The Italian NPL Market

Transformation at Work...

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Italy remains one of the largest non-performing exposure (NPE) markets in Europe. Italian banks gradually reduced a stock which reached a peak in 2015 at €341 bn of NPEs down to €99 bn at Dec-20. The deleverage process mainly focused on bad loans led to Unlikely-to-Pay exceeding bad loans since December 2020.

Before COVID-19 the situation of NPEs appeared substantially under control. However, the pandemic has completely changed the scenario. The complexity of this unprecedented economic downturn has resulted in a still largely uncertain situation. The only certainty is that the market will be affected by a new wave of NPEs, still shifted back in time due to the relief measures adopted by the government.

New lending continues to be supported by public guarantee schemes with approx. €250 bn of requests to the SME Guarantee Fund and SACE from March 2020. Meanwhile, the moratoria (which reached over 2.7 million applications for about €300 bn since March 2020) have been extended till December 2021 but just on principal instalments and on a voluntary basis. On December 15th €56 bn were still active against approximately 500 thousand suspensions granted. These and other support measures, such as temporary suspensions of tax and insolvency regimes, led to a "freeze" of new NPEs. Indeed, the reduction of NPE stock on banking books continued in 2020 and 2021 reaching €96 bn as of June 2021.

In this scenario the main Italian banks have not been impacted by COVID-19 to date: they all continued the reduction of NPE ratios with a cost of risk also in the last quarters still below 2019 levels. However, banks are still vulnerable, in particular those with higher exposures towards enterprises belonging to the sectors most affected by the crisis.

Improving macroeconomic conditions might limit NPE formation. However, some first signs of possible credit deterioration are beginning to be observed. Credits classified Stage 2 on Italian banking books reached €219 bn at Jun-21 (+23% YoY), representing 14.3% of total credits; already today these credits require a greater level of attention and an increasing cost of risk. In its latest report on the Italian SMEs, Cerved identified 61 thousand enterprises “burdened” or “injured” by COVID-19 crisis which would need an external support (of which 8 thousand enterprises considered with no/ limited economic sustainability perspectives and requiring more radical restructuring interventions).

All of this is happening in a context in which in terms of credit quality the Italian banking system still has a "higher" risk profile than other European countries. Looking at the Italian significant banks in June 2021, the share of Stage 2 loans out of total performing loans was around 4 percentage points higher than the average for the euro-area significant banks and the stock of loans under moratoria was the highest among comparable countries (close to zero in France and Germany).

Given the context, it is still very difficult to make reliable forecasts, but market consensus is that NPE new inflows will be in a range between €70 and 90 bn in the next 24-36 months, net of any further extraordinary measure. However, in their latest business plans main banks (e.g. UniCredit, BancoBPM) remain optimistic about the resilience of the quality of their credit portfolios.

Regardless of how many new NPE flows will be, there is a clear need for industrial transformation in the management of NPEs. Despite the deleverage carried out by the banks in recent years, it remains an important stock to manage which is worth about € 400 bn including also credits owned by investors.

Today more than 130,000 companies are classified as UtP and the new flows will mainly be “live” loans (UtP), small / medium-sized enterprises belonging to the sectors most affected by the crisis and these NPEs will require ad-hoc management by the banks. The changed regulatory context (first of all, the calendar provisioning) and the characteristics of the expected NPE inflows will not allow banks to behave as during the previous crisis, accumulating non-performing loans on the books for years and disposing them with solutions such as GACS.

An alliance between all the players (government, banks, investors, local stakeholders) is needed to support the recovery of the real economy.

The changed context outlines some specific priorities for credit management (both banks and servicers):

- Strong focus on rapid and proactive management of "overdue“.
- Priority to investments in data analytics and emerging technologies.
- Greater focus on "industrial" management rather than pure liquidation of positions.
- Wider collaboration with Real Estate players/ investors.
- Propensity to identify and prioritize solutions that ensure effective support to the real economy, also leveraging, where possible, PNRR initiatives.
- Possibility / need to identify a system solution aimed at rationalizing, making business restructuring more efficient and faster.

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Key Message

Despite the spreading of a new wave of COVID-19 pandemic, that forced governments to rethink new measures to deal with increasing contagions, the outlook shows some positive insights for the upcoming period: the vaccination campaign and the pro-growth actions put in place had carried the economy to a gradual relaunch.

The COVID-19 pandemic has plunged the European and world economies into one of the most uncertain and challenging period in recent history.

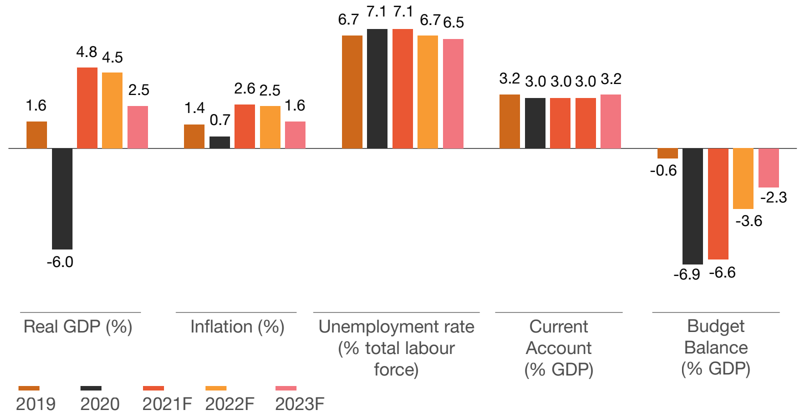
During the 2020, at the height of the pandemic period, Governments had to sustain with indispensable measures the local economic tissue while, at the same time, limit the spread of the virus by introducing lockdown restrictions. These measures, mainly focused on (i) accommodating monetary policy, (ii) worker's protection schemes and (iii) guaranteed loans and repayment moratoria, avoided local economic systems to collapse while effective health measures were expected to halt the spread of the pandemic.

Thanks to the introduction of the COVID-19 vaccine at the end of last year, the number of people completing the vaccination cycle during 2021 has progressively increased (at the end of November 2021, around 67% of the EU population is vaccinated); in addition, the easing of restrictive measures has allowed the EU economy to see a first return to a "new normal", with first signs of recovery in the spring-summer period.

The expected expansion of EU economy is certified by the consistent increase of Real GDP (+4.8% 2021F) in EU area compared to the previous year (-6.0% as of 2020) and by the progressive decrease of unemployment rate (%) starting from the beginning of 2022. For what concerns the EU current account surplus, based on last available forecast, it will grow up to 3.2% in 2023, in line with the pre-pandemic values registered in 2019. The foregoing is in any case subject to potential significant fluctuations due to the current emergency resulting from the pandemic course.

The EU growth rate is projected to reach a peak of 5.0% at the end of 2021, 0.2 pps higher than summer forecasts. In 2022, growth is expected

Chart 1: Key EU economic drivers



Source: PwC analysis on European Commission institutional paper "European Economic Forecast – Autumn 2021". 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 2021". Unemployment rate calculated as a % of total labour force, current account balance and budget balance as a % of GDP.

to be backed by an improving labour market, conspicuous savings, favourable financing conditions and the full deployment of the Recovery Resilience Facility (RRF). Economic activity in the EU is projected to rise by 4.3% in 2022, before decelerating to 2.5% in 2023.

The EU economy is rebounding back from the pandemic recession thanks to a return to normalcy driven by massive vaccination and by the easing of the restrictive measures. However, the recent increase of COVID-19 cases across Europe might raise some concerns on the economic outlook in the short and medium term.

As for Italy, the economic indicators show that, for the next couple of years, the inflation and the unemployment rate might decrease: the latter is foreseen to reach a downward peak of 9.2% at the end of 2023 vs 10% of pre-pandemic period, while the inflation rate should fall to 1.4% in 2023, after increasing to 2.1% in 2022.

COVID-19 had a significant impact on the Government gross debt ratio in the main EU countries. In fact, the 2021F-2023F trend shows a common attempt to reduce this indicator as per EU policies, to rationalize spending in the post-pandemic period.

The level of Italian public budget balance on GDP, at 9.4% in 2021, continued to be higher vs pre-pandemic level (1.6% in 2019), and in line with 2020 level (9.5%), because of all the measures adopted to contain the economic impact of the COVID-19 pandemic. Public debt is expected to reach 154.4% of the GDP in 2021, slightly lower vs 2020 (155.6%) but significantly higher than the EU average of 92.1% of in 2021.

To sustain the economy and to help the recovery, the volume of investments in the Italian economic system has been significantly higher in 2021 compared to the previous year (+15.8% vs 2020); for the upcoming period, the level of investment is expected to keep growing at around ~5.7% yearly up to 2023.

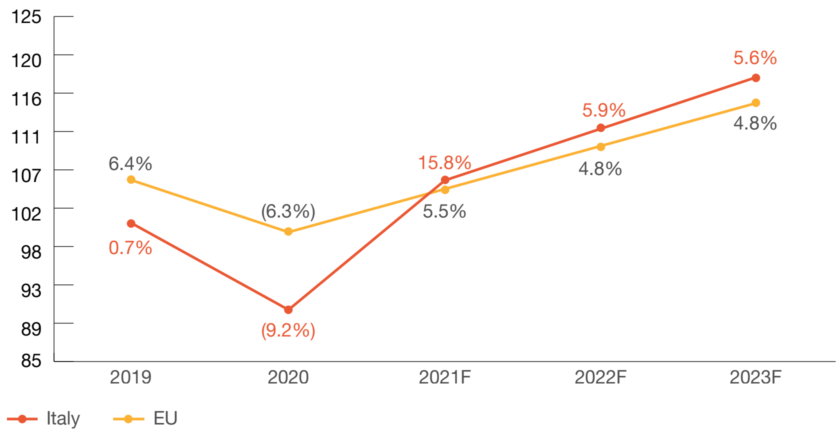
Investments' trend in the EU is less volatile: after a sharp decrease in 2020 (-6.3%), EU is going to close 2021 with a 5.5% growth compared to YE-2020 and investments will keep growing at a steady pace in 2022 (+4.8% vs 2021) and in 2023 (+4.1% vs 2022).

Table 1: Government gross debt ratio per country

Government gross debt ratio (% GDP)	2018	2019	2020	2021F	2022F	2023F	Trend 2021F-2023F
EU	**81.0**	**78.8**	**91.8**	**92.1**	**90.0**	**89.1**	▼
Italy	**134.4**	**134.3**	**155.6**	**154.4**	**151.4**	**151.0**	▼
Spain	97.5	95.5	120.0	120.6	118.2	116.9	▼
France	97.8	97.5	115.0	114.6	113.7	112.9	▼
Germany	61.3	58.9	68.7	71.4	69.2	68.1	▼
Greece	186.4	180.7	206.3	202.9	196.9	192.1	▼

Source: PwC analysis on European Commission institutional paper "European Economic Forecast – Autumn 2021". Displayed data and forecasts for the EU refer to the EU27.

Chart 3: Total investments volume trend (2018 = 100; % change vs previous year)

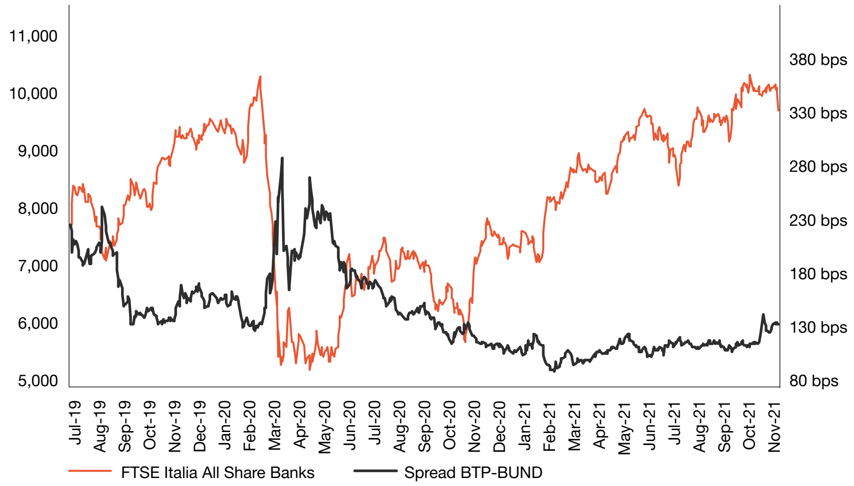


Source: PwC analysis on European Commission institutional paper "European Economic Forecast – Autumn 2021". Displayed data and forecasts for the EU refer to the EU27.

After a troubled 2021 start, Standard & Poor's recently raised Italy's outlook to BBB "positive" from BBB "stable", acknowledging that the Government's commitment to pro-growth reforms would boost the economy and promote a gradual restarting.

This is confirmed by the trend of the FTSE All Share Banks Index, back to pre-pandemic level after the downfall caused by COVID-19; the spread BTP- Bund is now at the lowest levels in a long time despite the slight increase in the last quarter of the year.

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 first half of 2021 confirms government economic measures as a key element to restart growth and to relaunch the Italian economic environment.

Volume of disposal transactions has remained relatively low, however 2022 NPE sales are expected to return to pre-pandemic levels.

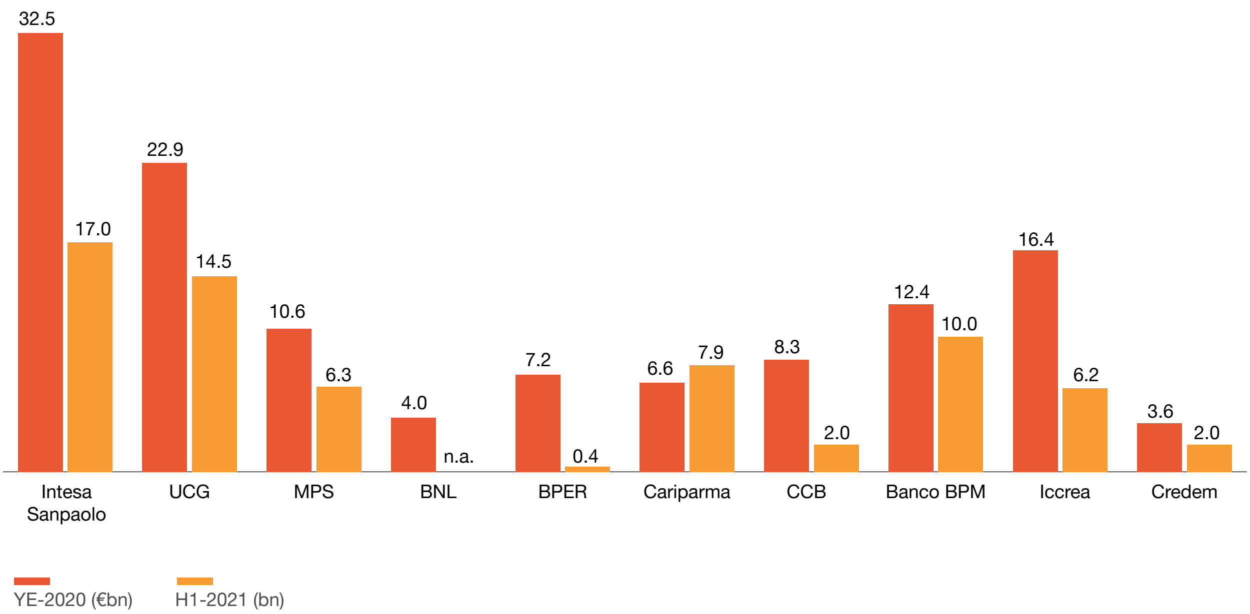
To cope with one of the most unexpected and challenging recessions and to protect and provide support to families and firms from the economic impact of COVID-19 pandemic, in the short-medium term governments have issued and continue to promote different supporting programmes such as *Recovery and Resilience Plan*, loan moratoria and guarantee schemes.

Anyhow, the full effects and consequences of the pandemic on banks balance sheets will most likely materialize when public protection schemes are completely phased out; indeed, in the EU zone the total outstanding of loans and advances subject to COVID-19 related measures has almost halved in one year, landed at €548bn in June 2021. This reducing trend has been mainly driven by non-expired EBA compliant moratoria, that sharply decreased from €810bn as of H1-2020 to €123bn as of H1-2021.

In Italy, as concerns moratoria, a task force driven by Ministero dell'Economia e delle Finanze, Ministero dello Sviluppo Economico, Banca d'Italia, Associazione Bancaria Italiana, Mediocredito Centrale and SACE is continuing to monitor and measure the volumes related to the implementation of liquidity support taken by the Government to face the COVID-19 emergency. As of 15th December, moratoria with a total value of €56bn were still in place out of approx. €300bn granted since the beginning of the pandemic, for about 500k applicants among families and firms.

Chart 5 shows a comparison between the stock of moratoria in place at YE-2020 and at H1-2021 within Top 10 Italian Banks. The chart indicates a common and massive trend of reduction: UniCredit and Intesa Sanpaolo show the highest drop in absolute terms, respectively from €22.9bn to €14.5bn and from €32.5bn to €17bn. BPER brought to a consistently lower level the moratoria over the past six months, reducing by almost €7bn its outstanding stock (-94%).

Chart 5: COVID-19 moratoria YE-2020 vs H1-2021 (€bn)

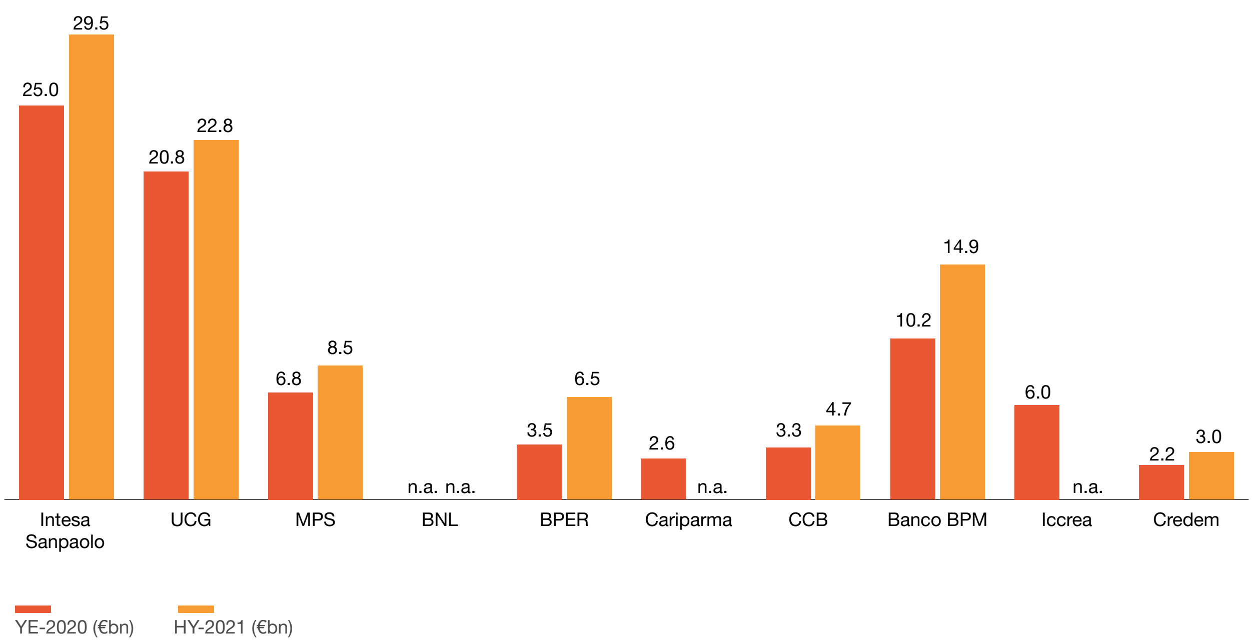


1. BNL and CCB 2021 half-year financial report not available.

Moreover, new lending continues to be supported by public guarantee schemes, accounted for approx. €250 bn of requests to the SME Guarantee Fund (€216bn) and SACE (€31bn) from March 2020. In details, considering the period 17th March 2020 - 14th December 2021, the Guarantee Fund received approx. 2.5mln requests to apply for guarantees to loans in favor of firms and professionals. In detail, the total requests related to the COVID-19 supporting measures are 2.540.537 for almost €216bn; as of 15th December 2021, 2.531.083 requests have been accepted, of which 2.515.430 pursuant to "Decreto Cura Italia" and "Decreto Liquidità".

Chart 6 indicates a stable increase in State-guaranteed loans for all the Top Italian Banks. Intesa Sanpaolo and Banco BPM show the most significant growth, respectively passing from €21.0bn to €29.5bn and from €10.2bn to €16.9bn.

Chart 6: State-guaranteed loans for Top 10 Italian Banks YE-2020 vs H1-2021 (€bn)



1. BNL data not available, Cariparma and ICCREA H1-2021 data not available
2. PwC analysis on Mediocredito Centrale paper “L’operatività del fondo di garanzia – September 2021”.

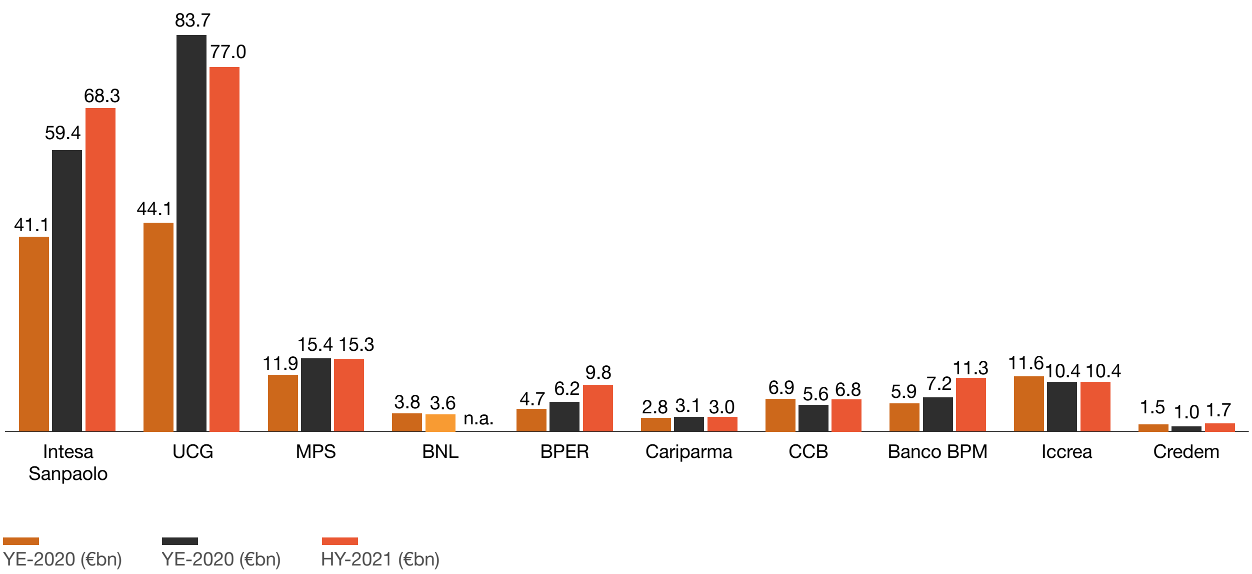
For top Italian banks (except for ICCREA), Stage 2 credits are higher compared to the pre-pandemic period. Credits classified as Stage 2 refer to the portion of Gross Customers Loans that are still performing but with an increasing probability to become non-performing, i.e. with indicators that suggest a potential difficulty for the borrowers to repay their loans within the contractual due date.

Considering the Top 10 Italian Banks, the total Stage 2 Gross Loans stock went up from €134.4bn as of YE-2019 to €195.7bn as of YE-2020 (+45.6% YoY), then slightly increased in the following six months.

As shown in **Chart 7**, at H1-2021 Credem, BPER and Banco BPM show the most relevant increase (%) vs YE-2020, respectively of 61.8% (Stock at H1-2021 €1.7bn), 57.4% (€9.8bn) and 57.3% (€11.3bn).

UniCredit and Cariparma show the major reduction (%) during the same period of 8% and 5.7%; nevertheless, UniCredit still retain the major amount of Stage 2 credits among the Top 10 Italian Banks.

Chart 7: Change on Stage 2 Gross Loans (YE-2019 vs YE-2020 vs H1-2021)



BNL 2021 half-year financial report not available; 2019 Intesa Sanapolo data considering only Intesa Sanpaolo, i.e. UBI Banca not included

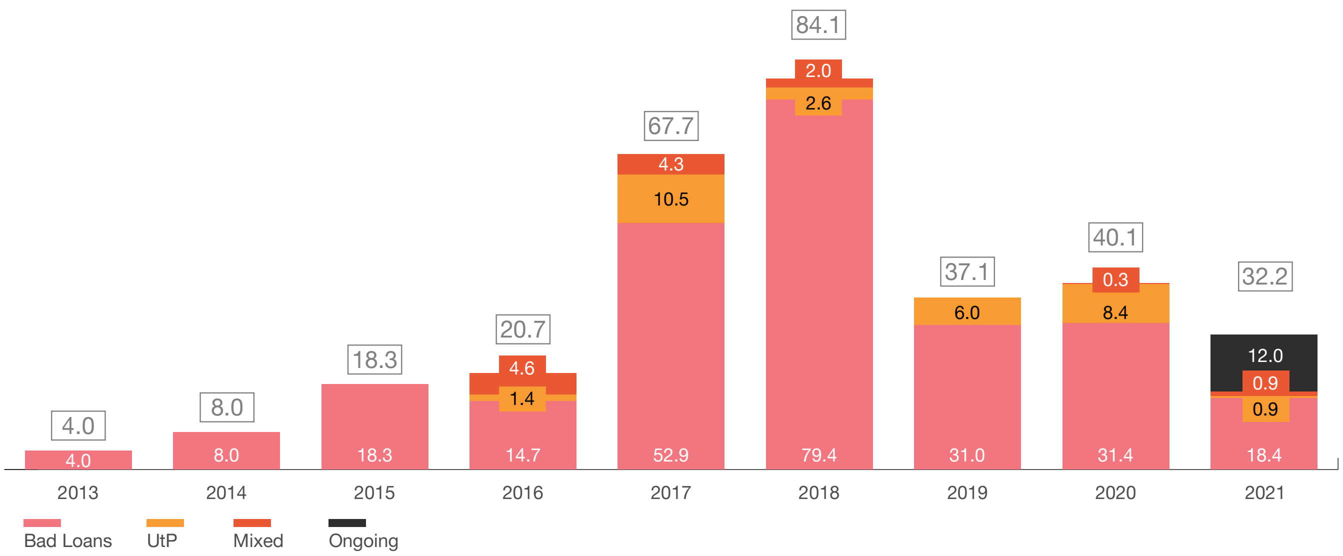
After reaching the highest peak in 2018 (€84.1bn of closed transactions, with approx. 55% of them represented by GACS securitizations on Bad Loans), the volume of yearly transactions almost halved in the following period, with 2020 transactions slightly higher than 2019 (+€3bn), with a lower incidence of GACS securitizations over total volumes (approx. 39% vs 47%).

2021 has registered a contraction of NPE transactions compared to 2020, mainly due to the re-planning of certain deals: considering the ongoing deals, total NPE stock sold in 2021 will likely be approx. 20-25% lower with respect to 2020.

Regarding 2021 transactions:

- **UniCredit** after closing a deal for a total GBV of €0.2bn, has closed a GACS Securitization for a total amount of €2.2bn (sold to Olympia SPV Srl).
- **Intesa Sanpaolo** closed five transactions: all involved Bad Loans for a total GBV of €7.6bn. The new bank, born from the merge of Intesa Sanpaolo with UBI, has announced transactions for a total GBV of €4.9bn.
- Lastly, in the primary market, **BPER** closed four transactions for a total amount of approx. €1.4bn of which €0.4bn of UtP, plus two additional deals with Intesa Sanpaolo (a portfolio sold to Intrum and a securitization).
- In the **secondary market**, the biggest deal registered was a portfolio sold by Cerberus to Banca Ifis for a total amount of €2.8bn.
- On the GACS side, four deals have obtained the public guarantee in 2021 for a total GBV amount of approx. €8.1bn: Project Rockets closed by Banco BPM (total GBV of €1.5bn), UniCredit GACS (€2.2bn to Olympia SPV), ICCREA GACS (€1.3bn) and the most recent €3.1bn securitization sponsored by Intesa Sanpaolo and BPER.

Chart 8: NPL transactions trend in the Italian market (€bn)



1. BNL half-year financial report not available
Source: PwC estimates on public information and market rumours.

Table 2.1: Main closed transactions as of December 2021

Date	Seller	Volume (€m)	NPE category	Macro asset class	Buyer	Primary / Secondary market
Transactions closed in 2021						
2021 Q4	Intesa Sanpaolo/BPER	3,078	Bad Loans	Mixed secured / unsecured	Grogu Spv Srl	Primary
2021 Q4	ICCREA	264	UtP	Mainly Secured	AMCO	Primary
2021 Q4	Confidential	160	UtP	Secured	Confidential	Primary
2021 Q4	ICCREA	1,300	Bad Loans	Mixed secured / unsecured	BCC NPLs	Primary
2021 Q4	UniCredit	2,200	Bad Loans	Mixed secured / unsecured	Olympia Spv Srl	Primary
2021 Q4	DE Shaw	350	Bad loans & UTP	Mixed secured / unsecured	illimity	Secondary
2021 Q4	BPER	1,000	Bad Loans	Mixed secured / unsecured	Confidential	Primary
2021 Q4	Cerberus	2,800	Bad Loans	Unsecured	Banca Ifis	Secondary
2021 Q3	Intesa Sanpaolo/BPER	225	Bad Loans	Unsecured	Intrum	Primary
2021 Q3	Intesa Sanpaolo/UBI	1,100	Bad Loans	Secured	Intrum e Deva Capital	Primary
2021 Q3	Intesa Sanpaolo/UBI	610	Bad Loans	Mixed secured / unsecured	Intrum e Deva Capital	Primary
2021 Q3	BPER	122	UtP	Secured	Efesto Fund (Italfondiario)	Primary
2021 Q3	Intesa Sanpaolo	2,600	Bad Loans	Unsecured	MBCredit Solutions	Primary
2021 Q3	Illimity	122	Bad Loans	Mixed Secured/Unsecured	Banca Finint	Secondary
2021 Q2	Confidential	179	Bad Loans	Mainly Secured	Illimity	Primary
2021 Q2	UniCredit	220	Bad Loans	Unsecured	Kruk, MBCredit Solutions	Primary
2021 Q2	Banco BPM	1,500	Bad Loans	Mixed secured / unsecured	Credito Fondiario	Primary
2021 Q2	Deutsche Bank	980	Bad Loans	Mixed Secured/Unsecured	Eidos Partners	Secondary
2021 Q1	York Capital	400	Bad loans & UTP	Mixed secured / unsecured	Hoist Finance	Secondary
2021 Q1	BPER	248	UtP	Secured	Intrum, Deva Capital	Primary
2021 Q1	Illimity	129	Bad Loans	Unsecured	Sorec, Phinance Partnes	Secondary
Other transactions with deal value < €100m		652				
Total (2021)		**20,239**				

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

Table 3: Main announced NPE transactions as of December 2021

Status	Seller	Volume (€m)	NPE category	Macro asset class	Primary / Secondary market
Ongoing	Gruppo ICCREA	700	Bad Loans	Mixed secured / unsecured	Primary
Ongoing	Banche Popolari (L. Luzzatti)	n.a.	UtP	Mixed secured / unsecured	Primary
Ongoing	Intesa Sanpaolo	2,500	Bad Loans	Mixed secured / unsecured	Primary
Ongoing	Confidential	400	UtP	Mixed secured / unsecured	Secondary
Ongoing	Confidential	150	Bad Loans	Mixed secured / unsecured	Primary
Ongoing	Intesa Sanpaolo	2,400	UtP	Mixed secured / unsecured	Primary
Pipeline	UniCredit	1,000	UtP	n.a.	Primary
Pipeline	BPER	1,000	Bad Loans	Secured	Primary
Ongoing	MPS	4,500	Mixed	Mixed secured / unsecured	Primary
Ongoing	Banco BPM	650	Bad Loans	n.a.	Primary
Ongoing	Gruppo CCB	700	Bad Loans	Mixed secured / unsecured	Primary
Pipeline	Crédit Agricole Italia	2,500	n.a.	n.a.	Primary
Pipeline	Confidential	2,000	Bad Loans	Unsecured	Secondary
Pipeline	Confidential	250	Bad Loans	Secured	Secondary
	Total	**18,750**			

Source: PwC estimates on public information and market rumours.

Table 2.2: 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	Confidential	160	Bad Loans	n.a.	Officine CST	Primary
2020 Q4	Cariparma	300	Bad Loans	Secured	Confidential	Primary
2020 Q4	Confidential	500	Bad Loans	Mixed secured / unsecured	Cherry 106	Mixed Primary / Secondary
2020 Q4	Confidential	680	Bad Loans	Mixed secured / unsecured	Guber Banca	Primary
2020 Q4	BPER Banca, Banco di Sardegna	322	Bad Loans	Mixed secured / unsecured	Summer SPV srl	Primary
2020 Q4	Banco BPM, Alba Leasing, Release	335	Bad Loans	Mainly secured	Titan SPV srl	Primary
2020 Q4	Various popular and cooperative banks	920	Bad Loans	Mixed secured / unsecured	POP NPLs 2020 srl	Primary
2020 Q4	Intesa Sanpaolo	6,033	Bad Loans	Mixed secured / unsecured	Yoda spv srl	Primary
2020 Q4	UBI Banca	1,228	Bad Loans	Mixed secured / unsecured	Sirio NPL srl	Primary
2020 Q4	Gruppo Cassa Centrale	679	Bad Loans	Mixed secured / unsecured	Buonconsiglio 3 SPV	Primary
2020 Q4	UniCredit	1,583	Bad Loans	Secured	Relais SPV	Primary
2020 Q4	ICCREA	2,347	Bad Loans	Secured	Bcc NPLs 2020 srl	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	Unsecured	Ifis NPL	Primary
2020 Q4	UniCredit	692	Bad Loans	Secured	Illimity	Primary
2020 Q4	UniCredit	908	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	UtP	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 e Barclays Bank	Primary
2020 Q3	UniCredit	702	Bad Loans	Unsecured	illimity, Guber e 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	1,080	UtP	Mixed secured / unsecured	AMCO	Primary
2020 Q2	Banca Popolare di Bari	920	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	BNL	110	Bad Loans	n.a.	Confidential	Primary
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 e CGM Italia SGR Spa	Secondary
2020 Q1	Confidential	170	Bad Loans	Secured	illimity	Secondary
Other transactions with deal value < €100m		1,404				
Total (2020)		**40,124**				

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).

Italian Real Estate Market

Key Message

In H1-2021, the number of normalized transactions registered a significant increase compared to H1-2020. However, Institutional investments in commercial real estate amounted to € 3.2bn in H1-2021, a decrease of circa 20% compared to the same period of the previous year, with the Office sector still accounting for the majority of investment volumes.

Real estate auctions published in H1-2021 were approximately 75,000, substantially lower than the previous years due to restrictions caused by the pandemic.

Table 4: Italian NTN[1] comparison by sector

Asset type	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	H1 2020	H1 2021	Y 2019	Y 2020	Delta (%) - H1 21-20
Residential	117,047	116,174	141,325	183,381	162,258	201,492	233,221	363,750	603,541	557,927	56.0%
Office	1,821	1,812	2,067	3,765	2,744	3,288	3,633	6,032	10,477	9,463	66.0%
Retail	5,918	5,015	6,448	9,581	7,953	9,740	10,933	17,693	31,434	26,961	61.8%
Industrial	1,951	2,069	2,262	4,329	2,803	3,837	4,020	6,640	12,124	10,615	65.2%
Total	**126,737**	**125,070**	**152,102**	**201,056**	**175,758**	**218,357**	**251,807**	**394,115**	**657,576**	**604,966**	**56.5%**
Appurtenances	81,716	84,249	103,117	144,016	124,209	154,898	165,965	279,107	428,390	413,098	68.2%
Other	**11,294**	**10,893**	**15,021**	**20,266**	**16,920**	**35,793**	**22,187**	**52,713**	**62,813**	**57,474**	**137.6%**
Grand Total	**219,747**	**220,212**	**270,240**	**365,338**	**316,887**	**409,048**	**439,959**	**725,935**	**1,148,779**	**1,075,538**	**65.0%**

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

Volume of real estate transactions in H1-2021

After a decrease in transactions recorded in 2020 compared to the previous year, H1-2021 saw a strong increase in transactions of 65% compared to the same period of last year.

The increase in transactions was recorded for all asset classes with the most significant increase for office use which grew 66%. See **Table 4**.

In terms of residential transactions, H1-2021 saw an average increase of 56% across Italy compared to the same period of the previous year. The South experienced the largest increase (61.6%), followed by the North (54.3%) and the Center (53.9%). See **Table 5**.

During H1-2021, the number of non-residential transactions increased significantly nationwide, with an overall increase of 63.4% over H1-2020. The office sector in South Italy recorded an extraordinary increase of 86.9%. See **Table 6**.

Appurtenances (including garages, basements, and parking lots) and Other sectors experienced the most significant increase in transactions. See **Table 4**.

Table 5: Residential NTN by geographic area

Area	H1 2020	H1 2021	Year 2019	Year 2020	Delta (%) - H1 21-20
North	128,499	198,274	329,396	306,268	54.3%
Center	48,846	75,178	122,995	113,897	53.9%
South	55,876	90,296	151,150	137,762	61.6%
Italy	**233,221**	**363,748**	**603,541**	**557,927**	**56.0%**

Source: PwC analysis on Italian IRS data.

Table 6: Non residential NTN by geographic area

NTN H2 2020 Office	H1 2020	H1 2021	Y 2019	Y 2020	Delta (%) - H1 21-20
North	2,264	3,549	6,377	5,729	56.8%
Center	692	1,218	2,089	2,011	76.0%
South	677	1,265	2,011	1,723	86.9%
	3,633	**6,032**	**10,477**	**9,463**	**66.0%**
NTN H2 2020 Retail	**H1 2020**	**H1 2021**	**Y 2019**	**Y 2020**	**Delta (%) - H1 21-20**
North	5,233	8,675	15,413	13,036	65.8%
Center	2,578	4,071	7,125	6,147	57.9%
South	3,120	4,946	8,896	7,778	58.5%
	10,931	**17,692**	**31,434**	**26,961**	**61.9%**
NTN H2 2020 Industrial	**H1 2020**	**H1 2021**	**Y 2019**	**Y 2020**	**Delta (%) - H1 21-20**
North	2,662	4,276	8,081	7,039	60.6%
Center	669	1,157	2,001	1,799	72.9%
South	689	1,208	2,042	1,777	75.3%
	4,020	**6,641**	**12,124**	**10,615**	**65.2%**
	18,584	**30,365**	**54,035**	**47,039**	**63.4%**

Source: PwC analysis on Italian IRS data.

Chart 9: Italian NTN1 comparison by sector H1-2021

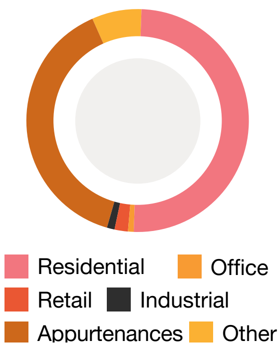


Chart 10: Residential NTN by geographic area H1-2021

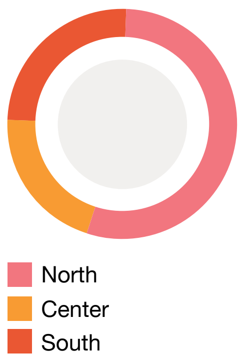
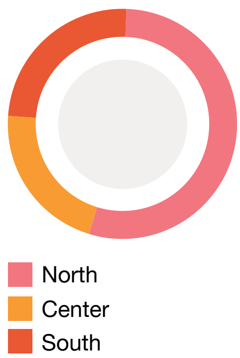


Chart 11: Non residential NTN by geographic area H1-2021



Mortgage loans trend in Italy

Real estate properties guaranteed by mortgages amount to 808,568 in 2020, down 12.5% compared to 2019, to which corresponds a monetary value of financing of over 78 billion euros, -13.1% compared to 2019. Analyzing the distribution of mortgaged properties (**Table 7**), 69% of the properties are in residential deeds and for these deeds the financed capital represents almost 2/3 of the total, about 40 billion euros, -5.2% compared to 2019. Among the mortgage deeds that exclusively concern mixed use, corresponds the highest share, in terms of number of properties, equal to 21.8% and in terms of financed capital with a share equal to 28.3%. **Table 7**.

Table 7: Properties Mortgaged e Secured Debt by Use

Use	N. of Properties Mortgaged 2020	N. of Properties Mortgaged 2019	Delta (%) Properties Mortgaged Y20-19	% Mortgaged Allocation 2020	Secured Debt 2020 (ml €)	Secured Debt 2019 (ml €)	Delta (%) Secured Debt Y20-19	% Debt Allocation 2020
Residential	559,970	600,215	-6.7%	69.2%	39,325	41,480	-5.2%	50.2%
Commercial	33,384	54,582	-38.8%	4.1%	7,700	12,222	-37.0%	9.9%
Industrial	5,517	7,888	-30.1%	0.7%	5,049	5,036	0.3%	6.4%
Mix Use	**175,820**	**216,297**	**-18.7%**	**21.8%**	**22,162**	**26,249**	**-15.6%**	**28.3%**
Land	**33,877**	**44,943**	**-24.6%**	**4.2%**	**4,099**	**5,191**	**-21.0%**	**5.2%**
Total	**808,568**	**923,925**	**-12.5%**	**100%**	**78,335**	**90,178**	**-13.1%**	**100%**

Source: PwC analysis on Italian IRS data; Use: Commercial is refered to office, retail, hospitality and other. Mix use is refered to assets with different uses included in the same mortgage.

Chart 12: % Mortgaged Allocation 2020 By Use

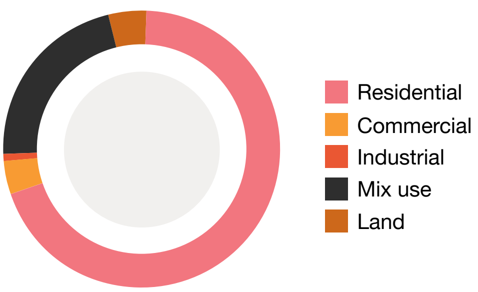
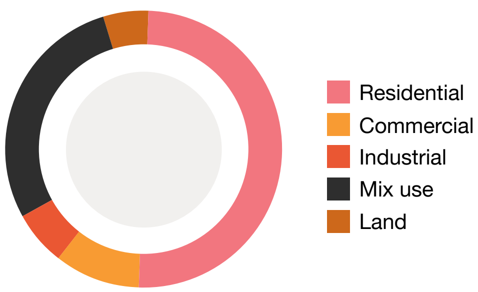


Chart 13: % Debt Allocation 2020 By Use



Geographical distribution reveals a high concentration, especially in terms of number of properties, in the northern regions.

From the point of view of both the number of mortgaged properties and debt capital, there is a general decrease in volumes in 2020, more accentuated in the central and southern areas. **Table 8**.

Table 8: Properties Mortgaged e Secured Debt by Use

Area	N. of Properties Mortgaged 2020	N. of Properties Mortgaged 2019	Delta (%) Properties Mortgaged Y20-19	% Mortgaged Allocation 2020	Secured Debt 2020 (ml €)	Secured Debt 2019 (ml €)	Delta (%) Secured Debt Y20-19	% Debt Allocation 2020
Nord	484,992	542,983	-10.7%	60.0%	44,960	48,280	-6.9%	57.4%
Center	166,791	189,374	-11.9%	20.6%	16,552	20,221	-18.1%	21.1%
South	149,513	176,307	-15.2%	18.5%	13,114	16,666	-21.3%	16.7%
Other	7,272	15,261		0.9%	3,709	5,011		4.7%
Total	**808,568**	**923,925**	**-12.5%**	**100%**	**78,335**	**90,178**	**-13.1%**	**100%**

Source: PwC analysis on Italian IRS data; Other: is refered to assets in different location included in the same mortgage.

Chart 14: % Mortgaged Allocation 2020 by Geography

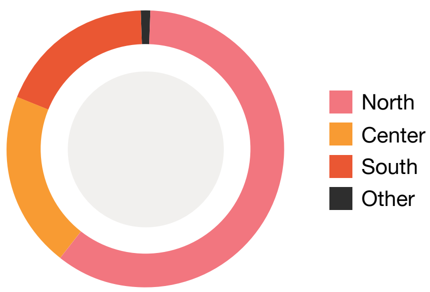
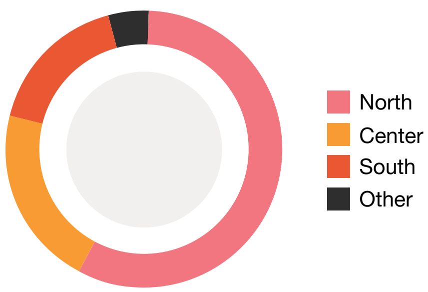


Chart 15: Debt Allocation 2020 by Geography



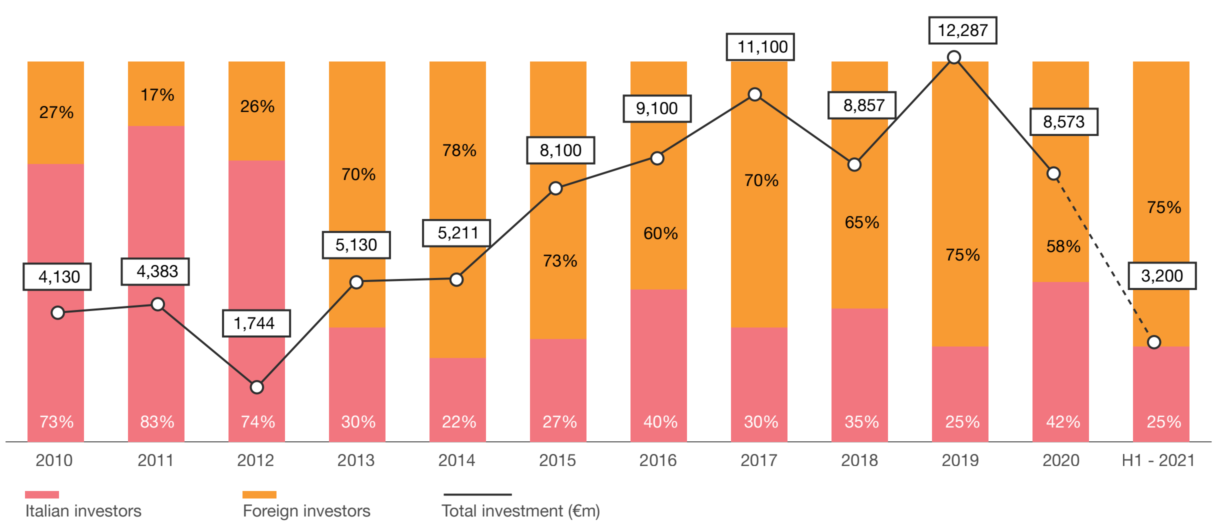
Investments in the commercial real estate market

In H1-2021, investment volumes in commercial real estate amounted to € 3.2bn, approximately 20% lower compared to the previous year. See **Chart 16**.

In addition, the Office asset class accounted for the majority of investment volumes in H1-2020 with 23%, followed by Industrial/logistics with 19%, Hospitality 16%, Residential with 9% and Retail with 8%. See **Chart 17**.

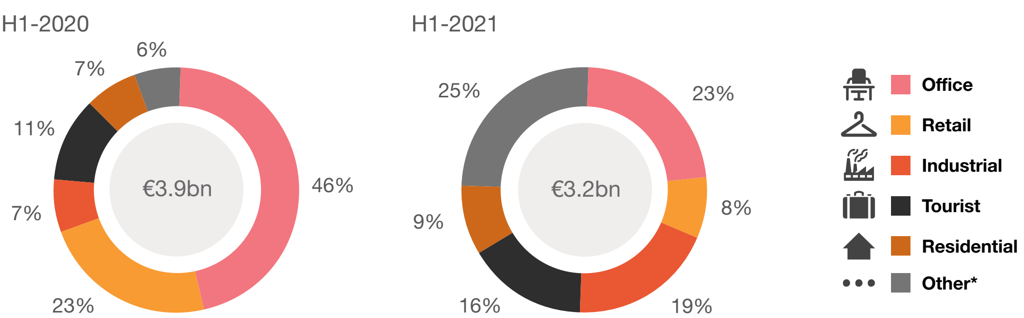
Foreign capital has returned to pre-pandemic levels driven by US and UK capital. In fact, during H1-2021, foreign capital accounted for 75% of investment (€2.4 billion of international investment versus €0.8 billion of Italian) compared to 58% in H1-2021. See **Figure 16**.

Chart 16: Investments in commercial real estate – Investor type



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

Chart 17: Investments in commercial real estate – Asset class

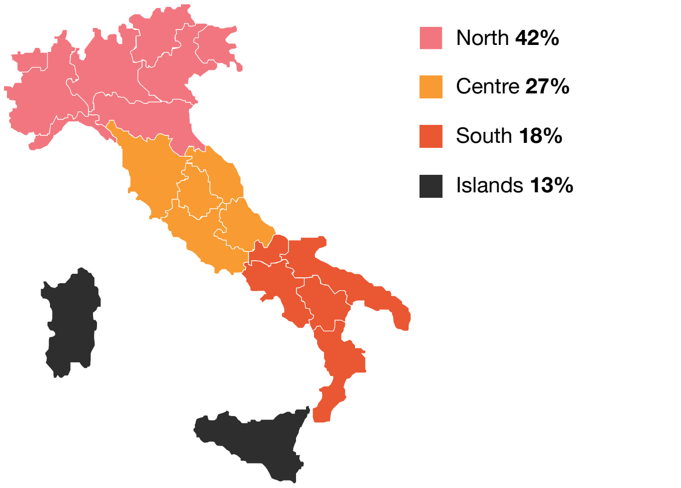


Source: PwC elaborations on Nomisma, BNP Paribas RE, CBRE and Colliers data.
(*): Other category comprhends Heltcare, Senior Living, Data Center, Development, Education and Public Sector.

In H1-2021, 75,000 judicial real estate auctions were published in Italy for a total volume of €12.2bn. The residential asset class has about 49% followed by the industrial asset class for about 21% and land for about 12%. The highest concentration of auctions is in the North with 42%, followed by the Center with 27%, the South with 18% and the Islands with 13%. The region with the highest number of real estate auctions is Lombardy recording approximately 16.3% of the total. See **Chart 18**.

Source: PwC analysis on Astasy data

Chart 18: Italian Real Estate Judicial Auctions



Closed Secured Portfolio

Based on the closed secured portfolio managed by servicers, the greatest concentration is located in northern Italy (50%) followed by the south and islands (26%) and then the center (24%). See **Chart 19**.

In addition, analyzing the data by city size shows that 39% of the assets are located in small towns with less than 25,000 residents, 25% in cities with over one million residents, and only 3% are in cities with a population between 500,000 – 1m. See **Chart 20**.

Chart 19: Closed Secured Portfolio by Area

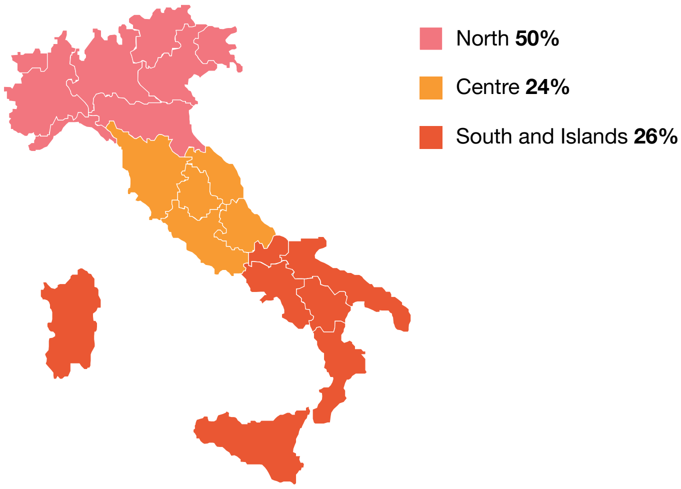
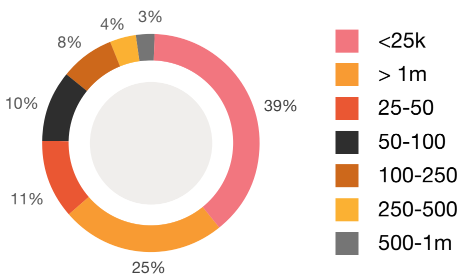


Chart 20: Closed Secured Portfolio by City Size (residents)



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

The graphs below show the portfolios closed by the Servicers, considering the recovery strategies and the recovery rate by asset class. For all the recovery strategies, the main asset is the residential one. The asset class in closed portfolios with the lowest share over the total volume is development. See **Chart 21**.

Considering the recovery rate by each asset class, for the first time the Hospitality asset class is included showing the highest performance (79%), followed by Residential (50%), Office (49%) and Development (46%). See **Chart 22**.

Chart 21: Closed portfolios by asset class (GBV)

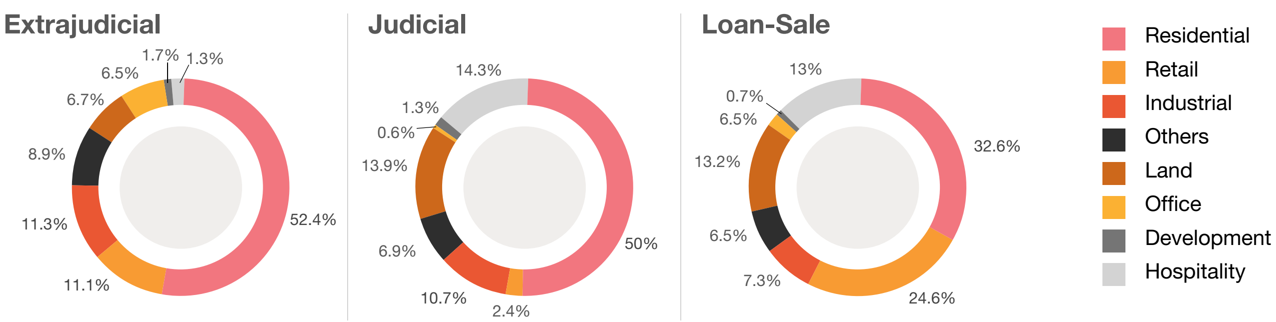
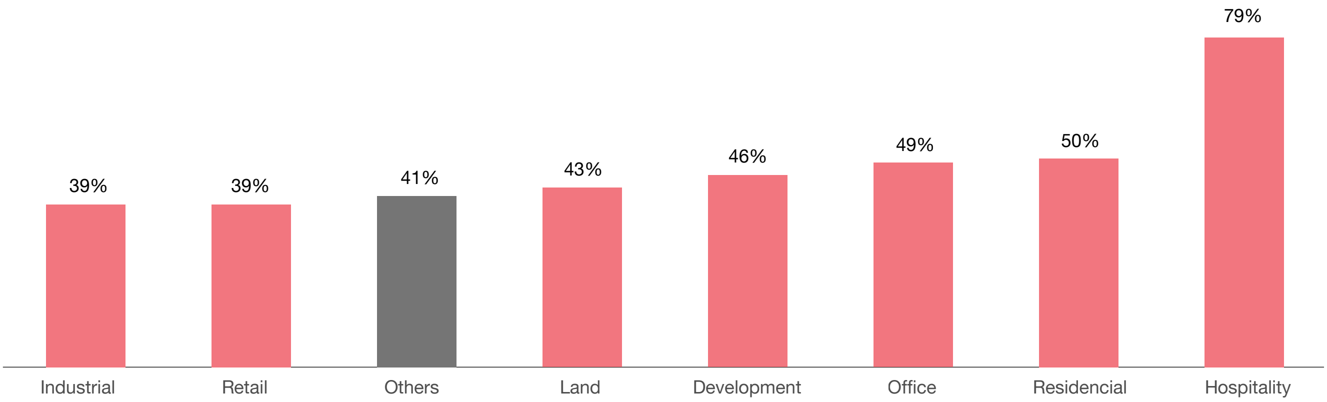


Chart 22: Recovery rate by asset class on closed portfolios



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

The analysis in Chart 22 is based on data from 7 players and returned with arithmetic averages.

Regulatory framework update

Key Message

The Banking regulation is under a wide review in order to align with Basel IV requirements, but also other market participants – like servicers – are dealing with a quickly evolving regulatory framework, both at Italian and European level.

Banking Package of the European Commission

On October 27th, the **European Commission** has published the **proposed amendments** to the **European banking regulation** (CRR3, CRD6 and BRRD) in order to align with **Basel IV reform**.

The changes are wide and affect several aspects, like credit risk RWAs for both Standard Approach ("SA") and Internal Ratings Based ("IRB"), operational risk, CVA, market risk, ESG risks, etc.

Regarding NPLs, CRR3 proposes a **review** of the **prudential treatment** under SA of **defaulted exposures**.

Situation «as-is»

Risk weighting of unsecured defaulted exposures

According to Art. 127 CRR, banks are required to apply to the unsecured part of NPEs a risk weight equal to:

- **100%** if the sum of specific credit risk adjustments ("**SCRAs**") and **deductions** related to Calendar Provisioning is **no less than 20%** of the unsecured part of the exposure value if those SCRAs and deductions were not applied.
- **150% otherwise**.

Credit risk adjustments are **defined** as the amounts by which an institution's **CET1 capital** is **reduced** in order to reflect losses exclusively related to **credit risk**, in line with the applicable **accounting framework**.

Discount on purchase price

According to the «as-is» regulatory requirements, the **discount** on purchased defaulted assets does not fall within the **definition** of **SCRAs** and therefore it can not be taken into consideration when determining the appropriate risk-weight to be applied to defaulted exposures.
Such **treatment** is particularly **burdensome** for **institutions** that **buy defaulted exposures** and, in addition, it is **not consistent** with the **treatment** of **discount** under **other CRR requirements**, like:

- Calculation of credit risk **RWAs** for banks under **IRB**.
- **Calendar Provisioning**.

Proposed amendments

Considering that the development of an efficient NPL secondary market represents a priority for European Regulators (1), the Commission proposed that institutions can take into consideration the discount on purchased defaulted assets when determining the appropriate risk-weight to be applied to defaulted exposures.

New Regulatory Framework

Art. 127 CRR

In the proposed review of CRR3, for the purposes of calculating SCRAs, it is possible to include any **positive difference** between the amount owed by the obligor **A** on the exposure and the sum of:

- any **already existing own funds reductions** related to that exposure **C**;
- the **additional own funds reduction** if the exposure was **written off fully D**.

EBA RTS on credit risk adjustments

In order to guarantee the **consistency** of the **regulatory framework**, in June EBA launched a consultation on amendments to its RTS on credit risk adjustments in order to recognize that the price discount stemming from the sale/purchase of NPLs will be recognized as a credit risk adjustment for the purposes of determining the risk weight.

Example[2]

Assumptions

Outstanding	Purchase Price	Revaluation	Provisions
A 100	60	+30	C 1

		At inception	After revaluation
B	**Gross accounting value**	60	90
D	**NBV** (B-C)	59	89
E	**Discount** [A-(C+D)]	40	10
	Coverage (E+C)/A	41%	11%
	Risk Weight	**100%**	**150%**

1. As defined in the 2017 NPL Action Plan and re-stated in the Communication on "Tackling non-performing loans in the aftermath of the COVID-19 pandemic";
2. Source: EBA RTS on credit risk adjustments.

Servicing regulatory framework

Servicing activities of NPLs have been recently affected by the intervention of Regulators and Supervisors, both at national and European level. In particular:

- at **national level**, the **Bank of Italy** has published a **communication** regarding the **role** and the **responsibilities** of the **master servicers** (banks and financial intermediaries ex art. 106 TUB) that take part in **securitization transactions**;

- at **European level**, the **European Parliament** has **approved** the final text of the **Directive on credit servicers and credit purchasers** ("NPLs secondary market Directive"), which is expected to enter into force later this year / beginning 2022.

Bank of Italy communication: servicing under securitization transactions

In recent years, **securitizations** have been characterized by an **increasing trend** both in **number** and **volume**, fostered by the de-risking path followed by banks which contributed to the creation of an active NPL market.

In addition, **several types** of **assets** different from banking ones (e.g. trade receivables, healthcare receivables, etc.) have been **securitized**, with the involvement of **multiple entities** subject to different regulatory frameworks.

In this context, Bank of Italy **intensified** the **supervision activities** on servicers and found that:
- the **market practices** are characterized by **strong separation** of roles between master servicers (which are supervised entities, i.e. banks and financial intermediaries ex art. 106 TUB) and **special servicers** (which are non-supervised entities) and, therefore, they are not fully aligned with the Italian regulatory framework (Law 130 / 1999);
- the **recovery process** is often assigned to the special servicer through **complex contractual schemes**, that lead to **uncertainties** in the identification of **responsibilities**, especially in case of underperformance w.r.t. the original business plan.

Key contents of the Bank of Italy's communication

Relevant issues to be addressed	Bank of Italy requirements
• **Significant risk** that **master servicers** play a mere formal role while important functions are outsourced to third parties. • **Organizational structure not** always **adequate** to the increasing complexity of the securitization transactions, that leads to reputational and operational risks. • Presence of **shortcomings** in the **internal control framework**, in the management of **operational risks** and in the **monitoring** activities of the **performance** of special servicers.	• **Prompt adaptation** of the **organizational structure** in line with the role assigned to the "master servicers" by the Regulator. • **Enhancement** of the **risks control systems**. • Adoption of **responsive measures** in case of detection of **anomalies** in the **performance** of **special servicers**. • **Introduction** of **two additional semi-annual templates for regulatory reporting** purposes regarding the securitization managed by the servicer (with and without GACS), starting from 31 December 2021.

Bank of Italy is promoting the adoption of more transparent and robust business practices where supervised entities play a central role and maintain the full responsibility of the outcome of the securitization.

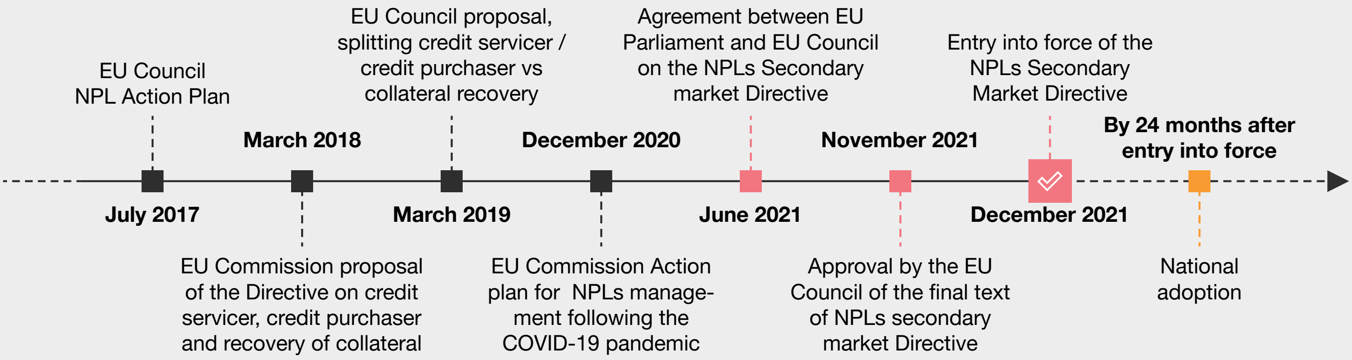
Directive on credit servicers and credit purchasers
("NPLs secondary market Directive")

After a long period of negotiations started in 2018, **political agreement** has finally been reached on the Directive on credit servicers and credit purchasers.

The Directive represents one of the **key steps** of the **NPL Action Plan**, with the the aim to:

- promote **harmonized conditions** at a European level;
- foster the **NPL secondary market**.

Regulatory timeline



Scope of application

	In scope	Out-of-scope
Type of credits[1]	• **NPLs** (defined in line with Article 47 bis CRR) originated by **EU credit institutions**.	• **Performing loans**. • **NPLs** originated by **non-bank lenders**. • **NPLs** originated by **banks** established **outside Europe**.
Credit Purchasing	• **Natural** or **legal persons that purchase NPLs** in the course of its trade, business or profession.	• **NPLs** purchased by **banks**. • **NPLs** purchased **before** the **national adoption** of the Directive.
Credit Servicing	• **NPLs servicers** that are **legal persons** and that act on **behalf** of **credit purchasers** carrying out **at least one credit servicing activity**.	• **Banks** and other supervised creditors[2]. • **Alternative investment fund managers** or **AMCs**. • **Servicers** that act **on behalf** of a **SSPE**. • **Individuals** (that do not satisfy the definition of «legal person»). • **Public notaries** and **bailiffs** *[national discretion]*.

In scope credit servicing activities

1. **Collection / recovery** of payments from borrowers.
2. **Renegotiation** of **terms** and **conditions** with borrowers.
3. **Management** of **complaints** regarding the credit agreement.
4. **Information** to the **borrowers** about **changes** to any **payment due**.

See next page for further details

1. The Directive refers to credits granted in the form of a deferred payment, a loan or other similar financial accommodation;
2. Creditors that are subject to supervision under the Consumer Credit Directive (CCD) or Mortgage Credit Directive (MCD).

Key contents of the NPLs Secondary market Directive

Credit servicer

- **Required authorization** by the National Authorities to carry out the servicing activities, based on uniform criteria and procedures at European level.
- **Strict requirements** regarding **governance** and **internal control** frameworks.
- **Additional requirements** for servicer allowed to receive and **hold funds** from borrowers.
- Definition of the **minimum content** of the **credit servicing agreements**, including data retention requirements (minimum 5-years after the termination of the agreement).
- Specific requirements in case of **outsourcing** (e.g. full access to information regarding credit servicing activities; ban to outsource to a credit service provider of all credit servicing activities at the same time) and necessity to **inform** the **Competent Authority** in **advance** in case of outsourcing.
- Ability to provide **cross-border services** as a result of a streamlined authorization process.

Credit purchaser

- **Authorization not required**.
- Right to **receive** from the seller **information** regarding the **credit agreement** and any **underlying collatera**l, on the basis of a standard template that will be defined by EBA (expected within 9 months after entry into force of the Directive).
- Introduction of **consumers' protection measures** that require to the credit purchaser to appoint a bank or a specialized player for carrying out the servicing activities.
- Obligations to **report** to the **Competent Authority** the information regarding the parties chosen as **credit servicers** and any further **transfers** of **credits** to other credit purchasers, also providing information on the underlying credit agreements transferred.

Specific requirements for both credit servicer and credit purchasers regarding the relationship with the borrowers.

Notification by Significant Institutions on securitization transactions

On **November 15th** the **ECB** launched a **consultation** in order to define the practices regarding **notification requirements** of **securitization transactions**. The consultation will terminate on 5th of January 2022.

The guide applies to all **significant institutions** (“Sis”) acting as **originator** or **sponsor** of a securitization transaction, referring to **all types** of **securitizations** from public to private, traditional, synthetic and asset-backed commercial paper transactions, irrespective of whether or not they are structured to achieve significant risk transfer.

The Guide follows the decision taken by ECB in May 2021 to start ensuring that the banks it directly supervises comply with the requirements for:

- **Risk retention** – retention of a material net economic interest in the securitization.
- **Transparency** – requirements towards investors and supervisors regarding securitization and the underlying exposures.
- **Resecuritization** – prevention of the inclusion of securitization positions in the exposures underlying a securitization.

Through this Guide, the ECB aims to create a **standardized process** to receive information needed for the supervision of the compliance of the securitization with specific requirements described above. The ECB expects banks to follow the Guide for all **securitization** transactions **issued after 1 April 2022**.

“As-is” transparency requirements

Banks are already required to meet a set of **transparency requirements** and reporting standards for both **public** and **private securitizations**, however:

for public securitizations
transparency requirements are wide and ECB would benefit from more focused information.

for private securitizations
since the use of repositories is not mandatory, there is currently no standardized process through which Sis can make the information required by transparency requirements.

New notification practices for Significant Institutions

SIs shall **send** to the **ECB** a dedicated **template** divided in 4 sections:

A – Key transaction information
(e.g. type of transaction, date of origination, etc.).
B – Information on securitized exposures
(e.g. NPE securitization – portfolio in the ramp-up phase).
C – Information on securitized positions (e.g. information on the tranches, level of risk retention).
D – Compliance with securitization requirements
(risk retention, transparency, resecuritization).

The notification shall be transmitted **within two weeks** from the date of the origination and, with undue delay, in the case of any **material event** in the **lifetime** of the securitization altering or likely to alter the features of the transaction.

Section D requires banks to conduct, with bi-annual frequency, a self-assessment of how their internal policies, processes, procedures ensure compliance with securitizations’ specific requirements.

Private Debt Alternative Investment Funds (AIFs): AIFMD review

On November 25th, the **European Commission** has published a set of legislative proposals (so-called Capital markets union package) including a review of the AIMFD (Directive 2011/61/EU on alternative investment fund managers).

Among the **proposed amendments**, attention must be paid to the new provisions on **loan-originating AIFs** aimed at avoiding that diverging national regulatory approaches continue to undermine the establishment of an efficient internal market for such AIFs, as well as to the **amendments to the activities** AIFMs could provide.

In order to allow **AIFs to extend loans anywhere in the EU**, including cross-border, it has been proposed to amend Annex I of AIFMD in order to recognize "**lending**" and "**servicing of securitization special purpose entities**" as legitimate activities of AIFMs.

Loan-origination AIFs key provisions

Credit servicing and servicing of securitization special purpose vehicles

Credit servicing[1] would be **included in the list of ancillary services AIFMs are authorized to provide** in addition to collective investment managing.

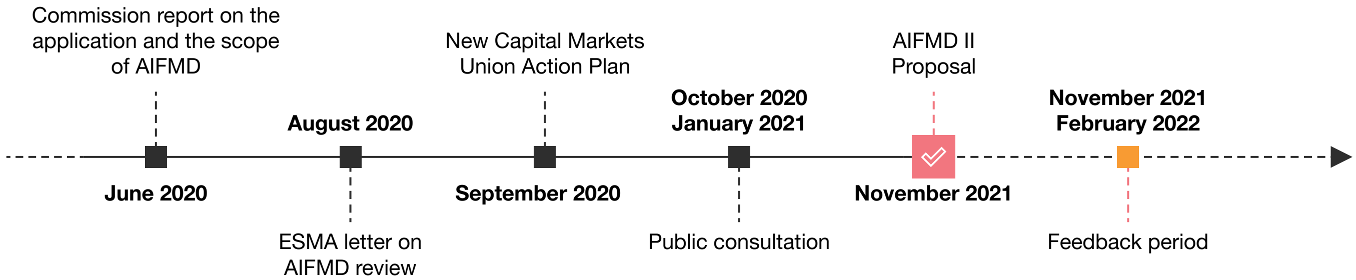
It is likely that the definition of "**credit servicing**" under AIFMD II will be aligned with the one set out under the **NPLs secondary market Directive**. It can be expected that AIFMs will service loans originated by the AIFs they are managing, but AIFMD II does not provide for any further clarification on this aspect.

Other relevant issues to be addressed

- **Risk of liquidity mismatches** if the AIFs open-ended structure allows investors to redeem their units/shares during the AIF life cycle.
- **Organizational structure and procedures not always adequate** to the activities necessary for the granting of loans.
- **Risk of interconnectedness** among loan-originating AIFs and other financial institutions.
- **Moral hazard situations** where the loans are originated only to be immediately sold.

AIFMD II requirements

- AIFs must **adopt a closed-ended structure** when engaging in loan origination to a significant extent.
- Obligation to implement **effective policies, procedures and processes for the granting of loans** (e.g. credit risk assessment, administration and monitoring of credit portfolios).
- **Investment limit of 20%** of the AIF capital where the borrower is a financial institution.
- **Obligation to retain an economic interest of 5%** of the notional value of loans granted and sold off.



1. As well as benchmark administration.

The reform of the civil proceedings

On September 21, 2021 the Italian Senate approved Bill no. 1662 delegating the Government to improve the efficiency of the civil judicial process and to review the regulations of alternative dispute resolution tools.

Relevant changes in the real estate foreclosure process are outlined below.

First of all, inter alia, Article 10 of the Draft Law provides for abrogation of the provisions of the Code of Civil Procedure (and other laws) referring to the enforcement order and to the forwarding of titles in an enforceable form so that titles for enforcement (judgments, other measures of judicial authority, acts received from a notary or other public official) may be produced in copy, simply by certifying their conformity to the original.

The term for filing the cadastral documentation is then reduced and is now made to coincide with that for filing the petition for sale (maximum 45 days) with the possibility of a sole further postponement.

With reference to the release of the property under enforcement, it should be noted that the compulsory release of the property is now assigned to the Judicial Custodian and pronounced by the Judge at the time of the declaration of the sale (or appointment of the Delegate) if the property is vacant or occupied without title, or upon pronouncement of the transfer decree if it is occupied by the debtor subject to enforcement and his family members.

Increased powers are also given to the Sales Delegate (i.e. “Delegato alla Vendita” so the professional who manages the property auction sale on behalf of the judicial authority) who is now also responsible for the distribution of the proceeds of the sale, but - on the other hand - mandatory terms are imposed on him to carry out the requirements of the sale with immediate replacement in case of non-compliance.

A very significant provision appears to be the opportunity for the debtor to apply for authorization to sell the foreclosed property directly, as long as the price is not lower than the base price indicated in the expert property evaluation.

Through this way, therefore, the time necessary for the creditor to recover what is due to him would be greatly reduced.

The debtor's request must always be enclosed with a 120 days irrevocable purchase offer and a deposit of not less than one tenth of the proposed price, to guarantee the reliability of the submitted offer.

The code of business crisis and insolvency

Law Decree no. 118 of August 24, 2021, published in Official Gazette no. 202 of August 24, 2021, postponed the effective date of the Business Crisis and Insolvency Code (which should have come into force on September 1, 2021) until May 16, 2022, postponing the alert procedure until December 31, 2023.

Moreover, the new decree does not merely postpone the entry into force of the Business Crisis and Insolvency Code but introduces a new method of early treatment of the crisis: the so called "negotiated settlement".

This procedure, which has been in force since November 15, 2021, is an entirely voluntary settlement procedure that can be accessed via an online platform with a time limit of 180 days. The entrepreneur is supported by a third-party, independent expert with specific skills, who oversees promoting the agreements with creditors necessary for the turnaround of the company.

Very significant is the provision according to which, if the negotiations do not lead to the hoped-for results, within sixty days of the filing of the expert's report the entrepreneur will have the right to present a recourse to the Court containing a request for an arrangement with creditor with assignment of assets and a plan of winding up. A key point is that this arrangement may be approved by the Court, after obtaining the opinion of the expert, even independently of the will of the creditors. In other words, the approval is not subject to the achievement of specific voting majorities. If the Court (with the help of the aforementioned expert) deems it more convenient than a bankruptcy liquidation, the approval of the arrangement can also proceed with the dissent of the creditors.

The request for negotiated settlement must be made to the competent Court which - after hearing the expert and the main prior creditors - will assess whether this method is functional to the company's survival and to the best satisfaction of creditors.

An important point is the ability of an entrepreneur in crisis to transfer the company or one or more of its branches in any form without the effects referred to in article 2560, paragraph 2, of the Italian Civil Code and, therefore, without the purchaser of the company being required to pay for past debts if these are shown in the accounting books.

The transfer takes place by means of a contract concluded by the entrepreneur, since there is no provision for a transfer decree by the Court.

Italian NPL Market

Key Message

NPEs on banks books are €96bn at June 2021, with UtPs confirmed as the most relevant asset class within Non Performing exposures. As court and judicial activities are back to pre-pandemic level, the number of bankruptcies and other insolvency proceedings are quickly increasing.

Asset Quality

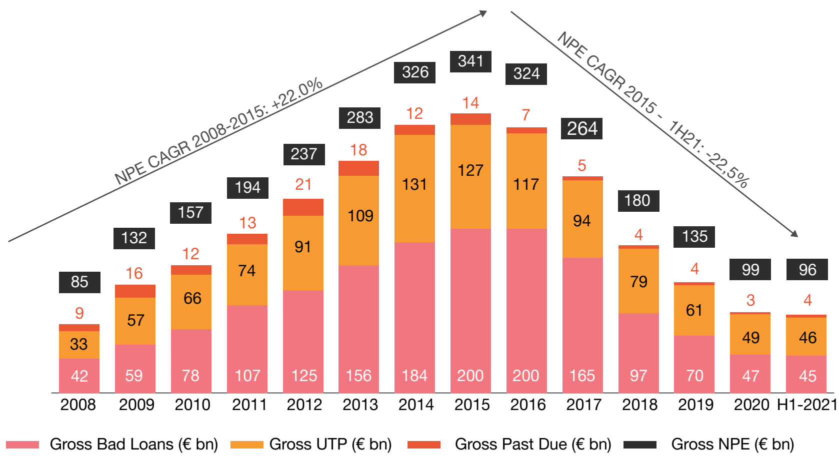
Chart 23 shows the trend of the Italian NPE stock. After peaking at €341bn in 2015, the trend has been continuously decreasing, reaching €96bn at H1-2021.

The same drop has been observed for Gross Bad Loans stock, that reached a downward peak of €45bn at H1-2021, €2bn lower than at YE-2020 and lowest value since 2008 when it reached €42bn.

As concerning UtPs, the outstanding stock experienced a more gradual decline, passing from a value of €61bn at YE-2019 to €49bn at YE-2020 and lastly to €46bn at H1-2021. Starting from the beginning of 2021, the Gross UtP stock has exceeded the Gross Bad Loans, emphasizing once more the relevance of those credits for the Italian banking sector.

Gross Past Due has risen from €3bn at YE-2020 to €4bn at H1-2021, returning at pre-pandemic level and remaining in line with the recent years trend.

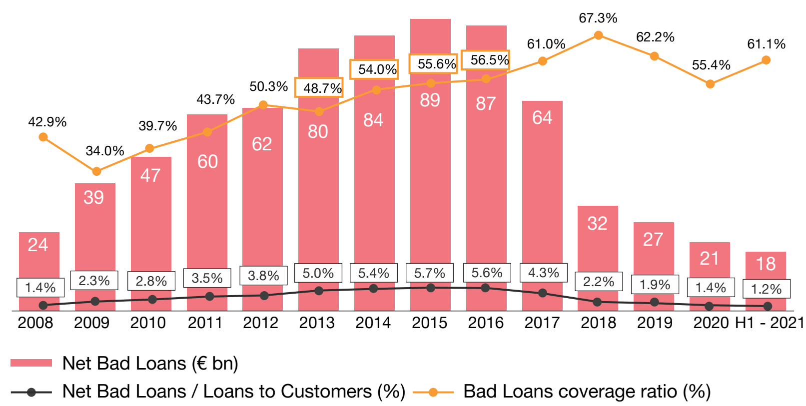
Chart 23: Gross NPE trend



Source: PwC analysis on Banca d'Italia "Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori", December 2021.

Chart 24 shows for the Net Bad Loans the same decreasing trend observed for Gross Bad Loans, with a peak in 2015 of €89bn and then a reduction to €18bn at H1-2021 (-€3bn vs YE-2020), lowest value in the last decade. The Bad Loans coverage ratio for the Italian banking system followed an upward trend in the period 2008-2018 reaching a peak of 67.3% in 2018. In H1-2021 the coverage ratio increased from 55.4% in YE-2020 to 61.1%, partially due to the first impact of calendar provisioning scheme.

Chart 24: Net Bad Loans Trend

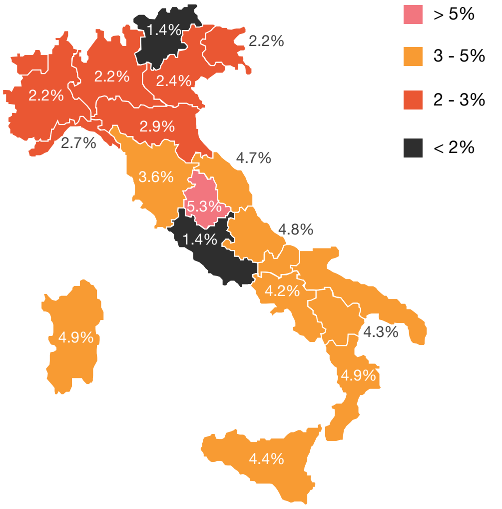


Source: PwC analysis on ABI Monthly Outlook and Bank of Italy data – October 2021.
Note: 2017 and 2018 data might include financial intermediaries.

Looking at the breakdown of Gross Bad Loans:

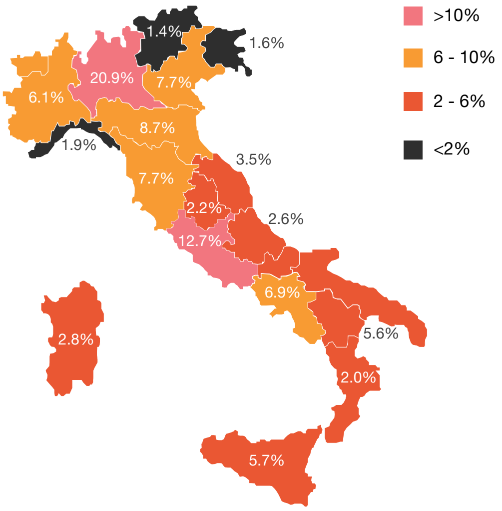
- In terms of Gross Bad Loans ratio, the highest percentages are recorded in Umbria (5.3%), Sardinia (4.9%), Calabria (4.9%) and Abruzzo-Molise (4.8%); overall northern regions tend to show lower Gross Bad Loans ratio compared to central and southern regions.
- Italian Gross Bad Loans are mainly concentrated in Lombardy and Lazio which account respectively for 20.9% and 12.7% of the overall stock. However, both regions show a low Bad Loans ratio (2.2% and 1.4%) compared to other regions.
- As shown in **Chart 26**, focuses on the composition of Italian Gross Bad Loans, at H1-2021 as well as in recent years, the "Corporate & SME" sector is confirmed as the most relevant, with a share of 71.3% (-1.5% vs YE-2020), followed by Consumer loans at 20.4% (+1.3% vs YE-2020).
- The percentage of Secured Bad Loans (42%) remained relatively stable compared to YE-2020 (43%) and YE-2019 (44%). More than half of the secured Bad Loans (62%) are represented by "Corporate & SME" and 29% by Retail (see **Chart 27**).

Chart 25a: Gross Bad Loans ratio by region* (H1-2021)



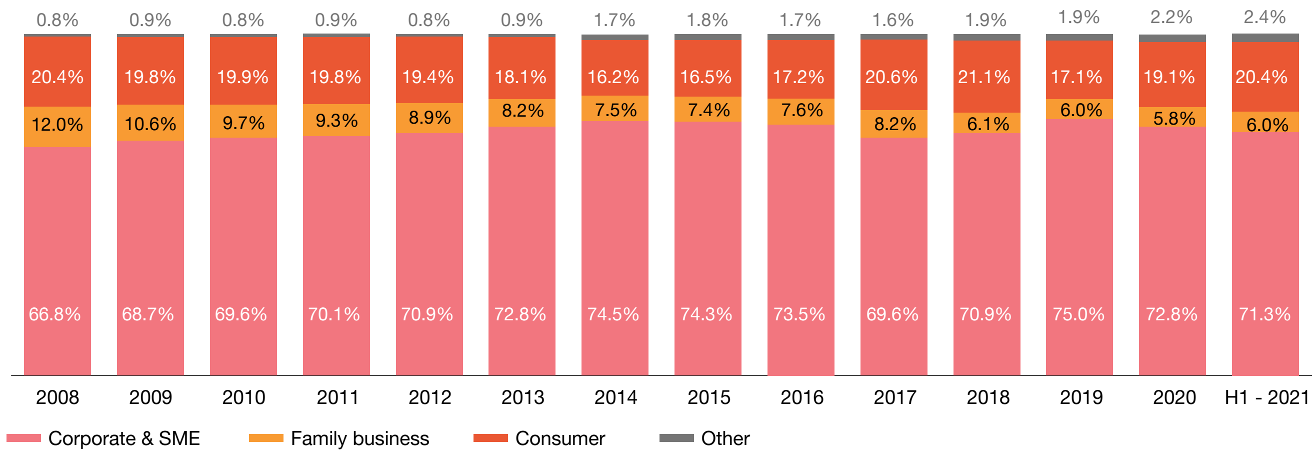
Source: PwC analysis on Banca d'Italia «Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori», October 2021.
Note: Bad Loans ratio in the region of Lazio is influenced by Cassa Depositi e Prestiti, included in Bank of Italy database; (*) Unique percentage for
1. Valle d'Aosta and Piemonte.
2. Abruzzo and Molise.
3. Puglia and Basilicata.

Chart 25b: Breakdown of Gross Bad Loans by region* (H1-2021)



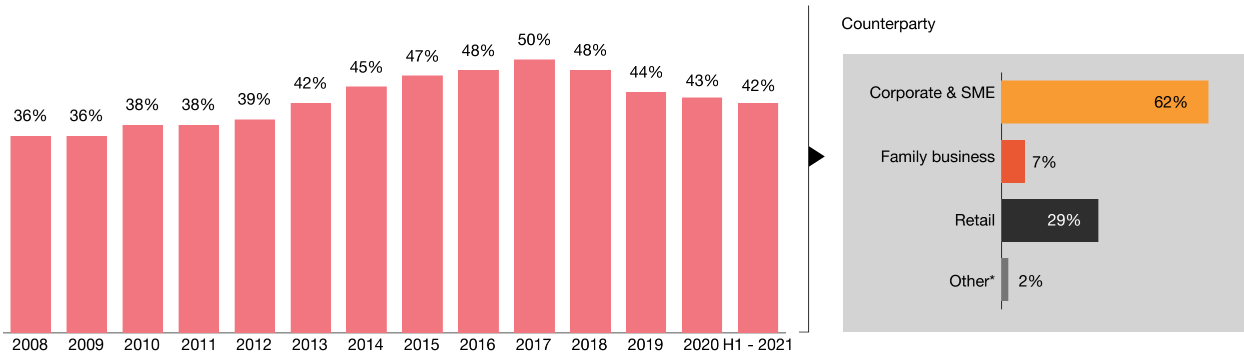
Source: PwC analysis on Banca d'Italia «Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori», October 2021.
Note: (*) Unique percentage for
1. Valle d'Aosta and Piemonte.
2. Abruzzo and Molise.
3. Puglia and Basilicata.

Chart 26: Breakdown of Gross Bad Loans by counterparty** (H1-2021)



Source: PwC analysis on Banca d'Italia "Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori", June 2021;
Note: (*) “Other” includes PA and financial institutions.

Chart 27: Secured Gross Bad Loans trend (% on total Bad Loans)



Source: PwC analysis on Banca d'Italia "Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori", June 2021;
Note: (*) “Other” includes PA and financial institutions.

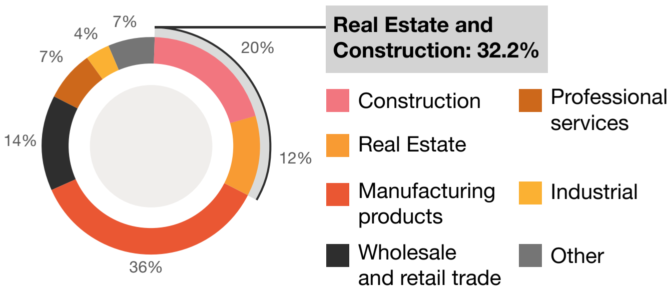
The breakdown of Gross Bad Loans by economic sector (**Chart 28**) indicates that manufacturing products accounts for 35.6%, followed by Real Estate and Construction (32.2%) and Wholesale and retail trade (14.4%).

The breakdown of Gross Bad Loans by ticket size (**Chart 29**) shows that large-size exposures (over €1mln) represent 48.6% of total GBV (-2.1% vs YE-2020), whereas mid-size exposures (from €75k to €1mln) and small-size exposures (below €75k) represent respectively 39.78% and 11.58% of the total.

Focus: UtP

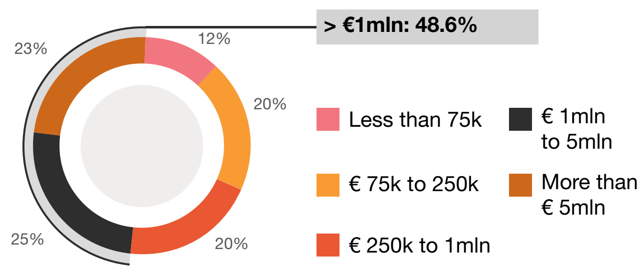
- At H1-2021 only 6 regions out of 20 present a UtP ratio higher than 3%, of which Umbria and Sicily are the most relevant ones (both at 3.9%). The other regions stand between 1.8% and 2.9%, showing a lower incidence of UtPs.
- In terms of volumes, the highest UtP concentration is in Lombardy and Lazio (respectively, 27.5% and 14.0% of total volumes).

Chart 28: Breakdown of Gross Bad Loans by economic sector (H1-2021)



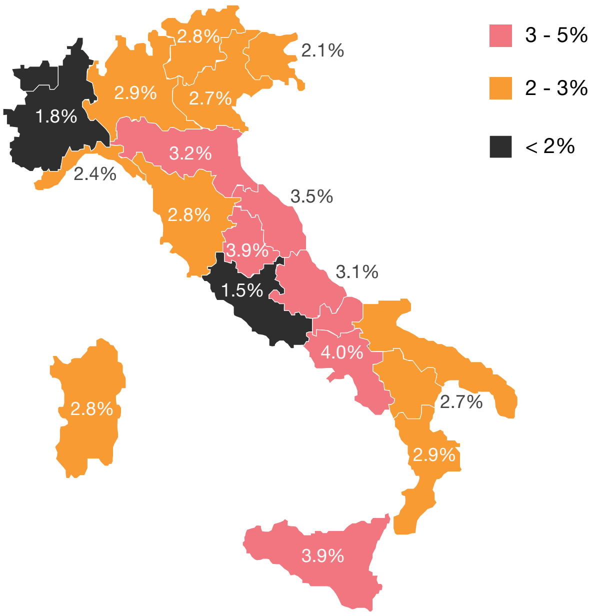
Source: PwC analysis on Banca d'Italia «Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori», June 2021.

Chart 29: Breakdown of Gross Bad Loans by ticket size (H1-2021)



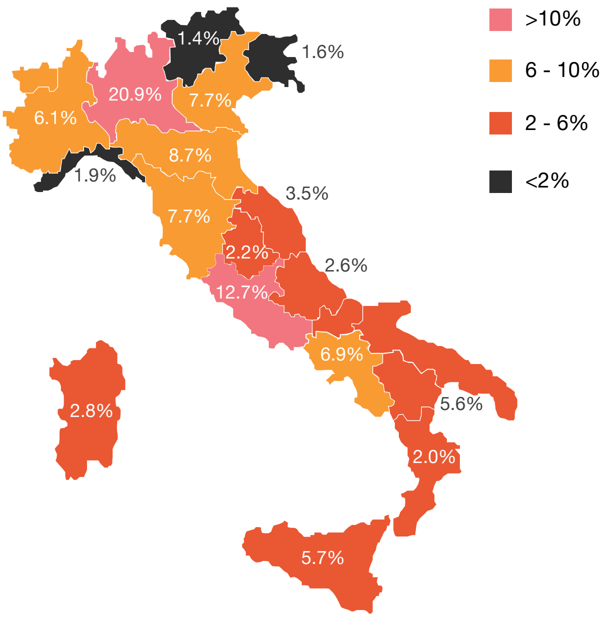
Source: PwC analysis on Banca d'Italia «Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori», June 2021.

Chart 30a: UtP ratio by region** (H1-2021)



Source: PwC analysis on Banca d'Italia «Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori», October 2021.
Note: (*) UtP ratio in the region of Lazio is influenced by Cassa Depositi e Prestiti, included in Bank of Italy database; (**) Unique percentage for:
Valle d'Aosta and Piemonte.
Abruzzo and Molise.
Puglia and Basilicata.

Chart 30b: Breakdown of UtP by region** (H1-2021)



Source: PwC analysis on Banca d'Italia «Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori», October 2021. Note: (**) Unique percentage for:
Valle d'Aosta and Piemonte.
Abruzzo and Molise.
Puglia and Basilicata.

Key Message

Following a period of court closures and reduced court activities due to the COVID-19 pandemic, the number of bankruptcies, voluntary liquidations and other insolvency procedures are now almost back to pre-pandemic levels.

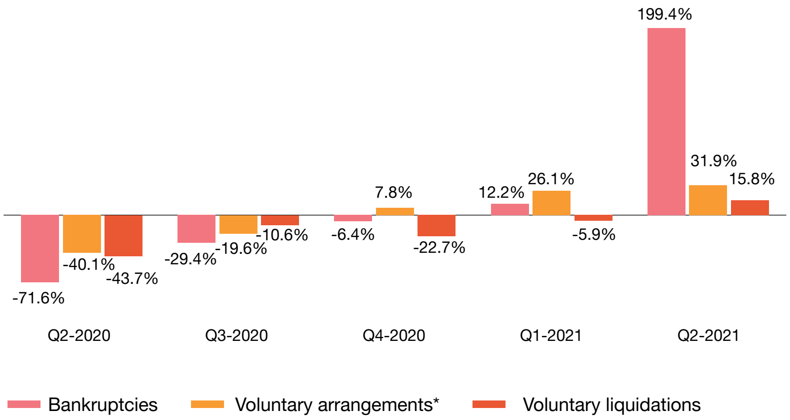
Chart 31 shows that at the beginning of the pandemic (Q2-2020) the number of business closures was significantly lower compared to the previous year, largely impacted by the court closures and the substantial slowdown of the Italian procedures during the first pandemic lockdown. In the following quarters the number of business closures remained lower compared to the corresponding period of the previous year. On the contrary, in Q2-2021 there has been a significant rise in bankruptcies (199.4%) and Voluntary arrangements (31,9%) compared to Q2-2020.

Chart 32 shows the trend of Bankruptcies and Voluntary liquidations by Region over the last two years (H1-2021 vs H1-2019).

Considering Bankruptcies, in H1-2021 all Italian regions experienced an increase compared to H1-2020. However, comparing H1-2021 numbers to H1-2019, Bankruptcies have increased only in Sicily, Basilicata and Molise, while in most of the other regions the number of closures driven by banruptcy procedures has been still lower than the corresponding pre-pandemic period.

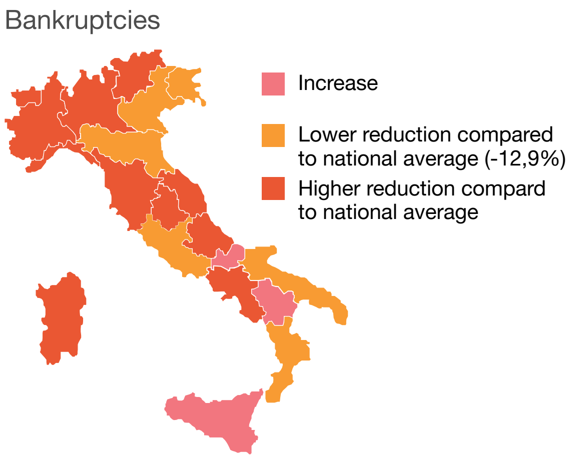
In terms of Voluntary liquidations, almost all the center and southern of Italy experienced a higher reduction compared to national average, while only Valle D'Aosta, Molise and Sardinia show a less than 10% reduction.

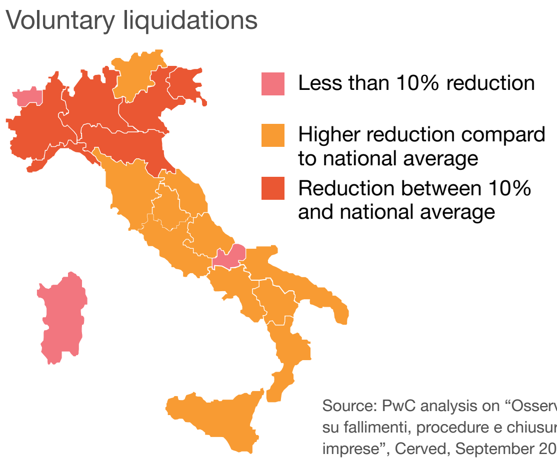
Chart 31: Business closures by procedure
(% change vs the corresponding period of the previous year)



Source: PwC analysis on "Osservatorio su fallimenti, procedure e chiusure di imprese", Cerved, September 2021 Note: "Other insolvency proceedings" = "Procedure concorsuali non fallimentari"; "Voluntary arrangements" = "Concordati preventivi".

Chart 32: Trend of business closures by Italian regions



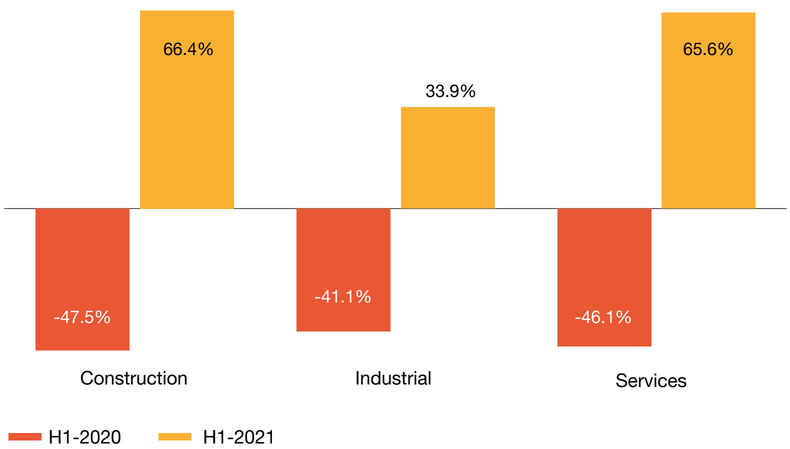


Source: PwC analysis on "Osservatorio su fallimenti, procedure e chiusure di imprese", Cerved, September 2021.

Chart 33 provides a break-up of the Bankruptcies trend within Construction, Industrial and Services sectors. Following a decrease in the number of procedures in 2020, all sectors have experienced a significant increase in H1-2021 compared to the previous year.

It is possible to notice that the restarting of the procedures is a common trend in all economic sectors after the freezing period caused by the 2020 spring lockdown.

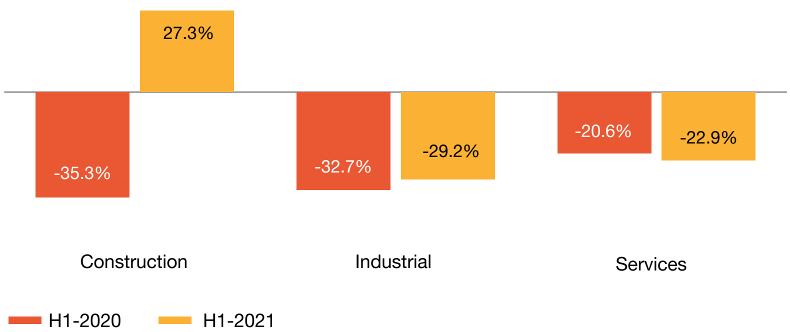
Chart 33: Bankruptcies by economic sector
(% change vs the corresponding period of the previous year)



Source: PwC analysis on "Osservatorio su fallimenti, procedure e chiusure di imprese", Cerved, September 2021.

The business of Construction is showing an increase in the number of other insolvency proceedings, while industrial and services sectors still experience the decreasing trend started in 2020 and are far from the pre-pandemic levels (**Chart 34**).

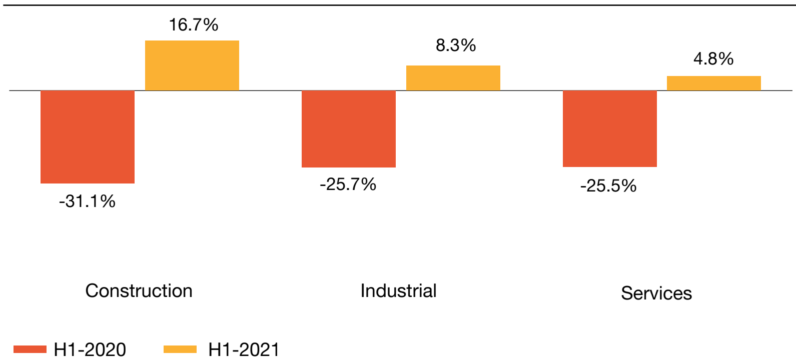
Chart 34: Other insolvency proceedings by economic sector
(% change vs the corresponding period of the previous year)



Source: PwC analysis on "Osservatorio su fallimenti, procedure e chiusure di imprese", Cerved, September 2021.

Chart 35 shows a period-on-period positive trend for Voluntary liquidations across all sectors where, differently to other insolvency proceedings, a growth can be observed in both Construction, Industrial and Services.

Chart 35: Voluntary liquidations by economic sector
(% change vs the corresponding period of the previous year)



Source: PwC analysis on "Osservatorio su fallimenti, procedure e chiusure di imprese", Cerved, September 2021.

Focus on GACS

Key Message

All top Italian Banks have made extensive use of the GACS scheme since 2016: to date, 39 GACS deals have been closed for approx. €96bn. Several GACS transactions are performing below initial business plan's expectations – especially those issued before pandemic period, with recovery plans not factoring in COVID-19 disruptive impacts – and this may accelerate the arising of a secondary market for junior/ mezzanine notes.

The GACS or “Garanzia sulla cartolarizzazione delle sofferenze” is a State guarantee mechanism that has played a significant role in Non-Performing Exposure (NPE) Italian sector, becoming one of the key elements taken into consideration by Banks for their deleveraging strategy in the last years. GACS means the unconditional, irrevocable and payable on first demand guarantee issued by the Ministero dell’Economia e delle Finanze (MEF) on senior tranches issued under an NPLs 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 missed repayments 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: most recently, the Italian Government has negotiated with the European Commission a renewal of the GACS scheme up to June 2022, incentivizing the banks to divest their non performing exposures while keeping active their primary credit activity.

On the other hand, the extension of the GACS scheme to Unlikely-to-Pay (UtP) positions, discussed during the negotiation phase with the European Commission, seems to be unlikely frozen for the time being. Furthermore, the extension of the GACS for Bad Loans beyond June 2022 is not currently under discussion and will presumably be addressed in the first semester of next year. GACS further extension would be a supportive tool for the Italian banking system to deal with the new stock of NPLs expected once the Government supporting measures expire.

The most relevant updates introduced by the new GACS scheme are:

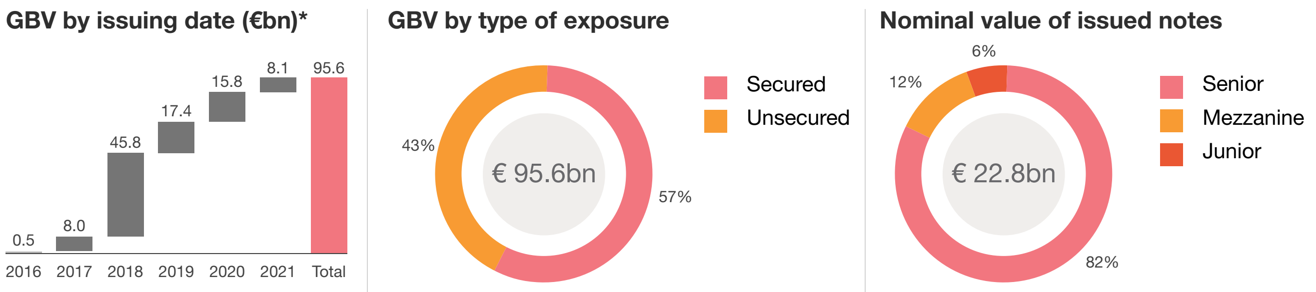
1. **Rating issuance:** Senior notes must receive a rating higher or equal to BBB from an independent rating agency and no longer at least equal to investment grade level (BBB-).

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 periods.

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 36: Key features of NPE portfolios subject to securitization with GACS.



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

From 2016 to date, 39 GACS transactions have been closed accounting for a total GBV of approx. €96bn, of which 57% secured (**Chart 36**). The nominal value of notes issued by the securitization vehicles is approx. €23bn, mostly represented by senior notes (82%), while the mezzanine notes account for 12% and the junior notes for 6%. In terms of GBV, approx. 60% of the deals had a size higher than €1bn (24), six of them had a size greater than €5bn. The biggest GACS deal closed so far in terms of GBV has been the jumbo sale of € 24bn done by MPS in 2018 (Siena NPL 2018), deal that drove the 2018 Italian GACS volume to the highest pike recorded so far (€46bn, half of the total volume of total GBV sold as of June 2022).

The most relevant transactions in 2020 were the €2.4bn ICCREA deal, Intesa Sanpaolo's jumbo deal of €6bn, BPER's Project Spring with a GBV of €1.4bn, Banca Popolare di Sondrio's Project Diana with a GBV of €1bn, UBI's Project Sirio for €1.2bn and UniCredit with a GBV of €1.6bn.

In the first semester of 2021, the only transaction closed is the Banco BPM's "Project Rockets" deal, €1.5bn of GBV (50% unsecured); in the second semester three transactions have been closed: UniCredit for a total GBV of €2.2bn, ICCREA for €1.3bn and Intesa Sanpaolo/BPER for €3.1bn.

In terms of collection performances, by looking at the cumulative net collection of GACS vehicles compared with their business plan (**Chart 37**) in H1-2021 there are 13 GACS with collection performance below the original projections, confirming the negative trend of 2020.

This underperformance mainly got worse due to stricter clauses linked to performance targets imposed by the last GACS Decree and the extensive impacts resulting from the need for strict pandemic containment measures.

In particular, the Coronavirus outbreak resulted in many legal proceedings been put on hold, due to Court closures during the lockdowns (operations were suspended during the first lockdown, resumed at a slower pace after the opening in July 2020 and then slowed down in the last quarter of 2020), while a less-liquid property market and a downgrade of borrowers' reliability due to economic difficulties caused a slowdown of the collection processes. According to Cerved, it is estimated that court closures and delays related to the slowdown have caused expected debt collections to slip by more than 120 days.

Furthermore, especially for transactions closed in 2020, business plans published at issuance date were optimistic in terms of collection expectations, not embedding into their projections disruptive and unpredictable economic impact of a pandemic, thus actual collections are now below the initial business plan.

These underperformances will probably open a new phase where servicers where servicers have to improve their collection performance to meet expectations and to avoid bad performances to eventually trigger a change of servicer clause.

At the end of the first wave of COVID-19 pandemic the Italian Government approved "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 July 2020, 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.

Chart 37: Cumulative net collection actual data compared with business plan forecasts

Source: 1. PwC analysis on Moody's report "Sector Profile – Nonperforming –Loans-Europe- 7 April 2021"; (only for FINO 1);
2. PwC analysis on Scope Rating's report "Semi-annual Italian NPL performance report" - July 2021 (last IPD @May 2021)

Table 9: List of NPE securitization 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%	0.9%	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%	0.9%	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%	
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.	Prelios	Jun-20	1.4	52%	23%	3%	0%	(0.0%)	9.0%	n.a.
Banca Popolare di Sondrio	Diana SPV S.r.l.	Prelios	Jun-20	1.0	65%	24%	2%	0%	0.0%	8.5%	n.a.
ICCREA	BCC NPLs 2020 S.r.l.	doValue	Nov-20	2.3	60%	22%	2%	1%	0.0%	7.5%	n.a.
UniCredit	Relais SPV S.r.l.	doValue	Dec-20	1.6	86%	29%	6%	1%	1.0%	9.0%	n.a.
Cassa Centrale	Buonconsiglio 3 S.r.l.	Guber	Dec-20	0.7	66%	23%	3%	1%	(0.0%)	9.0%	n.a.
UBI	Sirio NPL S.r.l.	Prelios	Dec-20	1.2	54%	24%	3%	1%	(0.0%)	9.0%	n.a.
Intesa Sanpaolo	Yoda SPV S.r.l.	Intrum	Dec-20	6.0	41%	17%	3%	0%	(0.1%)	8.9%	n.a.
Banca Popolare di Bari	POP NPLs 2020 S.r.l.	Credito Fondiario, Fire	Dec-20	0.9	56%	26%	3%	1%	(0.2%)	11.5%	n.a.
Alba Leasing	Titan SPV S.r.l.	Prelios	Dec-20	0.3	88%	27%	4%	3%	(0.0%)	7.5%	n.a.
BPER	Summer SPV S.r.l.	Fire	Dec-20	0.3	44%	27%	3%	0%	(0.0%)	11.5%	n.a.
Banco BPM	Aurelia SPV S.r.l.	Credito Fondiario	Jun-21	1.5	50%	23%	3%	1%	(0.0%)	7.5%	"Banco BPM / Senior Eliott / Mezzanine e Junior"
UniCredit	Olympia SPV S.r.l.	Italfondiario, doValue	Nov-21	2.2	40%	12%	1%	0%	1.0%	9.0%	n.a.
ICCREA	BCC NPLs 2021	doValue	Nov-21	1.3	58%	22%	3%	1%	(0.2%)	7.5%	n.a.
Intesa Sanpaolo/ BPER	Grogu SPV S.r.l.	Intrum, Prelios	Dec-21	3.1	54%	15%	1%	0%	n.a.	n.a.	n.a.
	Total			**95.6**							
	Weighted average				**57.9%**	**19.9%**	**2.9%**	**1.4%**	**0.4%**	**7.2%**	

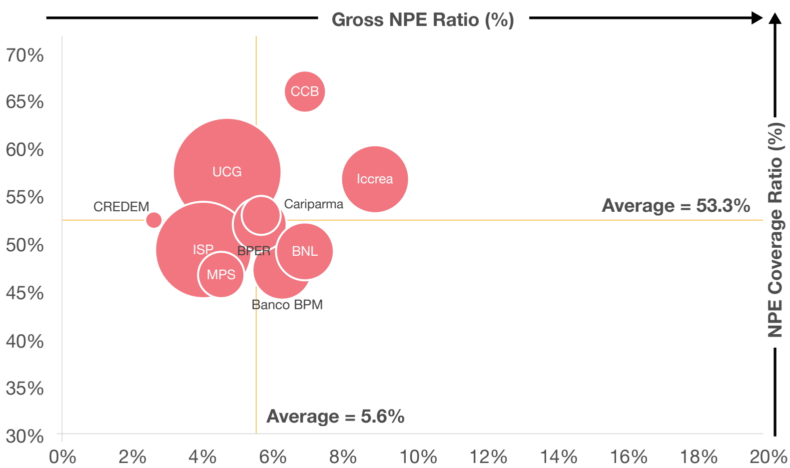
Source: PwC analysis on Rating Agencies' reports
Note: (*) Annual yield of notes has been calculated as interbank rate as of December 2021 plus applicable spread and considering floors when applicable to variable rates.

Italian Banks Overview

Chart 38 focuses on the Gross NPE ratio and the NPE Coverage ratio for the Top 10 Italian Banks, which indicates respectively an average of 5.6% and 53.3%. On one side, ICCREA shows the highest Gross NPE ratio with 8.9% while, on the other side, Credem has the lowest ratio of the panel (2.6%). Considering the NPE Coverage ratio, CCB shows the highest value (66.5%) and MPS the lowest (46.9%).

However, coverage ratios are not perfectly comparable, as they are influenced by several factors that might be different for the banks included in the sample, such as write-off policies, weight of secured component and portfolio vintage (time since default date), directly linked with calendar provisioning application.

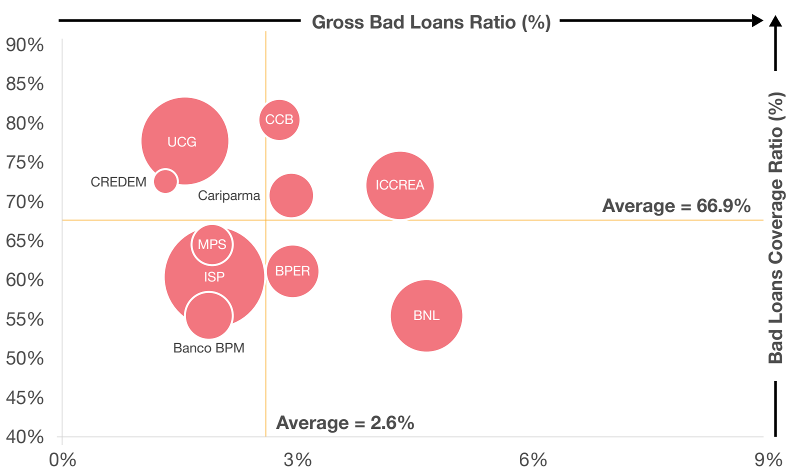
Chart 38: Top 10 Italian Banks – NPE Peer Analysis as of H1-2021
(Bubble size: Gross NPE)



Source: PwC analysis on financial statements and analysts' presentations; Half-year financial report for BNL not available, data represented are as of YE-2020.
Data affected by different write-off policies.

The same analysis is replicated considering Gross Bad Loans ratio and the Bad Loans Coverage ratio (**Chart 39**). Also in this case there are differences among the Top 10 Italian Banks: ICCREA reached the highest Gross Bad Loans ratio at 4.3% (not considering BNL since the last available data as of YE-2020) and Credem the lowest, reporting a 1.3% (the average stands at 2.6%). Coverage ratio average stands at 66.9%, with CCB at the highest value at 80.0%.

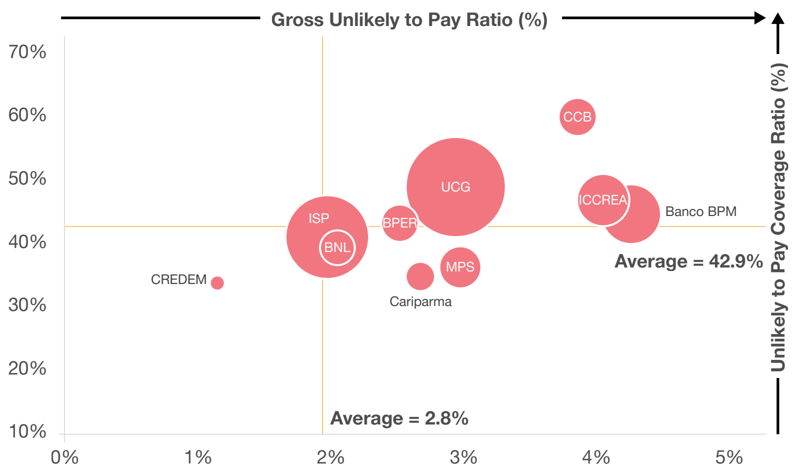
Chart 39: Top 10 Italian Banks – Bad Loans Peer Analysis as of H1-2021
(Bubble size: Gross Bad Loans)



Source: PwC analysis on financial statements and analysts' presentations; Half-year financial report for BNL not available, data represented are as of YE-2020.
Data affected by different write-off policies.

Chart 40 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 2.8%, with Banco BPM showing the highest value, reaching 4.3% while Credem shows the lowest one with 1.2%. The Unlikely to Pay Coverage ratio average is 42.9%: CCB is at the top with 59.9% and Credem at the bottom with 34.0%.

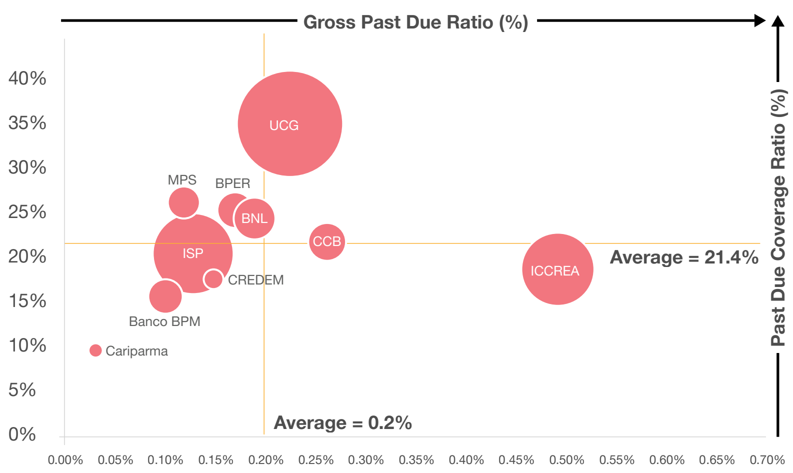
Chart 40: Top 10 Italian Banks – Unlikely to Pay Peer Analysis as of H1-2021 (Bubble size: Gross Unlikely to Pay)



Source: PwC analysis on financial statements and analysts' presentations; Half-year financial report for BNL not available, data represented are as of YE-2020.
Data affected by different write-off policies.

Chart 41 shows the Gross Past Due ratio and the Coverage ratio for the same banks. ICCREA recorded the highest Gross Past Due ratio reaching 0.5% while Banco BPM the lowest at 0.1%. The relative Coverage ratio indicates two peaks: on one side UniCredit with 34.7% and on the other side 9.8% with Cariparma. The average coverage ratio is 21.4%.

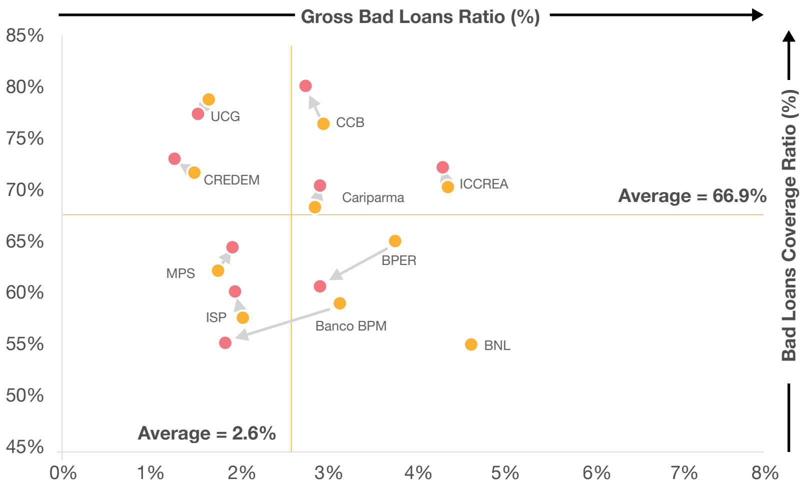
Chart 41: Top 10 Italian Banks – Past Due Peer Analysis as of H1-2021 (Bubble size: Gross Past Due)



Source: PwC analysis on financial statements and analysts' presentations; Half-year financial report for BNL not available, data represented are as of YE-2020.
Data affected by different write-off policies.

Chart 42 analyses, for the Top 10 Italian Banks, the movements in the Gross Bad Loans ratio and the Bad Loans Coverage ratio between YE-2020 and H1-2021. The analysis indicates that Banco BPM and BPER present the most significative shift vs YE-2020, both decreasing Gross Bad Loans ratio by ~1.0 pp and Bad Loans Coverage ratio by ~4.0 pps.

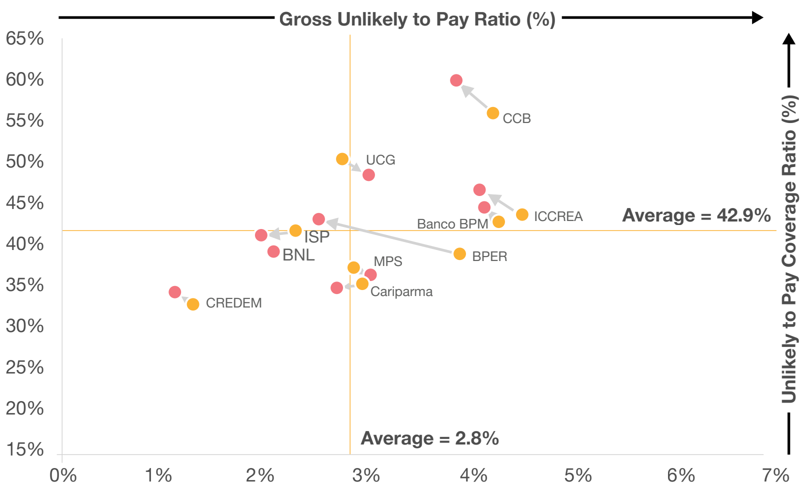
Chart 42: Top 10 Italian Banks – Bad Loans movements (YE-2020 vs H1-2021)



Source: PwC analysis on financial statements and analysts' presentations; Half-year financial report for BNL not available, data represented are as of YE-2020.
Data affected by different write-off policies.

Chart 43 shows that almost all of the Top 10 Italian Banks experienced a decrease in the Gross Unlikely to Pay ratio (except for UniCredit and MPS that registered an increase of 0.1 pp with respect to YE-2020). The chart shows that the Unlikely to Pay Coverage ratio decreased in 4 of the Top 10 Italian Banks (Intesa Sanpaolo, UniCredit, MPS, Cariparma) and increased in the other 5 (Banco BPM, ICCREA, BPER, Credem and CCB). Out of the Top 10, BPER shows the most relevant shift in terms of combined UtP ratio-Coverage ratio, decreasing significantly the gross UtP ratio while increasing the level of coverage.

Chart 43: Top 10 Italian Banks – Unlikely to Pay movements (YE-2020 vs H1-2021)



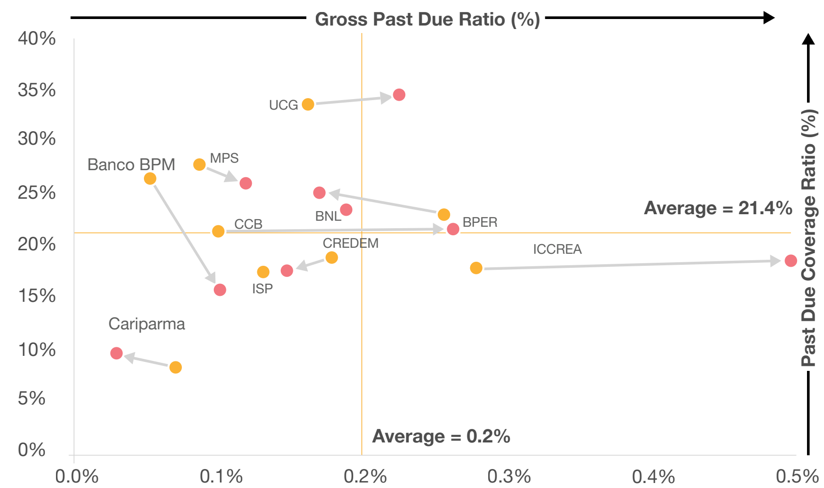
Source: PwC analysis on financial statements and analysts' presentations; Half-year financial report for BNL not available, data represented are as of YE-2020.
Data affected by different write-off policies.

Chart 44 illustrates the movements in the Gross Past Due ratio and Past Due Coverage ratio.

The Gross Past Due ratio for 5 out of 9 of the Top 10 Italian Banks increased compared to YE-2020, while Cariparma and BPER show the highest decrease respectively of 56.1% and 33.1%.

Banco BPM and CCB registered the most significant movement in Gross Past Due ratio (+84.7% for Banco BPM and +157.5% for CCB vs YE-2020), while Banco BPM and Cariparma show respectively the highest decrease and increase of Past Due Coverage ratio respectively of 41.1% and 17.2% vs YE-2020.

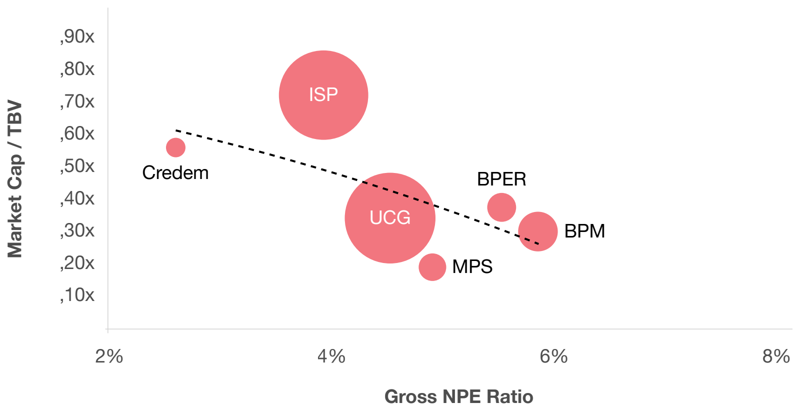
Chart 44: Top 10 Italian Banks – Past Due movements (YE-2020 vs H1-2021)



Source: Financial Statements as of YE-2020 (yellow) and H1-2021 (rose). Data affected by different write-off policies. Half-year financial report for BNL not available, data represented are as of YE-2020.

Chart 45 shows the inverse correlation between the Market Cap on Tangible Book Value of the Top Italian Banks (listed) and their Gross NPE ratio, which is an indication of a persistent market pressure on banks.

Chart 45: Top Italian Banks (listed) – Relation between Market Cap/TBV and Gross NPE Ratio as of Q3-2021 (Bubble size: Tangible Book Value)

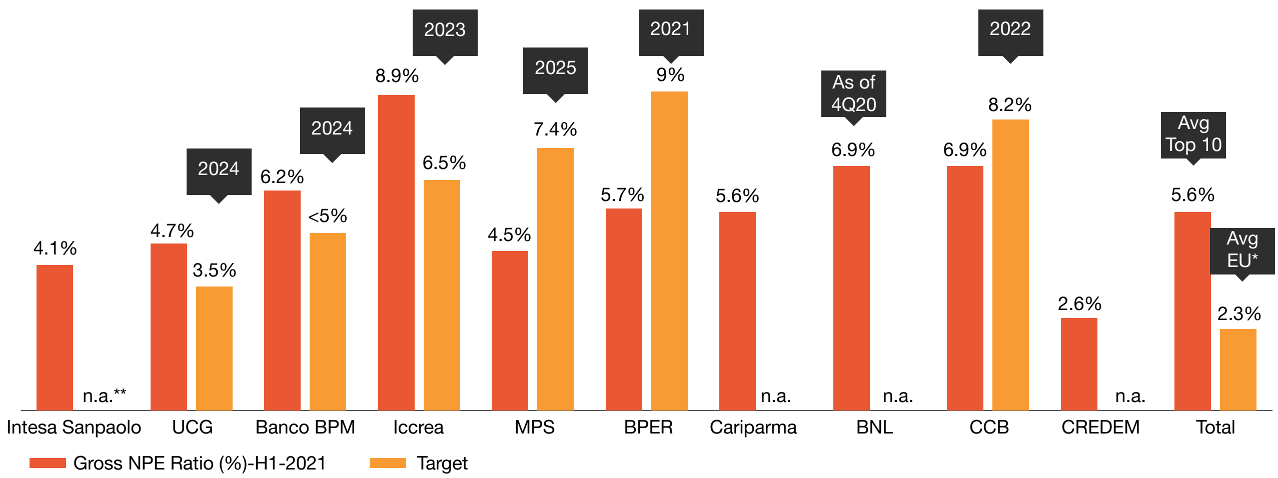


Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies. Market Cap as of March 2021, TBV and NPE ratio as of September 2021.

Chart 46 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 1-4 years.

On average, the Top 10 Italian Banks are close to the 5% target required by the ECB.

Chart 46: Top 10 Italian Banks – Target Gross NPE ratio vs current as of H1-2021



Sources: PwC analysis on financial statements and analysts' presentations and on «Risk Dashboard – Data as of H1-2021», EBA. Rounded numbers, total as simple average of ratios, only for banks presenting target NPE.
Note: (*) the computation of the NPE ratio of the Eurozone considers European large banks which have, differently from Italian banks, an high level of non domestic exposures characterized by lower NPL ratio values compared to domestic one; (**) Intesa Sanpaolo Gross NPE ratio target avaialable only without UBI Banca, thus not comparable with the 4.1% Gross NPE ratio H1-2021.

Focus on Italian UtP Market

Key Message

At the end of 2014, the stock of UtP in the Italian banking system reached its maximum peak in terms of gross exposure (€131bn). Since then, a steady decreasing trend driven by the implementation of banks' deleveraging strategy brought the gross exposure down to €46bn in H1-2021 (-65% vs 2014). The portion of exposures subject to forbearance measures (“Forbearance ratio”) is relatively stable in recent years (53% of total UtPs, in the last 4 years always in the range 49%-53%).

Our view

The COVID-19 spreading had emphasized once more the role of the UtP management as a key factor in the Italian NPE playing field. Taking into consideration, on one hand, the uncertainties related to the actual situation affected by the pandemic and, on the other hand, the fact that the measures implemented by the Italian Government to limit the risk of credit quality deterioration are mainly focused on NPLs, it seems likely that the total amount of UtP expsosures within the Italian banking system will increase in the next years.

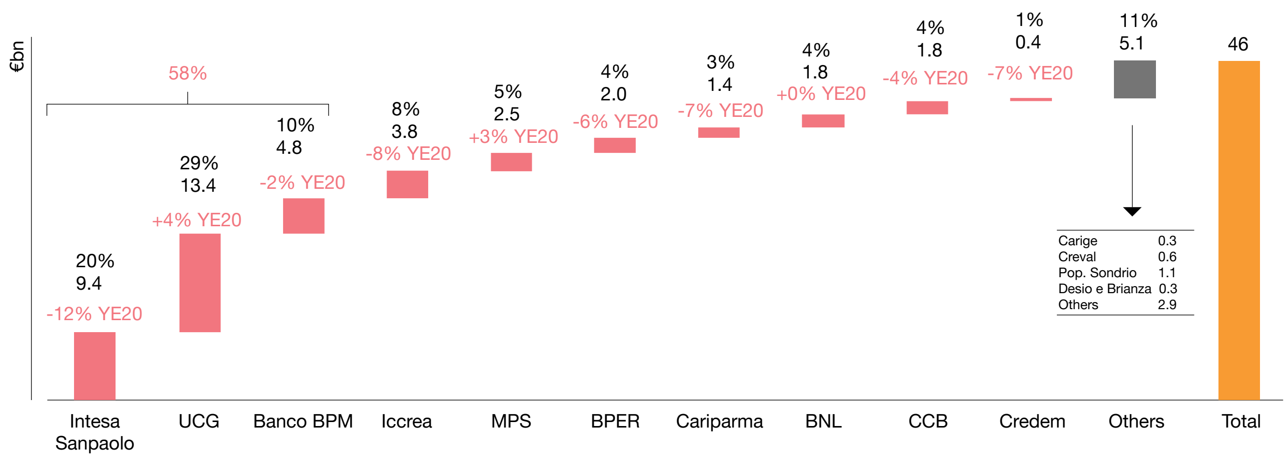
In addition to that, the relevant stock of Stage 2 credits (€195bn at H1-2021, in line with YE-2020), will likely play a role in the trend of the UtP stock in the upcoming period, due to a certain portion of those credits that will potentially deteriorate in terms of credit quality and be downgraded to subsequent stages of classification (i.e. to PD or UtP).

To date, out of €46bn of Italian banking system UtP stock, €41.3bn are on the Top 10 Italian Banks balance sheets. Such banks, even if at a slightly slower pace versus last years, have been following their deleveraging plans, reducing in particular the average Gross UtP ratio from 3.1% as of YE-2020 to 2.8% in H1-2021.

The chart below (**Chart 47**) shows how the €41.3bn is split among the top 10 banks, with a comparison between exposures at H1-2021 and at YE-2020: out of the Top 3 Italian Banks (that detain the 60% of the outstanding UtP stock), only UniCredit experienced an increasing trend of UtPs vs YE-2020 (+4%) and remains the bank with the higher amount of UtP stock (€13.4bn)

In terms of UtP stock composition, as of H1-2021 the portion of exposures subject to forbearance measures (53% of total stock) is almost in line with recent years' trend (see **Chart 48**).

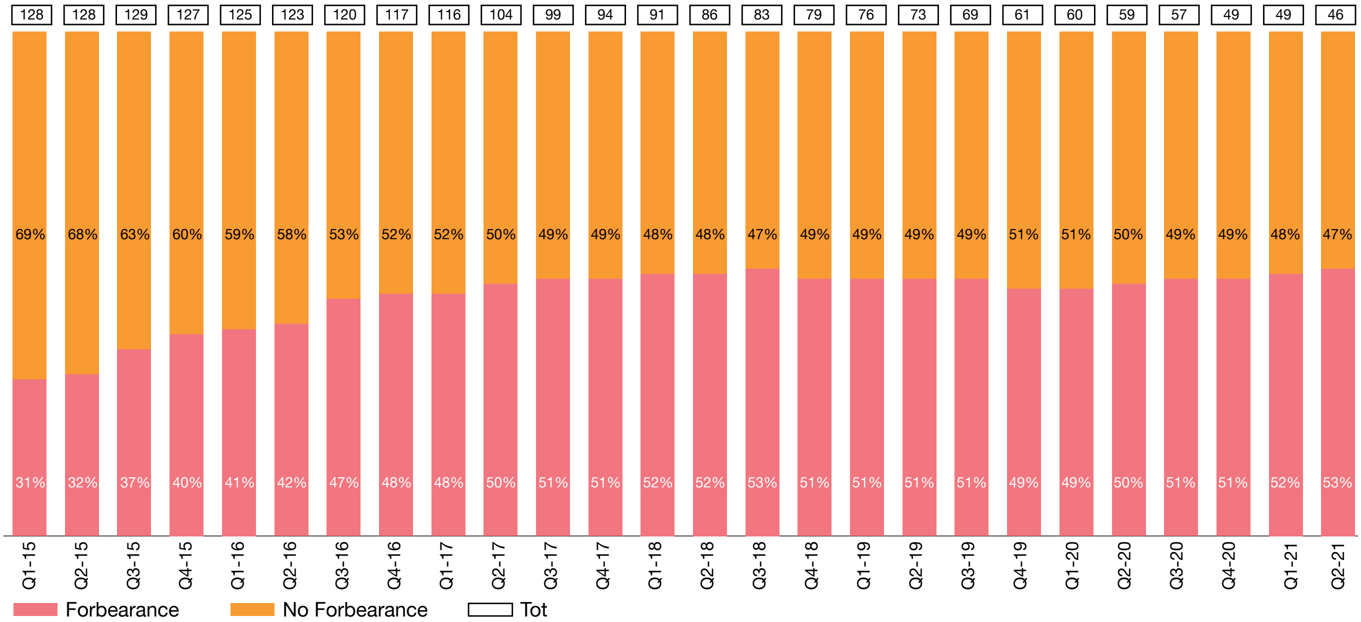
Chart 47: Top 10 Italian Banks – UtP distribution (€bn and %) as of H1-2021



Source: PwC analysis of financial statements and analysts' presentations. The list of Top 10 Italian Banks is based on the Total Asset as of H1-2021.
Half-year financial report for BNL and CCB not available, data represented are as of YE-2020.

Chart 48: Italian banks' forborne UtP exposures (€bn and %)

$$\text{Forbearance Ratio} = \frac{\text{Forborne UtP exposures}}{\text{Total UtP exposures}}$$



Source: PwC analysis on Banca d'Italia «Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori», 30 September 2021

Key recent trends of the UtP landscape are: (i) the market is moving towards larger ransactions compared to the first UtP portfolio disposals; (ii) the number of servicers active in the UtP subsector is rising.

Notwithstanding the outbreak of Coronavirus, UtP deleveraging strategies carried out by the major Italian banks continue at a good pace, despite physiological delay in the ongoing transactions due to COVID-19 and to flexible guidelines promoted by the European Central Bank to prevent future financial crisis.

Starting from 2016, almost €35bn of UtPs were sold (o/w ~€5bn are mixed portfolios). Focusing on the 9M21, ~€1.3bn UtP deals were closed (of which €0.5bn of pure UtPs and €0.9bn of mixed portfolios), while total announced transactions to date are ~€7.6bn (o/w €4.5bn of mixed portfolio), expected to be closed by end of year; one of the largest announced UtP deals is the €2.4bn of Project M2, by Intesa Sanpaolo.

The Servicing Market

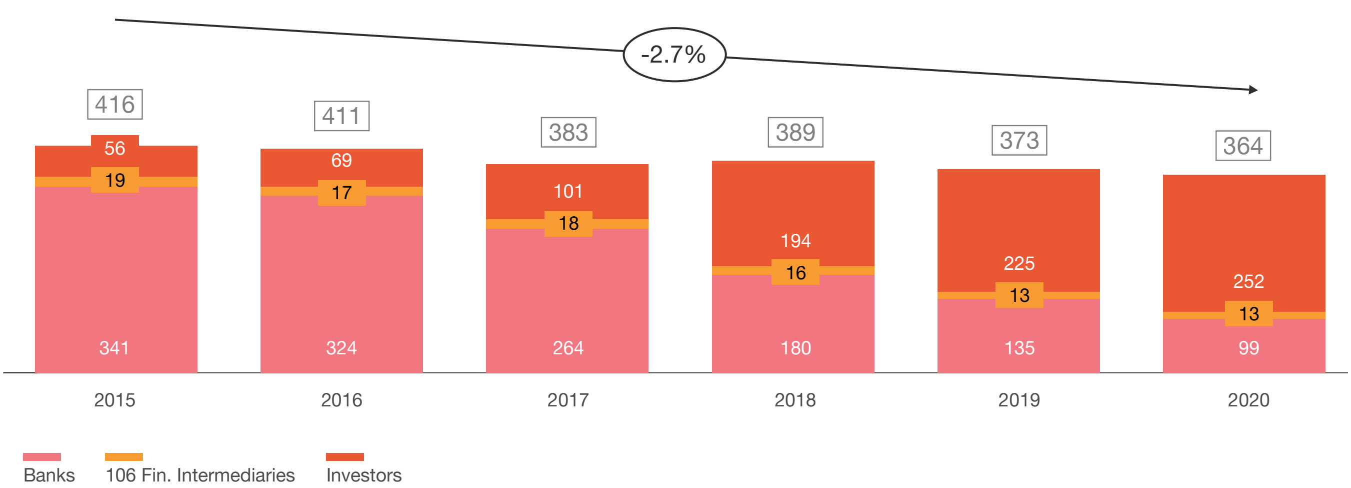
Key Message

In the current scenario there is a clear need for industrial transformation in the management of NPEs. Banks and investors' needs are expected to evolve. Bad loans will no longer be the main priority. The ability to make the best use of new technologies and data will become more and more a critical success factor for the future.

Perspective on Debt Servicing

Despite the deleverage carried out by Italian banks in recent years, an important stock to manage remains. Total NPE stock in Italy is estimated to have reduced by only 3% in the last 5 years (CAGR). The total NPE stock is expected to start growing again in 2022 due to new NPE inflows.

Chart 49: Total amount of NPE in the market (GBV in € billion)



In this scenario there is a need for industrial transformation in the management of NPEs.

1. Thousands of "risk" companies classified today as UtP

Without considering future NPE inflows, today in Italy we estimate more than 130,000 companies at "risk" classified as "Unlikely to Pay / UtP“.

2. New expected flows of NPEs mainly UtP / past due of medium-small tickets

The new flows will mainly be “live” loans (UtP) and will require ad-hoc management by the banks. The new NPE flows will mainly consist of small / medium-sized enterprises belonging to the sectors most damaged by the crisis. UtPs will be among the asset classes most affected by the pandemic and with no doubts the most complex for banks to manage.

3. UtP management industry still “at start-up“

Over the years a very "evolved" industry has developed for the management of bad loans while for the UtPs is still in start-up. Very few players have significant UtP portfolios under management.

UtP debt servicing

At 30/06/2021, AMCO continues to lead the ranking of debt servicers specialized in UtP management, with a valuable combination of both corporate and retail expertise. At the same time, super-specialized players are consolidating their position by focusing on very large secured positions, such as Aurora REcovery Capital.

Looking at Corporate UtP, Prelios Credit Servicing remains first in the ranking, thanks to a long-term agreement signed with Intesa Sanpaolo regarding UtP management.

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

UtPs will be among the asset classes most affected by the pandemic and the most complex for banks to manage.

Top 10 Corporate UtP Debt Servicers by AuM at 30/06/2021

Company	Corporate UtP AuM (€bn)	Corporate UtP AuM on total UtP AuM (%)
Prelios Credit Servicing	11.0[1]	100
AMCO	10.2	75
Aurora RE	1.9	100
Crif	1.7	41
neprix (illimity Bank)	1.3[2]	100
Fire Group S.p.A.	0.9	32
Gardant	0.7	95
Cerved Credit Management	0.7	51
doValue	0.7	88
Advancing Trade	0.5	22

Top 10 Retail UtP Debt Servicers by AuM at 30/06/2021

Company	Retail UtP AuM (€bn)	Retail UtP AuM on total UtP AuM (%)
AMCO	3.3	25
Crif	2.4	59
Fire	1.9	68
Advancing Trade	1.9	78
Cerved Credit Management	0.7	49
Covisian Credit Management S.p.A.	0.6	76
iQera Italia	0.4	72
Finint Revalue	0.3	56
CNF (Gruppo Frascino)	0.2	100
AXIS S.p.A.	0.1	62

Source: PwC analysis on data provided by Servicers as of 31/12/2021; data have been directly provided by Servicers and have not been verified by PwC.
1. Information captured from “market rumors” and not directly provided by Prelios Credit Servicing.
2. Include AuM managed by illimity Growth Credit Division.

Outlook

The changed context outlines some specific priorities for credit management (both banks and servicers).

1. **Strong focus on rapid and proactive management of "overdue“:**

   The changed regulatory context (first of all, calendar provisioning) and the characteristics of the expected NPE inflows that will mainly consists of UtPs will not allow banks to behave as during the previous crisis, accumulating non-performing loans on the books for years and disposing them with solutions such as GACS. For example, banks will have a strong need to proactively manage “high-risk”/ Stage 2 credits.

2. **Priority to investments in data analytics and emerging technologies:**

   Credit management industry is still a human intensive business. The industry needs to strongly move towards digitalization and data valorisation. This element could imply a big reshuffle of the servicing industry.

3. **Greater focus on "industrial" management rather than pure liquidation of positions:**

   Most of new flows will mainly be “live” loans and will require ad-hoc management by the banks. These exposures will need to be managed guided not only by a financial but, above all, by an industrial logic. They must be managed through a mixed perspective of recovery, turnaround and private equity. These will be outstanding positions to be restructured, including through the provision of new finance.

4. **Propensity to identify and prioritize solutions that ensure effective support to the real economy, also leveraging, where possible, PNRR initiatives:**

   In the last months various initiatives aimed at supporting the real economy (e.g. establishment of “Patrimonio Rilancio” fund by CDP with an endowment of € 40 billion) have been launched. In addition, the “PNRR” will lead over €110 billion for the private sector. Credit management industry will need to be able to sponsor and disseminate knowledge of economic support solutions to facilitate recovery.

Table 10: Main transactions in the servicing sector

Year							
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.	FBS + Tinexta Creation and launch of FBS Next a new NPL Servicer which will leverage on innovative technologies.				
2021	Hipoges Acquisition of a majority stake in AXIS.	Axactor Acquisition of 100% of Credit Recovery Service S.r.l.					

Source: Mergermarket, companies annual reports and websites.

Table 11.1: Overview of main servicers (data at 30/06/2021) – 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	77,1	75,0	2,1	0,7	57,4
Intrum	115	39,1	39,1	-	-	-
Cerved Credit Management	106/115	35,2	33,7	1,4	6,1	7,0
AMCO	106	33,1	19,6	13,5	-	-
Prelios Credit Servicing	106	31,5	20,5	11,0	-	20,7
IFIS Npl Servicing	Bank	23,1	23,1	0,1	-	-
Gardant	106/115	19,4	18,6	0,8	0,1	41,4
Crif	115	14,4	4,2	10,2	5,2	-
iQera Italia	115	13,3	12,8	0,5	0,2	-
Fire	115	12,1	7,8	4,3	6,7	-
Hoist Italia	115	10,8	10,6	0,1	0,9	-
Phoenix Asset Management	115	9,1	9,0	0,1	-	-
neprix	115/Bank	8,8	5,5	1,0	n.a.	-
Advancing Trade	106/115	8,6	6,2	2,4	-	-
Guber	Bank	8,2	8,2	-	-	3,5
MB Credit Solutions	106	8,3	8,3	-	-	-
Covisian Credit Management	115	5,1	3,8	1,3	-	-
J-Invest	106/115	4,0	4,0	-	-	-
Europa Factor	106/115	3,8	3,8	0,0	0,4	-
CNF (Gruppo Frascino)	115	3,8	3,4	0,3	0,0	-
Finint Revalue	115	3,5	3,0	0,5	0,0	-
WhiteStar Asset Solutions (Arrow Group)	115	2,9	2,8	0,2	0,3	-
Duepuntozero	115	2,7	2,7	-	-	-
Blue Factor	106	2,6	2,6	-	-	-
AXIS S.p.A.	115	2,2	2,0	0,2	-	-
Aurora RE	115	2,2	0,3	1,9	-	-
Euro Service	115	2,0	2,0	-	-	-
SiCollection	115	1,9	1,8	0,1	-	-
Fides	115	1,9	0,0	1,9	0,2	-
BCMGlobal	115	1,4	1,1	0,4	-	-
Banca Finint – Divisione Securitisation Services	106	1,2	0,9	0,4	3,8	65,8
Axactor	106/115	1,2	1,2	0,0	0,1	-
Aquileia Capital Services	106/115	1,2	1,2	0,1	0,1	1,5
WIBITA	115	1,2	1,1	0,2	3,2	-
Bayview Italia	115	1,1	1,1	-	-	-
Officine CST	115	1,0	0,5	0,5	0,5	-
B2 Kapital	115	0,9	0,9	-	-	-
GMA S.r.l.	115	0,7	0,7	-	0,0	1,7
Frontis NPL	115	0,5	0,4	0,1	-	-
Certa Credita	115	0,1	0,1	0,0	0,0	-
Zenith Service (Arrow Group)	106	-	-	-	-	34,6

Source: PwC analysis on data provided by Servicers as of 31/12/2021; 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 € 11bn of Unlikely to Pay captured from "market rumors"; information not directly provided by Prelios Credit Servicing.
5. Of which €6.5bn related to gross nominal value of NPE purchased and 2.3bn as the value of property & capital goods managed by neprix Sales. Data updated as of 30/09/2021

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: Overview of main servicers (data at 30/06/2021) – Ranking by Total Special Servicing AuM[1]

			Main Activities			
Company	**Revenues (€m)**	**Ebitda (€m)**	**Debt servicing & collection**	**Debt purchasing**	**Master servicing**	**Rating**
doValue	254,2	105,0	✓		✓	✓
Intrum	n.a.	n.a.	✓			✓
Cerved Credit Management	74,3	19,3	✓		✓	✓
AMCO	141,5	89,6	✓	✓		✓
Prelios Credit Servicing	89,9	50,9	✓		✓	✓
IFIS Npl Servicing	18,2	4,8	✓	✓	✓	✓
Gardant	80,8	n.a.	✓	✓	✓	✓
Crif	11,9	0,5	✓			✓
iQera Italia	22,4	5,7	✓			✓
Fire	24,3	1,1	✓	✓		✓
Hoist Italia	14,3	n.a.	✓	✓		✓
Phoenix Asset Management	4,6	2,5	✓			
neprix	17,4	4,0	✓	✓		✓
Advancing Trade	15,5	3,5	✓	✓		
Guber	35,3	21,5	✓	✓	✓	✓
MB Credit Solutions	41,8	12,1	✓	✓		
Covisian Credit Management	5,7	1,7	✓			
J-Invest	4,2	1,5	✓	✓		
Europa Factor	25,3	10,9	✓	✓		
CNF (Gruppo Frascino)	-	-	✓			✓
Finint Revalue	4,6	n.a.	✓			
WhiteStar Asset Solutions (Arrow Group)	n.a.	n.a.	✓			
Duepuntozero	-	-	✓			
Blue Factor	1,8	n.a.	✓	✓		
AXIS S.p.A.	2,0	n.a.	✓			
Aurora RE	4,9	n.a.	✓			
Euro Service	6,5	0,3	✓	✓		
SiCollection	3,1	n.a.	✓			
Fides	7,8	1,8	✓			
BCMGlobal	1,8	n.a.	✓			✓
Banca Finint – Divisione Securitisation Services	14,4	9,8	✓		✓	✓
Axactor	14,2	n.a.	✓	✓		
Aquileia Capital Services	3,9	n.a.	✓	✓		
WIBITA	-	n.a.	✓			
Bayview Italia	n.a.	-	✓			
Officine CST	n.a.	n.a.	✓	✓		
B2 Kapital	-	-	✓			
GMA S.r.l.	0,7	n.a.	✓	✓	✓	
Frontis NPL	0,9	n.a.	✓			
Certa Credita	1,7	0,7	✓	✓		✓
Zenith Service (Arrow Group)	-	-	✓		✓	✓

Source: PwC analysis on data provided by Servicers as of 31/12/2021; data have been directly provided by Servicers and have not been verified by PwC. Servicers present highly heterogeneous organizational, industrial and operating structures. Comparing the information presented above requires a correct analysis and understanding of the competitive landscape and servicers' business model.
Includes both owned and third parties' portfolios.

Table 12: Breakdown of servicer' Total Special Servicing Bad Loans AuM[1] (data at 30/06/2021) – 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	77.1	75.0	146	33%	67%	0%	12%	88%	-
Intrum	39.1	39.1	59	46%	54%	n.a.	n.a.	n.a.	n.a.
Cerved Credit Management	35.2	33.7	46	53%	47%	-	32%	68%	-
AMCO	33.1	19.6	76	51%	49%	45%	-	-	55%
Prelios Credit Servicing	31.5[2]	20.5	247	61%	39%	-	0%	100%	-
IFIS Npl Servicing	23.1	23.1	11	6%	94%	-	32%	68%	-
Gardant	19.4	18.6	85	62%	38%	61%	12%	27%	-
Crif	14.4	4.2	23	51%	49%	-	79%	7%	14%
iQera Italia	13.3	12.8	13	50%	50%	-	70%	17%	13%
Fire	12.1	7.8	5	23%	77%	1%	72%	25%	2%
Hoist Italia	10.8	10.6	8	10%	90%	37%	9%	54%	0%
Phoenix Asset Management	9.1	9.0	297	43%	57%	n.a.	n.a.	n.a.	n.a.
neprix	8.8[3]	5.5	212	36%	64%	97%	-	3%	-
Advancing Trade	8.6	6.2	4	-	100%	23%	27%	27%	23%
Guber	8.2	8.2	168	36%	64%	18%	-	82%	-
MB Credit Solutions	8.3	8.3	3	2%	98%	72%	5%	18%	5%
Covisian Credit Management	5.1	3.8	9	7%	93%	-	25%	74%	1%
J-Invest	4.0	4.0	n.a.	-	100%	2%	-	98%	-
Europa Factor	3.8	3.8	1	0%	100%	66%	9%	13%	12%
CNF (Gruppo Frascino)	3.8	3.4	12	6%	94%	-	-	100%	-
Finint Revalue	3.5	3.0	19	58%	42%	-	-	100%	-
WhiteStar Asset Solutions (Arrow Group)	2.9	2.8	4	11%	89%	-	46%	-	54%
Duepuntozero	2.7	2.7	260	23%	77%	4%	-	96%	-
Blue Factor	2.6	2.6	11	1%	99%	20%	-	80%	-
AXIS S.p.A.	2.2	2.0	62	64%	36%	-	52%	48%	-
Aurora RE	2.2	0.3	26,613	93%	7%	-	60%	40%	-
Euro Service	2.0	2.0	1	-	100%	39%	-	61%	-
SiCollection	1.9	1.8	6	5%	95%	-	51%	48%	1%
Fides	1.9	0.0	3	19%	81%	-	17%	-	83%
BCMGlobal	1.4	1.1	540	100%	-	-	-	100%	-
Banca Finint – Divisione Securitisation Services	1.2	0.9	4,097	87%	13%	-	52%	48%	-
Axactor	1.2	1.2	6	1%	99%	91%	5%	2%	2%
Aquileia Capital Services	1.2	1.2	734	82%	18%	8%	69%	11%	12%
WIBITA	1.2	1.1	2,024	100%	-	-	23%	4%	73%
Bayview Italia	1.1	1.1	140	96%	4%	n.a.	n.a.	n.a.	n.a.
Officine CST	1.0	0.5	12	-	100%	33%	5%	19%	43%
B2 Kapital	0.9	0.9	52	31%	69%	-	-	96%	4%
GMA S.r.l.	0.7	0.7	1,064	43%	57%	1%	-	99%	-
Frontis NPL	0.5	0.4	876	67%	33%	10%	-	90%	-
Certa Credita	0.1	0.1	1	n.a.	n.a.	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 31/12/2021; 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 € 11 bn of Unlikely to Pay captured from "market rumors"; information not directly provided by Prelios Credit Servicing.
3. Of which €6.5bn related to gross nominal value of NPE purchased and 2.3bn as the value of property & capital goods managed by neprix Sales. Data updated as of 30/09/2021

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 13.1: Geographical NPL breakdown (data at 30/06/2021) – Ranking by Total Special Servicing AuM[1]

Company	Total AuM[1] (€bn)	Total Bad Loans AuM[1] (€bn)	Special + Master Servicing		
			North[2]	Centre[3]	South - Islands[4]
doValue	77.1	75.0	42%	27%	31%
Intrum	39.1	39.1	n.a.	n.a.	n.a.
Cerved Credit Management	35.2	33.7	n.a.	n.a.	n.a.
AMCO	33.1	19.6	50%	28%	22%
Prelios Credit Servicing	31.5[5]	20.5	55%	22%	23%
IFIS Npl Servicing	23.1	23.1	37%	25%	38%
Gardant	19.4	18.6	59%	21%	20%
Crif	14.4	4.2	42%	29%	29%
iQera Italia	13.3	12.8	40%	26%	34%
Fire	12.1	7.8	37%	28%	35%
Hoist Italia	10.8	10.6	52%	19%	29%
Phoenix Asset Management	9.1	9.0	35%	47%	18%
neprix	8.8[6]	5.5	41%	32%	27%
Advancing Trade	8.6	6.2	34%	20%	46%
Guber	8.2	8.2	58%	25%	17%
MB Credit Solutions	8.3	8.3	38%	26%	36%
Covisian Credit Management	5.1	3.8	35%	27%	38%
J-Invest	4.0	4.0	57%	28%	15%
Europa Factor	3.8	3.8	32%	24%	44%
CNF (Gruppo Frascino)	3.8	3.4	27%	26%	47%
Finint Revalue	3.5	3.0	49%	31%	20%
WhiteStar Asset Solutions (Arrow Group)	2.9	2.8	37%	21%	42%
Duepuntozero	2.7	2.7	19%	28%	53%
Blue Factor	2.6	2.6	27%	22%	51%
AXIS S.p.A.	2.2	2.0	41%	39%	20%
Aurora RE	2.2	0.3	34%	54%	12%
Euro Service	2.0	2.0	33%	28%	39%
SiCollection	1.9	1.8	48%	23%	29%
Fides	1.9	0.0	13%	12%	75%
BCMGlobal	1.4	1.1	20%	40%	40%
Banca Finint – Divisione Securitisation Services	1.2	0.9	40%	38%	22%
Axactor	1.2	1.2	n.a.	n.a.	n.a.
Aquileia Capital Services	1.2	1.2	90%	9%	1%
WIBITA	1.2	1.1	35%	25%	40%
Bayview Italia	1.1	1.1	54%	26%	20%
Officine CST	1.0	0.5	22%	19%	59%
B2 Kapital	0.9	0.9	60%	22%	18%
GMA S.r.l.	0.7	0.7	16%	7%	77%
Frontis NPL	0.5	0.4	49%	29%	22%
Certa Credita	0.1	0.1	35%	15%	50%
Zenith Service (Arrow Group)	-	-	56%	25%	19%

Source: PwC analysis on data provided by Servicers as of 31/12/2021; 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 € 11 bn of Unlikely to Pay captured from "market rumors"; information not directly provided by Prelios Credit Servicing.
6. Of which €6.5bn related to gross nominal value of NPE purchased and 2.3bn as the value of property & capital goods managed by neprix Sales. Data updated as of 30/09/2021
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 13.2: Breakdown of servicer' Total Bad Loans AuM[1] (data at 30/06/2021) – Ranking by Total Special Servicing AuM[1]

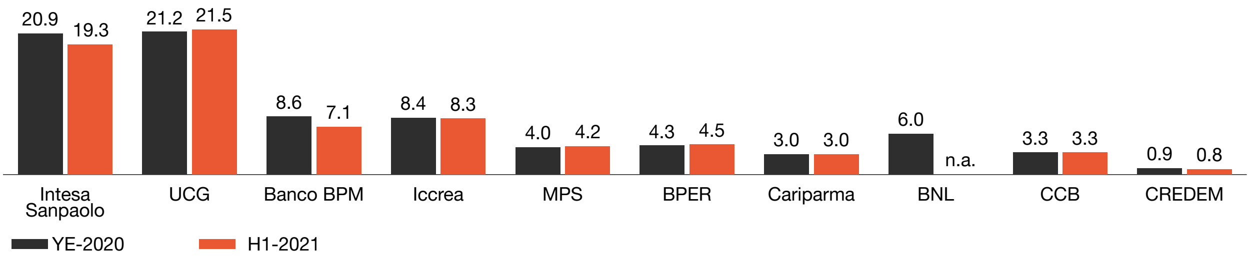
	Special + Master Servicing					
	Secured			Unsecured		
Company	Judicial	Extrajudicial	Loan Sale	Judicial	Extrajudicial	Loan Sale
doValue	5%	72%	23%	20%	68%	12%
Intrum	-	-	-	-	-	-
Cerved Credit Management	4%	51%	45%	3%	42%	55%
AMCO	-	-	-	-	-	-
Prelios Credit Servicing	60%	27%	13%	42%	26%	32%
IFIS Npl Servicing	20%	71%	9%	13%	86%	1%
Gardant	19%	64%	17%	32%	56%	12%
Crif	46%	54%	-	13%	87%	-
iQera Italia	51%	49%	-	8%	92%	-
Fire	67%	33%	-	33%	67%	-
Hoist Italia	-	-	-	-	-	-
Phoenix Asset Management	-	-	-	-	-	-
neprix	-	39%	61%	1%	32%	67%
Advancing Trade	-	-	-	21%	79%	-
Guber	53%	47%	-	7%	93%	-
MB Credit Solutions	-	-	-	-	-	-
Covisian Credit Management	100%	-	-	-	100%	-
J-Invest	-	-	-	22%	16%	62%
Europa Factor	33%	67%	-	-	43%	57%
CNF (Gruppo Frascino)	32%	19%	49%	27%	48%	25%
Finint Revalue	-	-	-	-	-	-
WhiteStar Asset Solutions (Arrow Group)	54%	46%	-	1%	99%	-
Duepuntozero	4%	1%	95%	15%	6%	79%
Blue Factor	-	-	-	45%	55%	-
AXIS S.p.A.	-	-	-	-	-	-
Aurora RE	7%	87%	6%	-	-	-
Euro Service	-	-	-	13%	72%	15%
SiCollection	-	100%	-	20%	80%	-
Fides	-	100%	-	1%	99%	-
BCMGlobal	53%	21%	26%	-	-	-
Banca Finint – Divisione Securitisation Services	-	-	-	-	-	-
Axactor	-	-	-	-	-	-
Aquileia Capital Services	4%	96%	-	6%	94%	-
WIBITA	4%	93%	3%	-	-	100%
Bayview Italia	-	-	-	-	-	-
Officine CST	-	-	-	-	-	-
B2 Kapital	23%	77%	-	12%	88%	-
GMA S.r.l.	26%	74%	-	78%	-	22%
Frontis NPL	37%	45%	18%	21%	39%	40%
Certa Credita	-	-	-	-	100%	-
Zenith Service (Arrow Group)	-	-	-	-	-	-

Source: PwC analysis on data provided by Servicers as of 31/12/2021; 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.

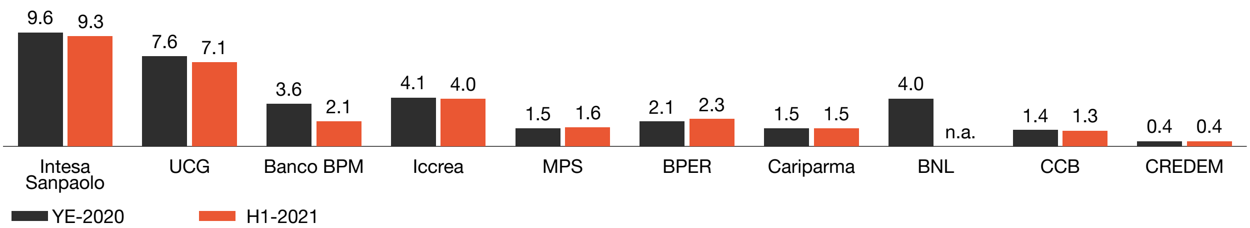
Appendix

Top 10 banks peer analysis

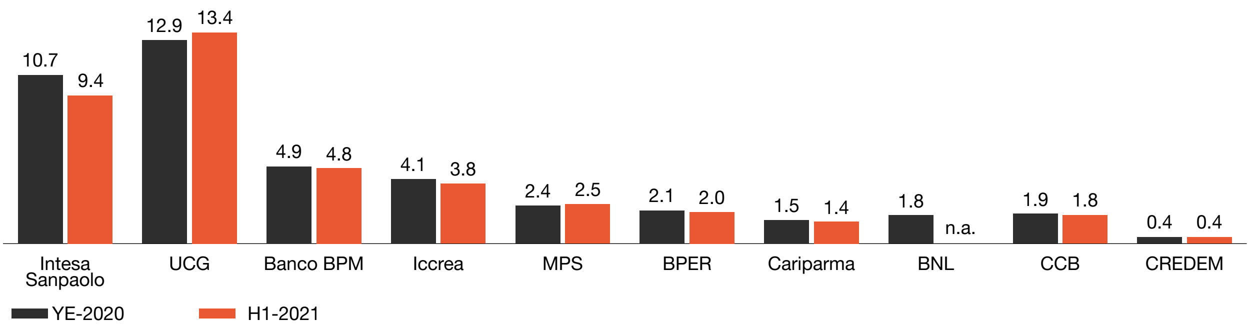
Gross NPE (€bn)



Gross Bad Loans (€bn)

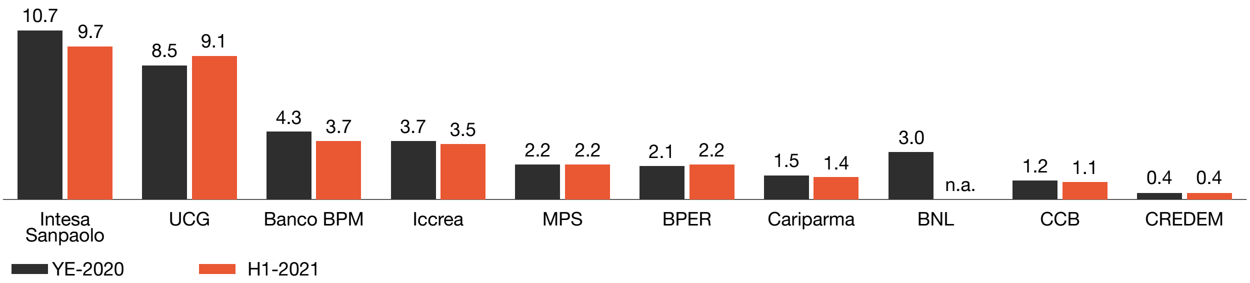


Gross Unlikely to Pay (€bn)



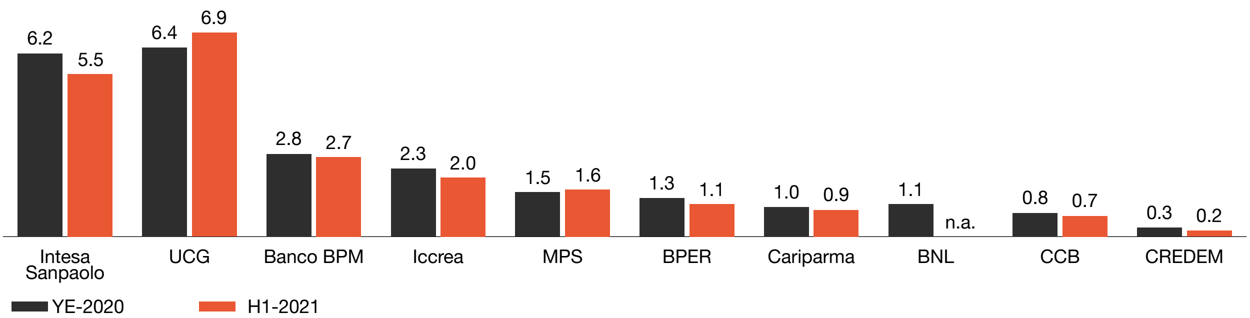
Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies.

Net NPE (€bn)



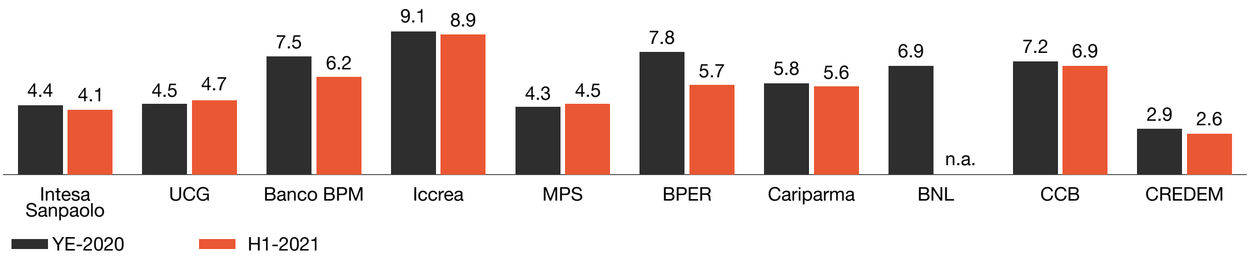
Net Bad Loans (€bn)

Net Unlikely to Pay (€bn)

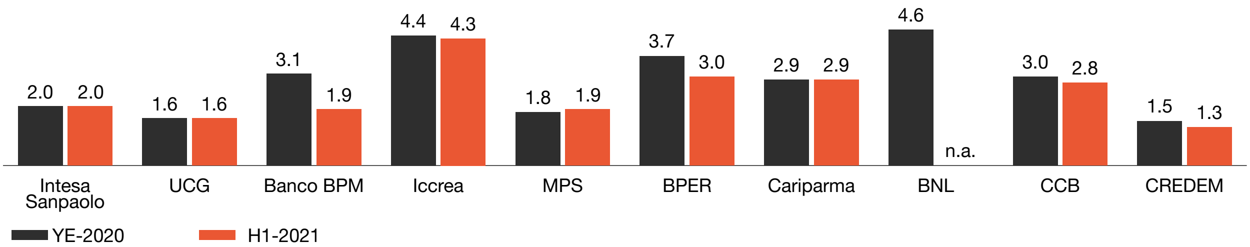


Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies.

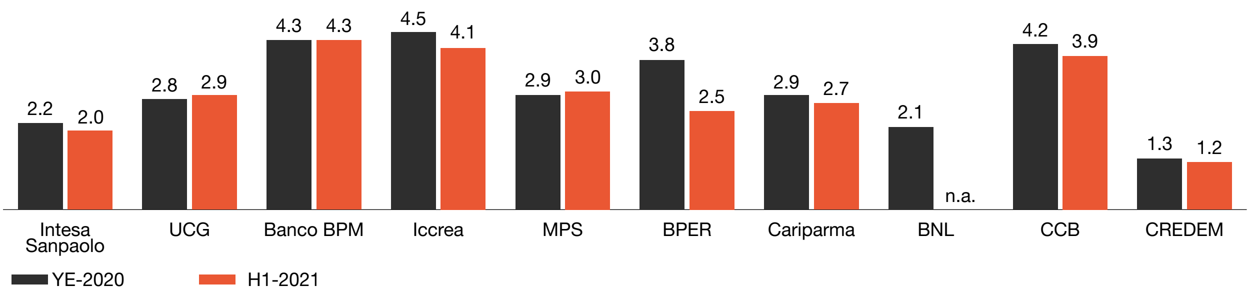
Gross NPE Ratio (%)



Gross Bad Loans Ratio (%)

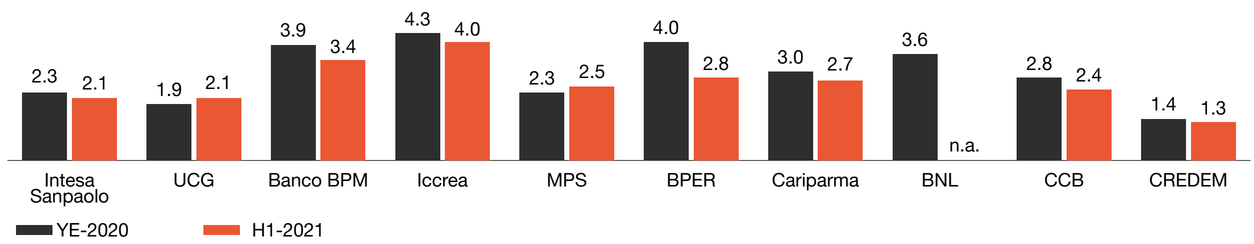


Gross Unlikely to Pay Ratio (%)

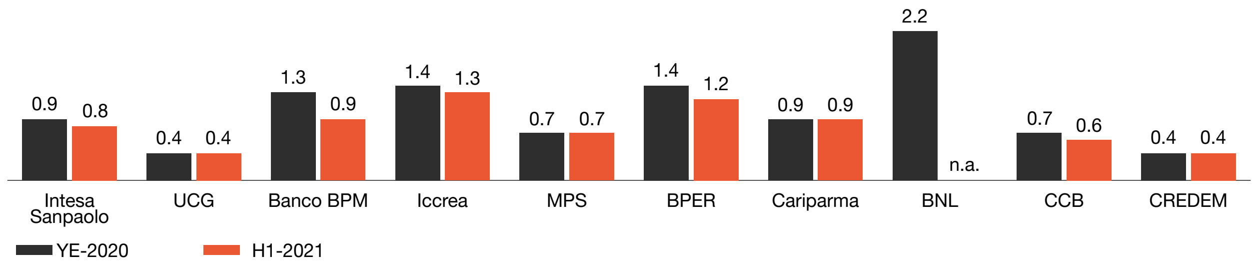


Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies.
Note: The calculation of the NPE Ratio for CCB differs from the one reported in the balance sheet (8.7% calculated with EBA approach).

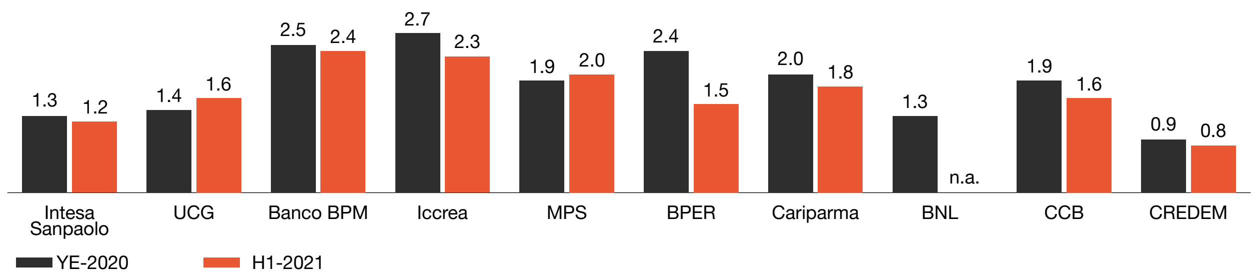
Net NPE Ratio (%)



Net Bad Loans Ratio (%)

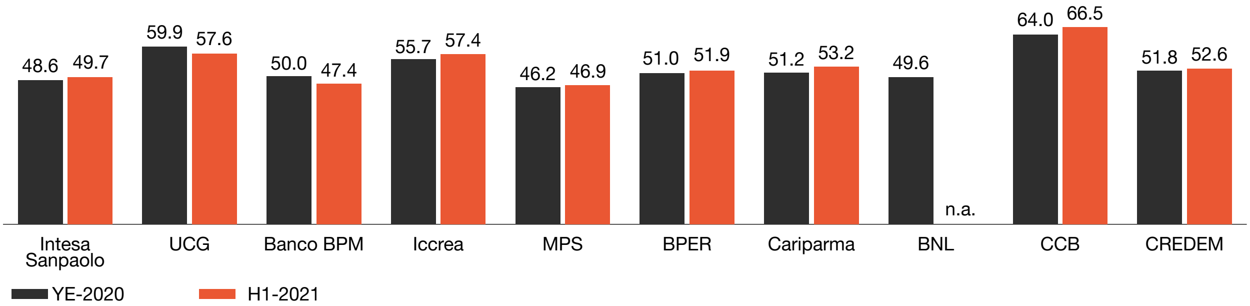


Net Unlikely to Pay Ratio (%)

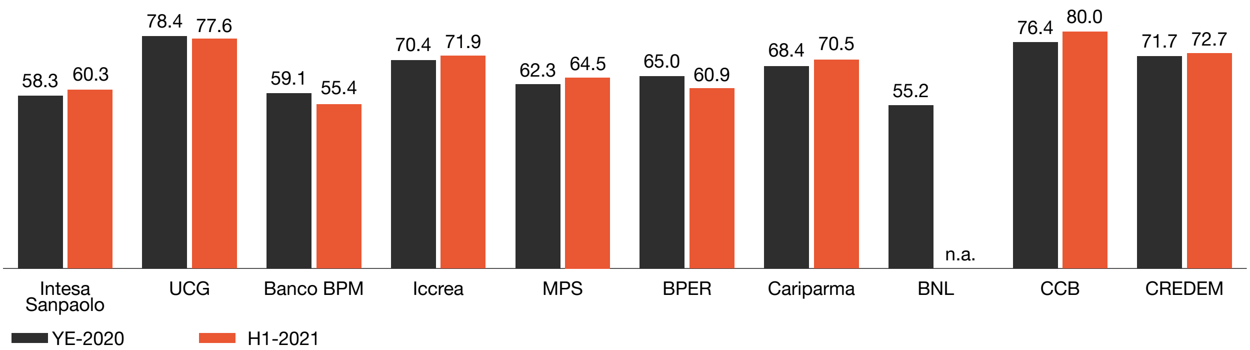


Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies.

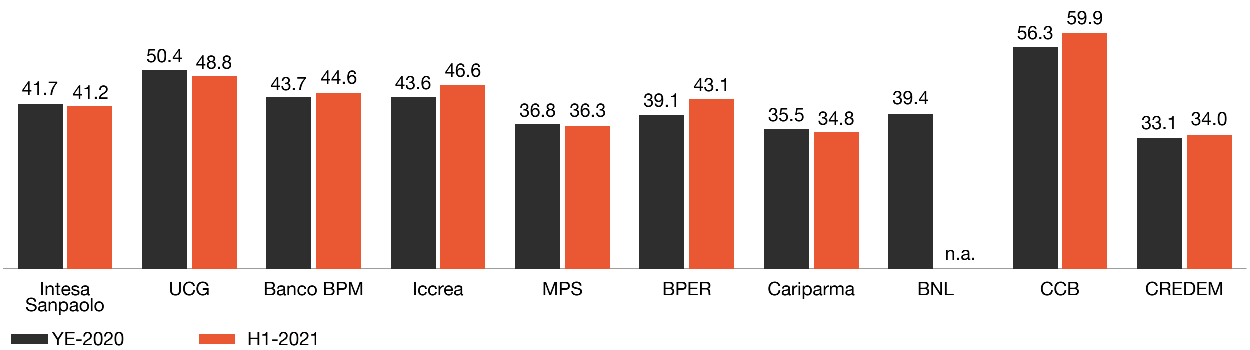
NPE Coverage Ratio (%)



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.

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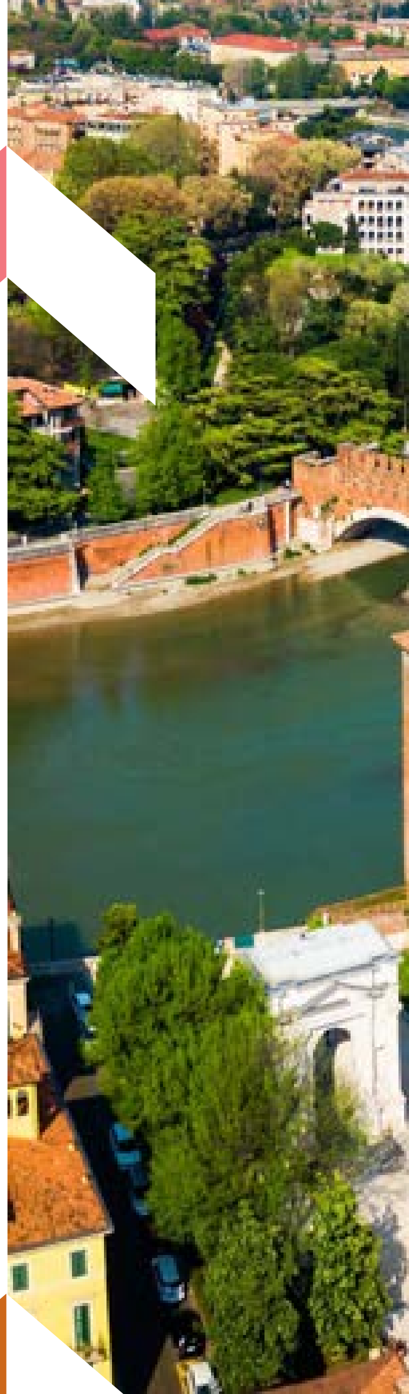

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