S&P Global
Ratings

Research

Presale:

Autoflorence 2 S.r.l.

September 3, 2021

PRIMARY CREDIT ANALYST

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Preliminary Ratings

Class	Prelim. rating*	Prelim. amount (mil. €)	Available credit enhancement (%)§	Interest	Legal final maturity
A	AA (sf)	437.500	12.5%	One-month EURIBOR plus a margin with a 0.0% floor	Dec. 31, 2044
B	A (sf)	17.500	9.0%	One-month EURIBOR plus a margin with a 0.0% floor	Dec. 31, 2044
C	BBB (sf)	15.00	6.0%	One-month EURIBOR plus a margin with a 0.0% floor	Dec. 31, 2044
D-Dfrd	BB+ (sf)	10.00	4.0%	One-month EURIBOR plus a margin with a 0.0% floor	Dec. 31, 2044
E-Dfrd	B- (sf)	10.00	2.0%	One-month EURIBOR plus a margin with a 0.0% floor	Dec. 31, 2044
F	NR	10.00	N/A	Fixed rate	Dec. 31, 2044

Note: This presale report is based on information as of Sept. 3, 2021. The ratings shown are preliminary. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings. Accordingly, the preliminary ratings should not be construed as evidence of final ratings. This report does not constitute a recommendation to buy, hold, or sell securities. *Our preliminary ratings on the class A, B, and C notes address the timely payment of interest and ultimate payment of principal, while our preliminary ratings on the class D-Dfrd and E-Dfrd address the ultimate payment of interest and principal no later than the legal final maturity date. §Available credit enhancement consists of subordination. NR--Not rated. N/A--Not applicable.

Supporting Ratings

Institution/role	Ratings	Replacement trigger	Collateral posting trigger
BNP Paribas Securities Services, Milan branch, as bank account provider	A+/Stable/A-1	A	N/A
BNP Paribas S.A. as swap counterparty guarantor	A+/Stable/A-1	BBB+	BBB+
BNP Paribas S.A. as setoff provider guarantor	A+/Stable/A-1	BBB*	N/A

*Funding trigger for set-off reserve. N/A--Not applicable.

Overview

- S&P Global Ratings has assigned its preliminary credit ratings to Autoflorence 2 S.r.l.'s asset-backed floating-rate class A, B, C, D-Dfrd, and E-Dfrd notes. At closing, Autoflorence 2 will also issue unrated class F notes.
- This will be Findomestic Banca S.p.A's (Findomestic) second auto loan transaction and the seventh ABS transaction we rate. The underlying collateral comprises Italian loan receivables for new and used cars and other vehicles, mainly motorcycles and campers. Findomestic originated and granted the loans to its private customers. The loans do not feature balloon payments.
- The transaction will revolve for 12 months if no stop-revolving triggers are hit. The transaction will have separate interest and principal waterfalls. The interest waterfall will feature a principal deficiency ledger mechanism, by which the issuer can use excess spread to cure defaults.
- A reserve will provide liquidity support to the class A, B, and C notes only. The issuer will be able to use principal proceeds to cure interest shortfalls for these classes of notes.
- The notes will amortize pro rata, unless one of the sequential amortization events occurs (see "Repayment of the notes and pro-rata mechanism"). From that moment, the transaction will switch permanently to sequential amortization.
- The assets will pay a monthly fixed interest rate, and the rated notes pay one-month Euro Interbank Offered Rate (EURIBOR) plus a margin subject to a floor of zero. The rated notes will benefit from two interest rate swaps which, in our opinion, will mitigate the risk of potential interest rate mismatches between the fixed-rate assets and floating-rate liabilities.
- Our preliminary ratings on the class A, B, and C notes address the timely payment of interest and ultimate payment of principal. Our preliminary ratings on the class D-Dfrd and E-Dfrd instead address the ultimate payment of interest and principal.
- The class E-Dfrd notes are not able to withstand our stresses at 'B' level. We believe the repayment of this class does not depend on favorable conditions, as in a steady state scenario the issuer would be able to meet its obligations under this class. We have therefore assigned our preliminary 'B-' rating in line with our criteria.
- Our structured finance sovereign risk criteria constrain our preliminary ratings on the class C notes in this transaction. We expect counterparty risk to be adequately mitigated in line with our counterparty criteria. Our operational risk criteria do not cap our ratings in this transaction.

The Credit Story

Strengths, Concerns, And Mitigating Factors

Strengths	Concerns and mitigating factors
In our view, Findomestic is an experienced and established originator and servicer in the Italian securitization markets. BNP Paribas Personal Finance (BNPPPF), a subsidiary of the BNP Paribas S.A. banking group, wholly owns the originator. The business continuity plan was successfully activated at the start of lockdown due to the COVID-19 pandemic, and most of the staff has been able to continue operations and handle borrowers' requests remotely during this period with no disruption. This will be the bank's seventh ABS transaction rated by us. The previous transactions have performed well.	The transaction is revolving, meaning that subject to certain conditions, the originator may sell further portfolios to the issuer during the 12-month revolving period. Therefore, the portfolio composition after the revolving period may not match the original composition if the issuer buys additional receivables. As a mitigating factor, the revolving period is relatively short, and the transaction documents set certain performance triggers to terminate the revolving period to prevent any significant deterioration in the portfolio quality.
The portfolio is highly granular and well diversified across Italy. As of the pool cut-off date, the largest single obligor represented about 0.01%, and the top 20 obligors comprised 0.25% of the portfolio.	We do not rate the servicer, Findomestic. This might result in commingling risk if Findomestic defaults, because collections from the assets are channeled through Findomestic's accounts. We believe this risk is partly mitigated by the collections being moved to the issuer's account within one day from receipt. In addition, under the documents, the back-up servicer facilitator has committed to put in place a strict procedure to notify the borrowers to pay directly to the issuer's account. As a further mitigating factor, we have assumed a certain portion of collections will be lost as a result of the servicer's insolvency.
As of the cut-off date, the portfolio did not contain any contracts that are overdue.	The transaction will allow pro rata redemption of all classes of notes unless a sequential payment trigger is hit. Pro rata redemption of the junior class of notes would cause the available credit enhancement for the senior noteholders to reduce in absolute terms. The transaction will feature various performance triggers for principal deficiency ledger (PDL) and cumulative gross ratios, mitigating the risk derived from pro rata amortization. Our cash flow model incorporates those triggers, testing the effect of a change in the type of amortization of the notes. In addition, we have run several scenarios to test the effect of a sequential payment trigger being hit at different stages of the life of the transaction.
The structure will benefit from an amortizing liquidity reserve, which will be fully funded at closing. The reserve will serve as liquidity support to mitigate any cash flow strains for the class A, B, and C notes.	Upon the originator's insolvency, there is the risk that debtors that have opened a deposit and/or a current account with the originator might set off any amounts due to them under the deposit and current account against amounts they owe to the special-purpose entity (SPE) under the auto loan. We believe this risk is mitigated in several ways, including the originator's commitment to fund a set-off reserve upon BNP losing a 'BBB' rating. Since the originator is not rated, the obligations to fund the setoff reserve will be guaranteed by BNP Paribas.

Environmental, Social, And Governance (ESG)

Our rating analysis considers a transaction's potential exposure to ESG credit factors. For the auto ABS sector, we view the exposure to environmental credit factors as above average, social credit factors as average, and governance credit factors as below average (see "ESG Industry Report Card: Auto Asset-Backed Securities," published on March 31, 2021). In our view, the exposure to the social credit factors in this transaction is in line with our sector benchmark.

We believe this transaction has relatively lower exposure to environmental credit factors. The exposure results from the collateral pool primarily comprising vehicles with internal combustion engines (ICE), which create emissions of pollutants including greenhouse gases. Some European governments have announced potential restrictions on driving certain ICE equipped vehicles in major European cities, which could in time lower ICE vehicle values. However, compared to auto loan transactions in other European jurisdictions, loans securitized in this transaction do not benefit for any security over the underlying vehicles and therefore our recovery rate assumption is much lower. In addition, the loans do not feature any residual value component and therefore the transaction is not exposed to the vehicles' market value decline.

In our view, the transaction has relatively higher exposure to governance credit factors than our sector benchmark given the revolving collateral pool and the originator's more active role over the transaction's life, exposing investors to the risk of loosening underwriting standards or potential adverse selection. We have considered this risk to be mitigated given the short revolving period, the strict eligibility criteria and stop revolving events, and by assuming that the pool's composition will migrate to the lowest credit quality allowable under the transaction's pool composition tests, resulting in a higher expected loss than that of a typical amortizing pool. In addition, the originator has suffered losses due to some large frauds in the recent past, especially in 2019. We believe this risk is mitigated by the eligibility criteria requiring that at least two instalments are paid for the receivable to be sold to the issuer. In all the previous fraud cases the borrower either did not pay any instalment or paid one at most. Furthermore, Findomestic has further strengthened its anti-fraud systems.

Asset Description

As of the cut-off date, the collateral pool backing the notes comprised 57,703 loans, with a total current principal balance of €500.1 million.

The entire portfolio will comprise auto loan contracts granted for the purchase of new cars (37.2%), used cars (50.8%), camper (6.9%), motorcycles (4.8%), and a small portion of other vehicles (0.3%). All the loans have a French amortization plan with no balloon payments. The borrowers are all private individuals.

The securitized pool will comply with the eligibility criteria under the transaction documents. The following is a non-exhaustive list of these criteria:

- The loans are originated by Findomestic;
- The borrowers are individuals resident in Italy;
- Each loans' outstanding balance is between €200 and €75,000;
- The loans were granted for the purchase of vehicles;
- The loans have at least two installments paid;
- Loans have no instalments due and unpaid;
- The borrowers are not Findomestic Group employees;
- The borrowers did not have a deposit and/or current account at Findomestic at origination;
- The loans are not subject to moratoria or payment suspension;
- The loans were not granted to restructure or renegotiate another loan granted by the originator;

- The loans do not have subsidies, benefit, or contribution;
- The loans do not have a final balloon payment or maxi-installment;
- The loans' maturity does not exceed December 2033; and
- Loans pay a fixed interest rate.

In addition, loans purchased during the revolving period have to meet the following criteria:

- The interest rate on each loan included in the subsequent portfolio is at least 4.5%;
- The total balance of loans granted to buy new cars is equal to or higher than 35% of the total subsequent portfolio;
- The total balance of loans granted to buy new and used cars is equal or higher than 86% of the total subsequent portfolio;
- The total balance of loans granted to self-employed borrowers does not exceed 15% of the total subsequent portfolio;
- The total balance of loans that are paid through postal bulletin does not exceed 6% of the total subsequent portfolio; and
- The aggregate of the premium financed by Findomestic to existing insurance policies is equal to or lower than 10% of the total subsequent portfolio.

Collateral key features

Table 1

Collateral Distribution Of The Pool

Pool characteristics	Autoflorence 2 S.r.l.	Autoflorence 1 S.r.l.
Originator	Findomestic Banca S.p.A	Findomestic Banca S.p.A
Country	Italy	Italy
Type of assets	Auto loans	Auto loans
Pool cut-off date	June 30, 2021	July 31, 2019
Closing date	TBD	Aug. 9, 2019
Aggregate principal balance outstanding (€)	500,139,641	950,008,377
Weighted-average interest rate (%)	6.61	6.04
Weighted-average original term (months)	67.74	66.42
Weighted-average remaining term (months)	52.02	51.53
Weighted-average seasoning (months)	15.72	14.89
Largest borrower (%)	0.02	0.01
Top 15 borrower concentration (%)	0.19	0.10
Geographic concentration (%)	59.94 (North); 21.75 (South); 18.31 (Center)	60.27 (North); 22.50 (South); 17.23 (Center)
Vehicle type (%)		
Share of new vehicles	37.15	45.47

Table 1

Collateral Distribution Of The Pool (cont.)

Pool characteristics	Autoflorence 2 S.r.l.	Autoflorence 1 S.r.l.
Share of used vehicles	50.81	42.95
Share of other vehicles	12.04	11.58
Customer type (%)		
Private	100	100
Financed vehicle type (%)		
Cars	88.0	88.4
Campers	6.9	6.9
Motorcycles	4.8	4.7
Other	0.3	0

TBD--To be determined.

Chart 1

Scheduled Amortization Of The Initial Securitized Portfolio

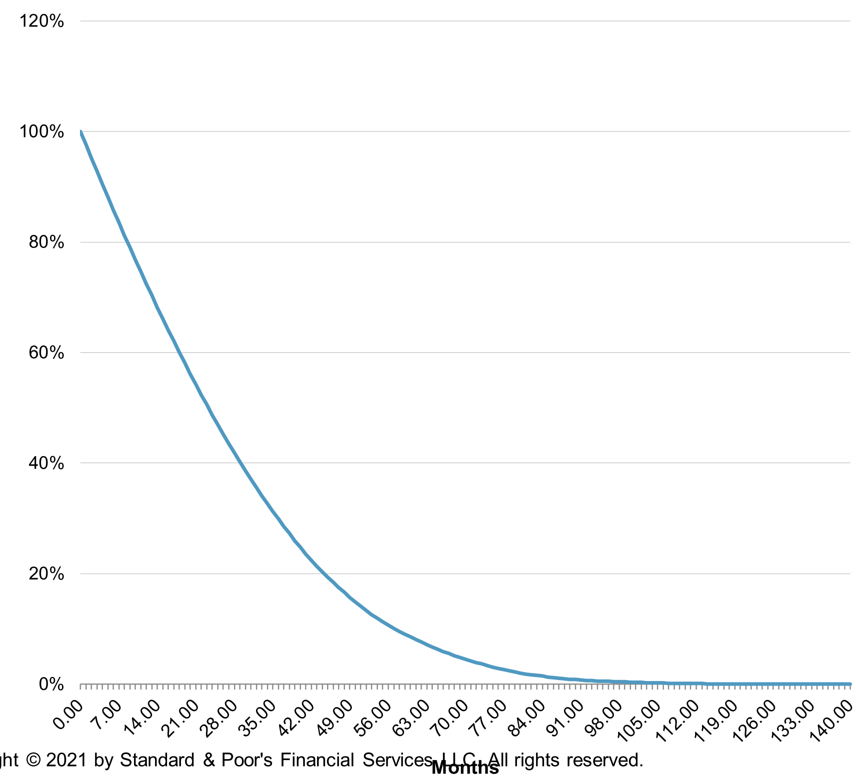


Chart 2

Geographic Distribution

Originator/seller

Findomestic was established in 1984 by Cassa di Risparmio di Firenze, a regional bank based in Florence now belonging to the Intesa Sanpaolo banking group, and Cetelem S.A., a French consumer credit company that was a leader in the European market and is now part of BNPPPF. Findomestic obtained its banking license in 1999, and the Findomestic banking group was established in 2000. Since 2011, Findomestic is wholly owned by BNPPPF, a global leader in the consumer credit market.

Findomestic offers a wide range of consumer loan products, including classic loans (purpose and personal loans), revolving credit cards, and salary assignment loans ("cessione del quinto dello stipendio").

In 2020, origination volumes decreased by about 19% as a result of the COVID-19 crisis. Still, Findomestic was able to maintain its share of the Italian consumer loan market stable at 15.7% in 2020 compared to 15.6% the previous year.

To increase customer loyalty, Findomestic began offering a savings account in 2012 and a current account in 2019.

Underwriting

Origination of auto loans is typically done through Findomestic's co-operating car dealers in Italy, whereas the credit approval process remains with Findomestic. The lender assesses the applicant's creditworthiness, using internal scoring models, which also rely on data from external credit bureau ("Centrale Rischi Finanziari, Consorzio Tutela del Credito"). The credit decision can either be an automated or manual approval, or a rejection. Non-automated decisions are underwritten by qualified employees and subject to specific credit authority limits.

Servicing

The collections department manages any delinquent contracts. The collection process starts after five days from the first missed payment and varies depending on the score assigned to the position. If the score is good the client receives a text message; if instead it is a bad score, the activity is outsourced to external collection companies. The activities change as the number of missed payment increases. There is an expert system based on a recovery score that guides the collection strategy. The banks tend to offer clients a rescheduling of the unpaid debt. After four missed instalments, the bank usually terminates the loan.

We conducted a virtual corporate overview of Findomestic's origination, underwriting, collections, and risk management practices in April 2021. We are satisfied that the underwriting and servicing standards are in line with those of the top players in the Italian consumer loan market.

In our operational risk analysis, we look at the risk that cash flows may be disrupted following an operational failure of the servicer. The application of our operational risk criteria does not constrain the maximum potential preliminary ratings on the notes as we assessed both the severity and portability risks as low in this transaction.

The transaction will not have a back-up servicer at closing, but there will be a back-up servicer facilitator. The transaction documents state that a back-up servicer would be appointed if the rating on BNP Paribas S.A., the parent company, were to fall below 'BBB', or if BNP Paribas no longer controls, directly or indirectly, of Findomestic. We rely on the general availability of servicers in the Italian market to mitigate the risk of servicing disruption and have applied a stressed servicing fee in our cash flow analysis, in line with market standards. Furthermore, the liquidity reserve will provide additional liquidity and will mitigate servicer disruption risk.

Credit Analysis

We analyzed the transaction's credit risk under various stress scenarios by applying our European auto ABS criteria.

We received quarterly static gross loss data and recovery data from second-quarter 2011 to second-quarter 2021, of the entire originator loan book, split by subpools: new cars, used cars, and other vehicles. We have also used the performance information available from the predecessor transaction. In addition, we received origination volumes, dynamic delinquency, and prepayment data for this period.

The quality of data provided is in line with our quality, timeliness, and reliability standards.

Macroeconomic and sector outlook

In our analysis, we considered the following economic data in determining our credit assumptions (see "Related Research").

The contours of the European economic recovery are changing, from one led by a rebound in industrial activity to a more services-based pickup. A lower incidence of COVID-19 and the broad rollout of vaccines across Europe is enabling governments to lift most restrictions to economic activity, paving the way for a strong restart this summer. We now expect GDP to increase in Italy 4.9% in 2021 and 2022. In 2023 and 2024, we forecast GDP growth of 1.8% and 0.9%. At the same time, we expect the unemployment rate to increase to 10% this year compared to 9.1% in 2020. However, we forecast that it will decrease over the next years and return to below pre-COVID-19 levels in 2024, at about 9%.

We believe changes in GDP growth and the unemployment rate largely determine portfolio default performance. We set our credit assumptions to reflect our current economic outlook for Italy.

Table 2

Macroeconomic And Sector Outlook

	Forecast					
	2020e	**2021f**	**2022f**	**2023f**	**2024f**	**Baseline effect**
Real GDP (y/y growth, %)	(8.90)	4.90	4.90	1.80	0.90	Favorable
Unemployment rate (annual average, %)	9.10	10.00	9.50	9.20	9.00	Unfavorable
CPI (%)	(0.10)	1.30	1.10	1.20	1.30	Somewhat unfavorable
Central Bank Policy Rates (end of period, %)	0.00	0.00	0.25	0.75	1.25	Somewhat favorable

Sources: National statistics offices, OECD, Eurostat, European Central Bank, S&P Global Ratings. y/y--Year over year. CPI--Consumer price index. e--Estimate. f--Forecast.

Gross loss base case

We analyzed the performance data provided by the originator at the subpool level, split by new cars, used cars, and other vehicles. We calculated our weighted-average cumulative base-case gross loss assumption of 4% by factoring in the performance of the three different products securitized. The issuer provided 10 years of historical data (static and dynamic), which is longer than most of the assets' maximum original term. In addition, the historical data covers the 2012-2013 recession, indicating how the loans would perform in a similar situation. Gross loss vintage curves show a change in performance starting from 2015. Originated curves after 2015 show better performance than older cohorts. Considering the improved performance over the most recent years, the previous transaction's good performance, and our forecast of a positive GDP growth over the next three years, we have lowered our gross default base case assumptions.

Charts 3, 4, and 5 show quarterly static cumulative gross loss data from second-quarter 2011 to second-quarter 2021 by quarter of origination.

Chart 3

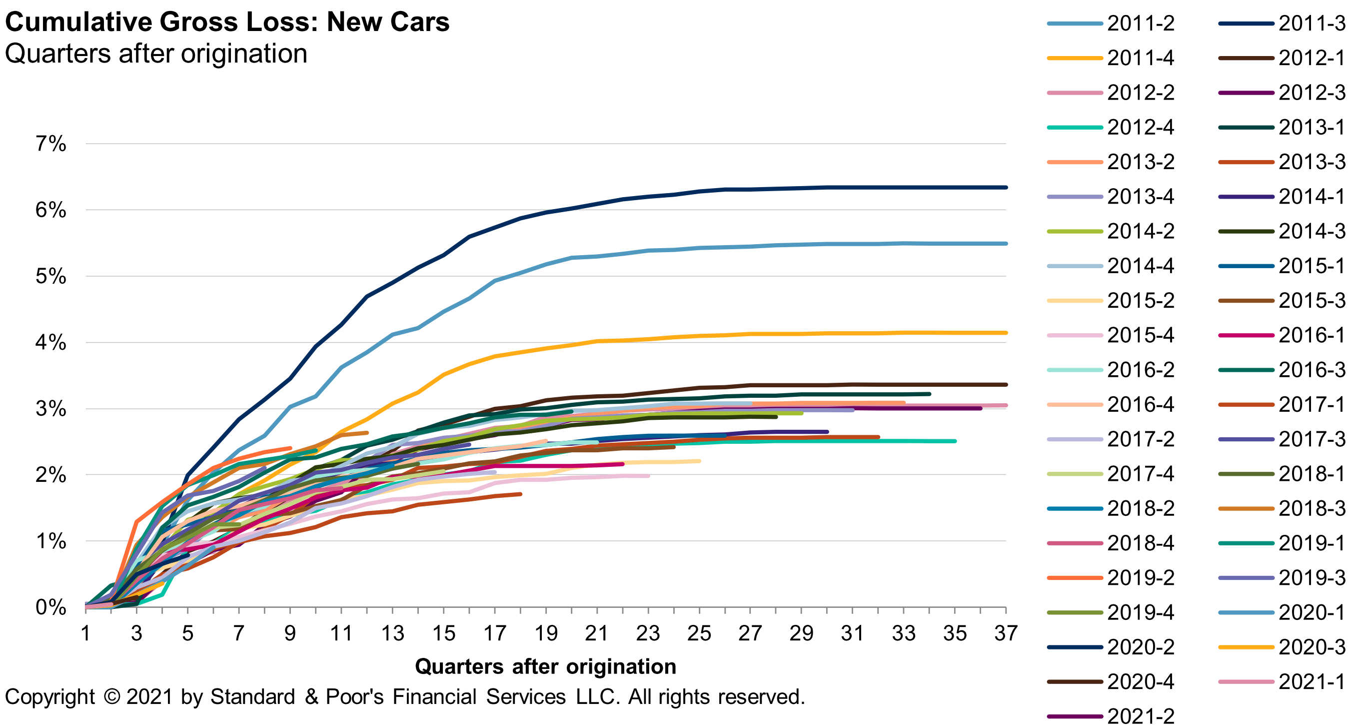


Chart 4

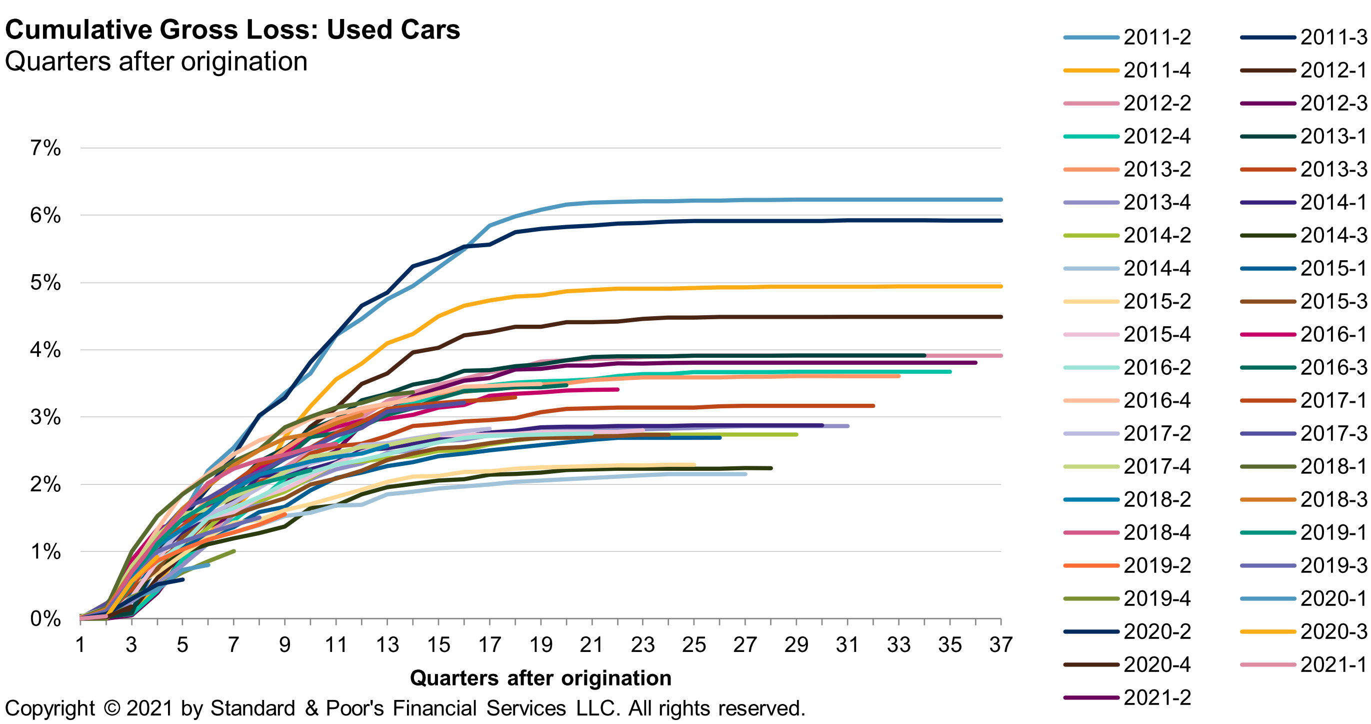
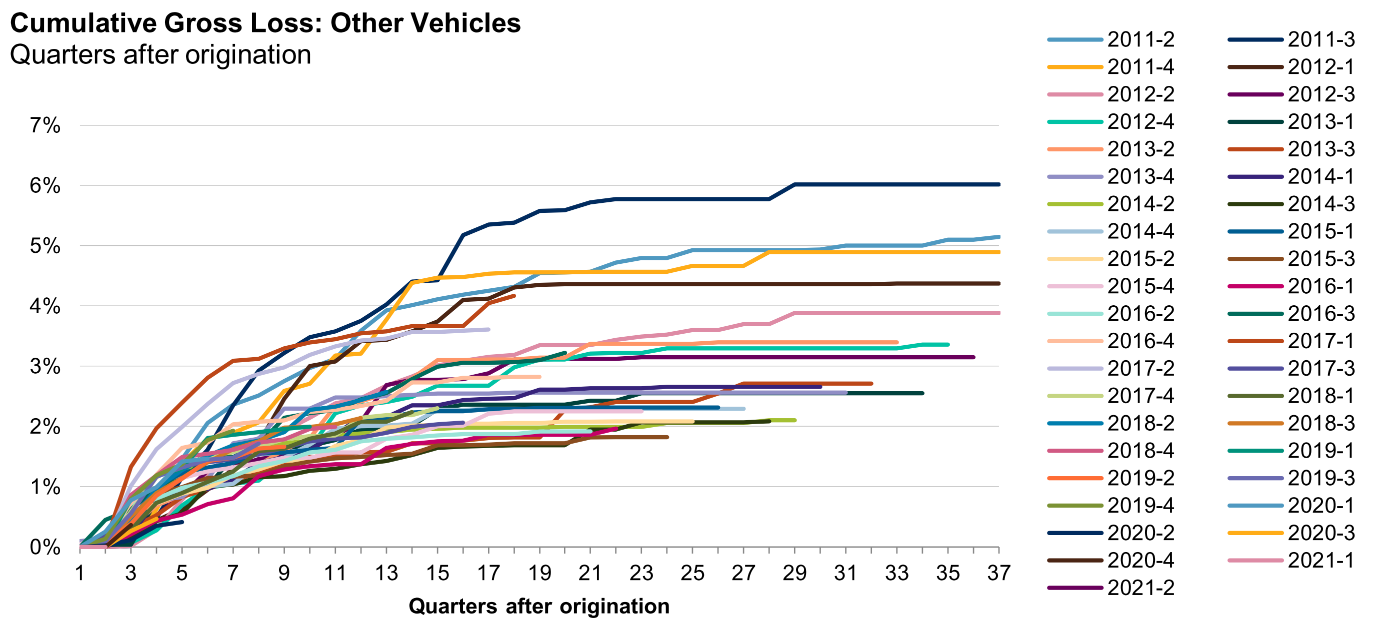


Chart 5

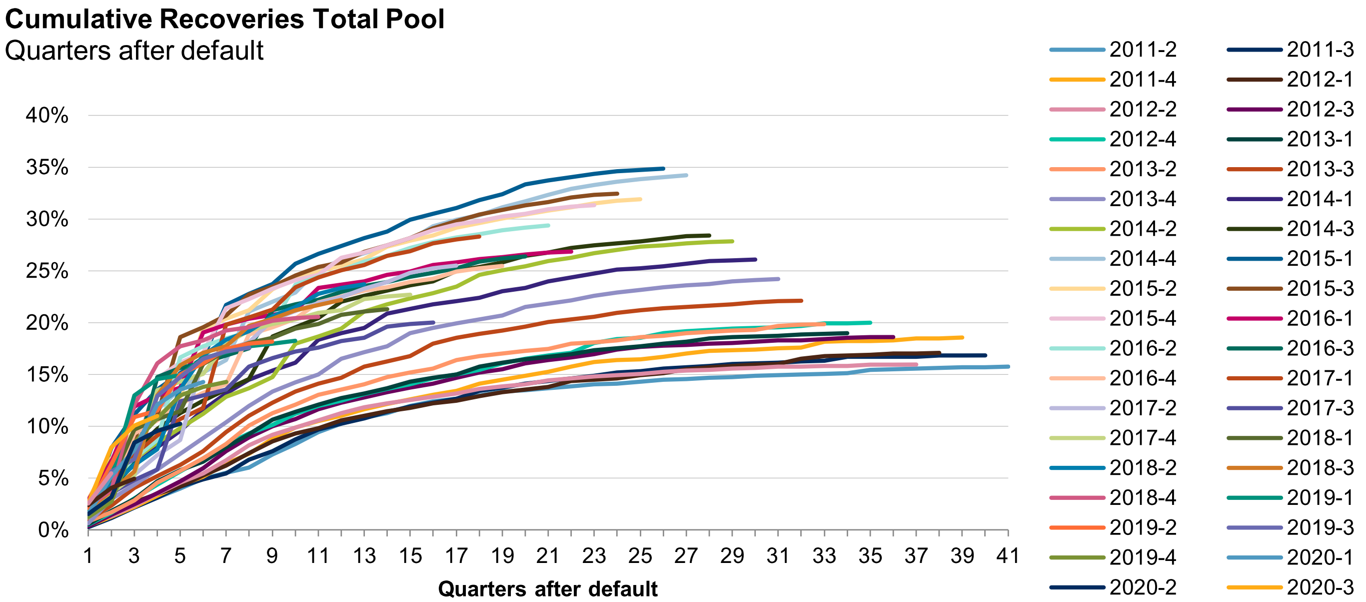


Recoveries and recovery timing

Because the loans do not benefit from any security on the underlying assets, our recovery rate assumption is lower than what we normally see for this asset class in other jurisdictions.

Over the past years, the servicer has increasingly relied on the sale of defaulted loans. Considering that the Italian market for nonperforming loans is well established with a large number of active players, we have considered the proceeds from the sale of defaulted loans when setting our base case assumption. Based on the historical data and the comparison with peer originators, we have maintained our stressed recovery rate assumption at 12%. At the same time, we have increased the recovery timing to 18 months to account for a potential delay coming from the sale of the loans.

Chart 6



Source: S&P Global Ratings.

Table 3

Credit Assumptions Summary—Closing Pool

Rating level	Cumulative gross loss base-case (%)	Stress multiple (x)	Stressed cumulative gross losses (%)	Stressed recovery rate (%)	Stressed cumulative net losses (%)
AAA	4	4.50	18	12	15.8
AA	4	3.50	14	12	12.3
A	4	2.50	10	12	8.8
BBB	4	1.75	7	12	6.2
BB	4	1.50	6	12	5.3
B	4	1.25	5	12	4.4

Table 4

Peer Comparison At 'AA'

Rating level	AutoFlorence 1	Private Driver Italia One
Stressed combined cumulative gross loss (%)*	4.16	2.80
Stressed recovery rate (%)	12.0	12.5
Stressed combined cumulative net loss (%)	14.6	10.4

*Based on worst-case pool composition.

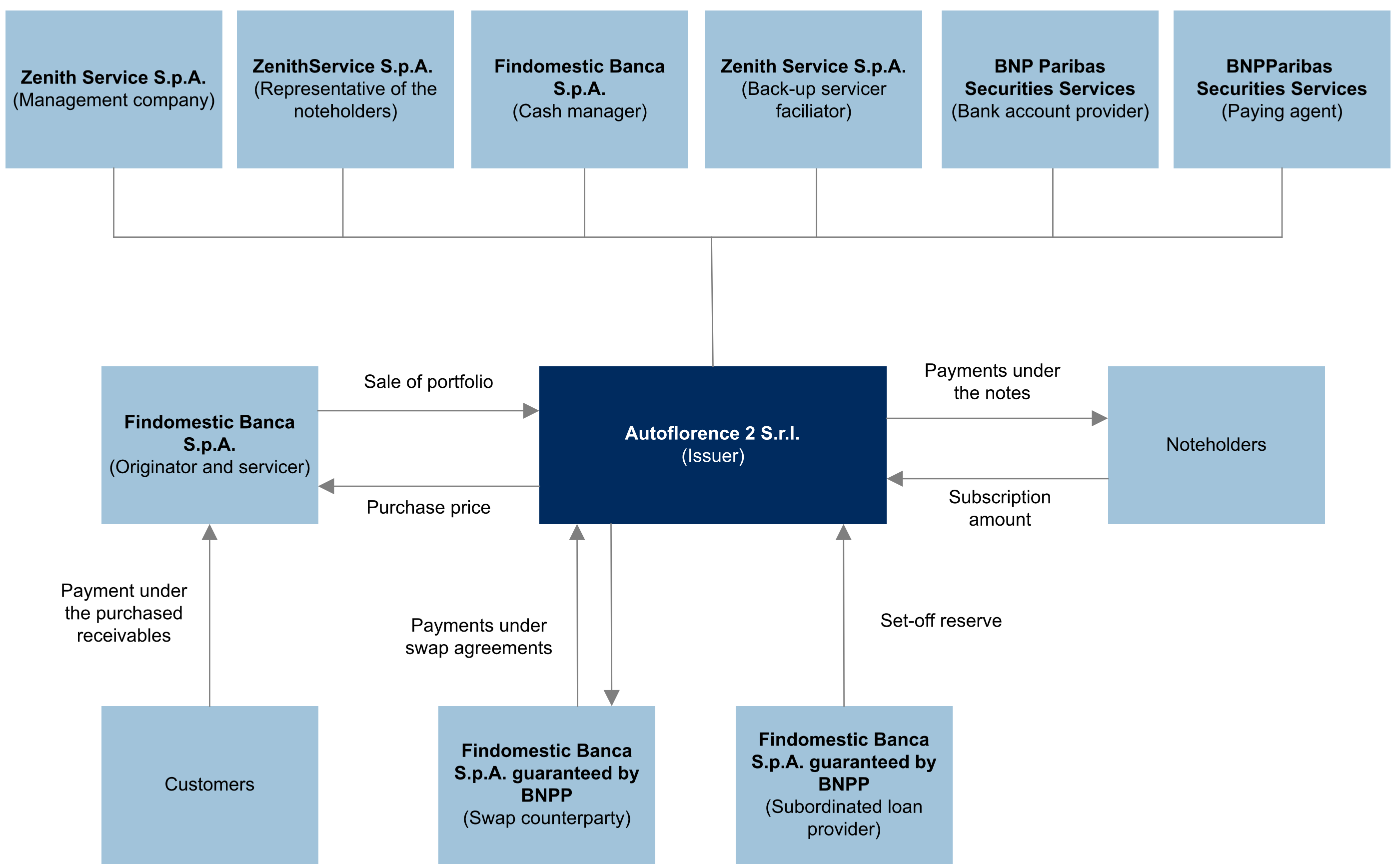
Transaction Structure

At closing, Autoflorence 2 will purchase directly from Findomestic a portfolio of Italian auto loan receivables. The issuer will use the note issuance proceeds to finance these purchases. All receivables will be purchased at par value (see chart 7).

The class A to E-Dfrd notes will pay a floating rate of interest linked to one-month EURIBOR. To hedge the fixed-to-floating rate risk between the assets and the class A to E-Dfrd notes' liabilities, Autoflorence 2 will enter into two interest rate swaps with Findomestic. We have considered this feature in our cash flow analysis.

Chart 7

Transaction Structure



The issuer will be an Italian special-purpose entity, which we consider to be bankruptcy remote under our legal criteria (see "Structured Finance: Asset Isolation And Special-Purpose Entity

Methodology," published on March 29, 2017). We expect the transaction legal opinion at closing will confirm that the sale of the assets would survive the seller's insolvency.

Cash Flow Mechanics

The notes will pay interest and principal on the monthly interest payment dates (IPDs). The first IPD will be Nov. 24, 2021. The class A to E-Dfrd notes will pay interest at a floating rate plus a margin, provided that if the interest rate is less than zero, it will be deemed to be zero. The class F notes will pay a fixed rate. The legal final maturity date will be Dec. 31, 2044.

The transaction will have separate interest and principal waterfalls.

Revolving period

During the revolving period, the issuer will use collections from the assets to purchase new receivables from the seller. The transaction revolves for 12 months, as long as none of the early amortization events occur.

Early amortization events

Following the occurrence of any of the following revolving period termination events, there would be a normal amortization period. There are various triggers related to the originator that will stop the revolving, such as insolvency or breach of obligations or termination of the servicer (apart from illegality), in addition the following events:

- On two consecutive payment dates, the amounts of principal available funds credited to the reinvestment ledger exceed 15% of the outstanding principal balance.
- The cumulative gross default ratio is greater than 1% from months one to six; greater than 1.5% from months seven to nine; and greater than 2% from months 10 to 12. This ratio is calculated as (i) outstanding principal of receivables classified as defaulted of the initial portfolio and of the subsequent portfolio during the preceding quarterly collection period, and (ii) divided by the initial portfolio's outstanding principal balance.
- At the previous payment date, the target liquidity reserve has not been reached.
- The class F principal deficiency sub-ledger's debit balance is greater than 0.50% of the assets' outstanding balance.
- A swap counterparty event of default or termination event occurs.

PDL mechanism and principal borrowing mechanism

The transaction will feature a gross loss PDL. The PDL will be divided into six sub-ledgers--one for each class. Periodic gross losses will result in debits due to the PDL in reverse order, i.e., starting with the subordinated notes sub-ledger upward.

The principal waterfall will feature a principal borrowing mechanism, by which the issuer can use available principal amounts to cure shortfalls of senior expenses and interest on the class A to C notes (if not deferred).

Any principal borrowed to make up shortfalls in the interest waterfall will also result in a debit to the PDL. Debits to the PDL may subsequently be cleared through the interest waterfall.

Interest deferral trigger

The class B to F notes can defer interest if the below conditions are satisfied.

For the class B to E-Dfrd notes:

- The class is not the most-senior class; and
- The debit balance on each class PDL is higher than 25% of the principal amount outstanding of the respective class.

For the class F notes:

- The class is not the most-senior class; and
- There is a debit balance on the class F PDL.

The issuer may also defer interest on the class B to F notes when it does not have enough funds to make the payments. However, this will be possible on the class B and C notes only when they are not the most senior class of notes, otherwise the missed interest payment would trigger an event of default on the issuer.

Repayment of the notes and pro-rata mechanism

From closing, the issuer will redeem the notes pro-rata unless a sequential payment trigger is hit.

The transaction will switch to sequential payment if one of the following events occurs:

- The cumulative gross loss ratio exceeds 2% during the first year, 3% during the second year, 4% during the third year, and 6% afterwards;
- The class F notes' PDL exceeds 0.5% of the portfolio's outstanding principal; or
- The aggregate outstanding portfolio balance falls below 10% of original outstanding portfolio balance.

Clean-up call

Findomestic can exercise a clean-up call as soon as the aggregate outstanding portfolio balance falls below 10% of the aggregate outstanding portfolio balance at closing. If Findomestic exercises this option, the notes will fully redeem (including accrued interest).

Interest priority of payment

On any monthly interest payment date, Autoflorence 2 will apply to the interest waterfall the sum of the following payments that it received on the preceding month:

- Interest collections;
- Recovery collections;
- Net swap receipts;
- Interest accrued on bank accounts and reserve account;

- Any amounts it has transferred from the principal waterfall via the principal borrowing mechanism; and
- Amounts on the liquidity reserve.

Table 5

Simplified Interest Priority Of Payments

1	Senior costs and expenses
2	Amounts due to the swap counterparty
3	Replenish the liquidity reserve to the required level
4	Interest on the class A notes
5	Class A PDL
6	Interest on the class B notes if it is the most senior class or B PDL <25%
7	Class B PDL
8	Interest on the class C notes if it is the most senior class or C PDL <25%
9	Class C PDL
10	Interest on the class D notes if it is the most senior class or D PDL <25%
11	Class D PDL
12	Interest on the class E notes if it is the most senior class or E PDL <25%
13	Class E PDL
14	Interest on the class F notes interest amount if it is the most senior class or F PDL = 0%
15	Class F PDL
16	Interest on the class B notes when deferred
17	Interest on the class C notes when deferred
18	Interest on the class D-Dfrd notes when deferred
19	Interest on the class E-Dfrd notes when deferred
20	Interest on the class F notes when deferred
21	Other junior payments

PDL--Principal deficiency ledger.

Principal priority of payment

On any monthly IPD, Autoflorence 2 will apply to the principal waterfall the sum of the following collections that it has received during the preceding month:

- Principal collections (including prepayments);
- Any amounts it has transferred from the interest waterfall via the principal deficiency ledger mechanism; and
- Amounts on the set-off reserve, which apply only if the seller fails to pay the issuer the indemnity relating to principal loss resulting from setoff claims declared by the debtor.

Table 6

Simplified Principal Priority Of Payments

1	Principal borrowed to cure shortfalls of senior expenses and interest on class A to C notes (if not deferred)
2	During the revolving period only, to pay the purchase price of the additional receivables
3	During the revolving period, credit any remaining principal available funds to the reinvestment ledger
4	Class A notes redemption amount (sequential or pro rata)
5	Class B notes redemption amount (sequential or pro rata)
6	Class C notes redemption amount (sequential or pro rata)
7	Class D-Dfrd notes redemption amount (sequential or pro rata)
8	Class E-Dfrd notes (sequential or pro rata)
9	Class F notes (sequential or pro rata)

The interest accrued on monies held in the issuer account bank with the account bank will not incorporate a floor. In a negative interest rate environment, the issuer would be exposed to additional costs. In our cash flow assumption, we have additionally stressed for interest payments to the issuer account bank provider, with the interest rates falling to -1.0% over the weighted-average life.

Excess spread

Excess spread will result from the difference between the interest income received from the assets and the interest paid to the noteholders, plus any senior fees and expenses. The excess spread will be used to cure defaults after the replenishment of the reserve. At closing, we estimate the unstressed excess spread will be about 3.9%.

Liquidity reserve

At closing, the originator will fund through the subordinated loan an amortizing liquidity reserve equal to 1% of the closing balance of the class A to C notes. The liquidity reserve amortizes in line with 1% of the class A to C notes' outstanding amount with a floor of 0.5% of the initial amount of the class A to C notes.

The liquidity reserve will serve as a liquidity buffer to cover any potential shortfalls in the payment of senior costs and expenses and interest on the class A to C notes, but it cannot be applied for the class B to C notes' interest if the respective interest deferral trigger is hit. Any excess of the reserve over the required amount will not form part of the issuer available funds and will be used to repay the subordinated loan provider.

Interest rate hedging

At closing, the issuer and the swap counterparty will enter into two fixed-to-floating interest swap agreements--one for the class A notes and one for the class B to E-Dfrd notes--to hedge the risk between the fixed rate of interest paid by the assets and the floating rate of interest payable on the notes.

The notional for the class A swap is the lower of (i) the principal outstanding balance of the class A notes, and (ii) the higher of the outstanding balance of the non-defaulted loans at the beginning of the period and zero. The swap counterparty pays to the SPE one-month Euro Interbank Offered Rate (EURIBOR) plus a margin with a floor of zero, and the SPE pays to the swap counterparty a fixed rate.

The notional for the class B, C, D-Dfrd, and E-Dfrd swap is the lower of (i) the principal outstanding balance of the class B, C, D-Dfrd, and E-Dfrd notes, and (ii) the higher of the outstanding balance of the nondefaulted loans at the beginning of the period, minus the outstanding balance of the class A notes, and zero. The swap counterparty pays to the SPE one-month EURIBOR plus a margin with a floor of zero, and the SPE pays to the swap counterparty a fixed rate.

The swap counterparty is not rated. BNP Paribas guarantees the obligations arising under the swap agreements.

Mitigation Of Seller Risks

Commingling risk

Commingling risk may arise if the servicer becomes insolvent and if collections at that time in the servicer's collection accounts, plus collections received afterward until borrowers are notified to redirect their payments into the issuer account, become commingled with the insolvent servicer monies.

The servicer will sweep collections to the issuer one day from receipt. Findomestic will be scheduled to receive collections on the loan receivables either on the 5th day (69.4% of the preliminary pool) or the 20th day (30.6%) of the month. Findomestic will have direct debit arrangements for most of receivables of the pool (94.6%). Under the documents, the back-up servicer facilitator has committed to put in place a strict procedure to notify the borrowers to pay directly to the issuer's account. In order to mitigate the commingling risk, we have assessed the likelihood of a loss of collections considering the sweeping frequency and the notification period. We have assumed one third of collections to be at risk of being lost in the event of the servicer's insolvency.

Setoff risk

The transaction is not exposed to setoff risk from the employees because the transaction's documented eligibility criteria for the inclusion of receivables excludes loans that the originator granted to its employees.

The originator and seller is a deposit-taking institution; however, the eligibility criteria also exclude loans to borrowers that have a deposit in place. This means that at closing the set-off risk is zero, but the borrowers can open an account after the loan is transferred to the SPE. However, in our view, this risk is mitigated in several ways, such as:

Both the saving and current account benefit from the insurance deposit scheme ("Fondo Interbancario di Tutela dei Depositi"). It covers amounts up to €100,000, and we estimate that payments are completed within one month.

The weighted-average interest rate charged on the loans in the portfolio is 6.61%, while the saving account accrues between 1.0% and 1.5%, and no interest accrues on the current account. There is no incentive for a borrower to hold a large amount of money in the saving/current account and at the same time pay a higher interest rate on the auto loan.

Findomestic will fund a setoff reserve upon downgrade of BNP Paribas to below 'BBB'. The obligations to fund the setoff reserve are guaranteed by a counterparty rated at least 'BBB'. At closing, the setoff guarantor will be BNP Paribas. The setoff reserve will cover the setoff exposure above the €100,000 covered by the deposit insurance scheme. The guarantee is in line with our criteria.

A substantial share of the contracts was sold together with insurance products, and the loans can finance the insurance. BDK paid the insurance premium upfront to the insurer. Under the transaction documents, the borrower's right to reduce the installments by an amount equal to the premium related to the 'unused' insurance protection cannot be excluded if Findomestic and the insurer become insolvent at the same time. We consider this set-off risk to be limited, as we see the simultaneous insolvency of the seller and the insurers to be unlikely, also considering all entities are subject to supervision from the regulators. In addition, the risk would materialize only upon the borrower actively exercising its right to set-off.

Cash Flow Analysis

Table 7

Cash Flow Assumptions

Recession start	Month 6
Length of recession	Weighted-average life (28 months)
Cumulative gross loss curve	Evenly distributed and back-loaded over weighted-average life
Recovery lag	18 months
Delinquency	Two-thirds of credit losses recovered six months later
Stressed servicing fees (%)	1.0
Fixed fees (€)	96,000
Prepayments (high/low) (%)	20.0/0.5
Interest rate	Up: current to 12% with 2% monthly increase Down: current to 0% with 2% monthly decrease Flat: at current level
WAC (%)*	5.61
Commingling stress	One third of collections in month one
Setoff loss	None

*Calculations are according to S&P Global Ratings' methodology. WAC--Weighted-average coupon before spread compression. It was calculating starting from the initial 6.61% and assuming that all the scheduled repayments and prepayments during the revolving period will be replaced with loans paying a 4.5% interest rate.

We have tested the classes' ability to pay timely interest and ultimate principal on the class A to C notes and ultimate payment of both interest and principal on the class D-Dfrd and E-Dfrd notes under the above stress assumption through a cash flow model. The model incorporates the payment structure, including the notes' sequential/pro rata amortization feature and the liquidity reserve's amortizing nature.

To account for the notes' sequential/pro rata amortization feature, we have tested the cash flows assuming the recession starts later in the life of the transaction. Considering the tight conditions that would switch the transaction to a sequential payment and the portfolio's short weighted-average life, we have considered the scenario when the recession starts in month 6 to be the most appropriate to determine the ratings.

Based on the assumptions discussed above, the high prepayment default scenarios have proved to be more stressful, mostly because they reduce the amount of available excess spread.

Our analysis indicates that the available credit enhancement is sufficient to withstand the credit and cash flow stresses that we apply at the 'AA' rating for the class A notes, 'A' rating for the class B notes, 'BB+' rating for the class D-Dfrd notes.

For the class C notes, the available credit enhancement is sufficient to withstand the credit and cash flow stresses that we apply at the 'BBB+' rating. However, this class of notes is not able to withstand our sovereign risk stress, and therefore it cannot benefit from any uplift above the unsolicited long-term sovereign rating on Italy. We have therefore assigned a 'BBB (sf)' preliminary rating to this class of notes.

The class E-Dfrd notes' available credit enhancement is not sufficient to withstand the credit and cash flow stresses that we apply at the 'B' rating level. We believe the repayment of this class is not dependent on favorable economic conditions because when we reduce our high prepayment stress, in line with a steady state scenario, the issuer would be able to meet its obligations under this class. We have therefore assigned a 'B- (sf)' preliminary rating to this class in line with our criteria.

Sovereign Risk

Our long-term unsolicited credit rating on Italy is 'BBB'. Therefore, our structured finance sovereign risk criteria constrain our ratings in this transaction (see "Incorporating Sovereign Risk In Rating Structured Finance Securities," published on Jan. 30, 2019). The analytical framework in our structured finance sovereign risk criteria assesses the ability of a security to withstand a sovereign default scenario. We have applied these criteria and determined the sensitivity of this transaction to sovereign risk as low. Therefore, the highest rating that we can assign to the tranches in this transaction is six notches above the unsolicited sovereign rating, or 'AA (sf)'.

Scenario Analysis

We analyzed the effect of a moderate stress on the credit variables and its ultimate effect on our ratings on the notes. We ran two stress scenarios to demonstrate the rating transition of a note (see tables 8 and 9).

Table 8

Scenario Stresses Rating Variable

	Scenario 1 (relative stress to base case)	Scenario 2 (relative stress to base case)
Gross loss rate (%)	30	50
Recovery rate (%)	(30)	(50)

The results of the above scenarios are in in line with our credit stability assumptions. Many of this transaction's features--including the initial subordination levels, excess spread, and the liquidity reserve--enhance the stability of the ratings under each scenario.

Table 9

Scenario Stress Analysis Results

Class	Initial rating	Scenario 1 stress test ratings	Scenario 2 stress rating
A	AA	AA	AA-
B	A	A	A
C	BBB	BBB	BBB
D-Dfrd	BB+	BB+	BB
E-Dfrd	B-	B-	NR

Sensitivity Analysis

As part of our analysis we also conducted additional sensitivity analysis to assess the impact of, all else being equal, an increased gross default base case and stressed recovery rate on our rating on the notes. For this purpose, we ran eight sensitivity runs by either increasing stressed defaults and/or reducing expected recoveries as shown in the tables below.

Table 10

Sensitivity Runs

	Recovery rate stressed case (%)		
Gross default rate base case (%)	0%	(10%)	(30%)
0	Base case	3	4
10	1	5	7
30	2	6	8

The results of the above sensitivity analysis indicate a deterioration for the class A notes of no more than two notches compared with the ratings assigned for five of the tests, and of three notches in three of them, driven by increasing the default base case by 120 basis points (bps; see table 11). The class B and C notes show a maximum deterioration of two notches, while the class D-Dfrd notes does not achieve a rating in the scenarios where the default base case increases by 120 bps and the stressed recovery rate decreases as well.

Table 11

Sensitivity Analysis

	Base Case	1	2	3	4	5	6	7	8
A	AA		A	AA	AA	AA-	A	AA-	A
B	A	A	BBB+	A	A	A	BBB+	A	BBB+
C	BBB	BBB	BBB-	BBB	BBB	BBB	BBB-	AA-	BB+
D	BB+	BB-	B	BB	BB	BB-	NR	BB-	NR
E	B-	NR	NR	NR	NR	NR	NR	NR	NR

NR--Not rated.

Monitoring And Surveillance

We will assess quarterly the underlying portfolio's performance, including defaults, delinquencies, and prepayments.

Additionally, we will also assess annually:

- The supporting ratings;
- The servicer's operations and its ability to maintain minimum servicing standards; and
- Whether the then-available credit enhancement for each class of notes is sufficient to withstand losses that are commensurate with the preliminary ratings assigned.

Appendix

Transaction participants

Transaction Participants

Issuer	Autoflorence 2 SPV S.r.l.
Originator, seller, and servicer	Findomestic Banca S.p.A.
Lead manager and arranger	BNP Paribas S.A.
Back-up servicer facilitator and calculation agent	Zenith Service S.p.A.
Cash manager	Findomestic Banca S.p.A.
Swap counterparty	Findomestic Banca S.p.A.
Subordinated loan provider	Findomestic Banca S.p.A.
Paying agent and account bank	BNPP Securities Services, Milan Branch
Listing agent	BNPP Securities Services, Luxembourg Branch
Swap guarantor	BNP Paribas S.A.
Setoff provider guarantor	BNP Paribas S.A.

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