MOODY'S

Rating_Action: Moody's assigns definitive ratings to Colt SPV S.R.L. SME ABS Notes

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EUR 454.1 million of securities rated

Milan, December 19, 2022 -- Moody's Investors Service ("Moody's") has today assigned the following definitive ratings to the Notes issued by Colt SPV S.R.L. (the "Issuer"):

....EUR375M Class A Asset Backed Floating Rate Notes due February 2040, Assigned A1 (sf)

....EUR79.1M Class B Asset Backed Floating Rate Notes due February 2040, Assigned B2 (sf)

Moody's has not assigned any rating to the EUR116M Class J Asset Backed Fixed Rate and Additional Return Notes due February 2040.

The transaction is a static cash securitisation of unsecured government guaranteed term loans granted by Illimity Bank S.p.A. (unrated) to medium-sized enterprises and corporates located in Italy.

The unsecured loans have been originated based on the "Liquidity decree", converted into law 5 June 2020, to facilitate the restart of the Italian production system, once the health emergency caused by covid-19 was overcome. They are guaranteed either by SACE S.p.A. ("SACE", 76.2%) or by the Central Guarantee Fund for SMEs (the "CGFS Fund") managed by Banca del Mezzogiorno - MCC S.p.A. ("MCC", 23.8%). The average loan ticket is EUR 6.5 million, whereas the maximum loan ticket is EUR 25 million. Most of the loans benefit from a pre-amortization period.

RATINGS RATIONALE

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

In Moody's view, the strong credit positive features of this deal include, among others:

(i) the guarantee provided by SACE or MCC, which is funded by the Government of Italy (Baa3/P-3), and covers mainly between 80% and 90% of the loan balance outstanding at the time of activation of the guarantee (including 90 days past due and insolvency of the debtor);

(ii) relatively low industry sector concentration: the debtors active in the highly cyclical construction and building sector represents only 19% of the total portfolio and the top region (Lombardy) accounting for 41.0% of the portfolio;

(iii) the Class A Notes' subordination representing 29.5% of the total assets and a cash reserve of 3% of the senior Notes funded at closing;

(iv) interest payment on the Class B Notes becomes subordinated to the repayment of the Class A Notes principal if the cumulative default ratio is higher than 5%. This is beneficial for Class A Notes to the detriment of the Class B Notes;

(v) very limited interest rate risk with 100% of assets and liabilities paying floating rates;

(vi) a dedicated reserve funded at closing mitigating the set-off risk arising from borrowers having deposits or derivatives with Illimity Bank S.p.A. Borrowers may offset these amounts against amounts they owe under the securitized loans in case of an insolvency of Illimity Bank S.p.A. As of the closing date, the initial net set-off risk of 3.1% is covered by the EUR 23.93 million dedicated cash reserve (representing 4.5% of the outstanding balance). It will amortise according to the withdrawal of deposits by the debtors and to a floor of EUR 6.93 million.

However, the transaction has several challenging features, such as:

(i) the lack of granularity of the portfolio with 69 debtors, and the Top 1 and 10 representing 5.3% and 41.1%, respectively; all Top 10 debtors have an outstanding balance representing more than 3% of the total portfolio;

(ii) relatively low borrowers' average credit quality in the low B range with cross-over and growing companies;

(iii) the 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 and the interest rate applied to the loans.

Key collateral assumptions:

Mean default rate: Moody's assumed a mean default rate of 24% over a weighted average life of 3 years (equivalent to a B3/Caa1 proxy rating as per Moody's Idealized Default Rates). Our default assumption is based on: (1) the characteristics of the loan-by-loan portfolio information for the initial portfolio, (2) a mapping of Cerved Group S.p.A.'s rating categories onto our scale based on the available historical data and rating migration of Cerved Group S.p.A.'s ratings since 2008, (3) an additional two notches stress applied to all debtors with an exposure above the 3% of the total portfolio, and (4) servicer's flexibility to extend the maturity of the loans within certain limits.

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 40%, as a result of the analysis of the portfolio concentrations in terms of single obligors and industry sectors.

Recovery rate: considering the partial guarantee on the loans, Moody's assumed 86% fixed recovery rate as long as the guarantor is around and 25% mean recovery rate in the scenarios where the guarantor defaults. The main driver of the recovery is the amount guaranteed provided SACE and MCC, hence, ultimately the Government of Italy (rated Baa3).

Portfolio credit enhancement: in absence of the guarantee, the aforementioned assumptions considering the 25% recovery rate correspond to a portfolio credit enhancement of 42%, that takes into account the Italian current local currency country risk ceiling (LCC) of Aa3.

As of 31 October 2022, the pool of underlying assets was composed of a portfolio of 82 loans amounting to EUR 531.74 million. The top two industry sectors in the pool, in terms of Moody's industry classification, are Construction and Building (19%) and Automotive (12%). The top borrower represents 5.3% of the portfolio and the effective number of obligors is 37. Mid-cap companies account for 41% of the total portfolio, the remaining being corporates. The assets were originated mainly between 2020 and 2022 and have a weighted average seasoning of 1.1 years and a weighted average remaining term of 4.7 years. The pool bears a floating interest rate, and the weighted average margin is 3.3%. Geographically, the pool is concentrated mostly in Lombardy (41.0%) and Piemonte (15.8%). At closing, none of the debtors was neither in arrears by more than 30 days nor benefitting from a debt moratorium or the loan was classified as unlikely-to-pay by the originator or classified as bad loan by any bank in Italy.

The portfolio is not secured by mortgage guarantees, but all loans benefit from a guarantee from the Central Guarantee Fund for SMEs or SACE S.p.A.

Key transaction structure features:

Credit enhancement: Class A Notes benefits from the subordination of the Class B Notes and Class J Notes representing 29.5% of the total assets, while the Class B Notes benefits from credit enhancement from the Class J Notes subordination.

Reserve fund:

The transaction benefits from EUR 11.25 million reserve fund funded at closing, equivalent to 3% of the original balance of the Class A Notes. It will amortise according to Class A Notes amortization down to a floor of 1% of the initial Class A Notes' balance. The reserve fund provides mainly liquidity protection to the Class A Notes.

Counterparty risk analysis:

Illimity Bank S.p.A. will service the securitized portfolio, while Banca Finanziaria Internazionale S.p.A. (unrated) acts as back-up servicer. To ensure payment continuity over the transaction's lifetime, the transaction documents incorporate estimation language according to which the calculation agent, i.e., Banca Finanziaria Internazionale S.p.A., will prepare the payment report based on estimates if the servicer report is not available. In such a case, only interest on the Class A Notes and items senior thereto will be paid.

All of the payments under the assets in the securitised pool are paid into the servicer collection account at Bank of New York Mellon SA/NV (Milan Branch) (Aa2/P-1). There is a sweep of the funds within two business days held in the collection account into the Issuer account. The Issuer account is held at Bank of New York Mellon SA/NV (Milan Branch) (Aa2/P-1), with a transfer requirement if the rating of the account bank falls below Baa3/P-3.

The transaction structure includes a dedicated set-off reserve set at EUR 23.9 million at closing which will amortize with the reduction of deposits on the debtors' account down to a floor of EUR 6.93 million equal to the market-to-market value of the derivates in place at the transfer date. This dedicated reserve mitigates the potential set off risk of the transaction.

Principal Methodology

The principal methodology used in these ratings was "Moody's Global Approach to Rating SME Balance Sheet Securitizations" published in July 2022 and available at https://ratings.moodys.com/api/rmc-documents/390479. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

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

The 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 including the guarantor, the level of credit enhancement and the Italy's country risk could also impact 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 in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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.

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