The Italian NPL Market

The Calm before the Storm

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In the last 5 years, the NPE market has gradually headed towards a medium-term steady state. Deleverage activities have reduced sharply bad loans and, as a result, market participants were starting to focus on Unlikely to Pay (UtP) and on how to manage the tail of the huge non-performing stock cumulated during the past decade.

Italian banks, in response to market and regulatory pressure, have halved the total stock of NPL (€ 130bn in H1-2020 vs € 341bn in 2015) and, at the same time, they have set up NPL platforms and organizational controls that will allow to manage non-performing loans more quickly and efficiently and thus face the incoming economic crisis in a more resilient way.

The COVID-19 crisis, needless to say, has surprised everybody, reshuffling the cards and bringing back to the table all participants that are now trying to understand how the market will evolve in the next few months and years.

Despite several economic forecasts, released by public institutions or private research centres (one of the latest, by the European Commission, points at a 9.9% and a 7.4% decrease in GDP in 2020 respectively for Italy and EU) the situation is still largely unpredictable both due to its complexity and incomparability with previous economic downturns. Looking at the near future it is assumed that the virus control measures will remain in force, however their stringency will gradually ease in 2021 thanks to the arrival of a vaccine.

The economic downturn will lead to an increase in NPL in the short to medium term. When, how much and how will this increase materialize? Probably not in the next few months, during which the shield of payment holidays and public support through the release of state guarantees will largely "freeze" the portfolios, delaying and possibly reducing the flows to NPE. Nevertheless, moratoria will end, and the combined effect of the decrease in revenues and a worsening financial position of many companies will lead to a severe scrutiny of the capability to pay creditors which will turn into an unavoidable reclassification to default of a significant number of counterparties. It is still very difficult to make reliable forecasts, but market consensus is that NPE new inflows will be in a range between € 60 and 100 bn in the next 24 months. This value will be mitigated by banks' workout, UtPs backed to bonis and by legislative measures. Given this, the net new inflows are assumed in the range € 50 - 70bn.

Furthermore, notwithstanding a general relief of supervisory and regulatory pressures on banks in this "emergency" situation, the focus on a rigorous valuation of the credit quality of banking portfolios will be high and increasing in the next few months. Banks will be forced to assess the ability to pay of their clients, and with objective or subjective indicators of financial difficulties emerging, many exposures will need to be reclassified. The confirmation of this expectation can be found in the increasing provisions that some large banking groups have already posted in their balance sheets to account for future losses.

Unlikely to Pay (€ 59bn in H1-2020) will probably be the most relevant and complex asset class that will need to be addressed. Banks will have to come up with some reliable drivers in order to identify those clients to support and those which will not be able to be restored. Banks and servicers, because the number, granularity and sectorial composition of UtP will probably be different than in the past, will need to deploy new servicing capabilities and strategies. Investors, with an appetite for new finance which will be increasing, will be able to find potential new opportunities when economic recovery will show up. Many private equity funds specialised in UtP portfolios and restructuring/ turnaround move in this direction, with the aim to help industrially solid companies which are now in a situation of financial distress.

The debt purchaser and debt servicing market will also be affected, turning the industry from a focus on the stock, which considering the primary and secondary market will amount to about € 350bn by the year end, to a new focus on how to manage the upcoming flows. Luckily, one of the legacies of the last crisis is the presence, now, of a sustainable NPL industry that will be able, more rapidly and effectively than in the past, to manage increasing volumes, supporting the economy and, when possible, helping to bring back to viability some of the companies that will experience financial difficulties. In the period 2021-2022 we expect a € 30 – 40bn of transactions per year, and this trend is expected to continue in 2023. For these reasons, we do not expect a peak of NPL stock like in 2015 but an amount in line with the one registered at H1-2020 because financial services sector is now more resilient.

The crisis will have other clear market implications. On the price of collaterals, with Real Estate prices potentially decreasing, at least for a temporary period, and with geographical and sectorial evolutions which will have to be carefully assessed by investors. On NPLs recoveries, which have slowed down due to the stop of Courts activities in these months, and that will lead to a review of the underline business plans of the serviced portfolios.

Finally, the “NPE issue” will be deeply influenced by the effectiveness of public support and economic recovery schemes, by the timing and intensity of the removal of the current regulatory relief measures and by the implementation of “systemic” solutions. Such solutions could be especially important for the UtP positions where a mobilization of the main economic stakeholder could be a game changer for the Italian economy. The solution must be rapid, at market conditions and need to leverage on local economies and stakeholder.

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Macroeconomic Scenario

Key Message

The outbreak of COVID-19 represents a major shock for the Italian economy with an extensive impact on national gross domestic product, which the European Commission predicts will drop by 9.9% this year.
Despite the policy response at both European and Italian level, the crisis is likely to revamp the trend of NPEs new inflows.

The COVID-19 pandemic shocked the European economy and constitutes an unprecedent challenge that will have important socio-economic consequences in the next years.

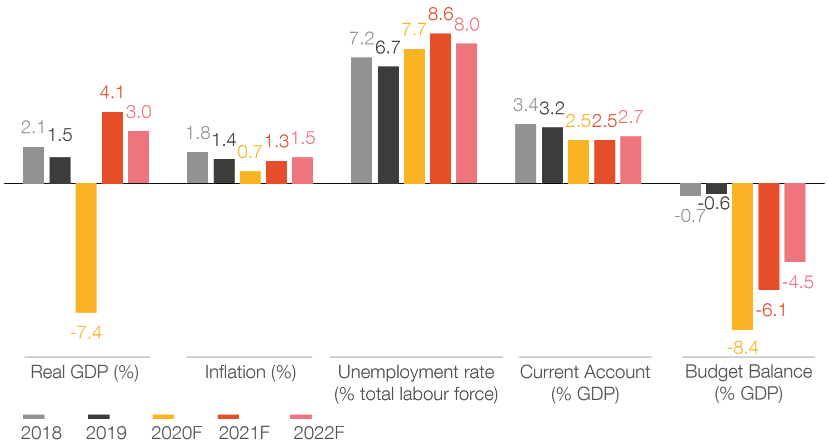
In spring almost all market activities in Italy and in Europe were in stand-by because of lockdown and social distancing measures to contain the spread of the virus which has claimed millions of lives worldwide. As a direct consequence, this led to a strong crises and the economy contracted sharply: in the first half of 2020 real GDP fell at double digit rates in the European Union. Employment also declined more than ever, although, thanks to policy support, less than expected.

The easing of restricting measures during the summer caused a peak of growth in the third quarter, however, shortly after, infection rates started increasing again, leading to the reintroduction of containment measures. Initially governments tried to adopt local and targeted restrictions, but the rise of the second wave led to stricter measures. The combination of renewed fear about the pandemic and lockdown measures are putting the nascent recovery on hold.

This unstable situation makes economic forecasting more challenging than usual and the impact will differ across countries depending on the (I) stringency of public health measures, (II) sectoral composition of national economies and (III) domestic policy responses. EU Member States have extended an unprecedent fiscal and liquidity support to protect the economy and, differently from the previous crises of 2008, the economic policy response in the EU has been timely and sizable. The ECB's quick response in May was complemented by the activation of the "general escape clause" in the EU's fiscal rules which has helped all Member States to provide a strong support to their economies. Furthermore, rapid agreements such as the support to mitigate unemployment risks in an emergency (SURE) and the European Council agreement on the Next Generation EU (NGEU) plan to support member states with a € 750bn fund has shown an increasing degree of commitment, and solidarity between member states.

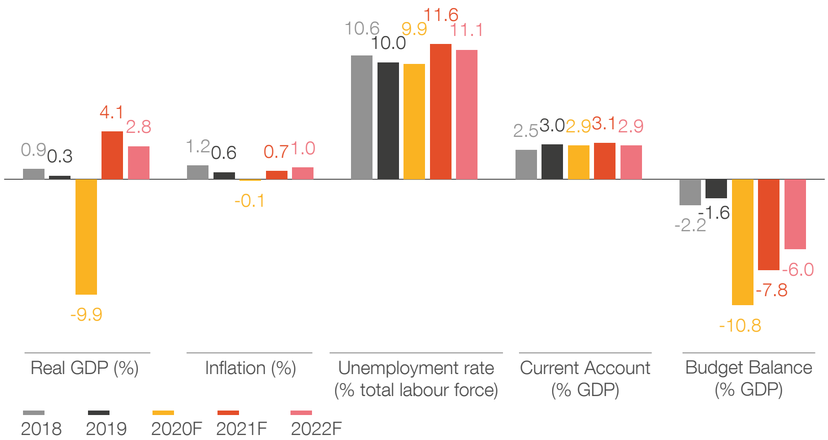
The recent increase for the pandemic emergency purchase programme (PEPP), initiated in March 2020, is moving in the same direction (with an original envelope of € 0,6bn) from € 1.3bn (as set on 4 June 2020) to € 1.8bn (as set on 10 December 2020).

Chart 1: Key EU economic drivers



Source: PwC analysis on European Commission institutional paper "European Economic Forecast – Autumn 2020". Unemployment rate calculated as a % of total labour force, current account balance and budget balance as a % of GDP. Displayed data and forecasts for the EU refer to the EU27.

Chart 2: Key Italian economic drivers



Source: PwC analysis on European Commission institutional paper "European Economic Forecast – Autumn 2020". Unemployment rate calculated as a % of total labour force, current account balance and budget balance as a % of GDP.

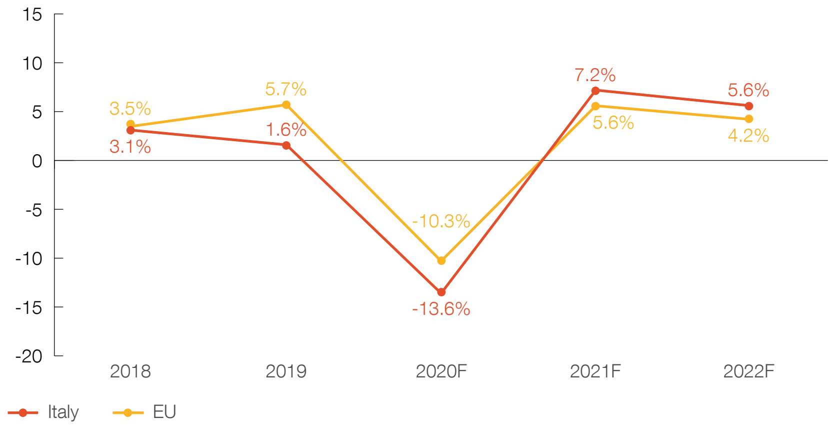
Looking at the future it is assumed that the virus control measures will remain in force, however, their stringency will gradually ease in 2021 thanks to the vaccine which is expected in the forthcoming months. Moreover, the economic impact of restrictions is expected to decline over time as the health and economic system adapt to a new normal.

Another factor of uncertainty is related to the future trading relationship between the UK and the EU. A Brexit without an agreement, implies a much less beneficial trade relationship with economic costs both for the UK and the EU.

EU GDP is forecast to contract by about -7.4% this year before rebounding by 4.1% in 2021 and by 3.0% in 2022 returning to pre-pandemic level. As said before, there will be significant divergences across countries and Italy, due to the stringency of lockdown measures and differences in economic structures, will pay a high cost. The European Commission forecasts a downturn of the Italian GDP by a record -9.9% in 2020 before rebounding by 6.5% in 2021 and by 2.8% in 2022 (still below 2019 level).

Looking at unemployment, the successful implementation of ambitious policy measures will imply no mass lay-offs. None the less the, unemployment rate in the EU is forecast to rise reaching 7.7% in 2020, 8.6% in 2021 and 8.0% in 2022. Italian unemployment rate is expected to reach 9.9% in 2020, 10.7% in 2021 and 11,1% in 2022. Economists expect a reallocation of workers across sectors from the hardest hit activities towards new ones.

Chart 3: Total investments volume trend (% change)



Source: PwC analysis on European Commission institutional paper "European Economic Forecast – Autumn 2020". Displayed data and forecasts for the EU refer to the EU27.

Table 1: Government gross debt ratio per country

"Government gross debt ratio (% GDP)"	2018	2019	2020F	2021F	2022F	Trend 2019 - 2022F
EU	**81.2**	**79.2**	**93.9**	**94.6**	**94.9**	▲
Italy	**134.4**	**134.7**	**159.6**	**159.5**	**159.1**	▲
Spain	97.4	95.5	120.3	122.0	123.9	▲
France	98.1	98.1	115.9	117.8	119.4	▲
Germany	61.8	59.6	71.2	70.1	69.0	▲
UK	85.8	85.4	104.4	111.0	113.7	▲

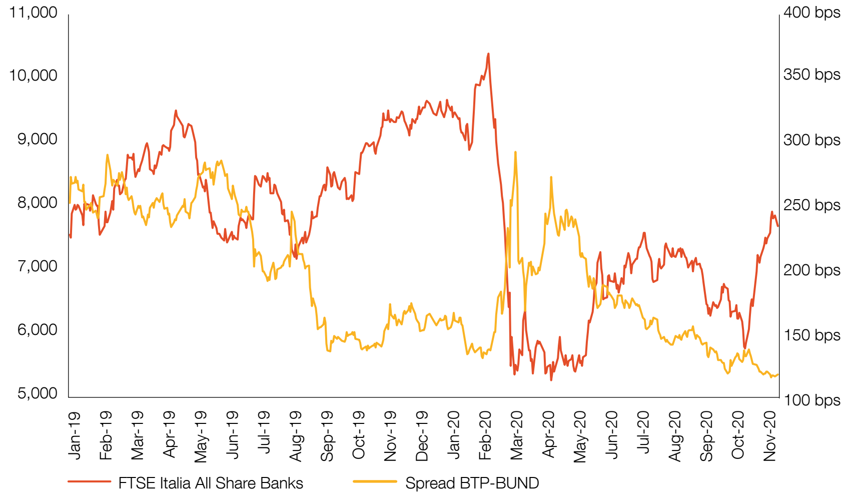
Source: PwC analysis on European Commission institutional paper "European Economic Forecast – Autumn 2020". Displayed data and forecasts for the EU refer to the EU27.

Due to the extraordinary public expenses to contain the consequences of the pandemic disease, public debts increased significantly in 2020. Italian budget balance is expected to be around 10.8% of the GDP and therefore the public debt is expected to reach a peak of 160% of the GDP in 2020, significantly higher than EU average of 94%. Italy has a large and diversified economy, a low private debt and high household wealth level. However, a credible fiscal consolidation strategy will be crucial for the future of the economy.

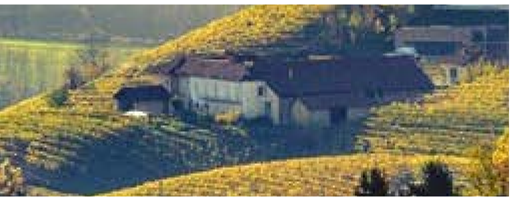
Among major rating agencies, Standard & Poor's recently confirmed its BBB rating for Italy's sovereign debt, upgrading the negative outlook to stable, while Moody's and Fitch assign a BBB- rating, just one notch above junk, but with a stable outlook as well.

However, thanks to ECB's expansive monetary policies to mitigate the impact of rating downgrades to ensure the smooth transmission of its monetary policy in all jurisdictions of the euro area, the spread BTP-Bund is now at the lowest levels in a long time.

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



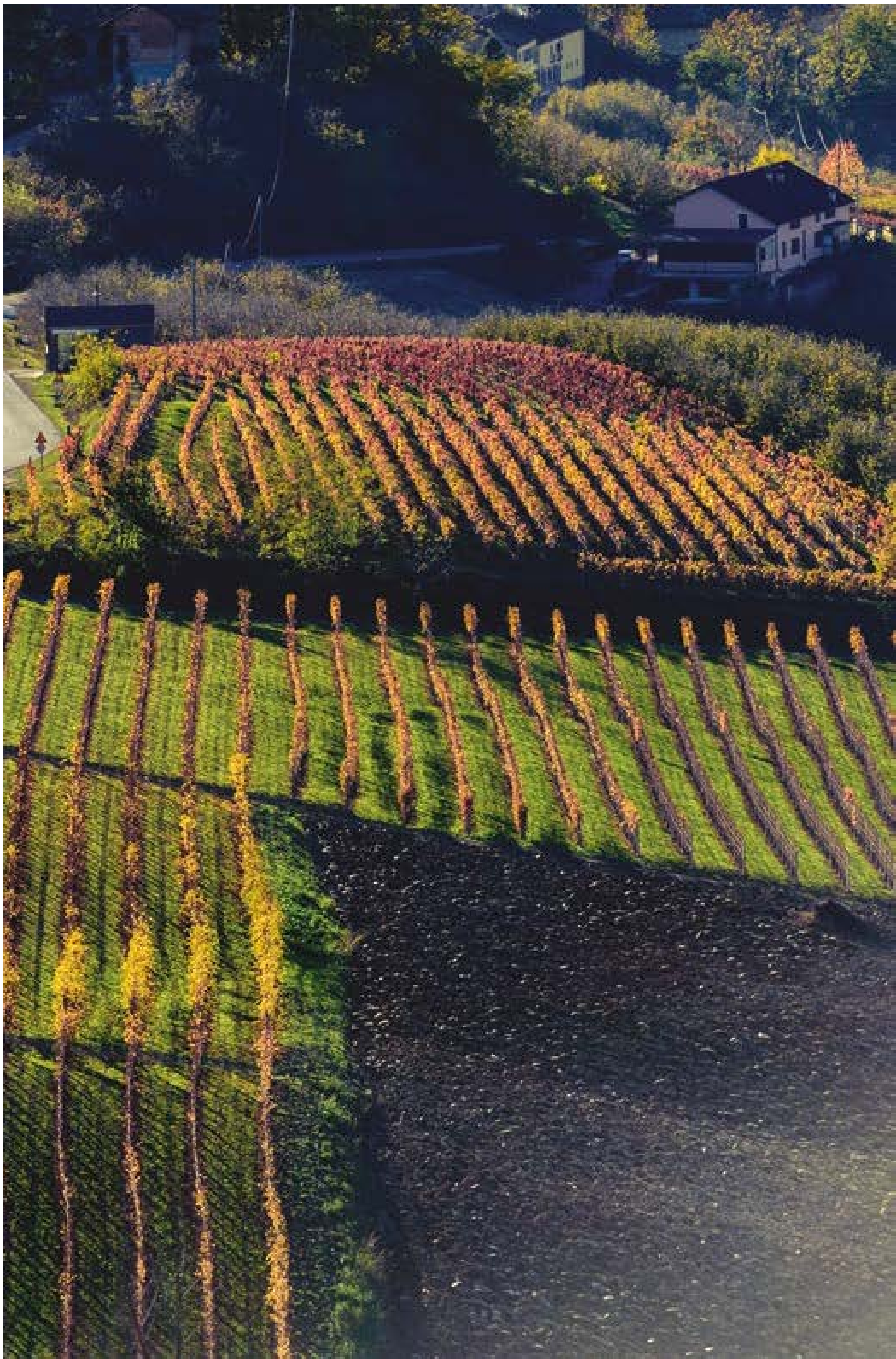
Source: PwC analysis on data provider information.



Recent market activity and outlook

Key Message

The outbreak of COVID-19 and the consequent lockdown could potentially impact deleveraging strategies for 2021-2022 where uncertainty about potential investors' appetite, pricing expectations and recovery strategies should be compensated by government stimulus that would preserve the level of NPEs transactions in a range between € 30-40bn in the next years.



Despite the pandemic, the first half of 2020 have seen closed transactions for a total GBV of € 8bn, € 2bn more than H1-2019.

However, COVID-19 has still to show a full impact on the economy.

In the last five years, we have seen the explosion of the NPL market, registering volumes never seen before. 2015 to 2019 registered NPE transactions in terms of GBV for around € 230bn, while the NPE stock as of YE-2019 (GBV € 135bn) has fallen by more than half since the peak in 2015 (GBV € 341bn).

In H1-2020 the NPE stock amounted to € 130bn.

Why did the NPL market reach the peak of € 341bn in 2015? We have identified three main factors: (i) banks' lending policies were ultra-expansive before 2008 and banks were less regulated; (ii) the great 2008 recession lead to an increase of debtor's default rate; (iii) NPL transactions were something extraordinary and the market was not ready to assimilate the big wave of distressed credits.

The outbreak of COVID-19 and lockdown measures will have important consequences in the evolution of the NPL market in the following years. So, what's next? We can state that there are similarities with the 2008 global financial recession. However, the Italian banking system, thanks also to European polices, is now much more solid and resilient as a whole even though it is still challenged by a level of non-performing loans above the EU average. Furthermore, the market, thanks to an increasing number of operators, is now better prepared to absorb the wave of distressed credits.

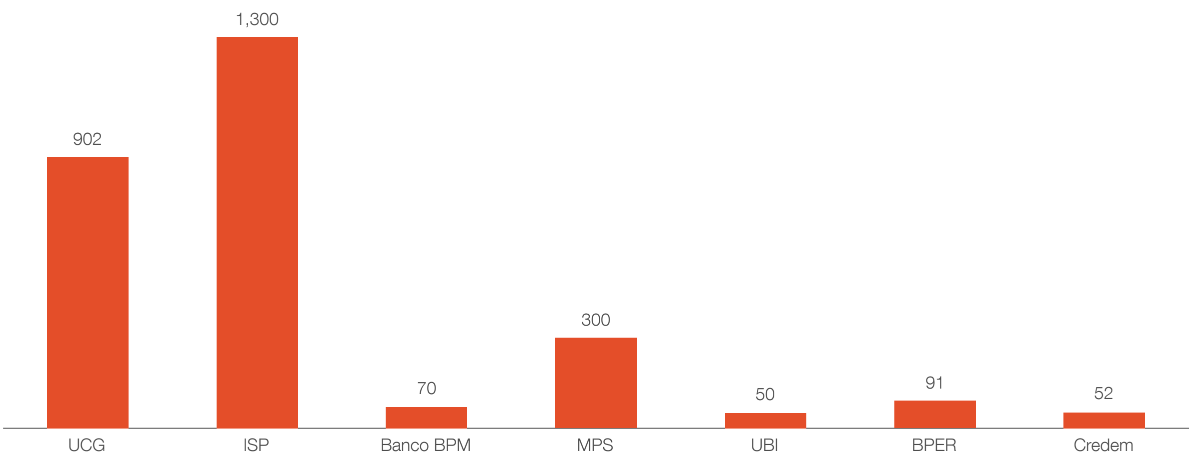
What we expect? Regarding new inflows, as a result of the still ongoing spread of the COVID-19, it is very difficult to make reliable forecasts. Following the precedent recession, the NPE peak was only reached in 2015 (7 years later). We expect a shorter time for the new inflows wave, maybe between 2021 and 2022, with a cumulative amount of distressed credits between € 60bn and € 100bn. This value will be mitigated by banks' workout, UtPs backed to bonis and by legislative measures. Given these assumptions, the net new inflows are assumed in the range € 50bn - € 70bn.

Main Italian banks have already set aside extra provision in 2020 to prevent balance sheets impacts as shown in **Chart 5**.

Concerning future NPE transactions, we think that the uncertain investors' appetite, pricing trends and recovery strategies, will stabilise in 2021 as soon as the current health crisis have normalised. In the period 2021-2022 we expect € 30 - 40 bn of transactions per year, which seems to be consistent with the market consensus. This trend is expected to continue in 2023.

As a result, we do not expect a peak of NPL stock like in 2015 but an amount in line with the one registered in H1-2020, as the system is now resilient and able to absorb the wave of distressed credits.

Chart 5: Top 10 Italian banks - Additional buffers built up for future COVID-19 impacts (€mln)



Source: PwC estimates on public information.

2020 has registered a contraction of NPE transactions compared to previous year due to the uncertainty of the evolution of the pandemic which caused the postponement of many deals. However, we are positive about a quick market recovery: investors have high liquidity and the market sentiment is improving thanks also to the arrival of a vaccine. In 2020, we count approximately € 29bn and € 2bn of closed and ongoing transactions respectively.

Regarding 2020 transactions:

- UniCredit, in line with its latest industrial plan, is one of the top players in the 2020 NPE market with approximately € 4.5bn of closed transactions of which € 3bn of bad loans (Projects Lisbona, Tokyo, New York, Loira and Elba) and € 2bn of UtP (Project Dawn and Sandokan 2). Furthermore, UniCredit sold a leasing portfolio of € 1.6bn and will continue to be one of the most active sellers also in 2021 with approximately € 4bn in pipeline according to its latest industrial plan.

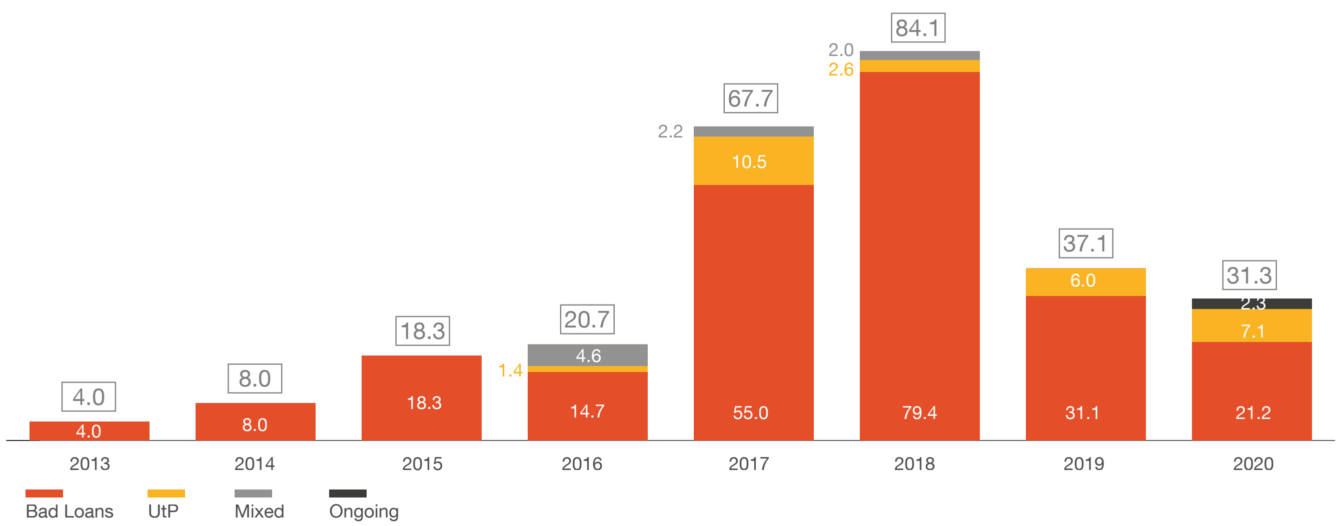
- Intesa Sanpaolo in 2019 was one of the most active players in the market, selling UtP for approximately € 3bn (with Project M which also included the servicer platform). In 2020, the bank sold a mixed NPL / UtP portfolio with a GBV of € 0.5bn to Ifis NPL and, following the completion of the merger with UBI, announced to be working on a jumbo deal for a total GBV of € 12bn of which € 7bn and € 5bn of Intesa and UBI respectively.

- MPS closed with AMCO a jumbo deal of approximately € 8bn (€ 5bn and € 3bn of bad loans and UtP respectively) as part of its deleveraging strategy.

- On the GACS side, Iccrea, UniCredit (with a leasing portfolio), BPER (Project Spring), Banca Popolare di Sondrio (Project Diana) and Gruppo Cassa Centrale closed five important deals of respectively € 2.4bn, € 1.6bn, € 1.4bn, € 1bn and € 0.7bn in 2020. Furthermore, Alba Leasing and Banco BPM (Project Titan, leasing) will likely ask for the public guarantee for the NPL securitisation they are currently working on.

- Last but not least, the secondary market is in great ferment. Moreover, we have to take into consideration the role of secondary market as an alternative recovery strategy to accelerate the collections needed to repay Senior notes outstanding principal (often secured by GACS).

Chart 6: NPL transactions trend in the Italian market (€bn)



Source: PwC estimates on public information and market rumours.

Table 2: Main closed transactions as of December 2020

Date	Seller	Volume (€ m)	NPE category	Macro asset class	Buyer	Primary / Secondary market
Transactions closed in 2020:						
2020 Q4	Gruppo Cassa Centrale	680	Bad Loans	Mixed secured / unsecured	Buonconsiglio 3 SPV	Primary
2020 Q4	UniCredit	1,600	Bad Loans	Secured	Relais SPV	Primary
2020 Q4	Iccrea	2,400	Bad Loans	Secured	n.a.	Primary
2020 Q4	Banca Monte dei Paschi di Siena	4,900	Bad Loans	Mixed secured / unsecured	AMCO	Primary
2020 Q4	Banca Monte dei Paschi di Siena	2,600	UtP	Mixed secured / unsecured	AMCO	Primary
2020 Q4	Banco BPM	1,017	UtP	Mixed secured / unsecured	AMCO, Credito Fondiario, other	Primary
2020 Q4	UniCredit	600	UtP	Mixed secured / unsecured	illimity	Primary
2020 Q4	Intesa Sanpaolo	553	Bad loans & UtP	Unsecured	Ifis NPL	Primary
2020 Q4	UniCredit	692	Bad Loans	Secured	illimity	Primary
2020 Q4	UniCredit	1,000	UtP	Mixed secured / unsecured	Pimco, GWM, Aurora Recovery Capital (AREC)	Primary
2020 Q3	Banca Carige	324	UtP	Secured	AMCO	Primary
2020 Q3	illimity	266	Bad Loans	Unsecured	Ifis NPL	Secondary
2020 Q3	Grandi Lavori Fincosit	1,300	Bad Loans	Unsecured	Apeiron-Apollo	Primary
2020 Q3	Credito Valtellinese	108	UtP	Unsecured	AMCO	Primary
2020 Q3	Credito Valtellinese	162	Bad Loans	Unsecured	AMCO	Primary
2020 Q3	Credito Valtellinese	102	Bad Loans	Unsecured	MBCredit Solutions	Primary
2020 Q3	UniCredit	840	Bad Loans	Unsecured	IFIS NPL, Guber, Barclays Bank	Primary
2020 Q3	UniCredit	702	Bad Loans	Unsecured	illimity, Guber, Barclays Bank	Primary
2020 Q3	Confidential	335	Bad Loans	n.a.	MBCredit Solutions	Primary
2020 Q3	Public Administration	180	Bad Loans	Unsecured	Credito Fondiario	Primary
2020 Q2	Banca Popolare di Bari	1,200	UtP	Mixed secured / unsecured	AMCO	Primary
2020 Q2	Banca Popolare di Bari	800	Bad Loans	Mixed secured / unsecured	AMCO	Primary
2020 Q2	UniCredit	335	Bad Loans	Unsecured	Banca IFIS	Primary
2020 Q2	Banca Popolare di Sondrio	1,000	Bad Loans	Mixed secured / unsecured	Diana SPV	Primary
2020 Q2	BPER Banca	1,377	Bad Loans	Mixed secured / unsecured	Spring SPV	Primary
2020 Q2	Deutsche Bank	270	Bad Loans	Unsecured	MBCredit Solutions	Primary
2020 Q2	Credito Valtellinese	250	Bad Loans	n.a.	Confidential	Primary
2020 Q2	J-Invest	1,701	Bad Loans	Unsecured	NPL Securitisation Italy SPV srl	Secondary
2020 Q1	UniCredit	115	Bad Loans	Secured	illimity	Primary
2020 Q1	Credito Valtellinese	177	Bad Loans	Secured	AMCO	Primary
2020 Q1	Credito Valtellinese	357	Bad Loans	Unsecured	Hoist Finance	Primary
2020 Q1	illimity	182	Bad Loans	Unsecured	Sorec Srl, Phinance Partners Spa, CGM Italia SGR Spa	Secondary
2020 Q1	Confidential	170	Bad Loans	Secured	illimity	Secondary
Other transactions with deal value < € 100m		**702**				
Total (2020)		28,997				

Source: PwC estimates on public information and market rumours of primary and secondary market. Data refer to transaction from January 2020 to December 2020. 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).

Table 3: Main announced NPE transactions as of December 2020

Status	Seller	Volume (€ m)	NPE category	Macro asset class	Primary / Secondary market
Ongoing	BPER	282	UtP	Secured	Primary
Ongoing	Iccrea	108	UtP	Mixed secured / leasing	Primary
Pipeline	Prelios Innovation	300	n.a	n.a	Secondary
Pipeline	Intesa Sanpaolo	12,000	Mixed Npl / UtP	n.a	Primary
Pipeline	UniCredit	3,900	Mixed Npl / UtP	n.a	Primary
Ongoing	Banco BPM	450	Mixed Npl / UtP	Secured	Primary
Pipeline	CreVal	443	Bad Loans	n.a.	Primary
Ongoing	Alba Leasing, Banco BPM	400	Bad Loans	Leasing	Primary
Ongoing	Banca Popolare di Sondrio	400	Bad Loans	Mixed secured / unsecured	Primary
Ongoing	Credit Agricole - Cariparma	300	Bad Loans	Secured	Primary
Ongoing	Banca Carige	177	Bad Loans	Leasing	Primary
Ongoing	CR Volterra	80	Bad Loans	n.a.	Primary
Ongoing	Banca Chianti	70	Bad Loans	Mixed secured / unsecured	Primary
Ongoing	ATC Piemonte	25	Bad Loans	Unsecured	Primary
	Total	**18,935**			

Source: PwC estimates on public information and market rumours.

Italian Real Estate Market

Key Message

In the first half of 2020, transactions in the Italian real estate market fell sharply by -22% compared to the same period of the previous year.
Real estate executions had an important slowdown, lengthening the recovery time.
Institutional investments in the non-residential real estate sector reached € 5.9bn in Q3 2020, a decrease of 20% compared to the same period in 2019, with the office sector dominating the Italian market.

Table 4: Italian NTN[1] comparison by sector

Asset type	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	H1 2019	H1 2020	"Delta (%) H1 20-19"
Residential	138,525	159,619	137,099	168,298	117,047	116,174	298,144	233,221	-21.8%
Office	2,201	2,636	2,225	3,416	1,821	1,812	4,837	3,633	-24.9%
Retail	7,175	8,137	6,823	9,301	5,917	5,014	15,312	10,931	-28.6%
Industrial	2,529	2,995	2,680	3,919	1,951	2,069	5,524	4,020	-27.2%
Total	**150,430**	**173,387**	**148,827**	**184,934**	**126,736**	**125,069**	**323,817**	**251,805**	**-22.2%**
Appurtenances	97,491	112,848	95,490	122,562	81,716	84,249	210,338	165,965	-21.1%
Other	13,491	16,160	14,218	18,943	11,294	10,893	29,652	22,187	-25.2%
Grand Total	**261,411**	**302,395**	**258,535**	**326,439**	**219,746**	**220,211**	**563,807**	**439,957**	**-22.0%**

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

Volume of real estate transactions in H1-2020

In H1-2020, compared to the previous year, the Italian real estate market has undergone a remarkable contraction with a decrease in -22% in total transactions. The most significant decrease, compared to the same period of the previous year, was recorded in the commercial real estate class, with a decrease of -28.6%. See **Table 4**.

Residential real estate sales in H1-2020 decreased in each area of Italy compared to the same period in 2019. The South recorded the worst result with a decrease of 25.4%, followed by the Centre and the North with a decrease of -20.7% and -20.5% respectively. See **Table 5**.

During H1-2020 the number of non-residential transactions decreased by 27.6% compared to H1-2019. The largest decrease is attributable to the retail sector, especially in the northern area where the highest reduction was registred (– 30.1%). See **Table 6**.

Appurtenances (including garages, basements and parking lots) and other sectors continue to perform well. See **Table 4**.

Table 5: Residential NTN by geographic area

Area	Region	Year 2019	H1 2019	H1 2020	Delta (%) H1 19-18	Delta (%) H1 20-19
North	Provinces	104,271	51,910	41,213	6.7%	-20.6%
	NoProvinces	225,125	109,708	87,286	6.8%	-20.4%
	Total	**329,396**	**161,619**	**128,499**	**6.8%**	**-20.5%**
Center	Provinces	56,749	28,650	22,835	5.7%	-20.3%
	NoProvinces	66,246	32,963	26,011	8.4%	-21.1%
	Total	**122,994**	**61,613**	**48,846**	**7.1%**	**-20.7%**
South	Provinces	43,705	21,908	16,755	1.2%	-23.5%
	NoProvinces	107,446	53,004	39,121	5.0%	-26.2%
	Total	**151,151**	**74,912**	**55,876**	**3.9%**	**-25.4%**
Italy	Provinces	204,724	102,469	80,803	5.2%	-21.1%
	NoProvinces	398,817	195,676	152,418	6.6%	-22.1%
	Total	**603,541**	**298,144**	**233,221**	**6.1%**	**-21.8%**

Source: PwC analysis on Italian IRS data.

Table 6: Non residential NTN by geographic area

NTNH12020Office	Q12019	Q22019	Q12020	Q22020	H12019	H12020	Delta(%)H120-19
North	1,358	1,653	1,105	1,159	3,011	2,264	-24.8%
Center	425	480	354	338	905	692	-23.5%
South	418	503	362	315	921	677	-26.5%
					4,837	**3,633**	**-24.9%**
NTNH12020Retail	**Q12019**	**Q22019**	**Q12020**	**Q22020**	**H12019**	**H12020**	**Delta(%)H120-19**
North	3,463	4,027	2,802	2,431	7,490	5,233	-30.1%
Center	1,639	1,850	1,385	1,193	3,489	2,578	-26.1%
South	2,073	2,260	1,730	1,390	4,333	3,120	-28.0%
					15,312	**10,931**	**-28.6%**
NTNH12020Industrial	**Q12019**	**Q22019**	**Q12020**	**Q22020**	**H12019**	**H12020**	**Delta(%)H120-19**
North	1,683	2,025	1,339	1,323	3,708	2,662	-28.2%
Center	392	478	294	375	870	669	-23.1%
South	453	492	318	371	945	689	-27.1%
					5,524	**4,020**	**-27.2%**
					25,673	**18,584**	**-27.6%**

Source: PwC analysis on Italian IRS data.

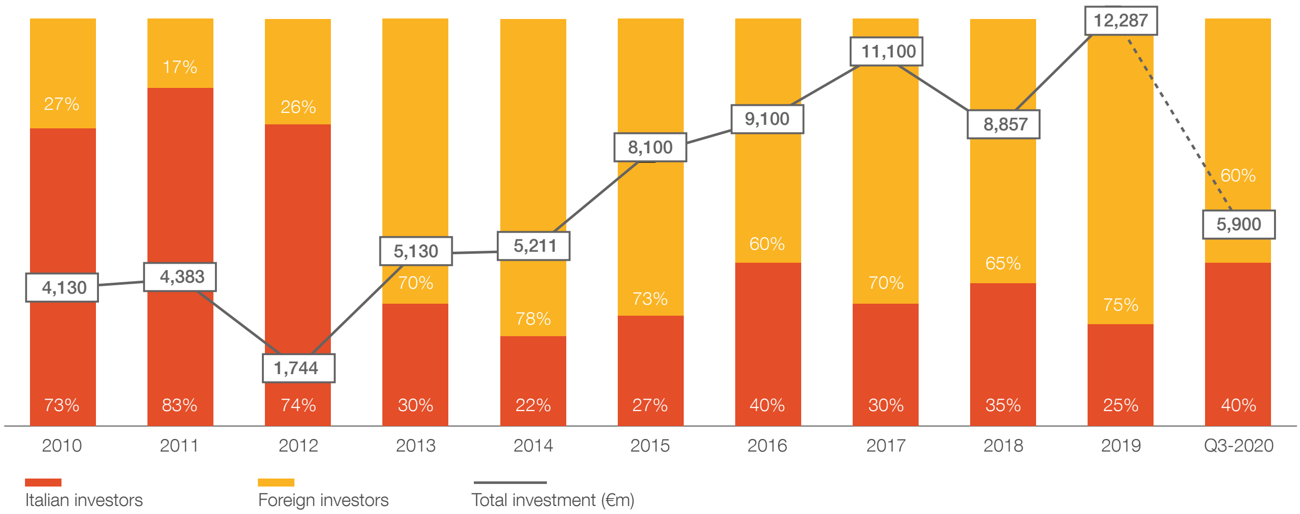
Investments in the non-residential real estate market

In the first 9 months of 2020 the volumes of investments in commercial Real Estate amounted to € 5.9bn, showing a reduction of about 20% compared to the corresponding period of the previous year.

In the Real Estate commercial sector, the Office sector is confirmed at the first place with 45% of volumes, followed by Retail with 19%, Logistics with 14%, Hospitality with 12% and Alternatives with 10%. It should be noted that the increase in the total amount of the last category is attributable to the closure of residential development operations.

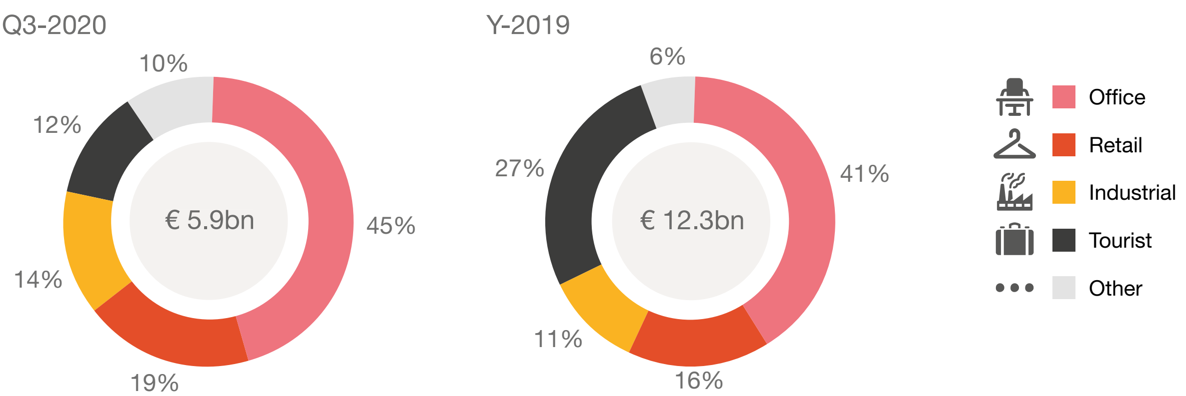
Due to the restrictions related to the pandemic, the presence of foreign capital, although representing about 60% of investments (at Q3 € 3.5bn international investments compared to 2.4bn Italians), has decreased compared to previous years (75% in 2019).

Chart 7: Investments in non-residential real estate – Investor type



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

Chart 8: Investments in non-residential real estate – Asset class



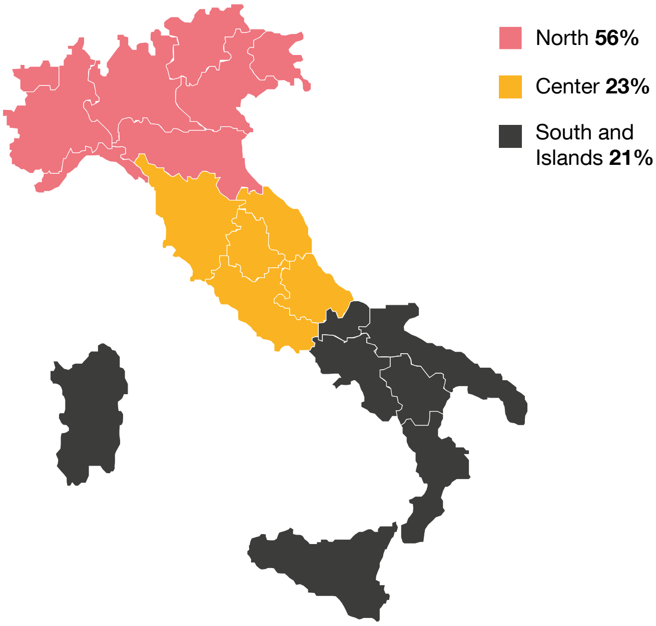
Source: Nomisma elaborations on Nomisma, BNP Paribas RE, CBRE and Colliers data.

The blockage of the courts caused a lengthening of the execution time and during the first COVID-19 lockdown period alone, 30,815 auctions were postponed for a value of € 3.7bn, which will lead to a lengthening of the average execution time.

The future scenario appears uncertain and will mostly depend on the future economic situation of the country and the response of the real estate market to auctions i.e. the assessment of investors' purchase intentions compared to the economic scenarios proposed by the COVID-19 crisis.

Source: PwC analysis on Associazione T.S.E.I. data

Chart 9: Closed Secured Portfolio by Area

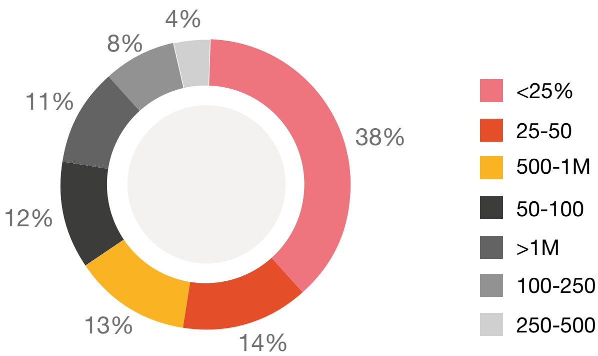


Closed Secured Portfolio

From analyzing the closed secured portfolio managed by servicers, it can be seen that the greatest concentration is located in Northern Italy (56%) followed by the Center (23%) and then the South and Islands (21%). See **Chart 9**.

In addition, analyzing the data by city size, it shows that 38% of the assets are located in small towns with less than 25,000 residents, 14% are in cities with a population between 25,000-50,000, and only 4% are in cities with a population between 250,000-500,000. See **Chart 10**.

Chart 10: Closed Secured Portfolio by City Size (residents)

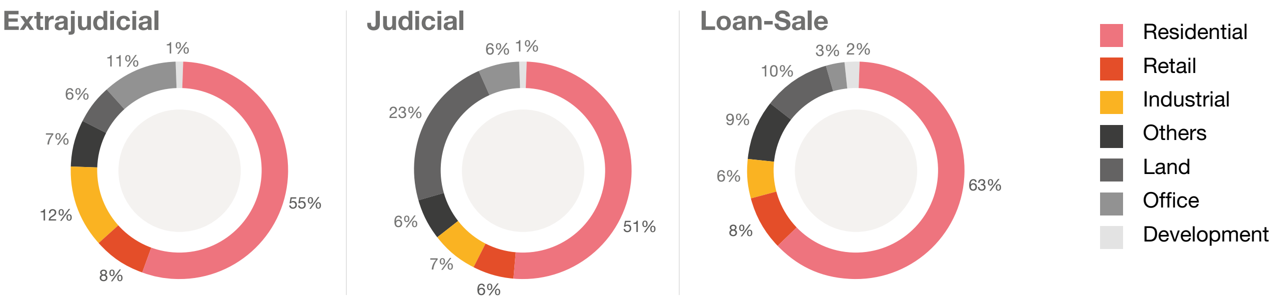


Source: PwC analysis based on data provided by Servicers as of 30/11/2020; data has been directly provided by Servicers and has not been verified by PwC; Servicers' organizational, industrial and operating structures vary greatly. Comparing the information presented above requires a correct analysis and understanding of the competitive landscape and servicer business model.

The 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 development. See **Chart 11**.

Considering the recovery rate by each asset class, offices show the highest performance (71%) followed by industrial (57%). The asset class with the lowest recovery rate is development at 36%. See **Chart 12**.

Chart 11: Closed portfolio by asset class (GbV)



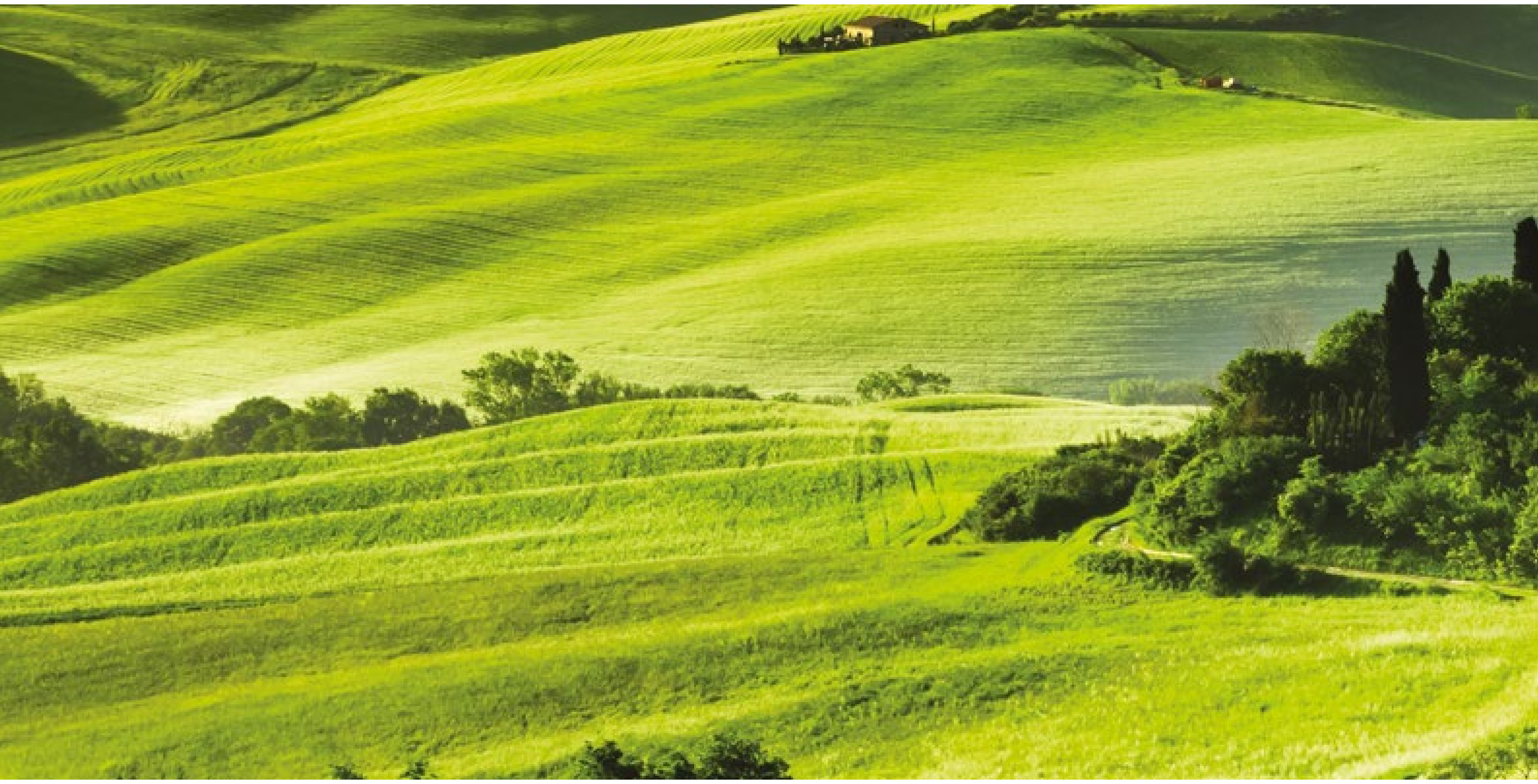
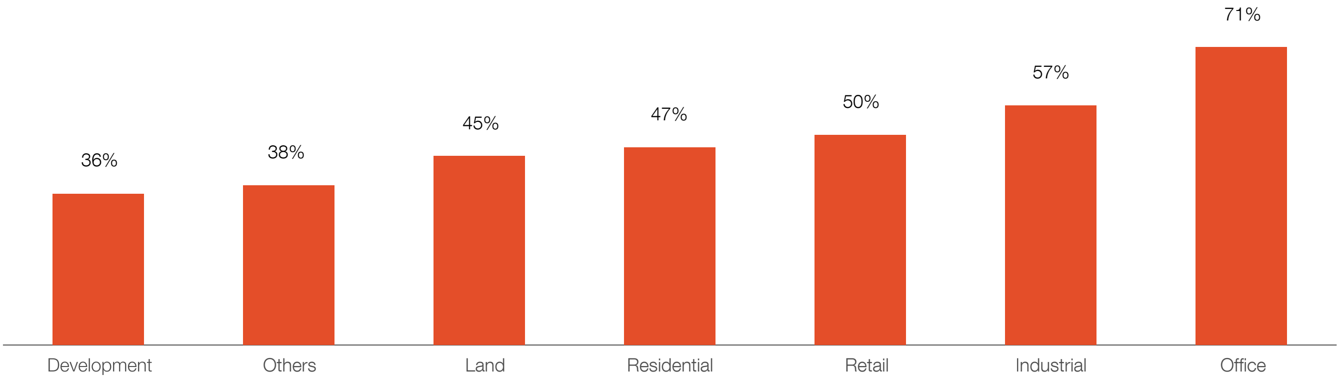
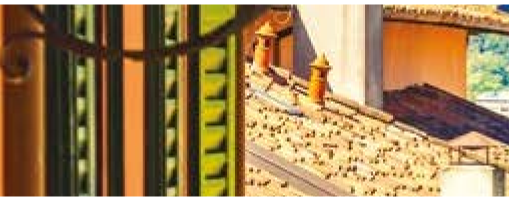


Chart 12: Recovery rate by asset class on closed portfolio



Source: PwC analysis based on data provided by Servicers as of 30/11/2020; 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 9 players and returned with arithmetic averages.



Regulatory framework update

Key Message

In the last months a mix of both government measures and regulatory evolutions have emerged in support of the banking system, in terms of capital relief measures and facilitation of NPE management, as to be able on its turn to sustain the economy in a time of a global emergency situation.

The prudential treatment of software assets

- The European Banking Authority (EBA) published in October 2020 a set of new Regulatory Technical Standards (RTS) in order to specify the methodology to be adopted by institutions concerning the prudential treatment of software assets.

- In line with the "Risk Reduction Measures" approved in May 2019, art.36 (1) (b) of the Capital Requirement Regulation (CRR) is modified, introducing the possibility to be exempted form the deduction of «prudently valued software assets the value of which is not negatively affected by resolution, insolvency or liquidation of the institution» from CET1.

- EBA's motivation for such intervention follows the current wave of digitalization and technological advancements noted in the European banking sector.

- EBA's aim is to minimize the regulatory gap with some international players who are often not required to deduct software assets from CET1 as they are not considered intangible assets.

- Moreover, the objectives of the new RTS are:

    1. to maintain a conservative margin, in light of the volatile nature of the software assets' value given the technological advancements, while
    2. encouraging the investment in software assets as the new tool in the modernization of the banking sector in Europe.

EBA's main considerations

1.

Differences in valuation and amortisation of software assets and their realizable value at liquidation.

2.

International developments and differences in prudential treatment of investments in software assets.

3.

Different prudential rules applicable to insurance companies.

4.

Diversity in the financial sector of the European Union, including unregulated fintech companies.

Illustrative

EBA, following an impact assessment it carried out, opted for the introduction of a prudential framework based on the amortisation of the software's value, where the positive difference between the prudential (calibrated to a maximum of 3 years) and the accounting amortisation is deducted from CET1 while to the residual portion of its carrying amount a risk weight is applied.

Prudential Amortisation = **Software value** x **Number of Days**

Software value
On balance amount divided by the minimum between the useful life (in days) and 3 years (in days calculated from the date in which the software is ready for use and starts being amortised for accounting purposes).

Number of days
Number of days that have passed from the date in which the software is ready for use and starts being amortised for accounting purposes.

CET 1 deductions
Deduction from CET1 of the difference, if positive, between the prudential amortisation calculated and the sum of the accumulated amortisation and potential impairment losses results form the software assets.

Residual carrying amount
The portion of the carrying amount not deducted from CET1, resulting from the application of the prudential amortisation, will be subject to a risk weight of 100% in line with what is foreseen by the CRR.

Illustrative non exhaustive

Context and objectives

The European Central Bank (ECB) published in July 2020 a guide for consultation on the supervisory approach adopted for the assessment of consolidation projects within the banking sector. The main objectives of the guide can be outlined below:

1. clarify the supervisory tools adopted to assess consolidation transactions.
2. enhance the predictability of supervisory actions, reducing some elements of uncertainty.
3. foster sustainable operations to achieve economies of scale and address new challenges (e.g. digitalization).

The supervisory approach for consolidation

The assessment process consists of 3 phases and it clarifies the ECB expectations on M&A transactions

- **Early communication:** it is the preliminary phase where the institution exchanges the initial information of the transaction with ECB, requests a preliminary feedback and performs a preliminary analysis on the main features of the business combination.
- **Application:** during this phase the final integration plan is submitted and a notification of a proposed acquisition of a qualifying holding or formal application to obtain permission for the business combination is sent.
- **Implementation and monitoring:** this phase concerns the implementation integration plan defined for the business combination along with an ongoing monitoring and reporting to ECB.

Favorable and measurable prudential treatments for banks

P2R e P2G
The guide sets Pillar 2 requirement and guidance to be based on the actual risk profile of the combined entity. The target levels are expected to be calculated starting from the weighted average of the P2R and P2G levels applicable to the two entities prior to the consolidation.

Badwill
It will be possible for institution to recognize the accounting value of badwill generated by the transaction in order to increase the sustainability of the new business model (e.g. provisioning for NPL, covering of integration costs or other investments). Profits from badwill to the shareholders will not be distributed until the sustainability of the business model is reached.

Internal models
The guide introduces the possibility for a temporary approval to continue using internal models that were in place before the merger, notwithstanding the principle of non transferability of approval from one entity to another. However, the use of internal models will be subject to a clear model mapping and a credible internal model roll-out plan.

The Italian approach on consolidation

- The draft 2021 Italian Budget foresees tax incentives to promote business combinations among other benefits.
- The new provisions will allow M&A operations in 2021 to convert DTA into tax credits up to 2% of the sum of the accounting value of the assets involved.
- A quarter of the tax benefit can be realised within the first year while the rest on the second year. Such incentive, that cannot be used more than one time, is deductible for IRES and IRAP purposes by an amount equal to 25% of the total DTA converted.

The expected provisions, still under review, are expected to come into force from January 1st 2021 subject to the final approval of the Italian parliament by the end of the year.

EU securitisation framework

The **European Commission** published in **July 2020** two proposals that aim to further encourage a broader use of securitisations by freeing up capital and supporting the financial institutions in their effort to sustain the economy. The amendments, to the Capital Requirements Regulation and to the Regulation 2402/2017, have as an objective to:

- Extend the STS framework to on-balance-sheet synthetic securitisation and
- Remove regulatory obstacles to the NPE securitisations.

EBA published in **November 2020** a report on **significant risk transfer (SRT) in securitisation** transactions, which includes a number of detailed recommendations to the European Commission on the harmonisation of practices and processes applicable to the SRT following the 2017 SRT discussion paper. The report addresses three main areas, which can be summarised as following:

Assessment of structural features

- Securitisation transactions with ineligible structural features, other than those specified, should not be recognized as SRT
- A set of safeguards should be met for SRT recognition.
- Submission by the originator of a quantitative analysis on the impact of the structural features on the SRT and on the transaction overall.

Application of SRT quantitative tests

- Recommendations are outlined to address the limitations of the two tests used by the CRR to measure SRT, which aim to reduce the scope for differing interpretations.

Supervisory process

- Recommendations are outlined with regards the harmonization of the supervisory process for assessing SRT in individual transactions which should be subject to a dual-track process that would enable a fast track for “qualifying securitisations”.
- Harmonization of the preliminary SRT notice and transaction documents is also recommended on the report.

Illustrative non exhaustive

Capital Requirements Regulation (CRR)

- Introduction of article 269a (CRR) where the senior tranche of a traditional NPE securitisation would be subject to a flat risk weight of 100% (provided the NRPPD is at least 50% of the gross book value of the exposures). All other tranches would be subject to the general framework with the following adjustments:

  1. A risk weight floor of 100%
  2. Prohibition to use the foundation IRB parameters under SEC-IRBA

- Extension of the preferential treatment to senior tranches of the STS on balance sheet securitisation by extending the treatment currently provided in article 270 (CRR) to a wider range of underlying assets by removing the condition that at least 70% of the securitized exposures must be SMEs and the limits on the credit risk transfer.
- Amendment of article 249, par. 3 (CRR) as to align the credit risk mitigation rules applicable to the securitisation exposures to the general framework in line with what was agreed at international level by the BCBS. It aims to improve the effectiveness of the public guarantee schemes which assist the NPE securitisation strategies following the pandemic.

Regulation 2402/2017

- **Definition of an NPE securitisation:** the definition under the proposal is aligned with the work of the Basel Committee on Banking Supervision (i.e. there is a percentage of at least 90% of defaulted assets in the portfolio at inception).
- **Risk retention:** proposed to be calculated on the basis of the discounted value of the exposures transferred to the securitisation SPV and to maintain a material net economic interest of not be less than 5% of the net value of the NPE securitised exposures (article 47 bis CRR).
- **Credit granting:** proposal for the verification duties on originators to not apply when it concerns NPE securitisations purchased from a relevant third party.
- Inclusion of a **new section** containing the criteria for STS balance-sheet synthetic securitisation.

To make up for the shortage of cash flow faced by households and companies due to the COVID-19 emergency, the Italian State, through a series of regulatory provisions, has adopted several measures aimed at preventing that temporary financial stress situations would become permanent.

For this purpose, through the Decree-Laws "Cura Italia" of March 17, 2020, "Liquidità" of April 8, 2020, and "Rilancio" of May 19, 2020, both welfare and economic support measures were introduced by issuing state guarantees, moratoriums and aid to medium and large enterprises, SMEs, self-employed workers and families affected by the health emergency; in addition to the above-mentioned measures, there have also been specific banking industry initiatives as well as those offered bilaterally by individual banks to their customers.

With the "Cura Italia" decree and the "Liquidità" decree, companies can benefit from State guarantee mechanisms to facilitate the granting of new financing, with more convenient conditions and evaluation criteria, until 31 December 2020.

The aforementioned guarantees, provided by the "Fondo di garanzia per le PMI" managed by Mediocredito Centrale (MCC), are offered free of charge and the maximum amount guaranteed for each company, also referring to restructuring operations to be carried out through the disbursement of new finance, is € 5mln.

The standard warranty coverage is 90%. However, there are adjustments in place so that the coverage can be reduced to 80% in case of debt restructuring and, on the other hand, extended to 100% with regard to financing for the maximum amount of € 30,000 granted to, among others, SMEs, self-employed and craftsmen.

Likewise remarkable are the moratoriums for SMEs and micro companies introduced by the "Cura Italia" Decree, whereby beneficiaries are entitled, until 31 January 2021, to not having their credit lines or credit openings terminated, as well as obtaining an automatic postponement of non-installment loans, as well as to suspend the payment of mortgage loan, leasing and other installment loans.

Otherwise, micro, small and medium companies based in Italy can take advantage of the moratorium provided by the Italian Banking Association (ABI), under which they can request a 12-month moratorium in the payment of the principal of the loan installments, or an extension of the duration of the loan.

Finally, the "Liquidità" Decree has authorized SACE SpA (a company owned by the Ministry of Economy and Finance through Cassa Depositi e Prestiti) to grant, by 31 December 2020, guarantees - on first demand, unconditional, irrevocable and against payment – for financing entities (banks, national and international financial institutions and/or other entities authorized to exercise lending in Italy) that provide new purpose finance on behalf of large, medium or small enterprises. The maximum value for the amount of the guaranteed loan is equal to the greater value between 25% of the annual turnover of the company itself and the double of the annual costs for employees and the percentage of coverage can vary from 70% to 90% depending on the number of employees and turnover.

Impacts of the aforementioned provisions can be seen by examining the quantitative/qualitative data as at 25 November 2020 published by the Bank of Italy.

In this respect, the monetary value of the applications submitted in order to join the moratorium on loans - about 2.7 mln applications accepted for 94% - is equal to € 302bn; of these, 44% come from non-financial companies (1.3 mln applications from SMEs involving € 156bn of loans).

The value of applications for public guarantees covering new bank financing for micro, small and medium-sized enterprises submitted to the Fondo di garanzia per le PMI amounts to approximately € 107bn, of which about 1.3 mln applications (€ 19.5bn) for financing with a maximum amount of € 30,000 (100% covered by that guarantee).

Instead, the volume of loans guaranteed by SACE is about € 17.2bn, equal to 981 financing operations, of which about € 7.8bn referable to only 4 operations.

As shown by the Bank of Italy, without the aforementioned provisions, about 13.8% of the companies operating in Italy would have entered into crisis by 2020; in addition, the sectors with the greatest drops in turnover are those of hospitality and restaurant (-41.2%), entertainment activities (-33.8), energy and mining (-14.8), real estate (-12.4%), food and textile industry (-10.1%).

Given this, it seems likely that the loans disbursed as a result of the measures described earlier, once the moratorium has expired and become payable, will increase the borrowers' exposure to banks and thereby the number of NPLs outstanding.

Due to the magnitude of the phenomenon, one solution could potentially be the release of receivables by the credit institutions involved through securitization as the operational provisions relating to the provisions analyzed herein do not envisage limits to the assignment of receivables and the related rights deriving from the guarantees that assist them, notwithstanding some peculiarities connected with the SACE guarantee.

Within this framework, a further issue that could lead to a significant increase in credit exposure classified as NPL is given by the combined provisions of the new definition of prudential default that will come into force on 1 January 2021 and the EU framework of the so-called "calendar provisioning".

According to the first measure mentioned, a debtor is considered to be in default if, under absolute terms, it has a past due date of more than 90 days equal to € 100 for retail exposures (individuals and SMEs) and € 500 for companies and, under relative terms, the above amount corresponds to at least 1% of all the client's exposures to the bank, with no possibility of clearing with cash available on other undrawn credit lines.

It should be noted that the measures outlined above may have, inter alia, a significant impact on factoring receivables, amounting to € 255bn in 2019, which, with the introduction of lower thresholds for payment times and the different methods of calculating past due amounts, may lead to the classification of approximately ¼ of exposures to companies as deteriorated, with even more significant impacts having regard to exposures involving central and regional public administrations.

Likewise and in brief, with the write -off rules introduced by the UE through the so-called calendar provisioning according to which, the flows of NPE originating from 26 April 2019 must be fully covered (or released) within 4 years if unsecured and within 9/10 if secured by real estate, it is expected, unless the application of the legislation is suspended, an increase of NPL positions releases.

Finally, turning now the focus onto the recovery of credit exposures, it should be noted that with Decree-Law no. 137 of 28 October 2020 (the so-called "Ristori" decree) the prohibition to undertake enforcement procedures involving the debtor's main home has been extended until 31 December 2020.

Italian NPL Market

Key Message

The Italian banking system, in response to market and regulatory pressure, has experienced a significant deleverage in the last five years where the total stock has fallen by more than half (€ 135bn in 2019 vs € 341bn in 2015).
In H1-2020, due to the COVID-19 pandemic, it has experienced a slowdown in the reduction of total NPL stock (-€ 5bn vs YE-2019).
For YE-2020 we expect this amount to be around € 120bn, net of new inflows and transactions closed in the second half of the year.

Asset Quality

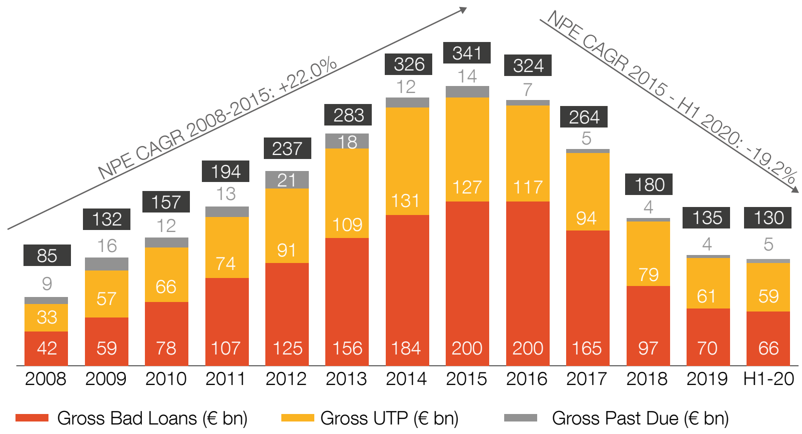
Chart 13 shows the trend in Italian NPE stock. After peaking at € 341bn in 2015, the trend has been decreasing, reaching € 130bn in H1-2020.

Gross Bad Loans dropped by € 4bn vs YE-2019 and by € 31bn vs YE-2018. Gross Unlikely to Pay showed a slower decline, with € 59bn in H1-2020 vs € 61bn at YE-2019. Gross Past Due remained relatively stable.

The slowdown of the decreasing trend, compared to the same period of 2019 (-€ 15bn in H1-2019 vs YE 2018), was caused by the lockdown measures due to the COVID-19 pandemic.

Based on this trend and the current health crisis, what do we expect for YE-2020? Assuming € 20-25bn of closed transactions in the second half of the year and € 10-15bn of new inflows (in line with previous years), we expect a total net impact of -€ 10bn on the total stock registered in H1-2020 in banks' balance sheets, bringing gross NPEs to approx. € 120bn at YE-2020.

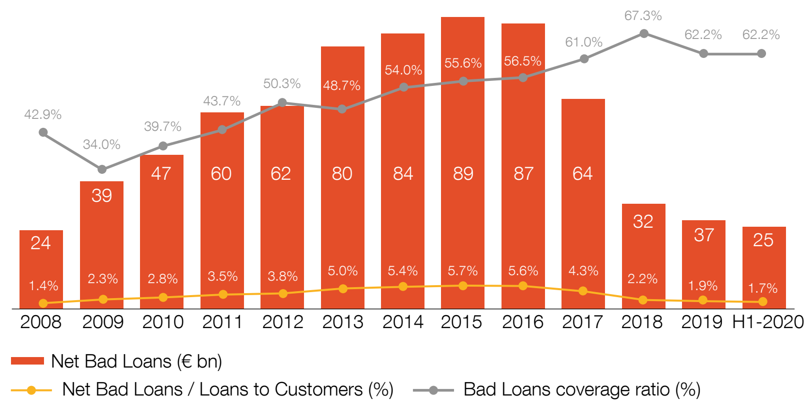
Chart 13: Gross NPE trend



Source: PwC analysis on Banca d'Italia "Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori", September 2020.

Chart 14 Shows how the volume of net Bad Loans has experienced the same slowdown. The total amount decreased to € 25bn (-€ 2bn vs YE-2019) while the Bad Loans Coverage Ratio for the Italian system (62.2%) remained stable with respect to the ratio registered at YE-2019.

Chart 14: Net Bad Loans Trend

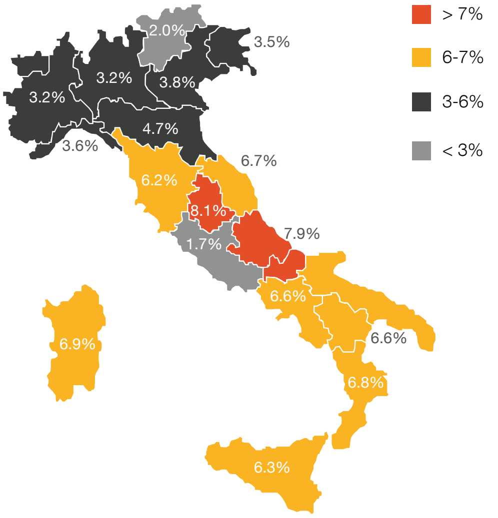


Source: PwC analysis on ABI Monthly Outlook – November 2020 and Bank of Italy data - September 2020
Note: 2017 and 2018 data might include financial intermediaries.

Looking at the composition of gross Bad Loans:

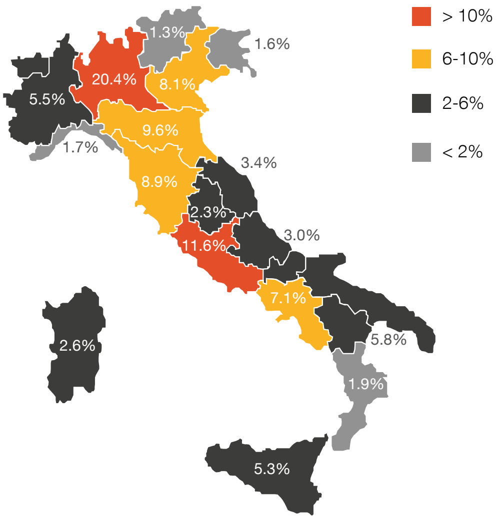
- In terms of gross Bad Loans ratio the highest percentages are recorded in Umbria (8.1%), Abruzzo-Molise (7.9%), Sardinia (6.9%) and Calabria (6.8%); overall, northern regions tend to show lower gross Bad Loans ratio compared to central and southern regions;
- Lombardy and Lazio account for respectively approx. 20.4% and 11.6% of total Italian Bad Loans, while they show a relative low Bad Loans ratio (3.2% and 1.7%);
- As shown in **Chart 16**, at H1-2020 the "Corporate & SME" sector still represents the greatest share (74.4%) of Italian gross Bad Loans, followed by the Consumer loans (17.5%);
- The percentage of Secured Bad Loans (45%) remained relatively stable compared to YE-2019 (44%). Most of Secured Bad Loans (68%) is represented by "Corporate & SME" and 23% by Retail (**Chart 17**).

Chart 15a: Gross Bad Loans ratio by region* (H1-2020)



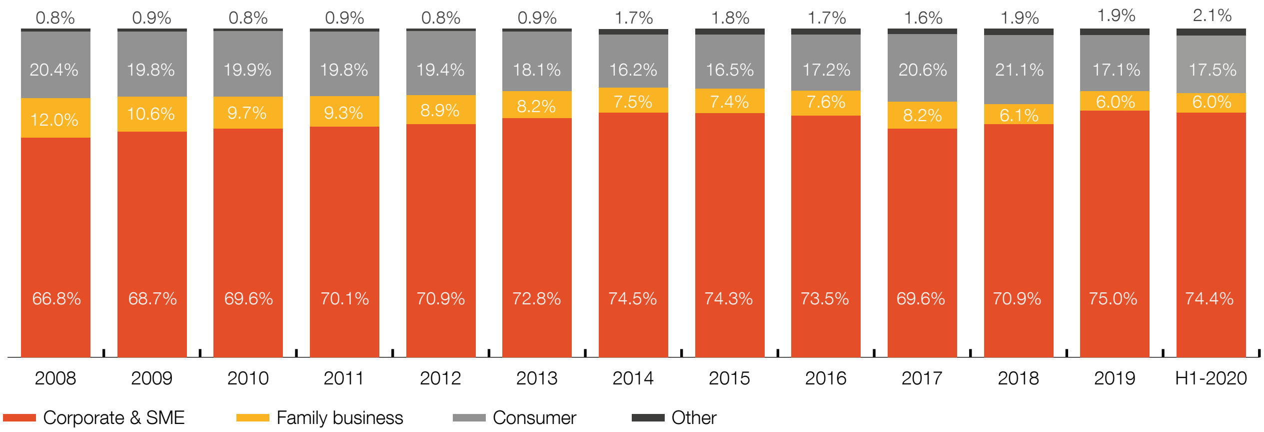
Source: PwC analysis on Banca d'Italia «Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori», September 2020.
Note: Bad Loans ratio in the region of Lazio is influenced by Cassa Depositi e Prestiti, included in Bank of Italy database; (*) Unique percentage for
1. Valle d'Aosta and Piemonte.
2. Abruzzo and Molise.
3. Puglia and Basilicata.

Chart 15b: Breakdown of gross Bad Loans by region* (H1-2020)



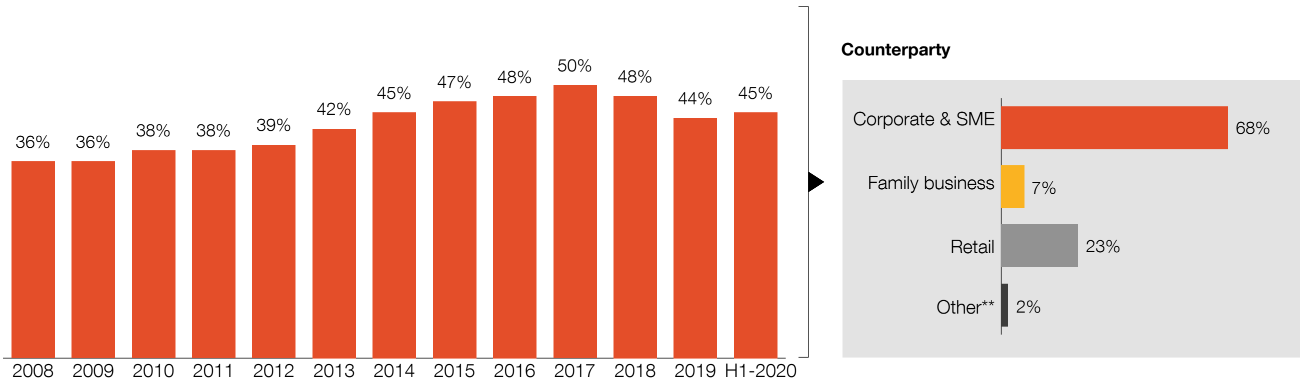
Source: PwC analysis on Banca d'Italia «Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori», September 2020.
Note: (*) Unique percentage for
1. Valle d'Aosta and Piemonte.
2. Abruzzo and Molise.
3. Puglia and Basilicata.

Chart 16: Breakdown of gross Bad Loans by counterparty** (H1-2020)



Source: PwC analysis on Banca d'Italia "Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori", September 2020 Note: (**) "Other" includes PA and financial institutions.

Chart 17: Secured gross Bad Loans trend (% on total Bad Loans)

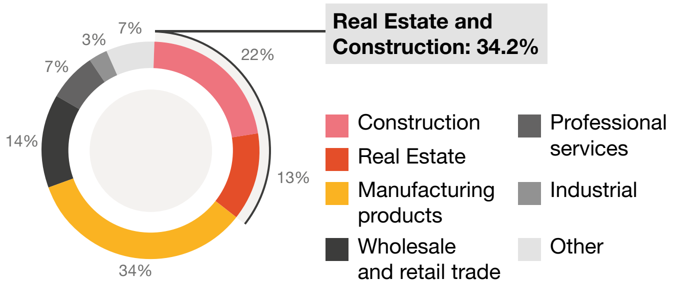


Source: PwC analysis on Banca d'Italia "Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori", September 2020 Note: (**) "Other" includes PA and financial institutions.

The breakdown of gross Bad Loans by economic sector (**Chart 18**) shows that Real Estate and Construction accounts for 34.2% followed by manufacturing products (34.0%) and wholesale and retail trade (14.0%).

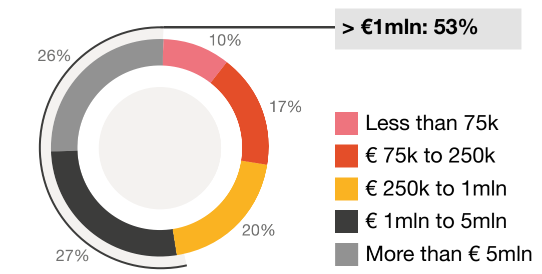
The breakdown of gross Bad Loans by ticket size (**Chart 19**) shows that large-size exposures (over € 1mln) represent 53% of total GBV, whereas mid-size exposures (from € 75k to € 1mln) and small-size exposures (below € 75k) represent 36.7% and 9.9% of the total respectively.

Chart 18: Breakdown of gross Bad Loans by economic sector (H1-2020)



Source: PwC analysis on Banca d'Italia «Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori», September 2020.

Chart 19: Breakdown of gross Bad Loans by ticket size (H1-2020)



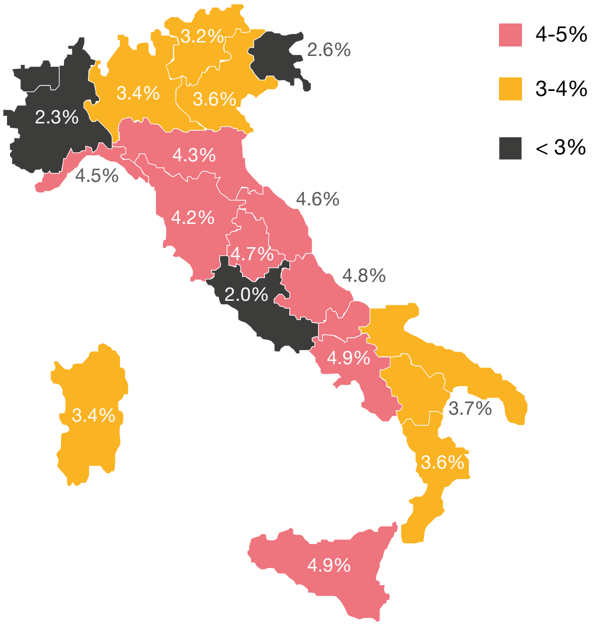
Source: PwC analysis on Banca d'Italia «Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori», September 2020.

Focus: UtP

The gross UtP stock composition at H1-2020 illustrates the following:

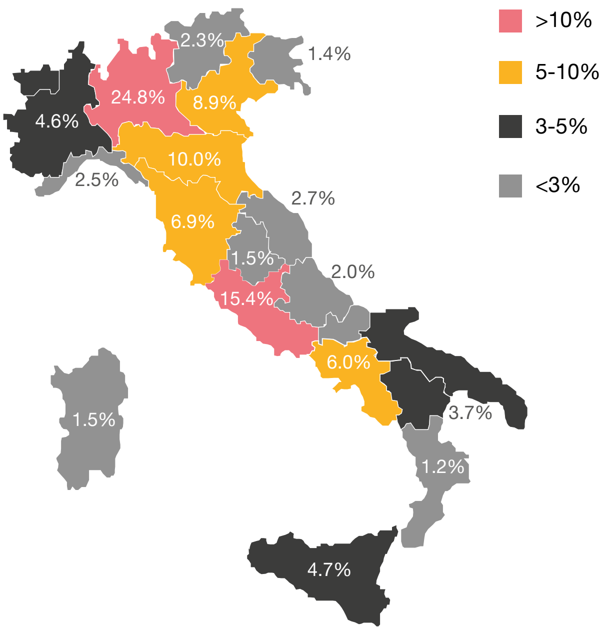
- Piemonte, Valle d'Aosta, Friuli Venezia Giulia and Lazio are the regions with the lowest incidence of UtP (UtP ratio lower than 3%), whereas Sicily (4.9%), Campania (4.9%), Abbruzzo and Molise (4.8%) are the regions with the highest levels of UtP ratio;
- In terms of volumes, the highest UtP concentration is in Lombardy and Lazio (respectively, 24.8% and 15.4% of total volumes).

Chart 20a: UtP ratio by region** (H1-2020)



Source: PwC analysis on Banca d'Italia «Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori», September 2020.
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 20b: Breakdown of UtP by region** (H1-2020)



Source: PwC analysis on Banca d'Italia «Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori», September 2020. Note: (**) Unique percentage for
1. Valle d'Aosta and Piemonte.
2. Abruzzo and Molise.
3. Puglia and Basilicata.

Focus on GACS

Key Message

Stricter regulations related to the achievement of performance targets protecting the noteholder along with increasing costs to access the guarantee, reduced the appeal of GACS deals for sellers. The number of GACS transactions have more than halved in 2019 compared to 2018, while volumes (in terms of GBV) have shrunk to a third.
In 2020 the GACS guarantee has been requested only for three transactions to date.
To offset the impact of COVID-19 the Government opened to the possibility of a performance targets suspension until 31st of July 2021.

The GACS or "Garanzia sulla cartolarizzazione delle sofferenze" is a State guarantee mechanism that has played a significant role in Non-Performing Exposure (NPE) disposals during last years. GACS means the unconditional, irrevocable and payable on first demand guarantee issued by the Ministry of Economy and Finance (MEF) on senior tranches issued under an NPLs credits securitization transaction. Through this mechanism, the subscribers of the senior notes, within 120 days from the occurrence of a trigger event (i.e. non-payment of interest or repayment of principal by the SPV) will obtain from the MEF the payment of the due amount. The GACS scheme was firstly introduced by the Italian Government in February 2016 and extended several times, until its expiration in March 2019.

Given the success reached in allowing the development of a market for banks' non-performing loans (and consequently their deleveraging), the Decree Law 25 March 2019 n. 22 (the so-called Brexit Decree) renewed, with some modifications, the GACS for 24 months (i.e. until the end of May 2021), with the option (yet to be exercised) to extend it for further 12 months.

The most relevant updates introduced by the new GACS are:

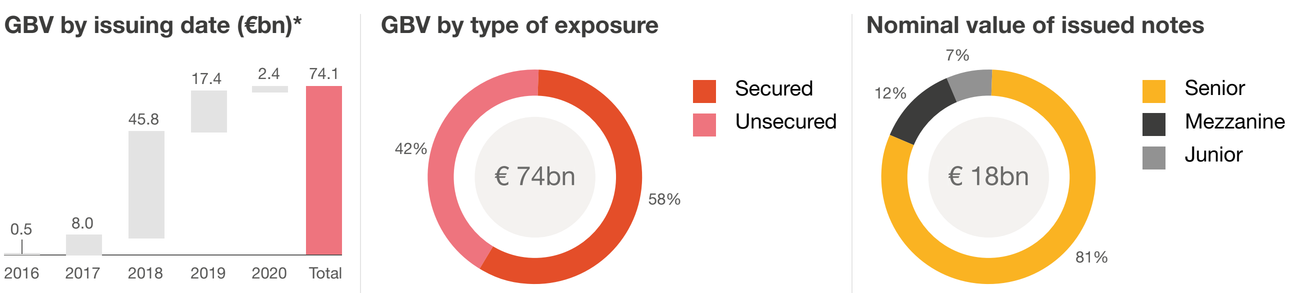
1. **Rating issuance:** Senior notes must receive a rating higher or equal to BBB from an independent rating agency and no longer at least equal to investment grade level (BBB-).

2. **Performance objectives related to servicer replacement:** servicer substitution is envisaged without any penalties if the ratio between net cumulative recoveries and net recoveries expected in servicer's business plan is less than 100% for two consecutive interest payment dates.

3. **Performance objectives related to servicer fee:** if the ratio between net cumulative recoveries and net recoveries expected in servicer's business plan is less than 90%, a portion not less than 20%, of the total due fee shall be deferred to the total reimbursement of senior note or to the date when the ratio returns greater than 100%.

4. **Performance objectives related to interest payment on mezzanine notes:** if the ratio between net cumulative recoveries and net recoveries estimated in portfolio business plan is less than 90% at the mezzanine interest payment date, the related interest is deferred since the full reimbursement of senior notes capital or since the ratio is greater than 100%.

Chart 21: Key features of NPE portfolios subject to securitization with GACS



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

As shown in **Chart 22** where is represented the cumulative net collection of GACS transactions compared with business plan forecast, there are 9 of them under the original projections at H1-2020, one more with respect to YE-2019.

This historical underperformance got worse due to stricter clauses linked to performance targets imposed by the last GACS Decree and the impacts of lockdown measures on the collection activities.

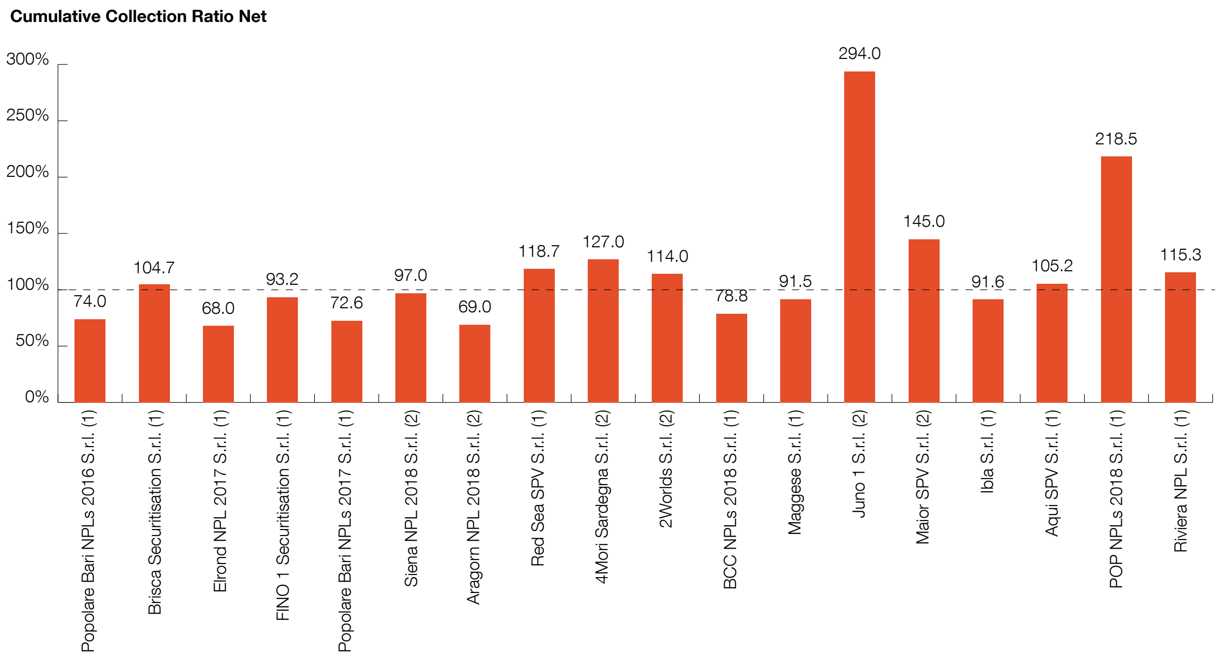
In particular, the Coronavirus outbreak resulted in a freeze of legal proceedings and in a less liquid property market causing a slowdown of the collection processes.

At the end of the first wave of COVID-19 pandemic the Italian Government passed Decreto Rilancio which stated that Ministry of Finance can approve temporary suspensions of performance triggers related to the payment of servicers' fees. The Decree, which was converted in law on 17 July, will ensure full servicing fees even if recoveries underperform original business plans. The conditions are: (i) payment dates must be between Decree date and 31 July 2021; (ii) Senior notes ratings should not be downgraded due to the suspension; (iii) the worsening of collections is only related to COVID-19 impacts. Moody's report shows that some transactions are currently breaching performance triggers, however, there has been no suspension to date.

From 2016 to date, without considering the latest Iccrea's, UniCredit's and CCB's securitisations, 27 GACS transactions have been closed accounting for a total GBV of approx. € 74bn of which 58% secured. Nominal value of issued notes is approx. € 18bn, of which 81% are represented by senior notes, 12% by mezzanine notes and 7% by junior notes. In terms of GBV 20 deals out of 27 had a deal size greater than € 1bn of which 5 of them had a deals size greater than € 5bn. Almost all Italian top banks used GACS to implement their deleveraging strategies, except for Intesa Sanpaolo and Cariparma. Deals in the Italian NPL market reached the peak in 2018, when € 46bn out of € 84bn total NPE disposals benefitted from the public guarantee. MPS, thanks to the GACS, closed the jumbo sale of € 24bn (Siena NPL 2018), which represents the biggest deal in the Italian market so far in terms of GBV.

This year has followed the decreasing trend in the use of GACS scheme seen in 2019 when only six transactions had the public guarantee. In 2020 five closed transactions have been registered for a total GBV of € 7bn (Iccrea with a deal of € 2.4bn, BPER's Project Spring with a GBV of € 1.4bn, Banca Popolare di Sondrio's Project Diana with a GBV of € 1bn, UniCredit with a GBV of € 1.6bn and CCB's Project Buonconsiglio 3 with a GBV of € 0.7bn). Furthermore, the GACS guarantee will be probably requested by Alba Leasing and Banco BPM for Project Titan with a GBV of € 0,4bn.

Chart 22: Cumulative net collection actual data compared with business plan forecasts



Source: (1) PwC analysis on Moody's report "Sector update – H1-2020: Collections slow with stress expected from Coronavirus outbreak";
(2) PwC analysis on Debtwire's report 28 May 2019.

Table 7: List of NPE securitisations with GACS since 2016

						Rated Notes (at nominal value)					
Main banks involved	**SPV**	**Servicer**	**Issuing date**	**GBV (€ / bn)**	**% Secured**	**Senior (% GBV)**	**Mezzanine (% GBV)**	**Junior (% GBV)**	**Senior Yield (%)***	**Mezzanine Yield (%)***	**Buyer**
Banca Popolare di Bari	Popolare Bari NPLs 2016 S.r.l.	Prelios	Aug-16	0.5	63%	26%	3%	2%	(0.0%)	5.5%	n.a
Carige	Brisca Securitisation S.r.l.	Prelios	Jul-17	0.9	77%	28%	3%	1%	0.1%	5.5%	n.a
Creval	Elrond NPL 2017 S.r.l.	Cerved	Jul-17	1.4	74%	33%	3%	1%	(0.0%)	5.5%	Waterfall Asset Management
UniCredit	FINO 1 Securitisation S.r.l.	doValue	Nov-17	5.4	52%	12%	1%	1%	1.0%	4.6%	Fortress
Banca Popolare di Bari	Popolare Bari NPLs 2017 S.r.l.	Prelios	Dec-17	0.3	56%	25%	3%	4%	0.0%	5.5%	n.a
MPS	Siena NPL 2018 S.r.l.	Cerved, Prelios, doValue, Credito Fondiario	Jan-18	24.6	49%	13%	3%	2%	1.0%	8.0%	Italian Recovery Fund
Creval	Aragorn NPL 2018 S.r.l.	Cerved, Credito Fondiario	Jun-18	1.7	75%	30%	4%	1%	(0.0%)	6.5%	Investitori istituzionali
Banco BPM	Red Sea SPV S.r.l.	Prelios	Jul-18	5.1	77%	32%	3%	1%	0.1%	5.5%	n.a
BPER	4Mori Sardegna S.r.l.	Prelios	Jun-18	1.0	53%	22%	1%	1%	0.4%	7.5%	Investitori istituzionali
Banco Desio e Brianza	2Worlds S.r.l.	Cerved	Jun-18	1.0	72%	29%	3%	1%	(0.1%)	7.5%	n.a
ICCREA	BCC NPLs 2018 S.r.l.	Prelios	Jul-18	1.0	72%	27%	3%	1%	(0.1%)	5.5%	n.a
Cassa di Risparmio di Asti	Maggese S.r.l.	Prelios	Jul-18	0.7	63%	24%	3%	2%	(0.0%)	5.5%	n.a
BNL (BNP Paribas)	Juno 1 S.r.l.	Prelios	Jul-18	1.0	30%	14%	3%	0%	0.1%	7.5%	Investitore Istituzionale
UBI	Maior SPV S.r.l.	Prelios	Aug-18	2.7	47%	23%	2%	1%	(0.0%)	5.5%	n.a
Banca Popolare di Ragusa	Ibla S.r.l.	doValue	Sep-18	0.3	82%	24%	3%	1%	0.1%	7.5%	n.a
BPER	Aqui SPV S.r.l.	Prelios	Nov-18	2.1	60%	26%	3%	1%	(0.0%)	6.5%	n.a
Banca Popolare di Bari	POP NPLs 2018 S.r.l.	Cerved	Nov-18	1.6	66%	27%	3%	1%	0.0%	5.5%	n.a
Carige	Riviera NPL S.r.l.	Credito Fondiario, doValue	Dec-18	1.0	39%	18%	3%	1%	0.1%	6.5%	n.a
ICCREA	BCC NPLs 2018-2 S.r.l.	doValue	Dec-18	2.0	58%	24%	3%	1%	0.0%	5.5%	n.a
Banco BPM	Leviticus SPV S.r.l.	Credito Fondiario	Feb-19	7.4	67%	19%	3%	3%	0.1%	7.5%	Elliott
BNL (BNP Paribas)	Juno 2 SPV S.r.l.	Prelios	Feb-19	1.0	61%	21%	5%	1%	0.1%	7.5%	n.a
UniCredit	Prisma SPV S.r.l.	doValue	Oct-19	6.1	64%	20%	1%	0%	1.0%	8.5%	SPF Investment Management
UBI	Iseo SPV S.r.l.	Credito Fondiario, doValue	Dec-19	0.9	92%	39%	3%	2%	(0.0%)	5.5%	n.a
ICCREA	BCC NPLs 2019 S.r.l.	doValue	Dec-19	1.3	66%	27%	4%	1%	0.0%	6.0%	n.a
Banca Popolare di Bari	POP NPLs 2019 S.r.l.	Prelios, Fire	Dec-19	0.8	47%	21%	3%	1%	0.0%	9.0%	n.a
BPER	Spring SPV S.r.l.		Jun-20	1.4	52%	23%	1%	0%	(0.0%)	9.0%	n.a
Banca Popolare di Sondrio	Diana SPV S.r.l.		Jul-20	1.0	65%	24%	4%	0%	0.0%	8.5%	n.a
	Total			74.1							
	Weighted average				58.2%	19.7%	2.9%	1.6%	0.5%	7.0%	

Source: PwC analysis on Rating Agencies' reports

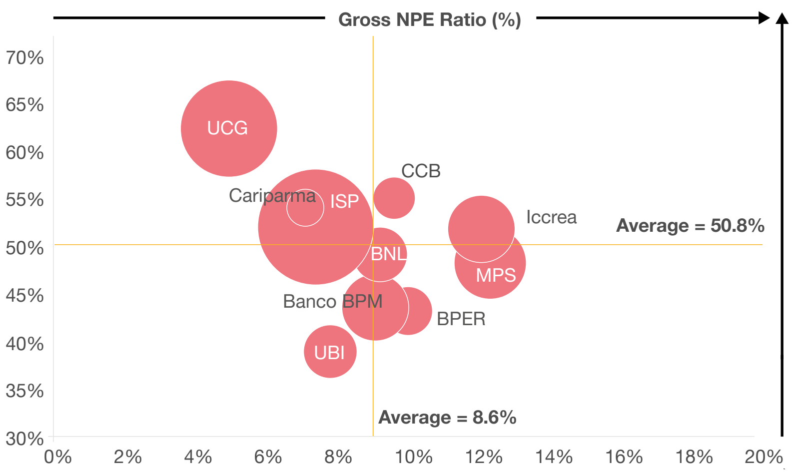
Note: (*) Annual yield of notes has been calculated as interbank rate as of November 2020 plus applicable spread and considering floors when applicable to variable rates.

Italian Banks Overview

Chart 23 focuses on the gross NPE ratio and the NPE coverage ratio for the Top 10 Italian banks, which shows respectively an average of 8.6% and 50.8%. On one side MPS shows the highest gross NPE ratio with 11.8% while, on the other side, UniCredit stands at the lower extreme with 4.8%. Considering the NPE coverage ratio, UniCredit shows the highest value (62.7%) and UBI the lowest (40.5%). However, coverage ratios are not perfectly comparable, as they are influenced by several factors that are unique in every bank, such as write-off policies, weight of secured component and portfolio vintage (time since default date).

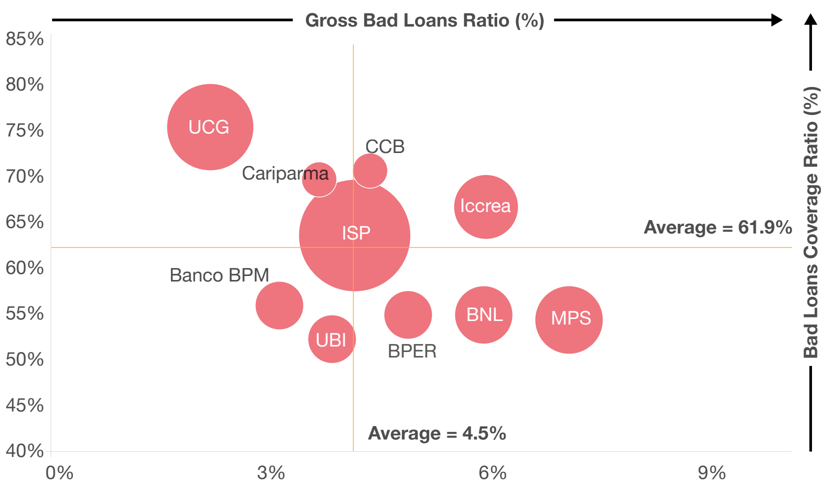
The same analysis is reproduced considering the gross Bad Loans ratio and the Bad Loans coverage ratio (**Chart 24**). Also in this case there are differences among the Top 10 Italian banks: MPS reached the highest gross Bad Loans ratio at 7.1% and UniCredit, the lowest, reporting a 2.2% (the average stands at 4.5%). Coverage ratio ranges between 75.2% (UniCredit) and 52.4% (UBI); average stands at 61.9%.

Chart 23: Top 10 Italian banks – NPE Peer Analysis as of H1-2020
(Bubble size: gross NPE)



Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies. Totals as simple average of ratios.
Note: data of BNL as of YE-2019. The calculation of the NPE Ratio for CCB differs from the one reported in the balance sheet (8.7% calculated with EBA approach).

Chart 24: Top 10 Italian banks – Bad Loans Peer Analysis as of H1-2020
(Bubble size: gross Bad Loans)

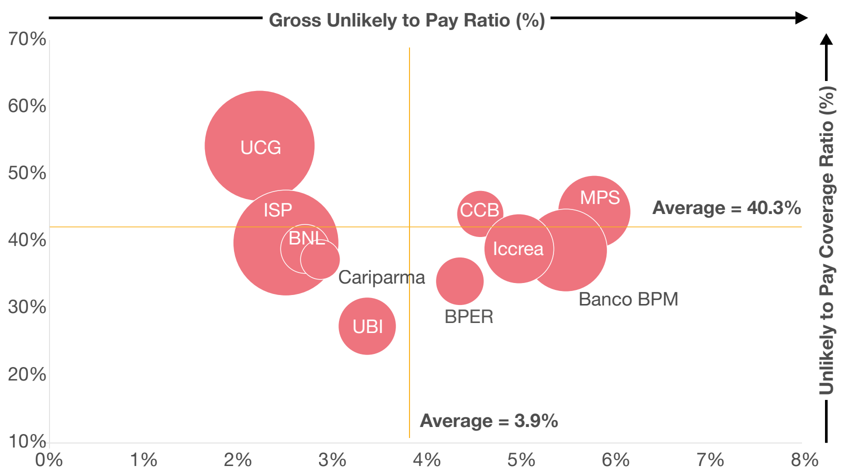


PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies. Totals as simple average of ratios. Note: data of BNL as of YE-2019.

Chart 25 provides an overview of the Unlikely to Pay ratio and its coverage ratio for the Top 10 Italian banks. The average for the first ratio is 3.9%, with MPS showing the highest ratio, reaching 5.7% while UniCredit shows the lowest one with 2.4%. The Unlikely to Pay coverage ratio average is 40.3%: UCG is at the top with 53.6% and UBI at the bottom with 28.6%

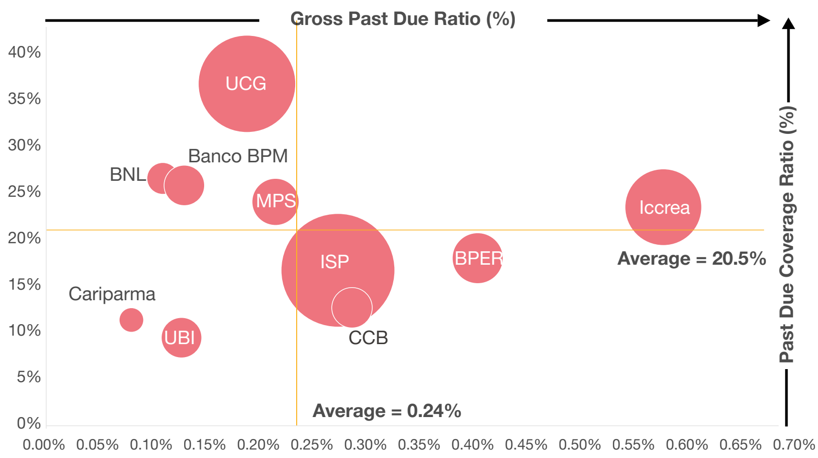
Chart 26 illustrates the gross Past Due ratio and the coverage ratio for the banks analyzed. Iccrea records the highest gross Past Due ratio reaching 0.59% while Cariparma the lowest at 0.08%. The relative coverage ratio indicates two peaks: on one side UniCredit with 36% and on the other side 9.7% with UBI. The average reaches 20.5%.

Chart 25: Top 10 Italian banks – Unlikely to Pay Peer Analysis as of H1-2020 (Bubble size: gross Unlikely to Pay)



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

Chart 26: Top 10 Italian banks – Past Due Peer Analysis as of H1-2020 (Bubble size: gross Past Due)



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

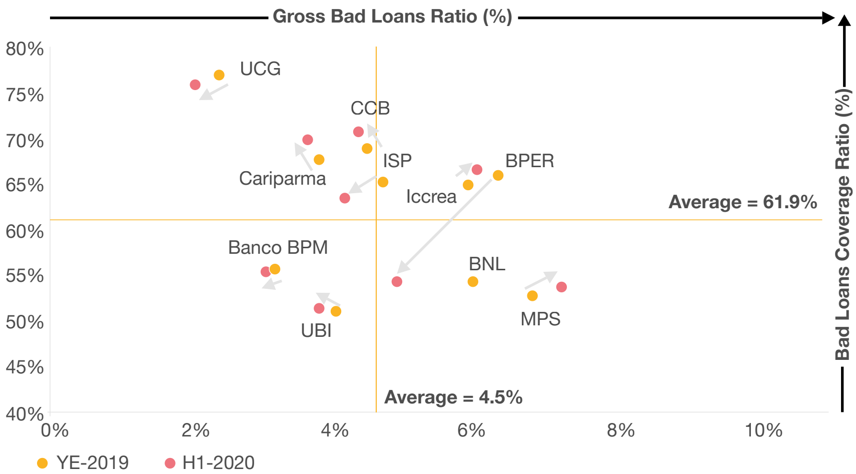
Chart 27 analyses, for the Top 10 Italian banks, the movements in the gross Bad Loans Ratio and the Bad Loans coverage ratio between YE-2019 and H1-2020. At H1-2020 the average gross Bad Loans ratio reached 4.5%, whereas the coverage ratio stands at 61.9%.

The analysis indicates that most of the top 10 Italian banks registered a decrease of the Bad Loans ratio except for MPS and Iccrea that reported an increase of 5.6% and 2.3% in comparison to YE-2019.

BPER shows the most significant reduction in gross Bad Loans ratio (-21.8% vs YE-2019) and Bad Loans Coverage ratio (-16.5% vs YE-2019) with respect to the other banks.

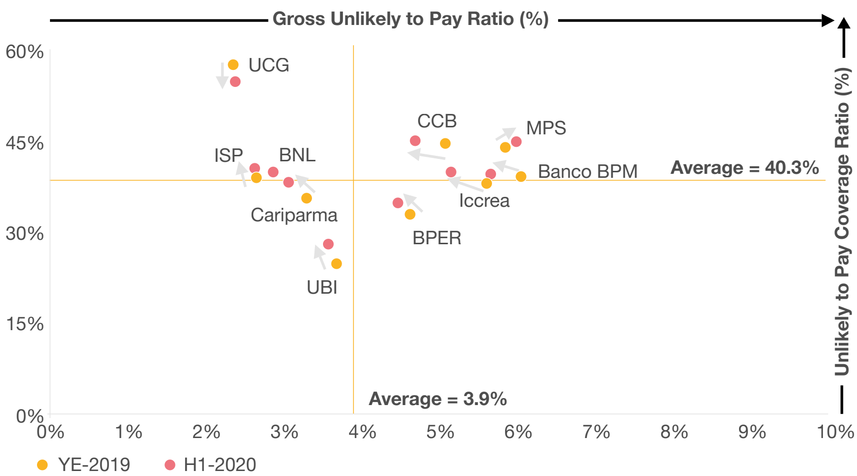
Chart 28 shows that almost all of the Top 10 Italian banks analysed experienced a decrease in the gross Unlikely to Pay ratio (except for MPS that registered an increase of 2% with respect to YE-2019) and an increase in the Unlikely to Pay coverage ratio except for UniCredit (-4.2% vs YE-2019). At H1-2020 the average gross Unlikely to Pay ratio stands at 3.9%, while the Unlikely to Pay coverage ratio is 40.3%.

Chart 27: Top 10 Italian banks – Bad Loans movements (YE-2019 vs H1-2020)



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

Chart 28: Top 10 Italian banks – Unlikely to Pay movements (YE-2019 vs H1-2020)



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

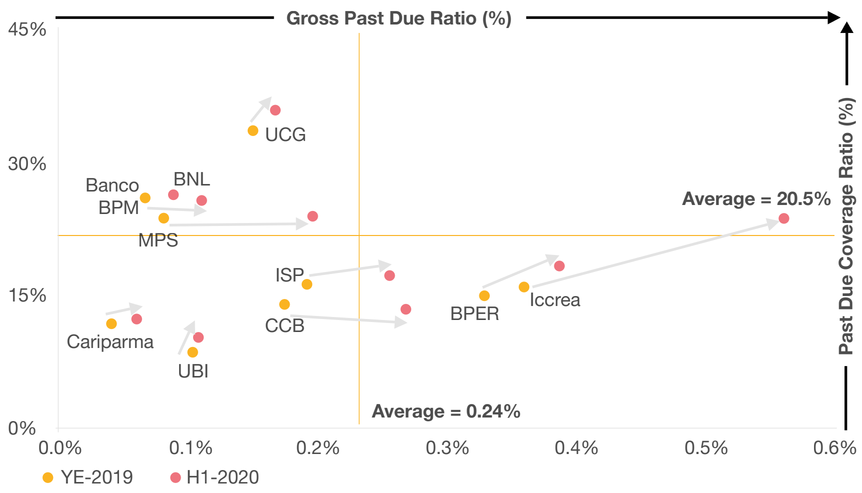
Chart 29 illustrates the movements in the gross Past Due ratio and Past Due coverage ratio.

In H1-2020, the average gross Past Due ratio stands at 0.24% and the Past Due coverage ratio at 20.5%. During the first half of 2020, the Gross Past Due ratio of the Top 10 Italian Banks significantly increased on average compared to YE-2019.

Iccrea and MPS registered the most significant movement in gross Past Due ratio (respectively 52.8% and 113.9% vs YE-2019) and Past Due coverage ratio (respectively 49.9% and 1.5% vs YE-2019) in comparison to the other banks.

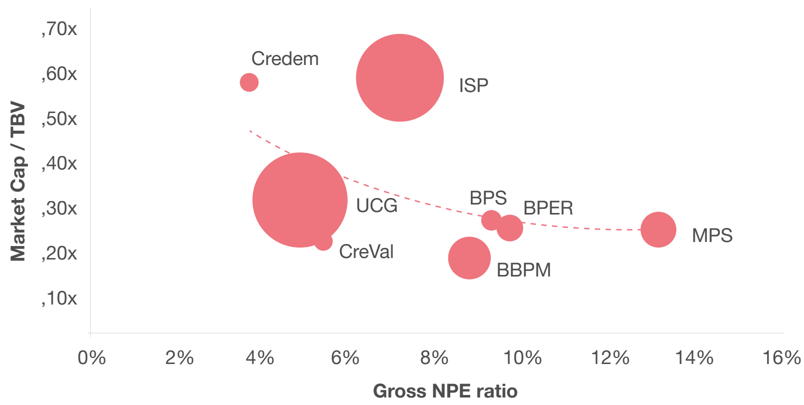
Chart 30 shows the inverse correlation between the Market Cap on Tangible Book Value of the Top 10 Italian banks (listed) and their gross NPE ratio, which is an indication of a persistent market pressure on banks.

Chart 29: Top 10 Italian banks – Past Due movements (YE-2019 vs H1-2020)



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

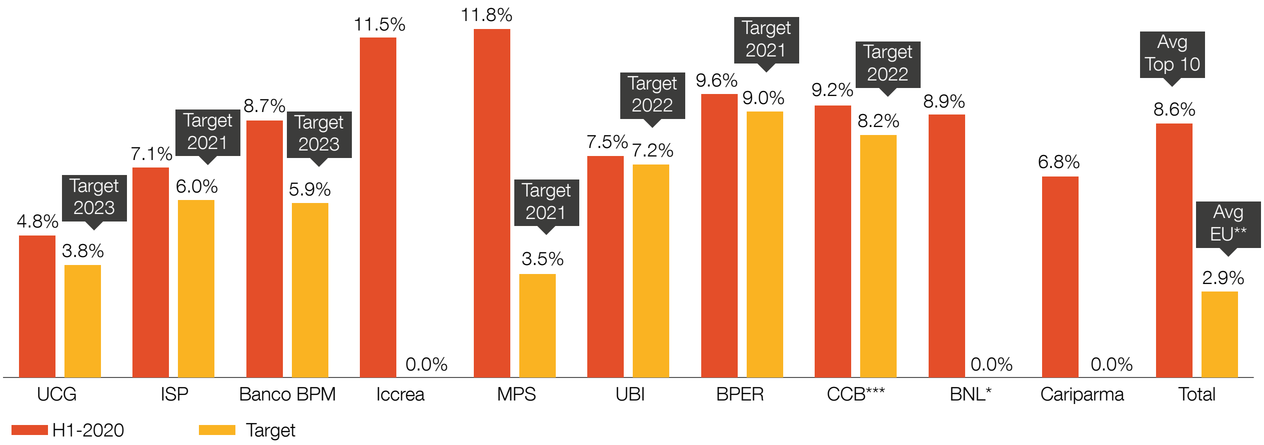
Chart 30: Top 10 Italian banks (listed) – Relation between Market Cap/TBV and gross NPE ratio as of H1-2020 (Bubble size: Tangible Book Value)



Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies. Market Cap as of June 2020, TBV and NPE ratio as of June 2020.

Chart 31 shows the gross NPE ratio targets for the primary Italian banks. Most of Top Italian banks are committed to continue reducing their NPE with respect to gross customer loans within the next 1-3 years. Nevertheless, gross NPE loans Ratio of Top Italian banks is still far from European average.

Chart 31: Top 10 Italian banks – Target gross NPE Loans Ratio vs current as of H1-2020



Sources: PwC analysis on financial statements and analysts' presentations and on «Risk Dashboard – Data as of H1-2020», EBA. Rounded numbers, total as simple average of ratios, only for banks presenting target NPE.
Note: (*) data of BNL as of YE-2019 ; (**) 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; (***) The calculation of the NPE Ratio for CCB differs from the one reported in the balance sheet (8.7% calculated with EBA approach, NPE Target 7.6%).



Focus on Italian UtP market

Key Message

In H1-2020 banks' UtP exposures amounted to approx. € 59bn in terms of GBV, 49% of which concentrated in top 10 banks. The COVID-19 crisis has had and still has a strong impact on most vulnerable part of the Italian economy and the hypothesized deterioration in the creditworthiness would affect particularly risky sectors, in particular SMEs and small family businesses, i.e. those not able to react promptly to the "new normal" economic and social environment and key risk drivers.

The characteristics of UtP that make them different from bad debts, in terms of management, are nowadays a hot topic in public discussion and in this way are moving the recent constitution of private equity funds that focus on these distressed credits.

Our view

Due to the COVID-19 pandemic the role of UtP management has been further highlighted.

In 2020 the top 10 Italian banks have been following their deleveraging plans reducing their average gross UtP ratio from 4.1% at YE-2019 to 3.9% at H1-2020 with a total GBV of € 59bn.

Despite this important result, the measures implemented by the Government that aimed at reducing the risk of deterioration of the credit quality in bank balance sheets due to the pandemic have excluded UtPs. Given this, a strong impact on the total amount of UtP can be expected in the next years.

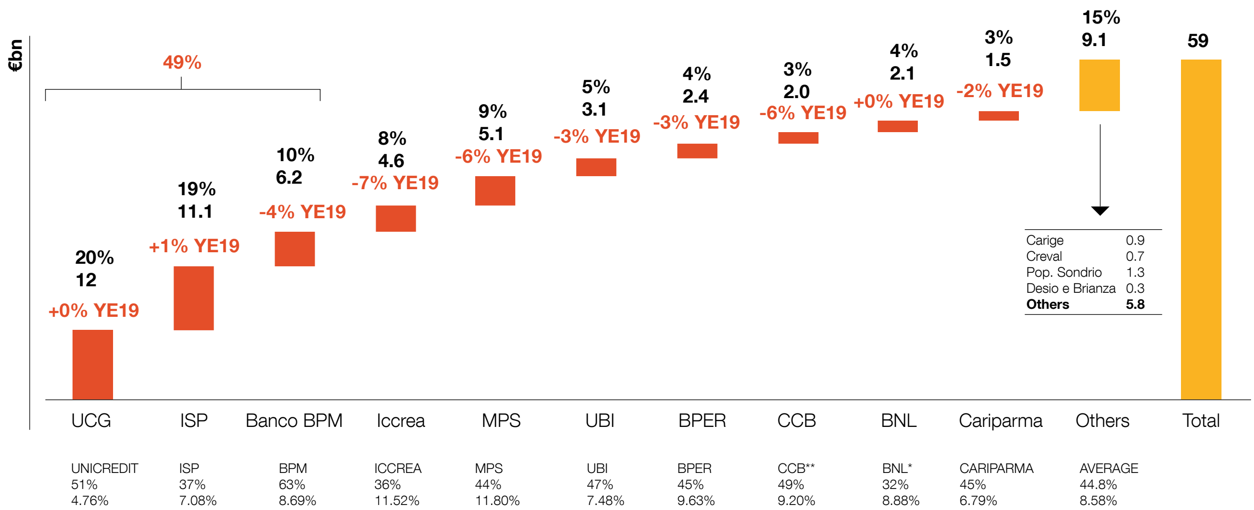
In order to prevent the credit quality deterioration and to implement more focused strategies for these distressed credits, there are several initiatives that aim at establishing specific private equity funds for the management of UtPs (e.g. the one set up by Finint Investments Sgr together with UniCredit and doValue).

The request to extend the GACS guarantee also to UtPs moves in the same direction.

The chart below shows a comparison between Gross UtP exposures at H1-2020 with respect to YE-2019 for Top 10 Italian banks.

The majority of UtPs is concentrated in the balance sheets of the top 3 Italian banks (49% of the total Italian banking stock).

Chart 32: Top 10 Italian banks – UtP distribution (€bn and %) as of H1-2020

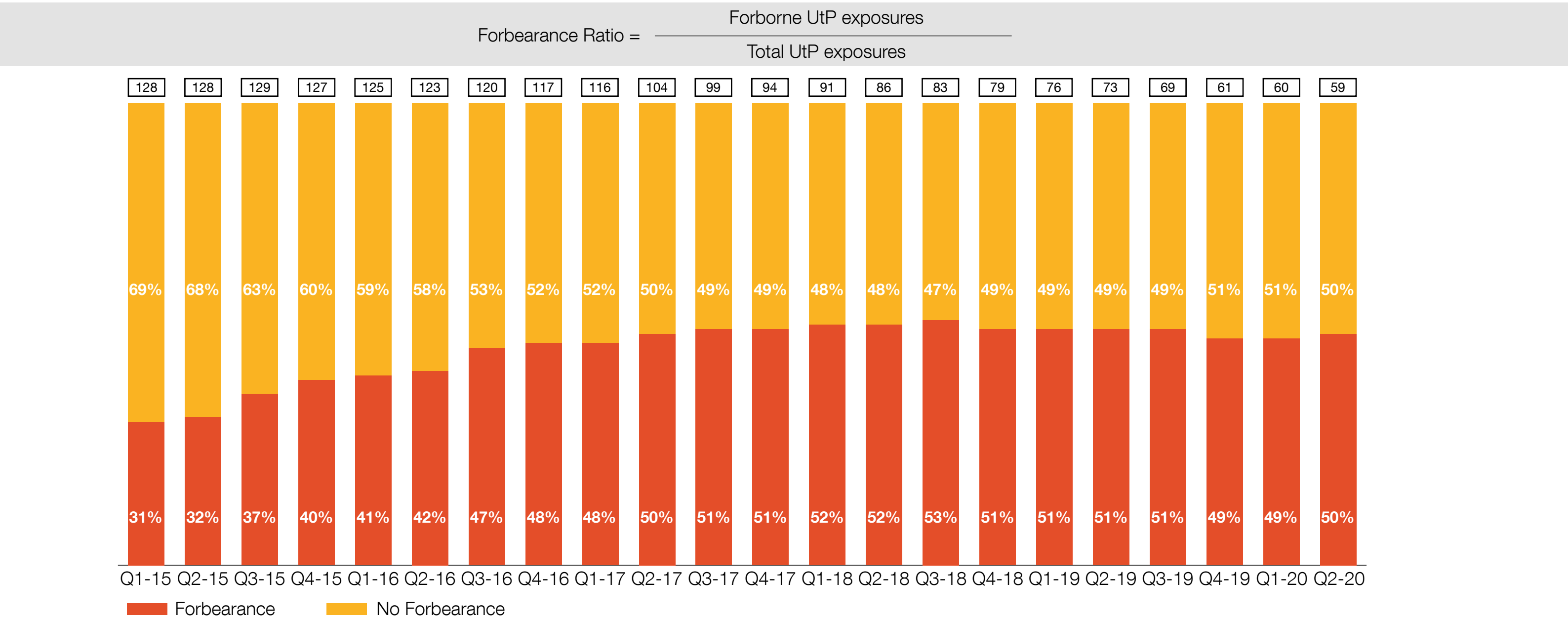


Source: PwC analysis of financial statements and analysts' presentations. The list of Top 10 Italian banks is based on the Total Asset as of H1-2020.
Note: (*) data of BNL as of YE-2019; (**) The calculation of the NPE Ratio for CCB differs from the one reported in the balance sheet (8.7% calculated with EBA approach).

Key Message

Since Q1-2015 UtPs show a decreasing trend, reaching € 59bn in H1-2020 vs € 128bn in Q1-2015. The proportion of exposures subject to forbearance measures ("Forbearance ratio") represent 50% of total UtPs, showing a slight increase from the value of Q4-2019 (49%).

Chart 33: Italian banks' forborne UtP exposures (€bn and %)



Source: PwC analysis on Banca d'Italia «Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori», September 2020.

Key Message

Despite the diffusion of the Coronavirus, 2020 has confirmed the increasing trend in terms of volume of UtP transactions, trend that is expected to continue in 2021.

The UtP market has been moving towards transactions of larger portfolios

In 2019 transactions for a total GBV of € 6bn were closed, doubling the amount sold in 2018. 2020 can be considered as a new "year zero" for the UtP market due to the pandemic: this year has registered closed transactions for a total GBV of € 7bn and € 0.5bn are announced for the next months (excluding mixed NPL / UtP transactions), following the increasing trend started in the previous year.

UniCredit with several deals (e.g. Project Dawn, Project Sandokan 2), Banco BPM (Project Django), MPS (Project Hydra for the UtP part) and Banca Popolare di Bari (Project Arpa for the UtP part) with deals, announced or closed, for a total GBV of over € 6.5bn during the period 2020-2021 have been the most active players in the UtP market.

Intesa Sanpaolo deserves a separate mention. In 2019, the bank was one of the main players in the market, selling UtPs for a GBV of approx. € 3bn (with Project M which also includes the platform with the servicer). In 2020 the bank closed Project Simba for a GBV of € 0.5bn (mixed NPL / UtP) and announced that, following the completion of the merger with UBI Banca, it is going to sell a portfolio for a total GBV of € 12bn (mixed NPL / UtP) with two jumbo deals (mixed NPL / UtP): the first one including € 7bn from Intesa itself and the second one including € 5bn from UBI.

This is the proof that market is moving towards deals involving larger portfolios than in the past (other examples are MPS's Project Hydra, Banco BPM's Project Django, UniCredit's Project Dawn). Moreover, in 2020 we have not only seen "systemic" UtP transactions but also the disposal of large UtP portfolios on market terms. These transactions have not been made by banks in serious financial distress but include credits with an higher quality than in the past. Moreover, many private equity funds specialized in UtP portfolios and restructuring/turnaround are being created, with the aim to help companies industrially solid which entered in a situation of financial distress.

Despite the outbreak of Coronavirus, UtP deleveraging strategies carried out by the major Italian banks are still ongoing.

Some delay in ongoing transactions can be expected due to the second wave of the pandemic and the flexible guidelines promoted by the ECB to prevent financial crisis but the role of UtP in banks' balance sheets is more relevant than ever.

The Servicing Market

Key Message

The Italian debt servicing market is in rapid evolution. Market changes will be strongly accelerated by COVID-19 and by the new wave of NPEs expected in the next 18-24 months.
Overall, market participants are spreading a positive outlook for 2021, while most players highlight a contraction of collections in 2020 in the range between 15-25% compared to their previous business plan assumptions.
Unlikely to Pay management will probably be the next challenge for the industry, playing an important role in the future economic recovery.
Secondary market development, increasing demand for specialization and consolidation, are further trends that will delineate the industry in the short-medium term.

Context

The Italian debt servicing market is in rapid evolution. Market changes will be strongly accelerated by COVID-19 and by the new wave of NPEs expected in the next 18-24 months.

In this context, two major aspects are presented below: the impact of COVID-19 pandemic crisis on collections and the major challenge for the industry in the near future which is UtP management.

COVID-19 impact on collections

The COVID-19 emergency has forced debt purchasers/ servicers to revise assumptions included in their previously released business plans. Current and future recoveries may be affected by two kind of effects:

- Direct effects impacting the overall situation of the Italian Economy, such as the increase in companies' defaults, the contraction of liquidity for real estate guarantees and the rise in unemployment;
- Indirect impacts triggered by Government restrictive provisions, such as the reduction of Courts activities - especially during Q2 and Q4-, the decrease in public offices operativity, the "freezing" of mobility and the introduction of temporary layoffs and moratoriums.

If direct effects can result in an impact on a medium-long term basis on the NPE and Servicing markets, indirect ones should limit their impact to 2020 only.

Overall, market participants are spreading a positive outlook for 2021, while most players highlight a contraction of collections in 2020 in the range between 15-25% compared to their previous business plan assumptions.

Those impacts, however, appear to be heterogeneous among players due to differences in the composition (secured vs unsecured) and counterparty (Corporate vs Retail) of their portfolios.

Gross Collections in 2020 vs. Business Plan assumptions:

-15% / -25%

Unsecured Retail – the "freezing" of mobility has triggered a contraction in home collections which in some cases have decreased by 35-40% compared to BP assumptions. This reduction has been only partially counterbalanced by an increase in phone collection activities.

Secured Corporate - the "stall" of bankruptcy auctions inside Italian courts has affected the recovery curves, even if Servicers have experienced less significant impacts thanks to telematic procedures that continued to be operative during lockdowns. Moreover, the release of the "Cash in Court" (i.e. cash lying in the current accounts of the procedures at the Courts after asset sale) has counterbalanced the negative effects.

Single name UtP and REOCO – enhanced supervision and strengthened acceleration of the activities in the second half of the year are allowing to reduce impacts on single names' recovery.

Overall, the players which have been more proactive and focused on obtaining an extrajudicial resolution have benefited from lower impacts and have therefore managed not to suffer from court closures and consequent delays in the judicial procedures.

UtP debt servicing

Bringing unlikely-to-pay exposures back to performing is the first step towards economic recovery. The future revival of the economy could depend on market ability to prevent UtP deterioration, even using innovative tools. There is a strong element of social responsibility in the activity of taking the company back "on-track" from a difficult moment. In this phase, the most critical and exposed categories are the smallest companies, with higher percentages of decay into Bad loan status compared to large corporates.

UtP management is probably the most difficult job that banks are facing especially with respect to corporate exposures. Corporate UtP management can be considered the "quintessence" for credit bankers because it requires an ability to cope with corporate crisis from both a financial and an industrial perspective. Strategical, business and even psychological skills are required to understand how to manage at best the "back-to-bonis" path. It appears very challenging to "industrialize" the management of these activities for banks, and for this reason partnerships with specialist servicers appear to be the only viable alternative to the in-house management.

Servicers have entered the UtP market in the last few years; however, most players are focused on small and micro tickets exposures that just moved from "Past due" stages.

Intesa Sanpaolo has been the forerunner among Top Italian Banking Groups signing a long-term agreement with Prelios regarding UtP management. Other banks may follow this path looking for a joint venture for UtP management, as already done for most Banking Groups for Bad loans management.

Today, AMCO (former SGA) is leading the ranking of debt servicers specialized in the UtP management mixing corporate and retail expertise. In addition, there are different players historically focused on retail positions, mainly working on past due instalments of consumer credit and mortgages, like Crif, Advancing Trade, Cerved and Fire. At the same time, some super-specialized players are emerging, such as Aurora REcovery Capital focused on very large secured positions.

Top 10 Corporate UtP Debt Servicers by AuM at H1-2020

Company	Corporate UtP AuM (€bn)
Prelios Credit Servicing	9.7[1]
AMCO	7.5
Aurora RE	2.4
Cerved Credit Management	0.9
Crif	0.8
Link Asset Services	0.6
Credito Fondiario	0.5
Advancing Trade	0.5
Officine CST	0.5
Securitisation Services – divisione di Banca Finint	0.5

Top 10 Retail UtP Debt Servicers by AuM at H1-2020

Company	Retail UtP AuM (€bn)
Crif	2.8
AMCO	2.6
Advancing Trade	1.7
Cerved Credit Management	1.1
Fire	0.9
AZ Info&collection & La Scala Service	0.5
Sistemia (iQera)	0.4
Covisian Credit Management	0.3
CNF (Gruppo Frascino)	0.2
Fides	0.2

Source: PwC analysis on data provided by Servicers as of H1-2020; 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.

Outlook

Looking forward, we see different trends that will characterize the debt servicing market in the next 12-24 months.

1. **A new wave of NPEs:**
The shock caused by COVID-19 is expected to generate a strong increase in new NPE flows in our banking system. This will probably not happen in the next few months, thanks to the Government measures which largely "freezed" the portfolios. However, moratoria will end and, then, for many companies, the combined effect of decrease in revenue and worsening of financial position will lead to a severe scrutiny of the capability to pay creditors. In turn, this will result in an unavoidable reclassification to default of a significant number of counterparties. Market consensus is that NPE new inflows will be in a range between 60 and 100 billion in the next 24 months. New flows will create new business for the debt servicing industry as we expect banks to react to the new NPE wave with a significant and prompt recourse to sales or outsourcing.

2. **Secondary market development:**
increasing market concentration emerges from the latest deals and pipeline, with few players aiming to deal with important portfolios of NPEs. We expect that these big players will have to develop an important secondary market, especially in the UtP segment. On the one side, this approach allows banks to quickly resolve the problem in order to improve asset quality. However, on the other side, big investors/ servicers that assume the management of “jumbo” portfolios have the responsibility to transfer the management of the different positions to other investors/servicers in order to maximize portfolio valorization.

3. **Increasing demand for specialization:**
we see a greater specialization of different servicers approaching UtP management in both strategic and sectorial terms. UtP credits management requires greater specialized know-how. In this context, specialized skills are required not only in the financial field but also from a managerial point of view in order to understand crisis dynamics, related legislation and practices.

4. **Consolidation with some exemptions:**
in line with the trends followed by international more mature markets, the evolution of the Italian market is likely to lead to mergers between credit management players. Higher volumes combined with inevitably more difficult recovery processes in the crisis context will require ever greater efficiency and consequently size will become more relevant. However, there will also be room for super-specialized niche operators.

Table 8: Main transactions in the servicing sector

2014	Hoist Finance Acquisition of 100% of TRC from private shareholders. Specialized in consumer finance	Banca Sistema Acquisition of 2 servicing platform Candia & Sting from private shareh and merger (CS Union)	Cerved Acquisition of 80% of Recus. Specialized in collection for telcos and utilities				
2015	Fortress Acquisition of UniCredit captive servicing platform (UCCMB)	Lonestar Acquisition of CAF a servicing platform with €7 bn AuM from private shareholders	Cerved Acquisition of 100% of Fin. San Giacomo part of Credito Valtellinese group				
2016	Cerved + BHW Bausparkasse Long-term industrial partnership for the management of 230 €m of NPL originated by the Italian branch of BHV Bausparkassen AG	Axactor Acquisition of CS Union from Banca Sistema	Lindorff Acquisition of CrossFactor, a small factoring and credit servicing platform	Arrow Acquisition of 100% of Zenith Service, a master servicing platform	Kruk Acquisition of 100% of Credit Base	doValue Acquisition of 100% of Italfondiario	Dea Capital Acquisition of 66,3% of SPC Credit Management
2017	Kkr Acquisition of Sistemia	Lindorff Acquisition of Gextra, a small ticket player from doValue	Bain Capital Acquisition of 100% of HARIT, servicing platform specialized in secured loans	Varde Acquisition of 33% of Guber	Cerved + BHW Bausparkasse Long-term industrial partnership extension for the management of a portfolio of loans of 1.5 €bn originated by the Italian branch of BHV Bausparkassen AG	Davidson Kempner Acquisition of 44.9% of Prelios and launch of a mandatory tender offer	Cerved + Quaestio Acquisition of the credit servicing platform (a.k.a. "Juliet") of MPS
	Cerved Acquisition of a NPL platform of Banca Popolare di Bari	Intrum/ Lindorff Acquisition of 100% of CAF	Credito Fondiario Acquisition of NPL servicing platform of Carige				
2018	Lindorff / Intrum Acquisition of 100% of PwC Mass of Credit Collection (MCC) department	Arrow Acquisition of 100% Parr Credit and Europa Investimenti	IBL Banca + Europa Factor Joint venture for the creation of the new Servicer Credit Factor (106 vehicle)	Anacap + Pimco Acquisition of a majority stake in Phoenix Asset Management	Intesa + Lindorff / Intrum Joint venture for the NPL platform of Intesa Sanpaolo	Kruk Acquisition of 51% of Age-credit	Banca IFIS Acquisition of 90% of FBS
	Cerberus Acquisition of 57% of Officine CST	Cerved + Studio legale La Scala Joint venture for the creation of a specialized NPL law firm	Hoist Finance Acquisition of 100% of Maran	Link Financial Group Acquisition of Generale Gestione Crediti and his controlled company Se.Tel. Servizi	iQuera (a BC Partners company) Acquisition of 80% of Serfin		
2019	Credito Fondiario + Banco BPM Creation of a Joint venture for the management and disposals of Banco BPM NPLs	iQera (a BC Partners company) Acquisition of Sistemia	IBL Banca Acquisition of 9.9% of Frontis NPL	doValue + Aurora RE Launch of a multi-originator platform to manage UTP portfolios secured by real estate			
2020	Cerved Credit Management Acquisition of 100% of Quaestio Cerved Credit Management	Bain Capital Credit Acquisition of Hypo Alpe Adria rebranded as Julia Portfolio Solutions					

Source: Mergermarket, companies annual reports and websites.

Table 9.1: Overview of main servicers (data at H1-2020) – Ranking by Total Special Servicing AuM[1]

		Special Servicing				
Company	**Bank of Italy Surveillance**	**Total AuM[1] (€bn)**	**o/w Bad Loans AuM (€bn)**	**o/w Other NPLs AuM[2] (€bn)**	**Performing AuM (€bn)**	**Master Servicing AuM[3] (€bn)**
doValue	115/106	76.6	74.4	2.2	0.8	55.2
Cerved Credit Management	106/115	38.5	36.4	2.0	6.8	11.4
Intrum	115	38.1	38.1	-	-	-
Prelios Credit Servicing	106	30.3[4]	20.4	9.9[4]	0.0	24.9
IFIS Npl Servicing	Bank	24.8	24.7	0.1	-	n.a.
AMCO	106	23.2	13.0	10.2	-	-
Credito Fondiario	Bank	17.2	16.6	0.6	0.1	46.7
Crif	115	14.7	3.4	11.3	7.5	-
Sistemia (iQera)	115	11.1	10.4	0.7	-	-
Hoist Finance	115	10.6	9.0	1.6	0.1	-
Phoenix Asset Management	115	8.8	8.7	0.0	-	-
Neprix (illimity Bank)	115/Bank	8.6[5]	n.a.	n.a.	n.a.	-
Guber	Bank	8.0	7.6	0.4	-	1.5
Advancing Trade	106/115	8.0	5.8	2.2	-	-
Fire	115	7.3	4.9	2.3	6.1	-
AZ Info&collection & La Scala Service	115	7.3	6.7	0.6	-	-
MB Credit Solutions	106	6.9	6.9	-	-	-
J-Invest	106/115	5.7	5.7	-	-	-
Duepuntozero	115	3.5	3.5	-	-	-
CNF (Gruppo Frascino)	115	3.5	3.1	0.4	-	-
WhiteStar Asset Solutions (Arrow Group)	115	3.3	2.9	0.4	0.4	-
Finint Revalue	115	3.2	2.6	0.6	-	-
Europa Factor[6]	106/115	2.9	2.9	0.0	0.3	-
Aurora RE	115	2.7	0.3	2.4	-	-
Covisian Credit Management	115	2.7	2.1	0.6	-	-
Link Financial	115	2.6	2.6	-	0.0	-
Fides	115	2.6	0.3	2.3	0.4	-
Blue Factor	106	2.1	2.1	-	-	-
Link Asset Services	115	1.7	1.1	0.6	-	-
Euro Service	115	1.5	1.5	-	-	-
Securitisation Services – divisione di Banca Finint	106	1.5	1.0	0.5	3.3	58.5
Aquileia Capital Services	106/115	1.4	1.3	0.1	0.1	1.8
Axactor	106/115	1.2	1.2	0.0	0.1	-
Serfin (iQera)	115	1.2	1.2	0.0	0.3	-
Officine CST	115	1.2	0.7	0.5	0.7	-
SiCollection	115	1.0	1.0	0.0	-	-
Bayview Italia	115	1.0	1.0	-	-	-
AXIS S.p.A.	115	1.0	0.8	0.2	-	-
Ge.Ri	115	0.6	-	0.6	-	-
WIBITA	115	0.6	0.5	0.1	0.1	-
GMA S.r.l.	115	0.3	0.3	-	-	1.7
Certa Credita	115	0.1	0.0	0.0	0.1	-
Arc Real Estate	115	0.0	0.0	-	-	-
Zenith Service (Arrow Group)	106	-	-	-	-	31.8

Source: PwC analysis on data provided by Servicers as of H1-2020; 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 € 9.7bn of Unlikely to Pay captured from "market rumors"; information not directly provided by Prelios Credit Servicing.
5. Neprix AuM includes the gross nominal value of NPL purchased and the value of property & capital goods managed by IT Auction.
6. Includes Credit Factor AuM; Credit Factor is 50% owned by Europa Factor.

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

Table 9.2: Overview of main servicers (data at H1-2020) – Ranking by Total Special Servicing AuM[1]

			Main Activities			
Company	**Revenues (€m)**	**Ebitda (€m)**	**Debt servicing & collection**	**Debt purchasing**	**Master servicing**	**Rating**
doValue	164.8	35.1	✓		✓	✓
Cerved Credit Management	77.2	23.0	✓		✓	✓
Intrum	n.a.	n.a.	✓			✓
Prelios Credit Servicing	77.6	45.9	✓		✓	✓
IFIS Npl Servicing	140.0	87.4	✓	✓	✓	✓
AMCO	54.2	31.7	✓	✓		✓
Credito Fondiario	60.6	37.4	✓	✓	✓	✓
Crif	11.1	n.a.	✓			✓
Sistemia (iQera)	12.9	3.9	✓			✓
Hoist Finance	8.4	n.a.	✓	✓		✓
Phoenix Asset Management	2.8	1.2	✓			
Neprix (illimity Bank)	n.a.	n.a.	✓	✓		✓
Guber	n.a.	n.a.	✓	✓	✓	✓
Advancing Trade	14.3	3.9	✓	✓		✓
Fire	22.3	2.7	✓	✓		✓
AZ Info&collection & La Scala Service	8.4	n.a.	✓			
MB Credit Solutions	33.7	9.0	✓	✓		
J-Invest	6.0	1.4	✓	✓		
Duepuntozero	n.a.	n.a.	✓			
CNF (Gruppo Frascino)	9.1	2.7	✓			✓
WhiteStar Asset Solutions (Arrow Group)	n.a.	n.a.	✓			
Finint Revalue	4.7	n.a.	✓			
Europa Factor[2]	12.8	2.0	✓	✓		
Aurora RE	5.1	2.4	✓			
Covisian Credit Management	5.2	0.7	✓			
Link Financial	2.2	n.a.	✓			
Fides	8.0	1.8	✓			
Blue Factor	1.4	n.a.	✓	✓		
Link Asset Services	2.1	n.a.	✓			✓
Euro Service	6.1	0.3	✓	✓		
Securitisation Services – divisione di Banca Finint	12.4	6.4	✓		✓	✓
Aquileia Capital Services	7.7	n.a.	✓	✓		
Axactor	13.5	n.a.	✓	✓		
Serfin (iQera)	5.3	0.5	✓			
Officine CST	11.0	5.2	✓	✓		
SiCollection	2.9	0.0	✓			
Bayview Italia	n.a.	n.a.	✓			
AXIS S.p.A.	0.8	n.a.	✓			
Ge.Ri	10.3	0.7	✓	✓		
WIBITA	1.4	0.4	✓			
GMA S.r.l.	n.a.	n.a.	✓	✓	✓	
Certa Credita	2.5	0.4	✓	✓	✓	
Arc Real Estate	1.6	0.0	✓			
Zenith Service (Arrow Group)	n.a.	n.a.	✓		✓	✓

Source: PwC analysis on data provided by Servicers as of H1-2020; 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 Credit Factor AuM; Credit Factor is 50% owned by Europa Factor.

Table 10: Breakdown of servicer' Total Special Servicing Bad Loans AuM[1] (data at H1-2020) – Ranking by Total Special Servicing AuM[1]

		Special Servicing							
Company	**Total AuM[1] (€bn)**	**Total Bad Loans AuM[1] (€bn)**	**Average Ticket (€k)**	**Secured**	**Unsecured**	**Owned**	**Banks**	**Investors**	**Others**
doValue	76.6	74.4	141	33%	67%	-	15%	85%	-
Cerved Credit Management	38.5	36.4	46	53%	47%	-	33%	67%	-
Intrum	38.1	38.1	42	44%	56%	n.a.	n.a.	n.a.	n.a.
Prelios Credit Servicing	30.3[2]	20.4	280	61%	39%	-	-	100%	-
IFIS Npl Servicing	24.8	24.7	12	8%	92%	74%	2%	24%	-
AMCO	23.2	13.0	99	43%	57%	64%	-	-	36%
Credito Fondiario	17.2	16.6	90	62%	38%	24%	1%	75%	-
Crif	14.7	3.4	26	49%	51%	-	82%	5%	13%
Sistemia (iQera)	11.1	10.4	34	55%	45%	-	92%	6%	2%
Hoist Finance	10.6	9.0	9	13%	87%	76%	17%	7%	0%
Phoenix Asset Management	8.8	8.7	301	42%	58%	-	-	100%	-
Neprix (illimity Bank)	8.6[3]	n.a.	n.a.	62%[4]	38%[4]	n.a.	n.a.	n.a.	n.a.
Guber	8.0	7.6	150	30%	70%	100%	-	-	-
Advancing Trade	8.0	5.8	4	-	100%	23%	26%	27%	24%
Fire	7.3	4.9	6	25%	75%	-	75%	24%	1%
AZ Info&collection & La Scala Service	7.3	6.7	8	17%	83%	17%	34%	38%	11%
MB Credit Solutions	6.9	6.9	3	3%	97%	79%	6%	10%	5%
J-Invest	5.7	5.7	751	-	100%	1%	-	99%	-
Duepuntozero	3.5	3.5	370	21%	79%	2%	-	98%	-
CNF (Gruppo Frascino)	3.5	3.1	6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
WhiteStar Asset Solutions (Arrow Group)	3.3	2.9	2	9%	91%	-	52%	-	48%
Finint Revalue	3.2	2.6	16	86%	14%	-	12%	88%	-
Europa Factor[5]	2.9	2.9	1	-	100%	48%	18%	14%	20%
Aurora RE	2.7	0.3	28,839	93%	7%	-	57%	43%	-
Covisian Credit Management	2.7	2.1	6	7%	93%	-	23%	76%	1%
Link Financial	2.6	2.6	6	23%	77%	-	-	100%	-
Fides	2.6	0.3	3	13%	87%	-	17%	-	83%
Blue Factor	2.1	2.1	12	2%	98%	24%	-	76%	-
Link Asset Services	1.7	1.1	631	100%	-	-	-	100%	-
Euro Service	1.5	1.5	1	-	100%	42%	-	58%	-
Securitisation Services – divisione di Banca Finint	1.5	1.0	3,974	81%	19%	-	47%	53%	-
Aquileia Capital Services	1.4	1.3	556	91%	9%	10%	64%	13%	13%
Axactor	1.2	1.2	5	1%	99%	91%	5%	2%	2%
Serfin (iQera)	1.2	1.2	1	-	100%	13%	2%	67%	18%
Officine CST	1.2	0.7	11	12%	88%	20%	3%	41%	36%
SiCollection	1.0	1.0	7	-	100%	-	14%	84%	2%
Bayview Italia	1.0	1.0	163	96%	4%	n.a.	n.a.	n.a.	n.a.
AXIS S.p.A.	1.0	0.8	63	69%	31%	-	29%	71%	-
Ge.Ri	0.6	-	0	-	100%	n.a.	n.a.	n.a.	n.a.
WIBITA	0.6	0.5	387	92%	8%	-	70%	13%	17%
GMA S.r.l.	0.3	0.3	614	95%	5%	1%	-	99%	-
Certa Credita	0.1	0.0	1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Arc Real Estate SpA	0.0	0.0	134	57%	43%	n.a.	n.a.	n.a.	n.a.
Zenith Service (Arrow Group)	-	-	n.a.	23%	77%	n.a.	n.a.	n.a.	n.a.

Source: PwC analysis on data provided by Servicers as of H1-2020; 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 € 9.7bn of Unlikely to Pay captured from "market rumors"; information not directly provided by Prelios Credit Servicing.
3. Neprix AuM includes the gross nominal value of NPL purchased and the value of property & capital goods managed by IT Auction.
4. Neprix AuM breakdown between secured and unsecured loans refers to NBV.
5. Includes Credit Factor AuM; Credit Factor is 50% owned by Europa Factor.

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 11.1: Geographical NPL breakdown (data at H1-2020) – Ranking by Total Special Servicing AuM[1]

			Special + Master Servicing		
Company	**Total AuM[1] (€bn)**	**Total Bad Loans AuM[1] (€bn)**	**North[2]**	**Centre[3]**	**South - Islands[4]**
doValue	76.6	74.4	42%	27%	31%
Cerved Credit Management	38.5	36.4	42%	32%	26%
Intrum	38.1	38.1	n.a.	n.a.	n.a.
Prelios Credit Servicing	30.3[5]	20.4	48%	20%	32%
IFIS Npl Servicing	24.8	24.7	34%	28%	38%
AMCO	23.2	13.0	63%	20%	17%
Credito Fondiario	17.2	16.6	66%	19%	15%
Crif	14.7	3.4	40%	29%	31%
Sistemia (iQera)	11.1	10.4	41%	28%	31%
Hoist Finance	10.6	9.0	46%	25%	29%
Phoenix Asset Management	8.8	8.7	35%	47%	18%
Neprix (illimity Bank)	8.6[6]	n.a.	n.a.	n.a.	n.a.
Guber	8.0	7.6	44%	38%	18%
Advancing Trade	8.0	5.8	36%	20%	44%
Fire	7.3	4.9	33%	24%	43%
AZ Info&collection & La Scala Service	7.3	6.7	32%	25%	43%
MB Credit Solutions	6.9	6.9	38%	23%	39%
J-Invest	5.7	5.7	69%	19%	12%
Duepuntozero	3.5	3.5	17%	22%	61%
CNF (Gruppo Frascino)	3.5	3.1	27%	26%	47%
WhiteStar Asset Solutions (Arrow Group)	3.3	2.9	36%	24%	40%
Finint Revalue	3.2	2.6	45%	35%	20%
Europa Factor[7]	2.9	2.9	29%	24%	47%
Aurora RE	2.7	0.3	36%	51%	13%
Covisian Credit Management	2.7	2.1	36%	30%	34%
Link Financial	2.6	2.6	30%	33%	37%
Fides	2.6	0.3	6%	14%	80%
Blue Factor	2.1	2.1	26%	22%	52%
Link Asset Services	1.7	1.1	37%	52%	11%
Euro Service	1.5	1.5	29%	25%	46%
Securitisation Services – divisione di Banca Finint	1.5	1.0	40%	40%	20%
Aquileia Capital Services	1.4	1.3	89%	10%	1%
Axactor	1.2	1.2	42%	18%	40%
Serfin (iQera)	1.2	1.2	35%	35%	30%
Officine CST	1.2	0.7	30%	17%	53%
SiCollection	1.0	1.0	49%	24%	27%
Bayview Italia	1.0	1.0	55%	26%	19%
AXIS S.p.A.	1.0	0.8	46%	21%	33%
Ge.Ri	0.6	-	32%	28%	40%
WIBITA	0.6	0.5	34%	23%	43%
GMA S.r.l.	0.3	0.3	n.a.	n.a.	n.a.
Certa Credita	0.1	0.0	33%	18%	49%
Arc Real Estate SpA	0.0	0.0	100%	-	-
Zenith Service (Arrow Group)	-	-	53%	26%	21%

Source: PwC analysis on data provided by Servicers as of H1-2020; 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 Aldo 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 € 9.7bn of Unlikely to Pay captured from "market rumors"; information not directly provided by Prelios Credit Servicing.
6. Neprix AuM includes the gross nominal value of NPL purchased and the value of property & capital goods managed by IT Auction.
7. Includes Credit Factor AuM; Credit Factor is 50% owned by Europa Factor.

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 11.2: Breakdown of servicer' Total Bad Loans AuM[1] (data at H1-2020) – Ranking by Total Special Servicing AuM[1]

	Special + Master Servicing					
	Secured			Unsecured		
Company	**Judicial**	**Extrajudicial**	**Loan Sale**	**Judicial**	**Extrajudicial**	**Loan Sale**
doValue	5%	86%	9%	15%	61%	24%
Cerved Credit Management	4%	34%	62%	2%	8%	90%
Intrum	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Prelios Credit Servicing	65%	24%	11%	34%	35%	31%
IFIS Npl Servicing	20%	70%	10%	12%	87%	1%
AMCO	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Credito Fondiario	9%	76%	16%	7%	47%	46%
Crif	44%	56%	-	12%	88%	-
Sistemia (iQera)	10%	90%	-	4%	96%	-
Hoist Finance	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Phoenix Asset Management	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Neprix (illimity Bank)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Guber	19%	81%	-	7%	93%	-
Advancing Trade	n.a.	n.a.	n.a.	15%	85%	-
Fire	79%	21%	-	23%	77%	-
AZ Info&collection & La Scala Service	24%	76%	-	39%	61%	-
MB Credit Solutions	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
J-Invest	n.a.	n.a.	n.a.	67%	28%	5%
Duepuntozero	4%	-	96%	63%	24%	13%
CNF (Gruppo Frascino)	32%	20%	48%	27%	49%	24%
WhiteStar Asset Solutions (Arrow Group)	19%	81%	-	-	100%	-
Finint Revalue	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Europa Factor[2]	33%	67%	-	-	97%	3%
Aurora RE	-	100%	-	n.a.	n.a.	n.a.
Covisian Credit Management	n.a.	n.a.	n.a.	-	100%	-
Link Financial	85%	15%	-	6%	94%	-
Fides	-	100%	-	1%	99%	-
Blue Factor	n.a.	n.a.	n.a.	45%	55%	-
Link Asset Services	36%	64%	-	n.a.	n.a.	n.a.
Euro Service	n.a.	n.a.	n.a.	12%	50%	38%
Securitisation Services – divisione di Banca Finint	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Aquileia Capital Services	6%	94%	-	5%	95%	-
Axactor	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Serfin (iQera)	n.a.	n.a.	n.a.	-	100%	-
Officine CST	29%	68%	3%	35%	64%	1%
SiCollection	n.a.	n.a.	n.a.	19%	81%	-
Bayview Italia	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
AXIS S.p.A.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Ge.Ri	-	-	-	10%	90%	-
WIBITA	6%	94%	-	n.a.	n.a.	n.a.
GMA S.r.l.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Certa Credita	n.a.	n.a.	n.a.	-	100%	-
Arc Real Estate SpA	71%	29%	-	n.a.	n.a.	n.a.
Zenith Service (Arrow Group)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Source: PwC analysis on data provided by Servicers as of H1-2020; 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.

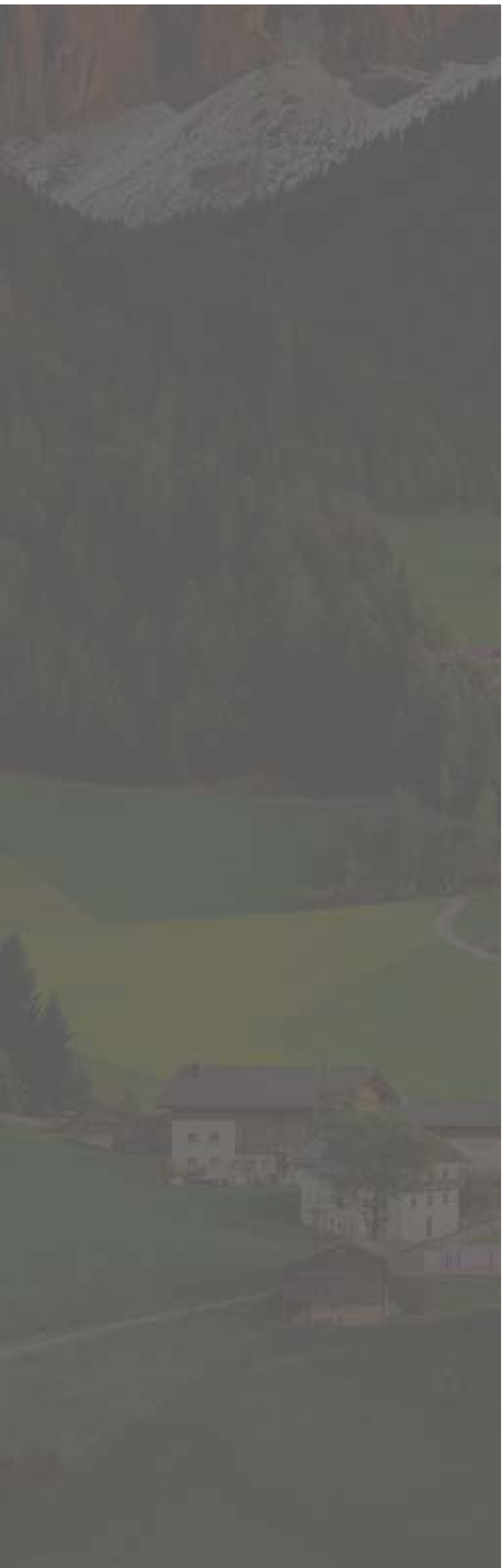
1. Includes both owned and third parties' portfolios.

2. Includes Credit Factor AuM; Credit Factor is 50% owned by Europa Factor.

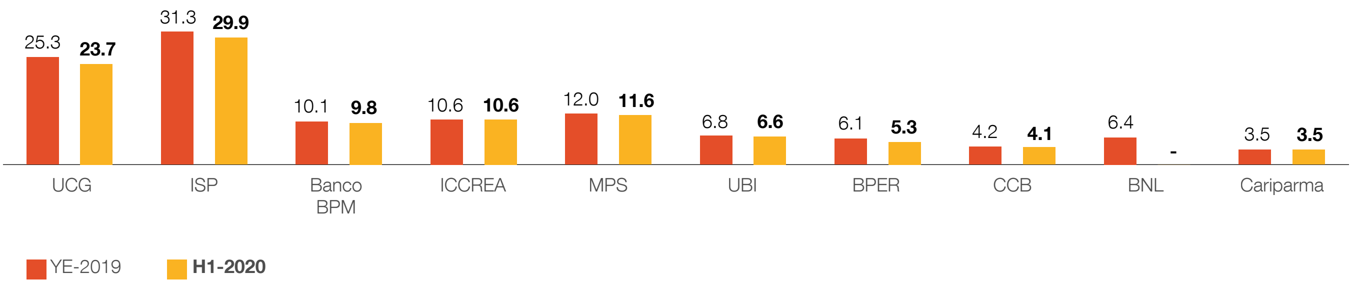

Pesaro



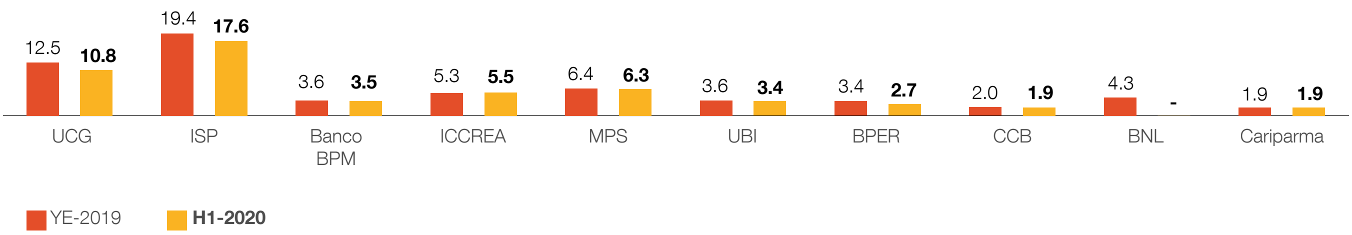
Appendix
Top 10 banks peer analysis



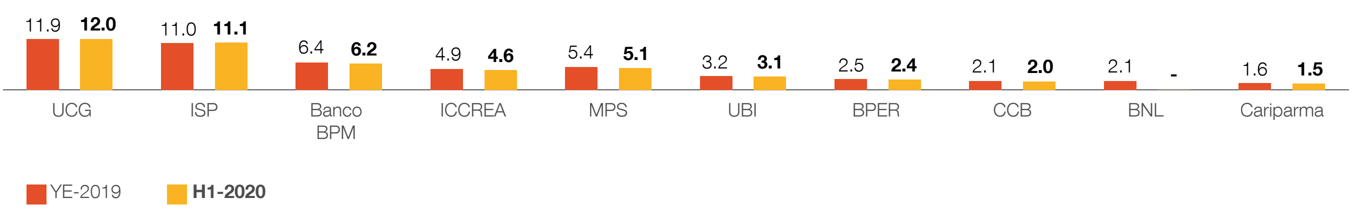

Gross NPE (€bn)



Gross Bad Loans (€bn)

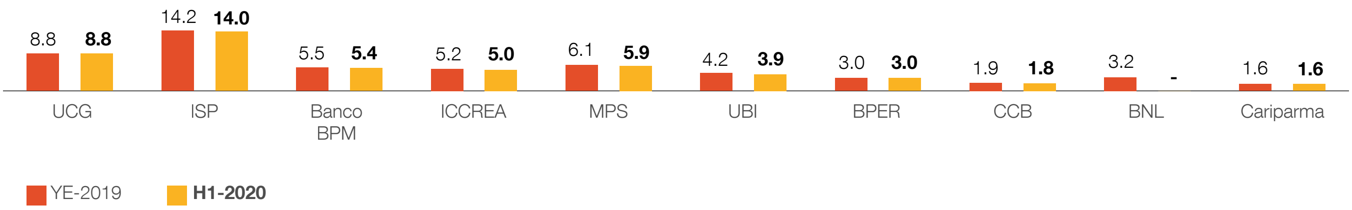


Gross Unlikely to Pay (€bn)

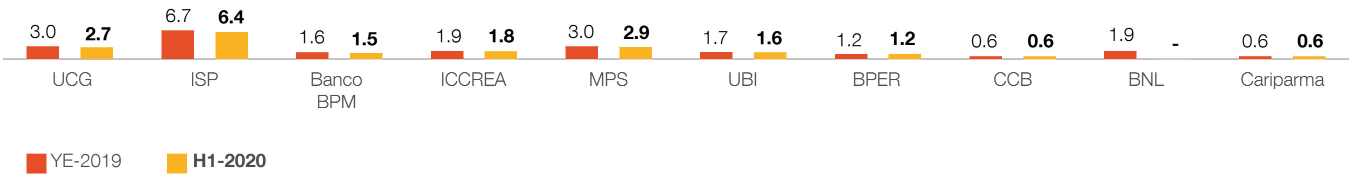


Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies.
Note: data of BNL at H1-2020 not available.

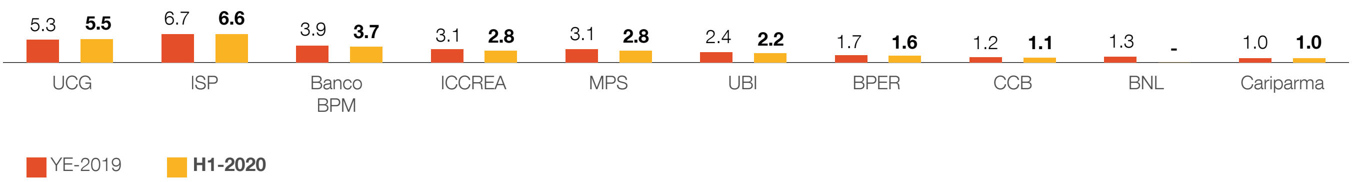
Net NPE (€bn)



Net Bad Loans (€bn)

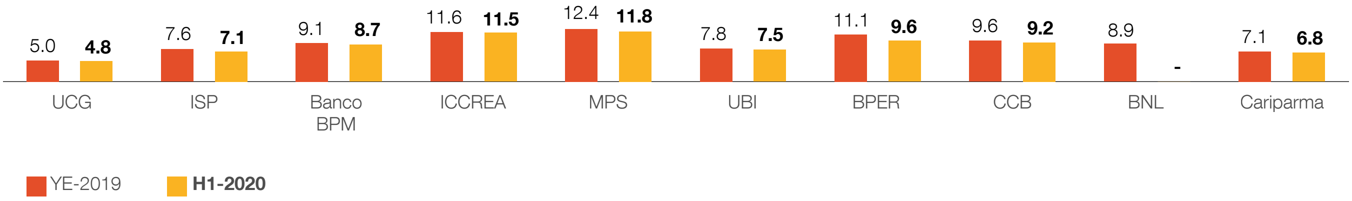


Net Unlikely to Pay (€bn)

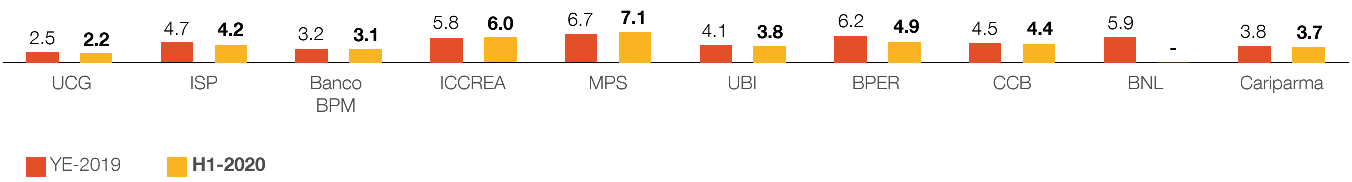


Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies.
Note: data of BNL at H1-2020 not available.

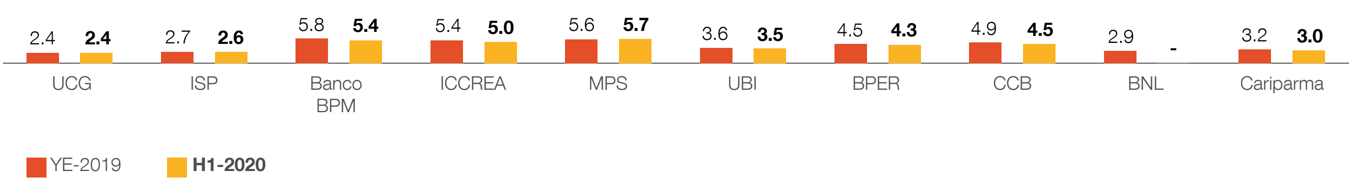
Gross NPE ratio (%)



Gross Bad Loans ratio (%)

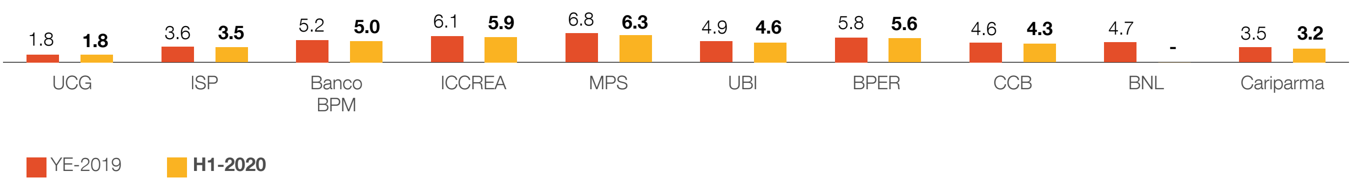


Gross Unlikely to Pay ratio (%)

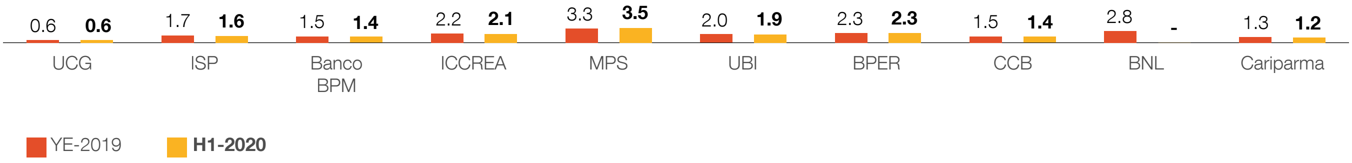


Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies.
Note: data of BNL at H1-2020 not available; The calculation of the NPE Ratio for CCB differs from the one reported in the balance sheet (8.7% calculated with EBA approach).

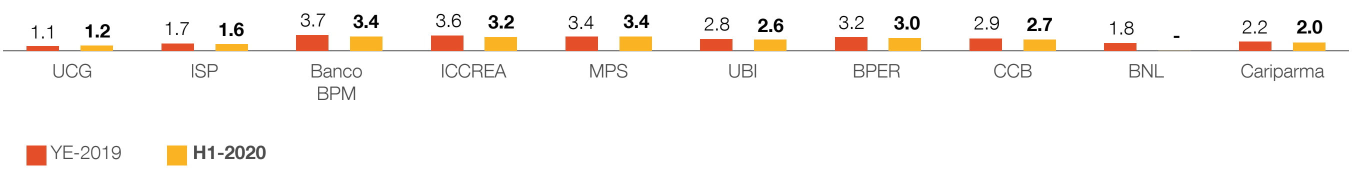
Net NPE ratio (%)



Net Bad Loans ratio (%)

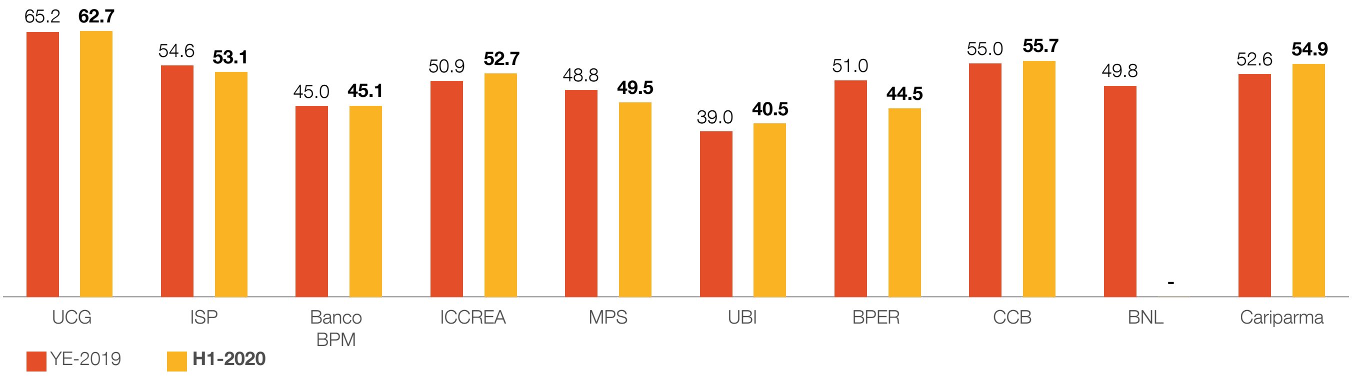


Net Unlikely to Pay ratio (%)

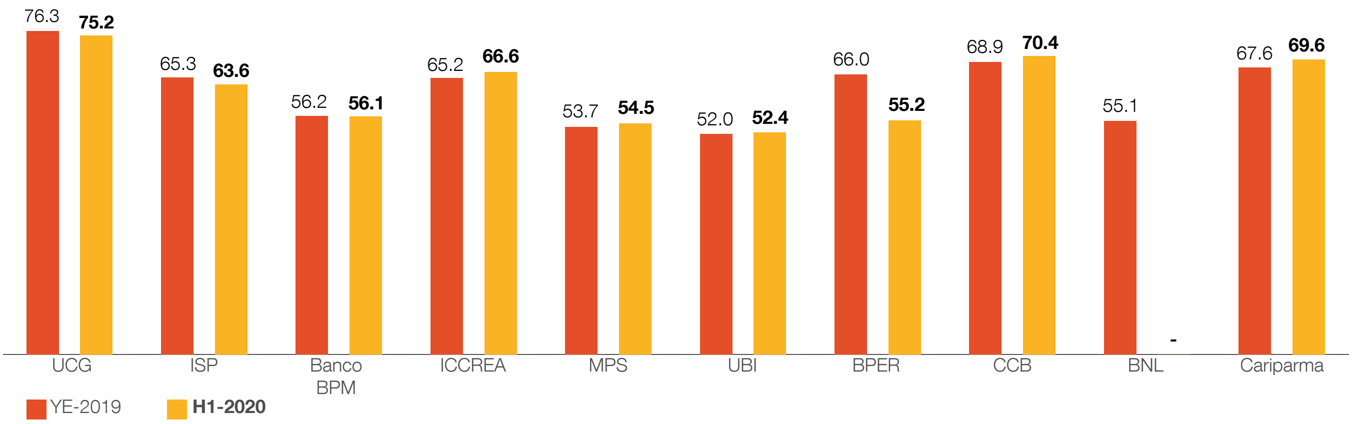


Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies.
Note: Note: data of BNL at H1-2020 not available.

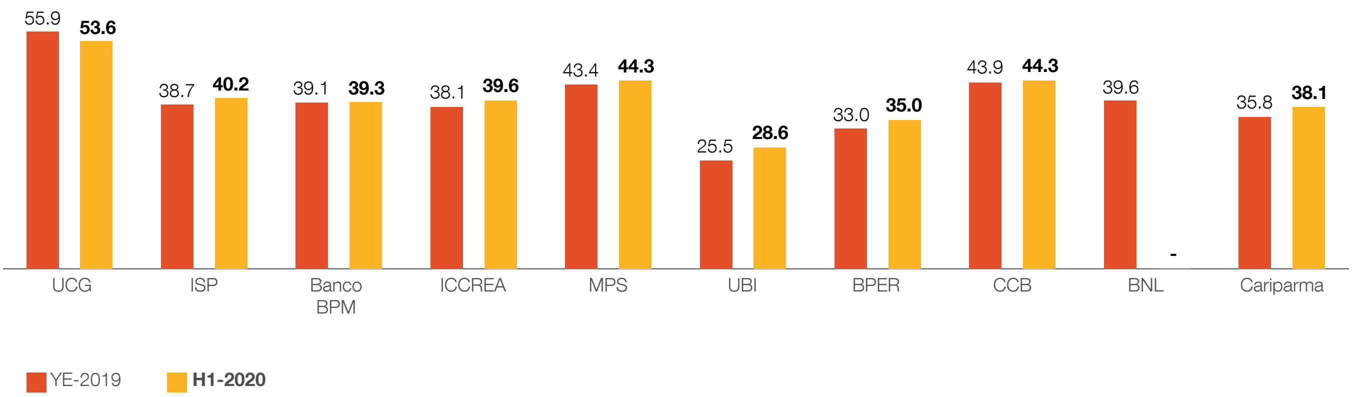
NPE Coverage ratio (%)



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.
Note: data of BNL at H1-2020 not available.

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