21 January 2020

Structured Finance

POP NPLs 2019 S.r.l.

Italian Non-Performing Loans ABS

Ratings

Tranche	Rating	Size (EUR m)	% of notes	% of GBV[1]	Coupon	Final maturity
Class A	BBB$_{SF}$	173.0	85.2	20.9	6M Euribor[2] + 0.3%	Feb 2045
Class B	CCC$_{SF}$	25.0	12.3	3.0	6M Euribor[3] + 9.5%	Feb 2045
Class J	NR	5.0	2.5	0.6	6M Euribor + 12% + variable return	Feb 2045

Scope's Structured Finance Ratings constitute an opinion about the relative credit risks and reflect the expected loss associated with the payments contractually promised by an instrument on a particular payment date or by its legal maturity. See Scope's website for our SF Rating Definitions.

[1] Gross book value (GBV) of the securitised portfolio at closing (EUR 826.7m)

[2] The base rate on the class A notes will be capped ranging from 0.25% at the issue date to 2% until final maturity. In addition, the base rate on the class A notes will be partially hedged through an interest rate cap agreement with a cap strike of 0.0% from the issue date until February 2032. Under the agreement, the SPV receives the difference between six-month Euribor and the cap strike and pays the difference between six-month Euribor and the cap embedded in the class A notes, following a predefined notional schedule.

[3]6m-Euribor + 9.5% capped at 9.5% senior to the repayment of class A principal

Transaction details

Purpose	Risk transfer
Issuer	POP NPLs 2019 S.r.l.
Originators	12 Italian banks[1]
Servicer	Prelios Credit Servicing S.p.A. (master servicer), Prelios Credit Solutions S.p.A. and Fire S.p.A. (special servicers)
Portfolio cut-off date	31 December 2018
Issuance date	23 December 2019
Payment frequency	Semi-annual (August and February)
Co-arrangers	J.P.Morgan Securities plc

The transaction is a cash securitisation of a static Italian non-performing loan (NPL) multi-originator portfolio worth EUR 826.7m by gross book value.

The portfolio was originated by 12 Italian popular banks. The master servicer is Prelios Credit Servicing S.p.A. and the special servicers are Prelios Credit Solutions S.p.A. and Fire S.p.A. The pool comprises both secured[2] (46.9%) and unsecured (53.1%) loans (including junior secured loans). The loans were extended to companies (72.2%) and individuals (27.8%). Secured loans are backed by residential and non-residential properties (54.4% and 45.6% of the total first-lien property value, respectively) that are mostly distributed across the Sicily and the south of Italy (70.1%), the country's north (21.2%) and the remainder in the centre (8.7%) The issuer acquired the portfolio at the transfer date of 10 December 2019 but is entitled to all portfolio collections received since 31 December 2018 (the portfolio cut-off date).

The structure comprises three classes of notes with fully sequential principal amortisation. Class B interest payments rank senior to class A principal. Class A and B will pay a floating rate based on six-month Euribor plus a margin of 0.3% and 9.5%, respectively. Class J principal and interest are subordinated to the repayment of the senior and mezzanine notes. Class B interest senior to class A repayment is capped at 9.5% if 6M Euribor is positive. The Euribor component, if positive, ranks junior to class A principal. The notes have been structured in accordance with requirements under the GACS scheme, updated in 2019[3].

The transaction may involve the participation of a real estate operating company, which is not considered in our analysis.

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Related Research

Non-Performing Loan ABS Rating Methodology

Methodology for Counterparty Risk in Structured Finance

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[1] Please refer to the Summary appendix I for a full list of the originators' legal names.
[2] Secured loans are defined as exposures guaranteed by at least a first-lien mortgage.
[3] Italian Law Decree No. 18 of 14 February 2016, converted into Law No. 49 of 8 April 2016, subsequently amended and supplemented under the Italian Law Decree No. 22 of 25 March 2019, converted into Italian Law No. 41 of 20 May 2019

Rating rationale (summary)

The ratings are primarily driven by the expected recovery amounts and by the timing of collections from the NPL portfolio. Our recovery amount and timing assumptions are based on the portfolio's characteristics, our economic outlook for Italy and our assessment of the special servicer's capabilities. The ratings consider the structural protection provided to the notes, the absence of equity leakage provisions, the liquidity protection provided by the cash reserve, and the interest rate hedging agreements.

Interest rate risk on the class A notes is mitigated by a hedging structure, under which the issuer receives the difference between the six-month Euribor rate and a cap rate of 0%, over a pre-defined notional balance. In addition, the hedging structure features an increasing cap rate on the six-month Euribor payable to the class A, ranging from 0.25% to 2%. We expect the interest rate cap agreement to provide sufficient hedging as the cap notional schedule is well aligned with our expected amortisation profile on the notes.

The ratings also address the exposure to the key transaction counterparties: i) the originators/sellers, regarding representation and warranties and the eventual payments that might be made by the borrowers and limited recourse loan providers ii) Prelios Credit Servicing S.p.A. as master servicer; iii) Prelios Credit Solutions S.p.A. and Fire S.p.A. as special servicers; iv) Securitisation Servicers S.p.A. as back-up master servicer, noteholders' representative, calculation agent and corporate servicer; v) BNP Paribas Securities Services, Milan Branch as account bank, paying agent, cash manager and agent bank; vi) Poste Italiane S.p.A. as collection account bank; vii) Zenith Service S.p.A. as monitoring agent; and viii) JP Morgan AG as the interest rate cap provider. The analysis also considered the replacement mechanisms available on the respective counterparty roles.

We performed a specific analysis for the secured and unsecured exposures. For secured exposures, collection assumptions were mostly based on up-to-date property appraisal values, which were stressed to account for liquidity and market value risks. Recovery timing assumptions were derived using line-by-line asset information detailing the type of legal proceeding, the court issuing the proceeding, and the stage of the proceeding as at the cut-off date. For unsecured exposures, we used historical, line-by-line recovery data on defaulted loans between 1995 and 2017. We used historical data to calibrate recoveries, considering unsecured borrowers to be classified as defaulted for a weighted average of 7.7 years as of closing. We also analysed the historical data provided by the servicer.

Rating drivers and mitigants

Positive rating drivers

Portfolio servicing. Two independent servicers limit the transaction's sensitivity to servicer disruption. In the event of a servicer disruption, the monitoring agent will assist the issuer in finding a suitable replacement.

Residential collateral. Approximately 54.4% of the secured first-lien collateral consists of residential real estate, which is typically more liquid than commercial, industrial and land property-types, and usually does not experience the same level of discounts and lengthy liquidation timelines.

Hedging structure. Interest rate risk on the class A notes is mitigated through a hedging structure, which applies an increasing cap rate to six-month Euribor ranging from 0.25% to 2%. In addition, the base rate on the class A notes will be partially hedged through an interest rate cap agreement with a cap strike of 0% over a pre-defined notional balance. The interest rate risk coverage starts from July 2020. The notional schedule for the cap covering class A is well aligned with our expected amortisation profile on the notes. The interest rate risk related to the class B notes is not hedged, but is mitigated by the fact that the Euribor component, if positive, ranks junior to Class A principal.

Fee and cost structure. The semi-annual master fees, special servicer fees and legal and procedure costs are capped at 4%, 10% and 6% of the semi-annual gross cash flow, respectively. Unpaid amounts due to the cap are only paid when class A has been paid in full

Negative rating drivers and mitigants

Geographic concentration. 43.8% of the portfolio's first-lien collateral is concentrated in Sicily (48.6% by GBV). This lack of geographical diversification exposes the transaction to specific local risks. These risks include the possible weak performance of the economy and its impact on property prices, slow court resolution timelines, and the impact of seismic activity, all of which potentially affect the realisation of value of the properties securing the loans. Exposure to seismic events is mitigated by insurance.

Property type. The proportion of property under construction is higher than for other peer transactions (11.3% of total first-lien property), Unfinsihed properties usually experience a higher level of discounts and lengthy liquidation timelines.

Seasoned unsecured portfolio. The weighted average time since loan default is approximately 7.7 years for the unsecured portion, which is significantly longer than for most Italian NPL securitisations. Most unsecured recoveries are realised in the first years after a default, according to historical data.

Upside rating-change drivers

Legal costs. We factored legal expenses for collections at a level in line with the average peer transaction. A decrease in legal expenses compared to our initial expectations could positively affect the ratings.

Servicer outperformance regarding recovery timing. Consistent servicer outperformance in terms of recovery timing could positively impact the ratings. Portfolio collections will be completed over a weighted average period of 5 years according to the servicer's business plan. This is about 18 months faster than the recovery weighted timing vector applied in our analysis.

Downside rating-change drivers

Fragile economic growth. Recovery rates are generally highly dependent on the macroeconomic climate. If the Italian GDP medium-term growth falls below 0.7%, the level forecasted in Scope's current outlook, ratings could be negatively impacted

Servicer underperformance. Servicer performance below our base case collection amounts and timing assumptions could negatively impact the ratings.

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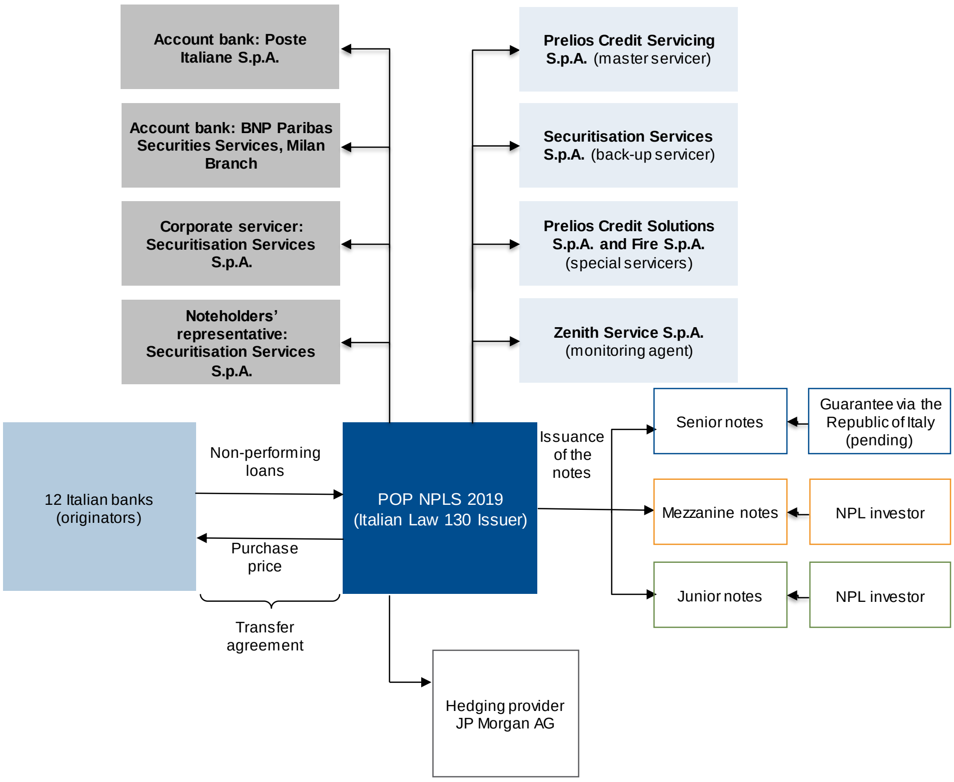
1. Transaction summary

The transaction's structure comprises three tranches of sequential, principal-amortising notes, an amortising liquidity reserve equal to 4.5% of the outstanding class A, and one interest rate cap agreement for class A.

Figure 1: Transaction diagram:


Account bank: Poste Italiane S.p.A.
Account bank: BNP Paribas Securities Services, Milan Branch
Corporate servicer: Securitisation Services S.p.A.
Noteholders' representative: Securitisation Services S.p.A.
Prelios Credit Servicing S.p.A. (master servicer)
Securitisation Services S.p.A. (back-up servicer)
Prelios Credit Solutions S.p.A. and Fire S.p.A. (special servicers)
Zenith Service S.p.A. (monitoring agent)
12 Italian banks (originators)
Non-performing loans
Purchase price
Transfer agreement
POP NPLS 2019 (Italian Law 130 Issuer)
Issuance of the notes
Senior notes
Guarantee via the Republic of Italy (pending)
Mezzanine notes
NPL investor
Junior notes
NPL investor
Hedging provider JP Morgan AG

Sources: Transaction documents and Scope Ratings

We adjusted the pool's gross book value using information on collections and sold properties since the 31 December 2018 cut-off date. The analysis excluded portfolio loans which we assumed to be closed, based on collections already received and cash-in-court to be received. Collateral connected with these positions was also removed.

The adjustments reduced the portfolio's gross book value to EUR 781.7m from EUR 826.7m. Collections received since the cut-off date are assumed to be cash available at closing, while cash-in-court is assumed to be received up to three years after the closing date.

Our analysis is performed on a loan-by-loan level, considering all information provided to us in the context of the transaction as well as publicly available information. Loans are defined as 'secured' if they are guaranteed by first-lien mortgages, otherwise they are classified as 'unsecured'.

Figure 2 shows the main characteristics of the preliminary portfolio which we analysed, with the details of the secured and unsecured portions.

Figure 2: Key portfolio stratifications

	All	Secured	Junior liens	Unsecured
Number of loans	16,718	2,244	322	14,152
Number of borrowers	6,633			
Gross book value (EUR m)	826,664,619	388,031,982	43,954,420	394,678,217
% of gross book value		46.9%	5.3%	47.7%
Weighted average seasoning (years)	6.1	4.4	7.7	
Sum of collateral appraisal values (EUR m)**		496,881,716	80,851,036	
Borrower type				
Corporate	72.2%	68.6%	75.9%	75.4%
Individual	27.8%	31.4%	24.1%	24.6%
Primary procedure*				
Bankrupt borrower	51.5%	34.1%	37.7%	70.1%
Non-bankrupt borrower	48.5%	65.9%	62.3%	29.9%
Stage of procedure (secured loans)				
Initial		56.2%	54.9%	
Court-appointed valuation (CTU)		16.1%	15.6%	
Auction		16.6%	20.3%	
Distribution		11.1%	9.1%	
Geography (collateral)				
North	21.0%	21.2%	19.9%	
Centre	10.3%	8.7%	19.9%	
South and islands	68.7%	70.1%	60.2%	
Borrower concentration				
Top 10	5.6%			
Top 100	26.6%			
Property type (% of collateral value)				
Residential		54.4%	65.9%	
Non-residential		45.6%	34.1%	

* Some loans have more than one type of ongoing procedure. This distribution partly reflects our assumptions regarding the primary type of procedure. In case of more than one procedure we assumed the worst procedure to be the primary one. The distribution also reflects our classification of legal procedures that have not been initiated with reference to the borrowers. For individuals with no ongoing procedure we assumed the procedure will be foreclosure.

** The sum of collateral appraisal is based on the latest available valuations. Properties already sold have been removed from this figure.

Junior liens are all liens subordinate to the first ranking mortgage lien, i.e. second and lower-ranking mortgage liens

2. Macroeconomic environment

Italy's BBB+ rating restricted by persistently high debt and low growth

Our sovereign rating on Italy stands at BBB+/Stable, restricted by structural issues related to high public debt and low economic growth. However, the sovereign rating remains underpinned by the country's euro area membership and likelihood of multilateral support in severe crisis scenarios, a track record of primary fiscal surpluses, a large and diversified economy (with nominal GDP of an estimated EUR 1.8trn in 2019), and moderate levels of non-financial private sector debt (of 155% of GDP as of Q2 2019).

The next scheduled review of Italy's sovereign ratings will come in H1 2020.

After Italy's debt stock was revised up to 138% of GDP (as of Q2 2019), debt sustainability has become an even more salient issue entering 2020. We anticipate a fairly flat debt trajectory in the coming period – with the risk of a materially higher debt ratio in the event of a more significant regional downturn. In 2020, the longevity of the Five Star Movement-Democratic Party government will be tested, although the parties may be incentivised to maintain the coalition, with far-right opposition party Lega still well ahead in opinion polling.

Italy's 2020 budget targets a deficit of 2.2% of GDP, roughly unchanged from the estimated 2019 deficit. This is to be followed by deficits of 1.8% of GDP in 2021 and 1.4% of GDP in 2022, according to government estimates. While we also forecast a deficit of around 2.2% of GDP next year, the government's 2021-22 budget expectations appear overly optimistic. In addition, in structural terms, the deficit is set to deteriorate by 0.3pp, compared to the European Commission's recommended adjustment of 0.6% of GDP in 2020. The expected nominal rate of growth of net primary government expenditure in

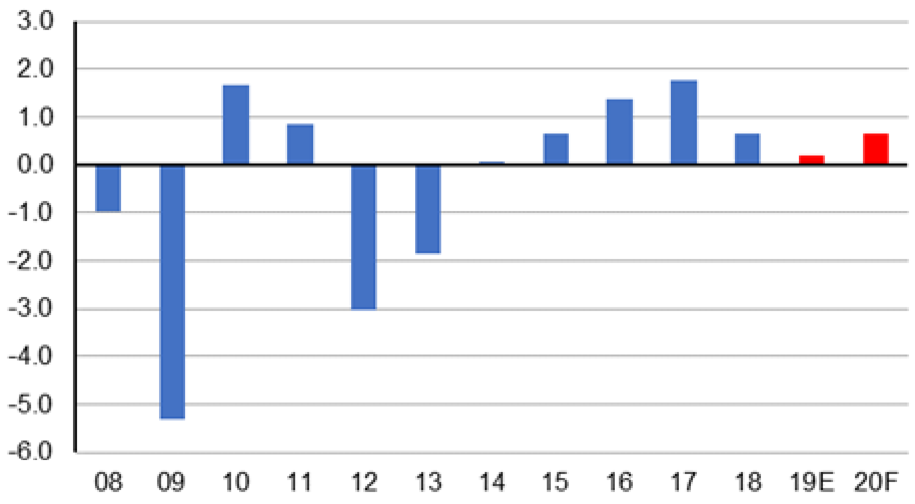
2019 and 2020 also exceeds the advised adjustment. As such, Italy's 2020 plans do not comply with the Stability and Growth Pact.

Still, given the present government's less antagonistic approach in its relations with the EU (compared with that of the previous Five Star Movement-Lega government), Italian budget deficits are likely to remain under the Maastricht limit of 3% of GDP. Moreover, with the ECB now firmly in easing mode with a restart of quantitative easing, Italy's funding rates are likely to remain accommodative next year (even allowing for 10-year yields that have recently edged up). Low rates will support debt sustainability.

Risks associated with weak economy

The Italian economy remains vulnerable. We estimate the economy will grow only 0.2% this year, before recovering modestly to 0.6% in 2020 (**Figure 3**). However, the unemployment rate now sits at its lowest levels since early 2012, at 9.7% as of October. Recent economic data speak, nonetheless, to continued economic risks going forward, including those tied to the broader regional and global manufacturing sector slowdown, exacerbated by recurrent international trade tensions and a structural slowdown in China's economy.

Figure 3: Annual real GDP growth, Italy



Sources: ISTAT; calculations by Scope Ratings

Italy's long-term growth picture is tepid. We estimate medium-run growth potential at 0.7%, amongst the lowest for economies in Scope's rated sovereign universe. Population dynamics are one factor: the working-age population is foreseen to continue falling by 0.4% per year on average from 2019 to 2024, according to United Nations projections. Our medium-run growth estimate assumes labour force participation growth of close to 0%, rising employment levels over the medium run and labour productivity growth of around 0.5% per annum.

NPLs have been reduced, though actions to improve banking sector resilience required

Italian banks' stock of non-performing loans has been cut to 8.1% of total loans as of Q2 2019, compared with 18.2% during the 2015 peak, supported by national initiatives like the Guarantee on Securitisation of Bank Non-Performing Loans (GACS). The banking sector's regulatory tier 1 capital ratios stood at 14.4% of risk-weighted assets in Q2 2019, 60bps higher than levels as of Q2 2018. Significant actions are still needed to improve insolvency and debt enforcement procedures, facilitate bank rationalisation and consolidation, and make timely and consistent use of the resolution framework.

3. Portfolio analysis

Rating-conditional recovery assumptions

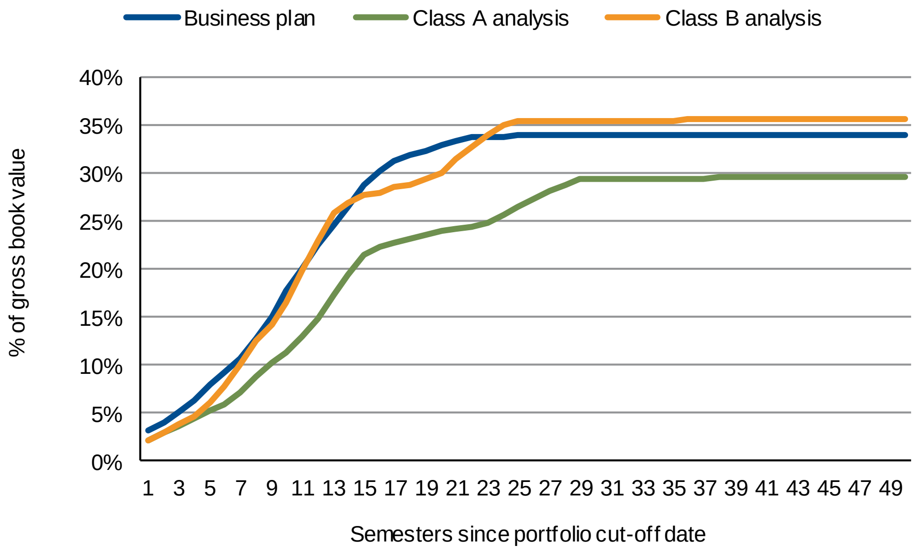
Figure 4 compares our lifetime gross collections and recovery timing assumptions for the entire portfolio with those in the servicer's business plan. We applied rating-conditional recovery rates (i.e. assumed expected recoveries decrease as the instrument's target rating increases). These assumptions are derived by blending secured and unsecured recovery expectations. We applied different analytical frameworks to the secured and unsecured segments to derive recoveries.

Class A weighted average life reflects recovery timing stresses linked to bankruptcies and loans in initial stages

For the class A notes analysis, we assumed a gross recovery rate[4] of 29.5% over a weighted average life of 6.6 years. By segment, we assumed a gross recovery rate of 52% for the secured portfolio and 9.7% for the unsecured portfolio.

For the analysis of the class B notes, we assumed a gross recovery rate of 35.6% over a weighted average life of 5.8 years. By portfolio segment, we assumed a gross recovery rate of 63.2% and 11.1% for the secured and unsecured portfolios, respectively.

Figure 3: Business plan's gross cumulative recoveries vs Scope's assumptions[5]



Sources: Special servicer's business plan and Scope Ratings

3.1. Analysis of secured portfolio segment

Valuation haircuts mainly address forward-looking market value and liquidity risks

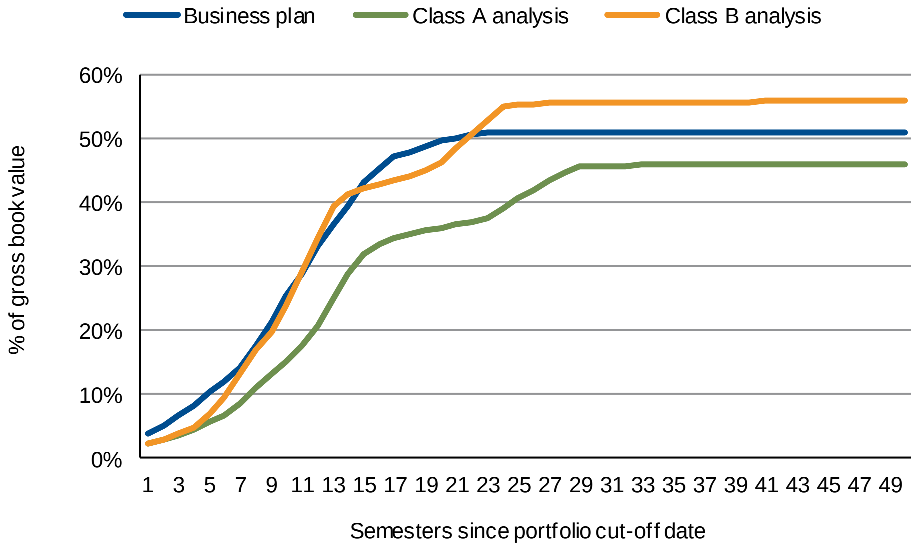
Figure 5 shows our lifetime gross collections vectors for the secured[6] portfolio segment compared to those in the servicer's business plan. To facilitate a comparison between the secured gross collection figures assumed by the servicer and those assumed by us, we reported in the figure below the portion of gross recoveries associated with secured borrowers as per the servicer definition (i.e. borrowers with at least one exposure guaranteed by a first-lien mortgage). This is because our projected collections vectors are based on a loan-by-loan analysis, while the business plan was prepared at borrower level.

Our analytical approach mainly consists of estimating the security's current value based on property appraisals and then applying security-value haircuts to capture forward-looking market value and liquidity risks. Our recovery timing assumptions are mainly

[4] The reported recovery rate includes cash-in-court amounts and ad-interim collections.
[5] The reported recovery rate includes cash-in-court amounts and ad-interim collections.
[6] We define secured loans as those guaranteed by at least a first-lien mortgage, based on a loan-by-loan analysis. However, to facilitate a direct comparison with the business plan, we provide our recoveries for the senior secured borrowers as per the business plan definition.

based on the efficiency of the assigned court, with the latter derived using historical data, the length of the proceeding, the type of legal proceeding and the stage of the proceeding. Our analysis also captures concentration risk, the servicer's business plan, and available workout options.

Figure 4: Business plan's gross cumulative recoveries for secured borrower's vs Scope's assumptions[7]



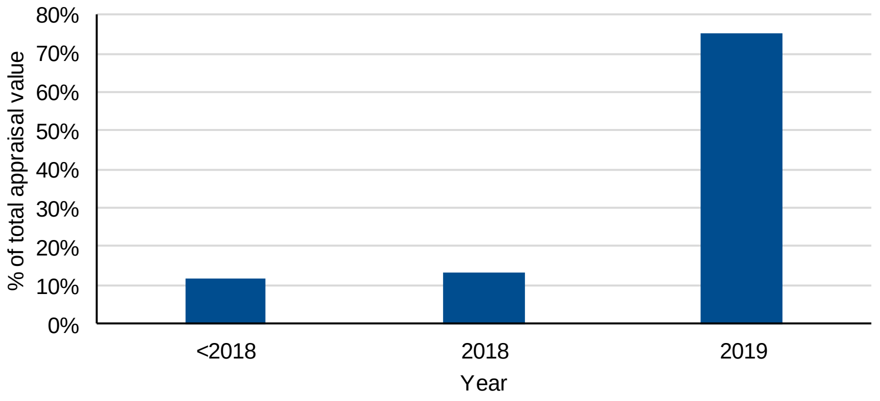
Sources: Special servicer's business plan and Scope Ratings

3.1.1. Appraisal analysis

High share of recent property appraisals is credit positive

We relied on line-by-line property market value appraisals, conducted by the originators through the CTU[8], real estate market operators and qualified third parties. We also used valuations provided on a statistical basis. Most of the valuations are recent, i.e. conducted in 2019. We indexed seasoned valuations using a variety of regional price indices. Indexation has a marginal impact on this portfolio because property prices have remained fairly flat since 2015.

Figure 6: Collateral valuation dates



Source: Transaction data tape

[7] The recovery rate calculated includes cash-in-court amounts and ad-interim collections.
[8] Consulente Tecnico d'Ufficio

High share of non drive-by property appraisals leads to higher valuation haircut assumptions

First-lien property valuations are mainly AVM's (30.5%) which are technology driven appraisals and generally do not take into account the properties' physical condition. The remainder is mainly composed of drive-by valuations (25.7%), bank valuations (17.3%), CTU[9] valuations (14.3%), desktop valuation (11%) and a small share of statistical valuations (1%), to which we applied rating-conditional haircuts ranging from 20% to 5%, reflecting our view of their lower levels of quality and accuracy due to the simplified procedures. The bank valuations are to a high extent recently conducted by third party appraisers. However, we were not provided with the conducted type of valuation.

Figure 7: Portfolio appraisal types and our transaction-specific valuation haircut assumptions

Valuation type	Percentage of collateral value	Class A analysis haircut	Class B analysis haircut
Full or drive-by	25.7	0%	0%
Desktop	11.0	5%	4%
CTU	14.3	10%	8%
Statistical	1.0	15%	12%
Bank valuations	17.3	20%	16%
AVM	30.5	15%	12%

Sources: Transaction data tape; calculations and/or assumptions by Scope Ratings

3.1.2. Property market value assumptions

High market downturn risk in the south and on the islands

Figure 8 details our assumptions about property price changes over the transaction's lifetime when applying rating-conditional stresses for the analysis of the class A and class B notes. These assumptions are specific to both the transaction and the region and are based on an analysis of historical property price volatility and on fundamental metrics relating to property affordability, property profitability, private sector indebtedness, the credit cycle, population dynamics and long-term macroeconomic performance.

The stresses shown in figure 8 for the south and the rest of provinces on Italy's islands incorporate a level that is 56% higher than Scope's standard stresses. This accounts for the portfolio's high concentration in this region, and in addition the historical data in particular for Sicily is quite limited compared to other regions in Italy.

Figure 8: Collateral location and our transaction-specific price change assumptions

	North						Centre			South			Islands	
Region	Milan	Turin	Genoa	Bologna	Venice	Others	Rome	Florence	Others	Naples	Bari	Others	Metropolitan	Rest
Class A analysis	-8.6	-8.6	-9.4	-8.6	-12.0	-12.9	-10.7	-12.9	-11.6	-10.7	-10.7	-21.4	-13.7	-21.4
Class B analysis	6.7	6.7	6.9	6.7	7.8	8.1	7.4	8.1	7.7	7.4	7.4	8.8	8.4	8.4
Portfolio share (%) first liens	1.4	2.5	0.3	0.0	2.2	14.8	2.3	0.0	6.4	9.8	2.3	14.3	16.1	27.7

3.1.3. Collateral liquidity risk

High NPL collateral liquidity and obsolescence risk

At times of severe economic stress during which NPLs typically accumulate, tight financing conditions and/or restricted access to capital markets drive liquidity risk. During recovery and expansionary phases of the cycle, liquidity risk may persist, mainly due to information asymmetries and collateral obsolescence, the latter primarily affecting industrial properties.

[9] Valuations carried out by the 'Consulente tecnico d'ufficio'

Asset liquidity risk is captured through additional fire-sale haircuts applied to collateral valuations.

Figure 9 below shows the rating-conditional haircuts applied for the analysis of the class A and class B notes. These assumptions are based on historical distressed property sales data provided by the servicers and reflect our view that non-residential properties tend to be less liquid, resulting in higher distressed-sale discounts.

Properties under construction represent 11.3% of the total properties' valuations, which is a higher portion than in peer transactions. This element has been incorporated in the analysis by moderately stressing the fire-sale-discount assumptions for properties under construction. The stress indicated for non-residential properties in Figure 9 represents the range of stress we apply.

Figure 9: Scope's transaction-specific fire-sale discount assumptions

Property types	Percentage of collateral value	Class A analysis haircut	Class B analysis haircut
Residential	54.4%	25.0%	20.0%
Non-residential	45.6%	30% - 40%	24% - 32%

3.1.4. Concentration and seismic risk

Limited borrower concentration risk

We addressed borrower concentration risk by applying a 10.0% rating-conditional recovery haircut to the 10 largest borrowers for the analysis of the class A notes. The largest 10 and 100 borrowers account for 5.6% and 26% of the portfolio's gross book value, respectively, which is slightly lower (top 10) and in line (top 100) with the average for peer transactions we have rated. We applied a concentration stress for the analysis of the class A and B notes equal to 10% and 0%, respectively.

High seismic risk

The portfolio was originated by 12 different banks. However, 48.6% of the portfolio's GBV was originated by Banca Agricola Popolare di Ragusa. As a result, a high exposure is concentrated on Sicily. First-lien property on Sicily amounts to 43.8% of the portfolio's first-lien collateral value. The impact of an earthquake event on Sicily is likely to affect a large portion of the portfolio[10].

3.1.5. Residual claims after security enforcement

We address potential residual claims after security enforcement

A secured creditor may initiate enforcement actions against a debtor despite the closure of an enforcement action concerning the mortgaged property. Secured creditors generally rank equally with unsecured creditors for amounts that have not been satisfied with the security's enforcement. The creditor's right to recover its claim, whether secured or unsecured, arises with an enforceable title (i.e. a judgment or an agreement signed before a public notary).

No credit to residual claims from corporate borrowers

For corporate loans, we gave no credit to potential further recoveries on residual claims after the security has been enforced. This is due to three practical limitations: Firstly, unsecured recoveries tend to be binary with a high probability of zero recoveries and a low probability of 100% recoveries. This implies that in a scenario in which secured creditors are not fully satisfied after the enforcement of the security, expected recoveries for unsecured creditors will be close to zero[11]. Secondly, special servicers are generally less incentivised to pursue alternative enforcement actions, given that foreclosure proceedings are more cost-efficient. Lastly, in a bankruptcy proceeding the receiver will decide to close the proceedings after a prudential amount of time, setting a practical limitation on any potential recovery upside.

[10] Refer to the Summary appendix I for further details on the originators' exposures in comparison with the overall portfolio.

[11] Conversely, in the unlikely scenario that secured creditors are fully satisfied after the enforcement of the security, expected recoveries for unsecured creditors could be close to 100%.

Partial credit to residual claims from individuals

We gave credit to residual claims on 10% of the loans to individuals. This is because if the borrower is an individual, the elapsed time after a default may have a positive impact. An individual may, for example, find new sources of income over time and become solvent again.

3.1.6. Tribunal efficiency

We applied line-by-line time-to-recovery assumptions considering the court in charge of the proceedings, the type of legal proceeding (i.e. bankruptcy or non-bankruptcy), and the current stage of the proceeding.

Court distribution is skewed towards southern regions of Italy which show below average court timings

The total length of the recovery processes is mainly determined by the efficiency of the assigned court and by the type of legal proceeding. To reflect this, we grouped Italian courts into seven categories, based on public data on the average length of bankruptcy and foreclosure proceedings between 2015 and 2017, as shown in Figure 10 below. Most courts are concentrated in group 4, which is driven mainly by the portfolio's high exposure to the southern Italian regions (see Figures 14 and 15 for transaction-specific details).

For the analysis of the class A notes, a rating-conditional stress was applied for both bankruptcy and non-bankruptcy procedures (2 years and 1 years were respectively added to the total legal procedures' length). For the analysis of the class B notes, the rating-conditional stress was reduced to zero years for both bankruptcy and non-bankruptcy procedures.

Figure 10: Total length of the recovery process by court group in years (Scope's assumptions)

Court group	Bankruptcy proceedings	Non-bankruptcy proceedings	Percentage of courts*
1	4	2	0.5%
2	6	3	19.0%
3	8	4	21.8%
4	10	5	53.0%
5	12	6	3.7%
6	14	7	0.5%
7	18	9	1.6%

* Percentages incorporate our assumptions with reference to courts not included in available information

3.2. Analysis of unsecured portfolio segment

Unsecured portfolio analysis is based on statistical data

We applied a stressed recovery rate of 9.7% for the class A analysis and 11.1% for the class B analysis.

Our base case recovery amount and timing assumptions were based on loan-by-loan data with recoveries for different types of unsecured loans. We also considered data for unsecured loans provided by the servicer together with information obtained during the latest review performed by the servicer.

Our assumptions for unsecured exposures consider the nature of the recovery procedure; bankruptcy proceedings are generally slower and typically result in lower recoveries than non-bankruptcy proceedings.

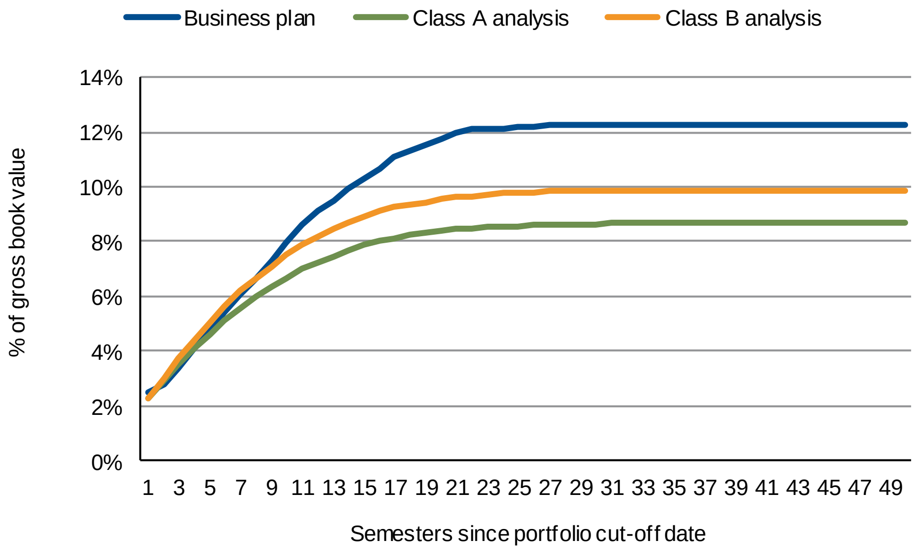
Figure 11 shows our gross collections vectors for the unsecured[12] portfolio segment compared to those in the servicer's business plan. To facilitate a comparison between our

[12] We define unsecured loans as those not guaranteed by at least a first-lien mortgage, based on a loan-by-loan analysis and as outlined in the 'Transaction Summary' section.

unsecured gross collections assumptions and those made by the servicer, we extrapolated from the business plan, and reported in the figure below, only the portion of gross recoveries associated with unsecured loans matching the classification we applied for our analysis (i.e. any loan that is not guaranteed by a first-lien mortgage).

The different classification of the exposures for secured and unsecured loans and the different recoveries' aggregation level partly explain the differences between our recovery assumptions and the servicer's recovery assumptions. For instance, our unsecured recovery vector includes non-first-lien loan recoveries.

Figure 11: Business plan's junior and unsecured borrowers' gross cumulative recoveries vs our assumptions[13]



Sources: Special servicer's business plan and Scope Ratings

4. Portfolio characteristics

Further detail on key portfolio characteristics as of 31 December 2018 is provided below. Percentage figures refer to gross book value, unless otherwise stated.

4.1. Eligible loans

Customary eligibility criteria

We are satisfied with the representations and warranties on receivables provided by the originators as they are generally aligned with those of peer transactions we have rated. The criteria for inclusion in the securitisation portfolio include the following:

- All loans are denominated in euros
- All loans agreements are governed by Italian law
- All receivables are valid for transfer without any limitations
- All receivables are free from encumbrances
- Borrowers have been reported by the originator as defaulted (in sofferenza) to the Italian Credit Bureau (Centrale Rischi) of the Bank of Italy as of the closing date
- As of the cut-off date, borrowers are: i) individuals residing in Italy[14] and ii) entities incorporated under Italian law with a registered office in Italy

[13] The recovery rate is calculated based on the adjusted secured gross book value resulting from our analysis and outlined in the 'Transaction Summary' section, including ad interim collections amounts.

- Loans secured by mortgages are backed by real estate assets located in Italy
- Borrowers are not employees, managers or directors of the originators
- Each voluntary mortgage has at least the lien reported in the datatape

4.2. Detailed stratifications

4.2.1. Borrower type

Moderate share of secured exposures

Corporates and individuals represent 72.2% and 27.8% of the pool, respectively.

The portfolio comprises a moderate amount of first-lien secured loans (46.9%). We assumed that recovery proceeds from junior-lien secured loans will be the same as for unsecured claims.

Figure 12: Borrower type

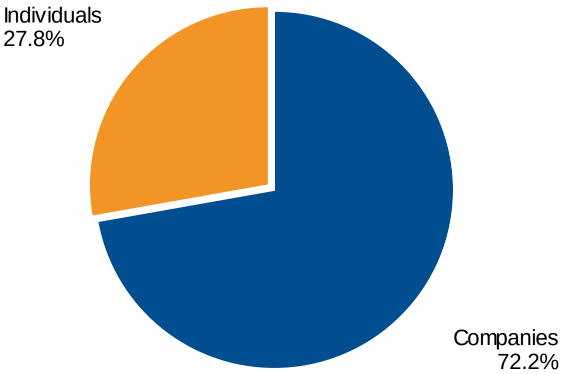
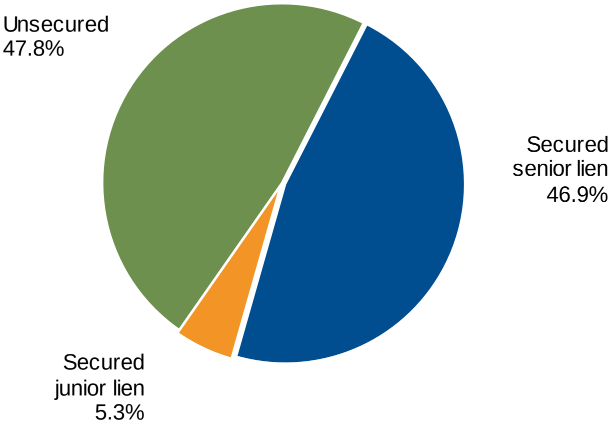


Figure 13: Loan type



Sources: Transaction data tape; calculations by Scope Ratings

4.2.2. Geographical distribution

Relatively high geographic concentration in southern Italy is credit-negative

The portfolio is concentrated in the islands and southern regions of Italy (considering all the relevant areas, i.e. metropolitan and non-metropolitan) with 70.2% of the first-lien property appraisal values located in those areas.

Specifically, borrowers' properties are concentrated in Sicily (43.8%) split in 27.7% rural and 16.1% metropolitan cities.

Our analysis factors in the impact that potentially weak economic performance may have on property prices. This element, along with slow court-resolution times due to the portfolio's share of bankruptcy procedures, may affect the realisation of value for the properties securing the loans.

Insurance mitigates seismic risk

Seismic risk may also influence the realisation of value for the properties securing the loans. A seismic event would result in property depreciation and would compromise an unsecured borrower's ability to make financial repayments. The exposure to seismic risk is relatively high due to the properties' concentration on earth-quake prone areas in Sicily. However, this is mitigated by an insurance covering also seismic risk.

[14] With the exception of one borrower with a gross book value of EUR 44,619

Figure 14: Collateral location

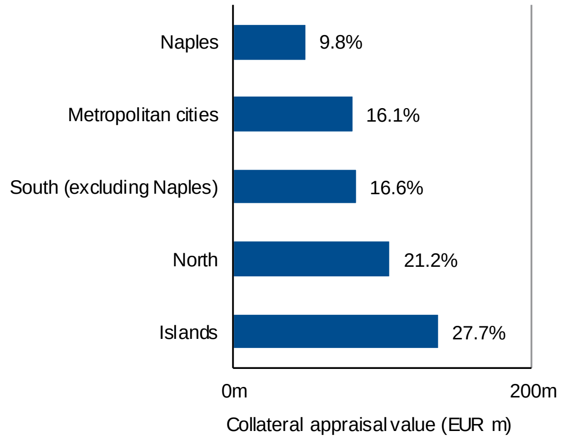
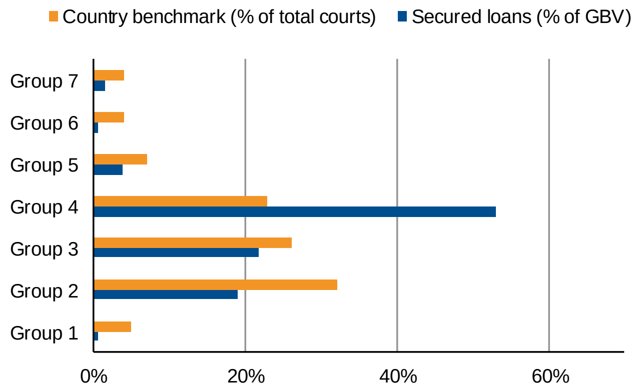


Figure 15: Court group distribution of secured loans



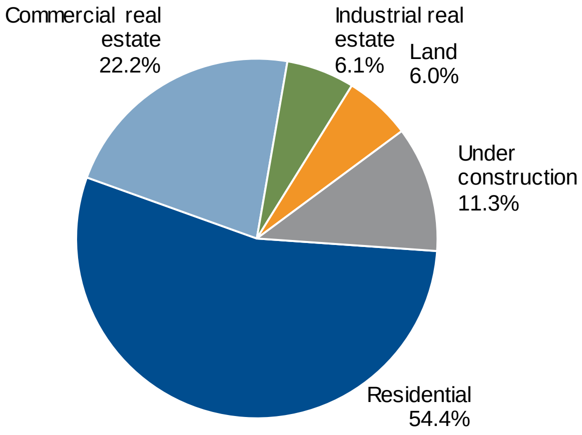
Sources: Transaction data tape; calculations by Scope Ratings

4.2.3. Collateral type

Higher share of non-residential properties than residential

The portfolio's first-lien secured exposures are collateralised by the following property types: residential (54.4%), commercial (22.2%), industrial (6.1%), land (6%) and assets under construction (11.3%). The portfolio has a higher share of properties under construction than peer transactions we have rated. We assume a higher price volatility upon liquidation for the units under construction and the land, reflected in a higher haircut.

Figure 16: Distribution by type of collateral



Sources: Transaction data tape; calculations by Scope Ratings

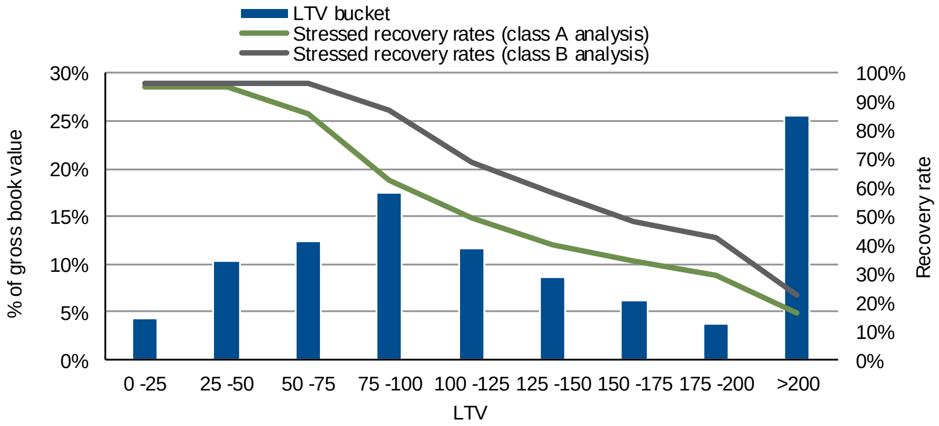
4.2.4. Collateral valuations and our specific recovery rate assumptions

Recovery rate assumptions reflect portfolio's LTV distribution

Figure 17 shows the secured loans' distribution by loan-to-value (LTV) bucket as well as our recovery rate assumptions for each LTV bucket (under our rating-conditional stresses applied for the analysis of the class A and class B notes). This results in a weighted average recovery rate for the secured loans of: i) 52% under the class A rating-conditional stress; and ii) 63.2% under the class B rating-conditional stress.

All else being equal (e.g. for two portfolios with equivalent LTV ratios on an aggregated basis), collateral is less beneficial if its value is skewed towards low loan exposures. This is because, on a loan-by-loan basis, recovery proceeds are capped by the minimum of the loan's gross book value and mortgage value. This explains why recovery rates flatten for low LTV buckets.

Figure 17: Secured loans' distribution by LTV and our transaction-specific secured recovery rate assumptions per class A and class B analysis



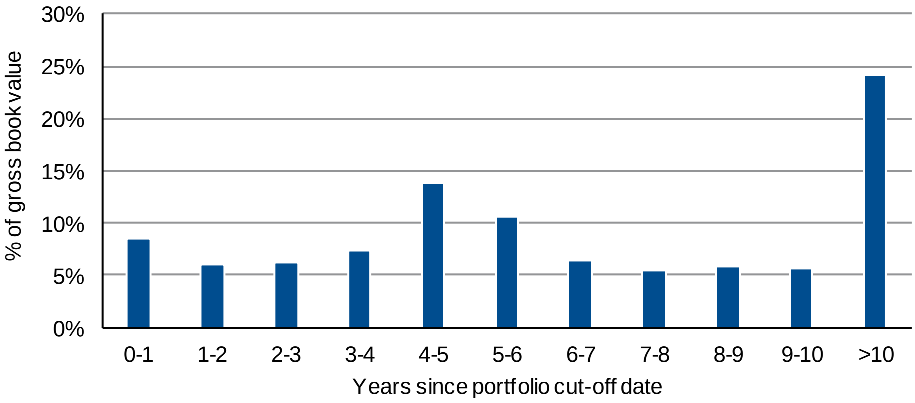
Sources: Transaction data tape; calculations by Scope Ratings

4.2.5. Loan seasoning

Unsecured portfolio's weighted seasoning is higher than for peer transactions rated by Scope

The weighted average time between default and the closing date is around 7.7 years for unsecured exposures. As shown in Figure 18, the proportion of highly seasoned unsecured exposures is higher compared to that of peer transactions.

Figure 18: Unsecured portfolio seasoning distribution as of cut-off date



Sources: Transaction data tape; calculations by Scope Ratings

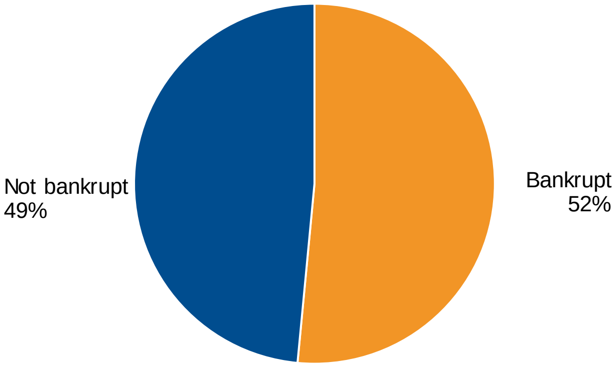
4.2.6. Borrower status

Figure 19 below shows our assumptions regarding the main legal proceedings for each borrower (one borrower can have several), based on the transaction's data tape. For borrowers with several procedures we assumed the worst one to be the main legal procedure. Borrowers with no ongoing procedure were assumed to enter bankruptcy procedures, except for individuals, for which we assumed to enter foreclosure proceedings. The resulting share of bankruptcy proceedings is in line with the average for other transactions we have rated. This is also reflected in backloaded recoveries and results in a relatively high weighted average recovery timing compared to Scope-rated peer transactions.

Bankruptcies result in lower recoveries than non-bankruptcy proceedings

Bankruptcies are generally more complex, lengthy and costly than non-bankruptcy processes. Bankruptcies also result in lower expected recoveries for unsecured exposures, given the focus on liquidating assets in lieu of getting borrowers to start remitting payments.

Figure 19: Borrower status assumptions



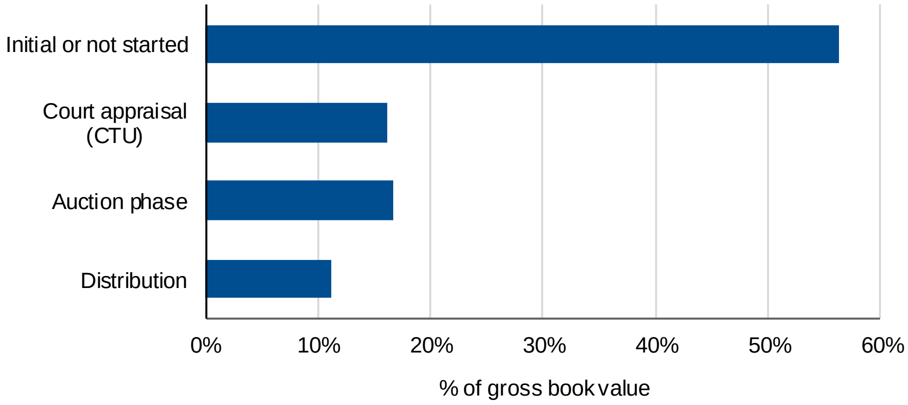
Sources: Transaction data tape; calculations by Scope Ratings

4.2.7. Recovery stage of secured exposures

Proceedings in initial stages drive relatively long recovery timing assumptions

A large portion of the secured loans is in the initial stages (i.e. not yet started, in an initial phase or envisaging CTU participation), which partly explains the relatively long expected weighted average life of portfolio collections. Figure 20 below shows the stage of legal proceedings in relation to secured loans.

Figure 20: Secured recovery stage by borrower status



Sources: Transaction data tape; calculations by Scope Ratings

5. Key structural features

5.1. Combined priority of payments

The issuer's available funds (i.e. collection amounts received from the portfolio, the cash reserve) will be used in the following simplified order of priority:

1. Servicer fees and other issuer counterparty fees, taxes and transaction expenses subject to caps on the master fee, special servicer fees and legal and procedure costs of 4%, 10% and 6% of periodic gross cash flows, respectively. Amounts exceeding the caps will be paid after class A notes have been fully redeemed.
2. Interest on the limited-recourse loan
3. GACS premium, provided the GACS guarantee is in place
4. Replenishment of recovery-expense reserve
5. Interest on class A notes
6. Any other amounts payable under the GACS guarantee
7. Cash reserve replenishment
8. Principal on the limited-recourse loan
9. Interest on class B notes (capped at 9.5%) provided no subordination trigger is breached or in case, once triggered, the interest subordination event has been cured
10. Principal on class A notes
11. Deferred interest component of class B notes (junior to the applied class B interest cap), and upon a breach of a subordination trigger, the full amount of class B interest
12. Principal on class B and mezzanine deferred servicer performance fees, if any
13. Interest on class J notes
14. Principal on class J notes, junior deferred servicer performance fees, if any
15. Any residual amount as class J variable return

Interest subordination event for class B is aligned with the updated requirements of the 2019 GACS Scheme

An interest subordination event occurs if i) the cumulative net collection ratio[15] falls below 90%; ii) the NPV cumulative profitability ratio[16] falls below 90%; or iii) the interest amount actually paid on the class A notes on the following interest payment date is lower than the interest amount due and payable on such an interest payment date; and the monitoring agent has sent the relevant notice to the issuer, the servicer, the representative of noteholders, the arranger, the cap counterparty, the rating agencies and the calculation agent. The occurrence of an interest subordination event would result in class B interest being paid under item 11 of the waterfall above.

Once the interest subordination event is cured, class B interest due will be paid senior to class A principal.

Class B interest payments accrued but not paid on the relevant preceding payment date due to interest subordination events triggered by the cumulative collection ratio (item i) above) will only be paid if (a) class A is fully repaid; or (b) the cumulative net collection ratio is higher than 100%. Class B interest accrued but not paid on a preceding payment date due to interest subordination events triggered by the NPV cumulative profitability ratio or unpaid interest on the senior notes – items ii) and iii) above – will only be paid if (a) class A is fully repaid; or (b) the interest subordination event is cured. Once these conditions are met, class B interest previously accrued and unpaid will be paid senior to

[15] 'Cumulative net collection ratio' is defined as the percentage ratio between: i) the aggregate net collections since 31 December 2018 (cut-off date); and ii) the net expected aggregated collections (based on the initial business plan) since 31 December 2018 (cut-off date). Net collections are the difference between gross collections and recovery expenses.

[16] 'NPV cumulative profitability ratio' is defined as the ratio between: i) the sum of the present value (calculated using an annual rate of 5%) of the net collections for all receivables relating to exhausted debt relationships since 1 January 2020; and ii) the sum of the target price (based on the servicer's initial business plan) of all receivables relating to exhausted debt relationships since 1 January 2020.

class A principal. These mechanisms are aligned with the requirements of GACS scheme updated in 2019[17].

We tested different recovery timing assumptions as well as different levels of lifetime recoveries to assess their impact on the triggering of an interest subordination event.

Under the recovery and timing stresses applied for the class A notes analysis in the central scenario, we assumed the interest subordination event does not occur (i.e. the servicer performs consistently above 90% of its business plan).

Under the recovery and timing stresses assumed for the class B notes analysis, our central scenario assumes that the interest subordination event is triggered for the first six, the 16th to 18th and 20th payment dates. In this scenario the cumulative collection ratio reached more than 100% at some payment dates, i.e. deferred class B interest has become due and payable. We also tested alternative scenarios that were credit-negative for class B.

Scope's ratings do not address the GACS guarantee

The GACS guarantee ensures timely payment of interest and the ultimate payment of principal by the final maturity of the class A notes. Our rating on the class A notes does not give credit to the GACS guarantee but considers the potential cost (i.e. the GACS premium) if the guarantee is added to the structure.

Non-timely class A interest payment would trigger accelerated waterfall

Non-timely payment of interest on the senior notes (implying no GACS guarantee is in place), among other events such as the issuer's unlawfulness, would accelerate the repayment of class A via the full subordination of class B payments.

5.2. Servicing fee structure and alignment of interests

5.2.1. Servicing fees

Alignment of servicer and noteholder interests

The servicing fee structure links the portfolio's performance with the level of fees received by the servicers, which mitigates potential conflicts of interest between the servicers and the noteholders.

The servicers are entitled to: i) an annual base fee calculated on the outstanding portfolio's gross book value; ii) a performance fee on secured exposures, calculated on collections net of legal costs; and iii) a performance fee on unsecured exposures, calculated on collections net of legal costs. Servicer fees are calculated and payable at each payment date.

The precise level of applicable fees is subject to the type of workout process and the size of the exposure. Out-of-court settlements and lower tickets generally bear higher performance fees relative to collection amounts. In our analysis, we assumed average performance fee levels for secured and unsecured loans, respectively, considering the portfolio distribution by gross-book-value buckets.

In the case of underperformance, a portion of the fees are paid on a mezzanine and junior position in the priority of payments. The servicers are therefore incentivised to maximise recoveries and comply with the initial business plan.

On top of the fee deferral mechanism, the master and special servicer fees are capped at 4% and 10% of the period's gross cash flows. The fees in excess of the capped amounts become deferred and paid senior to class B only once class A has been redeemed in full.

Under the 2019-updated GACS scheme, a minimum of 20% of servicer performance fees have to be deferred junior to class A principal if the cumulative collection ratio falls below

[17] Italian Law Decree No. 18 of 14 February 2016, converted into Law No. 49 of 8 April 2016, subsequently amended and supplemented under Italian Law Decree No. 22 of 25 March 2019, converted into Italian Law No. 41 of 20 May 2019

90% and will not become senior again until class A has been repaid in full or the ratio is again exceeds 100%.

5.2.2. Servicer monitoring

Monitoring function protects noteholders' interests

An overview of the servicers' activities and calculations, prepared by Zenith Service S.p.A. as monitoring agent, mitigates operational risks and moral hazard that could negatively impact noteholder interests. This risk is further mitigated by discretionary servicer termination events at the option of the monitoring agent, with the authorisation of the representative of noteholders.

The servicers are responsible for the servicing, administration, and collection of receivables as well as the management of legal proceedings. The monitoring agent will verify the calculations of key performance ratios and amounts payable by the issuer, as well as perform controls based on a random sample of loans.

The monitoring agent will report to a committee that represents the interests of both junior and mezzanine noteholders. The committee can authorise the revocation and replacement of the servicers upon a servicer termination event, subject to the approval of the noteholders' representative. The monitoring agent can also authorise the sale of the receivables, the closure of debt positions, and the payment of additional costs and expenses related to recovery activities.

5.2.3. Servicer termination events

Back-up arrangements mitigate servicing disruption risk

Securitisation Services S.p.A. would step in as master servicer in the event of a master servicer termination event and, with the monitoring agent, would also appoint suitable replacements for the special servicers in case of their terminations.

A special servicer termination event includes, for both special servicers: i) insolvency; ii) failure to pay due and available amounts to the issuer within two business days; iii) failure to deliver or late delivery of information to the monitoring agent, in the context of the surveillance activities of the latter; iv) an unremedied breach of obligations; v) an unremedied breach of representation and warranties; and vi) the loss of legal eligibility to perform obligations under the servicing agreement. The servicers can also be substituted owing to their consistent underperformance, if 24 months after the closing date, two consecutive first underperformance event occur.

The special servicers can be terminated following the enforcement of the GACS guarantee, in case the cumulative net collection ratio has been lower than 100% for two consecutive collection dates

5.3. Liquidity protection

Cash reserve protects liquidity of senior noteholders

A cash reserve will be funded at closing through a limited-recourse loan provided by the 12 originators.

The cash reserve will amortise with no floor until the class A notes are redeemed or the transaction reaches legal maturity. The target cash reserve amount at each payment date will be equal to 4.5% of the outstanding balance of the class A notes.

The cash reserve will be available to cover any shortfalls in interest payments on the class A notes as well as any items senior to them in the priority of payments, provided that the GACS guarantee is not implemented. Following the implementation of the GACS guarantee, any liquidity shortfalls will primarily be covered by the guarantor, with the cash reserve mainly mitigating the time it takes between the draw on the guarantee and the actual payment.

Class B will not benefit from liquidity protection.

5.4. Interest rate hedge

Interest rate risk on class A notes is mitigated through a cap spread structure

The issuer will not receive regular cash flows and the collections are not linked to any defined interest rate due to the non-performing nature of the securitised portfolio. On the liability side, the issuer pays a floating coupon on the notes, defined as six-month Euribor plus a 0.3% fixed margin on the class A notes, and six-month Euribor plus a 9.5% fixed margin on the class B notes.

The interest rate risk on the class A notes is partially mitigated via a hedging structure. The base rate on the class A notes will be capped ranging from 0.25% at the issue date to 2% until final maturity. In addition, the base rate on the class A notes will be partially hedged through an interest rate cap agreement with a cap strike of 0% from the issue date until February 2032. Under the agreement, the SPV receives the difference between six-month Euribor and the cap strike and pays the difference between six-month Euribor and the cap embedded in the class A notes, following a predefined notional schedule.

Coverage is provided from the second interest payment date. Class B interest rate risk is not covered, but is mitigated by the fact that the Euribor component, if positive, ranks junior to Class A principal.

To assess the effectiveness of the cap rate levels, we stressed the Euribor forward curve, as shown in Figures 21.

The cap notional schedule of the swap is well aligned with our expected class A amortisation profile (see Figure 22).

A delay in recoveries beyond our stressed recovery timing vectors would increase interest rate risk exposure, as it would widen the gap between the relevant cap notional amount and the outstanding principal of the notes.

Figure 21: Interest rate cap spread class A

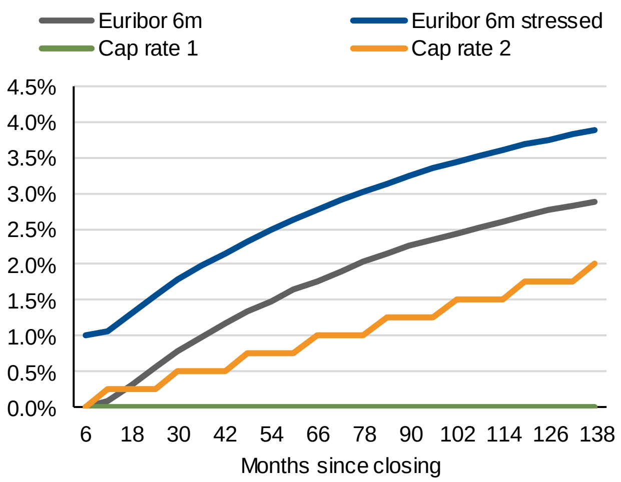
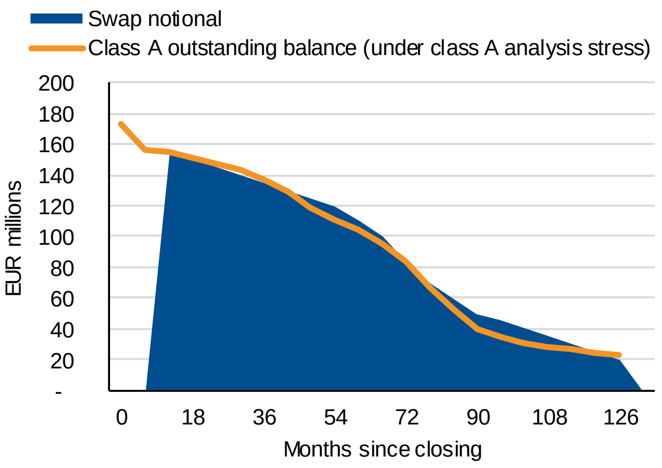


Figure 22: Cap spread notional vs outstanding class A notes



Sources: Transaction documents, Bloomberg and Scope Ratings

6. Cash flow analysis and rating stability

Our cash flow analysis considers the structural features of the transaction

We analysed the transaction's specific cash flow characteristics. Asset assumptions were captured through rating-conditional gross recovery vectors. The analysis captures the capital structure, an estimate of legal costs equivalent to 9% of gross collections, servicing fees as described in section 5.2, and estimated issuer senior fees of EUR 150,000 (including VAT) annually. The legal costs are capped at 6% of the period's gross cash flows. The fees in excess of the capped amounts become deferred and paid senior to class B only once class A has been redeemed in full. Our rating also addresses the cost of the GACS guarantee which, once implemented, is assumed to range between

0.72% and 3.36% of the outstanding class A notes' balance, in accordance with the quotes provided to us. We took into account the reference rate payable on the notes, considering the cap rates and swap terms described in the previous section.

Scope's ratings reflect expected losses over the instrument's weighted average life

The BBB rating assigned to the class A notes reflects expected losses over the instrument's weighted average life commensurate with the idealised expected loss table in Scope's General Structured Finance Ratings Methodology. The same applies for the CCC rating assigned to the class B notes, with the incorporation of further adjustments accounting for more volatile recoveries, due to the notes' lower seniority as envisaged in the priority of payments.

We tested the resilience of the ratings against deviations from expected recovery rates and recovery timing. This analysis has the sole purpose of illustrating the sensitivity of the ratings to input assumptions and is not indicative of expected or likely scenarios. We tested the sensitivity of the analysis to deviations from the main input assumptions: i) recovery rate level; and ii) recovery timing.

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

- a decrease in secured and unsecured recovery rates by 10%, minus one notch.
- an increase in the recovery lag by one year, less than one notch.

For class B, the following shows how the results change compared to the assigned credit rating in the event of:

- a decrease in secured and unsecured recovery rates by 10%, less than one notch.
- an increase in the recovery lag by one year, less than one notch.

7. Sovereign risk

No mechanistic cap

Sovereign risk does not limit any of the ratings. The risks of an institutional framework meltdown, legal insecurity or currency convertibility problems due to an Italian exit from the euro area, a scenario which we have consistently viewed as highly unlikely, are not material for the notes' ratings.

For more insight into our fundamental analysis on the Italian economy, please refer to the rating announcement on the Republic of Italy, dated 7 December 2018.

8. Counterparty risk

Counterparty risk does not limit the transaction's rating

In our view, none of the counterparty exposures constrain the ratings achievable by this transaction. We factored in counterparty replacement triggers implemented in the transaction on JP Morgan AG, Poste Italiane S.p.A. and BNP Paribas SA, the parent of BNP Paribas Securities Services. We also considered eligible investment criteria in the transaction documents for cash amounts held by the issuer.

i) the originators/sellers, regarding representation and warranties and the eventual payments that might be made by the borrowers and limited recourse loan providers ii) Prelios Credit Servicing S.p.A. as master servicer and special servicer; iii) Fire S.p.A. as special servicer; iv) Securitisation Servicers S.p.A. as back-up master servicer, noteholders' representative, calculation agent and corporate servicer; v) BNP Paribas Securities Services, Milan Branch as account bank, paying agent, cash manager and agent bank; vi) Poste Italiane S.p.A. as collection account bank; vii) Zenith Service S.p.A. as monitoring agent; and viii) JP Morgan AG as the interest rate caps providers.

The roles of collection account bank and account bank, principal paying agent, agent bank and cash manager must be held by an institution with minimum short-term and long-term ratings of S-3 and BB, if rated by Scope. Other replacement triggers on those counterparties are based on public ratings by other agencies.

8.1. Servicer disruption risk

A servicer disruption event may have a negative impact on the transaction's performance. The transaction incorporates servicer-monitoring, back-up and replacement arrangements that mitigate operational disruption (see section 5.2).

8.2. Commingling risk

Limited commingling risk

Commingling risk is limited, as debtors will be instructed to pay directly into the accounts held in the name of the issuer. Funds on the account with Poste Italiane S.p.A. will be swept monthly to the general collection account held with BNP Paribas SA, or earlier, in case the accounts' funds exceed EUR 1m.

In limited cases in which the servicer has received payments from a debtor, the servicer would transfer the amounts within two business days.

8.3. Claw-back risk

The 12 loan originators have provided: i) a 'good standing' certificate from the Chamber of Commerce; ii) a solvency certificate signed by a representative duly authorised; and iii) if issued by the relevant court, a certificate from the bankruptcy court (tribunale civile – sezione fallimentare) confirming that each respective originator is not subject to any insolvency or similar proceedings. This mitigates claw-back risk, as the issuer should be able to prove that it was unaware of the issuer's insolvency as of the transfer date.

Assignments of receivables made under the Italian Securitisation Law are subject to claw-back in the following events:

(i) pursuant to article 67, paragraph 1, of the Italian Bankruptcy Law, if the bankruptcy declaration of the relevant originator is made within six months from the purchase of the relevant portfolio of receivables, provided that the receivables' sale price exceeds their value by more than 25% and the issuer is unable to demonstrate that it was unaware of the originator's insolvency, or

(ii) pursuant to article 67, paragraph 2, of the Italian Bankruptcy Law, if the adjudication of bankruptcy of the relevant originator is made within three months from the purchase of the relevant portfolio of receivables, provided that the receivables' sale price does not exceed their value by more than 25% and the originator's insolvency receiver can demonstrate that the issuer was aware of the originator's insolvency.

8.4. Enforcement of representations and warranties

Representations and warranties limited by time and amount

The issuer will rely on the representations and warranties, limited by time and amount, provided by the originators in the transfer agreements. If a breach of a representation and warranty materially and adversely affects a loan's value, the originators may be obliged to indemnify the issuer for damages.

However, the above-mentioned guarantee is enforceable by the issuer only within 24 months after the date the transfer agreements were entered into. The total indemnity amount will be capped to a maximum of 30% of the portfolio purchase price. Furthermore, the indemnity amounts will be subject to a deductible of EUR 50,000 on a portfolio basis, and EUR 1,000 on a single-loan basis.

These deductibility thresholds are aligned with peer transactions rated by Scope.

9. Legal structure

9.1. Legal framework

Transaction documents governed by Italian and English law

The transaction documents are governed by Italian law, whereas English law governs the interest cap agreement.

The transaction is fully governed by the terms in the documentation and any changes are subject to the risk-takers' consent, with the most senior noteholders at the date of the decision having a superior voting right.

9.2. Use of legal opinions

We had access to the legal opinions produced for the issuer, which provide comfort on the legally valid, binding and enforceable nature of the contracts.

10. Monitoring

Continuous rating monitoring

We will monitor this transaction based on performance reports as well as other public information. The ratings will be monitored on an ongoing basis.

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

11. Applied methodology

For the analysis of the transaction we applied Scope's Non-Performing Loan ABS Rating Methodology, and Scope's Methodology for Counterparty Risk in Structured Finance, both available on www.scoperatings.com.

I. Summary appendix – legal names and exposures (GBV) of the 12 originators

ABI	Originators	Gross Book Value (GBV)	% of total portfolio's GBV
5036	Banca Agricola Popolare di Ragusa S.c.p.A.	402,091,416	48.6%
5142	Banca di Credito Popolare S.c.p.A.	116,438,284	14.1%
5385	Banca Popolare di Puglia e Basilicata S.c.p.A.	102,296,115	12.4%
6085	Cassa di Risparmio di Asti S.p.A.	53,990,994	6.5%
5484	Banca di Cividale Società Cooperativa per Azioni	50,701,146	6.1%
5156	Banca di Piacenza Soc. Coop. per Azioni	31,986,874	3.9%
5262	Banca Popolare Pugliese S.c.p.A.	28,282,232	3.4%
5104	Banca Popolare del Lazio S.c.p.A.	15,663,622	1.9%
5297	Banca Popolare del Frusinate S.c.p.A.	7,411,696	0.9%
6090	Cassa di Risparmio di Biella e Vercelli S.p.A.	7,171,126	0.9%
5296	Banca Popolare di Fondi S.c.	7,086,608	0.9%
3353	Banca del Sud S.p.A.	3,544,507	0.4%

II. Summary appendix – deal comparison

Transaction	POP NPLS 2019	BCC NPLS 2019	Marathon	Prisma	Juno 2	Leviticus SPV	Belvedere SPV	Riviera NPL	POP NPLS 2018	Aqui	IBLA (Ragusa)	Maior SPV	Maggese	Juno 1	BCC NPLS 2018	2Worlds	4Mori Sardegna	Aragorn NPL 2018	Red Sea SPV	Siena NPL 2018	Bari NPL 2017	Elrond NPL 2017
Closing	Dec-19	Dec-19	Dec-19	Oct-19	Feb-19	Feb-19	Dec-18	Dec-18	Nov-18	Nov-18	Sep-18	Aug-18	Jul-18	Jul-18	Jul-18	Jun-18	Jun-18	Jun-18	Jun-18	May-18	Dec-17	Jul-17
Originators	12	68	17 Fin. Inst.	Unicredit	BNL	BPM	multiple	Lucca	17 Banks	BPER	Ragusa	UBI Banca	C.R. Asti, Biver	BNL	ICCREA	BPS, BDB	Sardegna	Creval	BPM	MPS	BPB, CRO	Creval
Master servicer	Prelios	Italfondiario	Securitisation Services	Italfondiario	Prelios	Prelios	Prelios	Credito Fondiario	Cerved	Prelios		Prelios	Prelios	Prelios	Prelios	Cerved	Prelios	Credito Fondiario	Prelios	Credito Fondiario	Prelios	Cerved
Special servicer	Prelios, Fire	doValue	Hoist Italia	doValue	Prelios	Prelios	Prelios, BVI	Credito Fondiario, Italfondiario	Cerved	Prelios	Italfondiario	Prelios	Prelios	Prelios	Prelios	Cerved	Prelios	Cerved, Credito Fondiario	Prelios	J., IF., CF., P. ***	Prelios	Cerved
General portfolio attributes																						
Gross book value (EUR m)	826.7	1,324	5,027	6,057	968	7,385	2,541	964	1,510	2,082	330	2,496	697	880	1,009	968	900	1,676	5,113	23,939	345	1,422
Number of borrowers	6,633	8,596	324,282	52,419	1,120	19,747	13,678	3,606	6,578	6,255	1,598	11,061	1,313	731	2,518	3,956	11,412	4,171	12,651	79,669	1,565	3,712
Number of loans	16,718	15,944	412,795	137,813	3,609	49,404	31,266	9,776	17,093	21,279	4,805	22,580	5,313	2,787	5,359	13,234	20,098	8,289	33,585	545,939	4,569	6,951
WA seasoning (years)	6.1	3.4	7.5	5.3*	3.5*	3.8*	6.7*	2.0*	2.9*	3.9	2.2*	4.2*	3.1*	3.0*	2.6*	2.7*	4.8*	2.5	3.8	4.4*	4.5	3.7
WA seasoning (years) - unsecured	7.7	4.2	7.5	6.8*	3.9*	4.4*	6.7*	2.5*	3.5*	4.5	2.7*	4.6*	3.9*	3.1*	2.9*	3.2*	6.4*	3.2	3.5	4.8*	N/A	N/A
WA LTV buckets (% or secured portfolio)																						
bucket [0-25]	4.3	3.4	N/A	3	1.8	3.5	2	3.8	5.5	3	2.8	10.3	2.1	3.5	4.3	2.8	5.7	2.0	2.3	5.7	N/A	3.6
bucket [25-50]	10.3	9.9	N/A	8	8	9.2	4.9	11.7	11.4	11.4	7.4	19.2	6.3	7.6	6.8	13	14.6	4.2	8.1	12.4	N/A	11.1
bucket [50-75]	12.4	11.9	N/A	13.2	15.4	12.6	5.4	12.9	17.5	17.8	12.5	21.2	11.6	14.3	12.5	17.9	21.8	8.2	14.7	16.8	N/A	13.7
bucket [75-100]	17.4	14.6	N/A	15	15.6	14.8	8.5	10.7	14.9	17.9	16.3	14.9	13.9	16	15.1	15.8	20.4	13.9	18.1	17.0	N/A	19.6
bucket [100-125]	11.7	13.6	N/A	12.7	11.2	9.5	6.8	12	13.8	12.2	15.9	10	20.8	14.7	11.8	14.5	12.8	22.3	16.7	13.4	N/A	24.6
bucket [125-150]	8.6	8.5	N/A	10.6	10.9	6.9	8.6	8	10.1	8.5	12.1	5	8.4	6.3	7.7	7.5	4.0	17.9	12.0	8.3	N/A	8.6
bucket [150-175]	6.2	8.8	N/A	8.5	3.7	6.9	4.8	8.3	5.6	4.8	7.3	4.4	7.7	5.3	6.4	4.9	1.8	11.9	6.6	5.3	N/A	4.8
bucket [175-200]	3.7	6.7	N/A	6.3	7.8	4.7	5.2	3.3	7.4	4.1	6.6	2	6.8	5	6.1	6.6	4.4	3.7	4.8	3.9	N/A	1.6
bucket > 200	25.5	22.6	N/A	22.8	25.5	31.9	53.9	29.5	13.8	20.4	19.2	12.9	22.2	27.3	29.3	17.1	14.5	16.0	16.7	17.1	N/A	12.5
Cash in court (% of total GBV)		1.1	N/A	1.8	5.9	2.0	2.7	1.2	1.3	3.1	2.2	4	2.7	7.2	24	8.5	18.3	0.5	3.2	N/A	N/A	2
Loan types (% of total GBV)																						
Secured first-lien	46.9	65.9	0.0	64	57.7	50.5	41.0	39.4	53.9	57	67.2	39.9	43.1	30.4	70	53.1	56.1	67.3	70.6	41.6	53.6	66.4
Secured junior-lien	5.3	7.9	0.0	0.4	3	5.6	8.2	9.0	8.8	2.5	2.1	6.7	9.6	2.4	0.9	0	0.6	8.1	1		2.5	7.6
Unsecured	47.7	26.2	100.0	35.7	39.3	43.9	50.8	51.6	37.3	40.5	30.8	53.4	47.3	67.2	29.1	46.9	43.3	24.6	28.4	58.4	43.9	26.0
Syndicated loans	1.4	5.2	0.0	0	7.5		0	0	3	2.2	0.5	1.1	1		6.1	3.8	3.3	1.8	1.4	5.7		
Debtors (% of total GBV)																						
Individuals	27.8	20.7	57.4	100	7.7	14.7	12.0	13.2	22.9	16.4	25.6	17	18.9	3.4	14.3	26.4	24.4	9.9	28.4	19	12	12.7
Corporates or SMEs	72.2	79.3	42.6	0	92.3	85.3	88.0	86.8	77.1	83.6	74.4	83	81.1	96.6	85.7	73.6	75.6	90.1	71.6	81	88	87.3
Procedure type (% of total GBV)																						
Bankrupt	51.5	60.5	N/A	0.7	69.9	71.7	82.2	72.7	56.6	44	13.2	49.5**	53.4	71.5	62.7**	29.3	39.1	55.0	49.4	36.6	46.5	57.6
Non-bankrupt	48.5	39.5	N/A	99.3	30.1	28.3	17.8	27.3	43.4	56	86.8	50.5	46.6	28.5	37.3	70.7	60.9	45.0	50.6	63.4	53.5	42.4
Borrower concentration (% of GBV)																						
Top 10	5.6	5.3	0.0	0.4	19	5.4	9.1	22.6	7.3	8	6.5	1.9	8.6	8.6	6.7	3.6	8	8.3	1.8	2.1	28.2	13.4
Top 100	26.6	26	0.0	1.7	56.2	20.3	24.2	45.5	26.4	26.5	26.9	10.4	31	34.4	29	18.1	27.7	39.5	9.1	9.5	69	42.4
Collateral distr. (% of appraisal val.)																						
North	21.2	38.1	N/A	37.1	32.8	71.1	48.8	79.3	20.9	48.5	0.3	57.9	98	43.9	72.4	43.5	1.3	58.5	67.8	35.9	18.3	61.6
Centre	8.7	35.6	N/A	24.2	38.9	17.4	23.6	12.3	36.3	8.1	0	19.2	0.4	34.8	19.5	51.3	11.5	18.4	20.7	36	14.1	14.6
South	70.1	26.3	N/A	38.6	28.3	11.4	27.6	8.3	42.9	43.4	99.8	22.9	1.6	21.3	8.1	5.2	87.4	23.1	11.4	28.1	67.6	23.8
Collateral type (% of appraisal val.)																						
Residential	54.4	43.8	N/A	90.1	34.8	41.6	41.9	40.6	41.7	33.9	57.8	57.3	46.7	29.2	39.3	44.4	51.3	43.4	54.8	28.2	43	32.6
Commercial	22.2	18.8	N/A	4.5	21.1	9.5	9.6	7.2	27.4	19.5	18.4	16.2	15.4	19.5	29.5	24.6	23.7	22	15.4	71.8	40	32.4
Industrial	6.1	15.3	N/A	0	16	5.3	7.2	17.3	16.2	15	9.6	14.8	21.8	32.4	11.2	10.5	11.3	15.3	9.4			23.2
Land	6	14.2	N/A	1	9	16.2	8.8	14.7	8.6	10.6	9.3	7.9	10.1	4.8	13.7	6.6	6.2	0.0	8.6		18	8.7
Other or unknown	11.3	7.9	N/A	4.4	19.1	27.5	32.5	20.2	6.1	21	4.9	3.9	6	14.1	6.3	13.9	7.6	19.3	11.8			3.4
Valuation type (% of appraisal val.)																						
Full or drive-by	25.9	57.7	N/A	0	56.8	32.3	31.4	21.4	45.5	48.3	60.5	16.9	58.3	10.2	68.4	79.5	38.8	96.1	74	10	96.31	70.8
Desktop	11	19.9	N/A	0	24.8	31.7	36.1	35.7	13.8	34	33.3	69.2	18.5	3.6	5.4	12	40	1.2	14.5	65		4.0
CTU	14.3	9	N/A	29.7	10.4	5.5	0.0	7.7	26	11	3.1	10.4	0	13.4	12.1	8.5	20.5	2.7	11.5	15	3.69	23.6
Other	48.8	13.4	N/A	70.3	8	30.5	32.5	35.2	14.7	6.7	3.1	3.5	23.2	72.8	14.1		0.6	0	0	10	0	0.5
Secured ptf proc. stage (% of GBV)																						
Initial	56.2	55.7	N/A	50.9	29.5	65.5	52.4	68.5	44.6	52.5	49.7	65	60.9	54.9	73.6	75.6	61.2	66.6	64.4	52.6	55.5	36.1
CTU	16.1	22.4	N/A	22.8	17	10.0	0.0	5.7	31.7	13.7	28.8	12.2	10.3	11.8	11	6.3	18.3	23.4	9.1	5.4	14.2	10.7
Auction	16.6	17.2	N/A	22.1	35.4	16.6	38.3	22.9	20.7	28.5	10.9	22.5	27.5	30.8	11.5	16.9	20.5	4.7	21.3	35.2	26.5	36.4
Distribution	11.1	4.8	N/A	4.3	18.1	8.0	9.3	2.4	3	5.4	10.7	0.3	1.3	2.5	3.8	1.2	0	5.5	5.2	6.7	3.8	16.8
Summary of assumptions (BBB rating conditional stress)																						
Remaining lifetime recovery rate (%)																						
Secured (=net LTV after all stresses)	52	54.7	N/A	46.2	61.2	51.8	36.7	52	61.8	58.8	55.3	63	54.9	52.1	50.3	65.5	66.2	48.3	62.8	58.6	51.8	61.7
Unsecured	9.7	16	9.1	1.4	8.6	10.2	7.3	13.2	10.9	12.8	12.4	11.5	10.1	10.4	13.5	14	9.9	16.8	12.3	9.2	11.1	13.7
Total	**29.5**	**41.5**	**9.1**	**31.8**	**38.8**	**31.2**	**19.4**	**28.3**	**38.6**	**39.1**		**35.5**	**33.7**	**24.1**	**39.6**	**41.4**	**41.8**	**40.6**	**48.0**	**0**	**33.1**	**47.1**
Weighted average life of collections (yrs)																						
Secured	7.2	7.1	N/A	5.6	5.7	8	8.2	7.1	7.2	6.5	7	6.7	6.4	5.4	8.2	6.8	7.2	7.9	6.8	N/A	N/A	4.8
Unsecured	3.5	4.5	3.1	3.2	3.6	4.5	5.2	4.6	4.7	4	4.8	4.1	4.6	4.2	4.5	4.7	4.2	4.2	4.1	N/A	N/A	3.1
Total	**6.6**	**6.8**	**3.1**	**5.4**	**5.5**	**7.5**	**6.4**	**6.4**	**6.9**	**6.1**	**6.8**	**6.3**	**6.1**	**5.1**	**7.8**	**6.4**	**6.9**	**7.9**	**6.6**	**N/A**	**N/A**	**4.6**
Structural features																						
Liquidity reserve (% of class A notes)	4.5	3	3	4	4	4	4	4	4	5	7.5	4	4	4	5	4.05 (% of A	4.9 (% of A and	5.0	4.375 (% of A	3.5	4.0	4.0
Class A Euribor cap strike	0%	0.3% - 2.5%	N/A	0.2%-1.25%	0.4% - 2.5%	0.25% -1.5%	0.5%	0.3%	0.5%-2.5%	0.3	0.1%-2.0%	0.5%-2.5%	0.5%-3.0%	0.8%-2.5%	0.5%-2.5%	0.3% -1.25%	0.3% -1.25%	0%-0.1%	0.5%-2.0%	0.5-3.0%	0.10%	0.50%
Class A																						
% of GBV	20.9	26.8	5.7	20	21.1	19.5	12.4	18.2	27.0	26.16	24.4	22.9	24.5	14.2	27	28.8	22.2	30.5	32.5	12.1	25.3	33.0
Credit enhancement	79.1	73.2	94.3	80	78.9	80.5	87.6	81.8	73.0	73.84	75.6	77.1	75.5	85.8	73	71.2	77.8	69.5	67.5	87.9	74.7	67.0
Class B																						
% of GBV	3	4	0.7	1.3	4.9	3	3	3.1	3.2	3.02	2.6	2.2	3.5	2.9	3	3	1.2	4.0	3	3.5	3.1	3.0
Credit enhancement	76.1	77.2	99.3	78.7	74	77.5	84.6	78.7	69.8	70.82	73	75	72	82.9	70	68.2	76.6	65.5	64.5	84.4	71.6	64.0
Final rating																						
Class A	BBB	BBB+	BBB+	BBB+	BBB+	BBB	BBB	BBB-	BBB	BBB-	BBB	BBB	BBB	BBB+	BBB-	BBB	A-	BBB-	BBB	BBB+	BBB	BBB-
Class B	CCC	B-	BB	B-	NR	NR	NR	B+	B	NR	B	NR	NR	NR	B+	B	BB-	B	NR	NR	B+	B+

*The weighted average seasoning includes our qualitative adjustment driven by the special servicer's superior capacity to treat unsecured loans compared to an originator.

**This includes loans with no ongoing legal proceeding or loans for which the nature of the proceeding is unknown.

***Juliet, Credito Fondiario, Italfondiario, Prelios. Transaction’s preliminary data tapes; calculations and assumptions by Scope Ratings. Closing portfolio stratifications may have non-material deviations.

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