Bela 2022 S.r.l.

Italian Non-Performing Loan ABS

Ratings

Tranche	Rating	Size (EUR m)	% of notes	% of GBV	Coupon	Final maturity
Class A	BBB_{SF}	60.0	81%	13%	6m Euribor + 2.5%	Jan 2043
Class B	NR	10.0	13%	2%	6m Euribor + 7.5%	Jan 2043
Class J	NR	4.1	6%	1%	10% + variable return	Jan 2043
Total		74.1	100%	15.8%		

Scope's quantitative analysis is based on the portfolio provided by the originators. 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 base rate on the class A notes will be capped with an upper bound rate ranging from 0.10% in July 2022 to 2.0% until July 2035.

Transaction details

Transaction type	Static cash securitisation
Asset class	Non-performing loans ('NPLs')
Issue date	13 April 2022
Issuer	Bela 2022 S.r.l.
Sellers	illimity Bank S.p.A. ('illimity) Aporti S.r.l. Doria SPV S.r.l.
Master servicer	Cerved Master Services S.p.A.
Special servicer	Cerved Credit Management S.p.A (CCM)
Gross-book value ('GBV')	EUR 475m
Cut-off date	30 June 2021
Transfer date	31 March 2022
Key portfolio characteristics	The securitised pool is composed of unsecured loans for a share of 56.1% of the portfolio's GBV and of senior secured loans for a share of 43.3% of the portfolio's GBV. Remaining exposures are junior secured loans (0.6% of the portfolio's GBV). Loans were granted mainly to corporate debtors (83.8% of the GBV). Secured loans are backed by first lien mortgages on residential and non-residential properties (25.4% and 74.6% of the total property value, respectively). Properties are rather concentrated in the south of Italy (58.7%) followed by northern (30.8%), and central (10.5%) regions. Asset information reflects aggregation by loans and Scope's pool adjustments related to collections and sold properties since the cut-off date.
Payment frequency	Semi-annual (January and July)
Key structural features	The structure comprises three classes of notes with fully sequential principal amortisation: senior class A, mezzanine class B, and junior class J. Class A will pay a floating rate indexed to six-month Euribor, plus a margin of 2.5%. Class B will pay a floating rate indexed to six-month Euribor, plus a margin of 7.5%. The Euribor component of class B interest is subordinated to repayment of class A notes. Class J principal and interest are subordinated to the repayment of the senior and mezzanine notes.
Hedging provider	Intesa Sanpaolo S.p.A.
Other key counterparties	BNP Paribas Securities Services, Milan Branch (agent bank, account bank, cash manager and paying agent) Zenith Service S.p.A. (representative of the noteholders, calculation agent, back-up servicer, monitoring agent and corporate services provider) illimity Bank S.p.A. (limited recourse loan provider and representations and warranties provider)

Analytical Team

Leonardo Scavo
+39 02 9475 9859
l.scavo@scoperatings.com

Paula Lichtensztein
+49 30 27891 224
p.lichtensztein@scoperatings.com

Team Head

David Bergman
+39 02 94758 940
d.bergman@scoperatings.com

Related Research

Italian NPL collections: February volumes rise 39%

April 2022

Italian NPL collections: still lagging pre-pandemic volumes

March 2022

Semi-annual Italian NPL review and outlook: 60% of transactions set to underperform in 2022

March 2022

Scope Ratings GmbH

Lennéstraße 5
10785 Berlin

Tel. +49 30 27891 0
Fax +49 30 27891 100

info@scoperatings.com
www.scoperatings.com

Bloomberg: RESP SCOP

Rating rationale (summary)

The rating is 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. Our credit risk analysis also considers the structural protection provided to the notes, the absence of equity leakage provisions, the liquidity protection, the interest rate hedging agreement, and the exposure to the main transaction counterparties.

Our approach to projecting recoveries depends on whether the exposure is secured or unsecured. For secured exposures, we mainly derived expected collections from the latest property appraisal values, which we stressed based on appraisal type, liquidity, and market value risks. Security value haircuts were calibrated using the servicer's historical repossession data. Recovery timing assumptions were derived using line-by-line asset information detailing the type of legal proceeding, the respective court responsible for the proceeding, and the legal stage of the proceeding as of the portfolio transfer date. For unsecured and junior secured, we considered market-wide line-by-line data on loans that defaulted during 2000-19, the special servicer's capabilities and servicer-specific historical data.

Rating drivers and mitigants

Positive rating drivers

High share of drive-by and recent valuations. Half of the portfolio's collateral appraisals are drive-by valuations (50.1%), which are generally more accurate than desktop or CTU valuations. Around 72.6% of valuations were conducted between end-2021 and 2022, meaning asset values are likely to incorporate the current liquidity risks and recent price fluctuations of the real estate market.

High volume of collections since cut-off date. Collections received since portfolio cut-off date up to January 2022 amount to around EUR 11m, which represents around 13% of Scope's expected lifetime collections. They will be part of the issuer's available proceeds at the first payment date. These collections will not be considered for the calculation of the servicing fees.

Material portion of proceedings in advanced stages. Based on our analysis, around 21.2% of the secured loans are in the auction phase and 18.8% in the court distribution phase. These loans have shorter expected time for collections compared with loans in the initial phases of legal proceedings.

Underperformance events linked to servicer's performance. If servicer's performance falls below its own business plan, its fees are partially subordinated and deferred to the class A payments. This strengthens the alignment of interest between the transaction's counterparties.

Negative rating drivers and mitigants

Below-average collateralisation. A significant share of the portfolio (81.2% of the secured loans) has a loan-to-value higher than 125%. As a result, the liquidation of the real estate collateral will likely be insufficient to cover the full amount of the secured loans.

Property type. The residential component of the portfolio (25.4% of total first-lien properties' valuation) is relatively low compared to peer transactions rated by Scope. The share of hotel, land and properties under construction is high compared to peer transactions (overall 31.5% of first-lien property valuations). These types of real estate assets have higher price volatility compared to residential assets.

Geographic concentration. A material portion of the portfolio's first-lien collateral is concentrated in the south of Italy (58.7% by GBV). Southern regions are less economically dynamic and have generally less efficient tribunals compared to northern regions.

Significant portion of unsecured loans. The securitised portfolio has an above average share of unsecured loans, for which recovery rates are typically lower compared to secured loans.

Upside rating-change drivers

Rapid economic growth following the pandemic crisis. A scenario of rapid economic recovery would improve liquidity and affordability conditions and prevent a sharp deterioration in collateral values. This could positively affect the rating, enhancing transaction's performance on collection volumes.

Downside rating-change drivers

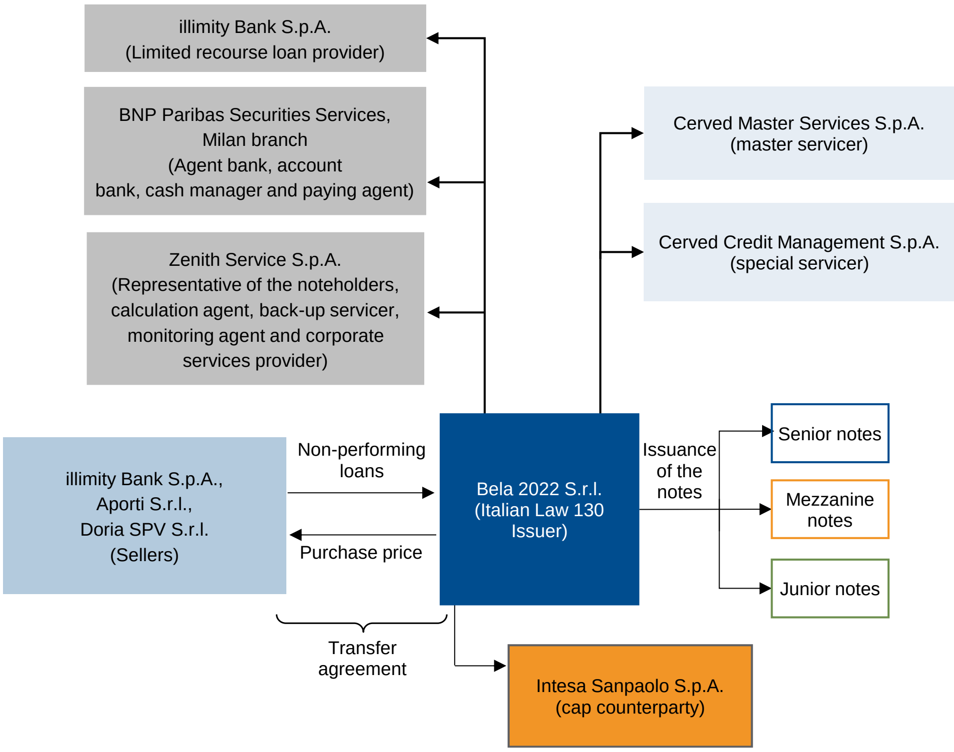
Servicer underperformance. Servicer performance falling short of Scope's expected collection amounts could negatively impact the rating.

Legal costs. An increase of the legal expenses compared to Scope's initial assumption could negatively affect the rating.

Table of contents

1. Transaction diagram

Figure 1: Transaction diagram



Sources: Transaction documents, Scope Ratings.

2. Macroeconomic environment

The Italian economy has rebounded strongly from the Covid-19 pandemic shock with real GDP growth of 6.6% in 2021, despite a slowdown towards the end of the year driven by a resurgence in the spread of the virus, supply-chain disruptions and price shocks on energy and raw materials that hampered production.

The Russia-Ukraine conflict is set to exacerbate these shocks. Material impacts for Italy will stem from several channels including trade links, the banking sector, and consumer and business confidence, but especially rising energy and raw material prices that are driving inflation very high, as reflected by a headline inflation rate of 6.2% in February. The ultimate impact on economic output is still highly uncertain given the rapid developments in terms of sanctions and negotiations around a possible armistice. Even so, we have revised down our projections for Italy's economic growth for 2022 to about 3%, from 4%-4.5% expected earlier this year, followed by about 1.5% in 2023.

Italy's unemployment rate stood at 8.8% in February, down from 9.7% before the Covid-19 shock, although employment still counts around 200,000 fewer workers than before the pandemic. We expect unemployment to average 8.5% in 2022-23, with Italy's high structural unemployment preventing further declines at this stage.

We expect the Italian recovery to moderate in the medium run towards its growth potential of around 0.8%, constrained by low productivity gains and adverse demographic developments. This growth outlook is supported by our expectation of continued reform, with the government headed by Prime Minister Mario Draghi enjoying a robust parliamentary majority, and by the increasing public investment driven by EUR 192bn of Next Generation EU funding. Still, political fragmentation remains a core constraint and could worsen depending on the results of the upcoming parliamentary elections in 2023. Continued accommodative borrowing conditions anchored via the European Central Bank's policies support the economic outlook and ensure favourable financing conditions for the Italian government. While the high inflation is accelerating the normalisation of crisis-era policies, rates remain low from an historical perspective. We expect the European Central Bank to unwind asset purchase programmes gradually, with reinvestments of the central bank's security holdings to continue easing government funding into the medium term. The economic ramifications of the Russia-Ukraine conflict will also somewhat slow fiscal consolidation, already impacted by the pandemic.

We estimate the government deficit for 2022 at 5.5% of GDP, down from 7.2% in 2021. We expect public debt to GDP to decline only slightly to 148% in 2022 from 150% in 2021, and towards 144% by 2026, from 156% in 2020 and 135% in 2019. The high debt stock will continue to pose challenges for long-run debt sustainability.

3. Special servicer review

3.1. Introduction

We conducted an operational review on the special servicer CCM. In Scope's view the special servicer's capabilities and processes to manage the securitised portfolio are adequate.

Our assessment of the special servicer's capabilities addresses, among other aspects, their corporate structure, business processes, collateral appraisal procedures, servicing IT systems, business discontinuity risks and transaction-specific aspects such as portfolio onboarding for those exposures not yet serviced, asset manager allocation and asset disposal strategies (i.e., business plan).

This assessment was considered when deriving our recovery rate and recovery timing assumptions for both unsecured and secured positions. In addition, we conducted a virtual property tour on a small sample of properties from the securitised portfolio. This is part of our assessment of portfolio collateral valuations and secured recovery expectations, captured through our haircuts based on property and appraisal types.

3.2. Corporate overview

CCM is the third largest special servicer by AUM

CCM is the third largest special servicer in Italy by asset under management ('AUM') with approximately EUR 34.5bn[1] of NPLs under management. CCM has grown its AUM from EUR 12.5bn in 2015 to approximately EUR 41.3bn in September 2021, across both the performing and non-performing segment. CCM is part of Cerved Group and is active also in Romania and Greece.

3.3. Servicing model

CCM is full-suite servicer, offering master servicing, special servicing solutions, real estate and other ancillary services. The servicer has multiple branches across Italy and a network of external lawyers and agents supporting legal, collection, appraisal and brokering functions.

Onboarding of portfolios is a largely automated process and relies on a servicing platform developed in partnership with an external vendor. The servicing system is used for managing and monitoring legal procedures and documentation, including real estate auctions, as well as coordination with their network of supporting agents. This system also feeds underlying databases, from which automated reports are generated for both internal and external agents.

[1] As of September 2021

CCM allocates loans to asset managers according to the ticket size and the amount of expected gross proceeds, identifying three different loan segments: top, medium and small. Top loans include trophy assets and large positions that are managed with a bespoken approach. Medium loans include medium-size secured and unsecured loans where the recovery strategy focuses on reaching an out-of-court solutions with the borrowers. Small loans include small unsecured loans, deficiency exposures, loans with no recoveries expected, and are managed with a more industrialised approach.

4. Portfolio characteristics

4.1. Representations and warranties

The securitised pool comprises secured and unsecured Italian NPLs sold by illimity, Aporti S.r.l. and Doria SPV S.r.l. The set of representations and warranties on the receivables provided by the sellers is aligned with those of peer transactions we rate. However, a weakness is that, the issuer will not be entitled to claim any indemnities related to any fact or circumstance that was already ascertainable for the portion of the portfolio analysed by the special servicer during its own due diligence (representing around 42% of the GBV). The representations and warranties provided by the originators include the following (as of transfer date):

- All loans are denominated in euros, governed by Italian law and enforceable for an amount at least equal to the GBV.
- All receivables are in the full and exclusive ownership of the sellers and are free from restraints and encumbrances.
- All receivables are valid for transfer without limitations.
- All first-lien mortgages are valid and enforceable and have been duly created and renewed.
- All receivables have been reported as defaulted by the Credit Bureau of the Bank of Italy.
- All real estate assets exist and are located in Italy.
- All first-lien mortgages have the lien indicated in the data tape.
- All individual borrowers are resident in Italy and all corporate borrowers are incorporated under Italian law (with the exception for 7 borrowers).
- All information contained in the loan data tape are true and accurate.

4.2. Key portfolio stratifications

Figure 2 provides a high-level view of portfolio characteristics as of the cut-off date. Detailed loan-level portfolio stratifications are provided in Figures 3-12.

Figure 2: Portfolio summary

	All	Senior secured	Junior secured	Unsecured
Number of loans	13,216	491	32	12,693
Number of borrowers	7,881			
GBV (EUR m)	474.9	205.5	2.9	266.5
% of GBV		43.3%	0.6%	56.1%
Cash in court (% of GBV)	2.3%			
Collections since cut-off date (% of GBV)	2.3%			
Weighted average seasoning	5.9	7.8	7.2	4.5
Collateral values (EUR m)		124.7	53.4	

Sources: Transaction data tape, calculations by Scope Ratings

We adjusted the pool's GBV using information on collections and sold properties since the cut-off date. The analysis excluded portfolio's loans, which we assumed to be closed, based on collections already received (EUR 11m up to January 2022) and estimated cash-in-court (EUR 10.9m relative to first-lien property value).

These adjustments reduced the portfolio's GBV from EUR 475m to EUR 408m. Collections received since the cut-off date will be part of the issuer's available proceeds at the first payment date. We assumed the amount of cash-in-court would be received within three years.

Our analysis is performed at the loan-level, considering the information provided to us in the context of the transaction as well as publicly available information. Loans are defined as 'senior secured' if they are guaranteed by first-lien mortgages, 'junior secured' if they are guaranteed by second- or lower-lien mortgages, and 'unsecured'. Unless stated otherwise, we treat junior secured loans as unsecured loans.

Stratification data provided below reflects our portfolio aggregation at the loan-level and includes conservative mapping assumptions in case of missing data.

Figure 3: Distribution by borrower type (% of GBV)

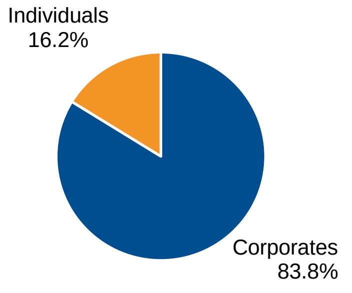


Figure 4: Distribution by loan type (% of GBV)

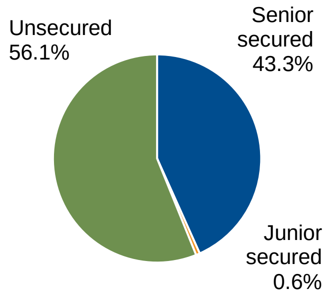


Figure 5: Distribution by recovery procedure (% of GBV)

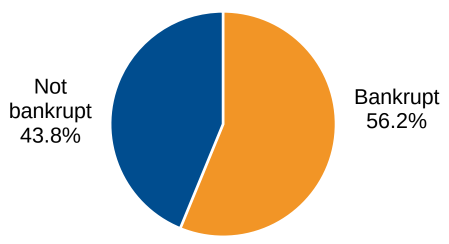
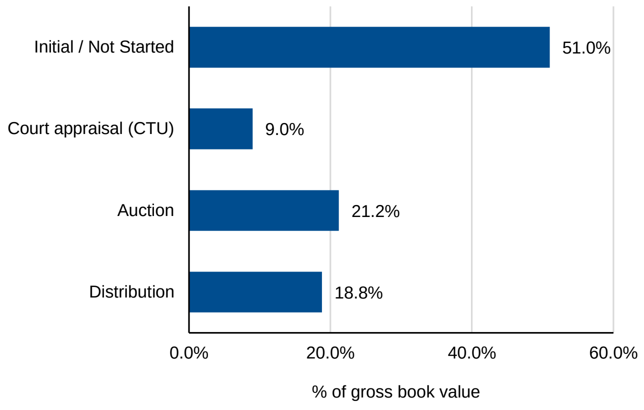


Figure 6: Distribution by recovery stage for secured loans (% of GBV)



Sources: transaction data tape, calculations by Scope Ratings

Figure 7: Distribution by court bucket for secured loans (% of GBV)

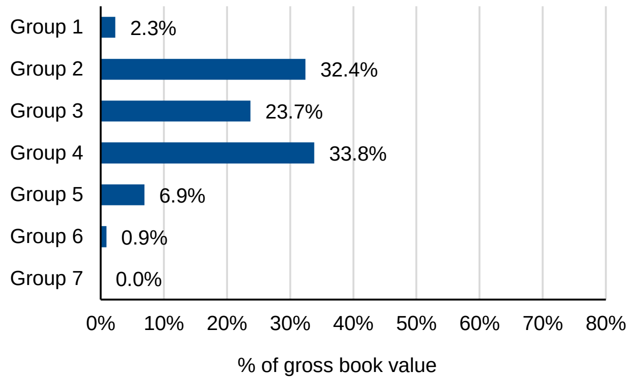


Figure 8: Unsecured and junior secured seasoning (% of GBV)

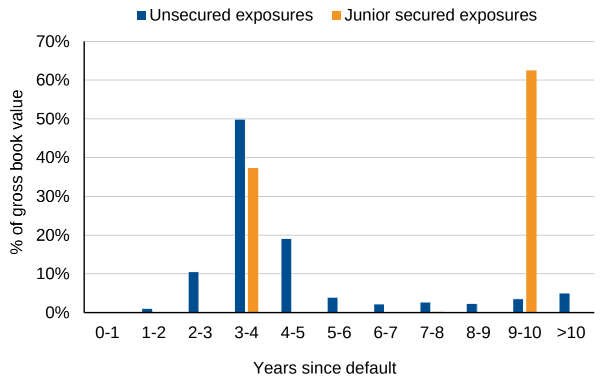


Figure 9: Distribution by collateral type for secured loans (% of appraisal value)

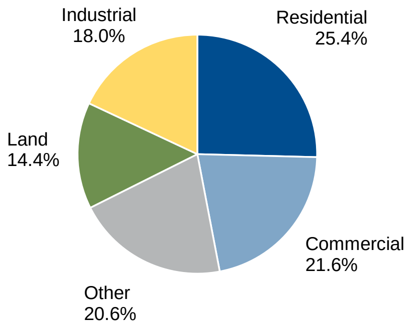


Figure 10: Distribution by valuation type for secured loans (% of appraisal value)

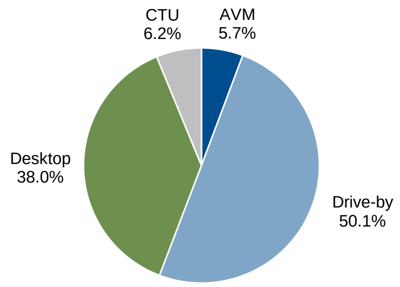


Figure 11: Distribution by collateral location (% of appraisal value)

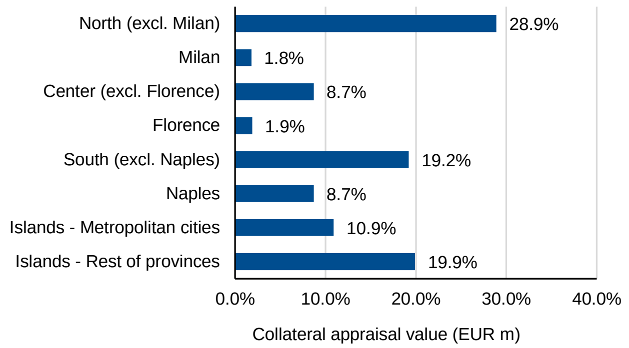
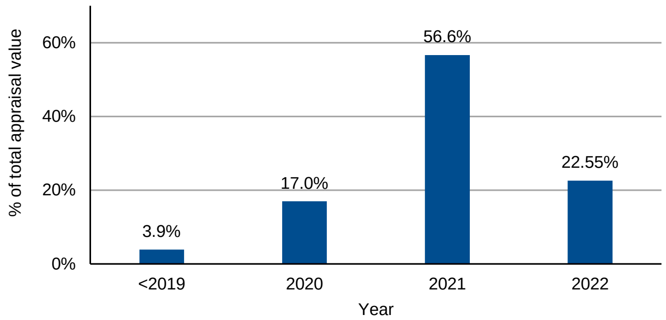


Figure 12: Distribution by valuation date (% of appraisal value)



Sources: transaction data tape, calculations by Scope Ratings

5. Portfolio analysis

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

Figure 13 summarises the recovery rate assumptions applied in the analysis of the class A notes.

Figure 13: Summary of assumptions

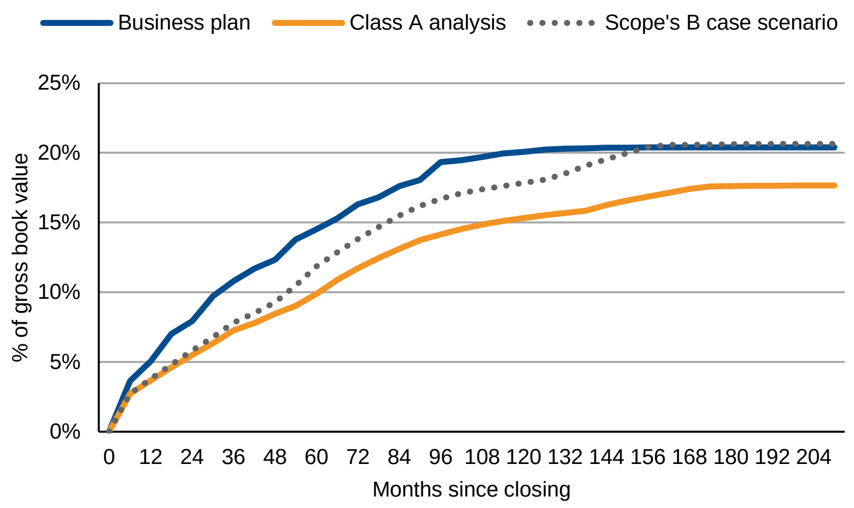
	Class A analysis
Secured recovery rate (% of secured GBV)	26.6%
Unsecured recovery rate (% of unsecured GBV)	10.8%
Total recovery rate (% of total GBV)	**17.7%**
Secured collections, weighted average life (WAL in years)	6.7
Unsecured collections, WAL (years)	3.9
Total collections, WAL (years)	**5.1**

Sources: Scope Ratings

Class A recovery rate assumptions are about 13% below business plan target

Figure 14 compares our lifetime gross collections and recovery timing assumptions for the entire portfolio with the servicer business plan, for class A and our B case scenario. These assumptions are derived by combining secured and unsecured recovery expectations, together with cash-in-court and ad-interim collections. We only considered cash-in-court and ad-interim collections allocated to specific receivables. Our recovery rate assumptions for the class A notes are 13% below the business plan target. Our calculation of the expected life is longer than the servicer's projections (5.1-year WAL for the class A notes analysis versus 3.7-year WAL in the business plan).

Figure 14: Scope's assumptions[2] vs. business plan's gross cumulative recoveries



Sources: Servicer business plan, Scope Ratings

5.1. Analysis of secured portfolio segment

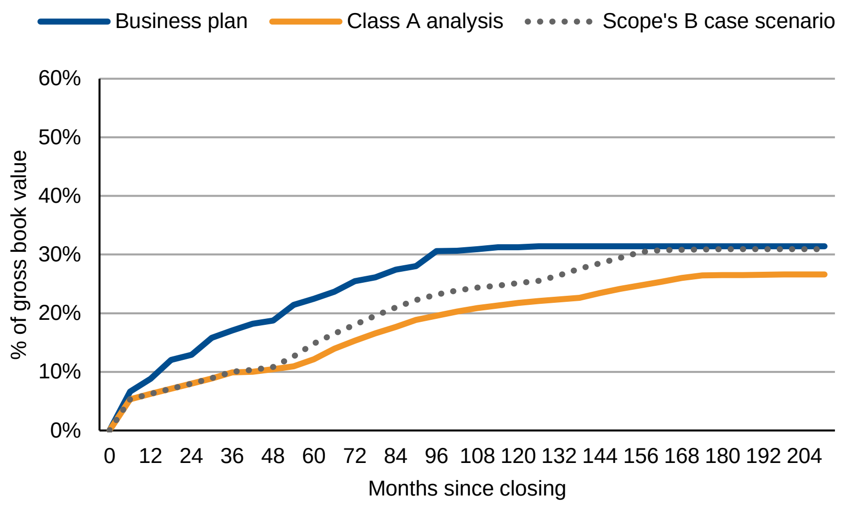
Valuation haircuts address forward-looking market value and liquidity risks

Figure 15 shows our lifetime gross collections vectors for the secured segment compared to those from the servicer's business plan. Our analytical approach consists 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), and the type and stage of legal

[2] Scope's and the servicer's recovery rates are reported on a gross level and include cash-in-court and collections since the cut-off dates.

proceeding. Our analysis also considers concentration risk, the servicer's business plan and the available workout options.

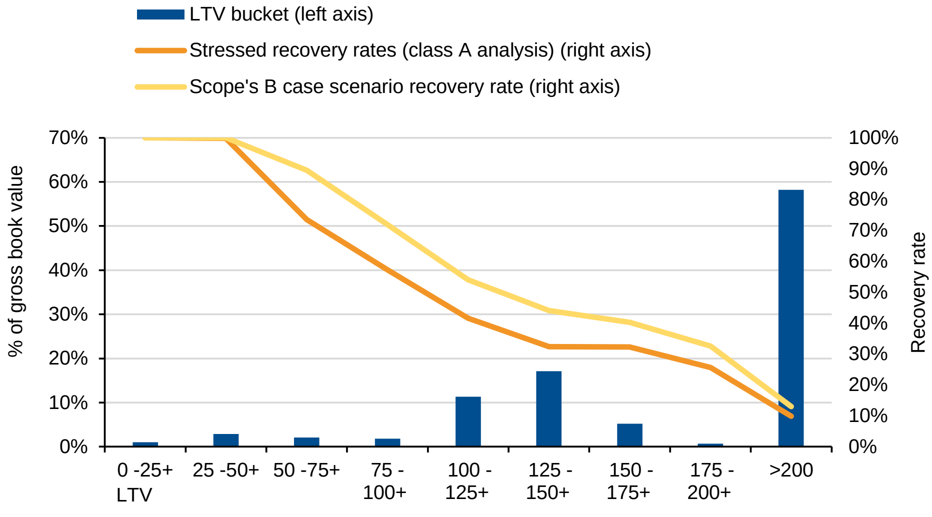
Figure 15: Scope's assumptions[3] vs. business plan's gross cumulative recoveries - secured loans



Sources: Servicer business plan, Scope Ratings

Figure 16 shows the secured loans' distribution by LTV bucket as well as our recovery rate assumptions for each LTV bucket under our rating-conditional stresses applied for class A notes and our B case scenario.

Figure 16: Secured loans' distribution by LTV and Scope's expected secured recoveries



Sources: Transaction data tape, calculation by Scope Ratings

[3] Scope's and the servicer's recovery rates are reported on a gross level and include cash-in-court and collections since the cut-off dates. We define secured loans as those guaranteed by at least a first-lien mortgage, based on a loan-by-loan analysis. Business plan secured recoveries are those related to borrowers with at least a first-lien mortgage, as per servicer's classification in the provided business-plan.

5.1.1. Appraisal analysis

Appraisal type haircuts range between 0% and 25% for the class A analysis

We applied rating-conditional haircuts ranging from 0% to 25% for the class A analysis, reflecting our view on the quality and accuracy of the underlying appraisals. Drive-by valuations are generally more accurate than CTU or AVM[4] valuations.

Figure 17: Scope's transaction-specific valuation haircuts

Valuation type	% of secured collateral value	Class A analysis haircut
Drive-by	50.1%	0%
Desktop	38.0%	5%
CTU	6.2%	10%
AVM	5.7%	25%

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

5.1.2. Property market value assumptions

Figure 18 details our assumptions about property price changes over the transaction's life commensurate with the class A rating. These assumptions are i) specific to the geographical area; 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 18: 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
Class A analysis	-10%	-10%	-10%	-8%	-10%	-11%	-16%	-13%	-14%	-12%	-11%	-14%	-12%	-14%
Portfolio distribution (%)	1.8	0.8	0.0	0.7	1.5	25.9	0.5	1.9	8.2	8.7	1.7	17.5	10.9	19.9

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

5.1.3. Collateral liquidity risk

Fire-sale discounts range between 35% and 40% for class A analysis

Asset liquidity risk is captured through additional fire-sale haircuts applied to collateral appraisals. Figure 19 shows the rating-conditional haircuts applied for the class A analysis. These transaction specific assumptions are based on historical distressed market-wide sales data (including those provided by the servicer), consider the specific servicing strategies applied context in this transaction, and reflect our view that non-residential properties tend to be less liquid, resulting in higher distressed-sale discounts.

Figure 19: Scope's transaction-specific fire-sale discount assumptions

Collateral type	% of secured collateral value	Class A analysis haircut
Residential	25.4%	35.0%
Non-residential	74.6%	40.0%

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

5.1.4. Concentration risk

We addressed borrower concentration risk by applying a 15% rating-conditional recovery haircut to the 10 largest borrowers for the class A notes analysis. The largest 10 and 100 borrowers account for 16.3% and 46.1% of the portfolio's gross book value, respectively.

[4] Automated valuation model

5.1.5. Residual claims after security enforcement

A secured creditor may initiate enforcement actions against a debtor if the sale proceeds of the mortgaged property are insufficient to repay the related outstanding debt in full. 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).

Partial credit to residual claims after security enforcement for loans to individuals

Based on market wide historical data, we gave credit to residual claims on 10% of the loans to individuals. Recovery strategies do not typically focus on collecting residual claims, as the relevant costs may be higher than the potential proceeds. On the other hand, residual claims can be enforced in a profitable way for some individual borrowers, as the elapsed time after a default may have a positive impact. An individual may, for example, find new sources of income over time and become solvent again. Therefore, the servicer may opt to maximise recoveries when it is cost-efficient to do so, even after the security has been enforced. For corporate loans, we gave no credit to potential further recoveries on residual claims after the security has been enforced.

5.1.6. 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.

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 2015 and 2019 (Figure 21). We applied rating-conditional timing stresses to bankruptcy and non-bankruptcy procedures: 2 years and 1 year were respectively added to the total legal procedures' length for the class A analysis.

Figure 20: Total length of the recovery process for secured loans, by court group in years[5]

Court group	Bankruptcy proceedings	Non-bankruptcy proceedings	Percentage of courts[6]
1	4	2	2.3%
2	6	3	32.4%
3	8	4	23.7%
4	10	5	33.8%
5	12	6	6.9%
6	14	7	0.9%
7	18	9	0.0%

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

5.2. Analysis of unsecured portfolio segment

Unsecured portfolio analysis is based on statistical data

Our unsecured recovery assumptions are primarily based on market-wide historical data on unsecured recovery rates. We also factor in servicer-specific historical recovery data, as well as our view on the quality of the servicer's recovery procedures.

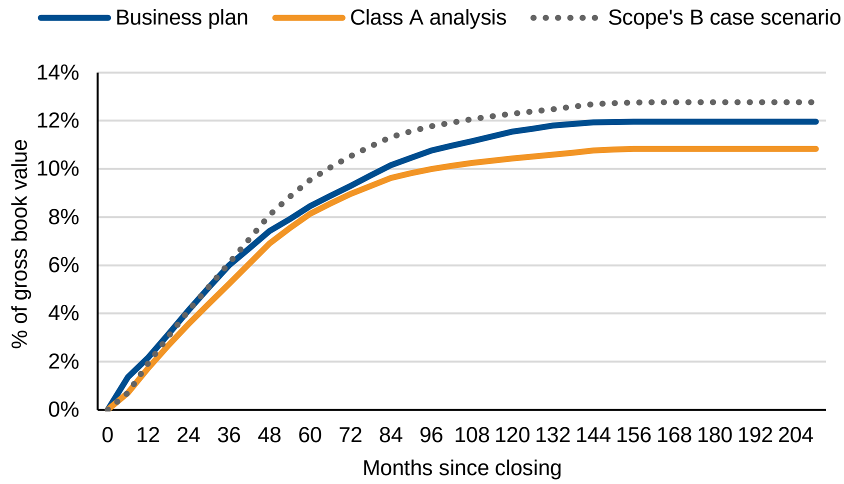
Transaction-specific assumptions also reflect the key characteristics of the unsecured portfolio segment, such as average loan size, debtor types (i.e.: individual or corporate) and the type of recovery procedure. For instance, bankruptcy proceedings are generally slower and typically result in lower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

[5] The total length of the recovery process does not include the rating-conditional timing stresses per proceeding type.
[6] Percentages incorporate our assumptions on courts not included in available information.

Ageing of the unsecured portfolio is aligned market average

Finally, transaction-specific assumptions were re-calibrated to reflect the ageing of the unsecured portfolio, as we consider aged unsecured NPLs to have a lower likelihood of recovery. The unsecured loans in the portfolio (including junior secured loans) are classified as defaulted for a weighted average of 4.5 years, which is aligned with the average of transaction peer levels.

Figure 21: Scope's assumptions[7] vs. business plan's recoveries – unsecured loans



Sources: Servicer's business plan, Scope Ratings

6. Key structural features

The structure comprises three classes of notes with fully sequential principal amortisation: senior class A, mezzanine class B, and junior class J.

Class A will pay a floating rate indexed to six-month Euribor plus a margin of 2.5%. Class B will pay a floating rate indexed to six-month Euribor plus a margin of 7.5%. The Class B interest (and a portion of the special servicer fees) are subordinated to class A principal payments if certain under-performance events are triggered.

6.1. Combined priority of payments

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

Figure 22: Simplified priority of payments

Pre-enforcement priority of payments
1) Servicer expenses and senior servicer fees
2) Limited-recourse loan interest
3) Class A interest
4) Cash reserve replenishment
5) Limited-recourse loan principal
6) Class B interest[8] (provided that no interest subordination event has occurred)
7) Class A principal

[7] Scope's and the servicer's recovery rates are reported on a gross level and include collections since the cut-off dates. We define unsecured loans as those not guaranteed by at least a first-lien mortgage, based on a loan-by-loan analysis. Business plan unsecured recoveries relate to borrowers whose loans are fully unsecured or are guaranteed by junior liens.

[8] Euribor component, if positive, is paid under item 8 of the priority of payments

Pre-enforcement priority of payments
8) Class B interest (upon occurrence of the interest subordination event)
9) Class B principal and, provided that a servicer underperformance event has occurred, servicer mezzanine fees
10) Class J interest
11) Class J principal and, provided that a servicer underperformance event has occurred, servicer junior fees
12) Any residual amount as class J variable return

Sources: Transaction documents and Scope Ratings

6.2. Interest subordination events

Class B interest subordination event linked to transaction performance

The occurrence of an interest subordination event results in class B interest being paid under item 8 of the waterfall above. Class B interest will be subordinated if one or the following events occurs: i) the cumulative net collection ratio[9] (CCR) falls below 90% of the servicer's business plan targets; or ii) the NPV cumulative profitability ratio[10] (NPVPR) falls below 90%; or iii) any due amount of class A interest is unpaid.

An interest subordination event is curable, according to the following rules:

1. If, on a subsequent payment date, the CCR is between 90% and 100%, class B interest accruing on that payment date will be payable senior to the class A principal repayment (under item 6 of Figure 22).
2. If, on a subsequent payment date, the CCR returns above 100%, all due and unpaid class B interest is paid senior to class A principal under item 6 of Figure 22.

6.3. Servicing fee structure and alignment of interests

6.3.1. Servicing fees

The servicing fee structure links the level of fees paid to the servicer with the portfolio's performance, mitigating potential conflicts of interest between the servicer and noteholders. The special servicer will be entitled to both an annual base fee and a performance fee.

The exact level of fees is subject to the GBV size and the type of recovery strategy (judicial vs. extra-judicial). Extra-judicial strategies and lower tickets generally bear higher performance fees relative to collection amounts. Considering the portfolio composition, we assumed an average performance fee of 3.3% and 5.3% (plus VAT) for secured and unsecured exposures, respectively.

Servicing fee structure reasonably aligns the interests of the servicer and the noteholders

The occurrence of a servicer underperformance event results in 10%-30% of the servicer performance fees being subordinated to class A principal payments, based on the level of underperformance. This portion is then paid under items 8 and 11 of the above simplified priority of payments, as mezzanine or junior servicing fees, respectively. A servicer underperformance event occurs either if the CCR or the NPVPR falls below a given threshold, as shown in Figure 23.

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

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

Figure 23: Servicing fee subordination mechanism[11]

CCR lower than 85%	• 20% as servicer mezzanine fee • 10% as servicer junior fee
NPVPR lower than 85%	• 15% as servicer mezzanine fee • 10% as servicer junior fee
CCR greater than 85% and lower than 90%	• 13% as servicer mezzanine fee • 10% as servicer junior fee
NPVPR greater than 85% and lower than 90%	• 10% as servicer mezzanine fee • 5% as servicer junior fee
NPVPR greater than 90% and lower than 95%	• 5% as servicer mezzanine fee • 5% as servicer junior fee

An underperformance event is curable if on any subsequent payment date, the CCR and the NPVPR return above 90% and 95%, respectively. However, all mezzanine and junior servicer fees accrued and subordinated in previous periods shall remain subordinated.

6.3.2. Special servicer monitoring

Monitoring function protects noteholders' interests

An overview of the servicer's activities and calculations, prepared by the monitoring agent, mitigates operational risks and moral hazard that could negatively impact noteholder interests.

The special 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 and check 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 a 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.

6.3.3. Special servicer termination events

In the event of a special servicer termination event, the monitoring agent will assist the issuer in finding a suitable replacement for the special servicer.

A special servicer termination event includes i) insolvency; ii) an unremedied breach of obligations; iii) failure to pay any amount due to the issuer within two business days from the collections' date; iv) an unremedied breach of representation and warranties; v) loss of legally eligibility to perform obligations under the servicing agreement; and vi) after 4 collection periods since closing, if the cumulative net collection ratio has been lower than 90% for two consecutive collection dates.

6.4. Liquidity protection

Cash reserve provides liquidity protection to class A notes

A cash reserve will be funded at closing through a limited-recourse loan provided by illimity. The cash reserve target amount at each payment date will be equal to 4.0% of the total outstanding balance of class A notes.

[11] In case different CCR or NPVPR thresholds are breached, the condition that implies a higher share of subordinated fees will prevail.

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.

6.5. 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 2.5% margin on the class A and a 7.5% margin on class B. The Euribor component of class B coupon is floored at zero.

An interest rate cap spread partially mitigates interest rate risk on class A notes

An interest rate cap spread partially mitigates the risk of increased liabilities on the class A notes due to a rise in Euribor (Figure 24). The base rate on the class A notes will be capped with an upper bound rate ranging from 0.10% in July 2022 to 2.0% until July 2035, while it will be floored with a lower bound rate ranging from 0% in July 2022 to 1.15% until July 2035. Under the cap agreement, the issuer receives the difference, if positive, between six-month Euribor and the lower bound rate and pays the difference, if positive, between six-month Euribor and the upper bound rate, following a pre-defined notional schedule. In addition, a cap is embedded in the class A Euribor component, aligned with the upper bound rate of the cap spread.

The notional schedule of the cap spread on class A notes is always above our expected class A amortisation profile (see Figure 25). A delay in recoveries beyond our class A recovery timing vector would increase interest rate risk exposure, as it would create a gap between the transaction's cap notional amount and the class A notes' outstanding principal.

Figure 24: Interest rate cap spread on class A notes

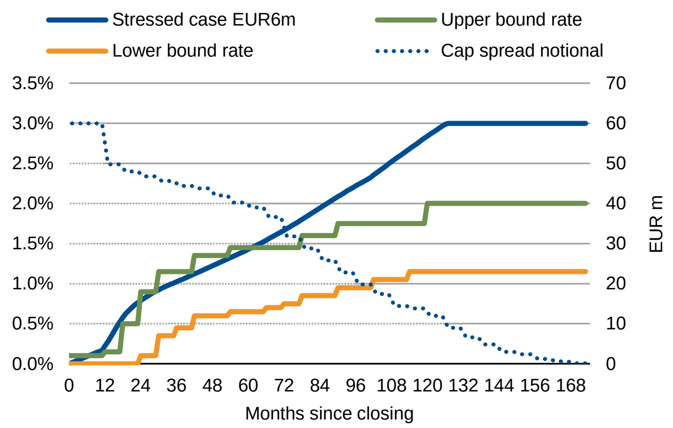
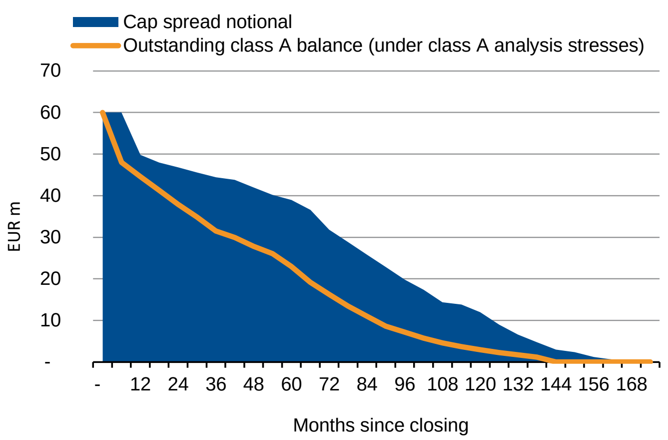


Figure 25: Interest rate cap spread notional vs outstanding class A notes



Sources: Transaction documents, Bloomberg and Scope Ratings

7. Cash flow analysis and rating stability

Our 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 considers the capital structure, the coupon payable on the notes and the hedging structure, as well as the servicing fees structure, the transaction senior fees and legal costs. Legal costs are assumed to amount to 9% of gross collections.

Our rating reflects expected losses over the instruments' weighted average life

The rating assigned to the class A notes reflects the expected losses over the instruments' 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 the portfolio's recovery rate by 10%, minus one notch.
- an increase in the recovery lag by one year, zero notches.

8. Sovereign risk

Sovereign risk does not limit the rating Sovereign risk does not limit the rating. 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 we view as highly unlikely, are not material for the notes rating.

9. Counterparty risk

Counterparty risk does not limit the transaction's rating

In our view, none of the counterparty exposures constrain the rating achievable by this transaction. We considered counterparty substitution provisions in the transaction and, when available, Scope's ratings or other public ratings on the 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 counterparties listed on page 1.

9.1. Servicer disruption risk

A servicer disruption event may have a negative impact on the transaction's performance. The transaction incorporates servicer-monitoring that mitigates operational risk, and a back-up master servicer appointed at closing and special servicer replacement arrangements that mitigate disruption risk.

9.2. 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, in which the servicer receives payments from a debtor, the servicer will transfer the amounts within two business days from the payment reconciliation. In case the originators receive payments from debtors, they will transfer these amounts into the collection account within ten business days.

9.3. Claw-back risk

Limited claw-back risk

The sellers have provided on the issue date: i) a solvency certificate signed by a representative duly authorised; and ii) a certificate from the chamber of commerce 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.

9.4. Enforcement of representations and warranties

Representations and warranties limited in time and amount

The issuer will rely on the representations and warranties, limited by time and amount, provided by the sellers in the transfer agreement. If a breach of a representation and warranty materially and adversely affects a loan's value, illimity (also on behalf of Aporti S.r.l. and Doria SPV S.r.l.) may be obliged to indemnify the issuer for damages within 15 business days following the indemnity request or the reach of an agreement after the arise of a challenge or within 15 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 12 months from the issue date. The total indemnity amount is payable only if its aggregate value exceeds certain thresholds, different for each originator (overall EUR 300,000). The total indemnity amount is capped at 20% of the portfolio's purchase price.

The issuer will not be entitled to claim any indemnities related to any fact or circumstance that was already ascertainable for the portion of the portfolio analysed by the special servicer during its own due diligence.

10. Legal structure

10.1. 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 spread agreement and the deed of charge.

The transaction is fully governed by the terms in the documentation and any changes are subject to the counterparties' consent, with the most senior noteholders at the date of the decision having superior voting rights.

10.2. Use of legal opinions

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

11. Monitoring

Ongoing rating monitoring

We will monitor this transaction based on performance reports, updated loan-by-loan reports, and other public information. The rating will be monitored on an ongoing basis.

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.

12. 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.

Appendix I – Deal comparison

Transaction	Bela 2022	Ortles 21	Grogu SPV	Buonconsiglio 4	BCC NPLs 2021	Olympia	Aporti	Palatino SPV	Aurelia SPV	Summer SPV	Sirio NPL
Closing	Apr-22	Dec-21	Dec-21	Dec-21	Nov-21	Nov-21	Jun-21	Jun-21	Jun-21	Dec-20	Dec-20
GACS	No	Yes	Yes	Yes	Yes	Yes	No	No	Yes	Yes	Yes
Originators/Sellers	illimity Bank	Crédit Agricole Italia, Credito Valtellinese	Intesa Sanpaolo, BPER Banca	38 Banks	77 Banks	Unicredit	illimity Bank	6+ Italian Banks	Banco BPM	BPER Banca, Banco di Sardegna	UBI Banca
Master servicer	Cerved	Italfondiario	Banca FinInt	Prelios	Italfondiario	Italfondiario	Prelios	Credito Fondiario	Credito Fondiario	Banca FinInt	Prelios
Special servicer	Cerved	Cerved, doValue	Prelios, Intrum	Prelios	doValue	doValue	Prelios	Credito Fondiario	Credito Fondiario Liberty	Fire	Prelios
General portfolio attributes											
Gross book value (EUR m)	474.8	1834.3	3,077	579	1.311.9	2,167.5	355.9	865.2	1,510.0	322.0	1,228.1
Number of borrowers	7,881	13,510	9,734	4,809	6,784	11,945	424	2,188	3,304	15,172	14,313
Number of loans	13,216	33,448	51,618	9,001	11,270	38,527	2,043	5,559	10,411	23,473	22,471
WA seasoning (years)	6.0	4.1	4.57	4.6	4.2	4.3	5.6	7.7	2.2	3.3	3.4
WA seasoning (years) - unsecured portfolio	4.5	5	5.06	4.7	4.3	5.1	6.7	6.5	2.1	4.0	3.5
WA LTV buckets (% or secured portfolio)											
bucket [0-25]	1	2.3	2.6	4	2.3	5.5	2.5	3	2.6	14.7	4.5
bucket [25-50]	2.9	7.2	7.5	10.4	7.4	14.7	19.2	6.2	9.6	23.4	12.2
bucket [50-75]	2.1	13.5	12.5	12.2	11.5	13.9	11.4	7.9	15.3	20.5	17.2
bucket [75-100]	1.8	13.8	14	15.4	12.8	15.1	8.7	7.3	25.3	15.6	18.6
bucket [100-125]	11.3	11.5	13.8	15.1	7.8	10.8	10.3	7.4	14.1	10.7	12.7
bucket [125-150]	17.1	9.1	9.9	7.6	9.3	8.9	5.5	7.8	8.4	6.3	6.7
bucket [150-175]	5.2	5	4.4	4.7	7	6.9	0.9	6.2	6	2.7	4.4
bucket [175-200]	0.7	3.6	4.8	3.8	5.6	3.4	3.5	5.5	2.2	1.8	6
bucket > 200	58.2	33.8	30.5	26.6	36.2	20.9	37.9	48.7	16.4	4.3	17.6
Cash in court (% of total GBV)	11	0.3	1.6	1.5	0.1	0.5	1.4	1.4	0.4	0.5	1.4
Loan types (% of total GBV)											
Secured first-lien	43.3	44.7	50.7	53.9	63.6	35.2	68.5	81	44.3	44.4	53.7
Secured junior-lien	0.6	4.1	4.6	6.3	6.3	5.3	4.5	5.8	6	4.3	7.6
Unsecured	56.1	51.2	44.7	39.7	30.1	59.5	27	13.3	49.7	51.3	38.7
Syndicated loans	7.2	5.2	7.30	5.3	3.9	3.5	8.4	6.9	0.8	0.0	3.2
Debtors (% of total GBV)											
Individuals	16.2	25.3	18.8	26.8	19.9	27.8	5.6	27.3	14.6	51.1	7
Corporates or SMEs	83.8	74.7	81.20	73.2	80.1	72.2	94.4	72.7	85.4	48.9	93
Procedure type (% of total GBV)											
Bankrupt	56.2	62.8	60.6	23.7	73.4	62.0	47.9	44.5	29.1	42.4	53.2
Non-bankrupt	43.8	37.2	39.4	76.3	26.6	28.0	52.1	55.5	70.9	57.6	46.8
Borrower concentration (% of GBV)											
Top 10	16.3	6.8	10.3	7.9	7.4	13.8	35.9	19.8	14.6	1.5	7.8
Top 100	46.1	26.4	30.8	33.6	30.5	30.9	77.9	54.6	39.8	11.0	30.3
Collateral distr. (% of appraisal val.)											
North	30.8	66.8	40.4	44.5	43.4	38.9	46.7	56.6	70.5	32.0	51.6
Centre	10.5	17.8	38.7	38.7	38	24.4	20.6	21.2	21.5	10.2	25.2
South	58.7	15.4	20.9	16.8	18.5	36.7	32.7	22.2	8.1	57.8	23.2
Collateral type (% of appraisal val.)											
Residential	25.4	40.7	46.1	49.0	32.8	66.3	32.7	60.5	42.6	73.5	35.3
Commercial	21.6	13.7	21.8	20.5	22.8	16.6	28.5	16.4	27.8	9.1	23.5
Industrial	18	16.6	20.5	12.5	21.6	9.9	18.1	7.6	14.1	7.0	16.5
Land	14.4	17.5	7.1	11.0	15.4	5.2	9.6	10.1	8.5	5.3	12.4
Other or unknown	20.6	11.5	4.4	7.0	7.3	2	11.1	5.4	7	5.1	12.3
Valuation type (% of appraisal val.)											
Full or drive-by	50.1	57	31.9	40.9	53.5	13.5	0.6	5.6	27.3	31.5	16.9
Desktop	38	16.5	48.5	28.5	24.5	38.1	26.3	37	67.3	6.4	36.8
CTU	6.2	8.3	5.3	11.2	9.1	15.5	24.0	10.9	5.4	0.9	17.7
Other	5.7	18.2	14.3	19.4	12.9	32.9	49.1	46.5	0	61.2	28.6
Secured ptf proc. stage (% of GBV)											
Initial	51	67.4	68.3	63.3	70.5	82.2	78.9	70.4	77.4	76.3	65.2
CTU	9	9.1	7.4	1.4	12.1	3.2	3.1	8.5	5.1	12.8	14.7
Auction	21.2	15.4	20.5	26.9	14.7	13.8	17.5	16.2	13.9	6.7	14.1
Distribution	18.8	8.2	3.8	8.4	2.7	0.8	0.5	4.9	3.7	4.2	6.0
Remaining lifetime recovery rate (%)											
Secured (=net LTV after all stresses)	26.6	41.1	39.3	42.8	42.9	49.1	39.8	28.2	54.1	70.4	50.2
Unsecured	10.8	11.5	6.80	10.3	11	5.8	4.4	4.3	13.8	12.1	12.9
Total	17.7	24.7	23.3	27.8	31.2	21.1	28.6	11.3	31.6	38.0	32.9
Weighted average life of collections (yrs)											
Secured	6.7	7.3	6.5	9.1	7.7	7.57	7.7	7.3	7	7.0	7.6
Unsecured	3.9	4.5	3.8	4.7	5.3	4.1	3.1	2.9	4	4.9	4.3
Total	5.1	6.5	6.1	8.3	7.6	6.9	7.1	3	6.3	6.6	6.8
Liquidity reserve (% of class A notes)	4.0	4	4.0	4.0	3	5.0	4.5	4.5	4.5	4	4
Class A Euribor cap strike	0.1% - 2%	0.2% - 1.2%	0.1%-1.6%	0.1%-1.25%	0.5% - 1.2%	0.1%-4.95%	0%-1%	0.09%-3.0%	0.0%-3.0%	0.2%-1.4%	0.6%-3.75%
Class A											
% of GBV	12.6	18.5	15.0	20.3	21.6	12.0	18.2	15.6	22.7	26.5	23.6
Credit enhancement	87.4	81.5	85.0	79.7	78.4	88.0	81.0	84.4	77.3	73.5	76.4
Class B											
% of GBV	2.1	2.2	1.2	2.9	3	1.2	2.7	2.7	2.7	3.1	2.9
Credit enhancement	85.3	79.3	83.8	76.8	75.4	86.8	78.4	81.7	74.7	70.3	73.5
Class A	BBB	BBB	BBB+	BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB
Class B	NR	NR	NR	NR	CCC	NR	NR	NR	NR	NR	NR

Scope Ratings GmbH

Headquarters Berlin
Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891 0

Frankfurt am Main
Neue Mainzer Straße 66-68
D-60311 Frankfurt am Main

Phone +49 69 66 77 389 0

Paris
23 Boulevard des Capucines
F-75002 Paris

Phone +33 1 8288 5557

Oslo
Karenslyst allé 53
N-0279 Oslo

Phone +47 21 62 31 42

Madrid
Paseo de la Castellana 141
E-28046 Madrid

Phone +34 91 572 67 11

Milan
Via Nino Bixio, 31
20129 Milano MI

Phone +39 02 30315 814

Scope Ratings UK Limited

London
52 Grosvenor Gardens
London SW1W 0AU

Phone +44 20 7824 5180

info@scoperatings.com
www.scoperatings.com