Prelios Credit Servicing S.p.A.

Servicer Report

2016 SERVICER RATING IT
RSS2+
CSS2+
FitchRatings
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Ratings

Residential Special Servicer

Italy	RSS2+

Commercial Special Servicer

Italy	CSS2+

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Servicer Summary

Fitch Ratings upgraded the Italian Residential and Commercial Special Servicer Ratings of Prelios Credit Servicing S.p.A. (PRECS) to 'RSS2+' and 'CSS2+', respectively, from 'RSS2' and 'CSS2', on 10 June 2016.

Key Rating Drivers

Continued Senior Management Team Stability: Since the ownership restructure in October 2013, PRECS' senior management team has remained unchanged. Fitch considers this to be positive for the servicer's stability, following a significant amount of turnover in previous years. The greater stability has improved continuity of operations and enabled the servicer to focus on business development, with year-on-year growth of assets under management (AUM) demonstrating success.

Increasing Special Servicing Portfolio: In the 12 months to December 2015, PRECS boarded six portfolios, comprising a mix of secured and unsecured non-performing loans (NPL). Over this period the special servicing portfolio increased to EUR2.8bn from EUR2.04bn. PRECS is the appointed master servicer on EUR7bn of loans (December 2014: EUR7.6bn) and also provides due diligence services to investors and banks. In Fitch's view, this is good for the servicer's sustainability in the medium term.

Improving Financial Condition: PRECS' 2015 end-of-year audited financial results report a loss. Losses have reduced significantly over the past three years, due to a continued focus on cost controls and an increase in servicing mandates. Neither PRECS nor its parent, Prelios Group SpA (Prelios), are Fitch-rated financial institutions, thus the servicer has been assessed as a standalone entity for its financial strength. Fitch has given some credit in its analysis to continued financial support from Prelios, as evidenced by a capital injection in 2015.

Continued Focus on Risk Management: The risk management function now reports directly to the Board of Directors and is fully independent from servicing operations, providing an improved control framework. A new Head of Risk Management was appointed in February 2015, with 17 years of industry experience, which is in line with that seen at highly rated-peers. The risk management team works jointly with the compliance and the anti-money laundering teams in assessing business risks and proposing mitigants.

Staff Development and Training: In 2015 PRECS continued to invest in training and development, increasing the number and variety of modules offered to its employees and the average number of training hours delivered to staff. Although the latter remains low compared with Italian rated-peers, Fitch recognises that the focus is on management training. An average of 62.6 hours training was delivered at this level, which is an increase on previous years and high when compared to peers.

High Staff Turnover: The annualised staff turnover rate remains higher than that seen at rated peers. This is partially driven by redundancies as a result of the restructuring. Fitch recognises that the rate has considerably reduced for the third consecutive year.

Company History and Management Experience

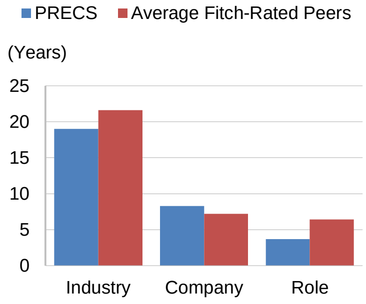
PRECS was founded in 1986 as Servizi Immobiliari Banche S.p.A. (SIB) by Pirelli & Co. Real Estate S.p.A (Pirelli) in order to manage NPLs. Over the years the company went through a number of different forms, while maintaining a focus on servicing NPL portfolios in which Pirelli invested, as well as portfolios originated and owned by third parties. In October 2013, Prelios Group finalised the repurchase of all shares in the servicer, returning full ownership and control of PRECS to Prelios.

Since the change in ownership structure, PRECS has moved away from being a captive servicer to a full third-party servicer. The new business strategy is feasible and credible, as demonstrated by the new servicing mandates won in recent years.

PRECS holds a number of different roles, for a range of third-party clients, across a variety of portfolios. In January 2016, PRECS launched an NPL securitisation platform to the market, to facilitate the transfer of loans from the balance sheets of Italians banks. An Italian bank acts as the arranger and PRECS as special servicer. At the time of review, EUR44m of loans had been transferred into this platform. The servicer also applied in 4Q15 to comply with article 106 for the financial intermediaries register, which will allow the servicer to offer financing activities.

This report relates only to the special servicing of residential and commercial mortgage loans; however, Fitch recognises that the variety of activities and business revenues is good for the servicer's sustainability in the mid-term.

2015 Average Senior Management Experience



Source: Fitch

PRECS is headquartered in Milan, with an additional office in Rome, which is led by a branch manager.

The senior management team consists of the CEO and five direct reports: the Heads of HR, Business Development, and Legal Affairs and Legal Network Control; the Director of Operations; and the Business General Manager. The senior management team has an average of almost 20 years' industry experience and just over eight years with the company. The Internal Audit, Compliance and Risk functions report directly into the board, and are independent from the servicing business.

The senior management team has been unchanged since the ownership restructure in 2013. Fitch considers this to be positive for the servicer's stability, following a significant amount of turnover in previous years.

The business general manager is responsible for recoveries in the Milan and Rome offices and due diligence activities. The Director of Operations is responsible for portfolio management, master servicing, business processes, business technology, planning and control and the cash monitoring team. This structure provides increased focus on servicing operations and core areas of the business.

Financial Condition

Neither PRECS nor its parent Prelios S.p.A. are rated by Fitch as financial institutions, the servicer's financial strength has been assessed as a standalone entity.

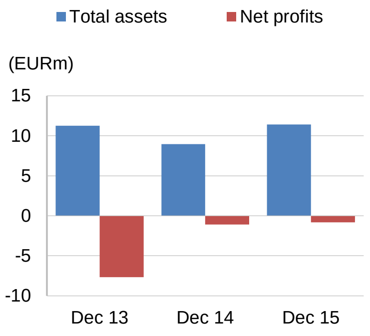
PRECS' audited full year financial statements show reported losses for the past three years, although a significantly improving trend is evidenced. Losses reduced to EUR0.8m as of December 2015, from EUR1.09m as of December 2014 and EUR7.68m as of December 2013. Losses were driven by asset valuation requirements and costs associated with the restructure.

The on-going reduction of servicing costs, increase in servicing fees received and the successful boarding of new portfolios are expected to improve the entity's financial position in the long term, lifting concerns regarding its future sustainability.

Related Criteria

Rating Criteria for Structured Finance Servicers (July 2016)

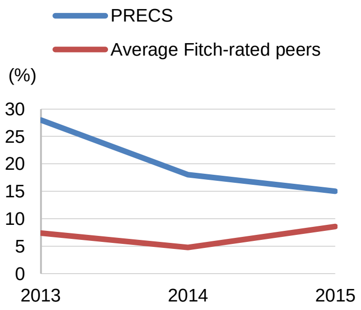
3-Year Financial Results



Source: PRECS

Staff Turnover Trends

Annualised reported turnover



Source: Fitch

Fitch still considers PRECS' financials as unstable, although the agency acknowledges that on-going support is provided by Prelios Group, as demonstrated by the increase in PRECS' capital share of EUR2.5m.

Staffing and Training

As at end-December 2015, PRECS had 59 full-time employees (FTE) compared to 60 FTE as of December 2014. Department managers had an average of 18 years' industry experience and 8.6 years' company tenure, which compares well to rated peers. Operational staff industry experience averaged 18 years, with an average of 12 years with PRECS. Both industry and company experience remains in line with rated peers, providing comfort around the quality of new hires.

Annualised staff turnover for the 12 months to end-December 2015 stood at 15%, which remains high when compared to peers. Fitch recognises that these figures have been impacted by the restructure of the company and that the three-year trend shows a continued reduction.

The HR manager and training manager are shared with Prelios Group and had 18 years and eight years' industry experience and company tenure respectively, as of end-December 2015.

PRECS has a bespoke performance management model which has improved the tracking of individual employee competency. The model is based on workflow and standardised templates, and has a competency assessment framework which provides gap-analysis. Individual training plans are based on the results of this analysis. At the time of review the performance management model had been in place for less than two years, with a full structured training plan for staff still in the process of being approved.

The number of training courses has increased from 16 in December 2013 to 50 as of December 2015. Technical skills training is carried out by key PRECS employees and third-party suppliers, to share knowledge and best practice across the company. Soft skill training is provided by an external training consultant.

A new loan management course was rolled out in 2015. The course was developed with group support and in collaboration with consultants from an external law firm. The course consists of four modules, covering real estate (RE) basics, RE valuation, RE marketing and financial basics. Fitch considers this an appropriate tool to develop the skillset of loan asset managers (LAMs) and to help meet the changing role requirements post the company's restructure.

The average training hours delivered to staff in 2015 were 20.2 hours (2014:17.8 hours), which remain lower than the average seen at peers. Managers received an average of 62.6 hours, which is significantly higher than in the previous year (41.2 hours) and higher than the average seen across rated-peers. This was driven by the company's 2015 training strategy which focused on developing management skills.

Staff development and commitment is assessed through engagement surveys and promoted with regular meetings to share company targets and results, cross-functional meetings and other informal meetings where knowledge is shared.

Project managers, team leaders and loan asset managers are eligible to receive an annual bonus based on business plan targets and annual objectives. All non-performance incentivised staff are eligible to receive a discretionary annual bonus. Semi-annual objective plans — completed for all staff, based on qualitative and quantitative measures — play a key part in determining pay outs.

Policies and Procedures

PRECS operates a three-level of defence risk management framework, including operative controls at the business level, risk management and compliance oversight, and an independent internal audit function. This is in line with regulatory requirements and what is seen at rated peers. The Internal Audit (IA), Compliance, and Risk Management functions report directly to the board, ensuring appropriate governance. The functions also submit activity plans and report to the Statutory Auditors.

A new independent Risk Management, Compliance and Anti-Money Laundering function reporting into the Board of Directors was established in February 2015, where previously a risk management department reported into the General Manager of Operations. A new head of the function was appointed, who has 17 years' industry experience.

In Fitch's view the separation of the Risk Management function from Operations provides improved monitoring and mitigation of risks, and a stronger governance structure.

The Risk Management, Compliance and Anti-Money Laundering function supports senior management in the identification and mitigation of risks impacting PRECS, monitors control effectiveness, ensures PRECS is in compliance with regulatory and legal requirements, monitors AML and ensures the adequacy of established policies and procedures.

The head of Risk Management, Compliance and Anti-Money Laundering is supported by a resource who has been with PRECS since 2011 and has eight years' industry experience.

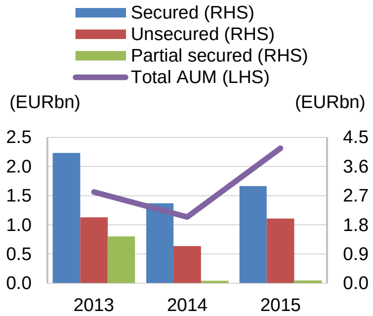
The compliance reviews carried out in 2015 resulted in two non-compliant findings, which were resolved at the time of the review; the AML review resulted in no material findings.

The head of IA, appointed in May 2014, has over 10 years' auditing experience. The IA function works in collaboration with Prelios' corporate internal audit function. In 2015, audit activity focused on six business areas and resulted in 30 findings, 16 of which were closed at the time of the review, while 14 were scheduled to be remediated in 2016. None of the findings were classed as high risk, reflecting an adequate control framework.

PRECS has developed a new automated tool, called GAIA, to track the progress of any remediation plans that are put into place following IA findings. The IA team monitors the progress of each remediation plan and ensures that timelines are met as agreed. Only action plans that have been completed in the system and verified by the IA team can be closed. Fitch considers the automation of controls through GAIA to provide improved oversight.

In 2015 PRECS developed an auditing tool to analyse, monitor and review business processes managed through SAP on an on-going basis. Each month, 33 potential red-flag indicators, related to purchasing/payables and revenue/receivables processes, are reviewed. There were no unresolved issues at the time of the review. In addition to the independent controls, team leaders and department heads are responsible for the day-to-day monitoring and oversight of loan activities. The servicing system supports this through automated timeline management and quality checks.

Gross Book Value Assets Under Management (AUM)



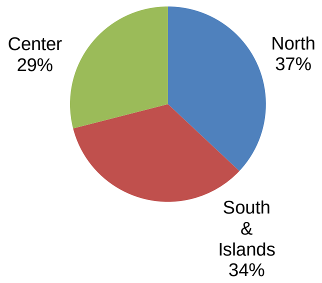
Source: PRECS

Servicing Methodology – Loan Administration

In the 12 months to December 2015 PRECS boarded six portfolios, with a mix of secured and unsecured NPLs. Total AUM stood at EUR2.82bn at the end of this period (December 2014: EUR2.04bn) across 8,506 borrowers (December 2013: 13,621 borrowers), of which nearly 52% was securitised. The secured portfolio had a value of EUR1.66bn (December 2013: EUR850.35m).

In Fitch's view, the increase in third-party mandates and the variety of the loans boarded has broadened PRECS' boarding and servicing experience.

Portfolio Split By Geographical Location
By value



Source: PRECS

New Loan Set-Up

The portfolio management team consisted of three FTE at end-2015, with an average industry experience of 16.5 years, headed by a manager with a similar length of industry experience. The team is involved from the early stages of acquisition to authorisation of the final business plan, which subsequently receives semi-annual reviews.

Loan set-up is managed as a project and follows a robust project-management lifecycle, including planning and analysis of scope, preparation and gap analysis, strategy development, testing, live upload, reconciliation, and final activation.

PRECS has a bespoke system (Phoenix Light) which provides a simplified user interface, focused on key data field collection. The system interfaces with key applications, such as the data warehouse (DWH) and third-party client systems, allowing fast data transfer; it also completes automated data quality checks.

PRECS is supported by Prelios Valuations on the collection of valuation data for RE assets. Prelios Valuations has a large network of RICS-qualified valuers across Italy and an extensive database, enhancing PRECS' data collection and recovery estimation processes at the loan boarding stage.

Typical boarding time was reported to be between 15 and 30 days in 2015, depending on the portfolio size, with 99% of loans reported to have full documentation.

All original documents are electronically imaged and then stored on site in Milan or Rome, in a fireproof safe.

Loan Accounting and Cash Management

Loan accounting and cash management responsibilities currently sit within the master servicing team, which consisted of 12.5 FTE at end-2015. The average industry experience was 17.4 years, 12.3 years of which was within the servicer or group.

Due to the nature of the portfolios under management, the majority of payments received by PRECS are via bank transfers, with the remainder being cheque payments. The average time to match a payment received to an account was one working day in 2015, with unmatched and bounced payments being resolved within one working week. These timelines are in line with rated peers.

The accounts receivable ledger shows real-time cash due against each account — as notified by the resolution team as having cash due — and highlights any outstanding shortfalls.

At end-December 2015, PRECS administered 53 bank accounts, none in the name of the servicer. Bank cash reconciliations are completed for each account every five days.

Reporting

The business reporting function is carried out by the Portfolio Management team within PRECS, comprising four staff averaging 16.5 years' industry experience and 12.1 years with the company, as of end-December 2015.

The team is in charge of producing contractually required and ad hoc reports. All reports are subject to review by at least two people before being distributed to external parties. This is supplemented by continuous monitoring of the asset management activity, key performance indicators (KPIs) and variances against original business plans. Reports are also submitted to the Bank of Italy and shareholders, with performance reports generated on a semi-annual basis.

PRECS remits investor reports for each of the servicing portfolios in line with service level agreements (SLAs), with no reports issued late or with errors in the last 12 months.

Fitch does not assign an Issuer Report Grade for the transactions serviced by PRECS; however, the agency is confident of the company's ability to provide highly comprehensive investor reporting on a monthly basis. The servicing and reporting systems in place allow the company to capture a large amount of data and provide the flexibility to adapt reporting parameters to produce bespoke reports.

Servicing Methodology – Defaulted Loan Management

As of end-December 2015, PRECS employed 20 loan asset managers internally (including three team managers), averaging 15.7 years of industry experience. The average role tenure was 12.9 years.

The loan management team is split according to size and risk of the loans:

- unsecured loans team: responsible for all unsecured loans;
- secured loans team: responsible for the recovery of secured loans with a value less than EUR900,000; and
- top loans and special situations team: responsible for loans with a value greater than EUR900,000 and corporate unsecured loans.

The more experienced LAMs manage the larger loans and have a smaller average case load. The loan manager is responsible for the resolution and administration of the loans assigned to them, including coordination with external third parties and maintaining system data. This structure, which is seen across other rated Italian servicers, provides an appropriate level of specialisation in Fitch's view.

PRECS uses automated KPI tracking to manage the workout process ; from monitoring the data quality stored in Phoenix, to tracking the progress of legal proceedings and recoveries achieved versus forecast.

PRECS continues to use a mix of judicial and non-judicial resolutions. At end-December 2015, judicial workouts represented 48.7% (December 2014: 55%) of all secured resolutions. The most common non-judicial resolution methods were DPO (34.1%) and loan sales (16.1%).

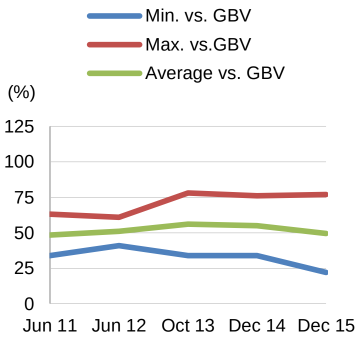
Where a judicial resolution is initiated, the LAM is supported by an external network of about 400 legal agencies, covering all Italian jurisdictions. Case allocation to lawyers is based on geographic location and workload. All lawyers on the company's panel operate under a standardised SLA, which incentivises continued non-judicial collection efforts and the expedition of court proceedings.

The loan manager is responsible for the day-to-day management of legal cases; however, oversight and quality management at the panel level is the responsibility of a dedicated team of 2.8 FTE sitting within the legal network coordination function. Performance monitoring, which is based on quantitative and qualitative parameters, enables PRECS to identify and engage the most efficient legal partners for each case. PRECS' legal business development team provides support on any contractual or documentation issues affecting resolution progress.

During the judicial process, PRECS is active in working with the court and the court technical expert (CTU) to accelerate the process where possible and to ensure a fair CTU valuation outcome.

PRECS is supported by Prelios Agency – the group's RE agency network – in the sale of assets. The network consists of around 450 agencies across Italy, with full brokerage and

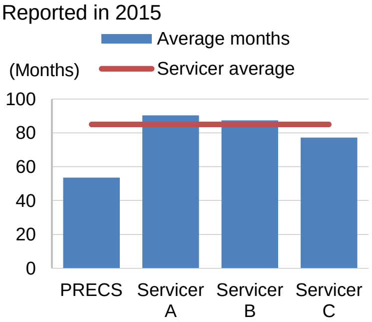
Secured Recovery Rates



Source: Fitch

Average Legal Timeline - Comparison

Reported in 2015



Source: Fitch and PRECS

advisory services and a large amount of experience in residential and commercial RE resolution. The network's local buyer knowledge also allows for more targeted advertising of RE assets going to auction.

The relationship between the servicer and Prelios Agency is well managed through an activity-based SLA. Fitch considers the resources provided by Prelios Agency to be useful in PRECS' servicing activities and recognises the strategic value in making use of the group's well established professional networks.

Real-Estate Owned

Real-estate owned (REO) is available to PRECS as a workout method, although it is not being used for the current servicing portfolios.

Fitch notes that no dedicated REO staff are currently in place. However, an REO vehicle and procedures are in place and existing staff are experienced with REO acquisitions and asset sales.

PRECS' REO offering is further supported by Prelios Integra; a group entity which provides asset and portfolio management, property and facility management, project and development management and engineering and professional services.

Technology

PRECS uses a variety of software application systems, including:

- Phoenix: the PRECS proprietary asset management system, used for daily management;
- Phoenix Light, used for due diligence and loan boarding system;
- Data Warehouse: linking key applications and providing a single source for reporting;
- SAP: system providing loan accounting;
- Partnership Management System (PMS): a customised platform used to manage the brokerage activities and network; and
- Oasi platform: used to transfer data from PRECS to Bank of Italy for the borrower risk repository (Centrale Rischi) and supervision (Vigilanza) registries.

PRECS continues to actively enhance the capabilities of the systems as part of a three-year renovation plan approved in 2014. Particular focus remains on the Phoenix asset management system, to provide greater automation and control of servicing activities.

The Phoenix system was developed internally and can manage multiple positions, acting as a central repository for all information relating to the loan, borrower and RE assets. It has been continuously developed since its implementation in 2006 and is flexible, user friendly and scalable. It generates automatic alerts when trigger events take place, or where key loan account details have been changed which may affect the business plan.

Interfaces between Phoenix and the other key systems allow the automation of essential processes, such as payment allocation to loan accounts and regulatory reporting. As of 2015, upgrades included:

- enhancements specific for the business (bulk data upload of RE appraisals, a new platform for external commissions, integrated summary reports);
- enhancements between Phoenix and the Project Management System to allow an automated feedback flow from brokers; upgrade of the cash management application to include a workflow approval format for legal costs; and improved monitoring and controls for regulatory purposes.

Fitch considers PRECS' asset management system to be robust and user-friendly, with a good level of automation and control, which compares well with asset management systems used at rated peers.

In 4Q15 PRECS finalised an agreement for an interface between Phoenix and SYGES, an NPL management system widely used by the Italian banking system. Through this interface, PRECS will have real-time access to the loan accounting information of the banks for which it services. At the time of the review, the interface, although implemented, was not active and so Fitch could not assess the impact on operations.

Systems support is provided by PRECS' IT department, consisting of one manager and one staff, with an of average 20 years' industry experience (more than 15 years in banking institutions). Additional support is provided by Prelios IT resources. Systems access is centrally managed and reviewed on a quarterly basis to ensure accurate and appropriate access.

Interim and full database back-ups are performed daily and held for a period of three weeks. Physical tapes are sent to a secure offsite location.

Disaster recovery is outsourced to Engineering, which performs the execution of all European SAP systems and centralised business applications for the Prelios Group, including PRECS. The contract stipulates SLAs of within 48 hours for 50% recovery of activities, and within 92 hours for 100% recovery. PRECS carried out the annual business continuity test in July 2015 and the annual disaster recovery test in October 2015. Both tests concluded with no significant issues identified.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.