



December 2022

# The Italian NPE Market

## Brand New Day?



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## Brand new day?

The global outlook has deteriorated markedly throughout 2022 amid high inflation, aggressive monetary tightening, and uncertainties from both the war in Ukraine and the lingering pandemic.

The stock of non-performing exposures on Italian banks' books has reached its lowest values in the last 15 years with €68bn in June 2022. We need to go back before 2008 to find similar values. In recent years, banks have continued the deleverage process and deterioration rates have remained extremely low in the period 2020-2021 (1% in 2020 and 0.9% in 2021) thanks to effective Government measures.

French and Spanish banks now register the largest total amounts of NPEs in Europe, accounting respectively for €110bn and €79bn.

The French NPE market was not very active compared to EU southern countries in the last years and major banks are now implementing a more comprehensive NPE strategy, which is expected to include more significant sales.

Warning signs emerged in 2022: for the first time since 2019, an increase in default rates was observed in the first semester in Italy: for corporates +15% compared to December 2021 while still decreasing for families.

The rise in cost base (raw materials, energy, funding) is likely to negatively impact companies' 2022 financial statements leading to worse results than in 2021. In addition, all loans with public guarantee granted under 2020-2021 temporary framework (over €250bn) will end the pre-amortisation period. Possible contractions in demand could create defaults very quickly.

We expect Government to maintain supporting measures. However, this intervention may be limited given the 145% debt/GDP ratio reached after pandemic.

In line with market consensus, we estimate around €60bn of new defaulted loans in the next 24-36 months (around 2x, +€30bn compared to the actual volumes of the previous two years). Loans

with public guarantee are expected to represent a relevant portion of total defaults. In any case, the new NPE inflows would be far from the levels reached in the period 2012-2013 with approximately €140bn of new flows in the two-year period.

The strengthening of companies' liquidity and capitalization will smooth the impact compared to the past.

Any increase in non-performing flows is expected to be offset by the continuation of de-risking, also in line with the plans of the largest banks ("Zero-NPL bank" strategy by Intesa Sanpaolo; 3.5% Gross NPE ratio target in 2024 for UniCredit), and will allow to keep at current levels banking NPE ratios.

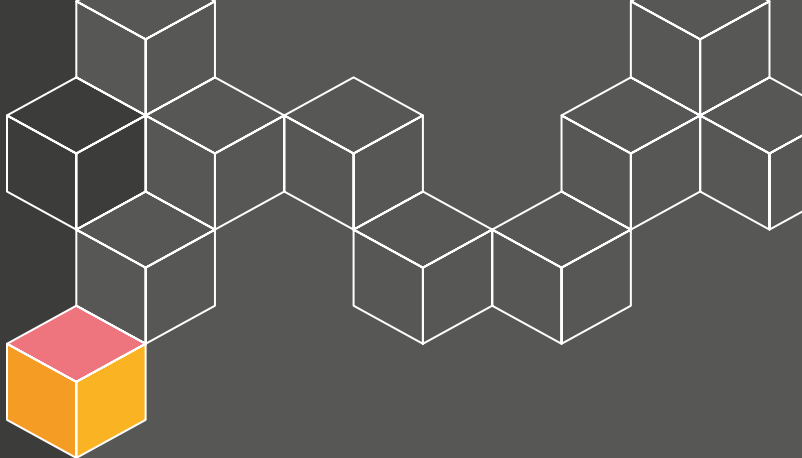
Given this scenario, Europe's largest banks are likely to set more provisions for possible loan losses in the fourth quarter, having already bolstered provisions in the third. Of the 25 largest banks in the continent, 19 reported either higher loan loss provisions or in line compared to a year ago. In Italy the cost of risk of Top5 banks remained almost stable in September 2022 YoY (at 49 bps) still at very limited level.

The Italian banking system appears more solid than more solid than in the 2013-2014 crisis.

- Banks hold solid capital levels (CET1 ratio +3 p.p. between 2014 and 2021) that could help them manage a downturn.
- NPE coverage ratio increased significantly (+ 7 p.p. between 2015 and 2021) showing ability to absorb future losses.
- Above €300bn of primary market NPE transactions in period 2015-2022 of which €110bn assisted by GACS allowed to reach minimum levels in terms of stock of non-performing loans on banking books.
- A real debt servicing "industry" has been created with €300+bn under management and 15,000 resources employed.

However, now, the main priority is shifting: from "gone concern" to "going concern" credits.





The amount of loans in Stage 2 has soared, reaching over €250bn in June 2022, equal to 14% of total loans (vs. €141bn at the end of 2019, equal to 9% of total loans). This is not only an Italian phenomenon: the amount of stage 2 credits in Europe reached around €1.4tn in June 2022, representing around 10% of total credits.

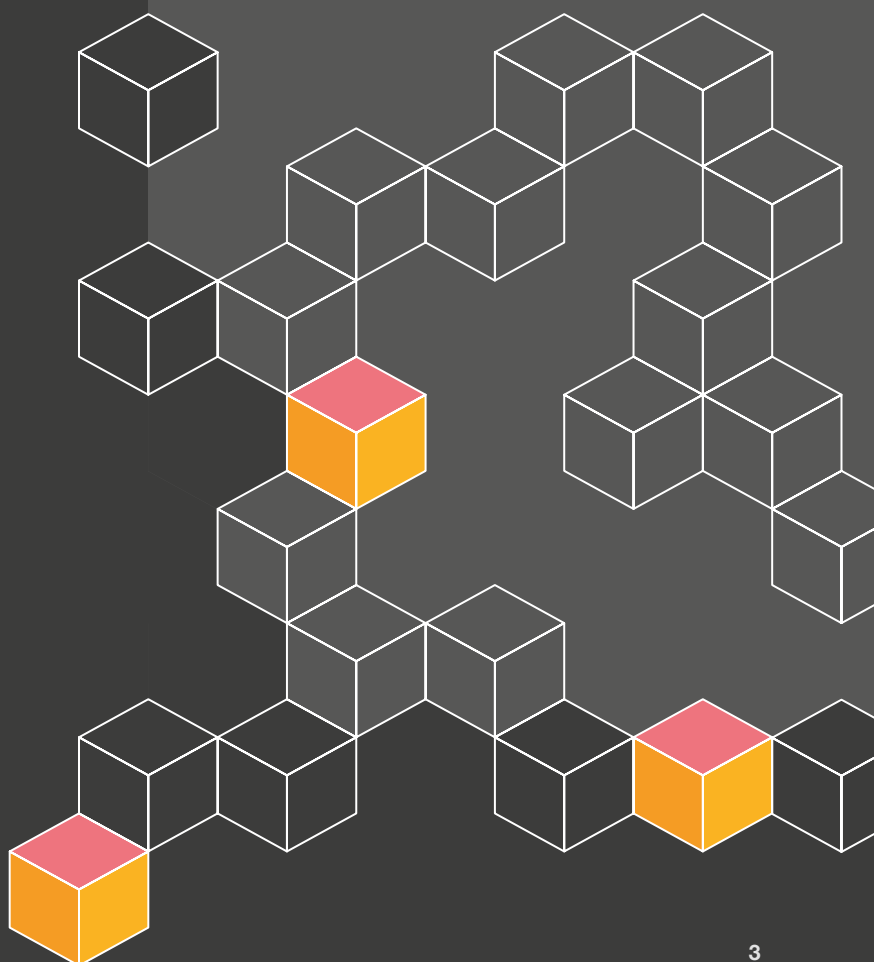
UtPs still on bank balance sheets (€36.5bn), the loans backed by state guarantees disbursed in the last 2 years more than €250bn and the expected new NPE flows (up to €60bn) bring the total amount of credits "under the spotlight" to over €500bn. These loans should be the real focus of all players involved in the NPE space in the next years. These are "live" credits to be managed proactively with the aim of bringing them "back to performing". That's hundreds of thousands of small and medium-sized businesses that need to be supported.

To date, there is no proven model for the large-scale management of sub-performing/UtP loans. Changing the perspective of the credit management to the "going-concern", business models will have to be (further) rethought. The use of data, the automation of the decision-making process and the use of new technologies such as Artificial Intelligence and Machine Learning will be crucial. Players will need to develop new competencies (e.g. capacity to attract new finance, proactive management of public guarantees, RE asset valorisation).

The "going concern" nature of these credits in the coming years poses a major problem of potential impact on the real economy. Only an **alliance** among all the actors involved will be able to guarantee the right support for the real economy. Banks and servicers will have to develop a structured approach aimed at encouraging the relaunch of struggling companies. The Government will have to ensure the launch of recapitalization and revitalization initiatives for the country that are also capable of involving investors who bring "patient" capital to provide new finance.

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# Key highlights on the Italian NPE Market

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Milan, Lombardy, Italy.





# Key figures of the Italian NPEs

## Key Message

NPEs on Italian banking books landed at €67.8bn at the end of June 2022 with UtPs as main component (53.8%)

of deteriorated loans. The stock of Bad Loans decreased significantly compared to the end of 2021 (-18.5%) as well as

the number of bankruptcies and other insolvency proceedings<sup>1</sup>.

## Asset Quality

European financial institutions are improving their balance sheet in line with guidelines provided by European banking Authority ("EBA"), European Central bank ("ECB"), and the related Calendar Provisioning measures. These guidelines aim to ensure that institutions have solid processes and mechanisms for credit risk underwriting, management and monitoring, in order to achieve higher standards of credit quality.

**Chart 1**, that shows the **Gross Italian NPE stock** evolution, confirmed this trend in the Italian banking books, with NPE stock continuously decreasing since YE-2016. The actual €67.8bn balance at the end of H1-2022, which corresponds to an average CAGR of -22.0% between YE-2015 and H1-2022, confirms the decreasing trend even if at a lower pace compared to previous years.

The drop has been observed for both Gross Bad Loans and Gross UtPs stock: the former reached a downward peak of €27.2bn at H1-2022, €6.2bn lower than at YE-2021, the lowest value since 2008 when it reached €42.0bn. The latter decreased from a value of €41.3bn at YE-2021 to €36.5bn at H1-2022.

Since YE-2020, the Gross UtP stock has exceeded the Gross Bad Loans stock, explaining why the market has shift focus on UtPs in recent years.

Finally, Gross Past Due stock has remained stable to €4.1bn in relation to €3.9bn at YE-2021, remaining in line with the recent years trend.

Net Bad Loans trend, reported in **Chart 2**, shows a slight increase of €0.8bn YoY, reaching €16.0bn at H1-2022.

Lastly, it can be observed a low incidence of the Net Bad Loans over the total loans to Customers, equal to 1.1%<sup>1</sup> at H1-2022 (in line with YE-2021 at 1.0% and significantly lower than the peak of 5.7%).



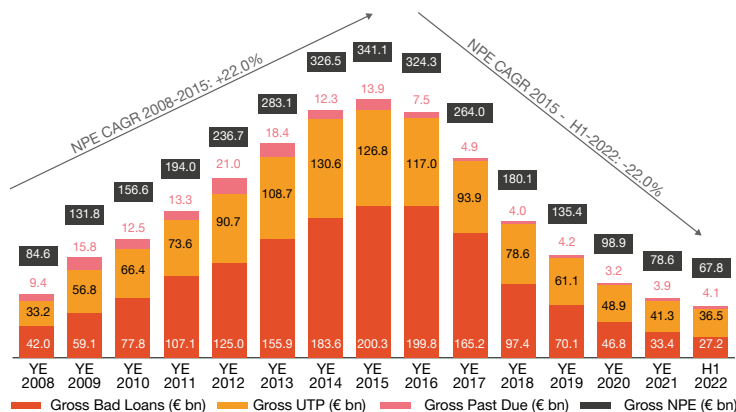
We moved very quickly from a post-pandemic recovery context to a scenario of high uncertainty and risk growth. As with the pandemic, this new scenario highlights very asymmetric impacts among sectors: the manufacturing industry, which is the pillar of our production system, is most affected by the increase in the costs of production factors and energy.

Andrea Mignanelli, CEO, Cerved Group



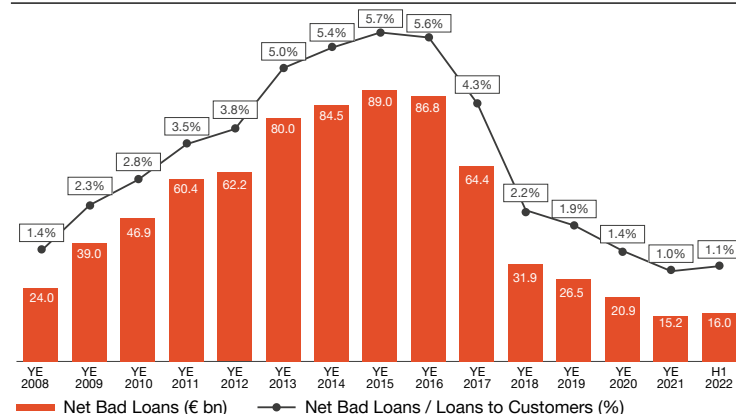
Scan the QR code to view the interview

**Chart 1: Gross NPE trend**



Source: PwC analysis on Banca d'Italia "Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori", June 2022.

**Chart 2: Net Bad Loans Trend**



Source: PwC analysis on ABI Monthly Outlook and bank of Italy data - June 2022  
Note: 2017 and 2018 data might include financial intermediaries.

1. Net Bad Loans and Loans to Customer are based on ABI data.

## Focus: Bad Loans

Focusing on the distribution of Gross Bad Loans by region as represented in **Chart 3a** and **3b**:

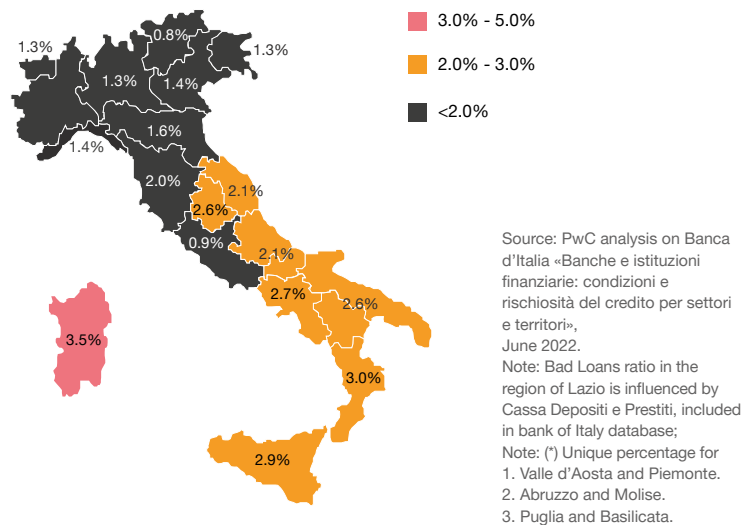
- In terms of Gross Bad Loans ratio, the highest percentages are recorded in the Islands and the Southern of Italy, mainly in Sardegna (3.5%), Calabria (3.0%), Sicilia (2.9%) and Campania (2.7%). Comparing data of H1-2022 with the YE-2021 it is interesting to notice that the Gross Bad Loans ratio have decreased in all regions. In general, **Northern regions** tend to show **lower Gross Bad Loans** ratio compared to Central and Southern regions, having on the other hand a higher incidence of loans to customers compared with the total amount of Italian loans (53.0% of the total loans is concentrated in Northern regions, while 32.0% in Central regions and 15.0% in Southern regions, including Sicilia and Sardegna).
- Lombardia and Lazio remain the top two Italian regions in terms of incidence of Bad Loans over the total Italian stock at H1-2022 (20.3% and 13.7% respectively), while they show a lower Bad Loans ratio (1.3% and 0.9%) compared to other regions; on the other hand, Sardegna shows one of the lowest percentage of incidence of Gross Bad Loans over total (3.4%), while presents the highest Bad Loan ratio (3.5%).

As shown in **Chart 4** (see next page), the “**Corporate & SME**” sector is confirmed as the **main component** of Italian Gross Bad Loans at H1-2022, with a share of 65.8% (-6.3% vs YE-2021), followed by “Consumer loans” with 25.3% (+14.2% vs YE-2021). During the last few years, the “Consumer loans” sector has been increasing its incidence on the total stock: this trend started in 2019 and seems poised to continue.

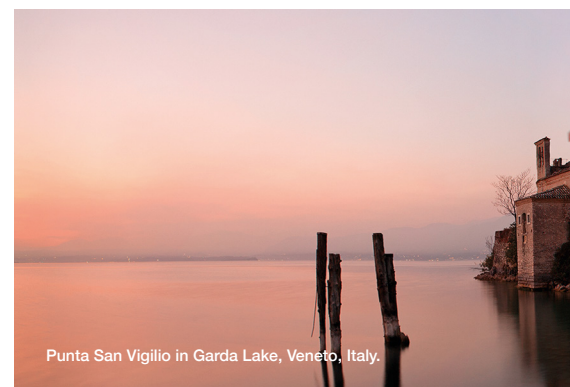
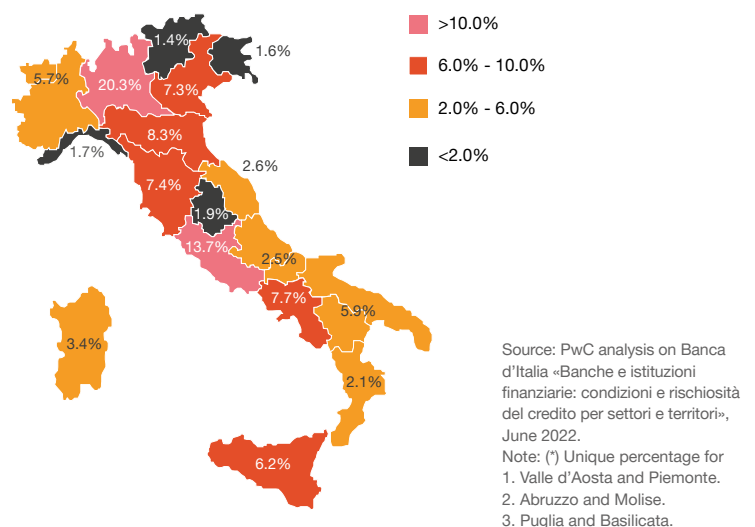
The percentage of Secured Bad Loans has shown a directional change during the last semester, going from a decrease in the period 2017-2021 (39.8% at YE-2021), to an increase even if limited (41.0% at H1-2022).

More than half of Secured Bad Loans are related to “Corporate & SME” (59.6%), followed by 31.5% of “Retail” (see next page, **Chart 5**).

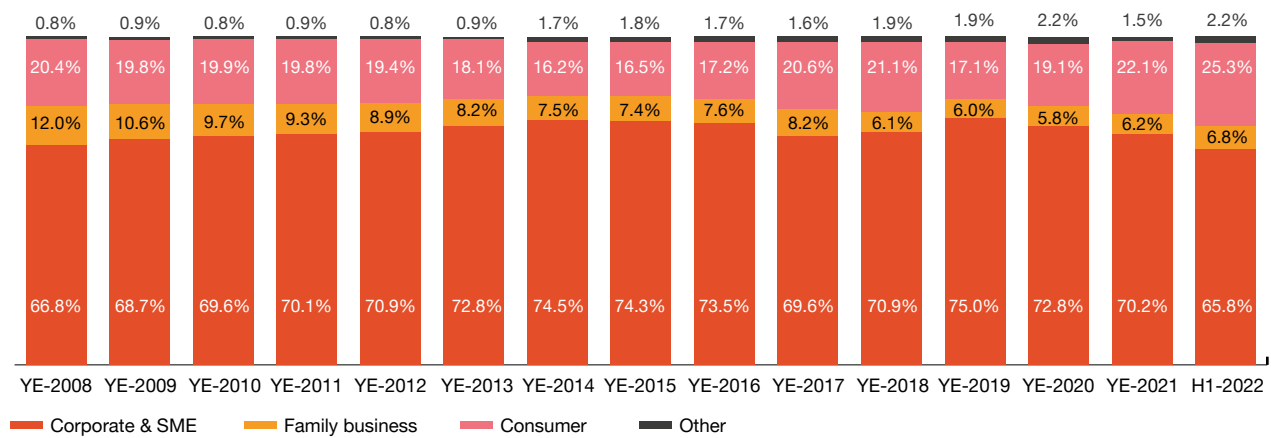
**Chart 3a:** Gross Bad Loans ratio by region\* (H1-2022)



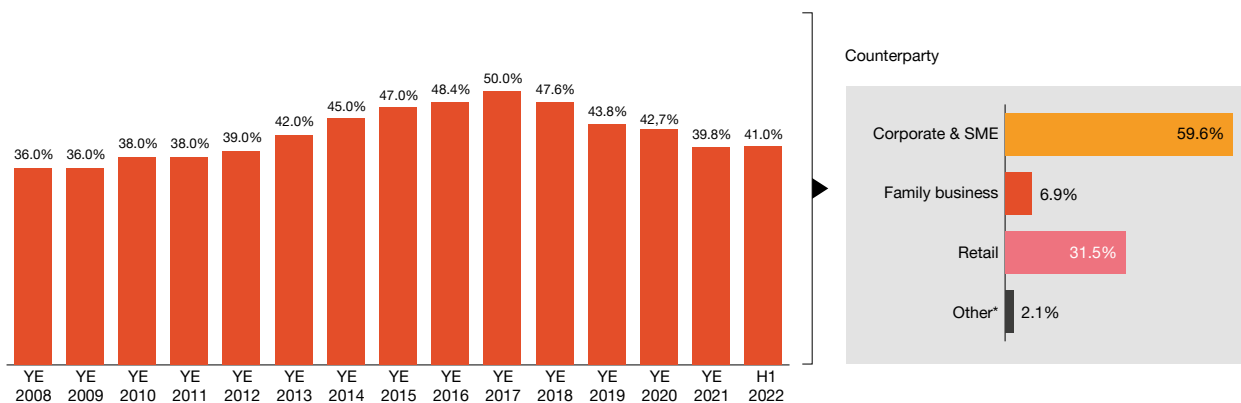
**Chart 3b:** Breakdown of Gross Bad Loans by region\* (H1-2022)





**Chart 4:** Breakdown of Gross Bad Loans by counterparty\*\* (H1-2022)

Source: PwC analysis on Banca d'Italia "Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori", June 2022.  
 Note: (\*\*) "Other" includes PA and financial institutions.

**Chart 5:** Secured Gross Bad Loans trend\*\* (% on total Bad Loans)

Source: PwC analysis on Banca d'Italia "Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori", June 2022.  
 Note: (\*) "Other" includes PA and financial institutions.



**Chart 6** shows the breakdown of Gross Bad Loans by economic sector, where the largest share is represented by Real Estate and Construction (33.1%), closely followed by Manufacturing products (32.2%) and Wholesale and retail trade (14.5%). The remaining part includes Professional Services, Industrial and other aggregate economic sectors.

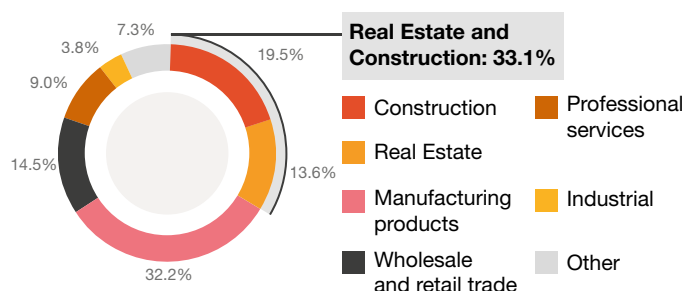
**Chart 7** shows the Gross Bad Loans by ticket size. It can be observed that the ticket size higher than €1.0m (i.e. large-size exposures) represents 47.5% of the total. More in depth, 22.6% have a ticket size major than €5.0m (of which almost 30% of this cluster is represented by tickets with a size higher than €25.0m), while the remaining 24.9% is divided between €1-2.5m (10.5%) and €2.5-5.0m (14.4%). This cluster is followed by the medium-size exposures, which are the 250k-€1m cluster (20.9%) and the €75k-€250k cluster (19.3%). The remaining part is represented by the small-size exposures, with a ticket size smaller than €75k, that have an overall share of 12.4% only.

## Focus: UtP

**Charts 8a and 8b**, in the next page show that at H1-2022 only four Italian regions present a UtP ratio higher than 2.5%: Sicilia, Trentino-Alto Adige, Marche and Campania. All these regions register values between 2.6% and 2.9%. The other regions stand between 1.1% and 2.8%, denoting a lower incidence of UtP over total loans. More in depth, the regions with the lowest ratio are mainly located in the North-East and North-West (Valle d'Aosta and Friuli Venezia-Giulia with 1.6%, while Veneto and Liguria with 1.9%).

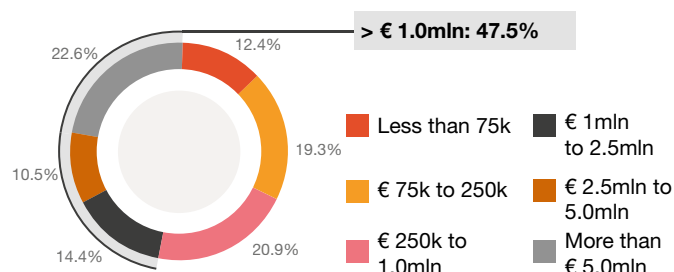
In terms of volumes, the highest UtP concentration is in Lombardia and Lazio (respectively 26.2% and 13.9% of total volumes), the lowest in Umbria (1.4%).

**Chart 6:** Breakdown of Gross Bad Loans by economic sector (H1-2022)



Source: PwC analysis on Banca d'Italia «Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori», June 2022.

**Chart 7:** Breakdown of Gross Bad Loans by ticket size (H1-2022)

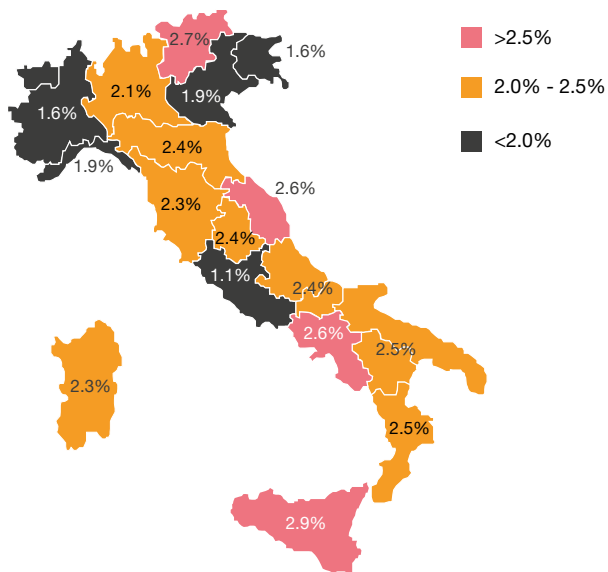


Source: PwC analysis on Banca d'Italia «Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori», June 2022.



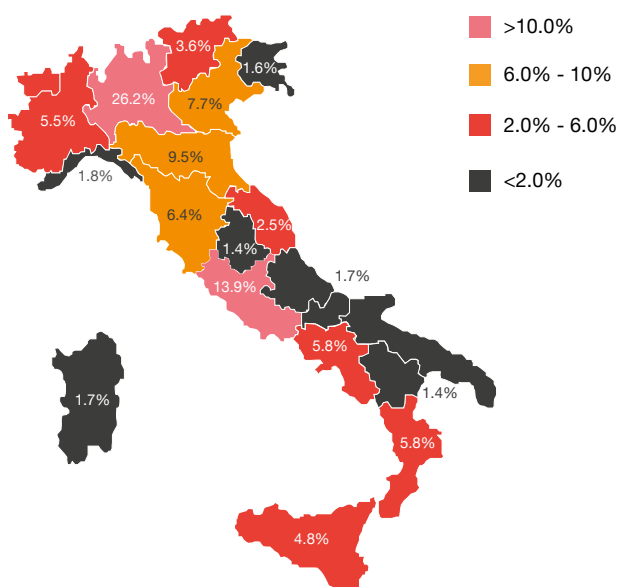


**Chart 8a:** UtP ratio by region\* (H1-2022)



Source: PwC analysis on Banca d'Italia «Banche e istituzioni finanziarie: condizioni e rischio del credito per settori e territori», June 2022.  
 Note: (\*) UtP ratio in the region of Lazio is influenced by Cassa Depositi e Prestiti, included in bank of Italy database; (\*\*) Unique percentage for  
 1. Valle d'Aosta and Piemonte.  
 2. Abruzzo and Molise.  
 3. Puglia and Basilicata.

**Chart 8b:** Breakdown of UtP by region\* (H1-2022)



Source: PwC analysis on Banca d'Italia «Banche e istituzioni finanziarie: condizioni e rischio del credito per settori e territori», June 2022.  
 Note: (\*) Unique percentage for  
 1. Valle d'Aosta and Piemonte.  
 2. Abruzzo and Molise.  
 3. Puglia and Basilicata.

## A picture of business closures

### Key Message

During early period of COVID-19 pandemic, bankruptcy filings and other insolvency activities were suspended, with the consequent freezing of the

Italian business closures. Beyond that, such reduction is a consequence of several economic support measures implemented by the Italian government.

As a result, data show a decreasing trend in the amount of bankruptcies, which remained below pre-pandemic levels even in H1-2022.

According to **Chart 9**, bankruptcies in Italy have been decreasing, considering the 2017-2022 timeframe.

Looking more closely to the past year, as of today (Q2-2022) the total number of bankruptcies is slightly increased (+3.4%) compared with the previous period (Q1-2022), but significantly decreased if compared with Q2-2021 (-14.7%). In addition, the comparison between Q1-2021 and Q1-2022 recorded a net decrease in bankruptcy filings of -22.5%.

As a further confirmation of the above mentioned downward trend, the total number of bankruptcies in H2-2022 has decreased in absolute value from 4,913 to 3,944 registered in H1-2021, thus showing a 18.7% reduction.

A sort of cyclical seasonality can be outlined as shown by the clear drop in the number of bankruptcies in Q3 of each year, which is due to the fact that courts usually remain closed in August. By contrast, Q4s highlight an increase in bankruptcy proceedings since courts operations are at their maximum in this period of the year.

This trend is always confirmed with the exception of 2020 (-27.0% in Q1-2020 and -64.8% in Q2-2020) in which COVID-19 lockdown caused a partial or complete closure of Italian courts.

**Chart 10** shows the breakdown of bankruptcies per economic sector in H1-2022 in Italy.

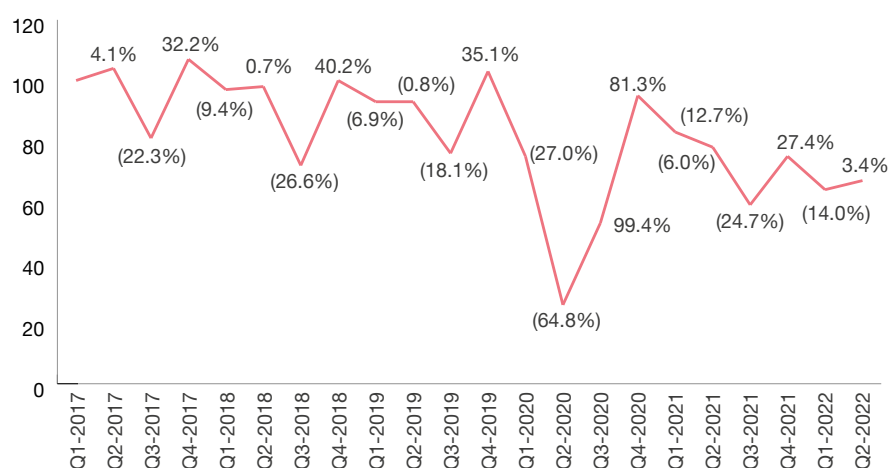
The bankruptcies proceedings, 25.2% of the total amount, related to wholesale and retail trade sector. The wholesale and retail trade is the sector that present the major number of bankruptcies procedures (25.2% over total).

Secondly, construction sector, which includes reparation of motor vehicles and motorcycles, represents 19.5% of proceedings. Thirdly, industrial sector, that encompasses activities like mining and quarrying, energy and water supplies, sewerage, waste management and remediation activities, corresponds to 16.9% of total bankruptcies.

In addition, analyzing the data of H1-2022 over a broader time span, from 2017 to 2022, a flat trend can be pointed out: indeed, the breakdown of bankruptcies per economic sector has remained stable over the last five years.

It can therefore be assumed that, although the COVID-19 pandemic had a significant impact on the 2020 and 2021 data regarding the total number of bankruptcies, it did not specifically impact one sector over another in terms of proceedings, thus affecting all Italian companies in the same way.

**Chart 9:** Bankruptcies trend in Italy from Q1-2017 to Q2-2022

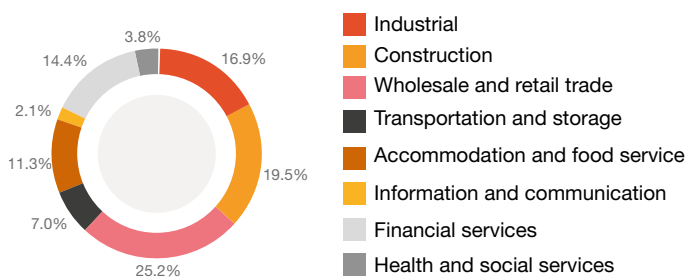


Source: PwC analysis on data taken from Registrazioni e fallimenti di imprese – Il trimestre 2022, Istat, December 2022.  
Note: The following graph represents the indexed evolution of bankruptcies in Italy on a 100 basis in Q1-2017 and considers the percentage change compared to the previous quarter.





**Chart 10:** Breakdown of bankruptcies per economic sector (H1-2022)



Source: PwC analysis on data taken from "Registrazioni e fallimenti di imprese" – Il trimestre 2022, Istat, December 2022.



# Latest update on NPE transactions

## Key Message

In 2022, more transactions, in terms of GBV, have been closed compared to the previous year (€32.3bn vs €26.0bn, not

considering ongoing deals for €5.7bn), with three major securitizations leveraging on the GACS scheme, discontinued in June 2022.

The Italian NPL market recorded a higher number of transactions in 2022 compared to the previous year, with an expected total GBV of €38.0bn (of which €5.7bn pertaining to ongoing deals).

In terms of macro asset class, €19.8bn of the closed transactions referred to portfolios of Bad Loans, €6.1bn to deals involving UtP portfolios and €6.4bn refers to other transactions with mixed or not available underlying asset class. The announced transactions of mixed portfolios (i.e. Bad Loans and UtP) are expected to equal €5.7bn by the end of 2023.

Three relevant deals with GACS have been completed in the first part of the year, just before the GACS scheme was discontinued in June 2022: **Intesa SanPaolo** (Project Organa, €8.5bn), **UniCredit** (Project Itaca, €1.1bn) and **Iccrea** (€0.7bn). In H2-2022 the securitization mechanism have still been applied by the banks, but without the possibility of the State Guarantee on the Senior notes and the related impact on risk and pricing.

## Key Highlights : 2022 transactions

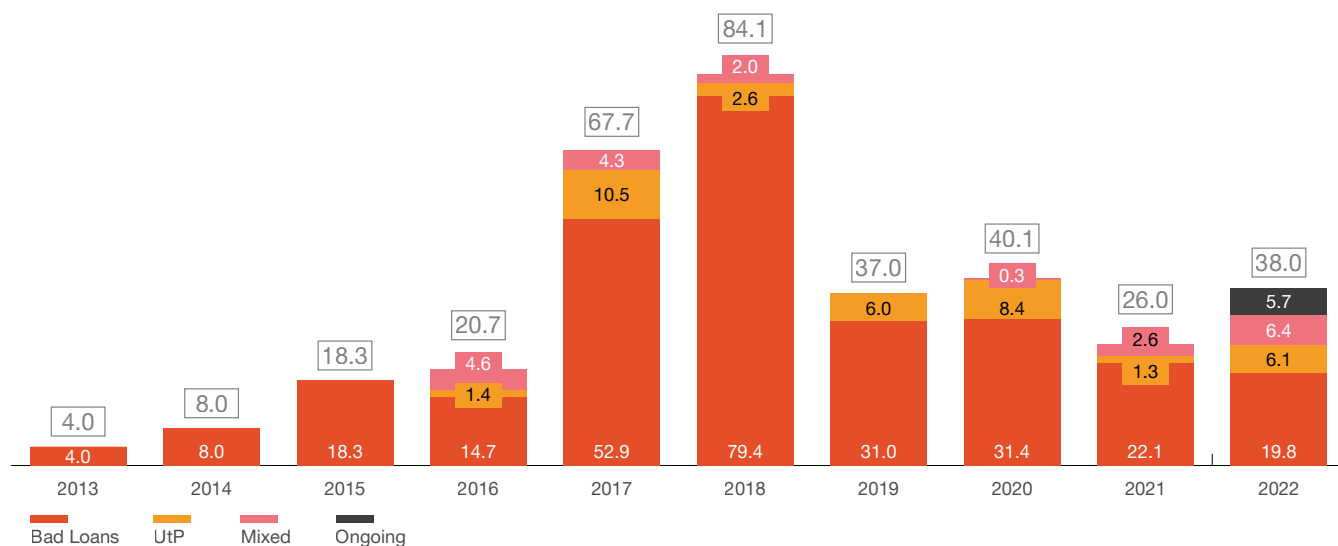
- **UniCredit** completed a GACS in the first half of the year (€1.1bn sold to Itaca SPV Srl); in the same period, the bank closed a significant deal with Prelios involving a €1.9bn mixed portfolio - sold to third Investors through a securitization mechanism - and a long term agreement with the Servicers regarding future UtP flows in the next years. In another relevant deal, UniCredit sold a mixed portfolio to Illimity (€1.3bn).
- **Intesa Sanpaolo** closed the largest deal in the first half of 2022, i.e. a Bad Loans portfolio for a total GBV of €8.5bn sold to Bayview and CRC through a securitization with a GACS scheme; furthermore, the bank finalized further disposals to CRC (€1.8bn) and AMCO (€1.4bn), reaching approx. €12bn of overall NPL sales in the above mentioned period.
- Moreover, in the primary market, the second relevant transaction in terms of volume was the disposal of €2.7bn Bad Loans portfolio sold by **UnipolReC** to AMCO, the largest Bad Loans true sale in recent years. **BPER** was also quite active in the market, completing two major deals with Gardant (€1.5bn of Bad Loans and €1.0bn of UtP).
- In the **secondary market**, the biggest transaction has been the disposal of public procurement claims by Apollo Global Management to Illimity, for a total nominal amount of €1.8bn.



Lecco, Lombardy, Italy.



**Chart 11:** NPL transactions trend in the Italian market (€bn)



Source: PwC estimates on public information and market rumours.

**Table 1.1:** Main closed transactions as of December 2022

Date	Seller	Volume (€m)	NPE category	Macro asset class	Buyer	Primary / Secondary market
<b>Transactions closed in 2022:</b>						
2022 Q4	Banche Popolari (L. Luzzatti)	545	Bad Loans	Mixed secured / unsecured	Luzzatti POP NPLS 2022 srl	Primary
2022 Q4	Intesa Sanpaolo	570	Bad Loans	Mainly Unsecured	Intrum	Primary
2022 Q4	Deutsche Bank Mutui	297	Bad loans & UTP	Secured	Italian Npl Opportunities Fund, Banca Finint	Primary
2022 Q4	Pool of banks	143	UtP	Mainly Secured	Keystone	Primary
2022 Q4	BBPM, Credite Agricole, Banco Desio & Banco di Sardega	600	UtP	n.a.	Fondo Efesto	Primary
2022 Q3	BPER	1,000	UtP	Mixed secured / unsecured	Gardant	Primary
2022 Q3	BPER	1,500	Bad Loans	Mixed secured / unsecured	Gardant	Primary
2022 Q3	UnipolReC	2,600	Bad Loans	Mixed secured / unsecured	Amco	Primary
2022 Q3	Monte dei Paschi di Siena	208	Bad Loans	Secured	Amco	Primary
2022 Q3	Monte dei Paschi di Siena	366	Bad Loans	Unsecured	Intrum	Primary
2022 Q3	Monte dei Paschi di Siena	344	UtP	n.a.	illimity	Primary
2022 Q2	UniCredit	1,300	Bad Loans	Unsecured	illimity	Primary
2022 Q2	Intesa Sanpaolo	120	UtP	n.a.	AMCO	Primary
2022 Q2	Intesa Sanpaolo	1,400	Bad Loans	Secured	AMCO	Primary
2022 Q2	Intesa Sanpaolo	1,800	n.a.	n.a.	CRC	Primary
2022 Q2	UniCredit	1,900	Bad loans & UTP	Mixed secured / unsecured	CRC	Primary
2022 Q2	illimity, Aporti S.r.l., Doria SPV S.r.l.	500	n.a.	n.a.	illimity, Other	Secondary
2022 Q2	Various sellers	724	n.a.	n.a.	Ifis Npl Investing	Primary
2022 Q2	MBCredit Solutions	676	Bad Loans	Unsecured	Ifis Npl Investing	Secondary
2022 Q2	Guber	126	n.a.	n.a.	Arrow Global	Primary
2022 Q2	UniCredit	1,100	n.a.	Mixed secured / unsecured	ITACA SPV SrL	Primary
2022 Q2	Iccrea	650	Bad Loans	n.a.	BCC NPLs 2022	Primary
2022 Q2	Intesa Sanpaolo	8,500	Bad Loans	Mixed secured / unsecured	CRC and Bayview	Primary
2022 Q2	illimity	475	Bad Loans	Mixed secured / unsecured	Confidential	Secondary
2022 Q2	Banco BPM	700	Bad loans & UTP	Mixed secured / unsecured	Gardant	Primary
2022 Q1	Confidential	600	Bad Loans	Unsecured	Sorec	Secondary
2022 Q1	Società gestione crediti Delta (SGCD)	134	Bad Loans	n.a.	Cassa di Risparmio della repubblica di San Marino	Primary
2022 Q1	Arrow Global	1,000	Bad loans & UTP	Mainly Unsecured	Exacta, Banco Azzoaglio	Secondary
2022 Q1	Apollo Global Management	1,800	n.a.	n.a.	illimity	Secondary
2022 Q1	UniCredit	222	Bad loans & UTP	Mixed secured / unsecured	Kruk Italia	Primary
Other transactions with deal value < €100m		437				
<b>Total (2022)</b>		<b>32,336</b>				

Source: PwC estimates on public information and market rumours of primary and secondary market. Data refer to transactions closed from January 2022 to December 2022. Some transactions involved groups of different investors; the volumes of these transactions have been allocated to each player, when possible. Otherwise, they have been assigned to the main investor. In case of securitization transactions, the total volume has been allocated to the main buyer, without taking into account eventual notes subscribed by the banks themselves and/or third parties (e.g. senior).

Source: PwC estimates on public information and market rumours.



**Table 2:** Main announced NPE transactions as of December 2022

Status	Seller	Volume (€m)	NPE category	Macro asset class	Primary / Secondary market
Ongoing	UniCredit	1,000	UtP / Bad Loans	Loans / Leasing / REOs	Primary
Ongoing	Intesa Sanpaolo	1,200	UtP	Loans	Primary
Ongoing	Goldman + other	1,200	Bad Loans	Leasing	Secondary
Ongoing	BBPM	400	n.a.	REOs	Primary
Ongoing	ICCREA	100	n.a.	Loans	Primary
Ongoing	ICCREA	400	UtP / Bad Loans	Loans	Primary
Ongoing	doValue	400	n.a.	Loans	Secondary
Ongoing	Societe Generale	80	Bad Loans	Leasing	Primary
Ongoing	Crédit Agricole Italia	400	UtP	Loans	Primary
Ongoing	UniCredit	500	n.a.	Loans	Primary
Pipeline	BNL	n.a.	UtP	n.a.	Primary
Pipeline	BP Sondrio	n.a.	UtP	n.a.	Primary
Pipeline	illimity	108	Bad Loans	n.a.	Secondary
Pipeline	MPS	400	UtP	n.a.	Primary
Pipeline	Crédit Agricole Italia	300	n.a.	n.a.	Primary
Pipeline	Banche Popolari (L. Luzzatti)	60	Mixed	n.a.	Primary
Pipeline	MPS	3,182	Mixed	n.a.	Primary
<b>Total</b>		<b>9,730</b>			

Source: PwC estimates on public information and market rumours of primary and secondary market. Data refer to announced transactions as of December 2022. Some transactions involved groups of different investors; the volumes of these transactions have been allocated to each player, when possible. Otherwise, they have been assigned to the main investor. In case of securitization transactions, the total volume has been allocated to the main buyer, without taking into account eventual notes subscribed by the banks themselves and/or third parties (e.g. senior).

Source: PwC estimates on public information and market rumours.

**Table 1.2:** Main closed transactions as of December 2021

Date	Seller	Volume (€m)	NPE category	Macro asset class	Buyer	Primary / Secondary market
<b>Transactions closed in 2021:</b>						
2021 Q4	Credit Agricole Italia	1,834	Bad Loans	n.a.	n.a.	Primary
2021 Q4	Various popular and cooperative banks	789	Bad Loans	Mixed secured / unsecured	Luzzatti POP NPLs 2021 Srl	Primary
2021 Q4	Italo Sicav	483	Bad Loans	Unsecured	ISCC Fintech	Secondary
2021 Q4	Gruppo Cassa Centrale	579	Bad Loans	Mixed secured / unsecured	Buonconsiglio 4 S.r.l.	Primary
2021 Q4	Intesa Sanpaolo/BPER	3,077	Bad Loans	Mixed secured / unsecured	Grogu Spv Srl	Primary
2021 Q4	Confidential	160	UtP	Secured	Confidential	Primary
2021 Q4	Iccrea	264	UtP	Mainly Secured	AMCO	Primary
2021 Q4	Iccrea	1,312	Bad Loans	Mixed secured / unsecured	BCC NPLs 2021	Primary
2021 Q4	UniCredit	2,167	Bad Loans	Mixed secured / unsecured	Olympia Spv Srl	Primary
2021 Q4	DE Shaw	350	Bad loans & UtP	Mixed secured / unsecured	illimity	Secondary
2021 Q4	BPER	1,000	Bad Loans	Mixed secured / unsecured	Confidential	Primary
2021 Q4	Cerberus	2,800	Bad Loans	Unsecured	Banca Ifis	Secondary
2021 Q3	Intesa Sanpaolo/BPER	225	Bad Loans	Unsecured	Intrum	Primary
2021 Q3	Intesa Sanpaolo/UBI	1,100	Bad Loans	Secured	Intrum e Deva Capital	Primary
2021 Q3	Intesa Sanpaolo/UBI	610	Bad Loans	Mixed secured / unsecured	Intrum e Deva Capital	Primary
2021 Q3	BPER	122	UtP	Secured	Efesto Fund (Italfondario)	Primary
2021 Q3	Intesa Sanpaolo	2,600	Bad Loans	Unsecured	MBCredit Solutions	Primary
2021 Q3	illimity	122	Bad Loans	Mixed Secured/Unsecured	Banca Finint	Secondary
2021 Q2	Confidential	179	Bad Loans	Mainly Secured	illimity	Primary
2021 Q2	UniCredit	220	Bad Loans	Unsecured	Kruk, MBCredit Solutions	Primary
2021 Q2	Banco BPM	1,510	Bad Loans	Mixed secured / unsecured	Credito Fondiario	Primary
2021 Q2	Multioriginator	200	UtP	n.a.	illimity Credit & Corporate Turnaround, Fund	Primary
2021 Q1	York Capital	400	Bad loans & UtP	Mixed secured / unsecured	Hoist Finance	Secondary
2021 Q1	BPER	248	UtP	Secured	Intrum, Deva Capital	Primary
2021 Q1	BNP Paribas	400	NPE	Secured	Confidential	Primary
2021 Q3	Aporti Srl	356	n.a.	n.a.	Confidential	Secondary
2021 Q1	illimity	129	Bad Loans	Unsecured	Sorec, Phinance Partnes	Secondary
2021 Q2	Deutsche Bank	980	Bad Loans	Mixed Secured/Unsecured	Eidos Partners	Secondary
Other transactions with deal value < €100m		913				
<b>Total (2021)</b>		<b>25,129</b>				

Source: PwC estimates on public information and market rumours of primary and secondary market. Data refer to transaction from January 2021 to December 2021. Some transactions involved groups of different investors; the volumes of these transactions have been allocated to each player, when possible. Otherwise, they have been assigned to the main investor. In case of securitization transactions, the total volume has been allocated to the main buyer, without taking into account eventual notes subscribed by the banks themselves and/or third parties (e.g. senior).



Treiso, Piedmont, Italy.





# What's new with GACS

## Key Message

The possibility to obtain the GACS scheme on NPL portfolio disposals expired in June 2022 and, so far, a renewal has not been confirmed even

if discussions are ongoing. Three main GACS transactions have been closed in 2022 for more than €10bn of GBV.

The Italian NPL market has benefited greatly from the state guarantee mechanism known as GACS or "*Garanzia sulla cartolarizzazione delle sofferenze*". The expiration date of this mechanism was on June 14, 2022 and no agreement or a possible renewal has been reached between Italy and the EU since that date, partly because of the political conjuncture the country went through.

As of today, discussions with the European Authorities are ongoing, with a proposal for a 24-month renewal of the public guarantee scheme with an option to extend for further 12 months; at the same time, Italian politicians remain cautious

on the renewal of the GACS scheme also by looking at the collection performances recorded by Servicers on the portfolios that have been subject to the public guarantee.

Anyway, banks are pushing for a renewal of the public guarantee scheme as GACS has facilitated their de-risking process in the last few years, bringing an overall benefit to the Italian credit system. A renewal would be relevant for banks especially today, when they are preparing to face the effects of the recession that might impact the Italian economy in the coming months.

The proposal advanced by banks and specialized Investors to extend

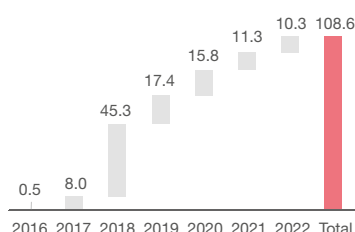
the possibility to obtain the GACS also for UtP portfolios does not seem to have been taken up, believing that this could lead the market to equate Bad Loans and UtPs with consequent impacts on the originator banks.

No news either on the possibility of the establishment of the so-called "Reoco 130", that would better support the servicing of secured exposures.

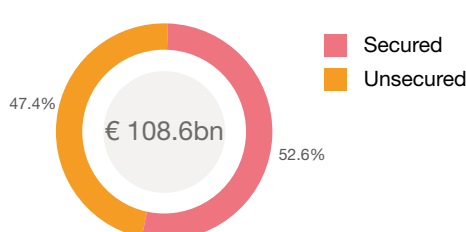
It is currently under consideration by the Authority the possibility of raising the minimum accepted rating for the senior notes by a notch, bringing it to BBB+ with a consequent reduction of the state guarantee on senior tranches from 100% to 80%, even if the latter might make the use of the GACS scheme less attractive for sellers.

**Chart 12:** Key features of NPE portfolios subject to securitization with GACS

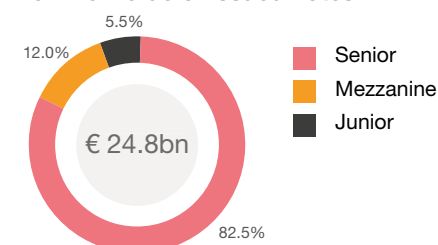
**GBV by issuing date (€bn)\***



**GBV by type of exposure**



**Nominal value of issued notes**



Note: (\*) Issue date is different from the closing date.

## Focus – Transactions with GACS

Since the introduction of this mechanism, forty-five publicly guaranteed portfolios have been sold for a total GBV of almost €110bn. Considering the current year, three transactions have been announced and closed:

- Intesa Sanpaolo's Project Organa relating to a portfolio with a total GBV of €8.5bn.
- UniCredit's Project Itaca relating to a portfolio with a total GBV €1.1bn.
- Iccrea's Project BCC NPLs 2022 relating to a portfolio with a total GBV of €0.7bn.

The number of transactions where the state guarantee was required and approved is three times compared to H1-2021 and this increase is mainly related to the aforementioned deadline of June 2022.

In terms of portfolio composition, the total forty-five transactions were almost equally split between GBV secured (52.6%) and unsecured (47.4%); furthermore, the total nominal value of issued notes is €24.8bn, represented by Senior notes (82.5%), Mezzanine (12.0%) and Junior notes (5.5%).

According to the DBRS – Morningstar assessment published in September 2022, 14 out of the top 25 GACS in terms of GBV (and for which data are available) recorded an under performance compared to the initial business plans.

Among the 25 GACS analyzed, the worst performance in terms of actual versus expected collection has been recorded by Project *Maggese*, closed in 2018 by *Cassa di Risparmio di Asti*,

related to a portfolio with a total GBV of €0.7bn which registered approx. -50.7% compared to the expected collections.

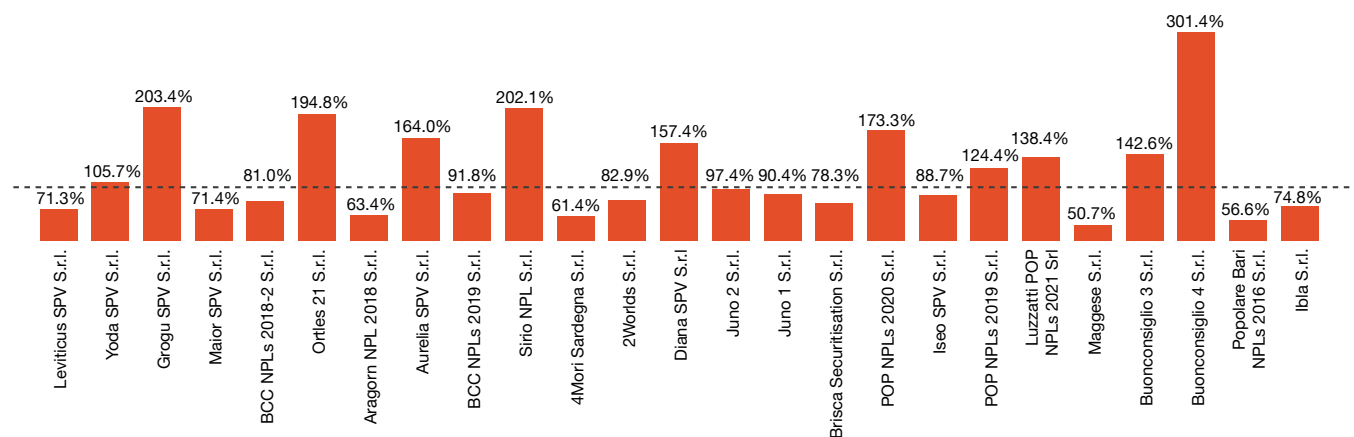
On the other hand, the best performance was recorded by Project *Buonconsiglio 4*, closed by CCB in 2021 and related to a portfolio with a total GBV of €0.6bn, which registered +301.4% compared to the business plan.

To support collections, Servicers and Investors are beginning to sell the

receivables underlying the notes. Indeed, collections from the sale of loans exceeded those from traditional judicial and extrajudicial recovery activities (41.0%, 39.0%, and 20.0% of total collections recorded, respectively), as stated in a dedicated analysis conducted by Scope Ratings and published in August 2022. This result is attributable to the sale of €42.0mln of notes related to Project ACE (*Leviticus SPV*) involving a portfolio with a GBV of €7.4bn.

**Chart 13:** Cumulative net collection actual data compared with business plan forecasts

### Cumulative net collection ratio



Source: PwC analysis on DBRS - Morningstar' report "European Nonperforming Loan Securitisations Performance - 2022 Update" - September 2022 (last IPD @Q3-2022).



Table 3 1/2: List of NPE securitisations with GACS since 2016

Main banks involved	SPV	Servicer	Issuing date	GBV (€/bn)	% Secured	Rated Notes (at nominal value)					Buyer
						Senior (% GBV)	Mezzanine (% GBV)	Junior (% GBV)	Senior* Yield (%)	Mezzanine* Yield (%)	
Banca Popolare di Bari	Popolare Bari NPLs 2016 S.r.l.	Prelios	Aug-16	0.5	63.4%	26.4%	2.9%	2.1%	2.9%	8.4%	n.a
Carige	Brisca Securitisation S.r.l.	Prelios	Jul-17	0.9	77.2%	28.5%	3.3%	1.3%	3.1%	8.4%	n.a
Creval	Elrond NPL 2017 S.r.l.	Cerved	Jul-17	1.4	73.5%	33.0%	3.0%	1.4%	2.9%	8.4%	n.a
UniCredit	FINO 1 Securitisation S.r.l.	doValue	Nov-17	5.4	52.0%	12.1%	1.3%	0.9%	3.5%	7.1%	n.a
Banca Popolare di Bari	**Popolare Bari NPLs 2017 S.r.l.	Prelios	Dec-17	0.3	56.1%	25.3%	3.2%	4.2%	2.7%	8.4%	n.a
MPS	Siena NPL 2018 S.r.l.	Cerved, Prelios, doValue, Credito Fondiario	Jan-18	24.1	41.6%	12.1%	3.5%	2.3%	3.5%	10.0%	n.a
Creval	Aragorn NPL 2018 S.r.l.	Cerved, Credito Fondiario	Jun-18	1.7	75.4%	30.5%	4.0%	0.6%	2.9%	9.4%	"Banco BPM / Senior Elliott / Mezzanine e Junior"
BPER	4Mori Sardegna S.r.l.	Prelios	Jun-18	1.0	53.0%	22.2%	1.2%	0.8%	3.3%	10.4%	n.a
Banco Desio e Brianza	2Worlds S.r.l.	Cerved	Jun-18	1.0	71.6%	28.8%	3.0%	0.9%	2.8%	10.4%	n.a
Banco BPM	Red Sea SPV S.r.l.	Prelios	Jul-18	5.1	76.6%	32.5%	3.0%	1.0%	3.0%	8.4%	n.a
ICCREA	BCC NPLs 2018 S.r.l.	Prelios	Jul-18	1.0	72.0%	27.0%	3.0%	1.0%	1.4%	8.4%	n.a
Cassa di Risparmio di Asti	Maggese S.r.l.	Prelios	Jul-18	0.7	63.4%	24.5%	3.5%	1.6%	2.9%	8.4%	n.a
BNL (BNP Paribas)	Juno 1 S.r.l.	Prelios	Jul-18	1.0	30.4%	14.2%	2.7%	0.2%	3.0%	10.4%	n.a
UBI	Maior SPV S.r.l.	Prelios	Aug-18	2.7	46.6%	22.9%	2.2%	1.0%	2.9%	8.4%	n.a
Banca Popolare di Ragusa	Ibla S.r.l.	doValue	Sep-18	0.3	81.8%	24.4%	2.6%	1.0%	3.0%	10.4%	n.a
BPER	Aqui SPV S.r.l.	Prelios	Nov-18	2.1	59.5%	26.2%	3.0%	0.5%	2.9%	9.4%	n.a
Banca Popolare di Bari	POP NPLs 2018 S.r.l.	Cerved	Nov-18	1.6	65.7%	27.0%	3.2%	1.0%	2.7%	8.4%	n.a
Carige	Riviera NPL S.r.l.	Credito Fondiario, doValue	Dec-18	1.0	39.4%	18.2%	3.1%	1.0%	3.1%	9.4%	n.a
ICCREA	BCC NPLs 2018-2 S.r.l.	doValue	Dec-18	2.0	58.4%	23.8%	3.0%	1.0%	1.3%	8.4%	n.a
Banco BPM	Leviticus SPV S.r.l.	Credito Fondiario	Feb-19	7.4	66.9%	19.5%	3.0%	3.4%	3.0%	10.4%	n.a
BNL (BNP Paribas)	Juno 2 SPV S.r.l.	Prelios	Feb-19	1.0	60.7%	21.1%	5.0%	1.3%	3.0%	10.4%	SPF Investment Management
UniCredit	Prisma SPV S.r.l.	doValue	Oct-19	6.1	64.0%	20.0%	1.3%	0.5%	3.9%	11.4%	n.a
UBI	Iseo SPV S.r.l.	Credito Fondiario, doValue	Dec-19	0.9	92.2%	39.1%	2.9%	1.6%	2.9%	8.4%	Elliott
ICCREA	BCC NPLs 2019 S.r.l.	doValue	Dec-19	1.3	65.9%	26.8%	4.0%	1.0%	2.7%	8.9%	n.a
Banca Popolare di Bari	POP NPLs 2019 S.r.l.	Prelios, Fire	Dec-19	0.8	46.9%	20.9%	3.0%	0.6%	2.7%	11.9%	n.a
BPER	Spring SPV S.r.l.	Prelios	Jun-20	1.4	52.5%	23.2%	1.5%	0.2%	2.9%	11.9%	n.a
Banca Popolare di Sondrio	Diana SPV S.r.l.	Prelios	Jun-20	1.0	64.7%	23.5%	3.5%	0.4%	2.9%	11.4%	n.a

Table 3 2/2: List of NPE securitisations with GACS since 2016

Main banks involved	SPV	Servicer	Issuing date	GBV (€/bn)	% Secured	Rated Notes (at nominal value)					Buyer
						Senior (% GBV)	Mezzanine (% GBV)	Junior (% GBV)	Senior* Yield (%)	Mezzanine* Yield (%)	
ICCREA	BCC NPLs 2020 S.r.l.	doValue	Nov-20	2.3	59.8%	22.2%	1.7%	1.0%	2.7%	10.4%	n.a
UniCredit	Relais SPV S.r.l.	doValue	Dec-20	1.6	86.5%	29.4%	5.7%	0.6%	3.9%	11.9%	n.a
Cassa Centrale	Buonconsiglio 3 S.r.l.	Guber	Dec-20	0.7	65.5%	22.7%	3.1%	0.7%	2.9%	11.9%	n.a
UBI	Sirio NPL S.r.l.	Prelios	Dec-20	1.2	53.7%	23.6%	2.8%	0.8%	2.9%	11.9%	Investitore Istituzionale
Intesa Sanpaolo	Yoda SPV S.r.l.	Intrum	Dec-20	6.0	41.2%	16.7%	3.5%	0.3%	2.5%	11.5%	n.a
Banca Popolare di Bari	POP NPLs 2020 S.r.l.	Credito Fondiario, Fire	Dec-20	0.9	55.9%	26.3%	2.7%	1.1%	2.7%	14.4%	n.a
Alba Leasing	Titan SPV S.r.l.	Prelios	Dec-20	0.3	87.7%	27.0%	4.5%	3.0%	2.9%	10.4%	n.a
BPER	Summer SPV S.r.l.	Fire	Dec-20	0.3	44.4%	26.5%	3.1%	0.3%	2.9%	14.4%	Investitori istituzionali
Banco BPM	Aurelia SPV S.r.l.	Credito Fondiario	Jun-21	1.5	50.3%	22.6%	2.6%	0.8%	2.9%	10.4%	Investitori istituzionali
UniCredit	Olympia SPV S.r.l.	Italfondiario, doValue	Nov-21	2.2	35.0%	12.0%	1.2%	0.1%	3.9%	11.9%	Italian Recovery Fund
Iccrea	BCC NPLs 2021	doValue	Nov-21	1.3	63.5%	21.6%	3.0%	1.0%	2.8%	10.4%	n.a
Intesa Sanpaolo/ BPER	Grogu SPV S.r.l.	Intrum, Prelios	Dec-21	3.1	51.0%	15.0%	1.2%	0.1%	2.7%	11.5%	Fortress
Cassa Centrale	Buonconsiglio 4 S.r.l.	Prelios	Dec-21	0.6	54.1%	20.3%	2.9%	1.0%	2.8%	17.4%	Waterfall Asset Management
Banca Popolare di Sondrio	Luzzatti POP NPLs 2021 Srl	doValue	Dec-21	0.8	53.7%	24.2%	3.2%	1.3%	n.a.	n.a.	n.a
Credit Agricole Italia	Ortles 21 S.r.l.	doValue, Cerved, Italfondiario	Dec-21	1.8	44.7%	18.5%	2.2%	0.8%	2.7%	11.9%	n.a
ICCREA	BCC NPLs 2022 S.r.l.	doValue	May-22	0.6	n.a.	22.0%	3.0%	1.0%	2.9%	11.9%	n.a
Intesa Sanpaolo	Organa SPV	Intrum	May-22	8.5	28.8%	11.4%	1.5%	0.2%	2.5%	11.5%	CRC & Bayview
UniCredit	Itaca SPV S.r.l.	doValue	Jun-22	1.1	29.0%	11.1%	2.1%	0.5%	3.4%	11.9%	CRC
Total				108.6							
Weighted average					52.9%	19.1%	2.8%	1.3%	3.1%	10.3%	

Source: PwC analysis on Rating Agencies' reports.

Note: (\*) Annual yield of notes has been calculated as interbank rate as of June 2022 plus applicable spread and considering floors when applicable to variable rates.

## Focus on Real Estate trends

### Key Message

In H1-2022, the number of normalized transactions registered an increase compared to H1-2021. Institutional investments in commercial real estate amounted to €9.1bn in

Q3-2022, an increase of 63% compared to the same period of the previous year, with the Office sector accounting for the majority of investment volumes.

Real estate auctions published in H1-2022 were approximately 77,600, essentially at the same level compared to the same period last year.

### Volume of real estate transactions in H1-2022

The number of normalized transactions during the H1-2022 saw an increase of 10% compared to the same period the year. The increase in transactions

was recorded for all asset classes with industrial us showing the most significant increase (+12.5%). See **Table 4**.

**Table 4:** Italian NNT comparison by sector

Asset type	Q1-2021	Q2-2021	Q1-2022	Q2-2022	H1-2021	H1-2022	Delta (%) H1-22-21
Residential	162,258	201,492	181,767	218,720	363,750	400,487	10.1%
Office	2,744	3,288	3,078	3,317	6,032	6,395	6.0%
Retail	7,953	9,740	9,162	10,042	17,693	19,204	8.5%
Industrial	2,803	3,837	3,465	4,002	6,640	7,467	12.5%
<b>Total</b>	<b>175,758</b>	<b>218,358</b>	<b>197,472</b>	<b>236,081</b>	<b>394,115</b>	<b>433,553</b>	<b>10.0%</b>

Source: PwC analysis on Italian IRS data

NNT is the number of standardized real estate units sold, taking into account the share of the property transferred..

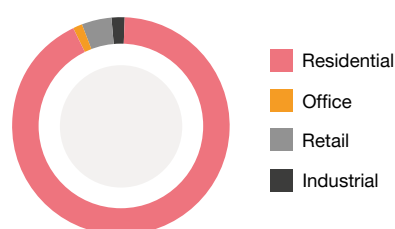
After 2021 recorded a great number of total transactions, The first half of 2022 recorded a further increase in the level of transactions compared to the first half of 2021.

All major asset classes recorded an increase in transactions. Offices confirm the recovery after the year of COVID-19, recording the largest increase. Residential confirms the interest among private investors, exceeding the transaction level of H1-2021. See **Table 4**.

In terms of residential transactions, the first half of 2022 saw an average increase of 10% across Italy compared to the same period last year. The South recorded the largest increase (13.%), followed by the Centre (12.3%) and the North (7.6%). See **Table 5**.

**Chart 14:** Italian NNT<sup>1</sup> comparison by sector

Italian NNT comparison by sector H1-2022



Source: PwC analysis on Italian IRS data.

**Table 5:** Residential NNT by geographic area

Area	H1-2021	H1-2022	Delta (%) H1-2022 vs H1-2021
North	198,274	213,367	7.6%
Center	75,178	84,391	12.3%
South	90,296	102,729	13.8%
<b>Italy</b>	<b>363,748</b>	<b>400,487</b>	<b>10.1%</b>

Source: PwC analysis on Italian IRS data.

1. NNT is the number of standardized real estate units sold, taking into account the share of the property transferred.





Naples, Campania, Italy.

Geographically, the number of transactions in the office sector shows an overall increase only in Central and Northern Italy. The South, on the other hand, shows a significant drop compared to the same period last year. This shows that there is a much more dynamic market in this asset class, particularly in Northern Italy. See **Table 6**.

The retail asset class shows a substantial recovery after the pandemic year, recording an increase throughout the country. This time the figure is in contrast to the office data, with Southern Italy showing the largest increase over last year (+12.2%). The Centre and the North, however, show a significant increase. See **Table 7**.

The industrial asset class has been showing increasingly high transaction numbers in recent years. The figure for the first half of 2022 also shows a substantial increase, particularly in the North (+17.6%). Here, too, the South shows a negative figure (-5.4%). See **Table 8**.

**Table 6:** Office NNT by geographic area

NNT Office	H1-2021	H2-2022	Delta (%) H1-22-21
North	3,549	3,791	6.8%
Center	1,218	1,397	14.7%
South	1,265	1,209	-4.4%
Italy	6,032	6,397	6.0%

Source: PwC analysis on Italian IRS data.

**Table 7:** Retail NNT by geographic area

NNT Retail	H1-2021	H2-2022	Delta (%) H1-22-21
North	8,675	9,202	6.1%
Center	4,071	4,450	9.3%
South	4,946	5,551	12.2%
Italy	17,692	19,203	8.5%

Source: PwC analysis on Italian IRS data.

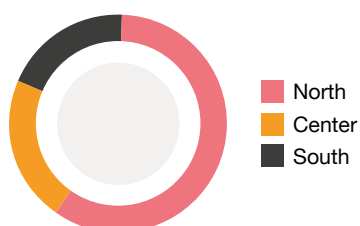
**Table 8:** Industrial NNT by geographic area

NNT Industrial	H1-2021	H2-2022	Delta (%) H1-22-21
North	4,276	5,027	17.6%
Center	1,157	1,299	12.3%
South	1,208	1,143	-5.4%
Italy	6,641	7,469	12.4%
Total	30,365	33,066	8.9%

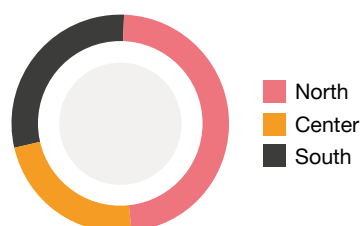
Source: PwC analysis on Italian IRS data.

**Chart 15:** Non Residential NNT<sup>1</sup> comparison by sector

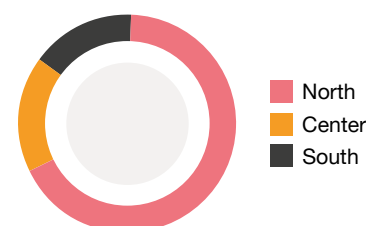
Office NNT by geographic area - H1-2022



Retail NNT by geographic area - H1-2022



Industrial NNT by geographic area - H1-2022



Source: PwC analysis on Italian IRS data.

1. NNT is the number of standardized real estate units sold, taking into account the share of the property transferred.

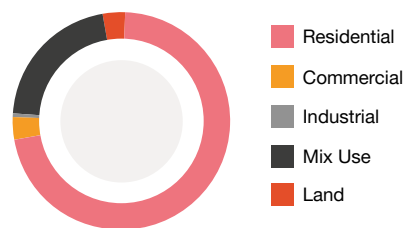
## Mortgage loans trend in Italy

1,017,087 mortgages were underwritten in 2021, with an increase of 25.8% compared to 2020, for over €101bn, +29.5% compared to 2020. Analyzing the distribution of mortgaged properties, 71.8% of the properties are in residential deeds which accounts for about €53.0bn, +30% compared to 2020. Among the mortgage deeds for non-residential categories, the mixed use category has the highest share in terms of both number of properties (21.0%). See **Table 9**.

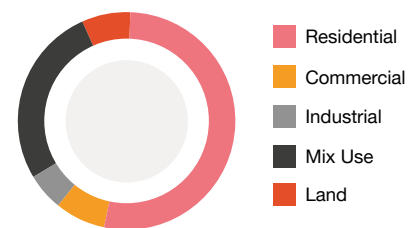
**Table 9:** Properties Mortgaged and Secured Debt by Use

Use	N. of Properties Mortgaged 2021	N. of Properties Mortgaged 2020	Delta (%) Properties Mortgaged Y21 - 20	% Mortgaged Allocation 2021	Secured Debt 2021 (ml €)	Secured Debt 2020 (ml €)	Delta (%) Secured Debt Y21 - 20	% Debt Allocation 2021
Residential	730,557	559,970	30.5%	71.8%	53,723	39,325	36.6%	52.9%
Commercial	34,518	33,384	3.4%	3.4%	7,572	7,700	-1.7%	7.5%
Industrial	5,377	5,517	-2.5%	0.5%	5,675	5,049	12.4%	5.6%
Mix Use	212,796	175,820	21.0%	21.0%	27,136	22,162	22.4%	26.8%
Land	33,839	33,877	-0.1%	3.3%	7,364	4,099	79.7%	7.2%
<b>Total</b>	<b>1,017,087</b>	<b>808,568</b>	<b>25.8%</b>	<b>100%</b>	<b>101,470</b>	<b>78,335</b>	<b>29.5%</b>	<b>100%</b>

% Mortgaged Allocation 2021 By Use



% Debt Allocation 2021 By Use



Source: PwC analysis on Italian IRS data

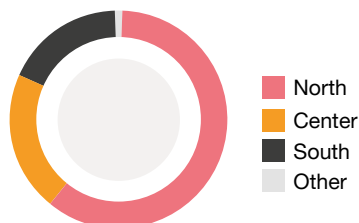
Use: Commercial is referred to office, retail, hospitality and other. Mix use is referred to assets with different uses included in the same mortgage.

Geographical distribution reveals a high concentration, especially in terms of number of properties, in the northern regions. The number of mortgaged properties and debt capital, showed a general increase in volumes in 2021. See **Table 10**.

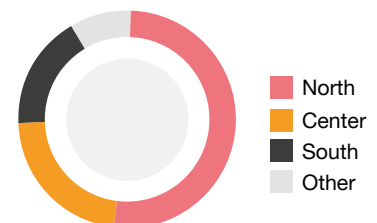
**Table 10:** Properties Mortgaged and Secured Debt by Geographic Area

Area	N. of Properties Mortgaged 2021	N. of Properties Mortgaged 2020	Delta (%) Properties Mortgaged Y21 - 20	% Mortgaged Allocation 2021	Secured Debt 2021 (ml €)	Secured Debt 2020 (ml €)	Delta (%) Secured Debt Y21 - 20	% Debt Allocation 2021
North	615,279	484,992	26.9%	60.5%	52,180	44,960	16.1%	51.4%
Center	212,012	166,791	27.1%	20.8%	22,801	16,552	37.8%	22.5%
South	178,991	149,513	19.7%	17.6%	17,227	13,114	31.4%	17.0%
Other	10,805	7,272	48.6%	1.1%	9,263	3,709	149.7%	9.1%
<b>Total</b>	<b>1,017,087</b>	<b>808,568</b>	<b>25.8%</b>	<b>100%</b>	<b>101,471</b>	<b>78,335</b>	<b>29.5%</b>	<b>100%</b>
<b>Total</b>	<b>1,017,087</b>	<b>808,568</b>	<b>25.8%</b>	<b>100%</b>	<b>101,470</b>	<b>78,335</b>	<b>29.5%</b>	<b>100%</b>

% Mortgaged Allocation 2021 by Geography



% Debt Allocation 2021 by Geography



Source: PwC analysis on Italian IRS data

Other: assets in different locations included in the same mortgage.

## Investments in the commercial real estate market

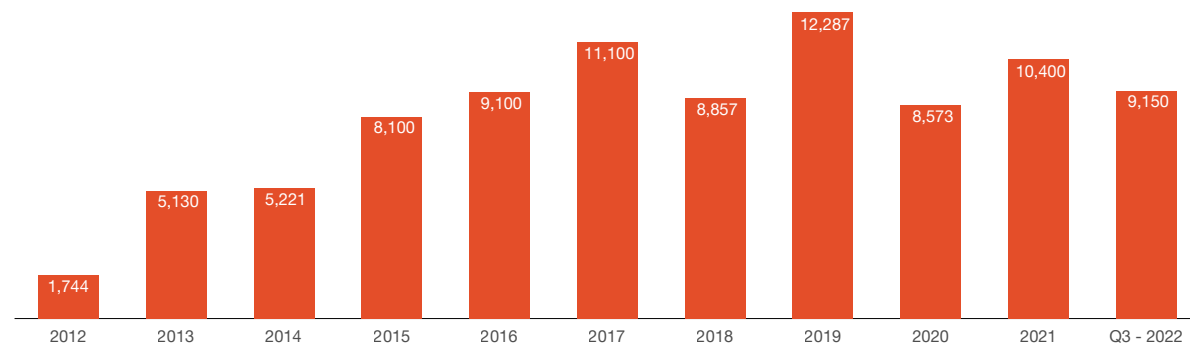
In Q3-2022, investment volumes in commercial real estate amounted to €9.1bn, approximately 60% higher compared to the previous year. See **Chart 16**.

The year 2022 is proving to be a record year in terms of investment volume, and by the end of the year it could exceed the investment volume recorded in 2019. The Office asset class accounted for the majority of investment volumes

in H1-2022 with 42%, followed by Industrial/logistics with 26%, Hospitality 12%, Residential with 8% and Retail with 6%. See **Chart 17**.

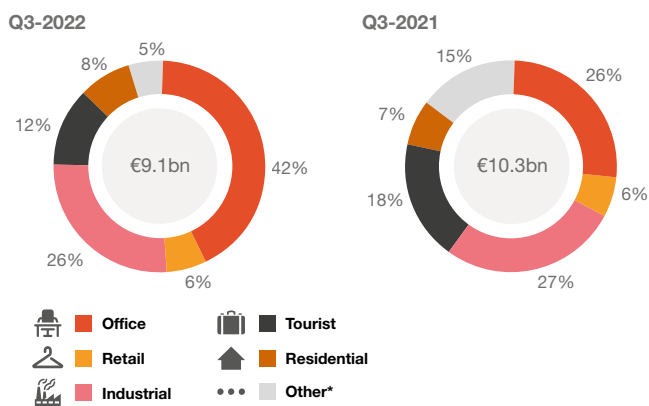
The comparison between Q3-2022 and last shows how offices have returned as the predominant asset class in the Italian institutional market. The majority of investments in this asset class are mainly directed towards Milan and Rome.

**Chart 16:** Investments in commercial real estate market

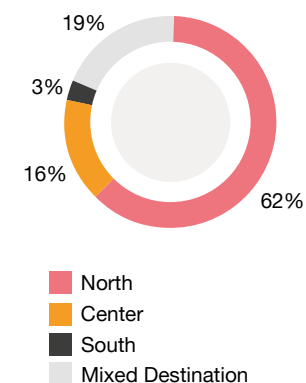


Source: PwC elaborations on Nomisma, BNP Paribas RE, CBRE and Colliers data.

**Chart 17:** Investments in commercial real estate market – Asset class (Q3-2022 – Q3-2021)



**Chart 18:** Investments in commercial real estate market by geographic area (Q3-2022)



Source: PwC elaborations on Nomisma, BNP Paribas RE, CBRE and Colliers data.

(\*) Other category includes Healthcare, Senior Living, Data Center, Development, Education and Public Sector.

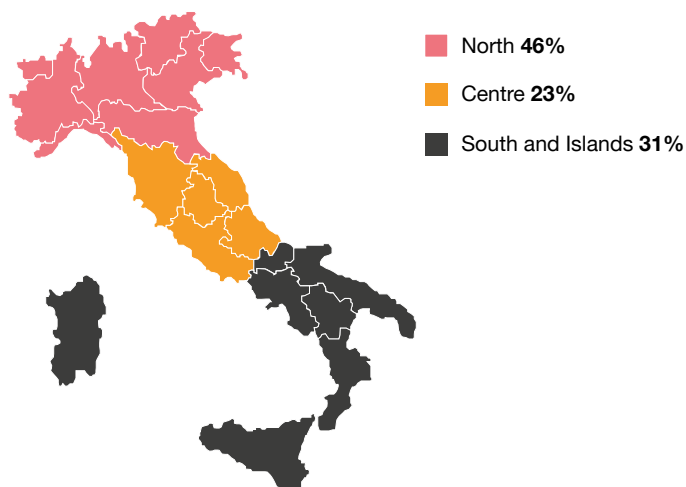


## Closed Secured Portfolio

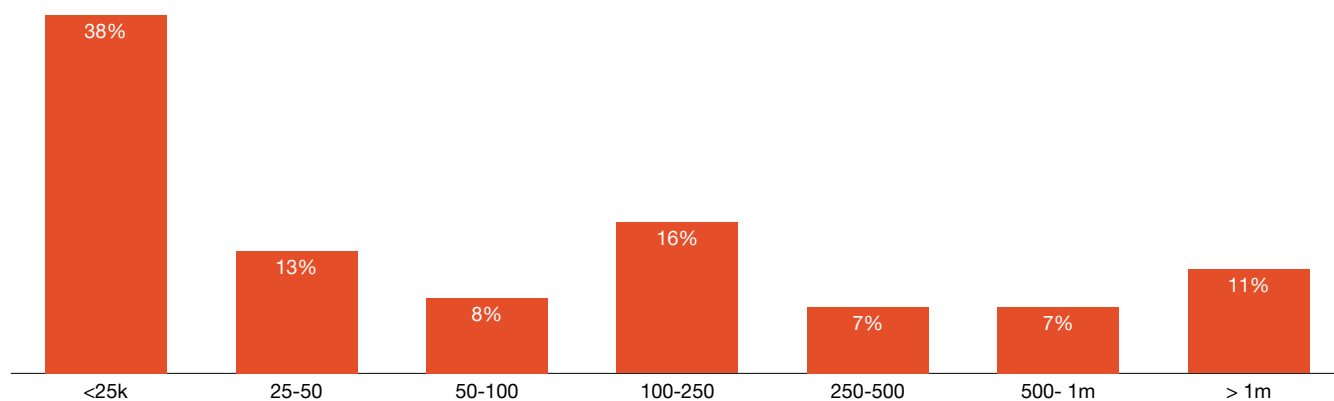
Based on the closed secured portfolio managed by servicers, the greatest concentration is located in Northern Italy (46%) followed by the South and Islands (31%) and then the Center (23%). See **Chart 19**.

The breakdown by city size shows that the prevalence of closed secured portfolios is concentrated in cities with less than 25,000 inhabitants, confirming the figure for the second half of 2021. The cluster with the lowest percentage is that of cities with a population in the 250k - 500k range. See **Chart 20**.

**Chart 19:** Closed Secured Portfolio by Area



**Chart 20:** Closed Secured Portfolio by City Size (residents)



Source: PwC analysis based on data provided by Servicers; data has been directly provided by Servicers and has not been verified by PwC; Servicers' organizational, industrial and operating structures vary greatly. Comparing the information presented above requires a correct analysis and understanding of the competitive landscape and servicer business model.

Camogli, Liguria, Italy.

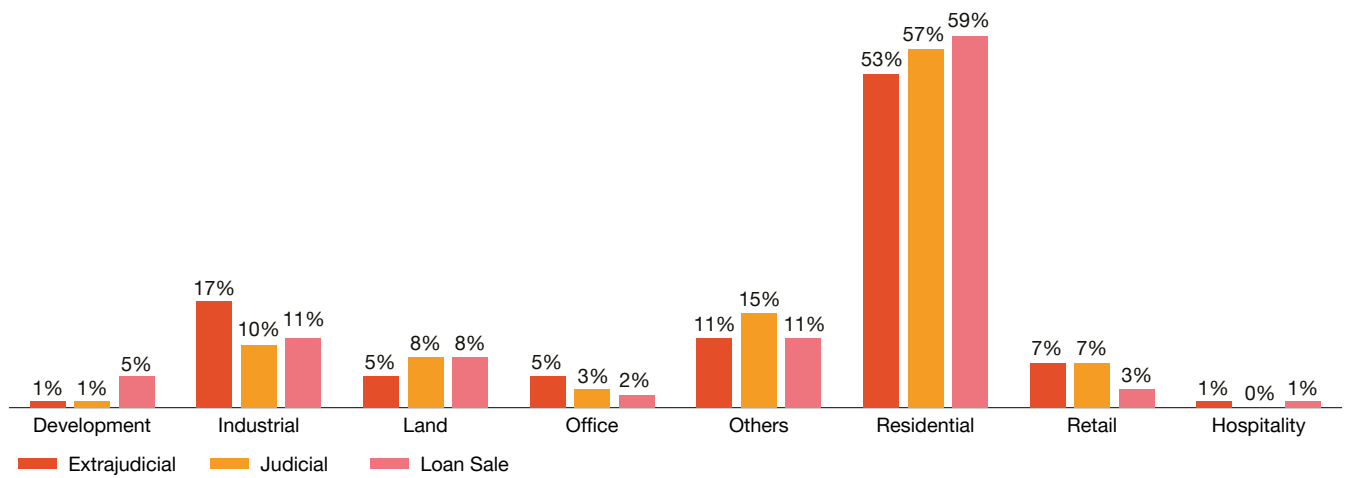


The below graphs show the closed portfolios by the Servicers, considering the recovery strategies and the recovery rate by asset class. For all recovery strategies, the main asset class is residential. The asset class in closed portfolios with the lowest share

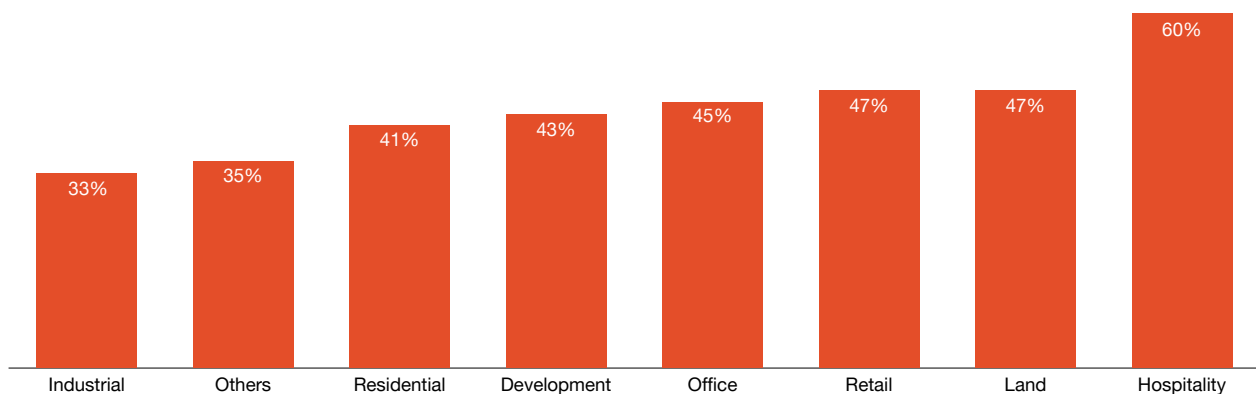
over the total volume is hospitality. See **Chart 21**.

Considering the recovery rate by each asset class, the Hospitality is showing the highest performance (60%) followed by Land e Retail (47%). See **Chart 22**.

**Chart 21:** Closed portfolio by asset class (GbV)



**Chart 22:** Recovery rate by asset class on closed portfolio



Source: PwC analysis based on data provided by Servicers; data has been directly provided by Servicers and has not been verified by PwC; Servicers' organizational, industrial and operating structures vary greatly. Comparing the information presented above requires a correct analysis and understanding of the competitive landscape and servicer business model.

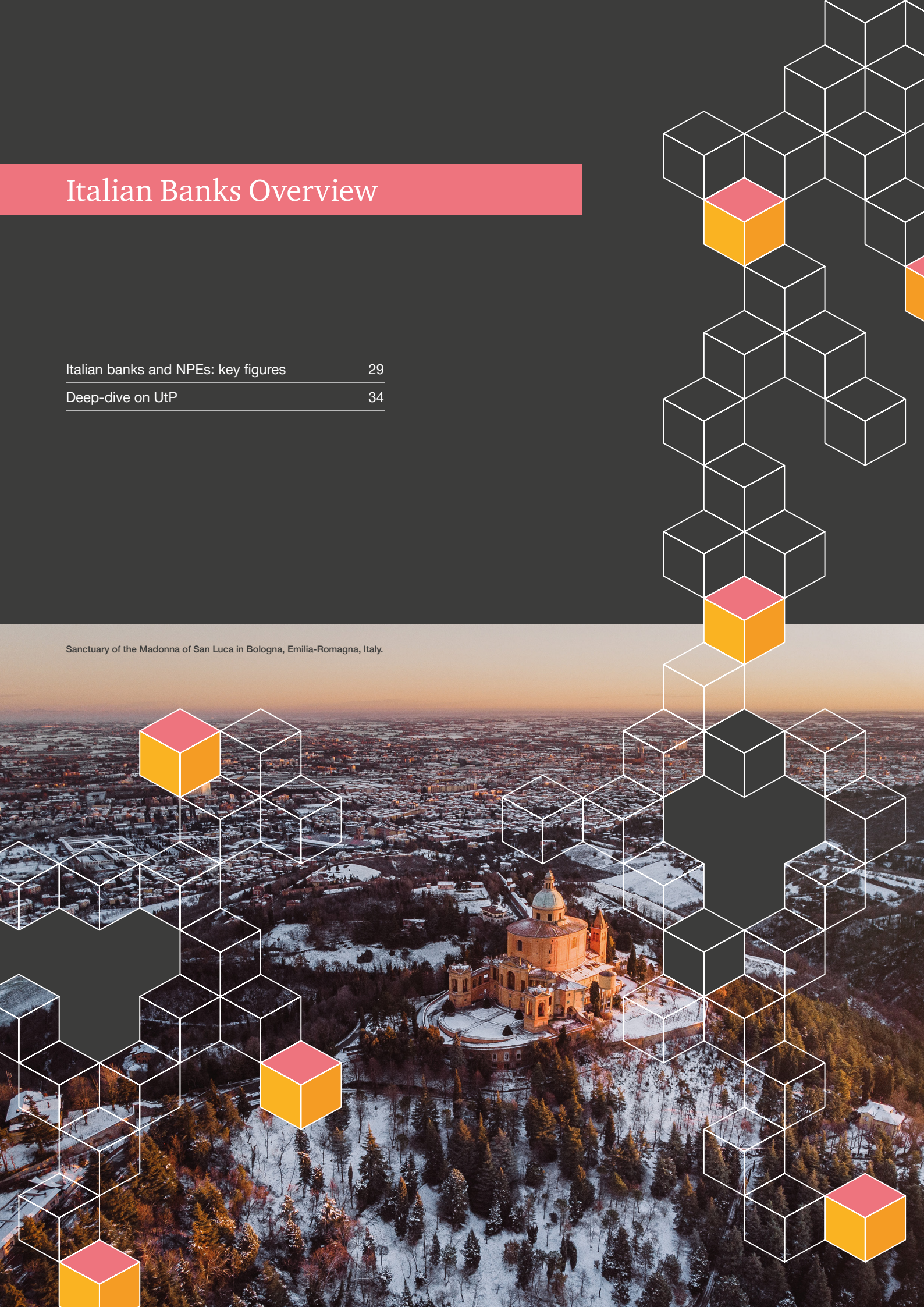
The analysis in Chart 12 is based on data from 7 players and returned with arithmetic averages.



# Italian Banks Overview

Italian banks and NPEs: key figures	29
Deep-dive on UtP	34

Sanctuary of the Madonna of San Luca in Bologna, Emilia-Romagna, Italy.





# Italian banks and NPEs: key figures

## Key Message

The Top 10 Italian banks have been continuing to deleverage their banking books in the first half of the year: the average NPE ratio is 4.0% at H1-2022, lower than the average at YE-2021 that

was 4.6%, and below EBA threshold which is at 5.0%.

No major announcements have been made on industrial plans since end

of 2021: the willingness to keep at its lowest level the incidence of NPE in the banking books is still a must in all the banks' strategies.

This report covers the following top 10 Italian banks:

- Intesa Sanpaolo ("ISP").
- UniCredit ("UCG").
- Banco BPM ("BBPM").
- BPER Banca ("BPER").
- Credito Emiliano ("CREDEM").
- Banca Monte dei Paschi di Siena ("MPS").
- Crédit Agricole Italia ("CA ITALIA").
- Banca Nazionale del Lavoro ("BNL").
- Iccrea Banca ("ICCREA").
- Cassa Centrale Banca ("CCB").

**Chart 23** focuses on the Gross NPE ratio and the NPE Coverage ratio for the Top 10 Italian banks, which indicates respectively an average of 4.0% and 55.6%. On the one hand, ICCREA shows the highest Gross NPE ratio with a value of 5.9% while, on the other hand, CREDEM stands at the lowest extreme with 2.2%.

Comparing data at H1-2022 with YE-2021, all the Top 10 Italian banks have decreased their Gross NPE ratio, in particular Intesa Sanpaolo that has passed from 3.2% to 2.3%, with a change of -27.3% in only two quarters. This evolution was possible, among other reasons, also thanks to the de-risking initiatives and in particular to the securitization of non-performing loans with GACS for €3.9bn (€0.9bn net), finalized in April 2022. Total deal amounts for €8.5bn, of which ca €4bn were already deconsolidated from the Balance Sheet at YE-2021.

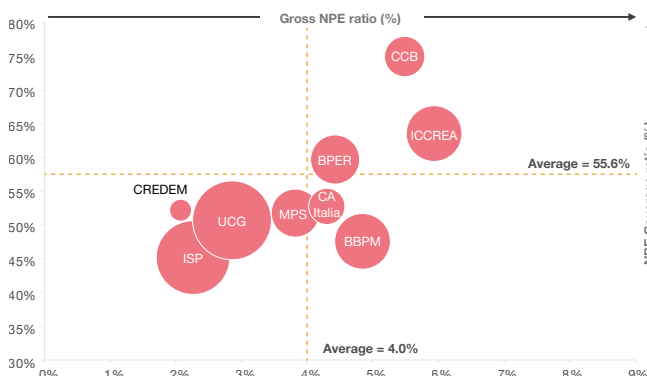
Considering the NPE Coverage ratio, CCB shows the highest value (76.0%) and Intesa Sanpaolo the lowest

(44.8%). However, Coverage ratios are not perfectly comparable, as they are influenced by several factors that are unique in every bank (e.g. write-off policies, weight of secured component and portfolio vintage, directly linked with Calendar Provisioning application, etc.).

In terms of Gross Bad Loans ratio and Bad Loans Coverage ratio, the

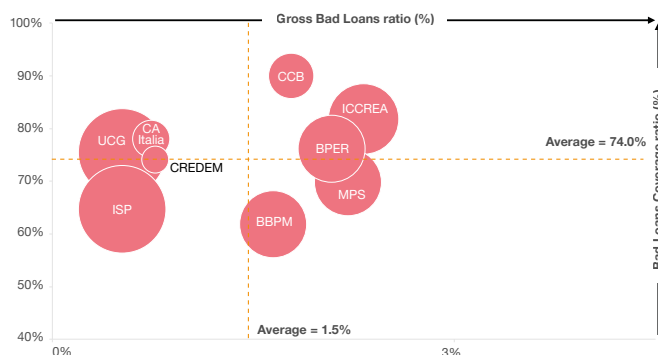
average stands at 1.5% (**Chart 24**), where ICCREA reaches the highest Gross Bad Loans ratio at 2.4% (decreasing from 3.0% at YE- 2021) and UniCredit the lowest, reporting a ratio of 0.7%. Coverage ratio for Bad Loans average stands at 74.0%, with CCB at the highest value with 89.2% and Banco BPM at the lowest value with 61.5%.

**Chart 23:** Top 10 Italian banks – NPE Peer Analysis as of H1-2022  
(Bubble size: Gross NPE)



Source: PwC analysis on financial statements and analysts' presentations; Financial statements as of H1-2022.  
Data affected by different write-off policies  
Note: The analysis does not consider BNL, since 2022 Half Year Financial Statement has not been published; Credit Agricole Italia's Gross NPE ratio for YE-2021 is 3.3% and for H1-2022 is 3.4% if considering the application of the POCI treatment in the financial statement calculations.

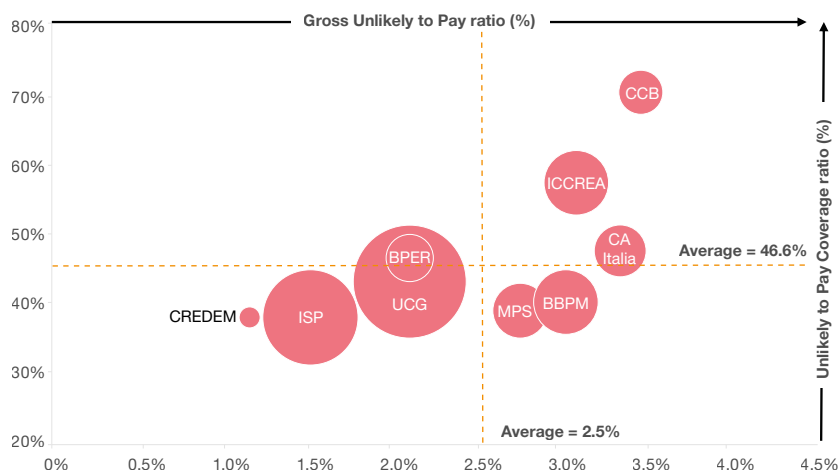
**Chart 24:** Top 10 Italian banks – Bad Loans Peer Analysis as of H1-2022  
(Bubble size: Gross Bad Loans)



Source: PwC analysis on financial statements and analysts' presentations; Financial statements as of H1-2022.  
Data affected by different write-off policies  
Note: The analysis does not consider BNL, since 2022 Half Year Financial Statement has not been published.

**Chart 25** provides an overview of the Unlikely to Pay ratio combined with its Coverage ratio for the Top 10 Italian banks. The average for the UtP ratio is 2.5% (higher than the average of Bad Loans ratio), with CCB showing the highest value (3.4%) and CREDEM the lowest one (1.1%). The Unlikely to Pay Coverage ratio average is 46.6%: CCB confirmed its high level of provisions also for the UtPs, with a top value of 70.5%, while Intesa Sanpaolo is the lowest in terms of UtP Coverage ratio (37.8%).

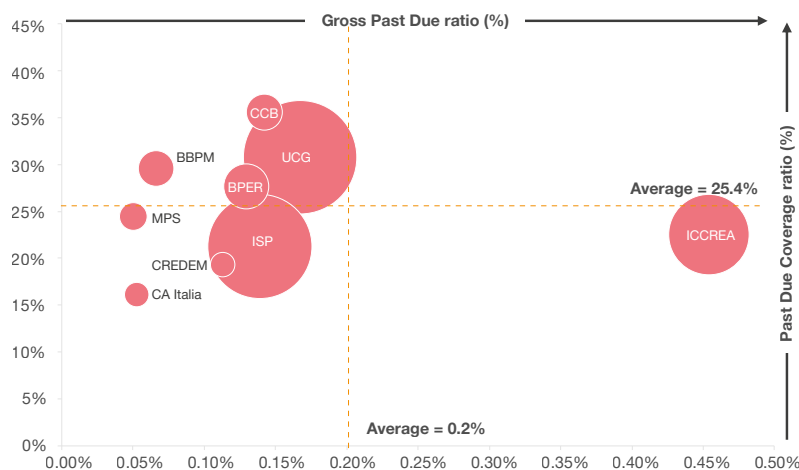
**Chart 25:** Top 10 Italian banks – Unlikely to Pay Peer Analysis as of H1-2022  
(Bubble size: Gross Unlikely to Pay)



Source: PwC analysis on financial statements and analysts' presentations; Financial statements as of H1-2022.  
Data affected by different write-off policies  
Note: The analysis does not consider BNL, since 2022 Half Year Financial Statement has not been published.

**Chart 26** illustrates the Gross Past Due ratio and the Coverage ratio for the banks analyzed: ICCREA recorded the highest Gross Past Due ratio (0.5%) while MPS the lowest (0.06%). The relative Coverage ratio indicates two peaks: the upward peak is CCB with 36.0%, while the downward is Credit Agricole Italia with 16.3%. The average reached 25.4% at H1-2022.

**Chart 26:** Top 10 Italian banks – Past Due Peer Analysis as of H1-2022  
(Bubble size: Gross Past Due)

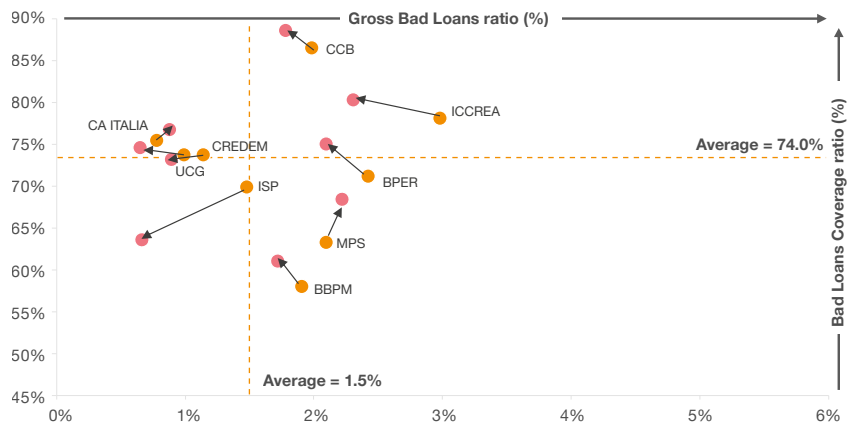


Source: PwC analysis on financial statements and analysts' presentations; Financial statements as of H1-2022.  
Data affected by different write-off policies  
Note: The analysis does not consider BNL, since 2022 Half Year Financial Statement has not been published.

**Chart 27** analyses, for the Top 10 Italian banks, the movements in the Gross Bad Loans ratio and the Bad Loans Coverage ratio between H1-2022 and YE-2021. Intesa Sanpaolo presents the most significant shift in the chart, decreasing both in terms of Gross Bad Loans ratio (-52.6%) and Bad Loans Coverage ratio (-9.2%).

MPS is the only bank among the sample that shows an increase in terms of Gross Bad Loans ratio (+5.8%) together with Credit Agricole Italia (even if not significant, +0.1pp, landing at 0.9% at H1-2022).

**Chart 27:** Top 10 Italian banks – Bad Loans movements  
(YE-2021 vs H1-2022)



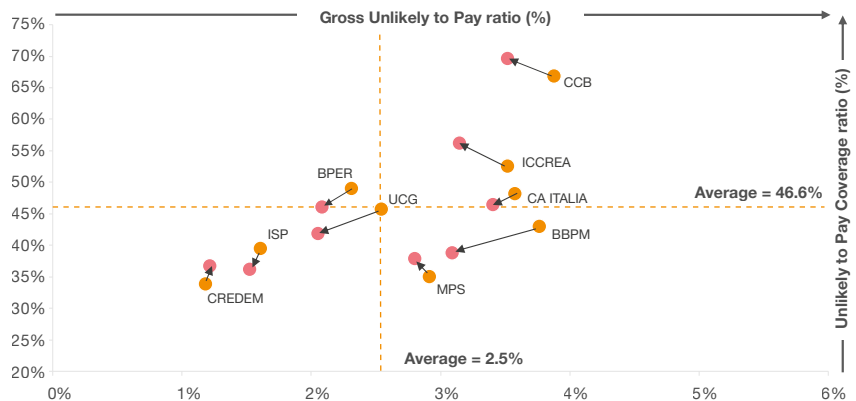
Source: PwC analysis on financial statements and analysts' presentations; Financial Statements as of YE-2021 (yellow) and H1-2022 (red). Data affected by different write-off policies.

Note: The analysis does not consider BNL, since 2022 Half Year Financial Statement has not been published.

**Chart 28** shows that almost all of the Top 10 Italian banks experienced a decrease in the Gross Unlikely to Pay ratio (except for CREDEM, which is the only bank among the Top 10, that registered an increase of +1.0% with respect to YE-2021). The chart shows that the Unlikely to Pay Coverage ratio decreased in most of the Top 10 Italian banks, except for ICCREA, MPS, CREDEM and CCB, which show an increase between +4.2% and +6.4%.

Out of the Top 10, Banco BPM shows the most relevant shift in terms of combined UtP ratio-Coverage ratio, decreasing by -18.1% the UtP ratio and by -8.5% the level of the Coverage.

**Chart 28:** Top 10 Italian banks – Unlikely to Pay movements  
(YE-2021 vs H1-2022)



Source: PwC analysis on financial statements and analysts' presentations; Financial Statements as of YE-2021 (yellow) and H1-2022 (red). Data affected by different write-off policies.

Note: The analysis does not consider BNL, since 2022 Half Year Financial Statement has not been published.

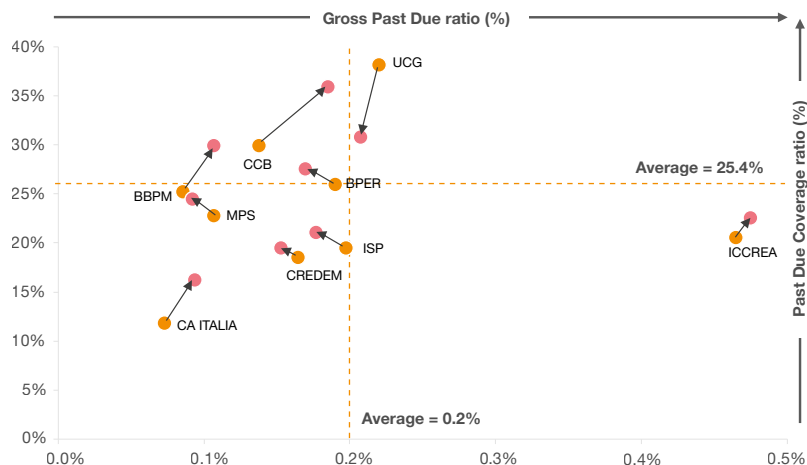


**Chart 29** illustrates the movements in the Gross Past Due ratio and Past Due Coverage ratio.

The Gross Past Due ratio of half of the Top 10 Italian banks decreased compared to YE-2021, excluding Credit Agricole Italia, CCB, Banco BPM and ICCREA, which have increased. Credit Agricole Italia and CCB experienced the highest increase of +49.9% and +45.6% respectively, while MPS and BPER registered the most significant decrease in Gross Past Due ratio (-21.2% for MPS and -12.2% for BPER). On the other hand, Credit Agricole Italia and CCB show the highest increase of Past Due Coverage ratio (+38.9% and +20.0% respectively).

Considering both the variables, CCB (up shift) and UniCredit (down shift) are the ones that show the most relevant shifts.

**Chart 29:** Top 10 Italian banks – Past Due movements (YE-2021 vs H1-2022)



Source: PwC analysis on financial statements and analysts' presentations; Financial Statements as of YE-2021 (yellow) and H1-2022 (red). Data affected by different write-off policies.

Note: The analysis does not consider BNL, since 2022 Half Year Financial Statement has not been published.

San Gimignano, Tuscany, Italy



Compared to YE-2021, no substantial changes have been made to Italian banks' Industrial Plan since banks are still committed to keep the incidence of NPE exposures in their banking books at the lowest level.

**Chart 30** provides an overview of the targets disclosed by the Top 10 Italian banks in terms of Gross NPE ratio and their actual ratio as of H1-2022.

For instance, CCB has reached the 8.2% **Gross NPE ratio** target for

2022, and has published an update lowering that target to 6.3% for 2023. Intesa Sanpaolo has disclosed in its new Industrial Plan the "Zero-NPL bank" strategy, which does not impact rules established by Calendar Provisioning measures. This strategy goes alongside with the challenging Gross NPE ratio target for 2025 of 1.6%, calculated according to EBA definition<sup>1</sup>.

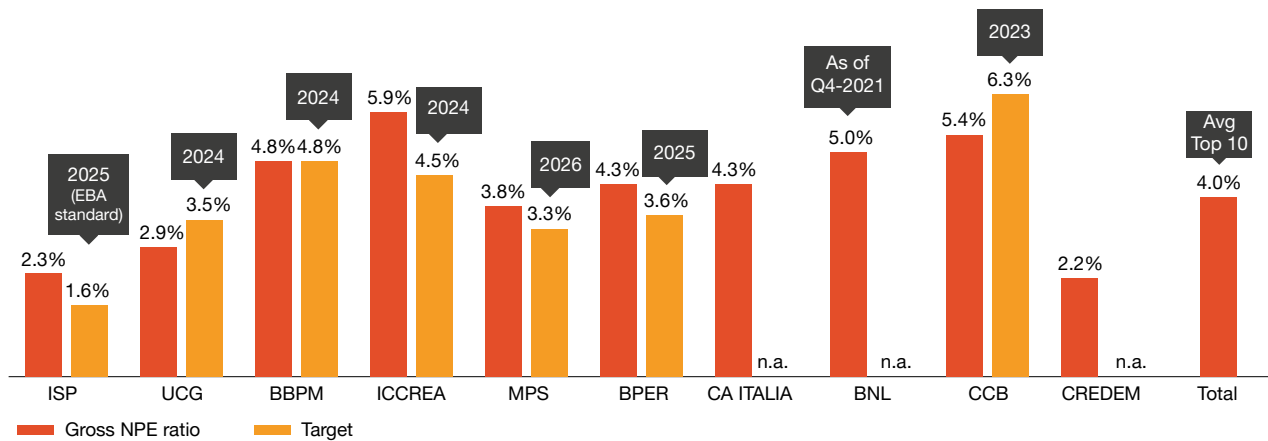
**MPS** and **UniCredit** expect a Gross NPE ratio target of 3.3% in 2026 and 3.5% in 2024 respectively.

This confirms their commitment in decreasing NPE exposures with respect to Gross Customer Loans over the following 3-4 years.

In relation to current ratios, **Intesa Sanpaolo** and **UniCredit**, showed Gross NPE ratios below Italian average and slightly above European average. Other banks are substantially in line with the national average.

In conclusion, the Gross NPE ratio of the Top 10 Italian banks is, on average, lower than the ECB's 5.0% target.

**Chart 30:** Top 10 Italian banks – Target Gross NPE ratio vs current as of H1-2022



Sources: PwC analysis on financial statements and analysts' presentations and on «Risk Dashboard – Data as of H1-2022», EBA. Rounded numbers, total as simple average of ratios, only for banks presenting target NPE. Note: (\*) the computation of the NPE ratio of the Eurozone considers European large banks which have, differently from Italian banks, an high level of non domestic exposures characterized by lower NPL ratio values compared to domestic one.

1. Gross NPE ratio calculated according to EBA definition is even lower – approximately 1% – considering the Net NPE ratio target.

# Deep-dive on UtP

## Key Message

The UtP stock on the Italian banking books landed at €36.5bn at H1-2022, lower than YE-2021, with a 72.1% reduction versus 2014,

in which UtP stock peaked to €130.6bn. Forbearance ratio, the portion of exposures subject to forbearance

measures, has remained relatively stable during the last four years within the range 49.4%-53.6%. During the first half of 2022 it equals 53.5%.

The first half of 2022 is proving a turning point in the Italian UtP market, which decreased from €126.8bn in 2015 to current €36.5bn, confirming the positive downward trend observed for the Bad Loans.

**Chart 31** shows that €33.1bn, out of €36.5bn of current UtP stock, belong to the Top 10 Italian banks. Such banks have reduced the average **Gross UtP ratio** from 2.7% as of YE-2021 to 2.5% in H1-2022 (-9.6%)<sup>1</sup>.

This results in a positive feedback from Investors, who have demonstrated an increasing appetite for this asset class.

The chart below shows the current UtP stock allocation through the Top 10 banks. In particular, comparing **Gross UtP exposures** at H1-2022 to those of YE-2021 it can be noted that, as for last year, the Top 3 Italian banks (Intesa Sanpaolo, UniCredit, Banco BPM) detain more than half of the outstanding UtP stock (55.4%).

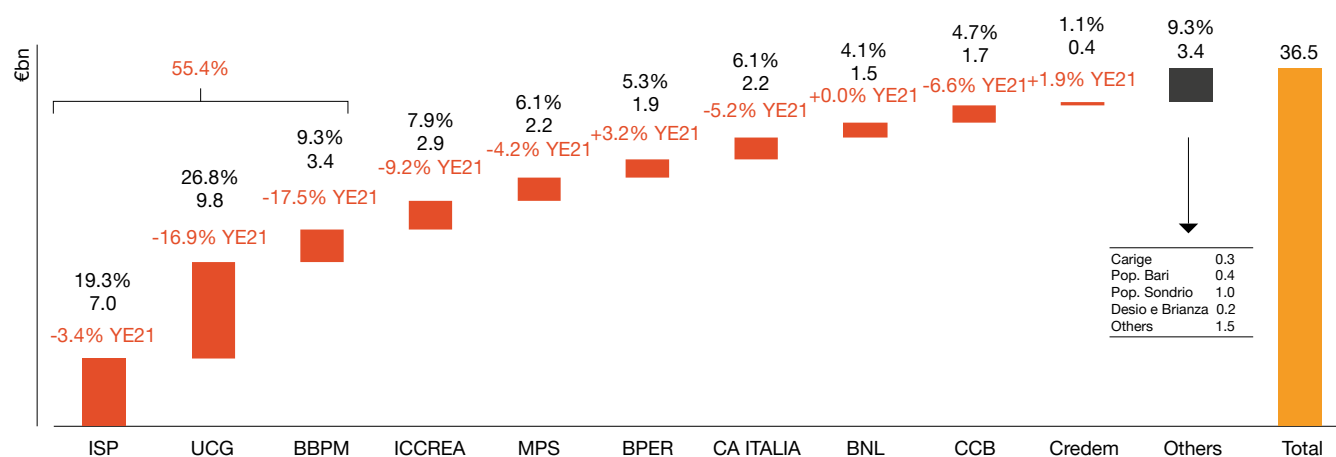
More in details:

- UniCredit is the Italian bank with the highest amount of UtP stock (€9.8bn in H1-2022) among other peers.

- If compared with YE-2021, UniCredit and Banco BPM are the Italian banks showing the strongest decrease in UtP stock, with a reduction equal to 16.9% and 17.5% respectively in the period H1-2022.
- On the other hand, BPER and CREDEM are the only two banks that show an increase in the UtP stock, of +3.2% and +1.9% respectively.

In terms of UtP stock composition, as of H1-2022 the portion of exposures subject to forbearance measures (53.5% of total stock) is almost in line with recent years' trend (see **Chart 32** in the next page).

**Chart 31:** Top 10 Italian banks – UtP distribution (€bn and %) as of H1-2022



Source: PwC analysis of financial statements and analysts' presentations. The list of Top 10 Italian banks is based on the Total Asset as of H1-2022.

1. BNL is excluded from total average.



## Our view

The UtP Market, moved towards larger size transactions and a rising number of Servicers, has now reached a central role in the NPE market framework.

Investors sharply increased their interest in the acquisition of UtP portfolios in the recent past, also through securitizations, while Servicers improved their management skills that entail industry, restructuring and legal expertises, along with fund capabilities (granted by the Investors), to finance restructuring plans to bring the borrowers back to performing status.

The UtP deleveraging strategy pursued by the banks is now inextricably linked to their willingness to establish partnerships with Servicers: the UtP

deals of Intesa and UniCredit, both with Prelios, and the more recent agreement between the BPER Group with Gardant and AMCO, confirmed the trend of the recent years, with the NPE market moved towards banks-Servicers long term agreements (in addition to the already established partnerships Intrum with Intesa, Gardant with Carige and Banco BMP, doValue with UniCredit). From this perspective, the benefit can be on both sides:

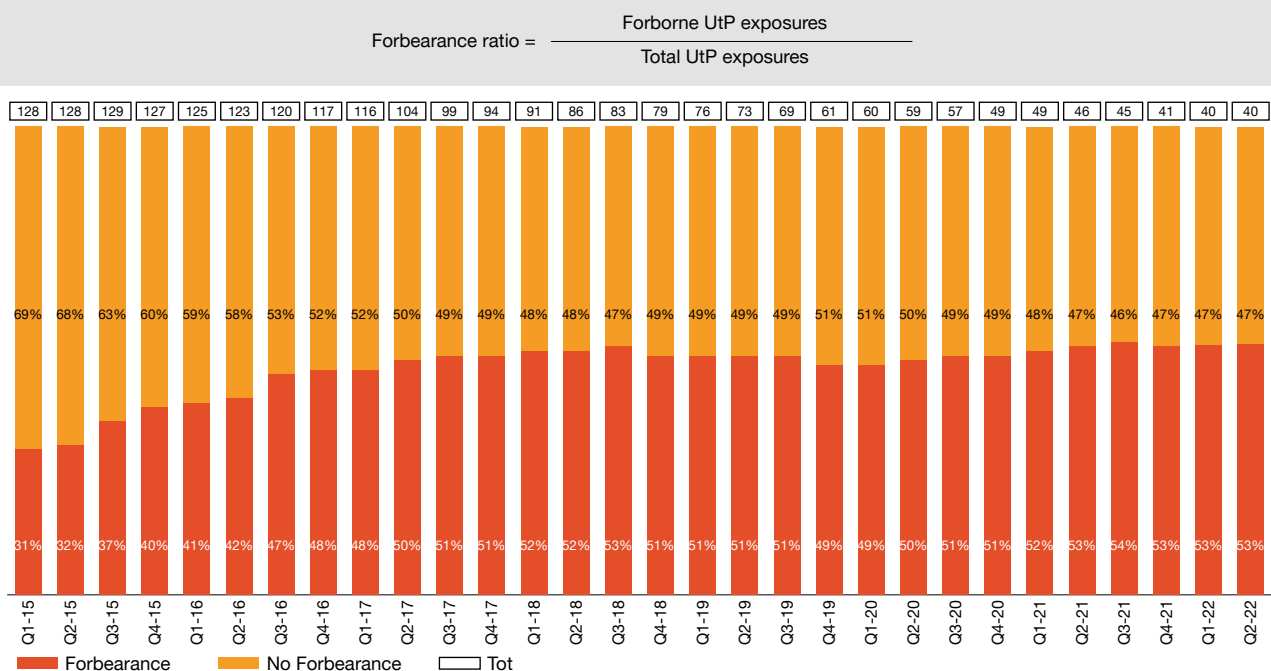
(i) on the banking side, to get rid of certain UtP flows quickly, avoiding their deterioration and keeping adjustment levels at a lower level (given Calendar Provisioning

framework and the new Definition of Default);

(ii) on the Servicers' side, to have a consistent part of new flows granted over a certain time horizon to "feed the engine" of their platforms.

Furthermore, UtP disposals have been continuing: focusing on the transactions closed so far during 2022, ~€7.5bn UtP deals were closed (of which €5.5bn of mainly UtPs and €2.0bn of mixed portfolios), while total announced transactions to date are ~€6.6bn (o/w ~€4.5bn of mixed portfolio), expected to be closed. The activeness of the UtP market confirmed once more the high appetite for the "Unlikely to Pay" loans.

**Chart 32:** Italian banks' forbore UtP exposures (€bn and %)



Source: PwC analysis on Banca d'Italia «Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori», June 30, 2022.




# The Debt Purchasing and Servicing Market

## Key Message

In the last seven years a real debt servicing "industry" has been created with €300+bn under management and 15,000 resources employed. Now, the main priority is evolving: from "gone concern" to "going concern" credits. Consistently business models will have to be (further) rethought. The

use of data, the automation of the decision-making process and the use of new technologies such as Artificial Intelligence and Machine Learning will be crucial. Players will need to develop new competencies (e.g. capacity to attract new finance, proactive management of public guarantees, RE asset valorisation).

Palermo, Sicily, Italy.





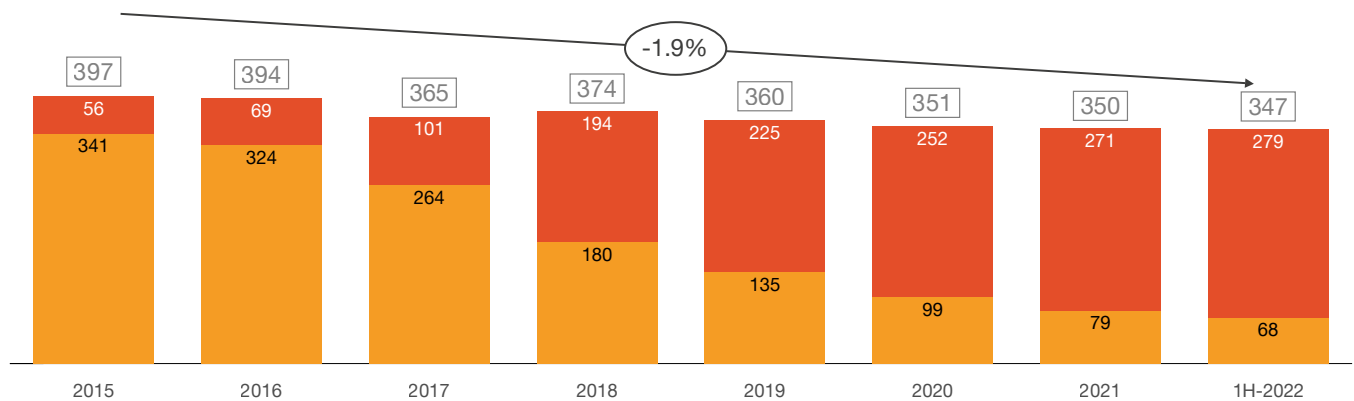
### Perspective on Debt Servicing

The stock of non-performing exposures on Italian banks' books has reached its lowest values in the last 15 years with €68bn in June 2022. Approximately €300bn of primary market NPE

transactions in period 2015-2022, of which over €105bn assisted by GACS, allowed to reach minimum levels in terms of stock of non-performing loans on banking books. However, NPEs

have been shifted from banking to investors' books. Total amount of NPEs in the Italian market just decreased by 2.0% annually, stabilizing around €350bn in the last 2.5 years.

**Chart 33:** Total amount of NPEs in the market (GBV in €bn)





However, now, the main priority is evolving: from “gone concern” to “going concern” credits.

The amount of loans in Stage 2 has soared, reaching over €250bn in June 2022, equal to 14% of total loans (vs. €141bn at the end of 2019, equal to 9% of total loans).

UtPs still on bank balance sheets

(€41bn) and the loans backed by state guarantees disbursed in the last two years (€250+bn) bring the total amount of credits “under the spotlight” to over €500bn. These loans should be the real focus of all players involved in the NPE space in the next years.

To date, there is no proven model for the large-scale management of sub-performing/UtP loans. Changing the

perspective of the credit management to the “going-concern”, business models will have to be (further) rethought. The use of data, the automation of the decision-making process and the use of new technologies such as Artificial Intelligence and Machine Learning will be crucial. Players will need to develop new competencies (e.g. capacity to attract new finance, proactive management of public guarantees, RE asset valorisation).



The credit management business is a human-intensive business. Technology can only support the activities of credit managers, with the aim of improving productivity and efficiency, leveraging advanced credit management systems that reduce human intervention and integrated platforms for support activities (HR, audit, compliance, ...). In this way, resources can be dedicated to core and higher value-added activities.

**Manuela Franchi**, Group CFO and General Manager Corporate Functions, doValue



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In the current context of uncertainty, the ability to read individual specific risk situations is essential. It is necessary to leverage data, integrate layers of information and digitize the decision-making process. A critical element is to leverage industry-specific knowledge and forecasts of future evolution to codify behavioral patterns in a predefined set of crisis cases and suggest action plans that have proven effective in similar contexts. The specific characteristics of the company and its positioning within the sector make it possible to predict the reaction to the shock and the outcome of the various intervention strategies.

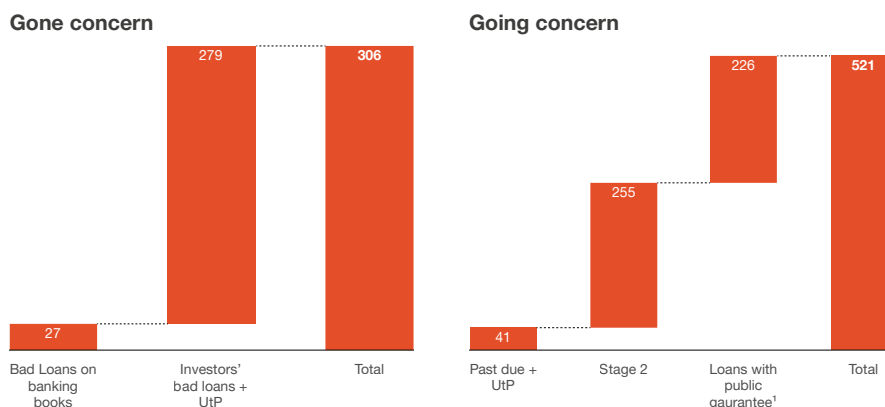
**Andrea Mignanelli**, CEO, Cerved Group



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**Chart 34:** Credits “under the spotlight” in the Italian market (H1-2022 - €bn)



Receivables to be managed in a liquidation logic / through GACS (if renewed).

**"Live" credits to be managed proactively** with the aim of bringing them "back to performing".  
**Thousands of small and medium-sized businesses that need to be supported.**

Source: Strategy& analysis on bank of Italy data.

1. Stage 2 loans with state guarantees are excluded from the calculation of the total (estimated at 15.8% of the total in line with statistics at the level of significant EBA banks).



Rome, Lazio, Italy.

## UtP debt servicing

As of June 30, 2022, AMCO and Prelios continue to lead the ranking of debt servicers specialized in UtP management, with a valuable combination of both corporate and retail expertise.

In addition to IntesaSanpaolo agreement, Prelios signed a long-term partnership with UniCredit for UtP management.

At the same time, super-specialized players are consolidating their position by focusing on very large secured positions, such as Aurora REcovery Capital, now joining the forces with illimity/ neprix.

Lastly, there are different players historically focused on retail positions and mainly working on small tickets, namely Fire, Crif, Advancing Trade and Cerved.

**Table 11: Top 10 Corporate UtP Debt Servicers by AuM at H1-2022**

Company	Corporate UtP AuM (€bn)	Corporate UtP AuM (% tot UtP)
AMCO	10.3	74%
Prelios Credit Servicing	9.3 <sup>1</sup>	100%
ARECneprix	3.8 <sup>2</sup>	99%
Crif	1.8	41%
Fire	1.0	38%
Gardant	0.9	94%
doValue	0.7	90%
Officine CST	0.7	85%
Advancing Trade	0.6	25%
Cerved Credit Management	0.5	43%

**Table 12: Top 10 Retail UtP Debt Servicers by AuM at H1-2022**

Company	Retail UtP AuM (€bn)	Retail UtP AuM (% tot UtP)
AMCO	3.7	26%
Crif	2.6	59%
Advancing Trade	1.9	75%
Fire	1.6	62%
Covisian Credit Management	0.7	76%
Cerved Credit Management	0.6	57%
AZ Info&collection & La Scala Service	0.6	81%
iQera Italia <sup>3</sup>	0.5	87%
PARR Credit	0.4	97%
Finint Revalue	0.3	56%

Source: PwC analysis on data provided by Servicers as of 30/06/2022; data have been directly provided by Servicers and have not been verified by PwC.

1. Information captured from "market rumors" and not directly provided by Prelios Credit Servicing.

2. Includes €1.2 billion AuM managed by all illimity Divisions

3. Includes Serfin data



We believe the credit management industry is a long-term growth industry. However, this growth must also be supported by new directions: i) new asset classes to be managed: not only non-performing loans, but also UtPs, early arrears to move along the value chain towards performing loans, ii) the expansion of the services offered to banks and investors: not only debt collection but also ancillary activities (e.g. real estate valorisation, data, legal and administrative activities).

**Manuela Franchi**, Group CFO and General Manager Corporate Functions, doValue



Scan the QR code  
to view the interview



Table 13: Main transactions in the servicing sector

2014						
<b>Hoist Finance</b> Acquisition of 100% of TRC from private shareholders. Specialized in consumer finance.	<b>Banca Sistema</b> Acquisition of 2 servicing platform Candia & Sting from private shareh and merger (CS Union).	<b>Cerved</b> Acquisition of 80% of Recus. Specialized in collection for telcos and utilities.				
2015						
<b>Fortress</b> Acquisition of UniCredit captive servicing platform (UCCMB).	<b>Lonestar</b> Acquisition of CAF a servicing platform with €7 bn AuM from private shareholders.	<b>Cerved</b> Acquisition of 100% of Fin. San Giacomo part of Credito Valtellinese group.				
2016						
<b>Cerved + BHW Bausparkasse</b> Long-term industrial partnership for the management of 230 €m of NPL originated by the Italian branch of BHW Bausparkassen AG.	<b>Axactor</b> Acquisition of CS Union from Banca Sistema.	<b>Lindorff</b> Acquisition of CrossFactor, a small factoring and credit servicing platform.	<b>Arrow</b> Acquisition of 100% of Zenith Service, a master servicing platform.	<b>Kruk</b> Acquisition of 100% of Credit Base.	<b>doValue</b> Acquisition of 100% of Italfondario.	<b>Dea Capital</b> Acquisition of 66,3% of SPC Credit Management.
2017						
<b>Kkr</b> Acquisition of Sistemica.	<b>Lindorff</b> Acquisition of Gextra, a small ticket player from doValue.	<b>Bain Capital</b> Acquisition of 100% of HARIT, servicing platform specialized in secured loans.	<b>Varde</b> Acquisition of 33% of Guber.	<b>Cerved + BHW Bausparkasse</b> Long-term industrial partnership extension for the management of a portfolio of loans of 1.5 €bn originated by the Italian branch of BHW Bausparkassen AG.	<b>Davidson Kempner</b> Acquisition of 44,9% of Prelios and launch of a mandatory tender offer.	<b>Cerved + Quaestio</b> Acquisition of the credit servicing platform (a.k.a. "Juliet") of MPS.
<b>Cerved</b> Acquisition of a NPL platform of Banca Popolare di Bari.	<b>Intrum/ Lindorff</b> Acquisition of 100% of CAF.	<b>Credito Fondiario</b> Acquisition of NPL servicing platform of Carige.				
2018						
<b>Lindorff / Intrum</b> Acquisition of 100% of PwC Mass of Credit Collection (MCC) department.	<b>Arrow</b> Acquisition of 100% Parr Credit and Europa Investimenti.	<b>IBL Banca + Europa Factor</b> Joint venture for the creation of the new Servicer Credit Factor (106 vehicle).	<b>Anacap + Pimco</b> Acquisition of a majority stake in Phoenix Asset Management.	<b>Intesa + Lindorff / Intrum</b> Joint venture for the NPL platform of Intesa Sanpaolo.	<b>Kruk</b> Acquisition of 51% of Age-credit.	<b>Banca IFIS</b> Acquisition of 90% of FBS.
<b>Cerberus</b> Acquisition of 57% of Officine CST.	<b>Cerved + Studio legale La Scala</b> Joint venture for the creation of a specialized NPL law firm.	<b>Hoist Finance</b> Acquisition of 100% of Maran.	<b>Link Financial Group</b> Acquisition of Generale Gestione Crediti and his controlled company Se.Tel. Servizi.	<b>iQera (a BC Partners company)</b> Acquisition of 80% of Serfin.		
2019						
<b>Credito Fondiario + Banco BPM</b> Creation of a Joint venture for the management and disposals of Banco BPM NPLs.	<b>iQera (a BC Partners company)</b> Acquisition of Sistemica.	<b>IBL Banca</b> Acquisition of 9,9% of Frontis NPL.	<b>doValue + Aurora RE</b> Launch of a multi-originator platform to manage UTP portfolios secured by real estate.			
2020						
<b>Cerved Credit Management</b> Acquisition of 100% of Quaestio Cerved Credit Management.	<b>Bain Capital Credit</b> Acquisition of Hypo Alpe Adria rebranded as Julia Portfolio Solutions.	<b>FBS + Tinexta</b> Creation and launch of FBS Next a new NPL Servicer which will leverage on innovative technologies.				
2021						
<b>Hipoges</b> Acquisition of a majority stake in AXIS.	<b>Axactor</b> Acquisition of 100% of Credit Recovery Service S.r.l.	<b>Gardant Group</b> Spin-off from Credito Fondiario of the NPL investment and management business area.	<b>Cherry Bank</b> Merger between Cherry 106 spa and Banco delle Tre Venezie.	<b>Mediobanca</b> Acquisition of a majority stake in Bybrook Capital thought its London subsidiary Cairn Capital Group.		
2022						
<b>Consultinvest Group</b> Acquisition of 50% of Borgosesia Gestioni SGR.	<b>Zolva</b> Acquisition of 100% of Euro Service Spa.	<b>Intrum Italy</b> Acquisition of a participation of i-law, a law firm specialized in NPL servicing.	<b>Team Evolution (Gruppo Exacta)</b> Acquisition of 100% of Creden.	<b>Illimity Bank S.p.A.</b> Acquisition of 100% of Aurora Recovery Capital S.p.A.	<b>Collexion</b> Acquisition of Whitestar (former Parr Credit).	<b>Gardant</b> Creation of a joint venture with the BPER Group for NPE management.
<b>Prelios - UniCredit</b> Signing of a partnership for management of Unlikely-To Pay loans.	<b>Cerved</b> Acquisition of 100% of REV Gestione Crediti.					

Source: Mergermarket, companies annual reports and websites.



**Table 14.1:** Overview of main servicers (data as of H1-2022) – Ranking by AuM

Company	Bank of Italy Surveillance	Special Servicing				Master Servicing AuM <sup>3</sup> (€bn)
		Total AuM <sup>1</sup> (€bn)	o/w Bad Loans AuM (€bn)	o/w Other NPLs AuM <sup>2</sup> (€bn)	Performing AuM (€bn)	
doValue	115/106	74.1	72.9	1.1	0.6	63.2
Intrum	115	37.9	37.9	-	-	-
AMCO	106	32.6	18.6	14.0	-	-
Cerved Credit Management	106/115	31.3	30.2	1.1	5.4	6.5
Prelios Credit Servicing	106/115	30.5 <sup>4</sup>	21.2	9.3	-	20.9
IFIS Npl Servicing	Bank	25.3	25.3	0.0	-	-
Gardant	106/115	19.8	18.8	1.0	0.1	41.0
Crif	115	14.5	3.4	11.0	5.6	-
Hoist Italia	115	13.3	12.1	1.2	0.5	-
iQera Italia <sup>6</sup>	115	12.2	11.6	0.6	0.3	-
Fire	115	11.2	7.7	3.6	7.5	-
ARECneprix	115/Bank	10.1 <sup>5</sup>	6.2	2.7	1.3	-
MB Credit Solutions	106/115	9.7	9.7	-	-	-
AZ Info&collection & La Scala Service	115	8.9	8.2	0.7	-	-
Advancing Trade	106/115	8.6	6.1	2.5	-	-
Guber	Bank	7.4	7.4	-	0.0	-
Covisian Credit Management	115	5.6	4.2	1.4	-	-
Link Financial	115	5.4	5.4	-	0.0	-
Europa Factor	106/115	5.3	5.3	0.0	0.2	-
J-Invest	106/115	4.0	4.0	-	-	-
CNF (Gruppo Frascino)	115	3.8	3.6	0.2	0.0	-
Finint Revalue	115	3.3	2.8	0.5	0.0	-
Axactor	106/115	3.0	3.0	-	-	-
Blue Factor	106	2.9	2.9	-	-	-
Duepuntozero	115	2.8	2.8	-	-	-
SiCollection	115	2.7	2.6	0.1	-	-
AXIS S.p.A.	115	2.5	2.3	0.2	-	-
Banca Finint – Divisione Securitisation Services	106	2.4	2.0	0.3	4.1	73.6
Fides	115	2.0	0.1	1.9	0.2	-
PARR Credit	115	1.5	1.1	0.4	-	-
Bayview Italia	115	1.5	1.5	-	-	-
Officine CST	115	1.4	0.5	0.8	0.4	-
WIBITA	115	1.3	1.3	0.0	3.2	-
BCMGlobal	115	1.1	0.9	0.3	-	-
Fbs Next	115	1.1	1.1	0.0	-	-
Zolva	115	1.1	1.1	-	-	-
Zenith Service (Arrow Group)	106	1.0	1.0	0.0	0.8	40.6
Aquilaia Capital Services	106/115	0.9	0.9	0.0	0.1	1.4
GMA S.r.l.	115	0.6	0.6	-	0.0	1.5
Certa Credita	115	0.3	0.2	0.1	0.1	-

Source: PwC analysis on data provided by Servicers as of 30/06/2022; data have been directly provided by Servicers and have not been verified by PwC. Servicers present highly heterogeneous organizational, industrial and operating structures. Comparing the information presented above requires a correct analysis and understanding of the competitive landscape and servicers' business model.

1. Includes both owned and third parties' portfolios.

2. Includes Unlikely to Pay + Past Due more than 30 days.

3. Please consider that Master and Special Servicing portfolios are in most cases overlapped.

4. Includes €9.3bn of Unlikely to Pay captured from "market rumors"; information not directly provided by Prelios Credit Servicing.

5. Includes €1.2 billion AuM managed by all illimity Divisions

6. Includes Serfin data.

Note: Double counting may arise when adding NPL AuM as some servicers outsource part of their portfolios to others due to capacity and/ or specialization issues.

**Table 14.2:** Overview of main servicers (data as of H1-2022) – Ranking by AuM

Company	Net Financial Margin (€m)	PBT (€m)	Activities			
			Debt servicing & collection	Debt purchasing	Master servicing	Rating
doValue	271.2	82.4	✓		✓	✓
Intrum	-	-	✓			✓
AMCO	150.2	90.6	✓	✓		✓
Cerved Credit Management	72.5	20.7	✓		✓	✓
Prelios Credit Servicing	106.1	57.5	✓		✓	✓
IFIS Npl Servicing	19.5	5.5	✓	✓	✓	✓
Gardant	33.2	0.8	✓	✓	✓	✓
Crif	11.1	1.2	✓			✓
Hoist Italia	21.5	0.8	✓	✓		✓
iQera Italia <sup>1</sup>	25.7	7.6	✓			✓
Fire	30.4	6.0	✓	✓		✓
ARECneprix	-	-	✓	✓		✓
MB Credit Solutions	51.0	18.8	✓	✓		✓
AZ Info&collection & La Scala Service	7.6	-	✓			
Advancing Trade	15.7	2.3	✓	✓		
Guber	32.2	16.3	✓	✓	✓	✓
Covisian Credit Management	5.9	1.6	✓			
Link Financial	4.9	1.7	✓			
Europa Factor	27.1	11.9	✓	✓		
J-Invest	4.2	1.5	✓	✓		
CNF (Gruppo Frascano)	9.0	1.9	✓			✓
Finint Revalue	4.9	-	✓			
Axactor	20.2	-	✓	✓		
Blue Factor	1.6	0.2	✓	✓		
Duepuntozero	-	-	✓			
SiCollection	3.2	(0.2)	✓			
AXIS S.p.A.	2.7	0.5	✓			
Banca Finint – Divisione Securitisation Services	16.0	9.2			✓	✓
Fides	8.0	1.8	✓			
PARR Credit	-	-	✓			
Bayview Italia	-	-	✓			
Officine CST	14.4	6.2	✓	✓		
WIBITA	-	-	✓			
BCMGlobal	2.0	-	✓			✓
Fbs Next	1.8	0.7	✓	✓	✓	✓
Zolva	7.2	0.4	✓	✓		
Zenith Service (Arrow Group)	-	-	✓		✓	✓
Aquileia Capital Services	9.5	(3.4)	✓	✓		
GMA S.r.l.	0.7	-	✓	✓	✓	
Certa Credita	2.0	0.4	✓	✓	✓	✓

Source: PwC analysis on data provided by Servicers as of 30/06/2022; data have been directly provided by Servicers and have not been verified by PwC. Servicers present highly heterogeneous organizational, industrial and operating structures. Comparing the information presented above requires a correct analysis and understanding of the competitive landscape and servicers' business model. Includes both owned and third parties' portfolios.

1. Includes Serfin data

**Table 15:** Breakdown of servicers' Total Special Servicing Bad Loans AuM<sup>1</sup> (data as of H1-2022) – Ranking by Total Special Servicing AuM

Company	Total AuM <sup>1</sup> (€bn)	Total Bad Loans AuM <sup>1</sup> (€bn)	Average Ticket (€k)	Servicing					
				Secured	Unsecured	Owned	Banks	Investors	Others
doValue	74.1	72.9	210	32%	68%	0%	2%	98%	-
Intrum	37.9	37.9	53	43%	57%	n.a.	n.a.	n.a.	n.a.
AMCO	32.6	18.6	153	51%	49%	43%	-	-	57%
Cerved Credit Management	31.3	30.2	59	54%	46%	-	34%	66%	-
Prelios Credit Servicing	30.5 <sup>2</sup>	21.2	246	59%	41%	-	0%	100%	-
IFIS Npl Servicing	25.3	25.3	11	5%	95%	-	5%	95%	-
Gardant	19.8	18.8	74	57%	43%	4%	8%	88%	-
Crif	14.5	3.4	15	51%	49%	-	80%	5%	15%
Hoist Italia	13.3	12.1	8	13%	87%	34%	7%	59%	0%
iQera Italia <sup>4</sup>	12.2	11.6	9	51%	49%	-	82%	14%	4%
Fire	11.2	7.7	5	23%	77%	1%	67%	25%	6%
ARECneprix	10.1 <sup>3</sup>	6.2	419	44%	56%	77%	-	23%	-
MB Credit Solutions	9.7	9.7	4	2%	98%	79%	3%	13%	5%
AZ Info&collection & La Scala Service	8.9	8.2	7	17%	83%	17%	35%	38%	11%
Advancing Trade	8.6	6.1	3	1%	99%	19%	16%	9%	56%
Guber	7.4	7.4	194	37%	63%	59%	14%	27%	0%
Covisian Credit Management	5.6	4.2	9	7%	93%	-	25%	68%	7%
Link Financial	5.4	5.4	16	73%	27%	n.a.	n.a.	n.a.	n.a.
Europa Factor	5.3	5.3	1	0%	100%	78%	3%	14%	5%
J-Invest	4.0	4.0	702	-	100%	2%	-	98%	-
CNF (Gruppo Frascino)	3.8	3.6	12	11%	89%	n.a.	n.a.	n.a.	n.a.
Finint Revalue	3.3	2.8	19	55%	45%	-	-	100%	-
Axactor	3.0	3.0	6	0%	100%	41%	32%	14%	13%
Blue Factor	2.9	2.9	10	1%	99%	25%	-	75%	-
Duepuntozero	2.8	2.8	250	21%	79%	3%	-	97%	-
SiCollection	2.7	2.6	5	4%	96%	-	43%	55%	3%
AXIS S.p.A.	2.5	2.3	65	55%	45%	-	55%	45%	-
Banca Finint – Divisione Securitisation Services	2.4	2.0	4,267	72%	28%	-	41%	59%	-
Fides	2.0	0.1	3	15%	85%	-	19%	-	81%
PARR Credit	1.5	1.1	5	21%	79%	-	18%	71%	11%
Bayview Italia	1.5	1.5	97	97%	3%	n.a.	n.a.	n.a.	n.a.
Officine CST	1.4	0.5	12	-	100%	36%	10%	25%	28%
WIBITA	1.3	1.3	2,102	100%	-	-	27%	2%	71%
BCMGlobal	1.1	0.9	496	100%	-	-	-	100%	-
Fbs Next	1.1	1.1	85	14%	86%	6%	1%	92%	-
Zolva	1.1	1.1	1	-	100%	66%	-	34%	-
Zenith Service (Arrow Group)	1.0	1.0	51	49%	51%	-	-	-	100%
Aquileia Capital Services	0.9	0.9	651	85%	15%	9%	71%	11%	8%
GMA S.r.l.	0.6	0.6	1,320	47%	53%	1%	-	99%	-
Certa Credita	0.3	0.2	1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Source: PwC analysis on data provided by Servicers as of 30/06/2022; data have been directly provided by Servicers and have not been verified by PwC. Servicers present highly heterogeneous organizational, industrial and operating structures. Comparing the information presented above requires a correct analysis and understanding of the competitive landscape and servicers' business model.

1. Includes both owned and third parties' portfolios.

2. Includes €9.3bn of Unlikely to Pay captured from "market rumors"; information not directly provided by Prelios Credit Servicing.

3. Includes €1.2 billion AuM managed by all illimity Divisions.

4. Includes Serfin data.

Note: Double counting may arise when adding NPL AuM as some servicers outsource part of their portfolios to others due to capacity and/ or specialization issues.



**Table 16.1:** Breakdown of servicers' Total Bad Loans AuM<sup>1</sup> (data as of H1-2022) – Ranking by Total Special Servicing AuM

Company	Total AuM <sup>1</sup> (€bn)	Total Bad Loans AuM <sup>1</sup> (€bn)	Special + Master Servicing		
			North <sup>2</sup>	Centre <sup>3</sup>	South - Islands <sup>4</sup>
doValue	74.1	72.9	42%	27%	31%
Intrum	37.9	37.9	n.a.	n.a.	n.a.
AMCO	32.6	18.6	53%	25%	23%
Cerved Credit Management	31.3	30.2	32%	47%	21%
Prelios Credit Servicing	30.5 <sup>5</sup>	21.2	54%	23%	23%
IFIS Npl Servicing	25.3	25.3	37%	24%	39%
Gardant	19.8	18.8	57%	23%	20%
Crif	14.5	3.4	33%	34%	33%
Hoist Italia	13.3	12.1	53%	20%	27%
iQera Italia <sup>7</sup>	12.2	11.6	39%	28%	33%
Fire	11.2	7.7	35%	28%	37%
ARECneprix	10.1 <sup>6</sup>	6.2	34%	43%	23%
MB Credit Solutions	9.7	9.7	37%	21%	41%
AZ Info&collection & La Scala Service	8.9	8.2	31%	22%	47%
Advancing Trade	8.6	6.1	35%	20%	45%
Guber	7.4	7.4	57%	25%	18%
Covisian Credit Management	5.6	4.2	36%	29%	35%
Link Financial	5.4	5.4	30%	33%	37%
Europa Factor	5.3	5.3	33%	24%	43%
J-Invest <sup>8</sup>	4.0	4.0	57%	28%	16%
CNF (Gruppo Frascino)	3.8	3.6	27%	25%	48%
Finint Revalue	3.3	2.8	45%	25%	30%
Axactor	3.0	3.0	42%	22%	36%
Blue Factor	2.9	2.9	27%	22%	51%
Duepuntozero	2.8	2.8	20%	28%	52%
SiCollection	2.7	2.6	48%	23%	29%
AXIS S.p.A.	2.5	2.3	50%	23%	27%
Banca Finint – Divisione Securitisation Services	2.4	2.0	42%	36%	22%
Fides	2.0	0.1	12%	9%	79%
PARR Credit	1.5	1.1	39%	19%	42%
Bayview Italia	1.5	1.5	52%	25%	23%
Officine CST	1.4	0.5	21%	25%	54%
WIBITA	1.3	1.3	34%	23%	43%
BCMGlobal	1.1	0.9	28%	29%	44%
Fbs Next	1.1	1.1	49%	27%	24%
Zolva	1.1	1.1	32%	32%	36%
Zenith Service (Arrow Group)	1.0	1.0	54%	24%	21%
Aquileia Capital Services	0.9	0.9	90%	9%	1%
GMA S.r.l.	0.6	0.6	50%	20%	30%
Certa Credita	0.3	0.2	19%	27%	54%

Source: PwC analysis on data provided by Servicers as of 30/06/2022; data have been directly provided by Servicers and have not been verified by PwC. Servicers present highly heterogeneous organizational, industrial and operating structures. Comparing the information presented above requires a correct analysis and understanding of the competitive landscape and servicers' business model.

1. Includes both owned and third parties' portfolios.

2. Includes Piemonte, Valle d'Aosta, Lombardia, Veneto, Trentino Alto Adige, Friuli Venezia Giulia, Liguria, Emilia Romagna.

3. Includes Toscana, Umbria, Marche, Lazio.

4. Includes Abruzzo, Molise, Campania, Puglia, Basilicata, Calabria, Sicilia, Sardegna.

5. Includes €9.3bn of Unlikely to Pay captured from "market rumors"; information not directly provided by Prelios Credit Servicing.

6. Includes €1.2 billion AuM managed by all illimity Divisions.

7. Includes Serfin data.

8. Includes 1.5% foreign AuM.

Note: Double counting may arise when adding NPL AuM as some servicers outsource part of their portfolios to others due to capacity and/or specialization issues.

**Table 16.2:** Breakdown of servicers' Total Bad Loans AuM<sup>1</sup> (data as of H1-2022) – Ranking by Total Special Servicing AuM

Company	Special + Master Servicing					
	Secured			Unsecured		
	Judicial	Extrajudicial	Loan Sale	Judicial	Extrajudicial	Loan Sale
doValue	14%	77%	10%	23%	67%	10%
Intrum	-	-	-	-	-	-
AMCO	-	-	-	-	-	-
Cerved Credit Management	8%	79%	13%	0%	34%	66%
Prelios Credit Servicing	55%	34%	11%	44%	31%	25%
IFIS Npl Servicing	20%	71%	9%	16%	83%	1%
Gardant	16%	64%	20%	4%	20%	75%
Crif	48%	52%	-	13%	87%	-
Hoist Italia	-	-	-	-	-	-
iQera Italia	62%	38%	-	17%	83%	-
Fire	72%	28%	-	38%	62%	-
ARECneprix	17%	68%	15%	20%	48%	32%
MB Credit Solutions	-	-	-	-	-	-
AZ Info&collection & La Scala Service	25%	75%	-	41%	59%	-
Advancing Trade	-	-	-	20%	80%	-
Guber	59%	22%	20%	13%	70%	17%
Covisian Credit Management	100%	-	-	-	100%	-
Link Financial	87%	13%	-	8%	92%	-
Europa Factor	33%	67%	-	0%	45%	55%
J-Invest	-	-	-	22%	16%	62%
CNF (Gruppo Frascino)	36%	18%	46%	29%	41%	30%
Finint Revalue	-	-	-	-	-	-
Axactor	-	-	-	-	-	-
Blue Factor	-	-	-	49%	51%	-
Duepuntozero	11%	2%	87%	21%	2%	77%
SiCollection	-	-	-	20%	80%	-
AXIS S.p.A.	85%	15%	-	30%	70%	-
Banca Finint – Divisione Securitisation Services	-	-	-	-	-	-
Fides	-	100%	-	1%	99%	-
PARR Credit	30%	70%	-	0%	100%	-
Bayview Italia	-	-	-	-	-	-
Officine CST	-	-	-	-	-	-
WIBITA	-	100%	-	-	-	-
BCMGlobal	44%	32%	24%	45%	55%	-
Fbs Next	9%	91%	-	3%	97%	-
Zolva	-	-	-	18%	82%	-
Zenith Service (Arrow Group)	-	-	-	-	-	-
Aquileia Capital Services	7%	93%	-	12%	88%	-
GMA S.r.l.	19%	17%	64%	-	-	100%
Certa Credita	-	-	-	-	100%	-

Source: PwC analysis on data provided by Servicers as of 30/06/2022; data have been directly provided by Servicers and have not been verified by PwC. Servicers present highly heterogeneous organizational, industrial and operating structures. Comparing the information presented above requires a correct analysis and understanding of the competitive landscape and servicers' business model.

1. Includes both owned and third parties' portfolios.

# Regulatory framework update

## Key Message

The effort of the regulator within the NPL framework is currently focused on the creation of efficient European secondary markets, which represent a powerful tool to tackle the potential growth of non-performing exposures.

Turin, Piedmont, Italy.





## Secondary market regulatory framework

During the last years, the European Regulators have developed NPL action plans intended to prevent a future build-up of non-performing loans (NPLs) across the European Union.

Among the aims of the action plans, one of the most important is to further develop secondary markets for distressed assets, which will allow banks to move NPLs off their balance sheets, while ensuring further strengthened protection for debtors.

Starting from December 2021 three main regulatory interventions have been reached:

- Directive (UE) 2021/2167 on credit servicers and credit purchasers ("**NPLs secondary market Directive**").
- Consultation EBA on the structure of the NPL data template ("**EBA NPL data template**").
- European Commission Guidelines for a best-execution process for sales of non-performing loans on secondary markets ("**European Commission Guidelines**").

### Regulatory Timeline

#### December 2021:

entry into force of the NPLs secondary market Directive

#### December 2023:

Nationwide adoption of the NPLs market Directive



### Summary of main contents

#### NPLs secondary market Directive

##### Credit servicers

- **Required authorization** by the National Authorities to carry out the servicing activities, based on uniform criteria at European level.
- **Strict requirements** regarding **governance, internal control** frameworks, **outsourcing and credit servicing agreements**.
- Ability to provide cross-border services as a result of a streamlined authorization process.

##### Credit purchasers

- Right to **receive** from the seller **information regarding the credit agreement** and any **underlying collateral**, on the basis of a standard template (EBA NPL data template).
- Introduction of **consumers' protection measures** and obligations to **report** to the **Competent Authority**.

#### EBA NPL data template

**Data** that **credit institutions** are required to **provide** to potential **buyers** of NPLs include loan-by-loan information on **five areas**:

- Counterparty;
- Relationship between the counterparty, loan and collateral;
- Loan;
- Collateral, guarantee and enforcement; and
- Collection and repayment.

**Data field** are **different** depending on the type of **borrower** (retail or corporate) and on the presence of a **guarantee**.

##### Number of data fields

**157**

##### o/w mandatory

**133**

## Guideline on the best-execution process for the sale of NPLs on secondary market

On October 21, 2022, the **European Commission**, published in the Official Journal of the European Union, non-binding guidelines, concerning the

**best execution process** for the **sale of non-performing loans** ("NPLs") on **secondary markets**.

### Aims of the Guidelines

- **Foster the standardisation** of the **NPL sale processes** in the **secondary markets** of the European Union, increasing their **effectiveness** and **efficiency**.
- **Provide** guidelines that can be followed **not only** by the **largest credit institutions** but also by **local banks** and other **smaller operators**, in order to increase the number of market participants.

### Main content of the Guidelines

Phase	Seller's objectives	Most relevant success factors
1 <b>Transaction structure</b>	<ul style="list-style-type: none"> <li>• Select a marketable portfolio that complies with internal strategic targets and attracts investors.</li> <li>• Reduce execution risk.</li> </ul>	<ul style="list-style-type: none"> <li>• Early involvement of senior management and managers of the positions.</li> <li>• Efficient and effective organisational set-up (internal vs external resources).</li> <li>• Appropriate estimate of the size of the portfolio.</li> </ul>
2 <b>Preparation</b>	<ul style="list-style-type: none"> <li>• Define the preliminary process.</li> <li>• Prepare commercial and legal draft documents.</li> <li>• Collect a complete dataset.</li> <li>• Attract investors.</li> </ul>	<ul style="list-style-type: none"> <li>• Preparation of a reliable internal timeline based on the type of transaction (2-phase or 1-phase, auction or negotiated sale).</li> <li>• Clear and transparent communication to potential investors in order to avoid future misunderstandings which could ultimately jeopardise the deal.</li> <li>• Provide data on NPLs in scope, including historical performances.</li> </ul>
3 <b>Pre-marketing</b>	<ul style="list-style-type: none"> <li>• Reduce the risk of legal costs and regulatory scrutiny.</li> <li>• Define the process, the final transaction structure and perimeter.</li> </ul>	<ul style="list-style-type: none"> <li>• Potential use External Service Providers which can help addressing the right investors through investor databases.</li> <li>• Production of a professional and stable Process Letter (big and/or frequent changes during the transaction would lead too high costs and less reliability).</li> </ul>
4 <b>NBO</b>	<ul style="list-style-type: none"> <li>• Select an appropriate short-list of investors.</li> </ul>	<ul style="list-style-type: none"> <li>• Efficient, transparent and reliable process.</li> <li>• Fair treatment of all investors.</li> </ul>
5 <b>BO</b>	<ul style="list-style-type: none"> <li>• Identify the final counterparty.</li> </ul>	<ul style="list-style-type: none"> <li>• Prompt sharing of documents and data required during previous phases.</li> <li>• Definition of a timeline which allows a certain 'buffer' for unexpected delays.</li> </ul>
6 <b>Closing</b>	<ul style="list-style-type: none"> <li>• Legal and financial closing.</li> <li>• Migration of the portfolio.</li> </ul>	<ul style="list-style-type: none"> <li>• Limited period between signing and closing and previously agreed transition plan.</li> <li>• Assistance and involvement of internal and/or external financial and legal advisors.</li> </ul>
7 <b>Post-closing</b>	<ul style="list-style-type: none"> <li>• Strengthen the reputation.</li> <li>• Avoid conflicts and complexities.</li> <li>• Attract further investors for potential future deals.</li> </ul>	<ul style="list-style-type: none"> <li>• Effective collaboration with the buyer, as foreseen in the agreement and, if applicable, on an ad-hoc basis if problems occur or non-foreseen actions become necessary.</li> </ul>

### Transversal success factors



**Efficient IT systems** in order to streamline the process and reduce its duration and costs.

**Stable process and clear communication** in order to avoid too high Due Diligence and legal costs.

## Guidelines for divestment of NPL on secondary markets

On October 21, 2022, the European Commission (“Commission”), published in the Official Journal of the European Union as No. C/405/01, non-binding guidelines (“Guidelines”), concerning the “best execution process” for the sale of non-performing loans (“NPLs”) on secondary markets.

The purpose of these Guidelines, which are based on the best practices of the sector’s operators, is to encourage the standardisation of the NPL sale processes in the secondary markets of the European Union, favoring their effectiveness and efficiency. In particular, the development of such secondary markets will be crucial in the post-pandemic period to absorb the potential new wave of NPLs. In this macroeconomic context, the Commission has prepared the Guidelines to provide an outline to be followed not only by the largest credit institutions but also by those banking institutions and other smaller operators in the sector that intend to structure NPL sale transactions (loan portfolios or so-called ‘single names’).

Proceeding with the analysis of the main passages of Guidelines, the first suggestion offered by the Commission, for an effectively structured process,

has to be identified in the correct selection of the NPL portfolio to be sold (also through the involvement of the managers of the individual positions); such selection must take into consideration, on the one hand, the strategic targets of the transferor and, on the other hand, ensure on a case-by-case basis, that the selected portfolio is attractive to specific categories of investors (through the selection of homogeneous NPLs).

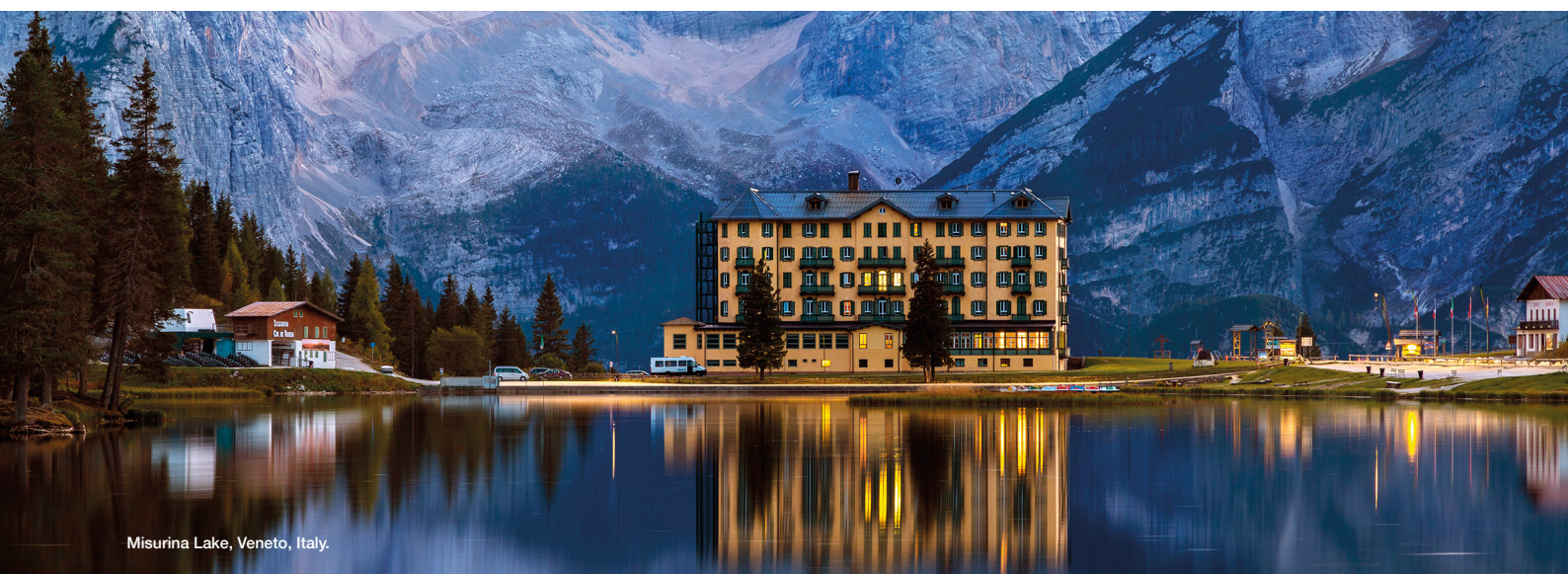
The second phase would instead be dedicated to process preparation activities (including the documental part, including the definition of a termsheet of the future transfer agreement (“LSPA”) and the set-up of the VDR. Of particular importance at this stage is the definition of a timeline that is as much realistic as possible as well as the seller’s choice as to determine whether to proceed with a two-phase (phase 1 and phase 2) or a single-phase process structure (in which case, process structures defined as “targeted auction” (with pre-selected investors) or “negotiated sale” (with exclusive negotiation with a single investor) can be envisaged.

Following this, and strictly connected to the previous phase, there would be the so-called “pre-marketing” phase.

The Commission invites operators to carry out an initial survey that would allow the identification of a broad list of investors, identified, inter alia, based on the characteristics of the portfolio. To formally present the portfolio, or the single name, to investors who have signed a non-disclosure agreement, the preliminary documents of the transaction (including, for example, the teaser, the information memorandum, the process letter and a draft term sheet of the LSPA) should be provided.

The Commission requires that the so-called non-binding phase should be conducted in an efficient, transparent and reliable manner, and that all investors should be treated fairly by the seller.

After the non-binding phase, the seller will select one or more investors to get them to enter to the so-called binding phase, at the end of which the buyer will be selected. Also in this case, the Commission provides that this phase must be carried out in a transparent manner and that, to make the timing efficient, all parties involved must be clear about the steps to be completed as well as the documentation that must be produced; in particular, any changes must be communicated by the originator



Misurina Lake, Veneto, Italy.



in the shortest possible time to the entire panel of potential investors.

The Commission, on the basis of the operators' experience, has also examined what should be the best practices in the execution phase of the process.

In particular, during this phase, the most significant steps are to be taken through agreed transition plans that appropriately represent the legal and economic understanding, with a pre-defined timeline. First of all, the Commission indicates that an appropriate period should be

provided for in the LSPA between the date of signature and the closing of the transaction, having due regard to the complexity of the transaction, the steps to be completed and the risk of delays. The Commission also points to the possibility that the value of the exposure may deteriorate during the negotiation phase up to financial closing, and therefore reiterates the importance of designing the execution process in an efficient way. It would therefore follow that the assistance and involvement of in-house and/or external financial and legal advisors could be crucial.

In light of the indications provided by the Commission, it is possible to argue that the Guidelines may represent a further effort by the European legislator to enrich the regulatory framework for the NPL also due to their systemic importance and, in this sense, the hope is that, despite the fact that the Guidelines are not binding, the sector's operators will be induced to comply with them in order to harmonise the processes for the sale of NPL credits in the European market, thus contributing to the development of a robust secondary market based on criteria of effectiveness, efficiency and transparency.



Orcia valleys Tuscany, Italy.



## EBA guidelines on loan origination

On June 30, 2021, the so-called "LOM guidelines" (Guidelines on Loan Origination) came into force, designed to introduce, in the wake of the European action plan adopted by the EU Council in July 2017 to deal with the management of nonperforming exposures, specific requirements for banks with regard to lending and monitoring of loans, which, as of June 30, 2022, will be binding not only for new disbursements, but also for existing loans and those which require renegotiation or contractual changes due to forecast assessments of cash flows.

Specifically, with this regulatory action there is a substantial paradigm shift in credit management with significant

implications in terms of the analysis and monitoring of the individual loan to be implemented, now, through a "forward looking" approach that looks at the future sustainability of the borrower's cash flows and income

Banks must therefore adapt their structures to these regulatory requirements as they are called upon to operate, in the absence of ad hoc implementation-operational regulations, in a kind of substantial compliance with them.

Given the current macro-economic and geopolitical environment, it appears to be highly urgent to assess all those circumstances likely to lead to a decrease in the market and operational

conditions of the individual financed so that the internal processes are compliant with both European-derived regulatory regulations and internal regulations.

Consequently, there is an evident *trait d'union* between the aforementioned monitoring obligations, the regulations concerning business structures set in Article 2086, paragraph 2, of the Italian Civil Code, as amended by the Crisis Code, and the provision in Article 25 decies of the same code since, with different tasks and subjects involved on different levels, they are all aimed at bringing out any state of crisis of the financed party in a timely manner with potential implications on volumes of *non performing exposures*.





# Appendix: Macroeconomic Scenario

## Key Message

The geopolitical and macroeconomic situation is worsening due to the Russo-Ukrainian conflict and the consequent sharp rise in inflation rate, which is one of the highest recorded in recent years. Moreover, the vulnerability of the EU economy to the energy and commodities price fluctuations cast a shadow of uncertainty upon the

international market scenario.

These conditions have thus triggered a contraction in global output; nevertheless, the European Commission estimates an economic recovery from the end of 2023 onwards, which will lead to a regaining of growth from the beginning of the fiscal year 2024.





More than nine months have passed since the beginning of the Russo-Ukrainian conflict, but the situation remains controversial since no agreement has still been reached.

The European Union, and as a result Italy, is undoubtedly one of the most adversely affected economies by the **Russo-Ukrainian** conflict due to the very strong dependence of energy and gas supplies from Russia.

Although dependence has been declining in recent months, this aspect is driving inflation up, putting a strain on European economic activity and households.

Furthermore, European and Italian outlook are still heavily weighted by negative spillovers from the COVID-19 pandemic, as well as slowdown in China economy.

All this considered, European **inflation rate** was revised upwards compared to the spring forecast estimates: +9.3% for the year 2022F (+8.7% in Italy) compared to the previous estimate of +6.8%; +7.0% for the year 2023F (+6.6% in Italy) compared to the previous estimate of +3.2% and an estimate for the year 2024F of +3.0% (2.3% in Italy), as reported in **Chart 35** and **Chart 36**. According to the European Commission's forecast, inflation rate in Europe will not return to pre-pandemic averages until 2024 at the earliest.

Thus, in order to cope with rising inflation, central banks are responding with substantial increases in interest rates, which translate into a higher cost of capital and less incentive for public and private investments.

As a matter of fact, considering high uncertainty that surrounds the geopolitical scenario, the European Commission revised downwards the GDP growth for 2023 (+0.3% 2023F) compared to the previous spring forecast (+2.3% 2023F).

However, thanks to the **projected resumption** of European economic activity, GDP estimated growth for **2024** is positive and equal to +1.6% (**Chart 31**).

Despite a **worsening scenario** owed to the approaching recession, the EU economy is supported by strong labor market, actually.

In fact, unemployment is at record low, while participation and employment are at all-time highs. According to the European Commission, labor demand is expected to contrast the slowing economic activity.

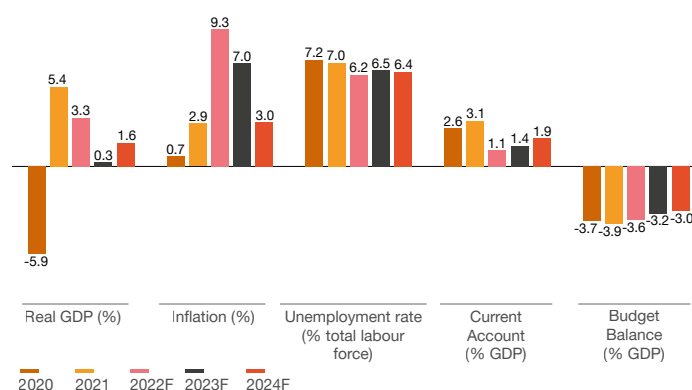
As a result, the European **unemployment rate** is expected to slightly increase from a historic low annual average of 6.2% in 2022 (8.3% in Italy) to 6.5% in 2023 (8.7% in Italy), before slipping back to 6.4% in 2024 (8.5% in Italy).

**European wage growth**, which increased to above-average levels in 2022, is expected to remain strong but below inflation level in 2023, picking up gradually and with a lag, as several wage agreements had already been concluded.

Moreover, **GDP deflator** will sustain further declines in the EU debt-to-GDP ratio, which is expected to fall from 89.4% of GDP in 2021 to 84.1% of GDP in 2024. In conclusion, over the projection period, economic variables are subject to a large degree of uncertainty mainly related to threats coming from development on the macroeconomic scenario.

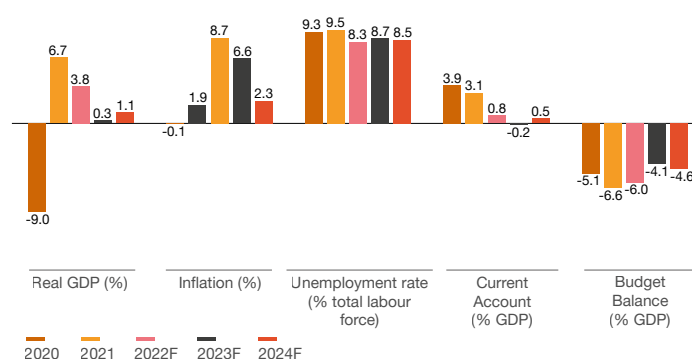
Structural reforms that can support productivity, multilateral cooperation, green energy transition and distress debt management are therefore essential to European recovery.

**Chart 35: Key EU economic drivers**



Source: PwC analysis on European Commission institutional paper "European Economic Forecast – Autumn 2022". Unemployment rate calculated as a % of total labor force, current account balance and budget balance as a % of GDP. Displayed data and forecasts for the EU refer to the EU27.

**Chart 36: Key Italian economic drivers**



Source: PwC analysis on European Commission institutional paper "European Economic Forecast – Autumn 2022". Unemployment rate calculated as a % of total labor force, current account balance and budget balance as a % of GDP.

Looking at the evolution of **total investment volumes (Chart 37)**, a common trend can be observed for both Italy and the European Union. However, in Italy the trend shows greater volatility in last years, fostered by government incentives such as the 110% Superbonus and PNRR.

With reference to Italy, the European Commission has estimated an increase in total investment volume equal to:

- +9.5% in 2022 compared to 2021,
- +1.9% in 2023 compared to 2022,
- +2.3% in 2024 compared to 2023.

With reference to European Union, the European Economic Forecast has estimated:

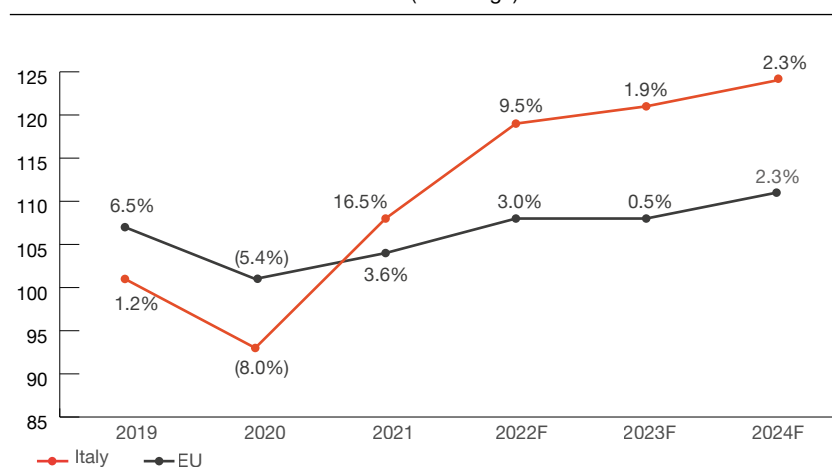
- +3.0% in 2022 compared to 2021,
- +0.5% in 2023 compared to 2022,
- +2.3% in 2024 compared to 2023.

In Italy, energy price shocks and worsened macroeconomic scenario have pushed economy into a contraction phase. Thus, according to the European Commission, **real GDP** growth, after registering a +6.7% in 2021, is expected to drop and reach 3.8% in 2022, before slowing to 0.3% in 2023 and picking up to 1.1% in 2024. **Inflation** is forecast to reach 8.7% in 2022, striking the purchasing power of Italian citizens, before dropping to 2.3% by 2024.

As a consequence, since the beginning of 2021, the government has implemented several fiscal packages to mitigate the economic and social impact of high inflation and cost-of-living. However, **government deficit**, supported by economic growth in the first 3Qs of 2022, is expected to decrease to 3.6% of GDP in 2023.

Thus, **Debt-to-GDP** ratio is forecasted to decline, from 150.3% of GDP in 2021 to 142.6% of GDP in 2024.

**Chart 37:** Total investments volume trend (% change)



Source: PwC analysis on European Commission institutional paper "European Economic Forecast – Autumn 2022". Displayed data and forecasts for the EU refer to the EU27.

**Table 17:** Government gross debt ratio per country

	Input	Input	Input	Input	Input	Input	Input	Input
Government gross debt ratio (% GDP)"	2018	2019	2020	2021	2022F	2023F	2024F	Trend 2022F-2024F
EU	81.0	79.2	91.5	89.4	86.0	84.9	84.1	▼
Italy	134.4	134.1	154.9	150.3	144.6	143.6	142.6	▼
Spain	97.5	98.2	120.4	118.3	114.0	112.5	112.1	▼
France	97.8	97.4	115.0	112.8	111.7	110.8	110.2	▼
Germany	61.3	58.9	68.0	68.6	67.4	66.3	65.4	▼
Greece	186.4	180.6	206.3	194.5	171.1	161.9	156.9	▼

Source: PwC analysis on European Commission institutional paper "European Economic Forecast – Autumn 2022". Displayed data and forecasts for the EU refer to the EU27.



**Chart 38** shows the trend of FTSE All share banks index and the BTP-Bund spread, two relevant indicators of Italian financial stability.

As regards **BTP-Bund spread**, the yield differential between Italian and German government securities has gradually widened from December 2021 until July 2022 due to negative economic expectations related to a contractionary monetary policy. However, as of December 2022, the yield spread between Italian and German government securities has backed to the levels recorded last spring.

During the first half of 2022, the worsening of macro-financial conditions did not affect the quality of banks' assets.

Furthermore, the normalizing process of monetary policy has favored growth in net interest income resulting in an improvement in **Italian banks' profitability**. This positive trend is expected to continue, although partly offset by declining trading income and increasing loan loss provisions.

As a matter of fact, banks' capitalization remains stable at high levels, greater than pre-pandemic period.

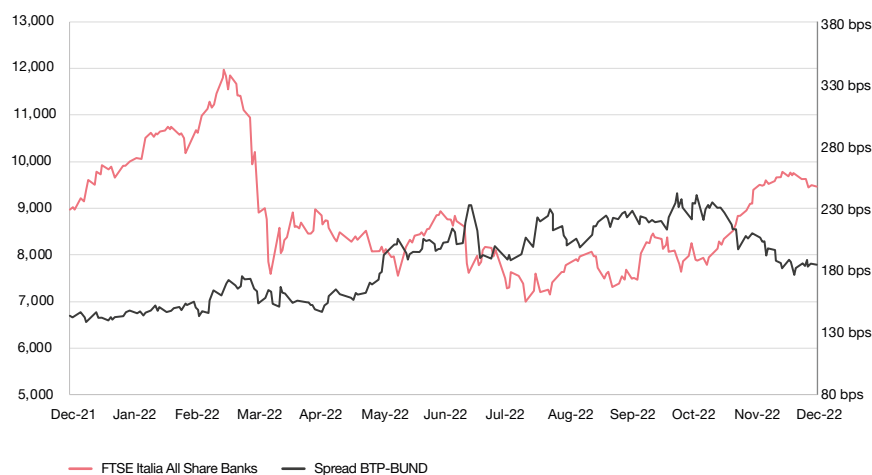
Nevertheless, **FTSE banks index** is slightly falling due to declining market value of securities measured at fair value and share buybacks.

All this considered, even if risks to financial stability have increased, economists state that banking system, firms and households in Italy are more solid than during past episodes of turmoil.

In conclusion, in a context of uncertainty and volatility created by actual macroeconomic and geopolitical scenario, the medium term outlook is still influenced by the potential developments in these instability factors.

Prudent fiscal policies and timely implementation of the National Recovery and Resilience Plan (**NRRP**), are considered to be crucial for a solid recovery.

**Chart 38:** Trend of FTSE All Share banks index and BTP-Bund spread



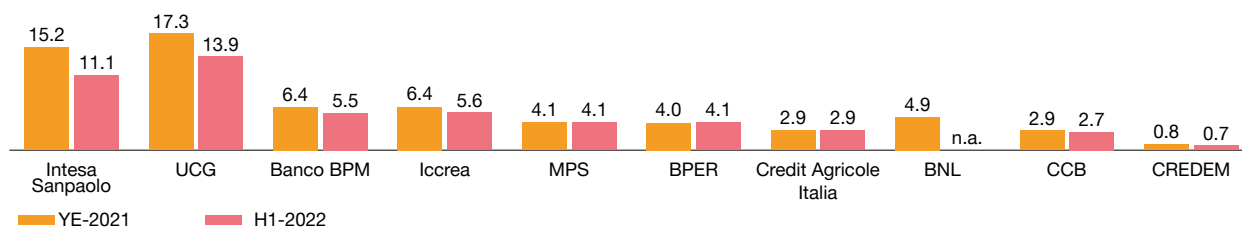
Source: PwC analysis on data provider information.



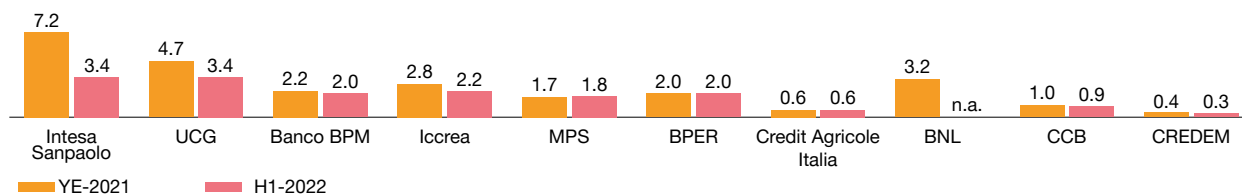


## Appendix: Top 10 Italian Banks

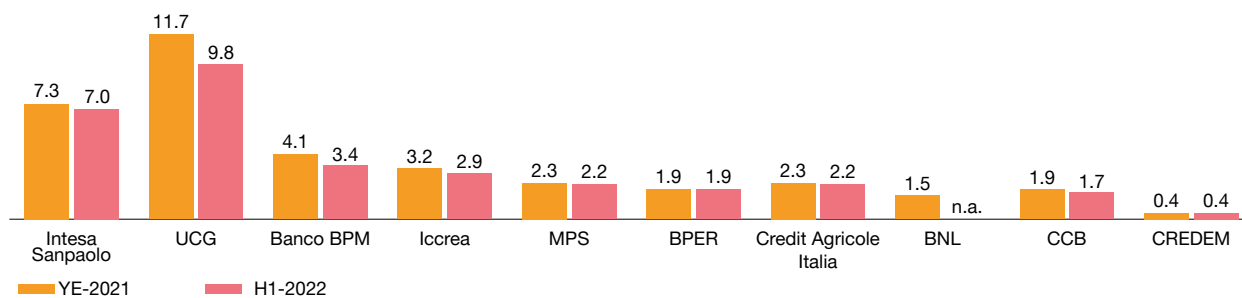
Gross NPE (€bn)



Gross Bad Loans (€bn)



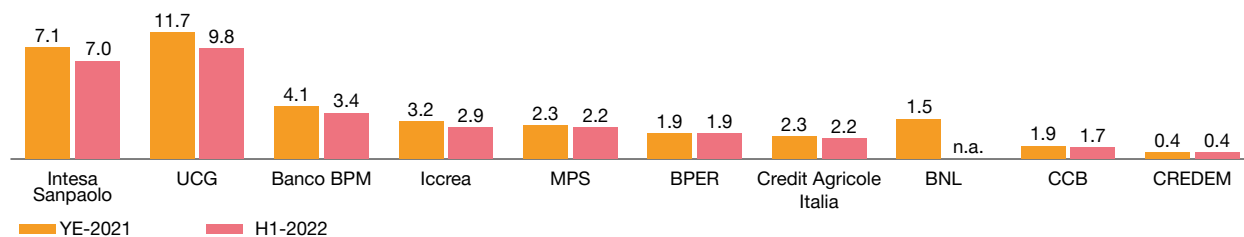
Gross Unlikely to Pay (€bn)



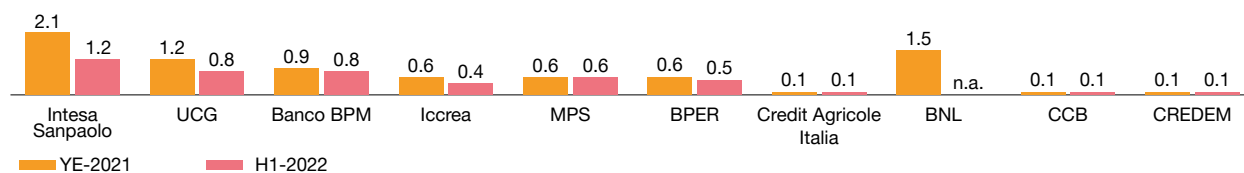
Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies.  
 Note: BNL data as of H1-2022 are not available.



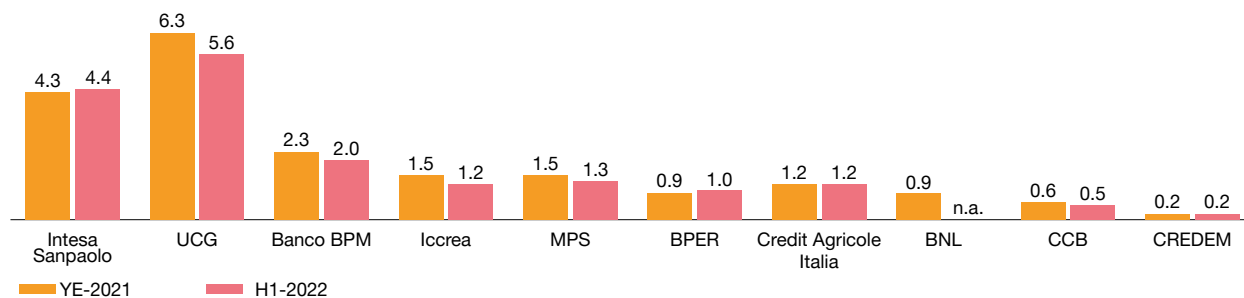
#### Net NPE (€bn)



#### Net Bad Loans (€bn)



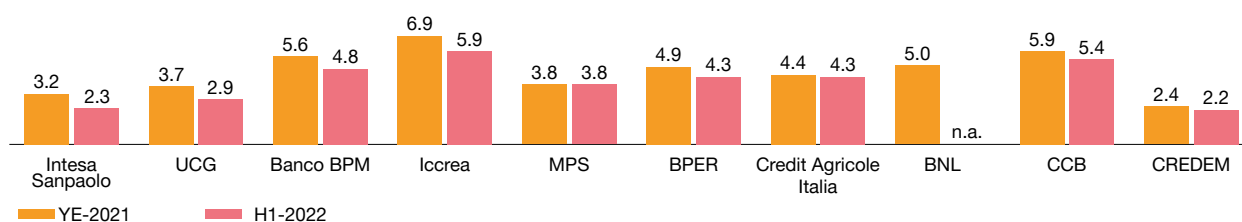
#### Net Unlikely to Pay (€bn)



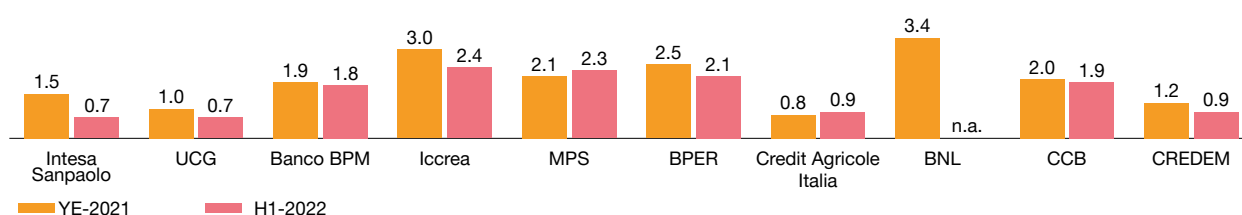
Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies.

## Appendix: Top 10 Italian Banks

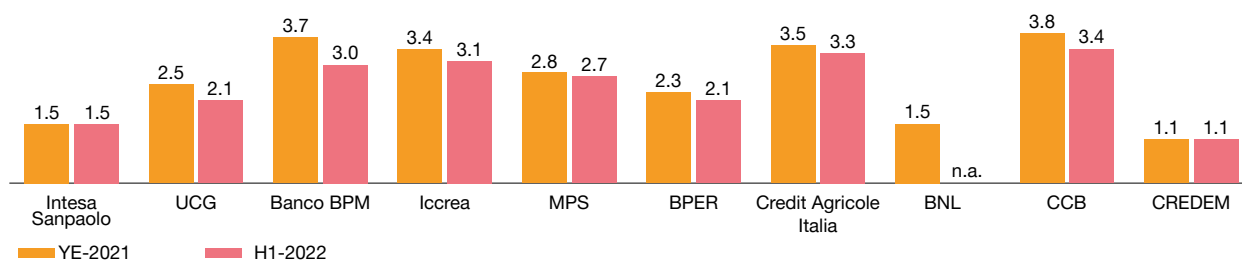
Gross NPE ratio (%)



Gross Bad Loans ratio (%)



Gross Unlikely to Pay ratio (%)



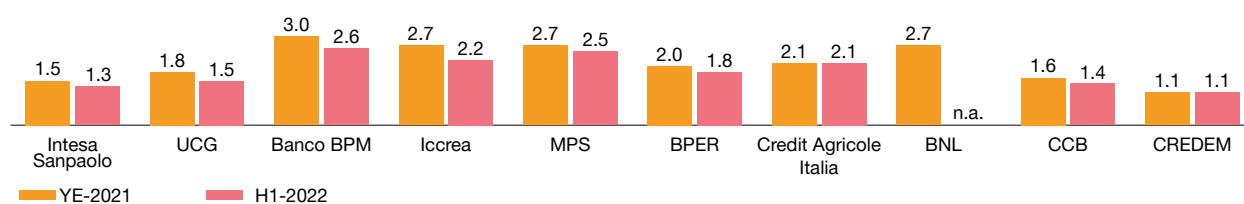
Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies.

Note: The calculation of the NPE ratio for CCB differs from the one reported in the balance sheet (8.7% calculated with EBA approach).

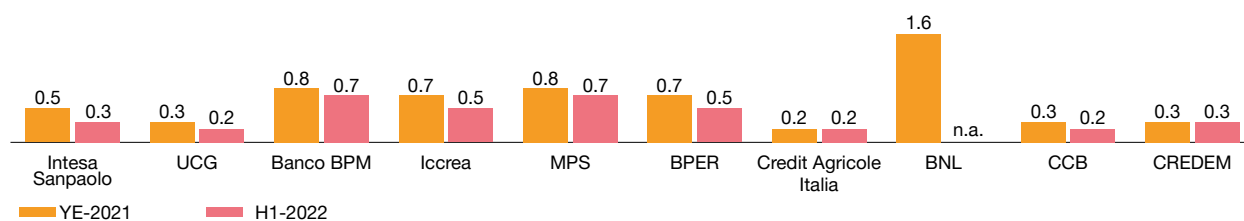




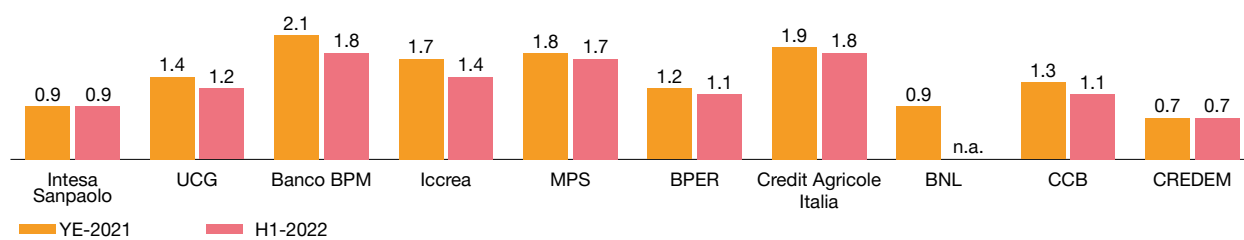
#### Net NPE ratio (%)



#### Net Bad Loans ratio (%)



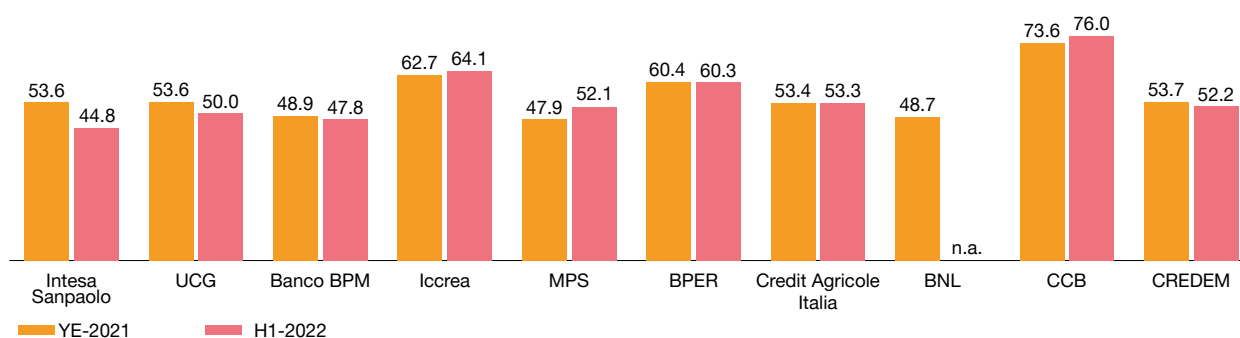
#### Net Unlikely to Pay ratio (%)



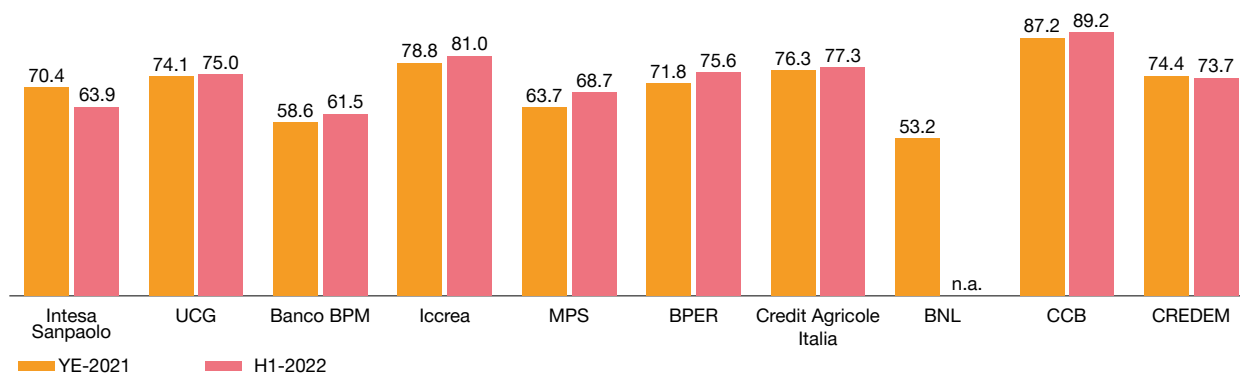
Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies.

## Appendix: Top 10 Italian Banks

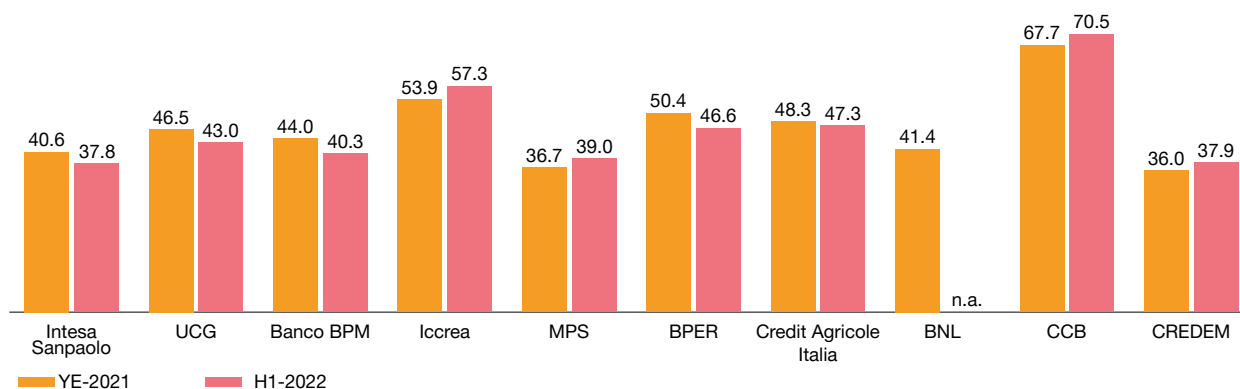
NPE Coverage ratio (%)



Bad Loans Coverage ratio (%)



Unlikely to Pay Coverage ratio (%)



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



Rome, Lazio, Italy.



Didascalia



## Expert view on main trends in NPE market



**Andrea Mignanelli**  
CEO, Cerved Group

**Gabriele Guggiola**  
Partner, PwC Italia

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code to view  
the interview



**Manuela Franchi**  
Group CFO and General  
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**Francesco Cataldi**  
Director, PwC Italia

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**Ettore Bono**  
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