Alba 9 SPV S.r.l.

Leasing ABS/Structured Finance

Scope Ratings

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RATINGS

Class	Rating	Notional (EUR m)	Notional (% assets)	CE[1] (% assets)	Coupon	Final maturity
Class A1	(P) AAA_{SF}	478.6	43.0	57.9	3m Euribor+ [•]	March 2038
Class A2	(P) AAA_{SF}	233.8	21.0	36.9	3m Euribor + [•]	March 2038
Class B	(P) $A+_{SF}$	145.8	13.1	23.8	3m Euribor + [•]	March 2038
Class C	(P) $BBB-_{SF}$	100.2	9.0	14.8	3m Euribor + [•]	March 2038
Class J	NR	164.3[2]	13.9		3m Euribor + [•]	March 2038
Rated notes notional		**958.4**				

Scope's quantitative analysis is based on the portfolio dated 22 September 2017, 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	Alba 9 SPV S.r.l.
Originator/servicer	Alba Leasing S.p.A. (NR)
Account bank	Citibank N.A. Milan Branch (NR)
Paying agent	Citibank N.A. London Branch (NR)
Asset class	Lease receivables
Assets	EUR 1,113.1m
Rated notes	EUR 958.4m
ISIN Class A1	[•]
ISIN Class A2	[•]
ISIN Class B	[•]
ISIN Class C	[•]
Closing date	October 2017
Legal final maturity	March 2038
Payment frequency	Quarterly
Payment dates	27 March, June, September and December

Transaction profile

The transaction is a true-sale securitisation of a portfolio comprising EUR 1,113.1m of lease receivables with no residual value risk, granted mainly to different types of SMEs in Italy by Alba Leasing S.p.A. The issuer account bank and paying agent is Citibank N.A.

The leases relate to transportation assets, equipment, real estate as well as air, naval and rail assets. The portfolio has a weighted average remaining life of 2.9 years and a weighted average portfolio margin of 2.7%.

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Rating rationale (summary)

The ratings reflect: i) the legal and financial structure of the transaction; ii) the quality of the underlying collateral given the relatively improving Italian macroeconomic environment; iii) the ability of Alba Leasing S.p.A. (Alba) as originator/seller and servicer; and iv) the counterparty exposure to Citibank N.A. as account bank and paying agent.

Class A1 and A2 are protected by their senior position and benefit respectively from 57.9% and 36.9% of credit enhancement from subordination and a debt service reserve. Furthermore, the combined interest and principal priorities of payments ensures liquidity support beyond the reserve for the payment of interest to all rated classes of notes. As a result, the risk of missed coupon payments on Class A1 and Class A2 is remote, which supports the rating.

Class B benefits from 23.8% of credit enhancement and the debt service reserve.

Class C mainly benefits from 14.8% credit enhancement and the debt service reserve. The rating also reflects Class C interest payment become subordinated to Class B principal if portfolio defaults exceed 10% of the portfolio´s initial notional. All rated notes benefit from a mechanism linked to portfolio defaults, which traps excess spread to ensure sufficient collateralisation.

[1] Including a EUR 9.6m debt service reserve.
[2] Class J funds a portion of the portfolio (EUR 154.7m) as of the closing date, but also the debt service reserve amount (EUR 9.6m), which is included in this figure.

RATING DRIVERS AND MITIGANTS

Positive rating drivers	Negative rating drivers and mitigants
Static portfolio. The portfolio will start to amortise immediately after closing, reducing the risk of performance volatility compared to revolving transactions.	**Alba is a relatively new lessor.** Relevant historical data only exists from 2010 when Alba started operations. Scope's default rate volatility assumptions reflect this.
Back-up servicer. The transaction benefits from back-up servicer Securitisation Services S.p.A., which can take over within 30 business days if needed. Securitisation Services S.p.A. cooperates with two other back-up servicers, Agenzia Italia S.p.A. and Trebi Generalconsult S.r.l.	**Unsecured recoveries**. Scope relies on unsecured recoveries from obligors and guarantors because there is no guarantee that Alba's bankruptcy estate will include asset sale proceeds from defaulted lessees.
No residual value risk. Investors are not exposed to the risk that obligors do not exercise the residual option, nor to the possible loss of residual value upon the originator's liquidation. The issuer benefits from interest paid on the residual value during the life of each lease contract, which gradually increases the excess spread available to cover defaults and losses.	**Liquidity reserve.** The debt service reserve provides limited liquidity to support Class A coupon payments. Under the stressed assumptions of 1% servicer costs and a three-month Euribor at 2.5%, the reserve will cover one payment period for Class A´s coupons. Scope however does not anticipate a rapid rise in interest rates over the expected life of Class A. The combined waterfall allows interest payments on the notes and senior costs because principal collections can be used to pay such items in the waterfall.
Short lifetime exposure. The portfolio of lease receivables exhibits a short remaining weighted average life of 2.9 years.	
No set-off risk. No borrowers have deposits or derivative contracts with Alba, the originator and seller.	

Positive rating-change drivers	Negative rating-change drivers
Faster-than-expected portfolio amortisation may benefit the rating if credit enhancement builds up before credit losses crystallise.	**Worse-than-expected asset performance** demonstrated by a higher-than-expected default rate or lower-than-expected recovery upon asset default could impact the ratings negatively.

Related reports

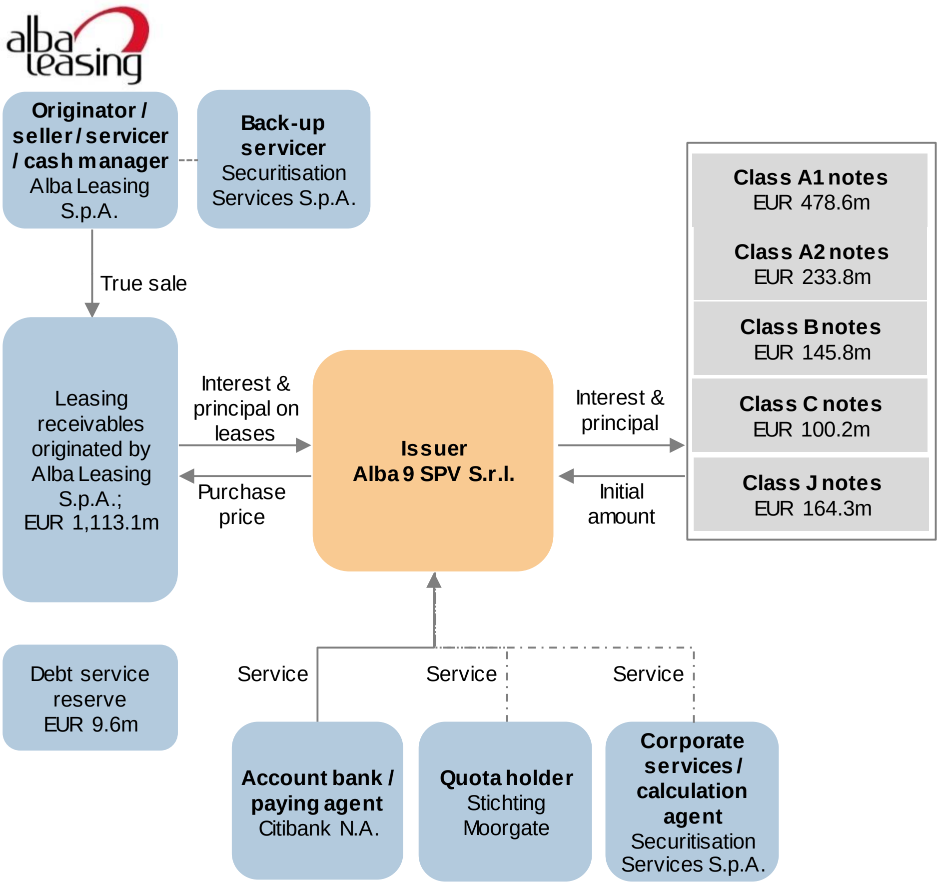
General Structured Finance Rating Methodology, dated August 2017.

Auto ABS Rating Methodology, dated August 2017

Methodology for Counterparty Risk in Structured Finance, dated August 2017.

1 TRANSACTION SUMMARY

Figure 1. **Simplified transaction diagram**



Source: Transaction documents and Scope.

Alba 9 SPV S.r.l. is Alba's ninth leasing transaction, and the first Italian leasing ABS publicly rated by Scope. The transaction consists of the securitisation of a EUR 1,113.1m portfolio of fully amortising lease receivables with no residual value risk. The leases have been granted to Italian borrowers (mainly SMEs) to finance the acquisition of transportation assets, equipment, real estate properties and air, naval and rail assets.

2 ASSET ANALYSIS

2.1 Securitised assets

The portfolio comprises lease receivables used for the financing of transportation assets, equipment, real estate properties and air, naval and rail assets. Compared with Alba's total lease book, the portfolio will benefit from positive selection as eligibility criteria exclude, among other things, exposures that are more than 30 days in arrears at closing.

The lease portfolio as of September 2017 has approximately one year of seasoning, a weighted average remaining term to maturity of 5.7 years, and a weighted average remaining life of 2.9 years. The lease receivables were originated between 2010 and 2017; 94.2% of these, from 2016 onwards. Eligibility criteria stipulate that all lease receivables transferred to the portfolio have at least one regularly paid instalment.

Most leases in the portfolio are paid monthly (96.3%) at a floating rate (97.1%). 96.9% pay a floating interest rate referenced to three-month Euribor; 2.9% pay a fixed rate; 0.2% pay a floating rate referenced to one-month Euribor.

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The assets' residual value is not securitised

There is no residual value risk since the residual value is not securitised. In addition, the special purpose vehicle benefits from interest paid on the residual value, which increases excess spread over time. The standard amortisation scheme is French.

The leases have mainly been granted to Italian SMEs (73.3%), with smaller amounts to larger corporate borrowers (10%) and individual entrepreneurs (16.7%). The asset analysis was performed over four portfolio segments (see Figure 2).

Figure 2. Portfolio segments split by asset type

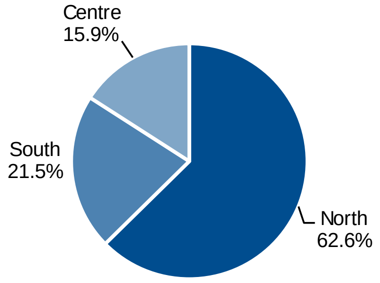
Segment	Description	Share
Transport	Vehicles, motor vehicles, cars, light lorries, commercial vehicles, industrial vehicles and other motorised vehicles excluding aircraft	25.8%
Equipment	Instrumental assets (e.g. machinery, equipment and/or plants)	54.5%
Real estate	Instrumental commercial real estate properties (including industrial facilities, shops, warehouses, supermarkets and artisan workshops)	18.2%
Air, naval & rail	Ships, vessels, aeroplanes and trains	1.5%

Source: Alba, Scope

2.1.1 Granular portfolio with no relevant concentrations

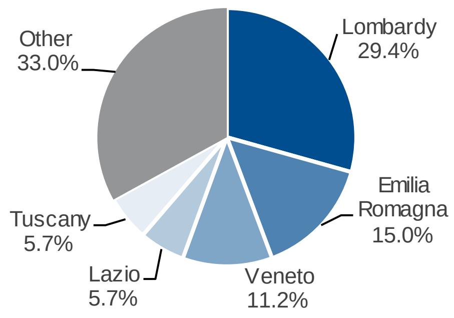
Scope did not adjust the portfolio's credit figures (estimated using vintage data) based on obligor, sector or regional concentrations. The portfolio is granular and well diversified across sectors, and is more concentrated in northern Italy, which is the centre of the country's economic activity.

Figure 3. **Regional distribution, % of remaining principal balance**



Source: Alba, Scope

Figure 4. **Regions by % of remaining principal balance**



Source: Alba, Scope

The portfolio is granular: the largest obligor group represents only 0.78% of the portfolio and the top 10 obligors account for 5.24% of the pool's outstanding balance.

Our base case modelling assumptions are sufficient to cover the risks associated with real estate and construction sectors, since only 11.3% of the portfolio's borrowers operate in both of these sectors. Also, the real estate sector accounts for only 1.8%, of which an even smaller 0.5% relates to the high-risk development sector.

2.1.2 Excess spread

The rated notes benefit from 2% gross excess spread

The rated notes benefit from the transaction's excess spread – 2.0% gross on the rated notes – which can be used to cure undercollateralisation arising from periodic defaults. In addition, excess spread will be trapped under certain trigger conditions (see Figure 9).

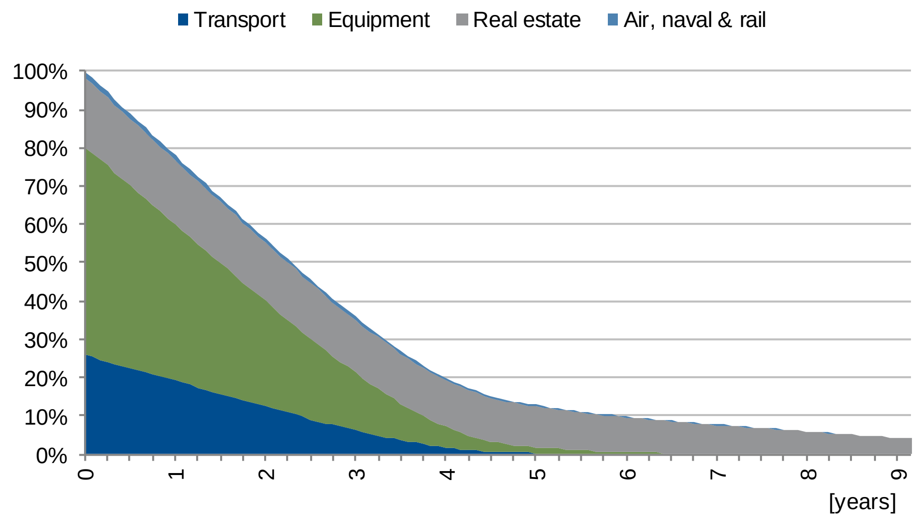
Scope incorporated margin and interest rate stresses in its modelling process to address: i) lower excess spread via prepayments, amortisation and defaults; ii) flexibility available to the servicer to modify the lease; and iii) interest rate mismatches between assets and liabilities.

The Class A has short exposure to counterparty risk and possible macro-economic decline

2.2 Amortisation profile

The projected amortisation profile reflects the amortisation scheme for the underlying assets. Figure 5 shows the amortisation of the four portfolio segments considered by Scope in its analysis.

Figure 5. **Projected portfolio amortisation profile (0% prepayment, 0% defaults)**



Source: Alba, Scope

2.3 Analytical portfolio assumptions

Figure 6. **Portfolio assumptions**

	Pool	Transport	Equipment	Real estate	Air, naval & rail
Share of portfolio	100%	25.8%	54.5%	18.2%	1.5%
Point-in-time default rate	5.6%	3.0%	5.0%	11.0%	6.5%
Coefficient of variation	71.3%	77.5%	65.0%	75.0%	130.0%
Base case recovery rate	17.1%	30.0%	20.0%	7.5%	30.0%
AAA recovery rate	10.3%	18.0%	12.0%	4.5%	18.0%
CPR low	0%	0%	0%	0%	0%
CPR high	5%	5%	5%	5%	5%

Source: Scope

2.3.1 Default rate analysis for portfolio

Scope calibrated its assumptions on point-in-time default rate and recovery rate using 2010-2017 vintage data for the four portfolio segments, which reflects the performance of the lease book originated by Alba since 2010.

Alba vintages cover periods of severe recession in Italy

Scope used default rate and recovery vintage from 2010 to 2017 for the four portfolio segments, which reflects the performance of the lease book originated by Alba since 2010. The observation period for lease receivables originated by Alba is relatively short at 6-7 years depending on the segment. However, the period includes the severe recession experienced in Italy during 2012-2014. Given the limited data available, we adjusted the coefficient of variation upwards for each segment by taking into account vintage data available for receivables originated during 2004-2009. The most relevant data used for the analysis is shown in APPENDIX II.

2.3.2 Recovery rate

When deriving the base case recovery rates from vintage data, Scope considered accumulated recoveries of up to 2.5 years after a default.

All recovery collections on defaulted assets must be passed on to the issuer. Recovery proceeds may result from either the sale or re-lease of repossessed assets, or voluntary payments from the borrowers.

Scope considers only unsecured recoveries

If Alba, the originator and seller, becomes insolvent, the issuer's claims to sale/re-lease proceeds might no longer be effective and enforceable against Alba's insolvency receiver. If Alba becomes bankrupt, recovery proceeds from the sale or re-lease of repossessed assets may be trapped in Alba's bankruptcy estate. Scope considers such risk by including only unsecured recoveries from the lessees and guarantors in its assumptions.

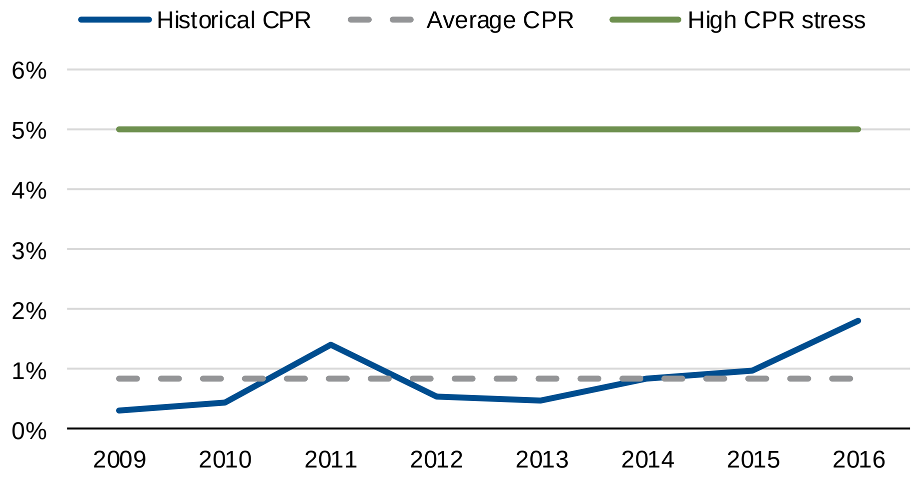
The portfolio average recovery lag derived from the corresponding recovery vintage data was estimated to be 21 months.

Scope used fixed assumptions for the portfolio's recovery rates (derived from vintage data), which were then stressed with haircuts based on the target ratings of the rated notes (see Figure 6).

2.3.3 Constant prepayment rate (CPR)

Scope tested the rated notes with both 0% and 5% prepayment rates. Alba provided product-specific prepayment information showing an historical average constant prepayment rate of only 0.85%.

Figure 7. Historical prepayments and stress



Source: Alba, Scope

3 FINANCIAL STRUCTURE

3.1 Capital structure

The capital structure features two senior classes: Class A1 and Class A2. Interest amounts on Class A1 and Class A2 rank pari passu and pro rata. The principal amounts on the Class A1 notes have priority over Class A2 notes under the pre-enforcement priority of payments and will be pari passu and pro rata under the post-enforcement priority of payments. The senior notes are supported by the available credit enhancement from subordination, the debt service reserve and available excess spread.

Proceeds from the notes were used to purchase the portfolio of receivables. Class J funds a portion of the assets, as well as the debt service reserve at closing.

The notes pay quarterly interest, referenced to three-month Euribor, plus a margin. The sum of three-month Euribor and the relevant margin is floored at zero.

3.2 Priority of payments

Combined priority of payments protects against payment interuption

The structure features a combined priority of payments, which protects against the interruption of interest payments, as principal collections from assets can be used to pay interest on the notes. The combined priority of payments also effectively enables losses from negative carry or interest rate mismatches to be covered by the temporary use of principal collections.

If total portfolio defaults were to exceed 10% of the initial outstanding balance, the interest amounts due on the Class C notes would be subordinated to the payment of principal on Class B notes, which would accelerate the amortisation of Class A1, A2 and B notes.

Figure 8. **Simplified priority of payments and available funds**

Pre-enforcement priority of payments	Post-enforcement priority of payments
Available funds Collections from assets; proceeds from interest and treasury accounts, debt service reserve, and trapped excess spread.	**Available funds** All SPV moneys, including funds from liquidation of assets and the full balance of the DSR.
1) Taxes and expenses (ordinary and extraordinary, including servicer fee, even if this was replaced) 2) **Class A interest** 3) **Class B interest** 4) **Prior to occurrence of Class C interest subordination event, Class C interest** 5) **Replenish DSR** to the required balance. 6) **Principal for Class A1** 7) **Principal for Class A2** 8) **Principal for Class B** **9) On or after occurrence of Class C interest subordination event, Class C interest** 10) **Principal for Class C** 11) **Cash Trapping** 12) Expenses due and payable by issuer to underwriters **13) Class J interest** 14) **Principal for Class J** 15) Deferred purchase price due and payable to the originator	1) Reserve to pay extinction expenses, liquidation of taxes, administration expenses and publicity 2) Taxes and expenses (ordinary and extraordinary, including servicer fee) 3) **Class A interest** 4) **Principal for Class A** (pari passu and pro rata) 5) **Class B interest** 6) **Principal for Class B** 7) **Class C Interest** 8) **Principal for Class C** 9) Expenses due and payable by issuer to underwriters **10) Class J interest** 11) **Principal for Class J** 12) Deferred purchase price due and payable to the originator

Source: Alba, Scope

Cash trapping mechanisms supports all rated notes

For each payment date, a level of total portfolio defaults has been defined, which, when exceeded, traps the remaining funds at item 11 in the simplified pre-enforcement waterfall above. Those funds are then made available in the next payment period to cover any shortfall in items 1 – 10.

The table below illustrates the payment dates and their respective trigger levels for the cash trapping condition.

Figure 9. **Payment dates and their respective total portfolio default trigger levels.**

Payment date	Total defaults (% of initial balance)
27 December 2017	1.75%
27 March 2018	1.75%
27 June 2018	2.25%
27 September 2018	3.00%
27 December 2018	3.50%
27 March 2019	4.50%
27 June 2019	5.00%
27 September 2019	5.00%
27 December 2019	6.00%
Thereafter	6.00%

Source: Alba, Scope

3.3 Amortisation and provisioning

A lease receivable is classified as defaulted when at least one instalment is delinquent by over 180 days or when it has six monthly instalments that are delinquent. A delinquent instalment is defined as being more than 30 days in arrears. In addition a lease receivable could also be declared as defaulted in accordance with more qualitative criteria as e.g. *sofferenza* or unlikely to pay, but the objective default definition is 180 days past due

The strict sequential amortisation effectively protects senior noteholders in times of stress. The amortisation of Classes A1, A2 and B will be accelerated during stressed periods, due to the triggering of the Class C interest subordination event and the cash-trappin mechanism.

The notes' amortisation levels during pre-enforcement is set by a target amount which also includes the implied principal-deficiency ledger. This is because the defaulted loans are deducted from the asset-and-liability test, which defines targeted amortisation, allowing the continuous use of excess spread to cover defaults.

Scope believes the cash-trapping mechanism (item 11 in the simplified pre-enforcement waterfall above) provides limited support in high-default scenarios, as excess cash will already have been used up by higher-ranking items in the priority of payments.

3.4 Debt service reserve

The debt service reserve primarily provides liquidity support to the rated notes and only works as a credit enhancement at the final legal maturity. However, when the debt service reserve amortises, the amounts released will also constitute credit enhancement as these will flow through the waterfall. Given its place in the waterfall, excess spread can replenish the debt service reserve up to its target level.

At closing the Class J notes fund the reserve amount up to EUR 9.6m. After the issue date, the reserve can cover payments applicable under the priority of payments on each payment date.

The reserve amount on the issue date is EUR 9.6m, or 1% of the initial outstanding balance of rated notes. Thereafter, on other payment dates, the amount is replenished at up to 1% of the principal outstanding on the rated notes, or, if higher, 0.5% of the initial principal outstanding on the notes.

The debt service reserve can pay the senior note fees and interest for up to two payment periods at a three-month Euribor rate of zero or below. The debt service reserve can pay senior note fees and interest for up to one payment period at a stressed three-month Euribor of 2.5%.

Scope considers the debt service reserve to be relatively low with regard to possible payment interruptions due to a servicer termination event, but takes comfort from the current low interest rate environment and the short weighted average life of the two most senior classes.

3.5 Matched interest rates

Scope believes interest rate risk to be limited due to the partial natural hedge provided by the floating rates of most assets and all liabilities. 96.9% of the assets are referenced to three-month Euribor, the same reference for the notes. 0.2% are referenced to one-month Euribor, and the remaining 2.9% pay fixed interest. The main sources of mismatches are a change in the fixed rate paid by the leases, and reset timing for floating-rate leases indexed to three-month Euribor. We have considered these mismatches in our modelling of cash flow by reducing the interest generated from the pool by 50 bps over the life of the transaction.

3.6 Issuer accounts

The issuer has a treasury account held by Citibank N.A. which holds collections from the assets as well as the debt service reserve. The servicer transfers the portfolio collections by the next business day.

The transaction is exposed to Citibank N.A. as the account bank (see '**Counterparty Risk**' on page 12), though Scope takes comfort from the bank's public ratings and replacement trigger. Potential negative carry introduced by this account is covered by excess spread and credit enhancement.

4 ORIGINATOR AND SELLER

We believe Alba's business is based on sound foundations, benefiting from experienced staff as well as a developed origination network via the bank channel.

Alba benefits from its very seasoned staff

Alba has operated in the Italian leasing market for seven years with a clear focus on the equipment segment. During this period, Alba's market share has increased significantly, growing above market average. As of end-2016, Alba has the sixth-largest lease portfolio in Italy.

Alba's main competitive advantages are its granular sales network, with over 5,700 points of sale, and its position as a universal leasing company, which allows it to originate leases for assets of any brand as well as in other segments (cross-selling). Alba mainly grants leases via bank distribution channels, either through its shareholder banks (70.9% in 2016) or partner banks (12.2% in 2016). It also cooperates with vendors and manufacturers (16.9% in 2016) to provide the financing service to sell a vehicle or equipment.

Alba's credit policy is conservative and its margins are in line with that of the Italian market. The gross non-performing-loan rate ("Deteriorated Loans") for Alba's new production was approximately 3% in 2016. Its overall non-performing-loan rate ("Deteriorated Loans") was approximately 9% in 2016, consistently below the Italian average for leasing companies (17.8%).

4.1 Sanctioning and underwriting

Bank interconnection with Alba defines the origination process.

Shareholder banks benefit from a single bank portfolio as well as stronger commercial and marketing relationships. Alba's processes are customised to suit the various banks' needs to maximise opportunities. There is a dedicated account manager for each shareholder banking group and a regional client manager for each region. Alba's processes and credit policy are generally shared and agreed with the shareholder banks.

The partner banks' origination model provides a single structure under which all partner banks are managed, with responsibilities assigned based on region. Partner banks have non-dedicated account managers and client managers supervising all banks within a respective area.

Alba focusses to control concentration risk

The leasing portfolio's credit quality hinges on Alba's ability to control concentration risk throughout the origination process. Alba avoids large individual concentrations by favouring small and medium-sized contracts, i.e. volumes of around EUR 90,000-100,000 on average.

Shareholder and partner banks have some autonomy in the underwriting process. Alba delegates up to EUR 750,000 of underwriting to a network of banks granted with this authority. In addition, underwriting requires a dual sign-off from the network and account manager. All applications above this threshold are directly approved by Alba.

Alba's credit process uses internal and external information. Moreover, internal ratings are assigned to obligors, and these ratings are continuously monitored. Processes, credit limits and product features also vary depending on the origination channel.

Shareholder bank credit limits range from EUR 100,000 for vehicle leases to EUR 400,000 for real estate contracts.

Presto Leasing includes 50% guarantee in favour of Alba

Shareholder banks offer the 'Presto Leasing' product, which includes a 50% guarantee in favour of Alba. If the lease fails to pay and is terminated, the relevant bank must indemnify Alba at 50% of the final loss payable following the recovery process, with the amount based on the net loss. The credit risk assessment and approval phases are run by the shareholder banks, with final approval subject to both Alba and the evaluations by its credit experts.

The 'Specialist Loan' product is used by partner banks and includes insurance and Alba's full in-house credit evaluation. Alba's scoring system Sprint is used for leases worth up to EUR 150,000. Lease applications rejected by the scoring system are always declined and rarely re-opened, mainly due to technical issues in the application process. The process for larger lease applications is more in-depth and manual.

If exposure exceeds EUR 150,000, Alba not only reviews the individual client, but also its group, including affiliated companies and holdings.

4.2 Servicing and recovery

Alba's servicing and management of non-performing leases is adequate in Scope's view, involving a reasonably proactive and diligent approach. Actions are initiated shortly after a payment is missed through a contact with the obligor. The asset is repossessed if the lease has not cured before the 90-105 dpd (days past due) threshold is passed.

Alba's processes are highly automated

Alba's servicing activities are highly automated. Collections are performed via direct debits on the lessees' accounts, and a daily report with a list of delinquent borrowers is produced.

Contact with clients is maintained primarily through the bank branch at which the lease was originally entered into.

When a lease becomes delinquent, the obligor is first contacted via mail and phone to assess the situation. A reminder is sent around 20 dpd, then external collectors are engaged at 30 dpd. Once a contract is 60 dpd, it is transferred to a client manager who assesses the risks and determines the appropriate actions. After 90 dpd, a pre-termination letter is sent. The contract is terminated within the following 15 days unless the obligor presents a reasonable recovery solution; for larger contracts, recovery may be enforced legally as well.

The termination of the contract initiates the recovery process, including repossession of assets. Alba's process concentrates on the obligor and the asset, and makes use of internal and external collectors.

For exposures under EUR 250,000 the collection process starts with the obligor being contacted via mail and phone. This is followed by home visits from external collectors, and ends with the client manager using a standard approach to collection. On the other hand, for higher-risk exposures (EUR 250,000 and above), a qualified manager will contact the client directly and develop a customised approach.

Alba's re-marketing department deals with the recovery, storage and re-location of assets, subject to the lease agreements. External parties support the recovery process and Alba maintains specialists for each leasing product.

5 QUANTITATIVE ANALYSIS

Scope has performed a cash flow analysis of the rated notes based on asset portfolio performance projections.

The risk of missed coupon payments on Class A is remote

Class A1 and A2 are protected by their senior position and benefit respectively from 57.9% and 36.9% of credit enhancement from subordination and a debt service reserve. Furthermore, the combined interest and principal priorities of payments ensures liquidity support beyond the reserve for the payment of interest to all rated classes of notes. As a result, the risk of missed coupon payments on Class A1 and Class A2 is remote, which supports the rating.

Class B benefits from 23.8% of credit enhancement and the debt service reserve.

Class C mainly benefits from 14.8% credit enhancement and the debt service reserve. The rating also reflects Class C interest payment become subordinated to Class B principal if portfolio defaults exceed 10% of the portfolio´s initial notional. All rated notes benefit from a mechanism linked to portfolio defaults, which traps excess spread to ensure sufficient collateralisation.

Scope applied its large homogenous portfolio approximation approach when analysing the collateral pool using an inverse Gaussian default distribution. Scope then projected cash flows over the collateral pool´s amortisation period. Scope analysed the transaction assuming four distinct asset segments for leases to mainly SMEs and smaller amounts to larger corporate borrowers and individual entrepreneurs for the purchase of i) transportation assets, ii) equipment, iii) real estate properties and iv) air, naval & rail asset.

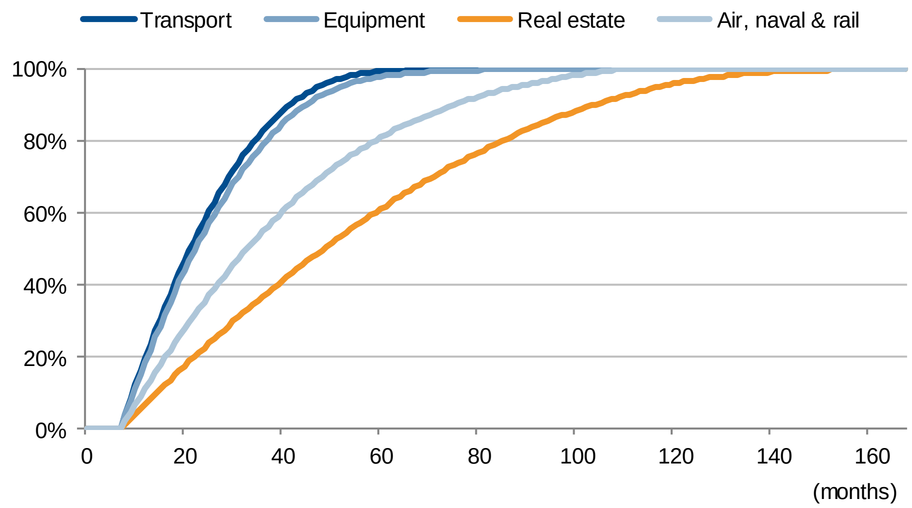
Alba's performance of lease receivables exhibited improving performance over 2012-2014

Scope did not consider a long-term reference default distribution because the performance of Alba´s lease receivables exhibit improving performance over 2012-2014 and suggest improvement in origination that cannot be linked to the recent economic cycle.

Scope calculated the probability-weighted loss for the rated notes as well as the expected weighted average life for the rated notes.

Scope assumed a front-loaded default term structure. Back-loaded default scenarios are not as severe owing to credit enhancement build-up and the effect of seasoning on the portfolio. The cumulative default-timing assumptions are shown in Figure 10 and represent the assumed default timings for the four portfolio segments. The defaults are classified as 180+ dpd, in line with definitions in the documentation.

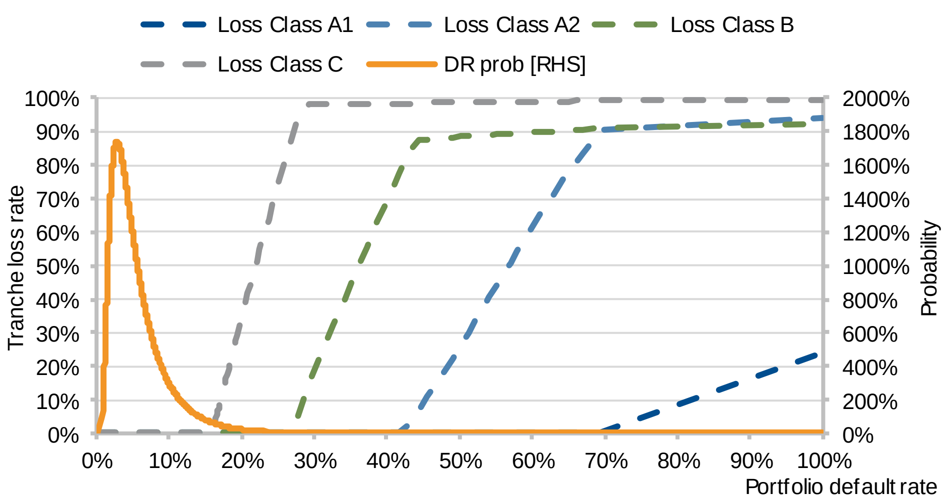
Figure 10. **Cumulative default-timing assumptions for each portfolio segment**



Source: Scope

Figure 11 illustrates the losses of the rated notes at all portfolio default rates. The chart shows how credit enhancement, excess spread and recovery proceeds protect the rated classes in the event of default. The results in Figure 11 factor in an unconditional 0.5% discount to the portfolio balance, which accounts for potential commingling loss.

Figure 11. **Cash flow analysis results for base case mean default rate, coefficient of variation and rating case recovery rate**



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

6 RATING STABILITY

6.1 Rating sensitivity

Scope tested the resilience of the rating 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 sensitivity of the rating to input assumptions and is not indicative of expected or likely scenarios.

The following shows how the quantitative results changes when the portfolio's expected default rate is increased by 50% and the portfolio's expected recovery rate is reduced by 50%, respectively:

- Class A1: sensitivity to probability of default, zero notches; sensitivity to recovery rates, zero notches.
- Class A2: sensitivity to probability of default, three notches; sensitivity to recovery rates, zero notches.
- Class B: sensitivity to probability of default, four notches; sensitivity to recovery rates, one notch.
- Class C: sensitivity to probability of default, three notches; sensitivity to recovery rates, zero notches.

6.2 Break-even analysis

The resilience of the Class A1 and A2 ratings is demonstrated by the break-even default rate analysis. Class A1 would not experience any loss at portfolio lifetime default rates of: i) 61.5% or lower, under a zero recovery rate assumption; or ii) 69.5% or lower, under the portfolio's AAA_{SF} recovery rate assumption of 10.3%, compared to a base case of 17.1%. Class A2 would not experience any loss at portfolio lifetime default rates of: i) 35.7% or lower, under a zero recovery rate assumption; or ii) 41.6% or lower, under the portfolio's AAA_{SF} recovery rate assumption of 10.3%, compared to a base case of 17.1%.

Class B would not experience any loss at portfolio lifetime default rates of: i) 23.0% or lower, under a zero recovery rate assumption; or ii) 26.2% or lower, under the portfolio's A_{SF} recovery rate assumption of 13.0%, compared to a base case of 17.1%.

Class C would not experience any loss at portfolio lifetime default rates of: i) 13.1% or lower, under a zero recovery rate assumption; or ii) 13.5% or lower, under the portfolio's BBB_{SF} recovery rate assumption of 14.4%, compared to a base case of 17.1%.

Figure 12. **Break-even default rate analysis as a function of prepayments and recovery rates**

Break-even default rates	0% CPR				5% CPR			
Portfolio recovery rate	10.3% (AAA_{SF})	13.0% (A_{SF})	14.4% (BBB_{SF})	0.0%	10.3% (AAA_{SF})	13.0% (A_{SF})	14.4% (BBB_{SF})	0.0%
Class A1	69.5%	-	-	61.5%	69.5%	-	-	64.2%
Class A2	41.6%	-	-	35.7%	43.0%	-	-	38.7%
Class B	-	26.2%	-	23.0%	-	26.2%	-	23.0%
Class C	-	-	12.7%	12.7%	-	-	13.5%	13.1%

Source: Scope
Note: Break-even default rates incorporate Scope's assumption on commingling losses.

7 COUNTERPARTY RISK

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

7.1 Operational risk from servicer

Operational risk from the servicer, Alba, is well mitigated in the transaction. In the unlikely event of a servicer termination event, Securitisation Services S.p.A., the back-up servicer in this transaction, will step in.

7.2 Commingling risk from servicer

All debtors pay by direct debit

All debtors pay by direct debit into a dedicated servicer account held at Intesa Sanpaolo (rated A by Scope) at the beginning of the month. Collections are transferred daily into the issuer collection account held at Citibank N.A. Other amounts are swept monthly, or when they exceed EUR 0.3m, e.g. late payments, residual instalments.

Within 15 business days of a servicer termination event, all borrowers will be notified – either by the originator or the back-up servicer – to redirect their payments directly into the account of the issuer. To treat a potential exposure for commingling risk, Scope analysed the loss of the equivalent of one month's collections, weighted by the likelihood of the servicer's default.

Citibank N.A. holds the issuer account and acts as the Italian paying agent. Scope´s analysis relies on public ratings available on Citibank.

7.3 Set-off risk from originator

Set-off risk is not material

Scope does not believe that set-off risk from the originator is material for this transaction. Alba is not a deposit-taking financial institution and lessees generally do not have claims against the lessor which they could set off.

8 LEGAL STRUCTURE

8.1 Legal framework

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

8.2 Clawback

Clawback risk is mitigated

Clawback risk related to repurchased lease receivables is mitigated by a maximum amount of 1.5% of the portfolio on a quarterly basis, and 8% of the portfolio on a cumulative basis. Furthermore, any repurchases will be paid for in cash, as an indication of the company's solvency. For payments by the originator exceeding EUR 500,000, the originator must prove its solvency by presenting solvency certificates.

8.3 Restructuring

The restructuring of lease receivables is limited

The documentation allows the servicer to renegotiate some of the terms of the lease contracts in the portfolio. The servicer may reduce the interest payable on the leases as well as reschedule the lease repayment plan at up to 5% of the total portfolio.

If the servicer reduces the interest rate payable on the leases, the servicer must indemnify the issuer for the resulting loss.

The servicer may extend the lease repayment plan provided the last instalment payment date falls at the latest two years prior to the deal maturity date.

8.4 Use of legal and tax opinions

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

The tax opinions produced for the issuer indicate that the transaction has a tax-efficient structure, i.e. no taxes apply except for value-added tax on contracted services, which remain a cost for the issuer.

9 MONITORING

Scope will monitor this transaction based on the performance reports provided by 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.

10 APPLIED METHODOLOGY AND DATA ADEQUACY

For the analysis of this transaction Scope has applied its General Structured Finance Rating Methodology, dated August 2017 and the Methodology for Counterparty Risk in Structured Finance, dated August 2017, all available on our website www.scoperatings.com.

Alba provided Scope with default data, segmented by quarterly vintage of origination, broadly aligned with the 180+ dpd default definition as used in the transaction. The default rate data was split into two sets and is generally granular. The first set represents the whole book comprising of non-Alba originated leases transferred to Alba and Alba originated leases and covers a period from 2004 to 2017; the second set represents only new originations by Alba from 2010 onwards. The recovery data was segmented into quarterly vintages and covers a period from 2009 to 2017, referring to all recoveries (i.e. both for leases with a finalised recovery process and for leases with an ongoing recovery process) during that period.

APPENDIX I. SUMMARY OF PORTFOLIO CHARACTERISTICS

Key features	Portfolio as of 26 September 2017
Originator (% of balance)	Alba (100%)
Portfolio balance (EUR m)	**1,113.1**
Number of assets	16,075
Number of obligors / groups	10,736 / 10,395
Average asset size (EUR)	69,242
Maximum asset size (EUR)	7,015,710
Minimum asset size (EUR)	4,072
Segment: transport	**25.8%**
Segment: equipment	**54.5%**
Segment: real estate	**18.2%**
Segment: air, naval & rail	**1.5%**
Largest obligor group	0.78%
Top 10 obligors group	5.24%
Largest region	29.35% (Lombardy)
Top 3 regions	55.54%
Current weighted average floating margin	2.73%
Current weighted average fixed interest	2.32%
Loans in portfolio referencing 1m and 3m Euribor (% of balance)	97.07%
Amortising leases	100.0%

Source: Alba, Scope

APPENDIX II. VINTAGE DATA PROVIDED BY ALBA

Alba provided two sets of default performance data for the four segments in the portfolio, which is broadly in line with the 180+ dpd default definition of the transaction. The first data set represents the whole book from 2004-2017; the second represents the performance of lease receivables originated by Alba from 2010-2017. Recovery vintage data was presented quarterly split by proceeds from the sale of the assets and proceeds from the obligor and guarantor only. In its analysis Scope used this information to calibrate the point-in-time default rates, coefficient of variation and base case recovery rates.

Alba vintage data: new production– default rates

Figure 13. **Transport: new production – defaults (vintage data provided by Alba)**

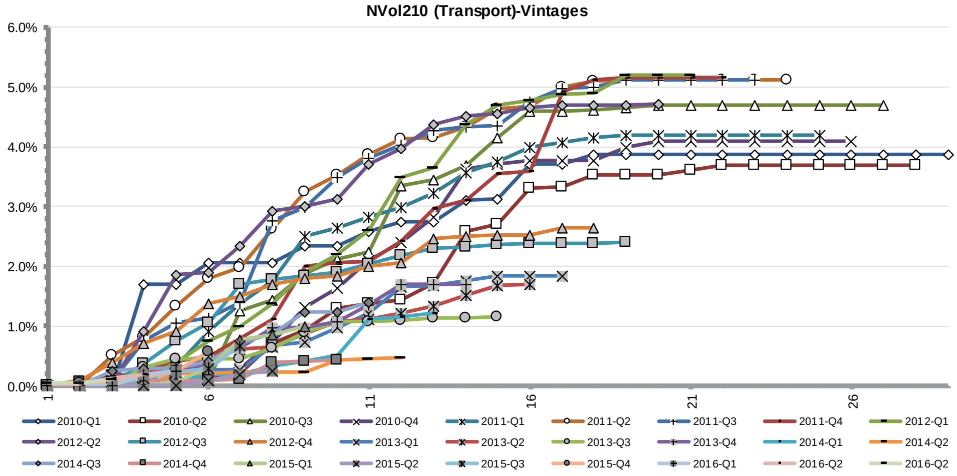


Figure 14. **Equipment: new production – defaults (vintage data provided by Alba)**

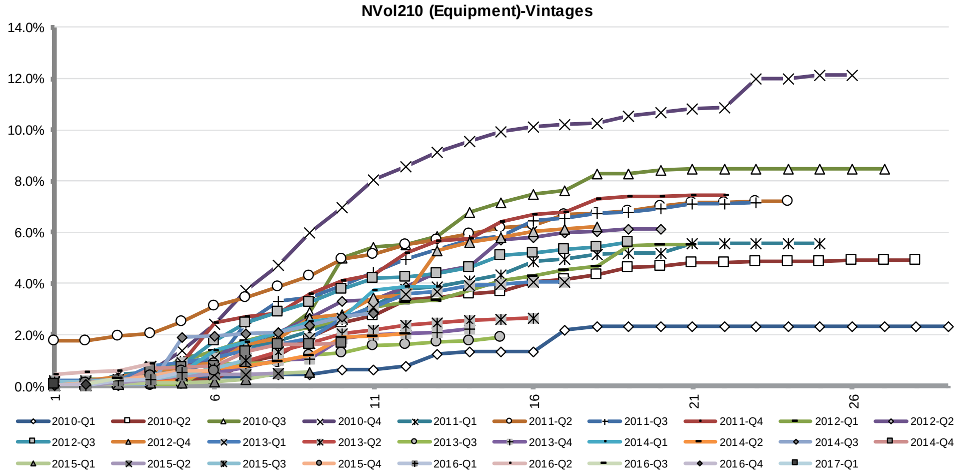


Figure 15. **Real estate: new production – defaults (vintage data provided by Alba)**

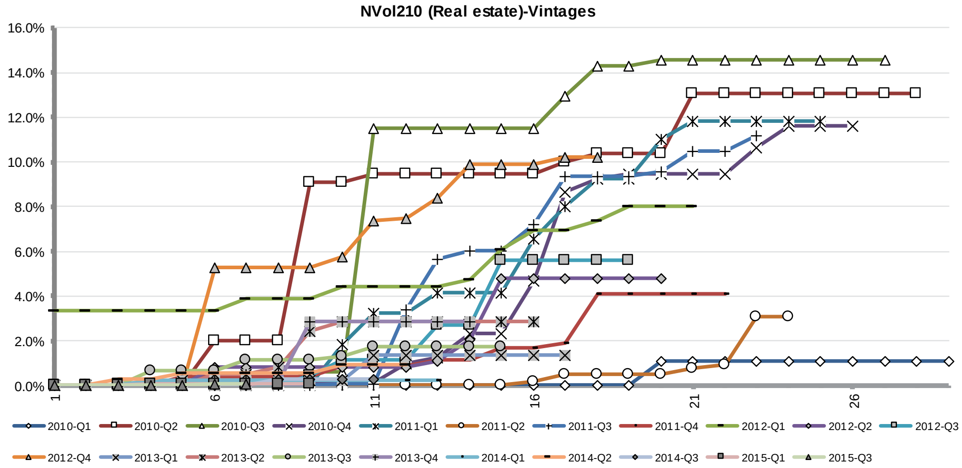
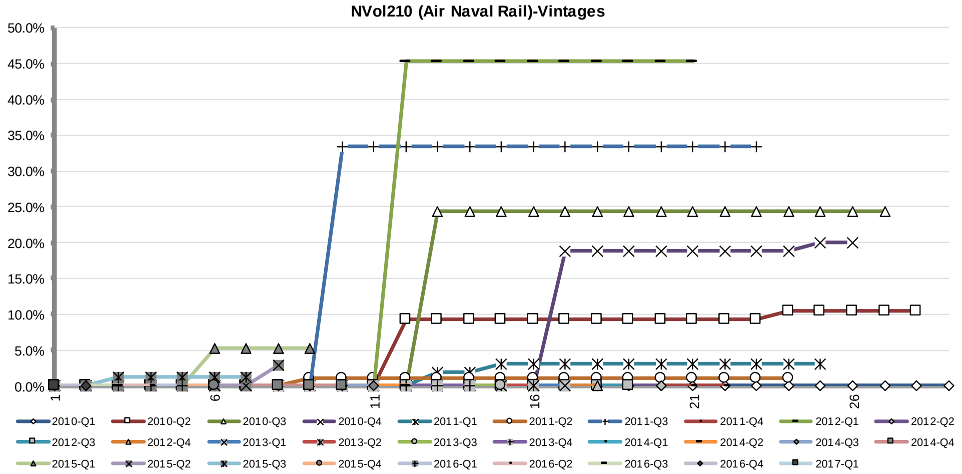


Figure 16. **Air, naval & rail: new production – defaults (vintage data provided by Alba)**



Alba vintage data: new production – full recovery rates

Figure 17. **Transport: new production – full recovery (vintage data provided by Alba)**

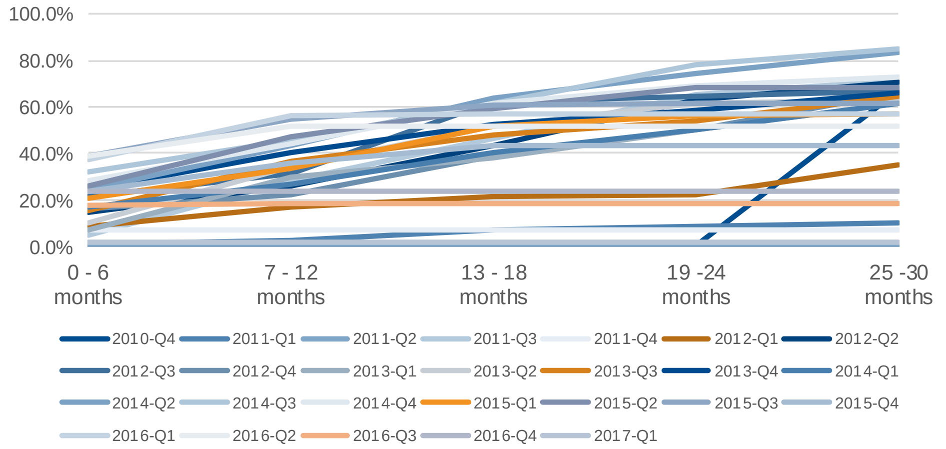


Figure 18. **Equipment: new production – full recovery (vintage data provided by Alba)**

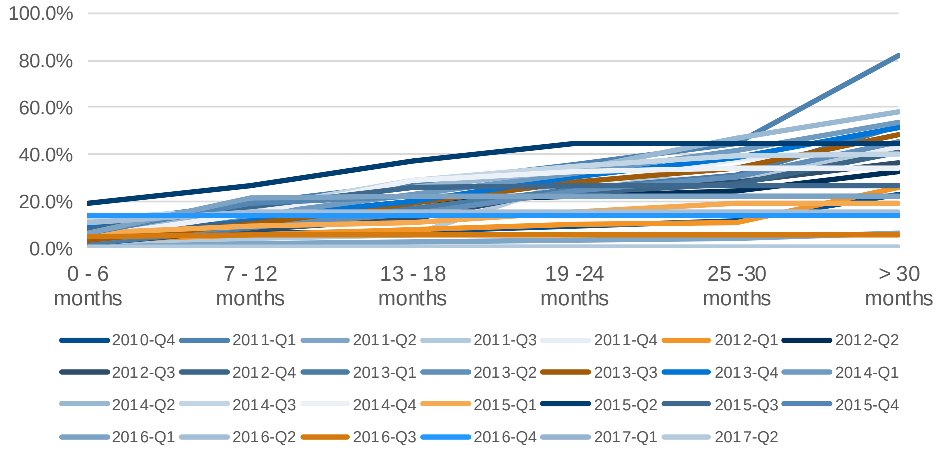


Figure 19. **Real estate: new production – full recovery (vintage data provided by Alba)**

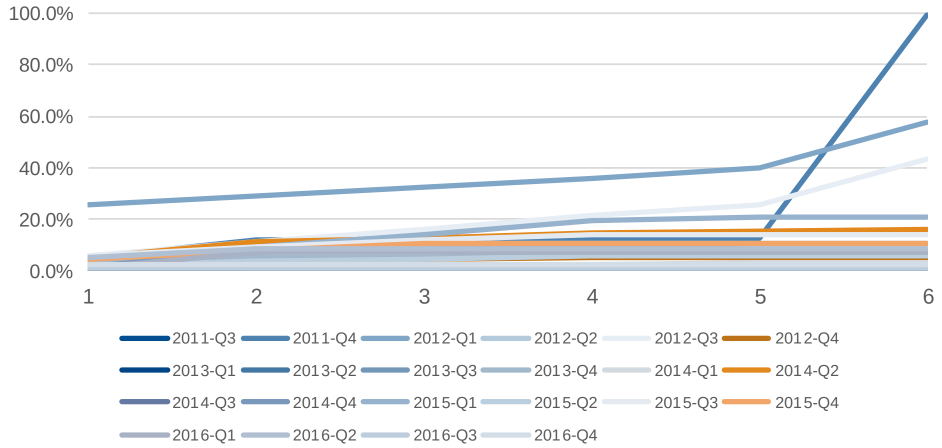
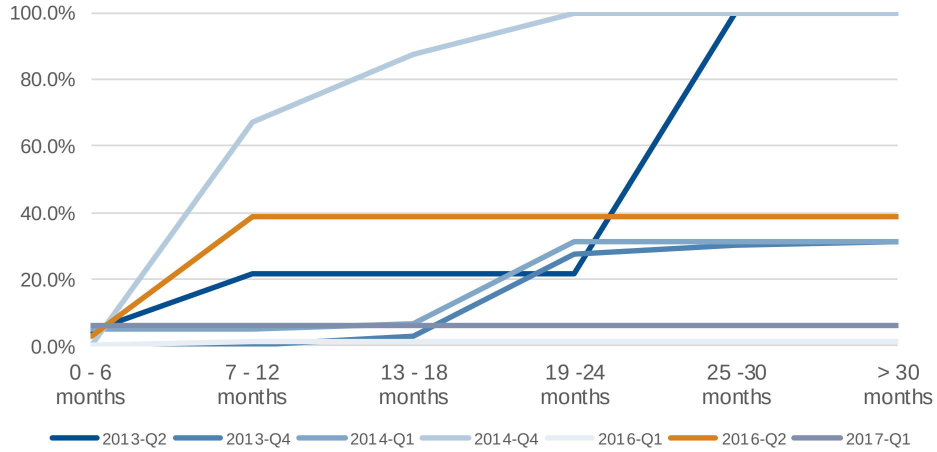


Figure 20. **Air, naval & rail: new production – full recovery (vintage data provided by Alba)**



APPENDIX III. REGULATORY AND LEGAL DISCLOSURES

Important information

Information pursuant to Regulation (EC) No 1060/2009 on credit rating agencies, as amended by Regulations (EU) No. 513/2011 and (EU) No. 462/2013

Responsibility

The party responsible for the dissemination of the financial analysis is Scope Ratings AG, Berlin, District Court for Berlin (Charlottenburg) HRB 161306 B, Executive Board: Torsten Hinrichs (CEO), Dr. Stefan Bund.

The rating analysis has been prepared by Martin Hartmann, Lead Analyst. Guillaume Jolivet, Committee Chair, is the analyst responsible for approving the rating.

Rating history

The rating concerns newly issued financial instruments, which were evaluated for the first time by Scope Ratings AG.

Information on interests and conflicts of interest

The rating was prepared independently by Scope Ratings but for a fee based on a mandate of the issuer of the investment. The issuer has participated in the rating process.

As at the time of the analysis, neither Scope Ratings AG nor companies affiliated with it hold any interests in the rated entity or in companies directly or indirectly affiliated to it. Likewise, neither the rated entity nor companies directly or indirectly affiliated with it hold any interests in Scope Ratings AG or any companies affiliated to it. Neither the rating agency, the rating analysts who participated in this rating, nor any other persons who participated in the provision of the rating and/or its approval hold, either directly or indirectly, any shares in the rated entity or in third parties affiliated to it. Notwithstanding this, it is permitted for the above-mentioned persons to hold interests through shares in diversified undertakings for collective investment, including managed funds such as pension funds or life insurance companies, pursuant to EU Rating Regulation (EC) No 1060/2009. Neither Scope Ratings nor companies affiliated with it are involved in the brokering or distribution of capital investment products. In principle, there is a possibility that family relationships may exist between the personnel of Scope Ratings and that of the rated entity. However, no persons for whom a conflict of interests could exist due to family relationships or other close relationships will participate in the preparation or approval of a rating.

Key sources of information for the rating

The following substantially material sources of information were used to prepare the credit rating: public domain, the rated entity, the rated entities' agents, third parties and Scope internal sources.

Scope considers the quality of information available to Scope on the rated entity or instrument to be satisfactory. The information and data supporting Scope's ratings originate from sources Scope considers to be reliable and accurate. Scope does not, however, independently verify the reliability and accuracy of the information and data.

Examination of the rating by the rated entity prior to publication

Prior to publication, the rated entity was given the opportunity to examine the rating and the rating drivers, including the principal grounds on which the credit rating or rating outlook is based. The rated entity was subsequently provided with at least one full working day, to point out any factual errors, or to appeal the rating decision and deliver additional material information. Following that examination, the rating was not modified.

Methodology

The methodology applicable for the ratings is 'General Structured Finance Rating Methodology', dated August 2017, 'Auto ABS Rating Methodology', dated August 2017, and the 'Rating Methodology for Counterparty Risk in Structured Finance Transactions', dated August 2017. All files are available on www.scoperatings.com. The historical default rates of Scope Ratings can be viewed on the central platform (CEREP) of the European Securities and Markets Authority (ESMA): http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml. A comprehensive clarification of Scope's default rating, definitions of rating notations and further information on the analysis components of a rating can be found in the documents on methodologies on the rating agency's website.

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