Creditreform Issue Rating
Trade Receivables Securitizations

Creditreform Rating

Rating Object	Rating Information	
Senior and Mezzanine Obligations of TRFI Funding B.V.	Rating: Senior Obligations: **BBB$_{sf}$ /stable** Mezzanine Obligations: **B$_{sf}$ /negative**	Type: Follow-up Rating
	Rating Date: 19.12.2019 Publication Date: 27.12.2019 Rating Renewal: - Rating Methodology: Structured Finance	

Series Number	Seniority	Currency	Issue date	Maturity Date	Current outstanding amount in TEUR	Coupon
28	Senior	EUR	29.12.2016	29.12.2019	100,000	7,5%
30	Mezzanine	EUR	04.01.2018	06.01.2020	350,000	9,0%
32	Mezzanine	EUR	15.01.2018	15.01.2020	200,000	5,0%
34	Mezzanine	EUR	22.01.2018	22.01.2020	105,000	4,3%
40	Mezzanine	EUR	17.12.2019	16.12.2020	500,000	7,0%
NA	Senior LOAN	EUR	15.04.2017	15.04.2024	11.085	3,0% (blended)

Contents

Transaction Summary

The objects of these ratings are the senior obligations and the mezzanine obligations issued by the Dutch special purpose vehicle TRFI Funding B.V. (TRFI Funding). The insurance proceeds will be transferred to the affiliate company TRFI B.V. (TRFI) in order to provide funding for a recurring purchase of receivables from Dutch SMEs.

The structure provides several enhancements to protect senior and mezzanine obligations:

1. credit enhancement (purchase price discount)
2. subordination (capital buffer)
3. excess spread
4. insurance

Key Rating Findings

\+ Stable minimum reserve fund amount (500k EUR)

\+ Decreasing commingling volatility

\+ Decreased debtor concentration (TOP 10 = 23.25%)

\+ Decreased payment terms (ca. 37 days) and days to maturity of purchased receivables (ca. 14 days)

\+ Decreased dilutions (approx. 2.7% in 2019)

\- Decreased average level of credit enhancement (ca. 32% of Origination Amount)

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- Lower excess spread due to lower fee-income
- Occasionally no updates of seller's financial statements

Transactions Structure

Transaction Parties

Figure 1: Transaction Structure | source: TREFI

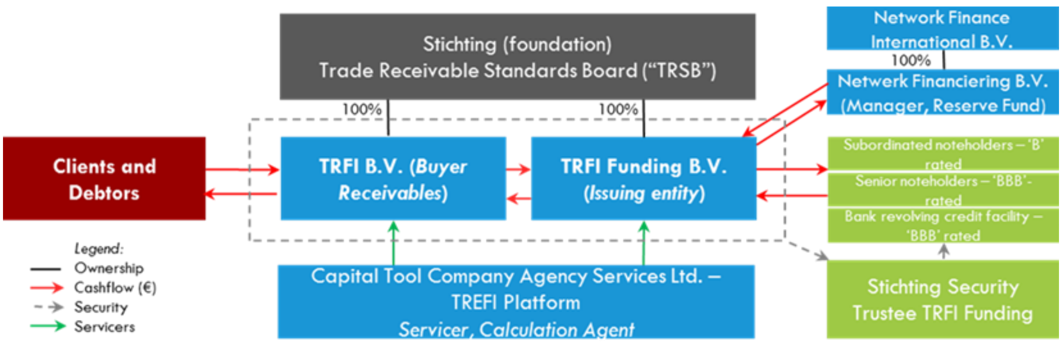

Table 1: Transaction Parties | Source: CRA

Entity	Functions and Roles
Atradius	Collection agent
Capital Tool Company Agency Services Ltd.,Hong Kong	Calculation agent
TMF Management B.V.	Corporate service provider and paying agent
Netwerk Financiering B.V., Trade name: Boozt24	Manager and provider of reserve fund.
Stichting Security Trustee TRFI Funding	Security trustee of the receivables.
Stichting Trade Receivable Standards Board (TRSB)	TRSB standard setter. Ensures that TRFI B.V. acts in accordance with its standards.
TRFI B.V.	Purchaser and legal owner of the receivables.
TRFI Funding B.V.	Issuing entity and transfer of proceeds for financing activities.

Issuer

The issuer of the obligations is TRFI Funding B.V. This special purpose vehicle was founded on February 19, 2014 in Amsterdam as a limited liability company. The company is registered in the trade register of the Amsterdam Chamber of Commerce under number 60045744.

The issuer is wholly owned by the foundation Stichting Trade Receivables Standards Board (TRSB). This foundation also wholly owns TRFI B.V. The foundation cannot sell or otherwise dispose the shares. The foundation protects the holders of obligations by ensuring that TRFI acts in accordance with the contracts, guidelines, offering memorandum and TRSB Standards.

The activities of TRFI Funding consist exclusively of attracting funding, which will be available to TRFI in order to purchase the trade receivables as well as to enter into the respective servicing agreements.

The liability side of TRFI Funding B.V. will be composed of (in descending order of priority):

- Senior obligations (such as bank finance, senior notes and asset-backed commercial paper)
- Mezzanine obligations
- Reserve fund

The senior obligations rank first and pari passu among other senior obligations. In the event of a termination of activities or the bankruptcy of TRFI Funding B.V., creditors of senior obligations shall be the first to receive interest and principal, and only thereafter will the remaining creditors receive interest and principal.

TRFI Funding guarantees a minimum capital buffer of 12%, which is meant to potentially absorb losses. Should the capital buffer amount to less than 12% for more than 30 consecutive days, then TRFI Funding can no longer enter into warehouse facilities which are co-financed by the obligations until the capital buffer again exceeds the minimum requirement. The reserve fund will be provided by Netwerk Financiering B.V. The reserve fund protects both mezzanine as well as the senior obligations creditors.

It is intended that over time further senior obligations will be added to the financing structure of TRFI Funding B.V. including bank finance and asset-backed commercial papers.

The Stichting's security trustee has a first-rank assignment of the purchased receivables for each affiliated group (current and future) owned by TRFI associated with the warehouse with which the obligations are coupled. There is no lien on the bank accounts for the benefit of affiliated clients or TRFI, since these bank accounts also carry funds from affiliated clients.

In case of a credit event the senior obligation holders have by default a first-priority claim on all cash flows in TRFI Funding

Issue Volume

TRFI Funding B.V. expects an average volume of approximately EUR 75.000 to EUR 1.000.000 per seller to result in an issuance volume of up to EUR 250m, assuming that the expected number of clients (originators) will range from 500 to 750.

The issuance under the program is a process initiated by Netwerk Financiering B.V. It is planned for the issue volume to be called in economically reasonable tranches depending on the current and expected funding requirements. The future funding requirements will depend on the acquisition of new clients (originators) for the TREFI platform. According to management information, the aforementioned tranches will vary from EUR 0.5m to EUR 25m in size.

The process may expose the issuer to the risk that in the event that either no or insufficient new clients have been acquired the issuance proceeds may not be invested while simultaneously generating liabilities in the form of interest payments. However, we see the risk mitigated by a call option for the issuer (at a fee of 1.5% of the principal amount of the Senior Obligations, 2.5% for Mezzanine) to redeem the issued amount either entirely or in part.

Within the funding process, the minimum capital reserves must be met at all times.

1. The Reserve Fund Loan Principal at any day shall be at least €500.000 and at least 1% of the total nominal value of the WH Facilities.
2. The Reserve Fund Loan Principal plus Mezzanine Obligations must be at least 12% of the total nominal value of the WH Facilities

Qualified Receivables

The client has guaranteed TRFI that on each date on which it transfers receivables to TRFI:

- the receivables are valid;
- the goods and/or services for which the invoice, in the form of the receivable, was sent were fully furnished, thus the invoice involves no prepayment of deliverable goods or services;
- they are fully authorized title bearers with respect to the receivable;
- that neither contractual or other restrictions nor approval or consent requirements exist regarding the sale and assignment of the receivables, and that the receivables are transferable;
- it has the authority to sell and assign the receivables, and was not made aware or unaware of an event that affects the validity of its title to the receivables;
- the receivable is not encumbered with limited rights or possessory liens;
- the receivable has not already been sold;
- that no ban on the sale of the receivable was agreed upon with the debtor;
- each receivable results from a contract;
- no contract qualifies as bill of exchange, check, promissory note, or similar commercial paper;
- each receivable debtor is a resident of or is domiciled in the Netherlands, Belgium, Germany, or the UK;
- that each of the contracts underlying a receivable is subject to Dutch law;
- that all invoices it sends via the TREFI platform contains the statement that the invoice was purchased by TREFI;
- no confidentiality with respect to the debtor was agreed to in the relevant contracts and, if that is not the case, that confidentiality has not been infringed and will not be violated as a result of the sale and transfer of the receivables;
- no withholding tax is owed on payments by a debtor for a receivable;
- the amounts to be paid to a tax escrow account are correctly reflected on the invoice;

- any information relating to the receivables as stated in the relevant Act of Assignment is complete, true, and correct, and that the receivables are adequately determinable;
- to the best of its knowledge, there no shortcoming exists in the fulfillment of the obligations under the agreement between the client and the debtor, both on the part of the client as that of the debtor;
- there is no disagreement with the debtor as to the existence or the amount of the receivable;
- it has no claim on the debtor other than the receivable;
- it has, at all times, complied with all the requirements of the Data Protection Act and related regulations as they pertain to the contracts and receivables;
- each contract (i) explicitly excludes settlement, retention, and any other defense for the debtor to the extent permitted under Dutch law, or (ii) if the contract does not contain such a provision, the debtor is not a supplier of goods or services for the client;
- it has, at all times, fulfilled its duty under any law or regulation with respect to its receivable debtors;
- the payment terms that TREFI prescribes apply to all receivables.

Each connected Client shall, on each date on which it transfers receivables to TRFI, guarantee TRFI that, with respect to itself:

- it is validly incorporated and exists validly in the legal form as shown;
- it has never declared bankruptcy, nor has any moratorium on payments to it been granted, nor has it sought such a moratorium;
- it has not been dissolved, nor has any decision been taken that would have such an effect or would seek a legal separation;
- its goods have not been placed under administration;
- entering into agreements with TRFI does not infringe any statutory provision or rule to which it is bound, its establishing documents, or any agreement to which it is party or in which its assets are connected;
- where relevant, it has met registration and other similar requirements for each licensing requirement and approval demand in order to enter into agreements with TRFI;
- that it has already sent and shall continue to send its invoices via the TREFI platform.

Use of Proceeds

TRFI Funding B.V. (the issuer), a special purpose vehicle, will issue two types of securities: senior obligations and mezzanine obligations. The mezzanine program is subject to Dutch law and the senior obligations program is subject to English or Dutch law. The issue proceeds will be transferred to an affiliate company, TRFI B.V. (the purchasing company) for recurring purchase of trade receivables.

The transfer of the proceeds is governed by the so called "Warehouse Master Agreements" and the corresponding "Warehouse Terms", under which a warehouse has been created by the warehouse provider between TRFI B.V. and the issuer TRFI Funding B.V. (warehouse funder). Due to the implementation of insolvency remoteness, the issue proceeds are not formally transferred via a loan agreement (or similar agreements) to TRFI B.V. The segregation of collaterals is governed via a contract between the security trustee (on behalf of TRFI Funding B.V.) and TRFI B.V. A legal opinion was available in the course of the monitoring process that rendered a judgment (inter alia) on the access rights of obligation holders within the given transaction structure.

Under a warehouse, the issuer enters into/ opens a "Warehouse Facility" (WH Facility) for each group of sellers. This facility is a revolving finance facility under which TRFI B.V. may only draw partially in order to fund the purchase of qualifying receivables[1]. The facility has to be repaid in accordance with a waterfall structure: first, the cash flow will serve to pay the costs at TRFI B.V. level; then to pay the costs at the TRFI Funding B.V. level until all drawings as well as the margin have been repaid and the excess cash is finally returned to the sellers to repay the remaining invoice amounts.

The obligation holders of the issue rated here become the beneficiaries of the receivables purchased under the WH facilities.

The terms and conditions of these WH facilities (in particular the applicable enhancement model and eligible receivables) are fixed on an ex-ante basis for each WH facility by Netwerk Financiering B.V. and need to be accepted by the originator. The calculation agent and the security trustee control that the entry into a new WH facility is not inconsistent with the provisions of the prospectuses. The set of WH facilities defines a major part of the acceptable risk profile for the issue rated here.

In order to enter into a WH facility for a client, TRFI B.V. needs to send a WHF bid request to a warehouse provider. The respective response the WHF bid is an offer to provide the WH facility with, among other items, the following parameters: funding-limit, funding-period, enhancement procedures, rating levels, interest base and triggers. For the current warehouse, the enhancement procedure and rating level are the same for each originator. This procedure is described in the section "Enhancement".

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[1] A pool is a collection of Receivables of a Seller(s) in TREFI system (a technology based series of valuation tools, service products, functions and other programs through which the TREFI system tools and TREFI can be used), each denominated in the same currency, of which the properties, at the origination date of each Receivable, comply with the selected Selection Rules.

Future issuance under the program rated here may compete with earlier issues in terms of refinancing costs, possibly leading to an early redemption if e.g. more inexpensive financing is available. Obligation holders should be aware that a cheaper refinancing of TRFI Funding B.V. could lead to an early redemption (wholly or in part) of before issued series due to a resulting lack of investment opportunities.

The financed receivables per WH Facility are pledged in favor of the Stichting Security Trustee TRFI Funding (security agent) which grants a first-priority right of pledge over all present and future rights and claims (including, without limitation, non-ancillary, accessory and ancillary rights, under or in connection with the receivables to the obligation holders).

Because of the indirect nature of pledging the receivables in favor of the issuer, it requires the purchaser to be free of any claims that could potentially dilute or impair the assignment of the pledged receivables to the issuer. Therefore, TRFI covenants have been installed which ensure, amongst others, that

- TRFI B.V. shall not incur any financial indebtedness except for financial indebtedness to fund the WHF WH Amount (Art. 30.7 Warehouse Terms)
- TRFI B.V. shall not enter into any amalgamation, demerger, merger or corporate reconstruction (Art. 30.8 Warehouse Terms)

Seller

The sellers are Dutch Micro and Small companies. The Debtors may be Dutch, Belgian, German or British companies or must be credit insured.

There are no industry-related or legal limitations for the acceptation of sellers. The distribution strategy is currently focused on distribution through financial experts in three main funnels: independent financial agencies, accounting firms and selected trade associations. The initial trade associations are in the metal, professional services and wholesale industries. This distribution ensures that clients have been prescreened by the advisors.

TRFI calculates an exposure limit of a particular client on a particular debtor. There is no debtor exposure limit at portfolio level (for all clients).

Initial client target group:

- Turnover of EUR 250k to 5m
- Mainly B2B clients
- Minimum receivables outstanding EUR 25k
- Have more than 10 debtors who are invoiced frequently, with a history of either no or limited payment default rates
- Have at least 3 years of profit or positive operational cash flow
- Are willing to obtain the Verklaring Omtrent Gedrag (Declaration by the Dutch Ministry of Justice that the company, its shareholders and its directors have no criminal record)
- Can afford and accept interest costs of 9%

Account Banks

TREFI holds different collection accounts (lockbox accounts) for each seller which exposes it to counterparty risk. In case of a bank default, the moneys on these accounts may be lost. Cash of TRFI is held in ABN Amro (S&P: A, Moody's A1, Fitch: A+) and Rabobank (S&P: A+, Moody's Aa3, Fitch: AA-, DBRS: AA).

TRFI Funding holds cash on deposits at KNAB Bank (parent Company Aegon Bank N.V. is rated S&P: A-, Moody's A3, Fitch: A-), ABN Amro and Kasbank (Fitch: A-).

Business Process

First, a prospective client needs to sign up on the TREFI platform. This can either be done by the originator or online by the client himself. Once signed up, the client can begin using the platform for issuing invoices, collection and risk management.

Subsequently, the prospective client has to go through the new client process which is fully managed by the Platform. Within this process, certain documents are provided by the client and checked by the calculation agent and corporate service provider. The documentation includes an extract from the chamber of commerce, passport copies of all directors, general terms of trade, loan documentation, bank accounts information, certificate of good conduct, articles of association and financial statements.

Once the documents have been checked and approved, the system prepares the standard contract as prescribed by TRSB. The contract terms cannot be modified by the warehouse provider or funder.

In accordance with the new client procedure, any financial statements (if available) and other relevant information are reviewed in order to determine the initial client's probability of default.

Furthermore, the client's representatives are identified and receive an authentication token. This token is required in order to enable the users to sign in online and carry out transactions on the platform.

Provided the client has passed the procedure (new client process), the selection rules and criteria for the receivables that may be sold to TRFI B.V. are defined by the system. The receivables' mandatory eligibility criteria are as follows:

1. The valid and correct address of the debtor is available in CTB upon each upload;
2. The country of the debtor has been identified and recognized by the TREFI platform;
3. The debtor's company has been identified and has not defaulted according to CTB;
4. The debtor is not a related party;
5. The debtor is located in the Netherlands, Belgium, Great Britain or Germany.

Further criteria may be added by the warehouse funder, e.g. parameters such as debtor country and industry and payment terms can be adapted.

The next step is to enter into the funding arrangement. Netwerk Financiering B.V. enters a bid on behalf of TRFI Funding B.V. The bid must comply with the prospectus requirements and is used to prepare a proposal by TRFI B.V.to the seller regarding its pool of receivables. Once the bid is accepted by the client, TRFI B.V. creates (fully automatically) a WH facility under the warehouse between TRFI and TRFI Funding.

A WHF bid request can potentially go out to every warehouse provider (financer) which triggers a competitive bid for the opportunity to refinance the client.

A WHF bid from a warehouse provider includes the following parameters according to Art. 14, TREFI terms:

1. WHF start date;
2. WHF end date;

3. Enhancement procedure and rating level (not selectable in the current warehouse due to the prospectus requirements);
4. Interest base; (in the current warehouse the interest base is always "fixed interest")
5. WHF margin percentage; and
6. Accepted DPD[2] (in the current warehouse always zero);

In addition to these mandatory terms, the WHF bid may include additional triggers (measure, limit, consequences) and facility-limits. In the current warehouse the facility limit must always be set.

In its role as a warehouse provider, Netwerk Financiering B.V. may possibly have multiple warehouses to send out WHF bids.

Potential conflicts of interest (e.g., favoring particular Warehouses Providers) are limited by the ex-ante setting of the "Acceptable Warehouse Funder Policy", which defines the mandate and constraints of the manager.

Nonetheless, it is possible for another warehouse provider concludes a warehouse agreement with softer-terms and more management-discretion than the current warehouse facility. That could result in non-competitive bids for the warehouse of the issue rated here and lack of investment opportunities. At the moment, there are no competing warehouses or warehouse providers on the platform.

Since many of the risk profile determining parameters, such as acceptable enhancement procedure and DPD (days past due), are established in advance for the issue rated here (warehouse), it reduces the discretion of the manager to deviate from the predefined acceptable risk level of the issue (debt holders). Therefore, we can expect a competition in risk appetite between the warehouses, however not with the effect of increasing the risk profile for the issue rated here.

The final decision regarding the acceptance of a WHF bid remains with the client. Once a WHF bid is accepted and a facility is installed, the client must offer receivables through the TREFI network. The client provides a power of attorney to TRFI to buy its receivables and TRFI executes and carries out the purchase automatically.

The client must use the TREFI platform (provided by the Capital Tool Company, Hong Kong) for invoicing in order to be eligible to receive funding. Copies of invoices are not accepted. The client is required to sell all qualifying invoices of participating debtors through the platform. The benefit of this is that new invoices can compensate for the risk deterioration of earlier invoices, for instance through dilution. In order to enter invoices into the system, the client must assign its representatives. They are the only ones who will be allowed to enter the invoices onto the TREFI platform.

After entering the information, the platform provides the invoice to the debtor by email, or else by post or online. The platform ensures that the sale of the invoices is disclosed to the debtor,

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[2] DPD = days past due of the receivable, which is the agreed maximum period that a receivable is outstanding and has remained unpaid, expressed - at the time a receivable is considered to be sold - as the number of days that have elapsed since the due date of that receivable.

that the terms and conditions of payments are in accordance with the TREFI conditions and that the debtor has the ability to approve or dispute the invoice online. The benefit of this check is that it provides assurance to the platform that the information on the invoice is correct, that the sale has been disclosed, and that the invoice contains the correct TRFI bank account number.

The TREFI network has put in place a mitigating, incentive-driven procedure that relies on the approval of invoices by the debtor. Here, the TREFI platform allows debtors to assign representatives[3] who can electronically approve the invoice and thus reduces the risk of disputes and dilutions. Debtors are incentivized by the client to approve the invoices. Indeed, if an invoice has been approved, the client receives higher advances from TRFI in exchange for which the client is more likely to grant its debtors better payment terms or even discounts on further transactions. In order to reduce dilutions regarding eventual discounts, the invoice purchase price is calculated based on the invoice net amount (after deduction of any existing discounts).

Purchased receivables are invoiced under the name of the TREFI Network and the money must be transferred solely to TREFI collection accounts (no silent factoring). The account data of TREFI collection accounts is displayed on the invoice document. A flawed payment on the part of a debtor transferring money directly to the client (non TREFI collection accounts) will not legally discharge him from his obligation. Nonetheless, the workaround procedure employed by TREFI will be to charge the client (not the debtor) and to obtain the money by netting the due amounts with new receivable purchases or via cash reconciliation. A consequence of an incorrect payment such as this is that the trust score of the debtor will be reset to zero, and that further invoices to this debtor will receive very limited advances until confidence in this debtor has been restored. Confidence can be restored once the debtor ceases making direct payments and instead pays to the correct TREFI collection account.

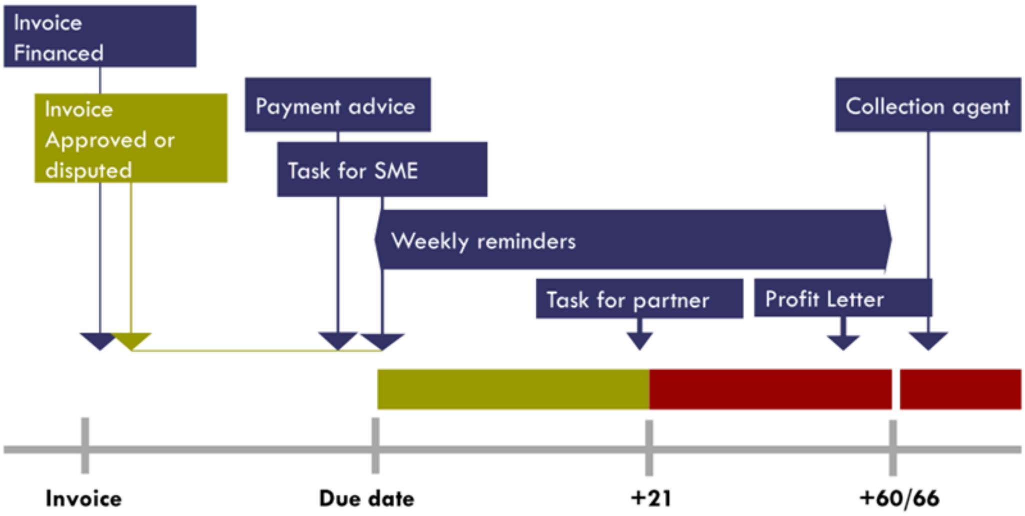
The portfolio of receivables is purchased with one or more initial purchase prices. The sum of the purchase price minus repurchases, dilutions and collections is called an “advance” to the client. The purchase price is derived from the overall current assessment of the originator’s portfolio and the addition of the new receivables to the portfolio. The additional value of the purchased invoices could be allocated back to the invoices based on the risk of such new receivables; however, although an indication is given, the amount of advance on a particular invoice is not disclosed to the originators at the time of sale of the receivable. This is because the portfolio effect may confuse the clients with respect to the individual credit purchased.

Once a receivable has been purchased, the invoice is managed by a highly automated management and collection system that is part of the TREFI Platform. Invoices are sent out immediately upon granting the debtor the opportunity to approve or dispute the invoice. The invoices are sent out in the name of TREFI with its own collection accounts and partly with TREFI invoice layouts. Shortly before due date, payment advice is sent to the debtor in order to remind him to fulfill his obligation. If the invoice is not settled by its due date, the client is charged to service the invoice on his own within a period of 21 business-days. In addition, TREFI will send further weekly reminders to the debtor. Within this 21- day period, no penalties will be charged to the client or to the debtor. If the invoice has not been paid within 21 days, the receivable is serviced by the collection partner of TREFI (currently Atradius). Simultaneously, penalties are imposed

[3] Here is a controlling procedure with checks and documentation of the representative (ID-Card, etc.).

for this service. After a maximum of 52 days overdue, the debtor will receive a final warning after which, at 60 days of delinquency for limited companies and 64 days of delinquency for private companies, the receivable enters into the collection process of the collection partner.

Figure 2: lifecycle of a purchased receivable | source: TREFI



Enhancement model

There exist four broad instruments of enhancement for the senior obligations rated here: over-collateralization, insurance, subordination and excess spread.

1. Overcollateralization: There is a minimum average overcollateralization of 33% (on the nominal value of the purchased receivables). This asset-enhancement is based on a discount on the purchased receivables that is calculated on the basis of numerous parameters. Each of the receivables benefits from retention of title clause of underlying products and services.
2. Insurance: TRFI B.V. has an insurance agreement with Euler Hermes Nederland. Under this agreement, some originators may have part of their receivables insured against credit loss. Furthermore, TRFI B.V. is the beneficiary of various insurance arrangements with Atradius, Euler Hermes and Coface.
3. Subordination
    a. There is an enhancement in form of a minimum capital buffer of at least 12%. This liability enhancement gives the obligation holders a priority in case of a bankruptcy of the issuer, by having senior claims when liquidating the collateralized receivables.
    b. Should the enhancement fall below 12%, or the reserve fund below 1%, TRFI Funding may not enter into any new WH facilities. The amounts must be checked by the calculation agent and the trust director.
4. Excess spread
    a. Under the Reserve Fund Agreement, Netwerk Financiering may request the payout of an amount if the reserve has been in compliance with its minimum requirement for at least 30 days. Any drawing may not result in a lack of reserve funds.

b. Any income under the WH facilities after payment or accruing for fees, interest and principal of the obligations is credited to the reserve fund. As a result, all excess spread is available to replenish the reserve fund.
c. The expected excess spread is between 3 and 9% p.a. on the invested amount and has a minimum value of 0.5% p.a. under the Reserve Fund Agreement. The excess spread derives from client fees paid to TRFI minus servicer and financing costs paid by TRFI and serves as interest for reserve fund providers. However, the excess spread is only available when loss is incurred and the reserve fund is below its minimum amount.

The mezzanine obligations benefit from the above overcollateralization, insurance, reserve fund and excess spread.

Credit enhancement calculation (purchase price discount) (procedure 233, November 2018)

The calculation of the enhancement refers to the total pool of a client's eligible receivables, i.e. even though the enhancements are calculated from the bottom up, the advances/discounts are paid and calculated based on the portfolio.

The calculation of the individual receivable credit enhancement consists of the following steps. It should be mentioned that most adjustments affect the enhancement (purchase price) and only few affect the origination amount[4]. Nonetheless, the enhancement calculation refers to the adjusted exposure that derives from the original invoice amount.

- Origination Amount = [Invoice Amount] + VAT – [early payment discounts] – [partial payments] – [known dilutions]
- Adjusted Exposure = { [Origination Amount] – [Tax Escrow Account] } * (1-[366-day Pool Dilution Ratio])
- Enhancement = function([Adjusted Exposure], [Risk Weighing Factors])

Table 1: Private Driver UK Distributions

Step	Description
Determine adjusted exposure	If the owner of a receivable is obliged to transfer a portion of a receivable to a tax escrow account, this portion is deducted from the net exposure since it is 100% non-coverable. Please note that the deducted portion is later added onto the enhancement at 100%. So the provision for transfers to a tax escrow account is 100% even though it might seem that there is no such provision at all when one deducts that portion from an exposure.
Determine enhancement	The credit enhancement component serves as a provision for and thus mitigates the following risk factors: Credit risk (in relation to a single-debtor- and pool-context),

[4] Early-payment discounts, partial payments, known dilutions and write-offs are deducted directly from the origination amount. In contrast, transfers to a tax escrow account are not deducted from the origination amount but from the adjusted exposure. However, this portion is added back onto the enhancement at 100% which results in the same effect as with an initial deduction from the origination amount

	Financial risk of owing interest payments to the holders of TREFI's debt financing Dilution risk already indicated by the status of a receivable Commingling risk of a debtor transferring the money to the client's normal bank account.

The individual credit enhancement is calculated in six steps:

Firstly, the credit risk enhancement is based on the Basel II Framework (IRB-approach). This step reflects the compensation of unexpected and expected loss as well as refinancing risk:

*ENH=(BIS_EXPLOSS + BIS_UNEXPECTED_LOSS) * ADJEXP + INTRESERVE*

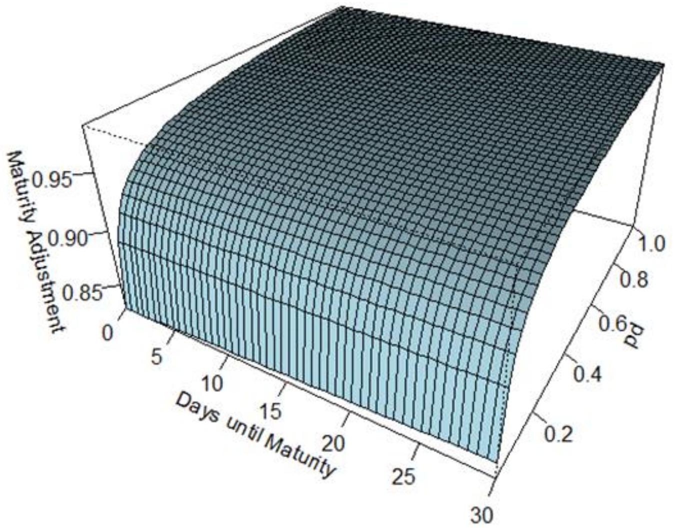
The reserve calculation for expected loss follows the standard definition plus an adjustment for the maturity (MATURITY_ADJ) of the receivable, which is a function of days to maturity (DAYS_MATURITY) and probability of default (PD).

*BIS_EXPLOSS = PD * LGD * MATURITY_ADJ(PD,DAYS_MATURITY)*

- MATURITY_ADJ = (1+(M – 2.5) * B) / (1-(1.5*B))
- B = (0.11852-0.05478*LN(PD))^2
- M = DAYS_MATURITY / 366, and is called effective maturity
- LGD = { [Adjusted Exposure] – [Credit Insurance] } / [Adjusted Exposure]

The following graph gives an overview of the Maturity Adjustment. It lies in a range between 0 and 1 (given that PD and days until maturity are positive and within an economically meaningful range). As a result, the higher the number of days until maturity and/ or the higher the PD, the higher the maturity adjustment factor and thus the higher the expected loss.

Figure 3: maturity adjustment | source: CRAG



The interest rate provision (INTRESERVE) is calculated as follows:

*INTRESERVE = INTRATE * M * ([Origination Amount]-[Tax Escrow Amount])*

The reason ADJEXP is not used is to make provisions for financial risk by accounting for the full exposure.

The expression for unexpected loss provision is a function of debtor PD-correlation (C), debtor size as annual sales in millions of euros (S), LGD, probability of default (PD) and days to maturity (DAYS_MATURITY).

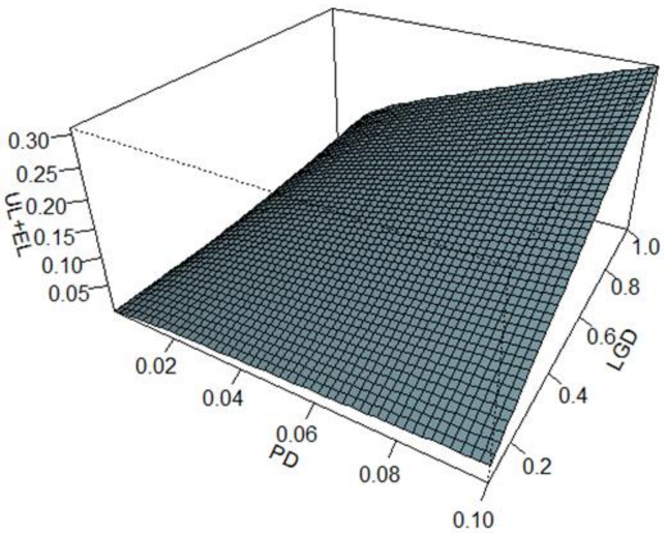
*BIS_UNEXPECTED_LOSS = LGD * { N [(1 – R) ^ (-0.5) * G (PD) + (R / (1 - R)) ^ (0.5) * G (0.999)] – PD } * 1 + (M - 2.5) * B) / (1 - 1.5 * B]*

- N[x] denotes the cumulative distribution function for a standard normal random variable
- G[x] denotes the inverse cumulative distribution function for a standard normal variable
- R = C-SA, and is called adjusted correlation
- SA = MAX(0.04, 0.04 * [1 – (S – 5) / 45]) and is called size adjustment
- B = (0.11852-0.05478*LN(PD))^2
- M = DAYS_MATURITY / 366, and is called effective maturity
- LGD = { [Adjusted Exposure] – [Credit Insurance] } / [Adjusted Exposure]

An important fact to mention here is that the correlations between the events of default are taken into account. This constitutes part of a stress-test element in the calculation. The calculation of a reserve for unexpected losses not only covers the appearance of average adverse credit events but also the appearance of rare, highly adverse credit events. A deeper justification of the underlying theoretical background can best be reviewed in "An Explanatory Note on the Basel II IRB Risk Weight Functions", Basel Committee on Banking Supervision (July 2005).

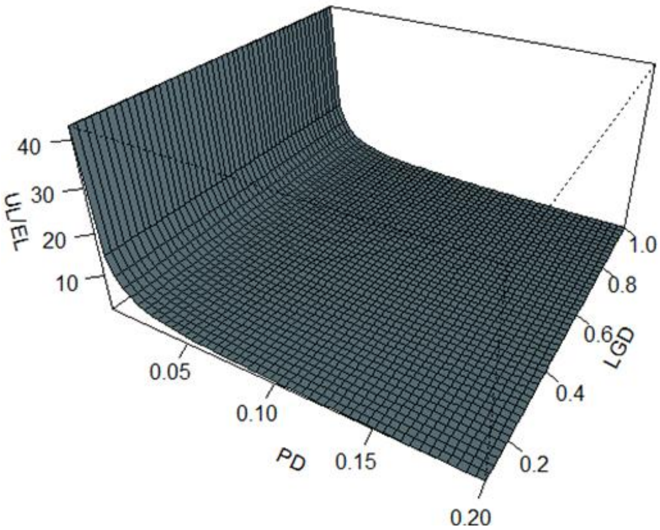
In order to compare the reserves for expected and unexpected losses, the following graph is shown on the given set of parameters. It will depict the sum of unexpected loss and expected loss reserve. The variables in this model are the LGD and PD. S is set on EUR 1m and there are 30 days to maturity. It is shown that the credit risk reserve increases as PD and/or LGD increases.

Figure 4: UL+EL | source: CRAG



The following graph illustrates the structure of the credit reserve. It shows that with increasing PD and / or LGD the portion of the unexpected loss reserve declines.

Figure 5: UL/EL | source: CRAG



Secondly, the enhancement (ENH) is modified according to the approval status of the receivable and the trust score (TRUST) of the debtor and is modified as follows.

ENH → ENH * FAPPROVAL

If the receivable is approved by a representative of a debtor, the following equation determines the factor F.

FAPPROVAL = 1 + [1-(TRUST/ MAXTRUST)]*APPROVEDCAP

If the receivable is not approved, the following equation determines the factor F:

FAPPROVAL = 1 + [1-(TRUST/ MAXTRUST)]*UNAPPROVEDCAP + BASE (CLIENTPD, UNAPPROVEDBASE)

Where BASE is a sigmoidal function assigning a value between 0 and 1 based on the PD of the client, taking a value of UNAPPROVEDBASE (default-value: 0.5) if that PD is unknown. APPROVEDCAP and UNAPPROVEDCAP are warehouse parameters, which are set at the beginning of the funding process.

The second term is added to F_approval in the event of an unapproved invoice to account for potential disputes arising from the deteriorating creditworthiness of the seller. The lower the PD of the seller, the less this term will contribute to F_approval.

The trust score is a step of modification which reflects the operational and commingling risks of the TREFI business. When a specific debtor has a good payment history regarding the TREFI collection accounts, instead of paying into the client's normal collection accounts, he increases his trust score (reduces enhancement). A further factor contributing positively to TRUST is if the debtor is a TREFI client and has already received financing, giving TREFI more options in the event that the invoice is not paid.

Third, the enhancement is modified according to the respective ultimate parent limits of the debtor, where additional exposures above the limit are reflected in the enhancement. This adjustment mitigates the credit risk to a single debtor (providing diversification). The definition is as follows:

ENH → max (ENH, min (ADJEXP, UPEXP - MAXUPEXP))

- ADJEXP = [Origination Amount] - [Credit Insurance] – [Tax Escrow Account] is the current adjusted exposure of the ultimate parent
- UPEXP = sum of ultimate parents ADJEXP
- MAXUPEXP = maximum ultimate parent exposure

The enhancement formula provides two interpretations:

- If the current ADJEXP raises the ultimate parent exposure above the limit, the enhancement must cover at least that portion of the exposure which exceeds the limit.
- If the exposure was already over the limit before taking this receivable into account, then the enhancement will be adjusted in order to cover the entirety of ADJEXP.

In addition, per-debtor limits may also be set manually by a financier of a pool of receivables which would further decrease exposure to an ultimate parent. The calculation procedure is equivalent to the ultimate parent limit procedure.

Fourth, the enhancement will be modified according to the disputed status of a receivable and will form, in conjunction with the approval status, a reserve to prevent dilution. If the receivable is not disputed, no enhancement is added to the existing one. If the number of dispute days increases to the maximum number of dispute days, the (individual, credit) enhancement rises to 100% of the adjusted value for respective receivable.

ENH → ENH + (ADJEXP ENH) * FDISPUTE

FDISPUTE = min (1.0, [Number of dispute days] / MAXDISPUTE)

- MAXDISPUTE is a warehouse parameter.

Fifth, the enhancement will be modified when the receivable begins to become overdue. The more a receivable becomes overdue, the higher the penalty (enhancement) will be. Again, the (individual, credit) enhancement could rise up to 100% of the adjusted value for respective receivable if the parameter DPD is exceeding the 90 days threshold.

ENH → ENH + (ADJEXP - ENH) * FOVERDUE

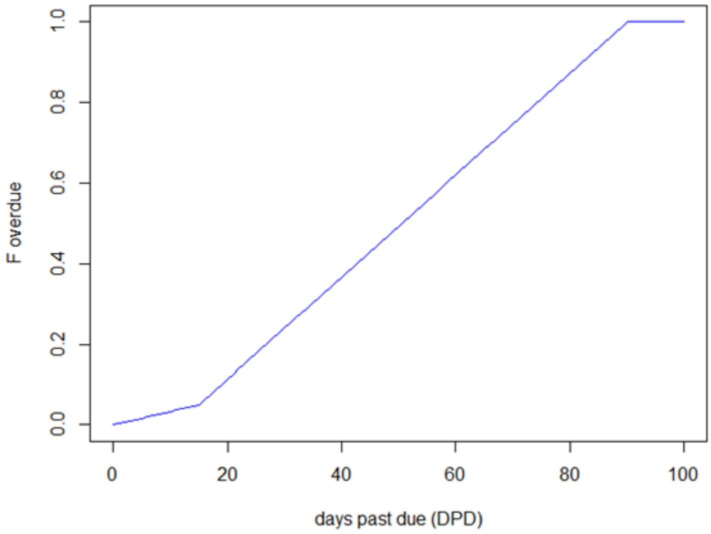
$$F_{OVERDUE} = \mathrm{IF}(DPD \leq \mathbf{PSDEFAULT}, \mathbf{PENALTYSEED} * \frac{DPD}{\mathbf{PSDEFAULT}},$$

$$\mathrm{IF}(DPD < \mathbf{MAXOVERDUE}, \frac{DPD - \mathbf{PSDEFAULT} + \mathbf{PENALTYSEED} * (\mathbf{MAXOVERDUE} - DPD)}{\mathbf{MAXOVERDUE} - \mathbf{PSDEFAULT}}, 1.0))$$

- PSDEFAULT = 15, PENALTYSEED = 5%, MAXOVERDUE = 90 which are fixed parameters in the enhancement calculation procedure.

The following graph shows the kinked relationship of FOVERDUE in relation to DPD (days past due). The interpretation is that a penalty for an overdue receivable begins and increases as of the first day. If days past due increases to more than 15 days (PSDEFAULT), the penalty becomes more severe and reaches 100% of the adjusted value for the respective receivable when it is 90 days overdue.

Figure 6: FOVERDUE | source: CRAG



Sixth, the portion of the previously deducted obligations for tax escrow accounts will be added back. Earlier, this amount was deducted from the adjusted exposure and is now added at 100% onto the enhancement, implying a 100% provision.

Certain modifications are then applied at the pool level. The former modifications had an individual perspective on each receivable. The following refer to the sum of all individual non-dilution enhancements, together with the pool dilution enhancement.

1. The enhancement at pool level must reach a minimum percentage of 15%. POOLMIN is a warehouse parameter.
2. ENH → max (ENH, POOLMIN*HPOOLEXP)
3. The pool enhancement must be as least as large as the largest unapproved exposure to a single ultimate parent.
4. ENH → max(ENH, MAXUPEXP)
5. The pool enhancement must have a minimum amount (MINCAP)
6. ENH → max(ENH, MINCAP) with MINCAP being a warehouse parameter of 3.000 EUR
7. If the pool exposure is less than MINCAP, then the total pool exposure is taken and constitutes the pool enhancement
8. ENH → min(ENH, POOLEXP)

Receivables Default Risk

The receivables default risk describes the risk that purchased receivables become non-preforming receivables. It is equivalent to the credit risk of the debtor. The transaction is secured against this risk as follows:

1. Average minimum credit enhancement of 33% of the adjusted exposure:

The enhancement is calculated at individual and at pool level. The ratio of 33% is the cap and is controlled by the calculation agent and CSP. In the current warehouse the model selection (by Netwerk Financiering) is limited to risk procedure the described above. It is worth mentioning that there are monthly risk meetings between the calculation agent and Netwerk Financiering in order to discuss potential improvements to the model by means of adjusting model parameters (e.g. PD, payment score, trust score). Although TREFI allows for a proprietary model for a warehouse provider, for the current warehouse the calculation agent is ultimately responsible for the model.

A crucial point here is also that the enhancement only works on the individual level of a client's pool, meaning that losses from defaulted receivables can only be deducted by the enhancement (deferred and not paid purchase price) from the pool of the same client. Therefore, no other client is liable for defaulted receivables of another client. Given the exact wording ("average minimum overcollateralization of 33%"), a client's pool could potentially show an enhancement below 33% of its adjusted exposure if other pools have a higher enhancement. The only fixed, minimum pool level enhancement is set to 15% (6th step in enhancement calculation)[5].

The risk mitigating potential of the 33% deferred purchase price should thus be seen in the light of the aforementioned limiting conditions (not at portfolio level, not as a fixed ratio).

Furthermore, the enhancement model includes a penalty for receivables that become overdue (5th step in the enhancement calculation). This penalty increases to 100% when it reaches 90 days. Therefore, if new receivables are available for purchase, potential losses can be deducted from new receivables. A cash settlement (an obligation for the client to settle enhancements in cash) does not exist, which means that part of the enhancement could be outstanding to the client. Nonetheless, we see that mechanism (average minimum credit enhancement of 33% of the adjusted exposure) as an additional instrument to mitigate credit risk.

2. Reserve Fund

The mandatory Reserve Fund amounts to a minimum 1% of [senior plus mezzanine minus cash] or 500k EUR. The fund is provided by Netwerk Financiering and its cash flows are available to cover potential losses exceeding the enhancement of all clients' receivable pools. It is thus a portfolio-wide enhancement factor. If the reserve fund falls below its minimum value, TRFI Funding cannot enter into new WHF agreements (i.e. acquire new clients). Netwerk Financiering can then decide at its discretion to fill the gap or not. If it does not, and the interest share is not sufficient to replenish the reserve, the result is equivalent to an amortization trigger for the

[5] There are several other adjustments that could be seen as a minimum enhancement (e.g. the pool enhancement must be as least as large as the largest unapproved exposure to a single ultimate parent).

transaction which means that the WHF of existing clients will be serviced until maturity of the existing agreements and that no new clients must not be added.

3. Mezzanine Obligations

The mezzanine obligations constitute an enhancement against receivables default risk for holders of the senior obligations. This means that upon a termination of activities or bankruptcy on the part of TRFI Funding, senior obligation holders shall be the first to receive interest and principal.

4. Credit insurance

TRFI B.V. concluded an insurance agreement with Euler Hermes Nederland and is beneficiary of various insurance arrangements with Atradius, Euler Hermes and Coface that reduces the LGD of a debtor credit event by subtracting the limit amount from the exposure. Note that the current TRFI B.V. policy insures a maximum of 90% exclusive of VAT. Reserves are still built up for other risks including dilutions and interest-costs.

Default estimation

A major part of the provision for risk depends on the assessment and measurement of risk in terms of the probability of default (PD). Capital Tool Company Agency Services is responsible for calculating and backtesting the estimations. Although Netwerk Financing participates in losses, potential conflicts of interest may appear. In a principal agent setup, where Netwerk Financiering acts on behalf

of the obligation holders' interests, a situation may occur wherein taking excessive risks could be favorable to Network Financiering since it is benefiting only from the upside potential (the margin acquired through TRFI activities remains with Netwerk Financiering). Here, the benefit of the upside potential is limited for the obligation holders, since they only receive interest on obligations. However, because of the third party risk assessment and controls we see the scenario as unlikely, as long as the third party checks remain in place.

Dilution Risk

Trade receivables are exposed to dilution risks. That means that various causes can lead to a subsequent reduction in the original invoice amount of purchased receivables. These reductions are either settled by netting the purchase of newly purchased receivables or by cash-settlement on the part of the client. Potential losses for obligation holders may occur when a client cannot repay diluted receivables (client default). To cover these potential losses, a provision has been put in place (enhancement for dilutions).

In general, possible causes for dilution are rebates, bonuses or disputes due to objections on the part of debtor. The dilution risk results in impairments that are unapparent at the time of the purchase. Dilution risk due to rebates and bonuses are reduced here by subtracting from the invoice all existing and potential rebates and bonuses.

Moreover, the enhancement for dilution risk depends on the status of the invoice. If the debtor's representatives approve the invoice and thereby indicate that the invoice is free of disputes[6], the dilution risk is significantly reduced, leading to lower enhancement and higher advances for the client.

The primary dilution risk we can see is the potential of increasing disputes in the event of a client default. The incentive for creditors might be to obtain discounts on their receivables from an insolvency administrator in return for an immediate payment. Please note that all purchased receivables of TRFI are truly sold and thus do not form any part of a potential insolvency estate belonging to the defaulted company. Nevertheless, creditors might attempt such a strategy with detrimental effects for TRFI.

Furthermore, a company close to insolvency might begin to ship substandard goods or services. Dilutions from such disputes are then justified and might impair the recoverable amount of a receivable. However, as TRFI closely monitors clients' probability of default and has set a trigger PD for clients that stops the respective purchase agreement, such risk could be reduced.

Commingling Risk

The commingling risk defines the risk that payments from debtors are made to the client's normal collection accounts. It increases the risk that

1. these funds cannot be recovered from a debtor, even though his payment has had no discharging effect for him.
2. these funds cannot or only partially be repossessed in the event of a client's default and that these funds may be mingled with the insolvency estate of the clients.

Within the program, there are several procedures in place in order to mitigate the commingling risk. Firstly, all purchased invoices are sent to the debtors in the name of TRFI B.V. on a separate TRFI collection account (lockbox). It means that direct payments to the client's normal collection account do not discharge the debtor from his obligation to make payments in the correct manner to the TRFI collection account. Secondly, the calculation of a trust score measures the record of correct payments by the particular debtor to the lockboxes. When a debtor has been proven to make payments to the correct collection account, the enhancement on his receivables will decrease[7].

Operational Risk

The Basel II Committee defines operational risk as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events".

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[6] The incentive for debtors to approve a receivable is of indirect nature. In the subsequent course of business they might receive better conditions (e.g. longer payment terms) from the client, who in turn receives more advances on approved receivables.

[7] Similarly, to the approval of receivables, the incentive for the debtor is of indirect nature.

Capital Tool Company Agency Services has implemented an operational risk management framework and system for TRFI to ensure confidentiality of the information, the integrity of its operations and the continued operation of its services.

Due to the highly automated character of operations, a secure and stable functioning IT infrastructure is essential. The management of the Capital Tool Company stipulates that it has a 10 year history and track record with this system. In the Netherlands, the Netwerk Financing platform went live in April 2012. The complete IT Infrastructure is hosted in an ISO 27001 and PCI DSS certified bunker. The application runs on its own server rather than on one dependent on a third party.

All operational processes are documented generally in written procedures; process and calculation manuals that will ensure the assignment of responsibilities to servicers. The legal structure, with its segregated entities and servicers for different tasks in the structure, is designed to ensure operational continuity and legal independence. A standard-setting board (TRSB) was implemented to represent financiers and clients. Its main purpose is to enforce the standards for legal documentation. Given that TRSB owns 100% of the shares of TRFI B.V. and TRFI Funding B.V., an appropriate control of the legal structure is ensured.

To avoid conflicts of interest, a trust and agent structure has been implemented which should guaranty a segregation of duties and transparency to investors and clients:

- Receivable servicer (collection agent): in the event that a debtor fails to pay its receivables, the client is permitted to attempt his own (soft) collection policies during 21 days past due. The receivables servicer acts as agent for the investors.
- Calculation agent (Capital Tool Company Agency Services Ltd., Hong Kong): acts as an intermediary between investors (risk and/or return objectives) and clients (cheap financing facilities).
- Paying agent: acts as a trustee between clients and financiers (and other related parties) by checking and authorizing the payments made among them.

With regard to the collection agent, we expect that a standby and back-up servicer should be easy to find. We see the more specialized function of a calculation agent as more critical and not easy to replace.

To report operational risks, a risk-voting function has been installed into the TREFI platform, where relevant experts can vote or report on operational risks in conjunction with the estimated probability of the event and the loss should the event occur. The results are periodically disussed with all related parties.

In our opinion, the existing structures are adequate and tested and can be expected to perform reasonably in the projected scale-up scenario.

Exchange Rate Risk

Since the business is run in the Netherlands (clients), no direct exchange rate risk appears because invoices are denominated in EUR. However, if a non-EUR debtor is buying products from a Dutch company, it could occur that a deterioration of its home currency in relation to the EUR would result in a higher payment in non-EUR terms. This may have an indirect effect on the debtor's creditworthiness. This risk is mitigated by typically lower payment terms for trade receivables (exposure to exchange rate fluctuations only for a limited number of months) and the eligibility criteria of debtor countries (The Netherlands, Belgium, Germany and Great Britain).

Interest Rate Risk

The senior loan refinancing facility is based on a floating rate EURIBOR 1M + margin. In scenarios of rising interest rates, this might have a negative effect on the overall excess spread.

Liquidity Risk

Liquidity risk is the risk that the necessary payments under the transaction (e.g.: obligation holders, servicer, etc.) may not be fulfilled in full and on time. These payments are part of the profitability calculation and need to be earned through operations. In the event that debtors and/or clients do not pay their obligations fully and/or in a timely manner, a liquidity risk may arise. This risk is mitigated by adequate operational risk management as well as by implementation of the reserve fund. However, since some servicer contracts are based on a fixed amount, the program has to reach a certain critical mass to work profitably.

A typical ABCP liquidity risk in terms of on ALM-mismatch (maturity of assets higher than maturity of liabilities) is removed by the funding condition of a respective WHF. It states that the Capital Tool Company must ensure that the duration of the obligations of TRFI Funding are always at least as long as the duration of the existing arrangements.

Still, liquidity shortages may arise from the funding management of the warehouses. These situations may occur when a client has a lower average usage of their respective available funding amounts. TREFI could then use the average excess liquidity to warehouse facilities. Risk of liquidity shortages (e.g. all clients use 100% of their funding) is reduced by the option (for TRFI B.V.) to reduce the funding level of a client. As such an option is extremely client unfriendly, TRFI Funding B.V. plans to have available at least 85% of limit space in funding, and as the portfolio grows, statistics will be available on how the portfolio performs in limit usage throughout the year, thus steering future strategies.

Fraud Risk

We see two main risks of fraudulent behavior within the program. First, clients could attempt to hide or exclude potentially good receivables from the eligible pool of receivables, even though they are obliged to offer all receivables for purchase. This would result in an adverse selection of offered receivables from bad debtors. This risk could occur as generally no counter-checks are carried out with respect to clients' accounting systems.

Second, there may be an incentive to sell fake invoices to TRFI, particularly for clients experiencing financial difficulties, as a last attempt to obtain liquidity.

However, the TREFI platform provides several risk-mitigating procedures such as:

1. Check for past fraudulent behavior with regard to all clients and all main debtors
2. Registration of all client activity by the system, resulting in the ability to easily prove fraudulent behavior, thus making it less likely that fraudsters will use the platform
3. Limited financing of new clients and debtors
4. Approval of invoices requires two parties (client and debtor) to collaborate in a fraudulent invoice
5. Risk-sensitive nature of the advances
6. Concentration measures in the enhancement in the pool make it very inefficient not to provide all sales

Ramp-up Risk

In our perspective, the main risk during a ramp-up period would result from an increased loss severity resulting from a small number of clients and a consistently relative reserve fund ratio (granularity). E.g., assuming a hypothetical LGD of 100% for a warehouse in the case of a client default, the relative impact would be higher (e.g. total of 10 clients: 1/10=10%, total of 100 clients: 1/100=1%).

However, the reserve fund is calculated as the higher of EUR 500k or 1% of the invested amount (= sum of purchase price receivables), thus substantially reducing the relative loss severity.

We see the minimum provision of EUR 500k as an important cushion for concentration risk in altering the relative amount of the reserve fund during the ramp-up period. With the increase in invested amounts, the relative reserve fund will decline and converge to the level of 1%.

Legal Risks

The TRFI securitization platforms comprise several special purpose entities in segregated legal structures and with different responsibilities. The main purpose is to maintain insolvency remoteness between those entities and is a typical structure used in ABCP-Conduits. On the entire transaction structure a legal opinion was rendered.

TRFI Funding and TRFI may nonetheless be at risk of a lawsuit being filed against one or both of them. Costs incurred due to court proceedings, legal counsel and the outcome of court proceedings is uncertain and may result in financial loss.

Furthermore, regulatory authorities may rule that TRFI must comply with regulations for factoring banks. Potential penalties and costs (for early termination of the program) could have a negative effect on the creditworthiness of the issuer.

Cash Flow Analysis

Methodology Applied

Creditreform Rating AG applied a simulation-based approach in order to assess default risk for senior and mezzanine obligors. This approach is based on a static portfolio and its ability to meet the financial liabilities with respect to obligation holders of the respective tranches, implying the termination of revolving purchases. In reality, even if Netwerk Financing and TRFI Funding were to go bankrupt, the existing WHF would continue to operate, thus earning the excess spread.

The transaction model is split into two levels:

Debtor level: As a multiseller securitization program, each client forms its own receivables pool. Losses from debtor defaults must only be compensated using the respective client's enhancement (deferred purchase price). Losses exceeding the individual client's enhancement cannot be compensated with another client's enhancements.

The first step here is the creation of different portfolio structures, both hypothetical and observed. The distribution of receivables exposure among debtors is modeled to reflect concentration risk. The enhancement level is also taken into consideration and can be varied within different scenarios. Correlated debtor defaults are then simulated on a monthly basis and monthly losses are netted with the available enhancement.

Client level: The next step is the simulation of correlated monthly client defaults to assess dilution risk as well as losses from revenues. Any client who has not defaulted will generate revenues for TRFI that are used to pay operating expenditures (servicer costs) and financing costs (interest from mezzanine and senior obligations).

With a client in default, we assume that dilutions will rise above past observable levels due to an increase in disputes. The resulting losses will be netted with the first step's remaining available enhancement. Furthermore, a client default would result in a lack of revenues for operating and financing costs. These losses are also be netted with the available remaining enhancement.

Any losses exceeding the enhancement of each individual client are subsequently borne by the capital buffers. The monthly remaining profit (excess margin) will be used either to replenish the reserve fund or to pay interest to the reserve fund providers (should monthly the reserve fund exceed its minimum amount of 1% or 500k EUR).

The number of runs where the loss exceeded 1% (12%) divided by the total number of simulation runs indicates the probability of default for the mezzanine and senior obligations, respectively.

As client's balance sheets or annual reports are available, Creditreform Rating AG will estimate client PDs with its own pd-model.

Sensitivity Analysis

As part of the analysis, numerous scenarios were set up in order to test the structure by varying its parameters. The variables taken into account were the following:

- debtor and client PDs
- correlation of debtor and client defaults
- LGD at client default
- distribution, concentration of debtors within client pools
- enhancement levels

Among various scenarios, we defined base, worst, and best-case scenarios. The input parameters were appraised based on historical observations and analysts discretion.

In a base-case scenario, we created a hypothetical portfolio consisting of 22 sellers with 40 debtors with equal amounts to account for concentration of sellers and debtors. Each debtor has an invoice amount of ca. 20k EUR. Implying a credit enhancement (purchase price discount) of 35% in this scenario, we derive a total finance amount of ca. 11m EUR, which reflects the amount of current financings.

We assumed an excess spread of 4.85% p.a., reflecting the current WHF-margin, commitment margin and refinancing costs and set the time horizon to 4 months (days to maturity of receivables rounded to 1 month + 90 days default horizon). Seller average credit quality was estimated B and debtor credit quality B. Debtor credit quality is based on the analysis of recent portfolio data (November 2018 to November 2019). Seller credit quality was estimated by Creditreform's model using financial statements of sellers.

Stressed LGD upon seller default due to dilutions was set to be 70% of the origination amount of not debtor defaulted receivables, which provides comfort given a 2.73% p.a. (total) dilution rate and historic recoveries. Last, an asset-correlation of 10% is assumed.

The results support a highly satisfactory level of credit quality for senior obligations (BBB) and a moderate level of credit quality for the mezzanine obligations (B).

It should be mentioned that both notes are benefitting from a relatively larger Reserve Fund share due to the minimum amount of 500k EUR[8]. If future growth occurs without increasing granularity and diversification of the portfolio it could have a negative effect on rating because the Reserve Fund share is becoming relatively lower. The following table provides rating sensitivities of changed parameters:

Figure 7: Sensitivity Analysis | Source: CRAG

Parameter	Base case assumption	Sensitivity assumption	Rating senior	Rating mezzanine
# Seller	22	16	BBB-	B-
# Debtors per seller	43	30	BBB	B-
avg enhancement	35%	33%	BBB	B-
Default horizon	4m	6m	BBB-	B-
Debtor default ratio	4,9%	8,9%%	BBB	B-
Seller default ratio	3,9%	8,9%	CCC	C
Dilution LGD	70%	80%	BB+	CCC
Program usage	57%	67%	BBB	B-

Monitoring

The receivables portfolio will be closely monitored on an ongoing basis, using TREFI platform transaction performance reports (dilutions, defaults, commingling, etc.) and portfolio snapshots. Moreover, Creditreform Rating AG will review the performance of the default assessment and any changes in the enhancement calculation model. With regard to improvements or degradations with respect to portfolio, model or framework, Creditreform Rating AG will consider whether any modification of the rating needs to be made.

[8] 500.000 / 10.000.000 = 5,0%

Appendix

Rating History

Date	Event	Result senior obligations	Result mezzanine obligations
03.11.2014	Initial Rating	BBB sf restricted	B sf restricted
21.01.2015	Follow-Up Rating	BBB sf	B sf
12.10.2015	Follow-Up Rating	BBB sf	B sf
06.12.2016	Follow-Up Rating	BBB sf	B sf
06.12.2017	Follow-Up Rating	BBB sf	B sf
19.12.2018	Follow-Up Rating	BBB sf	B sf

Regulatory Requirements

Creditreform Rating AG was mandated on September 09, 2015 by TREFI Funding B.V. to conduct follow-up ratings for Senior and Mezzanine Obligations issued by TRFI Funding B.V The rating was conducted on the basis of Creditreform Rating´s "Structured Finance" methodology.

Important sources of information in the context of the ratings were, in addition to the submitted documents, various conference calls and a due diligence meeting in Amsterdam in December 2016. The submitted documents and information provided were sufficient to meet the requirements of Creditreform Rating AG's rating methodology.

A complete description of Creditreform Rating´s rating methodologies is published on the following internet page: www.creditreform-rating.de.

This rating was carried out by analysts Edsson Rodriguez and Qinghang Lin, all located in Neuss/Germany.

The issuer or all relevant parties have examined the rating report prior to publication and were provided with at least one full working day to appeal the rating committee decision and provide additional information. The rating decision was not amended following this examination.

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

Conflict of Interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks.

In case of providing ancillary services to the rated entity, CRA will disclose all ancillary services in the credit rating report.

Rules on the Presentation of Credit Ratings and Rating Outlooks.

Rules on the Presentation of Credit Ratings and Rating Outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our policy "Rating Committee," all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, CRA has used following substantially material sources:

1. Transaction documentation
2. Collateral performance data
3. Audited financial statements
4. Website of the participants

There are no other attributes and limitations of the credit rating or rating outlook other than dis-played on the CRA website. Furthermore CRA considers satisfactory the quality and extent of information available on the rated entity. In regard to the rated entity Creditreform Rating AG re-garded available historical data as sufficient.

Between the disclosure of the credit rating to the rated entity and the public disclosure no amend-ments were made to the credit rating.

The "Basic data" information card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In case where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating and indicates how the different methodologies or these other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions, such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings as well as best-case scenario credit ratings are explained.

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