MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns definitive ratings to Italian ABS notes backed by Unicredit NPLs issued by Fino 1 Securitisation S.r.l.

Global Credit Research - 23 Nov 2017

Milan, November 23, 2017 -- Moody's Investors Service ("Moody's") has today assigned definitive long-term credit ratings to the following notes issued initially in July 2017 and amended on the 22th November 2017 by Fino 1 Securitisation S.r.l. (the "Issuer"):

....EUR650,000,000 Class A Asset-Backed Floating Rate Notes due October 2045, Assigned A2 (sf)

....EUR29,640,000 Class B Asset-Backed Floating Rate Notes due October 2045, Assigned Ba3 (sf)

....EUR40,000,000 Class C Asset-Backed Floating Rate Notes due October 2045, Assigned B1 (sf)

Moody's has not assigned any rating to EUR50,311,000 Class D Asset-Backed 12 per cent and Variable Return Notes due October 2045, which were also issued at the closing of the transaction in July 2017.

RATINGS RATIONALE

This is the first transaction backed by non-performing loans ("NPLs") rated by Moody's with loans originated by Unicredit S.p.A. ("Unicredit"; Baa1/P-2/Baa1(cr)/P-2(cr)). The assets supporting the notes are NPLs with a gross book value (GBV) of EUR5,374 million as of 3 July 2017. From this amount we have deducted collections received from that date up to 4 November 2017 not available for the future.

The portfolio is serviced and will continue to be serviced by doBank S.p.A. ("doBank"; NR) in its role as master and special servicer. The servicing activities performed by doBank are monitored by the portfolio monitor agent, an entity affiliated with Fortress (i.e. Fortress Italian NP Opportunities Series Fund LLC Series 8, NR). Neither a back-up servicer nor a back-up servicer facilitator has been appointed at date of the rating assignment, however the portfolio monitor agent will monitor the performance of the special servicer by sub-portfolios and may start a benchmarking process in the event of under-performance with respect to business plan. Moreover, if the servicer report is not available at any payment date, the continuity of payment for the rated notes will be assured by the calculation agent that prepares the payment report based on estimates and a simplified waterfall.

Moody's ratings reflect an analysis of the characteristics of the underlying pool of defaulted loans, sector-wide and originator-specific performance data, protection provided by credit enhancement, the roles of external counterparties, and the structural integrity of the transaction. In order to estimate the cash flows generated by the pool Moody's used a model that, for each loan, generates an estimate of: (i) the timing of collections; and (ii) the collected amounts, which are used in a cash flow model that is based on a Monte Carlo simulation.

The key drivers for the estimates of the collections and their timing are: (i) the historical data received from the special servicer, which shows historical recovery rates and timing of collections for secured and unsecured loans; (ii) the portfolio composition with 48% of the GBV being unsecured loans (where at least one loan attached to the borrower has defaulted within the last 2 years) and 52% of the GBV representing secured loans (thereof about 5% of the GBV secured by a second or lower ranking lien); (iii) 93% of the GBV are loans owned by companies, while the remaining 7% of the GBV are loans where the borrower was a business owner; (iv) 80% of the GBV are loans mostly owned by borrowers defaulted from 2010 onwards (so called "small and medium-sized portfolio"), while the remaining 20% of the GBV are loans where the borrower usually defaulted before 2010 (so called "legacy portfolio"); (v) in relation to the secured portfolio, residential properties represent around 49% of the total real estate valuation amount, the remaining being commercial properties by different types (land and hotels represents 2.9% and 3.6%, respectively). Properties located in the North of Italy account for approximately 45% of the total valuation amount. Out of the 26,913 properties backing the portfolio we have only considered 12,633 properties, because some key information, such as the real estate valuation and the mortgage amount, were not available; (vi) 36% of the GBV are loans undergoing an insolvency process (including a bankruptcy process), which usually takes significantly longer than a foreclosure; (vii) loans representing around 57.9% of the GBV for the secured portion of the portfolio are in their initial legal proceeding stage (typically with a refreshed real estate valuation), the remainder being mainly in the process to be evaluated by an expert appointed by the court or in the auction phase (for a total of around 31% of the secured portfolio, typically with a valuation provided by an expert appointed by the court, but sometime dated before 2014); and (viii) benchmarking with comparable Italian NPL transactions.

Hedging: As the collections from the pool are not directly connected to a floating interest rate, a higher index payable on the notes would not be offset with higher collections from the pool. The transaction therefore benefits from an interest rate cap agreement, linked to three-month EURIBOR, with HSBC France (Aa2(cr)/P-1(cr)) as cap counterparty. The notional of the interest rate cap is equal to EUR 650,000,000 (i.e. at the date of rating assignment equal to the outstanding balance of the Class A) decreasing over time. The cap will have a strike starting at 0.50% moving up to 1.5%.

Transaction structure: The transaction benefits from an amortising cash reserve equal to 5% of the Class A notes balance (equivalent to EUR32.5 million at rating date assignment), which will be funded by a limited recourse loan extended by Natixis (A1(cr)/P-1(cr)) in case of any shortfall on the first payment date in January 2018. The cash reserve is replenished after the interest payments on the Class A notes. However Moody's notes that (i) the cash reserve is not available to cover Class B and C interest; (ii) unpaid interests on Class B and C are deferrable without accruing interests on interests; and (iii) interests on Class B and C move to a more a junior position upon certain performance triggers being breached. Moody's has factored in the rating of Class B and C the high likelihood of a prolonged period of deferral of interests without accruing interests on interests.

Moody's used its NPL cash-flow model as part of its quantitative analysis of the transaction. The Moody's NPL model enables users to model various features of a European NPL ABS transaction, such as recovery rates under different scenarios, yield as well as the specific priority of payments and reserve funds on the liability side of the ABS structure.

Moody's Parameter Sensitivities: The model output indicates that (i) with respect to the secured portion of the portfolio, if the price volatility were to be increased to 8.08% from 6.73% for residential properties and to 9.94% from 8.29% for commercial properties and it would take an additional 18 months to go through the foreclosure process; and (ii) with respect to the unsecured portion of the portfolio, if the volatility (i.e. the standard deviation divided by mean recovery rate) were to be increased to 20% from 5%, the Class A notes rating would move to Baa2 (sf) assuming that all other factors remained unchanged. 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 ABS transaction are calculated by stressing key variable inputs in Moody's primary rating model.

METHODOLOGY

The principal methodology used in these ratings was "Moody's Approach to Rating Securitisations Backed by Non-Performing and Re-Performing Loans" published in August 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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 with respect to the Class A notes by legal final maturity only. Other non-credit risks have not been addressed, but may have significant effect on yield to investors.

FACTORS THAT WOULD LEAD TO A UPGRADE OR DOWNGRADE OF THE RATINGS:

Factors that may lead to an upgrade of the ratings include that the recovery process of the defaulted loans produces significantly higher cash flows realised in a shorter time frame than expected. Factors that may cause a downgrade of the ratings include significantly less or slower cash flows generated from the recovery process compared with our expectations at close due to either a longer time for the courts to process the foreclosures and bankruptcies or a change in economic conditions (such as the situation of the real estate market) from our central scenario forecast or idiosyncratic performance factors. For instance, should economic conditions be worse than forecasted and the sale of the properties would generate less cash flows for the Issuer or it would take a longer time to sell the properties, all these factors 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 a Monte Carlo simulation that generates a large number of collateral loss or cash flow scenarios, which on average meet key metrics Moody's determines based on its assessment of the collateral characteristics. Moody's then evaluates each simulated scenario using model that replicates the relevant structural features and payment allocation rules of the transaction, to derive losses or payments for each rated instrument. The average loss a rated instrument incurs in all of the simulated collateral loss or cash flow scenarios, which Moody's weights based on its assumptions about the likelihood of events in such scenarios actually occurring, results in the expected loss of the rated instrument.

Moody's quantitative analysis entails an evaluation of scenarios that stress factors contributing to sensitivity of ratings and take into account the likelihood of severe collateral losses or impaired cash flows. Moody's weights the impact on the rated instruments based on its assumptions of the likelihood of the events in such scenarios occurring.

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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