MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns definitive ratings to 2019 Popolare Bari SME S.r.l. SME ABS Notes

08 Aug 2019

EUR 747.7 million of securities rated

Madrid, August 08, 2019 -- Moody's Investors Service ("Moody's") has today assigned the following definitive ratings to the debts issued by 2019 Popolare Bari SME S.r.l. (the "Issuer"):

....EUR 681,378,000 Class A1 Asset Backed Floating Rate Notes due May 2059, Assigned Aa3 (sf)

....EUR 66,361,000 Class A2 Asset Backed Floating Rate Notes due May 2059, Assigned A3 (sf)

Moody's has not assigned any ratings to the EUR 396,272,000 Class Class J1 Asset Backed Floating Rate and Additional Return Notes due May 2059 and EUR 57,819,000 Class J2 Asset Backed Floating Rate and Additional Return Notes due May 2059.

The transaction represents the restructuring of a transaction (the "Initial Transaction") completed in May 2019, the notes of which will be fully redeemed at closing. The total portfolio comprises assets from the Initial Transaction as well as a new portfolio transferred in July 2019, representing around 19% of the total portfolio.

The transaction is a static cash securitisation of term loans granted by Banca Popolare di Bari S.C.p.a. ("Banca Popolare di Bari", not rated) and Cassa di Risparmio di Orvieto S.p.A. ("CRO", not rated), both part of the Banca Popolare di Bari group or other entities subsequently taken over by them, to small and medium-sized enterprises (SMEs), self-employed individuals and corporate obligors located in Italy.

RATINGS RATIONALE

The ratings of the Notes are primarily based on the analysis of the credit quality of the underlying portfolio, the structural integrity of the transaction, the roles of external counterparties and the protection provided by credit enhancement.

In Moody's view, the credit positive features of this deal include, among others: (i) the significant proportion of the portfolio secured by first lien mortgages on real estate properties (i.e. 40.7%); (ii) the static nature of the structure without a revolving period; (iii) the back-up servicer in place since closing; and (iv) for the benefit of the Class A1 Notes, the interest deferral mechanism for the Class A2 Notes (i.e. interests on Class A2 Notes will be subordinated to the principal repayments on the Class A1 Notes if the cumulative default rate is above 22% of the initial portfolio balance). In this respect, Moody's notes that unpaid interest on Class A2 is deferrable without accruing interest on interests.

However, the transaction has several challenging features, such as: (i) low granularity of the portfolio with top debtor and top 5 debtors exposure being 3.2% and 10.7% respectively; (ii) some concentration in particular in the building and real estate sector of the pool (37% of the portfolio, according to Moody's industry classification); (iii) high concentration in the South of Italy (61%), and, in particular, in the regions of Abruzzo (25%) and Puglia (23.4%); (iv) Banca Popolare di Bari (not rated) display still a high non-performing ratio and some securitized loans were originated by Banca Caripe S.p.A. (21%) and Banca Tercas S.p.A. (9%); (v) above market average historical delinquency and default rates for Banca Tercas S.p.A. and Banca Caripe S.p.A., below average historical recovery rates and above average historical timing of recoveries; (vi) potential renegotiation capabilities: the servicer can renegotiate several terms and conditions of the loans up to certain limits. These renegotiations could affect the loan maturity, the interest rate applied to the loans or could consist in granting principal payment grace periods up to 12 months; and (vii) some limited exposure to set-off risk (around 4%). Finally, Moody's considered the exposure to fixed-floating interest rate risk (9.6% of the pool reference a fixed interest rate) as well as basis risk given the discrepancy between the interest rates paid on the loan contracts compared to the reference rate payable on the Notes and no hedging arrangement being in place for the structure.

Key collateral assumptions:

Mean default rate: Moody's assumed a mean default rate of 24.1% over a weighted average life of 5.7 years (equivalent to a B2/B3 proxy rating as per Moody's Idealized Default Rates). This assumption is based on: (1) the available historical vintage data; (2) the performance of the previous transactions originated by Banca Popolare di Bari and entities subsequently taken over by it; and (3) the characteristics of the loan-by-loan portfolio information. Moody's also took into account the current economic environment and its potential impact on the portfolio's future performance, as well as industry outlooks or past observed cyclicality of sector-specific delinquency and default rates.

Default rate volatility: Moody's assumed a coefficient of variation (i.e. the ratio of standard deviation over the mean default rate explained above) of 41.3%, as a result of the analysis of the portfolio concentrations in terms of single obligors and industry sectors.

Recovery rate: Moody's assumed a 40% stochastic mean recovery rate, primarily based on the characteristics of the collateral-specific loan-by-loan portfolio information, complemented by the available historical vintage data.

Portfolio credit enhancement: the aforementioned assumptions correspond to a portfolio credit enhancement of approximately 38%, that takes into account the Italian current local currency country risk ceiling (LCC) of Aa3.

As of 25 July 2019, the securitised pool of assets was composed of a portfolio of 7,135 contracts amounting to EUR 1,185 million (EUR 1,178.2 million when excluding accrued, suspended and delinquent interest). The top industry sector in the pool, in terms of Moody's industry classification, is Construction and Building (37%). The top borrower represents 3.2% of the portfolio and the effective number of obligors is 219. The assets were originated mainly between 2015 and 2019 and have a weighted average seasoning of 3.82 years and a weighted average remaining term of 10.11 years. The interest rate is floating for 90.4% of the pool, while the remaining part of the pool bears a fixed interest rate. The weighted average spread on the floating portion is 2.7%, while the weighted average interest on the fixed portion is 3.5%. Geographically, the pool is concentrated mostly in South of Italy (61.4%) and Central Italy (22%). Any loan more than 30 days in arrears has been excluded from the pool. Around 40.7% of the portfolio is secured by first lien mortgage guarantees over different types of properties.

Key transaction structure features:

Reserve fund: The transaction benefits from EUR 16,824,127.50 funded at closing, equivalent to 2.25% of the balance of the Class A1 and A2 Notes and will be reduced to zero after Class A1 Notes are fully redeemed, or by the maturity date. The reserve fund provides mainly liquidity protection to the Class A1 Notes, but it may also provide credit enhancement to Class A1 and A2 only on the reserve fund release date.

Counterparty risk analysis:

Banca Popolare di Bari (not rated) will act as master servicer of the loans for the Issuer, while Zenith Service S.p.A. (not rated) acts as back-up servicer and Securitisation Services S.p.A. (not rated) acts as Representative of Noteholders.

All of the payments under the assets in the securitised pool are paid into the collection account at Banca Popolare di Bari (not rated). There is a daily sweep of the funds held in the servicer collection account into the issuer collection account. The Issuer account is held at BNP Paribas Securities Services (Long Term Deposit Rating: Aa3/ Short Term Deposit Rating: P-1), acting from its Milan branch. There is a transfer requirement if the rating of the account bank falls below Baa2 or P-2. Moody's has taken into account the commingling risk within its cash flow modelling considering an exposure of 1 month of collections.

Principal Methodology:

The principal methodology used in these ratings was "Moody's Global Approach to Rating SME Balance Sheet Securitizations" published in July 2019. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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

The Notes' ratings are sensitive to the performance of the underlying portfolio, which in turn depends on economic and credit conditions that may change. The evolution of the associated counterparties risk, the level of credit enhancement and Italy's country risk could also impact the Notes' 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 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, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security 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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Gaston Wieder
Vice President - Senior Analyst
Structured Finance Group
Moody's Investors Service Espana, S.A.
Calle Principe de Vergara, 131, 6 Planta
Madrid 28002
Spain
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Javier Hevia Portocarrero
VP - Senior Credit Officer
Structured Finance Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:

Moody's Investors Service Espana, S.A.
Calle Principe de Vergara, 131, 6 Planta
Madrid 28002
Spain
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

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