Prisma SPV S.r.l.

Italian Non-Performing Loan ABS

Ratings

Tranche	Rating	Size (EUR m)	% of notes	% of GBV[1]	Coupon	Final maturity
Class A	BBB+$_{SF}$	1,210.0	91.7	20.0	6m Euribor + 1.5%	Nov-39
Class B	B-$_{SF}$	80.0	6.1	1.3	6m Euribor + 9.0%	Nov-39
Class J	NR	30.0	2.3	0.5	Variable return	Nov-39
Rated notes		1,290.0	97.8	21.3		

Scope's quantitative analysis is based on the preliminary portfolio dated 31 March and 31 July 2019, subsequent updates and the replenishment criteria in the prospectus, provided by the originator. Scope's Structured Finance Ratings constitute an opinion about 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 the SF Rating Definitions.

The New Issue Report on Prisma SPV Srl was originally published by Scope on 23 October 2019 (Prisma SPV Srl New Issue Report), whilst the final ratings assignment was previously announced in Scope's Press Release on 18 October 2019 (Prisma SPV Srl Press Release). This version of the New Issue Report takes into account certain amendments to the interest subordination event definition, as announced in the Press Release published today by Scope. A master amendment agreement has been signed between transaction's counterparties on 28 October 2019.

[1] Gross book value ("GBV" as total gross claim amount) of the securitised portfolio at closing (EUR 6,057m).

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Related Research

Non-Performing Loan ABS Rating Methodology, September 2019

Renewed GACS scheme will reduce Italian NPL ABS issuance, April 2019

General Structured Finance Rating Methodology, February 2019

Methodology for Counterparty Risk in Structured Finance, July 2019

Transaction details

Purpose	Risk transfer
Issuer (SPV)	Prisma SPV S.r.l.
Originator	Unicredit S.p.A.
Servicer	Italfondiario S.p.A as master servicer, doValue S.p.A. as special servicer
Portfolio cut-off date[2]	31 March 2019 and 31 July 2019
Issuance date	18 October 2019
Payment frequency	Semi-annual (May and November)
Arranger	UniCredit Bank AG

The transaction is a static cash securitisation of an Italian NPL portfolio worth around EUR 6,057m by gross-book-value "GBV" (as total gross claim amount). The portfolio was owned by Unicredit S.p.A. The pool is composed of both senior secured (64.0%) and unsecured (36.0%) loans (including junior secured loans). The loans were extended only to individuals. Secured loans are backed mostly by first-lien mortgages on residential properties (90.2% of property values), whilst the remainder collateral (9.8%) is composed of commercial, land and other type of properties. Properties are well distributed across Italy, with similar shares in the north (37.1%), centre (24.2%), and south (38.6%) of the country. The issuer acquired the portfolio as at the transfer date (11 October 2019). Asset information reflects aggregation by loans.

The structure comprises three classes of notes with fully sequential principal amortisation: senior class A, mezzanine class B, and junior class J. The class A and B will pay a floating rate based on six-month Euribor, plus a margin of 1.5% and 9.0%, respectively. Class J principal and interest are subordinated to the repayment of the senior and mezzanine notes.

The notes have been structured considering the requirements of the 2019-updated GACS Scheme[3].

[2] 97% of the portfolio (EUR 5,869m GBV) has a cut-off date of 31 March 2019, whilst the remainder 3% (EUR 188m GBV) has a cut-off date of 31 July 2019.

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

Rating rationale (summary)

The ratings are primarily driven by the expected recovery amounts and timing of collections from the NPL portfolio. The recovery amounts and timing assumptions consider the portfolio's characteristics as well as our economic outlook for Italy and assessment of the special servicer's capabilities. The ratings are supported by the structural protection provided to the notes; the absence of equity leakage provisions; liquidity protection; and an interest rate hedging agreement.

The findings of the third-party asset due diligence assessment showed a slightly higher error level than normally seen in peer transactions. This is partially mitigated by (i) the fact that the servicer has committed to verify on a portion equal to 80% of the secured loans, the accuracy of the representations and warranties provided by Unicredit S.p.A., and promptly report any discrepancies, and (ii) Unicredit's representations on the accuracy of the data included in the datatape, We also performed a sensitivity analysis to test the resilience of the ratings to potential lower valuations.

Interest rate risk on the class A and B notes is mitigated by a hedging structure, under which the Issuer receives the difference between the six-month Euribor rate and an increasing cap, ranging from 0.20% to 1.25%, over a pre-defined notional balance. We expect the interest rate cap agreement to provide only a partial hedging, as the cap notional schedule is not fully aligned with our expected amortisation profile of the notes.

The ratings also address exposures to the key transaction counterparties: Unicredit S.p.A. as the originator, regarding representation and warranties and the eventual payments that might be made by the borrowers, as account bank and cash manager, ii) Italfondiario S.p.A. as master servicer and administrative services provider, iii) doValue S.p.A. as special servicer, iv) Securitisation Services S.p.A. master back-up servicer facilitator, corporate services provider, computation agent, monitoring agent and representative of noteholders; v) BNP Paribas Securities Services, Milan Branch, as agent bank and principal paying agent; vi) UniCredit Bank AG as the cap counterparty and limited recourse loan provider.
We considered counterparty replacement triggers and relied on ratings from Scope, when available and publicly available ratings.

We performed a specific analysis for recoveries, using different approaches for secured and unsecured exposures. For secured exposures, collections were based mostly on the latest property appraisal values, which were stressed to account for liquidity and market value risks, while recovery timing assumptions were derived using line-by-line asset information detailing the type of legal proceeding, the court issuing the proceeding, and the stage of the proceeding as of the cut-off date. For unsecured exposures, we used historical line-by-line market-wide recovery data on defaulted loans between 2000 and 2017 and considered the special servicers' capabilities when calibrating lifetime recoveries. We also considered that unsecured borrowers were classified as defaulted for a weighted average of 6.8 years as of the cut-off dates of 31 March 2019 (related to 97% of the portfolio) and 31 July 2019.

Rating drivers and mitigants

Positive rating drivers

All borrowers are individuals. Recoveries from individual borrowers are generally higher than from corporates, given their lower average exposure, and since loans collaterals are residential properties, which are more liquid than commercial or industrial assets.

High granularity. The pool is highly granular, with the top 10 borrowers representing around 0.4% of total gross book value, which is lower than the average concentration of Italian NPL transactions rated by Scope.

High share of foreclosures. Most of the pool presents loans under foreclosure legal procedures (76.1%, excluding loans for which the legal procedures have not been initiated). Compared with bankruptcy proceedings, foreclosures typically result in higher recoveries and take shorter to be resolved.

Servicing business continuity. The servicer is already in charge of managing most of the portfolio prior to the expected issue date. The servicer has therefore performed most of the portfolio take-over activities, including the set-up of servicing strategies.

High share of residential properties. 90.2% of the secured loans are backed by residential assets, which tend to be more liquid than non-residential properties.

Negative rating drivers and mitigants

Absence of detailed information on valuations' techniques. 37.1% of the pools' first-lien collateral has been evaluated using statistical revaluations (i.e., indexed valuations) or based on open market value valuations (33.1%). However, we have not received any detailed information regarding the valuation technique used. Therefore, we applied a higher haircut to these valuations to account for the risk of overstated valuations.

High seasoning of unsecured exposures. Unsecured exposures have a weighted average seasoning of 6.8 years, which is higher than the average seasoning of other transactions rated by Scope. This ultimately results in lower expected recoveries for the relevant share of loans.

Hedging structure. Interest rate risk on the class A and class B notes is mitigated by an increasing cap on the six-month Euribor (ranging from 0.20% to 1.25%). However, the interest rate cap agreement provides only a partial hedging, as the cap notional schedule is not fully aligned with Scope's expected amortisation profile of the notes.

Unsecured loans are residual claims after security enforcement. The unsecured component of 35.7% in terms of gross book value is made of residual unsecured claims after security enforcement (i.e., shortfalls) rather than pure *ab-origine* unsecured exposures. Scope expects a lower recovery rate for this type of loans compared other type of unsecured loans: the average high seasoning of shortfalls, along with the recovery strategies' costs, significantly reduce the likelihood to recover.

Upside rating-change drivers

Servicer outperformance. Consistent servicer outperformance in terms of recovery timing and the total amount of collections could positively impact the ratings. The weighted average time until portfolio collections are complete will be 4.20 years, according to the servicer business plan. This is about 15 months faster than the recovery weighted timing vector assumed in Scope's Class A analysis.

Downside rating-change drivers

Servicer underperformance. Servicer performance falling short of Scope's base case collection amounts and timing assumptions could negatively impact the ratings.

Fragile economic growth. The trajectory of Italy's public debt is of concern, given its weak medium-term growth potential of 0.7%, the government's plans to reverse reforms, raise spending, cut taxes.

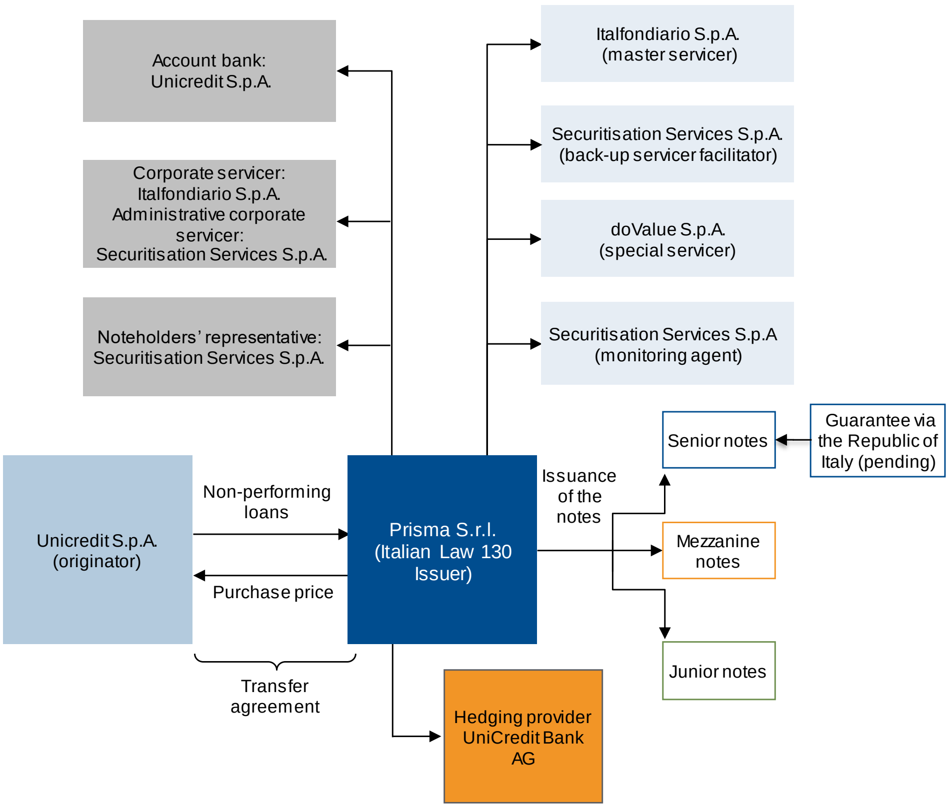
Table of contents

1. Transaction summary 4
2. Macroeconomic environment 5
3. Portfolio analysis 7
4. Portfolio characteristics 12
5. Key structural features 16
6. Cash flow analysis and rating stability 20
7. Sovereign risk 21
8. Counterparty risk 21
9. Legal structure 22
Monitoring 23
10. Applied methodology 23
I. Summary appendix – deal comparison 24

1. Transaction summary

The transaction structure comprises three tranches of sequential, principal-amortising notes, an amortising liquidity reserve[1] equal to 4.0% of the total class A outstanding balance, and an interest rate cap agreement.

Figure 1: Transaction diagram:



Sources: Transaction documents and Scope Ratings.

We adjusted the pool's gross book value using information on collections and sold properties since the 31 March 2019 and 31 July 2019 cut-off dates. The analysis excluded portfolio's loans which we assumed to be closed, based on collections already received and cash-in-court to be received. Collateral connected with these positions was also removed.

The adjustments reduced the portfolio's gross book value from EUR 6,057m to EUR 5,364m. Collections received since the cut-off dates are not assumed to be cash available at closing, given that they have been deferred from the purchase price of the portfolio, while cash-in-court is assumed to be received up to two years after the closing date.

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

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

[1] With a floor of EUR 10m.

Figure 2: Key portfolio stratifications (31 March and 31 July 2019 cut-off dates)

	All	Secured	Junior liens	Unsecured
Number of loans	137,813	41,282	343	96,188
Number of borrowers	52,419			
Gross book value (EUR m)	6,056,291,974	3,873,707,367	23,353,793	2,159,230,815
Percentage of gross book value		64.0%	0.3%	35.7%
Weighted average seasoning (years)	5.36	4.57	3.46	6.79
Sum of collateral appraisal values (EUR m)		4,384,505,735	39,854,207	
Borrower type				
Corporate	0.0%	0.0%	0.0%	0.0%
Individual	100.0%	100.0%	100.0%	100.0%
Primary procedure*				
Bankrupt borrower	0.7%	0.7%	1.3%	0.7%
Non-bankrupt borrower	99.3%	99.3%	98.7%	99.3%
Stage of procedure (secured loans)				
Initial		43.2%	51.4%	
Court-appointed valuation (CTU)		25.4%	25.5%	
Auction		30.5%	22.0%	
Distribution		0.9%	1.0%	
Geography (% of collateral value)				
North	37.1%			
Centre	24.2%			
South and islands	38.6%			
Borrower concentration				
Top 10	0.4%			
Top 100	1.7%			
Property type (% of collateral value)				
Residential		90.2%	81.2%	
Non-residential		9.8%	18.8%	

* Non-bankrupt procedures % includes cases for which legal procedures have not been initiated yet. Some loans have several types of ongoing procedures. The distribution reflects i) our assumptions on the main procedure type; and ii) our classification of procedures that have not been initiated with reference to the borrowers.

2. Macroeconomic environment

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

Our sovereign rating on Italy stands at BBB+/Stable, with the rating level restricted by structural issues of high public debt and low economic growth. Italy's BBB+ sovereign rating remains, however, underpinned by the country's euro area membership and likelihood of multilateral support in severe crisis scenarios, a track record of primary fiscal surpluses, a large and diversified economy (with nominal GDP of EUR 1.8trn in 2018), and moderate levels of non-financial private debt (of 155% of GDP as of Q1 2019).

The next scheduled review of Italy's sovereign ratings is due on 29 November.

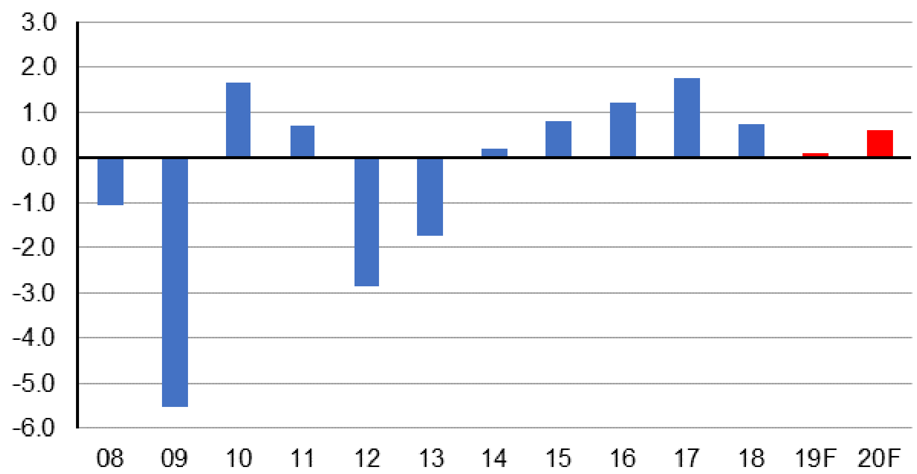
The new leftist government composed of the Five Star Movement (M5S), the Democratic Party (PD) and Free and Equal was sworn in this September. Scope wrote that this M5S-PD government is comparatively market-friendly compared to other options that were available to the nation after Lega head Matteo Salvini backed out of the previous government. This less anti-establishment M5S-PD administration has committed to improving Italy's tense relations with the rest of the EU, and has a rare opportunity to strike the right balance between growth and austerity, leveraging record low yields.

However, Scope acknowledges the *long-standing* inability from multiple past and present Italian governments to significantly reduce public debt even at times of a growing regional and global economy, as evidenced in recent years too. We have highlighted in the past that this failure to reduce debt during good economic times, which the new government will also have to confront, increases risks to Italian debt sustainability and associated Italian economic crises when the global economy inevitably faces a more significant future downturn.

Risks associated with weak economy

The Italian economy remains vulnerable, as reflected in fairly flat output levels over the first half of 2019 with 0.0% QoQ real growth in Q2, after 0.1% in Q1 2019. Scope estimates the economy will grow only 0.1% this year, reduced from an earlier estimate for 0.2% growth this year, before 0.6% in 2020 (Figure 3). However, the unemployment rate now sits at near the lowest levels since early 2012, at 9.9% as of July. Recent economic data speak, nonetheless, to continued economic risks going forward, including those tied to the broader regional and global manufacturing sector slowdown, exacerbated by international trade tensions and a structural slowdown in China's economy.

Figure 3: Annual real GDP growth, Italy



Sources: ISTAT; calculations by Scope Ratings

The significant decline in Italian yields, propelled by easier global and regional monetary conditions, including in the aftermath of the monetary easing package announced by the ECB on 12 September, has brought Italian 10-year borrowing rates to ca. 1% and the spread on 10-year BTPs to Germany under 140 bps. The significant rally in Italian bond yields reflects, nonetheless, also domestic factors such as significantly reduced redenomination risk – which markets had associated to an extent with the risk of euro exit tied to Lega's Euroscepticism and policy suggestions like mini-BOTs – and reduced fiscal risks. Lower borrowing rates support the Italian economy; however, even with record low borrowing rates, raising *sustainable* growth remains a prodigious challenge.

Tepid long-term growth outlook

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

Debt sustainability concern

We see Italy's public debt little changed in the period ahead, predicted at 132% of GDP in

2021, the same level as that at the end of 2018. We will be reviewing our debt sustainability projections as well as our underlying assumptions for a fiscal deficit of 2% of GDP in 2019 before 1.9% in 2020 as well as growth forecasts later this autumn.

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

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

3. Portfolio analysis

Rating-conditional recovery assumptions

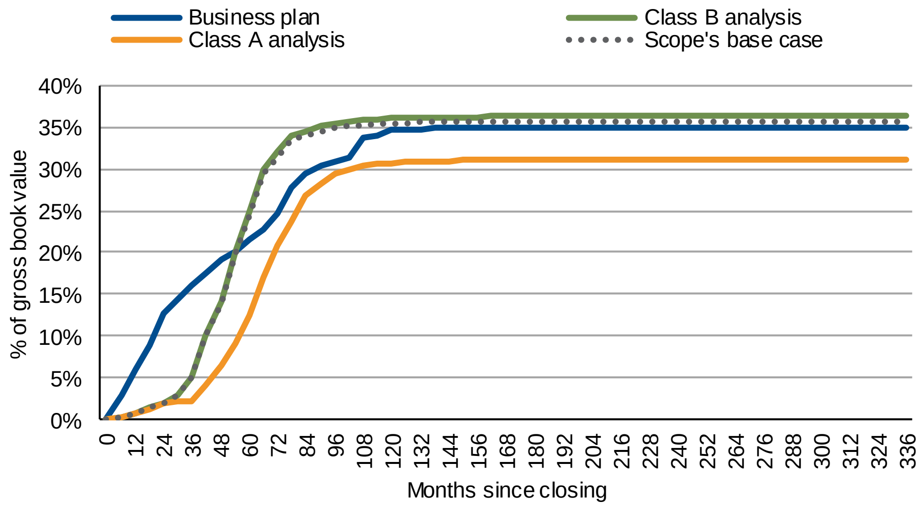
Figure 4 compares our lifetime gross collections and recovery timing assumptions for the entire portfolio with those from the servicer business plan. We applied rating-conditional recovery rates (i.e., assumed expected recoveries decrease as the instrument's target rating increases). These assumptions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

Our assumptions reflect significant recovery timing stresses

For the class A notes analysis, we assumed a gross recovery rate[2] of 31.1% over a weighted average life of 5.4 years. By segment, we assumed a gross recovery rate of 47.9% for the secured portfolio and 1.3% for the unsecured portfolio (where the unsecured portfolio component is inclusive of exposures guaranteed by junior liens).

For the class B notes analysis, we assumed a gross recovery rate[3] of 36.3% over a weighted average life of 4.6 years. By segment, we assumed a gross recovery rate of 55.8% for the secured portfolio and 1.6% for the unsecured portfolio.

Figure 4: Business plan's gross cumulative recoveries vs Scope's assumptions[4]



Sources: Special servicer business plan and Scope Ratings

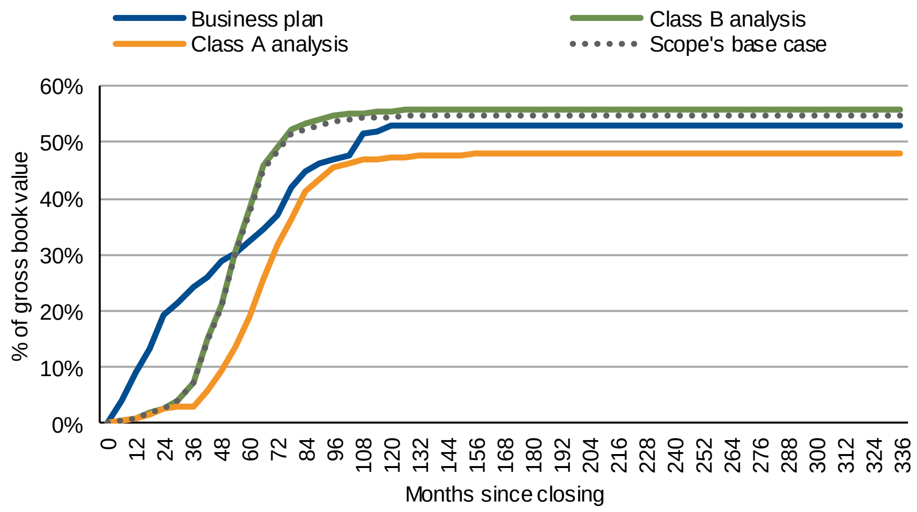
[2] The reported recovery rate includes the cash-in-court amounts.
[3] The reported recovery rate includes the cash-in-court amounts.
[4] The recovery rates include the cash-in-court amounts, which enables a direct comparison between the figures in our analysis and the servicer business plan. Scope's base case refers to a single B rating scenario.

3.1. Analysis of secured portfolio segment

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

Figure 5 shows our lifetime gross collections vectors for the secured[5] portfolio segment compared to those from the servicer business plan. Our analytical approach consists mainly of estimating the security's current value based on property appraisals and then applying security-value haircuts to capture forward-looking market value and liquidity risks. Recovery timing assumptions are mainly determined by the efficiency of the assigned court (based on historical data on the length of the proceedings), the type of legal proceeding and the stage of the proceeding. Our analysis also captures concentration risk, the servicer business plan, and available workout options.

Figure 5: Business plan's gross cumulative recoveries for secured loans vs Scope's assumptions[6]



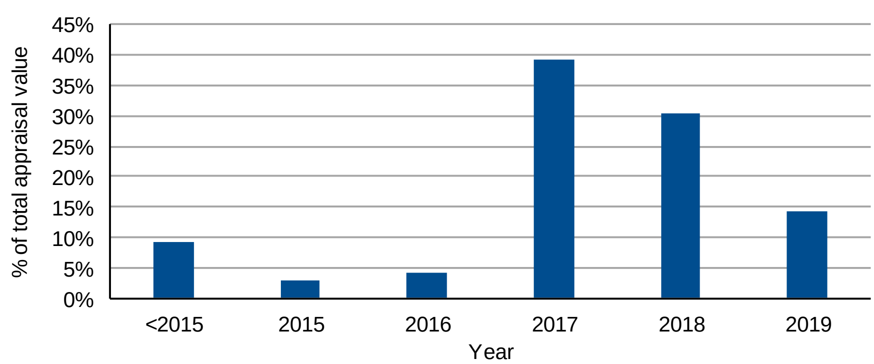
Sources: Special servicer business plan and Scope Ratings

3.1.1. Appraisal analysis

Positive credit given to the presence of recent properties appraisals

We relied on line-by-line property market value appraisals. Most of the valuations are recent, i.e. conducted between 2017 and 2019 (83.6% ca. of properties' total appraisal value). We indexed seasoned valuations using a variety of regional price indices. Indexation has a marginal impact on this NPL portfolio because property prices have remained fairly flat since 2015.

Figure 6: Collateral valuation dates



Source: Transaction data tape

[5] We define secured loans as those guaranteed by at least a first-lien mortgage, based on a loan-by-loan analysis.

[6] The calculated recovery rate includes cash-in-court amounts. Servicer's secured recovery rate has been computed based on the outlined strategy in the business plan.

37.15% of the appraisals is represented by statistical valuations (i.e., indexed valuations), whilst 33.15% is related to open market value valuations (i.e., third party valuations which can be performed either as desktop or as drive-by valuations, the latter being usually carried out for the largest exposures). The remainder 29.7% is represented by CTU valuations.

We have not received any detailed information regarding the valuation technique used for the open market value valuations. Therefore, we applied a higher haircut to these appraisals to account for the risk of overstated valuations.

The quality of pool's appraisals is below average, if compared with the other transactions rated by Scope. In fact, the pool does not present any outlined drive-by valuations, which are generally more accurate than desktop or indexed valuations.

In Figure 7, both indexed and open market value valuations have been classified under "Other/Statistical" valuation type.

Figure 7: Portfolio appraisal types and Scope's transaction-specific valuation haircut assumptions

Valuation type	% of collateral value	Class A analysis haircut	Class B analysis haircut	Scope's base case
Drive-by	-	-	-	-
Desktop	-	-	-	-
CTU	29.7	10%	8%	8%
Other/Statistical[7]	70.3	*5%-16%*	4%-12%	4%-12%

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

3.1.2. Property market value assumptions

Moderate market downturn risk

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

Figure 8: Collateral location and Scope's transaction-specific price change assumptions

	North						Centre			South			Islands	
Region	Milan	Turin	Genoa	Bologna	Venice	Others	Rome	Florence	Others	Naples	Bari	Others	Metropolitan cities	Rest of provinces
Base case	-													
Class A analysis	**-10.3**	**-10.3**	**-11.4**	**-10.3**	**-14.5**	**-12.9**	**-15.5**	**-12.9**	**-12.9**	**-15.5**	**-14.0**	**-18.1**	**-16.5**	**-16.5**
Class B analysis	**2.7**	**2.7**	**2.8**	**2.7**	**3.1**	**2.9**	**3.2**	**2.9**	**2.9**	**3.2**	**3.1**	**3.5**	**3.3**	**3.3**
Portfolio distribution (%)	**5.6**	**3.1**	**0.6**	**1.1**	**0.9**	**25.8**	**10.4**	**0.6**	**13.2**	**5.9**	**1.0**	**11.9**	**12.8**	**7.0**

[7] "Other/Statistical" refers to indexed valuations and open market value valuations. Open market valuations refers to desktop or drive-by valuations for the largest exposures.

3.1.3. Collateral liquidity risk

High NPL collateral liquidity and obsolescence risk

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

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

The pool is mostly composed by residential properties which account for 90.2% of total appraisals. The remainder is composed of commercial properties (4.5%), land (1.0%) and other type of assets (4.4%) including, properties under construction.

High share of residential properties (90.2%) viewed as credit positive

In comparison with peer transactions, the pool have the highest share of residential properties. This is credit positive given the higher liquidity of residential assets in comparison to the other type of properties.

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

Collateral type	% of collateral value	Class A analysis haircut	Class B analysis haircut	Scope's base case
Residential	90%	26%	20%	20%
Non-residential	10%	31%	24%	24%

3.1.4. Concentration risk

Low borrower concentration risk

We addressed borrower concentration risk by applying a 11.7% rating-conditional recovery haircut to the 10 largest borrowers for the class A notes analysis. The largest 10 and 100 borrowers account for 0.4% and 1.7% of the portfolio's gross book value, respectively. The granularity of pool is high compared to peer transactions we have rated.

The portfolio comprises mostly retail residential exposures, with an average exposure per loan of EUR 43,945 GBV.

3.1.5. Residual claims after security enforcement

We address potential residual claims after security enforcement

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

No credit to residual claims from corporate borrowers

For corporate loans, we gave no credit to potential further recoveries on residual claims after the security has been enforced.

Partial credit to residual claims from individuals

Based on servicers' historical data, we gave credit to residual claims on 10% of the loans to individuals. This is because if the borrower is an individual, the elapsed time after a default may have a positive impact. An individual may, for example, find new sources of income over time and become solvent again. Also, when is cost-efficient, servicer's interest is to maximise the amount of recoveries, even after the security has been enforced.

3.1.6. Tribunal efficiency

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

Northern Italian regions tend to have more efficient tribunals

The total length of the recovery processes is mainly determined by the efficiency of the assigned court and the type of legal proceeding. To reflect this, we grouped Italian courts into seven categories, based on public data on the average length of bankruptcy and foreclosure proceedings between 2014 and 2016, as shown in Figure 10 below. Most courts are concentrated within groups 2 to 4, which are reasonably distributed across all Italian regions. The highest concentration is in court group 3 (see Figures 14 and 15 for more details regarding the top courts and the concentration in court groups).

For the class A notes analysis, a rating-conditional stress was applied for both bankruptcy and non-bankruptcy procedures (2.3 years and 1.2 year were respectively added to the total legal procedures' length).

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

Court group	Bankruptcy proceedings	Non-bankruptcy proceedings	Percentage of courts*
1	4	2	1.2%
2	6	3	23.2%
3	8	4	50.2%
4	10	5	17.1%
5	12	6	6.1%
6	14	7	0.9%
7	18	9	1.3%

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

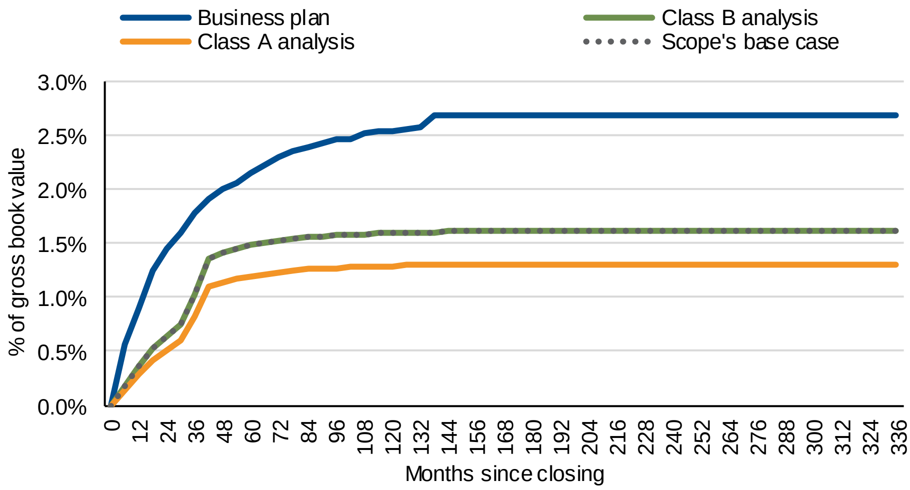
3.2. Analysis of unsecured portfolio segment

Unsecured portfolio analysis is based on statistical data

Figure 11 shows our gross collections vectors for the unsecured[8] portfolio segment compared to those from the servicer business plan. Our base case recovery amount and timing assumptions were based on loan-by-loan data with recoveries for different types of unsecured loans. For the class A notes analysis, we applied a stressed recovery rate of 1.3% (1.6% for class B analysis). Our expected recovery rates are not aligned with the servicer's recovery curve, partly because our classifications for secured and unsecured loans are different. Our assumptions for unsecured exposures consider the nature of the recovery procedure, mostly represented by non-bankruptcy proceedings. The assumptions are calibrated to reflect the nature of the loans (i.e., loans not guaranteed by at least one mortgage represent residual unsecured claims after the security enforcement, namely "shortfalls") and that unsecured borrowers in the portfolio are classified as defaulted for a weighted average of 6.8 years as of closing.

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

Figure 11: Business plan's unsecured[9] loan gross cumulative recoveries vs Scope's assumptions[10]



Sources: Special servicer's business plan and Scope Ratings

4. Portfolio characteristics

Further detail on key portfolio characteristics as of 31 March and 31 July 2019 is provided below. Percentage figures refer to gross book value, unless otherwise stated.

4.1. Eligible loans

Customary eligibility criteria

The representations and warranties on the receivables provided by the originator are generally aligned with those of peer transactions we rate, and include the following:

- All loans are denominated in euros;
- All loans agreements are governed by Italian law;
- Loans secured by a substantial balance of first-lien voluntary mortgages are collateralised with real estate assets existing and located in Italy;
- All receivables are valid for transfer without any limitations;
- All receivables are free from encumbrances;
- Borrowers have been reported by the originator as defaulted (in sofferenza) to the Italian Credit Bureau (Centrale Rischi) of the Bank of Italy as of the closing date;
- Borrowers are not employees, managers or directors of the originators;
- As of the cut-off dates, most of the borrowers are: i) individuals residing in Italy; and ii) entities incorporated under Italian law with a registered office in Italy.

4.2. Detailed stratifications

4.2.1. Borrower type

Borrowers are individuals. They present granular exposures, mostly collateralized by residential properties

The pool is composed only by individuals (100%), and it has the highest share of retail borrowers of the transactions we have rated so far.

The presence of individual borrowers is credit positive as observed secured and unsecured recoveries tend to be higher for individuals, due to the smaller average tickets and the fact that secured positions are generally backed by residential properties, which

[9] The comparison considers unsecured and junior secured loans as per the servicer business plan.
[10] The calculated recovery rate includes cash in court amounts. Scope's base case refers to a single B rating scenario.

are relatively more liquid. In addition, we expect some partial recoveries from residual claims from individuals after security enforcement, as discussed in the previous section.

Relative to peer transactions, the portfolio has an above average share of first-lien secured loans (64.0%) and a moderate share of unsecured exposures (35.7%), whilst the share of junior liens secured loans is limited (0.3%). In absence of detailed information regarding the outstanding balance of loans backed by the external senior liens (and considering the limited share of loans guaranteed by junior liens mortgages) we assumed similar recovery proceeds for both junior-lien secured loans and unsecured claims.

Figure 12: Borrower type

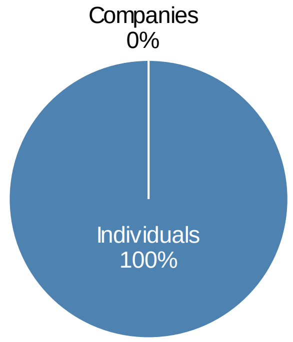
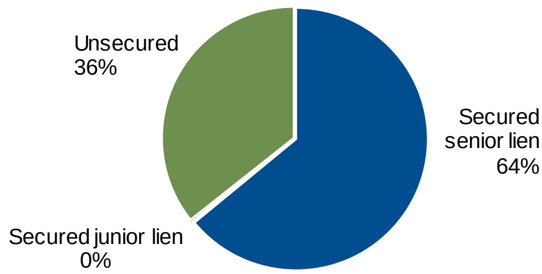


Figure 13: Loan type



Sources: Transaction data tape; calculations by Scope Ratings

Secured loans are backed by properties which are relatively well distributed across Italy

4.2.2. Geographical distribution

Secured loans are relatively well distributed across Italy, not showing any specific peak of concentration.

Given the territorial presence of the originator across the country, properties are relatively well distributed across Italy: 37.1% in the north of Italy, 24.2% in the centre, being the remainder 38.6% distributed across islands and the south of Italy (respectively, 19.8% and 18.8%).

In general, court proceedings in northern locations skew towards more efficient court groups relative to Italian average, according to our tribunal efficiency assumptions (see section 3.1.6. and Figure 15). We also view positively that properties secured by a first lien are not highly concentrated in the southern regions of Italy (see Figure 14).

Figure 14: First-lien collateral location

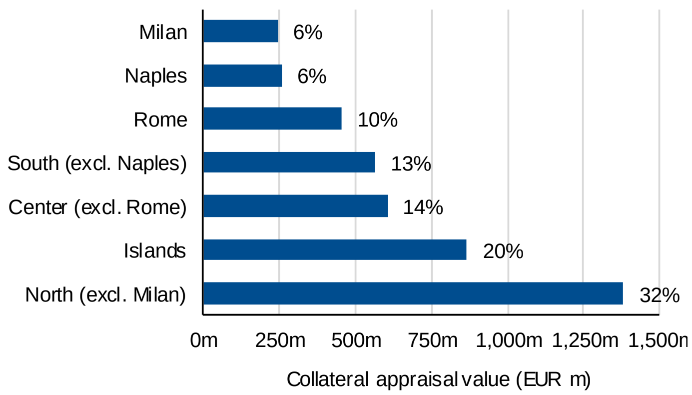
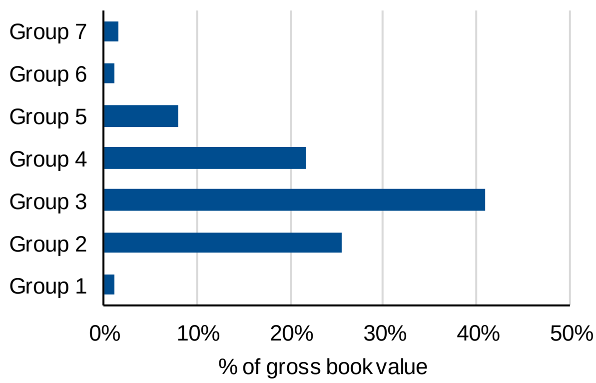


Figure 15: Court group distribution of secured loans



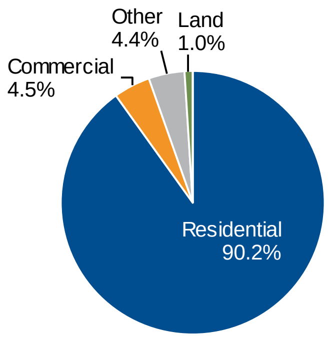
Sources: Transaction data tape; calculations by Scope Ratings

4.2.3. Collateral type

Lower liquidity stresses are applied to residential properties in comparison with the other type of assets

The portfolio's first-lien collateral is mostly composed of residential (90.2%) assets. The remainder properties are represented by commercial (4.5%), land (1.0%) and other (4.4%) assets, the latter including properties under construction.

Figure 16: Distribution by collateral type



Sources: Transaction data tape; calculations by Scope Ratings

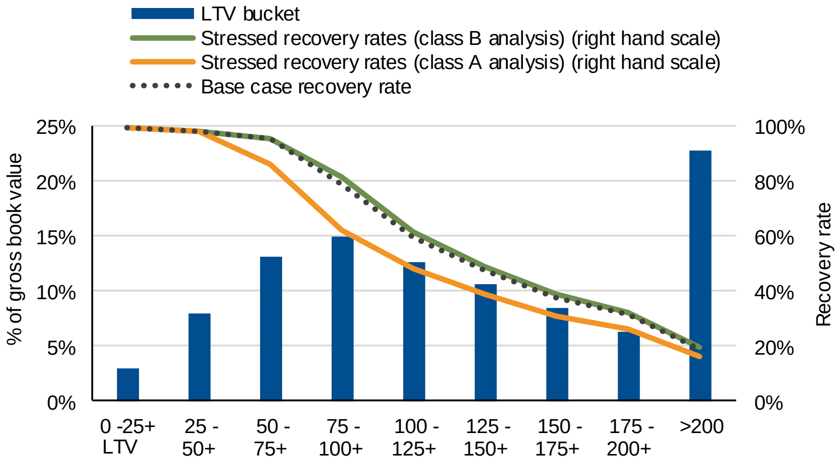
4.2.4. Collateral valuations and Scope's specific recovery rate assumptions

Recovery rate assumptions reflect portfolio's LTV distribution

Figure 17 shows the secured loans' distribution by loan-to-value (LTV) bucket as well as our recovery rate assumptions for each LTV bucket (under our rating-conditional stresses applied for the class A and class B notes analysis). This results in a weighted average recovery rate under a class A rating-conditional stress of 49.7% for the secured loans, whilst under class B rating-conditional stress the weighted average recovery rate is 58.5%[11].

All else being equal (e.g., for two portfolios with equivalent LTV ratios on an aggregated basis), collateral is less beneficial if its value is skewed towards low loan exposures. This is because, on a loan-by-loan basis, recovery proceeds from the sale of the asset are capped by the minimum of the loan's gross book value and mortgage value. Therefore, for low LTV buckets recovery rates expressed as a % of GBV flatten, as they cannot exceed 100%.

Figure 17: Secured loans' distribution by LTV[12] and Scope's transaction-specific secured recovery rate assumptions per the class A and class B analysis



Sources: Transaction data tape; calculations by Scope Ratings

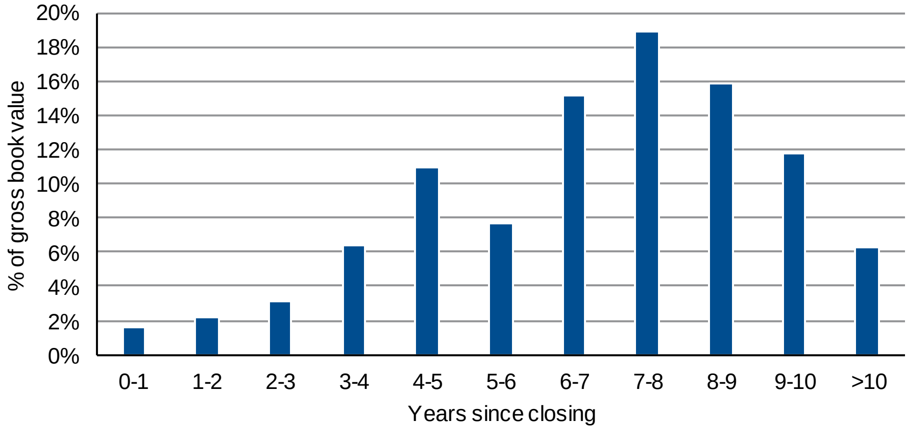
[11] The calculated recovery rate excludes estimated cash-in-court amounts.
[12] Loan To Value; it is calculated as the ratio between loans' gross book value and properties value (computed by Scope as indexed appraisal value).

4.2.5. Loan seasoning

Ageing of unsecured portfolio reduces expected recoveries

The weighted average time between default and the closing date is around 6.8 years for unsecured exposures. The pool's ageing reduces the expected recoverable amount of unsecured loans. About 75% of the unsecured exposures are highly seasoned, having had defaulted more than five years after the closing date.

Figure 18: Unsecured portfolio seasoning distribution as of closing date



Sources: Transaction data tape; calculations by Scope Ratings

4.2.6. Borrower status

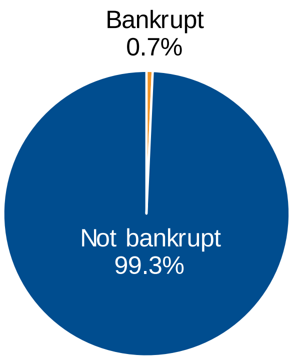
High share of foreclosure procedures

Figure 19 below shows our assumptions regarding the main legal proceedings for each borrower, based on the transaction's data tape. Given the retail nature of the pool, most of the loans are under non-bankruptcy procedures (76%), around 23% have had no legal proceeding to date, 0.3% present out-of-court procedures whilst the remainder 0.7% present bankruptcy procedures.

For the not yet initiated legal procedures, we assumed the commencing of foreclosures processes, given the fact that all the borrowers of the portfolio are individuals.

In light of the abovementioned pool's features and based on our assumptions, the portfolio presents the highest share of non-bankruptcies procedures, compared with the NPL transactions we have rated so far.

Figure 19: Borrower status assumptions[13]



Sources: Transaction data tape; calculations by Scope Ratings

[13] The reported share of non-bankruptcies includes not initiated legal procedures along with out-of-court legal procedures (which account for 23.3% of gross book value).

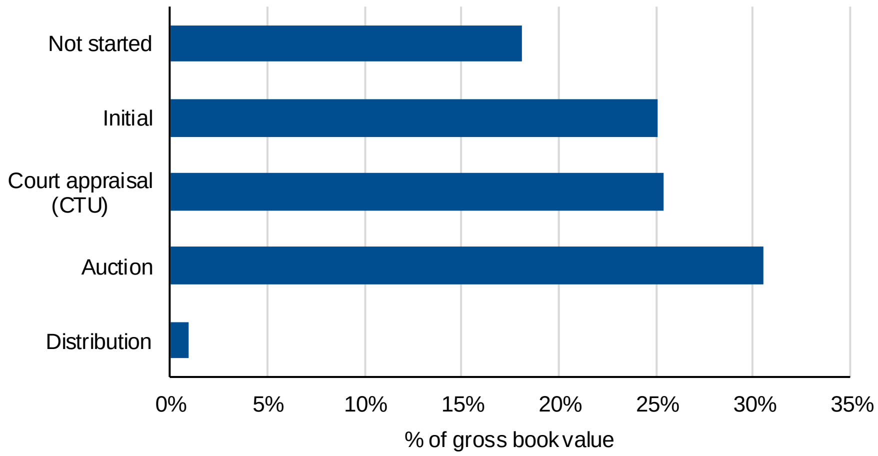
Proceedings in initial stages drive relatively long recovery timing assumptions

4.2.7. Recovery stage of secured exposures

About 43% of the secured loans is in the initial stage of proceedings (including not initiated legal procedures). The remainder is either at a CTU or auction phase, respectively 25% and 31%, whilst only 1% is reported to be in a distribution phase.

Figure 20 below shows the stage of legal proceedings in relation to secured loans.

Figure 20: Secured recovery stage by borrower status[14]



Sources: Transaction data tape; calculations by Scope Ratings

5. Key structural features

5.1. Combined priority of payments

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

1. Servicer fees and other issuer counterparty fees, taxes and transaction expenses
2. Interest on the limited-recourse loan
3. GACS premium, provided the GACS guarantee is in place
4. Replenishment of recovery-expense reserve
5. Interest on class A notes
6. Any other amounts payable under the GACS guarantee
7. Cash reserve replenishment
8. Principal on the limited-recourse loan
9. Unpaid and due mezzanine and junior servicing fees in case a First Servicer Subordination Event[15] has occurred and/or a Servicer Underperformance Subordination Event[16] has occurred in respect of on any preceding payment date but is no longer outstanding on the relevant payment dates

[14] Scope considered the most updated legal stage, resulting from legal procedures information (available at borrower level) and information on auctions and sale processes, derived from the collateral details (i.e., presence of auctions reserve prices and properties' sale prices).

[15] A First Servicer Subordination Event occurs if the NPV cumulative profitability ratio is equal to or higher than 95%; or if the cumulative net collections ratio is equal to or higher than 95%.

[16] A Servicer Underperformance Subordination Event means any of (i) Second Servicer Underperformance Subordination Event, (ii) Third Servicer Underperformance Subordination Event, (iii) Fourth Servicer Underperformance Subordination Event, (iv) Fifth Servicer Underperformance Subordination Event. A second (third, fourth, fifth respectively) servicer underperformance subordination event occurs if the NPV cumulative profitability ratio is within the range of 90%-95% (85%-90%, 80%-85%, <80%, respectively for the third, fourth and fifth servicer underperformance subordination events) or if the net collection ratio is in the range of 90%-95% (85%-90%, 80%-85%, <80% respectively for the third, fourth and fifth servicer underperformance subordination events).

10. Interest on class B notes provided no Interest Subordination Event has occurred or in case, once triggered, the Interest Subordination Event has been cured
11. Principal on class A notes in full
12. Class B interest upon occurrence of the Interest Subordination Event
13. Principal on class B notes, prior to the occurrence of a Servicer Underperformance Subordination Event
14. Upon the occurrence of a Servicer Underperformance Subordination Event: 15% of the servicer mezzanine fees or 100% of the servicer mezzanine fees (in case class B has been fully repaid) and class B outstanding principal
15. Principal on class J notes and, upon the occurrence of a Servicer Underperformance Subordination Event, the servicer junior fees
16. Any residual amount as class J variable return

Interest Subordination Event for class B is aligned with the updated requirements of the 2019 GACS Scheme

The Interest Subordination Event occurs if i) the cumulative net collection ratio[17] falls below 90% of the servicer's business plan targets; or if ii) the NPV cumulative profitability ratio[18] falls below 90% and the monitoring agent has sent the relevant notice to the issuer, the servicer, the representative of noteholders, the arranger, the cap counterparty, the rating agencies and the calculation agent; or if iii) the interest amount which will be actually paid on the class A notes on the following interest payment date is lower than the interest amount due and payable on such interest payment date.

Once the Interest Subordination Event is triggered, class B interest payments are fully deferred and not paid until class A is fully repaid or until the Interest Subordination Event is cured (i.e., once the servicer re-start to outperform versus the business plan; namely, when the cumulative net collection ratio is higher than 100%). Once the Interest Subordination Event is cured, due and unpaid class B interests are paid senior to class A principal. In particular, once the Interest Subordination Event is triggered, if on a subsequent payment date the cumulative net collection ratio returns between 90% and 100%, class B interests accruing on that payment date will be payable senior to class A principal repayment. These mechanisms are aligned with the requirements of the 2019 updated GACS Scheme[19].

We tested different recovery timing assumptions as well as different level of lifetime recoveries to assess their impact on triggering an Interest Subordination Event.
Under the recovery and timing stresses applied for the class A note analysis, in the central scenario, we assumed that the Interest Subordination Event does not occur (i.e., that the servicer is always performing above 90% of its business plan). We have also tested the other scenarios where the Interest Subordination Event is hit on different interest payment dates.

[17] 'Cumulative net collection ratio' is defined as the ratio between: i) the cumulative net collections since the 30 September 2019; and ii) the net expected aggregated collections, provided however that, to verify the First Servicer Subordination Event and/or a Servicer Underperformance Subordination Event and/or a Servicer Underperformance Termination Event also the amount of net collections between the portfolio's cut-off dates (of 31 March and 31 July 2019) and the 30 September 2019 (included) shall be taken into account.
Net collections are the difference between gross collections and recovery expenses.
A Servicer Underperformance Termination Event occurs if for six collection dates the cumulative net collection ratio is lower than 80% or, following the enforcement of the GACS Guarantee, the cumulative net collection ratio has been lower than 100% for two consecutive collection dates, including the collection date immediately preceding the payment date in respect of which the GACS Guarantee is enforced.

[18] 'NPV cumulative profitability ratio' is defined as the ratio between: i) the sum of the present value (calculated using an annual rate of 6.25%) of the net collections for all receivables relating to exhausted debt relationships (as indicated in the master servicer IT system); and ii) the sum of the target price (based on the servicers' initial business plan) of all receivables relating to exhausted debt relationships. However, to verify the First Servicer Subordination Event and/or a Servicer Underperformance Subordination Event and/or a Servicer Underperformance Termination Event also the amount of net collections between the portfolio's cut-off dates (of 31 March and 31 July 2019) and the 30 September 2019 (included) shall be taken into account.

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

Under the recovery and timing stresses assumed for the class B note analysis, our central scenario assumes that the Interest Subordination Event is triggered from the first interest payment date. We also tested alternative scenarios, which were credit positive and negative for class B.

We tested central scenarios for both class A and class B notes, in order to analyse the resilience of the respective ratings.

Scope's ratings do not address the GACS guarantee

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

Non-timely class A interest payment would trigger accelerated waterfall

Non-timely payment of interest on the senior notes (unless the GACS guarantee is in place, in which case, specific criteria will apply), among other customary events such as the issuer's unlawfulness, would accelerate the repayment of class A through the full subordination of class B payments.

5.2. Servicing fee structure and alignment of interests

5.2.1. Servicing fees

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

Alignment of servicer and noteholder interests

The servicer will be entitled to both an annual base fee and a performance fee. The annual base fee is calculated as 0.05%-0.06% of the outstanding portfolio's gross book value, depending on the referenced years. The performance fee varies from 6.4% to 10.5% on secured exposures, and from 7.8% to 12.7% on the unsecured exposures. Collection figures exclude legal costs. Servicer fees are calculated at each payment date.

The precise level of fees is subject to the exposure type (presence of first-lien mortgages) and to the share of guaranteed loans with respect to the total borrower's position. Our analysis assumed an average performance fee of 8.7% and 9.7% for secured and unsecured loans, respectively, considering the portfolio distribution by gross book value buckets.

5 servicer underperformance events drive the partial deferral of mezzanine and junior servicing fees

The transaction envisages the presence of 5 underperformance subordination events[20] triggered by the levels reached by the cumulative net collections ratio or by the NPV cumulative profitability ratio. Following the occurrence of an underperformance subordination event, a certain portion of the mezzanine and junior fees becomes due and unpaid. Once the underperformance event is cured[21], the mezzanine and junior servicing fees unpaid and due are paid senior only to class B interests. The servicer is therefore incentivised to maximise recoveries and comply with the initial business plan.

5.2.2. Servicer monitoring

Monitoring function protects noteholders' interests

An overview of the servicer's activities and calculations, prepared by the monitoring agent (Securitisation Services S.p.A.), mitigates operational risks and moral hazard that could

[20] A First (Second, Third, Fourth, Fifth) Servicer Subordination Event occurs if the NPV cumulative profitability ratio is equal to or higher than 95% (equal to or higher than 90%,85%,80% in case of the second, third, fourth servicer subordination event; lower than 80% in case of the fifth servicer subordination event); or if the cumulative net collections ratio is equal to or higher than 95% (equal to or higher than 90%,85%,80% in case of the second, third, fourth servicer subordination event; lower than 80% in case of the fifth servicer subordination event).

[21] A First (Second, Third, Fourth, Fifth) Servicer Subordination Event, is cured when the cumulative net collections ratio is higher than 95%,100%,100%,100% in case of the second, third, fourth, fifth servicer subordination event; is never cured in case of the first servicer subordination event, considering that above 95%, 1% of the servicing fees is always deferred. Alternatively, is cured when the NPV cumulative profitability ratio is higher than 95%,90%,85%,80% in case of the second, third, fourth, fifth servicer subordination event; is never cured in case of the first servicer subordination event, considering that above 95%, 1% of the servicing fees is always deferred.

negatively impact noteholder interests.

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

The monitoring agent will report to a committee that represents the interests of both junior and mezzanine noteholders. The committee can authorise the revocation and replacement of the special servicer upon a servicer termination event. The monitoring agent can also authorise the sale of the receivables (acting upon instructions of the committee), the closure of debt positions, and the payment of additional costs and expenses related to recovery activities. The committee and the noteholders' representative can request to the issuer the replacement of the master servicer or any special servicer upon a servicer termination event.

5.2.3. Servicer termination events

A back-up servicer facilitator helps in mitigating servicing disruption risk.

In the event of a servicer termination event, the back-up servicer facilitator (Securitisation Services S.p.A.) will cooperate with the monitoring agent and the issuer in order to select a substitute in accordance with the servicing agreement.

The absence of a back-up servicer slightly weakens the mitigation of the servicer disruption risk in comparison with other transactions foreseeing a back-up servicer.

The back-up servicer facilitator exclusively provides consulting services to the issuer (*obbligazione di mezzi*); its duties are limited to the identification of at least two eligible entities as substitute of the servicer.

A servicer termination event includes insolvency, an unremedied breach of obligations, an unremedied breach of representation and warranties, loss of legally eligibility to perform obligations under the servicing agreement, the consistent underperformance for a period of three years (i.e., if the cumulative net collection ratio is lower than 80% for six collection dates) or, following the enforcement of the GACS guarantee, in case the cumulative net collection ratio has been lower than 100% for two consecutive collection dates, including the collection date immediately preceding the payment date in respect of which the GACS Guarantee is enforced.

5.3. Liquidity protection

Cash reserve protects liquidity of the senior noteholders

A cash reserve will be funded at closing through a limited-recourse loan provided by UniCredit Bank AG.

The cash reserve will amortise with a floor of EUR 10m until class A note is redeemed or the transaction reaches legal maturity. The target cash reserve amount at each payment date will be equal to 4.0% of the total outstanding balance of class A notes.

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

Class B will not benefit from liquidity protection.

5.4. Interest rate hedge

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 the notes, defined as six-month Euribor plus a 1.5% fixed margin on the class A and a margin of 9% regarding class B.

Interest rate risk is partially mitigated by an interest cap agreement on the base rate of class A and B notes

An interest rate cap agreement (with UniCredit Bank AG as the interest cap provider) partially mitigates the risk of increased liabilities on the class A and class B notes due to a rise in Euribor (see Figure 21). The base rate is partially hedged through an interest rate cap agreement with an increasing strike level of 0.20% from the issue date, 0.5% from Nov 2020, 0.70% from Nov 2022, 0.75% from May 2024, 1.0% from May 2025, 1.25% from May 2026 until May 2034. Under the agreement the Issuer receives the difference between six-month Euribor and the cap strike, following a predefined notional schedule.

The interest rate cap notional schedule is not fully aligned with our expected class A and class B amortisation profile (see Figure 22). A delay in recoveries beyond our stressed recovery timing vector would increase interest rate risk exposure, as it would widen the gap between the transaction's interest rate cap notional amount and the class A and B notes' outstanding principals. For the class A and B notes analysis, we stressed the Euribor forward curve, as shown in Figure 21.

Figure 21: Interest rate cap for class A and B notes

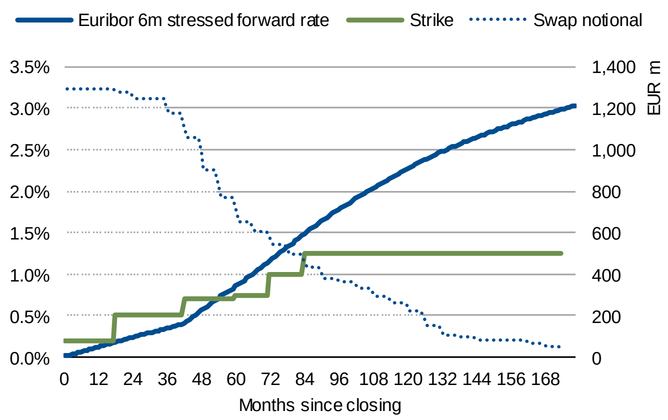
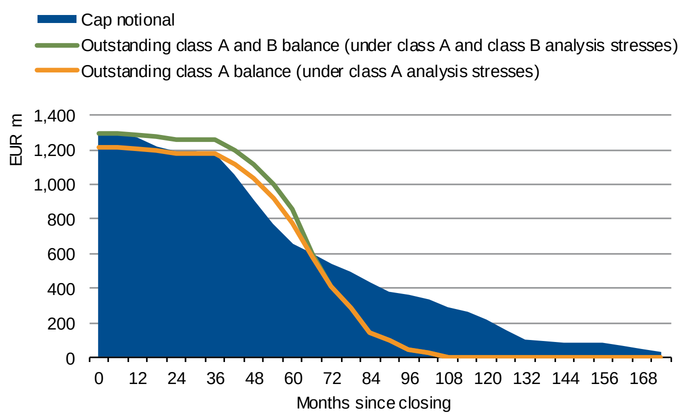


Figure 22: Cap notional vs outstanding class A and B notes



Sources: Transaction documents, Bloomberg and Scope Ratings

6. Cash flow analysis and rating stability

The cash flow analysis considers the structural features of the transaction

We analysed the transaction's specific cash flow characteristics. Asset assumptions were captured through rating-conditional gross recovery vectors. The analysis captures the capital structure, an estimate of legal costs equivalent to 12% of gross collections, servicing fees as described in section 5.2, and issuer senior fees. We took into account the reference rate payable on the notes, considering the hedging agreement described in the previous section.

The 12% estimated legal costs are above average in comparison with the other transactions rated by Scope (generally estimated at 9%). This is also aligned with the servicer's estimated level of legal expenses as per the original business plan. The higher legal costs are justified by the need of a more regular and proactive activity to be pursued by the servicer: retail exposures, being more granular than corporate ones, require a more intense and ongoing servicing activity.

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

The BBB+ rating assigned to the class A notes and the B- rating assigned to the class B notes reflect the expected losses over the instruments' weighted average life commensurate with the idealised expected loss table in our General Structured Finance Ratings Methodology.

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

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

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

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

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

7. Sovereign risk

No mechanistic cap

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

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

8. Counterparty risk

Counterparty risk does not limit the transaction's ratings

In our view, none of the counterparty exposures constrain the ratings achievable by this transaction. We factored in counterparty replacement triggers implemented in the transaction and relied on publicly available ratings and our ratings, when available, of the involved counterparties. We also considered eligible investment criteria in the transaction documents for cash amounts held by the issuer.

The transaction is mainly exposed to counterparty risk from the following counterparties: Unicredit S.p.A. as the originator, regarding representation and warranties and the eventual payments that might be made by the borrowers, as account bank and cash manager, ii) Italfondiario S.p.A. as master servicer and administrative services provider, iii) doValue S.p.A. as special servicer, iv) Securitisation Services S.p.A. as master back-up servicer facilitator, administrative services provider, computation agent, monitoring agent and representative of noteholders; v) BNP Paribas Securities Services, Milan Branch, as agent bank and principal paying agent; vi) UniCredit Bank AG as the cap counterparty and limited recourse loan provider.

The account bank must have a minimum short-term and long-term rating of S-3 and BB by Scope. The cap provider must have a minimum long-term rating of BB, if rated by Scope.

8.1. Servicer disruption risk

A servicer disruption event may have a negative impact on the transaction's performance. The transaction incorporates servicer monitoring as well as a back-up servicer facilitator that would cooperate with the issuer and the monitoring agent for the selection of a substitute servicer in order to mitigate operational disruption (see section 5.2).

8.2. Commingling risk

Limited commingling risk

Commingling risk is limited, as debtors will be instructed to pay directly into an account held in the name of the issuer. In limited cases where the servicer has received payments from a debtor, the servicer would transfer the amounts within two business days from the payment reconciliation.

8.3. Claw-back risk

Limited claw-back risk

The seller has provided on the issue date: i) a solvency certificate signed by a representative duly authorised and ii) a certificate from the bankruptcy court (tribunale civile – sezione fallimentare) confirming that the relevant seller is not subject to any insolvency or similar proceedings. This will mitigate claw-back risk, as the issuer should be able to prove it was unaware of the seller's insolvency as of the transfer date.

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

(i) pursuant to article 67, paragraph 1, of the Italian Bankruptcy Law, if the bankruptcy declaration of the relevant originator is made within six months from the purchase of the relevant portfolio of receivables, provided the receivables' sale price exceeds their value by more than 25% and the issuer cannot prove it was unaware of the originator's insolvency, or

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

8.4. Enforcement of representations and warranties

Representations and warranties limited by time and amount

The issuer will rely on the representations and warranties, limited by time and amount, provided by the originator in the transfer agreement. If a breach of a representation and warranty materially and adversely affects a loan's value, the originator may be obliged to indemnify the issuer for damages within 10 business days following the expiry of the period of opposition or within 10 business days following the reach of an agreement after the arise of a challenge or within 10 business days after court's decision in case of challenge without a subsequent agreement.

However, the above-mentioned representations and warranties are only enforceable by the issuer within 18 months from the issue date. The total indemnity amount will be capped to a maximum of 20% of the portfolio purchase price. Furthermore, the indemnity amounts will be payable only above a minimum amount threshold of EUR 1,500,000 on an aggregate basis, and EUR 1,000 on a single-loss basis, once the minimum amount threshold is reached.

Our analysis considered these deductibility thresholds, which could result in limited additional portfolio losses if certain representations are breached.

9. Legal structure

9.1. Legal framework

Transaction documents governed by Italian and English law

The transaction documents are governed by Italian Law, whereas English Law governs the interest cap agreement and the deed of charge.

The transaction is fully governed by the terms in the documentation and any changes are subject to the risk-takers' consent.

9.2. Use of legal opinions

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

9.3. Legal documents

We had access to all transactions documents, including, *inter alia*, the master amendment agreement signed between transaction's counterparties on the 28 October 2019.

Monitoring

Continuous rating monitoring

Scope will monitor this transaction on the basis of the performance reports, updated loan by loan reports, as well as other public information. The ratings will be monitored on an ongoing basis.

Scope analysts are available to discuss all the details surrounding the rating analysis

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

10. Applied methodology

For the analysis of the transaction Scope applied its Non-Performing Loan ABS Rating Methodology (dated September 2019) and the Methodology for Counterparty Risk in Structured Finance (dated July 2019), both available on www.scoperatings.com.

I. Summary appendix – deal comparison

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

* The weighted average seasoning includes Scope's qualitative adjustment driven by the special servicer's superior capacity to treat unsecured loans compared to an originator.
**This includes loans with no ongoing legal proceeding or loans where the nature of the proceeding is unknown.
***Juliet, Credito Fondiario, Italfondiario, Prelios.

Transaction's preliminary data tapes; calculations and assumptions by Scope Ratings. Closing portfolio stratifications may have immaterial deviations.

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