Scalabis STC, S.A.

Portuguese Non-Performing Loan ABS – Pre-Sale

Series	Rating	Notional (EUR m)	Notional (% pool value[1])	Coupon[2]	Final maturity
Class A	(P)BBB$_{SF}$	80.0	5.4%	3M Euribor + 2%	October 2075
Class B	NR	25.0	1.7%	6%	October 2075
Class J	NR	20.0	1.4%	3M Euribor + 12%	October 2075
Rated notes		80.0			
Total notes		125.0			

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.

Transaction details

Transaction type	Static cash securitisation
Asset class	Non-performing loans (NPLs) and real estate owned (REO) properties
Issuer	Scalabis STC, S.A. (Panda Compartment)
Original Lenders	Banco BPI, S.A., Banco Comercial Português, S.A., Caixa Geral de Depositos, Caixa Leasing e Factoring – Sociedade Financeira de Crédito, S.A., Novo Banco, S.A.
Originators	LX Investment Partners II S. À R.L., LX Investment Partners III S. À R.L.
Servicer	Algebra Capital, Lda.
Outstanding balance (OB)	EUR 1,472.4m
Property value[3]	EUR 26.4m
Portfolio cut-off date[4]	30 April 2021
Key portfolio characteristics	The portfolio is composed of unsecured (94.1% of OB), senior secured (3.1% of OB) and junior secured (2.7% of OB) loans, as well as REO assets (property value of EUR 2.4m). Properties are mainly non-residential (57.5% of property value) and concentrated in the Lisbon district (32.5% of property value). Most borrowers are corporate or small and medium enterprises (65.9% of OB).
Payment frequency	Quarterly
Key structural features	The transaction's structure comprises three tranches of sequential, principal-amortising notes and features liquidity support for the Class A rated notes (3% of the outstanding Class A principal). The issuer will also use an interest rate cap to hedge against interest rate risk.
Hedging provider	JP Morgan AG
Other key counterparties	Citibank Europe Plc (common representative and Portuguese paying agent), Citibank, N.A., London Branch (issuer account bank, principal paying agent), and KPMG & Associados - SROC, S.A. (monitoring agent)
Arranger	JP Morgan AG

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Related Research

Covid-19 crisis: adverse consequences possible for NPL ABS in euro area periphery, March 2020

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Bloomberg: RESP SCOP

[1] 'Pool value' means the total outstanding unpaid principal balance of the loans (defined as the OB here) plus the total valuation amount of the REO assets.
[2] Class J notes accrue a 3M Euribor + 12% coupon plus a variable return with the trade's excess spread
[3] This amount is capped by senior claims and includes EUR 2.4m of REO assets
[4] The issuer is entitled to all portfolio collections received since the portfolio cut-off date.

Rating rationale (summary)

The rating is primarily driven by the expected recovery amounts and timing of collections from the NPLs and REO assets in the portfolio. Our assumptions on recovery amounts and timing consider the portfolio's characteristics as well as our economic outlook for Portugal and assessment of the servicer's capabilities. The rating is supported by the structural protection provided to the notes, the liquidity reserve available to Class A notes, and the interest rate hedging agreement. The rating also addresses the issuer's exposure to key counterparties, with our assessment based on counterparty substitution provisions in the transaction and, when available, our ratings or other public ratings on the counterparties.

We performed a specific analysis for recoveries, using different approaches for the portfolio's secured and unsecured segments. For both the secured loans and the REO assets, the analysis of collections was mainly based on the latest property appraisal values, which were stressed for the servicers' appraisal methodologies and liquidity and market value risks. For secured loans, recovery timing assumptions were derived using line-by-line asset information detailing the type of legal proceedings, the court in which the proceedings are taking place, and the stage of the proceeding as of the cut-off date. Furthermore, we applied a line-by-line approach to derive time-to-sell assumptions for all collateral and REO assets, considering the property type and market liquidity. For unsecured loans, we considered the servicer's capabilities when calibrating lifetime recoveries, as well as the historical data provided by the servicer on the management of unsecured portfolios (2016-2021).

Rating drivers and mitigants

Positive rating drivers	Negative rating drivers and mitigants
Existing agreements with borrowers. The servicer has already reached a certain number of agreements or payment plans with some borrowers (2,219). While these loans only represent a small share of the portfolio's outstanding balance (3.3%), they consist of more regular flows of recovery amounts which amount to 14.5% of our Class A gross collections.	**Exposure to unsecured positions.** Approximately 94% of the pool consists of unsecured loans. We typically observe lower recovery rates for NPLs with no security, particularly when they have been classified as defaulted for a relatively long time (7.9 years) and were granted to corporate borrowers (65.9% of the unsecured pool). This is mitigated by the experience and capabilities of the servicer in the unsecured space.
Strong alignment of interest. LX Partners acts as originator and retention subscriber in this transaction, holding 100% of the mezzanine and junior notes. This feature, along with the servicing fee structure, incentivises the servicer, Algebra Capital (fully owned by LX Partners), to maximise recoveries and adhere to the initial business plan.	**Overperformance event.** The structure includes a provision which diverts 10% of the available cash flow after payments of class A and B interest to the repayment of Class B principal, in case the cumulative collection ratio and the NPV cumulative profitability ratio are both above 110%. Such overperformance event only applies after 12 months from closing.
Strong interest rate protection. The structure features an interest rate cap agreement, effective from the closing date until (and including) the note payment date in July 2028, which provides an interest risk hedge for the Class A notes. The interest rate cap notional adequately covers the expected class A outstanding balance under the stressed scenarios considered by Scope.	**No back-up servicer or BUS facilitator.** No back-up servicer or facilitator is in place to assist in the event of a replacement of the servicer or master servicer. However, strong liquidity and the master servicers' undertaking to assist in appointing a replacement mitigate the risk of servicer disruption.
Portfolio onboarding activities already completed. The sub-portfolios have been serviced by Algebra Capital for between 0-2 years as of the closing date. Therefore, there is no onboarding or ramp-up period.	**Low class A coverage.** The coverage of gross collections over Class A notes stands at around 133%, a level lower relative to other European NPL transactions rated in the BBB category by Scope. This is mitigated by the relatively short WAL of the class A notes.

Upside rating-change drivers	Downside rating-change drivers
Lower than expected default rate on payment plans. Scope has applied a rating conditional haircut to the proceeds expected from the existing agreements with borrowers, in order to capture the default risk on those loans. Robust performance of such agreements could positively impact the rating.	**Higher-than-expected expenses.** Asset-carry costs, such as property taxes, and asset management fees depend on the liquidation timing of the underlying assets. Therefore, these costs could substantially increase in a materially illiquid market or due to unfavourable legal developments. This could negatively impact the rating.
Servicer outperformance on recovery timing. The pandemic led to a slowdown of court activity. If courts advance on legal proceeding backlogs faster than expected, an outperformance on recovery timing could occur. This could positively impact the rating.	**Lasting pandemic-induced crisis.** Recovery rates are generally highly dependent on the macroeconomic climate. After a GDP contraction of 8% in 2020, our baseline scenario for Portugal foresees a rebound with 4% growth in the following years. If the current crisis lasts beyond our baseline scenario, however, liquidity conditions could deteriorate, reducing servicer performance on collection volumes. This could negatively impact the rating.

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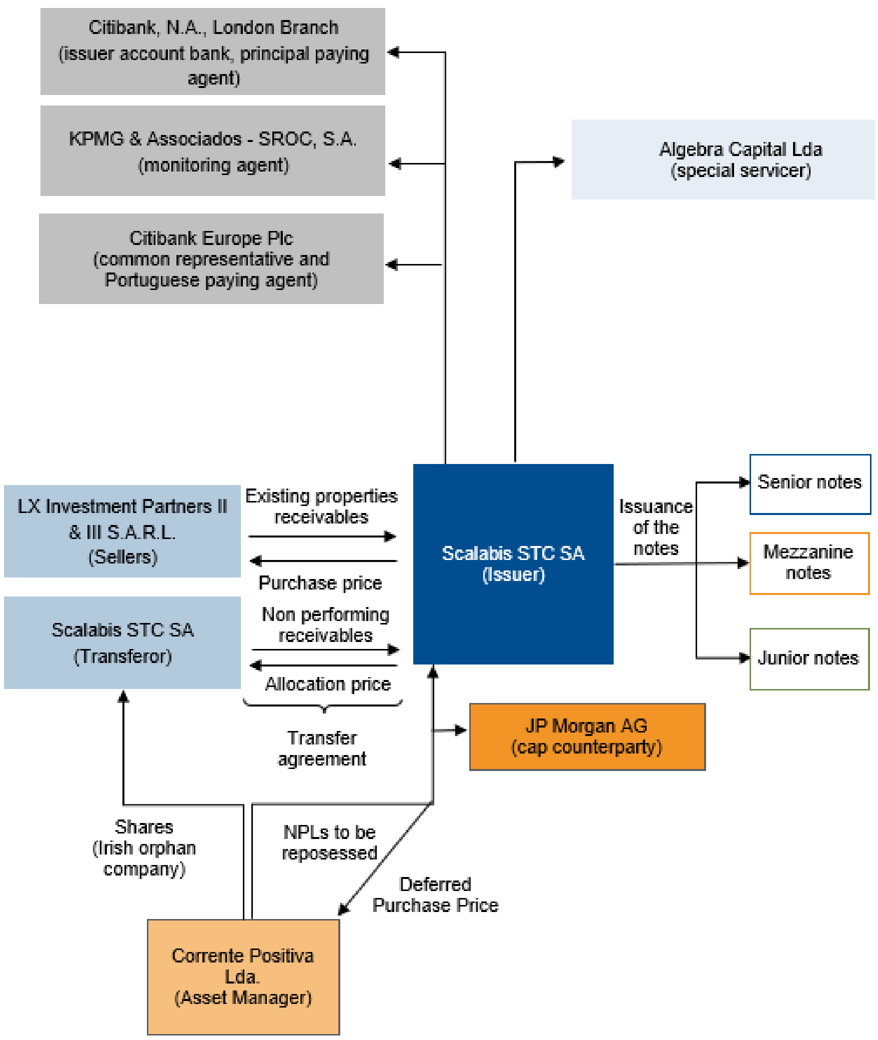
1. Transaction summary

Figure 1: Simplified transaction diagram



Source: Transaction documents and Scope.

Three classes of notes have been issued by Scalabis STC, S.A. as part of a static cash securitisation of four fully unsecured sub-portfolios, namely BCP-04, NB-01, CGD-01, BPI-01, as well as a secured portfolio (BCP-06), all acquired between 2019-21.

2. Macroeconomic environment

Covid-19 has impacted the Portuguese economy

The Covid-19 pandemic resulted in a real GDP contraction of 7.6% in 2020. GDP growth fell sharply in Q2/2020 and recovered in the second half of the year. Across the main GDP components, exports of services recorded the largest decline of around 35% reflecting the country's large exposure to tourism. However, after a strong rebound in the third quarter of 2020, the economic recovery stalled in the first quarter of 2021 due to a new restriction as a result of a spike in infections.

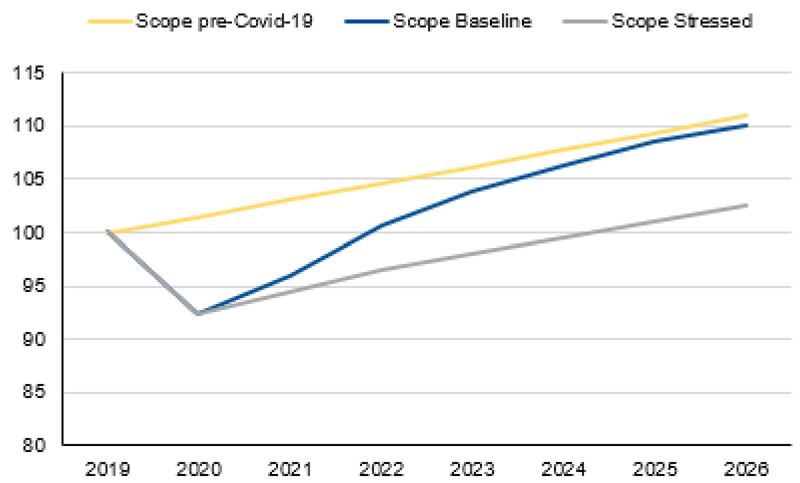
Rebound of GDP expected in 2021

We expect Portugal to grow 3.8% in 2021, driven by the manufacturing sector and recovering consumption as public-health-related restrictions are phased out. However, extraordinary policy support, including moratoria on bank loans, will be curtailed in the second half of 2021, thereby increasing debt service within a highly levered economy and limiting investment capacity of the private sector medium term. Underlying labour market dynamics remain favourable but relevance of tourism represents a challenge. Government measures in support of jobs and incomes significantly cushioned the economic and social impact of the pandemic. The unemployment rate increased only slightly from 6.5% in 2019 to 6.9% in 2020

EU funds may play a considerable role for the Portuguese economy

The absorption of EU funds will support strong investment, which should underscore real growth of 5.0% in 2022. EU funds may play a considerable role in boosting Portugal's growth in the next years, with the country set to benefit from more than EUR 10bn in grants, or close to 6% of GDP. Also, the requirements to invest the funds in line with the European agenda of a transition towards digitalization and environmental sustainability can contribute to strengthen Portugal's growth potential in the medium term, counterbalancing several structural challenges, including the long-term impact of the current crisis and those related to aging demographics. While we note positively that Portugal has a better track record of absorbing EU funds than Spain or Italy, effectively channeling these resources into public investment projects will be key. We expect the Portuguese economy to, over time, converge to its moderate precrisis growth potential of around 1.5%, acknowledging structural challenges, such as a fragmentated labour market and an ageing population.

Figure 2: Scope real GDP forecasts, 2019 = 100



Sources: INE, Scope Ratings

Relevant fiscal support measures

Fiscal support measures played a crucial role in protecting the economic fabric. They focused mostly on: i) spending for the healthcare system to counter the emergency; ii) preserving jobs and safeguard business continuity, in particular through short-time work schemes and exemption from employer's social security contributions; iii) helping firms resume activity, including subsidies and changes to pre-payments under Corporate Income Tax.

3. Special servicer review

3.1. Introduction

Scope conducted an operational review of the servicer, Algebra Capital. In our view, the servicer's capabilities and processes to manage the securitised portfolio are adequate.

Scope's portfolio recovery assumptions factor in its assessment of the special servicers' capabilities

Our assessment of the special servicers' capabilities addresses, among other things, their corporate structure, business processes and collateral appraisal procedures, servicing IT systems, business discontinuity risks and well as transaction-specific aspects, such as portfolio onboarding procedures, asset manager allocation and asset disposal strategies (i.e., business plan). This assessment is embedded in our recovery rate and recovery timing assumptions, both for unsecured and secured positions.

In addition, we conducted a property tour of a small sample of selected properties from the securitisation portfolio with the servicers. The property tour forms an integral part our assessment of the portfolio collateral valuations and secured recovery expectations, which are specifically captured through our property type and appraisal type haircuts (see section 5.1).

3.2. Corporate overview

Algebra Capital is the servicing platform of LX Partners, specialised in unsecured loans

LX Partners was incorporated in 2015 by two founding partners, with a clear focus on the purchase and master servicing of unsecured NPL portfolios. A year later, LX Partners launched Algebra Capital as its proprietary loan management platform, now providing also providing real estate management, as well as advisory and analytics. As of 2021, the company manages over EUR 4.5bn in assets, of which approximately 85% is unsecured, continuously growing its market share to reach close to 15% of the Portuguese NPL servicing market. Algebra Capital is a captive servicing platform, with a team of 110+ employees fully dedicated to the management of portfolios acquired by LX Partners.

3.3. Servicing model

Borrower-driven approach

Algebra Capital follows a borrower-driven approach, rather than loan by loan analysis. The first option explored is always amicable, even on the files already judicialized which typically form most of the outstanding balance at acquisition, and Algebra has been relatively successful in negotiating payment agreements, particularly with unsecured borrowers.

Loan managers are organised in work-out units, each of them dedicated to a specific portfolio and organised by loan type and ticket size. In particular, larger accounts (UPB[5] > EUR 500k) are analysed separately by a dedicated team asset-by-asset, using stress test scenarios and structural downside protection to come up with individual business plans. Asset managers are supported by an experienced in-house legal workforce, including around 40 lawyers and legal managers, while the growing volume of secured AUMs has necessitated the creation of a dedicated real estate property management team.

Advanced statistical techniques to project recovery cash flow

The company is largely data-driven, having developed a fully dedicated platform resulting from a combination of proprietary tools and acquired technologies, while using advanced statistical and machine learning techniques to output expected cash flow projections for loans. As an example, over 250,000 datapoints have been used in the modelling of this transaction's unsecured business plan.

[5] Unpaid Principal Balance

4. Representations and warranties

The representations and warranties (R&W) on the receivables are provided by the originators (also indemnity providers), who fully own mezzanine and junior notes.

Indemnity obligations will be general, not senior, and the issuer will not have recourse to the originators' assets. Relevant representations are:

- All loans are denominated in euros.
- All loans agreements are governed by Portuguese law.
- All real estate assets are located in Portugal.
- Receivables are valid for transfer without any limitations and free encumbrances and enforceable to the extent of their GBV.
- As from the cut-off date onwards, no receivable is subject to any right of set-off, lien or counterclaim imposable by the respective borrowers against the transferor
- As from the cut-off date onwards, no receivable is subject to any right of set-off, lien or counterclaim imposable by the respective borrowers against the transferor
- The transferor was not aware of any information that would render any of the VDR information untrue or misleading, nor had the transferor knowingly withheld any information that would render any of the VDR information untrue or misleading
- The information contained in the following fields of datatape is true, complete, accurate: Client tax number, Contract number, Number of contracts, Total unpaid principal balance, Total gross book value, type of credit, type of guarantee, asset number, land registry, tax registry.

No liability will arise in connection with information contained in the VDR that has been fairly disclosed, except if such information affect the representations on the fields listed in the last bullet point above, relating to the existence, title, enforceability or claimability of a receivable.

5. Portfolio characteristics

The portfolio is composed of unsecured (94.1% of OB), senior secured (3.1% of OB) and junior secured (2.7% of OB) loans, as well as REO assets (indexed property value of EUR 2.4m). Properties are mainly non-residential (57.5% of indexed property value) and concentrated in Lisbon Metropolitan Area (33.8% of indexed property value). Most borrowers are corporate or small and medium enterprises (65.9% of OB).

5.1. Key portfolio stratifications

Figure 3 provides high-level view on the portfolio characteristics as of the cut-off date. Detailed loan-level portfolio stratifications are provided in Figure 4.

Figure 3: Portfolio summary

	All	Senior secured	Junior secured	Unsecured
Number of loans	130,988	154	142	130,706
Number of borrowers	68,160			
Outstanding balance (EUR m)	1,472.4	82.6	2.7	1,387.1
% of outstanding balance		3.1%	2.7%	94.1%
Cash in court (% of OB) *	1.5%			
Collections since cut-off date (% of OB) **	0.6%			
Weighted average seasoning	8.0	8.6	7.0	7.9
Property value (EUR m) ***		23.9	2.5	

*The cash in court amount is net of the collections accrued since the portfolio's cut-off date.
**Collections that are for the benefit of the issuer.
***The property value figure excludes the sale amounts of the sold assets.
Sources: Transaction data tape, Scope Ratings

Adjustment for interim collections

We adjusted the pool's outstanding balance using information on interim collections and sold properties since the cut-off date. Collections received since 1st May 2021 will be part of the issuer's available proceeds at the first payment date. The analysis, which excluded loans we assumed to be closed, accounts for estimated cash-in-court amounting to EUR 21.5m relative to first-lien property value. We assumed most of cash-in-court would be received within four years after the closing date.

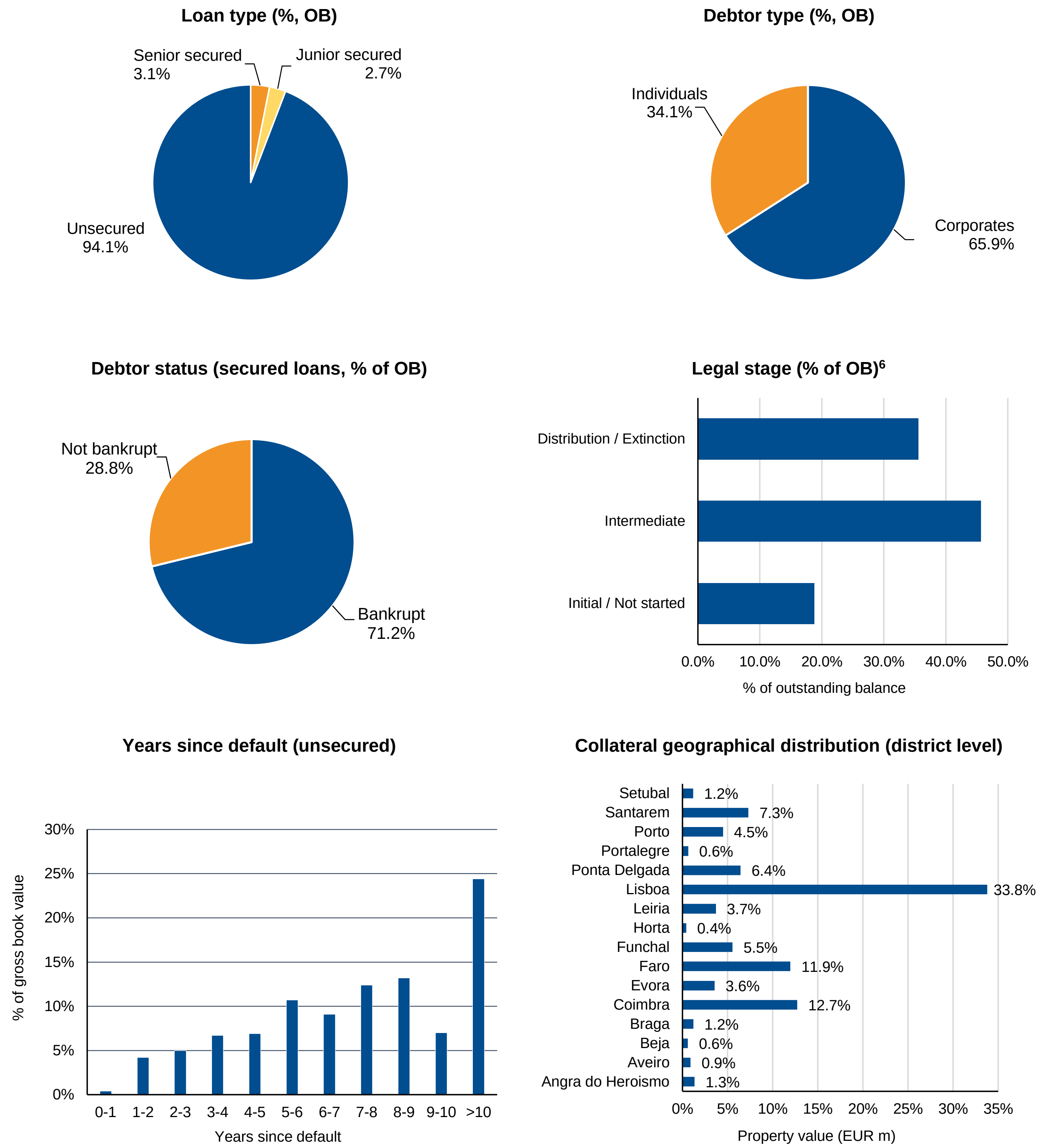
Our analysis is performed on a loan-by-loan level (or asset-by-asset for REO assets), considering all information provided to us in the context of the transaction as well as public information.

In our analysis, loans are defined as 'senior secured' if they are guaranteed by first-lien mortgages, or all senior claims against at least one of the underlying properties are part of the portfolio. Loans that are guaranteed by properties that have an identified prior lien claim against them are defined as 'junior secured', and all other loans are classified as 'unsecured'. Unless otherwise stated, unsecured loans include junior secured loans.

If applicable, we also adjust the pool's current balance using information on collections and sold properties between the cut-off date and the notes' issuance date.

Stratification data provided below may be based, if applicable, on conservative mapping assumptions applied to missing entries for certain fields.

Figure 4: Key portfolio stratifications



[6] "Initial / not started" includes existing payment plans. "Distribution / Extinction" includes OB associated with cash-in-court

6. Portfolio analysis

Under our NPL ABS rating methodology, we test the resilience of a rated instrument against deterministic, rating-conditional stresses. We apply higher stresses as the instrument's rating becomes higher. We follow a bottom-up approach to derive transaction-specific assumptions. This involves an analysis of loan and borrower attributes, the type of security, the security appraisal value, and recovery procedures and strategies. The approach enables us to develop an independent view on the relevant risks. We also consider any relevant insights from the servicer's business plan, historical data and operational review, peer comparisons and market data. We also account for the current macroeconomic scenario, taking a forward-looking view on the macroeconomic developments.

Figure 5 summarises the recovery rate assumptions applied in the analysis of the class A notes.

Figure 5: Summary of assumptions

	Class A analysis
Secured recovery rate (% of secured OB) *	23.8
Unsecured recovery rate (% of unsecured OB) *	6.2
REO recovery rate (% of property value)	60.0
Total recovery rate (% of total pool value)	**7.2**
Secured collections, weighted average life (years)	3.1
Unsecured collections, weighted average life (years)	4.3
REO sale proceeds, weighted average life (years)	2.8
Total collections, weighted average life (WAL)	**3.6**

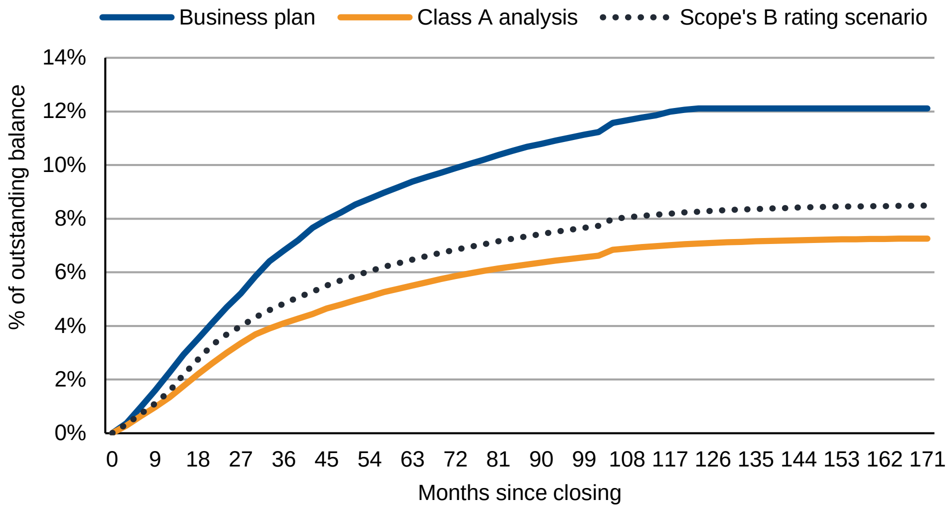
* EUR 3.3m of cash-in-court collections are mapped to secured OB and EUR 18.2 to unsecured OB as per the classification used by the servicer for the BCP-06 portfolio
Sources: Scope Ratings

Scope's class A1 recovery rate assumptions are about 47% below business plan targets

Figure 6 compares our lifetime gross collections and recovery timing assumptions for the entire portfolio with those in the servicers' business plan. These assumptions are derived by blending secured and unsecured recovery expectations.

Our class A recovery assumptions are about 39% below those in the business plan forecast and take a longer time to materialise – we assume a weighted average life of 3.6 years compared to about 3.5 years in the business plan. This portfolio includes a relatively high amount of cash-in-court (EUR 21.5m), that we have distributed within four years after the closing date, and to which we have not applied any rating-conditional haircut.

Figure 6: Business plan gross cumulative recoveries vs Scope's assumptions



Sources: SQervicer's business plans, Scope Ratings

6.1. Analysis of unsecured portfolio segment

The portfolio mainly consists of fully unsecured exposures not guaranteed by any securities. We based our assumptions (both in terms of timing and recovery amounts) on the historical data provided by the servicer and our proprietary statistical data for unsecured defaulted exposures. We considered the servicers' capabilities and the nature of the transaction (i.e., we did not implement any on-boarding period because the servicer already performed the portfolio's take-over activities following its original acquisition by the sellers).

Our unsecured collections vector also includes residual cash-in-court amounts resulting from secured shortfalls in the BCP-06 (secured) sub-portfolio, which has been managed by the servicer for two years.

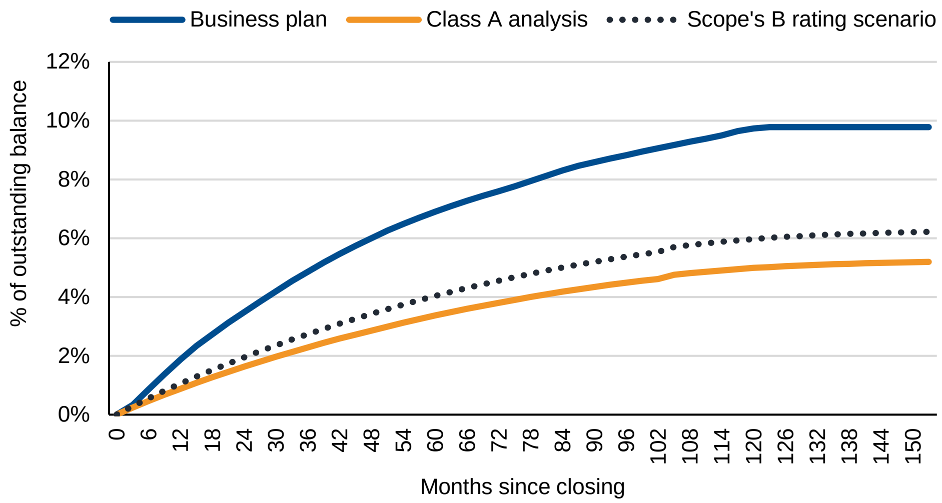
Unsecured portfolio analysis based on statistical data

Transaction-specific assumptions also reflect the key characteristics of the unsecured portfolio segment, such as average loan size, debtor types (i.e., individual or corporate) and the type of recovery procedure. For instance, bankruptcy proceedings are generally slower and typically result in lower recoveries than non-bankruptcy proceedings.

Ageing of unsecured portfolio drives recoveries

Finally, transaction-specific assumptions are re-calibrated to reflect the ageing of the unsecured portfolio segment, based on our view that aged unsecured NPLs are less likely to be recovered. The unsecured loans in the portfolio are classified as defaulted for a weighted average of 7.9 years.

Figure 7: Scope's unsecured recovery rate assumptions*



* ex- cash-in-court
Source: Scope Ratings

6.1.1. Historical data and Scope's granular analysis

The servicer provided historical data covering realised collections on fully unsecured portfolios acquired from 2016 until 2021. The historical dataset mainly comprised loans from the securitised sub-portfolios, with an outstanding balance at acquisition of about EUR 1.5bn. Historical data was representative of the exposure types, in line with the clusters[7] used by the servicer in its statistical modelling for exposures below EUR 500k in UPB. However, it did not cover the entire life of the loans since their default, only since their acquisition by LX Partners. We therefore computed the historical recovery curves using a synthetic approach: we simulated the loans' performance prior to their acquisition, and we factorised the actual performance shown by the historical data in single curves.

Figure 8 shows our recovery rate for each of the four clusters, adjusted for seasoning of the loans.

Figure 8: Scope's unsecured recovery rate assumptions[8]

Borrower type	% of outstanding balance	Class A analysis recovery rate
Corporate / Bankrupt	52.2	3.1%
Corporate / Non-bankrupt	13.7	5.4%
Individual / Bankrupt	13.8	6.7%
Individual / Non-bankrupt	20.4	4.2%

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

6.1.2. Payment plans analysis

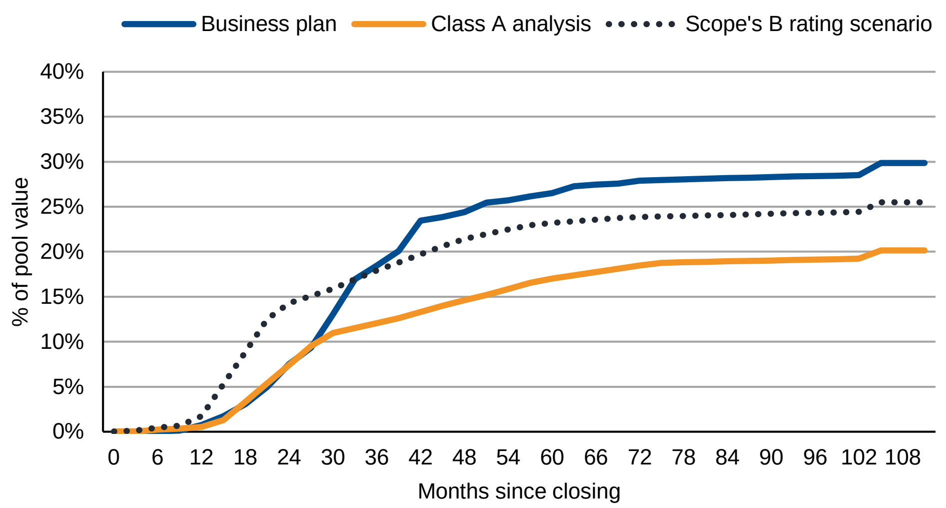
The servicer has already reached a certain number of agreements with some borrowers (2,219), most of which are judicial payment plans agreed with the court and insolvency administrator. While these loans only represent a small share of the portfolio's outstanding balance (3.3%), they consist of more regular flows of recovery amounts. We have applied a rating-conditional haircut of 33% to future cash flows resulting from those agreements.

[7] Historical recovery curves and expected cash flow projections differ depending on the type of borrower (Corporate or Individual) and the borrowers' status (Bankrupt vs. Non-Bankrupt)
[8] Ex- cash-in-court and payment plans.

6.2. Analysis of secured and REO portfolio segments

Figure 9 shows our lifetime gross collections vectors for the secured and REO segments. Our analytical approach mainly consists of estimating the security's current value based on property appraisals and then applying compounded haircuts to capture market value and liquidity risks. Our recovery timing assumptions are mainly based on the length of the proceeding, the type of legal proceeding, the stage of the proceeding and the time to sell the asset upon repossession. Our analysis also captures borrower concentration risk. Finally, we factor in our qualitative assessment of the servicer's capabilities and the business plan.

Figure 9: Scope's secured and REO recovery rate assumptions*



* ex- cash-in-court
Source: Scope Ratings

6.2.1. Property market value assumptions

Figure 10 details our average assumptions regarding forward-looking regional property-price changes over the transaction's lifetime. These assumptions 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.

Figure 10: Scope's transaction-specific price change assumptions

Scope-adjusted Geography	Portfolio concentration (% of property value)	Class A analysis haircut
Algarve Region	11.9%	19.9%
Lisbon District	32.5%	20.7%
Setubal District	1.2%	19.9%
Porto District	4.5%	19.9%
Norte Region	2.8%	19.1%
Rest of provinces	47.1 %	18.2%

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

6.2.2. Property liquidity risk

Property-type haircuts range between 12.5% and 25.0% for analysis of class A notes

Asset liquidity risk is captured through additional property-type fire-sale haircuts applied to property valuations. Figure 11 shows the stresses applied for the analysis of the rated notes. These assumptions are based on historical distressed property sales data (including those provided by the servicers) and reflect our view that non-residential properties tend to be less liquid, resulting in higher distressed-sale discounts.

Figure 11: Scope's transaction-specific fire-sale discount assumptions

Property type	% of property value	Class A analysis haircut
Residential	42.5	12.5%
Commercial	25.4	20.0%
Industrial & Land	32.1	25.0%

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

6.2.3. Appraisal analysis

Appraisal type haircuts range between 1.6% and 9.4% for analysis of class A1 notes

A large portion of valuations in portfolio are based on third-party appraisals conducted at the time of the sub-portfolios' acquisition but were adjusted in accordance with the servicer's review process. Therefore, our analysis focuses on our review of the servicer's valuation methodologies and historical sales data, even though the sample of the latter is thin relative to other secured Portuguese servicers. All valuations have been performed by the servicer in February 2021.

We applied additional haircuts ranging from 0% to 5%, reflecting our view on the level of quality and/or accuracy of the underlying valuation procedures, as shown in Figure 12. Full or drive-by valuations are generally more accurate than desktop or AVM valuations.

Figure 12: Portfolio appraisal types and stressed valuation haircut assumptions

Valuation type	% of property value	Class A analysis haircut
Desktop	74.4	5%
Drive-by	25.6	0%

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

6.2.4. Concentration risk

Top 10 borrowers represent 8.2% of current balance

We addressed borrower concentration risk by applying a 10% rating-conditional recovery haircut to the 10 largest borrowers for the analysis of the class A1 notes. The largest 10 and 100 borrowers account for 8.2% and 26.2% of the portfolio's current balance, respectively. These concentration levels are low compared with similar portfolios we have analysed.

6.2.5. 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
Partial credit to residual claims from individuals

Based on market-wide historical data, we gave credit to residual claims on 30% of the loans to individuals. Recovery strategies are typically not highly focused on collecting residual claims, as the relevant costs may be higher than the potential proceeds. On the other hand, residual claims can be enforced in a profitable way for some individual borrowers, as 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. For corporate loans, we gave no credit to potential further recoveries on residual claims after the security has been enforced.

6.2.6. Legal recovery timing

For the NPL portfolio, we have applied line-by-line time-to-recovery assumptions that consider the type of legal proceeding (i.e. bankruptcy, non-bankruptcy), and the current stage of the proceeding.

Total recovery timing is around 55 months for analysis of class A notes

The assumption for the judicial process timing is based on public data regarding the average time for a legal procedure, together with the servicers' estimates for the different types of procedures. The data we analysed show similar durations for bankruptcy and non-bankruptcy procedures. We have not differentiated between the courts regarding the estimated time for the judicial process as the data shows limited dispersion among the Portuguese courts.

As is generally the case in Portugal, we have assumed that the properties will fail to sell in auction and will be awarded to the Asset Manager. We therefore incorporate additional time it would take to sell these assets on the open market. Stressed total recovery timing assumptions (from the beginning of litigation to the receipt of asset sale proceeds) are summarised in Figure 13.

Figure 13: Total length of the recovery process by procedure type[9]

		Total recovery timing (months)
Procedure type	**% of outstanding balance**	**Class A analysis**
Bankruptcy	71.4	57
Non-bankruptcy	28.6	50

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

7. Key structural features

The structure comprises three classes of notes with sequential principal amortisation: senior class A, mezzanine class B (not rated) and junior class J (not rated).

Class A will pay a floating rate indexed to three-month Euribor plus a margin of 2%. Class B will pay a fixed rate of 6%. The Class B interest (and a portion of the special servicer fees) may be subordinated in full to class A principal payments if certain under-performance events are triggered, but rank senior otherwise.

The structure features liquidity protection for Class A notes (3% of the outstanding class A balance), available to pay senior expenses and class A interests. The liquidity reserve (EUR 2.4m at closing) will be funded through interim collections along with the expenses account[10]. The reserve can cover shortfalls for more than five payment periods for Class A notes under our base case scenario. The issuer will enter into an interest rate cap agreement with an amortising notional schedule, effective up to and including the payment date in July 2028 (section 7.5).

[9] This applies to the NPL portfolio (ex-REOs) and includes time-to-sell assumptions
[10] EUR 600,000 at closing, including EUR 50,000 of required amount. Interim collections will also cover trustee and paying agent upfront cost (EUR 24,000 + VAT)

7.1. Combined priority of payments

Issuer's available funds will be used in the following simplified order of priority:

Figure 14: Simplified priority of payments

Pre-enforcement priority of payments	
1)	Senior fees and issuer expenses
2)	Interests on class A notes
3)	Liquidity reserve up to the liquidity reserve fund required amount (3% of outstanding Class A)
4)	Interests on class B notes, provided no subordination trigger is breached
5)	Class A principal, until paid in full, except if an overperformance event has occurred in which case 90% of the of the available distribution amount will be applied to Class A principal and 10% to class B principal
6)	Upon a breach of a subordination trigger, interests on class B notes
7)	Pro rata and pari passu principal on class B and the mezzanine servicing fees, if any
8)	Interests on class J notes
9)	Class J principal
10)	Additional return on class J

7.2. Interest subordination events

The occurrence of an interest subordination event results in class B interests being paid under item 6 of the waterfall above. An interest subordination event occurs if i) the cumulative net collection ratio[11] (CCR) falls below 90% of the servicer's business plan targets; ii) the NPV cumulative profitability ratio[12] (NPVPR) falls below 90%; or iii) any due amount of class A interest is unpaid.

An interest subordination event is curable if, on a subsequent payment date, the CCR or the NPVR is above 90%. In this case, Class B interests accrued and unpaid will be payable senior to the class A principal repayment, under item 4 of the waterfall above.

7.3. Asset manager

Corrente Positiva, Lda., has been appointed as asset manager at closing. The asset manager has been set up as a limited liability company with the intention to buy and sell real estate properties and it is exempt from paying a municipal transaction tax (which can range up to 7.5%). The requirement is that it resells the property to a third party within 3 years after the acquisition otherwise it will have to pay the municipal transaction tax. This risk is mitigated by the small stock of REOs in this transaction, most of which have been acquired in 2020.

7.4. Servicing fee structure

The servicing fee structure is designed to mitigate potential conflicts of interest between the servicer and the noteholders, both through a performance-based servicing fee component and through a servicing-fee deferral mechanism, subject to pre-defined underperformance events.

7.4.1. Servicer fees and servicer underperformance event

The servicers shall be entitled to both a fixed fee and a variable performance fee based on collections. The base fee amounts to EUR 75,000 per quarter. The performance fees

[11] 'Cumulative net collection ratio' is defined as the ratio between: i) the cumulative net collections; and ii) the net expected cumulative collections. Net collections are calculated as the difference between gross collections and recovery expenses, excluding servicing fees. Collections are computed since 1 May 2021.

[12] 'NPV cumulative profitability ratio' is defined as the ratio between: i) the sum of the present value of the net collections for all receivables relating to exhausted debt relationships; and ii) the sum of the target price (based on the servicer's initial business plan) of all receivables relating to exhausted debt relationships.

range between 1%-14% of gross collections depending on the type of collection (1% for secured, 3% for the unsecured component of the BCP-06 portfolio[13], 14% for unsecured).

In our base case scenario, we model a total servicing fee of 12.1%, expressed as a share of gross collections.

The occurrence of a servicer underperformance event results in 5%-15% of the servicer performance fees being subordinated to class A principal payments, based on the level of underperformance.

Figure 15: Servicing fee subordination mechanism

CCR lower than 90%	• 15% as servicer mezzanine fee
CCR greater than and equal to 90% and lower than 95%	• 10% as servicer mezzanine fee
CCR greater than and equal to 95% and lower than 100%	• 5% as servicer mezzanine fee

7.4.2. Servicer monitoring

Monitoring function protects all noteholders' interests

An overview of the servicer's activities and calculations, prepared by the monitoring agent (KPMG & Associados - SROC, S.A.), mitigates operational risks and moral hazard that could negatively impact noteholder interests. This risk is further mitigated by a discretionary servicer termination event should the servicer underperform.

Under the servicing agreements, 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 ratio 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, but also Class A noteholders. The committee can authorise the revocation and replacement of the servicer upon a servicer termination event, subject to the approval of the noteholders' representative. The monitoring agent can also on behalf of the committee authorise the sale of the receivables, the closure of debt positions, and the payment of additional costs and expenses related to recovery activities.

7.4.3. Servicer termination events

No back-up servicer or facilitator in case of potential servicer disruption

Special servicer termination events include i) insolvency; ii) an unremedied breach of obligations; iii) an unremedied breach of representation and warranties; iv) unlawfulness; v) underperformance with respect to servicing levels outlined in the servicing agreement[14]; and vi) change of control.

There are no back-up servicing agreements. In case of a termination event, the common representative will assist in finding a replacement. This may result in servicer disruption and, ultimately, material delays in recovery timing and additional servicer replacement costs (see section 10.1 for more details).

7.5. Interest rate protection

The interest rate cap mitigates interest rate risk

Due to the non-performing nature of the securitised portfolio, the issuer will not receive regular cash flows and the collections will not be linked to a defined interest rate. On the liability side, the issuer will pay a floating-rate coupon on the notes, defined as three-

[13] Mainly comprising of cash-court, payment plans and secured shortfalls.
[14] The servicing committee may resolve on the termination of the appointment of the servicer upon the occurrence of (i) two consecutive IPDs with either the CCR or the NPVR below 80% at any time from two years after closing; (ii) either the CCR or the NPVR below 75% for one IPD at any time after the first year.

month Euribor plus a 2.0% fixed margin on the class A notes.

An interest rate cap, with a 0.5% flat strike (cap rate) partially mitigates the risk of increased liabilities on class A due to a rise in Euribor. The swap counterparty is JP Morgan AG.

The notional balance of the swap adequately matches our expected outstanding amount of the class A notes when applying the stress assumed for the class A analysis. In our view, this sufficiently mitigates interest rate risk. A delay in recoveries beyond our stressed recovery timing assumptions could result in the notional balance being below the outstanding amount of class A, creating interest rate risk exposure on the unhedged portion. This is shown in Figure 16 and Figure 17.

Figure 16: Interest rate cap on class A notes

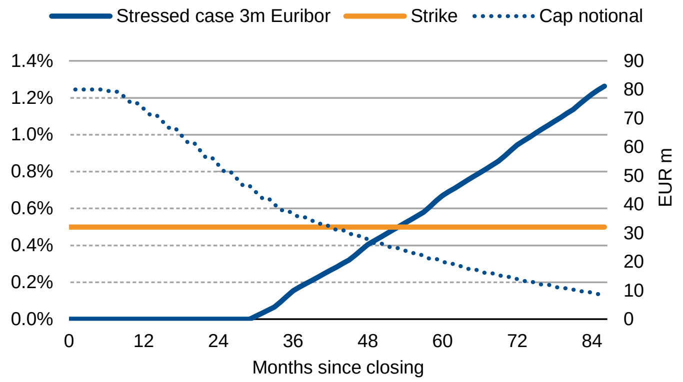
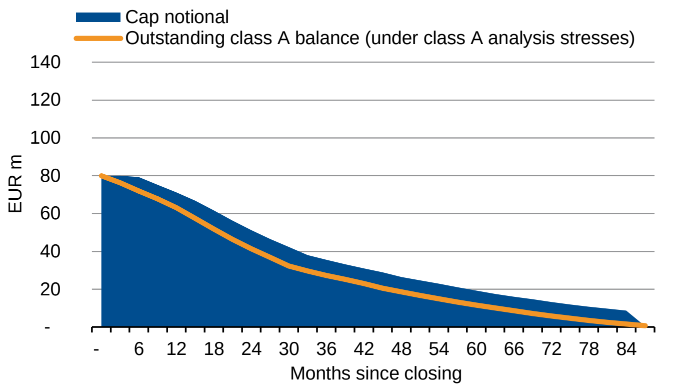


Figure 17: Cap notional vs outstanding class A notes



Sources: Transaction documents, Bloomberg and Scope Ratings

8. Cash flow analysis and rating stability

Cash flow analysis considers the structural features of the transaction

We analysed the transaction's specific cash flow characteristics. Asset assumptions are applied using rating-conditional gross collections vectors. The analysis captures the capital structure, legal and other asset-level costs (assumed at 4.7% of our gross recovery assumptions in the base case scenario), servicing fees as described in section 7.4.1, corporate costs and taxes, and annual senior costs estimated at EUR 300,000. We considered the reference rate payable on the notes, considering the cap rate embedded in the terms of the rated notes, the additional note payments, and the interest rate cap agreement as described in the previous section.

The rating assigned to the Class A notes reflects expected losses over the instrument's weighted average life commensurate with our idealised expected loss table.

We tested the resilience of the rating 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%, one notch.
- an increase in the recovery lag by one year, zero notches.

9. Sovereign risk

No mechanistic cap linked to sovereign risk

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

10. 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 considered counterparty substitution provisions in the transaction and, when available, our ratings or other public ratings on the counterparties. We also considered eligible investment criteria and collateral posting provisions included in the cap agreements.

The transaction is mainly exposed to counterparty risk from the following counterparties: i) LX Investment Partners II S.À R.L & LX Investment Partners III S.À R.L, as originators and retention subscribers (regarding the representation & warranties); ii) Algebra Capital as servicer; iii) Citibank N.A. London branch as issuer account bank and principal paying agent; iv) Citibank Europe Plc, as Portuguese account bank; v) KPMG & Associados - SROC, S.A, as monitoring agent and vi) JP Morgan AG as cap counterparty.

The roles of the issuer account bank, Portuguese account bank, mortgage lender payment account bank and interest rate cap counterparty must be held by institutions 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 the public ratings of other agencies.

10.1. Servicer disruption risk

Servicer disruption event may have affect transaction performance

A servicer disruption event may have a negative impact on the transaction's performance. The transaction does not feature any back-up servicers appointments at closing. The common representative undertakes to assist in appointing a replacement special servicer in the event of a servicer disruption.

10.2. Commingling risk

Limited commingling risk

Commingling risk is limited, as debtors will be instructed to pay directly to an account in the name of the issuer. In limited cases where the servicers receive payments from a debtor, the servicers would transfer the amounts on the same day or at latest within the next business day.

10.3. Enforcement of representations and warranties

Representations and warranties limited in time and amount

The issuer will rely on the warranties provided by the mortgage lenders and supported by the sponsor's undertaking, limited in time and amount. If a breach of a warranty materially and adversely affects a loan or REO property's value, the sponsor may be obliged to indemnify the issuer for damages.

However, the above-mentioned warranties are only enforceable by the issuer within 12 months from the closing date. The total indemnity amount will be capped at 20%[15] of the portfolio purchase price.

11. Legal structure

11.1. Legal framework

Transaction documents governed by English and Portuguese laws

The transaction documents are governed primarily by English and Portuguese laws. The transaction is fully governed by the terms in the documentation.

11.2. Use of legal opinions

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

[15] Such cap will not apply to any breach of the "fundamental' data tape fields.

12. Monitoring

Ongoing rating monitoring

We will monitor this transaction based on performance reports as well as other public information. The rating 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.

13. Applied methodology

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

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