

### FUCINO RMBS S.R.L.

ARC Ratings, S.A. has assigned a rating to the Class A1 and Class B Notes of Fucino RMBS S.R.L.

CLASS	SIZE	COUPON	SUBORDINATION	RATING	OUTLOOK
Class A1 Notes	EUR 118,000,000	3m EUR + 0.75%	12.9%	AA-(sf)	Stable
Class B Notes	EUR 5,000,000	3m EUR + 1.20%	9.21%	A-(sf)	Stable
Class J Notes	EUR 12,480,000	3m EUR + 2.00%	0%	NR	NR

\*All of the notes have their coupon floored at 0%

\*\*Class B notes coupon is capped at 4%

Rating Date	16 June 2022
Next Review Date	16 June 2023
Servicer	Banca del Fucino
Back-up Servicer, Calculation Agent and corporate services provider	Centotrenta Servicing S.P.A.
Transaction Account Bank and Paying Agent	BNP Paribas Securities Services Milan
SWAP Counterparty	JP Morgan S.E.
Criteria Applied	ARC Ratings` Global Structured Finance Criteria ARC Ratings Residential Mortgage Backed Securities Criteria

The rating was assigned by ARC Ratings, S.A. and endorsed by ARC Ratings (UK) Limited in accordance with Statutory Instrument 2019 n° 266 - The Credit Rating Agencies (Amendment etc.) (EU Exit).

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## TRANSACTION OVERVIEW

This transaction is a restructuring of “Fucino RMBS S.R.L.” issued in 2019. It is a cash securitisation of Residential Mortgages originated by Banca del Fucino in Italy and transferred to Fucino RMBS S.R.L, a SPV under Italian law. The portfolio includes residential loans with a current balance value of EUR 135,470,511. The cut-off date of the portfolio was 30 April 2022.

The capital structure is made up of 3 classes that amortize sequentially, and Class A1 and Class B are rated by ARC. The principal payments of Class B are distributed after the principal payments of Class A1. The rating of the Class A1 and Class B Notes relates to the timely payment of interest and ultimate repayment of principal.

Banca del Fucino is the originator, seller, master servicer and collection account bank for the transaction. Centotrenta Servicing S.P.A has been assigned as the back-up servicer of the transaction. The initial reserve fund was financed through a limited recourse loan provided by Banca del Fucino. The reserve represents 3.5% of the rated notes initial balance and will amortise together with the notes. The transaction is fully hedged with swaps covering for basis and interest rate risk. The maturity of the notes is in December 2063. Class B and Class J original balance was 5,997,000 and 14,990,000 respectively and they have been partially repaid upon re-leverage.

### RATING RATIONALE

The main rating drivers of the transaction are the following:

- Credit quality of the portfolio. ARC has used an asset model to derive its Probability of Default, Recovery and Loss Given Default assumptions based on the characteristics of the portfolio. The asset analysis was based on historical data provided by the originator. Each of the loans was analysed based on its individual characteristics (interest payment frequency, LTV, fixed vs floating rate, borrower characteristics etc.).
- The capacity of the structure and the rated notes to withstand stressed cashflows under a variety of scenarios commensurate with the assigned rating levels that we have tested. Credit enhancement mechanisms are key for this task, in particular the cash reserve, swaps hedging the portfolio and the credit subordination of the notes.
- Counterparty analysis. ARC performed a detailed counterparty analysis based on its Global Structured Finance Criteria (May 2022) that takes into account the different counterparties credit risk and the structural mitigants (e.g. replacement triggers). For this particular case, ARC paid special attention to Banca del Fucino given the amount of roles that they perform in the transaction.

- Expected performance of the Italian economy. Italy is facing a particularly strenuous economic situation given its relatively large exposure to Russian sanctions and its below average performance during the last decade.
- Securitisation and True Sale Framework in Italy. ARC has verified that the SPV and its assets are in full compliance with the Italian securitisation framework and with ARC's Global Structured Finance Criteria (May 2022).

## **TRANSACTION STRENGTHS**

**Cash Reserve:** At closing, the cash reserve represents 3.5% of the Class A1 and Class B balance, and will amortize pari-passu with the notes. The cash reserve will protect the items 1 to 5 (senior fees and other expenses), the SWAP payments and the Class A1 interest rate payments.

**LTV Ratio:** The current weighted average loan to value ratio is 43.43%, while loans with a WA LTV higher than 70% and 80% represent 11.61% and 2.05% of the pool value respectively. ARC considers these levels to be low in comparison with other rated transactions. Lower loan to value ratios generally materialize into higher recoveries if they default, also, borrowers with lower LTV ratios tend to default less.

**Combined Waterfall:** The combined waterfall allows for a faster repayment of the rated notes given that no excess spread leakage is possible. Class J interest payments will only take place once the rated notes have fully amortized.

**Granularity:** The portfolio average loan size is EUR 89,656 lower than the average Italian RMBS, and loans larger than EUR 750,000 represent 1.94% of the portfolio by outstanding balance.

**Back up servicing:** Centrotrenta Servicing S.p.A has been appointed back up servicer and will step in as servicer should the appointment of Banca del Fucino S.p.a be terminated. Centrotrenta Servicing S.p.a is a pretty well-established servicer in Italy with servicing portfolio that reached EUR 23bn in 2021 and it operates under the Bank of Italy oversight.

**Interest subordination:** Interest on the Class B Notes is subordinated to the principal of the Class A1 Notes (relegated to a more junior position in the waterfall) if the cumulative default rate reaches or exceeds 17%. Considering the revised expectations for the Italian economy and past portfolio performances, the trigger limit can be considered to have a low probability of occurring.

**Hedging agreements in place:** The portfolio is composed of fixed rate loans and loans indexed to 3 months Euribor, 6 months Euribor and ECB Base rate . In order to hedge the different mismatches, the issuer entered into 3 swaps agreements with JPMorgan SE.

## **TRANSACTION WEAKNESSES**

**High Dependency on Banca del Fucino:** In line with other Italian transactions, Banca del Fucino is the originator, seller, master servicer and collection account bank of the transaction. A mitigating factor for this is the back-up servicer role assumed by Centotrenta Servicing S.P.A. and the daily sweeps from the collection account to the transaction bank account of the issuer.

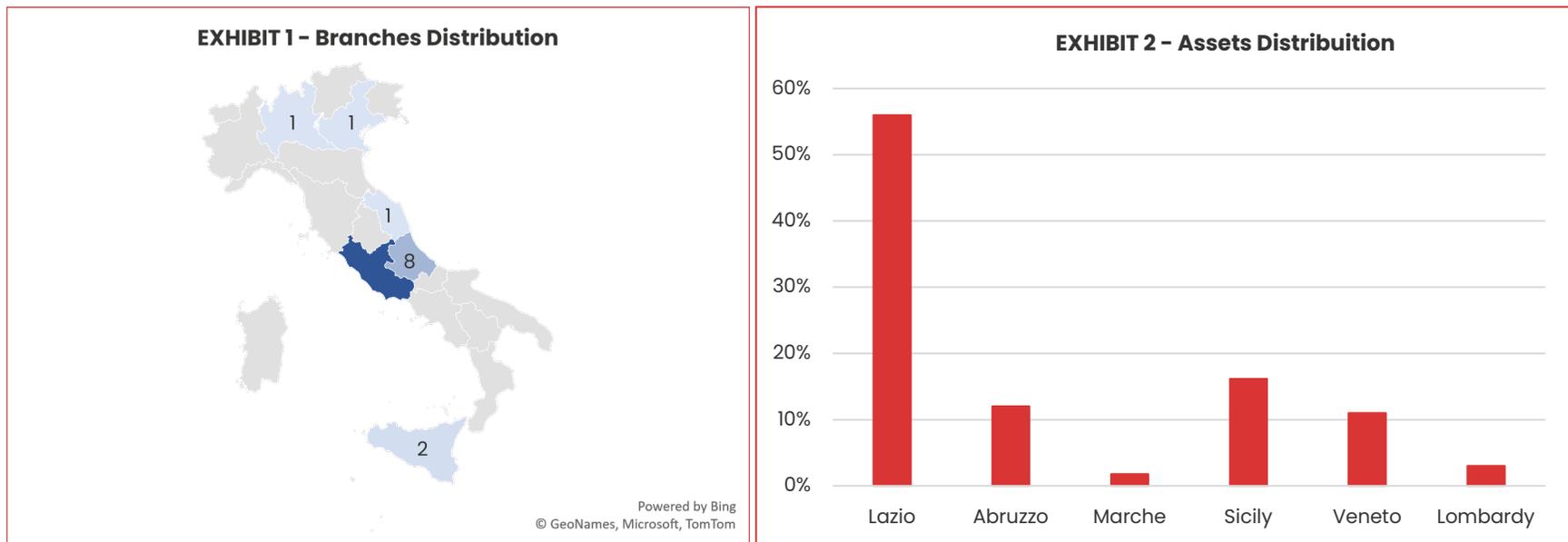
**Significant concentration in Lazio:** The borrowers are mostly residents of Central Italy (77.2%), particularly the region of Lazio (75.34%). ARC has taken this into consideration during the asset analysis.

**Renegotiation clauses:** Although the portfolio is static, renegotiation on changes to loan interest rates, yield, maturity and amortization profiles might take place. The uncertainties of the renegotiations' outcomes present a risk, however the potential changes can affect up to 25% of the aggregate balance of the initial pool.

**THE SERVICER**

Banca del Fucino was founded in 1923 by Giovanni and Carlo Torlonia, aiming to create a credit institution able to support individuals and small to medium-sized enterprises (SMEs) located in the Fucino area in Abruzzo. Presently, the bank has expanded geographically in Italy and has widened its portfolio of services for its clientele.

By the end of 2021 Banca del Fucino had 36 branches in Italy, with the majority (32 branches) located in the Centre of Italy, 2 branches in the North and 2 in the South. Regarding the assets, it is possible to notice a similar distribution, with the majority located in Lazio. Total assets as at 31 December 2021 were EUR 3.97 bn, showing a growth of about 40% compared to the same period in 2020.



Through an operation of consolidation and recapitalization concluded in June 2020, Banca del Fucino could integrate with Igea Banca (Specialized in securitization, CQS/TFS and online banking), widening its range of services and expanding its participations. Banca del Fucino is today the Parent of the Gruppo Bancario Igea banca, with the following composition.

<b>Name</b>	<b>Participation (%)</b>	<b>Core business</b>
<b>Igea Digital Bank S.p.A</b>	100%	Banking
<b>Pasvim S.p.A</b>	100%	Private Banking
<b>Fucino Green S.r.l</b>	70%	Sustainable Energy investment
<b>REDD S.r.l</b>	15.58%	Digital Services

The credit institution can offer services of consulting, securitization and investment, while ensuring credit line to consumers and SMEs still remain the main business. Considering the mortgage loans sector Banca del Fucino offers products with these characteristics:

- Max 30% of the primary income of the applicant
- Max 70% Loan-to-Value (LTV) for the main occupied property, and Max 50% LTV for other purpose properties
- Minimum/Maximum age of applicant 18/65
- Fixed rate/Floating rate (Euribor 3/6 months, European Central Bank)
- Max 30-years term
- Direct debit

The originations are sourced at the local branch level, where applicants first visit the branch to start the process. The initial stage includes the collection of the following documents:

Applicant	Property
Proof of identity	Property map
Report of Family assets - if married	Documents describing the characteristics and intended use
Proof of income	Draft of purchase contract
Proof of regular payment - if existing debt	Draft of potential refurbishing projects

Banca del Fucino adopted an automated acceptance model, which includes in the analysis internal data collected through the branch network and external data provided by Bank of Italy, Crif, and Centrale dei Rischi. The models analyze factors of the application (LTV, repayment capabilities, criminal report, guarantees, etc.) whilst checking them against the bank’s policies. The process is based on a “traffic light system”, where “Green” applications are generally approved without requiring further checks, “Orange” and “Red” inquiries require more detail, and “Black” means that the applicant is associated to default. Furthermore, the model produces a “Super Index (IGP)”, which quantifies the level of acceptance of an application against the bank’s risks limits.

Regarding the appraisal values, Banca del Fucino relies on the Società Revaluta S.p.A. analysis. This external services company is formed by professionals and regulated by Bank of Italy law n.285/2013. Appraisal processes are implemented annually; however, they might have higher frequency in case the occurrence of some events will affect the properties values over the bank’s tolerance limits.

Credit analysis and classifications of clients are implemented on a regular basis by the bank through the internal credit rating system (CRS). The system, through statistical models and historical data series, aims to assign to every client a score based on insolvency probability and to reduce the risk of any deterioration of the assets quality. CSR has been developed with Cedacri, one of the leading IT providers in Italy, and provides a risk scale from 1 (best class) to 10 (worst class).

The approval processes are conducted at different levels according to the borrower’s exposures:

<b>Approval body</b>	<b>Amount (EUR)</b>
<b>Credit Committee</b>	2,500,000
<b>Credit Dept. Manager</b>	1,000,000
<b>Commercial Dept. Manager</b>	400,000
<b>Small Business Manager</b>	300,000
<b>Regional Manager</b>	200,000
<b>Hub Manager</b>	100,000

The loan management and servicing activities are implemented at branch level through a daily automated screening of payments. The majority of loans are on monthly payment schedules although the portfolio does include some quarterly, semi-annual and annual schedules which are in line with the overall Italian market. The bank follows standard collections and arrears management strategies including compliance with regulatory guidelines surrounding delinquency. For every arrears case, customer contact is initiated immediately after notification to the bank through calls and letters, which is typically 15 days after a payment becomes due. If these attempts to solve the payment anomalies fail, the account is moved to the centralized UtP & PD management office. This unit is specialized in implementing efficient collection strategies and relies on third-party servicers, if required, in order to protect the bank’s assets quality.

Legal proceedings are generally commenced after a loan is classified as defaulting and all previous attempts at an out of-court resolution have been exhausted. The standard procedure would include: (1) Legal notification within 15 days, (2) Foreclosure of the property within 6 months, (3) Distribution after forced sale within 48 months. However, these time ranges might widen considering the inefficiencies of the Italian juridical system. Banca del Fucino seems intentioned to pursue extra-judicial agreements with the borrowers, while the legal proceedings are underway.

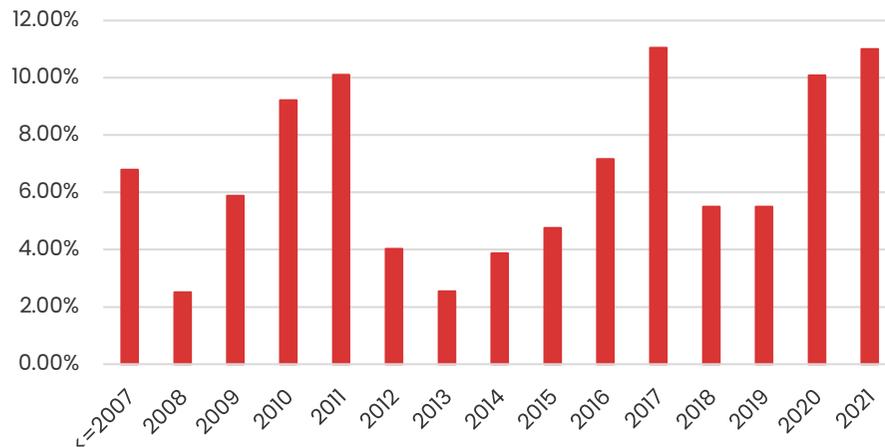
## ASSET ANALYSIS

All of the assets in the portfolio benefit from a first economic lien and are originated by Banca del Fucino S.p.a. related to properties located in Italy.

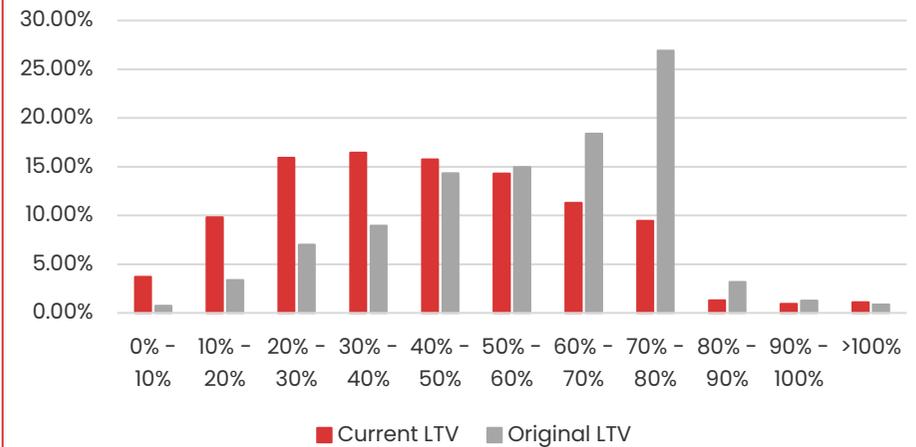
In regard of these properties, the vast majority (90.68%) are primary residences while secondary/holiday residences represent the remaining 9.32%. Normally the owner-occupied property mortgages tend to show a better performance than the mortgages linked to secondary properties.

In the exhibit below its observed that 10.08% and 11.01% of the pool were originated in 2020 and 2021 respectively, while 11.04% was originated in 2017. This has resulted in the WA seasoning of 7.2 years and WA residual term of 15.7 years. In terms of LTV, the portfolio has a WA LTV of 43.43%, which shows a considerable reduction compared to the Original LTV of 59.61%. The current LTV is considered low for the average level of the Italian market, furthermore the loans associated to an LTV equal or higher than 80% represent about 2.05% of the current value (Exhibit 4).

**EXHIBIT 3 - Portfolio Breakdown by Year of Origination**



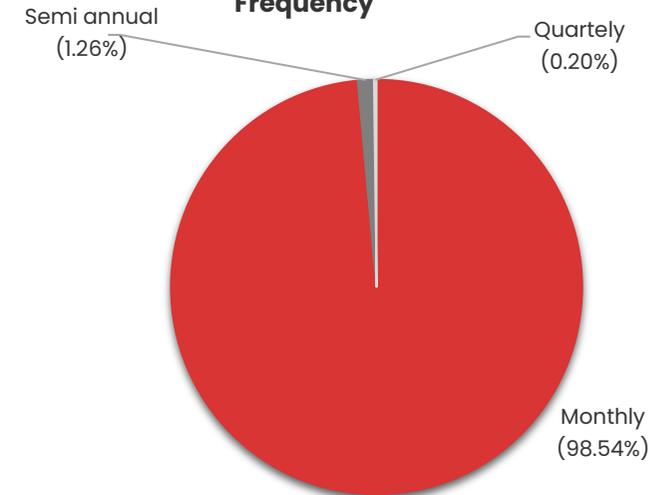
**EXHIBIT 4 - Portfolio Breakdown by LTV**



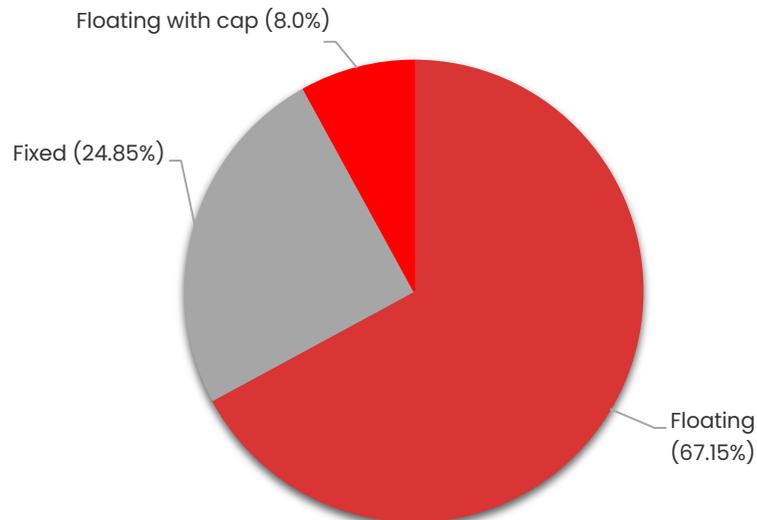
The Exhibit 5 shows the vast majority of the payments are executed monthly (98.54%) while the quarterly and semi-annual payments represent 1.26% and 0.20% of the current loans' values respectively.

This portfolio is currently split between fixed rate loans (24.85%) and floating rate loans (75.15%), within the floating rate loans it is possible to identify that 8% is associated to assets that are floating rate with a cap. With reference to the floating rate, the majority of the loans (75.38%) are indexed to 6m Euribor, while 18.80% is indexed to 3m Euribor and the remaining 5.82% is linked to the ECB base rate.

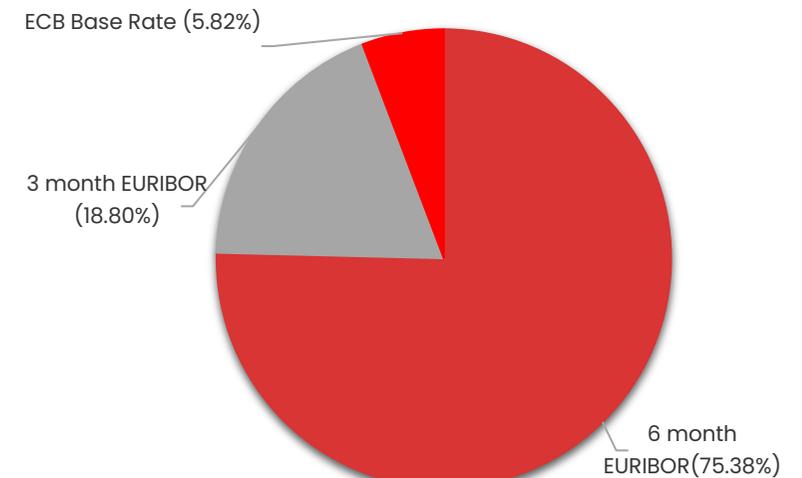
**EXHIBIT 5 - Portfolio Breakdown by Payment Frequency**



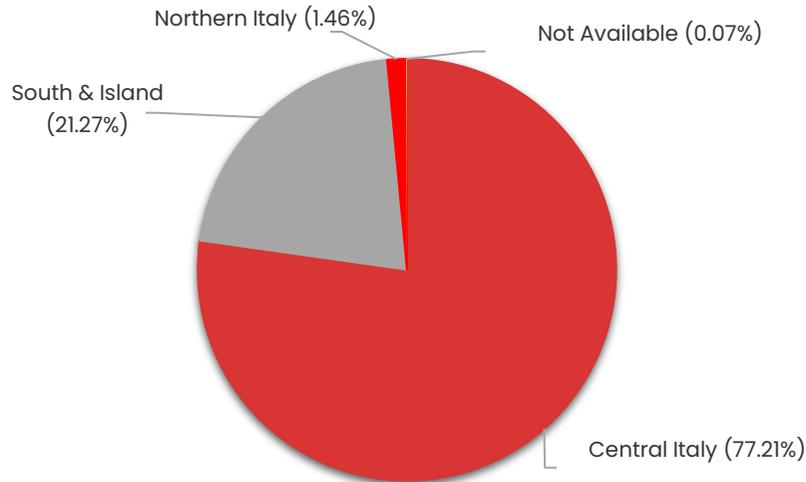
**EXHIBIT 6 - Portfolio Breakdown by Interest**



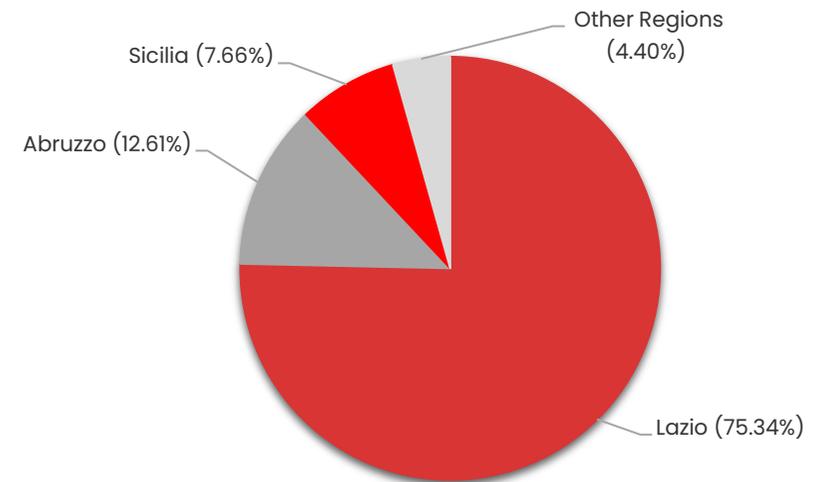
**EXHIBIT 7 - Portfolio Breakdown by Reference rate**



**EXHIBIT 8 - Portfolio Geographic Distribution**



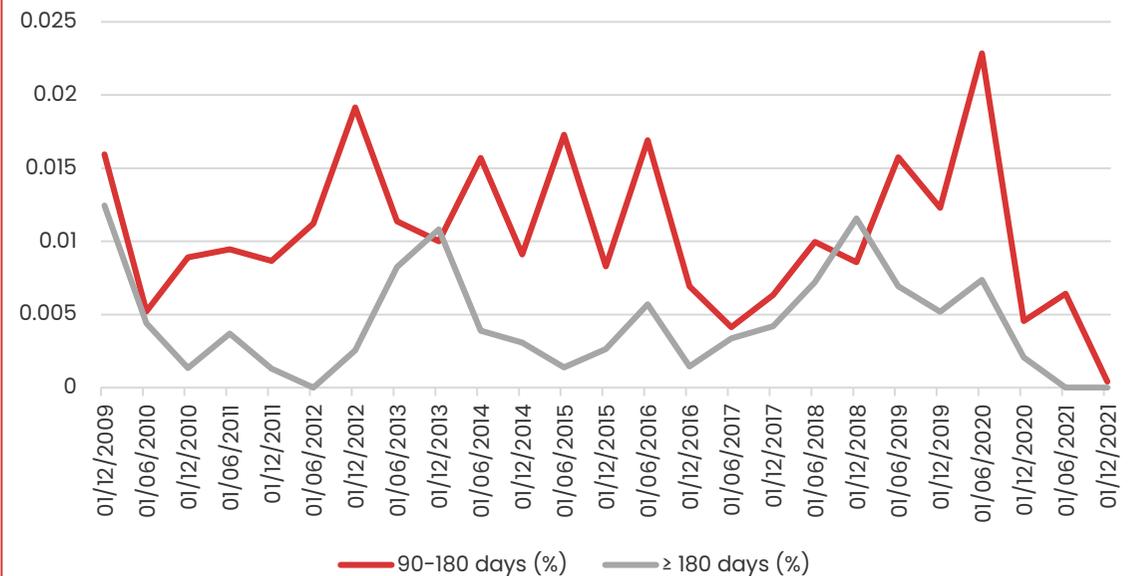
**EXHIBIT 9 - Portfolio Geographic Distribution by Regions**



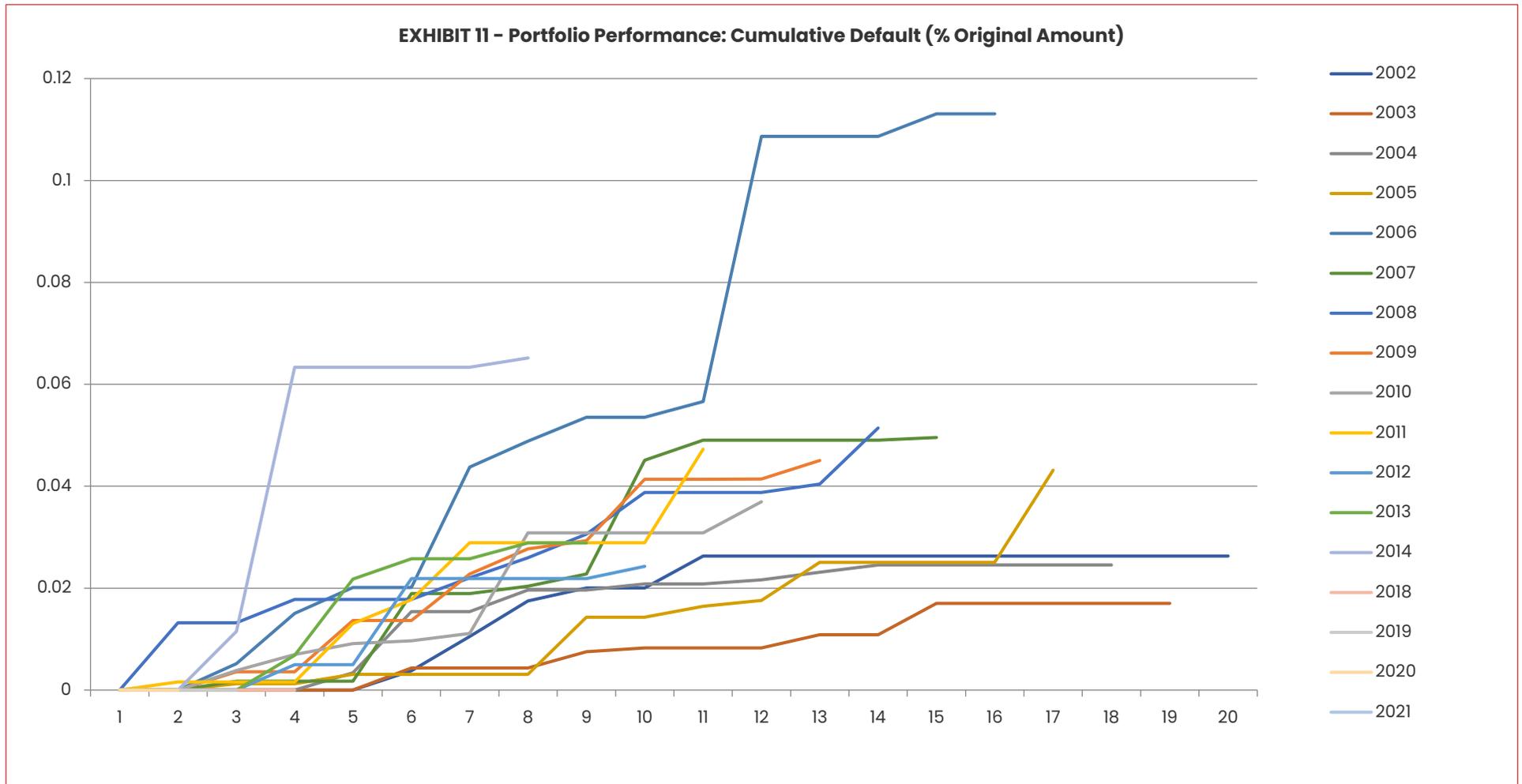
The properties securing the portfolio are concentrated mainly in Central Italy (77.21%), while 21.27% is located in Southern regions, and a marginal 1.46% is in the North of the country. The highest concentration is located (75.34%) in Lazio, which is the originator's core market and it is also the region where the majority of Banca del Fucino's branches and headquarter are located.

Exhibit 10 shows the changes in delinquency levels from year-end 2009 to year-end of 2021. The portfolio has maintained a relatively good performance until 2020 where, due to the combination of macroeconomic instability in the country and restrictions, the delinquency rate spiked to 2.3%. However, only 56 loans of the total 1511 (4.15%) of the portfolio have previously had one unpaid instalment.

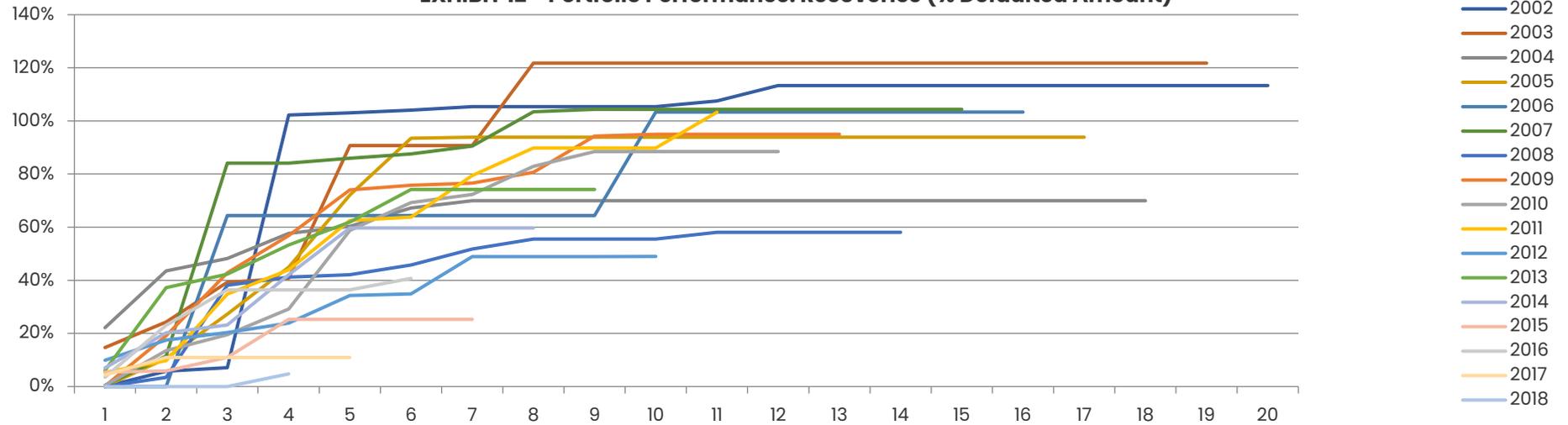
**EXHIBIT 10 - Portfolio Performance: Delinquency**



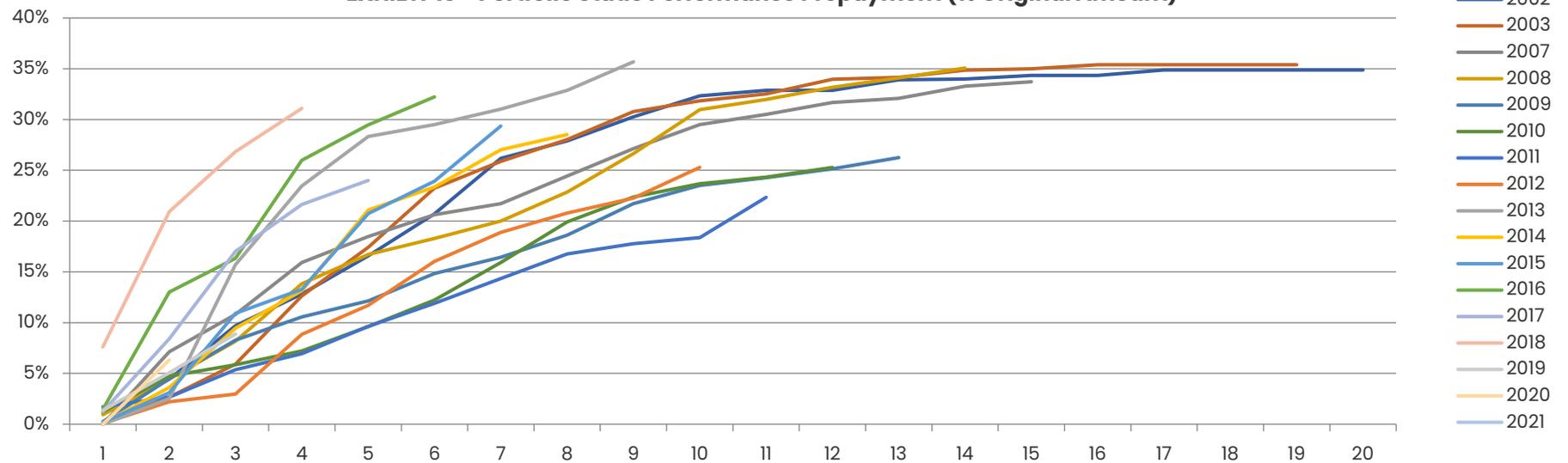
The following graphs show the performance of loans originated by Banca del Fucino in the past in terms of default and recoveries. The WA default rate stands at 3.4% while the WA recovery rate is 56.4% according to the vintage data provided by Banca del Fucino.



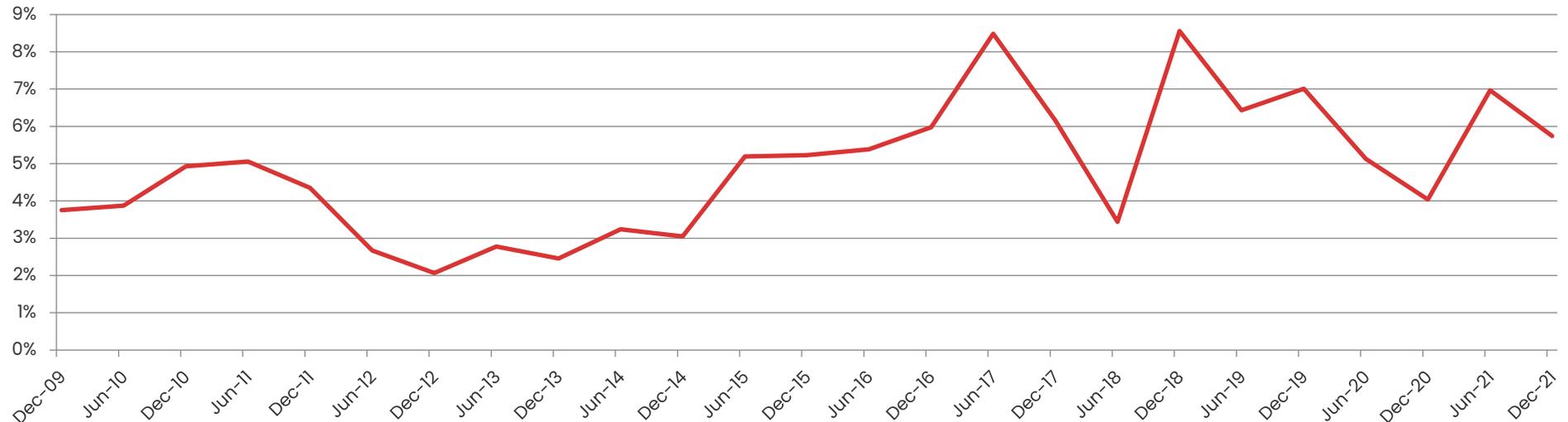
**EXHIBIT 12 - Portfolio Performance: Recoveries (% Defaulted Amount)**



**EXHIBIT 13 - Portfolio Static Performance Prepayment (% Original Amount)**



**EXHIBIT 14 - Portfolio Dynamic Performance Prepayment (% Outstanding Balance)**



### Renegotiations and Repurchase

Terms of the servicing agreement include the option to renegotiate:

- Change the interest rate from floating rate to fixed rate and vice versa
- Reduction of the interest rate or of the spread of the Loan
- The principle amount payable, which cannot exceed 10% of the outstanding principal amount of the Claims as at the Effective Date, and 35% of the Principal Amount over the entire duration of the transaction.
- Reduction of the Net Margin of a maximum of 20% with a floor of 0.5%. In the situation where the margin will be reduced by more than 0.5% the servicer must provide an indemnity to the special purpose vehicle

- The final maturity may be adjusted subject to the following:
  - The renegotiation agreement shall not provide for payments of any instalment on a date which falls on a date which is 10 years prior and/or 15 years before the final maturity date.
  - The outstanding principal amount of all the Loans object of such renegotiation shall not exceed 10% of the outstanding principal amount of the Claims as at the Effective Date
  - In case of a granted suspension, it should not exceed 18 months limit
- Repurchase of loans, considering the following limitations:
  - The amount cannot exceed 20% of the aggregate balance of the initial pool
  - Regarding performing loans, the price should be equal to the current balance plus the accrued interests and the amount derived from the principal balance of the repurchased loans multiplied by the interest rate applicable to the Class A1 notes over a period between the relevant re-purchase date and the immediately following payment date.

The risk persists as requests for suspension or renegotiation cannot be predicted and is influenced by a wide variety of economic, market industry, social and other factors, including prevailing mortgage market interest rates and margins offered by the banking system, the availability of alternative financing, local and regional economic conditions as well as special legislation.

### **Italian Economy Performance**

The portfolio is fully located in Italy, which in recent years has been characterized by slow growth, relatively low salaries, high unemployment rate, and declining property prices. The following table helps to describe the macro indicators applicable to the portfolio.

Exhibit 15 shows a GDP trend which, other than the higher volatility experienced due to the pandemic in the last 2 years, has remained at values close to zero. Investments show higher volatility; however, Italy still holds a net positive international investment position balance (IIP) and internal investments are mainly driven by the public sector. Unemployment still remains considerably high with values no lower than 8%.

ARC has taken into account the situation of the Italian economy (current and forecasted) and applied the relevant stresses to its assumptions during the quantitative phase of the transaction analysis.

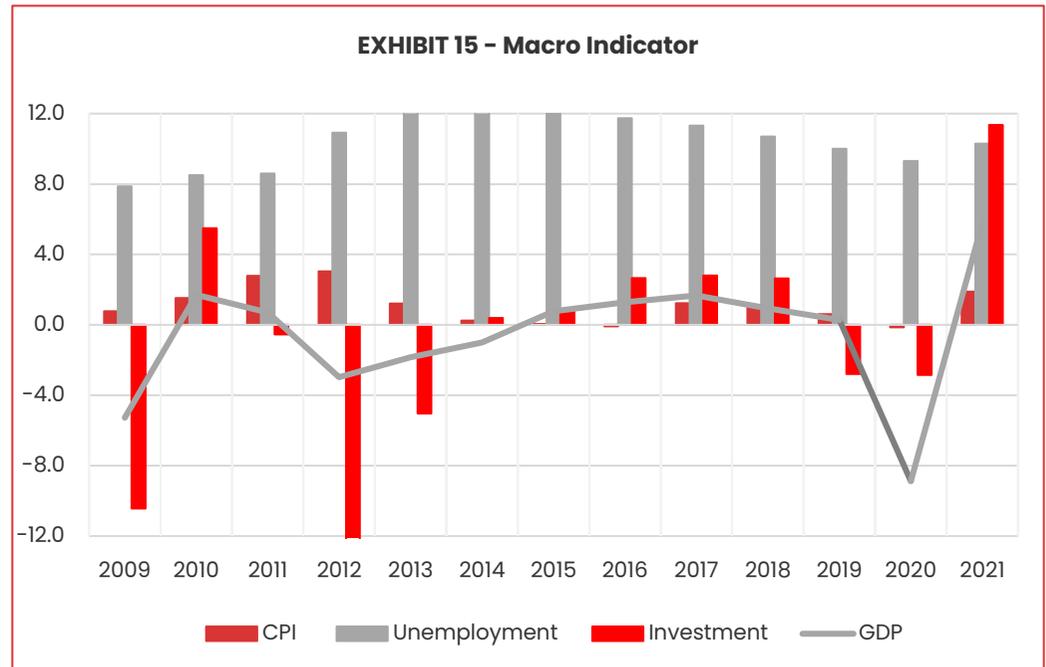
### ELIGIBILITY CRITERIA

The most relevant eligibility criteria points for the transaction's portfolio can be found below:

- The loans were originated by Banca del Fucino
- The loans are denominated in Euros
- The borrowers are "in bonis" status
- The loans were originated after 2003
- The loans had an original value of less than EUR 1.2m and have French amortization
- All of the loans benefit from the first economic mortgage lien
- Loans have a minimum spread of 0.25% for the floating rate mortgages and a minimum 0.65% coupon for the fixed mortgages
- No Loan was subsidized by public subsidies or was granted to Banca del Fucino employees
- Loan Agreements did not present more than two overdue and unpaid instalments on the Valuation Date; and as of May 5, 2022 they presented no more than one instalment due and unpaid
- The loans have been fully withdrawn and no possibility of increasing the amounts exist

### TRUE SALE AND BANKRUPTCY REMOTENESS

ARC received legal opinions on the correct transfer of the assets under the Italian securitization law. Under law 130 (securitization law) and under the special vehicle clauses bankruptcy remoteness was achieved.



## TRANSACTION STRUCTURAL FEATURES

On the 13<sup>th</sup> of June the Originator transferred the portfolio to Fucino RMBS S.R.L which funds the acquisition of the portfolio with the proceeds of the issued notes.

**Waterfall of payments:** The transaction has a combined waterfall of payments that allows use of principal payments and the other sources of income (recoveries from defaulted assets, potential swap payments, etc.) to cover for potential shortages of liquidity in case the cash reserve is not sufficient.

The waterfall of payments is as below:

**Pre-Enforcement Priority of Payments:**

1. Senior fees and expenses
2. Swap payments for the different hedging agreements
3. Class A1 Interest Payments
4. Replenishment of the Cash Reserve up to the target amount
5. Interest on the Limited Recourse Loan provided by Banca del Fucino
6. Class B Interest (if no Subordination Event has been triggered)
7. Class A1 Principal Payments
8. Class B Interest (if there is a Subordination Event in place)
9. Class B Principal Payments
10. Principal on the Limited Recourse Loan
11. Other payments (i.e. Swap termination payments)

**Post-Enforcement Priority of Payments:**

1. Senior fees and expenses
2. Swap payments for the different hedging agreements
3. Class A1 Interest Payments
4. Class A1 Principal Payments
5. Interest on the Limited Recourse Loan provided by Banca del Fucino
6. Class B Interest Payments
7. Class B Principal
8. Principal on the Limited Recourse Loan
9. Other payments (i.e. Swap termination payments)
10. Class J Interest payments
11. Class J Principal payments
12. Class J residual payments

The structure does not have a deficiency ledger, the funds will be used to repay the different notes after the cash reserve is replenished. There is no excess spread leakage.

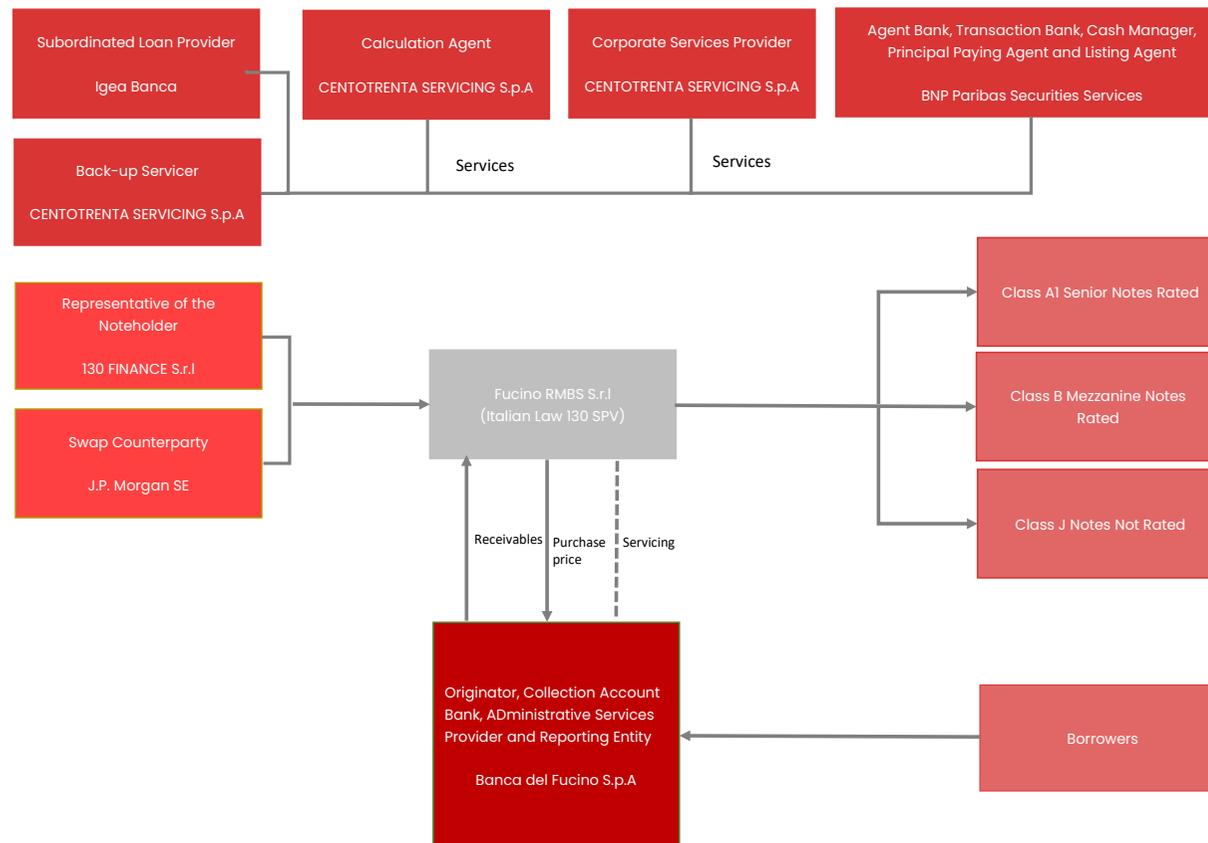
The credit enhancement for the senior notes comes through the subordination of the more junior notes. The cash reserve represents 3.5% of the balance of Class A1 and Class B notes and amortizes during the life of the transaction regardless of the transaction performance, it can be used to pay senior fees and Class A1 interest providing extra credit enhancement to the notes. At the current Euribor levels, the cash reserve provides protection for approximately 5 periods at the closing of the transaction.

### Interest Subordination Event

If the cumulative default ratio is equal or above 17% the "Interest subordination event" interest payments of Class B will be moved to a more junior position of the waterfall benefiting the Class A1 notes. ARC took this into consideration in its assumptions but considers this scenario highly unlikely.

### COUNTERPARTY ANALYSIS

The transaction counterparty structure can be found below:



### **Back-up Servicer, calculation agent and corporate services provider**

Centrotenta Servicing S.p.A. was appointed as the back-up servicer to the transaction. The company was founded in 2001 and has more than EUR 20 billion in portfolio that they currently service.

As the calculation agent of the transaction, Centrotenta Servicing will be in charge of calculating the relevant cashflows and informing the different counterparties of payments and through the investor reports. Provisions have been made for cases when the servicing report is not available to protect Class A1 interest payments.

### **Originator, Seller, Servicer, Master Servicer, Collection Account Bank**

As described previously on this report Banca del Fucino is the originator, seller and servicer of this transaction. As collection account, Banca del Fucino will collect the interest and principal payments from the borrowers and will transfer the collections on a daily basis to the Account Bank, this acts as a mitigant to the credit risk of Banca del Fucino.

### **Transaction Account Bank and Paying Agent**

BNP Paribas Securities Services, Milan Branch is the account bank for the transaction. ARC does not apply any rating cap to the transaction based on the credit risk of this counterparty.

### **Swap Counterparty**

Fucino RMBS S.R.L. has entered into different swap agreements to hedge the portfolio's interest and basis risk. JP Morgan SE will perform the role of Swap Counterparty. ARC has included the Swap analysis in its assumptions based on different possible future interest rate scenarios.

## **ANALYTICAL ASSUMPTIONS**

Following ARC's Global Residential Mortgage Backed Securities (RMBS) Rating Criteria (May 2022), the expected default frequency and loss severity for the portfolio was calculated based on the historical data provided by the different counterparties and ARC's own assumptions.

<b>Scenario</b>	<b>Probability of Default</b>	<b>Recovery Rate</b>
Base Case Scenario	9.58%	75.23%
AA- Scenario	34.42%	65.69%

Using the above assumptions ARC used a cashflow analysis to determine the weighted average life of the rated notes and test the different stresses described in the RMBS Rating Criteria.

**Spread Compression:** ARC tested and stressed scenarios where the highest paying loans are prepaid first therefore decreasing the weighted average coupon of the transaction.

**Interest Rate:** The transaction is fully hedged with JP Morgan SE as the swap counterparty. ARC considered the hedge agreements to be compliant with our Global Structured Finance Rating Criteria. When testing the different interest rate scenarios, ARC found that the fixed to floating swap has a particularly strong influence on the cashflows of the transaction, given the 24.85% part of the portfolio that has a fixed interest rate.

**Prepayment Rate:** ARC has tested different prepayment rate scenarios based on the historical prepayment rate data provided by Banca del Fucino and new scenarios considering the current interest rate environment.

**Recovery Lag:** ARC used a recovery lag of 108 months in its cashflow analysis as a base case scenario assumption.

**Timing of defaults:** ARC tested different 3 different default vectors including front-loaded, stable and back-loaded default scenarios.

**Commingling risk:** Commingling risk is mitigated by the daily sweep payments from the collections account (opened in Banca del Fucino for the Issuer) to the transaction's account bank in BNP Paribas Securities Services. There is a transfer of the account bank role at the Baa2 level based on the Moody's ratings.

**Set Off risk:** After the transfer of assets, the borrowers are informed through a publication in the Official Gazette of the Republic of Italy. Under Italian law this represents a sufficient mitigant to set-off risk. ARC acknowledges that this mechanism has not been yet tested at a court level.

Class A1 Notes Rating Outcome	AA-(sf)
Class B Notes Rating Outcome	A-(sf)

<b>Sensitivity Analysis</b>	<b>Class A1</b>	<b>Class B</b>
Stressed Scenario Description	Rating Level	Rating Level
5% Extra Recovery Stress	AA-(sf)	A-(sf)
10% Extra Recovery Stress	A+(sf)	BBB+(sf)

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