

FITCH AFFIRMS 4 UK PRIME RMBS TRANSACTIONS

Fitch Ratings-London-04 February 2015: Fitch Ratings has affirmed Residential Mortgages Securitisation No.1 plc (Brunel), First Flexible 7 Plc (FF7), Friary No.1 plc (Friary 1) and Friary No.2 plc (Friary 2). A list of rating actions is at the end of this commentary.

KEY RATING DRIVERS

Broadly Stable Asset Performance Drives Affirmations

FF7 has shown improving performance with three months plus (3M+) arrears decreasing to 2.8% of the current portfolio balance as of November 2014 from their peak of 6.3% in May 2013. Despite the improved performance, the levels remain higher than Fitch's UK prime index of 1.3%. This can be partially attributed to the fact that at close, 3.8% of the initial pool was in arrears by more than three months, as well as the higher than average (6.3%) standard variable rate (SVR) paid by 65% of the borrowers in the pool. As of November 2014, 2.6% of the current balance was in possession or in litigation. Fitch expects losses on the underlying property sales to be limited due to the high seasoning of the underlying mortgages (16 years) and their low indexed current loan to value of 29%. For this reason, the ratings of FF7's notes have been affirmed.

Brunel, Friary 1 and Friary 2 have shown healthy asset performance, with 3M+ arrears ranging between 0.1% (Friary 2) and 1.4% (Brunel) of the outstanding portfolio and properties in possession under 10bp across all three pools. Given the current low pipeline of late-stage arrears in these transactions, Fitch expects possession activities and associated losses to remain minimal in the coming year, leading to the affirmation of the notes.

SVR Risks Modelled for Friary 1 and 2

Although Friary 1 is hedged against basis risk between LIBOR-linked notes and SVR-linked mortgages, Fitch does not give credit to such hedging arrangements, as they are deemed difficult to replace.

Friary 2 does not include a hedging arrangement between LIBOR-linked notes and SVR-linked mortgages, although the fixed and Libor-linked loans that will ultimately revert to floating are hedged.

Both Friary transactions were analysed without the appropriate hedging arrangements. The ultimate exposure to basis risk between SVR and LIBOR was accounted for by reducing the excess spread generated by the two transactions. Fitch found that the available credit enhancement was sufficiently robust to withstand such stresses, and consequently affirmed the ratings of the notes.

RATING SENSITIVITIES

Most of the fixed-rate and tracker loans in both Friary transactions will ultimately revert to SVR by 2018, while the majority of underlying loans in Brunel (96.5%) and FF7 (100%) are already paying floating rates. In Fitch's view, a sudden sharp increase in interest rates would put a strain on borrower affordability and potentially lead to a rise in arrears and subsequent possessions. Should arrears and possessions exceed Fitch's current stresses, the agency may take negative rating actions.

FF7's reserve fund is held with Barclays (A/Stable/F1). As the reserve fund is the sole form of credit support for the most junior, class C notes, their rating is linked to the long-term Issuer Default Rating on the bank.

The rating actions are as follows:

Brunel Residential Mortgages Securitisation No.1 plc
Class A4a (ISIN XS0289300898): affirmed at 'AAAsf'; Outlook Stable
Class A4b (ISIN XS0289303215): affirmed at 'AAAsf'; Outlook Stable
Class A4c (ISIN XS0289307398): affirmed at 'AAAsf'; Outlook Stable
Class B4a (ISIN XS0289324138): affirmed at 'AA+sf'; Outlook Stable
Class B4b (ISIN XS0289324484): affirmed at 'AA+sf'; Outlook Stable
Class C4a (ISIN XS0289326265): affirmed at 'A+sf'; Outlook Stable
Class C4b (ISIN XS0289326935): affirmed at 'A+sf'; Outlook Stable
Class C4c (ISIN XS0289326935): affirmed at 'A+sf'; Outlook Stable
Class D4a (ISIN XS0289327313): affirmed at 'BBB+sf'; Outlook Stable
Class D4b (ISIN XS0289327826): affirmed at 'BBB+sf'; Outlook Stable
Class D4c (ISIN XS0289368853): affirmed at 'BBB+sf'; Outlook Stable

First Flexible No. 7 Plc

Class A (ISIN XS0282470797): affirmed at 'AAAsf'; Outlook Stable
Class B (ISIN XS0282471092): affirmed at 'AAsf'; Outlook Stable
Class C (ISIN XS0282471175): affirmed at 'Asf'; Outlook Stable

Friary No.1 Plc

Class A2 (ISIN XS 0652306407): affirmed at 'AAAsf'; Outlook Stable

Friary No.2 Plc

Class A (ISIN XS1067654134): affirmed at 'AAAsf'; Outlook Stable

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Sources of information - investor and servicer reports, as well as loan-by-loan level data. Fitch's analysis of Representations, Warranties & Enforcement Mechanisms can be found in the special report "Representations, Warranties, and Enforcement Mechanisms in Global Structured Finance Transactions dated 17 April 2012 and accessible through the Fitch website. Individual Representations, Warranties, and Enforcement Mechanism reports are available for all structured finance transactions.

Applicable criteria 'Global Structured Finance Rating Criteria' dated 20 May 2014, 'EMEA RMBS Master Rating Criteria' dated 28 May 2014, 'Counterparty Criteria for Structured Finance and Covered Bonds' dated 14 May 2014, 'Counterparty Criteria for Structured Finance and Covered Bonds: Derivative Addendum' dated 14 May 2014, 'Criteria Addendum - UK - Residential Mortgage

and Cash Flow Assumptions' dated 30 May 2014, 'EMEA Residential Mortgage Loss Criteria' dated 28 May 2014, 'EMEA RMBS Cash Flow Analysis Criteria' dated 28 May 2014, 'Criteria for Rating Currency Swap Obligations of an SPV in Structured Finance Transactions and Covered Bonds' dated 05 August 2013 and 'Global Criteria for Lenders' Mortgage Insurance in RMBS' dated 23 June 2014 are available at www.fitchratings.com.

Applicable Criteria and Related Research:

Global Structured Finance Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=754389

EMEA RMBS Master Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=749271

Counterparty Criteria for Structured Finance and Covered Bonds

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=744158

Counterparty Criteria for Structured Finance and Covered Bonds: Derivative Addendum

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=744175

Criteria Addendum: UK - Residential Mortgage Loss and Cash Flow Assumptions

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=748367

EMEA Residential Mortgage Loss Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=749272

EMEA RMBS Cash Flow Analysis Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=749273

Criteria for Rating Currency Swap Obligations of an SPV in Structured Finance Transactions and Covered Bonds

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=715253

Global Criteria for Lenders' Mortgage Insurance in RMBS

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=749070

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