

PRESS RELEASE

FEBRUARY 27, 2023

DBRS Morningstar Finalizes Provisional Ratings on the Guarantee Linked Notes of Kawartha CAD Ltd., Boreal 2022-2

STRUCTURED CREDIT

DBRS, Inc. (DBRS Morningstar) finalized the following provisional ratings on the Boreal Series 2022-2 Class B Guarantee Linked Notes (the Class B Notes), the Boreal Series 2022-2 Class C Guarantee Linked Notes (the Class C Notes), the Boreal Series 2022-2 Class D Guarantee Linked Notes (the Class D Notes), and the Boreal Series 2022-2 Class E Guarantee Linked Notes (the Class E Notes) (collectively, the Notes) issued by Kawartha CAD Ltd. (the Issuer) referencing the executed Junior Loan Portfolio Financial Guarantees (the Financial Guarantee), dated as of December 2, 2022, between the Issuer as Guarantor and the Bank of Montreal (BMO; rated AA with a Stable trend by DBRS Morningstar) as Beneficiary with respect to a portfolio of Canadian commercial real estate (CRE) secured loans originated or managed by BMO:

- Class B Notes at AA (low) (sf)
- Class C Notes at A (sf)
- Class D Notes at BBB (low) (sf)
- Class E Notes at BB (high) (sf)

The ratings on the Notes address the timely payment of interest and ultimate payment of principal on or before the Scheduled Termination Date (as defined in the Financial Guarantee referenced above). The payment of the interest due to the Notes is subject to the Beneficiary's ability to pay the Guarantee Fee Amount (as defined in the Financial Guarantee referenced above).

To assess portfolio credit quality, DBRS Morningstar may provide a credit estimate, internal assessment, or ratings mapping of BMO's internal ratings model. Credit estimates, internal assessments, and ratings mappings are not ratings; rather, they represent an abbreviated analysis, including model-driven or statistical components of default probability for each obligor that is used in assigning a rating to a facility sufficient to assess portfolio credit quality.

RATING RATIONALE

The ratings are the result of DBRS Morningstar's review of the transaction structure and Financial Guarantee of Kawartha CAD Ltd., a corporation established under the Canada Business Corporations Act. Kawartha CAD Ltd., Boreal 2022-2 is a synthetic risk transfer transaction with BMO as the Beneficiary.

The ratings reflect the following:

- (1) The Financial Guarantee, dated as of December 2, 2022.
- (2) The integrity of the transaction structure.
- (3) DBRS Morningstar's assessment of the portfolio quality.
- (4) Adequate credit enhancement to withstand projected collateral loss rates.

DBRS Morningstar analyzed the transaction using its CMBS Insight Model and CLO Asset Model, based on certain reference

portfolio characteristics, including Eligibility Criteria and Replenishment Criteria, as defined per the Financial Guarantee. The initial reference portfolio consists of well-diversified CRE secured loans across various obligors. The analysis produced satisfactory results, which supported the ratings on the Notes.

For more information regarding DBRS Morningstar's additional adjustment for select industries related to the pandemic, please see its May 18, 2020, commentary "CLO Risk Exposure to the Coronavirus Disease (COVID-19)" at <https://www.dbrsmorningstar.com/research/361112>.

The transaction assumptions consider DBRS Morningstar's baseline macroeconomic scenarios for rated sovereign economies, available in its commentary "Baseline Macroeconomic Scenarios for Rated Sovereigns: September 2022 Update," published on September 19, 2022 (<https://www.dbrsmorningstar.com/research/402907>). These baseline macroeconomic scenarios replace DBRS Morningstar's moderate and adverse Coronavirus Disease (COVID-19) pandemic scenarios, which were first published in April 2020.

ENVIRONMENTAL, SOCIAL, GOVERNANCE CONSIDERATIONS

Environmental Factors

A portion of the portfolio is backed by properties that have been flagged for environmental issues. This Environmental factor has a relevant effect on the credit analysis of the transaction because DBRS Morningstar includes a penalty for the loss given default (LGD) estimate for loans flagged with environmental issues, which increases the estimated required credit enhancement at each rating level.

There were no Social or Governance factors that had a significant or relevant effect on the credit analysis.

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/396929> (May 17, 2022).

Notes:

The principal methodologies applicable to the ratings are North American CMBS Multi-Borrower Rating Methodology (November 4, 2022; <https://www.dbrsmorningstar.com/research/404923>), Rating CLOs and CDOs of Large Corporate Credit (January 26, 2022; <https://www.dbrsmorningstar.com/research/391226>), Mapping Financial Institution Internal Ratings to DBRS Morningstar Ratings for Global Structured Credit Transactions (February 24, 2022; <https://www.dbrsmorningstar.com/research/392873>), and Legal Criteria for U.S. Structured Finance (June 15, 2022; <https://www.dbrsmorningstar.com/research/398418>).

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

The DBRS Morningstar Sovereign group releases baseline macroeconomic scenarios for rated sovereigns. DBRS Morningstar analysis considered impacts consistent with the baseline scenarios as set forth in the following report: <https://www.dbrsmorningstar.com/research/384482>.

DBRS Morningstar materially deviated from its principal methodologies when determining the ratings assigned to the Notes. The LGD assumptions for the CRE Builder Developer portion of the guaranteed portfolio were derived via BMO's historical realized LGDs, rather than as part of any primary or related methodologies. The material deviation is warranted given that no primary or related methodology governs the application of LGD assumptions for CRE Builder Developer loans.

The rated entity or its related entities did participate in the rating process for this rating action. DBRS Morningstar had access to the accounts and other relevant internal documents of the rated entity or its related entities in connection with this rating action.

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

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

Ratings

Kawartha CAD LTD., Boreal 2022-2

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
27-Feb-23	Boreal Series 2022-2 Class B Guarantee Linked Notes	Provis.- Final	AA (low) (sf)	--	US
27-Feb-23	Boreal Series 2022-2 Class C Guarantee Linked Notes	Provis.- Final	A (sf)	--	US
27-Feb-23	Boreal Series 2022-2 Class D Guarantee Linked Notes	Provis.- Final	BBB (low) (sf)	--	US
27-Feb-23	Boreal Series 2022-2 Class E Guarantee Linked Notes	Provis.- Final	BB (high) (sf)	--	US

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