MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns definitive rating to Italian ABS notes backed by NPLs issued by Siena NPL 2018 S.r.l.

10 May 2018

Milan, May 10, 2018 -- Moody's Investors Service ("Moody's") has today assigned definitive long-term credit rating to the following notes issued by Siena NPL 2018 S.r.l. (the "Issuer"), the notes have been initially issued in December 2017 and restructured on the 10th of May 2018:

....EUR 2,918,200,000 Class A Asset-Backed Floating Rate Notes due January 2033, Assigned A3 (sf)

Moody's has not assigned any rating to EUR 847,600,000 Class B Asset-Backed Floating Rate Notes due January 2047 and EUR 565,000,000 Class J Asset-Backed Fixed Rate and Variable Return Notes due January 2047.

RATINGS RATIONALE

This is the first transaction rated by Moody's backed by non-performing loans ("NPLs") originated by Banca Monte dei Paschi di Siena S.p.A. ("BMPS"; B1/Not Prime Bank Deposit/B1(cr)/NP(cr)), MPS Capital Services Banca per le Imprese S.p.A. ("MPS Capital Services"; Not Rated) and Monte dei Paschi di Siena Leasing and Factoring, Banca per i Servizi Finanziari alle Imprese S.p.A. ("MPS Leasing & Factoring"; Not Rated). The originators are securitizing the majority of their NPL exposure equivalent to a gross book value ("GBV") of around €24,071 million as of the 30th of September 2017 ("Cut Off Date").

The portfolio will be serviced by four special servicers, each for a pre-assigned portion of the pool: Credito Fondiario SpA ("Credito Fondiario"; Not Rated) servicing around 6.2% of the pool, Italfondiario SpA ("Italfondiario"; Not Rated) servicing 31.2% of the portfolio, Prelios Credit Servicing S.p.A. ("PRECS"; Not Rated) servicing 4.5% of the portfolio and "Juliet S.p.A." ("Juliet"; Not Rated) servicing the remaining 58.1% of the pool. Cerved Credit Management S.p.A. ("Cerved"; Not Rated) has incorporated a new legal entity under the name "Quaestio Cerved Credit Management S.p.A." ("Quaestio"; Not Rated) that will acquire Juliet, a new legal entity incorporated by BMPS for the purpose of carrying out special servicing activities in Italy. Juliet will be servicing the portfolio subject to consummation of acquisition and obtainment of all required authorisations. Until the date Juliet becomes fully operative and duly authorised, Cerved will act as special servicer for the portion of the portfolio that will be ultimately serviced by Juliet. Credito Fondiario will also act as master servicer. The transaction does not envisage a back-up servicer nor a back-up servicer facilitator, however each special servicer commits to service all or part of the other special servicers' portfolios should a termination event occurs. To ensure payment continuity over the transaction's lifetime, the transaction documents incorporate estimation language that the calculation agent will use to prepare the payment report, if the quarterly servicer report is not available.

The transaction also envisages the involvement of a Real Estate Operating Company ("ReoCo"): each special servicer may propose the ReoCo's intervention at auction, if it determines that the reserve price at auction is lower than the real estate prospective price in the open market. The ReoCo will immediately acquire the ownership of the property and it will pay the agreed purchase price at auction to the SPV only when it succeeds to sell the real estate asset in the open market. A loan provided by the mezzanine noteholders will fund the auction deposit and the ReoCo operating costs. The ReoCo can at any time own properties for an amount not higher than €100 million of equivalent real estate value. Our analysis takes into account the additional risk due to the conversion of some of the SPV secured loans into an unsecured claim towards the ReoCo.

Moody's rating reflects 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 then 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) historical data received from the originators and from the special servicers, providing historical recovery rates and timing of collections for secured and unsecured loans; (ii) the portfolio composition and (iii) the data quality: a number of information on the secured portion of the portfolio was missing and we have not received updated third party valuations of the real estate assets in the portfolio.

In terms of portfolio composition we note that: 55% of the GBV refers to unsecured loans and 45% of the GBV to secured loans (out of which about 5.1% in terms of GBV secured by a second or lower ranking lien); 81% of the GBV are loans to companies, while the remaining 19% of the GBV are loans to individuals; residential properties represent around 37.5% of the total real estate valuation amount; 18.3% of the secured pool by real estate valuation amount has a real estate property value higher than €10 million.

We have also taken into account the fact that, differently to other Italian NPL transactions, the business plan that will be used to track the special servicers' performance has been prepared on the basis of statistical assumptions, rather than on the assessment of individual NPL positions.

Hedging: as the collections from the pool are not directly linked 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 Bank Plc (Aa2(cr) On Review for Downgrade/P-1(cr)) and Mediobanca S.p.A.-Banca di Credito Finanziario S.p.A. (Baa1(cr) /P-2(cr)) as rate cap counterparties. The notional of the interest rate cap is equal to the outstanding balance of the Class A notes and amortizes with a maximum band. The cap strike starts at 0.50% at closing and moves up to 3% with a 25bps increase each three quarters. Moody's notes that in its expected scenario the Class A notes are fully hedged by the cap.

Transaction structure: the transaction benefits from a fully funded amortizing cash reserve equal to 3.5% of the Class A notes balance (equivalent to around EUR 102 million at the date the rating is assigned). The cash reserve is replenished after the interest payments on the Class A notes. Class B notes interests are not covered by the cash reserve nor by the interest rate cap. The class B notes interests are senior to the senior notes principal, nonetheless (i) Class B notes interests are capped at 8%; (ii) deferred interests on class B notes always rank junior to Class A notes principal ; and (iii) should the cumulative recoveries being lower than 50% of the special servicers' business plan, Class B interests will become junior to Class A notes principal repayment.

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 7.40% from 6.73% for residential properties and to 9.11% from 8.29% for commercial properties and it would take an additional 12 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 6% 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 this rating 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 rating addresses 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 RATING:

Factors that may lead to an upgrade of the rating 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 rating 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 rating. 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 rating.

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 includes an assessment of collateral characteristics and performance to determine the expected collateral loss or a range of expected collateral losses or cash flows to the rated instruments. As a second step, Moody's estimates expected collateral losses or cash flows using a quantitative tool that takes into account credit enhancement, loss allocation and other structural features, to derive the expected loss for each 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.

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