

FBS S.p.A.

Servicer Report

Ratings

Residential Special Servicer Italy	RSS2+
Commercial Special Servicer Italy	CSS2+
ABS Special Servicer Italy	ABSS2

Servicer Summary

Fitch Ratings has affirmed FBS S.p.A.'s Italian residential and commercial Special Servicer Ratings at 'RSS2+' and 'CSS2+' respectively. The agency also affirmed the asset-backed securities (ABS) Special Servicer Rating at 'ABSS2' on 7 December 2016.

Servicing Portfolio: At end 2015, FBS's servicing portfolio had a gross book value of EUR5.2bn (2014: EUR4.3bn) with 239,921 loans (2014: 158,485). Unsecured debt represented EUR3.7bn (2014: EUR3.1bn) or 71% of total assets under management (AUM).

Key Rating Drivers

Stable Senior Management Team: FBS's senior management team has recently been expanded with the addition of the Head of Compliance and Risk. This strengthens an already experienced team whose average industry and company experience compare well with rated peers. In Fitch's view, the stability at this level provides FBS with clear direction to meet its business growth objectives.

Robust Risk Management Framework: Control functions have been restructured over the past year, with separate teams for risk and compliance, and internal audit. This brings FBS's risk management framework in line with the market standard.

The internal audit manager, who is highly experienced, has been with the company for seven years and therefore provides continuity. The internal audit process is thorough with a robust follow-up process in place and a reasonable level of audit activity. FBS has also carried out a full review of high-risk areas over the past 12 months, including the conflict of interest policy, complaints procedures, remuneration scheme and third-party oversight procedures.

Improving Financial Trend: FBS's audited financial accounts show business growth has resulted in annual net profits increasing in 2012-2015. Fitch views the increased revenues, from new servicing mandates, as an indication of the sustainability of the servicer. The servicer has reported improving liquidity ratios and return on capital employed rates, year on year.

Enhanced Staff Development Programme: The ratings reflect FBS's continued focus on staff development. The servicer has enhanced its training programme to comply with the new Bank of Italy rules and regulation and added video presentations as a training tool. The average number of training hours delivered to new hires has increased, and is now high compared with the average for rated peers. The servicer continues to demonstrate several internal advancements, and staff turnover remains low compared with the peer average.

Strong Special Servicing: FBS has significant workout experience and has demonstrated the effective use of a variety of resolution methods, across both secured and unsecured loans.

Industry experience throughout the special servicing team, including staff and team leaders, is in line with the average for highly rated peers, although company tenure is below average.

Robust Technology: FBS employs robust technology that facilitates an efficient servicing operation. The servicer has a disaster recovery plan in place, although no test was conducted in the 12 months to July 2016. As a result, Fitch could not complete a full assessment of its effectiveness. The servicer has confirmed that a test was completed in October 2016.

Sources Of Information

The report is based on information provided to Fitch Ratings by the servicer as of December 2015, unless stated otherwise.

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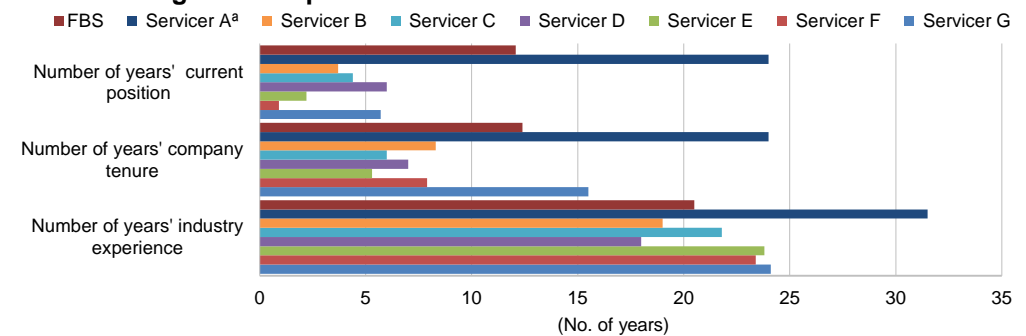
Company History and Management Experience

FBS entered the Italian market in 1997 to perform third-party servicing of NPLs, due diligence valuations and purchasing and servicing of unsecured NPLs. FBS is registered with the Bank of Italy as a Law 130 servicer and is an approved institution under article 107 of the consolidated law on Banking for financial intermediaries.

The servicer's majority shareholder is the CEO (57%), with private equity holding 43%. The company's founders remain heavily involved in business operations and are on the board of directors. In Fitch's view this indicates long-term engagement of the senior management, which provides the company with clear strategic direction.

FBS's senior management team consists of the CEO, with 38 years' industry experience and 18 years' company tenure, and five direct reports. The team is stable, with no turnover over the past 12 months. It has been expanded over this period, with a new head of compliance and risk who brings 11 years' industry experience to the role. Average industry experience and company and role tenure across the team compare well with the average for rated peers.

Senior Management Experience



^aServicer A has 2 members of the senior management team
Source: FBS and Fitch

FBS owns 95.2% of FBS Real Estate (FBSRE), a real estate company which acts as a real estate agent during the foreclosure process, carries out secured portfolio analysis and asset valuation, and provides discounted pay-off (DPO) advisory services. The two entities share a number of board and senior management members, which indicates close operational ties and a clear control structure. Through FBSRE FBS obtains access to a network of surveyors covering all of Italy.

Financial Condition

FBS does not have a Fitch credit rating, nor does it have support of a rated parent.

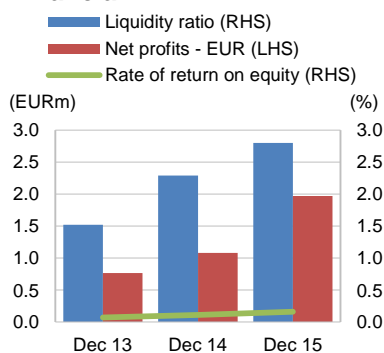
The audited year-end financial statements for 2015 show net profits continued to improve to EUR1.97m (2014: EUR1.08m and 2013: EUR768,000). Key measures such as the liquidity ratio and net operating margin improved year on year.

The servicer has sufficient credit lines in place to support the business and its strategy of purchasing non-performing loan portfolios. Fitch views the increased revenues, from new servicing mandates, as an indication of the sustainability of the servicer.

Staffing and Training

FBS's head office is in Milan. It also has offices in Ravenna and in the southern Italian city of Bari. FBS has 116 employees, down from 120 at end-June 2015. Most employees are based in

Financial



Source: FBS

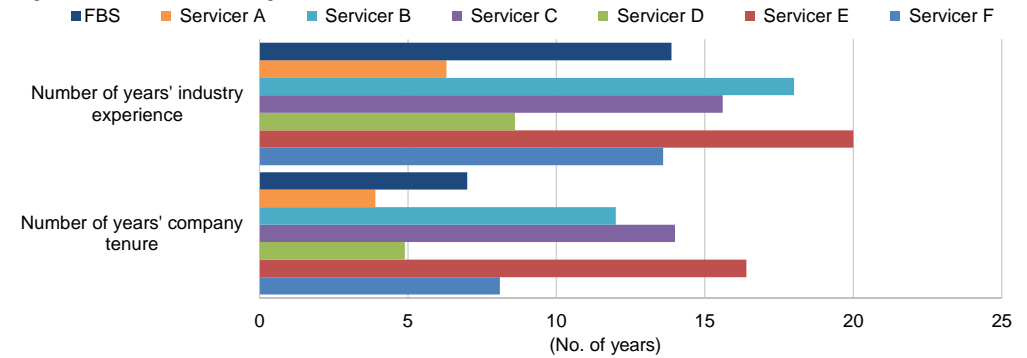
Related Criteria

Criteria for Rating Loan Servicers
(February 2017)

the Ravenna office.

Average industry experience of operational staff is in line with the average of peers in the Italian servicing market. Average company tenure is low compared with the average of the same peers.

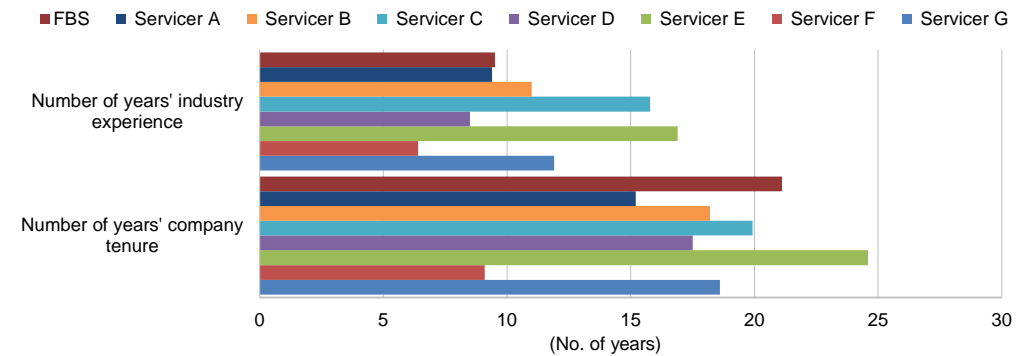
Operational Staff Experience



Source: FBS and Fitch

Average industry experience for middle management is high when compared with the average of peers in the Italian servicing market. Average company tenure of middle management is 9.5 years, which is low on the same peer comparison.

Middle Management Experience



Source: FBS and Fitch

Fitch considers the low company tenure mitigated by the good industry experience of both operational staff and middle management.

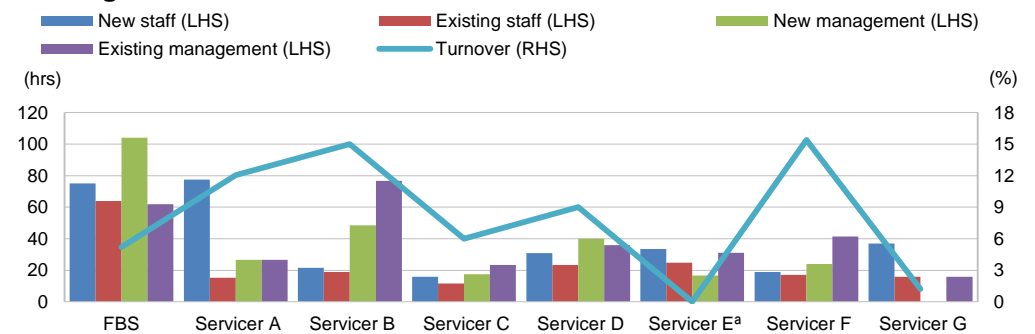
The annualised staff turnover rate for 2015 is 5.2%, an improvement year on year (2014: 7.89%), which compares well with the average for Italian rated peers. The number of internal advancements in 2015 remained relatively stable at 14 (2014: 15), which supports FBS's stated strategy of retaining knowledge where possible.

The training programme is well structured and provides staff with a variety of tools including: external and internal structured courses, job rotation, web-based applications and video presentations. The servicer has enhanced the training programme to ensure that there is embedded knowledge of the requirements under the new Bank of Italy rules and regulations. FBS conducts an annual staff survey to collect direct feedback from employees on additional training requirements.

Individual training plans are role and level specific and cover technical training, regulatory knowledge and soft skills.

The average number of training hours recorded per existing employee for 2015 was 64 (2014: 68 hours). For new hires this was 75 (2014: 46). The average number per existing middle manager for 2015 was 62 (2014: 65). For new middle managers the average was 104 (2014: 62). The average number of training hours for all staff compares well with Italian rated peers. The induction programme has been enhanced to ensure embedded knowledge of the requirements under the new Bank of Italy rules and includes additional system training, which has resulted in an increase in training hours.

Training Hours and Annualised Turnover



^a Servicer E has 0% turnover and servicer G has no new management
Source: FBS and Fitch

Performance against individual targets is measured three times a year. Formal performance appraisals are conducted annually. Compensation is based on company performance against targets and individual performance against objectives, which is in line with the market standard.

Fitch believes FBS’s training and development frameworks are robust. This is supported by the high average number of training hours for all staff, the good number of promotions and the reduced annualised staff turnover rate.

Policies and Procedures

FBS continues to operate a “three lines of defence model”, which consists of:

- Operational controls through defined authority-level limits, exception reporting and system automated alerts at loan level where performance deviates from expectations or where illogical information exists.
- The dedicated risk management and compliance monitoring function. The team are responsible for the continued monitoring of adherence to processes and regulation, and the identification and mitigation of risks to the business. To ensure compliance with the Bank of Italy’s rules FBS has a new system and procedures in place along with additional reporting to identify and manage conflicts of interest.
- A risk-based internal audit (IA) programme. Historically, the IA manager also had compliance responsibilities. Since the last review FBS has separated the two roles, in line with industry standard and best practice. The IA manager has been in the industry for 15 years and has worked with FBS for seven years. Given the size of FBS, Fitch views the resource allocation as appropriate. FBS are subject to regular audits, Fitch has seen the IA plan and reports for 2015, which are thorough and demonstrate no significant findings. There is evidence of clear resolution and escalation procedures.

FBS does not currently receive an ISAE 3402 Type II Service Auditors Assurance Report or an equivalent external audit report. However, the company is subject to independent reviews from the supervisory body.

FBS maintains clearly documented policy and procedure manuals for all business functions, which are considered to be user friendly. Manuals are easily accessible to all staff on a shared network drive. The review of policies and procedures is part of the regular internal audits covering the end-to-end operations.

Governance at FBS consists of board meetings and various committees at management level, through which the IA and compliance activities are planned and reviewed. In Fitch's view FBS's committees are appropriately structured and cover all key areas of the business.

Servicing Methodology – Loan Administration

New Loan Set-Up

In 2015, FBS boarded 79,770 loans. An operations manager with 11 years' industry experience and company tenure coordinates and oversees the portfolio boarding process, which is fully automated. The manager retains control over data integrity.

Data queries are performed to check the accuracy of the data transferred onto the system against loan documentation. Only 75% of loan files have fully populated fields and documentation (2014: 67%). This is low compared with peers. According to FBS, this is due to the limited documentation available on some unsecured loans. The average time to board a new portfolio is three months, in line with the average for rated peers.

FBS uses two storage facilities, one in Milan and another in Ravenna, depending on asset location. The document-scanning process is completed in house, and any paper-based documentation is held securely, with movements centrally tracked and logged. In Fitch's view this is appropriate.

Loan Accounting and Cash Management

A dedicated team is responsible for the loan accounting and cash management. The team consists of five full-time employees, including a manager with 26 years' industry experience and 11 years' company tenure. The rest of the team have an average of 11 years' industry experience and seven years' tenure.

FBS administers 32 (2014: 44) bank accounts on behalf of clients. As is standard for Italian NPL servicers, the majority (99%) of payments received by FBS are bank transfers or cheques; the remainder are made by direct debit.

Bank reconciliations are conducted for each account daily and monthly. Investor cash and transaction reports are scheduled weekly and monthly, as required. FBS reports an average of one day to match payments to accounts, and seven days to resolve bounced or unmatched payments. Exception reports are created to provide indications of actual collections on DPOs, versus scheduled property sale proceeds against expected legal collections.

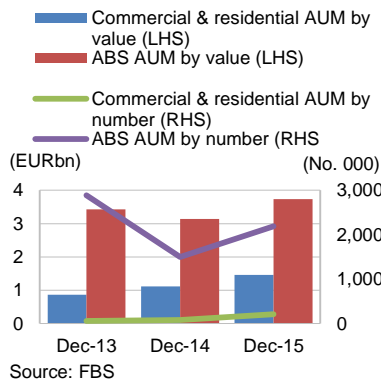
Reporting

FBS employs one full-time equivalent member of staff, with 17 years' industry experience (2014: 16 years) and seven years' company tenure (2014: six years) to carry out investor reporting.

FBS has a flexible proprietary reporting system, developed in house. This has been updated periodically to adapt to specific portfolio requirements. Reports take one hour to run through the automated system and are reviewed by senior management to validate the accuracy of the data. FBS remits detailed reports to 20 different investors monthly.

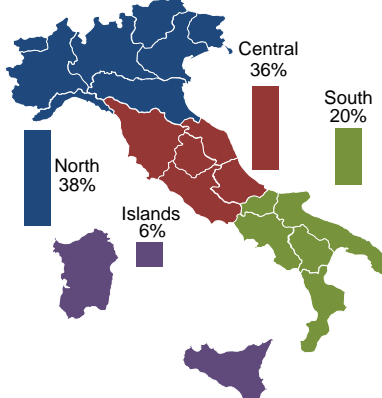
Fitch does not assign an Issuer Report Grade for the transactions serviced by FBS; however, the agency is confident of the company's ability to provide highly comprehensive investor reporting on a monthly basis.

Portfolio Trend



Geographical Breakdown - Unsecured Assets (by Value)

As of 31 Dec 15



Servicing Methodology – Defaulted Mortgage Loans

The special servicing teams are split into four groups focused on: foreclosure activity, bankruptcy proceedings, distribution of funds following sale of the property and loss mitigation on unsecured loans. This segregation of activity is appropriate to the size of the business and is similar to that at peers.

Small Ticket Loans/Unsecured Consumer Debt

FBS's activity on these loans is focused on the timely collection of amounts due.

The initial borrower notification letter is sent during the first 60 days of the active collection phase. FBS operates an internal call centre, with 22 employees, which is supported by an external phone collection agency. This provides the servicer with a flexible resource model.

Although FBS does not use dialler, key performance statistics are measured and monitored. In addition, qualitative measures such as type of agreement and soft skills are applied.

The phone collectors carry out initial borrower research to establish up-to-date contact details and the presence of any potential securities. If a salary or real estate asset is identified the loan is passed to external legal negotiators. Otherwise, an external collection agency, located close to the borrower, is assigned.

FBS has a robust framework to select and monitor external collection agencies, which includes thorough selection criteria and regular formal monitoring activity, which feeds into the case allocation process. A dedicated network manager visits each individual collection agency on FBS's panel at least quarterly, with ongoing monitoring by an internal team of seven collection managers, each in charge of the workout of specific portfolios.

Secured Loans and Larger Unsecured Loans

After loan boarding the initial segmentation of the portfolio follows set criteria such as loan type and size; workload is then assigned to individuals manually by the heads of asset management. In Fitch's view this is appropriate, but not as advanced as the systems seen at highly rated peers.

FBS relies on the experience and expertise of key senior managers for workout supervision. Senior management has a hands-on style, taking direct responsibility for many of the most difficult assets and being actively involved in day-to-day operations for others. An appropriate decision-making mandate structure is in place, with senior management responsible for the most complex decisions.

FBS formally reviews business plans on individual assets at least annually, and updates are carried out at key milestones such as scheduling of the auction date. The servicing system enables staff to update the business plan in real time and provides recovery expectations, current valuation data, and resolution strategy options, at loan and asset level.

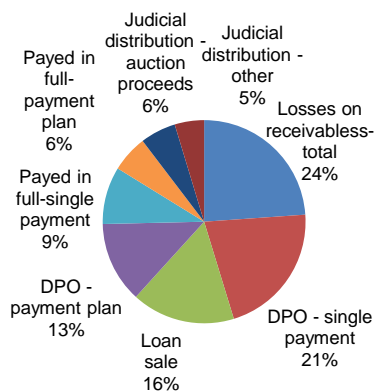
Once a course of action has been identified, the NPL loans are managed by dedicated teams who focus on judicial or non-judicial actions, providing specialisation.

FBS judicial resolution timelines have shortened compared with those seen at the last review, with the average time from initial arrears to release of funds across the whole jurisdiction being 85 months (87 months previously). This is higher than the average for similar rated peers in the Italian market.

FBS uses a network of about 1,500 external lawyers, who cover all the Italian provinces. They are remunerated according to a tariff schedule linked to efficiency and timing, agreed in advance with the company. External lawyers are monitored closely by asset managers.

Work Out Options - Unsecured

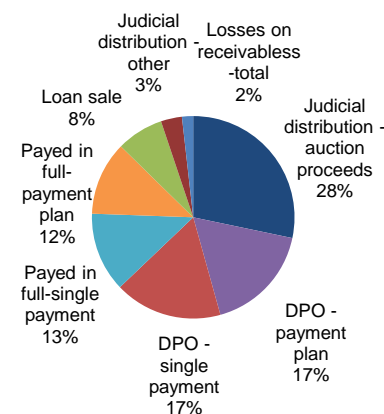
% of cumulative resolutions by loan number



Source: FBS

Workout Options - Secured

% of cumulative resolutions by loan number



Source: FBS

For secured loans, FBS uses FBSRE's network of external contractors, who undertake property management activities. The contractors can seek for DPO, payment plan or agreement for a private sale. This process runs in parallel with any judicial activity. FBS uses area managers that are in constant dialogue with the local contractors to manage this network, with oversight and quality checks carried out by FBS's surveyors and valuation managers.

Fitch views FBS's third-party management as appropriate and in line with processes seen at other rated peers.

Real Estate-Owned

FBS's strategy is not to acquire real estate through a real estate-owned (REO) vehicle. However, FBSRE has the necessary skills, procedures and organisational capacity to actively use REOs as an additional tool in its workout arsenal.

Technology

FBS's servicing platform REST has been in place since the start of 2015. The system is web based and uses cloud technology. Asset managers, lawyers, external collectors and the real estate team all have access to the system with the ability to update the sections relevant to them. The system can be accessed from mobile devices, which provides field collectors with access to real-time information on accounts.

Previously, EGO CR software was used for the management of unsecured consumer loans. Since the last review the REST platform has been enhanced to manage workflow and view account data for unsecured consumer loans.

The data warehouse is driven by borrower details rather than loan details. This means it is easier to link accounts that belong to the same borrower, providing an advantage when negotiating settlements or when street collectors visit the borrower (meaning they can be sure that all loans that the borrower has are being taken into account).

System security is robust, with access based on hierarchy and individual passwords, updated monthly. Internet access is controlled via the Milan server and firewalls are used to help improve the web access control environment. Only the systems' manager has authorisation to modify any live programmes. Data replication is completed in real time between the Milan and Rimini servers. A full system back-up is also carried out annually and retained indefinitely off site.

FBS's business continuity planning relies on the transfer of employees between offices and the ability to access FBS' network virtually, which, in Fitch's view, is appropriate. No disaster recovery test was conducted in 2015 due to ongoing hardware and technical improvements. Although Fitch has no real concerns regarding FBS's disaster recovery plans, the agency could not complete a full assessment of their effectiveness as no test was carried out during the review period. FBS has confirmed a test was later completed in October 2016.

The ratings above were solicited by the servicer, and therefore, Fitch has been compensated for the provision of the ratings.

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