Hestia Financing S.à r.l

Cypriot Non-Performing Loan ABS

Series	Rating	Notional (EUR m)	Notional (% pool value[1])	Coupon	Final maturity
Class A	BBB_{SF}	475.0	23.0	3M Euribor + 2.5%	Dec 2066
Class Z	NR	1,725.0	-	0.5% + Variable return	Dec 2066
Rated notes		475.0			
Total notes		2,200.0			

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

Transaction details

Transaction type	Static cash securitisation
Asset class	Non-performing loans (NPLs) and real estate owned (REO) properties
Issue date	10 December 2021
Issuer	Hestia Financing S.à r.l.
CyCAC	Themis Portfolio Management Holdings Limited
Originator	Bank of Cyprus Pcl
Servicer	Themis Portfolio Management Limited ('Themis')
Sponsor	Oxalis Holding S.à r.l.
Total adjusted exposure[2]	EUR 1,970.9m
REO open market value	EUR 93.1m
Portfolio cut-off date	30 September 2019
Key portfolio characteristics	The portfolio is mainly composed of non-performing senior secured[3] loans (79% of adjusted exposure), and REO assets (open market value of EUR 93.1m). Most properties are residential (57% of open market value) and concentrated in Nicosia and Limassol (35% and 29% of appraised property value). Most borrowers are individuals (59% of adjusted exposure).
Payment frequency	Quarterly
Key structural features	The transaction's structure comprises two tranches of notes and features liquidity support for the senior tranche of notes. For the class A notes, the amortising liquidity reserve is equal to 4.5% of the outstanding class A principal. The issuer will also use an interest rate cap to hedge against interest rate risk. Once the cap agreement matures, the terms of the rated notes will imply a cap on the payable base rate.
Hedging provider	Barclays Bank Plc ('Barclays')
Other key counterparties	Bank of Cyprus (CyCAC and REOCOs' Cypriot account bank), CBRE Loan Services Limited (noteholders' agent), Citibank Europe Plc, Luxembourg Branch (Issuer and CyCAC's Luxembourg account bank); iv) Citibank N.A., London Branch (paying agent); v) Citibank Europe PLC (security trustee).
Arrangers	Barclays Bank Plc and Alantra Corporate Portfolio Advisors International Ltd ('Alantra')

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Bloomberg: RESP SCOP

[1] 'Pool value' means the total adjusted exposure of the loans plus the total open market value of the REO assets.
[2] This reflects Scope's adjustments to the portfolio's exposure using information on collections, repossessed, and sold properties since the cut-off date.
[3] Scope's classification of loan types is described in section 5.1.

Rating rationale (summary)

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

We performed a specific analysis for recoveries, using different approaches for the portfolio's secured and unsecured segments. For both the secured loans and the REO assets, the analysis of collections was mainly based on the latest property appraisal values, which were stressed for the servicers' appraisal methodologies and liquidity and market value risks. For secured loans, recovery timing assumptions were derived using line-by-line asset information detailing the type of legal proceedings and the stage of the proceeding as of the cut-off date. Furthermore, we applied a line-by-line approach to derive time-to-sell assumptions for all collateral and REO assets, considering the property type and location. We also considered historical data provided by the servicer. For unsecured and junior secured loans, we considered the servicers' capabilities when calibrating lifetime recoveries and benchmarked this against historical data from other European jurisdictions.

Rating drivers and mitigants

Positive rating drivers

Loan type. The portfolio is mainly composed of senior secured loans (79% 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 cash sweep event based on a target outstanding Class A notional schedule, that targets full amortisation of the Class A notes within 15 quarters from closing. A breach triggers fully sequential amortisation of Class A notes. This may protect senior noteholders under stressed market conditions. However, the event is cured in any following period in which the Class A outstanding notional is again reduced below the scheduled target.

Property location. More than 64% of properties (by appraised value) are located in urban areas, where real estate markets are generally more liquid than rural areas.

Negative rating drivers and mitigants

Dated valuations. Almost 70% of properties (by appraised value) have been valued prior to 2018, and all appraisals were done prior to the Covid-19 pandemic outbreak. These valuations may not accurately reflect current values.

Property type. Almost 43% of properties (by appraised value) are land or non-residential. This is above average relative to other NPL portfolios analysed by Scope. Such assets are generally less liquid relative to residential assets.

Real estate market's susceptibility 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 alone could add a supply of up to 9,000 assets to the real estate market over the next few years, potentially resulting in lower realizable value or longer time to liquidation.

Upside rating-change drivers

Strong post-pandemic recovery. The Cypriot economy is highly dependent on travel and tourism (23% of 2018 GDP). However, the island's GDP decreased by 5.1% in 2020, proving more resilient than peer countries with a high reliance on tourism, such as Spain (-10.8%), Italy (-8.9%) or Greece (-8%). If contact-based sectors such as leisure and tourism recover faster than expected, improving macro-economic conditions may result in more favourable resolution outcomes. This could positively impact the rating.

Downside rating-change drivers

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

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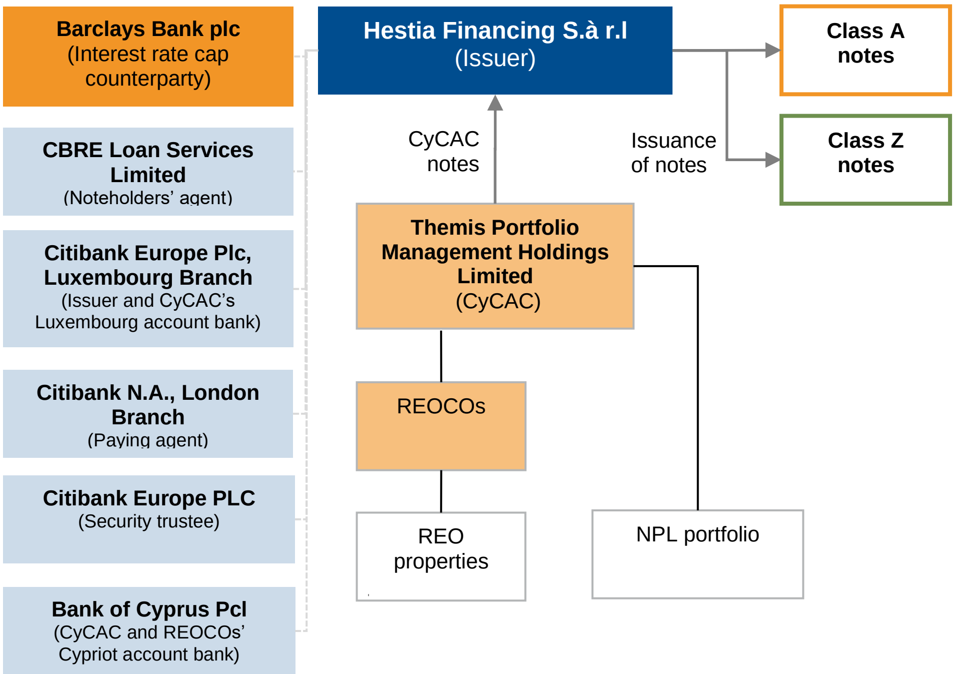
Figure 1: Simplified transaction diagram



Source: Transaction documents and Scope.

Hestia Financing S.à r.l. is a static cash securitisation of a portfolio of non-performing loans and REO properties. The transaction does not involve a true sale of receivables to the issuer. The portfolio is owned by the CyCAC, which has been acquired by Oxalis Holding S.à r.l. (sponsor). The CyCAC holds the credit rights over the portfolio of loans and several pre-existing Real Estate Owned Companies (REOCOs), which have security rights over the REO assets.

The issuer subscribes to senior notes issued by the CyCAC, structured to allow cash flow from the loans and REO 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 structure and cash flow arrangements between the entities involved in the transaction.

2. Macroeconomic environment

Cyprus has seen a lower decrease in GDP than peer economies exposed to tourism

The Covid-19 crisis has interrupted Cyprus's strong recovery from the 2012-13 financial crisis. After growing by 4.4% per annum on average over 2015-19, Cyprus's GDP shrank by 5.1% in 2020. The contraction in economic activity was less than expected despite its externally dependent economy, with a large share of travel and tourism in GDP (23% in 2018) and the strict containment measures imposed by the government. Other peer countries with a high reliance on tourism saw deeper recessions such as Spain (-10.8%), Italy (-8.9%) or Greece (-8.0%).

The Covid-19 shock impacted several sectors of the economy with tourism-related sectors and customer-facing services being hit the hardest. Tourist arrival experienced an unprecedented drop of 84% in 2020 with substantial spillover to the rest of the economy given the importance of the sector for Cyprus. The distribution, transport, hotels and restaurants sector saw value added decline by 15% while the arts, entertainment and other services saw a drop of 9.2% in 2020. The crisis had a smaller impact on the professional, administrative and support service sector with value added dipping by 2.6%. Tourism has picked up in 2021, with international tourist arrivals at 58% of 2019 levels as of August 2021.

Labour markets have been affected but less severely than implied by the fall in output thanks to strong government support. Unemployment averaged 7.7% in 2020, only 0.7pps up from 2019 levels and total employment only dropped by a moderate 0.6% in 2020 and even rose by 0.3% in Q1 2021. The decrease of hours worked was much higher than the reduction in persons employed, at around 6.4%, as employers elected to avoid massive layoffs. Unemployment levels have improved substantially in recent months, reaching 4.4% in August 2021.

The government's large-scale economic support package helped to mitigate the economic impact of the Covid-19 crisis. The policy response included a broad range of measures including increased health spending, targeted support to the tourism sector, wage subsidy schemes and liquidity support measures such as VAT deferrals, grants to SMEs and interest subsidy schemes. The total fiscal impact of these measures amounted to 3.6% of GDP in 2020 and is expected to represent 3.4% of GDP in 2021 as some key support measures were extended.

GDP growth expected to rebound to 4.5% in 2021 after a contraction by 5.1% in 2020

We expect the recovery to take hold from Q2 2021 onwards, supported by the acceleration of the vaccination programme (over 67% of the population has received their first dose to date), the release of pent-up demand and sustained monetary and fiscal support. The Cypriot Recovery and Resilience plan foresees EUR 1.2bn (5.5% of 2019 GDP) in spending over the next five years and reforms aimed at building a robust new growth model which will contribute to enhancing the economy's resilience, sustainability and efficiency. We project the Cypriot economy to rebound by 4.5% in 2021, followed by 3.8% in 2022 and gradually converge to country's annual growth potential of 2.5% by 2026.

There remains uncertainty surrounding Cyprus's growth outlook and risks are mainly tilted on the downside. The recovery hinges crucially on the duration and severity of the health crisis, the recovery in tourism and related SMEs, on top of the government's ability to implement its recovery package effectively. The termination of the Cyprus Investment Programme in October 2020 could lead to a large drop in FDI flows which could also dampen the recovery. Beyond this, the crisis could lead to the crystallisation of Cyprus's banking sector vulnerabilities due to a potential increase in NPLs, which could lead to further economic scarring. We note that the NPL ratio dropped from 28% in 2019 to 18% as of June 2021 but could increase following the end of the public moratorium on loan repayments and gradual withdrawal of government support measures. On the upside, faster than expected rollout of vaccine, an earlier reopening of borders and faster recovery in tourism could underpin a stronger economic rebound.

3. Servicer review

3.1. Introduction

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

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

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

In addition, Scope 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 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

Themis is a carve-out of Bank of Cyprus' internal servicing unit

Themis Portfolio Management Limited is a carve-out of Bank of Cyprus' internal servicing unit. The entity was set up in June 2021 to exclusively service the securitised portfolio. Vast majority of employee contracts are transferred from the bank to this newly established company, thus pre and post-acquisition servicing teams remain largely the same.

3.3. Servicing model

The servicer is organised in two main operational units: loan servicing and enforcement. Asset management and sales are outsourced to Resolute Asset Management Services ('RAMS'). The loan services unit is focused on loan-level decision making and the execution of extrajudicial strategic options. This is done in collaboration with the enforcement services team, which is responsible for managing the foreclosure processes. Foreclosures are actively pursued for most borrowers to improve the servicer's negotiating power across all strategic options. Both the loan services and enforcement unit also liaise with RAMS to assess potential repossession of properties, as they are responsible for management and sale of all onboarded REO properties.

The positions are allocated to specialised units split into in three servicing verticals: corporate, SME and retail. The corporate unit services large-ticket corporate exposures with resolution strategies that are usually bespoke and borrower-specific. The SME and retail units both use systematic decision trees to classify borrowers, but the former also considers the borrower's business characteristics such as sector and viability into account.

A systematic, decision-tree based approach in the business plan segments all positions by servicing verticals and various strategic buckets based on characteristics like loan size, loan-to-value ratio, type of collateral and borrower age. These strategic buckets are broadly characterised as foreclosures, discounted pay-off (DPO), debt-for-asset-swap (DFAS) and restructuring campaigns.

All strategic decisions at a borrower group level are ultimately approved by the sponsor. This implies a clear top-down mandate regarding the assessment of economic trade-offs and the actionability of resolution proposals.

4. Representations and warranties

The representations and warranties (R&W) on the receivables provided by the original seller and pledged in favour of the issuer are relatively weak compared to peer transactions we rate, and include the following:

- Loans are denominated in Euros, and with the exception of a few loans granted to borrowers in Serbia, Greece and England and Wales, are governed by Cypriot law.
- The payment obligations under the loans constitute legal, valid and binding obligations of the borrowers.
- All receivables are free of encumbrances and enforceable to the extent of the contractual terms and exposure.

- No borrowers have been accepted for the “ESTIA” scheme[4] operated by the Cypriot government.
- All relevant mortgages are duly registerable with the competent Cypriot registries and the CyCAC is the registered holder and beneficiary of the properties securing the loans.
- All REO assets are owned by the respective REOCOs.
- There is no obligation to make any further advances towards any securitised loans, except for pre-existing indirect facilities.
- Other than indivisible properties, ownership share related to co-owned properties have been duly registered with the relevant Cypriot registries.
- All documents, books, accounts and records required for the exercise of security rights in relation to the receivables have been duly kept.
- All Cypriot taxes falling due and payable by the companies have been paid.

Furthermore, the companies (CyCAC and REOCOs) make the following representations:

- All information contained in the virtual data room is correct.

The following warranties have not been included:

- All debtors are resident/incorporated in Cyprus.

5. Portfolio characteristics

The portfolio is mainly composed of non-performing senior secured loans (79% of adjusted exposure), and REO assets (open market value of EUR 93.1m). Most properties are residential (57% of open market value) and concentrated in Nicosia and Limassol (35% and 29% of open market value). Most borrowers are individuals (59% of adjusted exposure).

5.1. Key portfolio stratifications

Figure 2 provides high-level view on the portfolio characteristics. Detailed loan-level portfolio stratifications are provided in Appendix II.

Figure 2: Portfolio summary

	Total	Senior secured (Scope’s classification)	Junior secured and unsecured (Scope’s classification)	REO assets (unsold)
Number of loans	36,861	10,083	26,778	
Number of borrowers	6,016	4,944	5,526	
Adjusted exposure (EUR m)	1,970.9	1,559.9	410.9	
% of adjusted exposure		79.1	20.9	
Cash in court (% of pool value)	0.0			
Collections since cut-off date[5] (% of pool value)	0.3			
Weighted average seasoning (years)	6.6	6.3	7.7	
Number of properties	8,857	8,026	267	564
Open market value (EUR m)	1,753.6	1,572.9	87.5	93.1

[4] The ESTIA scheme, Ministry of Finance, Republic of Cyprus.
[5] Collections available to the Issuer.

Conservative mapping assumptions applied to missing data

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

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

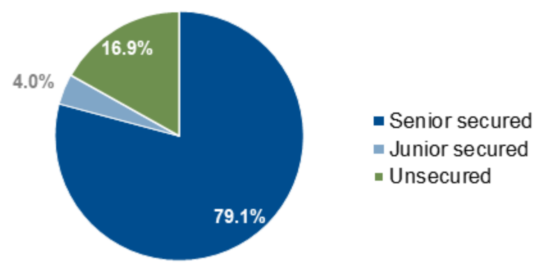
We have used the "open market value" and respective date of valuation as our reference appraisal amounts for all properties in the portfolio.

We have also adjusted the pool's exposure using information on collections and sold properties 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.

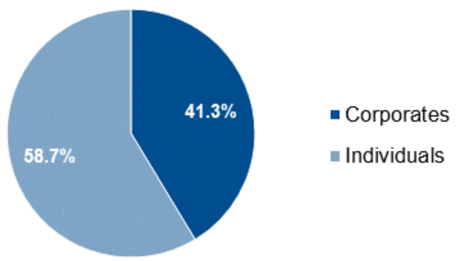
Stratification data provided below may be based, if applicable, on conservative mapping assumptions applied to missing entries for certain fields.

Figure 3: Key portfolio stratifications

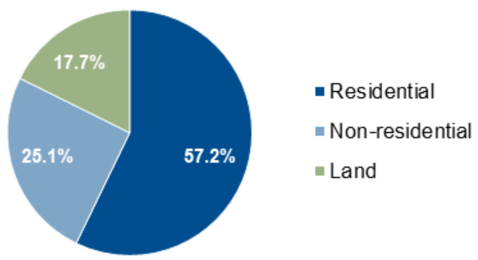
Loan type (%, adjusted exposure)



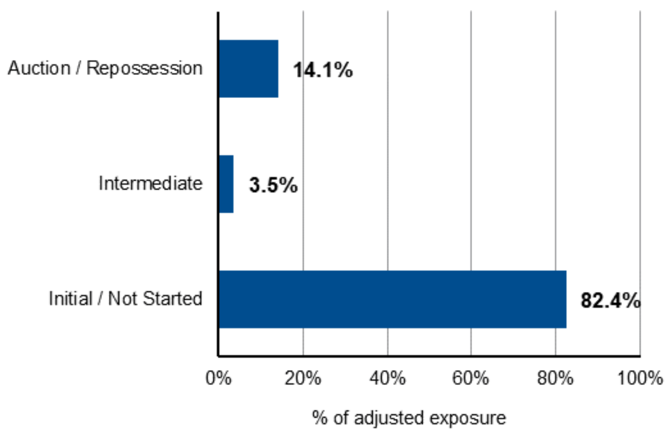
Debtor type (%, adjusted exposure)



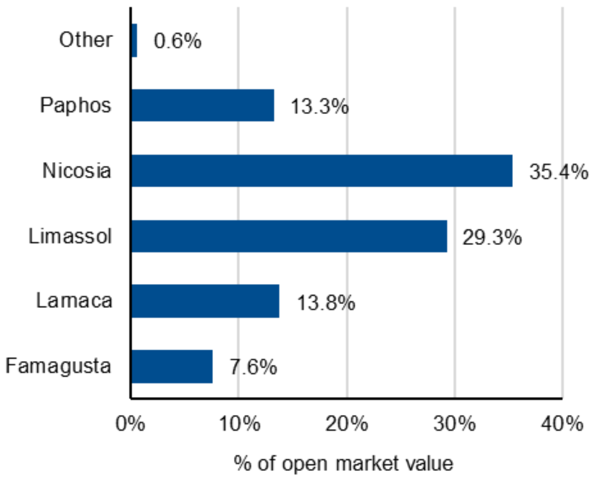
Property type (%, open market value)



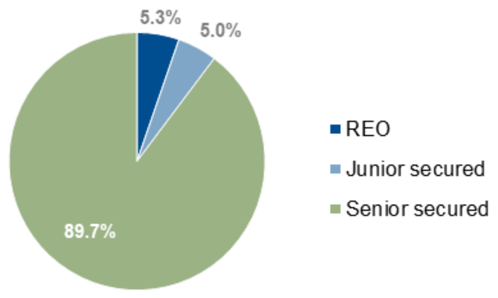
Legal stage (% of adjusted exposure)



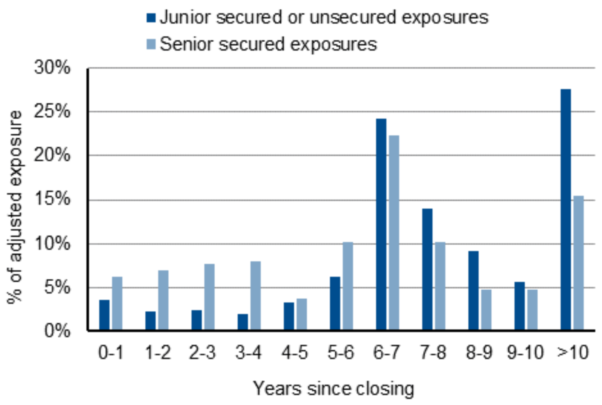
Property macro-region (%, open market value)



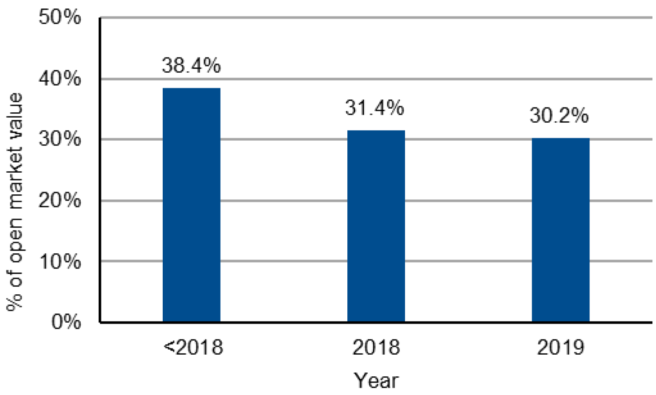
Property claim type (%, open market value)



Years since default



Year of valuation (%, 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 against deterministic, rating-conditional stresses. We apply higher 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

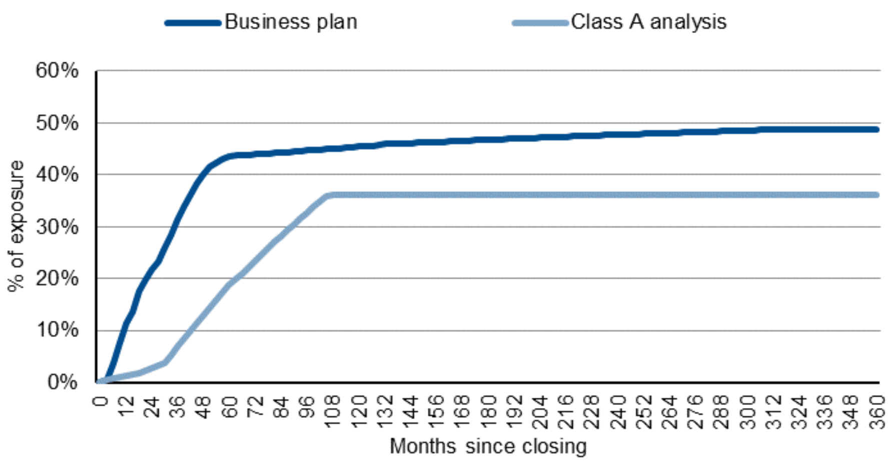
	Class A analysis
Secured recovery rate (% of secured exposure)	38.8
Unsecured recovery rate (% of unsecured exposure)	2
REO recovery rate (% of property value)	57.8
Total recovery rate (% of total pool value)	**35.9**
Secured collections, weighted average life (years)	5.8
Unsecured collections, weighted average life (years)	3.3
REO sale proceeds, weighted average life (years)	3.4
Total collections, weighted average life (WAL)	**5.4**

Sources: Scope Ratings

Scope's class A recovery rate assumptions are about 26% 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 26% below those in the business plan forecast and take longer to materialise – we assume a weighted average life of 5.4 years compared to about 3.4 years in the business plan[6].

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



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.

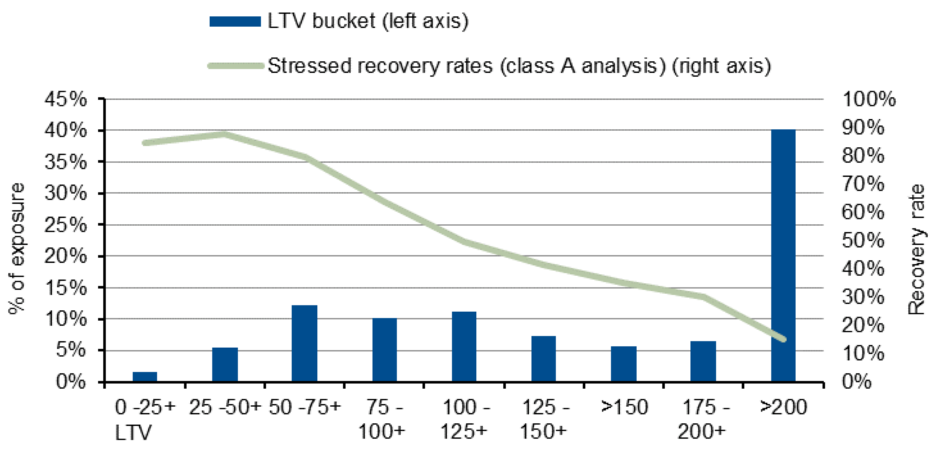
Figure 6: Scope's secured and REO recovery rate assumptions

Source: Scope Ratings

[6] Business plan amounts refer to projected collections from Q3 2021 onwards.

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% (71% of adjusted exposure), which leads to relatively low security coverage for the secured NPL segment.

Figure 7: Scope's 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: Scope's transaction-specific price change assumptions

Autonomous community	Portfolio concentration (% of open market value)	Class A analysis haircut
Famagusta	7.6%	14.5%
Larnaca	13.8%	13.7%
Limassol	29.3%	15.7%
Nicosia	35.4%	11.3%
Paphos	13.3%	11.3%
Other	0.6%	26.3%

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 29% and 40% for analysis of class A notes

All property valuations have been conducted by third party appraisers, informed by an in-person property visit. 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: Scope's transaction-specific fire-sale discount assumptions

Property type	% of open market value[7]	Class A analysis haircut
Residential	57.2	29.4%
Land	25.1	39.9%
Non-residential	17.7	36.3%

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

6.1.3. Concentration risk

Top 10 borrowers represent 8.7% of adjusted exposure

We addressed borrower concentration risk by applying a 10% rating-conditional recovery haircut to the 10 largest borrowers for the analysis of the class A notes. The largest 10 and 100 borrowers account for 8.7% and 18.8% of the portfolio's exposure, respectively. These levels are in-line with similar portfolios we have analysed in the past.

6.1.4. Legal recovery timing

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

Total recovery timing is around 74 months for analysis of class A notes

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

The 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 a proposed freeze on qualifying foreclosure processes through October 2021.

As is often the case in Cyprus, we have assumed that properties will fail to sell in auction and will be repossessed by the REOCOs. We therefore incorporate additional time it would take to sell these assets on the open market, as discussed in section 6.1.5. 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)
Procedure type	% of adjusted exposure	Class A analysis
Foreclosure	100	74

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-

[7] This reflects Scope's classification of properties in the portfolio, based on the most granular property classification available in the data tape (as "property type").

to-sell assumptions. The stressed average time to sell applied for the analysis of the rated notes is shown in Figure 11.

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

		Time to sell (months)
Scope's market liquidity classification	**% of open market value**	**Class A analysis**
Residential	57.2	23
Land	25.1	36
Non-residential	17.7	27
Overall	**100**	**27**

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% for unsecured loans over a weighted average life of around three years, as shown in Figure 12.

Unsecured portfolio analysis based on statistical data

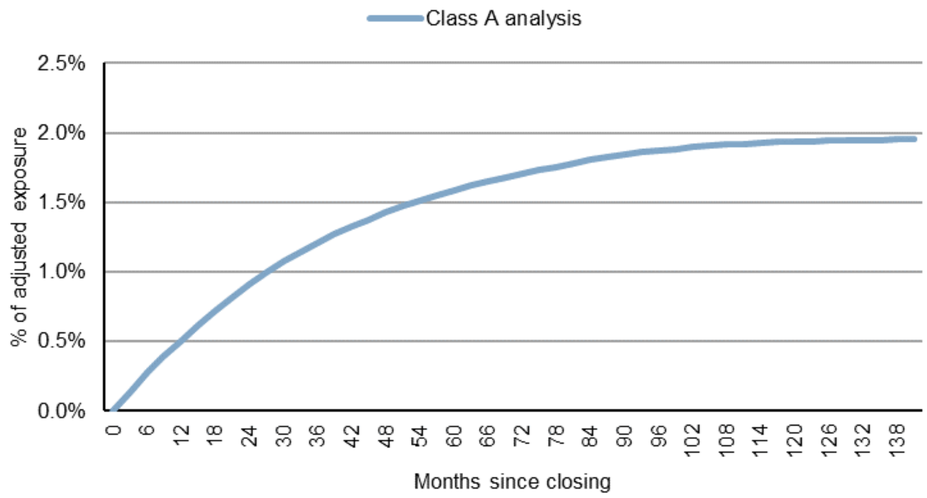
We considered the servicer's capabilities when calibrating lifetime recoveries and benchmarked this against historical data from other European jurisdictions.

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

Ageing of unsecured portfolio drives recoveries

Finally, transaction-specific assumptions are re-calibrated to reflect the ageing of the unsecured portfolio segment, based on our view that aged unsecured NPLs are less likely to be recovered. The unsecured loans in the portfolio are classified as defaulted for a weighted average of 7.7 years.

Figure 12: Scope's unsecured recovery rate assumptions



Source: Scope Ratings

7. Key structural features

The structure comprises two classes of sequentially amortising notes. We have rated the class A notes.

The class A will pay a floating rate indexed to three-month Euribor plus a margin of 2.5%. Class Z will pay a fixed rate of 0.5% plus variable return.

The structure features liquidity protection for senior notes. Class A liquidity reserve is available to pay senior expenses and interest on the Class A notes. The reserve can cover shortfalls for more than five payment periods for these notes under our base case scenario.

At closing, the issuer will enter into an interest rate cap agreement for the first two years, with a further obligation to re-enter a suitable cap agreement effective up to the payment date in October 2026 (see section 7.4). Immediately after the cap agreement expires, the Euribor component for the class A notes is structurally capped at 1%.

The structure features a cash sweep event based on a target outstanding class A notional schedule, that targets full amortisation of the class A notes within 15 quarters from closing. A breach triggers fully sequential amortisation of class A notes. However, the event is curable.

7.1. Combined priority of payments

Issuer's available funds (i.e., collections from the portfolio paid under the CyCAC note) will be applied in the following simplified order of priority:

Figure 13: Simplified priority of payments

Pre-enforcement priority of payments

1) Pay the fees, costs and expenses of the trustee and appointees.
2) Pay the senior servicing fees.
3) Pay the interest due on the class A notes.
4) Pay any balance required to replenish the reserve to the required amount.
5) Issuer corporate expenses.
6) If a cash sweep event has not occurred, pay
   a) 80% of all remaining available funds towards the repayment of class A principal.
   b) Any shortfalls in respect of the indirect or overdraft facilities.
   c) Pro-rata and pari-passu towards (i) junior servicing fees, (ii) any shortfalls in respect of the CyCAC or REOCO expenses.
   d) Interest on class Z notes.
   e) Principal on class Z notes, until repaid in full.
   f) Variable interest on class Z notes.
7) If a cash sweep event has occurred or is continuing,
   a) Class A principal, until repaid in full.
   b) Interest on class Z notes.
   c) Class Z principal, until repaid in full.
   d) Variable interest on class Z notes.

7.2. Servicing fee structure

The servicing fee structure is designed to mitigate potential conflicts of interest between the servicer and the noteholders, both through a performance-based servicing fee component and through a variable junior servicing fee, subject to a cash sweep event.

7.2.1. Servicer fees

The servicer shall be entitled to both a fixed and a variable fees component. The fixed component is capped at EUR 1m per quarter (p.q.) through 31 December 2025, EUR 500k p.q. through 31 December 2031, and EUR 250k p.q. thereafter. Aggregate payments under the variable fee component are fixed at 10.5m through 31 December

2021 and are up to 7.5% of CyCAC collections (i.e., net of asset level recovery costs) through the rest of the transaction's life. If a cash sweep event has not occurred or is not continuing, the servicer is also entitled to up to EUR 200k p.q., plus 3.5% of CyCAC collections, under item 6 (c) (i) of the pre-enforcement waterfall in Figure 13.

In our base case scenario, we model total servicing fees at 12.5% of gross collections.

7.2.2. Cash sweep event

Steep amortisation requirements may protect senior noteholders in stressed market conditions

The structure features a cash sweep event, which occurs if any of the following conditions are met on any given calculation date:

i) An event of default has occurred.

ii) A servicer termination event has occurred.

iii) Outstanding class A principal amounts exceed the respective target amounts shown in Figure 14.

iv) Outstanding class Z principal amounts are lower than 10% of initial class Z notional.

v) Aggregate capped real estate value of the properties in the portfolio falls below 10% of initial capped real estate value.

Servicing performance fee structures reasonably align interests of servicer and noteholders

If such an event has occurred or is continuing, all funds remaining after item 5 of the issuer level waterfall are first used to repay the class A notes.

However, if any of the conditions above are not met on a given calculation date, funds remaining after item 5 of the issuer level waterfall are again applied in accordance with item 6 of the priority of payments shown in Figure 13.

Figure 14: Target class A amortisation schedule

Date	Target class A notional (EUR)
January 2022	475,000,000
April 2022	446,322,619
July 2022	392,533,394
October 2022	342,853,725
January 2023	312,040,110
April 2023	259,951,000
July 2023	230,652,473
October 2023	205,610,840
January 2024	186,355,909
April 2024	151,669,658
July 2024	117,024,788
October 2024	76,987,794
January 2025	42,098,716
April 2025	10,516,731
July 2025 and every payment date thereafter	0

Sources: Transaction documents

As the schedule in Figure 14 aims at full amortisation of class A notes in 15 quarters, this mechanism may protect the senior noteholders under stressed market conditions. The mechanism also reasonably aligns the interests of the servicer with those of the noteholders, as a share of the variable fees may only be paid if the notes amortise per the schedule.

7.2.3. Servicer monitoring

The servicer is monitored by the CyCAC

The servicer is responsible for the servicing, administration, collection of receivables, and the management of legal proceedings and properties. The reports are then delivered to the noteholders' agent by the CyCAC, which then provides reporting services to the issuer.

7.2.4. Servicer termination events

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

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

There are no back-up servicing agreements. In case of a termination event, the CyCAC must appoint a replacement within 90 days. This may result in servicer disruption and, ultimately, material delays in recovery timing and additional servicer replacement costs (see section 10.1 for more details).

7.3. Liquidity protection

Liquidity reserve and reserve funds support liquidity of all rated notes

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

The class A liquidity reserve will be available to cover items 1-3 in the simplified priority of payments. The target liquidity reserve amount at each payment date will be equal to 4.5% of the outstanding balance of the class A notes. Under our base case scenario, the class A liquidity reserve covers more than five payment periods of class A interest and senior expenses and fees.

7.4. Interest rate protection

Interest rate cap agreement only partially mitigates interest rate risk. From October 2026, notes' terms cap the reference rate

The interest rate risk on the rated notes is hedged via i) an interest rate cap agreement with Barclays (entered for an initial period of two years, with a subsequent obligation to re-enter through the payment date in October 2026); and ii) a structural cap on the payable coupon.

Following the initial term of two years, the issuer has an obligation to re-enter a suitable cap agreement which shall: i) be with a qualifying counterparty (in line with our criteria); ii) have an aggregate notional amount of at least 80% of the outstanding notional at the renewal date; and iii) have a cap rate not exceeding 1%. Such a hedging agreement must be effective up to the payment date in October 2026.

Starting on the next payment date immediately following the expiry of the cap agreement in October 2026, the Euribor component for the rated notes will be structurally capped at 1% for the class A notes.

Figure 15 summarises the structure of the cap agreement used for our analysis: the cap counterparty will pay to the issuer any positive difference between the three-month Euribor and the cap strike schedule, on an amortising cap notional schedule.

The cap is intended to cover interest rate risk for at least 80% of outstanding class A notional. However, the amortisation profile of class A notes remains materially above the planned cap schedule in our analysis (see Figure 16). A delay in recoveries beyond our recovery timing vectors would further increase interest rate risk, as this could result in an increased gap between the transaction's cap notional amount and the class A notes' outstanding principal.

Figure 15: Interest rate cap for rated notes

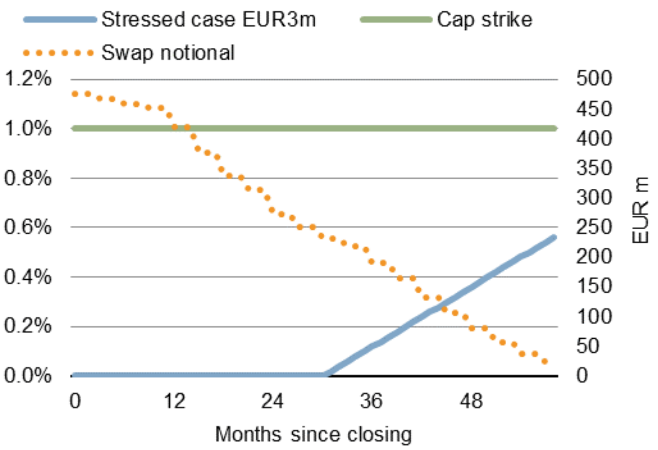
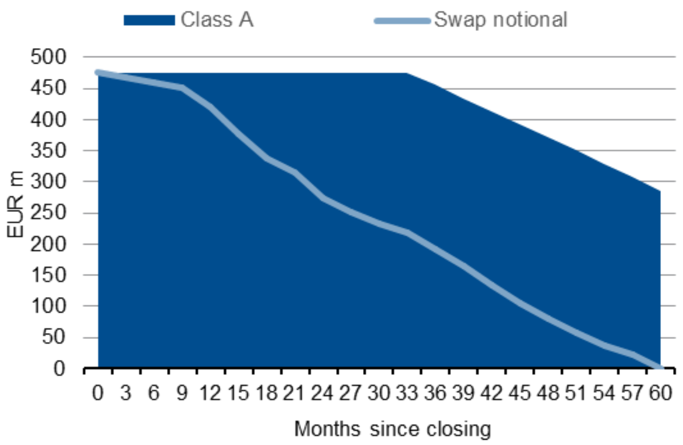


Figure 16: Cap notional vs outstanding class A notes



Sources: Transaction documents, Bloomberg and Scope Ratings

8. Cash flow analysis and rating stability

Cash flow analysis considers the structural features of the transaction

We analysed the transaction's specific cash flow characteristics. Asset assumptions are applied using rating-conditional gross collections vectors. The analysis captures the capital structure, legal and other asset-level costs (assumed at approx. 11% of our gross recovery assumptions in the base case scenario), servicing fees as described in section 7.2.1, corporate costs and taxes, and annual senior costs. We considered the reference rate payable on the notes, considering the cap rate embedded in the terms of the rated notes, and the interest rate cap agreement as described in the previous section.

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

We tested the resilience of the rating against deviations from expected recovery rates and recovery timing. This analysis has the sole purpose of illustrating the sensitivity of the 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 credit rating in the event of:

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

9. Sovereign risk

No mechanistic cap linked to sovereign risk

Sovereign risk does not limit the ratings. Republic of Cyprus is a member state of the European Union, therefore it 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. We also considered eligible investment criteria and collateral posting provisions included in the cap agreements.

The transaction is mainly exposed to counterparty risk from the following counterparties: i) Bank of Cyprus (regarding asset level warranties and CyCAC and REOCOs' Cypriot account bank); ii) Themis as servicer; iii) CBRE Loan Services Limited as noteholders' agent; iv) Citibank Europe Plc, Luxembourg Branch as Issuer and CyCAC's Luxembourg account bank; iv) Citibank N.A., London Branch as paying agent; v) Citibank Europe PLC as security trustee and vi) Barclays Bank PLC as cap counterparty.

The roles of the Cypriot account bank, Issuer account bank, CyCAC's Luxembourg account bank, and interest rate cap counterparty must be held by institutions with minimum short-term and long-term ratings of S-3 and BB, if rated by Scope. Other replacement triggers on those counterparties are based on the public ratings of other agencies.

10.1. Servicer disruption risk

Servicer disruption event may have affect transaction performance

A servicer disruption event may have a negative impact on the transaction's performance. The transaction does not feature any back-up servicers appointments at closing.

In event that the servicer is to be replaced, the CyCAC is responsible for the appointment of a replacement servicer. As the servicer is indirectly owned by the sponsor, we considered the sponsor's financial strength and position based on public sources to assess the materiality of servicer disruption risk.

10.2. Commingling risk

Limited commingling risk

Commingling risk is limited. Even though the CyCAC and REOCOs receive payments from debtors and buyers respectively, these amounts are swept weekly from these collection accounts into the CyCAC's Luxembourg transaction account. Any amounts on the CyCAC's transaction account are swept into the Issuer's accounts every two business days.

Minimum credit quality requirements for the Cypriot account bank are waived should this role be held by Bank of Cyprus, which does not currently meet our criteria. To mitigate resulting risk, the structure features an automatic sweep of these accounts if the balance on these accounts exceeds EUR 2m at any time. In our view, this sufficiently mitigates the risk.

The companies also pledge rights to their bank accounts in favour of the issuer, which also mitigates commingling risk.

10.3. Claw-back risk

Claw-back risk is sufficiently mitigated as the CyCAC has owned the portfolio for at least 12 months at closing.

10.4. Enforcement of representations and warranties

Representations and warranties limited in time and amount

The Issuer will rely on the warranties provided by the originator under the original sale agreement and pledged in its favour, limited in time and amount. If a breach of a warranty materially and adversely affects a loan or REO property's value, the originator may be obliged to indemnify the issuer for damages.

However, the above-mentioned warranties are only enforceable by the issuer within 24 months from the transfer date. The total indemnity amount will be capped at the portfolio purchase price. Furthermore, the indemnity amounts will be limited to the allocated purchase price of the relevant asset-level loan or REO asset.

11. Legal structure

11.1. Legal framework

Transaction documents governed by English, Luxembourgish, and Cypriot laws

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

11.2. Use of legal opinions

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

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	Hestia (Loans)	Hestia (REO)	Retiro (Loans)	Retiro (REO)	Prosil Acquisition (NPL)	Prosil Acquisition (REO)	Titan SPV	Relais	Futura	Belvedere SPV
Closing	TBC	TBC	Mar-21	Mar-21	Jul-19	Jul-19	Dec-20	Dec-20	Dec-19	Dec-18
Originators	Bank of Cyprus pcl		Multiple	Multiple	KKR	KKR	Alba Leasing Release Banco BPM	UCG Leasing	53 banks	Multiple
Master servicer	Themis		Victoria and Redwood	Victoria and Redwood	Hipoges	Hipoges	Prelios	Italfondiario	Guber Banca	Prelios
Special servicer			RTA and Redwood	Victoria and Redwood	Hipoges	Hipoges	Prelios	doValue	Guber Banca	Prelios, BVI
General portfolio attributes										
Gross book value (EUR m)	1,970.9	-	678.4	-	480.7	-	335	1,583	1,256	2,541
Number of borrowers	6016	-	1,636	-	2793	-	668	2,335	9,639	13,678
Number of loans	36,861	-	3,634	-	2688	-	939	3,006	16,152	31,266
WA seasoning (years)	6.6	-	10.9	-	5.82	-	5.8	5.8	5.5	6.7*
WA seasoning (years) - unsecured portfolio	7.7	-	11.2	-	5.69	-	6.2	7.0	6.2	6.7*
WA LTV buckets (% of secured portfolio)										
bucket [0-25]	1.6	-	0.2	-	0.6	-	0.2	0.3	2.3	2
bucket [25-50]	5.4	-	1	-	0.9	-	2.1	2.5	5.5	4.9
bucket [50-75]	12.2	-	2.1	-	3.3	-	9.6	7.9	8	5.4
bucket [75-100]	10.2	-	4.2	-	6.9	-	10.6	14.4	7.2	8.5
bucket [100-125]	11.1	-	6.9	-	9.2	-	17.1	16.6	10.1	6.8
bucket [125-150]	7.2	-	10.6	-	11.6	-	9.9	14.7	9.5	8.6
bucket [150-175]	5.7	-	8.4	-	10.7	-	14	12.1	6.4	4.8
bucket [175-200]	6.4	-	8	-	9.9	-	6.2	7.4	3.8	5.2
bucket > 200	40.2	-	58.6	-	46.9	-	30.3	24	47.2	53.9
Cash in court (% of total GBV)	-	-	-	-	4.2	-	0.0	1.5	1.1	2.7
Loan types (% of total GBV)*****										
Secured first-lien	79.1	-	95.5	-	93.3	-	87.7	86.5	45.7	41.0
Secured junior-lien	4	-	4.5	-	3.5	-	0.0	0.0	6.1	8.2
Unsecured	16.9	-	0.0	-	3.1	-	12.3	13.5	48.2	50.8
Syndicated loans	0	-	2.2	-	0	-	2.6	7.1	2.4	0
Debtors (% of total GBV)										
Individuals	58.6	-	33.1	-	65.9	-	0.6	0.8	22.0	12.0
Corporates or SMEs	41.3	-	66.9	-	34.1	-	99.4	99.2	78.0	88.0
Procedure type (% of total GBV)										
Bankrupt	0	-	13.9	-	22	-	10.4	36.0	64.2	82.2
Non-bankrupt	100	-	86.1	-	78	-	89.6	64.0	35.8	17.8
Borrower concentration (% of GBV)										
Top 10	8.7	-	16.4	-	6.8	-	26.8	9.3	4.8	9.1
Top 100	18.8	-	52.7	-	23	-	74.9	36.9	21.5	24.2
Collateral type (% of indexed appraisal val.)										
Residential	57.2	30.1	80.4	75.8	67.4	72.8	1.0	2.6	47.1	41.9
Commercial	17.7	30.9	13.7	12.9	26.1	23.4	46.0	56.4	10.6	9.6
Industrial	0	0			0	0	50.8	36.4	21.2	7.2
Land	25.1	38.9	5.7	11.1	6.5	3.8	1.0	1.2	12.1	8.8
Other or unknown	0	0	0	0	0	0	1.3	3.4	9.0	32.5
Valuation type (% of indexed appraisal val.)										
Full or drive-by	100	100	100	100	44.9	61.5	79.5	29.6	0.9	31.4
Desktop	0	0	0	0	55.1	38.5	18.3	68.1	53.2	36.1
CTU	0	0	0	0	0	0	0.0	0.0	21.1	0.0
Other	0	0	0	0	0	0	2.2	2.3	0.8	32.5
Secured ptf proc. stage (% of GBV)										
Initial	82.4	-	33.8	-	41	-	NA	NA	43.1	52.4
Intermediate/CTU	3.5	-	43.6	-	31	-	NA	NA	15.1	0.0
Auction	14.1	-	20.2	-	22	-	NA	NA	24.3	38.3
Distribution		-	2.4	-	6	-	NA	NA	17.4	9.3
Structural features										
Liquidity reserve (% of class A notes)	4.5		5%		4.5%			7.5	4.5	4
Class A Euribor cap strike	1%		0-0.5%		0.5%		0.05%-4.0%	0.5%-1.7%	0.2%-3.0%	0.5%
Class A										
% of GBV (or pool value****)	23		31.3		34.4		27.0	29.4	12.6	12.4
Credit enhancement	77		68.7		65.6		73.0	70.6	87.4	87.6
Class B										
% of GBV	N/A		3.2		6.1		4.47	5.75	2.9	3
Credit enhancement	N/A		65.5		59.5		68.5	64.8	84.5	84.6
Class C										
% of GBV	N/A		1.4		3					
Credit enhancement	N/A		64.1		56.5					
Rating										
Class A	(P) BBB		BBB+ (A1) / BBB- (A2)		BBB-		BBB	BBB	BBB	BBB
Class B	N/A		B-		B-		NR	NR	NR	NR
Class C	N/A		CCC		N/A					

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

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

****Pool value includes asset value for REO assets and GBV of loans.

*****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 that are guaranteed by properties that have an identified prior lien claim against them are defined as 'junior secured'. All other loans are classified as 'unsecured'.

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