

DBRS Morningstar Assigns Rating of BBB (sf) with Negative Trend to Aurelia SPV S.r.l.

Nonperforming Loans

June 22, 2021

DBRS Ratings GmbH (DBRS Morningstar) assigned a BBB (sf) rating with a Negative trend to the EUR 342,000,000 Class A Notes issued by Aurelia SPV S.r.l. (the Issuer).

As of the 31 December 2020 cutoff date, the Class A Notes were backed by a EUR 1.51 billion portfolio by gross book value (GBV) of Italian secured and unsecured nonperforming loans originated by Banco BPM S.p.A. (BPM, the Originator, or the Seller). CF Liberty Servicing S.p.A. (CF Liberty or the Special Servicer) has been appointed as the servicer of the receivables, while Credito Fondiario S.p.A (CF or the Master Servicer) acts as the master servicer for the transaction. Banca Finanziaria Internazionale S.p.A (FinInt or the Backup Servicer) has been appointed to carry out the servicing activities in case of termination of CF Liberty.

The securitised portfolio is composed of secured loans, representing approximately 50.3% of the GBV, of which approximately 88.3% by GBV benefits from a first-ranking lien mortgage, and unsecured borrowers representing the remaining 49.7% of the GBV. At cutoff date, the portfolio was mainly represented by corporate borrowers (87.9% by GBV), and the properties securing the loans in the portfolio mainly comprised residential and retail properties (43.0% and 27.1% by first-ranking lien updated real estate value, respectively). The secured collateral was highly concentrated in northern regions of Italy (69.2% by first-ranking lien updated real estate value) with Lombardy representing 36.9% by real estate value.

The transaction benefits from approximately EUR 24.9 million of collections recovered between the 31 December 2020 cutoff date and 21 May 2021, which will be used to pay initial transaction costs and, for the remaining part, will be distributed in accordance with the priority of payments on the first interest payment date.

The transaction includes a cash reserve, sized at 4.5% of the principal outstanding of the Class A Notes, and a recovery expenses cash reserve, both fully funded with the proceeds of a limited recourse loan granted to the Issuer by BPM for an amount equal to EUR 15.54 million. The limited recourse loan also funds the EUR 100,000 retention amount. At each interest payment date, the cash reserve amount and the recovery expenses cash reserve will be part of the available funds for the waterfall and will be replenished in the waterfall up to the respective target amount.

Additionally, the transaction includes the possibility to implement a Real Estate Owned Company (ReoCo) structure. ReoCos are real estate companies that are usually set up and held by junior and mezzanine investors of a transaction to maximise recoveries by (1) participating at auction to increase competitive tension between the parties interested in purchasing the real estate properties; and (2) acquiring and actively managing the assets to enhance their value. The implementation of the ReoCo structure will be subject to the execution of a loan agreement with a third party lender by no later than 16 December 2021. The external financing will be aimed at providing the ReoCo with the liquidity required in order to perform its activities. The rating assigned to the Class A Notes at closing reflects DBRS Morningstar's analysis of the features of the proposed ReoCo structure and a review of the framework agreement and relevant legal documents. The non-implementation of the ReoCo structure has no impact on the Class A Notes at closing.

Interest on the Class B Notes, which represent mezzanine debt, will be paid ahead of the principal of the Class A Notes unless certain performance-related triggers are breached.

The rating addresses the timely payment of interest and ultimate repayment of principal on the Class A Notes.

DBRS Morningstar based its rating on an analysis of the projected recoveries of the underlying collateral, the historical performance and expertise of the servicer, the availability of liquidity to fund interest shortfalls and special-purpose vehicle expenses, and the transaction's legal and structural features. DBRS Morningstar's BBB (sf)

rating stress scenario assumes a haircut of approximately 22.7% to the servicer's initial business plan for the portfolio.

The final maturity date of the transaction is July 2047.

DBRS Morningstar analysed the transaction structure using Intex DealMaker.

The Coronavirus Disease (COVID-19) and the resulting isolation measures have resulted in a sharp economic contraction, increases in unemployment rates, and reduced investment activities. DBRS Morningstar anticipates that collections in European NPL securitisations will continue to be disrupted in the coming months and that the deteriorating macroeconomic conditions could negatively affect recoveries from NPLs and the related real estate collateral. The rating is based on additional analysis and adjustments to expected performance as a result of the global efforts to contain the spread of the coronavirus. For this transaction, DBRS Morningstar incorporated its expectation of a moderate medium-term decline in property prices; however, partial credit to house price increases from 2023 onwards is given in noninvestment grade scenarios. The Negative trend reflects the ongoing uncertainty amid the coronavirus pandemic.

On 16 April 2020, DBRS Morningstar published a set of macroeconomic scenarios for the 2020-22 period in select economies. These scenarios were last updated on 18 June 2021. For details, see the following commentaries: <https://www.dbrsmorningstar.com/research/380281/global-macroeconomic-scenarios-june-2021-update> and <https://www.dbrsmorningstar.com/research/359903/global-macroeconomic-scenarios-application-to-credit-ratings>. The DBRS Morningstar analysis considered impacts consistent with the moderate scenario in the referenced reports.

For more information on DBRS Morningstar considerations for European NPL transactions and Coronavirus Disease (COVID-19), please see the following commentaries: <https://www.dbrsmorningstar.com/research/362326> and <https://www.dbrsmorningstar.com/research/360393>.

For more information regarding rating methodologies and Coronavirus Disease (COVID-19), please see the following DBRS Morningstar press release: <https://www.dbrsmorningstar.com/research/357883>.

For more information regarding structured finance rating methodologies and Coronavirus Disease (COVID-19), please see the following DBRS Morningstar press release: <https://www.dbrsmorningstar.com/research/358308>.

For more information regarding the structured finance rating approach and Coronavirus Disease (COVID-19), please see the following DBRS Morningstar press release: <https://www.dbrsmorningstar.com/research/359905>.

ESG CONSIDERATIONS

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings at <https://www.dbrsmorningstar.com/research/373262>.

Notes:

All figures are in euros unless otherwise noted.

The principal methodology applicable to the rating is: "Rating European Nonperforming Loans Securitizations" (19 May 2021).

DBRS Morningstar has applied the principal methodology consistently and conducted a review of the transaction in accordance with the principal methodology.

Other methodologies referenced in this transaction are listed at the end of this press release. These may be found at: <http://www.dbrsmorningstar.com/about/methodologies>.

For a more detailed discussion of the sovereign risk impact on Structured Finance ratings, please refer to "Appendix C: The Impact of Sovereign Ratings on Other DBRS Morningstar Credit Ratings" of the "Global Methodology for Rating Sovereign Governments" at: <https://www.dbrsmorningstar.com/research/364527/global-methodology-for-rating-sovereign-governments>.

The sources of data and information used for this rating include secured historical performance data provided by the Master Servicer on 29 April 2021 (repossession data for secured loans sold between 2017 and 2020), unsecured historical performance data provided by the Seller on 21 April 2021 (historical yearly recovery curves from static pool of unsecured loans over a period of 16 years), and a business plan and loan tape shared on 11 May 2021 by the Master Servicer and the Seller, respectively.

DBRS Morningstar did not rely upon third-party due diligence in order to conduct its analysis.

DBRS Morningstar was supplied with third-party assessments. However, this did not impact the rating analysis.

DBRS Morningstar considers the data and information available to it for the purposes of providing this rating to be of satisfactory quality.

DBRS Morningstar does not audit or independently verify the data or information it receives in connection with the rating process.

This rating concerns a newly issued financial instrument. This is the first DBRS Morningstar rating on this financial instrument.

Information regarding DBRS Morningstar ratings, including definitions, policies, and methodologies, is available on www.dbrsmorningstar.com.

To assess the impact of changing the transaction parameters on the rating, DBRS Morningstar considered the following stress scenarios, as compared to the parameters used to confirm the rating (the Base Case):

- Recovery Rates Used: Cumulative Base Case recovery amount of approximately EUR 472.5 million at the BBB (sf) stress level, a 5% and 10% decrease in the base case recovery rate.
- DBRS Morningstar concludes that a hypothetical decrease of the Recovery Rate by 5%, ceteris paribus, would lead to a downgrade of the Class A Notes to BB (high) (sf).
- DBRS Morningstar concludes that a hypothetical decrease of the Recovery Rate by 10%, ceteris paribus, would lead to a downgrade of the Class A Notes to BB (low) (sf).

Generally, the conditions that lead to the assignment of a Negative or Positive trend are generally resolved within a 12-month period. DBRS Morningstar's outlooks and ratings are monitored.

For further information on DBRS Morningstar historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: <http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>. DBRS Morningstar understands further information on DBRS Morningstar historical default rates may be published by the Financial Conduct Authority (FCA) on its webpage: <https://www.fca.org.uk/firms/credit-rating-agencies>.

This rating is endorsed by DBRS Ratings Limited for use in the United Kingdom.

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Rating Committee Chair: Christian Aufsatz, Managing Director
Initial Rating Date: 22 June 2021

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The rating methodologies used in the analysis of this transaction can be found at: <https://www.dbrsmorningstar.com/about/methodologies>.

- Rating European Nonperforming Loans Securitisations (19 May 2021), <https://www.dbrsmorningstar.com/research/378681/rating-european-nonperforming-loans-securitisations>.
- Legal Criteria for European Structured Finance Transactions (6 April 2021), <https://www.dbrsmorningstar.com/research/376314/legal-criteria-for-european-structured-finance-transactions>.
- Rating European Consumer and Commercial Asset-Backed Securitisations (3 September 2020), <https://www.dbrsmorningstar.com/research/366294/rating-european-consumer-and-commercial-asset-backed-securitisations>.
- European RMBS Insight Methodology (3 June 2021), <https://www.dbrsmorningstar.com/research/379557/european-rmbs-insight-methodology>.
- European RMBS Insight: Italian Addendum (21 December 2020), <https://www.dbrsmorningstar.com/research/371597/european-rmbs-insight-italian-addendum>.

- European CMBS Rating and Surveillance Methodology (26 February 2021), <https://www.dbrsmorningstar.com/research/374399/european-cmbs-rating-and-surveillance-methodology>.
- Operational Risk Assessment for European Structured Finance Servicers (19 November 2020), <https://www.dbrsmorningstar.com/research/370270/operational-risk-assessment-for-european-structured-finance-servicers>.
- Derivative Criteria for European Structured Finance Transactions (24 September 2020), <https://www.dbrsmorningstar.com/research/367092/derivative-criteria-for-european-structured-finance-transactions>.
- Interest Rate Stresses for European Structured Finance Transactions (28 September 2020), <https://www.dbrsmorningstar.com/research/367292/interest-rate-stresses-for-european-structured-finance-transactions>.
- DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (3 February 2021), <https://www.dbrsmorningstar.com/research/373262/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings>.

A description of how DBRS Morningstar analyses structured finance transactions and how the methodologies are collectively applied can be found at: <http://www.dbrsmorningstar.com/research/278375>.

For more information on this credit or on this industry, visit www.dbrsmorningstar.com or contact us at info@dbrsmorningstar.com.

Ratings

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
22-Jun-21	Class A Notes	New Rating	BBB (sf)	Neg	EU U

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