

FITCH UPGRADES PRELIOS CREDIT SERVICING'S SPECIAL SERVICER RATINGS

Fitch Ratings-London-10 June 2016: Fitch Ratings has upgraded Prelios Credit Servicing SpA's (PRECS) Italian Residential and Commercial Mortgage Special Servicer Ratings to 'RSS2+' and 'CSS2+', respectively, from 'RSS2' and 'CSS2'.

The upgrades reflect the stabilisation of PRECS's senior management team (SMT) since the ownership restructure in 2013. Average role tenure, across the SMT, including the CEO, was around four years as of end-2015, which is in line with Italian rated-peers. In Fitch's view this has improved continuity of operations and enabled the servicer to focus on business development, as demonstrated by increasing assets under management.

During 2015 PRECS was mandated with six portfolios, comprising a mix of secured and unsecured non-performing loans (NPLs). The special servicing portfolio stood at EUR2.8bn at end-2015, an increase from EUR2bn a year earlier. Additionally, PRECS is the appointed master servicer on EUR7bn of loans and also provides due diligence services to investors and banks. Fitch expects the new mandates to improve the servicer's sustainability over the medium-term.

While PREC's 2015 end-of-year audited financial results still show losses, Fitch notes that these have narrowed significantly over the past three years. This improved financial performance was driven by a continued focus on cost controls and increased servicing mandates, and is reflected in the upgrades. 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.

The ratings reflect an improved control framework with more effective oversight at PRECS. The risk management function now reports directly to the Board of Directors and is fully independent from servicing operations. A new Head of Risk Management was appointed in February 2015 and has 17 years of industry experience, in line with higher rated-peers. The risk management team works jointly with the compliance and the anti-money laundering teams in assessing business risks and proposing mitigants.

PRECS continues to invest in training and development. The number and variety of training modules offered to its employees increased during 2015, as did the average number of training hours delivered to staff. Although the latter remains low compared with other Italian rated-peers Fitch recognises that the focus for 2015 was on management training. Management training hours delivered in 2015 averaged 62.6 hours, higher than the 41.2 hours delivered over 2014, and higher than the average of 40 hours seen at rated peers.

PRECS's annualised staff turnover rate continues to be higher than that seen at rated peers. This is partially driven by redundancies as a result of the restructure plan and Fitch recognises that the rate has considerably reduced for the third consecutive year.

As of 31 December 2015, PRECS managed a portfolio of NPLs with a gross book value (GBV) of EUR2.8bn (December 2014: EUR2.04bn), of which EUR1.66m was secured loans, EUR1.1m was unsecured loans and EUR45m was partially secured loans. The securitised portfolios represented 52% of the total NPL book (December 2014: 80%).

Fitch employed its global servicer rating criteria in analysing the servicer's operations and financial condition, with the former criteria including a comparison with similar Italian servicers as part of the review process.

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Applicable Criteria

Rating Criteria for Structured Finance Servicers (pub. 23 Apr 2015)

https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=864375

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