

THE ITALIAN SCENARIO

SPECIAL EDITION

NPL MEETING



MARKETWATCH
NPL

SEPTEMBER
2017



Italian macroeconomic scenario

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- **Signs of economic recovery confirmed in the first half 2017:** the GDP is showing a clear positive trend, which began in early 2013. According to the latest ISTAT calculation, the value is confirmed to grow 1,5% vs Q2'16
- **Corporate risk improvement:** bankruptcies are declining steadily since 2015 and for the first time aligning to 2011 level
- **Households are increasing their purchasing power:** the trends of disposable income and real estate transactions confirm the increase

Italian NPL scenario

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- **First positive turnaround in NPE trend:** due to relevant disposal and to more accurate management
- **The NPL market size could benefit by recent bank writedowns and relevant UtP amount**
- The historical trend of balance between new bad loan positions and closed ones indicates a decreasing value, probably thanks to higher NPL portfolio selling

NPL Transactions on the Italian market

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- **NPL Transactions are expected to grow exponentially reaching the massive amount of 104 Bn€ in 2017**
- Increasing volumes on secured category vs decreasing volumes of Consumer and Unsecured portfolio disposal
- Among Top 10 investors only Anacap, Kruk and partially Banca IFIS highlight diversified investments; other buyers seem to be focused on a single portfolio type
- **Market prices are changing because the market is becoming wider and more efficient**

Focus on the NPL pipeline

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- **70,6 Bn€ are expected to be released on the market in 2017;** 32,2 Bn€ are next to closing
- Pipeline shows mixed deals will lead the market with an average price of 21% even excluding the MPS deal
- **Estimated of market value of the 2017 pipeline is around 14,4 Bn€**

Servicing market

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- **Acquisition of specialized servicing platforms is a key requirement for operating in the NPL market**
- Servicers acquired by international investors are focused on both secured and unsecured specializations

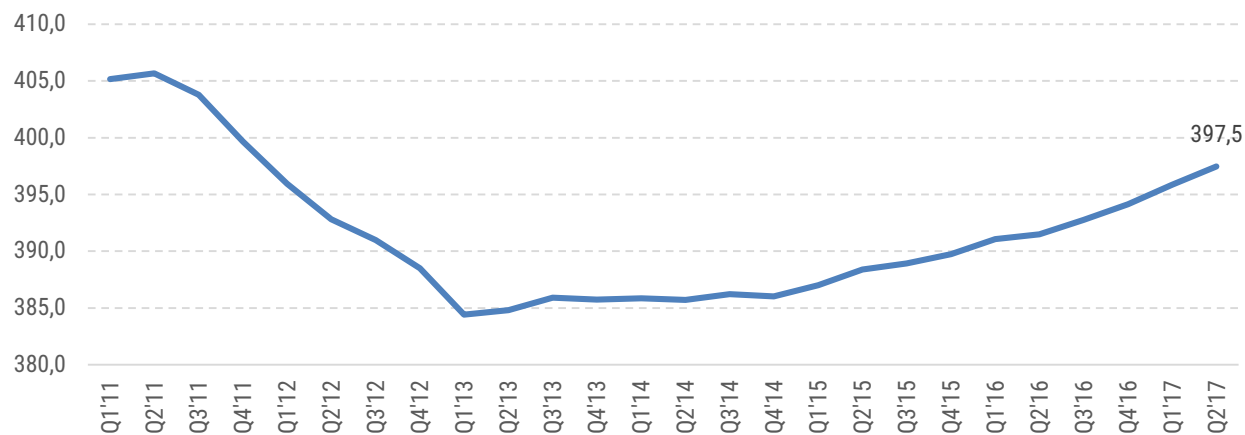
ITALIAN MACROECONOMIC SCENARIO



Signs of economic recovery confirmed in H1 2017.



GDP - Bn€

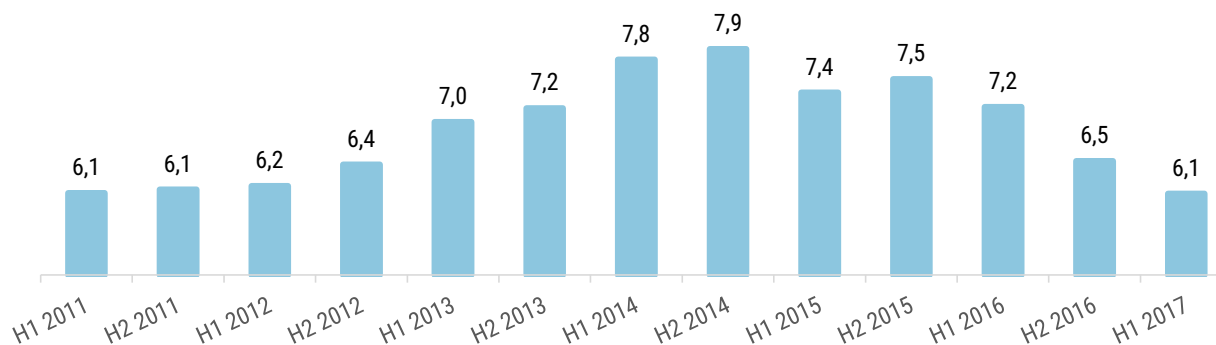


+ 1,5%
vs Q2'16

HIGHLIGHTS

- The GDP is showing a clear positive trend began in early 2013. According to the latest ISTAT calculation, the value is growing by 1,5% vs Q2'16

Bankruptcies - K units

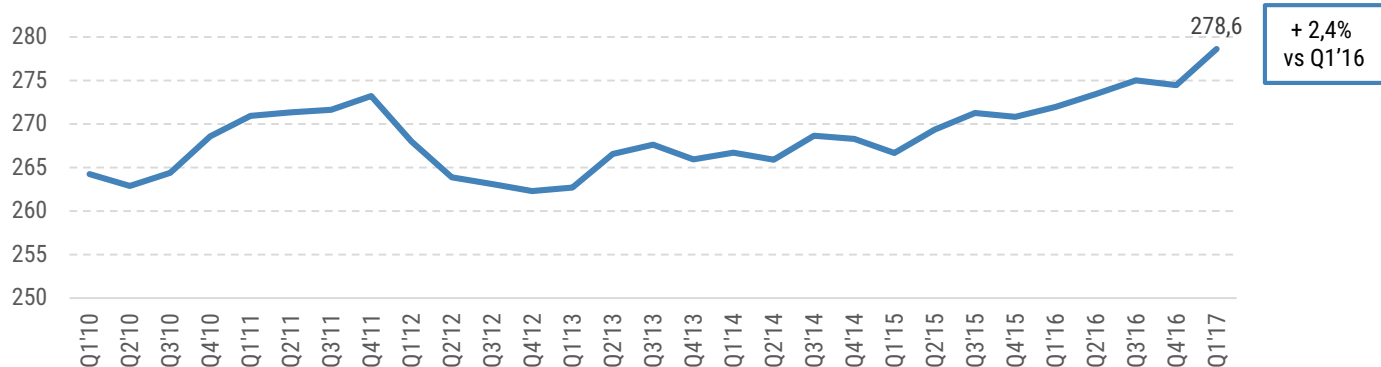


- 15,7%
vs H1'16

- Bankruptcies have been declining steadily since 2015; in H1 2017, the value is around 15,7% less than H1 2016



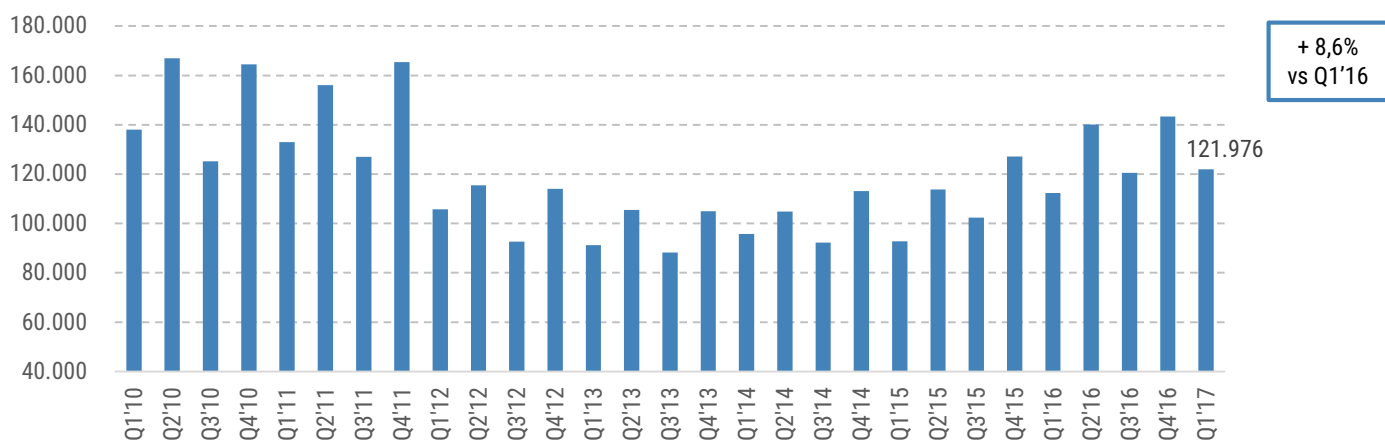
Household disposable income - Bn€



HIGHLIGHTS

- Households are increasing their purchasing power, counting on higher disposable income

Residential Real Estate - NTN (number of real estate standardized units exchanged)*



- The real estate market is continuing the positive trend highlighting the highest Q1 starting from 2012 and an increase of approximately 9%

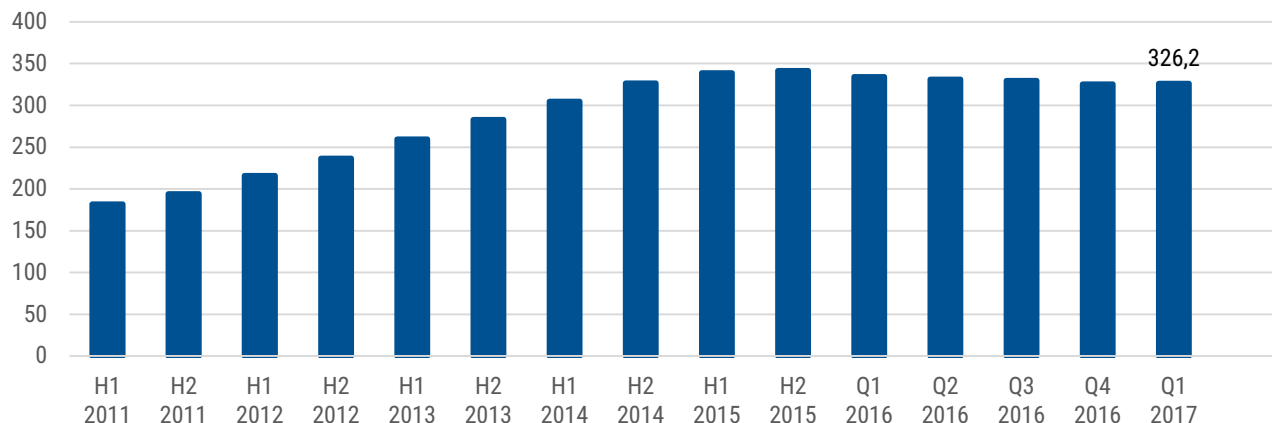
ITALIAN NPL SCENARIO



First positive turnaround in NPE trend: due to relevant disposal and to more accurate management.



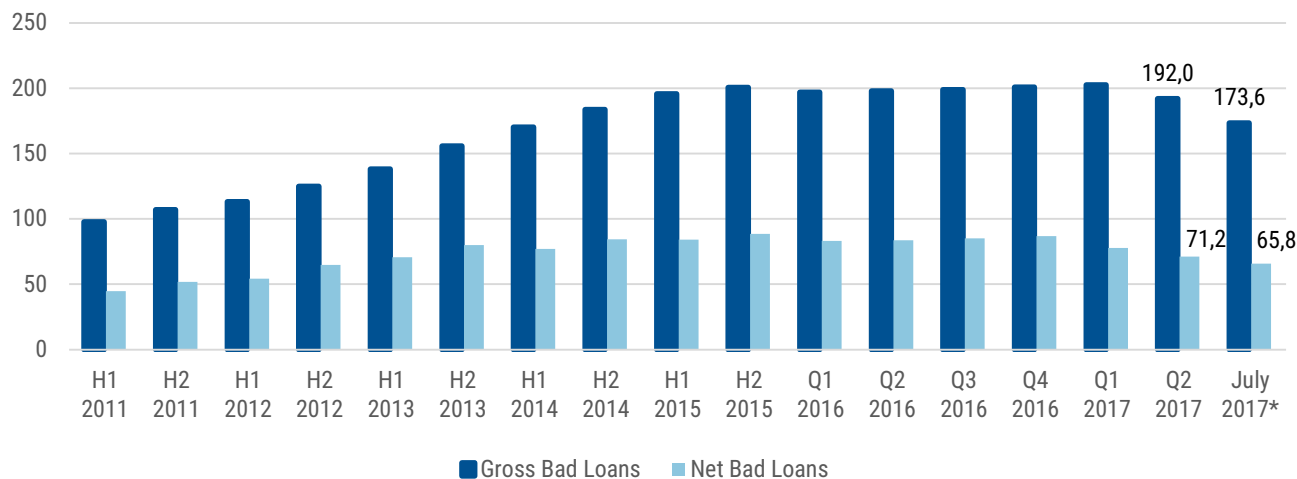
Bank and CDP NPE Total - Bn€



HIGHLIGHTS

- From 2016 we see the first positive turnaround in the total NPE

Bank and CDP Bad Loans - Bn€

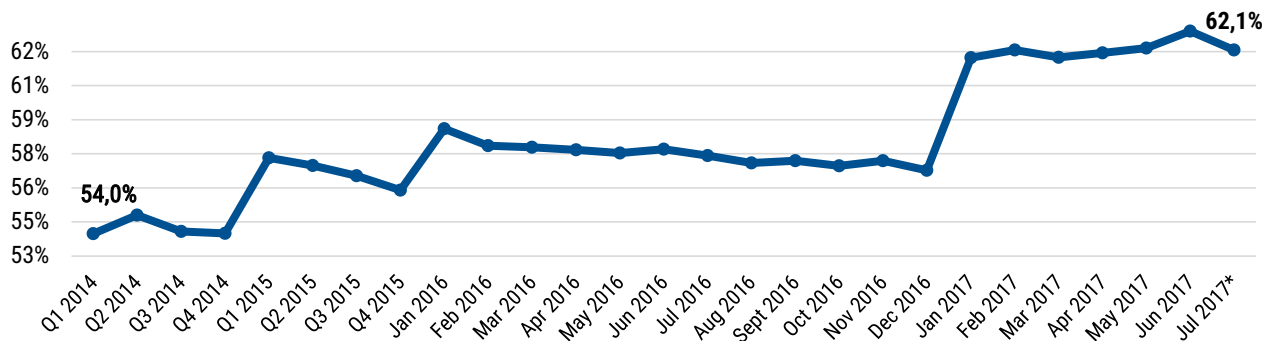


- In Q2 and July 2017 show a relevant decrease in gross and net bad loans
- The net bad loans are now at the same level of 2012 but the gross bad loans are 39% higher

The growth of NPL transactions will receive a boost from large writedowns and from the potential new amount of bad loans coming from the “unlikely to pay” category.



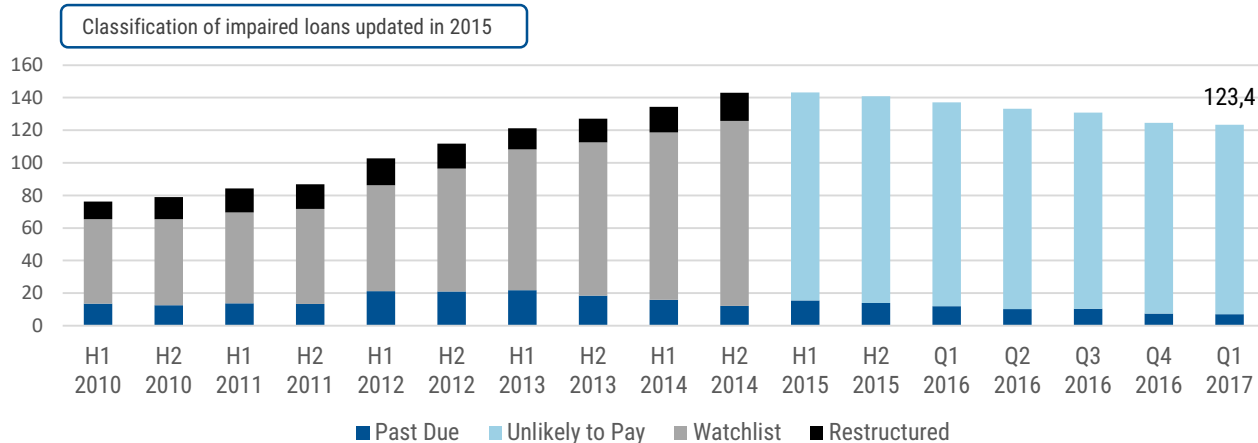
Bad Loans Coverage - Percentages



HIGHLIGHTS

- The coverage index reaches a new peak after the upsurge observed in January
- The larger writedowns in early 2017 will potentially foster the future development of NPL transactions because of the narrower demand-supply gap

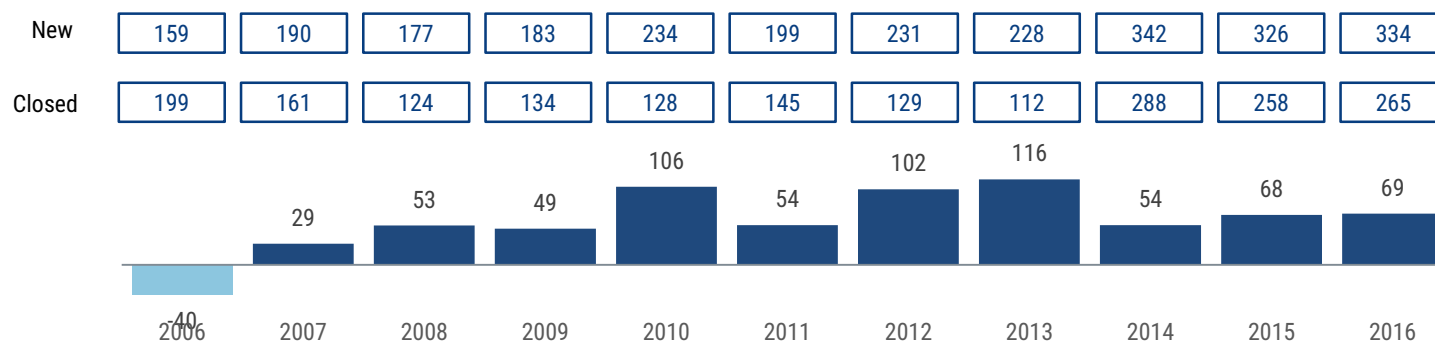
Classification of impaired loans - Bn€



- Although the trend is decreasing, there is **still a relevant amount** of non performing exposures **that could turn into Bad Loans in the next months**

In the crisis period, new bad loans are ever higher than ones closed; recovery rates are strictly connected to bad loans age and to debtor type.

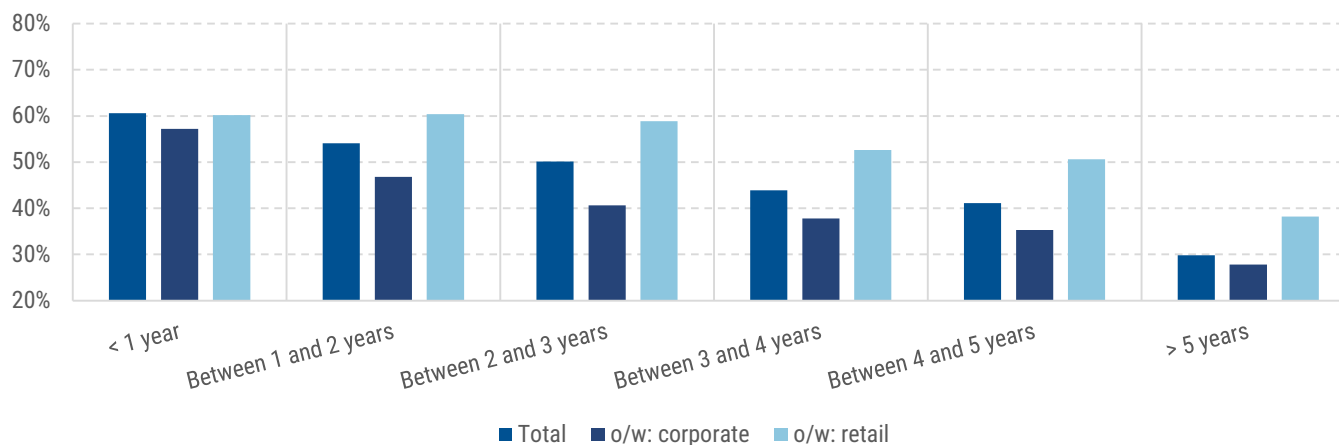
Bank Bad Loans - Net balance between New and Closed positions – K Positions

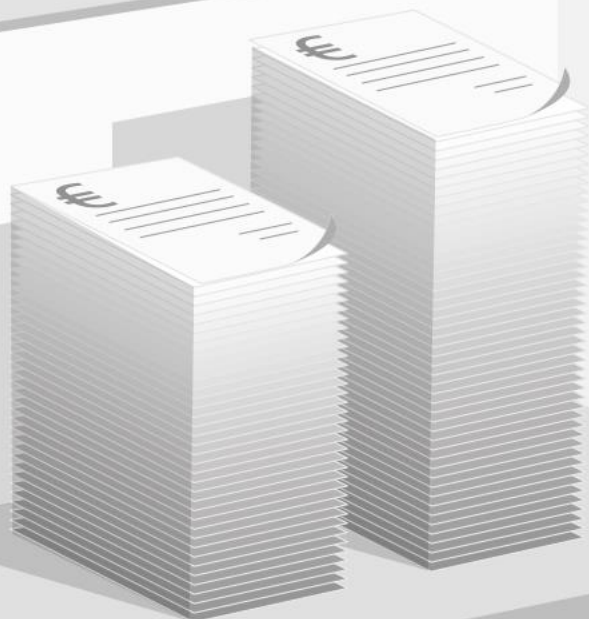


HIGHLIGHTS

- Over the years the number of closed positions has always been smaller than new bad loans, showing no improvement in the banks' recovery ability against the increase in credit portfolio risk
- The "disposal capacity", indeed, stayed stable, showing a sharp increase since 2014, probably due to the higher disposal on the market
- To decrease the difference between new and closed positions banks have to manage their impaired loans from the start and enhance internally their NPE recovery know-how
- The age of Bad Loans is a key factor for recovery success: the older the bad loans, the smaller the recovery rate
- Retail bad loans show above the average rates (even if old positions)

Recovery rates by age of the bad loans - Percentages





NPL TRANSACTIONS ON THE ITALIAN MARKET

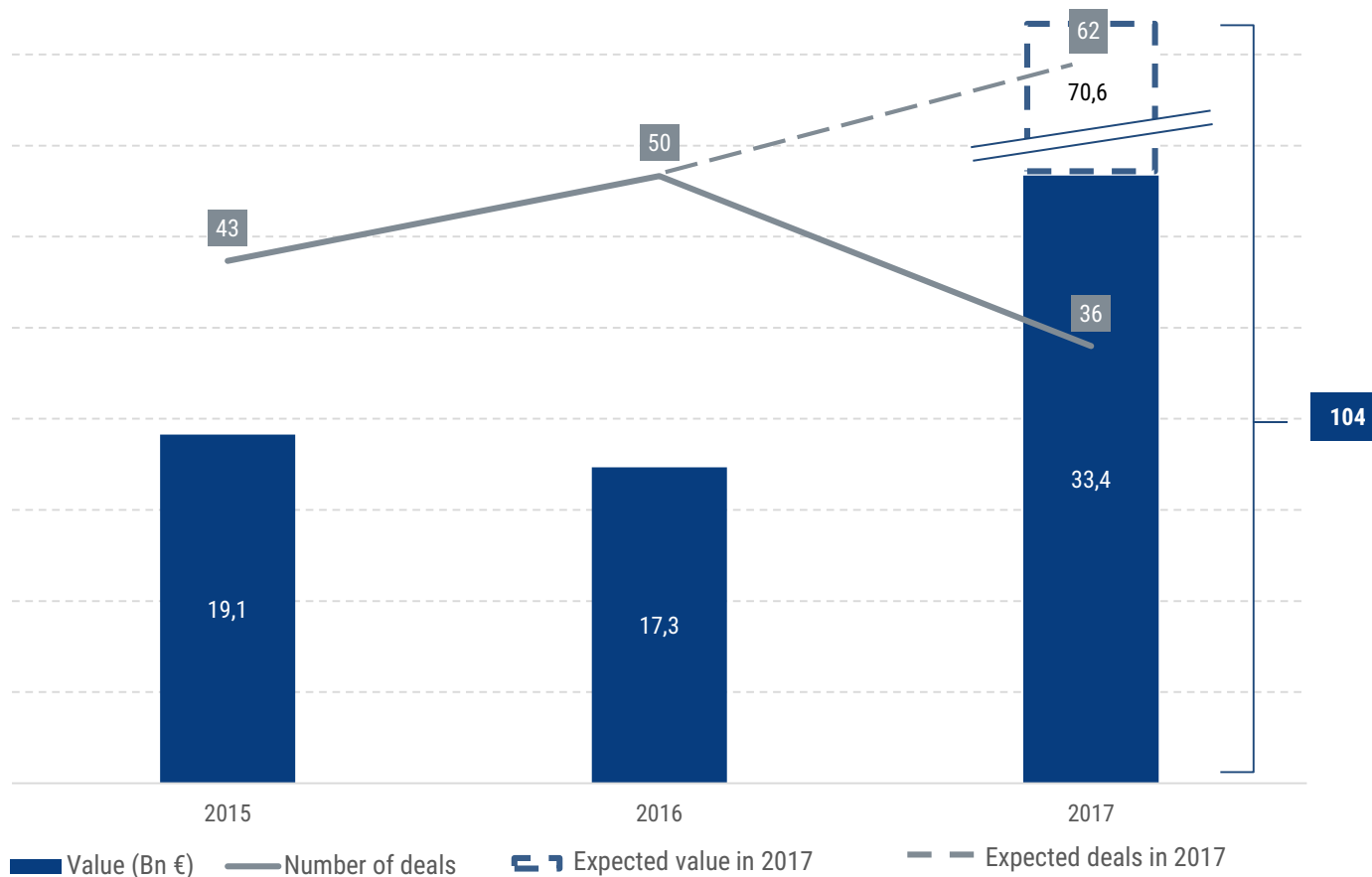
NPL Transactions are expected to grow exponentially reaching the massive amount of 104 Bn€.



NPL Transactions - Bn€ and units

HIGHLIGHTS

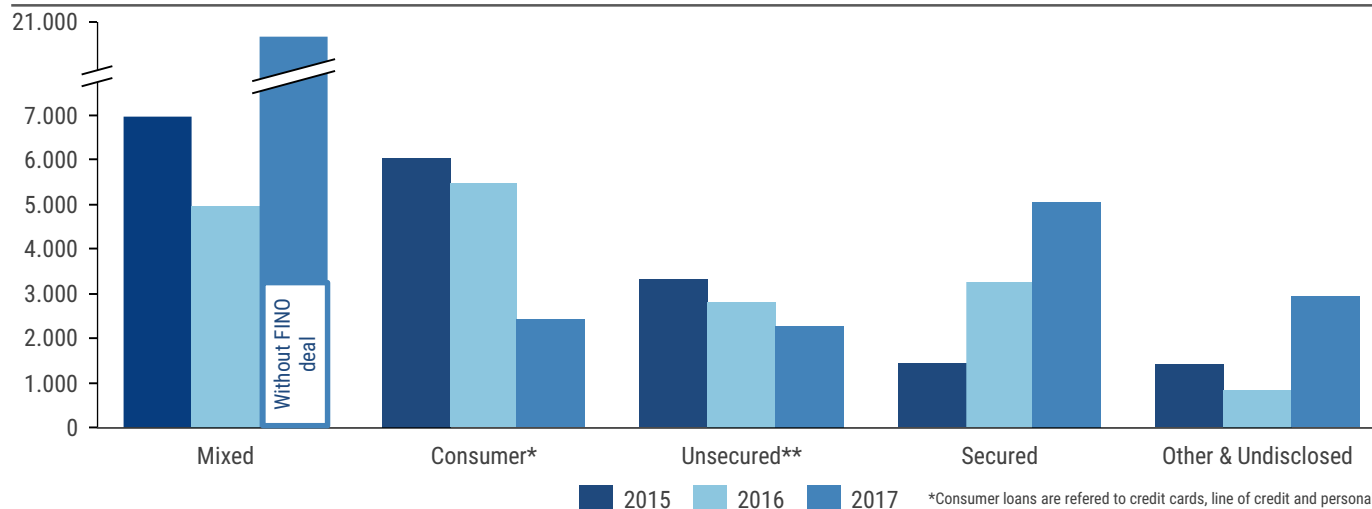
- In Q2 2017 strong growth of the market with volumes 3x vs Q1 2017
- In addition Q3 shows the large Unicredit FINO Project deal* (17,7 Bn€)
- Considering expected deals in the pipeline the 2017 market size could reach 104 Bn€



Increasing volumes on secured category: international buyers seem to prefer specialized investments.



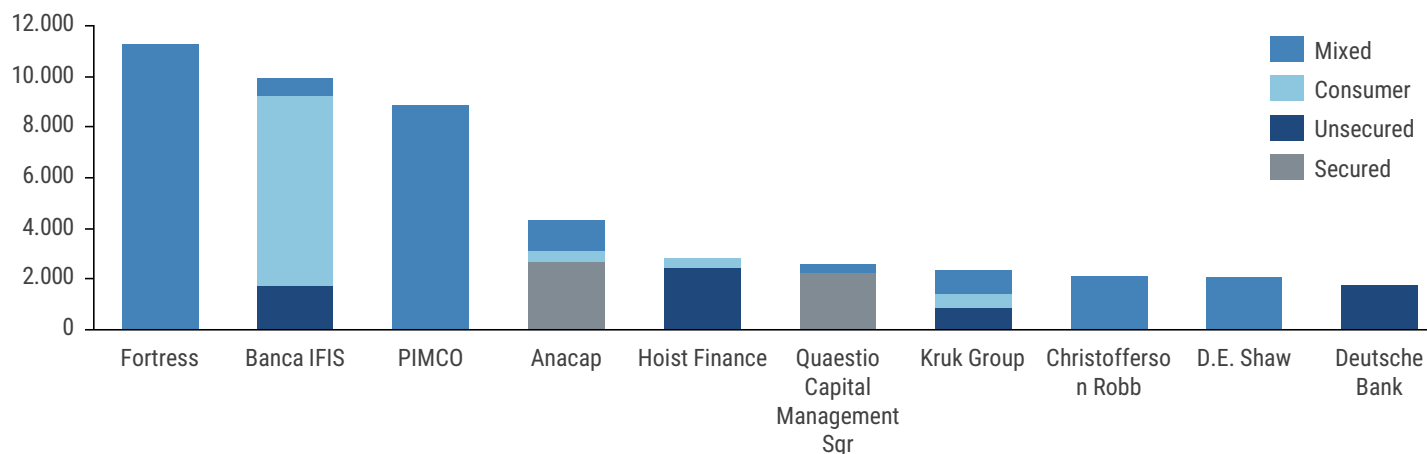
NPL Transactions - Bn€ and units



HIGHLIGHTS

- Excluding the outlier mixed portfolio, the 3-Yr trend shows increasing volumes for Secured category and decreasing amount for Consumer and Unsecured transactions

Transactions on the Italian market - Focus buyer Top 10

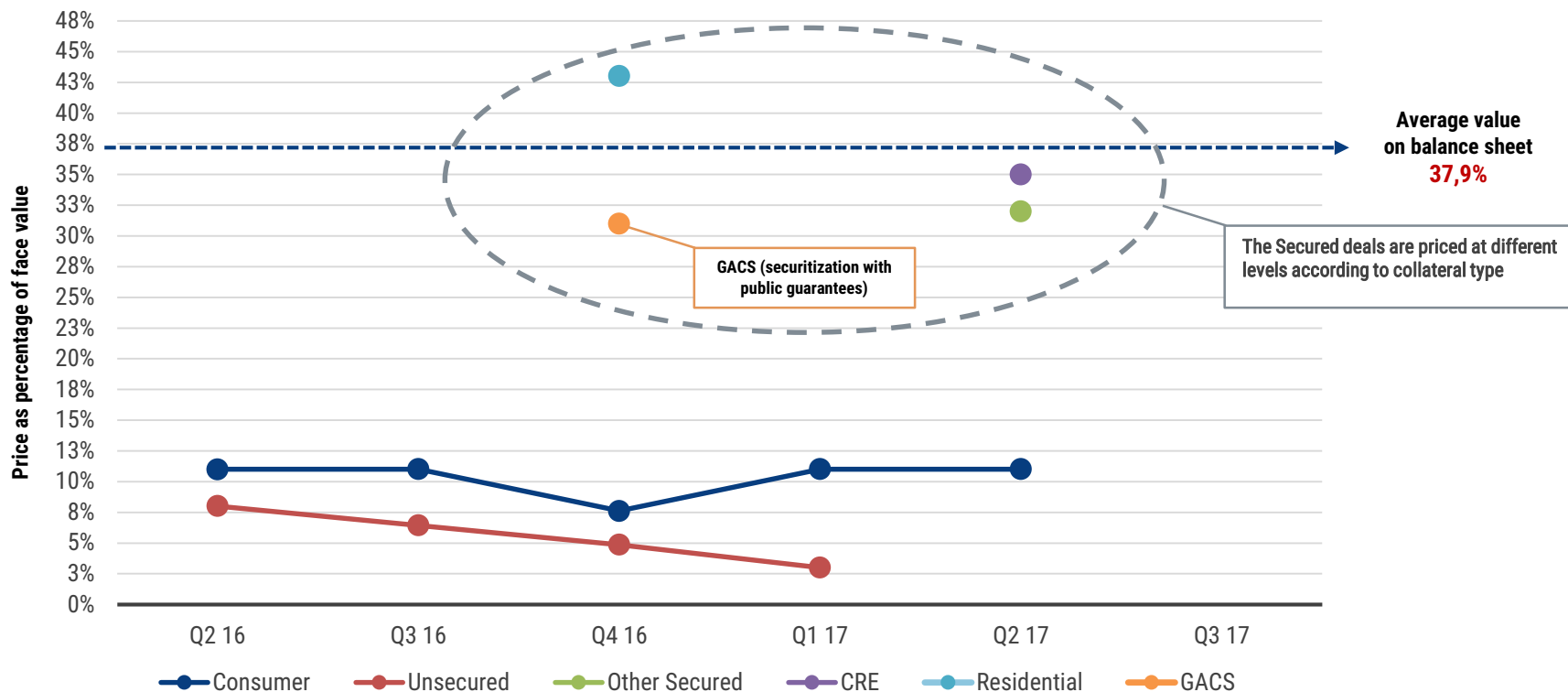


- Among Top 10 investors only Anacap, Kruk and partially Banca IFIS highlight diversified investments; other buyers seem to be focused on a single portfolio type

Market prices are changing as a result of the market becoming wider and more efficient.



Weighted average prices on nominal value



HIGHLIGHTS

- The price levels of consumer portfolios (around 11%) are experiencing a different trend: the higher demand and the improved quality of the assets are pushing the prices up
- On the opposite, Unsecured category shows a decreasing price

FOCUS ON THE NPL PIPELINE



70,6 Bn€ are expected to be released on the market in 2017;
32,2 Bn€ are next to closing.



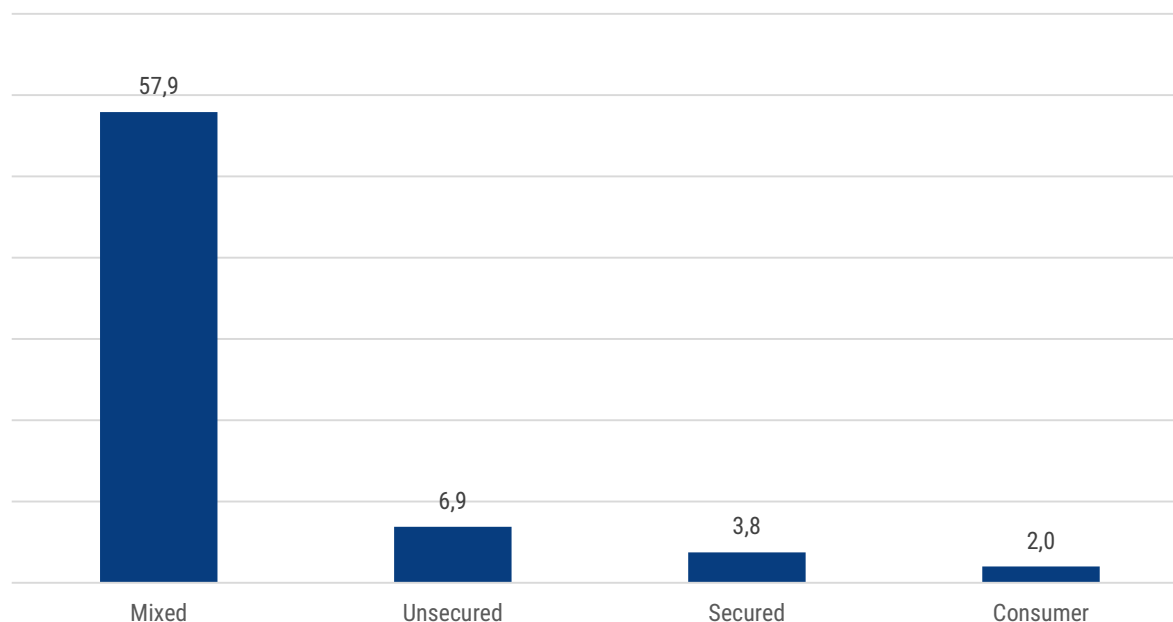
Pipeline - Bn€

Seller	Ongoing	Announced	On plan	Grand total
Monte dei Paschi di Siena	26,0	2,5	-	28,5
REV Gestione Crediti	-	1,0	9,0	10,0
Banca Popolare di Vicenza	-	5,2	-	5,2
Veneto Banca	-	5,0	-	5,0
Unipol	-	-	3,7	3,7
Unicredit	-	1,2	1,8	3,0
Caricesena; Carim; Carismi	2,8	-	-	2,8
Gruppo Delta	-	2,0	-	2,0
Banco BPM	-	2,0	-	2,0
Carige	-	1,4	-	1,4
Intesa Sanpaolo	-	1,4	-	1,4
Hypo Alpe Adria Bank	-	0,8	-	0,8
Cassa Centrale Banca	-	0,6	-	0,6
Iccrea Banca	-	0,5	-	0,5
Banca Popolare di Bari	-	0,3	-	0,3
Confidential	3,4	-	-	3,4
Grand total	32,2	23,9	14,5	70,6

70,6 Bn€ of pipeline deals can be valued at around 14,4 Bn€ of market value.



Pipeline deal categories – Bn€



HIGHLIGHTS

- Mixed deals are about to explode in 2017, due to the MPS deal closing expected in December
- The price of the MPS deal will be higher than previous deals in the same category and the buyer will be Atlante
- Unsecured deals show a price of 10%, higher than the trend and probably biased from the small sample analyzed

Estimated avg price %

21,0%

10,0%

35,0%

11,0%

Estimated Market value Bn€

12,2

0,7

1,3

0,2

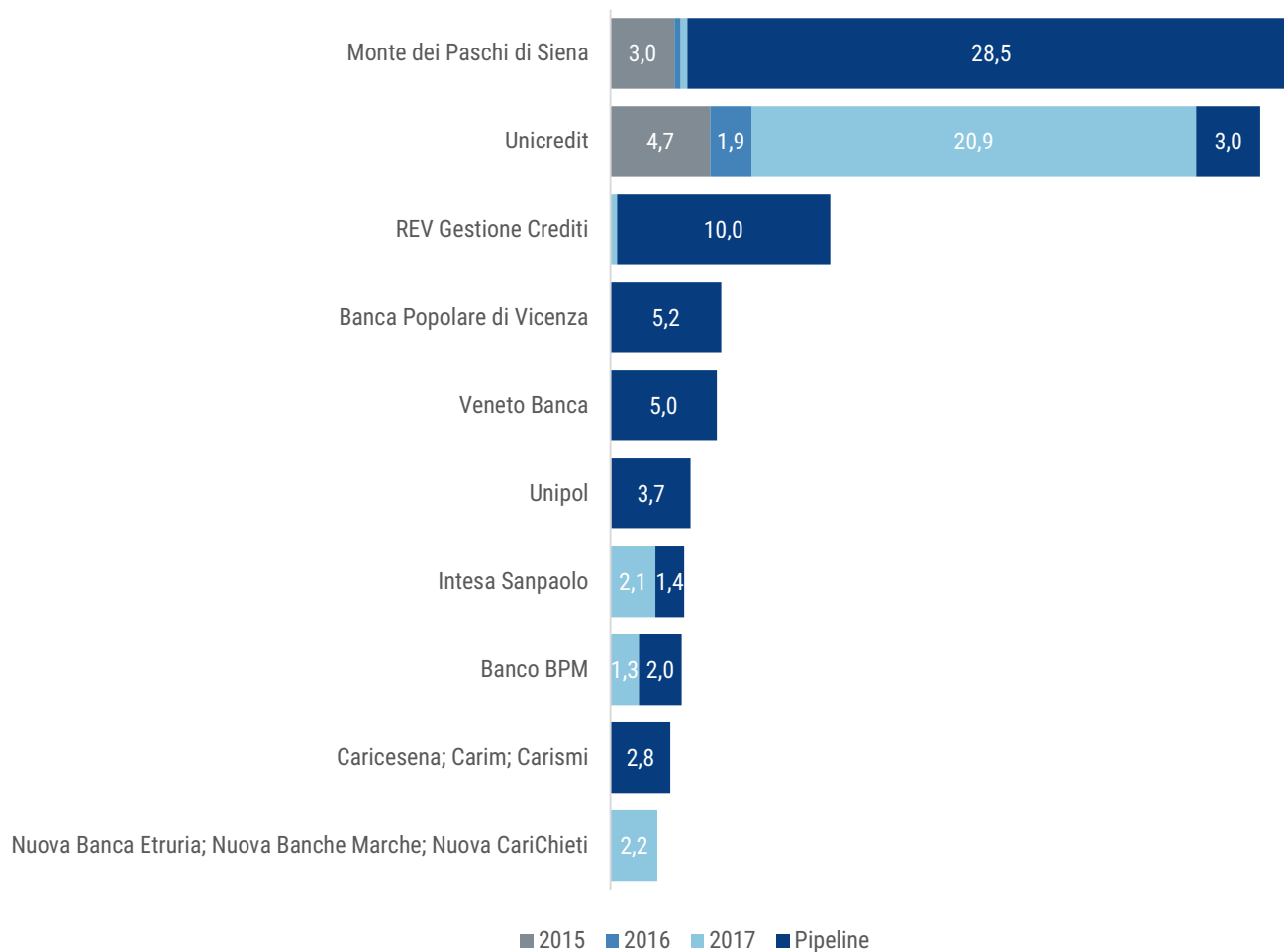
Estimated market value of 2017 pipeline is around 14,4 Bn€

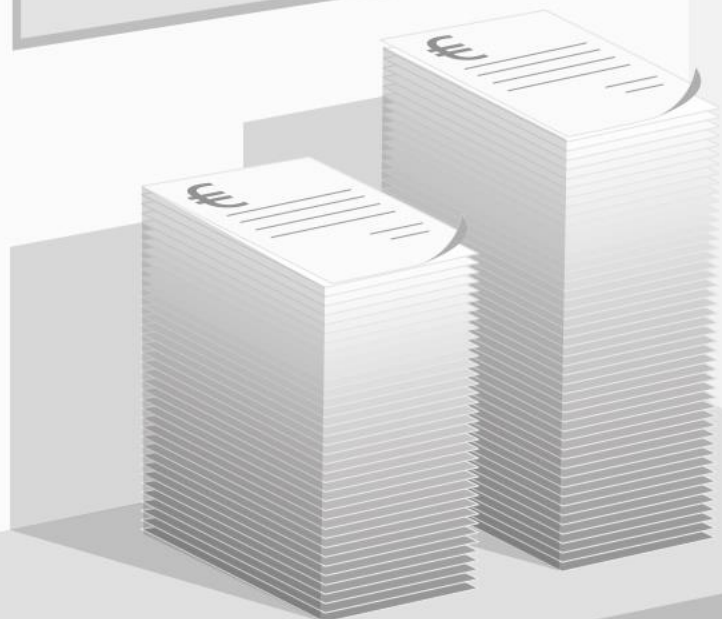


Top Sellers NPL transaction – Bn€

HIGHLIGHTS

- Big banks are dominating the portfolio offer





SERVICING MARKET

The acquisition of specialized servicing platforms is a key requirement for operating in the NPL market.



	2015	2016	2017
# M&A Servicer	3	7	5
AuM Bn€	~16	~20	~19

19



Servicers acquired by international investors are focused on both secured and unsecured assets.



Servicer name	Specialization	M&A Activity		
		Buyer	Years	Shareholder Type
CAF	Unsecured/Secured/Corporate	Lone Star	2015	Investor
Centaurus Credit Recovery	Secured/Retail/Corporate	Primus	2016	Investor
Credit Base International	Unsecured/ Retail	Kruk Group	2016	Investor
Credito Fondiario - Fonspa	Secured/Corporate	Tages; Harvest Investments	2013	Investor
Cross Factor	Unsecured/ Retail	Lindorff	2016	Investor
CS Union	Unsecured/ Retail	Axactor	2016	Investor
Finanziaria San Giacomo	Unsecured/Secured/Retail/Corporate	Cerved	2015	Investor
Gextra	Unsecured/ Retail	Lindorff	2017	Investor
Guber	Unsecured/Secured/Corporate	Varde	2017	Investor
Heta Asset Resolution Italia*	Secured/Corporate	Bain Capital Credit	2017	Investor
Non Performing Loans Spa	Secured/Retail/Corporate	K.Red	2016	Investor
Prelios**	Secured/Corporate	Davidson Kempner	2017	Investor
Recus	Unsecured/ Retail	Cerved	2014	Investor
Sistemia	Unsecured/Secured/Retail	KKR	2017	Investor
SPC Credit Management	Unsecured/Secured/Retail/Corporate	Dea Capital	2016	Investor
Tarida	Unsecured/ Retail	Cerved	2013	Investor
Trc	Unsecured/ Retail	Hoist Finance	2014	Investor
UCCMB	Secured/Corporate	Fortress	2015	Investor
Zenith Service	Master Servicer	Arrow Global Group	2016	Investor

A series of large non-captive servicers is active in Italian NPL market.



Servicer Name*	Main Specialization	AuM (~Bn€)
doBank	Unsecured	77
Cerved Credit Management	Unsecured	12
FBS	Unsecured	8
CAF	Secured	8
Guber	Unsecured	7
Advancing Trade	Unsecured	4
MBCredit Solutions	Unsecured	4
Fire	Unsecured	3
Prelios	Secured	3
Officine CST	Secured/Unsecured	2
Cribis Credit Management	Secured	1
AZ Holding	Unsecured	1
Fides	Unsecured	1

General statement

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