The Italian NPL Market

Ready to Face the Crisis

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In the last 5 years, the NPE market was gradually heading towards a medium-term steady state. Deleverage activities reduced sharply bad loans and, as a result, market participants were starting to focus on Unlikely to Pay (UTP) and on how to manage the tail of the huge non-performing stock cumulated during the past decade.

Italian banks, in response to market and regulatory pressure, have halved the total stock of NPL (€135bn in 2019 vs €341bn in 2015) and, at the same time, they have set up their NPL platform and organizational controls that will allow to manage non-performing loans more quickly and efficiently and thus to face the incoming economic crisis in a more resilient way.

The COVID-19 crisis, needless to say, has surprised everybody, reshuffling the cards and bringing back to the table all participants that are now trying to understand how the market will evolve in the next few months and years.

Today, still in the aftermath of the healthcare emergency, we have some (few) certainties.

Paradoxically, the first certainty is a degree of… uncertainty. Despite several economic forecasts which have been released by public institutions or private research centers (one of the latest of which, by the European Commission, points at a 9,5% decrease in GDP in 2020) the situation is still largely unpredictable both for its complexity and incomparability with previous economic downturns and for the unpredictable evolution of the health emergency.

The second certainty is that the economic downturn will lead to an increase in NPL in the short to medium term. When, how much and how will this increase materialize? Probably not in the next few months, in which the shield of payment holidays and public support through the release of state guarantees will largely "freeze" the portfolios, delaying and possibly reducing the flows to NPE. Nevertheless, moratoria will end, and the combined effect of the decrease in revenue and worsening of financial position of many companies will lead to a severe scrutiny of the capability to pay creditors which will turn into an unavoidable reclassification to default of a significant number of counterparties. Market consensus is that NPE new inflows will be in a range between 60 and 100 billion in the next 18 months with a direct impact on current UTP and NPL stock.

Also because, and this is the third certainty, notwithstanding a general relief of supervisory and regulatory pressures on banks in this "emergency" situation, the focus on a rigorous valuation of the credit quality of banking portfolios will be high and increasing in the next few months. Banks will be forced to assess the likeliness to pay of their clients, and with objective or subjective indicators of financial difficulties emerging, many exposures will need to be reclassified. The clear confirmation of this expectation can be found in the increasing provisions that some large banking groups have already posted in their balance sheets to account for future losses.

All in all, these few certainties bring with them some clear market consequences.

Unlikely to Pay (€61bn as of 2019) will probably be the most relevant and complex asset class that will need to be addressed. Banks will have to come up with some reliable drivers in order to identify those clients to support and those which will not be able to be restored. Banks and servicers, because the number, granularity and sectorial composition of UTP will probably be different than in the past, will need to deploy new servicing capabilities and strategies. Investors, with an appetite for new finance which will be increasing, will be able to find potential new opportunities when economic recovery will show up.

The debt purchaser and debt servicing market will also be affected, turning the industry from a focus on the stock, which considering the primary and secondary market will amount to about 350bn by the year end, to a new focus on how to manage the upcoming flows. Luckily, one of the legacies of the last crisis is the presence, now, of a sustainable NPL industry that will be able, more rapidly and effectively than in the past, to manage increasing volumes, supporting the economy and, when possible, helping to bring back to viability some of the companies that will experience financial difficulties.

The crisis will have other clear market implications. On the price of collaterals, with Real Estate prices potentially decreasing, at least for a temporary period, and with geographical and sectorial evolutions which will have to be carefully assessed by investors. On NPLs recoveries, which have slowed down due to the stop of Courts activities in these months, and that will lead to a review of the underline business plans of the serviced portfolios. Innovative structures such as restructuring funds will emerge, given the expected increase in the market space.

Finally, the “NPE issue” will be deeply influenced by the effectiveness of public support and economic recovery schemes, by the timing and intensity of the removal of the current regulatory relief measures and by the implementation of “systemic” solutions. Such solutions could be especially important for the UTP positions where a mobilization of the main economic stakeholder could be a game changer for the Italian economy. The solution must be rapid, at market conditions and need to leverage on local economies and stakeholder.

All in all we believe that the financial services sector has now proven to be more resilient and Ready to Face the Crisis.

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The outbreak of COVID-19 represents a major shock for the Italian economy with an extensive impact on national gross domestic product, which the European Commission predicts will drop by 9.5% this year. Despite the policy response at both European and Italian level, the crisis is likely to revamp the trend of NPEs new inflows that, given the analysts' consensus, is expected to fall between 60 and 100 billion euros in the next 18 months.

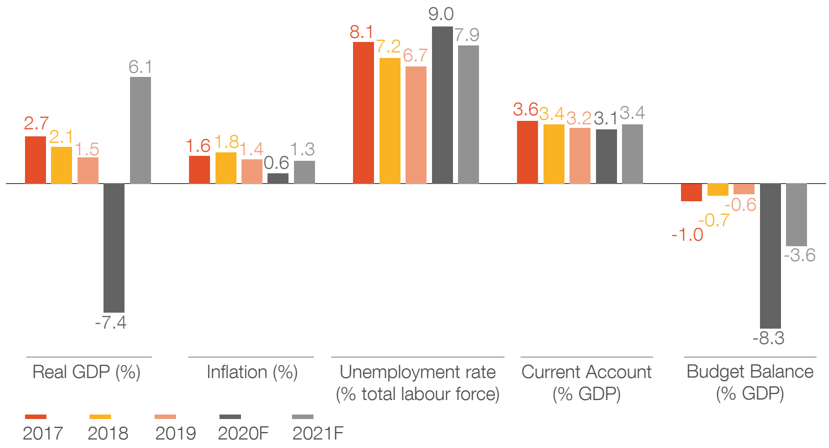
The outbreak of COVID-19 is shaping the entire world and constitutes an unprecedented challenge with important socio-economic consequences.

In March-April, most market activities in Italy and Europe were on stand-by because of the lockdown and social distancing measures, causing a strong crisis in the real economy both in terms of supply and demand. Despite phase 2 having started, both Italian and European contexts are uncertain, but the situation is constantly evolving from both a medical and macroeconomic perspective.

Regarding the political framework, some measures to safeguard the economy have been implemented and others are expected in the next months both in Italy and Europe. Overall significant public resources are directed to strengthen the healthcare sector and civil protection and to support affected workers and economic sectors.

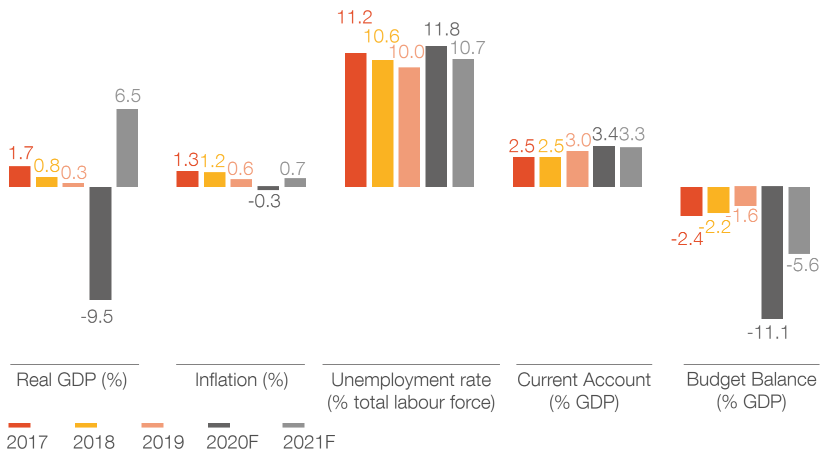
The Italian Government promoted measures to safeguard the economy mainly based on standstill and public guarantees to support the credit sector and measures to support SMEs which play a key role in the national economy. The aim is to make credit access easier through the relief of public guarantees.

Chart 1: EU main economic drivers



Source: PwC analysis on European Commission institutional paper “European Economic Forecast – Spring 2020”. Unemployment rate calculated as a % of total labour force, current account balance and budget balance as a % of GDP. Displayed data and forecasts for the EU refer to the EU27

Chart 2: Italian main economic drivers



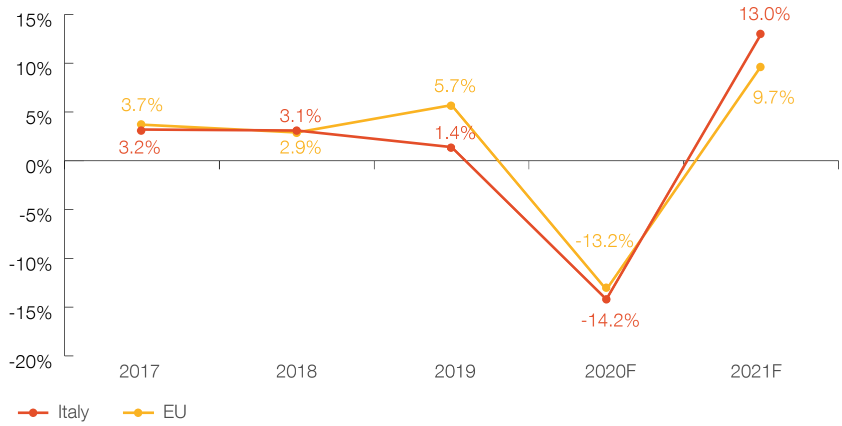
Source: PwC analysis on European Commission institutional paper “European Economic Forecast – Spring 2020”. Unemployment rate calculated as a % of total labour force, current account balance and budget balance as a % of GDP

In Europe, the current exceptional situation has led supranational and national authorities to adopt a flexible approach. In particular, the strong downturn of European economies allowed the use of the general escape clause of the Euro area fiscal framework. This offers the flexibility necessary to the national budgets to support the economy and to respond in a coordinated manner to the impact of the pandemic.

The most important measure adopted so far is related to the monetary policy. On 18 March 2020 the ECB launched the pandemic emergency purchase program (PEPP). The PEPP is a non-standard monetary policy measure to counter the serious risks to the monetary policy transmission mechanism. It will have an overall envelope of €750bn and will include all the asset categories eligible under the existing asset purchase program (APP).

Other important measures, which remain under debate, are the strengthening of European Investment Bank (EIB) activities, the access to the European Stability Mechanism (ESM) funds in a revised key, the SURE instrument to protect workers and jobs and the constitution of a Recovery Fund financed by innovative financial instruments to support the recovery of the continent.

Chart 3: Total investments volume trend (% change)



Source: PwC analysis on European Commission institutional paper “European Economic Forecast – Spring 2020”. Displayed data and forecasts for the EU refer to the EU27

Table 1: Government gross debt ratio per country

"Government gross debt ratio (% GDP)"	2017	2018	2019	2020F	2021F	Trend 2019 - 2021F
EU	83.3	81.3	79.4	95.1	92.0	▲
Italy	134.1	134.8	134.8	158.9	153.6	▲
Spain	98.6	97.6	95.5	115.6	113.7	▲
France	98.3	98.1	98.1	116.5	111.9	▲
Germany	65.3	61.9	59.8	75.6	71.8	▲
UK	86.2	85.7	85.4	102.1	101.5	▲

Source: PwC analysis on European Commission institutional paper “European Economic Forecast – Spring 2020”. Displayed data and forecasts for the EU refer to the EU27

The European Commission forecasts a strong downturn of European economies and an increase in unemployement. EU real GDP experienced a moderate growth of 1.5% in 2019, but is now expected to contract in 2020 by a record -7.4% and grow by 6.1% in 2021. The unemployment level is expected to rise from 6.7% in 2019 to 9.0% in 2020 before declining to 7.9% in 2021.

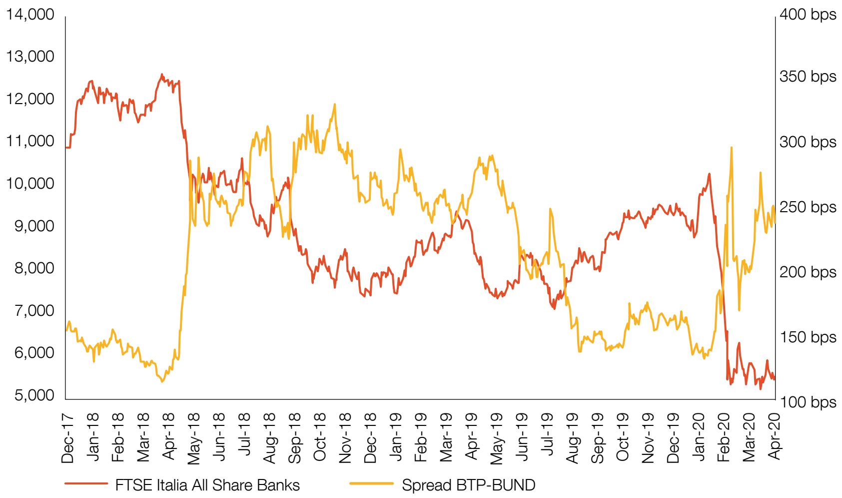
The shock caused by the spread of the virus is symmetric, the pandemic has hit all Member States. However, it is certain that each country's recovery will depend also on the structure of their economies and on their capacity to respond with appropriate policies.

The Italian economy is forecasted to contract by -9.5% and grow by 6.5% in 2021 resulting in an aggregate loss of 3.6% in two years. Also, the unemployment level is forecasted to rise reaching 11.8% in 2020 before declining to 10.7% in 2021.

Public debts are expected to blow up in the coming months due to the increase in public expenses to contain the consequences of the pandemic. Italian deficit is expected to be around 10% of the GDP and therefore public debt is expected to reach a peak between 155-160% of the GDP in 2020.

Rating agency downgraded Italy's credit rating to one notch and the Btp-Bund spread reached the highest levels in the last three years. Nonetheless, the situation now seems to be under control thanks to the decision of the ECB to take additional measures to mitigate the impact of rating downgrades to ensure the smooth transmissions of its monetary policy in all jurisdictions of the euro area.

Chart 4: Trend of FTSE All Share Banks index and BTP-Bund spread



Source: PwC analysis on data provider information

Recent market activity and outlook

Key Message

The outbreak of COVID-19 and the consequent lockdown could potentially impact deleveraging strategies for 2020-2022 where uncertainty about potential investors' appetite, pricing expectations and recovery strategies should be compensated by government stimulus that would preserve the level of NPEs transactions for 2020 maintaining them in a range between € 30-35 bn, in line with what has been recorded last year.

The five-year period 2015-2019 has registered NPE transactions in terms of GBV for around €230bn, while the NPE stock as of YE-2019 (GBV €135bn) has fallen more than half since the peak of the 2015 (GBV €341bn).

The first months of 2020 have registered a contraction on NPE transactions compared to the same period of the previous years: Q1-2020 has registered approx. €1.3bn of closed transactions in terms of GBV vs approx. €3.9bn in Q1-2019.

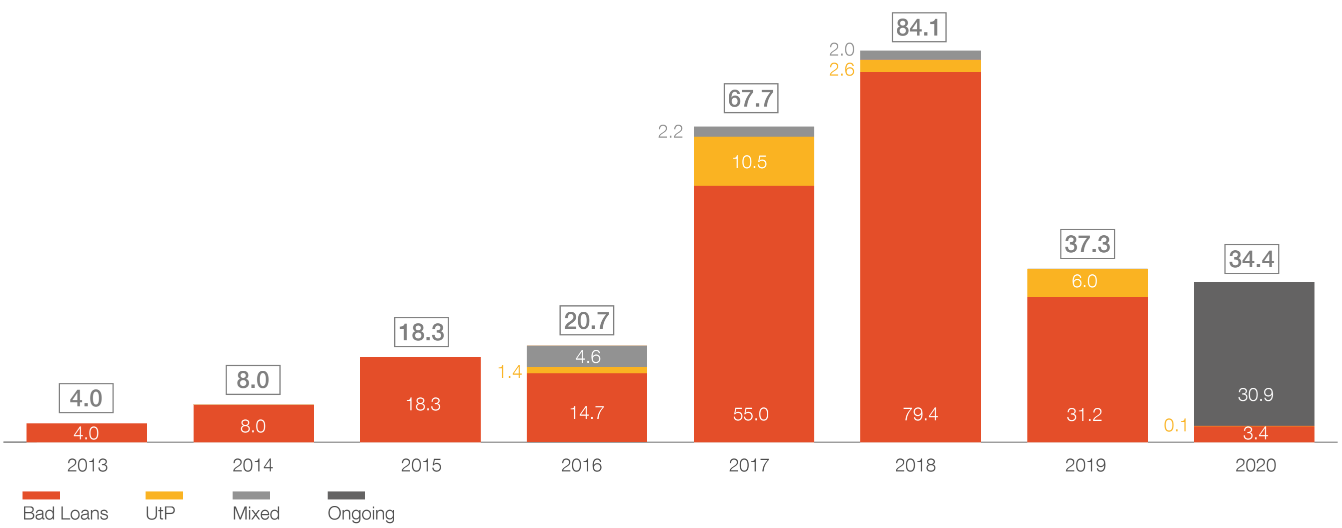
Despite the diffusion of the COVID-19, that for sure has affected and will affect the deleveraging strategies carried out by almost all Italian banks, the NPE market is still alive.

Overall, 2020 will be featured by approx. €25bn of NPE transactions in terms of GBV without taking into account the potential jumbo deal of approx. €9bn related to the deleveraging strategy of MPS, which is still under negotiation between the Italian Government and the EU Commission.

Regarding announced and ongoing transactions:

- UniCredit, in line with its latest industrial plan, will be one of the top players in the NPE market in 2020 with approx. €8.5bn of ongoing transactions, of which approx. €3bn of bad loans (Projects Lisbona, Tokyo, New York and Loira), €3bn of UtP (Project Dawn and Project Sandokan 2, with the latest in its closing phase) and €2.5bn of NPL leasing.
- Cariparma is carrying out a “platform” deal, like the one of Intesa Sanpaolo (Project M), concerning most of its NPE stock (approx. €3bn) throughout the disposal of part of the portfolio and the award of a servicing contract on the residual part of it, as well as on future inflows.
- Also Banco BPM is analysing the opportunity to set up a “platform” deal for a UtP portfolio of approx. €2bn.
- On the GACS side, BPER and Banca Popolare di Sondrio will likely ask for the public guarantee for the NPL securitisations they are currently working on.
- Last but not least, the secondary market is in great ferment featuring approx. €0.4bn of closed transactions in terms of GBV and approx. €2.3bn of announced transactions. Moreover, we have to take into consideration the role of secondary market as an alternative recovery strategy to accelerate the collections needed to repay Senior notes outstanding principal (often secured by GACS).

Chart 5: NPL transactions trend in the Italian market (€bn)



Source: PwC estimates on public information and market rumours

What is to be expected from the Italian NPE market over the next coming years?

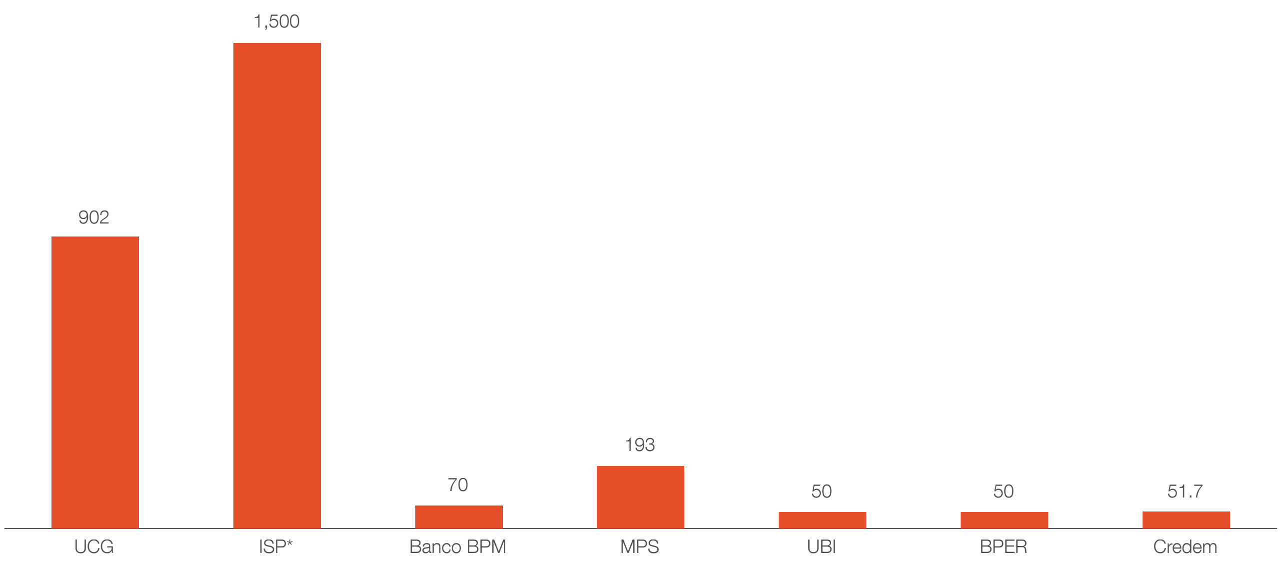
Regarding new inflows, as a result of the still ongoing spread of the COVID-19 it is very difficult to make reliable forecasts. Compared to the 2008 global financial crisis, the Italian credit system is now more solid and resilient as a whole, even though it is still challenged by a level of non-performing loans above the EU average.

In that case the banking NPE peak was reached in 2015, 7 years later the outbreak of the crisis. Now we can expect a shorter time for the new inflows wave, maybe between 2 and 4 years.

As showed in the graph, main Italian banks registered extra provision funds in the quarterly data as of 31st March 2020.

Concerning future NPE transactions, we think that the uncertain investors' appetite, pricing trends and recovery strategies, will stabilize for a couple of years. In 2021 we foresee transaction volumes in line with 2020, ranging between €20bn and €25bn, without considering potential "jumbo deals", such as Monte dei Paschi. Then, starting from 2022, we expect almost a double in transaction volumes, ranging between €35bn - €40bn.

Chart 6: Top 10 Italian banks - Additional buffers built up for future COVID-19 impacts (€ mln)



Source: PwC estimates on public information.
*€0.3bn provisions booked in Q1 and ~€1.2bn potential additional pre-tax provisioning from the Nexi capital gain

Table 2: Main closed transactions as of May 2020

Date	Seller	Volume (€m)	NPE category	Macro asset class	Buyer	Primary / Secondary market
Transactions closed in 2020						
2020 Q2	Deutsche Bank	270	Bad Loans	Unsecured	MBCredit Solutions	Primary
2020 Q2	Credito Valtellinese	250	Bad Loans	n.a.	Confidential	Primary
2020 Q2	J-Invest	1,701	Bad Loans	Unsecured	NPL Securitisation Italy SPV srl	Secondary
2020 Q1	Credito Valtellinese	177	Bad Loans	Secured	AMCO	Primary
2020 Q1	Credito Valtellinese	357	Bad Loans	Unsecured	Hoist Finance	Primary
2020 Q1	illimity	182	Bad Loans	Unsecured	Sorec Srl, Phinance Partners Spa e CGM Italia SGR Spa	Secondary
2020 Q1	UniCredit	115	Bad Loans	Secured	illimity	Primary
2020 Q1	Unknown	170	Bad Loans	Secured	illimity	Secondary
Other transactions with deal value < €100m		**316**				
Total (2020)		3,538				
Transactions closed in 2019 1/2						
2019 Q4	BNL	148	Bad Loans	Secured	Fortress	Primary
2019 Q4	BNL	162	Bad Loans	Unsecured	Kruk Italia	Primary
2019 Q4	Intrum	440	Bad Loans	n.a.	illimity Bank	Secondary
2019 Q4	Intrum	192	Bad Loans	n.a.	Banca IFIS	Secondary
2019 Q4	ICCREA	231	Bad Loans	Mainly Unsecured	Banca IFIS	Primary
2019 Q4	Banca Monte dei Paschi di Siena	200	UtP	Mainly Secured	Confidential	Primary
2019 Q4	Various popular and cooperative banks	827	Bad Loans	Mainly Secured	POP NPLs 2019 srl	Primary
2019 Q4	Banca Monte dei Paschi di Siena	1,600	Bad Loans	Unsecured	illimity	Primary
2019 Q4	Banca Carige	177	Bad Loans	Secured	AMCO	Primary
2019 Q4	Banca Carige	1,380	UtP	Mixed Secured/ Unsecured	AMCO	Primary
2019 Q4	Banca Carige	920	Bad Loans	Mixed Secured/ Unsecured	AMCO	Primary
2019 Q4	ICCREA	1,300	Bad Loans	Mixed Secured/ Unsecured	Confidential	Primary
2019 Q4	UBI Banca	858	Bad Loans	Mainly Secured	Iseo SPV	Primary
2019 Q4	UniCredit Leasing	154	Bad Loans	Unsecured	Guber, Barclays Bank, Banca IFIS	Primary
2019 Q4	BNL	400	Bad Loans	Unsecured	Banca IFIS, Guber, Barclays Bank	Primary
2019 Q4	Gruppo Cassa Centrale	345	Bad Loans	Mixed Secured/ Unsecured	Arrow Global	Primary
2019 Q4	UniCredit	1,039	Bad Loans	Unsecured	Confidential	Primary
2019 Q4	Banca del Fucino	100	Bad Loans	Unsecured	J-Invest	Primary
2019 Q4	UniCredit	6,100	Bad Loans	Mainly Secured	Prisma SPV	Primary
2019 Q4	Hoist Finance	5,000	Bad Loans	Unsecured	CarVal Investors (95% notes mezzanine and junior)	Secondary
2019 Q3	UniCredit	375	Bad Loans	Mainly Unsecured	n.a.	Primary
2019 Q3	UniCredit	664	Bad Loans	Secured	illimity	Primary
2019 Q3	UniCredit	1,100	Bad Loans	Unsecured	SPF Investment Management LP	Primary

Date	Seller	Volume (€m)	NPE category	Macro asset class	Buyer	Primary / Secondary market
Transactions closed in 2019 2/2						
2019 Q3	UBI Banca	740	Bad Loans	Mixed Secured/ Unsecured	Credito Fondiario	Primary
2019 Q3	Banca Monte dei Paschi di Siena	455	UtP	Secured	Cerberus	Primary
2019 Q3	Banca Monte dei Paschi di Siena	450	UtP	Mainly Unsecured	illimity	Primary
2019 Q3	Banca Monte dei Paschi di Siena	240	Bad Loans	Mixed Secured/ Unsecured	illimity	Primary
2019 Q3	UniCredit	240	Bad Loans	Unsecured	illimity	Primary
2019 Q3	Hoist Finance	225	Bad Loans	Unsecured	CarVal Investors (95% notes, excl. Junior)	Secondary
2019 Q3	UniCredit	210	Bad Loans	Unsecured	Guber & Barclays	Primary
2019 Q3	Banca Monte dei Paschi di Siena	202	UtP	Mainly Secured	Unknown	Primary
2019 Q3	Banco Desio & an Italian NPL investor	180	Bad Loans	Unsecured	The SPV notes will be underwrited by institutional investors	Mixed Primary / Secondary
2019 Q3	UBI Banca	157	Bad Loans	Unsecured	Confidential	Primary
2019 Q3	Banca del Fucino	150	Bad Loans	Secured	Fucino RMBS srl SPV	Primary
2019 Q3	CR Asti	149	Bad Loans	Mixed Secured/ Unsecured	Unknown	Primary
2019 Q3	Banca Monte dei Paschi di Siena	137	Bad Loans	Mixed Secured/ Unsecured	Unknown	Primary
2019 Q3	Chebanca!	137	Bad Loans	Secured	D.E. Shaw	Primary
2019 Q3	Banca Monte dei Paschi di Siena	130	UtP	Secured	BofA Merrill Lynch	Primary
2019 Q3	Intesa Sanpaolo	3,000	UtP	Mixed Secured/ Unsecured	DK / Prelios	Primary
2019 Q2	Banco BPM	650	Bad Loans	Secured	illimity	Primary
2019 Q2	Confidential	450	Bad Loans	Unsecured	Banca IFIS	Primary
2019 Q2	Confidential	351	Bad Loans	Mainly Unsecured	Guber	Secondary
2019 Q2	Findomestic Banca	250	Bad Loans	Consumer	Banca IFIS	Primary
2019 Q1	Banca Monte dei Paschi di Siena	350	Bad Loans	Secured	Guber	Primary
2019 Q1	Cassa di Risparmio di Savigliano	n.a.	Bad Loans	Secured	Fire	Primary
2019 Q1	Banca del Fucino	103	UtP	n.a.	UnipolReC	Primary
2019 Q1	Banca del Fucino	211	Bad Loans	n.a.	Barclays, Varde, Guber	Primary
2019 Q1	BPER Banca	1,300	Bad Loans	Mainly Unsecured	WRM	Primary
2019 Q1	CCRES (CCB Group)	734	Bad Loans	Secured	Guber and Barclays	Primary
2019 Q1	Intesa Sanpaolo	187	Bad Loans	Secured	Juno 2 Srl	Primary
2019 Q1	Banca Valsabbina	150	Bad Loans	Mixed Secured/ Unsecured	Guber and Barclays	Primary
2019 Q1	BNL	968	Bad Loans	Mainly Secured	Juno 2 Srl	Primary
Other transactions with deal value < €100m		**1,034**				
Total (2019)		**37,251**				

Source: PwC estimates on public information and market rumours of primary and secondary market. Data refer to transaction from January 2019 to May 2020. Some transactions involved groups of different investors; the volumes of these transactions have been allocated to each player, when possible. Otherwise, they have been assigned to the main investor. In case of securitization transactions, the total volume has been allocated to the main buyer, without taking into account eventual notes subscribed by the banks themselves and/or third parties (e.g. senior)

Table 3: Main ongoing NPE transactions as of May 2020

Seller	Volume (€m)	NPE category	Macro asset class	Primary / Secondary market
Belvedere SPV	192	Bad Loans	Unsecured	Secondary
UniCredit	2,000	UtP	Mixed Secured/Unsecured	Primary
Banca Carige	310	UtP	Shipping	Primary
Intesa Sanpaolo	325	Bad Loans	Unsecured	Primary
Intesa Sanpaolo	325	UtP	Unsecured	Primary
UniCredit	1,000	Bad Loans	Unsecured	Primary
UniCredit	1,000	Bad Loans	Unsecured	Primary
UniCredit	700	Bad Loans	Secured	Primary
UniCredit	2,500	Bad Loans	Leasing	Primary
Alba Leasing	400	Bad Loans	Leasing	Primary
Cariparma	3,000	Bad Loans	Mixed secured / unsecured	Primary
Gruppo Cassa Centrale Banca	700	Bad Loans	Mixed secured / unsecured	Primary
Banca Popolare di Bari	2,200	Bad Loans & UtP	Mixed secured / unsecured	Primary
Banca Popolare di Sondrio	1,000	Bad Loans	Mixed secured / unsecured	Primary
Bper	1,000	Bad Loans	Mixed secured / unsecured	Primary
UniCredit	250	Bad Loans	Unsecured	Primary
UniCredit	1,000	UtP	Mixed secured / unsecured	Primary
Banco BPM	2,000	UtP	Mixed secured / unsecured	Primary
Confidential	2,000	Bad Loans	Mixed secured / unsecured	Secondary
Banca Monte dei Paschi di Siena	9,000	Bad Loans & UtP	Mixed secured / unsecured	Primary
Total	**30,902**			

Source: PwC estimates on public information and market rumours

Italian Real Estate Market

Key Message

2019 has represented a record year in terms of completed transactions, both residential and commercial properties, with the latter being driven by offices, hotels and logistics.

In the first half of 2020, investors largely adopted a "wait-and-see" approach as a result of the pandemic. This, together with uncertainty about the duration of the emergency and the intensity of future restrictive measures, seems to indicate a subdued investment market for the rest of the year.

Notwithstanding this, over a longer time horizon, we continue to see institutional investors' interest in the industry, and the NPE market will be a valuable source of new product supply for the market.

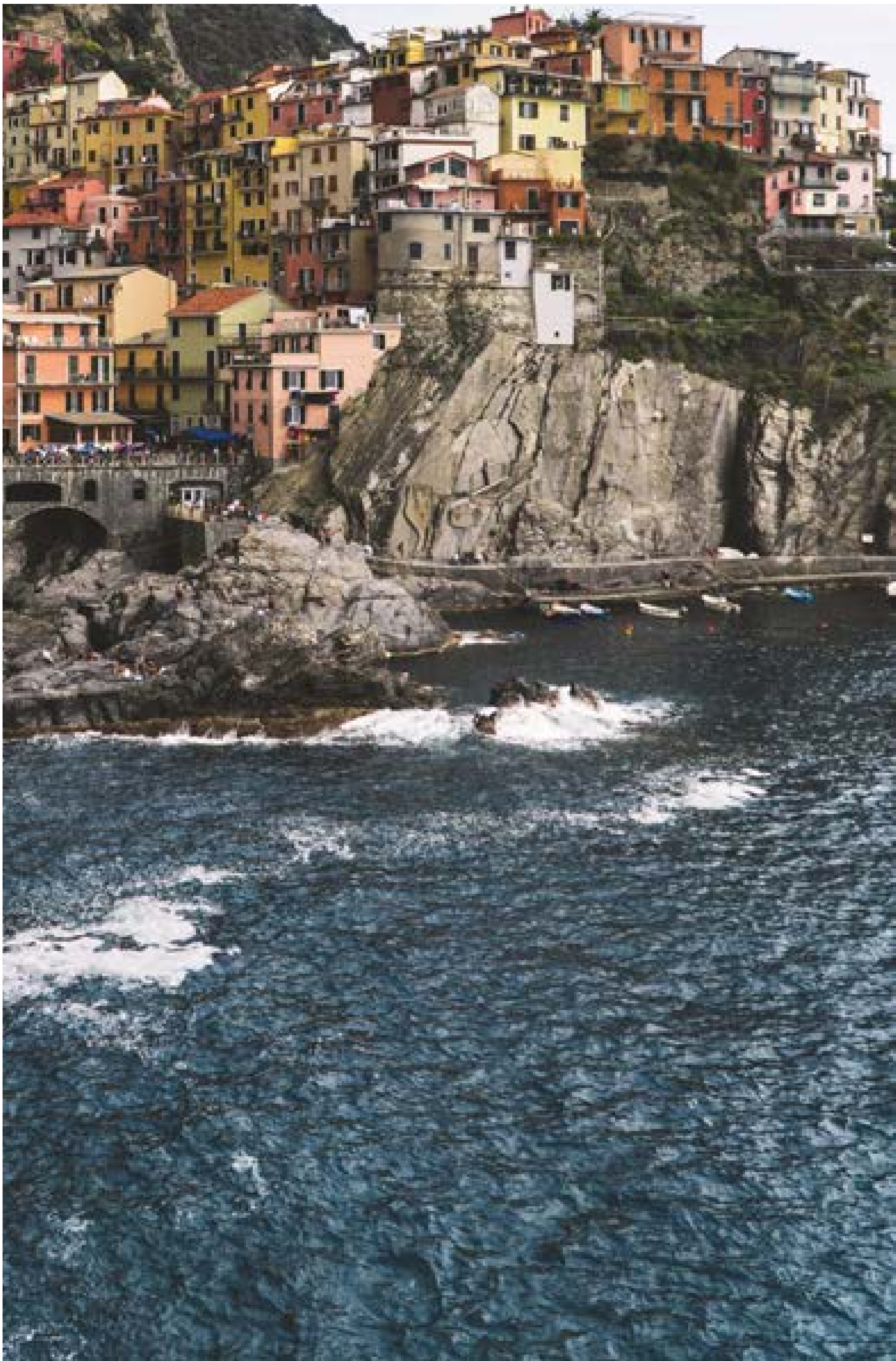


Table 4: Italian NTN[1] comparison by sector

Asset type	Q1 2019	Q2 2019	Q3 2019	Q4 2019	H2 2018	H2 2019	Y 2018	Y 2019	Delta (%) H2 19-18	Delta (%) Y 19-18
Residential	138,525	159,619	137,099	168,298	297,834	305,397	578,804	603,541	2.5%	4.3%
Office	2,201	2,636	2,225	3,416	5,199	5,641	9,987	10,478	8.5%	4.9%
Retail	7,175	8,137	6,823	9,301	15,113	16,124	29,463	31,436	6.7%	6.7%
Industrial	2,529	2,995	2,680	3,919	6,561	6,599	12,118	12,123	0.6%	0.0%
Total	150,430	173,387	148,827	184,934	324,707	333,761	630,372	657,578	2.8%	4.3%
Appurtenances	97,491	112,848	95,490	122,562	211,417	218,052	406,397	428,390	3.1%	5.4%
Other	13,491	16,160	14,218	18,943	31,902	33,161	59,987	62,813	3.9%	4.7%
Grand Total	261,411	302,395	258,535	326,439	568,026	584,974	1,096,757	1,148,781	3.0%	4.7%

Source: PwC analysis on Italian IRS data. 1. NTN is the number of standardized real estate units sold, taking into account the share of the property transferred;
2. Appurtenances include properties such as basements, garages or parking spaces; 3. The sector "Other" includes hospitals, clinics, barracks, telephone exchanges and fire stations

Volume of real estate transactions in 2019

In 2019, the Italian real estate market continued its positive trend with an increase of 4.7% in total transactions, driven mainly by sales of residential properties.

The most significant growth, compared to the previous year, was recorded in the retail asset class, with a 6.7% increase. **See Table [4]**.

2019 residential sales have increased across all Italian regions compared to 2018. The North showed the highest growth, with a 5.3% increase, followed by the Center and South with 3.2% and 3.1% growth, respectively. **See Table [5]**.

During 2019, the number of non-residential asset transactions increased by 4.8% compared to 2018, mainly driven by the retail asset class. The office segment registered a notable increase of 4.9% compared to 2018, while the industrial sector remains mostly unchanged. **See Table [6]**.

Appurtenances (which include garages, basements and parking spaces) and other sectors continue to perform well. **See Table [4]**.

Table 5: Residential NTN by geographic area

Area	Region	H2 2018	H2 2019	Y 2018	Y 2019	Delta (%) H2 19-18	Delta (%) Y 19-18
North	Provinces	50,569	52,360	99,209	104,271	3.5%	5.1%
	No Provinces	110,890	115,417	213,585	225,125	4.1%	5.4%
	Total	161,459	167,777	312,794	329,396	3.9%	5.3%
Center	Provinces	28,470	28,099	55,570	56,749	(1.3%)	2.1%
	No Provinces	33,231	33,282	63,639	66,246	0.2%	4.1%
	Total	61,701	61,381	119,209	122,994	(0.5%)	3.2%
South	Provinces	21,076	21,796	42,726	43,705	3.4%	2.3%
	No Provinces	53,441	54,443	103,915	107,446	1.9%	3.4%
	Total	74,517	76,239	146,641	151,151	2.3%	3.1%
Italy	Provinces	100,115	102,256	197,505	204,724	2.1%	3.7%
	No Provinces	197,562	203,142	381,139	398,817	2.8%	4.6%
	Total	297,677	305,397	578,647	603,541	2.6%	4.3%

Source: PwC analysis on Italian IRS data

Table 6: Non residential NTN by geographic area

NTN H2 2019 Office NTN	Q3 2019	Q4 2019	H2 2018	H2 2019	Y 2018	Y 2019	Delta (%) H2 19-18	Delta (%) Y 19-18
North	1,310	2,056	3,199	3,366	6,078	6,377	5.2%	4.9%
Center	470	714	994	1,184	1,948	2,089	19.1%	7.2%
South	445	646	1,006	1,091	1,961	2,012	8.4%	2.6%
			5,199	5,641	9,987	10,478	8.5%	4.9%

NTN H2 2019 Retail NTN	Q3 2019	Q4 2019	H2 2018	H2 2019	Y 2018	Y 2019	Delta (%) H2 19-18	Delta (%) Y 19-18
North	3.271	4.653	7.258	7.924	14.263	15.414	9.2%	8.1%
Center	1.597	2.040	3.408	3.637	6.533	7.126	6.7%	9.1%
South	1.955	2.608	4.447	4.563	8.667	8.896	2.6%	2.6%
			15.113	16.124	29.463	31.436	6.7%	6.7%

NTN H2 2019 Industrial NTN	Q3 2019	Q4 2019	H2 2018	H2 2019	Y 2018	Y 2019	Delta (%) H2 19-18	Delta (%) Y 19-18
North	1.723	2.648	4.504	4.371	8.277	8.079	(3.0%)	(2.4%)
Center	519	612	1.051	1.131	1.935	2.001	7.6%	3.4%
South	438	659	1.006	1.097	1.907	2.042	9.0%	7.1%
			6.561	6.599	12.118	12.123	0.6%	0.04%

Source: PwC analysis on Italian IRS data

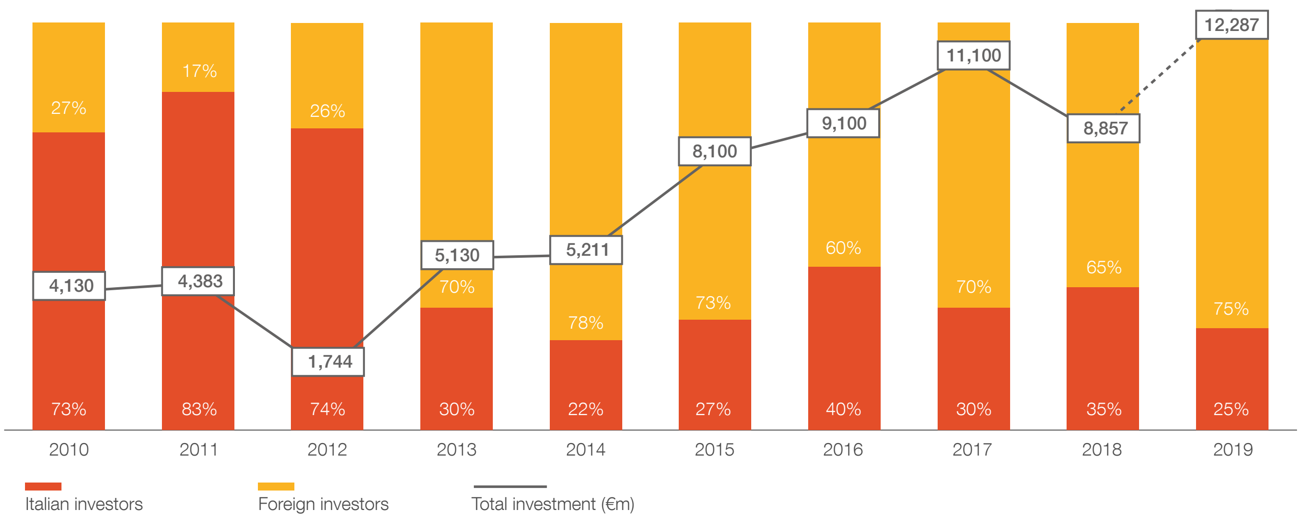
Investments in the non-residential real estate market

In 2019, the Italian commercial real estate market recorded an investment volume of €12.3 bn, increasing by 40% compared to 2018.

The individual sector with the largest share of investments is the office asset class with €4.8bn, representing about 40% of total transaction volumes, followed by the hotel sector with €3.3bn which was the asset class with the highest increase. This year was the best year ever for the Italian office sector, especially for Milan which recorded an investment volume of €3.8bn. Retail investments reached more than €1.9bn, down 13% compared to 2018, with investments in high streets prevailing.

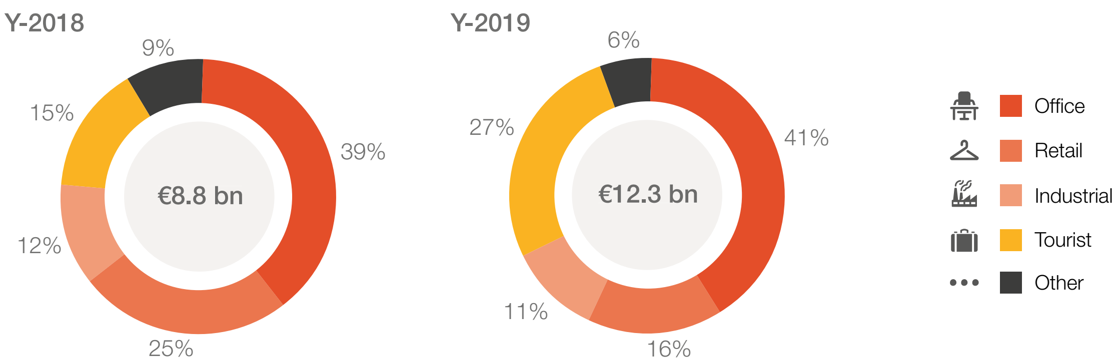
Milan and Rome still represent key markets for investments, accounting for about 37% and 15%, respectively, of total 2019 investment volumes. The main source for real estate investments in Italy is still represented by foreign capital, accounting for 75% of the total, which is higher compared to the previous year.

Chart 7: Investments in non-residential real estate – Investor type



Source: PwC analysis on BNP Paribas Real Estate data

Chart 8: Investments in non-residential real estate – Asset class

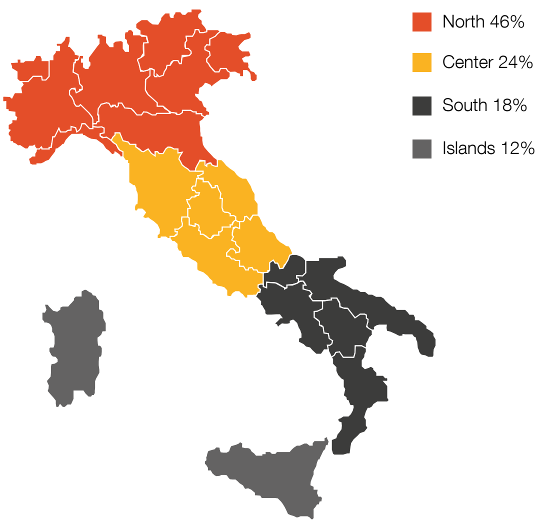


Source: PwC analysis on BNP Paribas Real Estate data

In 2019, 205,000 judicial real estate executions were recorded in Italy for a total volume of €28.4bn, with the residential asset class accounting for 70%. Residential judicial sales are not included in the 603,000 residential transactions (NTN) registered in 2019 by the Italian IRS.

The highest concentration of real estate executions is recorded in the North with 46% of the total, followed by the Center with 24%, the South with 18%, and then the Islands with 12%. The region with the highest number of real estate executions is Lombardy with circa 18.7% of the total.

Chart 9: Italian Real Estate Execution



Source: PwC analysis on Astasy data

Closed Secured Portfolio

From analyzing the closed secured portfolio managed by servicers, it can be seen that the greatest concentration is located in Northern Italy (51.8%) followed by the South and Islands (28.7%) and then the Center (19.5%). **See Chart [10]**.

In addition, analyzing the data by city size shows that 39% of the assets are located in small towns with less than 25,000 residents, 14% are in large cities with more than 1M residents, and only 5% are in cities with a population between 250,000-500,000. **See Chart [11]**.

Chart 10: Closed Secured Portfolio by Area

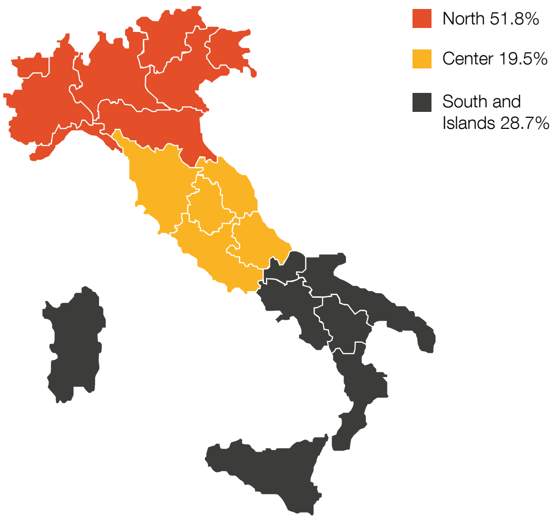
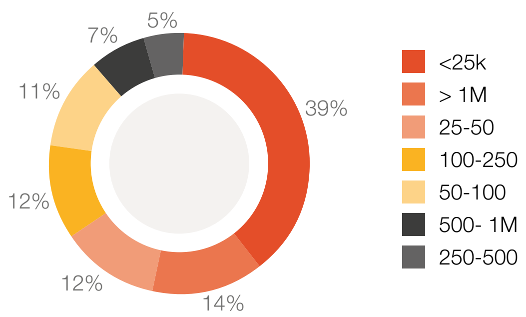


Chart 11: Closed Secured Portfolio by City Size (residents)



Source: PwC analysis based on data provided by Servicers as of 31/12/2019; data has been directly provided by Servicers and has not been verified by PwC; Servicers' organizational, industrial and operating structures vary greatly. Comparing the information presented above requires a correct analysis and understanding of the competitive landscape and servicer business model.

The graphs below show the portfolios closed by the Servicers considering the recovery strategies and the recovery rate by asset class. For all recovery strategies, the main asset class is residential. The asset class in closed portfolios with the lowest share over the total volume is development.

Considering the recovery rate by each asset class, offices show the highest performance (73%) followed by residential (58%). The asset class with the lowest recovery rate is development at 39%.

Chart 12: Closed portfolio by asset class (GBV)

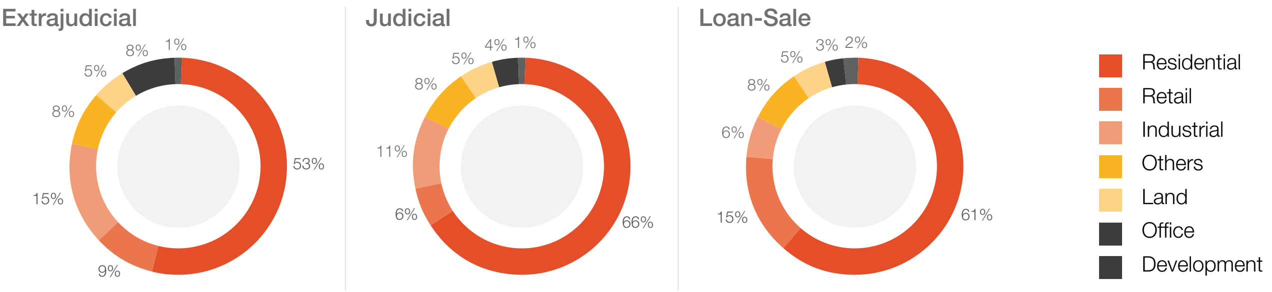
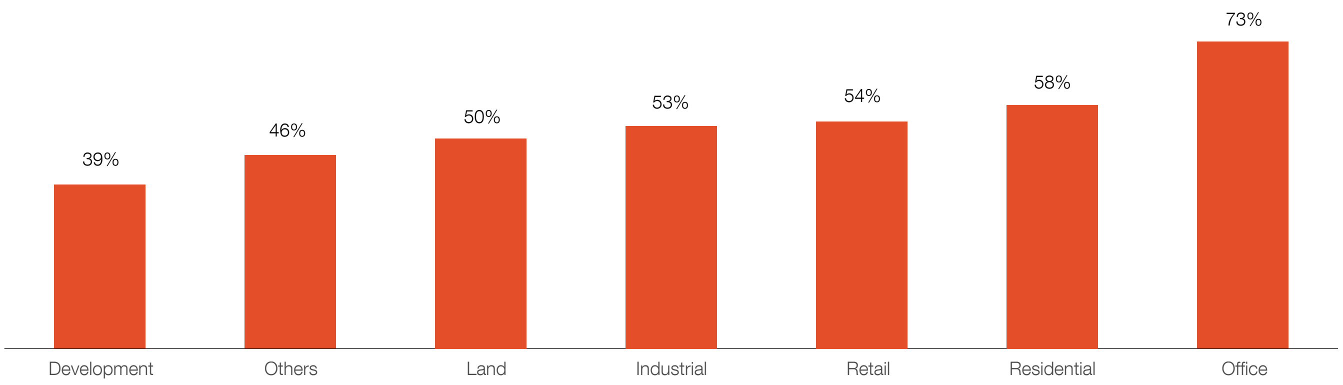


Chart 13: Recovery rate by asset class on closed portfolio



Source: PwC analysis based on data provided by Servicers as of 31/12/2019; data has been directly provided by Servicers and has not been verified by PwC; Servicers' organizational, industrial and operating structures vary greatly. Comparing the information presented above requires a correct analysis and understanding of the competitive landscape and servicer business model.
The analysis in chart 13 is based on data from 9 players and returned with arithmetic averages.

COVID-19 – Market Commentary

As for most countries, COVID-19 has significantly affected the Italian real estate market and the most affected asset classes so far are retail and hospitality due to the government lock-down.

For retail, there has been a strong demand for renegotiating lease contracts and/or temporarily suspend rent and it is difficult to predict market developments, while for hotels the situation is more complex since there was an immediate and strong contraction in occupancy and demand in the short-term is expected to be supported by mostly local tourism.

For residential, market conditions are expected to deteriorate in the short term and could be worse than what was experienced during the 2012 crisis; residential transactions could possibly decrease by 20-25% compared to last year.

Over a longer time horizon, cyclical conditions will depend on the impact of the pandemic on household income.

The impact on the real estate market caused by COVID-19 is still unclear and will depend on the duration, the intensity of future restrictive measures and the tools that will be made available in the coming months.

Regulatory and Legal Framework Updates

Key Message

From a regulatory perspective the Competent Authorities are adopting, where possible, a flexible approach, by easing the monitoring of the NPE targets and by postponing some of its key deadlines and supervisory activities. In addition, in order to minimize the impact on the asset quality of the banks and facilitate bank lending, a number of measures and actions have been taken both at local and at European level (e.g. extension of preferential treatment to public guarantees, EBA guidelines on moratoria, introduction of targeted "quick fix" arrangements etc.).

Regulatory response to COVID-19

The Competent Authorities are adopting, where possible, a flexible approach, taking into consideration the "exceptional" circumstances and leveraging on the various discretions foreseen by the regulation. However, a careful monitoring of the various risks should be guaranteed on the application of such discretions.

Regulatory interventions can be grouped into the following three categories:

Easing of regulatory pressure

- The ECB has stated its intention to show flexibility in monitoring the achievement of NPL targets.
- Banks are allowed to temporarily operate below the limits foreseen by Pillar 2 Guidance (P2G), Capital Conservation Buffer (CCB) and liquidity Coverage Ratio.
- Extension to publicly guaranteed loans the preferential treatment foreseen in the Guidance for NPLs guaranteed or insured by Official Export Credit Agencies.

Review of the regulatory agenda

- EBA recommends CAs to plan supervisory activities, including on-site inspections, in a flexible way, and to postpone those considered non-essential.
- ECB has decided to postpone by six months, the verification of compliance with qualitative SREP measures and any TRIM investigations.
- Bank of Italy on a similar note has postponed part of its regulatory deadlines expected in 1H20 (e.g. ICAAP, ILAAP).

Monitoring of emergency evolution

- Banks have been asked to review their business continuity plan in order to asses the impacts of COVID-19 and to identify actions to undertake as to minimize any adverse effects.
- Moreover, banks are called to monitor on a continuous basis their risk profile.

The role of EBA

Since the 12th march 2020, EBA ha published recommendations and Guidelines aimed at mitigation the impacts of the COVID-19 pandemic on the banking sector.

12th march 2020	25th march 2020	31st march 2020	2nd april 2020	22nd april 2020
Actions to mitigate the impact of COVID-19 in the banking sector	Prudential Framework and other interventions	Recommendations on dividends and reporting guidelines	Guidelines on legislative and non legislative moratoria	Prudential framework on market risk and other measures

- EBA postpones its Stress Test exercise to 2021 to allow banks to give priority to operational continuity and has asked the competent authorities to leverage, where possible, on the implicit flexibility deriving from the reference regulations.
- EBA provides recommendations on prudential aspects regarding the classification of non performing loans, the identification of forborne exposures and the application of the accounting principle IFRS9 within the COVID-19 context; various activities requiring input from the banks (public consultations, funding plan submission and QIS dec-19) are postponed.
- EBA recommends banks regarding: dividends distribution, the acquisition of own shares and the payment of bonus; proposes to postpone the deadlines regarding supervisory reporting (barring exceptions) and the Pillar 3 Publication; consumer protection and on the functioning of payment systems. QIS on June 2020 data are cancelled.
- EBA publishes Guidelines, following its statement of 25th March clarifying some key aspects in relation to the use of legislative and non legislative moratoria, that aim to provide further clarity on the treatments of moratoria applied before 30 June 2020 as to contain the COVID-19 pandemic.
- EBA provides recommendations on some aspects of the prudential framework in response to the COVID-19 pandemic: market risk, SREP, recovery plan, digital operational resilience and application to the securitisations of the moratoria Guidelines.

EBA Guidelines on moratoria *(Illustrative non exhaustive)*

Scope of application

- The guidelines aim to provide further clarity on the treatments of moratoria applied before 30 June 2020 with the scope to contain the COVID-19 pandemic.
- The selection criteria for application of moratoria should not include the creditworthiness of the debtor. Therefore, the application of moratoria to debtors included in the watch list or to counterparties already characterized by financial difficulties should not be the case.
- The moratorium changes only the schedule of payments and should not affect other conditions of the loan and in particular the interest rate (unless such change only serves for compensation to avoid losses).

Forbearance

- The application of a general payment moratorium (meeting the requirements specified in the guidelines) would not in itself lead to a reclassification under the definition of forbearance.
- Given that the application of a general moratorium is not a forbearance measure, it should also not be considered distressed restructuring and the consideration of diminished financial obligation is not applicable (par. 49 EBA GL/2018/06 & art. 178 par. 3d CRR Reg. UE 575/2013).
- However, where exposures have already been subject to forbearance measures before the application of such moratoria, this classification should not be changed.

Definition of default

- When the application of a general payment moratorium meets the requirements specified in the guidelines, institutions should count the days past due based on the revised schedule of payments, resulting from the application of any moratorium.
- It is further clarified that, if the schedule of payment has been revised due to the application of the moratorium, the assessment of unlikeliness to pay should be based on the revised schedule.
- Institutions should prioritize the assessment of obligors for whom the effects of the COVID-19 pandemic are most likely to transform into longer-term financial difficulties or insolvency.
- In case of application of moratoria to exposures already classified as default the classification remains as is.

Reporting and disclosure

- In order to monitor the application of the measures given, the Guidelines recommend that banks should collect and share the information on the moratoriums applied to the competent authorities which, in turn, will provide them for disclosure to EBA.
- EBA will identify the potential reporting and disclosure methods necessary to monitor the moratoriums in scope and will consequently provide detailed requirements.

Measures taken in response to COVID-19 have a direct impact on the NPL market

The current emergency situation will have an impact on the asset quality of the banks, on the NPL market and on the risk profiles of the banks that should be closely monitored. The granting of moratoria and the guarantees given will impact IFRS 9 staging (changes in stage allocation and increase in provisions), classification (a careful assessment of Unlikeliness to Pay) and risk weighting.

The measures adopted both at a local and European level aim to support the NPL market and to restrain new inflows of non performing loans as possible, sustaining both financial institutions and clients.

DTA

- An acceleration of disposal volumes can be expected in the view of higher NPE inflows and of the potential capital benefits introduced by the “Cura Italia” Decree.
- As per article 55 of “Cura Italia”, and under certain circumstances, disposals of non performing loans within 31st December 2020 can lead to a portion of DTAs being converted into tax credits.

Public Guarantees

- The extension of the MCC guarantees through the government decree “Liquidità” makes possible the restructuring of new distressed exposures, covering exposures classified as PD or UTP following 31st January 2020 and to counterparties that have adopted the instruments as per the bankruptcy law after 31st December 2019.
- Loans covered by publicly guaranteed loans will receive the preferential treatment foreseen in the Guidance for NPLs guaranteed or insured by Official Export Credit Agencies. As a result banks will face a 0% minimum coverage expectation for the first seven years of the NPE vintage count.

The European Commission adopts Banking Package in response to COVID-19

On 28 April 2020 the European Commission adopted a banking package aimed at facilitating bank lending to support the economy and help mitigate the economic impact of the COVID-19 pandemic. The package consists in targeted “quick fix” amendments to banking rules, in order to maximize the ability of banks to lend and absorb losses related to the COVID-19 pandemic, and in an interpretative communication which confirms and encourages the recent statements on using flexibility within accounting and prudential rules (e.g. confirms the flexibility when it comes to public and private moratoria on loan repayments).

The European Commission will launch a dialogue within the European financial sector in order assess how best practices can be developed to further support citizens and businesses.

Targeted amendments *(Illustrative non exhaustive)*

1. IFRS 9 Transitional arrangements

- Possibility for banks that hadn’t adopted the transitional arrangements to opt-in.
- Extension of the transitional period.
- Modification on the adjustment calculation as to take account of the impacts of the emergency situation.

2. NPL Framework

- With regards the rules on the minimum loss coverage for non performing exposures, temporarily extension of the treatment that is currently applicable to NPEs guaranteed or insured by export credit agencies to NPEs covered by state guarantees under the COVID-19 emergency situation.

3. Leverage ratio

- Postponement to 1 January 2023 of the date of application of the buffer on the leverage ratio for G-SII banks.
- Modification of the calculation of the leverage coefficient in case of proven emergencies with regards exposures towards central banks.

4. Anticipation of some CRR II measures

- Possibility to do not deduct from CET1 software valued prudently according to the EBA RTS.
- Reduction of the ponderation factor for CQS/ CQP from 75% to 35%
- Modification of the perimeter and calculation methodology of the «SME. supporting factor» and introduction of the «Infrastructure supporting factor».

Impact of COVID-19 measures on bankruptcy and enforcement proceedings

Decree Law no. 18 of 17/03/2020 (the so-called Decreto Cura Italia) and Decree Law no. 23 of 08/04/2020 (the so-called Decreto Liquidità) has set temporary limits to the ordinary performance of bankruptcy and enforcement proceedings, with a (limited) impact on the recovery of receivables.

Starting with the earlier ones (bankruptcies and insolvency proceedings), the amendments have been done through an extrinsic regulation, which is temporary, but which seems to allow for subsequent regulatory interventions to reform the bankruptcy discipline, due to the economic consequences of the pandemic.

As far as this is concerned:

- the postponement of the date of adoption of the Codice della Crisi d'Impresa e dell'Insolvenza to 1 September 2021 (Article 5)
- the prohibition until 30/06/2020 of appeals for the declaration of bankruptcy (Article 10)
- the postponement of fulfilment deadlines and the possibility of reformulating the proposal with regard to arrangement with creditors and debt restructuring agreements (Article 9 co 1 and 2).

This first amendment is justified mainly by the fact that the alert obligations - a key element of the "new" insolvency management system - are designed to operate in a stable economic environment, without being able to play an effective "selective" role under exceptional conditions.

Consequently, the rules of the so-called Legge Fallimentare will still be applicable and, in the meantime, it is reasonable to expect further amendments to the Codice della Crisi d'Impresa e dell' Insolvenza as required under EU Directive 1023/2019.

With regards the lack of possibility - de plano - of appeals for the declaration of bankruptcy until 30/06/2020, it follows the Legislator's willingness to "protect", on the one hand, entrepreneurs from bankruptcy petitions - even if presented on their own - with consequent dispersal of productive assets and, on the other hand, creditors as the liquidation of assets would take place in an unfavourable market scenario.

In this regard, it seems appropriate to point out that with regard to bankruptcy petitions filed prior to the entry into force of the Decree, the Courts invested of appeals will reasonably take into account the consequences of the health emergency if the defendant can demonstrate the existence of a causal link between the latter and insolvency, with consequences for the ascertainment of the insolvency status and the size of the amount of overdue and unpaid debts.

Anyway, it is still possible to enforce the debtor's assets individually.

Moreover, in the knowledge that the extraordinary emergency scenario could jeopardize the feasibility of arrangement with creditors and restructuring agreements which, otherwise, could have had favorable results, it is introduced the chance to postpone by six months - without any judicial review - the terms of fulfillment assumed in the negotiation procedures (if they expire between 23/02/2020 and 31/12/2021), as well as (art. 9, paragraph 2) to modify the terms of fulfillment by a maximum of six months. In the latter case, after hearing the opinion of the Commissario Giudiziale, the Court shall approve the new deadlines.

Likewise, in the event of an arrangement with creditors with rights reserved to file ancillary documents at a later date, the automatic stay referred to in article 161, paragraph 6,

is extended by 90 days, upon justified request.

The above mentioned intervention says nothing with reference to the possibility of a modification after the approval (i.e. omologazione) which, therefore, must be considered excluded.

Finally, with reference to the so-called "sovraindebitamento" proceedings (i.e. the over indebtedness negotiated resolution proceedings), the Decree's silence makes it conceivable that, if the execution of the agreement becomes impossible for reasons not related to the debtor, the latter, with the help of the entities appointed for this purpose, may change the proposed agreement.

With reference to enforcement proceedings, Article 36 of Legislative Decree no. 23 of 8 April 2020 should be considered, by which the suspension of procedural deadlines provided for on 15 April 2020 by Legislative Decree no. 18/2020 was extended to 11 May 2020.

The provision, however, was limited to procedural deadlines and therefore had no effect on the suspension of proceedings and the activities carried out therein.

Therefore, with specific reference to real estate executions, the above suspension (during the afore mentioned period) did not preclude the hearing for the authorization to sell pursuant to Article 569 of the Italian Civil Code, the setting by the Delegato alle Vendite of new sales experiments, the payment to the creditor of the amount after the auction sale of the properties pursuant to Article 585 of the Italian Civil Code, the transfer of the property and, therefore, the delay in the "satisfactory" phase of the procedures.

In addition, it seems reasonable to believe that the measures will not slow down the distribution of the sums obtained from the sale of the properties subject to execution; in this regard, it seems significant to point out that (although the figure comes from prestigious, but not official, forecasts) the cash in court in the Italian Courthouse amounts to €11 billion and, the distribution of these resources, would bring a significant flow of liquidity to the economic system.

This is also due to the provisions of Article 83, paragraph 3, letter A, of Legislative Decree no. 18/2020, which does not consider as subject to suspension periods proceedings in which the failure to deal with them could cause serious damage to the parties, given that the delayed distribution of the sums in a cash-flow contraction phase such as the current one could be considered a suitable circumstance.

More significant, however, is the provisions of Article 54 ter of the Law that converted Legislative Decree no. 18/2020, which provides the suspension for a period of six months from the date of entry into force of the law (30/04/2020) of the real estate enforcement proceedings if the property is the "first home" of the foreclosed debtor (therefore no limit in respect to any other foreclosed property or other assets).

"First home" is that in which the individual, who owns it, or his family members usually live in.

Finally, it would seem appropriate to proceed with a combined reading of the provision last mentioned with Article 41 bis of L 19/12/2019 no. 124 entitled "Mortgage loans for the purchase of real estate intended as a first home and subject to enforcement proceedings".

Actually, the above provision allows the debtor who owns a "first home" property, secured by a first mortgage and subject to real estate enforcement, to apply to the Bank or to the SPV (without prejudice to their discretion in granting the request) who have initiated the enforcement procedure for the renegotiation of the loan or a new loan to a third party bank (with payment of the remaining debt), and subsequent subrogation in the existing mortgage guarantee.

This provision may be applied - until the date of 31/12/2021 - in relation to properties pledged in the period between 01/06/2010 and 30/06/2019, and provided that the debtor has repaid at least 10% of the capital originally financed and the total debt does not exceed €250,000.

For an understanding of the operating procedures, the Interministerial Decree must be awaited which, at the time of editing this report, has not yet been issued.

Italian NPL Market

Key Message

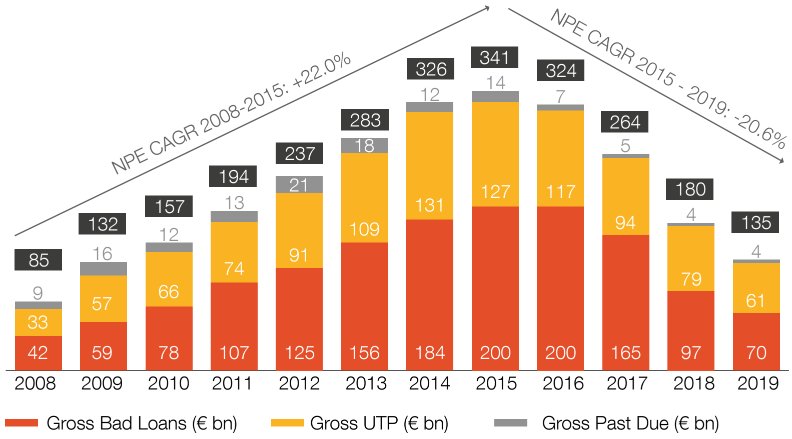
The Italian banking system, in response to market and regulatory pressure, has experienced a significant deleverage in the last five years where the total stock has fallen by more than half (€135bn in 2019 vs €341bn in 2015).

Asset Quality

Chart 14 shows the trend in Italian NPE stock. After peaking at €341bn in 2015, the trend has been constantly decreasing, reaching €135bn at YE-2019.

Gross Bad Loans dropped by €27bn vs YE-2018 and by €95bn vs YE-2017. Gross Unlikely to Pay showed a slower decline, with €61bn at YE-2019 vs €79bn at YE-2018. Gross Past Due remained relatively stable.

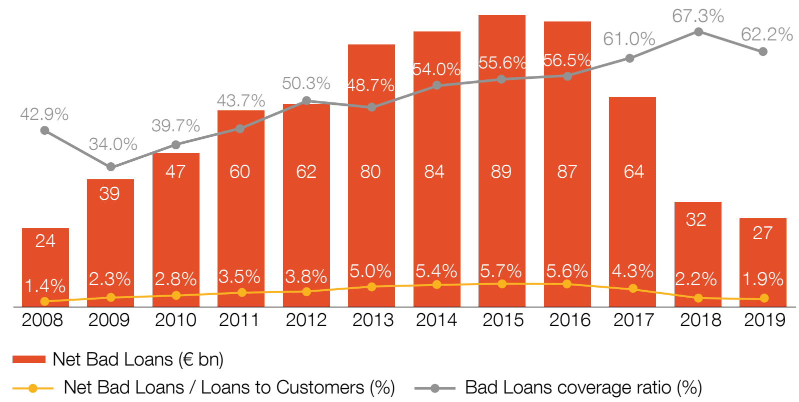
Chart 14: Gross NPE trend



Source: PwC analysis on Banca d'Italia "Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori", March 2020

Chart 15 shows how the volume of net Bad Loans follows the same decreasing trend from 2015 through 2019. The total amount at YE-2019 decreased to €27bn. The Bad Loans coverage ratio for the Italian system experienced a reverse trend compared to previous years and decreased to 62.2% compared to 67.3% at YE-2018.

Chart 15: Net Bad Loans Trend



Source: PwC analysis on ABI Monthly Outlook and Bank of Italy data - March 2020
Note: 2017 and 2018 data might include financial intermediaries

Looking at the composition of gross Bad Loans:

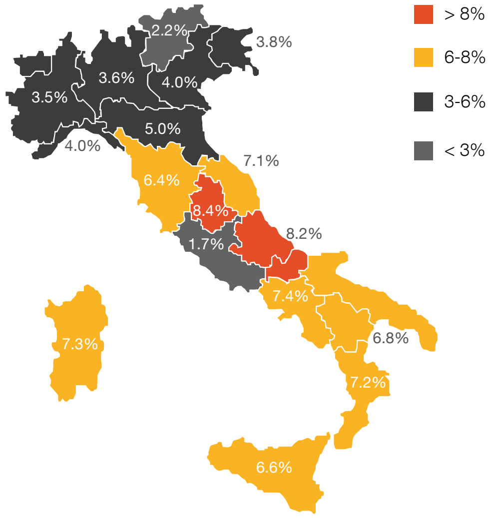
- In terms of gross Bad Loans ratio the highest percentages are recorded in Umbria (8.4%), Abruzzo-Molise (8.2%), Campania (7.4%) and Sardinia (7.3%); overall, northern regions tend to show lower gross Bad Loans ratio compared to central and southern regions;

- Lombardy collects approx. 21.3% of total Italian Bad Loans, while it shows a relative low Bad Loans ratio (3.6%);

- As shown in **Chart 17**, at YE-2019 the "Corporate & SME" sector still represents the greatest share (75.0%) of Italian gross Bad Loans, followed by the Consumer loans (17.1%);

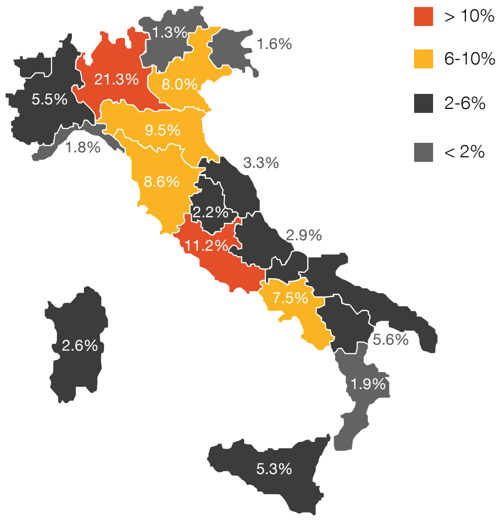
- The percentage of Secured Bad Loans (45%) decreased compared to YE-2018 (48%) . Most of Secured Bad Loans (69%) is represented by "Corporate & SME" and 22% by Retail (Chart 18).

Chart 16a: Gross Bad Loans ratio by region* (YE-2019)



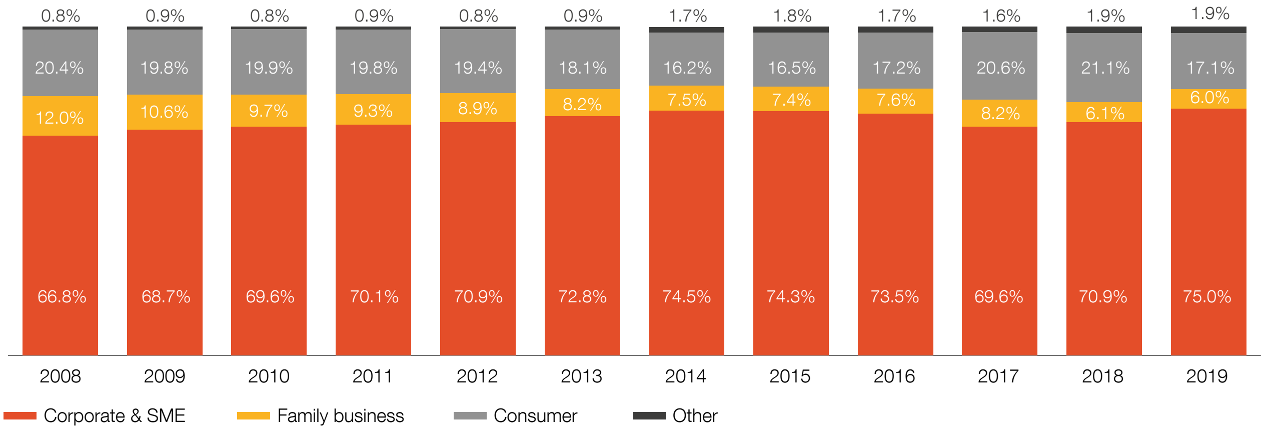
Source: PwC analysis on Banca d'Italia «Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori», March 2020.
Note: Bad Loans ratio in the region of Lazio is influenced by Cassa Depositi e Prestiti, included in Bank of Italy database; (*) Unique percentage for
1) Valle d'Aosta and Piemonte
2) Abruzzo and Molise
3) Puglia and Basilicata

Chart 16b: Breakdown of gross Bad Loans by region* (YE-2019)



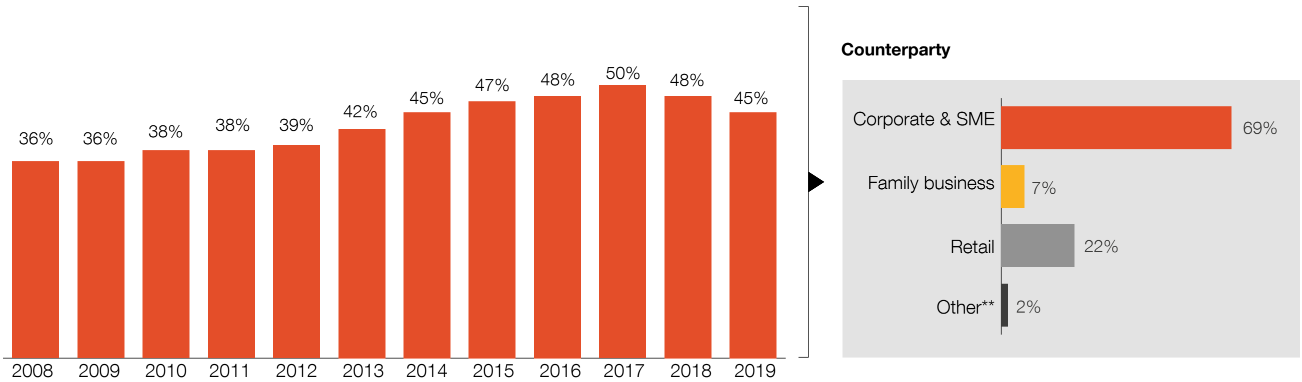
Source: PwC analysis on Banca d'Italia «Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori», March 2020.
Note: (*) Unique percentage for
1) Valle d'Aosta and Piemonte
2) Abruzzo and Molise
3) Puglia and Basilicata

Chart 17: Breakdown of gross Bad Loans by counterparty** (YE-2019)



Source: PwC analysis on Banca d'Italia "Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori", March 2020 Note: (**) "Other" includes PA and financial institutions.

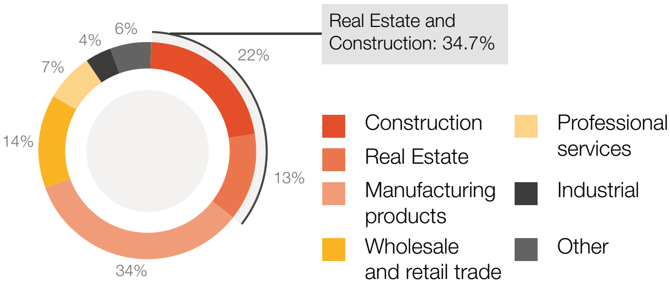
Chart 18: Secured gross Bad Loans trend (% on total Bad Loans)



Source: PwC analysis on Banca d'Italia "Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori", March 2020 Note: (**) "Other" includes PA and financial institutions.

The breakdown of gross Bad Loans by economic sector (**Chart 19**) shows that Real Estate and Construction accounts for 34.7% followed by manufacturing products (34.0%) and wholesale and retail trade (14.0%).

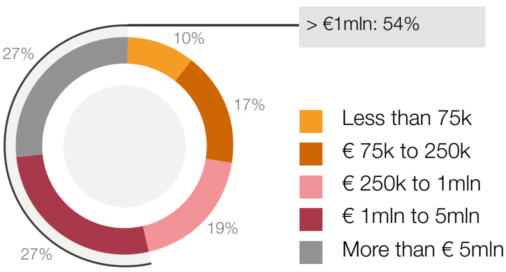
Chart 19: Breakdown of gross Bad Loans by economic sector (YE-2019)



Source: PwC analysis on Banca d'Italia «Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori», March 2020

The breakdown of gross Bad Loans by ticket size (**Chart 20**) shows that large-size exposures (over €1mln) represent 54% of total GBV, whereas mid-size exposures (from €75k to €1mln) and small-size exposures (below €75k) represent 35.9% and 9.9% of the total respectively

Chart 20: Breakdown of gross Bad Loans by ticket size (YE-2019)



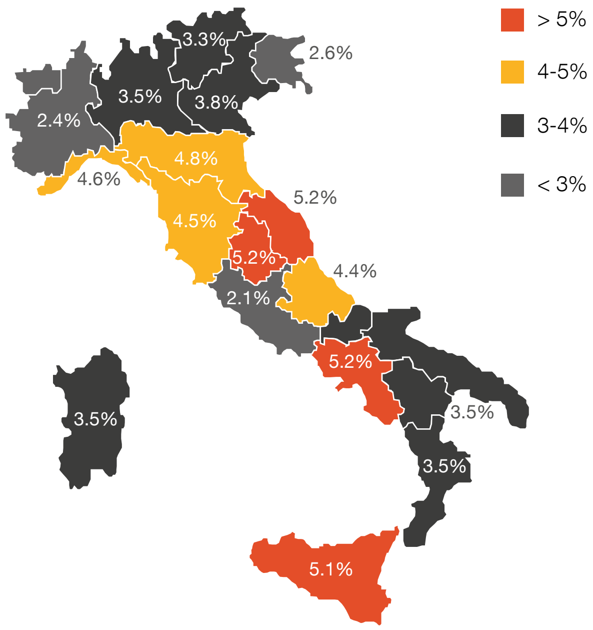
Source: PwC analysis on Banca d'Italia «Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori», March 2020

Focus: UtP

The gross UtP stock composition at YE-2019 illustrates the following:

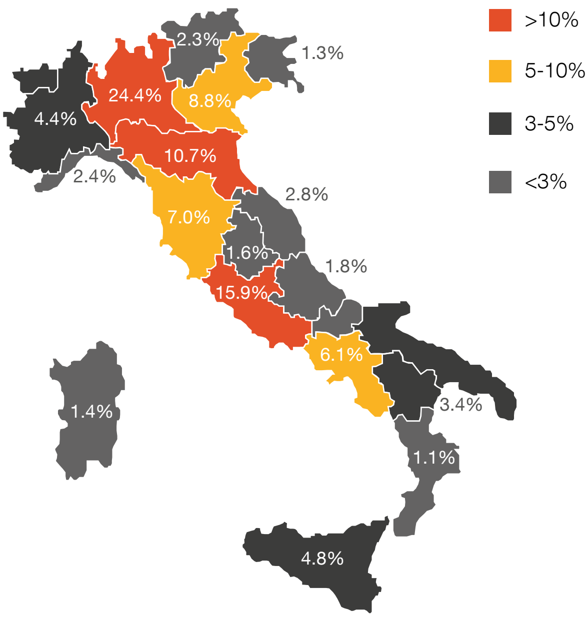
- Piemonte, Valle d'Aosta, Friuli Venezia Giulia and Lazio are the regions with the lowest incidence of UtP (UtP ratio lower than 3%), whereas Umbria, Marche, Campania and Sicily are the region with the highest levels of UtP ratio (above 5.0%);
- In terms of volumes, the highest UtP concentration is in Lombardy and Lazio (respectively, 24.4% and 15.9% of total volumes).

Chart 21a: UtP ratio by region** (YE-2019)



Source: PwC analysis on Banca d'Italia «Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori», March 2020.
Note: (*) UtP ratio in the region of Lazio is influenced by Cassa Depositi e Prestiti, included in Bank of Italy database; (**) Unique percentage for
1) Valle d'Aosta and Piemonte
2) Abruzzo and Molise
3) Puglia and Basilicata

Chart 21b: Breakdown of UtP by region** (YE-2019)



Source: PwC analysis on Banca d'Italia «Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori», March 2020.
Note: (**) Unique percentage for
1) Valle d'Aosta and Piemonte
2) Abruzzo and Molise
3) Puglia and Basilicata

Key Message

During 2019 Italian companies' closures continued their declining trend started in 2018 but with lower decrease compared to last years.
Voluntary Liquidations and Voluntary Arrangements are the only exceptions to this trend due to greater recourse to these legal procedures.

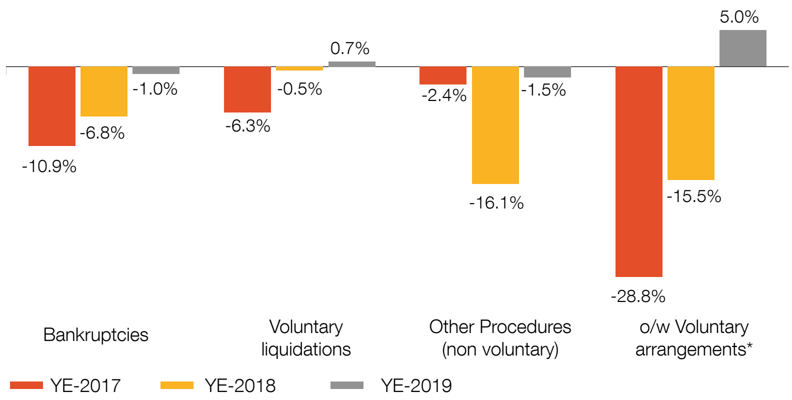
In 2019, **the decrease of Italian companies' bankruptcies and other insolvency proceedings continued**: as shown in **Chart 22**, at the end of 2019 there was a 1.0% drop in bankruptcies and a 1.5% drop in other insolvency proceedings. In this context, it is relevant to outline that **Voluntary Arrangements have increased (+5.0%) at YE-2019**, **after two years of sharp decline**.

An increase has been reported also for Voluntary Liquidations (+0.7%).

Chart 23 shows the distribution of business closures across Italian regions. The increase of Voluntary liquidations (see also **Chart 22**), is more relevant in northern Italy, while in southern regions there is a low decrease on average.

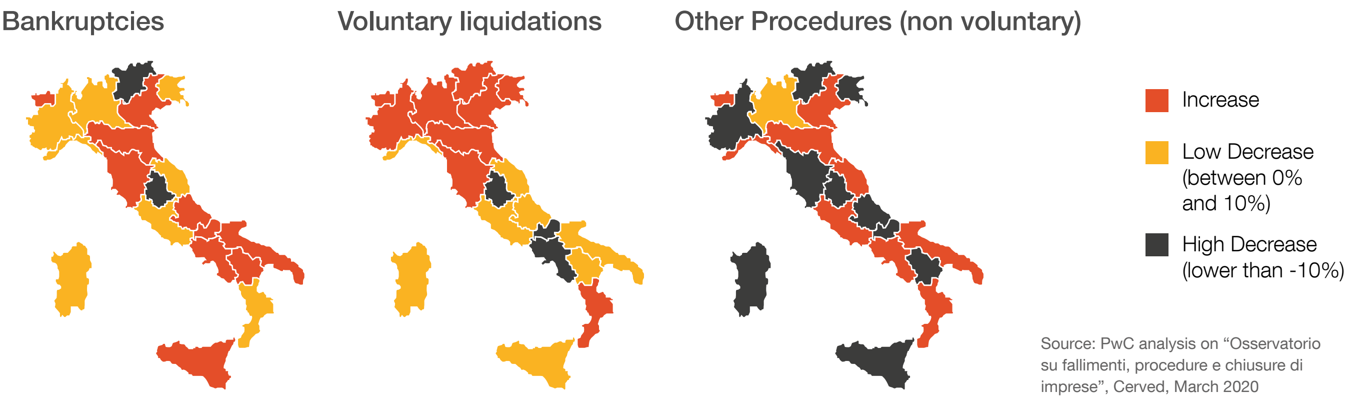
Regarding Bankruptcies and other insolvency proceedings, the situation is uniformly distributed among all the Italian regions.

Chart 22: Business closures by procedure (% YoY)



Source: PwC analysis on "Osservatorio su fallimenti, procedure e chiusure di imprese", Cerved, March 2020
Note: "Other insolvency proceedings" = "Procedure concorsuali non fallimentari"; "Voluntary arrangements" = "Concordati preventivi".

Chart 23: Trend of business closures by Italian regions

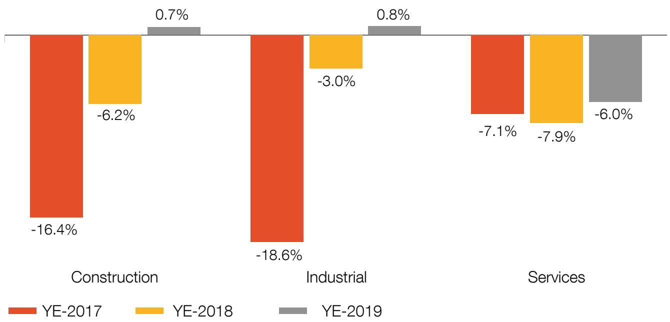


Source: PwC analysis on "Osservatorio su fallimenti, procedure e chiusure di imprese", Cerved, March 2020

Chart 24 shows that the **Industrial** and **Construction sector** experienced a slight **increase in Bankruptcies** (+0.8% and +0.7% YoY respectively), after two years of declines.

On the contrary, the **Service sector** registered a 6.0% **decrease** YoY, in line with previous years' results.

Chart 24: Bankruptcies by economic sector (% YoY)



Source: PwC analysis on "Osservatorio su fallimenti, procedure e chiusure di imprese", Cerved, March 2020

Chart 25 shows that Voluntary Liquidations in the **Construction sector reduced** by 1.5% YoY at YE-2019 (vs -1.9% at YE-2018).

In **Industrial** and **Services sectors** the **increase** of Voluntary Liquidations in 2019 (+4.4% and +0.5% respectively) is lower than the previous year (+5.6% and +2.6% respectively).

Chart 25: Voluntary liquidations by economic sector (% YoY)

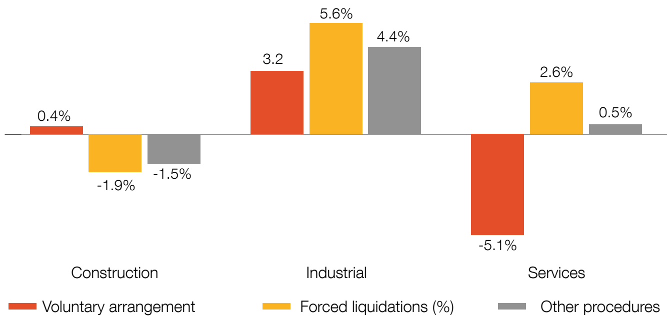
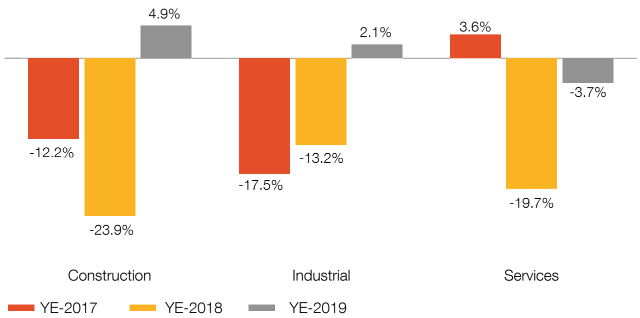
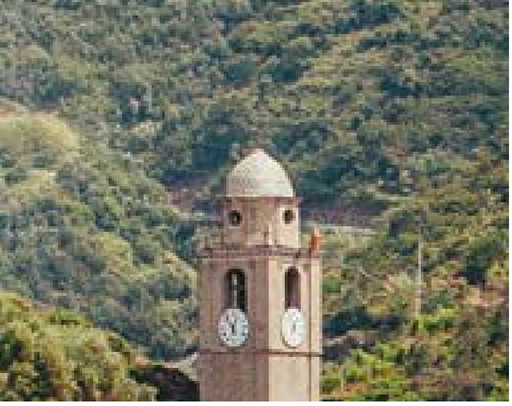


Chart 26 shows that the trend of other insolvency proceedings **has reversed in the Construction and Industrial sectors**, with an increase at YE-2019 (+4.9% and +2.1% vs -23.9% and -13.2% at YE-2018 respectively).

Only the **Services sector** continues its **downward trend** even if at a slower pace (-3.7% at YE-2019 vs -19.7% at YE-2018).

Chart 26: Other insolvency proceedings by economic sector (% YoY)

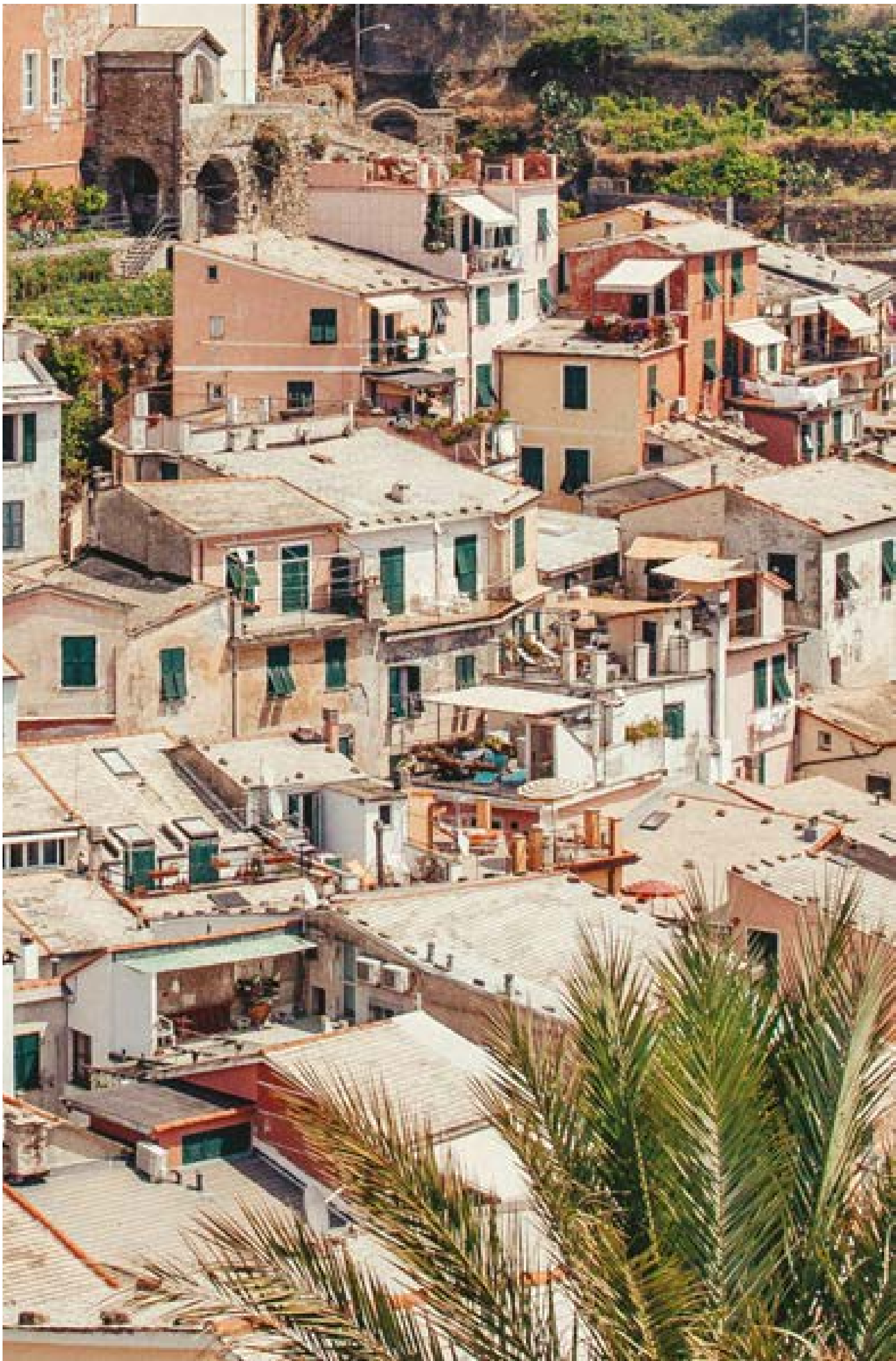




Focus on GACS

Key Message

Stricter regulations related to the achievement of performance targets protecting the noteholder along with increasing costs to access the guarantee, reduced the appeal of GACS deals for sellers. The number of GACS transactions have more than halved in 2019 compared to 2018, while volumes (in terms of GBV) have shrunk to a third.
Moreover, the restrictions imposed by the lockdown to collection activities may lead to performance target trigger events. To offset the impact the Government recently discussed the possibility of a performance targets suspension until 31st of July.



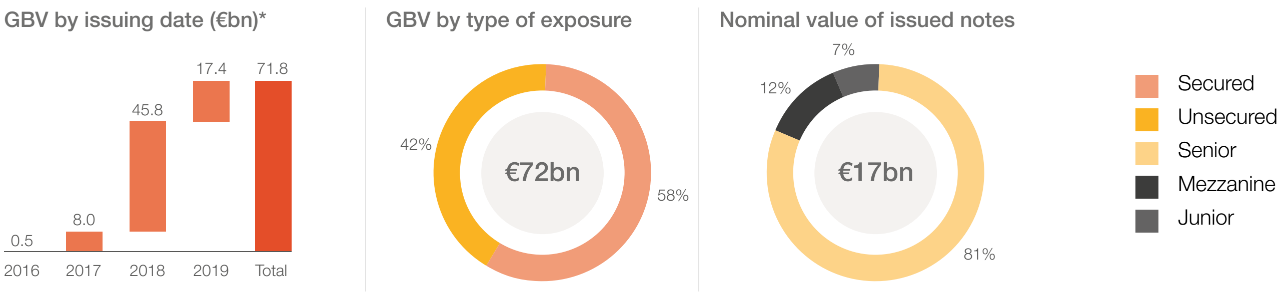
The GACS or "Garanzia sulla cartolarizzazione delle sofferenze" is a State guarantee mechanism that has played a significant role in Non-Performing Exposure disposals during last years. GACS means the unconditional, irrevocable and payable on first demand guarantee issued by the Ministry of Economy and Finance (MEF) on senior tranches issued under an NPLs credits securitization transaction. Through this mechanism, the subscribers of the senior notes, within 120 days from the occurrence of a trigger event (i.e. non-payment of interest or repayment of principal by the SPV) will obtain from the MEF the payment of the due amount. The GACS scheme was firstly introduced by the Italian Government in February 2016 and extended several times, until its expiration in March 2019.

Given the success reached in allowing the development of a market for banks' non-performing loans (and consequently their deleveraging), the Decree Law 25 March 2019 n. 22 (the so-called Brexit Decree) renewed, with some modifications, the GACS for 24 months (extendable for a further 12 months).

The most relevant updates introduced by the new GACS are:

1. **Rating issuance:** Senior notes must receive a rating higher or equal to BBB from an independent rating agency and no longer at least equal to investment grade level (BBB-).
2. **Performance objectives related to servicer replacement:** servicer substitution is envisaged without any penalties if the ratio between net cumulative recoveries and net recoveries expected in servicer's business plan is less than 100% for two consecutive interest payment dates.
3. **Performance objectives related to servicer fee:** if the ratio between net cumulative recoveries and net recoveries expected in servicer's business plan is less than 90%, a portion not less than 20%, of the total due fee shall be deferred to the total reimbursement of senior note or to the date when the ratio returns greater than 100%.
4. **Performance objectives related to interest payment on mezzanine notes:** if the ratio between net cumulative recoveries and net recoveries estimated in portfolio business plan is less than 90% at the mezzanine interest payment date, the related interest is deferred since the full reimbursement of senior notes capital or since the ratio is greater than 100%.

Chart 27: Key features of NPE portfolios subject to securitization with GACS



Note: (*) Issue date is different from the closing date

As represented in **chart 28**, data from Moody's and Debtwire show that actual cumulative net collections were below business plan forecasts for 8 GACS transactions at YE-2019. Given (i) historical underperformance of several GACS transactions, (ii) stricter clauses linked to performance targets imposed by the new GACS Decree and (iii) impacts of lockdown measures in collection activities, the Government recently allowed for the possibility of a performance targets suspension until 31st of July. Waiting for the normalization of collection activities, this "grace period" could help servicers to overcome the emergency.

From 2016 to date, 25 GACS transactions have been closed accounting for a total GBV of approximately € 72bn, 58% of which secured. Nominal value of issued notes is above € 17bn, of which 81% are represented by senior notes, 12% by mezzanine notes and 7% by junior notes. In terms of GBV 18 deals out of 25 had a deal size greater than € 1bn, and 8 of them had a deals size greater than € 5bn.

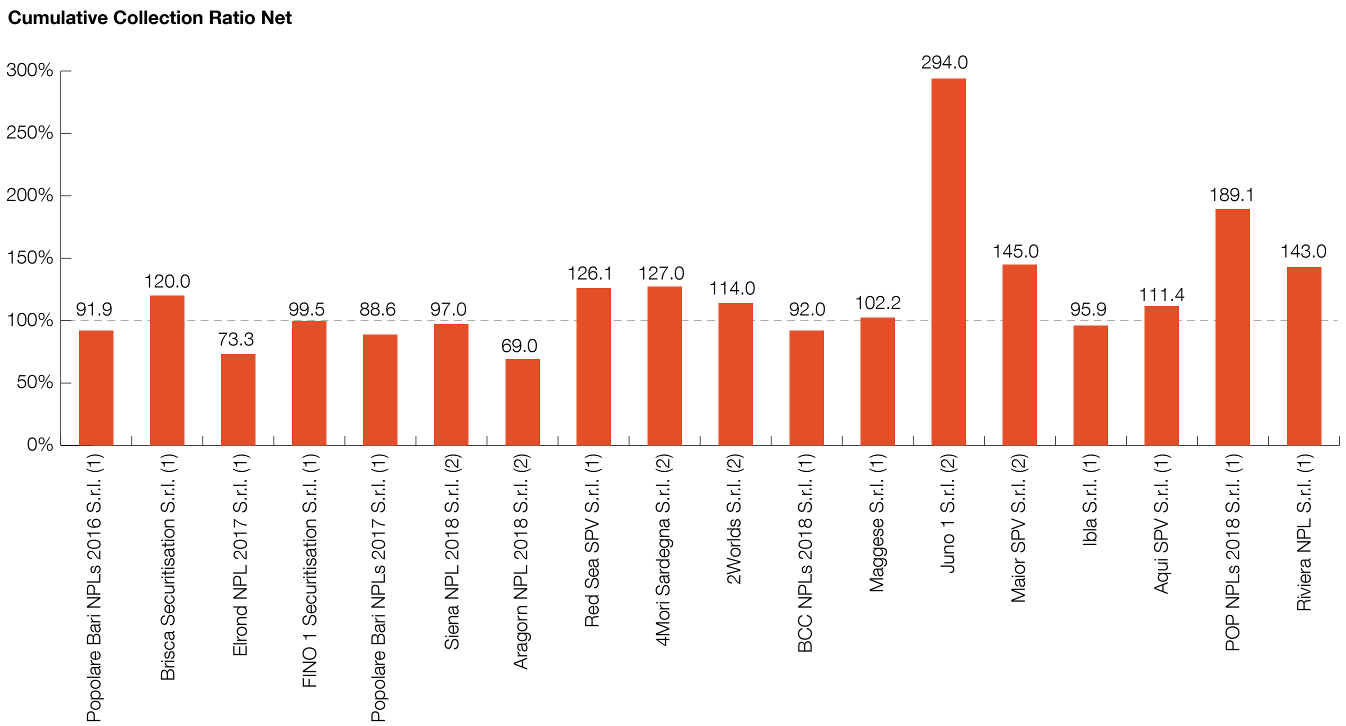
Almost all Italian top banks used GACS to implement their deleveraging strategies, except for Intesa Sanpaolo and Cariparma. Deals in the Italian NPL market reached the peak in 2018, when € 46bn out of € 84bn total NPE disposals benefitted from the public guarantee. MPS, thanks to the GACS, closed the jumbo sale of € 24bn (Siena NPL 2018), which represents the biggest deal in the Italian market so far in terms of GBV.

Following the general pattern, GACS transactions slowed down last year: 6 closed deals in 2019 for an overall € 17bn GBV. The most relevant transactions in 2019 were the Banco BPM Project ACE and UniCredit project Prisma (€ 7.4bn and € 6.1bn respectively).

No closed deals in 2020 so far, but both Popolare di Sondrio and BPER have NPL securitizations in pipeline, for which they will likely ask for the GACS guarantee.

GACS is not only confined to banks but is also gaining interest from leasing firms. Assilea's report published in April 2020 shows more than half of leasing firms used GACS scheme or are considering using it in the future.

Chart 28: Cumulative net collection actual data compared with business plan forecasts



Source: (1) PwC analysis on Moody's report "Sector update – H2 2019: Collections slow with stress expected from coronavirus outbreak";
(2) PwC analysis on Debtwire's report 28 May 2019

Table 7: List of NPE securitisations with GACS since 2016

						Rated Notes (at nominal value)				
Main banks involved	**SPV**	**Servicer**	**Issuing date**	**GBV (€/bn)**	**% Secured**	**Senior (% GBV)**	**Mezzanine (% GBV)**	**Junior (% GBV)**	**Senior Yield (%)***	**Mezzanine Yield (%)***
Banca Popolare di Bari	Popolare Bari NPLs 2016 S.r.l.	Prelios	Aug-16	0.5	63%	26%	3%	2%	0.3%	5.8%
Carige	Brisca Securitisation S.r.l.	Prelios	Jul-17	0.9	77%	28%	3%	1%	0.5%	5.8%
Creval	Elrond NPL 2017 S.r.l.	Cerved	Jul-17	1.4	74%	33%	3%	1%	0.3%	5.8%
UniCredit	FINO 1 Securitisation S.r.l.	doValue	Nov-17	5.4	52%	12%	1%	1%	1.3%	4.9%
Banca Popolare di Bari	Popolare Bari NPLs 2017 S.r.l.	Prelios	Dec-17	0.3	56%	25%	3%	4%	0.1%	5.8%
MPS	Siena NPL 2018 S.r.l.	Cerved, Prelios, doValue, Credito Fondiario	Jan-18	24.6	49%	13%	3%	2%	1.3%	8.0%
Creval	Aragorn NPL 2018 S.r.l.	Cerved, Credito Fondiario	Jun-18	1.7	75%	30%	4%	1%	0.3%	6.8%
Banco BPM	Red Sea SPV S.r.l.	Prelios	Jul-18	5.1	77%	32%	3%	1%	0.4%	5.8%
BPER	4Mori Sardegna S.r.l.	Prelios	Jun-18	1.0	53%	22%	1%	1%	0.7%	7.8%
Banco Desio e Brianza	2Worlds S.r.l.	Cerved	Jun-18	1.0	72%	29%	3%	1%	0.2%	7.8%
ICCREA	BCC NPLs 2018 S.r.l.	Prelios	Jul-18	1.0	72%	27%	3%	1%	0.2%	5.8%
Cassa di Risparmio di Asti	Maggese S.r.l.	Prelios	Jul-18	0.7	63%	24%	3%	2%	0.3%	5.8%
BNL (BNP Paribas)	Juno 1 S.r.l.	Prelios	Jul-18	1.0	30%	14%	3%	0%	0.4%	7.8%
UBI	Maior SPV S.r.l.	Prelios	Aug-18	2.7	47%	23%	2%	1%	0.3%	5.8%
Banca Popolare di Ragusa	Ibla S.r.l.	doValue	Sep-18	0.3	82%	24%	3%	1%	0.4%	7.8%
BPER	Aqui SPV S.r.l.	Prelios	Nov-18	2.1	60%	26%	3%	1%	0.3%	6.8%
Banca Popolare di Bari	POP NPLs 2018 S.r.l.	Cerved	Nov-18	1.6	66%	27%	3%	1%	0.1%	5.8%
Carige	Riviera NPL S.r.l.	Credito Fondiario, doValue	Dec-18	1.0	39%	18%	3%	1%	0.5%	6.8%
ICCREA	BCC NPLs 2018-2 S.r.l.	doValue	Dec-18	2.0	58%	24%	3%	1%	0.1%	5.8%
Banco BPM	Leviticus SPV S.r.l.	Credito Fondiario	Feb-19	7.4	67%	19%	3%	3%	0.4%	7.8%
BNL (BNP Paribas)	Juno 2 SPV S.r.l.	Prelios	Feb-19	1.0	61%	21%	5%	1%	0.4%	7.8%
UniCredit	Prisma SPV S.r.l.	doValue	Oct-19	6.1	64%	20%	1%	0%	1.3%	8.8%
UBI	Iseo SPV S.r.l.	Credito Fondiario, doValue	Dec-19	0.9	92%	39%	3%	2%	0.3%	5.8%
ICCREA	BCC NPLs 2019 S.r.l.	doValue	Dec-19	1.3	66%	27%	4%	1%	0.1%	6.3%
Banca Popolare di Bari	POP NPLs 2019 S.r.l.	Prelios, Fire	Dec-19	0.8	47%	21%	3%	1%	0.1%	9.3%
	Total			**71.8**						
	Weighted average				**58.3%**	**19.5%**	**2.9%**	**1.6%**	**0.8%**	**7.2%**

Source: PwC analysis on Rating Agencies' reports
Note: (*) Annual yield of notes has been calculated as interbank rate as of March 2020 plus applicable spread and considering floors when applicable to variable rates

Italian Banks Overview

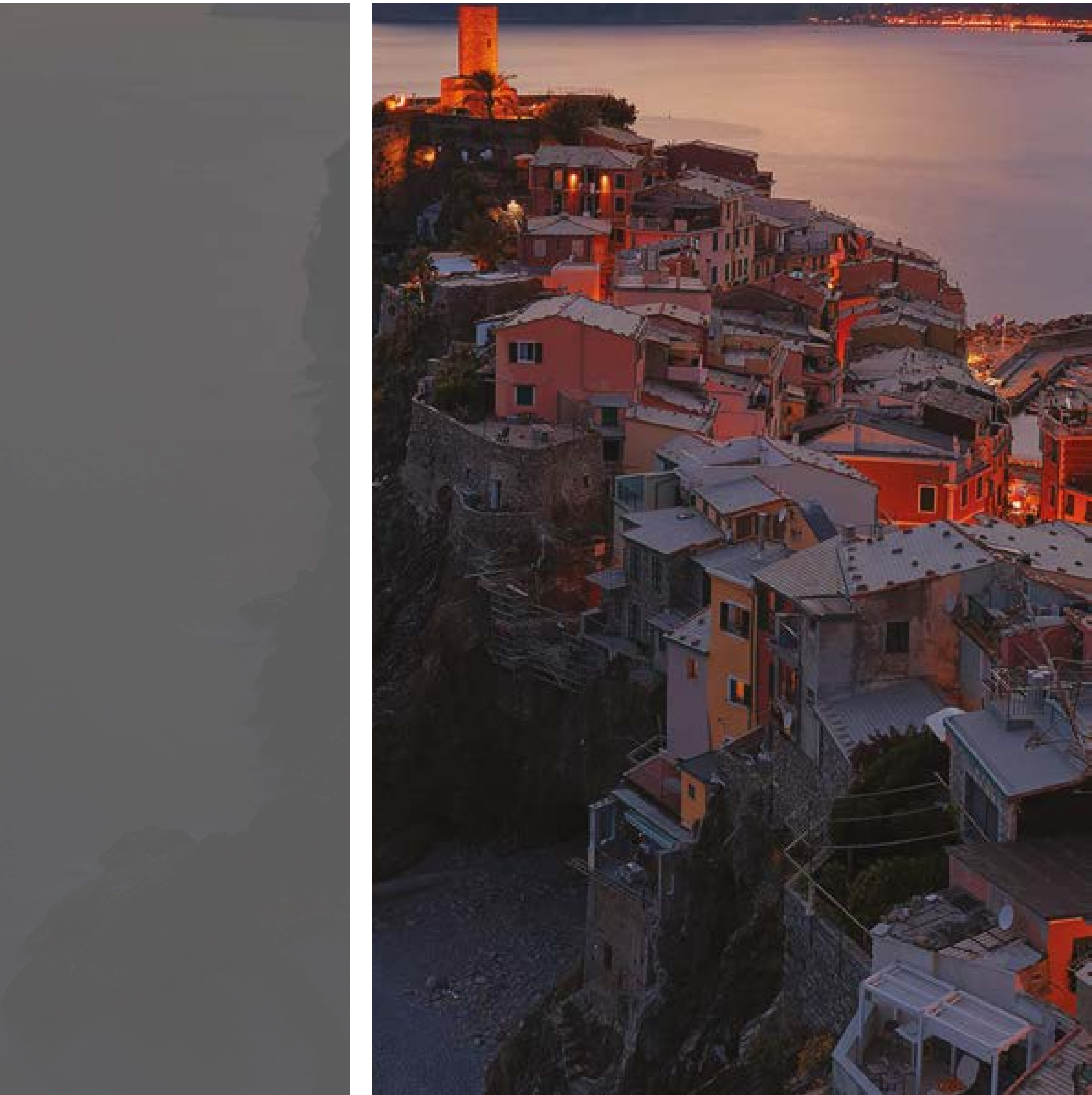
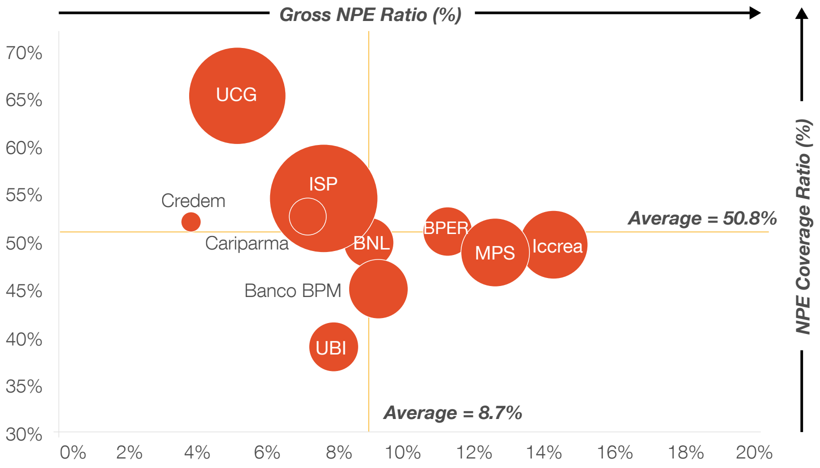


Chart 29 focuses on the gross NPE ratio and the NPE coverage ratio for the Top 10 Italian banks, which show respectively an average of 8.7% and 50.8%. The differences between banks are clear: on one side Iccrea shows the highest gross NPE ratio with 14.1% while, on the other side, Credem stands at the lower extreme of 3.8%. Considering the NPE coverage ratio, UniCredit shows the highest value (65.2%) and UBI the lowest (39.0%). However, coverage ratios are not perfectly comparable, as they are influenced by several factors that are unique in every bank, such as write-off policies, weight of secured component and portfolio vintage (time since default date).

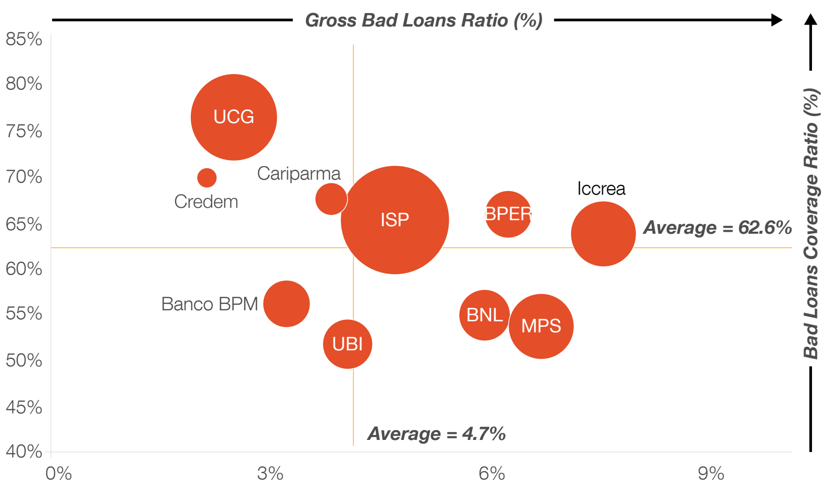
Chart 29: Top 10 Italian banks – NPE Peer Analysis as of YE-2019 (Bubble size: gross NPE)



Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies. Totals as simple average of ratios Note: data of Iccrea as of H1-2019

The same analysis is reproduced considering the gross Bad Loans ratio and the Bad Loans coverage ratio (**Chart 30**). Also in this case there are differences among the Top 10 Italian banks: Iccrea reached the highest gross Bad Loans ratio at 7.5% and Credem, the lowest, reported a 2.1% (the average stands at 4.7%). Coverage ratio ranges between 76.3% (UniCredit) and 52.0% (UBI); average stands at 62.6%.

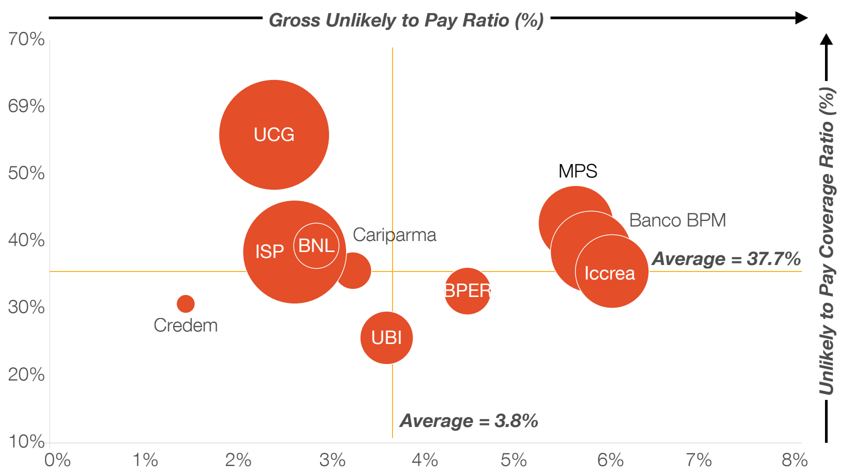
Chart 30: Top 10 Italian banks – Bad Loans Peer Analysis as of YE-2019 (Bubble size: gross Bad Loans)



Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies. Totals as simple average of ratios Note: data of Iccrea as of H1-2019

Chart 31 provides an overview of the Unlikely to Pay ratio and its coverage ratio for the Top 10 Italian banks. The average for the first ratio is 3.8%, with Iccrea showing the highest ratio, reaching 6.0% while Credem show the lowest one with 1.5%. The Unlikely to Pay coverage ratio average is 37.7%: UCG is at the top with 55.9% and UBI at the bottom with 25.5%

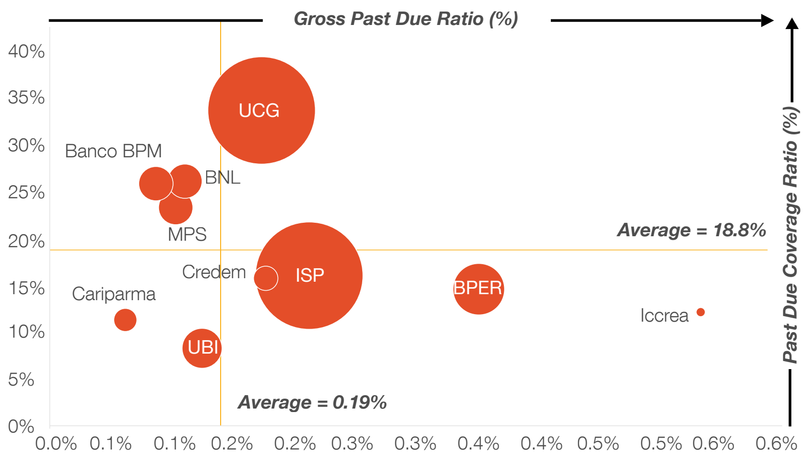
Chart 31: Top 10 Italian banks – Unlikely to Pay Peer Analysis as of YE-2019 (Bubble size: gross Unlikely to Pay)



Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies. Totals as simple average of ratios Note: data of Iccrea as of H1-2019

Chart 32 illustrates the gross Past Due ratio and the coverage ratio for the banks analyzed. Iccrea records the highest gross Past Due ratio reaching 0.53% while Cariparma the lowest at 0.06%. The relative coverage ratio indicates two peaks: on one side UniCredit with 33.7% and on the other side 8.3% with UBI. The average reaches 18.8%.

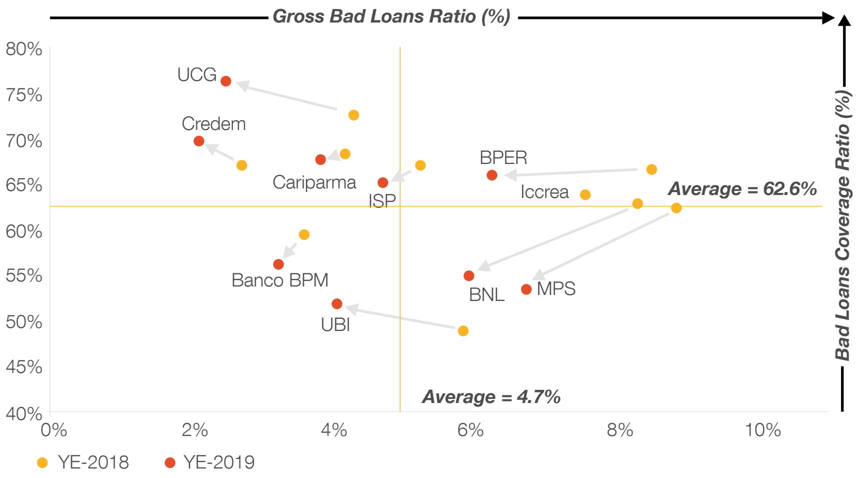
Chart 32: Top 10 Italian banks – Past Due Peer Analysis as of YE-2019 (Bubble size: gross Past Due)



Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies. Totals as simple average of ratios Note: data of Iccrea as of H1-2019

Chart 33 analyses, for the Top 10 Italian banks, the movements in the gross Bad Loans Ratio and the Bad Loans coverage ratio between YE-2018 and YE-2019. At YE-2019 the average gross Bad Loans ratio reached 4.7%, whereas the coverage ratio stands at 62.6%. The analysis indicates that most of the top 10 Italian banks registered a worsening of the Bad Loans coverage ratio.

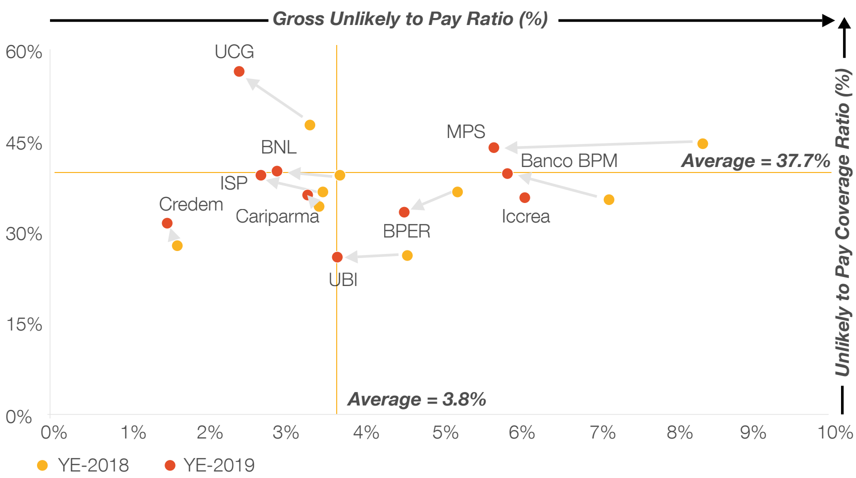
Chart 33: Top 10 Italian banks – Bad Loans movements (YE-2018 vs YE-2019)



Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies. Totals as simple average of ratios
Note: data of Iccrea as of H1-2019

Chart 34 shows that almost all of the Top 10 Italian banks analyzed experienced a decrease in the gross Unlikely to Pay ratio and an increase in the Unlikely to Pay coverage ratio except for BPER and UBI Banca. At YE-2019 the average gross Unlikely to Pay ratio stands at 3.8%, while the Unlikely to Pay coverage ratio is 37.7%.

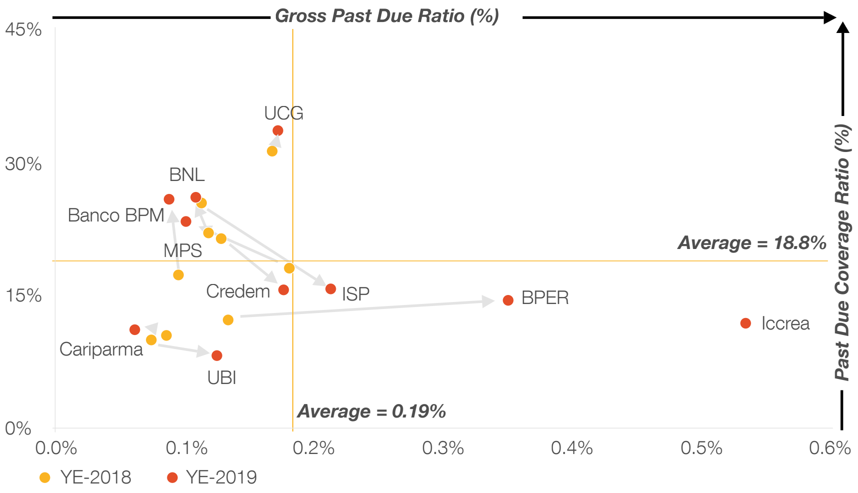
Chart 34: Top 10 Italian banks – Unlikely to Pay movements (YE-2018 vs YE-2019)



Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies. Totals as simple average of ratios
Note: data of Iccrea as of H1-2019

Chart 35 illustrates the movements in the gross Past Due ratio and Past Due coverage ratio.
At YE-2019, the average gross Past Due ratio stands at 0.19% and the Past Due coverage ratio at 18.8%. During 2019, the Gross Past Due ratio of the Top 10 Italian Banks slightly increased on average compared to YE-2018.

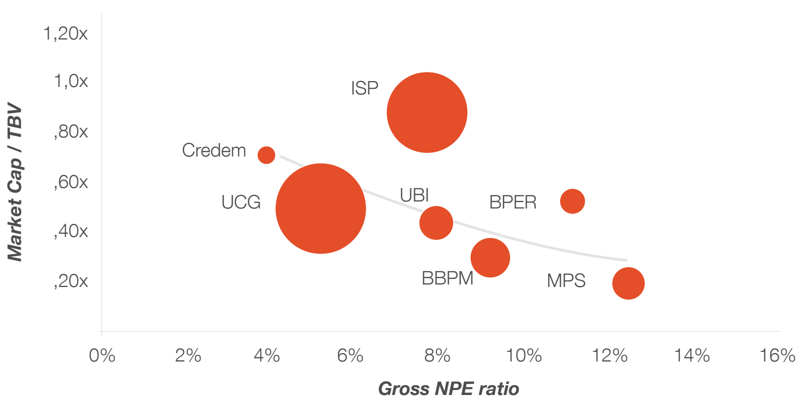
Chart 35: Top 10 Italian banks – Past Due movements (YE-2018 vs YE-2019)



Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies. Totals as simple average of ratios
Note: data of Iccrea as of H1-2019

Chart 36 shows the inverse correlation between the Market Cap on Tangible Book Value of the Top 10 Italian banks (listed) and their gross NPE ratio, which is an indication of a persistent market pressure on banks.

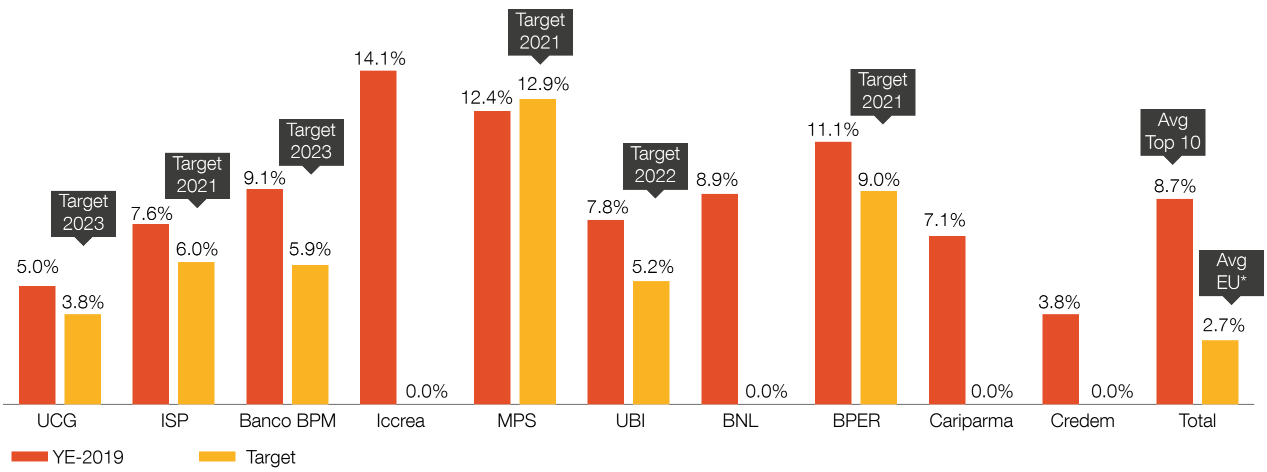
Chart 36: Top 10 Italian banks (listed) – Relation between Market Cap/TBV and gross NPE ratio as of YE-2019 (Bubble size: Tangible Book Value)



Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies. Market Cap as of December 2019, TBV and NPE ratio as of December 2019

Chart 37 shows the gross NPE ratio targets for the primary Italian banks. Most of Top Italian banks are committed to continue reducing their NPE with respect to gross customer loans within the next 2-3 years. Nevertheless, gross NPE loans Ratio of Top Italian banks is still far from European average.

Chart 37: Top 10 Italian banks – Target gross NPE Loans Ratio vs current as of YE-2019



Sources: PwC analysis on financial statements and analysts' presentations and on «Risk Dashboard – Data as of Q4-2019», EBA. Rounded numbers, total as simple average of ratios, only for banks presenting target NPE
Note: (*) the computation of the NPE ratio of the Eurozone considers European large banks which have, differently from Italian banks, an high level of non domestic exposures characterized by lower NPL ratio values compared to domestic one

Focus on Italian UtP market

Key Message

At YE-2019, banks' UtP exposure amounted to €61bn, (GBV) 82% of which is concentrated within the top 10 banks.
The COVID-19 crisis would potentially affect the most vulnerable part of the Italian economy, thousands of non-financial companies and small family business that are "at risk".
UTPs, unlike bad debts, must be managed with a mixed perspective of recovery, turnaround and private equity, and represent a complex asset class that need to find a systematic and market solution aimed at allowing all parties involved (banking system, debtors, tax authorities, social partners) to overcome the pandemic crisis by creating market conditions that can contribute to put these companies back on track.

Our view

As already stated, one of the major challenges for the Italian banking system is the UtP management.

During 2019, banks have been following their deleveraging plans, reducing their average gross UtP ratio from 4.6% at YE-2018 to 3.8% at YE-2019.

At YE-2019 UtP totalled approx. €61bn GBV (vs €79bn at YE-2018) showing a lower yearly reduction in the stock compared to Gross Bad Loans (€97bn at YE-2018 vs €70bn at YE-2019).

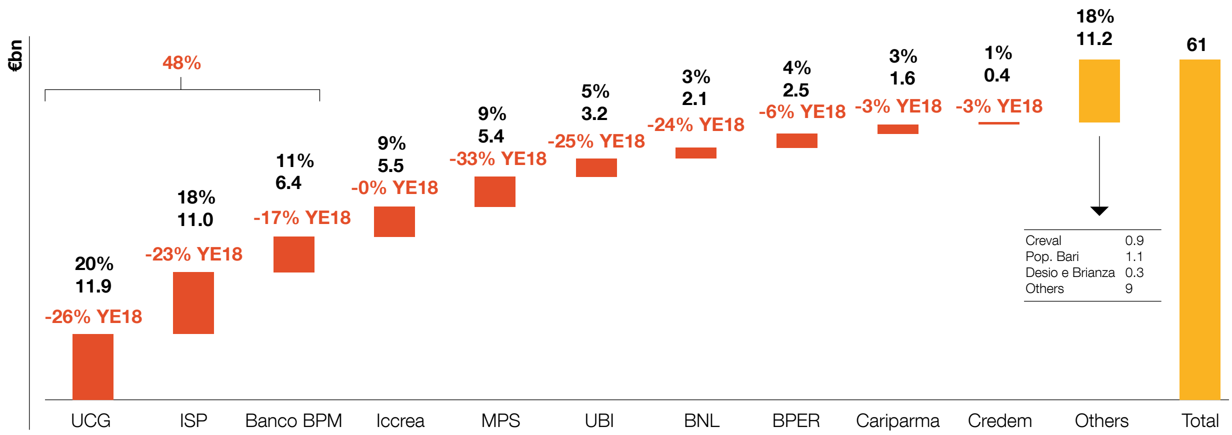
The chart below shows a comparison between Gross UtP exposures at YE-2019 with respect to YE-2018 for Top 10 Italian banks.

The majority of UtP is concentrated in the balance sheets of the top 3 Italian banks (48% of the total Italian banking stock). UniCredit, Intesa Sanpaolo and MPS are the most active in the UtP transaction market with deals, announced or closed, for a total amount exceeding €10bn during 2019 and 2020.

The recent outbreak of Coronavirus will for sure have a strong impact on the UtP market, representing a new challenge for the Italian banking system.

As the COVID-19 crisis is still ongoing, it is unpredictable to foresee the impact on the UtP stock, that will be driven by the default rate (new inflows from performing), as well as the danger rate (outflows to bad loans). Regarding the last point it should be noted that UtPs have not been covered by the recent decrees issued by the Italian Government, such as “Decreto Cura Italia” and “Decreto Liquidità”, making it possible to assume a higher danger rate for the next years.

Chart 38: Top 10 Italian banks – UtP distribution (€bn and %) as of YE-2019



	UNICREDIT	INTESA SANPAOLO	BPM	ICCREA	MPS	UBI	BNL	BPER	CARIPARMA	CREDEM	AVERAGE
Gross UTP/ Gross NPE	47.2%	35.1%	63.7%	42.7%	45.3%	46.4%	32.2%	40.5%	45.6%	38.9%	43.8%
Gross NPE Ratio (%)-YE-2019	5.0%	7.6%	9.1%	14.1%	12.4%	7.8%	8.9%	11.1%	7.1%	3.8%	8.7%

Source: PwC analysis of financial statements and analysts' presentations. The list of Top 10 Italian banks is based on the Total Asset as of YE-2019 Note: data of Iccrea as of H1-2019

Inflows and outflows

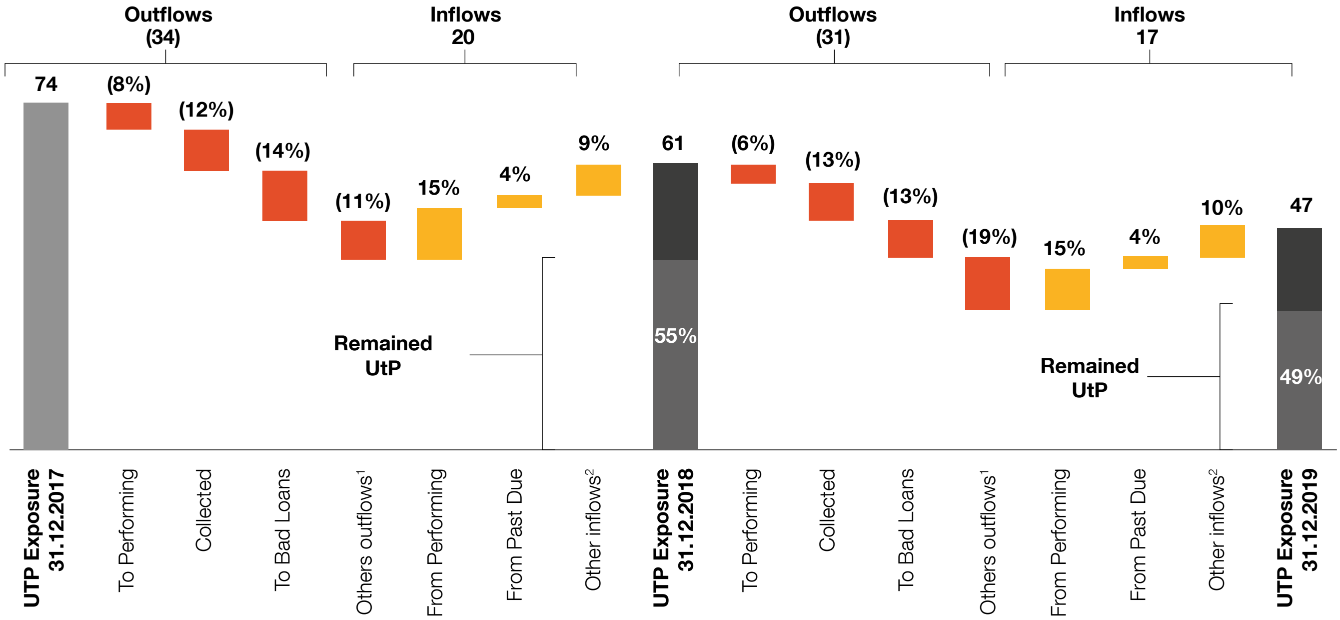
In 2019, the decreasing trend of gross UtP exposures among top 10 Italian banks continued.

The chart below shows UtP inflows and outflows during the past two years.

UtP registered a decline in outflows to Bad Loans over the last 2-year period: 13% in 2019 vs 14% in 2018.

On the other hand, UtP showed a stable trend in inflows from performing exposures in the last 2-year period: 15% in both 2018 and 2019.

Chart 39: Top 10 Italian banks – UtP inflows and outflows (€bn and %) from 2017 to 2019



1. Other outflows include: Write-offs; Forbearance measures; Sales proceeds; Sales losses; Other outflows
2. Other Inflows include: Forbearance measures; Acquired exposures; Other inflows

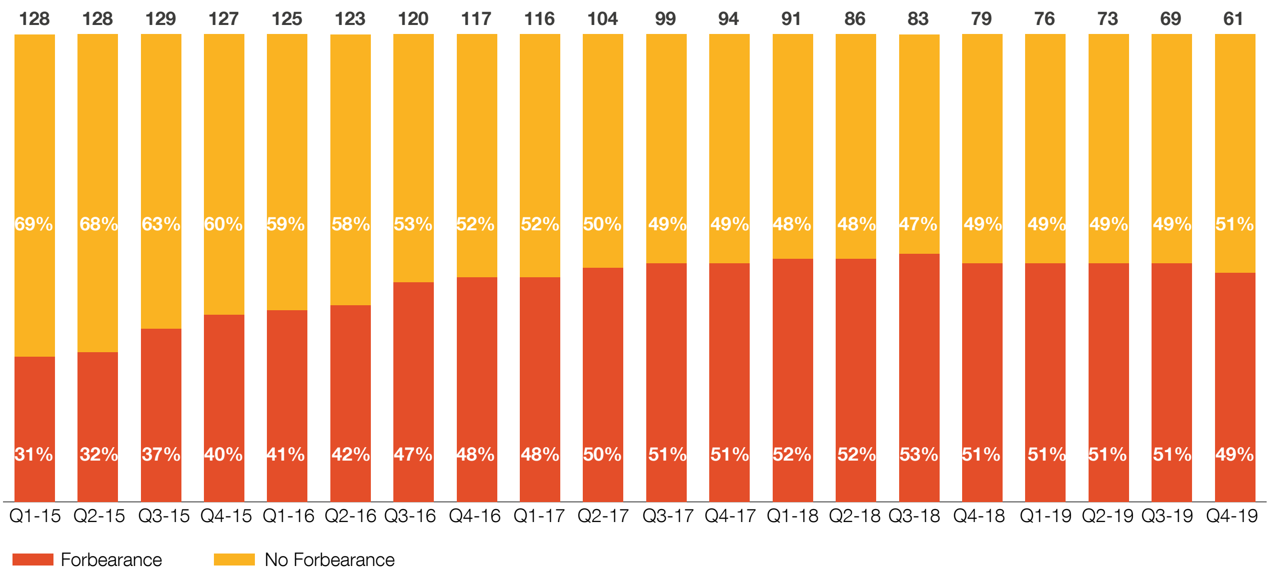
Source: PwC analysis of financial statements and analysts' presentations. The list of Top 10 Italian banks is based on the Total Asset as of YE-2019
Note: data of Iccrea not available in first half 2019 Financial Report

Key Message

Since Q1-2015 UtPs show a decreasing trend, starting from €127bn they amount now to €61bn. The proportion of exposures subject to forbearance measures (“Forbearance ratio”) represent 49% of total UtPs, showing a slight decrease from the value of Q2-2019 (51%) and continuing the decline from the peak of 53% registered in Q3-2018.

Chart 40: Italian banks’ forborne UtP exposures (€bn and %)

$$\text{Forbearance Ratio} = \frac{\text{Forborne UtP exposures}}{\text{Total UtP exposures}}$$



Source: PwC analysis on Banca d’Italia «Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori», March 2020

Key Message

Despite the diffusion of the coronavirus, 2020 is expected to be a relevant year in terms of UtP transactions, confirming what we observed in the previous year: larger UtP portfolios and the first UtP platform disposal.

The UtP market has been moving towards transactions of larger portfolios

2019 can be considered as the year zero for the UtP deals: during the last year, we observed approx. €6bn of UtP transactions (vs €3bn in 2018).

Major UtP disposals have been promoted and closed by Intesa Sanpaolo (with Project M which includes also the platform with the servicer), Banca Carige (with Project Hydra) and MPS (with several portfolios).

The market is moving to deals involving larger portfolios and, in some cases, the platform as well.

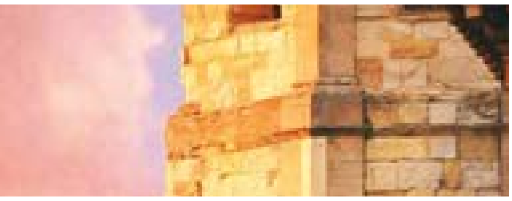
Despite the outbreak of coronavirus, UtP deleveraging strategies carried out by the major Italian banks are still ongoing. However, some delay in ongoing transactions can be expected due to COVID-19 and the flexible guidelines promoted by the European Central Bank to prevent a financial crisis.

The main ongoing and announced UtP transactions are Project Dawn and Sandakon 2 by UniCredit, Project Apollo by Cariparma and a portfolio of approx. €2bn belonging to Banco BPM.

Table 8: Main UtP* loan sale transactions as of May 2020

	Closed				Pipeline/Ongoing				
Project	Project M	Several Projects 2019**	Several Projects 2018**	Hydra	Apollo	Arpa	Sandokan 2	n.a.	Dawn
Seller	Intesa Sanpaolo	MPS	MPS	Banca Carige	Cariparma	BPB	UniCredit	Banco BPM	UniCredit
Buyer	DK / Prelios	Several buyers	Several buyers	AMCO	n.a.	n.a.	n.a.	n.a.	n.a.
GBV [m] Closed €7.2bn Pipeline/ Ongoing €10.2bn	3,000	1,400	1,400	1,380***	3,000	2,200	2,000	2,000	1,000
Portfolio	UtP	UtP	UtP	UtP	Bad Loans & UtP	Bad Loans & UtP	UtP	UtP	UtP
Secured / Unsecured	Mixed Secured/ Unsecured	Mixed Secured/ Unsecured	Mixed Secured/ Unsecured	Mixed Secured/ Unsecured	Mixed Secured/ Unsecured	Mixed Secured/ Unsecured	Mixed Secured/ Unsecured	Mixed Secured/ Unsecured	Mixed Secured/ Unsecured

Source: PwC estimates on public information and market rumours. Analysis on loan sale transactions, without considering structured ones, such as restructuring funds and synthetic securitizations
Note: (*) Considering only 100% UtP portfolios and mixed portfolios mainly composed of UtP; (**) Are included all the deals closed by MPS in 2019 (e.g. Projects Quebec 2, Papa 2) and in 2018 (e.g. Alfa 2); (***) The UtP represent the 60% of the transaction (total GBV of €2.3bn)



Focus on Italian Non Performing Leasing market

Key Message

In the last three years Non-Performing Leasing market have been under the spotlights of investors and this interest has increased over that time.
Since 2018 both the number and volume of the deals have increased and for 2020 we expect that NPL Leasing market, thanks to some significant announced deals such as UniCredit's one and Alba Leasing project Titan, will definitely assume a significant role in the deleveraging strategies of financial institutions.

Overview of the Non Performing leasing Market

At YE-2019, the leasing market amounted to €76.4bn with an **NPE ratio of 19%**.

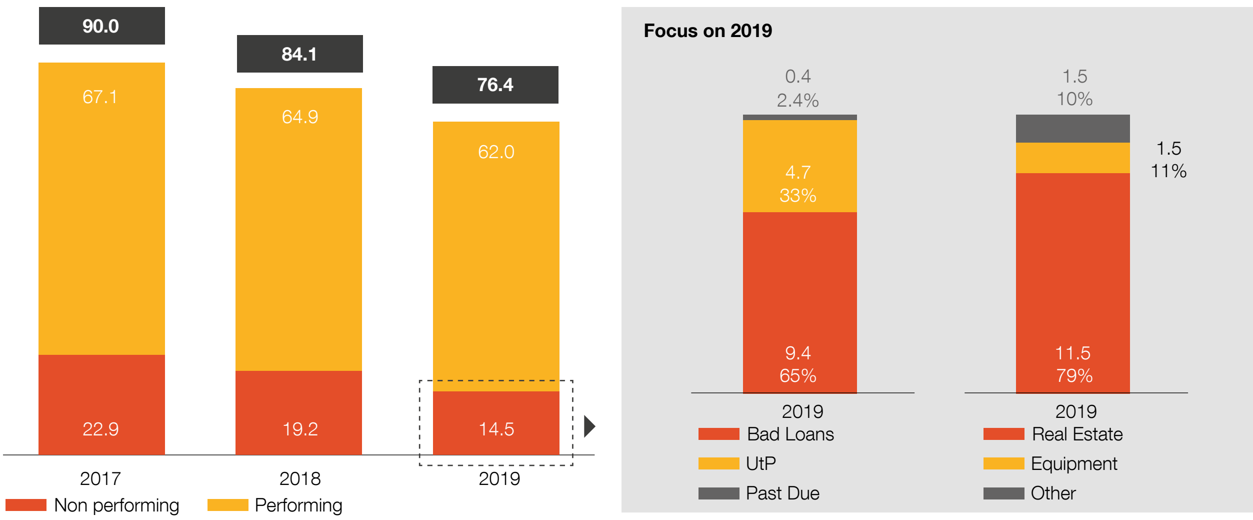
In the last three years, we observe a drop in Non Performing leasing from €22.9bn in 2017 to €14.5bn in 2019, as well as in the whole leasing market (8% of CAGR 17-19).

Focusing on 2019, the Non Performing Leasing are composed by Bad Loans for €9.4bn (65% of total NPE Leasing), UtP for € 4.7 bn (33%) and past due for €0.4bn (2%).

The majority of Non Performing leasing is related to the **Real Estate assets** that is the biggest one in terms of GBV for a total amount of approx. **€11.5bn** (79.4% of the total NPE Leasing) followed by **Equipment** with a total GBV of **€1.5bn** (10.6%).

With regard to the NPE ratio, equal to 19% at YE-2019, the industry with higher ratio is the **Aeronautical and Railway one** with a NPE ratio of 27.4% followed by **Real Estate** (24.4% on average).

Chart 41: Gross NPE leasing trend



Source: PwC analysis on Assilea Report "To lease: I numeri del leasing e del noleggio 2019-20", May 2020. Data in €bn and %

Main NPE leasing transactions in the last three years

In the last three years, investors' appetite for the Non Performing Leasing market has increased, NPE Leasing deals closed reached an amount of approx. €4bn of which €2bn in 2019.

The main NPE leasing transactions closed are represented by a portfolio of €900mln sold by MPS to Bain Capital Credit (Project Morgana), a portfolio of €740mln sold by UBI Banca to Credito Fondiario and a portfolio of €650mln sold by Banco BPM to illimity.

Regarding the deals pipeline, the volume of 2020 is expected to be higher than the one of the previous year: the main transactions announced for the current year amounted to a total GBV of approx. €2.9bn.

In the next years NPE Leasing will have an important role in the whole NPE market.

Table 9: Main NPL Leasing transactions in the last 3 years

	Closed			Pipeline/Ongoing	
Seller	MPS	Ubi Banca	Banco BPM	UniCredit	Alba Leasing
Buyer	Bain Capital Credit	Credito Fondiario	illimity	n.a.	n.a.
GBV [m] **Closed €2.3bn** **Ongoing €2.9bn**	900 2018 Q4	740 2019 Q3	650 2019 Q2	2,500	400
Portfolio	Bad Loans	Bad Loans	Bad Loans	Bad Loans & UtP	Bad Loans
Secured / Unsecured	Secured	Mixed Secured /Unsecured	Secured	Secured	Secured
Collateral	n.a.	n.a.	n.a.	RE	RE

Source: PwC estimates on public information and market rumors. Analysis on loan sale transactions, without considering structured ones, such as restructuring funds and synthetic securitizations

The Servicing Market

Key Message

The debt servicing/purchasing industry has been strongly affected by the current pandemic crisis, with servicers/investors rapidly reviewing their business plan assumptions due to the delay in their recovery activities.

Market participants will be at the forefront in sustaining banks in the management of the expected new flows of NPEs, with disposals expected to revamp the primary and secondary market to the benefit of servicers and investors. Servicers will have the opportunity to refocus on UtP and towards value-added activities.

From an operational perspective, servicers will adapt towards simplified collection procedures, leveraging also new disruptive technologies to increase the efficiency of extra-judicial recoveries.

A second wave of consolidation is expected to be driven on one hand by the pressure on margins and technology investments while on the other hand by the new directive of the European Parliament on credit servicers that aims to harmonize the European market facilitating cross-border scale-up activities.

NPL Servicers during COVID-19 times

The Italian credit servicing market has experienced significant change over recent years with a **radical review of the competitive landscape** as the volume of NPE transactions has grown.

With reference to debt purchasing/ servicing industry, we expect two major **impacts from this Pandemic crisis**:

1. The first one is the **stagnation of NPE** recoveries. This will affect both **investors' business plans and Servicers profit & loss accounts**.

2. The second one, that may counterbalance the negative effect of the first one, **is the future growth of NPE volumes**.

In summary, on one hand, **gross collections will suffer from the block of court procedures** and the **worsening of macroeconomic conditions which consequently will affect corporates and individuals' capacity to repay their debts**; on the other, **new flows of NPE in the coming months/ years are expected** to **strongly increase the demand for servicing capabilities to the industry**.

1. Major impacts on recoveries?

Overall **market participants are spreading a positive outlook on the market**: even if the stall of bankruptcy auctions inside Italian courts is affecting the recovery curves, this is true only for physical procedures whilst **telematics procedures are still on going**.

Nevertheless, **telematics procedures are considered still far from being effective**: based on a 2019 survey made by "Consiglio nazionale dei dottori commercialisti e degli esperti contabili" the **traditional procedure** still has been preferred in **58.5% of cases**.

Cautious optimism about recoveries is also linked to the fact that many players rely on extra-judicial activities based on call centers and e-mail communications that thanks to smart-working have not slowed down at all.

The health emergency threatens to blow up many assumptions and parameters included in **the Servicers' business plan projections and the full effect will gain significantly better visibility during the second quarter of 2020**.

Moreover, short term **impacts on profitability** will depend on **portfolios composition**: for some operators it is a **mere delay in the timing of collections**, which is **hopefully recovered in the first few months** from country lockdown release; **for others there may be higher impacts that still need to be assessed** (see specific focus in next page).

Looking at **available options** to mitigate COVID-19 impacts, a fundamental remedy is related to the release of the "**Cash in Court**" (i.e. cash lying in the current accounts of the procedures at the Courts after asset sale). With the **release of this cash**, **according to Associazione T6 it would be possible to put into circulation an amount between €8 and 10 bn**. Servicers and all the professionals involved in the procedures **would benefit from the release of this funds** and **several regional courts** have already started, with the publications of different provisions, to **accelerate the procedures** linked to the distribution of this cash.

COVID-19 1Q impacts on major European debt servicers & debt purchasers

Based on **1Q results** released by **major European Servicers**, it seems that the cash flows recovered were almost in line with the business plans, with impact limited to month of March collections.

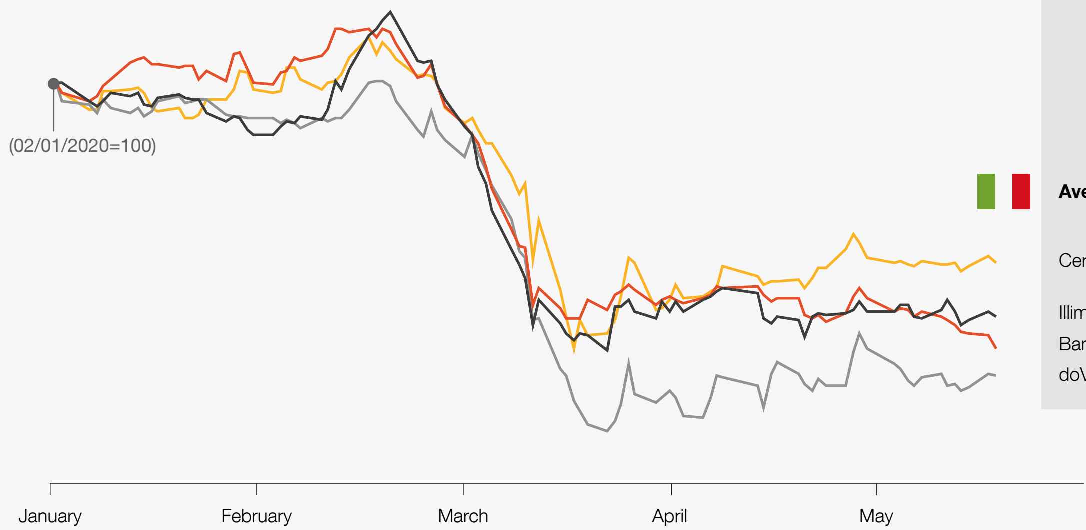
Although **it is possible** that some of the slowdown started in Q1 is **likely to result in an increase in the rate of collections in the second half of the year**, given the uncertainty on COVID-19 progress, it is **difficult to assess the correct timing** as well as **the potential risk of portfolio write-offs**.

Summary of major European Servicers 1Q releases	Key indicators
Major Listed Pan-European debt servicers & debt purchasers:	
Arrow: "*Whilst the impact of this unprecedented economic and court system pause in H1 might cause us to re-evaluate the ERC at the half year, the Group believes that it continues to have the necessary financial flexibility to benefit from anticipated future market tail winds*". April performance in mid-range of modelled scenarios. The European court system reopening is expected to accelerate secured collections (~40% of ERC).	92% 1Q actual collection vs. budget
Axactor: "*Given the current extraordinary measures to contain the coronavirus, we expect the negative effects to deepen in the second quarter*" declared the CEO.	92% 1Q actual collection vs. budget
B2Holding: "*Limited COVID-19 impact on cash collections in 1Q – preparing for a delay in collections/ recoveries in the upcoming months, but need more data to forecast the impact*", looking at unsecured collections in April they registered minor deviations from forecast in the Nordics and Poland but larger impact in southern Europe.	90% April unsecured actual collection vs. budget
Cabot: "*The profile of expected collections is impacted by COVID-19, but the lifetime value of the portfolio is expected to be maintained*". UK collections performed in line with expectation (at 101%), while Europe at 71%, heavily impacted by COVID-19 especially in Spain (~10% of total ERC). Collection is expected to decrease to 81% of ECR in Q2, although they expect this to be a timing shift of ECR rather than a permanent loss.	93% 1Q actual collection vs. budget
doValue: "*Recession caused by COVID-19 is likely to be more severe and sudden than the Great Financial Crisis of 2008, with unprecedented double-digit GDP contractions in 2Q20*". Limited COVID-19 impact on collections, despite lockdown measures impacting all markets. Seasonally low activity in 1Q, typically accounting for ~20% of yearly collections. Macro-scenario expected to create opportunities for credit servicers.	60-80 €bn Expected new NPE in Italy in 2020-2021
Hoist Finance: "*We estimate that collection performance in the second quarter on an aggregated basis will be around 90 per cent, but naturally there is some uncertainty around this number*" said the CEO.	10% Impairment due to collections delays / total interest income
Intrum: "*We no longer consider that the conditions are in place to achieve our original goals for 2020*" announced the CEO, with pronounced negative impact on organic revenues growth for "Strategic Markets" segment (Italy, Spain and Greece) from COVID-19 pandemic.	-35% Organic revenue growth 1Q 2020 vs 1Q2019
Major Listed Italian debt servicers & debt purchasers:	
Cerved: "*Continuing efforts to ensure business continuity whilst protecting results. According to public sources, full impact of COVID-19 expected to fall on Q2, with situation potentially improving in Q3 and Q4*". Limited impact from COVID-19 emergency due to time lag between collection and revenues, particularly on NPLs within the context of legal proceedings.	n.a. Full impact of COVID-19 expected to fall on Q2
Banca IFIS: "*1Q 2020 results were impacted by COVID-19 pandemic, although January and February results were in line with budget*". Overall €13mln of losses in net banking income from NPL recoveries (€9mln on judicial and €4mln on extrajudicial).	-23% 1Q Losses in net banking income / NPL net Banking Income
illimity: "*We have prudently evaluated the business plan for existing portfolio, mainly applying recovery scenario from judicial procedures, even where in fact extra-judicial management strategies have been pursued and executed. This approach incorporates sales prices of the underlying assets significantly lower than the corresponding market values and very spread over time*" declared the CEO.	n.a. Cumulative collections above planned targets

COVID-19 crisis impact on debt servicers & debt purchasers' stock prices

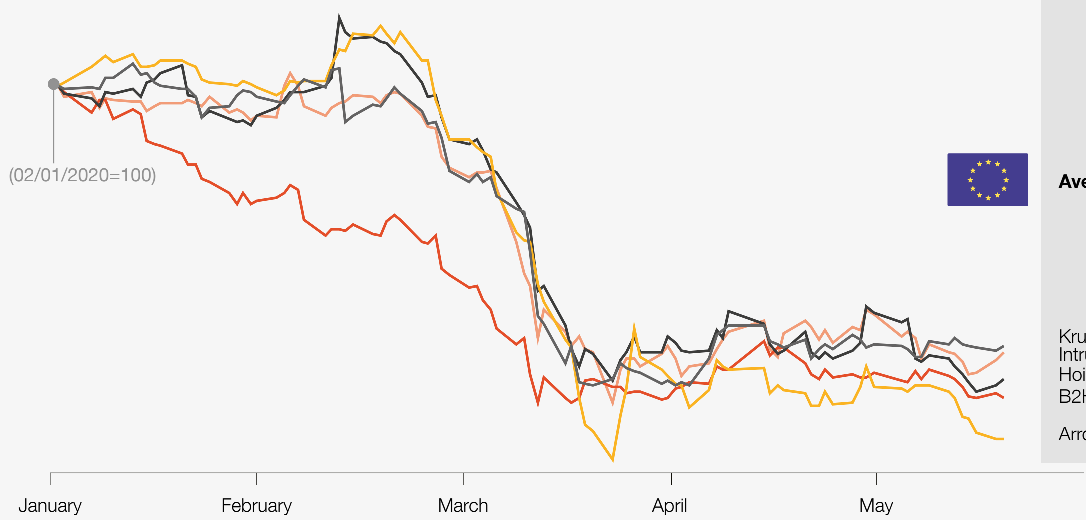
Analyzing **stock prices of listed debt servicers & debt purchasers**, these companies **have lost** between **50% and 60% in Piazza Affari** since the positive peak reached between 19 and 20 February 2020 (in correspondence of ISP launch of OPS on UBI shares). Compared with **European peers** however, it seems that **Italian companies have suffered less in stock markets** with an average loss equal to **54% vs 69%**.

Stock prices evolution of major Italian NPL servicers - 2020



	Delta highest vs lowest 2020
Average	**-54%**
Cerved	**-50%**
Illimity	**-53%**
Banca IFS	**-51%**
doValue	**-61%**

Stock prices evolution of major European NPL servicers - 2020



	Delta highest vs lowest 2020
Average	**-69%**
Kruk	**-63%**
Intrum	**-66%**
Hoist	**-68%**
B2Holding	**-66%**
Arrow	**-80%**

Source: PwC analysis on Bloomberg data as of 20/05/2020

2. A new flow of NPE?

It is **currently difficult to make projections** of the impact of pandemic on the Italian financial services system given the interventions by both the ECB and the Government who are trying to limit the negative effects. But **as far as these measures will succeed, one thing is certain: NPE volumes will increase again**, **reversing the positive trend** which had brought them to decrease down from €341bn in 2015 to €135bn at December 2019.

We expect the shock caused by COVID-19 to generate a strong increase in the flows of new NPE in our banking system. **According to our estimates**, a fall in **GDP** equals to **-8%** in 2020 (as assumed by the DEF) could **generate an increase in the default rate up to** a level which is close to the 2013 values.

However we believe that the legislative measures recently adopted ("Cura Italia","Liquidity" and "Rilancio" decrees) will **contribute to a significant reduction in the default rate of performing exposures**. At the same time, **the effectiveness of these extraordinary measures is very difficult to quantify** and is certainly the **element of greatest uncertainty at this moment**.

Another phenomenon that we expect to occur in the next 18 months **is a gradual migration of PD and UtP exposure** towards Bad Loan stage. Assuming that the danger rate from UtP to Bad Loans, which today is decreased at 20%, r**eturns to 2013 levels** (40%), there would be **a strong turnabout of last 6 years positive trend**.

Debt purchasers & servicers capable of actively managing and recovering UtP exposures will certainly benefit from these **expected new flows**.

Out of new NPE flows, **a considerable amount** will **directly migrate under the management of Servicers that have in place long-term partnership agreements with banks** (doValue-UCG, Intrum/Prelios-ISP, Credito Fondiario-Banco BPM/Carige, Cerved-CreVal/Pop.Bari).

Additionally, **NPE disposals by banks are expected to revamp primary and secondary market to the benefit of servicers and investors**.

Considering all of the above. **in the coming months** new NPEs flows **will challenge banks NPL management capabilities** consequently **increasing the need of Servicers support to the industry**.

Looking forward

Looking forward, from an operational perspective, we **suggest servicers to adapt and plan for an higher rotational speed of NPLs portfolios** (in the range of 2-3 years) to guarantee **more efficient and effective** recoveries compared to the portfolios that lie in balance sheets for longer periods, becoming more and more illiquid.

Considering courts stall, **the increase in the efficiency of extra-judicial credit recoveries will be key to succeed**.

Call center will play **a pivotal role in the recoveries** of small ticket exposures and, in the medium-long term, **largest credit servicing players may enlarge their business towards new** asset classes and type of clients.

There are **several opportunities for servicers to complete credit management value chain** with **value added-services** such as the **full outsourcing of IT & BPO for corporate receivable mgmt.**, the enrichment of value proposition **with new financing options** (factoring, working capital financing, CQS, ..) and the **simplification of collection activities** through the introduction of **disruptive technologies** (data analytics, decision making tools, payments & communication portals, ..).

Lastly, focusing on M&A activity, **deal execution in servicing market requires a coherent IT infrastructure integration strategy**, which is at the basis of a successful transaction.

We believe **that the possibility for major players to consolidate smaller existing players will still remain an option** in the medium long term, **but a wait and see strategy will be master at least in 2020**.

Table 10: Main transactions in the servicing sector

Year							
2014	Hoist Finance Acquisition of 100% of TRC from private shareholders. Specialized in consumer finance	Banca Sistema Acquisition of 2 servicing platform Candia & Sting from private shareh and merger (CS Union)	Cerved Acquisition of 80% of Recus. Specialized in collection for telcos and utilities				
2015	Fortress Acquisition of UniCredit captive servicing platform (UCCMB)	Lonestar Acquisition of CAF a servicing platform with €7 bn AuM from private shareholders	Cerved Acquisition of 100% of Fin. San Giacomo part of Credito Valtellinese group				
2016	Cerved + BHW Bausparkasse Long-term industrial partnership for the management of 230 €m of NPL originated by the Italian branch of BHV Bausparkassen AG	Axactor Acquisition of CS Union from Banca Sistema	Lindorff Acquisition of CrossFactor, a small factoring and credit servicing platform	Arrow Acquisition of 100% of Zenith Service, a master servicing platform	Kruk Acquisition of 100% of Credit Base	doValue Acquisition of 100% of Italfondiario	Dea Capital Acquisition of 66,3% of SPC Credit Management
2017	Kkr Acquisition of Sistemia	Lindorff Acquisition of Gextra, a small ticket player from doValue	Bain Capital Acquisition of 100% of HARIT, servicing platform specialized in secured loans	Varde Acquisition of 33% of Guber	Cerved + BHW Bausparkasse Long-term industrial partnership extension for the management of a portfolio of loans of 1.5 €bn originated by the Italian branch of BHV Bausparkassen AG	Davidson Kempner Acquisition of 44.9% of Prelios and launch of a mandatory tender offer	Cerved + Quaestio Acquisition of the credit servicing platform (a.k.a. “Juliet”) of MPS
	Cerved Acquisition of a NPL platform of Banca Popolare di Bari	Intrum / Lindorff Acquisition of 100% of CAF	Credito Fondiario Acquisition of NPL servicing platform of Carige				
2018	Lindorff / Intrum Acquisition of 100% of PwC Mass Credit Collection (MCC) department	Arrow Acquisition of 100% of Parr Credit and Europa Investimenti	IBL Banca + Europa Factor Joint venture for the creation of the new Servicer Credit Factor (106 vehicle)	Anacap + Pimco Acquisition of a majority stake in Phoenix Asset Management	Intesa + Lindorff / Intrum Joint venture for the NPL platform of Intesa Sanpaolo	Kruk Acquisition of 51% of Agecredit	Banca IFIS Acquisition of 90% of FBS
	Cerberus Acquisition of 57% of Officine CST	Cerved + Studio legale La Scala Joint venture for the creation of a specialized NPL law firm	Hoist Finance Acquisition of 100% of Maran	Link Financial Group Acquisition of Generale Gestione Crediti and his controlled company Se.Tel. Servizi	iQera (a BC Partners company) Acquisition of 80% of Serfin		
2019	Credito Fondiario + Banco BPM Creation of a Joint venture for the management and disposals of Banco BPM NPLs	iQera (a BC Partners company) Acquisition of Sistemia	IBL Banca Acquisition of 9.9% of Frontis NPL	doValue + Aurora RE Launch of a multi-originator platform to manage UTP portfolios secured by real estate			
2020	Cerved Credit Management Acquisition of 100% of Quaestio Cerved Credit Management						

Source: Mergermarket, companies annual reports and websites

Table 11: Overview of main servicers (data at 31/12/2019) – Ranking by Total Special Servicing AuM[1]

		Special Servicing				
Company	**Bank of Italy Surveillance**	**Total AuM[1] (€bn)**	**o/w Bad Loans AuM (€bn)**	**o/w Other NPLs AuM[2] (€bn)**	**Performing AuM (€bn)**	**Master Servicing AuM[3] (€bn)**
doValue	115/106	77.8	75.9	1.8	0.9	56.2
Cerved Credit Management	106/115	44.0	41.8	2.2	7.3	11.8
Intrum	115	36.6	36.6	-	-	-
Prelios Credit Servicing	106	28.7	25.0	3.8	0.0	25.9
IFIS Npl Servicing	Bank	24.1	24.0	0.1	-	1.9
AMCO	106	23.3	13.1	10.2	-	-
Credito Fondiario	Bank	17.5	16.9	0.7	0.1	47.3
Sistemia (iQera)	115	13.9	13.1	0.8	-	-
Hoist Finance	115	12.6	9.0	3.5	0.3	-
Crif	115	12.5	3.7	8.8	6.9	-
Fire	115	10.1	5.6	4.5	10.3	-
Phoenix Asset Management	115	8.8	8.8	0.1	-	-
Neprix (illimity Bank)	115/Bank	8.0[5]	n.a.	n.a.	n.a.	-
Guber	Bank	7.6	7.6	-	-	1.4
MB Credit Solutions	106	7.0	7.0	-	-	-
AZ Holding & La Scala	115	6.4	5.8	0.6	-	-
J-Invest	106/115	5.5	5.5	-	-	-
Advancing Trade	106/115	5.0	5.0	-	1.2	-
CNF (Gruppo Frascino)	115	3.5	3.1	0.4	-	-
Duepuntozero	115	3.5	3.5	-	-	-
WhiteStar Asset Solutions (Arrow Group)	115	3.4	2.9	0.5	0.6	-
Aquileia Capital Services	106/115	3.4	3.0	0.4	0.0	1.7
Frontis NPL	115	3.2[6]	2.3	0.9	-	-
Finint Revalue	115	3.1	2.6	0.6	-	-
Europa Factor	106/115	3.1	3.1	0.0	0.6	-
Link Financial	115	2.9	2.6	0.4	0.0	-
Covisian Credit Management	115	2.6	2.1	0.5	-	-
Aurora RE	115	2.5	0.3	2.2	-	-
Blue Factor	106	2.1	2.1	-	-	-
Securitization Services	106	1.9	1.0	0.9	3.1	58.7
Link Asset Services	115	1.8	1.2	0.6	-	-
SiCollection	115	1.7	1.7	-	-	-
Officine CST	115	1.4	0.9	0.5	0.6	-
Fides	115	1.4	0.7	0.7	0.6	-
Axactor	106/115	1.3	1.2	0.0	0.1	-
Bayview Italia	115	1.0	1.0	-	-	-
Ge.Ri	115	0.8	0.1	0.7	0.1	-
Euro Service	115	0.8	0.8	-	-	-
WIBITA	115	0.7	0.7	-	0.1	-
Serfin (iQera)	115	0.3	0.2	0.1	0.4	-
Certa Credita	115	0.2	0.1	0.1	0.1	-
Zenith Service (Arrow Group)	106	-	-	-	-	32.9
Centotrenta Servicing	106	-	-	-	-	20.9

Source: PwC analysis on data provided by Servicers as of 31/12/2019; data have been directly provided by Servicers and have not been verified by PwC. Servicers present highly heterogeneous organizational, industrial and operating structures. Comparing the information presented above requires a correct analysis and understanding of the competitive landscape and servicers business model

1. Includes both owned and third parties portfolios
2. Includes Unlikely to Pay + Past Due more than 90 days
3. Please consider that Master and Special servicing portfolios are in most cases overlapped
4. Revenue data not available in some cases due to COVID-19 delays in companies approval of financials
5. Neprix AuM includes the gross nominal value of NPL purchased and the value of property & capital goods managed by IT Auction
6. AuM data at 30/09/2019

Note: Double counting may arise when adding NPL AuM as some servicers outsource part of their portfolios to others due to capacity and/or specialization issues

Company	Revenues[4] (€m)	Ebitda (€m)	Main Activities			
			Debt servicing & collection	Debt purchasing	Master servicing	Rating
doValue	363.8	127.8	✓		✓	✓
Cerved Credit Management	187.3	71.7	✓		✓	✓
Intrum	n.a.	n.a.	✓			✓
Prelios Credit Servicing	79.0	34.9	✓		✓	✓
IFIS Npl Servicing	378.0	248.7	✓	✓	✓	✓
AMCO	91.7	48.2	✓	✓		✓
Credito Fondiario	97.7	60.2	✓	✓	✓	✓
Sistemia (iQera)	29.7	10.3	✓			✓
Hoist Finance	22.4	n.a.	✓	✓		✓
Crif	25.8	n.a.	✓			✓
Fire	50.1	4.6	✓	✓		✓
Phoenix Asset Management	7.8	4.2	✓			
Neprix (illimity Bank)	n.a.	n.a.	✓	✓		✓
Guber	64.9	39.1	✓	✓	✓	✓
MB Credit Solutions	82.4	29.6	✓	✓		
AZ Holding & La Scala	14.5	n.a.	✓			
J-Invest	11.0	3.2	✓	✓		
Advancing Trade	36.1	9.0	✓	✓		
CNF (Gruppo Frascino)	17.1	4.1	✓			✓
Duepuntozero	2.9	1.6	✓			
WhiteStar Asset Solutions (Arrow Group)	n.a.	n.a.	✓			
Aquileia Capital Services	n.a.	n.a.	✓	✓		
Frontis NPL	12.6	7.8	✓			
Finint Revalue	8.5	0.1	✓			
Europa Factor	21.9	3.1	✓	✓		
Link Financial	3.8	n.a.	✓			
Covisian Credit Management	10.2	1.5	✓			
Aurora RE	7.7	2.4	✓			
Blue Factor	3.9	0.9	✓	✓		
Securitization Services	26.6	14.7	✓		✓	✓
Link Asset Services	n.a.	n.a.	✓			✓
SiCollection	5.8	n.a.	✓			
Officine CST	23.5	10.7	✓	✓		
Fides	16.1	1.9	✓			
Axactor	25.1	n.a.	✓	✓		
Bayview Italia	n.a.	n.a.	✓			
Ge.Ri	21.1	0.7	✓	✓		
Euro Service	15.3	0.4	✓	✓		
WIBITA	3.1	1.1	✓			
Serfin (iQera)	13.2	1.8	✓			
Certa Credita	2.5	0.3	✓	✓	✓	✓
Zenith Service (Arrow Group)	n.a.	n.a.	✓		✓	✓
Centotrenta Servicing	10.6	3.5			✓	✓

Table 12: Breakdown of servicer' Total Special Servicing Bad Loans AuM1 (data at 31/12/2019) – Ranking by Total Special Servicing AuM[1]

		Special Servicing							
Company	**Total AuM[1] (€bn)**	**Total Bad Loans AuM[1] (€bn)**	**Average Ticket (€k)**	**Secured**	**Unsecured**	**Owned**	**Banks**	**Investors**	**Others**
doValue	77.8	75.9	140	33%	67%	-	15%	85%	-
Cerved Credit Management	44.0	41.8	53	52%	48%	-	38%	62%	-
Intrum	36.6	36.6	35	48%	52%	n.a.	n.a.	n.a.	n.a.
Prelios Credit Servicing	28.7	25.0	284	60%	40%	-	5%	95%	-
IFIS Npl Servicing	24.1	24.0	13	8%	92%	74%	2%	24%	-
AMCO	23.3	13.1	101	38%	62%	63%	-	-	37%
Credito Fondiario	17.5	16.9	109	58%	42%	24%	20%	56%	-
Sistemia (iQera)	13.9	13.1	35	66%	34%	-	72%	24%	4%
Hoist Finance	12.6	9.0	9	18%	82%	62%	32%	6%	-
Crif	12.5	3.7	24	52%	48%	-	82%	6%	12%
Fire	10.1	5.6	4	27%	73%	1%	82%	14%	3%
Phoenix Asset Management	8.8	8.8	303	42%	58%	-	-	100%	-
Neprix (illimity Bank)	8.0[2]	n.a.	n.a.	65%[3]	35%[3]	n.a.	n.a.	n.a.	n.a.
Guber	7.6	7.6	135	9%	91%	100%	-	-	-
MB Credit Solutions	7.0	7.0	3	3%	97%	76%	6%	12%	6%
AZ Holding & La Scala	6.4	5.8	8	20%	80%	16%	35%	38%	11%
J-Invest	5.5	5.5	734	-	100%	n.a.	n.a.	n.a.	n.a.
Advancing Trade	5.0	5.0	1	-	100%	51%	23%	4%	23%
CNF (Gruppo Frascino)	3.5	3.1	6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Duepuntozero	3.5	3.5	373	21%	79%	2%	-	98%	-
WhiteStar Asset Solutions (Arrow Group)	3.4	2.9	2	7%	93%	-	48%	-	52%
Aquileia Capital Services	3.4	3.0	322	91%	9%	11%	62%	14%	13%
Frontis NPL	3.2[4]	2.3	1,826	97%	3%	-	-	100%	-
Finint Revalue	3.1	2.6	15	87%	13%	-	12%	88%	-
Europa Factor	3.1	3.1	1	-	100%	41%	19%	13%	27%
Link Financial	2.9	2.6	5	-	100%	-	8%	88%	4%
Covisian Credit Management	2.6	2.1	3	1%	99%	-	16%	80%	4%
Aurora RE	2.5	0.3	28,092	94%	6%	-	56%	44%	-
Blue Factor	2.1	2.1	12	-	100%	22%	-	78%	-
Securitization Services	1.9	1.0	4,163	83%	17%	-	40%	60%	-
Link Asset Services	1.8	1.2	621	100%	-	-	-	100%	-
SiCollection	1.7	1.7	7	-	100%	-	35%	64%	1%
Officine CST	1.4	0.9	6	16%	84%	24%	13%	34%	29%
Fides	1.4	0.7	2	6%	94%	-	10%	8%	82%
Axactor	1.3	1.2	5	1%	99%	87%	7%	3%	3%
Bayview Italia	1.0	1.0	158	96%	4%	n.a.	n.a.	n.a.	n.a.
Ge.Ri	0.8	0.1	0	-	100%	n.a.	n.a.	n.a.	n.a.
Euro Service	0.8	0.8	1	-	100%	41%	-	59%	-
WIBITA	0.7	0.7	347	96%	4%	-	56%	30%	14%
Serfin (iQera)	0.3	0.2	0	-	100%	27%	10%	-	62%
Certa Credita	0.2	0.1	1	-	100%	-	76%	-	24%
Zenith Service (Arrow Group)	-	-	n.a.	22%	78%	n.a.	n.a.	n.a.	n.a.
Centotrenta Servicing	-	-	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Source: PwC analysis on data provided by Servicers as of 31/12/2019; data have been directly provided by Servicers and have not been verified by PwC. Servicers present highly heterogeneous organizational, industrial and operating structures. Comparing the information presented above requires a correct analysis and understanding of the competitive landscape and servicers business model

1. Includes both owned and third parties portfolios
2. The AuM of Neprix includes the gross nominal value of NPL purchased and the value of property & capital goods managed by IT Auction
3. The breakdown of the AuM between secured and unsecured loans refers to NBV
4. AuM data at 30/09/2019

Note: Double counting may arise when adding NPL AuM as some servicers outsource part of their portfolios to others due to capacity and/or specialization issues

Table 13: Geographical NPL breakdown (data at 31/12/2019) – Ranking by Total Special Servicing AuM[1]

		Special + Master Servicing			
Company	**Total AuM[1] (€bn)**	**Total Bad Loans AuM[1] (€bn)**	**North**	**Centre**	**South - Islands**
doValue	77.8	75.9	42%	28%	30%
Cerved Credit Management	44.0	41.8	34%	41%	25%
Intrum	36.6	36.6	n.a.	n.a.	n.a.
Prelios Credit Servicing	28.7	25.0	48%	22%	30%
IFIS Npl Servicing	24.1	24.0	34%	28%	38%
AMCO	23.3	13.1	64%	21%	15%
Credito Fondiario	17.5	16.9	65%	21%	14%
Sistemia (iQera)	13.9	13.1	46%	31%	23%
Hoist Finance	12.6	9.0	45%	25%	30%
Crif	12.5	3.7	42%	25%	33%
Fire	10.1	5.6	31%	20%	49%
Phoenix Asset Management	8.8	8.8	n.a.	n.a.	n.a.
Neprix (illimity Bank)	8.0[5]	n.a.	n.a.	n.a.	n.a.
Guber	7.6	7.6	44%	38%	18%
MB Credit Solutions	7.0	7.0	38%	23%	39%
AZ Holding & La Scala	6.4	5.8	32%	25%	43%
J-Invest	5.5	5.5	70%	18%	12%
Advancing Trade	5.0	5.0	37%	18%	45%
CNF (Gruppo Frascino)	3.5	3.1	28%	26%	46%
Duepuntozero	3.5	3.5	16%	23%	61%
WhiteStar Asset Solutions (Arrow Group)	3.4	2.9	36%	22%	42%
Aquileia Capital Services	3.4	3.0	90%	9%	1%
Frontis NPL	3.2[6]	2.3	65%	26%	9%
Finint Revalue	3.1	2.6	45%	35%	20%
Europa Factor	3.1	3.1	30%	23%	47%
Link Financial	2.9	2.6	30%	33%	37%
Covisian Credit Management	2.6	2.1	38%	26%	36%
Aurora RE	2.5	0.3	35%	53%	12%
Blue Factor	2.1	2.1	27%	21%	52%
Securitization Services	1.9	1.0	42%	37%	21%
Link Asset Services	1.8	1.2	37%	52%	11%
SiCollection	1.7	1.7	43%	15%	42%
Officine CST	1.4	0.9	28%	17%	55%
Fides	1.4	0.7	16%	14%	70%
Axactor	1.3	1.2	43%	17%	40%
Bayview Italia	1.0	1.0	56%	25%	19%
Ge.Ri	0.8	0.1	29%	30%	41%
Euro Service	0.8	0.8	33%	24%	44%
WIBITA	0.7	0.7	34%	22%	44%
Serfin (iQera)	0.3	0.2	35%	40%	25%
Certa Credita	0.2	0.1	35%	24%	41%
Zenith Service (Arrow Group)	-	-	54%	26%	20%
Centotrenta Servicing	-	-	45%	29%	26%

Source: PwC analysis on data provided by Servicers as of 31/12/2019; data have been directly provided by Servicers and have not been verified by PwC; Servicers present highly heterogeneous organizational, industrial and operating structures. Comparing the information presented above requires a correct analysis and understanding of the competitive landscape and servicers business model

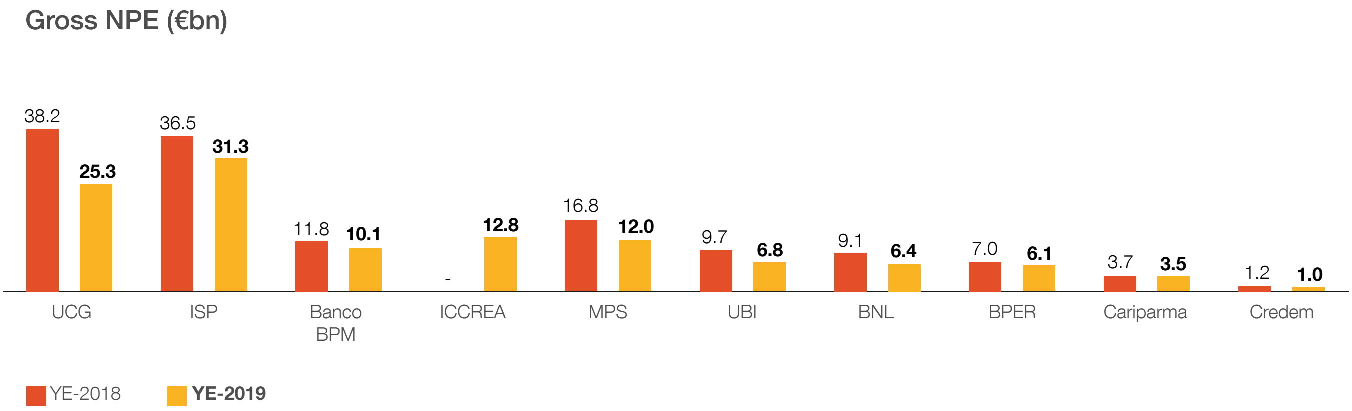
1. Includes both owned and third parties portfolios
2. Includes: Piemonte, Valle d'Aosta, Lombardia, Veneto, Trentino Alto Adige, Friuli Venezia Giulia, Liguria, Emilia Romagna
3. Includes: Toscana, Umbria, Marche, Lazio
4. Includes: Abruzzo, Molise, Campania, Puglia, Basilicata, Calabria, Sicilia, Sardegna
5. The breakdown of the AuM between secured and unsecured loans refers to NBV
6. AuM data at 30/09/2019

Table 14: Breakdown of servicer' Total Bad Loans AuM[1] (data at 31/12/2019) – Ranking by Total Special Servicing AuM[1]

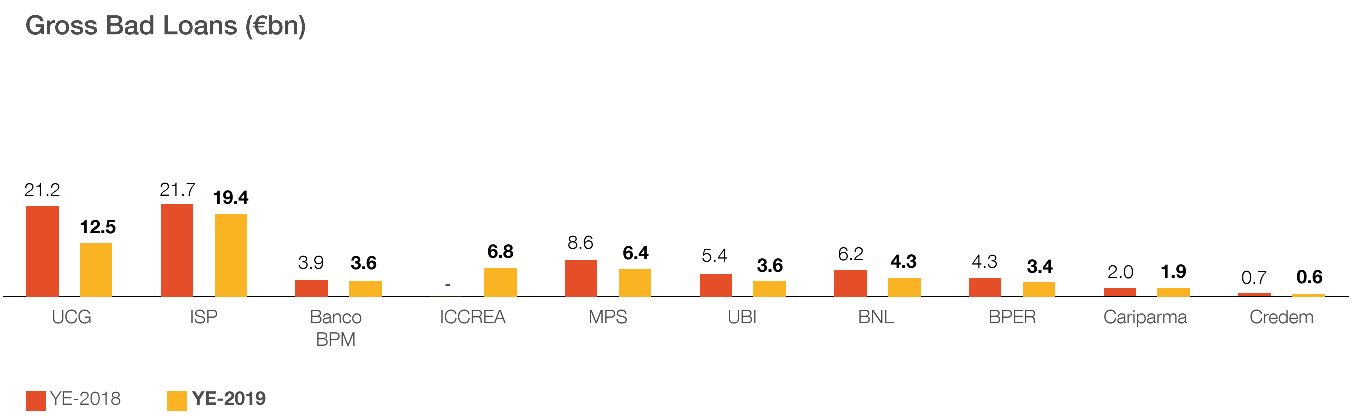
	Special + Master Servicing					
	Secured			Unsecured		
Company	**Judicial**	**Extrajudicial**	**Loan Sale**	**Judicial**	**Extrajudicial**	**Loan Sale**
doValue	6%	90%	4%	8%	83%	9%
Cerved Credit Management	4%	45%	51%	2%	66%	32%
Intrum	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Prelios Credit Servicing	65%	24%	11%	33%	37%	30%
IFIS Npl Servicing	21%	69%	10%	11%	87%	2%
AMCO	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Credito Fondiario	14%	41%	44%	31%	42%	26%
Sistemia (iQera)	70%	30%	-	50%	50%	-
Hoist Finance	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Crif	44%	46%	10%	16%	84%	-
Fire	63%	37%	-	17%	83%	-
Phoenix Asset Management	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Neprix (illimity Bank)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Guber	19%	81%	-	7%	93%	-
MB Credit Solutions	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
AZ Holding & La Scala	24%	76%	-	39%	91%	-
J-Invest	-	-	-	64%	34%	2%
Advancing Trade	-	-	-	19%	81%	-
CNF (Gruppo Frascino)	36%	21%	43%	27%	48%	25%
Duepuntozero	97%	3%	-	69%	21%	10%
WhiteStar Asset Solutions (Arrow Group)	13%	87%	-	-	100%	-
Aquileia Capital Services	23%	70%	7%	42%	58%	-
Frontis NPL	47%	40%	13%	18%	12%	70%
Finint Revalue	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Europa Factor	29%	71%	-	-	81%	19%
Link Financial	85%	15%	-	6%	94%	-
Covisian Credit Management	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Aurora RE	-	100%	-	-	-	-
Blue Factor	-	-	-	45%	55%	-
Securitization Services	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Link Asset Services	34%	66%	-	-	-	-
SiCollection	100%	-	-	27%	73%	-
Officine CST	28%	70%	2%	34%	65%	1%
Fides	-	100%	-	-	100%	-
Axactor	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Bayview Italia	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Ge.Ri	-	-	-	10%	90%	-
Euro Service	-	-	-	7%	59%	34%
WIBITA	87%	13%	-	63%	37%	-
Serfin (iQera)	-	-	-	-	100%	-
Certa Credita	-	-	-	-	100%	-
Zenith Service (Arrow Group)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Centotrenta Servicing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Appendix
Top 10 banks peer analysis

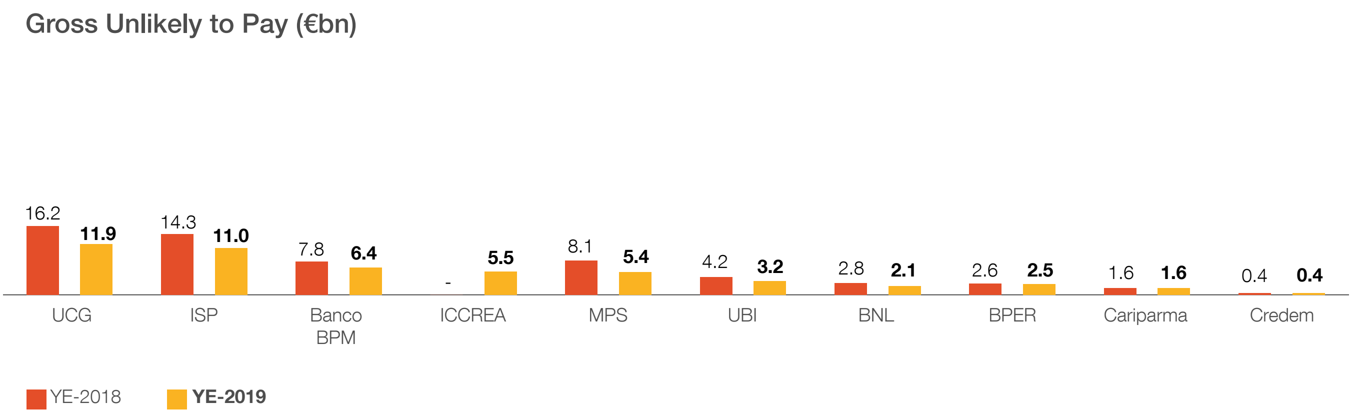
Gross NPE (€bn)



Gross Bad Loans (€bn)

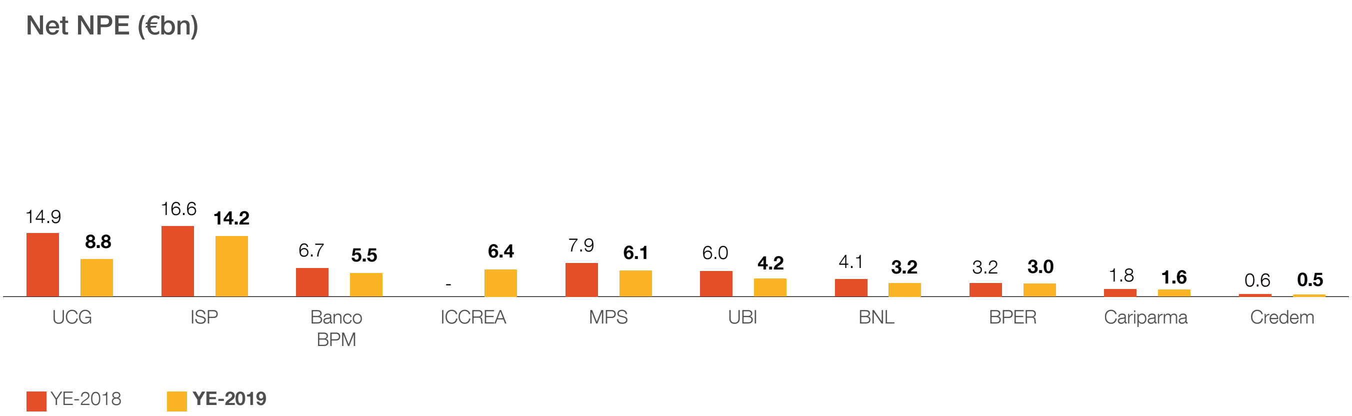


Gross Unlikely to Pay (€bn)

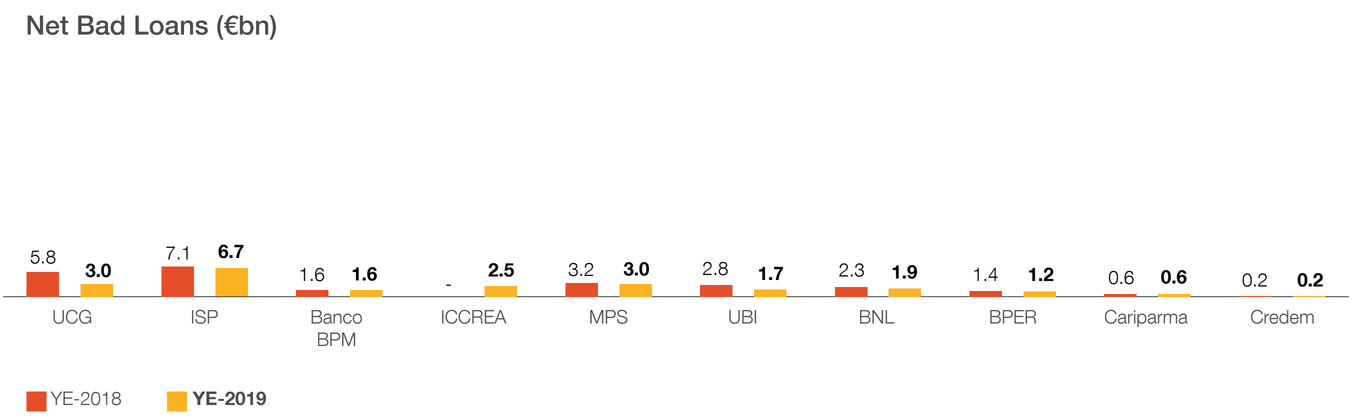


Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies.
Note: data of Iccrea as of H1-2019

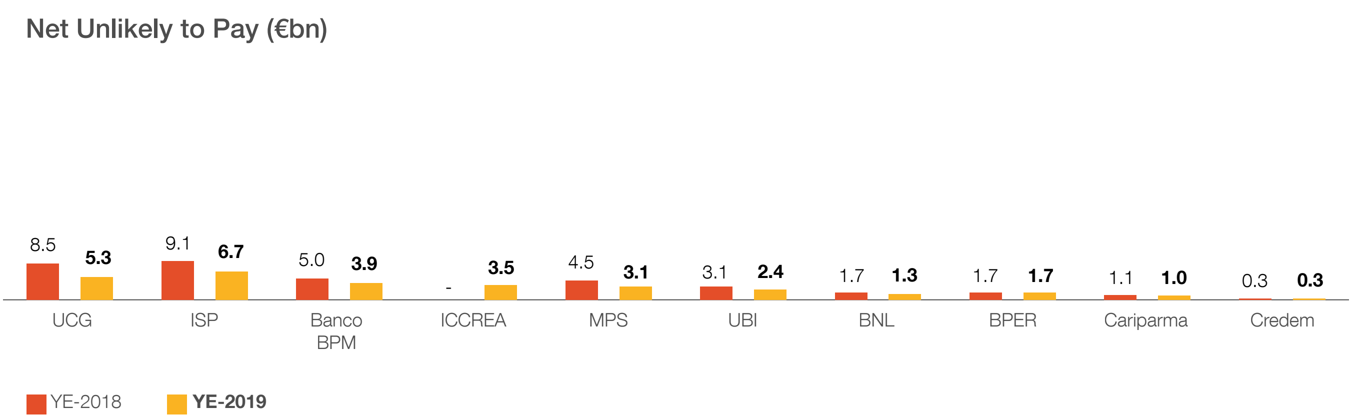
Net NPE (€bn)



Net Bad Loans (€bn)

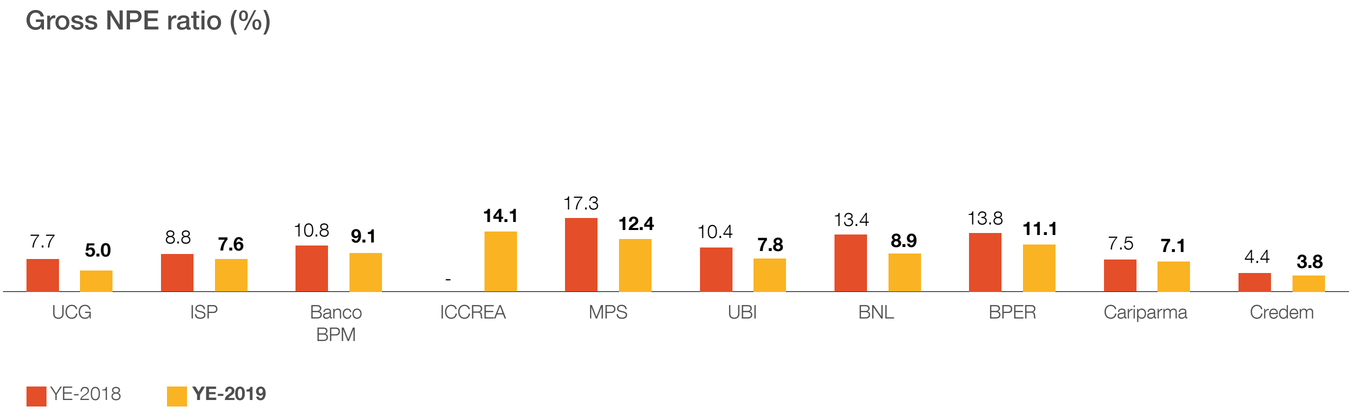


Net Unlikely to Pay (€bn)

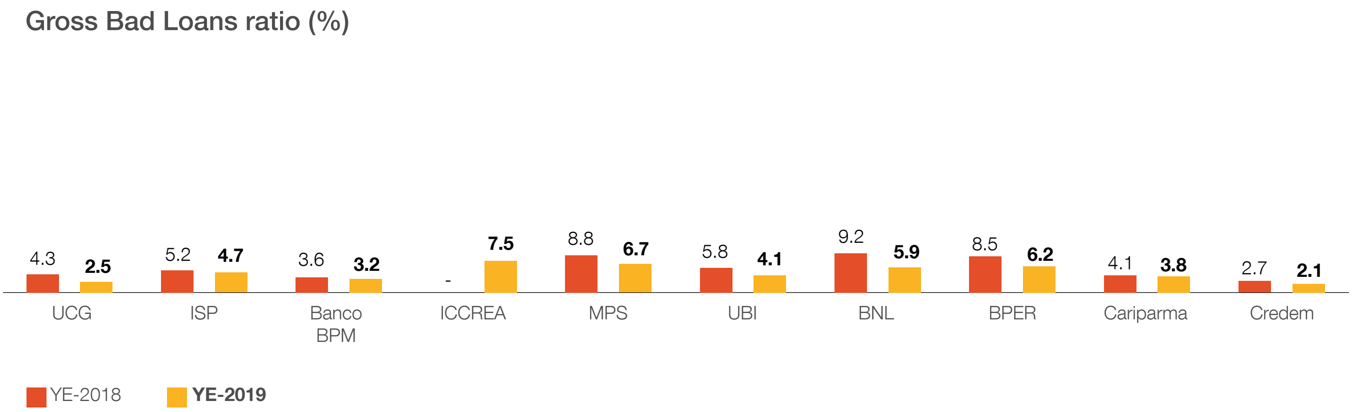


Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies.
Note: data of Iccrea as of H1-2019

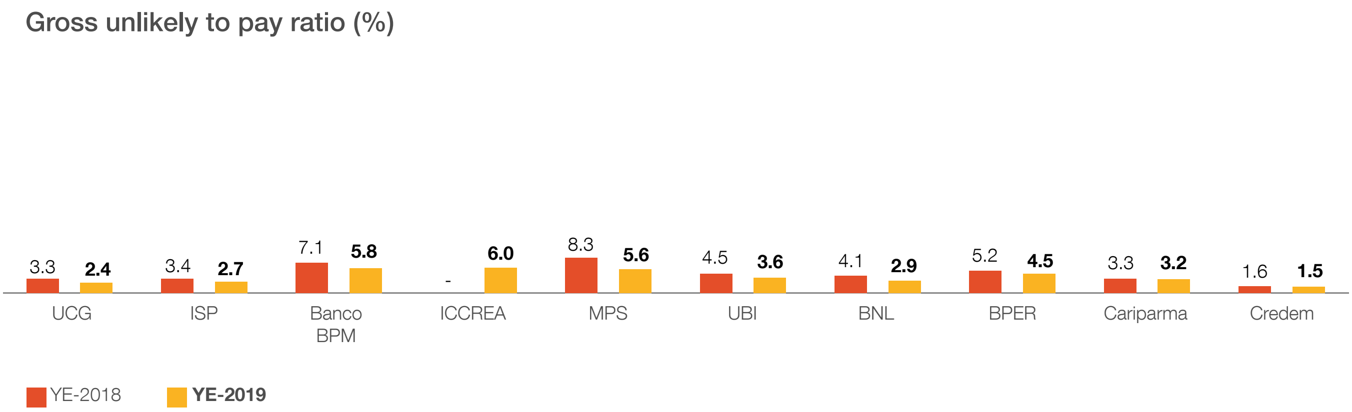
Gross NPE ratio (%)



Gross Bad Loans ratio (%)

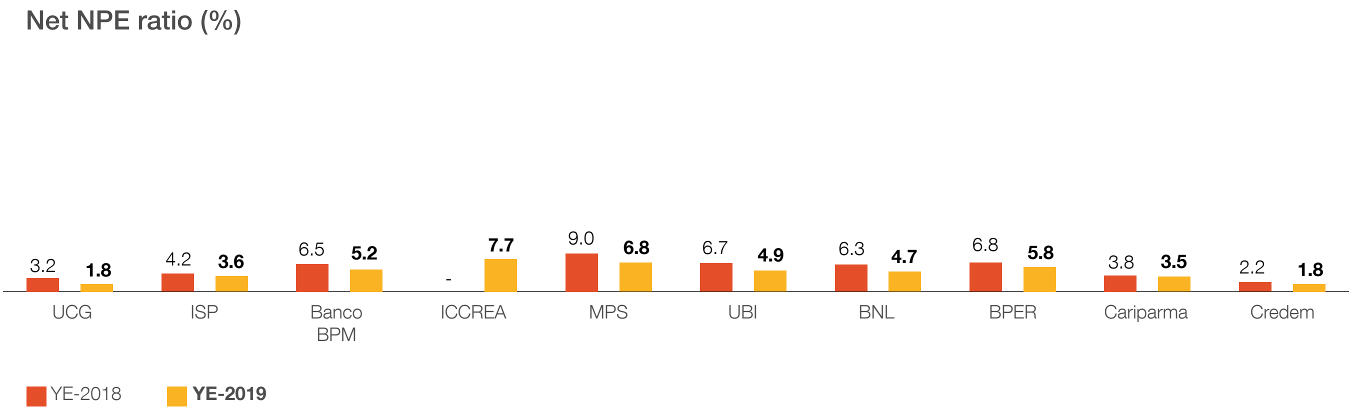


Gross Unlikely to Pay ratio (%)

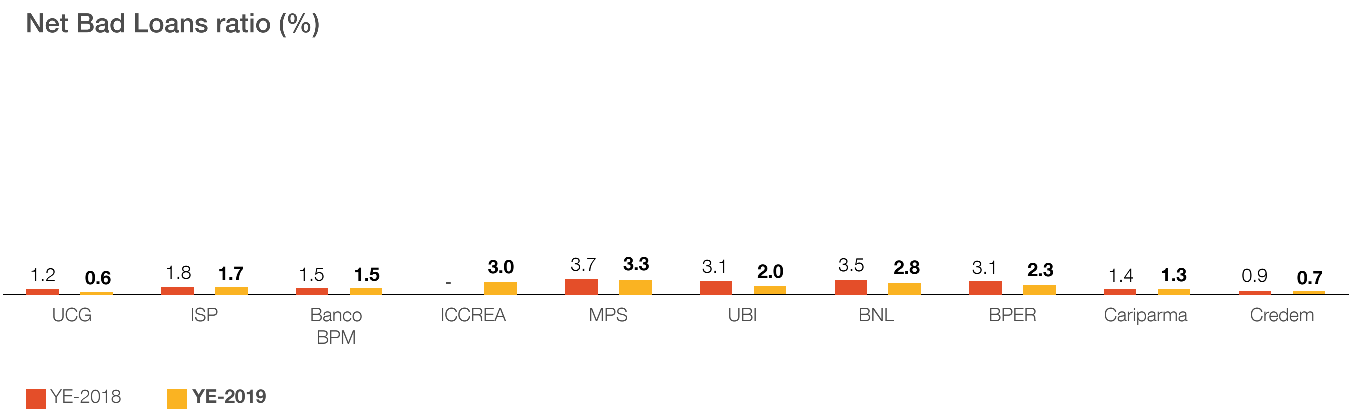


Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies.
Note: data of Iccrea as of H1-2019

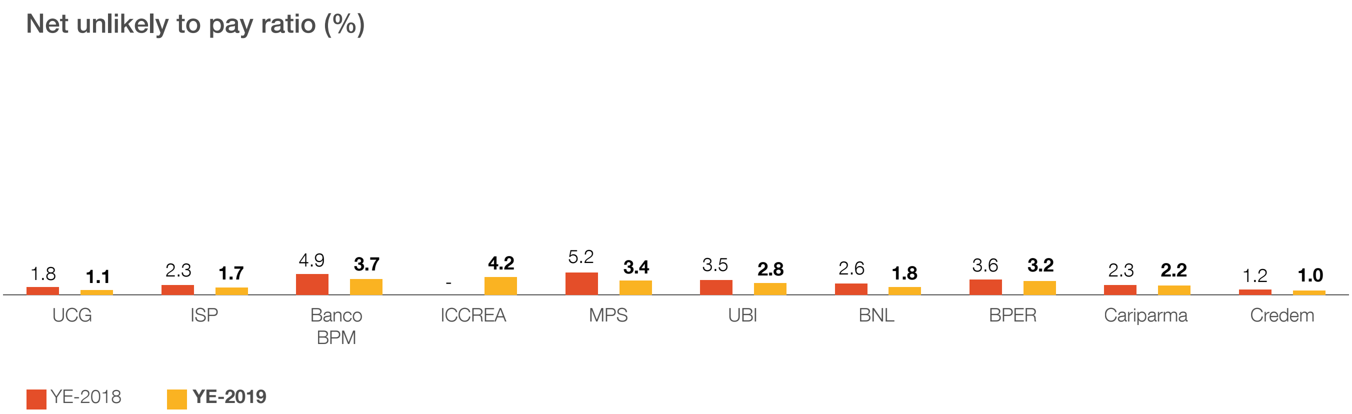
Net NPE ratio (%)



Net Bad Loans ratio (%)

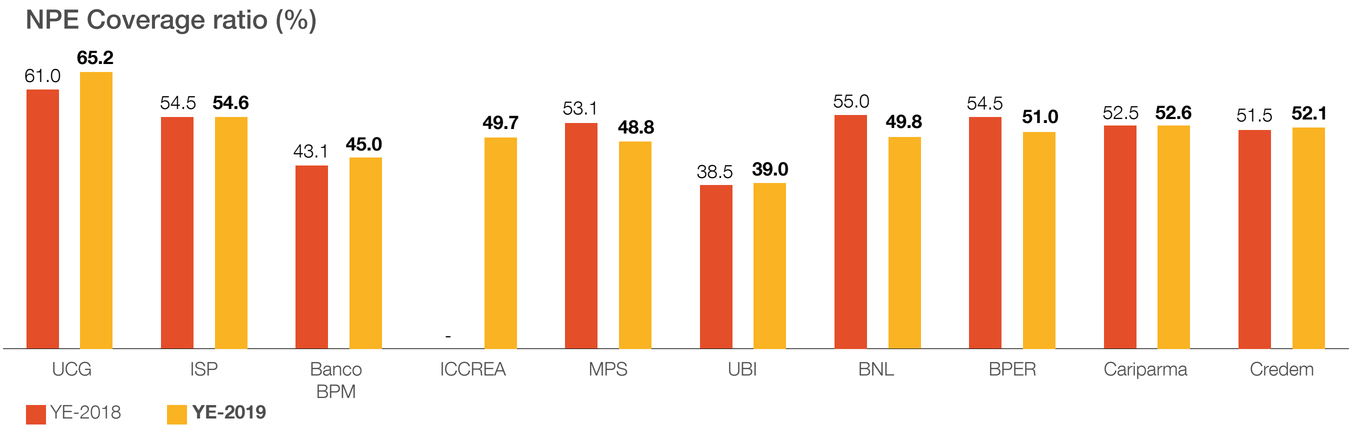


Net Unlikely to Pay ratio (%)

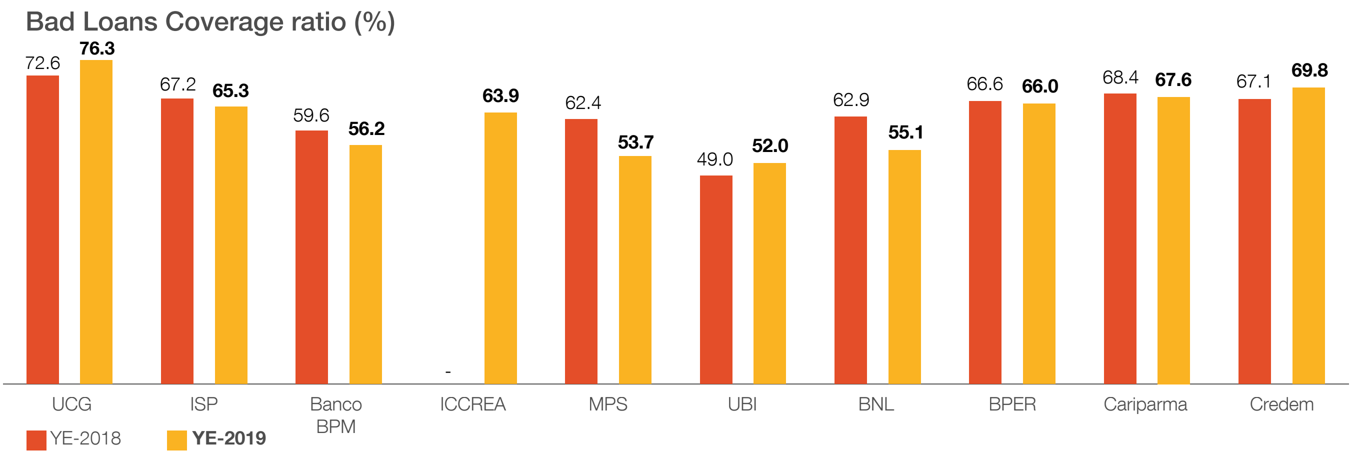


Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies.
Note: data of Iccrea as of H1-2019

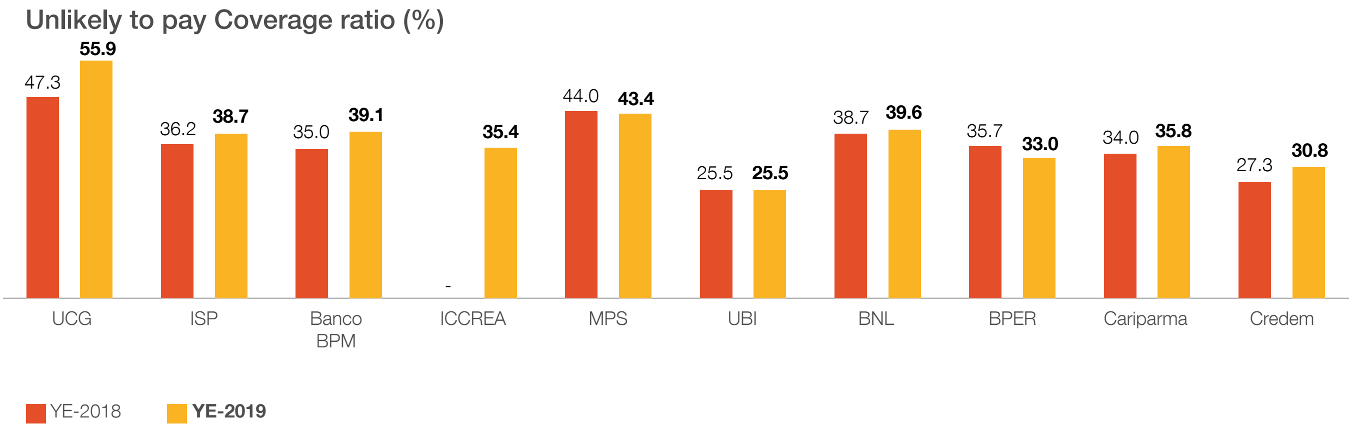
NPE Coverage ratio (%)



Bad Loans Coverage ratio (%)



Unlikely to Pay Coverage ratio (%)



Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies.
Note: data of Iccrea as of H1-2019

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