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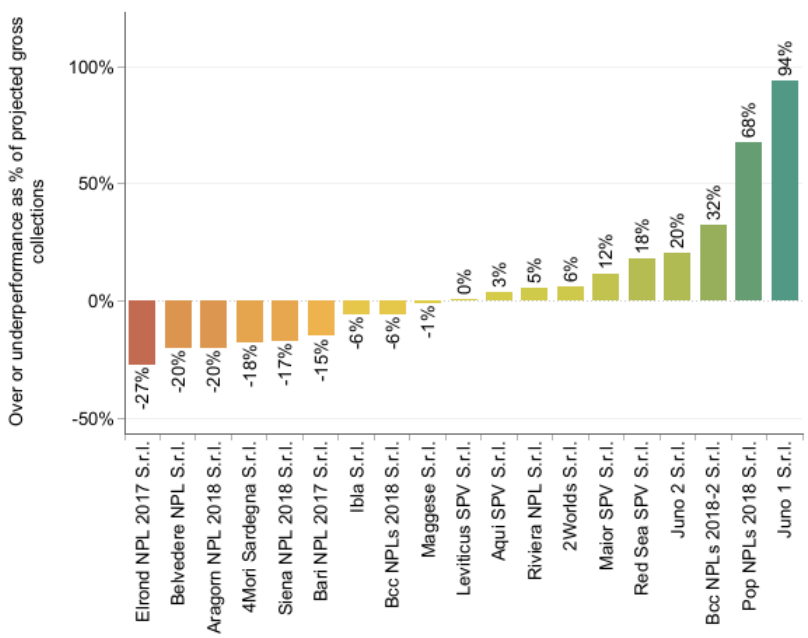
Structured Finance

Italian NPL ABS Performance: profitability solid but half of transactions behind on expected timing

Scope's view on the performance of Italian NPL securitisations

We have analysed the performance of 19 Italian NPL securitisations out of the 25 we have rated since 2017[1] for a total EUR 73bn of gross-book-value (GBV). NPL exposures, due to the irregular nature of their cash flows, show high volatility in performance in comparison with performing exposures. Additionally, opposing trends can bias performance measurement, such as on-boarding processes and collections' peaks. The former delays collections, the latter increases and front-loads collections. In the medium term, a clearer performance trend will emerge, once the effect of these initial factors fades away.

In the short term, we expect half of the transactions to under-perform against original business plan targets, partly owing to difficult initial servicing on-boarding processes. We expect the other half will perform in line or above the business plan, frequently owing to collections from cash-in-court positions or from loans that were already in advanced legal stages and resolved faster than expected. Current performance data, as represented in the figure below and in Appendix II, shows that 9 out of 19 transactions under-perform against original business plan targets in gross volumes, while six under-perform in net volumes, mainly due to lower than expected costs. The remaining transactions over-perform.



Source: Scope computations on servicers and payment reports

Servicers revised their original projections for more than one third of transactions and always downwards (as detailed in Appendix II). This is a sign of rather too optimistic business plans projections. Servicer reviews concerned only 4 out of 9 under-performing transactions; while the remaining three reviews occurred for over-performing transactions.

[1] We have analysed the performance of all transactions presenting at least one interest-payment date as of November 2019. This led to a sample of 19 transactions for EUR 58bn gross-book-value. Please refer to Appendix VII for data disclaimer.

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Related Research

Renewed GACS scheme will reduce Italian NPL ABS issuance

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Based on the latest available information, 15 out of 19 transactions are over-performing in terms of profitability of closed borrowers (those whose debt relationships have been exhausted). We expect most of transactions will maintain high profitability even in the short to medium term. Closed borrowers represent a small proportion of total borrowers in the early life of transactions. Therefore, the profitability ratio is only a partial indicator of overall performance.

A total of 7 out of 19 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). 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 (of roughly thirty months).

The trigger structures of most NPL Italian transactions incentivise the servicer to maximise profitability more than strictly match initial business plans. Servicing fee deferrals are more frequently linked to profitability ratios than to cumulative collection ratios. Also, threshold levels on profitability ratios are generally tighter than on cumulative collection ratios. Furthermore, we have not observed a clear correlation between servicing fee levels and over-performance. In fact, several transactions with above-average servicing fees have under-performed so far.

Cumulative collection and net present value profitability ratios are key indicators of transaction performance. However, current values cannot be considered “stand-alone” as historical analysis helps distinguish cases of severe under-performance from mild under-performance. We do not see a correlation between the two ratios, as high profitability on closed borrowers is not necessarily associated with a strong performance on collection volumes. As of the second interest-payment date, five transactions showed high profitability even though total collections fell below business plan.

In terms of recovery strategies, judicial proceedings and discounted-pay-offs (DPOs) are the most frequently used, accounting on average for 44% and 23% of transactions’ collections respectively.

Servicers’ have so far collected up to 12% of original portfolio GBV, with recovery expenses up to 6% of collections. Recovery expenses have been generally below business plan projections, due to initial and already advanced recovery strategies, where some of the costs were borne by the seller.

Table of Contents

1. Executive summary

We have conducted an extensive analysis on 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 of the report provides an overview of the stock of Italian Non-Performing-Loans (NPLs) and of the transaction sample used for the performance analysis.

Section 4 discusses the key drivers of over/under-performance, and the challenges of measuring performance.

In Section 5, we focus on transaction performance, comparing current collections against servicers' projections, through the cumulative collection ratio and the net present value profitability ratio. We also analyse expenses ratios and business plan reviews.

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. Both events are early signals for weak performance, and unless rapidly cured, might impact the speed of amortization of senior and mezzanine notes and may even trigger a servicer substitution event.

Section 8 presents a historical trend of closed borrower profitability, while Section 9 details Scope's rating actions.

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

2. Scope view: outlook and actual performance

2.1. 2020 Performance Outlook

Short term: half will under-perform on volume, the remainder will perform in line or above business plan

In the short term[2], we expect half of the transactions to under-perform on collection volumes; the remainder to show performance aligned or above original business plans. This is supported by i) observed gross and net cumulative collection ratios and ii) the consistent number of transactions for which servicers have already reviewed downwards their original projections.

Short term: high share will over-perform on profitability

Additionally, we expect that most transactions will over-perform on profitability levels for closed borrowers[3], compared to original projections contained in business plans. This is supported by i) observed net present value profitability ratio historical trends and by ii) trigger structures, which incentivise servicers to focus more on achieving good profitability than on meeting business plan targets. Servicing fee deferrals are more frequently linked to profitability ratios than to cumulative collection ratios (95% versus 21% of transactions[4]). Also, profitability' thresholds for under-performance events (typically responsible for servicing fee deferral), are generally tighter than thresholds for mezzanine interest subordination events: 100% average trigger for under-performance events against an average of 84% for triggering class B subordination event. Therefore, under-performance in terms of total collections is more likely to occur than in terms of profitability.

Triggers structure incentivises servicers to maximise profitability more than matching business plan targets

While initial under-performance has been partially related to longer than expected onboardings, initial over-performance has been frequently driven by collections' peaks, such as cash-in-court proceeds. Transactions over-performing on net volumes on average had 50% of their initial proceeds classified as "other" (typically corresponding to cash-in-court proceeds). Once these effects fade away, in the medium term, a clearer performance trend will emerge.

We expect servicers to lower their original business plans' projections for those transactions with weak performance. Current data shows that servicers' revisions have always occurred downwards. This is a sign of rather too optimistic business plans projections.

Under-performance events occurred for 7 out of 19 transactions. Unless the respective servicers revert this trend, they risk being removed, after the irrevocability period is over (i.e., after around thirty months from the closing date).

We estimate that servicers will rely on judicial and DPO processes, as core recovery strategies, as shown by historical trends.

2.2. Actual performance at a glance

Almost half of transactions under-perform on gross volumes; one third on net volumes, while remainder over-perform

The actual volume of cumulative gross collections[5] shows that almost half of transactions, 9 out of 19, under-perform against servicers' original projections, while the remainder half shows a performance higher than original projections. The same analysis, based on net volumes (i.e., gross collections less servicing and recovery costs), leads to six under-performing transactions[6], mainly due to lower than expected costs.

[2] In the short term, under-estimated onboardings and initial collections' peaks (i.e., cash-in-court proceeds and proceeds deriving from loans that were already in advanced legal stages, resolved faster than expected), bias the performance analysis.
[3] In the initial periods, closed borrowers represent typically a low proportion of total borrowers (i.e. below 5% for certain transactions).
[4] 95% of under-performance events are based on the profitability ratio, while 21% are based on the cumulative collection ratio.
[5] As of the last available interest-payment dates. This analysis also includes transactions that had only one interest-payment date. This is justified by the nature of the analysis, not relying on any historical trend.
[6] Transactions under-performing on gross volumes are more than those under-performing on net volumes. This is due to the impact of actual costs against original projections. Servicers have sustained typically lower costs than projected. If costs surpass business plan projections, the share of under-performing transactions on net levels could surpass the share of those computed on gross levels.

The historical analysis, performed on a smaller sample of 14 transactions[7] and conducted on the historical net volumes, shows that four transactions systematically under-performed on all periods, two under-performed following periods of over and under-performance, eight systematically over-performed.

15 out of 19 transactions over-perform on closed borrowers' profitability

If we consider actual profitability on closed borrowers as of the latest interest-payment date, 15 transactions out of 19 over-perform, while three under-performed[8].

Historical profitability on closed borrowers, conducted on 14 transactions, shows that ten transactions systematically over-performed on all periods, two over-performed following periods of over and under-performance, one systematically under-performed, one under-performed following a variable trend.

Servicers under-perform more easily on collection' volumes than on profitability levels for closed borrowers (six under-performing transactions based on net volumes against three under-performing on profitability). In fact, a high profitability, in the short term, is typically related to a small number of closed borrowers, while over-performance on volumes results from recovery strategies conducted on the entire portfolio and not only on closed borrowers.

5 transactions had high profitability with low collection volumes

Cumulative collection and net present value profitability ratios are the two main performance indicators, providing information on total collection volumes and closed debtors' profitability. They are not correlated, as high profitability can be achieved with weak performance. At the second interest-payment date, five transactions show high profitability, with total collections below business plan (BP).

7 out of 19 transactions had under-performance and/or subordination events

A total number of 7 out of 19 transactions reported the occurrence of subordination and/or under-performance events, early signals of weak performance, resulting into class B interest (one transaction) and servicer fees deferral mechanisms (seven transactions).

BP reviews occurred only downwards, for 7 out of 19 transactions

Servicers reviewed downwards their original projections for 7 out of 19 transactions. The updates interested 4 out of the 9 under-performing transactions; the remainder three updates were related to over-performing transactions.

Judicial proceedings and DPOs are "core recovery strategies", accounting on average for 44% and 23% of transactions' collections, as of the latest interest-payment date. Servicers have so far collected up to 12% of original portfolio GBV, with recovery expenses up to 6% of collections.

Scope downgraded three transactions so far

Scope has so far downgraded three transactions: Aragorn NPL 2018 S.r.l., Bari NPL 2017 S.r.l. and Elrond NPL 2017 S.r.l.

[7] The historical analysis has been conducted excluding transactions that had only one interest-payment date. This led to a sample of 14 rather than 19 transactions. Please refer to Appendix III for the transactions' list.
[8] Leviticus SPV S.r.l. transaction reported a profitability ratio that was under remediation. The profitability ratio for Siena NPL S.r.l. results from Scope computations. The profitability analysis includes also transactions that had only one interest-payment date. This is justified by the nature of the analysis, not relying on any historical trend.

3. NPL landscape

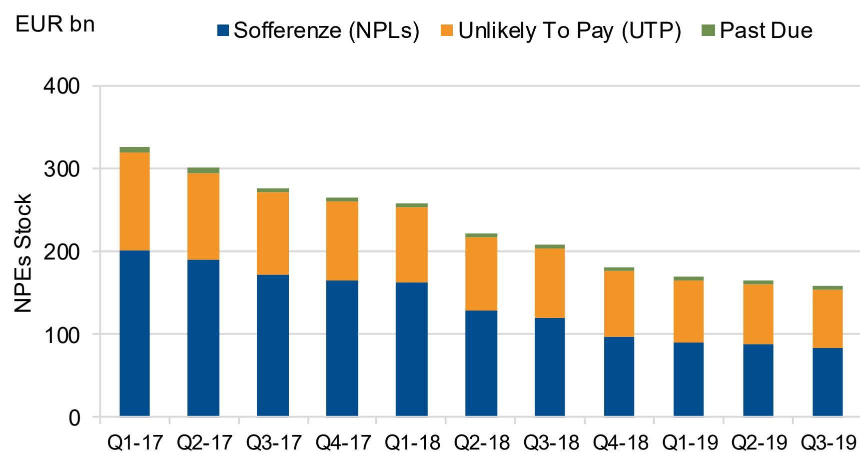
3.1. NPL market developments

NPLs stock registered -58% on 2017 initial volumes of EUR 200bn

Since 2015, Non-performing exposures (NPEs) on Italian banks' balance sheets have more than halved (-54%), passing from an initial volume of EUR 344bn to EUR 157bn at the end of the third quarter of 2019. Non-performing loans (NPLs), after peaking at EUR 200bn at the beginning of 2017, had significantly reduced to EUR 84bn by the third quarter of 2019. Unlikely-to-pay exposures decreased as well, passing from EUR 127bn in the first quarter of 2015 to EUR 69bn in the third quarter of 2019. Past due exposures passed from EUR 16bn in the first quarter of 2015 to EUR 4bn in the third quarter of 2019.

The introduction of the GACS (Garanzia Cartolarizzazione Sofferenze) State guarantee scheme on senior notes boosted public NPL securitisations. The GACS scheme, first introduced in 2016, has been renewed twice since its introduction.

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



Source: Bank of Italy

3.2. NPL monitoring: stock and analysis

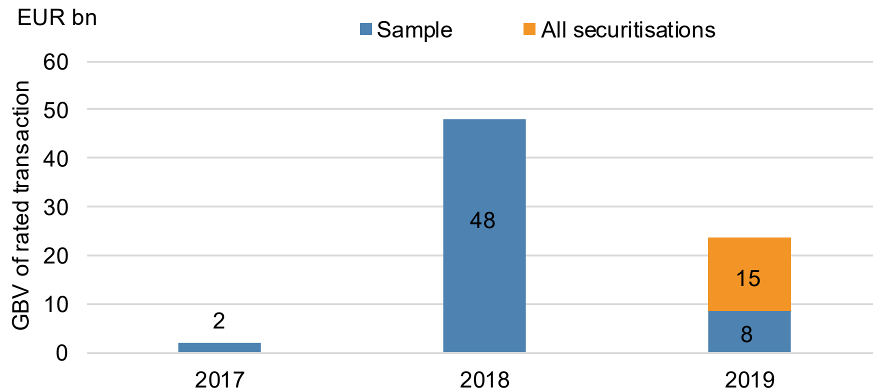
Scope currently rates EUR 73bn of NPL securitisations

We currently rate 25 public Italian NPL transactions, with a GBV of EUR 73.3bn. Most of the securitisations are GACS-eligible (22 transactions), accounting for 88% of total securitised GBV.

Securitisation issuance peaked in 2018 (65% of total GBV), slowing down in 2019, partially due to the expiry of the first GACS scheme, and partially due to a lower systemic stock of NPLs. In March 2019 the Italian government renewed the GACS scheme, boosting transactions in the second half of the year but still at a slower pace compared to 2018.

We have analysed the performance of transactions with at least one interest-payment date as of November 2019. This led to a subset ("Sample") of 19 transactions with a GBV of EUR 58bn (79% of total GBV). Please refer to the Appendix I for the detailed list of the analysed transactions.

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



Source: Public data

4. How we measure performance

We typically monitor NPL transactions, comparing their current performance against i) the original business plans (servicers' projections), and ii) our recovery vectors (Scope original projections). Since the two projections generally differ, the same transaction can over-perform or under-perform, depending on the referenced scenario.

Drivers for under-performance: long onboarding, indemnity requests, aggressive forecasts

Under-performance in the initial periods can be attributed to several factors: (i) under-estimating the onboarding process[9], (ii) over-estimating collection timing and amounts for specific portfolio segments, (iii) ongoing indemnifications processes.

Drivers for over-performance: collections' peaks, conservative forecasts

Over-performance can be driven by (i) conservative assumptions on collection amounts and timing, (ii) cash-in-court proceeds and proceeds from loans that were already in advanced legal stages, resolved faster than expected.

Performance can be measured both in terms of timing[10] and recovery levels. Over-performance results from higher and faster collections than originally projected; and the opposite in case of under-performance.

Over and under-performance are relative to timing and recovery levels

However, during the transaction lifetimes, we can observe opposing trends: over-performance in terms of total collections but under-performance in terms of timing, or vice versa. For example, we may see cumulative recoveries that are higher than projected but collected at a slower pace (i.e., more back-loaded collections). In this case, from a timing perspective the transaction would be under-performing since amortisation of the notes would be slower than assumed, while it would be over-performing in terms of absolute collections. The magnitude of the two trends is crucial to determine the absolute effect.

Performance versus BP: CCR and NPVR as direct measures

Two direct measures for over/under-performance against servicers' projections are the Cumulative Collection Ratio ("CCR") and the Net Present Value Profitability Ratio[11] ("NPVR"). Low values for both ratios represent early warning signals for under-performance (as described in Sections 5 and 7). By contrast, recurring high values are associated with over-performance.

Despite their importance, CCR and NPVR are relevant only for the comparison between actual and BP collections. We therefore also monitor how actual collections compare with our original projections, both in terms of timing and levels.

[9] Servicers can i) under-estimate the time required to conclude the onboarding (especially for granular and multi-originator portfolios, or for big portfolios); or ii) under-estimate the process, assuming that certain information was easily available/collectable while it was not.
[10] I.e., how much collections are (front)back-loaded against original projections, namely, how fast notes are amortising.
[11] The Cumulative Collection Ratio measures how actual collections compare with servicer's business plan on a cumulative basis. The Net Present Value Profitability Ratio measures how the profitability on closed borrowers compares with original projected profitability. For any further detail please refer to the Glossary.

5. Performance against servicers' projections

Performance against BP is measured on collections' volume and profitability

Looking at cumulative gross collections against servicers' projections, 9 out of 19 transactions under-perform, while on a net level 6 out of 19 under-perform, respectively 47% and 31% of total transactions. Remainder transactions show an over-performance against servicers' original projections. Section 5.1 analyses performance on the latest interest-payment date, while Section 5.2 analyses the historical performance trend.

Profitability levels, computed for all closed borrowers, show that 15 transactions out of 19 over-perform, while the remainder under-perform. Section 5.1 analyses profitability on the latest interest-payment date, while Section 5.2 analyses the historical profitability trend.

Servicers easily over-perform on closed borrowers, but they surpass total business plans targets less frequently, based on the NPVR and CCR[12] historical analysis.

Recovery expenses are generally below servicers' projections, due to recently started recovery strategies, or due to long onboardings delaying strategies implementation. Additionally, for those transactions with a high share of advanced cases, expenses below projections are explained by costs already sustained by sellers' prior to the portfolios' cut-off dates. A total number of 7 out of 19 transactions have reported at least one BP revision downwards, none upwards.

Please refer to the Appendix II for the detailed classification of transactions' performance.

5.1. Performance analysis based on the latest interest-payment date

In this section we analyse total collection figures and profitability levels from the latest interest-payment date (IPD).

5.1.1. Actual collections against BP

9 out of 19 transactions under-perform on gross levels; 6 on net levels. The remainder share over-perform

The first chart of Figure 3 below shows that 9 out of 19 transactions under-perform against BP, based on cumulative gross figures as of the latest IPD. The second chart of Figure 3 below shows that on a net level 6 out of 19 under-perform, respectively 47% and 31%. Remainder transactions over-perform.

The table on the right presents the classification of transactions' performance.

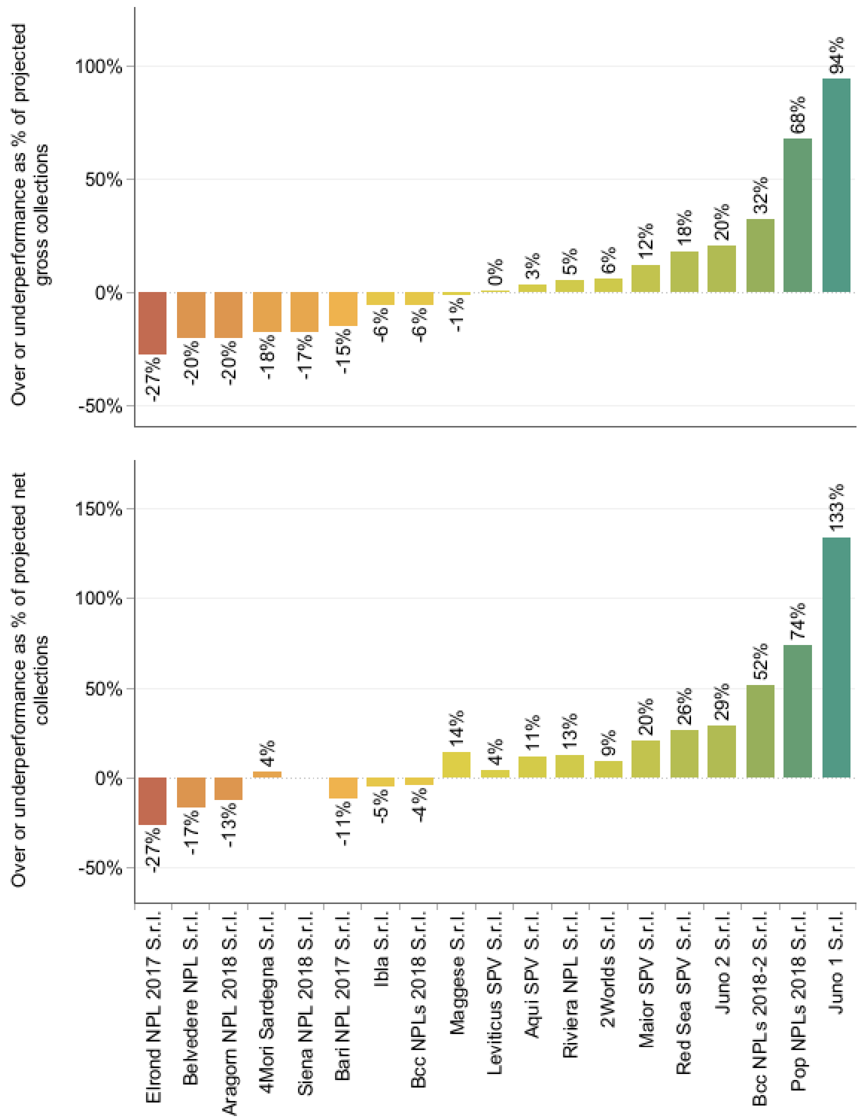
Current over-performance is frequently related to one-off collections, such as cash-in-court and collections from advanced legal proceedings, terminated faster than expected[13]. Analogously, current under-performance is partially due to problematic onboarding processes.

Transaction Name	Current performance on gross collections	Current performance on net collections
2Worlds S.r.l.	Over	Over
4Mori Sardegna S.r.l.	Under	Over
Aqui SPV S.r.l.	Over	Over
Aragorn NPL 2018 S.r.l.	Under	Under
Bari NPL 2 S.r.l.	Under	Under
Bcc NPLS 2018 S.r.l.	Under	Under
Bcc NPLs 2018-II S.r.l.	Over	Over
Belvedere NPL S.r.l.	Under	Under
Elrond NPL 2017 S.r.l.	Under	Under
Ibla S.r.l.	Under	Under
Juno 1 S.r.l.	Over	Over
Juno 2 S.r.l.	Over	Over
Leviticus SPV S.r.l.	Over	Over
Maggese S.r.l.	Under	Over
Maior SPV S.r.l.	Over	Over
Pop Npls 2018 S.r.l.	Over	Over
Red Sea SPV S.r.l.	Over	Over
Riviera NPL S.r.l.	Over	Over
Siena NPL 2018 S.r.l.	Under	NA

Source: Scope computations

[12] For sake of comparison, certain ratios have been adjusted (i.e., in case of multiple servicers). Please refer to the Appendix VII for any further detail.
[13] Transactions over- performing on net volumes had on average 50% of their initial proceeds classified as "other" (typically corresponding to cash- in- court proceeds, with few exceptions where cash-in-court proceeds were already classified within the other type of collections).

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



Source: Scope computations on servicers and payment reports

There are more transactions currently under-performing against BP, based on gross collections[14] rather than net collections. This is explained by the impact that costs have on gross collections: servicers have so far sustained lower expenses than projected (see Section 6.2). This trend could revert in future, when legal procedures are at more advanced stages, and if servicers under-estimated overall legal costs. In this scenario, there will be fewer transactions under-performing on a gross level than on a net level. The same rationale is applicable to over-performance.

Net performance is a more direct measure for performance

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

[14] 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.

legal costs, additionally, subordination and under-performance events are typically triggered by ratios measured on net rather than gross levels (the CCR and the NPVR).

5.1.2. Profitability on closed borrowers against BP

15 out of 19 transactions over-perform on profitability

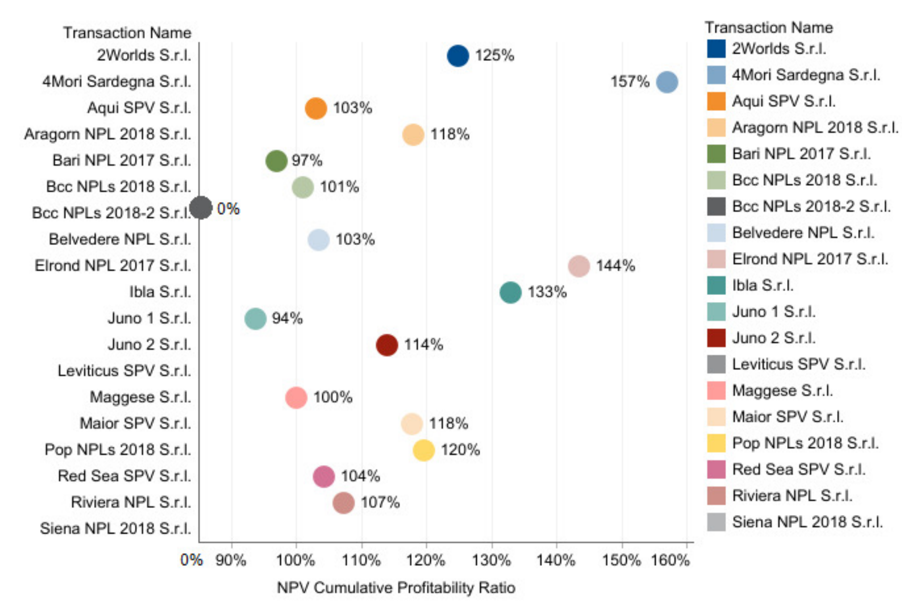
If we consider the most recent profitability reported by servicers on total closed borrowers[15], 15 out of 19 transactions over-perform with NPVRs above 100%, as represented in Figure 4 below. These transactions are flagged as over-performing in the table[16] on the right.

Transaction Name	Current performance on profitability
2Worlds S.r.l.	Over
4Mori Sardegna S.r.l.	Over
Aqui SPV S.r.l.	Over
Aragorn NPL 2018 S.r.l.	Over
Bari NPL 2 S.r.l.	Under
Bcc NPLS 2018 S.r.l.	Over
Bcc NPLs 2018-II S.r.l.	Under
Belvedere NPL S.r.l.	Over
Elrond NPL 2017 S.r.l.	Over
Ibla S.r.l.	Over
Juno 1 S.r.l.	Under
Juno 2 S.r.l.	Over
Leviticus SPV S.r.l.	NA
Maggese S.r.l.	Over
Maior SPV S.r.l.	Over
Pop Npls 2018 S.r.l.	Over
Red Sea SPV S.r.l.	Over
Riviera NPL S.r.l.	Over
Siena NPL 2018 S.r.l.	Over

Source: Scope computations

Trigger structures incentivise servicers to focus more on achieving good profitability than meet business plan targets. Servicing fee deferrals are more frequently linked to profitability ratios than to cumulative collection ratios (95% versus 21% of transactions[17]). Also, profitability' thresholds for under-performance events (typically responsible for servicing fee deferral), are generally tighter than thresholds for mezzanine interest subordination events: 100% as average trigger for under-performance events against 84% as average trigger for subordination events. Therefore, under-performance in terms of total collections is more likely to occur than in terms of profitability (please refer to Section 7).

Figure 4: Cumulative profitability against business plans



Source: Scope computations on servicers and payment reports

[15] In the initial periods, closed borrowers represent a low proportion of total borrowers (i.e., less than 5% for certain transactions).
[16] The NPVR 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 dates, resulting into an over-performance of 109%.
[17] 95% of under-performance events are based on the profitability ratio, while 21% are based on the cumulative collection ratio.

5.2. Historical performance analysis

Performance analysis implies looking beyond current picture: at historical values

A direct measure of performance is represented by collection volumes and profitability data, as reported at the latest available interest-payment date. However, beyond the current picture, historical trends need to be analysed. In fact, transactions that have been systematically under-performing are weaker than those which headed to under-performance following variable trends. The same rationale applies to over-performance.

Historical trends shown by CCR and NPVR ratios are clear indicators for transaction performance. They are always computed against the original BP at closing, since this guarantees a fixed reference point to which servicers commit themselves.

The historical analysis has been performed on a subset of 14 transactions out of the 19 of the Sample. This results from the exclusion of five transactions presenting only one IPD and for which the historical analysis would not be robust.

Please refer to Appendix II for the classification of transactions' performance, resulting from the historical analysis. In Appendix III we reported the list of transactions on which the historical analysis was conducted.

5.2.1. Cumulative collection ratio ("CCR")

6 out of 14 transactions under-perform

We have analysed the historical trend of CCR, excluding those transactions which had only one IPD.

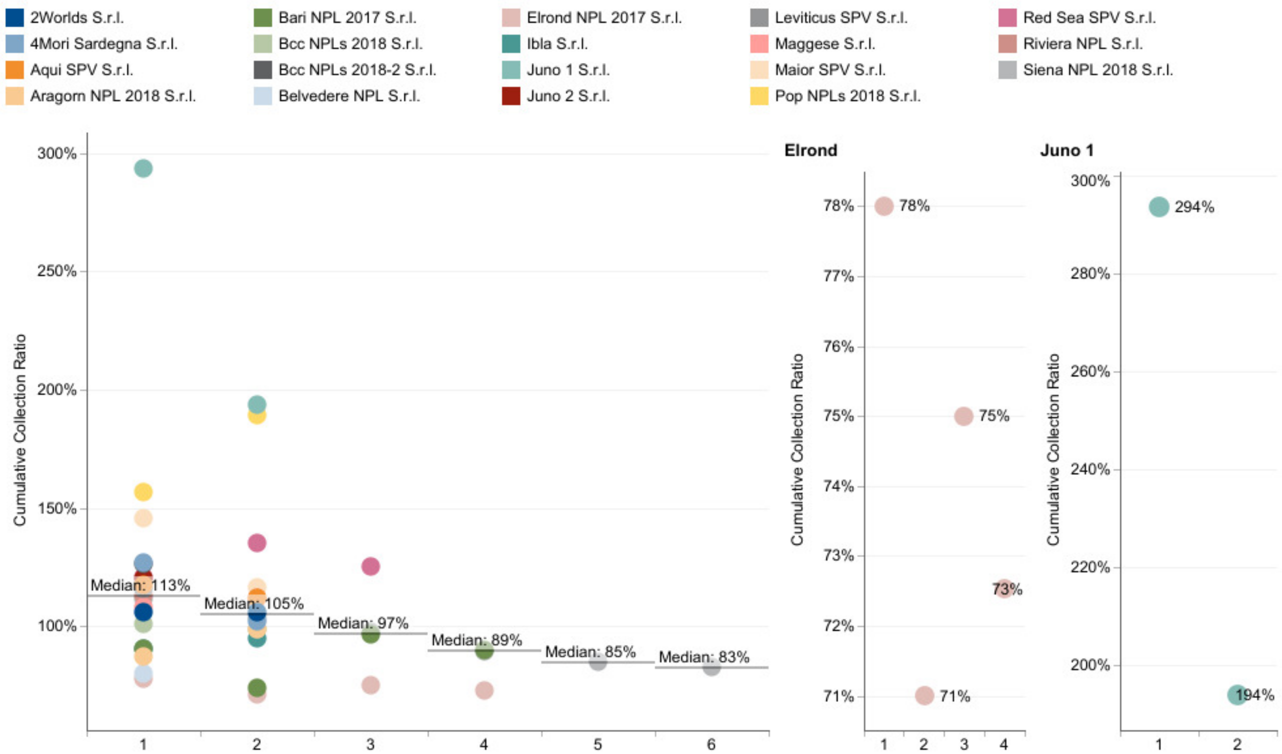
Figure 5 below shows that a total number of 6 out of 14 transactions have under-performed versus the original business plan: two presented variable trends leading to a final under-performance, while four have consistently under-performed on all periods, showing collections up to 30% below servicers projections. The strongest under-performance is registered by Elrond NPL 2017 S.r.l., reporting collections between 71% and 78% of the original BP, as shown in the right chart of Figure 5.

8 out of 14 transactions over-perform

A total number of 8 out of 14 transactions have consistently over-performed on all periods versus the original business plan, even though the magnitude of over-performance varies over time. The strongest over-performance is registered by Juno 1 S.r.l., reporting collections between 294% and 194% of the original BP, as shown in the right chart of Figure 5.

Siena NPL 2018 S.r.l., despite an initial over-performance in the first two periods, started to under-perform from the third period onwards, being on average 11% below the original business plan, being at the latest IPD 17% below the business plan (as represented in Figure 3). Please refer to the Appendix VIII for the historical ratios reached by each of the four servicers.

Figure 5: CCR historical trend



Source: Scope computations on servicers and payment reports

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

12 out of 14 transactions over-perform on profitability

We have analysed the historical trend of NPVR, excluding those transactions which had only one IPD.

Figure 6 shows that a total number of 12 out of 14 transactions have over-performed versus the original business plan, even though the magnitude of over-performance varies over time. In particular: 10 transactions consistently over-performed on all periods, while two presented variable trends leading to a final over-performance. The strongest over-performance is registered by 4Mori Sardegna S.r.l., reporting profitability levels on closed borrowers between 142% and 157% of the original BP, as shown in the right chart of Figure 6.

In the context of this analysis, we highlight that the NPVR 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 across interest-payment dates; it resulted in a ratio on average of 99.7%, with opposing trends across periods, ending with an over-performance of 109%.

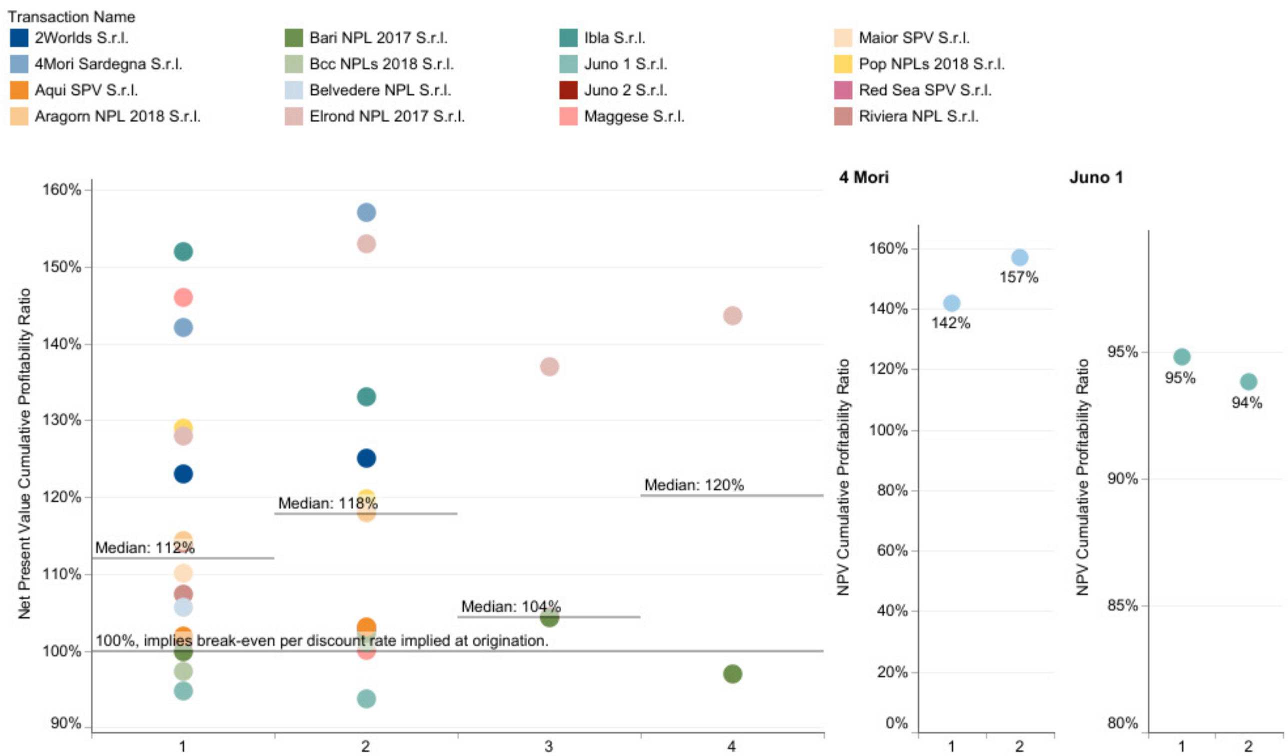
Only 2 out of 14 transactions under-perform on profitability

Only 2 out of 14 transactions under-perform, reporting a profitability for closed borrowers lower than the original business plan. In particular: only one transaction consistently under-performed on all periods (Juno 1 S.r.l. reached profitability levels ranging from 94% to 95%, as represented in the right chart of Figure 6), while Bari NPL 2017 S.r.l. presented a variable trend leading to a final under-performance.

NPVR hides "averaging" effects

For closed borrowers, most servicers on average collect more than projected recoveries. The averaging nature of the NPVR may hide specific trends, however. For instance, a high number of granular positions closed with low profitability can be compensated for by a few big positions with strong profitability; and vice versa. Furthermore, both time of recovery and collections' amount play a role in defining the NPVR levels, due to discounting effect.

Figure 6: NPVR historical trend



Source: Scope computations on servicers and payment reports

5.2.3. CCR and NPVR have no direct correlation

Transactions reaching high profitability do not necessarily over-perform against the original BPs, in terms of timing. In fact, while profitability is measured on closed borrowers, cumulative performance is measured on the overall portfolio to which collections both on closed and open borrowers contribute.

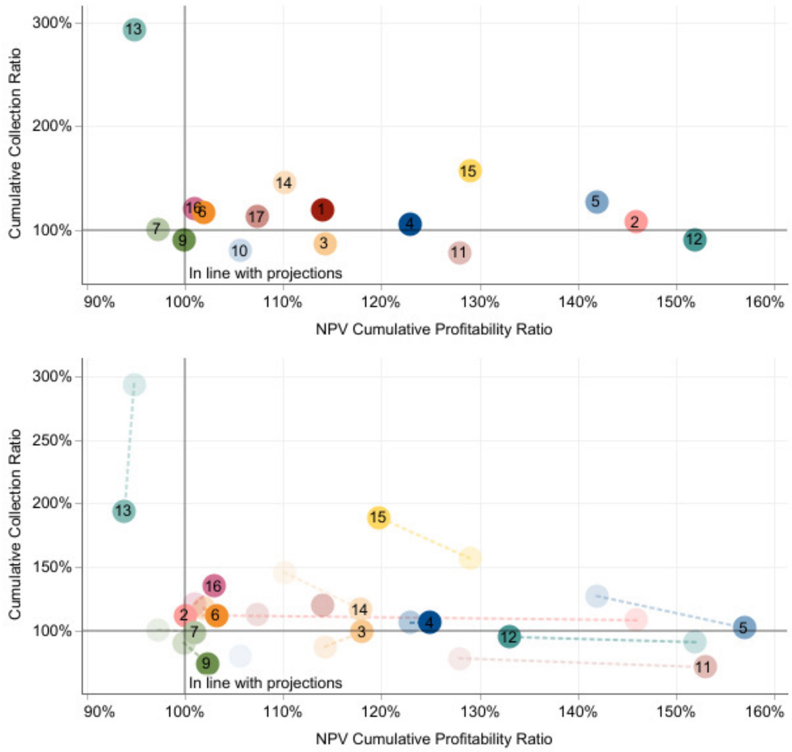
Up to 36% of transactions show over-performance on profitability against under-performance on business plans collections

In fact, the fourth quadrant of the figure below shows that 4 out of 19 transactions[18], despite having high profitability, are under-performing compared to the initial BP on the first interest-payment date (i.e., Elrond NPL 2017 S.r.l., Ibla S.r.l. and Aragorn NPL 2018 S.r.l. and Belvedere NPL S.r.l.).

If we consider second interest-payment dates, the share of transactions with high profitability but low cumulative collections changes from 21% to 36%: 5 out of 14 transactions.

[18] The NPVR is not available on the first interest-payment date for Leviticus SPV S.r.l.; for Siena NPL 2018 S.r.l. the profitability results from Scope computations.

Figure 7: NPVR versus CCR – first and second interest-payment date



Transaction Name	Transaction Identifier
Juno 2 S.r.l.	1
Maggese S.r.l.	2
Aragorn NPL 2018 S.r.l.	3
2Worlds S.r.l.	4
4Mori Sardegna S.r.l.	5
Aqui SPV S.r.l.	6
Bcc NPLs 2018 S.r.l.	7
Bcc NPLs 2018-2 S.r.l.	8
Bari NPL 2017 S.r.l.	9
Belvedere NPL S.r.l.	10
Elrond NPL 2017 S.r.l.	11
Ibla S.r.l.	12
Juno 1 S.r.l.	13
Maior SPV S.r.l.	14
Pop NPLs 2018 S.r.l.	15
Red Sea SPV S.r.l.	16
Riviera NPL S.r.l.	17
Siena NPL 2018 S.r.l.	18
Leviticus SPV S.r.l.	19

Source: Scope computations on servicers and payment reports

5.3. Recovery expense ratio

Servicers' business plans typically report gross, net collections and expenses (servicing and recovery costs), at a borrower or loan level. We can therefore monitor how actual recovery expenses compare to servicers' initial projections. This analysis, in conjunction with the expense analysis of Section 6.2.1, will allow us, in the medium term, to better understand how expensive recovery strategies are in relation to servicers' projections and as 'stand-alone' costs.

Recovery expense are generally below servicers' projections, with median values up to 45%

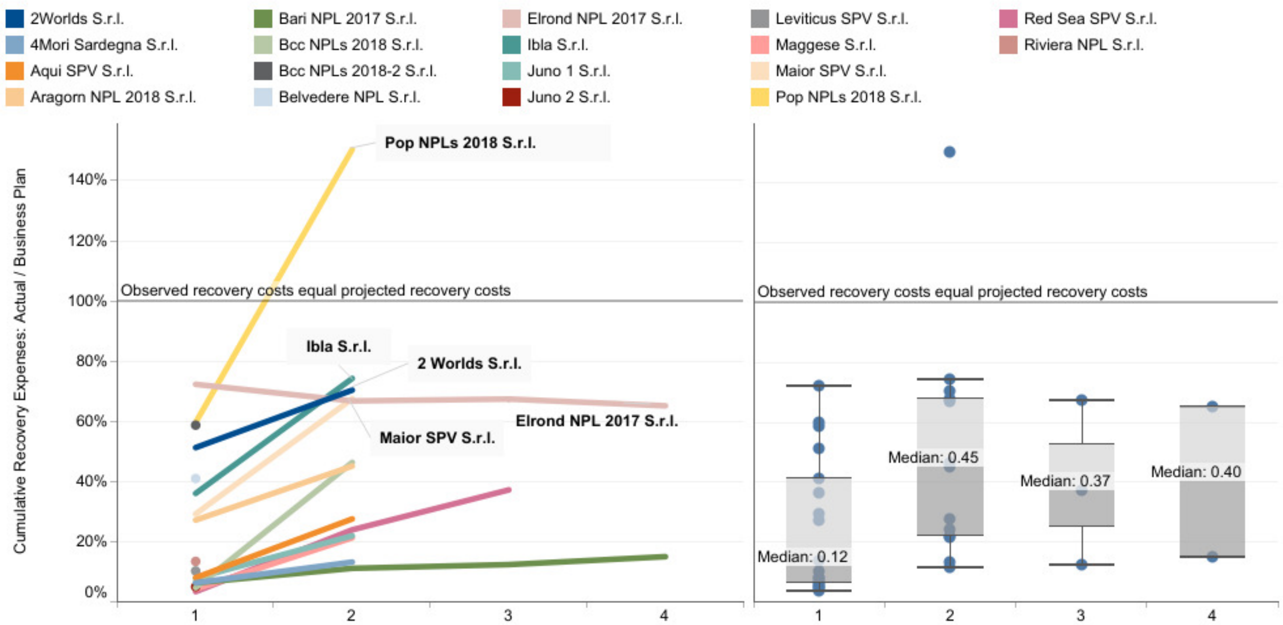
Recovery expenses are generally below servicers' projections. In fact, long onboardings contribute to back-load servicers' projections, since they delay the implementation of recovery strategies. Lower than expected costs can also derive from conservative assumptions applied by servicers.

As shown in Figure 8 below, recovery expenses have reached up to 74% of servicers' estimates for the same periods with median values between 12% and 45% of estimated costs in the business plan (excluding Pop NPLs 2018 S.r.l. which reported recovery expenses up to 150% of servicer's projections at the second IPD).

As of the latest interest-payment dates and as shown in Figure 8 below, the transactions reporting the highest[19] expenses versus servicers' estimates are Ibla S.r.l., 2Worlds S.r.l., Maior SPV S.r.l. and Elrond NPL 2017 S.r.l., with recovery costs ranging from 65% to 74% of BP costs.

[19] Excluding Pop NPLs 2018 S.r.l., which reported recovery expenses up to 150% of servicer's projections at the second interest-payment date.

Figure 8: Recovery Expense Ratio – historical trend and distribution



Source: Scope computations on servicers and payment reports

5.4. BP Reviews

Servicers review their original projections (i.e. BP at closing) typically once a year. The review may also leave original forecasts unchanged.

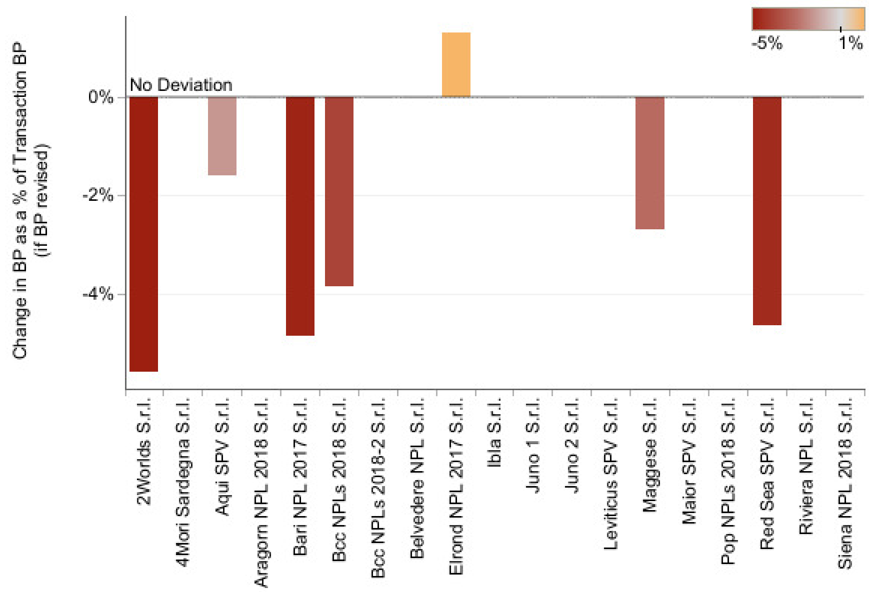
37% of BP have been reviewed downwards; none upwards

Nevertheless, 7 out of 19 transactions (37%) have reported at least one downward BP revision, in terms of future projections[20]. So far, none of the transactions presented had a BP revision upwards.

A decrease in BP future collections is a signal for servicer over-estimations on achievable collections. It can derive from i) aggressive recovery assumptions at closing, ii) missing information on certain positions, assumed as available when crafting the BP, iii) use of inaccurate information to define the BP, or iv) shift from statistical analysis to line-by-line assessment, following the onboarding completion. Factors ii) and iii) typically lead to indemnity requests to the originator or indemnity provider.

[20] However, an absolute decrease in future collections can be associated with a backloading effect. Elrond NPL 2017 S.r.l. BP was updated downwards on February 2018 with the cut-off date of December 2017. The revision resulted into a lifetime decrease of gross collections of ca. EUR 53mn. As of the latest available IPD (which occurred on July 2019), the updated BP outstanding gross collections amount to EUR 488mn ca., against EUR 482mn in the original BP scenario.

Figure 9: BP updated scenarios and impacts on the latest interest-payment date



Number of Revisions to the Business Plan

1	0	1	0	1	1	0	0	1	0	0	0	0	1	0	0	1	0	0

Source: Scope computations on servicers and payment reports

6. Current performance: collections and expense analysis

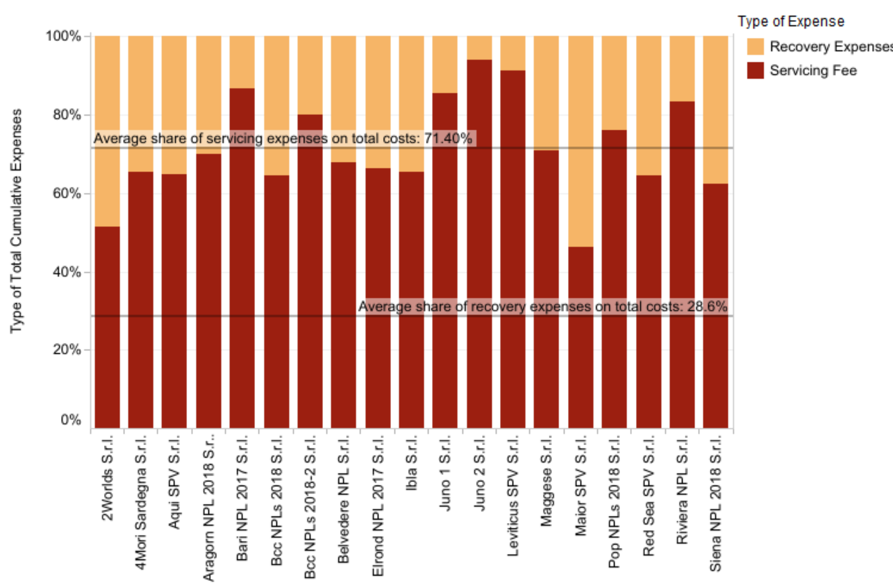
Considering that NPLs proceeds are distributed to noteholders net of costs, it is relevant to monitor both (i) cumulative collections and (ii) servicing costs and recovery expenses.

Current performance is measured on cumulative collections and costs component

Cumulative gross collections on original portfolio GBVs will, in the medium term, allow a comparison between current performance and Scope recovery rates, both at portfolio and segment levels. Collections are currently up to 12% of original portfolio GBVs.

Since costs are only partially agreed in contracts (i.e. servicing fees are contractually agreed at closing while recovery expenses are typically constrained only by caps), it is crucial to monitor cost levels and to analyse them considering servicers' strategies. Figure below shows that 71% of costs stem from servicing fees, while 29% stem from recovery procedures. Most servicing costs are related to performance fees (73% of total fees, on average), while the largest share of recovery costs is represented by court and legal expenses (87% of total costs, on average).

Figure 10: Cumulative expenses per type, as of latest interest-payment date



Source: Scope computations on servicers and payment reports

Servicers adopt different recovery strategies, ranging from discounted-pay-offs (DPOs), judicial, note sales and real estate owned (REO) processes[21]. Judicial routes remain the core strategies (on average 44% of transactions' collections). Recovery strategies are generally tailored based on portfolio characteristics. Therefore, in the medium term, we expect to see a relationship between i) servicers' recovery strategies and ii) portfolio features. However, this correlation is still not reflected in the available data.

6.1. Collections and recovery strategies

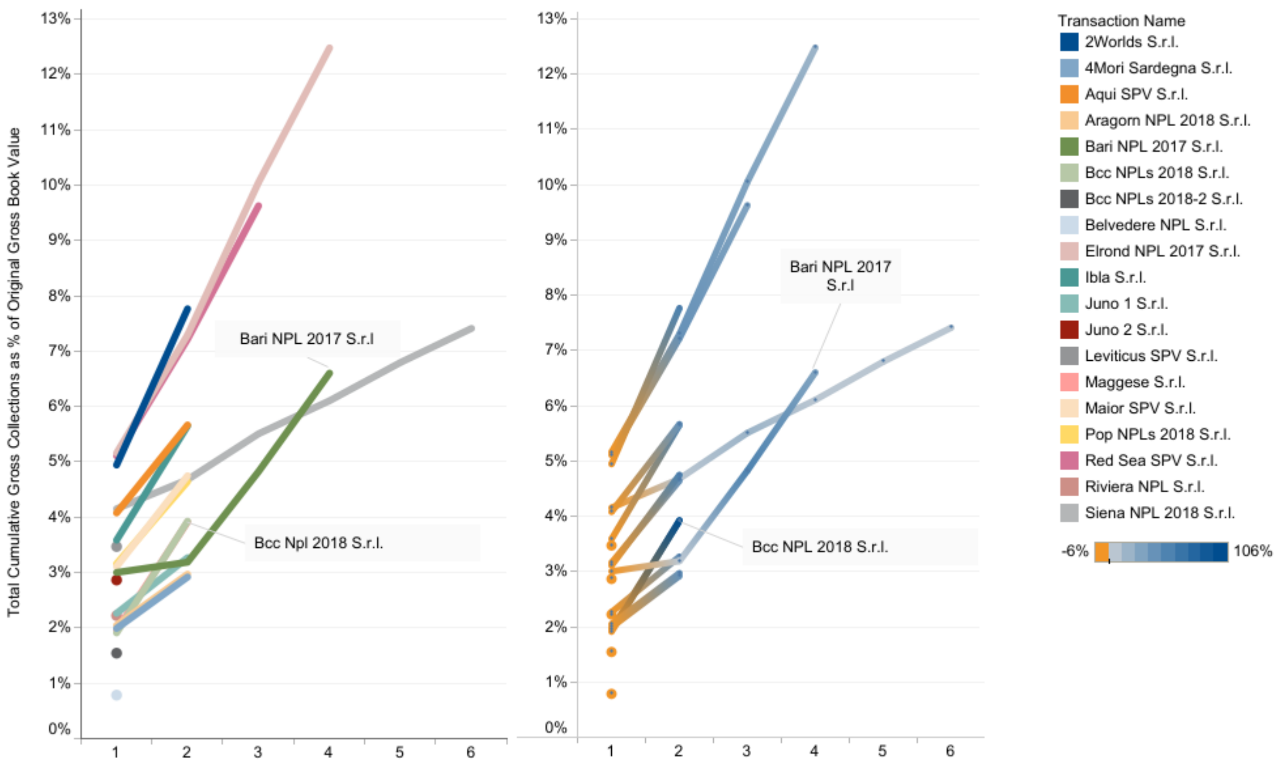
Gross collections are up to 12% of original GBV

Figure 11 below shows that transactions have reached collections of up to 12% of their original GBV, with a minimum of 1%. However, given the short observation period, it is premature to compare actual recovery rates with our lifetime assumptions.

[21] Please refer to the Glossary for any further detail on servicers' recovery strategies.

Transactions show an average increase of gross collections rates (on GBV) of +49.9% between the first and the second interest-payment date. The highest pace of growth[22] was registered by Bcc NPLs 2018 S.r.l. with +105.6%, and the lowest by Bari NPL 2017 S.r.l., with only a +6.2% (between first and second periods). After initial periods, growth rates for collections (i.e. significant increase or decrease in collections from one period to the other) will be more valuable.

Figure 11: Cumulative collections on original GBV, history and rates of increase



Source: Scope computations on servicers and payment reports

6.1.1. Recovery strategy analysis

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

Servicers typically pursue recovery routes tailored around i) portfolio characteristics and ii) economic considerations on loan profitability. For example, DPO strategies may be more suitable than judicial processes for small ticket loans. Borrowers with low debt amounts and owning sufficient liquidity, may agree to repay their debt via payment plans. Additionally, in case of low loan-to-values (LTVs), borrowers may be incentivised to agree on DPOs instead of losing their homes through judicial processes. Since DPOs strategies are not expensive, this would be also a "cost-effective" strategy from servicers' perspective. On the other hand, servicer will most probably continue judicial proceedings of loans in advanced legal stages, since the originator/seller of the pool already sustained most of the costs before the sale cut-off date.

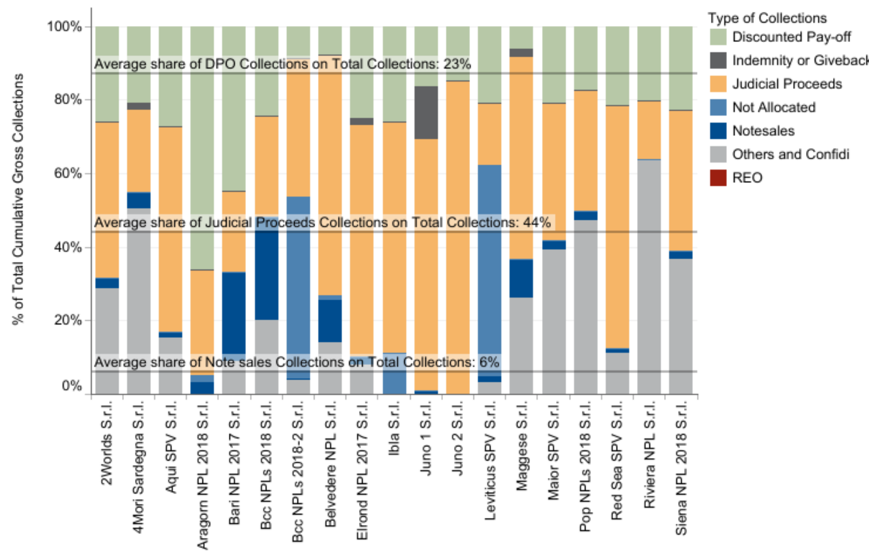
Judicial and DPO as core recovery strategies

Figure 12 below shows that even though the core strategy is the judicial route (with judicial proceeds accounting on average for 44% of each transaction's proceeds), DPOs are extensively used by servicers (23%). We also noticed that note sales (6%) have on occasion been adopted, also for certain multi-originator transactions.

[22] 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).

Considering all transactions' cumulative proceeds, which amount to ca. EUR 3.4bn, we expect that ca. 32% of collections, that are still under reconciliation (as reported within the "Others and Confidi" and "Not allocated" categories[23]), will be gradually re-allocated to specific recovery strategies, allowing a cleaner analysis.

Figure 12: 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 closing.

High share of indemnities as warning signal of R&W inaccuracy

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).

6.1.2. Recovery strategies ranking among transactions

Recovery strategies are linked to legal proceedings stage

Recovery strategies are linked, especially for secured loans, to the stage of legal proceedings at the servicer take-over date.

For example, 70% of secured loans in Juno 2 S.r.l. were already at advanced legal stages at closing, and this transaction has the highest share of judicial strategies in the analysed sample (please refer to Figure 12).

Due to the short observation period, outputs are not yet statistically significant, therefore it is too early to draw meaningful conclusions.

For illustrative purposes, Figure 13 shows the transactions that so far have used most recovery strategies.

[23] This category typically refers to cash in court, ad interim proceeds, along with Confidi proceeds (in a low share, due to their limited presence in portfolios). However, for certain transactions, cash in court proceeds have been directly classified into the relevant category type (i.e., judicial proceeds).

Figure 13: Recovery strategy ranking (as of latest interest-payment date)

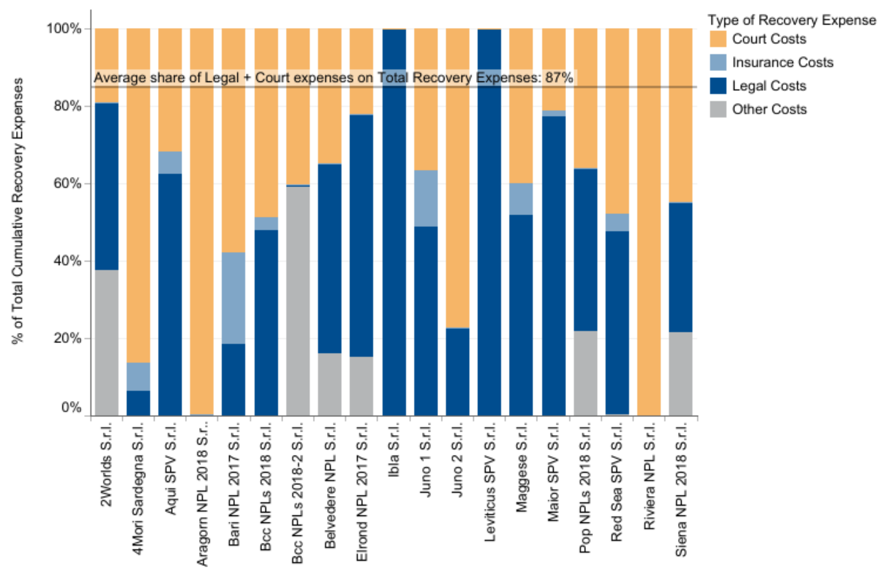
Recovery strategy	Transaction	Share (%)
Discounted Pay-Off	Aragorn NPL 2018 S.r.l.	66%
Indemnity or Giveback	Juno 1 S.r.l.	14%
Judicial	Juno 2 S.r.l.	85%
Note sales	BCC NPLs 2018 S.r.l.	28%
Others and Confidi	4Mori Sardegna S.r.l.	76%

Source: Scope computations on servicers and payment reports

6.2. Recovery and servicing costs

Servicers classify recovery costs typically distinguishing between court, legal costs and insurance costs and accordingly to their IT systems[24]. Court and legal costs represent the highest cost component (average of 87% of total costs, as of the latest interest-payment date). Figure below results from original servicers' classifications.

Figure 14: Recovery expenses, as of latest interest-payment date

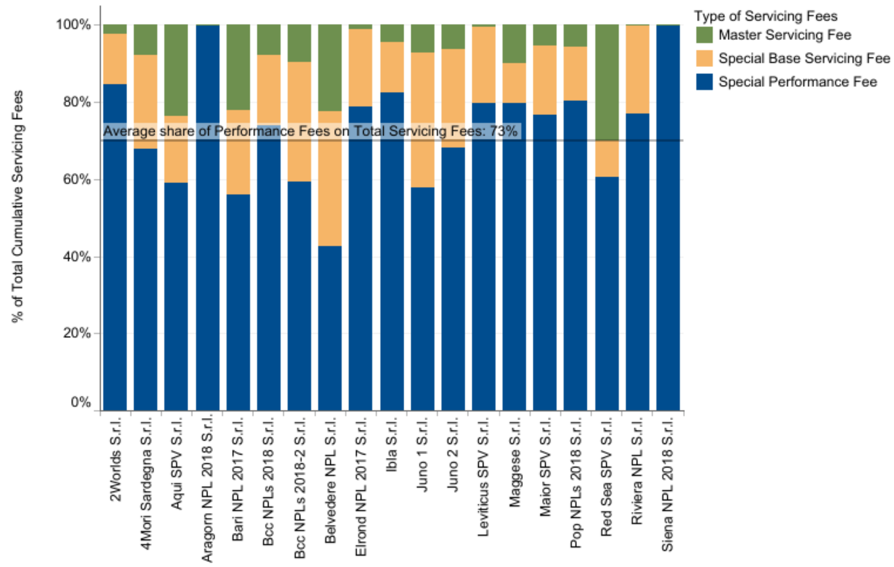


Source: Scope computations on servicers and payment reports

Servicing costs, on all rated transactions, are classified into three categories: i) base fees, ii) performance fees[25] and iii) master fees. Performance fees have the largest share of total servicing costs (average of 73% as of the latest interest-payment dates).

[24] Certain transactions present a high share of "Other Costs" for which no additional details are provided.
[25] Performance fees are representative of transaction performance (the higher collections, the higher the share of performance fees in total servicing costs). However, the level of performance fees is also linked to their negotiated values at closing. As a result, performance fees values differ across transactions. Market dynamics along with servicers' strategical positioning may play a role in negotiated servicing fees.

Figure 15: Servicing expenses, as of latest interest-payment date



Source: Scope computations on servicers and payment reports

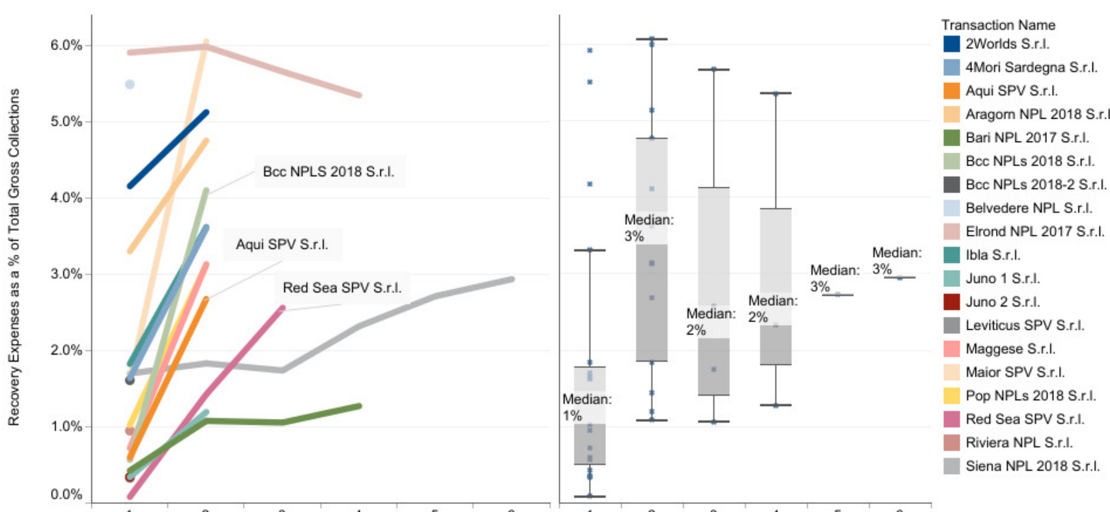
6.2.1. Recovery expense ratio

Recovery expenses are up to 6% of gross collections

Cumulative recovery expenses account for up to 6% of total gross collections (expense ratio). They are driven by servicers' recovery strategies, judicial routes being the most frequent.

Figure 16 below shows that the median expense ratio for the first interest-payment date is 1.0%, rising to 3.4% at the second period. In fact, during the initial periods, costs are typically moderate since all costs until the cut-off date normally are born by the originator/seller and therefore the issuer only has to pay the additional work after the cut-off date. This is relevant for loans in advance legal stages at the cut-off date. Long onboarding periods also mean that the servicer has not yet taken any recovery strategy on a significant portion of the portfolio; therefore both costs and actual collections are low.

Figure 16: Recovery expense ratio– historical trend and distribution



Source: Scope computations on servicers and payment reports

If we consider only the first two interest-payment dates, Figure 16 shows that Red Sea SPV S.r.l., Bcc NPLs 2018 S.r.l. and Aqui SPV S.r.l., have the strongest increase in recovery expenses over total gross collections: a 17.53x, 7.25x, 4.48x expenses ratio in the second period.

Scope view on the recovery expense ratio

While in the short-term recovery expenses are expected to remain low; in the medium to long term, once onboardings are completed and servicers are fully operational, we expect the expense ratio to increase and subsequently stabilise once recovery proceedings are in advanced stages.

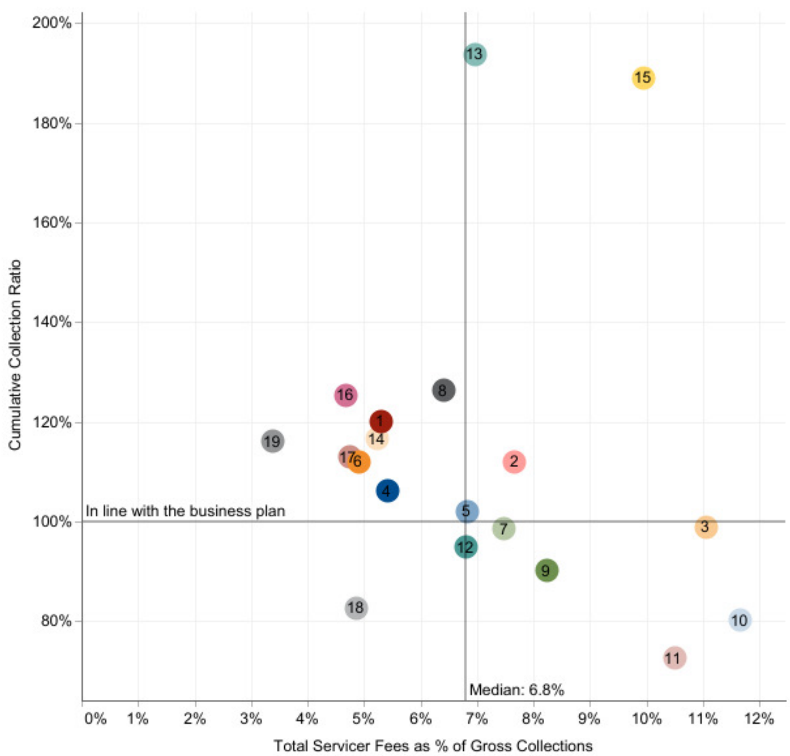
6.2.2. Serving fees against current performance

Servicing fees against CCR

In Figure 17 we have compared (i) current transaction performance against the original BP (as measured by the CCR) and (ii) servicing fees (base, master and performance fees).

We have not observed a clear positive correlation between servicing fee levels and over-performance. In fact, several transactions with above-average servicing fees have under-performed so far.

Figure 47: Servicing fees versus CCR (at latest interest-payment date)



Transaction Name	Transaction Identifier
Juno 2 S.r.l.	1
Maggese S.r.l.	2
Aragorn NPL 2018 S.r.l.	3
2Worlds S.r.l.	4
4Mori Sardegna S.r.l.	5
Aqui SPV S.r.l.	6
Bcc NPLs 2018 S.r.l.	7
Bcc NPLs 2018-2 S.r.l.	8
Bari NPL 2017 S.r.l.	9
Belvedere NPL S.r.l.	10
Elrond NPL 2017 S.r.l.	11
Ibla S.r.l.	12
Juno 1 S.r.l.	13
Maior SPV S.r.l.	14
Pop NPLs 2018 S.r.l.	15
Red Sea SPV S.r.l.	16
Riviera NPL S.r.l.	17
Siena NPL 2018 S.r.l.	18
Leviticus SPV S.r.l.	19

Source: Scope computations on servicers and payment reports

7. Interest subordination and under-performance events

7.1. Metrics and trigger levels

Subordination and under-performance events are early signals for transaction under-performance. They 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 (NPVR). In addition, an interest subordination event can also be triggered by unpaid interests on class A notes. If current CCR and NPVR values are below certain thresholds, referred as 'transaction triggers', subordination and/or under-performance events follow.

Subordination and under-performance events impact note amortisation

Under 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's termination generally occurs after two consecutive periods of under-performance[26].

There is no level playing field for transaction triggers

Triggers differ across transactions, in terms of level and type[27]. They range from 50% to 110% (please refer to Figure 18 below and Appendix I). Furthermore, while for some transactions the occurrence of the subordination/under-performance events is triggered by both CCR and NPVR, other transactions rely only on a single ratio. When multiple special servicers are mandated for the same transaction, under-performance events are typically triggered based on the performance measured on each 'sub-portfolio'[28].

Low trigger levels allow long period of under-performance before resulting in under-performance or subordination events

Most conservative transactions have subordination and under-performance events linked to both CCR and NPVR, with high trigger levels (i.e., close or above 100%). Less conservative transactions, set-up with low trigger levels, may allow long periods of under-performance before resulting into a subordination or under-performance event.

Aragorn NPL 2018 S.r.l. has the most conservative structure, with both subordination and under-performance events triggered by CCR and NPVR below 100%. On the other hand, Siena NPL 2018 S.r.l. ranks among the weakest transactions, with the interest subordination event and under-performance events triggered by a cumulative gross collection ratio below 50% and 85%, the lowest levels across transaction triggers.

Transaction under-performance is typically triggered by the NPVR, Siena NPL 2018 S.r.l. being the only exception. Lastly, certain transactions do not have any subordination events (see Appendix I for further details).

[26] A servicer termination event is typically applicable only after the 'irrevocability period' (i.e., after around thirty months from the closing date), when two consequent under-performance events have occurred.
[27] Even though, the last renewal of the GACS scheme helped improving transaction standardisation for GACS transactions after March 2019 (please refer to the article we published "Renewed GACS scheme will reduce Italian NPL ABS issuance".
[28] For example, this is the case for Aragorn NPL 2018 S.r.l., Belvedere NPL S.r.l., Siena NPL S.r.l. and Riviera NPL S.r.l..

Figure 18: Trigger levels for subordination and under-performance events[29]

Trigger Levels | Table

Transaction Name	Subordination Event Trigger	Underperformance Event Trigger
Aragorn NPL 2018 S.r.l.	100%	100%
Aqui SPV S.r.l.	95%	100%
4Mori Sardegna S.r.l.	90%	100%
Bari NPL 2017 S.r.l.	90%	110%
Bcc NPLs 2018 S.r.l.	90%	110%
Maggese S.r.l.	90%	100%
Maior SPV S.r.l.	90%	95%
Pop NPLs 2018 S.r.l.	90%	110%
Riviera NPL S.r.l.	90%	100%
2Worlds S.r.l.	85%	100%
Ibla S.r.l.	85%	95%
Juno 1 S.r.l.	85%	95%
Juno 2 S.r.l.	85%	95%
Bcc NPLs 2018-2 S.r.l.	80%	100%
Leviticus SPV S.r.l.	70%	100%
Red Sea SPV S.r.l.	70%	100%
Siena NPL 2018 S.r.l.	50%	85%
Belvedere NPL S.r.l.	Not available	100%
Elrond NPL 2017 S.r.l.	Not available	100%

Source: Scope computations on servicers and payment reports

7.2. Current performance: how many events occurred?

Subordination and/or under-performance events occurred for 7 out of 19 transactions

A total number of 7 out of 19 transactions have reported the occurrence of subordination and/or under-performance events, as shown in Figure 19 below.

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 (please refer to Figure 18), under-performance hits transactions with high trigger levels more severely (i.e. close or above 100%) than those with low triggers.

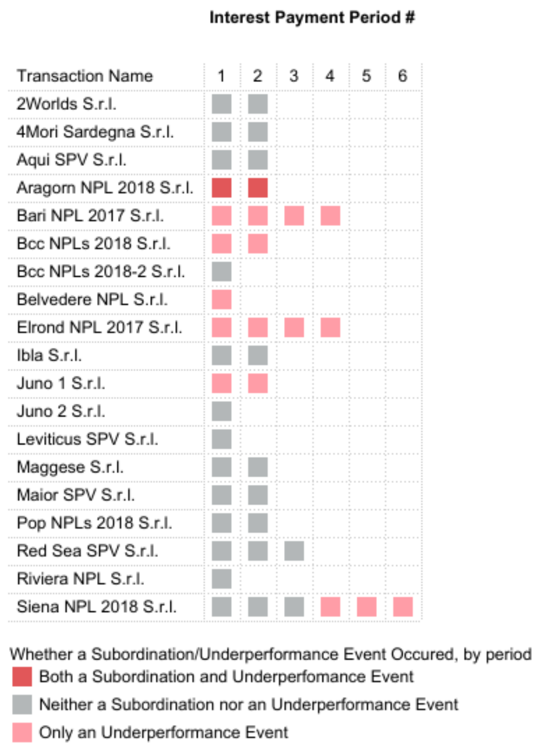
Among the transactions that had under-performance events, Aragorn NPL 2018 S.r.l. and Elrond NPL 2017 S.r.l. have the most conservative triggers, being based on both ratios (CCR and NPVR at 100%.) BCC NPLs 2018 S.r.l. and Bari NPL 2017 S.r.l., have the highest triggers for the NPVR (110%). Juno 1 S.r.l.'s under-performance triggers (95% NPVR) rank in the upper-bound of transaction triggers. Siena NPL 2018 S.r.l., has the lowest trigger level (85% cumulative gross collection ratio).

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

All transactions, once the first under-performance event occurred, were not able to cure the event and 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.

[29] Belvedere NPL S.r.l. does not envisage any subordination event since mezzanine interests are already deferred to senior principal repayment at inception.

Figure 19: Subordination and under-performance events



Source: Scope computations on servicers and payment reports

8. Closed borrowers' profitability

Servicers typically classify collections per borrower type, distinguishing proceeds related to closed borrowers from proceeds related to open borrowers. Servicers do not expect any further collections from closed borrowers, and they flag them as "exhausted debt positions" in their IT systems. On the contrary, open borrowers have an ongoing recovery process.

8.1.1. Closed borrowers proceeds as indicator of recovery strategies

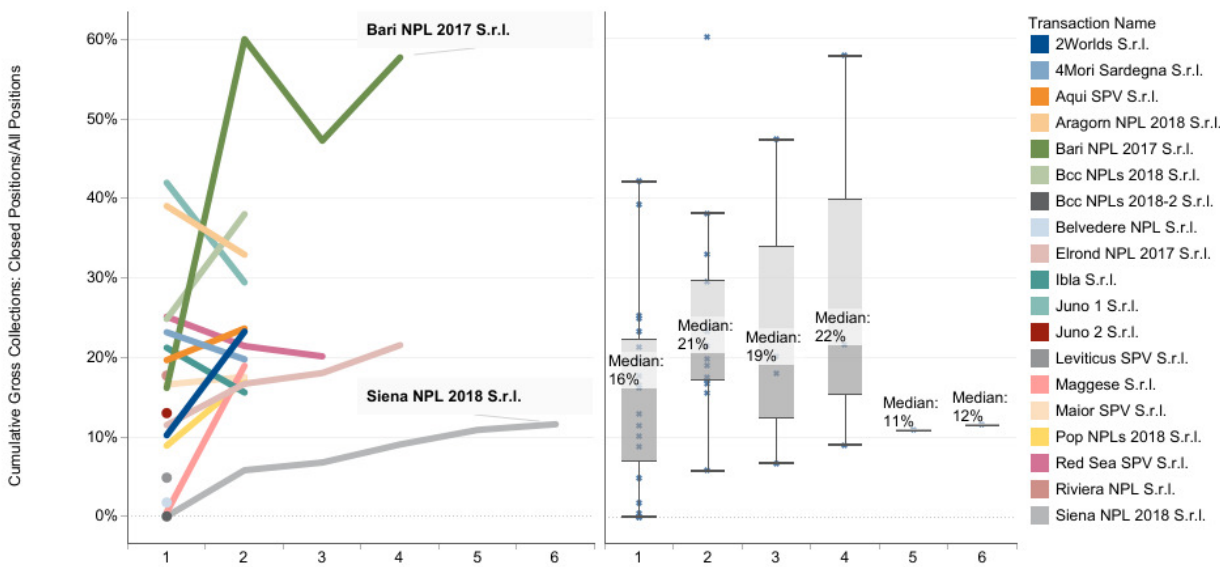
Collections of closed borrowers indicate whether recovery strategies are one-off or gradual

The ratio between cumulative collections on closed borrowers and cumulative portfolio collections (the closed collections ratio), represents an indicator of the recovery strategies pursued by servicers. Figure 20 below shows the closed collections ratio over time. However, since there have been few historical periods, it is premature to draw conclusions.

The closed collections ratio provides information on whether servicers are relying more on one-off strategies or on gradual strategies. One-off strategies, such as note sales or DPOs (settled as one-off payments with substantial discounts), typically lead servicers to close the relevant debtors immediately after one single payment is received. On the contrary, gradual recovery strategies, such as DPOs (settled as payment plans expiring after several years) or judicial recovery strategies on unsecured loans typically lead servicers to close borrowers only after several payments have been received over time.

In the medium term, transactions showing a relatively high closed collections ratio, with a historical increasing trend, might rely more on one-off recovery strategies rather than gradual ones. Vice versa, transactions with a relatively low closed collections ratio, broadly stable over time, might rely more on gradual recovery strategies. For instance, unsecured portfolios relying on payment plan strategies.

Figure 20: Closed collections ratio-historical trends and distribution



Source: Scope computations on servicers and payment reports

9. Rating actions

We have downgraded three transactions: Aragorn NPL 2018 S.r.l., Elrond NPL 2017 S.r.l. and Bari NPL 2 S.r.l.

Downgrades were related to both class A and B notes, except for Aragorn NPL 2018 S.r.l. for which only class B was downgraded. The magnitude of downgrades varied between one and two notches.

Figure 21: Rating actions

Transaction Name	Class	Notional at Closing	Rating at Closing	Current Rating	Magnitude (notches)
Aragorn NPL 2018 S.r.l.	Class A	509,524,000	BBB-	BBB-	0
	Class B	66,822,000	B	B-	-1
Bari NPL 2017 S.r.l.	Class A	80,900,000	BBB	BBB-	-1
	Class B	10,100,000	B+	B-	-2
Elrond NPL 2017 S.r.l.	Class A	464,000,000	BBB-	BB	-2
	Class B	42,500,000	B+	B-	-2

Source: Scope Ratings public data

I. Appendix - Summary of trigger metrics and note ratings for the Sample (19 transactions)

Synthetic Monitoring Overview | Ratings

Transaction Name	Jurisdiction	Closing Date	Payment Frequency on Senior Note	Class A Rating at Closing	Class B Rating at Closing	# of Downgrades on Class A	Downgrade Magnitude: Class A (in notches)	# of Downgrades on Class B	Downgrade Magnitude: Class B (in notches)	Current Class A Rating	Current Class B Rating
2Worlds S.r.l.	Italy	25/06/2018	Semi-annual	BBB	B	0	0	0	0	BBB	B
4Mori Sardegna S.r.l.	Italy	21/06/2018	Semi-annual	A-	BB-	0	0	0	0	A-	BB-
Aqui SPV S.r.l.	Italy	07/11/2018	Semi-annual	BBB-	NR	0	0	0	0	BBB-	NR
Aragorn NPL 2018 S.r.l.	Italy	14/06/2018	Semi-annual	BBB-	B	0	0	1	1	BBB-	B-
Bari NPL 2017 S.r.l.	Italy	30/04/2018	Semi-annual	BBB	B+	1	1	1	2	BBB-	B-
Bcc NPLs 2018 S.r.l.	Italy	10/07/2018	Semi-annual	BBB-	B+	0	0	0	0	BBB-	B+
Bcc NPLs 2018-2 S.r.l.	Italy	20/12/2018	Semi-annual	BBB	B+	0	0	0	0	BBB	B+
Belvedere NPL S.r.l.	Italy	21/12/2018	Semi-annual	BBB	NR	0	0	0	0	BBB	NR
Elrond NPL 2017 S.r.l.	Italy	14/07/2017	Semi-annual	BBB-	B+	1	2	1	2	BB	B-
Ibla S.r.l.	Italy	05/09/2018	Semi-annual	BBB	B	0	0	0	0	BBB	B
Juno 1 S.r.l.	Italy	26/07/2018	Semi-annual	BBB+	NR	0	0	0	0	BBB+	NR
Juno 2 S.r.l.	Italy	08/02/2019	Semi-annual	BBB+	NR	0	0	0	0	BBB+	NR
Leviticus SPV S.r.l.	Italy	06/02/2019	Semi-annual	BBB	NR	0	0	0	0	BBB	NR
Maggese S.r.l.	Italy	26/07/2018	Semi-annual	BBB	NR	0	0	0	0	BBB	NR
Maior SPV S.r.l.	Italy	01/08/2018	Semi-annual	BBB	NR	0	0	0	0	BBB	NR
Pop NPLs 2018 S.r.l.	Italy	16/11/2018	Semi-annual	BBB	B	0	0	0	0	BBB	B
Red Sea SPV S.r.l.	Italy	15/06/2018	Semi-annual	BBB	NR	0	0	0	0	BBB	NR
Riviera NPL S.r.l.	Italy	17/12/2018	Semi-annual	BBB-	B+	0	0	0	0	BBB-	B+
Siena NPL 2018 S.r.l.	Italy	10/05/2018	Quarterly	BBB+	NR	0	0	0	0	BBB+	NR

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.	31/07/2019	2	125.0%	106.0%	Cum & NPV Profitability	85%	0	NPV Profitability	100%	0
4Mori Sardegna S.r.l.	31/07/2019	2	157.0%	102.0%	Cum & NPV Profitability	90%	0	NPV Profitability	100%	0
Aqui SPV S.r.l.	31/10/2019	2	103.1%	112.0%	Cum & NPV Profitability	95%	0	NPV Profitability	100%	0
Aragorn NPL 2018 S.r.l.	31/07/2019	2	118.1%	98.8%	Cum & NPV Profitability	100%	2	Cum & NPV Profitability	100%	2
Bari NPL 2017 S.r.l.	31/10/2019	4	96.9%	90.1%	NPV Profitability	90%	0	NPV Profitability	110%	4
Bcc NPLs 2018 S.r.l.	30/06/2019	2	101.0%	98.5%	Cum & NPV Profitability	90%	0	NPV Profitability	110%	2
Bcc NPLs 2018-2 S.r.l.	31/07/2019	1	Null	126.2%	Cum & NPV Profitability	80%	0	NPV Profitability	100%	0
Belvedere NPL S.r.l.	30/06/2019	1	105.6%	80.1%	Not applicable	Not available	0	NPV Profitability	100%	1
Elrond NPL 2017 S.r.l.	31/07/2019	4	143.5%	72.5%	Not applicable	Not available	0	Cum & NPV Profitability	100%	4
Ibla S.r.l.	30/09/2019	2	133.1%	94.8%	Cum & NPV Profitability	85%	0	NPV Profitability	95%	0
Juno 1 S.r.l.	31/07/2019	2	93.8%	193.7%	Cum & NPV Profitability	85%	0	NPV Profitability	95%	2
Juno 2 S.r.l.	31/07/2019	1	114.0%	120.0%	Cum & NPV Profitability	85%	0	NPV Profitability	95%	0
Leviticus SPV S.r.l.	31/07/2019	1	Null	116.0%	Cum & NPV Profitability	70%	0	NPV Profitability	100%	0
Maggese S.r.l.	31/07/2019	2	100.0%	112.0%	Cum & NPV Profitability	90%	0	NPV Profitability	100%	0
Maior SPV S.r.l.	31/07/2019	2	117.9%	116.5%	Cum & NPV Profitability	90%	0	NPV Profitability	95%	0
Pop NPLs 2018 S.r.l.	31/10/2019	2	119.7%	189.0%	Cum & NPV Profitability	90%	0	NPV Profitability	110%	0
Red Sea SPV S.r.l.	31/10/2019	3	104.4%	125.3%	Cum & NPV Profitability	70%	0	NPV Profitability	100%	0
Riviera NPL S.r.l.	31/07/2019	1	107.3%	112.9%	Cum & NPV Profitability	90%	0	Cum & NPV Profitability	100%	0
Siena NPL 2018 S.r.l.	31/10/2019	6	Null	82.5%	Cumulative Collection Ratio	50%	0	Cumulative Collection Ratio	85%	3

Source: Scope computations on servicers and payment reports

II. Appendix – Summary of transactions performance

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)	BP Reviewd
2Worlds S.r.l.	Over	Over	Over	Over	Over		Yes
4Mori Sardegna S.r.l.	Under	Over	Over	Over	Over		
Aqui SPV S.r.l.	Over	Over	Over	Over	Over		Yes
Aragorn NPL 2018 S.r.l.	Under	Under	Over	Under	Over	S/U	
Bari NPL 2 S.r.l.	Under	Under	Under	Under	Under (variable)	U	Yes
Bcc NPLS 2018 S.r.l.	Under	Under	Over	Under (variable)	Over (variable)	U	Yes
Bcc NPLs 2018-II S.r.l.	Over	Over	Under	1ipd	1ipd		
Belvedere NPL S.r.l.	Under	Under	Over	1ipd	1ipd	U	
Elrond NPL 2017 S.r.l.	Under	Under	Over	Under	Over	U	Yes
Ibla S.r.l.	Under	Under	Over	Under	Over		
Juno 1 S.r.l.	Over	Over	Under	Over	Under	U	
Juno 2 S.r.l.	Over	Over	Over	1ipd	1ipd		
Leviticus SPV S.r.l.	Over	Over	NA	1ipd	1ipd		
Maggese S.r.l.	Under	Over	Over	Over	Over		Yes
Maior SPV S.r.l.	Over	Over	Over	Over	Over		
Pop Npls 2018 S.r.l.	Over	Over	Over	Over	Over		
Red Sea SPV S.r.l.	Over	Over	Over	Over	Over		Yes
Riviera NPL S.r.l.	Over	Over	Over	1ipd	1ipd		
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

III. Appendix – Historical performance analysis: transactions list

Transaction Name
2Worlds S.r.l.
4Mori Sardegna S.r.l.
Aqui SPV S.r.l.
Aragorn NPL 2018 S.r.l.
Bari NPL 2 S.r.l.
Bcc NPLS 2018 S.r.l.
Elrond NPL 2017 S.r.l.
Ibla S.r.l.
Juno 1 S.r.l.
Maggese S.r.l.
Maior SPV S.r.l.
Pop Npls 2018 S.r.l.
Red Sea SPV S.r.l.
Siena NPL 2018 S.r.l.

IV. Appendix –NPL securitisations rated by Scope

Deal name/Link to Rating report	Issuance	Seller	Servicer (master and special)	GBV (million)	Scope rating Class A	Scope rating Class B	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-	B+	6mE+0.5%/ 6mE+6%	Y
Bari NPL 2017 Srl	Dec-17	Banca Popolare di Bari Scpa, Cassa di Risparmio di Orvieto SpA	Prelios Credit Servicing SpA	345	BBB	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, Italfondiario SpA, Credito Fondiario SpA, Prelios Credit Servicing SpA	24,070	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	BBB-	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	Not Rated	6mE+0.6%/ 6mE+6%	Y
4Mori Sardegna Srl	Jun-18	Banco di Sardegna SpA	Prelios Credit Servicing SpA	1,045	A-	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	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-	B+	6mE+0.4%/ 6mE+6%	Y
Juno 1 Srl	Jul-18	Banca Nazionale del Lavoro SpA	Prelios Credit Servicing SpA	957	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	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	Not Rated	6mE+0.5%/ 6mE+6%	Y
IBLA Srl	Sep-18	Banca Agricola Popolare di Ragusa ScpA	Italfondiario SpA	349	BBB	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-	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	B	6mE+0.3%/ 6mE+6%	Y
Riviera NPL Srl	Dec-18	Banca Carige SpA and Banca del Monte di Lucca SpA	Italfondiario SpA, Credito Fondiario SpA	964	BBB-	B+	6mE+0.65 %/ 6mE+7%	Y
BCC NPLS 2018-2 Srl	Dec-18	73 co-operative banks	Italfondiario SpA	2,004	BBB	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	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	Not Rated	6mE+0.6%/ 6mE+8%	Y
Juno 2 Srl	Feb-19	Banca Nazionale del Lavoro SpA	Prelios Credit Servicing SpA	968	BBB+	Not Rated	6mE+0.6%/ 6mE+8%	Y
Prisma SPV Srl	Oct-19	Unicredit SpA	Italfondiario SpA, doValue SpA	6,057	BBB+	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+	BB	1.8%/8%	N
Iseo SPV Srl	Dec-19	UBI Banca SpA	Italfondiario SpA, doValue SpA	858	BBB	Not Rated	6mE+0.5%	Y
Futura 2019 Srl	Dec-19	Futura SPV Srl	Guber Banca SpA	1,256	BBB	Not Rated	6mE+0.3%	N
BCC NPLs 2019 Srl	Dec-19	68 banks	Italfondiario SpA, doValue SpA	1,324	BBB+	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	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 securtisations rated by Scope (EUR million)				**73,321**				
Total GBV of securitisations referred for the Outlook				**57,972**				

Source: Scope Ratings public data

V. Appendix - Useful data for monitoring

In order to monitor performance, we analysed data provided by all the relevant counterparties, including servicers, monitoring and paying agents. Servicing reports, business plans updated scenarios, 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 we analysed for monitoring purposes is still recent, with the oldest transactions being closed in 2017.

VI. Appendix - Reporting risks and asymmetry of information

We see two major type of risks: i) inaccurate reports on transaction performance and ii) information asymmetry (i.e. discrepancies between information assumed (as available) on closing versus information concretely onboarded by servicers).

Inaccurate servicing reports typically result from difficult onboardings, the presence of multiple servicers, inaccurate legal definitions of performance ratios or missing information. They can therefore bias the performance analysis.

Discrepancies between information assumed (as available) on closing versus information concretely onboarded by servicers can result from originators' file-keeping policies or from information poorly tracked in the originators' IT systems. The quality of onboarded information is key for servicers to commence recovery strategies and report portfolio and borrower stratification.

VII. Appendix - Data Disclaimer

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

This is applicable for:

- Aqui SPV S.r.l., for which the NPVR has been computed as the average between the NPVR value as trigger for the interest subordination event and the NPVR value as trigger for the under-performance event;
- Belvedere NPL S.r.l. for which, given the presence of two servicers, CCR and NPVR have been computed weighting each servicer's ratio with the relevant expected collections for each servicer's business plan.

In case of transactions for which more than servicer was mandated, since the under-performance events were based on the ratios of each servicer, we reported that the under-performance event had occurred, if it occurred for at least one servicer. This applies to Section 8.

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

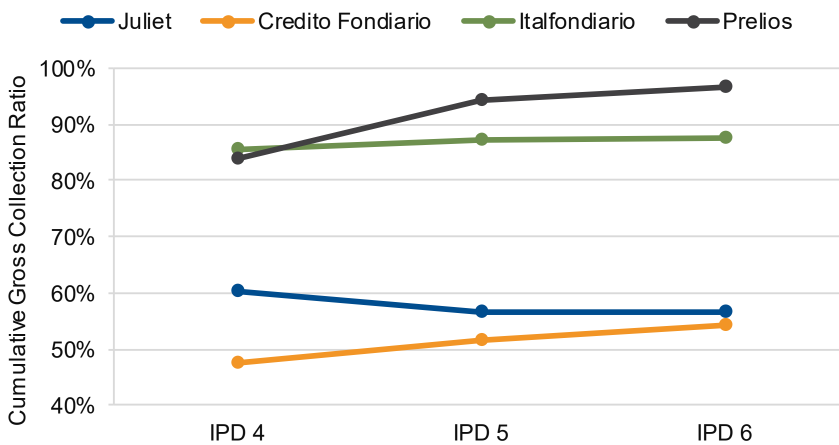
Even though reported data are deemed to be correct (since they have been internally validated), Scope is not liable for any error in the reported data.

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

VIII. Appendix – Siena NPL 2018 S.r.l. "deep dive"

Figure below shows the historical trend of the cumulative gross collection ratio (from the fourth interest-payment date onwards), reached by each of the four servicers, in relation to Siena NPL 2018 S.r.l. transaction. Juliet platform serviced ca. 58% of the portfolio, while Italfondiario, Prelios and Credito Fondario serviced respectively ca. 31%, 5%, 6% of the portfolio.

Figure 21: Cumulative gross collection ratio – historical trend



Source: Scope computations on servicers and payment reports

Glossary

Ad interim collections	Collections received from portfolio cut-off date until transfer date.
Closed borrowers (Scope definition)	Borrowers classified as: -Fully Resolved by Prelios -Fully Closed by Cerved and doValue -Closed by Credito Fondiario The definition of “Closed Borrowers” derive from servicers’ classifications, which are not homogeneous. We considered as closed, only exhausted debt relationships.
Court costs	Expenses due 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, being 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.
Exhausted 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.
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 (NPVR)	It 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 exhausted debt relationships. 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. 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.
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 fees’ deferral and they result into servicer’s 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 the servicing fees were deferred, based on the relevant triggers.

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