The Italian NPL Market

Reshuffling the Cards

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Before COVID-19, the Italian NPE market was nearly mature, as deleverage activities had reduced sharply bad loans and, as a result, market participants were starting to focus on Unlikely to Pay (UtP) and on how to manage the tail of the huge non-performing stock cumulated during the past decade. NPEs on banking books reduced from €135bn to €99bn between Dec-19 and Dec-20 with an overall cumulated NPE stock in the market of over €350bn.

The COVID-19 crisis has reshuffled the cards and brought back to the table all participants that are now trying to understand how the market will evolve in the next few months and years. The complexity of this unprecedented economic downturn has resulted in a still largely uncertain situation.

Government measures are still largely "freezing" the portfolios, delaying and possibly reducing the flows to NPE. NPE ratios have reached minimum levels since 2008. Moratoria have recently been extended till December 2021 but only for the principal instalment and on a voluntary basis. Now the time for new NPE inflows is coming.

Latest data on moratoria and Stage 2 are starting to show first signs of attention. Stage 2 credits on Top Italian Banks' books increased by approx. €64bn between 2020 and 2019 reaching a weight on total loans of approx 14% and represent a significant portion of moratoria (over 30%) and loans subject to public guarantee (over 10%).

It is still very difficult to make reliable forecasts, but market consensus is that new NPE inflows will be in a range of €80 and 100bn in the next 24-30 months. Whatever the amount of new NPE inflows will be, a very significant mass of non-performing and performing loans will need to be adequately managed in the next years.

Regardless of new defaults, moratoria, Stage 2 and loans subject to public guarantee schemes will require a tailored approach in terms of credit management, opening the opportunity to find completely new solutions (e.g. internal/ external workout unit, industrialization).

The new NPEs will be driven mainly by loans to SMEs operating in the sectors most affected by the crisis. UtP will probably be the most relevant and complex asset class that needs to be addressed.

Calendar provisioning and new NPE profile (mainly made by UtP) will not allow banks to behave as during the previous crisis, cumulating and retaining NPEs on their books for years and disposing them through GACS at the end. Banks will need to act promptly to recover/ bring back new NPEs to performing.

Investors with an appetite to provide new finance will be able to find potential new opportunities when economic recovery will show up. Many private equity funds specialized in UtP portfolios and restructuring/ turnaround move in this direction, with the aim to help industrially solid companies which are now in a situation of financial distress.

The Italian National Recovery and Resilience Plan (PNRR) will shape the real economy recovery and will condition also winners and losers in NPE arena also impacting the probability of default of loans currently subject to Government measures.

Banking consolidation, calendar provisioning and new ECB Guidelines will require banks to undertake further deleveraging, ensuring stable future NPE sales in the primary market, also supported by the recent renewal until June 2022 of the GACS.

The secondary market will be great ferment with the SPVs secured by GACS needing to accelerate collections and older transactions coming closer to their termination date.

Several new solutions for debt purchasing are developing in the market (e.g. real estate SPVs, credit funds) with the aim to enlarge the number of potential investors interested in the NPE segment.

The debt servicing market will also be affected: on one hand, the Italian industry will continue to focus on the management of an incomparable NPE stock of over €350bn; on the other one, debt servicers will face the challenge to manage the upcoming inflows, which will require a more tailored and sophisticated approach than in the past.

To win in this new context, debt servicing players will need to i) increase their specialization developing new competences and expertise requested by the market (e.g. real estate skills, industrial know-how) and ii) invest in data analytics and new technologies (artificial intelligence, machine learning, …) to recover efficiency and maximize collections.

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Macroeconomic Scenario

Key Message

Following a standstill in late 2020 and early 2021 due to a new wave of COVID-19, the start and strengthening of the vaccination campaign during 2021 allowed for an improvement in growth and economic conditions in EU countries. One of the drivers that better reflects the recovery is the increase of Real GDP (%) from -6.1% at YE-2020, to an expected +4.2% at YE-2021.

The COVID-19 continues to represent a shock of historic proportions for Europe's and World's economies, and it represents the main factor to keep an eye on in the short term.

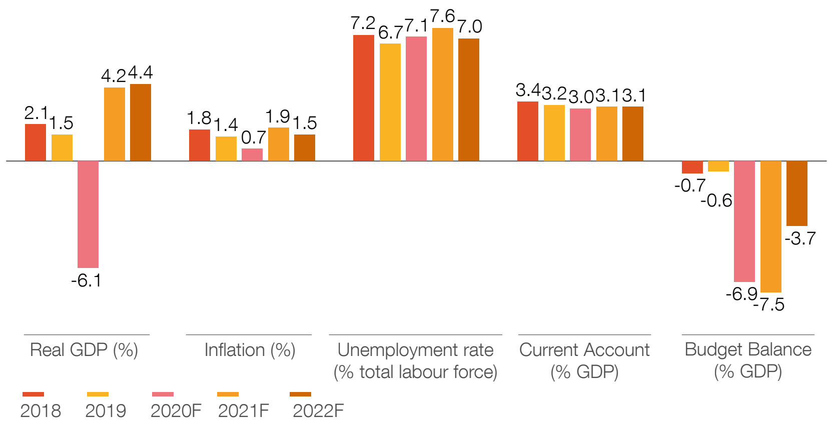
After the spread of the epidemic through the second quarter of 2020, a significant rebound has been observed in the last summer thanks to an easing in restraint measures, but, due to a new wave of COVID-19 in Autumn 2020, the recovery stalled both in the fourth quarter of 2020 and in the first quarter of 2021 because of restrictions' measures (e.g. curfew, non-essential business closures) adopted by each State to contain the rise of number in COVID-19 cases.

The start of the vaccination campaign at the end of 2020 and, consequently, the increase in the vaccinated population during 2021 (as of June 2021 approx. 80% of people aged more than 80 years had received at least the first dose of the vaccine in EU/EEA countries), combined with a decrease in restriction measures, have led to an improvement in the economic growth outlook. Indeed, the EU economy is expected to rebound significantly due to a return to normalcy brought about by higher vaccination rates and the easing of restrictive measures.

The COVID-19 pandemic led to an unprecedented response policy in Europe, which enabled Europe's economies to avoid worse situations. Among these policies undertaken by the EU there are (i) accommodating monetary policy, (ii) worker's protection schemes, (iii) guaranteed loans and repayment moratoria. Many of these policies undertaken by the EU are temporary in nature and are designed to allow the Member States' economies to return to normality.

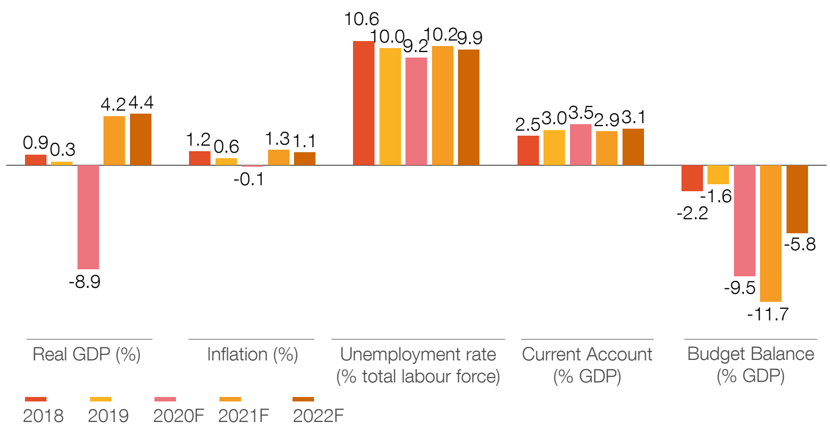
To this end, the Recovery and Resilience Facility (RRF) provides €672.5bn in grants and funding backed by the EU to support reforms that will enable the economies of member states to recover (Italy itself in entitled to receive €196.5bn).

Chart 1: Key EU economic drivers



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

As stated above and according to EU Commission, a rebound is expected for the EU economy; the projections show a significant increase in 2021 by 4.2% and by 4.4% in 2022. The rebound of the EU economies varies between each State and, as concerns Italy, the expected GDP for 2020 is a contraction of 8.9% with a rebound in 2021 by 4.2% and by 4.4% in 2022 backed also by the first stage of Next Generation EU-financed investments. In June 2021 ISTAT ("Istituto nazionale di Statistica") reviewed the forecasting for 2021 Italian real GDP moving to 4.7% keeping the same values of EU Commission for 2020 and 2022.

All the measures adopted to contain an economic meltdown due to the COVID-19 pandemic led to an increase in the level of debt of EU Member States. Italian budget balance is expected to be around 9.5% of the GDP in 2020 (from 1.6% in 2019) mainly due to the cost of the fiscal policy response to the pandemic, while the public debt is expected to reach a peak of 155.8% of the GDP, significantly higher than the EU average that is 92.4% of the GDP in 2020.

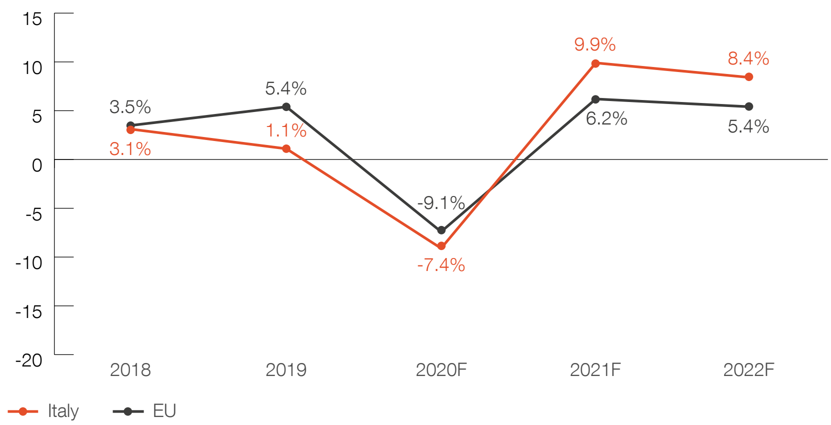
After the strong hit from the pandemic, the Labour Market started to slowly improve: employment rate started to rise in the second half of 2020 and unemployment rates have decreased from their peaks recorded during the pandemic. Labour policy schemes such as SURE (Support to mitigate Unemployment Risks in Emergency) helped to retain unemployment rates from rising more. The unemployment rate in EU, as forecasted by EU Commission, is expected to reach 7.1% of total labour force in 2020, 7.6% in 2021 and 7.0% in 2022 (higher than pre-COVID-19 rate of 6.7%). In Italy the unemployment rate is expected to reach 9.2% in 2020, 10.2% in 2021 and 9.9% in 2022 (lower than pre-COVID-19 rate of 10.0%).

Since the beginning of the new year, the inflation started to increase in EU due to rising energy prices and other temporary factors (e.g. tax changes in Germany). The inflation is expected to rise during 2021, while it will blow off during the next year. The expected inflation in EU for 2021 is 1.9% and 1.5% in 2022. The expected inflation in Italy for 2021 is 1.3% and 1.1% in 2022.

Among major rating agencies, Standard & Poor's confirmed its BBB rating on Italy's sovereign debt, with a "stable" outlook. Moody's confirmed its "Baa3" rating, with a "stable" outlook on Italy's debt.

As stated above, the ECB's monetary policy has remained accommodative confirming that it would continue its asset purchases under the pandemic emergency purchase programme (PEPP) for a total of €1.85 trillions, until at least the end of March 2022, providing liquidity to euro area banks.

Chart 3: Total investments volume trend (% change)



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

Table 1: Government gross debt ratio per country

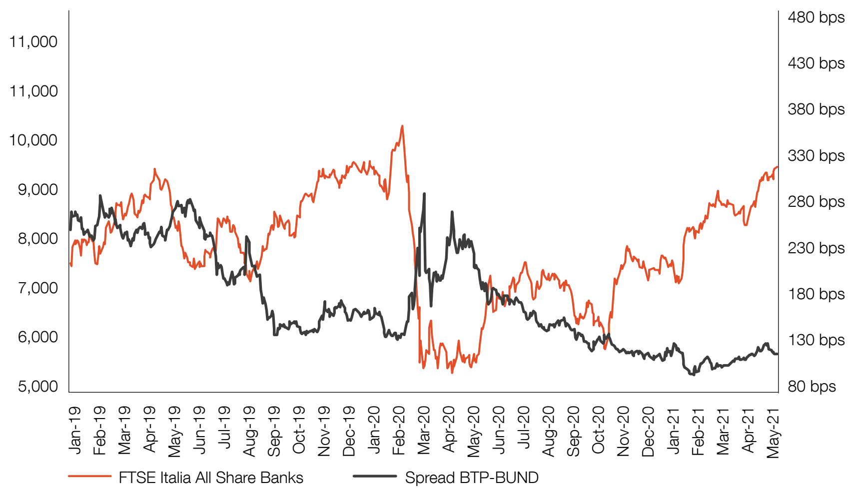
Government Gross Debt Ratio (% GDP)	2018	2019	2020F	2021F	2022F	Trend 2019-2022F
EU	**81.2**	**79.1**	**92.4**	**94.4**	**92.9**	▲
Italy	**134.4**	**134.6**	**155.8**	**159.8**	**156.6**	▲
Spain	97.4	95.5	120.0	119.6	116.9	▲
France	98.0	97.6	115.7	117.4	116.4	▲
Germany	61.8	59.7	69.8	73.1	72.2	▲
UK	85.8	85.2	102.0	108.1	108.4	▲

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

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

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

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



Source: PwC analysis on data provider information.

Recent market activity and outlook

Key Message

The first months of 2021 have registered a slowdown in the deleveraging process. Starting from 2022 NPE sales are expected to come back to 2019-2020 levels.

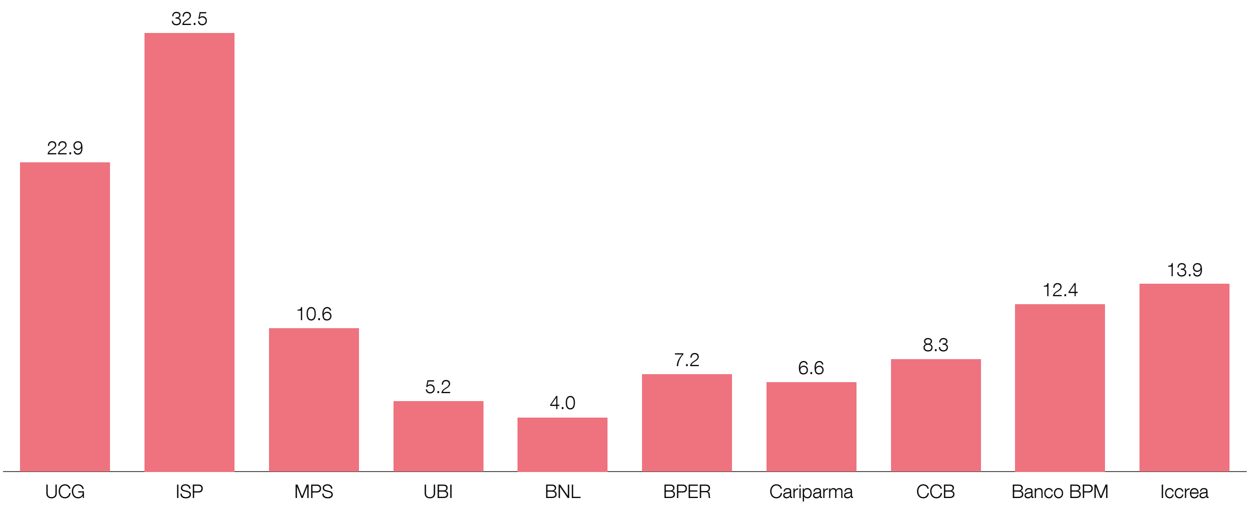
2020 has seen closed NPE deals for a total GBV of €40bn of which €32bn in the second half of the year. Thanks to these transactions, the NPE stock decreased by €36bn (i.e. -27%) in 2020, from €135bn at YE-2019 to €99bn at YE-2020. For the very first time, Bad Loans stock (€47bn at YE-2020) has been overtaken by UtP stock (€49bn at YE-2020). The first months of 2021 have registered a slowdown in the deleveraging process with transactions accounting for an overall GBV of €2bn, €6bn less compared to the same period of 2020.

The European Union has experienced one of the harshest recessions of its history, resulting in a GDP drop of 6.1% in 2020. In order to deal with the effects of the recession and to protect families and companies from the short-term impact of the pandemic, governments have issued different support programmes such as loan moratoria and guarantees schemes. However, the public protection will be phased out in the coming months.

The impact of the COVID-19 crisis has still to materialise its effects on the real economy and, consequently, on bank's balance sheets.

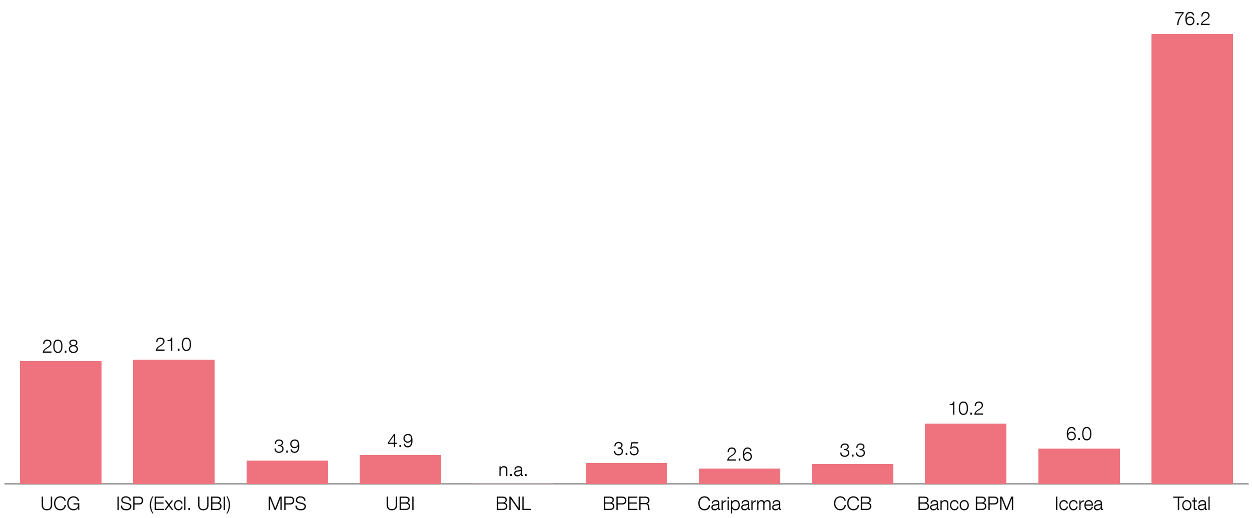
As concerns moratoria, a task force driven by Ministero dell'Economia e delle Finanze, Ministero dello Sviluppo Economico, Banca d'Italia, Associazione Bancaria Italiana, Mediocredito Centrale and SACE measured the volumes related to the implementation of liquidity support measures taken by the Government to address the COVID-19 emergency. As of 4th June, moratoria with a total value of approx. €136bn were still in place. **Chart 5** shows the stock of moratoria within Top10-Italian Banks' Financial Statements at YE-2020. As shown in the chart, UniCredit and Intesa Sanpaolo had a total moratoria value of approx. €55.4bn out of €123.7bn detected (around 45% of the total).

Chart 5: COVID-19 Moratoria as of YE-2020 (€bn)



With “Decreto Liquidità”, the Government launched several measures to deal with the negative effects of the COVID-19 pandemic. Those measures include the possibility for corporates to apply for State-guaranteed loans. As of YE-2020, according to “Fondo di garanzia per le PMI”, the total accepted funding was €124bn (+543.9% vs YE-2019). Italy's largest banks have granted State-guaranteed loans totaling €76.2bn[1], as shown in **Chart 6**. Intesa Sanpaolo, UniCredit and Banco BPM together have granted State-guaranteed loans worth around €52bn (approx. 68% of the total). In Q1-2021 the trend remained positive with additional €26bn of accepted funding (+433.5% vs Q1-2020)[2].

Chart 6: State-guaranteed loans for Top 10 Italian Banks as of YE-2020 (€bn)

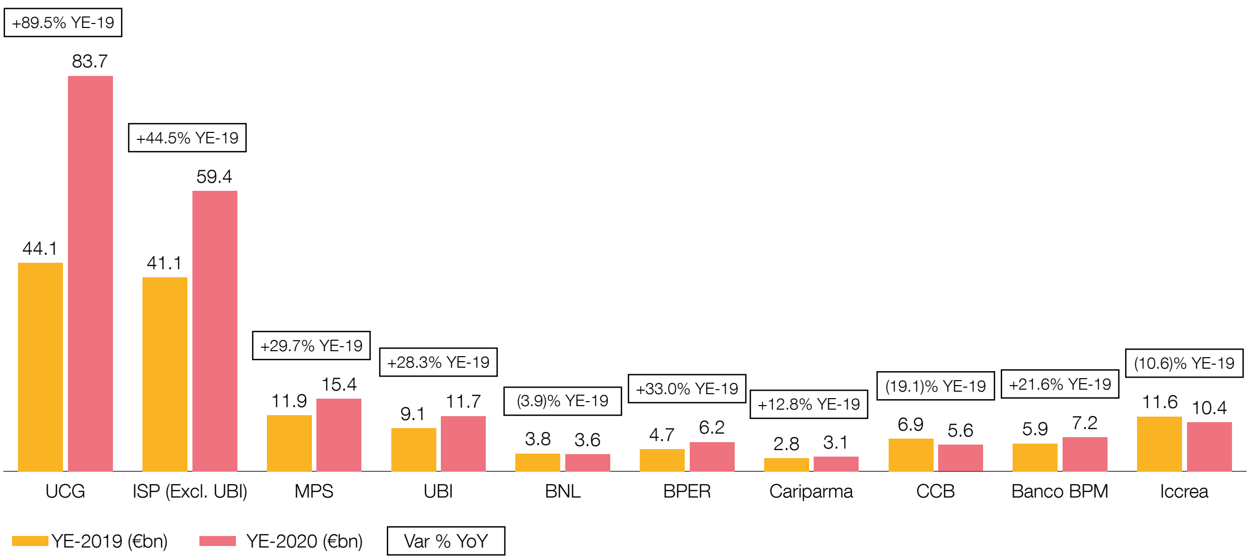


1.Data does not include BNL;
2. PwC analysis on Mediocredito Centrale paper “L’operatività del fondo di garanzia – March 2021”.

A first sign of the deterioration of the asset quality of Italian banks that was already observed in 2020 is the growth of Stage 2 loans, i.e. the part of Gross Customers Loans that are still performing but with an increasing probability to become non-performing.

Chart 7 shows the change in Stage 2 credits for Top10-Italian Banks: the total stock of Stage 2 credits within Italian Bank's Balance Sheets increased by approx. €64.4bn between YE-2019 and YE-2020, that is an increase of 22.6%. Moreover, the average incidence of Stage 2 loans on Gross Customer Loans also increased, from about 9.5% at YE-2019 to 14% at YE-2020; these are explained both by an increase in Stage 2 total stock and by a decrease in Gross Customer Loans (from €1,522bn to €1,473bn). The highest increase has been observed with UniCredit which registered an increase from €44.1bn at YE-2019 to €83.7bn at YE-2020 (approx. +89% YoY). Conversely, the highest decrease has been occurred with Cassa Centrale Banca which registered a decrease from €6.9bn at YE-2019 to €5.6bn at YE-2020 (approx. -19% YoY).

Chart 7: % change on Stage 2 Gross Loans (YE-2019 vs YE-2020)

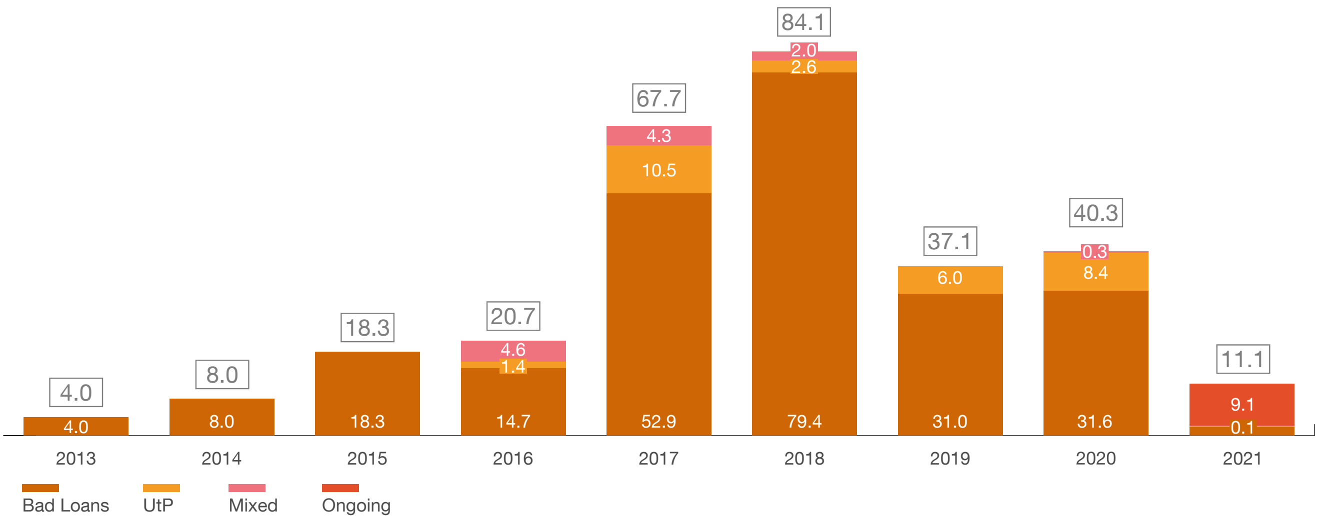


2021 has registered a contraction of NPE transactions compared to the same period of 2020 due to the postponement of many deals.

Regarding 2021 transactions:

- UniCredit, in line with its latest industrial plan, has announced or ongoing transactions for a total GBV of €4bn of which €3bn of Bad Loans and €1bn of UtP;
- In the last months of 2020 Intesa Sanpaolo completed the merge with UBI and closed two transactions: one involved Bad Loans for a total GBV of €6bn closed by the bank itself and one by UBI (Project Sirio) that involved Bad Loans for a GBV of €1.2m. The new company have announced transactions for a total GBV of €8bn of which €5.5bn of Bad Loans and €2.5bn of UtP;
- Banco BPM sold a Bad Loans portfolio with a GBV of €1.5bn;
- On the GACS side in the last months of 2020 five deals obtained the public guarantee: the aforementioned transactions closed by Intesa Sanpaolo and UBI, the transaction closed by Banca Popolare di Bari for a GBV of €0.9bn, Project Titan closed by Alba Leasing with a total GBV of €0.3bn and Project Summer closed by BPER with a total GBV of €0.3bn. In 2021, only Banco BPM's Project Rockets, for a total GBV of €1.5bn, has obtained the public guarantee.

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



Source: PwC estimates on public information and market rumours.

Table 2.1: Main closed transactions as of June 2021

Date	Seller	Volume (€m)	NPE category	Macro asset class	Buyer	Primary / Secondary market
Transactions closed in 2021:						
2021 Q2	UniCredit	220	Bad Loans	Mixed secured / unsecured	Kruk, MBCredit Solutions	Primary
2021 Q2	Banco BPM	1,500	Bad Loans	n.a.	Credito Fondiario	Primary
2021 Q1	BPER	248	UtP	Secured	Intrum and DEVA Capital	Primary
Other transactions with deal value < €100m		236				
Total (2021)		**2,275**				

Source: PwC estimates on public information and market rumours of primary and secondary market. Data refer to transactions closed from January 2021 to June 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 June 2021

Status	Seller	Volume (€m)	NPE category	Macro asset class	Primary / Secondary market
Pipeline	UniCredit	500	UtP	Mixed secured / unsecured	Primary
Pipeline	UniCredit	310	UtP	Sec	Primary
Ongoing	Intesa Sanpaolo/UBI	2,400	UtP	Mixed secured / unsecured	Primary
Pipeline	BPER	500	UtP	Mixed secured / unsecured	Primary
Pipeline	Banco BPM	1,000	UtP	n.a.	Primary
Ongoing	Iccrea	108	UtP	Mixed secured / leasing	Primary
Pipeline	UniCredit	509	NPL	Sec	Primary
Pipeline	UniCredit	197	NPL	Unsec	Primary
Pipeline	UniCredit	870	NPL	Unsec	Primary
Pipeline	UniCredit	770	NPL	Unsec	Primary
Pipeline	UniCredit	770	NPL	Sec	Primary
Ongoing	Intesa Sanpaolo/UBI	1,100	NPL	Leasing	Primary
Ongoing	Intesa Sanpaolo/UBI	2,500	NPL	Unsec	Primary
Ongoing	Intesa Sanpaolo/UBI	1,900	NPL	Sec	Primary
Pipeline	Gruppo Cassa Centrale	500	NPL	Mixed secured / unsecured	Primary
Ongoing	Banco BPM	450	Mixed Npl / UtP	Secured	Primary
Ongoing	BNL	50	Bad Loans	Secured	Primary
Ongoing	Banca Popolare di Sondrio	400	Bad Loans	Mixed secured / unsecured	Primary
Ongoing	ATC Piemonte	25	Bad Loans	Unsecured	Primary
Ongoing	Banca Carige	30	Bad Loans	Leasing	Primary
Ongoing	Chiantibanca	70	Bad Loans	Mixed secured / unsecured	Primary
Ongoing	CR Volterra	80	Bad Loans	n.a.	Primary
	Total	**15,039**			

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	Illimity	129	Bad Loans	Unsecured	Sorec, Phinance Partnes	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		1,491				
Total (2020)		**40,340**				

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 2020, the number of normalized transactions registered a significant decrease of approximately 6.4% compared to 2019. However, in the second half of 2020, transactions in the Italian real estate market recorded an increase of 8.7% compared to the same period of the previous year. Institutional investments in non-residential real estate amounted to € 8.57bn in 2020, a decrease of 30% compared to the previous year, with the Office sector still accounting for the majority of investment volumes.

Real estate auctions published in 2020 were approximately 117,000, substantially lower than the previous year 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	H2 2019	H2 2020	Y 2019	Y 2020	Delta (%) H2 20-19	Delta (%) Y 20-19
Residential	117,047	116,174	141,325	183,381	305,397	324,706	603,541	557,927	6.3%	-7.6%
Office	1,821	1,812	2,067	3,765	5,641	5,832	10,478	9,465	3.4%	-9.7%
Retail	5,918	5,015	6,448	9,581	16,124	16,029	31,436	26,962	-0.6%	-14.2%
Industrial	1,951	2,069	2,262	4,329	6,599	6,591	12,123	10,611	-0.1%	-12.5%
Total	**126,737**	**125,070**	**152,102**	**201,056**	**333,761**	**353,158**	**657,578**	**604,965**	**5.8%**	**-8.0%**
Appurtenances	81,716	84,249	103,117	144,016	218,052	247,133	428,390	413,098	13.3%	-3.6%
Other	11,294	10,893	15,021	20,266	33,161	35,287	62,813	57,474	6.4%	-8.5%
Grand Total	**219,747**	**220,212**	**270,240**	**365,338**	**584,974**	**635,578**	**1,148,781**	**1,075,537**	**8.7%**	**-6.4%**

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 YE-2020

Although Y-2020 suffered a 6.4% reduction in transactions compared to Y-2019, H2-2020 actually recorded an increase of 8.7% compared to the same period of the previous year. Even though activity in all asset classes slowed, the most significant decrease was recorded in the Retail asset class, with a drop of more than 14%. See **Table 4**.

In terms of residential transactions, Y-2020 recorded an average decrease of 7.6% across Italy, however, transaction activity increased in H2-2020 in each area of Italy compared to the same period of 2019. The South recorded the largest increase (7.4%), followed by the Center and the North (both 6%). See **Table 5**.

During Y-2020, the number of non-residential transactions suffered a significant contraction across the entire country, with an overall decrease of 13.0% compared to 2019. The Retail sector in the North of Italy showed the sharpest decline with a 15.4% decrease. See **Table 6**.

For the first time, Appurtenances (including garages, basements and parking lots) and Other sectors recorded a negative variation. See **Table 4**.

Table 5: Residential NTN by geographic area

Area	Region	H2 2019	H2 2020	Year 2019	Year 2020	Delta (%) H2 20-19	Delta (%) Y 20-19
North	Provinces	52,360	50,800	104,271	92,012	-3.0%	-11.8%
	No Provinces	115,417	126,969	225,125	214,255	10.0%	-4.8%
	Total	**167,777**	**177,769**	**329,396**	**306,267**	**6.0%**	**-7.0%**
Center	Provinces	28,099	27,937	56,749	50,772	-0.6%	-10.5%
	No Provinces	33,282	37,114	66,246	63,125	11.5%	-4.7%
	Total	**61,381**	**65,052**	**122,994**	**113,898**	**6.0%**	**-7.4%**
South	Provinces	21,796	22,058	43,705	38,813	1.2%	-11.2%
	No Provinces	54,443	59,828	107,446	98,949	9.9%	-7.9%
	Total	**76,239**	**81,886**	**151,151**	**137,762**	**7.4%**	**-8.9%**
Italy	Provinces	102,256	100,795	204,724	181,598	-1.4%	-11.3%
	No Provinces	203,142	223,912	398,817	376,330	10.2%	-5.6%
	Total	**305,397**	**324,707**	**603,541**	**557,928**	**6.3%**	**-7.6%**

Source: PwC analysis on Italian IRS data.

Table 6: Non residential NTN by geographic area

NTN H2 2020 Office	Q3 2020	Q4 2020	H2 2019	H2 2020	Y 2019	Y 2020	"Delta (%) H2 20-19"	"Delta (%) Y 20-19"
North	1,153	2,312	3,366	3,465	6,377	5,729	2.9%	-10.2%
Center	489	830	1,184	1,319	2,089	2,011	11.4%	-3.7%
South	425	623	1,091	1,048	2,012	1,725	-3.9%	-14.3%
			5,641	**5,832**	**10,478**	**9,465**	**3.4%**	**-9.7%**

NTN H2 2020 Retail	Q3 2020	Q4 2020	H2 2019	H2 2020	Y 2019	Y 2020	Delta (%) H2 20-19	Delta (%) Y 20-19
North	3,071	4,731	7,924	7,802	15,414	13,035	-1.5%	-15.4%
Center	1,369	2,200	3,637	3,569	7,126	6,147	-1.9%	-13.7%
South	2,008	2,650	4,563	4,658	8,896	7,778	2.1%	-12.6%
			16,124	**16,029**	**31,436**	**26,960**	**-0.6%**	**-14.2%**

NTN H2 2020 Industrial	Q3 2020	Q4 2020	H2 2019	H2 2020	Y 2019	Y 2020	Delta (%) H2 20-19	Delta (%) Y 20-19
North	1,530	2,846	4,371	4,376	8,079	7,038	0.1%	-12.9%
Center	347	782	1,131	1,129	2,001	1,798	-0.2%	-10.1%
South	385	701	1,097	1,086	2,042	1,775	-1.0%	-13.1%
			6,599	**6,591**	**12,123**	**10,611**	**-0.1%**	**-12.5%**
			28,364	**28,452**	**54,037**	**47,036**	**0.3%**	**-13.0%**

Source: PwC analysis on Italian IRS data.

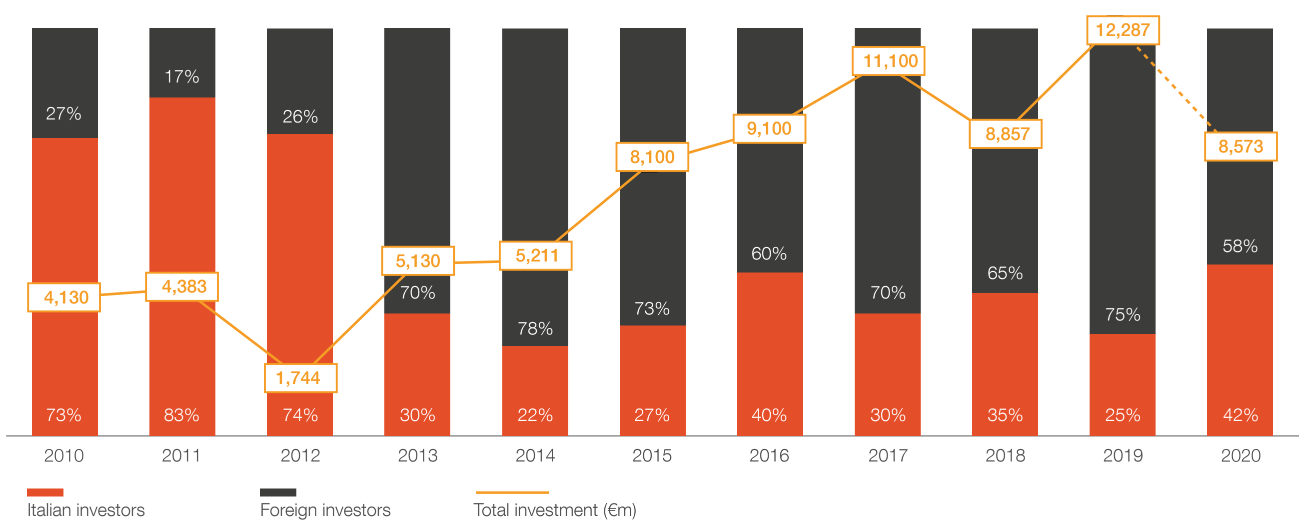
Investments in the commercial real estate market

In 2020, investment volumes in commercial real estate amounted to € 8.57bn, approximately 30% lower compared to the previous year. See **Chart 9**.

In addition, the Office asset class accounted for the majority of investment volumes in 2020 with 46%, followed by Industrial/logistics and Other with 16%, Retail with 12% and then Hospitality with 9%. See **Chart 10**.

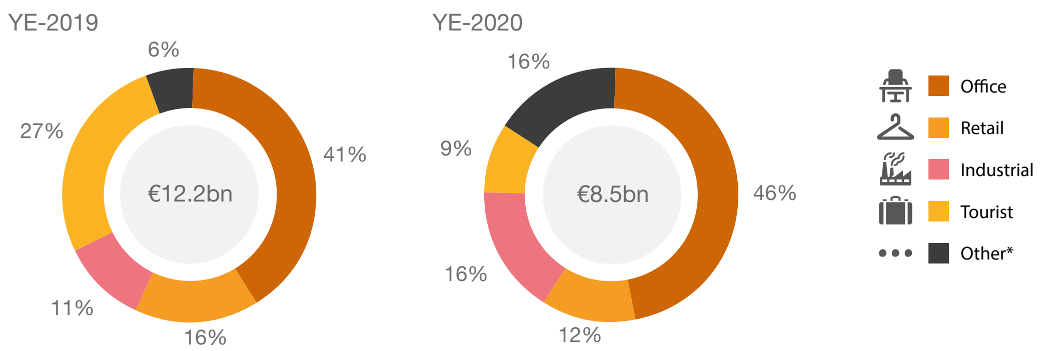
Due to restrictions related to the pandemic, foreign capital has significantly contracted. In fact, during 2020, foreign capital accounted for less than 60% of investments (€4.9bn of international investments versus €3.6bn of Italian) compared to 75% in 2019. See **Figure 9**.

Chart 9: Investments in commercial real estate – Investor type



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

Chart 10: Investments in commercial real estate – Asset class



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

In 2020, 117,000 judicial real estate auctions were published in Italy for a total volume of €16.9bn, showing a strong reduction compared to previous years due to auctions being suspended during the pandemic. In addition, the residential asset class, which in previous years accounted for over 70% of published auctions, has decreased by more than 50% due to government regulations implemented to halt foreclosures during the pandemic. The highest concentration of auctions is in the North with 42%, followed by the Center with 28%, the South with 17% and the Islands with 13%. The region with the highest number of real estate auctions is Lombardy recording approximately 16.7% of the total. See **Chart 11**.

Source: PwC analysis on Astasy data

Closed Secured Portfolio

Based on the closed secured portfolio managed by servicers, the greatest concentration is located in Northern Italy (50%) followed by the Center (30%) and then the South and Islands (20%). See **Chart 12**.

In addition, analyzing the data by city size shows that 37% of the assets are located in small towns with less than 25,000 residents, 16% in cities with over one million residents, and only 6% are in cities with a population between 250,000 -500,000. See **Chart 13**.

Chart 11: Italian Real Estate Judicial Auctions

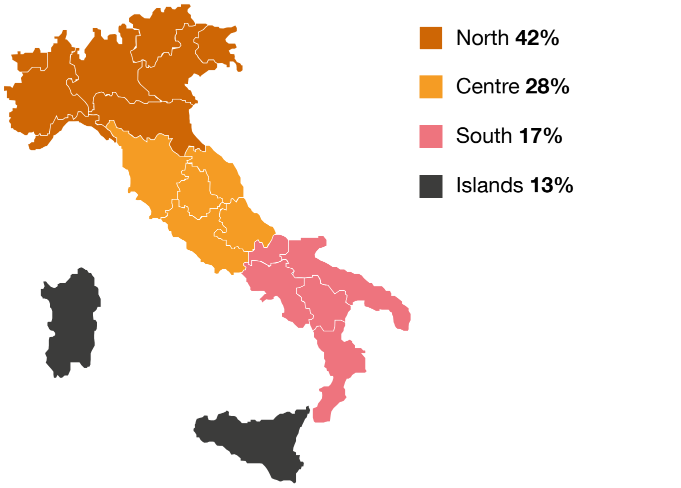


Chart 12: Closed Secured Portfolio by Area

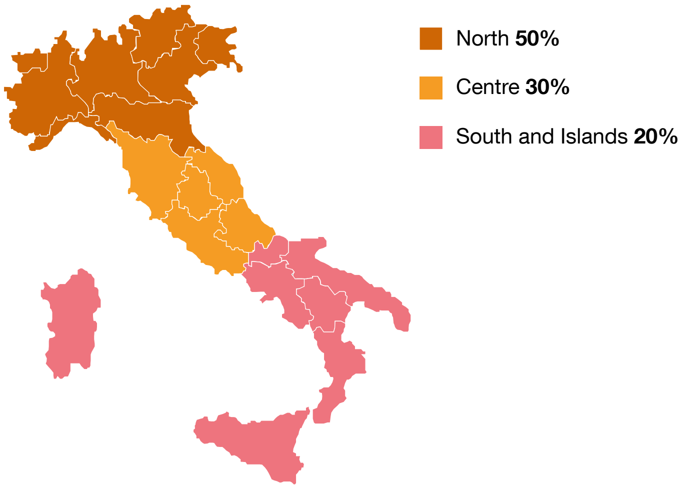
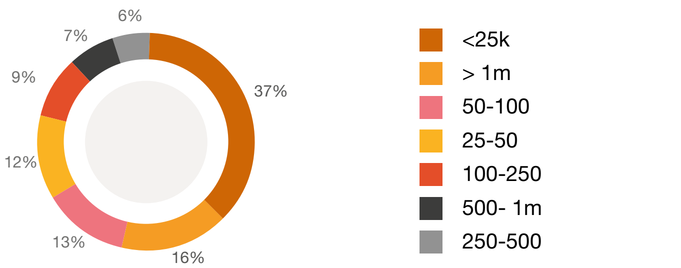


Chart 13: Closed Secured Portfolio by City Size (residents)



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 below graphs show the closed portfolios by the Servicers, considering the recovery strategies and the recovery rate by asset class. For all recovery strategies, the main asset class is residential. The asset class in closed portfolios with the lowest share over the total volume is development. See **Chart 14**.

Considering the recovery rate by each asset class, offices show the highest performance (63%) followed by residential (55%), development (54%) and industrial (53%). See **Chart 15**.

Chart 14: Closed portfolio by asset class (GbV)

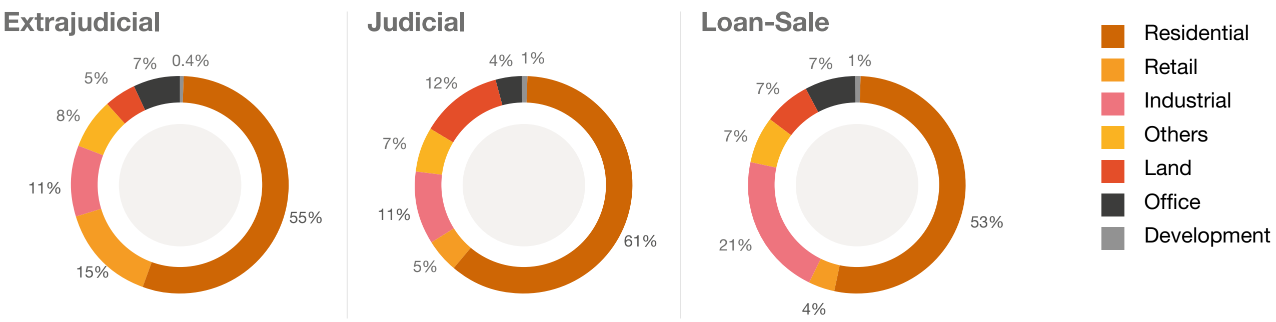
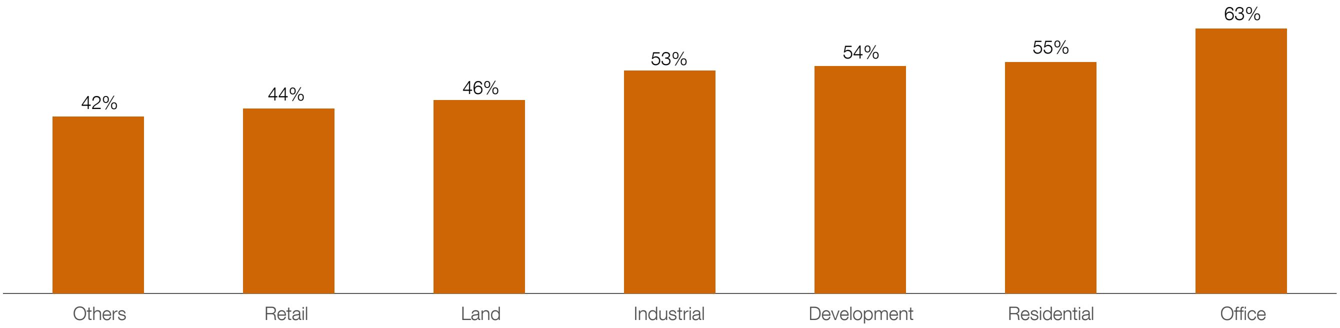


Chart 15: Recovery rate by asset class on closed portfolio



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

The analysis in Chart 10 is based on data from 9 players and returned with arithmetic averages.

Regulatory framework update

Key Message

In the last months the Italian government have continued to support the economy and the financial sector with specific measures.

In the meantime at European level the creation of an efficient and transparent secondary market of NPL has become a priority that will be pursued in 2021.

Moratoria regulatory framework

Moratoria are one of the most relevant measured adopted in Europe to face the COVID-19 crisis. Below we show the milestones of their implementation.

17.03.2020
Decree-law "Cura Italia"

25.03.2020
Publication of the EBA Statement

02.04.2020
EBA guidelines on the **treatment** of **moratoria**

22.04.2020
EBA statement on **additional measures for COVID-19**

02.06.2020
EBA guidelines on **disclosure and reporting of moratoria**

25.06.2020
First update of the **EBA Guidelines** on **moratoria**

02.12.2020
Second update of the **EBA Guidelines** on **moratoria**

25.05.2021
Decree-law "sostegni" bis

- On 02 April 2020, the EBA published the "Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis" (EBA / GL / 2020/02) which described the application criteria and the prudential treatment of legal and private moratoria.
- On 25 June 2020, the EBA published the first amendment to the Guidelines, which extended the period of application of moratoria: the new deadline of 30 September 2020 replaced the previous date of 30 June 2020.
- On 02 December 2020, the EBA published a second updated version of the Guidelines, in order to further extend the deadline for the application of the Guidelines for legal and private moratoriums until 31 March 2021, under specific conditions.
- On May 25, 2021 was published in the Official Gazette the Decree-Low n. 73 "Sostegni bis" which includes a further extension of the moratoria for Italian SMEs until 31 December 2021.

Focus at next page

Moratoria within the scope EBA Guidelines are characterized by a favorable treatment in the application of the definition of default and forbearance, but they have to meet specific disclosure and reporting requirements.

Forbearance measures

- The application of the moratorium should not represent a trigger event for the forborne classification.
- Anyway, the Bank has to assess the quality of the exposures subject to the moratorium and to identify any signs of unlikeliness to pay.

Application of the Definition of Default

- It is possible to count the overdue days on the basis of the scheduling of payments after the application of the moratoriums.
- The evaluation of the unlikeliness to pay should be carried out continuously on the basis of the latest revised payment plan in order to take into account the moratoriums applied.

Data collection, disclosure and reporting

- For the purpose of monitoring the application of the measures, the Banks are expected to collect and share information on the moratoriums applied to the competent authorities.
- The EBA has identified specific reporting and disclosure methods necessary for monitoring the moratoriums, published with dedicated Guidelines on 02.06.2020.

EBA/GL/2020/02

On **December 2, 2020**, the **EBA** published an **updated version** of the "**Guidelines** on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis" (EBA / GL / 2020/02) in order to **extend** the deadline for the application of the Guidelines until **31 March 2021**. In addition the Guidelines provide:

- The introduction of a **nine-month cap** for the **total duration** of the moratoria, at the level of individual exposures. This means that moratoria granted before 30 September with a duration lower than 9 months could be extended until a total duration of 9 months before 31 March 2021.
- The possibility to have moratoria granted before 30 September longer than 9 months, according to the original contractual terms.
- The possibility to **reclassify** in bonis exposures in **forborne** or **default** due to moratoria granted between 30.09.2020 and 01.12.2020, if they comply with the criteria of the Guidelines.

Although the extension period is over, it still exists a portfolio under moratorium which is in run-off

Decree-Law "Sostegni bis"

The objective of Decree-Law n. 73 is to ensure access to credit, support liquidity and encourage the capitalization of companies, through the extension of existing measures and the implementation of new interventions.

Moratoria

- **Extension** until 31 December of **moratoria** for Italian SMEs already admitted to the support measure, limited to the capital quota and only where applicable.

Public guarantees

- **Extension** and **reformulation** of the emergency **guarantee instruments** provided by the Guarantee Fund for SMEs and SACE (e.g. loans with a duration not exceeding 6 years, already guaranteed by SACE, can be extended up to a maximum duration of 10 years or replaced with new loans with a duration of up to 10 years).
- Possibility to obtain a **public guarantee** on medium / long-term **loan portfolios** (up to € 500 mln) composed by loans granted to companies with a number of employees not exceeding 499 for research and development projects and specific investment programs.

Tax benefits

- Introduction of an **extraordinary** transitional regime of the **ACE** (Aid to Economic Growth) discipline in order to favor the capitalization of companies, up to 5 million euros of capital increase.
- **Extension** until December 2021 of the **tax benefit** related to the disposal of non **performing loans**, previously granted until December 2020.
- **Introduction** of a **temporary tax relief** to encourage **capital injections** by individuals in start-ups and innovative SMEs.

Securitisation framework

The COVID-19 crisis is increasing the number of non-performing exposures and the need for institutions to deal with and manage their non-performing exposures. One way available to institutions is to trade non-performing exposures on the market through securitization. Furthermore, in the current environment, it is essential to externalize the risks from the systemically important banks and it is essential that lenders strengthen their capital positions.

1. EU Regulation

Regulation (EU) 2021/557 entered into force in April, amending Regulation (EU) 2017/2402, introduces and modifies specific criteria for simple, transparent and standardized securitisations (STS) including mechanisms for identification and payment of credit protection, in order to strengthen post-COVID-19 economic resilience.

Regulation (EU) 2021/558 entered into force in April, amending Regulation (EU) no. 575/2013 (CRR), introduces adjustments to the securitization framework (including the treatment of NPE securitisations, the identification of the credits underlying the STS synthetic securitisations, the eligibility criteria for CRM purposes for personal guarantees), to support economic recovery in response to the COVID-19 crisis.

2. Italian Budget Law 2021

In January the Law no. 178/2020 (the so-called "Balance Law 2021") entered into force, providing for:

- the extension of the discipline of credit securitisations contained in the law n. 130 of 1999 to transactions typically used in the Anglo-Saxon context, in which the SPV has the possibility to finance the acquisition of the assets to be secured also through financing from authorized financial intermediaries as an alternative to the mechanism of traditional asset-backed notes. (article 1, paragraph 1, of law no.130, letter b of 30 April 1999 is amended);
- the interpretation of article 7.1 , paragraph 4 of Law 130 establishing that the acquisition by a ReoCo of assets in the form of guarantees for securitized loans, including assets subject to financial leasing contracts (even if terminated), may also take place as a result of a spin-off or other aggregation operations. Furthermore, in response to interpellation no. 132 of 2 March 2021, the Italian Revenue Agency clarified an interpretative issue by confirming the application to real estate securitization transactions of the same tax regime applicable to credit securitization transactions, in addition to the ordinary rules on VAT, registration, mortgage, and cadastral taxes, except in cases where real estate acquisitions are made by ReoCo under any circumstances (negotiation, judicial or insolvency), which are subject to registration, mortgage and cadastral taxes at a fixed rate (€200).

3. GACS

- The **European Commission** has **approved**, as part of the EU legislation on state aid, the fourth extension of the **Italian guarantee system** compliant with the market to facilitate the securitization of non-performing loans (Guarantee Fund on the Securitization of Non-Performing Loans - GACS).
- The scheme was initially approved in February 2016 and recently extended in May 2019, while the last **authorisation** is granted until **14 June 2022**.
- Due to the ongoing health emergency, the "Rilancio" decree provided for temporary flexibility in the discipline of securitisations, allowing the **temporary cancellation**, for one or more payment dates between May 19, 2020 and July 31, 2021, of the **subordination** and **deferral** of **payments due** to the **servicers**.
- **These changes** must **not lead** to a **worsening** of the **rating** of the **senior securities** and must be motivated by the slowdown in recovery activity as a result of regulatory measures to deal with the **COVID-19 emergency**.

From September 2020 the GACS has been activated 27 times, allowing the sale of € 74 million of NPLs, corresponding to 53% of total deteriorated loans in Italy during the pandemic period.

Action plan for the management of NPLs following the COVID-19 pandemic

The European Commission has presented a strategy to prevent the future growth of NPLs in Europe following the crisis caused by the pandemic, ensuring access to liquidity for families and businesses affected during the crisis.

The NPL strategy has the following main objectives:

1. **Further develop the secondary market for distressed assets.**
2. Reform European Union legislation on business insolvency and debt collection.
3. Support the establishment and collaboration between national Asset Management Companies at EU level.
4. Implement precautionary measures of public support, where necessary to guarantee the continuous funding of the real economy.

Secondary market

A.
"Proposal for a Directive of the European Parliament and of the Council on credit servicers, credit purchasers and the recovery of Collateral" and "Proposal for a Directive of the European Parliament and of the Council on accelerated extrajudicial collateral enforcement mechanism (AECE)".

- The secondary market for NPLs is characterized by a narrow investor base and information asymmetry in favor of the bank that originated the credit.
- Cross-border transactions are also discouraged due to the differences among legal framework and recovery procedures.
- The enforcement of collateral is often prosecuted through the courts, implying processes that lower performance and returns.
- In this context, the European Commission published in 2019:
  - proposal for a Directive on **credit purchasers** and **credit servicers**;
  - proposal for a Directive on the so-called **AECE mechanism «Accelerated Extrajudicial Collateral Enforcement»**.

*Considered by the European Parliament as **legislative priorities** for 2021*

Main objectives

- Increase the level of disclosure transparency in sales to specialized investors.
- Create harmonized conditions for credit servicers at a European level.
- Speed up the recovery processes, favoring out-of-court mechanisms defined ex ante in the credit agreement.

B.
European Commission – Consultation Document "Targeted consultation on improving transparency and efficiency in secondary markets for non-performing loans".

The Commission has launched on 16 June 2021 a targeted consultation aimed at gathering evidence on possible actions to improve transparency and efficiency in secondary markets for NPLs.

The consultation will be open for 12 weeks and is focused on two main ambitions:

Data Hub for NPL
One of the key actions in promoting secondary markets for NPLs is to improve the quantity, quality and comparability of NPL data. Secondary markets can be larger and more efficient if market participants have more and better data. Therefore, a central data hub at EU level could be established to serve as a data repository to support the NPL market. Such a hub could store anonymous NPL transaction data and provide post-trade transaction details.

Third pillar disclosure requirements
As part of its strategy to exploit data sources, the Commission is considering targeted changes to the disclosure requirements of Pillar 3 under Regulation (EU) 575/2013 (CRR).

The amendments linked to enforcement procedures and corporate crisis

- Article 13 of "**Mille proroghe**" Decree (D.L. No. 183/2021), referring to Article 54-ter of the "Cura Italia" Decree, has been suspended until **30 June 2021** only those real estate executions already pending and concerning the principal residence of the debtor being enforced. This has impacted the timing of judicial proceedings and the time required to enforce debt recovery.

- In addition, with the **Liquidity Decree** (Decree-Law no. 23/2020), to facilitate companies affected by the health emergency, the **legislator** postponed the **entry** into **force** of the **Code** of **Business Crisis** and **Insolvency** (Legislative Decree no. 14/2019) to **1 September 2021**. It'll introduce measures intended to simplify the obligations for companies that are loss-making or in difficulty, in particular:
  - it has extended by 6 months the terms for the fulfillment of preventive agreements, restructuring agreements, crisis settlement agreements, and approved consumer plans expiring after 23 February 2020;
  - has suspended the admissibility of petitions for the opening of bankruptcy and insolvency proceedings filed in the period from 9 March to 30 June 2020.

- The **subsequent** D. L. No. **34/2020 extended** by **six months** the terms for the **execution** of the **sale** or **reorganization programs** of **certain companies admitted** to the extraordinary administration procedure expiring after 23 February 2020 and already authorized by the MISE (Article 51).

- Finally, D.L. No. **41/2021 postponed** by one year the **obligation** to **report** to the **Agenzia delle Entrate** all the significant debt exposure, as part of the alert tools aimed at ensuring the timely emergence of business crises. These obligations now begin with the periodic VAT returns for the first quarter of 2023. However, some interpretative uncertainties have led the Ministry of Justice to appoint a new commission of experts to be entrusted with a proposal for interventions on the Code that could modify and adapt the legislation to the delicate economic situation that exists today. Similarly, to provide smaller businesses and savers with more tools to cope with the economic crisis, a series of simplifications have been implemented to facilitate access to over-indebtedness procedures and to broaden the range of beneficiaries.

- A possible **additional extension** in **spring 2022** is **under discussion**.

Italian NPL Market

Key Message

NPEs on banking books dropped by €36bn vs. FY19 coming back to minimum 2018 levels.

It is relevant to point out the massive decrease of Bankruptcies, Voluntary liquidations, Non Voluntary procedures and Voluntary arrangements at YE-2020 compared to YE-2019.

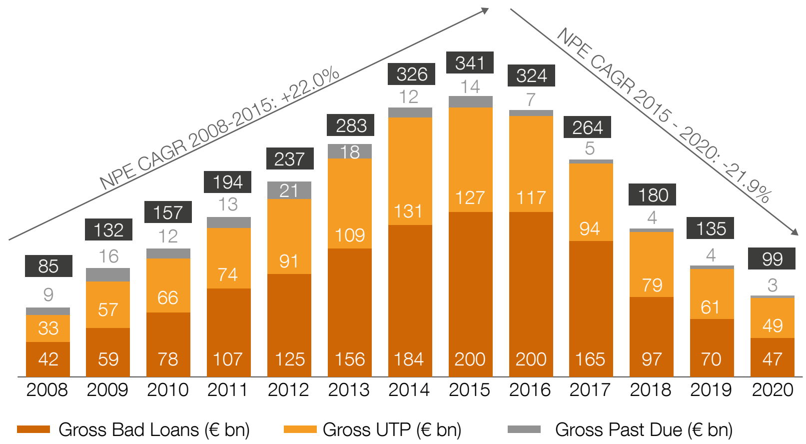
Asset Quality

Chart 16 shows the trend in Italian NPE stock. After peaking at €341bn in 2015, the trend has been decreasing, reaching €99bn at YE-2020.

Gross Bad Loans dropped by €23bn vs YE-2019 and by €50bn vs YE-2018. Gross Unlikely to Pay showed a slower decline, with €49bn in 2020 vs €61bn at YE-2019. Gross Past Due at YE-2020 is slightly below by €1bn stable YE-2019 levels.

The slowdown of the decreasing trend, compared to the same period of 2019 was caused by the lockdown measures due to the COVID-19 pandemic.

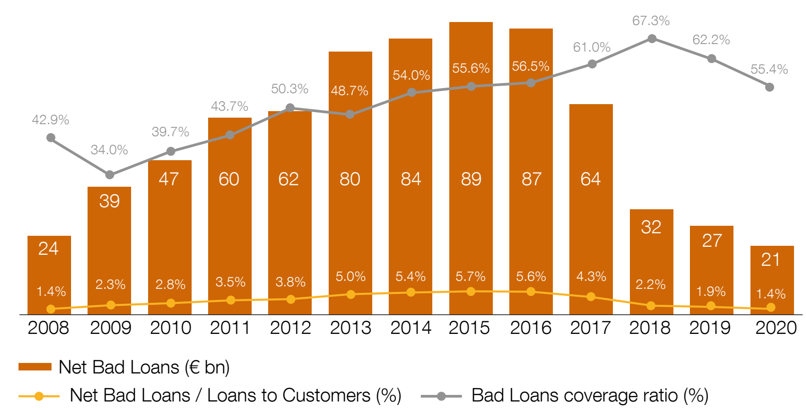
Chart 16: Gross NPE trend



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

Chart 17 Shows how the volume of net Bad Loans has experienced the same slowdown. The total amount decreased to €21bn (-€6bn vs YE-2019) while the Bad Loans Coverage Ratio for the Italian system (55.4%) decreased with respect to the ratio registered at YE-2019.

Chart 17: Net Bad Loans Trend

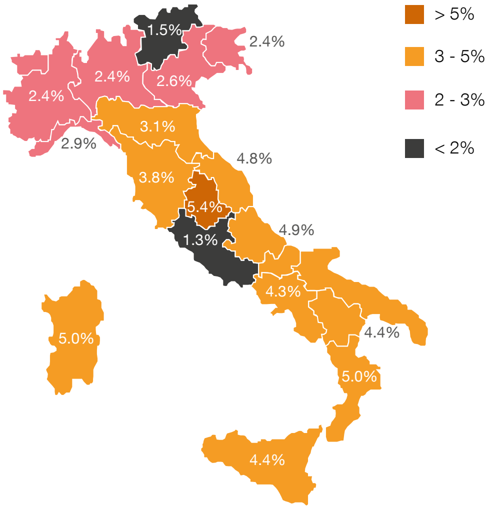


Source: PwC analysis on ABI Monthly Outlook and Bank of Italy data – May 2021
Note: 2017 and 2018 data might include financial intermediaries.

Looking at the composition of Gross Bad Loans:

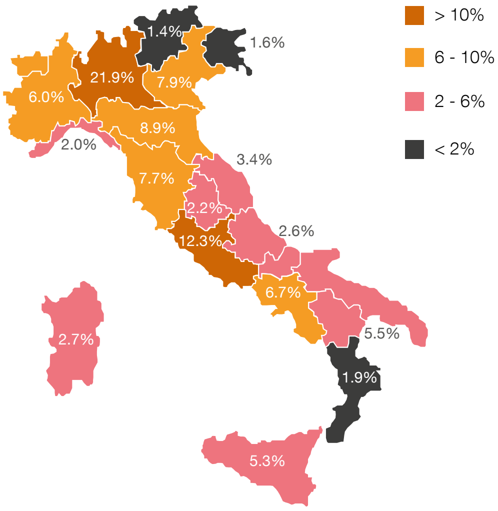
- In terms of Gross Bad Loans ratio the highest percentages are recorded in Umbria (5.4%), Sardinia (5.0%), Calabria (5.0%) and Abruzzo-Molise (4.9%); overall, northern regions tend to show lower Gross Bad Loans ratio compared to central and southern regions;
- Lombardy and Lazio account for respectively approx. 21.9% and 12.3% of total Italian Bad Loans, while they show a relative low Bad Loans Ratio (2.4% and 1.3%);
- As shown in **Chart 19**, at YE-2020 the "Corporate & SME" sector still represents the greatest share (72.8%) of Italian Gross Bad Loans, followed by the Consumer Loans (19.1%);
- The percentage of Secured Bad Loans (43%) remained relatively stable compared to YE-2019 (44%). Most of Secured Bad Loans (64%) is represented by "Corporate & SME" and 27% by Retail (**Chart 20**).

Chart 18a: Gross Bad Loans ratio by region* (YE-2020)



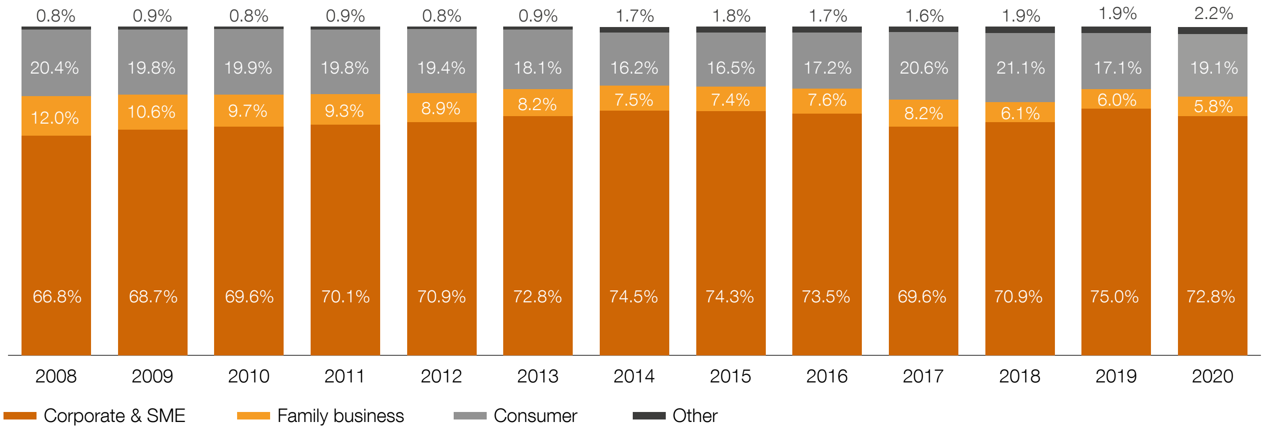
Source: PwC analysis on Banca d'Italia «Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori», March 2021.
Note: Bad Loans ratio in the region of Lazio is influenced by Cassa Depositi e Prestiti, included in Bank of Italy database; (*) Unique percentage for
1.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

Chart 18b: Breakdown of gross Bad Loans by region* (YE-2020)



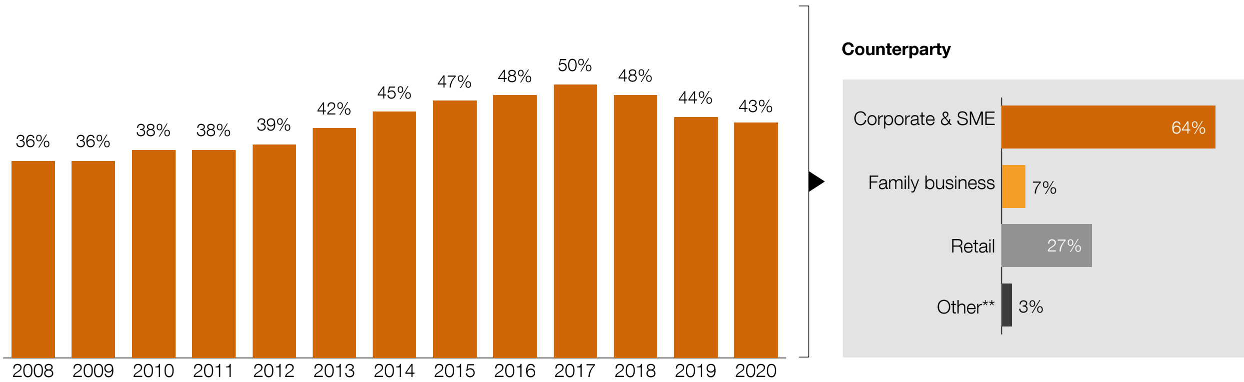
Source: PwC analysis on Banca d'Italia «Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori», March 2021.
Note: (*) Unique percentage for
1. Valle d'Aosta and Piemonte.
2. Abruzzo and Molise.
3. Puglia and Basilicata.

Chart 19: Breakdown of Gross Bad Loans by counterparty** (YE-2020)



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

Chart 20: Secured Gross Bad Loans trend (% on total Bad Loans)

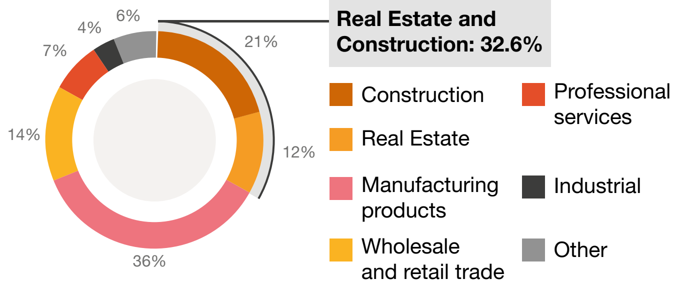


Source: PwC analysis on Banca d'Italia "Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori", March 2021 Note: (*) "Other" includes PA and financial institutions.

The breakdown of Gross Bad Loans by economic sector (**Chart 21**) shows that manufacturing products accounts for 35.8%, followed by Real Estate and Construction (32.6%) and wholesale and retail trade (14.3%).

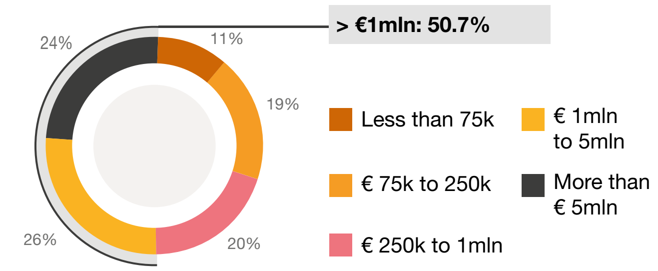
The breakdown of Gross Bad Loans by ticket size (**Chart 22**) shows that large-size exposures (over €1mln) represent 50.7% of total GBV, whereas mid-size exposures (from €75k to €1mln) and small-size exposures (below €75k) represent 38.5% and 10.8% of the total respectively.

Chart 21: Breakdown of Gross Bad Loans by economic sector (YE-2020)



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

Chart 22: Breakdown of Gross Bad Loans by ticket size (YE-2020)

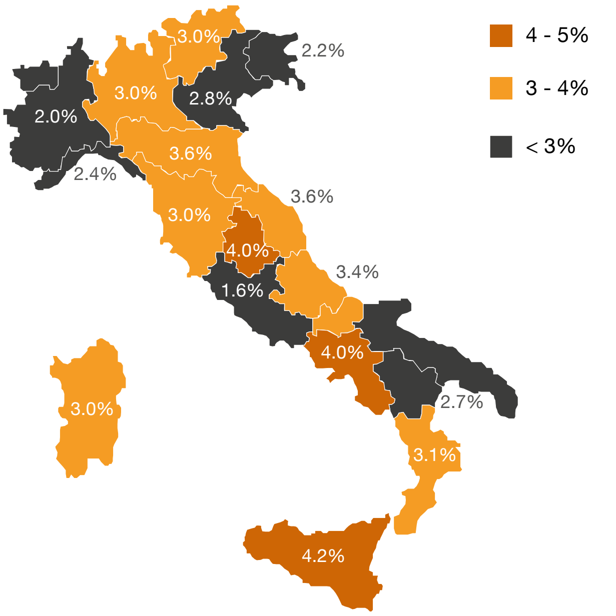


Source: PwC analysis on Banca d'Italia «Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori», March 2021.

Focus: UtP

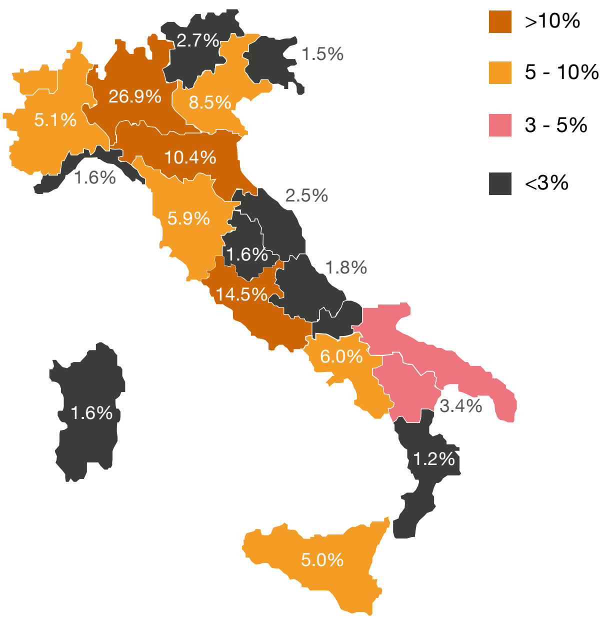
- Piemonte and Valle d'Aosta, Liguria, Veneto, Lazio, Friuli Venezia Giulia, Puglia and Basilicata are the regions with the lowest incidence of UtP (UtP ratio lower than 3%), whereas Sicily (4.2%), Umbria (4.0%) and Campania (4.0%) are the regions with the highest levels of UtP ratio;
- In terms of volumes, the highest UtP concentration is in Lombardy and Lazio (respectively, 26.9% and 14.5% of total volumes).

Chart 23a: UtP ratio by region** (YE-2020)



Source: PwC analysis on Banca d'Italia «Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori», March 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 23b: Breakdown of UtP by region** (YE-2020)



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

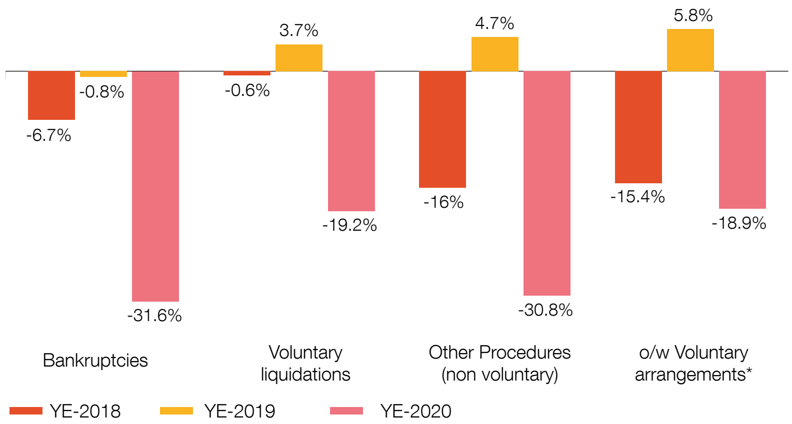
Key Message

Due to COVID-19, in 2020 companies' closures massively dropped thanks to emergency measures to prevent an even higher economic crisis. These led to a freeze on bankruptcies, other procedures and liquidations.

In 2020, due to the **contingent measures to prevent an economic collapse due to COVID-19 pandemic, emergency measures has been adopted**. These measures, such as inadmissibility of insolvency procedures or extensions of agreements with creditors freezed companies's closures: as shown in **Chart 24**, at YE-2020 there was a massive drop respectively by 31.6% in bankruptcies and by 30.8% in other insolvency proceedings.

Chart 25 shows the distribution of business closures between Italian regions. The lowest increase in Voluntary liquidations are shown in Lombardy (-4.3%) and Emilia Romagna (-8.3%). Only Trentino-Alto-Adige has registered an increase in voluntry liquidations (+4.3%). Regarding bankruptcies and other insolvency proceedings, the situation is uniformly distributed among all the Italian regions.

Chart 24: Business closures by procedure (% YoY)



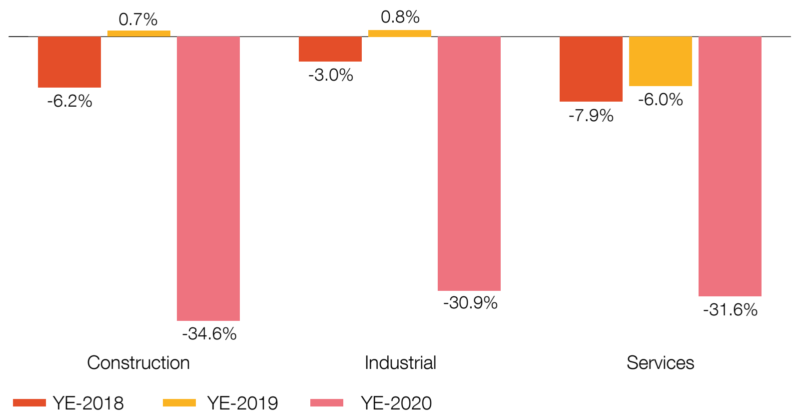
Source: PwC analysis on "Osservatorio su fallimenti, procedure e chiusure di imprese", Cerved, March 2021 Note: "Other insolvency proceedings" = "Procedure concorsuali non fallimentari"; "Voluntary arrangements" = "Concordati preventivi".

Chart 25: Trend of business closures by Italian regions

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

Chart 26 shows that the **Industrial, Service and Construction sector** experienced a massive decrease in bankruptcies (-34.6%, -31.6% and -30.9% YoY respectively), after one year of a slightly increase.

Chart 26: Bankruptcies by economic sector (% YoY)

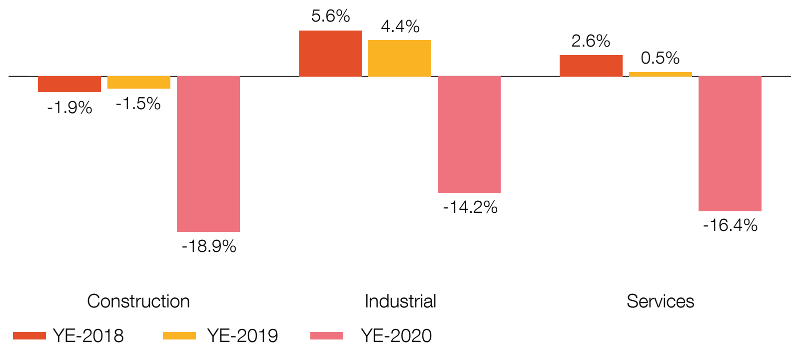


Source: PwC analysis on "Osservatorio su fallimenti, procedure e chiusure di imprese", Cerved, March 2021

Chart 27 shows that Voluntary liquidations in **Construction sector reduced** by 18.9% YoY at YE-2020 (vs -1.5% at YE-2018).

In **Industrial** and **Services sectors** the **decrease** of Voluntary liquidations in 2020 (-14.2% and -16.4% respectively) happens after two years of increase (+4.4% and 0.5% in 2019).

Chart 27: Voluntary liquidations by economic sector (% YoY)

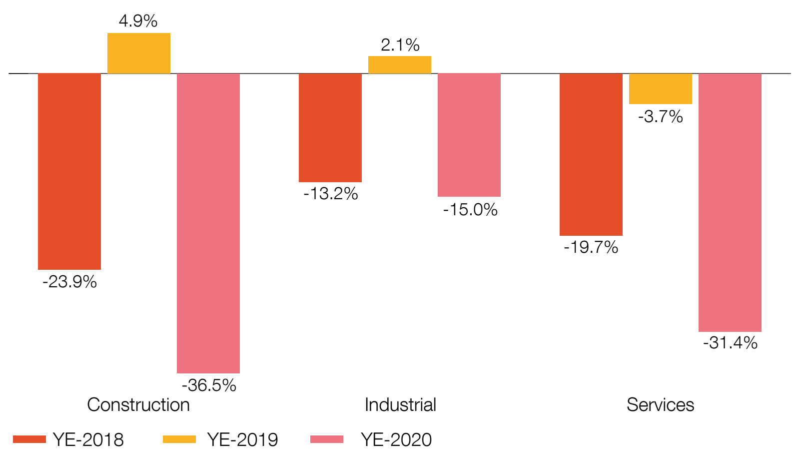


Source: PwC analysis on "Osservatorio su fallimenti, procedure e chiusure di imprese", Cerved, March 2021

Chart 28 shows that other insolvency proceedings' **trend has reversed in the Construction and Industrial sector**, with a decrease at YE-2020 (-36.5% and 15.0% vs +4.9% and +2.1% at YE-2019 respectively).

The **Services sector** continues its **downward trend** with a drop of 31.4%.

Chart 28: Voluntary liquidations by economic sector (% YoY)



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

Focus on GACS

Key Message

All top Italian banks have made extensive use of the GACS scheme since 2016. Several GACS transactions are performing below initial expectations 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) disposals during last years. GACS means the unconditional, irrevocable and payable on first demand guarantee issued by the Ministry of Economy and Finance (MEF) on senior tranches issued under an NPLs credits securitization transaction. Through this mechanism, the subscribers of the senior notes, within 120 days from the occurrence of a trigger event (i.e. non-payment of interest or repayment of principal by the SPV) will obtain from the MEF the payment of the due amount. The GACS scheme was firstly introduced by the Italian Government in February 2016 and extended several times, until its expiration in March 2019.

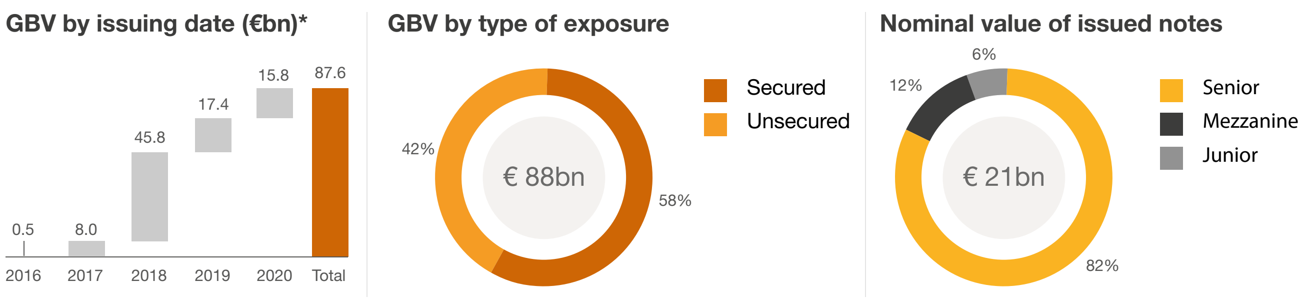
Given the success reached in allowing the development of a market for banks’ non-performing loans (and consequently their deleveraging), the Decree Law 25 March 2019 n. 22 (the so-called Brexit Decree) renewed, with some modifications, the GACS for 24 months (i.e. until the end of May 2021), with the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

Therefore, since the first months of 2021 Italian Government has been negotiating with the European Commission the extension for the GACS scheme. On June 14th, 2021 the GACS scheme, a couple of weeks past its expiration date, have been renewed up to June 2022.

The most relevant updates introduced by the new GACS are:

1. **Rating issuance:** Senior notes must receive a rating higher or equal to BBB from an independent rating agency and no longer at least equal to investment grade level (BBB-).
2. **Performance objectives related to servicer replacement:** servicer substitution is envisaged without any penalties if the ratio between net cumulative recoveries and net recoveries expected in servicer’s business plan is less than 100% for two consecutive interest payment dates.
3. **Performance objectives related to servicer fee:** if the ratio between net cumulative recoveries and net recoveries expected in servicer’s business plan is less than 90%, a portion not less than 20%, of the total due fee shall be deferred to the total reimbursement of senior note or to the date when the ratio returns greater than 100%.
4. **Performance objectives related to interest payment on mezzanine notes:** if the ratio between net cumulative recoveries and net recoveries estimated in portfolio business plan is less than 90% at the mezzanine interest payment date, the related interest is deferred since the full reimbursement of senior notes capital or since the ratio is greater than 100%.

Chart 29: Key features of NPE portfolios subject to securitization with GACS



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

As shown in **Chart 30** where is represented the cumulative net collection of GACS transactions compared with business plan forecast, there are 11 of them under the original projections at YE-2020, three more with respect to YE-2019.

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

In particular, the Coronavirus outbreak resulted in a freeze of legal proceedings and in a less liquid property market causing a slowdown of the collection processes. Indeed, Court operations were suspended during the first lockdown, they resumed at a slower pace after the opening in July and then slowed down in the last quarter of 2020. According to Cerved, it is estimated that court closures and delays related to the slowdown of activities have caused expected debt collections to slip by more than 4 months.

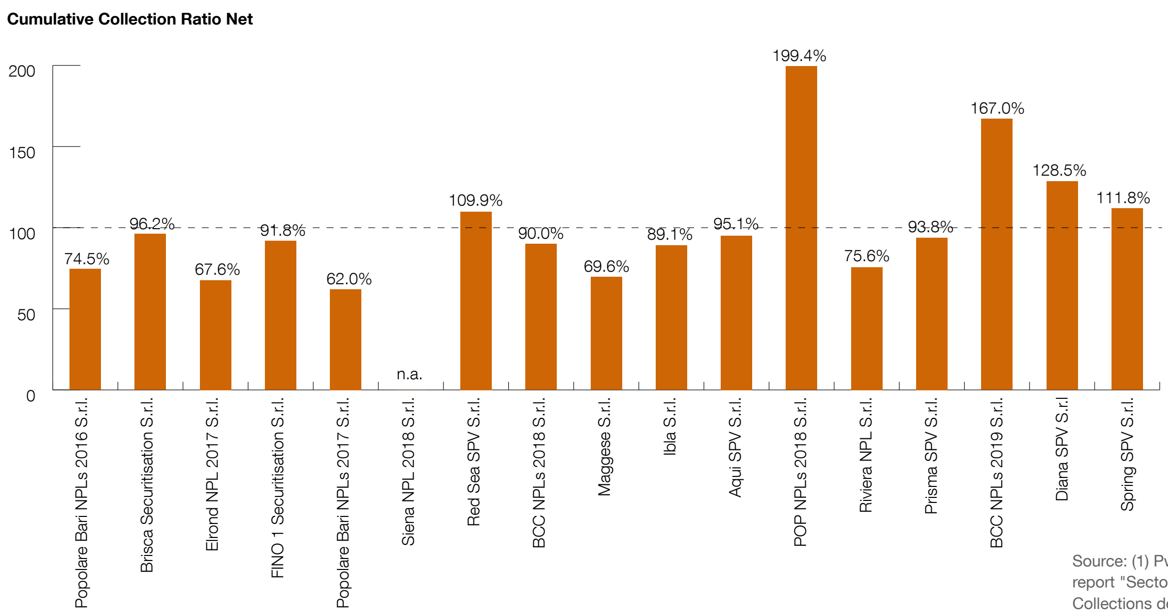
At the end of the first wave of COVID-19 pandemic the Italian Government passed “Decreto Rilancio” which stated that Ministry of Finance can approve temporary suspensions of performance triggers related to the payment of servicers’ fees. The Decree, which was converted in law on 17 July, will ensure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

From 2016 to date, 35 GACS transactions have been closed accounting for a total GBV of approx. €88bn of which 58% secured. Nominal value of issued notes is approx. €21bn of which 82% are represented by senior notes, 12% by mezzanine notes and 6% by junior notes. In terms of GBV 21 deals out of 35 had a deal size greater than €1bn of which 6 of them had a deals size greater than € 5bn. Almost all Italian top banks used GACS to implement their deleveraging strategies, except for Cariparma. Deals in the Italian NPL market reached the peak in 2018, when € 46bn out of € 84bn total NPE disposals benefitted from the public guarantee. MPS, thanks to the GACS, closed the jumbo sale of € 24bn (Siena NPL 2018), which represents the biggest deal in the Italian market so far in terms of GBV.

The trend in 2020 reversed from the downward trend recorded in 2019. Indeed, in 2020, 10 transactions were recorded (in 2019 were recorded 6 transactions) for a total GBV of €15.8bn.

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.

Chart 30: Cumulative net collection (actual data vs business plan forecasts)



Source: (1) PwC analysis on Moody’s report "Sector update – Q2-2020: Collections down over 20% for half of transactions in 2020".

Table 7: List of NPE securitisations with GACS since 2016

						Rated Notes (at nominal value)					
Main banks involved	**SPV**	**Servicer**	**Issuing date**	**GBV (€/bn)**	**% Secured**	**"Senior (% GBV)"**	**"Mezzanine (% GBV)"**	**"Junior (% GBV)"**	**"Senior* Yield (%)"**	**"Mezzanine* Yield (%)"**	**Buyer**
Banca Popolare di Bari	Popolare Bari NPLs 2016 S.r.l.	Prelios	Aug-16	0.5	63%	26%	3%	2%	(0.0%)	5.5%	n.a
Carige	Brisca Securitisation S.r.l.	Prelios	Jul-17	0.9	77%	28%	3%	1%	0.1%	5.5%	n.a
Creval	Elrond NPL 2017 S.r.l.	Cerved	Jul-17	1.4	74%	33%	3%	1%	(0.0%)	5.5%	Waterfall Asset Management
UniCredit	FINO 1 Securitisation S.r.l.	doValue	Nov-17	5.4	52%	12%	1%	1%	1.0%	4.6%	Fortress
Banca Popolare di Bari	Popolare Bari NPLs 2017 S.r.l.	Prelios	Dec-17	0.3	56%	25%	3%	4%	0.0%	5.5%	n.a
MPS	Siena NPL 2018 S.r.l.	Cerved, Prelios, doValue, Credito Fondiario	Jan-18	24.6	49%	13%	3%	2%	1.0%	8.0%	Italian Recovery Fund**
Creval	Aragorn NPL 2018 S.r.l.	Cerved, Credito Fondiario	Jun-18	1.7	75%	30%	4%	1%	(0.0%)	6.5%	Investitori istituzionali
Banco BPM	Red Sea SPV S.r.l.	Prelios	Jul-18	5.1	77%	32%	3%	1%	0.1%	5.5%	n.a
BPER	4Mori Sardegna S.r.l.	Prelios	Jun-18	1.0	53%	22%	1%	1%	0.4%	7.5%	Investitori istituzionali
Banco Desio e Brianza	2Worlds S.r.l.	Cerved	Jun-18	1.0	72%	29%	3%	1%	(0.1%)	7.5%	n.a
ICCREA	BCC NPLs 2018 S.r.l.	Prelios	Jul-18	1.0	72%	27%	3%	1%	(0.1%)	5.5%	n.a
Cassa di Risparmio di Asti	Maggese S.r.l.	Prelios	Jul-18	0.7	63%	24%	3%	2%	(0.0%)	5.5%	n.a
BNL (BNP Paribas)	Juno 1 S.r.l.	Prelios	Jul-18	1.0	30%	14%	3%	0%	0.1%	7.5%	Investitore Istituzionale
UBI	Maior SPV S.r.l.	Prelios	Aug-18	2.7	47%	23%	2%	1%	(0.0%)	5.5%	n.a
Banca Popolare di Ragusa	Ibla S.r.l.	doValue	Sep-18	0.3	82%	24%	3%	1%	0.1%	7.5%	n.a
BPER	Aqui SPV S.r.l.	Prelios	Nov-18	2.1	60%	26%	3%	1%	(0.0%)	6.5%	n.a
Banca Popolare di Bari	POP NPLs 2018 S.r.l.	Cerved	Nov-18	1.6	66%	27%	3%	1%	0.0%	5.5%	n.a
Carige	Riviera NPL S.r.l.	Credito Fondiario, doValue	Dec-18	1.0	39%	18%	3%	1%	0.1%	6.5%	n.a
ICCREA	BCC NPLs 2018-2 S.r.l.	doValue	Dec-18	2.0	58%	24%	3%	1%	0.0%	5.5%	n.a
Banco BPM	Leviticus SPV S.r.l.	Credito Fondiario	Feb-19	7.4	67%	19%	3%	3%	0.1%	7.5%	Elliott
BNL (BNP Paribas)	Juno 2 SPV S.r.l.	Prelios	Feb-19	1.0	61%	21%	5%	1%	0.1%	7.5%	n.a
UniCredit	Prisma SPV S.r.l.	doValue	Oct-19	6.1	64%	20%	1%	0%	1.0%	8.5%	SPF Investment Management
UBI	Iseo SPV S.r.l.	Credito Fondiario, doValue	Dec-19	0.9	92%	39%	3%	2%	(0.0%)	5.5%	n.a
ICCREA	BCC NPLs 2019 S.r.l.	doValue	Dec-19	1.3	66%	27%	4%	1%	0.0%	6.0%	n.a
Banca Popolare di Bari	POP NPLs 2019 S.r.l.	Prelios, Fire	Dec-19	0.8	47%	21%	3%	1%	0.0%	9.0%	n.a
BPER	Spring SPV S.r.l.	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%	(0.0%)	9.0%	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
	Total			**87.6**							
	Weighted average				**57.6%**	**19.9%**	**3.0%**	**1.5%**	**0.4%**	**7.3%**	

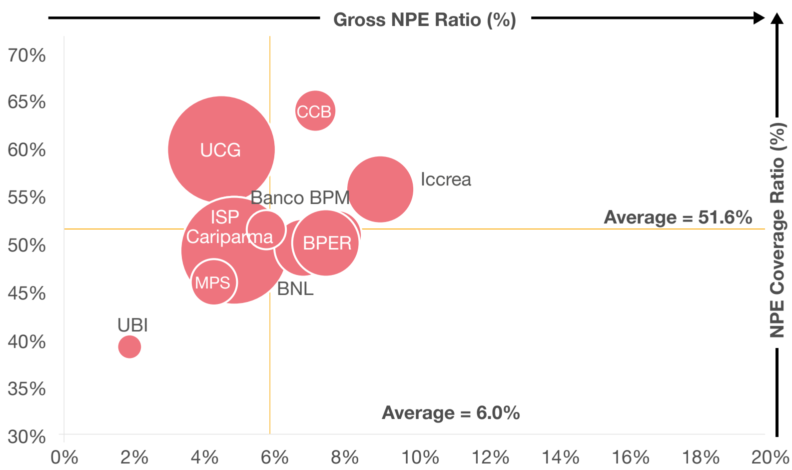
Source: PwC analysis on Rating Agencies' reports
Note: (*) Annual yield of notes has been calculated as interbank rate as of June 2021 plus applicable spread and considering floors when applicable to variable rates.

Italian Banks Overview

Chart 31 focuses on the Gross NPE ratio and the NPE coverage ratio for the Top 10 Italian Banks, which shows respectively an average of 6.0% and 51.6%. On one side Iccrea shows the highest Gross NPE Ratio with 9.1% while, on the other side, UBI stands at the lower extreme with 1.9%. Considering the NPE coverage ratio, CCB shows the highest value (64.0%) and UBI the lowest (39.2%).

However, coverage ratios are not perfectly comparable, as they are influenced by several factors that are unique in every bank, such as write-off policies, weight of secured component and portfolio vintage (time since default date).

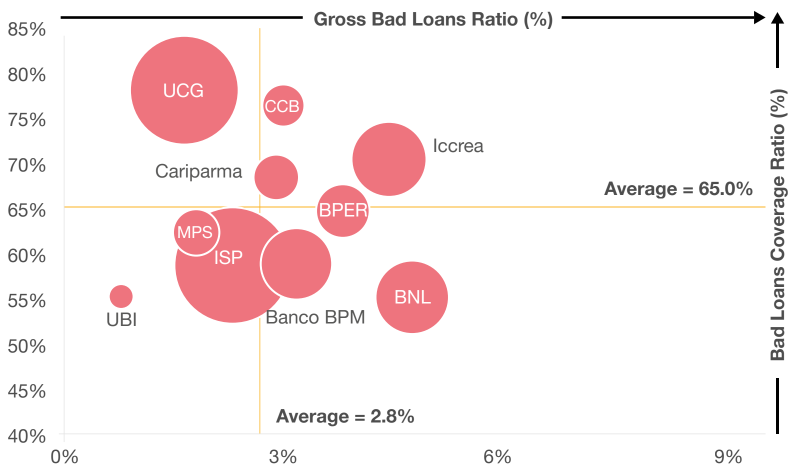
Chart 31: Top 10 Italian Banks – NPE Peer Analysis as of YE-2020
(Bubble size: Gross NPE)



Source: Financial statements as of YE-2020. Data affected by different write-off policies.

The same analysis is reproduced considering the Gross Bad Loans ratio and the Bad Loans coverage ratio (**Chart 32**). Also in this case there are differences among the Top 10 Italian Banks: BNL reached the highest gross Bad Loans ratio at 4.6% and UBI the lowest, reporting a 0.8% (the average stands at 2.8%). Coverage ratio ranges between 78.4% (UniCredit) and 55.2% (BNL); average stands at 65.0%.

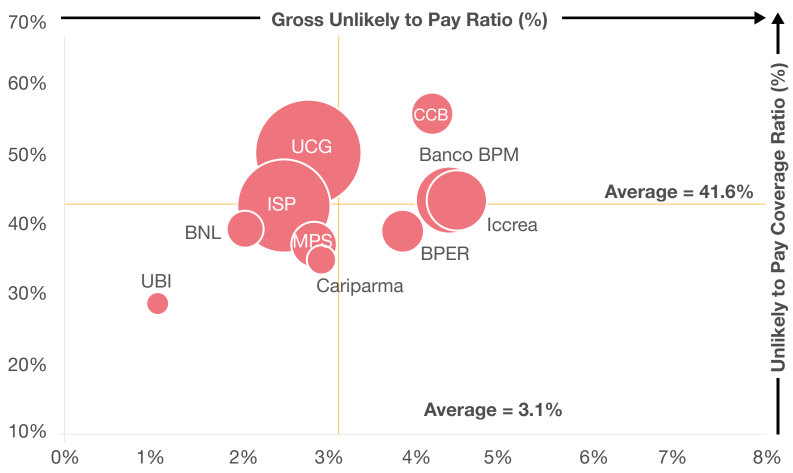
Chart 32: Top 10 Italian Banks – Bad Loans Peer Analysis as of YE-2020
(Bubble size: Gross Bad Loans)



Source: Financial statements as of YE-2020. Data affected by different write-off policies.

Chart 33 provides an overview of the Unlikely to Pay ratio and its coverage ratio for the Top 10 Italian Banks. The average for the first ratio is 3.1%, with Iccrea showing the highest ratio, reaching 4.5% while UBI shows the lowest one with 1.0%. The Unlikely to Pay coverage ratio average is 41.6%. CCB is at the top with 56.3% and UBI at the bottom with 28.3%.

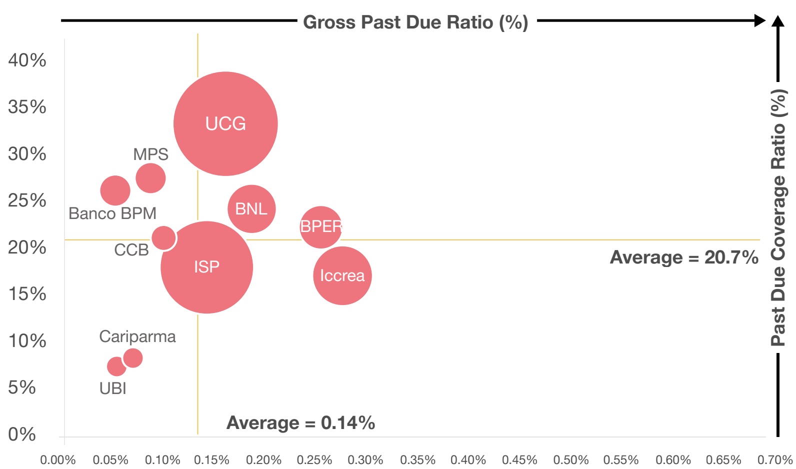
Chart 33: Top 10 Italian Banks – Unlikely to Pay Peer Analysis as of YE-2020 (Bubble size: Gross Unlikely to Pay)



Source: Financial statements as of YE-2020. Data affected by different write-off policies.

Chart 34 illustrates the Gross Past Due ratio and the coverage ratio for the banks analyzed. Iccrea records the highest Gross Past Due ratio reaching 0.28% while Banco BPM the lowest at 0.05%. The relative coverage ratio indicates two peaks: on one side UniCredit with 33.7% and on the other side 7.5% with UBI. The average reaches 20.7%.

Chart 34: Top 10 Italian Banks – Past Due Peer Analysis as of YE-2020 (Bubble size: Gross Past Due)



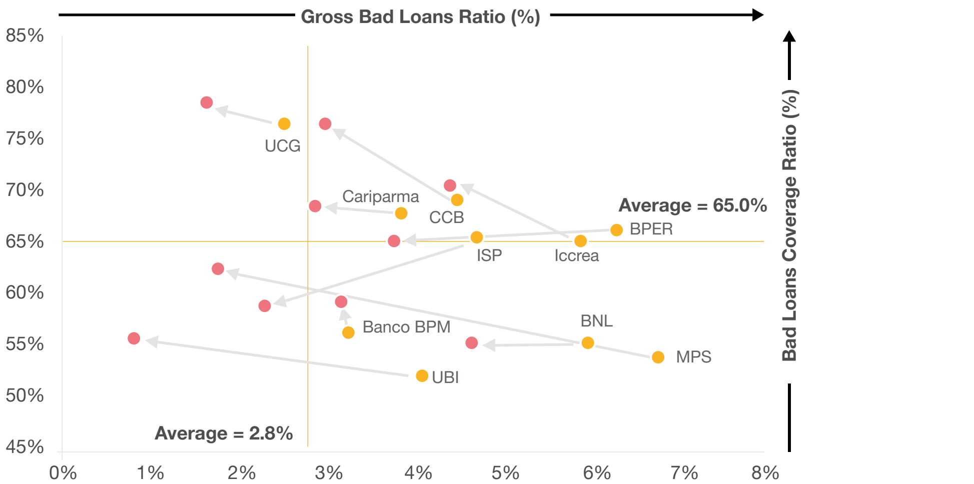
Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies. Totals as simple average of ratios. Note: data of BNL as of YE-2019.

Chart 35 analyses, for the Top 10 Italian Banks, the movements in the Gross Bad Loans Ratio and the Bad Loans Coverage Ratio between YE-2019 and YE-2020. At YE-2020 the average Gross Bad Loans ratio reached 2.8%, whereas the coverage Ratio stands at 65.0%.

The analysis indicates that all the top 10 Italian Banks registered a decrease of the Bad Loans Ratio.

MPS shows the most significant reduction in Gross Bad Loans Ratio (-4.7% vs YE-2019) while ISP shows the most important reduction in Bad Loans Coverage Ratio (-6.5% vs YE-2019) .

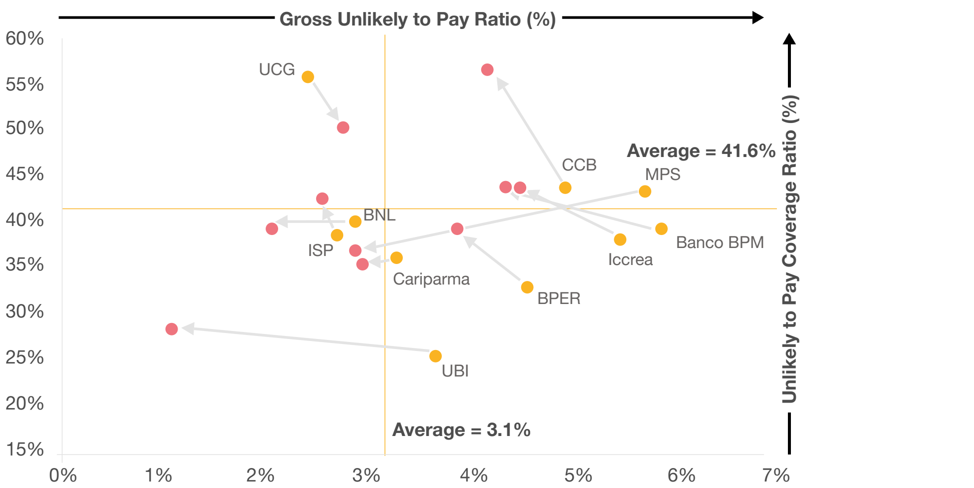
Chart 35: Top 10 Italian Banks – Bad Loans movements (YE-2019 vs YE-2020)



Source: Financial Statements as of YE-2019 (yellow) and YE-2020 (rose). Data affected by different write-off policies.

Chart 36 shows that almost all of the Top 10 Italian Banks analysed experienced a decrease in the Gross Unlikely to Pay Ratio (except for UCG that registered an increase of 0.4% with respect to YE-2019). The chart shows that the Unlikely to Pay Coverage Ratio increased in 6 of the top 10 Italian Banks and decrease in the other 4 (UCG, MPS, Cariparma, BNL). At YE-2020 the average Gross Unlikely to Pay Ratio stands at 3.1%, while the Unlikely to Pay Coverage Ratio is 41.6%.

Chart 36: Top 10 Italian Banks – Unlikely to Pay movements (YE-2019 vs YE-2020)



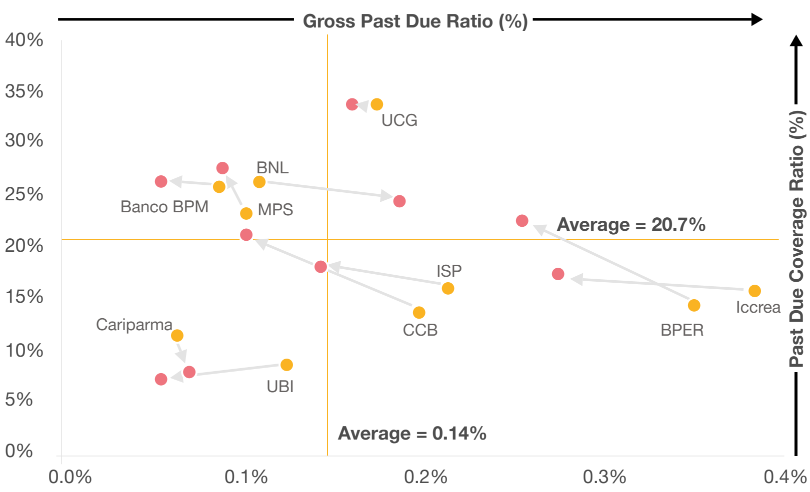
Source: Financial Statements as of YE-2019 (yellow) and YE-2020 (rose). Data affected by different write-off policies.

Chart 37 illustrates the movements in the Gross Past Due Ratio and Past Due Coverage Ratio.

At YE-2020, the average Gross Past Due Ratio stands at 0.14% and the Past Due Coverage Ratio at 20.7%. The Gross Past Due ratio of 8 out of 10 of the Top 10 Italian Banks decreased compared to YE-2019, while BNL and Cariparma show an increase respectively of 0.08% and 0.01%.

Iccrea and CCB registered the most significant movement in Gross Past Due Ratio (-0.1% for both the banks vs YE-2019), while BPER and CCB show the highest increase of Past Due Coverage Ratio respectively of 7.8% and 7.5% vs YE-2019.

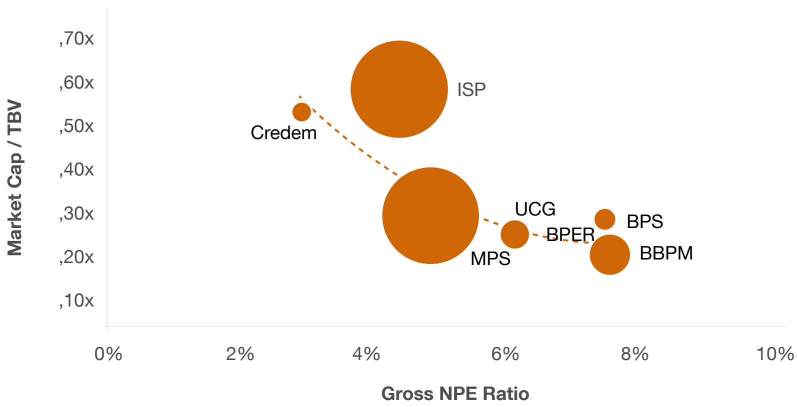
Chart 37: Top 10 Italian Banks – Past Due movements (YE-2019 vs YE-2020)



Source: Financial Statements as of YE-2019 (yellow) and YE-2020 (rose). Data affected by different write-off policies.

Chart 38 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 38: Top Italian Banks (listed) – Relation between Market Cap/TBV and Gross NPE Ratio as of Q1-2021 (Bubble size: Tangible Book Value)

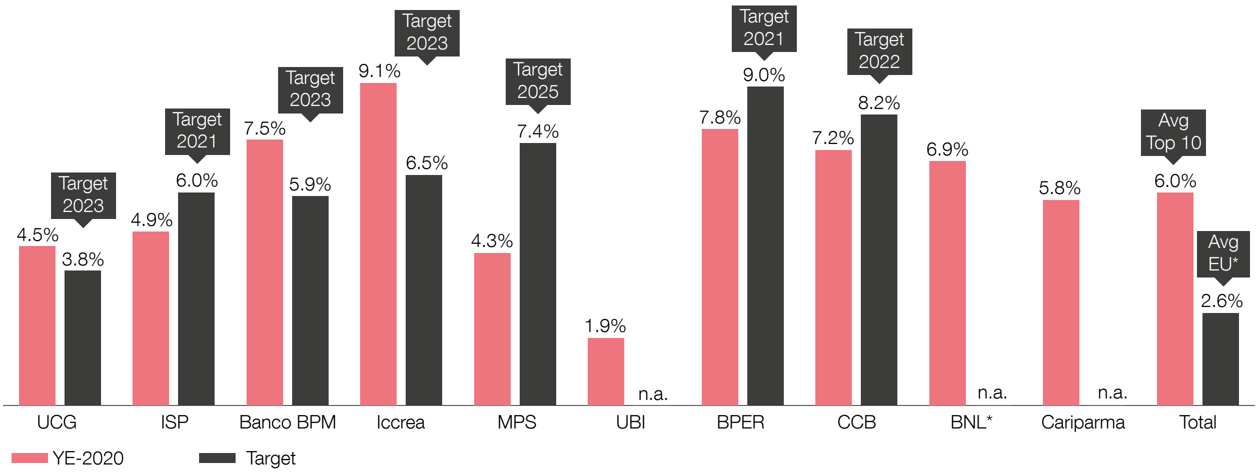


Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies. Market Cap as of March 2021, TBV and NPE ratio as of March 2021.

Chart 39 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.

Nevertheless, Gross NPE Ratio of Top Italian Banks is still far from European average.

Chart 39: Top 10 Italian Banks – Target Gross NPE Ratio vs current as of YE-2020



Sources: PwC analysis on financial statements and analysts' presentations and on «Risk Dashboard – Data as of YE-2020», 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;

Focus on Italian UtP Market

Key Message

Since Q1-2015 UtPs show a decreasing trend, reaching €49bn in Q4-2020 vs €128bn in Q1-2015. The proportion of exposures subject to forbearance measures ("Forbearance ratio") represent 51% of total UtPs, showing a slight increase from the value of Q4-2019 (49%).

Our view

Due to the COVID-19 pandemic the role of UtP management has been further highlighted, also because UtPs represent one of the major challenges for the Italian banking system.

In 2020 the top 10 Italian Banks have been following their deleveraging plans reducing their average Gross UtP Ratio from 4.1% at YE-2019 to 3.1% at YE-2020 with a total GBV of €42.7bn.

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

As previously stated, Italian banks Balance Sheets have seen an increase in Stage 2 credits among YE-2019 and YE-2020. This implies the possibility of an increase in the total amount of UtP in the next years.

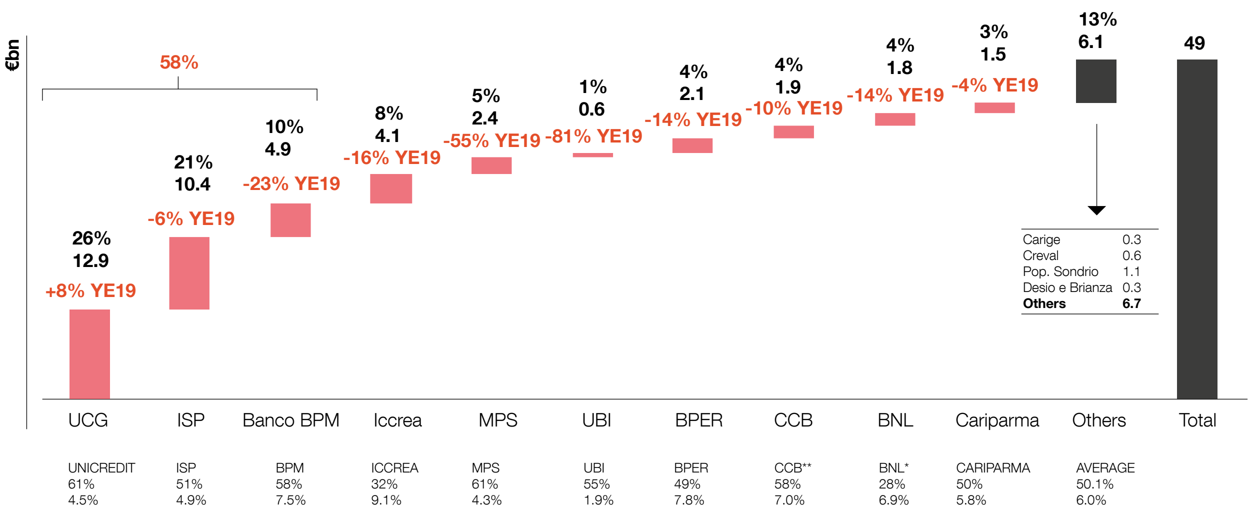
In order to prevent the credit quality deterioration and to implement more focused strategies for these distressed credits, there are several initiatives that aim at establishing specific private equity funds for the management of UtPs (e.g. the one set up by Finint Investments Sgr together with UniCredit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

Nevertheless, the request to extend the GACS guarantee also to UtPs has not been accepted by European Commission during the negotiations carried out by the Italian Government.

The chart below shows a comparison between Gross UtP Exposures at YE-2019 with respect to YE-2020 or Top 10 Italian Banks.

The majority of UtPs is concentrated in the balance sheets of the top 3 Italian Banks (58% of the total Italian banking stock).

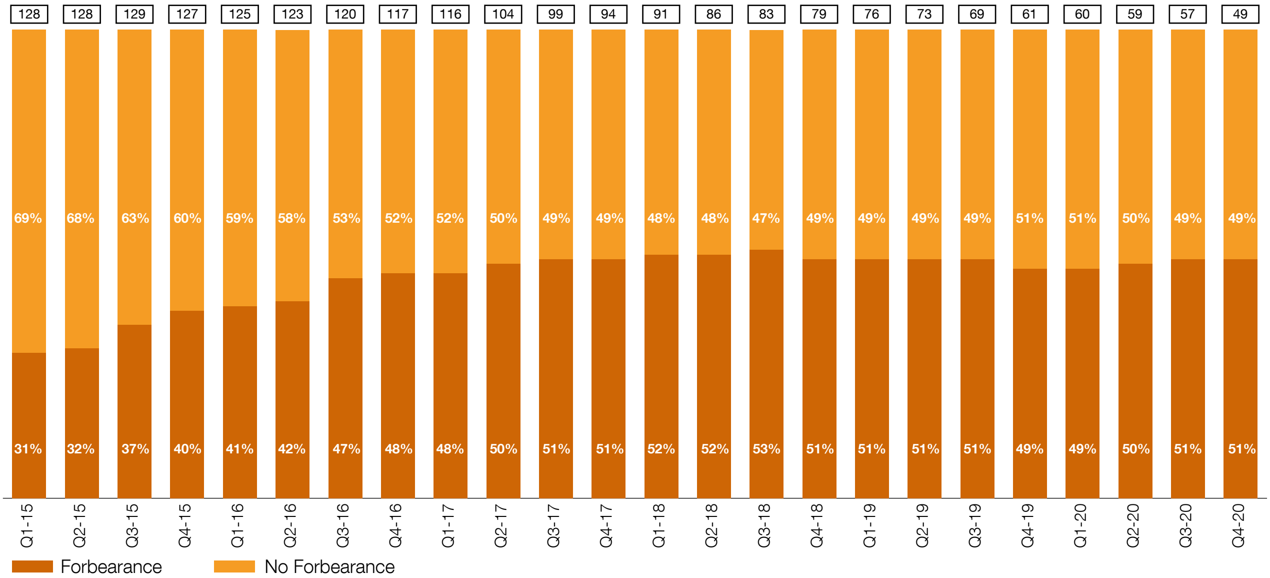
Chart 40: Top 10 Italian Banks – UtP distribution (€bn and %) as of YE-2020



Source: PwC analysis of financial statements and analysts' presentations. The list of Top 10 Italian Banks is based on the Total Asset as of YE-2020.

Chart 41: 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», March 2021

Inflows and outflows

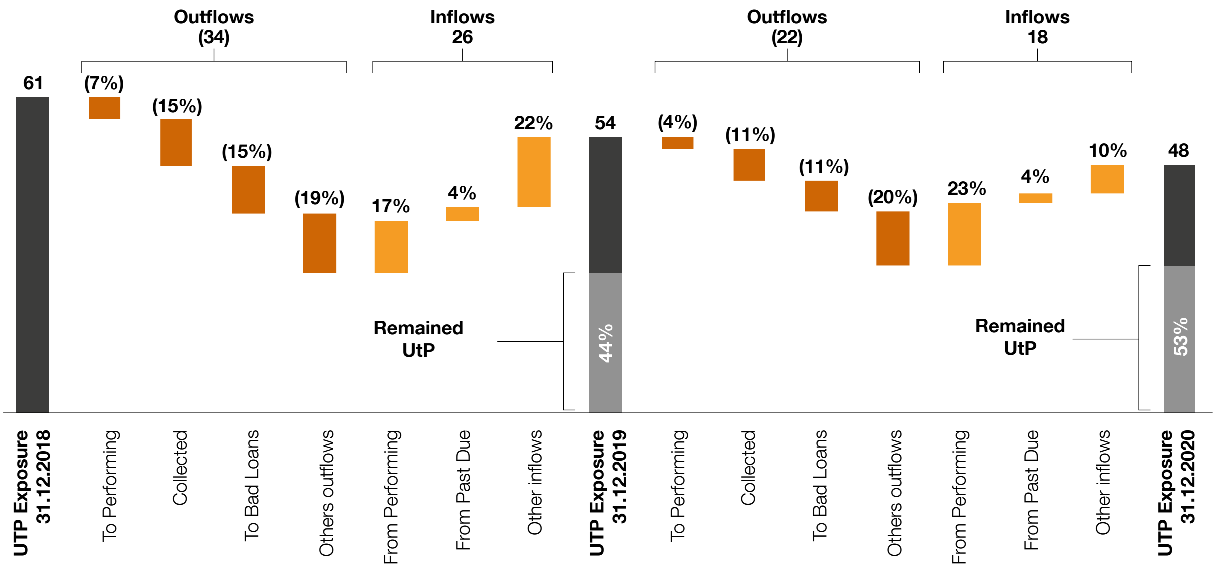
In 2020, continued the decreasing trend of Gross UtP Exposures among the Top 10 Italian Banks.

The chart below shows UtP inflows and outflows during the past two years.

UtP registered an increase in outflows to Bad Loans over the last 2-year period: 20% in 2020 vs 15% in 2019.

Furthermore, UtP showed an increasing trend in inflows from performing exposures in the last 2-year period: 23% in 2020 vs 17% in 2019 (**Chart 42**).

Chart 42: Top 10 Italian Banks – UtP inflows and outflows (€bn and %) from 2018 to 2020



Other outflows include: Write-offs; Forbearance measures; Sales proceeds; Sales losses; Other outflows.
Other Inflows include: Forbearance measures; Acquired exposures; Other inflows.

Source: PwC analysis of financial statements and analysts' presentations. The list of Top 10 Italian Banks is based on the Total Asset as of YE-2020.

The UtP Market has been moving towards transactions of larger portfolios

2020 has registered closed transactions for a total GBV of €8.4bn (of which €1.2bn in the first half of 2020). In the first half of 2021 only one transaction has been closed: BPER sold a portfolio of €0.2bn to Intrum S.p.A. (“Project Winter”). The slowdown compared among the first half of 2020 and 2021 is mainly linked to the effect of the second wave of COVID-19 pandemic occurred in the last quarter of 2020 and in Q1 of 2021.

The largest closed transactions occurred in 2020 include MPS’s Hydra Project jumbo deal with a GBV of €2.4bn, UniCredit’s deals for a GBV of €1.6bn, Grandi Lavori Fincosit’s deal for a GBV of €1.3bn, Banco BPM’s deals for a GBV of €1.1bn and Banca Popolare di Bari’s deal of €1.0bn.

As concerns Intesa Sanpaolo, it has merged with UBI during 2020; since the merging, it has announced an ongoing jumbo deal of €2.4bn (Project M2).

Nevertheless, the slowdown shown in the first half of 2021 regarding the deleveraging processes of the Italian banks, €4.8bn of transactions are announced for the next months. Indeed, UniCredit announced €0.8bn deals in pipeline, BPER declared a €0.5bn deal and Banco BPM announced €1.0bn deal.

Despite the outbreak of coronavirus, UtP deleveraging strategies carried out by the major Italian banks are still ongoing. However, we can expect more delay in the ongoing transactions due to COVID-19 and to flexible guidelines promoted by the European Central Bank to prevent a financial crisis.

The Servicing Market

Key Message

On one hand, the Italian debt servicing industry will continue to focus on the management of an incomparable NPE stock of over €350bn; on the other one, debt servicers will face the challenge to manage the upcoming inflows, which will require a more tailored and sophisticated approach than in the past.

Context

The Italian debt servicing industry despite the market turbulence due to the global pandemic, has come through relatively well.

Following the COVID-19 outbreak servicers had to review the assumptions underpinning their business plans, to factorise the possible delays in their recoveries. The servicers will have to support banks in managing the new NPE inflows and to improve their ability to deal with UTPs.

Overview on Debt servicing

Multiples trends are changing dominating business models in debt servicing:

Scale

Most of the largest NPE transactions/ carve outs (jumbo deals) also included strategic agreements on future flows thus, a large chunk of them is already "assigned" to largest debt purchasers. Scale is becoming a key differentiating factor and investors' ambition is mostly associated to the development of large scale champions able to compete also cross-country.

Real estate and UtP management

A deeper and wider skill set is necessary to compete. Real estate capabilities are needed to participate in the UtP play with debt purchaser constantly looking for restructuring capabilities.

Value chain completion

Debt servicers constantly looking to achieve operational excellence to grant investors lower servicing fee. Due to the large investments needed to compete, large debt servicers are looking to complete their credit management value chain with value added-services such as corporate receivable management new financing options and the simplification of credit management. and collection through the adoption of new technologies.

Debt Purchasing business key figures (2020)

	Net financial margin (€m)	Gross Financial Margin on Interest earning assets (%)	Cost of funding on Interest earning assets (%)	Net Financial Margin on Interest earning assets (%)	Net Financial Margin on RWA (%)	Cost / Income (%)	Profit Before Tax on Interest earning assets (%)	Profit Before Tax on RWA (%)	Profit before taxes (€m)	Interest-earning assets (€bn)	RWA (€bn)
Italian players											
IFIS Npl Investing	193	14.8%	1.1%	13.7%	10.3%	n.a.	n.a.	n.a.	n.a.	1.4	1.9
illimity – Distressed Credit	140[1]	n.a.	n.a.	10.6%	7.6%	37%	6.6%	4.7%	87	1.3	1.8[7]
AMCO	125	3.2%	0.8%	2.4%	2.1%	21%	1.9%	1.7%	98	5.2	5.9
Credito Fondiario	74[2]	8.9%	1.9%	7.0%	5.7%	n.a.	n.a.	n.a.	n.a.	1.0	1.3
Guber	16	35.1%	3.9%	31.2%	4.9%	40%	18.7%	3.0%	10	0.1	0.3
Pan-European players (figures at consolidated European level)											
Intrum - Portfolio Investments	494[3]	20.0%	5.1%	14.9%	n.a.	53%	7.0%	n.a.	232	3.3	n.a.
Hoist	226	13.4%	2.6%	10.8%	7.7%	99%	0.1%	0.1%	2	2.1	2.9
B2 Holding	202[3]	21.9%	6.3%	15.7%	n.a.	48%[5]	8.1%	n.a.	105	1.3	n.a.
Kruk	187	24.5%	3.2%	21.3%	n.a.	75%	5.2%	n.a.	46	0.9	n.a.
Arrow - BS business	121[3,6]	15.8%	5.5%	10.4%	n.a.	106%	-0.6%	n.a.	(7)	1.2	n.a.
Axactor	66[4]	10.3%	4.4%	5.9%	n.a.	56%	2.6%	n.a.	29	1.1	n.a.

Legend: Gross Financial Margin = Interest Income - Loan Loss Provisions +/- Portfolio revaluation

Source: PwC analysis on data provided by Servicers as of 31/12/2020; data have been directly provided by Servicers and have not been verified by PwC. Servicers present highly heterogeneous organizational, industrial and operating structures. Comparing the information presented above requires a correct analysis and understanding of the competitive landscape and servicers' business model. Data on Pan-European players based only on public information (2020 financial statements).

1. Includes provisions.
2. Excluding €35m of extraordinary provisions
3. Allocating to debt purchasing business 100% Net financial costs;
4. Allocation net financial costs proportionally to assets;
5. Assuming cost income in line with 100% B2 Holding including third-party servicing;
6. Excluding €113m of non-cash impairment from ERC write-down
7. Including €88m of other assets RWA

Debt Servicing business key figures (2020)

Company	Revenues (€m)	Profit Before Tax margin (%)	Profit Before Tax on AuM (bps)	Profit Before Tax (€m)	AuM GBV Special Servicing (€Bn)[1]
doValue[2]	418.2	27%	15	114.3	78.7
Cerved Credit Management	153.7	30%	11	46.1	41.8
Prelios Credit Servicing[3]	166.5	55%	28	91.2	32.1
Fire	48.6	5%	1	2.5	21.5
AMCO	48.0	62%	16	29.6	19.0
Credito Fondiario	43.8	n.a.	n.a.	n.a.	19.7
iQera Italia	39.4	25%	8	9.9	13.0
Crif	26.0	12%	2	3.0	15.6
MB Credit Solutions	24.1	21%	n.a.	5.0	1.9
Guber	21.8	14%	4	3.1	8.2
Fides	19.3	27%	9	5.2	5.7
CNF (Gruppo Frascino)	16.8	30%	15	5.0	3.3
Hoist Italia	14.6	n.a.	n.a.	n.a.	12.6
Aurora RE	10.8	38%	17	4.1	2.4
Covisian Credit Management	10.8	32%	7	3.5	4.8
Finint Revalue	10.6	n.a.	n.a.	n.a.	3.1
Aquileia Capital Services	10.5	n.a.	n.a.	n.a.	1.3
Europa Factor	9.4	37%	8	3.4	4.2
Phoenix Asset Management	8.2	54%	5	4.5	9.3
SiCollection	6.3	n.a.	n.a.	n.a.	1.7
Link Financial	4.5	7%	1	0.3	5.2
IFIS Npl Servicing	4.4	n.a.	n.a.	n.a.	4.1

Source: PwC analysis on data provided by Servicers as of 31/12/2020; data have been directly provided by Servicers and have not been verified by PwC. Servicers present highly heterogeneous organizational, industrial and operating structures. Comparing the information presented above requires a correct analysis and understanding of the competitive landscape and servicers' business model.

1. Includes both owned and third parties' portfolios. Presented figures may differ from data in Table 9.1. due to the inclusion of Performing AuM.
2. Financial figures including €7.3m of revenues from master servicing, marginality calculated excluding Master servicing revenues and AuM.
3. Financial figures including €5.5m of revenues from master servicing, marginality calculated excluding Master servicing revenues and AuM.

UtP debt servicing

Bringing unlikely-to-pay (UtP) exposures back to performing will be one of the main challenges for Servicers in the upcoming months, requiring the development of specific competences and successful strategies. In this context, an approach which enables the engagement of investors as well as the full valorization of their role is crucial. Indeed, UtP is the NPEs asset class which is expected to experience the most significant growth and investors could benefit from such opportunity.

During the last months, also due to the impact of the COVID-19 pandemic, the awareness of entrepreneurs has risen, making them often seek for support in managing UtP exposures. Such willingness to rely on external support is a clear sign of a change of mindset by the entrepreneurial sector and SMEs in particular, aiming both to diversify risk and employ adequate competences in bringing their companies “back-to-bonis”.

At 31/12/2020, AMCO (former SGA) is leading 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 runs 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.

Top Corporate UtP Debt Servicers by AuM at 31/12/2020

Company	Corporate UtP AuM (€bn)	Corporate UtP AuM on total UtP AuM (%)
Prelios Credit Servicing	11.0[1]	100
AMCO	10.9	76
Aurora RE	2.2	100
Crif	1.4	41
Neprix (illimity Bank)	1.3[2]	100
Credito Fondiario	0.8	95
doValue	0.7	89
Cerved Credit Management	0.7	44
Officine CST	0.6	97
Advancing Trade	0.5	23
BCMGlobal	0.4	100

Top Retail UtP Debt Servicers by AuM at 31/12/2020

Company	Retail UtP AuM (€bn)	Retail UtP AuM on total UtP AuM (%)
AMCO	3.4	24
Fire	2.4	86
Crif	2	59
Advancing Trade	1.7	77
Cerved Credit Management	0.8	56
AZ Info&collection & La Scala Service	0.5	79
iQera Italia	0.4	59
Fides	0.3	86
Finint Revalue	0.2	39
CNF (Gruppo Frascino)	0.2	100

Source: PwC analysis on data provided by Servicers as of 31/12/2020; data have been directly provided by Servicers and have not been verified by PwC.
1. Information captured from “market rumors” and not directly provided by Prelios Credit Servicing.
2. Include AuM managed by illimity Growth Credit Division.

Outlook

Looking forward, we continue to see major significant trends affecting the debt servicing market in the next 12-24 months. Role of Servicer will become more and more central due to the expected large flow of new NPEs.

1. **Servicing for loans subject to public guarantee and moratoria:**

   The shock caused by COVID-19 has led to Government intervention and policy measures which largely had the effect of "freezing" the portfolios. In particular, moratoria on loans and Mediocredito Centrale Guarantees let Italian SMEs breathe during the last 12 months.

   From the explosion of COVID-19 to today, thanks to Government interventions, Credit has been granted by Banks with both the hands however closing both the eyes. In few months these measures will end and banks will need to promptly manage these loans to avoid massive reclassification to default.

2. **Separation between Servicing and Purchasing capabilities:**

   Market is facing a clear tendency towards separation of pure servicing activities from capital-intensive ones (i.e. debt purchasing and new lending). Similarly to doValue in 2019, Credito Fondiario has recently decided to split business activities into two separate groups, one responsible of the NPL business, the other one - keeping his Banking license - responsible for the launch of innovative Fintech services dedicated to SMEs.

3. **Technology innovation:**

   Servicing industry is still a human intensive business due to the need for a portfolio manager to directly handle the case however, to maintain efficiency, a technological shift is needed especially for the players which started to operate more than 10 years ago with a traditional business model. In fact, operational efficiency would be key to succeed in the future: several examples of advanced platforms emerged in the recent past and technology innovation is a top priority for market participants. Prelios development of cloud-based platform for Auctions (Blinks), FBS partnership with Tinexta (to create FBS Next) and Centotrenta Servicing partnership with IBM (to create HyperMast Sts securitization platform) are only few of several steps the industry is moving towards the digitalization and we expect this element could imply a big reshuffle of the servicing industry.

Table 8: 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.						

Source: Mergermarket, companies annual reports and websites.

Table 9.1: Overview of main servicers (data at 31/12/2020) – Ranking by Total Special Servicing AuM[1]

Company	Bank of Italy Surveillance	Special Servicing				
		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	78.0	75.5	2.5	0.7	58.1
Intrum	115	39.4	39.4	-	-	-
Cerved Credit Management	106/115	35.3	33.8	1.5	6.5	6.7
AMCO	106	34.2	19.9	14.3	-	-
Prelios Credit Servicing	106	32.1[4]	21.1	11.0[4]	0.0	21.3
IFIS Npl Servicing	Bank	23.9	23.9	0.1	-	1.8
Credito Fondiario	Bank	19.7	18.8	0.9	0.0	48.6
Crif	115	15.6	4.4	11.2	6.1	-
Hoist Italia	115	12.6	10.5	2.1	-	-
iQera Italia	115	12.5	11.9	0.7	0.5	-
Fire	115	11.6	6.8	4.8	9.9	-
Phoenix Asset Management	115	9.3	9.2	0.0	-	-
Neprix (illimity Bank)	115/Bank	9.1[5]	n.a.	n.a.	n.a.	-
Guber	Bank	8.2	8.2	-	-	3.5
Advancing Trade	106/115	7.8	5.6	2.2	-	-
MB Credit Solutions	106	7.6	7.6	-	-	-
AZ Info&collection & La Scala Service	115	7.3	6.7	0.6	-	-
Link Financial	115	5.2	5.2	-	0.0	-
Fides	115	4.9	0.6	4.3	0.8	-
Covisian Credit Management	115	4.8	3.9	0.9	-	-
Europa Factor	106/115	4.2	4.2	0.0	0.5	-
J-Invest	106/115	3.9	3.9	-	-	-
WhiteStar Asset Solutions (Arrow Group)	115	3.4	3.0	0.4	0.6	-
CNF (Gruppo Frascino)	115	3.3	3.0	0.2	0.1	-
Finint Revalue	115	3.1	2.6	0.6	-	-
Duepuntozero	115	2.8	2.8	-	-	-
Blue Factor	106	2.6	2.6	-	-	-
Aurora RE	115	2.4	0.3	2.2	-	-
SiCollection	115	1.7	1.7	0.0	-	-
Euro Service	115	1.7	1.7	-	-	-
BCMGlobal	115	1.6	1.1	0.4	-	-
AXIS S.p.A.	115	1.5	1.3	0.2	-	-
Aquileia Capital Services	106/115	1.3	1.3	0.1	0.1	1.5
Banca Finint – Divisione Securitisation Services	106	1.3	0.9	0.4	3.5	66.6
Axactor	106/115	1.2	1.1	0.0	0.1	-
Officine CST	115	1.0	0.5	0.6	0.7	-
Bayview Italia	115	1.0	1.0	-	-	-
B2 Kapital	115	0.9	0.9	-	-	-
WIBITA	115	0.6	0.5	0.1	0.1	-
GMA S.r.l.	115	0.6	0.6	-	0.0	1.7
Frontis NPL	115	0.5	0.4	0.1	-	-
Certa Credita	115	0.1	0.1	0.0	0.1	-
Zenith Service (Arrow Group)	106	-	-	-	-	33.8
Centotrenta Servicing	106	-	-	-	-	22.6

Source: PwC analysis on data provided by Servicers as of 31/12/2020; data have been directly provided by Servicers and have not been verified by PwC. Servicers present highly heterogeneous organizational, industrial and operating structures. Comparing the information presented above requires a correct analysis and understanding of the competitive landscape and servicers' business model.
1. Includes both owned and third parties' portfolios.
2. Includes Unlikely to Pay + Past Due more than 30 days.
3. Please consider that Master and Special Servicing portfolios are in most cases overlapped.
4. Includes € 11bn of Unlikely to Pay captured from "market rumors"; information not directly provided by Prelios Credit Servicing.
5. Neprix AuM includes the gross nominal value of NPL purchased and the value of property & capital goods managed by IT Auction.
Note: Double counting may arise when adding NPL AuM as some servicers outsource part of their portfolios to others due to capacity and/ or specialization issues.

Table 9.2: Overview of main servicers (data at 31/12/2020) – Ranking by Total Special Servicing AuM[1]

			Main Activities			
Company	**Revenues (€m)**	**Ebitda (€m)**	**Debt servicing & collection**	**Debt purchasing**	**Master servicing**	**Rating**
doValue	418.2	114.3	✓		✓	✓
Intrum	n.a.	n.a.	✓			✓
Cerved Credit Management	155.8	46.8	✓		✓	✓
AMCO	214.1	158.9	✓	✓		✓
Prelios Credit Servicing	166.5	91.2	✓		✓	✓
IFIS Npl Servicing	146.0	21.1	✓	✓	✓	✓
Credito Fondiario	131.5	86.6	✓	✓	✓	✓
Crif	26.0	3.0	✓			✓
Hoist Italia	14.7	n.a.	✓	✓		✓
iQera Italia	41.3	10.2	✓			✓
Fire	49.1	3.0	✓	✓		✓
Phoenix Asset Management	8.2	4.5	✓			
Neprix (illimity Bank)	142.0	88.8	✓	✓		✓
Guber	64.0	38.8	✓	✓	✓	✓
Advancing Trade	32.2	7.7	✓	✓		
MB Credit Solutions	73.4	22.6	✓	✓		
AZ Info&collection & La Scala Service	15.1	n.a.	✓			
Link Financial	4.5	0.3	✓			
Fides	19.3	5.2	✓			
Covisian Credit Management	10.8	3.5	✓			
Europa Factor	32.6	12.0	✓	✓		
J-Invest	15.4	6.7	✓	✓		
WhiteStar Asset Solutions (Arrow Group)	n.a.	n.a.	✓			
CNF (Gruppo Frascino)	16.8	5.0	✓			✓
Finint Revalue	10.6	n.a.	✓			
Duepuntozero	4.0	2.3	✓			
Blue Factor	2.6	1.0	✓	✓		
Aurora RE	10.8	4.1	✓			
SiCollection	6.3	n.a.	✓			
Euro Service	12.7	0.4	✓	✓		
BCMGlobal	4.1	n.a.	✓			✓
AXIS S.p.A.	2.1	n.a.	✓			
Aquileia Capital Services	22.7	n.a.	✓	✓		
Banca Finint – Divisione Securitisation Services	27.6	15.2	✓		✓	✓
Axactor	27.7	n.a.	✓	✓		
Officine CST	19.0	5.4	✓	✓		
Bayview Italia	n.a.	n.a.	✓			
B2 Kapital	3.8	0.1	✓			
WIBITA	3.9	n.a.	✓			
GMA S.r.l.	2.2	n.a.	✓	✓	✓	
Frontis NPL	1.7	n.a.	✓			
Certa Credita	2.9	0.1	✓	✓		✓
Zenith Service (Arrow Group)	n.a.	n.a.	✓		✓	✓
Centotrenta Servicing	11.7	3.2			✓	✓

Source: PwC analysis on data provided by Servicers as of 31/12/2020; data have been directly provided by Servicers and have not been verified by PwC. Servicers present highly heterogeneous organizational, industrial and operating structures. Comparing the information presented above requires a correct analysis and understanding of the competitive landscape and servicers' business model.

1. Includes both owned and third parties' portfolios.

Table 10: Breakdown of servicers' Total Special Servicing Bad Loans AuM[1] (data at 31/12/2020) – Ranking by Total Special Servicing AuM[1]

		Special Servicing							
Company	**Total AuM[1] (€bn)**	**Total Bad Loans AuM[1] (€bn)**	**Average Ticket (€k)**	**Secured**	**Unsecured**	**Owned**	**Banks**	**Investors**	**Others**
doValue	78.0	75.5	143	33%	67%	-	12%	88%	-
Intrum	39.4	39.4	48	47%	53%	n.a.	n.a.	n.a.	n.a.
Cerved Credit Management	35.3	33.8	48	54%	46%	-	31%	69%	-
AMCO	34.2	19.9	78	50%	50%	45%	-	-	55%
Prelios Credit Servicing	32.1[2]	21.1	249	62%	38%	-	-	100%	-
IFIS Npl Servicing	23.9	23.9	11	6%	94%	83%	2%	15%	-
Credito Fondiario	19.7	18.8	89	59%	41%	23%	15%	62%	-
Crif	15.6	4.4	25	50%	50%	-	80%	6%	14%
Hoist Italia	12.6	10.5	7	11%	89%	37%	17%	45%	1%
iQera Italia	12.5	11.9	7	46%	54%	-	77%	11%	12%
Fire	11.6	6.8	5	24%	76%	1%	75%	22%	2%
Phoenix Asset Management	9.3	9.2	315	44%	56%	-	-	100%	-
Neprix (illimity Bank)	9.1[3]	n.a.	n.a.	69%[4]	31%[4]	n.a.	n.a.	n.a.	n.a.
Guber	8.2	8.2	161	31%	69%	n.a.	n.a.	n.a.	n.a.
Advancing Trade	7.8	5.6	5	-	100%	n.a.	n.a.	n.a.	n.a.
MB Credit Solutions	7.6	7.6	3	2%	98%	76%	5%	14%	5%
AZ Info&collection & La Scala Service	7.3	6.7	7	17%	83%	17%	34%	38%	11%
Link Financial	5.2	5.2	11	57%	43%	-	-	100%	-
Fides	4.9	0.6	3	12%	88%	-	15%	-	85%
Covisian Credit Management	4.8	3.9	6	7%	93%	-	18%	80%	2%
Europa Factor	4.2	4.2	1	-	100%	62%	11%	10%	17%
J-Invest	3.9	3.9	733	-	100%	2%	-	98%	-
WhiteStar Asset Solutions (Arrow Group)	3.4	3.0	2	8%	92%	-	48%	-	52%
CNF (Gruppo Frascino)	3.3	3.0	7	n.a.	n.a.	-	7%	91%	2%
Finint Revalue	3.1	2.6	15	87%	13%	-	7%	93%	-
Duepuntozero	2.8	2.8	312	23%	77%	3%	-	97%	-
Blue Factor	2.6	2.6	11	1%	99%	20%	-	80%	-
Aurora RE	2.4	0.3	27,488	93%	7%	-	58%	42%	-
SiCollection	1.7	1.7	5	-	100%	-	44%	54%	2%
Euro Service	1.7	1.7	1	-	100%	66%	-	34%	-
BCMGlobal	1.6	1.1	533	100%	-	-	-	100%	-
AXIS S.p.A.	1.5	1.3	56	63%	37%	-	45%	55%	-
Aquileia Capital Services	1.3	1.3	721	90%	10%	9%	67%	13%	11%
Banca Finint – Divisione Securitisation Services	1.3	0.9	3,785	87%	13%	-	55%	45%	-
Axactor	1.2	1.1	5	1%	99%	90%	5%	3%	2%
Officine CST	1.0	0.5	15	-	100%	30%	2%	25%	43%
Bayview Italia	1.0	1.0	162	96%	4%	n.a.	n.a.	n.a.	n.a.
B2 Kapital	0.9	0.9	51	31%	69%	-	-	96%	4%
WIBITA	0.6	0.5	387	92%	8%	-	71%	13%	16%
GMA S.r.l.	0.6	0.6	1,043	47%	53%	-	-	100%	-
Frontis NPL	0.5	0.4	895	66%	34%	12%	-	88%	-
Certa Credita	0.1	0.1	1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Zenith Service (Arrow Group)	-	-	-	24%	76%	n.a.	n.a.	n.a.	n.a.
Centotrenta Servicing	-	-	-	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Source: PwC analysis on data provided by Servicers as of 31/12/2020; data have been directly provided by Servicers and have not been verified by PwC. Servicers present highly heterogeneous organizational, industrial and operating structures. Comparing the information presented above requires a correct analysis and understanding of the competitive landscape and servicers' business model.

1. Includes both owned and third parties' portfolios.
2. Includes € 11 bn of Unlikely to Pay captured from "market rumors"; information not directly provided by Prelios Credit Servicing.
3. Neprix AuM includes the gross nominal value of NPL purchased and the value of property & capital goods managed by IT Auction.
4. Neprix AuM breakdown between secured and unsecured loans refers to NBV.

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

Table 11.1: Geographical NPL breakdown (data at 31/12/2020) – Ranking by Total Special Servicing AuM[1]

			Special + Master Servicing		
Company	**Total AuM[1] (€bn)**	**Total Bad Loans AuM[1] (€bn)**	**North[2]**	**Centre[3]**	**South - Islands[4]**
doValue	78.0	75.5	42%	27%	31%
Intrum	39.4	39.4	n.a.	n.a.	n.a.
Cerved Credit Management	35.3	33.8	n.a.	n.a.	n.a.
AMCO	34.2	19.9	51%	27%	22%
Prelios Credit Servicing	32.1[5]	21.1	55%	22%	23%
IFIS Npl Servicing	23.9	23.9	36%	27%	37%
Credito Fondiario	19.7	18.8	58%	23%	19%
Crif	15.6	4.4	40%	28%	32%
Hoist Italia	12.6	10.5	n.a.	n.a.	n.a.
iQera Italia	12.5	11.9	40%	26%	34%
Fire	11.6	6.8	32%	33%	35%
Phoenix Asset Management	9.3	9.2	45%	37%	18%
Neprix (illimity Bank)	9.1[6]	n.a.	n.a.	n.a.	n.a.
Guber	8.2	8.2	58%	25%	17%
Advancing Trade	7.8	5.6	35%	19%	46%
MB Credit Solutions	7.6	7.6	37%	23%	40%
AZ Info&collection & La Scala Service	7.3	6.7	32%	25%	43%
Link Financial	5.2	5.2	30%	33%	37%
Fides	4.9	0.6	31%	19%	50%
Covisian Credit Management	4.8	3.9	36%	30%	34%
Europa Factor	4.2	4.2	31%	24%	45%
J-Invest	3.9	3.9	56%	28%	16%
WhiteStar Asset Solutions (Arrow Group)	3.4	3.0	36%	21%	43%
CNF (Gruppo Frascino)	3.3	3.0	27%	26%	47%
Finint Revalue	3.1	2.6	45%	35%	20%
Duepuntozero	2.8	2.8	19%	27%	54%
Blue Factor	2.6	2.6	27%	22%	51%
Aurora RE	2.4	0.3	36%	55%	9%
SiCollection	1.7	1.7	49%	24%	27%
Euro Service	1.7	1.7	33%	28%	39%
BCMGlobal	1.6	1.1	57%	13%	30%
AXIS S.p.A.	1.5	1.3	47%	16%	37%
Aquileia Capital Services	1.3	1.3	86%	12%	2%
Banca Finint – Divisione Securitisation Services	1.3	0.9	41%	37%	22%
Axactor	1.2	1.1	42%	16%	42%
Officine CST	1.0	0.5	41%	20%	39%
Bayview Italia	1.0	1.0	58%	24%	18%
B2 Kapital	0.9	0.9	60%	22%	18%
WIBITA	0.6	0.5	34%	23%	43%
GMA S.r.l.	0.6	0.6	15%	8%	77%
Frontis NPL	0.5	0.4	42%	40%	18%
Certa Credita	0.1	0.1	33%	18%	49%
Zenith Service (Arrow Group)	-	-	53%	26%	21%
Centotrenta Servicing	-	-	38%	31%	31%

Source: PwC analysis on data provided by Servicers as of 31/12/2020; data have been directly provided by Servicers and have not been verified by PwC. Servicers present highly heterogeneous organizational, industrial and operating structures. Comparing the information presented above requires a correct analysis and understanding of the competitive landscape and servicers' business model.
1. Includes both owned and third parties' portfolios.
2. Includes Piemonte, Valle d'Aosta, Lombardia, Veneto, Trentino Aldo Adige, Friuli Venezia Giulia, Liguria, Emilia Romagna.
3. Includes Toscana, Umbria, Marche, Lazio.
4. Includes Abruzzo, Molise, Campania, Puglia, Basilicata, Calabria, Sicilia, Sardegna.
5. Includes € 11 bn of Unlikely to Pay captured from "market rumors"; information not directly provided by Prelios Credit Servicing.
6. Neprix AuM includes the gross nominal value of NPL purchased and the value of property & capital goods managed by IT Auction.
Note: Double counting may arise when adding NPL AuM as some servicers outsource part of their portfolios to others due to capacity and/ or specialization issues.

Table 11.2: Breakdown of servicers' Total Bad Loans AuM[1] (data at 31/12/2020) – Ranking by Total Special Servicing AuM[1]

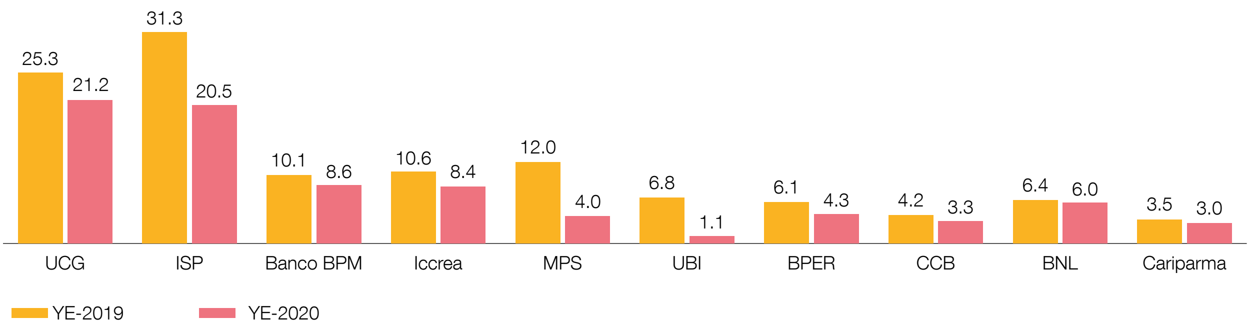
	Special + Master Servicing					
	Secured			Unsecured		
Company	**Judicial**	**Extrajudicial**	**Loan Sale**	**Judicial**	**Extrajudicial**	**Loan Sale**
doValue	7%	84%	9%	23%	63%	14%
Intrum	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Cerved Credit Management	5%	32%	63%	2%	12%	86%
AMCO	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Prelios Credit Servicing	61%	26%	13%	42%	26%	32%
IFIS Npl Servicing	20%	70%	10%	12%	87%	1%
Credito Fondiario	9%	59%	32%	6%	47%	47%
Crif	44%	56%	-	14%	86%	-
Hoist Italia	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
iQera Italia	52%	48%	-	19%	81%	-
Fire	75%	25%	-	26%	74%	-
Phoenix Asset Management	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Neprix (illimity Bank)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Guber	19%	81%	-	7%	93%	-
Advancing Trade	17%	83%	-	21%	79%	-
MB Credit Solutions	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
AZ Info&collection & La Scala Service	24%	76%	-	39%	61%	-
Link Financial	87%	13%	-	6%	94%	-
Fides	-	100%	-	-	100%	-
Covisian Credit Management	100%	-	-	-	100%	-
Europa Factor	33%	67%	-	-	68%	32%
J-Invest	-	-	-	14%	6%	80%
WhiteStar Asset Solutions (Arrow Group)	30%	70%	-	1%	99%	-
CNF (Gruppo Frascino)	32%	20%	48%	27%	49%	24%
Finint Revalue	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Duepuntozero	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Blue Factor	-	-	-	45%	55%	-
Aurora RE	-	100%	-	-	-	-
SiCollection	-	-	-	19%	81%	-
Euro Service	-	-	-	13%	72%	15%
BCMGlobal	10%	75%	15%	-	-	-
AXIS S.p.A.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Aquileia Capital Services	7%	93%	-	1%	99%	-
Banca Finint – Divisione Securitisation Services	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Axactor	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Officine CST	-	-	-	36%	64%	-
Bayview Italia	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
B2 Kapital	23%	77%	-	12%	88%	-
WIBITA	4%	91%	5%	-	-	100%
GMA S.r.l.	14%	21%	65%	-	-	-
Frontis NPL	41%	44%	15%	12%	41%	47%
Certa Credita	-	-	-	-	100%	-
Zenith Service (Arrow Group)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Centotrenta Servicing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Source: PwC analysis on data provided by Servicers as of 31/12/2020; data have been directly provided by Servicers and have not been verified by PwC. Servicers present highly heterogeneous organizational, industrial and operating structures. Comparing the information presented above requires a correct analysis and understanding of the competitive landscape and servicers' business model.
1. Includes both owned and third parties' portfolios.

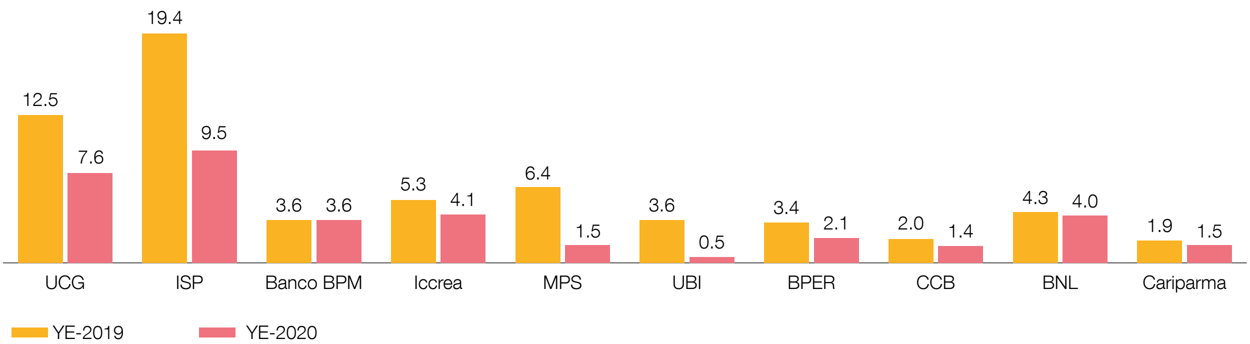
Appendix

Top 10 banks peer analysis

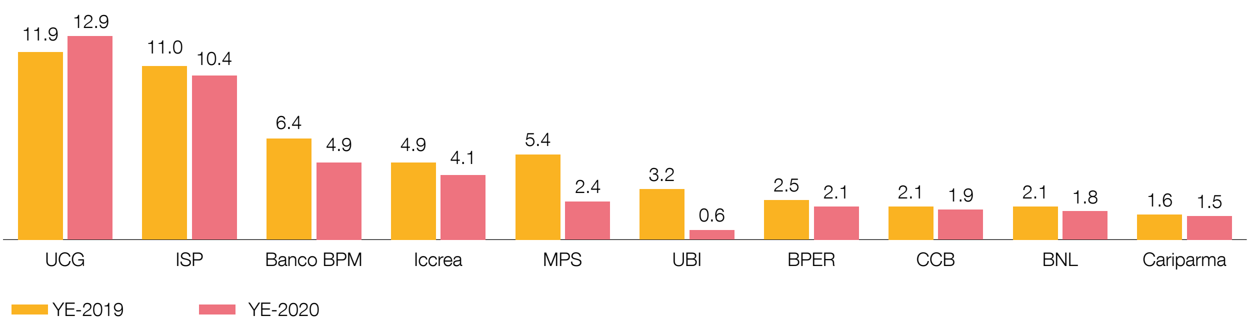
Gross NPE (€bn)



Gross Bad Loans (€bn)

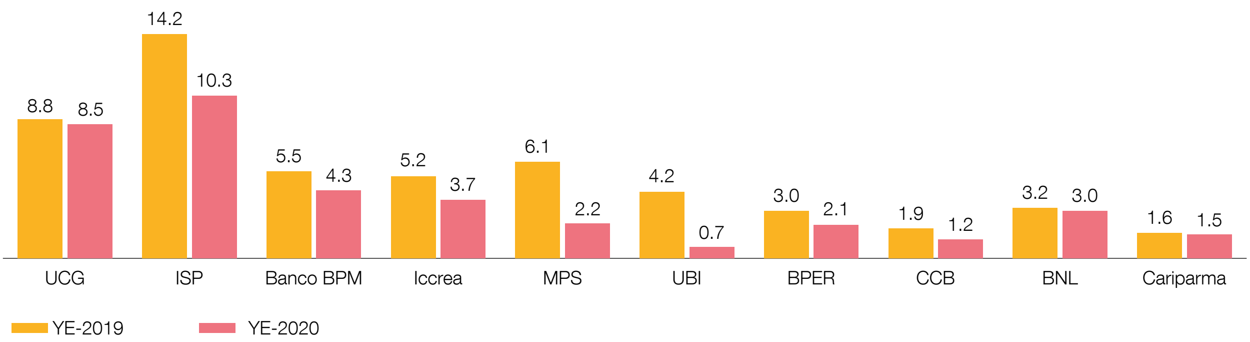


Gross Unlikely to Pay (€bn)

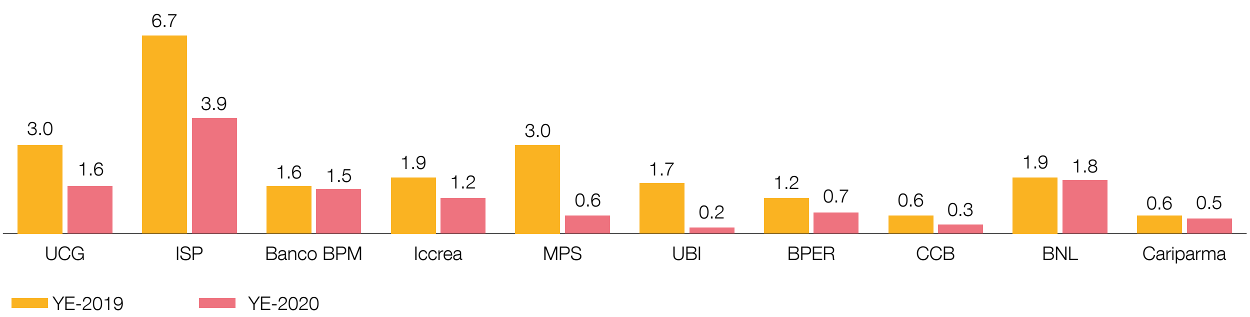


Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies.

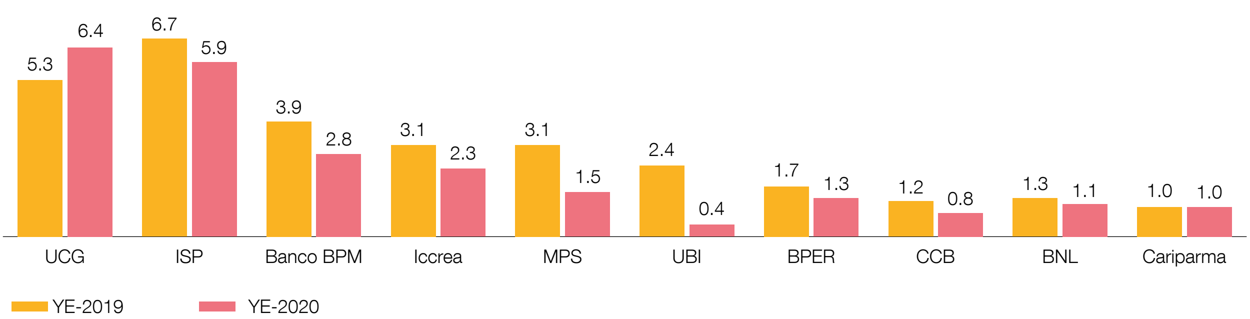
Net NPE (€bn)



Net Bad Loans (€bn)

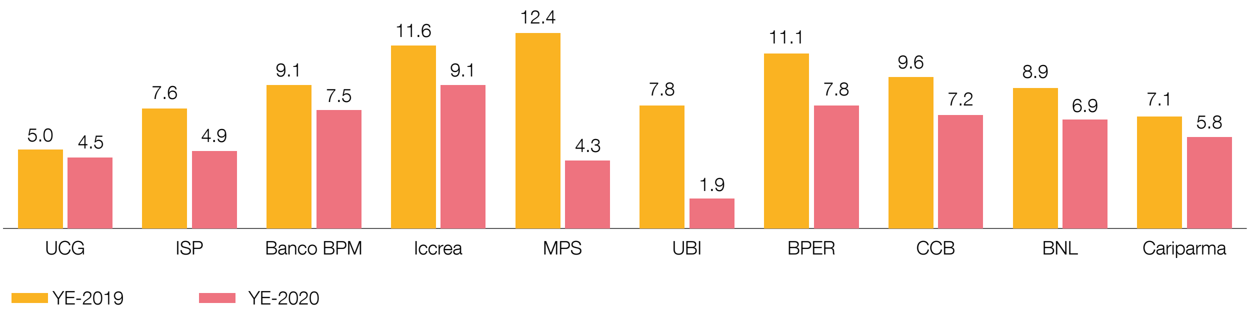


Net Unlikely to Pay (€bn)

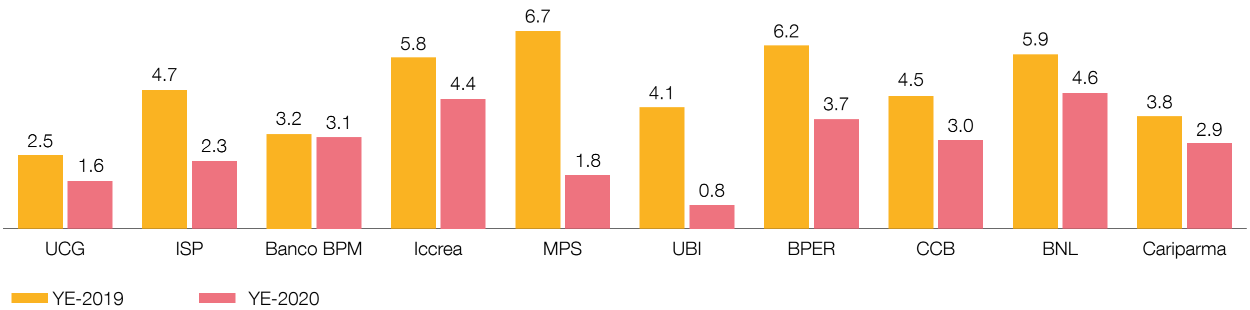


Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies.

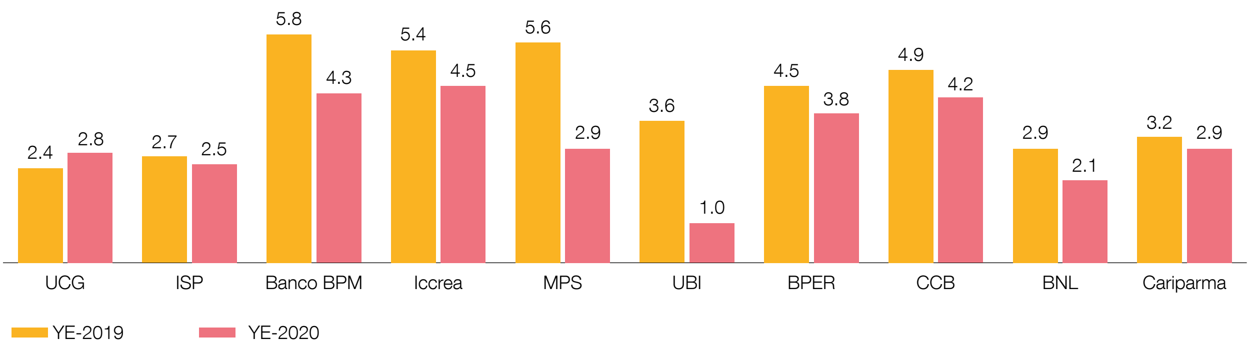
Gross NPE Ratio (%)



Gross Bad Loans Ratio (%)

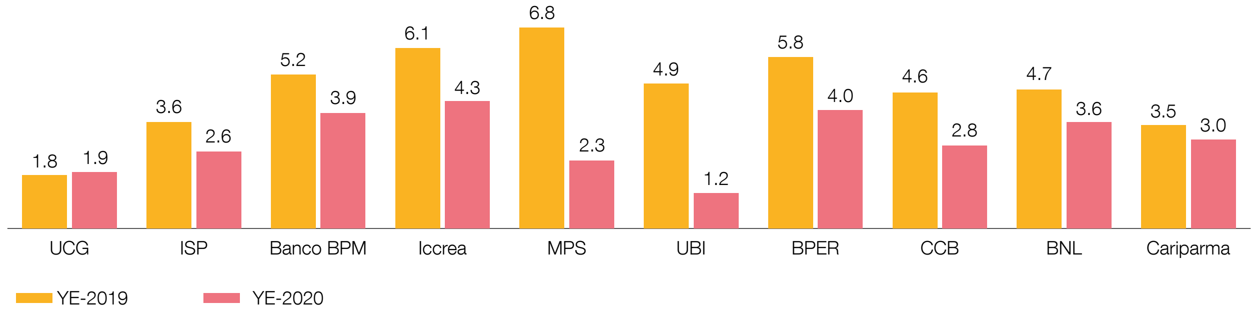


Gross Unlikely to Pay Ratio (%)

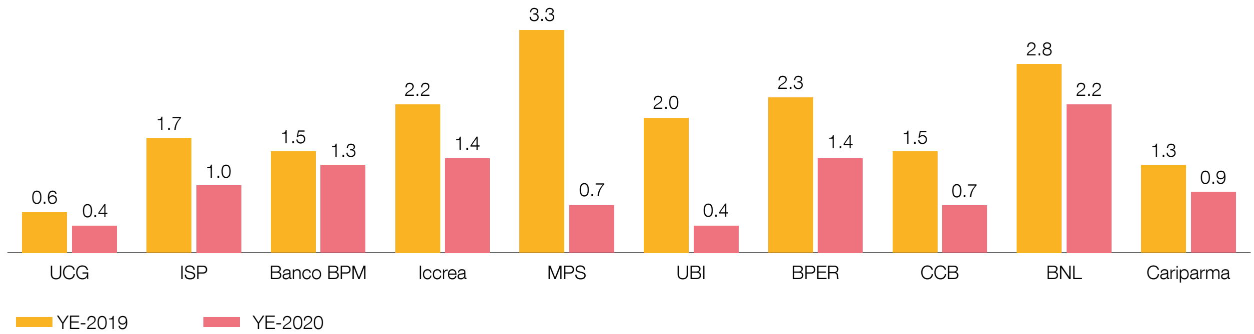


Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies.
Note: The calculation of the NPE Ratio for CCB differs from the one reported in the balance sheet (8.7% calculated with EBA approach).

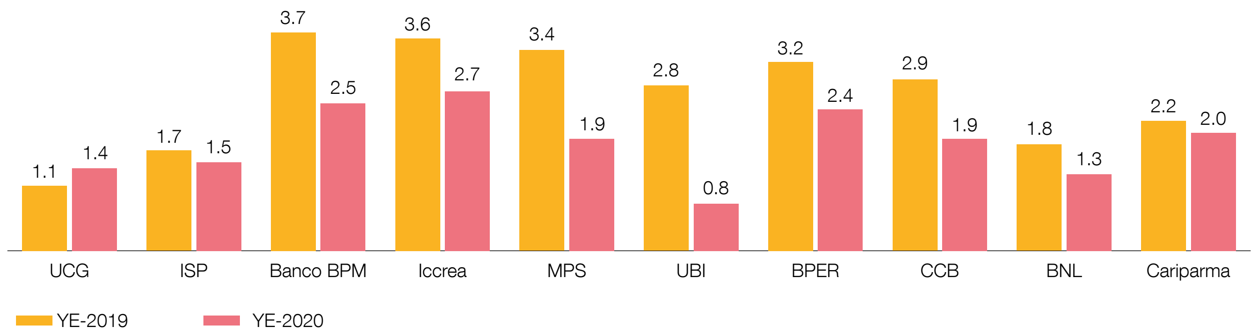
Net NPE Ratio (%)



Net Bad Loans Ratio (%)

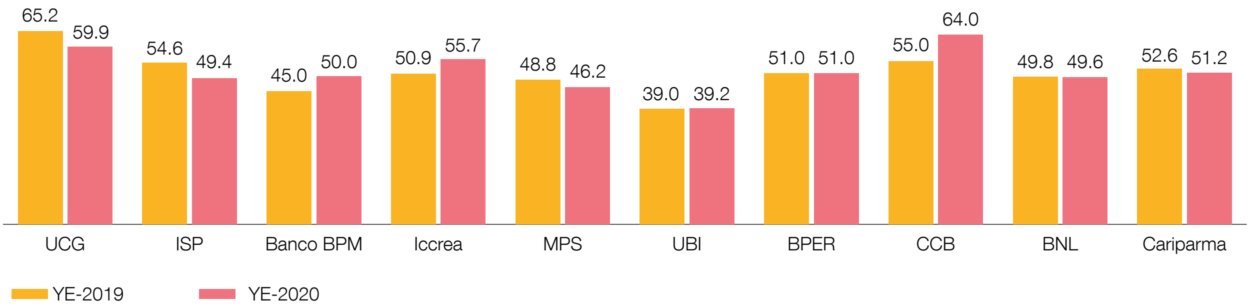


Net Unlikely to Pay Ratio (%)

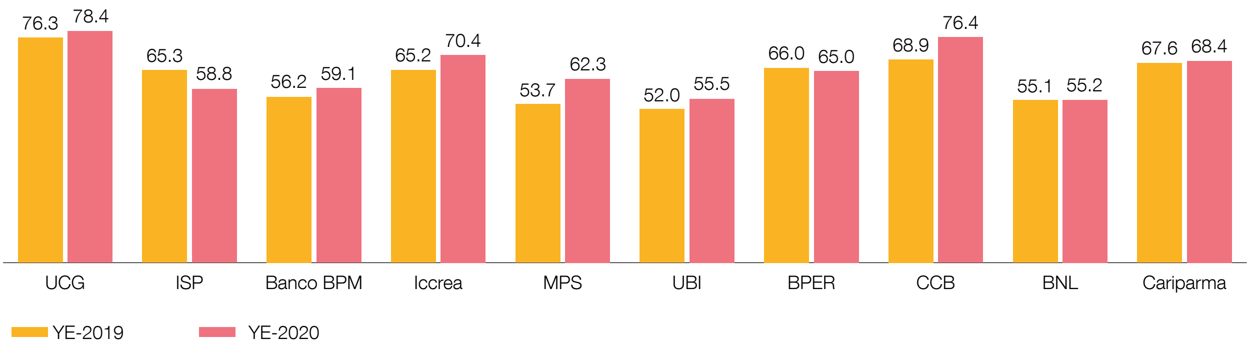


Source: PwC analysis on financial statements and analysts’ presentations. Data affected by different write-off policies.

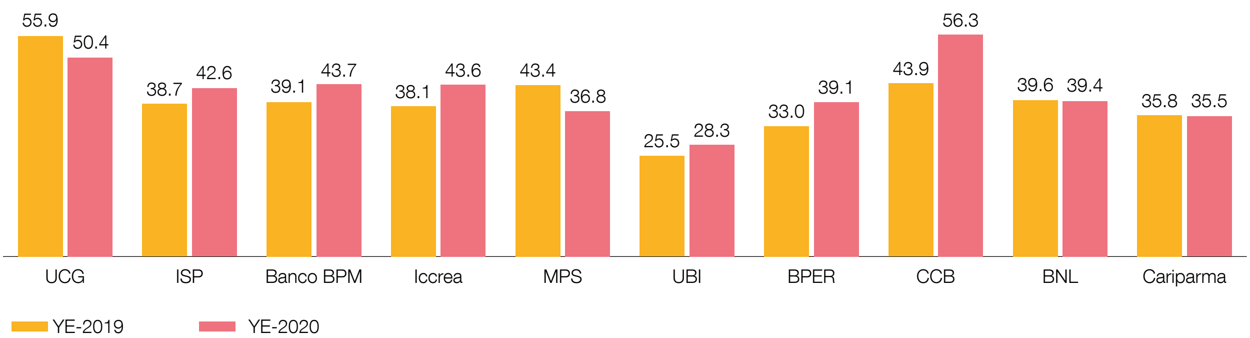
NPE Coverage Ratio (%)



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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