Capella Financing Sà rl
Cypriot Non-Performing Loan ABS

Ratings

Series	Rating	Notional (EUR m)	Notional (% of pool value)[1]	Coupon	Final maturity
Class A	BBB_{SF}	229.5[(i)]	17.8	3.50%	Jan 2054
Class B	NR	114.5	8.9	6.75%	Jan 2054
Class Z	NR	442.7	34.4	8.0% + Variable Return	Jan 2054
Total notes		786.7			

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.

[(i)] The class A notes' notional of EUR 229.5m is reduced at the closing date using the net collections received from the cut-off date to the transfer date.

Transaction details

Purpose	Static cash securitisation
Asset class	Non-performing loans (NPLs) and real estate owned (REO) properties
Portfolio cut-off date	31 December 2020
Portfolio transfer date	March 2023
Issue/Closing date	30 March 2023
Issuer	Capella Financing Sà rl
CyCAC	Themis Portfolio (S1) Management Holdings Ltd
Originator	Hellenic Bank PCL, Cooperative Asset Management Company Ltd (SEDIPES) (formerly Co-operative Central Bank Ltd and later Cyprus Co-operative Bank Ltd)
Servicer	APS Debt Servicing Cyprus Ltd
Sponsor/Purchaser	Oxalis Holding Sà rl (a subsidiary of PIMCO)
Total adjusted exposure[2]	EUR 1,145m of loans, and EUR 22m open market value of REOs
Key portfolio characteristics	The portfolio is mainly composed of non-performing senior secured[3] loans (75% of adjusted exposure). Most properties are residential (54.5% of open market value) and concentrated in Nicosia and Limassol (20.6% and 26.1% of indexed open market value). Most borrowers are corporates (72.4% of adjusted exposure).
Payment frequency	Quarterly, 25th day
Key structural features	The transaction's structure comprises three tranches of notes and features liquidity support for the senior tranche of notes. The amortising liquidity reserve is initially equal to 3% and must be maintained at 6% of the outstanding class A principal.
Other key counterparties	i) Hellenic Bank PCL (CyCAC Cypriot account bank); ii) Citibank Europe Plc (issuer and CyCAC account bank); iii) Citibank, N.A. (paying agent and cash manager); iv) Citibank, N.A. (security and note trustee); v) CSC Luxembourg Services Sà rl (issuer corporate services provider); vi) Barclays Bank Ireland Plc (arranger)

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Bloomberg: RESP SCOP

[1] 'Pool value' means the total claimable amount of the loans at the portfolio cut-off date.
[2] 'Total adjusted exposure' reflects our adjustments to the pool value using information on collections, repossessed properties and sold properties from the cut-off date to October 2022.
[3] Our classification of loan types is described in section 5.

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 regarding recovery amounts and timing incorporate the portfolio's characteristics as well as our economic outlook for Cyprus and assessment of the servicer's capabilities. The rating is supported by the structural protection provided to the notes and the liquidity reserve available to the class A noteholders. 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, our analysis of collections was mainly based on the latest property appraisal values, which were stressed for the servicer's appraisal methodologies and liquidity and market value risks. We derived recovery timing assumptions using line-by-line asset information detailing the type of legal proceedings and the stage of the proceeding as of the cut-off date. We applied a line-by-line approach to derive time-to-sell assumptions for all collateral and REO assets, considering the property type and location. We also considered historical data provided by the servicer. For unsecured and junior secured loans, we incorporated the servicer's capabilities when calibrating lifetime recoveries and benchmarked this against historical data from other European jurisdictions.

Rating drivers and mitigants

Positive rating drivers

High share of secured loans. The portfolio is mainly composed of senior secured loans (75% of adjusted exposure).

Out-of-court foreclosure framework. Since 2018, the foreclosure process in Cyprus is fully out-of-court, leading to a generally improved negotiating position for creditors and shorter time to resolution.

Effective amortisation triggers. The structure features a class B interest subordination event based on cumulative net collections received since the portfolio transfer date. If actual cumulative net collections are below 85% of the cumulative net collections projected by the initial business plan, available cash will amortise class A notes prior to the payment of class B interest. This may protect senior noteholders under stressed market conditions. However, the event is not applied in the first two years and can be cured if actual collections return to levels in line with the business plan projections.

Liquidity. The target liquidity reserve amount at each payment date will be equal to 6% of the class A notes' outstanding balance. Under our base case scenario, the liquidity reserve covers more than six payment periods of class A interest and senior expenses and fees.

Negative rating drivers and mitigants

Servicer fees. The structure does not feature a servicer subordination event. In the context of foreclosures, a large portion of servicer fees is dependent on the open market value of the asset, rather than on gross collections on the loan. This weakens the servicer's financial incentives to achieve higher collections.

Borrower concentration. The largest 10 and 100 borrowers account for 14.4% and 41.8% of the portfolio's adjusted exposure, respectively. The portfolio is more concentrated than similar NPL portfolios in Cyprus and other jurisdictions.

Property type. 45.4% of the properties (by appraised value) are land or non-residential. Such assets are generally less liquid than residential assets.

Real estate market is susceptible to a surge in supply. The pre-pandemic five-year (2015-19) pan-Cypriot average of registered sales per year stood at just above 8,000. Resolution of this portfolio and other Cypriot NPL portfolios could add a considerable supply to the real estate market over the next few years, potentially resulting in lower realisable value or longer time to liquidation.

Upside rating-change drivers

Servicer outperformance. Following the transfer of the portfolio, the servicer will be fully owned by the sponsor. If the change of the ownership leads to better recovery processes and consistent servicer outperformance, this could positively impact the rating.

Downside rating-change drivers

Lower than expected profitability. If servicer performance in terms of realised collections is below our expectations, this could negatively impact the rating.

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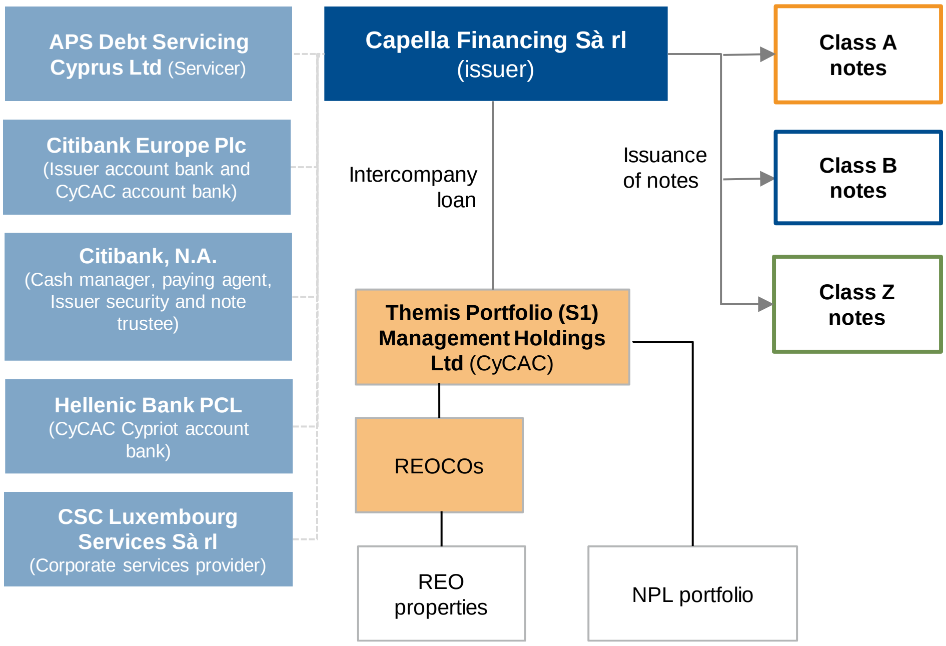
1. Transaction summary

Figure 1: Simplified transaction diagram



Source: Transaction documents and Scope

The transaction is a static cash securitisation of a portfolio of NPLs and REO properties. The transaction does not involve a true sale of receivables to the issuer. At the closing date, the portfolio will be owned by the Cypriot Credit Acquiring Company (CyCAC), which has been acquired by the purchaser. The CyCAC's ownership includes the credit rights over the loans and Real Estate Owned Companies (REOCOs), which have security rights over the REO assets.

The issuer subscribes to an intercompany loan issued by the CyCAC, structured to allow cash flow from the assets, less certain costs and expenses of the CyCAC, to flow into the issuer's accounts. These are then used as available funds in the issuer level waterfall to repay the issuer's liabilities. Figure 1 shows the simplified structure and cash flow arrangements between the entities involved in the transaction.

2. Macroeconomic environment

GDP growth expected to decrease to 2.7% in 2023 after being 5.5% in 2022

The Cypriot economy has been remarkably outperforming expectations growing by 6.2% in the four quarters to September 2022. This was thanks to faster-than-expected recovery in tourism and sustained expansion in exports of other services, notably business services and IT. Arrivals of tourists and revenues increased considerably in the first months of 2022 and reached around 75% of pre-pandemic levels. The Russia-Ukraine crisis presents an important risk given reliance on Russian and Ukrainian tourists, but the economy has demonstrated its resilience and has diversified to other tourism markets. Medium-term growth will be supported by the EUR 1.2bn (4.3% of GDP) Recovery and Resilience plan. We project growth of 5.5% in 2022, after 6.7% in 2021. Growth should then moderate to 2.7% in 2023 and stabilise at around 3% thereafter.

The country is facing surging commodity prices, and a rising import bill for minerals, oil, fuel and cereals. The inflationary impact of rising commodity prices could be exacerbated through higher wage growth given that the country has a partial wage indexation mechanism, the Cost-of-Living Allowance. Despite Cyprus's import dependence for key commodities, it has so far been well insulated from inflationary pressures relative to other

EU countries. In September 2022, inflation stood at 9% versus a 12.9% EU average while core inflation was lower at 6.2%. Like other major central banks, the ECB has been rapidly tightening its monetary policy to tame price pressures. Key ECB interest rates increased by 75 bps in both September and October 2022, and 50 bps in December 2022 with the deposit rate reaching 2%. This is the highest level since 2009, 250 bps higher than in 2019, and we expect additional interest rate increases.

Labour markets have shown signs of weakening in recent months. The seasonally adjusted unemployment rate reached 8% in September 2022, up from 6.2% in September 2021. We expect unemployment to average 7% in 2022 and then gradually decline to 6% by 2027, thanks to steady growth. In August 2022, the government agreed to implementing a minimum wage at EUR 885 from January 2023 which is set to rise to EUR 940 six months later. This, combined with the automatic wage indexation mechanism should help support living standards among households.

Inflationary and private debt risks remain

The risks to the outlook are tilted to the down with important risks. The recovery could be hindered by: i) a more severe and long-lasting inflationary shock; ii) an abrupt global tightening of monetary policy; or iii) higher than expected credit default rates in the private sector could disrupt the recovery. Scope believes Cyprus has the fiscal space to provide more support to its economy if needed, mitigating these downside risks to some extent. There are also upside risks. For instance, tourism could continue to outperform, corporate investment could increase beyond expectations, or the frontloading of reforms and investments under the Recovery and Resilience Plan could lead to higher productivity gains than expected.

3. Servicer review

3.1. Introduction

We conducted an operational review with the servicer. In our view, the servicer's capabilities and processes to manage the securitised portfolio are adequate.

Portfolio recovery assumptions factor in our assessment of the servicer's capabilities

Our assessment of the servicer's capabilities addresses, among other things, its 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 virtual property tour of a small sample of selected properties from the securitisation portfolio with the servicer. The property tour forms an integral part of 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 6.1).

3.2. Corporate overview

APS Debt Servicing was a carve-out of Hellenic Bank's internal servicing unit

APS Debt Servicing Limited (the servicer) is a multi–portfolio NPL management company in Cyprus and has been operational since 2017, following the carve-out and disposal of Hellenic Bank's NPEs management operations to the APS Group. Under the terms of the original transaction Hellenic Bank retained a 49% stake in the servicer, and recently acquired back control of the company in November 2020. Prior to the execution of the transaction, Hellenic Bank owned 100% of the servicer. Hellenic Bank intends to sell full ownership of the servicer to the sponsor for the transaction.

3.3. Servicing model

The servicer is organised into six main operational units: Corporate, SME & Retail, Real Estate, Legal & Compliance, Finance and Operations. The Legal & Compliance team represents the servicer's in-house legal capabilities, supporting foreclosure processes and providing advice on debt recovery processes as well as drafting restructuring contracts and legal documentation in coordination with Hellenic Bank's legal team. The Corporate team focuses on consensual and bespoke solutions with borrowers, running foreclosure processes in parallel for leverage. The Retail & SME team is separated into different geographies to increase the contact rate with borrowers and achieve higher volumes of consensual solutions. The Real Estate team provides a full suite of REO services from due diligence to onboarding and direct sales.

Servicer's business plan includes individual assessments for top borrowers

Strategies are divided into two separate buckets in the business plan: i) a collectively assessed set of borrowers for which Hellenic Bank's system is mainly utilised along with adjustments to achieve borrower-level consistency; and ii) an individually assessed set of borrowers, the top borrower groups, for which more bespoke solutions are employed through a qualitative lens in addition to Hellenic Bank's input. The main strategies are restructuring, foreclosure, debt to asset, consensual sale and settlements.

The level and timing of expected cash flows from the top borrower groups have been estimated on an individual basis. On the other hand, the collective pool methodology combines a strategy-based recovery timing schedule with adjustments based on the liquidity of the collateral, loan size and legal complexity. Recovery adjustments in this group include indexation, market value haircuts per asset class/location, restructuring adjustments based on the type of borrower and different settlement assumptions for seniority.

4. Representations and warranties

The representations and warranties provided by the seller to the CyCAC relating to the collateral pool include the following:

- The seller has the sole legal ownership of the assets, free of encumbrances and can transfer the assets.
- No asset is currently sub-participated.
- No written factual information exists in the land registry which has not been disclosed and would have a material and adverse effect on the value of any asset.
- No lien or right of set-off or counterclaim exists such that borrowers are entitled to reduce the amount of any payment due under any of the loan assets.
- The lender has acted as a prudent lender since the pricing date.
- Each loan asset is denominated in euros[4] unless otherwise disclosed in the data tape.
- OMVs are derived from independent valuation, takes into account if the security extends to less than 100% of the property, any sale and purchase agreement reflects the amount attributable to the corresponding units mortgaged by each borrower.
- The loan assets have not been rescinded or declared non-existent, void or unenforceable by a conclusive judgment issued by a competent court.
- Selected information in the data tape is correct.
- Each loan asset is governed by the laws of the Republic of Cyprus.
- All security in the form of mortgages related to the properties is registrable at the Cypriot land registry in the Republic of Cyprus and has been duly registered.
- Each REO has been managed and operated in accordance with the seller's internal policies and/or in accordance with the terms of the Servicing Agreement.

[4] Less than 3% of loans are denominated in other currencies, mainly in CHF and USD.

- The seller has effected and maintained or procured the effecting and maintaining of insurance with a reputable insurer in respect of each REO.
- All documents, books, accounts and records related to the loan assets and related security rights have been duly kept.

5. Portfolio characteristics

The portfolio is mainly composed of non-performing senior secured loans (75% of adjusted exposure). Most properties are residential (54.5% of open market value) and concentrated in Nicosia and Limassol (20.6% and 26.1% of indexed open market value). Most borrowers are corporates (72.4% of adjusted exposure).

5.1. Key portfolio stratifications

Figure 2 provides a high-level overview of the portfolio characteristics. Detailed loan-level portfolio stratifications are provided in Appendix I.

Figure 2: Portfolio summary

	Total	Senior secured (Scope's classification)	Junior secured and unsecured (Scope's classification)	REO assets (unsold)
Number of loans	9,793	2,553	7,240[5]	
Number of borrowers	3,982	1,496	2,486[6]	
Adjusted exposure (EUR m)	1,145	857	289	
% of adjusted exposure		75	25	
Collections since cut-off date[6] (EUR m)	48			
Weighted average seasoning (years)	7.5	7.2	7.9	
Number of unsold properties	2,834	2,680	48	106
Open market value of unsold properties (EUR m)	796	693	81	22

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 if all senior claims against at least one of the underlying properties are part of the portfolio. Loans 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. This classification may differ from the servicer's classification of loans.

Pool's exposure is adjusted using information up to date

We have used the 'open market value' and respective date of valuation as our reference appraisal amounts for all properties in the portfolio.

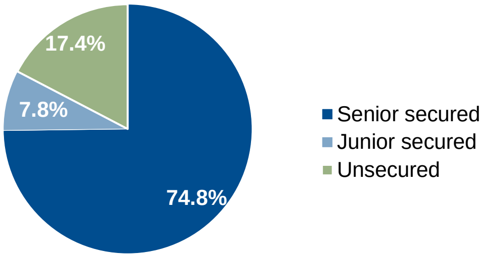
We have also adjusted the pool's exposure using information on collections and properties sold since the cut-off date. The analysis excludes loans that we assume to be closed, based on the amount of collections received since the cut-off date. Collateral connected with these positions is also removed.

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

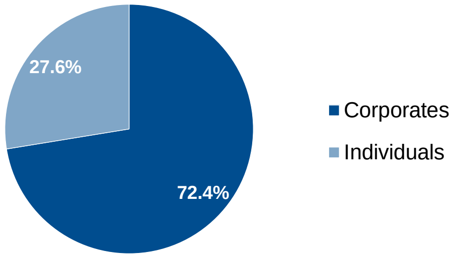
[5] Includes exposures with zero balance.
[6] Interim collections from 31 December 2020 to 30 September 2022.

Figure 3: Key portfolio stratifications

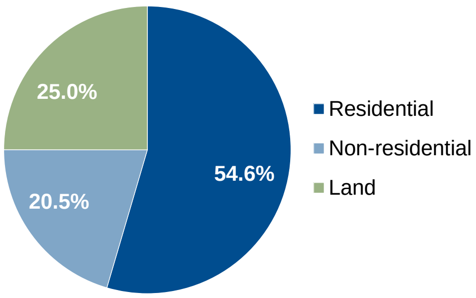
Loan type (%, adjusted exposure)



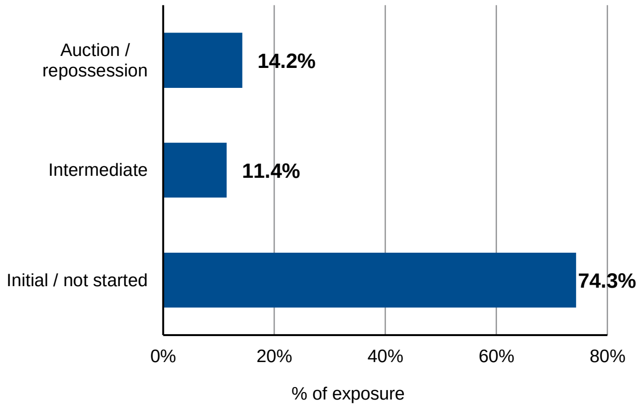
Debtor type (%, adjusted exposure)



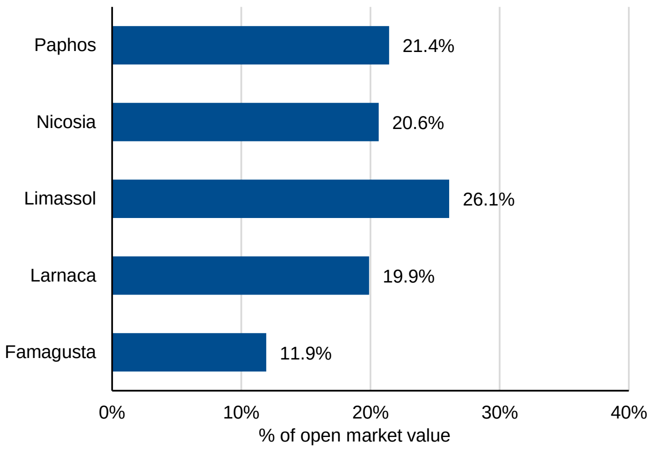
Property type (%, indexed open market value)



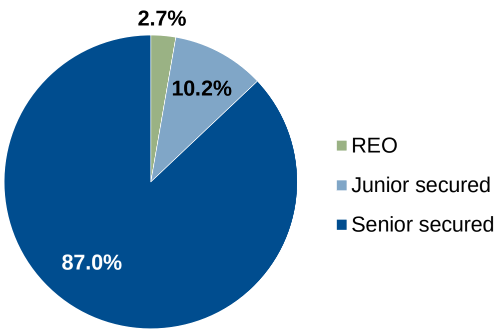
Legal stage (% of adjusted exposure)

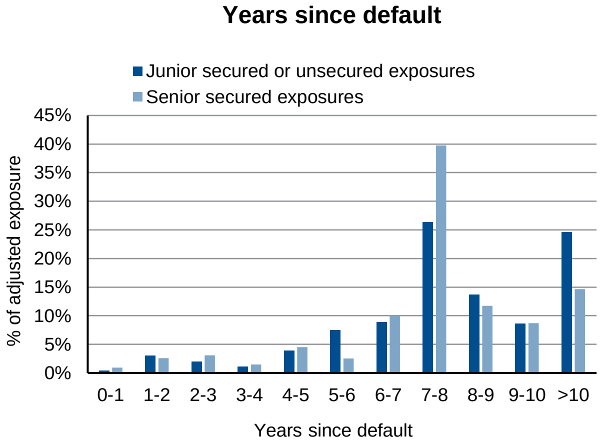


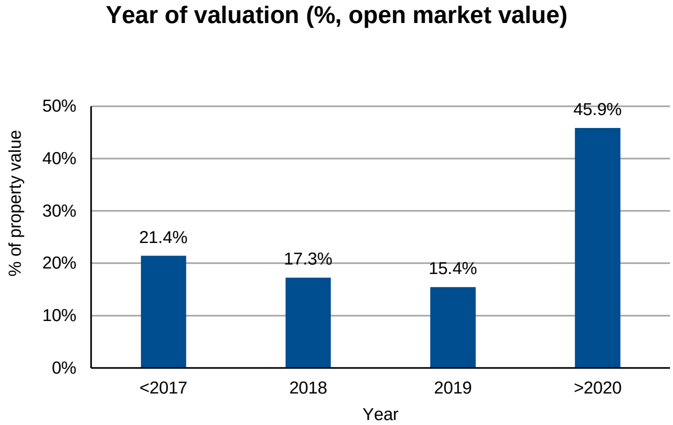
Property macro-region (%, indexed open market value)



Property claim type (%, open market value)







Sources: Transaction data tape; calculations by Scope Ratings

6. Portfolio analysis

Under our NPL methodology, we test the resilience of a rated instrument to deterministic, rating-conditional stresses. We apply greater stresses as the instrument ratings become higher. Figure 4 summarises the stressed recovery rate assumptions applied for the analysis of the class A notes. We also account for the current macroeconomic scenario, taking a forward-looking view on macroeconomic developments.

Figure 4: Summary of assumptions

	Class A analysis
Secured recovery rate (% of secured exposure)	32.4
Unsecured recovery rate (% of unsecured exposure)	2.2
REO recovery rate (% of property value)	55.9
Total recovery rate (% of total exposure)	**24.8**
Secured collections, weighted average life (years)	5.7
Unsecured collections, weighted average life (years)	3.2
REO sale proceeds, weighted average life (years)	3.6
Total collections, weighted average life (years)	**5.6**

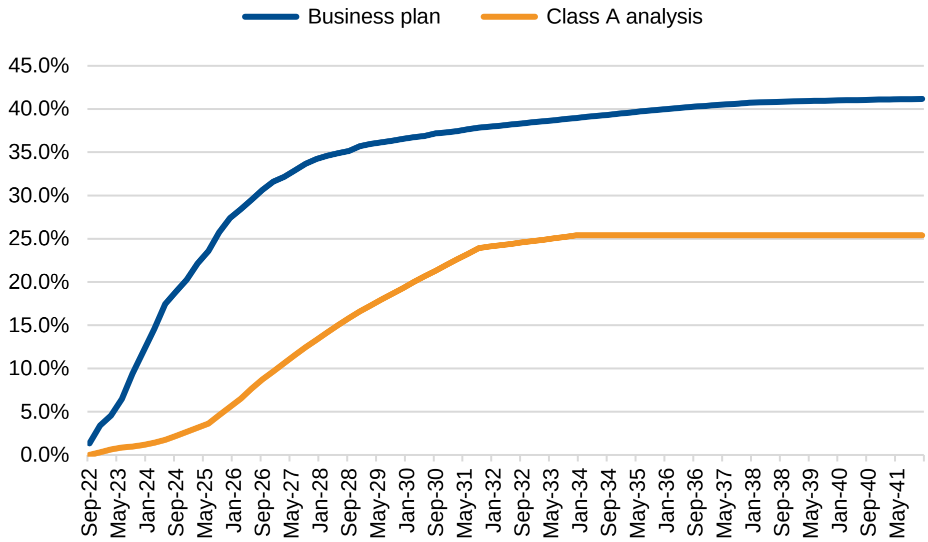
Sources: Scope Ratings

Our class A recovery rate assumptions are about 38% below business plan targets

Figure 5 compares our lifetime gross collections and recovery timing assumptions for the entire portfolio with those in the servicer's business plan. These assumptions are derived by blending secured and unsecured recovery rate assumptions. Our class A recovery assumptions are about 38% below those in the business plan forecast and take longer to materialise – we assume a weighted average life of 5.6 years compared to about 3.5 years in the business plan[7].

[7] Business plan amounts refer to projected collections from Q3 2022 onwards as a percentage of adjusted exposure. Weighted average lives are calculated from Q3 2022 onwards as well.

Figure 5: Business plan gross cumulative recoveries vs our assumptions

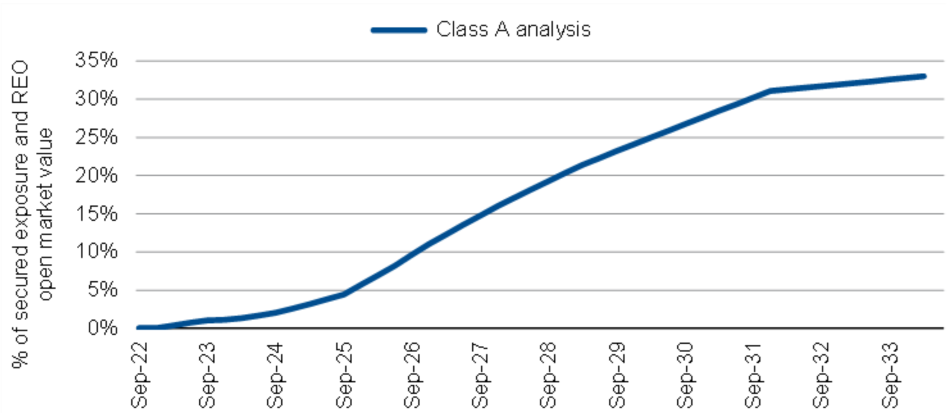


Sources: Servicer's business plan, Scope Ratings

6.1. Analysis of secured and REO portfolio segments

Figure 6 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 6: Our secured and REO recovery rate assumptions

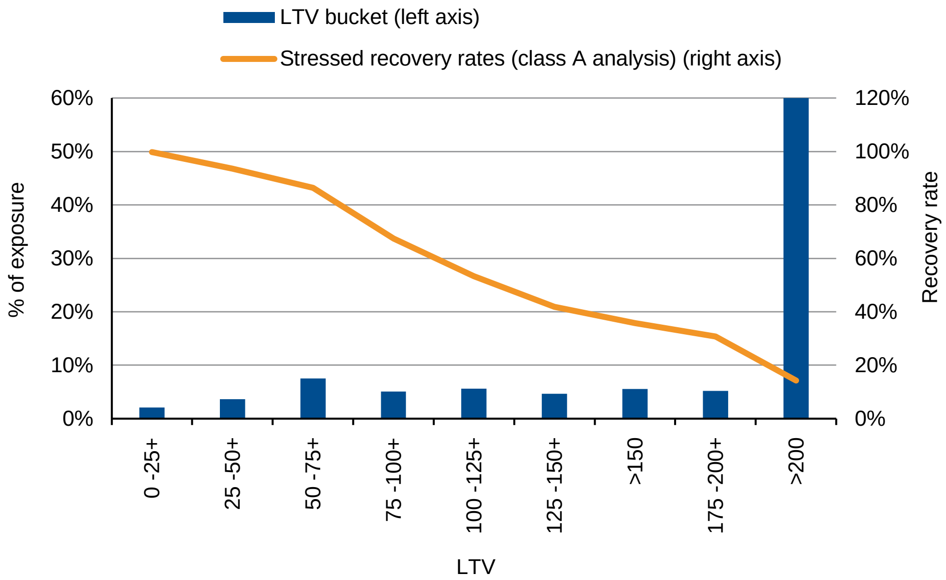


Source: Scope Ratings

Low security coverage for most of the secured exposures

Figure 7 shows the secured loans' distribution by loan-to-value (LTV) bucket as well as our recovery rate assumptions for each LTV bucket. The portfolio has a high share of loans with an LTV of above 100% (81.8% of secured exposure), which leads to relatively low security coverage for the secured NPL segment.

Figure 7: Our recovery rate assumptions by LTV bucket



Sources: Transaction data tape; calculations by Scope Ratings

6.1.1. Property market value assumptions

Figure 8 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 8: Our transaction-specific price change assumptions

Autonomous community	Portfolio concentration (% of open market value)	Class A analysis haircut
Famagusta	11.9	15.7%
Larnaca	19.9	13.5%
Limassol	26.1	14.7%
Nicosia	20.6	10.0%
Paphos	21.4	11.4%

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

6.1.2. Appraisal analysis and property liquidity risk

Property-type haircuts range between 30% and 40% for analysis of class A notes

All property valuations have been conducted by third party appraisers, and most of the appraisals were made based on in-person visits and comparable sale information. In our analysis, asset liquidity risk is captured through property-type fire-sale haircuts applied to these valuations. Figure 9 shows the stresses applied for the analysis of class A notes. These assumptions are based on historical distressed property sales data (including that provided by the servicer) and reflect our view that non-residential properties tend to be less liquid, resulting in higher distressed-sale discounts.

Figure 9: Our transaction-specific fire-sale discount assumptions

Property type	% of open market value[8]	Class A analysis haircut
Residential	54.5	30.0%
Non-residential	25.0	37.5%
Land	20.5	40.0%

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

6.1.3. Concentration risk

Top 10 borrowers represent 14.4% of adjusted exposure

We addressed borrower concentration risk by applying a 15% rating-conditional recovery haircut to the 20 largest borrowers for the analysis of the class A notes. The largest 10 and 100 borrowers account for 14.4% and 41.8% of the portfolio's adjusted exposure, respectively. The portfolio is more concentrated than similar NPL portfolios we have analysed in the past.

6.1.4. Legal recovery timing

For the NPL portfolio, we applied line-by-line time-to-recovery assumptions that incorporate the type of legal proceeding and the current stage of the proceeding.

Weighted average recovery timing is around 74 months for the analysis of class A notes

The recovery process consists of two stages: i) the out-of-court foreclosure process plus potential restructuring delays; and ii) in the case of asset repossession, the REOCOs selling the awarded property on the open market (REO add-on).

Our assumption for the foreclosure process timing is based on historical data regarding the average time for the fully out-of-court process in Cyprus. Additionally, we also factor in potential delays due to counter-litigation by the borrower and restructuring processes.

As is often the case in Cyprus, we have assumed that properties will mostly fail to sell in auction and will be repossessed by the REOCOs. We therefore incorporated the additional time it would take to sell these assets on the open market, as discussed in section 6.1.5. Our stressed total recovery timing assumptions (from the beginning of litigation to the receipt of asset sale proceeds) are summarised in Figure 10.

Figure 10: Total length of the recovery process by procedure type

		Total recovery timing (months)[9]
Procedure type	**% of exposure**	**Class A analysis**
Foreclosure	80.0	74
Restructuring	20.0	92

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

6.1.5. Time to sell

The time to sell an asset depends on multiple factors, including property type, location, property condition, affordability and market dynamics, which we incorporate in our time-to-sell assumptions. The stressed average time to sell applied for the analysis of the rated notes is shown in Figure 11.

[8] This reflects our classification of properties in the portfolio, based on the most granular property classification available in the data tape (as 'property type').
[9] Total recovery timing (months) already includes our time to sell assumptions.

Figure 11: Market liquidity classification and stressed time-to-sell assumptions

		Time to sell (months)
Our market liquidity classification	**% of open market value**	**Class A analysis**
Residential	54.5	27
Non-residential	25.0	26
Land	20.5	40
Overall	**100**	**30**

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

6.2. Analysis of unsecured portfolio segment

The analysis of the class A notes assumes a recovery rate of 2.2% for unsecured loans over a weighted average life of around 3.3 years, as shown in Figure 12.

Unsecured portfolio analysis based on statistical data

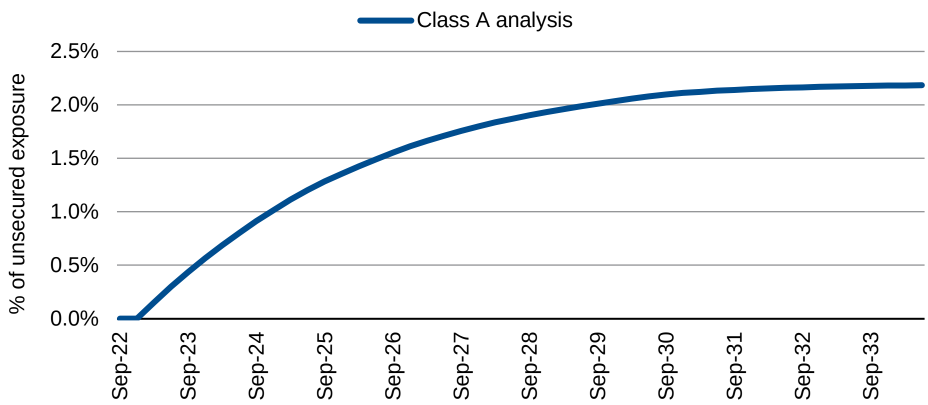
We considered the servicer's capabilities when calibrating lifetime recoveries and benchmarked this against historical data from other European jurisdictions.

Transaction-specific assumptions also reflect the key characteristics of the unsecured portfolio segment, such as average loan size and debtor types (i.e. individual or corporate).

Ageing of unsecured portfolio drives recoveries down

Finally, we re-calibrated our transaction-specific assumptions 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 12. Our unsecured recovery rate assumptions



Source: Scope Ratings

7. Key structural features

The structure comprises three classes of sequentially amortising notes to be issued. The class A will pay a fixed rate of 3.5%. Class B will pay a fixed rate of 6.75% and class Z will pay a fixed rate of 8% plus a variable return. Interest on the class B and Z notes is deferrable.

The class A notes' notional of EUR 229.5m is reduced at the closing date using net collections, including expenses but excluding servicing fees, received from the cut-off date to the transfer date.

The structure features liquidity protection for senior notes. A liquidity reserve is available to pay senior expenses and interest on the class A notes.

Class B interest subordination event applies after two years

The structure features a class B interest subordination event based on cumulative net collections[10] received since the portfolio transfer date. If actual cumulative net collections are below 85% of the cumulative net collections projected by the initial business plan, available cash will amortise class A notes prior to the payment of class B interest. However, the subordination event only applies from the first payment date falling two years after the closing date and is curable, provided that actual net collections return to 100% of the cumulative net collections in the business plan.

7.1. Combined priority of payments

The issuer's available funds (i.e. collections from the portfolio paid under the intercompany loan issued by the CyCAC) will be applied in the following simplified order of priority:

Figure 13: Simplified priority of payments

Pre-acceleration priority of payments
1) Pay the amounts due to the note and issuer security trustee
2) Pay the amounts due to the servicer, transaction's agents and service providers
3) Pay other senior costs, including issuer taxes and profit amount
4) Pay interest due on class A notes
5) Pay any balance required to replenish the reserve to the required amount (6% of class A notes outstanding principal)
6) Provided that no class B subordination event has occurred or if such event has been cured, pay
a) Interest due on class B notes, including any deferred interest
b) Any shortfalls in respect of the indirect or overdraft facilities
c) Principal due on class A notes until redeemed in full
7) If a class B subordination event has occurred and remains uncured, pay
a) Any shortfalls in respect of the indirect or overdraft facilities
b) Principal due on the class A notes until redeemed in full
c) Interest due on class B notes, including any deferred interest
8) Pay principal due on class B notes until redeemed in full
9) Pay interest due on class Z notes, including any deferred interest
10) Pay principal due on class Z notes, including variable return

7.2. Servicing fee structure

The servicing fee structure has both fixed and variable components. The capital structure does not feature a servicer fee subordination event and a large portion of the fees are fixed based on the open market value (OMV) and capped real estate value (CREV) of the assets. Variable components are dependent on the collection amount and are more

[10] Net collections are defined as gross collections minus incurred costs and expenses (including any servicing costs).

designed to mitigate potential conflicts of interest between the servicer and the noteholders.

7.2.1. Servicer fees

The servicer shall be entitled to both a fixed and a variable fees component in the context of foreclosures. The fixed components are loan management fees as a function of the CREV, REO management fees and onboarding fees as a function of the OMV, and the variable components are cash collection fees as a function of gross collections. Servicing fees also include restructuring success fees and cash collection fees in the context of settlements and restructurings.

Figure 13: Servicer fee structure

Fee type	Percentage	Basis
Loan		
Annual loan management fee - decreasing 0.02% every year	from 0.32% to 0.20% after 7th year	*% of CREV*
Restructuring success fee (i)	2%	% of original balance
Restructuring success fee (ii)	5%	% of the repaid upfront cash
Restructuring success fee (iii)	5%	% of the repaid principal cash
Cash collection fee	5%	% of the settlements
REO		
Annual REO management fee	0.32%	% of OMV
Onboarding fee	2%	% of OMV
Cash collection fee	5%	% of gross collections
Portfolio reduction fees and real estate agency fees incentive		

Servicing fees benefit from a tax exemption

Hellenic Bank has agreed that servicing fees are not applicable to the post cut-off collections until the transfer date. Furthermore, CyCAC and the servicer are interpreted as one group for VAT purposes by the Cypriot tax authorities, thus payments from CyCAC to the servicer after the transfer date are expected to be VAT exempt. We modelled total servicing fees at 11% of gross collections after the transfer date for the class A analysis, mainly considering the fees for foreclosure and repossession. Our assumptions include time to sell assumptions and adjustments for successful auctions that could occur without a full repossession process.

7.2.2. Servicer activities

The servicer is responsible for the servicing, administration and collection of receivables as well as for the management of legal proceedings and properties. It will produce a servicer report on a quarterly basis, which includes information on the collateral assets, details on received collections and acquired REO properties.

7.2.3. Servicer termination events

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

Servicer termination events include: i) insolvency; ii) failure to pay; iii) an unremedied breach of obligations; iii) an unremedied breach of representations and warranties; and iv) the loss of legal eligibility to perform obligations under the applicable servicing agreement.

There are no back-up servicing agreements. In the case of a servicer termination event, the CyCAC (at the written discretion of the class B noteholders representative) must appoint a replacement within four months following the termination. This may result in a disruption of the servicing activities and, ultimately, material delays in recovery timing and additional servicer replacement costs (see section 10.1 for more details).

7.3. Liquidity protection

Liquidity reserve supports liquidity of class A notes

Liquidity for the class A notes is supported with a liquidity reserve that is partially funded at closing from note proceeds.

The liquidity reserve will be available to cover items 1-4 in the above simplified priority of payments. The target liquidity reserve amount at each payment date will be equal to 6% of the class A notes' outstanding balance. At the closing date, the reserve will be funded from notes proceeds at a level equal to 3% of the class A notes. Under our base case scenario, the liquidity reserve covers more than six payment periods of class A interest and senior expenses and fees.

7.4. Interest rate risk

No residual interest rate risk

The transaction is not exposed to interest rate fluctuations as all the notes pay a fixed rate coupon and collection proceeds are not tied to a floating index rate.

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 were applied using rating-conditional gross collections vectors. The analysis captures the capital structure, legal and other asset-level costs (assumed at approx. 12.1% of our gross recovery assumptions), servicing fees as described in section 7.2.1, corporate costs and taxes, and annual senior costs.

The rating assigned to the class A notes reflects expected losses over the instrument's expected 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 rating 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 preliminary credit rating in the event of:

- a decrease in secured and unsecured recovery rates by 10%, two notches
- 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 rating. The Republic of Cyprus is a member state of the European Union and therefore has sufficiently robust institutions. The risk of an exit from the bloc remains low in our view.

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.

The transaction is mainly exposed to counterparty risk from the following counterparties: i) Hellenic Bank PCL (CyCAC Cypriot account bank); ii) Citibank Europe Plc (issuer and CyCAC account bank); iii) Citibank, N.A. (paying agent and cash manager); iv) Citibank, N.A. (security and note trustee); and v) CSC Luxembourg Services Sà rl (issuer corporate services provider).

The role of the issuer and CyCAC account bank must be held by an institution with a long-term rating of BBB, if rated by Scope. The role of the CyCAC Cypriot account bank must be held by an institution with a long-term rating of B, if rated by Scope. Other replacement triggers on those counterparties are based on the public ratings of other agencies. If the CyCAC and REOCOs' account bank role is held by Hellenic Bank PCL, the minimum long-term rating is CCC by Fitch.

10.1. Servicer disruption risk

Servicer disruption event may 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 servicer appointments at closing.

In the event that the servicer is to be replaced, the CyCAC is responsible for the appointment of a replacement servicer, directed by the class B noteholders' representative. This may result in a disruption of the servicing activities and, ultimately, material delays in recovery timing and additional servicer replacement costs. We note that the class B noteholders' interests are aligned with those of the senior noteholders as both would benefit from a timely substitution of the servicing activities, minimising disruptions and delays in recovery timing.

10.2. Cypriot account bank risk

Residual account bank risk

Cypriot account bank risk arises from proceeds collected by the servicer being transferred to the CyCAC Cypriot account bank. The replacement mechanism for the CyCAC Cypriot account bank only partially mitigates counterparty credit risk. Therefore, we have quantified the residual Cypriot account bank loss resulting from collections held for a maximum period of two months with the Cypriot account bank. We deem the replacement mechanism for the issuer and CyCAC account back efficient, resulting in no additional loss for the structure.

10.3. Enforcement of representations and warranties

Representations and warranties limited in time and amount

The CyCAC will rely on warranties provided by the seller under the CyCAC sale and purchase agreement. If a breach of a warranty materially and adversely affects a loan or a REO property's value, the seller may be obliged to indemnify the CyCAC for damages.

However, claims against the seller warranties can be made by the purchaser within 18 months of the closing date and are subject to minimum size. The total claims are also limited in amount, capped at the purchase price in relation to fundamental warranties. Claims related to representations and warranties made on the collateral pool are limited to 7.5% of the purchase price.

11. Legal structure

11.1. Legal framework

Transaction documents mainly governed by English and Cypriot laws

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

11.2. Use of legal opinions

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

Hellenic Bank is also in the process of effecting a tax reorganisation and of obtaining a VAT ruling to qualify the transfer of the portfolio from the bank to CyCAC as a transfer of a business as a going concern (TOGC). Both applications are expected to be approved by the Cypriot tax authorities.

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.

I. Deal comparison

Transaction	Starlight (Loans)	Starlight (REO)	Hestia (Loans)	Hestia (REO)	Retiro (Loans)	Retiro (REO)	Prosil Acquisition (NPL)	Prosil Acquisition (REO)	Titan SPV	Relais
Closing	Mar-23		Dec-21		Mar-21		Jul-19		Dec-20	Dec-20
Originators	**Hellenic Bank and Cyprus Co-operative Bank**		Bank of Cyprus pcl		Multiple		KKR		Alba Leasing Release Banco BPM	UCG Leasing
Master servicer	**APS Debt Servicing**		Themis		Victoria and Redwood		Hipoges		Prelios	Italfondiario
Special servicer					RTA and Redwood				Prelios	doValue
General portfolio attributes										
Gross book value (EUR m)	1,145.4	-	1,970.9	-	678.4	-	480.7	-	335	1,583
Number of borrowers	3,982	-	6,016	-	1,636	-	2,793	-	668	2,335
Number of loans	9,793	-	36,861	-	3,634	-	2688	-	939	3,006
WA seasoning (years)	7.5	-	6.6	-	10.9	-	5.82	-	5.8	5.8
WA seasoning (years) - unsecured portfolio	7.9	-	7.7	-	11.2	-	5.69	-	6.2	7.0
WA LTV buckets (% of secured portfolio)										
bucket [0-25]	2.1	-	1.6	-	0.2	-	0.6	-	0.2	0.3
bucket [25-50]	3.6	-	5.4	-	1	-	0.9	-	2.1	2.5
bucket [50-75]	7.5	-	12.2	-	2.1	-	3.3	-	9.6	7.9
bucket [75-100]	5.0	-	10.2	-	4.2	-	6.9	-	10.6	14.4
bucket [100-125]	5.6	-	11.1	-	6.9	-	9.2	-	17.1	16.6
bucket [125-150]	4.6	-	7.2	-	10.6	-	11.6	-	9.9	14.7
bucket [150-175]	5.6	-	5.7	-	8.4	-	10.7	-	14	12.1
bucket [175-200]	5.2	-	6.4	-	8	-	9.9	-	6.2	7.4
bucket > 200	60.8	-	40.2	-	58.6	-	46.9	-	30.3	24
Cash in court (% of total GBV)	-	-	-	-	-	-	4.2	-	0.0	1.5
Loan types (% of total GBV)										
Secured first-lien	75	-	79.1	-	95.5	-	93.3	-	87.7	86.5
Secured junior-lien	8	-	4	-	4.5	-	3.5	-	0.0	0.0
Unsecured	17	-	16.9	-	0.0	-	3.1	-	12.3	13.5
Syndicated loans	0	-	0	-	2.2	-	0	-	2.6	7.1
Debtors (% of total GBV)										
Individuals	28	-	58.6	-	33.1	-	65.9	-	0.6	0.8
Corporates or SMEs	72	-	41.3	-	66.9	-	34.1	-	99.4	99.2
Procedure type (% of total GBV)										
Bankrupt	3	-	0	-	13.9	-	22	-	10.4	36.0
Non-bankrupt	97	-	100	-	86.1	-	78	-	89.6	64.0
Borrower concentration (% of total GBV)										
Top 10	14	-	8.7	-	16.4	-	6.8	-	26.8	9.3
Top 100	42	-	18.8	-	52.7	-	23	-	74.9	36.9
Collateral type (% of indexed appraisal val.)										
Residential	55	20	57.2	30.1	80.4	75.8	67.4	72.8	1.0	2.6
Commercial	25	39	17.7	30.9	13.7	12.9	26.1	23.4	46.0	56.4
Industrial	0	0	0	0			0	0	50.8	36.4
Land	20	41	25.1	38.9	5.7	11.1	6.5	3.8	1.0	1.2
Other or unknown	0	0	0	0	0	0	0	0	1.3	3.4
Valuation type (% of indexed appraisal val.)										
Full or drive-by	100	100	100	100	100	100	44.9	61.5	79.5	29.6
Desktop	0	0	0	0	0	0	55.1	38.5	18.3	68.1
CTU	0	0	0	0	0	0	0	0	0.0	0.0
Other	0	0	0	0	0	0	0	0	2.2	2.3
Secured ptf proc. stage (% of GBV)										
Initial	74	-	82.4	-	33.8	-	41	-	NA	NA
Intermediate/CTU	11	-	3.5	-	43.6	-	31	-	NA	NA
Auction	14	-	14.1	-	20.2	-	22	-	NA	NA
Distribution		-		-	2.4	-	6	-	NA	NA
Structural features										
Liquidity reserve (% of class A notes)	6		4.5		5%		4.5%			7.5
Class A Euribor cap strike			1%		0-0.5%		0.5%		0.05%-4.0%	0.5%-1.7%
Class A										
% of GBV (or pool value)	17.8		23		31.3		34.4		27.0	29.4
Credit enhancement	82.2		77		68.7		65.6		73.0	70.6
Class B										
% of GBV (or pool value)	8.9		N/A		3.2		6.1		4.47	5.75
Credit enhancement	73.3		N/A		65.5		59.5		68.5	64.8
Class C										
% of GBV (or pool value)	N/A		N/A		1.4		3			
Credit enhancement	N/A		N/A		64.1		56.5			
Rating										
Class A	(P) BBB		BBB		BBB+ (A1) / BBB- (A2)		BBB-		BBB	BBB
Class B	N/A		N/A		B-		B-		NR	NR
Class C	N/A		N/A		CCC		N/A			

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