New Issue Rating Report

ELROND NPL 2017 S.r.l.

Non-Performing Loans (NPL) Structured Finance

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RATINGS

Tranche	Rating	Size (EUR m)	Tranche thickness (%)	Credit enhancement (CE) (%)[1]	Coupon	Final maturity
Class A	BBB-$_{SF}$	464.0	88.1	67.0	6-months Euribor+0.5%	July 2040
Class B	B+$_{SF}$	42.5	8.1	64.0	6-months Euribor+6.0%	July 2040
Class J	Not rated	20.0	3.8	62.5	6-months Euribor+10.0%	July 2040
Total		**526.5**	**100.0**			

Scope's Structured Finance ratings constitute an opinion on the 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 and the risk to miss a payment under the respective guarantee agreement. See Scope's website for the SF Rating Definitions.

[1]CE is computed as a percentage of the non-performing-loan portfolio's gross book value. It is provided by both a 64% purchase price discount and the principal subordination of the mezzanine and junior tranches.

Transaction details

Purpose	Risk transfer
Issuer	Elrond NPL 2017 S.r.l.
Originators	Credito Valtellinese S.p.A., Credito Siciliano S.p.A. (jointly, Creval)
Special servicer	Cerved Credit Management S.p.A. (CCM)
Master servicer	Securitisation Services S.p.A. (Securitisation Services)
Monitoring agent	Zenith Service S.p.A. (Zenith)
Asset class	NPL structured finance transaction
Reference assets	EUR 1,405.3m of gross book value
Account bank and paying agent	BNP Paribas Securities Services
Hedge providers	JP Morgan, Banca IMI
Closing date	14 July 2017
Legal final maturity	July 2040
Payment frequency	Semi-annual
Payment dates	Last day of July and January

Transaction profile

Elrond NPL 2017 is a static cash securitisation of secured (67.4% of gross book value) and unsecured (32.6%) non-performing loans (NPL) extended to borrowers in Italy. The loans are originated by Credito Valtellinese S.p.A. (84.5%) and Credito Siciliano S.p.A. (15.5%), which are subsidiaries of the Credito Valtellinese Banking Group, and are extended to companies (91.4%) and individuals (8.6%). The portfolio is highly concentrated: top-10 and top-100 borrowers respectively account for 13.4% and 42.4% of gross book value. Secured loans are backed mainly by first-lien residential, commercial and industrial properties and are concentrated in the Italian regions of Lombardy (42.8% of property values) and Sicily (31.6%).

Analysts

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Rating rationale (summary)

The ratings are driven mainly by Scope's recovery amount and timing assumptions on the NPL portfolio, which was acquired by the issuer at a 64% discount relative to the portfolio's gross book value. The assumptions incorporate Scope's positive assessment of the special servicer's capabilities and incentives. The assumptions also reflect Scope´s stable economic outlook on Italy and the macroeconomic situation characterised by a gradual recovery underway and progress in delivering structural reforms. The ratings are supported by the structural protection provided by the sequential principal amortisation, the absence of equity leakage provisions, liquidity protection for class A, and interest rate hedging agreements. The ratings also take into account the subordination of Class A principal to Class B interest payments.

The ratings also address exposures to the key transaction counterparties: Cerved Credit Management S.p.A., the special servicer; Securitisation Services S.p.A, master servicer and representative of noteholders; Zenith Service S.p.A, monitoring agent; BNP Paribas Securities Services (subsidiary of BNP Paribas SA, rated AA-/S-1 stable by Scope), account bank, agent bank, cash manager and principal paying agent; and JP Morgan and Banca IMI (subsidiary of Intesa Sanpaolo SPA, rated A/S-2 stable by Scope), interest rate cap providers.

Scope's analysis is based on the portfolio cut-off date of 30 November 2016. The portfolio was acquired by the issuer on 14 July 2017, the closing date. However, the issuer is entitled to all portfolio collections received from the cut-off date onwards. Such collections amounted to EUR 41.7m as of 30 June 2017.

Scope has applied a separate analytical framework to estimate collections on secured and unsecured exposures. For secured exposures, collections were based mostly on collateral values; recovery timing assumptions were derived using line-by-line information that details the type of legal proceeding and the stage of recovery at cut-off date. For unsecured exposures, Scope used recovery vintage data calibrated to take into account that unsecured borrowers were classified as defaulted for an average of 3.5 years as of closing.

RATING DRIVERS AND MITIGANTS

Positive rating drivers	Negative rating drivers
Portfolio servicing. The fee structure reasonably aligns the servicer's incentives with investors' interests. CCM has a solid track record of servicing non-performing portfolios. The monitoring agent will assist the issuer in finding a suitable replacement in case of a servicer disruption. The special servicer has provided a line-by-line business plan at closing, detailing the expected collections and legal expenses for each loan.	**High portion of bankruptcy proceedings.** Almost 60% of the portfolio's gross book value corresponds to borrowers under bankruptcy. Compared with foreclosures, bankruptcy proceedings typically result in lower recoveries and take longer to be resolved.
Asset location. 49.3% of loan collateral and 70.7% of unsecured borrowers are located in regions from the North of Italy, in particular Lombardy. These regions benefit from the most dynamic economic conditions and generally the most efficient tribunals in Italy.	**Seasoned unsecured portfolio.** Weighted average time since the default date is around 3.5 years for the unsecured portion. Most recoveries are received in the first years after a default as historical data shows.
Ongoing economic recovery. Italian GDP increased moderately in 2016, with a yearly growth rate of 1% compared to 0.7% in 2015. Recent indicators point to an ongoing, yet gradual, recovery. Scope expects moderate economic expansion of around 1% to continue in both 2017 and 2018, which positively affects expectations on the amount and timing of portfolio recoveries.	**Limited servicer-repossession data.** Assessing price decline expectations for Italian NPLs is challenging because of asset heterogeneity and limited data. Scope has derived fire-sale discount assumptions based on auction assignment values using a sample of 690 properties.
Senior notes' liquidity protection. A 4% cash reserve protects the liquidity of senior noteholders, covering senior fees and interest on Class A notes for two to three payment dates.	**Concentrated portfolio.** The top-10 and top-100 debtors respectively account for 13.4% and 42.4% the portfolio's gross book value. Scope has captured the resulting idiosyncratic risk by reducing recovery assumptions on the top-10 borrowers.
Legal reforms. Scope expects that recent legal reforms will have a positive impact on court performance and has applied a limited stress on recovery timing assumptions derived from public data.	

Positive rating-change drivers	Negative rating-change drivers
Servicer outperformance. The servicer's consistent outperformance of its initial business plan in terms of recovery rates and timing could positively impact the ratings.	**Collateral appraisal values.** NPL collateral appraisals are more uncertain relative to standard appraisals, because repossessed assets are more likely to deteriorate. Property appraisals were on average conducted 2.5 years ago, which raises uncertainty over their accuracy.
	Ineffectiveness of legal reforms. If recent legal reforms prove unsuccessful and recovery timings deteriorate, the rating could be downgraded.
	Interest rate cap. A 0.5% cap interest rate swap partially hedges the transaction against interest rate risks. Delayed recovery causing the swap notional to fall below the outstanding principal of the rated notes would negatively affect the ratings.

Related reports

General Structured Finance Instruments Rating Methodology

Methodology for Counterparty Risk in Structured Finance

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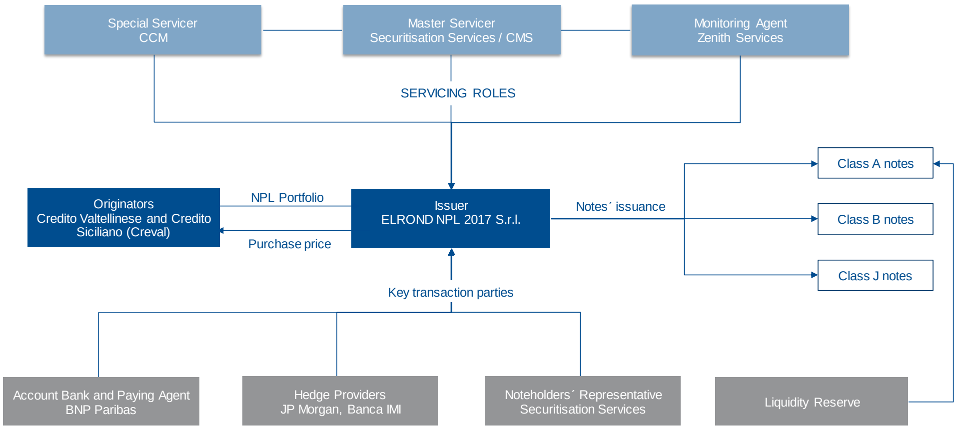
TRANSACTION SUMMARY

Figure 1 Simplified transaction diagram



Source: Transaction documents

Elrond NPL 2017 is a static cash securitisation of a EUR1,405.3 million portfolio of Italian non-performing loans, originated by Credito Valtellinese S.p.A. and Credito Siciliano S.p.A., both belonging to Credito Valtellinese Banking Group.

The main portfolio characteristics are highlighted in Figure 2 below. The portfolio's loans are either secured (67.4%) or unsecured (32.6%) and granted mainly to Italian companies. Over 60% of the loans are located in northern Italy, including a large portion in Lombardy, which we regard as a positive for the transaction given the economic strength of the region relative to other parts of the country. On the other hand, almost 60% of the borrowers have been classified as bankrupt, while borrower concentration levels in the portfolio are significant.

The secured exposures are backed mainly by residential, commercial or industrial properties. In addition, the portfolio benefits from some cash-in-court positions. Some loans benefit from additional guarantees, such as MCC or Confidi guarantees backed by the Republic of Italy as a guarantor of last resort.

Figure 2 Key portfolio stratifications

Data summary as of portfolio cut-off date 30 November 2016

BORROWER-LEVEL

BORROWER STRATIFICATIONS	
Number of borrowers	3,694
Gross book value (GBV)	EUR 1,405m
WA seasoning	3.2 years
Borrower concentration	% of GBV
Top 1	2.1%
Top 10	13.4%
Top 25	22.8%
Top 100	42.4%
Debtor types	% of GBV
Corporates	91.4%
Individuals	8.6%
Borrower status	% of GBV
Bankrupt	57.6%
Non-bankrupt	39.1%
Unknown	3.3%
Borrower region	% of GBV
Lombardy	54.1%
Sicily	17.2%
North (excl. Lombardy)	7.5%
Center	14.6%
South (excl. Sicily)	3.7%
Unknown	2.9%

LOAN-LEVEL

LOAN-LEVEL STRATIFICATIONS	
Number of loans	6,951
Loan types	(1)
Secured	67.4%
Unsecured	32.6%
MCC guarantees	
Nr of borrowers	221
Guarantee nominal value	EUR 19m
% of GBV	1.4%
Confidi guarantees	
Nr of borrowers	889
Guarantee nominal value	EUR 40m
% of GBV	2.8%
Cash in court	
Nr of borrowers	221
Cash in court (EUR)	EUR 31m
% of GBV	2.2%

(1) As % of GBV

COLLATERAL-LEVEL

COLLATERAL	
Collateral parts	13,549
Aggregate appraisal value	EUR 1,636m
Average LTV	75%
Security rank	
First lien	80.1%
Second lien and others	19.9%
First lien collateral concentration	(2)
Top 1	4.5%
Top 10	16.0%
Top 25	22.8%
Top 100	40.3%
First lien collateral type	
Residential	37.2%
Commercial or industrial	48.8%
Land and others	13.9%
First lien collateral location	
Lombardy	42.8%
Sicily	31.6%
North (excl. Lombardy)	6.5%
Center	14.4%
South (excluding Sicily)	4.7%

(2) As % of first liens´ appraisal value

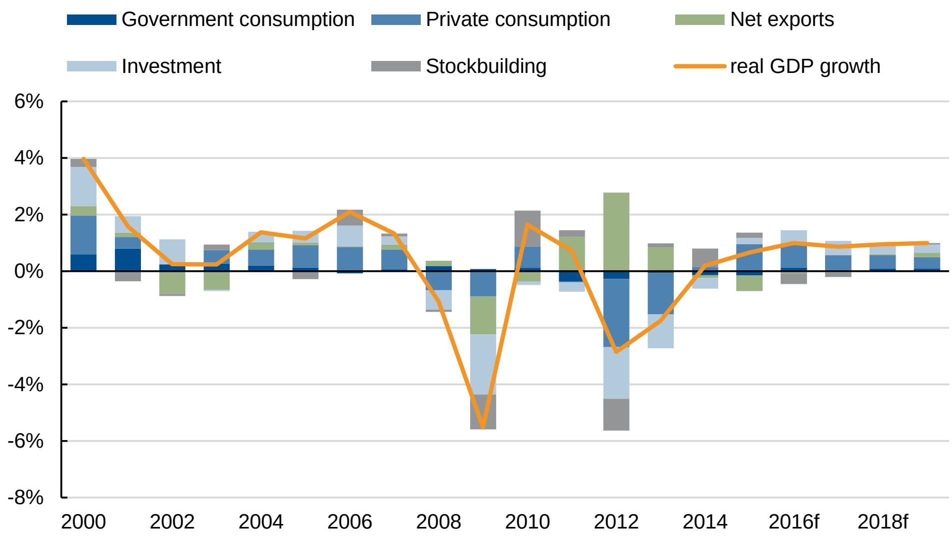
Source: CCM, Scope Ratings

ASSET ANALYSIS

Macroeconomic environment: a gradual recovery is underway

Scope's view on the Italian economy positively affects expectations on the amount and timing of portfolio recoveries. Scope's outlook on Italy is stable and reflects that even though the risks faced by Italy remain significant, options are available for authorities for a timely adjustment.

Figure 3 Percentage point contribution to real GDP growth



Source: National statistical accounts, calculations Scope Ratings

Italian GDP increased moderately in 2016, with a yearly growth rate of 1% compared to 0.7% in 2015. Recent indicators point to an ongoing, yet gradual, recovery. Real GDP grew by 0.2% in the fourth quarter, reflecting increasing business investment. Scope expects moderate economic expansion of around 1% to continue in both 2017 and 2018.

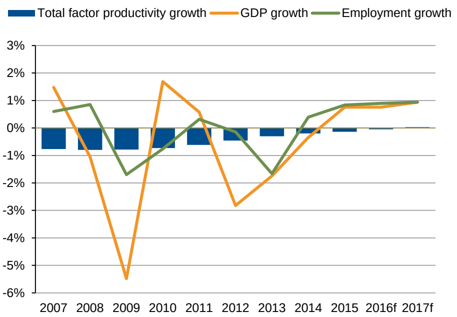
Ongoing economic recovery positively affects performance expectations

Subdued energy and interest rate costs, as well as the rise in real wages, are likely to continue to support private consumption and business investment. This trend began in 2014 as the Italian economy emerged from recession. From 2011 until 2013 the negative impact of the euro crisis, followed by front-loaded fiscal consolidation, largely outbalanced international trade surpluses.

Italy's production capacity fell in the aftermath of the global financial crisis. However, the country's manufacturing sector output grew by more than three percentage points during 2014-2017, supporting economic recovery and underscoring the country's role as the second-largest manufacturing power in Europe and the seventh worldwide. Over the last several years, increases in export values have tended to outbalance volume growth, leading to an ongoing rise in value added to Italian exports.

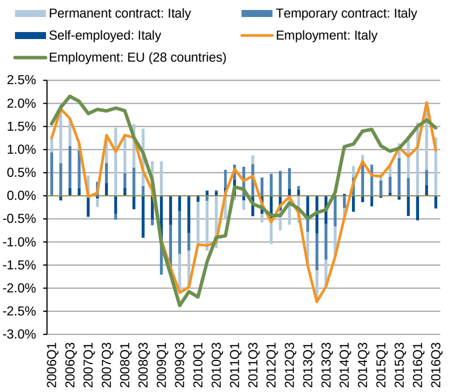
Government consumption is likely to remain subdued due to a lack of fiscal spending room. In addition, new political uncertainties, as well as ongoing challenges for the banking sector, will weaken the sustainability of the recovery. Nonetheless, Italy's competitive manufacturing sector is likely to continue to benefit from the improving growth outlook for the euro area and Italy's main trading partners, thus stabilising growth contribution from foreign trade.

Figure 4 GDP, productivity and employment growth



Source: OECD

Figure 5 Contribution (in % points) to Italy's employment growth

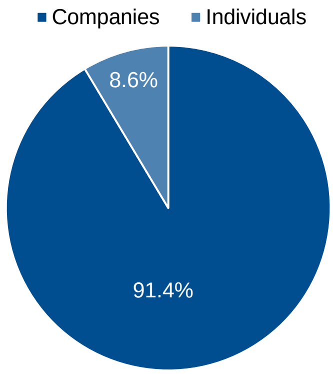


Source: Eurostat, calculations Scope Ratings

Portfolio characteristics

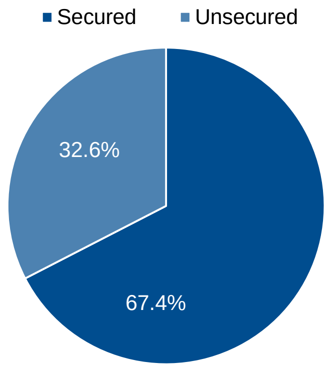
The charts below summarise the main portfolio characteristics as of 30 November 2016 and incorporate Scope's analytical assumptions. Further analytical details are provided in the 'Portfolio Analysis' section. Percentage figures refer to gross book value, unless otherwise stated.

Figure 6 Borrower type



Source: Scope Ratings

Figure 7 Loan type



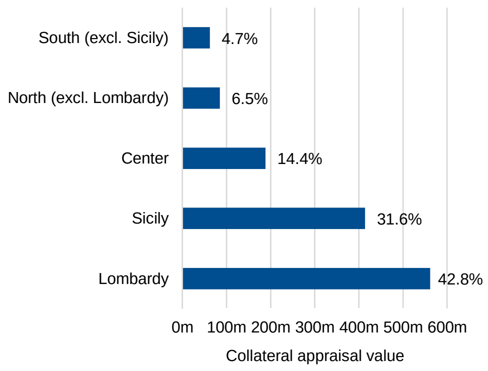
Source: CCM

Secured loans granted to companies constitute the largest portfolio segment

The pool's 6,951 loans are granted to 3,694 borrowers. Corporates and individuals represent 91.4% and 8.6% of the pool respectively. Most of the loans are secured (67.4%), with the remainder being unsecured.

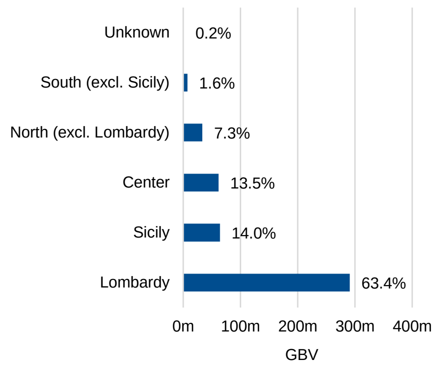
Scope's recovery assumptions for secured exposures take into account the location and type of the collateral, while recovery rates for unsecured exposures consider the nature of the recovery procedure, which is typically a foreclosure process for individuals and either a bankruptcy process or a foreclosure process for corporate borrowers.

Figure 8 Collateral location



Source: CCM

Figure 9 Unsecured borrowers location



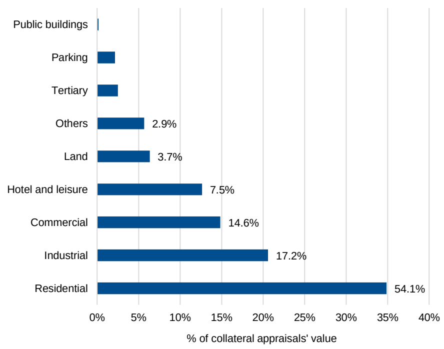
Source: CCM

Scope views as credit-positive that the portfolio is tilted towards the north

The portfolio's collateral is located mainly in Lombardy and other northern Italian regions, which in total account for 49.3% of collateral appraisal values (figure 8). Collateral is also significantly concentrated in Sicily and other southern parts, at a combined 36.3% of appraisal values. We have derived market-value-decline assumptions specific to each region (see Appendix I), and have assumed that declines in market value are lower for northern Italy.

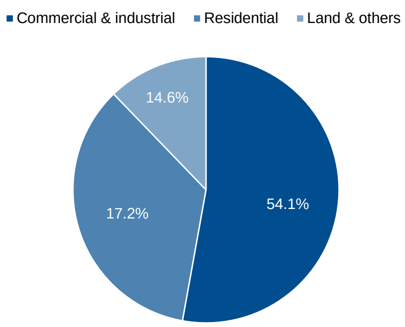
The unsecured exposures are more concentrated in Lombardy and northern Italy (figure 9). We view positively that the unsecured portfolio is strongly tilted towards such regions given their economic strength.

Figure 10 Distribution by type of collateral



Source: CCM

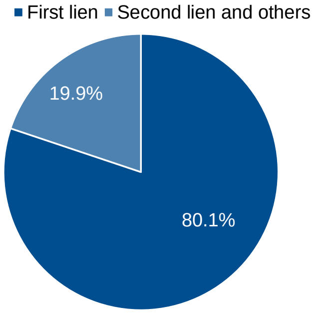
Figure 11 Simplified distribution by type of collateral



Source: Scope Ratings

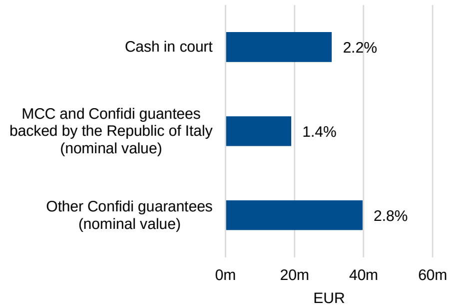
The servicer has clustered the collateral types in 10 groups (figure 10), which we have grouped into three main categories for the purpose of our analysis: residential; commercial and industrial; and land and others (figure 11). We have applied distinct recovery rate assumptions for the loans backed by collateral within each of these categories (see Appendix I).

Figure 12 Mortgage liens (% of appraisal's value)



Source: CCM

Figure 13 Other guarantees

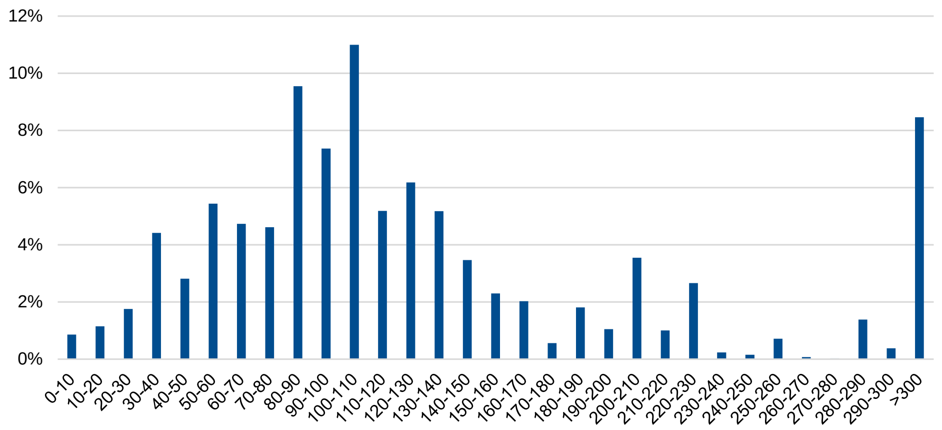


Source: CCM

Noteholders should benefit from EUR 27m of early collections from cash-in-court

Most of the secured loans have first-lien collateral attached. We have treated second-lien and more junior collateral as unsecured. A number of loans feature additional protection such as cash-in-court or MCC and Confidi guarantees[1].

Figure 14 Secured borrowers LTV[2]

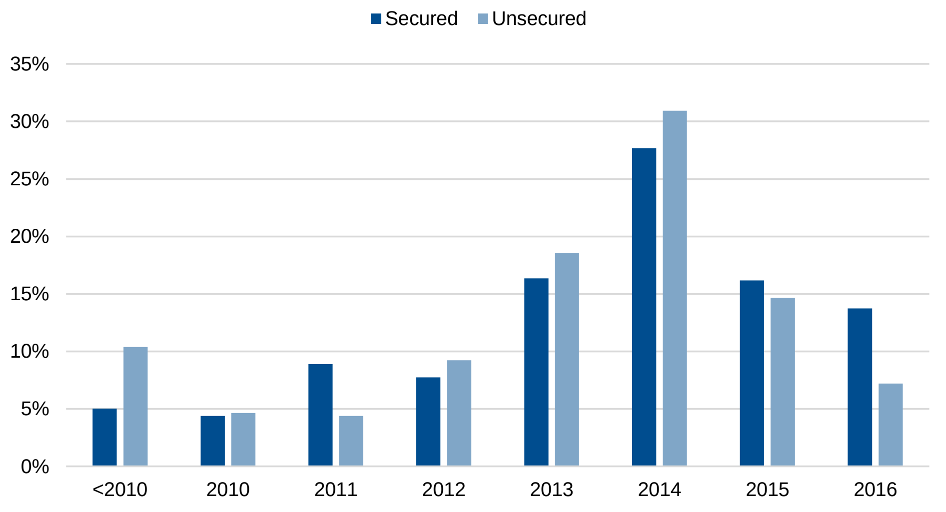


Source: CCM

The weighted average of gross book value-to-collateral appraisal values of secured borrowers is about 75%, equivalent to an overcollateralisation of 33%. We consider as secured all borrowers with at least one first-lien mortgage attached. Our recovery assumption for secured borrowers is 70.8% prior to applying rating conditional stresses. This figure is determined mainly by our market-value-decline assumptions and distributions of loan to value. Figure 14 shows that a significant portion of exposures are undercollateralised.

[1] MCC and Confidi guarantees are issued by the Italian Guarantee Fund and by mutual guarantee societies, respectively, to certain categories of small and medium size enterprises. Some Confidi guarantees are also counter-guaranteed by the Italian Guarantee Fund.
[2] This is measured as gross book value to collateral appraisal value

Figure 15 Portfolio distribution by year of default

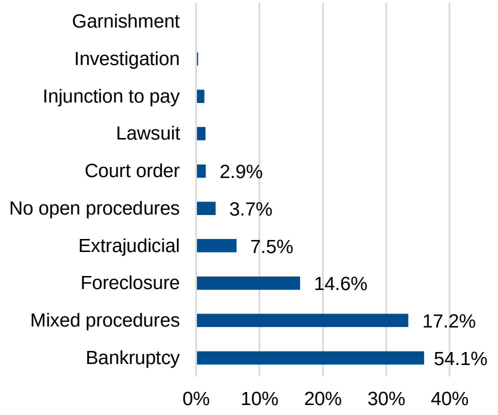


Source: CCM

Pool's ageing significantly reduces expectations of unsecured recoveries

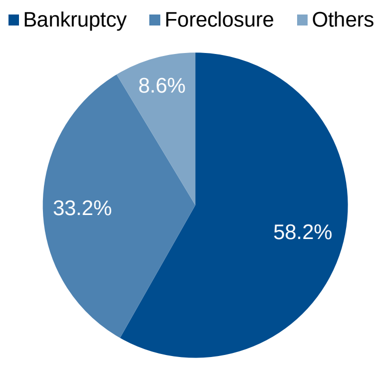
The weighted average time since the default date is around 3.5 years for unsecured exposures and 3.1 years for secured. The pool's ageing reduces expectations of unsecured recoveries significantly, since most recoveries are concentrated in earlier years, according to historical vintage data.

Figure 16 Distribution of borrower status by type or recovery procedures



Source: CCM

Figure 17 Simplified distribution by type of recovery procedures

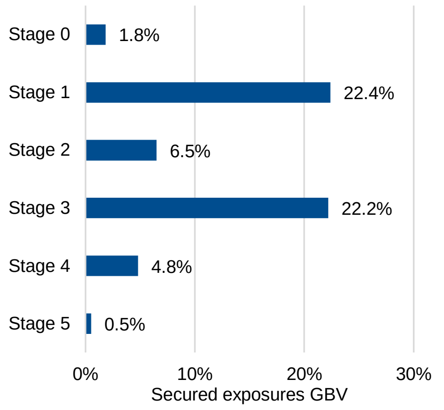


Source: Scope Ratings

Recovery amount and timing assumptions of unsecured exposures are determined by the borrower's status or the nature of the main recovery process. The servicer has clustered the borrower status into 10 groups (figure 16).

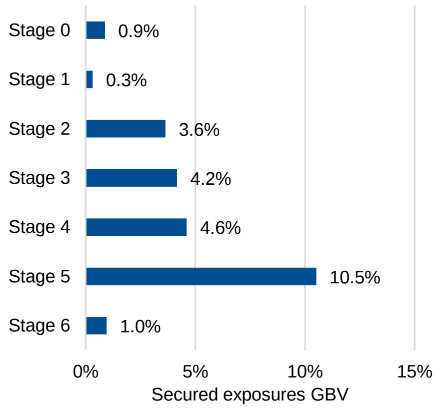
We have mapped these groups into three main categories: bankruptcy, foreclosure and other (figure 17). For mixed procedures, the borrower was considered as bankrupt if at least one procedure involves bankruptcy. We treated extrajudicial procedures as commensurate with foreclosures.

Figure 18 Stage of bankruptcy procedures



Source: Servicer's line-by-line template

Figure 19 Stage of foreclosure procedures

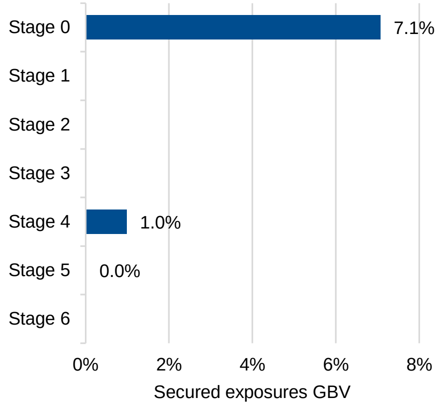


Source: Servicer's line-by-line template

The stage of the recovery determines timing assumptions for secured exposures

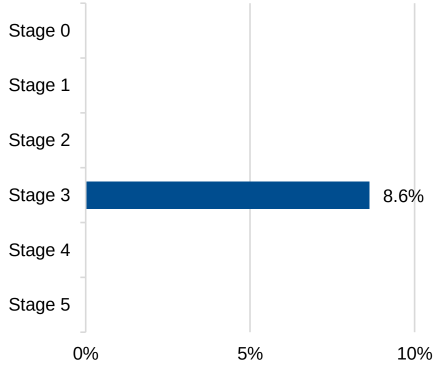
Recovery timing assumptions for secured exposures were determined by the stage of recovery. The servicer has classified bankruptcy and foreclosure procedures into six and seven stages respectively (figures 18 and 19). Stage zero corresponds to the beginning of the process. We have decreased recovery lag assumptions as loans progress through the different stages of recovery.

Figure 20 Extrajudicial stage to foreclosure stage correspondence



Source: Scope Ratings

Figure 21 Other procedures to bankruptcy stage correspondence

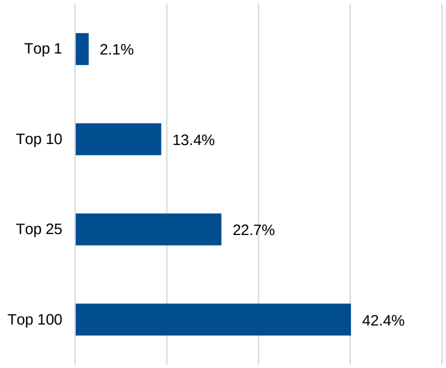


Source: Scope Ratings

We have mapped information on the nature of extrajudicial procedures (provided by the servicer) to a comparable stage in a foreclosure process. Most workout processes of an extrajudicial nature were preliminary; hence we assumed these align with stage zero of a foreclosure procedure.

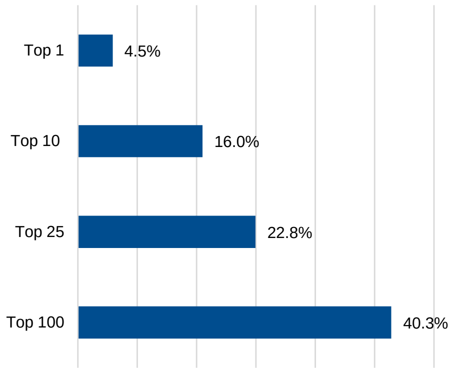
For procedures classified as 'other' we have assumed these equate to stage three of a bankruptcy procedure, i.e. the middle of the process.

Figure 22 Borrower concentration



Source: CCM

Figure 23 Collateral concentration (% of collateral value)



Source: CCM

A 10% recovery haircut on the top 10 exposures captures Idiosyncratic risk

The portfolio is significantly concentrated (figures 22 and 23). To account for idiosyncratic risk of concentrated exposures, we have applied an additional BBB rating conditional recovery rate haircut of 10% on the 10 largest exposures.

Portfolio eligibility criteria

The main eligibility criteria for the selection of the securitised portfolio are:

- All loans are denominated in euros;
- All loans agreements are governed by Italian law;
- All borrowers are reported by the originator as defaulted (in sofferenza) to the Italian Credit Bureau (Centrale Rischi) of the Bank of Italy as of June 2017
- The borrowers are (i) individuals resident or domiciled in Italy; or (ii) entities incorporated under Italian law with a registered office in the country;
- Secured loans are backed by a mortgage over real estate assets located in Italy;
- The borrowers are not employees, managers or directors of any of the bank members of the Gruppo Credito Valtellinese;
- The receivables are not leasing receivables or cessione del quinto[3] loans.

Portfolio analysis

Scope's view on the special servicer's capabilities is credit-positive

We derived the expected amount and timing of recoveries by analysing the portfolio line-by-line. Secured and unsecured exposures were assessed using different analytical frameworks. Our assumptions are based on our view on Italian macroeconomic and real estate fundamentals and on servicer historical performance data. We have also taken into account the servicer's business plan.

For secured exposures, Scope's recovery amount assumptions are based mainly on our assessment of collateral appraisal values. Recovery timing assumptions are derived from line-by-line information on borrower status as well as the stage of recovery at the cut-off date.

For unsecured exposures, recovery amount and timing assumptions are based on recovery vintage data on a representative sample of loans provided by Creval. Our

[3] 'Cessione del quinto' loans are salary guaranteed loans, insured against unemployment and life risk.

assumptions are calibrated to take into account that unsecured borrowers in the portfolio are classified as having defaulted for an average of 3.5 years as of cut-off date.

Recovery assumptions for the Class B reflect our performance expectations under a base case scenario. Assumptions for the Class A reflect capture increasing levels of performance stress commensurate with a BBB rating conditional level.

Expected amount of recoveries

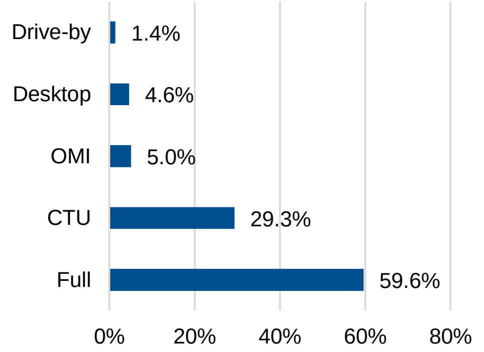
Exposures secured by first-lien mortgages

We have classified as secured the gross book value of borrowers with at least one loan guaranteed by a first-lien mortgage.

The recovery amount assumed for each collateralised position is the minimum among i) the loan's gross book value, ii) the nominal mortgage value, and iii) Scope's property value assumptions as of the estimated liquidation date. The latter typically drives the level of recovery. However, if the liquidation of the collateral is insufficient to repay the outstanding gross book value, we have assumed that the issuer may benefit from further unsecured recoveries.

We have estimated the property values based on a fundamental collateral-valuation approach, which is a function of i) the credit given to collateral appraisal values, ii) collateral value indexation, and iii) Scope's market-value-decline assumptions.

Figure 24 Valuation type (% of first-lien's appraisal value)



Source: CCM

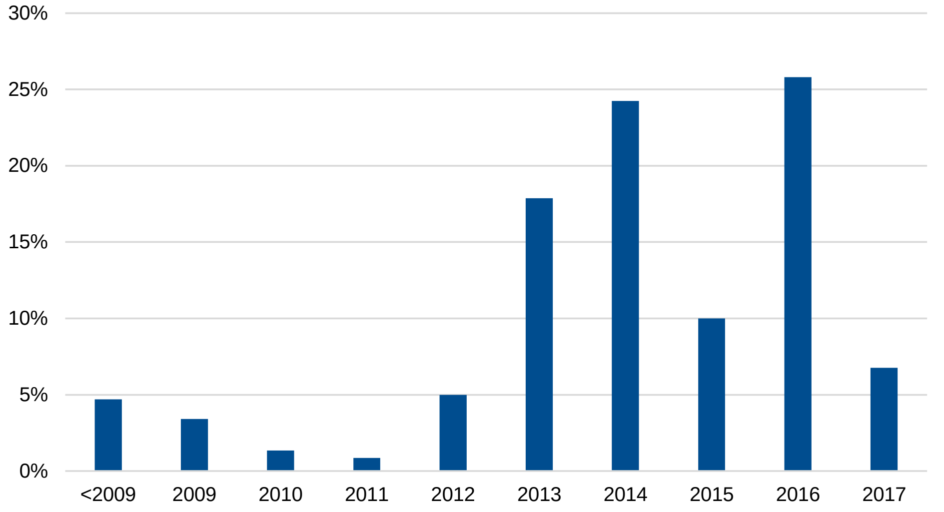
Figure 25 Valuation haircuts

Full and CTU	0%
OMI	10%
Drive-by	5%
Desktop	10%

Source: Scope Ratings

Asset appraisals consist typically of detailed appraisals ("full valuations") conducted by third parties appointed by the originators or by the court in the context of an auction process (CTU valuations). Scope assumed such valuations are accurate as of their respective date. A smaller portion of the collateral appraisals consists of non-full valuations conducted using indexation techniques (desktop or OMI), or of drive-by valuations. To these valuations we have applied a 10% and 5% haircut, respectively, reflecting our view that they are lower quality and less accurate.

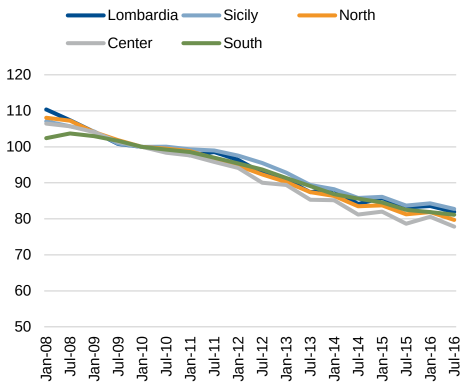
Figure 26 Collateral appraisal dates



Source: CCM

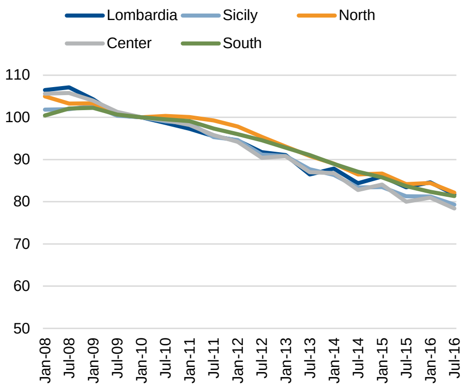
On average, valuations in the portfolio were conducted around 2.5 years ago, mostly between 2013 and 2016.

Figure 27 Indexation – residential properties



Source: Nomisma, Scope Ratings

Figure 28 Indexation – non-residential properties



Source: Nomisma, Scope Ratings

Scope has derived transaction-specific property-value-decline assumptions

Considering the age of the valuations, we have updated the appraisal values, applying available price indices for residential and commercial real estate in Italy. For properties classified as industrial or 'land & others", we have assumed the same indexation as for commercial types.

Figure 29 MVD per rating scenario – residential properties

	Lombardi	Sicily	North	Center	South
BBB	31%	40%	31%	35%	40%
BB	25%	35%	25%	30%	35%
B	20%	30%	20%	25%	30%

Source: Scope Ratings

Figure 30 MVD per rating scenario – non-residential properties

	Lombardi	Sicily	North	Center	South
BBB	40%	49%	40%	45%	49%
BB	35%	45%	35%	40%	45%
B	30%	41%	30%	36%	41%

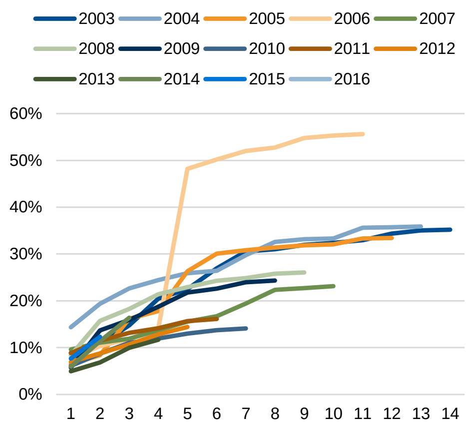
Source: Scope Ratings

Our forward-looking assumptions on collateral liquidation values were derived from transaction-specific market-value-decline assumptions. Figures 29 and 30 show the NPL portfolio's market-value-decline assumptions for residential and non-residential properties. Appendix I provides further detail on how we have derived these assumptions.

Unsecured exposures

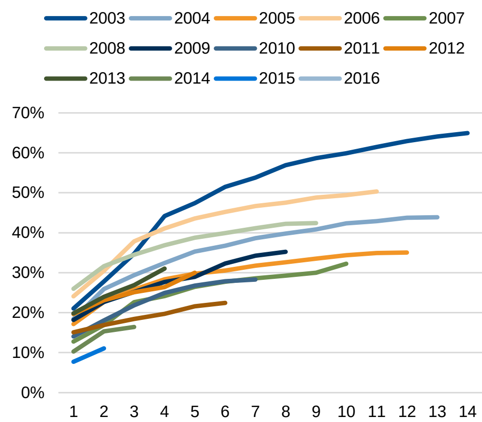
Scope has classified as unsecured the gross book value of borrowers that do not benefit from any first-lien mortgage guarantee. We have derived recovery proceeds and timing assumptions based on historical vintage data.

Figure 31 Historical recoveries on unsecured and bankrupt obligors[4]



Source: Creval

Figure 32 Historical recoveries on unsecured but non-bankrupt obligors



Source: Creval

Portfolio seasoning negatively impacts Scope's unsecured recovery expectations

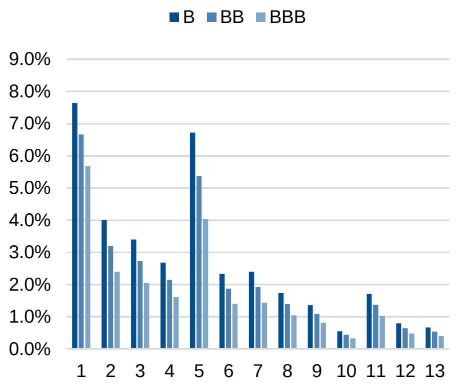
The originator has provided recovery vintage data on a loan book sample representative of the portfolio being securitised covering the period 2003-2016.

The data has a high level of disaggregation, for instance, by type of borrower (corporate or individuals), or type of guarantee other than for mortgages (e.g. pledges, by third parties). However, the main discriminating factor is whether the borrower is classified as subject to either a bankruptcy or a foreclosure proceeding. Thus, we have grouped the vintage analysis in line with such criterion (figures 31 and 32). We have mapped borrowers classified under 'other' procedures as bankrupt.

The main factor affecting the recovery rates of unsecured exposures is the date of default. The longer the period since default was declared, the lower the expected residual recoveries. This effect is reflected in Scope's analytical assumptions (figures 33 and 34).

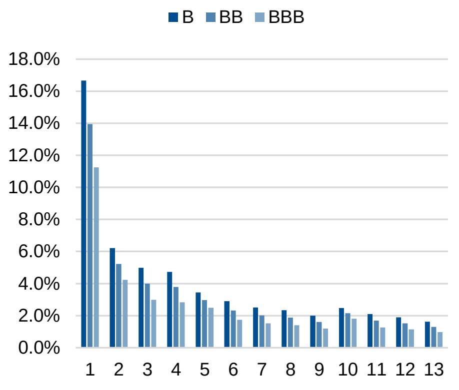
[4] The spike observed for the 2006 is an outlier which is explained by the low granularity of such vintage.

Figure 33 Marginal recovery rates on exposures under bankruptcy proceedings per rating scenario[5]



Source: Scope Ratings

Figure 34 Marginal recovery rates on exposures under foreclosure proceedings per rating scenario



Source: Scope Ratings

Considering the time elapsed since the year of default, Scope's lifetime recovery rate assumptions for unsecured borrower exposures are 21.5% for a B-rating scenario and 13.7% for a BBB scenario.

Exposures secured by MCC/Confidi guarantees

Some portfolio's exposures benefit from MCC (Garanzie Medio Credito Centrale) and Confidi (consorzio di Garanzia dei Fidi) guarantees. MCC guarantees are granted by the Italian guarantee fund[6] in favour of certain categories of small and medium enterprises and are backed by the Republic of Italy as a guarantor of last resort. Confidi guarantees are issued by mutual guarantee societies and are only backed by the Republic of Italy in some cases. MCC and Confidi guarantees typically only cover a certain percentage of the total loan exposure.

In our analysis we have given credit only to the amounts that have been already requested from the guarantors and which are backed by the Republic of Italy as a guarantor of last resort. These amounts are equivalent to 1.4% of the portfolio's gross book value. We have also taken the fact into consideration that some of the guarantees have already been collected and will be part of the funds available to the issuer at the first payment date.

Cash-in-court positions

We have given credit to EUR27m of cash-in-court positions, equivalent to 1.9% of gross book value. Cash-in-court positions are defined as secured exposures for which the security has already been executed (e.g. the property was sold at auction) but the recovery proceeds still remain with the relevant court, waiting for distribution among creditors.

The collected amounts will be paid by the relevant court to the originators because since the legal procedure on those claims has been closed, the issuer cannot be admitted as a party in the legal procedure. The originators must undertake to transfer these sums to the issuer as soon as they are made available.

In addition to the above, if the transfer of the receivables is made before the cash-in-court amounts are distributed (piano di riparto), the transfer is notified to the administrator of the procedure so that the details of the issuer can be included in the relevant distribution plan. The originators have the obligation to immediately transfer the relevant sums to the issuer.

Concentrated positions

The top 10 borrower positions account for 13.4% of the portfolio's gross book value. To address the idiosyncratic risk of these positions we have applied additional recovery

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[5]The spike in our recovery assumptions for bankrupt borrowers observed in period 5 is mainly determined by the spike in the 2007 vintage. We have not adjusted or smoothed our based case assumptions to account for lower granularity of some vintages. However, Scope´s BB and BBB have been seized to capture historical volatility.
[6] Fondo di Garanzia per le PMI, created under Article 2, par. 100, let (a) of Law 23 December 1996, no. 662.

rating-conditional haircuts of 5% and 10%, in a BB and BBB scenario respectively. We have used these haircuts giving partial credit to the servicer business plan, which is focused on maximising recoveries on large exposures.

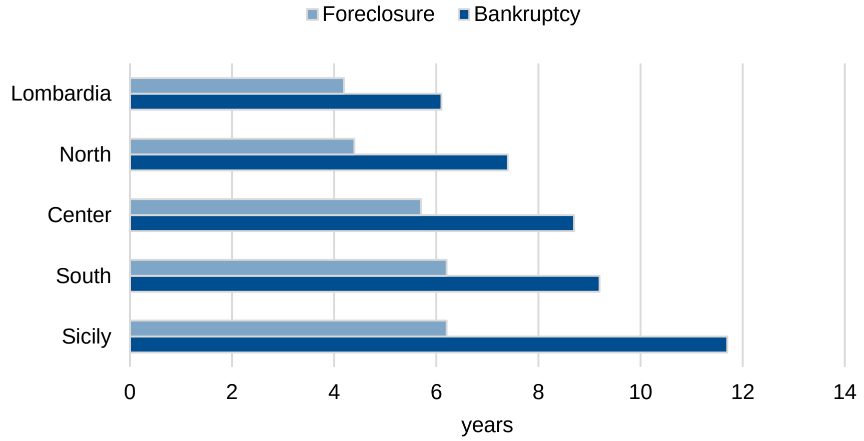
Expected timing of recoveries

Secured exposures (first-lien mortgage-secured borrowers)

Scope expects recent legal reforms to shorten recovery timings

We have derived base case recovery timing assumptions based on official data from the Ministry of Justice for the years 2014 and 2015. Such records provide the average total length of foreclosure and bankruptcy procedures by court. Our assumptions, depicted in figure 35, show the high dispersion of recovery timing expectations by region, with the northern regions outpacing the southern regions. For BBB rating scenarios, we have applied an additional recovery lag of two years.

Figure 35 Base case recovery timing assumptions



Source: Ministry of Justice, calculations Scope

The servicer supplied line-by-line information on the stage of the bankruptcy and foreclosure procedures. The servicer also provided Scope with their best estimate on the relative length of each stage of the recovery. Scope's line-by-line recovery timing assumptions incorporate the recovery vectors shown in figures 36 and 37, which are based on servicer estimates[7].

Figure 36 Bankruptcy recovery timing vector

Bankruptcy	Remaining timing
Phase 0: Proceedings initiated	100%
Phase 1: Declaration of bankruptcy	90%
Phase 2: Liquidation program	80%
Phase 3: Auction process	40%
Phase 4: Recovery proceeds partial distribution	15%
Phase 5: Recovery proceeds final distribution	0%

Source: Servicer's estimates

Figure 37 Foreclosure or non-bankruptcy

Foreclosure or non-bankruptcy proceedings	Remaining timing
Phase 0: Proceedings suspended	100%
Phase 1: Proceedings initiated	100%
Phase 2: Asset Seizure	90%
Phase 3: Petition for asset sale	75%
Phase 4: Court appraisal (CTU)	60%
Phase 5: Auction process	20%
Phase 6: Recovery proceeds distribution	0%

Source: Servicer's estimates

[7] For exposures on phase 5 or 6 of a bankruptcy or foreclosure procedure, respectively, we have assumed that collections will be realised on the first payment date.

Unsecured exposures

The recovery timing for unsecured exposures was assumed to follow the pattern observed in the vintage data.

Exposures secured by MCC/Confidi guarantees

We have assumed that recovery proceeds from MCC and Confidi guarantees will be collected within the first three years since closing. A portion of these guarantees have already been executed and collected and can be expected to be received on the first payment date.

Cash-in-court positions

Cash sitting in the courts will not always be subject to immediate distribution among creditors. The distribution timeframe range from six months to up to two years. We have assumed that cash-in-court positions will be collected as of the end of the first year since closing.

ORIGINATOR AND SPECIAL SERVICER

Originators

The originators of the NPLs are Credito Valtellinese S.p.A. and Credito Siciliano S.p.A. both belonging to Credito Valtellinese Banking Group. The parent company of the group is Credito Valtellinese S.p.A., established in Sondrio in 1908.

Credito Valtellinese Banking Group is a medium-size banking group listed in the MTA (Mercato Telematico Azionario) of Borsa Italiana S.p.A.. The group operates in 11 Italian regions with 466 branches shared between Credito Valtellinese and Credito Siciliano, and more than 4,000 employees.

Credito Valtellinese banking Group has grown over the years through a number of acquisitions, such as Credito Artigiano in 1996, a former private Milan-based bank, as well as Banca Popolare Santa Venera, Cassa San Giacomo, and Banca Regionale Sant'Angelo, which in 2002 were merged into Credito Siciliano, strengthening the group's presence in Sicily. The group progressively acquired a number of local banks located in different Italian regions. All of the acquired entities were ultimately merged into Credito Valtellinese, so that its operative network now directly covers almost all of the country's regions overseen by the group, with the exception of Sicily, where Credito Siciliano is established.

Special servicer

Cerved Credit Management S.p.A. (CCM), will act as special servicer in the transaction. CCM has been servicing part of the securitised portfolio since 2016, which will facilitate the take-over of these activities.

The special servicer has been servicing part of the securitised portfolio since 2016

CCM is part of Cerved Credit Management Group, specialising in collection services for financial institutions, financial investors, consumer finance companies and corporate groups. CCM has grown significantly in the past years through the acquisition of several companies, or parts of companies, operating in the NPL servicing landscape. In particular, CCM has taken part of Creval's servicing platform on board, which will be dedicated to servicing the securitised portfolio.

CCM has a stronger presence in the north of Italy, but they operate throughout the whole country. They currently manage about EUR 13 billion of NPL portfolios. CCM does not acquire these portfolios, as their core business is to perform pro-active servicing activities with the aim of extracting as much value as possible from the distressed portfolios for a fee.

Legal services and asset management activities are performed by two specialised companies, belonging to Cerved Group. With regard to legal services, they have established a platform offering low-cost legal services with the aim of maximising recoveries. Using their asset management company, they identify opportunities in the distressed real estate market that may potentially create value for their clients. They also support their clients in the creation of real estate companies with the purpose of acquiring the properties in auction in order to resell them in the open market, and possibly letting them while they are vacant.

Portfolio management activities

Loan managers are dedicated to a single client. Therefore, the securitised portfolio will be managed by a dedicated team.

Depending on the loan size and type of security, loan managers are assigned a certain number of loans. Top loan managers handle positions of EUR 1m or more. They follow between 80 and 100 loans, coordinating all of the recovery activities for each position. Medium loan managers handle exposures with a gross book value between EUR 50,000 and EUR 1m, with up to 250 positions each. Small loan managers follow about 300 loans each. A senior supervisor oversees each team of loan managers.

When CCM begins the servicing of a particular portfolio, they contact the debtor to explore the possibility of reaching an out-of-court agreement. At the same time, they initiate legal proceedings and undertake all of the appropriate judicial and extra-judicial activities until the resolution of the case. If the loan is secured by a mortgage on a property, they assess the appraisal and, if necessary, perform an updated desktop valuation.

FINANCIAL STRUCTURE

Capital structure

The liability structure features three principal and interest tranches: i) senior Class A notes; ii) mezzanine Class B notes; and iii) junior notes. Scope only rates the Class A and Class B notes.

The ratings address the subordination of class A principal to class B interest

The Class B principal is fully subordinated to Class A, and junior notes are fully subordinated to classes A and B. However, class A principal is subordinated to class B interest payments. At closing, the proceeds from the issuance of the notes were used to pay the portfolio at discount.

The Class A notes will pay semi-annual interest, referenced to 6-month Libor, plus a constant margin of 0.5%. The Class B notes will pay 6-month Libor plus a 6% margin. Interest is only accrued on the outstanding amount of each class of notes. The amount due on the junior notes will be variable, depending on the available amounts on each collection date.

Liquidity protection

A cash reserve of around 4% of the outstanding balance on Class A notes will be funded at closing through a limited recourse loan provided by the originators.

The cash reserve provides liquidity protection to the class A noteholders

The cash reserve will amortise during the life of the transaction with no floor. The target amount of cash reserve at each payment date will be equal to 4% of the outstanding balance of Class A notes.

The cash reserve will be available to cover any shortfalls in the interest payments on the Class A notes as well as any items senior to them in the priority of payments.

Class B will not benefit from any liquidity protection.

Hedging agreements

On the asset side, due to the non-performing nature of the securitised portfolio, the issuer will not receive regular cash flows and the collections will not be linked to any defined interest rate. On the liability side, the issuer will pay a floating coupon on Class A and Class B notes, defined as 6-month Euribor plus a certain fixed margin.

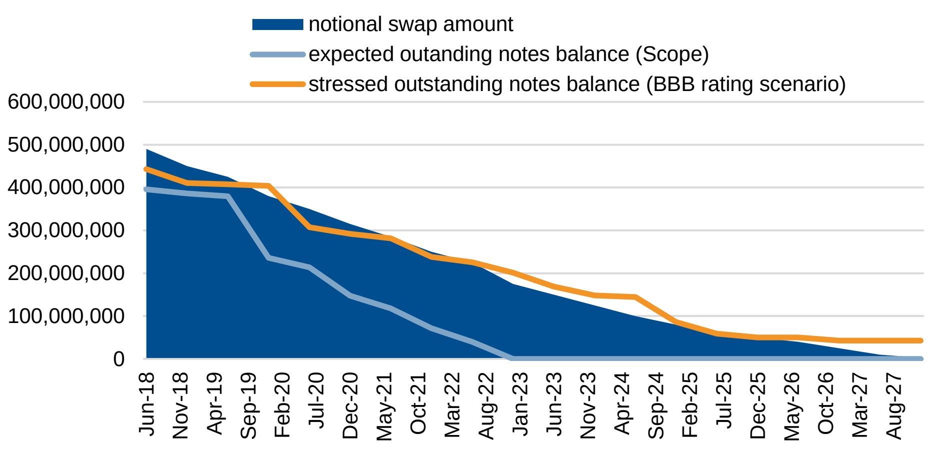
Interest rate risk is mitigated by an interest rate cap with a strike of 0.5%

An interest rate cap, with a strike equal to 0.5% partially mitigates the risk of increased liabilities on the notes due to a rise in Euribor levels. The swap counterparties are Banca IMI and JP Morgan. We do not expect interest rate risk to be a material risk driver. However, if the rated notes amortise at a slower pace than the scheduled notional amount defined in the cap agreement, a portion of the outstanding notes would be unhedged.

Figure 38 shows the swap notional schedule against the outstanding balances on the notes, in Scope's base case and under our BBB-rating-level stress.

The notional of the cap agreement will be the lowest of: i) the aggregate principal amount outstanding on the rated notes for the relevant interest period; ii) the scheduled notional amount for the relevant interest period, as defined in the cap agreement; and iii) the notional amount with respect to the previous calculation period.

Figure 38 Swap notional schedule vs. Scope's notes' amortisation scenarios



Sources: Transaction documents and Scope Ratings

Priority of payments

On each semi-annual payment date, the funds available to the issuer (i.e. collection amounts received from the portfolio, the cash reserve and payments received under the interest rate cap agreement) will be used in the following order of priority:

1. Senior fees (costs, taxes and expenses, fees due to the entities providing services to the issuer, such as the master servicer, special servicer, cash manager, etc.)
2. Interest on the limited recourse loan
3. Fees payable to the GACS guarantor in relation to the GACS guarantee
4. Recovery expenses reserve amount
5. Interest on Class A notes
6. Amounts due under the GACS guarantee (other than the amounts paid under item 3)
7. Cash reserve target amount
8. Principal on the limited recourse loan
9. Interest on Class B notes
10. Principal on Class A notes
11. Principal on Class B notes
12. Junior payments

If, on any payment date, the servicer fails to produce the servicer report, the calculation agent will prepare a provisional payment report in which the cash reserve and the portfolio collections from the last payment date are earmarked as funds available to the issuer. These funds will be used to cover items 1 to 9 in the above order of priority (except for the master servicer and special servicer fees). The rest of the amounts due will be paid on the following payment date.

Upon occurrence of a trigger event (i.e. failure to pay interest due on the senior notes or any principal amount due and payable on the notes if there are enough funds available, a breach of obligations, insolvency, unlawfulness), the notes will come due and will be payable in the following modified order of priority:

1. Senior fees (costs, taxes and expenses, fees due to entities providing services to the issuer, such as the master servicer, special servicer, cash manager, etc.)
2. Interest on the limited recourse loan
3. Fees payable to the GACS guarantor in relation to the GACS guarantee
4. Recovery expenses reserve amount
5. Interest on Class A notes
6. Principal on the limited recourse loan
7. Principal on Class A notes
8. Amounts due under the GACS guarantee (other than the amounts paid under item 3)
9. Interest on Class B notes
10. Principal on Class B notes
11. Junior payments

The servicing fee aligns the interests of the special servicer and the noteholders

Alignment of interests

The servicing fee structure (see section servicing fees), which links the portfolio performance with the level of fees received by the Special Servicer mitigates the potential conflict of interests between the special servicer and noteholders. In case of underperformance, a haircut will be applied to special servicer's fees. These features constitute an incentive for the special servicer to maximise recoveries and to stay in line with the initial business plan.

The overview of the special servicer activities and calculations by the monitoring agent and the master servicer mitigates operational risk as well as moral hazard that could negatively impact the interests of noteholders. This risk is further mitigated by the discretionary servicer termination event in cases of underperformance of the special servicer.

Servicing structure

The special servicer (CCM) will perform the servicing activities, monitored by the master servicer and the monitoring agent.

The monitoring agent will supervise the special servicer's activities

Under the servicing agreement, the master servicer (Securitisation Services) has been mandated to perform the servicing, administration, collection/recovery of the receivables, and management of the legal proceedings. The master servicer will delegate to the special servicer (CCM) the servicing, administration, collection/recovery of the receivables, and will monitor the special servicer's activities.

There will be no back-up servicer appointed at closing, but Securitisation Services will become the back-up servicer subject to the below.

Cerved Master Servicer (part of Cerved Group) has submitted a request to Banca d'Italia for registration in the single register kept at Banca d'Italia pursuant to article 106 of the Consolidated Banking Act. If they are successfully registered before 31 March 2018, CMS will replace Securitisation Services as master servicer and Securitisation Services will become the back-up servicer.

The monitoring agent (Zenith) will be responsible for overviewing the special servicer's activities. They will verify the calculations of key performance ratios and of the amounts payable by the issuer. They will also perform controls based on random samples of loans.

The monitoring agent will report to a committee, which will represent the junior and mezzanine noteholders' interests. The committee will be entitled to authorise the revocation of the master servicer or the special servicer, and its replacement with another party, subject to the approval of the representative of noteholders. They will also be able to authorise the sale of the receivables, the closure of debt positions, as well as the payment of additional costs and expenses related to recovery activities.

Servicing fees

The special servicer will be entitled to a base fee, calculated at each payment date on the outstanding portfolio's gross book value and to a performance fee, calculated at each payment date on the period's collections net of legal costs (collectively, the servicing fees).

In addition to the performance fees, the following additional features have been included to incentivise the servicer to keep to or exceed business plan targets issued at closing date.

Haircut on servicing fees: If on any payment date either the cumulative gross collection ratio or the net present value cumulative profitability ratio[8] is lower than 100%, a haircut will be applied to the servicing fees. The haircut levels will increase with the degree of underperformance and will be applied as long as one of these two indicators is below 100%.

Payment deferral of servicing fees: If on any payment date either the cumulative gross collection ratio or the net present value cumulative profitability ratio is above 90%, a portion of the servicing fees will be deferred by two years. Deferred fees will be definitively lost if after the two-year period the performance does not meet at least business plan targets. This additional potential haircut is added only to performances close or above the target business plan to compensate the lower level of haircuts set for these scenarios.

Servicer termination events

The back-up servicer mitigates the risk of servicing discontinuity

Master servicer termination event: Insolvency, unremedied breach of obligations, unremedied breach of representation and warranties, no longer legally eligible to perform the obligations under the servicing agreement.

In any of these events, the master servicer will be replaced by the back-up servicer. If there is no back-up servicer in place, the monitoring agent will collaborate to find a suitable replacement.

Special servicer termination event: Insolvency, failure to pay due and available amounts to the issuer within two business days, failure to deliver or late delivery of a quarterly report, a half-yearly report or IT flaws, unremedied breach of obligations, unremedied breach of representation and warranties, no longer legally eligible to perform the obligations under the servicing agreement.

Substitution of the special servicer due to underperformance: From the 7th collection period (i.e. three years from closing), the master servicer will be entitled to replace the special servicer in some cases of consistent underperformance.

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8 **'Cumulative gross collection ratio'** is defined as the ratio, calculated at the end of a collection period, between (i) the actual gross cumulative collections from the entitlement date until the end of such collection period in relation to all debt positions and (ii) the expected gross collections from the entitlement date until the end of such collection period in relation to all of the debt positions.

'Expected Gross Collections' is defined, in relation to an individual debt position, as the collections, recoveries, realizations or liquidations of the Receivables (even after any sales of the same) expected until the relevant administrative closure of the debt position as indicated in the initial portfolio base case scenario.

'Net Present Value Cumulative Profitability Ratio' is defined, in relation to a Collection Period, as the ratio, calculated at the end of such collection period between (i) the sum of the current net values of the actual net collections of all receivables for which there has been an administrative closure of the debt Position from the entitlement date until the end of such collection period and (ii) the sum of the current net value of the expected net collections of the same receivables. The amounts referred to above will be determined using, for purposes of calculating the present value, the annual interest rate of 3.5%, as the present value date, the entitlement date, and as the discount/present value period, one year.

'Administrative closure of the debt position' is defined as the cancellation of the debt position in the special servicer's IT/computer system.

Until a suitable replacement is found for the special servicer, the master servicer will perform the special servicer's activities.

In the event of simultaneous withdrawal of the master servicer and the special servicer, the back-up servicer will perform the activities of both the master servicer and special servicer until a suitable replacement is found for the special servicer. The monitoring agent will collaborate to find a replacement for the special servicer.

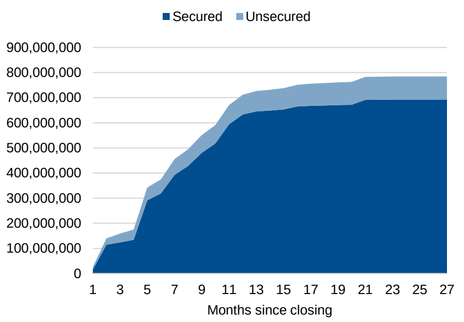
CASH FLOW ANALYSIS

Scope has analysed the specific cash flow characteristics of the transaction. Asset assumptions have been captured through rating-conditional gross recovery vectors. The analysis captures the capital structure, an estimate of legal costs based on the servicer's business plan, and senior fees of EUR 400,000 per annum. We have taken into account the reference rate payable on the notes based on the 6-months Euribor forward curve, with a cap at 0.5% reflecting the strike price of the swap.

Figures 39 and 40 below depict Scope's cumulative gross recovery assumptions, under a base case scenario and under a BBB rating level scenario.

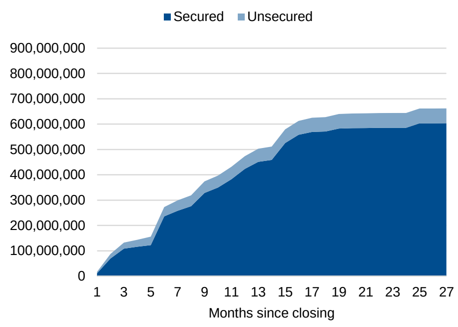
Gross recoveries

Figure 39 Base case gross recoveries



Source: Scope Ratings

Figure 40 BBB scenario gross recoveries

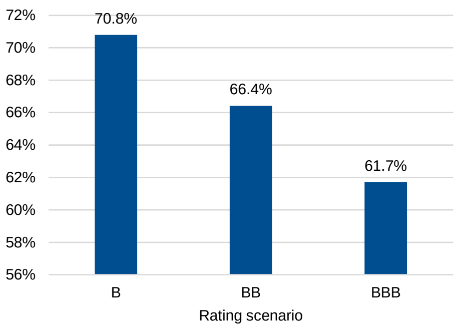


Source: Scope Ratings

Scope has applied rating-conditional gross recovery assumptions

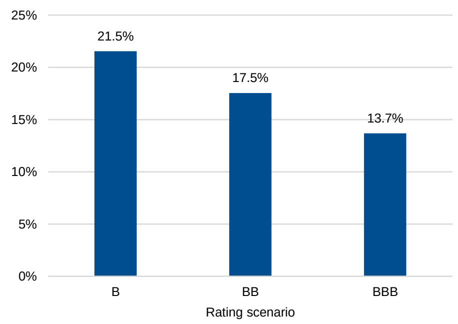
Figures 41 and 42 below summarise our lifetime gross recovery rate assumptions. The different levels of stress with regards to secured exposures are determined by our deterministic market-value-decline and borrower-concentration-haircut assumptions, as described on the Portfolio Analysis section. The different levels of stress with regards to the unsecured exposures are determined by the analysis on historical volatility also described on such section.

Figure 41 Secured gross recovery assumptions



Source: Scope Ratings

Figure 42 Unsecured gross recovery assumptions



Source: Scope Ratings

Quantitative results

Scope's analysis of this transaction shows only marginal expected losses under BBB- scenario stress level. The Class A investor is exposed to an expected loss of 0.0002% of invested principal over an expected weighted average life of 4.4 years. This result indicates that the losses to the investor are commensurate with those of a very strong BBB rated instrument. The BBB- rating assigned to the Class A reflects the tranche´s sensitivity of losses to recovery assumptions, and the risk that the hedging agreement becomes less effective under a scenario of slow recoveries.

Similarly, the quantitative results for the class B notes suggests very limited losses under BB-category stress for an expected weighted average life of 5.9 years. However the rating assigned to the Class B notes at B+ reflects the tranche´s high sensitivity of losses to recovery assumptions, and its lack of liquidity protection.

RATING SENSITIVITY

Scope tested the resilience of the ratings against deviations from expected recovery rates and recovery timing. 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 bonds' model output sensitivity to a decrease of recovery rates by 10% at all ratings scenarios is three notches for both classes of notes.

The bonds' model output sensitivity to an increase of the recovery lag by two years at all rating scenarios is of three notches on Class A and of two notches on Class B. This sensitivity is reflective of credit risk. We have modelled the reference rate payable on the notes based on the 6-months Euribor forward curve, with a cap at 0.5% reflecting the strike price of the swap.

SOVEREIGN RISK

Sovereign risk does not limit the transaction's ratings

Sovereign risk does not limit any of the ratings. The risks of an institutional framework meltdown, legal insecurity or currency convertibility problems, due to Italy's hypothetical exit from the eurozone, are not material for the notes' rating.

For more insight about Scope's fundamental analysis about the Italian economy please refer to our rating report on the Republic of Italy, dated 30 June 2017

COUNTERPARTY RISK

Counterparty risk does not limit the maximum ratings achievable

The transaction is exposed to counterparty risk from i) the two originators, regarding representation and warranties and regarding eventual payments that might be made by the borrowers, especially for the cash-in-court cases, ii) CCM, as the special servicer, iii) Securitisation Services, as the master servicer, iv) Zenith Service, the monitoring agent, v) JP Morgan and Banca IMI, the swap counterparties, and vi) BNP Paribas Securities Services, the account bank, agent bank, and paying agent. In Scope's view, none of these exposures limits the maximum ratings achievable by this transaction.

We analysed credit counterparty risk exposure to JP Morgan based on publicly available ratings. BNP Paribas Securities Services is a subsidiary of BNP Paribas SA, rated AA-/S-1 stable by Scope. Banca IMI is a subsidiary of Intesa Sanpaolo SPA, rated A/S-2 stable by Scope. For the latter two counterparties, we took into account the importance of these respective subsidiaries for the groups they belong to. Our understanding is that upon a resolution scenario, the parent companies would be the likely point of entry for regulatory intervention.

Operational risk from servicer

A servicer disruption event may have a negative impact on the performance of the transaction. The presence of the master servicer, which undertakes to perform the servicing activities in case of a servicer disruption, together with the undertaking of the monitoring agent to assist the issuer in finding a suitable replacement mitigate this risk.

Commingling risk

Commingling risk is limited as debtors will be instructed to pay directly on an account in the name of the issuer. In the limited cases where the servicer was to receive payments from a debtor, the servicer undertakes to transfer the amounts within two business days in case of having received a bank transfer, and within five business days if having received a cheque.

Claw-back risk

As of the date of execution of the transfer agreement, the originator will provide i) a good standing certificate from the Chamber of Commerce, ii) a solvency certificate signed by a representative duly authorized, and iii) a certificate of the bankruptcy court (tribunale civile – sezione fallimentare) confirming that the originator is not subject to any insolvency or similar proceedings (where available). This mitigates claw-back risk as the issuer should be able to prove that it was not aware of the originator being in a state of insolvency as of the transfer date.

Originators' solvency certificates mitigate claw-back risk

Pursuant to Italian claw-back rules (article 67, paragraph 1, of the Italian Bankruptcy Law) the following transactions may be voided if they have been carried out during the year prior to the bankruptcy declaration, unless the debtor's counterparty proves that it was not aware of the debtor's insolvency at the time of the transaction: (i) transactions where the consideration paid by the debtor exceeds more than 25 per cent of what was given or promised to it; (ii) payments not made in cash or other normal means of payment; and (iii) liens granted for pre-existing debts not yet due and payable. Liens granted for debts due and payable may also be voided under the same conditions and their suspect period is reduced to six months.

In addition, according to article 67, paragraph 2, of the Italian Bankruptcy Law, 'ordinary course' transactions (i.e., conveyances for adequate consideration, payment of due debts, and granting of security interests upon contracting a debt) may be voided if (i) they have been carried out during the six months prior to the bankruptcy declaration; and (ii) the bankruptcy receiver proves that the debtor's counterparty was aware of the debtor's insolvency at the time of the transaction.

With respect to securitisation transactions carried out under the Italian Securitisation Law, the one-year and the six-month suspect periods set out by Article 67 of the Italian Bankruptcy Law, are reduced to six months and three months, respectively, in the event of insolvency of the originator.

Hence, in light of the above, assignments of receivables made under the Italian Securitisation Law are subject to claw-back:

(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 that the sale price of the receivables exceeds the value of the receivables by more than 25 per cent and the issuer is not able to demonstrate that it was not aware of the insolvency of the originator, 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 3 months from the purchase of the relevant portfolio of receivables, provided that the sale price of the receivables does not exceed the value of the receivables for more than 25 per cent and the insolvency receiver of the originator is able to demonstrate that the issuer was aware of the insolvency of the originator.

Enforcement of representations and warranties

The issuer will rely on the representations and warranties (R&W) given by the originators in the transfer agreement. If there is a breach of a representation and warranty which materially and adversely affects the value of a loan the issuer will request the originators to indemnify the issuer for the damages deriving from this. Upon receiving notification of the breach of representations and warranties the seller will need to indemnify the issuer within 10 business days.

Indemnity against a breach of R&W is only enforceable within a period of 24 months

However, the above-mentioned guarantee is enforceable by the issuer for a limited period of time (24 months). In addition, the total indemnity amount will be paid up to a maximum 25% of the purchase price for the pool, and will subject to a deductible of EUR500,000 on an portfolio basis, and of EUR5,000 on a single-loan basis.

LEGAL STRUCTURE

Legal framework

The transaction documents are governed by Italian law, while the interest cap agreement and deed of charge are governed by English law.

The transaction is fully governed by the terms in the documentation and any changes are subject to the risk-takers' consent, with a superior voting right of the most senior risk-taker at the date of the decision.

Use of legal opinions

Scope had access to the legal opinions produced for the issuer, which provide comfort on the legally valid, binding and enforceable nature of the contracts.

MONITORING

Scope will monitor this transaction based on the performance reports as well as other public information. The ratings will be monitored continuously and reviewed at least twice a year, or earlier if warranted by events.

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

APPLIED METHODOLOGY AND DATA ADEQUACY

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

APPENDIX I. TRANSACTION SPECIFIC MVD ASSUMPTIONS

Figure 43 Transaction-specific market-value-decline assumptions

RESIDENTIAL

PRICE INDEXA SSUMPTIONS (%)

	ITALY	Lombardy	Sicily	North ex. Lomb.	Center	South ex. Sicily
B	7	7	7	7	7	7
BB	0	0	0	0	0	0
BBB	-8	-8	-8	-8	-8	-8
A	-15	-15	-15	-15	-15	-15
AA	-23	-23	-23	-23	-23	-23
AAA	-30	-30	-30	-30	-30	-30

FIRESALE DISCOUNT ASSUMPTIONS (%)

ITALY	Lombardy	Sicily	North ex. Lomb.	Center	South ex. Sicily
30	25	35	25	30	35

MVD ASSUMPTIONS (%)

	ITALY	Lombardy	Sicily	North ex. Lomb.	Center	South ex. Sicily
B	-25.1	-19.7	-30.4	-19.7	-25.1	-30.4
BB	-30.3	-25.3	-35.2	-25.3	-30.3	-35.2
BBB	-35.4	-30.8	-40.1	-30.8	-35.4	-40.1
A	-40.6	-36.4	-44.9	-36.4	-40.6	-44.9
AA	-45.8	-41.9	-49.7	-41.9	-45.8	-49.7
AAA	-51.0	-47.5	-54.5	-47.5	-51.0	-54.5

COMMERCIAL, INDUSTRIAL & LAND

PRICE INDEXA SSUMPTIONS (%)

	ITALY	Lombardy	Sicily	North ex. Lomb.	Center	South ex. Sicily
B	7	7	7	7	7	7
BB	0	0	0	0	0	0
BBB	-8	-8	-8	-8	-8	-8
A	-15	-15	-15	-15	-15	-15
AA	-23	-23	-23	-23	-23	-23
AAA	-30	-30	-30	-30	-30	-30

FIRESALE DISCOUNT ASSUMPTIONS (%)

ITALY	Lombardy	Sicily	North ex. Lomb.	Center	South ex. Sicily
40	35	45	35	40	45

MVD ASSUMPTIONS (%)

	ITALY	Lombardy	Sicily	North ex. Lomb.	Center	South ex. Sicily
B	-35.8	-30.4	-41.1	-30.4	-35.8	-41.1
BB	-40.2	-35.2	-45.2	-35.2	-40.2	-45.2
BBB	-44.7	-40.1	-49.3	-40.1	-44.7	-49.3
A	-49.1	-44.9	-53.4	-44.9	-49.1	-53.4
AA	-53.6	-49.7	-57.4	-49.7	-53.6	-57.4
AAA	-58.0	-54.5	-61.5	-54.5	-58.0	-61.5

Figure 43 highlights the analytical process we have followed to determine our market-value-decline assumptions for the transaction's NPL portfolio.

Scope has determined real estate price expectations using a base case scenario. Based on diverse affordability measures, we believe that current real estate prices in Italy, in real terms, are at sustainable levels and that they will benefit from nominal appreciation in the mid term, in line with inflation expectations. We have assumed a 7% nominal price appreciation for the assets in the transaction, assuming an estimated average time to liquidation of about five to six years.

Scope has derived AAA real estate price index decline assumptions based on the observed volatility of the OECD's house price affordability index for Italy. We have also used this index as a proxy for the volatiliy of commercial and industrial real estate as well as land. We have assumed 30% AAA price index declines from current levels, based on the average affordability index value minus two standard deviations. At such a rating level, we give no credit to nominal price increases based on inflation expectations.

We derive intermediate rating stresses through linear interpolation between the B and the AAA scenarios.

The next step in our analytical approach is to derive region- and sector-conditional firesale discount assumptions. Firesale discounts reflect our view that the properties are expected to be sold under non-standard market or distressed conditions due to several factors, such as asset deterioration or a lack of enough competition in the auction process.

The average level of firesale discounts is mainly based on observations from a 690 properties repossession database provided by the servicer, which shows firesale discounts of approximately 35% on average. We have applied region- and sector-specific adjustments to this average, reflecting Scope's views on property-type liquidity and regional market conditions. The assumed firesale discounts for residential properties range between 25% and 35%, whereas for commercial and industrial properties, as well as land, they range between 35% and 45%.

MVD assumptions are derived based on the following equation:

$$MVD = 1-(1-\text{Price index decline})*(1-\text{Firesale discount})$$

APPENDIX II. REGULATORY AND LEGAL DISCLOSURES

Important information

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

Responsibility

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

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

Rating history

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

Information on interests and conflicts of interest

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

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

Key sources of information for the rating

Line-by-line borrower, loan and collateral information on the securitisation portfolio; vintage historical recovery data provided by the originator; property repossession data provided by the servicer; servicer business plan; real estate price indices provided by Nomisma; tribunal timing data from the Italian Ministry of Justice; transaction-related contracts; interview with the originator; public information and Scope proprietary information.

Scope Ratings considers the quality of the available information on the evaluated entity to be satisfactory. Scope ensured as far as possible that the sources are reliable before drawing upon them, but did not verify each item of information specified in the sources independently.

Examination of the rating by the rated entity prior to publication

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

Methodology

The methodology applicable for the ratings is 'General Structured Finance Rating Methodology', dated August 2016, and the 'Rating Methodology for Counterparty Risk in Structured Finance Transactions', dated August 2016. All files are available on www.scoperatings.com. The historical default rates of Scope Ratings can be viewed on the central platform (CEREP) of the European Securities and Markets Authority (ESMA): http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml.

A comprehensive clarification of Scope's default rating, definitions of rating notations and further information on the analysis components of a rating can be found in the documents on methodologies on the rating agency's website.

Conditions of use / exclusion of liability

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