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Servicer Evaluation: Prelios Credit Servicing SpA

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Ranking Overview

Servicing category	Overall ranking	Management and organization subranking	Loan administration subranking	Outlook
Special servicer of commercial mortgages	ABOVE AVERAGE	ABOVE AVERAGE	ABOVE AVERAGE	Positive
Special servicer of residential mortgages	ABOVE AVERAGE	ABOVE AVERAGE	ABOVE AVERAGE	Positive
Master servicer of commercial mortgages	ABOVE AVERAGE	ABOVE AVERAGE	ABOVE AVERAGE	Stable
Master servicer of residential mortgages	ABOVE AVERAGE	ABOVE AVERAGE	ABOVE AVERAGE	Stable
Master servicer of unsecured credits	ABOVE AVERAGE	ABOVE AVERAGE	ABOVE AVERAGE	Stable
Financial position	SUFFICIENT			

Rationale

S&P Global Ratings' overall rankings on Prelios Credit Servicing S.p.A. (PCS) as a master servicer of residential mortgages, commercial mortgages, and unsecured credits in Italy are ABOVE AVERAGE. Our overall rankings on PCS as a special servicer of residential and commercial mortgages in the same jurisdiction are ABOVE AVERAGE. Our ranking outlook on each of the rankings as a special servicer of residential and commercial mortgages is positive. Our outlook on our rankings on PCS as a master servicer are stable (see "Prelios Credit Servicing S.p.A. Rankings Affirmed; Special Servicer Ranking Outlooks Revised To Positive", published on Aug. 9, 2021).

PCS operates as an independent institutional financial intermediary listed on the financial intermediaries register managed by the Bank of Italy (BoI), according to article 106 of Italy's Consolidated Banking Act (TUB).

In March 2019, Prelios moved PCS' special servicing operations to Prelios Credit Solutions S.p.A (PRECSO). PRECSO operates as an authorized operator under article 115 of the Italian Home Office security law ("Testo Unico Legge Pubblica sicurezza" [T.U.L.P.S]). Since November 2019, PCS mandated to PRECSO some special servicing activity on two portfolios of unlikely-to-pay (UTP) credits originated by Intesa San Paolo (ISP): one securitized under PCS' supervision and one on the bank's balance sheet. At that time, the UTPs under PRECSO's management amounted to €9.5 billion, of which €1.3 billion was under the scope of our review, consisting of residential and commercial mortgages. This activity was the main step toward achieving the Group's strategic goal of entering the UTP market and consolidating its position in the Italian debt collection sector.

PCS as a master servicer oversees PRECSO's activity on almost 100% by gross book value (GBV) of PRECSO's total mortgage portfolio, with another master servicer monitoring PRECSO's activity on the remaining marginal portion.

Our rankings apply to the operations of PCS and PRECSO, as both subsidiaries work in close coordination with each other and share common Group resources (e.g., human resources and IT).

Our rankings reflect PCS':

- Ability to leverage the Group's real estate expertise and service offering, including brokerage, property management, and valuations;
- Ability to deliver and absorb substantial business and staff growth;
- Leadership position in the Italian UTP market, as reflected by its management of the largest Italian UTP overall portfolio serviced by a third-party servicer, accounting for roughly €8 billion as of Dec. 31, 2020;
- Executive team that is well-experienced in the Italian servicing market;
- Limited middle-management experience and staff tenure due to its workforce growth doubling over the last two years in line with portfolio expansion; this was counterbalanced by staff retention initiatives, including new appraisal reviews and long-term retention plans, leading to low turnover rates comparable to similarly ranked peers;
- Updated policies and procedures (P&Ps) that reflect recent organizational changes, subject to Prelios Group's oversight;
- Well-designed internal controls (IC) framework, including PCS IC functions that are part of the servicer's organization and PRECSO IC functions provided by the Group;
- Proprietary IT systems, which are frequently updated and effectively support the master and special servicing workflows and boarding activity, as well as newly implemented artificial intelligence solutions;
- Appropriate subservicer monitoring controls (including close oversight of PRECSO) governing the master servicing activity, despite a limited number of subservicers being monitored;
- Mixed team of internal loan managers and external loan managers fully dedicated to PRECSO, suitably sized to perform the special servicing activity, both for nonperforming loans (NPLs) and UTPs; and
- Sound reporting ability for internal and external purposes, further enhanced by the creation of a dedicated reporting team, which allows good control over the servicer's ongoing activity.

The ranking outlooks are stable as a master servicer of residential mortgages, commercial mortgages, and unsecured credits. The servicer's master servicing operations are supported by an experienced leadership team and reliable IT platform. In addition, PCS demonstrated its ability to attract new business and is currently building its track record in managing an expanded master servicing portfolio, despite a limited number of subservicers under monitoring.

We revised our ranking outlooks to positive from stable for PCS as a special residential and commercial mortgages servicer. PCS has demonstrated the ability to successfully complete and consolidate the transfer of special servicing staff and activities to PRECSO while delivering high-quality service standards across several asset classes through an extended period of transformation. The Group achieved these results through diligent planning and effective monitoring of the associated operative risks. The servicer introduced a new UTP-specific platform, which reports no issues since fourth-quarter 2020. We will monitor the system over an extended time and verify the servicer's ability to maintain it at the forefront of the servicing solutions. PRECSO is well-positioned to continue growing its portfolio while improving its operative capability to meet the needs of an ever-changing and highly competitive market. We will assess PRECSO's ability to absorb further business, improve staff tenure over time, and gain additional efficiency through IT systems innovation while maintaining solid IC and top-end service standards.

Since our prior review (see "Servicer Evaluation: Prelios Credit Servicing SpA," published Sept. 11, 2018), PCS has reported the following key changes:

- There was a significant increase in the master and special servicing portfolios under management, including the boarding of several new GACS transactions and the partnership with ISP to service its originated UTP portfolios.
- Upon PRECSO establishment, the Group transferred the IC responsibility over the special servicing operations from PCS to the Group itself.
- In June 2020, the servicer created new P&Ps for PRECSO and updated all other PCS P&Ps with the assistance of two external consultancy companies.
- In July 2019, the Group established a ring-fenced UTP management team within PRECSO that is fully dedicated to this asset class.
- In December 2020, the servicer finalized the development of Pegaso, a new in-house developed servicing system specific for UTP loans.
- The number of IC staff increased to five from the previous two within PCS, to address the additional master servicing portfolio growth.
- The servicer set up servicing operations in Padua to manage the growing special servicing portfolio.
- The servicer created a fully dedicated reporting function with eight staff, which was previously performed by the portfolio management team.

The financial position is SUFFICIENT.

Profile

PCS operates its servicing platform through its Milan head office, supported by branches in Rome and Padua. The company's clients include banks, investors, and special purpose entities (SPEs) with a focus on managing NPLs, leases, and UTPs.

In March 2019, Prelios moved PCS' special servicing operations to PRECSO, with the goal of having an entity exclusively acting as a debt collection agency.

In line with article 115 of the T.U.L.P.S, PRECSO can act as a special servicer in structured finance transactions under the supervision of an entity acting as master servicer, as well as special servicer on behalf of banks through outsourcing contracts. Today, PRECSO is special servicer on almost 100% of the portfolio by GBV under PCS' master servicer's responsibility.

PCS makes all decisions that may affect credit value (discounted pay-off [DPO], credit assignments, mortgage cancellations, etc.) in compliance with powers delegated by the SPE or the banks. PRECSO has no delegation authority.

Our rankings apply to PCS and PRECSO as both companies work in close coordination. Therefore, all comments referring to PCS apply to PRECSO as well, unless otherwise stated.

Besides PRECSO, PCS works closely with other companies of the Group, such as Integra, which offers property and facility management services, among others; Agency, the Group's advisory and brokerage company; and Valuations,

which offers appraisals of real estate assets.

The Group supports PCS in areas such as IT, HR, communication, corporate affairs, treasury, safety, quality assurance, and administration.

The servicer has significantly increased its special and master servicing portfolios since our previous review. PCS' master servicing portfolio accounted for €23.6 billion as of December 2020. At the same date, PRECSO managed the following loans on PCS' behalf:

- NPLs for a total GBV of approximately €13 billion (plus an additional €8.8 billion of unsecured credits that are outside of the scope of our assessment); and
- UTPs for a total GBV of approximately €1.6 billion (plus an additional €5.2 billion of unsecured credits that are outside of the scope of our assessment).

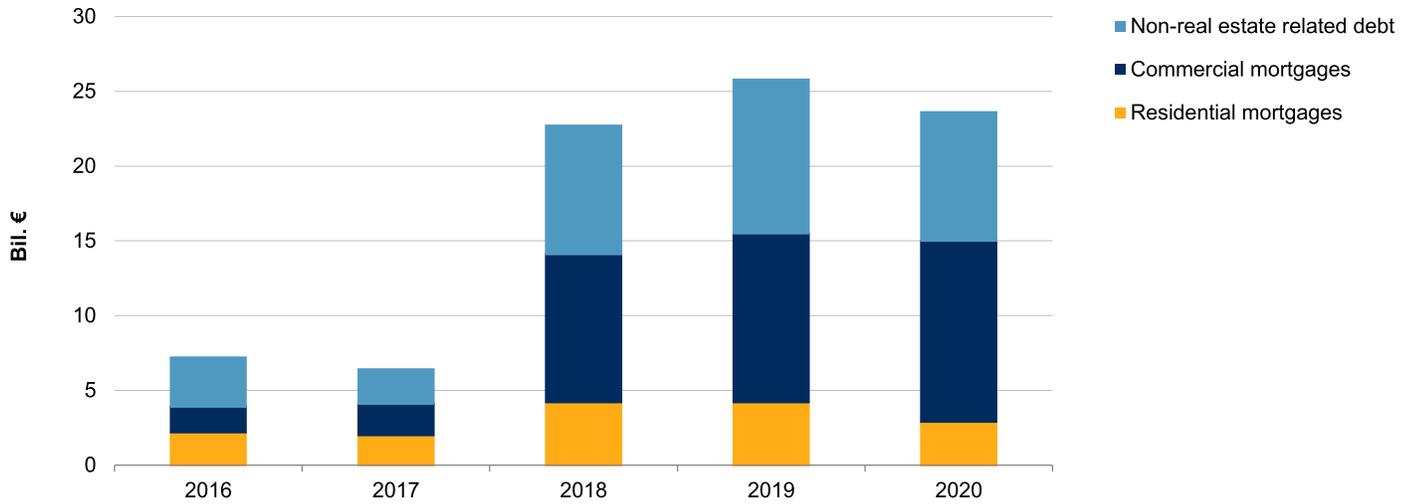
Table 1

Portfolio Evolution (Master Servicing)					
	2016	2017	2018	2019	2020
Portfolio description by GBV (bil. €)					
Overall master servicing portfolio under assessment	7.2	6.4	22.7	25.9	23.6
Master servicing portfolio under assessment by GBV (bil. €)					
Residential mortgage master portfolio	2.2	2	4.2	4.2	2.9
Commercial mortgage master portfolio	1.7	2.1	9.9	11.3	12.1
NRED master portfolio	3.3	2.3	8.6	10.3	8.6
Master servicing portfolio under assessment (# of cases)					
Residential mortgage master portfolio	12,686	10,664	22,970	23,796	16,495
Commercial mortgage master portfolio	2,706	2,705	12,805	15,630	15,432
NRED master portfolio	20,451	10,714	47,425	58,010	60,141
Staff					
Overall staff	65	70	104	189	254
Master servicing staff	7	10	16	20	23

GBV--Gross book value. NRED--Non real estate related debt.

Chart 1

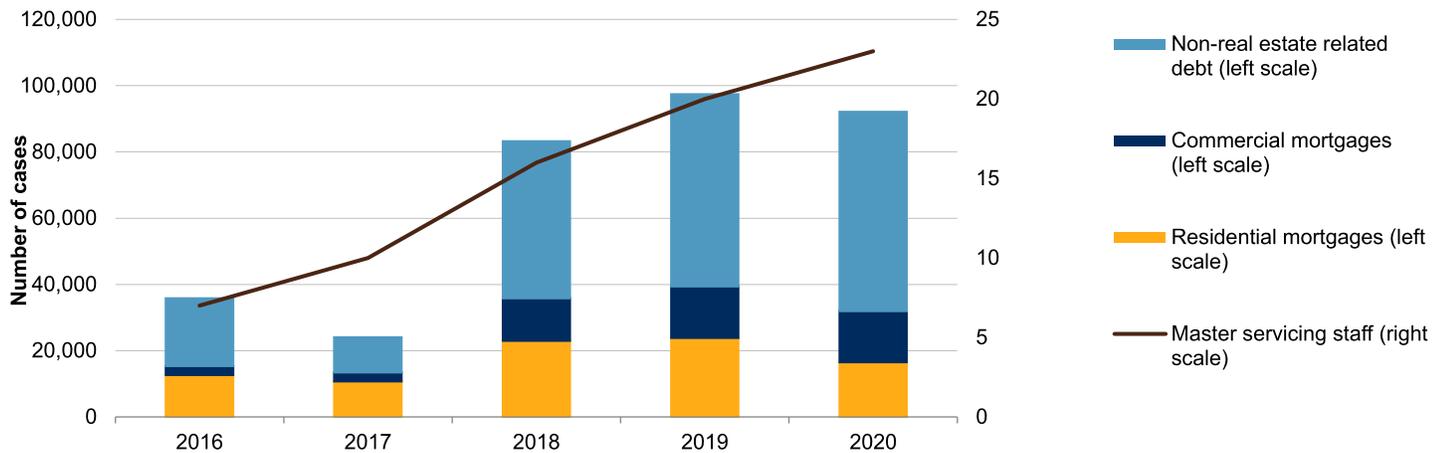
Master Servicing Portfolio Evolution (GBV In Bil. €)



Source: S&P Global Ratings.
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Chart 2

Master Servicing Portfolio Evolution (Number Of Cases) Versus Number Of Master Servicing Staff



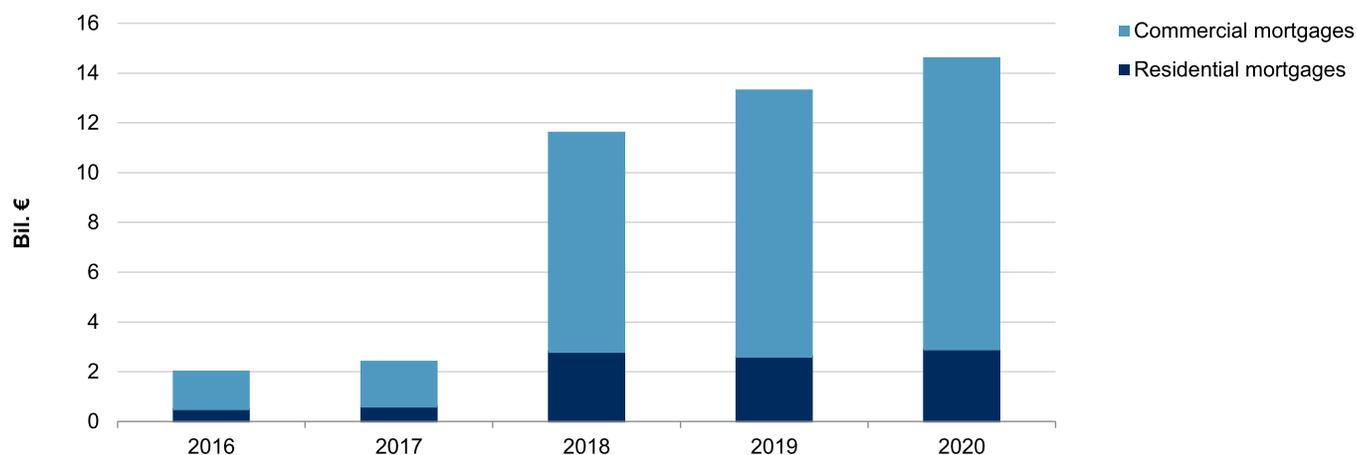
Source: S&P Global Ratings.
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Table 2

Portfolio Evolution (Special Servicing)					
	2016	2017	2018	2019	2020
Portfolio description by gross book value (GBV in bil. €)					
Overall special servicing portfolio under assessment	1.9	2.5	11.6	13.3	14.6
Special servicing portfolio under assessment (GBV in bil. €)					
Residential mortgage special portfolio	0.5	0.6	2.8	2.6	2.9
Commercial mortgage special portfolio	1.5	1.8	8.8	10.7	11.7
Special servicing portfolio under assessment (# of cases)					
Residential mortgage special portfolio	1,861	2,518	14,143	14,017	16,081
Commercial mortgage special portfolio	1,215	1,844	11,023	13,070	14,500
Staff					
Overall staff	65	70	104	189	254
Special servicing staff	25	27	51	104	160

Chart 3

Special Servicing Portfolio Evolution (GBV In Bil. €)

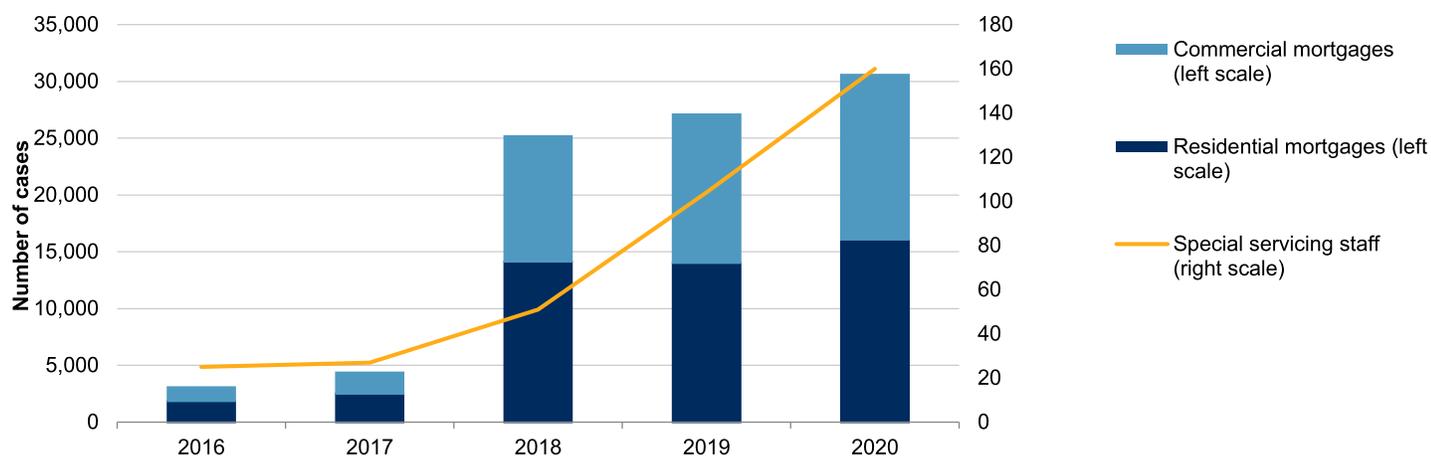


Source: S&P Global Ratings.

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Chart 4

Special Servicing Portfolio Evolution (Number Of Cases) Versus Number Of Special Servicing Staff



Source: S&P Global Ratings.

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Since our previous review, the servicer was appointed as master and special servicer on several public securitizations embracing the "garanzia cartolarizzazione sofferenze" (GACS) scheme. PCS was also appointed special servicer on two portfolios totaling €9.5 billion (out of which only €1.3 billion are in scope of our analysis) originated by ISP primarily comprising UTPs. In addition, the servicer undertook over 25 due diligence reviews and provided advisory services to various banks. Although not in scope of our ranking, the company forecasts that these relationships will lead to new servicing opportunities in the future.

As a financial entity under BoI supervision, PCS includes its business plan in its Internal Capital Adequacy Assessment Process (ICAAP), which only applies to the master servicing entity, and submits it to the central authority. BoI only provides feedback on ICAAP if issues are flagged, however, PCS reported that they have not yet received comments on the latest submission.

Management And Organization

The management and organization subranking is ABOVE AVERAGE across all five rankings.

Organizational structure, staff, and turnover

PCS staff—including PRECSO operations—more than doubled in less than two years, in line with the servicer's portfolio growth. As of December 2020, PCS staff peaked to 254 employees (from 189 in 2019 and 104 in 2018) including staff from ISP.

This well-defined organization is led by a stable and highly experienced management team. PCS' CEO is also the Group's general manager, which, in our opinion, highlights the relevance of the servicing business within the Group.

PCS' master servicing operations are subject to BoI's surveillance and it has dedicated IC functions—audit, risk

management, compliance, and anti-money laundering (AML)--sitting within the servicer that report directly to the servicer's board, enhancing their independence from operations. Because PRECSO is not under BoI's surveillance, it is not obliged to have its own IC functions; it receives IC support from the Group instead.

The overall staff turnover rate has remained at stable and low levels over the past five years. However, PCS has implemented additional actions such as appraisal reviews and long-term retention plans for key employees in order to further enhance key staff retention.

Table 3

Staff Turnover Rate					
Total staff	2016	2017	2018	2019	2020
Staff at beginning of period	59	65	70	104	189
Number of joiners	14	10	46	104	106
Number of staff leaving voluntarily	7	4	12	18	18
Number of staff leaving not voluntarily	0	1	0	0	3
Number of expired contracts	0	0	2	0	1
Number of staff redundant	1	0	0	1	0
Staff at end of period	65	70	104	189	273
Turnover rate	13%	7%	16%	13%	10%

The average PCS staff experience is in line with STRONG ranked servicers. Tenure has decreased since 2018 due to the rapid hire of staff over the past couple of years. This is offset by recruits' industry experience, along with strong supervision and guidance from the solid management team. We noted a drop in senior management and middle management experience in 2020, related to the hire of several senior and middle managers to serve the growth of the UTP business.

Table 4

	Experience			Tenure				
	Sen. mgt	Middle mgt	Staff late arrears/ litigation	Master servicing	Sen. mgt	Middle mgt	Staff late arrears/ litigation	Master servicing
2020	18	11	10	15	4	4	2	6
2019	22	21	11	16	7	14	5	8
2018	24	21	11	15	12	12	5	9
2017	21	22	14	17	10	13	8	16
2016	20	22	14	14	9	14	8	14
2015	19	20	17	17	8	12	10	13

Training

PCS and PRECSO receive full support from their parent for recruitment, training, and staff development. The PCS managing director works closely with a member of the Group's HR team to set HR related guidelines. The centralized HR team, comprising 11 employees, supports 660 staff across the entire Group.

The servicer has a well-defined recruitment process that includes open-day events to network with targeted candidates and promote its brand.

PCS has an effective induction program that involves seven classroom-led modules, followed by relevant technical training. Since January 2021, PCS has been using Skillia's third-party software to provide and track specific training sessions. PCS also uses MS Excel to track overall training hours, unlike higher ranked peers that use automated systems to track completed training hours.

During the COVID-19 pandemic, PCS rolled out virtual training.

Training in 2019 and 2020 focused on regulatory, managerial, and UTP management technical training, aimed at providing a solid background to employees working for the newly established PRECSO. In 2020, BoI invited PCS to provide a full one-day training to its employees on the role of the servicer. We view this as positive, because it further demonstrates that the regulator views the servicer as reliable.

PCS' and PRECSO's people management is aligned with the Group's P&Ps. As a result, both companies have a performance management model that sets skills and abilities for each role and aims to identify gaps in each employee's skillset against those targets. The Group's HR function sets annual training and development programs for these employees to fill potential skill gaps and manage staff performance and incentive programs.

Since 2018, the Group has adopted an appraisal system whereby each employee receives their own goals and growth plan from their line manager at the beginning of each year and reviews them at the end of the year. There are also other opportunities for employees to get direct feedback over the course of the year. Growth plans are based on scorecards, which include both quantitative and qualitative objectives for each role.

The Group considers this model as a transparent means of managing individual performance against pre-set objectives, enabling it to determine training needs.

PCS maintains a good level of communication with staff, organizing regular town halls and informal meetings and using its intranet to increase staff engagement.

Systems and technology

The Group's IT department manages systems and technology across all companies, leveraging 16 internal resources, of which eight are fully dedicated to PCS and PRECSO, and 17 external professionals. The centralized IT team is responsible for prioritizing and delivering IT requests. It monitors the execution of ongoing projects monthly.

Servicing system applications

PCS' proprietary core servicing platform, Phoenix, is used for master and NPL special servicing activities, supporting the management of:

- NPL portfolios after the due diligence phase;
- Judicial and extrajudicial collections;
- Dynamic business plans;
- Collections and recovery expenses;
- Borrower data; and
- "Centrale Dei Rischi" (credit bureau information) reporting.

Since our previous review, the Group has developed a new in-house servicing platform, Pegaso, designed to support the management of UTP credits.

Detailed user manuals for Phoenix and Pegaso are easy to read and available to all staff in electronic format.

Both Pegaso and Phoenix are web based and integrated with other software such as an accounting system (SAP) and real estate management tool (PMS). PCS and PRECSO allow authorized external parties, such as solicitors and external brokers, to access their applications through tailor-made user profile accounts where each user can navigate to necessary sections of these applications for assigned cases.

Pegaso and Phoenix have a daily feed to the data warehouse, which supports customized and standard data analysis. A basic user can extract pre-defined reports with real-time data, while advanced users can also produce customized reports. Similarly, users can access data based on their profile, so team leaders can only access the data of loan managers assigned to them.

PCS continuously upgrades Phoenix and Pegaso to meet business needs and has introduced new artificial intelligence solutions aimed at reducing manual intervention. Examples include a chatbot that serves as first level support for users accessing the loan management systems. Another example is an automatic reader that facilitates cash allocation by extrapolating information from bank transfers received on the SPV's accounts and associating it with the respective loan, credit line, and legal action, or the related installment of the repayment plan within either of the two management systems.

The Group applies the best practice of running an external IT assessment every couple of years. In 2020, Ernst & Young performed a Group IT audit that did not raise any major findings for PCS nor PRECSO.

PCS outsources infrastructure services such as the data center, network, and service desk.

Data is backed up daily and retained for three weeks. There is also a daily and weekly full file back up.

Business continuity and disaster recovery

PCS' application manager, who is also the Group's manager, is responsible for the business continuity (BC) and disaster recovery (DR) plans. These plans, based on business impact analysis, are updated and tested annually. BC training is also provided to all staff annually.

All employees can work securely from remote locations via web access using a corporate laptop. Following the company BC policy, if there is a major event in a localized area of any of the premises staff can move to another part of the building. Alternatively, they can work from home if the whole office building is affected. Moreover, strategic staff can be temporally relocated to one of the other company branches.

In March 2020, the Group switched to full remote working over two weeks at the start of the COVID-19 pandemic. The company was already providing smart working solutions for employees--allowing them to work remotely two days per week--so the transition to full remote working was quicker than it would have been had staff lacked this equipment. As of the date of this report, 50% of staff work remotely in split teams.

The Group has two additional third-party DR sites, one located about 150 kilometers outside Milan and an alternative

site closer to Milan. Several senior Group officers compose the crisis committee, which monitors the implementation of the DR plan in the event of a disaster. The latest DR test took place in December 2020; PCS restored critical data in roughly 30 minutes, which is in line with STRONG ranked peers. This is an improvement from our previous review, which recorded roughly one hour.

Cybersecurity

PCS is subject to three annual penetration tests and vulnerability assessments, two of which are performed by third parties and one completed internally. The latest penetration test was carried out in the third quarter of 2020 by an external independent party and evidenced no critical risks. The servicer also performs periodic bimonthly phishing simulation campaigns to test employee awareness.

Internal controls

Other than for PCS, the Group provides IC for all its subsidiaries (including PRECSO). PCS has its own IC functions to meet more stringent requirements it needs to comply with (article 106 of the TUB). The Group and PCS each apply a three lines of defense model, in line with market best practice. Although designed and operated separately, information is exchanged frequently and all are subject to Group oversight.

Policies and procedures (P&P)

A single resource in PCS maintains and updates P&P manuals for PCS and PRECSO by liaising with responsible policy owners. The servicer reviews every P&P at least annually, in line with industry best practice. Additionally, the respective compliance function can propose updates because of changes to the legal framework or to the Group's directives. The new or updated procedures are published upon validation of the board, top management, legal, and compliance.

In June 2020, the servicer finalized a major project, carried out with the support of two external consultancy companies, in which all existing NPL P&Ps were reviewed and updated. In addition, PRECSO published newly produced UTP P&Ps.

Staff can access P&Ps through the company intranet and changes are communicated via email. There is version tracking in place and the compliance department controls the storage of previous manuals in the company's central repository.

Compliance and quality control

PCS' risk management and compliance function has increased to three resources (from one at our previous review) given the increased complexity of the business environment. This team is responsible for PCS' risk management, compliance, and AML functions.

The head of the legal affairs and compliance department takes care of compliance matters for PRECSO. The company added two new resources to the team in 2021.

The servicer has appropriate data quality checks and controls in place, including relevant boarding data checks and operational monitoring of key performance indicators (KPIs), both at PCS' and PRECSO's level.

PCS' risk and compliance officer manages AML with the support of operations and business functions, reviewing P&Ps

to minimize the risk of money laundering. PRECSO's board of directors (BoD) is responsible for AML within that entity.

Risk management

PCS' risk management function identifies and evaluates all relevant company risks and suggests solutions to avoid, mitigate, or manage those risks for the master servicing operations.

To this end, PCS' risk function produces an annual risk map including, for each risk, a description, strategy (based on impact and probability analysis), mitigation actions, and owners. PCS also applies a risk register that facilitates risk tracking and the risk management process. PCS' risk function similarly supports the CFO during the ICAAP.

The Group risk function manages PRECSO's risk framework. The Group team consists of three resources who identify risks, define mitigation actions for events deemed high-risk with managers, and produce annual reporting for the BoD. The Group risk management function monitors PRECSO's main servicing collection indicators to highlight potentially risky situations at least every six months. If the projected collection flows deviate from those envisaged in the business plan, the Group risk management function analyzes the results with the relevant PRECSO's managers to agree on corrective actions. Like PCS, the Group risk management function uses a risk register to facilitate risk monitoring.

Internal and external audits

Three members comprise PCS's internal audit function and directly report to the servicer's BoD, creating integrity and sufficient independence from operations, in our view.

PCS' audit function applies a risk-based methodology, so risks associated to each function determine the frequency of the audit review. At the beginning of each year the board approves the plan proposed by PCS' internal auditor. It then reviews progress semiannually. If remedial actions are required, the internal auditor and the head of the relevant department identify an action plan. PCS uses a software (GAIA) to track and manage audit findings and associated remediation.

Master servicing, payment processing, and investor reporting are subject to annual audit reviews. The results of the servicer's 2020 audit activity were satisfactory, with no high-risk findings. Remediation plans are currently in progress, as anticipated. As of the date of this report, PCS had two open findings.

The Group audit team of three provides PRECSO's internal audit function. This function reports periodically to PRECSO's BoD on the results of activities carried out, the status of activities in progress, and the monitoring of any mitigation actions. As with PCS, PRECSO also uses GAIA to track and manage audit findings and associated remediation. The 2020 audit focused on the management of external NPL managers, external lawyers, and the effectiveness of PRECSO's internal controls' framework given their recent implementation. The latest audit report did not highlight any high-risk findings.

Complaint management

Two resources comprise the PCS complaints function, which handles day-to-day complaints for both PCS and PRECSO.

The complaints team prepares a report presented to the compliance department, which then includes it in its periodic

report, which is shared with BOD annually and describes complaints received in the previous year and the status of their resolution.

Over the past three years, PCS has received between 200 and 360 complaints per year and resolved more than 90% of the cases within the regulatory deadline of 30 days.

The servicer explained that the portfolio growth registered over the same period caused delays for the remaining 10%, resulting in resolutions beyond the regulatory deadline. To overcome this issue, in the second half of 2020 the servicer hired two external legal companies to support the production of complaints resolutions, one assigned for UTP and the other for NPL complaints.

On the master servicing side, PCS monitors the complaints management activities carried out by its other subservicers through specific KPIs. It incorporates these KPIs in the overall subservicers' ranking.

Vendor management

PCS has an adequate vendor management process. The real estate department monitors the performance of external brokers, while the legal affairs team monitors the performance of the legal network with the support of loan managers. PCS selects brokers and external lawyers from the related professional registers publicly available. The business analysis department performs a pre-appointment check as part of the process to appoint external lawyers. It monitors external lawyers' workload too and redistributes cases if necessary, to achieve a sustainable distribution. Team leaders appoint external brokers to produce broker opinions. Brokers do not have access to Phoenix but can access another system called PMS, on which all broker opinions are loaded. PMS is connected to Phoenix via a nightly batch that transfers real estate information streams daily.

Finally, PCS uses a grid scoring system based on specific internal KPIs to monitor external providers' performance. This was updated since our previous review, in line with market best practice.

Insurance and legal proceedings

PCS has confirmed that its directors and officers, as well as its errors and omissions, insurance coverage is in line with the requirements of its portfolio size.

As of December 2020, the servicer reported that it is involved in a dispute with a third party that could have an overall economic impact of roughly €500.000. While there is a risk of losing the case, PCS, supported by its appointed legal advisers, believes there are well-founded defense reasons to oppose the counterparty's requests. In addition, the servicer has sufficient liquidity to sustain the potential expense.

Loan Administration

The loan administration subranking is ABOVE AVERAGE across all five rankings.

New loan setup

Since the beginning of 2020, PCS boarded six new portfolios of NPLs and UTPs, equal to €3.7 billion of GBV, with PRECSO acting as a special servicer and PCS as master servicer on all of them.

PCS and PRECSO have an established process for new portfolio boarding and their servicing staff participate in loan boarding process training. The companies appoint ad-hoc teams of resources for each new boarding activity and an

internal project manager who coordinates relevant counterparties, such as internal departments and external providers. Moreover, PCS' legal and commercial functions support the project manager.

For larger boarding and due diligence initiatives, the companies use external professionals duly trained before undertaking any assignments.

Clients provide Excel files that include predefined portfolio data that is automatically imported into Phoenix for NPL credits through an Oracle-based application. For UTP credits managed in Pegaso, the banks agree specific data migration flows with the servicer. Each loan is uploaded with a minimum set of mandatory data duly reviewed before the loan becomes live in the system. The duration of the electronic boarding process depends on the size of the portfolio. It takes from 30 to 90 days from the delivery of the loan documents by the originator on average, depending on the size of the portfolio.

PRECSO sends welcome letters automatically to all borrowers, except companies in bankruptcy. In addition, the servicer contacts borrowers immediately after boarding if the bank originator has provided it with relevant contact details.

In most cases, the originator sends the relevant documents electronically. If no electronic copies or just a part of them are available, the external archive provider scans the documents using a checklist template created by PCS and now adopted by PRECSO. The provider associates the scanned copies of the loan documents to each case in the loan management system and securely stores the original documents in fireproof rooms within its premises. PCS' middle office department is responsible for checking inbound and outbound paper versions of any document requested by the loan managers.

Payment processing

Four PCS employees reconcile NPL payments daily through a highly automated process, using Phoenix (both as a loan management and as an accounting system). The staff work promptly to resolve unmatched payments, averaging one per month, and those temporarily held in suspense accounts. On average, it takes three-and-a-half days to resolve each case. Internal audit provides a detailed level of oversight to payment reconciliation processing and it has not raised any significant risks.

As the Pegaso UTP loan management system does not include an embedded accounting function, a third-party provider (AFASST) manages UTP payment processing. AFASST provides a daily collections report that flags unallocated items. PCS credit and middle office function liaises with the loan managers to provide AFASST with immediate information for the reconciliation of these.

Client management and investor reporting

The Group aims to achieve high brand visibility in the marketplace and actively attends and organizes industry events.

The Group has a business development department, reporting to the company's CEO, which promotes PCS and PRECSO services. It shares responsibility to consolidate the relationship of existing clients with the senior managers, who also hold regular client meetings on performance. The PCS portfolio management team is responsible for addressing any operational client queries.

Since our previous review, PCS created a reporting team of eight members, two of which were previously part of the portfolio management team, while the remaining six were hired externally. The reporting team fulfills several duties, collecting data and receiving support from other PCS and PRECSO teams. For example, PRECSO shares detailed portfolio reports showing actual versus targeted collection on the company's cloud storage through the PCS' portfolio management department. This is made available to the Group and the servicers' top management, including through smartphones via Power BI technology.

As a master servicer, PCS produces mandatory pre-defined and standardized KPI reports to various parties. At the same time, the servicer delivers semiannual and quarterly servicing reports, and ad hoc reports as required. The business analysis department also provides regular internal reporting to PCS management.

All in all, PCS has 29 full-time employees dedicated to report production and related communication.

PCS distributes reports by email in PDF format. Moreover, PCS has a website with a restricted user access area where the servicer can exchange restricted information with clients. PCS has not reported any errors or queries since our previous review.

Special servicing (residential and commercial mortgages)

PRECSO's special servicing teams include 71 UTP staff, 91 internal NPL loan managers, and 142 external loan managers exclusively working for PCS and PRECSO. Each team manages loans from the initial due diligence until closing, finalizing the work-out of the loan and management of the real estate-owned companies (REOCOs) when required. This includes marketing and collateral sales.

As of December 2020, PRECSO (on behalf of PCS) managed NPL and UTP portfolios accounting for €13 billion and €1.6 billion (plus €8.8 billion of NPLs and €5.2 billion of UTPs outside of the scope of our assessment), in GBV terms, respectively. The special servicing portfolios comprises a mixture of residential and commercial positions.

As we observe in other Italian servicers, PRECSO applies the same special servicing workflow to manage residential mortgages and commercial mortgages. It manages all loans with a GBV exceeding €500,000 internally while external loan managers work the remaining positions. The external loan managers receive induction training identical to that given to internal loan managers, work on the PRECSO IT system, and apply PCS and PRECSO P&Ps. The external loan managers also report to internal PRECSO team leaders, who periodically review their performance and work with underperformers to improve their results or, as a last resort solution, replace them.

Since our previous review, the servicer created separate NPL and UTP departments, in line with business diversification and growth. Both departments have work-out units led by work-out unit heads, to whom several team leaders report on their loan managers' performance.

The loan managers, either internal or external, set and define what they believe to be the best recovery strategy for each case assigned to them, within a pre-defined special servicing workflow, coordinating and monitoring the work of external legal and real estate service providers. The resolutions include DPO, support of the voluntary sale of the assets up to auction facilitation, and repossession of collateral in auction, among others.

In line with similar servicers that we rank, loan managers target nonjudicial negotiation (out of court) settlements with

debtors. This generally speeds up resolutions because the Italian legal process can be protracted. They pursue legal proceedings if no friendly resolution is feasible.

The approval process for nonjudicial settlements helps efficiently deal with NPL and UTP debtors' proposals. The loan manager inputs the negotiated proposal into the respective loan management system, which runs net present value and discounted cash flow analysis before transferring it to top management, who approve or reject it. Finally, the portfolio manager performs a final check and sends the resolution to investors for their ultimate review.

Loan managers are responsible for achieving the recovery target and for maintaining data quality. Team leaders oversee their activity and report to the heads of each work out unit, who in turn report about it in a bi-weekly call chaired by the general business manager.

As observed in other high-ranked servicers in the market, since our previous review, PCS has implemented an automatic fees calculation for external lawyers in Phoenix and in Pegaso based on the tariff schedule agreed at the time of the assignment.

The servicer reported that the COVID-19 pandemic had limited operational effect on the organization because the Group's employees had already adopted work-from-home policies on certain days before this period. Consequently, each employee already had a laptop when the crisis hit and they started working from home permanently with no delays.

Finally, PRECSO has reported positive collection results against business plans over the past three years.

Master servicing (residential, commercial, and unsecured credits)

PCS' master servicing department comprises 23 staff members (up from 10 at the time of our previous review as a result of the increased master serviced portfolio).

PCS' master servicing portfolio peaked at almost €23.6 billion by the end of December 2020. PRECSO works as a special servicer on over 90% of its overall master serviced portfolio and another two servicers work on the remaining portion.

The master servicing team uses Phoenix and performs the following functions:

- Bank account reconciliation;
- Monthly reporting to the Credit Risk Register;
- Ensuring that the securitization is compliant with Circolare 288/2015 on behalf of the SPE; and
- Subservicer monitoring.

PCS also performs calculation and paying agent activities out of the scope of our review.

As a master servicer, PCS needs to perform several preparatory checks on each securitization in line with BoI's Circolare 288/2015, including verifying portfolio characteristics and reviewing respective controls in place, such as the presence of a payment account for various activities.

The monitoring of existing subservicers follows a sound process, based on an established ranking system. The assessment ranges on a scale from 1 (lowest) to 5 (highest). It is based on a list of KPIs internally called the control panel. The director of operations, a representative of the legal department, the risk officer, the internal auditor, and the heads of UTP and NPL portfolio management meet quarterly to discuss the control panel. As a result, they can plan further monitoring activity and review the on-site subservicers visits calendar. Moreover, the master servicing team verifies cash collection performance monthly and a critical situation may trigger an earlier review of the subservicer ranking.

The company visits new subservicers within nine months from the closure of the agreement for the initial review. It then performs onsite reviews every two years for existing mandates.

In addition, the servicer performs quarterly desktop KPI checks on subservicers. During 2020 and the beginning of 2021, PCS, like its peers, did not perform any onsite reviews as a result of the pandemic.

Subservicers need to complete an annual checklist, in line with market best practice, covering information such as hardware, software, archive management, collection procedures, and internal controls. The checklist information is used as part of each subservicer's ranking and desktop review.

Financial Position

The financial position is SUFFICIENT.

Related Research

- Prelios Credit Servicing S.p.A. Rankings Affirmed; Special Servicer Ranking Outlooks Revised To Positive, Aug. 9 2021
- Select Servicer List, June 3, 2021
- Servicer Evaluation Spotlight Report™: Environmental, Social, And Governance Factors Have Consistently Powered Our Servicer Evaluation Rankings, Nov. 16, 2020
- Analytical Approach: Global Servicer Evaluations Rankings, Jan. 7, 2019
- Servicer Evaluation: Prelios Credit Servicing S.p.A., Sept. 11, 2018

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