

Q2 update: 57% of Italian NPL securitisations now under-performing



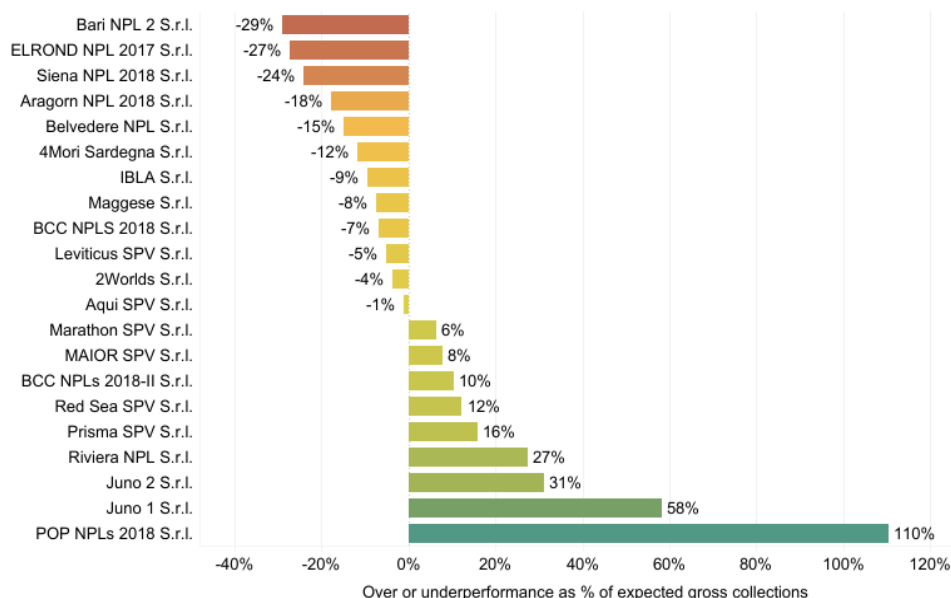
Scope
Ratings

The performance of Italian NPL securitisations has deteriorated since Q1¹. Data for Q2 so far shows that profitability is solid but 57% of transactions are under-performing. We expect this trend to worsen as a result of Covid-19 impacts.

Scope has analysed 21 of 25 Italian NPL securitisations it has rated since 2017² for a total EUR 73bn of gross-book-value (GBV). We forecast that 14 of the 21 transactions will under-perform this year³ both in terms of timing and volumes. This would lead to average under-performance of -25% for 2020, against original business plan projections, compared to the -13% registered so far in Q2.

Covid-19 has affected monthly collections since April, causing a drop of 46% against January and February averages⁴. However, we do not expect the impact of the pandemic to be fully reflected in performance until the second half of the year.

Scope's view of the performance of Italian NPL securitisations



Source: Scope computations on servicers and payment reports

Actual performance data, as represented in the figure above, shows that 12 out of 21 transactions are under-performing against original business plan targets in gross volumes. The remaining transactions are over-performing. With regard to the profitability of closed borrowers⁵, 20 out of 21 transactions are over-performing. A total of seven of 21 transactions reported the occurrence of subordination and/or under-performance events – early signals of weak performance – resulting in class B interest (one transaction) and servicing fee deferrals (seven transactions).

Analysts

Rossella Ghidoni
+39 02 94758 746
r.ghidoni@scoperatings.com

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

Team leader

David Bergman
+39 02 9475 8940
d.bergman@scoperatings.com

Related Research

Italian NPL ABS Performance: profitability solid but half of transactions behind on expected timing (Feb-20)

Italian NPL securitisation collections plunge on Covid-19 impacts (Jun-20)

Covid-19: 2020 slowdown in Italian NPL securitisation (Apr-20)

Covid-19: no immediate Italian NPL wave but defaults set to rise from 2021 (Apr-20)

Scope Ratings GmbH

Via Paleocapa, 7
I-20121 Milan
Phone +39 02 30315 814

Headquarters

Lennéstraße 5
10785 Berlin
Phone +49 30 27891 0
Fax +49 30 27891 100

info@scoperatings.com
www.scoperatings.com

Bloomberg: SCOP

¹ Please refer to Scope previous update on Italian ABS Performance: "Italian NPL ABS Performance: profitability solid but half of transactions behind on expected timing" (Feb-20).

² We have analysed the performance of all transactions presenting at least one interest-payment date as of May 2020. This led to a sample of 21 transactions for EUR 69bn gross-book-value, as reported in Appendix I.

³ Based on Scope forecast of transactions' performance in the next interest-payment dates.

⁴ Please refer to Scope report: "Italian NPL securitisation collections plunge on Covid-19 impacts" (Jun-20).

⁵ Closed borrowers are those for which servicers concluded their recovery process and expect no further collections.



Q2 update: 57% of Italian NPL securitisations now under-performing

Table of Contents

1. Executive summary	2
2. Scope performance outlook	3
3. NPL market developments and Covid-19 impacts	4
4. NPL monitoring: transactions under analysis	4
5. Performance against servicers' projections	5
6. Collection and expense analysis	8
7. Interest subordination and under-performance events	12
Appendix I: Summary of trigger metrics and note ratings for the sample	14
Appendix II: Summary of transaction performance and key drivers	15
Appendix III: NPL securitisations rated by Scope	16
Appendix IV: Data disclaimer	18
Glossary	19

1. Executive summary

We have conducted extensive analysis of the performance of Italian NPL securitisations rated by Scope since 2017.

Section 2 presents Scope's Performance Outlook for Italian NPL securitisations along with a high-level summary of the actual performance.

Section 3 provides an overview on recent NPL market developments.

Section 4 depicts the transaction sample used for the performance analysis.

In Section 5, we focus on transaction performance, comparing actual collections against servicers' projections, through the cumulative collection ratio and the net present value profitability ratio.

Section 6 focuses on stand-alone performance analysis, detailing collections by servicer recovery strategies. It also reviews recovery and servicing costs.

Section 7 analyses subordination and under-performance events.

Even though historical data from which to draw robust conclusions is limited, we believe initial findings are sufficiently valuable to infer initial credit insights.



Q2 update: 57% of Italian NPL securitisations now under-performing

Short-term outlook on volumes:
14 of 21 transactions will under-perform; the remainder in line or above business plan

Short-term outlook on profitability: robust but worsening

More than half of transactions under-perform on gross volumes, more than one third on net volumes; the remainder over-perform

20 out of 21 transactions over-perform on closed borrower profitability

2. Scope performance outlook

2.1. 2020 Performance Outlook

In the short term, we expect 14 out of 21 transactions to under-perform on collection volumes and timing. This is on average⁶ 25% below original business plan projections. We expect the remainder will show performance aligned or above original business plans. We believe that the choice of the right work-out strategies will be key to maintaining performance aligned with the original forecasts, helping to reduce the impact of the pandemic.

We expect that most closed borrowers⁷ transactions will show robust profitability, compared to original projections contained in business plans. However, we foresee a worsening of the average profitability due to the pandemic: servicers may accelerate extra-judicial routes with higher discounts to keep collections volumes up, while courts are closed.

Under-performance events occurred for seven out of 21 transactions. Unless the respective servicers revert to this trend, they risk being removed after irrevocability periods are over (i.e. after around 30 months from the closing date).

The Rilancio Decree⁸ waiver, if applied, envisages a temporary suspension of the deferral mechanism of servicing fees. The spirit of the decree is to avoid servicers from being disincentivised from collection activity as a result of a temporary reduction in their total compensation.

We estimate that servicers will rely on judicial and DPO processes as core recovery strategies, as shown by historical trends. The Covid-19 outbreak could lead to stronger reliance on extra-judicial routes. However we have not yet observed strong evidence for this⁹.

2.2. Actual performance at a glance

The actual volume of cumulative gross collections shows that more than half of transactions – 12 of 21 – are under-performing against servicers' original projections, while the remainder are performing above original projections. The same analysis, based on net volumes (i.e. gross collections less servicing and recovery costs), leads to eight under-performing transactions, mainly due to lower than expected costs.

If we consider the profitability of closed borrowers as of the latest interest-payment date, 20 transactions out of 21 are over-performing and no transaction under-performed¹⁰.

The analysis performed on a sub-sample of 20 transactions and conducted on net collection volumes since the transactions' inception shows comparable shares of over and under-performing transactions (11 and 9 respectively). In terms of profitability on closed borrowers, a high share of transactions systematically over-performed in all periods (14 out of 20).

However, the number of closed positions is still limited in all transactions, therefore, high profitability on closed borrowers does not compensate total portfolio actual recoveries being significantly below what was expected.

⁶ The average decrease is computed only in case of negative variations (i.e. only for transactions for which we forecast that gross collections will be lower than original business plan projections at the next interest payment date).

⁷ In the initial periods, closed borrowers represent typically a low proportion of total borrowers (i.e. below 5% for certain transactions).

⁸ Law Decree n. 34, 19 May 2020. Please refer to "Covid-19: GACS changes introduced by Rilancio Decree are credit neutral" (May 2020).

⁹ Please refer to "Italian NPL securitisation collections plunge on Covid-19 impacts", Figure 6 (June 2020).

¹⁰ For Marathon S.r.l. the profitability on closed borrowers is generally not reported.

7 out of 21 transactions had under-performance and/or subordination events

NPL stocks fell 65% on 2017 initial volumes of EUR 200bn

Covid-19 outbreak: defaults to rise from 2021

Seven of 21 transactions reported the occurrence of subordination and/or under-performance events – early signals of weak performance – resulting in class B interest (one transaction) and servicer fee deferral mechanisms (seven transactions).

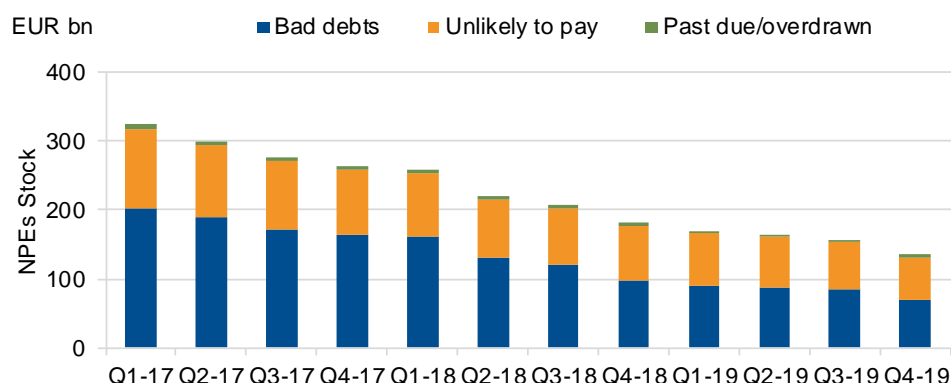
Judicial proceedings and DPOs are core recovery strategies, accounting on average for 48% and 26% of transaction collections, as of the latest interest-payment date. Servicers have so far collected up to 15% of original portfolio GBV, with recovery expenses up to 8.8% of collections.

3. NPL market developments and Covid-19 impacts

Since the last quarter of 2015, non-performing exposures (NPEs) on Italian banks' balance sheets have decreased substantially (-60%), from EUR 340bn to EUR 135bn, at the end of the fourth quarter of 2019.

We do not expect the Covid-19 outbreak to lead to an immediate NPL wave but we do expect new defaults to start materialising from 2021 once the extraordinary aid programmes are over and as economic contraction translates into higher unemployment and borrower distress¹¹. We estimate EUR 30bn of new NPL inflows out to 2021¹².

Figure 1: Non Performing Loans (NPLs)- stock evolution



Source: Bank of Italy

While NPL stock has been declining, NPL securitisations have reached significant volumes in the last few years, mostly boosted by the GACS scheme (first introduced in 2016 and set to expire in May 2021).

The Covid-19 outbreak has caused a slowdown in the issuance of NPL securitisations. We expect a 50%-70% reduction in Italian NPL securitisations this year relative to 2019 as banks put deleveraging plans on hold while they await better market conditions¹³. We expect that securitisation activity will increase in 2021, especially in the first half, driven by the expiry of the GACS guarantee scheme.

4. NPL monitoring: transactions under analysis

Scope currently rates 25 public Italian NPL transactions with a GBV of EUR 73.3bn. Most of the securitisations – 22 – are GACS-eligible, accounting for 88% of total securitised gross book value.

Covid-19 impact: issuance -50%-70% versus 2019 FY

Scope currently rates EUR 73bn of NPL securitisations

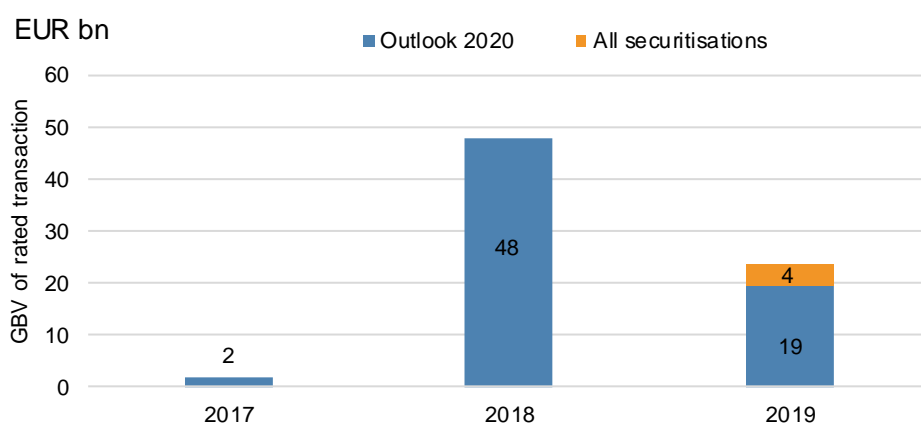
¹¹ As highlighted in Scope research "Covid-19: no immediate Italian NPL wave but defaults set to rise from 2021", April 2020.

¹² As highlighted in Scope research "Covid-19: 2020 slowdown in Italian NPL securitisation", April 2020.

¹³ As highlighted in Scope research "Covid-19: 2020 slowdown in Italian NPL securitisation", April 2020.

We have analysed the performance of transactions with at least one interest-payment date as of May 2020. This led to a sample of 21 transactions with a GBV of EUR 69bn (94% of total GBV). Please refer to Appendix I for a detailed list of the transactions analysed.

Figure 2: NPL securitisations rated by Scope (2017-2019) – Sample against All



Source: Public data

5. Performance against servicers' projections

Section 5.1 analyses the performance of transactions against servicers' projections, in terms of collection volumes and profitability of closed borrowers as of the latest interest-payment date (IPD). Section 5.2 analyses the historical trends of profitability and collection volumes.

5.1. Analysis of actual performance

The performance analysis has been conducted on 21 transactions¹⁴. Please refer to Appendix II for the classification of performance resulting from the analysis.

5.1.1. Volume of collections: actual against business plan

Actual collections equal or higher than servicers' original projections resulted in over-performance; vice versa in the case of under-performance.

Figure 3 shows that 12 out of 21 transactions are under-performing against business plan, based on cumulative gross figures as of the latest IPD. The number of under-performing transactions decreases on a net level (8 out of 21), as shown on the right side of Figure 3. Remaining transactions are over-performing.

More transactions under-perform against plan at a gross¹⁵ rather than net level (57% against 38%)¹⁶. This is explained by the fact that servicers typically sustained recovery costs that were lower than their original projections. If we consider the distribution of recovery costs against original projections, their median values varied between 20% and 47% of the original projections, across all interest-payment-dates¹⁷.

12 out of 21 transactions under-perform on gross levels; 8 on net levels. The remainder share over-perform

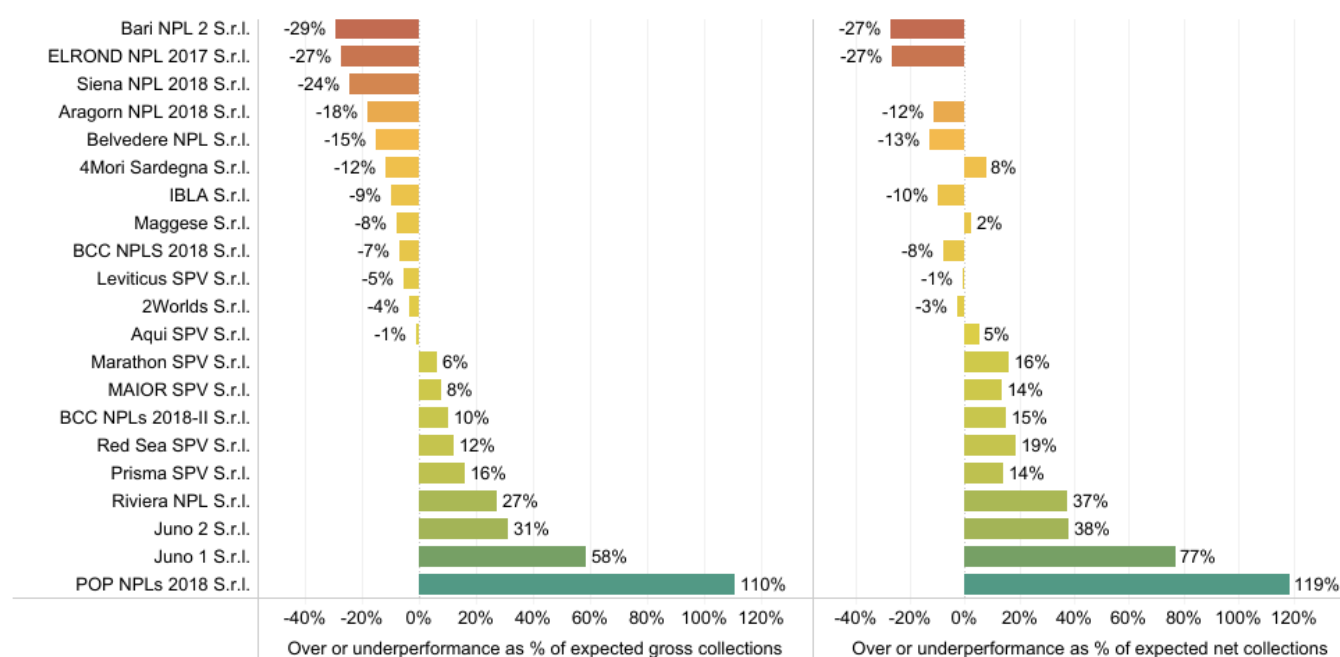
¹⁴ Please refer to Appendix I and II for the full list of analysed transactions.

¹⁵ Prelios business plans typically report gross collections that are already net of privileged bankruptcy costs. This implies that the original gross projections are higher than reported; therefore, the number of under-performing transactions could be even higher than reported.

¹⁶ We believe that net performance is a better measure than gross performance, especially for noteholders. In fact, available proceeds to pay due amounts under the notes are net of legal costs, additionally, subordination and under-performance events are typically triggered by ratios measured on net rather than gross levels (the Cumulative collection and the Net present value profitability ratios).

¹⁷ The median is computed considering 20 transactions out of 21 of the Sample, as for Siena NPL 2018 S.r.l. the expenses of the BP are not directly reported.

Figure 3: Cumulative performance against business plans – gross and net¹⁸ levels



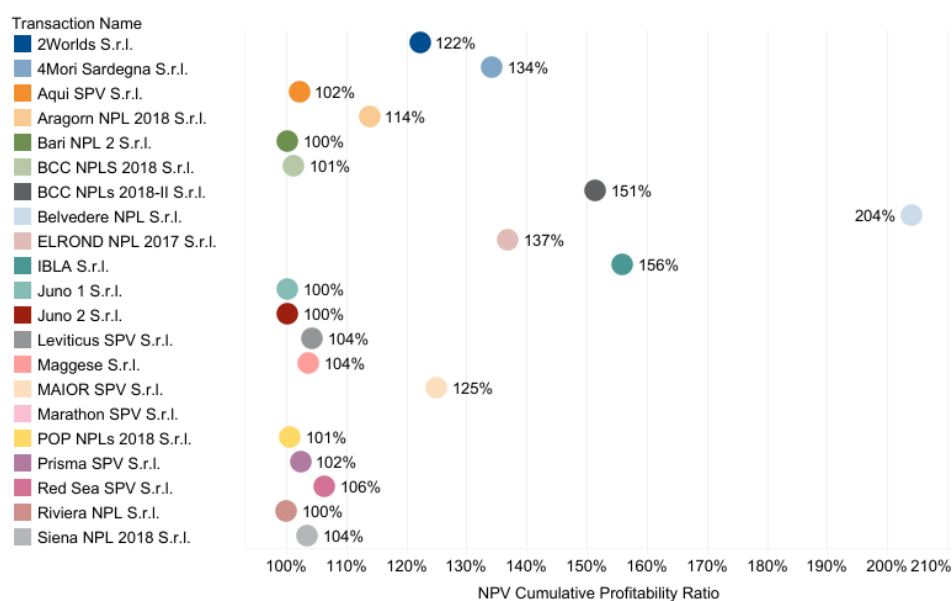
Source: Scope computations on servicers and payment reports

5.1.2. Profitability of closed borrowers: actual against plan

Servicers' most recent profitability reports on total closed borrowers¹⁹ show that 20 of 21 transactions over-perform with a Net Present Value Profitability Ratio (NPVPR)²⁰ above 100%.

20 out of 21 transactions over-perform on profitability

Figure 4: Cumulative profitability against business plans



Source: Scope computations on servicers and payment reports

¹⁸ Net levels refer to gross collections net of recovery and servicing expenses.

¹⁹ In the initial periods, closed borrowers represent a low proportion of total borrowers (i.e. less than 5% for certain transactions).

²⁰ The NPVPR is not reported for Siena NPL 2018 S.r.l., as this ratio is not responsible for any event (i.e. subordination and under-performance events). We in any case computed the profitability ratio on the last interest-payment date. This results into an over-performance of 104%. For Marathon SPV S.r.l. transaction, the NPVR is not reported.

Performance analysis implies looking beyond current picture: at historical values

9 out of 20 transactions under-perform

11 out of 20 transactions over-perform

5.2. Performance analysis since closing

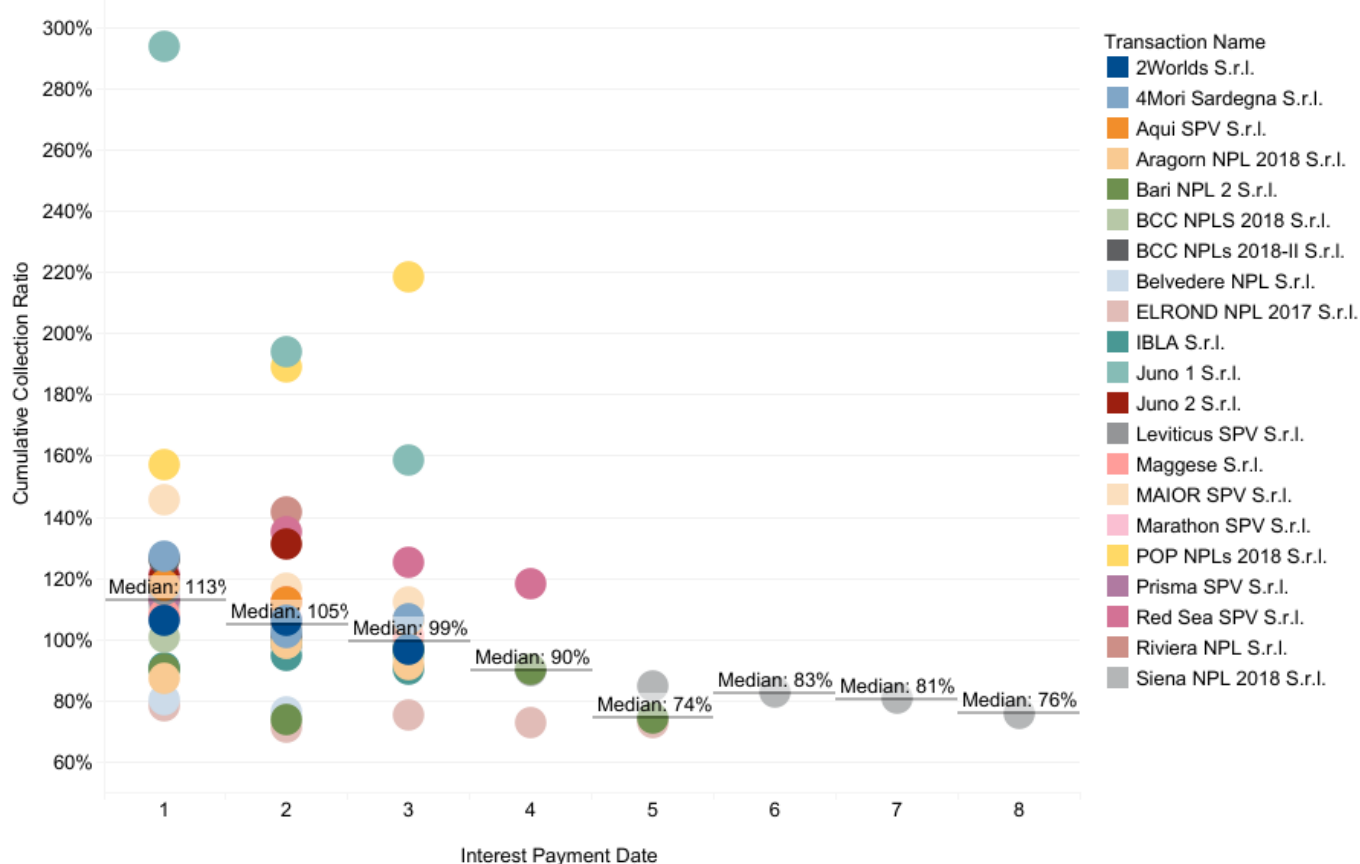
Transactions' performance triggers are generally linked to the Cumulative Collection Ratio (CCR)²¹ and NPVPR. Performance analysis was conducted using performance data since closing on a subset of 20 transactions²² out of the 21 included in the full sample. Please refer to Appendix II for the classification of transaction performance resulting from historical analysis.

5.2.1. Cumulative collection ratio

Figure 5 below shows that 9 out of 20 transactions have under-performed versus original business plan: four presented variable trends leading to final under-performance, while five have consistently under-performed in all periods, showing collections up to 29% below servicers' projections.

A total of 11 out of 20 transactions have consistently over-performed in all periods versus the original business plan, even though the magnitude of over-performance varies over time.

Figure 5: CCR trend since closing



Source: Scope computations on servicers and payment reports

²¹ Cumulative Collection Ratio.

²² This results from the exclusion of one transaction presenting only one IPD (Prisma SPV S.r.l.) and for which the historical analysis would not be robust. In Appendix II we reported the list of transactions on which the historical analysis was conducted, where transactions with "1 IPD" are those excluded from the analysis.

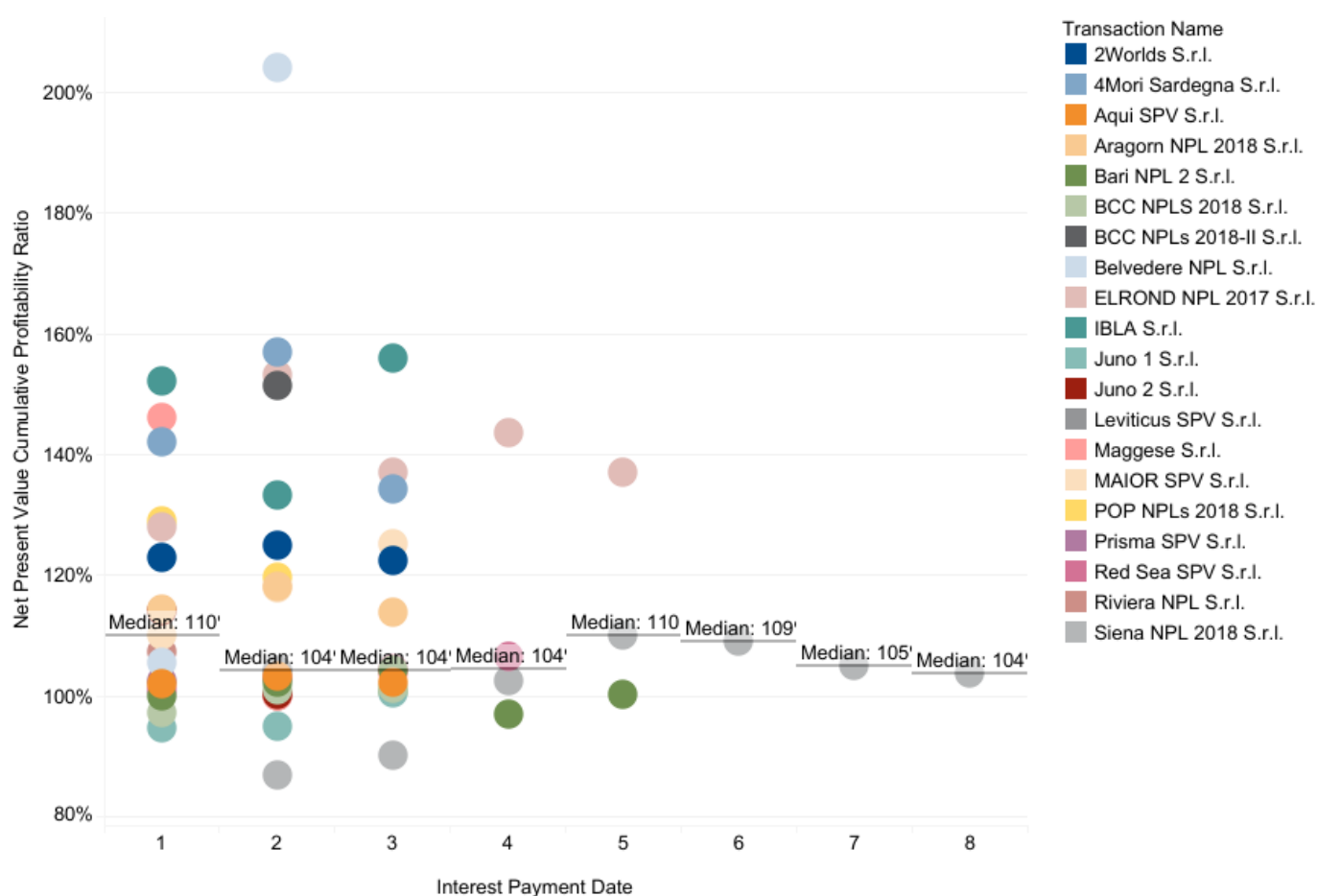
18 out of 20 transactions over-perform on profitability

5.2.2. Net Present Value Profitability ratio ("NPVPR")

Figure 6 shows that a total number of 18 out²³ of 20 transactions have over-performed versus original business plan in terms of NPVPR, even though the magnitude of over-performance varies over time. In particular: 14 transactions consistently over-performed in all periods while four presented variable trends leading to final over-performance.

None of the transactions has consistently under-perform or ended in under-performance against historical variable trends.

Figure 6: NPVPR trend since closing



Source: Scope computations on servicers and payment reports

6. Collection and expense analysis

Considering that NPL proceeds are distributed to noteholders net of costs, it is relevant to monitor both cumulative collections and servicing costs and recovery expenses.

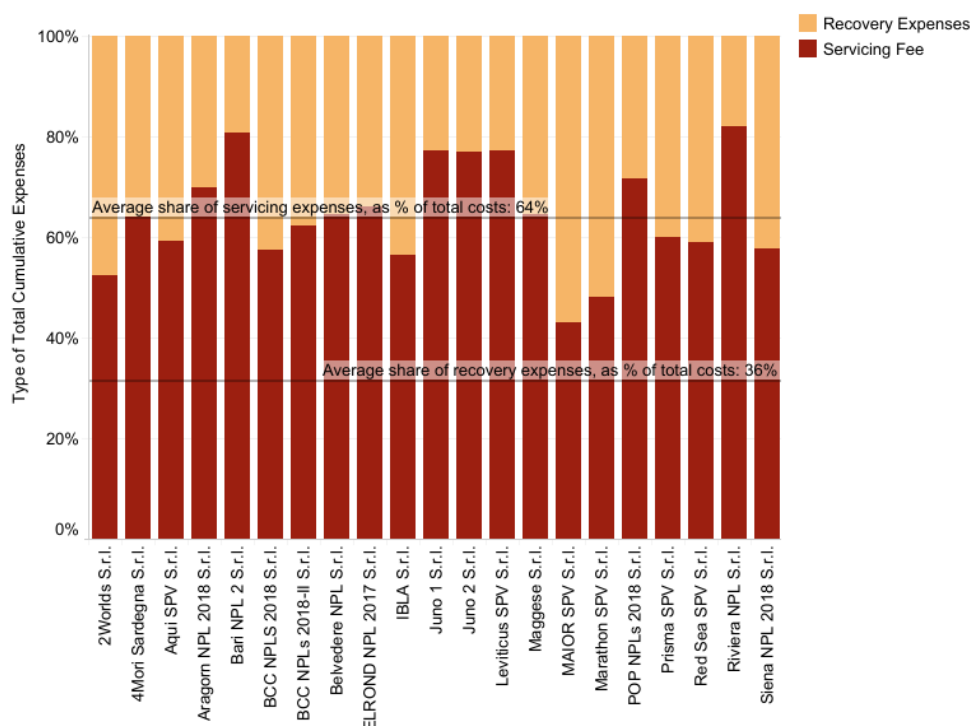
Collections have so far reached up to 15% of original portfolio GBVs, with judicial proceedings representing the core recovery strategy so far.

Figure 7 shows that 64% of costs stem on average from servicing fees, while 36% stems from recovery procedures. Recovery expenses range from 0.3% to 8.8% of total collections as of the last interest payment date.

Actual performance is measured on cumulative collections and costs component

²³ The remainder two transactions are Marathon S.r.l. (for which the NPVPR is not reported) and Leviticus SPV S.r.l. (for which the NPVPR was not reported in IPD 1, but only in IPD 2).

Figure 7: Cumulative expenses per type, as of latest interest-payment date



Source: Scope computations on servicers and payment reports

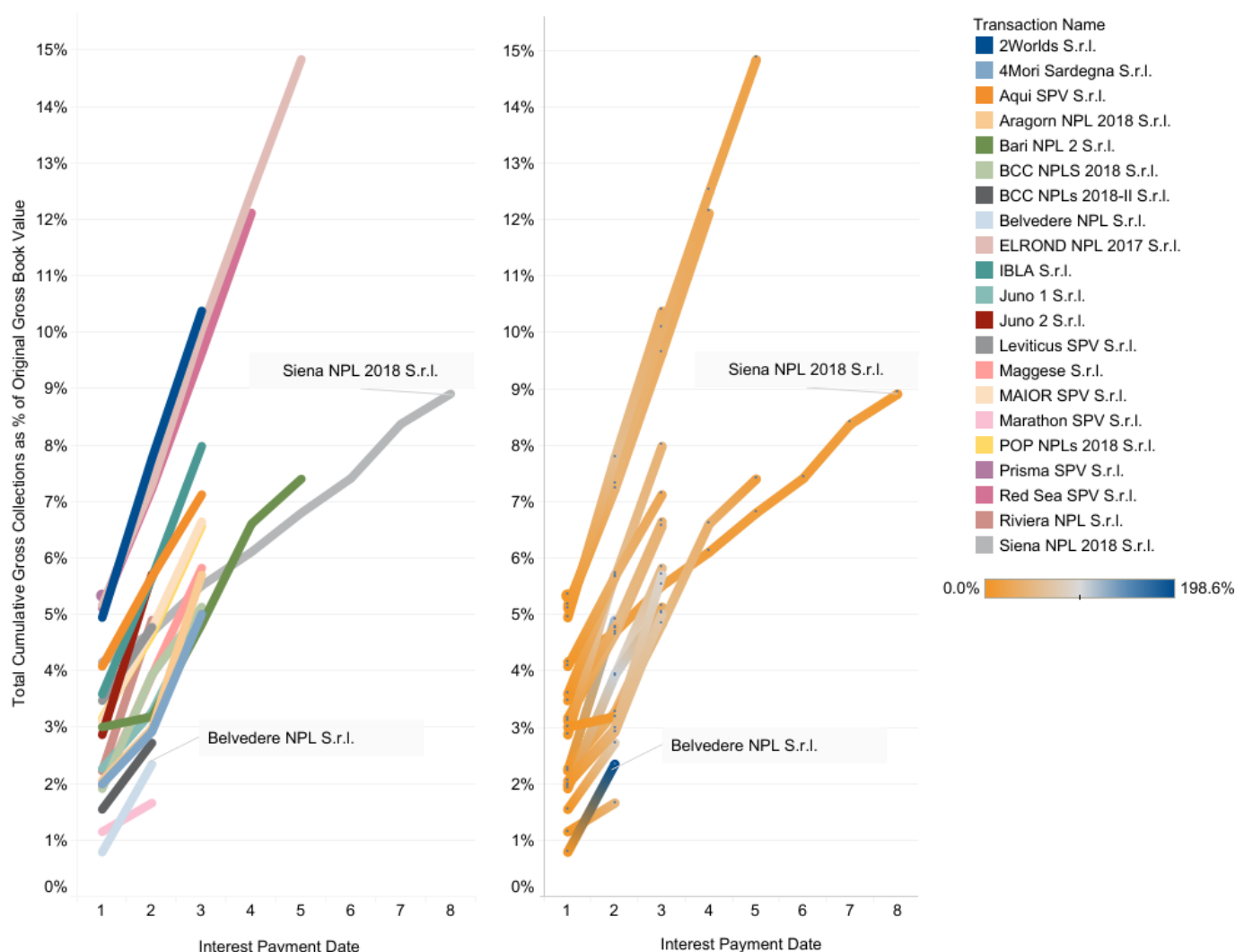
6.1. Collections on GBV

Gross collections are up to 15% of original GBV

Figure 8 shows that transactions have reached collections of up to 15% of their original GBV, with a minimum of 2%. As of the last interest payment date, the highest pace of collection growth²⁴ was observed for Belvedere S.r.l. with +198.57%; the lowest was for Siena NPL 2018 S.r.l. with a +6.39% increase.

²⁴ Pace of growth is defined as: (cumulative gross collections at second interest-payment date – cumulative gross collections at first interest-payment date) / (cumulative gross collections at first interest-payment date).

Figure 8: Cumulative collections on original GBV, history and rates of increase



Source: Scope computations on servicers and payment reports

Recovery strategies are tailored around portfolios features. They can vary even for the same servicer

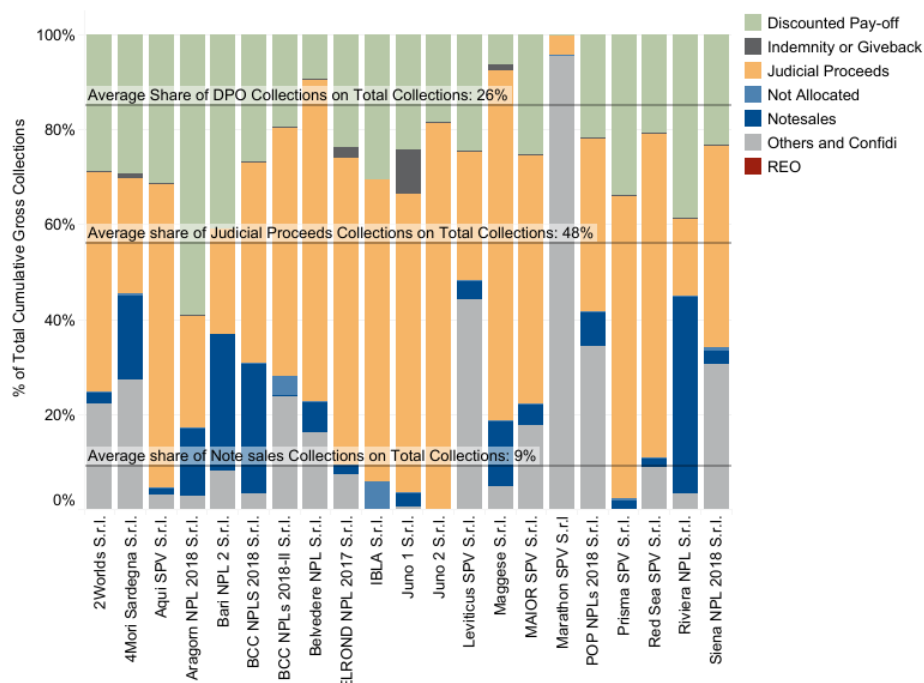
Judicial routes as core recovery strategy

6.2. Recovery strategy analysis

Servicers follow different recovery strategies, ranging from discounted-pay-offs (DPOs), judicial, note sales and real estate owned (REO) processes. Recovery strategies are generally tailored to portfolio characteristics and economic considerations on loan profitability.

As shown in Figure 9, judicial proceedings remain the core strategy (on average 48% of transaction collections). DPOs are extensively used by servicers (26%). Note sales (9%) have occasionally been adopted, also for certain multi-originator transactions.

Figure 9: Cumulative collections per recovery strategy, as of latest interest-payment date



Source: Scope computations on servicers and payment reports

While judicial, DPOs, note sales and REO proceeds result from servicers' recovery strategies, indemnity proceeds compensate issuers for inaccurate information provided at closing²⁵.

Figure 10: Recovery strategy ranking (as of latest interest-payment date)

Recovery strategy	Transaction	Share (%)
Discounted Pay-Off	Aragorn NPL 2018 S.r.l.	59%
Indemnity or Giveback	Juno 1 S.r.l.	9%
Judicial	Juno 2 S.r.l.	81%
Note sales	Riviera NPL S.r.l.	42%
Others and Confidi	Leviticus SPV S.r.l.	44%

Source: Scope computations on servicers and payment reports

6.3. Recovery expense ratio

Recovery expenses are up to 9% of gross collections

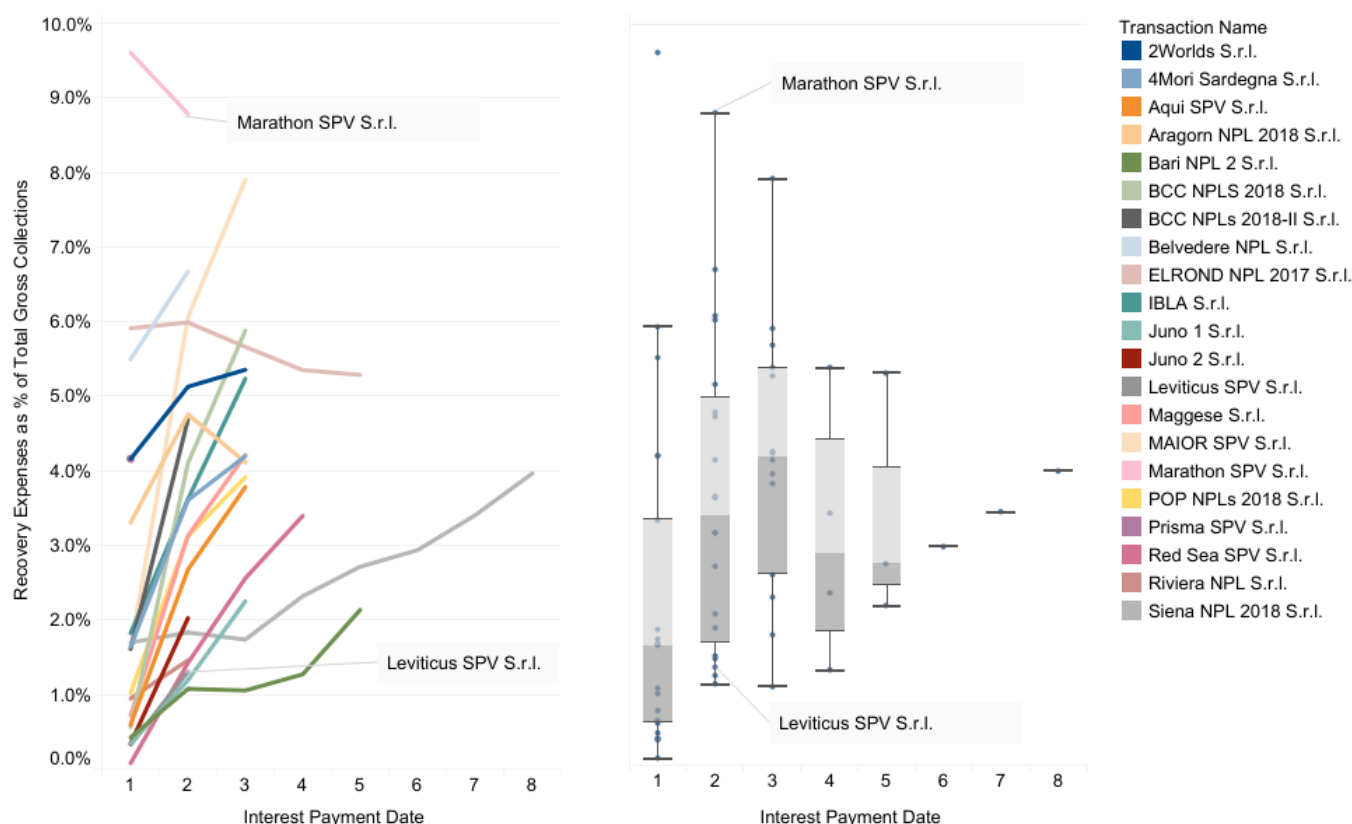
Cumulative recovery expenses account for up to 8.8% of total gross collections (expense ratio). They are driven by servicers' recovery strategies; judicial routes being the most frequent.

Figure 11 shows that the median expense ratio on the first interest-payment date is 2.0%, it then rises in subsequent periods as work-out strategies progress.

As of the last interest-payment-date, Marathon SPV S.r.l. has the highest expense ratio, while Leviticus SPV S.r.l. has the lowest ratio.

²⁵ Indemnity proceeds arise from the breach of representations/warranties (R&W), typically provided by originators or special purpose vehicles as of the closing date. A consistent share of indemnity proceeds is a warning signal for the lack of accuracy of portfolio information, and it can impact servicers' original strategies and business plans. For example, indemnities can relate to data tape inaccuracy or to the inapplicability of representations for certain borrowers, it is therefore crucial to monitor their share. The issuer has the right to request indemnities only for the first interest-payment dates (i.e. one or two years after transactions' closing dates).

Figure 11: Recovery expense ratio—trend since closing and distribution



Source: Scope computations on servicers and payment reports

Subordination and/or under-performance events occurred for 7 out of 21 transactions

Under-performance events, after the first, typically continue to occur

Rilancio Decree introduces a potential waiver for the deferral of servicing fees

7. Interest subordination and under-performance events

Subordination and under-performance events are early signals for transaction under-performance²⁶. A total of 7 out of 21 transactions have reported the occurrence of subordination and/or under-performance events, as shown in Figure 12.

A subordination event occurred for only one transaction: Aragorn NPL 2018 S.r.l., while seven transactions reported an under-performance event. Since not all transactions have the same trigger levels, under-performance hits transactions with high trigger levels (i.e. close or above 100%) more severely than those with low triggers.

Almost none of the transactions, once the first under-performance event, were able to cure the event, so continue to under-perform. If the trend observed for under-performance and subordination events continues, there is a risk that servicers can be substituted after the expiry of the initial grace periods.

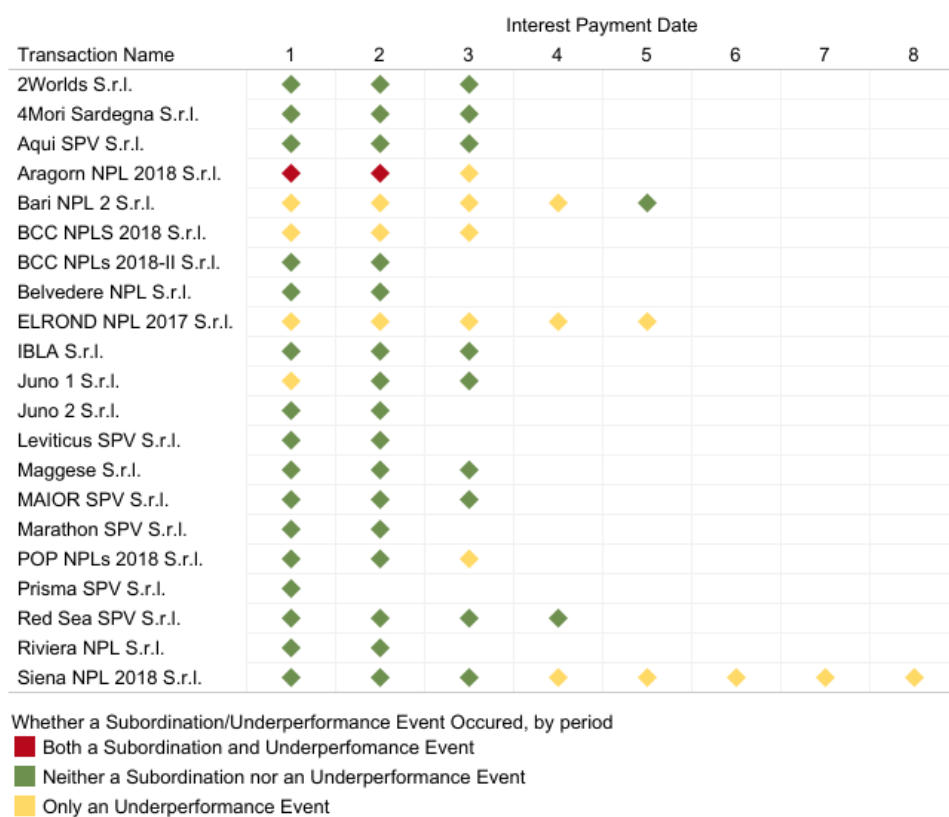
The Rilancio Decree²⁷ introduced the possibility for a temporary suspension of the deferral mechanism on servicing fees, applicable only for interest-payment-dates falling between May 2020 and July 2021²⁸.

²⁶ Please refer to the Glossary for their definition.

²⁷ Law Decree n. 34, 19 May 2020.

²⁸ "Covid-19: GACS changes introduced by Rilancio Decree are credit neutral", 15 May 2020.

Figure 12: Subordination and under-performance events



Source: Scope computations on servicers and payment reports



Q2 update: 57% of Italian NPL securitisations now under-performing

Appendix I: Summary of trigger metrics and note ratings for the sample (21 transactions)

Synthetic Monitoring Overview | Performance

Transaction Name	Latest IPD Referred	Latest IPD	NPV Cumulative Profitability Ratio @ Latest IPD	Cumulative Collections Ratio @ Latest IPD	Definition of Subordination Event	Subordination Event Trigger	# of Subordination Events	Definition of Underperformance Event	Underperformance Event Trigger	# of Underperformance Events
2Worlds S.r.l.	31/01/2020	3	122.3%	96.4%	Cum & NPV Profitability	85%	0	NPV Profitability	100%	0
4Mori Sardegna S.r.l.	31/01/2020	3	134.3%	106.8%	Cum & NPV Profitability	90%	0	NPV Profitability	100%	0
Aqui SPV S.r.l.	30/04/2020	3	102.2%	105.9%	Cum & NPV Profitability	95%	0	NPV Profitability	100%	0
Aragom NPL 2018 S.r.l.	31/01/2020	3	113.9%	91.8%	Cum & NPV Profitability	90%	2	Cum & NPV Profitability	100%	3
BCC NPLS 2018 S.r.l.	31/12/2019	3	101.2%	94.6%	Cum & NPV Profitability	90%	0	NPV Profitability	110%	3
BCC NPLS 2018-II S.r.l.	31/01/2020	2	151.4%	100.4%	Cum & NPV Profitability	80%	0	NPV Profitability	100%	0
Bari NPL 2 S.r.l.	30/04/2020	5	100.2%	74.2%	NPV Profitability	90%	0	NPV Profitability	90%	4
Belvedere NPL S.r.l.	31/12/2019	2	204.0%	76.0%	Not applicable	Not available	0	NPV Profitability	90%	0
ELROND NPL 2017 S.r.l.	31/01/2020	5	136.9%	72.7%	Not applicable	Not available	0	Cum & NPV Profitability	100%	5
IBLA S.r.l.	30/04/2020	3	156.0%	90.4%	Cum & NPV Profitability	85%	0	NPV Profitability	90%	0
Juno 1 S.r.l.	31/01/2020	3	100.3%	158.3%	Cum & NPV Profitability	85%	0	NPV Profitability	95%	1
Juno 2 S.r.l.	31/01/2020	2	100.3%	131.3%	Cum & NPV Profitability	85%	0	NPV Profitability	95%	0
Leviticus SPV S.r.l.	31/01/2020	2	104.3%	98.0%	Cum & NPV Profitability	70%	0	NPV Profitability	100%	0
MAIOR SPV S.r.l.	31/01/2020	3	125.0%	111.9%	Cum & NPV Profitability	90%	0	NPV Profitability	95%	0
Maggese S.r.l.	31/01/2020	3	103.7%	101.3%	Cum & NPV Profitability	90%	0	NPV Profitability	95%	0
Marathon SPV S.r.l.	30/04/2020	2	Null	106.6%	Cumulative Collection Ratio	80%	0	Cumulative Collection Ratio	95%	0
POP NPLS 2018 S.r.l.	30/04/2020	3	100.7%	218.5%	Cum & NPV Profitability	90%	0	NPV Profitability	110%	1
Prisma SPV S.r.l.	05/05/2020	1	102.4%	112.9%	Cum & NPV Profitability	90%	0	Cum & NPV Profitability	95%	0
Red Sea SPV S.r.l.	30/04/2020	4	106.4%	118.2%	Cum & NPV Profitability	70%	0	NPV Profitability	100%	0
Riviera NPL S.r.l.	31/01/2020	2	100.1%	141.7%	Cum & NPV Profitability	90%	0	Cum & NPV Profitability	100%	0
Siena NPL 2018 S.r.l.	30/04/2020	8	103.6%	75.8%	Cumulative Collection Ratio	50%	0	Cumulative Collection Ratio	85%	5

Synthetic Monitoring Overview | Ratings

Transaction Name	Jurisdiction	Closing Date	Payment Frequency on Senior Note	Class A Rating at Closing	Class B Rating at Closing	Current Class A Rating	Current Class B Rating
2Worlds S.r.l.	Italy	25/06/2018	Semi-annual	BBB	B	BBB-	B-
4Mori Sardegna S.r.l.	Italy	21/06/2018	Semi-annual	A-	BB-	A-	BB-
Aqui SPV S.r.l.	Italy	07/11/2018	Semi-annual	BBB-	NR	BBB-	NR
Aragom NPL 2018 S.r.l.	Italy	14/06/2018	Semi-annual	BBB-	B	B+	CC
BCC NPLS 2018 S.r.l.	Italy	10/07/2018	Semi-annual	BBB-	B+	BBB-	B+
BCC NPLS 2018-II S.r.l.	Italy	20/12/2018	Semi-annual	BBB	B+	BBB	B+
Bari NPL 2 S.r.l.	Italy	30/04/2018	Semi-annual	BBB	B+	BB-	CC
Belvedere NPL S.r.l.	Italy	21/12/2018	Semi-annual	BBB	NR	BBB	NR
ELROND NPL 2017 S.r.l.	Italy	14/07/2017	Semi-annual	BBB-	B+	BB	B-
IBLA S.r.l.	Italy	05/09/2018	Semi-annual	BBB	B	BBB	B
Juno 1 S.r.l.	Italy	26/07/2018	Semi-annual	BBB+	NR	BBB+	NR
Juno 2 S.r.l.	Italy	08/02/2019	Semi-annual	BBB+	NR	BBB+	NR
Leviticus SPV S.r.l.	Italy	06/02/2019	Semi-annual	BBB	NR	BBB	NR
MAIOR SPV S.r.l.	Italy	01/08/2018	Semi-annual	BBB	NR	BBB	NR
Maggese S.r.l.	Italy	26/07/2018	Semi-annual	BBB	NR	BBB-	NR
Marathon SPV S.r.l.	Italy	05/12/2019	Quarterly	BBB+	BB	BBB+	BB
POP NPLS 2018 S.r.l.	Italy	16/11/2018	Semi-annual	BBB	B	BBB	B
Prisma SPV S.r.l.	Italy	18/10/2019	Semi-annual	BBB+	B-	BBB+	B-
Red Sea SPV S.r.l.	Italy	15/06/2018	Semi-annual	BBB	NR	BBB-	NR
Riviera NPL S.r.l.	Italy	17/12/2018	Semi-annual	BBB-	B+	BBB-	B+
Siena NPL 2018 S.r.l.	Italy	10/05/2018	Quarterly	BBB+	NR	BBB+	NR

Source: Scope computations on servicers and payment reports

Appendix II: summary of transaction performance and key drivers

Transaction Name	Current performance on gross collections	Current performance on net collections	Current performance on profitability	Historical performance on CCR	Historical performance on NPVR	Events* (S / U)
2Worlds S.r.l.	Under	Under	Over	Under (variable)	Over	
4Mori Sardegna S.r.l.	Under	Over	Over	Over	Over	
Aqui SPV S.r.l.	Under	Over	Over	Over	Over	
Aragorn NPL 2018 S.r.l.	Under	Under	Over	Under	Over	S/U
Bari NPL 2 S.r.l.	Under	Under	Over	Under	Over (variable)	U
BCC NPLS 2018 S.r.l.	Under	Under	Over	Under (variable)	Over (variable)	U
BCC NPLs 2018-II S.r.l.	Over	Over	Over	Over	Over	
Belvedere NPL S.r.l.	Under	Under	Over	Under	Over	
ELROND NPL 2017 S.r.l.	Under	Under	Over	Under	Over	U
IBLA S.r.l.	Under	Under	Over	Under	Over	
Juno 1 S.r.l.	Over	Over	Over	Over	Over (variable)	U
Juno 2 S.r.l.	Over	Over	Over	Over	Over	
Leviticus SPV S.r.l.	Under	Under	Over	Under (variable)	NA	
Maggese S.r.l.	Under	Over	Over	Over	Over	
MAIOR SPV S.r.l.	Over	Over	Over	Over	Over	
Marathon SPV S.r.l.	Over	Over	NA	Over	NA	
POP NPLs 2018 S.r.l.	Over	Over	Over	Over	Over	U
Prisma SPV S.r.l.	Over	Over	Over	1 IPD	1 IPD	
Red Sea SPV S.r.l.	Over	Over	Over	Over	Over	U
Riviera NPL S.r.l.	Over	Over	Over	Over	Over	
Siena NPL 2018 S.r.l.	Under	NA	Over	Under (variable)	Over (variable)	U

*S means subordination event (responsible for mezzanine interest deferral), U means underperformance event (responsible for servicing fees deferral).

Source: Scope computations

Performance drivers

Under-performance

1. **Difficult initial servicing on-boarding processes** delaying servicers' work-out activities
2. **Slow-down in judicial proceedings** (as a consequence of Covid-19 outbreak)
3. **Real estate depreciation** resulting in lower-than-expected sale prices
4. **Deterioration in affordability and liquidity conditions** of borrowers, mainly impacting their capacity to pay on extra-judicial agreements

Over-performance

1. **Collections from cash-in-court positions or from loans that were already in advanced legal stages** and resolved faster than expected (in the initial periods)
2. **Real estate appreciation** resulting in higher-than-expected sale prices (i.e. due to an increased demand)
3. **High share of extra-judicial proceeds** resulting in a general frontloading of collections compared to original judicial forecasts

Appendix III: NPL securitisations rated by Scope

Deal name/Link to Rating report	Issuance	Seller	Servicer (master and special)	GBV at closing (million)	Class A current rating (original)	Class B current rating (original)	Coupon A/B	GACS (Y/N)
Elrond NPL 2017 Srl	Jul-17	Credito Valtellinese SpA, Credito Siciliano SpA	Cerved Credit Management SpA, Cerved Master Services SpA	1,422	BBB- (BBB-)	B+ (B+)	6mE+0.5%/ 6mE+6%	Y
Bari NPL 2017 Srl	Dec-17	Banca Popolare di Bari SpA, Cassa di Risparmio di Orvieto SpA	Prelios Credit Servicing SpA	345	BB- (BBB)	CC (B+)	6mE+0.3%/ 6mE+6%	Y
GBV of GACS eligible securitisations rated by Scope 2017 (EUR million)				1,767				
Siena NPL 2018 Srl	May-18	Monte dei Paschi di Siena SpA, MPS Capital Services Banca per le Imprese SpA, MPS Leasing & Factoring SpA	Juliet SpA, Italfondario SpA, Credito Fondiario SpA, Prelios Credit Servicing SpA	24,070	BBB+ (BBB+)	Not Rated	3mE+1.5%/ 3mE+8%	Y
Aragorn NPL 2018 Srl	Jun-18	Credito Valtellinese SpA, Credito Siciliano SpA	Credito Fondiario SpA, Cerved Credit Management SpA	1,671	B+ (BBB-)	CC (B)	6mE+0.5%/ 6mE+7%	Y
Red Sea SPV Srl	Jun-18	Banco BPM SpA and Banca Popolare di Milano SpA	Prelios Credit Servicing SpA	5,097	BBB- (BBB)	Not Rated	6mE+0.6%/ 6mE+6%	Y
4Mori Sardegna Srl	Jun-18	Banco di Sardegna SpA	Prelios Credit Servicing SpA	1,045	A- (A-)	BB- (BB-)	6mE+0.9%/ 6mE+8%	Y
2Worlds Srl	Jun-18	Banco di Desio e della Brianza SpA, Banca Popolare di Spoleto SpA	Cerved Credit Management SpA, Cerved Master Services SpA	1,002	BBB- (BBB)	B- (B)	6mE+0.4%/ 6mE+8%	Y
BCC NPLS 2018 srl	Jul-18	21 co-operative banks co-ordinated by Iccrea SpA and two banks belonging to ICCREA Banca SpA	Prelios Credit Servicing SpA	1,046	BBB- (BBB-)	B+ (B+)	6mE+0.4%/ 6mE+6%	Y
Juno 1 Srl	Jul-18	Banca Nazionale del Lavoro SpA	Prelios Credit Servicing SpA	957	BBB+ (BBB+)	Not Rated	6mE+0.6%/ 6mE+8%	Y
Maggese Srl	Jul-18	Cassa di Risparmio di Asti SpA, Cassa di Risparmio di Biella e Vercelli-Biverbanca SpA	Prelios Credit Servicing SpA	697	BBB- (BBB)	Not Rated	6mE+0.5%/ 6mE+6%	Y
Maior SPV Srl	Aug-18	Unione di Banche Italiane SpA and IW Bank SpA	Prelios Credit Servicing SpA	2,749	BBB (BBB)	Not Rated	6mE+0.5%/ 6mE+6%	Y

IBLA Srl	Sep-18	Banca Agricola Popolare di Ragusa ScpA	Italfondario SpA	349	BBB (BBB)	B (B)	6mE+0.6%/ 6mE+8%	Y
AQUI SPV Srl	Nov-18	BPER Banca SpA, Cassa di Risparmio di Saluzzo SpA and Cassa di Risparmio di Bra SpA	Prelios Credit Servicing SpA	2,082	BBB- (BBB-)	Not Rated	6mE+0.5%/ 6mE+7%	Y
POP NPLS 2018 Srl	Nov-18	17 banks	Cerved Credit Management SpA, Cerved Master Services SpA	1,578	BBB (BBB)	B (B)	6mE+0.3%/ 6mE+6%	Y
Riviera NPL Srl	Dec-18	Banca Carige SpA and Banca del Monte di Lucca SpA	Italfondario SpA, Credito Fondiario SpA	964	BBB- (BBB-)	B+ (B+)	6mE+0.65%/ 6mE+7%	Y
BCC NPLS 2018-2 Srl	Dec-18	73 co-operative banks	Italfondario SpA	2,004	BBB (BBB)	B+ (B+)	6mE+0.3%/ 6mE+6%	Y
Belvedere SPV Srl	18-Dec	Gemini SPV Srl, Sirius SPV Srl, Antares SPV Srl, 1702 SPV Srl, Adige SPV Srl	Bayview Italia S.r.l., Prelios Credit Servicing S.p.A.	2,541	BBB (BBB)	Not Rated	6mE+3.25%/6%	N
GBV of GACS eligible securitisations rated by Scope 2018 (EUR million)				45,311				
GBV of securitisations rated by Scope 2018 (EUR million)				47,852				
Leviticus SPV Srl	Feb-19	Banco BPM SpA	Credito Fondiario SpA	7,385	BBB (BBB)	Not Rated	6mE+0.6%/ 6mE+8%	Y
Juno 2 Srl	Feb-19	Banca Nazionale del Lavoro SpA	Prelios Credit Servicing SpA	968	BBB+ (BBB+)	Not Rated	6mE+0.6%/ 6mE+8%	Y
Prisma SPV Srl	Oct-19	Unicredit SpA	Italfondario SpA, doValue SpA	6,057	BBB+ (BBB+)	B- (B-)	6mE+1.5%/ 6mE+9%	Y
Marathon SPV Srl	Dec-19	Marte SPV Srl, Pinzolo SPV Srl	Hoist Italia Srl, Securitisation Services SpA	5,027	BBB+ (BBB+)	BB (BB)	1.8%/8%	N
Iseo SPV Srl	Dec-19	UBI Banca SpA	Italfondario SpA, doValue SpA	858	BBB (BBB)	Not Rated	6mE+0.5%	Y
Futura 2019 Srl	Dec-19	Futura SPV Srl	Guber Banca SpA	1,256	BBB (BBB)	Not Rated	6mE+0.3%	N
BCC NPLs 2019 Srl	Dec-19	68 banks	Italfondario SpA, doValue SpA	1,324	BBB+ (BBB+)	B- (B-)	6mE+0.3%/ 6mE+6.5%	Y
POP NPLs 2019 Srl	Dec-19	12 banks	Prelios Credit Servicing SpA, Fire SpA	826.7	BBB (BBB)	CCC (CCC)	6mE+0.3%/ 6mE+9.5%	Y
GBV of GACS eligible securitisations rated by Scope 2019 (EUR million)				17,419				
GBV of securitisations rated by Scope 2019 (EUR million)				23,702				
Total GBV of securitisations rated by Scope (EUR million)				73,321				
Total GBV of securitisations referred for the Outlook				69,056				

Appendix IV: data disclaimer

Useful data for monitoring

In order to monitor performance, we analysed data provided by all relevant counterparties, including servicers, monitoring and paying agents. Servicing reports, updated business plan scenarios and collections at loan or borrower level represent part of the data analysed along with monitoring agent reports, investor reports and payment reports.

The stock of securitisations analysed for monitoring purposes is still recent, with the oldest transactions closed in 2017.

Data assumptions

For sake of comparison, Scope has synthetically computed the CCR and/or NPVPR for certain transactions.

This is applicable for:

- Aqui SPV S.r.l. and Juno 1 S.r.l. for which the NPVPR has been computed as the average between the NPVPR value as trigger for the interest subordination event and the NPVPR value as trigger for the under-performance event;
- Belvedere NPL S.r.l. for which, given the presence of two servicers, CCR and NPVPR have been computed weighting each servicer's ratio with the relevant expected collections for each servicer's business plan.
- Siena NPL 2018 S.r.l., for which the NPVPR is not reported as it is not responsible for any event (i.e. subordination and under-performance events). We in any case computed the profitability ratio across interest- payment dates.

In case of transactions for which more than servicer was mandated, since under-performance events were based on the ratios of each servicer, we reported that the under-performance event occurred if it occurred for at least one servicer.

Scope has performed an extensive analysis on performance data, based on the information received from all relevant counterparties.

Even though reported data are deemed to be correct, Scope is not liable for any errors in the reported data.

In case certain data are deemed to be incorrect, please report this directly to the authors of the article.

Glossary

Ad interim collections	Collections received from portfolio cut-off date until transfer date.
Closed borrowers (Scope definition)	<p>Borrowers classified as:</p> <ul style="list-style-type: none"> -Fully resolved by Prelios -Fully closed by Cerved and doValue -Closed by Credito Fondiario <p>The definition of Closed Borrowers derives from servicers' classifications, which are not homogeneous. Scope considered as closed only closed debt relationships.</p>
Court costs	Expenses linked to judicial activities.
Cumulative collection ratio (CCR)	CCR measures transaction performance in comparison with the original business plan. It is typically measured on a net level: the ratio between cumulative gross collections net of recovery expenses and expected net collections of the business plan.
Discounted-Pay-Off (DPO)	Discounted pay-off amount following out-of-court agreements with borrowers.
Closed debt relationships	Borrowers closed in the accounting and management systems of servicers (sistemi contabili e gestionali), since servicers concluded their recovery process and no further collections are expected.
GBV	Gross book value.
Indemnity / Giveback proceeds	Proceeds collected via indemnity requests or give-back of loans (retrocessioni pratiche) from transaction originators.
Insurance costs	Costs due to insurance policies covering portfolios' exposures.
Interest subordination event and servicer under-performance event	<p>Subordination and under-performance events occur when the transaction is performing below the servicer's projections in terms of i) cumulative collections (CCR) and/or ii) profitability on closed borrowers (NPVPR). In addition, an interest subordination event can also be triggered by unpaid interests on class A notes. If actual CCR and NPVPR values are below certain thresholds, referred as 'transaction triggers', subordination and/or under-performance events follow.</p> <p>Upon an interest subordination event, class B interest is subordinated to the full repayment of class A notes. A servicer under-performance event typically results in a partial deferral of servicing fees. Upon an under-performance event, a portion of servicing fees is subordinated to the full repayment of the notes. Additionally, servicer termination generally occurs after two consecutive periods of under-performance (only after the 'irrevocability period' (i.e. after around 30 months from the closing date)).</p>
Legal costs	Costs to carry out legal actions in the context of workout processes. They can also include court costs.
Judicial proceeds	Proceeds collected through judicial processes (i.e. bankruptcy, foreclosures).
Master servicing fees	Fees paid to the Master Servicer to carry out the monitoring and fulfilment of regulatory duties related to the transaction.
Net present value profitability ratio (NPVPR)	<p>NPVPR measures transaction profitability on closed borrowers in comparison with the original business plan. It is typically defined as the ratio between the (i) present value of actual net collections (gross collections net of recovery expenses) and (ii) the target price of the business plan, whereas collections pertain only to closed debt relationships.</p> <p>Present Value (PV) is computed as $NPV(x)=x/(1+i)^{(t/360)}$, whereas "i" is the discount factor, and t is the day count between the closing date and the date where "x" amount has been collected.</p> <p>Target Price (of business plan) refers to the Present Value of net collections, computed with the discount factor and based on the initial portfolio base case scenario.</p>
Not allocated proceeds	Proceeds collected by servicers but not yet classified per recovery strategy.
Note sales proceeds	Proceeds collected through credit disposals (Cessioni di credito) to third parties.
Open borrowers (Scope definition)	All borrowers not classified as closed borrowers (as per Scope definition). Based on this definition, also borrowers for which servicers had accomplished most of the recovery process, but further collections may be received (i.e. in case of DPO strategies), are included.
Others and Confidi proceeds	Proceeds collected from the enforcement of Confidi guarantees, and proceeds classified as "Other Actual" by servicers (i.e. ad interim collections and cash in court proceeds).
Other costs	Expenses not included in other cost categories.
REO proceeds	Proceeds collected through the activity of a real estate owned company.
Special servicer base fees	Fees paid to the Special Servicer for each loan under management (a fixed percentage on portfolios' GBV).
Special servicer performance fees	Fees paid to the Special Servicer in relation to its recovery activities (variable percentages on collections).
Subordination event	Subordination events are typically responsible for the deferral of class B interests to the repayment of class A.
Under-performance event	Under-performance events are typically responsible for servicing fee deferrals and they result in servicer termination in case of consecutive periods of under-performance. In this report, the under-performance event is meant to be responsible only for the deferral of servicing fees. Therefore, an under-performance event is triggered when servicing fees were deferred, based on the relevant triggers.



Q2 update: 57% of Italian NPL securitisations now under-performing

Scope Ratings GmbH

Headquarters Berlin

Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891 0

London

3rd Floor
111 Buckingham Palace Road
London SW1W 0SR

Phone +44 20 3457 0444

Frankfurt am Main

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

Phone +49 69 66 77 389 0

Madrid

Paseo de la Castellana 95
Edificio Torre Europa
E-28046 Madrid

Phone +34 914 186 973

Paris

23 Boulevard des Capucines
75002 Paris

Phone +33 1 8288 5557

Milan

Via Paleocapa 7
IT-20121 Milan

Phone +39 02 30315 814

Oslo

Haakon VII's gate 6
N-0161 Oslo

Phone +47 21 62 31 42

info@scoperatings.com

www.scoperatings.com

Disclaimer

© 2020 Scope SE & Co. KGaA and all its subsidiaries including Scope Ratings GmbH, Scope Analysis GmbH, Scope Investor Services GmbH and Scope Risk Solutions GmbH (collectively, Scope). All rights reserved. The information and data supporting Scope's ratings, rating reports, rating opinions and related research and credit opinions originate from sources Scope considers to be reliable and accurate. Scope does not, however, independently verify the reliability and accuracy of the information and data. Scope's ratings, rating reports, rating opinions, or related research and credit opinions are provided 'as is' without any representation or warranty of any kind. In no circumstance shall Scope or its directors, officers, employees and other representatives be liable to any party for any direct, indirect, incidental or other damages, expenses of any kind, or losses arising from any use of Scope's ratings, rating reports, rating opinions, related research or credit opinions. Ratings and other related credit opinions issued by Scope are, and have to be viewed by any party as, opinions on relative credit risk and not a statement of fact or recommendation to purchase, hold or sell securities. Past performance does not necessarily predict future results. Any report issued by Scope is not a prospectus or similar document related to a debt security or issuing entity. Scope issues credit ratings and related research and opinions with the understanding and expectation that parties using them will assess independently the suitability of each security for investment or transaction purposes. Scope's credit ratings address relative credit risk, they do not address other risks such as market, liquidity, legal, or volatility. The information and data included herein is protected by copyright and other laws. To reproduce, transmit, transfer, disseminate, translate, resell, or store for subsequent use for any such purpose the information and data contained herein, contact Scope Ratings GmbH at Lennéstraße 5 D-10785 Berlin.

Scope Ratings GmbH, Lennéstraße 5, 10785 Berlin, District Court for Berlin (Charlottenburg) HRB 192993 B, Managing Directors: Guillaume Jolivet.