

ABS and NPL Markets in Italy

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ABS AND NPL MARKETS IN ITALY

ABS Overview and Trends

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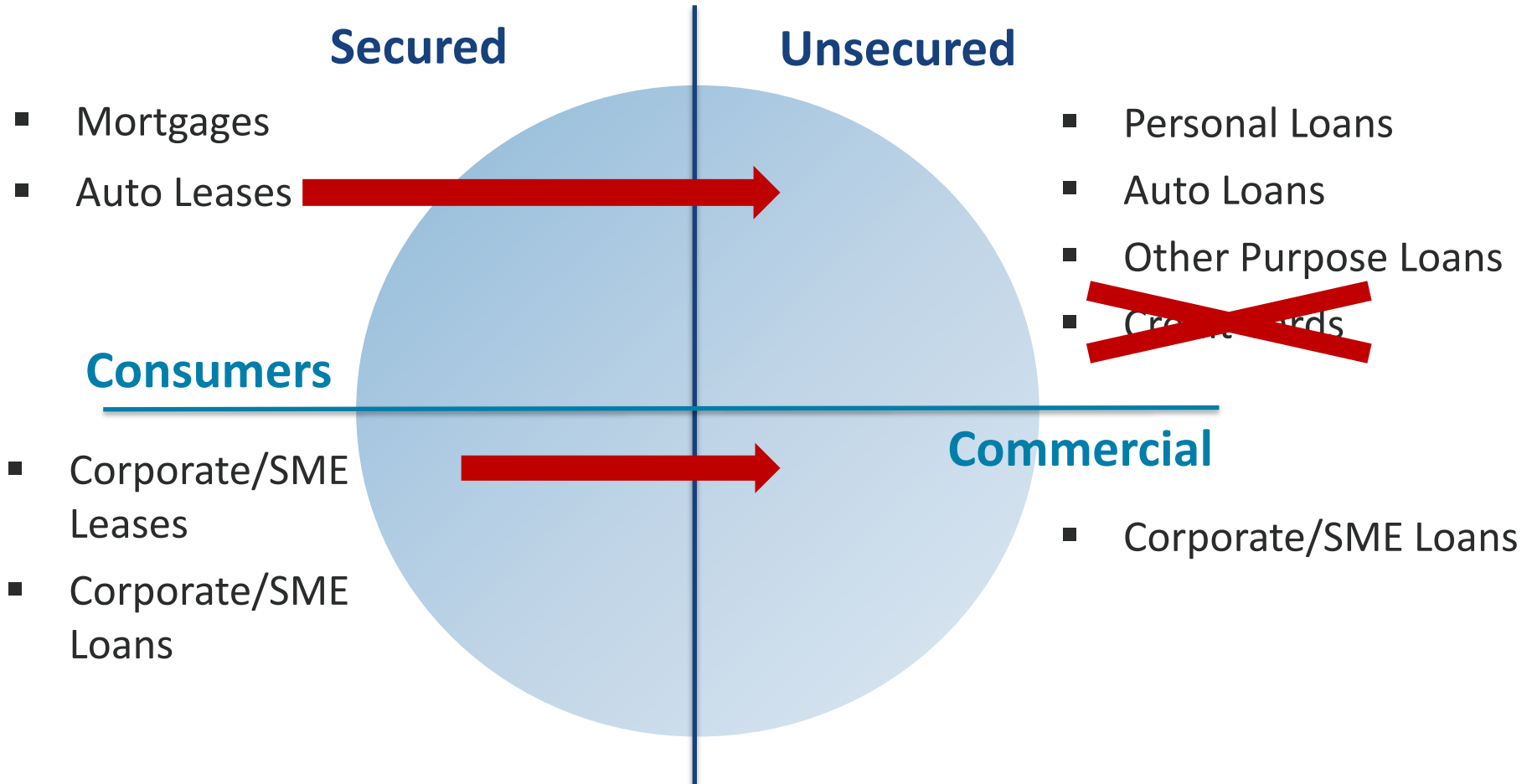
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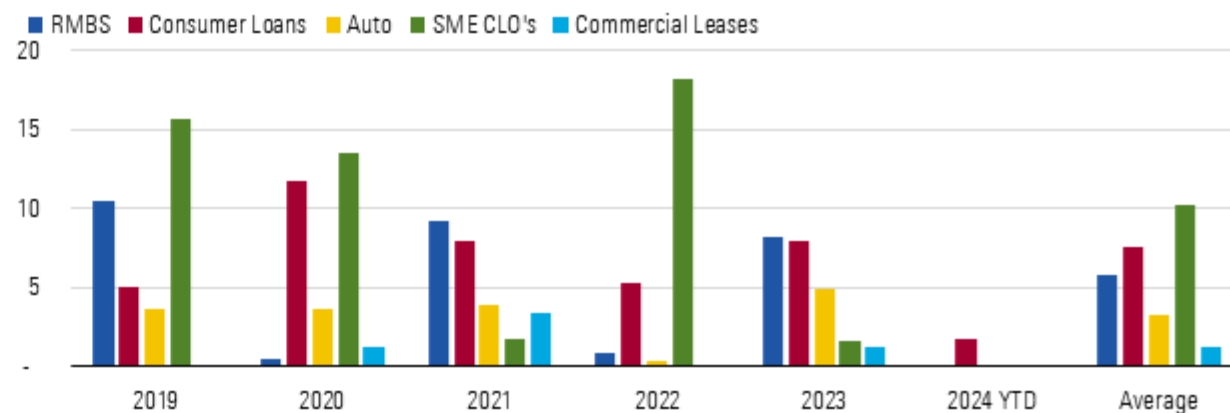
Italian Securitisation Market at-a-Glance



The Italian Securitisation Market by Asset Class

- RMBS and SME CLO: mostly large retained transactions.
- Auto ABS: typically placed on the market, following European trends.
- Consumer Loan ABS: Dynamic mix of market and retained.
- Salary Assignment Loans: jurisdiction specific.
- SME Financial Leases: regularly securitised excluding Residual Values.
- Operating Leases and RV's may be securitised with recent changes introduced to securitisation law.

Italian ABS Issuances By Securitized Amounts (billions) and No. of Deals

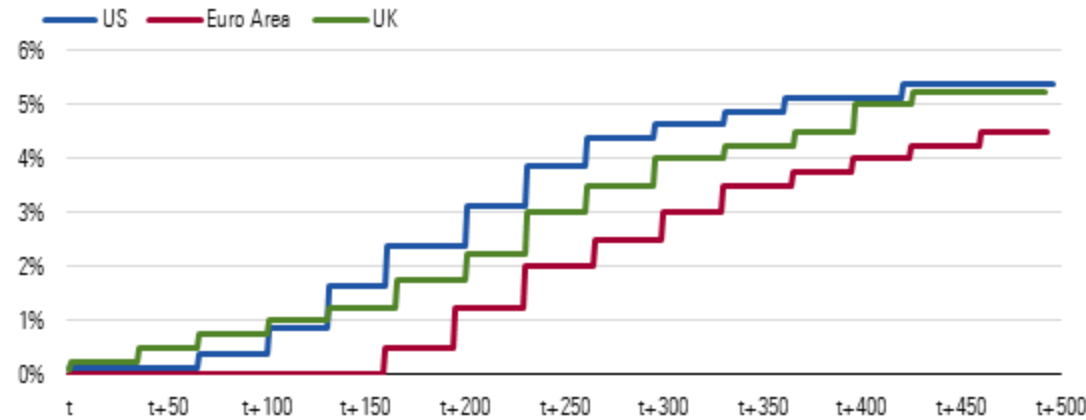


Source: Concept ABS, Morningstar DBRS

Italian ABS and Macro Economic Trends

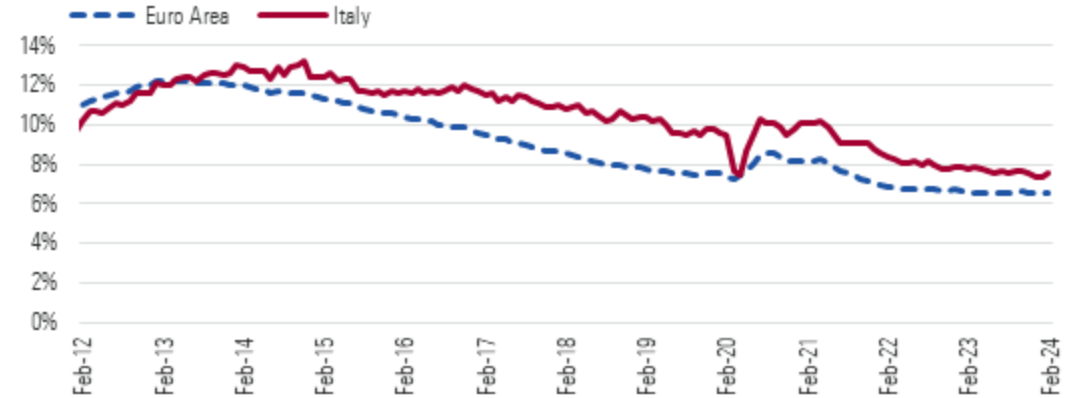
Central Bank Policy Rates

For current cycle, t = December 15, 2021 (first BOE rate hike)

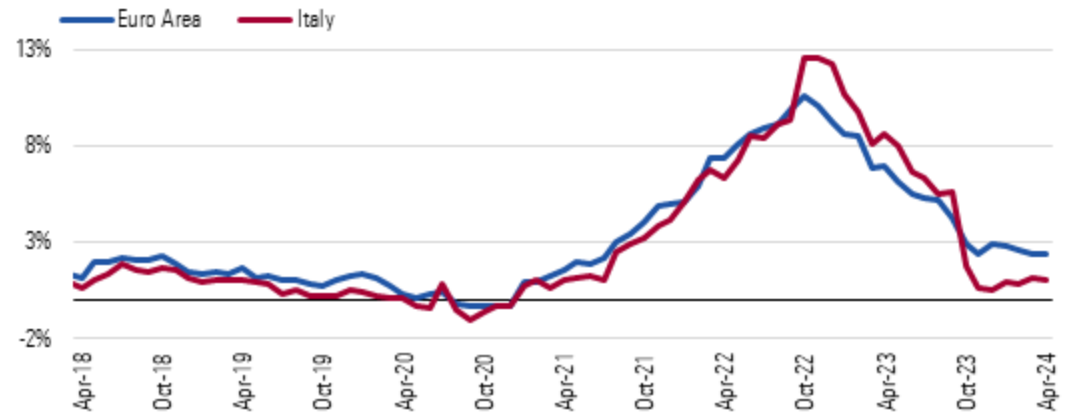


- The entire sector pays fixed interest rate.
- Lagged repricing is slowly catching up and refinancing is less competitive.
- Inflation and higher interest rates may compress disposable income, but salaries should adjust although after a time lag.
- Unemployment rate remains the main risk tracker with positive correlation to arrears and defaults.

Unemployment Rates in Europe



Inflation Index (Harmonized CPI, Y/Y % Change)

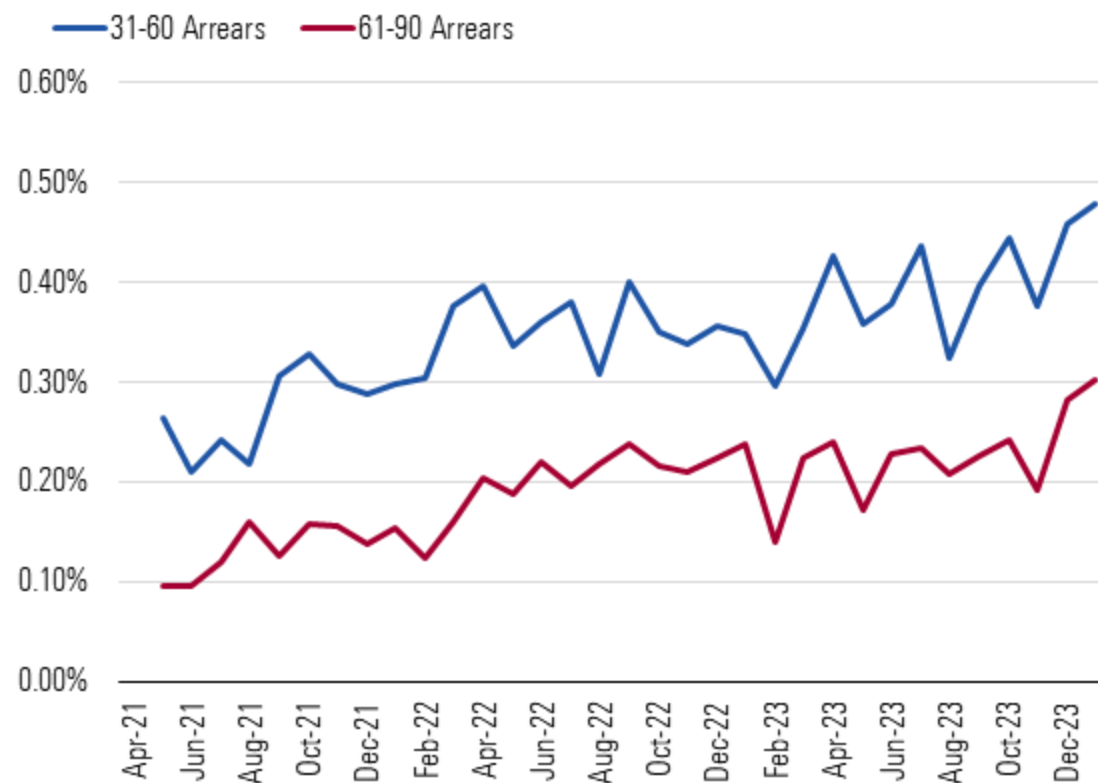


Source: Haver

Consumer Loan Performance and Trends

- Moderate rise in arrears proved to be manageable.
- Consumer ABS market remains strong:
 - Typically unsecured: credit enhancement higher than secured.
 - Abundant excess spread is usually available to offset losses.
 - Higher yield is appealing to some investors.
- The market is shifting towards pro-rata sequential pay following a wider European trend:
 - Structural complexity (triggers).
 - Increased relevance of yield management.

Early Arrears of Italian ABS Loan Transactions rated by Morningstar DBRS



Source: Investor reports, European Datawarehouse and Morningstar DBRS

Various Factors Shaped the Italian and European Auto ABS Market



Changing Products

Across the automotive industry customers switched from vehicle ownership to usage.



Changing Markets

More portfolios comprise used vehicles as collateral.
Manufacturers producing electric vehicles target the mass market.

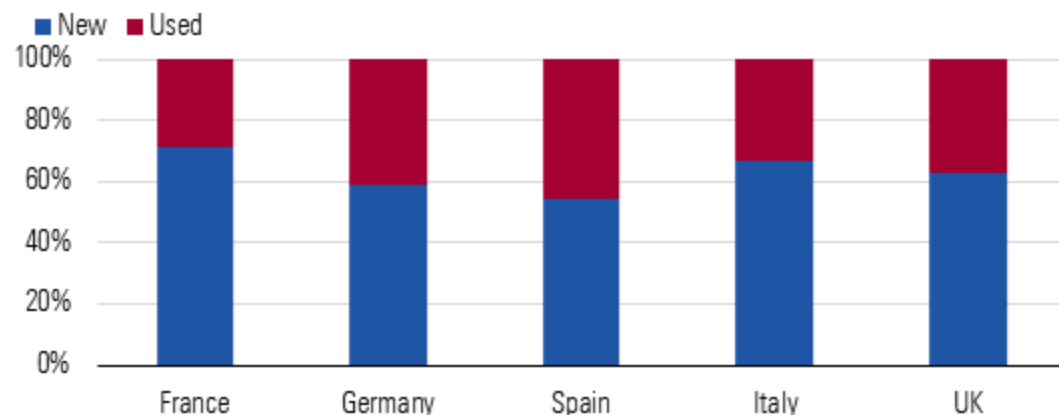


Credit Performance

Negative impacts associated with COVID-19 have been offset by governmental schemes, the increased costs of living may affect performance.

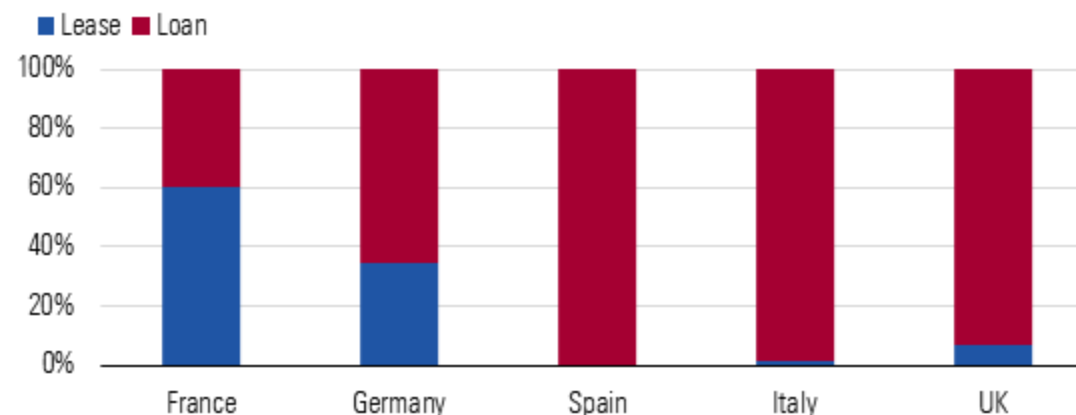
Italian Auto ABS vs. European Auto ABS

Share of Portfolio Outstanding New vs. Used Vehicles

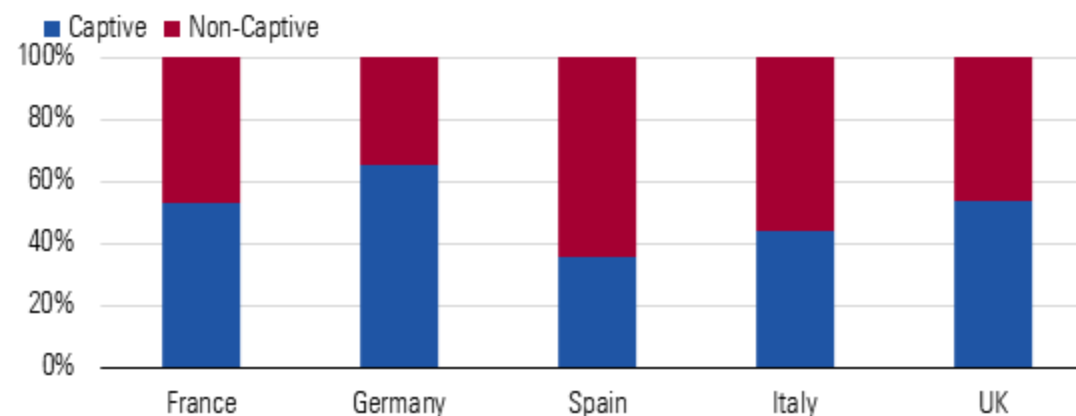


- Higher yields compared to other jurisdictions lead to more available excess spread.
- Non captive originators dominate the market, and we observe more full capital stack transactions.
- Auto ABS have a shorter duration than other asset classes and often include a revolving period.

Share of Issuance by Leases vs. Loans Receivables



Share of Issuance Captive vs. Non-Captive

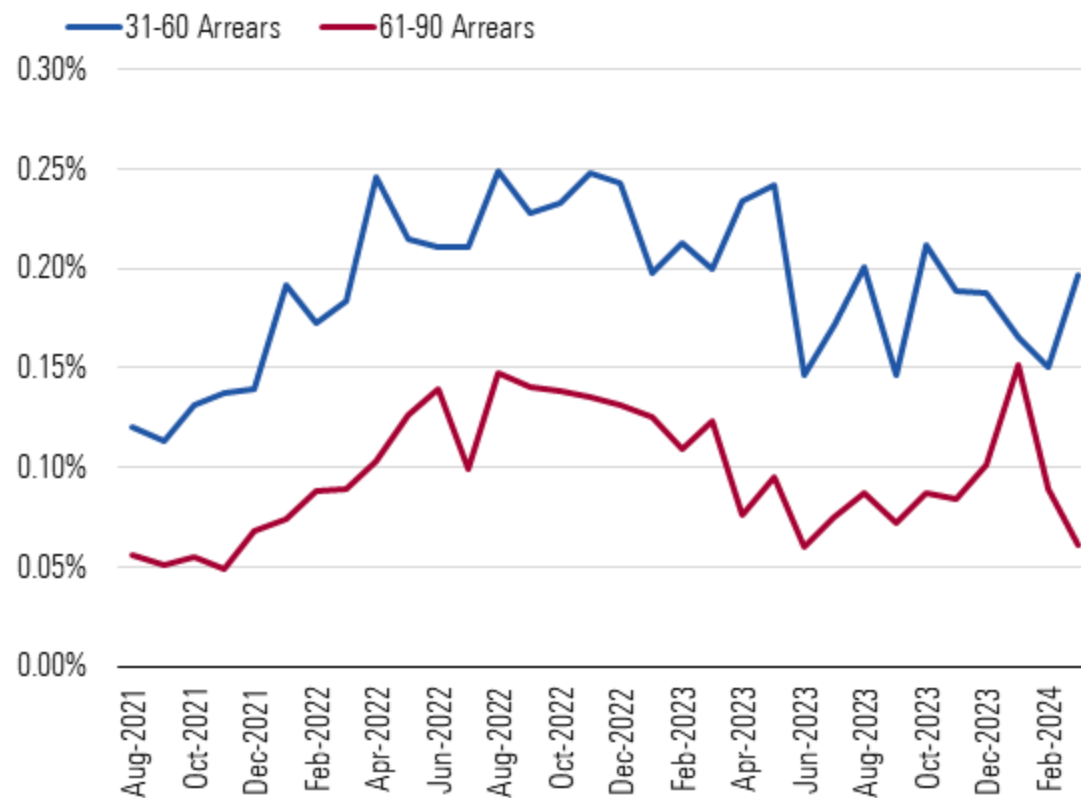


Source: Concept ABS, European Datawarehouse, Morningstar DBRS

Strong Borrower Base Back the Auto ABS Sector

- Asset performance has remained broadly aligned with historic levels.
- Auto ABS tends to perform better than Consumer ABS.
- After reaching rock bottom low delinquencies are now increasing from low levels.
- Cumulative default levels have been often relatively low around 2%.
- Recovery levels have been historically around 20% vs. 60% in jurisdictions where the product is secured.
- Credit enhancement remain higher than other jurisdictions, but lower than Italian consumer ABS.

Early Arrears of Italian Auto ABS Transactions

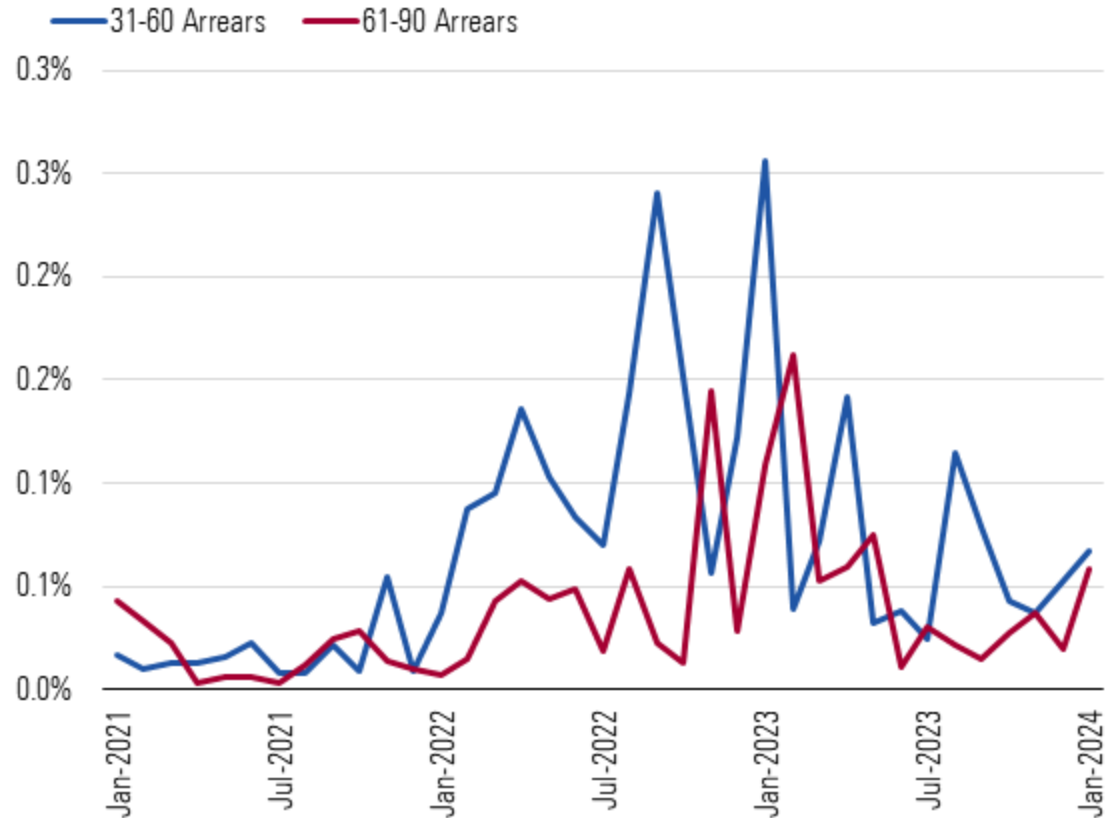


Source: Investor reports, European Datawarehouse and Morningstar DBRS

Commercial Leases

- SMEs more vulnerable to macroeconomic factors (e.g. inflation and interest rates).
- SMEs may struggle to pass on higher costs to end customers.
- Sector outlook remains negative, with expected increases in arrears and defaults, albeit moderate.
- Security interest in assets supports credit quality and improves recovery performance.
- RV securitisations may become more prevalent due to regulatory development.

Italian Leasing Transactions: Dynamic WA Delinquency Performance

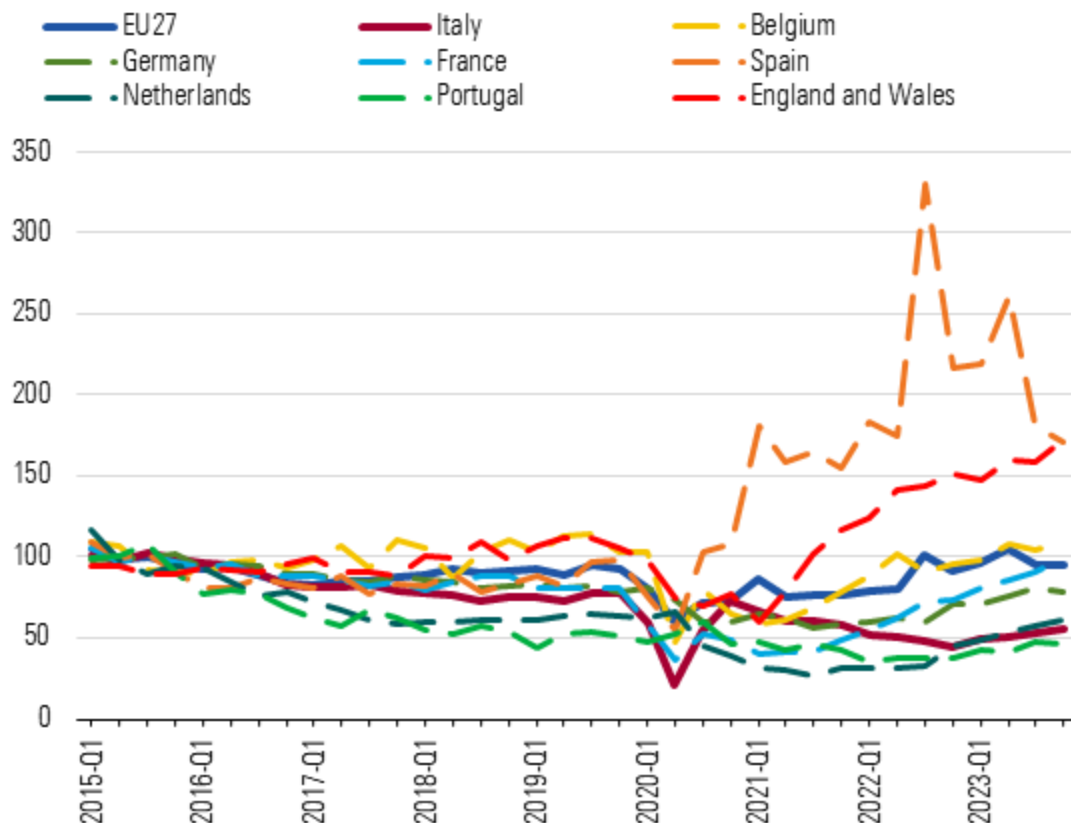


Source: Investor reports, European Datawarehouse and Morningstar DBRS

Small and Medium Enterprises – Sector Overview

- Recovery from Covid-19 pandemic disrupted by multiple events.
- Interest rates likely to remain higher for longer, still filtering to real economy and performance.
- Gradual phase-out of support measures led to predicted catch-up effect of bankruptcies level.
- Bankruptcies increased over 2023 with expectation of further increases even without a recession.
- Despite some stability, recession and geopolitical instability are significant risks.

Bankruptcy Declarations - Seasonally Adjusted (Index, 2015=100)

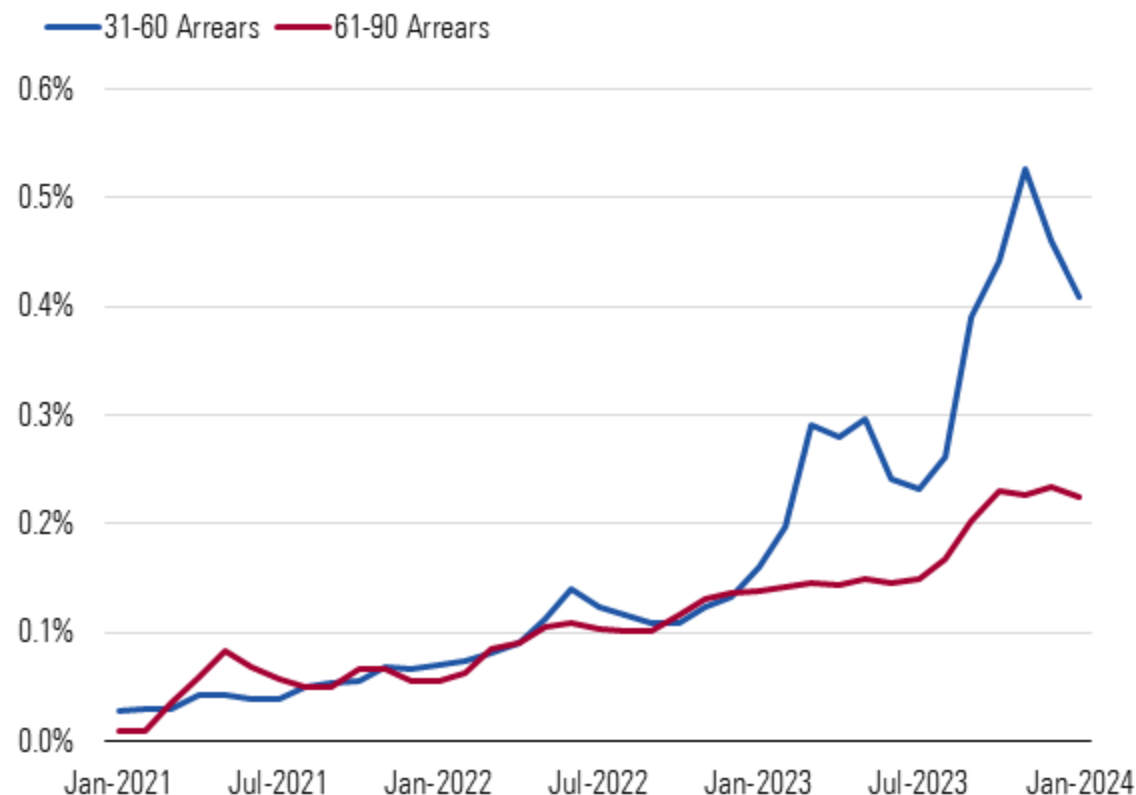


Source: Eurostat and Gov.uk.

SME CLOs

- Despite worsening economic outlook, SME CLOs transactions have remained resilient in the short-/medium-term.
- Securitised loans outperformed historical base-case default assumptions.
- SMEs have benefitted from government guarantee loans at favourable terms.
- Strengths: well diversified portfolios and quick deleveraging.
- Weaknesses: many transactions still in revolving period or without IR hedges.

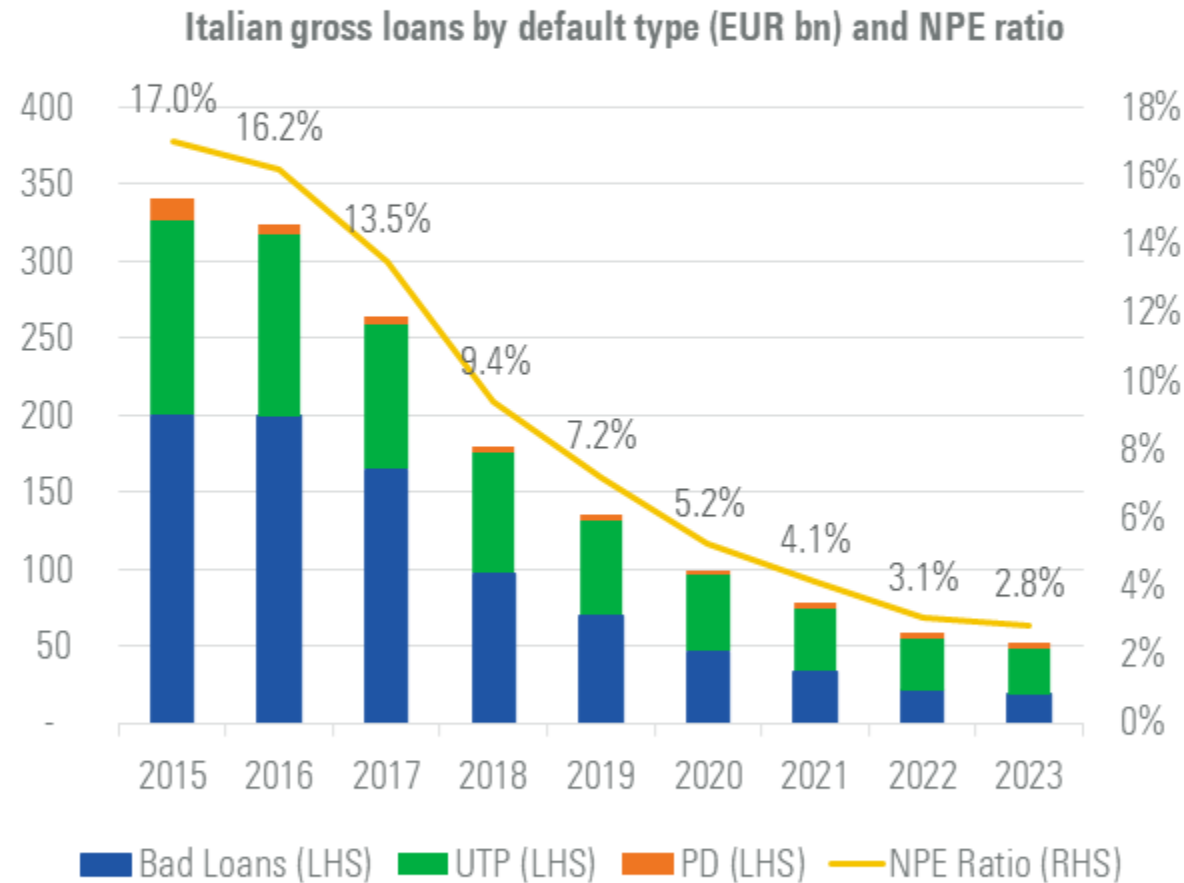
Italian SME CLO Transactions: Dynamic WA Delinquency Performance



Source: Investor reports, European Datawarehouse and Morningstar DBRS

Introduction to the Italian NPE Market

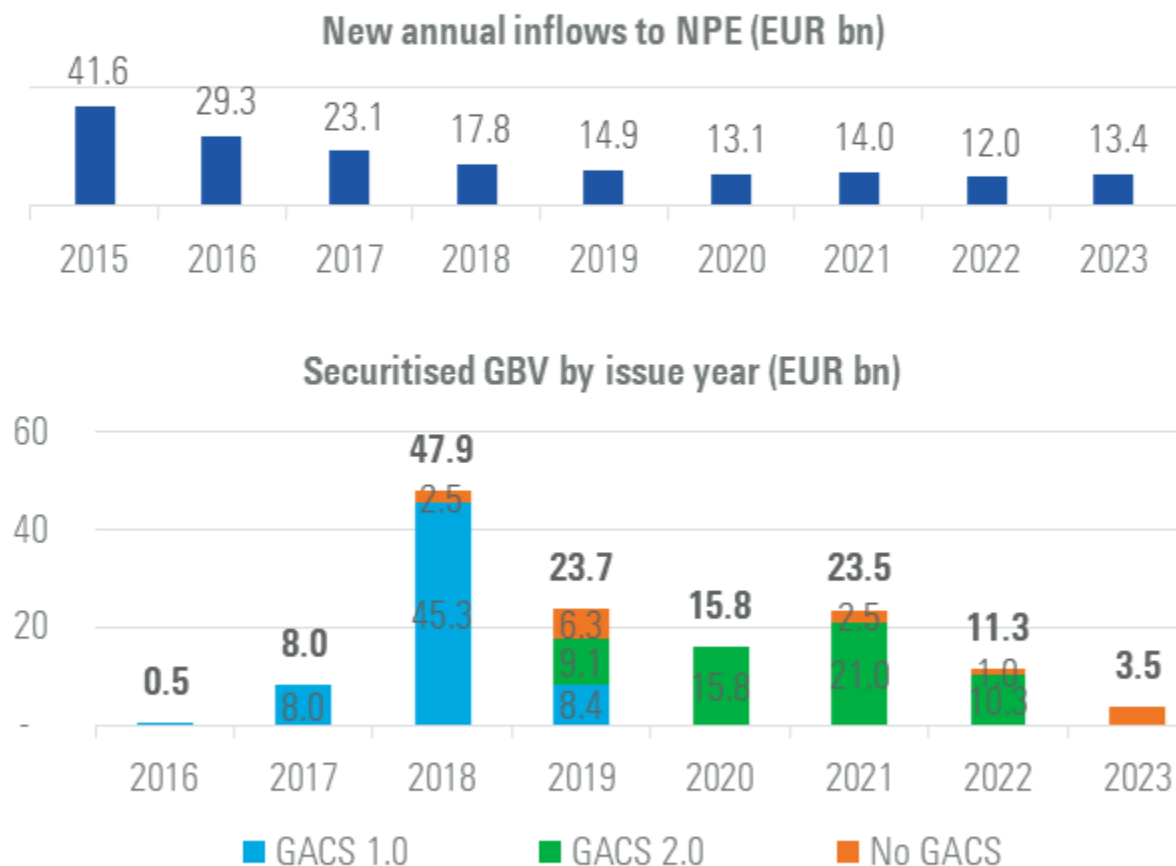
Introduction to the NPE Italian Market



- At YE-2023 record low level of NPE ratio at 2.8% and NPE stock accounting for €52.6 billion
- Since YE-2020, Gross UTP exceeded Gross Bad Loans and now represents 56% of NPE stock

Source: Bank of Italy "Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori - IV trimestre 2023".

Introduction to the Italian NPE Market



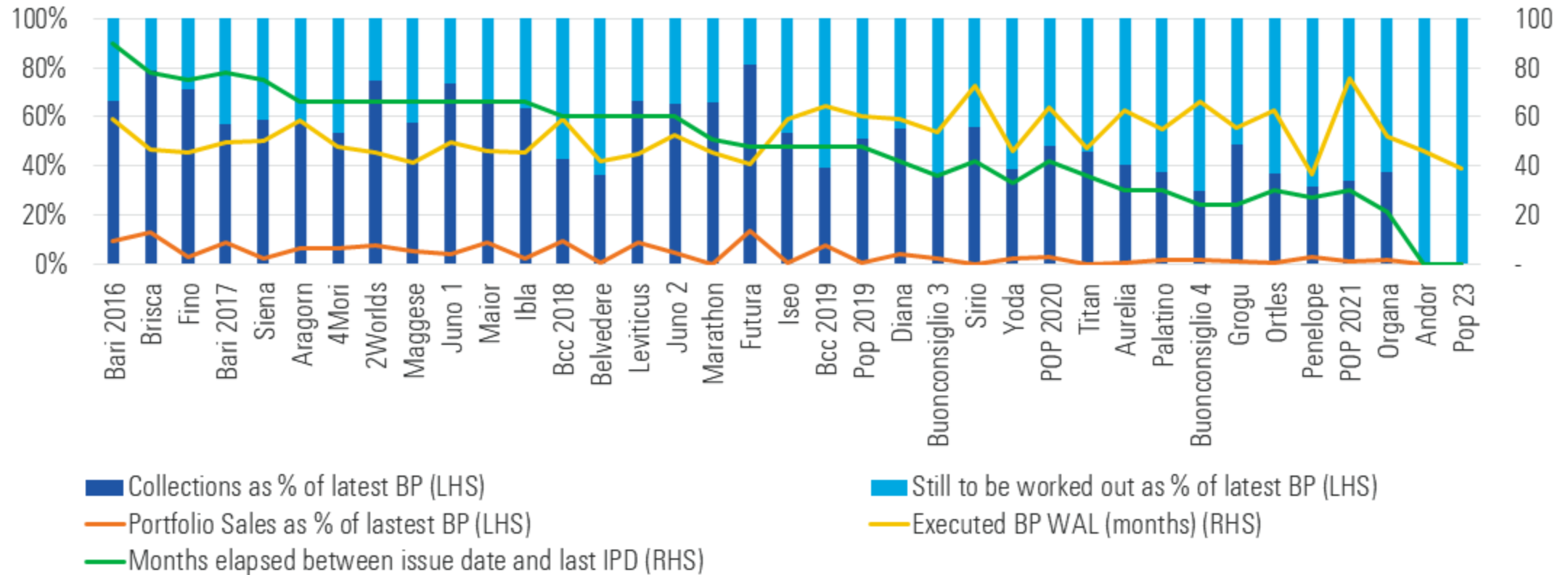
- Reduction of the NPE stock in bank's balance sheet :
 - Diminished annual inflows to NPEs, from €41.6 bn YE-2015 to €13.4 bn YE-2023
 - Massive disposal and transfer to specialised investors.
 - GACS securitisations contributed to divestment of €118.3 bn GBV

Source: Bank of Italy "Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori - IV trimestre 2023".

Introduction to the Italian NPE Market

As of last IPD, 48% of the latest business plans were not yet worked out.

Work Outstanding in Italian NPL Transactions Rated by Morningstar DBRS to Date

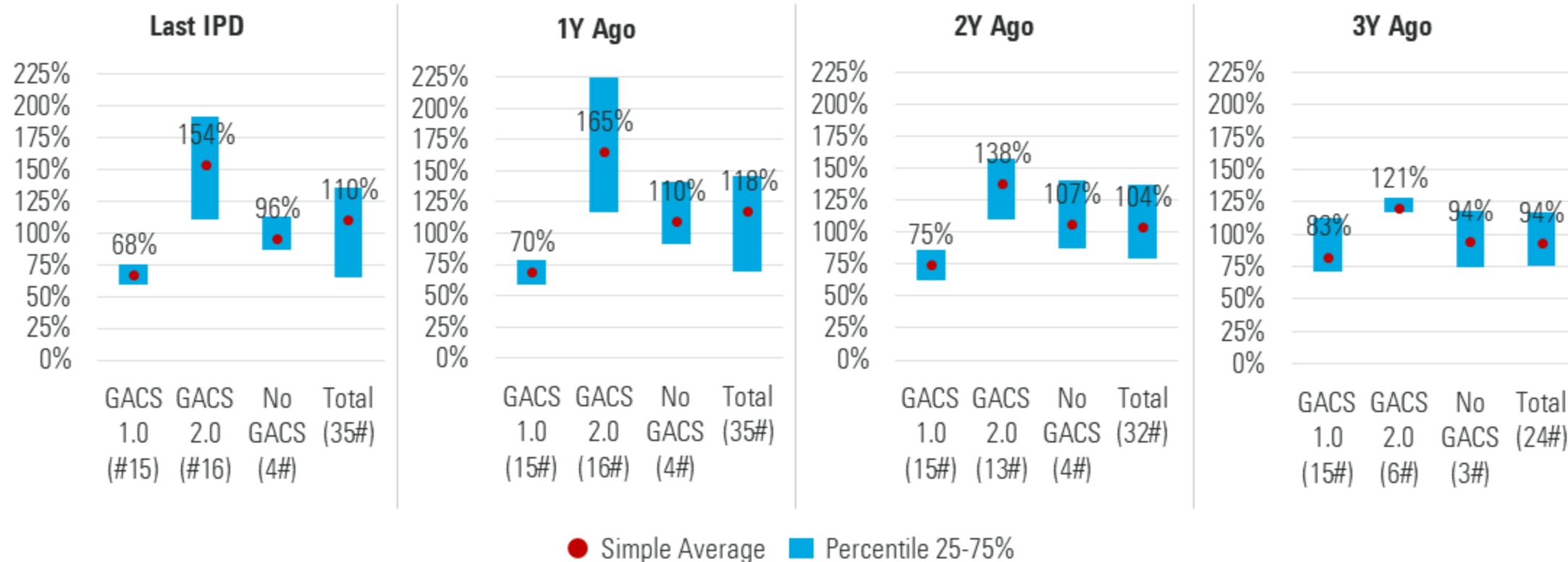


Source: Figures as of last IPD, Morningstar DBRS and information provided by the special servicers.

Performance and Liability Structure: State Sponsored vs Market Transactions

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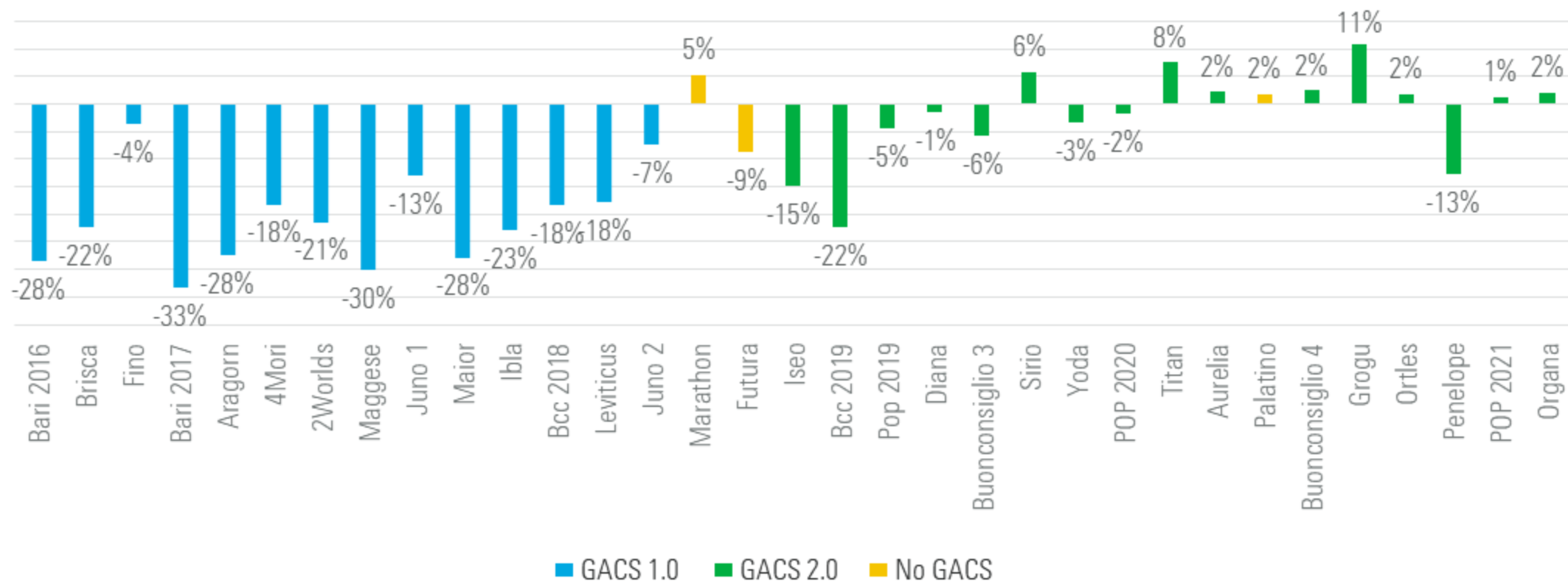
Average Cumulative Gross Collection Ratio as of the Latest Collection Date vs. One, Two and Three Years Ago



Source: Morningstar DBRS and information provided by servicers.

Performance and Liability Structure: State Sponsored vs Market Transactions

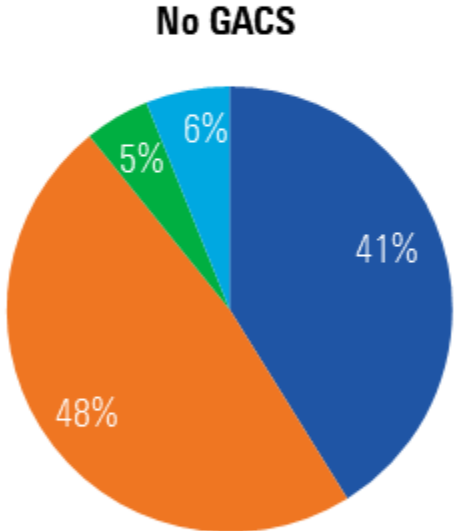
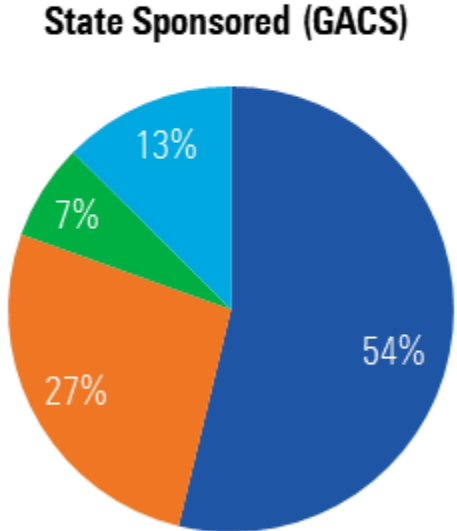
Net Present Value – Latest Updated Business Plan vs. Servicers' Initial Forecast (Var. %)



Source: Morningstar DBRS and information provided by servicers.

Performance and Liability Structure: State Sponsored vs Market Transactions

Gross Collections Breakdown by Recovery Type



■ Judicial Proceeds ■ DPO Proceeds ■ Notesales ■ Other

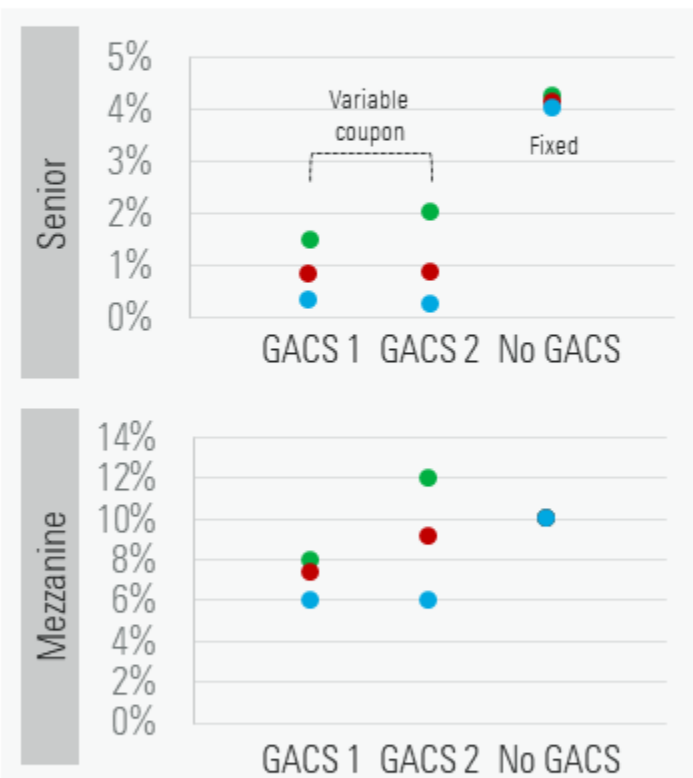
■ Judicial Proceeds ■ DPO Proceeds ■ Notesales ■ Other

Other includes initial collections, indemnities and REOs

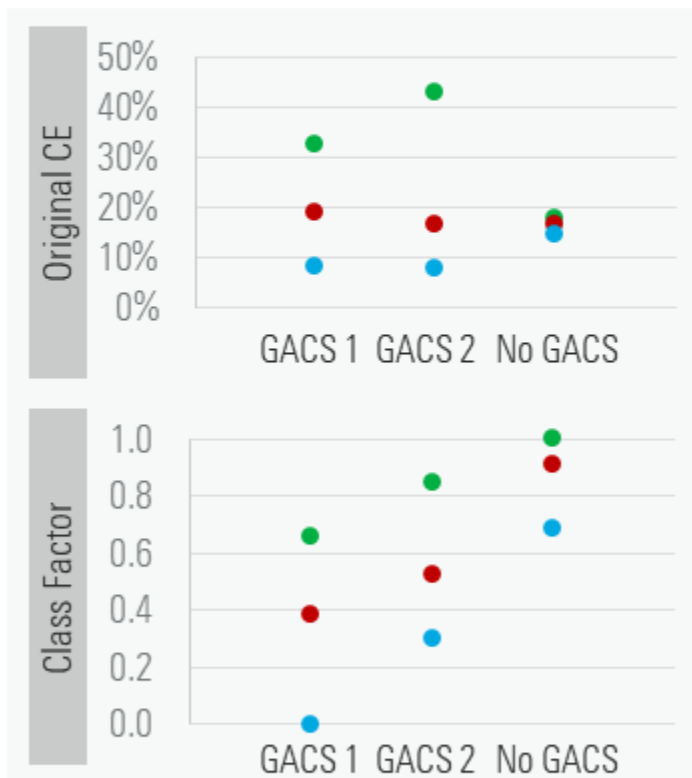
Source: Morningstar DBRS and information provided by servicers.

Performance and Liability Structure: State Sponsored vs Market Transactions

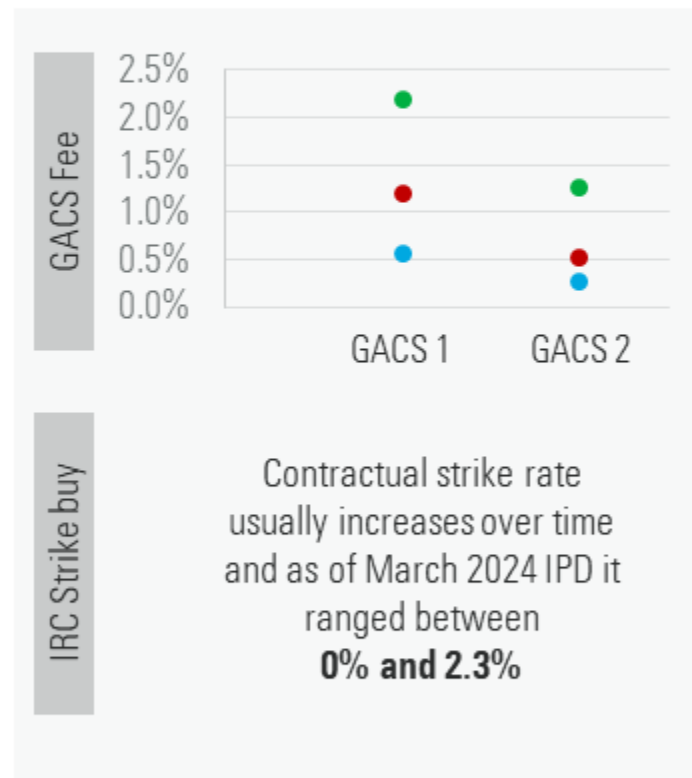
Senior/Mezz Margin



Senior Original CE / Class Factor



GACS Fee / IRC Strike buy*



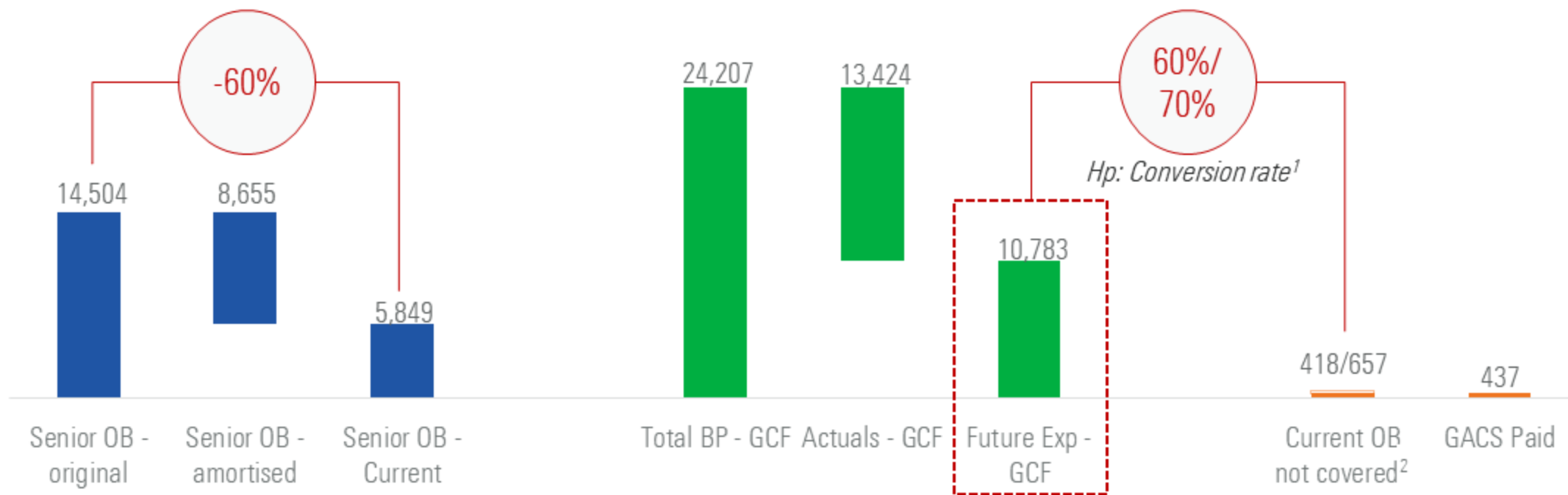
● Max ● WA ● Min X Axis: GACS 1.0 (#21) GACS 2.0 (#25) No GACS= Market based (after GACS expiry) (#3)

*only GACS rated by Morningstar DBRS

Source: Morningstar DBRS and publicly available information

Performance and Liability Structure: State Sponsored vs Market Transactions

Transactions rated by Morningstar DBRS assisted by GACS (EUR mln)



¹Based on simple average across transactions rated by Morningstar DBRS

²Arithmetically computed at transaction level, according to the following formula: $(\text{Senior OB current}) - (60\%/70\%) * (\text{Future Exp} - \text{GCF})$. Not intended to reflect the actual senior amount at risk

Source: Sample of GACS transactions rated by Morningstar DBRS