

# ARAGORN NPL S.r.l.

## Non-Performing Loans (NPL)



### Ratings

Tranche	Rating	Size (EURm)	Thickness (%)	% of GBV <sup>1</sup>	Coupon	Final maturity
Class A	BBB <sub>-SF</sub>	509.5	86.9	30.5	6m-Euribor <sup>2</sup> + 0.5%	Jul 2038
Class B	B <sub>SF</sub>	66.8	11.4	4.0	6m-Euribor + 7.0%	Jul 2038
Class J	NR	10.0	1.7	0.6	6m-Euribor + 10%	Jul 2038

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

<sup>1</sup> Gross book value (GBV) of the securitised portfolio at closing (EUR 1,671m)

<sup>2</sup> 6m-Euribor is capped at i) 0.5% until the end of June 2022; ii) 1.0% until the end of June 2024; iii) 1.5% until the end of June 2026; iv) 2.0% from June 2026.

### Transaction details

Purpose	Risk transfer
Issuer	Aragorn NPL 2018 S.r.l.
Originators	Credito Valtellinese S.p.A and Credito Siciliano S.p.A
Special servicers	Cerved Credit Management S.p.A. and Credito Fondiario S.p.A
Portfolio cut-off date	31 December 2017
Issuance date	14 June 2018
Payment frequency	Semi-annual (July and January)
Lead arrangers	JP Morgan Securities, Mediobanca – Banca di Credito Finanziario
Co-arranger	Société Générale

The transaction is a static cash securitisation of a EUR 1,671m Italian NPL portfolio, by gross book value (GBV), comprising both secured (75.4%) and unsecured (24.6%) loans. The loans were extended to companies (91.1%) and individuals (9.9%) and were originated by Credito Valtellinese (84.5%) and Credito Siciliano (15.5%) (jointly, Creval), two subsidiaries of the Credito Valtellinese Banking Group. The portfolio is concentrated because the 10 and 100 largest borrower exposures account for 8.2% and 39.4% of GBV, respectively. Secured loans are backed by residential (43.4% of property valuations) and non-residential (56.6%) properties that are highly concentrated in the Italian region of Lombardy (46.6%). The issuer acquired the portfolio at the closing date, 12 June 2018, but is entitled to all portfolio collections received since 31 December 2017 (the portfolio cut-off date. Asset information reflects aggregation by loans.

The structure comprises three classes of notes with fully sequential principal amortisation: senior class A, mezzanine class B, and junior class J. The class B interest margin ranks senior to class A principal at closing but will be deferred if special servicer performance triggers are breached, while the index component always ranks junior to class A principal. Class J principal and interest are subordinated to the repayment of the rated notes.

### Rating rationale (summary)

The ratings are mainly driven by recovery amounts and timing from the NPL portfolio, which was acquired by the issuer at a 64.9% discount relative to the portfolio's GBV. Scope's recovery and timing assumptions incorporate Scope's economic outlook for Italy, as well as a positive assessment of the special servicer's capabilities. The ratings are supported by the structural protection provided to the notes, the absence of equity leakage provisions, liquidity protection, and interest rate hedging agreements.

The ratings also address exposures to the key transaction counterparties: Cerved Credit Management (CCM), first special servicer; Credito Fondiario (CF), second special servicer and master servicer; Cerved Master Services, back-up servicer; Citibank as noteholders' representative, account bank, cash manager and paying agent; Intesa Sanpaolo, interim collections account bank; Securitisation Services, monitoring agent; and Société Générale as interest rate cap provider. Scope has incorporated counterparty

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### Related Research

[General Structured Finance Rating Methodology, August 2017](#)

[Methodology for Counterparty Risk in Structured Finance, August 2017](#)

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replacement triggers that rely on Scope's ratings of Intesa and Société Générale, as well as publicly available ratings on Citibank.

For secured exposures, collections were mostly based on up-to-date property appraisal values which were stressed to account for liquidity and market value risks, while recovery timing assumptions were derived using line-by-line asset information detailing the type of legal proceeding, the court issuing the proceeding, and the stage of the proceeding at the cut-off date. For unsecured exposures, Scope used historical line-by-line recovery data on defaulted loans between 2003 and 2017 and calibrated recoveries, taking into account the fact that unsecured borrowers were classified as defaulted for an average of 3.2 years as of closing.

## Rating drivers and mitigants

### Positive rating drivers

**Portfolio servicing.** Two independent servicers limit the transaction's sensitivity to servicer disruption. The performance fee structure reasonably aligns incentives between the servicers and the investors. In the event of a servicer disruption, the monitoring agent will assist the issuer in finding a suitable replacement.

**Asset location.** About 58.4% of loan collateral and 62.7% of unsecured borrowers are located in northern Italy, which benefits from the most dynamic economic conditions and, in general, the most efficient tribunals in the country.

**Tight performance triggers.** The senior noteholders are protected by relatively tight performance triggers. If the special servicers do not meet at least 90% of the business plan collections schedule (or at least 100% during the first two payment dates), class B interest payments will be deferred below class A principal.

**Liquidity protection.** A cash reserve representing 5% of the outstanding class A notes balance protects the liquidity of senior noteholders, covering senior expenses and interest on class A notes for about four payment dates as of closing.

**Interest rate cap.** An interest rate cap, with a strike equal to 0% at closing and 0.1% as of June 2022, strongly mitigates the risk of increased liabilities if Euribor levels rise. Scope expects the notes to amortise at an equal or faster pace than the scheduled notional amount defined in the cap agreement, leaving no portion of the outstanding notes unhedged.

**Real estate recovery.** Scope expects a gradual recovery of property prices, despite weak medium-term economic growth potential, driven by moderate private sector indebtedness and improving property affordability. Scope has applied an average property price decline assumption of 4.8% for the analysis of the class A notes, reflecting our view of limited market price downside risk.

### Upside rating-change drivers

**Recovery timing outperformance by the servicer.** Consistent outperformance by the servicer in terms of recovery timing could positively impact the ratings. Portfolio collections will be completed over a weighted average period of 5.3 years according to the servicer's business plan. This is about 12 months faster than Scope's expected recovery timing assumptions as derived from public data, and about 24 months faster than the recovery timing vector applied for the analysis of the class A notes. Scope expects that recent legal reforms will have a positive impact on court performance and has applied a limited stress on recovery timing assumptions.

### Negative rating drivers and mitigants

**Collateral liquidity risk.** Fire-sale discount assumptions are the primary source of portfolio performance stresses. Scope has applied rating-conditional haircuts to portfolio valuations to address marketability risks (e.g. 27.2% on average for the class A notes).

**High portion of non-started or bankruptcy proceedings.** Almost 60% of the portfolio's GBV corresponds to loans with no ongoing proceedings. Scope has assumed that 55% of these loans will fall under bankruptcy. Compared with non-bankruptcy proceedings, bankruptcies typically result in lower recoveries and take longer to be resolved. About 23% of the loans are already under bankruptcy proceedings.

**Seasoned unsecured portfolio.** The weighted average time since default is approximately 3.2 years for the unsecured portion. Most unsecured recoveries are realized in the first years after a default according to historical data.

**Concentrated portfolio.** The top-10 and top-100 debtor exposures respectively account for 8.2% and 39.4% the portfolio's GBV. Scope has captured the resulting idiosyncratic risk by applying rating-conditional recovery rate haircuts on the 10 largest borrowers, which range from 0% for class B to 8.3% for class A.

**Mezzanine notes' tranche thinness.** The class B notes are very sensitive to changes in the underlying asset assumptions, because the size of the tranche is very thin relative to the size of the portfolio (4% of GBV). This implies that a small decrease or delay in portfolio collections may lead to significant mezzanine noteholder losses.

### Downside rating-change drivers

**Fragile economic growth.** The trajectory of Italy's public debt is a cause for concern given weak medium-term growth potential of 0.75% alongside the new government's plans to roll back reform, raise spending and cut taxes.

**Collateral appraisal values.** NPL collateral appraisals are more uncertain than standard appraisals because repossessed assets are more likely to deteriorate in value. An upward bias of appraisals values beyond the liquidity stresses captured by Scope could result in a rating downgrade.

**Legal costs.** An increase in legal expenses could negatively affect the ratings. Scope has given credit to the legal expenses for collections detailed in the servicer business plan, which average about 7% of gross collection.

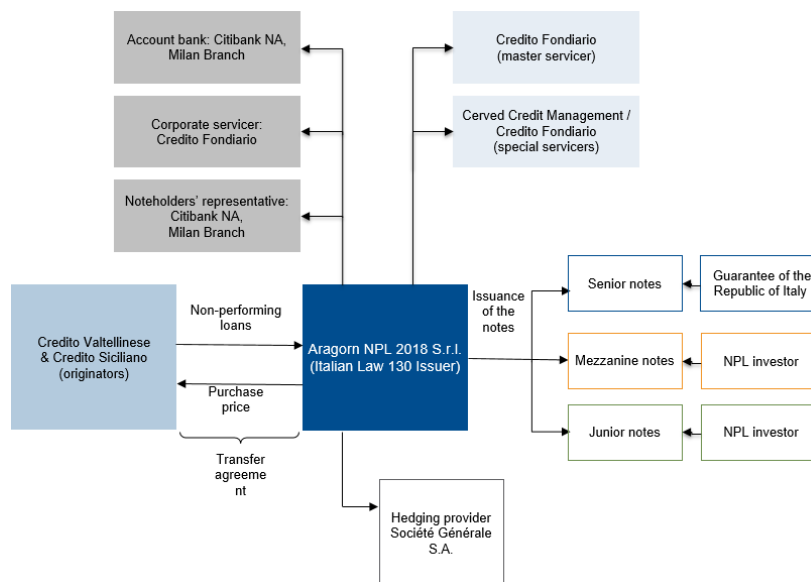
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## 1. Transaction summary

The transaction structure comprises three tranches of sequential principal amortising notes, an amortising liquidity reserve equal to 5% of the outstanding class A notes, and an interest rate cap agreement.

**Figure 1: Transaction diagram:**



Sources: Transaction documents and Scope Ratings.

Figure 2 shows the main characteristics of the preliminary portfolio analysed by Scope as of the 31 December 2017 cut-off date.

**Figure 2: Key portfolio stratifications<sup>1</sup>**

	All	Secured	Unsecured
Number of loans	8,289	2,673	5,616
Number of borrowers	4,171		
Gross book value (EUR)	1,675,878,131	1,263,612,111	412,266,020
% of gross book value (GVB)	100%	75.4%	24.6%
Weighted average seasoning (years)	2.5	2.1	3.2
Sum of collateral appraisal values (EUR)		1,679,740,557	
Borrower type			
Corporate	90.1%	90.6%	88.7%
Individual	9.9%	9.4%	11.3%
Primary legal procedure			
Bankrupt borrower	24.2%	19.1%	40.2%
Non-bankrupt borrower	18.8%	20.4%	14.1%
Not started or unknown	57.0%	60.6%	45.7%
Stage of procedure (secured loans)			
Initial		69.6%	
Court-appointed valuation (CTU)		22.0%	
Auction		4.9%	
Distribution		3.4%	
Borrower location (% of GBV)			
North	58.5%	72.3%	62.7%
Centre	18.4%	14.3%	22.7%
South and islands	23.1%	13.4%	14.6%
Borrower concentration (% of GVB)			
Top 10	8.2%		
Top 100	39.4%		
Property type (% of GVB)			
Residential		43.4%	
Non-residential		56.6%	

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

<sup>1</sup> The portfolio stratifications are provided for the preliminary portfolio. The closing portfolio has a slightly lower balance than the preliminary portfolio (EUR 1,671m rather than EUR 1,675) due to the exclusion of a few loans which did not meet the eligibility criteria, but this does not imply any material changes to the portfolio stratifications.

Gradual property price recovery despite economic challenges

Large and diversified economy

Moderate private debt levels

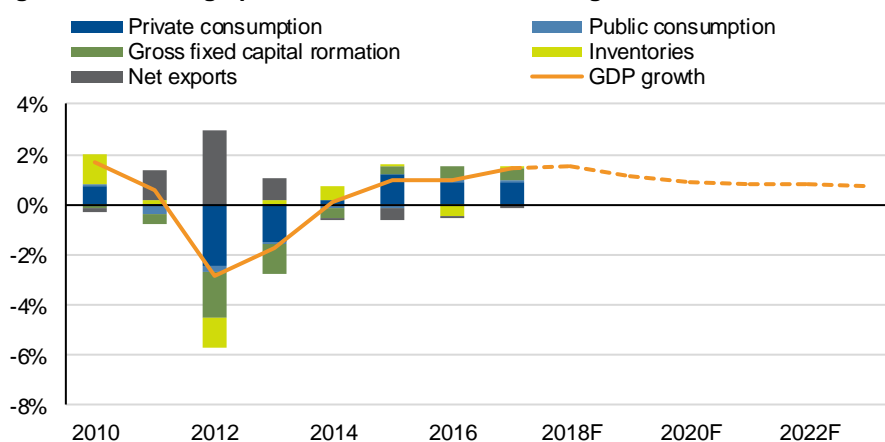
Weak long-term growth prospects

## 2. Economic environment

Scope's portfolio recovery amount and timing assumptions reflect Scope's expectation of a gradual recovery of Italian real estate prices and progress in delivering structural reforms, notwithstanding weak medium term economic growth potential. The cyclical recovery from current trough levels is driven by moderate private sector indebtedness and improving property affordability trends.

Scope's sovereign rating on Italy (A-/Negative) is underpinned by a large and diversified economy and a cyclical rebound against the backdrop of long-term economic challenges. The negative outlook reflects that the trajectory of Italy's public debt is a cause for concern given weak medium-term growth potential of 0.75% alongside the new government's plans to roll back reform, raise spending and cut taxes

**Figure 3: Percentage-point contribution to real GDP growth**



Sources: IMF, national statistical accounts, calculations by Scope Ratings

The IMF, in its April 2018 World Economic Outlook (WEO), revised Italy's 2018 growth forecast to 1.5% from 1.1% and raised its 2019 expectations to 1.1% from 0.9%. Italy's manufacturing sector – the second largest in the euro area after Germany's – has helped to generate current-account surpluses since 2013 (2.8% of GDP in 2017). Unlike many advanced economies, Italy did not experience a credit-driven boom-bust cycle before the 2008 crisis. Domestic non-financial private debt stands at a comparatively moderate 156% of GDP as of Q3 2017, comparing favourably against euro area peers.

While the cyclical rebound exceeded expectations, long-term growth prospects remain weak. The IMF's medium-term forecast<sup>2</sup> remained at 0.8% in the April 2018 WEO. Italy's production capacity fell in the aftermath of the global financial crisis. As of February 2018, industrial production volumes stood at 81% of early 2008 levels. This comes in contrast to the full recovery in Germany's industrial production post-crisis.

The drop in industrial production capacity is a reflection of the vulnerabilities within Italy's production infrastructure. More than 90% of manufacturing output is generated by micro-firms concentrated in industrial districts. While these firms are competitive in their global niche markets (luxury clothing, household goods, food processing, mechanical products, and motor vehicles), they remain susceptible to market shocks. Their financing capacities are limited and were hit hard during the euro crisis.

<sup>2</sup> Referring to the IMF's April 2018 WEO's forecast for 2023 growth.

Political and banking system challenges

Scope's assumptions reflect significant recovery timing stresses

Rating-conditional recovery assumptions

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

Unemployment continues to gradually drift downward from its 2014 peak (13% in November) and was 10.9% as of February 2018. Wage growth has picked up 1.0% YoY as of March 2018. However, inflation remains tepid at only 0.5% YoY in April 2018.

At the same time, political uncertainties following the March 2018 general elections, as well as ongoing challenges in the banking sector, may weigh on the economic rebound. Italian banks' lending to residents rose 1.9% YoY in February 2018, a modest growth after the previous years of contraction.

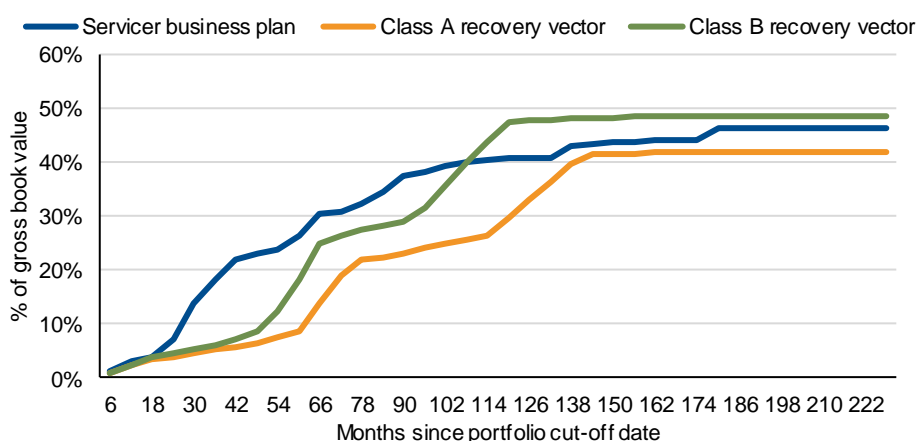
### 3. Portfolio analysis

Figure 4 compares Scope's lifetime gross collections and recovery timing assumptions for the entire portfolio against those of the special servicers' statistical business plan. Scope has applied rating-conditional recovery rates (i.e. lower recoveries as the instrument's target rating increases). These assumptions result from the blending of secured and unsecured recovery expectations. Scope has applied specific analytical frameworks to the secured and unsecured segments to project recoveries. The set of assumptions applicable to both classes of notes reflect a significant stress on cash-flow timing, particularly over the first five to six years of the transaction.

For the analysis of the class A notes, Scope assumed a blended gross recovery rate of 41.9% over a weighted average life of 7.4 years. By portfolio segment, Scope assumed gross recovery rates of 49.9% and 17.2% for the secured and unsecured portfolios, respectively.

For the analysis of the class B notes, Scope assumed a blended gross recovery rate of 48.4% over a weighted average life of 6.4 years. By portfolio segment, Scope assumed gross recovery rates of 57.7% and 20.1% for the secured and unsecured portfolios, respectively.

**Figure 4: Business plan expected recoveries vs Scope's rating-conditional vectors**

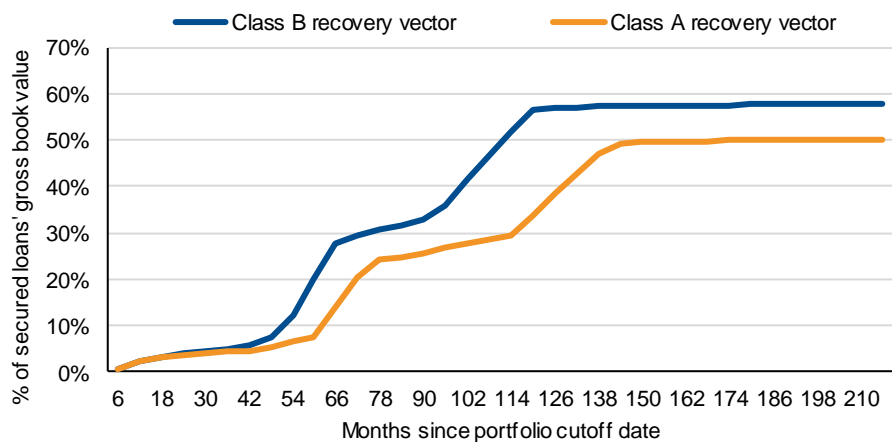


Sources: Special servicers business plan and Scope Ratings

#### 3.1. Analysis of secured portfolio segment

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

**Figure 5: Scope's rating-conditional secured recovery rate vectors**



Source: Scope Ratings

**Positive credit given to the quality of property appraisals**

**3.1.1. Property appraisal analysis**

Scope has relied on line-by-line property market value appraisals conducted by authorised and qualified third parties. Most of the valuations are relatively recent, i.e. conducted between 2015 and 2017. Scope has indexed seasoned valuations using a variety of price indices. The indexation has a marginal impact on this NPL portfolio because property prices in Italy have remained fairly flat since 2015.

Scope views positively that most of the portfolio's collateral appraisals are either a drive-by or full valuation (96.1%). A smaller portion is composed of desktop (1.2%) and CTU (2.7%) valuations, to which Scope applied 5% and 10% haircuts respectively, reflecting the agency's view of their lower levels of quality and accuracy due to the simplified procedures.

**Figure 6: Portfolio appraisal types and Scope assumptions**

Valuation type	% of collateral value	Valuation haircut
Full	95.5	0%
Drive-by	0.6	0%
Desktop	1.2	5%
CTU	2.7	10%

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

**Moderate market downturn risk**

**3.1.2. Property market value assumptions**

Figure 7 details Scope's assumptions, for the respective rated tranches, on stressed average property prices over the transaction's lifetime. These assumptions are transaction- and region-specific and based on an analysis of historical property price volatility and on fundamental metrics relating to property affordability, property profitability, private-sector indebtedness, the credit cycle, population dynamics and long-term macroeconomic performance.

**Figure 7: Portfolio collateral location and Scope assumptions**

Region	North				Centre		South	
	Milan	Turin	Venice	Others	Rome	Others	Land	Islands
<b>Class B</b>	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
<b>Class A</b>	-2.6	-2.6	-5.5	-4.4	-6.2	-4.4	-8.0	-7.3
<b>Portfolio distribution (%)</b>	15.3	2.5	2.7	38.0	5.6	12.8	0.8	22.3



**High NPL collateral liquidity and obsolescence risk**

**3.1.3. Collateral liquidity risk**

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

Asset illiquidity risk is captured by Scope's fire-sale discount assumptions specific to the respective classes of the notes, as detailed in Figure 8 below. These assumptions are based on historical distressed property sales data provided by the special servicers and reflect Scope's view that non-residential properties tend to be less liquid, resulting in higher distressed-sale discounts.

**Figure 8: Fire-sale discount assumptions**

	Residential	Non-residential
Class B	20.0	24.0
Class A	24.2	29.0

**3.1.4. Concentration haircuts**

Scope has addressed borrower concentration risk by applying an 8.3% recovery haircut on the 10 largest borrowers for the analysis of the class A notes.

**3.1.5. Residual claims after security enforcement**

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

**Scope addresses potential residual claims after security enforcement**

For corporate loans, however, Scope has given no credit to potential further recoveries on residual claims after the security is enforced. This is due to three practical limitations: Firstly, unsecured recoveries tend to be binary with a high probability of zero recoveries and low probability of 100% recoveries. This implies that under the scenario that secured creditors are not fully satisfied after the enforcement of the security, expected recoveries for unsecured creditors will be close to zero<sup>3</sup>. Secondly, special servicers are generally less incentivised to pursue alternative enforcement actions, given that foreclosure proceedings are more cost-efficient. Lastly, in a bankruptcy proceeding the receiver will decide to close the proceedings after a prudential time, setting a practical limitation for any potential recovery upside.

**No credit to residual claims from corporate borrowers**

Scope has however given credit to residual claims on 80% of loans to individuals. This is because if the borrower is an individual, the elapsed time after a default might have a positive impact. An individual may, for example, find new sources of income over time and become solvent again.

**Partial credit to residual claims from individuals**

**3.1.6. Tribunal efficiency**

Scope 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 by the type of legal proceeding. To reflect this, Scope has grouped

<sup>3</sup> Conversely, in the unlikely scenario that secured creditors are fully satisfied after the enforcement of the security, expected recoveries for unsecured creditors could be close to 100%.

Italian courts into seven categories, based on public data on the average length of bankruptcy and foreclosure proceedings between 2015 and 2017, as shown in Figure 9 below. Most courts are concentrated within groups 2 to 4 which are reasonably distributed across all Italian regions. Nevertheless, northern regions tend to have more efficient tribunals on average (see Figures 13 and 14 for transaction-specific details).

Northern regions tend to have more efficient tribunals

**Figure 9: Total length of the recovery process by court group in years (Scope's assumptions)**

Court group	Bankruptcy proceedings	Non-bankruptcy proceedings	% of courts
1	4.0	2.0	5%
2	6.0	3.0	32%
3	8.0	4.0	26%
4	10.0	5.0	23%
5	12.0	6.0	7%
6	14.0	7.0	4%
7	18.0	9.0	4%

### 3.2. Analysis of unsecured portfolio segment

Figure 10 shows Scope's rating-conditional lifetime gross-collections vectors for the unsecured portfolio segment. Assumptions on the recovery amount and timing are based on recovery vintage data on a representative sample of loans as provided by Creval.

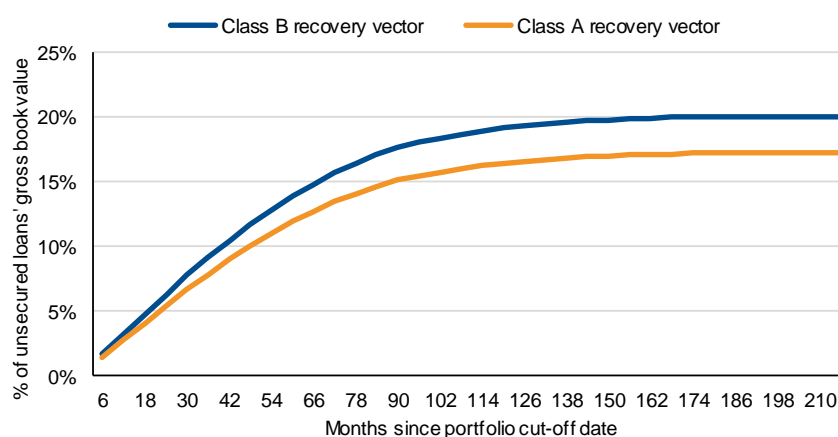
The assumptions for unsecured exposures consider the nature of the recovery procedure: Bankruptcy proceedings are generally slower and typically result in lower recoveries than non-bankruptcy proceedings.

The assumptions are calibrated to reflect that unsecured borrowers in the portfolio are classified as having defaulted for an average of 3.2 years as of the cut-off date.

Unsecured portfolio analysis is based on statistical data

Lifetime recovery rates are recalibrated to capture portfolio seasoning

**Figure 10: Rating-conditional lifetime unsecured recovery rate**



Source: Scope Ratings

## 4. Portfolio characteristics

The charts below provide further detail on key portfolio characteristics as of 31 December 2017. Percentage figures refer to GBV, unless otherwise stated.

### 4.1. Eligible loans

The loans must fulfil customary eligibility criteria for Italian NPLs. The main eligibility criteria for inclusion in the securitised portfolio are as follows:

Customary NPL loan eligibility criteria



- All loans are denominated in euros.
- All loan agreements are governed by Italian law.
- All borrowers are reported by the originator as defaulted (in sofferenza) to the Italian Credit Bureau (Centrale Rischio) of the Bank of Italy as of 31 December 2017.
- The borrowers are i) individuals resident or domiciled in Italy or ii) entities incorporated under Italian law with a registered office in the country.
- Secured loans are backed by a mortgage over real estate assets located in Italy.
- The borrowers are not employees, managers or directors of any of the bank members of the Credito Valtellinese Banking Group.
- The receivables are not leasing receivables or cessione del quinto<sup>4</sup> loans.
- Detailed portfolio stratifications

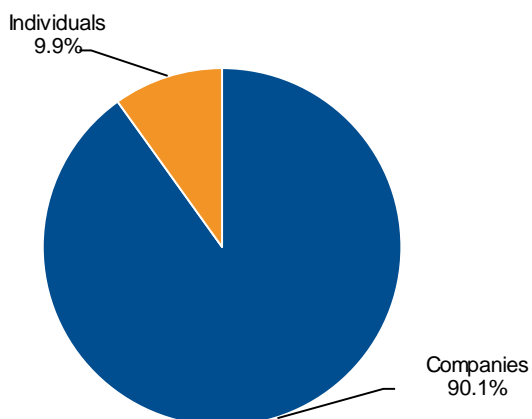
#### 4.1.1. Borrower and loan types

Corporates and individuals represent 90.1% and 9.9% of the pool respectively. The low share of loans to individuals is slightly detrimental for the transaction, mainly due to Scope's view of residual claims after security enforcement and the negative impact on portfolio concentration.

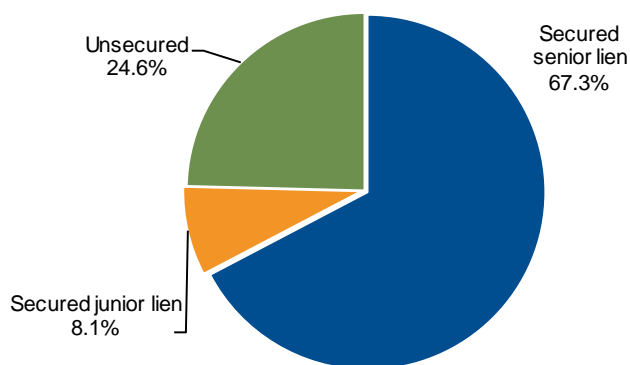
High share of secured loans is credit-positive

The relatively high amount of secured loans (75.4%) is positive. Most secured loans are backed by first-lien mortgage collateral, although a substantial portion is backed by junior liens. Scope has assumed that recovery proceeds from junior-lien secured loans will be the same as for unsecured loans.

**Figure 11: Borrower type**



**Figure 12: Loan type**



Sources: Data tape from Creval, calculations by Scope Ratings

Geographical concentration in the north is credit-positive

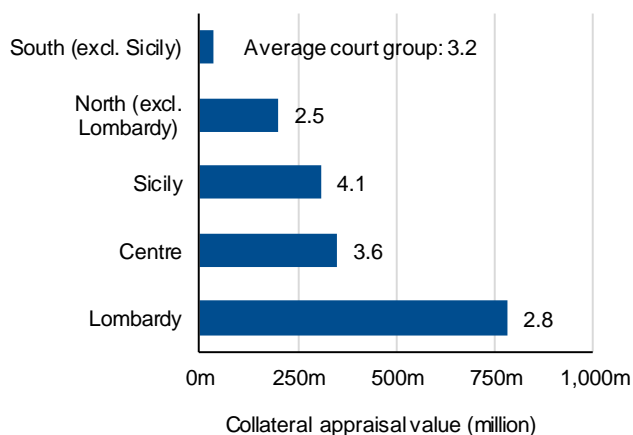
#### 4.1.2. Geographical distribution

The location of the portfolio should positively affect the level and timing of recovery proceeds in the transaction: the collateral and the court proceedings are concentrated in Lombardy and other northern Italian regions. These regions benefit from the most dynamic economic conditions in Italy, reflected by the more resilient property values (i.e. lower market-value-decline assumptions) and generally the most efficient tribunals, reflected by the shorter recovery timings.

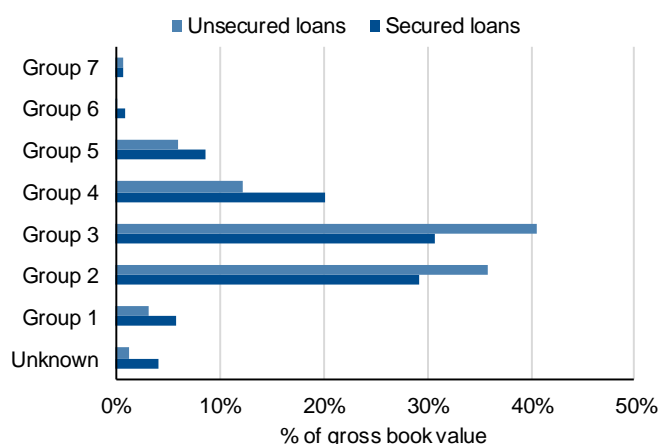
About 60% of the secured loans have not been assigned a court because legal proceedings have not yet started. Scope has assumed that these positions will, on average, fall into court group 3, based on the geographical distribution of the portfolio.

<sup>4</sup> 'Cessione del quinto' loans are salary guaranteed loans insured against unemployment and life risk.

**Figure 13: Collateral location and average Scope court group by region**



**Figure 14: Court group distribution of loans for which proceedings have started**



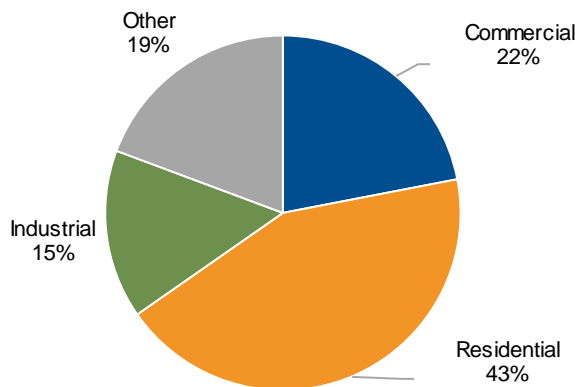
Sources: Data tape from Creval, calculations by Scope Ratings

**Lower liquidity stresses applied to residential properties**

**4.1.3. Collateral type**

The collateral is composed of residential (43.3%), commercial (22%), industrial (15%) and other non-residential assets (19%) (e.g. accommodation services properties, buildable land and agricultural land). The relatively large share of residential properties is positive for the transaction given the generally better liquidity of such properties, reflected in Scope's lower fire-sale discount assumptions (see Figure 8).

**Figure 15: Distribution by type of collateral**



Sources: Data tape from Creval, calculations by Scope Ratings

**Expected recoveries reflect the secured portfolio's LTV distribution**

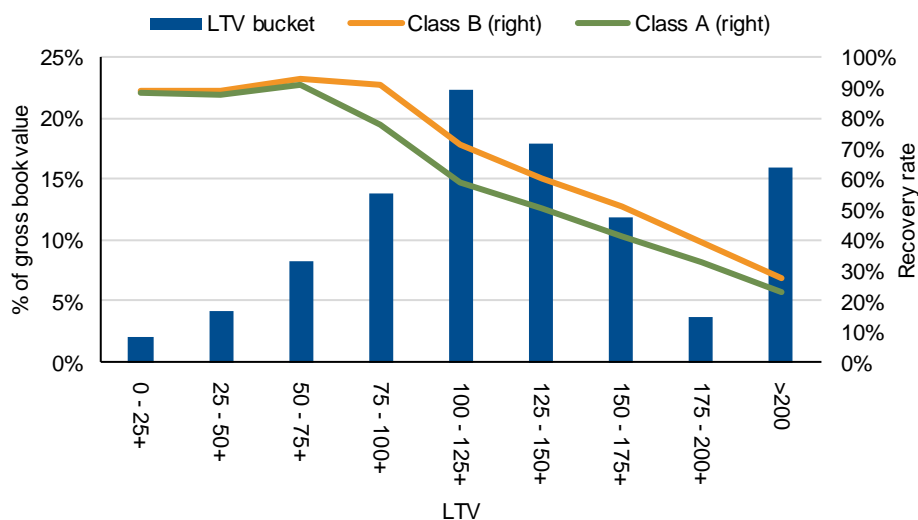
**4.1.4. Collateral valuations and Scope's recovery rate assumptions**

Figure 16 shows the secured loans' distribution by loan-to-value bucket as well as Scope's rating-conditional recovery rate assumptions for each bucket. This results in weighted average recovery rates for the secured loans of 49.9%, for class A, and 57.7% for class B.

All else equal (e.g. for two portfolios with equivalent loan-to-value ratios on an aggregated basis), collateral is less beneficial if its value is skewed towards low loan exposures. This is because, on a loan-by-loan basis, recovery proceeds are capped by the minimum of the loan's GBV and mortgage value. This partly explains why recovery rates flatten at low loan-to-value buckets.<sup>5</sup>

<sup>5</sup> Another reason is that syndicated loans are concentrated in the low LTV buckets for this portfolio. The reported LTVs of syndicated loans are downward-biased because the loan amount reflects only the syndicated percentage whereas the appraisal reflects the total collateral value.

**Figure 16: Secured borrowers' loan-to-value ratio**



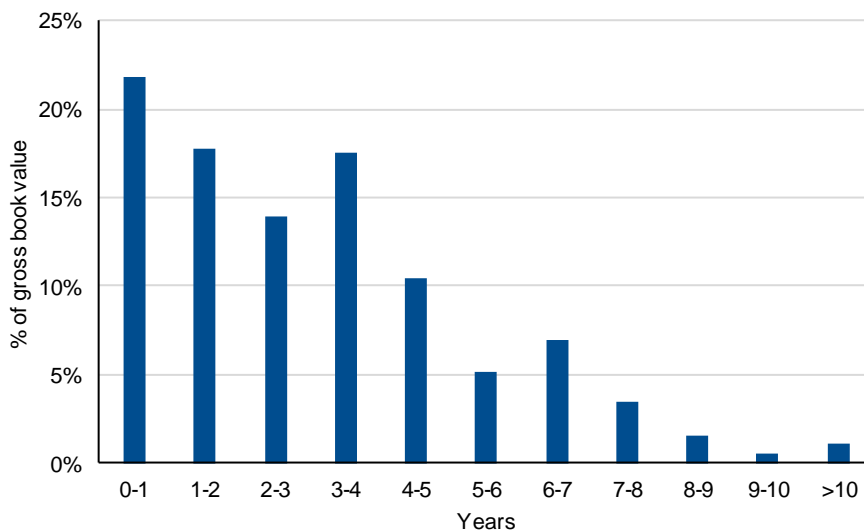
Sources: Data tape from Creval, calculations by Scope Ratings

**Ageing of unsecured portfolio reduces expected recoveries**

**4.1.5. Loan seasoning**

The weighted average time since default is around 3.2 years for unsecured exposures. The pool's ageing reduces the expected recoverable amount of unsecured loans significantly, since most recoveries are concentrated in the first years after a default, according to historical vintage data.

**Figure 17: Unsecured portfolio seasoning distribution as of cut-off date**



Sources: Data tape from Creval, calculations by Scope Ratings

**Recovery stresses address the high portion of bankruptcy proceedings**

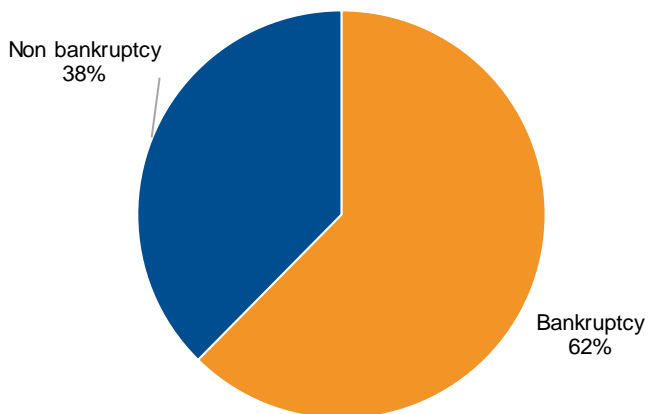
**4.1.6. Borrower status**

A significant amount of the portfolio's borrowers are under bankruptcy proceedings or have been assumed by Scope to fall into bankruptcy in the future. This is credit-negative as bankruptcy processes are generally more complex, take time and are costlier. Bankruptcies also result in lower expected recoveries for unsecured exposures given their focus on liquidating assets rather than maintaining borrowers as a going concern.

Figure 18 below shows the portfolio distribution by main type on legal proceeding, as assumed by Scope (a single position can have various types of simultaneously ongoing proceedings). A substantial number of loans (about 60%) have either no ongoing legal proceeding or the nature of the proceeding is unknown. We have assumed that 55% of

positions will fall into bankruptcy based on the nature of the proceedings in the remaining portfolio and comparable transactions.

**Figure 18: Main type of legal proceedings (Scope's assumptions)**



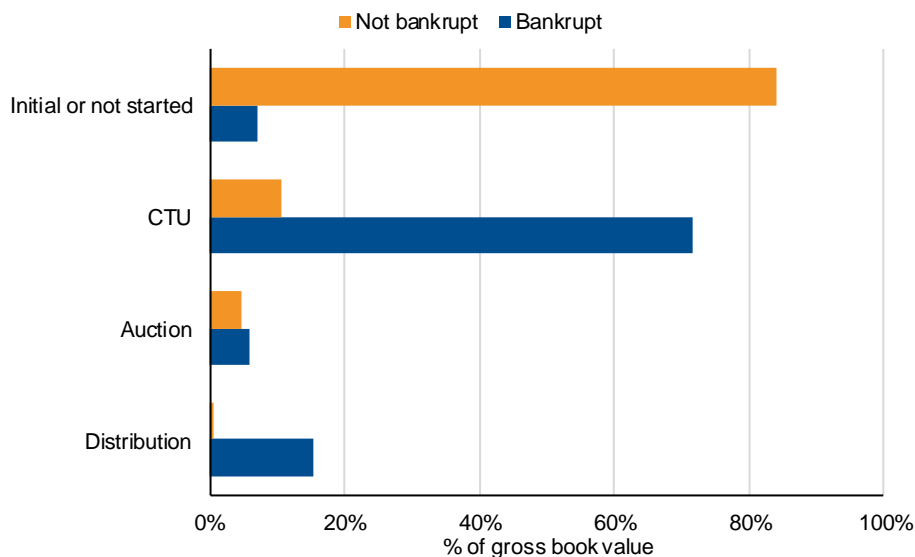
Sources: Data tape from Creval, calculations by Scope Ratings

High portion of initial or non-started proceedings drive relatively back-loaded collections

**4.1.7. Recovery stage of secured exposures**

A large portion of the secured loans is in initial stages, which partly explains the long expected weighted average life of portfolio collections. Figure 19 below shows the stage of legal proceedings for bankruptcies and non-bankruptcies in relation to secured loans.

**Figure 19: Secured recovery stage by borrower status**



Sources: Data tape from Creval, calculations by Scope Ratings

## 5. Key structural features

### 5.1. Priority of payments

#### Combined waterfall

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

1. Senior fees (costs, taxes and expenses, fees for services provided to the issuer by entities such as the master servicer, special servicer and cash manager)
2. Interest on the limited-recourse loan
3. Fees payable to the GACS guarantor regarding the GACS guarantee
4. Recovery-expense reserve amount
5. Interest on class A notes
6. Amounts due under the GACS guarantee (other than amounts paid under item 3)
7. Cash reserve target amount
8. Principal on the limited-recourse loan
9. Class B margin interest component, provided a subordination event has not occurred
10. Principal on class A notes
11. Class B Euribor interest component (floored at zero) and, if a subordination event has occurred, class B margin interest component
12. Principal on class B notes
13. Junior payments
14. A subordination event occurs in the event of any of the following:

#### Reversible but tight class B subordination triggers

1) Up to and including the interest payment date falling in July 2019: the cumulative collection ratio<sup>6</sup> is lower than 100%; or the present value aggregate cumulative profitability ratio<sup>7</sup> is lower than 100%.

2) From and including the January 2020 interest payment date: the aggregate cumulative collection ratio is lower than 90%; or the present value aggregate cumulative profitability ratio is lower than 90%.

The subordination event is curable. This means that if the class B subordination triggers are not breached, all amounts due and unpaid at the preceding interest payment dates will be paid senior to the principal of the class A notes.

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

#### Accelerated waterfall protects the senior noteholders upon a liquidity or trigger event

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

<sup>6</sup> 'Cumulative collection ratio' is defined as the ratio between i) the cumulative aggregate net collections since the economic effective date of transfer of the portfolio; and ii) the net expected collections. Net collections are the difference between the gross collections and the recovery expenses.

<sup>7</sup> 'Present value aggregate cumulative profitability ratio' is defined as the ratio between i) the sum of the present value of the net collections of the receivables which are exhausted debt relationships, and ii) the sum of the target price (as defined in the servicers' base case scenario of the business plan) of all receivables which are exhausted debt relationships. The present value will be calculated using an annual interest rate of 3.5%.

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

1. Senior fees (costs, taxes and expenses, fees for services provided to the issuer by entities such as the master servicer, special servicer and cash manager)
2. Interest on the limited-recourse loan
3. Fees payable to the GACS guarantor regarding the GACS guarantee
4. Recovery-expense reserve amount
5. Interest on class A notes
6. Principal on the limited-recourse loan
7. Principal on class A notes
8. Amounts due under the GACS guarantee (other than the amounts paid under item 3)
9. Interest on class B notes
10. Principal on class B notes
11. Junior payments

### **5.2. Alignment of interests (servicer performance fees)**

The servicing fee structure (see section below on servicing fees) links the portfolio's performance with the level of fees received by the special servicer, which mitigates potential conflicts of interest between the special servicer and noteholders. In the case of underperformance, a haircut will be applied to the special servicer's fees and a portion of the total fees will be deferred below the rated notes' principal repayment. The special servicer is therefore incentivised to maximise recoveries and comply with the initial business plan.

An overview of the special servicers' activities and calculations, prepared by the monitoring agent and the master servicer, mitigates operational risks and moral hazard that could negatively impact the interests of noteholders. This risk is further mitigated by the discretionary servicer termination event should the special servicer underperform.

### **5.3. Servicing structure**

The two special servicers, Cerved Credit Management (CCM) and Credito Fondiario (CF), will perform servicing activities and will be monitored by the master servicer and the monitoring agent.

Under the servicing agreement, the master servicer (CF) is responsible for the servicing, administration, collection/recovery of receivables as well as the management of legal proceedings. The master servicer will delegate the servicing, administration, collection/recovery of the receivables to the special servicers, and will also monitor the special servicers' activities.

CMS has been appointed as back-up master servicer.

The monitoring agent (Securitisation Services) is tasked with providing an overview of the special servicers' activities. This agent will verify the calculations of key performance ratios and amounts payable by the issuer, as well as perform controls based on random samples of loans.

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

**Fee structure mitigates potential conflicts of interest**

**Two independent servicers limit transaction's sensitivity to operational risks**

**Monitoring function protects noteholders' interests**

**Fee structure is strongly incentive-based****5.3.1. Servicing fees**

The special servicers will be entitled to i) a base fee, calculated at each payment date on the outstanding portfolio's GBV; and ii) a performance fee, calculated at each payment date on the period's collections net of legal costs (collectively, the servicing fees).

Incentive fees constitute the majority of the expected servicing fees. The following additional features also incentivise servicers to comply with or outperform business plan targets set on the closing date.

- Haircut on servicing fees: If on any payment date either the cumulative gross collection ratio or the net present value cumulative profitability ratio is lower than 100%, a haircut will be applied to the servicing fees. The haircut levels will increase with the degree of underperformance and will be applied as long as one of these two indicators is below 100%.
- Payment deferral of servicing fees: If on any payment date the lower of the cumulative gross collection ratio or the net present value cumulative profitability ratio is above 90%, a portion of the servicing fees will be deferred by two years. Deferred fees will be definitively lost if after the two-year period the performance does not meet at least the business plan targets. This additional potential haircut is added only to results that are close to or above business plan targets to compensate for the lower level of haircuts set for these scenarios.
- A progressive reduction of annual base fees relative to the portfolio's outstanding GBV: from 0.11% and 0.15% at closing, for secured and unsecured loans respectively, to 0.05% and 0.09% from 2024 onwards, for secured and unsecured loans respectively.

**Master back-up servicer and monitoring agency role mitigate servicing disruption risk****5.3.2. Servicer termination events**

A master servicer termination event includes insolvency, unremedied breach of obligations, unremedied breach of representation and warranties, and no longer being legally eligible to perform obligations under the servicing agreement. Were any of these events to occur, the back-up master servicer would replace the master servicer. If there is no back-up master servicer, the monitoring agent will help to find a suitable replacement.

A special servicer termination event includes insolvency; failure to pay due and available amounts to the issuer within two business days; failure to deliver or late delivery of a quarterly report, half-yearly report or IT information flow; unremedied breach of obligations; unremedied breach of representation and warranties; and no longer being legally eligible to perform obligations under the servicing agreement.

A special servicer can also be substituted owing to consistent underperformance, which the master servicer is entitled to undertake from the sixth collection period (i.e. three years from closing). Until a suitable replacement is found for the special servicer, the master servicer will perform the special servicer's activities.

If the master servicer and the special servicer withdraw simultaneously, the back-up servicer will perform both roles until a suitable replacement is found for at least the special servicer. The monitoring agent will help to find a replacement special servicer.

**Cash reserve protects liquidity of the senior noteholders****5.4. Liquidity protection**

A cash reserve of 5% of the outstanding balance of class A notes will be funded at closing through a limited-recourse loan provided by the originators.

The cash reserve will amortise with no floor during the life of the transaction. The target amount of cash reserve at each payment date will be equal to 5% of the outstanding balance of class A notes.

The cash reserve will be 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.

Class B will not benefit from any liquidity protection.

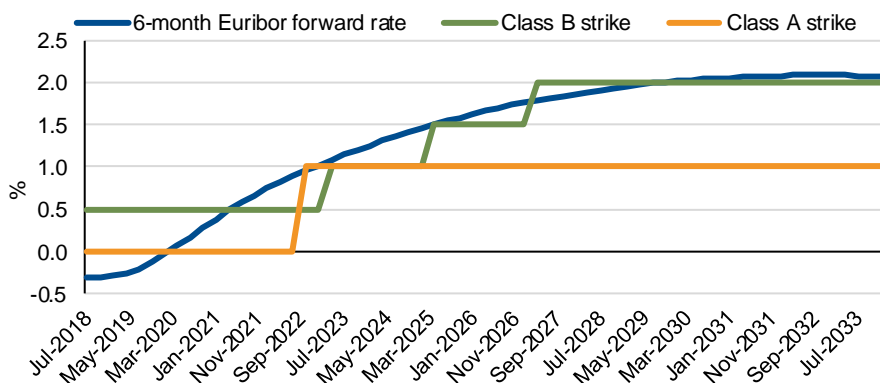
Structural features strongly mitigate the senior noteholders' exposure to rising Euribor levels

**5.5. Interest rate hedge**

On the asset side, due to the non-performing nature of the securitised portfolio, the issuer will not receive regular cash flows and the collections will not be linked to any defined interest rate. On the liability side, the issuer will pay a floating coupon on the notes, defined as six-month Euribor plus a certain fixed margin.

An interest rate cap, with a progressively increasing strike (cap rate) as shown in Figure 20, partially mitigates the risk of increased liabilities on the notes due to a rise in Euribor levels. The swap counterparty is Société Générale.

**Figure 20: Interest rate cap**



Sources: Transaction documents and Scope Ratings

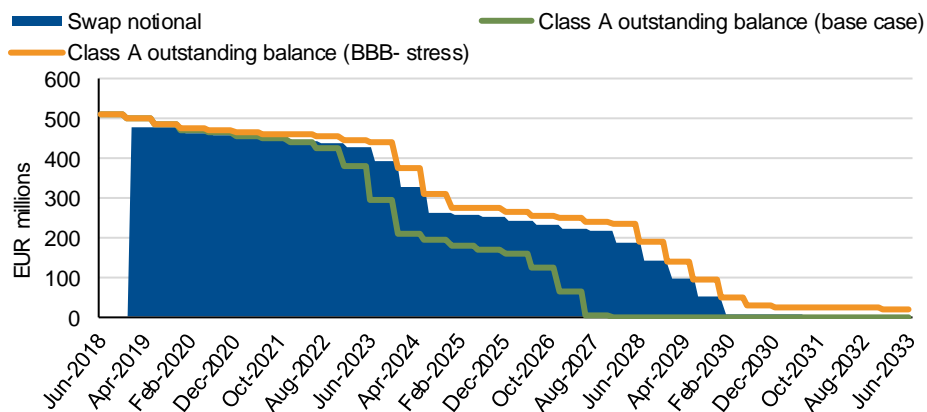
Slower than expected note amortisation could reduce the effectiveness of the swap

Scope does not expect interest rate risk to be a material risk driver for the class A noteholders. However, if the notes were to amortise at a slower pace than the scheduled notional amount defined in the cap agreement, a portion of the outstanding notes would be unhedged.

Figure 21 shows the swap notional schedule against the outstanding balances on the class A notes, under Scope's base case and under Scope's rating conditional assumptions applied for the analysis of the class A notes (i.e. commensurate with BBB-stress levels).

The deferral of the class B interest Euribor component is another layer of protection against the risk of increasing Euribor rates for the class A notes.

**Figure 21: Cap notional schedule vs. outstanding class notes**



Sources: Transaction documents and Scope Ratings



**Class A rating reflects relative performance stability and liquidity protection**

**Class B rating reflects volatility and lack of liquidity protection**

**No mechanistic ratings cap**

**Counterparty risk does not limit the transaction's rating**

## 6. Cash flow analysis and rating stability

Scope has analysed the transaction's specific cash flow characteristics. Asset assumptions have been captured through rating-conditional gross recovery vectors. The analysis captures the capital structure, an estimate of legal costs based on the servicer's business plan, and senior fees of about EUR 450,000 annually. We have taken into account the reference rate payable on the notes based on the six-month Euribor forward curve, considering the progressive cap rates of the swap.

The BBB- rating assigned to the class A notes reflects expected losses over the instrument's weighted average life commensurate with the idealised expected loss table reported in Scope's General Structured Finance Ratings methodology. The rating also takes into account the minimum available liquidity provided to the class A notes by the structure.

The B rating assigned to the class B addresses the high volatility of the ratings to Scope's input assumptions, and the lack of liquidity protection.

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

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

- a decrease in secured and unsecured recovery rates by 10%: 3 notches; and
- an increase in the recovery lag of two years, negative: 2 notches

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

- a decrease in secured and unsecured recovery rates by 5%: 3 notches; and
- an increase in the recovery lag of one year: 2 notches

## 7. Sovereign risk

Sovereign risk does not limit the ratings. According to Scope, the risks of an institutional framework meltdown, legal insecurity or currency convertibility problems due to Italy's hypothetical exit from the eurozone are remote enough not to materially affect the notes' rating.

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

## 8. Counterparty risk

The transaction is exposed to counterparty risk from i) the two originators, regarding representation and warranties and the eventual payments that might be made by the borrowers, especially for the cash-in-court cases, ii) CCM, the first special servicer, iii) CF, the second special servicer and master servicer, iv) CMS, the back-up master servicer, v) Citibank, the representative of the noteholders, account bank, cash manager and paying agent, vi) Intesa Sanpaolo, the interim collections account bank, vii) Securitisation Services, the monitoring agent, and viii) Société Générale, the swap counterparty. In Scope's view, none of these exposures limits the maximum ratings achievable by this transaction.

Collections are paid directly to the issuer

We analysed credit counterparty risk exposure to Citibank based on public ratings. Société Générale is rated A+/S-1+/Stable by Scope. Intesa Sanpaolo is rated A/S-1/Stable by Scope.

### **8.1. Servicer disruption risk**

A servicer disruption event may have a negative impact on the transaction's performance. However, the presence of two independent special servicers partially mitigates this risk. The master servicer and the monitoring agent will assist the issuer in finding a suitable replacement in the event of a servicer disruption and the other special servicer could take over the part of the pool affected by the servicer disruption event.

### **8.2. Commingling risk**

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

### **8.3. Claw-back risk**

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

Pursuant to Italian claw-back rules (article 67, paragraph 1, of the Italian Bankruptcy Law) the following transactions may be voided if they have been carried out during the year prior to the bankruptcy declaration, unless the debtor's counterparty proves it was not aware of the debtor's insolvency at the time of the transaction: i) transactions where the consideration paid by the debtor exceeds more than 25% of what was given or promised to it; ii) payments not made in cash or other normal means of payment; and iii) liens granted for pre-existing debts not yet due and payable. Liens granted for debts due and payable may also be voided under the same conditions and their suspect period is reduced to six months.

In addition, according to article 67, paragraph 2, of the Italian Bankruptcy Law, 'ordinary course' transactions (i.e. conveyances for adequate consideration, payment of due debts, and granting of security interests upon contracting a debt) may be voided if i) they have been carried out during the six months prior to the bankruptcy declaration; and ii) the bankruptcy receiver proves that the debtor's counterparty was aware of the debtor's insolvency at the time of the transaction.

With respect to securitisation transactions carried out under the Italian Securitisation Law, the one-year and six-month suspect periods set out by article 67 of the Italian Bankruptcy Law are reduced to six months and three months, respectively, in the event of insolvency of the originator.

Hence, in light of the above, assignments of receivables made under the Italian Securitisation Law are subject to claw-back:

(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 that the sale price of the receivables exceeds the value of the receivables by more than 25% and the issuer is unable to demonstrate that 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 that the sale price of the receivables does not exceed the value of the receivables by more than 25% and the originator's insolvency receiver can demonstrate that the issuer was aware of the originator's insolvency.

#### **8.4. Enforcement of representations and warranties**

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

However, the above-mentioned guarantee is enforceable by the issuer only within 24 months. In addition, the total indemnity amount will be paid up to a maximum 25% of the purchase price for the pool, and will be subject to a deductible of EUR 500,000 on a portfolio basis, and EUR 5,000 on a single-loan basis.

The issuer (through the special servicers) may sell part of the portfolio to third parties, together with its indemnity rights towards the originators in case of a breach of their representation and warranties. The deductible amounts and indemnity limits will remain unchanged, and will be applied cumulatively, regardless of the party requesting the indemnity. A portion of the proceeds from the portfolio sale (an amount equal to the potential indemnity of the transferred receivables) will not form part of the issuer available funds until the expiry of the period during which the guarantee can be enforced.

### **9. Legal structure**

#### **9.1. Legal framework**

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

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

#### **9.2. Use of legal opinions**

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

### **10. Monitoring**

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

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

### **11. Applied methodology**

For the analysis of this transaction Scope applied its General Structured Finance Instruments Rating Methodology, and Methodology for Counterparty Risk in Structured Finance, both available on [www.scoperatings.com](http://www.scoperatings.com).

Representations and warranties limited by time and amount

Transaction governed by Italian law

Continuous rating monitoring



# ARAGORN NPL S.r.l.

## Non-Performing Loans (NPL)

### I. Summary Appendix – Deal comparison

Transaction	Aragorn NPL 2018	Red Sea SPV	Siena NPL 2018	Bari NPL 2017	Elrond NPL 2017
Closing	Jun-18	Jun-18	May-18	Dec-17	Jul-17
Originators	Creval	Banco BPM, BPM	MPS	BPB, CRO	Creval
Master servicer	Italfondario		Credito Fondiario	Prelios	Prelios
Special servicer	Cerved, Credito Fondiario	Prelios	Juliet, Italfondario, Credito Fondiario, Prelios	Prelios	Cerved
<b>General portfolio attributes</b>					
Gross book value (EUR m)	1,676	5,113	23,939	345	1,422
Number of borrowers	4,171	12,651	79,669	1,565	3,712
Number of loans	8,289	33,585	545,939	4,569	6,951
WA seasoning (years)	2.5	3.8	4.4	4.5	3.7
WA seasoning (years) - unsecured portfolio	3.2	3.5	4.8	N/A	N/A
<b>WALTV buckets (% of secured portfolio)</b>					
bucket [0-25]	2.0	2.3	5.7	N/A	3.6
bucket [25-50]	4.2	8.1	12.4	N/A	11.1
bucket [50-75]	8.2	14.7	16.8	N/A	13.7
bucket [75-100]	13.9	18.1	17.0	N/A	19.6
bucket [100-125]	22.3	16.7	13.4	N/A	24.6
bucket [125-150]	17.9	12.0	8.3	N/A	8.6
bucket [150-175]	11.9	6.6	5.3	N/A	4.8
bucket [175-200]	3.7	4.8	3.9	N/A	1.6
bucket > 200	16.0	16.7	17.1	N/A	12.5
Cash in court (% of total GBV)	0.5	3.2	N/A	N/A	2
<b>Loan types (% of total GBV)</b>					
Secured first-lien	67.3	70.6	41.6	53.6	66.4
Secured junior-lien	8.1	1		2.5	7.6
Unsecured	24.6	28.4	58.4	43.9	26.0
Syndicated loans	1.8	1.4	5.7		
<b>Debtors (% of total GBV)</b>					
Individuals	9.9	28.4	19	12	12.7
Corporates or SMEs	90.1	71.6	81	88	87.3
<b>Procedure type (% of total GBV)</b>					
Bankrupt	55.0	49.4	36.6	46.5	57.6
Non-bankrupt	45.0	50.6	63.4	53.5	42.4
Other	-	-	-	-	-
<b>Not started</b>					
<b>Borrower concentration (% of total GBV)</b>					
Top 10	8.3	1.8	2.1	28.2	13.4
Top 100	39.5	9.1	9.5	69	42.4
<b>Borrower regional concentration (% of total GBV)</b>					
North	58.5	67.8	35.9	18.3	61.6
Centre	18.4	20.7	36	14.1	14.6
South	23.1	11.4	28.1	67.6	23.8
<b>Collateral type (% of secured loans GBV)</b>					
Residential	43.4	54.8	28.2	43	32.6
Commercial	22	15.4			32.4
Industrial	15.3	9.4		40	23.2
Land	0.0	8.6	71.8		8.7
Other or unknown	19.3	11.8		18	3.4
<b>Valuation type (% of secured loans GBV)</b>					
Full or drive-by	96.1	74.0	10		70.8
Desktop	1.2	14.5	65	96.31	4.0
CTU	2.7	11.5	15	3.69	23.6
Other	0	0	10	0	0.5
<b>Secured portfolio procedure stage (% of total GBV)</b>					
Initial	66.6	64.4	52.6	55.5	36.1
CTU	23.4	9.1	5.4	14.2	10.7
Auction	4.7	21.3	35.2	26.5	36.4
Distribution	5.5	5.2	6.7	3.8	16.8
<b>Summary of assumptions (BBB rating conditional stress)</b>					
<b>Remaining lifetime recovery rate (%)</b>					
WA MVD		#N/A			
WA Firesales		#N/A			
Secured (=net LTV after all stresses)	48.3	62.8	58.6	51.8	61.7
Unsecured	16.8	12.3	9.2	11.1	13.7
<b>Total</b>	<b>40.6</b>	<b>48.0</b>	<b>29.8</b>	<b>33.1</b>	<b>47.1</b>
<b>Weighted average life of collections (years)</b>					
Secured	7.9	6.8	N/A	N/A	4.8
Unsecured	4.2	4.1	N/A	N/A	3.1
<b>Total</b>	<b>7.9</b>	<b>6.6</b>	<b>N/A</b>	<b>N/A</b>	<b>4.6</b>
<b>Structural features</b>					
Liquidity reserve (% of class A notes)	5.0	4.375 (% of A and B)	3.5	4.0	4.0
Class A Euribor cap strike	0.0-0.1%	0.5-2.0%	0.5-3.0%	0.10%	0.50%
<b>Class A</b>					
% of GBV	30.5	32.5	12.1	25.3	33.0
Credit enhancement	69.5	67.5	87.9	74.7	67.0
<b>Class B</b>					
% of GBV	4.0	3	3.5	3.1	3.0
Credit enhancement	65.5	64.5	84.4	71.6	64.0
<b>Final rating</b>					
Class A	BBB-	BBB	BBB+	BBB	BBB-
Class B	B	NR	NR	B+	B+

Sources: Transactions' preliminary data tapes; calculations and assumptions by Scope Ratings. Closing portfolio stratifications might show non-material deviations.



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