Alba 10 SPV S.r.l.

Lease ABS

Ratings

Class	Rating	Notional (EUR m)	Notional (% assets)	CE[1] (% assets)	Coupon	Final maturity
Class A1	AAA_{SF}	408.4	40.0	57.4	3mE+ 0.40%	October 2038
Class A2	AAA_{SF}	200.0	21.0	36.5	3mE + 0.70%	October 2038
Class B	$A+_{SF}$	130.0	13.7	23.0	3mE + 1.10%	October 2038
Class C	$BBB-_{SF}$	75.0	7.9	15.2	3mE + 1.60%	October 2038
Class J	NR	145.4[2]	15.3		3mE + 1.75%	October 2038
Rated notes		813.4				

Our quantitative analysis is based on the portfolio dated 12 October 2018, 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 its SF Rating Definitions.

Transaction details

Purpose	Liquidity/funding
Issuer	Alba 10 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 950.7m
Closing date	29 November 2018
Legal final maturity	27 October 2038
Payment frequency	Quarterly
Payment dates[3]	27 January, April, July and October

The transaction is a true-sale securitisation of a portfolio comprising EUR 950.7m of lease receivables with no residual value risk, granted mainly to different types of SME 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 3.1 years and a weighted average portfolio margin of 2.5%.

Rating rationale (summary)

The ratings reflect the notes' protection against portfolio losses, provided by the quality of the underlying collateral in the context of the Italian macroeconomic environment and by the transactions legal and financial structure.

Class A1 and A2 are protected by their senior position and benefit respectively from 57.4% and 36.5% of credit enhancement from subordination and a debt service reserve. Furthermore, the combined interest and principal priorities of payments ensures liquidity support beyond the debt service reserve for the payment of interest to all rated classes of notes.

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Related Research

General Structured Finance Rating Methodology

Auto ABS Rating Methodology

Methodology for Counterparty Risk in Structured Finance

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[1] Including a EUR 8.1m debt service reserve.
[2] Class J funds a portion of the portfolio (EUR 137.3m) as of the closing date, but also the debt service reserve amount (EUR 8.1m), which is included in this figure.
[3] First payment date on 27 April 2019.

Class B benefits from 23.0% of credit enhancement and the debt service reserve.

Class C mainly benefits from 15.2% of credit enhancement and the debt service reserve. The rating also reflects the subordination of Class C interest payments to Class B principal if cumulative portfolio defaults exceed 10% of the portfolio's initial notional. All rated notes benefit from a mechanism linked to cumulative portfolio defaults, which traps excess spread to ensure sufficient collateralisation.

The ratings also address exposures to the key transaction counterparties: Alba as originator, servicer and cash manager; Citibank N.A., Milan branch as account bank and paying agent; and Securitisation Services S.p.A. as back-up servicer, calculation agent and noteholders' representative. Scope considered counterparty replacement triggers implemented in the transaction and relied on publicly available ratings of Citibank N.A.

Rating drivers and mitigants

Positive rating drivers

Static portfolio. The portfolio will start to amortise immediately after closing, reducing the risk of performance volatility compared to revolving transactions.

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.

No residual value risk. Investors are not exposed to the risk that obligors do not exercise the residual option, or 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.

Short lifetime exposure. The portfolio of lease receivables has a short remaining weighted average life of 3.1 years.

No set-off risk. No borrowers have any deposits or derivative contracts with Alba.

Negative rating drivers and mitigants

Alba is a relatively new lessor. Relevant historical data from Alba itself only exists from 2010 when Alba started operations. Our default rate and coefficient of variation assumptions reflect both the performance of the leases originated by Alba and the legacy portfolio of lease receivables of former Italease S.p.A.

Unsecured recoveries. We have relied 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.

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 only cover three months of interest for the Class A notes. However, we do not anticipate a rapid rise in interest rates over the expected life of Class A. The combined waterfall gives additional support to interest payments on the notes and senior costs because principal collections can be used to pay such items in the waterfall.

Upside rating-change drivers

Faster-than-expected portfolio amortisation. Better-than-expected performance of the assets, as well as faster-than-expected portfolio amortisation if credit enhancement builds up before credit losses crystallise, may positively impact the ratings.

Downside rating-change drivers

Worse-than-expected asset performance. Worse-than-expected performance of the assets as well as a deterioration of the Italian macroeconomic environment could negatively impact the ratings.

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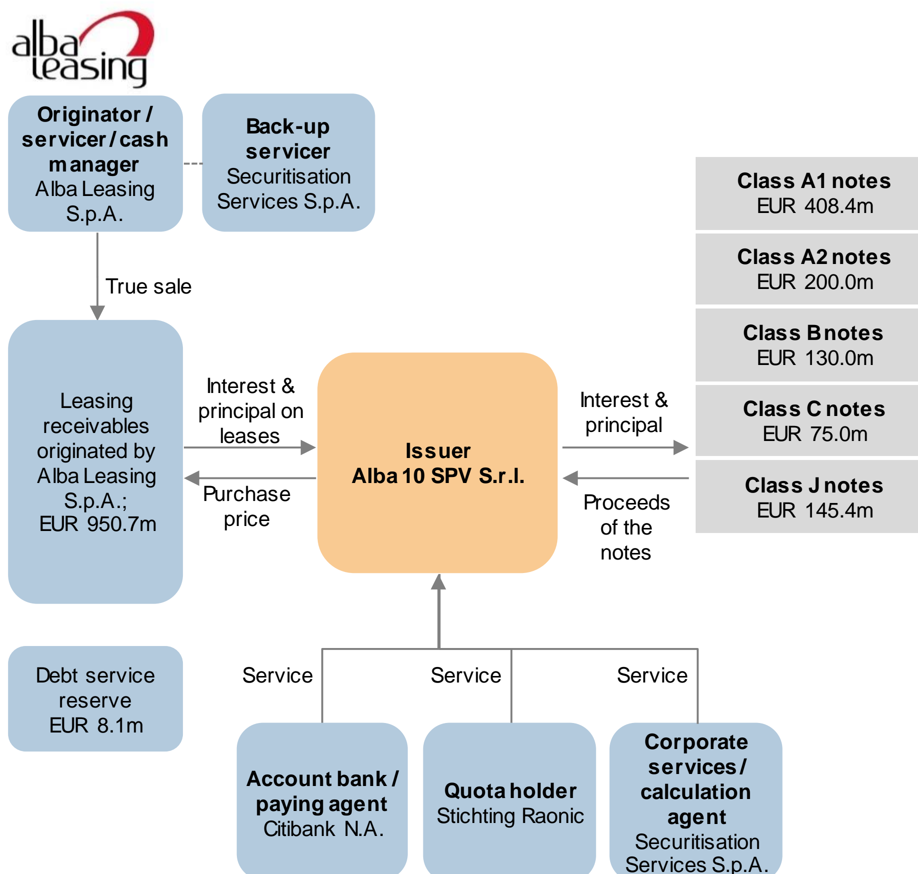
1. Transaction summary

Figure 1: Simplified transaction diagram



Source: Transaction documents and Scope

Alba 10 SPV S.r.l. is Alba's tenth securitisation backed by performing leasing receivables. The transaction is backed by a EUR 950.7m portfolio of fully amortising lease receivables with no residual value risk. The lease receivables were 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 to finance transportation assets, equipment, real estate properties and air, naval and rail assets. Compared with Alba's total lease book, the portfolio will benefit from a 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 October 2018 has approximately one year of seasoning, a weighted average remaining term to maturity of 5.8 years, and a weighted average remaining life of 3.1 years. The lease receivables were originated between 2010 and 2018; 98.7% of these from 2017 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 (97.3%) at a floating rate (94.7%). 94.5% pay a floating interest rate referenced to three-month Euribor; 5.3% pay a fixed rate; 0.2% pay a floating rate referenced to one-month Euribor.

The assets' residual value is not securitised

There is no residual value risk since the residual value is not securitised. On the other hand, 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 were mainly granted to Italian SMEs (79.2%), with smaller amounts to larger corporate borrowers (11.8%) and individual entrepreneurs (9.0%). The asset analysis was performed over three portfolio segments (see Figure 2). The original pool included four portfolio segments: Transport, Equipment, Real Estate and Air, Naval & Rail. In our analysis we grouped together the Transport segment with the Air, Naval & Rail segment, due to the latter's very small size.

Figure 2: Portfolio segments split by asset type

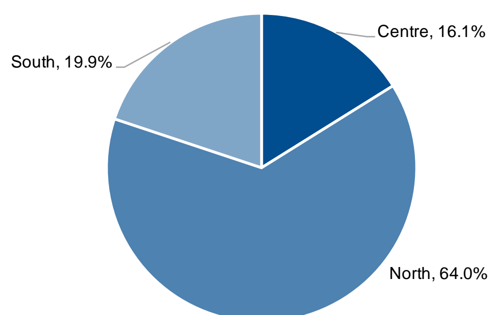
Segment	Description	Share
Transport and Air, Naval & Rail [4]	Transport: vehicles, motor vehicles, cars, light lorries, commercial vehicles, industrial vehicles and other motorised vehicles excluding aircraft Air, Naval & Rail: ships, vessels, aeroplanes and trains	23.4%
Equipment	Instrumental assets (e.g. machinery, equipment and/or plants)	57.4%
Real estate	Instrumental commercial real estate properties (including industrial facilities, shops, warehouses, supermarkets and artisan workshops)	19.2%

2.1.1 Granular portfolio with no relevant concentrations

The portfolio is granular and well diversified across sectors. It is more concentrated in northern Italy, which is the centre of the country's economic activity.

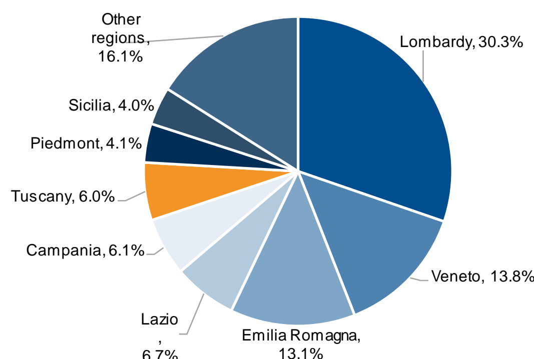
The portfolio is granular: the largest obligor group represents only 0.86% of the portfolio and the top 10 obligors account for 6.04% of the pool's outstanding balance.

Figure 3: Regional distribution, % of remaining principal balance



Source: Alba, Scope

Figure 4: Regions by % of remaining principal balance



Source: Alba, Scope

[4] The Air, Naval & Rail segment accounts for 1.5% of the total pool.

Our base case modelling assumptions are sufficient to cover the risks associated with the real estate and construction sectors, since only 7.75% of the portfolio's borrowers operate in both of these sectors, of which only 1.5% relates to the construction sector.

2.1.2 Excess spread

The rated notes benefit from 2.5% gross excess spread

The rated notes benefit from the transaction's excess spread – around 2.5% of gross asset yield – which can be used to cure undercollateralisation arising from periodic defaults. In addition, excess spread will be trapped under certain trigger conditions (see Figure 8).

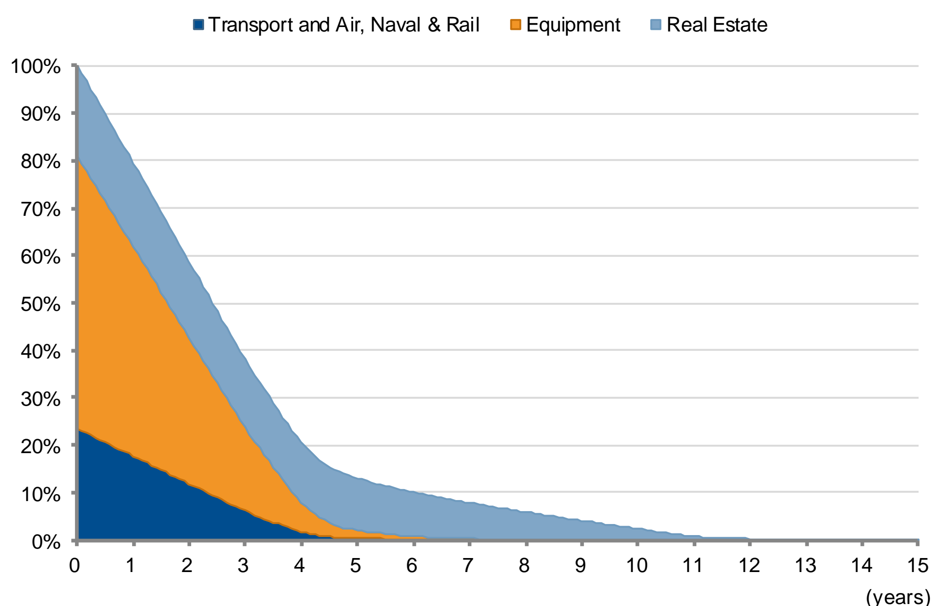
We incorporated margin and interest rate stresses in our modelling process to address: i) lower excess spread via prepayments, amortisation and defaults; ii) flexibility available to the servicer to modify the lease; and iii) interest rate mismatches between assets and liabilities.

2.2. Amortisation profile

The Class A has short exposure to counterparty risk and possible macroeconomic decline

The projected amortisation profile reflects the amortisation scheme for the underlying assets. Figure 5 shows the amortisation of the three portfolio segments considered in our 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 and Air, Naval & Rail	Equipment	Real estate
Share of portfolio	100.0%	23.4%	57.4%	19.2%
Mean default rate	6.0%	4.0%	5.0%	11.5%
Coefficient of variation	70.4%	70.0%	60.0%	85.0%
Base case recovery rate	17.2%[5]	30.0%	20.0%	8.0%
AAA recovery rate	10.3%[5]	18.0%	12.0%	4.8%
CPR low	0.0%	0.0%	0.0%	0.0%
CPR high	5.0%	5.0%	5.0%	5.0%

Source: Scope

2.3.1. Default rate analysis for portfolio

We calibrated our assumptions on mean default rates and coefficients of variation using 2008-2018 vintage data for each portfolio segment. This data reflects the performance of the lease book originated by Alba since 2010 and the performance of the legacy lease book originated by Italease S.p.A. before 2003 and assigned to Alba in 2010.

Alba vintages cover periods of severe recession in Italy

We considered the 2008-2018 vintage data period to be sufficiently long to cover more than one full economic cycle, as it includes the severe recessions which Italy suffered during 2008-2009 and 2012-2014. It can further be noted that the performance of Alba's lease receivables improved during the recession in 2012-2014 suggesting an improvement in origination policies that cannot be linked to the economic cycle. We did therefore not use different point-in-time or long-term reference default distributions, but rather a mean default assumption and coefficient-of-variation for each segment.

We adjusted the vintage data in order to reflect the adjusted composition of the pool by grouping together the vintage data available for the Transport segment with the data available for the Air, Naval & Rail segment. The most relevant data used for the analysis is shown in **Appendix II - Vintage data**.

2.3.2. Recovery rate

When deriving the base case recovery rates from vintage data, we 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.

We consider only unsecured recoveries

If Alba, the originator and seller, becomes insolvent, the issuer's claims to sale/re-lease proceeds may 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. We considered this risk by including only unsecured recoveries from the lessees and guarantors in our assumptions.

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

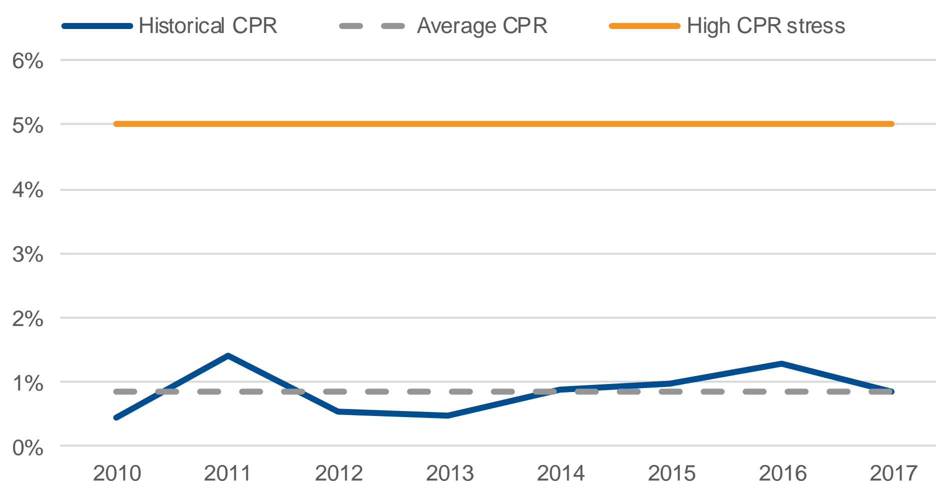
[5] The average recovery assumptions for the whole pool were calculated based on each sub-pool's: i) recovery rate assumption (base case or AAA recovery rate); ii) relative size; and iii) mean default rate.

We 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 CPR 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. Debt service reserve

The debt service reserve (DSR) 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 8.1m. 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 8.1m, or the equivalent of 1% of the initial balance of the rated notes. Thereafter, on other payment dates, the amount is

replenished by up to 1% of the principal outstanding on the rated notes, or, if higher, 0.5% of the initial principal outstanding on the rated notes.

The debt service reserve can pay the 1% stressed senior note fees and interest for up to a six-month period at a three-month Euribor rate of zero or below. The debt service reserve can pay 1% of stressed senior note fees and interest on the Class A notes for up to a three-month period at a stressed three-month Euribor of 2.5%.

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

3.3. Priority of payments

Combined priority of payments protects against payment interruption

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 cumulative 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 the Class B notes, which would accelerate the amortisation of the 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 support all rated notes

For each payment date, a level of cumulative portfolio gross 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 April 2019	1.75%
27 July 2019	1.75%
27 October 2019	2.25%
27 January 2020	3.00%
27 April 2020	3.50%
27 July 2020	4.50%
27 October 2020	5.00%
27 January 2021	5.00%
27 April 2021	6.00%
Thereafter	6.00%

Source: Alba, Scope

3.4. 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 using more qualitative criteria, e.g. as 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-trapping mechanism.

The notes' amortisation levels during pre-enforcement is set by a target amount which also includes the amounts allocated to 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.

We believe that the cash-trapping mechanism (item 11 in the simplified pre-enforcement waterfall above) provides 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.

3.5. Matched interest rates

We believe that interest rate risk is limited due to the partial natural hedge provided by the floating rates of most assets and all liabilities. 94.5% of the assets are referenced to three-month Euribor, the same reference as for the notes. 0.2% are referenced to one-month Euribor, and the remaining 5.3% pay fixed interest.

The main sources of mismatch is a change in the fixed rate paid by the leases and reset timing for floating-rate leases indexed to three-month Euribor. We 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 14), but we take 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

Alba benefits from its very experienced staff

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 has operated in the Italian leasing market for eight 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-2017, Alba has the sixth-largest lease portfolio in Italy and ranks fourth in terms of new production, with a market share of around 7.6%.

Alba's main competitive advantages are its granular sales network, with over 5,200 points of sale (including the branches of the shareholder and partner banks), 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 (68.7% in 2017) or partner banks (13.4% in 2017). It also cooperates with vendors and manufacturers (17.9% 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 those of the Italian market. The gross non-performing loan rate ('deteriorated loans') for Alba's new production was approximately 3.3% in 2017. Its overall net non-performing loan rate was approximately 8.9% in 2017, consistently below the Italian average for leasing companies (16.8%).

4.1. Sanctioning and underwriting

The origination process is defined by partner banks interconnection with Alba.

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 in order 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 shareholder banks. In addition, underwriting requires 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. 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 10%-70% guarantee in favour of Alba

Shareholder banks offer the 'Presto Leasing' product, which includes a partial guarantee in favour of Alba. If the lessee fails to pay and the contract is terminated, the relevant bank must indemnify Alba for a portion of the final loss payable following the recovery process. The amount of the guarantee can range from 10%-70% of the final loss, according to the rating level of the borrower. The credit risk assessment and approval phases are run by the shareholder banks, with final approval subject to both Alba and 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 our view, involving a reasonably proactive and diligent approach. Actions are initiated shortly after a payment is missed through contact with the obligor. The contract is terminated 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 case. A reminder is sent at around 30 dpd, then external collectors are engaged for a period of 30 days (extensible by another 15 days). Once a contract is 60 dpd, it is transferred to a client manager who assesses the risks and decides on the appropriate action. 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 also be enforced legally.

The termination of the contract initiates the recovery process, including the 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. 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 has specialists for each leasing product.

5. Quantitative analysis

We 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 57.4% and 36.5% 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 23.0% of credit enhancement and the debt service reserve.

Class C mainly benefits from 15.2% of credit enhancement and the debt service reserve. The rating also reflects the subordination of Class C interest payments to Class B principal if portfolio gross 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.

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

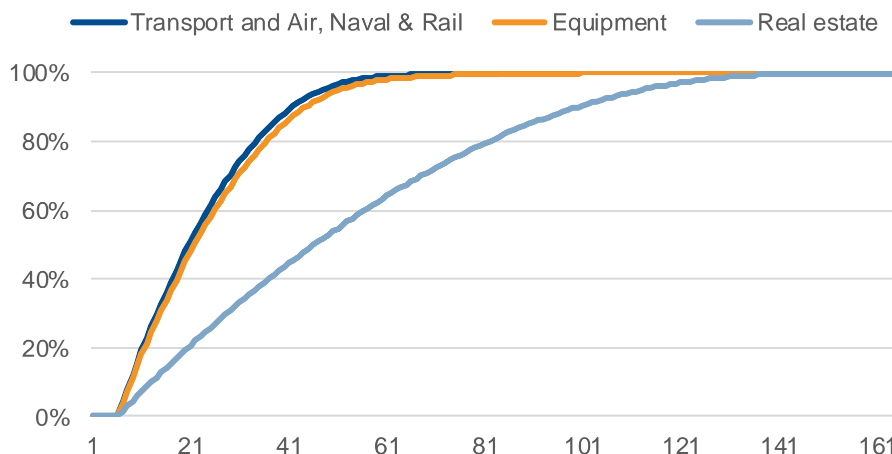
The performance of lease receivables has improved over 2012-2014

We did not consider a long-term reference default distribution because the historical data covers more than a full economic cycle and in additions performance of Alba's lease receivables improved over the recession in 2012-2014 suggesting an improvement in origination that cannot be linked to the recent economic cycle.

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

We 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 three portfolio segments. The defaults are classified as 180+ dpd, in line with definitions in the documentation.

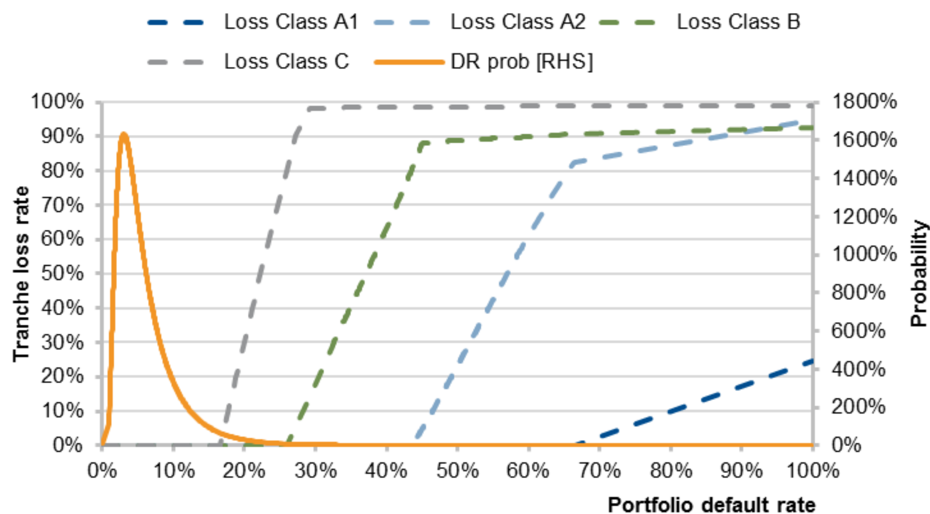
Figure 10: Cumulative default-timing assumptions for each portfolio segment



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 0.4% 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

We 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, two 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, one notch.

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) 62.1% or lower, under a zero recovery rate assumption; or ii) 66.4% or lower, under the portfolio's AAASF recovery rate assumption of 10.3%.

Class A2 would not experience any loss at portfolio lifetime default rates of: i) 39.0% or lower, under a zero recovery rate assumption; or ii) 43.6% or lower, under the portfolio's AAASF recovery rate assumption of 10.3%.

Class B would not experience any loss at portfolio lifetime default rates of: i) 22.6% or lower, under a zero recovery rate assumption; or ii) 25.9% or lower, under the portfolio's ASF recovery rate assumption of 13.0%.

Class C would not experience any loss at portfolio lifetime default rates of 13.2% or lower, under both the zero recovery rate assumption and the portfolio's BBBSF recovery rate assumption of 14.4%.

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	**66.4%**	-	-	**62.1%**	**66.4%**	-	-	**64.2%**
Class A2	**43.6%**	-	-	**39.0%**	**45.2%**	-	-	**40.7%**
Class B	-	**25.9%**	-	**22.6%**	-	**25.9%**	-	**23.2%**
Class C	-	-	**12.8%**	**12.6%**	-	-	**13.2%**	**13.2%**

Source: Scope

Note: Break-even default rates incorporate our assumption on commingling losses.

7. Counterparty risk

The counterparty risk of the transaction supports the highest ratings. We do not consider any of the counterparty exposures to be excessive, i.e. if counterparty risk crystallises, a downgrade is still limited to 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). Collections are transferred daily into the issuer collection account held at Citibank N.A. Other amounts are swept monthly, or if they exceed EUR 0.3m, e.g. late payments or residual instalments.

Within 15 business days of a servicer termination event, all borrowers will be instructed – either by the originator or the back-up servicer – to redirect their payments directly to the account of the issuer. In order to treat a potential exposure for commingling risk, we 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. Our analysis relied on public ratings available on Citibank.

7.3. Set-off risk from originator

Set-off risk is not material

We do 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. Restructurings

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 for 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

We reviewed the draft legal and tax opinions produced for the issuer. The legal opinions provide comfort on the issuer's legal structure and support our 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

We will monitor this transaction on the basis of the performance reports from the management company 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 we applied Scope's General Structured Finance Rating Methodology, the Auto ABS Rating Methodology and the Methodology for Counterparty Risk in Structured Finance, all available on our website www.scoperatings.com.

Alba provided Scope with two sets of default data, segmented by quarterly vintage of origination, broadly aligned with the 180+ dpd default definition as used in the transaction. The first set covers the period from 2008 to 2018 and represents the whole book of leases serviced by Alba. It comprises both leases originated by former Italease S.p.A. before 2003 and assigned to Alba in 2010, and leases originated by Alba from 2010 onwards. The second set represents new originations by Alba from 2010 to 2018. Recovery data covers the period from 2010 to 2018, for leases with a finalised recovery process and leases with an ongoing recovery process. Recovery vintage data was presented on a quarterly basis, split by proceeds from the sale of the assets and proceeds from the obligor and guarantor only.

Alba 10 SPV S.r.l.

Lease ABS

I. Deal comparison

Transaction	Alba 10 SPV	Alba 9 SPV
Country	Italy	Italy
Closing date (dd/mm/yyyy)	29/11/2018	30/10/2017
Originator	Alba Leasing SpA	Alba Leasing SpA
Servicer	Alba Leasing SpA	Alba Leasing SpA
Back-up servicer	Securitisation Services SpA	Securitisation Services SpA
Back-up servicer facilitator	-	-
Portfolio characteristics		
Number of contracts	11,518	16,075
Number of lesses	7,852	10,736
Original portfolio balance (EUR)	1,123,767,789	1,407,414,919
Outstanding portfolio balance (EUR)	950,696,913	1,113,066,279
Average original contract balance (EUR)	97,566	87,553
Average outstanding contract balance (EUR)	82,540	69,242
Lenth of contracts		
WA original term (years)	6.50	6.64
WA seasoning (years)	0.66	0.97
WA remaining term (years)	5.84	5.67
Segment type		
Transport (%)	21.89	25.84
Equipment (%)	57.37	54.50
Real Estate (%)	19.20	18.20
Air, Naval & Rail (%)	1.54	1.46
Portfolio yield		
Fixed portfolio (%)	5.3	2.9
WA fixed interest (%)	2.12	2.32
Floating portfolio (%)	94.7	97.1
WA floating margin (%)	2.48	2.73
Type of lessee		
Large corporate (%)	11.8	10.0
Corporate/SME (%)	79.2	73.3
Individual (%)	9.0	16.7
Lessee concentration		
Top 1 (%)	0.86	0.78
Top 10 (%)	6.04	5.24
Lessee regional concentration		
North (%)	64.0	62.6
Centre (%)	16.1	15.9
South (%)	19.9	21.5
Top region	Lombardy - 30.3%	Lombardy - 29.4%
Assumptions summary		
Default definition	6 months	6 months
Mean default	6.0%	5.6%
CoV	70.4%	71.3%
Base case recovery rate	17.2%	17.1%
AAA scenario recovery rate	10.3%	10.3%
Recovery timing (months)	21	21
Prepayment rate	5.0%	5.0%
Structural features		
Tranching		
Class A1	AAA	AAA
CE Class A1	57.4%	57.9%
Class A2	AAA	AAA
CE Class A2	36.5%	36.9%
Class B	A+	A+
CE Class B	23.0%	23.8%
Class C	BBB-	BBB-
CE Class C	15.2%	14.8%
Class J	NR	NR
CE Class J	0%	0%
Cash reserve (% of rated notes)	1.0%	1.0%
Revolving period (years)	0	0
Commingling risk (yes/no)	Yes	Yes
Commingling risk mitigants	Daily sweeps	Daily sweeps
Set-off risk (yes/no)	No	No
Type of swap	N/A	N/A
Swap co. rating trigger	N/A	N/A

II. Vintage data

Alba provided Scope with two sets of default data, segmented by quarterly vintage of origination, broadly aligned with the 180+ dpd default definition as used in the transaction. The first set, which covers the period from 2008 to 2018, represents the whole book of leases serviced by Alba. It comprises leases originated by former Italease S.p.A. before 2003 and assigned to Alba in 2010 as well as leases originated by Alba from 2010 onwards. The second set represents only new originations by Alba from 2010 to 2018. Recovery data covers the period from 2010 to 2018, for leases with a finalised recovery process and leases with an ongoing recovery process. Recovery vintage data was presented on a quarterly basis, split by proceeds from the sale of the assets and proceeds from the obligor and guarantor only.

We used this information in our analysis to calibrate mean default rates, coefficients of variation and base case recovery rates. We also adjusted the vintage data in order to reflect the adjusted composition of the pool by grouping together the vintage data available for the Transport segment with the data available for the Air, Naval & Rail segment.

Figure 13: Transport and Air, Naval & Rail segment – default vintage data (2008-2018)

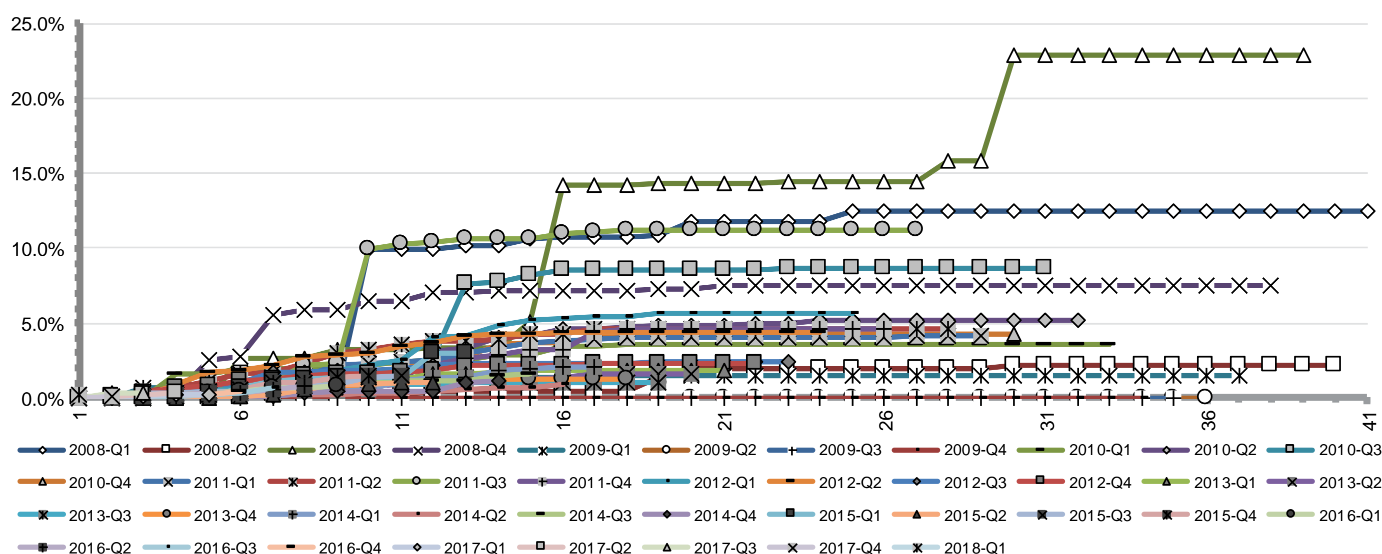


Figure 14: Equipment segment – default vintage data (2008-2018)

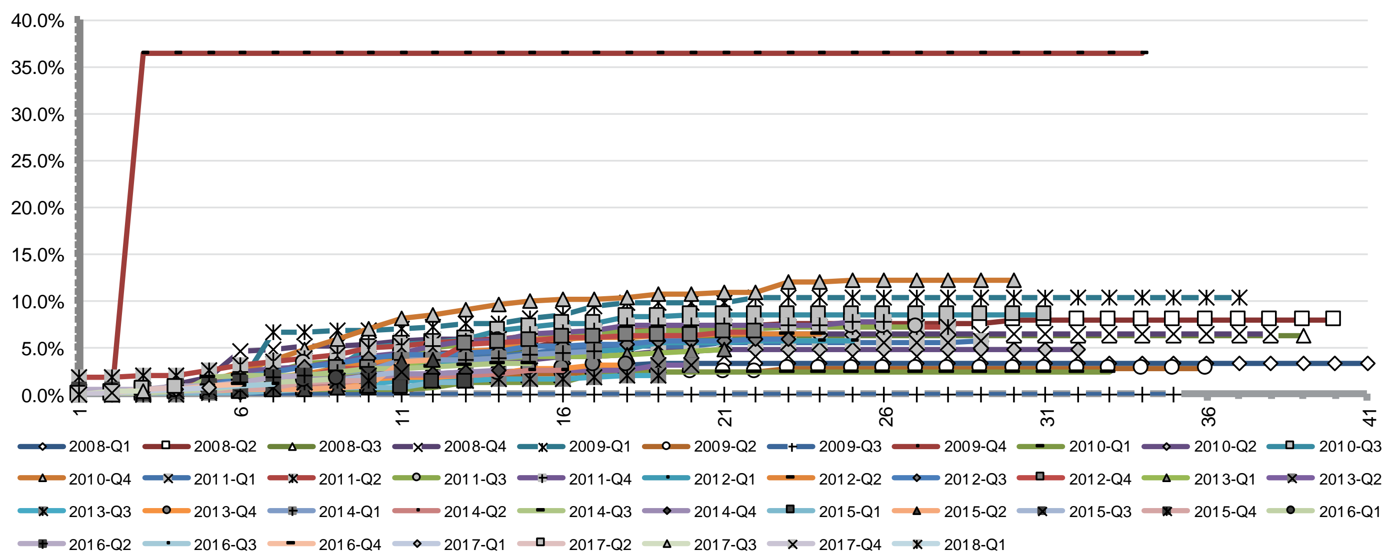


Figure 15: Real Estate segment – default vintage data (2008-2018)

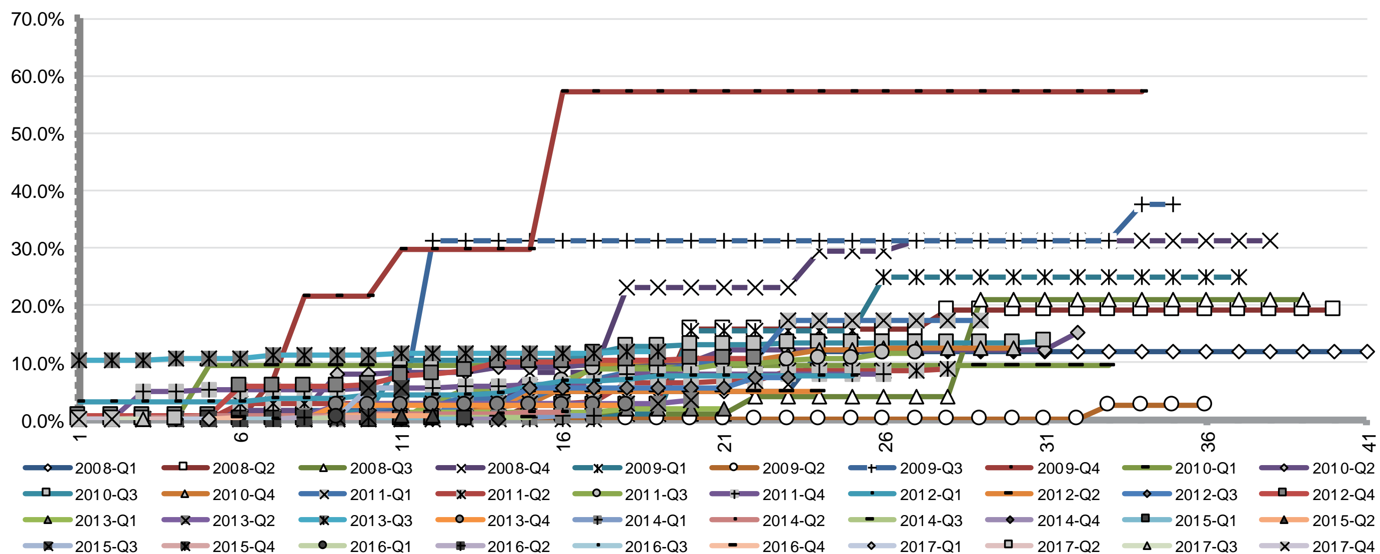


Figure 16: Transport and Air, Naval & Rail segment – recovery vintage data (2010-2018)

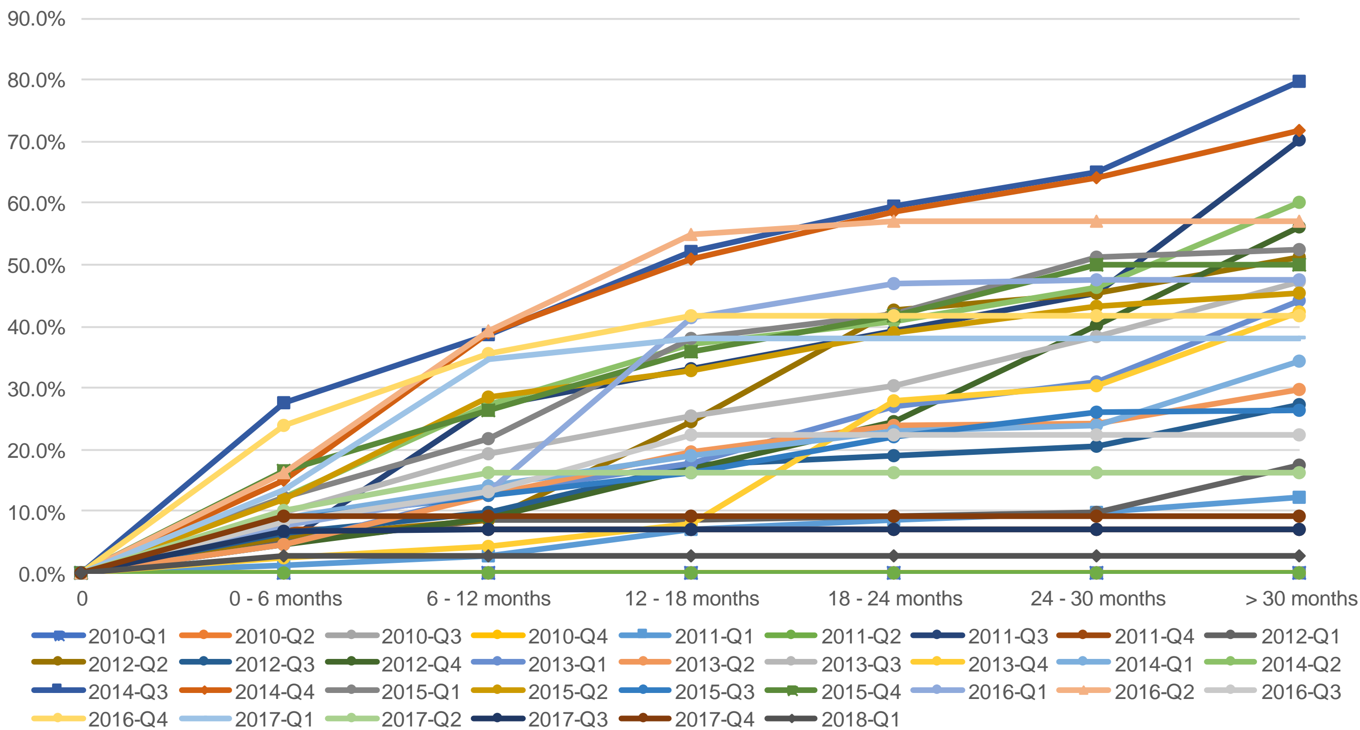


Figure 17: Equipment segment – recovery vintage data (2010-2018)

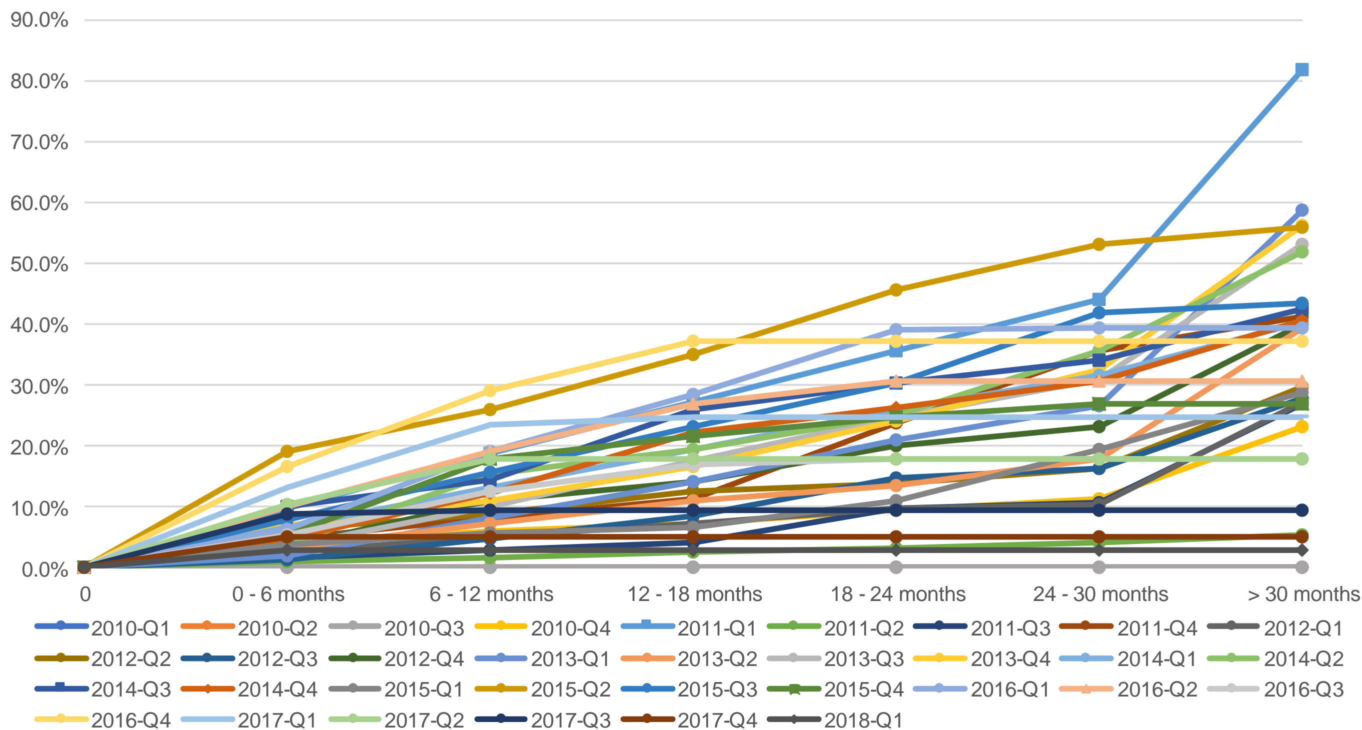
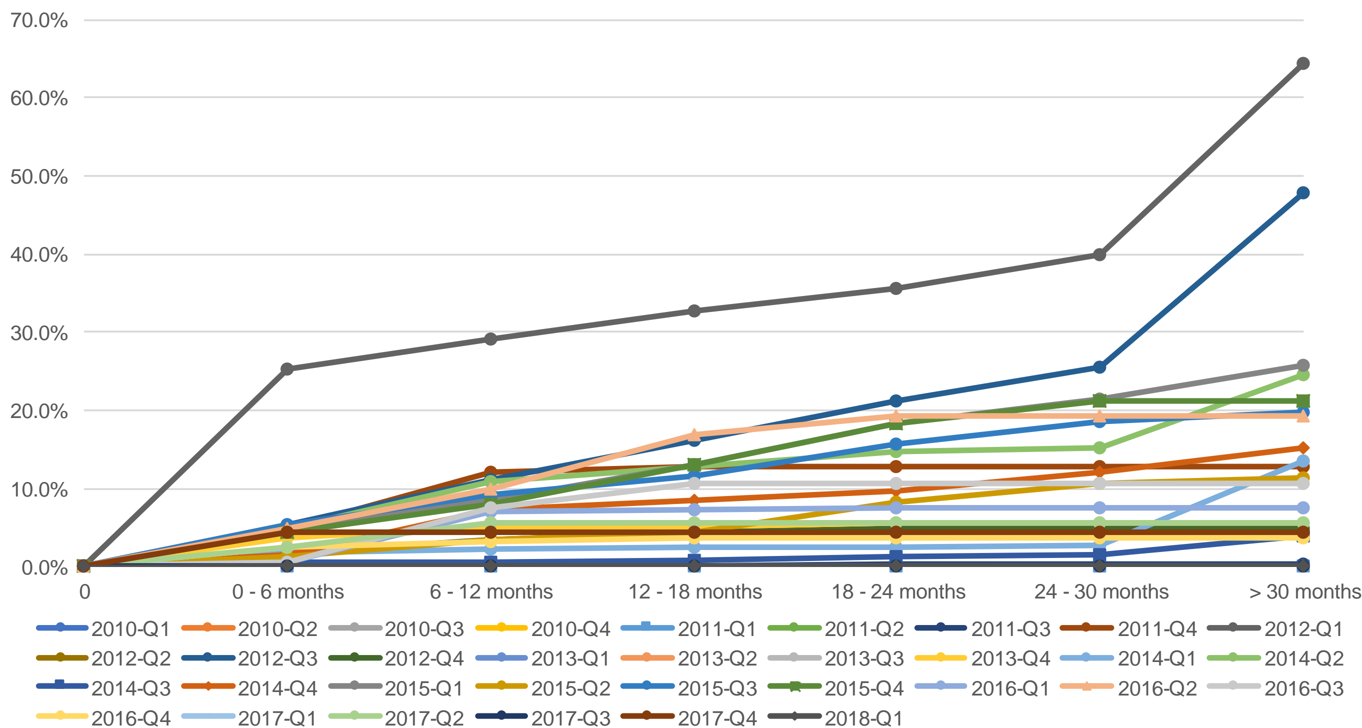


Figure 18: Real Estate segment – recovery vintage data (2010-2018)



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