ARC Ratings, S.A. affirms the public, final long-term 'A(sf)' rating accorded to the Facility provided to Clooney Issuer DAC by NatWest Markets PLC, and changes the outlook to stable from negative

London, 28 August 2020 - ARC Ratings, S.A. (ARC) has affirmed the public, final long-term 'A(sf)' rating accorded to the Facility provided to Clooney Issuer DAC by NatWest Markets PLC, and revises the rating outlook to stable.

Borrower	Lender	Class / Tranche	Tranche Amount	Rating Class	Rating	Outlook	Next Review Date
Clooney Issuer DAC	NatWest Markets PLC	Facility	EUR 50.54m	NPL	A(sf)	Stable	30 August 2021

This review follows the Covid-19 review conducted in May 2020 and focuses on the performance of the transaction from the initial review in November 2019 to July 2020. ARC placed the transaction on negative outlook in May 2020 in light of the Covid-19 outbreak and its consequential economic impact, in this respect ARC took rating action across its portfolio of Non-Performing Loan (NPL) transactions.

The rating addresses the timely payment of interest and the ultimate repayment of principal.

TRANSACTION OVERVIEW

NatWest Markets (NWM) provided an Initial Committed Facility of EUR 82.0m to Clooney Issuer DAC (the "Borrower"), who are owned by Bain Capital Credit Global ICAV, to purchase a portfolio of Portuguese (NPLs). The Facility has an Original Maturity of 4 October 2022 and an Extended Maturity of 4 October 2023, subject to certain extension conditions being satisfied. The Current Facility Balance stands at EUR 50.5m, which has amortised faster than what ARC expected with gross and net collections ahead of initial business plan expectations.

To date no Cash Sweep or Events of Default have occurred.

The portfolio of NPLs purchased by the Borrower is backed by various collateral types, with the current largest collateral concentration being residential property (41%), followed by commercial property (30%); noting that these figures are based on the Initial Valuation amounts. With respect to geographic concentrations, the largest regional exposures are Lisbon (26%) and Faro (13%), with the remainder of the portfolio diversified across Portugal.

The transaction continues to benefit from structural enhancements which are designed to protect the Facility from a deterioration in performance of the loan portfolio and ensure ultimate repayment. Firstly, the transaction benefits from an equity cushion through the Advance Rate mechanism, allowing the transaction to absorb a decline in portfolio performance. Secondly, there is a Cash Sweep Event trigger which increases the level of prepayment to 100% (the amount to be repaid towards the Facility provider from collections, post fees and interest).

RATING RATIONALE

Key Rating Drivers:

- **Covid-19 economic impact:** Portugal has been one of the European countries least affected by the virus outbreak with deaths of 17.52 per 100,000 of population, this in comparison to its neighbour Spain which witnessed deaths of 61.58 per 100,000 of population (European Centre for Disease Prevention and Control). This has allowed for a substantial reduction in lockdown measures, particularly in the Lisbon metropolitan area which allows small gatherings of less than 10 people amongst other lighter restrictions.
- Prior to the outbreak of Covid-19, Portugal's economic growth continued to outpace many other countries in Europe, especially those affected heavily by the financial crisis in 2008. For example, Italy's GDP averaged 0.92% over the last three years, whereas Portugal had an average GDP of 2.76% over the same period. Whilst the effects of Covid-19 are likely to see GDP drop by 9.8% in 2020 according to the European Commission, this is not as severe as the GDP forecasts for Italy and Spain which are expected to see decreases of 11.2% and 10.9% respectively. There is a general consensus that the Portuguese economy will recover faster and experience growth of roughly 6.4% YoY in 2021.
- **Security:** The unsold real estate assets providing security to the loans are in excess of the Outstanding Facility Amount according to latest Quarterly Monthly Report (QMR) received by ARC. The outstanding portfolio of assets exhibit broad asset type diversification, as discussed above. The transaction benefitted from the division of more complex units into multiple individual units, which created the opportunity to sell individual units of collateral to accelerate recoveries.
- **Collateral/recovery prospects:** Residential assets in Portugal have increased in transaction value over the last few years (8% growth in 2019 vs 2018). Up until the outbreak of Covid-19, Lisbon and Porto saw price increases of 9.5% and 4% in 2019 respectively (according to Instituto Nocional de Estatistica). The effects of the virus on the residential assets is still yet to be determined but is expected to follow the general trend of reduced demand and thus, values will remain stagnant or decrease. In May 2020, a Top 4 rating agency predicted that house prices would decrease by 2.5% during 2020, but recover by 2022. In June 2020, banks in Portugal reported an increase in valuations to pre-crisis levels, indicating that expected recoveries in the property market may occur sooner than expected.
- In respect of the commercial assets, demand is expected to decrease over the medium-term due to reduced economic activity. However, the pre-crisis office vacancy rate in Lisbon and Porto was hovering around a low 5% (according a Savills Portugal market report, September 2019), indicating strong demand in the sector. Demand is expected to increase as GDP starts to recover next year. The aforementioned points on the collateral pricing prospects are fundamental to ARC's analysis in respect of sizing collections.
- **Collections:** ARC observed that collections, both gross and net are well above business plan expectations. While the level of collections is expected to taper off and align more towards the initial business plan projections in the later stages of the Facility, ARC has drawn a degree of certainty in the ability of the Facility to repay in light of the strong initial performance. The expected tapering off of the collections has been tested in ARC's modelled scenarios.

- **Structural Enhancement mechanisms:** Further to the aforementioned structural enhancements, the transaction contains both an Expense Reserve and an Interest Reserve in order to ensure the payment of senior obligations, as well as cure rights which ensures that the loans are repaid if specific conditions are met. These reserves were both funded at the required levels as per the June QMR.
- **Cash Flow Model:** ARC analysed the current levels of gross and net collections realised on the portfolio in its cash flow model that incorporates collection stresses in order to determine if the Facility will be repaid before the Final Maturity Date. The current level of collections in the portfolio are sufficiently far enough ahead of ARC's stressed cash flow expected collections for the same time period, to give ARC sufficient satisfaction to affirm the rating at the current 'A(sf)' level and change the outlook to stable from negative.
- **Sponsor:** ARC drew a degree of comfort from the Sponsor's extensive experience in the distressed and special situations sector. This combined with the experience of the Servicer, whom is present in 4 countries with strong NPL pipelines and has EUR 20bn of Assets Under Management.

SENSITIVITY ANALYSIS

Sensitivities Analysis	
Stressed Scenario Description	Rating Level
10% additional decrease in stressed collections	A (sf)
20% additional decrease in stressed collections	BBB+ (sf)

KEY TIPPING POINTS	
Positive Turning Points – Transaction rated at the top of ARC's rating ceiling for NPL transactions, therefore an upgrade is not possible.	Negative Turning Points – A rapid and substantial decrease in gross collections below levels needed to sustain sufficient Net Collections to discharge the Facility before the Final Extended Maturity Date at the current rating level. – Increase in expenses well above predicted levels. – Protracted economic effect of Covid-19 beyond initial estimates.

RELATED CRITERIA

ARC Ratings' Global Structured Finance Rating Criteria (September 2019)

ARC Ratings' Non-Performing Loans (NPLs) Rating Criteria (October 2019)

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ARC Ratings, S.A.

11 Hollingworth Court
Turkey Mill, Ashford Road
Maidstone, Kent ME14 5PP
UNITED KINGDOM
Phone: +44 (0)1622 397350
E-mail: arcratings@arcratings.com
Site: www.arcratings.com

Key Contacts:

Mattia Pauciullo
Senior Structured Finance Analyst
Lead Analyst
mattia.pauciullo@arcratings.com

Garth Campbell
Structured Finance Analyst
Back-up Analyst
garth.campbell@arcratings.com

Mark Vrdoljak
Head of Structured Finance
mark.vrdoljak@arcratings.com

Philip Walsh
Chief Ratings Officer &
Panel Chairperson
philip.walsh@arcratings.com

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