte Carlo simulation produced a non-parametric probability distribution of portfolio default rates for the transaction. The resulting non-parametric default distribution for the reference portfolio exhibits a mean lifetime default rate of 6.3% over a weighted average life of 7.7 years and an implicit coefficient of variation of 115%.

3.3.2. Recovery rates

Lower recovery rates for projects under construction

Scope's assumed recovery rates reflect the type of loans in the portfolio, namely senior secured projects with strong termination provisions. Such exposures have a higher chance of preserving most of their value for senior creditors upon impairment. Recovery rates are also supported by leverage ratios observed in the portfolio and assumptions we make for similar transactions.

Nonetheless, Scope expects projects under construction to have lower recovery rates because the value of such projects will not be consolidated until completion of the construction phase. We further assume a 10% recovery rate haircut for the largest five borrowers or borrowers representing more than 5% of the fully drawn portfolio balance.

Figure 8: Rating-conditional recovery rates

Recovery rates	AAA	AA	A	BBB	BB	B
Projects under construction	10%	15%	30%	45%	55%	70%
Operational projects	50%	60%	70%	75%	85%	90%

Source: Scope

The resulting recovery rates are 35.7% at the AAA rating category and 80.8% at the B rating category, reflecting the distribution of operational and construction assets in the portfolio.

3.3.3. Asset correlations

Multi-factor correlation framework

Scope has applied a correlation framework which is appropriate for transactions involving multi-sector project finance assets. Apart from standard global and same-country correlation factors, we also considered same-sector and government off-taker projects (key agent) to be more correlated. We applied further correlation stresses to the largest five borrowers or borrowers representing more than 5% of the portfolio commitment balance.

Figure 9: Correlation factors

Category	Global	Country	Sector	Key agent	Top obligor
Correlation	2%	5%	20%	15%	20%

Source: Scope

4. Structure analysis

4.1. Capital structure

At closing date, the issuer will use the proceeds from the issuance of the Class A and B notes to purchase the beneficial interest over the initial portfolio of PF loans from Santander. During the two-year revolving period, further eligible loans can be purchased through the reinvestment of principal collections or further issuance of Class B notes, subject to eligibility criteria, portfolio limits and further loan conditions. The notes have a mandatory redemption date in May 2046.

Class A and B noteholders will be paid a quarterly coupon equal to the compounded daily SONIA plus a margin of 1% p.a. and 0% p.a. respectively. The classes will repay their principal balance on a strictly sequential basis after the revolving period. At closing, the rated Class A notes will benefit from credit support of 31.5% in the form of subordination.

Non-payment of Class A interest and principal are events of default as are other standard conditions, such as a breach of obligations, an insolvency event or unlawfulness. Class B interest is deferrable.

4.2. Priority of payment

The structure features two separate waterfalls: one for interest payments and another for principal payments. Interest and principal payments on the notes are strictly sequential after the revolving period. Interest collections can be used to sequentially pay towards a shortfall in PDLs if available. Principal losses of the portfolio accumulate in PDLs in reverse order of seniority. Principal collections can be made available if there is a shortfall in senior expenses and Class A interest.

Figure 10: Simplified priority of payments and available funds

Pre-enforcement revenue payments priorities (PERPP)	Pre-enforcement principal payments priorities (PEPPP)
Available issuer revenue 1) Interest collections in respect of the loans and other interest income 2) Liquidity reserve 3) Liquidity support drawn under the liquidity facility to cover revenue shortfall (items 1 to 3 below) if 1) above is insufficient 4) Available issuer principal to cover items 1 to 2 below if 1) to 3) above is insufficient	**Available issuer principal** 1) Principal collections in respect of the loans 2) Class B drawings 3) Class A PDL balance 4) Class B PDL balance
1) Taxes, expenses and fees including servicer fees 2) Class A interest (the basis of 'revenue shortfall' together with item 1) 3) Interest and fees due on the liquidity facility 4) Liquidity reserve up to required amount 5) Principal due on the liquidity facility 6) Class A PDL 7) Redemption of Class A (only after the early amortisation event) 8) Class B interest 9) Class B PDL 10) Other subordinated items	1) Payments towards available issuer revenue to fund any revenue shortfall 2) (optional) Redemption of the class B notes up to target subordination of 31.5% (only in revolving period) 3) Reinvestment ledger up to a certain amount[5] (only in revolving period) 4) Redemption of Class A 5) Redemption of Class B 6) Other subordinated items

[5] Reinvestment ledger target is 10% of the combined principal outstanding amount of Class A and Class B during the revolving period. If the amount in the ledger exceeds this target for more than nine consecutive months, revolving period ends ("reinvestment amortisation event").

Source: Transaction documents and Scope

4.3. Liquidity facility

The liquidity facility mitigates interest-rate basis risk

Most of the assets in the portfolio pay semi-annually while the notes pay quarterly. A liquidity facility is available to the cash manager to manage this payment frequency mismatch. The liquidity facility commitment is sized to cover out-of-period facilities, i.e. facilities that do not have a scheduled payment date in respect of a calculation period. The liquidity facility is envisaged purely as an asset-side remedy for frequency mismatch and cannot be used as a credit support for the rated notes since its cost and repayment are senior to the Class A PDL.

Figure 11: Details of the liquidity facility

Item	Detail
Provider	Banco Santander S.A., London Branch
Margin (p.a.)	1.50% on drawn amount, 0.5% commitment fee
Commitment	GBP 16m until Nov 2028
	MAX (6% of portfolio balance, GBP 4m) after Nov 2028

Source: Transaction documents and Scope

4.4. Liquidity reserve

Dedicated reserve protects adequately from liquidity risk

The structure features a liquidity reserve with an initial balance of 1.66% of the Class A notes (GBP 8.0m) that is fully funded at closing by the subordinated loan. The liquidity reserve is available to cover senior expenses and Class A interest (items 1 and 2) in the PERPP in **Figure 10**.

The liquidity reserve's required amount at each payment date must be equal to the sum of the senior expenses and Class A interest paid on the immediately preceding payment date. An excess balance in the liquidity reserve can only be released if: i) no event of default is ongoing; ii) the balance of Class A PDL is zero; iii) the delinquent loan balance is less than 9% of the current portfolio balance; and iv) no more than three loans are delinquent. These conditions ensure that the liquidity reserve is not reduced when the portfolio underperforms and that the reserve remains sufficient to provide three or more months of liquidity coverage for the Class A notes.

4.5. Replenishment mechanism

Scope expects the originator to give priority to positions with undrawn balances for the purpose of replenishments once they are drawn. As a result, the Class B commitment amount (GBP 250.0m) is set to cover the sum of the drawn and undrawn balance of the loans. The originator can also offer to add new loans to the portfolio subject to the further loan conditions in **Figure 6**.

During the revolving period, the cash manager may retain principal collections and tap into Class B with a forward-looking view on replenishments and broader liquidity considerations to the extent Class B commitment is available. The Class B amount increases or decreases depending on how much cash is required to replenish the portfolio. However, Class A will always be supported by at least Class B base subordination of 31.5%, and Class A cannot increase in amount.

4.6. Revolving period triggers

Replenishment period may terminate early

The transaction features early amortisation events that shorten the length of the revolving period. These events consist of:

- performance trigger event, i.e. if three or more loans are delinquent or in default

- servicer termination event
- reinvestment amortisation event, designed to prevent negative carry in the transaction if too much cash is retained for reinvestment
- other events, including optional termination at the discretion of Class A noteholders, and early amortisation event (five or more loans are delinquent or in default)

4.7. Interest rate and margin compression risk

Weighted average spread of portfolio may decrease with replenishments

The transaction is mainly exposed to margin compression risk due to the revolving period and possible inclusion of further loans combined with the absence of a weighted average spread test. To account for such risk, Scope's modelling assumes a spread of 1.25% p.a. for the portfolio, while the initial portfolio weighted average spread is 1.66% p.a. The spread stress is also in line with our observations of the lower range of spreads in the initial portfolio.

The liquidity facility adequately protects the Class A notes against the frequency mismatch between assets and liabilities. The transaction is not exposed to interest rate risk as the notes and the assets both pay floating rate coupons referenced to daily compounded SONIA.

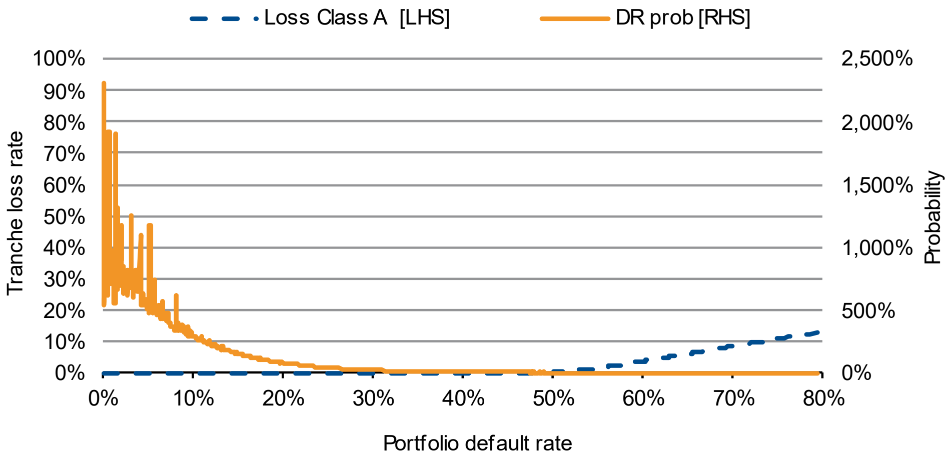
5. Quantitative analysis

Scope's quantitative analysis considered the portfolio's characteristics and the transaction's main structural features. We derived the portfolio's default rate distribution, recovery rates and default timing from a loan-by-loan Monte Carlo simulation.

Scope's cash flow analysis combined the portfolio's default distribution, recovery rates and default timing to calculate the expected loss and expected weighted average life of the rated notes.

Scope also tested front-loaded and mid-loaded default timing scenarios, fee and correlation stresses but these had a very limited impact on the results. **Figure 12** illustrates the rated notes' losses at all portfolio default rates.

Figure 12: Cash flow model results for base case



Note: The probability displayed on the right-hand-side axis should be considered in the context of the calculation of the probability density.

Source: Scope

6. Rating stability

Scope tested the rating's resilience to deviations in the main input parameters: the portfolio's mean default rate and the portfolio recovery rate. 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.

For Class A notes, the following shows how the quantitative results change compared to the assigned credit rating in the event of:

- portfolio's expected default rate increased by 50%, zero notches
- portfolio's expected recovery rate decreased by 50%, one notch
- a joint default scenario of the two largest direct exposures to which credit estimates or similar assessments by Scope apply, zero notches

7. Sovereign risk – the United Kingdom

Sovereign risk does not limit the rating

Scope affirmed the UK's credit ratings at AA with a Stable Outlook on 25 November 2022. The country's ratings are underpinned by several credit strengths, such as strong institutions that include robust financial supervisory, economic and monetary governance frameworks, a large, wealthy and diversified economy that proved resilient during the Covid-19 pandemic, and a robust debt profile with long average maturities and strong market access. Challenges to the ratings relate to the country's weakening fiscal and economic outlooks, a weak external position with persistent current account deficits, and ongoing uncertainty surrounding the post-Brexit UK-EU trade relationship.

The UK's economy stagnated during the last 12 months, with output remaining 0.5% below pre-pandemic levels as of Q1 this year. Stronger-than-anticipated wage growth has supported household consumption so far, leading to an upward revision of 0.6 pp in Scope's growth forecasts for 2023 in July compared with December forecasts. Still, due to the adverse effects of persistent inflation and high interest rates, GDP is likely to flatline this year followed by a weak recovery of 0.8% in 2024, well under the medium-run potential of around 1.5%.

Government finances are expected to stay under pressure given persistent budget deficits. General government debt as a share of GDP is forecast to rise from 103% in 2022 to 111% by end-2025. While debt levels are expected to remain comparatively stable after that, this expectation hinges on the policies of the next government after a general election to be held no later than January 2025.

A tight labour market and continued upside pressure on wages (regular pay growth of 7.3% YoY during the three months to May) kept core consumer price rises elevated at 6.9% in June. To bring inflation back towards its 2% target, the Bank of England increased the bank rate by 25 bps to 5.25% in August, bringing total tightening in the current cycle to 515 bps since December 2021. As a result, rising mortgage rates are leading to a decline in house prices, which are around 4% below their 2022 peaks but still well above pre-pandemic prices. Scope expects further monetary tightening in the second half of this year and elevated policy rates to remain in place for much of the next year, likely leading to further declines in house prices. Of around nine million outstanding residential mortgages, 800,000 are due to come off fixed-rate deals in the second half of 2023 and a further 1.6m households are due to come off next year.

8. Counterparty risk

None of the counterparty exposures currently constrain the rating achievable by this transaction. We considered counterparty substitution provisions in the transaction and, when available, Scope's ratings or other public ratings on the counterparties. We also considered the provisions for authorised investments.

The transaction is exposed to counterparty risk from the following main counterparties: i) Banco Santander S.A., London Branch as account bank, cash manager, originator and originator trustee, servicer, liquidity facility provider and subordinated loan provider; ii) Elavon Financial Services as principal paying agent, agent bank, liquidity account bank, registrar and transfer agent; iii) U.S. Bank Trustees as trustee; and iv) Intertrust Management as corporate services provider.

8.1. Financial risk from account banks

The counterparty roles of the issuer account bank (Santander) and the liquidity account bank (Elavon) are material financial exposures. The materiality of the risk is fully mitigated by effective remedies, such as the replacement triggers upon loss of the required ratings and a 30-day replacement period. The liquidity facility provider (Santander) is also a material financial exposure. This exposure is fully mitigated by the replacement trigger upon loss of the required rating, cash collateral requirements upon loss of the required rating and full drawing of the facility in case a replacement provider cannot be found.

8.2. Operational and financial risk from originator / servicer

Daily sweep of collections from the servicer to the issuer's account

Commingling risk is present in the transaction since borrowers will make payments into collection accounts held by the originator. Such accounts will be swept daily to the issuer's transaction accounts and are not subject to replacement triggers.

The material financial risk from the originator role and operational risk from the servicer role are partially mitigated by daily cash sweeps, the general resolvability of Santander as a financial institution, and the safety of the legal jurisdiction. Santander. is also designated as a Globally Systemically Important Bank by the Financial Stability Board. Residual financial risk is not quantified since Scope's current rating of Santander supports the assigned rating.

8.3. Set-off risk from originator

Depending on the projects' legal provisions, borrowers may be entitled to set-off rights against the originator. If these rights are exercised, Santander, as the originator, needs to compensate the issuer with an amount equal to the set-off claim. Upon insolvency of Santander, such set-off rights extinguish upon delivery of a notice from the issuer to the borrowers of the trust declared over the originator's beneficial interest.

9. Legal structure

9.1. Legal framework

This transaction is governed by English law, with an issuer located in the UK and under the securitisation regime. The issuer has been duly incorporated as a public company with limited liability under the law of England. The issuer has only one share, which is held by Intertrust Corporate Services Limited as the share trustee for charitable beneficiaries. Scope considers the transaction's legal structure to be standard for UK SPVs aiming to achieve perceived bankruptcy remoteness.

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

Benefit interest in the loans via declaration of trust

As is common in some UK securitisation transactions, all assets have been legally transferred from the originator to the issuer through a declaration of trust over the loans coupled with a power of attorney rather than by equitable assignment. At closing date and on each subsequent purchase date, the issuer will acquire the beneficial interest in the loans and the related loan security pursuant to the trust created under the originator trust deed.

9.2. Use of legal and tax opinions

Scope reviewed the English legal and tax opinion produced by a reputable law firm with extensive experience in international securitisations. This opinion provides us comfort on the issuer's legal and tax-efficient structure and supports Scope's legal analysis.

The issuer has the authority to sign transaction documents, exercise and perform its obligations, and issue notes. The issuer's obligations would be recognised by an English court as legal, valid and binding in accordance with the transaction documents.

The tax opinion considers the structure to be tax-efficient, i.e. no taxes apply except the corporation tax on retained profit and VAT on some of the services received by the issuer.

10. Monitoring

Scope will monitor this transaction based on the servicer's performance reports as well as other available information. The rating will be monitored on an ongoing basis and reviewed at least once a year, or earlier if warranted by events.

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

11. Applied methodology and data adequacy

For the analysis of this transaction, we applied Scope's General Structured Finance Rating Methodology, Counterparty Risk Methodology and elements of the CLO Rating Methodology, all of which are available on Scope's website, www.scoperatings.com.

I. Portfolio characteristics

The following table summarises the main characteristics of the initial reference portfolio.

Figure 13: Portfolio summary

Item	Sub-item[6]	Reference portfolio	Portfolio limit
Date	Cut-off date	29 Aug 2023	
Balance	Portfolio drawn balance	704,893,091	
	Portfolio committed balance	732,848,824	
Internal rating	WA internal rating	5.7	
LGD	WA LGD	27.3%	
SCAN status	Ordinary	88.3%	
	Proactive	11.7%	
	Intensive	0.0%	
Operational	Operational	73.8%	
	Construction	26.2%	< 31.5%
Sector	PFI	36.4%	< 45%
	Infrastructure	29.6%	< 45%
	Renewables	21.2%	< 35%
	Utilities	12.8%	< 22.5%
Top borrowers (% of drawn balance)	Top 1	6.9%	< 8.5%
	Top 3	20.4%	
	Top 10	52.0%	
Number of borrowers	Number of borrowers	41	
	Eff. number of borrowers	25	
Number of loans	Number of loans	48	
	Eff. number of loans	27	
WAL	WAWAL (years)	5.4	< 8
Revenue type	Production-based	72.9%	
	Demand-based	27.1%	
Gov. off-takers	Yes	56.9%	
	No	43.1%	
Modified DSCR[7]	Modified DSCR	1.27	
Weighted-average maturity	WAM (years)	7.9	

Source: Reference portfolio tape (Santander) and Scope

[6] Percentages and weighted averages are based on commitment balance of the loans unless otherwise stated.
[7] Scope's modified DSCR assumes projects without debt service coverage ratio information to have a DSCR of 1x. Scope also caps the maximum DSCR at 2.5x.

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