

# Credico Finance 18 Srl.

## SME ABS



### Ratings

Series	Rating	Notional (EUR m)	Notional (% assets)	CE (% assets)	Coupon	Final maturity
Class A1	AAA <sub>SF</sub>	90.0	17.3	84.9	3M Euribor + 0.58%	April 2057
Class A2	AAA <sub>SF</sub>	200.0	38.5	46.4	3M Euribor + 0.80%	April 2057
Class J	NR	229.4				April 2057
Rated notes	290.0					

Scope's quantitative analysis is based on the portfolio dated 8 October 2019, the prospectus provided by the originator and relevant transaction documents. Scope's Structured Finance ratings constitute an opinion about relative credit risks and reflect the expected loss associated with the payments contractually promised by an instrument on a particular payment date or by its legal maturity. See Scope's website for its [SF Rating Definitions](#).

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### Related Research

SME ABS  
Rating Methodology,  
April 2019

Methodology for Counterparty  
Risk in Structured Finance, July  
2019

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Bloomberg: SCOP

### Transaction details

Purpose	Liquidity/funding
Issuer	Credico Finance 18 Srl.
Originators/servicers	14 Italian cooperative banks: EMIL Banca Credito Cooperativo – Società Cooperativa, BCC Umbria Credito Cooperativo Società Cooperativa, Banca della Marca Credito Cooperativo – Società Cooperativa, Banca di Credito Cooperativo Abruzzese – Cappelle sul Tavo s.c.p.a. a Mutualità Prevalente, Banca Alpi Marittime Credito Cooperativo Carrù Società Cooperativa per Azioni, Banca del Piceno Credito Cooperativo, Banca di Credito Cooperativo di Alba, Langhe, Roero e del Canavese – Società Cooperativa, Credito Cooperativo Ravennate, Forlivese e Imolese – Società Cooperativa, Banca di Credito Cooperativo di Ostra e Morro d'Alba – Società Cooperativa, Banca Patavina Credito Cooperativo di Sant'Elena e Piove di Sacco – Società Cooperativa, Banca di Credito Cooperativo di Pontassieve – Società Cooperativa, Banca di Credito Cooperativo di Recanati e Colmurano – Società Cooperativa, Banca di Credito Cooperativo dei Colli Albani – Società Cooperativa, and Banca Mediocredito del Friuli Venezia Giulia S.p.A.
Back-up servicer	Zenith Service S.p.A.
Account bank/paying agent	BNP Paribas Securities Services
Closing date	5 December 2019
Legal final maturity	12 April 2057
Payment frequency	Quarterly, 12th of January, April, July, October

The transaction is a true-sale securitisation of a static EUR 519.4m portfolio of secured and unsecured loans granted to SMEs in Italy by a consortium of 14 cooperative banks. BNP Paribas Securities Services is the issuer account bank and paying agent.

### Rating rationale (summary)

The ratings reflect: i) the strong credit enhancement and liquidity protection mechanisms embedded in the transaction; ii) our future expectations of asset performance based on an analysis of historical data spanning a full economic cycle; and iii) the roles and abilities of the key transaction counterparties.

The capital structure is comprised of two senior notes and 14 classes of pari passu junior notes. Class A1 and class A2 interest payments are pro-rata while principal payments are fully sequential. Each of the 14 originators has extended a loan to fund the non-amortising EUR 11.6m reserve fund, which provides liquidity and credit enhancement to the rated instruments. The reserve covers approximately 1.6 years of stressed senior fees and interest on the rated notes. Amortisation of the notes mimics that of the non-



defaulted assets, while defaulted obligations accelerate amortisation of the senior notes via excess spread trapping. The rated notes also benefit from a combined principal and interest waterfall. Significant credit enhancement is provided via subordination, the reserve fund and excess spread. Payments are quarterly and the legal maturity is 12 April 2057.

Class A1 and A2 notes respectively benefit from 84.9% and 46.4% of credit enhancement at closing, as well as 0.4% of excess spread (assuming 1% annual senior fees and costs) that protects against potential portfolio losses. Class A1 is expected to amortise over a weighted average life of 0.5 years, while class A2 has an expected weighted average life of 1.8 years.

The ratings incorporate transaction counterparty risk. ICCREA Banca S.p.A. (Iccrea) essentially serves as an intermediary bank between the cooperative banks and the issuer account bank, BNP Paribas Securities Services (BNP Paribas). Replacement triggers will be activated if the credit quality of BNP Paribas falls below BBB. Iccrea is effectively the parent of the 14 cooperative banks. We consider the credit quality of the 14 banks to be in line with that of Iccrea. Iccrea is publicly rated and is directly supervised by the European Central Bank (ECB). There is no rating requirement for Iccrea, but frequent cash sweeps and servicer diversification partially mitigate against commingling risk and potential operational disruptions. Zenith Service SpA (Zenith) has been appointed as back-up servicer.

## Rating drivers and mitigants

### Positive rating drivers

**Credit enhancement.** Class A1 benefits from 84.9% of total credit enhancement, considering subordination and a EUR 11.6m cash reserve. Class A2 benefits from 46.4% of total credit enhancement.

**Liquidity protection.** A non-amortising cash reserve covers approximately 1.6 years of senior fees and interest. It can be used to repay the notes at final maturity.

**Parent bank.** Iccrea is an experienced, systemically important bank supervised by the ECB. It is closely integrated with the cooperative banks, providing operational support and cross-financial guarantees to ensure liquidity and funding. Iccrea has over 10 years of experience coordinating with Italian cooperative banks in the securitisation markets.

**Seasoned loans.** The portfolio's weighted average seasoning of 5.1 years indicates that a sizeable portion of the borrowers have successfully weathered a period of severe economic stress.

### Upside rating-change drivers

**Better-than-expected recoveries** would further support the ratings.

### Negative rating drivers and mitigants

**Secured loan recoveries.** Low recovery rates on secured loans were evident in our review of vintage data and may be indicative of some servicers' below-average recovery abilities for defaulted loans. This is reflected in our 45% base case recovery rate assumption.

**Set-off.** The transaction has no structural mitigants against set-off risk. We have given credit to the Italian deposit guarantee scheme, but approximately 9.1% of the portfolio balance is exposed to set-off risk after accounting for the guarantee scheme.

**Fixed-floating rate mismatch.** At closing, approximately 5% of the portfolio pays a fixed rate while the notes are indexed to three-month Euribor. Further, servicers may convert into fixed-rate loans an additional 5% of the portfolio's floating-rate exposures. A spike in three-month Euribor would reduce available excess spread.

### Downside rating-change drivers

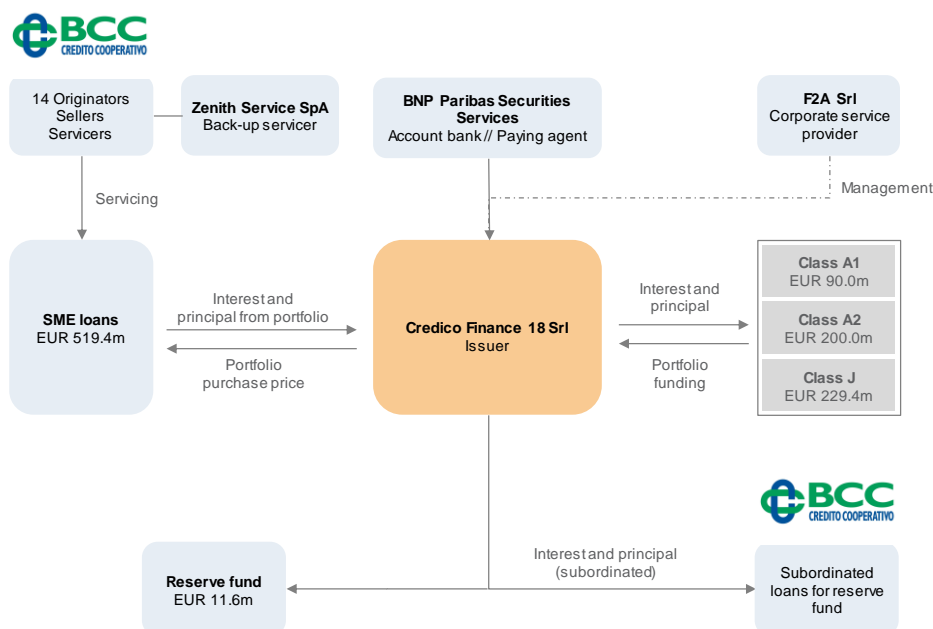
**Worse-than-expected asset performance,** exemplified by a higher-than-expected default rate or a lower-than-expected recovery upon asset default, would negatively impact the ratings.

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## 1. Transaction summary

**Figure 1. Simplified transaction diagram**



Source: Transaction documents and Scope.

Credico Finance 18 Srl is the 10th asset-backed security (ABS) transaction arranged by Iccrea since 2009, with the last SME ABS issued in 2014. The transaction consists of the securitisation of a static EUR 519.4m portfolio of 3,916 secured (67.6%) and unsecured loans extended to Italian SMEs. The loans were originated and are serviced by 14 Banca di Credito Cooperativos (BCCs) in Italy in their normal course of business.

## 2. Originators and sellers

The 14 BCCs are small, localised banks found throughout Italy. These traditionally independent banks have strong ties to their local community and, by extension, a deep understanding of their respective borrowers and regional economic dynamics. Iccrea is the parent company of the 14 BCCs affiliated with this transaction.

The originators are part of a larger banking cooperative led by Iccrea – the parent bank of approximately 140 BCCs, which has been providing various services to small banks across Italy since the 1960s. Iccrea is a joint stock company primarily owned by its affiliated BCC network and is supervised by the ECB and the Bank of Italy. Contractual agreements between the BCCs and Iccrea are approved by the Bank of Italy and provide a framework under which the BCCs operate with one another and with Iccrea. The arrangement also provides a cross-guarantee scheme whereby the BCCs and Iccrea must support obligations assumed by the network BCCs. This cross-guarantee also applies to keeping minimum capital and liquidity requirements among members.

The BCCs have a degree of autonomy so long as their financials meet a minimum threshold that is continuously monitored by Iccrea. This autonomy is balanced by a harmonised strategy that is also overseen and directed by Iccrea. We see this arrangement as positive, as it allows the BCCs to continue to apply their unique local knowledge while leveraging the scale and structure of the group via shared resources and operational platforms.

**14 Italian cooperative banks constitute the originators and servicers**

Historically independent and bespoke sanctioning and underwriting among the originators

Servicing blends the local expertise of the BCCs with Iccrea's governance and technology systems

The transaction's originators are strongly incentivised given their respective roles funding the cash reserve with limited recourse loans and their positions as Class J noteholders. Additionally, each originator is responsible for servicing the portion of the securitised portfolio that it originated and sold to the issuer.

### 2.1. Sanctioning and underwriting

Sanctioning and underwriting activities have traditionally been unique at each BCC. This is largely driven by the BCCs' prioritisation of local financial assistance over profitability. Additionally, a large share of their lending must go to shareholders, who in turn must be local residents or have their main business located in the same geographical area as the bank. This arrangement has resulted in sanctioning and underwriting policies that have been significantly influenced by relationships with potential and existing borrowers.

Following Decree-Law No 18 of 14 February 2016 that aims to reform Italian cooperative banks, Iccrea has the power to effectively shape, supervise and control its BCCs' risk appetite and policies, risk-management functions, and real estate investments. This arrangement has not been fully implemented yet, but it is a positive development in our view.

Roughly 53% of the securitised portfolio was originated in 2016 or earlier. These assets are likely to reflect the unique sanctioning and underwriting dynamics mentioned above. This share may be larger given that the gradual shift to more uniform practices envisaged by the 2016 decree is not fully complete. Furthermore, the BCCs have retained a level of origination autonomy for simple loan products, such as secured mortgage loans and unsecured loans.

### 2.2. Servicing and recovery

Servicing blends the local expertise of the BCCs with Iccrea's governance and technology systems.

An automated early-warning system flags increased risks for a given borrower. The flag may be triggered by a missed payment, a lower internal rating and/or score, balance sheet troubles, negative events such as certain judicial matters, cross-defaults, or defaulted entities from the same group company. A manual component also flags any other information that may negatively impact the exposure's risk profile. When relevant, an exposure is placed on a watchlist and closely monitored. Iccrea may step in and oversee the monitoring of exposures that have deteriorating credit profiles. Loans placed on watchlist status (significant credit risk) are monitored continuously.

The classification of any given borrower's status is generally uniform across the platform (i.e. if one BCC has a defaulted exposure, another BCC exposed to the same entity should also categorise it as defaulted).

The recovery strategy initially focuses on working with the borrower if financial problems are expected to be temporary (less than 24 months). The recovery process starts for exposures that are placed on a watchlist, become 30 days past due, or become non-performing. Recovery management tools include payment holidays, interest rate reductions and/or loan maturity extensions. Borrower-friendly recovery activities may continue beyond 24 months; however, at this point the servicer has the discretion to refinance the loan, settle out of court, or agree on debt-to-equity conversions, to name a few additional tools. In the event that these efforts fail, the servicer will typically pursue judicial recovery/enforcement or note sale/write-off.

We anticipate that loan management will improve as the servicing network integrates further. This should be reflected in reduced delinquencies and defaults, all else being equal. We take comfort from our view of the securitised portfolio, i.e. that the legacy

servicing abilities of the individual servicers are less sophisticated and effective. Recovery performance should also improve compared to historical levels, especially for secured mortgage positions. BCCs will be able to leverage more information and resources from their network when deciding which specific resolution strategy to follow. For example, the BCC network can access a rank-order database of property appraisers if valuations are needed. Previously, it was possible for a particular BCC to repeatedly use the same one or two appraisers, which could have resulted in systemic misvaluations.

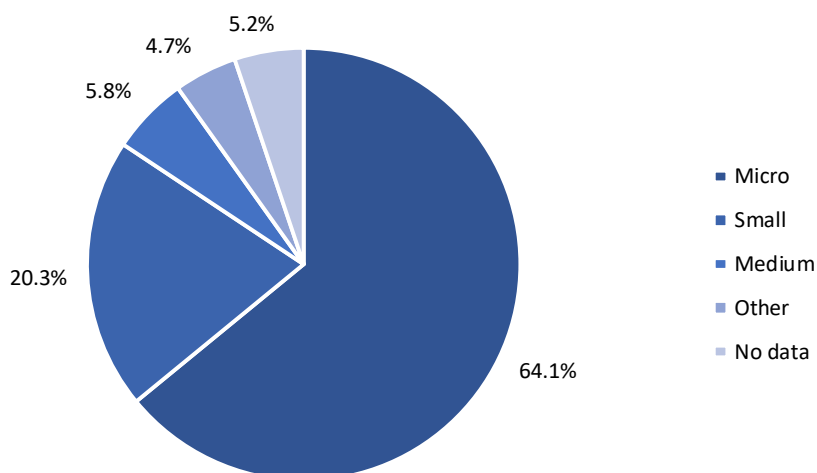
### 3. Asset analysis

#### 3.1. Securitised assets

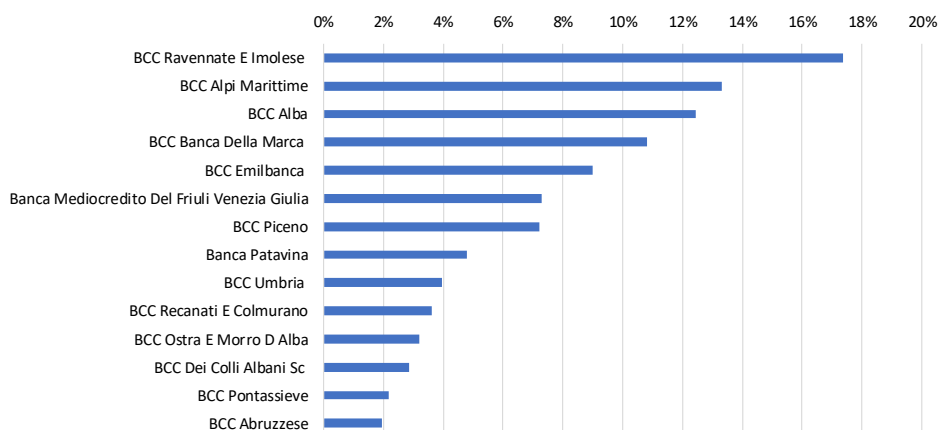
The portfolio consists of secured and unsecured loans granted to Italian SMEs for various business needs. The vintage loan data from the 14 originators is adequately representative of the securitised portfolio. Eligibility criteria are standard and exclude exposures that have had more than two unpaid instalments. None of the loans have been extended to public entities.

Each BCC contributes its own portfolio to form the aggregated securitisation pool

**Figure 2. Borrower types**



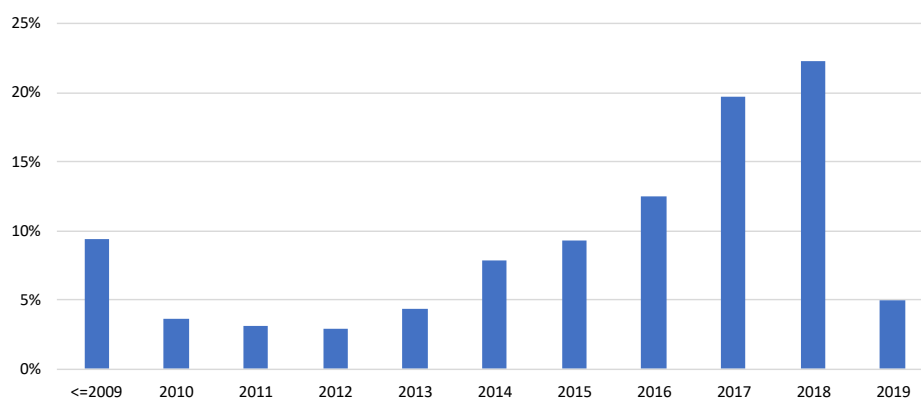
**Figure 3. Originators' portfolio share**



The portfolio as of 8 October 2019 is well-seasoned at 5.1 years, with a weighted average remaining time to maturity of 8.7 years. The loans were originated between 1999

and 2019, with 76.6% having been originated since 2014. Assets originated prior to 2013 represent 19.0% of the portfolio. We view these legacy assets positively, given that they have survived very stressful economic periods in Italy and have substantially deleveraged. All loans in the final portfolio have had at least one instalment paid.

**Figure 4. Origination vintages**



The current loan-to-value is 45.4% for the secured portion of the portfolio, which should continue to decrease due to the amortising nature of the assets (assuming no aggregate decline in property prices). The standard amortisation scheme is French (97.5%) and the majority of the portfolio (94.7%) pays a floating interest rate referencing six-month Euribor and three-month Euribor.

The bulk of the loans (83.0%) have monthly principal and interest instalments. Semi-annual instalments (12.9%) and annual/other instalments (0.3%) are reasonably distributed across quarters, which mitigates payment mismatch risk via the quarterly paying notes.

Floating-rate assets account for 94.7% of the securitised portfolio, with the remaining 5.3% paying a fixed interest rate. The fixed-rate assets are unhedged, but we view the mismatch risk with the floating-rate notes to be sufficiently mitigated with the level of credit enhancement.

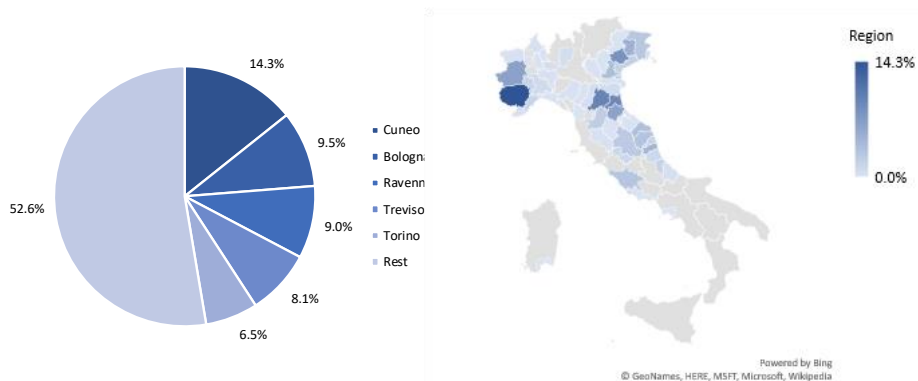
The loans were granted for a variety of business objectives, with working capital needs accounting for 31.6% of the outstanding portfolio.

### 3.1.1. Granular portfolio with no material concentration risk

Geographically, the exposures are mostly located across northern and central Italy, with the five largest regional areas accounting for 47.3% of the portfolio. We view this as positive given the northern regions' stronger economic activity in Italy.

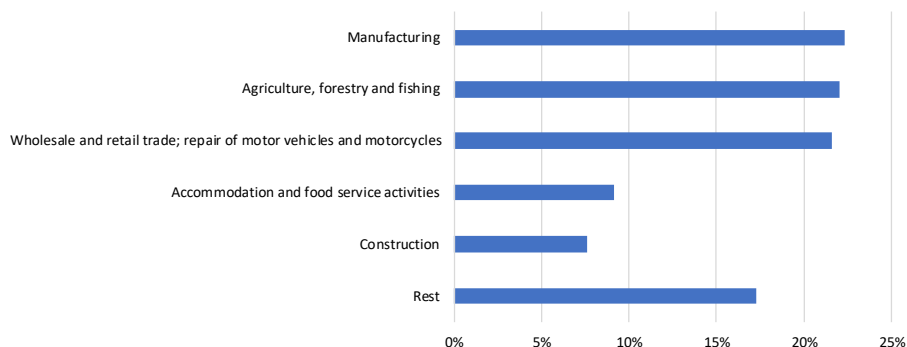
Geographic concentration is mainly in northern and central Italy

**Figure 5. Regional distribution of the initial portfolio**



Industry concentration is adequately diversified, with manufacturing representing the largest share of the pool at 22.3%. The top three industries form 66.0% of the portfolio as of closing.

**Figure 6. Industry concentration**



The granularity of the portfolio is also represented in the low top-obligor concentration. The top obligor accounts for 0.71% of the portfolio; the top 10 collectively represent 3.64% of the asset pool.

### 3.1.2. Global and originator-specific selection criteria

Global eligibility criteria apply to all 14 originators and are fairly standard. No loans may be in default at closing and all borrowers must be incorporated under Italian law. Below, Figure 7 summarises the global requirements along with criteria for loans that are not permitted in the portfolio.

**Figure 7. Global loan-level selection criteria**

Loan-level requirements
➤ Euro-denominated
➤ Performing
➤ No default (in sofferenza)
➤ At least one instalment paid
➤ Monthly, bi-monthly, quarterly, four-monthly, semi-annual or annual instalments
➤ No more than 2 unpaid instalments (as of valuation date)
➤ No missed instalments (as of effective date)
➤ Individuals resident/domiciled in Italy or resident in EEA
➤ Entities incorporated under Italian law and having their registered office in Italy/EEA
➤ Fully disbursed loans

Relatively standard loan selection criteria

➤ SAE activity sectors: 430-431; 450; 470; 473; 480-482; 490-492; 614-615
➤ Full scheduled repayment by 31 December 2049
➤ Secured loans where the asset, other than land, is not under construction as at the valuation date
<b>Exclusions</b>
➤ Loans deriving from flexible loan agreements or agreements benefiting from financial contributions, related to principal and/or interest quota, of any kind
➤ Directors and/or employees of the originators
➤ Public administration or similar entities and companies, directly or indirectly controlled by a public entity (pubblica amministrazione)
➤ Loans with a payment moratorium/holiday as of the effective date
➤ Originated by Cassa Depositi e Prestiti S.p.A.
➤ Syndicated loans
➤ NACE code 41.10 (building development projects), 68.10 (buying and selling own real estate) and 68.20 (renting and operating of own real estate)
➤ Bullet loans

Bespoke criteria also apply to each of the 14 originators; however, collectively none of these items contradict the criteria listed above in Figure 7.

### 3.1.3. Loan modifications

Covenants permit certain types of loan and term modifications within pre-defined limits. Figure 8 provides the modifications that the originators are permitted to make within their respective portfolios.

**Figure 8. Key permitted loan changes**

	Type of renegotiation	Relevant limit	Portfolio limit
1	Mortgage reduction	No reduction to the ratio: Loan principal / minimum (mortgage, property value)	-
2	Extending amortisation*: 1) Mortgage loans 2) Other loans	1) Maximum of 60 months 2) Maximum of 36 months	Maximum 5.0%
3	Reducing spread on floating-rate loans	Minimum spread of 1.2%	Maximum 10.0%
4	Switching from floating rate to fixed rate	Minimum fixed interest rate of 1.5%	Maximum 5.0%
5	Switching from fixed rate to floating rate	Minimum spread of 1.3%	Maximum 5.0%
6	Reducing fixed interest rate	Minimum fixed interest rate of 1.5%	Maximum 5.0%
7	Permitting minimum interest rate floors in contracts	Minimum interest rate of 1.5%	-
8	Principal payment holiday*	Maximum of 18 months	Maximum 10.0% of closing balance or Maximum 10.0% of outstanding balance

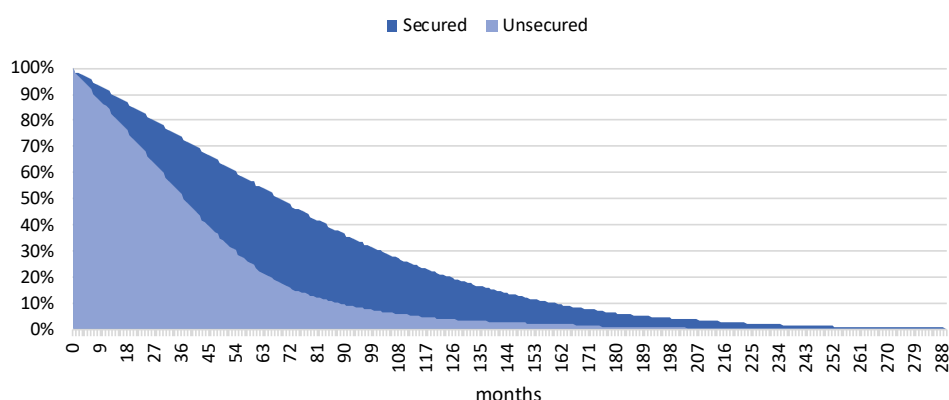
\*Not to exceed 31 December 2049

### 3.2. Amortisation profile

The expected portfolio amortisation profile is shaped by the amortisation schemes of each of the underlying assets, along with the assets' expected maturity. Figure 9 shows the evolution of the secured and unsecured loan segments that we considered in our analysis.



**Figure 9. Expected portfolio amortisation profile (0% prepayment, 0% defaults)**



### 3.3. Portfolio modelling assumptions

**Figure 10. Portfolio modelling inputs**

	Portfolio	Secured	Unsecured
Share of portfolio	100.0%	60.2%	39.8%
Mean default rate	12.8%	17.0%	7.0%
Coefficient of variation	48.7%	40.0%	60.0%
Base case recovery rate*	32.5%	45.0%	25.0%
AAA rating conditional recovery rate*	19.5%	20.3%	15.0%
Constant prepayment rate, low	0.0%	0.0%	0.0%
Constant prepayment rate, high	15.0%	15.0%	15.0%

\*The base case and AAA recovery rates are weighted by the mean default rate

#### 3.3.1. Default rate

We calibrated our mean default rate and recovery rate assumptions based on quarterly vintage data spanning 2009-18 for the secured and unsecured segments. We deem the vintage data to be sufficiently representative of the securitised portfolio.

A long-term adjustment was not applied given that the data captures a full economic cycle in Italy.

#### 3.3.2. Recovery rate

We also divided the recovery vintage data into secured and unsecured segments. For secured positions, we considered 10 years of cumulative recoveries after default. For unsecured positions, we considered five years of cumulative recoveries after default.

A base case recovery rate of 45% was derived for secured exposures. The AAA rating-conditional recovery rate stands at 20.3%.

Recoveries materialised quite slowly on secured loans, based on our analysis of the vintage data. This may indicate the below-average recovery abilities of some servicers for defaulted loans. The observation of low secured recoveries can be partly explained by some originators' more relaxed approach towards secured positions given the underlying security, as was mentioned to us. However, stronger recovery performance among the servicers is evident in the vintage data following the 2016 BCC reforms, potentially helped by streamlined recovery strategies and operational support from Iccrea.

For the unsecured loan segment, we assumed a 25% base case recovery rate and a AAA rating-conditional recovery rate of 15%.

No long-term adjustment

The analysis incorporates rating-conditional recovery assumptions

We tested the senior notes against extreme CPR scenarios

Class A1 and class A2 interest is paid pro-rata and principal is paid sequentially

Fully funded reserve fund provides 4.0% credit enhancement

A combined priority of payments helps protect against payment interruption

Senior noteholders benefit from sequential amortisation

### 3.3.3. Constant prepayment rate (CPR)

We applied a low (0%) and high (15%) prepayment scenario when modelling the rated notes, with the more punitive CPR scenario being selected, all things being equal. We considered a combination of originator prepayment data and market data when sizing the CPR range.

## 4. Financial structure

### 4.1. Capital structure

The capital structure is composed of two senior classes and a junior class. Class A1 and class A2 interest payments are pro-rata while principal payments are fully sequential. Both notes are floating and reference three-month Euribor, with a 0.58% margin for class A1 and 0.80% margin for class A2.

Class A1 and A2 notes benefit from 84.9% and 46.4% of credit enhancement, respectively. Additional credit enhancement comes from 0.42% of excess spread (assuming stressed senior fees and costs of 1.0%) that protects against potential portfolio losses. The cash reserve also provides liquidity protection and credit enhancement.

The class A1 and class A2 notes are cross-collateralised with the 14 originator-specific loan portfolios. The junior class is sub-divided into 14 individual classes, where each class references an originator's specific portfolio. The junior notes do not benefit from cross-collateralisation.

### 4.2. Reserve fund

Each of the 14 originators has extended a loan to fund a non-amortising EUR 11.6m reserve fund prior to closing. Reserve funds are held with the issuer's account bank. The reserve fund represents 4.0% of the senior notes and covers approximately 1.6 years of stressed senior fees and interest on the class A1 and A2 notes. The reserve is primarily available for liquidity and can eventually be used to redeem the outstanding balance of the senior notes with available cash.

### 4.3. Priority of payments

The structure features a combined priority of payments that materially protects against payment interruption. Principal collections from the assets can be used to pay interest if necessary. In turn, excess spread can be used to provision for defaulted assets via the accelerated amortisation of the notes.

**Figure 11. Simplified priority of payments**

Pre-acceleration priority of payments	Post-acceleration priority of payments
<b>Available funds</b> Collections from assets, interest proceeds from account bank and a portion of the reserve fund	<b>Available funds</b> All SPV moneys, including funds from liquidation of assets and reserve fund
1) Senior fees and expenses 2) Class A1 and A2 interest (pro-rata) 3) Reserve fund replenishment 4) Class A1 principal 5) Class A2 principal 6) Subordinated items	1) Senior fees and expenses 2) Class A1 and A2 interest (pro-rata) 3) Class A1 and A2 principal (pro-rata) 4) Subordinated items

### 4.4. Amortisation and provisioning

The amortisation of the notes mimics that of the non-defaulted assets, while defaulted obligations accelerate amortisation of the senior notes via excess spread trapping. Loans

**Asset-liability interest rate mismatch is limited**

are classified as being in default when they become 365 days past due or if the servicer does not reasonably expect cash inflows to resume for the borrower (subjective default).

The amortisation of the A1 and A2 notes is strictly sequential unless a post-acceleration trigger is hit, upon which both classes become pro-rata with one another. Trigger events include: i) non-payment; ii) a breach of obligations; iii) a breach of representations and warranties; iv) insolvency; or v) unlawfulness.

**4.5. Interest rate mismatch**

Unhedged interest rate risk is quite limited. At closing approximately 5% of the portfolio pays a fixed rate while the notes are indexed to three-month Euribor. Further, servicers may convert into fixed-rate loans an additional 5% of the portfolio's floating-rate exposures. A spike in three-month Euribor would reduce available excess spread.

We tested the impact of extreme interest rate scenarios on the transaction and found they had no material impact on the assigned ratings.

There is also basis risk, as 70.0% of the portfolio references six-month Euribor, while the notes are indexed to three-month Euribor. However, we consider this risk to be limited given the very close historical correlation between three- and six-month Euribor.

When modelling the portfolio, we reduced the observed weighted average margins for the secured and unsecured loan segments. The weighted average fixed interest rate was also reduced for the secured and unsecured loan segments. The haircuts capture the loan modifications, previously noted in Figure 8, that the servicers may perform. They also capture an element of natural downward yield migration, driven by prepayments and defaults. Stressed senior costs and fees of 1.0% were also applied in the analysis, which conservatively reduces available excess spread (0.42%) for the rated notes.

**5. Quantitative analysis**

We assigned AAA<sub>SF</sub> ratings to the class A1 and A2 notes based on our cash flow analysis. This result is mainly driven by the transaction's robust credit enhancement from subordination, as well as liquidity from the cash reserve and the combined priority of payments. Both classes were fully resilient to default, recovery rate, and interest rate stresses.

We used our large homogenous portfolio approximation approach to model the highly granular collateral pool. Key assumptions were derived and then applied to the cash flow analysis of the transaction over its expected amortisation period. Two portfolio segments were modelled, reflecting the secured and unsecured portions of the pool.

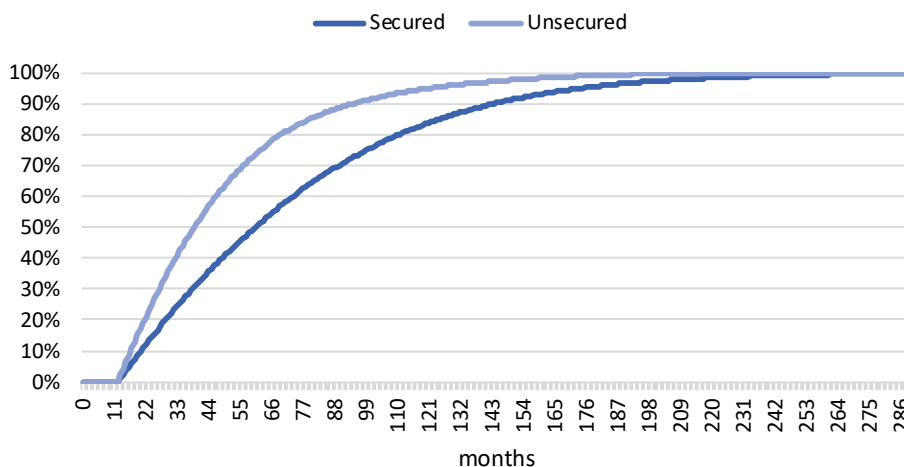
We did not apply long-term adjustments to the mean default rate and coefficient of variation, given that the vintage data captures a full economic cycle in Italy.

We calculated the probability-weighted loss for the rated notes using our cash flow model combined with the portfolio default distribution (inverse Gaussian). The cash flow model also produced the expected weighted average life for the rated notes.

We considered a front-loaded default-timing term structure. Our cumulative default-timing assumptions are shown below in Figure 12. These assumptions imply a front-loading of delinquencies, starting in the first month of the transaction's life. Defaults are classified as more than 365 days past due, in line with the definition in the documentation.

**The rated notes are highly resilient in extreme scenarios**

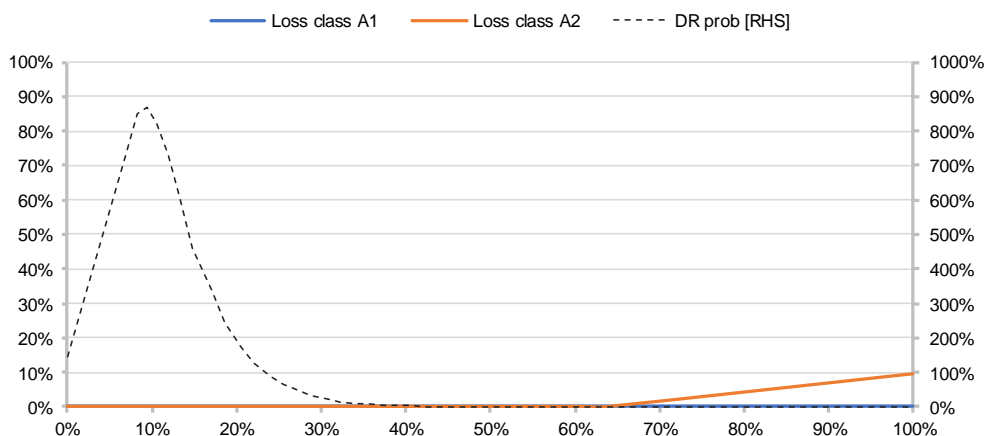
**Figure 12. Default-timing assumptions**



Front-loaded default timing considered

Figure 13 shows the losses of the rated notes at all portfolio default rates. The chart shows how credit enhancement, excess spread, and recoveries protect the instruments. The results in Figure 13 incorporate a 2.7% reduction of the portfolio balance at the beginning of the amortisation period, which accounts for: i) servicer commingling risk; and ii) set-off risk.

**Figure 13. Cash flow model results for base case mean default rate and coefficient of variation; AAA rating-conditional recovery rate**



Note: The probabilities displayed on the right-hand side axis must be considered in the context of the calculation of the probability density.

## 6. Rating stability

We tested the resilience of the ratings against deviations in the main input parameters: the portfolio mean default rate and the portfolio recovery rate. This analysis has the sole purpose of illustrating the sensitivity of the ratings to input assumptions and is not indicative of expected or likely scenarios.

The following shows how the respective model-implied ratings for the two class A notes change when the portfolio's expected mean default rate is increased by 50% and the portfolio's expected recovery rate is reduced by 50%, respectively:

Class A1, rated AAA<sub>SF</sub>: sensitivity to probability of default, zero notches; sensitivity to recovery rate, zero notches.

**Sovereign risk does not limit the transaction's ratings**

Class A2, rated AAAs<sub>F</sub>: sensitivity to probability of default, zero notches; sensitivity to recovery rate, zero notches.

## 7. Sovereign risk

Sovereign risk does not limit any of the ratings. The risks of an institutional framework meltdown, legal insecurity or currency convertibility problems due to an Italian exit from the euro area, are scenarios that we have consistently viewed as highly unlikely.

For more insight into our fundamental analysis of the Italian economy, please refer to the [rating announcement on the Republic of Italy](#), dated 7 December 2018. Additional views can be found in our [2020 Sovereign Outlook](#), dated 2 December 2019.

## 8. Counterparty risk

The counterparty risk of the transaction supports the highest ratings. We do not consider any of the counterparty exposures to be excessive, i.e. if counterparty risk crystallises, a downgrade is still limited to six notches.

### 8.1. Operational risk from servicer

Operational risk from the 14 servicers is mitigated via the role of the parent company, Iccrea; the back-up servicer, Zenith Service; and the diversity of the servicing base. The back-up servicer will step in if one of the servicers experiences an operational disruption. The transaction benefits from servicer diversification, as a disruption to one servicer would be limited to the BCC's share of the securitised portfolio. At closing the largest servicing share is 17.4%.

We reduced the portfolio balance by 0.4% to reflect servicer commingling risk. This has been sized based on the credit quality of Iccrea, as it has oversight of the 14 servicers and is strongly linked to the management of the transaction. Servicer commingling risk is well mitigated as each servicer must sweep all collections to Iccrea within one business day. In turn, Iccrea must sweep these collections to the issuer's account bank at the earlier of i) one business day; or ii) when EUR 500,000 in collections has been received from the BCCs.

### 8.2. Account bank risk

Credit risk associated with the issuer's account bank is limited given BNP Paribas' high credit quality. We assessed the credit quality of BNP Paribas using public information and public ratings on the bank.

This risk is further mitigated through a replacement of BNP Paribas as account bank upon the loss of a BBB rating.

### 8.3. Set-off risk from originators

We captured set-off risk in our modelling by reducing the initial portfolio balance by 2.3%. This figure is a product of: i) the probability of set-off occurring; and ii) set-off exposure. We concluded that the credit profiles of the BCCs are on par with Iccrea's public ratings when sizing for the probability of a set-off event.

There are no structural mitigants against set-off risk and initial set-off exposure is roughly 9.1% of the portfolio after giving credit to the Italian deposit guarantee scheme. We have assumed that this risk will crystallise at closing.

## 9. Legal structure

### 9.1. Legal framework

This securitisation is governed by Italian law and represents the true sale of assets to a bankruptcy-remote vehicle, which is essentially governed by the terms in the transaction documentation.

**Servicer operational risk is well mitigated**

### **9.2. Use of legal and tax opinions**

We reviewed the legal opinions produced for the issuer. These provide comfort on the issuer's legal structure and support our general legal analytical assumptions.

### **10. Monitoring**

We will monitor this transaction based on performance reports from the cash manager as well as other available information. The ratings will be monitored continuously and reviewed at least once a year, or earlier if warranted by events.

Scope analysts are available to discuss all the details surrounding the rating analysis, the risks to which this transaction is exposed, and the ongoing monitoring of the transaction.

### **11. Applied methodology and data adequacy**

For the analysis of this transaction we applied our SME ABS Rating Methodology and Methodology for Counterparty Risk in Structured Finance, both available on our website, [www.scoperatings.com](http://www.scoperatings.com).

Iccrea provided us with default and recovery data, segmented by quarterly vintage of origination. Delinquency, prepayment and set-off data was also provided. The default rate data covers the 2009-18 period and is generally very granular. Data was provided on each of the 14 originators.



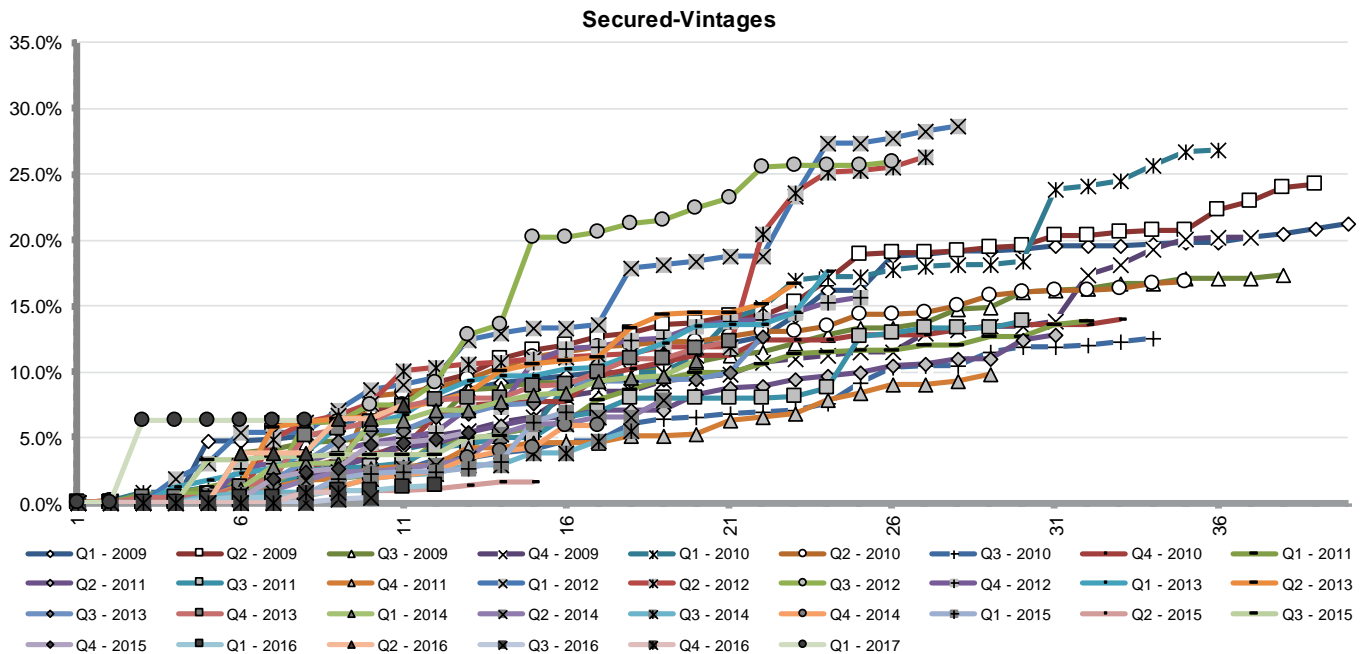
## I. Deal comparison

Transaction	Credico Finance 18 Srl	Alba 10 SPV	Alba 9 SPV
Country	Italy	Italy	Italy
Closing date (dd/mm/yyyy)	05/12/2019	29/11/2018	30/10/2017
Originator	14 Italian cooperative banks	Alba Leasing SpA	Alba Leasing SpA
Servicer	14 Italian cooperative banks	Alba Leasing SpA	Alba Leasing SpA
Back-up servicer	Zenith Service SpA	Securitisation Services SpA	Securitisation Services SpA
Back-up servicer facilitator	-	-	-
<b>Portfolio characteristics</b>			
Asset type	Loans - secured/unsecured	Leases	Leases
Number of contracts/loans	3,916	11,518	16,075
Number of lessees/borrowers	3,565	7,852	10,736
Original portfolio balance (EUR)	833,049,517	1,123,767,789	1,407,414,919
Outstanding portfolio balance (EUR)	519,422,620	950,696,913	1,113,066,279
Average original contract balance (EUR)	212,730	97,566	87,553
Average outstanding contract balance (EUR)	132,641	82,540	69,242
<b>Lenth of contracts</b>			
WA original term (years)	13.80	6.50	6.64
WA seasoning (years)	5.11	0.66	0.97
WA remaining term (years)	8.69	5.84	5.67
<b>Portfolio yield</b>			
Fixed portfolio (%)	5.3	5.3	2.9
WA fixed interest (%)	3.2	2.12	2.32
Floating portfolio (%)	94.7	94.7	97.1
WA floating margin (%)	2.5	2.48	2.73
<b>Type of obligor</b>			
Large corporate (%)	-	11.8	10.0
Corporate/SME (%)	100.0	79.2	73.3
Individual (%)	-	9.0	16.7
<b>Obligor concentration</b>			
Top 1 (%)	0.71	0.86	0.78
Top 10 (%)	3.64	6.04	5.24
<b>Obligor regional concentration</b>			
North (%)	75.0	64.0	62.6
Centre (%)	19.7	16.1	15.9
South (%)	5.2	19.9	21.5
Top region	Cuneo - 14.3%	Lombardy - 30.3%	Lombardy - 29.4%
<b>Assumptions summary</b>			
Default definition	12 months	6 months	6 months
Mean default	12.8%	6.0%	5.6%
CoV	48.7%	70.4%	71.3%
Base case recovery rate	32.5%	17.2%	17.1%
AAA scenario recovery rate	19.5%	10.3%	10.3%
Recovery timing (months)	60-120	21	21
Prepayment rate	0% / 15%	5.0%	5.0%
<b>Structural features</b>			
<b>Tranching</b>			
Class A1	AAA	AAA	AAA
CE Class A1	84.9%	57.4%	57.9%
Class A2	AAA	AAA	AAA
CE Class A2	46.4%	36.5%	36.9%
Class B	-	A+	A+
CE Class B	-	23.0%	23.8%
Class C	-	BBB-	BBB-
CE Class C	-	15.2%	14.8%
Class J	NR	NR	NR
CE Class J	0%	0%	0%
Cash reserve (% of rated notes)	4.0%	1.0%	1.0%
Revolving period (years)	0	0	0
Commingling risk (yes/no)	Yes	Yes	Yes
Commingling risk mitigants	Sweeps within one business day	Daily sweeps	Daily sweeps
Set-off risk (yes/no)	Yes	No	No
Type of swap	-	N/A	N/A
Swap co. rating trigger	-	N/A	N/A

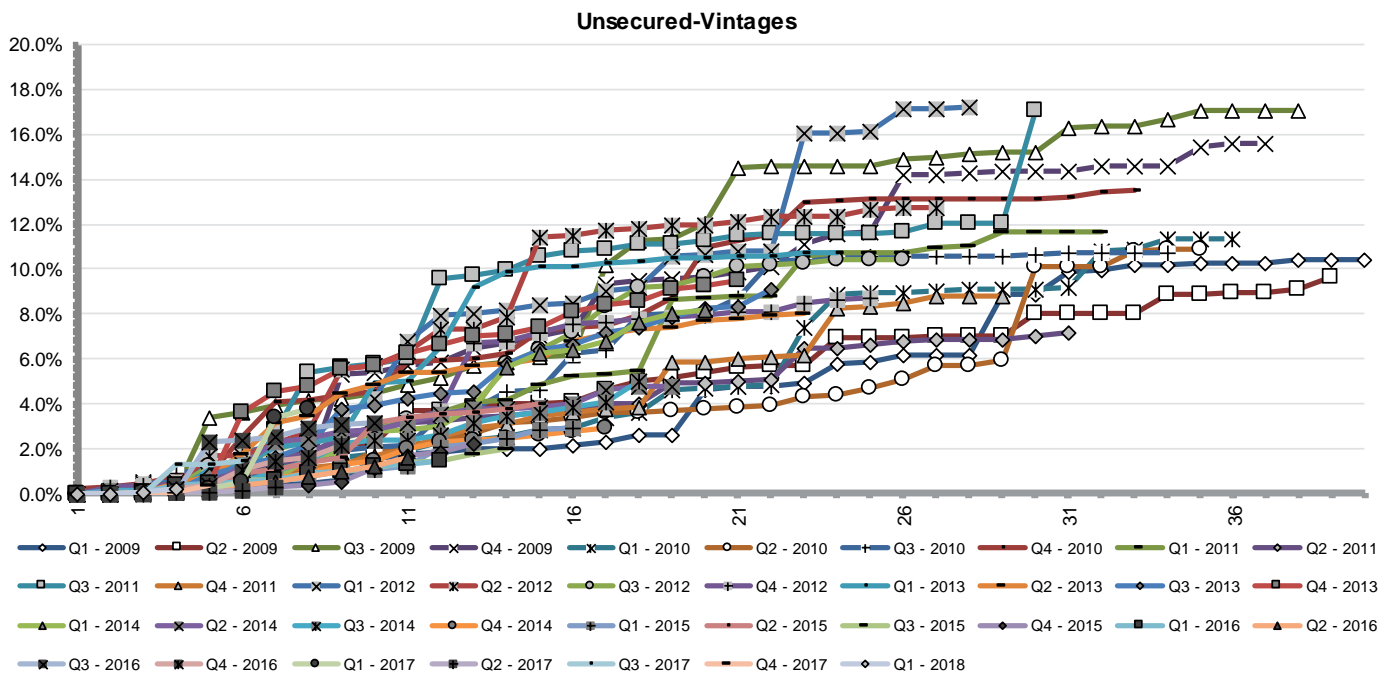
## II. Vintage data: defaults

Vintage data is granular and representative of the securitised portfolio. The period spans Q1 2009 through to Q4 2018.

**Figure 14. Secured default data**



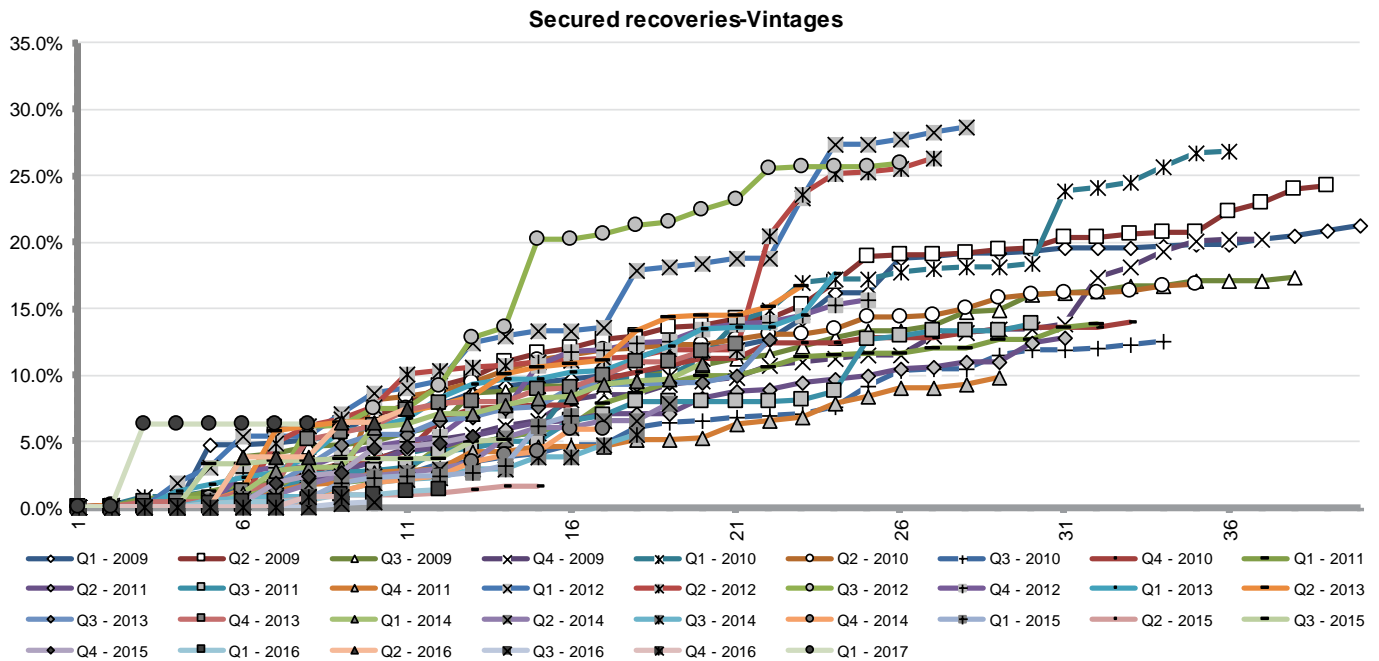
**Figure 15. Unsecured default data**



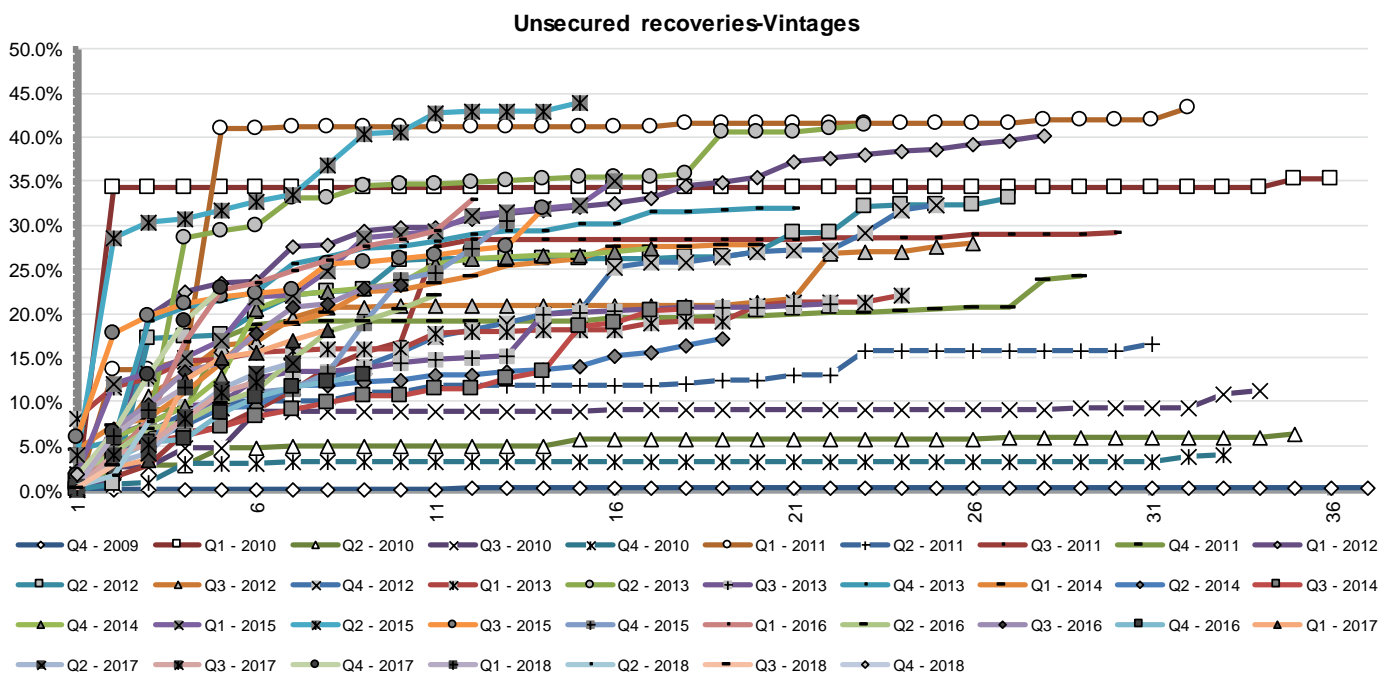


**III. Vintage data: recoveries**

**Figure 16. Secured recovery data**



**Figure 17. Unsecured recovery data**





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