The Italian NPL market
Ready for the breakthrough

December 2017
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Foreword & Content

The Italian banking sector in 2017 was definitively dynamic and featured the efforts of many banks to address decisively the NPL issues, mainly represented by the high volume of non performing exposures still on their books and the research for the right measures to properly manage the NPE life-cycle according to the desiderata of the Regulator.

The NPL market is at a breakthrough point even if volume is still huge, €300bn as at 30 June 2017 vs €324bn at the end of 2016 and the internal maneuvers of the Italian banks to address the ECB guidelines are still in progress. Pro forma figure as at 31 December 2017 is equal to €258bn (including the NPL disposal of Unicredit (€16.2bn - Project Fino) and Banca Popolare di Vicenza / Veneto Banca (€16.8bn) which were still accounted for in the exposures of the Italian banking system as at 30 June 2017.

The transactions in the market reached record figures in 2017. NPL disposals have overcome €60bn in 2017. Some ailing banks were rescued massively contributing to their NPL deleverage (Banca Popolare di Vicenza and Veneto Banca acquired by Intesa Sanpaolo, the three regional banks Carismi, Carim and CariCesena acquired by Crédit Agricole Cariparma).

The acquisition of the servicing platform UCCMB by Fortress from Unicredit in 2015 finally resulted in the successful IPO of doBank, closed in July 2017 reaching a mkt cap of €700m (€1,1bn early in Dec. 2017). H2-2017 featured booming M&A movements in the servicing market. Davidson Kempner is in the process of acquiring Prelios while Lindorff-Intrum acquired CAF (the platform and their NPL portfolio totalling €400m of GBV). Credito Fondiario established a servicing partnership with Carige through the acquisition of the bank's platform and a NPL portfolio equal to €1.2bn (GBV).

Notwithstanding the prominent efforts in implementing internal actions (industrial overhaul over monitoring and work-out management aiming at achieving the ECB criteria) and external measures (disposals of portfolios, single names, platforms to meet significant deleverage goals aiming at scaling down the NPL ratios), the NPL issue is still away from being fully sorted out.

The ECB publication of Guidance on non-performing loans in March 2017 has created a supervisory pressure on banks to redefine their NPL strategies and operating model respectively. Furthermore on 4th of October, 2017 ECB published in consultation the Addendum to NPL Guidance to ensure a proper level of "prudential" provisioning.

The Addendum could introduce, through the "calendar provisioning" if enforced, material provisions to the NPL classified as such from 1st January 2018.

The financial markets still punish severely the Italian listed banks. The inverse correlation between their market capitalization (Price on Book Value) and NPE ratios features the general perception and prejudice against the Italian banks still dragged down by the burden of their NPL.

New solutions, innovative approach and breakthrough actions must be identified to speed up the NPL remediation plans of the Italian banks. We believe that the answer could be the undertaking of an innovative business transformation of the NPE within the Italian banks.

On the one hand the Italian banks should progress in the establishing a "state of the art" NPE management by implementing the best practices in place covering governance, recovery processes and strategies according the ECB rules. As a result the recovery performance would rise up.

On the other hand the Italian banks should strategically ponder and proactively set up large scale solutions as i) identifying separate loans portfolios potentially through self-securitizations of their NPL reaching higher transparency and effectiveness, ii) sealing partnerships with industrial players and agreements with specialised servicers to extract additional value from their platforms, iii) deleveraging their exposure either through true sales or securitizations (potentially GACS backed) in order to improve their asset quality.

Not to mention the Unlikely To Pay (UTP) challenge (GBV of € 104bn as at June 2017, € 96bn as at December 2017 – pro forma figure) within the NPE that will require the quest for solutions covering multiple strategic options among the forbearance measures, the true sale, the agreement with third party equity investors/debt underwriters or the commencement of liquidation procedures. The business transformation of the NPE field could lead the Italian banks to address the UTP more effectively.

Forward looking, we expect 2018 will be the year of NPE transformation and breakthrough.

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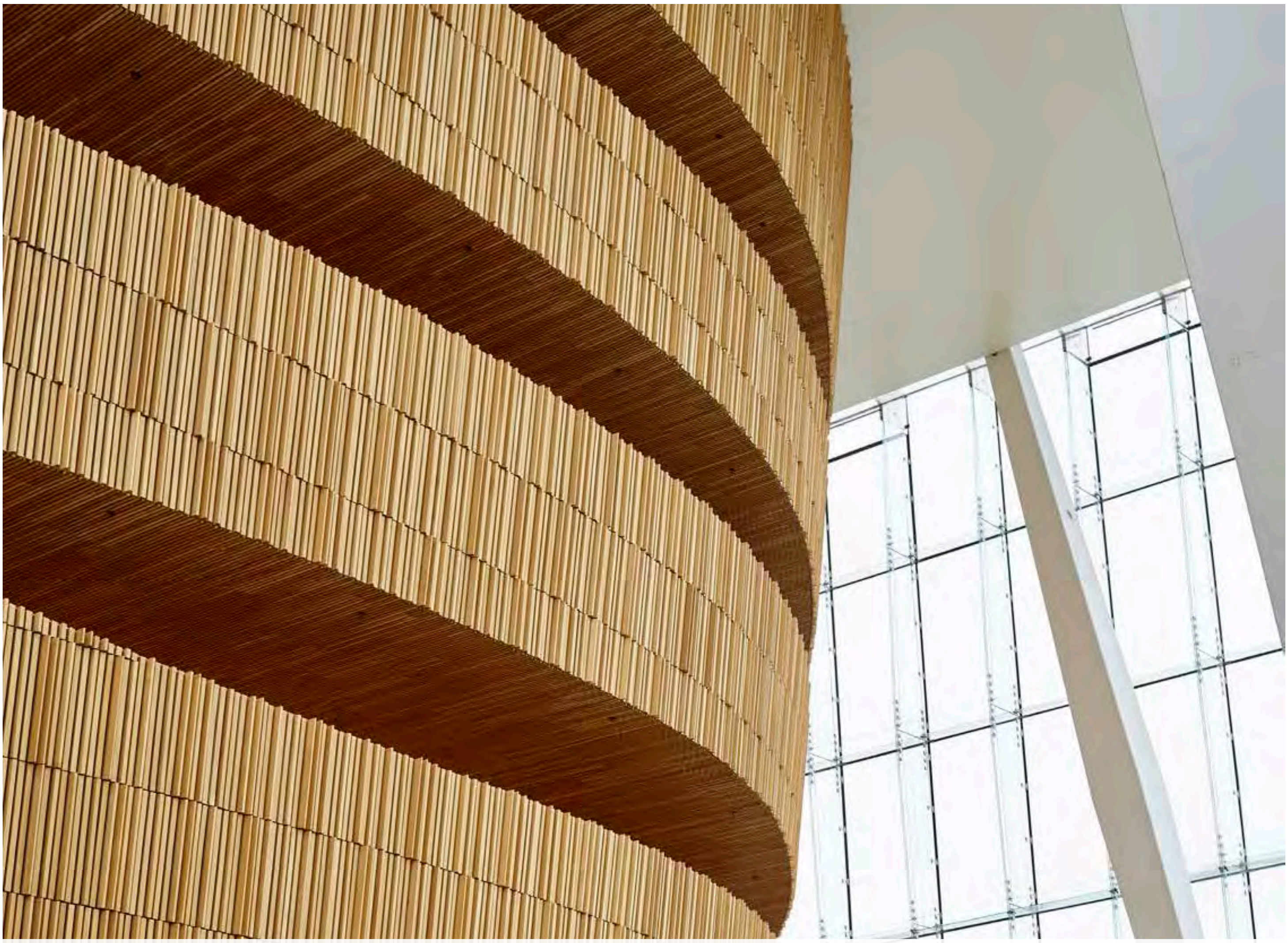
The terms of NPL (“Non Performing Loans”) and NPE (“Non Performing Exposures”) are used interchangeably within this study. This recommendation was even explained in the “Guidance to banks on non-performing loans (March 2017)” released by ECB – Banking Supervision*

Content

* “Guidance to banks on non-performing loans (March 2017)” by ECB, par. 1.2, pag.6 “Scope of this Guidance”and par. 5.1, pag. 47 “Purpose and Overview”



Macroeconomic Scenario

Key Message: In 2017, Italian GDP is expected to remain stable, before starting to raise in 2018, as a result of the presence of higher export and private consumption levels. Inflation will increase as well, also supported by higher energy prices. Total investments should benefit from the extension of tax incentives and the favorable monetary policy.

Thanks to the support deriving from macroeconomic policies, robust job creation and gradual improvement in world trade, completing four years of moderate but steady GDP growth, the economic expansion of the European Union has continued during 2017.

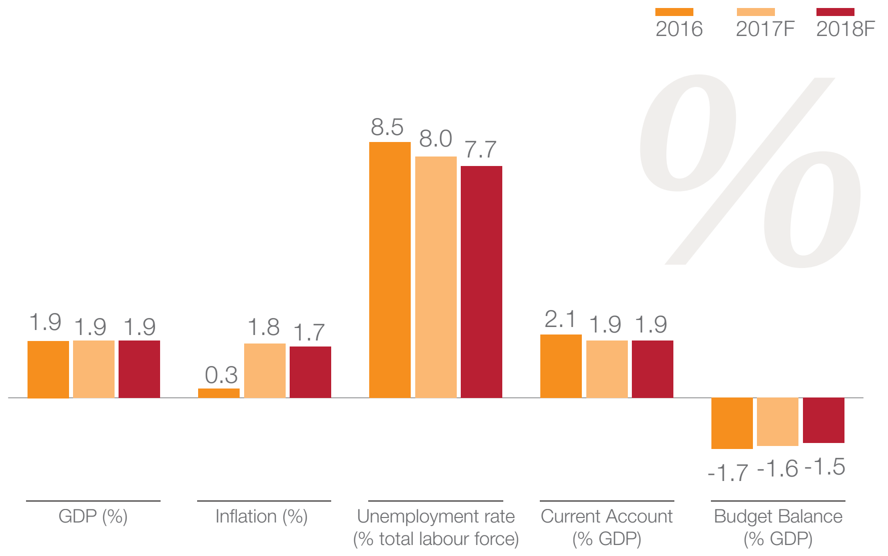
Overall, the EU **GDP** growth is set to remain stable at 1.9% in 2017 and 2018 in the Euro area, since investment and wages are still constrained by the high level of public and private debt and the presence of surplus in the labour market.

Italian GDP is set to be equal to 0.9% for 2017 and then to increase to 1.1% in 2018, empowered by larger external demand, greater private consumption and a higher level of investments, which benefits from low real interest rates and the extension of tax incentives adopted with the 2017 budget.

Inflation raised significantly during the first quarter of 2017, peaking 1.8% (increase mainly driven by the recovery of oil prices and the temporary positive impact of energy base-effects). The 2018 forecasted inflation is set to reduce to 1.7%. In Italy, inflation is expected to climb to 1.5% in 2017 and stabilize at 1.3% in 2018, weighing on household real disposable income.

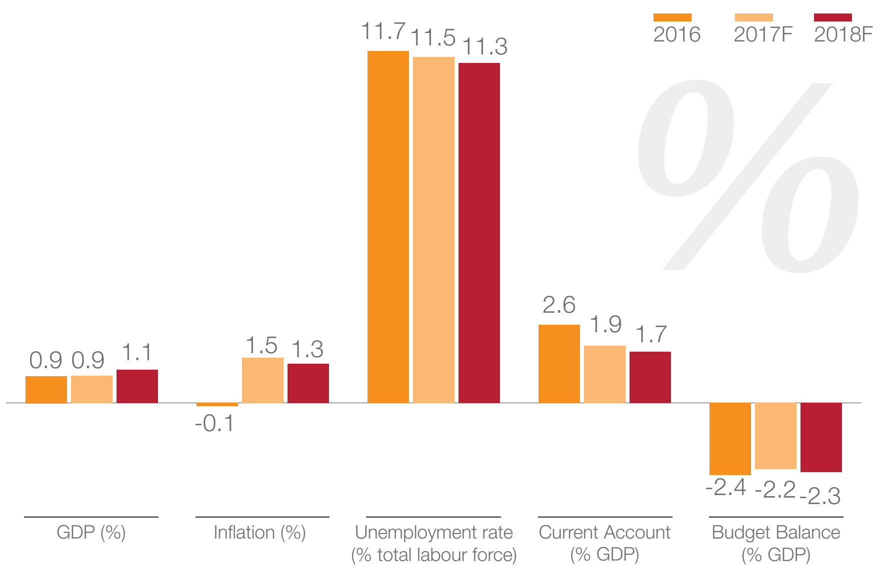
Unemployment rate in Italy is projected to decline marginally, thanks to higher labour force participation: the rate is forecasted to stand at above 11.5% in 2017 and 11.3% in 2018, well above the average European level.

Chart 1: EU main economic drivers



Source: PwC analysis on European Economic Forecast Spring 2017. Unemployment rate as a % of total labour force, current account balance and budget balance as a % of GDP

Chart 2: Italian main economic drivers



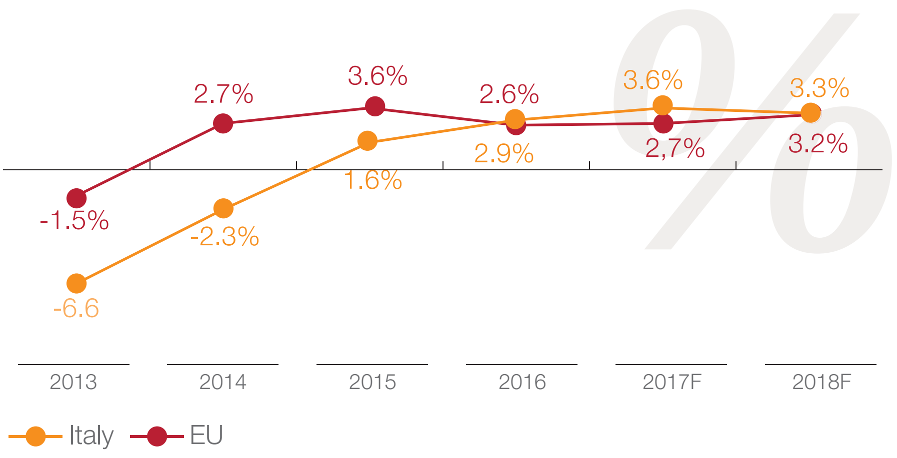
Source: PwC analysis on European Economic Forecast Spring 2017. Unemployment rate as a % of total labour force, current account balance and budget balance as a % of GDP

Current account surplus in Italy is foreseen to be 1.9% in 2017, equal to the average for European Member States, but then 1.7% in 2018. Net exports are expected to marginally reduce real GDP growth, which, together with higher prices for imported energy, would cause the gradual drop in the forecasted current account surplus.

Taking into considerations favorable financing conditions and investment policies efforts, the total **investments volume trend** for Italy is set to increase by 2.7% in 2017 and 3.3% in 2018, therefore filling the gap with the EU levels.

After a small increase from 2016 level, supported by the additional public resources allocated for the support to the banking sector and retail investors, the **Government gross debt ratio** is now expected to slightly decline both in Italy and in EU in the next years (for Italy, the ratio is forecasted to be 133.1% in 2017 and 132.5% in 2018).

Chart 3: Total investments volume trend



Source: PwC analysis on European Economic Forecast Spring 2017.

Table 1: Government gross debt ratio per country

Government gross debt ratio (% GDP)	2013	2014	2015	2016	2017F	2018F	Trend 2017-2018F
Italy	129	131.8	132.1	132.6	133.1	132.5	▼
EU	87.4	88.4	86.5	85.1	84.8	83.6	▼
Spain	95.5	100.4	99.8	99.4	99.2	98.5	▼
France	92.3	94.9	95.6	96.0	96.4	96.7	▲
UK	86.2	88.1	89.0	89.3	88.6	87.9	▼
Germany	77.5	74.9	71.2	68.3	65.8	63.3	▼

Source: PwC analysis on European Economic Forecast Spring 2017

Italian Real Estate Market

Key Message: In H1 2017, the Italian Real Estate market registered a 3.1% growth compared to 2016, mainly driven by transactions related to residential assets. Rome and Milan continue to be the main city markets, representing ca 49% of total transactions. Investments in Real Estate reached €5.7 bn in H1 2017, with offices continuing to represent the major asset class for investment.

Volume of Real Estate transactions in 2016

In H1 2017, the Italian real estate market has been continuing on its positive trend, driven mainly by sales of residential and office properties.

The most significant percentage growth, compared to the previous year, was recorded in the office building sector, a 9.2% increase. See **Table 2**.

Residential sales in H1 2017 have increased throughout each region of Italy with respect to 2016. The North showed the greatest positive results, with a 6.4% increase over 2016, which was followed by the Centre and South with 5.5% and 5.3% growth, respectively. See **Table 3**.

During H1 2017, non residential asset classes showed a slight decrease, accounting for 1.12% compared to 2016. While continuing to account for a small proportion of the total, the office segment is the sector registering the highest growth rate, at 9.2%. See **Table 4**.

Appurtenances (which include garages, basements and parking spots) and other sectors are showing a strong decrease, based on provisional data.

Table 2: Italian NTN[1] comparison by sector

Asset type	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	H1 2016	H1 2017	Delta (%) H1 16-17
Residential	115.194	143.298	123.476	146.896	121.976	145.529	258.493	267.505	3,5%
Office	2.025	2.413	2.510	3.000	2.362	2.486	4.437	4.846	9,2%
Retail	6.776	7.598	7.188	9.024	6.215	7.176	14.374	13.393	-6,8%
Industrial	2.121	2.897	2.565	3.704	2.328	2.996	5.018	5.325	6,1%
Total	**126.116**	**156.206**	**135.738**	**162.624**	**132.881**	**158.187**	**282.322**	**291.069**	**3.1%**
Appurtenances[2]	87.554	110.015	94.007	119.427	85.291	101.566	197.569	186.857	-5.4%
Other[3]	30.828	38.687	35.719	44.090	12.663	14.464	69.515	27.127	-61.0%

Source: PwC publication "Real Estate Market Overview – Italy 2017"
1. NTN is the number of standardized real estate units sold, taking into account the share of the property transferred
2. Appurtenances comprehend properties such as basements, garages or parking spots
3. The sector "Other" includes hospitals, clinics, barracks, telephone exchanges and fire stations

Table 3: Residential NTN by geographic area

Area	Region	Year 2016	H1 2016	H2 2016	Delta (%) 15-16	Delta (%) H1 15-16	Delta (%) H2 15-16
North	Provinces	88.946	44.384	46.559	23.7%	26.7%	4.9%
	No Provinces	188.055	89.995	96.473	21.7%	20.4%	7.2%
	Total	**277.001**	**134.379**	**143.032**	**22.3%**	**22.4%**	**6.4%**
Center	Provinces	51.325	25.285	26.976	13.5%	17.1%	6.7%
	No Provinces	56.455	27.589	28.823	18.6%	18.7%	4.5%
	Total	**107.780**	**52.874**	**55.798**	**16.2%**	**17.9%**	**5.5%**
South	Provinces	38.207	19.379	20.277	12.6%	17.8%	4.6%
	No Provinces	93.302	45.829	48.398	8.8%	12.0%	5.6%
	Total	**131.510**	**65.209**	**68.675**	**9.9%**	**13.7%**	**5.3%**
Italy	Provinces	178.479	89.049	93.811	17.4%	21.9%	5.3%
	No Provinces	337.813	163.414	173.694	15.4%	17.6%	6.3%
	Total	**516.292**	**252.463**	**267.505**	**16.1%**	**19.1%**	**6.0%**

Source: PwC publication "Real Estate Market Overview – Italy 2017"

Table 4: Non residential NTN by geographic area

NTN H1 2017 Office	Q1 2016	Q2 2016	Q1 2017	Q2 2017	H1 2016	H1 2017	Delta (%) H1 16-17
North	1.186	1.413	1.385	1.455	2.599	2.840	9,3%
Center	417	505	573	527	922	1.100	19,3%
South	422	494	404	504	916	908	(0,9%)
					4.437	4.846	9,2%

NTN H1 2017 Retail	Q1 2016	Q2 2016	Q1 2017	Q2 2017	H1 2016	H1 2017	Delta (%) H1 16-17
North	3.309	3.619	2.843	3.400	6.928	6.243	(9,9%)
Center	1.451	1.700	1.434	1.629	3.151	3.063	(2,8%)
South	2.016	2.279	1.938	2.147	4.295	4.085	(4,9%)
					14.374	13.393	(6,8%)

NTN H1 2017 Industrial	Q1 2016	Q2 2016	Q1 2017	Q2 2017	H1 2016	H1 2017	Delta (%) H1 16-17
North	1.396	1.867	1.536	1.997	3.263	3.533	8,3%
Center	364	430	381	501	794	882	11,1%
South	361	600	411	498	961	909	(5,4%)
					5.018	5.325	6,1%

Source: PwC publication "Real Estate Market Overview – Italy 2017"

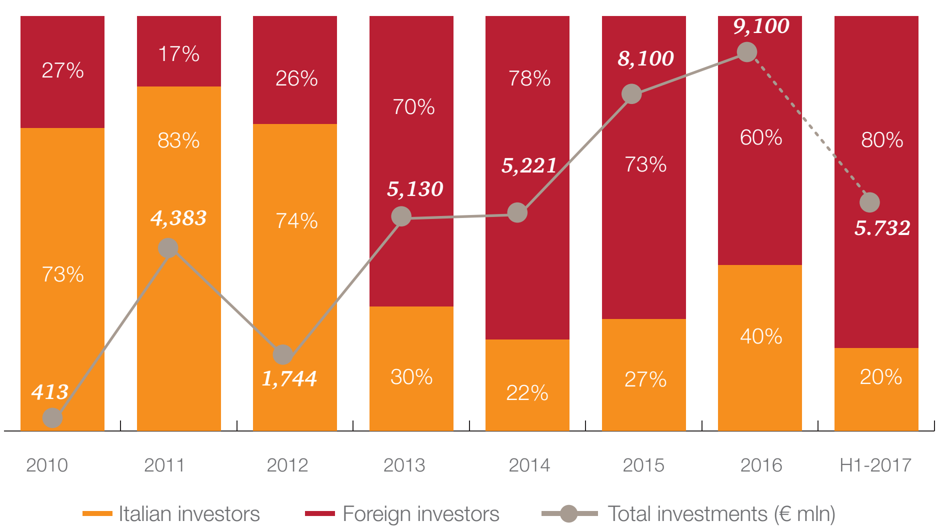
Investments in the non residential Real Estate market

In H1 2017, the Italian commercial real estate market recorded a transaction volume of € 5.7 billion, 58% more compared to the same period in 2016, confirming the increasing investor confidence and demand for Italian real estate. The investment recovery has started in 2013 reaching the highest point in 2016, that has proven to be the second best year for Italian real estate investment after the record level of € 10 billion in 2007.

The strong growth was driven by ca 25% increase in the Office sector, which continues to attract investor and represent 35% of the total volumes of transactions. The Retail sector registered an increase by 76% over the same period. Industrial estates (+291%) is growing fast, but the lack of supply across the country obliges the investors to widen their areas of interest and to concentrate on value added operations.

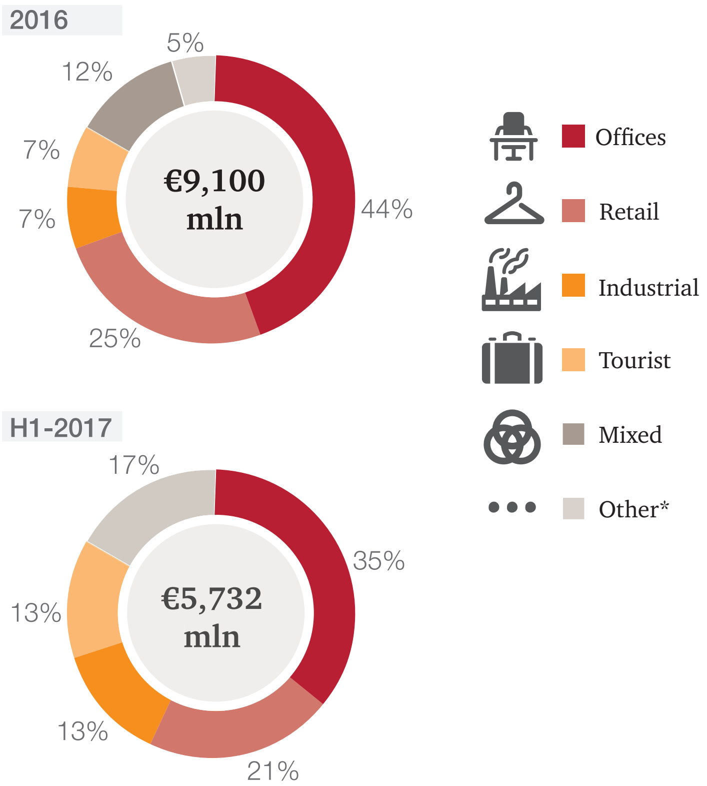
Milan and Rome still represent key markets for investments, accounting for 31% and 17% of the total investment volume in H1 2017, respectively. However, some investors have adapted their strategies to the dynamic market and started to consider secondary locations as well.

Chart 4: Investments in the non residential Real Estate industry - Investor type



Source: PwC publication "Real Estate Market Overview – Italy 2017"

Chart 5: Investments in the non residential Real Estate industry - Asset type



Source: PwC publication "Real Estate Market Overview – Italy 2017"
*"Other" includes banks, public administration and sovereign funds

Legal and regulatory framework update

NPL Guidance: The ECB publication of Guidance on non-performing loans in March 2017 has created a supervisory pressure on banks to redefine their NPL strategies and operating model respectively.

The Addendum to ECB Guidance: on 8th of December, 2017 ECB closed the public consultation regarding the Addendum to NPL Guidance to ensure a proper level of "prudential" provisioning " in order to reduce risks related to NPL portfolios.

The ECB Guidance on NPL

The Guidance outlines measures, processes and best practices which banks should incorporate in NPL management. It challenges banks to implement comprehensive strategies to work towards a holistic approach in respect of problem of NPLs through disclosure of the following areas:

- *NPL Strategy*
- *NPL Governance and operations framework*
- *Forbearance*
- *NPL recognition*
- *Impairment measurement and write offs*
- *Collateral valuation of immovable property*

In this view, the Supervisor puts a pressure on banks to redefine their strategies and revise respective operating models, taking into consideration the principle of proportionality. In 2017, many banks have shown a progress and submitted their strategies, including the reduction plans, with the objective to increase their recovery performance and to comply with supervisory expectations. Some banks, however, still need to improve.

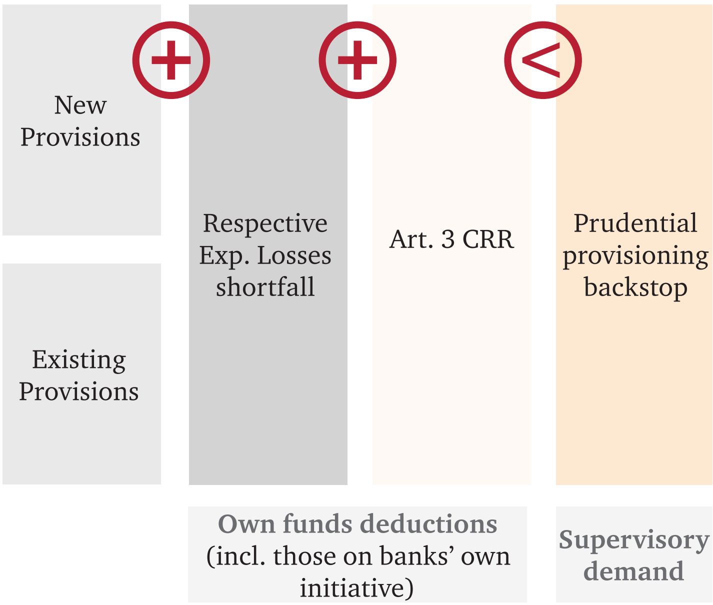
ECB continues to closely monitor the progress of NPL strategic plans, by reviewing the bank's capability to intervene in all phases of NPL life cycle and through implementation of best market practices.

Addendum reinforces and supplements the ECB Guidance on NPL

The addendum supplements the Guidance with respect to provisioning and write-offs practices, by specifying the supervisory expectations with respect to minimum levels of prudential provisions applicable to NPEs. The provisioning expectations would apply, if the addendum will enter into force, to new exposures, reclassified from performing to non-performing after January, 1st 2018.

At the prudential level, the addendum introduces «Calendar Provisioning» with «Prudential provisioning backstop», equal to 100% after:

- **7 years** of vintage for secured NPEs
- **2 years** of vintage for unsecured NPEs



NPL Operational Model – Key drivers to maximize the NPL Value Chain

Performing Loans → **Past Due** → **UTP** → **Bad Loans**

Early Warning
Identification and management of positions with high risk and probability of impairment

Focus
Determination of «ad hoc» strategy, with a «one to one» focus on relevant positions and actions per cluster of medium-sized exposures

Automatization and industrialization
Identification and management of positions with high risk and probability of impairment

Organizational efficiency	Externalization and centralization of "non-core" activity monitoring and management of the External societies and Legal support
"Triggers" to remain in the NPL category	Review of rules to enter, remain and exit NPL category
"Crash" actions	Activation of "one-off" actions aimed at reduction of the stock in particular cases and maximization of recovery

Banks should report on the compliance with the prudential provisioning backstop at least annually and explain deviations to the supervisor.

The deviations are acceptable if a bank can demonstrate that:

- the calibration of the prudential provisioning backstop is not justified for a specific portfolio/exposure;
- the application of the backstop is not reasonable in justified circumstances.

Potential impacts of the Addendum

- Large P&L impact for banks, in terms of provisioning an amount equivalent to 100% of NPL value
- Facilitation of disposal operations
- Acceleration of recoveries

Potential reduction of the «pricing gap» between the market and book value of loans

Conclusions
Supervision authorities are **monitoring progress on NPL reduction**, provisioning and developments and on the **execution of NPL strategies** and revisions of operating models.

Guidelines on NPL management for LSI: in September Bank of Italy published on consultation guidelines addressed to national LSIs with respect to NPL management.

The Guidelines are consistent with the Guidance published by ECB

Less significant institutions (LSIs) are requested to evaluate the adequacy of their organizational structure with respect to given recommendations. Any deviations should be justified upon request of the Supervisory Authority.

Banks are expected to have a formalized strategy, defining the NPL management plan and its integration within the bank, comprehensive governance and conflict of interest management framework and rules of conduct.

The guidelines provide some clear indication to banks concerning strategies, governance and especially on rules of conduct to be followed.

1	*2*	*3*
Strategy	Governance	Rules of Conduct

Forbearance	• Affordability assessment • Identification of forbearance options • Monitoring of measures applied
Loans classification	• Indicators to classify loans at default • Criterias of foreborne exposures • Treatment of group of connected clients
Impairments and write offs	• Definition of criterias for impairments • Timely write offs of unrecoverable values
Valuation of immovable property	• Control of independent experts • Control of property and guarantee value at least on an annual basis
NPL database	• Availability of database to manage the NPL data • Verification of NPL status

Actions to be considered by LSIs

- Review of the **target operating model**
- Identification of a **mix of strategy** entailing increased efficiency and **possible deleveraging** actions
- Reporting to the Supervisor on the NPL actions and reduction plan

“The management strategy of NPL has to be fully integrated in strategic and corporate management procedures, such as the ones referring to industrial/budget planning, RAF, ICAAP, recovery plans, and intermediary’s remuneration and incentive policies” Linee Guida per le banche Less Significant italiane in materia di gestione di crediti deteriorati, Bank of Italy

Italian NPL Market

Key Message: The NPL volume in the Italian banking sector is definitely declining. After reaching its peak at the end of 2015, totaling € 341bn, the NPL total stock decreased to €300bn (GBV) at H1-2017. This trend is followed by all the NPL categories, from the Bad Loans to the Past Due.

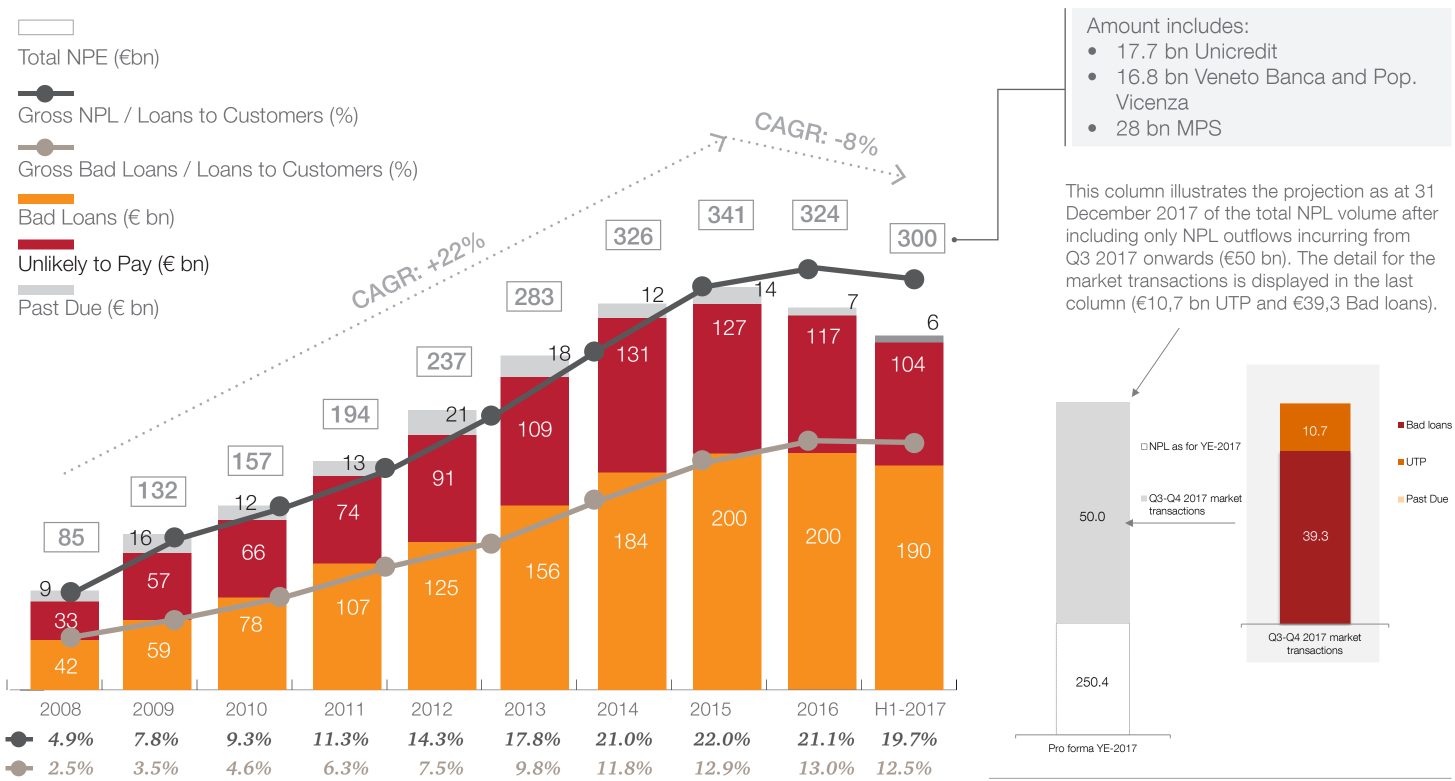
Asset Quality

Chart 6 demonstrates that the total stock of NPL registered a reduction in the last year and a half. After reaching its maximum at YE-2015 (€341bn), the stock reduced to €300bn at H1-2017.

Gross bad loans dropped of €10bn in the last six months (from €200bn to €190bn) while Unlikely to Pay and Past Due declined reaching €104bn (from €117bn at YE-2016) and €6bn (from €7bn at YE-2016).

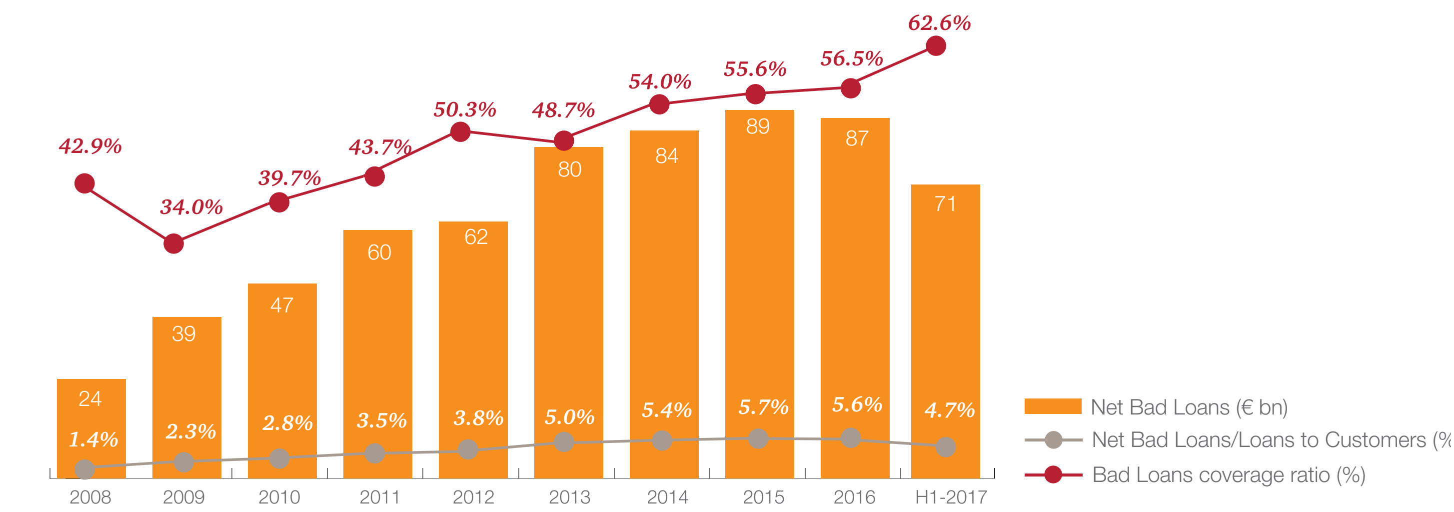
Chart 7 illustrates that net Bad Loans considerably reduced to €71bn (€87bn at YE-2016). The Bad Loans' Net NPL ratio followed the same trend as declined to 4.7% (5.6% at YE-2016).

Chart 6: Gross NPE and Bad Loans trend



Source: PwC analysis data of Bollettino Statistico di Banca d'Italia and ABI Monthly Outlook

Chart 7: Net Bad Loans Trend

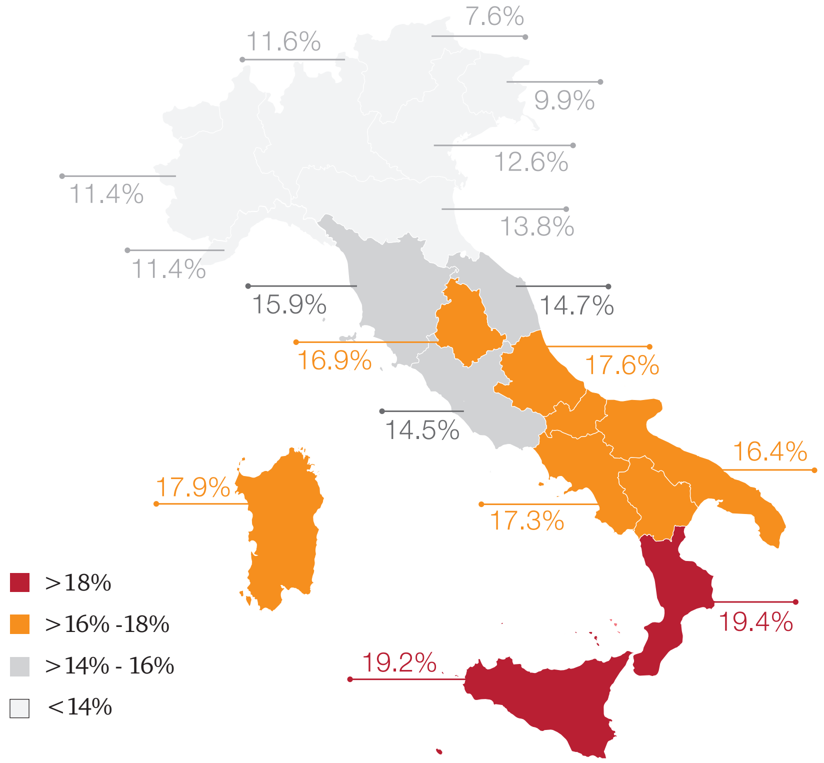


Source: PwC analysis data of ABI Monthly Outlook

Looking at the Bad Loans stock composition:

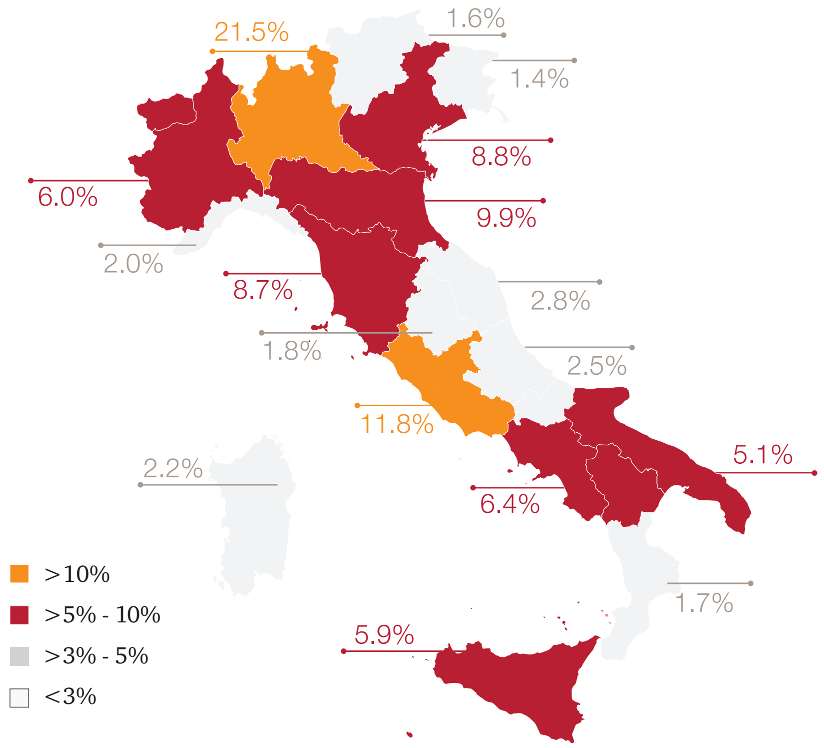
- "Corporate & SME" continue to represent at H1-2017 the greatest share of gross Bad Loans standing at 73%; (Chart 9)
- Lombardy (21.5%) and Lazio (11.8%) regions continue to have the highest concentration of stock, while at the same time Lombardy and Lazio has respectively 11.6% and 14.5% of Gross Bad Loans ratio; (Chart 8a and 8b)
- the Centre and the South of Italy has the highest percentage of Gross Bad Loans ratio; (Chart 8a)
- Trentino Alto Adige, Friuli Venezia Giulia, Liguria, Umbria, Marche, Abruzzo and Molise, Calabria and Sardegna own a percentage of gross Bad Loans lower than 3%; (Chart 8b)
- the percentage of secured Bad Loans is increasing from 48% in 2016 to 49% at H1-2017. (Chart 10)

Chart 8a: Breakdown of Gross Bad Loans Ratio by region* (H1-2017)



Source: PwC analysis on data of "Bollettino Statistico" of Bank of Italy

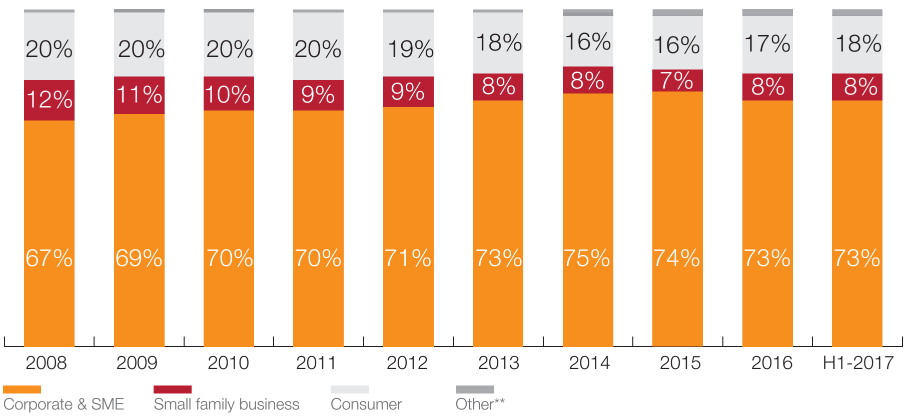
Chart 8b: Breakdown of Gross Bad Loans by region* (H1-2017)



Source: PwC analysis on data of "Bollettino Statistico" of Bank of Italy

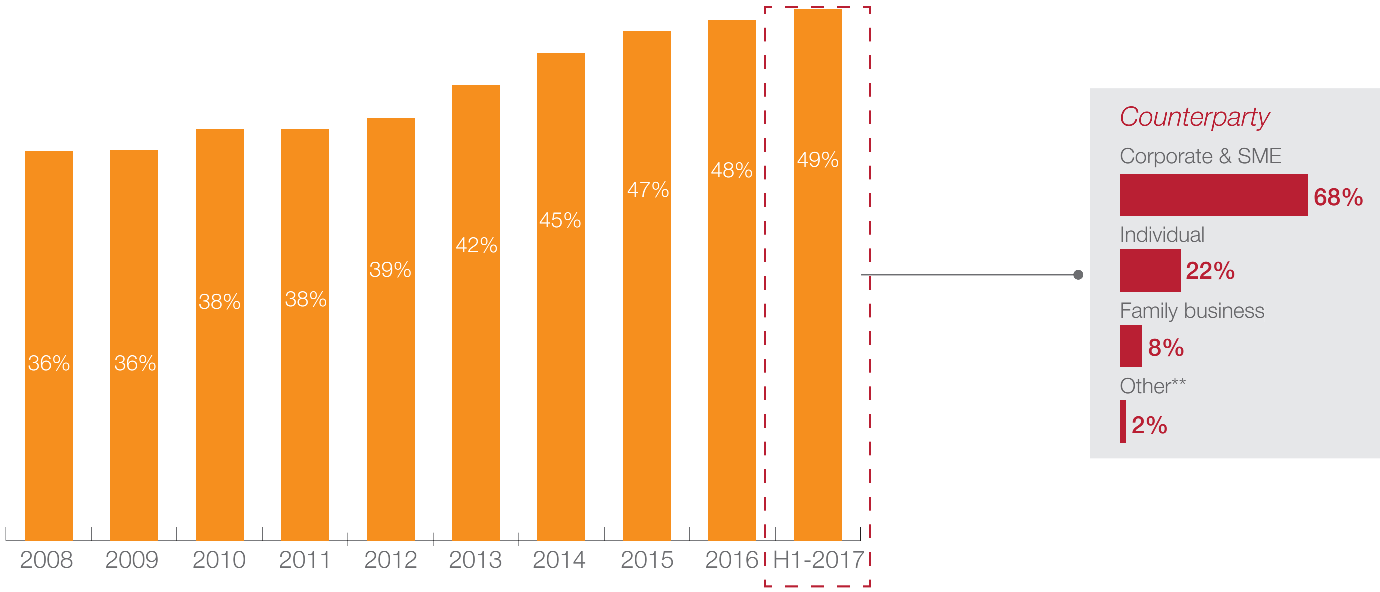
* Unified percentage for 1) Valle d'Aosta and Piemonte, 2) Abruzzo and Molise, 3) Puglia and Basilicata

Chart 9: Breakdown of Gross Bad Loans by counterparty (H1-2017)



Source: PwC analysis on data of "Bollettino Statistico" of Bank of Italy
** "Other" includes PA and financial institutions

Chart 10: Secured Gross Bad loans trend (% on total Bad loans)

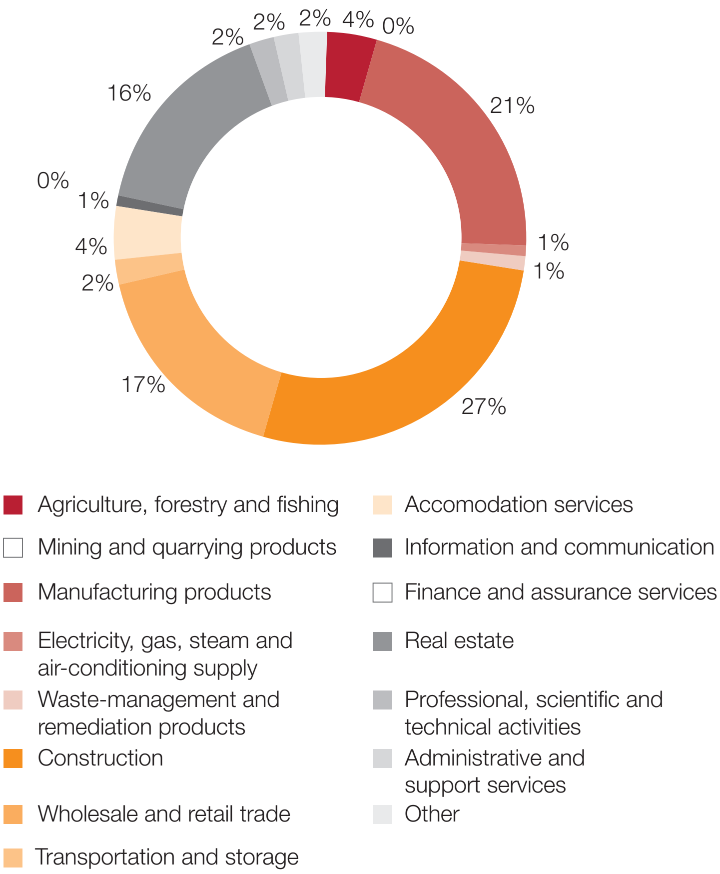


Source: PwC analysis on data of "Bollettino Statistico" of Bank of Italy
** "Other" includes PA and financial institutions

The breakdown of gross bad loans by macrosector illustrates that constructions is the macrosector which shows the highest percentage of gross bad loans (27.3%), followed by manufacturing products (21.4%) and Wholesale and retail trade (16.8%).

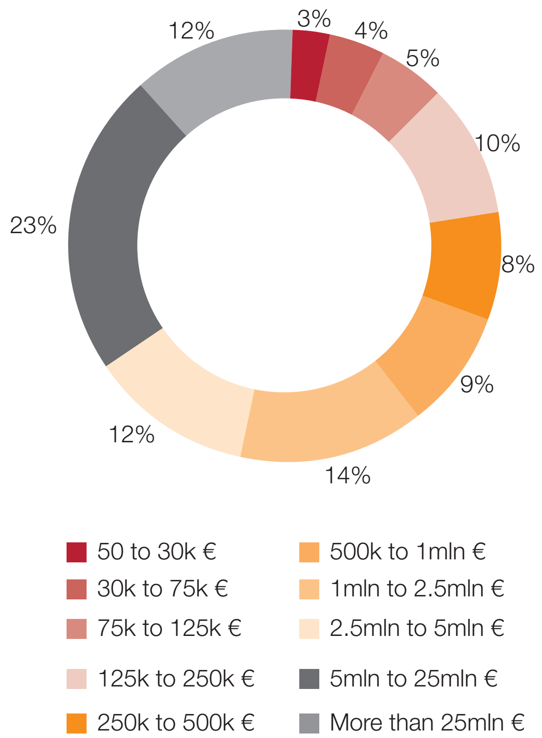
On the other side the Breakdown of Gross Bad Loans by ticket size shows that debtor with bad loans between € 5mln and €25mln accounts for 23% on the total amount. More than € 25mln for 12%. Debtor with bad loans less than €1mln hold 39% of the total bad loans.

Chart 11: Breakdown of Gross Bad Loans by macrosector



Source: PwC analysis on data of "Bollettino Statistico" of Bank of Italy.

Chart 12: Breakdown of Gross Bad Loans by ticket size



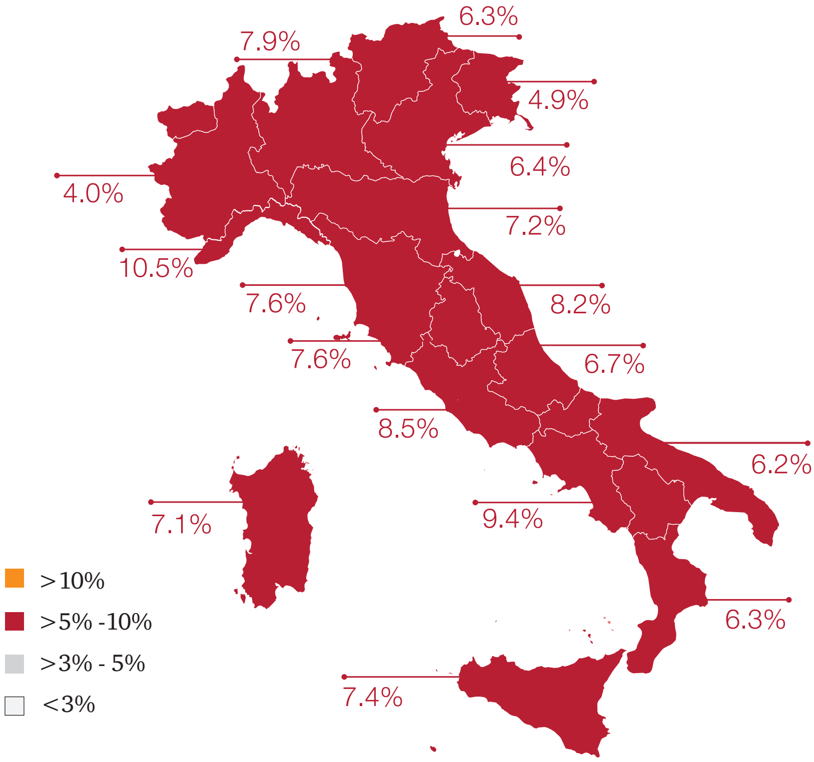
Source: PwC analysis on data of "Bollettino Statistico" of Bank of Italy.

Focus: UTP

Looking at the UTP and Past Due stock composition at H1-2017:

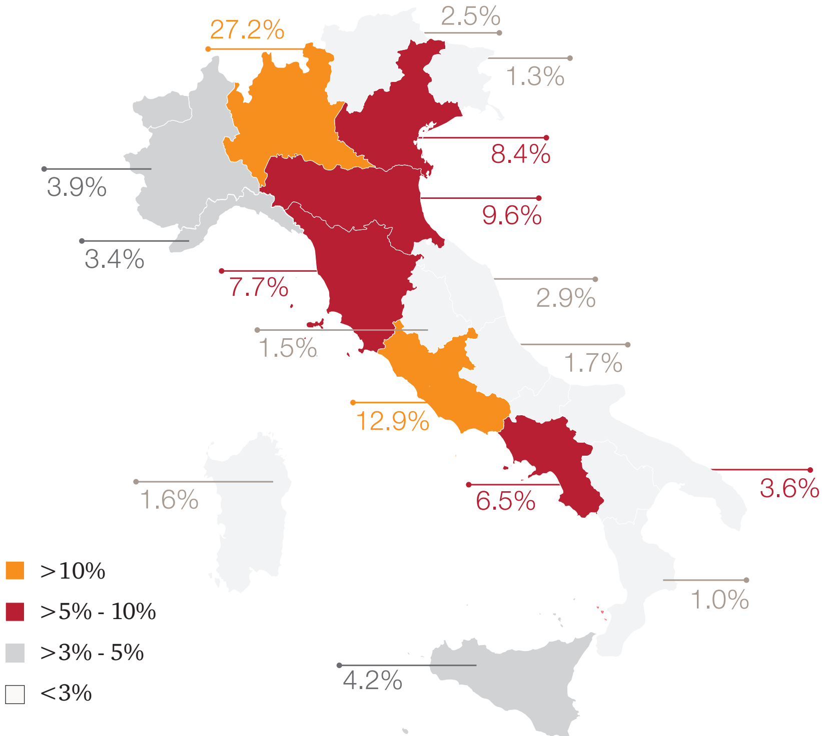
- the UTP breakdown by region shows the highest UTP levels in Lombardy (27.2%) and Lazio (12.9%), which correspond to a UTP ratio equal, respectively, to 7.9% and 8.5%;
- Friuli Venezia Giulia, Umbria, Abruzzo and Molise, Calabria and Sardegna own a percentage of UTP lower than 2%.

Chart 13a: Breakdown of UTP ratio by region* (H1-2017)



Source: PwC analysis on data of "Bollettino Statistico" of Bank of Italy
* Unique percentage for 1) Valle d'Aosta and Piemonte, 2) Abruzzo and Molise, 3) Puglia and Basilicata

Chart 13b: Breakdown of UTP by region* (H1-2017)



Source: PwC analysis on data of "Bollettino Statistico" of Bank of Italy
* Unique percentage for 1) Valle d'Aosta and Piemonte, 2) Abruzzo and Molise, 3) Puglia and Basilicata

Key Message: In the first half of 2017 data on firms' closures has strengthened those improvement signals arisen during previous quarters, pointing out the fact that the Italian industrial system is launched towards a recovery phase.

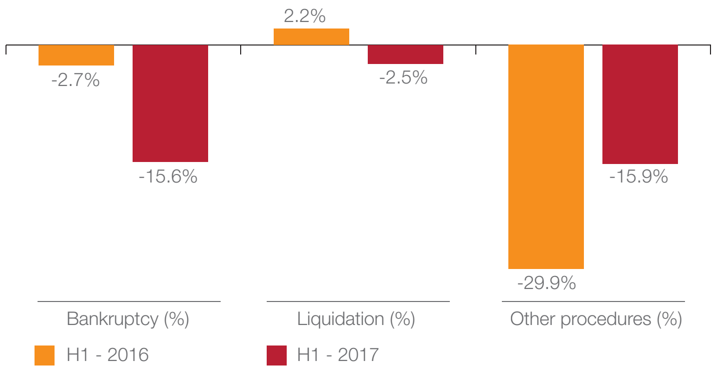
The most encouraging figure is represented by the robust drop in the number of bankruptcies. During the first half of 2017, 6,284 Italian firms went bankrupt, the 15.6% less than the same figure referred to the same period in 2016. This improvement is shared among all Italian regions and all economic sectors, with a particularly favourable tendency for the industrial ones, which was already widely above pre-crisis level. On the other hand, despite the ongoing recovery process, the number of bankruptcies in the sector of construction still stands at historically high levels.

The bankruptcies downturn has been going on for the seventh quarter in a row. This reduction pertained to all firms' type of company: first, partnerships (-21.4% respect to the same period of 2016), then limited liability companies (-15.9%) and other types of company (-8.9%).

The reduction in not-bankrupt procedures, that started 2 years ago, hasn't stopped. Taking into account this fact, the total number of insolvency procedures different from bankruptcy grew to 822 in the first half of 2017, representing a 15.9% reduction if compared to the 977 of 2016. This drop is strongly driven by the decrease in the composition with creditors measures. Overall the industrial sector decreased of 22.4%, followed by constructions with a value of less 15.2%, and services, with 14.2%.

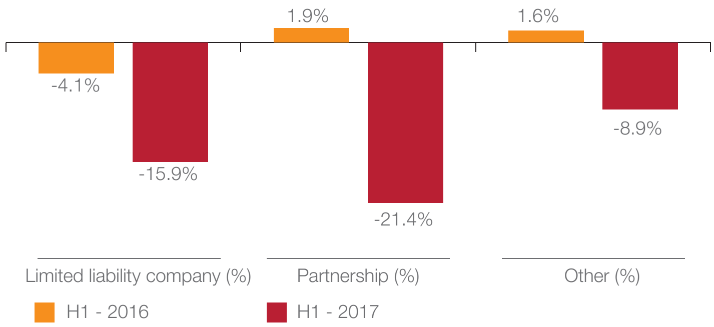
After a short trend inversion in 2016, in the first half of 2017 the reduction in voluntary liquidations started again. They decrease at stronger rates with reference to partnerships (-3.8%) and limited liability companies which operate on the market (-9.2%), which revert the 2016 trend (+1.6%). Viceversa, the number of liquidations for registered but non operating companies is increasing (+35.5%).

Chart 14: Insolvency procedures



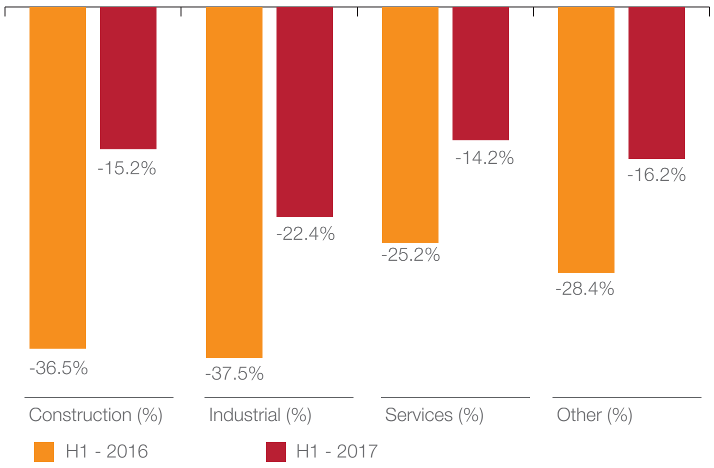
Source: Osservatorio su fallimenti, procedure e chiusure di imprese, Cerved

Chart 15: Bankruptcies by type of company



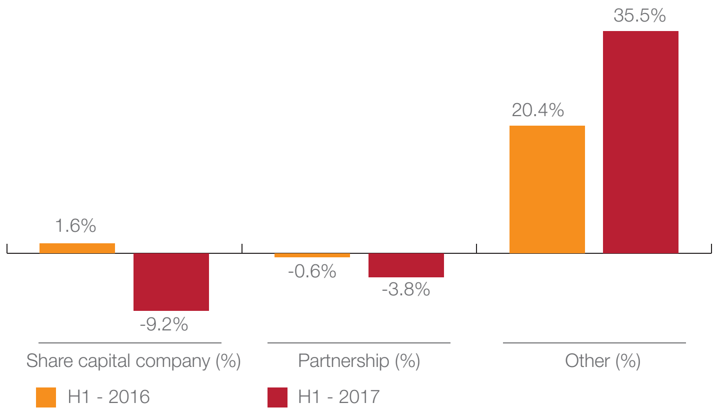
Source: Osservatorio su fallimenti, procedure e chiusure di imprese, Cerved

Chart 16: Not - bankrupt procedures for macrosector



Source: Osservatorio su fallimenti, procedure e chiusure di imprese, Cerved

Chart 17: Liquidations by type of company



Source: Osservatorio su fallimenti, procedure e chiusure di imprese, Cerved

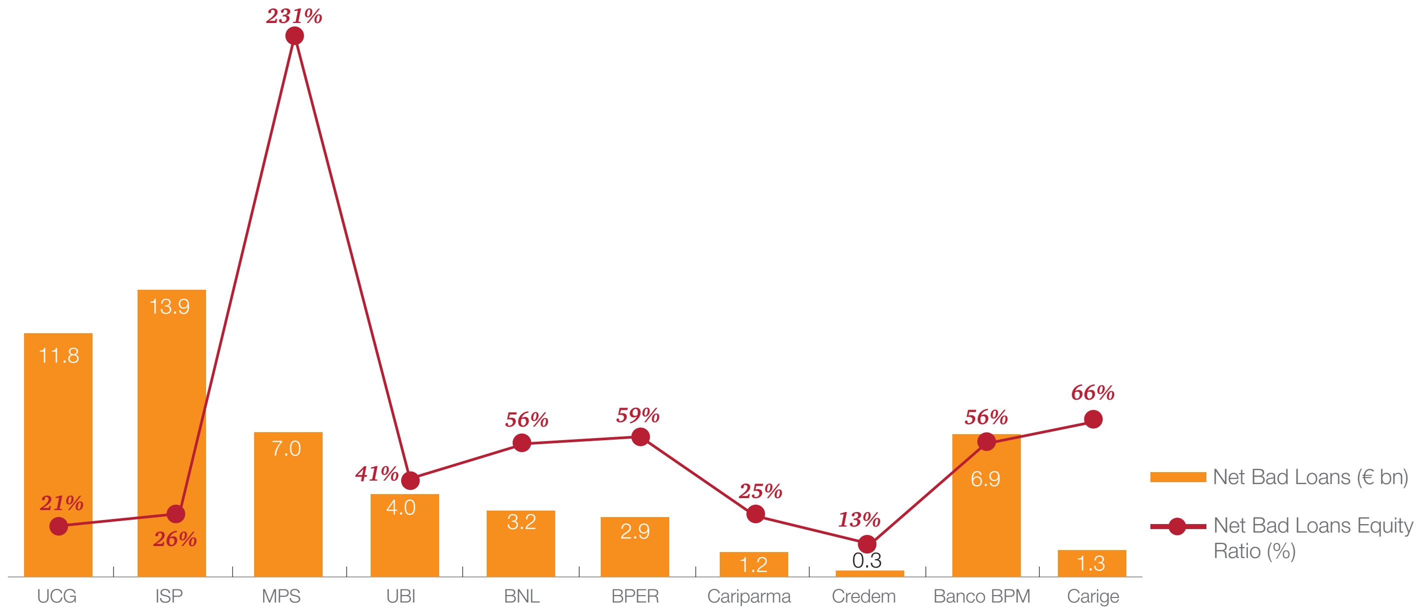
Italian Banks Overview

Key Message: Improvements in the European and Italian banking industry are a different matter altogether, they require a deeper and more thorough approach, to be pursued through structural reforms designed to reduce inefficiencies and address the issue of non-performing loans.

Recent Events

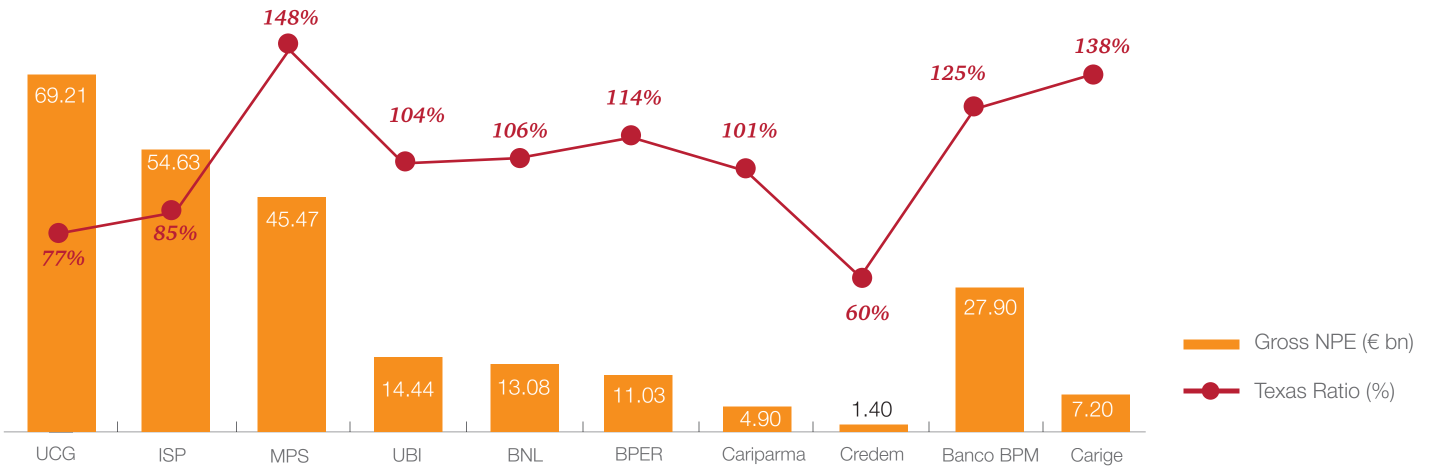
- After a 10-months stop, at the end of October 2017, MPS has returned to be traded at Piazza Affari. A Decree from the Italian MEF on the Treasury is expected to purchase the MPS' shares held by the former subordinated bondholders, who have seen their bonds being converted into shares after the burden sharing.
- At the end of June 2017, ISP acquired, at a symbolic 1 Euro price, part of the assets and liabilities of Banca Popolare di Vicenza and Veneto Banca, excluding their NPLs, which are aimed to be transferred to S.G.A.
- In Q4 2017 several important NPL deals took place. Banca Carige closed the sale of a € 1.2 billion mixed secured - unsecured NPL portfolio with Credito Fondiario together with the servicing platform. Banca Etruria, Carichieti, Cariferrara and Banca Marche sold their € 1 billion secured portfolio to Cerberus. Cassa di Risparmio di Cesena, Cassa di Risparmio di Rimini and Cassa di Risparmio di San Miniato closed with Quaestio Capital SGR the sale of € 2.7 bn of NPLs.

Chart 18: Net Bad Loans and Equity for the Top 10 Italian Banks



Financial Statements as of H1-2017. BNL data as of YE-2016. Data affected by different write-off policies

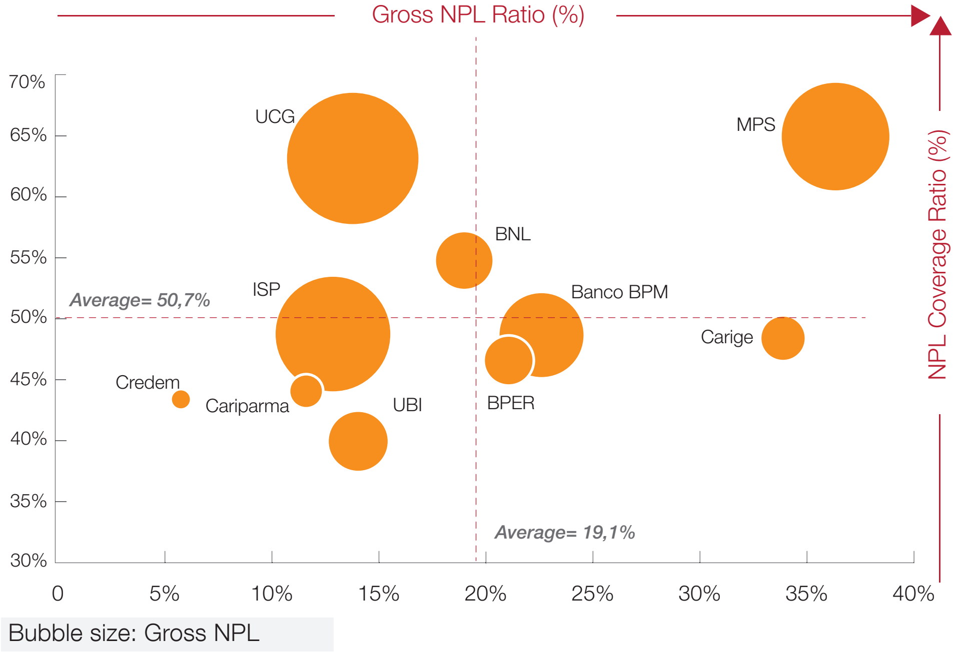
Chart 19: Gross NPE and Texas ratio for the Top 10 Italian Banks



Source: Financial Statements as of H1-2017. BNL data as of YE-2016. Data affected by different write-off policies
* Texas ratio defined as the ratio between total Gross NPE and the sum of CET1 and provisions

Chart 20 illustrates the Gross NPL Ratio and the NPL Coverage Ratio for the Top 10 Italian banks analyzed. As shown the average for the two ratios considered is respectively 19.1% and 50.8%. The differences comparing the different banks are clearly significant. On one side MPS shows the highest Gross NPL ratio reaching 36.3% while, on the other side, Credem stands at the lower extreme of 5.8%. Considering the NPL coverage ratio MPS shows again the highest value (65.7%) and UBI the lowest (41.5%). However, we note that the coverage ratio is not directly comparable as it is influenced by several factors which vary among the different banks (such as policies on write-offs, level of collateralization of the loans, vintage of the portfolio).

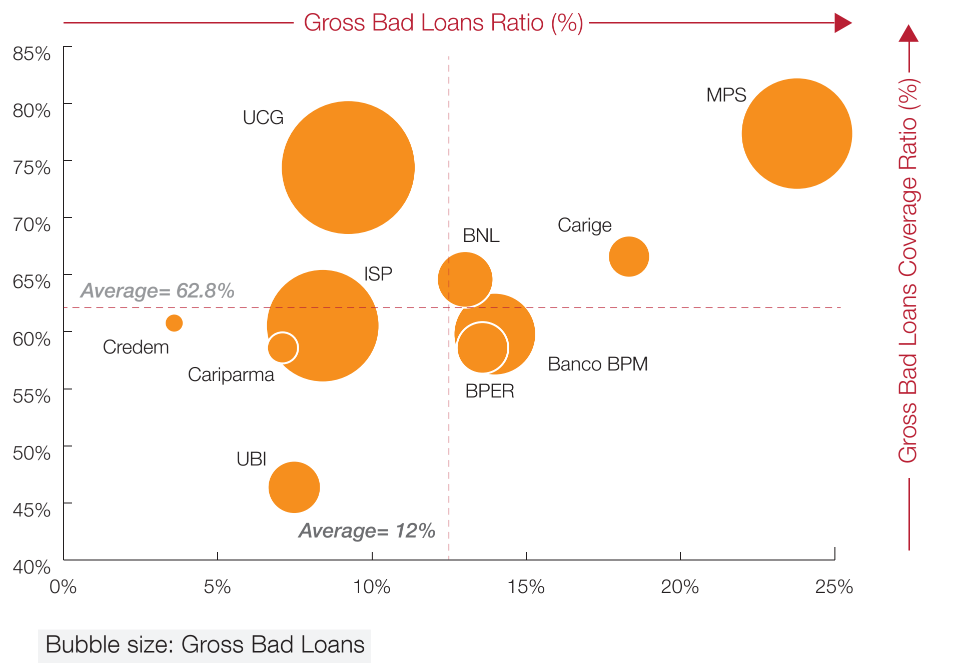
Chart 20: Top 10 Italian Banks – NPL Peer Analysis as of H1-2017



Source Financial statements as of H1-2017. BNL data as of YE-2016. Data affected by different write-off policies

Chart 21 shows that same analysis for the same banks is reproduced considering the Gross Bad Loans Ratio and the Bad Loans Coverage Ratio. MPS reaches the peak of a Gross Bad loans ratio with 24.9%, where the average is 12.0% (Credem stands at 3.6%). The relative coverage ratio indicates two opposite peaks: 77.5% with MPS and 46.3% with UBI (the average is 62.8%).

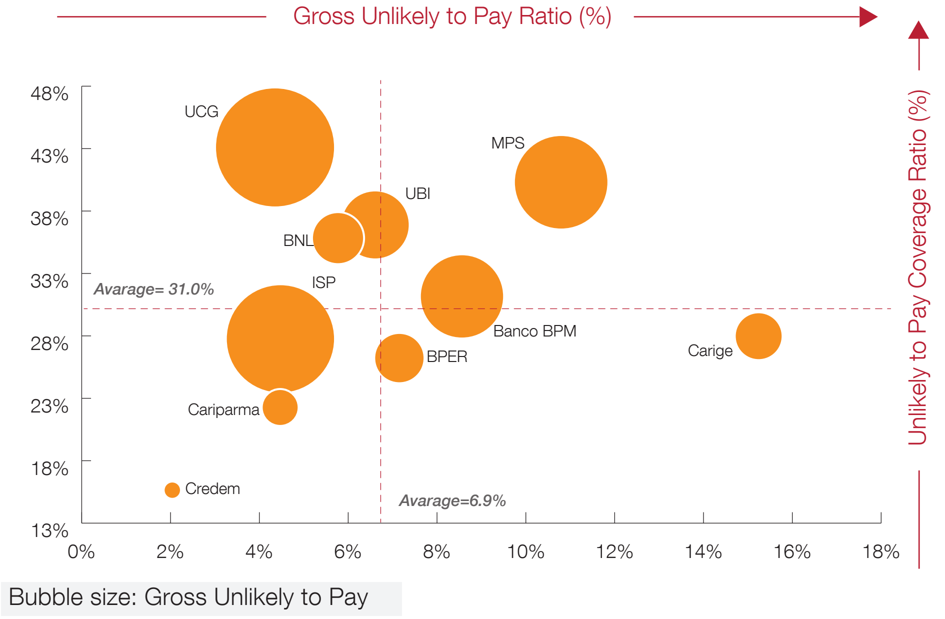
Chart 21: Top 10 Italian Banks – Bad Loans Peer Analysis as of H1-2017



Source: Financial statements as of H1-2017. BNL data as of YE-2016. Data affected by different write-off policies

Chart 22 focuses its analysis for Unlikely to pay and more precisely illustrates the Unlikely to Pay ratio and its Coverage ratio. The average for the UTP ratio is 6.9% while 31.0% for the Coverage ratio. The Gross Unlikely to pay ratio shows a gap of almost 13% considering Carige (15.1%) and Credem (2.1%). The situation is different comparing the Unlikely to pay ratio: at the top we find UGC with 43.6% while Credem is at the bottom with 15.6%.

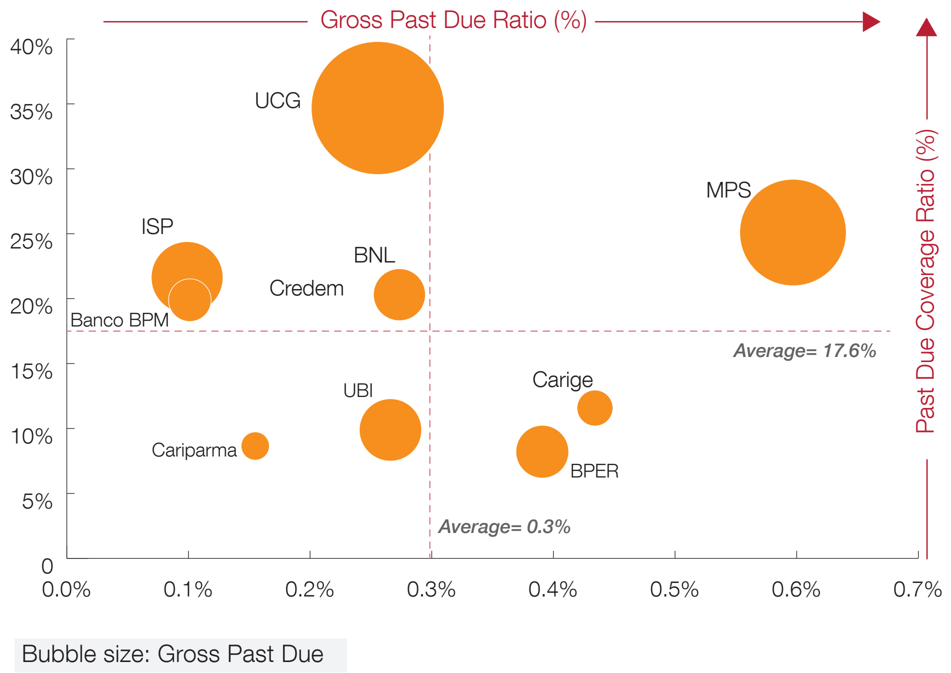
Chart 22: Top 10 Italian Banks – Unlikely to Pay Peer Analysis as H1-2017



Source: Financial statements as of H1-2017. BNL data as of YE-2016. Data affected by different write-off policies

Chart 23 provides a snapshot indicating the Past Due ratio and the coverage for the banks analyzed. MPS records the highest Gross past due ratio (0.6%) while ISP and Banco BPM the lowest (0.1%). The average stands at 0.3%. Differently the gap is bigger considering the past due coverage ratio with an average of 17.6%. UGC and BPER stand at the extremes with respectively a coverage ratio of 34.4% and 7.9%.

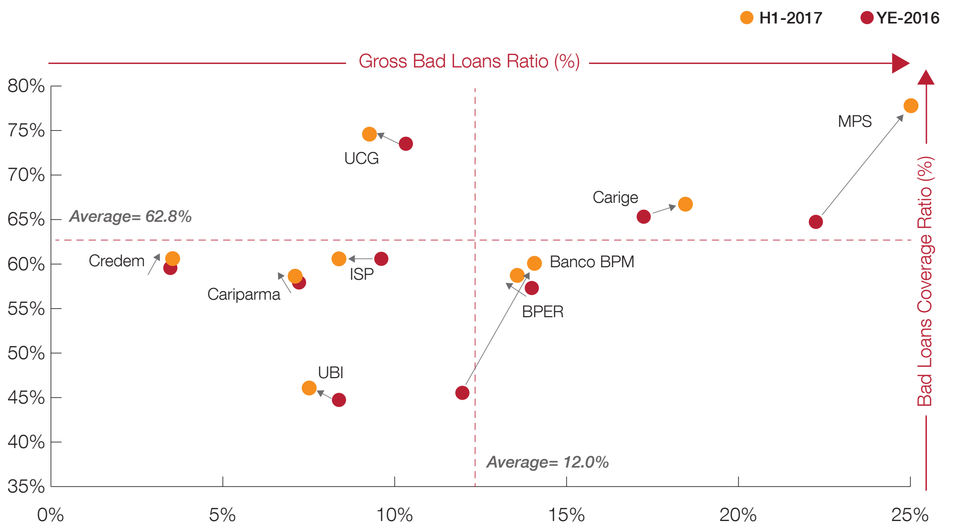
Chart 23: Top 10 Italian Banks – Past Due Peer Analysis as of H1-2017



Source: Financial statements as of H1-2017. BNL data as of YE-2016. Data affected by different write-off policies

Chart 24 illustrates the movements in the Gross Bad Loans Ratio and the Bad Loans Coverage Ratio between 2016 and 2017. At H1-2017 the average Bad loans ratio is 12.0%, whereas the coverage ratio stands at 62.8%. The snapshot indicates that ISP (-12.7%), UBI (-10.3%) and UCG (-10%) have improved their gross Bad loans ratio. Looking at the coverage level, Banco BPM (+30.9%) and MPS (+19.6%) recorded higher coverage on gross Bad loans compared to YE-2016.

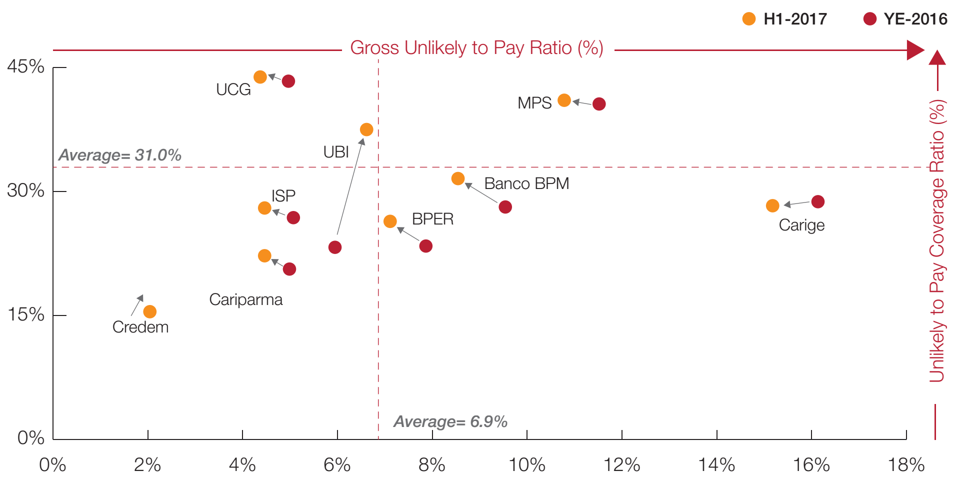
Chart 24: Top Italian Banks – Bad Loans movements (YE-2016 vs H1-2017)



Source: : Financial Statements as of H1-2017 and YE-2016. BNL not included as data H1-2017 not available. Data affected by different write-off policies

Chart 25 shows that, with respect to YE-2016, ISP (-12%), UCG (-11.9%) and Cariparma (-10.7%) experienced the largest decreases in the Unlikely to Pay NPL Ratio, while UBI (+60.3%) and Carige (-1.6%) had, respectively, the highest and the lowest change in the coverage ratio. At H1-2017 the average Unlikely to Pay NPL Ratio stands at 6.9%, while the Unlikely to Pay Coverage ratio is 31.0% (compared to YE-2016, the average changes are, respectively, -6.1% and +8.3%).

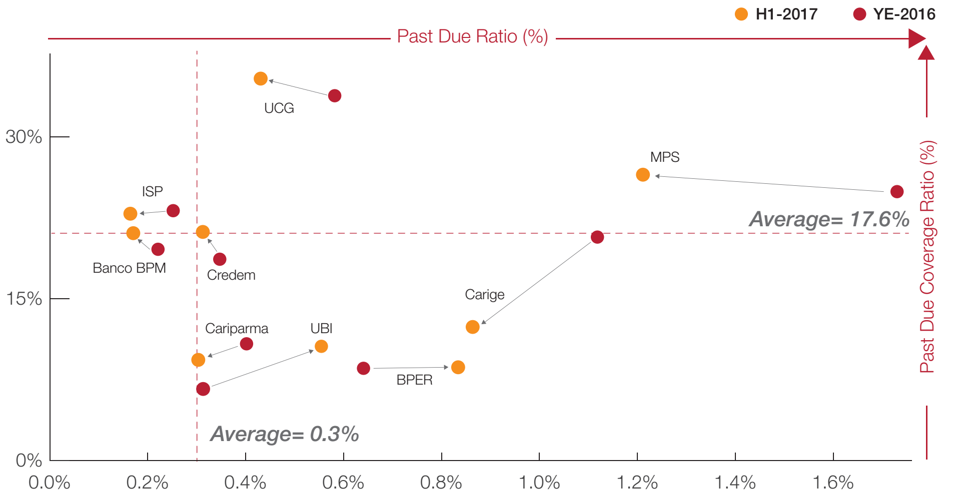
Chart 25: Top Italian Banks – Unlikely to Pay movements (YE-2016 vs H1-2017)



Source: Financial Statements as of H1-2017 and YE-2016. BNL not included as data H1-2017 not available. Data affected by different write-off policies

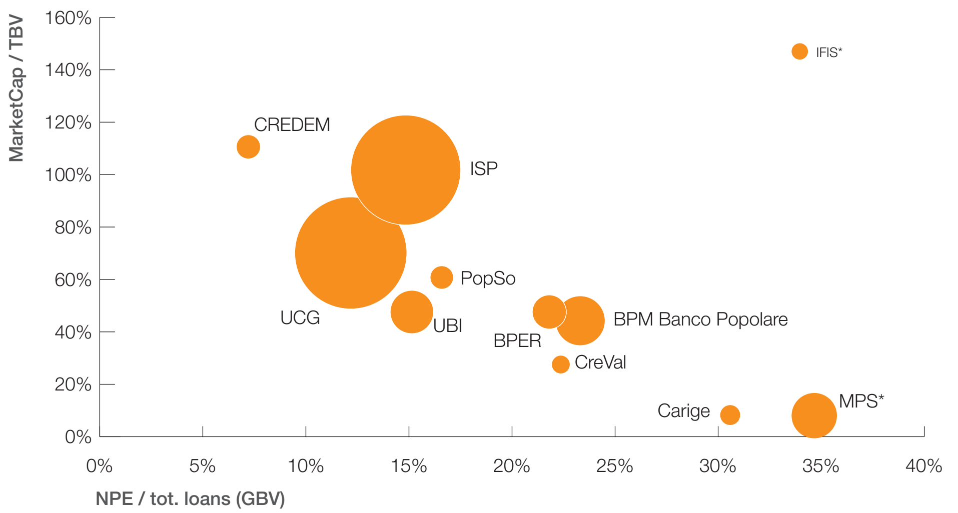
Chart 26 illustrates the trends in the Past Due ratio and Past Due Coverage ratio. At H1-2017, the Past Due ratio stands at 0.3%, whereas the Past Due Coverage ratio is 17.6%. In 2017 UBI have a high increase in the Past due Ratio (+65.8%), but instead most of the banks experienced a strong reduction, with the largest reductions for ISP (-28%), MPS (-27.5%) and Cariparma (-21.5%).

Chart 26: Top Italian Banks – Past Due movements (YE-2016 vs H1-2017)



Source: Financial Statements as of H1-2017 and YE-2016. BNL not included as data H1-2017 not available.
Data affected by different write-off policies

Chart 27: Top Italian Banks – Relation between MarketCap/TBV and NPL ratio



Source: Financial Statements as of H1-2017.
* Data as at YE-16

Focus on UTP Italian market

Key Message: Unlikely to Pay exposures are the new challenge for the Italian banks within the NPL sector. As at 30 June 2017, the UTP volumes are still lower than Bad Loans in terms of GBV (€ 104 bn vs € 190 bn). However, for the Italian banks (which qualify for 77% of total UTP exposures), the UTP volumes are by now overcoming bad loans in terms of NBV (€ 52 bn vs € 50 bn). Only by a renovated proactive management of these exposures, the Italian banks could find the most effective deleverage solutions to address the issue of their volumes.

Our view

ECB guidelines provide a great opportunity to renovate and improve the proactive management of NPE to address the issue of their massive stock.

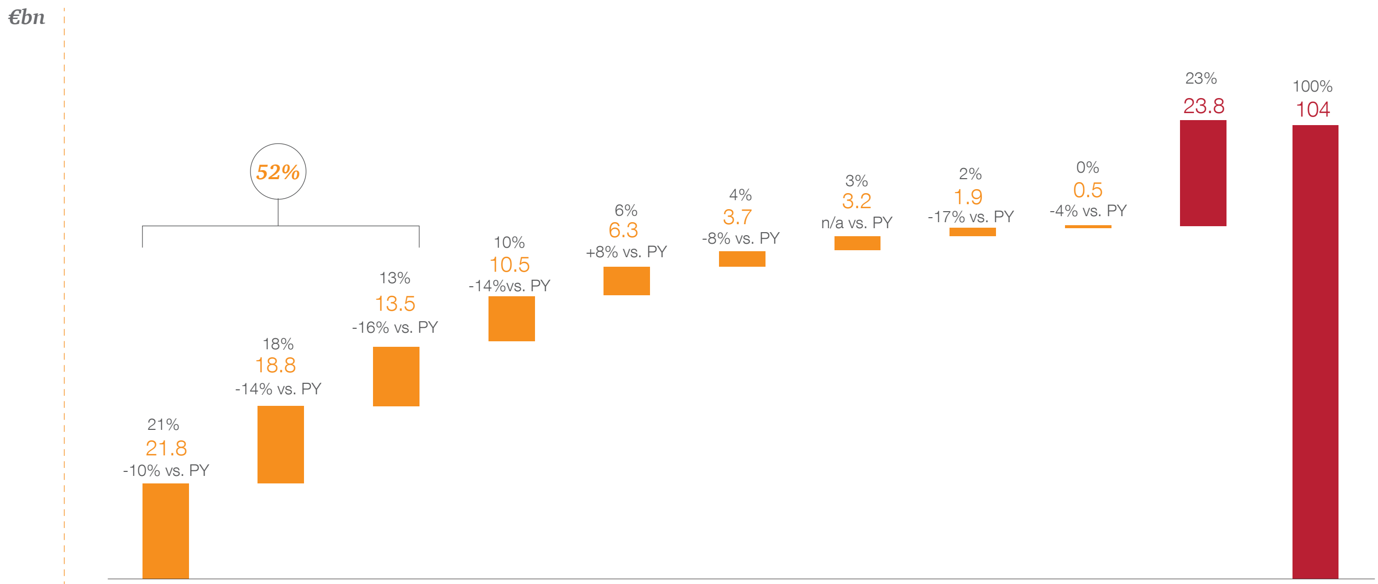
Moreover the reform of the bankruptcy law an the IFRS9 law, in place from 1 January 2018, will lead to an «early warning» and «forward looking» approach, which could likely result in higher reclassification of performing loans to NPE/UTP and overall higher provisions.

Only by focusing the efforts in the proactive management of their UTP exposures, the Italian banks could aim at deleveraging their UTP, through higher collection, higher cure rates to performing loans, lower danger rates to bad loans.

The proactive management of UTP should cover three main issues: (i) data quality and preliminary strategic portfolio segmentation, (ii) accurate analysis of the borrowers and integrated single names' management and (iii) implementation of the most appropriate strategic option to identify among forbearance measures, cash injection (equity/ debt) even through third investors, loan sales and liquidation procedures.

In other words, the proactive management of UTP is without a doubt a complex issue entailing and requiring due diligence, data quality, restructuring, turnaround management and M&A/special situation expertise.

At H1-2017, the UTP exposure amounted to € 104 bn of the overall amount is concentrated within the Top 9 Banks. UTP exposure represents 77% of the total NPE portfolio among the Top 9 Italian banks.



UniCredit	Intesa Sanpaolo	MPS	Banco BPM	UBI	BPER	Carige	Cariparma	Credem	Others	GBV total 30Jun2017
31.4%	34.4%	29.6%	37.7%	43.8%	33.7%	44.5%	38.1%	35.8%	Gross UTP/Gross NPE	
13.9%	12.9%	36.3%	22.6%	14.1%	21.1%	33.9%	11.7%	5.8%	Gross NPE Ratio	

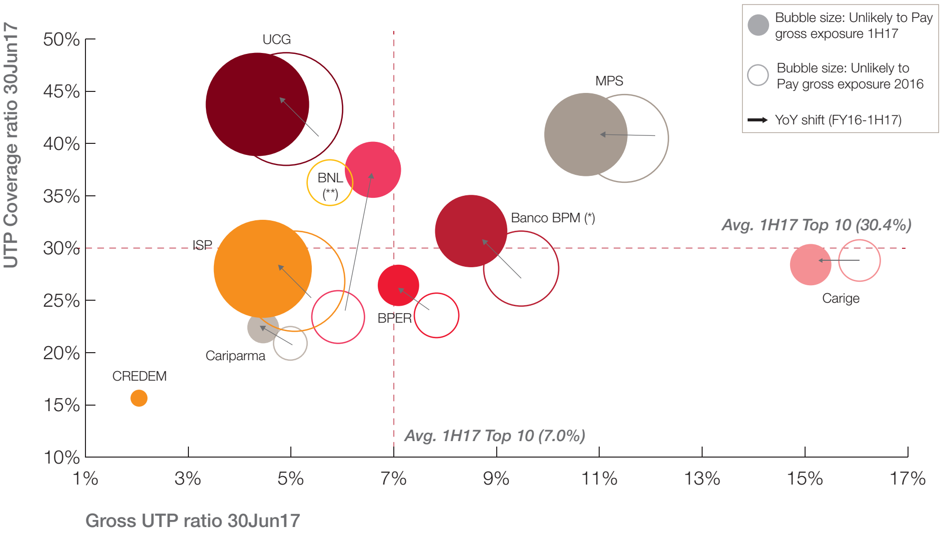
Source Financial statements as of H1-2017. BNL out of the analysis perimeter due to no publication of 1H financial results

UTP Coverage ratios vs. Gross UTP ratios

Top 10 Italian Banks averagely featured provisions of UTP in H1-2017 in line with 2016, the average ratio was equal to 30.4% in H1-2017 vs 30.8% in 2016. In particular UniCredit and Intesa Sanpaolo, both below the average Gross UTP ratio (4.4% and 4.5% respectively), increased their UTP provisions reaching UTP coverage equal to 43.6% (UniCredit) and 28.0% (Intesa Sanpaolo) as at 30 June 2017. MPS, third group in terms of UTP exposures in H1-2017, showed gross UTP ratio (10.8%) lower than in 2016 (11.5%) with an average UTP coverage of 40.8% in 1H17 compared to 40.3% in 2016. Ratios of Banco BPM (calculated as sum of the figures of the single entities, Banco Popolare and Banca BPM for 2016 data, merged together in Banco BPM from 1 January 2017) showed a reduction of the gross UTP ratio (8.5% in H1-2017 vs 9.5% in 2016) as well as the growth of the UTP coverage (31.5% in H1-2017 vs 28% in 2016). UBI recorded a significant increase in provisions of UTP (coverage ratio from 23.3% in 2016 to 37.3% in H1-2017).

The Top 10 Italian banks averagely maintained their provisions of UTP in H1-2017 in line with 2016. As at 30 June 2017 their average coverage ratio is 30.4% while their ratio on total loans is 7.0%.

Chart 28: Top 10 Italian banks



(*) Ratios of Banco BPM as at 31Dec16 were calculated as sum of the figures of Banco Popolare and BPM (merged together in Banco BMP from 1 January 2017)
(**) BNL UTP exposure as at 31Dec16

Inflows and outflows

In 2016, total outflows of the Top 20 Italian banks slightly decreased from €51.1bn to €49.9bn primarily driven by lower outflows to bad loans: 23% in 2015 vs 21% in 2016. (*)

The inflows in 2016 decreased as well (from € 52.1bn to 41.5bn) mainly due to the lower inflows from performing exposures. (*)

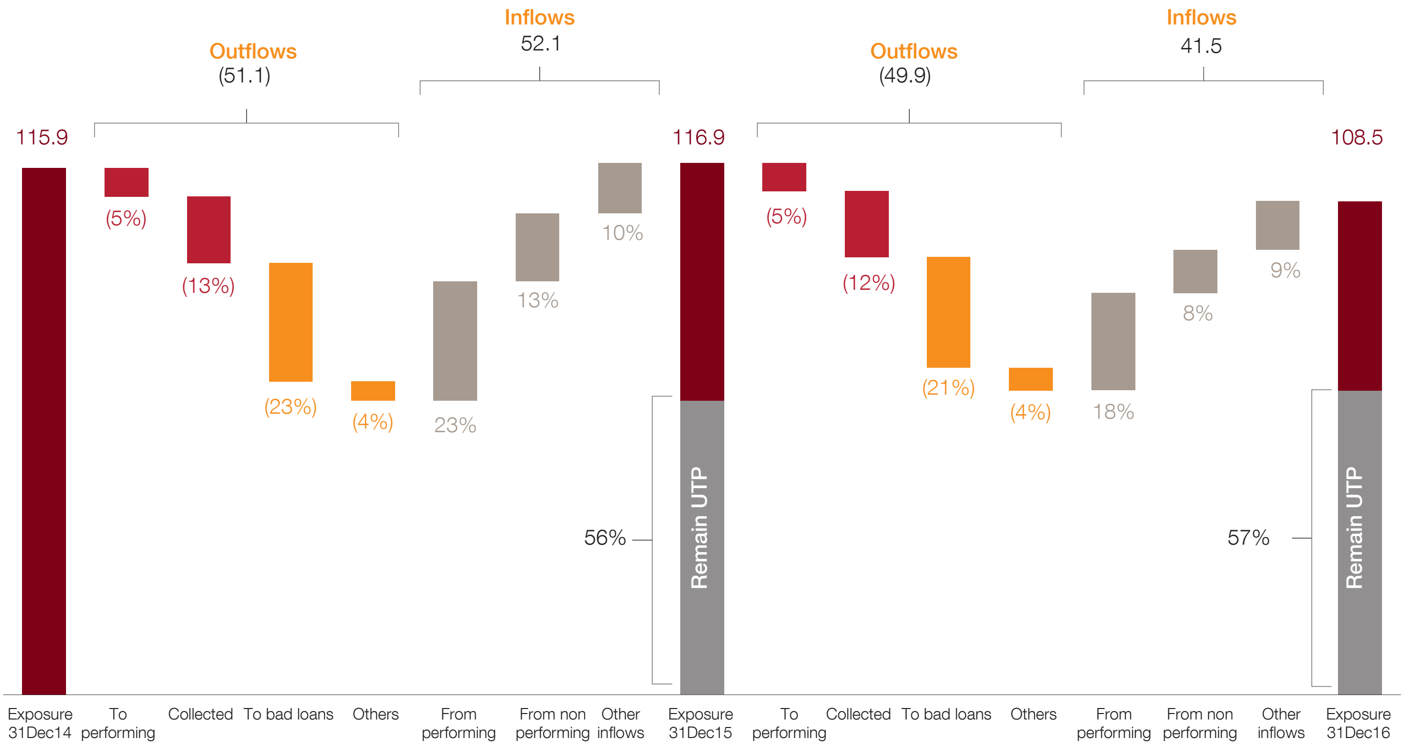
As for the outflows, the UTP gauged a firm decline of inflows from performing loans over the last 2-year period: 23% in 2015 vs 18% in 2016.

UTP which remained UTP during 2016 amounted to €61.8bn i.e. 57%, proving how the main issue for the Italian UTP lies mainly in their massive stock and a management not yet able to target deleveraging solutions.

In particular, according to Bank of Italy, 62.5% of the restructuring agreements (which qualify most of the UTP exposures) after 3 years are still in place (49% after 4 years) and did not result in a positive and conclusive outcome (i.e. after 4 years 40.9% of the restructuring agreements resulted in liquidation/bankruptcy procedures).

At the end of 2016, despite the decreased outflows to bad loans (-2%) and inflows from performing (-5%) compared to 2015, 57% of UTP remained as such. The UTP challenge lies in the management of their massive stock.

Chart 25: Unlikely to Pay inflows and outflows from 2014 to 2016 - Top 20 banks FY16 (€bn)



$$\% \, flows = \frac{In/Outflow}{Initial\ exposure}$$

(*) Inflows and outflows in 2016 for ICCREA and Banca Findomestic were estimated equal to the flows occurred in 2015 (to date their financial statements as at 31Dec16 are not yet available)

Our view on the available strategies for UTP

The strategic options identified through the on going due diligence carried out by the bank on the borrower's case could result in the return of the loan in the performing category or in the sale of the loan or in the classification of the exposure as bad loans (thus requiring the prompt liquidation of the borrower's asset through judicial procedures).

Sale of UTP could be even executed through portfolios transactions which require preliminary strategic segmentation to maximize loans' value for the banks.

Following the improved proactive management, banks could identify the most effective and efficient solutions to deleverage their UTP (e.g. return to performing, collection) among several strategic options. Solely a proactive management of UTP could lead to the right "tailor made" strategic solution.

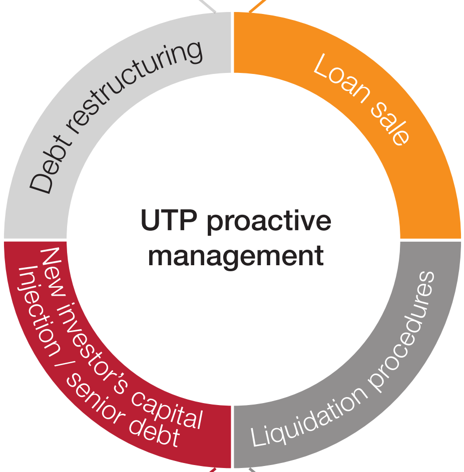
Potential return to performing

Forbearance measures

- Grace period / Payment moratorium
- Extension of maturity / term
- Debt consolidation
- New credit facilities
- Recovery plan ex art 67 Italian Bankruptcy Law
- Debt restructuring ex art 182bis
- Italian Bankruptcy Law

Investor's equity injection / underwriting of senior debt

- Industrial partner to revamp and establish the underlying borrower's business (long term approach)
- Financial partner to inject cash within a strategic exit plan (short/medium term approach)



Loan sale

- True sale (full derecognition purposes)
- Securitisation (to attract wider investors' base)
- Partial loan transfer (to share risks and opportunities with new investors)

Liquidation procedures

- Voluntary liquidation of collateral by the debtor (also foreseen within the forbearance measures)
- Judicial procedures to sell the borrower's (guaranteed) asset after preliminary assessment of liquidation value and timing of the procedure

Classification to bad loan

Forbearance as a relevant measure for the proactive management of UTP

The ECB guidance emphasizes that the main objective of forbearance measures is to allow debtors to exit their non-performing status or to prevent performing borrowers from reaching a non-performing status. Therefore, the guidance actively addresses the theme, by guiding banks in the identification of the optimal balance of forbearance measures aimed at granting the exit from short- and long-term difficulty status of the debtor. In particular, on the basis of the type of difficulty of the debtor, either short- or long-term forbearance measures (or a combination of the two) maximizing recoveries shall be identified, by granting, simultaneously, the sustainability of the adopted measures (e.g. debt service capacity).

Italian banks should improve their loans' restructuring procedures throughout an appropriate and more effective "case by case" analysis of the financial difficulty of the borrower.

Main forbearance measures[1] – Application examples

Intervention area	Adoption of short-term measures		Adoption of long-term measures	
Interest	• **Temporary financial difficulty** of **minor entity** to be overcome **within 24 months**	• Temporary payment of **interest only** (no capital reimbursement)	• Excessively **high interest rates** for the debtor	• **Permanent reduction** of interest rates
Instalments	• Temporary financial difficulty of **moderate entity** to be overcome within 24 months	• **Temporary reduction** of **instalment** amount • Full interest payment	• **Misalignment** between **repayment plan** and **reimbursement capacity** of the debtor	• **Rescheduling of amortization plan** (e.g. partial, bullet, step-up)
Maturity	• Temporary financial difficulty of **moderate/ serious entity** to be overcome within 24 mo.	• "**Grace period**" for the payment of interests and capital	• **Excessively high instalments** for the debtor	• **Extension** of debt **maturity**
Collateral				• **Voluntary disposal** of **collateral** by the debtor

= financial situation of the debtor

= applicable forbearance measure

(1) In addition to debt forgiveness and/or arrears capitalisation options

In **particular cases** it is possible to adopt **new credit facilities** or **debt consolidation** measures

Our view on the requirements arisen from the adoption of IFRS9 for the Italian banks

The transition to IFRS 9 (from IAS 39) will be critical as banks will be required to accrue provisions based on expected losses and not only upon the occurrence of specific events (e.g. “impairment tests”). Banks will be asked to adopt a “forward looking” approach and as such to anticipate losses at the first signals of deterioration.

As a result, specific instruments as well as right structure and skilled people to proactively monitor borrowers’ performances will be required.

Key Message: Starting from 2018, we expect that a higher portion of loans might be at risk to be reclassified in loans’ higher risk categories following the introduction of a different valuation approach with IFRS9 (from “ex post” to “forward looking”).

Classification

New classification criteria will lead to 3 new classes of loans (“Hold to collect”, “Hold to collect and sale”, “Trading”). The need to properly classify their exposures will require the bank to review and strategically refine their business model associated to the loans’ management:

- On the one hand, for the “portfolio to hold”, banks should strenghten the internal credit monitoring functions in terms of expertise as well as of renovated tools of credit risk measurement (e.g. KPI, index, advanced CRM solutions).
- On the other hand, for the “portfolio to sell”, banks should implement specialised units in charge of the structuring and execution of loans’ sale transactions (e.g. data preparation and remediation, securitisation).

Impairment

- New impairment criteria, based on the “expected loss” and “forward looking“ approach, will result in certain portions of the current portfolio classified in loans’ higher risk categories (e.g. from performing to UTP/bad loans).
- Higher impairment (by collective and analytical provisioning) will result through the “forward looking” approach which will move up losses to be incurred over the loans’ lifetime.
- Need to foresee the lifetime losses will require the banks to implement proactive actions to preliminarly assess borrowers’ likelyhood to pays their debts along with avoid further danger rate from performing to UTP and bad loans.

The Servicing Market

Key Message: Recent M&A activity in the NPL Servicers' Industry has strengthened the competitive position of market leaders, increasing the number of players with robust industrial and financial capabilities, able to manage large-scale partnerships with Banks. After recent deals, new strategic agreements between Banks and Specialised Servicers are expected in 2018. Next M&A wave will involve Debt Collection Agencies. On-going business model innovation: from NPL Servicing to Specialty Finance?

Key dynamics in the second half of 2017

In the second half of 2017, the evolution of the credit management sector has continued, based on the key trends we highlighted in the mid-year edition our NPL Report. Increasing volumes of portfolio disposals from Banks to Investors and strategic outsourcing of NPLs banking platforms drive the growth of specialized NPL servicers (latest deal, Credito Fondiario: acquisition of NPL Unit and servicing partnership with Carige). The leaders are gaining market share due to "jumbo deals". Many financial and strategic investors aim at developing integrated industrial capabilities, both through external and internal growth initiatives (latest deal, Lindorff-Intrum: acquisition of CAF). In the DCA (Debt Collection Agencies) segment, increasing competition is reducing margins for third parties business, pushing for cost reduction initiatives and business model evolution. The sector's structure and trends (fragmentation, decreasing returns) generate fertile conditions for consolidation: opportunities exist for both vertical integration of strategic/financial players (captive models) and the development of new 'independent' servicing platforms.

Our outlook for 2018

In our outlook for 2018, we see further consolidation of the trends mentioned above, with a potential acceleration of the following dynamics:

- strategic sale or outsourcing of NPLs banking platforms, due to market and regulatory pressures: following Creval, MPS and Carige deals, other banking Groups might consider strategic initiatives with NPL Specialists to extract value, in the short and/or medium-long term, from their workout units;
- continuing M&A transactions, with increasing focus in the DCA segment: after intense transaction activities regarding the leading NPLs Servicers in the latest 24 months, the next deal phase is likely to involve debt collection agencies;
- emerging opportunities in new specialized segments: active real estate services, including ReoCo management; master and special servicing specialization in the leasing NPL segment (following recent changes of the securitization legal framework)
- diversification opportunities in adjacent credit management segments:
  - unlikely to pay: new focused models able to assure a proactive management of NPE advisory;
  - delinquency management services for small tickets: the "industrial" model well established for the pre-charge off positons of consumer credit specialists might be applied to small ticket banking positions in the early delinquency stages;
  - performing loan management: increasing opportunities for performing loans portfolio disposals are likely to generate demand for independent servicing offers.

From NPL Servicing to Specialty Finance?

In such a context, considering the on-going major changes in the Italian financial and banking environment, the Servicing Leaders (in terms of financial and strategic capabilities) have the opportunity to redefine the competitive arena in which they operate and develop new business models. As an example, players that operate as banking institutions have the chance to leverage the regulatory and funding platforms to develop comprehensive and "sophisticated" approaches in NPLs and UTP, both in financial (from purchase to refinancing) and industrial terms (from special to master servicing). New "challengers banks" with a focus on specialty finance (including specialized lending and credit portfolio management, both performing and non performing) are likely to develop attractive and highly profitable value propositions.

Table 5: Main transactions in the servicing sector

2013

Italfondiario	Cerved
Acquisition of a minority stake in BCC Gestione crediti from ICCREA	Acquisition of Tarida, specialized in consumer finance collections vith 1.9bn AuM and 250k tickets

2014

Hoist Finance	Banca Sistema	Cerved
Acquisition of 100% of TRC from private shareholders. Specialized in consumer finance	Acquisition of 2 servicing platform Candia & Sting from private shareh. and merger (CS Union)	Acquisition of 80% of Recus. Specialized in collection for telcos and utilities

2015

Fortress	Lonestar	Cerved
Acquisition of UniCredit captive servicing platform (UCCMB)	Acquisition of CAF a servicing platform with €7bn AuM from private shareholders	Acquisition of 100% of Fin. San Giacomo part of Credito Valtellinese group

2016

Axactor	Lindorff	Arrow	Kruk	doBank	Dea Capital
Acquisition of CS Union from Banca Sistema	Acquisition of CrossFactor, a small factoring and credit servicing platform	Acquisition of 100% of Zenith Service, a master servicing platform	Acquisition of 100% of Credit Base	Acquisition of 100% of Italfondiario	Acquisition of 66,3% of SPC Credit Management

2017

Kkr	Lindorff	Bain Capital	Varde	Davidson Kempner	Cerved + Quaestio
Acquisition of Sistemia	Acquisition of Gextra, a small ticket player from doBank	Acquisition of 100% of HARIT, servicing platform specialized in secured loans	Acquisition of 33% of Guber	Acquisition of 44.9% of Prelios and launch of a mandatory tender offer	Acquisition of the credit servicing platform (a.k.a. “Juliet”) of MPS
Cerved	**Intrum/ Lindorff**	**Credito Fondiario**			
Acquisition of a NPL platform of Banca Popolare di Bari	Acquisition of 100% of CAF	Acquisition of NPL servicing platform of Carige			

Table 6: Overview of main servicers (data at 30/06/2017) – Ranking by Revenues

Company	Bank of Italy Surveillance	Revenues H1-2017 (€m)	Special Servicing		Servicing Performing AuM (€bn)	Master Servicing AuM (€bn)	Ebitda H1-2017 (€m)
			Total Bad Loans[1] AuM (€bn)	Other NPLs AuM[2] (€bn)			
doBank[3]	Bank	104.8	77.5	1.5	1.8	43.5	30.3
Cerved Credit Management	115	46.0	12.1	1.5	11.7	-	11.9
MBCredit Solutions	106	39.5	5.0	-	-	-	18.4
Fire	115	20.8	2.4	0.5	0.4	-	1.0
Guber	115	18.9	8.9	-	-	-	n.a.
Advancing Trade	106/115	16.9	4.3	-	-	-	3.3
Credito Fondiario	Bank	16.9	1.2	1.3	1.4	11.2	n.a.
FBS	106	12.7	8.0	0.1	-	-	n.a.
Cribis	115	12.0	2.1	12.9	7.6	-	n.a.
CAF	115	11.5	7.6	-	0.2	-	4.2
Hoist Italia	115	10.6	7.8	-	-	-	0.1
Sistemia	115	10.0[4]	5.3	-	-	-	2.4
Aquileia Capital	106	9.7	1.2	0.2	0.0	-	n.a.
Europa Factor	106	9.3	1.8	-	-	-	2.2
Officine CST	115	6.0	1.5	-	0.9	-	2.3
Bcc Gestione Crediti	106	6.0	2.6	-	-	-	1.1
Prelios Credit Servicing	106	5.2	4.0	-	-	6.2	(0.2)
Axactor	106	4.5	0.8	0.1	-	-	0.3
AZ Holding	115	4.4	1.3	-	-	-	1.7
Aurora RE	115	4.2	0.2	0.7	0.2	-	n.a.
Fides	115	4.0	0.6	0.0	0.1	-	n.a.
CSS	115	3.8	1.2	-	0.3	-	0.3
SiCollection	115	2.8	0.6	0.2	0.0	-	n.a.
Frontis NPL	115	2.3	2.6	-	-	-	1.1
Phoenix Asset Management	115	2.1	9.0	-	0.1	-	1.1
Gextra - Lindorff group	115	1.8	0.4	0.0	0.0	-	n.a.
Centotrenta Servicing	106	1.5	-	0.1	-	6.6	0.2
Blue Factor	106	1.1	1.6	-	-	-	0.4
Primus Capital	115	0.6	0.4	-	-	0.1	n.a.
Bayview Italia	115	n.a.[7]	3.7	-	-	-	n.a.
Kruk Italia	115	n.a.[7]	2.7	-	-	-	n.a.
Parr Credit	115	n.a.[7]	0.3	0.2	-	-	2.2
Serfin	115	n.a.[7]	0.6	0.1	0.7	-	n.a.
Zenith Service	106	n.a.[7]	-	0.7	6.8	9.5	3.2
Finanziaria Internazionale	106	n.a.[7]	0.3	0.6	4.2	32.5	5.5
Link Financial	106	n.a.[7]	2.1	0.1	0.1	-	n.a.
Certa Credita	115	n.a.[7]	-	0.1	-	0.3	0.5

Source: PwC analysis on data provided by Servicers as of 30/06/2017; 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 doBank group figures include Italfondiario
4 Sistemia Revenues forecast at 31/12/2017 received has been divided by 2
5 Officine CST is specialised mainly in PA credit servicing
6 Debt purchasing activities are conduced via Special Purpose Vehicles
7 H1-2017 data have not been provided by Servicers, at 31/12/2016 revenues were equal to: Parr Credit 20€m; Serfin 19€m; Zenith Service 12€m; Finanziaria Internazionale 10€m; Link Financial 4.9 €m; Certa Credita 1€m; Not available data for Kruk and Bayview
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

Net Equity H1-2017	Main activities				Rating
	NPL servicing	Debt Collection	Debt purchasing	Master servicing	
178.0	✓			✓	✓
31.4	✓	✓			✓
125.7	✓	✓	✓		
11.9	✓	✓	✓		
n.a.	✓		✓		✓
7.3	✓	✓	✓		
87.7	✓		✓	✓	✓
5.4	✓		✓		✓
n.a.		✓			
4.0	✓				✓
0.3	✓	✓	✓ [6]		
2.4	✓				
n.a.	✓		✓ [6]		
n.a.		✓	✓		
7.8	✓ [5]				
4.5	✓		✓		
7.8	✓			✓	✓
7.7		✓	✓		
n.a.	✓	✓			
n.a.	✓				
n.a.		✓			
1.3	✓	✓			
0.7		✓	✓		
n.a.	✓		✓		
2.0	✓				
n.a.		✓			
3.1				✓	✓
2.7	✓		✓		
n.a.	✓				
n.a.	✓				
n.a.	✓	✓	✓ [6]		
n.a.		✓			
n.a.		✓			
6.5	✓			✓	✓
11.5	✓	✓		✓	✓
-		✓			✓
1.0					

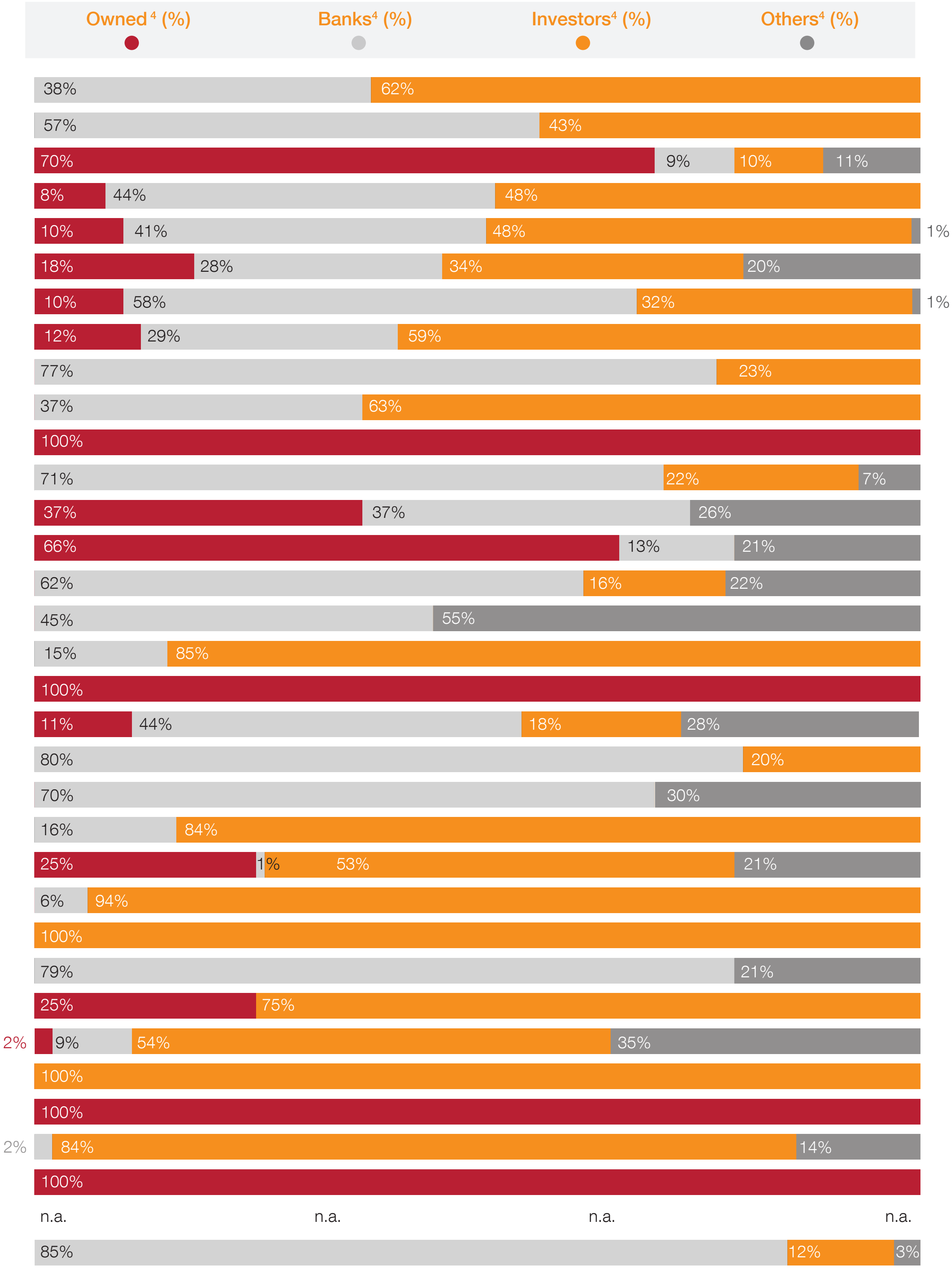
Table 7: Breakdown of servicer' Total Bad Loans AuM1 (data at 30/06/2017) – Ranking by Revenues[2]

Company	Total Bad Loans AuM (€bn)	Total Bad Loans AuM (€bn)[1]	Average Ticket (€k)	Secured[4] (%)	Unsecured[4] (%)
doBank[3]	104.8	77.5	114	79%	21%
Cerved Credit Management	46.0	12.1	11	42%	58%
MBCredit Solutions	39.5	5.0	2	1%	99%
Fire	20.8	2.4	5	14%	86%
Guber	18.9	8.9	65	16%	84%
Advancing Trade	16.9	4.3	2		100%
Credito Fondiario	16.9	1.2	21	68%	32%
FBS	12.7	8.0	36	31%	69%
Cribis	12.0	2.1	18	62%	38%
CAF	11.5	7.6	41	31%	69%
Hoist Italia	10.6	7.8	8	1%	99%
Sistemia	10.0	5.3	18	69%	31%
Aquileia Capital	9.7	1.2	535	58%	42%
Europa Factor	9.3	1.8	1	13%	87%
Officine CST	6.0	1.5	14	58%	42%
Bcc Gestione Crediti	6.0	2.6	131	72%	28%
Prelios Credit Servicing	5.2	4.0	317	60%	40%
Axactor	4.5	0.8	7		100%
AZ Holding	4.4	1.3	7		100%
Aurora RE	4.2	0.2	24.011	100%	
Fides	4.0	0.6	3	14%	86%
CSS	3.8	1.2	6		100%
SiCollection	2.8	0.6	6		100%
Frontis NPL	2.3	2.6	934	92%	8%
Phoenix Asset Management	2.1	9.0	344	36%	64%
Gextra - Lindorff group	1.8	0.4	9	4%	96%
Blue Factor	1.1	1.6	8		100%
Primus Capital	0.6	0.4	42	27%	73%
Bayview Italia	n.a.	3.7	57	42%	58%
Kruk Italia	n.a.	2.7	8		100%
Parr Credit	n.a.[5]	0.3	3		100%
Serfin	n.a.[5]	0.6	1		100%
Link Financial	n.a.[5]	2.1	6	10%	90%
Certa Credita	n.a.[5]	-	6	n.a.	n.a.

Source: PwC analysis on data provided by Servicers as of 30/06/2017; 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 Servicers providing mainly Master Servicing activities have been excluded: Centotrenta Servicing, Zenith Service, Finanziaria Internazionale



3 doBank group figures include Italfondiario: 79% refers to "first lien" secured Bad loans
4 Percentages are based on total NPL portfolio: breakdown for Master and Special servicing activities have not been provided
5 H1 2017 data have not been provided by Servicers, at 31/12/2016 revenues were equal to: Parr Credit 20€m; Serfin 19€m; Link Financial 4.9 €m; Certa Credita 1€m; Not available data for Kruk and Bayview

Table 8: Geographical NPL breakdown (data at 30/06/2017) – Ranking by Revenues[2]

Company	Revenues H1-2017 (€m)	Total Bad Loans AuM (€bn)[1]	In term of AuM – Secured: North[4]	Centre[5]	South - Islands[6]
doBank[3]	104.8	77.5	45%	23%	32%
Cerved Credit Management	46.0	12.1	39%	22%	39%
MBCredit Solutions	39.5	5.0	40%	23%	37%
Fire	20.8	2.4	30%	19%	51%
Guber	18.9	8.9	43%	40%	17%
Advancing Trade	16.9	4.3	35%	16%	49%
Credito Fondiario	16.9	1.2	50%	34%	15%
FBS	12.7	8.0	27%	37%	37%
Cribis	12.0	2.1	46%	23%	31%
CAF	11.5	7.6	44%	32%	24%
Hoist Italia	10.6	7.8	47%	19%	33%
Sistemia	10.0	5.3	42%	33%	25%
Aquileia Capital	9.7	1.2	93%	4%	3%
Europa Factor	9.3	1.8	28%	26%	46%
Officine CST	6.0	1.5	40%	27%	33%
Bcc Gestione Crediti	6.0	2.6	47%	17%	35%
Prelios Credit Servicing	5.2	4.0	24%	21%	55%
Axactor	4.5	0.8	n.a.		
AZ Holding	4.4	1.3	35%	38%	27%
Aurora RE	4.2	0.2	49%	45%	6%
Fides	4.0	0.6	16%	21%	63%
CSS	3.8	1.2	50%	19%	31%
SiCollection	2.8	0.6	41%	16%	43%
Frontis NPL	2.3	2.6	63%	25%	12%
Phoenix Asset Management	2.1	9.0	31%	50%	19%
Gextra - Lindorff group	1.8	0.4	41%	25%	34%
Blue Factor	1.1	1.6	33%	31%	36%
Primus Capital	0.6	0.4	39%	31%	30%
Bayview Italia	n.a.	3.7	58%	20%	22%
Kruk Italia	n.a.	2.7	17%	28%	55%
Parr Credit	n.a.[7]	0.3	27%	35%	38%
Serfin	n.a.[7]	0.6	30%	50%	20%
Link Financial	n.a.[7]	2.1	21%	36%	43%
Certa Credita	n.a.[7]	-	28%	17%	55%

Source: PwC analysis on data provided by Servicers as of 30/06/2017; 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 Servicers providing mainly Master Servicing activities have been excluded: Centotrenta Servicing, Zenith Service, Finanziaria Internazionale

3 doBank group figures include Italfondiario

Table 9: Breakdown of servicer' Total Bad Loans AuM[1] (data at 30/06/2017) – Ranking by Revenues[2]

Type of loan resolution - Nr of Loans

Secured – Judicial	Secured – Extrajudicial	Secured – Loan Sale	Unsecured – Judicial	Unsecured – Extrajudicial	Unsecured – Loan Sale
12%	87%		2%	98%	
18%	71%	11%	13%	87%	
	100%		19%	81%	
50%	50%		5%	95%	
48%	52%		4%	96%	
n.a.	n.a.	n.a.		12%	87%
33%	57%	10%	38%	50%	12%
24%	65%	11%	11%	79%	10%
43%	46%	11%	17%	83%	
42%	28%	30%	13%	49%	38%
76%	24%		28%	72%	
70%	30%		50%	50%	
7%	93%		26%	74%	
n.a.	n.a.	n.a.		32%	68%
78%	21%	1%	30%	69%	1%
10%	90%		5%	95%	
67%	25%	8%	35%	32%	33%
n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
n.a.	n.a.	n.a.	25%	75%	
n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
34%	66%			100%	
n.a.	n.a.	n.a.		100%	
n.a.	n.a.	n.a.	94%	6%	
48%	12%	40%		100%	
n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	100%			100%	
n.a.	n.a.	n.a.	40%	60%	
69%	29%	2%	2%	97%	1%
n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
n.a.	n.a.	n.a.	6%	94%	
	100%			100%	
n.a.	n.a.	n.a.	10%	90%	
91%	9%		3%	97%	
n.a.	n.a.	n.a.		100%	

4 Includes: Piemonte, Valle d'Aosta, Lombardia, Veneto, Trentino Alto Adige, Friuli Venezia Giulia, Liguria, Emilia Romagna
5 Includes: Toscana, Umbria, Marche, Lazio
6 Includes: Abruzzo, Molise, Campania, Puglia, Basilicata, Calabria, Sicilia, Sardegna
7 H1 2017 data have not been provided by Servicers, at 31/12/2016 revenues were equal to: Parr Credit 20€m; Serfin 19€m; Link Financial 4.9 €m; Certa Credita 1€m; Not available data for Kruk and Bayview

Recent market activity and outlook

Key Message: Alongside such structural reforms of the banking sector, the Government has adopted measures to encourage the creation of a market for non-performing loans, which helps to reduce the burden of those assets and restore an adequate flow of lending to the real economy. Even after facing a long recession, the Italian banking sector has proven to be sound and resilient. Overall, after years of adjustments, the Italian banking industry is returning to positive, effective and promising levels of performance. Transaction volumes in 2018 are expected to peak €70bn.

New regulations introduced in Italy in the last years, for instance limitations on borrowers being able to block recoveries and laws allowing real-estate leases to be packaged into securitizations, have enticed more buyers in the financial market.

Moreover, new accounting rules known as the IFRS 9 are due to come into force at the start of 2018, under which banks will have to take into account expected losses on their loan books as well as realized losses. While the recent downward trend is encouraging, banks need to continue to be realistic about the prices they're willing to offload their bad debts at.

In June 2017, the Government committed as much as 17 billion euros to wind down Banca Popolare di Vicenza and Veneto Banca, and a month later got EU approval to give 5.4 billion euros of aid to recapitalize Banca Monte dei Paschi di Siena, thus addressing what were considered the main systemic risks for the banking industry.

Following these measures, in June 2017 the two banks in Veneto region were acquired by Intesa Sanpaolo and their NPE exposures (€16.8bn) were disposed to the Italian public Bad Bank SGA (as at December 2017 the NPE are yet within the LCA ("Liquidazione Coatta Amministrativa"), which is the judicial procedure legally entitled to hand over the NPE to SGA). MPS will sell their NPE (€26.1bn) in 2018 through a securitization where the senior and mezzanine notes will be underwritten by Atlante Fund resulting in the full derecognition of the NPE for the bank.

Year 2017 features circa €64bn of NPL closed transactions. The figure includes €16.7bn of loans ("Project Fino") sold by Unicredit to Fortress and Pimco through a securitization (the NPL were still on the book of the bank as at 30 June 2017 and fully derecognised as at 30 September 2017 once Unicredit committed to reduce its quota of the notes under 20% within one year).

The figure includes also the NPE (€16.8bn) of Banca Popolare di Vicenza and Veneto Banca which will be hand over by the LCA to the Bad Bank SGA according to the Government Decree dated 25 June 2017 (the NPL were still accounted for in the exposures of the Italian banking system as at 30 June 2017 and excluded from July 2017 once the LCA did not maintain the banking license of the two banks).

Among the other significant transactions of the year, we have to mention the bailout of the three regional banks Carismi, Carim and CariCesena acquired by Crédit Agricole Cariparma. The transaction resulted in the disposal of the bad loans (€2.9bn) and UTP (€0.3bn) of the three banks to Quaestio Capital SGR and Algebris respectively.

December 2017 featured booming M&A movements. Carige established an industrial servicing partnership with Credito Fondiario through the sale of € 1.2 bln of NPL (bad loans only) and the servicing platform (contract + people). Lindorff-Intrum acquired CAF (the platform and their NPL portfolio totalling €400m of GBV).

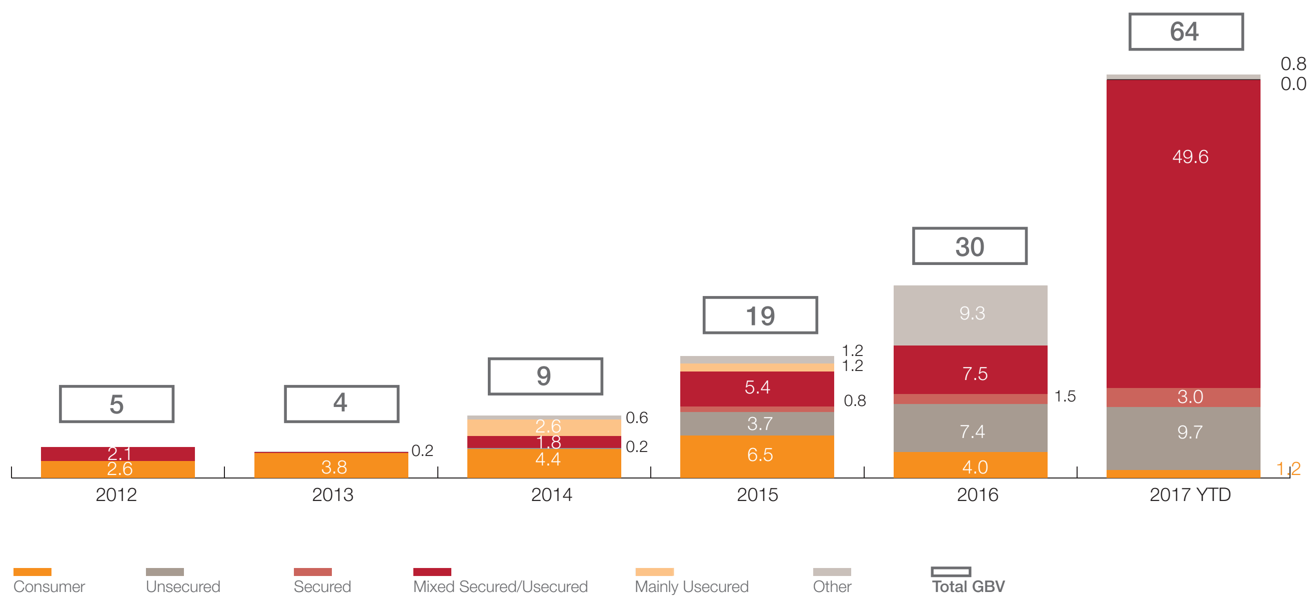
According to the movements seen in the market we foresee in 2018 NPL transactions achieving volume of atleast circa €70bn. The figure includes the securitisation of MPS above described (€ 26.1bn) which should be closed by 30 June 2018 and other disposals announced by several players in the market (e.g. BPM for € 4bn, BPER for c. €5bn).

Chart 29: Closed NPL transactions in 2017YTD

Date	Seller	Volume (€m)	Performing/Non Performing	Macro asset class	Buyer
2017 Q4	Banca popolare di Bari	320	Bad loans	Mixed Secured/Unsecured	Davidson Kempner
2017 Q4	Creval	24	UTP	Secured	Hoist Finance
2017 Q4	Carige	1.200	Bad loans	Mixed Secured/Unsecured	Credito Fondiario
2017 Q4	Cassa Centrale Banca	570	Bad loans	Mixed Secured/Unsecured	Seer Capital Management
2017 Q4	Cassa Centrale Banca	315	Bad loans	Mixed Secured/Unsecured	Locam
2017 Q4	CAF	400	Bad loans	Mixed Secured/Unsecured	Lindorff-Intrum
2017 Q4	Veneto Banca, Banca Popolare di Vicenza	16.800	Bad loans & UTP	Mixed Secured/Unsecured	SGA
2017 Q4	BNL	1.000	Bad loans	Unsecured	Lindorff-Intrum
2017 Q4	BPM	2.000	Bad loans	Unsecured	Confidential
2017 Q4	Unicredit	14.300	Bad loans	Mixed Secured/Unsecured	Fortress
2017 Q4	Unicredit	3.400	Bad loans	Mixed Secured/Unsecured	Pimco
2017 Q4	Unicredit	265	Bad loans	Secured	Cerberus
2017 Q4	Unicredit	450	Bad loans	Unsecured	MBCredit Solutions
2017 Q4	Banca IFIS	152	Bad loans	Unsecured	Confidential
2017 Q4	Confidential	44	Bad loans	Unsecured	Banca IFIS
2017 Q4	Intesa San Paolo	600	Bad loans	Unsecured	MB Credit Solutions
2017 Q3	CRC-Carim-Carismi	286	UTP	Mixed Secured/Unsecured	Algebris
2017 Q3	CRC-Carim-Carismi	2.885	Bad loans	Mixed Secured/Unsecured	Quaestio Capital SGR
2017 Q3	Banca Marche, Etruria, Chieti	759	Bad loans	Secured	Cerberus
2017 Q3	Hypo Alpe Adria Bank	750	Bad loans, UTP & leasing	Other	Bain Capital Credit
2017 Q3	Credit Agricole e Banco Desio	175	Bad loans	Mixed Secured/Unsecured	B2Holding ASA
2017 Q3	Palamon Capital Partners	170	Bad loans	Consumer	Best Capital Italy
2017 Q3	Rev	300	Bad loans	Unsecured	Seer Capital
2017 Q3	Commerzbank	234	Bad loans & UTP	Secured	Fortress Investment Group
2017 Q3	Banca Mediocredito FVG	400	Bad loans	Mixed Secured/Unsecured	Bain Capital
2017 Q2	Carige	938	Bad loans	Mixed Secured/Unsecured	Davidson Kempner
2017 Q3	Banca Marche, Etruria, Chieti	2.200	UTP	Mixed Secured/Unsecured	Quaestio Capital SGR
2017 Q2/ Q3	Various	0,13	Bad Loans	Mixed Secured/Unsecured	IDeA NPL
2017 Q2	Confidential	1.000	Bad loans	Unsecured	LCM
2017 Q2	Creval	1.400	Bad loans	Mixed Secured/Unsecured	Waterfall Asset Management
2017 Q2	Banca IFIS	250	Bad loans	Consumer	International distressed investor and LCM Partners
2017 Q2	Banca IFIS	750	Bad loans	Consumer	Kruk Italia
2017 Q2	Deutsche Bank	130	Bad loans	Unsecured	Kruk Italia
2017 Q2	Unicredit	50	Bad loans	Mixed Secured/Unsecured	Kruk Italia
2017 Q2	Cariferrara	343	Bad loans	Mixed Secured/Unsecured	Quaestio Capital SGR

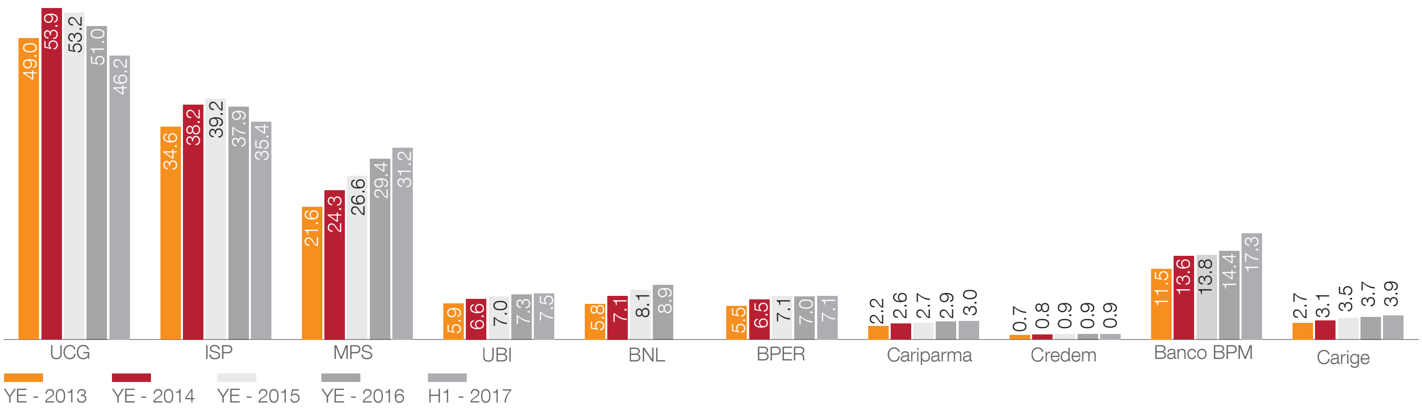
Date	Seller	Volume (€m)	Performing/Non Performing	Macro asset class	Buyer
2017 Q2	Findomestic Banca	321	Bad loans	Unsecured	Banca IFIS
2017 Q2	Consel (Banca Sella Group)	17	Bad loans	Unsecured	Banca IFIS
2017 Q2	Deutsche Bank	132	Bad loans	Unsecured	Kruk Italia
2017 Q2	Unicredit	310	Bad loans	Unsecured	MB Credit Solutions
2017 Q2	Banco BPM	750	Bad loans	Secured	Algebris
2017 Q2	Banca Mediocredito FVG	400	Bad loans	Secured	Bain Capital
2017 Q2	Banca Sella	126	Bad loans	Mixed Secured/Unsecured	B2 Holding
2017 Q2	Barclays	190	Bad loans	Unsecured	Banca IFIS
2017 Q2	Unicredit Leasing	500	Bad loans	Unsecured	MB Credit Solutions
2017 Q2	Intesa SanPaolo	2.500	Bad loans	Mixed Secured/Unsecured	CRC
2017 Q2	Confidential	22	Bad loans	Unsecured	Axactor
2017 Q2	Intesa SanPaolo Provis	280	Bad loans	Secured	Credito Fondiario
2017 Q2	Confidential	302	Bad loans	Unsecured	Banca IFIS
2017 Q2	Confidential	112	Bad loans	Unsecured	Banca IFIS
2017 Q1	Deutsche Bank	413	Bad loans	Mixed Secured/Unsecured	Banca IFIS
2017 Q1	CreVal	50	Bad loans	Secured	Confidential
2017 Q1	Santander	160	Bad loans	Unsecured	Banca IFIS
2017 Q1	HETA	657	Bad loans	Mixed Secured/Unsecured	Bain Capital
2017 Q1	Barclays	177	Bad loans	Secured	AnaCap
2017 Q1	CreVal	105	UTP	Secured	Cerberus
2017 Q1	Agos Ducato	350	Bad loans	Unsecured	Hoist Finance
2017 Q1	BNL	1.000	Bad loans	Unsecured	Banca IFIS
2017 Q1	Banco Popolare	641	Bad loans	Unsecured	Hoist Finance

Chart 30: NPL transactions trend in the Italian market (€ bn)

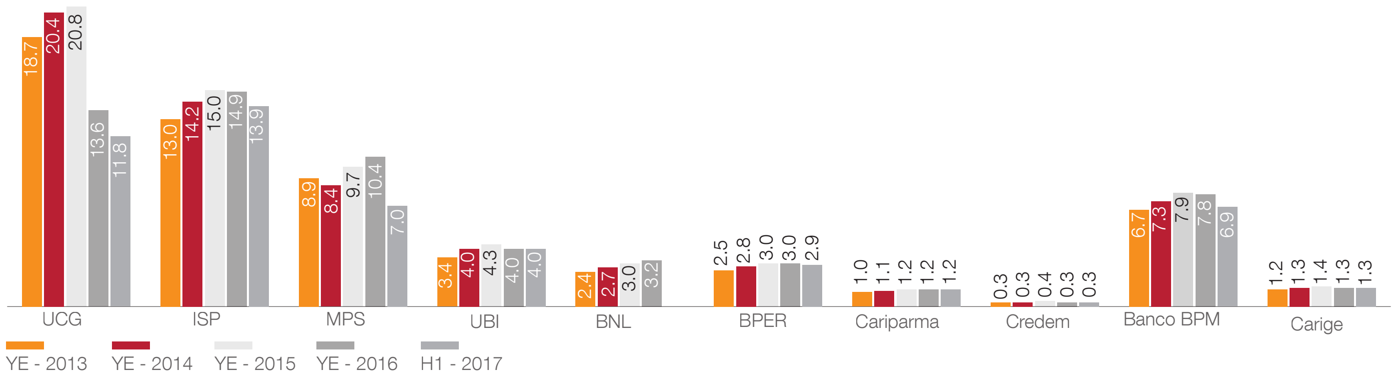


Source: PwC market analysis

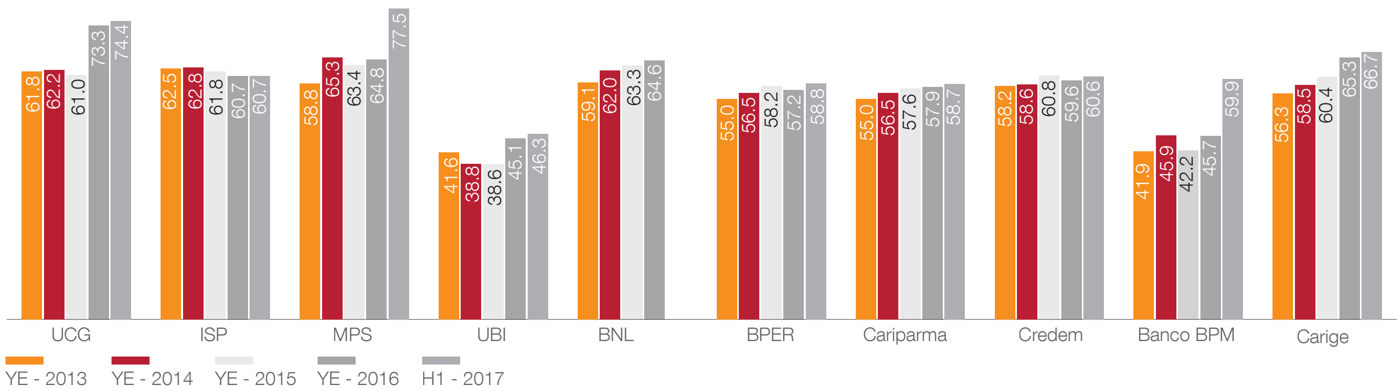
Gross Bad Loans volume (€ bn)



Net Bad Loans volume (€ bn)

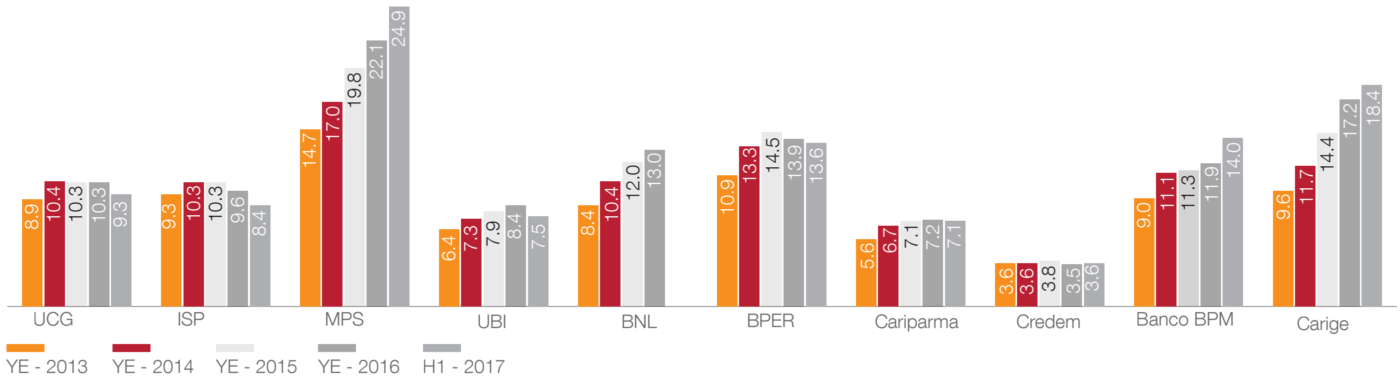


Bad Loans Coverage ratio (%)

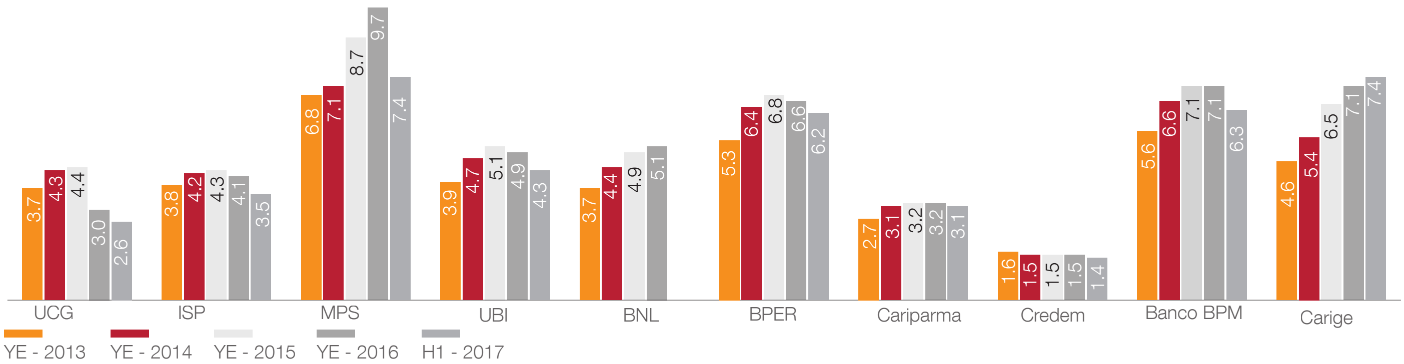


Source: Financial Statements as of H1-2017, YE 2016, YE 2015, YE2014, YE 2013

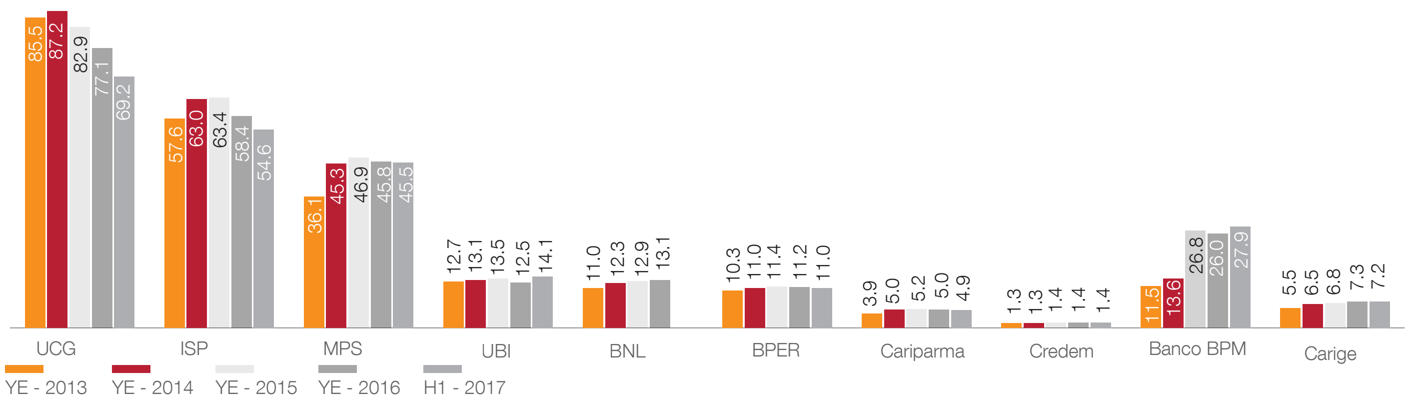
Gross Bad Loans ratio (%)



Net Bad Loans ratio (%)

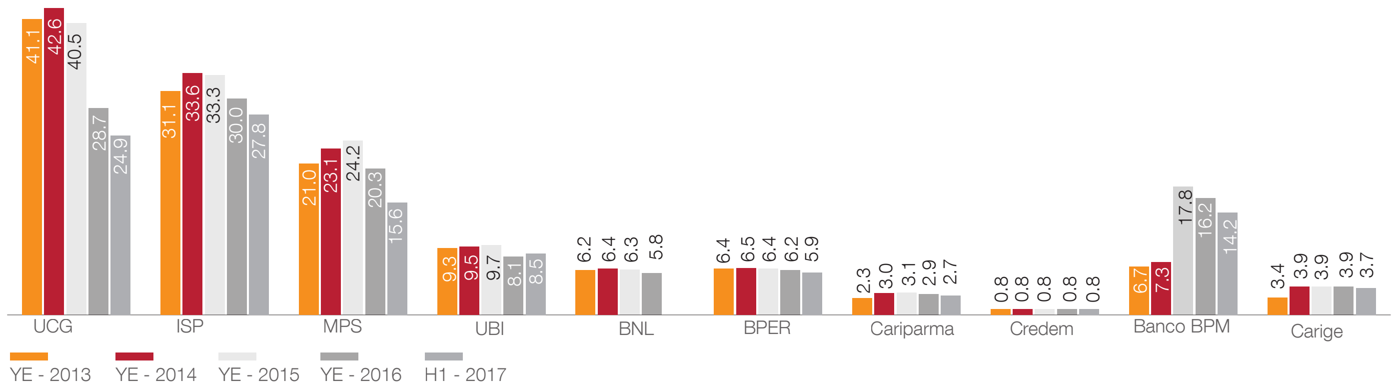


Gross NPE volume (€bn)

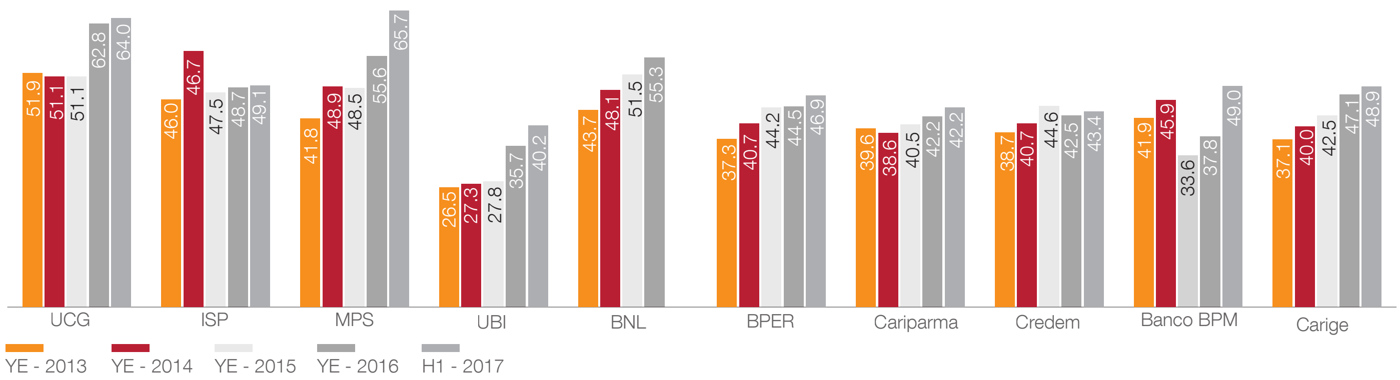


Source: Financial Statements as of H1-2017, YE 2016, YE 2015, YE2014, YE 2013

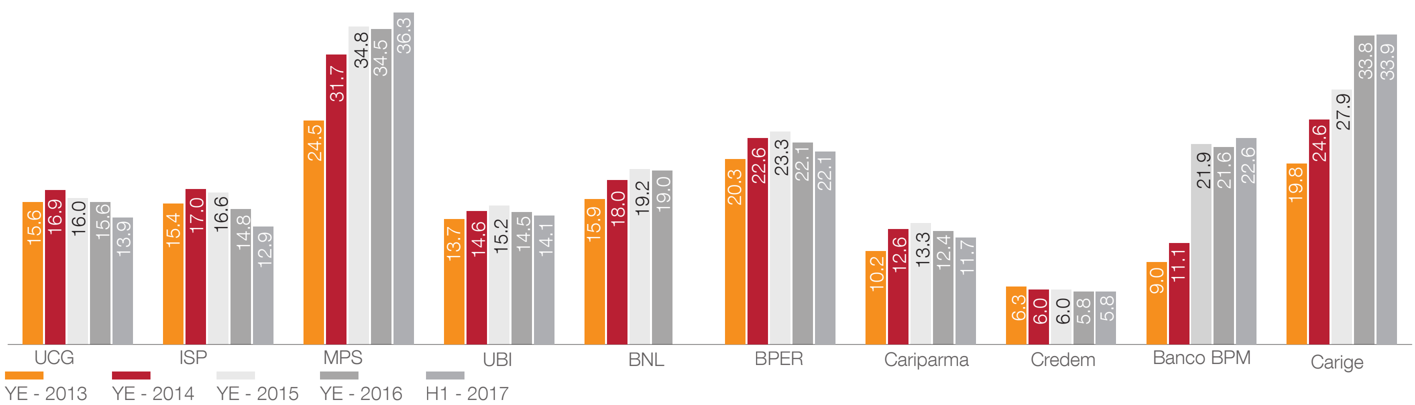
Net NPE volume (€ bn)



NPE Coverage ratio (%)

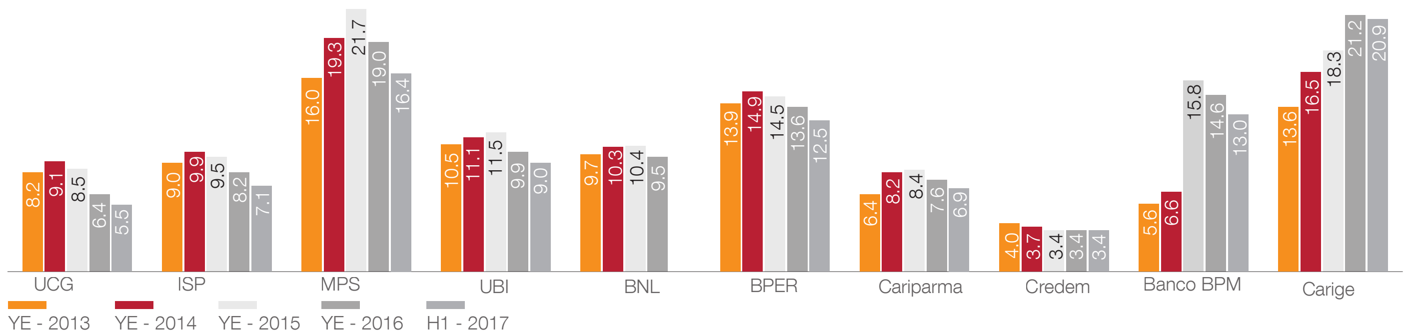


Gross NPE ratio (%)

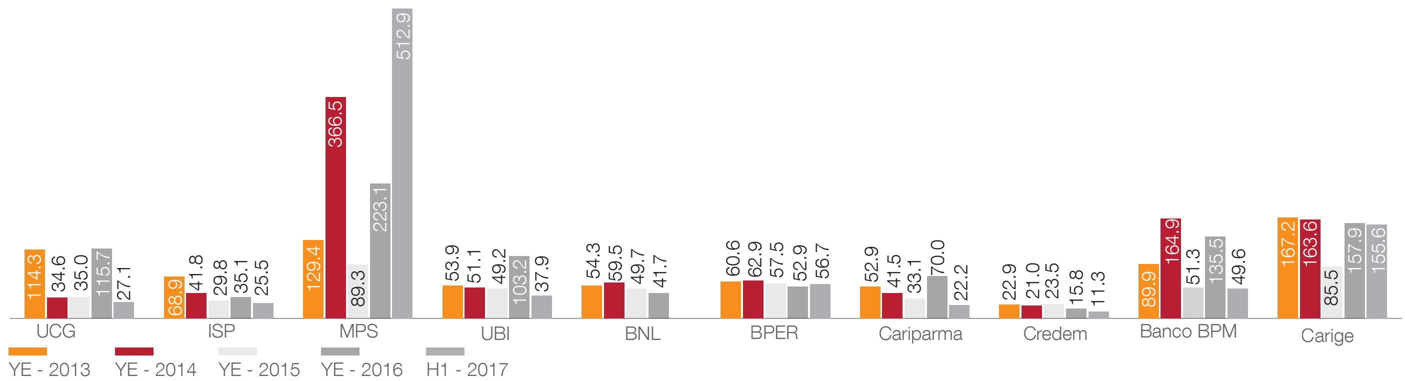


Source: Financial Statements as of H1-2017, YE 2016, YE 2015, YE2014, YE 2013

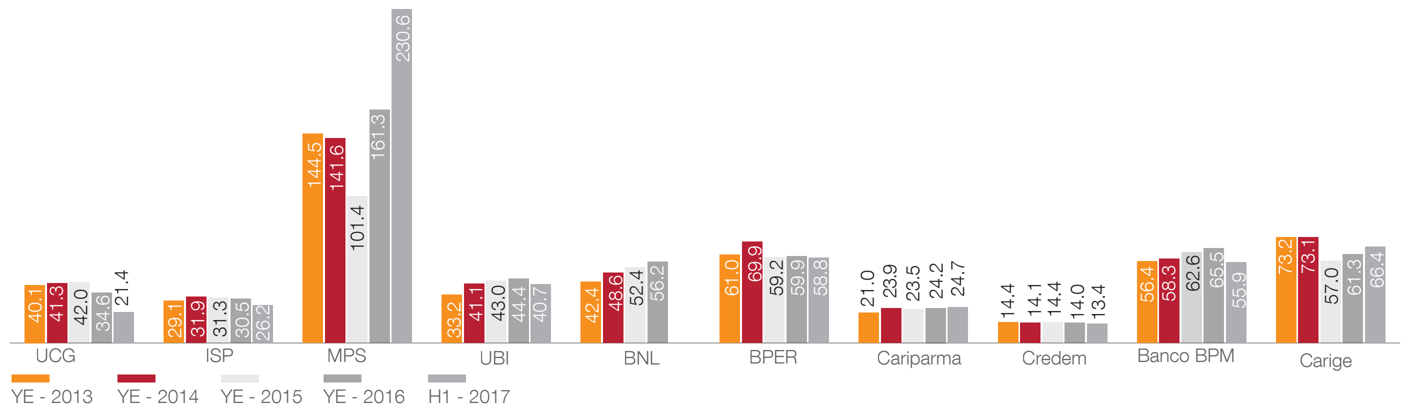
Net NPE ratio (%)



Yearly Loan Loss Provision/Net Interest Margin (%)



Net Bad Loans/Equity (%)



Source: Financial Statements as of H1-2017, YE 2016, YE 2015, YE2014, YE 2013

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