23 December 2019 | Structured Finance

Amalia SPV S.r.l.
Italian Consumer CQS ABS

Ratings

Class	Rating	Size (% assets)	Notional (EUR)[1]	Coupon	Final maturity
Senior tranche	NR	83.50%	-	-	-
Class M1	A-$_{SF}$	10.00%	168,977,000	1.75%	October 2029
Class M2	BBB+$_{SF}$	1.15%	19,432,000	2.10%	October 2029
Class M3	BBB$_{SF}$	1.15%	19,432,000	3.10%	October 2029
Class M4	NR	1.20%	20,277,000	3.50%	October 2029
Class J	NR	3.00%	50,693,000	11.90%	October 2029
Total rated notes		12.30%			

Scope's analysis is based on the portfolio dated 30 November 2019 provided by the originator. Scope's Structured Finance Ratings constitute an opinion about relative credit risks and reflect the expected loss associated with the payments contractually promised by an instrument on a particular payment date or by its legal maturity. See Scope's website for the SF Rating Definitions.

Transaction details

Purpose	Risk transfer
Type of transaction	Synthetic funded
Issuer	Amalia SPV S.r.l.
Originator/ portfolio servicer	BNL Finance S.p.A. (BNL Finance or BNLF)
Loan servicer / corporate servicer / RON / calculation agent	Securitisation Services S.p.A.
Verification agent	To be appointed within 3 months
Account bank / paying agent	BNP Paribas Securities Services, Milan Branch (BNP Paribas)
Closing date	23 December 2019
Payment frequency[2]	Quarterly (4 January, 4 April, 4 July and 4 April)

The transaction is a synthetic securitisation of a EUR 1.78bn static portfolio of Italian payroll-deductible loans ('cessione del quinto dello stipendio' or CQS). The transaction structure comprises six tranches, the senior tranche, classes M1 to M4, jointly the mezzanine tranches and the junior tranche. As of November 2019, the reference CQS portfolio of the notes comprises 97.2% 'cessione del quinto' and 2.8% 'delegazione di pagamento' loans extended to employees working for the public administration (10.5%), para-public administration (4.8%) and the private sector (1.5%) as well as pensioners (83.8%).

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; iv) the ability of BNL Finance as originator and reference portfolio servicer; v) the ability of Securitisation Service S.p.A. in its role as risk-transfer loan servicer, corporate servicer, noteholders 'representative and calculation agent; and vi) the counterparty exposure to BNP Paribas Securities Services, Milan Branch as account bank, originator account bank and paying agent.

The ratings account for the respective credit enhancement of the tranches and the pro-rata mechanism of the structure, which is subject to time, performance and amortisation triggers.

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Related Research

Consumer and Auto ABS Rating Methodology

Methodology for Counterparty Risk in Structured Finance

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[1] Notional of the notes is sized to 95% of the reference portfolio.
[2] First payment date will occur on the 6th April 2020

The ratings are also driven by the securitised portfolio's characteristics, its expected performance, and support from the concentrated pool of insurance companies covering life or employment events. The ratings also incorporate our positive assessment of the servicer's abilities and incentives. We considered Italian sovereign risk by assessing the impact of a stress scenario affecting the Italian government and the associated loss severity for the securitised assets.

Rating drivers and mitigants

Positive rating drivers

Experienced originator. BNL Finance is among the most experienced CQS loan originators in Italy, with a track record of above-average performance for its loan book.

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

Partial-sequential amortisation. Time, performance and amortisation triggers protect the class M1 notes from an excessive credit enhancement release through the exclusion of the more junior notes from amortisation.

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

Insurance company concentration. The insurance coverage of the pool is concentrated among only three insurance companies, with Cardif Assicurazioni S.p.A. representing 76.4% of the total exposure to life events and Net Insurance S.p.A. representing 82.1% of the total exposure to employment events. A failure in honouring their obligations would negatively impact the portfolio recovery rate.

Exposure to public entities. A large portion of the portfolio is exposed to public entities that pay salaries or pensions to borrowers (98.5%). These borrowers normally have lower default rates than those in the private sector. However, such a high concentration can increase vulnerability to a sovereign default. Our analysis has considered this by incorporating a sovereign stress event.

Excess spread. Given the synthetic features of the transaction, no excess spread will be available to the structure, which is generally significant for comparable Italian CQS transaction.

Counterparty risk. All funds available for note principal and interest payment are exposed to the credit quality of BNP Paribas group (highly rated by Scope), the holder of the collateral account and payer of the risk-transfer loan interest. A replacement of the bank as account holder upon loss of BBB partially mitigates the risk.

Upside rating-change drivers

A rating upgrade of Italy, an improvement of the insurance companies' credit profile or better-than expected pool performance may lead to an upgrade of the ratings.

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 ratings.

Adverse reference portfolio performance versus our expectations or a significant credit event impacting the state of Italy could also have a negative effect on the ratings.

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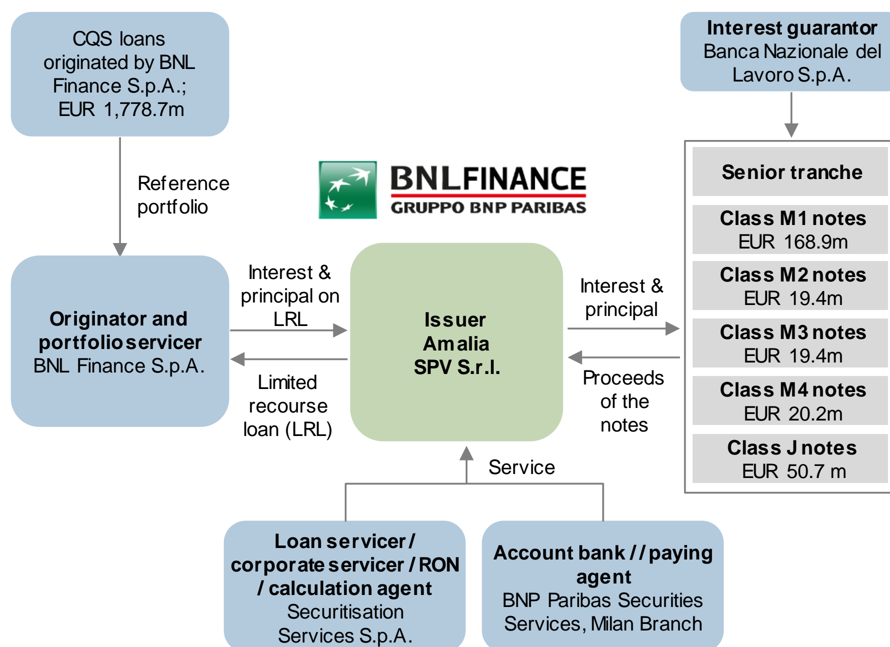
1. Transaction summary

Figure 1: Simplified transaction diagram



Source: Transaction documents and Scope

Amalia SPV S.r.l. is a synthetic securitisation transaction of a static portfolio of Italian CQS loans extended to borrowers in Italy and originated by BNL Finance. CQS loans are collateralised by the debtor's salary or pension and, mainly for employees in the private sector, by any accrued severance amount, e.g. 'trattamento di fine rapporto' or TFR.

2. Originator and seller

BNLF: among market leaders in Italy for CQS with a 13.8% market share

BNL Finance S.p.A. is a fully owned subsidiary of Banca Nazione del Lavoro S.p.A. (part of BNP Paribas group). BNLF is a specialised lender that offers personal finance loans to individuals, mainly Italian CQS loans. As of end-2018, BNLF was among the top players in this segment, with the second largest market share by volume (13.8%) and the largest number of contracts (around 59,000).

During 2018, BNLF originated new loans for an amount of EUR 737m (+31.8% versus 2017). The greatest part of BNLF's originated loans where extended to pensioners (71.6%). The remaining portion is equally distributed between public (16.4%) and private (12.0%) employees.

BNLF's distribution model comprises a network of agents, distributed in all BNL branches, as well as a distribution partnership with BancoPosta, the unit of Poste Italiane (the Italian postal service provider with over 12,000 branches across Italy) that provides financial services. The partnership with BancoPosta is lasting since 2013 and contributes to around 73% of BNL's total origination volume.

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 its main sources of information. The loan applicant's credit 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

BNL Finance is the reference portfolio servicer for the transaction. BNLF's management of collections and non-performing loans is adequate in our view, involving a reasonably proactive and diligent approach.

The collections management is centralised in Rome. Most of the collections are paid via bank transfer and portfolio performance is monitored daily to check for any delinquent payments.

When a loan becomes delinquent, the credit monitoring department contacts both the borrower and the employer within 20 days via phone and email to solicit the payments. After 30 days, a written notice is sent to both the borrower and the employer. BNLF then starts legal proceedings within 30 days unless the borrower or the employer has cured its position.

In case of life and employment events, the credit monitoring department classifies the loans as 'subject to claim' as soon as it receives the death certificate (for life events) or verifies the nature of unemployment (for employment events). For the latter, BNLF sends a request to the employer, asking them 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. In case of an unemployment event BNLF has to show that a reasonable effort of notifying the contract to a potential new employer has been done before the insurance company accepts the claim.

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.

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 private sector 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. The addition of a DP loan can lead to a total monthly instalment of up to 50% of the borrower's net income. DP loans are subordinated to CDQ loans, but this risk is partly mitigated by the originator's familiarity with the existing borrower before a loan is authorised.

For more detail on CQS loans, download our Consumer and Auto ABS Rating Methodology.

3.2. Reference portfolio

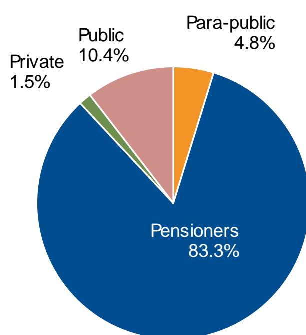
CQS loans mostly extended to pensioners (83.8%)

The EUR 1,778m portfolio[3] comprises 97.2% CDQ and 2.8% DP loans extended to employees working for the public administration (10.5%), para-public administration (4.8%) and the private sector (1.5%), or to pensioners (83.8%).

The current loan portfolio has 2.2 years of weighted average seasoning and a weighted average remaining term to maturity of 6.4 years. Loans transferred to the portfolio have at least one instalment paid and 51.3% of the portfolio was originated between 2018 and 2019 and around 24.9% of the loans will mature between 2027 and 2028.

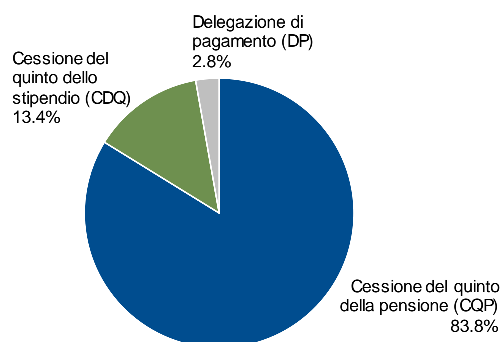
All loans in the pool are amortising and pay monthly instalments at a weighted average fixed interest rate of 8.9%.

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



Source: BNLF, Scope

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

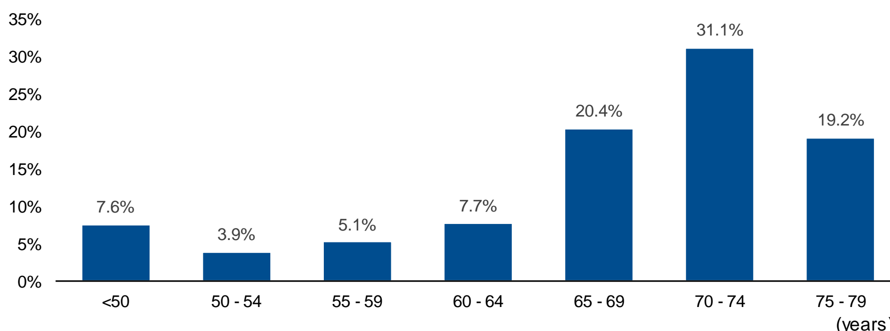


Source: BNLF, Scope

The pool is highly granular with the top one and top 10 borrowers accounting for 0.004% and 0.04%, respectively. Borrowers receiving state salaries or pensions comprise 98.5% of the initial portfolio. The two largest paying entities are the Istituto Nazionale della Previdenza Sociale (the national social welfare institution) and Poste Italiane (the Italian postal service provider), with exposures of 61.3% and 4.65%, respectively. Our analysis incorporates a sovereign stress event to account for risk associated with this link to the state.

[3] As of 30 November 2019

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



Source: BNLF, Scope

3.2.1. Insurance coverage

Highly concentrated insurance coverage

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 is highly concentrated among three insurers, with an inverse-Herfindahl score of 1.6, which is significantly lower than for other Italian CQS transaction rated by Scope. Cardif Assicurazioni S.p.A. (part of BNP Paribas group) is the insurer with the largest exposure covering life events (76.4%), while Net Insurance S.p.A. has the largest exposure for employment events (13.8%). We analysed the effect of a deterioration in the insurance companies' credit quality and take comfort in the credit quality of the insurers.

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

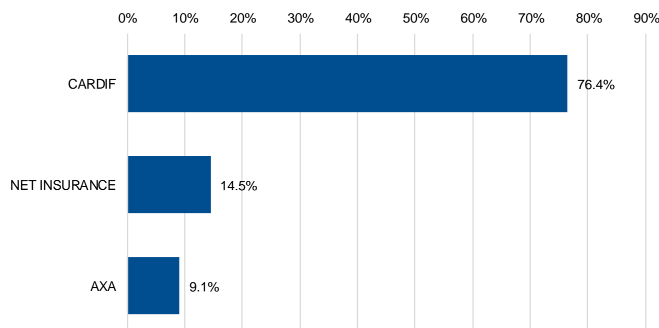
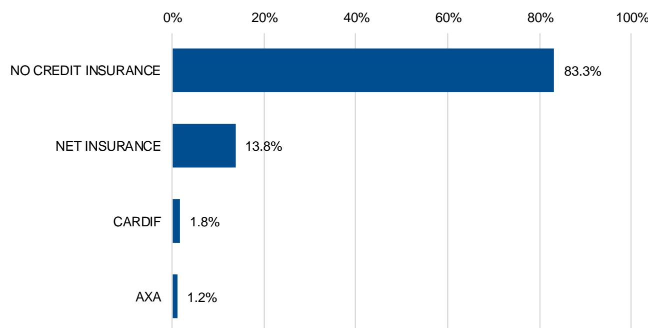


Figure 6: Distribution of insurance companies covering employment events, % of the outstanding balance



Source: BNLF, Scope

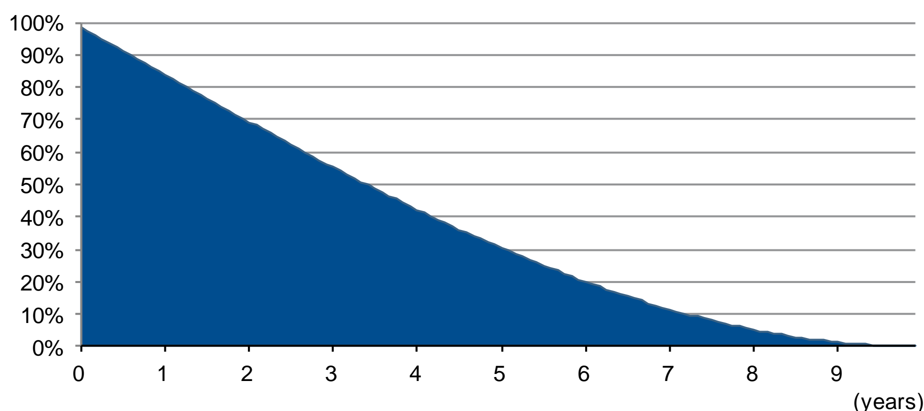
The portfolio is mainly concentrated in central Italy (75.3%), which is a common feature for Italian CQS portfolios. Borrowers in northern and southern regions account, respectively, for 9.3% and 15.4% of the outstanding portfolio.

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 7 shows the amortisation of the pool 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 move to the end of the original amortisation plan.

Figure 7: Projected portfolio amortisation profile



Source: BNLF, Scope

3.4. Portfolio assumptions

We derived default rate and recovery rate assumptions based on 2009-19 vintage data for BNLF's CQS loan book, representative of the securitised portfolio and segmented by type of product (CDQ and DP), employer type (public administration, para-public administration, private sector and pensioners) and origination channel (direct, indirect). These details are shown in Appendix II.

BNLF 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. 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 8: Portfolio assumptions

	Portfolio
Mean default rate	6.5%
Coefficient of variation	30.0%
Base case recovery rate	90.0%
BBB rating-conditional recovery rate	78.2%
Recovery timing	60% after one year, 25% after two years, 10% 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

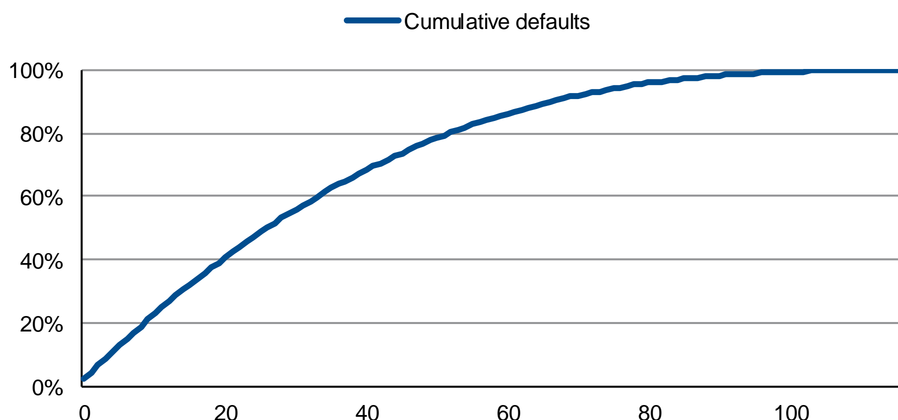
3.4.1. Portfolio defaults

We assumed a front-loaded default term structure

We assumed an inverse Gaussian default distribution, with a mean default rate of 6.5% and a coefficient of variation of 30%. In our analysis, we assumed a front-loaded default term structure, with loans starting to default after 1 month. The cumulative default-timing assumptions are shown in Figure 9 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. Given the partial sequential amortisation of the notes, the analysis also considered the instruments' sensitivity to more front-loaded or back-loaded default timing term structures.

Figure 9: Cumulative default-timing assumption



Source: Scope

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) 90% recovery rate in a scenario where the insurance company does not default (RR1); and ii) 7.6% and 8.4% recovery rate, respectively for the class M1 and the classes M2 and M3, 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 mezzanine notes, we have assumed that the pool of insurance companies will default with a probability of 14.4%.

Figure 10: Rating-conditional recovery rate assumptions

B	BB	BBB	A	AA	AAA
78.5%	78.4%	78.2%	27.0%	14.5%	13.7%

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 90% RR1 calculation is derived from vintage data, which incorporates all three recovery sources, while the 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: 60% after one year, 25% after two years, 10% after three years and the remaining 5% after four years.

4. Financial structure

4.1. Capital structure

The synthetic structure comprises six tranches, class A, classes M1 to M4, jointly the mezzanine tranches and the junior tranche. With the proceeds from the mezzanine and the junior tranches, the issuer provides a risk-transfer loan to the originator, whose

repayment depends on the credit performance of the reference portfolio, i.e. reference portfolio losses will lead to lack of principal repayment on the risk-transfer loan, which would then result in a loss for the tranches. Losses would be allocated in reverse sequential order. Also, losses may be higher than the initial balance of the risk-transfer loan, which would lead to losses on the senior tranche.

The originator will pay an interest rate on the risk-transfer loan to the issuer that is always sufficient to cover the issuer's cost and the interest on the rated tranches.

4.2. Pro-rata risk cover release

Pro-rata release mechanism exposes the structure to default timing and prepayment risk

The tranches' amortisation employs pro-rata amortisation mechanisms, which results in an absolute release of credit enhancement, making the tranches' risk profiles sensitive to default timing and prepayment risk.

The transaction releases the risk cover provided by the different tranches based on reference portfolio amortisation and credit performance.

There are three risk cover release schedules. During the first 18 months, only the senior and M1 tranche will see a risk cover release, if portfolio losses remain below 6%. Thereafter, all tranches will see a risk cover release on a full pro-rata basis, as long as the portfolio losses comply with the schedules in Figure 11 or the outstanding reference portfolio is above 50% of its initial balance. Moreover, outstanding defaults and potential defaults need to be lower than the outstanding balance of the junior tranche. Otherwise, the structure returns to the senior-and-M1-tranche-only risk cover release, until portfolio losses approach 6%, which would trigger the full sequential risk cover release of the tranches from senior to junior.

Figure 11: Triggers on cumulative defaults and cumulative losses

Reporting period	Cumulative default ratio	Cumulative loss ratio
Q3 2021	4.00%	0.7%
Q4 2021	4.50%	0.8%
Q1 2022	5.00%	0.9%
Q2 2022	5.30%	1.0%
Q3 2022	5.50%	1.1%
Q4 2022	5.65%	1.2%
Q1 2023	5.90%	1.3%
Q2 2023	6.00%	1.4%
Q3 2023	6.00%	1.5%
Q4 2023	6.00%	1.5%
2024 and beyond	6.00%	1.5%

4.3. Priority of payments

Priority of payments allocates available funds according to risk cover release schedule

The risk cover releases on the M1 to junior tranche as described in 4.2 will result in an equivalent repayment to the M1 to junior tranche investors. The priority of payments allocates the interest and principal sequentially, however, based on the amounts determined by the relevant risk cover release schedule.

Figure 12 below details the transaction's pre- and post-trigger priority of payments. The latter results in a termination of the transaction and a release of the remaining risk-transfer loan amount to the investors.

Figure 12: Simplified priority of payments and available funds

Pre-trigger priority of payments	Post-trigger priority of payments
Available funds Interest on and repayment of the risk transfer loan determined by risk cover release schedule	**Available funds** Interest on and repayment of the risk transfer loan determined by risk cover release schedule - in case of early termination notice or originator event of default
1) Taxes and expenses	1) Taxes and expenses
2) Class M1 interest	2) Class M1 interest
3) Class M2 interest	3) Class M2 interest
4) Class M3 interest	4) Class M3 interest
5) M1 principal allocation	5) M1 principal allocation
6) M2 principal allocation	6) M2 principal allocation
7) M3 principal allocation	7) M3 principal allocation
8) Class M4 interest	8) Class M4 interest
9) M4 principal allocation	9) M4 principal allocation
10) Junior interest	10) Junior interest
11) Junior tranche principal allocation	11) Junior tranche principal allocation

Source: Transaction documents and Scope

4.4. Liquidity of the structure

Credit protection premium payer's credit quality protects against payment interruption

The credit quality of BNLF, a member of the BNP Paribas group, protects the structure's liquidity, as the bank has to pay the interest on the risk-transfer loan, which covers all interest and costs. The bank also has to repay the risk-transfer loan, net of realised losses to the issuer. Issuer accounts are held at BNP Paribas Securities Services.

4.5. Credit event definition and loss determination

The loss determination mainly happens towards the end of the recovery process, which results in a relatively inefficient trigger that turns the risk cover release mechanism to sequential, terminating any pro-rata amortisation.

The structure resembles the standard default definition evident in true-sale transactions, i.e. esposizione scaduta e/o sconfinante deteriorata ("past due") or inadempienza probabile ("unlikely to pay") or sofferenza ("bad loan"). Losses are determined as 2.3% of the defaulted reference loan amount, which is then adjusted, based on the recoveries that are realised.

The structure is partially protected against moral hazard, stemming from BNLF's discretion in determining credit events and loss claims. A verification agent will check whether default and loss claims are valid on a sample basis, i.e. each quarter it will check the correctness of i) up to 50 credit event/potential credit event claims and ii) up to 20 final loss claims.

4.6. Amortisation and loss allocation

The pro-rata mechanisms that may become activated from time to time lead to a release of absolute credit enhancement for the more senior tranches. The time, performance and amortisation triggers protect the more senior tranches from an excessive credit enhancement release, but the structure is generally weaker than a plain sequential amortisation/risk cover release.

The more senior notes receive additional protection, as the pro-rata calculation considers only the effective outstanding balance of each tranche, i.e. the outstanding tranche balance less losses allocated to the tranche. Losses are allocated in reverse sequential order to the tranches, i.e. from junior to senior.

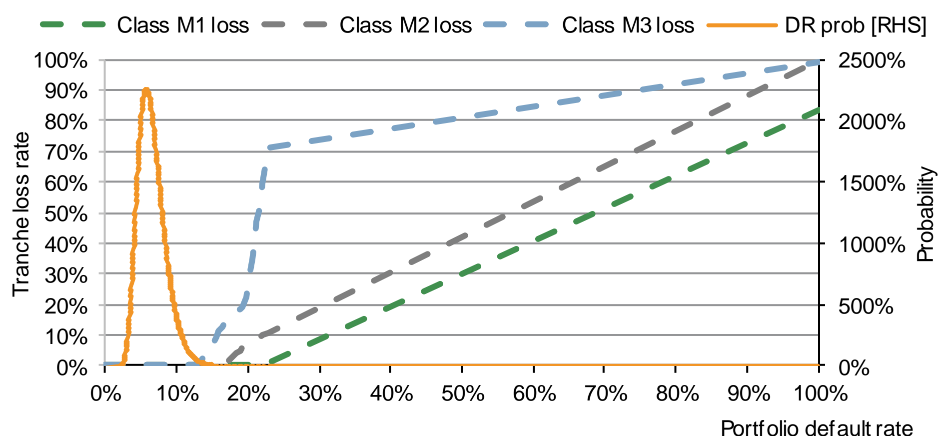
5. Quantitative analysis

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 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 losses of the rated notes at all portfolio default rates. The chart shows how credit enhancement and recovery proceeds protect the notes from reference portfolio losses.

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 M1: sensitivity to default rate, one notch; sensitivity to recovery rate, three notches.
- Class M2: sensitivity to default rate, zero notches; sensitivity to recovery rate, six notches.
- Class M3: sensitivity to default rate, one notch; sensitivity to recovery rate, more than seven 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 98.5% 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 following 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 26 November 2019.

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[4]. 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) BNLF, as originator and reference portfolio servicer; ii) Securitisation Services S.p.A., as risk-transfer loan servicer, calculation agent, representative of the noteholders and corporate servicer; iii) BNP Paribas Securities Services, Milan Branch (BNPSS) as account bank, originator account bank and paying agent.

Counterparty risk from the originator account bank could limit the achievable ratings, as the exposure to BNP is excessive and not sufficiently mitigated. However, the credit quality of the bank does not constrain any of the ratings at their current level.

8.1. Operational risk from servicer

Transaction termination upon originator default eliminates operational risk

Operational risk from BNLF as the servicer is well mitigated in this transaction. First, the high credit quality of its parent bank BNP ensures the servicer's stability. In addition, the transaction terminates upon a default of BNLF, which eliminates further operational exposure.

BNLF is also the payer of the interest on the risk-transfer loan, the only source of funds for the issuer to pay its cost and coupon on the issued instruments.

The operational risk from Securitisation Services S.p.A. is also limited, as we consider BNPSS capable to step-in, in case of a disruption.

8.2. Account bank risk

BNPSS is holder of the collateral and transaction accounts, which exposes the transaction to the credit risk of the bank. The account contains all proceeds available to repay the issued tranches' principal for the entire life of the transaction, subject to periodic releases.

Collateral account holdings expose the transaction to excessive counterparty risk

Scope considers this exposure to the bank excessive, that the replacement mechanism at the loss of BBB does not sufficiently mitigate. Therefore, the credit quality of BNPSS could limit the achievable ratings on the tranches, which is however not the case at the assigned rating levels for the tranches.

In the unlikely case of a BNPSS default, the issuer may still be allowed under Italian law to enforce its claim with respect to the pledged account, i.e. the repayment of the outstanding risk-transfer loan balance to the issuer. However, this concept has yet seen limited practical application and may even be superseded by supranational bankruptcy legislation, in particular in the case of a globally active financial institution like BNPSS.

The high credit quality of BNPSS and the replacement mechanism mitigate the counterparty risk exposure stemming from the transaction accounts well.

9. Legal structure

9.1. Legal framework

This securitisation is governed by Italian law and the terms in the transaction documentation.

9.2. 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.

BNL Finance provided Scope with default and recovery data, segmented by quarterly vintage of origination, by type of product (CDQ and DP), employer type (public administration, para-public administration, private sector and pensioners) and origination

channel (direct, indirect). The default rate data covers a period from 2009 to 2019 and is generally very granular. The recovery data also covers a period from 2009 to 2019, referring to all recoveries during that period.

I. Deal comparison

Transaction	Amalia 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	Dyret
Type of transaction	Synthetic	Cash	Cash	Cash	Cash	Cash	Cash	Cash	Cash
Country	Italy	Italy	Italy	Italy	Italy	Italy	Italy	Italy	Italy
Closing date (dd/mm/yyyy)	23/12/2019	09/10/2019	31/07/2019	05/04/2019	21/11/2018	28/05/2018	29/01/2018	28/09/2017	09/03/2018
Originator	BNL Finance S.p.A.	IBL Banca S.p.A.	IBL Banca S.p.A.	IBL Banca S.p.A.	IBL Banca S.p.A.	IBL Banca S.p.A.	IBL Banca S.p.A.	IBL Banca S.p.A.	Dynamica Retail S.p.A.
Servicer	BNL Finance S.p.A.**	IBL Banca S.p.A.	IBL Banca S.p.A.	IBL Banca S.p.A.	IBL Servicing S.p.A.	IBL Banca S.p.A.	IBL Banca S.p.A.	IBL Banca S.p.A.	Dynamica Retail S.p.A
Back-up servicer	-	Zenith Service SpA	Zenith Service SpA	Zenith Service SpA	Zenith Service SpA	Zenith Service SpA	Zenith Service SpA	Zenith Service SpA	Zenith Service S.p.A.
Back-up servicer facilitator	-	-	-	-	-	-	-	-	Zenith Service S.p.A.
Portfolio characteristics									
Number of loans	191,672	20,379	44,960	14,268	19,397	22,952	13,145	19,884	8,392
Number of borrowers	189,394	19,789	42,492	13,842	18,687	-	-	-	8,392
Original portfolio balance (€)	2,377,388,143	408,142,490	982,255,231	287,877,728	389,163,840	487,141,290	334,298,977	429,475,538	194,603,643
Outstanding portfolio balance (€)	1,778,705,147	383,087,676	604,353,726	280,470,224	376,770,538	437,201,060	157,872,473	361,374,376	160,348,393
Average original loan balance (€)	12,403	20,028	21,847	20,176	20,063	21,224	25,432	21,599	23,189
Average outstanding loan balance (€)	9,280	18,798	13,442	19,657	19,424	19,048	12,010	18,174	19,107
Length of contracts									
WA original term (years)	8.6	9.3	9.8	9.3	9.2	9.3	9.7	9.4	9.6
WA seasoning (years)	2.2	0.5	3.8	0.2	0.3	1.0	4.4	1.6	1.8
WA remaining term (years)	6.4	8.8	6.0	9.1	8.9	8.3	5.3	7.8	7.8
Contract type									
CDQ - Cessione del quinto (%)	97.2%	84.1%	83.8%	82.7%	82.3%	83.4%	77.7%	83.3%	81.4%
DP - Delegazione di pagamento (%)	2.8%	15.9%	16.2%	17.3%	17.7%	16.6%	22.3%	16.7%	18.6%
Portfolio yield									
WA portfolio yield (%)	8.9%	5.9%	5.8%	5.9%	6.2%	6.0%	6.4%	5.9%	4.0%
Type of debtors									
Public/para-public sector employees (%)	15.3%	34.6%	39.2%	37.62%	36.6%	41.2%	39.1%	38.8%	54.8%
State employees (%)	-	11.5%	13.8%	12.00%	12.8%	13.5%	16.7%	15.3%	-
Private sector employees (%)	1.5%	15.1%	4.6%	15.84%	13.7%	8.7%	2.8%	6.8%	9.9%
Pensioners (%)	83.3%	38.8%	42.3%	34.54%	36.9%	36.6%	41.4%	39.1%	35.3%
Borrower concentration									
Top 1 (%)	0.004%	0.03%	0.01%	0.04%	0.03%	0.02%	0.04%	0.03%	-
Top 10 (%)	0.04%	0.24%	0.12%	0.35%	0.23%	0.19%	0.30%	0.21%	-
Employer concentration									
Top 1 (%)	61.3%	1.9%	3.1%*	2.4%*	1.4%*	2.0%*	2.0%*	2.0%*	34.3%
Top 10 (%)	4.7%	6.2%	8.8%*	6.7%*	4.7%*	10.9%*	7.2%*	6.5%*	54.7%
Public sector exposure (%)	89.5%	84.9%	95.4%	84.2%	86.3%	91.3%	97.2%	93.2%	90.1%
Employer regional concentration									
North	9.3%	29.5%	28.4%	29.4%	30.2%	29.1%	27.9%	25.7%	16.4%
Centre	75.3%	29.6%	32.1%	30.6%	28.4%	28.9%	31.3%	31.0%	21.8%
South	15.4%	40.8%	39.5%	40.1%	41.4%	42.0%	40.8%	43.3%	61.8%
Top region	Lazio - 71.8%	Lazio - 20.0%	Lazio - 21.0%	Lazio - 21.2%	Lazio - 18.9%	Lazio - 19.4%	Lazio - 21.5%	Lazio - 20.4%	Campania - 27.3%
Insurance company exposure									
Top 1 life insurance	76.4%	29.9%	27.8%	28.5%	27.0%	24.8%	25.2%	21.8%	21.8%
Top 2 life insurance	90.9%	46.2%	47.9%	46.7%	45.1%	43.6%	47.2%	43.1%	42.0%
Top 3 life insurance	100.0%	61.3%	67.1%	61.6%	61.7%	58.9%	66.2%	59.4%	58.6%
Top 1 unemployment insurance	13.8%	13.6%	19.1%	14.5%	16.5%	18.4%	25.2%	20.5%	21.8%
Top 2 unemployment insurance	15.6%	25.9%	37.9%	28.7%	28.5%	33.6%	44.6%	36.8%	42.0%
Top 3 unemployment insurance	16.7%	35.2%	49.4%	40.8%	39.9%	46.4%	54.0%	48.1%	58.6%
Assumptions summary									
Default definition	1 month	8 months	1 month	8 months	8 months	8 months	8 months	8 months	9 months
Mean default	6.5%	7.5%	5.5%	7.5%	7.5%	7.0%	5.0%	6.0%	10.5%
Coefficient of variation	30%	40%	40%	40%	40%	40%	45%	45%	35.0%
Recovery rate (insurance coverage)	90.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%
Recovery rate (no insurance coverage)	10.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
AAA scenario recovery rate	13.7%	49.0%	56.7%	48.7%	52.8%	54.4%	30.2%	55.6%	42.9%
Recovery timing	4 yrs - (60% + 25% + 10% + 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%)	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	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	5% from year 1 to year 3 10% thereafter
Portfolio yield	N/A	5.1%	4.4%	5.1%	5.3%	5.2%	5.8%	5.1%	3.8%
Insurers' inverse-Herfindahl metric	1.6	5.8	5.7	5.8	6.0	5.7	4.3	5.1	5.9
Insurers' correlation	20%	20%	20%	20%	20%	20%	20%	20%	20.0%
Public sector exposure (%)	98.5%	84.9%	95.4%	84.2%	86.3%	91.3%	97.2%	93.2%	85.0%
Private sector exposure (%)	1.5%	15.1%	4.6%	15.8%	13.7%	8.7%	2.8%	6.8%	15.0%
Structural features									
Tranching									
Class A	NR	AAA	AA+	AAA	AAA	AAA	AAA	AAA	NR
CE Class A	16.5%	10.5%	8.0%	11.5%	21.0%	14.0%	18.0%	9.0%	20.5%
Class B	A-	NR	NR	NR	A+	NR	NR	NR	BBB+
CE Class B	6.5%	0.0%	0.0%	0.0%	7.0%	0.0%	0.0%	0.0%	10.3%
Class C	BBB+	-	-	-	NR	-	-	-	BB
CE Class C	5.4%	-	-	-	0.0%	-	-	-	4.7%
Class D	BBB	-	-	-	-	-	-	-	NR
CE Class D	4.2%	-	-	-	-	-	-	-	0.0%
Class E	NR	-	-	-	-	-	-	-	-
CE Class E	3.0%	-	-	-	-	-	-	-	-
Class F	NR	-	-	-	-	-	-	-	-
CE Class F	0.0%	-	-	-	-	-	-	-	-
Cash reserve (% of rated notes)	N/A	2.6%	2.6%	2.7%	2.6%	2.9%	3.3%	1.8%	2.0%
Revolving period (years)	0	0	0	0	0	0	0	0	0.75
Commingling risk (yes/no)	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Commingling risk mitigants	-	- Daily sweeps - Notification to borrowers to redirect payments into the issuer account upon servicer disruption	- Daily sweeps - Notification to borrowers to redirect payments into the issuer account upon servicer disruption	- Daily sweeps - Notification to borrowers to redirect payments into the issuer account upon servicer disruption	- Daily sweeps - Notification to borrowers to redirect payments into the issuer account upon servicer disruption	- Daily sweeps - Notification to borrowers to redirect payments into the issuer account upon servicer disruption	- Daily sweeps - Notification to borrowers to redirect payments into the issuer account upon servicer disruption	- Daily sweeps - Notification to borrowers to redirect payments into the issuer account upon servicer disruption	Daily sweeps
Set-off risk (yes/no)	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 - 1.3% of balance of each loan
Type of swap	N/A	N/A	N/A	N/A	Fixed-to-floating IRS	Fixed-to-floating IRS	N/A	N/A	N/A
Swap co. rating trigger	N/A	N/A	N/A	N/A	A-	A-	N/A	N/A	N/A

* INPS (Istituto Nazionale della Previdenza) and Italian Ministry of Finance are excluded from this figure.

** BNL Finance S.p.A. will act as portfolio servicer, while Securitisation Services S.p.A. will act as risk-transfer loan servicer.

II. Vintage data provided by originator

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

Vintage data is granular and representative of the portfolio.

Figure 14: Public and para-public administration – default and recovery data

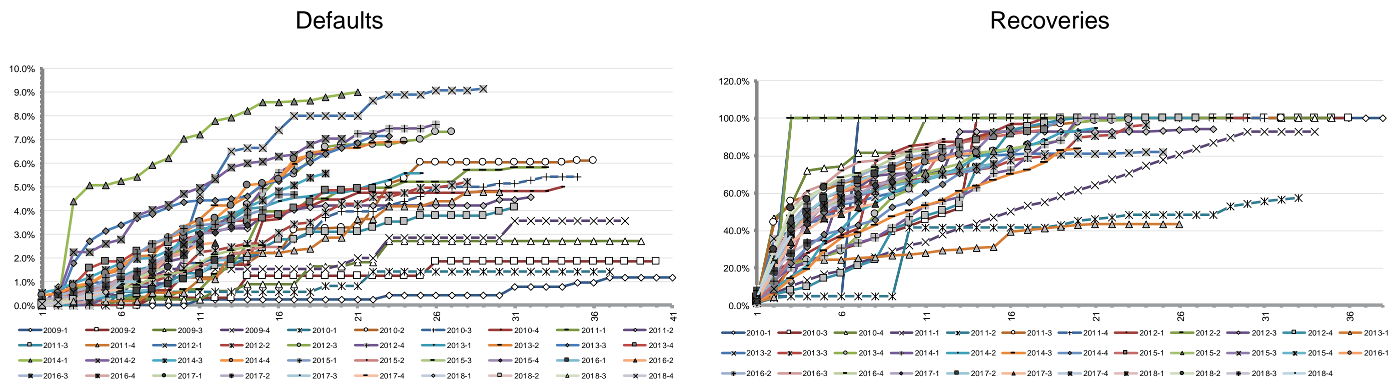


Figure 15: Pensioners – default and recovery data

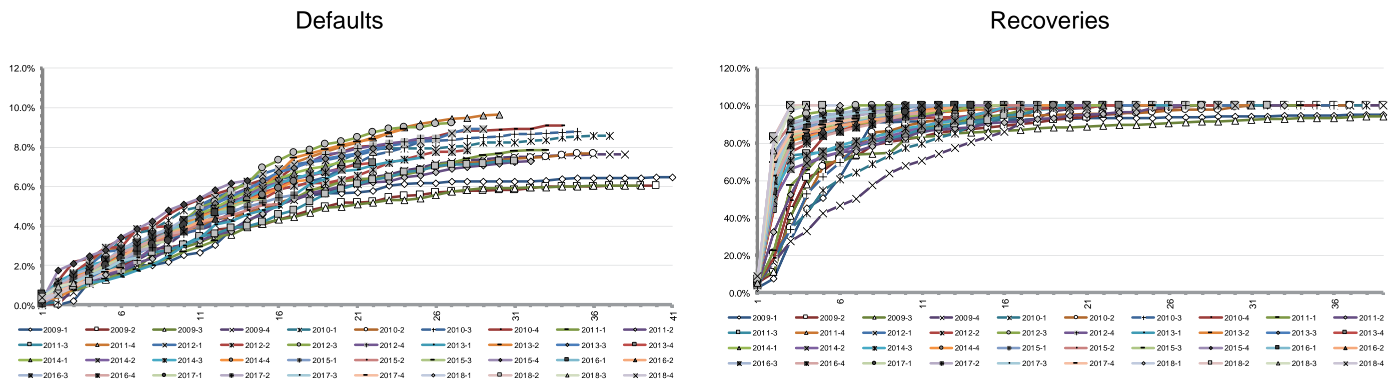
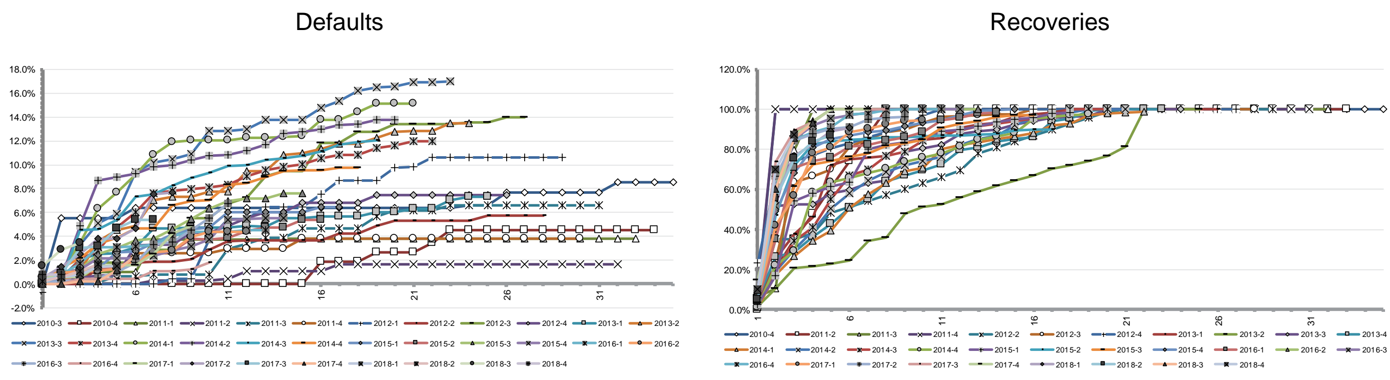


Figure 16: Private sector – default and recovery data



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