The Italian NPL Market

Another Brick in the Wall

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Looking at the NPL transactions everyone has the same question. What can we expect from a market at its lowest level for 3 years and for the first time down yoy since 2013? Well, in our opinion, more than a lot.

The Italian banking system has done a step forward to improve asset quality, but banks are facing more and more challenging NPE ratio targets in each release of their industrial plans. The reason for this lies in the regulatory pressure to further reduce the still large amount of bad loans and UtPs lying in their balance sheets, which is reflected in an aggregate NPE ratio almost three times higher than the EU average.

The renewal of GACS scheme will further facilitate the sale of bad loans, as showed in the transactions pipeline, while newly founded asset management companies (SGR) are specializing in UtP transfers and disposals, both pushed by the investor appetite for non-core and non-performing assets.

SGRs, together with challenger banks, will play a key role in generating value from UtP exposures, given that they are able to provide new financial resources and professional expertise to distressed companies, essential to accomplish a successful turnaround process maximising the expected recovery in a going concern scenario.

From a regulatory perspective, the latest release on calendar provisioning extends the provisioning schedule from 2 to 3 years on unsecured NPEs and from 7 to 9 for secured ones. The impacts will be strongly related to the future flows of NPEs, especially for what concerns new loans, which are fully included in the 630/2019 Regulation. Moreover, we analysed the main aspects of “Decreto Crescita” related to NPL market, while the impact of the latest reform of the Italian Bankruptcy Law is still under evaluation and will be clearer in 2020.

On top of this, out of the € 200 bn of NPLs sold by the banks over the past 5 years the majority are still to be recovered by servicers and investors. Therefore, we foresee the start-up of the secondary market we did not experience so far, driven by strategic and trading rationales, as discussed in the market outlook chapter of the report.

On the workout side, servicers built the workforce capacity and developed the IT structure needed to onboard and begin to effectively collect the NPL portfolios under management. From this point forward the focus on servicing market will likely shift from AUM growth to recovery performances, profitability and cost optimisation, pushing to aggregations, even between large market operators.

Now, even without the volumes of M&A, NPL will once again have the grounds to be a protagonist in the deals market. And it feels as if we just put another brick in the wall.

Contents

Macroeconomic Scenario

Key Message

In 2018 European economy grew at a moderate pace but in the first half of 2019 has been registered a slowdown of the economy. Italian scenario reflects the European one and expectations for the next two years are uncertain due to political instability. What will be the impacts on NPL Market?

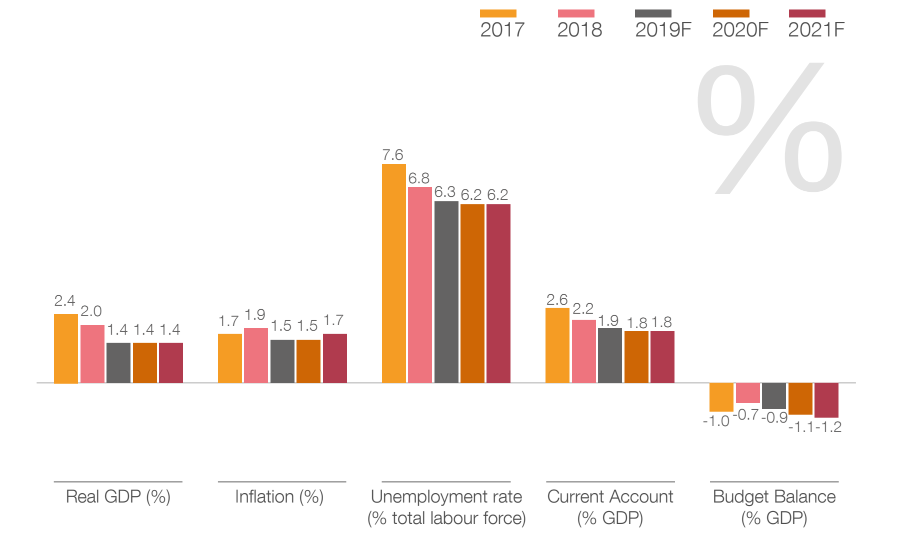
In 2018, the world economy was characterized by a strong slowdown in growth, mainly due to lesser dynamism of international trade, which was relevant in the previous year.

The slowdown was caused by an increased level of socio-economic instability and uncertainty around the world, as **China-United States trade war**. Regarding the European context, a factor of instability is **Brexit**, which is still ongoing and to be defined.

These factors affected both financial markets and investment strategies. Consequently, manufacturing activity dropped down impacting countries which are highly specialized in industrial sector, such as Germany and Italy. The latest surveys indicate that in the **short term** the **euro area** will remain in a state of **slow growth**. After peaking at **2.4% in 2017**, European Union **real GDP** growth **reduced to 2.0% in 2018 and to 1.4%** in **2019** and it is expected to remain at the **same level in 2020 and 2021**. Forecast consensus on **Italian GDP growth** for 2019 ranges from -0.2% (OCSE) to +0.7%, far below the 1% expansion target set by the Italian government. In April 2019 S&P Global Ratings cut the Italian GDP growth forecast for 2019 foreseeing a year of stagnation.

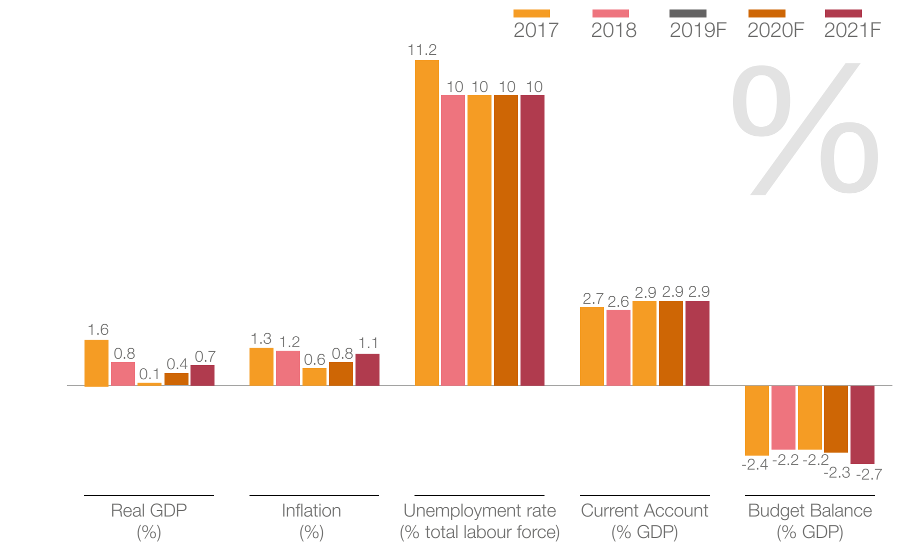
Regarding monetary policy, the Quantitative Easing finished at the end of 2018 but due to the economy slowdown, the **ECB restarted the asset purchase programme (APP)** from 1st November 2019 at a monthly pace of €20 billion to stimulate the economy of the Eurozone. Furthermore, on the September 2019 meeting, the ECB decreased by 10 basis points to -0.50% the interest rate on the deposit facility and the Governing Council expects the key interest rates to remain at their present or lower levels until it has seen the inflation outlook robustly converge to a level sufficiently close, but below, 2%.

Chart 1: EU main economic drivers



Source: PwC analysis on European Commission institutional paper "European Economic Forecast – Autumn 2019". Unemployment rate calculated as a % of total labour force, current account balance and budget balance as a % of GDP. Displayed data and forecasts for the EU refer to the EU28, including UK

Chart 2: Italian main economic drivers



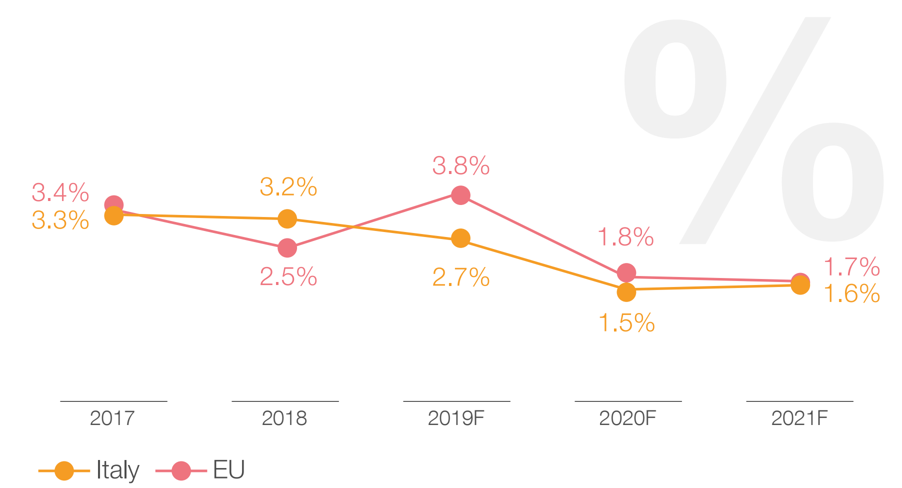
Source: PwC analysis on European Commission institutional paper "European Economic Forecast – Autumn 2019". Unemployment rate calculated as a % of total labour force, current account balance and budget balance as a % of GDP

Focusing on national scenario, on September 5th, 2019, after a few weeks of uncertainty, the Democratic Party and the Five Star Movement started a new government alliance maintaining Giuseppe Conte as Prime Minister.

After a long standoff with the European Commission, **the Italian government set the deficit at 2.04%** (down from an original target of 2.4%, but 3x compared to the previous administration's target of 0.8%) of GDP in 2019, at 1.8% (from 2.1%) in 2020 and at 1.5% (from 1.8%) in 2021.

The Italian political uncertainty is one of the key factors that impact on economy, and consequently, in February 2019 Moody's has downgraded the sovereign rating from Baa2 to Baa3, with a stable outlook. In April 2019 S&P Global Ratings confirmed the BBB rating on Italy's sovereign debt and in August 2019 Fitch confirmed the BBB rating with a negative outlook. In **September 2019 Moody's confirmed the Italian sovereign rating to Baa3 with a stable outlook** stating that the new Government will now open a period of political stability.

Chart 3: Total investments volume trend (% change)



Source: PwC analysis on European Commission institutional paper "European Economic Forecast – Autumn 2019". Displayed data and forecasts for the EU refer to the EU28, including UK

Table 1: Government gross debt ratio per country

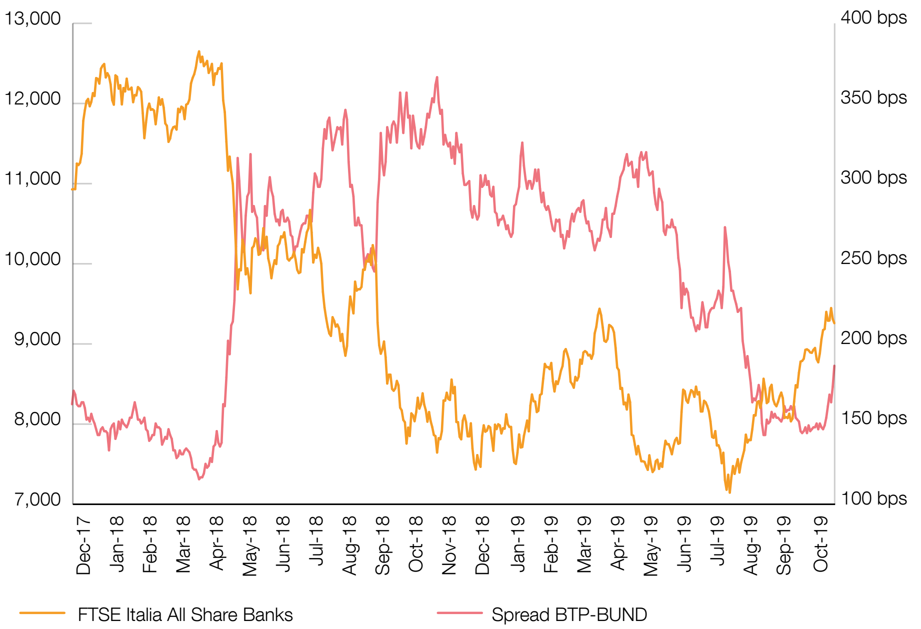
Government gross debt ratio (% GDP)	2017	2018	2019F	2020F	2021F	Trend 2019F-2021F
EU	**83.2**	**81.9**	**80.6**	**79.4**	**78.4**	▼
Italy	**131.4**	**134.8**	**136.2**	**136.8**	**132.4**	▼
Spain	98.1	97.6	96.7	96.6	96.0	▼
France	98.4	98.4	98.9	98.9	99.2	▲
Germany	64.5	61.9	59.2	56.8	55.0	▼
UK	87.1	85.9	85.2	84.7	84.2	▼

Source: PwC analysis on European Commission institutional paper "European Economic Forecast - Autumn 2019". Displayed data and forecasts for the EU refer to the EU28, including UK

The Italian Government, after long debates, with the 2019 Budget Law **blocked the increase in the standard 22% VAT rate for 2020**. The total amount required by European Union for the sterilization of the safeguard clauses for the biennium 2020/2021 is € 52bn.

After an initial negative shock due to the fall of the government and to the negative macroeconomic framework, both equity and bond markets have stabilized. Due to these factors and to ECB's polices, the sovereign interest rate started going down again, and the **BTP-Bund spread is now around 170 bps**.

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



Source: PwC analysis on data provider information

Italian Real Estate Market

Key Message

In the first half of 2019, the number of transactions recorded in the Italian real estate market increased by 5.9% compared to the same period of 2018, mainly driven by the residential asset class. In 2018, 245k judicial real estate executions were recorded, with the residential sector accounting for 78% of those executions. Investments in non-residential real estate reached €5.04bn in the first half of 2019, with the hotel sector dominating the Italian commercial real estate market, followed by office.

Volume of real estate transactions in 2019

In the first half of 2019, the Italian real estate market continued its positive trend, driven mainly by sales of residential properties.

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

Residential sales in the first half of 2019 have increased throughout each region of Italy with respect to the same period of 2018. The Center showed the greatest positive result with a 7.1% increase, followed by the North and South with 6.8% and 3.9% growth, respectively. See **Table [2]**.

During the first half of 2019, the number of non-residential asset transactions increased by 4.0% compared to the same period of 2018, mainly driven by the retail asset class. The office segment continued to make small improvements registering 1.0%, while industrial recorded a slight decrease of -0.6%. See **Table [3]**.

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

Table 2: Residential NTN by geographic area

Area	Region	Year 2018	H1 2018	H1 2019	Delta (%) H1 18-17	Delta (%) H1 19-18
North	Provinces	99,208	48,641	51,910	4.5%	6.7%
	No Provinces	213,585	102,696	109,708	6.4%	6.8%
	Total	312,793	151,337	**161,619**	5.8%	**6.8%**
Center	Provinces	55,569	27,100	28,650	0.5%	5.7%
	No Provinces	63,639	30,408	32,963	5.5%	8.4%
	Total	119,208	57,508	61,613	3.1%	7.1%
South	Provinces	42,726	21,651	21,908	6.8%	1.2%
	No Provinces	103,915	50,474	53,004	4.3%	5.0%
	Total	**146,641**	72,125	74,912	5.0%	**3.9%**
Italy	Provinces	197,503	97,392	102,469	3.8%	5.2%
	No Provinces	381,139	183,578	195,676	5.7%	6.6%
	Total	**578,647**	280,970	298,144	5.0%	6.1%

Source: PwC analysis on Italian IRS data

Table 3: Non residential NTN by geographic area

NTN H1 2019 Office	Q1 2018	Q2 2018	Q1 2019	Q2 2019	H1 2018	H12019	Delta (%) H1 19-18
North	**1,295**	**1,584**	**1,358**	1,653	**2,879**	**3,011**	**4.6%**
Center	**442**	512	**425**	480	**954**	**905**	**(5.1%)**
South	401	554	418	503	**955**	**921**	**(3.6%)**
					4,788	**4,837**	**1.0%**

NTN H1 2019 Retail	Q1 2018	Q2 2018	Q1 2019	Q2 2019	H1 2018	H12019	Delta (%) H1 19-18
North	3,185	3,820	3,463	4,027	**7,005**	**7,490**	**6.9%**
Center	1,514	1,611	1,639	1,850	**3,125**	**3,489**	**11.6%**
South	2,085	2,135	2,073	2,260	**4,220**	**4,333**	**2.7%**
					14,350	**15,312**	**6.7%**

NTN H1 2019 Industrial	Q1 2018	Q2 2018	Q1 2019	Q2 2019	H1 2018	H12019	Delta (%) H1 19-18
North	1,649	2,123	1,683	2,025	**3,773**	**3,708**	**(1.7%)**
Center	448	436	392	478	**884**	**870**	**(1.6%)**
South	424	477	453	492	**901**	**945**	**5.0%**
					5,557	**5,524**	**(0.6%)**

Source: PwC analysis on Italian IRS data

Table 4: Italian NTN[1] comparison by sector

Asset type	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	H1 2018	H1 2019	Delta (%) H1 19-18
Residential	127,277	153,693	130,609	167,068	138,525	159,619	**280,970**	**298,144**	6.1%
Office	2,138	2,650	2,047	3,152	2,201	2,636	**4,788**	**4,837**	1.0%
Retail	6,784	7,566	6,389	8,724	7,175	8,137	**14,350**	**15,312**	6.7%
Industrial	2,521	3,036	2,704	3,857	2,529	2,995	**5,557**	**5,524**	-0.6%
Total	**138,720**	**166,945**	**141,749**	**182,801**	**150,430**	**173,387**	**305,665**	**323,817**	5.9%
Appurtenances2	88,042	106,937	89,723	121,694	97,491	112,848	**194,980**	**210,338**	7.9%
Other3	12,939	15,147	13,561	18,341	13,491	16,160	**28,085**	**29,652**	5.6%

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

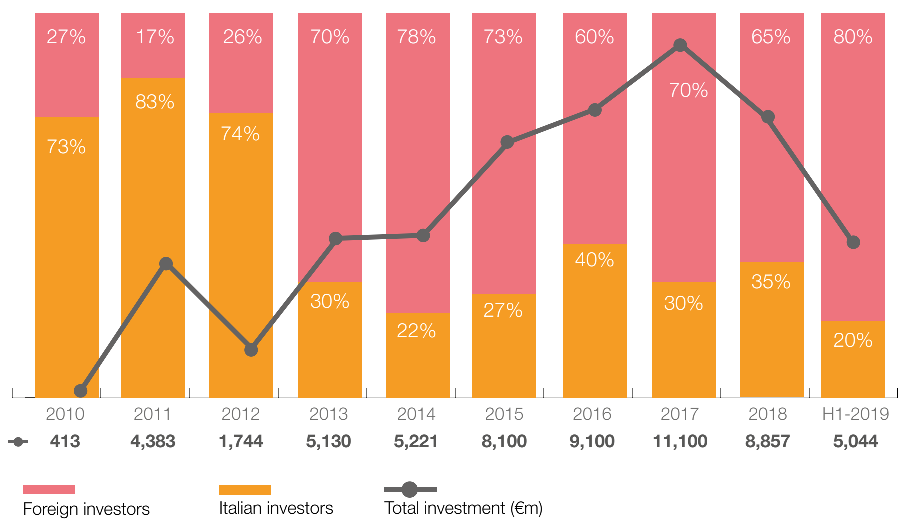
Investments in the non-residential real estate market

In the first half of 2019, the Italian commercial real estate market recorded an investment volume of €5.04bn, increasing by 58% compared to the same period of 2018. These first six months of the year are the best ever recorded in terms of volume and total transaction value.

The individual sector with the largest share of investments is the Hotel asset class with €2.1bn, which represents 42% of the total transaction volume, followed by the Office sector with €1.7bn invested. This result was influenced by the sale of two portfolios for a total value respectively of €1bn and €0.3bn. Retail investments reached over €760m, a 37% decrease compared to the same period of 2018.

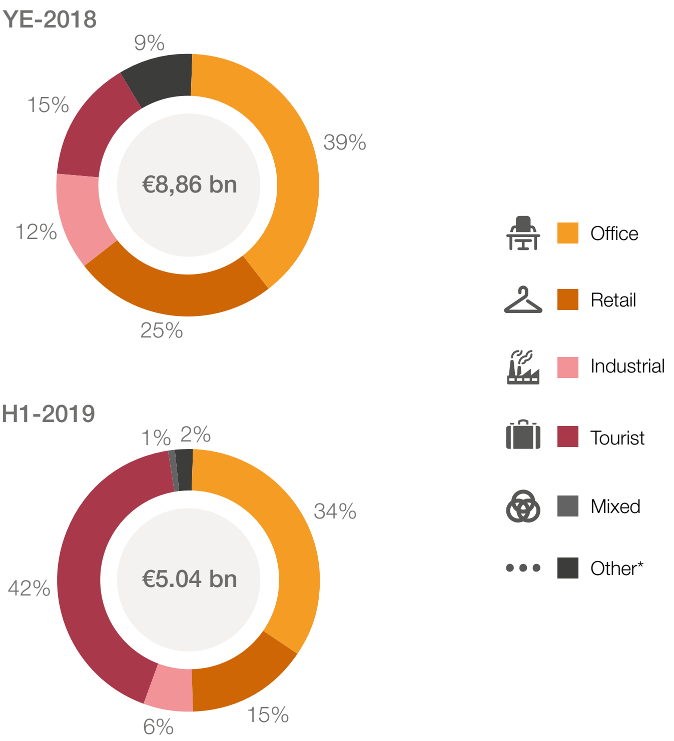
Milan and Rome still represent key markets for investment, accounting for 38% and 16% of the total investment volume in the first half of 2018 respectively, with a concentration of office investments in Milan and retail investments in Rome. The main source for real estate investments in Italy is still represented by foreign capital, accounting for 80% of the total, which is higher compared to the previous year.

Chart 5: Investments in non-residential real estate – Investor type



Source: PwC analysis on BNP Paribas Real Estate data

Chart 6: Investments in non-residential real estate – Asset class



Source: PwC analysis on BNP Paribas Real Estate data

NPL Secured – Real Estate Focus

The 579k residential transactions (NTN) registered in 2018 from the Italian IRS previously reported do not include judicial sales. In 2018, 245k judicial real estate executions were recorded in Italy for a total volume of €36.4bn, with the residential asset class accounting for 78%. The residential sector under execution could account for 25% of the total residential volume in Italy.

The highest concentration of real estate executions is recorded in the North with 56%, followed by the Centre with 18%, the South with 14%, and the Islands with 12%. The region with the highest number of real estate executions is Lombardy with circa 20% of the total.

According to the data examined on Italian judicial sales, properties are sold with an average discount of 55% compared to the purchase value on the free market, with the exception of the main Italian cities, especially Milan, where the transaction prices recorded are aligned with the market.

Closed Secured Portfolio

Analyzing the closed secured portfolio managed by servicers, it can be seen that the greatest concentration is located in Northern Italy (55.8%) followed by the South and Islands (22.2%) and the Center (22.0%). See **Chart [8]**.

In addition, the data by city size show that 30% of the assets are located in small towns with less than 25k residents, 15% are in large cities with more than 1M residents, and only 9% are in cities with a population between 500k-1M. See **Chart [9]**.

Chart 7: Italian Real Estate Execution

Chart 8: Closed Secured Portfolio by Area

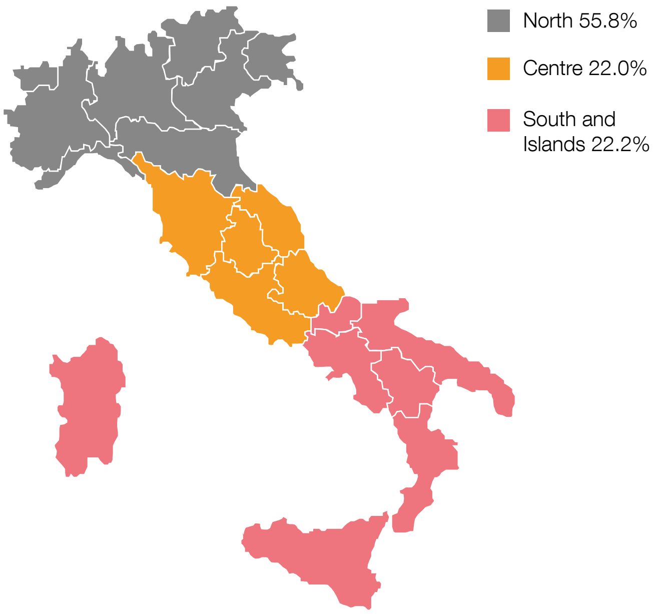
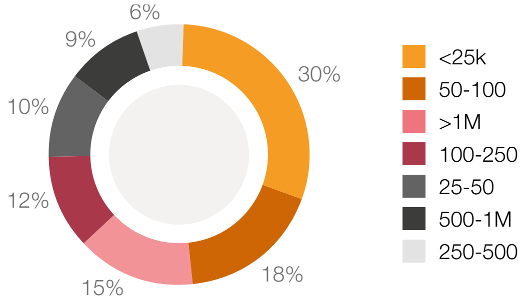


Chart 9: Closed Secured Portfolio by City Size (residents)



Source: PwC analysis on data provided by Servicers as of 30/06/2019; data have been directly provided by Servicers and have not been verified by PwC; Servicers' present highly heterogeneous organizational, industrial and operating structures. Comparing the information above requires a correct analysis and understanding of the competitive landscape and servicers business model.
Source: PwC analysis on Astasy data.

The graphs below show the portfolios closed by the Servicers considering the recovery strategies and the recovery rate by asset class. For all recovery strategies, the main asset class is residential; Extrajudicial and Judicial strategies have a similar asset class allocation, while the Loan Sales strategy has a high concentration of retail (38%). The asset classes in closed portfolios with the lowest share over the total volume are mainly offices and developments.

Considering the recovery rate by each asset class, offices show the highest performance (70%) followed by residential (51%). The asset classes with the lowest recovery rates are developments and land at 36% and 35%, respectively.

Chart 10: Closed portfolio by asset class (GbV)

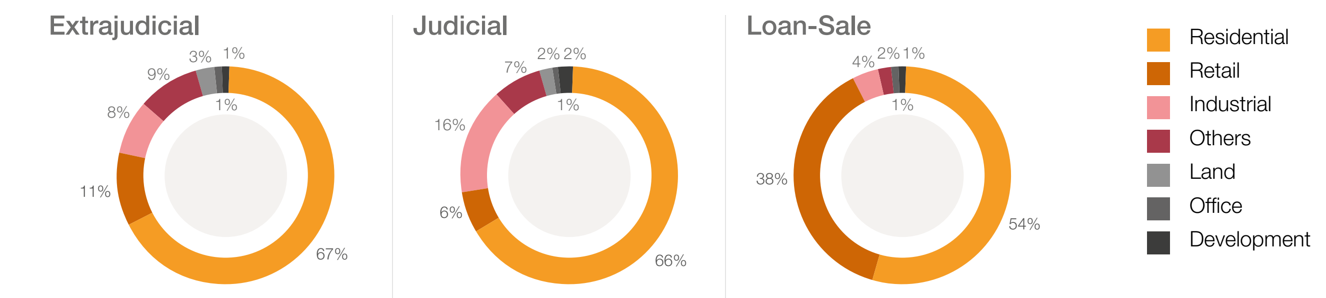
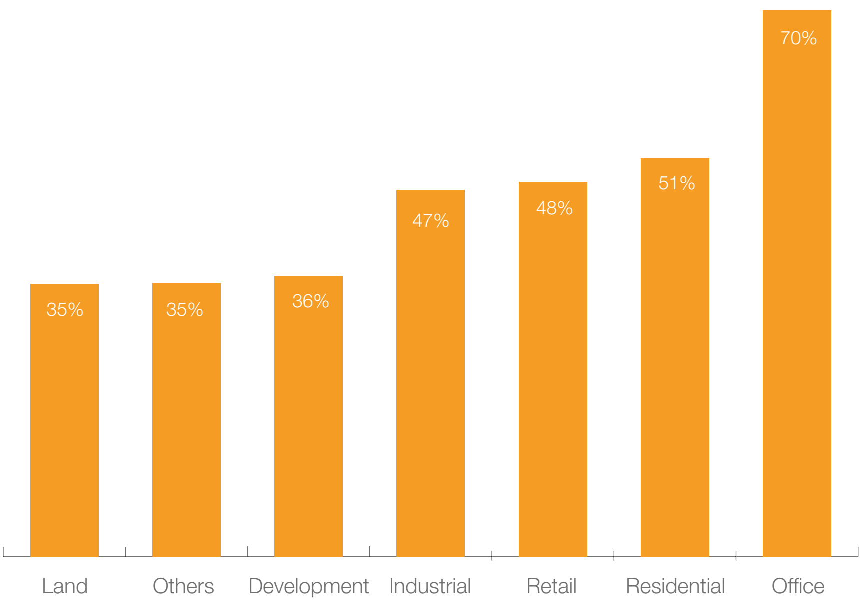


Chart 11: Recovery rate by asset class on closed portfolio



Source: PwC analysis on data provided by Servicers as of 30/06/2019; data have been directly provided by Servicers and have not been verified by PwC; Servicers present highly heterogeneous organizational, industrial and operating structures. Comparing the information presented above requires a correct analysis and understanding of the competitive landscape and servicers business model.
The analysis is based on 6 players' data and returned with arithmetic averages.

Regulation Overview

In this phase of the market, numerous credit institutions have created internal platforms capable of monitoring, assessing and maximizing the value of real estate collaterals. The new European regulations, as indicated in the EBA guidelines, also discuss that when the credit line is secured by a real estate guarantee, credit institutions should ensure that the collateral is accurately valued according to international standards by developing internal policies and procedures that specify the approaches that must be utilized. In addition, these institutions should also ensure that all real estate collateral is valued by internal experts or independent and qualified external professionals. These procedures should cover both new collateral and the regular monitoring and revaluation of existing collateral.

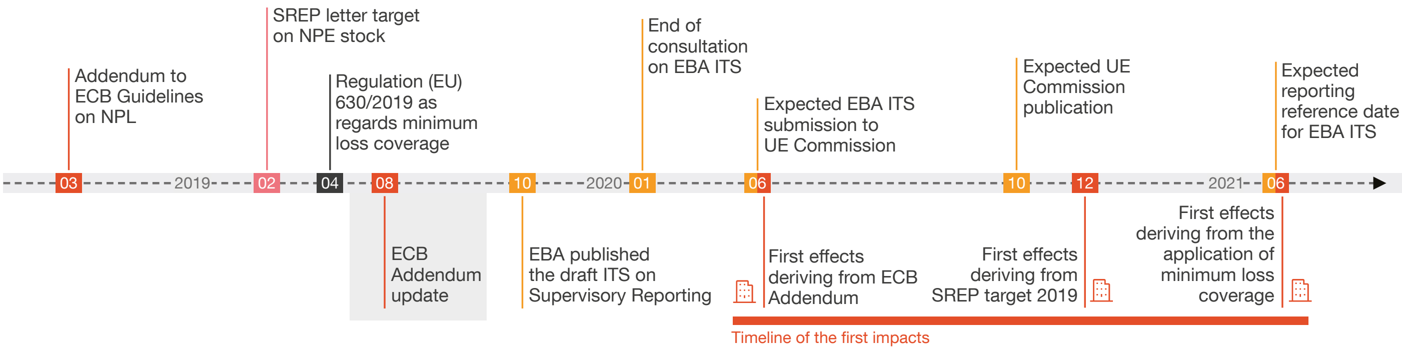
Regulatory framework update

Key Message

A continuous effort is being made within the regulatory framework as to enhance the pace of reducing the non performing exposures in the institutions' balance sheet by either reviewing existing regulation and removing any impediments and/ or by setting the requirements for a timely provisioning and write-off of the non performing exposures.

Recent evolutions on Calendar Provisioning

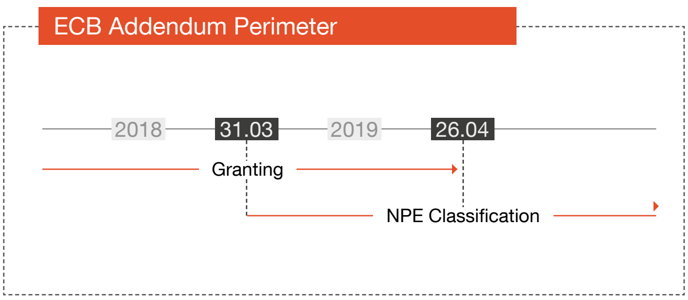
Calendar Provisioning Regulatory timeline

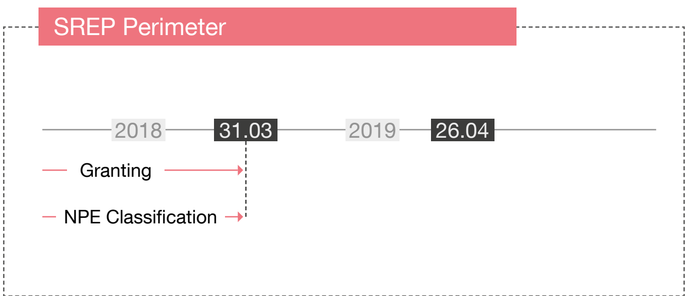


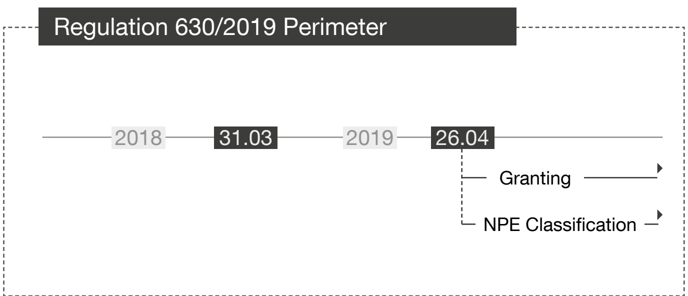
On August 22nd the Addendum to the ECB Guidelines on NPLs was updated through a communication from the ECB that reviewed some aspects related to supervisory expectations for prudential provisioning for the exposures classified as default starting from April 1st 2018 and granted before April 26th 2019; for the exposures granted after April 26th ECB requires the Banks to refer to the Regulation (EU) 630/2019.

Moreover, EBA published draft Implementing Technical Standards on Supervisory Reporting in line with the minimum loss coverage requirements as per Regulation (EU) 630/2019.

EBA's submission of the final updated ITS to the EU Commission is expected to take place in June 2020, while the first reference date for the application is foreseen to be on 30 June 2021. Three new templates (per NPE vintage bucket) are proposed to be added to COREP, while one new template and the review of two templates concerning FINREP. According to the consultation, the calculation of the minimum coverage requirement seems to be required at an exposure level (without taking into account the excess of coverage that institutions may have on individual exposures) and separately for secured and unsecured part of NPEs.







Illustrative non exhaustive

ECB Addendum Update

Perimeter

The perimeter is limited to non performing exposures (classified as NPE from April, 1st 2018) related to credits granted before April, 26th 2019. New NPEs, related to credit granted on or after April, 26th 2019 are subject only to Pillar I regulation (i.e. minimum loss coverage).

Scheduling

The scheduling becomes aligned to the Regulation (EU) 630/2019, with its calendar being extended from 2/7 years for unsecured / secured exposures to 3/9/7 years for unsecured / immovable assets secured / other secured exposures for reaching 100% provisioning level. The clusters of eligible guarantees are aligned to the Regulation (EU) 630/2019 as well.

Other Aspects

All the other aspects do not vary. Nevertheless, ECB Addendum and Regulation (EU) 630/2019 applications could lead to a different results, for instance, in case of a forbearance measure whose treatment remains different.

Regulatory treatment of NPE Securitisations

Securitisations can enhance the capacity of the market to absorb non performing exposures at a faster and greater rate than in a “typical” NPE sale transaction. However, market structural constraints and, as the EU Council acknowledged, the existence of legal “impediments to the transfer of NPEs by banks to non-banks and their ownership by non-banks” have contributed to a relatively slower NPE reduction pace in the recent years.

As a result the European Banking Authority (EBA) published an opinion to the European’s Commission regulatory treatment of non performing securitisations in order to examine the role of securitisation as a funding tool for NPE reduction and account for the characteristics of such tool (i.e. the risk for the investor is mostly referred to the insufficient recoveries from the workout of the exposures to cover the net value).

EBA Opinion

Illustrative non exhaustive

Caps for NPE Securitisations

EBA with reference to articles 267 and 268 of the CRR recommends:

- for the banks applying an authorised internal rating based approach, in order to reduce capital absorption, the application of the cap to the net value of the exposure/ expected loss (instead of using the gross amount) in case that the discount on the price is such as to absorb the losses;

- for the banks applying the standardised approach the application by the investor of a risk weight equal to 100% for the caps for securitisations where the Originator was permitted to apply such risk weight and the discount on the price is at least equal to the specific credit risk adjustments made by the Originator.

Risk Retention

Currently the Originator and/ or Sponsor are required to hold a minimum 5% risk retention (economic interest on the securitisation) calculated on the nominal value. EBA recommends such percentage to be applied on a net basis so as to not overstate the retained amount. Also, EBA recommends to expand the list of entities subject to risk retention and include the Independent Servicers since their interest is aligned to the investors’.

Capital requirements calculation

EBA recommends a recalibration of the capital requirements calculation methodology for NPE securitisations as to align the results deriving from the application of the standardised and internal rating based approach to the ones deriving form the application of an external rating based approach.
According to EBA an element that causes a disproportionality in the use of the different approaches is the (p) correction factor.

Other Aspects

EBA also recommends to:

- foresee an appropriate prudential treatment for mixed securitisations (pool composed by both bonis and NPE exposures);

- review the obligation to verify that the originator applied “sound and well defined criteria for credit granting” in case of NPE securitisations.

Main aspects of “Decreto Crescita” related to NPL market

The Decree Law 30 April 2019 n. 34 - also known as “Decreto Crescita” - introduces some new rules with potential impact on the NPL market

1 ECB Addendum Perimeter

According to art. 4, par. 4 ter of Law 130/1999, the bank that transfers the credit facilities to an intermediary registered under article 106 TUB (i.e. The Consolidated Banking Act) is now given the right to assigns it separately from the bank account to which it is linked (i.e. there is now separation between the domiciliation of the bank account and the contractual commitments related to the transferred loan).
The main consequences are the following:

- it is easier to transfer also those credit facilities for which it is abstractly possible for the assignor to have a further obligation of disbursement being the credit agreements not yet terminated;
- it becomes possible to set up the operation without the, otherwise, needed involvement of a fronting bank, with a subsequent considerable reduction in transaction costs.

2 “Return to better fortune”

According to art. 7.1, par. 3 of the Law 130/1999, securitization companies are allowed to make loans also to:

- assumers of liabilities of assigned debtors (i.e. pursuant to art. 508 c.p.c., the successful bidder of an asset subject to enforced execution that becomes the owner of the original debt position);
- companies which are subsidiaries or related pursuant to art. 2359 of the Italian Civil Code, within the framework of recovery plans pursuant to art. 67 of the Bankruptcy Law (now art. 56 of the Code of Corporate Crisis) or of debt restructuring agreements pursuant to art. 182 of the Bankruptcy Law (now art. 57 of the Code of Corporate Crisis).

The final aim is to improve the prospects of the recovery through the “return to better fortunes” of the assigned debtor.

3 Supporting vehicle companies

According to art. 7.1, par. 4 of Law 130/1999, for each securitization transaction, several supporting vehicle companies may be set up.
Their exclusive object is the acquisition, management and enhancement of real estate, registered movable property and other assets and rights as collateral for the receivables subject to the securitization
They are of two types:

- "ReoCo" if the underlying securitization transaction is real estate
- "LeaseCo" if the assets come from financial leasing transactions

4 Protection of the assignee

The transfer of assets from the SPV to the supporting special purpose vehicle now takes place pursuant to Article 58 of the TUB (and, therefore, through registration in the Register of Companies and publication in the Official Gazette of the Italian Republic) even if it is not a bulk assignment.
This generates notable streamlining and improved protection of the assignee against potential claims raised by the assigned debtors

Italian NPL Market

Key Message

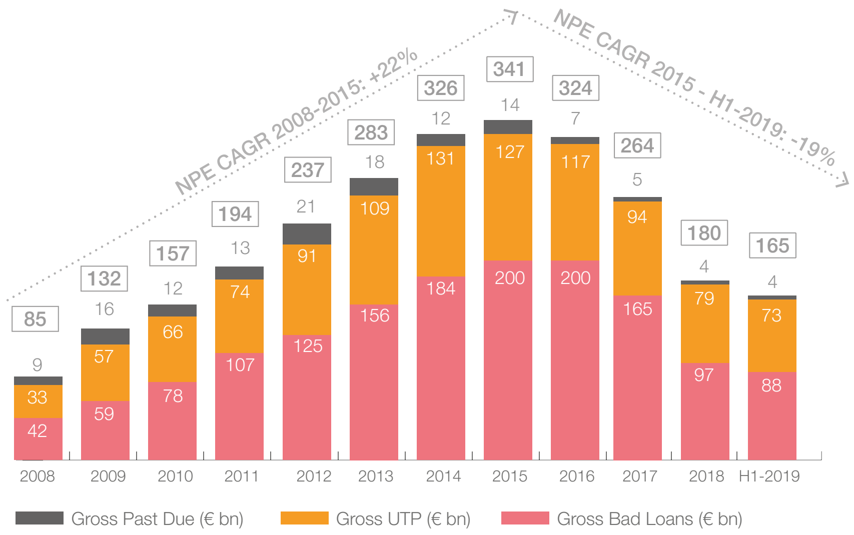
Italian NPE volumes experienced a significant decrease over the last four years. Starting from a total of €341bn (GBV) at the end of 2015, the NPE stock progressively declined, reaching €165bn at June 2019.

Asset Quality

Chart 12 shows the reduction in the Italian NPE stock. After peaking at €341bn of GBV at YE-2015, the stock constantly reduced over the last years, reaching €165bn at H1-2019.

The gross Bad Loans volume reduced by €9bn from YE-2018 and by €77bn from YE-2017. Gross Unlikely to Pay showed a slower decline, with €73bn at H1-2019 from €79bn at YE-2018. Past Due maintained approximately the same value of YE-2018, slightly below YE-2017 level.

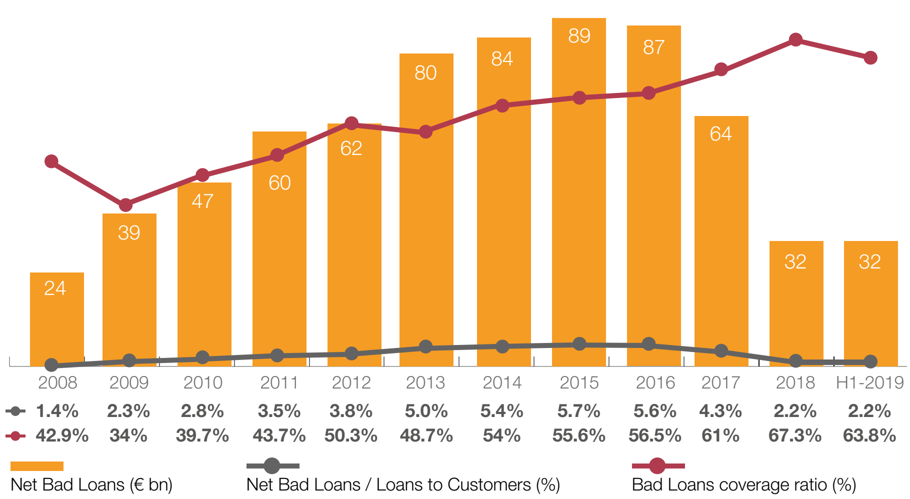
Chart 12: Gross NPE trend



Source: PwC analysis on Banca d'Italia "Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori", September 2019

Chart 13 shows how the volume of net Bad Loans follows the same decreasing trend from 2015 until the first half of 2019. The total amount as of H1-2019 remained steady compared to YE-2018 and equal to €32bn (€64bn at YE-2017). The Bad Loans coverage ratio for the Italian system experienced a reverse trend compared to previous years and decreased to 63.8% compared to 67.3% at YE-2018.

Chart 13: Net Bad Loans Trend



Source: PwC analysis on ABI Monthly Outlook and Bank of Italy data - September 2019.
Note: 2017 and 2018 data might include financial intermediaries

Looking at the composition of gross Bad Loans:

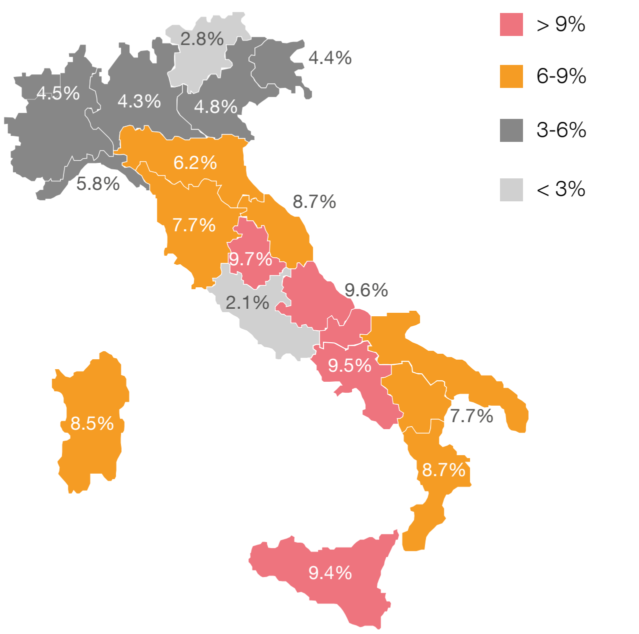
- The breakdown of gross Bad Loans ratio highlights the highest percentages in Umbria (9.7%), Abruzzo-Molise (9.6%), Campania (9.5%) and Sicily (9.4%); overall, northern regions tend to show lower gross Bad Loans ratio compared to central and southern regions;

- Lombardy collects approx. 20.8% of total Italian Bad Loans, while it shows a relative low Bad Loans ratio (4.3%);

- At H1-2019 the “Corporate & SME” sector still represents the greatest share (71%) of Italian gross Bad Loans, followed by the Consumer loans (21%);

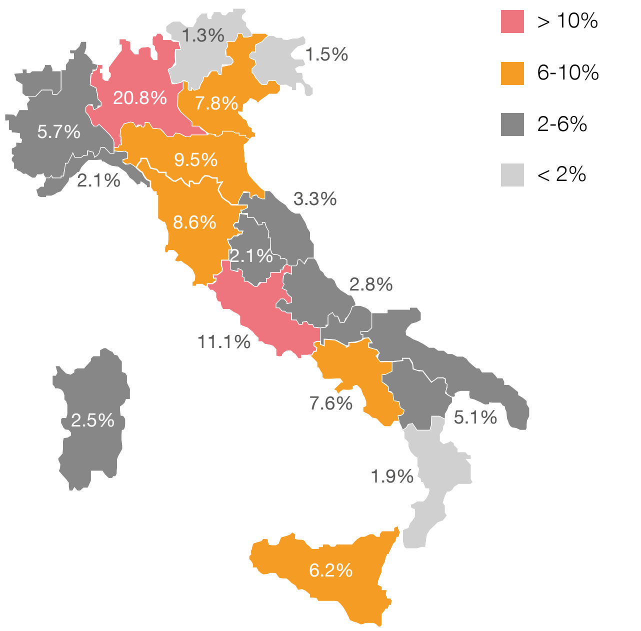
- The percentage of Secured Bad Loans (45%) decreased compared to YE-2018.

Chart 14a: Gross Bad Loans ratio by region* (H1-2019)



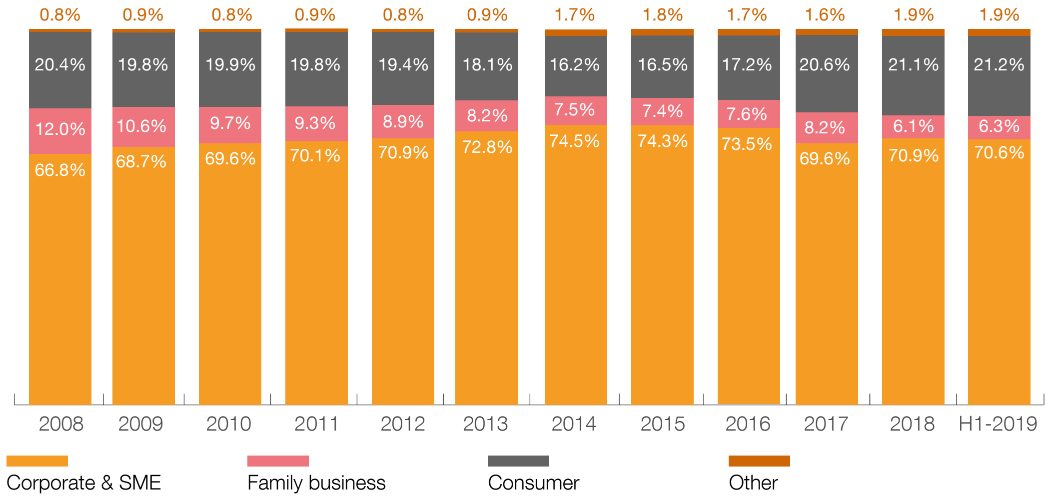
Source: PwC analysis on Banca d’Italia «Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori», September 2019.
Note: Bad Loans ratio in the region of Lazio is influenced by Cassa Depositi e Prestiti, included in Bank of Italy database;
(*) Unique percentage for
1) Valle d’Aosta and Piemonte.
2) Abruzzo and Molise.
3) Puglia and Basilicata.

Chart 14b: Breakdown of gross Bad Loans by region* (H1-2019)



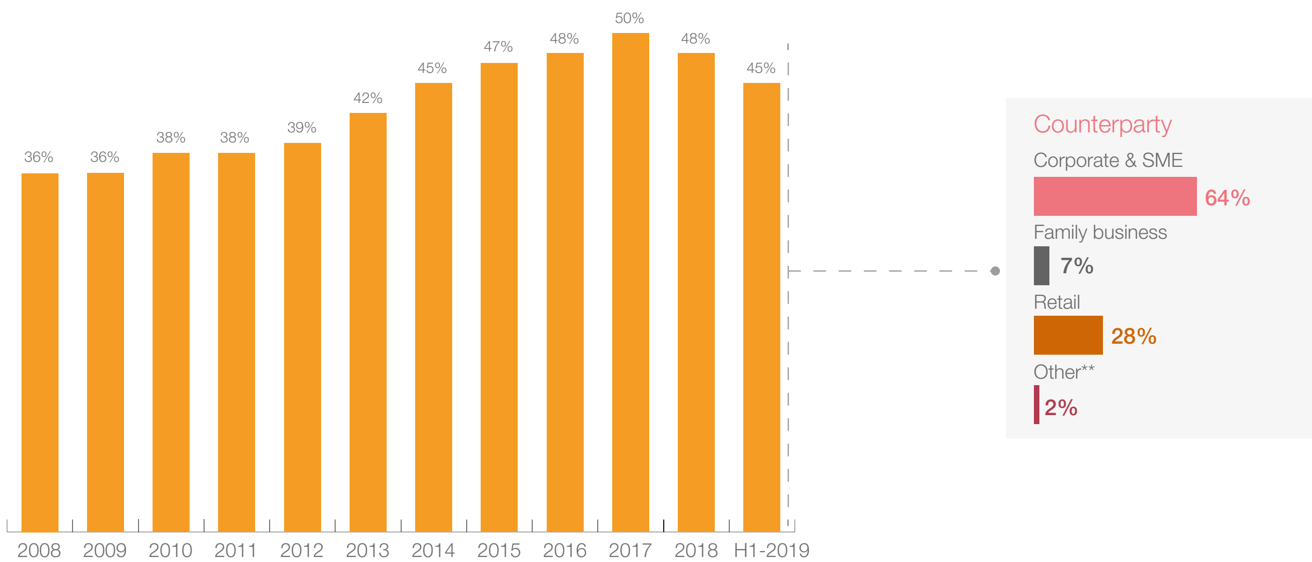
Source: PwC analysis on Banca d’Italia «Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori», September 2019.
Note: (*) Unique percentage for
1) Valle d’Aosta and Piemonte
2) Abruzzo and Molise
3) Puglia and Basilicata

Chart 15: Breakdown of gross Bad Loans by counterparty** (H1-2019)



Source: PwC analysis on Banca d'Italia "Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori", September 2019
Note: (**) “Other” includes PA and financial institutions.

Chart 16: Secured gross Bad Loans trend (% on total Bad Loans)

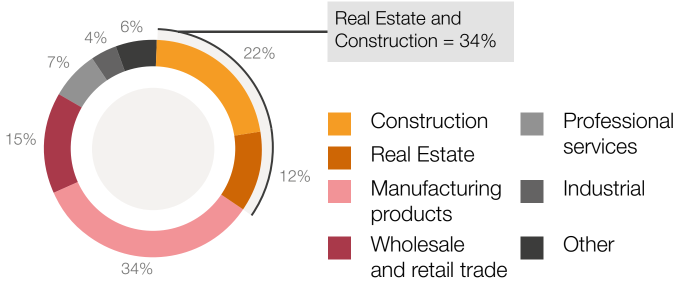


Source: PwC analysis on Banca d'Italia "Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori", September 2019
Note: (**) “Other” includes PA and financial institutions.

The breakdown of gross Bad Loans by economic sector (**Chart 17**) shows that Real Estate and Construction accounts for 34% such as manufacturing products, followed by wholesale and retail trade (15%).

The breakdown of gross Bad Loans by ticket size (**Chart 18**) shows that large-size exposures (over €1m) represent 53% of total GBV, whereas mid-size exposures (from €75k to €1m) and small-size exposures (below €75k) represent 47% of the total.

Chart 17: Breakdown of gross Bad Loans by economic sector (H1-2019)



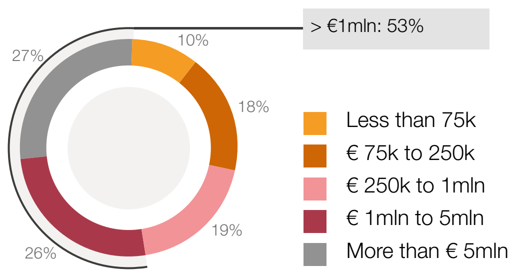
Source: PwC analysis on Banca d'Italia «Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori», September 2019

Focus: UtP

The gross UtP stock composition as of H1-2019 illustrates the following:

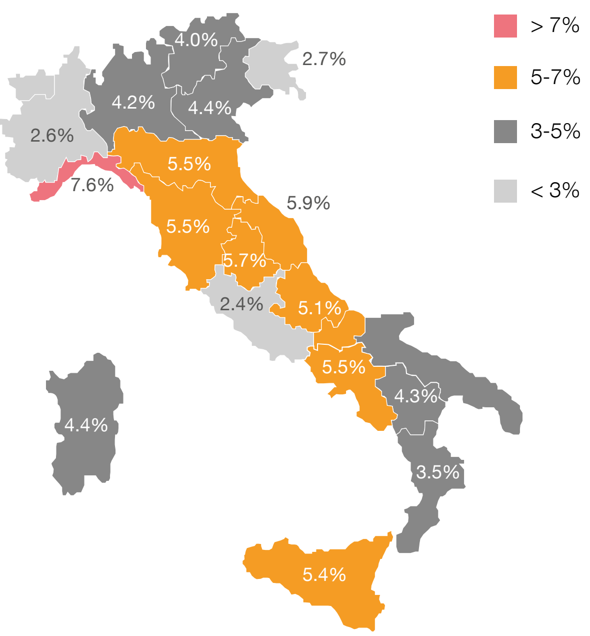
- Piemonte, Valle d'Aosta, Friuli Venezia Giulia and Lazio* are the regions with the lowest incidence of UtP (UtP ratio lower than 3%), whereas Liguria is the region with the highest levels of UtP ratio (7.6%);
- In terms of volumes, the highest UtP concentration is in Lombardy and Lazio (respectively, 25.0% and 15.5% of total volumes).

Chart 18: Breakdown of gross Bad Loans by ticket size (H1-2019)



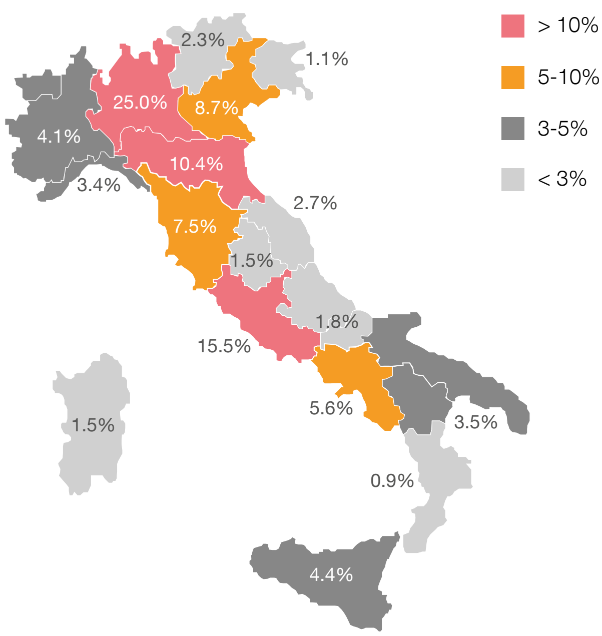
Source: PwC analysis on Banca d'Italia «Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori», September 2019

Chart 19a: UtP ratio by region** (H1-2019)



Source: PwC analysis on Banca d'Italia «Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori», September 2019.
Note: (*) UtP ratio in the region of Lazio is influenced by Cassa Depositi e Prestiti, included in Bank of Italy database; (**) Unique percentage for
1) Valle d'Aosta and Piemonte
2) Abruzzo and Molise
3) Puglia and Basilicata

Chart 19b: Breakdown of UtP by region** (H1-2019)



Source: PwC analysis on Banca d'Italia «Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori», September 2019.
Note: (**) Unique percentage for
1) Valle d'Aosta and Piemonte
2) Abruzzo and Molise
3) Puglia and Basilicata

Key Message

During the first months of 2019, figures for Italian companies' closures continued their declining trend started in 2018, except for voluntary arrangements that showed a sharp increase in H1-2019. Bankruptcies showed a decrease, mainly driven by the constructions and industrial sectors.

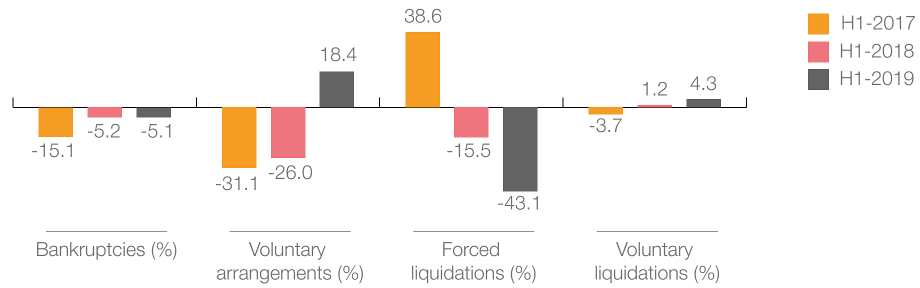
In the first half of 2019, the **decrease of Italian companies' bankruptcies and forced liquidations kept going on**: as shown in **Chart 20**, during the first half of 2019 there was respectively a 5.1% drop in bankruptcies and a 43.1% drop in forced liquidations compared to the previous year. Differently, a **significant increase has been reported for voluntary arrangements (+18.4%)**.

Chart 21 shows that the increase of voluntary arrangements in **H1-2019** is well distributed in all economic sectors. The **industrial sector** is the one who shows the **highest increase** (+28.1% YoY), while **services' sector registers the lower increase** (+9.7% YoY).

With respect to non-bankruptcy proceedings, the most significant **reduction has been observed for business closures after forced liquidations** (-43.1% YoY), in contrast with previous years' trend.

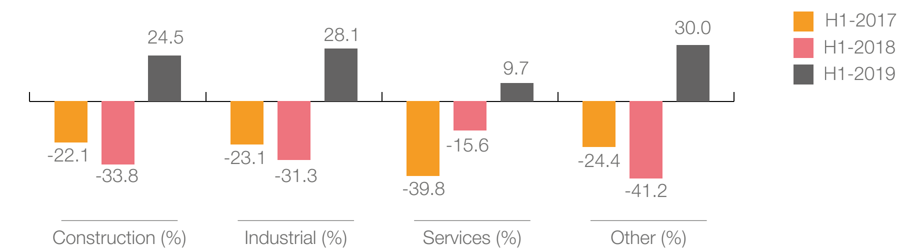
Chart 22 shows that bankruptcies in the **construction sector reduced by 11.2% in H1-2019 YoY** (vs -6.5% in H1-2018 YoY). In the industrial and services sectors the decline in bankruptcies is in line with the previous years' trend, while **other sectors register almost no reduction.**

Chart 20: Business closures by procedure (% YoY)



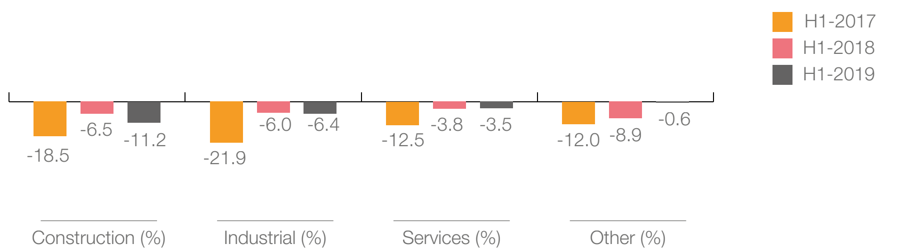
Source: PwC analysis on "Osservatorio su fallimenti, procedure e chiusure di imprese", Cerved, September 2019
Note: "Voluntary arrangement" = "Concordato preventivo". "Forced liquidation" = "Liquidazione coatta amministrativa"

Chart 21: Voluntary arrangements by economic sector (% YoY)



Source: PwC analysis on "Osservatorio su fallimenti, procedure e chiusure di imprese", Cerved, September 2019

Chart 22: Bankruptcies by economic sector (% YoY)



Source: PwC analysis on "Osservatorio su fallimenti, procedure e chiusure di imprese", Cerved, September 2019

Focus on GACS

Key Message

On March 2019, the Italian Government renovated the public guarantee on Bad Loans securitization (so-called "GACS"). Undoubtedly, GACS has been an important driver for Bad Loans deleverage and its renewal will be an important boost for the market. However, new rules have increased GACS' costs and performance requirements that might imply the deferral of mezzanine notes' interests or the substitution of the NPL servicer (only if the GACS has been activated)

- The Decree Law n. 22 of 25 March 2019 (the so-called Brexit Decree) have a significant influence on Non Performing Exposures. This regulatory change provides valuable inspiration for a prospective evaluation of the phenomenon, also towards a combined reading with the rules introduced by the so-called Code of Corporate Crisis and with those deriving from the EU.

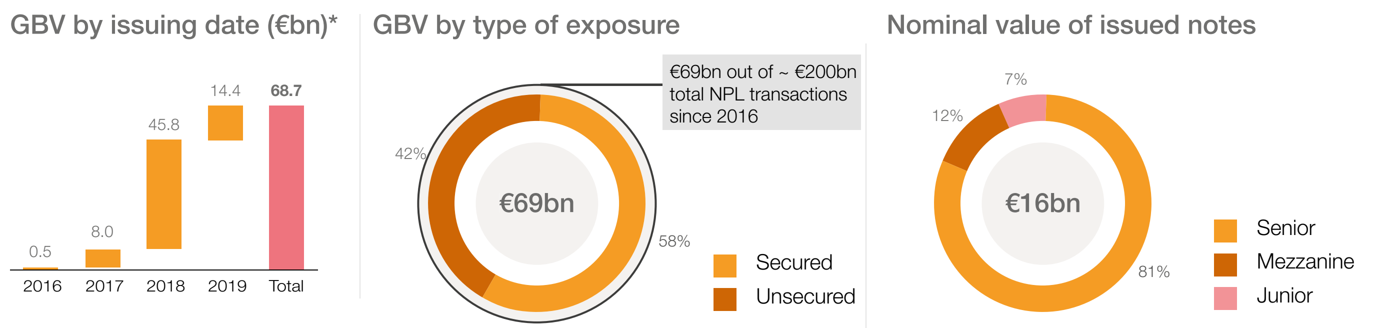
- Decree Law n. 22 of March 25, 2019, in order to allow the development of a secondary market for banks' non-performing loans (and consequently their deleveraging), has extended by 24 months (extendable for a further 12 months) the applicability of the State guarantee mechanism - the so-called GACS - on senior tranches (now rated at least BBB) issued as part of securitization transactions. GACS means the unconditional, irrevocable and payable on first demand guarantee issued by the Ministry of Economy and Finance (MEF) on senior tranches released under an NPLs credits securitization transactions; through this mechanism, the subscribers of the notes, at the occurrence of the trigger event (i.e. non-payment of interest or repayment of principal by the SPV) will obtain within 120 days from the MEF the payment of the amount due to them.

- It's reasonable to believe that this measure, in addition to having a significant effects on the bid/ask spread of the sale price of the receivables, will, in the short term, allow the sale of NPLs portfolios that have been in stand-by until has taken place the confirmation of the third GACS extension (although the trend is decreasing) and at better conditions for investors, hoping, as regards to further regulatory measures, the extension/redetermination of the aforesaid guarantee to credit portfolios classified as Unlikely To Pay.

- More specifically, we can see that the peculiarities of the UtPs, among others, both with regard to the so-called liquidation value (let's think about credit facilities without a significant value real estate underlying), and to the credit recovery methods (i.e. switching from a gone concern approach to a going concern approach focused on the monitoring/amendment of the plan/restructuring agreement and, therefore, characterized by a pro-active management of the receivables) would not be reconciled with a transposition tout court of the GACS scheme intended for the NPLs.

- Finally, it should be noted that the extension of the GACS to the UtP class would also have significant social and economic impacts: in fact, new finance would be channeled to entrepreneurs who are in a state of corporate crisis, giving them a "second chance" for the benefit of the whole economic system. This is even clearer if compared with the amendments introduced by the so-called "Code of Corporate Crisis", which implements Law N. 155 of October 19, 2017, and aims, by reforming the insolvency procedures, to discover quickly the corporate crisis through the introduction of early warning obligations for these companies pursuant to art. 2086 c.c. both aimed at enabling an early detection of the crisis and the adoption of the tools necessary to overcome it

Chart 23: Key features of NPE portfolios subject to securitization with GACS



Note: «Secured» means securities backed by first-lien and junior-lien guarantees on real estate assets; (*) Issue date is different from the closing date

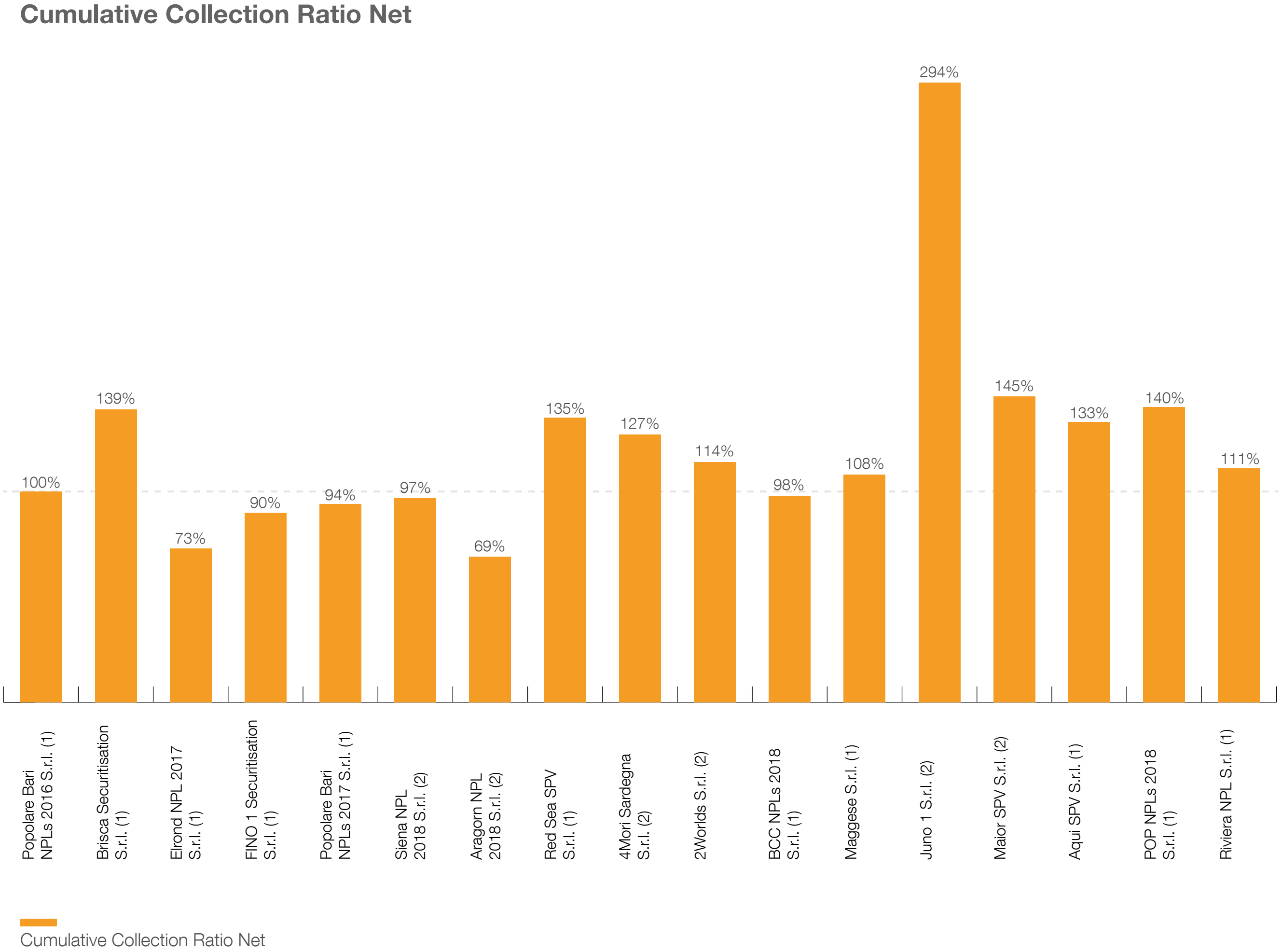
Table 5: List of NPE securitisations with GACS since 2016

Main banks involved	SPV	Servicer	Issuing date	GBV (€/bn)	% Secured	Rated Notes (at nominal value) Senior (% GBV)	Mezzanine (% GBV)	Junior (% GBV)	Senior* Yield (%)	Mezzanine* Yield (%)
Banca Popolare di Bari	Popolare Bari NPLs 2016 S.r.l.	Prelios	Aug-16	0.5	63%	26%	3%	2%	0.1%	5.6%
Carige	Brisca Securitisation S.r.l.	Prelios	Jul-17	0.9	77%	28%	3%	1%	0.3%	5.6%
Creval	Elrond NPL 2017 S.r.l.	Cerved	Jul-17	1.4	74%	33%	3%	1%	0.1%	5.6%
UniCredit	FINO 1 Securitisation S.r.l.	doValue	Nov-17	5.4	52%	12%	1%	1%	1.1%	4.7%
Banca Popolare di Bari	**Popolare Bari NPLs 2017 S.r.l.	Prelios	Dec-17	0.3	56%	25%	3%	4%	0.0%	5.6%
MPS	Siena NPL 2018 S.r.l.	Cerved. Prelios. doValue. Credito Fondiario	Jan-18	24.6	49%	13%	3%	2%	1.1%	8.0%
Creval	Aragorn NPL 2018 S.r.l.	Cerved. Credito Fondiario	Jun-18	1.7	75%	30%	4%	1%	0.1%	6.6%
Banco BPM	Red Sea SPV S.r.l.	Prelios	Jul-18	5.1	77%	32%	3%	1%	0.2%	5.6%
BPER	4Mori Sardegna S.r.l.	Prelios	Jun-18	1.0	53%	22%	1%	1%	0.5%	7.6%
Banco Desio e Brianza	2Worlds S.r.l.	Cerved	Jun-18	1.0	72%	29%	3%	1%	0.0%	7.6%
ICCREA	BCC NPLs 2018 S.r.l.	Prelios	Jul-18	1.0	72%	27%	3%	1%	0.0%	5.6%
Cassa di Risparmio di Asti	Maggese S.r.l.	Prelios	Jul-18	0.7	63%	24%	3%	2%	0.1%	5.6%
BNL (BNP Paribas)	Juno 1 S.r.l.	Prelios	Jul-18	1.0	30%	14%	3%	0%	0.2%	7.6%
UBI	Maior SPV S.r.l.	Prelios	Aug-18	2.7	47%	23%	2%	1%	0.1%	5.6%
Banca Popolare di Ragusa	Ibla S.r.l.	doValue	Sep-18	0.3	82%	24%	3%	1%	0.2%	7.6%
BPER	Aqui SPV S.r.l.	Prelios	Nov-18	2.1	60%	26%	3%	1%	0.1%	6.6%
Banca Popolare di Bari	POP NPLs 2018 S.r.l.	Cerved	Nov-18	1.6	66%	27%	3%	1%	0.0%	5.6%
Carige	Riviera NPL S.r.l.	Credito Fondiario. doValue	Dec-18	1.0	39%	18%	3%	1%	0.3%	6.6%
ICCREA	BCC NPLs 2018-2 S.r.l.	doValue	Dec-18	2.0	58%	24%	3%	1%	0.0%	5.6%
Banco BPM	Leviticus SPV S.r.l.	Credito Fondiario	Feb-19	7.4	67%	19%	3%	3%	0.2%	7.6%
BNL (BNP Paribas)	Juno 2 SPV S.r.l.	Prelios	Feb-19	1.0	61%	21%	5%	1%	0.2%	7.6%
UniCredit	***Prisma SPV S.r.l.	doValue	Oct-19	6.1	64%	20%	1%	0%	1.1%	8.6%
	Total			**68.7**						
	Weighted average				**57.8%**	**19%**	**3%**	**2%**	**0.6%**	**7.1%**

Source: PwC analysis on Rating Agencies' reports
Note: "Secured" means receivables backed by first-lien and junior-lien guarantees on real estate assets; (*) Annual yield of notes has been calculated as interbank rate as of September 2019 plus applicable spread and considering floors when applicable to variable rates; (**) GBV of junior-lien mortgage loans has been estimated using the ratio of senior- and junior-liens collateral values as proxy for the same ratio expressed in terms of GBV; (***) Unicredit is going to request the GACS guarantee for project Prisma

Below are represented the performances of the 17 out of 19 GACS securitizations realized by the end of 2018

Chart 24: Cumulative net collection actual data compared with business plan forecasts



Source: (1) PwC analysis on Moody's report 1H-2019;
(2) PwC analysis on Debtwire's report 28 May 2019

Italian Banks Overview

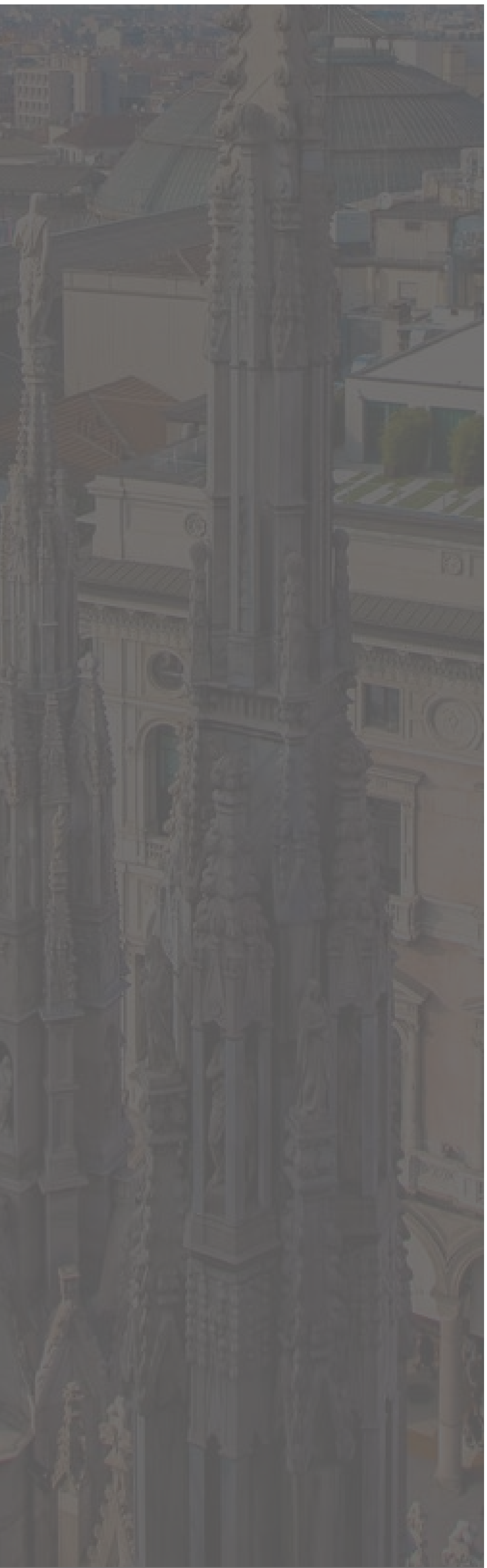
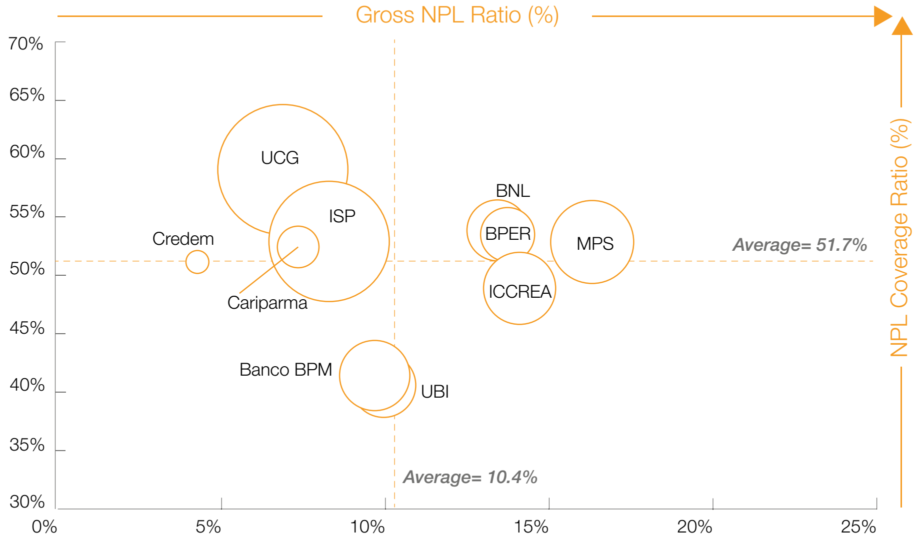


Chart 25 focuses on the gross NPE ratio and the NPE coverage ratio for the Top 10 Italian banks, which show respectively an average of 10.4% and 51.7%. The differences between banks are clear: on one side MPS shows the highest gross NPE ratio with 16.3% while, on the other side, Credem stands at the lower extreme of 4.4%. Considering the NPE coverage ratio, UniCredit shows the highest value (61.0%) and UBI the lowest (41.0%). However, coverage ratios are not perfectly comparable, as they are influenced by several factors that are unique in every bank, such as write-off policies, weight of secured component and portfolio vintage (time since default date).

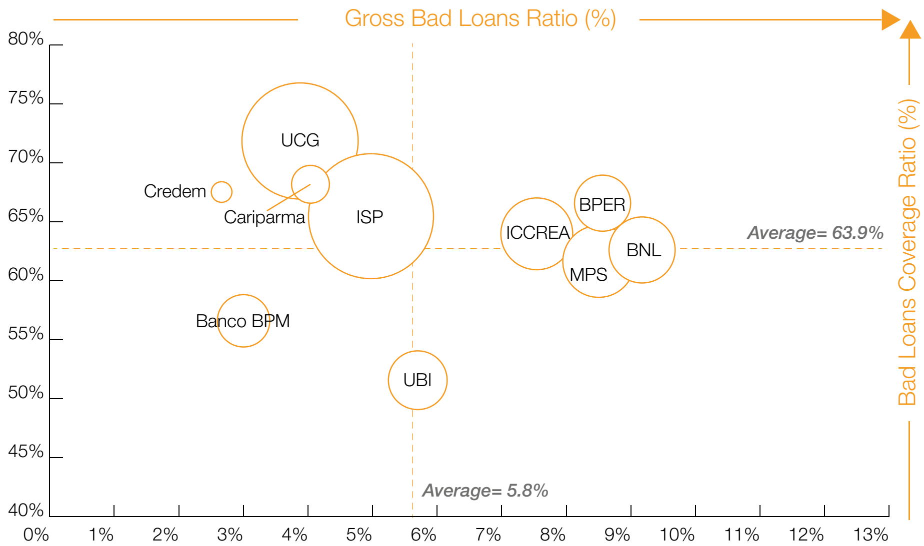
Chart 25: Top 10 Italian banks – NPE Peer Analysis as of H1-2019 (Bubble size: gross NPE)



Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies. Totals as simple average of ratios
Note: data of BNL as of YE-2018

The same analysis is reproduced considering the gross Bad Loans ratio and the Bad Loans coverage ratio (**Chart 26**). Also in this case there are differences among the Top 10 Italian banks: BNL reached the peak of gross Bad Loans ratio at 9.2% and Credem, the lowest, reported a 2.7% (the average stands at 5.8%). Coverage ratio ranges between 72.2% (UniCredit) and 51.8% (UBI); average stands at 63.9%.

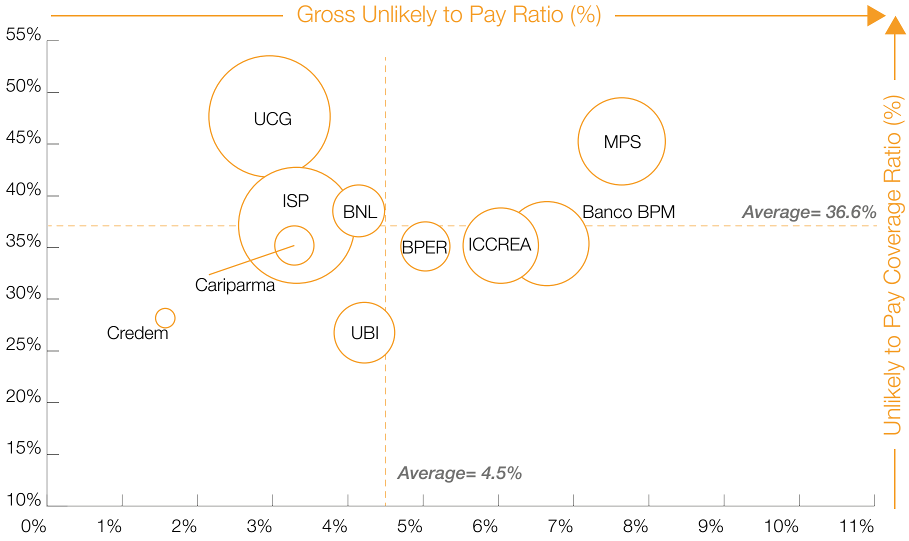
Chart 26: Top 10 Italian banks – Bad Loans Peer Analysis as of H1-2019 (Bubble size: gross Bad Loans)



Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies. Totals as simple average of ratios
Note: data of BNL as of YE-2018

Chart 27 provides a snapshot for the Unlikely to Pay ratio and its coverage ratio. The average for the first ratio is 4.5%, with MPS peaking at 7.6% and Credem being the lowest one with 1.6%. The Unlikely to Pay coverage ratio average is 36.6%: UCG is at the top with 47.9% and UBI at the bottom with 26.9%.

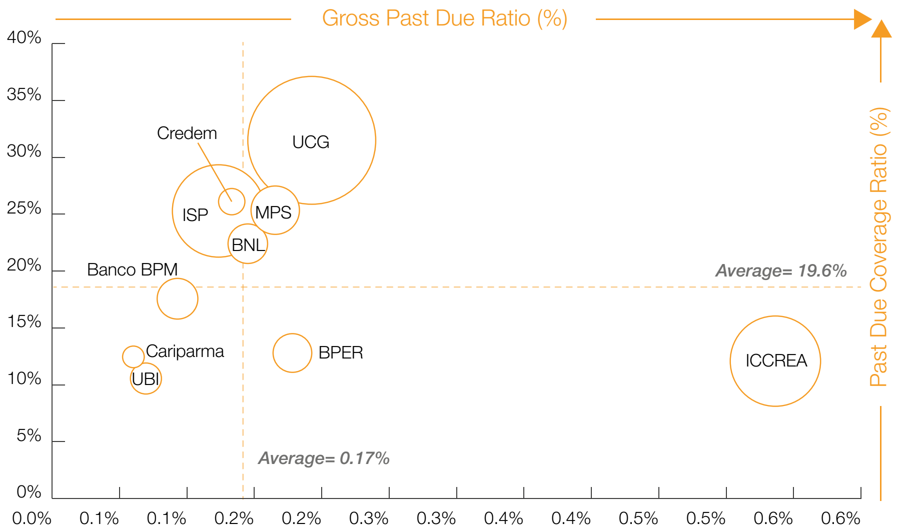
Chart 27: Top 10 Italian banks – Unlikely to Pay Peer Analysis as of H1-2019
(Bubble size: gross Unlikely to Pay)



Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies. Totals as simple average of ratios
Note: data of BNL as of YE-2018

Chart 28 illustrates the gross Past Due ratio and the coverage ratio for the banks analyzed. Iccrea records the highest gross Past Due ratio reaching 0.53% while Cariparma the lowest at 0.06%. The relative coverage ratio indicates two peaks: on one side UniCredit with 31.2% and on the other side 10.7% with UBI. The average reaches 19.6%.

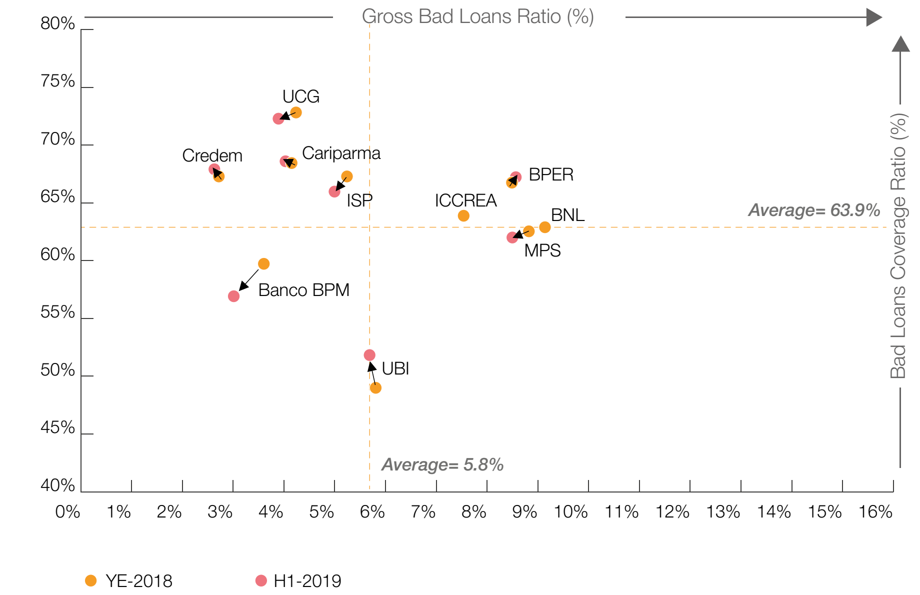
Chart 28: Top 10 Italian banks – Past Due Peer Analysis as of H1-2019
(Bubble size: gross Past Due)



Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies. Totals as simple average of ratios
Note: data of BNL as of YE-2018

Chart 29 analyses, for the Top 10 Italian banks, the movements in the gross Bad Loans Ratio and the Bad Loans coverage ratio between YE-2018 and H1-2019. At H1-2019 the average gross Bad Loans ratio reaches 5.8%, whereas the coverage ratio stands at 63.9%. The snapshot indicates most of the Top 10 Italian banks that improved their gross Bad Loans ratios during first half 2019 and their Bad Loans' coverage remained stable.

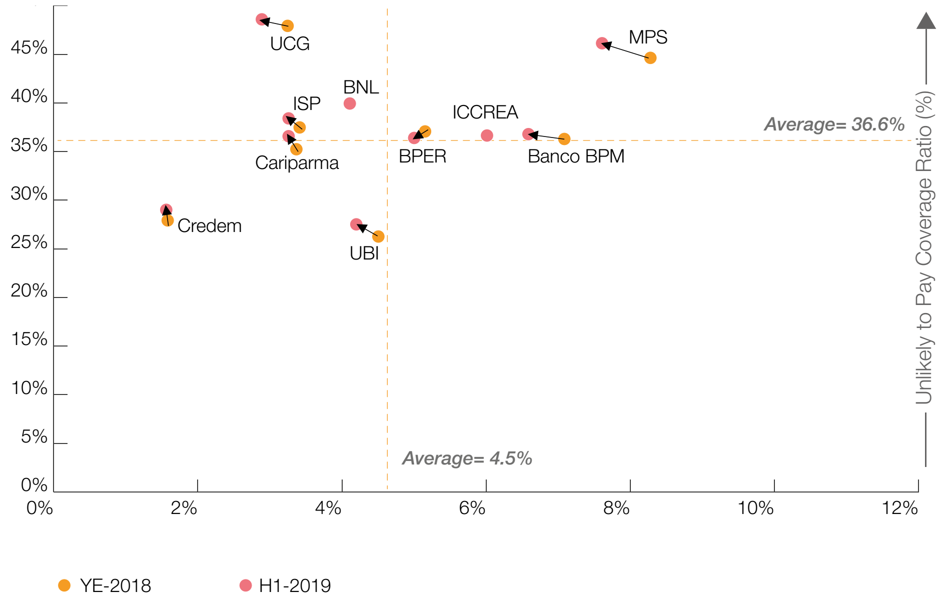
Chart 29: Top 10 Italian banks – Bad Loans movements (YE-2018 vs H1-2019)



Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies. Totals as simple average of ratios
Note: data of BNL as of YE-2018 and data of Iccrea as of H1-2019

Chart 30, almost all Top 10 Italian banks analysed experienced a decrease in the gross Unlikely to Pay ratio and an increase in the Unlikely to Pay coverage ratio. At H1-2019 the average gross Unlikely to Pay ratio stands at 4.5%, while the Unlikely to Pay coverage ratio is 36.6%.

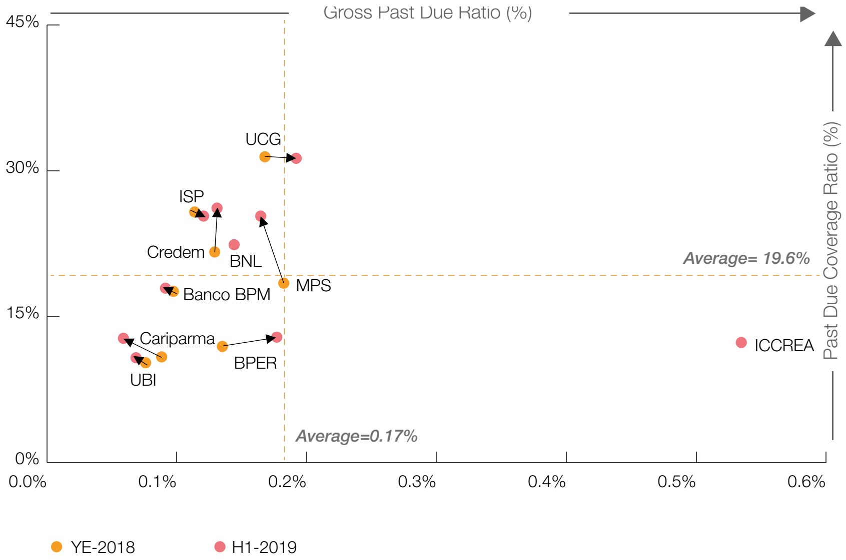
Chart 30: Top 10 Italian banks – Unlikely to Pay movements (YE-2018 vs H1-2019)



Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies. Totals as simple average of ratios
Note: data of BNL as of YE-2018 and data of Iccrea as of H1-2019

Chart 31 illustrates the movements in the gross Past Due ratio and Past Due coverage ratio.
At H1-2019, the average gross Past Due ratio stands at 0.17% and the Past Due coverage ratio is 19.6%, with a ca. 1.5% increase with respect to YE- 2018 levels (18.1%). During the first half of the year, the Gross Past Due ratio of the Top 10 Italian Banks remained stable on average compared to YE-2018.

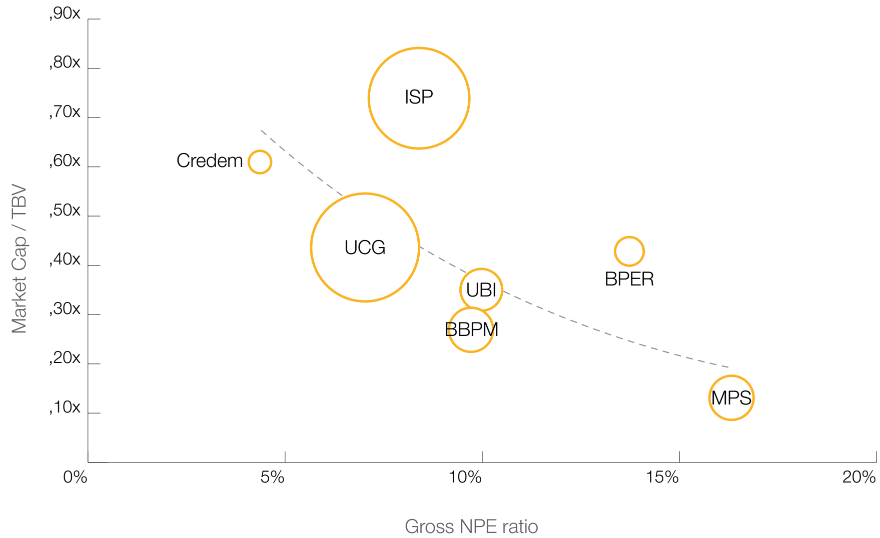
Chart 31: Top 10 Italian banks – Past Due movements (YE-2018 vs H1-2019)



Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies. Totals as simple average of ratios
Note: data of BNL as of YE-2018 and data of Iccrea as of H1-2019

Chart 32 shows the inverse correlation between the Market Cap on Tangible Book Value of the Top 10 Italian banks (listed) and their gross NPE ratio, which is an indication of a persistent market pressure on banks.

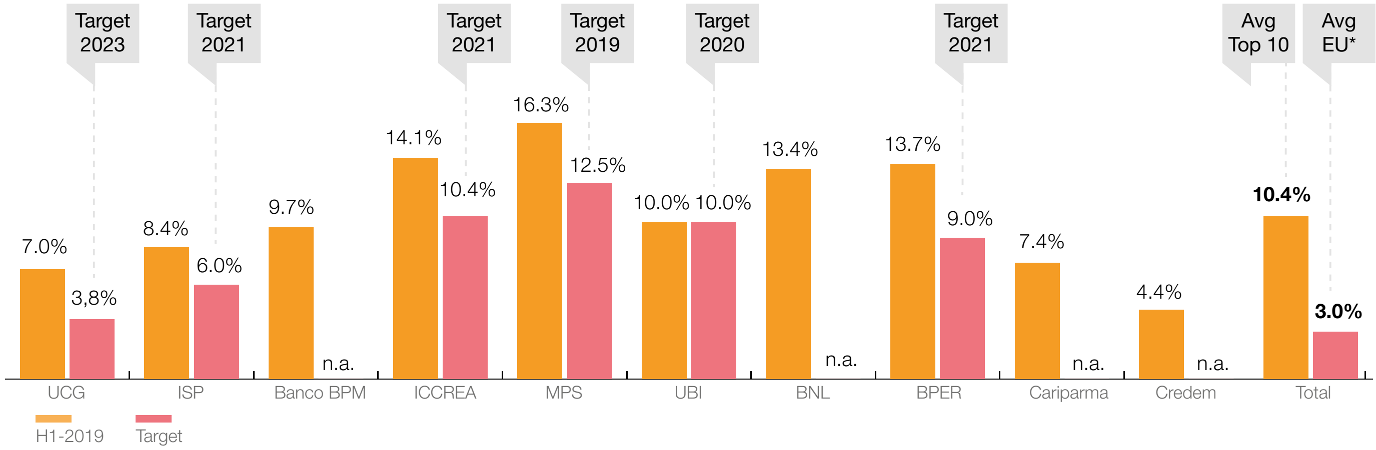
Chart 32: Top 10 Italian banks (listed) – Relation between Market Cap/TBV and gross NPE ratio as of June 2019 (Bubble size: Tangible Book Value)



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

Chart 33 shows the disclosure of primary Italian banks about their NPE deleveraging plans reported in terms of expected gross NPE ratio. Most of the Top Italian banks are committed to continue reducing their NPE with respect to gross customer loans within the next 2-3 years. Nevertheless, gross NPE loans Ratio of Top Italian banks is still far from European average.

Chart 33: Top 10 Italian banks – Target gross NPE Loans Ratio vs current as of H1-2019



Sources: PwC analysis on financial statements and analysts' presentations and on «Risk Dashboard – Data as of Q2-2019», EBA. Rounded numbers, total as simple average of ratios, only for banks presenting target NPE
Note: (*) the computation of the NPE ratio of the Eurozone considers European large banks which have, differently from Italian banks, an high level of non domestic exposures characterized by lower NPL ratio values compared to domestic one

Focus on Italian UtP market

Key Message

At H1-2019, banks' UtP exposure amounted to €73bn, (GBV) 81% of which is concentrated within the top 10 banks. Due to the lower decline in UtP with respect to Bad Loans, the proportion of the former compared to total NPE has been increasing: the next banks' efforts in improving their asset quality will inevitably be determined by the management of UtP.

Our view

One of the major issues for the Italian banking system in the next years is represented by the UtP.

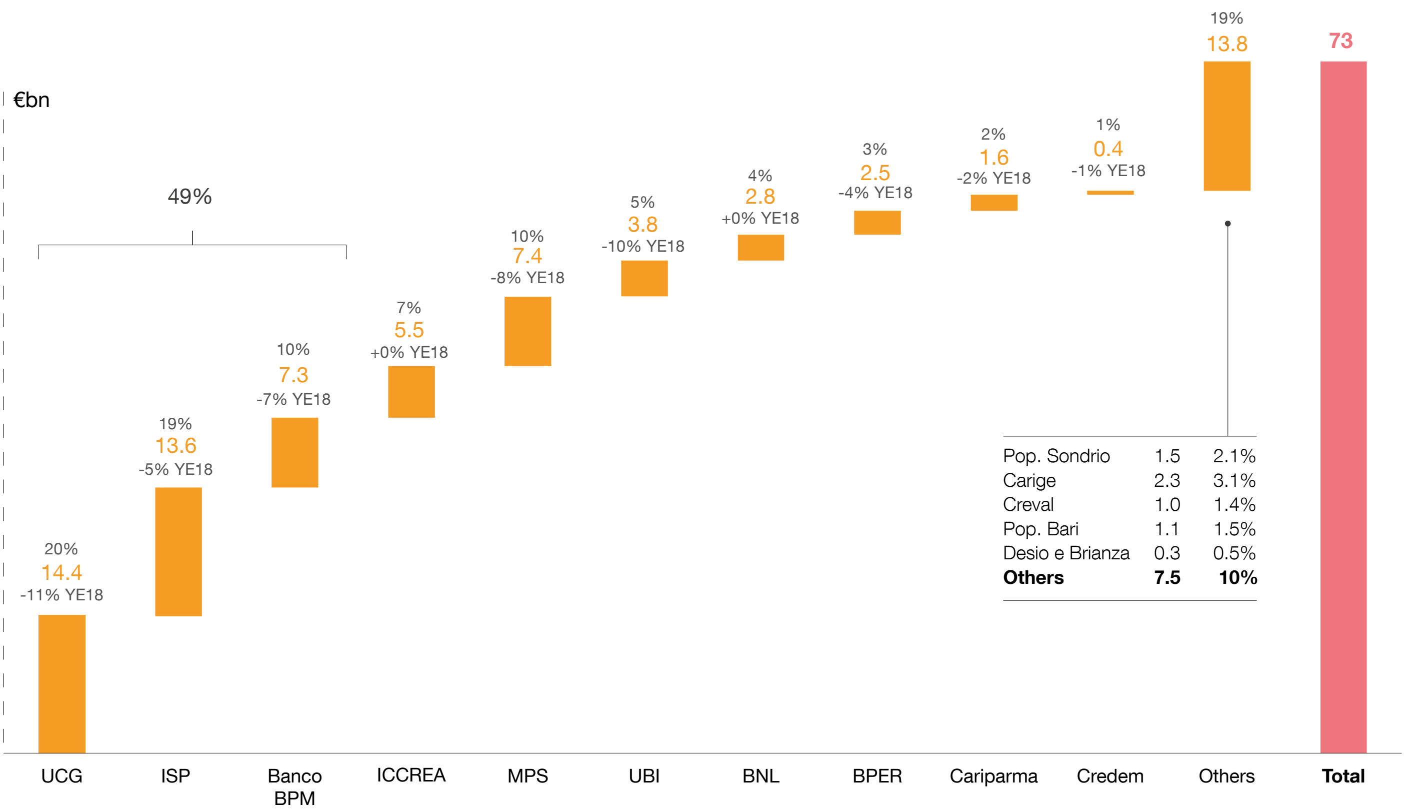
The figures below, showing a comparison between Gross UtP exposure at H1-2019 with respect to the same data at YE-2018, make clear that there is still a huge amount of UtP (€73 bn GBV), 81% of which concentrated within the top 10 Italian banks and almost half concentrated among the top 3.

The recent requirements mandated by European Regulators (the ECB and EBA guidelines, Calendar Provisioning) will undoubtedly drive Italian banks' management of current stock, next wave of NPE and the UtP deleveraging plans as well. Capital requirements and short/medium-term plans of improving asset quality could lead to massive UtP sale opportunities (single names and/or small portfolios).

Industrial capabilities' self-assessment along with identification of potential upside coming from the proper restructuring of the UtP could even lead the banks to internal management or external management (through specialised servicers) of the UtP. Indeed, an important role could be played by challenger banks, due to their possibility to refinance "still alive" borrowers, rather than traditional banks that have more coinstrains in providing new finance, except for working capital facilities in few cases, due to regulatory issues and a more complex decision making process.

Despite the declining trend, UtP are assuming, year by year, a more important role for the stability of the Italian banking system: in the balance sheet of the top 10 Italian banks the 44% of the total Gross NPE are classified as UtP.

Chart 34: Top 10 Italian banks – UtP distribution (€bn and %) as of H1-2019



UCG	ISP	Banco BPM	ICCREA	MPS	UBI	BNL	BPER	Cariparma	Credem	
42%	39%	68%	43%	47%	42%	31%	36%	44%	36%	**Gross UtP/NPE**
7%	8%	10%	14%	16%	10%	13%	14%	7%	4%	**Gross NPE Ratio**

Source: PwC analysis of financial statements and analysts' presentations. The list of Top 10 Italian banks is based on the Total Asset as of YE-2018
Note: data of BNL as of YE-2018 and data of Iccrea as of H1-2019

Key Message

The UtP average coverage ratio of the Top 10 Italian banks reached 36.6% (35.9% in 2018) while their ratio on total loans declined from 4.7% to 4.5%. Italian banks are continuing on the right path but further efforts are required.

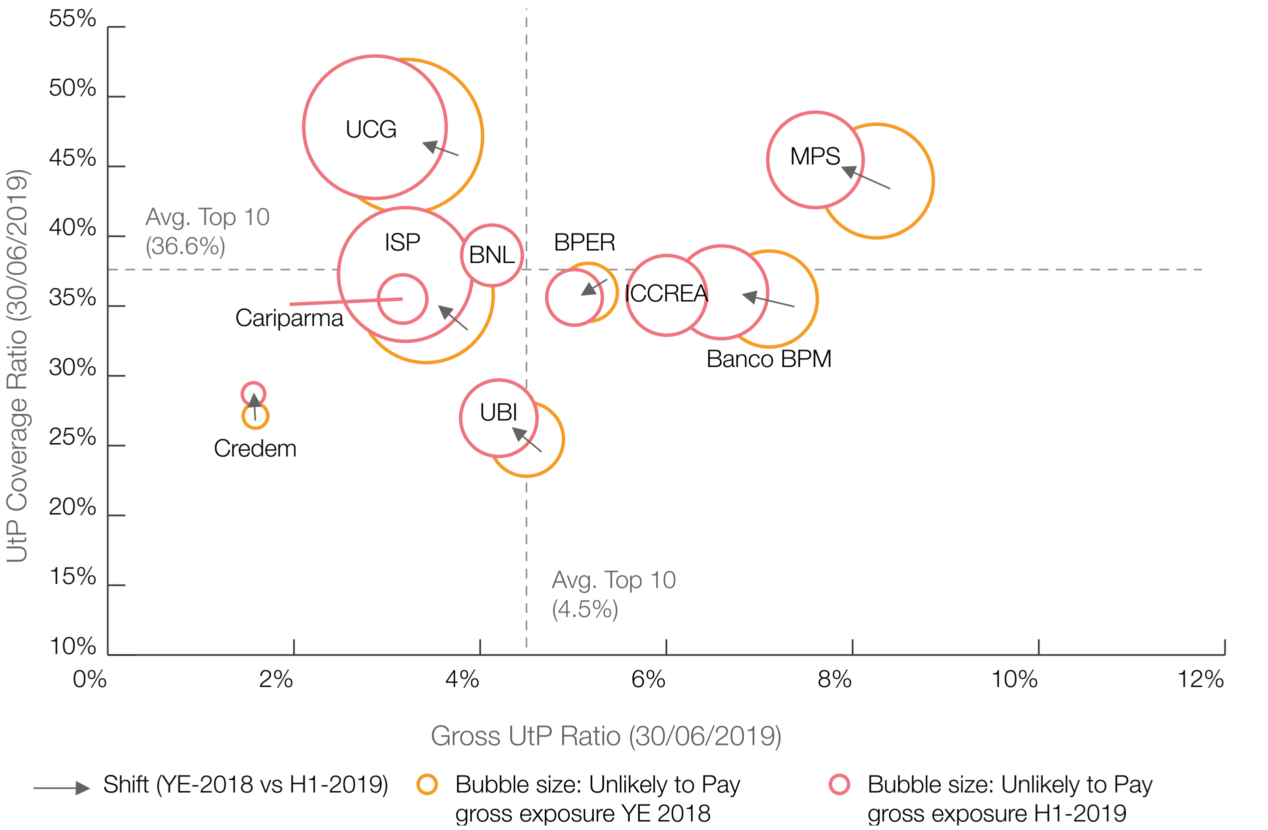
UtP Coverage ratios vs. gross UtP ratios

All top 10 Italian banks featured higher provisions of UtP in H1-2019 vs YE-2018, resulting in higher coverage ratios (avg. 36.6% in H1-2019 vs 35.9% in YE-2018).

During 2019, banks have been following their deleveraging plans, reducing their average gross UtP ratio from 4.7% at YE-2018 to 4.5% at H1-2019. Recent market trends are characterized by the setup of deleveraging strategies and reclassifications to Bad Loans: in terms of UtP stock, the declining trend showed in 2018 remained stable in the first half of 2019.

Leading banks which are reducing their Gross UtP ratio are MPS (-0.7% vs 2018) and Banco BPM (-0.5% vs 2018), mainly thanks to the disposal projects carried out in 2019.

Chart 35: Top 10 Italian banks – UtP movements (YE-2018 vs H1-2019)

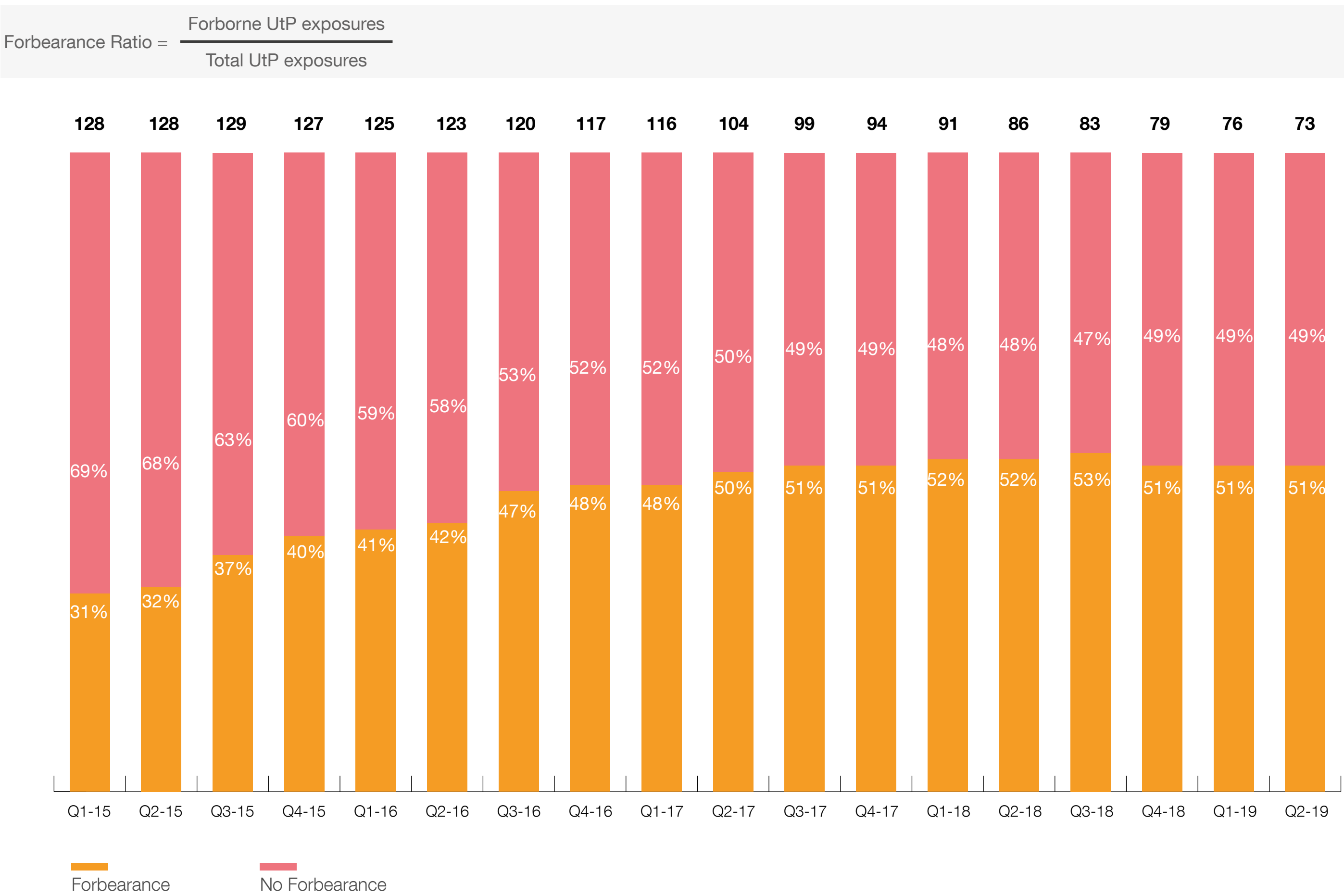


Sources: PwC analysis on financial statements and analysts' presentations. Rounded numbers, total as simple average of ratios
Note: data of BNL as of YE-2018 and data of Iccrea as of H1-2019

Key Message

Despite the decline in UtP of €55bn from Q1-2015 to Q2-2019, exposures subject to forbearance measures decreased. Since 2015, the proportion of forborne exposures has increased over time and forbearance ratio is 51% in H1-2019 (showing a slight decline from the peak of 53% of Q3-2018). However, still 49% of UtP are devoided of any agreement as of H1-2019.

Chart 36: Italian banks' forborne UtP exposures (€bn)



Source: PwC analysis on Banca d'Italia «Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori», September 2019

Key Message

In 2019 UtP transactions have been quite limited in terms of both frequency and volumes. However, some banks have announced Jumbo sales of UtP portfolios for the next year: due to the weight of UtP stock over total NPE, the ongoing and forthcoming market might be characterised by larger and more frequent deals.

The UtP market has been moving towards transactions of larger portfolios

During first half of 2019, we observed UtP transactions mainly involving top-tier banks, and the vast majority concerning Real-Estate secured portfolios. Major UtP disposal projects have been promoted and closed by Intesa Sanpaolo and MPS.

UtP deleverage is becoming crucial for Italian banks' asset quality, also considering that UtP reached and even surpassed the levels of Bad Loans in terms of NBV. Banks now are moving towards complex and larger deals involving "pure" UtP portfolio, subject to differentiated and structured deleveraging strategies.

Table 6: Main UtP* loan sale transactions as of November 2019

Project	Project M	Papa 2	Quebec 2	n.a.	Lima 2
Seller	**Intesa Sanpaolo**	**MPS**	**MPS**	**MPS**	**MPS**
Buyer	**DK / Prelios**	**Cerberus**	**illimity**	**n.a.**	**BofA Merril Lynch**
P / GBV	67%	n.a.	n.a.	n.a.	n.a.
GBV [€m] Total **€4.2bn**	3,000 2019 Q3	455 2019 Q3	450 2019 Q3	202 2019 Q3	130 2019 Q3
Portfolio	Mixed Secured/ Unsecured	Secured	Mainly Unsecured	Secured	Secured
Collateral	RE	RE	n.a.	RE	RE

Source: PwC estimates on public information and market rumours. Analysis on loan sale transactions, without considering structured ones, such as restructuring funds and synthetic securitizations
Note: (*) Considering only 100% UtP portfolios and mixed portfolios mainly composed of UtP

Table 7: UtP market pipeline: main announced UtP* transactions and market rumors as of November 2019

	Pipeline			Ongoing	
Project	n.a.	Project Dawn	n.a.	Project Sandokan 2	Hydra + Other
Seller	**MPS**	**UniCredit**	**CreVal**	**UniCredit**	**Banca Carige**
GBV [€m] Total **€14.3 bn**	7,000 MPS	1,100 UniCredit	800 CreVal	2,000 UniCredit	3,360 Banca Carige
Portfolio	UtP	UtP	Bad Loans & UtP	UtP	Bad Loans & UtP
Collateral	n.a.	n.a.	n.a.	RE	n.a.

Source: PwC estimates on public information and market rumours. Analysis on loan sale transactions, without considering structured ones, such as restructuring funds and synthetic securitizations
Note: (*) Considering only 100% UtP portfolios and mixed portfolios mainly composed of UtP

The Servicing Market

Key Message

We believe that a possibility for big players to consolidate other existing players is on the way. A comparable pattern has been observed in more mature European countries (such as Spain and Nordics), which reinforces our outlook on the Italian landscape.

Multiples trends are changing dominating business models in credit management:

- **Separation between servicing and purchasing capabilities**
- **Need for access to investment/ lending capabilities**
- **Demand for 360° NPE management capabilities**
- **Technological innovation and transformation**

On-going dynamics and outlook

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

The market, once dominated by small-size loan collectors, is **increasingly concentrated among the largest players**.

We believe that **a possibility for big players to consolidate other existing players is on the way**. A comparable pattern has been observed in more mature European countries (such as Spain and Nordics), which reinforces our outlook on the Italian landscape.

Servicers could also leverage M&A options to expand into unripe geographies (i.e. Greece) now offering important opportunities in terms of size and competition that might rationalize an international venture.

In the medium /long term, large private equity and hedge funds, today present in the market, may leave room to **large scale comprehensive international servicing platforms** which can leverage on strong economies of scale, competence and commercial presence.

In this context, we believe that strong specialization in specific geographies or asset classes will continue to be a sustainable differentiating factor for small-medium size players.

Key business model trends

Multiples trends are changing dominating business models in credit management:

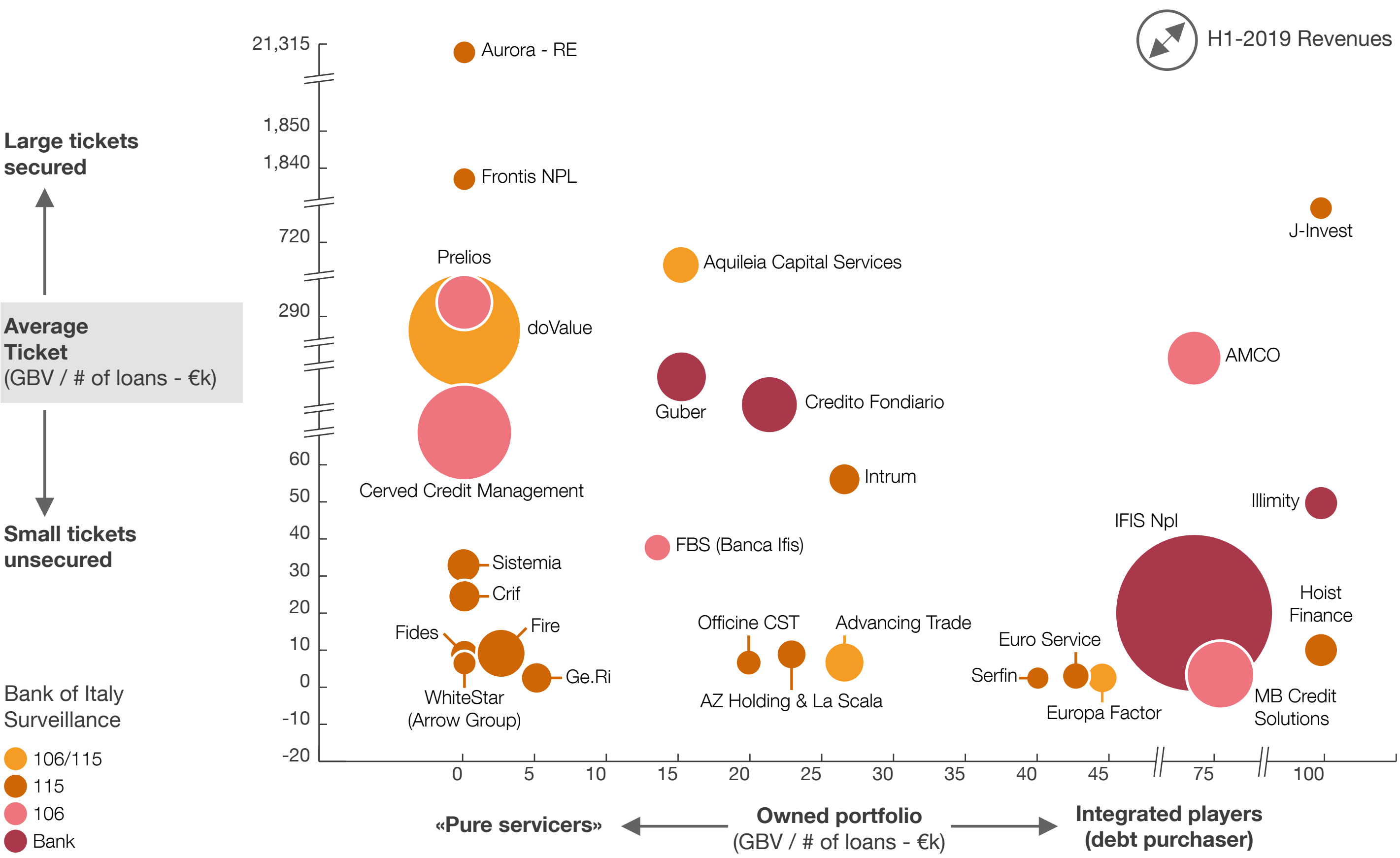
- **Separation between servicing and purchasing capabilities**: the market is experiencing a clear trend towards separation of pure servicing activities from capital-intensive ones (i.e. debt purchasing and new lending), in line with doValue recent reorganization;

- **Need for access to investment/ lending capabilities**: given new market expectations, successful credit servicing players need to be part of an ecosystem supporting pure servicing expertise with new lending capabilities and possibility to participate in large NPL sales;

- **Demand for 360° NPE management capabilities**: market is asking for capacity to manage both bad loans and UTP, requiring not only financing and refinancing capabilities but also industry expertise, restructuring/ turnaround and legal skills and advisory approach. In addition, active management of collateralized exposures require strong real estate capabilities.

In the medium-long term, the largest credit servicing players may enlarge **their business towards tech capabilities and with a wider product suite of business process outsourcing services**.

Positioning of main credit servicing players by business model and asset size (data at H1-2019)



Technology innovation in the industry

The credit servicing Industry is **still a human intensive business** due to the need for a portfolio manager to directly handle the case mostly across the entire value chain of the credit recovery.

However, the credit servicing industry is **quite active in the field of technology innovation** that could affect the operational effectiveness of the Industry and the annexed performance.

Hereunder some of the key elements to be taken into account:

- **Portfolios On-Boarding**: Artificial intelligence is able to speed up the acquisition of portfolios thanks to automatic checks, information / data feeds, automatic reconciliation etc. We see a trend of adoption of these tools by the players in the Servicing Industry; by the way there is still a large room of achievable improvements (with impact on people reduction).

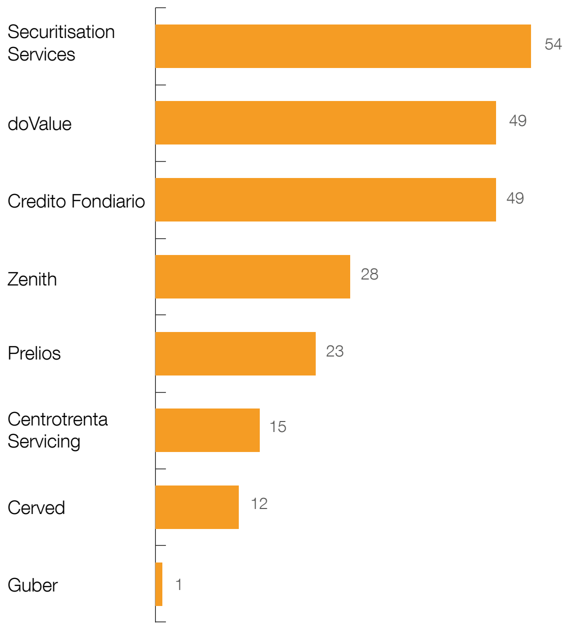
- **Forecasting and NBA (next best action)**: Data analytics tools are able to support portfolio managers to execute the best action for case handling.
This element could imply a big reshuffle of the servicing industry. The maturity of these techniques is still at the early phase.

- **Data Mining**: effective data mining techniques and tools are able to support the execution of activities and decision taking. For example, in Spain, servicers invested in the Real Estate Field with good results using data mining techniques.

A glance on master servicing business

Compared to other jurisdictions, Master Servicing is strictly regulated in Italy. The Italian market is currently characterized by the presence of a limited number of specialist players (Securitisation Services, Zenith and Centotrenta Servicing) and of some of the largest credit management players which can play also as Master Servicer.

Ranking of master servicers by AuM at 1H-2019 (GBV - €bn)



Main transactions in the servicing sector

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

Source: Mergermarket, companies annual reports and websites

Table 8: Overview of main servicers (data at 30/06/2019) – Ranking by Total Special Servicing AuM

		Special Servicing							Main Activities			
Company	**Bank of Italy Surveillance**	**Total AuM[1] (€bn)**	***o/w Bad Loans AuM (€bn)***	***o/w Other NPLs AuM[2] (€bn)***	**Performing AuM (€bn)**	**Master Servicing AuM (€bn)**	**Revenues (€m)**	**Ebitda (€m)**	**Debt servicing & collection**	**Debt purchasing**	**Master servicing**	**Rating**
doValue	115/106	78.6	*76.2*	*2.4*	0.9	48.9	112.2[4]	39.1	•		•	•
Cerved Credit Management	106/115	44.2	*41.9*	*2.3*	8.7	11.6	86.7[4]	30.2	•		•	•
Intrum	115	41.1	*41.1*	-	-	-	n.a.	n.a.	•			•
IFIS Npl	Bank	22.8	*22.7*	*0.1*	-	-	180.3	118.8	•	•		•
AMCO	106	20.3	*11.9*	*8.4*	-	-	29.3	3.3	•	•		•
Prelios Credit Servicing	106	19.9	*19.7*	*0.3*	0.0	23.4	29.8	13.9	•		•	•
Credito Fondiario	Bank	16.9	*16.2*	*0.8*	0.1	48.5	31.4	22.2	•	•	•	•
Sistemia	115	9.5	*9.0*	*0.5*	-	-	13.2[4]	8.6	•			•
Crif	115	9.3	*3.2*	*6.2*	4.5	-	12.0[4]	n.a.	•			•
Phoenix Asset Management	115	9.0	*8.8*	*0.2*	0.0	-	3.7[4]	1.9	•			
MB Credit Solutions	106	7.6	*7.6*	-	-	-	43.3	17.5	•	•		
Guber	Bank	7.1	*7.1*	-	-	1.4	26.3	14.6	•	•	•	•
Fire	115	6.7	*4.1*	*2.6*	5.4	-	24.3	2.2	•	•		•
J-Invest	106	5.4	*5.4*	-	-	-	6.7	4.0		•		
Illimity	Bank	4.8[3]	*4.8*	*n.a.*	n.a.	n.a.	13.7	n.a.	•	•		•
AZ Holding & La Scala	115	4.0	*3.9*	*0.1*	-	-	9.3	n.a.	•			
Finint Revalue	115	3.7	*3.2*	*0.5*	-	-	7.6	n.a.	•			
CNF (Gruppo Frascino)	115	3.4	*3.1*	*0.4*	-	-	8.6	2.8	•			•
Duepuntozero	115	3.3	*3.3*	-	-	-	-	-	•			
Frontis NPL	115	3.3	*2.3*	*1.0*	-	-	7.0[4]	4.8	•			
Advancing Trade	106/115	3.1	*3.1*	*0.1*	1.2	-	18.7	4.5	•	•		
Link Financial	115	3.0	*2.7*	*0.4*	0.0	-	3.7[4]	-	•			
WhiteStar Asset Solutions (Arrow Group)	115	2.7	*2.4*	*0.3*	0.3	-	n.a.	n.a.	•			
Aquileia Capital Services	106/115	2.6	*1.6*	*1.1*	0.0	-	4.7	1.5	•	•		
Blue Factor	106	2.1	*2.1*	-	-	-	1.6	0.6	•	•		
Aurora RE	115	1.8	*0.2*	*1.6*	-	-	3.7	3.0	•			
Link Asset Servicing	115	1.5	*1.3*	*0.2*	-	-	1.8[4]	n.a.	•			•
Officine CST	115	1.5	*1.0*	*0.5*	0.6	-	7.5	2.1	•	•		
SiCollection	115	1.5	*1.5*	-	-	-	2.9[4]	n.a.	•			
CSS	115	1.2	*1.0*	*0.2*	-	-	4.6[4]	0.8	•			
Bayview Italia	115	1.0	*1.0*	-	-	-	n.a.	n.a.	•			
Securitization Services	106	0.8	*0.6*	*0.3*	2.6	54.5	12.3[4]	6.5	•		•	•
Euro Service	115	0.8	*0.8*	-	-	-	7.6	0.2	•	•		
Ge.Ri	115	0.7	-	*0.7*	0.1	-	10.1	0.2	•	•		
Fides	115	0.7	*0.5*	*0.2*	0.3	-	7.3	1.8	•			
Europa Factor	106/115	0.5	*0.5*	*0.0*	-	-	11.1	1.5	•	•		
Serfin	115	0.3	*0.2*	*0.1*	0.2	-	6.4	1.1	•			
Axactor	106/115	0.1	*0.1*	-	-	-	11.3	-	•	•		
Certa Credita	115	0.1	*0.1*	*0.0*	0.1	-	2.8	0.5	•	•		•
Centotrenta Servicing	106	-	-	-	-	14.9	4.6	1.4			•	•
Zenith Service (Arrow Group)	106	-	-	-	-	28.4	n.a.	n.a.	•		•	•

Source: PwC analysis on data provided by Servicers as of 30/06/2019; data have been directly provided by Servicers and have not been verified by PwC.
Servicers present highly heterogeneous organizational, industrial and operating structures. Comparing the information presented above requires a correct analysis and understanding of the competitive landscape and servicers business model
1 Includes both owned and third parties portfolios
2 Includes Unlikely to Pay + Past Due more than 90 days
3 Refers to originated business: includes the origination/purchase of income-producing loans and NPL investments, and deals signed but yet to be booked, owing to a settlement structure in multiple tranches or to a time lag between the signing of the master agreement and the date of loan disbursement/onboarding
4 Includes both revenues from Special servicing activities both income from the management of owned portfolios
Note: Double counting may arise when adding NPL AuM as some servicers outsource part of their portfolios to others due to capacity and/or specialization issues

Table 9: Breakdown of servicer' Total Special Servicing Bad Loans AuM[1] (data at 30/06/2019) – Ranking by Total Special Servicing AuM

				Special Servicing					
Company	**Total AuM[1] (€bn)**	**Total Bad Loans AuM[1] (€bn)**	**Average Ticket (€k)**	**Secured**	**Unsecured**	**Owned**	**Banks**	**Investors**	**Others**
doValue	78.6	76.2	187.4	28%	72%	0%	25%	74%	-
Cerved Credit Management	44.2	41.9	61.7	54%	46%	-	41%	59%	-
Intrum	41.1	41.1	50.1	50%	50%	n.a.	n.a.	n.a.	n.a.
IFIS Npl	22.8	22.7	12.3	9%	91%	72%	2%	26%	-
AMCO	20.3	11.9	126.3	63%	37%	59%	-	-	41%
Prelios Credit Servicing	19.9	19.7	284.4	61%	39%	n.a.	n.a.	n.a.	n.a.
Credito Fondiario	16.9	16.2	97.0	57%	43%	21%	18%	60%	-
Sistemia	9.5	9.0	28.6	71%	29%	-	59%	39%	2%
Crif	9.3	3.2	20.9	52%	48%	-	82%	7%	12%
Phoenix Asset Management	9.0	8.8	302.7	43%	57%	-	-	100%	-
MB Credit Solutions	7.6	7.6	3.1	3%	97%	75%	6%	13%	6%
Guber	7.1	7.1	121.9	7%	93%	100%	-	-	-
Fire	6.7	4.1	6.7	26%	74%	3%	74%	20%	3%
J-Invest	5.4	5.4	721.1	-	100%	100%	-	-	-
Illimity	4.8[2]	4.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
AZ Holding & La Scala	4.0	3.9	6.2	6%	94%	23%	30%	33%	15%
Finint Revalue	3.7	3.2	12.3	81%	19%	1%	34%	60%	4%
CNF (Gruppo Frascino)	3.4	3.1	11.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Duepuntozero	3.3	3.3	384.9	20%	80%	3%	-	97%	-
Frontis NPL	3.3	2.3	1,837.9	96%	4%	-	0%	100%	-
Advancing Trade	3.1	3.1	4.2	-	100%	26%	23%	27%	24%
Link Financial	3.0	2.7	6.6	17%	83%	0%	2%	97%	1%
WhiteStar Asset Solutions (Arrow Group)	2.7	2.4	6.4	9%	91%	-	50%	-	50%
Aquileia Capital Services	2.6	1.6	293.7	88%	12%	15%	-	85%	-
Blue Factor	2.1	2.1	12.1	-	100%	22%	-	78%	-
Aurora RE	1.8	0.2	21,315.0	100%	-	n.a.	n.a.	n.a.	n.a.
Link Asset Servicing	1.5	1.3	384.5	100%	-	-	-	100%	-
Officine CST	1.5	1.0	4.0	20%	80%	20%	15%	40%	25%
SiCollection	1.5	1.5	7.5	0%	100%	-	28%	71%	1%
CSS	1.2	1.0	5.6	1%	99%	-	16%	80%	3%
Bayview Italia	1.0	1.0	154.4	96%	4%	n.a.	n.a.	n.a.	n.a.
Securitization Services	0.8	0.6	941.1	88%	12%	-	58%	42%	-
Euro Service	0.8	0.8	0.9	-	100%	42%	-	58%	-
Ge.Ri	0.7	-	n.a.	-	100%	n.a.	n.a.	n.a.	n.a.
Fides	0.7	0.5	4.4	2%	98%	-	65%	-	35%
Europa Factor	0.5	0.5	0.4	0%	100%	44%	20%	19%	18%
Serfin	0.3	0.2	0.6	-	100%	39%	10%	-	50%
Axactor	0.1	0.1	2.9	n.a.	n.a.	100%	-	-	-
Certa Credita	0.1	0.1	4.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Centotrenta Servicing	-	-	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Zenith Service (Arrow Group)	-	-	n.a.	25%	75%	n.a.	n.a.	n.a.	n.a.

Source: PwC analysis on data provided by Servicers as of 30/06/2019; data have been directly provided by Servicers and have not been verified by PwC.
Servicers present highly heterogeneous organizational, industrial and operating structures.
Comparing the information presented above requires a correct analysis and understanding of the competitive landscape and servicers business model
1 Includes both owned and third parties portfolios
2 Refers to originated business: includes the origination/purchase of income-producing loans and NPL investments, and deals signed but yet to be booked, owing to a settlement structure in multiple tranches or to a time lag between the signing of the master agreement and the date of loan disbursement/onboarding
Note: Double counting may arise when adding NPL AuM as some servicers outsource part of their portfolios to others due to capacity and/or specialization issues

Table 10: Geographical NPL breakdown (data at 30/06/2019) – Ranking by Total Special Servicing AuM

			Special + Master Servicing		
Company	**Total AuM[1] (€bn)**	**Total Bad Loans AuM[1] (€bn)**	**North[2]**	**Centre[3]**	**South - Islands[4]**
doValue	78.6	76.2	43%	28%	29%
Cerved Credit Management	44.2	41.9	36%	39%	25%
Intrum	41.1	41.1	n.a.	n.a.	n.a.
IFIS Npl	22.8	22.7	33%	29%	39%
AMCO	20.3	11.9	64%	19%	17%
Prelios Credit Servicing	19.9	19.7	47%	21%	32%
Credito Fondiario	16.9	16.2	68%	19%	12%
Sistemia	9.5	9.0	48%	34%	18%
Crif	9.3	3.2	43%	26%	31%
Phoenix Asset Management	9.0	8.8	36%	47%	18%
MB Credit Solutions	7.6	7.6	38%	23%	39%
Guber	7.1	7.1	46%	38%	16%
Fire	6.7	4.1	33%	21%	46%
J-Invest	5.4	5.4	69%	18%	12%
Illimity	4.8[5]	4.8	n.a.	n.a.	n.a.
AZ Holding & La Scala	4.0	3.9	32%	25%	43%
Finint Revalue	3.7	3.2	40%	35%	25%
CNF (Gruppo Frascino)	3.4	3.1	28%	27%	45%
Duepuntozero	3.3	3.3	18%	23%	60%
Frontis NPL	3.3	2.3	60%	30%	10%
Advancing Trade	3.1	3.1	36%	20%	44%
Link Financial	3.0	2.7	30%	33%	37%
WhiteStar Asset Solutions (Arrow Group)	2.7	2.4	34%	26%	41%
Aquileia Capital Services	2.6	1.6	79%	15%	6%
Blue Factor	2.1	2.1	25%	21%	54%
Aurora RE	1.8	0.2	37%	53%	10%
Link Asset Servicing	1.5	1.3	41%	42%	17%
Officine CST	1.5	1.0	33%	18%	49%
SiCollection	1.5	1.5	42%	16%	42%
CSS	1.2	1.0	47%	20%	33%
Bayview Italia	1.0	1.0	56%	26%	18%
Securitization Services	0.8	0.6	41%	37%	22%
Euro Service	0.8	0.8	36%	26%	38%
Ge.Ri	0.7	-	32%	25%	43%
Fides	0.7	0.5	22%	17%	61%
Europa Factor	0.5	0.5	29%	23%	47%
Serfin	0.3	0.2	30%	50%	20%
Axactor	0.1	0.1	46%	20%	34%
Certa Credita	0.1	0.1	7%	9%	84%
Centotrenta Servicing	-	-	49%	26%	24%
Zenith Service (Arrow Group)	-	-	n.a.	n.a.	n.a.

Source: PwC analysis on data provided by Servicers as of 30/06/2019; data have been directly provided by Servicers and have not been verified by PwC;
Servicers present highly heterogeneous organizational, industrial and operating structures.
Comparing the information presented above requires a correct analysis and understanding of the competitive landscape and servicers business model
1 Includes both owned and third parties portfolios
2 Includes: Piemonte, Valle d'Aosta, Lombardia, Veneto, Trentino Alto Adige, Friuli Venezia Giulia, Liguria, Emilia Romagna
3 Includes: Toscana, Umbria, Marche, Lazio
4 Includes: Abruzzo, Molise, Campania, Puglia, Basilicata, Calabria, Sicilia, Sardegna
5 Refers to originated business: includes the origination/purchase of income-producing loans and NPL investments, and deals signed but yet to be booked, owing to a settlement structure in multiple tranches or to a time lag between the signing of the master agreement and the date of loan disbursement/onboarding

Table 11: Breakdown of servicer' Total Bad Loans AuM[1] (data at 30/06/2019) – Ranking by Total Special Servicing AuM

	Special + Master Servicing					
	Secured			Unsecured		
Company	**Judicial**	**Extrajudicial**	**Loan Sale**	**Judicial**	**Extrajudicial**	**Loan Sale**
doValue	7%	89%	4%	7%	85%	9%
Cerved Credit Management	5%	85%	10%	2%	91%	7%
Intrum	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
IFIS Npl	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
AMCO	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Prelios Credit Servicing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Credito Fondiario	10%	80%	10%	24%	63%	13%
Sistemia	70%	30%	-	50%	50%	-
Crif	44%	46%	10%	16%	84%	-
Phoenix Asset Management	52%	13%	24%	7%	1%	3%
MB Credit Solutions	-	-	-	-	-	-
Guber	20%	80%	-	7%	93%	-
Fire	56%	44%	-	14%	86%	-
J-Invest	-	-	-	52%	1%	48%
Illimity	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
AZ Holding & La Scala	24%	76%	-	39%	61%	-
Finint Revalue	-	-	-	-	-	-
CNF (Gruppo Frascino)	32%	20%	48%	27%	49%	24%
Duepuntozero	2%	56%	42%	83%	12%	5%
Frontis NPL	45%	38%	18%	21%	4%	76%
Advancing Trade	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Link Financial	90%	10%	-	6%	94%	-
WhiteStar Asset Solutions (Arrow Group)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Aquileia Capital Services	23%	60%	17%	17%	83%	-
Blue Factor	-	-	-	43%	57%	-
Aurora RE	-	100%	-	-	-	-
Link Asset Servicing	31%	69%	-	-	-	-
Officine CST	56%	25%	19%	32%	67%	1%
SiCollection	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
CSS	-	-	-	-	100%	-
Bayview Italia	-	-	-	-	-	-
Securitization Services	-	-	-	-	-	-
Euro Service	-	-	-	6%	89%	5%
Ge.Ri	-	-	-	-	-	-
Fides	-	100%	-	0%	100%	-
Europa Factor	20%	80%	-	0%	73%	27%
Serfin	-	-	-	-	100%	-
Axactor	-	-	-	-	-	-
Certa Credita	-	-	-	-	100%	-
Centotrenta Servicing	-	-	-	-	-	-
Zenith Service (Arrow Group)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Recent market activity and outlook

Key Message

NPE disposals have been sharply growing since 2015, when transactions rocketed at approx. €18bn in terms of GBV and reached their peak at the end of 2018 (around €84bn). Overall, the market cumulated more than €270bn from 2015, and almost €65bn transactions have been already closed in 2019 and planned for 2020. GACS renovation, high UtP stock and secondary market will be the key drivers for the forthcoming NPE disposals.

Before 2015, NPE transactions were somehow "extraordinary" and total deal volume did not exceed €10bn per year in terms of GBV; accordingly, the NPE stock held by banks kept growing, until it reached €341bn at the end of 2015, the year when NPE market took off.

Since then, the market has totalled more than €270bn in terms of GBV, mostly with primary market transactions. NPE disposals have undoubtedly been the main contributors to the reduction of NPE stock that has been observed in the last three years: these deals are part of the deleveraging strategies carried out by almost all Italian banks and envisage an intensive and proactive approach to improve asset quality, encouraged by several endogenous and exogenous factors (such as the positive correlation between asset quality and stocks' value, regulators' pressure and macroeconomic drivers).

On the whole, 2019 featured approx. €25bn of closed transactions in terms of GBV and approx. €40bn of announced transactions of which €14.5bn already ongoing are expected by year end and first months of 2020.

Main closed transactions include some "jumbo" deals such as Intesa Sanpaolo "Pjt M" (€3bn UtP) and UniCredit "Pjt Prisma" (€6.1bn Bad Loans securitization).

Regarding announced transactions, UniCredit, in its latest industrial plan, is committed to reduce the gross NPE stock by approx. €9bn by 2023. MPS is continuing its deleveraging strategy as well. The Italian Government aims to shield the bank from NPE losses and is negotiating with EU Commission a new NPL disposing plan. Treasury sets the goal to lower the impaired debt ratio to 5% by spinning off some 10 billion euros in problem loans that would be merged with the assets of Treasury-owned NPE manager AMCO S.p.A. (formerly S.G.A. S.p.A.). By the end of December, EU Commission should communicate its response.

Banca Popolare di Bari needs around €1bn to be recapitalized and recently asked for a €100-150mln early intervention of the Interbank Deposit Protection Fund (FITD). The supposed scenario could also involve the NPE disposal to AMCO, as already seen in the crisis resolution of Banca Carige.

Furthermore, we expect that the opportunities represented by the renovation of GACS scheme, will be one of the key drivers for the forthcoming NPE market. After 10 months without GACS deals, now UniCredit is going to request the guarantee for project Prisma. Moreover, UBI, BPER and Banca Popolare di Sondrio will likely ask for the public guarantee in the NPL disposals they are currently working on.

Finally, deals in secondary markets are increasing in volumes and we expect this trend to continue. Below, we present the main drivers for secondary market transactions:

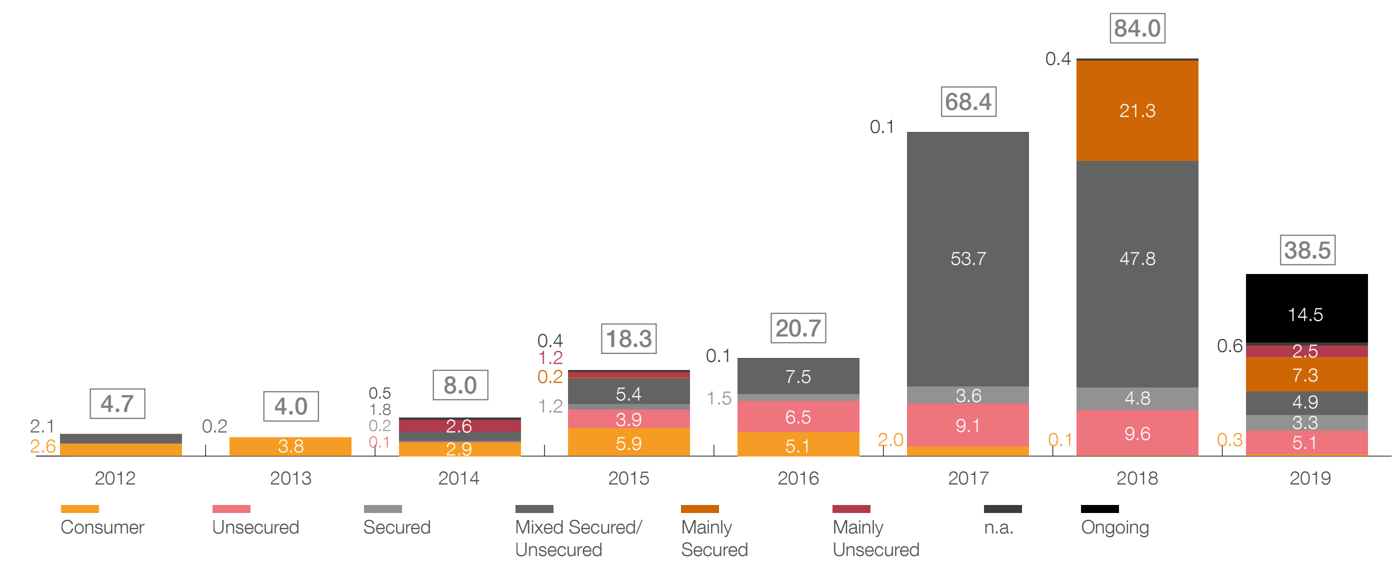
- SPVs that need to accelerate the collections in order to repay Senior notes outstanding principal (often secured by GACS) accordingly to the original business plan. They usually sell sub-portfolios made of NPLs secured by good quality and sizeable assets because they are easier to be marketed

- Investors that need to focus on a specific asset class due to investment policy and/or corporate structure (e.g. illimity bank chose to invest only in SME/corporate NPL)

- Investment fund liquidation, when shareholders are not willing to extend the expiring deadline

- Need to sell portfolios' tails to clean books and improve operational efficiency. Normally, the workout of these exposures is difficult due to lack of documentation and scarce quality of information. They have to be treated by specialized servicers and usually disposed at a lower price (i.e. P/GBV between 0.2% and 0.5%).

Chart 37: NPL transactions trend in the Italian market (€bn)



Source: PwC estimates on public information and market rumours

Table 12: Closed NPE transactions in 2018 and first half of 2019

Date	Seller	Volume (€m)	NPE category	Macro asset class	Buyer	Primary / Secondary market
Transactions closed in 2019:						
2019 Q4	BNL	1,400	Bad Loans	Unsecured	Banca IFIS, Guber, Barclays Bank	Primary
2019 Q4	Gruppo Cassa Centrale	345	Bad Loans	Mixed Secured/ Unsecured	Arrow Global	Primary
2019 Q4	UniCredit	6,100	Bad Loans	Mainly Secured	Prisma SPV	Primary
2019 Q4	UniCredit	1,039	Bad Loans	Unsecured	Confidential	Primary
2019 Q3	UniCredit	375	Bad Loans	Mainly Unsecured	n.a.	Primary
2019 Q3	UniCredit	664	Bad Loans	Secured	illimity	Primary
2019 Q3	UniCredit	1,100	Bad Loans	Unsecured	SPF Investment Management LP	Primary
2019 Q3	UBI Banca	740	Bad Loans	Mixed Secured/ Unsecured	Credito Fondiario	Primary
2019 Q3	Intesa Sanpaolo	3,000	UtP	Mixed Secured/ Unsecured	DK / Prelios	Primary
2019 Q3	Banca Monte dei Paschi di Siena	455	UtP	Secured	Cerberus	Primary
2019 Q3	Banca Monte dei Paschi di Siena	450	UtP	Mainly Unsecured	illimity	Primary
2019 Q3	Banca Monte dei Paschi di Siena	240	Bad Loans	Mixed Secured/ Unsecured	illimity	Primary
2019 Q3	UniCredit	240	Bad Loans	Unsecured	illimity	Primary
2019 Q3	Hoist Finance	225	Bad Loans	Unsecured	CarVal Investors (95% notes, excl. Junior)	Secondary
2019 Q3	UniCredit	210	Bad Loans	Unsecured	Guber & Barclays	Primary
2019 Q3	Banca Monte dei Paschi di Siena	202	UtP	Mainly Secured	Unknown	Primary
2019 Q3	Banco Desio & an Italian NPL investor	180	NPE	Unsecured	The SPV notes will be underwrited by institutional investors	Mixed Primary / Secondary
2019 Q3	UBI Banca	157	NPE	Unsecured	Confidential	Primary
2019 Q3	Banca del Fucino	150	Bad Loans	Secured	Fucino RMBS srl SPV	Primary
2019 Q3	CR Asti	149	Bad Loans	Mixed Secured/ Unsecured	Unknown	Primary
2019 Q3	Banca Monte dei Paschi di Siena	137	Bad Loans	Mixed Secured/ Unsecured	Unknown	Primary
2019 Q3	Chebanca!	137	Bad Loans	Secured	D.E. Shaw	Primary
2019 Q3	Banca Monte dei Paschi di Siena	130	UtP	Secured	BofA Merrill Lynch	Primary
2019 Q2	Banco BPM	650	Bad Loans	Secured	illimity	Primary
2019 Q2	Confidential	450	NPE	Unsecured	Banca IFIS	Primary
2019 Q2	Confidential	351	Bad Loans	Mainly Unsecured	Guber	Secondary
2019 Q2	Findomestic Banca	250	NPE	Consumer	Banca IFIS	Primary
2019 Q1	Banca del Fucino	314	Bad Loans & UtP	n.a.	SGA	Primary
2019 Q1	BPER Banca	1,300	Bad Loans	Mainly Unsecured	UnipolReC	Primary
2019 Q1	CCRES (CCB Group)	734	Bad Loans	Secured	Barclays, Varde, Guber	Primary
2019 Q1	Intesa Sanpaolo	187	NPE	Secured	WRM	Primary
2019 Q1	Banca Valsabbina	150	Bad Loans	Mixed Secured/ Unsecured	Guber and Barclays	Primary
2019 Q1	BNL	968	Bad Loans	Mainly Secured	Juno 2 Srl	Primary
Other transactions with deal value < €100m		**774**				
Total (2019)		**23,954**				

Date	Seller	Volume (€m)	NPE category	Macro asset class	Buyer	Primary / Secondary market
Transactions closed in 2018 1/2:						
2018 Q4	Banco BPM	7,400	Bad Loans	Mixed Secured/ Unsecured	Credito Fondiario - Elliott	Primary
2018 Q4	Banca Monte dei Paschi di Siena	2,200	Bad Loans	Unsecured	IFIS NPL (Clusters Small e Consumer), Credito Fondiario & Fire (Cluster Mid) e Balbec Capital LP (Cluster Large)	Primary
2018 Q4	ICCREA	2,000	Bad Loans	Mixed Secured/ Unsecured	Confidential	Primary
2018 Q4	Società gestione crediti Delta (SGCD)	2,000	NPE & Performing	Unsecured	Cerberus	Primary
2018 Q4	BPER Banca	1,900	NPE	Mixed Secured/ Unsecured	Aqui SPV	Primary
2018 Q4	Pool of Italian banks*	1,578	NPE	Mainly Secured	Several buyers	Primary
2018 Q4	Banca Carige	964	Bad Loans	Mixed Secured/ Unsecured	RIVIERA NPL	Primary
2018 Q4	Banca Monte dei Paschi di Siena	900	Bad Loans	Mixed Secured/ Unsecured	Bain Capital Credit	Primary
2018 Q4	UniCredit	642	Bad Loans	Secured	Fortress	Primary
2018 Q4	UniCredit	449	Bad Loans	Unsecured	J-Invest & illimity	Primary
2018 Q4	UBI Banca	416	Bad Loans	Unsecured	Confidential	Primary
2018 Q4	Banca Monte dei Paschi di Siena	413	UtP	Secured	Confidential	Primary
2018 Q4	Fiditalia	371	NPE	Unsecured	IFIS NPL	Primary
2018 Q4	Banca Carige	366	UtP	Secured	Bain Capital Credit	Primary
2018 Q4	Banca Popolare di Puglia e Basilicata	347	NPE	Unsecured	illimity	Primary
2018 Q4	Eni Gas e Luce	230	Bad Loans	Unsecured	PES securitisation vehicle	Primary
2018 Q4	BPER Banca	200	Bad Loans	Mixed Secured/ Unsecured	MBCredit Solutions	Primary
2018 Q4	Several sellers	175	Bad Loans	Unsecured	illimity	Primary
2018 Q4	UniCredit	170	Bad Loans	Unsecured	Guber	Primary
2018 Q4	Banca Valsabbina S,c,p,A,	146	Bad Loans	Mixed Secured/ Unsecured	Guber & Barclays	Primary
2018 Q4	Cassa di Risparmio di Cento	146	Bad Loans	Mainly Secured	Confidential	Primary
2018 Q4	BNL	132	Bad Loans	Mixed Secured/ Unsecured	n,a,	Primary
2018 Q3	UBI Banca	2,749	NPE	Mixed Secured/ Unsecured	Maior SPV S,r,l,	Primary
2018 Q3	Cassa Centrale Banca**	1,397	Bad Loans	Mixed Secured/ Unsecured	Guber, Varde, Barclays	Primary
2018 Q3	UniCredit	1,090	NPE	Unsecured	IFIS NPL	Primary
2018 Q3	ICCREA	1,046	NPE	Mixed Secured/ Unsecured	BCC NPLs 2018 S,r,l,	Primary
2018 Q3	Banco di Desio e della Brianza	1,000	NPE	Mixed Secured/ Unsecured	2Worlds S,r,l,	Primary
2018 Q3	BNL	957	Bad Loans	Mixed Secured/ Unsecured	Juno 1 Srl	Primary
2018 Q3	Credit Agricole Cariparma	700	NPE	Mainly Secured	PIMCO	Primary
2018 Q3	Banca di Asti - Biver Banca	697	Bad loans	Mainly Secured	Maggese Srl	Primary
2018 Q3	Banca Intermobiliare di Investimenti e Gestioni	601	NPE	Mixed Secured/ Unsecured	Nuova Frontiera SPV Srl	Primary
2018 Q3	UniCredit	537	NPE	Mixed Secured/ Unsecured	Banca IFIS	Primary
2018 Q3	Credit Agricole Cariparma	450	UTP	Mainly Secured	Bain Capital Credit	Primary

Date	Seller	Volume (€m)	NPE category	Macro asset class	Buyer	Primary / Secondary market
Transactions closed in 2018 2/2:						
2018 Q3	CRC Bayview	425	NPE	Unsecured	MBCredit Solutions	Secondary
2018 Q3	Banca Popolare di Ragusa	349	Bad loans	n,a,	IBLA S,r,l,	Primary
2018 Q3	Findomestic Banca	302	NPE	Unsecured	Kruk Italia	Primary
2018 Q3	Banca Monte dei Paschi di Siena	300	UTP	Secured	Confidential	Primary
2018 Q3	Istituto Finanziario del Mezzogiorno	263	Bad Loans	Mixed Secured/ Unsecured	illimity	Secondary
2018 Q3	Balbec	217	NPE	Unsecured	MBCredit Solutions	Secondary
2018 Q3	Banca Sella	214	NPE	Mixed Secured/ Unsecured	B2 Kapital Investment S,r,l,	Primary
2018 Q3	Banca Monte dei Paschi di Siena****	135	NPE	Secured	SC Lowy - Credito di Romagna	Primary
2018 Q3	Deutsche Bank	155	NPE	Unsecured	IFIS NPL	Primary
2018 Q3	Cassa di Risparmio di Volterra	155	NPE	Mainly Secured	illimity	Primary
2018 Q3	Emil Banca BCC	145	Bad loans	Mixed Secured/ Unsecured	Confidential	Primary
2018 Q3	Banca Patavina Credito Cooperativo di Sant'Elena e Piove di Sacco	145	NPE	Unsecured	Hoist Finance	Primary
2018 Q3	Volksbank	141	NPE	Secured	AnaCap	Primary
2018 Q3	Credit Agricole Cariparma	140	NPE	Unsecured	Axactor	Primary
2018 Q3	Romeo SPV S,r,l,	113	Bad loans	Unsecured	Hoist Finance	Secondary
2018 Q2	Banca Monte dei Paschi di Siena	24,100	Bad Loans	Mixed Secured/ Unsecured	Italian Recovery Fund	Primary
2018 Q2	Intesa Sanpaolo	10,800	Bad Loans	Mainly Secured	Intrum	Primary
2018 Q2	Banco BPM	5,100	Bad Loans	Mainly Secured	CRC	Primary
2018 Q2	Credito Valtellinese	1,600	Bad Loans	Mainly Secured	Aragorn NPL 2018 S,r,l,	Primary
2018 Q2	Sicilcassa	1,500	NPE	Secured	MB Finance S,r,l,	Primary
2018 Q2	BPER Banca	900	Bad Loans	Mixed Secured/ Unsecured	4Mori Sardegna Srl	Primary
2018 Q2	Banca Monte dei Paschi di Siena***	500	UTP	Secured	Confidential	Primary
2018 Q2	Credito Valtellinese	245	Bad loans & UTP	Secured	Algebris Investments	Primary
2018 Q2	Credito Valtellinese	222	Bad loans & UTP	Secured	Credito Fondiario	Primary
2018 Q2	UniCredit	124	NPE	Unsecured	MBCredit Solutions	Primary
2018 Q2	Alba Leasing	103	NPE	Mainly Secured	Bain Capital Credit	Primary
2018 Q1	Banca Monte dei Paschi di Siena	100	UTP	Secured	Confidential	Primary
Other transactions with deal value < €100m		**1,131**				
Total (2018)		**83,992**				

Source: PwC estimates on public information and market rumours of primary and secondary market. Data refer to transaction from January 2018 to November 2019. Some transactions involved groups of different investors; the volumes of these transactions have been allocated to each player, when possible. Otherwise, they have been assigned to the main investor. In case of securitization transactions, the total volume has been allocated to the main buyer, without taking into account eventual notes subscribed by the banks themselves and/or third parties (e.g. senior)

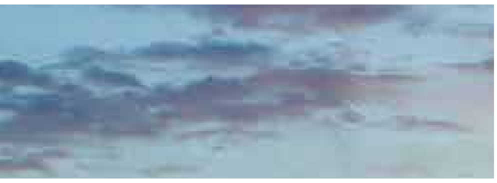
Note: (*) The pool is composed by 12 Popolari banks and 5 non-Popolari banks;
(**) Cooperative Credit Bank Group under approval process. The volumes might refer also to banks which do not belong to the Group;
(***) Aggregate amount of different single names transactions;
(****) MPS disposed a $ 160m NPL portfolio in 2018-Q3, the value has been converted in € on the basis of the exchange rate of the closing period

Table 13: Main ongoing NPE transactions as of November 2019

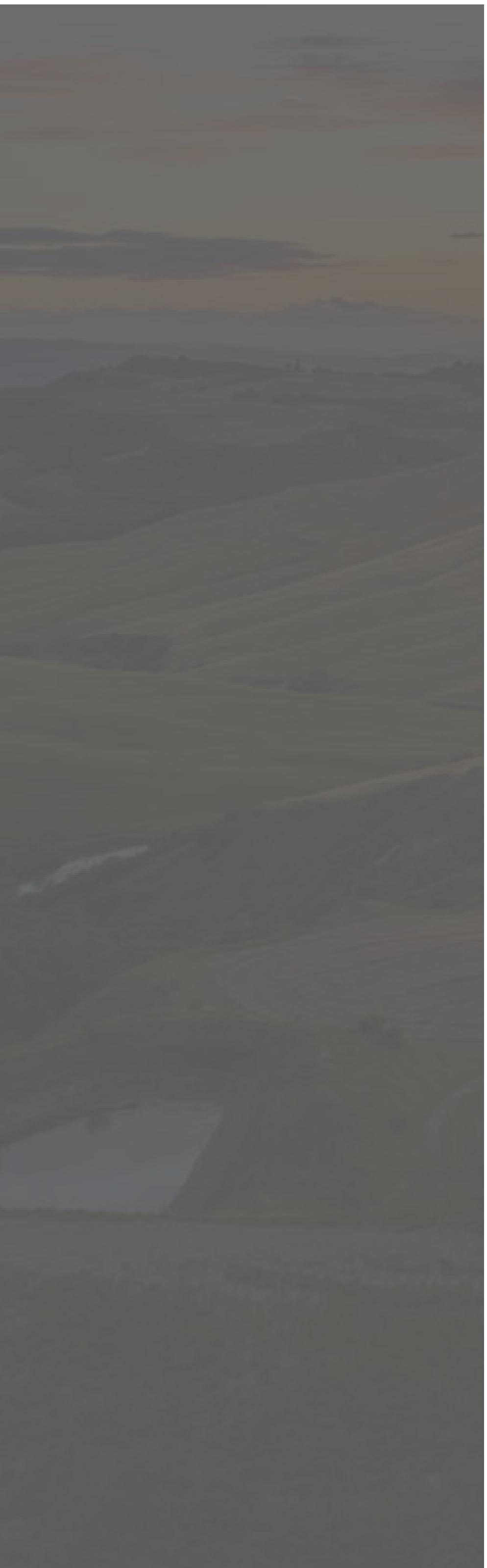
Seller	Volume (€m)	NPE category	Macro asset class	Primary / Secondary market
Banca Popolare di Sondrio	1,500	Bad Loans	n.a.	Primary
UBI Banca	800	Bad Loans	Secured	Primary
Banca Monte dei Paschi di Siena	2,200	Bad Loans & UtP	Unsecured	Primary
Banca Popolare di Sondrio	1,000	Bad Loans	Mixed secured / unsecured	Primary
UniCredit	2,000	UtP	Secured	Primary
Banca Carige	3,360	Bad Loans & UtP	n.a.	Primary
ICCREA	1,200	Bad Loans	n.a.	Primary
UBI Banca	1,000	n.a.	n.a.	Primary
Intesa Sanpaolo	740	n.a.	n.a.	Primary
BNL	700	n.a.	Mixed secured / unsecured	Primary
Total	**14,500**			

Source: PwC estimates on public information and market rumours

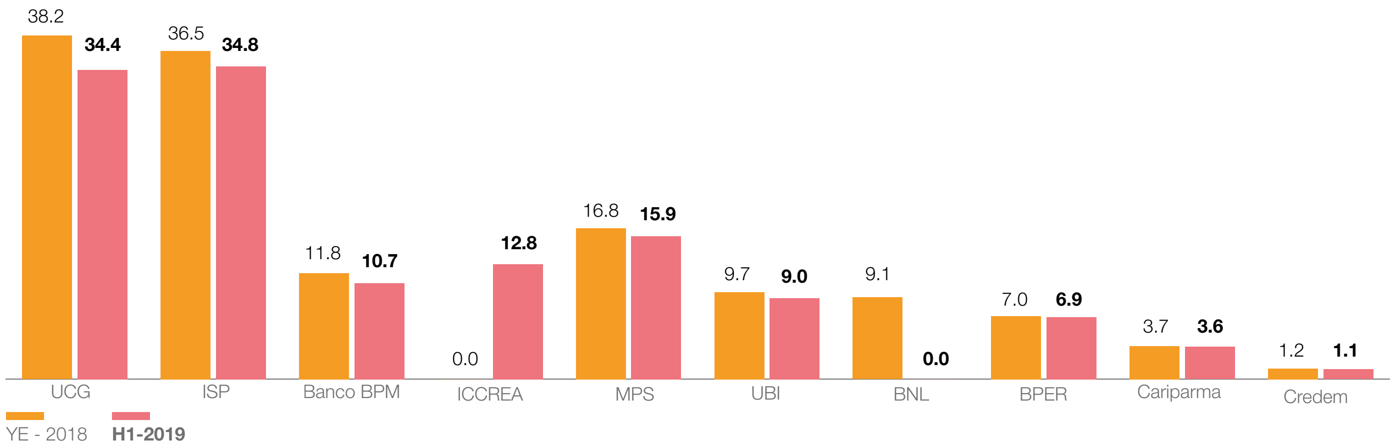




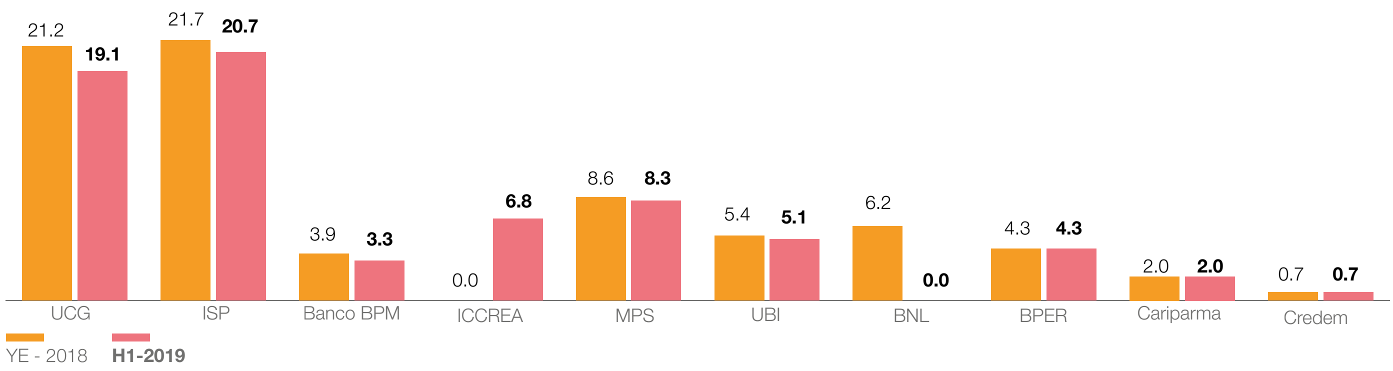
Appendix
Top 10 banks peer analysis



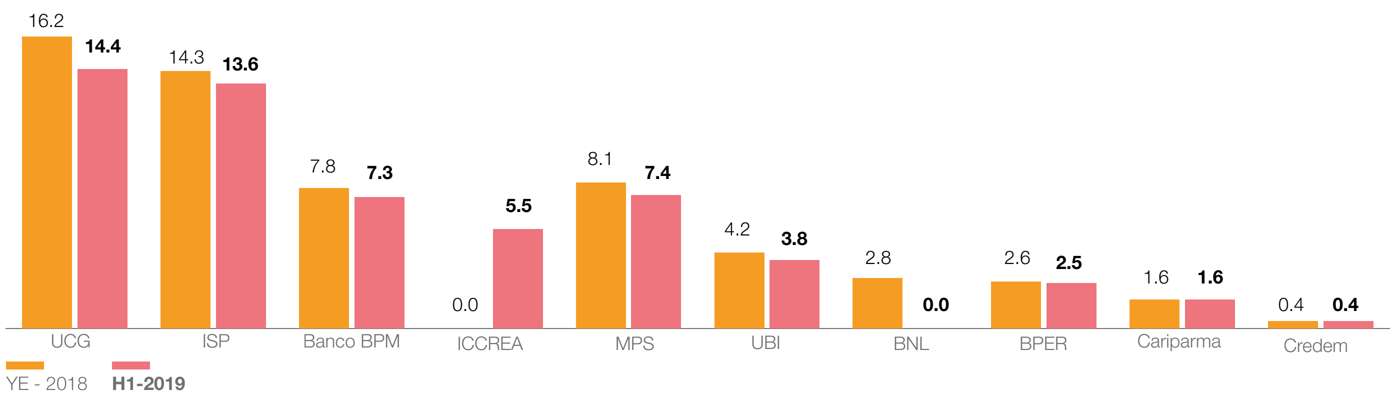

Gross NPE (€bn)



Gross Bad Loans (€bn)

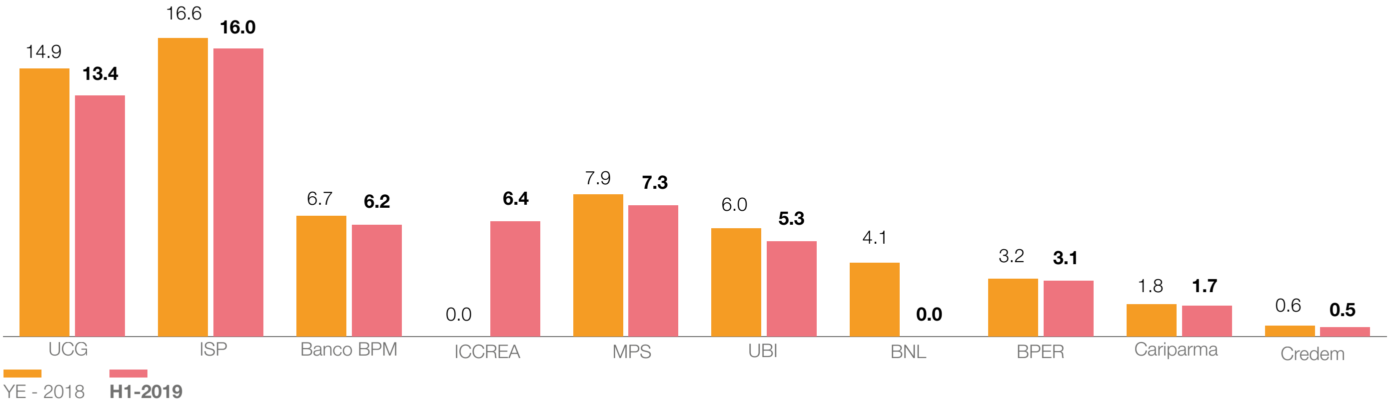


Gross Unlikely to Pay (€bn)

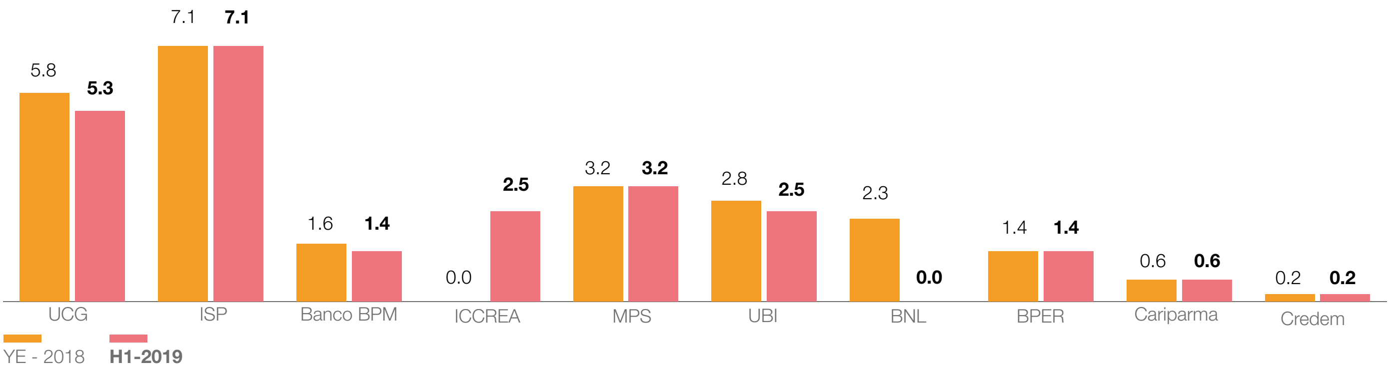


Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies.

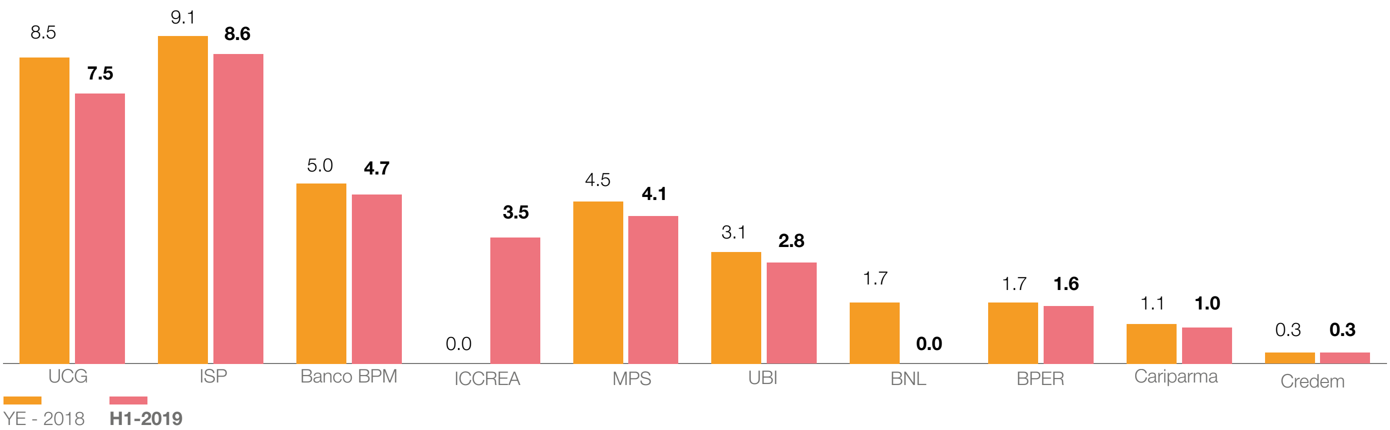
Net NPE (€bn)



Net Bad Loans (€bn)

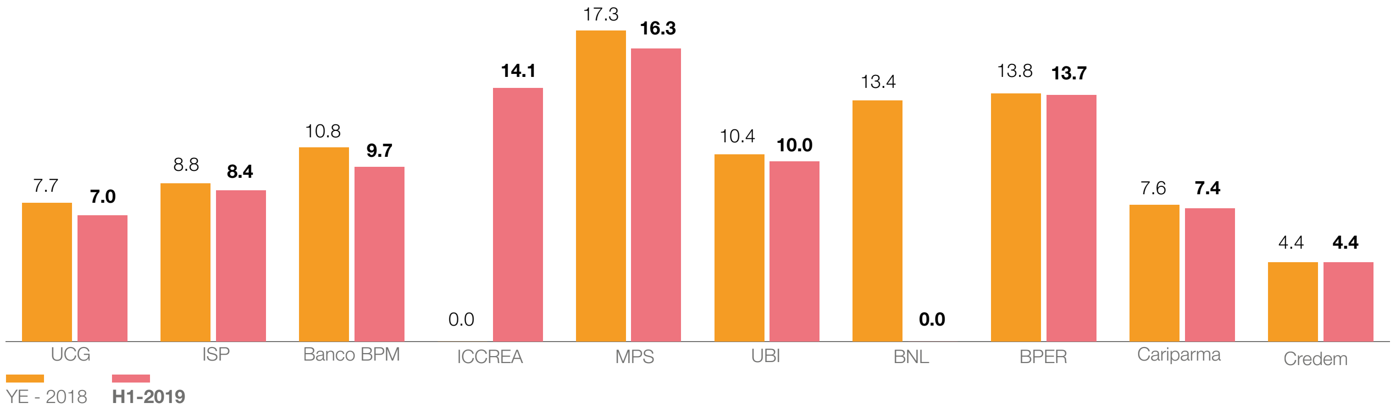


Net Unlikely to Pay (€bn)

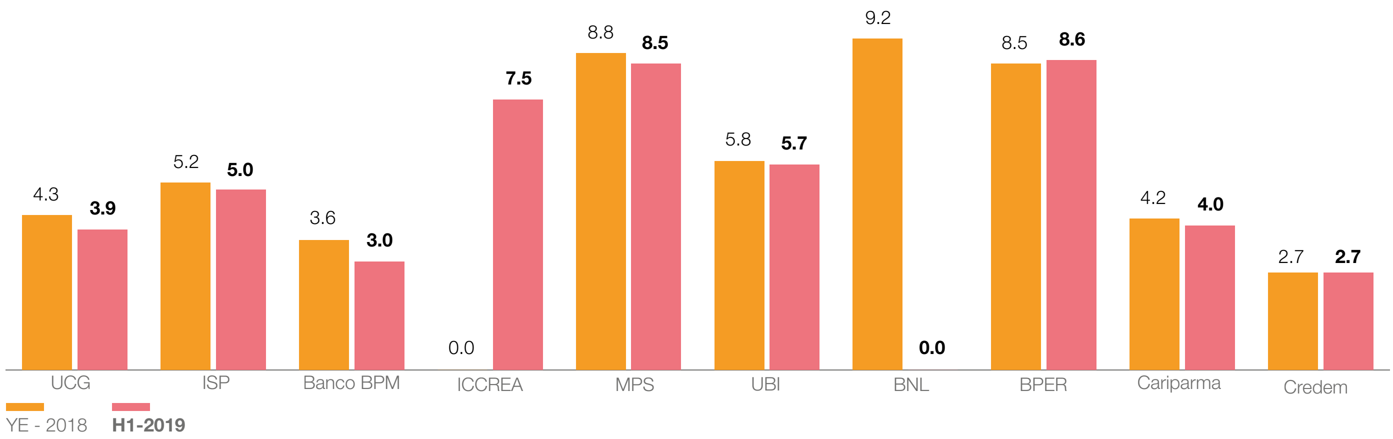


Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies

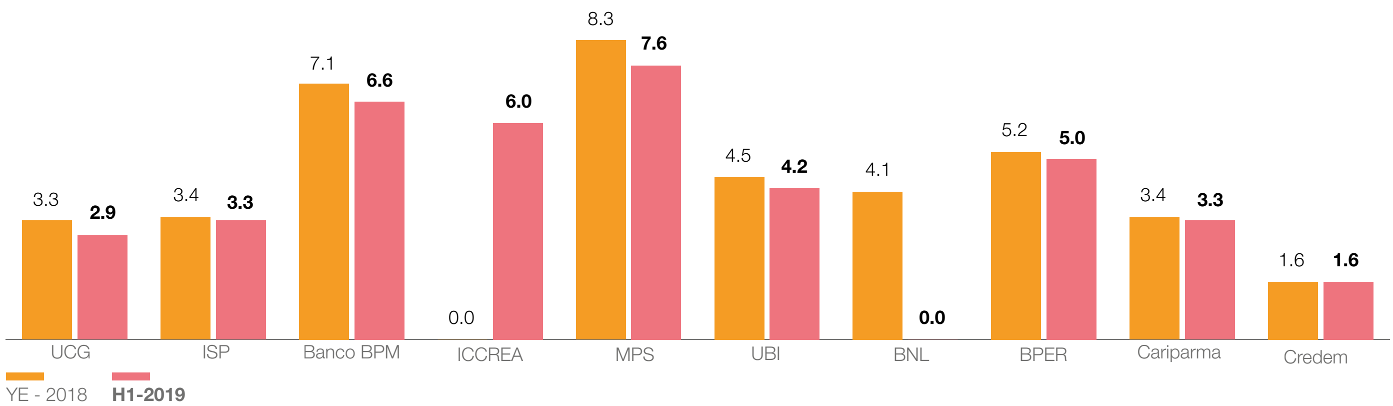
Gross NPE ratio (%)



Gross Bad Loans ratio (%)

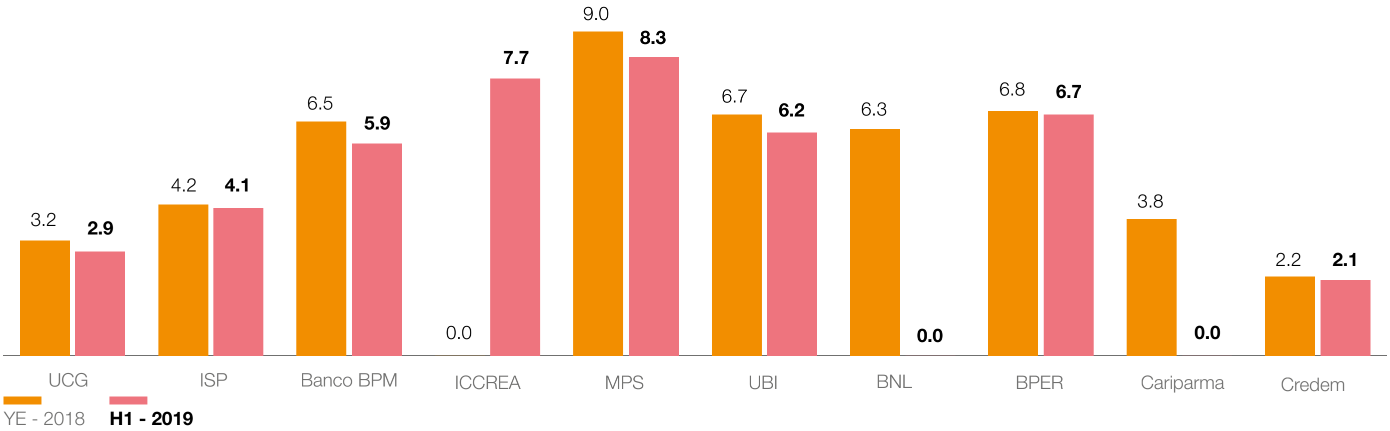


Gross Unlikely to Pay ratio (%)

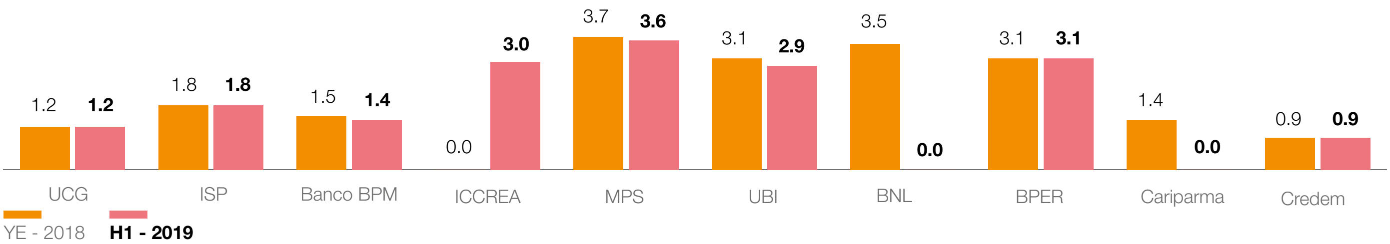


Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies

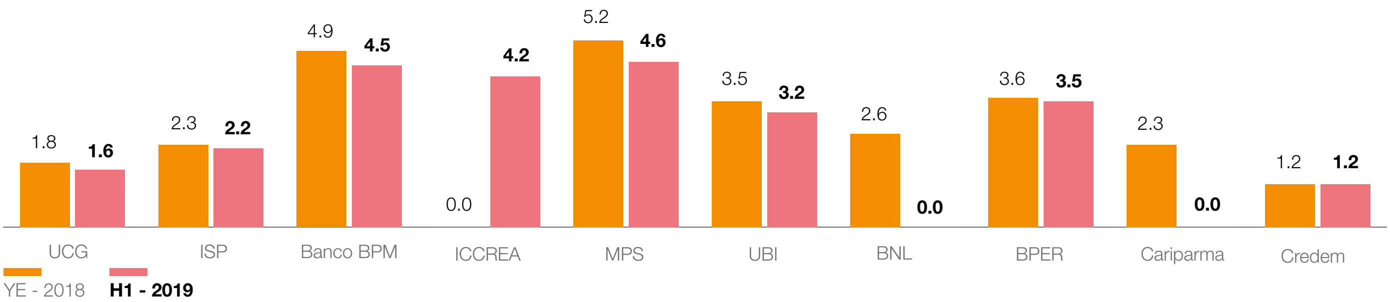
Net NPE ratio (%)



Net Bad Loans ratio (%)

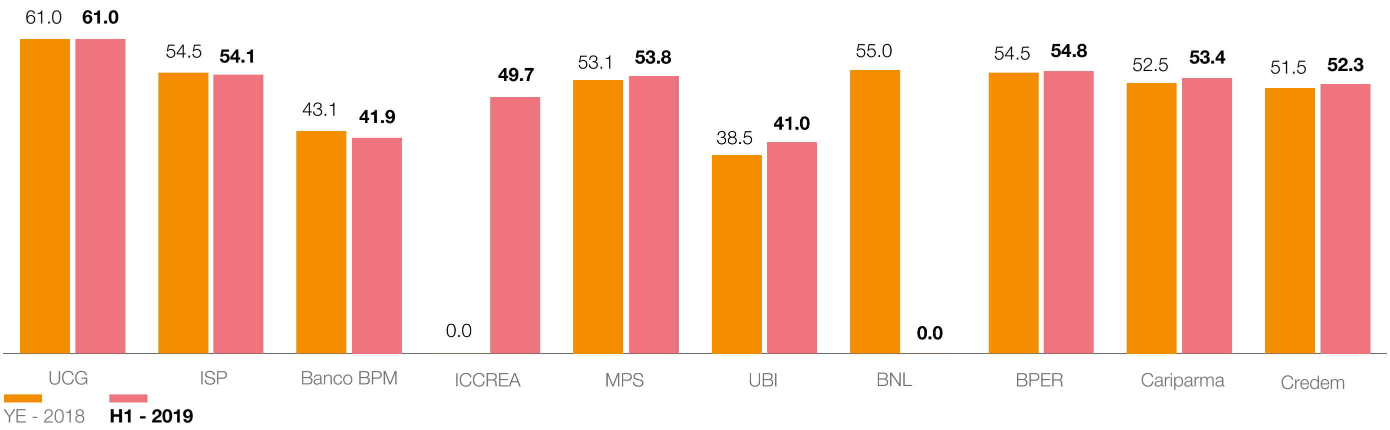


Net Unlikely to Pay ratio (%)

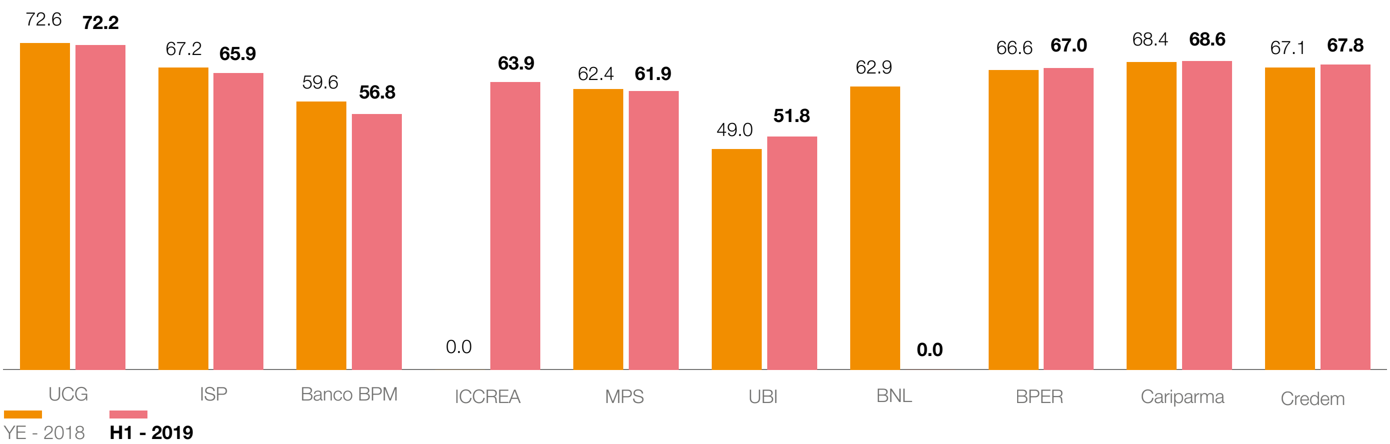


Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies

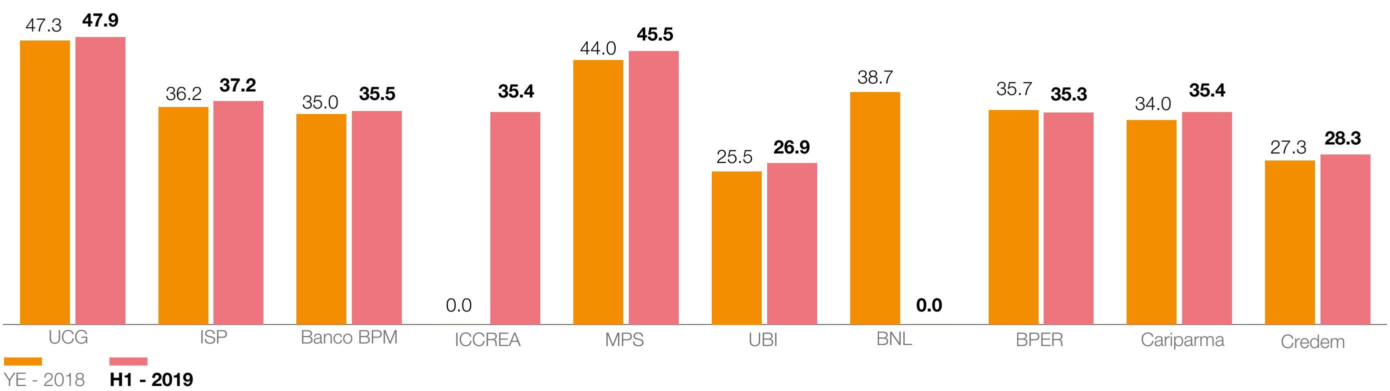
NPE Coverage ratio (%)



Bad Loans Coverage ratio (%)



Unlikely to Pay Coverage ratio (%)



Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies

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