

MOODY'S

INVESTORS SERVICE

Rating Action: Moody's assigns definitive ratings to Italian RMBS notes issued by Berica ABS 5 S.r.l.

Global Credit Research - 01 Mar 2017

London, 01 March 2017 -- Moody's Investors Service has today assigned definitive long-term credit ratings to the notes issued by Berica ABS 5 S.r.l.:

EUR 507,200,000 Class A Residential Mortgage Backed Floating Rate Notes due November 2067, Assigned Aa2(sf)

EUR 39,200,000 Class B Residential Mortgage Backed Floating Rate Notes due November 2067, Assigned A1(sf)

EUR 20,600,000 Class C Residential Mortgage Backed Floating Rate Notes due November 2067, Assigned A3(sf)

Moody's has not assigned ratings to the EUR 51,519,000 Class J Residential Mortgage Backed Floating Rate Notes due November 2067.

The transaction represents the fifteenth securitization transaction rated by Moody's with loans originated by Banca Popolare di Vicenza S.p.A. ("BPVi", not rated) and Banca Nuova S.p.A. ("BN", not rated), both part of Banca Popolare di Vicenza group. The assets supporting the notes, which amount to around EUR 618.5 million, consist of prime residential mortgage loans extended to individuals with a first economic lien on residential properties located in Italy.

Each bank will service its own portfolio, with BPVi assuming the role of master servicer at closing, Zenith Service S.p.A. ("Zenith", not rated) acting as Back-Up Servicer and 130 Finance S.r.l. ("130 Finance", not rated) as Back-Up Servicer Facilitator. In addition, to ensure payment continuity over the transaction's lifetime, the transaction documents incorporate estimation language according to which the calculation agent BNP Paribas Securities Services (A1/P-1), acting from its Milan Branch, will prepare the payment report based on estimates if the servicer report is not available. In such a case, only interest on the rated notes (if not deferred) and items senior thereto will be paid.

RATINGS RATIONALE

The rating takes into account the credit quality of the underlying mortgage loan pool, from which Moody's determined the MILAN Credit Enhancement ("MILAN CE") and the portfolio expected loss, as well as the transaction structure and legal considerations. The expected portfolio loss of 3.5% and the MILAN CE of 12.5% serve as input parameters for Moody's cash flow model and tranching model, which is based on a probabilistic lognormal distribution.

The key drivers for the portfolio expected loss of 3.5%, which is in line with the Italian RMBS sector average, take into account: (i) 12 years of vintage data from the originators' books, showing an average cumulative default rate of 6.3%; (ii) 12 years of dynamic delinquency data from the originators' books which shows that the 90+ delinquency rate has increased consistently from 1.0% in November 2006 to 5.1% in July 2016; (iii) 13 years of vintage data from the originators' books showing an average recovery rate on closed files around 85% (7 years after default) and recovery rates on open files ranging between 20%-50%; (iv) the performance of the previous RMBS transactions under the Berica series; (v) the stable outlook that Moody's has on Italian RMBS; and (vi) benchmarking with other comparable Italian RMBS transactions.

The key drivers for the MILAN CE of 12.5%, which is similar to the Italian RMBS sector average, take into account: (i) the weighted average CLTV of 60.43% on a non-indexed basis; (ii) the low seasoning (one year); (iii) self-employed borrowers accounting for 21.01% of the pool; (iv) properties backing the loans and located in Southern Italy representing 20.4% of the portfolio; (v) Moody's assessment of origination and servicing processes, that resulted in a origination score below the Italian average, and (vi) benchmarking with other Italian RMBS transactions.

Transaction structure: The transaction benefits from an amortising Cash Reserve sized at 3% of the initial balance of the rated notes and fully funded at closing via a subordinated loan provided by BPVi. The Cash Reserve is replenished in the waterfall immediately after payment of interest on the Class C notes (if not deferred), therefore mainly acting as a source of liquidity for the rated notes. However, it can provide credit support to the Class A notes at final legal maturity and, in addition, the amounts that are released when it is amortised can also be used as credit support for the Class A notes. The Cash Reserve can amortise from the payment date in May 2020 (if the cumulative default rate is below 5%) and in any case will amortise from the payment date in August 2022, to 3% of the outstanding balance of the rated notes, with a floor of 1% of the initial balance of the rated notes. The Cash Reserve will be reduced to zero after Class A notes are fully redeemed. The transaction also benefits from principal to pay interest mechanism for the rated notes.

Operational risk analysis: BPVi acts as servicer of its own portfolio and master servicer. In order to mitigate the operational risk, Zenith has been appointed as Back-Up Servicer at closing and will step in as servicer and master servicer should the appointment of BPVi be terminated. In addition, 130 Finance (the Back-Up Servicer Facilitator) will help the Issuer to select a suitable Back-Up Servicer if the appointment of the Back-Up Servicer terminates or in case the Back-Up Servicer assumes the role of Servicer.

Interest Rate Risk Analysis: The portfolio comprises pure floating rate loans (41.85%), floating rate loans with a cap (16.05%), fixed rate loans (38.57%) and optional loans (3.53%) where the interest rate can switch every three years to a fixed rate or a floating rate. The rated notes pay 3-month Euribor plus a spread and coupons on Class B and C notes are capped at 4%. In order to hedge the fixed-floating rate risk and the basis risk, the Issuer entered into four swaps with J.P. Morgan Securities plc ((P)Aa2/P-1) as swap counterparty: a fixed-floating interest rate swap, a basis swap and two capped basis swaps. The collateral trigger has been set at loss of A2/P-1 and the transfer trigger at loss of Baa2/P-2 and Moody's has considered the resulting linkage in its analysis. Moody's has also applied a haircut to the portfolio yield to account for the spread compression due to the earlier amortization of loans with higher interest rate and for the potential renegotiation capabilities that are quite significant for this transaction.

The definitive ratings address the expected loss posed to investors by the legal final maturity of the notes. In Moody's opinion, the structure allows for timely payment of interest and ultimate payment of principal by the legal final maturity with respect to the Class A, B and C notes. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.

Stress Scenarios:

Moody's Parameter Sensitivities: If the portfolio expected loss was increased from 3.5% to 5.25% of the current portfolio balance, and the MILAN CE remained at 12.5%, the model output indicates that the Class A and B notes would still achieve Aa2(sf) and A1(sf), respectively, and Class C would achieve Baa1(sf), assuming that all other factors remained equal. Moody's Parameter Sensitivities quantify the potential rating impact on a structured finance security from changing certain input parameters used in the initial rating.

Moody's Parameter Sensitivities provide a quantitative/model-indicated calculation of the number of rating notches that a Moody's structured finance security may vary if certain input parameters used in the initial rating process differed.

The analysis assumes that the deal has not aged and is not intended to measure how the rating of the security might migrate over time, but rather how the initial rating of the security might have differed if key rating input parameters were varied. Parameter Sensitivities for the typical EMEA RMBS transaction are calculated by stressing key variable inputs in Moody's primary rating model.

The principal methodology used in these ratings was "Moody's Approach to Rating RMBS Using the MILAN Framework" published in September 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

The analysis undertaken by Moody's at the initial assignment of ratings for RMBS securities may focus on aspects that become less relevant or typically remain unchanged during the surveillance stage. Please see Moody's Approach to Rating RMBS Using the MILAN Framework for further information on Moody's analysis at the initial rating assignment and the on-going surveillance in RMBS.

Factors that would lead to an upgrade or downgrade of the ratings:

Factors that may lead to an upgrade of the ratings include significantly better than expected performance of the pool and increase in the credit enhancement of the notes together with an increase of the Italian Local

Currency Country Risk Ceiling.

Factors that may cause a downgrade of the ratings include significantly different realized losses compared with our expectations at close due to either a change in economic conditions from our central scenario forecast or idiosyncratic performance. For instance, should economic conditions be worse than forecast, the higher defaults and loss severities resulting from a greater unemployment, worsening household affordability and a weaker housing market could result in downgrade of the ratings. A deterioration in the notes available credit enhancement could result in a downgrade of the ratings. Additionally counterparty risk could cause a downgrade of the rating due to a weakening of the credit profile of transaction counterparties. Finally, unforeseen regulatory changes or significant changes in the legal environment may also result in changes of the ratings.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions of the disclosure form.

The analysis relies on an assessment of collateral characteristics to determine the collateral loss distribution, that is, the function that correlates to an assumption about the likelihood of occurrence to each level of possible losses in the collateral. As a second step, Moody's evaluates each possible collateral loss scenario using a model that replicates the relevant structural features to derive payments and therefore the ultimate potential losses for each rated instrument. The loss a rated instrument incurs in each collateral loss scenario, weighted by assumptions about the likelihood of events in that scenario occurring, results in the expected loss of the rated instrument.

Moody's describes the stress scenarios it has considered for this rating action in the section "Ratings Rationale" of this press release.

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Elisa Scalco
Analyst
Structured Finance Group
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA

United Kingdom
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Barbara Rismondo
Senior Vice President/Manager
Structured Finance Group
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Releasing Office:
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454



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