New Issue Rating Report

POPOLARE BARI NPLS 2017 S.R.L.

Non-Performing Loans (NPL) Structured Finance

SCOPE Scope Ratings

www.scoperatings.com

RATINGS

Tranche	Rating	Size (EUR m)	Tranche thickness (%)	Credit enhancement (CE) (%)[1]	Coupon	Final maturity
Class A	BBB_{SF}	80.9	77.5	74,7	6-months Euribor+0.3%	October 2037
Class B	$B+_{SF}$	10.1	9.6	71,6	6-months Euribor+6.0%	October 2037
Class J	Not rated	13.45	12.9	67.3	6-months Euribor+10.0%	October 2037
Total		**104.45**	**100.0**			

Scope's Structured Finance ratings constitute an opinion on 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 and the risk to miss a payment under the respective guarantee agreement. See Scope's website for the SF Rating Definitions.

[1]CE is computed as a percentage of the non-performing-loan portfolio's gross book value. It is provided by both a 68% purchase price discount and the principal subordination of the mezzanine and junior tranches.

Transaction details

Purpose	Risk transfer
Issuer	Popolare Bari NPLs 2017 S.r.l.
Originators	Banca Popolare di Bari S.c.p.a. (BPB), Cassa di Risparmio di Orvieto S.p.A. (CRO)
Servicer	Prelios Credit Servicing S.p.A. (PRECS)
Monitoring agent	Zenith Service S.p.A. (Zenith)
Asset class	NPL structured finance transaction
Reference assets	EUR 319.9 million of gross book value
Account bank and paying agent	BNP Paribas Securities Services
Hedge provider	JP Morgan AG
Closing date	5 December 2017
Legal final maturity	October 2037
Payment frequency	Semi-annual
Payment dates	Last day of April and October each year

Transaction profile

Popolare Bari NPLs 2017 is a static cash securitisation of secured (56% of gross book value) and unsecured (44%) non-performing loans (NPLs) extended to borrowers in Italy. The loans were originated by Banca Popolare di Bari S.c.p.a. (around 95%) and Cassa di Risparmio di Orvieto S.p.A. (around 5%), which both belong to the Banca Popolare di Bari banking group, and were extended to companies (88.9%) and individuals (11.1%). The portfolio is highly concentrated: the top-10 and top-100 borrowers respectively account for 28.2% and 69.0% of gross book value (GBV). The Secured loans are backed mainly by first-lien residential, commercial and industrial properties and are concentrated in the Italian regions of Abruzzo (33.1% of property values) and Puglia (13.0%).

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Rating rationale (summary)

The ratings are chiefly driven by Scope's recovery amount and timing assumptions for the NPL portfolio, which was acquired by the issuer at a 68% discount relative to the portfolio's GBV. The assumptions incorporate Scope's positive assessment of the special servicer's capabilities and incentives. The assumptions also reflect Scope´s stable economic outlook on Italy and the macroeconomic situation characterised by a gradual recovery and progress in delivering structural reforms. The ratings are supported by the structural protection provided by sequential principal amortisation, the absence of equity leakage provisions, liquidity protection for class A, and interest rate hedging agreements. The ratings also take into account the trigger which can subordinate Class B interest to Class A principal.

The ratings also address exposures to the key transaction counterparties: PRECS, the servicer which is covering both the special servicing and master servicer activities; Securitisation Services S.p.A, which acts as inter alia calculation agent and representative of noteholders; Zenith Service S.p.A, the monitoring agent; BNP Paribas Securities Services (a subsidiary of BNP Paribas SA, rated AA-/S-1 Stable by Scope), which acts as account bank, agent bank, cash manager and principal paying agent; and JP Morgan AG, the interest rate cap provider.

Scope's analysis is based on the portfolio cut-off date of 31 March 2017. The portfolio was acquired by the issuer on 16 November 2017, the asset transfer date. However, the issuer is entitled to all portfolio collections received from the cut-off date onwards. Such collections amounted to EUR 8.1 million as of 16 November 2017.

Scope applied a separate analytical framework to estimate collections on secured and unsecured exposures. For secured exposures, collections were based mostly on collateral values; recovery timing assumptions were derived using line-by-line

information that details the type of legal proceeding and the stage of recovery at the cut-off date. For unsecured exposures, Scope used recovery vintage data calibrated to take into account the fact that unsecured borrowers were classified as defaulted for an average of 6.0 years as of closing.

RATING DRIVERS AND MITIGANTS

Positive rating drivers	Negative rating drivers
Portfolio servicing. The fee structure aligns the servicer's incentives with investors' interests. PRECS has a solid track record of servicing non-performing portfolios. The monitoring agent will assist the issuer in finding a suitable replacement in the event of a servicer disruption. The special servicer has provided a line-by-line business plan at closing, detailing the expected collections and legal expenses for each loan.	**Seasoned unsecured portfolio. The** weighted average time since the default date is around 6.0 years for the unsecured portion. Historical data shows that most recoveries are received in the first years after a default and Scope took this into consideration when estimating the potential recoveries for the unsecured loans.
Ongoing economic recovery. Italian GDP increased moderately in 2016, with a yearly growth rate of 1% compared to 0.7% in 2015. Recent indicators point to an ongoing, yet gradual, recovery with a growth rate of around 1.5% as per Q3 2017. Scope expects moderate economic expansion of around 1% to continue in 2018, which positively affects expectations regarding the amount and timing of portfolio recoveries.	**Concentrated portfolio.** The top-10 and top-100 debtors respectively account for 28.2% and 69.0% the portfolio's GBV. Scope has captured the resulting idiosyncratic risk by reducing recovery assumptions for the top-10 borrowers.
Senior notes' liquidity protection. A 4% cash reserve provides liquidity to senior noteholders, covering senior fees and interest on Class A notes for two to three payment dates.	**Asset location.** Around 71.3% of loan collateral and 66.7% of unsecured borrowers are located in regions from the south of Italy. In general the south of Italy has a less dynamic economy than northern or central Italy and many of the slowest tribunals can be found in the South, although there are exceptions. Scope has captured this situation by applying security value haircuts and deriving granular assumptions regarding the time it takes to complete a foreclosure or bankruptcy for different courts in Italy.
Legal reforms. Scope expects that recent legal reforms will have a positive impact on court performance and has applied a limited stress on recovery timing assumptions derived from public data.	**High loan-to-value (LTV) ratios.** For many of the secured loans the current outstanding loan balance is significantly higher than the updated appraisal value of the property backing the loan leading to an estimated weighted average (WA) LTV[1] of around 172% for the secured positions. Scope has reflected this risk in its recovery assumption for the secured positions as it is based on the updated property value, or mortgage inscription value if lower.
Relatively high portion of foreclosure proceedings. Around 49.5% of the portfolio's GBV corresponds to borrowers in a foreclosure proceeding while bankruptcy proceedings represent around 46.5% of the portfolio's GBV and the remainder are out-of-court proceedings. Compared with bankruptcies, foreclosure proceedings typically result in higher recoveries and take less time to be resolved.	
Extensive servicer-repossession data. Assessing price decline expectations for Italian NPLs is challenging because of asset heterogeneity and limited data. Scope has derived fire-sale discount assumptions based on auction assignment values using a sample of more than 10,000 positions.	

[1] This is measured as gross book value to updated collateral appraisal value

Positive rating drivers	Negative rating drivers
Servicer outperformance. The servicer's consistent outperformance of its initial business plan in terms of recovery rates and timing could positively impact the ratings.	**Collateral appraisal values.** NPL collateral appraisals are more uncertain relative to standard appraisals, because repossessed assets are more likely to deteriorate. If the sales proceeds from the collateral is significantly lower than the appraisal values it could negatively impact the ratings.
	Ineffectiveness of legal reforms. The ratings could be downgraded if recent legal reforms prove unsuccessful and recovery timings deteriorate.
	Interest rate cap. A 0.1% cap interest rate swap partially hedges the transaction against interest rate risks. Delayed recovery causing the swap notional to fall below the outstanding principal of the rated notes would negatively affect the ratings if the 6-month EURIBOR rate at that point in time is above the cap rate.

Related reports

General Structured Finance Instruments Rating Methodology

Methodology for Counterparty Risk in Structured Finance

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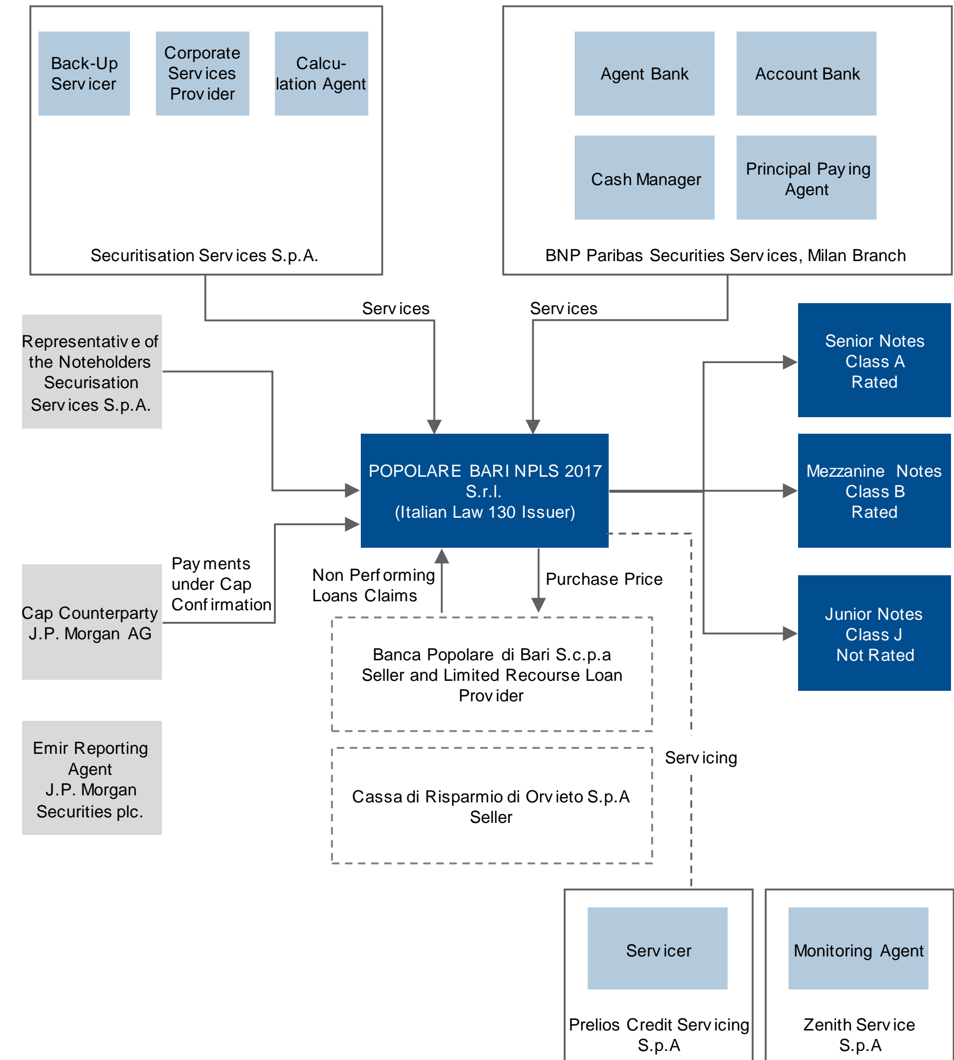
TRANSACTION SUMMARY

Figure 1 Simplified transaction diagram



Source: Transaction documents

Popolare Bari NPLS 2017 is a static cash securitisation of a EUR 319.9 million (including collections and cash in court) portfolio of Italian non-performing loans, originated by BPB and CRO, both belonging to the Banca Popolare di Bari banking group.

The main portfolio characteristics are highlighted in Figure 2 below. The portfolio's loans are either secured (56%) or unsecured (44%) and granted mainly to Italian companies. Around 63% of the loans are located in southern Italy, which we regard as negative given the economic weakness of South of Italy compared to the North or Centre of Italy. In addition, borrower concentration levels in the portfolio are significant, with the largest borrower and the top ten borrowers representing respectively 4.3% and 28.2% of the portfolio's GBV. A positive feature is that a larger part of the loans in the portfolio is subject to a foreclosure process, 49.5% of the GBV, than the part subject to a bankruptcy process, 46.5% GBV, and the remaining 4% of the GBV are out-of-court proceedings.

The secured exposures are backed mainly by residential, office or industrial properties. In addition, the portfolio benefits both from collections already collected from the portfolio and available for the Issuer at closing equal to around EUR 8.1 million and from some cash-in-court positions equal to less than EUR 1 million.

Figure 2 Key portfolio stratifications

Data summary as of pool cut-off date 31 March 2017

	All	Secured	Unsecured
Number of loans	4,292	382	3,910
GBV (EUR)	319,856,288	179,289,994	140,566,294
% of GBV	100%	56%	44%
WA seasoning	4.5	3.3	6.0
Borrower type			
Corporate	88.9%	91.0%	86.3%
Individual	11.1%	9.0%	13.7%
Procedure			
Bankruptcy	46.5%	29.2%	68.7%
Foreclosure	49.5%	63.8%	31.3%
Out-of-court	3.9%	7.0%	0.0%
Stage of procedure (secured loans)			
Initial	28.9%	51.5%	0%
CTU	7.4%	13.3%	0%
Auction	13.8%	24.7%	0%
Distribution	2.0%	3.5%	0%
Out-of-court	3.9%	7.0%	0%
Unsecured	43.9%	0%	100%
Seasoning	4.5	3.3	6.0
Geography			
Abruzzo	23.3%	33.1%	11%
Puglia	20.4%	13.0%	28%
North	11.9%	9.4%	15.1%
Center	18.9%	19.2%	18.4%
South (excl Abruzzo & Puglia)	25.6%	25.2%	27.7%
WA LTV	172%	172%	0%

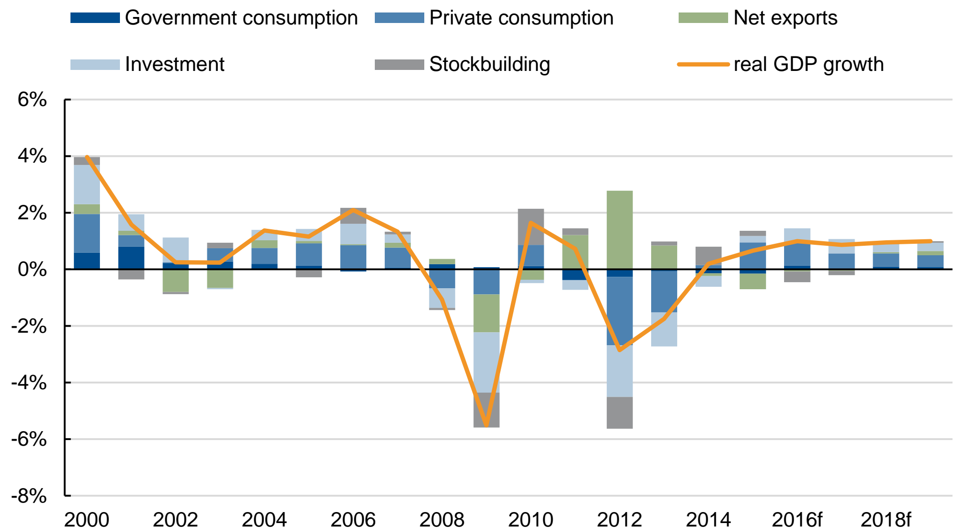
Source: PRECS, Scope Ratings

ASSET ANALYSIS

Macroeconomic environment: a gradual recovery is underway

Scope's view on the Italian economy positively affects expectations on the amount and timing of portfolio recoveries. Scope's outlook on Italy is stable and reflects that even though the risks faced by Italy remain significant, options are available for authorities for a timely adjustment.

Figure 3 Percentage point contribution to real GDP growth



Source: National statistical accounts, calculations Scope Ratings

Italian GDP increased moderately in 2016, with a yearly growth rate of 1% compared to 0.7% in 2015. Recent indicators point to an ongoing, yet gradual, recovery with a real GDP growth rate as per the third quarter 2017 of around 1.5%. Scope expects moderate economic expansion of around 1% to continue in 2018.

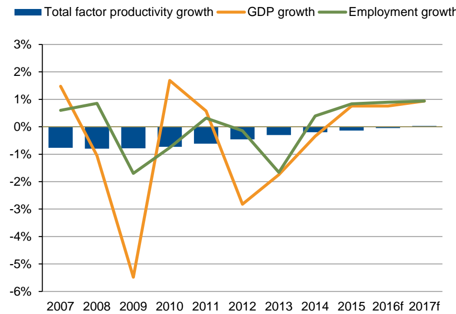
Subdued energy and interest rate costs, as well as the rise in real wages, are likely to continue to support private consumption and business investment. This trend began in 2014 as the Italian economy emerged from recession. From 2011 until 2013 the negative impact of the euro crisis, followed by front-loaded fiscal consolidation, largely outbalanced international trade surpluses.

Italy's production capacity fell in the aftermath of the global financial crisis. However, the country's manufacturing sector output grew by more than three percentage points during 2014-2017, supporting economic recovery and underscoring the country's role as the second-largest manufacturing power in Europe and the seventh worldwide. Over the last several years, increases in export values have tended to outbalance volume growth, leading to an ongoing rise in value added to Italian exports.

Ongoing economic recovery affects performance expectations positively

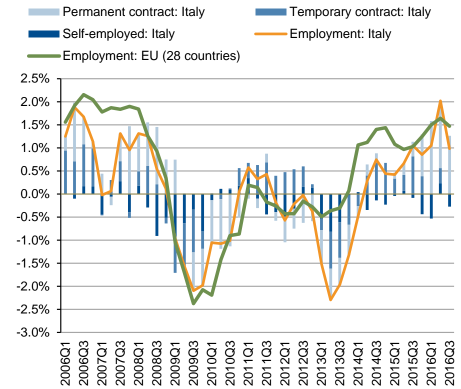
Government consumption is likely to remain subdued due to a lack of fiscal spending room. In addition, new political uncertainties, as well as ongoing challenges for the banking sector, will weaken the sustainability of the recovery. Nonetheless, Italy's competitive manufacturing sector is likely to continue to benefit from the improving growth outlook for the euro area and Italy's main trading partners, thus stabilising growth contribution from foreign trade.

Figure 4 GDP, productivity and employment growth



Source: OECD

Figure 5 Contribution (in % points) to Italy's employment growth

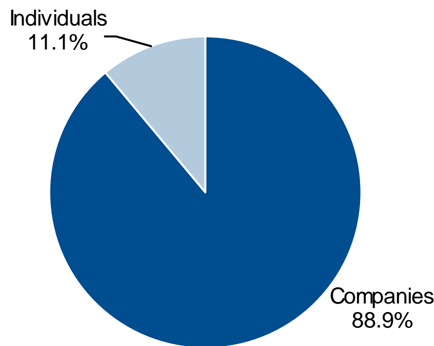


Source: Eurostat, calculations Scope Ratings

Portfolio characteristics

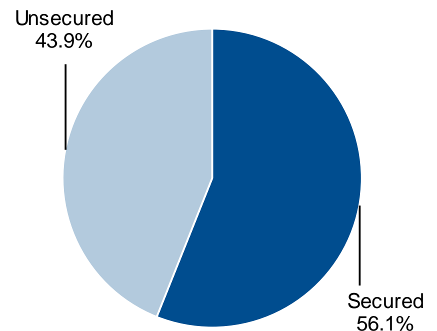
The charts below summarise the main portfolio characteristics as of 31 March 2017 and incorporate Scope's analytical assumptions. Further analytical details are provided in the 'Portfolio Analysis' section. Percentage figures refer to gross book value, unless otherwise stated.

Figure 6 Borrower type



Source: Data tape from PRECS, Scope Ratings made the calculations

Figure 7 Loan type



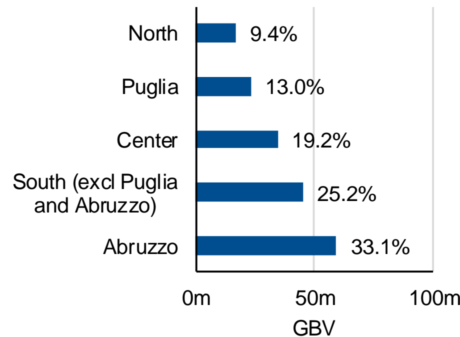
Source: Data tape from PRECS, Scope Ratings made the calculations

Secured loans granted to companies constitute the largest portfolio segment

The pool's 4,292 loans are granted to 1,476 borrowers. Corporates and individuals represent 88.9% and 11.1% of the pool respectively. Slightly more than half of the loans are secured (56.1%), with the remainder being unsecured.

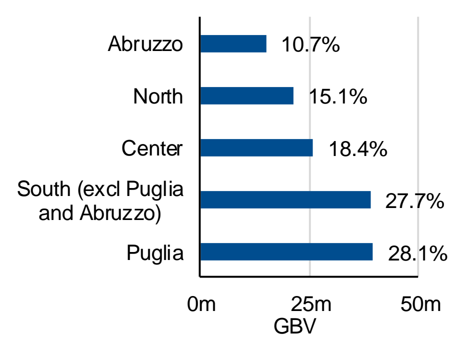
Scope's recovery assumptions for secured exposures take into account the location and type of the collateral, while recovery rates for unsecured exposures consider the nature of the recovery procedure, which is typically a foreclosure process for individuals and either a bankruptcy process or a foreclosure process for corporate borrowers.

Figure 8 Collateral location



Source: Data tape from PRECS, Scope Ratings made the calculations

Figure 9 Unsecured borrower's location



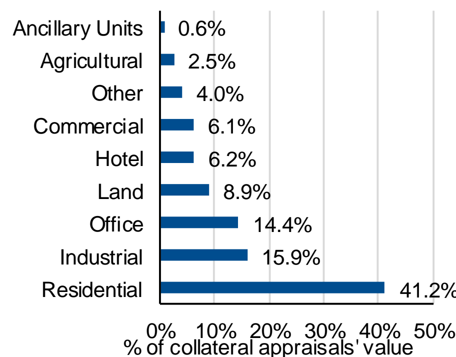
Source: Data tape from PRECS, Scope Ratings made the calculations

Scope views as credit-negative that the portfolio is tilted towards the south

The portfolio's collateral is located mainly in the two southern regions of Abruzzo (33.1%) and Puglia (13.0%) and other regions located in the South of Italy. The total concentration to the South of Italy, also including Abruzzo and Puglia is 71.3% (figure 8).

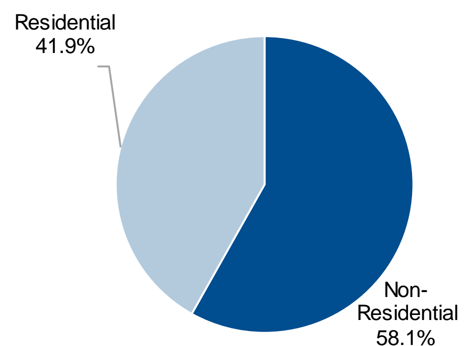
The unsecured exposures are more concentrated in Puglia and Abruzzo with a total exposure to south of Italy (including Puglia and Abruzzo) of 66.5% (figure 9). We view it as negative that both the concentration of both the secured and unsecured loans is tilted towards south of Italy as: (i) in general the economic climate is less dynamic than in the north and centre of Italy and (ii) the time it takes for a court to process a foreclosure or bankruptcy generally, although exceptions exist, takes longer in the south than in the north or centre of Italy.

Figure 10 Distribution by type of collateral



Source: Data tape from PRECS, Scope Ratings made the calculations

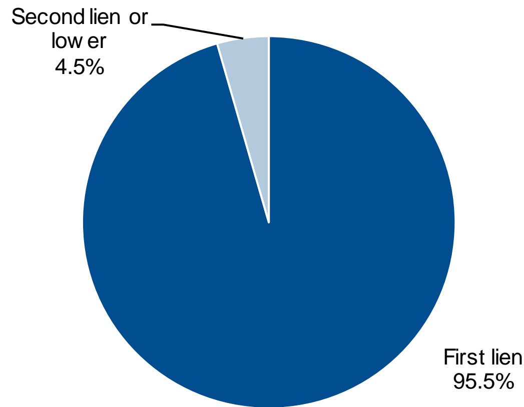
Figure 11 Simplified distribution by type of collateral



Source: Scope Ratings

The servicer has clustered the collateral types in 9 groups (figure 10), which we have grouped into two main categories for the purpose of our analysis: residential and non-residential (figure 11). We have applied distinct recovery rate assumptions for the loans backed by collateral within each of these two categories (see Appendix I).

Figure 12 Mortgage liens (% of appraisal's value)

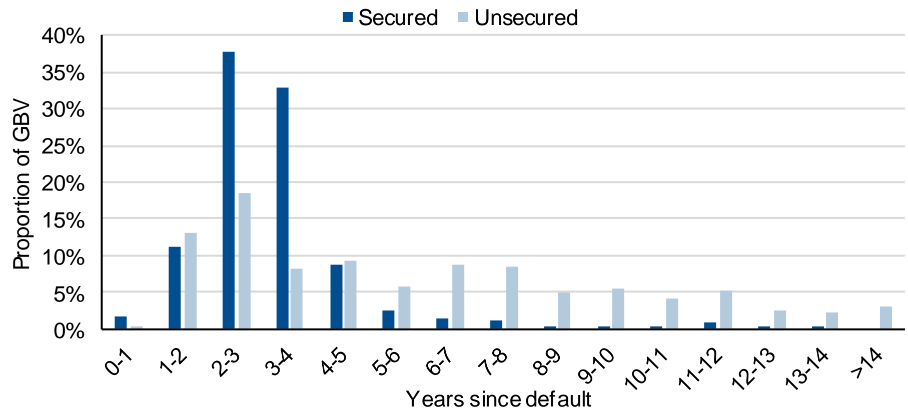


Source: Data tape from PRECS, Scope Ratings made the calculations

Noteholders should benefit from most of the secured loans being first-lien

Most of the secured loans have first-lien collateral attached. We have treated second-lien and more junior collateral as unsecured.

Figure 13 Portfolio distribution by seasoning since default

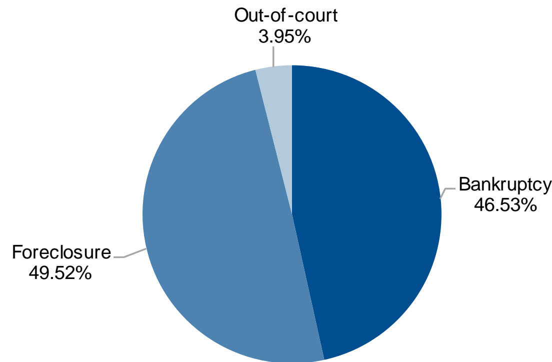


Source: Data tape from PRECS, Scope Ratings made the calculations

Pool's ageing significantly reduces expectations of unsecured recoveries

The weighted average time since the default date is around 6.0 years for unsecured exposures and 3.3 years for secured. The pool's ageing reduces expectations of unsecured recoveries significantly, since most recoveries are generally concentrated in the earlier years after the default.

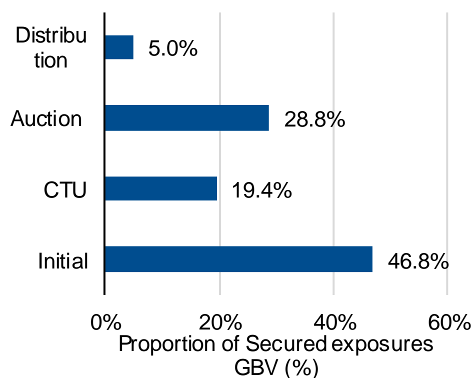
Figure 14 Simplified distribution by type of recovery procedures



Source: Data tape from PRECS, Scope Ratings made the calculations

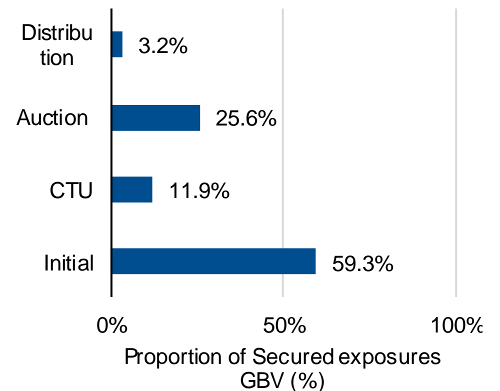
For secured positions recovery timing assumptions of are impacted by the type of recovery process, where bankruptcy proceedings take significantly longer than foreclosure proceedings. In Figure 14 we have mapped the type of process into three main categories: bankruptcy, foreclosure and out-of-court. Given the relatively long time it takes to go through a judicial process in Italy the process is generally split up in different sub steps in order to get a more granular estimate of the remaining time depending also in which sub-step of the process each secured position currently is.

Figure 15 Stage of bankruptcy procedures



Source: Data tape from PRECS, Scope Ratings made the calculations

Figure 16 Stage of foreclosure procedures

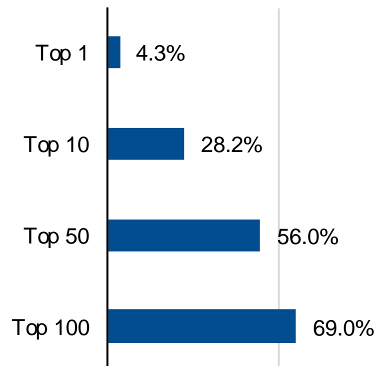


Source: Data tape from PRECS, Scope Ratings made the calculations

The stage of the recovery process impacts timing assumptions for secured exposures

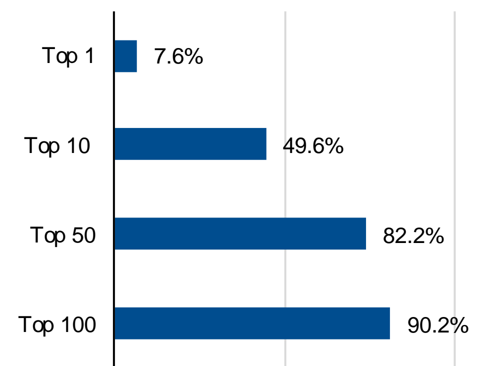
Figures 15 and 16 illustrates that both for the loans in the bankruptcy process and the ones in the foreclosure process the largest part of the loans is still in the initial phase of the respective processes. Our recovery timing assumptions for secured exposures consider in which stage the loan currently is with a shorter recovery lag for loans that have passed the initial phases.

Figure 17 Borrower concentration



Source: Data tape from PRECS, Scope Ratings made the calculations

Figure 18 Borrower concentration, secured positions



Source: Data tape from PRECS, Scope Ratings made the calculations

A 10% recovery haircut on the top 10 exposures captures Idiosyncratic risk

The portfolio is significantly concentrated (figures 17 and 18) to the largest borrowers. As Figure 18 shows the borrower concentration is particularly high for the secured positions. To account for idiosyncratic risk of concentrated exposures, we have applied an additional BBB rating conditional recovery rate haircut of 10% on the 10 largest exposures.

Portfolio eligibility criteria

The main eligibility criteria for the selection of the securitised portfolio are:

- All loans are denominated in euros;
- All loans agreements are governed by Italian law;
- All borrowers are reported by the originator as defaulted (in sofferenza) to the Italian Credit Bureau (Centrale Rischi) of the Bank of Italy as of 31 March 2017 and the first time the borrower was reported as defaulted (in sofferenza) was between 1 December 2000 and 31 October 2016
- The borrowers are (i) individuals resident or domiciled in Italy; or (ii) entities incorporated under Italian law with a registered office in the country;
- Secured loans are backed by a mortgage over real estate assets located in Italy;
- The borrowers are not employees, managers or directors of any of the bank members of the Banca Popolare di Bari Banking Group;
- No exposure is larger than EUR 13,700,000 for the part of the pool sold by BPB and EUR 1,300,000 for the part of the pool sold by CRO.

Portfolio analysis

Scope's view on the special servicer's capabilities is credit-positive

We derived the expected amount and timing of recoveries by analysing the portfolio line-by-line. Secured and unsecured exposures were assessed using different analytical frameworks. Our assumptions are based on our view on Italian macroeconomic and real estate fundamentals and on servicer historical performance data. We have also taken into account the servicer's business plan.

For secured exposures, Scope's recovery amount assumptions are based mainly on our assessment of collateral appraisal values. The starting point for the recovery timing assumptions is the data, published by the Ministry of Justice, regarding the time it takes to process a foreclosure or bankruptcy in each court. The actual recovery timing assumption for each loan is then adjusted based on the line-by-line information on borrower status as well as the stage of recovery at the cut-off date.

For unsecured exposures, recovery amount and timing assumptions are based on recovery vintage data on a representative sample of loans provided by PRECS and benchmarked

with other data sources. Our assumptions are calibrated to take into account that unsecured borrowers in the portfolio are classified as having defaulted for an average of 6.0 years as of cut-off date.

Recovery assumptions for the Class B reflect our performance expectations under a base case scenario. Assumptions for the Class A reflect capture increasing levels of performance stress commensurate with a BBB rating conditional level.

Expected amount of recoveries

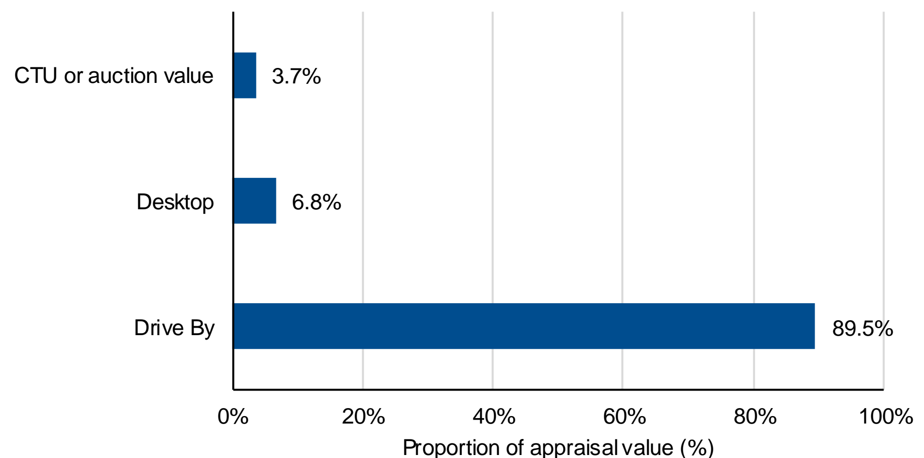
Exposures secured by first-lien mortgages

We have classified as secured the gross book value of borrowers with at least one loan guaranteed by a first-lien mortgage.

The recovery amount assumed for each collateralised position is the minimum among i) the loan's gross book value, ii) the nominal mortgage value, and iii) Scope's property value assumptions as of the estimated liquidation date. The latter typically drives the level of recovery. However, if the liquidation of the collateral is insufficient to repay the outstanding gross book value, we have assumed that the issuer may benefit from further unsecured recoveries.

We generally estimate the property values based on a fundamental collateral-valuation approach, which is a function of i) the credit given to collateral appraisal values, ii) collateral value indexation, and iii) Scope's security value haircut (SVH) assumptions.

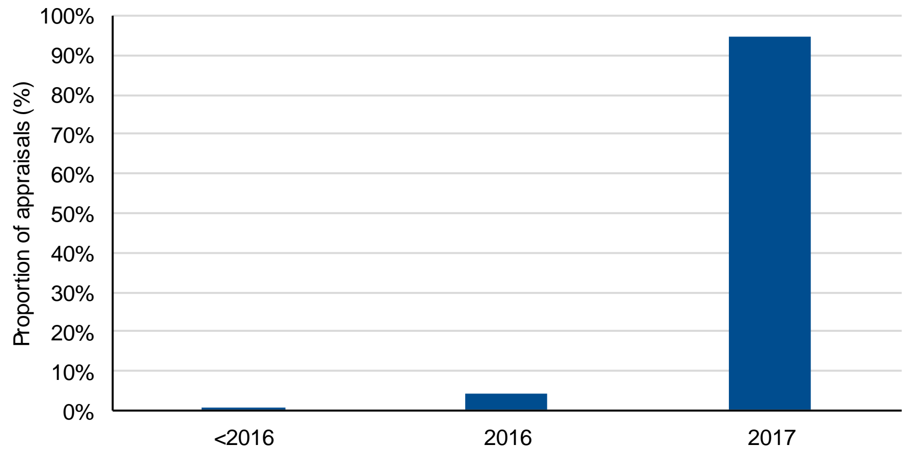
Figure 19 Valuation type (% of first-lien's appraisal value)



Source: Data tape from PRECS, Scope Ratings made the calculations

As illustrated by figure 19 almost 90% of the property appraisals are Drive-by valuations done by an independent third party and less than 7% being desktop valuations made by an independent third party. The CTU valuations are done by an expert appointed by the court in order to have an indication for setting the minimum selling price in the first auction. Given that the proportion of different valuation types in the repossession data we derived out property value haircuts was quite similar to the valuation types in the pool (figure 19) we did not apply a specific appraisal type haircut as it is already considered in seizing for the fire sale discount (as further explained below).

Figure 20 Property appraisal dates



Source: Data tape from PRECS, Scope Ratings made the calculations

No adjustment for type of appraisal or index adjustment was deemed to be necessary

Figure 20 shows that the lion's share of the appraisals have been done in 2017, which means that on average the appraisals have been done less than 1 year ago. We have therefore not applied any indexation adjustment to the appraisal values.

Given that it was not necessary to adjust the property appraisal values for the type of apprasail or do any index adjustment our analysis has focussed on the security value haircut assumptions and its components. Appendix I provides a more detailed description on how we have derived the security value haircut assumptions for different rating scenarios.

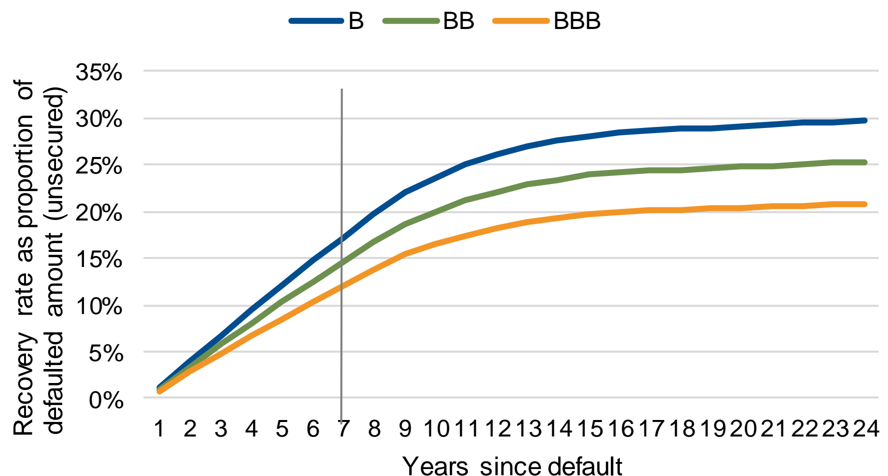
Unsecured exposures

For unsecured positions the assumptions for the amounts of recoveries and their timing has been based on historical vintage data for similar unsecured defaulted loans received from PRECS and benchmarking with other data sources.

Portfolio seasoning negatively impacts Scope's unsecured recovery expectations

As evidenced by different data sources the main factor affecting the recovery rates of unsecured exposures is the date of default. The longer the period since default was declared, the lower the expected residual recoveries. Given that on average 6 years has elapsed since the unsecured loans in the pool were declared as defaulted Scope had to reflect this in its analytical assumptions.

Figure 21 Cumulative recovery rates for similar unsecured loans



Source: PRECS, Scope Ratings

Figure 21 shows the cumulative recovery rates for similar unsecured loans as those in the pool over a 24 years long time horizon in different rating scenarios. The B scenario is the base case and to reach the BB scenario a 15% haircut is applied while the BBB scenario entails a 30% haircut compared to the base case scenario.

As a significant time has already passed since the unsecured loans in the pool defaulted we have only considered the potential recoveries to the right of the vertical line in figure 21 when deriving the recovery rate assumption for the unsecured positions in the pool. Considering the time elapsed since the default our lifetime recovery rate assumption for unsecured positions are therefore on average around 19.7% for the B rating scenario and 13.8% in the BBB scenario.

Scope has considered collections available at closing and cash in court positions

Collections available at closing

As per 16 November 2017 around EUR 8 million has already been collected on the positions in the pool. These collections are transferred to the issuer at closing and can be used to redeem the notes (or pay other items in the waterfall) on the first payment date in April 2018.

Cash-in-court positions

We have given credit to the less than EUR 1 million of cash-in-court positions, equivalent to less than 0.3% of gross book value. Cash-in-court positions are defined as secured exposures for which the security has already been executed (e.g. the property was sold at auction) but the recovery proceeds still remain with the relevant court, waiting for distribution among creditors.

The collected amounts will be paid by the relevant court to the originators because since the legal procedure on those claims has been closed, the issuer cannot be admitted as a party in the legal procedure. The originators must undertake to transfer these sums to the issuer as soon as they are made available.

In addition to the above, if the transfer of the receivables is made before the cash-in-court amounts are distributed (piano di riparto), the transfer is notified to the administrator of the procedure so that the details of the issuer can be included in the relevant distribution plan. The originators have the obligation to immediately transfer the relevant sums to the issuer.

Concentrated positions

The top 10 borrower positions account for 28.2% of the portfolio’s gross book value. To address the idiosyncratic risk of these positions we have applied additional recovery rating-conditional haircuts of 5% and 10%, in a BB and BBB scenario respectively. We have used these haircuts giving partial credit to the servicer business plan, which is focused on maximising recoveries on large exposures.

Expected timing of recoveries

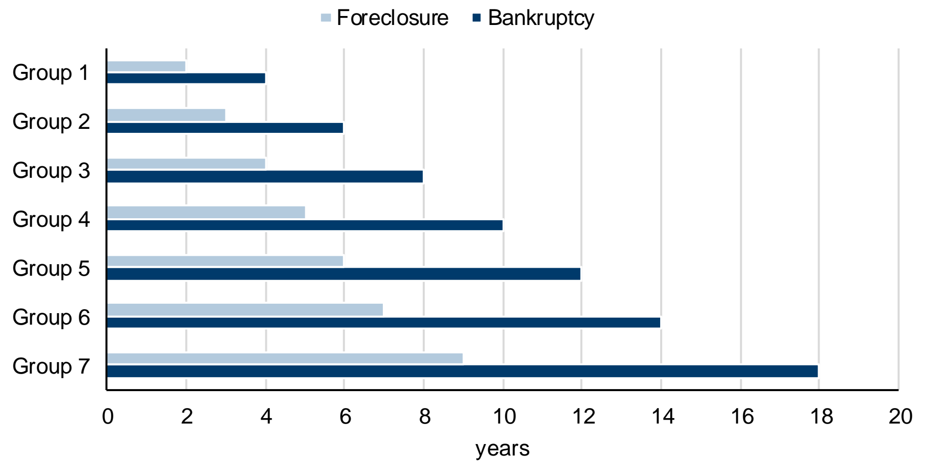
Secured exposures (first-lien mortgage-secured borrowers)

We have derived base case recovery timing assumptions based on official data from the Ministry of Justice for the years 2015 to 2016. Such records provide the average total length of foreclosure and bankruptcy procedures by court for all 140 main courts in Italy. In general a foreclosure procedure takes lightly more than half the time it takes to go through a bankruptcy procedure as the average time for a foreclosure process in 2016 was around 3.7 years while the average time for a bankruptcy process was around 7 years in 2016.

The dispersion between different courts is also significant, with the courts in the north generally, but not always, being faster than the courts in the south of Italy. As an example, the time to go through a bankruptcy process can be 4 – 5 years in the faster courts while in the slowest ones it can take three to four times as long.

We have grouped the different courts in 8 different buckets depending on the average time observed for foreclosures and bankruptcies in the Ministry of Justice data for 2015 and 2016 (figure 22).

Figure 22 Base case recovery timing assumptions from Ministry of Justice Data



Source: Ministry of Justice, calculations Scope

For a BB rating scenario, we have added 0.5 years to the foreclosure time and 1 year to the time for bankruptcies while in a BBB rating scenario we have added respectively 1 year and 2 years compared to the base case scenario.

The servicer also provided Scope with their best estimate, based on their experience to date, on the relative length of each stage of the recovery. In order to consider the stage that each position currently is in Scope's line-by-line recovery timing assumptions also incorporate the adjustments to the recovery vectors shown in figures 23 and 24.

Figure 23 Bankruptcy recovery timing vector

Foreclosure procedures	Time remaining
Commence Process	100%
Obtain writ/deed and notice to borrower	95%
Second hearing/CTU	60%
Auction phase	40%
Proceeds released to court	2.5%

Source: Servicer's estimates

Figure 24 Foreclosure or non-bankruptcy

Bankruptcy procedures	Time remaining
Bankruptcy filling	100%
Liquidation plan	90%
CTU	40%
Auction phase	20%
Distribution to court	1.5%

Source: Servicer's estimates

Unsecured exposures

The recovery timing for unsecured exposures was assumed to follow the pattern observed in the vintage data.

Cash-in-court positions

Cash sitting in the courts will not always be subject to immediate distribution among creditors. The distribution timeframe range from six months to up to two years. In addition to the abovementioned assumptions for different processes and courts we have assumed that cash-in-court positions will be collected as of the end of the first year since closing.

ORIGINATOR AND SPECIAL SERVICER

Originators

The originators of the NPLs are BPB and CRO: both belonging to Banca Popolare di Bari Banking Group.

Banca Popolare di Bari Banking Group is a medium-size banking group which operates through more than 350 branches mainly located in the south of Italy. As per June 2017 the group had more than 3,100 employees and a loan portfolio of around EUR 10.2 billion.

Banca Popolare di Bari banking Group has grown over the years through a number of acquisitions, such as the majority stake in Cassa di Risparmio di Orvieto in 2009, as well as the Tercas group in 2014. The Tercas group was ultimately merged into BPB in 2016.

Servicer

Prelios Credit Servicing S.p.A. (PRECS), will act as servicer in the transaction and cover both the special servicing activities and the master servicing activities. PRECS is part of Prelios Group, is a leading platform of real estate finance and other services focussed on management and value enhancement of third parties' portfolios in Italy.

PRECS is a financial intermediary enrolled with the register held by Bank of Italy pursuant to article 106 and it can therefore also cover the master servicing activities. The origins of PRECS can be traced back to 1987 when Servizi Immobiliari Banche (SIB) was established in 1987 and later merged in to Pirelli RE Credit Servicing in 2005. Over the years the strategy has shifted from purchasing portfolios of NPLs to managing the existing portfolios and since 2013 the focus is in managing NPL portfolios for third parties.

They currently, as per June 2017, manage about EUR 8.3 billion of mainly secured NPL portfolios. PRECS does not acquire these portfolios, as their core business is to perform pro-active servicing activities with the aim of extracting as much value as possible from the distressed portfolios for a fee.

PRECS collaborates with a well-established real estate agent network

When servicing secured NPL portfolios PRECS benefit from the strong synergies with the Prelios Group and can rely on a well-established real estate agent network of about 450 agents covering all Italian regions. The members of the network have over the years gained a significant experience in how to facilitate the sales of real estate assets backing different NPL positions. In addition PRECS also have a network of around 400 external lawyers which covers all Italian courts.

The loan manager in PRECS is the responsible for finding the best recovery strategy for each single position by interacting with the legal network during the different phases of the judicial process and concurrently leveraging on the real estate network to formulate out-of-court solutions e.g. by voluntary disposals of the real estate assets.

FINANCIAL STRUCTURE

Capital structure

The liability structure features three principal and interest tranches: i) senior Class A notes; ii) mezzanine Class B notes; and iii) junior notes. Scope only rates the Class A and Class B notes.

The ratings address the subordination of class A principal to class B interest before the class B Subordination Event occurs

The Class B principal is fully subordinated to Class A, and junior notes are fully subordinated to classes A and B. However, class A principal is subordinated to class B interest payments as long as the class B Subordination Event has not occurred. At closing, the proceeds from the issuance of the notes were used to pay the portfolio at discount.

The Class A notes will pay semi-annual interest, referenced to 6-month EURIBOR, plus a constant margin of 0.3%. The Class B notes will pay 6-month EURIBOR plus a 6% margin. Interest is only accrued on the outstanding amount of each class of notes. The amount due on the junior notes will be 6-month EURIBOR plus a 10% margin and a variable return, depending on the available amounts on each collection date, but no interest or variable return will be paid before the Class B notes will be fully redeemed.

Liquidity protection

A cash reserve of around 4% of the outstanding balance on Class A notes will be funded at closing through a limited recourse loan provided by BPB.

The cash reserve provides liquidity protection to the class A noteholders

The cash reserve will amortise during the life of the transaction with no floor. The target amount of cash reserve at each payment date will be equal to 4% of the outstanding balance of Class A notes.

The cash reserve will be available to cover any shortfalls in the interest payments on the Class A notes as well as any items senior to them in the priority of payments.

Class B will not benefit from any liquidity protection.

Hedging agreements

On the asset side, 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 any defined interest rate. On the liability side, the issuer will pay a floating coupon on Class A and Class B notes, defined as 6-month Euribor plus a certain fixed margin.

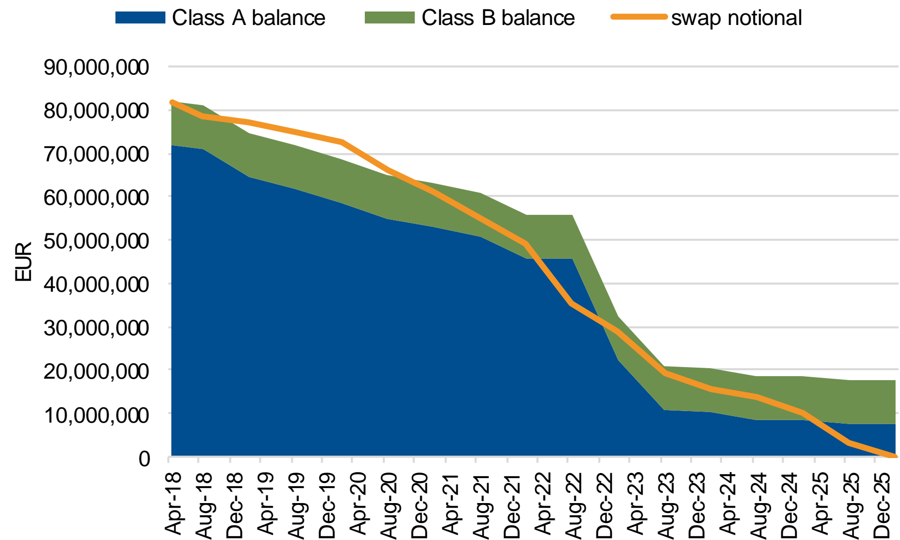
Interest rate risk is mitigated by an interest rate cap with a strike of 0.1%

An interest rate cap, with a strike equal to 0.1% partially mitigates the risk of increased liabilities on the notes due to a rise in Euribor levels. The swap counterparty is JP Morgan AG. We do not expect interest rate risk to be a material risk driver. However, if the rated notes amortise at a slower pace than the scheduled notional amount defined in the cap agreement, a portion of the outstanding notes would be unhedged.

Figure 25 shows the swap notional schedule against the outstanding balances on the notes, in Scope's BBB-rating-level stress.

The notional of the cap agreement will be the scheduled notional amount in each period.

Figure 25 Swap notional schedule vs. Scope's notes' amortisation scenarios



Sources: Transaction documents and Scope Ratings

Priority of payments

On each semi-annual payment date, the funds available to the issuer (i.e. collection amounts received from the portfolio, the cash reserve and payments received under the interest rate cap agreement) will be used in the following order of priority:

1. Senior fees (costs, taxes and expenses, fees due to the entities providing services to the issuer, such as the master servicer, special servicer, cash manager, etc.)
2. Interest on the limited recourse loan
3. Fees payable to the GACS guarantor in relation to the GACS guarantee
4. Recovery expenses reserve amount
5. Interest on Class A notes
6. Amounts due under the GACS guarantee (other than the amounts paid under item 3)
7. Cash reserve target amount
8. Principal on the limited recourse loan
9. Interest on Class B notes as long as the Subordination Event has not occurred
10. To use all remaining funds to redeem the Class A notes
11. Interest on Class B notes in case a Subordination Event has occurred
12. Once the Class A notes have been fully redeemed to pay principal on Class B notes until fully redeemed
13. Once the Class B notes have been fully redeemed to pay junior items

A **Subordination Event** occurs in case the Present Value Cumulative Profitability Ratio[2] on a payment date is lower than 90% or if the full amount of interest due on the Class A notes is not paid. The Subordination Event is curable

If, on any payment date, the servicer fails to produce the servicer report, the calculation agent will prepare a provisional payment report in which the cash reserve and the portfolio collections from the last payment date are earmarked as funds available to the issuer. These funds will be used to cover items 1 to 9 in the above order of priority (except for the master servicer and special servicer fees). The rest of the amounts due will be paid on the following payment date.

Upon occurrence of a trigger event (i.e. failure to pay interest due on the senior notes or any principal amount due and payable on the notes if there are enough funds available, a breach of obligations, insolvency, unlawfulness), the notes will come due and will be payable in the following accelerated order of priority:

1. Senior fees (costs, taxes and expenses, fees due to entities providing services to the issuer, such as the master servicer, special servicer, cash manager, etc.)
2. Interest on the limited recourse loan
3. Fees payable to the GACS guarantor in relation to the GACS guarantee
4. Recovery expenses reserve amount
5. Interest on Class A notes
6. Principal on the limited recourse loan
7. To use all remaining funds to redeem the Class A notes
8. Amounts due under the GACS guarantee (other than the amounts paid under item 3)
9. Interest on Class B notes
10. To use all remaining funds to redeem the Class B notes
11. Once the Class B notes have been fully redeemed to pay junior items

The servicing fee aligns the interests of the servicer and the noteholders

Alignment of interests

The servicing fee structure (see section servicing fees), which links the portfolio performance with the level of fees received by the servicer mitigates the potential conflict of interests between the servicer and noteholders. In case the servicer does not outperform in relation to the business plan, a part of the fees will be paid together with the principal on the Class B notes and another part together with the principal on the Class J notes depending the servicer performance compared to the business plan. With other words if the servicer's performance is only aligned with the business plan a part of servicing fees will be deferred. As the outperformance is measured on the Present Value Cumulative Profitability Ratio it constitutes an incentive for the special servicer to maximise recoveries on each single position and still to outperform the initial business plan.

The overview of the special servicer activities and master servicer activities and calculations by the monitoring agent mitigates operational risk as well as moral hazard that could negatively impact the interests of noteholders. This risk is further mitigated by the discretionary servicer termination event in cases of repeated underperformance of the servicer with respect to the business plan.

[2] **'Present Value Cumulative Profitability Ratio'** is defined, in relation to a Collection Period, as the ratio, calculated at the end of such collection period between (i) the sum of the current net values of the actual net collections of all receivables for which there has been an administrative closure of the debt Position from the entitlement date until the end of such collection period and (ii) the sum of the current net value of the expected net collections of the same receivables. The amounts referred to above will be determined using, for purposes of calculating the present value, the annual interest rate of 3.5%, as the present value date, the entitlement date, and as the discount/present value period, one year.

'Administrative closure of the debt position' is defined as the cancellation of the debt position in the special servicer's IT/computer system

Servicing structure

Under the servicing agreement, PRECS covers both the master servicing activities and the special servicing activities. Securitisation Services S.p.A. has been appointed as back-up servicer at closing and can step in and take over the master servicing activities within 45 business days if necessary.

The monitoring agent (Zenith) is responsible for overseeing the servicing activities. The monitoring agent will inter alia verify the calculations of key performance ratios, control the closing of positions and also perform controls based on random samples of loans.

The monitoring agent will report to a committee, which will represent the junior and mezzanine noteholders' interests. The committee will be entitled to authorise the revocation of the master servicer or the special servicer, and its replacement with another party, subject to the approval of the representative of noteholders. The committee will also be able to authorise the sale of the receivables, the closure of debt positions, as well as the payment of additional costs and expenses related to recovery activities.

Servicing fees

The servicer must outperform the business plan in order to receive all servicing fees senior in the waterfall

The special servicer will be entitled to a base fee, calculated at each payment date on the outstanding portfolio's gross book value and to a performance fee, calculated at each payment date on the period's collections net of legal costs (collectively, the servicing fees). It is the performance fee which constitutes the lion's share of the expected servicing fees in order to incentivise the servicer to work-out the NPLs and collect and not to only collect a base fee.

In addition to the performance fees, the following additional feature has been included to incentivise the servicer to exceed the business plan.

Payment deferral of servicing fees: If on any payment date the Present Value Cumulative Profitability Ratio is lower than 110%, a portion of the performance fees will be paid together with the principal on the Class B notes and another portion together with principal of the Class J notes. The lower the present value cumulative profitability ratio is the more of the performance fees will be paid together with the principal on the Class B and J notes. Given the fact that principal on the Class B notes only will be paid once the Class A notes have been fully redeemed and principal on Class J only once Class B will be fully redeemed the part of the performance fees which is subordinated is effectively deferred for a significant time through this mechanism.

Servicer termination events

Master servicer termination event: Insolvency, unremedied breach of obligations, unremedied breach of representation and warranties, no longer legally eligible to perform the obligations under the servicing agreement.

In any of these events, the master servicer will be replaced by the back-up servicer. If there is no back-up servicer in place, the monitoring agent will collaborate to find a suitable replacement.

Special servicer termination event: Insolvency, failure to pay due and available amounts to the issuer within two business days, failure to deliver or late delivery of a quarterly report, a half-yearly report or IT flaws, unremedied breach of obligations, unremedied breach of representation and warranties, no longer legally eligible to perform the obligations under the servicing agreement.

The monitoring agent will supervise the servicer's activities

Substitution of the special servicer due to underperformance: After 30 months since closing collection period, the Issuer will be entitled to replace the servicer in case inter alia the Present Value Profitability Ratio or the cumulative collection ratio falls below 90 for two consecutive semi-annual collections periods.

CASH FLOW ANALYSIS

Scope has analysed the specific cash flow characteristics of the transaction. Asset assumptions have been captured through rating-conditional gross recovery vectors. The analysis captures the capital structure, an estimate of legal costs based on the servicer's business plan, and senior fees of EUR 200,000 per annum. We have taken into account the

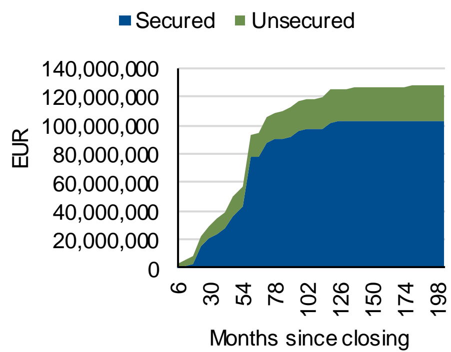
reference rate payable on the notes based on the 6-months Euribor forward curve, with a cap at 0.1% reflecting the strike price of the swap.

Figures 26 and 27 below depict Scope's future expected cumulative gross recovery cash flows, under the base case scenario and under the BBB rating level scenario. It should be noted that in these two figures the around EUR 8.7 million of collections that the Issuer has available at closing is not considered.

Gross recoveries

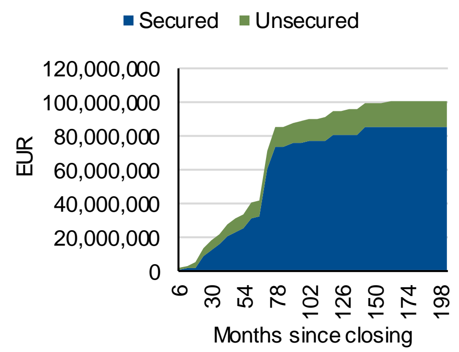
Scope has applied rating-conditional gross recovery assumptions

Figure 26 Base case gross recoveries



Source: Scope Ratings

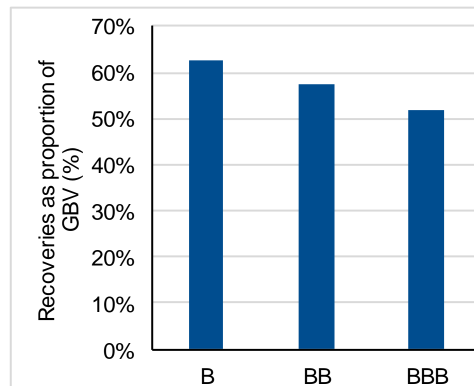
Figure 27 BBB scenario gross recoveries



Source: Scope Ratings

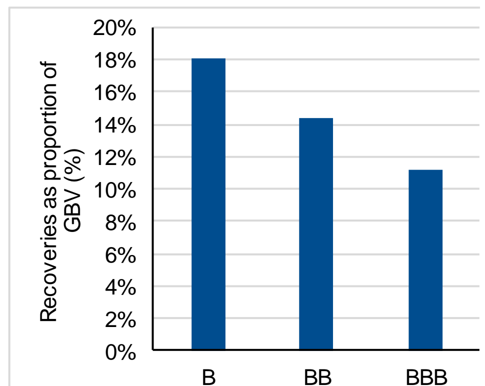
Figures 28 and 29 below summarise our lifetime gross recovery rate assumptions. The different levels of stress with regards to secured exposures are determined by our deterministic market-value-decline and borrower-concentration-haircut assumptions, as described on the Portfolio Analysis section. The different levels of stress with regards to the unsecured exposures are determined by the analysis on historical vintage data also described in that section.

Figure 28 Secured gross recovery assumptions



Source: Scope Ratings

Figure 29 Unsecured gross recovery assumptions



Source: Scope Ratings

RATING SENSITIVITY

Scope tested the resilience of the ratings against deviations from expected recovery rates and recovery timing. This analysis has the sole purpose of illustrating the sensitivity of the ratings to input assumptions and is not indicative of expected or likely scenarios.

The bonds' model output sensitivity to a decrease of secured and unsecured recovery rates by 10% at all ratings scenarios is three notches for both classes of notes.

The bonds' model output sensitivity to an increase of the recovery lag by two years is of three notches for both classes or notes.

SOVEREIGN RISK

Sovereign risk does not limit any of the ratings. The risks of an institutional framework meltdown, legal insecurity or currency convertibility problems, due to Italy's hypothetical exit from the eurozone, are not material for the notes' rating.

For more insight about Scope's fundamental analysis about the Italian economy please refer to our rating report on the Republic of Italy, dated 30 June 2017

COUNTERPARTY RISK

Counterparty risk does not limit the maximum ratings achievable

The transaction is exposed to counterparty risk from i) the two originators, regarding representation and warranties and regarding eventual payments that might be made by the borrowers, especially for the cash-in-court cases, ii) PRECS as the servicer, iii) Zenith Service, the monitoring agent, iv) JP Morgan AG, the interest rate cap counterparty, and v) BNP Paribas Securities Services, the account bank, agent bank, and paying agent. In Scope's view, none of these exposures limits the maximum ratings achievable by this transaction.

We analysed credit counterparty risk exposure to JP Morgan based on publicly available ratings. BNP Paribas Securities Services is a subsidiary of BNP Paribas SA, rated AA-/S-1 stable by Scope.

Servicer disruption risk

A servicer disruption event may have a negative impact on the performance of the transaction. The presence of the back-up servicer, which undertakes to step in and perform the master servicing activities in case of a servicer disruption, together with the undertaking of the monitoring agent to assist the issuer in finding a suitable replacement mitigate this risk.

Commingling risk

Commingling risk is limited as debtors will be instructed to pay directly on an account in the name of the issuer. In the limited cases where the servicer was to receive payments from a debtor, the servicer undertakes to transfer the amounts within two business days in case of having received a bank transfer, and within five business days if having received a cheque.

Claw-back risk

As of the date of execution of the transfer agreement, the originator will provide i) a good standing certificate from the Chamber of Commerce, ii) a solvency certificate signed by a representative duly authorized, and iii) a certificate of the bankruptcy court (tribunale civile – sezione fallimentare) confirming that the originator is not subject to any insolvency or similar proceedings (where available). This mitigates claw-back risk as the issuer should be able to prove that it was not aware of the originator being in a state of insolvency as of the transfer date.

Enforcement of representations and warranties

Indemnity against a breach of R&W is enforceable within a period of 24 months

The issuer will rely on the representations and warranties (R&W) given by the originators in the transfer agreement. If there is a breach of a representation and warranty which materially and adversely affects the value of a loan the issuer will request the originators to indemnify the issuer for the damages deriving from this. Upon receiving notification of the breach of representations and warranties the seller will need to indemnify the issuer within 10 business days.

Sovereign risk does not limit the transaction's ratings

However, the above-mentioned guarantee is enforceable by the issuer for a limited period of time (24 months). In addition, the total indemnity amount will be paid up to a maximum 30% of the purchase price for the pool, and will subject to a deductible of EUR 50,000 on a portfolio basis, and of EUR 1,000 on a single-loan basis.

LEGAL STRUCTURE

Legal framework

The transaction documents are governed by Italian law, while the interest cap agreement and deed of charge are governed by English law.

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

Use of legal opinions

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

MONITORING

Scope will monitor this transaction based on the performance reports as well as other public information. The ratings will be monitored continuously and reviewed at least twice a year, or earlier if warranted by events.

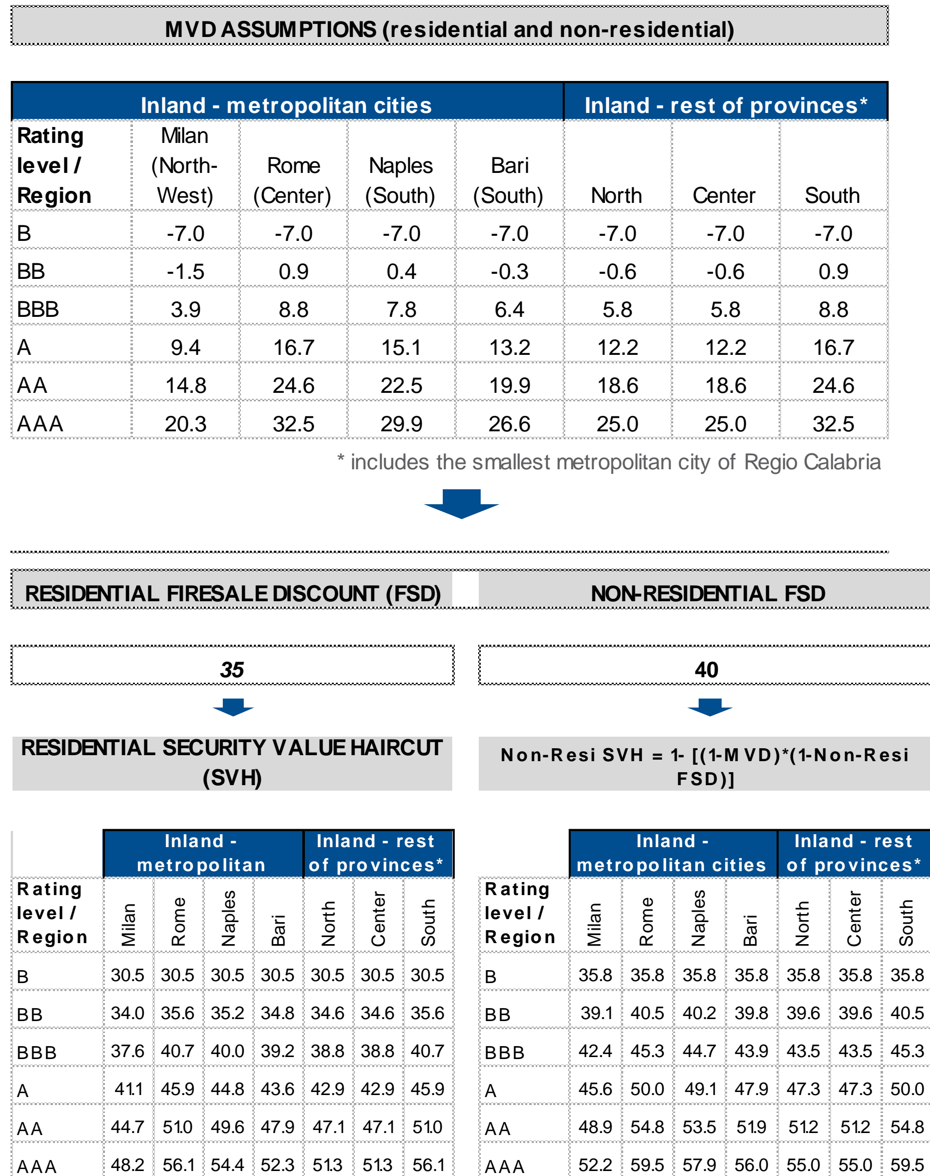
Scope analysts are available to discuss all the details of the rating analysis, the risks to which this transaction is exposed, and the ongoing monitoring of the transaction.

APPLIED METHODOLOGY AND DATA ADEQUACY

For the analysis of this transaction Scope applied its General Structured Finance Instruments Rating Methodology, and Methodology for Counterparty Risk in Structured Finance available on www.scoperatings.com.

APPENDIX I. TRANSACTION SPECIFIC MVD ASSUMPTIONS

Figure 30 Transaction-specific market-value-decline assumptions



MVD ASSUMPTIONS (residential and non-residential)

Rating level / Region	Inland - metropolitan cities				Inland - rest of provinces*		
	Milan (North-West)	Rome (Center)	Naples (South)	Bari (South)	North	Center	South
B	-7.0	-7.0	-7.0	-7.0	-7.0	-7.0	-7.0
BB	-1.5	0.9	0.4	-0.3	-0.6	-0.6	0.9
BBB	3.9	8.8	7.8	6.4	5.8	5.8	8.8
A	9.4	16.7	15.1	13.2	12.2	12.2	16.7
AA	14.8	24.6	22.5	19.9	18.6	18.6	24.6
AAA	20.3	32.5	29.9	26.6	25.0	25.0	32.5

* includes the smallest metropolitan city of Regio Calabria

RESIDENTIAL FIRESALE DISCOUNT (FSD): 35

NON-RESIDENTIAL FSD: 40

RESIDENTIAL SECURITY VALUE HAIRCUT (SVH)

Rating level / Region	Inland - metropolitan				Inland - rest of provinces*		
	Milan	Rome	Naples	Bari	North	Center	South
B	30.5	30.5	30.5	30.5	30.5	30.5	30.5
BB	34.0	35.6	35.2	34.8	34.6	34.6	35.6
BBB	37.6	40.7	40.0	39.2	38.8	38.8	40.7
A	41.1	45.9	44.8	43.6	42.9	42.9	45.9
AA	44.7	51.0	49.6	47.9	47.1	47.1	51.0
AAA	48.2	56.1	54.4	52.3	51.3	51.3	56.1

Non-Resi SVH = 1- [(1-MVD)*(1-Non-Resi FSD)]

Rating level / Region	Inland - metropolitan cities				Inland - rest of provinces*		
	Milan	Rome	Naples	Bari	North	Center	South
B	35.8	35.8	35.8	35.8	35.8	35.8	35.8
BB	39.1	40.5	40.2	39.8	39.6	39.6	40.5
BBB	42.4	45.3	44.7	43.9	43.5	43.5	45.3
A	45.6	50.0	49.1	47.9	47.3	47.3	50.0
AA	48.9	54.8	53.5	51.9	51.2	51.2	54.8
AAA	52.2	59.5	57.9	56.0	55.0	55.0	59.5

Figure 30 highlights the analytical process we have followed to determine our market-value-decline (MVD) assumptions and security value haircut (SVH) assumptions for the transaction's NPL portfolio.

Scope has determined real estate price expectations using a base case scenario. Based on different affordability measures, we believe that current real estate prices in Italy, in real terms, are at sustainable levels and that they will benefit from nominal appreciation in the mid term, in line with inflation expectations. We have assumed a 7% nominal price appreciation for the assets in the transaction, assuming an estimated average time to liquidation of about five to six years.

Scope has derived AAA real estate price index decline assumptions based on the observed volatility of deflated nominal house prices in different parts of Italy where the deflator used is the assumed sustainable growth rate. When sizing for the the sustainable growth rate used we have considered macro-regional real estate price drivers such as, economic strength and diversity, house price affordability, population growth or per capita purchasing power

To derive the MVD assumptions reported in figure 30 the next step is to calculate the mean and standard deviation for each deflated city or regional price index. The AAA MVD is calculated as the distance from the latest index value to two standard deviations from the historical mean value for each city or regional index. We derive intermediate rating stresses through linear interpolation between the B and the AAA MVD assumptions.

The next step in our analytical approach is to derive region- and sector-conditional fire sale discount assumptions. Fire sale discounts reflect our view that the properties are expected to be sold under non-standard market or distressed conditions due to several factors, such as asset deterioration or a lack of enough competition in the auction process.

The average level of fire sale discounts is mainly based on observations from a property database containing properties sold in an auction process provided by the servicer and the database covers more than 10,000 single positions. The database shows fire sale discounts of approximately 35% on average. For residential properties, a fire sale discount of 35% has been used while for commercial and industrial properties 40% has been used.

Security Value Haircuts (SVH) assumptions are derived based on the following equation:

$$SVH = 1-(1-MVD)*(1-\text{Firesale discount})$$

APPENDIX II. REGULATORY AND LEGAL DISCLOSURES

Important information

Information pursuant to Regulation (EC) No 1060/2009 on credit rating agencies, as amended by Regulations (EU) No. 513/2011 and (EU) No. 462/2013

Responsibility

The party responsible for the dissemination of the credit rating is Scope Ratings AG, Berlin, District Court for Berlin (Charlottenburg) HRB 161306 B, Executive Board: Torsten Hinrichs (CEO), Dr Stefan Bund.

The rating analysis has been prepared by Antonio Casado, Director, Lead Analyst

Responsible for approving the rating: Guillaume Jolivet, Managing Director

Rating history

The rating concerns newly issued financial instruments which were evaluated for the first time by Scope Ratings AG.

Information on interests and conflicts of interest

The rating was prepared independently by Scope Ratings but for a fee based on a mandate from the issuer of the investment, represented by the management company. The issuer has participated in the rating process.

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Key sources of information for the rating

The following substantially material sources of information were used to prepare the credit rating: public domain, the rated entity, the rated entities' agents, third parties and Scope internal sources.

Scope considers the quality of information available to Scope on the rated entity or instrument to be satisfactory. The information and data supporting Scope's ratings originate from sources Scope considers to be reliable and accurate. Scope does not, however, independently verify the reliability and accuracy of the information and data.

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Examination of the rating by the rated entity prior to publication

Prior to publication, the rated entity was given the opportunity to examine the rating and the rating drivers, including the principal grounds on which the credit rating or rating outlook is based. The rated entity was subsequently provided with at least one full working day, to point out any factual errors, or to appeal the rating decision and deliver additional material information. Following that examination, the rating was not modified.

Methodology

The methodologies applicable for this rating are the 'General Structured Finance Rating Methodology' dated August 2017, and the 'Methodology for Counterparty Risk in Structured Finance' dated August 2017. Files are available on www.scoperatings.com. The historical default rates of Scope Ratings can be viewed on the central platform (CEREP) of the European Securities and Markets Authority (ESMA): http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml. A comprehensive clarification of Scope's default rating, definitions of rating notations and further information on the analysis components of a rating can be found in the documents on methodologies on the rating agency's website.

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