Aporti S.r.l.

Italian Non-Performing Loan ABS

Ratings

Tranche	Rating	Size (EUR m)	% of GBV	% of notes	Coupon*	Final maturity
Class A	BBB_{SF}	64.7	18.2%	82.7%	6m Euribor + 2.8%	Jan 2043
Class B	Not publicly rated	9.5	2.7%	12.2%	6m Euribor + 7.5%	Jan 2043
Class J	Not rated	4.0	1.1%	5.1%	10% + variable return	Jan 2043
Total		78.2				

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

*The Euribor component of class A and class B coupon is floored at zero. The Euribor component of class B coupon is subordinated to class A principal payment.

Transaction details

Transaction type	Static cash securitisation
Asset class	Non-performing loans ('NPLs')
Issue date	28 June 2021
Issuer	Aporti S.r.l.
Seller	illimity Bank S.p.A.
Original sellers	Multiple Italian financial institutions
Master and special servicer	Prelios Credit Servicing S.p.A. ('PRECS')
Gross-book value ('GBV')	EUR 356m
Portfolio cut-off date	31 December 2020
Reallocation date	22 June 2021
Key portfolio characteristics[1]	The pool is composed of secured loans (73.0% of GBV, of which 68.5% senior secured and 4.5% junior secured) as well as unsecured loans (27% of GBV). Borrowers are mainly corporates (94.4%). Secured loans are backed by residential and non-residential properties (32.7% and 67.3% of the total first-lien property value, respectively) that are concentrated in the north of Italy (46.7%) followed by southern (32.7%) and central (20.6%) regions.
Payment frequency	Semi-annual (January and July)
Key structural features	The structure comprises three classes of notes with fully sequential principal amortisation. Class A will pay a floating rate indexed to six-month Euribor, plus a margin of 2.8%. Class B will pay a floating rate indexed to six-month Euribor, plus a margin of 7.5%. The Euribor component of class A and class B coupon is floored at zero. The Euribor component of class B coupon is subordinated to class A principal payment. Class J principal and interest are subordinated to the repayment of class A and class B notes.
Hedging provider	J.P. Morgan AG
Other key counterparties	BNP Paribas Securities Services (Milan Branch) (agent bank, account bank, cash manager and paying agent) Banca Finanziaria Internazionale S.p.A. (back-up master servicer, calculation agent, and noteholders' representative) Centotrenta Servicing S.p.A. (corporate services provider) illimity Bank S.p.A. (limited recourse loan provider) Zenith Service S.p.A. (monitoring agent)

[1] Source: transaction data tape, calculations by Scope Ratings.

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Related Research

Italian NPL collections running 25% below pre-pandemic volumes (July 2021)

Italian NPL collections: poor April volumes upset positive trend set in Q1 (June 2021)

Italian NPL collections: volumes rising but lost ground still needs to be recovered (May 2021)

Lingering Covid-19 impacts keep Italian NPL collection volumes subdued (April 2021)

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Bloomberg: RESP SCOP

Rating rationale (summary)

The rating is primarily driven by the expected recovery amounts and timing of collections from the NPL portfolio. The recovery amounts and timing assumptions consider the portfolio's characteristics as well as our economic outlook for Italy and the assessment of the servicer's capabilities. The rating is supported by the structural protection provided to the notes, the absence of equity leakage provisions, the liquidity protection provided by the cash reserve, and the interest rate hedging agreement. The rating also addresses exposures to the key transaction counterparties.

We took different analytical approaches for secured and unsecured exposures. For senior secured exposures, we mainly derive expected collections from the most recent property appraisal values, which we stressed to account for, appraisal type, liquidity, and market value risks. We derived recovery timing assumptions using line-by-line asset information detailing the type of legal proceeding, the court issuing the legal proceeding, and the stage of the proceeding as of the cut-off date. For unsecured and junior secured exposures, we used historical line-by-line market-wide recovery data on defaulted loans between 2000 and 2019 and considered the special servicer's capabilities when calibrating lifetime recoveries. We also analysed historical data provided by the servicer. The analysis also accounted for the current macro-economic environment and our forward-looking view on relevant macro-economic expectations.

Rating drivers and mitigants

Positive rating drivers

Class A structural protection. The class A noteholders are mainly protected by the subordination of class B principal and junior notes liabilities. Class B interest payments will be fully deferred if the servicer fails to meet at least 90% of business plan targets regarding cumulative collections or profits on closed positions. In addition, up to 30% of the special servicer's performance fees will be deferred subject to certain underperformance events.

Interest rate risk hedged. Interest rate risk on class A notes is partially mitigated by a hedging structure which caps the six-month Euribor rate at an increasing strike rate (starting from 0.0% from July 2022 up to 1.0% in January 2038) over a pre-defined notional balance. The cap notional schedule is aligned with the expected amortisation profile of the class A notes.

Geographically diversified pool. The portfolio is well distributed among Italian regions, with some concentration in the north (43.8% of GBV). The north of Italy benefits from the country's most dynamic economic conditions and, in general, the most efficient tribunals.

Negative rating drivers and mitigants

Above-average borrower concentration. The 10 and 100 largest borrower exposures account for 35.9% and 77.9% of gross book value. These figures are above average compared to peer transaction we rate. This may expose the transaction to high performance volatility, depending on the recoveries from those few large borrowers.

Significant portion of legal proceedings in initial stages. Based on our analysis, around 78.9% of the secured loans are in the initial legal phase or are yet to have proceedings initiated. This results in a longer expected time for collections than for loans in more advanced phases.

High share of statistical and AVM valuations. Based on our analysis, most of the portfolio's collateral appraisals are either statistical or were conducted with an automated valuation model ('AVM') by external appraisers (47.2%), which are generally less accurate than desktop or drive-by valuations.

Seasoned unsecured and junior secured portfolio. The weighted average time since default is around 6.7 years for the unsecured and junior secured portfolio. Most unsecured recoveries are realised in the first years after a default according to historical data.

Upside rating-change drivers

Faster judicial recovery timing. The pandemic led to a slowdown in court activity. An outperformance on recovery timing could occur if courts advance on proceeding backlogs faster than expected.

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

Downside rating-change drivers

Long lasting pandemic crisis. Recovery rates are highly dependent on the macroeconomic environment. Scope baseline scenario foresees GDP growth of 5.6% in 2021 after a contraction in 2020. If the current crisis lasts beyond Scope's baseline scenario, borrowers' affordability and real estate market liquidity could deteriorate, reducing servicer performance on collection volumes. This could negatively impact the rating.

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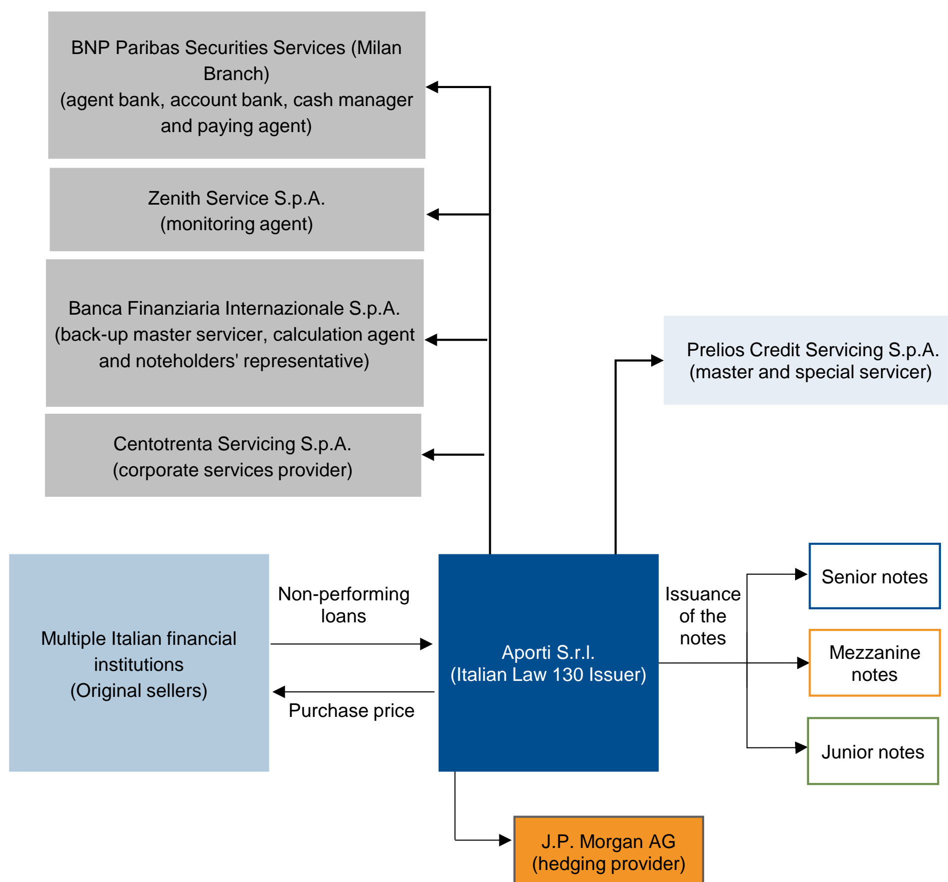
1. Transaction diagram

Figure 1: Transaction diagram



Source: transaction documents, Scope Ratings.

2. Macroeconomic environment

Tepid economic growth in the medium-run poses challenges to NPL recovery expectations

Our estimate of the Italian economy's medium-run growth potential is a tepid 0.7% (by comparison, pre-crisis output growth averaged a more modest 0.3% over 2010-19), supported nonetheless by growth-enhancing fiscal spending to address economic and public-health consequences of this crisis, as well as by accommodative borrowing and investment conditions anchored by the extraordinary interventions of the European Central Bank (ECB). While 10-year yields have risen over 2021 to 0.9%, as global central banks consider normalisation of crisis-era policies, rates remain exceptionally low under an historical perspective.

After a severe 8.9% economic contraction in 2020, we expect Italy's economy to recover in 2021, with an above-consensus estimate of 5.6% growth, unchanged on December 2020 projections, followed by 3.8% growth next year, as vaccination advances and the economy reopens. The government led by Prime Minister Mario Draghi enjoys a strong parliamentary majority, underpinning expectation of greater reform momentum. Nevertheless, the expansionary budget policy, including increased investment spending in complementing EUR 192bn in Next Generation EU (NGEU) funds allocated to Italy, should translate into higher growth and wider budget deficits (the latter of 11.7% of Gross Domestic Product (GDP) in 2021 before 7.1% in 2022). Public debt remains on the rise medium term, surpassing 160% of GDP over the coming period, challenging debt sustainability.

Over this crisis, unemployment increases have been mitigated by job-market support measures. The unemployment rate stood at 10.7% as of April 2021, compared with 9.8% shortly before the crisis (February 2020). This year, we expect an increase in the average rate of unemployment over the year to 10.8% before moderation to 9.3% in 2022.

3. Special servicer review

3.1. Introduction

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

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

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

In addition, we conducted a virtual property tour on a small sample of properties from the securitised portfolio. This is part of our assessment of portfolio collateral valuations and secured recovery expectations, captured through our haircuts based on property and appraisal types.

3.2. Corporate overview

PRECS is the leading special servicer in Italy by number of GACS securitisation under management

PRECS (part of Prelios Group) is a leading Italian player in the credit servicing sector, manging more than EUR 30bn GBV of assets under management ('AUM'), as of December 2020, which include both NPLs and unlikely to pay loans. Additionally, PRECS is servicing around 50% of Italian securitisations with a guarantee under the GACS scheme since its introduction in 2016.

Prelios Group is fully owned by funds managed by Davidson Kempner Capital Management LP, and along with PRECS, the group comprises other companies active in the credit fund and asset management (Prelios SGR), property management (Prelios Integra), property valuations (Prelios Valuations) and brokerage & agency (Prelios Agency) sectors.

3.3. Servicing model

Servicing activities rely on proprietary bespoke tools that support loan managers for the entire life of the recovery process, from the underwriting to the closing phase. Total staff dedicated to servicing activities includes 120 internal loan managers, 150 external loan managers and an external network of around 400 lawyers and around 450 real estate agents. Within the proprietary platforms, the servicer is also able to monitor collections performance, the status of the legal proceedings and assess future projections.

Loan managers are organised in work-out units, each of them dedicated to a specific portfolio and organised by loan type and ticket size. Each work-out unit is supervised by a team leader, a senior employee that coordinates loan managers and monitors their performance. Around 300 positions can be allocated to each loan manager and their activity is supported by external lawyers as far as concern judicial processes and real estate consultant regarding auction sales and voluntary disposal of real estate guarantees.

After data acquisition and portfolio allocation, the loan manager defines the most suitable resolution strategy based on specific loan and borrower characteristics. First, the loan manager will attempt to reach an out-of-court solution with the borrower. The

servicer will start a judicial procedure if an agreement with the borrower is not reached and if economically convenient. However, the loan manager will continue to pursue an out-of-court solution during the judicial process. Other recovery strategies adopted by the loan managers comprise credit sales, repayment plans, voluntary real estate disposals and discounted payoff agreements.

4. Portfolio characteristics

4.1. Transaction structure

The issuer has implemented a reallocation transaction, in the context of which, certain receivables – purchased by the issuer in the context of previous securitisations – have been reallocated in a new segregated compartment of the issuer and, starting from the reallocation date, constitutes the portfolio of receivables backing the notes.

The receivables comprised in the portfolio were originally purchased by the issuer under the terms of five transfer agreements entered between 2018 and 2020. The issuer is entitled to receive all the portfolio collections since the cut-off date.

The proceeds of the notes will be used to pay certain upfront costs and to repay a portion of the notes issued in the context of the previous securitisations.

4.2. Representations and warranties

The issuer will continue to benefit from the representations and warranties provided by the original sellers under the original transfer agreements. Relevant representations are:

- All loans are governed by Italian law.
- Borrowers have been reported by the originator as defaulted by the Credit Bureau of the Bank of Italy as of the transfer date.
- All receivables are valid for transfer without any limitations and free encumbrances and enforceable to the extent of their GBV.
- Individual borrowers were resident in Italy and corporate borrowers have their registered office in Italy.
- All first lien mortgages are existing and freely transferable.
- All real estate assets are located in Italy.

Additionally, illimity and Neprix S.r.l. ('Neprix'), the special servicer of the previous securitisations, have provided other representations under the reallocation agreement, which include:

- All receivables are fully owned by the issuer and free of any encumbrance, and no attachments or seizures have been notified.
- Neprix managed the receivables in compliance with all legal and regulatory provisions and without fraud and willful misconduct.
- The data tape and all the information made available to PRECS are true, accurate and updated as of the reallocation date.
- The documentation received from the original sellers has been duly kept.
- Neprix have reported to PRECS the status and the amount of any indemnity submitted or to be submitted pursuant to the original transfer agreements.

The whole set of representations and warranties is aligned with those of peer transactions we rate.

4.3. Key portfolio stratifications

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

Figure 2: Portfolio summary

	All	Senior secured	Junior secured	Unsecured
Number of loans	2,043	993	25	1,025
Number of borrowers	424			
Gross book value (EUR m)	355.9	243.7	15.9	96.4
% of gross book value		68.5%	4.5%	27.1%
Cash in court (% of GBV)	1.4%			
Collections since cut-off date (% of GBV)	1.2%			
Weighted average seasoning (years)	5.6	5.1	6.6	6.7
Collateral values (EUR m)		317.5	14.3	

Source: transaction data tape, calculations by Scope Ratings

We adjusted the pool's gross book value using information on collections and sold properties since the cut-off date.

These adjustments reduced the portfolio's gross book value from EUR 355.9m to EUR 340.4m. Collections received since the cut-off date (EUR 4.5m as of May 2021) will be part of the issuer's available proceeds at the first payment date. We assumed the amount of cash-in-court would be received within three years.

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

Stratification data reported below reflect our aggregation by loans and may be based on conservative mapping assumptions applied to address missing data.

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

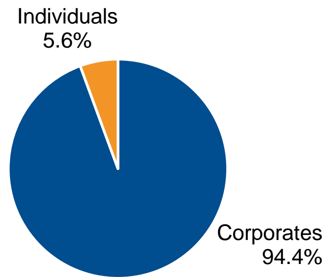


Figure 4: Distribution by loan type (% of GBV)

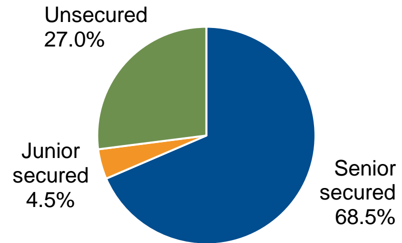


Figure 5: Distribution by recovery procedure (% of GBV)

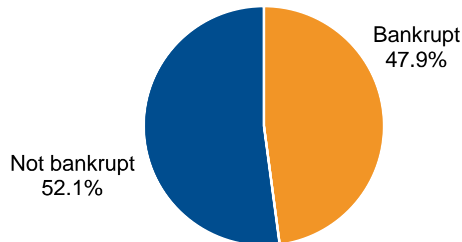


Figure 6: Distribution by recovery stage (secured loans, % of GBV)

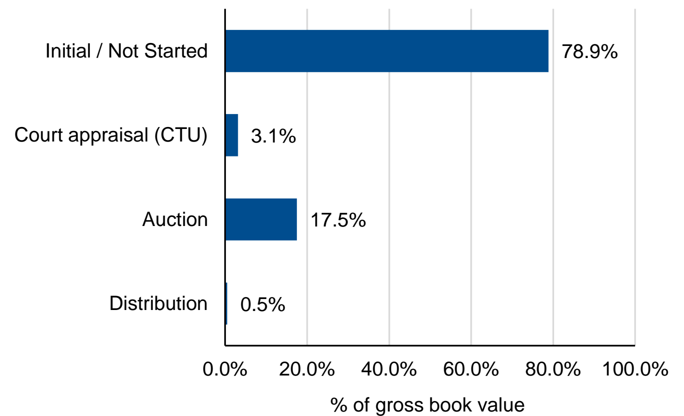


Figure 7: Distribution by court bucket (% of GBV)

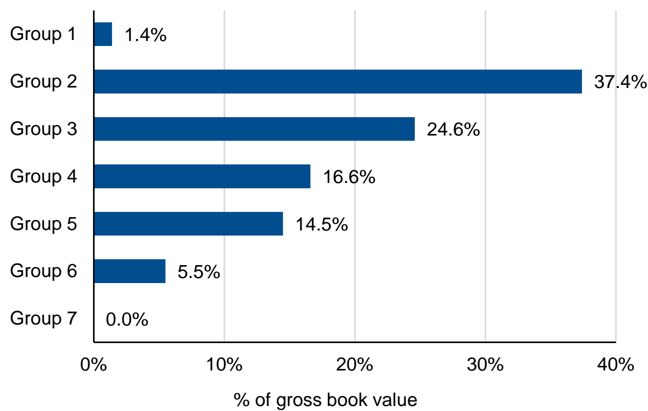
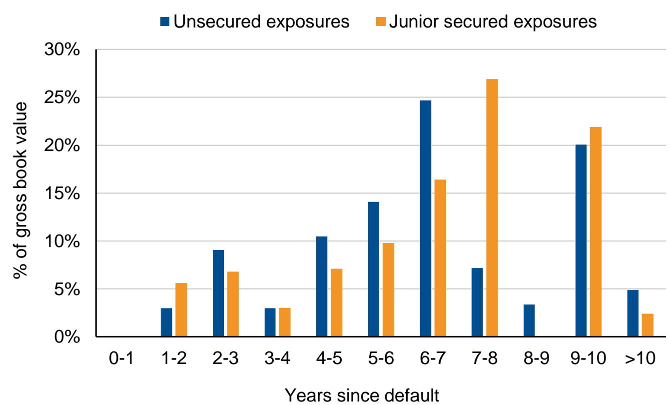


Figure 8: Unsecured and junior secured seasoning (% of GBV)



Source: transaction data tape, calculations by Scope Ratings

Figure 9: Distribution by collateral type (% of collateral)

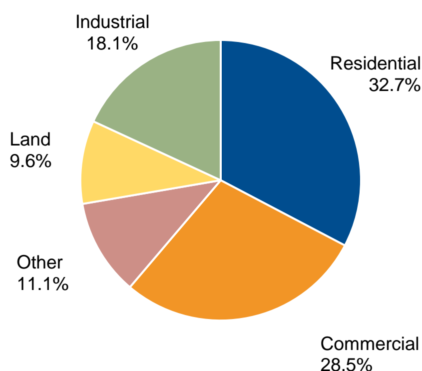


Figure 10: Distribution by valuation type (% of collateral)

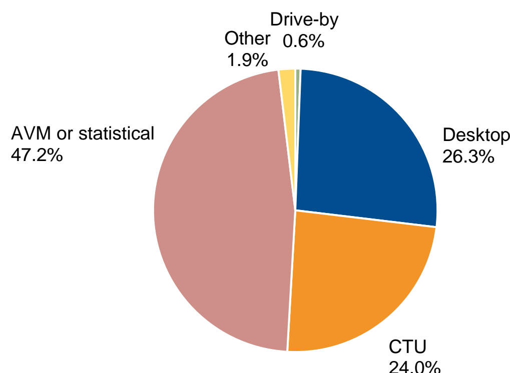


Figure 11: Distribution by collateral location (% of collateral)

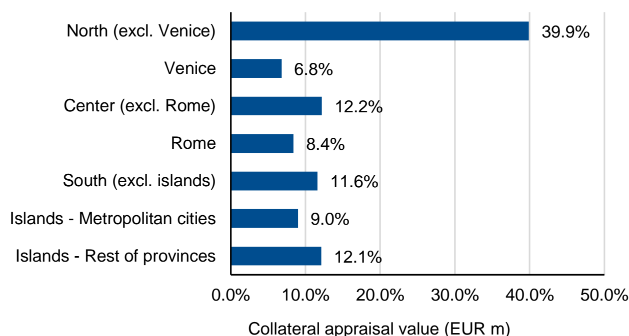
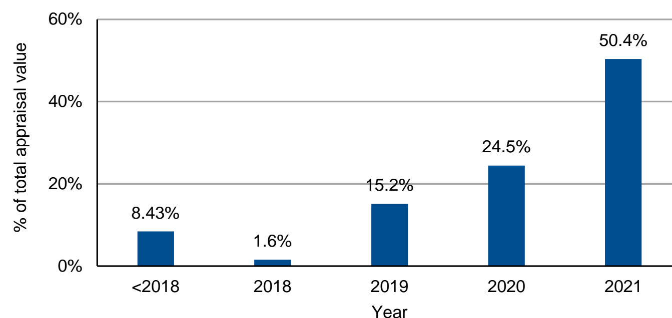


Figure 12: Distribution by valuation date (% of collateral)



Source: 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, the type of security, the security appraisal value, and applicable recovery procedures. 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, peer comparisons and market data. We also account for the current macro-economic scenario, taking a forward-looking view on the macro-economic developments.

Figure 13 summarises the stressed recovery rate assumptions applied for the analysis of the class A.

Figure 13: Summary of assumptions

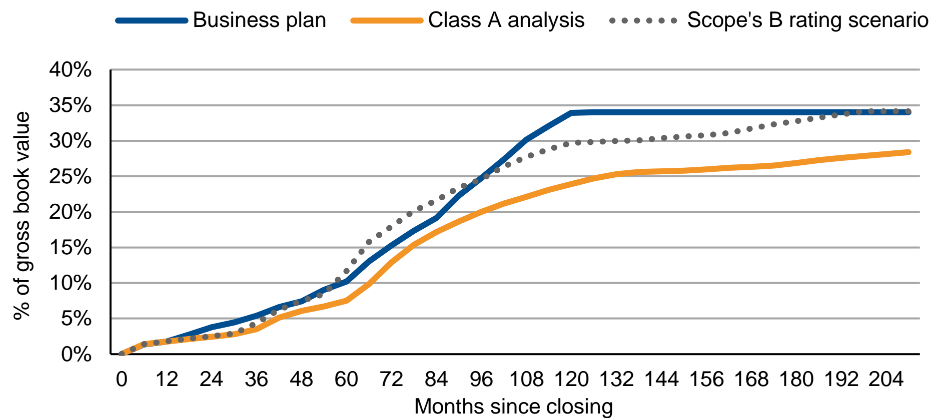
	Class A analysis
Secured recovery rate (% of secured GBV)	39.8%
Unsecured recovery rate (% of unsecured GBV)	4.4%
Total recovery rate (% of total GBV)	**28.6%**
Secured collections weighted average life (years)	7.7
Unsecured collections weighted average life (years)	3.1
Total collections weighted average life (WAL)	**7.1**

Source: Scope Ratings

Class A recovery rate assumptions are about 16% below business plan target

Figure 14 compares our lifetime gross collections and recovery timing assumptions for the entire portfolio with the servicer business plan. These assumptions are derived by blending secured and unsecured recovery expectations. For the analysis of class A notes, we assumed a recovery rate about 16% below business plan target, and which is expected to realise over a longer period (WAL of 7.1 years vs. 6.3 years from the business plan).

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



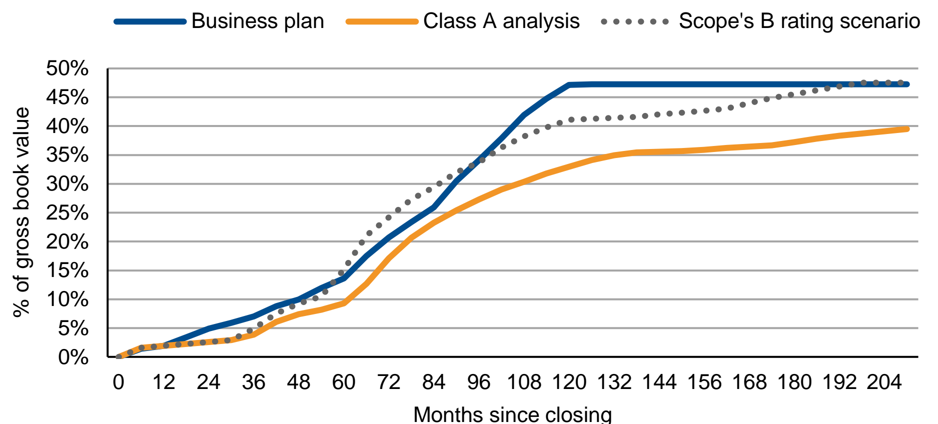
Source: Servicer business plan, Scope Ratings

5.1. Analysis of secured portfolio segment

Valuation haircuts address forward-looking market value and liquidity risks

Figure 15 shows our lifetime gross collections vectors for the secured segment compared to the servicer's business plan. Our analytical approach consists of estimating the security's current value based on property appraisals and then applying security-value haircuts to capture forward-looking market value and liquidity risks. We derive recovery timing assumptions considering the efficiency of the assigned court (based on historical data on the length of the proceedings), as well as the type and stage of legal proceeding. Our analysis also considers concentration risk and the servicer's business plan.

Figure 15: Scope's assumptions vs. business plan's gross cumulative recoveries for secured loans

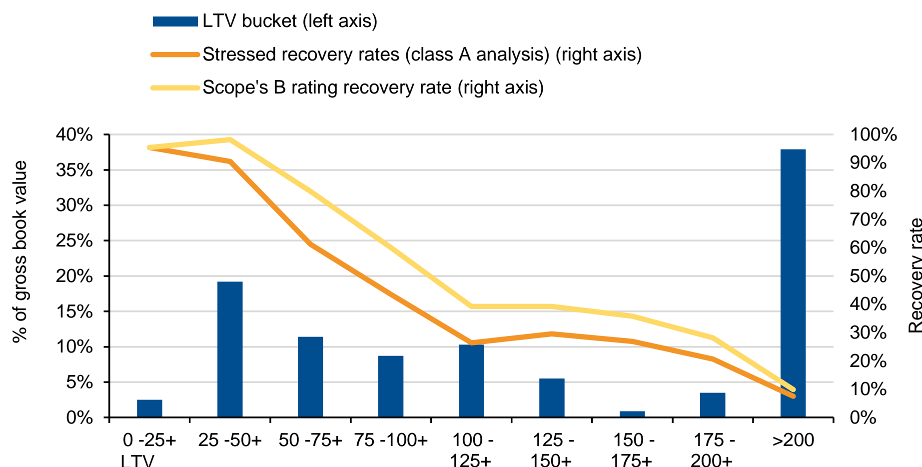


Source: Servicer business plan, Scope Ratings

[2] Scope classifies a loan as senior secured if there is an underlying first lien claim to a secured asset and reports gross collections against such loans as senior secured recovery amounts.

Figure 16 shows the secured loans' distribution by loan-to-value (LTV) bucket as well as our recovery rate assumptions for each LTV bucket under our rating-conditional stresses applied for the class A and the base case scenario (B rating scenario)

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



Source: transaction data tape, calculation by Scope Ratings

5.1.1. Valuation analysis

Appraisal type haircuts range between 0% and 20%

We applied rating-conditional haircuts ranging from 0% to 20%, reflecting our view of the level of quality and accuracy of each valuation type. Full or drive-by valuations are generally more accurate than AVM or statistical valuations.

Figure 17: Scope's transaction-specific valuation haircuts

Valuation type	% of collateral value	Class A analysis haircut
Drive-by	0.6%	-
Desktop	26.3%	5%
CTU	24.0%	10%
AVM / statistical / other	49.1%	20%

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

5.1.2. Property market value assumptions

Figure 18 details our assumptions about property price changes over the transaction's life commensurate with class A rating. These assumptions are i) specific to the transaction and to the geographical area; ii) based on an analysis of historical property price volatility; and iii) based on fundamental metrics relating to property affordability, property profitability, private sector indebtedness, the credit cycle, population dynamics and long-term macroeconomic performance.

Figure 18: Scope's transaction-specific price change assumptions

	North						Centre			South			Islands	
Region	Milan	Turin	Genoa	Bologna	Venice	Others	Rome	Florence	Others	Naples	Bari	Others	Metropolitan cities	Rest of provinces
Class A analysis	-13%	-11%	-11%	-11%	-13%	-13%	-18%	-16%	-16%	-13%	-13%	-16%	-13%	-16%
Portfolio distribution (%)	0.8	1.7	0.4	1.3	6.8	35.7	8.4	0.1	12.1	1.1	0.7	9.8	9.0	12.1

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

5.1.3. Collateral liquidity risk

Property type haircuts range between 40% and 50%

We capture asset liquidity risk through additional fire-sale haircuts applied to collateral valuations. Figure 19 shows the rating-conditional haircuts applied for the class A analysis. These assumptions are based on historical distressed property sales data (including data provided by the servicer) and reflect our view that non-residential properties are generally less liquid, resulting in higher distressed-sale discounts.

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

Collateral type	% of collateral value	Class A analysis haircut
Residential	32.7%	40%
Non-residential	67.3%	45% - 50%

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

5.1.4. Concentration risk

We addressed borrower concentration risk by applying a 25% rating-conditional recovery haircut to the 10 largest borrowers for the class A notes analysis. The largest 10 and 100 borrowers account for 35.9% and 77.9% of the portfolio's gross book value, respectively.

5.1.5. Residual claims after security enforcement

A secured creditor may initiate enforcement actions against a debtor if the sale proceeds of the mortgaged property are insufficient to repay the related outstanding debt. Secured creditors generally rank as unsecured creditors for amounts that have not been satisfied with the security's enforcement. The creditor's right to recover its claim arises with an enforceable title (e.g., a judgment or an agreement signed before a public notary).

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

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

5.1.6. Tribunal efficiency

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

The total length of the recovery processes is mainly determined by the efficiency of the assigned court and the type of legal proceeding. To reflect this, we grouped Italian courts into seven categories, based on public data on the average length of bankruptcy and foreclosure proceedings between 2015 and 2019 (Figure 20). We applied a rating-conditional timing stress for both bankruptcy and non-bankruptcy procedures: 3.3 years and 1.6 year were respectively added to the total legal procedures' length for the class A analysis.

Figure 20: Total length of the recovery process by court group in years

Court group	Bankruptcy proceedings	Non-bankruptcy proceedings	Percentage of courts[3]
1	4	2	1.4%
2	6	3	37.4%
3	8	4	24.6%
4	10	5	16.6%
5	12	6	14.5%
6	14	7	5.5%
7	18	9	0.0%

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

5.2. Analysis of unsecured portfolio segment

Unsecured portfolio analysis is based on statistical data

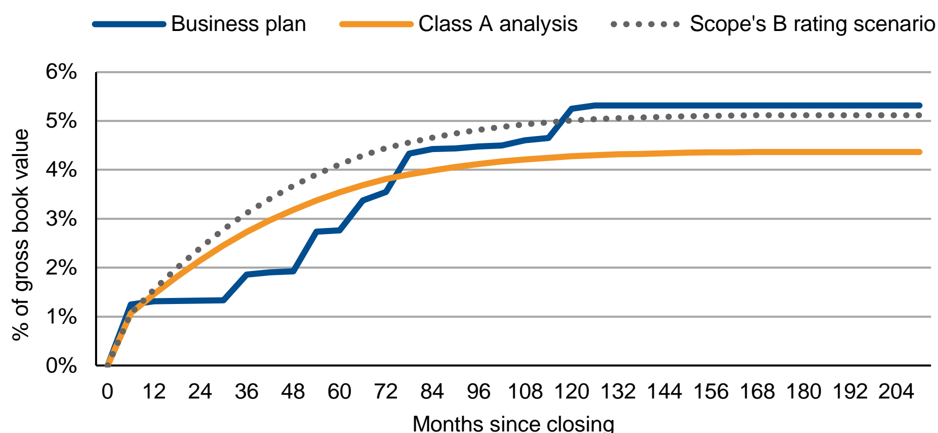
Our unsecured recovery assumptions are primarily based on market-wide historical data on unsecured recovery rates. We also considered servicer-specific historical recovery data, as well as our view on the quality of the servicer's recovery procedures.

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

Ageing of the unsecured portfolio drives recoveries

Finally, transaction-specific assumptions are calibrated to reflect the ageing of the unsecured portfolio segment, as aged unsecured NPLs generally have a lower likelihood of recovery. The unsecured loans in the portfolio (including also junior secured loans) are classified as defaulted for a weighted average of 6.7 years, which is above average to transaction peer levels.

Figure 21: Scope's assumptions vs. servicer's unsecured[4] recoveries



Source: Servicer's business plan, Scope Ratings

6. Key structural features

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

Class A will pay a floating rate indexed to six-month Euribor plus a margin of 2.8%. Class B will pay a floating rate indexed to six-month Euribor plus a margin of 7.5%. The Euribor component on class A and class B coupon is floored at zero.

[3] Percentages incorporate our assumptions with reference to courts not included in available information.
[4] The comparison considers unsecured and junior secured loans as per servicer's business plan.

Coupon on class B is paid senior to class A principal up to 7.5%, while the Euribor component, if positive, is always subordinated to class A principal payment. However, class B coupon (and a portion of the special servicer fees) may be subordinated in full to class A principal payment if certain under-performance events are triggered.

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

Non-timely payment of interest on the senior notes, among other events such as 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., collection amounts received from the portfolio, the cash reserve, payments received under the interest rate cap agreement, insurance payments and indemnity payments) will be used in the following simplified order of priority:

Figure 22: Simplified priority of payments and available funds

Pre-enforcement priority of payments
1) Servicer expenses and senior servicer fees
2) Limited-recourse loan interest
3) Class A interest
4) Cash reserve replenishment
5) Limited-recourse loan principal
6) Class B interest[5] (provided that no interest subordination event has occurred)
7) Class A principal
8) Class B interest (upon occurrence of the interest subordination event)
9) Class B principal and servicer mezzanine fees (provided that a servicer underperformance event has occurred)
10) Class J interest
11) Class J principal and servicer junior fees (provided that a servicer underperformance event has occurred)
12) Any residual amount as class J variable return

Source : Transaction documents and Scope Ratings

6.2. Interest subordination event

Class B interest subordination event triggered if the servicer fails to meet 90% of business plan targets

The occurrence of an interest subordination event results in class B interest being paid under item 8 of the waterfall above. An interest subordination event occurs if i) the cumulative net collection ratio[6] ('CCR') falls below 90% of the servicer's business plan targets; ii) the NPV cumulative profitability ratio[7] ('NPVPR') falls below 90%; or iii) any amount of class A interest is unpaid.

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

1. If, on a subsequent payment date, the CCR is between 90% and 100%, class B interest accruing on that payment date will be payable senior to the class A principal repayment.

2. If, on a subsequent payment date, the CCR returns above 100%, due and unpaid class B interest is paid senior to class A principal.

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

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

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

6.3. Servicing fee structure and alignment of interests

6.3.1. Servicing fees and servicer underperformance event

Servicing fee structures reasonably align the interests of the servicer and the noteholders

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

The exact level of fees is subject to the GBV size and the type of recovery strategy (judicial vs. extra-judicial). Extra-judicial strategies and lower tickets generally bear higher performance fees relative to collection amounts. Considering the portfolio composition, we assumed an average performance fee of 4.0% and 5.5% (plus VAT) for secured and unsecured exposures, respectively.

The occurrence of a servicer underperformance event results in 10%-30% of the servicer performance fees being subordinated to class A principal payments, based on the level of underperformance. This portion is then paid under items 9 and 11 of the above simplified priority of payments, as mezzanine or junior servicing fees, respectively. A servicer underperformance event occurs either if the CCR or the NPVPR falls below a given threshold, as shown in Figure 23.

Figure 23: Servicing fee subordination mechanism[8]: CCR and NPVPR

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

An underperformance event is curable if on any subsequent payment date, both the CCR and the NPVPR return above 100%. However, all mezzanine and junior servicer fees accrued and subordinated in previous periods will remain subordinated.

6.3.2. Servicer monitoring

Monitoring function protects noteholders' interests

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

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

The monitoring agent will report to a committee that represents the interests of both junior and mezzanine noteholders. The committee can authorise the revocation and replacement of 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.

[8] In the event both CCR and NPVPR are below their respective thresholds, the higher percentages of servicer mezzanine and junior fees will apply.

6.3.3. Special servicer termination events

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

A special servicer termination event includes i) insolvency; ii) an unremedied breach of obligations; iii) failure to pay any amount due to the issuer within two business days from the collections' reconciliation date; iv) an unremedied breach of representation and warranties; v) loss of legally eligibility to perform obligations under the servicing agreement; and vi) after 18 months since closing, the occurrence of two consecutive underperformance events.

6.4. Liquidity protection

Cash reserve provides liquidity protection to class A notes

A cash reserve will be funded at closing through a limited-recourse loan provided by illimity. The cash reserve target amount at each payment date will be equal to 4.5% of the total outstanding balance of class A notes.

The cash reserve is available to cover any shortfalls in interest payments on the class A notes as well as any items senior to them in the priority of payments for a period of around 10 months.

6.5. Interest rate hedge

Due to the non-performing nature of the securitised portfolio, the issuer will not receive regular cash flows and the collections will not be linked to any defined interest rate. On the liability side, the issuer will pay a floating coupon on the notes, defined as six-month Euribor plus a 2.8% margin on the class A and a 7.5% margin on class B. The Euribor component on class A and B is floored at zero.

Interest rate risk on class A notes is mitigated through a cap agreement

An interest rate cap partially mitigates the risk of increased liabilities on the class A notes due to a rise in Euribor (Figure 24). The interest rate cap has an increasing strike level that starts from 0% in July 2022 and reaches 1% in January 2038. Under the agreement the Issuer receives the difference between six-month Euribor and the cap strike, on a predefined notional schedule.

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

Interest rate risk on class B notes is not hedged, but the risk for class A noteholders is mitigated by the Euribor component of class B coupon ranking junior to class A principal payment.

Figure 24: Cap spread on class A notes

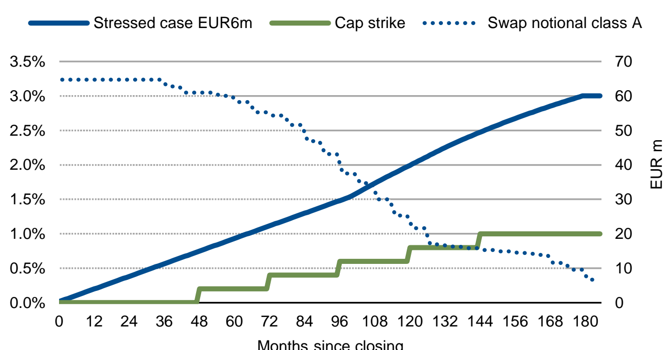
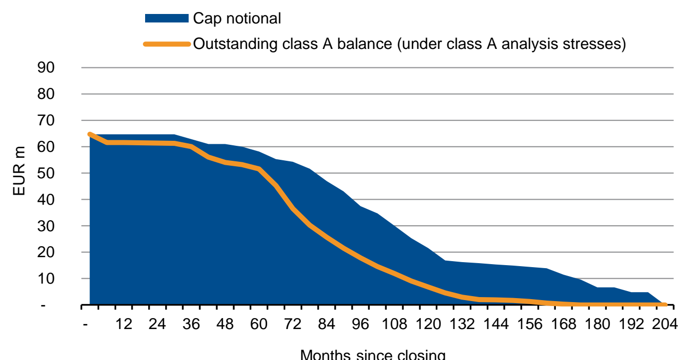


Figure 25: Cap notional vs outstanding class A notes



Source: Transaction documents, Bloomberg and Scope Ratings

7. Cash flow analysis and rating stability

Our cash flow analysis considers the structural features of the transaction

Scope analysed the transaction's specific cash flow characteristics. Rating-conditional gross recovery vectors reflect Scope's asset assumptions. 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, the latter assumed to be equivalent to 9% of gross collections.

Our rating reflects expected loss over the instrument's weighted average life

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

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

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

- a decrease of the portfolio's recovery rate by 10%, minus one notch.
- an increase in the recovery lag by one year, zero notches.

8. Sovereign risk

No mechanistic rating cap linked to sovereign risk

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

9. Counterparty risk

Counterparty risk does not limit the transaction's rating

In our view, none of the counterparty exposures constrain the rating achievable by this transaction. We considered counterparty substitution provisions in the transaction and, when available, Scope's ratings or other public ratings on the counterparties. We also considered eligible investment criteria in the transaction documents for cash amounts held by the issuer.

The transaction is mainly exposed to counterparty risk from the following counterparties: i) illimity as seller, regarding representations and warranties, and limited-recourse loan provider; ii) PRECS as master and special servicer; iii) BNP Paribas Securities Services, Milan Branch as agent bank, account bank, cash manager and paying agent; iv) Banca Finanziaria Internazionale as back-up master servicer, calculation agent, and noteholders' representative; v) Centotrenta Servicing S.p.A. as corporate services provider vi) Zenith Service S.p.A. as monitoring agent and vii) J.P. Morgan AG as cap counterparty.

9.1. Servicer disruption risk

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

9.2. Commingling risk

Limited commingling risk

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

payment reconciliation. In case Neprix receive payments from debtors, they will transfer these amounts into the collection account within two business days.

9.3. Claw-back risk

Limited claw-back risk

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.

Claw-back risk is mitigated by the fact that more than six months have already elapsed from the sale of the receivables by the original sellers to the issuer in the context of the previous securitisations.

9.4. Enforcement of representations and warranties

Representations and warranties limited by time and amount

The issuer will rely on the representations and warranties, limited by time and amount, provided by illimity, Neprix and the original sellers. If a breach of a representation and warranty materially and adversely affects a loan's value, the issuer will be entitled to claim an indemnity for damages to the relevant party.

With reference to illimity and Neprix, representations are only enforceable by the issuer within 12 months from the reallocation date. The total indemnity amount will be capped to a maximum of 15% of the portfolio reallocated amount. Furthermore, the indemnity amounts will be payable only above a minimum amount threshold of EUR 300,000 on an aggregate basis.

With reference to the original sellers, representations are enforceable within 4 to 7 months from the closing date for a maximum amount of EUR 16m. For 91% of the GBV, representations will expire in January 2022, for 8% of the GBV, they will expire in October 2021, while for the remaining portion (<1% of GBV) they have already expired.

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.

10.2. 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.

11. Monitoring

Ongoing rating monitoring

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

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

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

12. Applied methodology

For the analysis of the transaction Scope applied the General Structured Finance Rating Methodology, the Non-Performing Loan ABS Rating Methodology and the Methodology for Counterparty Risk in Structured Finance, available on www.scoperatings.com.

I. Appendix I – deal comparison

Transaction	Aporti	Palatino SPV	Aurelia SPV	Ifis NPL 2021-1 SPV	Summer SPV	Titan SPV	Sirio NPL	Buonco-nsiglio 3	Relais SPV	POP NPLS 2020	Yoda SPV	BCC NPLS 2020	Spring SPV	Diana SPV
Closing	Jun-21	Jun-21	Jun-21	Mar-21	Dec-20	Dec-20	Dec-20	Dec-20	Dec-20	Dec-20	Dec-20	Nov-20	Jun-20	Jun-20
GACS	No	No	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Originators/Sellers	illimity Bank	6+ Italian Banks	Banco BPM SpA	Ifis NPL Investing	BPER Banca, Banco di Sardegna	Alba Leasing Release Banco BPM	UBI Banca	38 Banks	UCG Leasing	15 Banks	Intesa Sanpaolo	90 Banks	BPER, Banco di Sardegna CR Bra	BPS
Master servicer	Prelios	Credito Fondiario	Credito Fondiario	Ifis Servicing	Banca FinInt	Prelios	Prelios	Zenith	Italfondia rio	Credito Fondiario	Intrum	Italfondia rio	Prelios	Prelios
Special servicer	Prelios	Credito Fondiario	Credito Fondiario Liberty	Ifis Servicing	Fire	Prelios	Prelios	Guber Banca	doValue	Credito Fondiario & Fire	Intrum	doValue	Prelios	Prelios
General portfolio attributes														
Gross book value (EUR m)	356	865.2	1,510	1,323	322	335	1,228	679	1,583	919.9	6.033	2347.1	1377.3	999.7
Number of borrowers	424	2188	3,304	47,127	15,172	668	14,313	3,671	2,335	3,978	22,282	9,580	2,544	2,981
Number of loans	2,043	5559	10,411	69,384	23,473	939	22,471	6,520	3,006	8,128	74,312	17,246	11,669	4,813
WA seasoning (years)	5.6	7.7	2.2	7.0	3.3	5.8	3.4	3.7	5.8	3.4	5.5	3.8	4.6	4.0
WA seasoning (years) - unsecured portfolio	6.7	6.5	2.1	4.0	4.0	6.2	3.5	4.4	7.0	3.8	5.9	4.5	4.9	4.4
WA LTV buckets (% or secured portfolio)														
bucket [0-25]	2.5	3	2.6	3.4	14.7	0.2	4.5	1.6	0.3	4.6	3.9	3.3	5.2	2
bucket [25-50]	19.2	6.2	9.6	4.5	23.4	2.1	12.2	7.9	2.5	9	8.9	7.7	13.4	7.4
bucket [50-75]	11.4	7.9	15.3	7.3	20.5	9.6	17.2	11.9	7.9	12.9	15.6	13.1	18.2	11.4
bucket [75-100]	8.7	7.3	25.3	7.5	15.6	10.6	18.6	14.2	14.4	19.2	13.8	13.5	15	19
bucket [100-125]	10.3	7.4	14.1	5.1	10.7	17.1	12.7	10.7	16.6	16.7	13.9	11.7	12.8	10.2
bucket [125-150]	5.5	7.8	8.4	5.2	6.3	9.9	6.7	10.6	14.7	10.2	6.9	9.5	6.2	7.5
bucket [150-175]	0.9	6.2	6	5.6	2.7	14	4.4	10.1	12.1		6.5	4.9	3.9	8.6
bucket [175-200]	3.5	5.5	2.2	4.4	1.8	6.2	6	7.6	7.4	27.4	3.3	5.4	3.9	3.7
bucket > 200	37.9	48.7	16.4	57	4.3	30.3	17.6	25.5	24		27.1	31	21.1	30.2
Cash in court (% of total GBV)	1.4	1.4	0.4	1.3	0.5	0	1.4	1.3	1.5	0.3	0.9	0.4	3.0	3.3
Loan types (% of total GBV)														
Secured first-lien	68.5	81	44.3	30.3	44.4	87.7	53.7	65.5	86.5	55.9	41.2	59.8	52.5	64.7
Secured junior lien	4.5	5.8	6	0.4	4.3	0.0	7.6	4.0	0.0	9.0	3.7	7.5	42.4	3.4
Unsecured	27	13.3	49.7	69.3	51.3	12.3	38.7	30.5	13.5	35.1	55.1	32.7	5.1	31.9
Syndicated loans	8.4	6.9	0.8	1.5	0.0	2.6	3.2	6.2	7.1	1.1	1.3	6.4	14.0	0.0
Debtors (% of total GBV)														
Individuals	5.6	27.3	14.6	80	51.1	0.6	7	26.4	0.8	25.3	10.6	16.6	11.1	21.5
Corporates or SMEs	94.4	72.7	85.4	20	48.9	99.4	93	73.6	99.2	74.7	89.4	83.4	88.9	78.5
Procedure type (% of total GBV)														
Bankrupt	47.9	44.5	29.1	15.6	42.4	10.4	53.2	64.9	36.0	55.1	49.8	59.1	52.8	22
Non-bankrupt	52.1	55.5	70.9	84.4	57.6	89.6	46.8	35.1	64.0	44.9	50.2	40.9	47.2	78
Borrower concentration (% of GBV)														
Top 10	35.9	19.8	14.6	5.1	1.5	26.8	7.8	8.7	9.3	9.1	5.2	6.1	11.5	8.7
Top 100	77.9	54.6	39.8	14.9	11.0	74.9	30.3	38.4	36.9	35.3	19.6	25.1	39.7	34.7
Collateral distr. (% of appraisal val.)														
North	46.7	56.6	70.5	18.3	32.0	72	51.6	64.7	49.2	62.2	36.6	42.8	39.2	83.8
Centre	20.6	21.2	21.5	13.3	10.2	14.5	25.2	21.7	23.4	12.4	24.3	40.6	8.3	9.7
South	32.7	22.2	8.1	68.4	57.8	13.5	23.2	13.6	27.4	25.4	39.1	16.5	52.5	6.5
Collateral type (% of appraisal val.)														
Residential	32.7	60.5	42.6	60.8	73.5	1	35.3	35.3	2.6	46.6	38	31.6	32.8	46.6
Commercial	28.5	16.4	27.8	6.6	9.1	46	23.5	27.8	56.4	22.3	16.7	20.9	22.1	17.9
Industrial	18.1	7.6	14.1	16.7	7.0	50.8	16.5	15.0	36.4	9.9	26.3	21.1	12.4	11.5
Land	9.6	10.1	8.5	9.3	5.3	1.0	12.4	17.3	1.2	9.5	14.5	14.2	14.7	12.5
Other or unknown	11.1	5.4	7	6.6	5.1	1.3	12.3	4.7	3.4	11.7	4.5	12.2	18.0	11.6
Valuation type (% of appraisal val.)														
Full or drive-by	0.6	5.6	27.3	31	31.5	79.5	16.9	58.1	29.6	46.1	31.1	57.4	74.3	62
Desktop	26.3	37	67.3	51.3	6.4	18.3	36.8	23.4	68.1	22.5	23.4	19.4	11.4	9.8
CTU	24.0	10.9	5.4	0	0.9	0.0	17.7	13.9	0.0	20	23.2	10.3	13.4	19.1
Other	49.1	46.5	0	17.7	61.2	2.2	28.6	4.6	2.3	11.4	22.3	12.9	0.9	9.1
Secured ptf proc. stage (% of GBV)														
Initial	78.9	70.4	77.4	37.5	76.3	NA	65.2	52.6	NA	57.7	64.2	51.2	67.4	63.5
CTU	3.1	8.5	5.1	14.2	12.8	NA	14.7	26.6	NA	22.6	15.5	18.4	4.2	2.5
Auction	17.5	16.2	13.9	33.7	6.7	NA	14.1	16.6	NA	12.8	15.2	18.5	13.7	22.3
Distribution	0.5	4.9	3.7	14.6	4.2	NA	6.0	4.2	NA	7	5.1	11.9	14.6	11.8
Summary of assumptions (BBB rating conditional stress)														
Remaining lifetime recovery rate (%)														
Secured (=net LTV after all stresses)	39.8	28.2	54.1	20.5	70.4	48.6	50.2	43.1	48.6	48.9	45.4	43.8	53.1	47.7
Unsecured	4.4	4.3	13.8	50.6	12.1	6.1	12.9	8.2	17.9	8.7	6.3	11.6	9.5	8.9
Total	28.6	11.3	31.6	41.5	38.0	43.4	32.9	31.1	44.4	31.2	22.4	30.8	32.4	34
Weighted average life of collections (yrs)														
Secured	7.7	7.3	7	6.3	7.0	4.3	7.6	7.4	5.0	7.6	7.2	8.3	6.0	3.8
Unsecured	3.1	2.9	4	5.4	4.9	7.9	4.3	4.8	12.6	4.7	3.3	5.2	3.6	4.4
Total	7.1	3	6.3	5.6	6.6	4.4	6.8	5.9	5.4	7.2	6.6	7.7	5.4	5.1
Structural features														
Liquidity reserve (% of class A notes)	4.5	4.5	4.5	4.5	4	5	4	4	7.5	4	4	3	5	4.5
Class A Euribor cap strike	0.0%-1.0%	0.09%-3.0%	0.0%-3.0%	0.2%-3.0%	0.2%-1.4%	0.05%-4.0%	0.6%-3.75%	0.6%-3.75%	0.5%-1.7%	0.2%-1.6%	0%-0.75%	0.5%-1.2%	0.2%-1.6%	0.6%-3.75%
Class A														
% of GBV	18.2	15.6	22.7	27.6	26.5	27	23.6	22.7	29.4	26.3	16.7	22.2	23.2	23.5
Credit enhancement	81.0	84.4	77.3	72.4	73.5	73.01	76.4	77.3	70.6	73.7	83.3	77.8	76.8	76.5
Class B														
% of GBV	2.7	2.7	2.7	5.6	3.1	4.47	2.9	3.1	5.75	2.72	3.5	1.7	1.5	3.5
Credit enhancement	78.4	81.7	74.7	66.8	70.3	68.5	73.5	74.2	64.8	70.98	79.9	76.1	75.3	73
Final rating at closing														
Class A	BBB	BBB	BBB	A-	BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB
Class B	NR	NR	NR	B+	NR	NR	NR	NR	NR	CC	NR	CC	NR	NR

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