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Market vision

The Italian NPL servicing market

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Definitions and sources

Executive summary

Non Performing loans dynamics

Non Performing loans servicing industry

According to current regulation, financial institutions' non performing loans are classified by risk category

Classification of NPLs by risk category used throughout the document

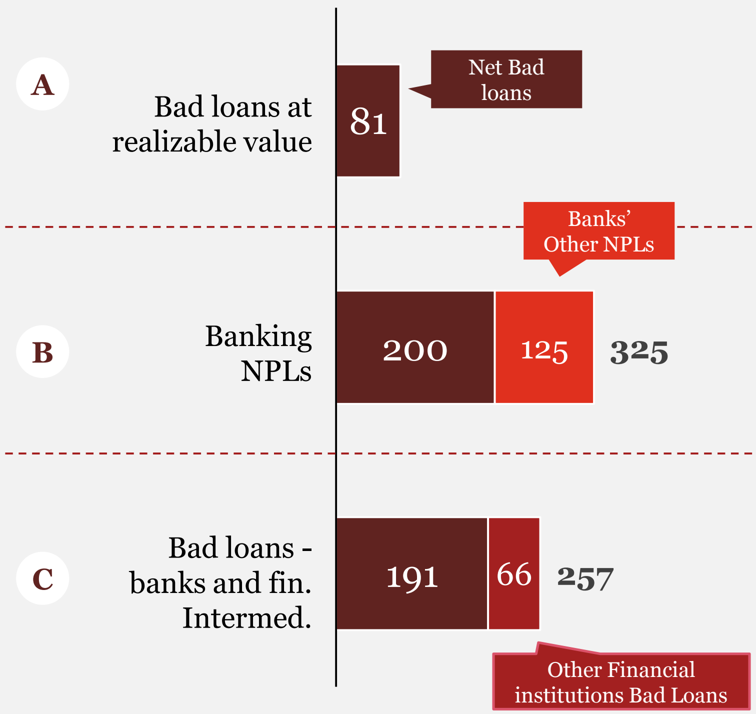
Deterioration level: – to +

NPL classification		Definition of new risk category
NPLs (crediti deteriorati)		❑ **Sum** of doubtful / bad loans, substandard loans, restructured loans and past due.
Past due more than 90 days loans o/w Past Due >270 d.	**Other NPLs**	❑ Exposure to any borrower whose loans are not included in other categories and who, at the date of the balance sheet closure have past due amounts or unauthorized overdrawn position of more than 90 days. ❑ This category now contains also the past due exposures older than 270 days (old "Incagli Oggettivi" category).
Unlikely to pay (inadempienze probabili) o/w FNPE[1]	**Other NPLs**	❑ The classification of loans in this category is the result of the judgment of the bank about the debtors' unlikelihood to fulfill its credit obligations. This category substitutes the old Substandard loans ("Incagli") and Restructured Loans ("Crediti Ristrutturati"). ❑ This new classification does not include anymore the old "Incagli Oggettivi", loans that are overdue for more than 270 days. ❑ A sub-segment of the unlikely to pay is now represented by the Forborne Non Performing Exposures (FNPE[1]), credits which have been given a concession, meaning the modification of the terms and conditions of the contract or its refinancing, granted to a counterparty in financial difficulties, and which are not classified as bad loans or "sofferenze".
Bad loans (sofferenze) o/w FNPE[1]	**Bad loans**	❑ Exposure to a borrower in a position of insolvency (not necessarily recognized by a court) or a substantially similar situation, irrespective of the presence of any collateral. Same as old classification of Bad Loan / Sofferenze. ❑ A sub-segment of the bad loans is now represented by the FNPE.

Note (1): Forborne non performing exposures

NPLs in Bank of Italy statistical information

Bad loans according to BoI [1]– Data in €bn as of 2016



- The realizable values of bad loans are obtained by s**ubtracting from bad loans both the provisions** (entered in reporting banks' accounts), which serve to adjust the values of loans, and **direct write-downs** (the cumulative amount of the write-downs made directly in the accounts)

- The most referred to data on banking NPLs.
- Data is **limited to banks** and it **include assets disposed of and not cancelled** and transactions with non-resident customers.

- **Perimeter is extended to other financial institutions** (including SPVs) but limited to bad loans (No information on Other NPLs)
- **Banks' bad loans are net of asset disposed and not cancelled**, included in other financial institutions

Note (1): Any differences between data drawn from supervisory reports and the Central Credit Register stem from marginal differences between the legal provisions governing the data collection methods of the two systems

Source: PwC elaboration on Bank of Italy " Statistical Bulletin"

Agenda

Executive summary (1/2): NPL dynamics

NPL stock

- **With €325bn** (€200bn of bad loans and €125bn of other NPLs) **of non-performing loans, Italian Banks hold the largest stock of NPLs in Europe.**
- Including other financial institutions, (SPVs smaller lenders), we estimate **the total stock of NPLs in Italy to be slightly above €390bn** (€258bn of bad loans and €133bn of other NPLs as of 2016)**;** top 10 banking group hold around 69% of the total NPL stock (€270bn)
- **When looking at Italian banks' bad loans some peculiarities need to be considered:**
  - Over **70%** are related to **corporate sector,** and **over 90%** (in terms of value) **is related to loans above €75k;** around 50% of the total value is secured
  - **While southern regions perform worse in terms of bad loans ratio the current stock is mostly concentrated in the northern area**

Recent trends

- In the past years Italian banks have significantly increased NPLs coverage, now above 50%; assuming the same coverage for the overall NPL stock, **we estimate the total NPL NBV to be around €188bn in 2016** (~€97bn of bad loans)
- Performing loans **deterioration rate is reducing** indicating an **improving quality of the outstanding,** in fact **NPLs decreased in 2016 compared to 2015.** On the other hand, bad loans inflows appear more stable with current Unlikely to Pay stock bolstering new bad loans flow - over **20% of Other NPLs deteriorate into Bad Loans each year**
- Notwithstanding the above, **the stock of banks' net NPLs remains above 9% of total loans value, censoring banks' ability to restore profitability**; as a solution **disposal of NPLs is increasing.** However, **transaction volumes are still modest compared with the stock** mainly due to the pricing gap between NBV and market rates.
- The **Italian government** has introduced **new measures to promote NPL disposal**.
  - **The amendments on bankruptcy and tax law** shall accelerate the recovery of NPLs
  - **GACS and Atlante** are aimed to increase liquidity on the market; GACS in particular is earning increasing consensus by Banks' with the first GACS transaction closed (pricing around 30%) and more announced
- **As a result, we expect a strong increase in transactions;** with over **€50bn already announced** (€17,7bn UniCredit) **or in pipeline** (€27bn MPS considered notwithstanding uncertainty on transaction process, €8bn Banco-BPM, €3,4bn Carige, etc.), we forecast that **volumes will reach around €118bn in the period 2017-2021**

Outlook

- In a modestly improving economic scenario, our model, based on the main dependences between the identified variables (GDP, inflation, credit expansion and deterioration rate), predicts an **overall reduction of total gross NPL stock to €342bn in 2021**
- **Bad loans will continue to grow** sustained by inflows from Other NPLs, reaching **€260bn in 2017**; **afterward**, the **improving deterioration rate** together with the **expected acceleration of recovery time**, shall bring to an **overall reduction of the stock**, **expected at €241bn in 2021**
  - By 2018 and onward, **around 50% the stock will be owned by investors, with a strong impact on credit servicing market**

Executive summary (2/2): NPL servicing industry

Overview

- As Banks are forced to reduce NPL exposure, **the demand for credit management services is increasing**, with credit servicing being a key part of the process
- Italian **servicing industry consists of two major business segments** with different business models:
  - **NPL servicers, managing around €130-150bn of bad loans (2015)** are focused mainly in the collection of **large secured and unsecured corporate credit** and characterized by an high level of specialization encompassing real estate and legal capabilities
  - **DCAs** (debt collection agencies), managing around €60bn of credits each year, are **focused mainly on unsecured retail credit** and specialized in massive home/phone collection of both **bad loans and underperforming credits** (past-due)
- While the **DCA segment is very fragmented** (over 1,200 players), **NPL servicer industry is quite concentrated** with the top 3 players owning over 70% of the market in terms of AuM[1]

Recent trends and outlook

- The **NPL servicers segment** has experienced **positive growth** in the past 3 years (**6% AuM CAGR 2013-15**) and is **expected to grow further driven by:**
  - **i. increasing outsourcing of NPLs management activities by Banks** (driven by capacity issues and specialization of recovery strategies)
  - **ii. portfolio acquisitions by investors** (without own-collection capabilities)
- **We expect NPL Servicers AuM to grow in the period 2017-2021** sustained by **€148bn of new total inflows in the period**
- As the market mature, the **Italian credit servicing industry develops following a path similar to Spain**. In particular, at industry level, **we observe an increasing consolidation trend** (more intense in the DCA segment) **driven by 3 key factors: i) pure investors developing servicing capabilities**, **ii) new foreign entrants** and **iii) incumbent servicers extending the value chain and becoming more competitive**
- A scalable platform and the ability (in terms of competences) to manage portfolios with different characteristics, will be **key factors to win new flows coming to the market**

Note (1): Market share as % on total estimated special servicing volumes of NPL servicers

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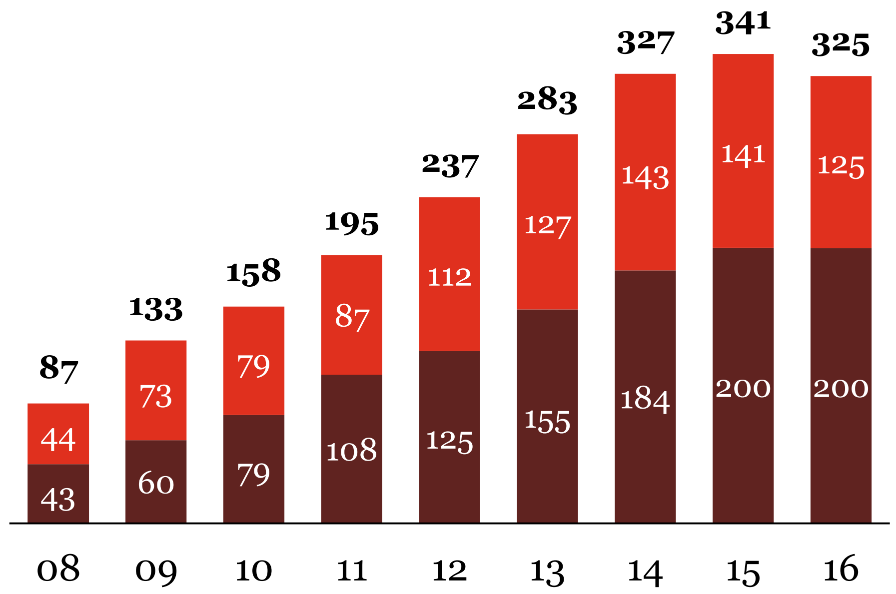
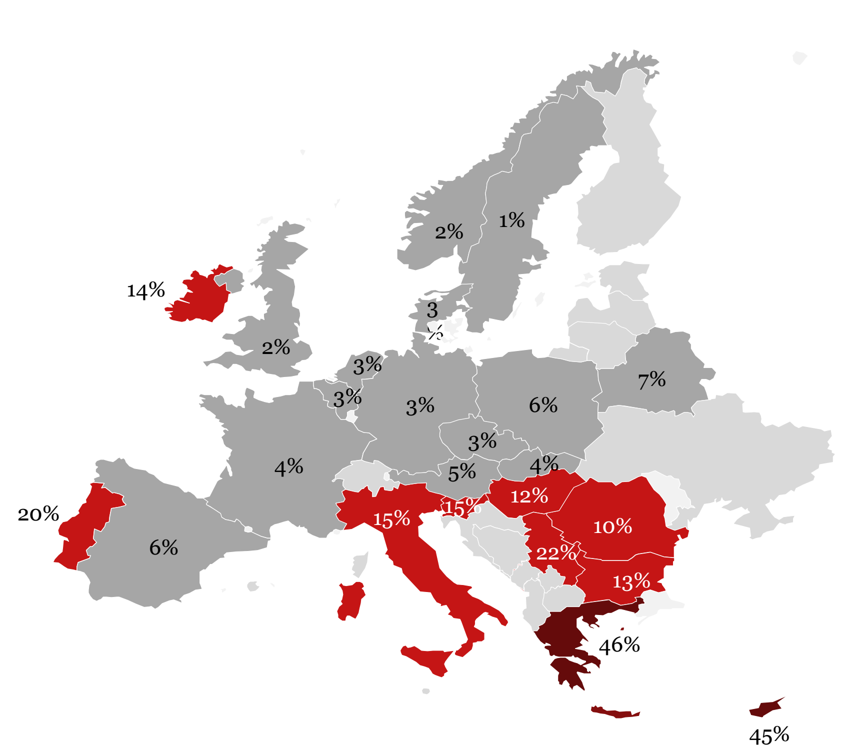
With €325bn of non-performing loans, Italian Banks hold the largest stock of NPLs in Europe

Gross Banks NPLs(1) – Data in €bn



NPL ratio – Data in % as of 2016

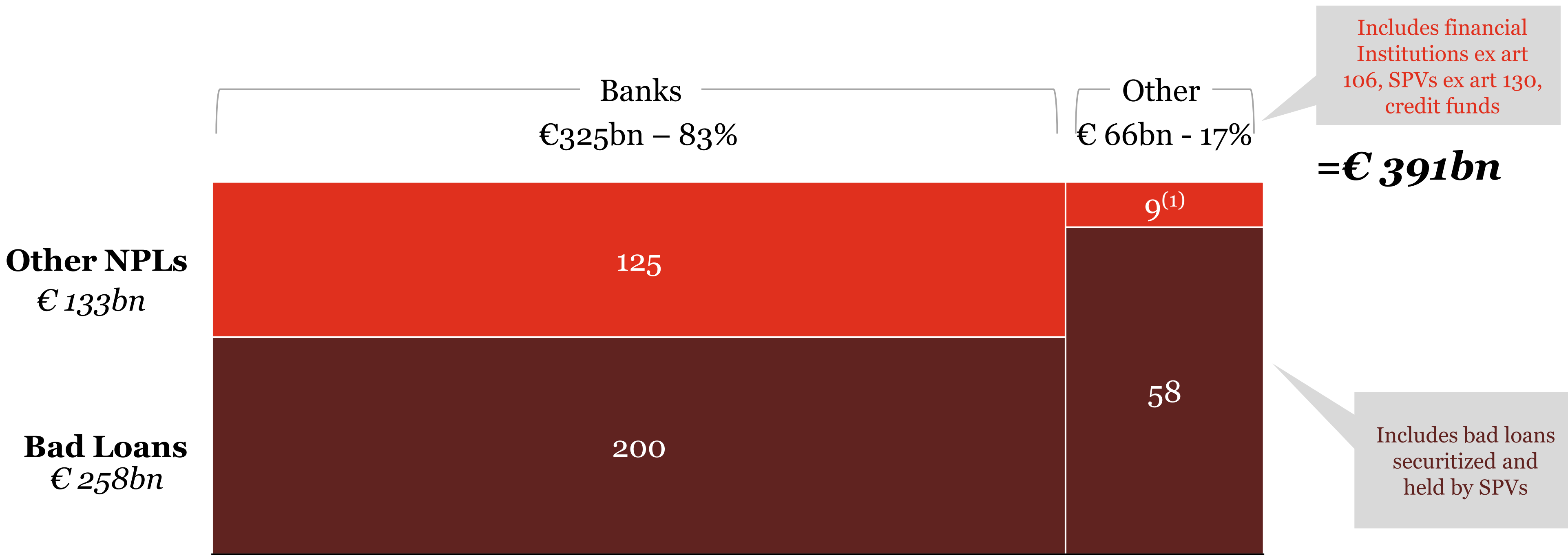


Note (1): Perimeter B – Banks only
Source: Data from Bank of Italy Statistical Database (TDB30266) , EBA risk dashboard Q4-2016

We estimate total financial institutions' NPL to be slightly below €400bn. Banks hold over 80% of total stock

When looking at total volumes we include also smaller financial institutions mainly active in specialized lending (i.e. consumer credit, factoring, leasing) and non consolidated SPV's

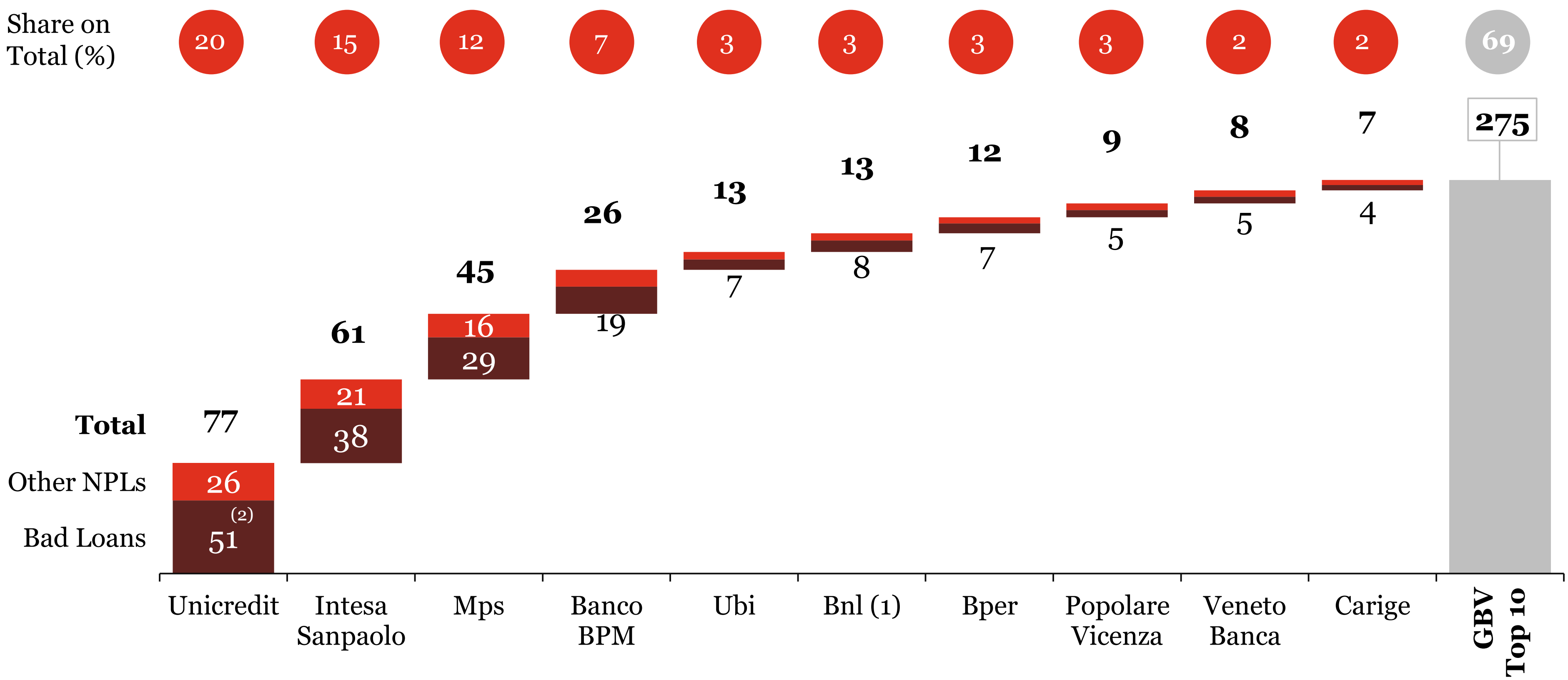
Gross Financial Institutions Non Performing Loans– Data in € bn as of 2016



Note (1): Data estimated based on Bank's "Other NPL ratio"
Source: PwC estimate on Bank of Italy data (TDB30231, TDB30266, TDB10289)

Top 10 banking groups hold around 70% of the total NPL stock of €391bn

Gross NPLs of top 10 Banking groups by NPLs – Data in €bn and % as of 2016



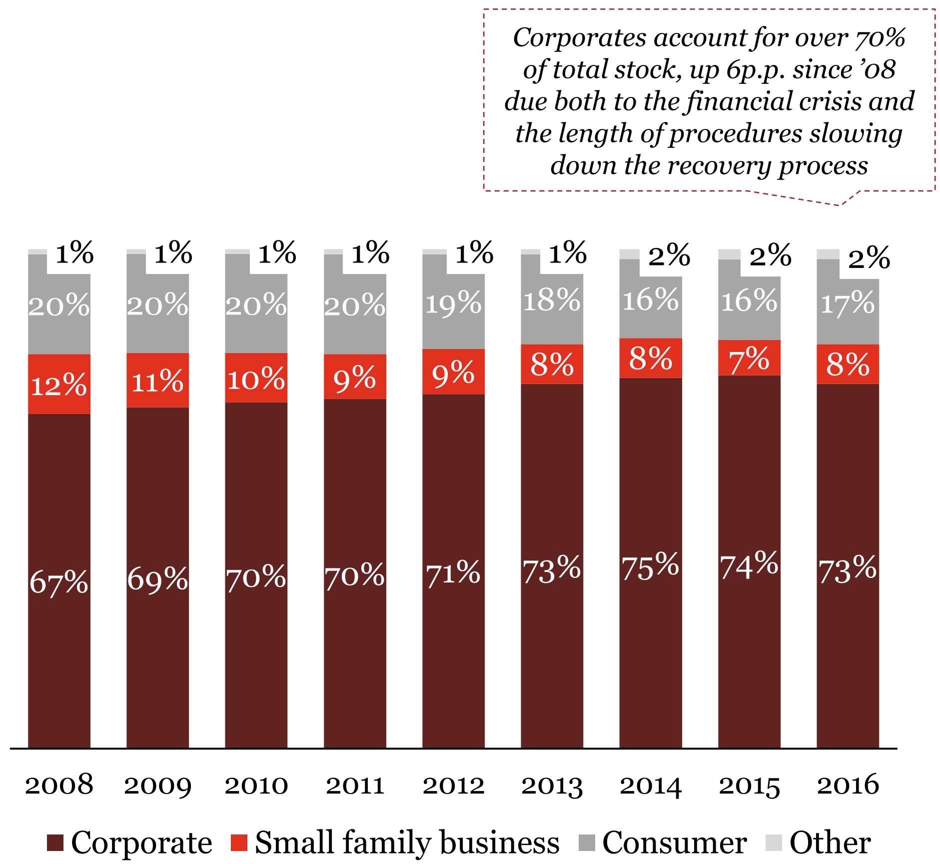
Note (1): data as of 31/12/2015

(2): Project FINO disposal not included in FY 2016 data

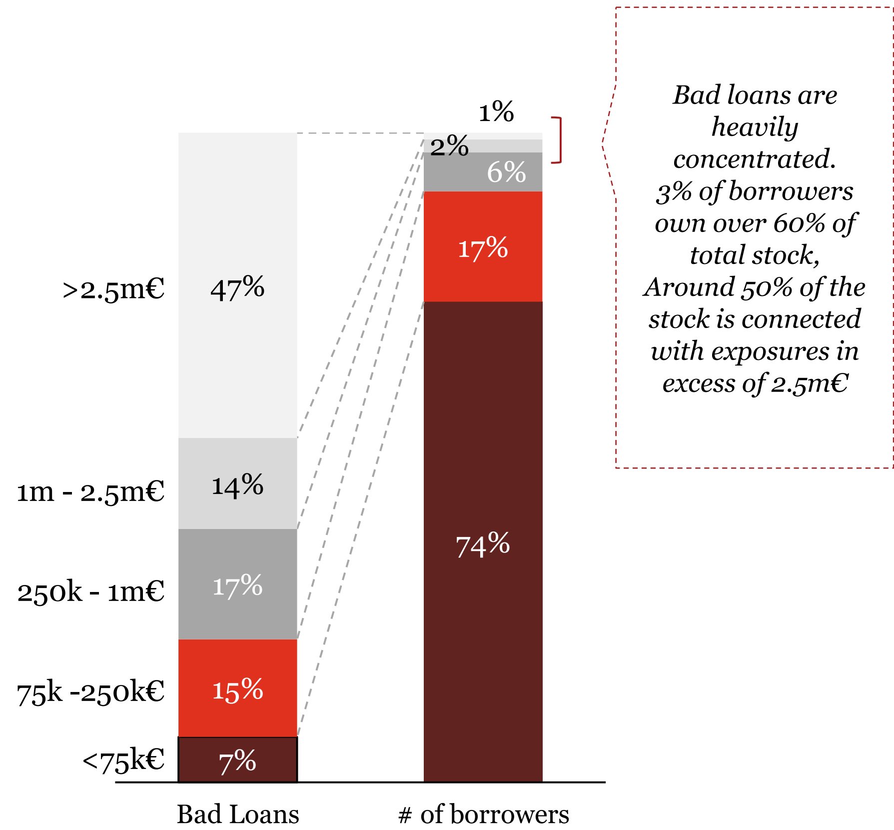
Source: Data from Financial Statements at 31/12/2016

Bad loans focus: High concentration among corporate and large tickets

Bad Loans breakdown by counterparty – Data in %



Bad Loans breakdown by size classes – Data in % as of 2016

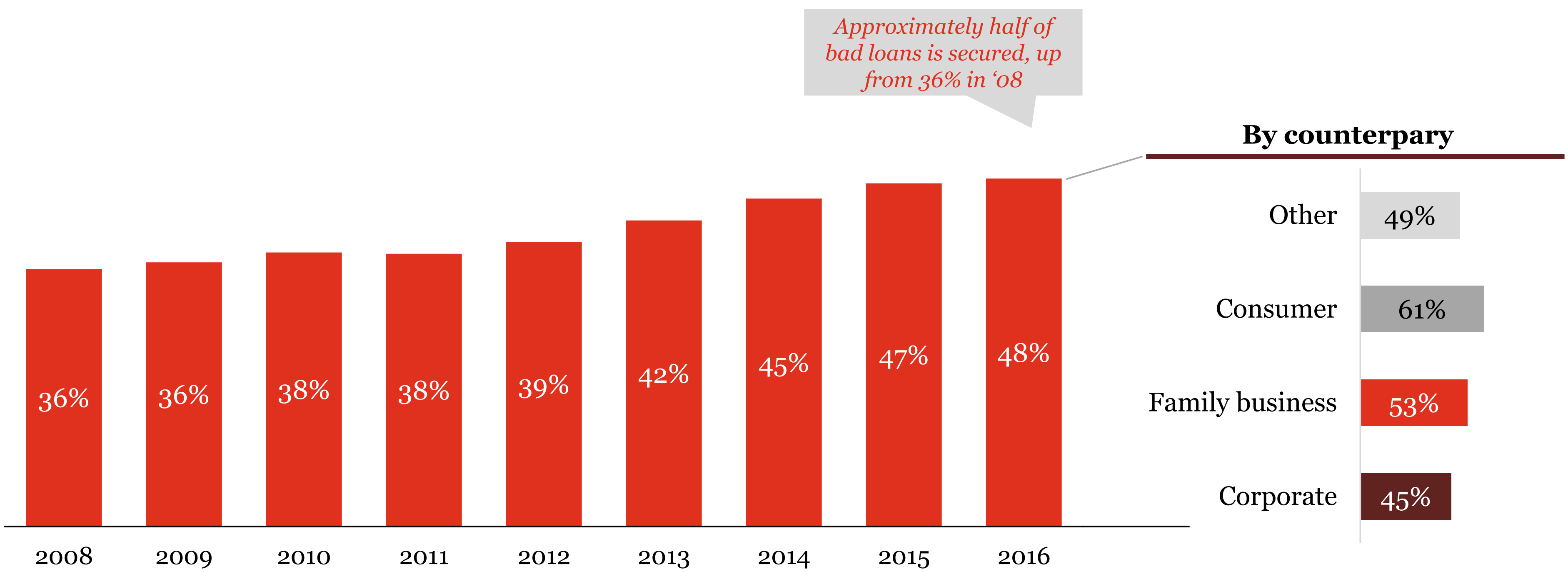


Source: Data from Bank of Italy Statistical Database (TDC300033, TDB30206)

Corporate = società non finanziarie
Small family business = famiglie produttrici
Consumer = Famiglie consumatrici
Other = Amm.ni pubbliche e società finanziarie

Bad loans focus: Increasing % of secured bad loans

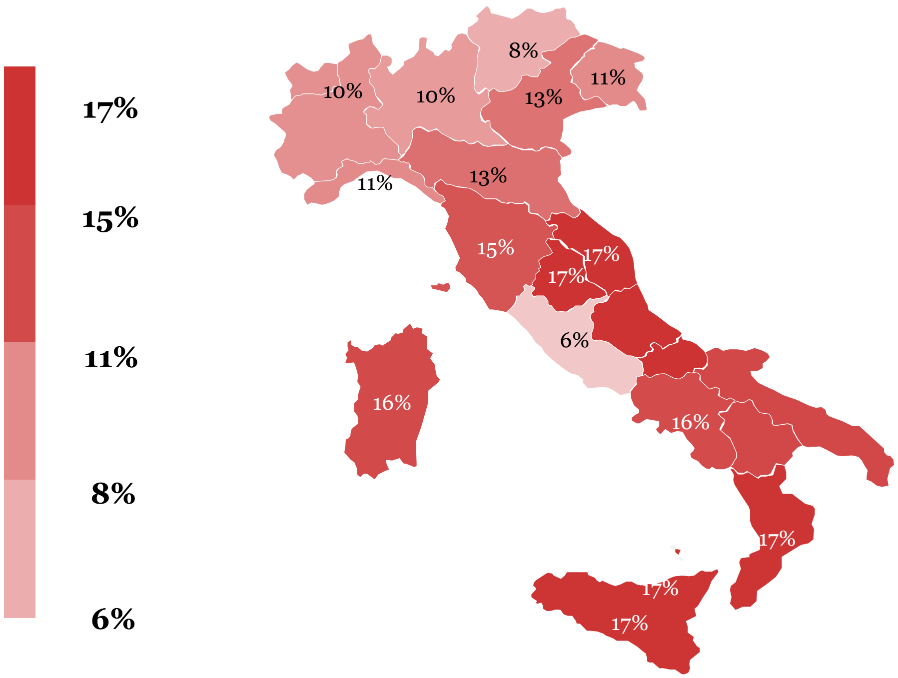
Gross bad loans secured %[1]– Data in %



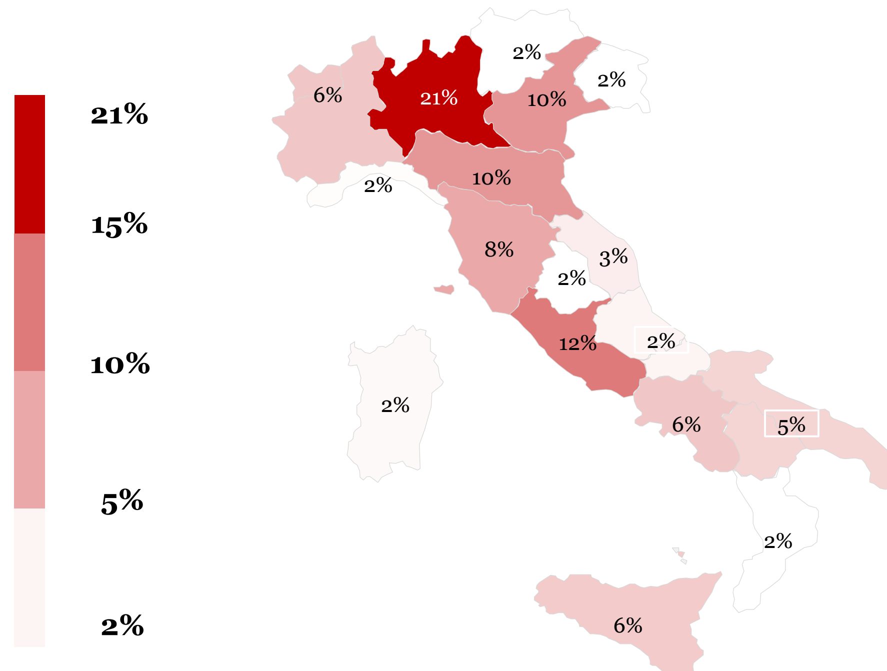
Source: Data from Bank of Italy Statistical Database (TDC300033, TDB30206)
Note: (1) Calculated as percentage of bad loans stock of banks (gross of writeoffs). Source: Central Credit Register;

Bad loans focus: northern regions hold around 60% of total stock, although showing a lower bad loans ratio compared to southern regions

Bad Loans ratio breakdown by region - Data in % as of 2016



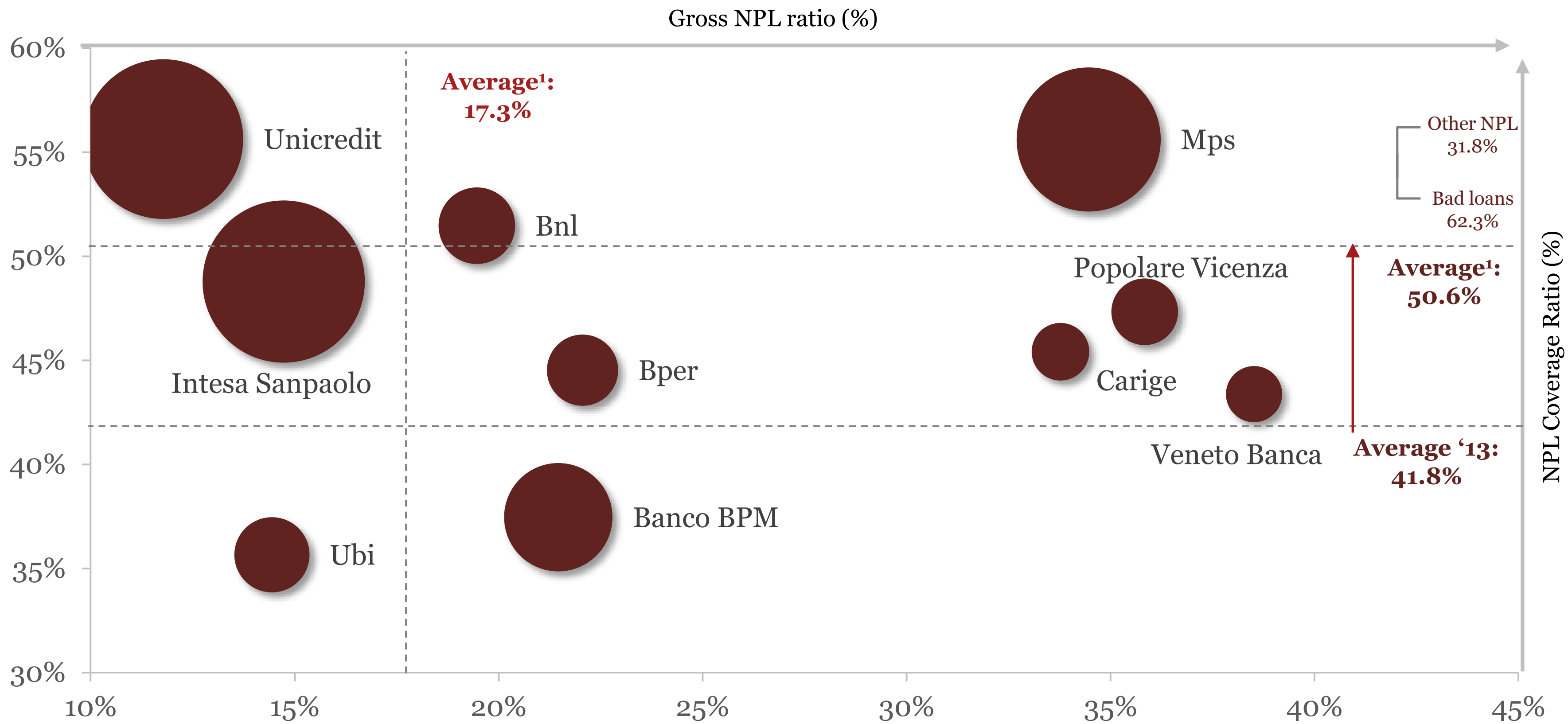
Bad Loans distribution by region – Stock in % as of 2016



Source: Data from Bank of Italy Statistical Database (TDB10232)

In the past years banks have significantly increased NPLs coverage, now above 46% on average

NPLs Ratio & NPL coverage of top 10 Banking groups by NPLs – Data in % as of 2016

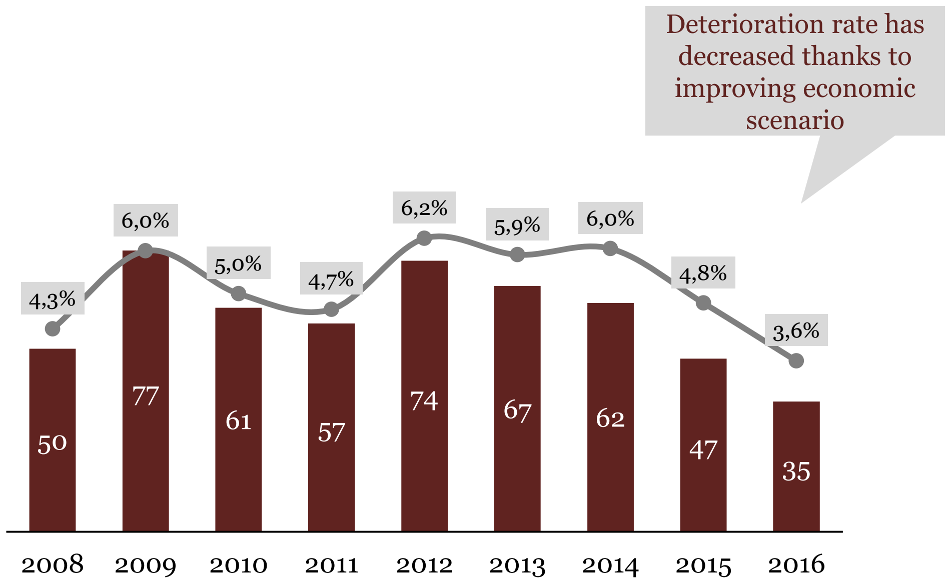


Note (1): Italian banking system average as of 2016
(2): Italian banking system average as of FY 2013

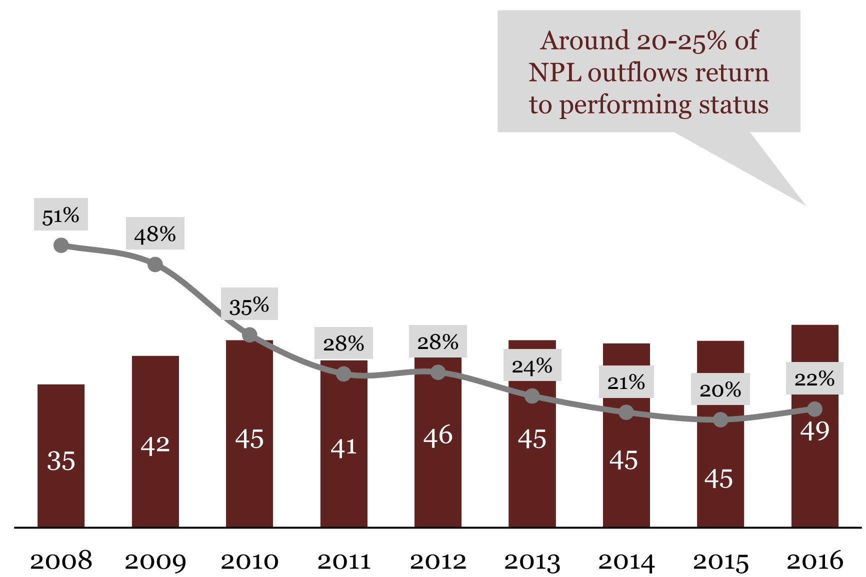
Source: PwC estimate on Banks consolidated financial statements as of 2016, except for BNL at FY 2015 and Bank of Italy Financial stability report, April 2017

Overall deterioration rate is reducing, indicating an improving quality of outstanding performing loans

Top 5 banking group Total NPL inflows[1]
data in % of customer loans net of NPL



Top 5 banking group Total NPL outflows[1]
data in % of total NPL

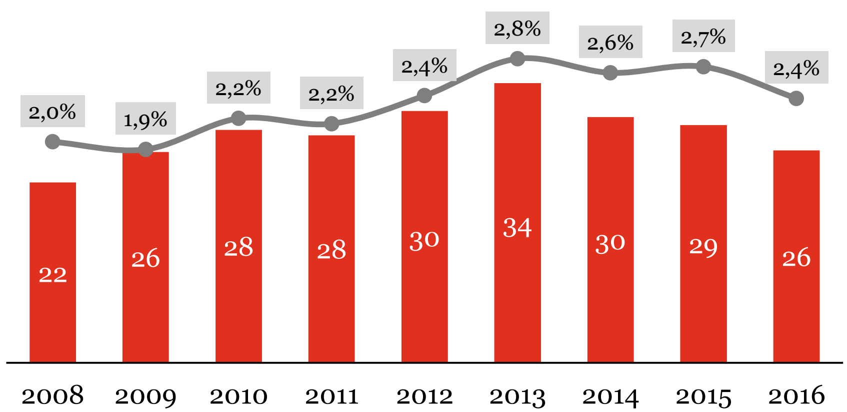


Note (1): Banks flow only based on Top 5 banking groups' data (UCG, ISP, MPS, BP, UBI)
Source: Banks' consolidated financial statements

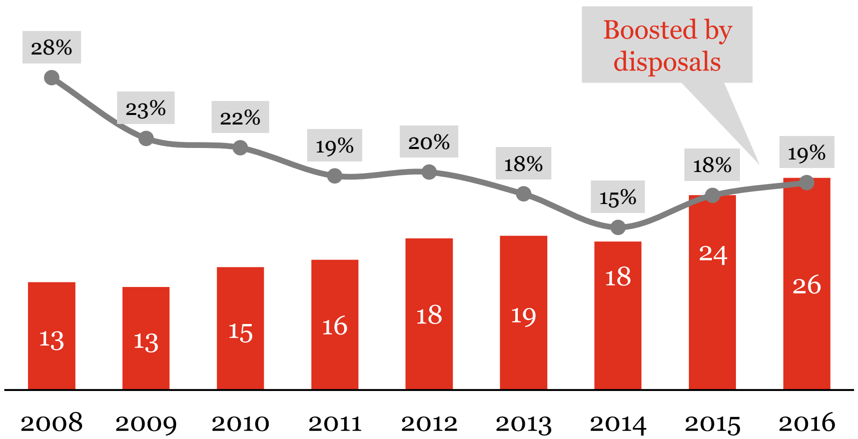
Bad loans flows show a different trend with inflows still overwhelming outflows

- Over 20% of Other NPLs deteriorate into Bad Loans each year
- In such a scenario, **bad loans stock would continue to grow** notwithstanding a slow down in new inflows

Top 5 banking group bad loans inflows(1)
data in % of customer loans net of bad loans



Top 5 banking group bad loans outflows(1)
data in % of total bad loans

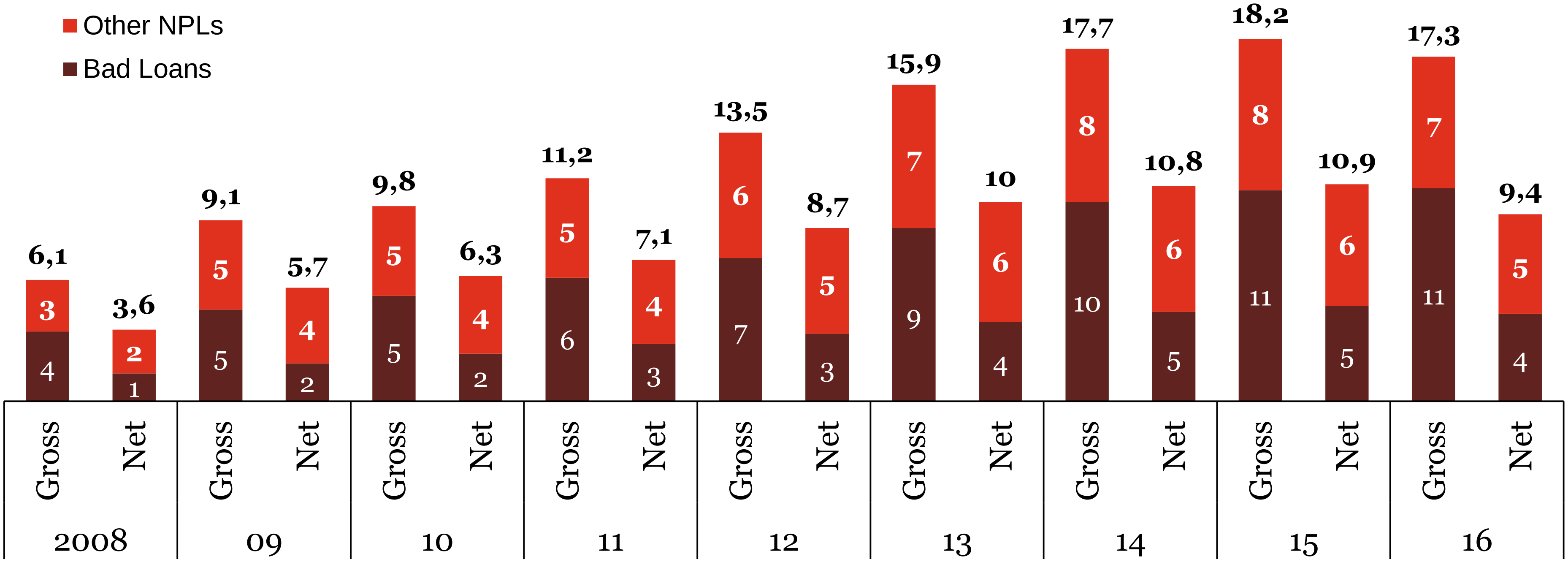


Note (1): Banks flow only based on Top 5 banking groups' data (UCG, ISP, MPS, BP, UBI)
Source: Banks' consolidated financial statements

Notwithstanding increasing coverage and improving quality of performing loans, the stock of net NPLs remains high

- Net NPL ratio is around 10%

Banks Non Performing Loans ratio – Data in %

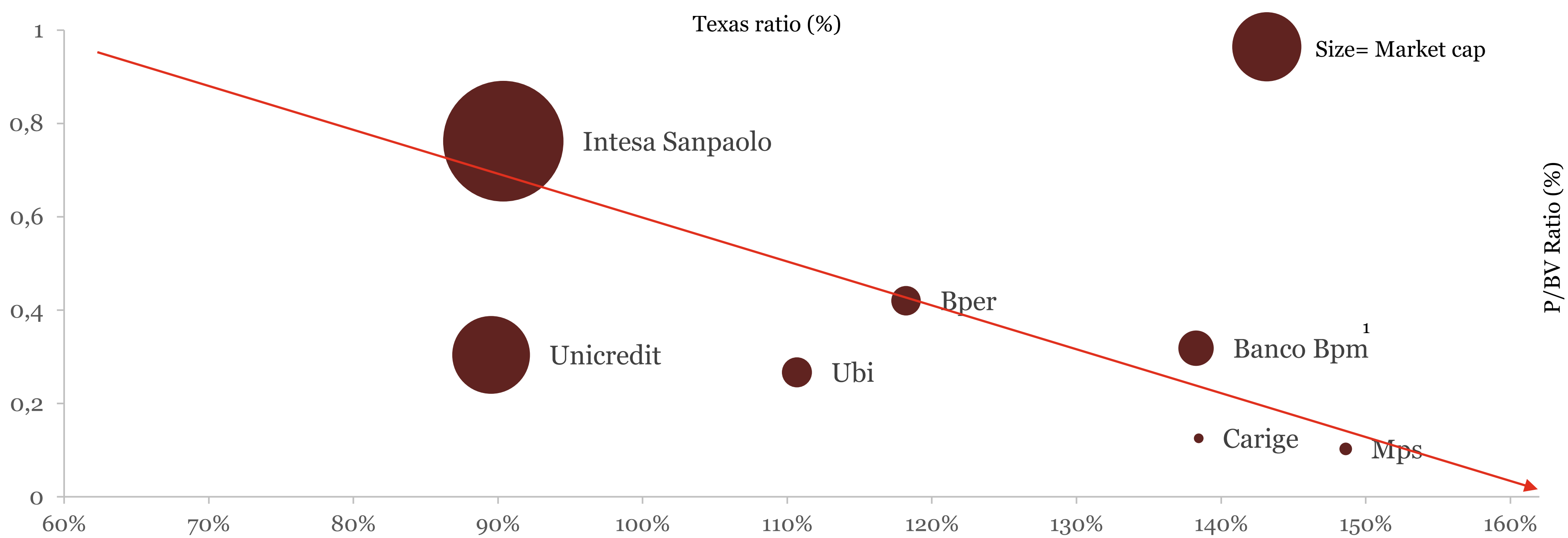


Source: Bank of Italy financial stability report

Reducing Banks' NPLs is critical for the banking system and economic recovery

- **Reducing the NPL stock** is necessary to **free up capital allowing, increase the lending activity, recoup profitability, and sustain the economic recovery;**
- **Excessive exposure to bad assets**, also **directly affect stock valuations**, as uncertainty about asset quality and adequate coverage **concerns investors with potential capital adequacy issues**

Texas ratio & Price/Book Value ratio of top Banking groups – Data in % as of 2016

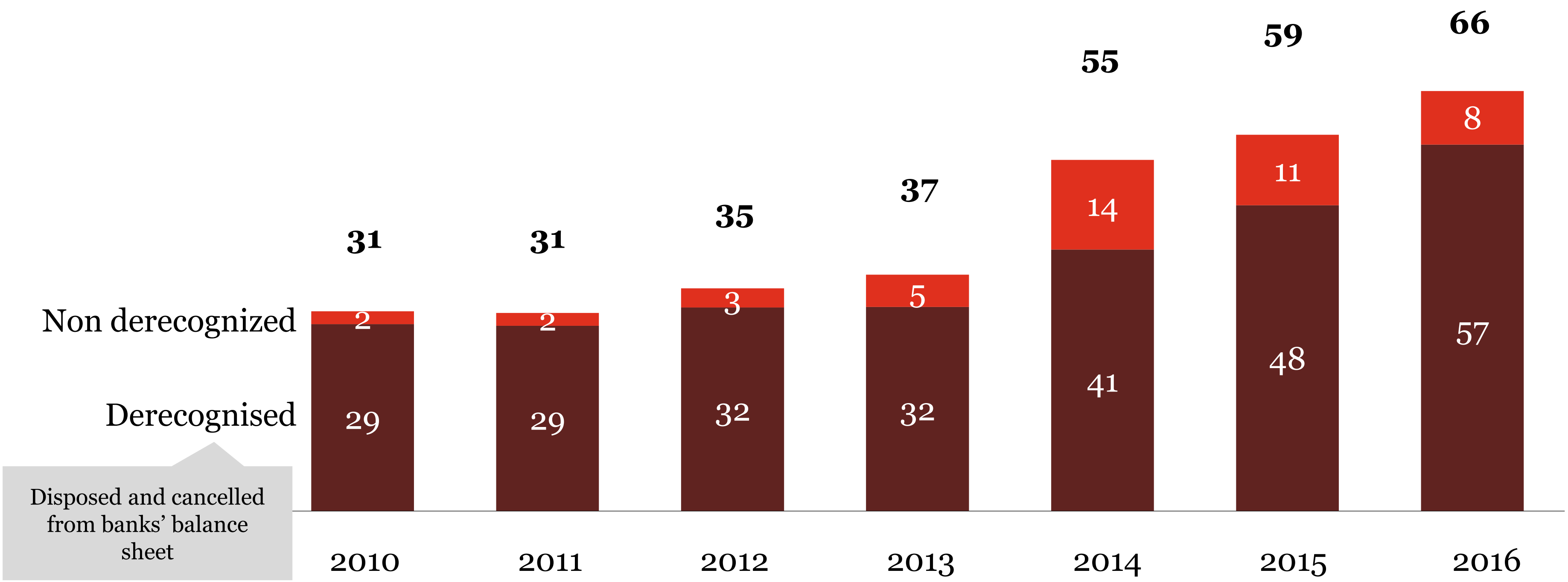


Note (1): Pro-forma data

Source: PwC analysis on financial statements as of 2016 and stock market data at 30/12/2016

Banks have sought to reduce the volume of NPLs on their balance sheets mainly by securitising and selling them to specialised investors

Securitized bad loans – Data in €bn

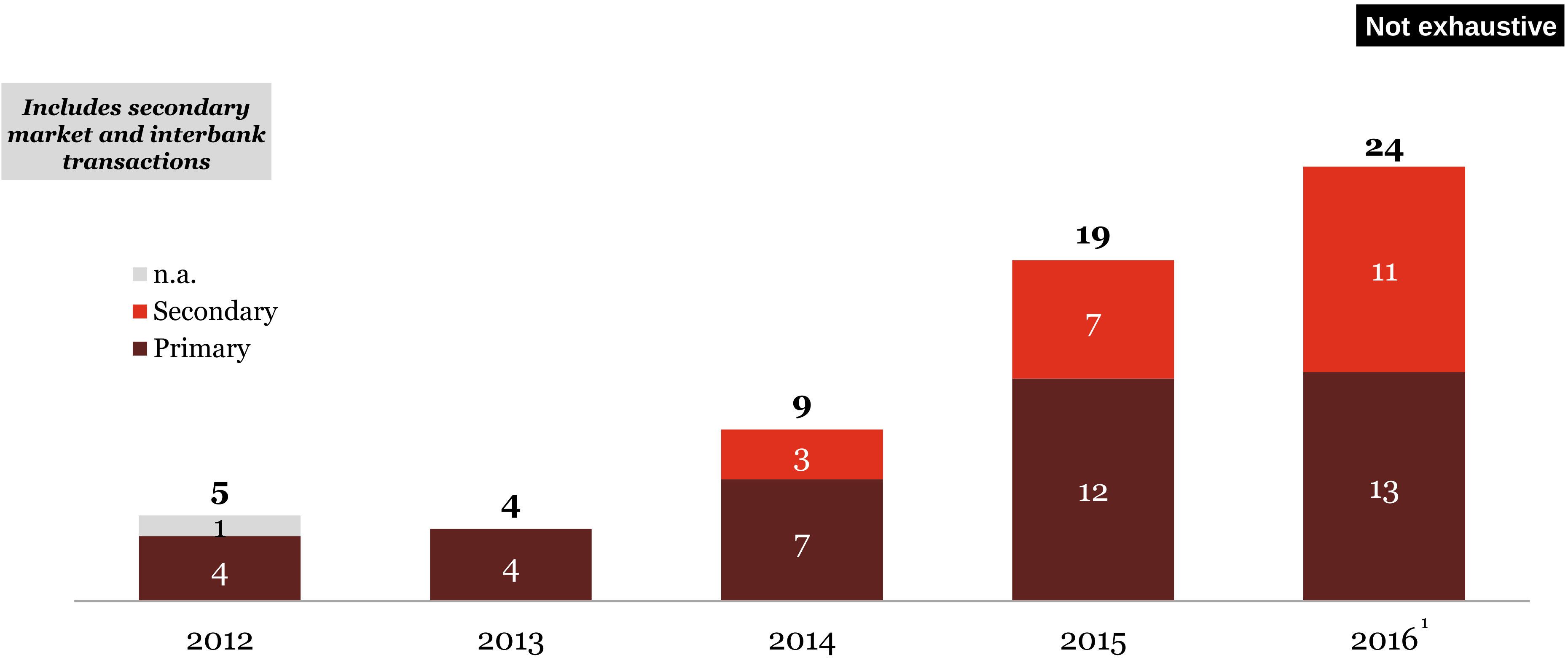


Source: PwC elaboration on Bank of Italy data (TSC21400, TSC21500)

Despite growing volumes, NPLs transactions are still modest compared with banks' total stocks of bad loans

NPL transaction volumes increased from €4-5bn in 2012-13 to €24bn in 2016

Bad loans transactions in the Italian market – GBV in €bn



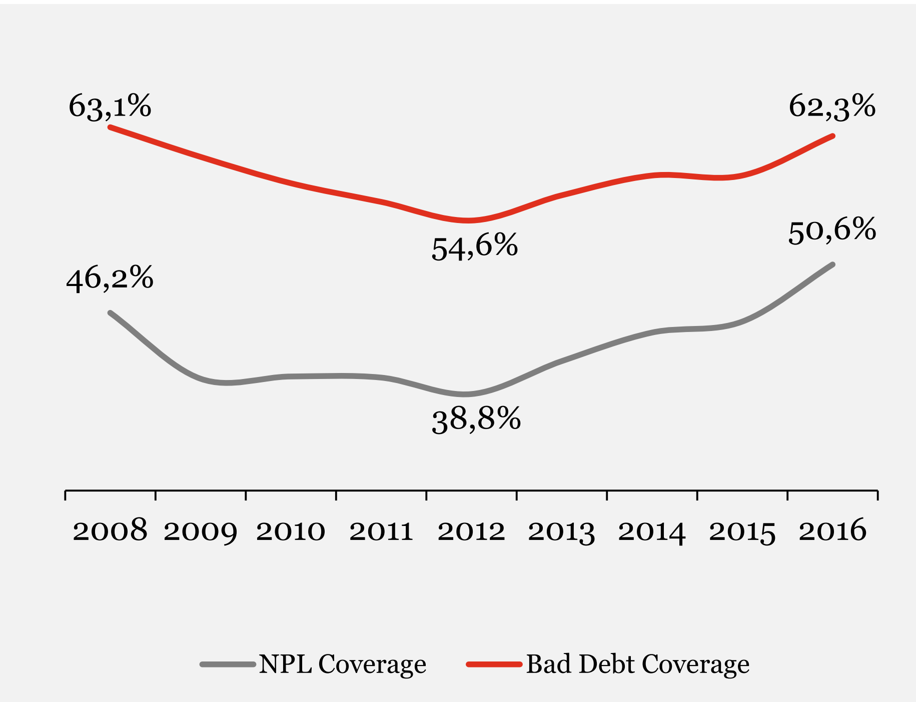
Totals may not add-up due to roundings

Note (1): does not include UniCredit (Pj. Fino) and MPS announced disposal of full bad loans portfolio
Source: PwC, The Italian NPL market - "Positive Vibes", Osservatorio Credit Village for 2016, Bank of Italy financial stability report

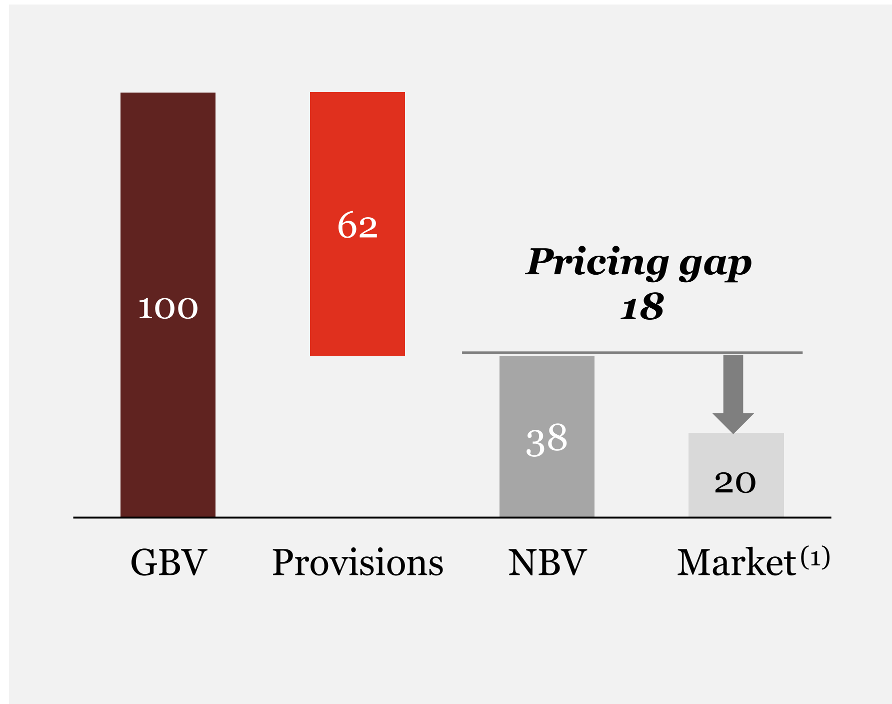
Pricing Gap still exists between banks' NBV and market rates, limiting transactions volumes

- **Coverage ratios are improving**, however they are still below pre-crisis levels
- Coverage ratio doesn't allow banks to sell bad loans without incurring additional impairments, in fact **the market is willing to pay bad loans 20% of GBV compared to the valuation of 41% on balance sheet**

Coverage trends in the Italian Banking System



Bad loans pricing gap (Data in %)



Note (1): Rough Estimate based PwC experience and observed transactions. Prices varies largely based on portfolio characteristics and other factors
Source: Bank of Italy Financial Stability report

The Italian government has introduced new measures to reduce the gap and spur NPLs disposal

- This initiatives aim at reducing banks' NPL stock both by:
  - i) reducing the time taken to collect and
  - ii) increasing NPLs' transactions by reducing the pricing gap
- While the first will have a direct impact on the total stock of NPLs, second will "only" produce a shift from banks balance sheets' to investors' portfolios

Banca Popolare di Bari completed ***the first NPL transaction under the GACS mechanism****.*
The mezzanine and junior tranche of a ***€480mn bad loans securitization****, where sold for a* ***price in the range of 30% of GBV***

x Focus on next pages

Main initiative activated in the Italian context

	Initiative		Expected impact
1	**Amendments on bankruptcy and tax law**	The Italian government has approved a set of laws finalized to **accelerate recovery of NPLs and to reform tax treatment**	*Reduce timing and costs on proceedings and increase tax deductibility*
2	**GACS**	GACS is an NPL securitisation guarantee scheme (at least with rating «investment grade») allowing the state to provide guarantees on the senior tranches of securitised NPLs	*Increase market liquidity by bridging the gap between their net book value and market price*
3	**Atlante funds**	Atlante are two funds with funding provided mainly by Italian banks finalized to support **capital raising** and **purchase NPLs**	*Increase market liquidity by bridging the gap between their net book value and market price*

Focus on amendment on bankruptcy and tax law

1

Amendments on bankruptcy and tax law

The Italian government has recently approved a set of laws finalized to **accelerate recovery of NPLs and to reform tax treatment**

Objectives

- Law innovations are expected **to significantly reduce recovery times**
- **Acceleration** of bankruptcy proceedings should **avoid objections** finalized to extend procedures timing
- Tax reform is finalized to align Italian fiscal discipline with ones used in **other European Union countries**

August 2015

Law 132/2015

- This law has introduced innovations with regard to :
  - **insolvency bankruptcy** proceedings
  - **tax treatment**
- In particular, it has been introduced:
  - acceleration in the **expropriation processes**
  - **reduction** in **auction prices**
  - dedicated **website to advertise** forced sales
  - **deducibility of losses and to the write – down** of loans to the customers

May 2015

Law 59/2016

- The Decree law has introduced a set of measures in order to ensure **certainty and rapidity** to the procedures.
- The main changes are the following:
  - **insertion of foreclosure principle (**i.e. **«patto marciano»)** → selling borrower collateral in case of delinquency
  - introduction of **information technologies** / communication (i.e. public register)

Expected impact of new laws

	Duration of bankruptcies proceedings	Duration of auctions	Average length of loan recovery from bad loan status (Actual → Expected)
ABI Cerved (1)	- 28%	- 20%	7.3 → 6
Banca D'Italia (2)	- 50(3) %	- 25%	7.3 → 4.7

- Banks, investors and financial institutions have **positive expectations** about **the effectiveness of the reforms implemented**
- Reduction in recovery times may result in a **significant reduction on NPLs stock**

Note (1) : Source Rapporto Cerved PMI 2015
Note (2) : Source Bank of Italy – Notes on Financial Stability
Note (3) : Range between -18% and - 33% under a conservative scenario

Focus on GACS

2

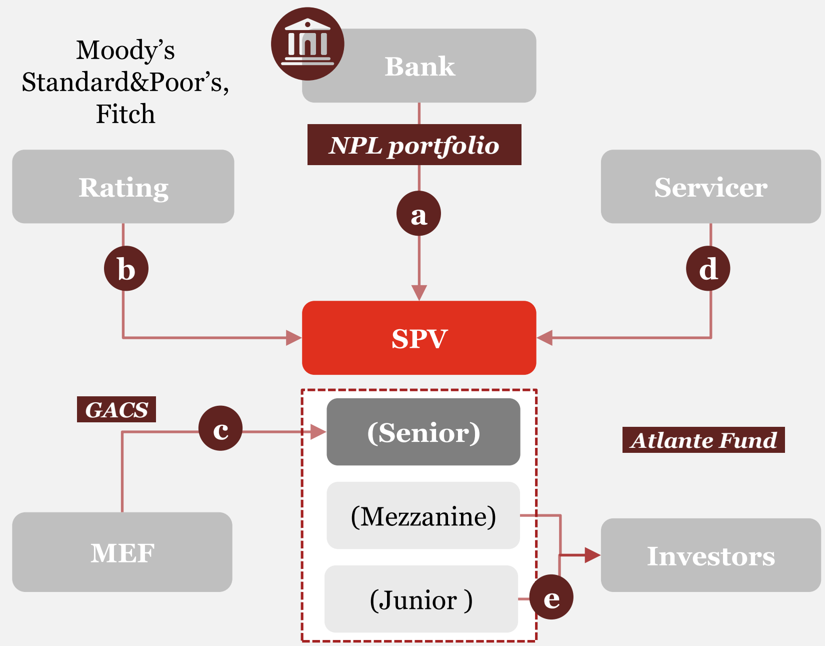
GACS

GACS is a measure **of public guarantee on Senior Notes** (at least with rating «investment grade») on the liabilities issued by Italian banks in the context of securitization transactions

Objectives

- GACS aim at **increasing liquidity in the market**, facilitating the **disposal of NPLs portfolios** (1)
- It has been created in order to **reduce the pricing gap (bid – ask) between banks and investors**, mainly due to:
  - lack of transparency in the process
  - low quality of available information

Structure



Description

- **a** The bank carries out a securitisation transactions of **NPLs**
- **b** Liabilities issued by the SPV must have at least a **«investment grade» rating**
- **c** GACS is a provision for a **government guarantee** on senior notes issued by an Italian SPV and it is remunerated at **market level** (2)
- **d** Collection activities should be managed by **an external** Non Performing Loans servicer
- **e** The **investors subscribe** Junior or Mezzanine notes:
  - the bank will be eligible to receive GACS only if investors subscribe **at least 50% +1 of Junior Notes**

- **GACS guaranteed NPLs transactions** may represent a significant **source of business** for **structured servicers**
- **However,** there are still **uncertainties** and several important issues with GACS scheme and fee structure, which could **represent a real obstacle to its concrete usage**

- Servicer should **be independent from the originating bank**
- Presence of servicer is **a pre-requisite for obtaining the government guarantee**

Note (1): in this context, NPLs exclusively refer to Bad Loans
Note (2): Remuneration will be annual based on three different baskets of Credit Default Swaps as it will be not considered a State aid

Focus on Atlante fund

3

Atlante funds

Atlante funds are a two funds finalized to support Italian banks facing severe crisis in **recapitalization operations** and **NPLs portfolio disposals**

Objectives

- Atlante fund was initially formed for the purposes of:
  - purchasing shares in banks which remain unsold to the market in order to ensure **recapitalization** upon BCE request
  - purchasing **NPL portfolios or Junior notes** issued by NPL securitisation
- **Atlante 2** is reserved to professional investors, **investing exclusively in NPL operations**

Atlante Fund	**Capital endowment**	**Subscribers**	**Operations activated**
April 2016 – **Atlante 1**	**€ 4.2 bn**	• **Banks → € 3bn** • **Fondazioni Bancarie → € 500m** • **Cassa Depositi e Prestiti → € 250m**	***Recapitalization carried out during 2016 :*** Popolare Vicenza **~ € 1.5 bn** Veneto Banca **~ € 1.0 bn**
August 2016 – **Atlante 2**	**€ 1.7 bn** ***Initial endowment. The objective is to reach a target of 3.5 € bn at July 2017***	• **Financial institutions *(Ongoing subscription)***	***Investments will be exclusively in NPLs:*** *Junior and Mezzanine tranche in NPLs securitisation* • ***Acquisition of € 2.2 bn of gross NPLs for €0.5 bn in Q1 2017*** *from Nuova Banche Marche, Nuova Banca dell'Etruria and Nuova Cassa di Risparmio di Chieti*

- **Servicers could both benefit** by the mutual action of Atlante fund sponsored and GACS guaranteed on NPLs transactions and **market liquidity**
- However, a limit to its effectiveness could be mainly represented by the **small size of its Equity →** according to Credit Suisse report [(1)], **Atlas should have at least € 30 – 40 bn in order to reduce total NPL banking stock (€ 200 bn) in a range between 25% (€50 bn) and 64% (€ 130 bn)**

Note (1) : "Npls: far more firepower needed" – Credit Suisse at 20.07.16

Furthermore, new ECB guidelines may also impact banks NPLs' management strategy in the future

Draft guidance to Banks on Non Performing Loans

- On 20 March 2017, the European Central Bank has published **"Guidance to Banks on tackling Non Performing Loans"**
- For the purpose of this guidance, ECB banking supervision has identified a ***number of best practices*** it deems useful to set out with regard to all aspects regarding NPLs strategy, governance and operating activities
- Italian banks should be **compliant with this Guidelines** which will require high effort and potentially high costs in terms of organizational restructuring
- Thus, Italian banks may have **incentive to enhance recourse to outsourcing or to strategic partnership with servicers** for collection activities

Strategy	Definition of a **strategy** and **business plan development related to NPL management** to be **communicated to the ECB** on a yearly basis.
Governance & Operating model	**Creation of an *ad hoc* unit dedicated to NPL management** with an adequate monitoring system that integrates KPIs and early warnings.
Forbearance	**Increasing disclosure of information related to the sustainability of forbearance measures.**
NPL definition	**Application of NPE definitions made by the EBA.**
Provisions and cancellation	**A more conservative approach should be implemented for provision for credit losses.** Collective provision estimates should be calculated on sufficient time series data.
Mortgages valuation	**Adoption of an independent adequate process to select appraisers.** Appraisals should be updated on a yearly basis taking into account liquidation costs and time.

Source: European Central Bank, Guidance to banks on non-performing loans, 2017

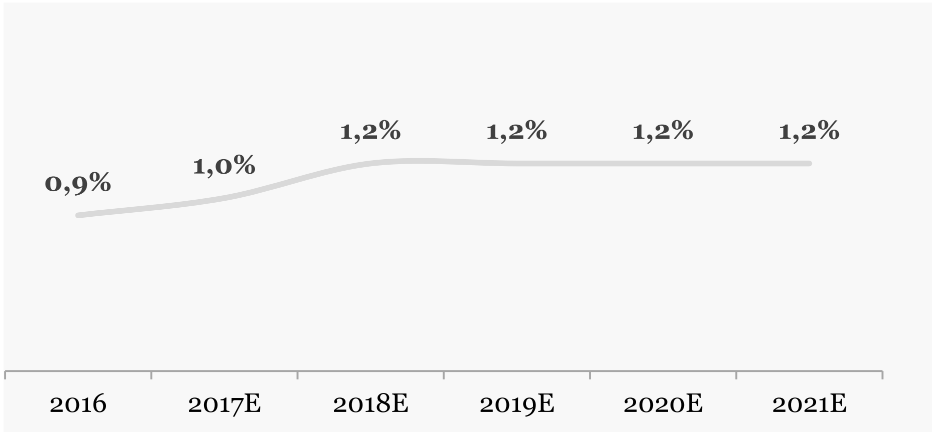
Banks are reviewing their NPL management policies and an increase in the volumes of disposals is expected

	Initiatives and rumors	Extraordinary NPLs disposal	Expected NPL platform disposal	Expected disposal 17-21 (€ bn)[1]
UniCredit	UniCredit **sold a NPL portfolio that amounts at € 17.7bn**, the actual conclusion of the disposal process is expected by 2019	✓		**32**
Intesa Sanpaolo	Disposal of c.€2.5bn bad loans portfolio and Securitization of €1.35bn residential mortgages			**14**
Mps	**Deconsolidation of the entire Bad Loans portfolio** (€27bn) is expected notwithstanding the current uncertainty on the process (a new business plan is expected in 2017)	✓	✓	**30**
Ubi Banca	Disposal of **€2.2bn NPLs** following the acquisition of 3 "Good Banks". Focus on improvement of credit recovery capabilities and creation of a ReoCo for collateral management			**5**
Banco Bpm	In consideration of merger, the Group announced in the Business plan the disposal of at least €8bn by 2019	✓		**10**
Carige	Disposal of the entire Bad Loans portfolio (€900m is expected in 2017)	✓	✓	**4**
Popolare Vicenza	Disposal of the entire Bad Loans portfolio and of the internal platform expected	✓	✓	**5**
Veneto Banca	Disposal of the entire Bad Loans portfolio and of the internal platform expected	✓	✓	**4**
			Total top Banks	**104**

Note (1) : Expected bad loans disposal – is composed of extraordinary disposal (as announced on bank business plans) and ordinary disposal (PwC estimate) calculated as 5% of bad loans for the period '16-'17 and 10% for '18-'21

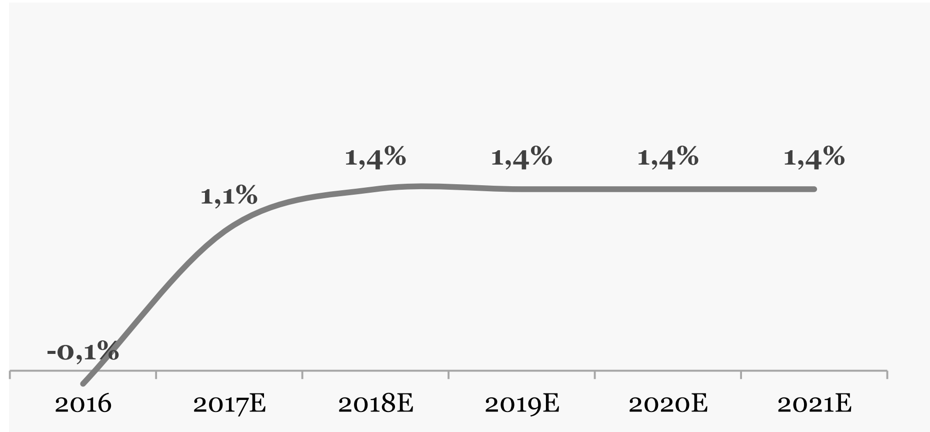
In a macro-economic scenario modestly improving in the medium term…

Real GDP growth



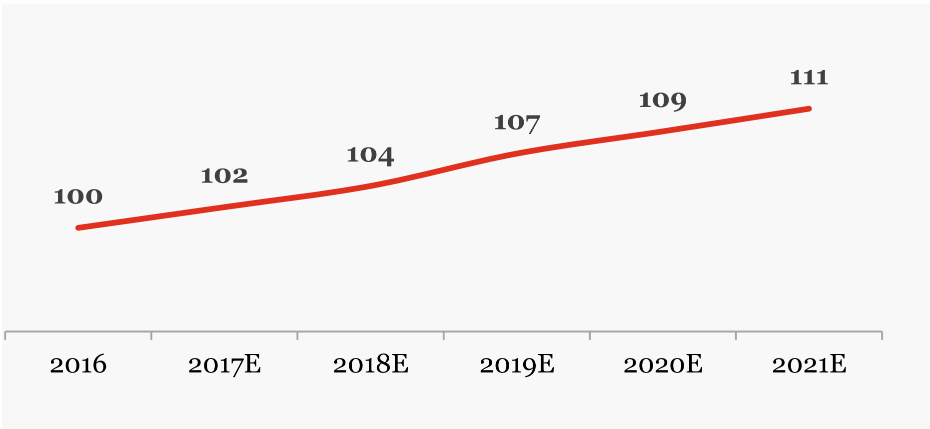
Source: PwC Global Economic Outlook 2016

Inflation projections



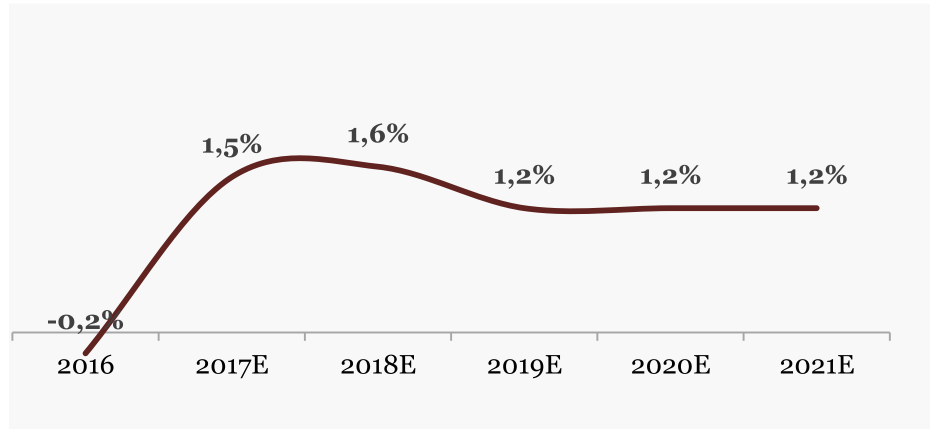
Source: PwC Global Economic Outlook 2016

Productivity index projections



Source: PwC Analysis on Italian productivity index

Retail sales index projections

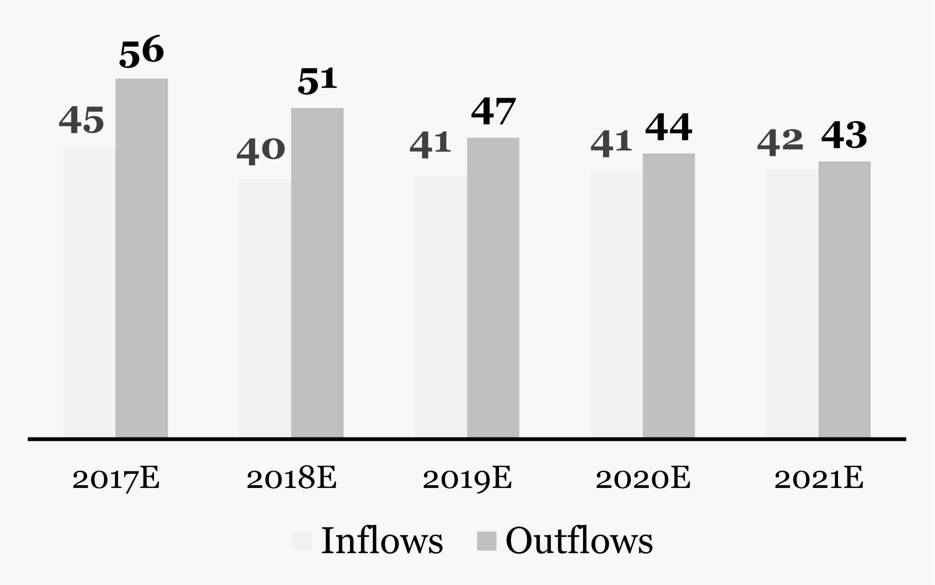


Source: PwC Analysis on Italian retail sales index

…we expect an inversion in flows with outflows overcoming inflows…

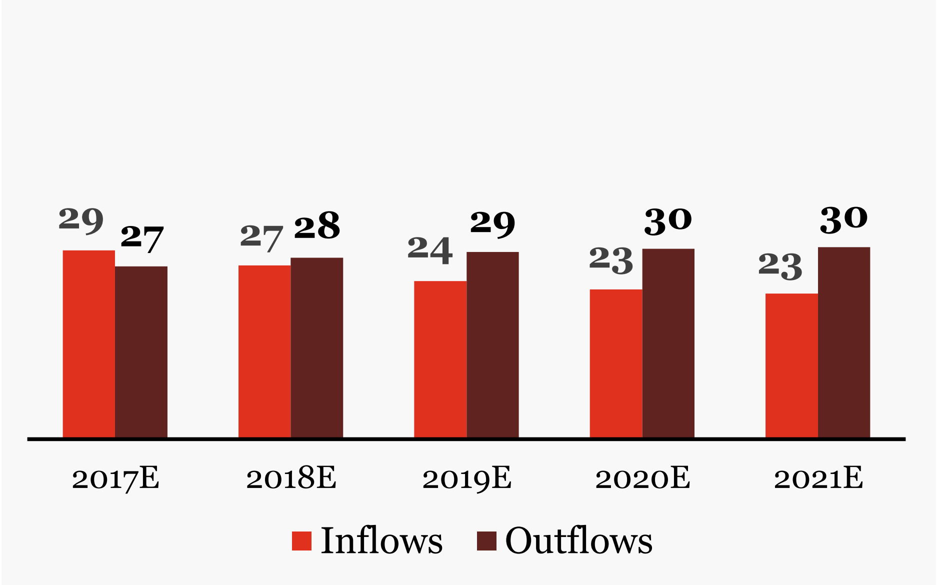
Total NPL inflows and outflows projection (2017 – 2021) - *Data in €bn*

- Inflows are expected to decrease until 2018 due to improving economic scenario. Afterwards the slight increase is in line with the growth of performing loans
- The decrease of outflows is in line with the reduction of non performing loan stock



Bad loans inflows and outflows projection (2017 – 2021) - *Data in €bn*

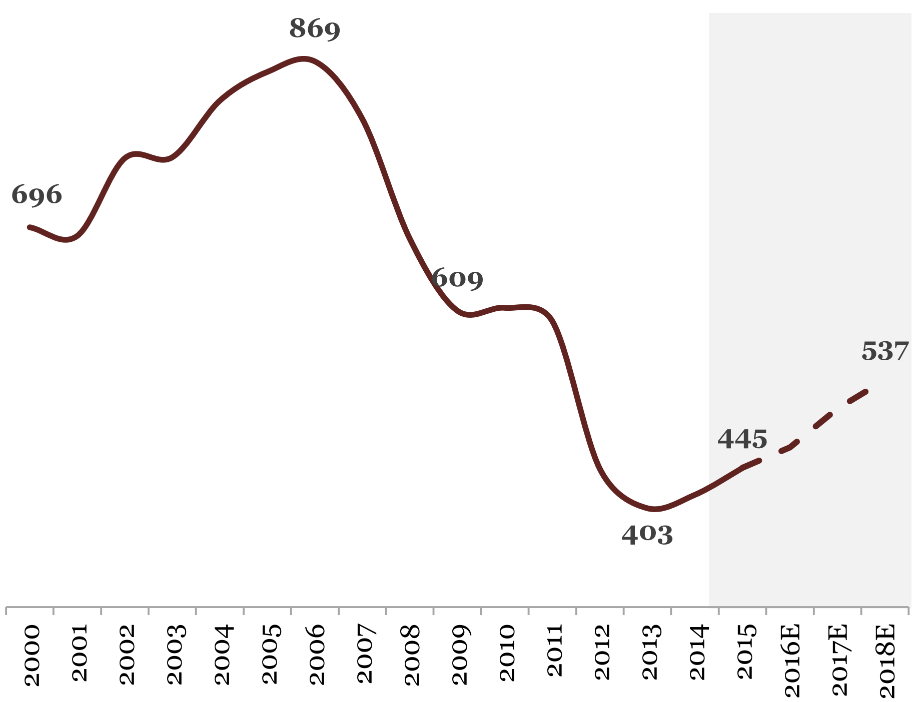
- Inflows are expected to decrease until 2018 due to improving economic scenario and reduction of Other NPL stock
- The increase of outflows is connected with new reforms and improved capabilities by special servicers



PwC estimates

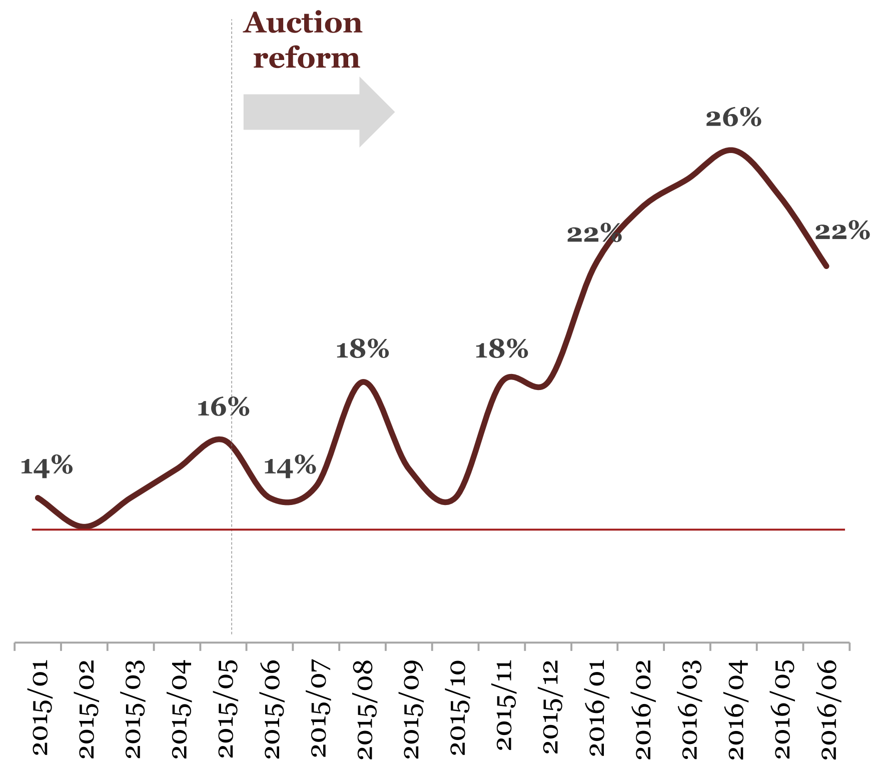
...sustained by an improving real estate market

Real estate residential transactions (‘000)



Source: PwC analysis on Agenzia delle Entrate data and RUR, Rapporto di previsione sul Real Estate italiano 2016

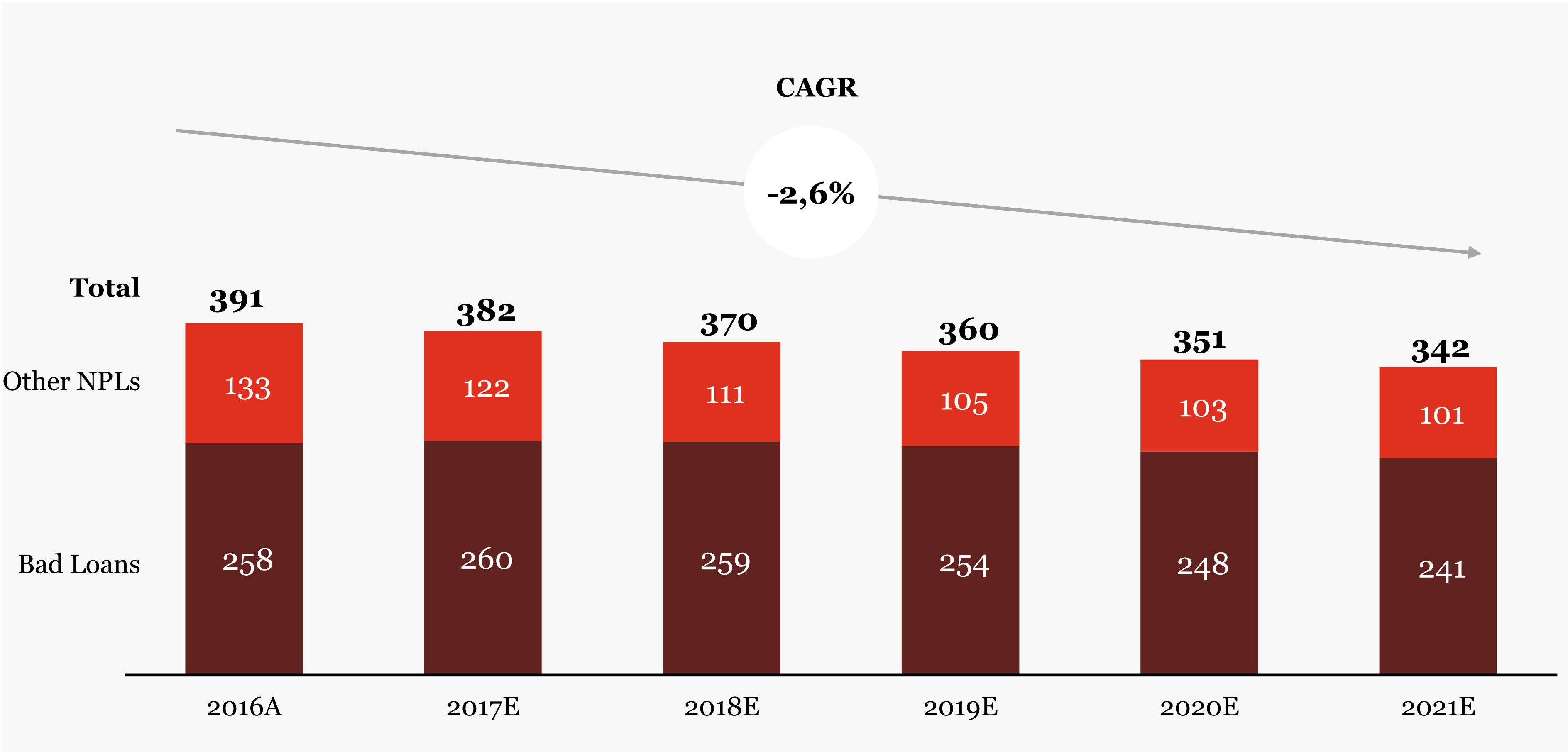
Auction sold (%)



Source: data provided by doBank S.p.A.

A reduction of NPL stock is expected while bad loans will continue to grow until 2017 sustained by deterioration of "unlikely to pay"

Gross Non Performing Loans projection (2017 – 2021) – Data in €bn



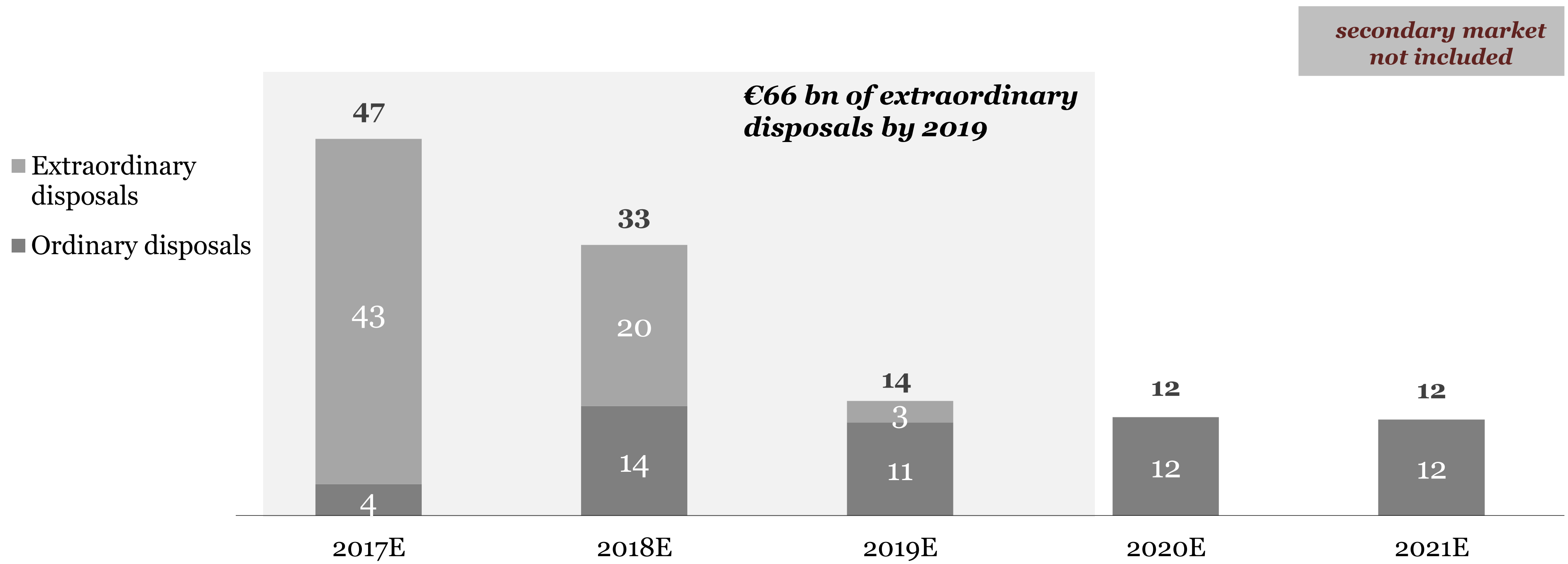
Source: PwC estimates

However, the expected increase in bad loans transaction volumes, pushed by current non-core assets disposal initiatives…

Expected disposals are composed by:

- **extraordinary disposal** based on PwC estimate on most recent banks business plans and potential transactions[(1)]
- **ordinary disposal** calculated as 5% of bad loans for the period '16-'17 and 10% for '18-'21

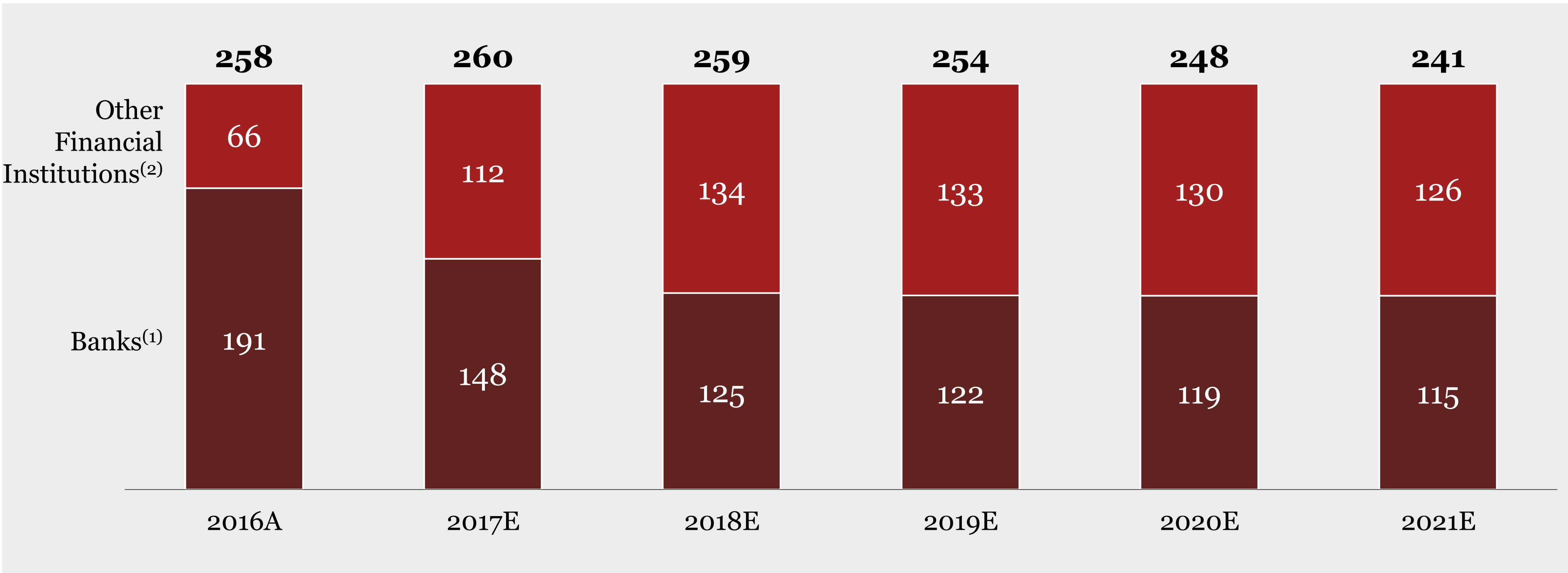
Gross bad loans disposals projections (2017 – 2021) – Data in €bn



Source: PwC estimates
Note (1) Extraordinary disposals include MPS volumes (€27bn), notwithstanding current uncertainty on the process of de-consolidation of the bank's bad loans portfolio

…will lead to a shift in bad loans ownership from banks to specialized investors

Gross bad loans breakdown by ownership (2017 – 2021) – Data in €bn



PwC estimates

Note: (1) Banks volumes net of securitized & non derecognized portfolios, included under Other Financial institutions

Note: (2) Other financial institutions includes State bad bank as a potential solution for MPS

Agenda

NPL management encompasses different activities and roles

- NPL management is ***a non core activity for banks & corporates***, which requires a lot of resources in terms of employees and capital. For this reason, investors and servicers play a key role to reduce this burden
- NPL disposals and ***outsourcing of management and collection activities*** allows bank to manage the portfolio efficiently, achieving higher performances

NPL management phases	***NPL Ownership***	***Advisory and Strategy***	***Credit Collection***
	• Purchase of credit portfolios or securitizations	• Master servicing • Due diligence • Real estate advisory • …	• Collection enforcement
NPL management players	PE funds Debt purchasers	Valuation & DD Advisors Master servicers RE Advisors	Debt Collectors

At European level, the market for credit management services is experiencing a fast growth

The ***demand for professional credit management servicing is growing fast***, taking advantage of the ***increasing debt sales and outsourcing trend by financial institutions***, in particular in countries - among all Spain and Italy - where banking NPL exploded as a consequence of the financial crisis

The ***credit management industry is rather fragmented***; most players in the industry are small, merely focusing on their respective local market

There are a **few large international players** with a **business model mainly focused on debt purchase** with debt collection activities mainly aimed at optimizing returns on purchased portfolios

Market leaders - Lindorff, Intrum Justitia, Hoist, etc. – as well as PE investors – Cerberus, TPDG, Apollo, Fortress, etc. - are *"riding"* the growth expanding their presence in selected European markets

Large international players in Europe are focused on debt purchase – particularly on unsec. consumer loans

Large players EBITDA Q3-2016 (€ mn)		Service Offering					
		Geography		Product Expertise			Asset focus
		Home country	# of other countries	Debt Purchase	Debt Collection[1]	Real Estate Services	Credit type
Lindorff	524		6	✓	✓	✓	Financial institutions mainly consumer unsecured
Merged in Q4 2016							
Intrum Justitia	448		20	✓	✓	✓	Corporate and FI consumer unsecured
Encore Capital Group	299		14	✓	✓	-	Consumer credit
Pra Group	278		17	✓	✓	-	Consumer credit
Lowell GFKL	171		6	✓	✓	-	Consumer credit
Arrow Capital	118		5	✓	✓	-	Consumer credit
Hoist Finance	107		11	✓	-	-	Financial institutions Consumer unsecured
Kruk	64		7	✓	-	-	Consumer unsecured Corporate and mortgages credit
B2 Holding	53		15	✓	-	-	Secured / Unsecured credit

(1) More than 10% of total revenues from debt collection
Source: Company websites

Countries across Europe have different stages of maturity with Italy being the next key market

Market evolution	Debt purchasing and management market	# of players	Large international players in the market		
	✓ The European market for debt purchasing and management originated in the Nordics in the early 1990's with the real estate and banking crisis ✓ The region is home to international players as Lindorff, Intrum Justitia and Axactor that are present in several European countries	n.a.	Intrum Justitia from 1923 Lindorff from 1898	Pra Group from 1991 Hoist Finance from 1994	B2 Holding from 2011
	✓ UK debt-purchase and servicing market started developing with the '08-'10 financial crises and is now the most mature market in Europe in terms of NPL transactions ✓ The number of servicers in the market is large, however concentration is very high with 3 players controlling a large stake of it	~400	Intrum Justitia from 1989 Encore Capital Group from 1998	Pra Group from 2002 Arrow from 2005	Lowell GFKL from 2015
	✓ The Spanish servicing market has evolved quickly after the banking crisis in 2012 with most major banks disposing collection units ✓ International players and PE funds entered in the market which is however still quite fragmented and in a consolidation phase.	~850	Lindorff from 2008 Intrum Justitia from 1994	Encore Capital Group from 2015 Pra Group from 2005	Hoist Finance from 2016
	✓ The German market is maturing with debt transaction volumes still very limited ✓ Local banks manage collection activities mainly internally ✓ Debt collection agencies have established partnership with larger commercial banks	n.a.	Intrum Justitia from 1978 Hoist Finance from 1997	Lindorff from 2008 Pra Group From 2006	Kruk from 2014
Today	✓ NPL transaction volumes are expected to increase rapidly pushing the need for professional credit collection services ✓ There is a large number of players in the market with few large ones managing the majority of assets ✓ Foreign players are entering mainly with focus on consumer loans	~1,300	Intrum Justitia from 1985 Lindorff from 2014 ***Merged in Q4 2016***	Hoist Finance from 2011	Kruk *scouting*

Credit collection activities, in Italy, depends largely on loan size, collateral and phase of collection

NPL Ownership → Advisory & Strategy → Credit Collection

		Extrajudicial	Judicial	
Large ticket	Unsecured	Single agreements Deferred payments	Bankruptcies Distrains	NPL Servicers
	Secured	Extra-judicial transactions Asset repossession	Foreclosure procedures Bankruptcies	
Small ticket		Massive standardized Home-phone collection	Distrains on salaries, wages or bank accounts	DCAs

High-value added activities

Providers are naturally divided in 2 segments: NPL servicers and DCAs *(debt collection agencies)*

DCAs and NPL servicers have peculiar business models…

	Business model	Operations	Volumes	KSF

NPL Servicers	• Focused on the elaboration and execution of the **proper individual collection strategy**
	• The model is characterized by an **high level of specialization**
	• NPL servicers leverage and/or integrate law firms, Real Estate specialized companies and commercial information providers
		• Highly specialized
		• Skill driven
		• Specialist support functions: real estate
			• Low number of tickets managed
			• High aging
			• Focus on mid-large file size:
			  • 20-75k mid-size
			  • >75k large-size
				• Operations in line with banking standard
				• Highly regulated
				• Proven expertise
				• Rating agencies recognition
				• Ability to correctly plan credit recovery
				• Value added activities

DCAs	• Focused on **massive collection** through **phone and home collectors** • **Provide also early collection services** related to performing and sub-performing loans • Several players provides **judicial services** leveraging mainly on **external law firms**	• Highly standardized • Labour intensive • Process driver: call center	• Large number of tickets • High rotation (portfolios assigned for 1.5-2 months) • Low aging	• Process optimization • IT management system

… and address different markets

Industry structure | **Customers** | **Addressable market** | **Top Players**

NPL Servicers

Industry structure

- **15-20 players**
- doBank and Italfondiario, part of Fortress group own around 60% of the market in terms of AuM
- NPL servicers managing small tickets generally **outsource such activities to DCAs**

Customers

- Banking NPLs
- Consumer Finance
- Financial institutions

Addressable market

€ 391bn

Top Players

Italfondiario
Dobank
Prelios
Guber
Bcc Gestione Crediti
Primus Capital
CAF
FBS
Cerved
Credito Fondiario

Average ticket size: 100k and up … 20k

DCAs

Industry structure

- **Over 1,200 players**:
  - 35% are individual companies
  - ~50% generate revenues <€1m
- **~200** (15%) **companies generate 80% of revenues**

Customers

- Receivables
- Corporate

Addressable market

~€ 40-50bn

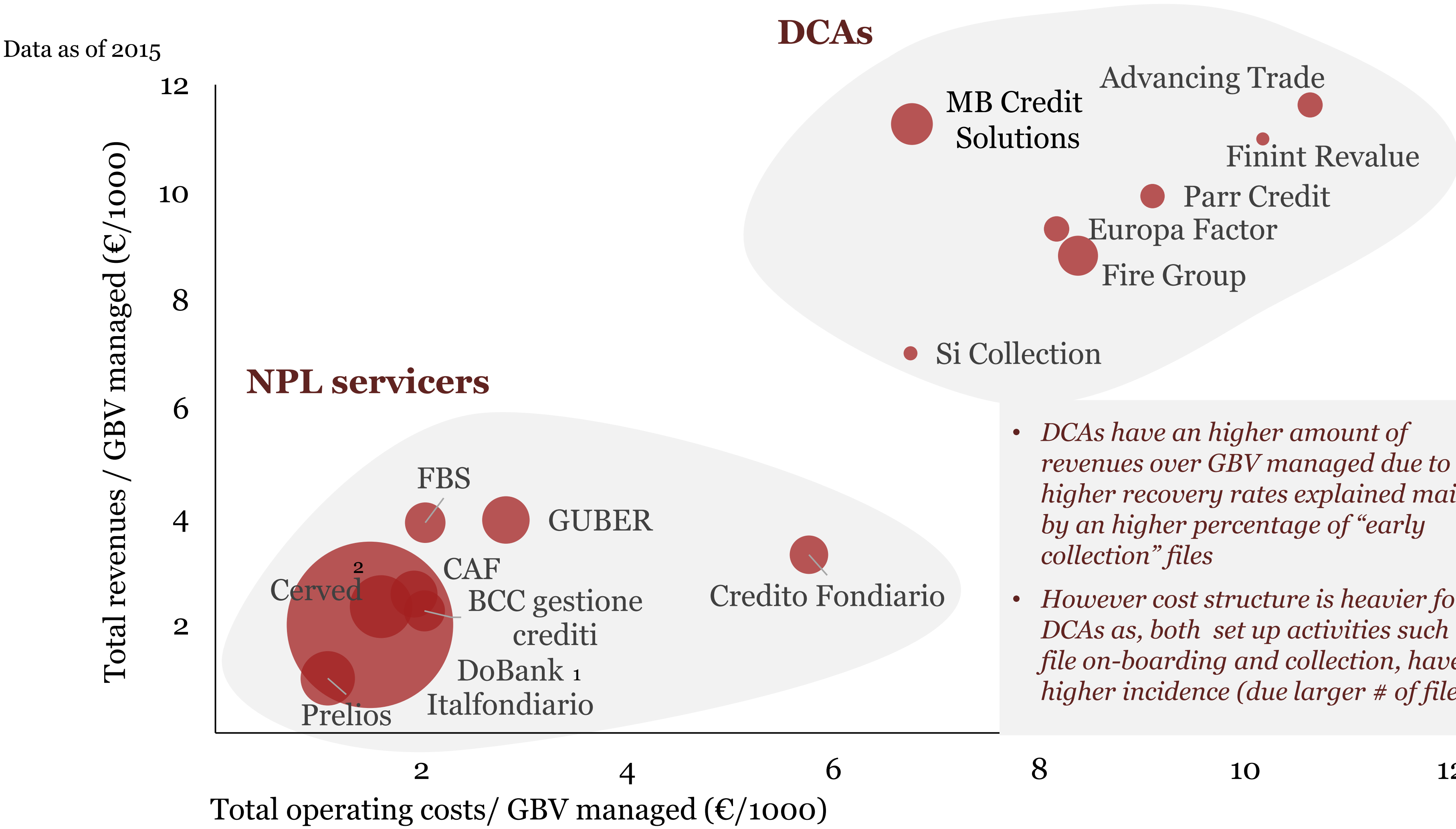
Top Players

SiCollection
Fire
Maran
Europa Factor
MB Credit Solutions
Ge.Ri.
Finint
Crif
Parr Credit
Euro Service Group
Advancing Trade
Cs Union
Assicom
Intrum Justitia

*Total Financial institutions NPLs

Source: PwC analysis on Bank of Italy and Unirec (VI Rapporto Annuale 2015), MBRES

The distinctive business model is also reflected in different positioning in terms of financial ratios

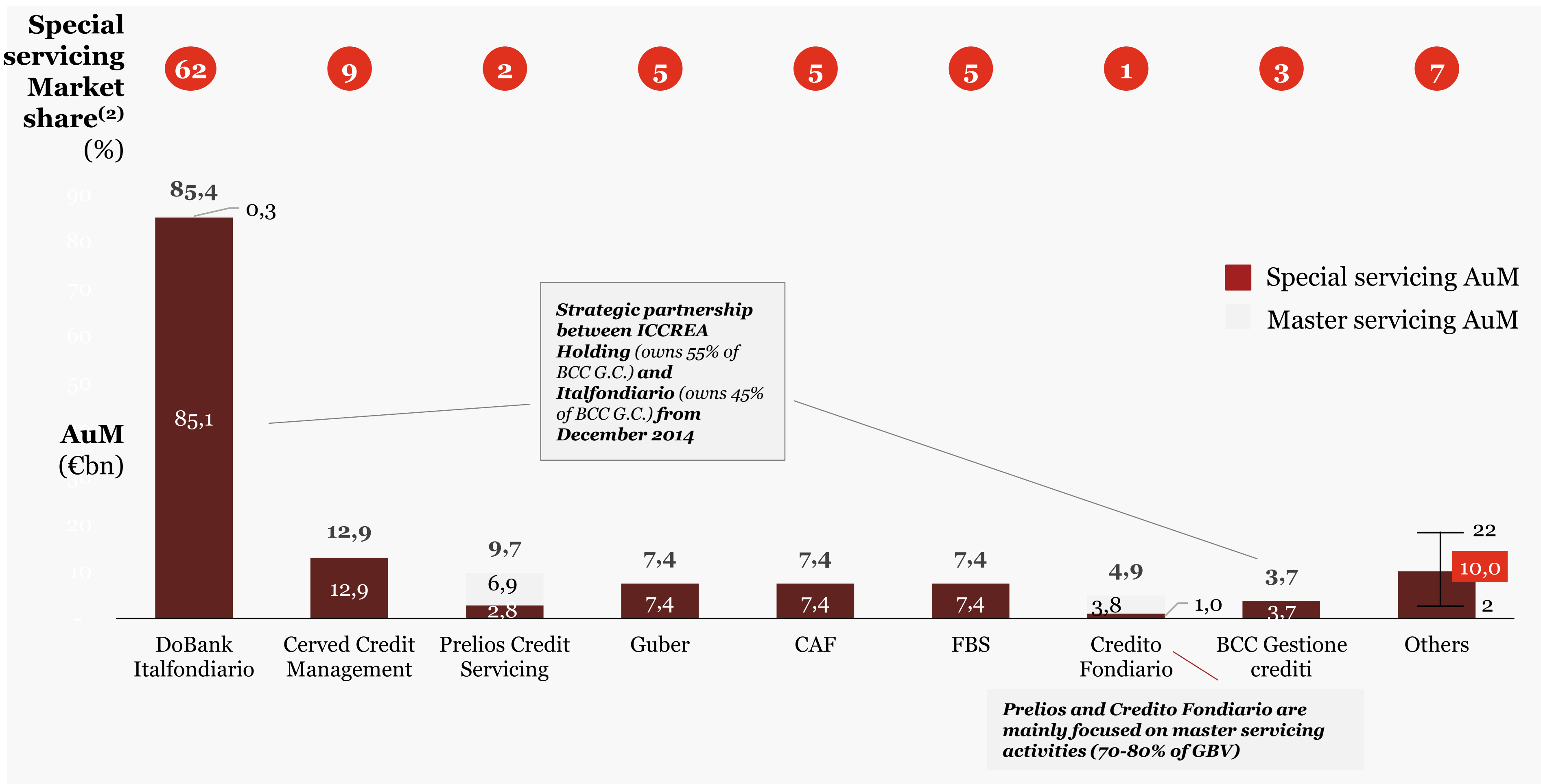


- *DCAs have an higher amount of revenues over GBV managed due to higher recovery rates explained mainly by an higher percentage of "early collection" files*
- *However cost structure is heavier for DCAs as, both set up activities such as file on-boarding and collection, have an higher incidence (due larger # of files).*

(1) Proforma data for the merger between Italfondiario and DoBank
(2) Cerved data refer solely to Cerved credit management solution, the company of the group active in the NPL servicing business

NPL servicer industry appears quite concentrated among top players but with a tie of small operators; AuM reached €130-150bn[1] in H1 2016

Total AuM for NPLs servicers– data in €bn as of H1 2016

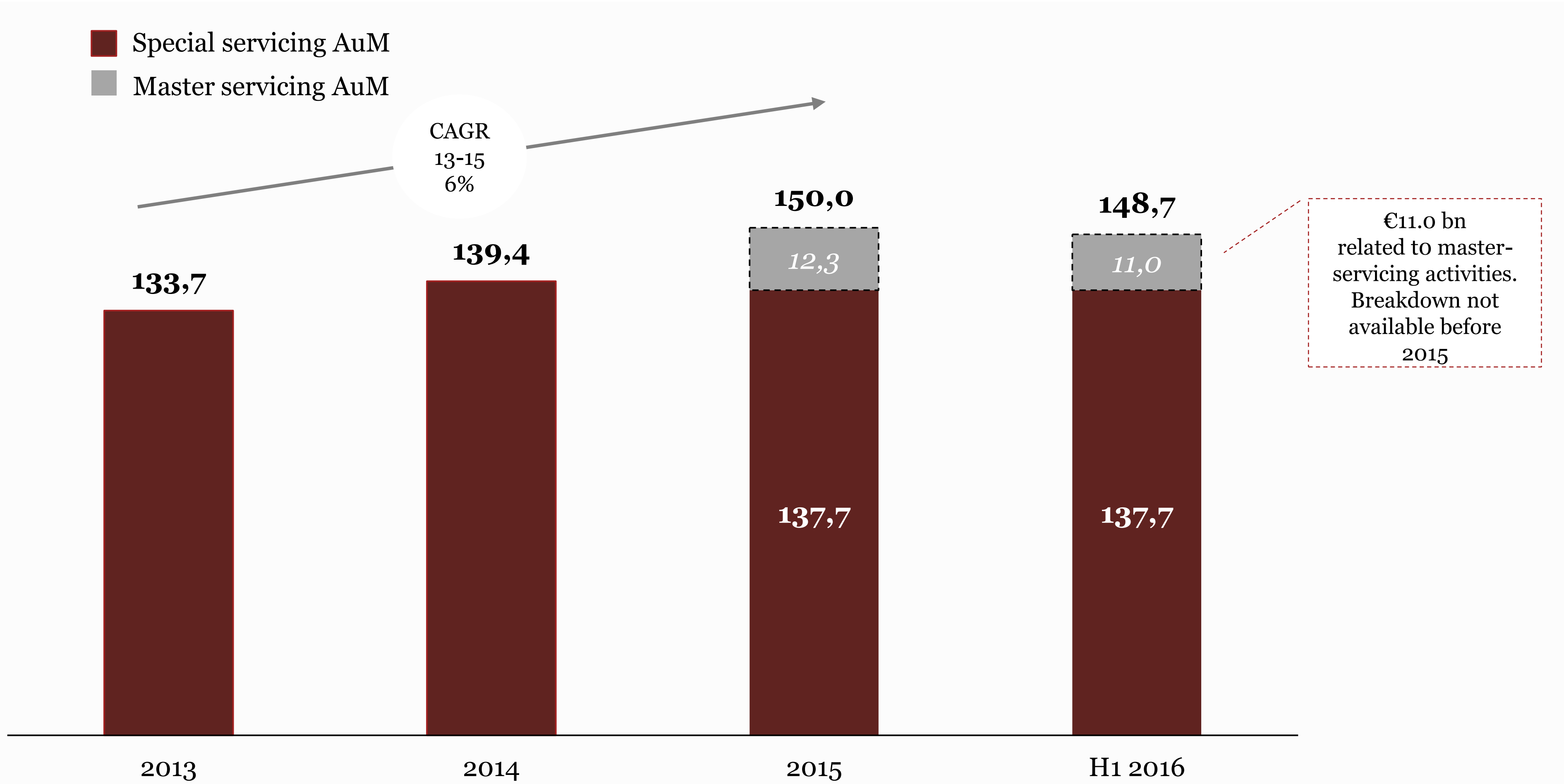


Source: PwC, The Italian NPL market - "Positive Vibes", Higher end of range includes pure master-servicing AuM for Prelios and Credito Fondiario

(1) Market share is calculated on average estimate of NPL servicing AuM (€137,7 bn, considering €10bn for Others)

In the last 3 years, NPL servicers experienced a positive growth of managed volumes

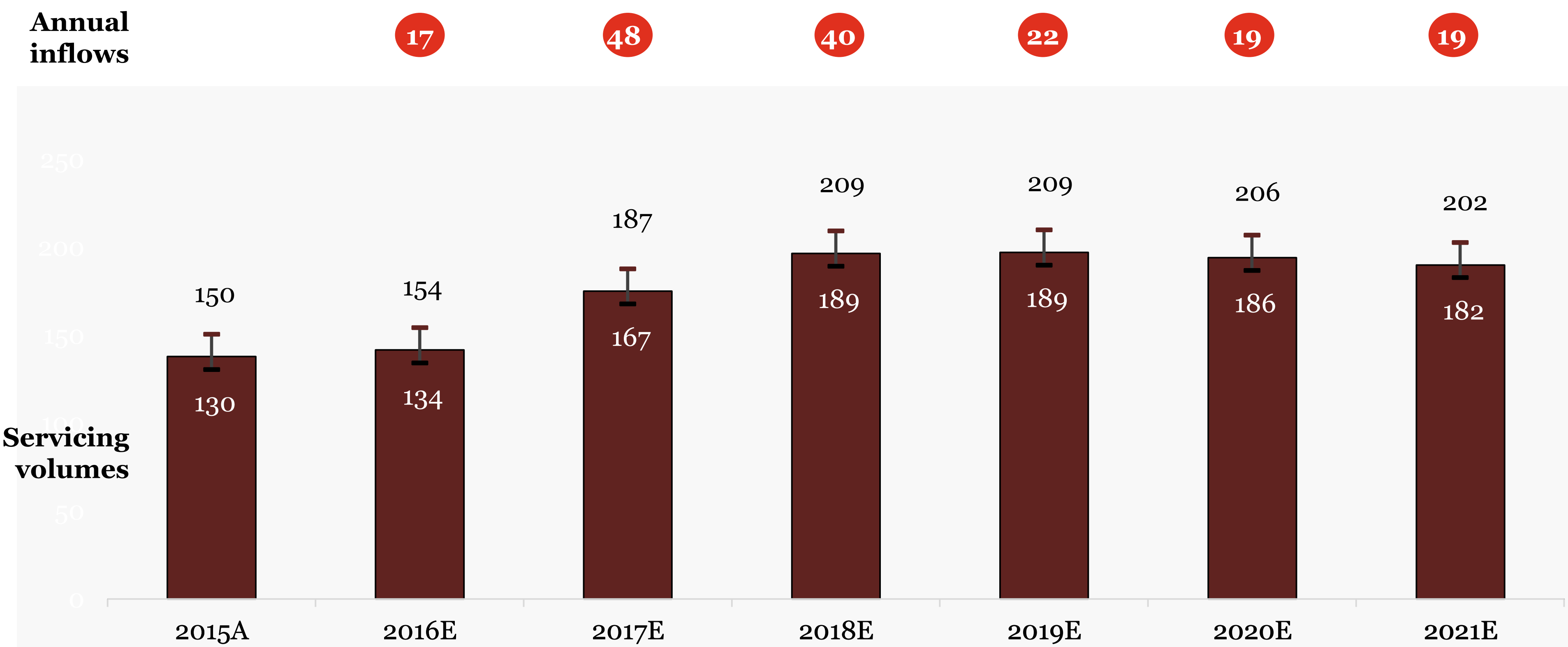
Total AuM trend for NPLs servicers – data in €bn



PwC estimates

And is expected to grow further in the next 5 years…

Bad loans managed[1] by NPL servicers (2015 – 2021) – data in €bn

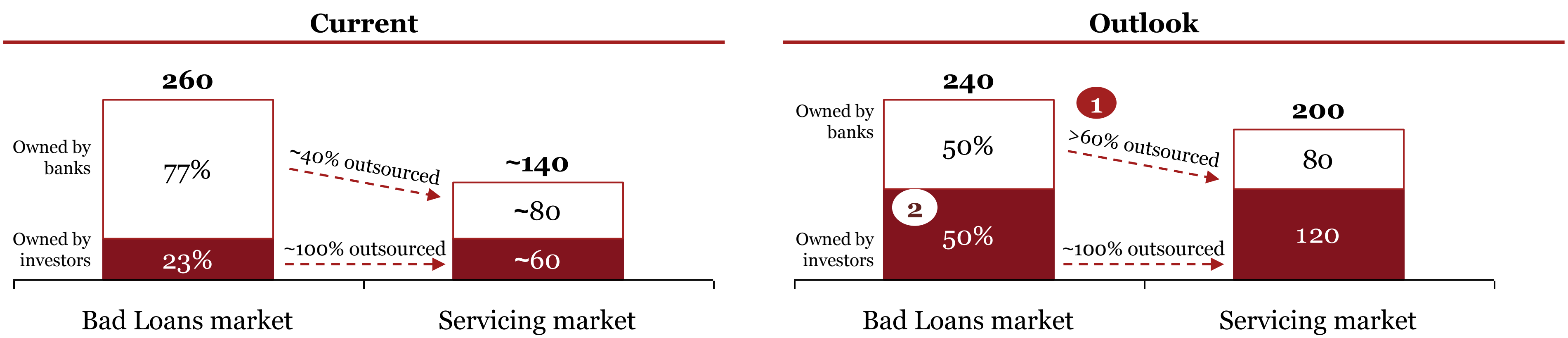


(1) Master servicing activities are not included

PwC estimates

...driven by 2 key factors

Servicing market outlook (€bn)



Growth drivers	Current	Outlook	Key Driver
1 Outsourcing of bad loans management by banks	~40% of bad loans	>60%(1) of bad loans ↑	• Need for improving collection efficiency • Regulatory compliance (with particular reference to ECB guidelines) • Internal NPL platform disposal • Access to servicers' specific capabilities
2 Volumes of bad loans owned by investors	~25% of bad loans market	~50% of bad loans market ↑	• Regulatory compliance (capital ratio requirements, ECB guidelines) • Increasing demand of NPL by investors • New measures from the government (GACS, bankruptcy and tax law, Atlante)

(1) Our outlook is based on the following assumptions:
- stable outlook for players with higher levels of outsourcing (i.e. UniCredit and BNL which already have strategic partnership with NPL servicers).
- stable or slightly increasing outlook for players that are strengthening their internal servicing capabilities (ISP with the capital light bank, Banco-BPM and UBI with the internal NPL unit) which may use third party servicers to access specific capabilities
- increasing outlook for players currently in the process of finding a solution for their NPL levels (i.e. MPS, BPVi, Veneto Banca, Carige) where we encompass a possible strategic agreement with a third party servicer as part of the potential solution

The Italian market is now developing following a path similar to Spain

- Spanish servicing industry consists of two major business segments:
  - NPL Servicers: servicers specialised in the management and sale of real estate assets and secured debt
  - DCAs: servicers specialised in the management of outsourced unsecured receivables
- The current servicing industry finds its roots in the beginning of the decade and is now entering its maturity phase. Opportunities still exists as volumes of non-strategic assets remain very high

Early Stage

- Very fragmented DCA industry with over 800 small local players
- NPL servicing mainly managed in house by financial institutions
- Initial development of NPL transaction market with international players showing interest mainly in unsecured consumer debt and DCAs players

Development

- Origination of an independent NPL servicing market via carve-out of the specialized debt recovery unit of financial institutions acquired mainly by international players
- Initial consolidation to gain scale and improve profitability

Maturity

- Continuing consolidation trend
- Exit from the industry by private equity houses that have complied with their business plans

Lindorff	Eos Group	Fortress	Centerbridge	Cerberus	Apollo	Blackstone	Lindroff	Axactor
Reintegra (Santander)	Banco Popular	Geslico	Aktua	Banca Habitat	Altamira	Catalunya Caixa	Aktua	Geslico

At industry level we observe increasing consolidation

2014
HOIST FINANCE
Acquisition of 100% of TRC. Specialized in consumer finance
TRC

2015
FORTRESS
Acquisition of UniCredit captive servicing platform (UCCMB)
UniCredit
Deal Value: 530 m€

2015
LONESTAR
Acquisition of CAF a servicing platform with €7bn AuM from private shareholders
CAF

2016
AXACTOR
Acquisition of CS Union
CS UNION
Deal Value: 9.9 m€

2016
LINDORFF
Acquisition of CrossFactor, a servicing platform
CROSS FACTOR

2016
ARROW
Acquisition of 100% of Zenith Service, a master servicing platform
ZENITH

2016
KRUK
Acquisition of 100% of Credit Base
CREDIT BASE

2017
KKR
Acquisition of Systemia
SYSTEMIA

2017
LINDORFF GROUP
Acquisition of Gextra, a small ticket player from doBank
GEXTRA

2013 → **2014** → **2015** → **2016** → **2017**

2013
ITAL-FONDIARIO
Acquisition of a minority stake in BCC Gestione crediti from ICCREA

2013
CERVED
Acquisition of Tarida, specialized in consumer finance collections
TARIDA
Deal Value: 5.5 m€

2014
BANCA SISTEMA
Acquisition of 2 servicing platform (Candia & Sting) from private shareholders and merger (CS Union)

2014
CERVED
Acquisition of 80% of Recus. Specialized in collection for telcos and utilities
RECUS
Deal Value: 18.8 m€

2015
CERVED
Acquisition of 100% of Finanziaria San Giacomo S.p.A. part of Credito Valtellinese group
Deal Value: 21.7 m€

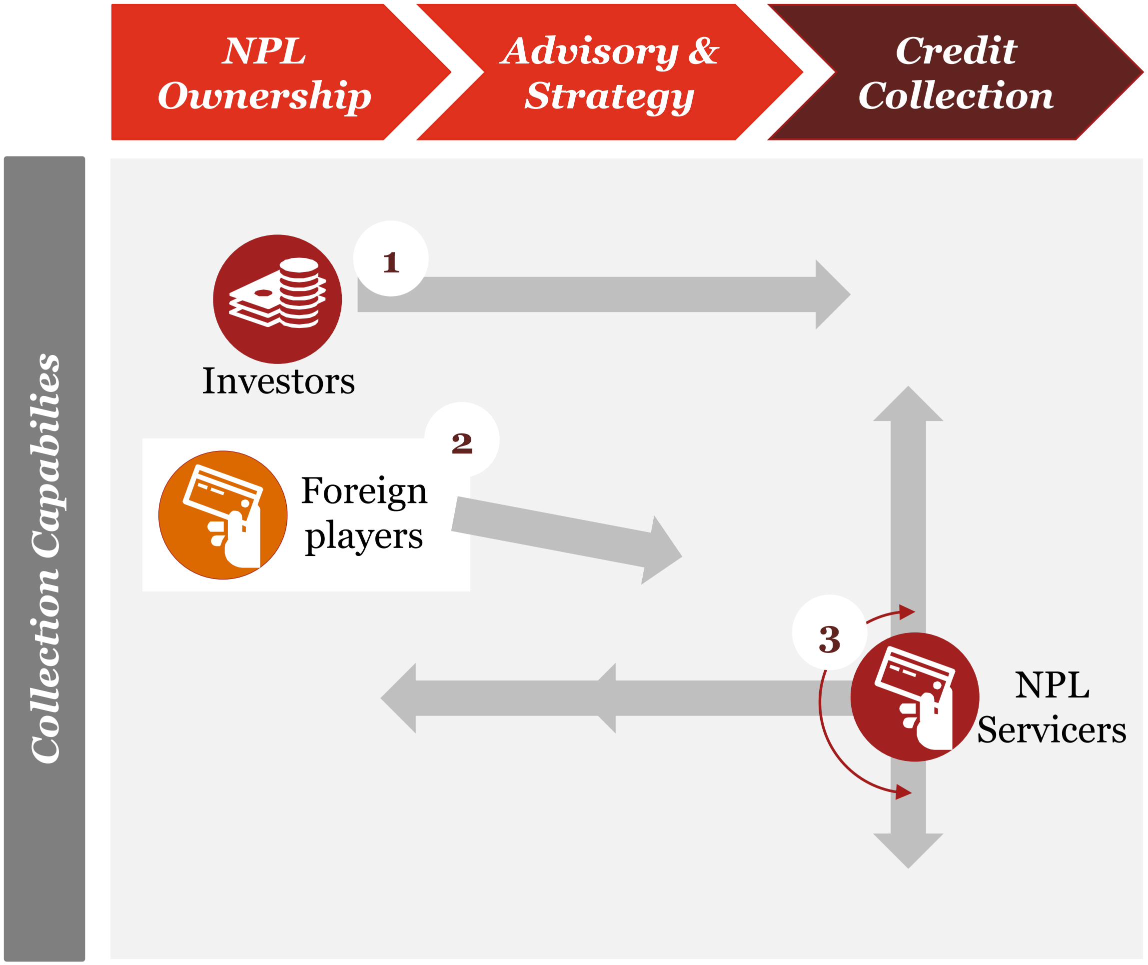
2016
DOBANK
Acquisition of 100% of Italfondiario
ITAL-FONDIARIO

2016
DEA CAPITAL
Acquisition of 66,3% of SPC Credit Management
SPC CREDIT MANAG.
Deal Value: 1 m€

2017
BAIN CAPITAL
Acquisition of 100% of HARIT, servicing platform specialized in secured loans
HARIT

Source: Mergermerket, companies annual reports and websites

Consolidation appears triggered by 3 drivers that will impact the industry in the future



1 **Investors acquiring and developing servicing competences**

2 **Foreign investors/servicer entering the Italian servicing market**

3 **Incumbent** players **expanding** current **value chain coverage and collection capabilities**

We expect competition level to increase in particular for smaller independent players with no direct access to investors

Only servicers with a scalable platform (including efficient IT system), ample collection capabilities and highly skilled and experienced staff will be able to cope with the potential new flows of NPL coming to the market

	Driver	Rationale	Key expected impacts	Examples		
1	Investors acquiring servicing competences	• Support their NPL acquisition strategies	Investor will use captive servicers limiting market opportunities for independent players	LoanStar CAF	Banca IFIS Toscana Finanza	Lindorff Cross Factor
2	Foreign servicer entering the Italian market	• Enter a growing market	Develop servicing capabilities in Italy to enter also as investors	Axactor CS Union	Hoist Finance TER	Kruk Credit Base
3	Incumbent players expanding current value chain coverage and collection capabilities	• Access relationship with credit owners and investors • Extend servicing capabilities	Incumbent servicers are moving to secure quasi-exclusive relationship with owners to fuel new volumes	Italfondiario BCC Gesione Crediti	Fortress UniCredit Credit Management	Dobank Italfondiario
				Cerved Recus	Cerved CreVal *servicing unit*	

Closed transactions

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Thank you