RATING ACTION:

ARC RATINGS ASSIGNS A PUBLIC, FINAL LONG-TERM 'BBB(SF)' RATING TO THE CLASS A NOTES ISSUED BY LUZZATTI POP NPLS 2021 S.R.L., WITH STABLE OUTLOOK

Lisbon, 23 December 2021 - ARC Ratings, S.A. (ARC) has assigned a public, final long-term 'BBB(sf)' rating to the Class A Notes issued by LUZZATTI POP NPLS 2021 S.R.L., with stable outlook.

Issuer	Tranche	Amount	Rating Class	Rating	Outlook	Next Review Date
LUZZATTI POP NPLS 2021 S.R.L.	Senior Notes Class A	EUR 191M	Non-Performing Loan	BBB(sf)	Stable	23 December 2022
LUZZATTI POP NPLS 2021 S.R.L.	Mezzanine Notes Class B	EUR 25M	Non-Performing Loan	NR	NR	-
LUZZATTI POP NPLS 2021 S.R.L.	Junior Notes Class J	EUR 10M	Non-Performing Loan	NR	NR	-

TRANSACTION OVERVIEW

This transaction is a cash securitisation of non-performing loans (NPLs) contracts originated in Italy. The portfolio includes non-performing loans originated by 12 banks: Banca Agricola Popolare di Ragusa S.c.p.A., Banca Popolare di Sondrio S.c.p.A., Banca Popolare del Lazio S.c.p.A., Blu Banca S.p.A., La Cassa di Ravenna S.p.A., Banca di Imola S.p.A., Banca Popolare Pugliese S.c.p.A., Banca Popolare di Puglia e Basilicata S.c.p.A., Banca di Piacenza S.c.p.A., Banca di Credito Popolare S.c.p.A., Banca Popolare di Fondi Soc. Coop. and Banca Valsabbina S.c.p.A. - ARC Ratings currently does not rate any of the aforementioned banks.

The portfolio includes non-performing loans with a Gross Book Value of EUR 790.5 million. The cut-off date of the portfolio was January 2021. In terms of real estate value (REV), the first lien secured part of the portfolio is made up of mainly residential (48.9%) and commercial/industrial (34.2% when offices and hotels are included) properties in Italy.

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The capital structure includes 3 classes of notes that amortize sequentially, Senior Class A is rated by ARC, the interest payment of Class B will rank senior to the principal payments of Class A if the Cumulative Collection Ratio and the PV Profitability Ratio are at least 90% of the business plan.

The rating of the Class A Note relates to the timely payment of interest and ultimate repayment of principal.

RATING RATIONALE

The main rating drivers are ARC's expected recoveries from the asset portfolio and their timing. ARC has analysed not only the Italian macroeconomic situation but the specifics of the real estate market to derive its assumptions. Another relevant rating driver is the special servicer's historical records and its experience with these type of assets. Counterparty risk analysis was performed following the Global Structured Finance Criteria (September 2021).

The ratings also consider the different credit enhancement mechanisms providing protection to the rated notes: The cash reserves, the interest rate hedging agreement and the subordination triggers.

ARC has applied a different type of analysis to each class of the non-performing loans, they were classified as secured and unsecured. The recoveries were calculated based on the appraisal values provided by the servicer. For the secured portion, these recoveries were haircut based on the liquidity, historical value declines and the particular view of ARC on the Italian real estate market. For the unsecured exposures we used the historical data provided by the servicer plus ARC's proprietary data. We calculated a base-case scenario that was then stressed according to the class's respective target rating levels, taking into account the weighted average seasoning of the portfolio of 6.3 Years.

KEY RATING DRIVERS

Cash Reserve: A cash reserve representing 4.0% of the total outstanding balance of Class A, protects the transaction from temporary cash shortfalls, covering senior expenses and interest on Class A. The reserve is financed through a limited recourse loan that will be repaid proportionally to the Class A principal payments and ranks senior to Class A principal payments. The cash reserve would be sufficient to pay approximately 5 periods of the Class A interest payments at the maximum cap rate.

Relatively high portion of real estate loans with updated valuations: 89.0% of the properties included in the secured non-performing loans segment have a valuation date after 2020, based on the REV for the first lien assets.

Properties located in the North of Italy: Properties located in the North of Italy represent 52%, Lombardia represents 40.8% of these properties in terms of REV for the first lien loans. ARC considers that the economic conditions and court speeds tend to be better in the

central/northern Italian regions. Historically Lombardia has been a region where Commercial/Industrial properties were more liquid in Italy.

Historical data received from the special servicer: ARC received from the special servicer (doValue), specific data that provided a foundation for the analysis of the timing and level of the recovery rates for both the secured and the unsecured part of the portfolio. The information includes more than 100,000 data points that also include information of the property type, legal procedures and location of the properties.

Interest rate cap: The SPV has entered into an interest rate cap spread mechanism with Societé Generale that allows the SPV to receive the difference between 6 months Euribor and the strike price. The notional covers the balance of Class A Notes and amortizes as defined at closing. The cap rate increases progressively from 0.2% at closing to 1.2% by 2037.

Real estate recovery: ARC considers that the post-pandemic recovery will reach the Italian real estate market in the next 3 to 5 years.

Business plan and senior notes protection through performance triggers: ARC was provided with a detailed business plan from the special servicer involved in the transaction. The business plan included a detailed disclosure of the forecasted gross and net income as well as the different levels of fees in the waterfall when applicable. The transaction documentation includes provisions for the underperformance of the servicer that increase the available funds to repay Class A at a faster pace.

Performance Incentives for the Special Servicer: Historically special servicers have

outperformed the recoveries compared to when the originator services the portfolio. The

fee structure is designed to generate an alignment of interest between the special servicer

and the transaction noteholders.

Portfolio Granularity: In GBV terms, the top 1, 5 and 10 borrowers represent 1.1%, 4.3% and 7.0% of the portfolio, the borrowers over 200,000 Eur are 61.3% of the total portfolio, which shows a granularity in line with other NPL transactions.

Portfolio Unsecured Exposures: At a borrower level, the unsecured assets in the portfolio represent 41.4% of the total GBV, this adds further uncertainty to the recoveries vector as unsecured exposures have historically lower recoveries than the secured assets. Additionally, recoveries from the unsecured assets are highly concentrated in the first years after the default of the borrower. The average seasoning of the portfolio is 6.3 years for the unsecured segment. ARC acknowledges that the cut-off date was in January 2021 and has adjusted its assumptions accordingly.

Real estate market liquidity risks: ARC has considered the risk of fire sale (specifically for each different asset type) in the analysis. This is one of the main sources of stresses applied to the transaction.

Appraisal Uncertainty: Given the particular illiquid conditions of the judicial market the properties can suffer a further adjustment due to continued deterioration of the asset which makes the appraisal value more volatile than in other cases.

High proportion of commercial properties during a post – pandemic period: Commercial/Industrial assets represent 34.2% (when offices and hotels are included) of the portfolio in terms of REV for the first lien loans. ARC has stressed the property values according to its methodology and taken into account the pandemic/post – pandemic situation for these type of properties (one of the main affected asset types by the Covid-19 situation).

Costs incurred by the issuer in relation to the property acquisition: Property maintenance may increase if the time between the repossession of the asset and the sale of the same, some assets may even see this time further increased by properties needing a change of administrative status (for example from residential to commercial) depending also on the location of the asset.

QUANTITATIVE ANALYSIS

ARC performed a loan-by loan data analysis to derive its assumptions. The haircuts over the appraisal values were calculated based on the rating target and the specific characteristics of each of the assets (property type, appraisal type, area, etc).

ARC calculated the market value declines (MVD) using the special servicer´s data and ARC´s data and models. We also considered the timing of the recoveries that can be affected among other factors by the type of legal proceeding, geographical location of the court.

For the Senior Notes analysis BBB(sf) the total recovery rate was 30.8% with a weighted average life of circa 5.5 years. For the secured NPL and unsecured NPL part of the portfolio the recovery rates were 50.3% and 3.2% respectively. The initial collections were considered when calculating these numbers.

SENSITIVITY ANALYSIS

Sensitivity Analysis	Class A
Stressed Scenario Description	Rating Level
2.5% additional decrease in stressed collections	BBB(sf)
5% additional decrease in stressed collections	BBB-(sf)

KEY TIPPING POINTS

Positive Turning Points	Negative Turning Points
- Faster than expected recovery of the Italian real-estate market	- New restrictions due to the COVID-19 crisis can negatively affect the performance of the servicer and therefore the transaction

RELATED CRITERIA AND RESEARCH

ARC Ratings' Global Structured Finance Rating Criteria (September 2021).

ARC Ratings' European Non Performance Loans Criteria (October 2021).

LUZZATTI POP NPLS 2021 S.R.L Rating Report.

The rating was assigned by ARC Ratings, S.A. and endorsed by ARC Ratings (UK) Limited in accordance with Statutory Instrument 2019 nº 266 - The Credit Rating Agencies (Amendment etc.) (EU Exit).

DISCLAIMERS

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