IFIS NPL 2021-1 SPV S.R.L.

Italian Non-Performing Loan ABS

Ratings

Tranche	Rating	Size (EUR m)	% of notes	% of GBV	Coupon	Final maturity
Class A	$BBB+_{SF}$	515.0	79%	27%	6M Euribor + 2.8%	Jan 2060
Class B	B_{SF}	90.0	14%	5%	6%	Jan 2060
Class J1	NR	23.6	3%	1%	12%+ variable return	Jul 2051
Class J2	NR	25.0	4%	1%	12%+ variable return	Jan 2060
Total		653.6		34%		

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.

Transaction details

Transaction type	Static cash securitisation
Asset class	Non-performing loans ('NPLs')
Issue date	28 July 2023
Issuer	Ifis NPL 2021-1 SPV S.r.l.
Seller	Ifis NPL Investing S.p.A.
Master and special servicer	Ifis NPL Servicing S.p.A.
Gross-book value ('GBV')	EUR 1,905.8m
Cut-off date	30 April 2023
Transfer dates	1 March 2021 (initial) / 21 July 2023 (subsequent)
Key portfolio characteristics	The current portfolio is worth around EUR 1,905.8m by gross book value ('GBV') and it is composed of unsecured non-performing loans assisted by a wage garnishment order ('ODA' – 46% of GBV), unsecured non-performing loans for which a wage garnishment order is expected to be assigned ('Pre-ODA' – 39% of GBV) and extrajudicial repayment plans (15% of GBV). The issuer is entitled to receive all portfolio collections since the cut-off date and the collections deriving from the repurchased receivables until 30 June 2023.
Payment frequency	Semi-annual (January and July).
Key structural features	The transaction structure comprises four tranches of notes: class A, class B, class J and class J2. Class A and class B are sequentially amortising, while class J and J2 are paid pro-rata and pari-passu. Proceeds from the issuance of class A, class B and class J2 notes were used to finance the early redemption of the senior and mezzanine notes issued by Ifis NPL 2021-1 S.r.l. on 19 March 2021, as well as the purchase price of an additional portfolio of receivables. Original class J (renamed J1) was not redeemed. The structure comprises an amortising liquidity reserve with a target amount equal to 6.5% of the senior notes outstanding balance as well as an interest rate cap on class A notes.
Hedging provider	J.P. Morgan SE
Other key counterparties	BNP Paribas, Italian Branch (agent bank, account bank, cash manager and principal paying agent) Banca Finanziaria Internazionale S.p.A. (corporate servicer, calculation agent, noteholders' representative, monitoring agent) Zenith Service S.p.A. (back-up servicer) Banca Ifis S.p.A. (recovery account bank)
Arrangers	Banca Ifis S.p.A. and J.P. Morgan SE

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Rating rationale (summary)

The ratings are primarily driven by the expected recovery amounts and timing of collections from the portfolio. The recovery amounts and timing assumptions consider the portfolio's characteristics, the servicer's recovery strategy, as well as our economic outlook for Italy and its 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, the liquidity protection and the interest rate hedging agreement. The ratings also address the issuer's exposure to key counterparties, with the assessment based on counterparty substitution provisions in the transaction and, when available, our ratings or other public ratings on the counterparties. We performed a specific analysis for recoveries based on the historical data provided by the servicer, using different approaches for repayment plans, ODAs[1] and Pre-ODAs as detailed in section 5.1.

Rating drivers and mitigants

Positive rating drivers

Moderately regular cash flows expected for ODAs and repayment plans. NPLs that are attached to an ODA, or an existing repayment plan generate more regular cash flows than those serviced following other recovery strategies. Particularly, for the ODA portfolio, the seizure of borrower incomes or pensions ensures monthly payments from the borrowers, although recovery cash flows are generally spread over several years.

ODAs already issued are valid and not challengeable. The period for appealing the existing ODAs has already elapsed. Therefore, the portfolio's ODAs are valid, existing and not challengeable. Also, in the event of change of job or retirement, the enforcement title remains valid, and the court can issue a new ODA to the new employer or social security administrator.

Positive selection of the extrajudicial repayment plans. More than 90% of the extrajudicial repayment plans shows at least 12 months of consecutive instalments paid.

Negative rating drivers and mitigants

Material share of Pre-ODA receivables. Around 39% of the GBV are positions under a judicial process to obtain an ODA. Although around 40% of the Pre-ODA receivables are in the most advanced stage, there is no guarantee that an ODA will be issued.

High exposure of ODAs to the private sector. The most frequent events leading to a payment interruption from an ODA are the death or job loss of a borrower. Private sector employees (48% of the loan-level ODAs' GBV) are generally more exposed to job loss events compared to public servants (12%), while pensioners (27%) are generally more exposed to life events. For 13% of the ODAs' GBV the employer type is not available.

Material share of borrowers with ODAs have a temporary contract. About 20% of the employed borrowers (in terms of ODA receivables' GBV) have a temporary job or the information is not available. If they are unable to renew their employment contracts or find a new job before the contract expires, the ODA's associated cash flows will be interrupted, even though the ODA will remain legally valid.

Upside rating-change drivers

Front-loading of collections. A front-loading of future instalments under the ODAs, Pre-ODAs or repayment plans will reduce the negative carry on the notes and increase the available funds for senior notes' principal amortisation.

Higher-than-expected instalments for the Pre-ODA receivables. Instalments for the Pre-ODA receivables will be known only upon issuance of the ODA. Actual instalments higher than the projected ones would increase the amount of available collections.

Downside rating-change drivers

Slowdown of Italian economy and higher unemployment rates. An increase of job losses and the inability of employers to pay salaries will limit the effectiveness of the ODAs. Alternative strategies are key to ensure an adequate level of collections in case these events materialise.

Unsuccessful or delayed ODA. A longer-than-expected time for the competent court to issue an ODA or legal oppositions of the borrowers could negatively affect the timing of the collections of the Pre-ODA receivables. Failure to obtain an ODA would also reduce future collections.

[1]An ODA is a judicial order of assignment (ordinanza di assegnazione) issued in favour of the seller pursuant to article 553 of the Italian Civil Procedure Code in relation to any of the receivables. Under this regulation, the relevant employer and/or social security administration shall pay to the seller a portion of the salary and/or pension of the assigned debtor and/or the guarantor in the maximum amount calculated in accordance with article 545 of the Code, in or towards payment of interest and/or repayment of principal in respect of the receivables. Under the wage garnishment recovery strategy, up to one-fifth of a borrower's salary/pension is typically seized, with the seller receiving monthly payments. The seizure is performed also on the 13th and 14th monthly salaries along with the TFR (trattamento di fine rapporto or severance indemnity).

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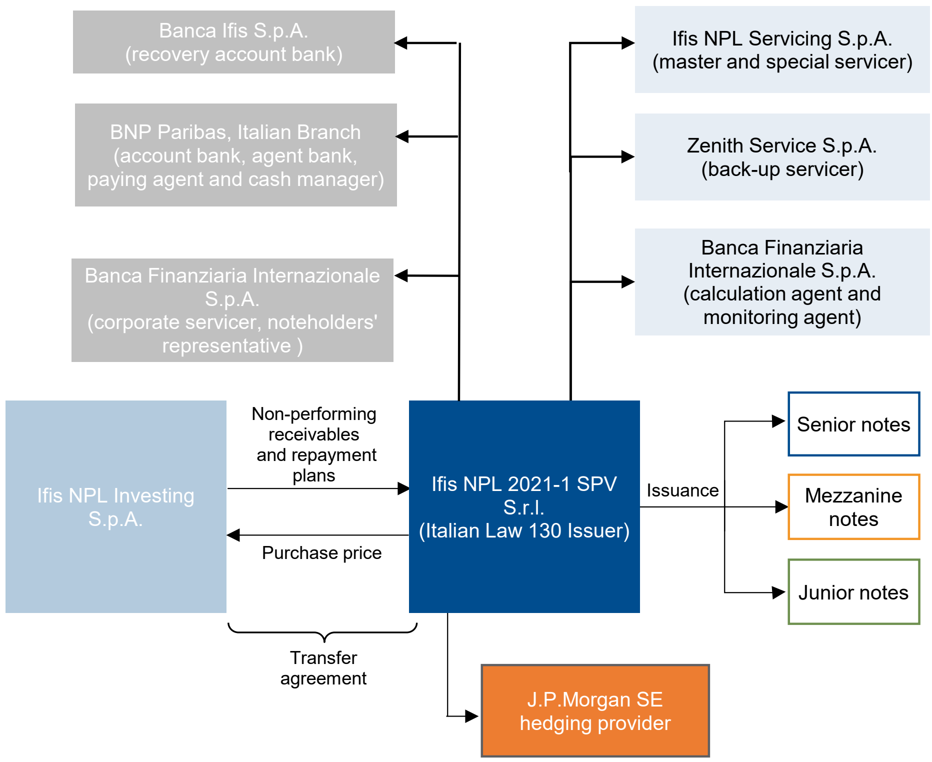
1. Transaction diagram

Figure 1: Transaction diagram



Sources: Transaction documents, Scope Ratings.

2. Macroeconomic environment

The Italian economy grew robustly by 7.0% in 2021 and 3.7% in 2022, outperforming the euro area. Private consumption was the main driver – underpinned by households' savings and government support measures – together with strong investment activity. Domestic demand continued to support robust economic growth in Q1 2023 (0.6% QoQ), underpinning our expectations of 1.2% growth for the year, which is however subject to downside risks, especially after the recent data release pointing to a 0.3% QoQ contraction in Q2. For 2024, we expect annual growth at 0.8%, balancing resilient consumption and an improving contribution from net exports with the expected drag on growth from higher interest rates.

Over the medium run, we expect growth to converge towards a moderate potential of just 1%, constrained by low productivity growth and a declining working-age population. An efficient implementation of public investments and reforms related to the NGEU programme provides potential upside to our growth estimate, but execution delays remain a key downside risk.

HICP inflation peaked at 12.6% YoY in November 2022 and averaged 8.7% over the past year. With declining energy and food prices, headline inflation fell to 6.4% YoY in July 2023. Core inflation is also declining, though remains high, at 5.7%, signalling broad-based price pressures. We expect headline inflation to continue declining to an annual rate of 6.5% this year and 3% in 2024. The ECB has accelerated monetary tightening, raising its policy rate to 3.75% in July 2023 and continuing with the gradual shrinking of its balance sheet. Still, the ECB's ability to apply flexibility to reinvestments under the PEPP and the announced Transmission Protection Instrument should maintain stable financing conditions for Italy even under scenarios of heightened market volatility.

The labour market has proved resilient to the recent crises, reflecting some structural improvements. The employment rate was at a record high level in June 2023 (61.5%), while the unemployment rate continued to decline to 7.4%. Despite such improving trends, bottlenecks remain, which still result in an employment rate almost 10 pp below that of euro area peers, as well as in high inactivity and youth unemployment.

Italy's sovereign bond market has adjusted fairly well to the tightening in monetary policy. The government has succeeded in preserving confidence through a prudent approach to fiscal policy, while domestic investors have supported demand in debt capital markets. The debt-to-GDP ratio is expected to decline gradually towards 140% of GDP in the coming years (from 144.4% in 2022), driven by robust nominal growth and a budget deficit gradually declining to 3% of GDP, from 4.5% expected this year. A significantly rising interest burden and mounting fiscal pressure from an ageing population will, nevertheless, challenge the capacity of the government to achieve necessary primary budget surpluses in the medium run. Over the longer term, Italy's elevated debt burden and funding requirements remain, together with a modest growth potential, the core challenges for the rating.

3. Special servicer review

Low economic growth poses significant challenges to NPL recovery expectations

3.1. Introduction

Banca Ifis S.p.A. (Banca Ifis) is an Italian banking group with two units dedicated to its NPL business: Ifis NPL Servicing S.p.A. and Ifis NPL Investing S.p.A. Based on an operational review of the special servicer, Ifis NPL Servicing S.p.A. (Ifis), we have concluded that its capabilities and processes to manage the securitised portfolio are adequate.

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

Our assessment of the special servicer's capabilities addresses aspects such as its corporate structure, business processes, collateral valuation procedures, servicing IT systems and business continuity risks. We assessed transaction-specific elements in relation to the efficiency of servicer's recovery strategies. We considered the special servicer's assessment when deriving our recovery rate and recovery timing assumptions for the portfolio.

3.2. Corporate overview

Banca Ifis was founded in 1983 as a factoring specialist and has been listed on the Milan Stock Exchange since 2003. The bank is active in commercial and corporate banking, and Italian NPL investing and servicing.

Banca Ifis has evolved by seizing new market opportunities in 'specialty finance'. The bank entered the Italian NPL market in 2011 by acquiring Toscana Finanza S.p.A. In 2013, it launched its NPL unit dedicated to the purchase, management and servicing of consumer NPLs. In 2019, Banca Ifis expanded its operating servicing structure through the acquisition of Italian servicer FBS S.p.A. In 2020, Banca Ifis' restructuring led to a new centralised unit that oversees the bank's investing and servicing.

3.3. Servicing model

Ifis currently manages EUR 25bn of NPLs

Ifis is a specialised servicer that manages proprietary and third-party portfolios and is currently servicing EUR 25.4bn of NPLs, making it the sixth largest Italian NPL operator by assets under management. Ifis expertise is focused on unsecured Italian NPLs.

Ifis follows wage garnishment recovery strategies, in addition to the typical NPL recovery strategies (judicial, discounted-pay-off (DPOs) and repayment plans). For unsecured loans with a GBV lower than EUR 70,000, the servicer relies mostly on the ODA strategy, while for bigger secured and unsecured exposures, the servicer mainly follows judicial and extra-judicial strategies.

Ifis investigates the borrower's credit history to assess whether it is both legally and economically viable to issue an ODA, as its issuance entails costs. A dedicated department follows the relevant legal proceedings, from the injunction decree until the ODA's issuance by the competent court (see section 3.3.1). Ifis also has a dedicated unit in charge of monitoring, at least every six months, the ODAs' performance, current ODA's status and instalment paid amount. Monitoring activity is particularly important as some events may interrupt the ODAs' payments (e.g., the occurrence of the borrower's job loss or another termination event). In those cases, it is key to ensure the ODA is promptly re-issued, preventing other creditors from successfully garnishing the borrower's salary ahead of Ifis. According to Ifis, the average time to re-issue an ODA when a borrower changes jobs is 6-9 months. If an ODA ceases to be effective and the borrower does not find a new job, the exposure is assigned to the recovery unit in charge of phone collections, to debt collection companies or to financial agents. Bigger exposures (both secured and unsecured) are assigned to a loan manager based on elements such as the type of credit, the loan manager's expertise, and loan manager/law firm court coverage. In this case, Ifis also follows judicial strategies.

3.3.1. ODA legal framework and recovery strategy

Obtaining an enforcement title is a prerequisite for an ODA's issuance, as this allows the creditor to start the enforcement proceedings and request the ODA issuance to the competent court. The creditor typically obtains the enforcement title from an injunction decree (decreto ingiuntivo). Afterwards, the creditor serves the debtor a formal request of payment (atto di precetto), which is a final warning to the debtor to fulfil his obligation as described in the enforcement title. The enforcement proceeding begins when the deed of seizure (atto di pignoramento) is served by a court officer on: i) the debtor; and ii) the employer and/or the social security administration. Following the deed of seizure, the creditor files a request to the judge for the ODA's issuance. Upon the ODA's issuance, the employer/social security administration will pay, in compliance with the terms and conditions in the relevant ODA, directly to the proceeding creditor; therefore, there is no direct contact with the borrower. Usually, if several creditors are simultaneously proceeding with enforcement over portions of the salary/pension, the law provides for a progressive satisfaction to protect the employee.

The ODA may by challenged by a debtor (opposizione agli atti esecutivi) within 20 days of the date of service of the relevant ODA. If the court accepts the opposition, the ODA becomes null and void. If no challenge is filed within 20 days, the ODA becomes final and cannot be further appealed. In case the injunction decree is issued by the judge as an enforcement title, the court may issue a temporarily enforceable injunction, allowing the creditor to immediately start the enforcement proceeding, without prejudice to the possibility for the debtor to oppose the injunction. In such cases, the ODA may become ineffective if the injunction decree is successfully challenged and all the payments made under the ODA shall be reimbursed.

In the event of: i) a termination of employment; ii) a change of job; or iii) retirement, the enforcement title remains valid (in case no further oppositions are made). The creditor submits a new formal request of payment for the residual amount to be recovered, a new deed of seizure is served, and the competent court issues a new ODA towards the new employer or social security administration. In the event of creditor compositions (concordato preventivo), bankruptcy (fallimento), extraordinary administration (amministrazione straordinaria), winding-up (liquidazione) of the employer, or other similar proceedings relating to the employer as per the Italian Bankruptcy Act, the ODA becomes ineffective, but the enforcement title remains valid. In this scenario, if the debtor finds a new job, the creditor is able to reinstate the ODA with the new employer.

4. Portfolio characteristics

4.1. Representations and warranties

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

- All receivables are denominated in euros, governed by Italian law and have been reported as non-performing exposures to the Bank of Italy.
- All receivables are valid for transfer without any limitations, free of encumbrances, and enforceable to their full GBV.
- All the information included in the portfolio's data tape is true, accurate and up to date at the subsequent transfer date.
- The borrowers or guarantors with respect to an issued ODA are individuals employed in the private or public sector, or pensioners. As far as the seller is aware, they are all resident in Italy. Borrowers are not employees or directors of the seller.
- The employers and/or social security administration have a registered office in Italy. At the cut-off date, no employer and/or social security administration was subject to an insolvency proceeding.
- At the cut-off date, each injunction decree (decreto ingiuntivo) and/or any other deed and/or acts leading to the issuance of an order of assignment (including any formal request of payment (atto di precetto) and/or deed of seizure (atto di pignoramento)) relating to ODA and Pre-ODA receivables had not been challenged.
- All repayment plans were executed without fraud and wilful misconduct.
- Individual borrowers with a repayment plan are, as far as the seller is aware, resident in Italy.
- At the cut-off date, borrowers have made at least one payment pursuant to the issued ODA or the existing repayment plan.

4.2. Key portfolio stratifications

Our analysis is performed at the loan level, considering all information provided to us in the context of the transaction as well as public information. 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 3-14 and reflect our portfolio aggregation at the loan level.

Figure 2: Portfolio summary

	All	ODA	Pre-ODAs	Repayment plans
Number of loans	192,386	79,428	83,542	29,416
Number of borrowers	114,373	92,549		21,824
Total portfolio GBV (EUR m)	1,905.80	876.9	740.7	288.2
% of GBV		46%	39%	15%
Average GBV per borrower (EUR)	16,663	17,479		13,205
Average GBV per loan (EUR)	9,906	11,040	8,867	9,797

Sources: Transaction data tape, Scope Ratings

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

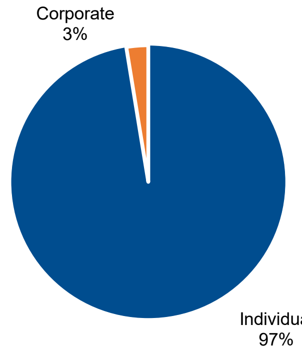


Figure 4: Distribution by employer type (% of GBV) – ODA receivables

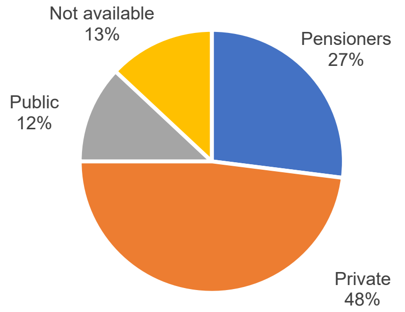


Figure 5: Distribution by borrower age (% of GBV)

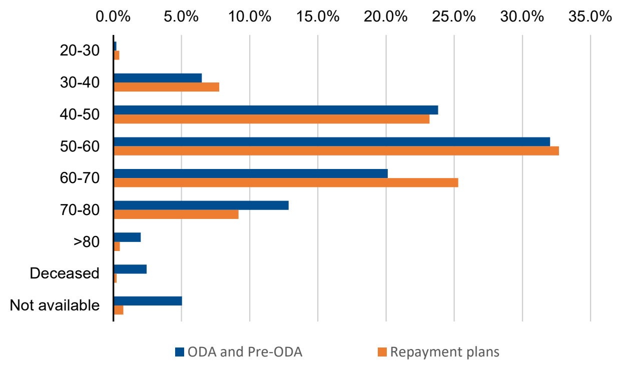


Figure 6: Distribution by borrower gender (% of GBV)

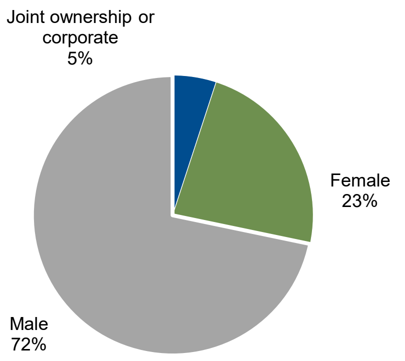


Figure 7: Distribution by borrower region (% of GBV)

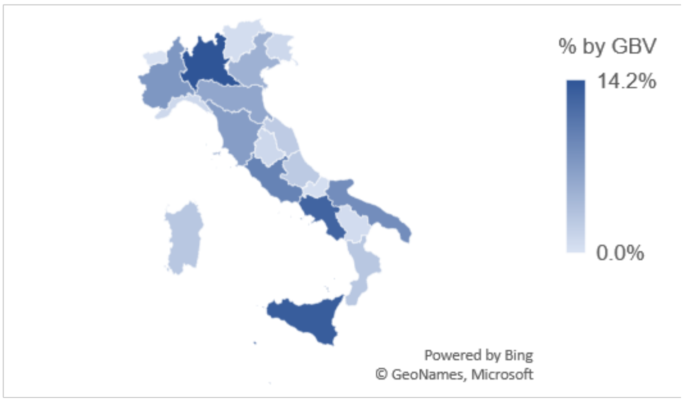
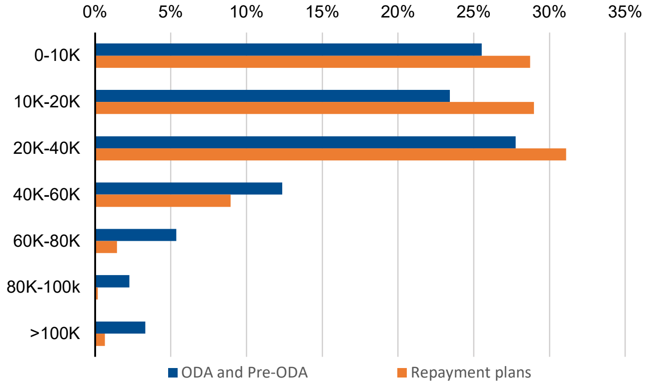


Figure 8: Distribution by GBV size (% of GBV)



Sources: Transaction data tape, calculations by Scope Ratings

Figure 9: Distribution by ODA issuance year (% of GBV) – ODA receivables

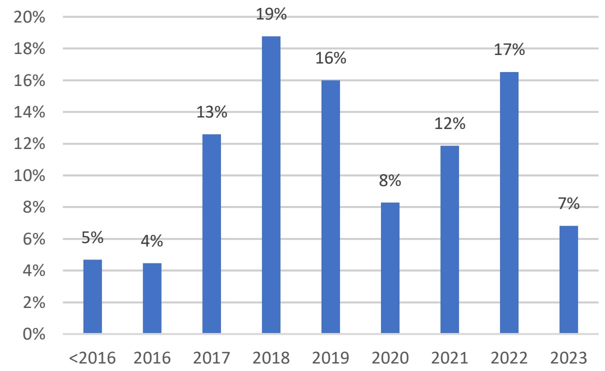


Figure 10: Distribution by employment type (% of GBV) – ODA receivables

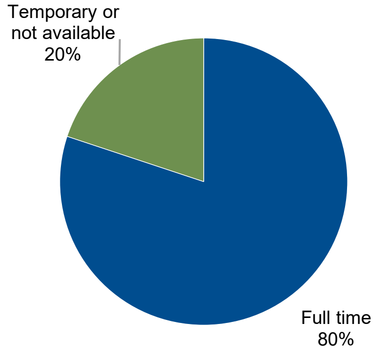


Figure 11: Distribution by ODA payment status (% of GBV) – ODA receivables

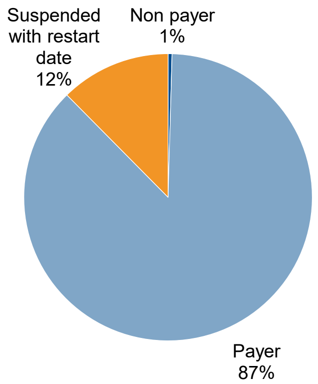


Figure 12: Distribution by ODA legal phase (% of GBV) – Pre-ODA receivables

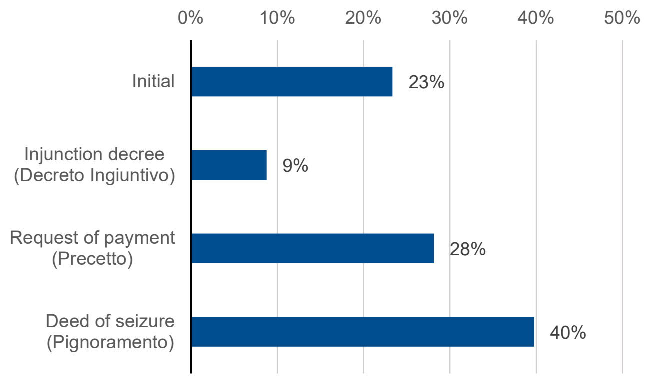


Figure 13: Distribution by repayment plan start date (% of GBV) – Repayment plans

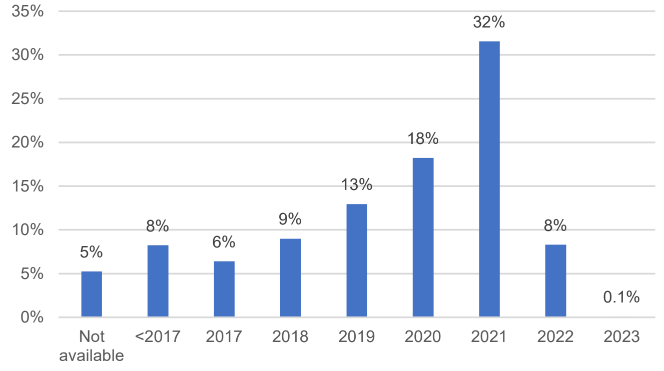
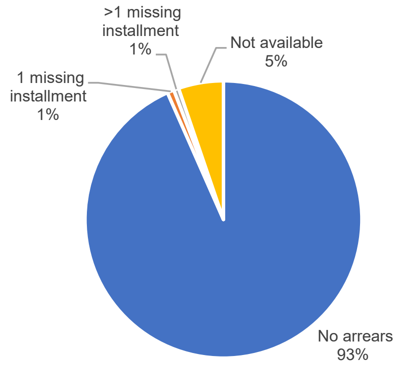


Figure 14: Distribution by missing instalments (% of GBV) – Repayment plans



Sources: Transaction data tape, calculations by Scope Ratings

5. Portfolio analysis

Under 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, 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 and historical data, peer comparisons and market data. We also account for the current macroeconomic scenario, taking a forward-looking view on the macroeconomic developments. Figure 15 summarises the recovery rate assumptions applied in the analysis of the class A and B notes.

Figure 15: Summary of assumptions

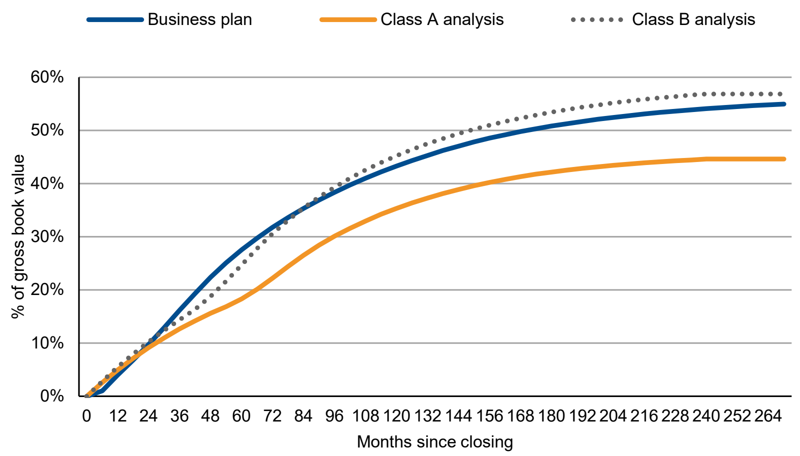
Total portfolio	Class A analysis	Class B analysis
Recovery rate (% of GBV)	44.6	56.9
Weighted average life (WAL in years)	6.7	6.7
ODA receivables		
Recovery rate (% of GBV)	50.7	63.7
Weighted average life (WAL in years)	5.5	5.9
Pre-ODA receivables		
Recovery rate (% of GBV)	38.1	47.9
Weighted average life (WAL in years)	9.4	8.3
Repayment plans		
Recovery rate (% of GBV)	42.8	59
Weighted average life (WAL in years)	4.7	5.8

Sources: Scope Ratings

Class A recovery rate assumption is about 19% below business plan target

Figure 16 compares our lifetime gross collections and recovery timing assumptions for the entire portfolio with the servicer business plan, under the class A and class B scenario. Our recovery rate assumption for the class A notes is 19% below the business plan target. Our calculation of the expected life is shorter than the servicer's projections (6.7-year WAL for the class A notes versus 7.1-year WAL in the business plan).

Figure 16: Scope's assumptions vs. business plan's gross cumulative recoveries



Sources: Servicer business plan, Scope Ratings

Our recovery assumptions for the portfolio are primarily based on the analysis of the servicer's historical collections. For unsecured exposures with ODAs or Pre-ODAs, we calibrated the lifetime recoveries based on historical line-by-line collections since the

ODA's issuance date, vintage data for the period 2016-2022 and historical success rate to obtain an ODA. For repayment plans, we analysed historical line-by-line collections on existing repayment plans, historical pay rate and vintage data for the period 2017-2021. We also assessed the process to obtain a wage garnishment order, as well as the efficiency of the structure to manage existing ODAs and repayment plans.

Transaction-specific assumptions reflect portfolio characteristics that we deem relevant for the pool's performance. Among these are the borrower's age, gender, employment type (i.e. full-time, temporary, or full-time under a furlough scheme referred to as cassa integrazione), and job type (i.e. private employee, civil servant or pensioner). Our final recovery rate assumptions implemented rating-conditional stresses based on:

- The life expectancy of borrowers (based on ISTAT[2] data).
- The expected age of retirement of borrowers.
- The expected pension as a percentage of the current salary.
- The presence of a temporary job or job-suspension period (with the stress calibrated based on historical Italian and European unemployment rates).
- A decay coefficient that reflects the occurrence of a life or an unemployment event, and the success rate to obtain new ODAs. The latter is applicable only to the Pre-ODA receivables.
- Expected restart payment date for non-payer borrowers.
- Expected issue date for new ODAs.

Figures 17 and 18 show our lifetime gross collections vectors for the ODA/Pre-ODA receivables and repayment plans respectively, compared to those from the servicer's business plan.

Figure 17: Scope's assumptions vs. business plan's recoveries – ODA and Pre-ODA receivables

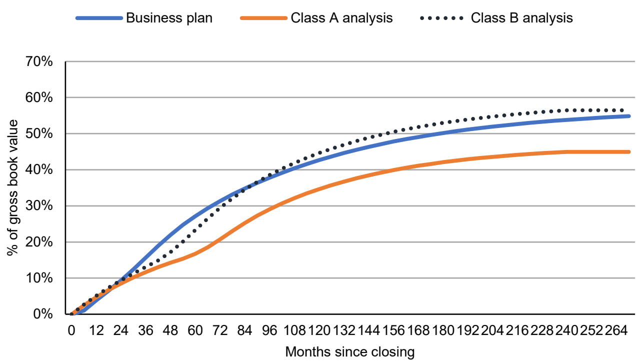
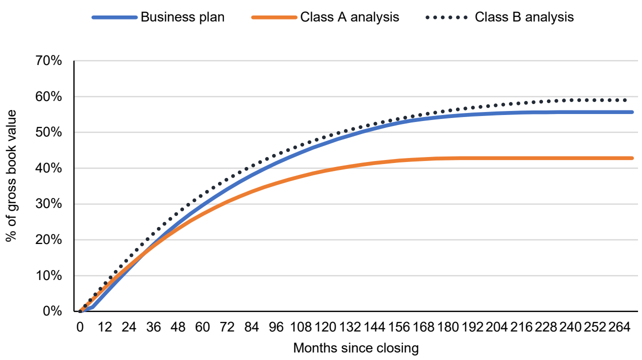


Figure 18: Scope's assumptions vs. business plan's recoveries – repayment plans



Sources: Servicer's business plan, Scope Ratings

[2] Istituto Nazionale di Statistica.

6. Key structural features

The structure comprises four classes of notes. Senior class A and mezzanine class B feature fully sequential principal amortisation, while class J1 and J2 are paid pro-rata and pari-passu.

Class A will pay a floating rate indexed to six-month Euribor plus a margin of 2.8%. An interest rate cap partially mitigates interest rate risk on the class A notes (see section 6.5). Class B will pay a fixed rate of 6.0%. The class B interest (and a portion of the special servicer fees) are subordinated to class A principal payment if certain under-performance events are triggered.

Non-timely payment of class A interest would trigger an accelerated waterfall

Non-timely payment of interest on the senior notes, for example, due to the issuer's unlawfulness, would accelerate the repayment of class A through the full subordination of class B payments.

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 agreement, insurance payments and indemnity payments from the indemnity provider) will be used in the following simplified order of priority:

Figure 19: Simplified priority of payments and available funds

Pre-enforcement priority of payments
1) Senior fees (master and special servicer senior fees), other senior expenses
2) Expenses account replenishment
3) Senior expenses
4) Recovery expenses reserve account
5) Class A interest
6) Cash reserve replenishment
7) Class B interest (provided that no interest subordination event has occurred)
8) Class A principal
9) Class B interest (upon occurrence of interest subordination event)
10) Class B principal and servicer mezzanine fees (provided that a servicer underperformance event has occurred)
11) Class J1 and J2 interest
12) Class J1 and J2 principal
13) Any residual amount as class J variable return

Sources: Transaction documents and Scope Ratings

6.2. Interest subordination events

The occurrence of an interest subordination event results in class B interest being paid under item 9 of the waterfall above. An interest subordination event occurs if: i) the cumulative gross collection ratio[3] (CCR) falls below 90% of the servicer's business plan targets; ii) the PV cumulative profitability ratio[4] (PVPR) falls below 90%; or iii) any due amount of class A interest is unpaid, the event being not cured via the application of a liquidity facility.

[3] 'Cumulative gross collection ratio' is defined as the ratio between: i) the cumulative gross collections; and ii) the gross expected cumulative collections since the cut-off date.

[4] 'PV cumulative profitability ratio' is defined as the ratio between: i) the sum of the present value of the gross 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.

Class B interest accrued but not paid due to an interest subordination event will only be paid, under item 7 of the waterfall above, if both the CCR and PVPR return above 90%, or if class A notes are fully repaid.

6.3. Servicing fee structure and alignment of interests

6.3.1. Servicing fees

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

The exact level of performance fees depends on the type of exposures. Considering the portfolio composition, we assumed an average performance fee of 6% (plus VAT).

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

The occurrence of a servicer underperformance event results in a certain portion of servicer performance fees (between 5% and 15%, depending on the level of underperformance) being subordinated to class A principal payment. This portion is then paid under item 10 of the above simplified priority of payments as mezzanine servicer fees. A servicer underperformance event occurs if the CCR falls below 90%.

An underperformance event is curable if on any subsequent payment date, the CCR returns above 90%. All mezzanine servicer fees accrued and unpaid in previous periods will stay subordinated, even after the event has been cured.

6.3.2. Special servicer monitoring

Monitoring function protects noteholders' interests

An oversight of the servicer's activities and calculations, conducted by the monitoring agent, Banca Finanziaria Internazionale S.p.A., mitigates operational risks and moral hazard that could 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, and 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.

6.3.3. 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) failure to pay any amount due to the issuer within two business days from the collection reconciliation date, except where such non-payment is due to technical reasons and the relevant payment is made within five business days from the relevant reconciliation; iii) an unremedied breach of obligations; iv) an unremedied breach of representation and warranties; v) loss of legal eligibility to perform obligations under the servicing agreement; vi) in the 24 months after closing, the occurrence of two consecutive first or second level underperformance events.[5]

[5] A first (second) level underperformance event occurs if, on an interest payment date, the CCR is lower than 90% (72%) or the PVPR is lower than 90% (72%).

The back-up servicer will step in the event of a master servicer termination event. This mitigates master servicer disruption risk.

6.4. Liquidity protection

Cash reserve provides liquidity protection to class A notes

A cash reserve is funded at closing with a portion of class J notes issuance proceeds. The cash reserve target amount at each payment date will be equal to 6.5% of the total outstanding balance of the 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.

6.5. Interest rate risk

Due to the non-performing nature of the securitised portfolio, the collections will not be linked to any defined interest rate. On the liability side, the issuer will pay a floating coupon on the senior notes, defined as six-month Euribor plus a 2.8% margin.

Interest rate risk on class A notes is partially mitigated through an interest rate cap structure

An interest rate cap partially mitigates the risk of increased liabilities on the class A notes due to a rise in Euribor (Figure 20 and 21). The base rate on the class A notes will have a cap with a strike ranging from 4% in January 2024 to 3% in July 2033. Under the interest rate cap agreement, the issuer receives any positive difference between six-month Euribor and the strike, following a pre-defined notional schedule.

The notional schedule is below with our expected class A amortisation profile. A delay in recoveries beyond our stressed recovery timing vector would increase the interest rate risk exposure, as it would widen the gap between the transaction's cap notional amount and the class A notes' outstanding principal.

Figure 20: Interest rate cap on class A notes

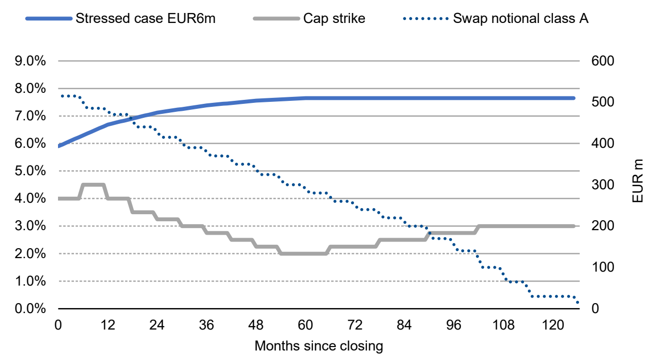
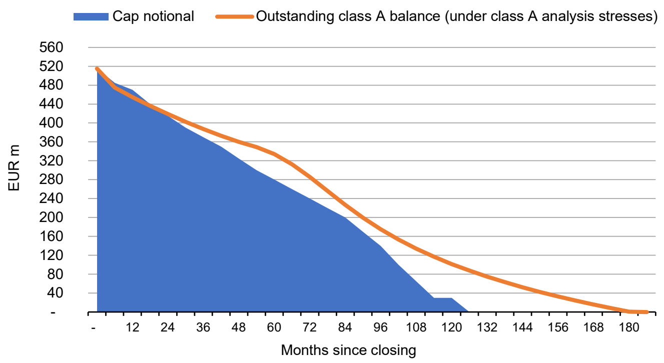


Figure 21: Interest rate cap notional vs outstanding class A notes



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 8% of gross collections.

Our ratings reflect expected losses over the instruments' weighted average life

The ratings assigned to the class A and B notes reflect the expected losses over the instruments' weighted average life commensurate with our idealised expected loss table.

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 notes, 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 two notches.
- an increase in the recovery lag by one year, minus two notches.

For class B notes, 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%, zero notches.
- an increase in the recovery lag by one year, zero notches.

8. Sovereign risk

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

9. Counterparty risk

Counterparty risk does not limit the notes' ratings

None of the counterparty exposures constrain the ratings achievable by this transaction. We considered counterparty substitution provisions in the transaction and, when available, our ratings or other public ratings on the counterparties. We also considered eligible investment criteria in the transaction documents for cash amounts held by the issuer. The transaction is mainly exposed to counterparty risk from counterparties listed on page 1.

9.1. Servicer disruption risk

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

9.2. Commingling risk

Sweep of the collections to the issuer's account within two days

The servicer will collect on behalf of the issuer and in the seller's accounts any amount paid by a borrower's employer or social security administration in relation to the ODAs and by the borrower itself in relation to repayment plans. The seller will transfer within two business days of payment a receipt for the amount received into the collection account. We incorporated commingling risk into our analysis by assuming a loss equivalent of one month of collections weighted by the likelihood of the servicer's default.

9.3. 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 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 in time and amount, provided by the seller in the warranty and indemnity agreement. If a breach of a representation and warranty materially and adversely affects a loan's value, the seller will be obliged to indemnify the issuer for damages.

However, the above-mentioned representations and warranties are only enforceable by the issuer within 18 months from the issue date. The total indemnity amount is payable only if its aggregate value exceeds EUR 250,000; it is capped at 23% of the portfolio's purchase price. Furthermore, indemnity amounts will be payable only if they exceed EUR 7,000 on a single-loss basis or 5% of the loan's individual purchase price.

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 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 ratings 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	Ifis NPL 2021-1 SPV - Restructuring	Itaca SPV Srl	Organa SPV	Bela 2022	Ortles 21	Grogu SPV	Buonconsiglio 4	Olympia	Aporti	Ifis NPL 2021-1 SPV
Closing	Jul-23	May-22	Apr-22	Apr-22	Dec-21	Dec-21	Dec-21	Nov-21	Jun-21	Mar-21
GACS	No	Yes	Yes	No	Yes	Yes	Yes	Yes	No	No
Originators/Sellers	Ifis NPL Investing	Unicredit SpA	Intesa Sanpaolo	illimity Bank	Crédit Agricole Italia, Credito Valtellinese	Intesa Sanpaolo, BPER Banca	38 Banks	Unicredit	illimity Bank	Ifis NPL Investing
Master servicer	Ifis Servicing	doNext	Banca Finint	Cerved	Italfondiario	Banca FinInt	Prelios	Italfondiario	Prelios	Ifis Servicing
Special servicer	Ifis Servicing	doValue	Intrum	Cerved	Cerved, doValue	Prelios, Intrum	Prelios	doValue	Prelios	Ifis Servicing
General portfolio attributes										
Gross book value (EUR m)	1,905.8	1,128.3	8,503.3	474.8	1834.3	3,077	579	2,167.5	355.9	1,323.1
Number of borrowers	114,373	7,101	36,969	7,881	13,510	9,734	4,809	11,945	424	47,127
Number of loans	192,386	22,464	128,981	13,216	33,448	51,618	9,001	38,527	2,043	69,384
WA seasoning (years)	N/A	2.7	6.9	6.0	4.1	4.57	4.6	4.3	5.6	7.0
WA seasoning (years) - unsecured portfolio	N/A	3.2	7.8	4.5	5	5.06	4.7	5.1	6.7	4.0
WA LTV buckets (% or secured portfolio)										
bucket [0-25]	N/A	7.7	4.1	1	2.3	2.6	4	5.5	2.5	3.4
bucket [25-50]	N/A	12.9	10.8	2.9	7.2	7.5	10.4	14.7	19.2	4.5
bucket [50-75]	N/A	19.9	15.2	2.1	13.5	12.5	12.2	13.9	11.4	7.3
bucket [75-100]	N/A	18.0	15.0	1.8	13.8	14	15.4	15.1	8.7	7.5
bucket [100-125]	N/A	11.1	11.5	11.3	11.5	13.8	15.1	10.8	10.3	5.1
bucket [125-150]	N/A	8.3	8.5	17.1	9.1	9.9	7.6	8.9	5.5	5.2
bucket [150-175]	N/A	5.3	6.4	5.2	5	4.4	4.7	6.9	0.9	5.6
bucket [175-200]	N/A	2.3	6.1	0.7	3.6	4.8	3.8	3.4	3.5	4.4
bucket > 200	N/A	14.7	22.4	58.2	33.8	30.5	26.6	20.9	37.9	57
Cash in court (% of total GBV)	N/A	0.2	0.6	11	0.3	1.6	1.5	0.5	1.4	1.3
Loan types (% of total GBV)										
Secured first-lien	N/A	28.7	28.8	43.3	44.7	50.7	53.9	35.2	68.5	30.3
Secured junior-lien	N/A	2.0	3.1	0.6	4.1	4.6	6.3	5.3	4.5	0.4
Unsecured	100.0	69.4	68.1	56.1	51.2	44.7	39.7	59.5	27	69.3
Syndicated loans	N/A	1.9	3.4	7.2	5.2	7.30	5.3	3.5	8.4	1.5
Debtors (% of total GBV)										
Individuals	97.0	33.0	17.5	16.2	25.3	18.8	26.8	27.8	5.6	80
Corporates or SMEs	3.0	67.0	82.5	83.8	74.7	81.20	73.2	72.2	94.4	20
Procedure type (% of total GBV)										
Bankrupt	N/A	76.4	27.3	56.2	62.8	60.6	23.7	62.0	47.9	15.6
Non-bankrupt	N/A	23.6	72.7	43.8	37.2	39.4	76.3	28.0	52.1	84.4
Borrower concentration (% of GBV)										
Top 10	0.5	17.1	4.6	16.3	6.8	10.3	7.9	13.8	35.9	5.1
Top 100	1.5	39.9	16.6	46.1	26.4	30.8	33.6	30.9	77.9	14.9
Collateral distr. (% of appraisal val.)										
North	36	38.6	44.6	30.8	66.8	40.4	44.5	38.9	46.7	18.3
Centre	20	21.9	22.2	10.5	17.8	38.7	38.7	24.4	20.6	13.3
South	44	39.5	33.2	58.7	15.4	20.9	16.8	36.7	32.7	68.4
Collateral type (% of appraisal val.)										
Residential	N/A	59.4	55.2	25.4	40.7	46.1	49.0	66.3	32.7	60.8
Commercial	N/A	16.3	17.4	21.6	13.7	21.8	20.5	16.6	28.5	6.6
Industrial	N/A	17.5	16.6	18	16.6	20.5	12.5	9.9	18.1	16.7
Land	N/A	2.5	6	14.4	17.5	7.1	11.0	5.2	9.6	9.3
Other or unknown	N/A	4.3	4.7	20.6	11.5	4.4	7.0	2	11.1	6.6
Valuation type (% of appraisal val.)										
Full or drive-by	N/A	8.5	49.8	50.1	57	31.9	40.9	13.5	0.6	31
Desktop	N/A	68.3	13.9	38	16.5	48.5	28.5	38.1	26.3	51.3
CTU	N/A	6.6	7.7	6.2	8.3	5.3	11.2	15.5	24.0	0
Other	N/A	16.6	28.6	5.7	18.2	14.3	19.4	32.9	49.1	17.7
Secured ptf proc. stage (% of GBV)										
Initial	N/A	86.5	70.1	51	67.4	68.3	63.3	82.2	78.9	37.5
CTU	N/A	6.6	9.8	9	9.1	7.4	1.4	3.2	3.1	14.2
Auction	N/A	5.9	11.7	21.2	15.4	20.5	26.9	13.8	17.5	33.7
Distribution	N/A	1	8.4	18.8	8.2	3.8	8.4	0.8	0.5	14.6
Summary of assumptions (BBB rating conditional stress)										
Remaining lifetime recovery rate (%)										
Secured (=net LTV after all stresses)	N/A	55.9	39.4	26.6	41.1	39.3	42.8	49.1	39.8	20.5
Unsecured	46.50	8.40	5.80	10.8	11.5	6.80	10.3	5.8	4.4	50.6
Total	46.50	22.10	17.70	17.7	24.7	23.3	27.8	21.1	28.6	41.5
Weighted average life of collections (yrs)										
Secured	N/A	7.70	6.51	6.7	7.3	6.5	9.1	7.57	7.7	6.3
Unsecured	6.80	4.10	3.65	3.9	4.5	3.8	4.7	4.1	3.1	5.4
Total	6.80	6.70	5.91	5.1	6.5	6.1	8.3	6.9	7.1	5.6
Structural features										
Liquidity reserve (% of class A notes)	6.5	5.0	4.0	4.0	4	4.0	4.0	5.0	4.5	4.5
Class A Euribor cap strike	4%-3%	3.1%-4.75%	0.1%-2.1%	0.1% - 2%	0.2% - 1.2%	0.1%-1.6%	0.1%-1.25%	0.1%-4.95%	0%-1%	0.2%-3.0%
Class A										
% of GBV	27	11.1	11.4	12.6	18.5	15.0	20.3	12.0	18.2	27.6
Class B										
% of GBV	5	2.1	1.5	2.1	2.2	1.2	2.9	1.2	2.7	5.6
Final rating at closing										
Class A	BBB+	BBB	BBB	BBB	BBB	BBB+	BBB	BBB	BBB	A-
Class B	B	NR	NR	NR	NR	NR	NR	NR	NR	B+

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