RATING ACTION:

ARC RATINGS ASSIGNS A PUBLIC, FINAL LONG-TERM 'BBB(SF)' RATING TO THE CLASS A NOTES ISSUED BY BELA 2022 S.R.L, WITH STABLE OUTLOOK

Lisbon, 19 April 2022 - ARC Ratings, S.A. (ARC) has assigned a public, final long-term 'BBB(sf)' rating to the Class A Notes issued by Bela 2022 S.R.L, with stable outlook.

ISSUER	TRANCHE	AMOUNT	RATING CLASS	RATING	OUTLOOK	NEXT REVIEW DATE
Bela 2022 S.R.L	Senior Notes Class A	EUR 60M	Non-Performing Loan	BBB(sf)	Stable	19 April 2023
Bela 2022 S.R.L	Mezzanine Notes Class B	EUR 10M	Non-Performing Loan	NR	NR	-
Bela 2022 S.R.L	Junior Notes Class J	EUR 4.1M	Non-Performing Loan	NR	NR	-

TRANSACTION OVERVIEW

This transaction is a cash securitisation of non-performing loan (NPL) contracts originated in Italy. The portfolio includes non-performing loans originated by Illimity Bank S.P.A., Aporti S.r.l. and Doria SPV S.r.l. ARC Ratings does not currently rate any of the aforementioned institutions.

The portfolio includes non-performing loans with a Gross Book Value (GBV) of EUR 475 million. The cut-off date of the portfolio is 30 June 2021. In terms of Real Estate Value (REV), the secured part of the portfolio is made up of mainly residential (42.5% - including first and junior lien borrowers) and commercial/industrial (44%) properties in Italy. The maturity of the notes is in January 2043.

The capital structure includes 3 classes of notes that amortize sequentially, with the senior Class A Notes 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 above 90% of the business plan. Furthermore, if the Cumulative Collection Ratio and the PV Profitability Ratio are below 85% of the business plan, 30% of the servicing fees will be subordinated to Class A.

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The rating of the Class A Notes 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, their timing and the initial collection amount already collected (EUR 11.3million). 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 types of assets. Counterparty risk analysis was performed following the Global Structured Finance Criteria (September 2021).

The rating considers 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 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 then was stressed according to the Class A Notes' respective rating level, considering the weighted average seasoning of the portfolio of 5 Years.

KEY RATING DRIVERS

Cash Reserve: A cash reserve representing 4.0% of the total outstanding balance of Class A (EUR 2.4M) 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 and B payments in the waterfall. The cash reserve would be sufficient to pay approximately 2 periods of the Class A interest payments at the maximum cap rate.

Relatively high portion of real estate assets with updated valuations: 40% of the properties included in the secured non-performing loans segment have a valuation date within 2021 – 2022, while 46% were valued during 2020. In terms of value, 98.7% of the Real Estate collateral, linked to the 1st lien mortgage, have been subjected to appraisal between March 2020 and February 2022. Of these about 77% have been valued by Cerved and Cerved RE.

Properties and Debtors' location: In terms of gross book value (GBV), 44% of the debtors are located in Northern Italy, showing concentration of 12% in Lombardy and Tuscany. The majority of the properties are located in the Northern regions, with a concentration of 44.9% of the secured debt, while the rest is evenly spread through the rest of the country. ARC considers that the economic conditions and courts speed tends to be better in the

Central/Northern Italian regions. Regarding the unsecured part, in terms of GBV, 38.8% of this fraction of the portfolio resides in the northern regions of the country, while 27% is located in Central Italy with a peak of 14.5% in Lazio showing a high concentration in Rome. Italy's northern regions are characterized by more economic activities and a more efficient financial system than in the rest of the country.

Historical data received from the special servicer: ARC received from the special servicer (Cerved) 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 consists of more than 8000 data points that also includes information such as the property type, legal procedures and property location.

Interest rate cap: The SPV has entered into an interest rate cap spread mechanism with Intesa Sanpaolo S.p.a 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 6m Euribor cap increases from 0.1% at closing to 2% in 2035.

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 each of the special servicers included in the transaction. Each of the business plans 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 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 4%, 10% and 16.2% of the portfolio, located evenly over the peninsula. Borrowers with a GBV over EUR 200,000 are 57% of the total portfolio, which shows a relatively higher granularity than other NPL transactions.

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: After repossession the value of 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/industrial properties during a post – pandemic period: Commercial/Industrial assets represent 44% of the portfolio in terms of GBV. ARC has stressed the property values according to its methodology and taken into account the pandemic/post-pandemic situation for these types of properties (one of the main asset types affected by the Covid-19 situation).

Costs incurred by the issuer in relation to the property acquisition: Property maintenance costs may increase if the time between the repossession of the asset and the sale is significant. 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.

SENSITIVITY ANALYSIS

Sensitivity Analysis	**Class A**
Stressed Scenario Description	Rating Level
5% additional decrease in stressed collections	BBB(sf)
10% 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 to pre-pandemic levels.	- Macroeconomic slowdown caused by the combination of international geopolitical tensions, commodities market volatility, slow reforms implementation, end of dismissal moratorium and very high public debt.

RELATED CRITERIA AND RESEARCH

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

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

Bella 2022 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).

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