Eridano II SPV S.r.l.
Italian Consumer CQS ABS

Ratings

Class	Rating	Notional (EUR m)	Notional (% of assets)	Current CE[1] (% of assets)	Coupon	Final maturity
Class A	(P) AA+$_{SF}$	[•]	89.5%	12.4%	1mE + [•]	May 2035
Class B	(P) A$_{SF}$	[•]	7.0%	5.4%	1mE + [•]	May 2035
Class C[2]	NR	[•]	3.5%		[•]	May 2035
Total		[•]				

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.

Scope's analysis is based on the portfolio dated 31August 2020 provided by the originator. Preliminary ratings rely on the information made available to Scope up to 1 October 2020. Scope will assign final ratings conditional to the review of the final version of all transaction documents and legal opinions. Final ratings may deviate from preliminary ratings.

Transaction details

Purpose	Funding
Issuer	Eridano II SPV S.r.l.
Originator/servicer	ViViBanca S.p.A. (Vivibanca)
Other seller	Legion CQ S.r.l. (Legion)
Sub-servicer	Quinservizi S.p.A. (Quinservizi)
Collection Agent	MCE Locam S.p.A. (MCE Locam)
Calculation agent	Securitisation Services S.p.A. (Securitisation Services)
Account bank/paying agent	BNP Paribas Securities Services, Milan Branch (BNP Paribas)
Swap counterparty	[•]
Closing date	[•]
Payment frequency	Monthly, 28th day of each month

The transaction is a true-sale securitisation of a portfolio of Italian payroll-deductible loans. ('cessione del quinto dello stipendio' or CQS[3]). Part of the loans included in the portfolio are originated by Vivibanca while another portion has been acquired from Legion, a former securitisation vehicle. The transaction structure comprises three tranches of notes and a cash reserve that provides liquidity and credit protection. As of August 2020, the notes are backed by a EUR 344m provisional portfolio of CQS loans comprised of 'cessione del quinto' (91.4%) and 'delegazione di pagamento' (8.6%) loans extended to employees working for the public administration (31.0%), para-public administration (4.4%) and the private sector (17.4%) as well as pensioners (47.2%).

Rating rationale (summary)

The ratings reflect: 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; and iv) the ability of the transaction's counterparties.

The ratings are mainly driven by the securitised portfolio's characteristics and its expected performance, and by the pool of insurance companies covering life or employment events. The ratings also incorporate our assessment of the servicer's abilities and incentives. We considered Italian sovereign risk by assessing the impact on

Analytical Team

Leonardo Scavo
+39 02 9475 9859
l.scavo@scoperatings.com

Paula Lichtensztein
+49 30 27891 224
p.lichtensztein@scoperatings.com

Olivier Toutain
+33 1 82882 256
o.toutain@scoperatings.com

Team Leader

David Bergman
+39 02 3031 5838
d.bergman@scoperatings.com

Related Research

Consumer and Auto ABS Rating Methodology

Methodology for Counterparty Risk in Structured Finance

Scope Ratings GmbH

Lennéstraße 5
10785 Berlin

Tel. +49 30 27891 0
Fax +49 30 27891 100

info@scoperatings.com
www.scoperatings.com

Bloomberg: SCOP

[1] Based on the balance of the provisional portfolio and the initial target amount of the cash reserve
[2] Class C will fund (i) a portion of the portfolio, (ii) the cash reserve, (iii) the prepayment reserve and (iv) the additional purchase price component of the portfolio
[3] 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.

the ratings of a distress scenario affecting the government of Italy and the associated loss severity for the securitised assets.

The class A and the class B notes are supported, respectively, by 12.4% and 5.4% of credit enhancement from subordination and the cash reserve. A cash reserve provides both liquidity and credit protection to the senior and mezzanine notes.

Rating drivers and mitigants

Positive rating drivers

Loan product with low historical losses. CQS loans generally incur lower losses than standard unsecured consumer loans, primarily because the loans are insured against unemployment and life events, and the instalments are withheld by the borrower's employer and paid directly to the lender.

Diverse insurance coverage. The loan portfolio benefits from a diversified pool of 9 insurers covering borrowers against life events and unemployment.

Liquidity and credit protection. A fully funded cash reserve (equal to 2% of the outstanding balance of the class A and B notes) will provide liquidity protection to the senior and mezzanine notes during the life of the transaction. The cash reserve will be available to repay the notes at maturity.

Excess spread. Scope expects that a significant level of excess spread will remain available (3.4%), considering a stressed weighted average portfolio yield and deducting fees and interests on liabilities.

Interest rate swap. Class A and class B notes pay one-month Euribor plus a margin, while the portfolio pays a fixed rate. To hedge interest rate risk, the issuer intends to enter into a banded fix-floating interest rate swap with an eligible counterparty.

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

Negative rating drivers and mitigants

Exposure to public entities. A large portion of the portfolio is exposed to public entities that pay salaries or pensions to borrowers (82.6%). These borrowers normally have lower default rates than those in the private sector. However, such a high concentration increase vulnerability to a sovereign default. Scope has considered this risk by testing the impact of a sovereign stress event on the assets' performance.

Small and relatively new servicer. Vivibanca is a relatively new servicer with around ten years' experience servicing CQS loans. Scope's operational review has provided comfort in Vivibanca's abilities and capacity in this role.

Commingling risk. Most of the employers and pension entities pay by bank transfer. Therefore, the redirection of payments may take longer than for a standard unsecured loan portfolio.

Upside rating-change drivers

A rating upgrade of Italy, a reduction of the insurance companies' default risk or better-than expected pool performance would contribute to an upgrade of the rating.

Downside rating-change drivers

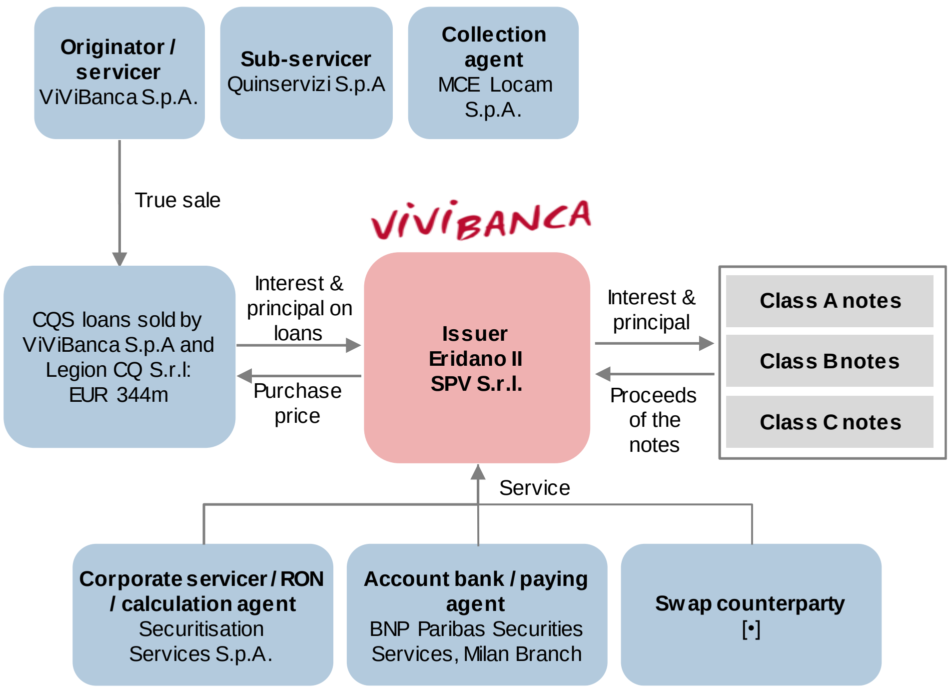
A significant deterioration in the credit profile of the insurance companies leading to lower rating-conditional recovery rate assumptions could negatively impact the rating.

A 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.

Table of contents

1. Transaction summary

Figure 1: Simplified transaction diagram



Source: Transaction documents and Scope

Eridano II SPV S.r.l. is a cash securitisation backed by payroll-deductible (CQS) loans extended to borrowers in Italy. CQS loans are collateralised by the debtor's salary or pension and, in most cases, by any accrued severance amount (e.g. 'trattamento di fine rapporto' or TFR). The EUR 344m preliminary portfolio comprises CQS loans originated by Vivibanca (the Vivibanca portfolio for EUR 288m) and CQS loans acquired by the issuer from Legion CQ S.r.l. (the Legion portfolio for EUR 56m), a securitisation vehicle set up in the context of a former transaction originated by MCE Locam S.p.A.

The transaction structure comprises three classes of notes: class A, class B and class C. The securitised portfolio was purchased above par and the difference between the purchase price and the outstanding principal balance of the portfolio (the additional purchase price component) has been funded with overissuance of class C notes.

2. Originator and seller

ViViBanca S.p.A is the result of the merger between Terfinance S.p.A and Credito Salernitano S.c.p.A. Vivibanca is a specialised lender that offers mainly CQS loans to individuals. Other products include unsecured personal loans, deposit accounts and payment cards. As of 2019, the bank has assets for around EUR 351m and a CET1 ratio of 14.4%.

More than 57% growth in terms of new originated loans

During 2019, Vivibanca originated new loans for an amount of EUR 280m (+57.2% versus 2018). Vivibanca's 2019 origination volume consisted of CQS loans to public-sector employees (35%) pensioners (45%) and private-sector borrowers (20%).

Vivibanca's distribution model comprises 2 branches in Turin and Salerno, a broker network of 80 agents (mostly concentrated in central and norther Italian regions) as well as 7 partner banks with over 1,500 branches across Italy.

2.1. Sanctioning and underwriting

The originator employs a credit scoring system, which uses both internal and external information. All credit approval and underwriting activities are handled in-house.

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

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

2.2. Servicing and recovery

Vivibanca is the servicer for the transaction, with Quinservizi and MCE Locam acting, respectively, as sub-servicer and collection agent with reference to the Legion portfolio only.

The management of collections is fully based in Turin. Collections are monitored on a daily basis to check for any delinquent instalment and to reconcile all payments within 2 days from the relevant collection date.

The recovery process is carried out by a dedicated team of 8 employees, with the support of external lawyers, independent investigative companies and other specialised operators in the CQS market. When a loan becomes delinquent, the credit monitoring department contacts both the borrower and the employer within 60 days via phone and email to solicit the payments. If the contract is still delinquent after 60 days and an insurance claim has not been opened, it is managed by external suppliers for another 120 days. After 180 days, a written notice is sent to both the borrower and the employer. Vivibanca then starts legal proceedings unless the borrower or the employer has cured its position.

In the case of life and employment events, a team focused on insurance claims 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, Vivibanca sends a request to the employer, asking to cover the residual debt (partially or in full) with the borrower's accrued severance indemnity. The remaining claim is then settled by the insurance company upon receipt of the relevant documentation.

3. Asset analysis

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

3.1. Payroll-deductible loans: CDQ and DP loans

Payroll-deductible loans offer additional protection and are distinguishable 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) every loan is insured for job-loss and life-event risks. CQS portfolios are exposed directly to employers, pension providers and insurance companies. We have considered these risks in our analysis.

3.1.1. 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 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.

3.1.2. DP loans

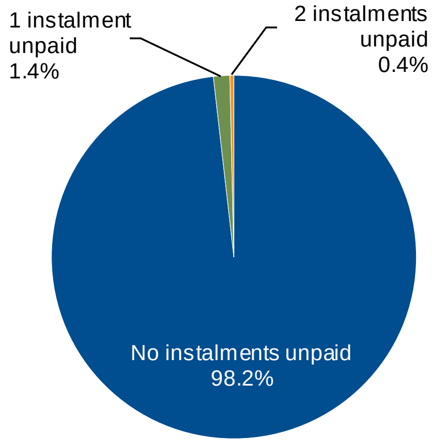
DP loans are typically granted to borrowers that already have an outstanding CDQ loan. As for CDQ loans, DP loan instalments cannot exceed 20% of the borrower's net salary. The combined instalments of CDQ and DP loans cannot exceed 50% of the borrower's net income. DP loans are subordinated to CDQ loans, 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.

3.2. Securitised portfolio

The EUR 344m provisional portfolio as of 31 August 2020 is composed of CDQ (91.4%) and DP (8.6%) loans extended to employees working for the public administrations (31.0%), para-public administrations (4.4%) and the private sector (17.4%), or to pensioners (47.2%). 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: Distribution by delinquency status in terms of unpaid instalments, % of the outstanding balance



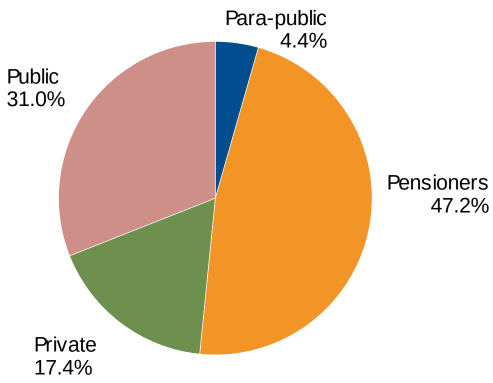
Source: Vivibanca, Scope

Low-seasoned portfolio

The current loan portfolio has 1.5 years of weighted average seasoning and a weighted average remaining term to maturity of 8.1 years. Loans transferred have at least one instalment paid and around 89.0% of the portfolio was originated between 2018 and 2020 and around 78.9% of the loans will mature between 2028 and 2030.

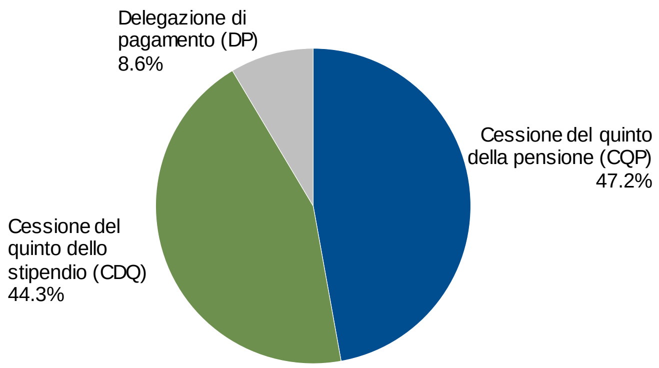
All loans in the pool are amortising and pay monthly instalments at a weighted average fixed interest rate of 6.5%.

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



Source: Vivibanca, Scope

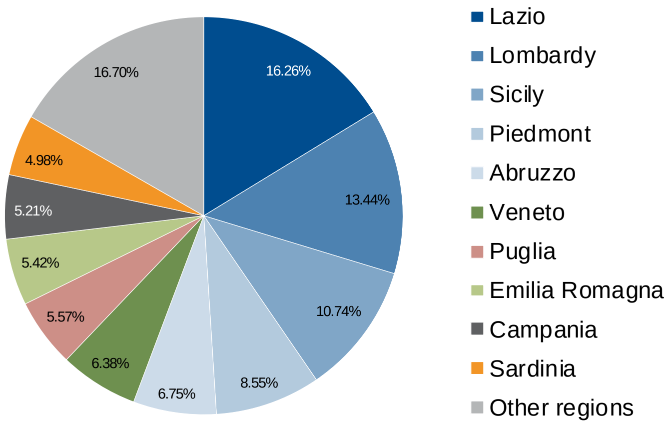
Figure 4: Distribution by loan type, % of outstanding balance



Source: Vivibanca, Scope

The pool is highly granular with the top 1 and top 10 borrowers accounting for 0.03% and 0.22% of the initial portfolio, respectively. The two largest paying entities are Istituto Nazionale della Previdenza Sociale (the national social welfare institution) and Centro Elaborazioni e Servizi del Sistema Informativo Integrato (a department of the ministry of finance), with exposures of 46.9% and 9.6%, respectively. As far as concern the private sector, the top 1 and top 10 employers account for 0.2% and 0.9%, respectively.

Figure 5: Distribution by region, % of the outstanding balance



Source: Vivibanca, Scope

The portfolio is mainly concentrated in the north of Italy (42.5%), while borrowers in central and southern regions account, respectively, for 24.3% and 33.2% of the outstanding portfolio.

3.2.1. Insurance coverage

Well-diversified pool of insurance companies

All underlying loans extended to public and private sector employees are insured against life and employment events, while the loans extended to pensioners are insured only against life events. Insurance coverage on the pool presents an inverse-Herfindahl score of 5.7. Aviva Life is the insurer with the largest exposure covering life events (30.4%), while Great American International Insurance is the insurer with the largest exposure covering employment events (17.2%). For the base case assumptions, we have considered the current credit quality of the insurers, but we have also tested the effect of a deterioration in the insurance companies' credit quality.

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

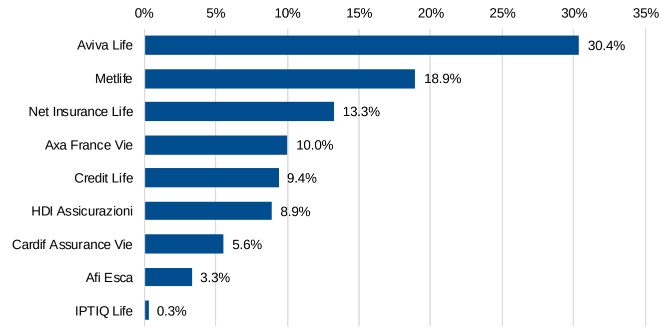
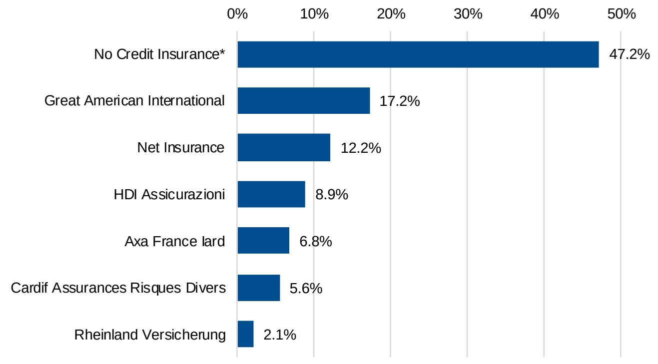


Figure 7: Distribution of insurance companies covering employment events, % of the outstanding balance



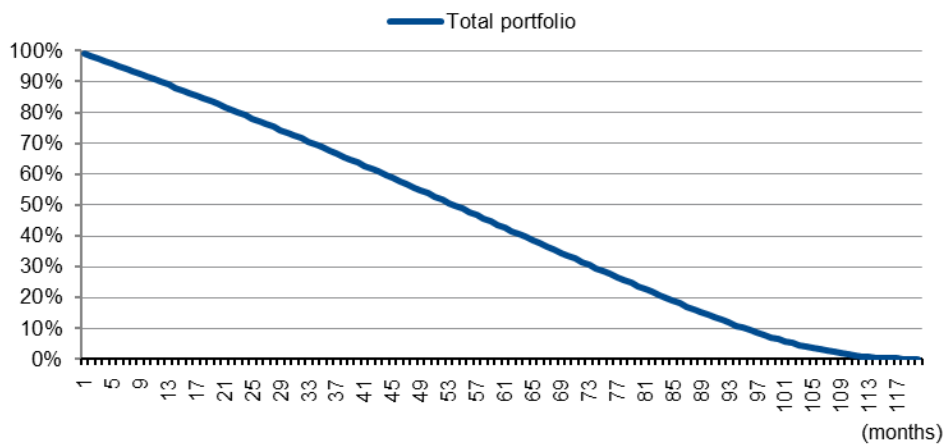
*This figure refers to loans extended to pensioners for which an insurance coverage against employment events is not applicable
Source: Vivibanca, Scope

3.3. Amortisation profile

Amortisation profile may be extended if payments are suspended

The projected amortisation profile reflects the amortisation scheme of the underlying assets. Figure 8 shows the amortisation of the Vivibanca and Legion portfolios considered in our analysis, assuming a 0% prepayment and default rate. However, the amortisation profile could be extended if payments are suspended due to salary or pension reductions, or due to temporary leave (e.g., maternity leave). Suspended payments will then be moved to the end of the original amortisation plan.

Figure 8: Projected portfolio amortisation profile



Source: Vivibanca, Scope

3.4. Portfolio assumptions

We derived default rate, coefficient of variation and recovery rate assumptions based on Q3 2009 – Q2 2020 vintage data from Vivibanca's loan book, which is representative of the securitised portfolio. Data was segmented by type of default (delinquency, life event and employment event) and by employer type (public administration, para-public administration, private sector and pensioners). Details are shown in Appendix II.

Vivibanca vintage data covers a period of severe recession in Italy

Vintage data includes periods of severe recession in Italy, in 2009 and 2012-2014. Therefore, we did not apply a long-term adjustment to the mean default rate nor to the coefficient of variation derived from the vintage analysis. However, the coefficient of variation to capture our forward-looking view of the macroeconomic environment, considering the effect of Covid-19 outbreak in Italy[4]. Additionally, historical data does not reflect sovereign crisis scenarios, which, while rare, could prove highly severe. We incorporated sovereign risk as explained below in section 7.

Figure 9: Portfolio assumptions

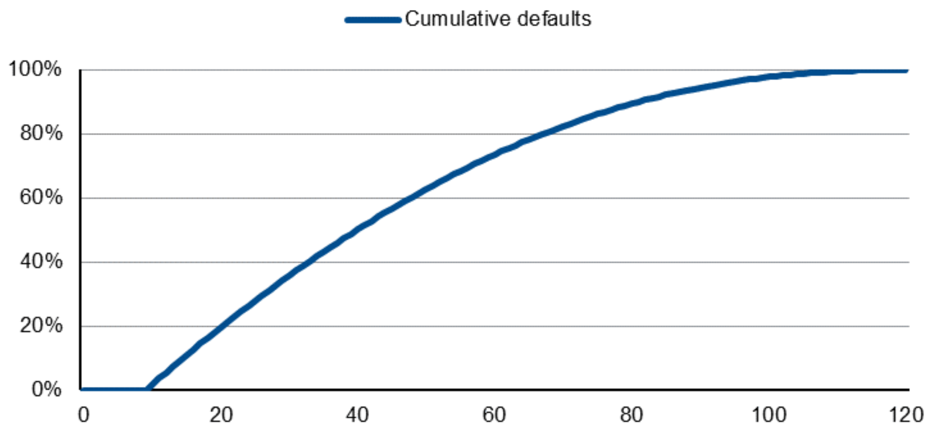
	Portfolio
Mean default rate	11.0%
Coefficient of variation	45.0%
Base case recovery rate	80.0%
AA rating-conditional recovery rate	56.9%
Recovery timing	40% after one year, 40% after two years, 15% after three years and 5% after four years
Low constant prepayment rate	0.0%
High constant prepayment rate	5.0% for the first three years 25.0%, for the fourth year 10.0%, thereafter
Stressed portfolio weighted-average yield	5.5%

3.4.1. Portfolio defaults

We assumed a front-loaded default term structure

We assumed an inverse Gaussian default distribution, with a mean default rate of 11.0% and a coefficient of variation of 45%. In the transaction, a default occurs if either: i) a loan is nine instalments delinquent; ii) a loan is declared defaulted by the servicer ('in sofferenza'); iii) a life event occurs; or iv) an employment event occurs. In our analysis, we assumed a front-loaded default term structure, with loans starting to default after 9 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] Scope revises the Outlook on Italy's BBB+ long-term ratings to Negative (15 May 2020)

3.4.2. Loan recovery rate analysis

We calculated rating-conditional recovery rate assumptions by taking the weighted average of two levels of recovery rates: i) 80% recovery rate in a scenario where the insurance company does not default (RR1); and ii) 15.0% recovery rate in the event of insurance default (RR2). 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 and class B notes, we have assumed that the pool of insurance companies will default with a probability of 33.1% and 26.3%, respectively.

Figure 11: Rating-conditional recovery rate assumptions

B	BB	BBB	A	AA	AAA
77.9%	71.2%	67.5%	62.0%	56.9%	49.3%

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. The 80% RR1 calculation is derived from vintage data, which incorporates all three recovery sources, while the 15% RR2 calculation represents expected recoveries in the absence of insurers and ultimately reflects the borrower's credit quality.

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 as follows: 40% after one year, 40% after two years, 15% after three years and the remaining 5% after four years.

3.4.3. Constant prepayment rate (CPR)

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

We used two CPR scenarios to test the structure's reliance on excess spread: a CPR assumption of 0%, and a CPR assumption of 5% for the first three years, 25% for the fourth year and 10% thereafter. These assumptions reflect the historical data, which show a spike on prepayment rates after 4 years from origination, as borrowers are allowed to refinance their loan once they have reimbursed at least 40% of the initial loan balance.

3.4.4. Excess spread

Excess spread will be available to cure under-collateralisation arising from portfolio defaults. Excess spread will also be trapped under certain trigger conditions (see Figure 12).

Available excess spread will depend on several factors, such as senior fees, the default rate, and the prepayment rate. In our analysis, we assumed a stressed portfolio weighted average yield of 5.5%, calculated assuming that 25% of the loans with the highest yield will either default or prepay first. This resulted in a portfolio yield compression of 1.0% on the 6.5% original weighted average interest rate of the receivables.

Transaction benefits from a 3.4% estimated excess spread

Excess spread is estimated at 3.4% after deducting liability costs and stressed annual fees of 1.0%.

4. Financial structure

4.1. Capital structure

The transaction structure comprises three classes of notes: class A, class B and class C. The proceeds of the issuance of class A and class B notes, together with part of the proceeds from the class C notes, were used to i) redeem the notes issued in the context of a previous securitisation[5] and ii) finance the purchase of a portion of the asset portfolio (EUR 36m expected). Class C notes fund a portion of the assets as well as the cash reserve the prepayment reserve and the additional purchase price component. Any remaining portion of the additional purchase price component, if not funded with class C notes, will be paid through the funds available after payment of class B principal (item 10 in the priority of payments in Figure 12)

4.2. Priority of payments

Combined priority of payments is the main protection against payment interruption

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, mitigating the risk of a missed interest payment. Figure 12 below details the transaction's pre-enforcement priority of payments.

If the cumulative portfolio gross default rate exceeds 17.5% of the initial outstanding balance, the interest amounts due on the class B notes would be subordinated to the payment of principal on class B notes. Additionally, if the cumulative portfolio net default ratio exceeds 4% of the initial outstanding balance, remaining cash will be trapped at item 11 in the simplified pre-enforcement priority of payments (see Figure 12 below). Those funds would then be available in the next payment period to cover any shortfall on items 1-10.

The cash-trapping mechanism accelerates class A amortisation during stressed periods. We believe that the cash-trapping mechanism provides limited support in high-default scenarios, as excess cash will already have been used up by higher-ranking items in the priority of payments or can be used to pay the additional purchase price component not funded with the class C notes.

Figure 12: Simplified priority of payments and available funds

Pre-enforcement priority of payments
Available funds Collections and recoveries from receivables, proceeds from interest and treasury accounts, cash reserve and trapped excess spread
1) Taxes and expenses 2) Senior swap payments 3) Class A interest 4) Class B interest, provided that no interest subordination event has occurred 5) Replenish the cash reserve to the required balance 6) Class A principal 7) Class B interest, upon occurrence of the interest subordination event 8) Class B principal 9) Junior swap payments 10) Payment of the additional purchase price component to the originator (if not funded with class C notes) 11) Cash trapping (if the cash trapping condition is satisfied) 12) Class C interest 13) Class C principal 14) Additional remuneration on class C

Source: Transaction documents and Scope

4.3. Principal amortisation

The transaction structure benefits from an implicit principal-deficiency ledger mechanism, since the notes amortise up to a target amortisation amount. The target amortisation

[5] Previous class A1, B and C issued on 23 November 2018, class A3 issued on 27 November 2018 and class A2-R issued on 28 February 2019

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 cash reserve, the prepayment reserve [and the additional purchase price component]). As a consequence, the amount of principal collections, prepayments and defaults will determine the target amortisation amount of the notes. Excess spread will be used to cover defaults rather than being distributed as additional remuneration to junior noteholders.

4.4. Cash reserve

Cash reserve sized to 2% of senior and mezzanine notes

The structure benefits from liquidity support via a dynamic cash reserve, funded at closing with part of the proceeds from the issuance of the class C notes. The cash reserve is replenished to 2% of the outstanding balance of the class A and B notes, or if higher, 1% of the initial balance of all the issued class A and B notes.

The cash reserve provides liquidity protection to the class A and B notes during the life of the transaction and can be used to repay the notes' principal at maturity. We estimate the cash reserve funds can cover approximately five months of senior fees and interest on the notes, assuming a one-month Euribor rate of 2.5%.

4.5. Prepayment reserve

In the case of a loan prepayment, the borrower can set off management fees paid upfront but not yet due, resulting in a reduction of outstanding instalments. However, for most loans in the portfolio, management fees have not been paid upfront but on an ongoing basis with each instalment. Therefore, set-off risk is limited.

Limited exposure to management fee set-off

A dedicated reserve, the prepayment reserve, was funded at closing (EUR 860,000), to cover this set-off risk. At each payment date, the target prepayment reserve will be equal to 1.9% of the outstanding balance of the class A and B notes multiplied by the portion of the pool that can be affected by a management fee set-off. The repayment to the originator of the amortised portion of the prepayment reserve will be made at each payment date, outside the priority of payments.

4.6. Interest rate hedge

Class A and B notes pay one-month Euribor plus a margin, while the portfolio pays a fixed rate. To hedge interest rate risk, the issuer intends to enter into a banded fix-floating interest rate swap with an eligible counterparty. Under the terms of the swap, the issuer will receive a fixed rate of [•]%, while the swap counterparty will pay the higher between i) the one-month Euribor due on the notes and ii) –[•]%. The notional of the swap will be the lower between i) a pre-defined upper band and ii) the higher between the outstanding balance of the not defaulted asset portfolio and a pre-defined lower band.

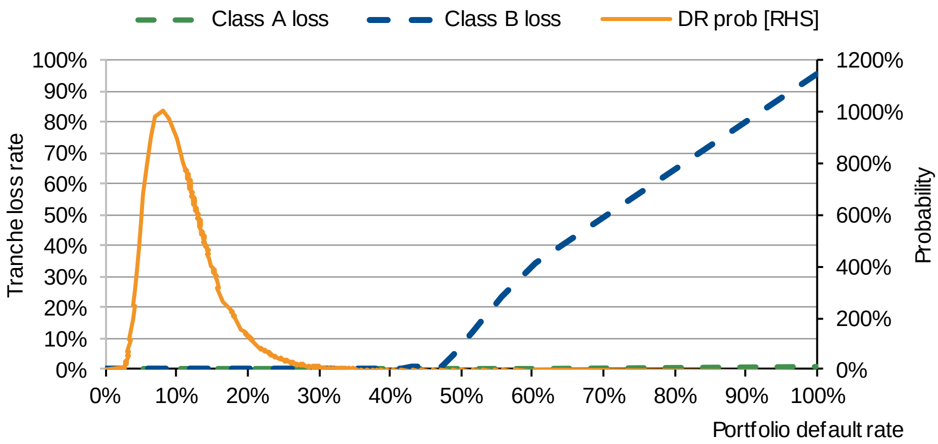
5. Quantitative analysis

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 13 shows the expected losses of the rated 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 13 consider a 1.85% reduction in the portfolio balance to account for commingling risk.

Figure 13: 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.

6. Rating sensitivity

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

The following shows how the results for the rated instruments change compared to the assigned rating when the portfolio's expected mean default rate is increased by 50% or the portfolio's expected recovery rate is reduced by 50%, respectively:

- Class A: sensitivity to default rate, one notch; sensitivity to recovery rate, three notches.
- Class B: sensitivity to default rate, two notches; sensitivity to recovery rate, five notches.

7. Sovereign risk

Sovereign risk does not limit the transaction's ratings

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 82.6% 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 distressed scenario affecting the Italian government.

Given the relevance of the exposure to public employees and pensioners, Scope's 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. A CQS stress scenario would entail a significant increase in portfolio defaults and delinquencies compared to the agency's 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 default 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, refer to our press release on the Republic of Italy, dated 15 May 2020.

We considered the following risks under the sovereign CQS stress:

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[6]. 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 some 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.

8. Counterparty risk

The transaction is exposed to counterparty risk from: i) Vivibanca, as originator and servicer; ii) Quinservizi as sub-servicer, with respect to the Legion portfolio; iii) MCE Locam as collection agent with respect to the Legion portfolio; iv) Securitisation Services as calculation agent, corporate servicer and noteholders' representative; v) BNP Paribas as account bank and paying agent; and vi) [•] as swap counterparty.

Counterparty risk for the transaction does not limit the achievable ratings of the notes. We do not consider any of the counterparty exposures to be excessive, i.e., if counterparty risk crystallises, a downgrade is still limited to six notches.

8.1. Operational risk from servicer

Sub-delegate of the substitute servicer appointed since closing

Operational risk from the servicer is well mitigated in this transaction. Quinservizi has been appointed as sub-delegate of the substitute servicer for the entire portfolio and it has undertaken to become operational within 30 days in the event of a termination event for Vivibanca.

8.2. Commingling risk

Commingling risk driven by employers' responsiveness to new payment instructions

Commingling risk is mitigated by: i) collections' sweep to the issuer's collection account held with BNP Paribas within two business days; and ii) instructions to debtors to pay directly into the issuer's account at the account bank upon a servicer disruption event. However, employers may not immediately implement the new payment instructions, and we have therefore assumed a loss of up to four months of collections. We sized a 1.85% loss based on the probability of a commingling event over the expected life of the transaction.

[6] 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 5 years after the loan with the longest maturity date in order to mitigate this risk.

8.3. Set-off risk from originator

We believe 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 it has represented that, as of closing, none of the borrowers has a deposit account with Vivibanca. In addition, the originator has undertaken to indemnify the issuer in case of losses arising from set-off.

9. Legal structure

9.1. Legal framework

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

9.2. Clawback

Clawback risk is mitigated

The originator has provided: i) a 'good standing' certificate from the Chamber of Commerce; ii) a solvency certificate signed by a representative duly authorised; and iii) a certificate from the bankruptcy court (tribunale civile – sezione fallimentare) confirming that the originator is not subject to any insolvency or similar proceedings.

This mitigates claw-back risk, as the issuer can prove it was unaware of the issuer'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.

9.3. Use of legal opinion

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

10. 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

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

11. Applied methodology and data adequacy

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

Vivibanca provided Scope 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, para-public administration, private sector and pensioners). The default rate data covers a period from Q3 2009 to Q2 2020 and is generally very granular. The recovery data also covers a period from Q3 2009 to Q2 2020, referring to all recoveries during that period.

Eridano II SPV S.r.l.

Italian Consumer CQS ABS

I. Deal comparison

Transaction	Eridano II SPV - Restructuring	Marzio Finance 8-2020	Amalia SPV	Eridano II SPV	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
Type of transaction	Cash	Cash	Synthetic	Cash	Cash	Cash	Cash	Cash	Cash	Cash	Cash
Country	Italy	Italy	Italy	Italy	Italy	Italy	Italy	Italy	Italy	Italy	Italy
Closing date (dd/mm/yyyy)	[•]	16/03/2020	23/12/2019	18/12/2019	09/10/2019	31/07/2019	05/04/2019	21/11/2018	28/05/2018	29/01/2018	28/09/2017
Originator	ViViBanca SpA, MCE Locam SpA	IBL Banca S.p.A.	BNL Finance SpA	ViViBanca SpA, MCE Locam SpA	IBL Banca SpA	IBL Banca SpA	IBL Banca SpA	IBL Banca SpA	IBL Banca SpA	IBL Banca SpA	IBL Banca SpA
Servicer	ViViBanca SpA	IBL Banca S.p.A.	BNL Finance SpA**	ViViBanca SpA	IBL Banca SpA	IBL Banca SpA	IBL Banca SpA	IBL Servicing SpA	IBL Banca SpA	IBL Banca SpA	IBL Banca SpA
Back-up servicer	Quinservizi 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	19,700	16,684	191,672	11,201	20,379	44,960	14,268	19,397	22,952	13,145	19,884
Number of borrowers	19,137	16,168	189,394	10,837	19,789	42,492	13,842	18,687	-	-	-
Original portfolio balance (€)	394,573,178	433,280,748	2,377,388,143	229,230,158	408,142,490	982,255,231	287,877,728	389,163,840	487,141,290	334,298,977	429,475,538
Outstanding portfolio balance (€)	343,875,328	324,204,901	1,778,705,147	204,049,067	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 (€)	20,029	25,970	12,403	20,465	20,028	21,847	20,176	20,063	21,224	25,432	21,599
Average outstanding loan balance (€)	17,456	19,432	9,280	18,217	18,798	13,442	19,657	19,424	19,048	12,010	18,174
Length of contracts											
WA original term (years)	9.6	9.3	8.6	9.8	9.3	9.8	9.3	9.2	9.3	9.7	9.4
WA seasoning (years)	1.5	0.3	2.2	1.3	0.5	3.8	0.2	0.3	1.0	4.4	1.6
WA remaining term (years)	8.1	9.0	6.4	8.5	8.8	6.0	9.1	8.9	8.3	5.3	7.8
Contract type											
CDQ - Cessione del quinto (%)	91.4%	82.3%	97.2%	89.2%	84.1%	83.8%	82.7%	82.3%	83.4%	77.7%	83.3%
DP - Delegazione di pagamento (%)	8.6%	17.7%	2.8%	10.8%	15.9%	16.2%	17.3%	17.7%	16.6%	22.3%	16.7%
Portfolio yield											
WA portfolio yield (%)	6.5%	5.86%	8.9%	6.2%	5.9%	5.8%	5.9%	6.2%	6.0%	6.4%	5.9%
Type of debtors											
Public/para-public sector employees (%)	35.4%	20.4%	15.3%	42.4%	34.6%	39.2%	37.62%	36.6%	41.2%	39.1%	38.8%
State employees (%)	-	28.0%	-	-	11.5%	13.8%	12.00%	12.8%	13.5%	16.7%	15.3%
Private sector employees (%)	17.4%	18.0%	1.5%	17.2%	15.1%	4.6%	15.84%	13.7%	8.7%	2.8%	6.8%
Pensioners (%)	47.2%	33.6%	83.3%	40.4%	38.8%	42.3%	34.54%	36.9%	36.6%	41.4%	39.1%
Borrower concentration											
Top 1 (%)	0.03%	0.03%	0.004%	0.05%	0.03%	0.01%	0.04%	0.03%	0.02%	0.04%	0.03%
Top 10 (%)	0.22%	0.26%	0.04%	0.40%	0.24%	0.12%	0.35%	0.23%	0.19%	0.30%	0.21%
Employer concentration											
Top 1 (%)	2.6%***	4.1%*	4.6%***	1.0%***	1.9%*	3.1%*	2.4%*	1.4%*	2.0%*	2.0%*	2.0%*
Top 10 (%)	9.65%***	12.0%*	5.0%***	3.2%***	6.2%*	8.8%*	6.7%*	4.7%*	10.9%*	7.2%*	6.5%*
Public sector exposure (%)	82.6%	82.0%	89.5%	82.8%	84.9%	95.4%	84.2%	86.3%	91.3%	97.2%	93.2%
Employer regional concentration											
North	18.0%	30.36%	9.3%	17.9%	29.5%	28.4%	29.4%	30.2%	29.1%	27.9%	25.7%
Centre	70.9%	31.27%	75.3%	68.0%	29.6%	32.1%	30.6%	28.4%	28.9%	31.3%	31.0%
South	11.1%	38.37%	15.4%	14.1%	40.8%	39.5%	40.1%	41.4%	42.0%	40.8%	43.3%
Top region	Lazio - 67.9%	Lazio - 21.5%	Lazio - 71.8%	Lazio - 65.0%	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	30.4%	25.7%	76.4%	20.7%	29.9%	27.8%	28.5%	27.0%	24.8%	25.2%	21.8%
Top 2 life insurance	49.3%	46.8%	90.9%	38.6%	46.2%	47.9%	46.7%	45.1%	43.6%	47.2%	43.1%
Top 3 life insurance	62.6%	61.4%	100.0%	55.1%	61.3%	67.1%	61.6%	61.7%	58.9%	66.2%	59.4%
Top 1 unemployment insurance	17.2%	15.3%	13.8%	17.5%	13.6%	19.1%	14.5%	16.5%	18.4%	25.2%	20.5%
Top 2 unemployment insurance	29.4%	29.1%	15.6%	30.7%	25.9%	37.9%	28.7%	28.5%	33.6%	44.6%	36.8%
Top 3 unemployment insurance	38.3%	38.6%	16.7%	42.1%	35.2%	49.4%	40.8%	39.9%	46.4%	54.0%	48.1%
Assumptions summary											
Default definition	9 months	8 months	1 month	9 months	8 months	1 month	8 months	8 months	8 months	8 months	8 months
Mean default	11.0%	7.5%	6.5%	11.0%	7.5%	5.5%	7.5%	7.5%	7.0%	5.0%	6.0%
Coefficient of variation	45%	40%	30%	40%	40%	40%	40%	40%	40%	45%	45%
Recovery rate (insurance coverage)	80.0%	80.0%	90.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%
Recovery rate (no insurance coverage)	15.0%	20.0%	10.0%	15.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
AAA scenario recovery rate	49.3%	47.6%	13.7%	46.1%	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 - (60% + 25% + 10% + 5%)	4 yrs - (40% + 40% + 15% + 5%)	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% from year 1 to year 3 25% in year 4 10% thereafter	5% from year 1 to year 3 25% in year 4 10% thereafter	5% from year 1 to year 3 25% in year 4 10% thereafter	5% from year 1 to year 3 25% in year 4 10% thereafter	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	5.5%	5.9%	N/A	5.2%	5.1%	4.4%	5.1%	5.3%	5.2%	5.8%	5.1%
Insurers' inverse-Herfindahl metric	5.7	5.9	1.6	6.7	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%	20%	20%
Public sector exposure (%)	82.6%	82.0%	98.5%	82.8%	84.9%	95.4%	84.2%	86.3%	91.3%	97.2%	93.2%
Private sector exposure (%)	17%	18.0%	1.5%	17.2%	15.1%	4.6%	15.8%	13.7%	8.7%	2.8%	6.8%
Structural features											
Tranching											
Class A	(P)AA+	AAA	NR	AA	AAA	AA+	AAA	AAA	AAA	AAA	AAA
CE Class A	12.4%	10.7%	16.5%	15.0%	10.5%	8.0%	11.5%	21.0%	14.0%	18.0%	9.0%
Class B	(P)A	NR	A-	BBB	NR	NR	NR	A+	NR	NR	NR
CE Class B	5.4%	0.0%	6.5%	8.0%	0.0%	0.0%	0.0%	7.0%	0.0%	0.0%	0.0%
Class C	NR	-	BBB+	NR	-	-	-	NR	-	-	-
CE Class C	0.0%	-	5.4%	0.0%	-	-	-	0.0%	-	-	-
Class D	-	-	BBB	-	-	-	-	-	-	-	-
CE Class D	-	-	4.2%	-	-	-	-	-	-	-	-
Class E	-	-	NR	-	-	-	-	-	-	-	-
CE Class E	-	-	3.0%	-	-	-	-	-	-	-	-
Class F	-	-	NR	-	-	-	-	-	-	-	-
CE Class F	-	-	0.0%	-	-	-	-	-	-	-	-
Cash reserve (% of rated notes)	2.0%	2.7%	N/A	2.0%	2.6%	2.6%	2.7%	2.6%	2.9%	3.3%	1.8%
Revolving period (years)	0	0	0	0.4	0	0	0	0	0	0	0
Commingling risk (yes/no)	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Commingling risk mitigants	- 2-days 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	-	- 2-days 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	No	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	Prepayment reserve
Type of swap	Banded fixed-to-floating IRS	N/A	N/A	N/A	N/A	N/A	N/A	Fixed-to-floating IRS	Fixed-to-floating IRS	N/A	N/A
Swap co. rating trigger	N/A	N/A	N/A	N/A	N/A	N/A	N/A	A-	A-	N/A	N/A

* INPS (Istituto Nazionale della Previdenza) and Italian Ministry of Finance are excluded from this figure.
** BNL Finance SpA will act as portfolio servicer, while Securitisation Services SpA will act as risk-transfer loan servicer.
*** This figure refers to private and para-public employees

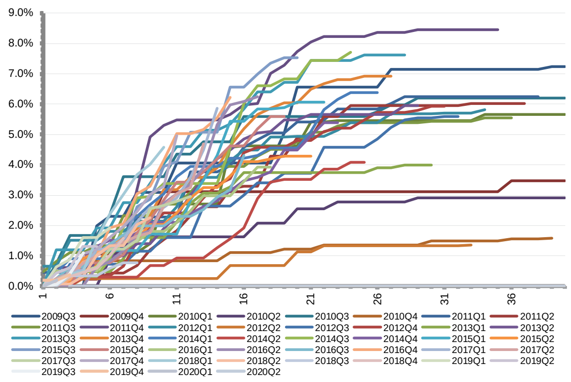
II. Vintage data provided by originator

Vivibanca provided default and recovery performance data for the pool. We used this information in our analysis as a foundation for the calibration of expected portfolio default rates, the coefficient of variation and base case recovery rates.

Vintage data is granular and representative of the portfolio.

Figure 14: Public administration – default and recovery data

Defaults



Recoveries

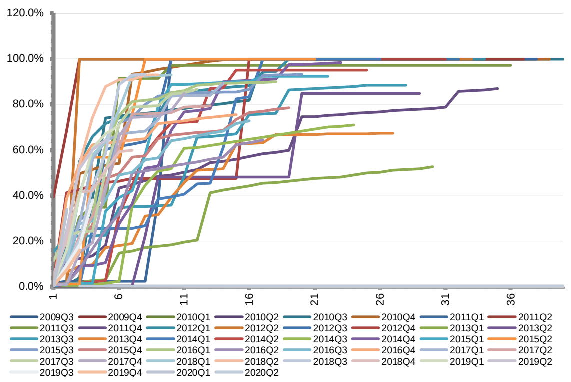
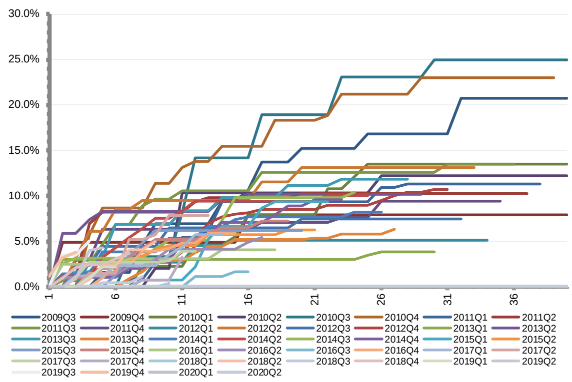


Figure 15: Para-public administration – default and recovery data

Defaults



Recoveries

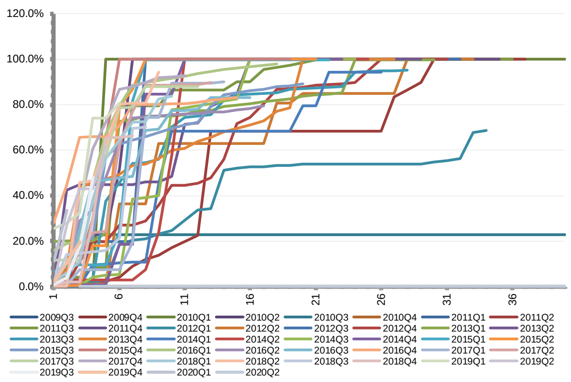
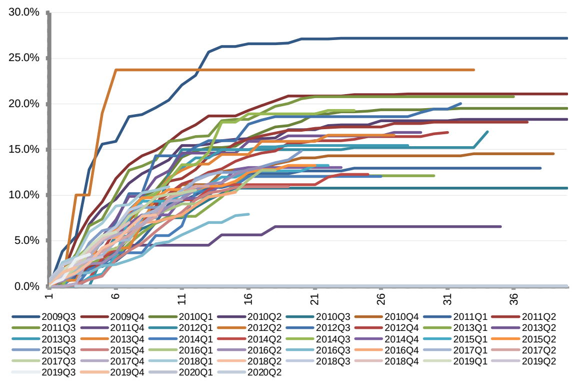


Figure 16: Private sector – default and recovery data

Defaults



Recoveries

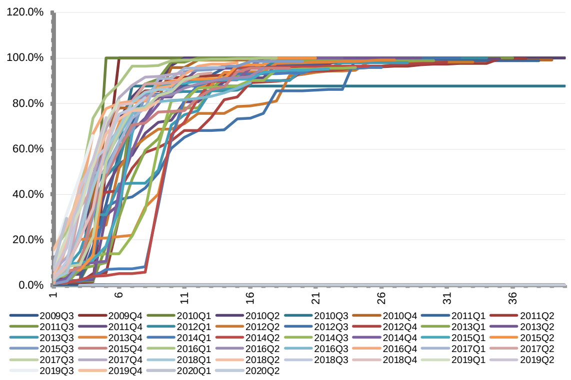
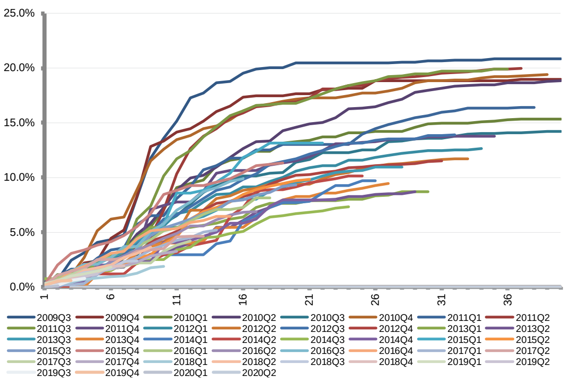
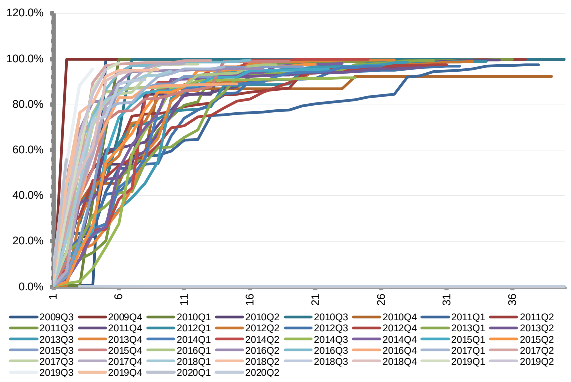


Figure 17: Pensioners – default and recovery data

Defaults



Recoveries



Scope Ratings GmbH

Headquarters Berlin
Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891 0

Frankfurt am Main
Neue Mainzer Straße 66-68
D-60311 Frankfurt am Main

Phone +49 69 66 77 389-0

Paris
23 Boulevard des Capucines
F-75002 Paris

Phone +33 1 8288 5557

London
3rd Floor
111 Buckingham Palace Road
UK-London SW1W 0SR

Madrid
Edificio Torre Europa
Paseo de la Castellana 95
E-28046 Madrid

Phone +34 914 186 973

Milan
Regus Porta Venezia
Via Nino Bixio, 31
20129 Milano MI

Phone +39 02 30315 814

Oslo
Haakon VII's gate 6
N-0161 Oslo

Phone +47 21 62 31 42

info@scoperatings.com
www.scoperatings.com

Disclaimer