Marzio Finance S.r.l. – Series 9-2022
Italian Consumer CQS ABS

SCOPE | Scope Ratings

Ratings

Series	Rating[1]	Notional (EUR m)	Notional (% assets)	CE[2] (% assets)	Coupon	Final maturity
Class A	AAA$_{SF}$	304.2	84.0	16.3	1mE+1.10%[*]	August 2046
Class J	NR	57.9[3]	16.0	0.0	Variable	August 2046
Total notes		362.1				

Scope's analysis is based on the portfolio dated 31 August 2022 provided by the originator. 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.

[*]Under a fixed-floating interest rate swap the issuer will pay a fixed rate of 2.30% while the swap counterparty will pay a coupon of one-month Euribor plus 1.10%.

Transaction details

Purpose	Liquidity/funding
Issuer	Marzio Finance S.r.l.
Originator, Servicer, Calculation Agent, Cash Manager, Collection Account Bank and Corporate Servicer	IBL Banca S.p.A. (IBL Banca or IBL)
Master Servicer	IBL Servicing S.p.A. (IBL Servicing)
Transaction bank, Principal Paying Agent and Investment Account Bank	Citibank N.A., Milan Branch and London Branch
Back-up Servicer and Back-up Calculation Agent	Zenith Service S.p.A. (Zenith)
Representative of the Noteholders	Banca Finanziaria Internazionale S.p.A.
Swap Counterparty	Crédit Agricole Corporate and Investment Bank
Closing date	22nd September 2022
Payment frequency	Monthly, 28th day of each month

The transaction (Series 9-2022) is IBL Banca's ninth true-sale static securitisation of Italian payroll-deductible loans ('cessione del quinto dello stipendio' or CQS[4]), under the Marzio Finance S.r.l. programme. The notes are backed by a EUR 352.7m portfolio of CQS loans comprised of 'cessione del quinto' (85.3%) and 'delegazione di pagamento' (14.7%) loans extended either to employees working for the public administration (19.1%), the central state administration (22.6%) or the private sector (12.6%), or to pensioners (45.7%). The portfolio is highly granular and has a weighted average seasoning of 2.7 years. All the underlying loans are insured against life events, whilst 55.7% are insured against employment events. Regional concentration is as follows: north (29.5%), centre (30.5%) and south (40.0%).

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Related Research

Consumer and Auto ABS Rating Methodology

Methodology for Counterparty Risk in Structured Finance

Marzio Finance S.r.l. Performance snapshot

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Bloomberg: RESP SCOP

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[1] The present document includes the addition of the SF suffix to the rating that was erroneously missing in the previous version of the rating report. Amended on 12 September 2023.
[2] Including a EUR 2.2m liquidity reserve and a EUR 6.1m additional reserve.
[3] Class J funds a portion of the portfolio (EUR 49.4m) as of the closing date, but also the liquidity reserve and the additional reserve, which is included in this figure.
[4] In Italy, CQS is used as an abbreviation for 'cessione del quinto dello stipendio'. In the context of this transaction, we use this term to refer to 'cessione del quinto' (CDQ) loans, extended to employees or pensioners, and to 'delegazione di pagamento' (DP) loans.

Marzio Finance S.r.l. – Series 9-2022

Italian Consumer CQS ABS

Rating rationale (summary)

The rating reflects: i) the legal and financial structure of the transaction; ii) the quality of the underlying collateral; iii) the insurance protection against life and employment events; iv) the ability of the counterparties listed in page 1.

The rating is mainly driven by i) the securitised portfolio's characteristics and its expected performance; and ii) the pool of insurance companies covering life or employment events. The rating also incorporates our positive assessment of the servicer's abilities and incentives. We considered Italian sovereign risk by assessing the impact on the rating of a distress scenario affecting the government of Italy and the associated loss severity for the securitised assets.

Class A is supported by 16.3% of credit enhancement and benefits from the structural protection provided by sequential principal amortisation. A liquidity reserve and an additional reserve provide liquidity and credit protection to the class A notes.

IBL Banca performs several key roles, including originator, servicer, calculation agent and collection account bank. Operational risk is mitigated by the appointment of Zenith as back-up servicer and back-up calculation agent.

Rating drivers and mitigants

Positive rating drivers

Experienced originator. IBL Banca is one of the most experienced CQS loan originators in Italy and has shown above-average performance for its loan book.

Underlying asset type with low historical losses. CQS loans incur lower losses than standard unsecured consumer loans, primarily because the loans are fully insured and instalments are withheld by the borrower's employer and paid directly to the lender.

Liquidity and credit protection. A fully funded liquidity reserve (EUR 2.2m at closing) will provide liquidity protection to the class A during the life of the transaction. An additional reserve (EUR 6.1m at closing) will provide liquidity support and ongoing credit protection to the class A. Both reserves, if available, can be utilised to repay the class A notes at maturity.

Static portfolio. The portfolio will start amortising when the transaction closes, reducing the risk of performance volatility compared to revolving transactions.

Excess spread. We expect that excess spread will remain high (1.9%) after stressing the weighted average portfolio yield and deducting fees and interest on liabilities.

Negative rating drivers and mitigants

Public sector concentration. Suggestion: Most of the portfolio is exposed to the public sector (87.4%). Public sector borrowers normally have lower default rates than those in the private sector, but their high share in the portfolio makes the transaction more vulnerable to a sovereign default. Our analysis has considered this by incorporating a sovereign stress event.

Insurance company concentration. The top two life insurance companies account for 47.6% of the total portfolio while the top two insurance companies covering employment events account for 27.6% of the non-retired pool. A failure by these insurers to honour obligations would negatively impact the portfolio recovery rate. Our analysis incorporates this risk.

Commingling risk. Commingling risk is mitigated by: i) a daily sweep of collections to the issuer's account; and ii) instructions to borrowers to redirect payments to the issuer's account in the event of a servicer disruption. However, as most employers pay by bank transfer, the redirection of payments may take longer than for a standard unsecured loan portfolio.

Upside rating-change drivers

Better-than-expected performance of the assets could positively sustain the rating.

Faster-than-expected portfolio amortisation may positively sustain the rating if credit enhancement of class A builds up.

Downside rating-change drivers

Significant deterioration in the credit profile of the insurance companies leading to lower rating-conditional recovery rate assumptions could negatively impact the rating.
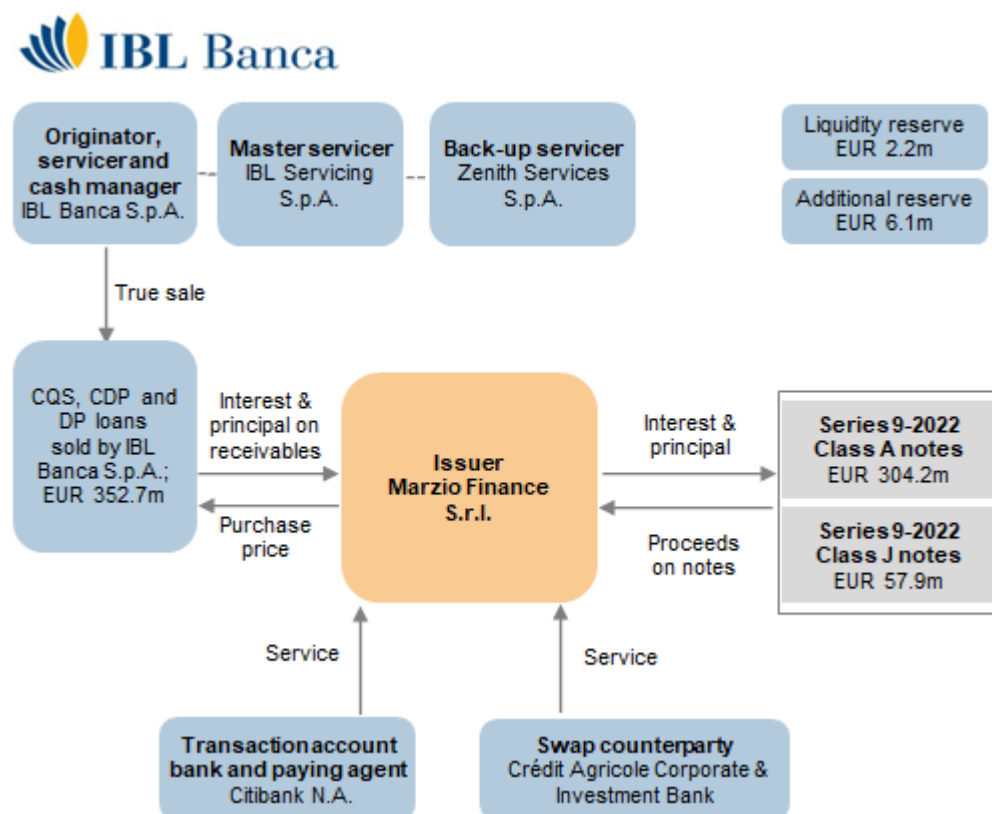
Decline in the pool's overall performance versus our expectations or a significant rating downgrade of Italy could also have a negative effect on the rating.

1.   Transaction summary

Figure 1: Simplified transaction diagram

Source: Transaction documents and Scope

Marzio Finance S.r.l. has established a EUR 10bn securitisation programme of notes backed by CQS loans extended to borrowers in Italy and originated by IBL Banca. CQS loans are collateralised by the debtor's salary or pension and, in most cases, by any accrued severance amount (i.e. 'trattamento di fine rapporto ' or TFR).

Series 9-2022 will be IBL Banca's ninth issuance under the Marzio Finance programme

The programme permits the issuance of several series of notes. Each series is structured as an independent transaction, with no cross-collateralisation, for the purpose of financing the purchase of a static portfolio of receivables originated by IBL Banca. The capital structure, cash reserve level and notes' interest rates may differ among the series.

The transaction (Series 9-2022) will be the ninth true-sale securitisation under the programme. It is backed by a EUR 352.7[5]m static portfolio of CQS loans.

2.   Macroeconomic environment

The Italian economy has rebounded strongly from Covid-19 with real GDP growth of 6.6% in 2021, despite a slowdown towards the end of the year driven by a resurgence in the spread of the virus, supply-chain disruptions and price shocks on energy and raw materials that hampered production.

The Russia-Ukraine war is exacerbating these shocks, especially through elevated energy and raw material prices that are pushing up inflation (8.4% in August) and curbing growth prospects. We have revised our growth forecast for 2022 to 3% from 4% before the war. This implies negative growth on average for Q3-Q4, after the resilient performance of the

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[5] The portfolio purchase price will be equal to EUR 353.6m including also accrued and unpaid interest.

Italian economy in the first half of this year, with carry-over GDP growth of 3.5%. For 2023, we expect growth around 1.5%, although with substantial downside risks related to the energy crisis. Inflation will likely average around 7% this year and then moderate towards 5% in 2023.

Italy's unemployment rate stood at record low 7.9% in July, down from 9.7% before the Covid-19 shock, while employment reached pre-pandemic levels. We expect the unemployment rate to average just above 8% in 2022-23, with Italy's high structural unemployment preventing further declines at this stage. Despite recent improvements, the Italian labour market continues to face structural bottlenecks resulting in a very low employment rate below 60%, high youth unemployment and widespread use of temporary contracts.

We expect economic growth to moderate in the medium run towards its growth potential of around 1%, constrained by low productivity growth and adverse demographic trends. This moderate outlook is nonetheless supported by continued reform and elevated public investment driven by EUR 192bn of Next Generation EU funding. At this stage, we do not expect major reform reversals or a policy standstill following the forthcoming parliamentary elections this month. The urgency of the current economic context together with a robust institutional framework and incentives to continue receiving funds from the EU should facilitate a swift government formation and prevent a shift towards extreme policies.

The economic ramifications of the Russia-Ukraine conflict will also slow fiscal consolidation after the pandemic shock. We estimate the government deficit for 2022 at 5.5% of GDP, down from 7.2% in 2021. Public debt to GDP should decline to 147% in 2022 from 151% in 2021, and further towards 144% by 2027, from 156% in 2020. The high debt stock will continue to pose challenges for long-run debt sustainability.

Finally, we note that inflationary pressures are accelerating monetary policy normalisation, also reflected in higher financing costs for the Italian government. The ECB has implemented first rate hikes, following other major central banks. The yield on Italy's 10-year government bonds is currently close to 4%, up from below 0.6% last summer. Still, we expect the ECB to unwind its asset purchase programmes gradually, with reinvestments of its security holdings, and the potential activation of the new Transmission Protection Instrument to ease government funding pressures and prevent excessive market fragmentation.

3.   Originator and seller

IBL Banca: market share for CQS loans is 11.7%

IBL Banca is the parent company of the IBL banking group, whose fully owned subsidiaries manage the services, real estate and distribution of insurance for the entire group. IBL is a specialised lender that offers personal finance loans to individuals, particularly Italian CQS loans. As of December 2021, the group was a market leader in Italy for CQS, with a solid 11.7% market share and about 169,000 loans under management. IBL also offers savings and insurance products, and payment cards.

IBL's distribution model comprises 54 branches, plus further branches via distribution agreements with four banking partners. The bank also has a broker network of 80 agents, promoters and intermediaries, as well as an online channel.

Historically, IBL has operated an originate-to-distribute model, largely due to limited financial resources. After obtaining a banking licence in 2004 and acquiring 30 CitiFinancial branches, IBL started to raise funds through deposits. This gave the bank the ability to transition to a more balance sheet-intensive model, allowing it to reach an asset size of around EUR 7.07 bn at end-2021.

3.1. Sanctioning and underwriting

The originator's credit scoring system uses both internal and external information. All credit approvals and underwriting are handled internally. The broker network originates half of the loans.

The underwriting process is mainly focused on the borrower's employer, given the nature of payroll-deductible loans. The loan applicant must also satisfy all quantitative and qualitative requirements. The credit department's tasks include ascertaining whether the employer meets certain size, legal, capital and performance requirements, using internal databases and external credit bureaus as its main sources of information. A specialised outsourcer helps with the assessment of loan applications, focusing on fraud risk, creditworthiness and the existence of any outstanding default exposures.

Loans are disbursed upon the receipt of insurance coverage and acceptance of the payment delegation by the employer or pension provider.

3.2. Servicing and recovery

IBL Banca is the transaction's servicer, and IBL Servicing is the master servicer. IBL's management of collections and non-performing loans is adequate in our view, involving a reasonably proactive and diligent approach.

The management of collections is performed in Rome by a dedicated team of 13 employees. Collections are mostly paid via bank transfer and portfolio performance is monitored daily for delinquent payments.

When a loan becomes delinquent, the credit monitoring department contacts both the borrower and the employer within 90 days via phone and email to solicit the payments. If the contract is still delinquent after 90 days and insurance is yet to be claimed, it is sent to an external supplier for another 90 days. After 180 days, a written notice is sent to both the borrower and the employer. IBL considers starting legal proceedings within 30 days unless the borrower or the employer has cured its position.

In cases of life and employment events, the credit monitoring department classifies the loans as 'subject to claim' as soon as it receives the death certificate (for life events) or verifies the nature of unemployment (for employment events). For the latter, IBL contacts the employer, asking them to cover the residual debt (partially or in full) with the borrower's accrued severance indemnity. The remaining claim is settled by the insurance company once the relevant documents are received.

4. Asset analysis

The expected securitised portfolio is a granular pool of CQS loans granted either to Italian public or private sector employees, or to pensioners. A sub-pool of the portfolio is comprised of 'delegazione di pagamento' (DP) loans, which are also payroll-deductible but have slightly different characteristics to 'cessione del quinto' (CDQ) loans, as explained below.

4.1. Payroll-deductible loans: CDQ and DP loans

Payroll-deductible loans offer additional protection and are different from standard consumer loans in two key respects: i) monthly instalments are paid directly to the lender by the employer or pension provider after being deducted from the obligor's monthly salary or pension; and ii) loans are insured for job-loss and life-event risks. CQS portfolios are exposed directly to employers, pension providers and insurance companies. Our analysis accounts for these risks.

4.1.1. CDQ 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 private employees, the loans are also generally collateralised by a pledge on the debtor's accrued TFR. CDQ loans typically have an original term of 10 years, pay a fixed rate and cannot be refinanced until two-fifths of the loan has been repaid.

4.1.2. DP loans

DP loans are typically granted to borrowers that already have an outstanding CDQ 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 CDQ 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 and Auto ABS Rating Methodology.

4.2. Securitised assets

The EUR 352.7m portfolio as of 31 August 2022 comprises CDQ (85.3%) and DP (14.7%) loans extended either to employees working for the public administration (19.1%), the central state administration (22.6%) or the private sector (12.6%), or to pensioners (45.7%). Compared with IBL Banca's total loan book, the portfolio benefits from positive selection as eligibility criteria exclude, among other things, exposures that have more than two instalments due and unpaid.

Figure 2: Portfolio Stratification Table

PORTFOLIO SUMMARY	Number	% Outstanding balance
Number of loans	23,841	
Number of debtors	23,100	
Original outstanding principal due (EUR)	502,048,993	
Average original outstanding principal due (EUR)	21,058	
Total outstanding principal not yet due (EUR)	352,532,138	
of which:		
Salary assignment	300,721,925	85.30%
Payment delegation	51,810,213	14.70%
Weighted average interest rate	5.94	
Weighted average original term (years) (1)	9.54	
Weighted average residual life (years) (2)	6.87	
Longest maturity date	31/05/2031	
Top debtor outstanding balance	79,252	0.02%
Top employer outstanding balance (excluding MEF and INPS)	7,267,227	2.06%
Type of employer		
Pensioners	161,200,997	45.73%
Private companies	44,434,275	12.60%
Public administration *	67,204,527	19.06%
Central state administration	79,692,338	22.61%
Geographical distribution (employer)		
Northern Italy	104,005,927	29.50%
Central Italy	107,695,715	30.55%
Southern Italy	140,830,496	39.95%

* including post offices and railway companies   Source: IBL Banca

The current loan portfolio is compound by loans originated between 2015-2020. It has 2.7 years of weighted average seasoning and a weighted average remaining term to maturity of 6.8 years. Loans transferred to the portfolio have at least one instalment paid, 89.9% of the portfolio was originated in 2020, and around 68.7% of the loans will mature in 2030.
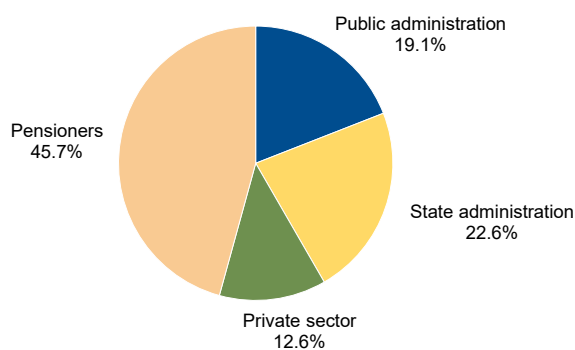
Figure 3: Distribution by loan origination year, % of number of loans
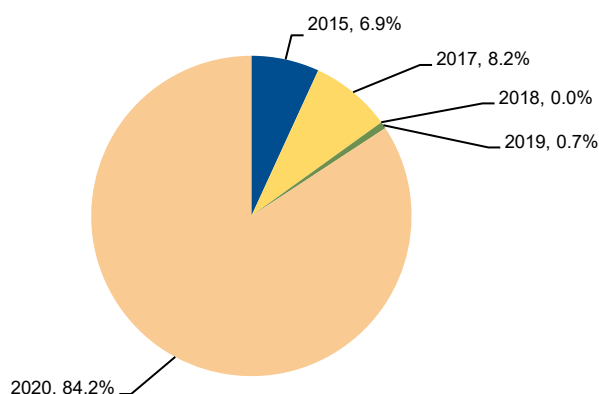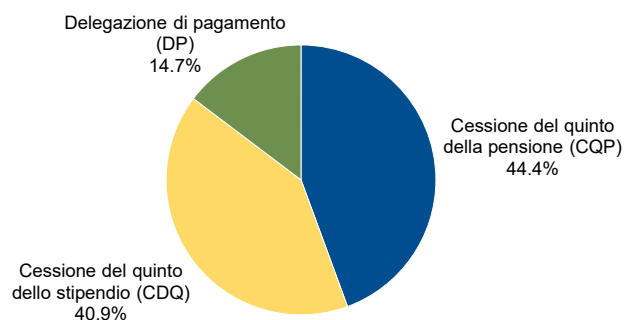

Source: IBL Banca, Scope

All loans in the pool are amortising and pay monthly instalments at a weighted average fixed interest rate of 5.9%. All loans must have an interest rate of at least 4.0% to be eligible for the portfolio.

Figure 2: Distribution by employer type, % of outstanding balance

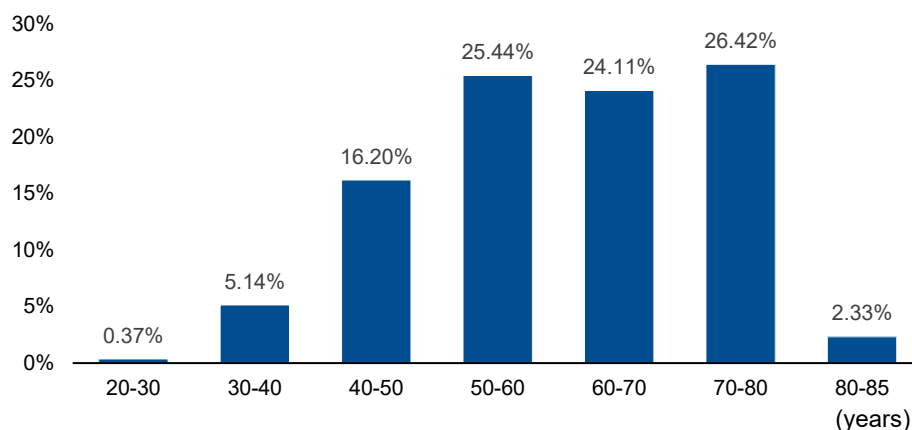Source: IBL Banca, Scope

Figure 3: Distribution by loan type, % of outstanding balance

Source: IBL Banca, Scope

The pool is highly granular with the top one and top 10 borrowers accounting for 0.02% and 0.20%, respectively. Borrowers receiving state salaries or pensions compose 87.4% of the initial portfolio. The two largest paying entities are Istituto Nazionale della Previdenza Sociale (national social welfare institution) and Ragioneria Territoriale Stato (ministry of finance), with exposures of 44.7% and 13.30%, respectively. Our analysis accounts for the risk associated with the link to the state by incorporating a sovereign stress event.

Figure 4: Distribution by borrower age, % of the outstanding balance

Source: IBL Banca, Scope

4.2.1 Insurance coverage

All underlying loans extended to public and private sector employees are insured against both life events and employment events. Almost all loans extended to pensioners are insured only against life events.[6] Insurance coverage on the pool presents an inverse-Herfindahl score of 5.8. Net Insurance Life S.p.A. is the insurer with the largest exposure covering life events (26.0%), while Net Insurance S.p.A. is the insurer with the largest exposure covering employment events (17.2%). The composition is similar to previous Marzio series, based on the portfolio's composition, we analysed the effect of a deterioration in the insurance companies' credit quality and take comfort in their credit quality.

Figure 5: Distribution of insurance companies covering life events, % of the outstanding balance
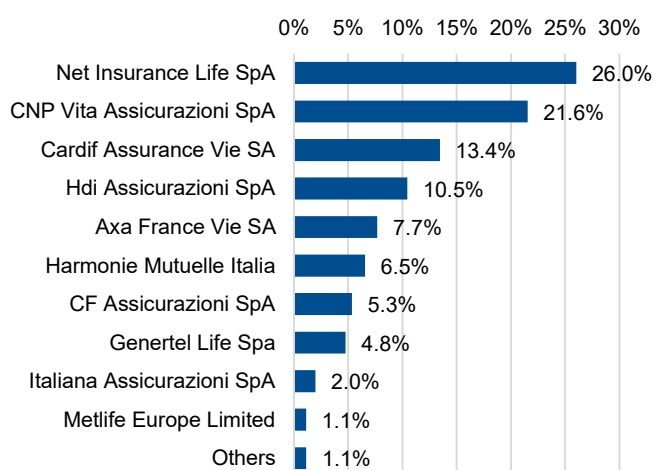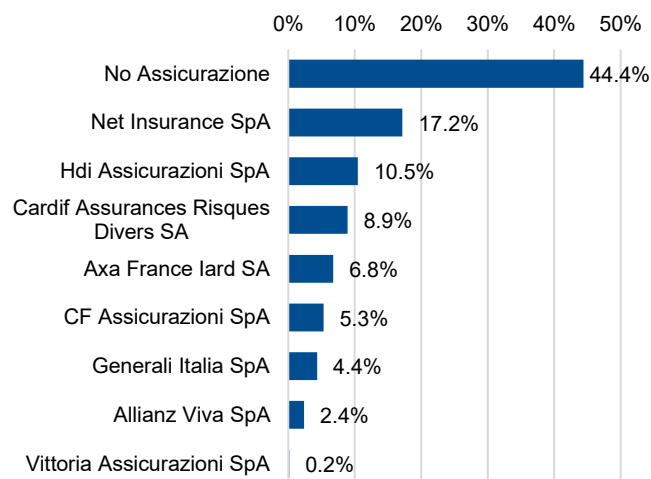

Figure 6: Distribution of insurance companies covering employment events, % of the outstanding balance
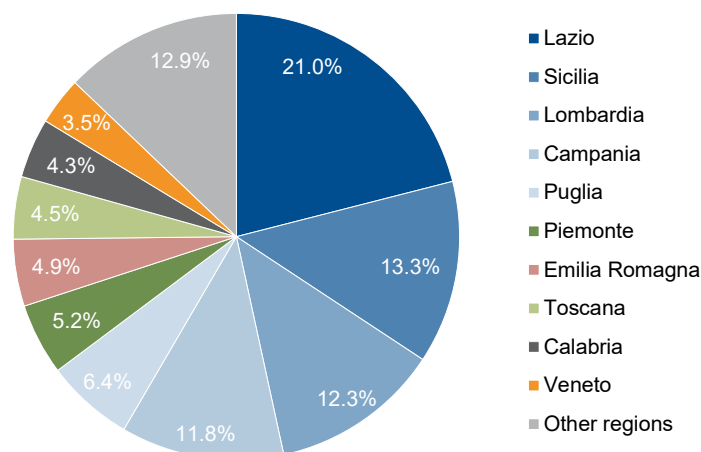

Source: IBL Banca, Scope

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[6] 98.2% of the pensioners are insured only against life events. The remaining 1.8% (174 exposures) are also insured against employment events.

The portfolio is mainly concentrated in southern (40.0%) and central (30.5%) Italy, a common feature among Italian CQS portfolios. Borrowers in northern regions account for 29.5% of the outstanding portfolio.

**Figure 7: Distribution by region, % of the outstanding balance**

- Lazio 21.0%
- Sicilia 13.3%
- Lombardia 12.3%
- Campania 11.8%
- Puglia 6.4%
- Piemonte 5.2%
- Emilia Romagna 4.9%
- Toscana 4.5%
- Calabria 4.3%
- Veneto 3.5%
- Other regions 12.9%

Source: IBL Banca, Scope

4.3. Amortisation profile

The projected amortisation profile reflects the amortisation scheme of the underlying assets. Figure 8 shows the amortisation of the pool assuming 0% rates of prepayment and default. However, amortisation could be extended if payments are suspended due to salary or pension reductions, or an employee takes temporary leave (e.g. maternity leave). Suspended payments will then be moved to the end of the original amortisation plan. On the other hand the amortisation can accelerate due to prepayment of the loans.

Amortisation profile may be extended if payments are suspended

Figure 8: Projected portfolio amortisation profile
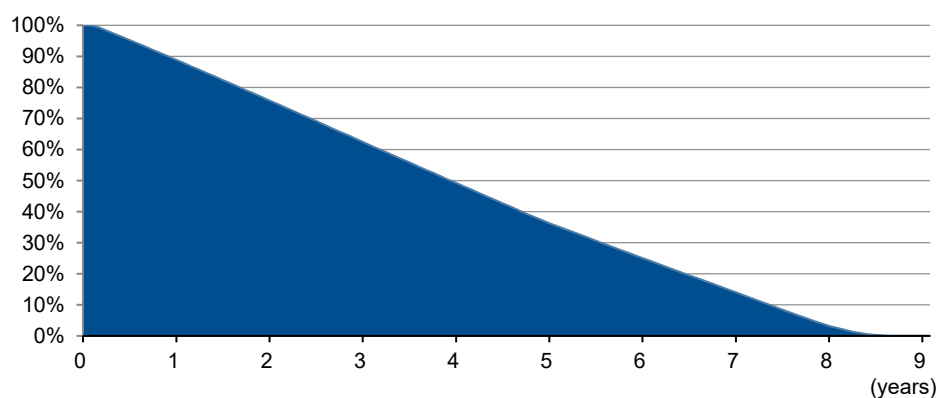
Source: IBL Banca, Scope

4.4. Portfolio assumptions

We derived default rate and recovery rate assumptions based on vintage data provided by IBL Banca for IBL Banca's loan book (2008 – 2022), representative of the securitised portfolio and segmented by type of default (delinquency, life event and employment event)

and employer type (public administration, state administration, private sector and pensioner). These details are shown in Appendix II.

Historical data does not reflect sovereign crisis scenarios, which, while rare, could prove highly severe. We incorporated sovereign risk as explained below in section 8.

Figure 9: Portfolio assumptions

	Portfolio
Mean default rate	7.0%
Coefficient of variation	40.0%
Base case recovery rate	80.0%
AAA rating-conditional recovery rate	44.4%
Recovery timing	50% after one year, 20% after two years, 20% after three years and 10% after four years
Low constant prepayment rate	0.0%
High constant prepayment rate	5.0% for the first year 25.0%, for the second year 10.0%, thereafter
Portfolio weighted-average yield	5.2%

4.4.1. Portfolio defaults

We assumed an inverse Gaussian default distribution, with a mean default rate of 7.0% and a coefficient of variation of 40%. In the transaction, a default occurs if either: i) a loan is eight months delinquent; ii) a loan is declared defaulted by the servicer ('in sofferenza'); iii) a life event occurs; or iv) an employment event occurs. We assumed a front-loaded default term structure with defaults starting after eight months. The cumulative default-timing assumptions are shown in Figure 10 and represent the assumed default timing for the pool. Mean default rate and default-timing assumptions also reflect the current seasoning and amortisation of the pool.

Figure 10: Cumulative default-timing assumption
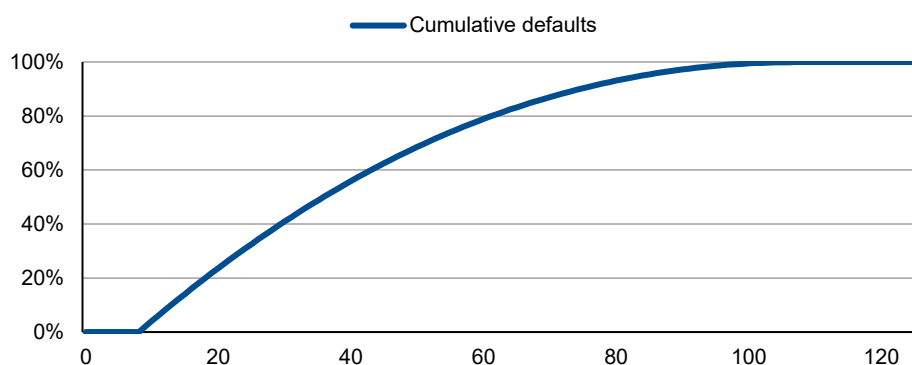
Source: Scope

4.4.2. Loan recovery rate analysis

We calculated rating-conditional recovery rate assumptions by taking the weighted average of two recovery rates: i) an 80% recovery rate in a scenario where the insurance company does not default (RR1); and ii) a 12.0% recovery rate in the event of insurance default (RR2) after applying a rating-conditional haircut of 40%. The weights applied to RR1 and RR2 reflect the default probability of the pool of insurance companies, assuming a 20%

asset correlation between insurers. For the class A note specifically, we have assumed that the pool of insurance companies will default with a probability of 52.3%.

Figure 11: Rating-conditional recovery rate assumptions

B	BB	BBB	A	AA	AAA
80.0%	64.0%	60.2%	57.6%	50.3%	44.5%

Source: Scope

Further details on how we calculate rating-conditional recovery rates in CQS transactions can be found in the Consumer and Auto ABS Rating Methodology.

We give credit to recoveries from insurance pay-outs and other sources of recoveries

Recoveries stem from a combination of three sources: insurance pay-outs, the pledged TFR amount and borrower collections. Figure 12 below shows the proportion of IBL Banca's historical recoveries on defaulted loans from these three sources. The 80% RR1 calculation is derived from vintage data, which incorporates all three recovery sources. The 20% RR2 calculation represents expected recoveries in the absence of insurance payouts and ultimately reflects the borrower's credit quality.

Figure 12: Sources of CQS recoveries (last five years, average)

Insurance	TFR	Borrower
68.4%	1.6%	30.1%

Source: IBL Banca, Scope

Additionally, the recovery vintage data shows that most recoveries are received in the first four years after default. Therefore, the portfolio recovery timing, derived from the corresponding recovery vintage data, was estimated at 50% after one year, 20% after two years, 20% after three years and the remaining 10% after four years.

4.4.3. Constant prepayment rate

We used two constant prepayment scenarios to test the structure's reliance on excess spread: i) a constant prepayment rate assumed at 0%; and ii) the rate assumed at 5% for the first year, 25% for the second year and 10% thereafter. These assumptions reflect historical data, which show that prepayment rates spike four years after origination as borrowers can refinance once they have repaid at least 40% of the initial loan balance.

We expect a spike of the prepayment rate in the second year of the transaction

4.4.4. Excess spread

Excess spread will be available to cure undercollateralisation arising from portfolio defaults. Excess spread will also be trapped under certain trigger conditions (see Figure 17).

Available excess spread will depend on several factors including senior fees, the default rate and the prepayment rate. We assumed a stressed portfolio weighted average yield of 5.2%, which itself assumes 25% of the highest-yielding loans will either default or prepay. This resulted in a portfolio yield compression of 0.7% on the 5.9% original weighted average interest rate of the receivables.

Transaction benefits from a 1.9% estimated excess spread

Excess spread is estimated at 1.9% after deducting liability costs and stressed annual fees of 1.0%.
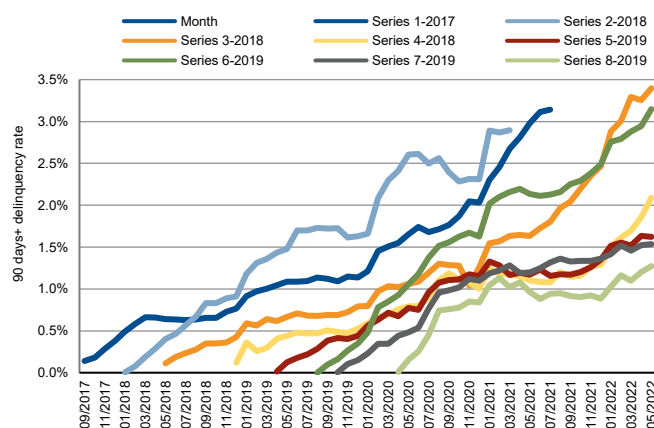
4.4.5. Performance of outstanding series

The performance of the outstanding series issued under the Marzio Finance programme are shown in Figure 13 and 14. The observed default and dynamic delinquency ratios may depend on factors such as the exposure to the public and private segments. The performance of the outstanding series is in line with our expectations at closing.

Figure 13: Cumulative gross defaults, % of original balance
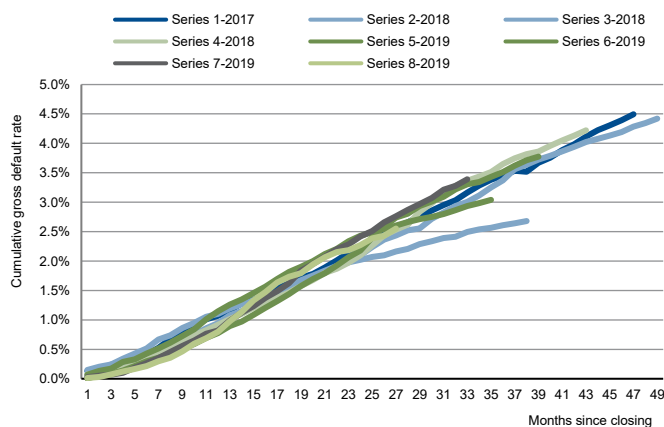
Source: Scope, servicer reports

Figure 14: 90 days+ delinquencies, % of current balance

Source: Scope, servicer reports

5. Financial structure

5.1. Capital structure

The class A issuance proceeds and part of the class J proceeds were used to purchase the portfolio of receivables. The residual part of the Class J notes finance both the liquidity reserve and the additional reserve. The structure is fully sequential.

5.2. Priority of payments

Combined priority of payments is the main protection against payment interruption, along with the liquidity reserve

The structure features a single priority of payments under which principal collections from the assets can be used to cover any interest shortfall on the notes, reducing the risk of a missed interest payment. Figure 15 below details the transaction's pre-enforcement priority of payments.

If, on any payment date, the cumulative portfolio net default ratio exceeds 3% of the initial outstanding balance, remaining cash will be trapped at item 8 in the simplified pre-enforcement priority of payments (see Figure 15). Those funds would then be available in the next payment period to cover any shortfall on items 1-7.

Figure 15: Simplified priority of payments and available funds

Pre-enforcement priority of payments
Available funds Collections and recoveries from receivables, the management fee prepayment amount, the liquidity reserve and the additional reserve
1) Taxes, senior costs (ordinary and extraordinary, including servicer fee, even if this has been replaced)
2) Payment to the swap counterparty
3) Class A interest
4) Replenish liquidity reserve to required balance
5) Class A principal up to target redemption amount (see section 5.5)
6) Replenish additional reserve to required balance
7) Termination payment to the swap counterparty
8) Adjustment of purchase price and indemnity due and payable to originator
9) Cash trapping (if cash trapping condition is satisfied) (see section 5.3.3)
10) Remuneration on class J
11) Class J principal (if class A redeemed in full) up to target redemption amount
12) Additional remuneration on class J

Source: Transaction documents and Scope

Fully funded reserves provide 2.4% of credit enhancement

5.3. Liquidity reserve, additional reserve and cash trapping

The liquidity reserve and additional reserve were fully funded at closing with part of the class J issuance proceeds.

5.3.1. Liquidity reserve

At closing, the liquidity reserve will be equal to 0.75% of the initial class A balance (EUR 2.2m).

During the life of the transaction, if class A is above 50% of the initial balance, the reserve will be equal to 0.75% of the initial class A balance; otherwise it will be the higher of 1.5% of outstanding class A principal and 0.38% of the initial class A balance.

The liquidity reserve will provide liquidity protection to the class A notes during the life of the transaction and can be used to repay the notes' principal at maturity.

5.3.2. Additional reserve

At closing, the additional reserve will be equal to 1.75% of the initial pool balance (EUR 6.2m).

During the life of the transaction, the additional reserve will amortise to the higher of 1.75% of the current pool balance and 0.88% of the initial pool balance. The additional reserve will provide liquidity and credit protection to the class A notes.

The aggregate amount of the liquidity reserve and the additional reserve can cover costs and interest on the class A notes for around 10 monthly payment dates.

5.3.3. Cash Trapping

The Cash Trapping is an additional layer of protection for Class A investors. If net defaults increase over 3%, any remaining available funds after item 7 of the simplified priority of payments (Figure 15) will be transferred to the issuer's account and will become issuer available funds in the next interest payment date.

5.4. Management fee reserve

If a loan prepayment is made, the borrower can set off management fees paid upfront but not yet due, which reduces outstanding instalments. For most loans in the portfolio, however, management fees are paid with each instalment, not upfront. Therefore, set-off risk is limited.

Limited exposure to management fee set-off

The management fee reserve was funded at closing to cover this set-off risk. At each payment date, this reserve's targeted amount is 25% of the outstanding management fee exposure. The repayment to the originator of the amortised portion of the management fee reserve will be made at each payment date, outside of the priority of payments.

In addition, the originator will cover any set-off amount that the reserve cannot cover.

5.5. Amortisation and provisioning

The strict sequential amortisation protects senior noteholders in times of stress.

The transaction structure benefits from an implicit principal-deficiency ledger mechanism since the notes amortise up to a target redemption amount. The target redemption amount is defined, on each payment date, as the difference between the notes' outstanding amount and the outstanding performing collateral portfolio (reduced by the amounts of the liquidity and additional reserves). As a consequence, the excess spread will be used to cover defaults before being distributed as additional remuneration to junior noteholders.

We believe that the cash-trapping mechanism (item 8 in the simplified pre-enforcement waterfall above) would provide only limited support in high-default scenarios as excess cash will already have been used up by higher-ranking items in the priority of payments.

Hedging of interest rate risk

5.6. Interest rate risk and hedging

The Class A notes pay one-month Euribor plus a margin, while the totality of the loans in the portfolio pay a fixed rate. In order to hedge interest rate risk, the issuer will enter into a fixed to floating interest rate swap with Crédit Agricole Corporate and Investment Bank. Under the terms of the swap, the issuer will pay a fixed rate of 2.30%, while the swap counterparty will pay a coupon of one-month Euribor plus 1.10%. The swap notional will be the minimum between the class A outstanding balance and the performing portfolio balance.

6. Quantitative analysis

We used a bespoke cash flow analysis

Our cash flow analysis considered the portfolio's characteristics and the transaction's main structural features. We applied our large homogenous portfolio approximation approach when analysing the granular collateral pool and projecting cash flows over its amortisation period. The cash flow analysis considers an inverse Gaussian default distribution to calculate the expected loss and the expected weighted average life of each rated tranche.

Figure 16 shows the losses of the class A notes at all portfolio default rates. The chart shows how credit enhancement, recovery proceeds, and excess spread protect the notes in the event of default. The results in Figure 16 consider a 0.73% reduction in the portfolio balance to account for commingling risk.

Figure 16: Cash flow results for base case mean default rate, coefficient of variation and rating-conditional recovery rate

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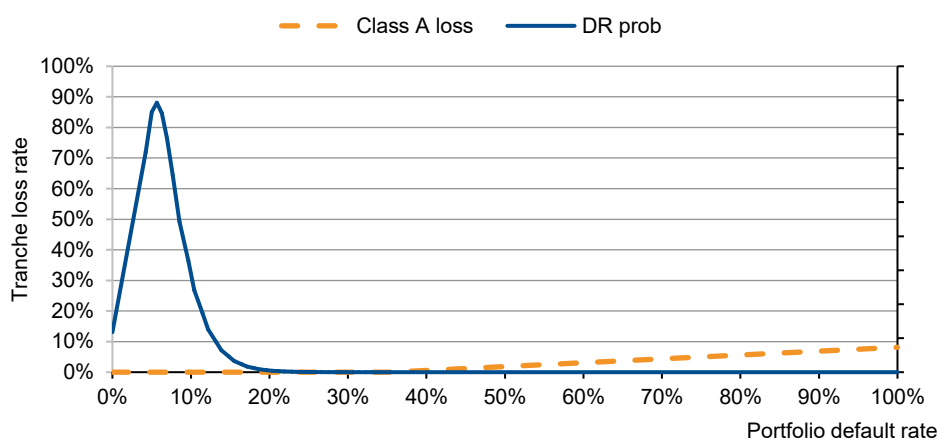
Note: The probabilities displayed on the right-hand side axis must be considered in the context of the calculation of the probability density

7. Rating sensitivity

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

For class A, the following shows how the results change compared to the assigned credit rating in the event of:

- an increase of the expected mean default rate by 50%, minus one notches;
- a decrease of the expected recovery rate by 50%, minus three notches.

The output of these sensitivities considers the probability of missing at least one coupon payment relative to the observed expected loss.

Sovereign risk does not limit the transaction's ratings

8. Sovereign risk

CQS obligors are less likely to meet loan instalments if their salary or pensions are not paid. The obligor employer's credit quality is therefore a major source of credit risk. Around 87.4% 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. Rather than mechanistically limiting the maximum ratings on the notes, we assess the potential rating impact of a distress scenario affecting the Italian government.

Given the relevance of the exposure to public employees and pensioners, our analysis quantified the impact of Italian sovereign risk by assessing the likelihood and severity of a distress scenario (CQS stress scenario) affecting the government of Italy. The CQS stress scenario would entail a significant increase in portfolio defaults and delinquencies compared to our base case assumption. This approach allows us to reflect the benefits of each transaction's liability structure and discriminate between them, rather than applying a mechanistic cap to the assigned ratings based on Italy's sovereign rating.

Our analysis assumed the likelihood of a CQS stress scenario event to be equivalent to an A risk, i.e. two notches higher than Scope's current rating on Italy. This scenario captures the potential effect on the transaction of a government defaulting on its public debt. The probability assigned to this scenario reflects our view that a sovereign default would not necessarily trigger the permanent suspension of payments to the entire population of civil servants or pensioners in Italy, or a general dismissal of civil servants, because the state needs to maintain a minimum level of key operations. For more insight into our fundamental analysis of the Italian economy please refer to section 2 of this report and to our press, in particular to Italy's medium-term growth perspectives and stagflation affecting EU area, both dated May 2022.

We considered the following risks under the CQS stress scenario:

1. **Liquidity risk.** A suspension or reduction of salary and pension payments may create a spike in arrears and thus a liquidity shortfall for the transaction. However, additional losses are generally not incurred because the loan's maturity is extended in this instance – unpaid instalments become due and payable as of the original loan's maturity date until the debt is fully extinguished[7]. When analysing the transaction, we assumed that 50% of the public sector portfolio was fully suspended (i.e. no interest or principal was paid on these loans) for two years.

2. **Credit risk**. A restructuring of the public administration may lead to job losses and, therefore, asset defaults for the securitisation. However, only parts of the public administration may be affected, as vital functions such as tax collection and law enforcement would not be completely abolished. When analysing the transaction, we assumed that 25% of the public sector portfolio would default as a consequence of job losses.

9. Counterparty risk

The transaction is exposed to counterparty risk from the counterparties listed in page 1. Counterparty risk for 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.

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[7] If the maturity of the loans is extended beyond the final maturity of the notes, suspensions or reductions of salary and pension payments will effectively generate a loss for the transaction. The final legal maturity date is set 13 years after the loan with the longest maturity date in order to mitigate this risk.

9.1. Operational risk from servicer

Back-up servicer appointed since closing

Operational risk from the servicer is well mitigated in this transaction. Zenith, the back-up servicer since closing, has undertaken to become operational within 30 days in the event of a termination event for IBL Banca.

9.2. Commingling risk from account bank

The issuer has a collection account held at IBL Banca that receives all asset proceeds as well as a payment account held by Citibank N.A., Milan Branch. Two business days before each monthly payment date, the amounts in the collection account are transferred to payment account.

Commingling risk driven by employer responsiveness to new payment instructions

Commingling risk is mitigated by: i) daily sweeps to the issuer's collection account held with the servicer and monthly sweeps to the issuer's payment account held with Citibank N.A., Milan Branch; and ii) instructions to debtors to pay directly into the issuer's account at the transaction account bank upon a servicer disruption event. However, employers may not immediately implement the new payment instructions, and we have therefore assumed a maximum loss equivalent to four months of collections. We sized a 0.73% loss based on the probability of a commingling event over the transaction's expected life. However, the BBB rating on IBL Banca implies that the servicer's insolvency is unlikely.

9.3. Set-off risk from originator

Set-off risk from the originator is well mitigated

Set-off risk is well mitigated in this transaction. The originator is a deposit-taking financial institution, but the portfolio criteria exclude, at closing, all the borrowers that has a deposit account with IBL Banca.

10. Legal structure

10.1. 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.

10.2. Clawback

Clawback risk is mitigated

The originator will provide: i) a 'good standing' certificate from the Chamber of Commerce and ii) a solvency certificate signed by a representative duly authorised.

This mitigates claw-back risk, as the issuer would be able to prove it was unaware of the originator's insolvency as of the transfer date.

Assignments of receivables made under the Italian Securitisation Law are subject to claw-back in the following events:

i) pursuant to article 67, paragraph 1, of the Italian Bankruptcy Law, if the bankruptcy declaration of the relevant originator is made within six months from the purchase of the relevant portfolio of receivables, provided the receivables' sale price exceeds their value by more than 25% and the issuer cannot demonstrate it was unaware of the originator's insolvency, or

ii) pursuant to article 67, paragraph 2, of the Italian Bankruptcy Law, if the adjudication of bankruptcy of the relevant originator is made within three months from the purchase of the relevant portfolio of receivables, provided the receivables' sale price does not exceed their value by more than 25% and the originator's insolvency receiver can demonstrate that the issuer was aware of the originator's insolvency.

Clawback risk related to repurchased receivables is mitigated by a maximum amount of 5% of the portfolio on a cumulative basis. Upon the repurchase of single loans, the

originator is also required to provide a solvency certificate to the issuer. However, in our view an insolvency of IBL Banca (rated BBB) is unlikely.

10.3. Use of legal opinion

We reviewed the legal opinion produced for the issuer. This provides comfort on the issuer's legal structure and supports our general legal analytical assumptions.

11. Monitoring

We will monitor this transaction on the basis of the performance reports from the servicer and the calculation agent, as well as other available information. The ratings will be monitored on an ongoing basis.

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 and data adequacy

For the analysis of this transaction, we applied our General Structured Finance Rating Methodology, Consumer and Auto ABS Rating Methodology and Methodology for Counterparty Risk in Structured Finance, all available on our website, www.scoperatings.com.

IBL Banca provided us with default and recovery data, segmented by quarterly vintage of origination, by type of default (delinquency, life event, employment event) and employer type (public administration, state administration, private sector and pensioner). The default rate data covers a period from 2011 to 2022 and is generally very granular. The recovery data also covers a period from 2011 to 2022, referring to all recoveries during that period. We also received data regarding the proportion of recoveries from different sources: insurance payments, recoveries from borrowers and recoveries from the pledged TFR.

Scope analysts are available to discuss all the details surrounding the rating analysis

Marzio Finance S.r.l. – Series 9-2022
Italian Consumer CQS ABS

I. Deal comparison

Transaction	Marzio Finance 9-2022	Marzio Finance 8-2020	Marzio Finance 7-2019	Marzio Finance 6-2019	Marzio Finance 5-2019	Marzio Finance 4-2018	Marzio Finance 3-2018	Marzio Finance 2-2018	Marzio Finance 1-2017
Country	Italy	Italy	Italy	Italy	Italy	Italy	Italy	Italy	Italy
Closing date (dd/mm/yyyy)	22/09/2022	16/03/2020	09/10/2019	31/07/2019	05/04/2019	21/11/2018	28/05/2018	29/01/2018	28/09/2017
Originator	IBL Banca S.p.A.	IBL Banca S.p.A.	IBL Banca S.p.A.	IBL Banca S.p.A.	IBL Banca S.p.A.	IBL Banca S.p.A.	IBL Banca S.p.A.	IBL Banca S.p.A.	IBL Banca S.p.A.
Servicer	IBL Banca S.p.A.	IBL Banca S.p.A.	IBL Banca S.p.A.	IBL Banca S.p.A.	IBL Banca S.p.A.	IBL Servicing S.p.A.	IBL Banca S.p.A.	IBL Banca S.p.A.	IBL Banca S.p.A.
Back-up servicer	Zenith Service SpA	Zenith Service SpA	Zenith Service SpA	Zenith Service SpA	Zenith Service SpA	Zenith Service SpA	Zenith Service SpA	Zenith Service SpA	Zenith Service SpA
Back-up servicer facilitator	-	-	-	-	-	-	-	-	-
Portfolio characteristics									
Number of loans	23,841	16,684	20,379	44,960	14,268	19,397	22,952	13,145	19,884
Number of borrowers	23,100	16,168	19,789	42,492	13,842	18,687			
Original portfolio balance (€)	502,048,993	433,280,748	408,142,490	982,255,231	287,877,728	389,163,840	487,141,290	334,298,977	429,475,538
Outstanding portfolio balance (€)	352,532,138	324,204,901	383,087,676	604,353,726	280,470,224	376,770,538	437,201,060	157,872,473	361,374,376
Average original loan balance (€)	21,058	20, 069	20,028	21,847	20,176	20,063	21,224	25,432	21,599
Average outstanding loan balance (€)	14,793	19,432	18,798	13,442	19,657	19,424	19,048	12,010	18,174
Lenth of contracts									
WA original term (years)	9.5	9.3	9.3	9.8	9.3	9.2	9.3	9.7	9.4
WA seasoning (years)	2.7	0.3	0.5	3.8	0.2	0.3	1.0	4.4	1.6
WA remaining term (years)	6.9	9.0	8.8	6.0	9.1	8.9	8.3	5.3	7.8
Contract type									
CDQ - Cessione del quinto (%)	85.3%	82.3	84.1%	83.8%	82.7%	82.3%	83.4%	77.7%	83.3%
DP - Delegazione di pagamento (%)	14.7%	17.7	15.9%	16.2%	17.3%	17.7%	16.6%	22.3%	16.7%
Portfolio yield									
WA portfolio yield (%)	5.9%	5.86	5.9%	5.8%	5.9%	6.2%	6.0%	6.4%	5.9%
Type of debtors									
Public sector employees (%)	19.1%	20.4%	34.6%	39.2%	37.62%	36.6%	41.2%	39.1%	38.8%
State employees (%)	22.6%	28.0%	11.5%	13.8%	12.00%	12.8%	13.5%	16.7%	15.3%
Private sector employees (%)	12.6%	18.0%	15.1%	4.6%	15.84%	13.7%	8.7%	2.8%	6.8%
Pensioners (%)	45.7%	33.6%	38.8%	42.3%	34.54%	36.9%	36.6%	41.4%	39.1%
Borrower concentration									
Top 1 (%)	0.02%	0.03%	0.03%	0.01%	0.04%	0.03%	0.02%	0.04%	0.03%
Top 10 (%)	0.20%	0.26%	0.24%	0.12%	0.35%	0.23%	0.19%	0.30%	0.21%
Employer concentration									
Top 1 (%)	2.1%	4.0%	1.9%	3.1%*	2.4%*	1.4%*	2.0%*	2.0%*	2.0%*
Top 10 (%)	5.8%	12.0%	6.2%	8.8%*	6.7%*	4.7%*	10.9%*	7.2%*	6.5%*
Public sector exposure (%)	87.4%	82.0%	84.9%	95.4%	84.2%	86.3%	91.3%	97.2%	93.2%
Employer regional concentration									
North	29.50%	30.4%	29.5%	28.4%	29.4%	30.2%	29.1%	27.9%	25.7%
Centre	30.55%	31.3%	29.6%	32.1%	30.6%	28.4%	28.9%	31.3%	31.0%
South	39.95%	38.4%	40.8%	39.5%	40.1%	41.4%	42.0%	40.8%	43.3%
Top region	Lazio - 21.0%	Lazio – 21.5%	Lazio - 20.0%	Lazio - 21.0%	Lazio - 21.2%	Lazio - 18.9%	Lazio - 19.4%	Lazio - 21.5%	Lazio - 20.4%
Insurance company exposure									
Top 1 life insurance	26.0%	25.7%	29.9%	27.8%	28.5%	27.0%	24.8%	25.2%	21.8%
Top 2 life insurance	47.6%	46.8%	46.2%	47.9%	46.7%	45.1%	43.6%	47.2%	43.1%
Top 3 life insurance	61.0%	61.4%	61.3%	67.1%	61.6%	61.7%	58.9%	66.2%	59.4%
Top 1 unemployment insurance	17.2%	15.3%	13.6%	19.1%	14.5%	16.5%	18.4%	25.2%	20.5%
Top 2 unemployment insurance	27.6%	29.1%	25.9%	37.9%	28.7%	28.5%	33.6%	44.6%	36.8%
Top 3 unemployment insurance	36.6%	38.6%	35.2%	49.4%	40.8%	39.9%	46.4%	54.0%	48.1%
Assumptions summary									
Default definition	8 months	8 months	8 months	1 month	8 months	8 months	8 months	8 months	8 months
Mean default	7.0%	7.5%	7.5%	5.5%	7.5%	7.5%	7.0%	5.0%	6.0%
Coefficient of variation	40.0%	40.0%	40%	40%	40%	40%	40%	45%	45%
Recovery rate (insurance coverage)	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%
Recovery rate (no insurance coverage)	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
AAA scenario recovery rate	44.5%	47.6%	49.0%	56.7%	48.7%	52.8%	54.4%	30.2%	55.6%
Recovery timing	4 yrs - (50% + 20% + 20% + 10%)	4 yrs - (50% + 20% + 20% + 10%)	4 yrs - (50% + 20% + 20% + 10%)	4 yrs - (50% + 20% + 20% + 10%)	4 yrs - (50% + 20% + 20% + 10%)	4 yrs - (50% + 20% + 20% + 10%)	4 yrs - (50% + 20% + 20% + 10%)	4 yrs - (50% + 20% + 20% + 10%)	4 yrs - (50% + 20% + 20% + 10%)
Prepayment rate	5% for year 1 25% in year 2 10% thereaf ter	5% from year 1 to year 3 25% in year 4 10% thereaf ter	5% from year 1 to year 3 25% in year 4 10% thereafter	25% in year 1 10% thereafter	5% from year 1 to year 3 10% thereafter	5% from year 1 to year 3 10% thereafter	5% from year 1 to year 3 10% thereafter	5% from year 1 to year 3 10% thereafter	5% from year 1 to year 3 10% thereafter
Portfolio yield	5.2%	5.9%	5.1%	4.4%	5.1%	5.3%	5.2%	5.8%	5.1%
Insurers' inverse-Herfindahl metric	5.8	5.9	5.8	5.7	5.8	6.0	5.7	4.3	5.1
Insurers' correlation	20%	20%	20%	20%	20%	20%	20%	20%	20%
Public sector exposure (%)	87%	82%	84.9%	95.4%	84.2%	86.3%	91.3%	97.2%	93.2%
Private sector exposure (%)	13%	18%	15.1%	4.6%	15.8%	13.7%	8.7%	2.8%	6.8%
Structural features									
Tranching									
Class A	AAA	AAA	AAA	AA+	AAA	AAA	AAA	AAA	AAA
CE Class A	16.3%	10.7%	10.5%	8.0%	11.5%	21.0%	14.0%	18.0%	9.0%
Class B	N/A	N/A	N/A	N/A	N/A	A+	N/A	N/A	N/A
CE Class B	N/A	N/A	N/A	N/A	N/A	7.0%	N/A	N/A	N/A
Class C	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
CE Class C	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Class J	NR	NR	NR	NR	NR	NR	NR	NR	NR
CE Class J	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cash reserve (% of rated notes)	2.8%	2.7%	2.6%	2.6%	2.7%	2.6%	2.9%	3.3%	1.8%
Revolving period (years)	0	0	0	0	0	0	0	0	0
Commingling risk (yes/no)	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Commingling risk mitigants	- Daily sweeps - Notification to borrowers to redirect payments into the issuer account upon servicer disruption	- Daily sweeps - Notification to borrowers to redirect payments into the issuer account upon servicer disruption	- Daily sweeps - Notification to borrowers to redirect payments into the issuer account upon servicer disruption	- Daily sweeps - Notification to borrowers to redirect payments into the issuer account upon servicer disruption	- Daily sweeps - Notification to borrowers to redirect payments into the issuer account upon servicer disruption	- Daily sweeps - Notification to borrowers to redirect payments into the issuer account upon servicer disruption	- Daily sweeps - Notification to borrowers to redirect payments into the issuer account upon servicer disruption	- Daily sweeps - Notification to borrowers to redirect payments into the issuer account upon servicer disruption	- Daily sweeps - Notification to borrowers to redirect payments into the issuer account upon servicer disruption
Set-off risk (yes/no)	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Set-off risk mitigants (e.g., prepayment reserve)	Prepayment reserve	Prepayment reserve	Prepayment reserve	Prepayment reserve	Prepayment reserve	Prepayment reserve	Prepayment reserve	Prepayment reserve	Prepayment reserve
Type of swap	Fixed-to-floating IRS	N/A	N/A	N/A	N/A	Fixed-to-floating IRS	Fixed-to-floating IRS	N/A	N/A
Swap co. rating trigger	A-	N/A	N/A	N/A	N/A	A-	A-	N/A	N/A

II. Vintage data provided by originator

IBL Banca provided default and recovery performance data for the pool. We used this information in our analysis as a foundation for the calibration of point-in-time default rates, the coefficient of variation and base case recovery rates.

Vintage data is granular and representative of the portfolio.

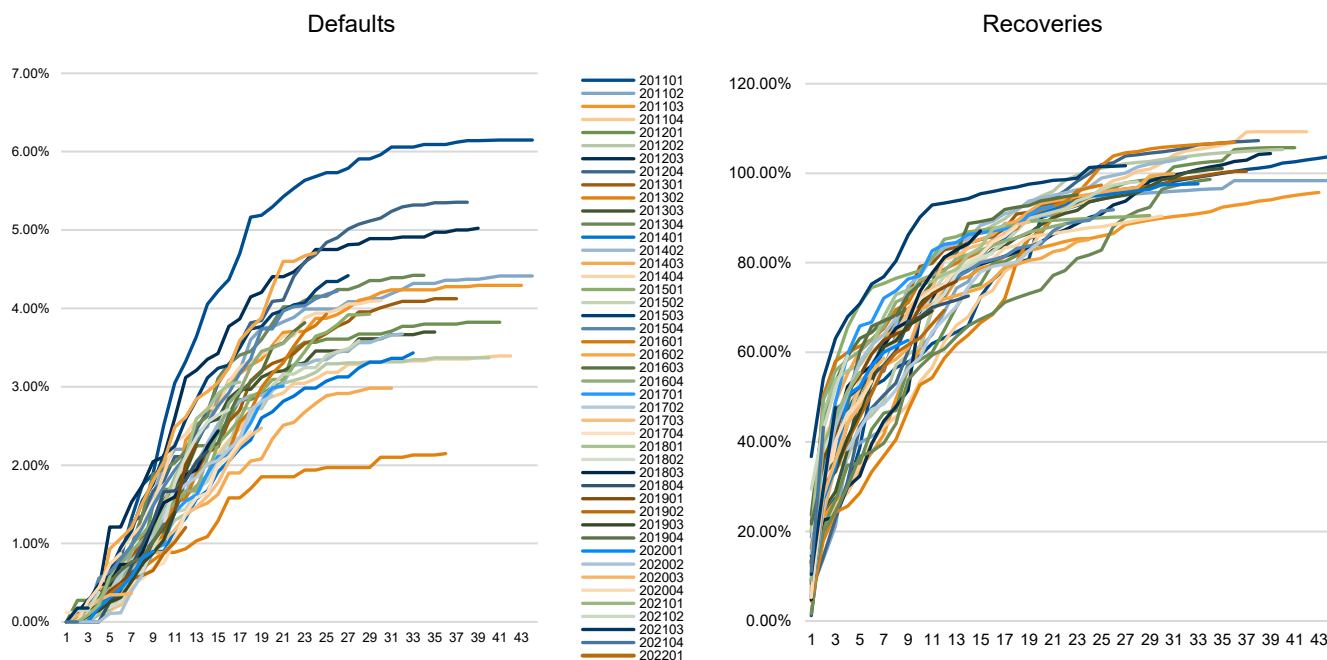**Figure 17: Public administration – default and recovery data**
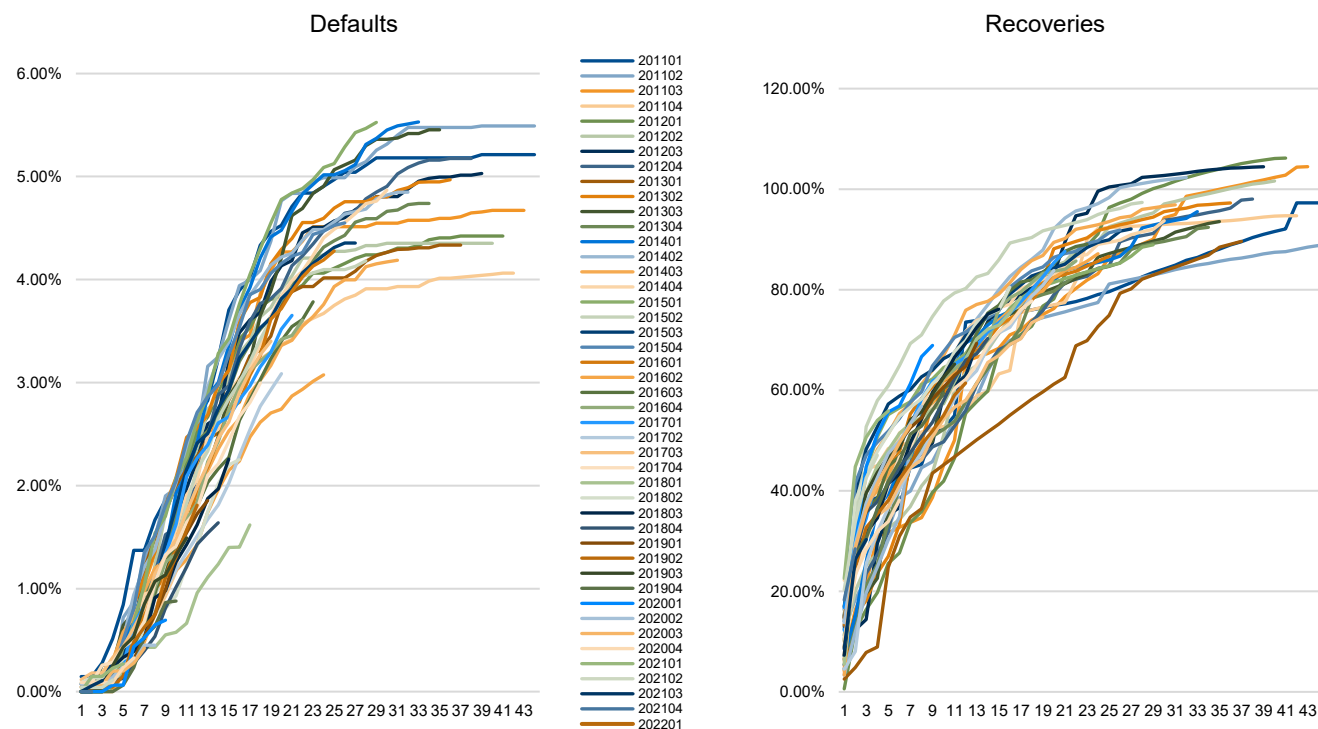

Figure 18: State administration – default and recovery data

Figure 19: Private sector – default and recovery data
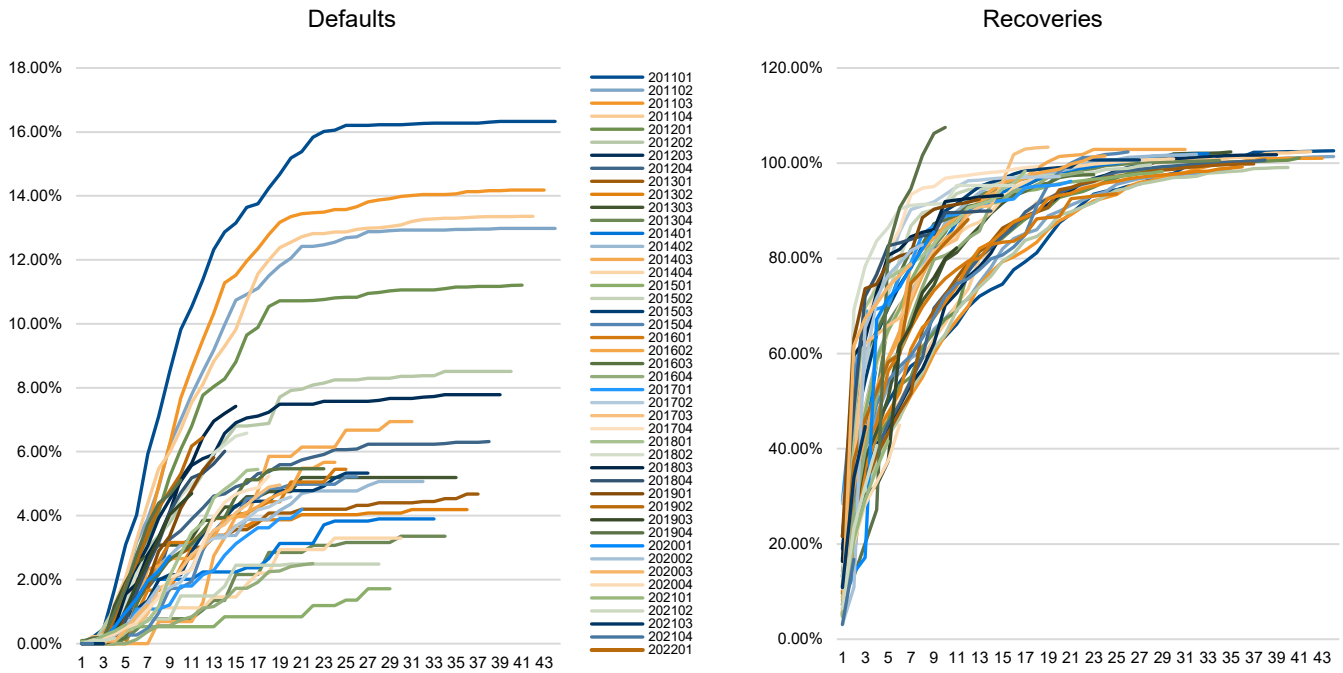
Figure 20: Pensioners – default and recovery data
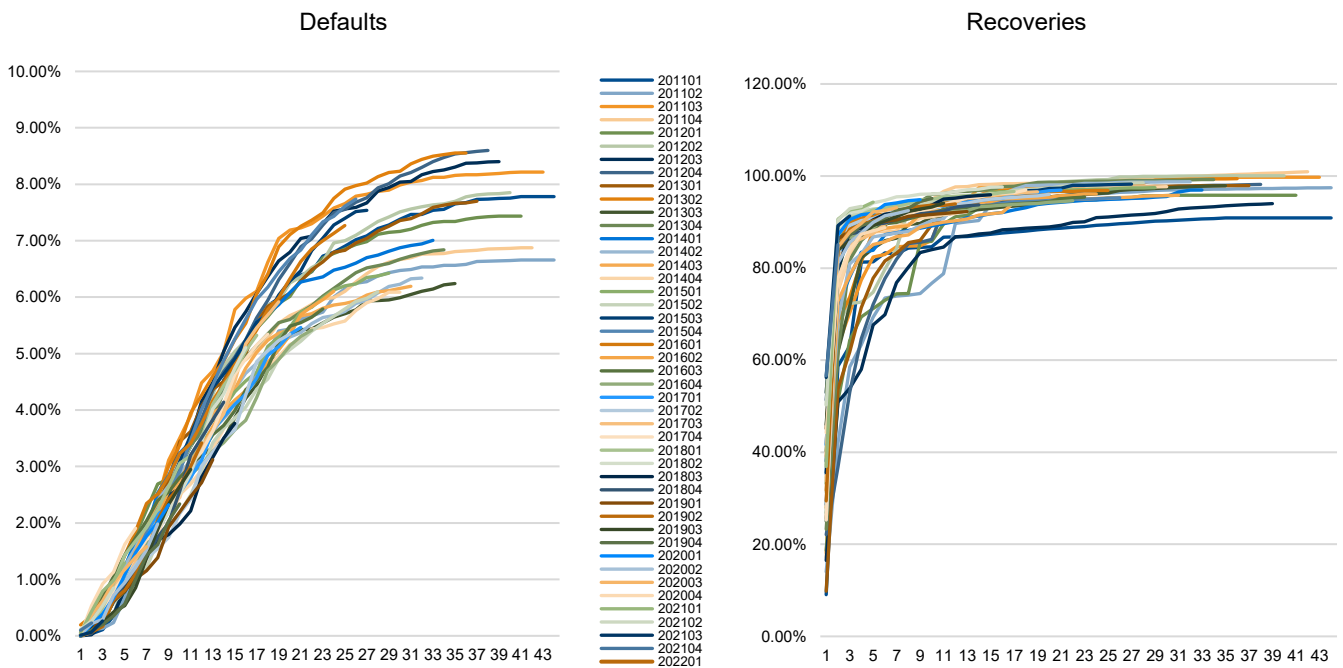
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