

Corporate Finance Bonds - Series 10

INTRODUCTION

ARC Ratings (ARC) has an accorded indicative, public ratings of 'A(sf)(ind)' with Stable outlook to the Series 10 Bond issuance in the amount of GBP 25.0 million from Corporate Finance Bonds with a tenor of 5 years. The rating accorded refers to ultimate repayment of principal and interest.

PROGRAMME SUMMARY

In April 2017, Corporate Finance Bonds ('CFB') set up an issue of £25 million secured notes under the £500 million secured note programme. The Series 10 programme is paying on a basis equivalent to 6.25% pa. CFB is a special purpose company, which has been established to raise funds to help lend assets per series to a minimum of 5 companies, provided no company borrows more than 20% of the capital raised, in respect of this series, no more than £5 million to a single borrower. Under the programme there is strict eligibility criteria which is detailed further in this report. This is not the first issuance under the programme as there have been previous series issued. ARC will accord final ratings upon receiving executed documents and details of the loans financed under the series.

Key rating drivers include:

- The ability of assets to generate revenues consistent with the cashflows considered in the projections and risks associated with the interest repayment and returns.
- A sensitivity analysis has been run applying a 20% and 25% haircut on interest rates for a worst-case scenario.
- Debt service coverage ratio of 1.48x over five years.

SUMMARY OF RATING METHODOLOGIES

ARC analysed the transaction by applying its, Global Structured Finance Rating Criteria and Global Credit-linked Note and Repacking Vehicle Rating (February 2017). Both Criteria are freely available on www.arcratings.com.

ELIGIBILITY CRITERIA

Corporate Finance Bonds have two sets of criteria to evaluate potential lenders as well as criteria to evaluate and approve loans.

In order to evaluate potential borrowers CFB look to examine a company's business plan to understand how the funds will be used and to ensure that they are used appropriately.

RATINGS

Issue Rating	Outlook
A(sf)(ind)	Stable

RATING DATE

24 April 2017

RATING VALIDITY

24 April 2018

NEXT REVIEW DATE

24 April 2018

RELATED RESEARCH

ARC Ratings Global Structured Finance Rating Criteria
ARC Ratings Global Credit-Linked Note and Repackaging Vehicle Rating Criteria available at www.arcratings.com

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Corporate Finance Bonds - Series 10

Structured Finance - Presale Report



CFB reviews the borrower's annual and management accounts as well as their cash flow projections. They ensure that a borrower has a strong compliance procedure in place, by ensuring they have a corporate KYC and AML structure. CFB will ensure that the borrower will not use the secured asset without prior consent from the lender nor will they use it in any way which is illegal. The borrower is responsible for ensuring that the secured asset adheres to all rules and regulations as well as ensuring its maintenance and repairs. The borrower will also be required to ensure especially for property that rental incomes and all sources of incomes from the property are paid on time and ensure that the property is maintained in a respectable condition. They also ensure the borrower has appropriate security in place and can obtain bank and other references as well as marketing and promotional materials.

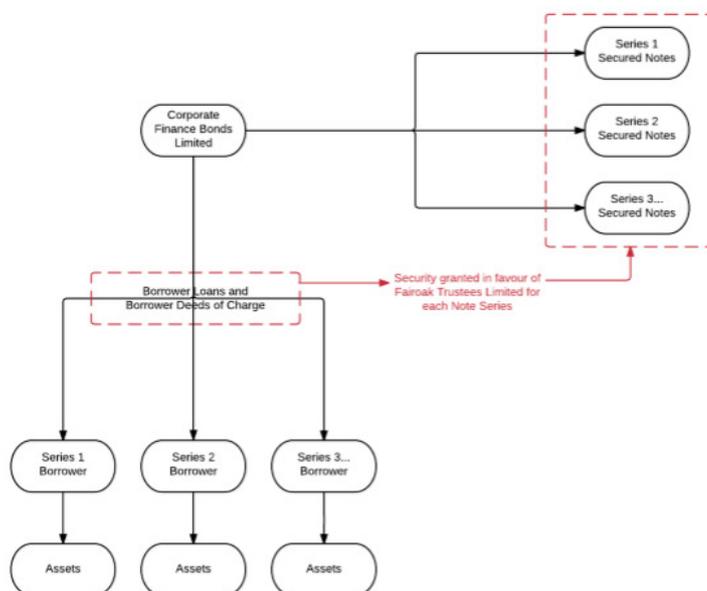
The criteria to evaluate and approve loans as set out by CFB is outlined below. ARC has considered this on a post review basis in respect of its rating.

Corporate Finance Bonds Lending Criteria

- Corporate Finance Bonds evaluate the business and its ability to meet its debt obligations.
- Analyse the companies legal structure as well as looking at the certificate of incorporation, memorandum and article of association, share register, existing capital and debt structure.
- CFB look at cash flow forecasts and conduct a sensitivity analysis.
- A SWOT analysis of the company and analysis of the business sector is carried out
- Ensure that due diligence is undertaken by the company on the project which needs financing.
- Ensure legal agreements are in place.
- Re property and student accommodation ensure that there is a relevant planning application.
- A contracted income and a security is in place.
- Before getting into a contract, CFB ensure that five terms are set out.
- Interest Rate.
- Term of Loan.
- Amount of Loan.
- Arrangement Fee.
- Security Requirements.
- CFB prepare and issue a loan/facility agreement and debenture.

For each bond series CFB require that there will be more than 5 borrowers and the principal amount of each borrower loan will not account for more than 20% of the total amount of the loan series.

TRANSACTION OVERVIEW



The borrower has an underlying asset which is security on a loan. CFB structure bonds consisting of both secured and unsecured loans, security will typically take the form of commercial or residential property but other types of securities are considered such as receivables, insurance contracts, securities and similar assets. Security is secured by a Deed of Charge.

The borrower is expected to use all the money borrowed in the agreement in a manner that had been outlined in the business plan, which would have been submitted prior to any agreement being reached. If the borrower wishes to use money in a different manner they will have to submit a new business plan with the changes outlined for approval.

COMPANY PROFILE

Corporate Finance Bonds Ltd (CFB) is a corporate financier with its niche being in secured lending to businesses. It has a £500m secured note programme, which is listed on the Irish Stock Exchange, this has set out the objective to raise capital in markets to help investors seeking to take advantage of profit opportunities in corporate finance. Corporate Finance Bonds Ltd provide financial and strategic advice to their clients.

A clear objective of Corporate Finance Bonds Ltd is to ensure that they lend to companies that want to pursue corporate development and ensure that the transactions are asset backed with stable and proven returns. CFB typically lend to the following business sectors, these are property development, student accommodation, bridging finance, manufacturing, accountants and solicitors, investment managers, financial advisors, sustainable energy and luxury assets.

On 7th April ARC Ratings conducted an onsite review of Corporate Finance Bonds covering a range of areas and met with senior management. The review covered lending criteria, areas they consider for financing, as well as management structure and internal systems and procedures. ARC is of the view that CFB is able to run the programme and systems, processes and procedures are adequate.

SENSITIVITY ANALYSIS

In assessing the stability of the rating, ARC has performed a range of sensitivity analyses, where the primary objective is to ensure that relatively minor fluctuations in key variables do not give rise to a multi-category rating decline. ARC has applied haircuts of 20% and 25% to the cashflows in its analysis.

RATING CONSIDERATIONS

RATING RATIONALE

ARC has considered the following in its analysis:

- The ability of assets to generate revenues consistent with the cashflows considered in the projections and risks associated with the interest repayment and returns. As such, ARC Ratings, S.A. (ARC) applied a sensitivity analysis to the company projections, under a worst-case scenario (assuming a 20% and 25% haircut to the interest rate received on the bond).
- With a debt service coverage ratio of 1.48 over five years indicating that the bonds are generating sufficient income to pay all of the annual debt expenses. Interest rates taking a 20% and 25% haircut, in line with an 'A' rating, are still producing adequate cashflows in order to pay back the bonds.
- The DSCR covenant is documented at 1.2x and is expected to be the minimum DSCR ratio maintained for the lifetime of the bonds.

Interest Rates Haircut	DSCR
20%	1.184x
25%	1.11x

- Arranger Manager Expertise- The management team of Corporate Finance Bonds possess significant relevant experience, and the process of choosing appropriate loans and ensuring that there is a strong enough skillset to manage the transaction are suitably thorough. Internal systems are robust, and policies and procedures are generally well documented.

SECURITY STRUCTURE

The underlying assets securing the bonds will be a portfolio of products in the sectors outlined earlier, with agreements made on behalf of the issuer to Corporate Finance Bonds via agreements; these are backed by way of a 100% first lien on the underlying asset. The beneficial owner of the first lien on the assets is the Trustee Fairoak Trustees Limited on behalf of Bondholders. All Assets of the issuer will be held within the security trust. Bondholders will have a direct first legal/security charge over the specified assets of the issuer, via the security trust.

Under a trust deed between Corporate Finance Bonds (the issuer) and Fairoak Trustees Limited (the trustee) the duties of CFB will be secured in favour of Fairoak Trustees Limited for the benefit of the noteholders and other creditors of the issuer. This is by ensuring that there is a fixed first security over the issuer in regard to the loans, transaction documents and borrower security.

Under a deed of charge between the borrower and the issuer the borrowers obligations in regards to the loan will be secured in favour of the issuer by both fixed and floating charges over the asset.

The underlying asset collateral is assigned to the security trust by a deed of charge. Therefore should there be an event of default on the loan agreement itself then the underlying collateral can be enforced upon and therefore ARC would rely on recovery proceeds to repay the bond should there be an event of default.

ACCOUNT BANK

Metro Bank, has been appointed as the account bank. ARC does not currently rate Metro Bank and it is unrated. The Issuer and Paying Agent Bank Account is held with Allied Irish Bank PLC. Corporate Finance Bonds warrant that all receipts from Bonds in Series 10 are immediately passed to the Security Trustee 's account held with Allied Irish Bank rated A- by Fitch, A3 by Moodys and A+ by S&P to hold pending loan advances to underlying borrowers before being paid to the issuing and paying agent 1 day prior to payment due under the bonds.

EVENTS OF DEFAULT

The following events are events of default, amongst others:

- 1.1 The Borrower fails to pay any sum payable by it under any Finance Document, unless its failure to pay is caused solely by an administrative error or technical problem and payment is made within three Business Days of its due date.
- 1.2 The Borrower fails (other than by failing to pay), to comply with any provision of any Finance Document and (if the Lender considers, acting reasonably, that the default is capable of remedy), such default is not remedied within 14 Business Days of the earlier of:
 - (a) the Lender notifying the Borrower of the default and the remedy required;
 - (b) the Borrower becoming aware of the default.
- 1.3 Any representation, warranty or statement made, repeated or deemed made by the Borrower in, or pursuant to, any Finance Document is (or proves to have been) incomplete, untrue, incorrect or misleading when made, repeated or deemed made.
- 1.4 If:
 - (a) any Borrowed Money is not paid when due or within any originally applicable grace period; or
 - (b) any Borrowed Money becomes due, or capable or being declared due and payable prior to its stated maturity by reason of an event of default (howsoever described);
 - (c) any commitment for Borrowed Money is cancelled or suspended by a creditor of the Borrower by reason of an event of default (howsoever described); or
 - (d) any creditor of the Borrower becomes entitled to declare any Borrowed Money due and payable prior to its stated maturity by reason of an event of default (howsoever described).
- 1.5 The Borrower stops or suspends payment of any of its debts, or is unable to, or admits its inability to, pay its debts as they fall due.
- 1.6 The value of the Borrower's assets is less than its liabilities (taking into account contingent and prospective liabilities).
- 1.7 A moratorium is declared in respect of any Indebtedness of the Borrower.

- 1.8 Any action, proceedings, procedure or step is taken for:
- (a) the suspension of payments, a moratorium of any Indebtedness, winding up, dissolution, administration or reorganisation (using a voluntary arrangement, scheme of arrangement or otherwise) of the Borrower; or
 - (b) the composition, compromise, assignment or arrangement with any creditor; or
 - (c) the appointment of a liquidator, receiver, administrative receiver, administrator, compulsory manager or other similar officer in respect of the Borrower or any of its assets; or
 - (d) the enforcement of any Security over any assets of the Borrower.
- 1.9 The Borrower commences negotiations, or enters into any composition, compromise, assignment or arrangement, with one or more of its creditors with a view to rescheduling any of its Indebtedness (because of actual or anticipated financial difficulties).
- 1.10 Any event occurs in relation to the Borrower similar to those in clause 1.6 to clause 1.9 (inclusive) under the laws of any applicable jurisdiction.
- 1.11 A distress, attachment, execution, expropriation, sequestration or another analogous legal process is levied, enforced or sued out on, or against, the Borrower's assets (or its equivalent in other currencies) and is not discharged or stayed within 21 days.
- 1.12 Any provision of any Finance Document is or becomes, for any reason, invalid, unlawful, unenforceable, terminated, disputed or ceases to be effective or to have full force and effect.
- 1.13 The Borrower repudiates or evidences an intention to repudiate any Finance Document.
- 1.14 The Borrower suspends or ceases to carry on (or threatens to suspend or cease to carry on) all or a substantial part of its business.
- 1.15 Any event occurs (or circumstances exist) which, in the opinion of the Lender, has or is likely to materially and adversely affect the Borrower's ability to perform all or any of its obligations under, or otherwise comply with the terms of, any Finance Document.
- 1.16 At any time after an Event of Default has occurred, the Lender may, by notice to the Borrower:
- (a) cancel all outstanding obligations of the Lender under this agreement whereupon they shall immediately be cancelled; and/or
 - (b) declare that all Loans (and all accrued interest and all other amounts outstanding under the Finance Documents) are immediately due and payable, whereupon they shall become immediately due and payable; and/or
 - (c) declare that all Loans be payable on demand, whereupon it shall become immediately payable on demand by the Lender; and/or
 - (d) declare the Security Document to be enforceable.

Upon default the lender will be able to cancel all loans to the borrower, request immediate payment of loans and accumulated interest and may declare that the security document is enforceable. The security document will allow for the lender to exercise all rights and powers in the event of default. FairOak as trustee will exercise enforcement.

RATING MEANINGS

The indicative, public rating accorded to the 'A(sf)(ind)' rated bonds relates to ultimate payment of interest and ultimate payment of principal. The ratings exclude an assessment of the ability of the Issuer to pay either any (early repayment) penalties or any default interest rate penalties.

The suffix code 'sf' means that the rating is of a structured finance nature. A Rating Outlook indicates the potential direction of a rating over the medium term, typically a one to two-year period.

ARC will perform regular surveillance on the Transaction, and surveillance reports will be made available to subscribers to ARC's information services.

DATA RECEIVED FROM CORPORATE FINANCE BONDS

Data pertaining to Corporate Finance Bond Series 10 - Full Transaction Documentation, including:

- Corporate Finance Bond Series 10 Term Sheet
- Corporate Finance Bond Pricing Supplement Series 10
- Corporate Finance Bond Programme Structure
- Corporate Finance Bond Lending Criteria
- Administrative Agency Agreement
- CFB Loan Agreement
- CFB Listing Particulars
- Deed of Charge
- Trust Deed.

Corporate Finance Bonds - Series 10

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Prior to the assignment or revision of a rating ARC Ratings provides to the entity whose financial commitments are being rated the documents that substantiate the rating to be attributed (the Preliminary Rating Report). This entity is thus given the opportunity to clarify or correct factual details, thus allowing the rating assigned to be as accurate as possible. The comments made by the entity whose financial commitments are being rated are taken into account by ARC Ratings in the assignment of the rating.

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