The Italian NPL market

The NPL volcano is ready to erupt

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Foreword

Volumes of transactions doubled in 2015 compared to 2014, with the amount of disposed loans reaching €19 billion at the end of last year. Q1 2016 began with €5 billion new deals in the market, both in consumer, secured and secured leasing areas.

The Government has put in place various reforms to give a clearer and leaner context for NPL market players: acting on improving procedures and shortening foreclosure timelines via legal and regulatory measures; facilitating NPL portfolio funding (GACS) and improving the tax regime.

In the meantime the investor base is confirming its interest and commitment to the Italian market, not only through portfolio investments but also via more complex structured deals involving platforms and financial institutions.

In addition, there is the new role of the recently formed Atlante fund: will it be an accelerator of deal flow or will its impact be marginal given its limited capitalisation? Will it be counterproductive by improving the situation of a few selected banks but at the cost of increasing, directly or indirectly, the NPE exposures of healthier banking institutions and increasing interlinkage?

With gross NPE stock in excess of €340 billion and pressures on banks to reduce these exposures, Italy remains one of the largest global markets for Non-Performing Assets.

There is greater government and regulatory support for, and commitment to, the sale and resolution of NPL credits versus prior market cycles to accelerate bank sector rehabilitation and improvement to the real economy. In addition, banking sector wide pressures imply a more comprehensive NPL sales cycle than prior Italian NPL market cycles.

Is the NPL volcano ready to erupt?

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Key message: As demonstrated by the main macroeconomic drivers, the Italian economy has taken a significant step towards recovery during 2015 and it is expected to continue to improve over the next two years. This is primarily driven by improvement in the European Real Estate market, lower interest rates, a stronger job market, higher GDP growth and expected benefits of structural and political reforms.

Macroeconomic scenario

Forecasts of the major economic-financial institutions show that the Italian economy is recovering. This domestic recovery will largely offset the effects of the emerging markets' slowdown on the Italian economy.

After a prolonged negative macroeconomic trend, GDP growth turned positive in 2015. This trend is forecast to continue and accelerate throughout 2016 and 2017. With a growth rate of 1.4% projected for 2017, Italian GDP growth will converge with the European average (Chart 1 and 2).

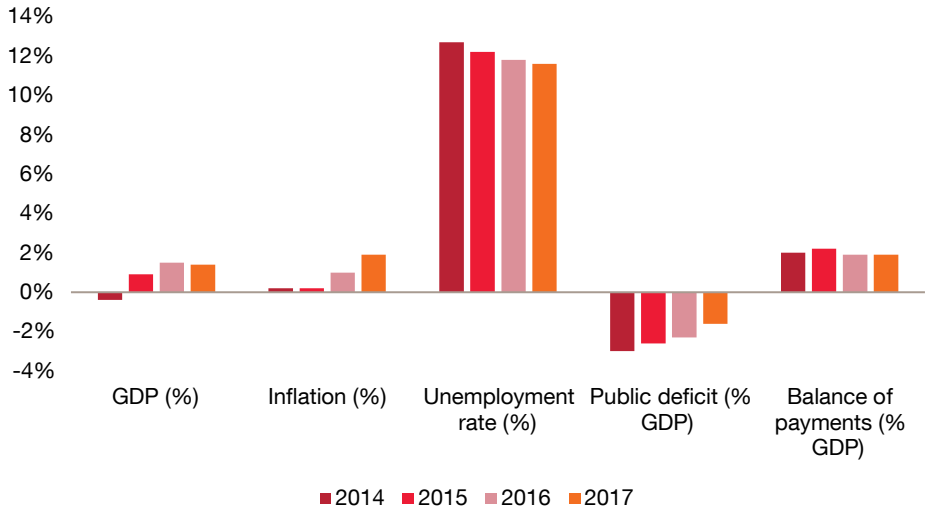
The public deficit is expected to continue its downward trend as a result of higher tax collection and a lower interest payments on public debt.

The Italian government, through PM Matteo Renzi, introduced the "Jobs Act" in 2014. The Act aims to improve flexibility in the job market providing an increase in new permanent contracts and services. A reduction in unemployment rate from 11.9% in 2015 to 10.5% in 2017 is anticipated.[1]

Investments in Commercial Real Estate in Europe increased by 18.0% during 2014, (total € 253 billion), driven by lower lending rates and economic recovery. While the UK remains the most significant share of investment activity at 34%, Italy continues to account for a very small share, at only 3.2% (€ 8.2 billion) of the total amount invested in 2015 (Chart 3). This share and volume of inward property investment versus that of the U.K., Germany and France is lower than would be expected given the relative sizes of the economies.

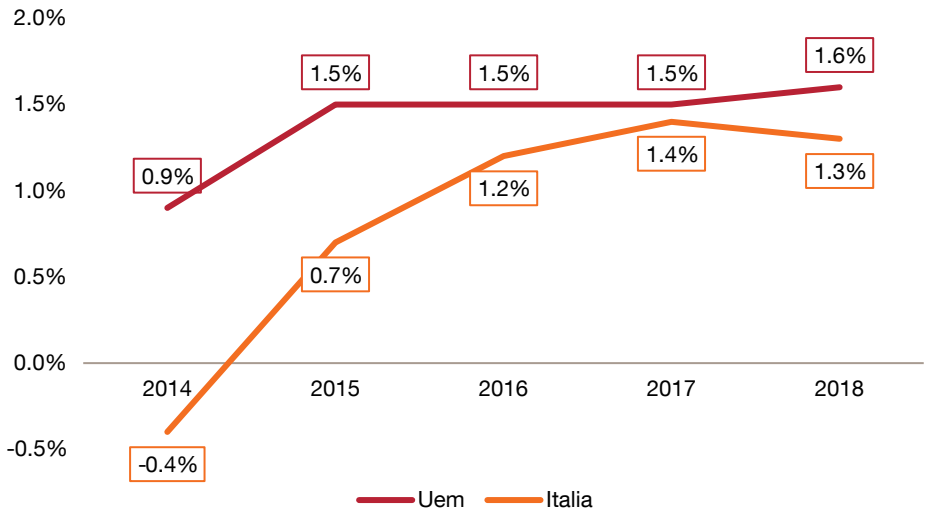
As Italy appears poised for a stronger recovery and given the late property cycle status and advanced bank sector recovery of the other markets – this could indicate more significant flows into Italian property (including via NPL investment). However, foreign investment and market activity is concentrated in the leading Italian sub-markets and prime locations.

Chart 1: Main macroeconomic drivers in Italy



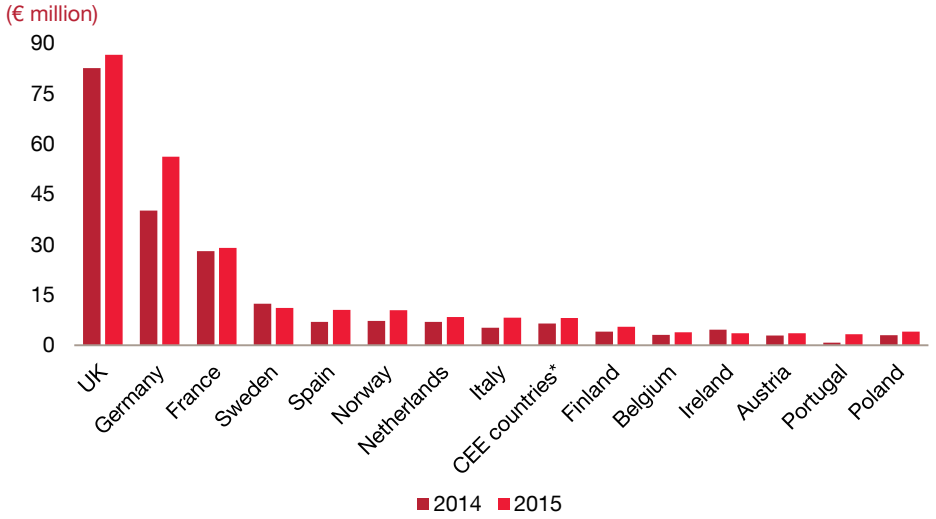
Source: PwC analysis on European Economic Forecast 2015

Chart 2: European GDP vs Italian GDP



Source: PwC analysis on Prometeia forecast December 2015

Chart 3: Real estate investment market in Europe



Source: PwC analysis on BNP Paribas Real Estate Report
**Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia*

(1) PwC analysis on Prometeia forecast

02

Key message: After a positive performance during 2014, the real estate market continued its momentum with a 4.7% increase in NTN[2] in 2015 from 2014. Commercial and residential real estate showed an increase in volumes invested, albeit from a low level of activity. This trend is more robust in the main city markets: Rome and Milan.

Italian real estate market

NTN

The number of standardized real estate units sold ("NTN") reached 963,902 in 2015 (Chart 4), an increase of 4.7% from 2014. The Residential sector showed the largest increase from 2014, +6.5%, reaching 444,636 NTN. As shown in Chart 4 the increase in residential NTN started in 2014 and is continuing its positive trend.

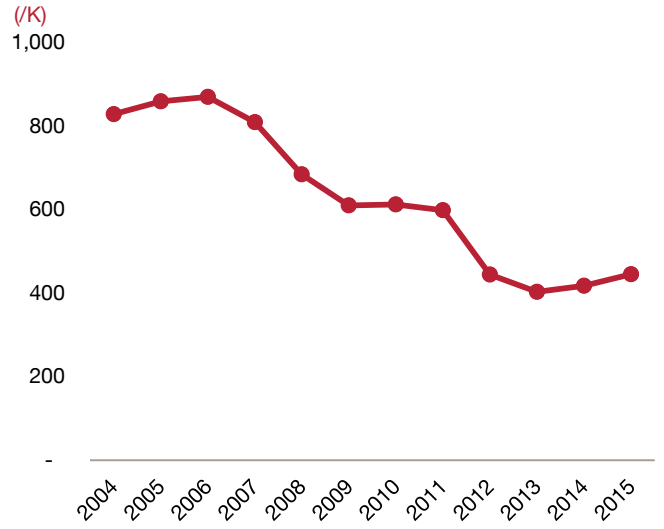
Chart 5 demonstrates that the North of Italy (52% share) is the largest and strongest regional sub-market. In addition, of the residential real estate units sold, the biggest increase from 2014 was also in northern Italy (+8.0%).

Investments in CRE

In 2015, Real estate investment volumes reached € 8.2 billion, an increase of 55% from 2014. Foreign capital remains the largest portion of the transactions volume of Italian investments at 74% (€ 6.1 billion), up € 2.1 billion from 2014. The Office market segment kept its upward trend during 2015, accounting for 37% of total investments (€ 3.0 billion). The Retail sector registered a decrease in volumes from 2014 level (-47%) due to lack of product supply, stabilizing at € 1.4 billion in 2015. The Industrial and Logistics segment represented the least significant market sector by volume (€ 305 million) (Chart 6). The hotel segment is experiencing an increasing level of interest from international investors. The quality of supply is the main limit to a strong market recovery.

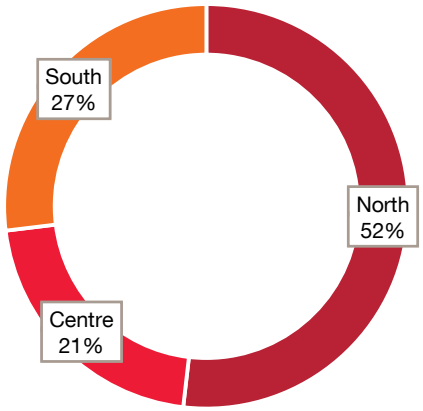
(2) NTN is the number of standardized real estate units sold, taking into account the share of the property transferred.

Chart 4: Trend NTN residential real estate (2004-2015)



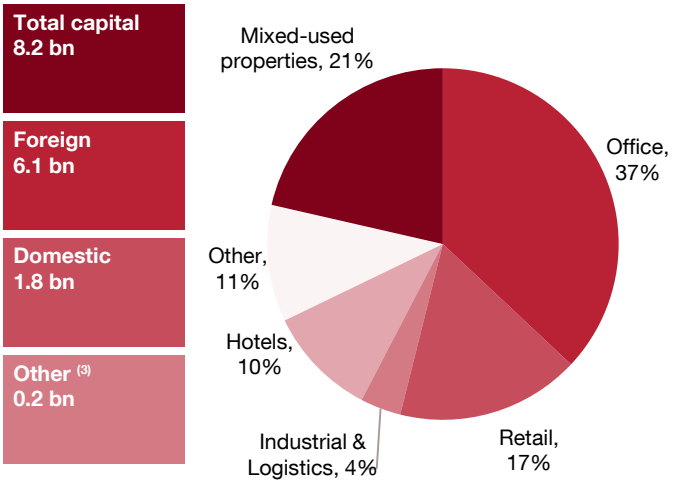
Source: PwC analysis on OMI quarterly note

Chart 5: Residential NTN by geographical areas 2015



Source: PwC analysis on OMI quarterly note

Chart 6: 2015 Investments in CRE Italian market by sector



Source: PwC analysis on BNP Paribas Real Estate Report
**Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia*

Table 1: 2014-2015 Italian NTN comparison by sector

	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Tot 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Tot 2015
Residential	98,446	107,647	94,888	116,543	417,524	95,455	116,523	105,105	127,553	444,636
Office	2,134	2,182	1,897	2,805	9,018	1,997	2,101	1,913	2,831	8,842
Retail	6,242	6,092	5,428	7,991	25,753	5,918	6,725	5,826	7,765	26,234
Industrial	2,131	2,444	2,015	2,992	9,582	1,979	2,250	2,059	2,954	9,242
Appurtenances(4)	77,456	84,117	73,543	95,502	330,618	74,621	89,238	80,164	100,825	344,848
Others	29,348	31,772	29,236	37,997	128,353	28,411	33,322	30,179	38,188	130,100
Total	215,757	234,254	207,007	263,830	920,848	208,381	250,159	225,246	280,116	963,902

Source: PwC analysis on OMI quarterly note

(3) The sector "Other" includes hospitals, clinics, barracks, telephone exchanges and fire stations
(4) Appurtenances comprehend properties such as basements, garages or parking spots.

03

Key message: Over the last year the Government has implemented several measures aimed at acting on improving procedures and shortening foreclosure timelines via legal and regulatory measures; facilitating NPL portfolio funding (GACS) and improving the tax regime.

Legal framework
Foreclosure and insolvency law reforms

Guarantee Scheme (GACS) – A government sponsored solution to facilitate the financing of NPL purchases.

As per the recent Law n. 49/2016, the new Guarantee Scheme for Securitisation of NPLs (Garanzia Cartolarizzazione Sofferenze or "GACS") is aimed at increasing liquidity in the market by facilitating leverage on portfolio sales. This tool is part of a wider set of initiatives and reforms the Government is continuing to implement.

GACS is a provision for a government guarantee on senior notes issued by an Italian SPV. The notes are backed by NPLs assets that are serviced by external servicers, which are independent from the originating bank.

The intervention of the Italian Government is limited to the coverage of the interest and capital payment obligation on the senior tranches of notes. The guarantee can be called on the amount outstanding on the senior notes at their legal final maturity date. Payment will be made between 4 and 9 months from the time the representative of noteholders issues a request for payment.

A set of criteria governs the eligibility for the senior notes to receive the guarantee. Among these:

- The senior notes need to be rated investment grade and the rating is not revocable.
- The bank has to sell at least 51% of the junior tranche.
- It must obtain deconsolidation and de-recognition of the assets sold.
- The bank cannot be affiliated with the servicer.
- The waterfall allows for the repayment of the principal on the senior to be subordinated only to the payment of interest on the mezzanine (if issued), but not the junior notes.
- The premium for the guarantee is a senior cost in the waterfall and, to assure the aid-free nature of the scheme, is at a market-rate: based on the average price of a basket of single name CDS covering investment grade rated Italian companies, for the same duration of the notes.

Reform to the legal and insolvency process for resolution of NPLs

The recent Law n. 132/2015 has addressed many legal issues related to credit recovery, legal and technical solutions, but in particular:

- ✓ Extended the use and filing of digital documentation to reduce administrative burdens, improving the timing and simplifying recovery procedures.
- ✓ Modified the auction process by allowing the possibility to offer a discounted auction price (up to 25% discount) from the initial price set by the judge.
- ✓ Introduced the pre-bankruptcy composition plan allowing the possibility of competitive auctions and permitting the reduction in the number of financial creditors representing up to 25% of the total exposure.

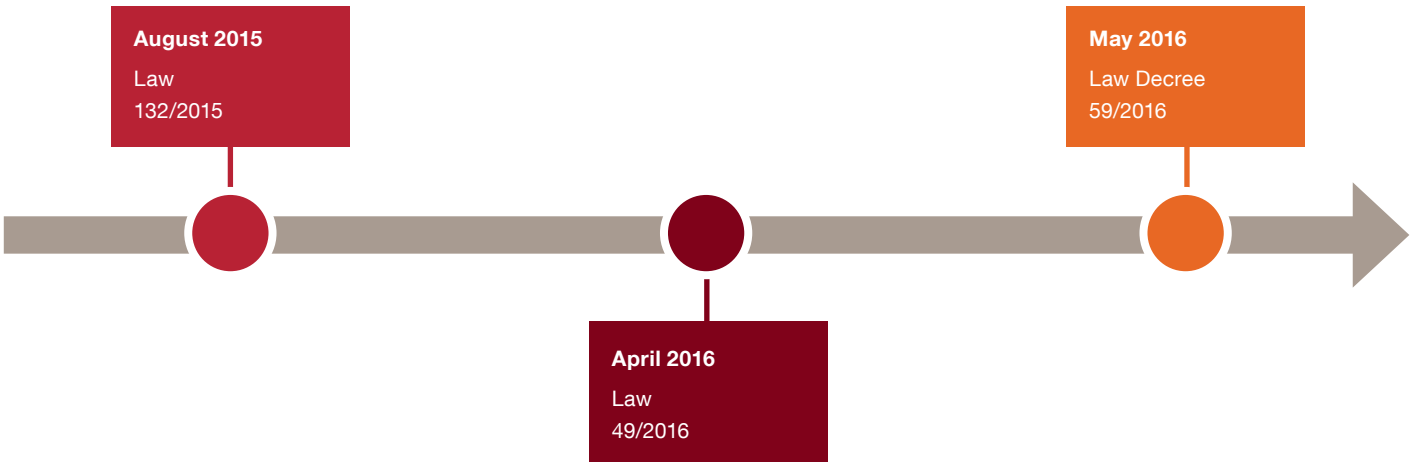
Law n. 49/2016, provides for the application of a minimal fixed (€200) register tax for assets bought in the framework of a foreclosure or insolvency procedure (against 9% of sale price as was previously applied).

Law Decree n. 59/2016 provides for measures on foreclosure, insolvency proceedings and guarantees aimed at reducing the length of judicial procedures and simplifying the auction process. Among these:

- ✓ A new security interest over movable assets ("pegno mobiliare non possessorio") similar to the "floating charge".
- ✓ The possibility for banks and other authorized financial institutions to agree to the transfer of title over defined Real Estate asset(s) in case of default ("patto marciano").
- ✓ The digital registry of foreclosure and insolvency proceedings.
- ✓ The provisional execution of an injunction order for a claim not challenged by the borrower and no opposition to enforcement procedures allowed if the asset disposal process has already been started.
- ✓ Some amendments to bankruptcy law allowing creditors' meetings and hearings to be held using electronic tools.

Most players believe the measures put in place are valid and beneficial. However, it will take some time for the full effect of such measures to be observed and to be factored into the valuation model of the investors and finally, to translate into higher selling prices.

Chart 7: Recent legal reforms



Legal framework
Regulatory reforms

Key message: Starting from January 2015, the Government implemented a set of legal and regulatory reforms of the banking sector aimed at making the system more efficient and facilitating the consolidation process.

Reforms of Cooperative banks

In January 2015 the Italian Government started the implementation of several reforms focused on the cooperative banks segment ("Banche Popolari") aimed at making the banking system more efficient and facilitating the consolidation process.

In March 2015, the Government approved Law n. 33/2015 in urgent measures for banking system and investments, which transformed the 10 largest cooperative banks into a joint stock company.

In February 2016, the Government approved the reform of the smaller cooperative banks (so called "BCC"), with a net equity lower than €200 million.
This BCC reform foresees the set up of a parent company with a minimum equity of €1 billion, with the majority of equity owned by the cooperative banks. The banks will either have to adhere to or be transformed into joint stock companies. The parent company will have a supervision and coordination role over the BCC, thus granting more stability and oversight to the system. This should strengthen the Italian cooperative banking system and improve their capital market funding and governance profile.

Art. 106 Single Register Financial Intermediary

The Decree n. 53/2015 concludes the reform of the non-banking financial intermediaries which began in 2010. The reform was designed to consolidate all non-banking financial intermediaries that provide financing of any form to the public, to converge their regulation under Article 106 TUB and ensure a supervisory regime by the Bank of Italy (Single Register Financial Intermediary).

In order to be eligible under Article 106 of the Banking Act, all the financial intermediaries interested had to submit a request for approval of such designation to the Bank of Italy. The 106 eligibility requirements are pervasive and similar to the ones needed to obtain a banking license in terms of governance, prudential requirements, control systems, and financial reporting.

The NPLs servicing market includes financial intermediaries under Article 106 (and thus supervised by the Bank of Italy). It also includes the collection agencies regulated under Article 115 of the Public Security Act, which are not supervised by Bank of Italy but simply need to obtain a license from the Central Police Station with lower level of supervision and qualifying requirements.

The largest part of the collection agencies are aggregated under Unirec, a private association, which performs a supervision activity on the associated agencies (i.e. verification of the existence of shareholders and managers integrity requirements, compliance with code of conduct, etc.).

Article 106 TUB intermediaries can exercise financing activities as well as collection of disposed receivables and payment services relating to the securitization, while Article 115 TULPS intermediaries can only conduct credit recovery.

Securitisation structures often provide for delegation of credit recovery activities from 106 financial intermediaries to 115 entities. However, the 106 servicer keeps full responsibility for any activity outsourced to Article 115 servicers.

04

Key message: The combination of regulatory changes at European and Italian level is signaling a requirement for a deep restructuring of the Italian banking sector. However, real implementation and more than surface level change is necessary to reach the more efficient and profitable banking sector that is required to deliver sector stability and meaningful credit growth to the real economy.

Italian banking system dynamics

The Italian banking system is going through a deep reorganization as a result of several factors originating from both European regulatory changes, local specific events and consumer and technological changes impacting the broader global banking sector.

Since the implementation of the Single Supervisory Mechanism ("SSM") some Italian banks have been under pressure from the ECB for strengthening their equity base and reducing NPL exposures. This, combined with the sectorial and business model issues that all banks in all national markets are facing today (technology disruption, changing consumer preferences, the banking business model), represents an even more serious challenge for Italian banks, which rely heavily on traditional retail business, already overburdened by high fixed costs (e.g. branches, personnel, etc.), significant cost income ratio as well as a shrinking interest margin.

In this framework, the availability of significant amounts of liquidity from international financial players represents a potential opportunity for addressing some of the issues of the Italian banking system. In particular sourcing equity capital and imposing more transparency and market discipline.

Among the recent events:

- The Government rescued four local troubled banks (Banca Marche, Cariferrara, Banca Etruria and Carichieti) by transferring their €8.5 billion of NPE to a single vehicle (called REV), and placing them on the market for sale. The sales process for these new banks is ongoing and both local banks and international investors have expressed their interest. The NPEs within REV will also be disposed over the near term. The value at which such loans were transferred from the originating banks was equal to 17.6% of GBV (25% on secured and 8% on unsecured).

- After some months of discussions, the merger plan between two of the big cooperative banks, Banco Popolare and Banca Popolare di Milano has been approved by the two boards and the deal is expected to be completed before year end. After the merger the new entity will be the third largest bank in the Italian market. As part of the plan Banco Popolare will strengthen its equity with a €1 billion capital increase and will implement over the next 3-4 years a resolution plan for addressing its NPL exposures.

- Banca Carige's new board rejected an offer from Apollo fund for the acquisition of the entire NPL portfolio at 17.6% of GBV and a share capital injection of €600million to provide liquidity to the bank. However, the Apollo offer and structure itself could be a template for other transactions as a means to facilitate larger scale bank resolution and foreign capital investment.

- MPS, in combination with its ongoing NPL deleveraging activity, is considering possible strategic options to create value from its NPL servicing platform. The rationale would be to form a partnership with a highly specialized player which could generate an upfront economic and financial benefit, combined with a long term value creation linked to the enhancement of the credit collection performances.

- Following its recent failure to gain admission to the Italian Stock Exchange, Quaestio Capital Management has underwritten €1.5 billion of share capital via the Atlante Fund which now holds 99.33% of Banca Popolare di Vicenza's capital.

- Like Banca Popolare di Vicenza, Veneto Banca is experiencing similar challenges in recapitalization and rehabilitation due to severe losses, largely as a result of the provisioning on their NPL exposures. The ECB has given the Bank until 30th June to complete its capital increase. Veneto Banca is also considering merger, not only the IPO. In that context, one possible solution for the bank may be Atlante.

Atlante is a fund formed for the purpose of purchasing shares in banks which remain unsold to the market, purchasing NPL portfolios or subordinated notes issued by NPL securitisation. The fund has €4.25 billion of equity contributed by 67 institutions, with no investor holding more than a 20% stake. It has a 5 year term with the possibility of extension to 8 years. Its return objective is approximately 6%.

This scheme, which gained the blessing of ECB, is a tool to provide short term moderate cost capital and support the sale of NPL portfolios at higher prices, helping stabilizing the system. Its return objective enables it to acquire NPLs at a higher price than other market participants, enabling banks to reduce their immediate loss on sale. Expectations are for an increase in sale price of 4% of GBV in comparison to a market sale to traditional NPL investors. Combined with the GACS it could assist in the resolution of a significant amount of NPLs.

The limit to the effectiveness of Atlante to make a material impact on the NPLs disposals will largely be its size (equity resource). Its return objective is lower than the return demanded by the majority of existing international investors, so it is likely to be capitalized only by existing Italian market participants.

Given its size, however, we do not believe that that the fund will substantially limit market opportunities for distress investors at market returns.

One potential concern expressed by some market analysts is that it may weaken those institutions investing in the Atlante fund, who in turn are increasing their interlinkage with weaker institutions and their indirect NPE exposures. This raises the probability of earning a lower return on the equity invested versus other market investment opportunities, including new lending.

05

Key message: Gross non performing exposures in Italy have shown continuous growth over the period 2008-2015, with volumes at the end of 2015 equal to four times those of 2008. Therefore, since the onset of the credit crisis, while other national markets have largely resolved their NPL problems and rehabilitated their banking sectors, the NPL problem has continued to deteriorate in Italy.

Italian banks overview

In December 2015, gross Non Performing Exposures (NPE) reached €341 billion, four times higher than 2008 (CAGR 2008 – YE-2015 +22.2%) but substantially stable versus H1-2015. About 58.0% of the total amount of NPE, equal to €200 billion, is related to NPLs.

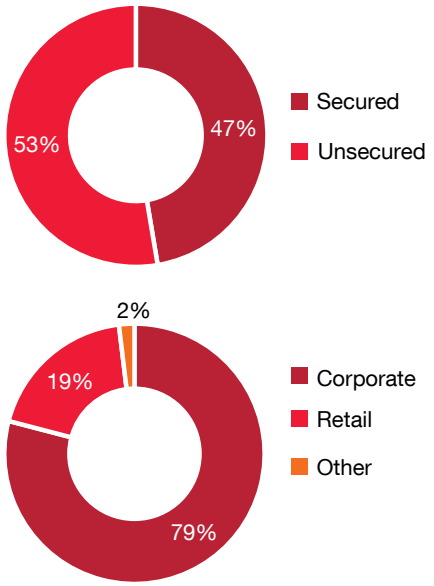
Compared to 2008, the ratio of NPE to gross loans is five times higher (4.9% in 2008, 22.0% in 2015). However, in YE-2015 the ratio demonstrated a growth rate lower than the year before (3.2% in 2014, 1.0% in 2015).

Similarly, net NPLs showed a considerable increase in the period 2008 – 2015, going from €24 billion to more than €89 billion, an average CAGR of 20.6%.

Looking at the stock composition:

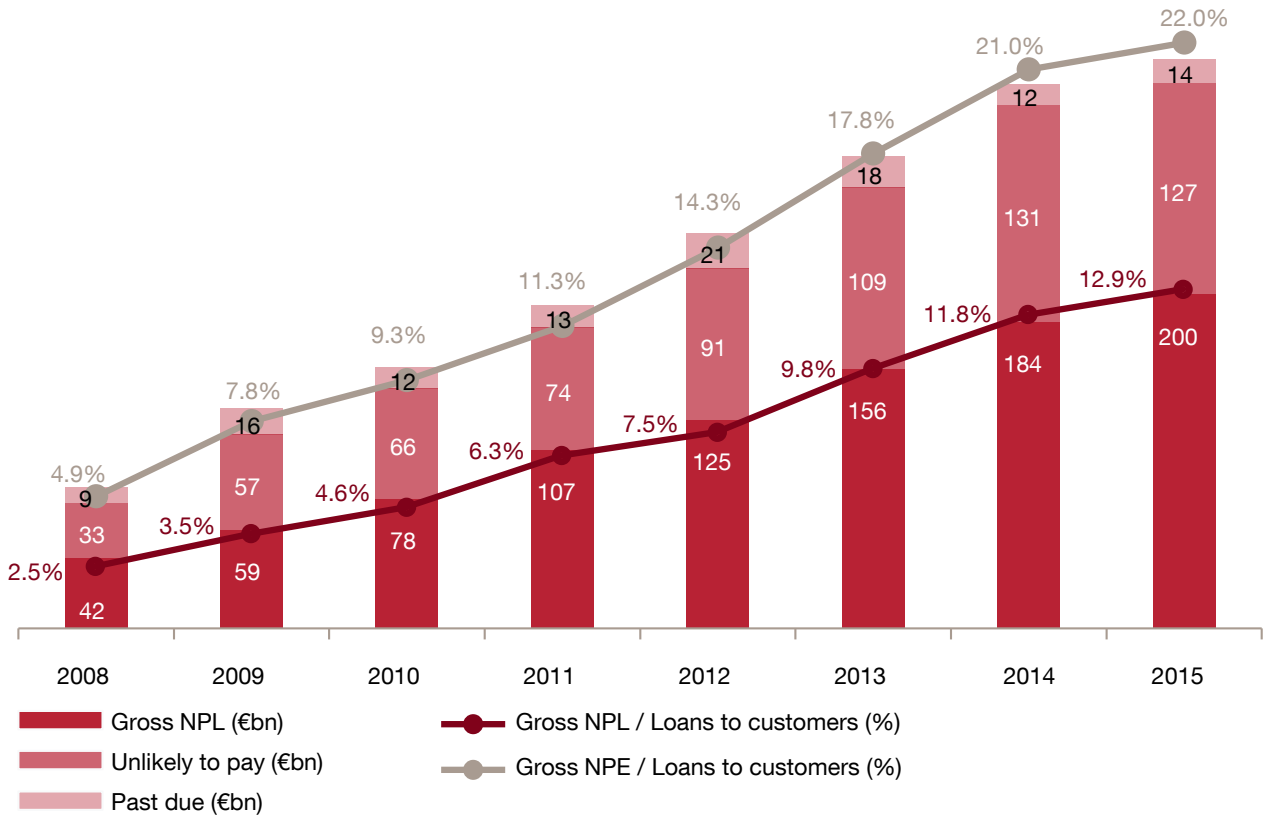
- Approximately half of total gross NPLs is represented by loans collateralised by real estate.
- The amount of net NPL is largely covered by real estate collateral.
- Almost 80% of the loans are towards SME and Corporates, thus confirming that the rise in the NPL stock is strictly connected to the economic and financial crisis that hit the Italian economy in 2008.

Chart 8: Breakdown of gross NPL as of YE-2015



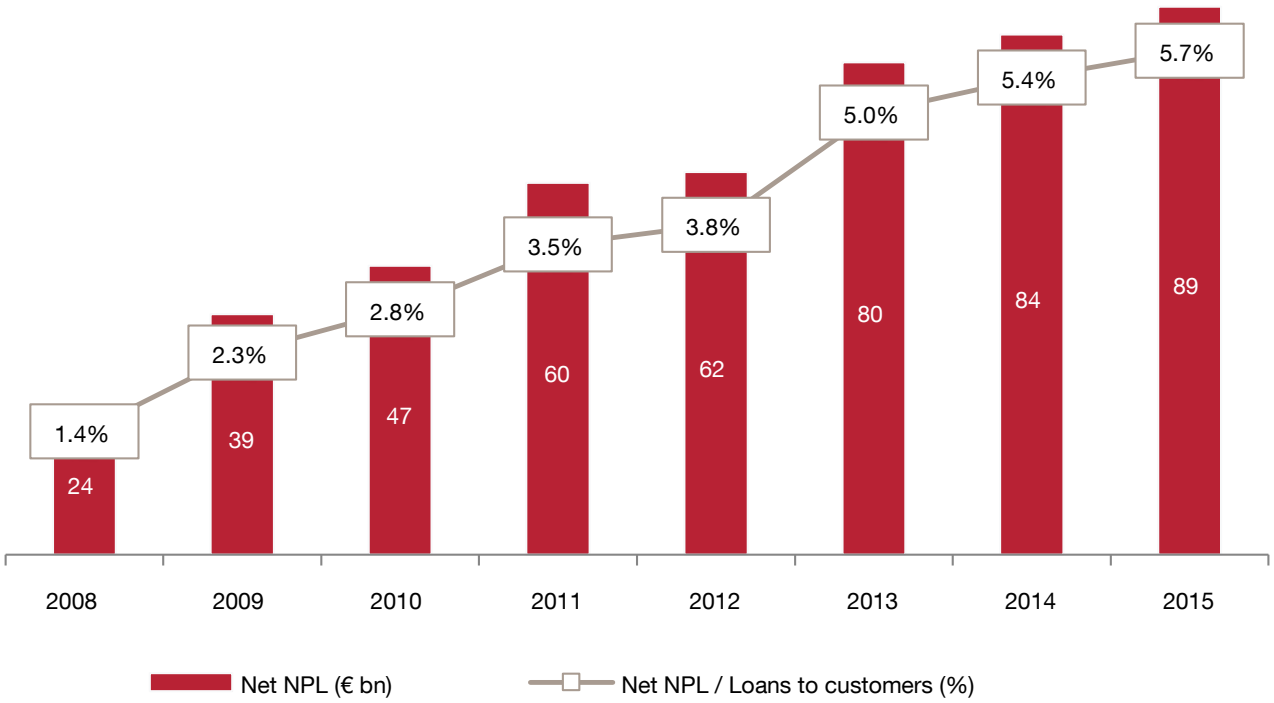
Source: PwC analysis data of Bollettino Statistico di Banca d'Italia and ABI Monthly Outlook

Chart 9: Gross NPL trend YE-2015



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

Chart 10: Net NPL trend YE-2015

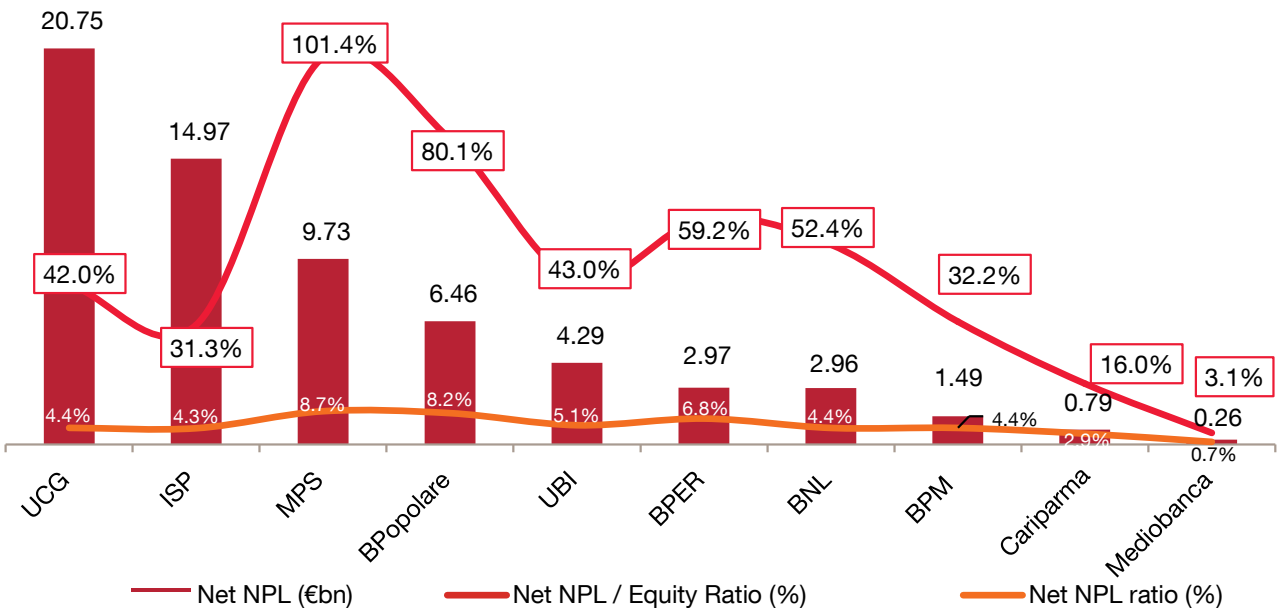


Source: PwC analysis data of ABI Monthly Outlook

Chart 11 provides a snapshot of the net NPLs of the Top Italian banks, including the ratio of net NPLs to equity and to total loans.

All illustrate a high level of NPLs to equity ratio as compared to larger international peers.

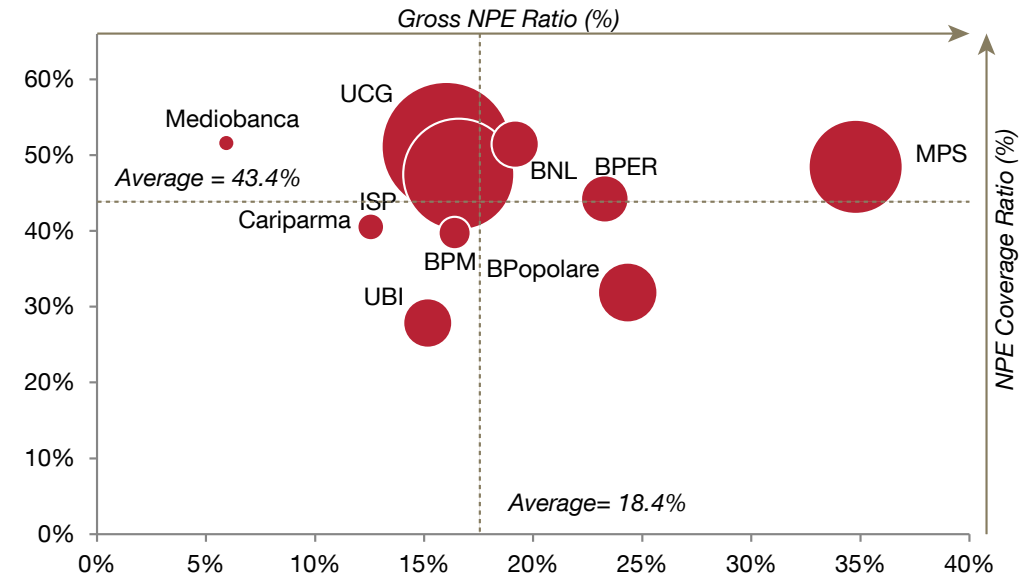
Chart 11: Net NPL, net NPL/equity ratio and net NPL to loans ratio YE 2015



Source: Financial Statements as of YE-2015, YE-2014, YE-2013.

Chart 12 depicts the Top 10 Italian banks in terms of NPE ratio and coverage: the average of which is 18.4% and 43.4% respectively. However, a material variance among the banks exists, with the two extremes represented by Mediobanca (5.9%) and MPS (34.8%) in terms of gross NPE ratio and by Unicredit (51.1%) and UBI (27.8%) in terms of coverage ratio. We note that the coverage ratio is not directly comparable as it is influenced by several factors which vary among the different banks (such as level of collateralisation of the loans, vintage of the portfolio, tax policies on write off etc.).

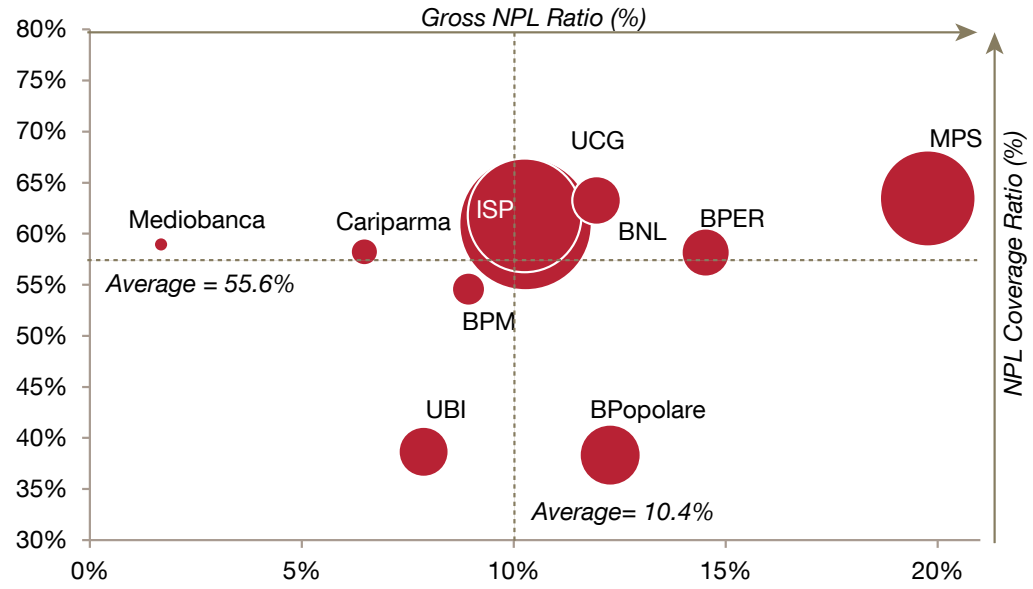
Chart 12: Top 10 Italian banks – NPE peer analysis as of YE-2015



Source: Financial Statements as of YE-2015

Chart 13 provides a snapshot of the NPL ratio and coverage, which once again provides a fairly diversified picture with similar trends compared to those described above. Average NPL ratio stands at 10.4%, while the NPL coverage ratio is equal to 55.6%.

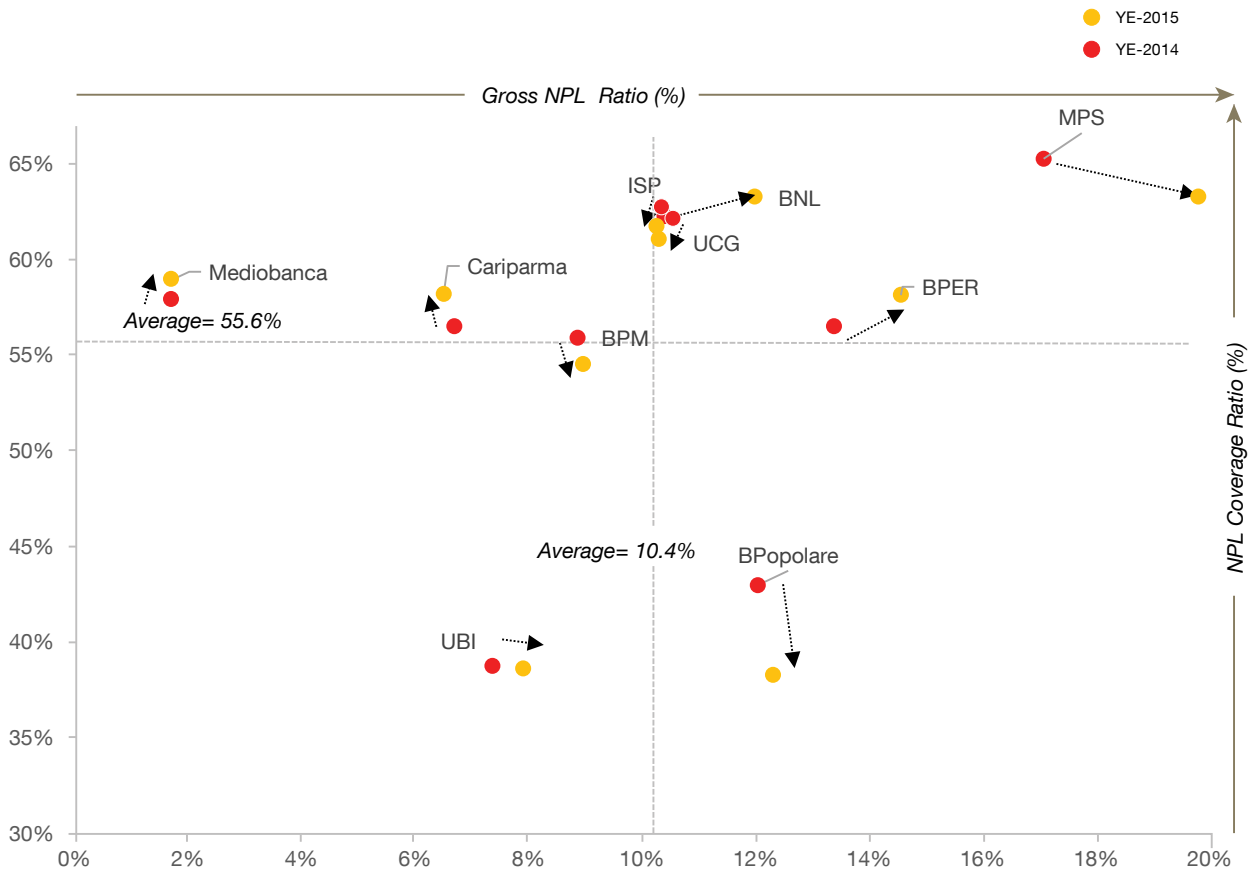
Chart 13: Top 10 Italian banks – NPL peer analysis as of YE-2015



Source: Financial Statements as of YE-2015

- The year-end snapshot indicates that compared to2014, with the exception of MPS, there are no material movements in the gross NPL ratio for the top 10 banks. The average stands at 10.4% versus 9.7%, but there are large variances between individual banks.

Chart 14: Top 10 Italian banks – NPL movements (YE-2015 vs YE-2014)



Source: Financial Statements as of YE-2015, YE-2014.

06

Key message: we foresee significant activity for the credit servicing industry in the next several years, benefitting from NPLs portfolio sales and the envisaged reopening of the NPLs securitisations, as well as the continued outsourcing of loan servicing by banks.

The NPL servicing market

Since the financial crisis, the Italian credit servicing segment has experienced solid growth, both due to higher consumer credit volumes and an ever increasing number of financial institutions outsourcing their NPLs to dedicated servicing and collection entities.

This market development has been accompanied by a high level of competition among credit servicers, which has led to pressure on fees. Moreover, clients often require a customised service for their operations and demand both flexibility and the ability to communicate and manage data consistently with the client bank's needs.

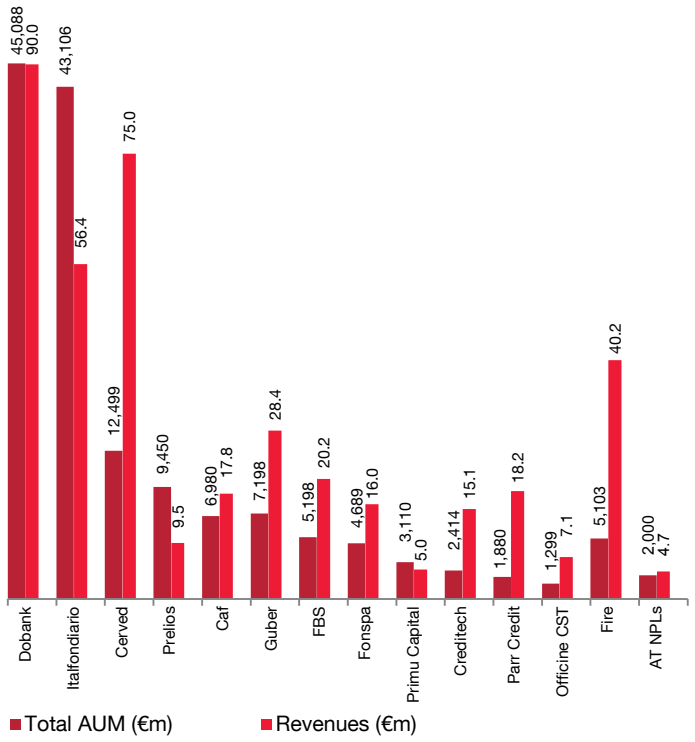
The credit servicing industry currently represents a large opportunity and should see meaningful growth over the next several years.

Another source of business for structured independent servicers is the envisaged reopening of NPL securitisation market.

In the case of GACS, the presence of a servicer which is independent from the originating bank is a pre-requisite for obtaining the State guarantee. All Atlante sponsored NPL transactions will likely seek to use the GACS for funding. Therefore, third party servicing platforms will benefit from both private market NPLs transactions and the Atlante fund sponsored and GACS guaranteed NPLs transactions.

International players, understanding the prospects for this profitable trend and looking for new opportunities to exploit, have already broadened their focus to include a credit servicing business and a number are interested in acquiring platforms.

Chart 15: Main servicers' revenues and AUM as of YE-2015



Revenues includes "Revenues from Servicing Activities" (A.1) and "Other Revenues" (A.5)
Source: PwC analysis on data provided by Servicers

Note: The AuM volumes above comprise all the asset under management, including the loans for which the servicer has only a master servicer activity and does not act as special servicer. However, the majority of the volume consists of loans under special servicing, except for Prelios and Fonspa which have a predominant component of volume under master servicing (70% and 94% respectively).

Primus Capital's business model is mainly based on the outsourcing and monitoring of external debt collection agents and lawyers.

Table 2: Main NPL non-captive special servicers

Company	Total AUM (€m) 31.12.15	Special Servicing AUM (€m)	Master Servicing AUM (€m)	Total AUM (€m) 31.12.14	# Employees 31.12.15	# Debt Coll. Agencies 31.12.15	# External Lawyers 31.12.2015	Revenues 31.12.15 (€m)	Rating Fitch	Rating S&P	Bank of Italy Surveillance
Dobank	45,088	45,088	-	n.a.	618	109	681	90.0	RSS1- and CSS1-	Strong	Banking Group
Italfondiario	43,106	40,951	2,155	39,700	597	1	400	56.4	RSS1- and CSS1-	Strong	Albo Unico ex art. 106 TUB
Cerved	12,499	12,499	-	10,000	639	137	330	75.0	RSS1- and CSS1-	n.a.	Art. 115 TULPS
Prelios	9,450	2,816	6,634	8,700	59	450	< 400	9.5	RSS2/CSS2	Above Average	Albo Unico ex art. 106 TUB
Caf	6,980	6,975	5	5,500	169	27	46	17.8	n.a.	Above Average	Art. 115 TULPS
Guber	7,198	7,198	-	4,700	132	13	250	28.4	RSS2+, CSS2+, ABSS2	n.a.	Art. 106 TUB
FBS	5,198	5,198	-	4,300	116	25	1,523	20.2	ABRSS2/RSS2+/CSS2+	Above Average	Art. 107 TUB
Fonspa	4,689	1,231	3,459	n.a.	82	-	-	16.0	RPS3+/CPS3+	Average	Banking Group
Primus Capital	3,110	3,110	-	n.a.	15	2	30	5.0	n.a.	n.a.	Art. 106 TUB
Creditech	2,414	2,414	-	n.a.	206	360	86	15.1	n.a.	n.a.	Albo Unico ex art. 106 TUB
Parr Credit	1,880	1,880	-	n.a.	1,033	-	-	18.2	n.a.	n.a.	Art. 115 TULPS
Officine CST	1,299	1,299	-	n.a.	106	-	261	7.1	n.a.	n.a.	Art. 115 TULPS
Fire	5,103	4,116	987	1,500	210	15	172	40.2	n.a.	n.a.	Art. 115 TULPS
AT NPLs	2,000	2,000	-	1,500	50	25	4	4.7	n.a.	n.a.	Art. 106 TUB

Source: PwC analysis on data provided by Servicers

Chart 16: Borrowers geographical breakdown (mix in %)

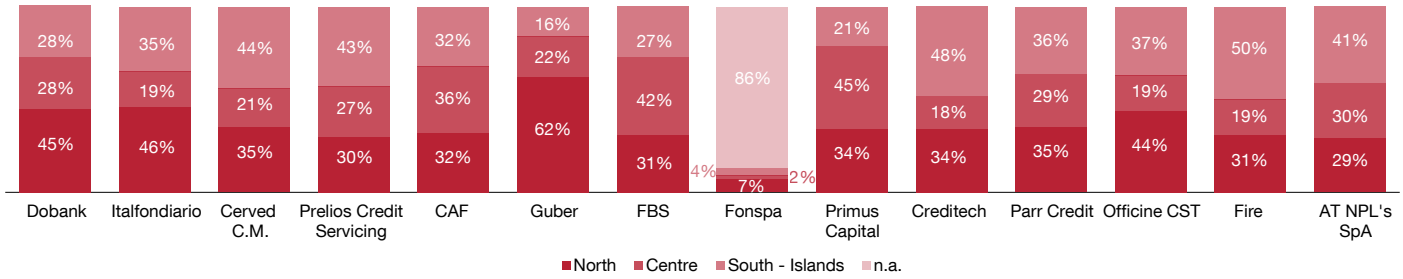


Chart 17: Type of loans managed by GBV (mix in %)

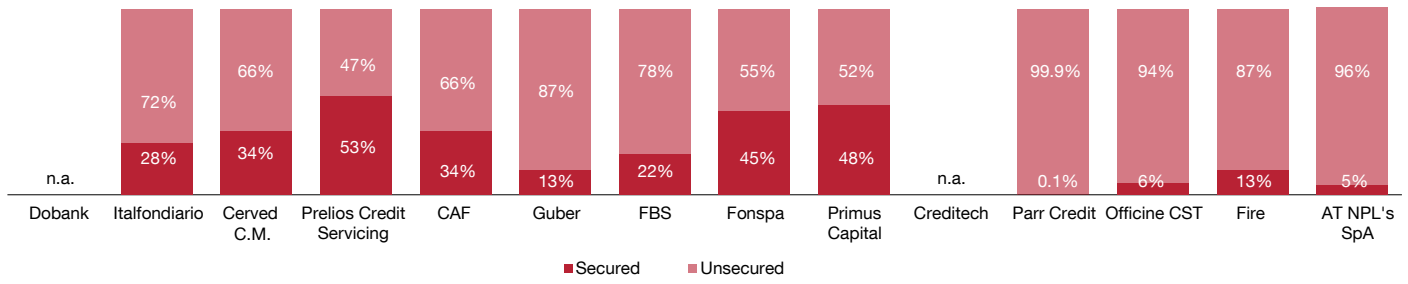


Chart 18: Type of loan resolution – Secured (mix in %)

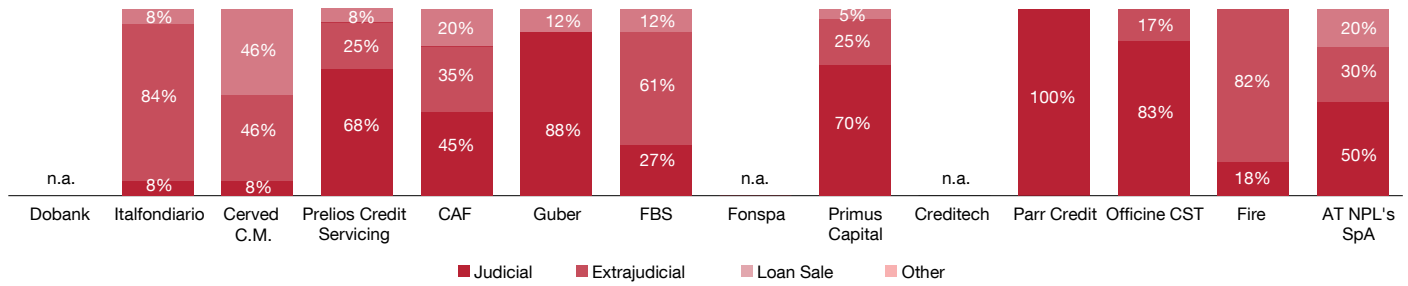
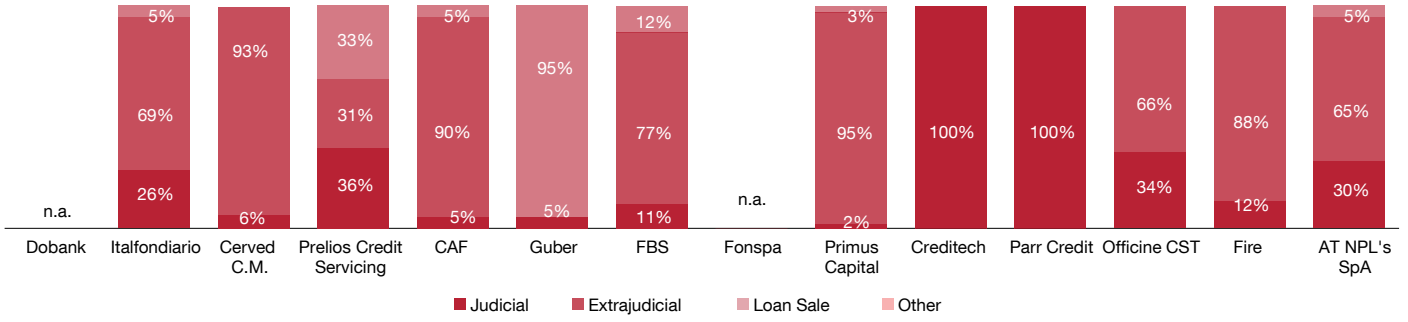
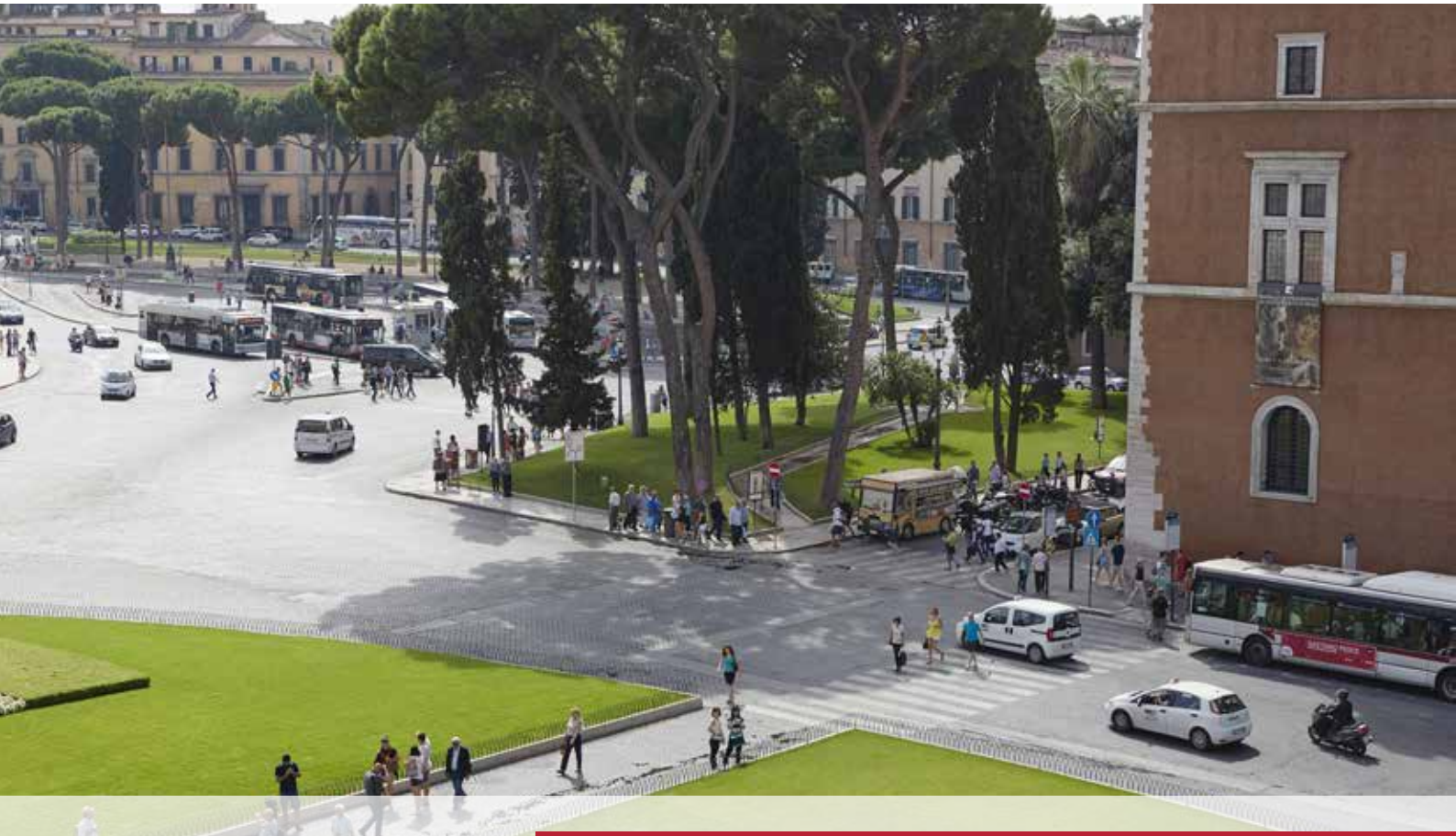


Chart 19: Type of loan resolution – Unsecured (mix in %)



Source: PwC analysis on data provided by Servicers as of YE-2015



07

Key message: Transaction volumes in 2015 surged to c. €19 billion GBV, a significant increase versus the volumes in previous years due to an intense activity on both primary and secondary deals. Despite this, the market is still very focused on consumer and retail unsecured credits, with some SME and secured transactions occurring. As a result of the combination of many different factors discussed herein, volumes are expected to increase meaningfully, with Q1 2016 registering €5 billion new deals.

Market recent activity and outlook

In 2015, volumes of disposals have more than doubled compared to 2014, with the amount of disposed loans increasing to approximately €19 billion. In Q1 2016 the market registered 8 new deals amounting €5 billion.

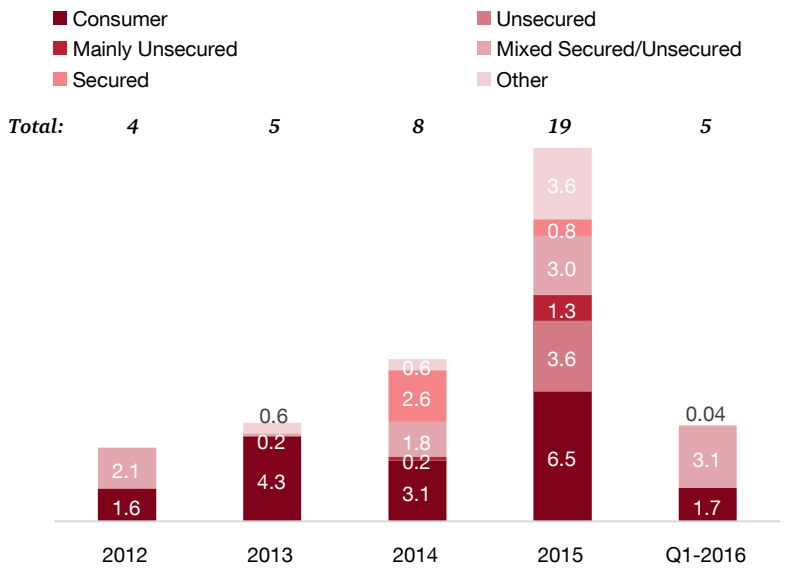
The most active banking groups in the disposal of portfolios during 2015 was Unicredit, with sales of approximately €4.7 billion, MPS with sales of €3 billion, and Banco Popolare with sales of €1.2 billion.

Several deals involving portfolios and/or platforms are on the market (the four cooperative bad banks, Interbanca by GE, HARIT by the Austrian Heta Asset Resolution, Sigla-Si collection). All are attracting the interest of both local and international players.

The investors base grew, with new players in the market (Hoist Finance, PVE) and in addition, some incumbents strengthening their presence in the market (mainly Fortress, Deutsche Bank, and Cerberus). Banca Ifis has continued to be extremely active both buy side and sell side on secondary deals.

Looking ahead we see clear signs of an improvement in the conditions for enhancing NPL deal volumes. A key component is the clearer and more favorable legal and regulatory framework: after the long await for the systemic bad bank there is now a scheme in place for facilitating the financing of NPL securitisation deals (GACS).

Chart 20[5]: NPL transactions in the Italian market (€ bn)



Source: PwC market analysis

This, together with the reform activity on foreclosure and insolvency procedures, the commitment of several banks to the ECB to reduce their NPE exposures suggests an explosive mix. We expect that the activity will be sustained and our prediction of at least €30 billion GBV of transactions for 2016 is realistic, possibly conservative. Furthermore, the percentage of secured portfolio disposal will be significantly higher than 2015. The deleverage process will occur over the next 3-4 years, but the NPL volcano is now truly ready to erupt.

Table 3 - NPL public transactions in the Italian market in 2015 and Q1-2016 (€ mln)

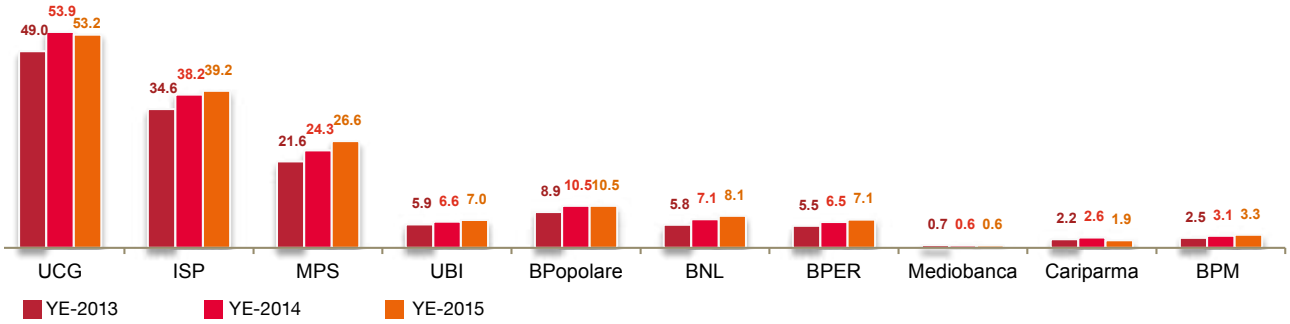
Year	Seller	Volume	Type of Portfolio	Buyer
2016 Q1	Banca Carim	35	Secured	Confidential
2016 Q1	Confidential	223	Consumer	CS UNION
2016 Q1	Deutsche Bank Spa	240	Consumer	Banca IFIS
2016 Q1	Confidential	208	Consumer	Banca IFIS
2016 Q1	Confidential	1.000	Consumer	Banca IFIS
2016 Q1	Multiple sellers BCC	300	Mixed Secured/Unsecured	Bayview Fund Management
2016 Q1	RBS & GE	2.500	Mixed Secured/Unsecured	Anacap & Confidential
2016 Q1	CreVal	314	Mixed Secured/Unsecured	Credito Fondiario
2015 Q4	Confidential	100	Unsecured Retail	Confidential
2015 Q4	Confidential	100	Secured	Confidential
2015 Q4	Confidential	1.400	Consumer	Banca IFIS
2015 Q4	Deutsche Bank Mutui	172	Secured	Algebris
2015 Q4	MPS	1.700	Unsecured	Deutsche Bank
2015 Q4	Multiple sellers BCC	121	Mixed Secured/Unsecured	Balbec
2015 Q4	Consel SpA (Banca Sella Group)	230	Consumer	Banca IFIS
2015 Q4	Banca Etruria	302	Mixed Secured/Unsecured	Credito Fondiario
2015 Q4	Banca IFIS	477	Consumer	Confidential
2015 Q4	Banca IFIS	503	Consumer	Italo Sicav Fund
2015 Q4	Banca IFIS	397	Consumer	Confidential
2015 Q4	Banca Popolare - Volksbank	60	Unsecured	Banca IFIS
2015 Q4	Confidential	365	Consumer	Banca IFIS
2015 Q4	Morgan Stanley / Prelios	157	Secured	PVE Capital
2015 Q4	Unicredit	250	Mixed Secured/Unsecured	Cerberus
2015 Q4	Confidential	240	Utility	Confidential
2015 Q3	Confidential	160	CRE	Confidential
2015 Q3	Confidential	400	Consumer	Banca IFIS
2015 Q3	Confidential	430	Multiple single name	Confidential
2015 Q3	Banco Popolare	950	Unsecured	Hoist Finance
2015 Q3	Confidential	22	Unsecured	Confidential
2015 Q3	Unicredit	1.200	Mainly Unsecured	Anacap
2015 Q3	Multiple sellers BCC	320	Mixed Secured/Unsecured	CRC
2015 Q2	Seer Capital Management	400	Consumer	Banca IFIS
2015 Q2	Unicredit	625	Unsecured	PRA
2015 Q2	UniCredit	205	Leasing - Repossessed Assets	Cerberus
2015 Q2	Banco Popolare	210	Unsecured	Hoist Finance
2015 Q2	MPS Consum.it	1.300	Consumer	Banca IFIS (50%) Cerberus (50%)
2015 Q2	Confidential	200	Consumer	Confidential
2015 Q2	Banca Sella	33	Consumer	Banca IFIS
2015 Q2	Archon	2.000	Mixed Secured/Unsecured	Confidential
2015 Q2	Confidential	200	Consumer	Banca IFIS
2015 Q2	Santander Consumer Bank	234	Consumer	Banca IFIS
2015 Q1	National Asset Management Agency	182	CRE	Invel Real Estate Partners
2015 Q1	Sofigeco	408	Secured	PVE Capital
2015 Q1	Findomestic	400	Consumer	Banca IFIS
2015 Q1	Unicredit	2.400	Platform & Mixed Sec/Unsec	Fortress & Prelios

Source: PwC market analysis

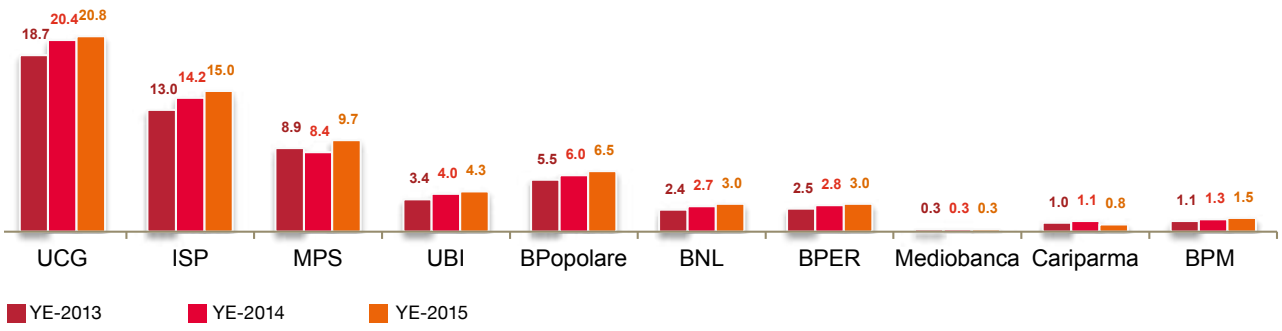
(5). The sum of transactions reported include the public and not public transactions

Appendix – Top 10 banks peer analysis

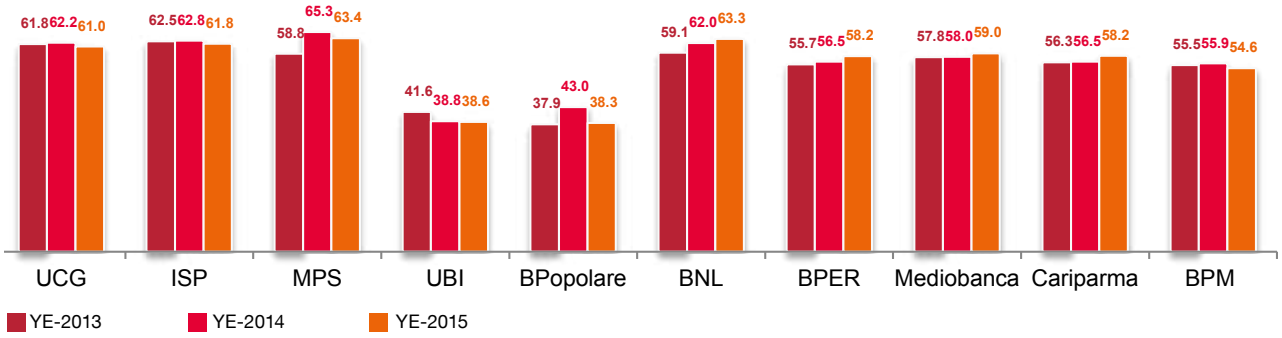
Gross NPL volume (€bn)



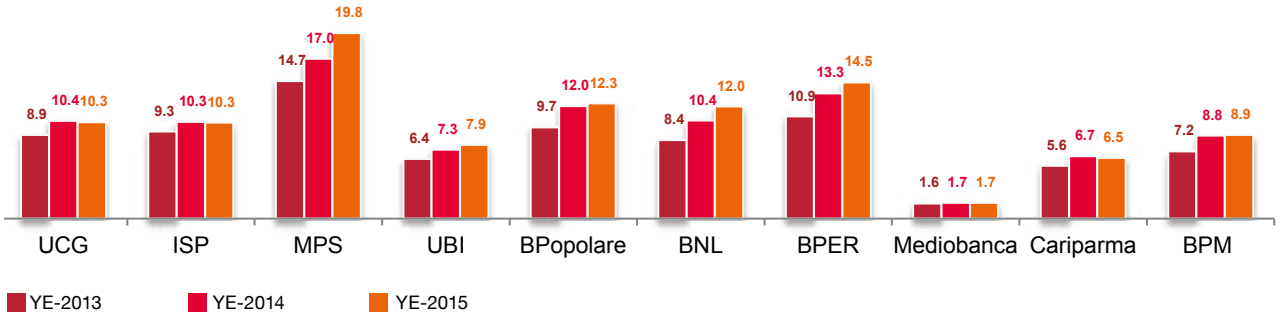
Net NPL volume (€bn)



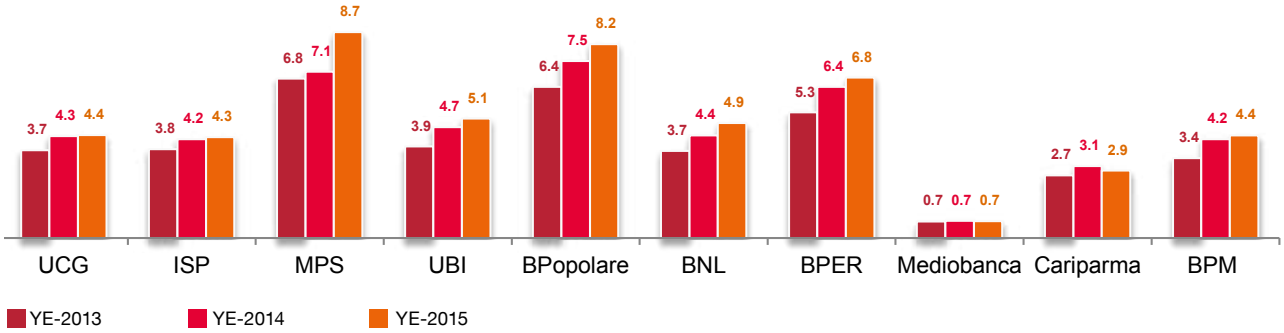
NPL coverage ratio (%)



Gross NPL ratio (%)

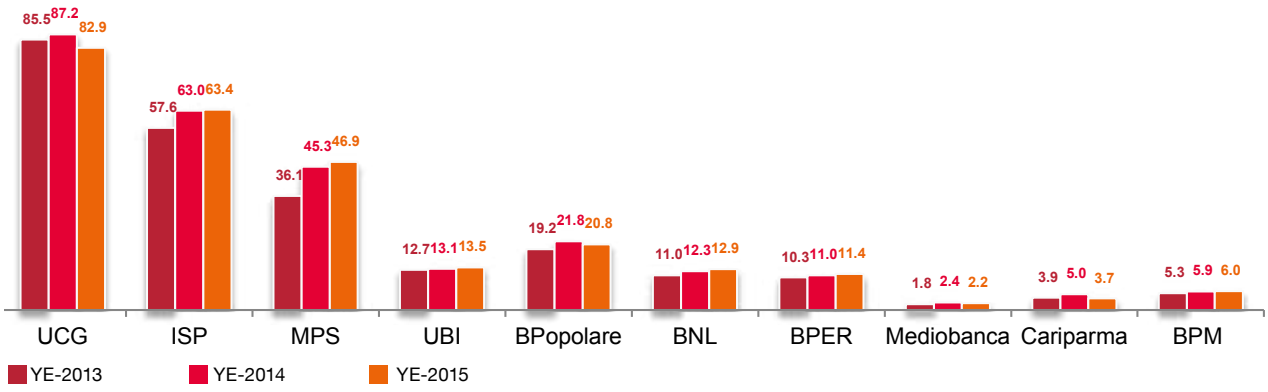


Net NPL ratio (%)

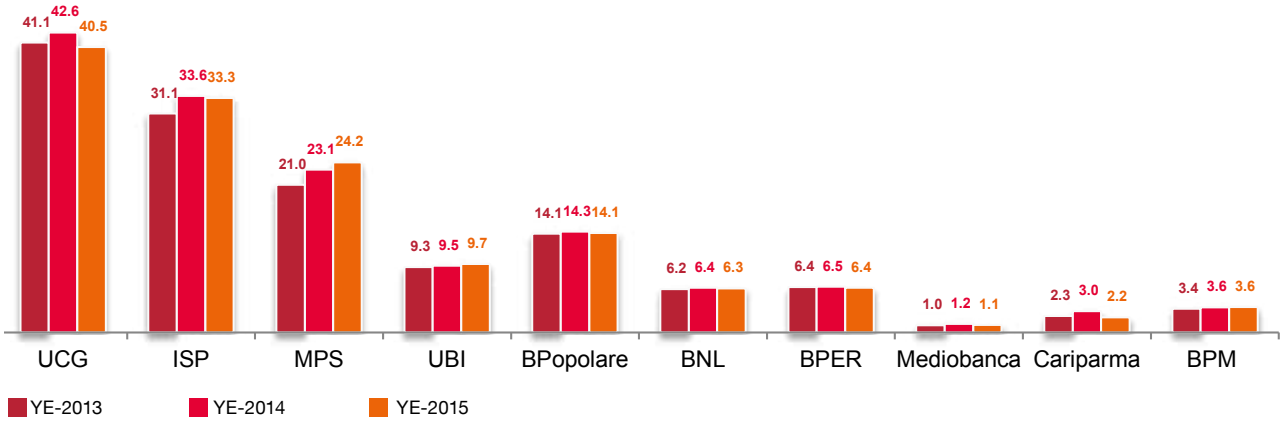


Source: Financial Statements as of YE-2015, YE-2014, YE-2013.

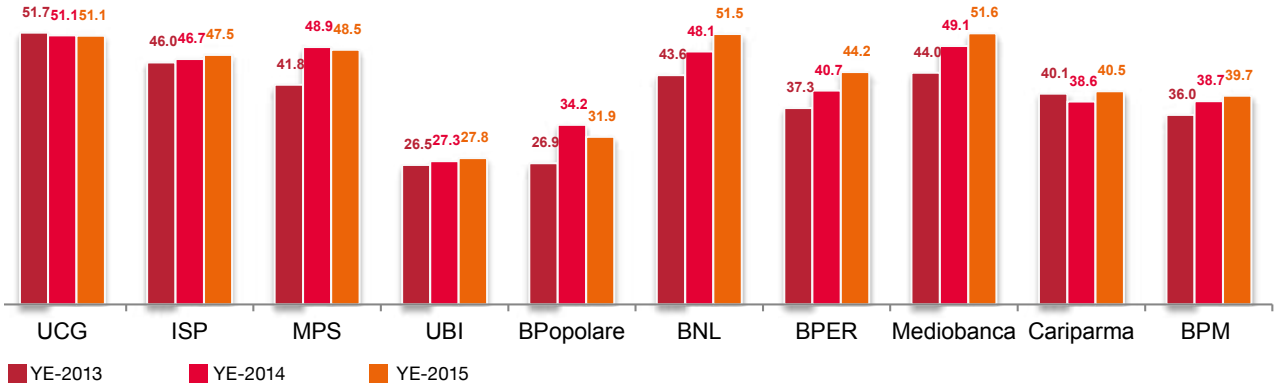
Gross NPE volume (€bn)



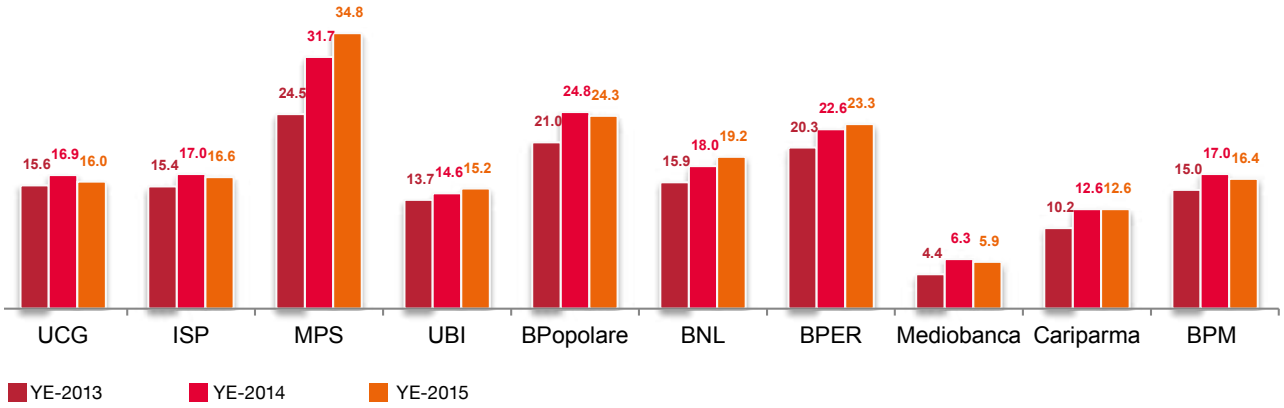
Net NPE volume (€bn)



NPE coverage ratio (%)

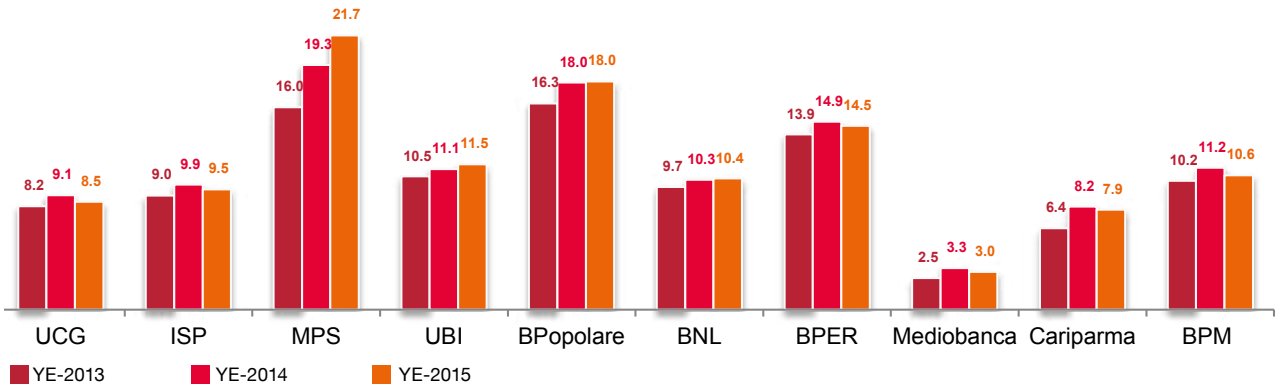


Gross NPE ratio (%)

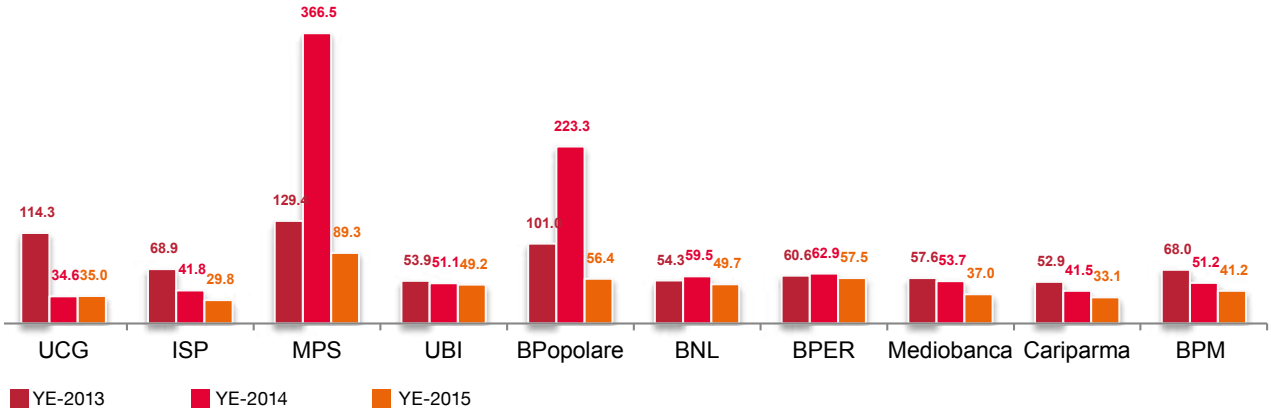


Source: Financial Statements as of YE-2015, YE-2014, YE-2013.

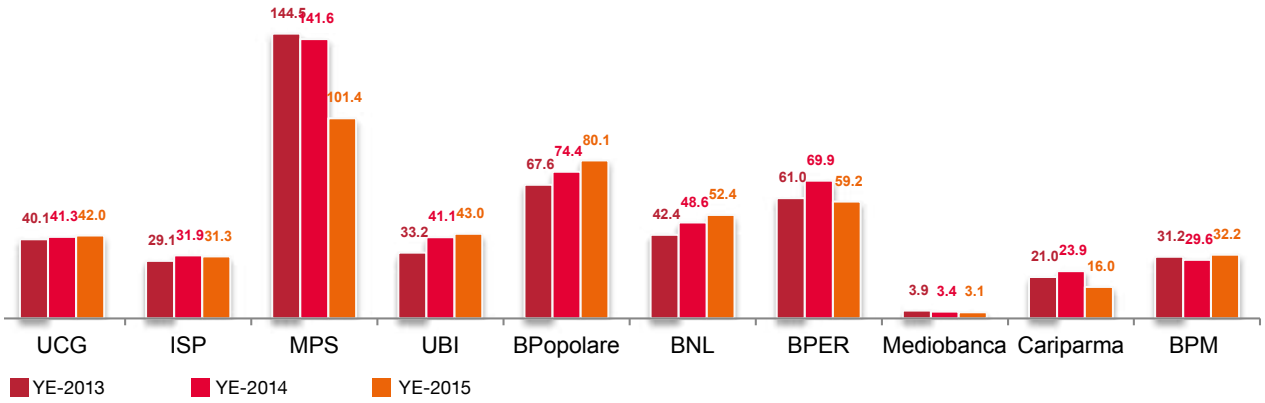
Net NPE ratio (%)



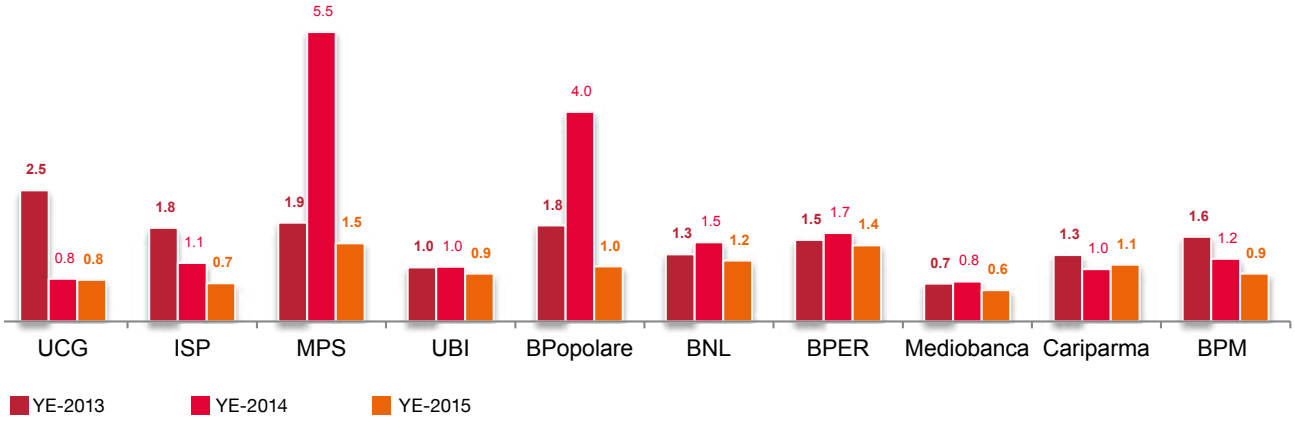
Yearly loan loss provision/net interest margin (%)



Net NPL/equity (%)



Cost of risk* (%)



Source: Financial Statements as of YE-2015, YE-2014, YE-2013.

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