DYRET SPV S.R.L.

Consumer ABS

Ratings

Series	Rating	Notional (EURm)*	Notional (% assets)	CE (% assets)	Coupon	Final maturity
Class A	NR	210.6	81.5	20.5	1.0% (fixed)	Dec 2038
Class B	BBB+$_{SF}$	26.4	10.2	10.3	2.75% (fixed)	Dec 2038
Class C	BB$_{SF}$	14.3	5.5	4.7	3.75% (fixed)	Dec 2038
Class D	NR	12.2		0.0	Variable	Dec 2038
Rated notes	40.7					

*Maximum ramp-up amount. Notional as of November 2017: class A, 137.0; class B, 14.8; class C, 6.6; class D, 7.7.

Scope's analysis is based on a EUR 160.3m portfolio dated 6 November 2017, subsequent updates and the replenishment criteria in the prospectus, provided by the arranger. 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 the SF Rating Definitions.

Transaction details

Purpose	Liquidity/Funding
Issuer	DYRET SPV S.R.L.
Originator / sub-servicer	Dynamica Retail S.p.A. (not rated)
Servicer	Zenith Service S.p.A. (not rated)
Account bank	BNP Paribas Securities Services, Milan Branch (AA-/S-1+ Stable)
First issue date	23 May 2014
Final rating date	9 Mar 2018
Payment frequency	Monthly

The transaction is Dynamica's first true-sale securitisation of Italian payroll-deductible (cessione del quinto; CQS) loans extended to borrowers in the country. The transaction has a ramp-up period that is scheduled to conclude in December 2018, during which the portfolio of loans backing the notes can increase from its current balance of EUR 160.3m up to EUR 258.3m.

Rating rationale (summary)

The ratings reflect: i) the legal and financial structure of the transaction; ii) the quality of the underlying collateral given the improving Italian macroeconomic environment; iii) the ability of Dynamica Retail S.p.A (Dynamica) as originator/seller and sub-servicer; iv) the ability of Zenith Service S.p.A. (Zenith) in its role as servicer; and v) the counterparty exposure to BNP Paribas Securities Services, Milan Branch (BNP Paribas) as account bank and paying agent.

The ratings are chiefly driven by Scope's assessment of: the securitised portfolio; the relatively diversified pool of insurance companies covering life or employment events within the transaction; and historical performance of the originator's loan book.

The ratings are supported by 10.3% and 4.7% credit enhancement for class B and class C, respectively; 1.38% of excess interest; structural protection provided by sequential principal amortisation; and the liquidity protection for classes B and C via a fully funded cash reserve.

The ratings incorporate Scope's positive assessment of the sub-servicer's abilities and incentives. The actions also reflect the replacement mechanisms in place upon downgrade of BNP Paribas (rated by Scope AA-/S-1+ Stable) as account bank and paying agent below BB.

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Related Research

General Structured Finance Rating Methodology, August 2017

Consumer ABS Rating Methodology, March 2018

Methodology for Counterparty Risk in Structured Finance, August 2017

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Rating drivers and mitigants

Positive rating drivers

Loan product with low historical losses. CQS loans incur lower losses than standard unsecured consumer loans, primarily because the loans are fully insured and instalments must be withheld by the borrower's employer and paid directly to the lender – measures that increase recoveries in case of default.

Diverse insurance coverage. The loan portfolio benefits from a diversified pool of 10 insurers covering individual borrowers against life events and unemployment. No insurance company can cover more than 25% of the portfolio.

Liquidity protection. The fully funded cash reserve covers around 10 months of fees (1.0% annual assumption) and interest payments to note classes A, B, and C. The target reserve ratio at the end of the ramp-up period is 2.0% of the non-defaulted portfolio. The cash reserve will amortise and be used to cover defaults.

Management fee reserve. The management fee reserve is fully funded and sized to cover the full amount of potential set-off claims, stemming from fees paid upfront that the borrowers can reclaim when they prepay the loan.

Independent servicer. Zenith is the servicer, with the ability to immediately perform both this role and the sub-servicer's. This reduces potential servicing disruptions and prevents delays caused by a search for a suitable back-up servicer.

Negative rating drivers and mitigants

Loans without first instalment paid. Assets added to the portfolio during the ramp-up period are not required to have a minimum number of instalments paid by the borrower. Occasionally, an employer does not deduct the first instalment in a timely manner, which can increase arrears and introduce opportunities for fraud. This is mitigated by Dynamica's origination practices and commitment to repurchase delinquent loans. Nevertheless, this increases counterparty risk to Dynamica, which Scope has sized in its analysis.

Exposure to public entities. 90.1% of the portfolio is exposed to public entities that pay salaries or pensions to borrowers. These borrowers normally have lower default rates than those in the private sector. However, such a high concentration can increase vulnerability to a potential insolvency of the Italian government, given the method by which CQS loans are repaid. Scope's analysis has considered this by incorporating an event of sovereign stress.

Ramp-up period. New loans can be added to the pool during the ramp-up period, which is expected to conclude in December 2018. These loans will be financed by increasing the notes' paid-up amount and principal collections from the portfolio. The risk of asset quality deterioration is partially mitigated by replenishment criteria, which Scope has also factored into its analysis.

Small, unrated originator/sub-servicer. Dynamica performs several key roles, including originator and sub-servicer. Dynamica is an unrated boutique servicer with nine years' experience servicing CQS loans. Scope's operational review has provided comfort in Dynamica's abilities and capacity in these roles. Additionally, Zenith can serve as back-up servicer. Daily sweeps to the issuer account bank also limit sub-servicer commingling risk, which has been factored in the analysis.

Upside rating-change drivers

Better-than-expected performance of the pool may positively impact the ratings. A consequential rating upgrade of Italy or a reduced default risk for the insurance companies could also lead to an upgrade.

Downside rating-change drivers

A significant deterioration in the credit profile of the insurance companies would lead to lower rating-conditional recovery rate assumptions, which could negatively impact the ratings. A decline in the pool's overall performance versus Scope's expectations or a significant rating downgrade of Italy could also have a negative effect.

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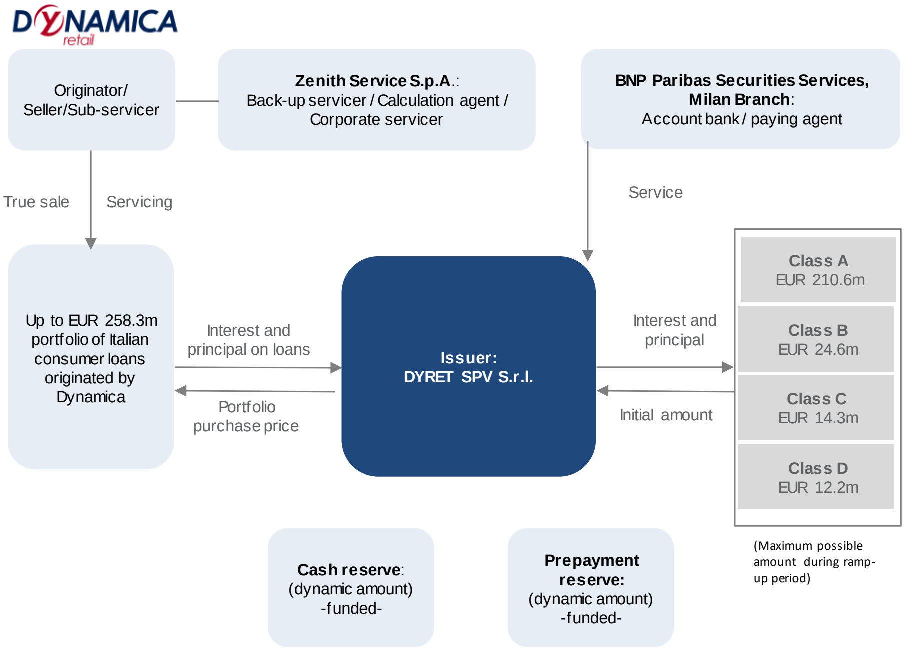
1. Transaction summary

Figure 1: Dyret SPV S.r.l. transaction



Source: Transaction documents and Scope.

DYRET SPV S.R.L. is Dynamica's first consumer ABS transaction of CQS loans extended to borrowers in Italy. The transaction concerns the securitisation of a EUR 160.3m portfolio of 8,392 partially secured, amortising loans used for general consumer financing. The loans were granted to Italian civil servants (54.8%), private-sector employees (9.9%) and pensioners (35.3%). The transaction features a ramp-up period that is scheduled to conclude in December 2018 and is subject to covenants on performance and asset eligibility. During this period, the portfolio can increase to EUR 258.3m through the issuance of additional notes. New assets can also be purchased during the ramp-up period using principal received from the current pool of assets.

2. Asset analysis

The securitised portfolio is a granular pool of CQS loans granted to Italian borrowers who work in either the public or private sector, or are pensioners. A sub-pool of the portfolio is comprised of delegazione di pagamento (DP) loans, which are also payroll-deductible, but with slightly different characteristics to CQS loans, as explained below. A stratification table of the securitised portfolio can be found in Appendix I.

2.1. Contract-type

CQS loans offer additional protection and are distinguishable from standard consumer loans in two key ways: i) monthly instalments are paid directly to the lender by the employer or pension provider after being deducted from the obligors' monthly salaries; and ii) every loan is insured for job-loss and life-event risks. These characteristics link public employees and retired borrowers to the Italian state as either their employer or pension provider. Recoveries depend strongly on the insurance companies' solvency, because these companies must cover any losses should the loan default. Scope accounts for both of these risks in its analysis.

2.1.1. CQS loans

Loan instalments cannot exceed 20% of the borrower's total net salary or pension, and are deducted directly from the salary or pension by the employer or pension provider. For employees, the loans are collateralised by a pledge on the debtor's accrued severance pay, known in Italy as trattamento di fine rapporto (TFR). CQS loans typically have an original term of 10 years, pay a fixed rate and cannot be refinanced until 40% of the original term has elapsed.

2.1.2. DP loans

DP loans are typically granted to borrowers that already have an outstanding CQS loan. The addition of a DP loan can mean a total monthly instalment of up to 50% of the borrower's net income. DP loans are subordinated to CQS loans, but this risk is partly mitigated by the originator's familiarity with the existing borrower before a loan is authorised.

For more detail on CQS loans, download our Consumer ABS Rating Methodology.

3. Portfolio and performance analysis

3.1. The securitised portfolio

The EUR 160.3m portfolio as of 6 November 2017 had a weighted average seasoning of 21.0 months with a weighted average remaining time to maturity of 94.0 months. Additions made to the portfolio during the ramp-up phase may reduce the weighted average seasoning and increase the remaining term to maturity. Scope has accounted for this risk by analysing the portfolio at the conclusion of the ramp-up period, factoring in a lower seasoning and a longer remaining term to maturity (120 months). The loans in the initial portfolio were originated between 2014 and 2017. Amortisation is standard annuity and the weighted average fixed interest rate is 4.0%, with a loan-level covenanted floor of 3.8%. Stratifications of the portfolio can be found in Appendix I.

Insurance coverage on the pool is well diversified, with an inverse-Herfindahl score of 5.9. Deal covenants limit a single insurer's exposure to the portfolio at 25%. Scope has analysed the effects of various levels of credit and concentration migrations to the insurer composition during the ramp-up period and takes comfort in the quality and diversity of the names.

Figure 2: Insurers covering the transaction portfolio as of 6 November 2017

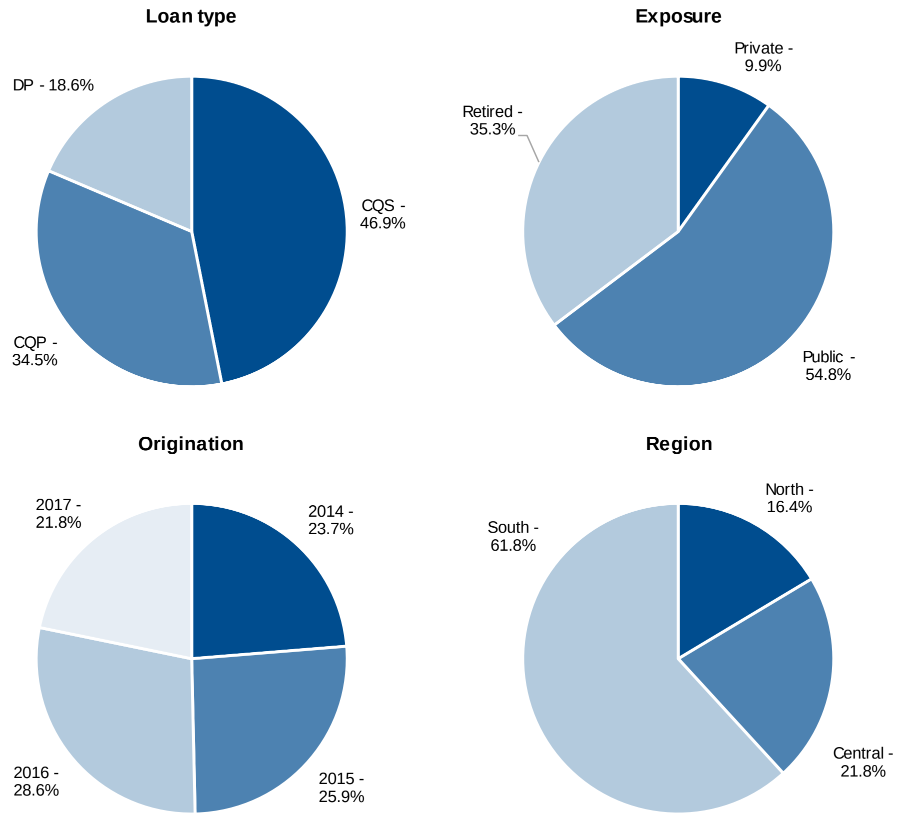
Insurer	Portfolio share
HDI Assicurazioni S.p.A.	21.8%
Net Insurance S.p.A.	20.2%
Aviva Italia S.p.A.	16.6%
AXA France IARD S.A.	16.2%
ERGO Assicurazioni S.p.A	11.9%
Credit Life AG	11.6%
Rheinland Versicherungs AG	0.7%
MetLife Europe Limited	0.6%
Allianz Global Life dac	0.3%
AFI ESCA S.A.	0.0%

Borrowers receiving state salaries or pensions comprise 90.1% of the initial portfolio. The two largest paying entities are the Istituto Nazionale della Previdenza Sociale (the pension ministry) and the Ragioneria Territoriale Stato (the ministry of finance), with exposures of 34.3% and 13.9% respectively. Scope's analysis accounts for this link to the state and the associated risk by incorporating an event of sovereign stress.

Geographic concentration is found in southern Italy (61.8%), a region typically exhibiting worse macro loan performance than that of central and northern regions.

Borrowers in central and northern regions account for 21.8% and 16.4% of the portfolio respectively, which is a trait common to CQS portfolios.

Figure 3: Initial portfolio composition



3.2. Loan and portfolio eligibility

Loan- and portfolio-level covenants protect the integrity of the portfolio during the ramp-up period. However, Scope has assumed credit-negative loan and portfolio migrations within defined transaction limits. Key eligibility criteria can be found below in Figure 4.

Figure 4: Eligibility criteria

	Eligible loans	Portfolio criteria
1	Euro-denominated CQS, CQP or DP loans	Maximum 15% private-sector borrower exposure
2	Italian borrowers (citizens, residents, or domiciled)	Maximum 20% DP loan exposure
3	No redraw possibility	Maximum 10% para-public CQS exposure
4	Minimum 3.8% fixed coupon	
5	Insurance policy coverage	
6	No redraw possibility	
7	Originated by Dynamica	
8	Fewer than four unpaid instalments	
9	No default or delinquency status since loan origination	
10	Maximum maturity: 31 December 2028	
11	Borrowers are not employed by Dynamica	
12	Active loan but no need to pay first instalment	

Assets added to the portfolio during the ramp-up period are not required to have a minimum number of instalments paid by the borrower. It sometimes takes time for the employer to deduct the first instalment, which can lead to increased arrears and introduce opportunities for fraud. This is mitigated by Dynamica's origination practices and its obligation to repurchase loans if no instalments have been paid on them within 90 days after the transfer. Dynamica also reports that only three of its loans have been fraudulent since 2014. Nevertheless, this increases counterparty risk connected to Dynamica and Scope's analysis has incorporated this by assuming a small portion of loans will not pay due to fraud.

3.3. Post-ramp-up portfolio

Initial portfolio composition will change during the ramp-up period

Scope accounted for risks of portfolio deterioration and changing portfolio characteristics during the ramp-up period, based on portfolio- and asset-level covenants. The risk of deviation beyond these limits is covered by standard stresses applied in the analysis.

The portfolio at the conclusion of the ramp-up period can increase up to EUR 258.3m, compared to EUR 160.3m as of 6 November 2017. Additional receivables are funded through the reinvestment of principal received from the assets and the issuance of new notes from the special-purpose vehicle.

Scope has built its expectation of the post-replenishment portfolio by considering the addition of new, unseasoned loans to the current portfolio. Scope has considered the minimum yield (3.8%) of the new loans added to the portfolio, the minimum seasoning (none) and the maximum remaining term (120 months).

Figure 5: Current portfolio versus projected worst-case portfolio

		Current portfolio	Worst-case ramp-up portfolio
Loan type	CQS – private	9.9%	15.0%
	CQS – public	37.0%	56.7%
	CQP	34.5%	18.4%
	DP	18.6%	9.9%

Scope also assumed a 1.98% share of non-performing assets in the portfolio at the conclusion of the ramp-up period. This share is deducted from the performing balance at closing, net of expected recoveries.

3.4. Purchase termination events

The purchase of additional loans during the ramp-up period will cease if any of items noted in Figure 6 occur.

Figure 6: Purchase termination events

	Description
Portfolio	3.0% delinquency ratio
	3.5% cumulative net default ratio
	Failure of asset coverage test
Originator	Non-payment of interest on a given payment date (not remedied within five business days)
	Non-payment of principal due at maturity (not remedied within five business days)
	Issuer breach of obligations on the notes and on any transaction documents (not remedied within 30 days)
	Insolvency
	Unlawfulness
	Non-payment of interest on a given payment date (not remedied within five business days)
Sub-servicer	Termination of Dynamica as sub-servicer

The portfolio covenants are calculated as follows:

- 3.0% delinquency ratio: calculated as loans four or more months delinquent as a percentage of assets
- 3.5% cumulative net default ratio: cumulative defaulted loans, net of recoveries, as a percentage of outstanding assets
- Failure of asset coverage test: during the ramp-up period outstanding notes are fully collateralised by assets and the cash reserve

3.5. Performance analysis

Scope derived default rate and recovery rate assumptions based on 2009-2017 vintage data on Dynamica's loan book, segmented by loan product (CQS and DP) and borrower type (public sector, private sector, and pensioner). These details are shown in Appendix II. Scope was able to apply the vintage data analysis to the transaction portfolio because the securitised portfolio's characteristics generally reflect those of Dynamica's book. These assumptions reflect the worst-case post-ramp-up portfolio highlighted earlier in Figure 5.

3.5.1. Default rate distribution

Scope applied an inverse Gaussian default distribution, with a mean default rate of 10.5% and a coefficient of variation of 35%. For the analysis, a default occurs when either: i) a loan is nine months in arrears, ii) a loan is declared as sofferenza (subjective default), iii) a life event has occurred, or iv) an employment event has occurred.

Scope believes its mean default rate and coefficient of variation capture a through-the-cycle view because the vintage data captures a period of severe economic stress in Italy. Therefore no long-term adjustment was made.

3.5.2. Recoveries

Scope determined its rating-conditional recovery rates by blending two recovery rates (RR1 and RR2) and applying a respective weight to each. RR1 (recoveries including insurers) was assumed at 80% and RR2 (excluding insurers) was assumed at 20%. The weights applied to each recovery rate are based on the insurers' insolvency risk. This approach allows Scope to implicitly capture the dependency between the portfolio and the insurer, because for high rating scenarios this approach considers the tails of the insurance default distribution and the portfolio default distribution.

Recoveries come from a combination of three sources: insurance payouts, TFR security and borrower collections. Figure 7 below isolates the proportion of Dynamica's historical recoveries on defaulted loans from these three sources. Scope's 80% RR1 calculation is essentially derived from the combination of all three recovery sources, while the 20% RR2 calculation represents an extreme scenario of expected recoveries in the absence of insurers. Scope analysed Dynamica's recovery vintage data, giving benefit to four years of accumulated recoveries after default.

Figure 7: Sources of CQS recoveries

Insurance	TFR	Borrower
61.2%	22.7%	16.1%

Scope has applied the following rating-conditional recovery rates to its analysis.

Figure 8: Rating-conditional recovery rates

B	BB	BBB	A	AA	AAA
67.9%	67.6%	59.7%	51.7%	48.0%	42.9%

Further explanation of how Scope calculates its rating-conditional recovery rates in CQS transactions can be found in the Consumer ABS Rating Methodology.

4. Financial structure

4.1. Capital structure

The transaction features a strictly sequential, single-waterfall structure. Proceeds from the further issuance of senior and mezzanine notes are used to purchase additional assets for the portfolio. Principal collections from the receivables can also be used to purchase new assets. The structure will amortise during the ramp-up period if new assets do not replenish paid-down assets. Scope has analysed the transaction assuming the full ramp-up with no amortisation during the ramp-up period.

The class A notes are issued at par, while the class B and class C notes are issued at 98% and 97% of par, respectively. The cash reserve is fully funded via the class D notes.

The class B notes pay a 2.75% fixed coupon and are protected by 10.3% of credit enhancement, mainly through the subordination of the class C and class D tranches. The class C notes pay a fixed 3.75% coupon and have 4.7% of credit enhancement.

The transaction also benefits from excess spread, which Scope estimates to be 1.38% after deducting liability interest and annual fees of 1.0%.

Figure 9: Current capital structure

	Current size (EURm)	Current CE	Coupon	Maturity	Rating
Class A	137.0	16.5%	1.10% fixed	December 2038	NR
Class B	14.8	7.3%	2.75% fixed	December 2038	BBB+$_{SF}$
Class C	6.6	3.2%	3.75% fixed	December 2038	BB $_{SF}$
Class D	7.7	0.0%	Floating residual	December 2038	NR
Cash reserve	3.2				

4.2. Cash reserve

Fully funded cash reserve

The structure benefits from liquidity support via a dynamic cash reserve funded by the class D notes. The target reserve fund level is 2% of the non-defaulted portfolio, with a floor of 1% of the post-ramp-up portfolio. The reserve fund provides liquidity support and covers fees and interest payments to the senior and mezzanine noteholders. Scope estimates the reserve fund can cover approximately 10 months of obligations. It cannot be used to fund replenishments.

Figure 10: Reserve fund

Target	2% of non-defaulted portfolio
Floor	1% of post-ramp up portfolio
Amortisation	With non-defaulted portfolio when equal to 4% of the portfolio
Funded by	Class D proceeds
Available to	Senior fees and interest to classes A, B, and C
Cover to	~10 months of interest to classes A, B, and C and expenses (1.0% annualised)

4.3. Prepayment reserve

A prepayment reserve covers any fees incurred on existing loans featuring an early-termination clause. During the ramp-up phase, new loans with prepayment fee clauses will have the relevant fee amount, which is capitalised into the borrower's loan balance and transferred to the prepayment reserve held at the issuer account bank. Funds are paid from the prepayment reserve to the waterfall if prepayment penalties are incurred from the portfolio in a given payment period.

4.4. Priority of payments

Combined priority helps protect against payment interruption

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 on the bonds. Figure 8 below details the transaction priority of payments.

Figure 11: Transaction waterfall

	Pre-enforcement	Post-enforcement
	Available funds: Receivables collections, collections from noteholders (ramp-up period), eligible investment collections, asset sales, recoveries, cash reserve, management fee prepayment amount	**Available funds**: Receivables collections, eligible investment collections, asset sales, recoveries, cash reserve, management fee prepayment amount
1	Fees and expenses	Fees and expenses
2	Class A interest	Class A interest
3	Class B interest	Class A principal
4	Class C interest	Class B interest
5	i) Replenish cash reserve to target amount ii) Release funds from the prepayment reserve for loans that have not been prepaid	Class B principal
7	During the ramp-up period, purchase of new loans using principal collections and, if necessary, proceeds from further note issuances	Class C interest
6	Class A principal	Class C principal
7	If class A is fully redeemed, class B principal	Class D principal (if classes A to C are redeemed)
8	If classes A and B are fully redeemed, class C principal	Class D excess remuneration
9	Class D principal (if classes A to C are fully redeemed)	
10	Class D excess remuneration	

The following scenarios constitute an event of default and trigger the post-enforcement waterfall:

- Non-payment of interest on the most senior class of notes
- Non-payment of principal at the final legal maturity for classes A to C
- Issuer's breach on obligations under the transaction documents
- Issuer insolvency
- When it becomes unlawful for the issuer to comply with the documents

The principal deficiency ledger is implicit in the amortisation of the notes, as the amounts allocated for the notes' redemption depends on an asset-liability test between the performing portfolio and the notes, and on the cash reserve on the asset side. Given the combined waterfall, available interest collections at this stage would cover defaults rather than leak out as excess remuneration.

5. Originator and seller

Dynamica is a specialised originator and servicer of payroll-deductible consumer loans in Italy. It has operated since 2009 and is 40%-owned by NET Insurance (a major insurer of CQS loans in Italy) and 10%-owned by IBL Banca SpA (Italy's largest CQS originator).

Dynamica only originates CQS loans (for which up to one-fifth of the salary or pension is deducted to repay the loan) or DP loans (up to half is deducted). During 2017, origination volume consisted of 88% CQS and 12% of DP loans, the latter being significantly less than the 20% cap in the transaction. 85% of Dynamica's 2017 origination volume consisted of loans to public-sector employees (58%) and pensioners (27%). Approximately 15% of Dynamica's 2017 origination was extended to private-sector borrowers, in line with the maximum allowed under the transaction.

The vast majority of Dynamica's loans are originated through a network of around 65 agents and 10 credit intermediaries. Its overall market share for new origination volumes has been stable at approximately 2% from 2015 to 2017.

Dynamica's loan origination, underwriting and management/monitoring processes are fully digitalised. Following its operational review on 31 January 2018, Scope has deemed Dynamica's personnel, management and IT systems to be adequate. Further comfort is provided by Zenith, which is effectively the transaction's master servicer. While Zenith is formally the servicer, it has delegated most tasks to sub-servicer Dynamica. Zenith is one of the largest servicers in Italy, with over EUR 20bn in managed assets.

5.1. Sanctioning and underwriting

A workflow system guides the sanctioning and underwriting processes. Each loan is underwritten by Dynamica and the insurance company covering life and/or employment events.

Dynamica first underwrites the loan by verifying, inter alia, the borrower and employer. Using a variety of sources, Dynamica monitors and assesses the performance of outstanding payroll-deductible loans tied to the employer along with the employer's financial data in order to determine the employer's credit quality. This process is particularly emphasized for private-sector exposures. Neither a credit-scoring system nor the applicant's credit bureau data is used because credit risk arises from the employer. These processes focus on minimising fraud and verifying the integrity of loan documentation.

If Dynamica is satisfied with the information, it transfers the loan request and related information to the insurance company, which then applies its own underwriting. The documentation and settlement process is initiated once the insurance company approves the loan.

The underwriting process and criteria employed by Dynamica align with the market standard for CQS loans. The digitalisation used in the process (e.g., the workflow and the extended use of certified electronic mail rather than letters) is more advanced than in the general market.

5.2. Servicing and recovery

While the issuer appointed Zenith Services S.p.A. as servicer at closing, the sub-servicer, Dynamica, performs most of the tasks. If a borrower misses payments, servicing is performed mostly with the employer because instalments are normally deducted from the salary or pension. Payments from the employer can be delayed or suspended due to the borrower's actions, or through errors between the employer and the originator/seller.

The recovery process usually starts after two overdue instalments, in line with CQS market standard. Dynamica immediately informs the relevant insurance company regarding life or employment events. Regarding the latter, Dynamica also attempts to notify a borrower's new employer about an outstanding loan.

Scope considers Dynamica's servicing and management of non-performing loans to be slightly better than CQS market average, evidenced by the slightly higher recovery rates.

6. Quantitative analysis

Scope has analysed the transaction's cash flows, incorporating key mechanisms in the structure. The agency applied a large homogenous portfolio approximation approach to analyse the highly granular collateral pool and to forecast cash flows over the amortisation period. The cash flow analysis considers the probability distribution of portfolio default rates (following an inverse Gaussian distribution) as well as recoveries, which also depend on the insurance companies' assumed survival and on assumptions regarding the different recovery rates, regardless of whether insurance is provided.

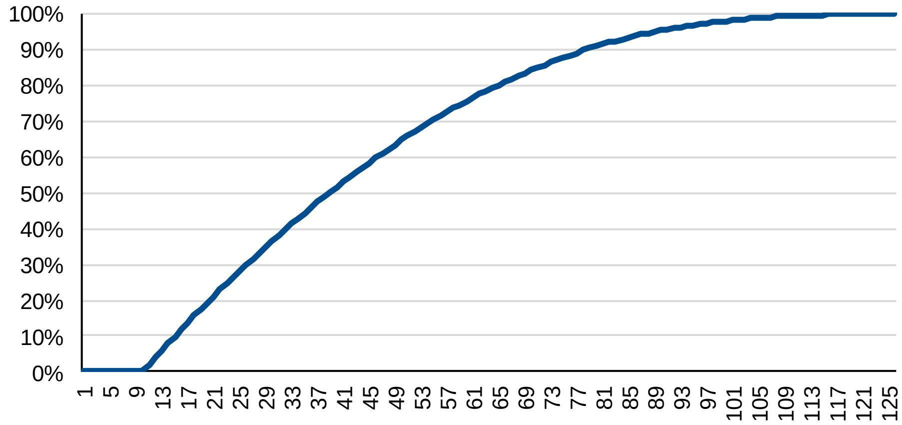
Scope did not need to consider a long-term reference default distribution. The vintage data available to analyse asset performance capture a full economic cycle, enabling Scope to derive a long-term forward-looking view on the portfolio.

Scope calculated the probability-weighted loss for the rated notes as well as the expected weighted average life for each rated tranche. Scope has considered asset and liability amortisation and the evolution in the pool composition.

The assumptions for DYRET were derived from 6 November 2017 portfolio stratifications.

Scope has assumed a constant default intensity. The cumulative default-timing assumption is shown in Figure 12 and represents the assumed default timing. The defaults are classified as nine months in arrears, in line with the definition in the transaction documentation.

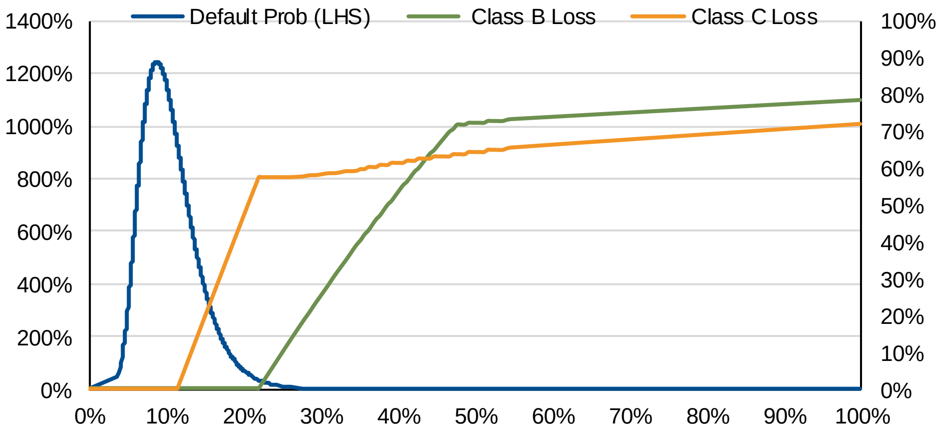
Figure 12: Cumulative default-timing assumption for the portfolio



Front-loaded default timing considered in analysis

Figure 13 shows the losses of the rated tranches at all portfolio default rates. The chart shows how credit enhancement and excess spread protect both the bond and recovery proceeds in case of default. The results consider servicer commingling and the risk of weak assets at the end of the ramp-up period.

Figure 13: Base case cash flows



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

7. Rating stability

7.1. Rating sensitivity

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

Figure 14 and Figure 15 below show how the quantitative results for the rated notes change when the portfolio's expected default rate is increased by 50% and the portfolio's expected recovery rate is reduced by 50%, respectively.

Figure 14: Class B sensitivities

Class B stresses	Sensitivity to assigned rating (BBB+$_{SF}$)
Base case default rate + 50%	-3 notches
Base case recovery rate - 50%	-4 notches

Figure 15: Class C sensitivities

Class C stresses	Sensitivity to assigned rating (BB$_{SF}$)
Base case default rate + 50%	-4 notches
Base case recovery rate - 50%	-5 notches

8. Sovereign risk

Sovereign risk does not limit the transaction's ratings

The Italian sovereign has been considered by Scope and reflected in the assigned ratings. The risks of an institutional framework meltdown, legal insecurity or currency convertibility problems due to Italy's hypothetical exit from the eurozone are not material for the ratings. For more insight about Scope's fundamental analysis on the Italian economy, refer to the agency's rating report on the Republic of Italy, dated 30 June 2017.

Obligors are significantly less likely to meet loan instalments if their salary or pensions are not paid. Hence, a major source of credit risk is an employer's credit quality. In the case of large exposures to public servants and pensioners, the rating of the sovereign (as employer) will directly impact the rated notes' credit quality. Scope does not mechanistically limit the maximum ratings on the notes; instead it assesses the potential rating impact from a distressed scenario affecting the Italian government.

Around 90% of the portfolio relates to the public sector, exposing the transaction to sovereign risk as these borrowers' salaries or pensions may be affected should the sovereign default. A sovereign default could also trigger a significant restructuring of the public administration. Scope refers to this as sovereign CQS stress, which exposes the transaction to:

1. **Liquidity risk.** A suspension or reduction of salary and pensions can create a spike in arrears and thus a liquidity shortfall in the transaction. However, additional losses are generally not incurred because in this instance the loan's maturity is extended – unpaid instalments become due and payable as of the original loan's maturity date until the debt is fully extinguished[1]. When analysing DYRET Scope assumed that 50% of the public-sector portfolio was fully suspended (i.e., no interest and principal paid on these loans) for a period of two years.
2. **Credit risk**. A restructuring of the public administration can lead to job losses and, therefore, asset default for the securitisation. Even a restructuring of the public administration may affect only some parts, as vital functions such as tax collection and law enforcement may not be completely abolished. When analysing DYRET, Scope assumed that a quarter of the public-sector portfolio would default as a consequence of job losses.

Generally, public-sector headcount and salaries/pensions have been shown to reduce after a sovereign default, whereas full non-payment is significantly less likely because of severe social, political and economic consequences. Scope has therefore assumed for the transaction that: a sovereign CQS stress event is less likely than a sovereign default on public debt and is thus aligned with an A+ probability of default over the portfolio's weighted average life. Scope's current rating on the Republic of Italy is A-.

9. Counterparty risk

The transaction is exposed to counterparty risk from i) Dynamica, the originator and sub-servicer, ii) Zenith, the servicer and calculation agent, and iii) BNP Paribas, the account bank and paying agent. In Scope's view, none of these exposures limit the assigned ratings.

BNP Paribas Securities Services is a subsidiary of BNP Paribas S.A., rated AA-/S-1/Stable by Scope.

Figure 16: Transaction parties

Role	Entity
Issuer	DYRET SPV S.r.l.
Arranger	Banca IMI S.p.A.
Originator/Sub-servicer/Cash manager	Dynamica Retail S.p.A. (NR)
Servicer/Calculation agent	Zenith Service S.p.A. (NR)
Account bank/Paying agent	BNP Paribas Securities Services, Milan Branch (AA-)

9.1. Sub-servicer disruption risk

Experienced servicer will take over servicing

Operational risk from sub-servicer Dynamica is mitigated by the servicer, Zenith, one of the largest loan servicers in Italy with over EUR 20bn in managed assets. Zenith would take over the sub-servicing immediately after a sub-servicer termination event. Scope's analysis has also incorporated a stressed 1% servicing fee should the servicer step in as sub-servicer and renegotiate its fee for the additional duties.

[1] If the maturity of the loans is extended beyond the final maturity of the notes, suspensions or reductions of salary and pensions will effectively generate a loss to the transaction. Normally the final legal maturity date is set 7-14 years after the loan with the longest maturity date in order to mitigate this risk.

9.2. Commingling risk

Commingling risk considered in the analysis

Commingling risk is mitigated by: i) daily sweeps of collections to the issuer's account held with BNP Paribas; and i) the servicer's notification to employers within 10 days to re-direct payments following a sub-servicer termination event. However, employers may not immediately implement the new payment instructions. Therefore Scope has assumed a loss of up to three months' worth of collections. Scope has sized a 1.3% loss based on the probability of a commingling event over the transaction's expected life.

9.3. Transfer of loans without minimum number of instalments paid

The additional loss from transfer of loans without any instalment paid has been assessed

Eligibility criteria do not contain a market norm, i.e., that all loans must have had at least one instalment paid by the borrower. As employers pay instalments by withholding the amounts directly from the salary or pension, any delay in communication with the employer can lead to arrears before the first instalment is paid. Dynamica has provided Scope with data on all originated loans showing the evolution of the delay in receiving the first instalment.

In addition, loans without any paid instalments could be fraudulent. These are not covered by insurance, and as such recoveries tend to be low. Dynamica's tight origination practices have resulted only three fraudulent loans since 2014. In addition, Dynamica must repurchase the loans if no instalments have been paid within 90 days after the transfer. In the BBB scenario, Scope has considered a fraud rate of 5% and the probability that Dynamica cannot repurchase the loans after 90 days, which would lead to an additional loss that has been considered in Scope's cash flow analysis.

10. Legal structure

Tax efficient set-up; bankruptcy-remote special-purpose vehicle

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.

10.1. Use of legal and tax opinions

Scope reviewed the legal opinions produced for the issuer. These provide comfort on the issuer's legal structure and supports Scope's general legal analytical assumptions.

The tax opinion produced for the issuer indicate that the transaction is tax-neutral, i.e., no taxes apply, except for VAT in the context of contracted services, which remain the cost of the issuer.

11. Monitoring

Scope will monitor this transaction based on the performance reports from the calculation agent and servicer 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.

12. Applied methodology

For the analysis of this transaction Scope applied its Consumer ABS Rating Methodology and Methodology for Counterparty Risk in Structured Finance, both available on www.scoperatings.com.

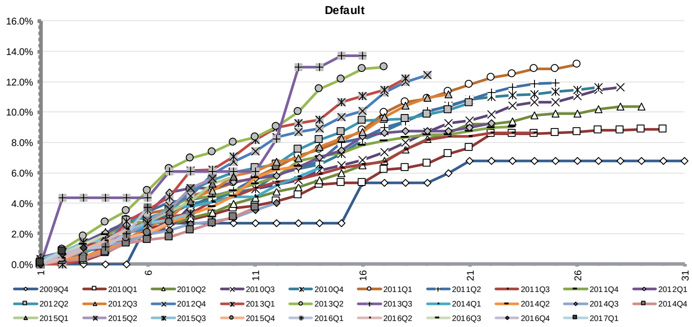
I. Summary of portfolio characteristics

Figure 17:

	Transaction portfolio
Cut-off	November 2017
Total balance	EUR 160,348,393
Average loan size	EUR 19,107
Loans	8,392
Employers	1,475
Origination year:	
2017	21.8%
2016	28.6%
2015	25.9%
2014	23.7%
Weighted average coupon (100% fixed)	4.0%
Weighted average seasoning	21.0
Weighted average OT	115.1
Employment type:	
Private	9.9%
Public	54.8%
Retired	35.3%
Loan type:	
CQS	46.9%
CQP	34.5%
DP	18.6%
Employer concentration:	
Top 1	34.3%
Top 2	48.2%
Top 3	49.4%
Top 4	50.6%
Top 5	51.4%
Regional concentration:	
Northern Italy	16.4%
Central Italy	21.8%
Southern Italy	61.8%

II. Vintage analysis

Figure 18: CQS – total book – default and recovery data



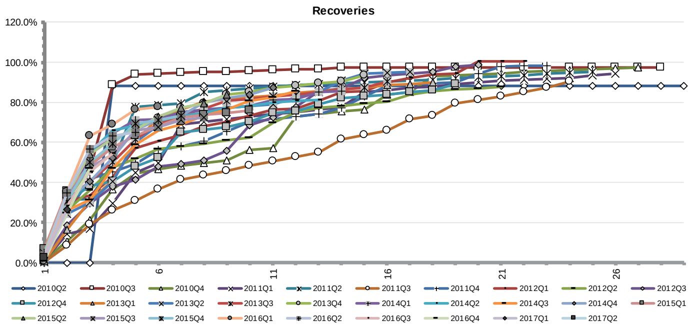
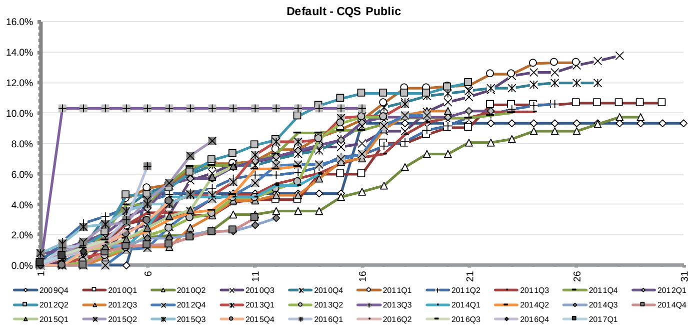


Figure 19: CQS – public exposure – default and recovery data



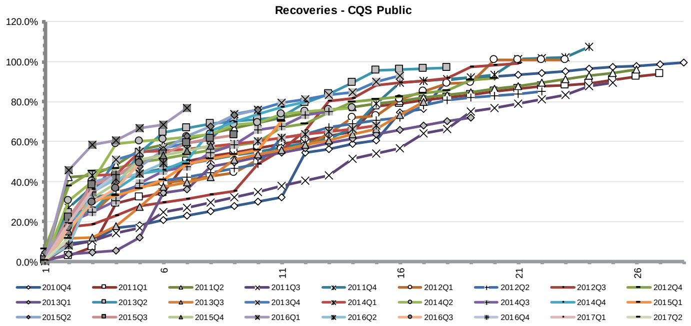
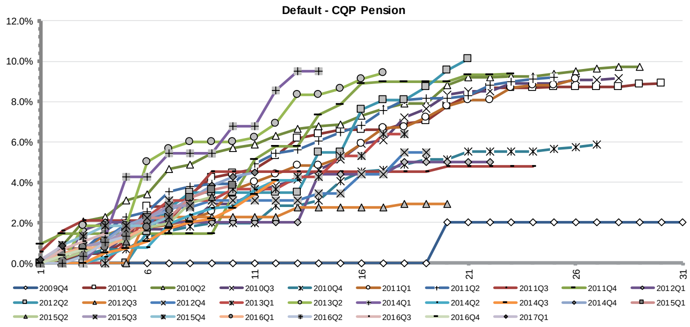


Figure 20: CQP – pension exposure – default and recovery data



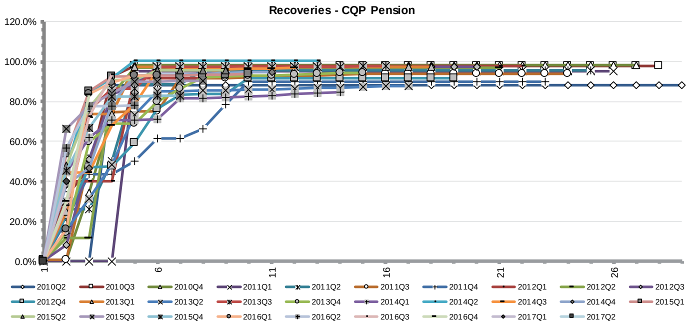
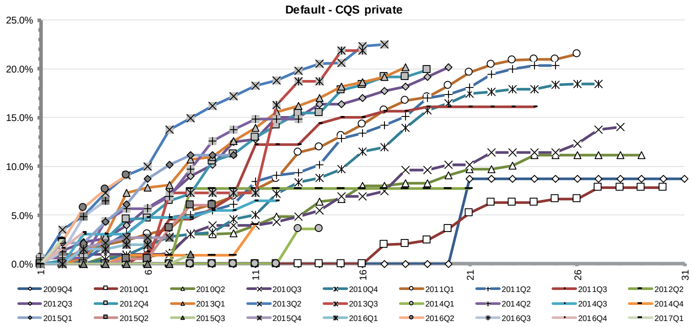


Figure 21: CQS – private exposure – default and recovery data



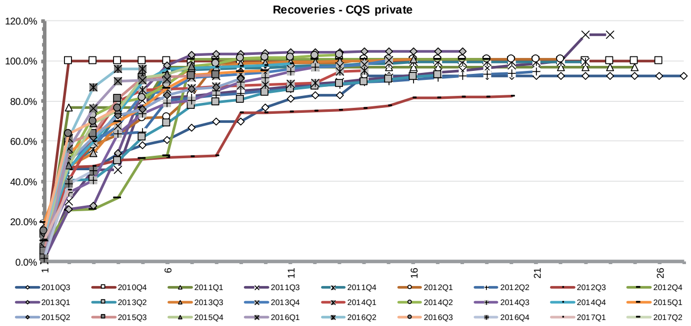
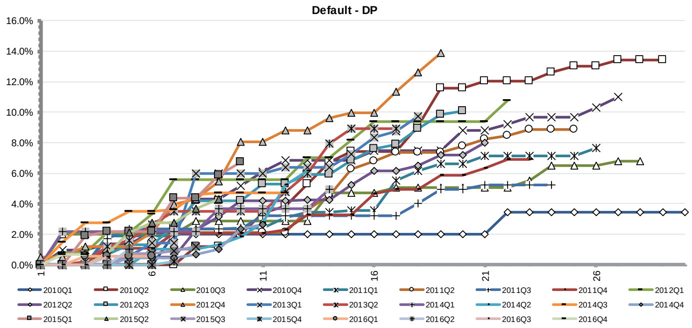
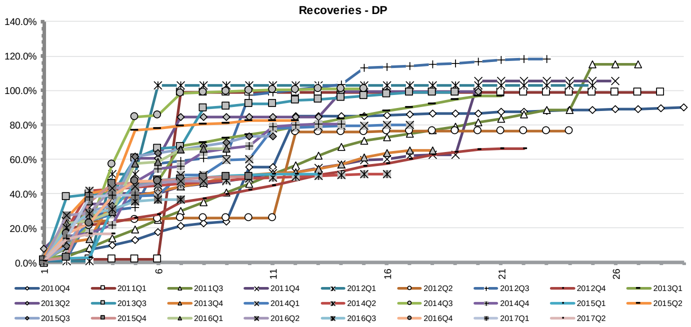


Figure 22: DP – default and recovery data





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