Press Release

DBRS Assigns Rating to Valsabbina SME SPV S.r.l.

Structured Credit

July 19, 2019

DBRS Ratings GmbH (DBRS) assigned an A (low) (sf) rating to the EUR 542,200,000 Class A Asset Backed Partly Paid Notes due July 2060 (the Class A Notes) issued by Valsabbina SME SPV S.r.l. (the Issuer or Valsabbina SME SPV).

The rating on the Class A Notes addresses the timely payment of interest and ultimate payment of principal on or before the final maturity date. The Issuer also issued EUR 318,300,000 Class J Asset Backed Partly Paid Notes due July 2060 (the Class J Notes and together with the Class A Notes, the Notes), which were not rated by DBRS.

Valsabbina SME SPV is a cash flow securitisation collateralised by a portfolio of performing mortgage and non-mortgage loans to Italian small and medium-sized enterprises (SMEs), entrepreneurs, artisans and producer families. The loans were mainly granted by Banca Valsabbina S.C.p.A. (Banca Valsabbina or the Originator), but also by Credito Veronese S.p.A., a bank that merged into Banca Valsabbina in 2012 (0.3% of the total initial portfolio).

The total initial portfolio will be transferred in two stages. On 30 June 2019, Banca Valsabbina transferred the first initial portfolio consisting of 2,186 loans with a total outstanding balance of EUR 423.53 million. The second initial portfolio will be transferred on 31 August 2019 and consist of additional loans with a maximum total outstanding balance of EUR 426.05 million.

Similarly, the Issuer issued the nominal amount of the notes on the issue date (19 July 2019) on a partly paid basis, the initial instalment, to fund the acquisition of the first initial portfolio, the cash reserve and the initial expenses. On or before 30 September 2019 (the incremental instalment date), the proceeds from the incremental instalment on the Notes will fund the purchase of the second initial portfolio and the respective increase of the cash reserve. The proceeds from the initial instalment on the Notes totalling EUR 429.50 million correspond to the EUR 270.63 million paid on the Class A Notes and EUR 158.87 million paid on the Class J Notes.

The transaction includes a 24-month revolving period, scheduled to end in July 2021 (included), during which time the Originator may sell new receivables (i.e., further portfolios) to the Issuer subject to certain conditions and limitations. During the revolving period, the purchase of new receivables will be funded through principal collections and excess spread to make up for any defaulted loans. The revolving period will end prematurely if certain events occur, including the cumulative gross default rate exceeding 4.0%, the inability to fully replenish the cash reserve and the insolvency of the Originator. In addition, the non-transfer of the second initial portfolio will cause the end of the revolving period and the amortisation of the Notes will start from the first payment date. DBRS also tested this scenario in its analysis.

The transaction includes a cash reserve, which is available to cover senior fees and interest on the Class A Notes. The cash reserve will start amortising from the first payment date after the end of the revolving period, subject to the target level being equal to 1.8% of the outstanding balance of the Class A Notes, up to a floor of 0.5% of the nominal amount of the Class A Notes.

The deal is structured with an implicit principal deficiency ledger mechanism whereby provisioning occurs when a loan is classified as defaulted (i.e., classified as "sofferenza" or in arrears by 360 days or more). However, if the revolving period terminates prematurely, the implicit undercollateralisation exceeds 5.0% or the cumulative gross default ratio exceeds 10.0%, the transaction will start trapping all excess spread to amortise the Class A Notes.

The Class A Notes benefit from a total credit enhancement of 37.3% and it is provided by the overcollateralisation of the portfolio and the cash reserve.

As at 30 June 2019, the first initial portfolio consisted of 2,186 loans extended to 2,116 borrowers with a principal outstanding balance of EUR 423.53 million. As of the same date, the total initial portfolio consisted of 6,173 loans extended to 5,459 borrowers, with an aggregate par balance of EUR 849.57 million, of which EUR 5.52 million is in arrears by less than 30 days. While the second initial portfolio is already identified, the actual number of loans and outstanding portfolio balance for the second initial portfolio will only be known as of 31 August 2019.

DBRS based its analysis on the worst-case portfolio created in line with the purchase conditions, the common criteria and further portfolio-specific criteria.

The total initial portfolio consists of senior unsecured loans representing 74.0% of the outstanding portfolio balance and mortgage-backed loans representing the remaining 26.0%. Historical performance data indicates that mortgage-backed loans have a higher historical probability of default (PD) than the unsecured loans. This behaviour is in line with other SME loan originators. The higher PD for mortgage loans is partly compensated by higher recoveries expectations compared with unsecured loans. The purchase conditions limit the portion of mortgage-backed loans in the portfolio to 30.0%. DBRS's analysis was based on the maximum portion of mortgage loans in the portfolio, as it carries the highest loss expectations due to the higher associated PD.

The total initial portfolio exhibits a high geographic concentration in the Italian region of Lombardy, which accounts for 74.3% of the portfolio outstanding balance. This geographic concentration reflects the bank's significant presence in this region. The portfolio is further concentrated in the regions of Veneto and Emilia-Romagna, accounting for 17.9% and 2.8%, respectively.

The total initial portfolio exhibits a moderate sector concentration. The top three sector exposures, according to DBRS's industry classifications are Building & Development, Nonferrous Metals/Minerals and Business Equipment & Services, which represent 29.1%, 9.3% and 8.2% of the outstanding portfolio balance, respectively. For the worst-case portfolio analysis, DBRS assumed the top three industries to be 39.3%, 17.0% and 16.2%, respectively, in line with the replenishment conditions. The initial portfolio has a moderate borrower concentration, as the largest and top five- and ten-largest borrowers only account for 1.2%, 4.5% and 7.3% of the outstanding portfolio balance, respectively. The purchase conditions limit the exposure to the largest borrower to 1.5% and the top 20 borrowers to 13.0% of the portfolio; these limits were considered in creating the DBRS worst-case portfolio.

Banca Valsabbina acts as the servicer, and Securitisation Services S.p.A. acts as the backup servicer facilitator for this transaction. The backup servicer facilitator supports the Issuer in appointing a substitute servicer in case the servicer's appointment is terminated. To account for the lack of any backup servicer arrangement, DBRS has factored a commingling loss in its cash flow analysis, in line with other Italian SME collateralised loan obligation (CLO) transactions.

DBRS determined its rating as follows, as per the principal methodology specified below:
-- The PD for the portfolio was determined using the historical performance information supplied. DBRS assumed an annualised PD of 7.5% and 3.1% for mortgage and non-mortgage loans, respectively.
--The assumed weighted-average life (WAL) of the portfolio was 4.0 years.
-- The PDs and WAL were used in the DBRS Diversity Model to generate the hurdle rate for the assigned rating.
-- The recovery rate was determined by considering the market value declines for Europe, the security level and collateral type. Recovery rates of 45.2% and 16.3% were used for the secured and unsecured loans, respectively, at the A (low) (sf) rating level.
-- The break-even rates for the interest rate stresses and default timings were determined using DBRS's cash flow tool.

Notes:
All figures are in euros unless otherwise noted.

The principal methodology applicable to the rating is: "Rating CLOs Backed by Loans to European SMEs".

DBRS has applied the principal methodology consistently and conducted a review of the transaction in accordance with the principal methodology.

An asset and a cash flow analysis were both conducted. Due to the inclusion of a revolving period in the transaction, the analysis is based on the worst-case replenishment criteria set forth in the transaction legal documents.

Other methodologies referenced in this transaction are listed at the end of this press release.

These may be found on www.dbrs.com at: http://www.dbrs.com/about/methodologies.

For a more detailed discussion of the sovereign risk impact on Structured Finance ratings, please refer to "Appendix C: The Impact of Sovereign Ratings on Other DBRS Credit Ratings" of the "Rating Sovereign Governments" methodology at: https://www.dbrs.com/research/333487/rating-sovereign-governments.

The sources of data and information used for this rating include the originator Banca Valsabbina S.C.p.A. and indirectly, the arranger, FISG S.r.l.

DBRS did not rely upon third-party due diligence in order to conduct its analysis.

DBRS was supplied with third-party assessments. However, this did not impact the rating analysis.

DBRS considers the data and information available to it for the purposes of providing this rating to be of satisfactory quality.

DBRS does not audit or independently verify the data or information it receives in connection with the rating process.

This rating concerns a newly issued financial instrument. This is the first DBRS rating on this financial instrument.

Information regarding DBRS ratings, including definitions, policies and methodologies, is available on www.dbrs.com.

To assess the impact of changing the transaction parameters on the rating, DBRS considered the following stress scenarios, as compared to the parameters used to determine the rating (the "Base Case"):

-- PD Used: Base case PD of 7.5% for mortgage loans and 3.1% for non-mortgage loans, a 10% and 20% increase on the base case PD.
-- Recovery Rates Used: Base case recovery rate of 23.8% at the A (low) (sf) stress level, a 10% and 20% decrease in the base case recovery rate. Note that the percentage decreases in the recovery rate are assumed for the other stress recovery rate levels.

DBRS concludes that a hypothetical increase of the base case PD by 20%, ceteris paribus, would lead to a downgrade of the Class A Notes to BBB (high) (sf). A hypothetical decrease of the base case recovery rate by 20% would lead to a downgrade of the Class A Notes to BBB (high) (sf). Finally, a scenario combining both an increase in the base case PD by 10% and a decrease in the base case recovery rate by 10% would lead to a downgrade of Class A Notes to BBB (high) (sf).

For further information on DBRS historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml.

Ratings assigned by DBRS Ratings GmbH are subject to EU and US regulations only.

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Initial Rating Date: 19 July 2019

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The rating methodologies used in the analysis of this transaction can be found at: http://www.dbrs.com/about/methodologies.

-- Rating CLOs Backed by Loans to European SMEs
-- Legal Criteria for European Structured Finance Transactions
-- Master European Residential Mortgage-Backed Securities Rating Methodology and Jurisdictional Addenda
-- Interest Rate Stresses for European Structured Finance Transactions
-- Rating CLOs and CDOs of Large Corporate Credit
-- Cash Flow Assumptions for Corporate Credit Securitizations
-- Operational Risk Assessment for European Structured Finance Servicers
-- Operational Risk Assessment for European Structured Finance Originators

A description of how DBRS analyses structured finance transactions and how the methodologies are collectively applied can be found at: http://www.dbrs.com/research/278375.

For more information on this credit or on this industry, visit www.dbrs.com or contact us at info@dbrs.com.

Date Issued	Debt Rated	Action	Rating	Trend	Issued
19-Jul-19	Class A Notes	New Rating	A (low) (sf)	--	EU