Rating Report

Juno 2 S.r.l.

Mirco Iacobucci
Senior Vice President
Global Structured Finance
+44 207 855 6653
miacobucci@dbrs.com

Mattia Pauciullo
Senior Financial Analyst
Global Structured Finance
+44 203 356 1563
mpauciullo@dbrs.com

Alessio Pignataro
Senior Vice President
Global Structured Finance
+44 207 855 6602
apignataro@dbrs.com

Christian Aufsatz
Managing Director
Global Structured Finance
+44 207 855 6664
caufsatz@dbrs.com

DBRS

Insight beyond the rating.

Ratings and Issuer's Assets and Liabilities

Debt	Par Amount [1]	Gross Book Value %	Coupon	ISIN	DBRS Rating (8 February 2019)	Rating Action
Class A	EUR 204,000,000	21.07%	6M Euribor + 0.60%	IT0005363731	BBB (low) (sf)	New Rating
Class B	EUR 48,000,000	4.96%	6M Euribor + 8.00%	IT0005363749	Not Rated	n/a
Class J	EUR 12,754,736	1.32%	6M Euribor + 10.00% + XS	IT0005363756	Not Rated	n/a

Notes:
1 As at the issue date.

DBRS Ratings Limited (DBRS) assigned a BBB (low) (sf) rating to the Class A notes issued by Juno 2 S.r.l. (the issuer, special-purpose vehicle or SPV). The notes were issued in the context of a securitisation transaction following the standard provisions under Italian securitisation law (Law n. 130/1999). The Class A notes are eligible to benefit from the government guarantee scheme *(Garanzia sulla Cartolarizzazione delle Sofferenze or GACS guarantee)* pursuant to law n. 49 of 8 April 2016.

On 30 January 2019, Banca Nazionale del Lavoro S.p.A. (BNL or the originator) sold a portfolio of non-performing loans (NPLs) to the issuer for a total gross book value (GBV) equal to approximately EUR 968.2 million.

The transaction includes the issuance of Class A, Class B and Class J notes backed by a mixed pool of Italian NPLs originated by BNL. The Class A notes represent 21.07% of the GBV. The Class B and Class J notes, which are not rated by DBRS, comprise 4.96% and 1.32% of the GBV, respectively.

The securitised pool is composed of secured borrowers representing approximately 73.4% of GBV and unsecured borrowers representing the remaining 26.6% of the GBV. Residential and industrial real estate borrowers comprise 35% and 14% of the pool by updated market value of the secured loans, respectively.

The transaction benefits from an amortising cash reserve that was fully funded at closing through a limited recourse loan up to an amount of EUR 8.1 million financed by BNL. The loan bears a fixed interest rate of 1.5% per annum (p.a.). The cash reserve has a target balance equal to 4% of the Class A notes balance and it will be available to cover senior fees and expenses as well as interest due on the Class A notes.

The transaction benefits from EUR 16.3 million in cash from recoveries collected between 1 October 2018 and 1 February 2019, which will also fund: (1) a EUR 200,000 recovery expenses cash reserve and (2) a EUR 100,000 retention amount. The remaining collected amount will be distributed in accordance with the priority of payments on the first interest payment date.

The receivables are serviced by Prelios Credit Servicing S.p.A. (PRECS, the servicer or the special servicer).

Portfolio Summary (as of 31/12/2017)

Total GBV (EUR)	968,202,660
GBV Secured Loans (EUR)	710,863,708
GBV Unsecured Loans (EUR)	257,338,952
Number of Loans	3,609

Asset Class	Non-Performing Loans
Asset Governing Jurisdiction	Republic of Italy
Sovereign Rating	BBB (high)/R-1(low)/Stable trends

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Transaction Parties

Roles	Counterparty	Rating
Issuer	Juno 2 S.r.l.	Not Rated
Originator, Limited Recourse Loan Provider	Banca Nazionale del Lavoro S.p.A.	A (high) / R-1 (middle)
Arranger	BNP Paribas, London Branch	DBRS Private Rating
Representative of the Noteholders, Calculation Agent, Back-Up Servicer, Corporate Services Provider, Monitoring Agent	Securitisation Services S.p.A.	Not Rated
Stichting Corporate Services Provider	Wilmington Trust SP Services (London) Limited	Not Rated
Quotaholder	Stichting Ercolano	Not Rated
Servicer	Prelios Credit Servicing S.p.A.	Not Rated
Principal Paying Agent, Agent Bank, Account Bank and Cash Manager	BNP Paribas Securities Services, Milan Branch	DBRS Private Rating
Arranger, Cap Counterparty and EMIR Reporting Agent	BNP Paribas S.A.	AA (low) / R-1 (middle)

Relevant Dates

Term	Description
Issue Date	8 February 2019
Transfer Date	30 January 2019
First Payment Date	31 July 2019
Payment Dates	Semi-annually on the last business day of January and July
Final Maturity Date	July 2039

Rating Considerations

- The principal methodology applicable to the rating assigned to the Class A notes is *Rating European Non-Performing Loan Securitisations.*
- The principal source of payment of amounts due under the notes will be collections and recoveries made in respect of the portfolio without a distinction between interest and the principal component.
- Cash flows generated from the loan portfolio are highly dependent on the execution of the special servicer's resolution strategy. Recovery timelines may impact the stability of the cash flows and the ability to make regular timely payments due on the notes.
- The transaction benefits from an interest rate cap provided by BNP Paribas.
- Prelios Credit Servicing S.p.A. operates as servicer and master servicer in the transaction while Securitisation Services S.p.A. operates as the back-up servicer.

Notable Features

- The Class A notes are eligible to benefit from the GACS guarantee provided by the Italian Ministry of Finance (see Appendix A). DBRS ratings do not address potential payments under the GACS guarantee.
- Non-Performing Loans: The portfolio consists solely of NPLs in various stages of the litigation and recovery process.
- Payment of principal on the Class A notes is subordinated to interest payments on the Class B notes if certain performance triggers have not been breached.
- Interest Rate Cap: The issuer has entered into an interest rate cap agreement with BNP Paribas S.A. The cap agreement will terminate on 31 January 2027. The interest rate cap fees have been paid in full on the Issue Date and, in return, the issuer will receive payments to the extent that the six-month Euribor is above the cap strike for the relevant interest period. The cap notional balance will reduce over time in accordance with a pre-determined cap notional payment schedule.
- Collections to Date: Collections from 1 October 2018 to 1 February 2019 amount to EUR 16.3 million.
- Default Year: Approximately 68% of the secured and unsecured borrowers by GBV defaulted between 2013 and 2016.

Strengths

- **Property Type:** The properties securing the loans throughout the portfolio are diverse in terms of property type. In descending order, the largest property type by concentration are residential (35% of market value or MV), other (19% of MV), industrial (14% of MV) and commercial properties (12% of MV).
- **Portfolio Granularity:** The portfolio is relatively granular by borrower. The largest borrower accounts for 3.39% of GBV while the top five and top ten borrowers account for 13.21% and 18.98% of GBV, respectively.
- **Loan Type and First Liens:** Approximately 73% of the pool by GBV is secured and 71% (by GBV) of the pool benefits from a first-ranking lien.
- **Moderate Leverage:** The still moderate loan-to-value ratio of 75.1% of the secured portfolio, based on an updated market value of EUR 782 million.
- **Liquidity Support:** The notes benefit from the liquidity support provided by the EUR 8.1 million cash reserve, which can be used to cover items up to and including interest on the Class A notes of the pre-acceleration order of payments.
- **Servicer Experience:** The servicing is performed by PRECS, which is an experienced and established Italian special servicer. Additionally, the servicing fee structure incentivises it to execute the business plan. PRECS provided a detailed business plan for the portfolio as well as historical performance data, demonstrating its experience.
- **Sequential Amortisation:** The Class B notes will begin to amortise following the full repayment of the Class A notes.

- **Liquidating Structure:** Interest payments on the Class B notes will become subordinated to principal payments on the Class A notes in the event that the Cumulative Collection Ratio or the Net Present Value (NPV) Cumulative Profitability Ratio are lower than 85%, which would facilitate the build-up of credit enhancement in an adverse scenario.
- **Comprehensive Due Diligence:** DBRS notes that servicer's recovery assumptions for the unsecured portion of this portfolio have been quite conservative, with the servicer's business plan expecting to recover approximately 5.2% of GBV.

Challenges and Mitigating Factors

- **Non-Performing Loans:** The pool consists entirely of loans classified as non-performing. Proceeds deriving from the portfolio are dependent upon collections from the special servicer and the resolution strategies employed.

  Mitigants: DBRS was provided with a business plan and repossession data. DBRS stressed the assumptions of the business plan to determine cash flows that can be generated from the loan portfolio in different rating scenarios.
- A higher borrower concentration compared with other Italian NPL transactions rated by DBRS, with the top 10 borrowers accounting for approximately 19% of GBV.

  Mitigants: DBRS believes that its quantitative analysis reflects the pool composition and the credit quality of the collateral, which is evidenced by DBRS haircuts to the expected collections in accordance with DBRS's *Rating European Non-Performing Loan Securitisations* methodology.
- The vast majority of the secured loans in the pool, approximately 92% by GBV, have been provided to corporate entities, which normally require longer and more complex resolution procedures with respect to individuals.

  Mitigants: DBRS believes that its quantitative analysis reflects the pool composition and the credit quality of the collateral, which is evidenced by DBRS haircuts to the expected collections in accordance with DBRS's *Rating European Non-Performing Loan Securitisations* methodology.
- The secured portfolio does not benefit from seasoning as the majority of the loans defaulted between 2013 and 2016 (approximately 68% of the GBV), as reflected by the fact that approximately 40% by MV of the properties are still in the initial stage. Given the long enforcement process in Italy, DBRS views the seasoning of the secured loans as a beneficial factor as it shortens the remaining enforcement period and expedites collections.

  Mitigants: (1) Approximately 42% of the properties by MV are in the auction and/or court distribution phase; (2) the issuer can benefit from approximately EUR 16.3 million of post cut-off date collections; (3) the relatively short seasoning of the portfolio is likely to result in a moderate deterioration of the collateral; (4) DBRS received detailed historical performance data on court timings from PRECS and believes its quantitative analysis reflects the current legal stage of the portfolio.
- Only a *Consulente Tecnico d'Ufficio*[1] (CTU) valuation was provided for approximately 9.8% of the portfolio by MV. Historically, CTU valuations have overstated the property value, resulting in lower recovery proceeds than those implied by the CTU and longer enforcement timing amid the Italian enforcement process.

  Mitigant: DBRS applied a further stress to its recovery assumptions when it was provided with only a CTU and not updated market value.
- Hedging Agreement: The cap notional at closing is aligned with the Class A notes balance; hence, in case of a slower amortisation of the notes as compared with the cap notional schedule, the Class A notes might become underhedged.

  Mitigants: DBRS considered the cap mechanics in its analysis and applied interest rate stresses in accordance with its *Interest Rate Stresses for European Structured Finance Transactions* methodology.
- While DBRS believes that PRECS is an experienced and established servicer in the Italian market, the recovery proceeds are highly dependent on its execution of the business plan. Additionally, a portion of the incentive servicing fees are paid senior in the waterfall to PRECS regardless of their performance in executing the business plan.

1. Please note: with Consulente Tecnico d'Ufficio we refer to a real estate expert appointed by the Court in the context of a judicial procedure.

- DBRS notes that servicer's termination for underperformance may not occur before the end of 2022.

  Mitigants: (1) DBRS believes that the servicing fee structure allows for an alignment of interest with the noteholders in order to maximise collections; (2) in compliance with the timing mentioned above, the servicer can be replaced if certain trigger events are breached; (3) if PRECS is terminated in its capacity as servicer, a back-up servicer facilitator (Securitisation Services S.p.A.) will already have been appointed at closing for the transaction; and (4) the presence of the monitoring agent which is entitled to coordinate a monitoring committee representing interests of the mezzanine and junior noteholders in order to optimise the collection timing.

- Approximately 30% of the portfolio by MV is concentrated in Southern Italy, which has historically some of the slowest legal foreclosure procedures in Italy.

  Mitigant: DBRS received detailed historical performance data on repossessions from PRECS and believes its quantitative analysis reflects the current portfolio composition.

- NPLs intrinsically generate irregular cash flows, which can introduce a liquidity risk in the transaction.

  Mitigants: (1) The transaction benefits from a cash reserve covering interest and rated notes and (2) the pool is relatively granular with the top borrower accounting for approximately 3.39% of total GBV.

Servicing

All primary and special servicing activities within PRECS are centralised in the company's Milan headquarters while asset management is conducted in both Milan and Rome. Unlike other Italian special servicers that have regional offices across the country to manage NPLs, PRECS prefers to rely on its significant network of external advisors to manage legal and real estate issues. This approach places more reliance on third parties, which poses potential operational challenges and risks. However, PRECS believes it can manage effectively through its robust technology platform and experienced staff whose attention is focused on managing external resources and more complex default cases.

The seasoned management team averages nearly 20 years' experience, mostly in the real estate and NPL sectors, and company tenure is relatively high at over ten years. PRECS has approximately 60 full-time equivalent employees with approximately half responsible for loan management. In addition, PRECS manages relationships with 400 external lawyers and approximately 450 external commercial professionals. The loan management teams are also highly experienced averaging 15 years mostly within PRECS, and the company benefits from low turnover and a sound training programme commensurate with staff experience levels.

PRECS's servicing activities benefit from significant automation for loan administration, bespoke applications for special servicing and strong reporting systems supported by a robust data warehouse linking all the company's systems. The majority of loan payments are on monthly schedules and most of the payments on the performing loans are made via direct debit or bank transfer. Incoming cash is reconciled daily and unallocated payments requiring manual review are minimal. Suspense items are generally cleared within a few working days. Adjusting interest rates for variable-rate loans is an automated process, taking into account the Italian usury rate, as is the generation of all standard letters including collection notices.

PRECS operates a robust and sophisticated IT platform which is continually enhanced, and the company devotes significant resources to ongoing system development. The company's IT department includes two skilled IT professionals with over 20 years' experience supported by the larger technology department within the Prelios Group.

The loan management group is split into three teams: one responsible for unsecured loans, one for secured loans less than EUR 900,000 and one for large loans over EUR 900,000 and special situations. The average number of loans per loan manager varies by each team ranging from 800 unsecured (300 secured) loans to 80 cases within the special situations team. These ratios are consistent with expectations given staff experience levels and the degree of automation associated with unsecured and smaller secured loans.

The collection process, including the use of standard dunning letters and calling campaigns, is defined within the servicing agreement for each portfolio serviced by the company. For performing loan transactions, collection efforts are typically focused on letter campaigns with calling activity initiated after the first month of arrears. Borrowers who are still in arrears and/or have failed to meet their payment arrangements are actively called throughout the month.

As an experienced NPL servicer, PRECS uses a variety of strategies in attempting to cure arrears and defaults, viewing litigation and subsequent forced sale as the least favourable option. Payment arrangements, forbearance schemes including payment holidays, loan modifications and discounted payoff (DPO) are common. PRECS reviews each loan individually to determine the best possible resolution strategy, and DBRS believes such activities are consistent with Italian regulation.

Insolvency cases are managed by dedicated teams in Milan and Rome, supported by an external legal network of over 400 advisors. Asset managers in the Milan and Rome offices are also responsible for managing the legal enforcement process including filing the necessary title updates and terminating the loan. PRECS uses external lawyers where necessary throughout the enforcement process. Throughout the process, the asset manager continues to work with the borrower attempting to reach an out-of-court solution. All data regarding the enforcement process is recorded in the company's systems and regularly monitored by management. PRECS also employs a scoring system to evaluate external lawyers and performance.

Throughout PRECS's history, legal enforcement has been pursued for approximately half of the overall portfolio while DPOs comprise around 80% of all out-of-court resolutions.

Recovery timelines for defaulted loans are consistent with other Italian servicers. Extra-judicial strategies average around 36 to 48 months until resolution, depending on how cooperative the borrower is throughout the process. Legal enforcement takes considerably longer, averaging around five years until final resolution although this figure has been historically longer in the southern regions, increasing to seven to ten years.

Recovery rates are also consistent with the Italian market. Recoveries against GBV across the whole portfolio are around 50% and as high as 70% in some portfolios. As expected, recovery rates are considerably higher for out-of-court resolutions, with DPOs averaging over 75% versus GBV.

Summary Strengths

- Good operating history within the Italian market exceeding 20 years.
- Highly seasoned senior management team and staff coupled with limited turnover and a good training programme commensurate with experience levels.
- Sophisticated technology platform enabling effective administration of performing loans and management of NPLs including robust and interconnected reporting systems.
- Sound risk management and internal control environment.

Summary Weaknesses

- Independent servicer lacking the financial support from an investment grade-rated parent.

  Mitigants: Stable financial trends over the last several years. Both PRECS and the Prelios Group are leading providers of real estate and NPL management services in the Italian market.
- Heavy reliance on external resources compared with some peers.

  Mitigants: The company has robust technology and experienced staff who focus on the oversight of resources and management of complex NPL cases. Use of external resources for NPL management is common across Italy.

Opinion on Back-Up Servicer: Securitisation Services S.p.A. is the named warm back-up servicer facilitator on the transaction.

Securitisation Services has drafted a crisis plan outlining the activities to be undertaken upon invocation of the back-up agreement following servicer termination. The plan includes details on the operational processes as well as timelines and all activities are to be completed within 45 days of invocation. A full data dictionary and data mapping of the portfolio is in process and, following the close of the transaction, Securitisation Services will have access to loan-by-loan data, updated on a monthly basis as defined in the transaction documents.

Since 2001, Securitisation Services has been a registered Article 107 servicing company under Italian law. It is currently providing securitisation and tax reporting services and acting as master servicer by providing ongoing portfolio surveillance for over 50 Italian securitisations totalling approximately EUR 11 billion. Securitisation Services is also the primary servicer for nine Italian transactions totalling EUR 1.6 billion and is the named back-up servicer in 18 transactions including mortgages, leases, SME and covered bonds. Securitisation Services currently employs around 60 people and senior management and department heads average 20 and ten years' experience, respectively.

As part of the operational review process, Securitisation Services provided information to DBRS regarding the operations, management experience and existing portfolio (both active servicing and backup servicing). The backup servicing arrangement is considered 'warm' by DBRS.

DBRS believes that Securitisation Services is adequately positioned to assume the servicing role should a transfer event occur.

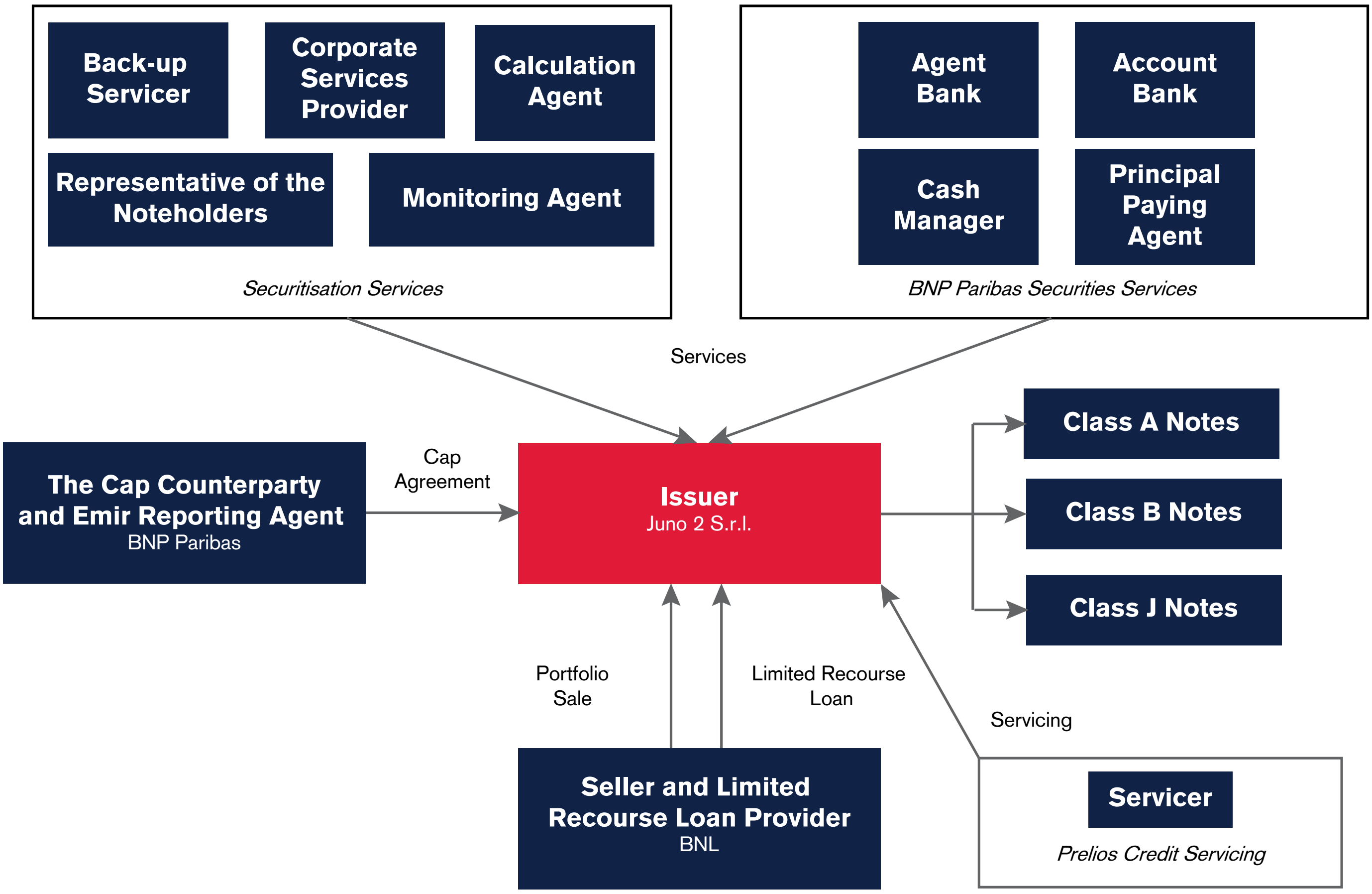
Transaction Structure

Transaction Summary

Currencies:	The issuer's assets and liabilities are denominated in euros (EUR).	
Relevant Jurisdictions:	The issuer is a securitisation SPV incorporated and registered in Italy. Loan contracts and transaction documents are governed by Italian law.	
Interest Cap Agreement:	Interest Cap agreement is in place between the issuer and BNP Paribas	
	Notional Amount	Pre-determined notional schedule
	Issuer Payment	Portfolio proceeds
	Floating Cap Provider	Six-month Euribor between the two strike rates
	Strike Rate	Pre-determined strikes schedule
	Termination Date	31 January 2027
Basis Risk Hedging:	N/A	
Cash Reserve:	Initial Amount	EUR 8,160,000
	Target Amount	4% of Class A notes outstanding balance
	Step-Up	N/A
	Amortisation	Yes
	Floor	Zero

Transaction Diagram

The transaction diagram is summarised below:



Issuer Available Funds

1. All collections and any other sums received by the issuer in respect of the portfolio;
2. All amounts due to the issuer under the terms of the cap agreement;
3. All other amounts credited into the collection account;
4. All interest accrued on the amounts standing to the credit of each of the accounts (except for the expenses account, the quota capital account, recovery expenses reserve account and the collateral accounts);
5. Any profit and accrued interest received under the eligible investments;
6. All amounts received by the issuer from the seller;
7. Any amounts paid into the payments account;
8. The initial cash reserve (on the first interest payment date or IPD) and on the following IPDs, the amounts credited on the cash reserve account;
9. Proceeds from the disposal in whole or in part of the portfolio;
10. On the earlier of (a) the payment date on which the notes will be redeemed in full and (b) the cancellation date, the amount transferred from the expenses account to the payments account on the immediately preceding business day; and
11. Any amounts received by the issuer from any party to the transaction documents;
12. On the earlier of (a) the payment date on which the notes will be redeemed in full and (b) the cancellation date, the balance of the recovery expenses reserve account

Pre-Enforcement Priority of Payments:

1. Senior servicer fees;
2. To credit into the expenses account the amount (if any) necessary to ensure that the balance standing to the credit of the expenses account at such IPD is equal to the retention amount;
3. Senior fees and expenses;
4. Pay interest due on the limited recourse loan;
5. Pay any fees due to the GACS guarantor;
6. To credit into the recovery expenses reserve account the amount (if any) necessary to ensure that the balance standing to the credit of the recovery expenses reserve account at such IPD is equal to the recovery expenses target amount;
7. Interest on the Class A notes;
8. Pay any amount (if any) due and payable to the GACS Guarantor in relation to the GACS guarantee other than the amounts payable under item (5);
9. Credit the cash reserve account up to the target cash reserve amount;
10. Pay principal due and payable under the limited recourse loan;
11. Interest on the Class B notes up to 8% (if no Subordination Event occurred);
12. Pay principal on the Class A notes until repaid in full;
13. If a Subordination Event has not occurred the deferred mezzanine interest or (2) in case a Subordination Event occurred pay all interest on the Class B notes;
14. Pay principal on the Class B notes until repaid in full and the servicer mezzanine performance fees;
15. Pay any amounts due and payable by the issuer pursuant to the notes subscription agreement to the notes' subscriber;
16. Pay, only upon redemption in full of the Class A notes and the Class B notes, interest due and payable on the Class J notes;
17. Pay the servicer junior performance fees, the promote fee (if any) and the principal on the Class J notes (until it is equal to EUR 100,000) and on the final redemption date pay principal on the Class J notes until redemption in full; and
18. Any residual amount as the Class J notes variable return.

Key Definitions

Interest Subordination Event

1. The Cumulative Collection Ratio is lower than 85%
2. The NPV Cumulative Profitability Ratio is lower than 85%

NPV Cumulative Profitability Ratio means the ratio between: (1) the sum of the NPV of the net collections of the net collections of all the debt relationships (exhausted debt relationships) and (2) the sum of the target price of all the debt relationships, which are an exhausted debt relationship.

Present Value means the amount calculated according to the following formula:

NPV(X) = X/((1+i)^(t/360))

where:

"i"=Discount Factor

"X"=means any amount paid to or by the Issuer "t"=means the number of days passed between the date on which the X amount is collected or paid and the Valuation Date, assuming that all the collections are received on the last day of the collection period on which they occur or are anticipated to occur.

"Discount Factor" means 4.0%.

Cumulative Collection Ratio means the percentage ratio between (1) the aggregate gross collections since the economic effective date to the end of such collection period in relation to all debt relationships and (2) the gross expected collections since the economic effective date to the end of such collection period in relation to all debt relationships.

Cash Reserve

The transaction benefits from a cash reserve that was fully funded at closing through a limited recourse loan granted by BNL to an initial amount of EUR 8,160,000. The loan bears a fixed interest rate of 1.5% p.a. The target cash reserve amount is equal to 4.0% of the principal amount outstanding of the Class A notes. The target cash reserve amount will be equal to zero at the earlier of: (1) the date when the Class A notes can be redeemed in full and (2) the final maturity date.

The cash reserve can be used to cover senior expenses and Class A interest shortfalls (if any). The Class B notes are not covered by the cash reserve.

Cap Agreement

The notes issued are indexed to six-month Euribor while the collateral consists of a stream of collection with no distinction between interest and principal which makes a floating-rate exposure for the issuer. To mitigate against such floating-rate exposure, the issuer entered into a cap transaction with BNP Paribas, which operates as cap counterparty.

The cap agreements will terminate on 31 January 2027. The issuer paid the interest rate cap premium in full at closing; in return, the issuer will receive payments to the extent that six-month Euribor is between the strike prices for the relevant interest period. The cap notional balance will be in accordance with a pre-determined cap notional payment schedule.

Legal Analysis

The sale and assignment of the loan portfolio will be in accordance with Italian law and the transfer agreement. The sale will include the sale and transfer of the ancillary rights held by the originator.

Main Warranties and Indemnities (main)

- The originator is a bank duly established in the form of a public limited company (*societá per azioni*), validly existing and operating pursuant to Italian law;
- The relevant originator holds sole and unencumbered legal title to the relevant receivables, and the relevant receivables are not subject to any attachment (*pignoramento*), seizure (*sequestro*), pledge, or third-party rights;
- The relevant receivables constitute a portfolio of monetary claims whose debtors have been classified, as at the Valuation Date, as non-performing *(sofferenza)* and whose classifications as non-performing have been reported to the Italian Credit Bureau (*Centrale dei Rischi*) of the Bank of Italy;
- There are no claims by the borrowers or guarantors against the originator, which may have the effect of reducing the claim in case of opposition by way of set off against the claim itself;
- Each real estate asset secured by a mortgage is existing and is located in Italy; and
- All the receivables are denominated in euros and do not provide for conversion into any other currency.

Events of Default

1. Non-payment;
2. Breach of other obligations;
3. Insolvency of the issuer; and
4. Unlawfulness.

Collateral Summary

Data Quality

DBRS received a loan tape and repossession data from Prelios for secured loans and static historical performance curves for unsecured loans. DBRS also received due diligence reports and agreed upon procedures reports for both the secured and unsecured loans. DBRS considers the information available to it for the purposes of providing these ratings to be of satisfactory quality.

Main Selection Criteria

The transaction is static and there is no possibility to assign additional portfolios to the issuer.

- Financings are denominated in euros;
- Financing agreements are governed by Italian law;
- Financings secured by mortgages are backed by real estate assets located in Italy; and
- Borrowers are not employees, managers or directors of any originator.

Portfolio Overview

The securitised portfolio consists of secured and unsecured NPLs. The secured loans are collateralised by residential properties, commercial properties (i.e., industrial, office, retail and hotel) and land. The loans in the portfolio defaulted between 1995 and 2018; however, the majority of secured loans (68% of GBV) defaulted between 2013 and 2016. Approximately 73.4% by GBV of the borrowers is secured, of which 57.6% is secured by a first-ranking lien.

Exhibit 1: Secured vs. Unsecured Loans (% of GBV)

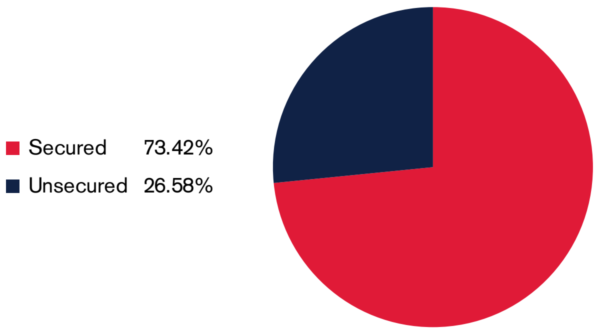


Exhibit 2: Property Type by % of MV

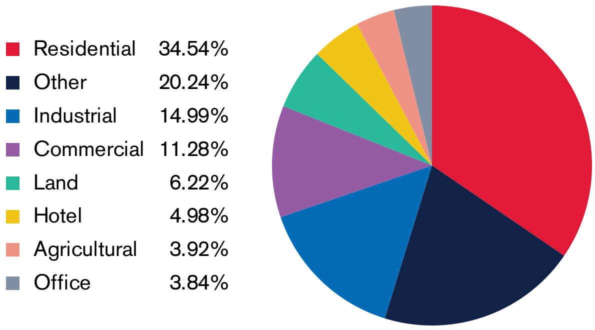
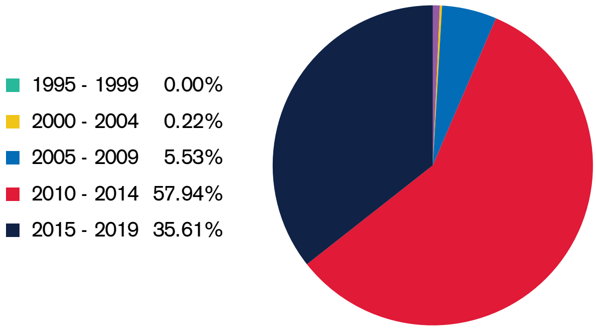


Exhibit 3: Year of Default Distribution (% of GBV)



The secured collateral included in the portfolio are backed by properties distributed mainly in the regions of Lazio (21% by MV), Emilia Romagna (11% by MV), Lombardy (9% by MV), Veneto (9% by MV) and Tuscany (8% by MV).

Exhibit 4: Secured Collateral Locations by % of MV

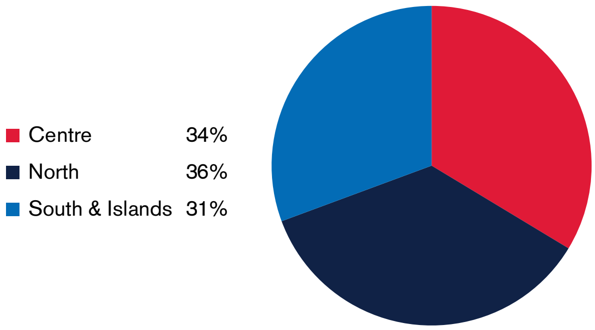
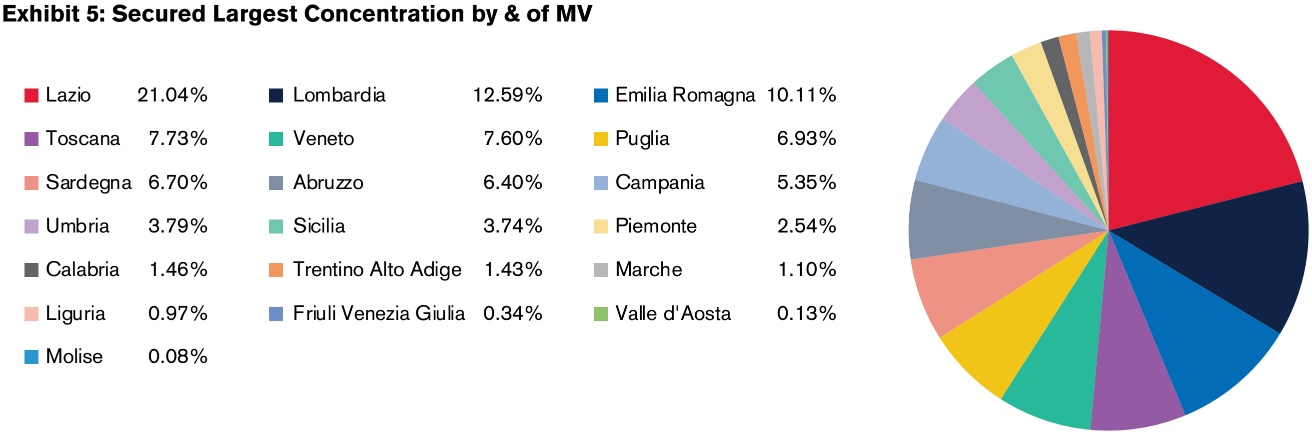
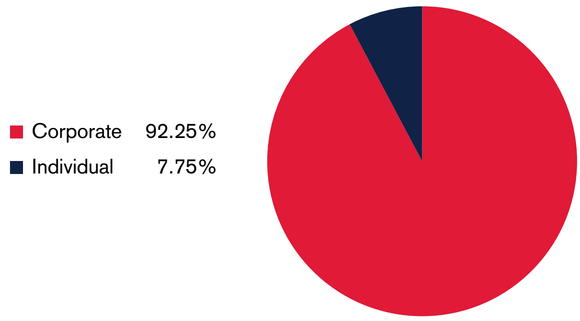


Exhibit 5: Secured Largest Concentration by & of MV



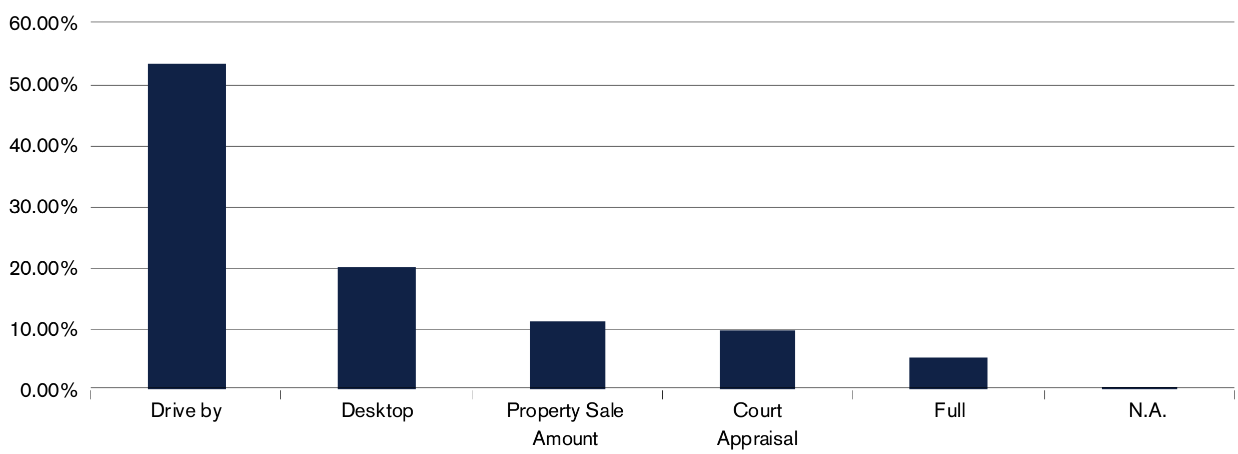
Most of the secured loans (approximately 57.6% by GBV) benefit from having a first lien over the collateral property. However, there is also a small component of properties that have multiple liens and the loans are secured by prior liens on the property. The large majority of the loans in the portfolio were granted to corporate borrowers (approximately 92% of GBV), with a small portion of the balance disbursed to individual borrowers (approximately 8%). The servicer performed a due diligence on almost the entire portfolio (88.2% by GBV). The sample consisted of 2,398 loans, with 1,349 secured loans, representing 90.9% of GBV for the sample and 1,049 unsecured loans, representing 83.9% of GBV for the sample.

Exhibit 6: Corporate vs Individuals by GBV



Valuations have been completed by Prelios for a limited portion of the properties serving as collateral for secured loans, 19% by MV. The remainder, 81% by MV, is represented by other valuations, including CTU, bank appraisal and property sale amount. DBRS notes that, historically, CTU determined by the court often overstates the value of the property necessitating several rounds of auctions. Therefore, CTU valuations were disregarded for the purpose the analysis, if possible.

Exhibit 7: Valuation Type



Special Servicers' Business Plan

PRECS Business Plan

The special servicer prepared the business plans for the secured and unsecured borrowers. In its analysis, DBRS assumed that all loans will be worked out through an auction process. The business plan details the special servicer's expected gross collections, servicing fees, legal and procedural costs and net collections over a particular recovery period. DBRS has assessed the portfolio and applied adjustments in the various rating stress scenarios. The business plan envisages gross collections totalling EUR 347 million from 2018 to 2031.

Repossession Data

DBRS received repossessions data on closed positions from PRECS for a mixed pool of both residential and commercial loans. The total amount of repossessions under scrutiny as per market value (MV) is equal to EUR 2.56 billion, with the commercial component accounting for EUR 1.17 billion (approximately 45.7% of the total MV) and the residential portion accounting for the residual EUR 1.39 billion (approximately 54.2% of the MV). The MV is the last valuation of the property following classification as sofferenza.

In terms of number of loans, the total amount of loans is equal to 23,330 (15,410 residential loans and 7,920 commercial loans). The total amount of loans in the repossession data received equals the number of allotments.

In terms of legal procedures, DBRS was provided with a split between bankruptcy and other legal procedures; however, all positions part of this sample were liquidated through an auction process. The number of positions that went through a bankruptcy process were 4,751, including 1,717 where the underlying collateral was a commercial property and 3,034 where the collateral was a residential property. Additionally, 18,879 loans (12,376 residential properties and 6,503 commercial properties) went through other legal procedures. In terms of MV, approximately 19.1% of residential properties went through a bankruptcy procedure compared with approximately 45.3% of commercial properties. In any case, according to Italian law, an individual cannot be declared bankrupt. Hence, the loans secured by residential properties that went through a bankruptcy procedure were considered to have a corporate borrower.

In terms of geographic distribution by MV for the total portfolio, 30% are related to properties whose court is located in Northern Italy, 22% in Central Italy and 48% in Southern Italy.

Exhibit 8: Breakdown by MV

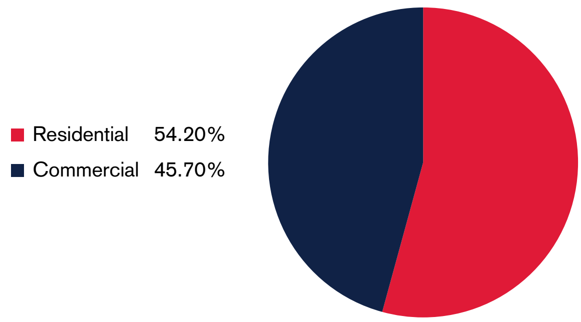
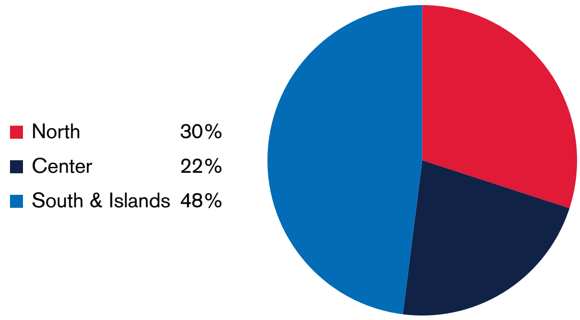


Exhibit 9: Breakdown by Court Macro-Area



DBRS Analysis Secured Loans

The DBRS analysis was completed on a borrower-level basis for the secured portion of the pool and the process differed slightly across the portfolio depending on the availability of valuation data. DBRS applied an additional stress to the Judicial Market Value (JMV) initially provided by the Special Servicer. The way it is computed involves market value declines (MVDs) which are applied to estimate the sale price in judicial proceedings. DBRS considered in its analysis the haircuts already applied to the JMV by the Special Servicer. The lesser of these figures was used, which represents the DBRS-stressed GDP.

Market Value Declines

The DBRS analysis was completed on a borrower-level basis for the secured portion and using static historical performance curves for the unsecured portion of the pool. DBRS calculated MVDs based on the repossession data provided by the special servicers providing partial credit to positive values. To adjust the cash flows for the stressed rating scenarios, DBRS applied the residential MVDs for Italy as per its European RMBS criteria and for commercial properties it applied the loan-to-value hurdles as per its *European CMBS Rating and Surveillance Methodology* using different values as per the historical performance of the Special Servicer.

Recovery Lags

The repossession data provided to DBRS included information regarding the legal procedure type, for both foreclosure and bankruptcy process, as well as the legal phase for each property. Based on the repossessions data, DBRS determined an estimated recovery timing for each judicial court. An additional stress ranging from eight months to 14 months, depending on the region, was applied to the borrowers which are subject to bankruptcy procedures. DBRS assumed that the number of auctions needed to sell the property ranged between three and five. DBRS compared its final timing stresses with data provided by the Italian Ministry of Justice from 2014. To determine the base case recovery lag stresses, DBRS assumed the maximum between the calculated recovery lags based on the repossession data provided and market observations.

DBRS Analysis Unsecured Loans

DBRS was provided with historical performance curves of recoveries from PRECS. The ratio from the standard deviation or mean for unsecured is equal to approximately 0.29, rounded to 0.30 at BBB (low) (sf), which led to a haircut of 45.5% over the gross collections as per the business plan.

DBRS Rating Scenario Stressed Collections

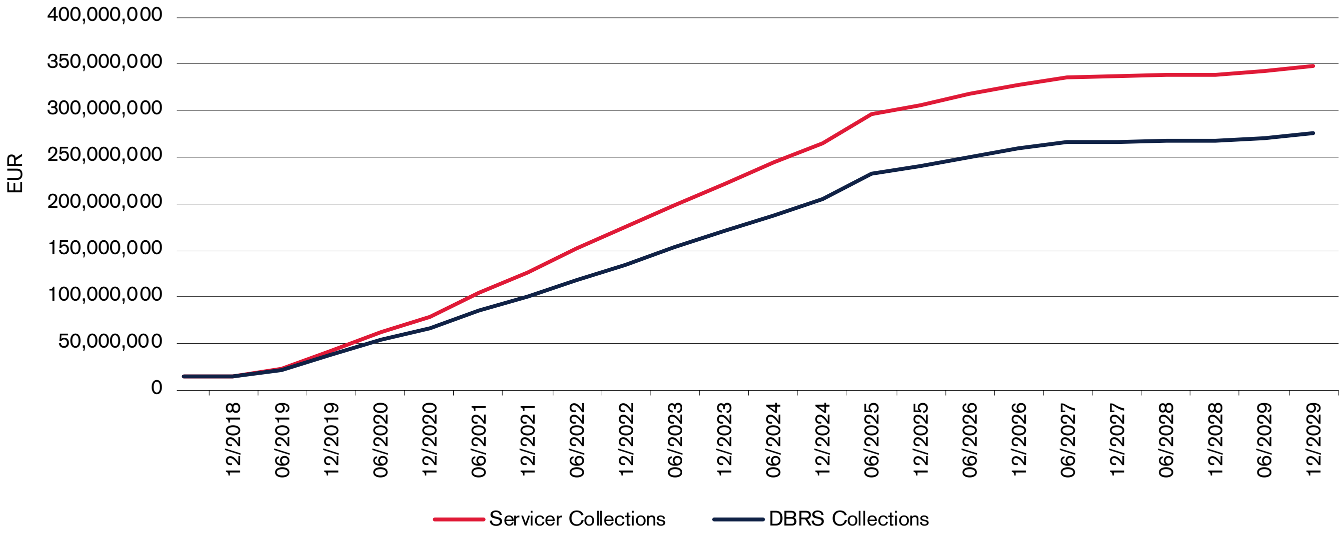
The resulting DBRS-stressed gross collections represent a 20.4% haircut to the total business plan gross collections (secured and unsecured) in the BBB (low) (sf) rating scenario, which are based on an assumed total collection amount of EUR 171.9 million in the BBB (low) (sf) rating scenario.

Assumptions	BBB (low)
DBRS GDP	EUR 276 million
DBRS GDP Haircut	20.4%

In the table below, the various loan types are compared against expected collections of the business plans and the GBV.

Loan Type	DBRS Haircut Compared to Business Plan – BBB (low)
Secured	19.1%
Unsecured	45.5%

Exhibit 10: DBRS GDPs - vs. Prelios GDP BP



DBRS used the stressed GDP in the BBB (low) scenario in a cash flow tool to assess whether the cash collections are sufficient to repay the Class A notes, considering enforcement costs, senior costs and interest due on the bonds. Hereby, DBRS took the transaction priority of payments and triggers into account. It should be noted that potential fees to the GACS guarantor rank senior in the transaction structure and were considered as senior costs. The priority of payments depends in part on the timing of GDP collections. For this reason, DBRS considered several timing scenarios, including situations where GDP collections are more frontloaded, resulting in the BBB (low) (sf) scenario that the Subordination Event occurs later and that consequently interest on Class B is paid for longer.

Counterparty Assessment

Account Bank

BNP Paribas Securities Services, Milan branch operates as account bank for the transaction. DBRS privately rates BNP Paribas Securities Services and concluded that it meets DBRS's minimum criteria to act in such capacity. The transaction contains downgrade provisions relating to the account bank consistent with DBRS's criteria.

Cap Counterparty

BNP Paribas is the cap counterparty for the transaction. DBRS publicly rates BNP Paribas and concluded that BNP Paribas meets DBRS's criteria to act in such capacity. The transaction documents contain downgrade provisions with respect to BNP Paribas's role as hedging counterparty, consistent with DBRS criteria.

Rating Analysis

The ratings are based on a review by DBRS of the following analytical considerations:

- Transaction capital structure, priority of payments and form and sufficiency of available credit enhancement.
- Credit enhancement levels are sufficient to support DBRS-projected cumulative recoveries under various stress scenarios at BBB (low) (sf) for the Class A notes.
- The ability of the transaction to withstand stressed cash flow assumptions and repay investors according to the terms under which they have invested.
- DBRS conducted an operational risk review of PRECS's premises in Milan and deems it to be an acceptable servicer.
- The transaction parties' financial strength with regard to their respective roles.
- The consistency of the transaction's legal structure with the DBRS's *Legal Criteria for European Structured Finance Transactions* methodology and the presence of legal opinions that address the true sale of the assets to the issuer and non-consolidation of the special-purpose vehicle with the seller.

Summary of the Cash Flow Scenarios

DBRS's cash flow assumptions focused on the amount and timing of recoveries.

Interest Rate Risk, Basis Risk and Excess Spread

The principal sources of payment of amounts due under the notes will be collections and recoveries made in respect of the portfolio. Since the issuer's liabilities for the Class A notes and Class B notes are indexed to the six-month Euribor, the transaction benefits from a cap agreement.

Interest Rate Stresses

DBRS applied its standard interest rate stresses as detailed in its *Interest Rate Stresses for European Structured Finance Transactions* methodology.

Risk Sensitivity

DBRS expects lifetime recoveries for each borrower (DBRS GDP) based on a review of property values and based historical data. Adverse changes to asset performance may cause stresses to base-case assumptions and therefore have a negative effect on credit ratings. The tables below illustrate the sensitivity of the rating to various changes in the recovery assumptions relative to the DBRS GDP assumptions.

Class A

Decrease in DBRS GDP %

0	5	10
BBB (low)	BB (low)	B (high)

Site Inspection Summary

DBRS performed site visits on a sample of the residential and commercial properties located in the Lazio region of Italy on 14 and 15 January 2019. The tour was conducted with representatives from PRECS and BNP Paribas. The properties consisted of a variety of property types including residential, industrial, offices, retail properties and land. The toured properties consisted of a mixture of assets that were entirely vacant and those with tenants in place, but not current on their mortgages. Generally, the properties with tenants in place were owner-occupied and had a corresponding story as to why the owner was not current on their mortgage. The property quality of the toured assets was generally considered above average.

Methodologies Applied

The principal methodology used to assign the rating to this transaction is *Rating European Non-Performing Loans Securitisations*.

Other methodologies referenced in this transaction are listed below:

- *Master European Residential Mortgage-Backed Securities Rating Methodology and Jurisdictional Addenda*
- *European CMBS Rating and Surveillance Methodology*
- *Legal Criteria for European Structured Finance Transactions*
- *Operational Risk Assessment for European Structured Finance Servicers*
- *Operational Risk Assessment for European Structured Finance Originators*
- *Interest Rate Stresses for European Structured Finance Transactions*
- *Derivative Criteria for European Structured Finance Transactions*

The rating methodologies and criteria used in the analysis of this transaction can be found at: http://www.dbrs.com/about/methodologies. Alternatively, please contact info@dbrs.com.

Surveillance Methodology

The transaction is monitored by DBRS in accordance with its *Master European Structured Finance Surveillance Methodology*, which is available at www.dbrs.com under Methodologies. Alternatively, please contact info@dbrs.com.

Appendix A

Summary of GACS Guarantee

Pursuant to Law Decree No. 18 of 14 February 2016 converted into law No. 49 of 8 April 2016 (the GACS Law) an originator of NPLs under a securitisation transaction complying with certain requirements as described in the relevant GACS Law may request the Ministry of the Economy and Finance (the MEF) to guarantee the payments of interest and principal on the senior tranche of asset-backed securities (the GACS Guarantee).

Key Features of the GACS Law

- The assigned receivables have to be transferred to the SPV for a purchase price not higher than their net book value (valore contabile netto) as of the date of the transfer (i.e. gross book value net of depreciations – valore lordo al netto delle rettifiche);
- The structure of the relevant transaction should provide for the issuance of at least two different classes of notes;
- The junior tranche of asset-backed securities should be redeemed or repaid only if the other tranches have been redeemed in full;
- The SPV may issue one or more tranche of mezzanine notes, which are subordinated to the payment of interests of the senior notes but may be paid in priority to the repayment of principal of the senior notes;
- The SPV may enter into financial hedging agreements in order to reduce interest rate risks;
- A liquidity facility can be provided for an amount sufficient to keep the minimum level of financial flexibility consistent with the creditworthiness of the senior tranche;
- For the issuance of the GSCS Guarantee, the senior tranches should have received a rating equal to or higher than investment grade from an External Credit Assessment Institution (ECAI);
- The entity appointed to service and manage the NPLs has to be an external and independent servicer (different from the originator and not belonging to the same group);
- The senior and mezzanine notes should have the following characteristics:
  - A floating-rate remuneration;
  - The remuneration of the mezzanine notes may be deferred or subordinated to the full repayment of the principal of the senior notes if certain performance targets are breached.
- The GACS Law sets out a specific order of priority under Article 7.

According to the GACS Law, the GACS Guarantee will only cover payments provided in respect of interests and principal of the senior tranches and becomes effective only when the originator has transferred at least 50% plus one of the junior notes and, in any case, an amount of junior notes (and, if issued, mezzanine notes), which allows the de-recognition of the securitised receivables.

The GACS Guarantee is an unconditional, irrevocable and first-demand guarantee for the benefit of the senior noteholders. As remuneration for the GACS Guarantee, the MEF will be entitled to receive an annual fee to be determined in accordance with a formula provided by the GACS Law under Annexes 1 and 2.

According to the GACS Law, upon failure by the issuer to make the relevant payment (in full or in part) of the amounts due as principal or interests under the senior notes, the GACS Guarantee may be enforced within nine months. In the event that such failure to pay lasts for more than 60 days from the date for payment, the senior noteholders has to request the payment of the amount due and not paid. After 30 days and within six months from the date of receipt of such request, if the SPV has not made any of the relevant payments, the senior noteholders can request the intervention of the GACS. Within 30 days from the receipt of such request, the MEF will pay the relevant amount to the senior noteholders, without any further interests or costs.

By making the relevant payment, the MEF is subrogated to the rights of the senior noteholders and is entitled to recover (1) the amount paid under the GACS Guarantee, (2) the interests accrued and (3) the costs incurred for the recovery.

Notes:
All figures are euros unless otherwise noted.