December, 2018

The Italian NPL Market

Entering a New Era

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Foreword & Content

The current Italian NPE market is extremely lively and the 2018 volume of transactions is going to break last year record of circa €69bn of closed deals. As of November 2018 the NPE closed transactions amounted to €68bn and, on the basis of the announced and ongoing transactions 2018 could reach an impressive volume of more than €70bn.

The market has been driven mainly by i) jumbo deals such as the €24.1bn (GBV) Bad Loans securitization completed by MPS and the €10.8bn (GBV) Bad Loans portfolio sold to Intrum by Intesa Sanpaolo along with 51% stake of their captive workout platform, ii) other significant securitizations backed by GACS as the disposal of €5.1bn, €2.7bn, €1.9bn (GBV) Bad Loans portfolios deleveraged respectively by Banco BPM, UBI Banca and BPER Banca, iii) a number of true sale transactions.

In terms of volumes, due to these massive disposals, NPE in the books of the Italian banks declined further reaching a volume equal to €222bn as at June 2018. Gross Bad Loans and Unlikely to Pay (UtP) exposures reached €130bn and €86bn respectively (from €165bn and €94bn as at December 2017).

In terms of provisions, NPE coverage increased significantly from December 2017 to June 2018, in particular for the Top 10 Italian banks Bad Loans and UtP coverage ratios reached 65.8% and 35.0% respectively (compared to 61.6% and 31.0% as at December 2017). Higher coverage of NPE mainly resulted from the first time application (FTA) by the Italian banks from 1 January 2018 of the IFRS9 based upon forward looking and expected loss approach on the one hand and on the other hand by the implementation by the banking system of the recommendations and requirements of the Regulators.

Among them, ECB has maintained the credit risk area among the SSM priorities for 2019, resulting in ongoing pressure to achieve consistent coverage of the stock of NPE in the medium term. Calendar provisioning included in the ECB Addendum, will require an impairment equal to 100% of the new flows of NPE in 2/7 years for unsecured/secured exposures. The recent EBA guidelines on non performing and foreborne exposures will drive the industrialisation of the NPE management even more decisively than before.

In terms of market dynamics we foresee several trends for 2019.

- Further disposals of NPE potentially reaching €50bn. In this context in order to favor the deleveraging process measures may be introduced by the Regulator, that automatically would allow the banks, that undergo significant disposal amounts, to sterilize the effect on LGD.

- As already witnessed in 2018, further multi-origination disposals could be structured in order to allow less significant banks to easily dispose of their NPE portfolios that on a single basis would not be interesting for investors due to their limited size.

- The secondary market is gradually growing up due to the exit strategies of previous investors and the increasing interest of new players entering the Italian market.

- Further measures to be implemented by the Italian banks to achieve the Regulatory requirements in terms of improving the industrial efficiency of the NPE management.

- The UtP market, yet in an early stage, and quite limited in terms of volumes and number of transactions, should be the next challenge and opportunity for the Italian banks. Single names and small portfolio transactions, featuring the UtP market, could proceed together with or make way for new innovative deleverage structured solutions. Among them there could be securitisation operations, theoretically even with GACS if the State guarantee would be renewed in March 2019 and possibly extended to UtP. Restructuring funds (AIF) to which banks transfer their UtP while investors inject liquidity aimed at financing these UtP, have already found their place in the market. There could even be room for an innovative and tailor made UtP servicing leveraging lending capabilities and restructuring expertise. In this context, the so called challenger banks could position themselves as providers of strategic solutions for the UtP issue.

- Last year the servicing sector featured a consolidation path through the acquisition by big players of either independent servicers or captive workout banking platforms. The trend continued even into 2018 as confirmed by the acquisition of the 51% stake of the workout platform of Intesa Sanpaolo by Intrum and the announced potential disposal of the platform of Banco BPM along with the sale of a portion of their NPE portfolio. Further M&A in the servicing market could be pursued in 2019.

Italy is currently under the spotlight of the international market and the NPE on the books of the Italian banks are still a driver in the eyes of the International community. The market pressure is huge as highlighted by the inverse correlation between the market cap on the tangible book value ratio of the Italian banks and their NPE ratio. Of note, the yield increase of the 10-year Italian Government bonds or the rising cost of the CDS associated to the Italian lenders reported over the last nine months.

As a result of this significant pressure by the Regulators and the market, Italy NPE arena will enter a new era of further process industrialization and deleveraging plans. Hence, Italy is still the place to be! Stay tuned.

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The terms of NPL ("Non Performing Loans") and NPE ("Non Performing Exposures") are used interchangeably within this study.
This recommendation was even explained in the "Guidance to banks on non performing loans (March 2017)" released by ECB – Banking Supervision

Content

Macroeconomic Scenario

Key Message: expectations about the future economic performance of the European Union for 2019 are positive. Even though forecasts indicate a slight reduction in GDP and inflation pace, fundamental conditions for growth remain favourable and the EU economic context is still anticipated to benefit from them in the forthcoming months.

In 2017 and early 2018, the European economy grew at a remarkable pace, sustained by increased support from a synchronized global expansion, low financing costs, improving private balance sheets and labour market conditions. Expectations for the next months outline that there is still potential room for further economic expansion.

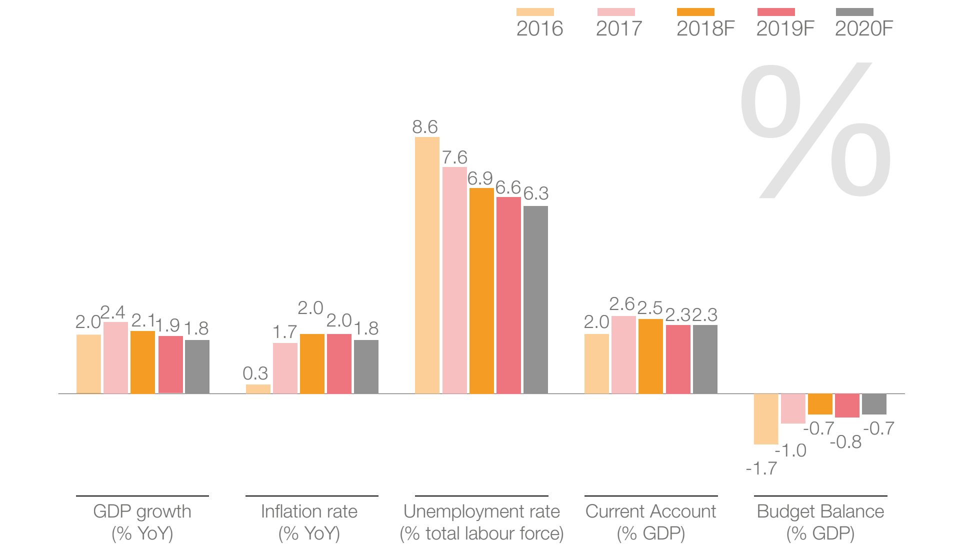
After peaking at 2.4% in 2017, for the end of 2018 and for 2019, EU **GDP** growth is expected to remain positive in the wake of the gradual slowdown of the monetary impulse and of the global trade growth. Italian GDP is forecast to increase by 1.1% in 2018, 1.2% in 2019 and 1.3% in 2020.

With a current level standing at 2.0%, EU **inflation** is expected to remain stable at 2.0% in 2019 and to show a slight decrease to 1.8% in 2020 (1.5% and 1.4% in Italy).

The EU **unemployment rate** is expected to settle down to pre-crisis levels, touching an expected 6.6% in 2019. Due to a larger workforce, the Italian employment level is set to grow broadly in line with the economic activity, while the unemployment rate should fall below 11% at the end of 2018 and to reach 10.0% in 2020.

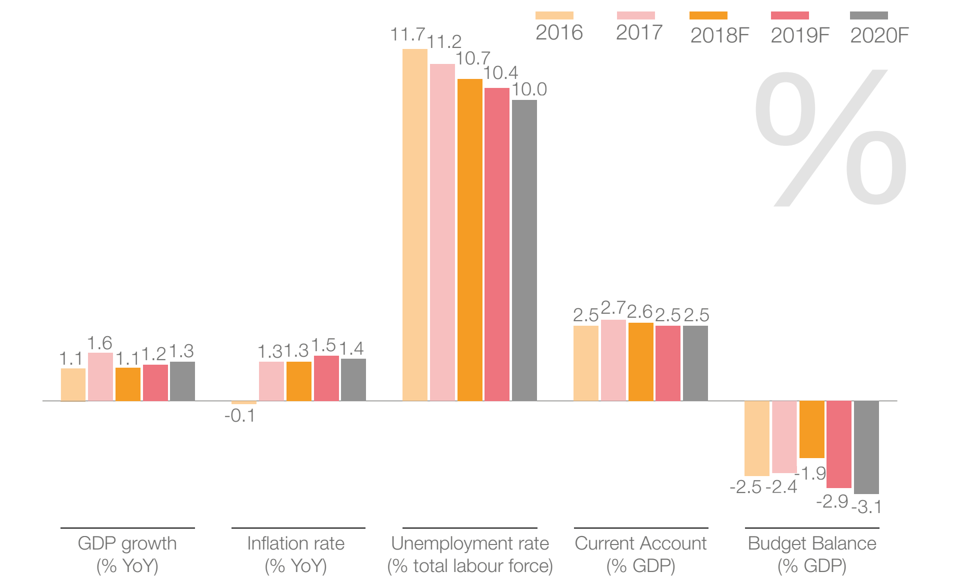
Both in the European Union and in Italy, the **current account balance** is expected to exhibit stable levels, between 2.3% and 2.6% in the period 2018-2020.

Chart 1: EU main economic drivers



Source: PwC analysis on the European Commission “European Economic Forecast - Autumn 2018”. 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 EU28, including UK.

Chart 2: Italian main economic drivers

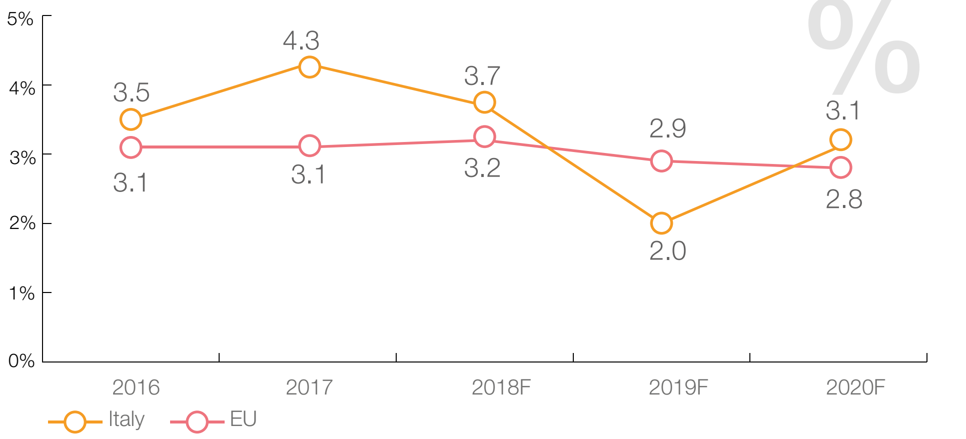


Source: PwC analysis on the European Commission “European Economic Forecast - Autumn 2018”. Unemployment rate calculated as a % of total labour force, current account balance and budget balance as a % of GDP.

Thanks to the support of elevated business confidence, larger corporate profitability and low financing costs, the **total investment volume** in the European Union will continue growing: the positive trend is expected to remain in the near term in all Member States, also supported by the Investment Plan for Europe (*Juncker Plan*) of the European Commission.

Between 2018 and 2019, the ratio **Government gross debt / GDP** should continue reducing in most Member States, on the back of a robust growth and historically low interest rates. The corresponding ratio for Italy is forecasted to remain stable at 131% in the period, whereas at the European Union level it should reduce to 77.6%.

Chart 3: Total investments volume trend (% YoY)



Source: PwC analysis on European Commission institutional paper "European Economic Forecast – Autumn 2018". Displayed data and forecasts for the EU refer to the EU28, including UK.

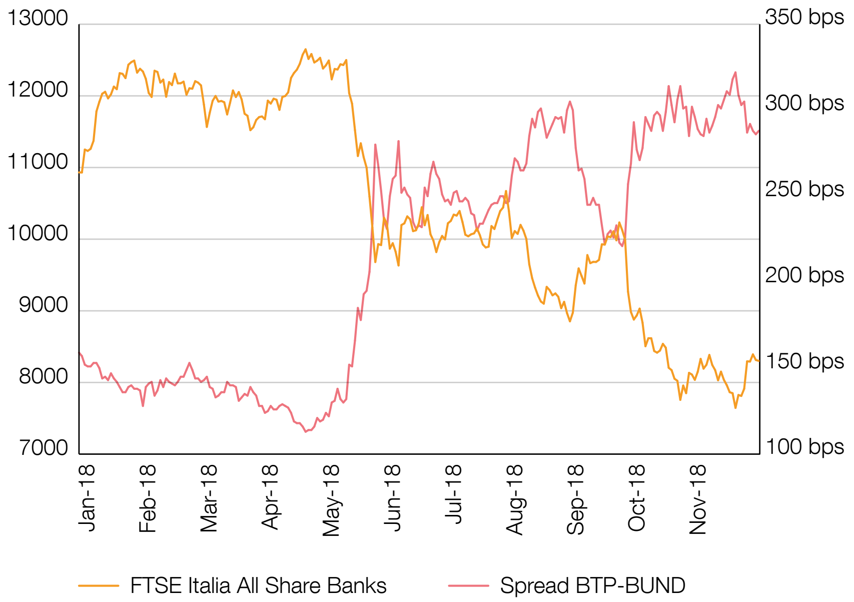
Table 1: Government Gross Debt Ratio per country

Government gross debt ratio (% GDP)	2016	2017	2018F	2019F	2020F	Trend 2018F-2020F
Italy	131.4	131.2	131.1	131.0	131.1	=
EU	84.9	83.2	81.4	79.5	77.6	▼
Spain	99.0	98.1	96.9	96.2	95.4	▼
France	98.2	98.5	98.7	98.5	97.2	▼
UK	87.9	87.4	86.0	84.5	82.6	▼
Germany	67.9	63.9	60.1	56.7	53.7	▼

Source: PwC analysis on European Commission institutional paper "European Economic Forecast – Autumn 2018". Displayed data and forecasts for the EU refer to the EU28, including UK.

From March to November 2018, Italy-Germany 10 Year Treasury Bond Spread increased by approx. 150 basis points, reaching around 300 basis points at the end of the analysed period. Such dynamic was accompained by a contextual ca. 30% drop in the index All-Share Banks, driven, among others, by the depreciation of Italian Treasury Bonds on the balance sheet of Italian banks. Even if the European Commission and the ECB recognised that Italy is on the right path in the NPE disposal, Italian banks still cannot cheer, as they have to face a higher uncertainty.

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



Source: PwC analysis on European Commission institutional paper "European Economic Forecast - Autumn 2018". Displayed data and forecasts for the EU refer to the EU28, including UK.

Italian Real Estate Market

Key Message: in the first half of 2018, the Italian Real Estate market registered a 5% growth compared to the same period of 2017, mainly driven by transactions related to residential assets. Investments in non residential Real Estate reached €3.2 bn in the first half of 2018, with offices continuing to represent the major asset class for investment, followed by retail assets.

Volume of Real Estate transactions in 2018

In the first half of 2018, the Italian real estate market continued its positive trend, driven mainly by sales of residential and retail properties.

The most significant percentage growth, compared to the previous year, was recorded in the retail building sector, with a 7.2% increase. See **Table 2**.

Residential sales in the first half of 2018 have increased throughout each region of Italy with respect to the same period of 2017. The North showed the greatest positive results, with a 5.8% increase over 2017, which was followed by the South and Centre with 5.0% and 3.1% growth, respectively. See **Table 3**.

During 2018, non residential asset classes showed a volume increase, accounting for 4.8% compared to 2017. While continuing to account for a small proportion of the total, the industrial segment is the sector registering an high growth rate, at 4.3%. See **Table 4**.

Appurtenances (which include garages, basements and parking spots) and other sectors are showing an increase. See **Table 2**.

Table 2: Italian NTN[1] comparison by sector

Asset type	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	H1 2017	H1 2018	Delta (%) H1 18-17
Residential	121,972	145,527	122,373	152,608	127,277	153,693	267,499	280,970	**5.0%**
Office	2,362	2,486	2,584	2,922	2,138	2,650	4,848	4,788	**-1.2%**
Retail	6,215	7,176	6,340	8,384	6,784	7,566	13,391	14,350	**7.2%**
Industrial	2,329	2,996	2,894	3,818	2,521	3,036	5,326	5,557	**4.3%**
Total	132,878	158,186	134,191	167,732	138,720	166,945	291,064	305,665	5.0%
Appurtenances[2]	85,287	101,565	85,383	111,646	88,042	106,937	186,851	194,980	4.4%
Other[3]	12,663	14,464	12,661	16,963	12,939	15,147	27,127	28,085	3.5%

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

Table 3: Residential NTN by geographic area

Area	Region	Year 2017	H1 2017	H1 2018	Delta (%) H1 17-16	Delta (%) H1 18-17
North	Provinces	93,060	46,556	48,641	4.9%	4.5%
	No Provinces	198,394	96,473	102,696	7.2%	6.4%
	Total	291,454	143,030	151,337	6.4%	5.8%
Center	Provinces	53,027	26,974	27,100	6.7%	0.5%
	No Provinces	58,805	28,822	30,408	4.5%	5.5%
	Total	111,832	55,796	57,508	5.5%	3.1%
South	Provinces	40,385	20,276	21,651	4.6%	6.8%
	No Provinces	98,809	48,397	50,474	5.6%	4.3%
	Total	139,194	68,673	72,125	5.3%	5.0%
Italy	Provinces	186,472	93,807	97,392	5.3%	3.8%
	No Provinces	356,008	173,693	183,578	6.3%	5.7%
	Total	542,480	267,499	280,970	6.0%	5.0%

Source: PwC analysis on Italian IRS data

Table 4: Non residential NTN by geographic area

NTN H1 2018 Office	Q1 2017	Q2 2017	Q1 2018	Q2 2018	H1 2017	H1 2018	Delta (%) H1 18-17
North	1,385	1,455	1,295	1,584	2,840	2,879	1.4%
Center	573	527	442	512	1,100	954	(13.3%)
South	404	504	401	554	908	955	5.2%
					4,848	4,788	(1.2%)

NTN H1 2018 Retail	Q1 2017	Q2 2017	Q1 2018	Q2 2018	H1 2017	H1 2018	Delta (%) H1 18-17
North	2,843	3,400	3,185	3,820	6,243	7,005	12.2%
Center	1,434	1,629	1,514	1,611	3,063	3,125	2.0%
South	1,938	2,147	2,085	2,135	4,085	4,220	3.3%
					13,391	14,350	7.2%

NTN H1 2018 Industrial	Q1 2017	Q2 2017	Q1 2018	Q2 2018	H1 2017	H1 2018	Delta (%) H1 18-17
North	1,536	1,997	1,649	2,123	3,533	3,773	6.8%
Center	381	501	448	436	883	884	0.2%
South	412	498	424	477	910	901	(1.0%)
					5,326	5,557	4.3%

Source: PwC analysis on Italian IRS data

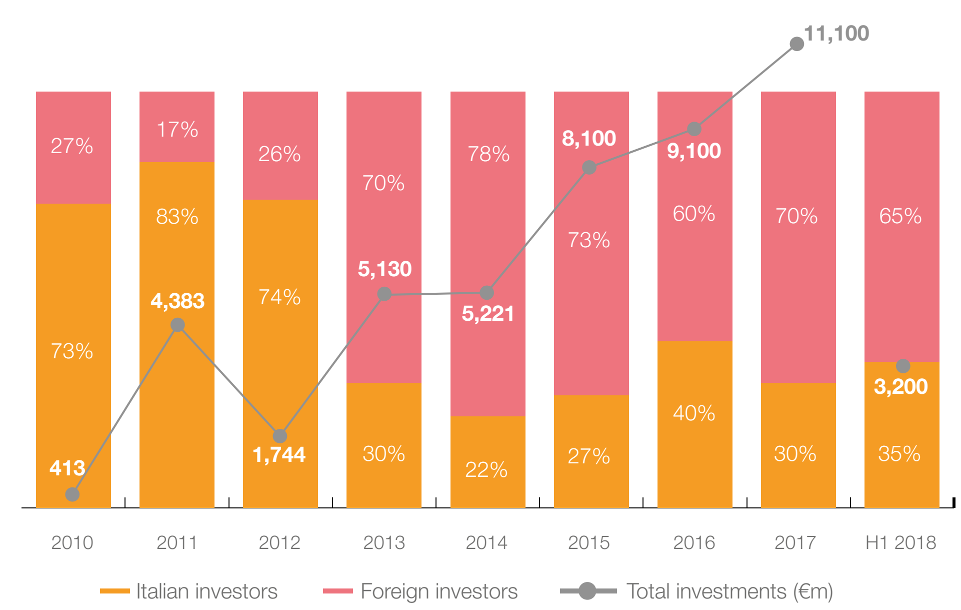
Investments in the non residential Real Estate market

In the first half of 2018, the Italian commercial real estate market recorded an investment volume of €3.2bn, down by 44% compared to the same period in 2017, the best year ever for Italian real estate investment since the record level of €10bn in 2007.

The individual sector with the largest share of investments is the Office sector with €1.06bn, which represent 32% of the total volumes of transactions, slightly higher than retail sector, with €1.02bn invested. Industrial estates reached over €0.5bn, a decrease of 35% compared to the same period of 2017, in which however, the result was influenced by a sale of a pan-European portfolio, of which 20 properties are located only in Italy.

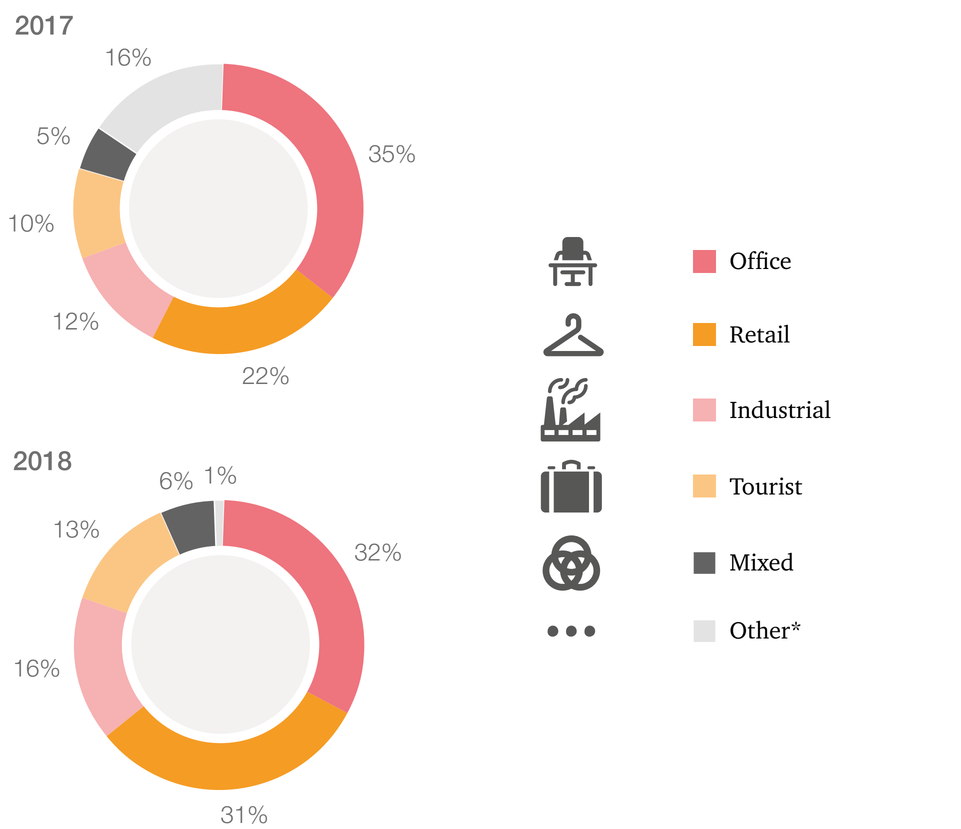
Milan and Rome still represent key markets for investments, accounting for 38% and 20% respectively of the total investment volume in the first half of 2018, especially for office properties. However, some investors have adapted their strategies to the dynamic market and started to consider secondary locations as well.

Chart 5: Investments in the non residential Real Estate industry - Investor type



Source: PwC analysis on BNP Paribas Real Estate data

Chart 6: Investments in the non residential Real Estate industry – Asset type



Source: PwC analysis on Italian IRS data

Regulatory framework update

Key Message:
the ongoing effort of the Competent Authorities to reduce risk and accelerate the reduction of the non performing loans in the Banking Union keeps shaping the regulatory framework through the application of a comprehensive package of measures and policies

Ⓐ EBA Final Guidelines on management of non performing and forborne exposures

In accordance with the European Council Action Plan, the European Banking Authority published at the end of October its final guidelines on the management of non performing and forborne exposures. This publication represents the final report of the consultation paper made available in March 2018 and will be applicable from 30 June 2019 (data as at 31 December 2018 to be used for the calculation of NPE ratios) .

The final report, compared to the draft version, provides further specifications on the level of commitment expected from the smaller and less complex institutions* once they ensure conflicts of interest are avoided. In particular:

- where dedicated NPE Units are not sustainable, dedicated work-out functions should still be in place
- it is not strictly necessary to have three fully fledged NPE-specific lines of defense

Moreover the proposed threshold for property specific valuation of €300k is no longer explicitly stated but EBA redirects instead to the common thresholds defined by the Competent Authorities in their jurisdictions.

Ⓑ New Securitization Framework

On January 1st 2019, a New Securitization Framework, represented by European Regulation 2401/2017 and 2402/2017, will enter in force. In general terms, both Regulations aim at laying down a more risk sensitive set of rules in order to deter credit institutions from adopting complex products. To this end, the new provisions define a set of criteria to identify less risky products, i.e. Simple, Transparent and Standardized ('STS') securitizations, and to monitor the correct application of those criteria by originators, sponsors, issuers and institutional investors. In addition to these criteria, Regulation 2402 provides some common requirements on risk retention, due diligence and disclosure for all financial services sectors. In order to provide an "ad hoc" prudential treatment for the aforementioned products, the Regulation 2401 has been designed. Moreover, the Regulation reviews the general prudential framework for all securitization products.

Also, the final draft of ITS, published by the European Banking Authority at the end of July, specifies the risk retention requirements for originators, sponsors and original lenders.

Main regulatory topics to pay attention to…

- Ⓐ EBA Final Guidelines on management of non performing and forborne exposures
- Ⓑ New Securitization Framework
- Ⓒ Update of the Circular 285 of Bank of Italy – Investments in immovable properties
- Ⓓ EU Commission Calendar Provisioning proposal for regulation (under discussion)

Ⓒ Update of the Circular 285 of Bank of Italy – Investments in immovable properties

Bank of Italy has revised the previous discipline regarding investments in immovable properties and participations (Circular 229/1999) and has included a new dedicated Chapter in the Circular 285.
The revised discipline aims at ensuring both a more proactive collateral management and a timely realisation of immovable properties purchased for credit recovery purposes.

The key elements of the revised discipline are evidenced as following:

1. The "Liquidation value" rule regarding immovable properties for credit recovery purposes is no longer applicable;
2. Immovable properties can be held over the "general limit" of total capital given that the bank provides to Bank of Italy a plan to comply with such limit within a reasonable time limit (usually advised not to exceed 4 years);
3. As a consequence of the above point and for such time frame, no additional capital is required in case of immovable properties held over the "general limit" of the total capital.

Note: (*) Those that are classified in SREP Category 3 or 4

Key innovations introduced

1. New ranking of the calculation methodologies
2. Changes on the capital requirements calculation
3. Specific framework for the STS securitizations
4. "Due diligence" obligation for institutional investors
5. Maximum risk weight and capital requirements
6. Prevention of re-securitization
7. Homogeneity of the credit selection criteria
8. Reinforcement of the data repository role

D EU Commission Calendar Provisioning proposal for regulation (under discussion)

The debate about NPE provisioning and write-offs continues to be a matter of constant elaboration and a crucial element in the shaping of the institutions' strategy and operating plan. In this regard, the European Parliament published on 8th November 2018 a Draft Report as amendment of the Commission proposal on minimum loss coverage for non-performing exposures (14th March 2018). The main amendments regard the following topics:

- **Application perimeter**: the new rules should be applied in relation to exposures originated as of the entry into force of the Regulation;

Specific actions are expected to be taken by the Supervisory Authorities also on the existing stock in order to increase the overall coverage level of NPLs

- **NPE classification for scheduling:** the exposures should be distinguished between secured and unsecured. The factors to be applied should depend on the type of the underlying collateral and not on the past due status as of the proposal of the European Commission;
- **Forbearance**: in case a forbearance measure is applied, the exposure should continue to be classified as non-performing but the coverage requirement should remain stable during one additional year. This waiver can be applicable just to the first measure and it should not lead to the extension of the provisioning calendar;
- **Credit purchasers**: NPEs purchased by an institution should be thus subject to a calendar that starts to run from the date on which the NPE has originally been classified as non-performing, and not from the date of its purchase.

A long path to the final Calendar scheduling

04/10/2017
ECB Addendum

14/03/2018
European Commission proposal on amending CRR as regards minumum loss coverage for NPE

08/11/2018
ECON Draft Report on prudential backstop

23/11/2018
Deadline for **tabling amendments**

06/12/2018
Favorable ECON Committee voting

End December 2018*
Trilogue meetings expected to take place

Measures that automatically allow banks that undergo significant disposal amounts to sterilize the effect on LGD may be introduced to favour the deleveraging process

Note: (*) As of the date of publication of the Report the Trilogues had not taken place yet

Table 5: Scheduling under discussion

Time from classification as NPE

		To	1 year	2 years	3 years	4 years	5 years	6 years	7 years	8 years	9 years
Secured	a				20%	30%	40%	55%	75%	80%	100%
	b				23%	35%	50%	80%	100%		
	c								100%		
Unsecured					100%						

The percentages are referred to the minimum loss coverage («prudential backstop»)

Secured
Unsecured

a NPE secured by immovable property or that is a residential loan guaranteed by an eligible protection provider as referred to in Article 201 CRR

b NPE secured by movable property or other eligible collateral

c NPE secured by an official export credit agency

Challenger Banks

Key Message: the role of specialized banking players is becoming a key element for the restructuring process (both for NPE and UtP) thanks to the possibility to leverage on vertical competences and distinctive banking characteristics as enablers.

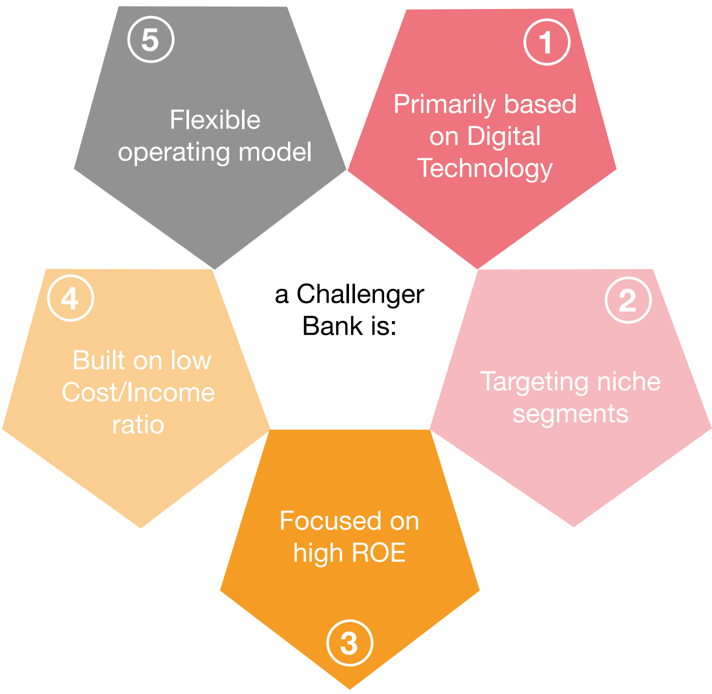
The role of Challenger Banks in the UtP / NPE market

Overview

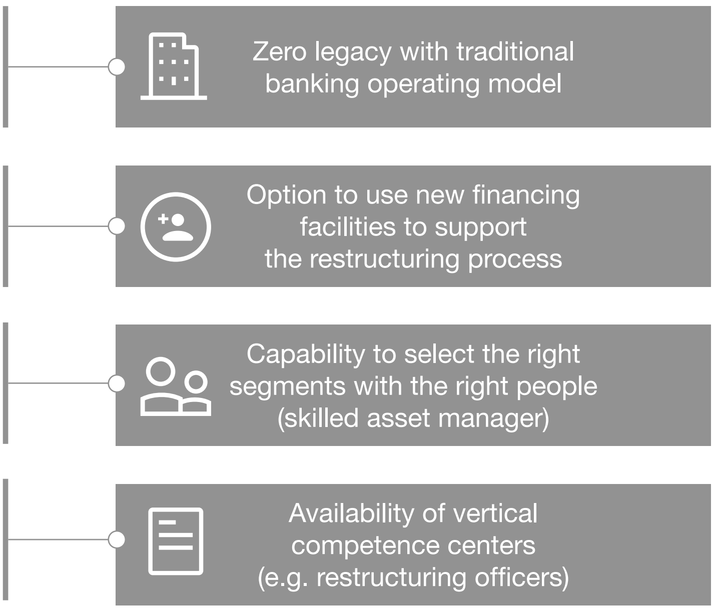
In 2018 the NPE market continued to evolve: the NPE divestments showed a trend in continuity with last years and the UtP started to grow both in divestments and in special servicing requests coming from banks. Due to the complexity of the UtP asset class, the restructuring process - where the strategy is not liquidation of the underlying assets – is quite different from NPE, since UtP have a still "living" counterpart to be restructured that requires operating and financial support during the turnaround.

The type of player that we believe could play a leading role in this segment is the Challenger Bank: a specialized digital bank, with vertical competences per sector, without traditional banking legacy, with a stable balance sheet able to be used in new financing needs, with a specific restructuring team able to sit close with the counterpart and support the definition and the rollout of a turnaround plan.

Core elements



Key Value Levers for restructuring



Italian NPL Market

Key Message:
Italian NPE volumes experienced a significant decrease over the last two years. Starting from a total of €341bn (GBV) at the end of 2015, the NPE stock progressively declined, reaching €222bn at the end of June 2018.

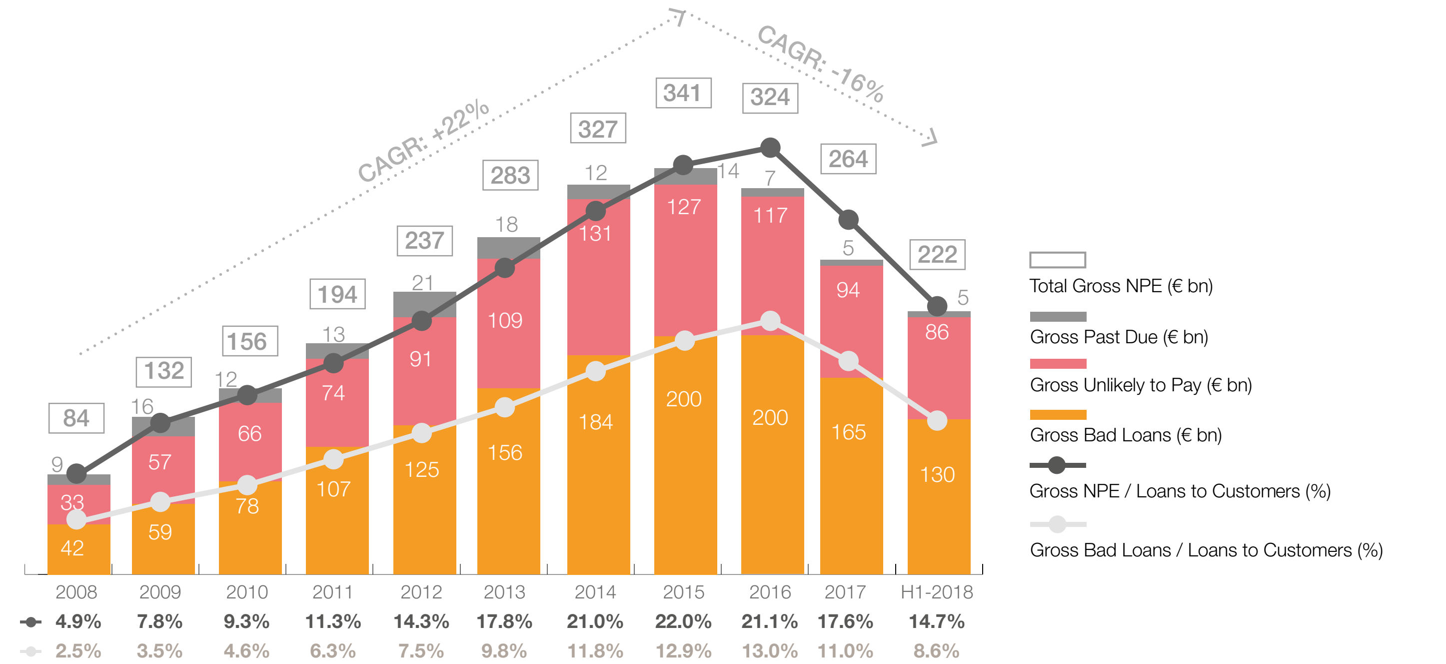
Asset Quality

Chart 7 shows the reduction in the Italian NPE stock. After peaking at €341bn of GBV at YE-2015, the stock constantly reduced over the last 2.5 years, reaching €222bn at H1-2018.

As of H1-2018 the gross Bad Loans volume stands at €130bn, dropping by €35bn during the first six months of 2018. Gross Unlikely to Pay show the same declining trend, with €86bn (from €94bn at YE-2017) and gross Past Due account for €5bn (approximately the same volume of YE-2017).

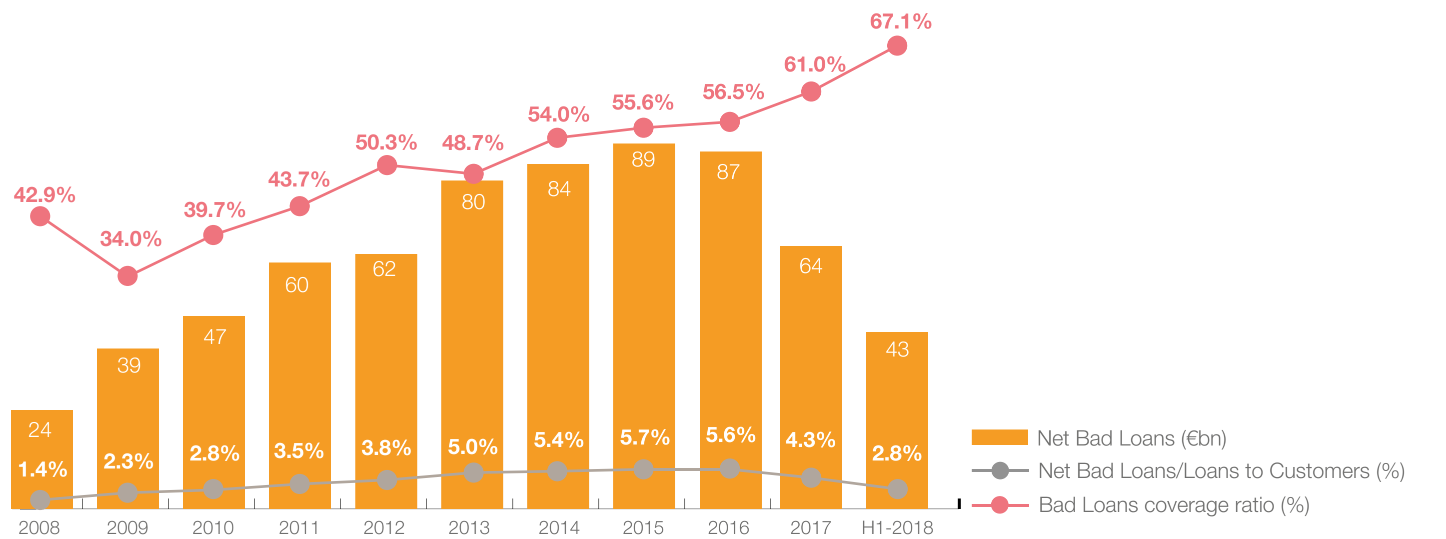
Chart 8 shows how the volume of net Bad Loans follow the same decreasing trend: their total amount at H1-2018 is equal to €43bn (€64bn at YE-2017). The Bad Loans coverage ratio for the Italian system increased to 67.1% (from 61.0% at YE-2017).

Chart 7: Gross NPE and gross Bad Loans trend



Source: PwC analysis on Banca d'Italia «Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori», September 2018.

Chart 8: Net Bad Loans Trend

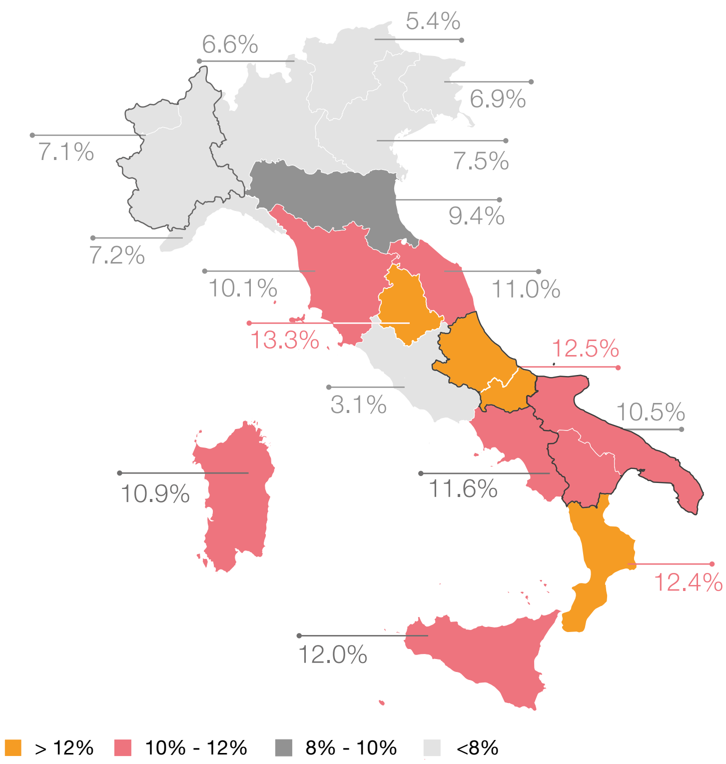


Source: PwC analysis on data of ABI Monthly Outlook – September 2018

Looking at the composition of gross Bad Loans:

- the breakdown of gross Bad Loans ratio highlights the highest percentages in Umbria (13.3%), Abruzzo and Molise (12.5%) and Calabria (12.4%), even though they represent a tiny portion of total Italian gross Bad Loans volumes (respectively, 2.1%, 2.6% and 1.9% of the total);
- the northern regions tend to have a lower gross Bad Loans ratio if compared to the ones of the Centre and South of Italy;
- at H1-2018 the "Corporate & SME" sector still represents the greatest share (68.4%) of Italian gross Bad Loans, followed by the consumer loans (21.6%);
- the percentage of secured Bad Loans (49%) is almost in line with YE-2017 levels (50%).

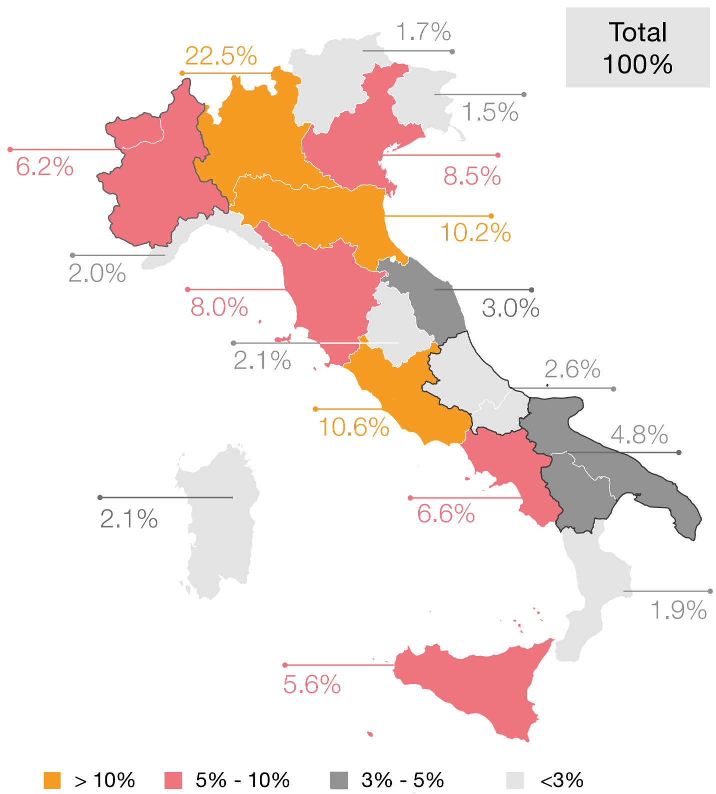
Chart 9a: Gross Bad Loans ratio by region* (H1-2018)



Source: PwC analysis on Banca d'Italia «Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori», September 2018.

Note: (*) Unique percentage for:
1) Valle d'Aosta and Piemonte,
2) Abruzzo and Molise,
3) Puglia and Basilicata

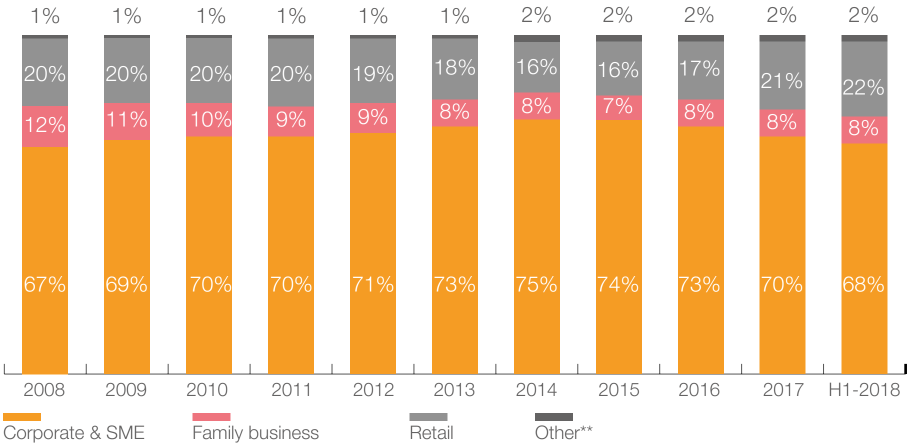
Chart 9b: Breakdown of Gross Bad Loans by region* (H1-2018)



Source: PwC analysis on Banca d'Italia «Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori», September 2018.

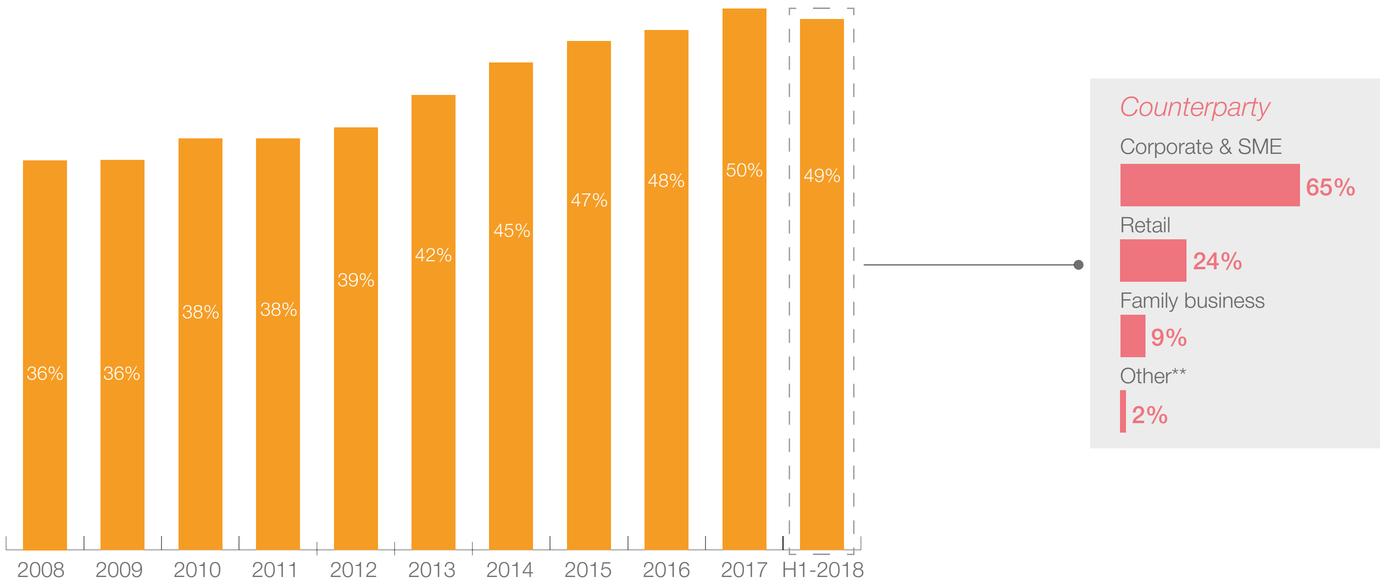
Note: (*) Unique percentage for:
1) Valle d'Aosta and Piemonte,
2) Abruzzo and Molise,
3) Puglia and Basilicata

Chart 10: Breakdown of Gross Bad Loans by counterparty** (H1-2018)



Source: PwC analysis on Banca d'Italia «Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori», September 2018.
Note: (**) "Other" includes PA and financial institutions

Chart 11: Secured gross Bad Loans trend** (% on total Bad Loans)

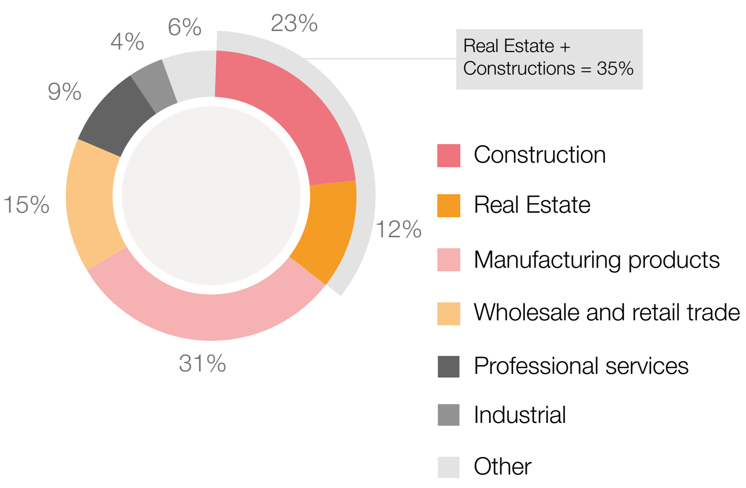


Source: PwC analysis on Banca d'Italia «Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori», September 2018.
Note: (**) "Other" includes PA and financial institutions

The breakdown of gross Bad Loans by economic sector **Chart 12** shows that Real Estate and Construction accounts for 35%, followed by manufacturing products (31%) and wholesale and retail trade (15%).

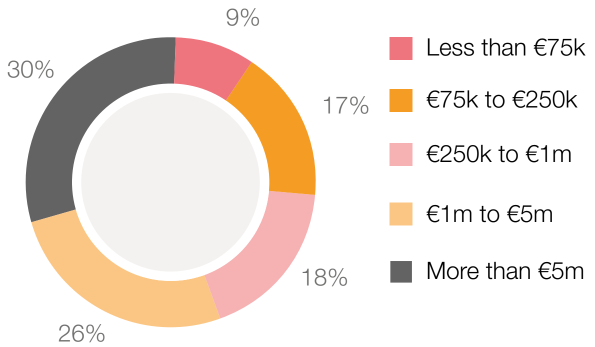
The breakdown of gross Bad Loans by ticket size **Chart 13** shows that large-size exposures (over €1m) represent 56% of total GBV, whereas mid-size exposures (from €75k to €1m) and small-size exposures (below €75k) represent 44% of the total.

Chart 12: Breakdown of Gross Bad Loans by economic sector



Source: PwC analysis on Banca d'Italia «Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori», September 2018.

Chart 13: Breakdown of Gross Bad Loans by ticket size



Source: PwC analysis on Banca d'Italia «Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori», September 2018.

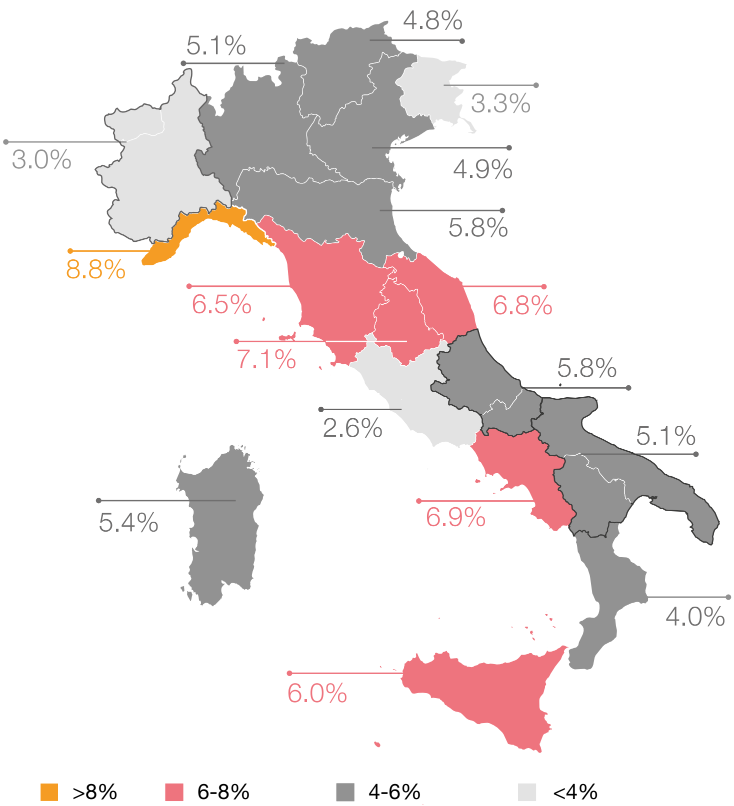
Focus: UtP

The gross UtP stock composition at H1-2018 illustrates the following:

- Piemonte, Valle d'Aosta, Friuli Venezia Giulia and Lazio are the regions with the lowest incidence of UtP (UtP ratio lower than 4%), whereas Liguria is the region with the highest levels of UtP ratio (8.8%);

- in terms of volumes, the highest UtP concentration is in Lombardy and Lazio (respectively, with 26.3% and 14.0% of total volumes).

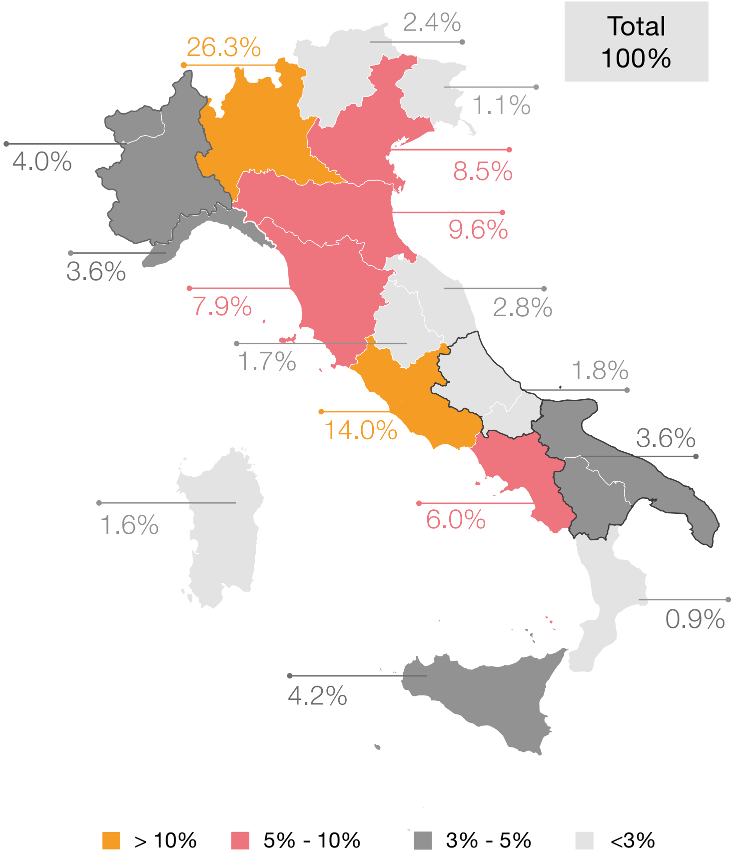
Chart 14a: UtP ratio by region* (H1-2018)



Source: PwC analysis on Banca d'Italia «Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori», September 2018.

Note: (*) Unique percentage for:
1) Valle d'Aosta and Piemonte,
2) Abruzzo and Molise,
3) Puglia and Basilicata

Chart 14b: Breakdown of UtP by region* (H1-2018)



Source: PwC analysis on Banca d'Italia «Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori», September 2018.

Note: (*) Unique percentage for:
1) Valle d'Aosta and Piemonte,
2) Abruzzo and Molise,
3) Puglia and Basilicata

Key Message: during the first months of 2018, figures for Italian companies' closures continued the declining trend started in 2017, with the most significant reduction being represented by voluntary arrangements. Also bankruptcies showed a decrease, mainly driven by the constructions and industrial sectors.

In the first three months of 2018, the **decrease of Italian companies' bankruptcies and voluntary arrangements** went on, while an increase was reported for forced and voluntary liquidations.

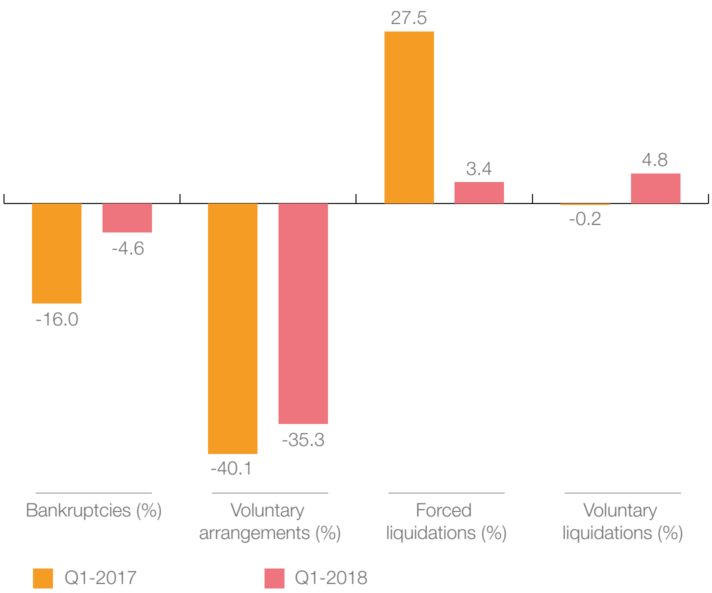
As shown in **Chart 15**, during the first quarter of 2018 there was a 4.6% drop in bankruptcies with respect to the previous year.

Focusing on non–bankruptcy proceedings, the most significant reduction has been observed for business closures after voluntary arrangements ("Concordati preventivi", including restructuring plans, -35.3%), in accordance with previous year's trend.

By contrast, forced and voluntary liquidations reported small increases, respectively equal to +3.4% and +4.8%, with respect to Q1-2017.

Chart 16 shows that the reduction in the number of bankruptcies is almost equally distributed among different economic sectors (except for services' companies). In the construction, industrial and services sectors the decline in bankruptcies is in line with the previous year's trend, however the magnitude of annual percentage changes has more than halved, on average, with respect to the previous year.

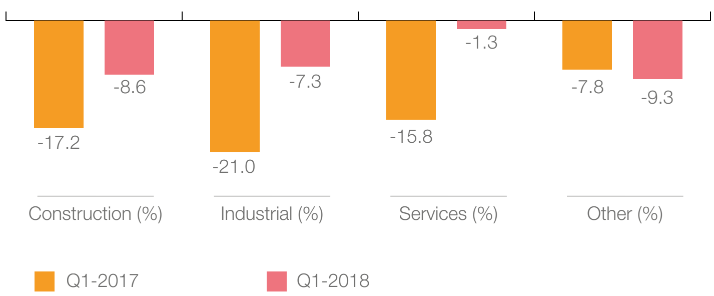
Chart 15: Business closures by procedure (Q1-2018, % YoY)



Source: PwC analysis on "Osservatorio su fallimenti, procedure e chiusure di imprese", Cerved
Note: "Voluntary arrangement" = "Concordato preventivo". Forced liquidation" = "Liqudazione coatta amministrativa"

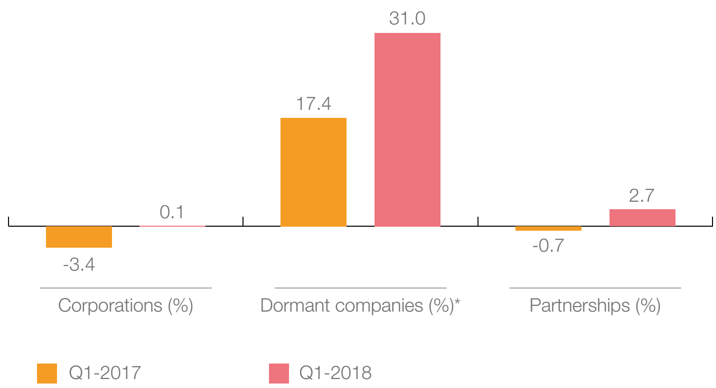
Finally, as shown in **Chart 17**, during Q1-2018 the number of voluntary liquidations increased again: according to estimates, more than 16k Italian companies not undergoing any insolvency proceedings went into liquidation (+4.8% yoy, as reported in **Chart 15**). The increase is mainly caused by the closure of several «dormant» companies (+31%), which represent Italian companies registered but not operating, whereas the incidence of voluntary liquidations for corporations and partnerships has been very modest.

Chart 16: Bankruptcies by economic sector (Q1-2018, % YoY)



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

Chart 17: Voluntary liquidations by legal status (Q1-2018, % YoY)



Source: PwC analysis on "Osservatorio su fallimenti, procedure e chiusure di imprese", Cerved.
Note: (*) Dormant companies are defined as companies which did not submit any valid financial statements in the three years prior to liquidation.

Italian Banks Overview

Key message: despite ongoing uncertainties for the Italian economic scenario and the difficulties borne by some of the Italian banks, the discrete vibrancy of the NPE market underscores the persistence of a dynamic market, with several disposals that allowed banks to improve their asset class and decrease their gross and net NPE ratios.

Recent Events

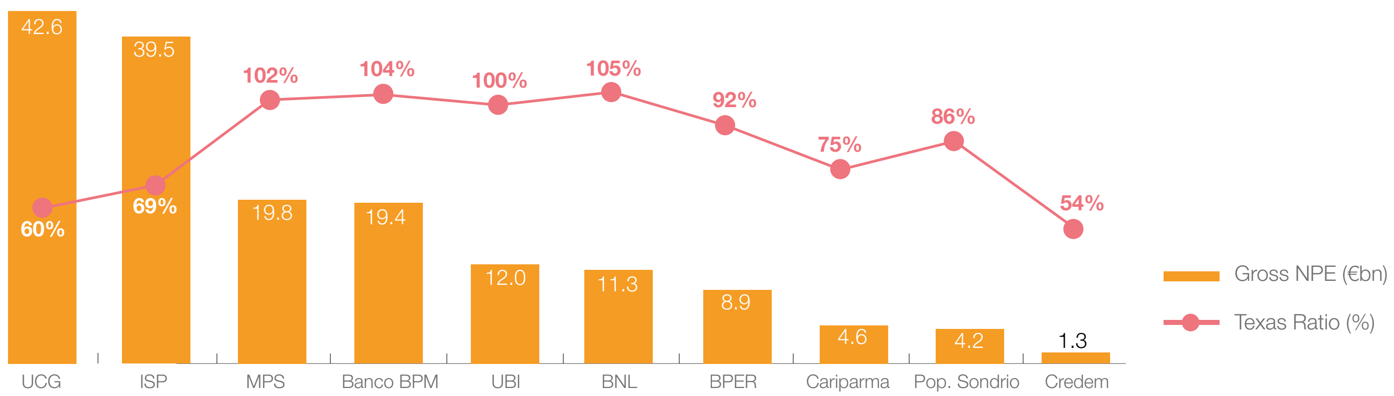
- On October 10th, 2018*, Italian State Guarantee scheme (GACS, Garanzia Cartolarizzazione Sofferenze) for the senior tranches of NPE securitization operations has been extended until March 2019. Starting from February 2016, this strategy strongly contributed to the Italian NPE resolution plan and, as of June 2018, it helped the Italian banking system in the disposal of NPE portfolios for c.a. €33bn.

- UniCredit, Intesa Sanpaolo, Banco BPM and UBI Banca showed positive results in the last 2018 EU-wide EBA Stress Tests, all with CET1 ratios higher than 5.5%** in the adverse scenario.

- During 2018, several important NPE transactions took place in the Italian banking system: among the others, Banca Monte dei Paschi di Siena closed the disposal of a €24.1bn mixed secured - unsecured portfolio of Bad Loans with Quaestio, Intrum acquired a €10.8bn Bad Loans portfolio from Intesa Sanpaolo, Banco BPM sold a €5.1bn Bad Loans portfolio to CRC, UBI Banca dismissed a €2.7bn NPE portfolio and Cerberus acquired from SGCD a €2bn unsecured portfolio. Recently, BPER offloaded a €1.9bn portfolio and a pool of Italian banks dismissed around €1.6bn Bad Loans.

Note:(*) Decree published on "Gazzetta Ufficiale n. 258 on November 6th 2018; (**) Decree published on "Gazzetta Ufficiale n. 87 on April 14th 2016; (***) 5.5% is the CET1 threshold used for the adverse scenario in 2014 EU-wide EBA Stress Tests. The 2018 EU-wide EBA Stress Tests did not include a defined pass or fail threshold.

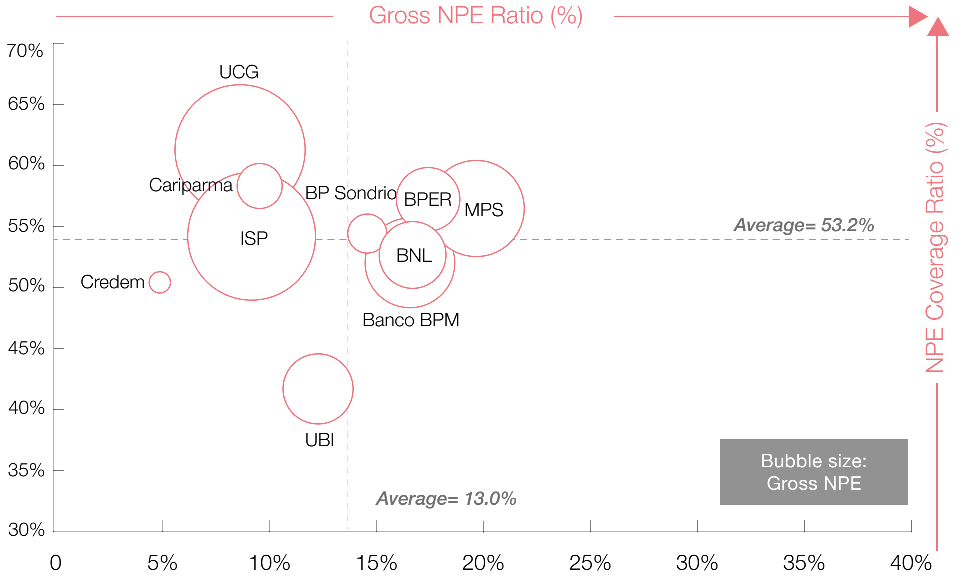
Chart 18: Top 10 Italian Banks - Gross NPE and Texas ratio



Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies. Latest available data for BNL as of YE-2017.
Note: Texas ratio defined as the ratio between total Gross NPE and the sum of CET1 and NPE provisions

Chart 19 focuses on the gross NPE ratio and the NPE coverage ratio for the Top 10 Italian banks, which show respectively an average of 13.0% and 53.2%. The differences comparing the banks are clear.
On one side MPS shows the highest gross NPE ratio with 19.8% while, on the other side, Credem stands at the lower extreme of 5.1%.
Considering the NPE coverage ratio, UniCredit shows the highest value (60.9%) and UBI the lowest (40.5%). We also have to highlight that the coverage ratio is not directly comparable, as it is influenced by several factors that are unique in every bank, such as write-off policies, level of collateralization of the loans and vintage of the portfolio.

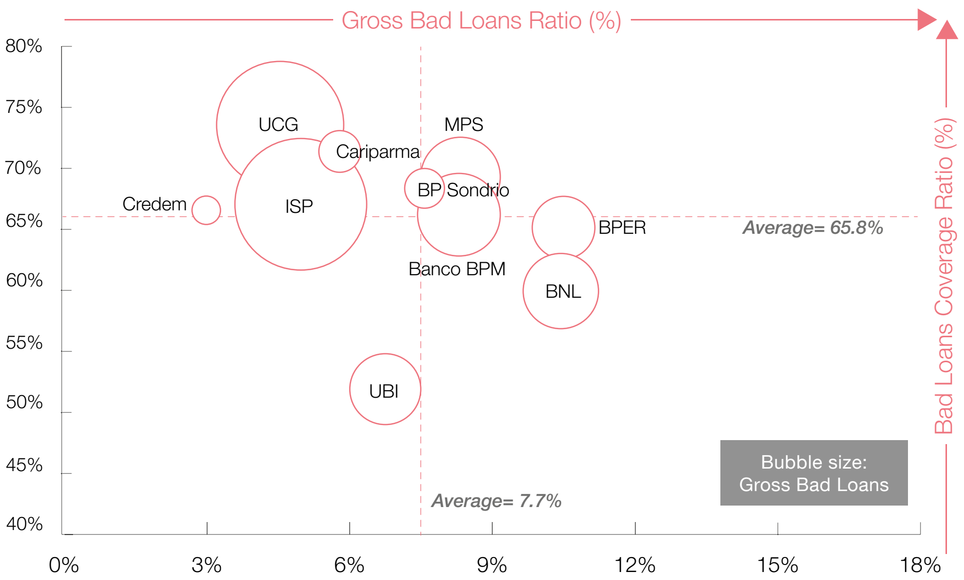
Chart 19: Top 10 Italian Banks – NPE Peer Analysis as of H1-2018



Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies. Latest available data for BNL as of YE-2017.

The same analysis is reproduced considering the gross Bad Loans ratio and the Bad Loans coverage ratio (**Chart 20**). In this case there are also differences among the Top 10 banks. BPER reaches the peak of gross Bad Loans ratio with 11.6% and Credem, the lowest, has a 3.2% ratio (the average stands at 7.7%). The relative coverage ratio indicates two opposite peaks: 73.5% with UniCredit and 51.7% with UBI (the average stands at 65.8%).

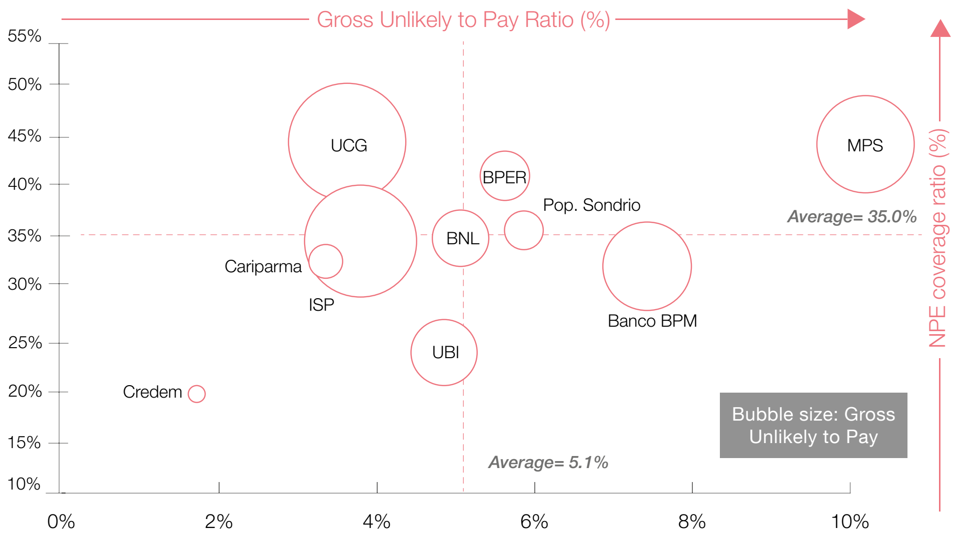
Chart 20: Top 10 Italian Banks – Bad Loans Peer Analysis as of H1-2018



Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies. Latest available data for BNL as of YE-2017.

Chart 21 provides a snapshot for the Unlikely to Pay ratio and its coverage ratio. The average for the first ratio is 5.1%, with MPS peaking at 10.2% and Credem being the lowest one with 1.7%. The Unlikely to Pay coverage ratio average is 35%: UCG is at the top with 45.1% and Credem at the bottom with 20.1%.

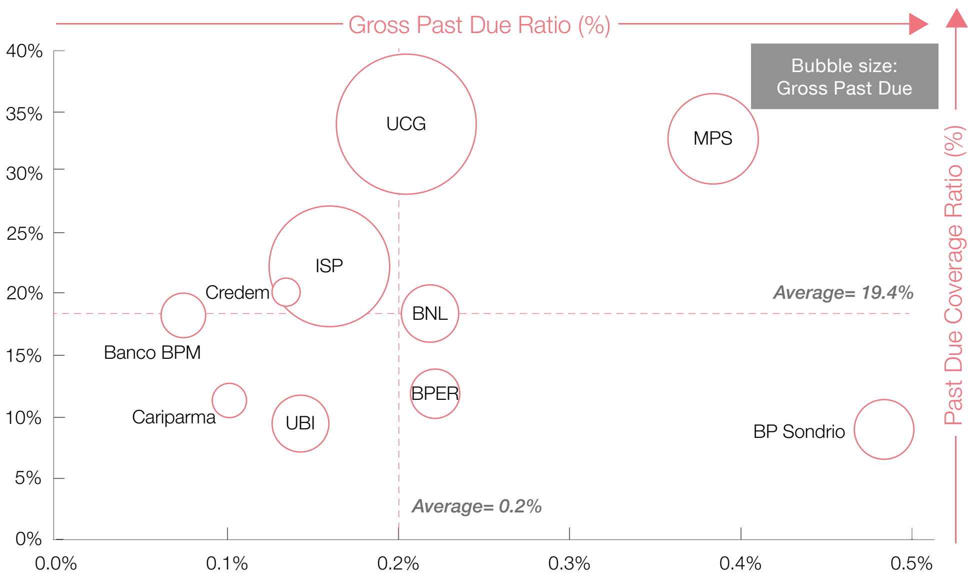
Chart 21: Top 10 Italian Banks – Unlikely to Pay Peer Analysis as of H1-2018



Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies. Latest available data for BNL as of YE-2017.

Chart 22 illustrates the gross Past Due ratio and the coverage ratio for the banks analyzed. Banca Popolare di Sondrio records the highest gross Past Due ratio reaching 0.5% while Cariparma and Banco BPM the lowest at 0.1%, while the average stands at 0.2%. The relative coverage ratio indicates two peaks: on one side UniCredit with 34.0% and on the other side Banca Popolare di Sondrio with 9.8%. The average reaches 19.4%.

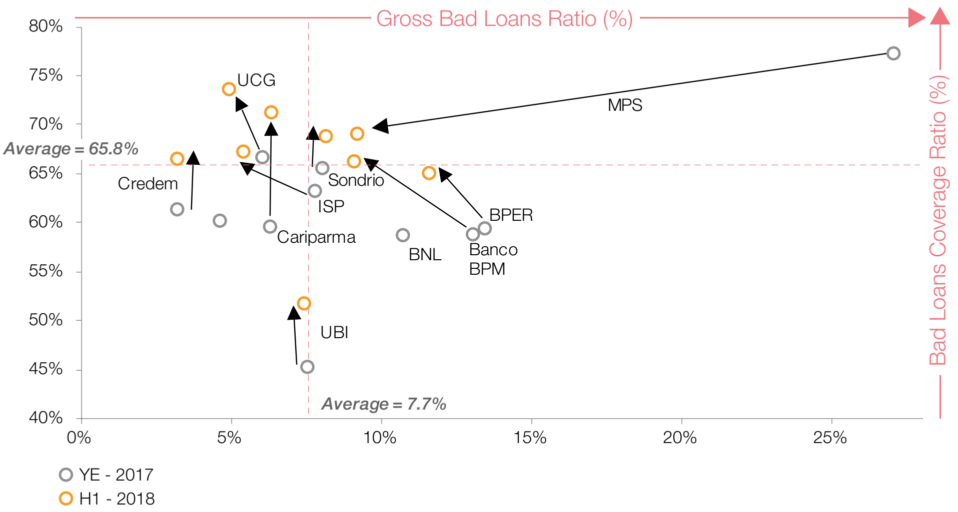
Chart 22: Top 10 Italian Banks – Past Due Peer Analysis as of H1-2018



Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies. Latest available data for BNL as of YE-2017.

For the Top 10 Italian banks, **Chart 23** analyzes the movements in the gross Bad Loans ratio and the Bad Loans coverage ratio between YE-2017 and H1-2018. At H1-2018 the average gross Bad Loans ratio reaches 7.7%, whereas the coverage ratio stands at 65.8% (67.1% for the whole Italian system). The snapshot indicates most of the Top 10 Italian banks have improved their gross Bad loans ratios during H1-2018 and their Bad Loans' coverage, the latter effect partly due to the transition from IAS 39 to IFRS 9.

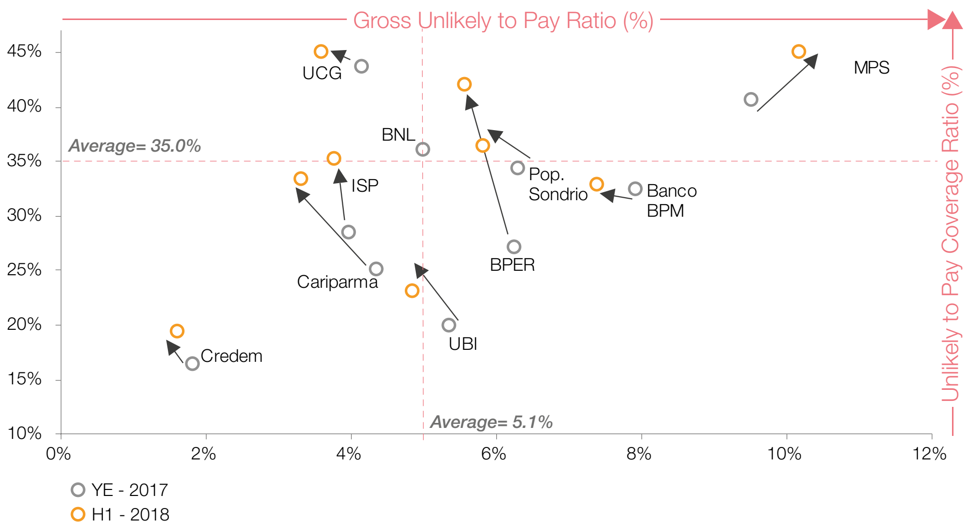
Chart 23: Top 10 Italian Banks – Bad Loans movements (YE-2017 vs H1-2018)



Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies. Latest available data for BNL as of YE-2017.

Chart 24, again considering the Top 10 Italian banks, shows that all the banks analyzed experienced a decrease in the gross Unlikely to Pay ratio. At H1-2018 the average gross Unlikely to Pay ratio stands at 5.1%, while the Unlikely to Pay coverage ratio is 35%. The Unlikely to Pay coverage ratio increased for all the Top 10 Italian banks but UBI, partly due to the transition from IAS 39 to IFRS 9.

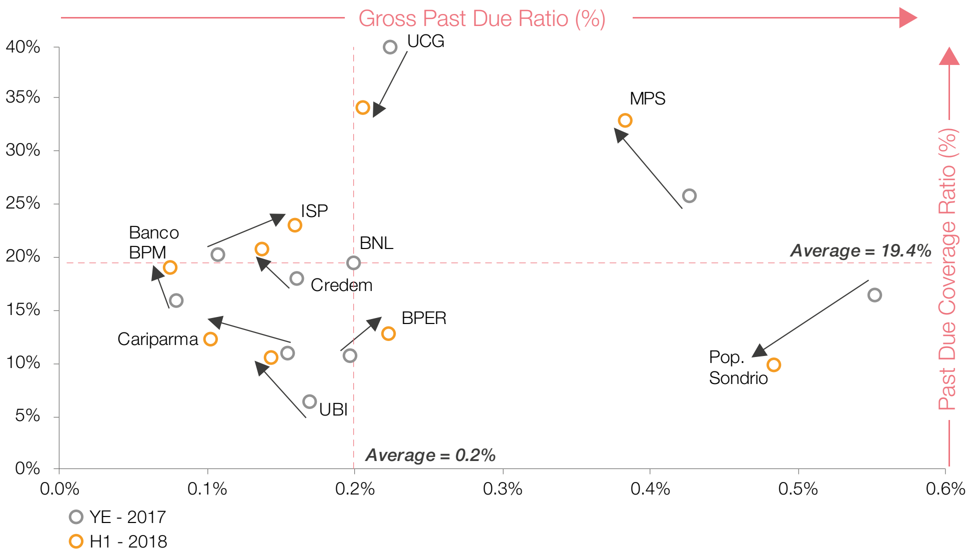
Chart 24: Top 10 Italian Banks – Unlikely to Pay movements (YE-2017 vs H1-2018)



Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies. Latest available data for BNL as of YE-2017.

Chart 25 illustrates the movements in the gross Past Due ratio and Past Due coverage ratio. At H1-2018, the gross Past Due ratio stands at 0.2%, whereas the Past Due coverage ratio is 19.4%, with a ca. 1% increase with respect to YE-2017 levels (18.3%). During H1-2018, the Top 10 Italian Banks decreased their Gross Past due ratio, except for Intesa Sanpaolo and BPER, that registered a slight increase.

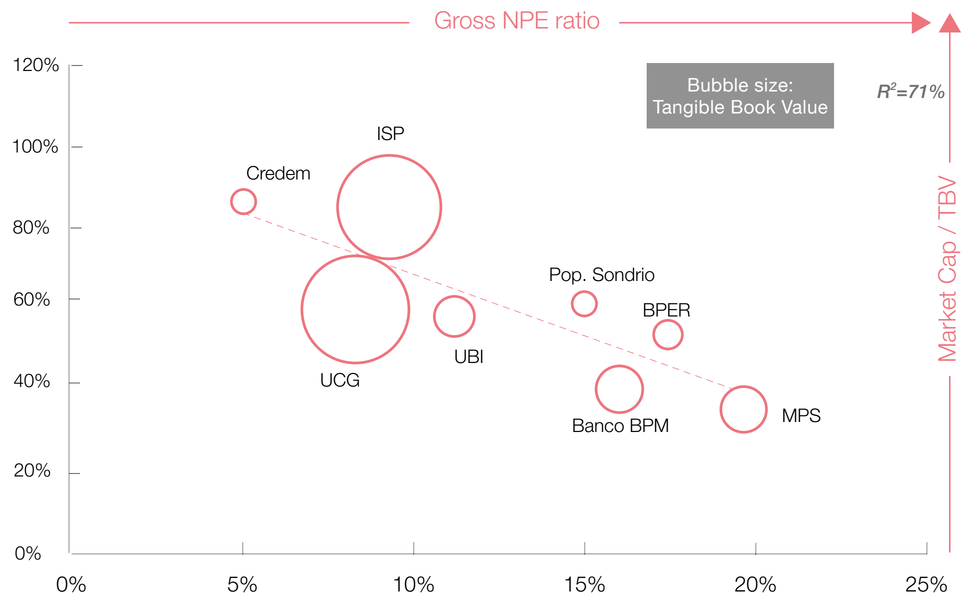
Chart 25: Top 10 Italian Banks – Past Due movements (YE-2017 vs H1-2018)



Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies. Latest available data for BNL as of YE-2017.

Chart 26 shows the inverse correlation between the Market Cap on Tangible Book Value of the Top 10 Italian banks (listed) and their gross NPE ratio, which is an indication of a persistent market pressure on banks, penalizing those with currently high NPE ratio independently on their NPE strategies.

Chart 26: Top 10 Italian Banks (listed) - Relation between Market Cap/TBV and gross NPE ratio as of November 2018



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

Key Message: with the adoption of IFRS 9 most of the Top 10 Italian banks have opted for the phase-in option, generally benefitting of limited negative impacts on CET1 ratios (phased-in).

IFRS 9 impact – Focus on impairment and phase-in option

Banks have allocated the potential impact on impairment arising from the adoption of IFRS 9 to the so-called “FTA reserve”, a specific equity reserve.

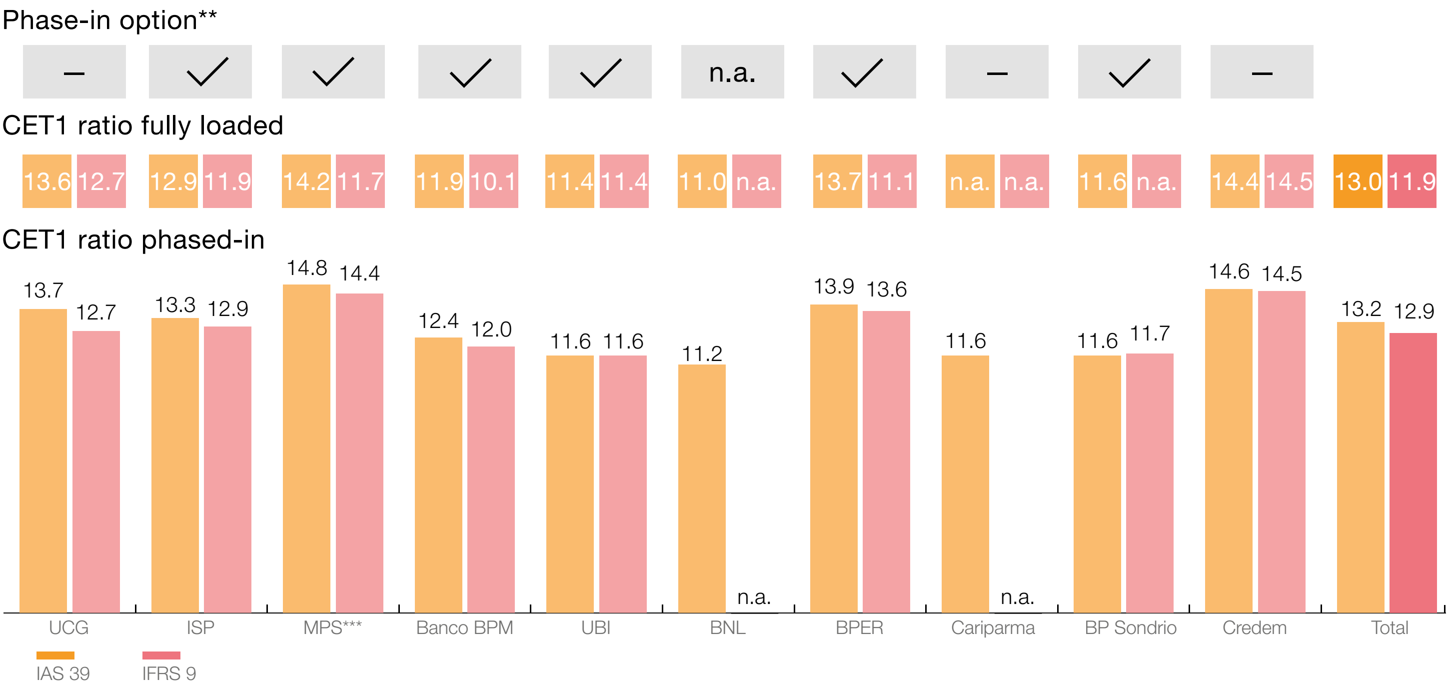
This has allowed them to adjust impairments for the adoption of a forward-looking approach without being penalized with potentially a negative impact on the income statement.

For the period 2018-2022 banks had the option to re-include in CET 1 (but not in equity) such FTA reserve, net of tax effect (if applicable), in the following measure for each of the 5 years (transitional period):

	2018	2019	2020	2021	2022
Portion to be re-included in CET 1	95%	85%	70%	50%	25%
Portion with a direct impact on CET 1	5%	15%	30%	50%	75%

The chart below shows Top 10 banks’ CET1 ratio, both fully-loaded and phased-in, before and after the transition to IFRS 9. Overall, fully-loaded CET1 ratios declined on average by over 100 bps, whereas phased-in CET1 ratios had a lower reduction (ca. 30 bps).

Chart 27: Top 10 Italian banks – IFRS 9 impact on CET 1 ratio*
Data as at 31/12/2017 for IAS 39 and as at 1/1/2018 for IFRS 9 in %

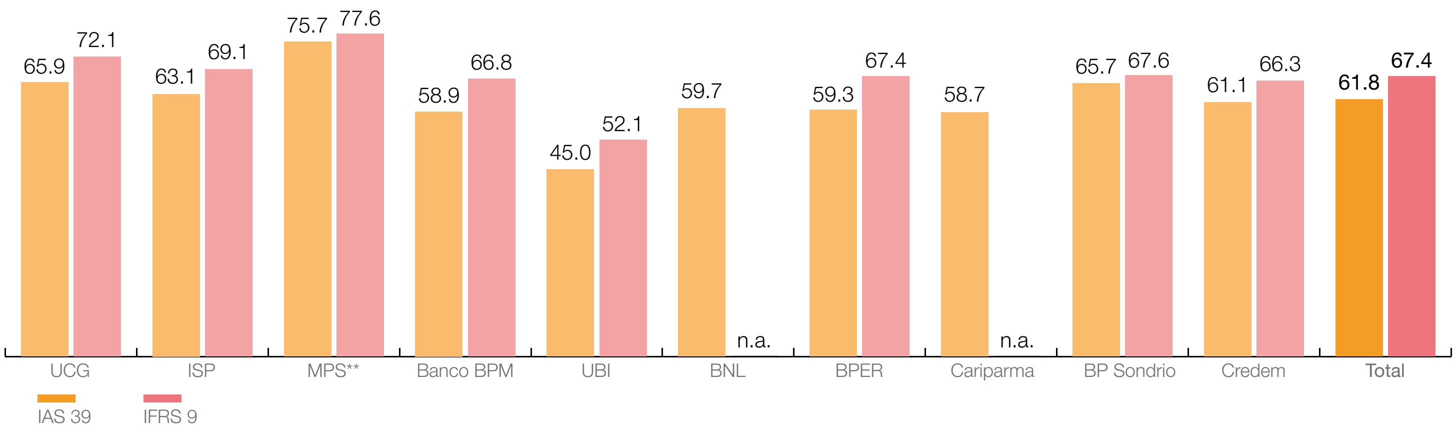


Sources: PwC analysis on financial statements and analysts’ presentations. Rounded numbers, total as simple average of ratios, excluding BNL and Cariparma. Latest available data for BNL as of YE-2017. CET 1 data as of 31.12.2017 for IAS 39 and as at 1.1.2018 for IFRS 9, without taking into account ongoing capital management actions.
Note: (*) Overall IFRS 9 impact, inclusive of both impacts on reclassification and impairment. Please note that the difference from 1.1.2018 and 31.12.2017 data might be due also to additional factors other than IFRS 9 (e.g. grandfathering regime); (**) “Approccio statico”; (***) Data as of 1Q18 for MPS
Please note that, in order to avoid a duplication of benefits on own funds, for the calculation of net EAD (to be weighted for RWA purposes), banks opting for the phase-in option will have to take into account the portion of provisions on credit which have been re-included in CET1 under IFRS 9 phase-in (so-called "scaling factor")

Key message: with the adoption of IFRS 9 the Top 10 Italian banks have been increasing their Bad Loans coverage ratios, which overall peaked at 67.4%, mainly driven by the inclusion of disposal scenarios in valuation methodology

Chart 28: Top 10 Italian banks – Bad Loans Coverage Ratio before and after IFRS 9 adoption
Data as at 31/12/2017 for IAS 39 and as at 1/1/2018 for IFRS 9 in %

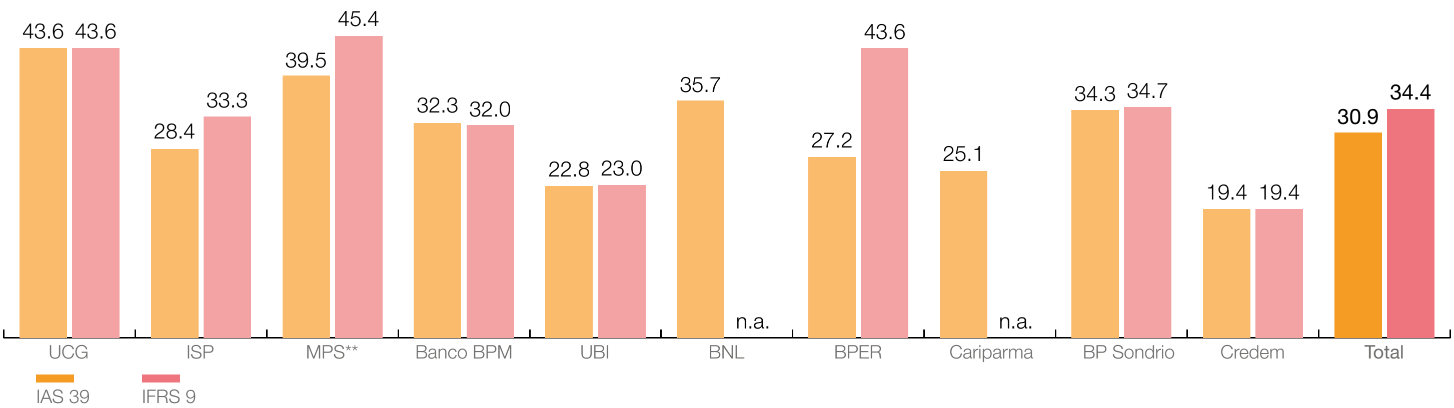
	UCG	ISP	MPS**	Banco BPM	UBI	BNL	BPER	Cariparma	BP Sondrio	Credem	Total
IFRS 9 impact* [€m]	n.a.	2,063	649	1,246	513	n.a.	575	n.a.	33	43	
IFRS 9 vs. IAS 39	+6.2	+6.0	+1.8	+7.9	+7.0	n.a.	+8.1	n.a.	+1.9	+5.3	**+5.5**



Sources: PwC analysis on financial statements and analysts' presentations. Rounded numbers, total as simple average of ratios, excluding BNL and Cariparma. Latest available data for BNL as of YE-2017.
Note: (*) Calculated as the difference between IFRS 9 and IAS 39 provisions (gross of tax effect). Such amount might be affected also by IFRS 9 reclassification effect;
(**) data as of 1Q18 for MPS

Chart 29: Top 10 Italian banks – UtP Coverage Ratio before and after IFRS 9 adoption
Data as at 31/12/2017 for IAS 39 and as at 1/1/2018 for IFRS 9 in %

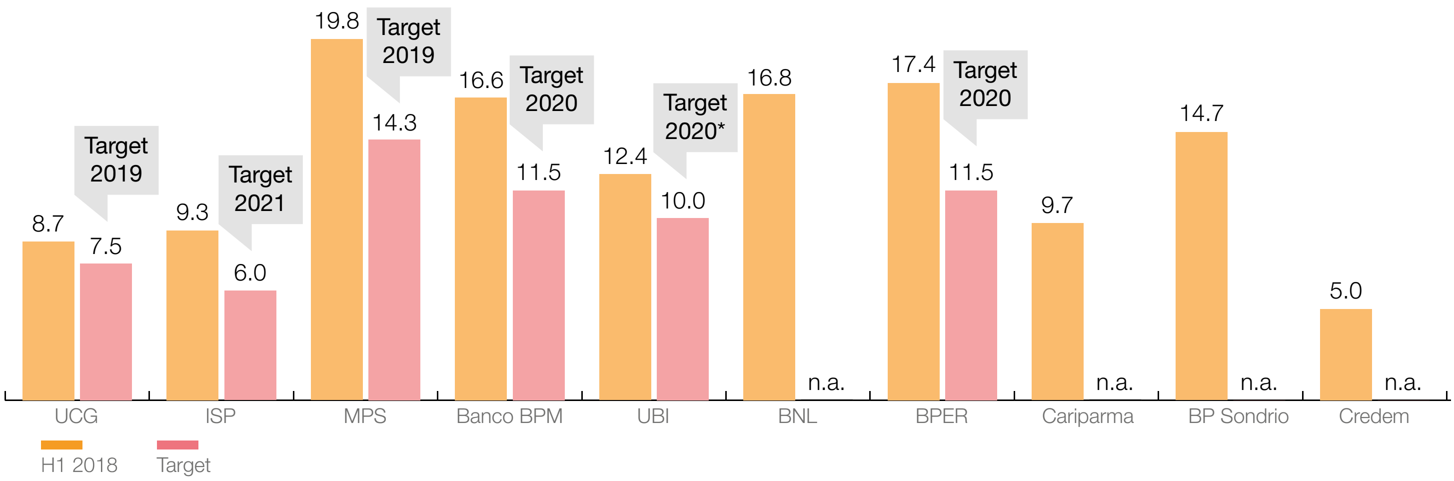
	UCG	ISP	MPS**	Banco BPM	UBI	BNL	BPER	Cariparma	BP Sondrio	Credem	Total
IFRS 9 impact* [€m]	n.a.	852	494	(137)	(44)	n.a.	545	n.a.	6	–	
IFRS 9 vs. IAS 39	–	+4.9	+5.9	(0.4)	+0.2	n.a.	+16.4	n.a.	+0.4	–	**+3.4**



Sources: PwC analysis on financial statements and analysts' presentations. Rounded numbers, total as simple average of ratios, excluding BNL and Cariparma. Latest available data for BNL as of YE-2017.
Note: (*) Calculated as the difference between IFRS 9 and IAS 39 provisions (gross of tax effect). Such amount might be affected also by IFRS 9 reclassification effect;
(**) data as of 1Q18 for MPS

Key message: most of the Top 10 Italian Banks have disclosed their NPE Strategy targets in terms of gross NPE ratio, showing an overall reduction with respect to H1-2018 levels

Chart 30: Top 10 Italian Banks – Target Gross NPE Loans Ratio vs current as of H1-2018



Sources: PwC analysis on financial statements and analysts' presentations. Rounded numbers, total as simple average of ratios, excluding BNL and Cariparma. Latest available data for BNL as of YE-2017.
Note: (*) target NPE ratio below 10%

Focus on UtP Italian Market

Key Message:
at the half of FY 2018, the UtP exposure amounted to €86bn (GBV) of which 78% is concentrated within the Top 10 Italian banks. Despite the declining trend, the UtP magnitude is still huge.

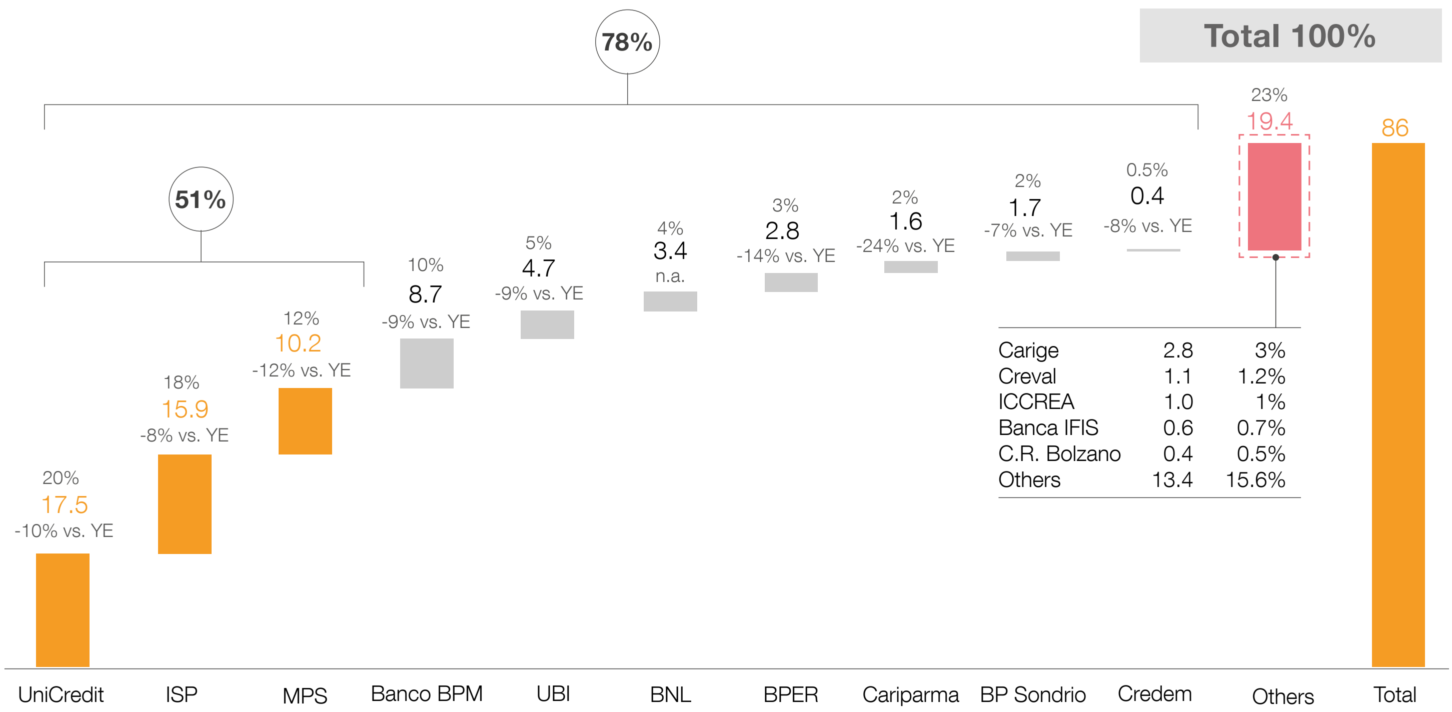
Overview

UtP is a major issue for the Italian banking system for several reasons. The NPE figures at the half of 2018 still show a huge amount of UtP (€86bn of GBV), of which 78% is concentrated within the Top 10 Italian banks.

The recent requirements mandated by the European Regulators (the ECB guidelines, the calendar provisioning, within the ECB Addendum, and the application of IFRS9 from 1 January 2018) will undoubtedly drive the Italian banks' management of the current stock, next wave of NPE and the UtP deleveraging plans as well.

Capital requirements and short/medium-term plans of reducing their NPE ratio could lead to massive UtP sale opportunities (single names and/or small portfolios). Industrial capabilities' self-assessment along with identification of potential upside coming from the proper restructuring of the UtP could even lead the banks to internal management or external management (through specialised servicers) of the UtP.

Chart 31: Top 10 Italian banks – UtP distribution (€bn and %) as of H1-2018



UniCredit	ISP	MPS	Banco BPM	UBI	BNL	BPER	Cariparma	BP Sondrio	Credem	
41%	40%	52%	45%	39%	30%	32%	34%	40%	34%	Gross UtP/NPE
9%	9%	20%	17%	12%	17%	17%	10%	15%	5%	Gross NPE Ratio
4%	4%	10%	7%	5%	5%	6%	3%	6%	2%	Gross UtP Ratio

Source: PwC analysis of financial statements and analysts' presentations. The list of Top 10 Italian banks is based on the Gross Book Value of Total Exposure as of H1-2018 (source: ABI). Figures may not total 100% due to rounding. Latest available data for BNL as of YE-2017.

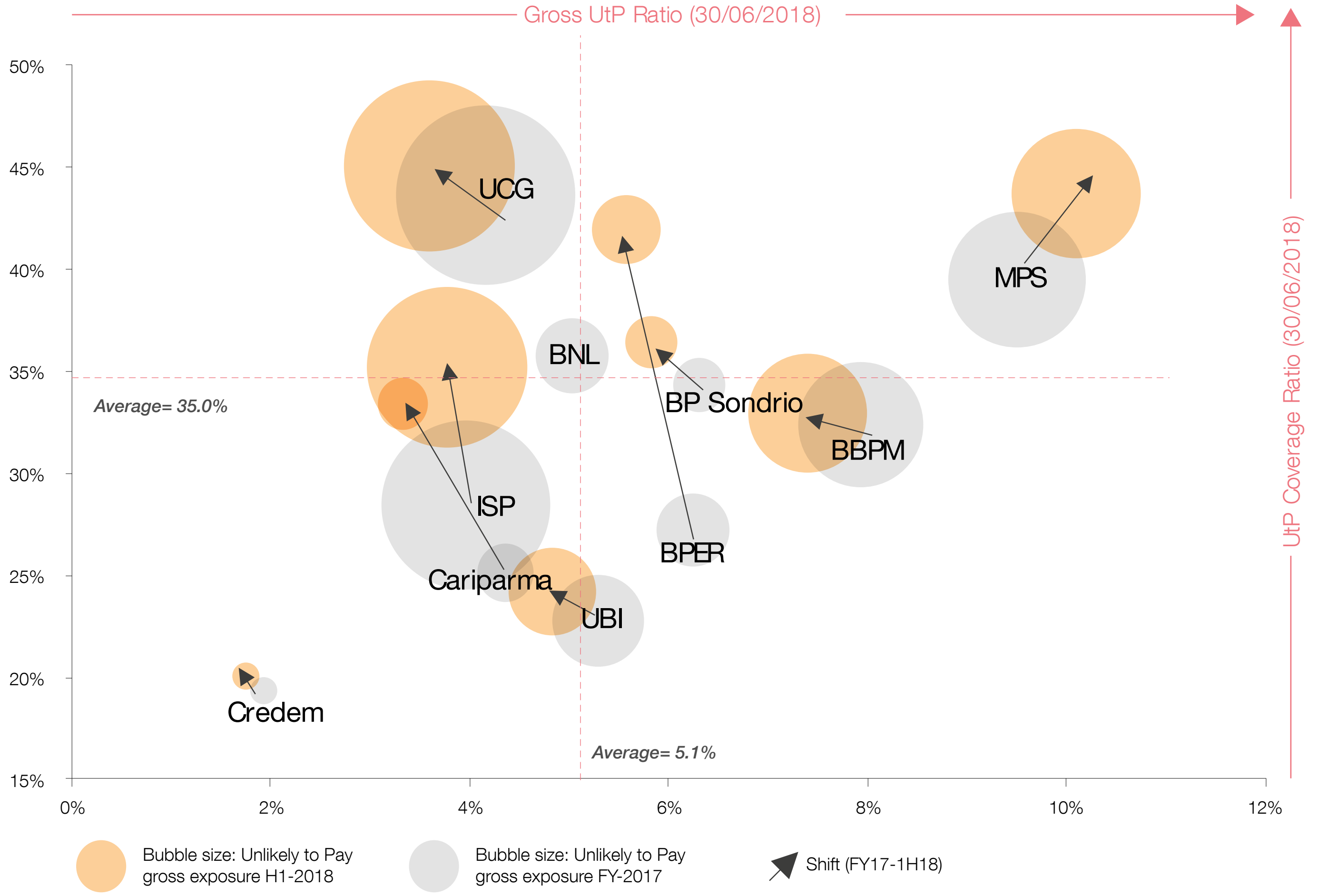
Key Message: the UtP average coverage ratio of the Top 10 Italian banks reached 35.0% (31.0% in 2017) while their ratio on total loans declined from 5.5% to 5.1%. The Italian banks are on the right path but further efforts are required.

UtP Coverage ratios vs. Gross UtP ratios

Top 10 Italian Banks featured generally higher provisions of UtP in 2018 vs 2017, resulting in higher coverage ratios (avg. 35.0% in 2018). However, accounting and provisioning policies are different across bank groups: while UniCredit and MPS increased their UtP coverage ratio to 45% from respectively 44% and 41%, both UBI and Credem UtP coverage increased by 1% reaching 24% and 20% respectively.

During the first half of 2018, banks have been following their deleveraging plans, reducing their average gross UtP ratio from 5.5% at YE-2017 to 5.1% at H1-2018. Only MPS increased its UtP ratio mainly due to the closing of Project Valentine (€24.1bn of Bad Loans' deleverage) which reduced the denominator of the ratio.

Chart 32: Top 10 Italian Banks – UtP movements (YE-2017 vs H1-2018)



Sources: PwC analysis on financial statements and analysts' presentations. Rounded numbers, total as simple average of ratios, excluding BNL and Cariparma. Latest available data for BNL as of YE-2017.

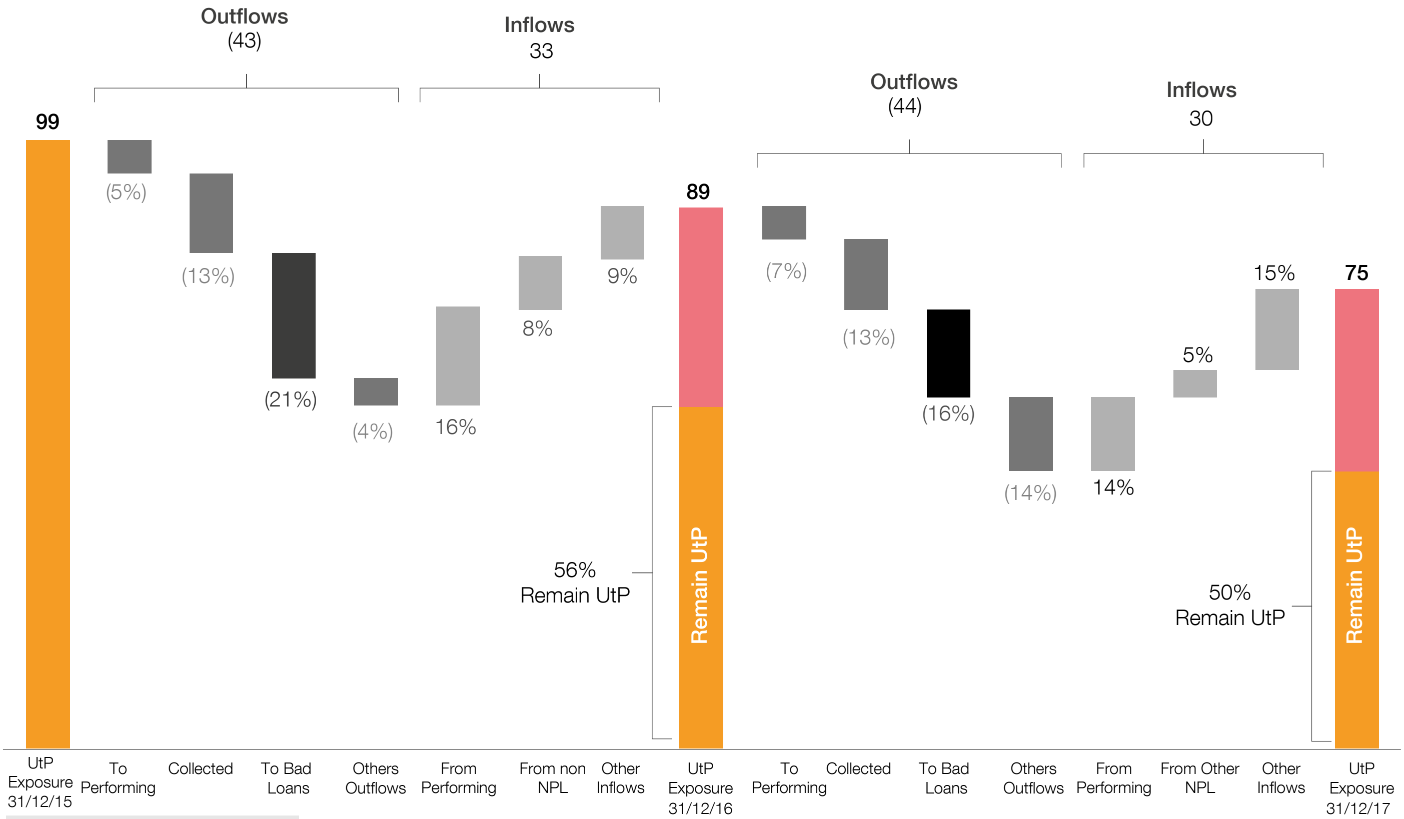
Inflows and outflows

In 2017, total outflows of the Top 10 Italian banks remained stable at around €44bn, despite lower outflows to Bad Loans: 21% in 2016 vs 16% in 2017.
The inflows in 2017 decreased from €33bn to €30bn, mainly due to the lower inflows from performing and past due exposures.

Notably, UtP gauged a firm decline of inflows from performing loans over the last 2-year period: 16% in 2016 vs 14% in 2017.
UtP which remained UtP during 2017 amounted to €44.5bn (i.e. 50% out of €89bn), proving how the main issue lies mainly in their massive stock and a management not yet able to target deleverage solutions.

Key Message: at the end of 2017, despite the decreased outflows to Bad Loans (-5%) and inflows from performing (-2%) compared to 2016, 50% of UtP remained as such. The UtP issue for 2018 still lies in the management of the massive stock

Chart 33: Top 10 Italian Banks - UtP inflows and outflows from 2015 to 2017 (€bn)



$$\% \, flows = \frac{In/Outflow}{Initial \, Exposure}$$

Sources: PwC analysis on financial statements

Key Message: following an improved proactive management, banks could identify the most effective and efficient solutions to deleverage their UtP (e.g. return to performing, collection) among several strategic options. Solely a proactive management of UtP could lead to the right "tailor made" strategic solution.

Our view on the available strategies for UtP

The strategic options identified through the ongoing due diligence carried out by the bank on the borrower's case could result in the return of the loan to the performing category through the implementation of internal forbearance measures or in the sale of the loan or in the reclassification of the exposure as Bad Loans (thus requiring the prompt liquidation of the borrower's asset through judicial procedures).

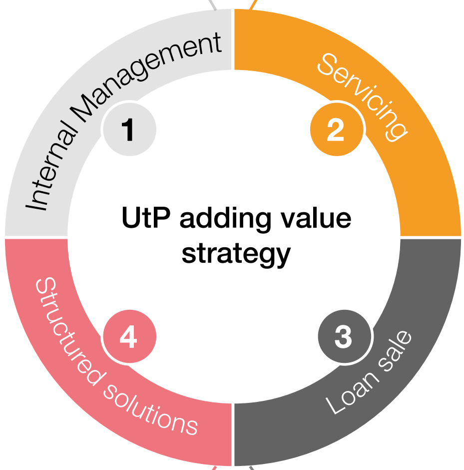
Sale of UtP could be even executed through portfolios transactions which require preliminary strategic segmentation to maximize loans' value for the banks. Otherwise, banks may decide to outsource the management on NPE (such as UtP) to a specialised credit servicer.Banks can even implement structured solutions through financial and industrial partners, providing management capabilities and new financing to the borrowers.

Internal Management

- Forbearance measures:
  - Grace period/Payment moratorium
  - Extension of maturity/term
  - Debt consolidation
  - New credit facilities
  - Recovery plan by Italian Bankruptcy Law (e.g. art. 67 & 182 bis)
- Segmenting by industry/type of UtP (overdue/ restructured/ defaulted)

Structured solutions through investor's equity injection/ underwriting of senior debt

- Industrial partner to revampand establish the underlying borrower's business (long term approach)
- Financial partner to inject cash within a strategic exit plan (short/medium term approach)



Servicing

- New opportunities of value creation
- New market opportunities
- Mandatory will be the transition from past due management to a proactive management of the UtP (e.g. new credit facilities)
- Part of the industrial management required by ECB
- Best practices' implementation

Loan sale

- True sale/securitisation
- Single names' sale on a best offer basis (opportunistic criteria)
- Single names' sale based on a structured plan (strategic criteria)
- Sale of UtP portfolios

Key Message: Italian banks should improve their loans' restructuring procedures throughout an appropriate and more effective "case by case" analysis of the financial difficulty of the borrower.

Forbearance as a relevant measure for the proactive management of UtP

The ECB guidance emphasizes that the main objective of forbearance measures is to allow debtors to exit their non-performing status or to prevent performing borrowers from reaching a non-performing status. Therefore, the guidance actively addresses the theme, by guiding banks in the identification of the optimal balance of forbearance measures aimed at granting the exit from short- and long-term difficulty status of the debtor.

In particular, on the basis of the type of difficulty of the debtor, either short- or long-term forbearance measures (or a combination of the two) maximizing recoveries shall be identified, while simultaneously granting the sustainability of the adopted measures (e.g. debt service capacity).

Table 6: Main forbearance measures[1] – Application examples

Intervention area	Adoption of short-term measures		Adoption of long-term measures	
Interest	• **Temporary financial difficulty** of **minor entity** to be overcome **within 24 months**	• Temporary payment of **interest only** (no capital reimbursement)	• Excessively **high interest rates** for the debtor	• **Permanent reduction** of interest rates
Instalments	• Temporary financial difficulty of **moderate severity** to be overcome within 24 months	• **Temporary reduction** of **instalment** amount • Full interest payment	• **Misalignment** between **repayment plan** and **reimbursement capacity** of the debtor	• **Rescheduling of amortization plan** (e.g. partial, bullet, step-up)
Maturity	• Temporary financial difficulty of **moderate / serious severity** to be overcome within 24 mo.	• "**Grace period**" for the payment of interests and capital	• **Excessively high instalments** for the debtor	• **Extension** of debt **maturity**
Collateral				• **Voluntary disposal of collateral** by the debtor

= financial situation of the debtor   = applicable forbearance measure

In particular cases it is possible to adopt new credit facilities or debt consolidation measures

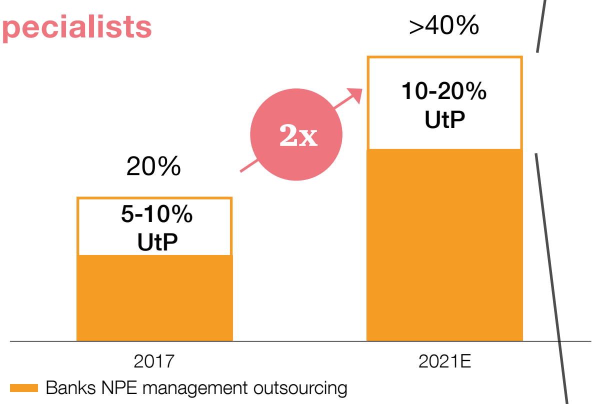
(1) In addition to debt forgiveness and/or arrears capitalisation options.

Servicing of UtP as a new market opportunity

Outsourcing the UtP is the next frontier of NPE servicing. The specialized servicers must migrate from a traditional management of overdue UtP exposures to a proactive management of UtP, thus entailing new lending and restructuring measures as strategic management options.

The UtP servicing could increase significantly over the next four years along with the volumes of NPE outsourced by banks and investors to external specialised servicers.

% of NPE stock outsourced to specialists



Conditions to be satisfied by the Servicers for the management of UtP

New lending – Through the on going management of the existing loan contracts, servicers must secure: 1) new injection of cash (debt and/or equity) into the UtP borrowers' capital structure, directly (e.g. challenger banks) or indirectly (through third party investors) and 2) support in defining restructuring plans.

Management – Servicers must carry on a proactive management of the UtP borrowers on a daily basis. Essential is the relationship established with the borrowers and the knowledge of their local market.

IT Platform – Servicers must migrate the UtPs management on advanced IT platform aiming at promptly managing the relevant information about the borrowers.

Strategies – Servicers must identify the proper management strategy of the UtP borrowers through the continuous assessment of their performance, early warning indicators, KPI.

Key message: over the last few years the main "pure" UtP transactions have involved a limited number of sellers in transactions of a increasingly larger size (GBV); portfolios are mainly RE secured and have been priced around 40-43% of GBV

The UtP market has been moving towards transactions of larger portfolios

Until today, UtP transactions have mainly involved single names or portfolios composed of few borrowers, usually classified as secured, large-ticket exposures to SMEs. However, 2018 has seen the birth of larger portfolios (e.g. Creval's Project Gimli and CA Cariparma's Project Valery).

The vast majority of UtP transactions has involved secured loans, priced around 40-43% of the portfolio's Gross Book Value; residential mortgage loans have obtained, in some cases, prices above 50% of GBV (e.g. Creval's €24m UtP disposal to Hoist Finance in Q4-2017).

Table 7: Main UtP* loan sale transactions in 2018 (excluding bank bailouts)

Project	Gimli-1	Gimli-2	Valery	n.a.
Seller	Creval	Creval	CA Cariparma	Carige
Acquiror	Algebris	Credito Fondiario	Bain Capital	Bain Capital
P/GBV	43%	41%	40%	n.a.
GBV (€m)	245 2018 Q2	222 2018 Q2	450 2018 Q3	366 2018 Q4
Portfolio	Secured	Secured	Mainly Secured	n.a.
Collateral	RE	RE	RE	n.a.

Source: PwC estimates on public information and market rumours. Analysis on loan sale transactions, without considering structured ones, such as restructuring funds and synthetic securitizations
Note: (*) Considering only 100% UtP portfolios and mixed portfolios mainly composed of UtP.

Key message: in the following months the main Italian banks are expected to sell over €4bn UtP

Announced UtP transactions amount to over €4bn and involve specific collateral assets

The UtP market is still privileged by secured exposures and portfolios' size are increasing. In addition, banks have been collecting loans with targeted collateral asset classes in their portfolios, such as Intesa Sanpaolo's Project Luce with a portfolio of exposures secured by photovoltaic plants.

Moreover, some ongoing transactions have overtaken the €1bn threshold, such as Project Sandokan 2 promoted by UniCredit, whose closing is expected within the follwing months.

Table 8: UtP market pipeline: main announced UtP* transactions as of November 2018

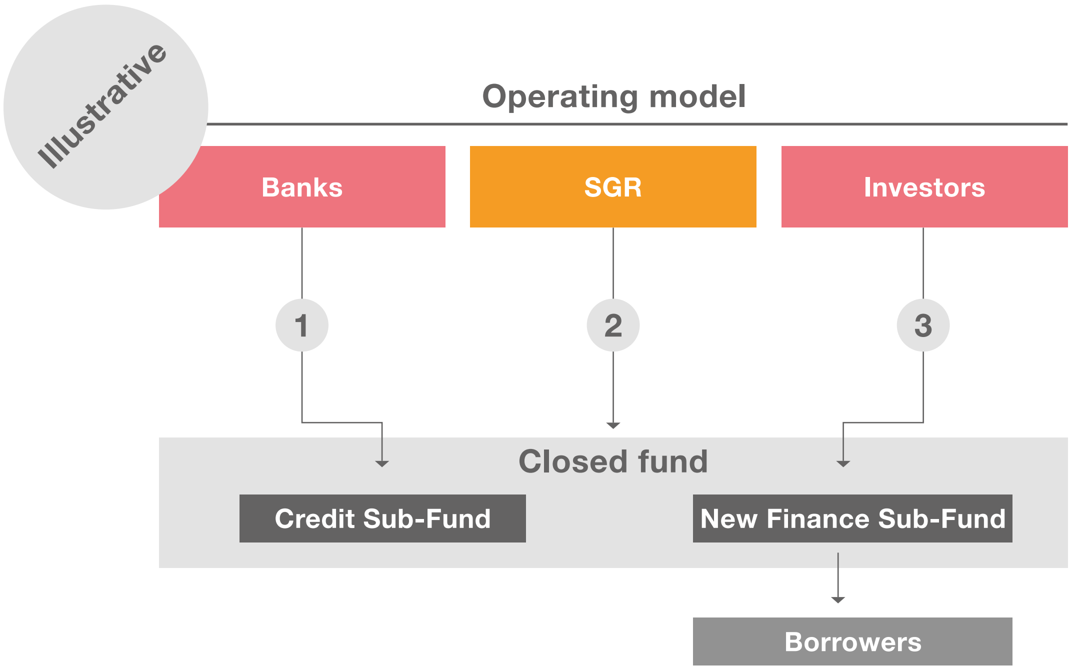
Project	Luce	Levante	Alpha 2	n.a.	Sandokan 2
Seller	Intesa Sanpaolo	Intesa Sanpaolo	MPS	MPS	UniCredit
GBV (€m)	250	250	420	600	3.000
Portfolio	Secured	n.a.	Secured	n.a.	Mainly Secured
Collateral	Photovoltaic	n.a.	RE	n.a.	RE

Source: PwC estimates on public information and market rumours. Analysis on loan sale transactions, without considering structured ones, such as restructuring funds and synthetic securitizations
Note: (*) Considering only 100% UtP portfolios and mixed portfolios mainly composed of UtP.

4 Structured solutions

Restructuring Fund aimed at deleveraging the NPE of the banks and providing new financing to UtP borrowers

Deal structure	Type of investor	Derecognition for the banks
Acquisition of target company with debtor-in-possession (DIP) financing to realise new investments. Often the investment vehicle/ fund is participated by selling banks	Private Debt Funds investing in distressed companies	Banks can derecognise the loan and replace it with shares of the investment vehicle/ fund



1 Banks transfer their receivables to the Credit Sub-Fund in exchange of related funds' shares

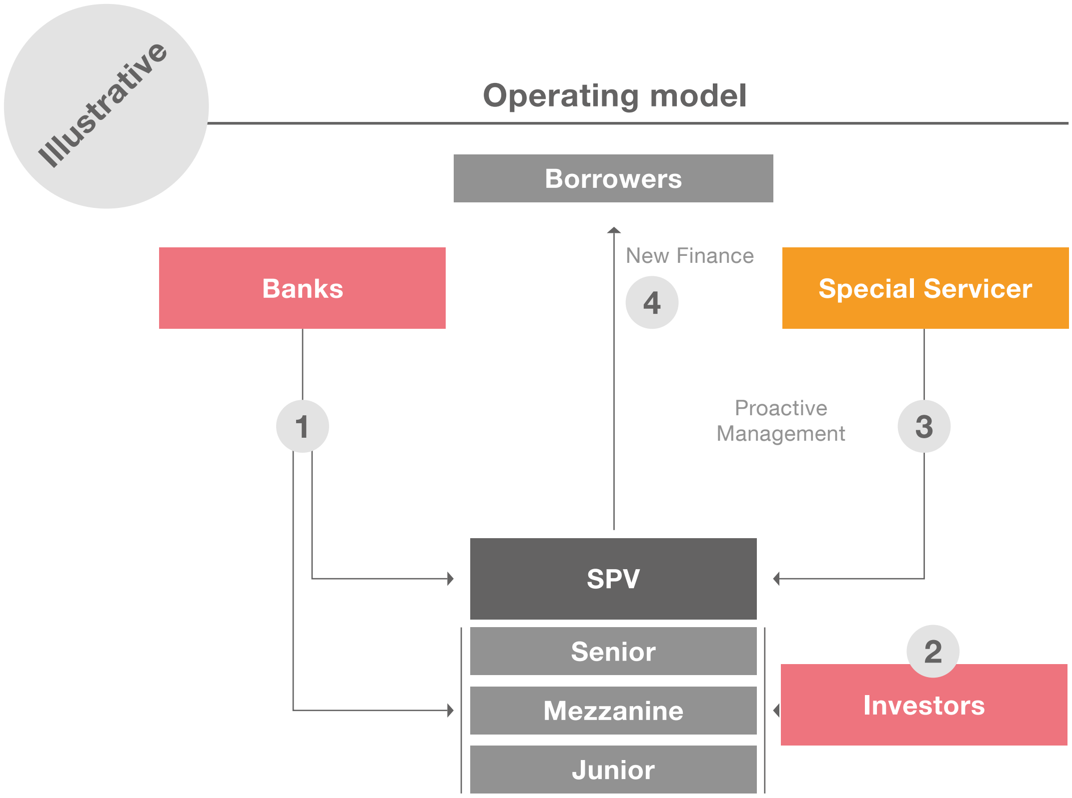
2 Fund management and proactive management of the operations

3 Investment in the New Finance Sub-Fund, in order to guarantee new funding to the borrowers

4 Structured solutions

Synthetic securitisation of non-performing exposures

Deal structure	Type of investor	Derecognition for the banks
Synthetic securitisation of non-performing exposures, potentially subject to the GACS mechanism	Acquirers of asset-backed securities (including the banks originators underwriting the SPV notes) along with investors with different risk profile	Banks cannot derecognize the loan if they hold the credit risk through the junior notes of the SPV



1 Credit disposal to a Special Purpose Vehicle and potential subscription of the notes

2 Subscription of the notes by the investors

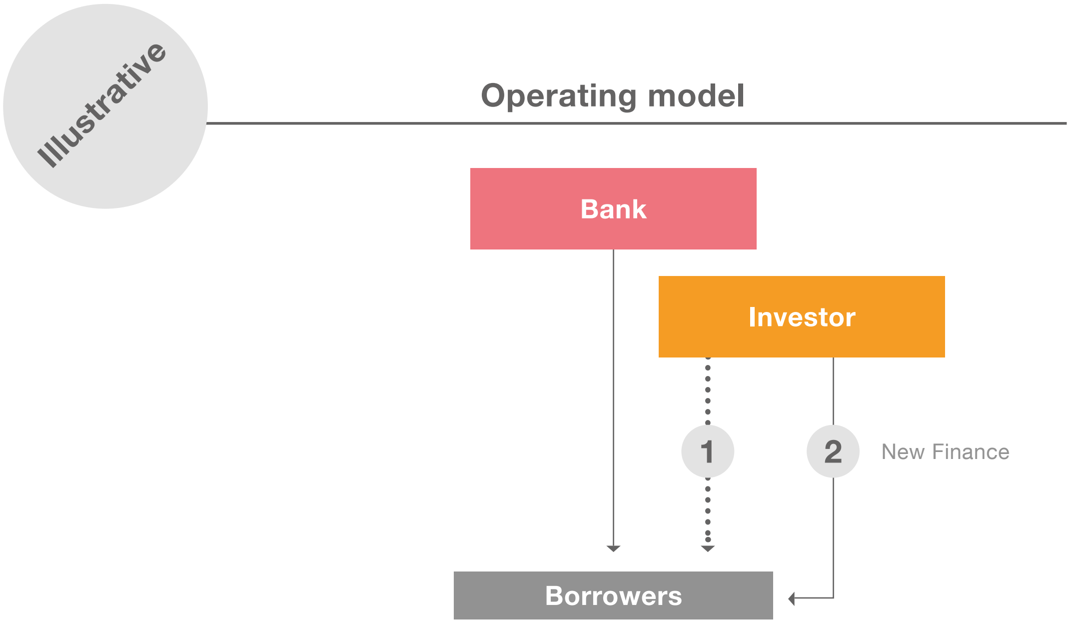
3 Proactive management of the company

4 Opportunity for the SPV to provide new finance to the borrowers

4 Structured solutions

Acquisition of target company with debtor-in-possession (DIP) financing

Deal structure	Type of investor	Derecognition for the banks
Buyout of single-named UtP aimed at revamping the business throughout debt consolidation and proactive management of target company	Private Equity Funds (distressed value investing in equity)	Banks can derecognise the loan through a true sale

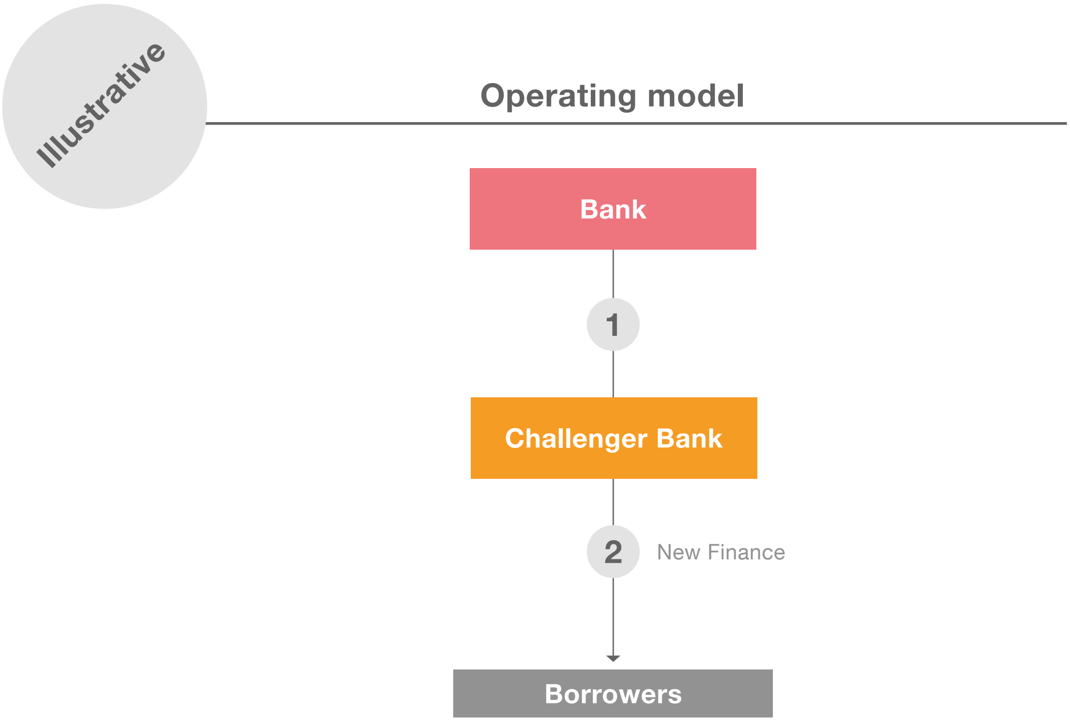


1 Advisory activity towards the borrowers with regard to the turnaround process

2 Direct investment in the equity of the borrowers and/or new finance provision

Challenger banks as financial partners of the traditional banks in the management of their UtP exposures

Deal structure	Type of investor	Derecognition for the banks
Buyout of single-named UtP aimed at revamping the business throughout provision of new finance to borrowers	Challenger banks	Banks can derecognise the loan through a true sale



1. Purchase of the credit from banks and/or grant of new financing along with banks
2. Provision of new finance, also through capital injection

The Servicing Market

Key Message
on the wave of big NPE transactions, the NPE Servicing industry has been maintaining its growth trend – already started few years ago – for the entire 2018. Different strategies and business models co-exist in the credit management industry; forward looking, given the transforming market conditions, players are likely to follow different evolution paths based on their peculiarities.

Key recent dynamics

On the wave of big NPE transactions, the NPE Servicing industry has been maintaining its growing trend – already started few years ago – for the entirety of 2018. Big players are capturing the large transactions, while small players find it more difficult to be involved in such operations. Increased pressure on demand side, as well as increased competition among players are shaping the market dynamics:

- Banks, under the pressure of regulators, are focusing on improving their lending models while continuing to dispose NPE portfolios and outsourcing the servicing and recovery activities to specialized players, in some cases with the transfer of whole NPE platforms. For example, following the path of other banks (such as ISP, Carige and MPS to cite few), Banco BPM has announced the possibility to extend its planned disposal of a portion of its NPE portfolio with the contextual sale of its NPE servicing platform;

- Large transactions favor large players; however the aggregation process involving key actors (i.e. Varde-Guber, Intrum-CAF, Banca IFIS-FBS) that characterized recent years may slow down in next months, mainly due to a lack of attractive targets;

- New market participants are continuing their development. SPAXS through the acquisition of Banca Interprovinciale – soon to be illimity – has been active in the acquisition of NPE portfolios in 2018, reaching c. €970m in total net holdings. The bank announced in its business plan its target of €11.8bn of serviced AuM by 2023, with a strong focus on corporate UtP and Bad Loans;

- Investors are pursuing the strategic development of integrated industrial capabilities, both via internal and external growth initiatives. Hoist Finance has recently acquired Maran, an Italian credit recovery firm, as part of its strategic plan to grow in the Italian market with acquisitions, partnerships and organic initiatives as well as MCS-DSO acquired Serfin, a client debt repurchasing specialist.

Our outlook for 2019/2020

Evolutions of the NPE Servicing market will be determined by how existing and new players will position themselves in a fast changing market. There are big opportunities from the dimension of the market. Notwithstanding the shrinking dimension of NPE stock and flows expected in future years, servicing volumes are projected to remain on their growth track thanks to stable disposals of NPE portfolios by banks.

Moreover, specialization and expansion into other markets such as UtP servicing and performing will generate alternative business developing opportunities for market players.

On the other side, we see increasing risks on the horizon, mainly connected to a potential reduction of profitability due to stabilization of portfolio prices and increased operating costs. In addition, regulatory requirements and compliance restrictions may give rise to unexpected costs that operators will have to cope with.

In brief, we expect the following trends to characterize the sector:

- Banks will continue to outsource servicing activities to specialized players and to sell NPE portfolios, with a different composition mix that will require servicers to develop skills in the management of secured and real-estate positions;

- Large deal sizes and requests for specialization might lead to an increased demand for sub-servicing activities, which may represent an interesting development opportunity for smaller players;

- UtP will represent the “next big thing”, with volumes for servicers expected to increase signficantly over the next 2 years. The evolution of an UtP market will require players to re-think their business models as different capabilities are required, with a combination of restructuring, lending and servicing skills;

- A new wave of M&A might involve large players in pursuit of scale and synergies. Smaller players, especially DCAs, are less likely to concentrate, as it is more difficult for them to extract value from synergies. In the banking industry, smaller banks may join the disposal wave of NPE platforms.

Looking ahead: possible business model evolutions

Different strategies and business models co-exist in the credit management industry; looking forward, in our view, given the transforming market conditions, players are likely to follow 6 different evolution paths.

The 6 evolution paths for services

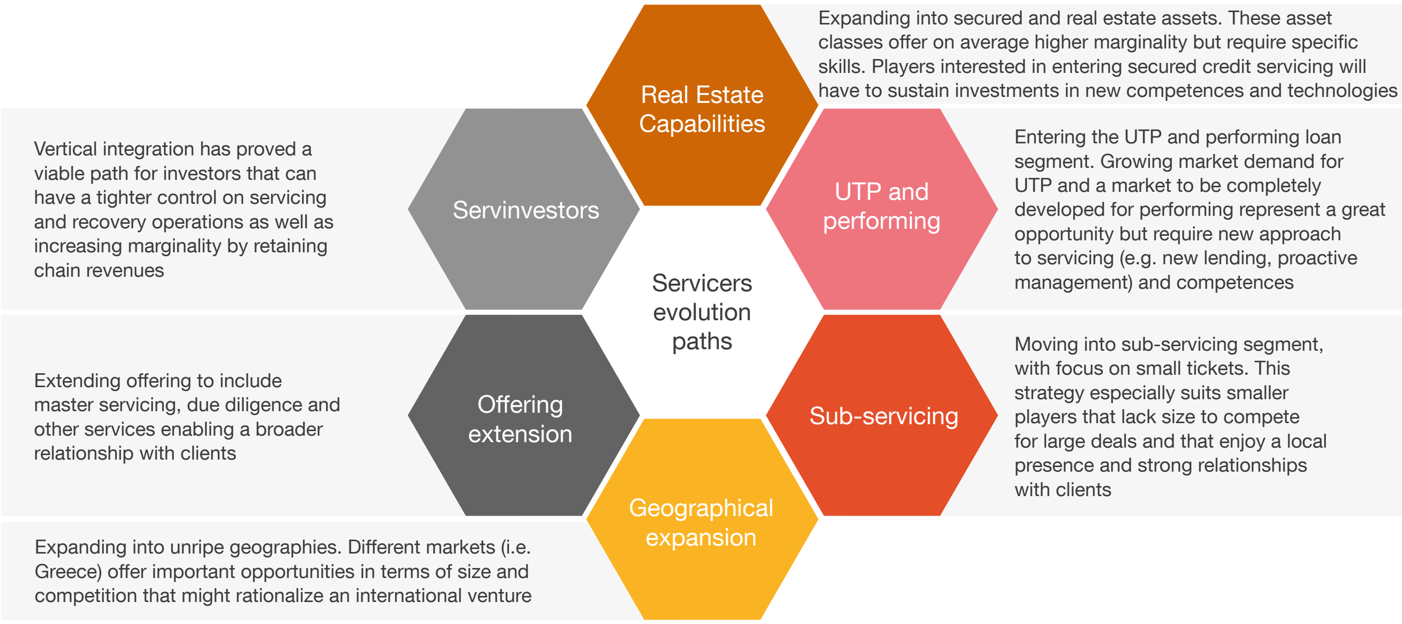


Table 9: Main transactions in the servicing sector

2014						
Hoist Finance Acquisition of 100% of TRC from private shareholders. Specialized in consumer finance	Banca Sistema Acquisition of 2 servicing platform Candia & Sting from private shareh and merger (CS Union)	Cerved Acquisition of 80% of Recus. Specialized in collection for telcos and utilities				
2015						
Fortress Acquisition of UniCredit captive servicing platform (UCCMB)	Lonestar Acquisition of CAF a servicing platform with €7 bn AuM from private shareholders	Cerved Acquisition of 100% of Fin. San Giacomo part of Credito Valtellinese group				
2016						
Cerved + BHW Bausparkasse Long-term industrial partnership for the management of 230 €m of NPL originated by the Italian branch of BHV Bausparkassen AG	Axactor Acquisition of CS Union from Banca Sistema	Lindorff Acquisition of CrossFactor, a small factoring and credit servicing platform	Arrow Acquisition of 100% of Zenith Service, a master servicing platform	Kruk Acquisition of 100% of Credit Base	doBank 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 doBank	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 Credit Collection (MCC) department	Arrow Acquisition of 100% of 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	MCS - DSO (a BC Partners company) Acquisition of 80% of Serfin		

Table 10: Overview of main servicers (data at 30/06/2018) – Ranking by Revenues

Company	Bank of Italy Surveillance	Revenues (€m)	Special Servicing		Servicing Performing AuM (€bn)	Master Servicing AuM (€bn)	Ebitda (€m)
			Total Bad Loans AuM (€bn)[1]	Other NPEs AuM (€bn)[2]			
doBank[3]	Bank	105.3	81.3	1.0	0.8	43.1	34.1
Cerved Credit Management	106	66.3	39.5	1.8	9.9	-	21.5
MB Credit Solutions	106	40.2	5.9	-	-	-	16.0
Credito Fondiario	Bank	32.8	6.2	1.5	1.2	41.0	n.a.
Guber	Bank	24.9	8.9	-	-	-	n.a.
Fire	115	21.0	2.3[4]	2.4	4.6	-	1.0
Advancing Trade	106/115	18.8	2.3	-	2.0	-	3.9
Crif	115	13.4	2.6	11.5	7.6	-	n.a.
Sistemia	115	13.0	7.8	0.2	-	-	4.0
Serfin	115	11.5[8]	0.4	0.3	0.7	-	n.a.
Securitisation Services	106	11.1	0.5	0.2	5.6	36.0	6.0
Europa Factor	106/115	11.0	2.3	-	0.4	-	1.1
Hoist Italia	115	10.8	7.1	-	-	-	3.5
FBS (Banca Ifis)	106	10.7	7.2	0.1	-	-	2.6
CAF (Intrum Italy)	115	10.0	8.3	0.1	0.1	-	3.0
Prelios Credit Servicing	106	9.6	12.4	-	-	13.4	2.2
Bcc Gestione Crediti	115	8.3	4.1	-	-	-	2.9
Officine CST	115	7.8	1.9	-	1.0	-	2.5
Gruppo Frascino[6]	115	7.7	2.8	0.0	0.1	-	2.3
Frontis NPL	115	7.2	2.4	0.5	-	-	4.7
Euro Service Group	115	6.8	1.1	0.1	0.1	-	0.5
Aquileia Capital Services	106/115	6.3	1.4	0.6	0.1	1.6	0.0
Fides	115	6.2	0.5	0.1	0.1	-	n.a.
Axactor Italy	106	5.9	1.0	0.2	-	-	n.a.
Finint Revalue	115	4.9	2.8	0.6	-	-	n.a.
CSS	115	4.6[8]	3.2	0.5	-	-	0.4
AZ Holding	115	4.6	1.4	-	-	-	n.a.
Phoenix Asset Management	115	3.9	9.0	0.1	0.0	-	2.4
Link Financial	115	3.5	3.2	0.4	0.0	-	n.a.
SiCollection	115	3.3	1.5	0.0	-	-	0.2
Bayview Italia	115	3.0	3.5	-	-	-	n.a.
Aurora RE	115	3.0[8]	0.2	1.1	-	-	n.a.
Centotrenta Servicing	106	2.6	-	-	-	9.2	0.7
Gextra (Intrum Italy)	115	2.4	0.6	0.0	0.0	-	(0.5)
Duepuntozero	115	0.7	2.4	-	-	-	n.a.
Zenith Service (Arrow Group)	106	n.a.	-	0.1	7.7	19.0	n.a.

Source: PwC analysis on data provided by Servicers as of 30/06/2018; 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 90 days
3 doBank group figures include Italfondiario
4 AuM at first half 2018 reflects both Gross Book Value (GBV) of NPL portfolio both third parties portfolios GBV. With respect to third parties portfolios, the value of GBV reflects only six months while at full year 12 months of GBV outstanding would be included
5 Debt purchasing activities are conduced via Special Purpose Vehicles

Main activities				Rating
NPE servicing	Debt collection	Debt purchasing	Master servicing	
✓			✓	✓
✓	✓		✓	✓
✓	✓	✓		
✓		✓	✓	✓
✓		✓		✓
✓	✓	✓		✓
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6 Includes Credit Network Finance and Z1s
7 Officine CST is specialised mainly in PA credit servicing
8 Revenues received are Pro forma data: Serfin and AREC YE18 divided by 2, CSS half-year results based on Year-To-October figures
Note: Double counting may arise when adding NPE AuM as some servicers outsource part of their portfolios to others due to capacity and/or specialization issues

Table 11: Breakdown of servicers' Total Bad Loans AuM[1] (data at 30/06/2018) – Ranking by Revenues

Company	Revenues €m	Total Bad Loans AuM[1] (€bn)	Average Ticket (€k)	Secured[2] (%)	Unsecured[2] (%)
doBank[3]	105.3	81.3	163	33%	67%
Cerved Credit Management	66.3	39.5	65	53%	47%
MB Credit Solutions	40.2	5.9	n.a.	4%	96%
Credito Fondiario	32.8	6.2	35	54%	46%
Guber	24.9	8.9	60	20%	80%
Fire	21.0	2.3[4]	5	12%	88%
Advancing Trade	18.8	2.3	5		100%
Crif	13.4	2.6	19	62%	38%
Sistemia	13.0	7.8	25	79%	21%
Serfin	11.5[6]	0.4	n.a.	n.a.	n.a.
Securitisation Services	11.1	0.5	13	31%	69%
Europa Factor	11.0	2.3	1	16%	84%
Hoist Italia	10.8	7.1	10	4%	96%
FBS (Banca Ifis)	10.7	7.2	32	20%	80%
CAF (Intrum Italy)	10.0	8.3	30	32%	68%
Prelios Credit Servicing	9.6	12.4	288	65%	35%
Bcc Gestione Crediti	8.3	4.1	164	69%	31%
Officine CST	7.8	1.9	8	60%	40%
Gruppo Frascino[5]	7.7	2.8	14	7%	93%
Frontis NPL	7.2	2.4	1.970	97%	3%
Euro Service Group	6.8	1.1	1		100%
Aquileia Capital Services	6.3	1.4	260	90%	10%
Fides	6.2	0.5	5		100%
Axactor Italy	5.9	1.0	7	1%	99%
Finint Revalue	4.9	2.8	11	81%	19%
CSS	4.6[6]	3.2	6		100%
AZ Holding	4.6	1.4	6	4%	96%
Phoenix Asset Management	3.9	9.0	315	44%	56%
Link Financial	3.5	3.2	8	13%	87%
SiCollection	3.3	1.5	6	1%	99%
Bayview Italia	3.0	3.5	61	47%	53%
Aurora RE	3.0[6]	0.2	18,795[7]	100%	
Centotrenta Servicing	2.6	-	n.a.	n.a.	n.a.
Gextra (Intrum Italy)	2.4	0.6	9		100%
Duepuntozero	0.7	2.4	355	23%	77%
Zenith Service (Arrow Group)	n.a.	-	34	21%	79%

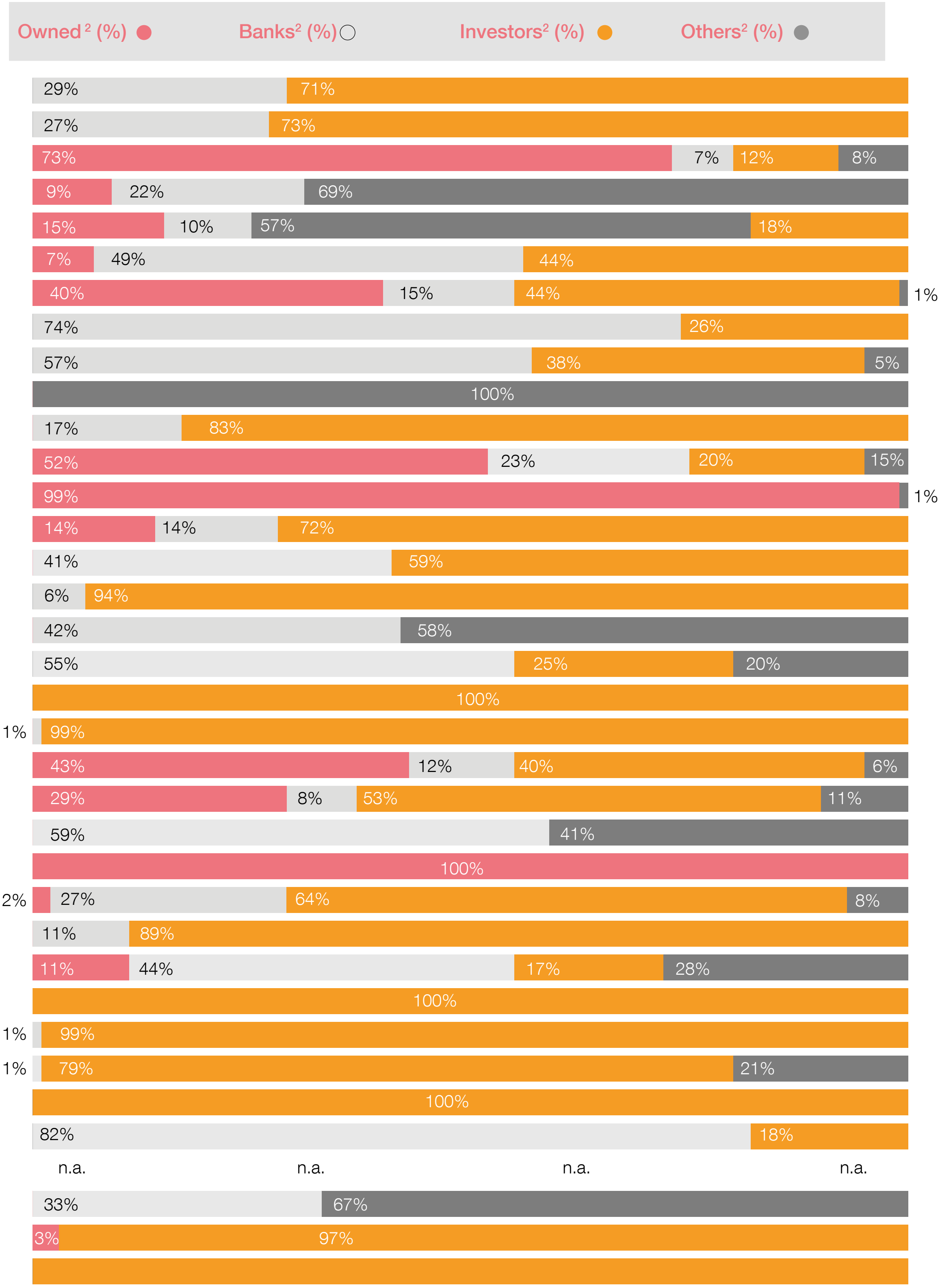
Source: PwC analysis on data provided by Servicers as of 30/06/2018; data have been directly provided by Servicers and have not been verified by PwC. Servicers present highly heterogeneous organizational, industrial and operating structures. Comparing the information presented above requires a correct analysis and understanding of the competitive landscape and servicers business model

1 Includes both owned and third parties portfolios

2 Percentages are based on total NPE portfolio: breakdown for Master and Special servicing activities have not been provided

3 doBank group figures include Italfondiario – Secured AuM: 30% if referred only to "first lien" secured Bad Loans

Table 11: Breakdown of servicers' Total Bad Loans AuM[1] (data at 30/06/2018) – Ranking by Revenues



4 AuM at first half 2018 reflects both Gross Book Value (GBV) of NPE portfolio both third parties portfolios GBV. With respect to third parties portfolios, the value of GBV reflects only six months while at full year 12 months of GBV outstanding are included
5 Includes Credit Network Finance and Z1s
6 Revenues received are Pro forma data: Serfin, AREC, Guber and Sistemia YE18 divided by 2, CSS half-year results based on Year-To-October figures
7 Aurora RE is specialised mainly in UtP: average ticket considering Bad Loans + UtP would mount to €31.6 m
Note: Double counting may arise when adding NPE AuM as some servicers outsource part of their portfolios to others due to capacity and/or specialization issues

Table 12: Geographical NPE breakdown (data at 30/06/2018) – Ranking by Revenues

			In term of AuM		
Player	Revenues €m	Total Bad Loans AuM[1] 30/06/2018 (€bn)	North[2]	Centre[3]	South - Islands[4]
doBank[5]	105.3	81.3	44%	26%	30%
Cerved Credit Management	66.3	39.5	33%	33%	34%
MB Credit Solutions	40.2	5.9	n.a.	n.a.	n.a.
Credito Fondiario	32.8	6.2	32%	37%	32%
Guber	24.9	8.9	60%	20%	20%
Fire	21.0	2.3[8]	36%	22%	43%
Advancing Trade	18.8	2.3	38%	18%	44%
Crif	13.4	2.6	46%	25%	29%
Sistemia	13.0	7.8	50%	35%	15%
Serfin	11.5[7]	0.4	30%	50%	20%
Securitisation Services	11.1	0.5	36%	36%	28%
Europa Factor	11.0	2.3	26%	26%	48%
Hoist Italia	10.8	7.1	48%	21%	32%
FBS (Banca Ifis)	10.7	7.2	27%	37%	36%
CAF (Intrum Italy)	10.0	8.3	50%	30%	20%
Prelios Credit Servicing	9.6	12.4	41%	22%	37%
Bcc Gestione Crediti	8.3	4.1	57%	20%	23%
Officine CST	7.8	1.9	38%	19%	43%
Gruppo Frascino[6]	7.7	2.8	36%	25%	39%
Frontis NPL	7.2	2.4	73%	22%	5%
Euro Service Group	6.8	1.1	34%	19%	47%
Aquileia Capital Services	6.3	1.4	93%	5%	3%
Fides	6.2	0.5	23%	17%	61%
Axactor Italy	5.9	1.0	44%	18%	38%
Finint Revalue	4.9	2.8	33%	42%	25%
CSS	4.6[7]	3.2	53%	20%	27%
AZ Holding	4.6	1.4	34%	25%	41%
Phoenix Asset Management	3.9	9.0	25%	55%	20%
Link Financial	3.5	3.2	25%	36%	39%
SiCollection	3.3	1.5	41%	16%	43%
Bayview Italia	3.0	3.5	55%	25%	20%
Aurora RE	3.0[7]	0.2	44%	50%	5%
Centotrenta Servicing	2.6	-	47%	30%	23%
Gextra (Intrum Italy)	2.4	0.6	55%	15%	30%
Duepuntozero	0.7	2.4	13%	23%	64%
Zenith Service (Arrow Group)	n.a.	-	49%	26%	25%

Source: PwC analysis on data provided by Servicers as of 30/06/2018; data have been directly provided by Servicers and have not been verified by PwC; Servicers present highly heterogeneous organizational, industrial and operating structures. Comparing the information presented above requires a correct analysis and understanding of the competitive landscape and servicers business model

1 Includes both owned and third parties portfolios

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

3 Includes: Toscana, Umbria, Marche, Lazio

Table 13: Breakdown of servicer' Total Bad Loans AuM1 (data at 30/06/2018) – Ranking by Revenues

Player	Type of loan resolution - Nr of Loans		
	Secured		
	Judicial	Extrajudicial	Loan Sale
doBank[5]	8%	92%	1%
Cerved Credit Management	24%	73%	
MB Credit Solutions	n.a	n.a	n.a
Credito Fondiario	38%	62%	
Guber	48%	52%	
Fire	49%	51%	
Advancing Trade	n.a	n.a	n.a
Crif	42%	48%	10%
Sistemia	70%	30%	
Serfin	n.a	n.a	n.a
Securitisation Services	n.a	n.a	n.a
Europa Factor	15%	85%	
Hoist Italia	66%	34%	
FBS (Banca Ifis)	23%	67%	11%
CAF (Intrum Italy)	35%	30%	35%
Prelios Credit Servicing	67%	25%	8%
Bcc Gestione Crediti	7%	20%	73%
Officine CST	37%	40%	23%
Gruppo Frascino[6]	31%	22%	47%
Frontis NPL	45%	50%	5%
Euro Service Group	n.a	n.a	n.a
Aquileia Capital Services	49%	48%	2%
Fides		100%	
Axactor Italy	100%		
Finint Revalue	n.a	n.a	n.a
CSS		100%	
AZ Holding	22%	78%	
Phoenix Asset Management	n.a	n.a	n.a
Link Financial	93%	7%	
SiCollection	8%	92%	
Bayview Italia	n.a	n.a	n.a
Aurora RE		100%	
Centotrenta Servicing	n.a	n.a	n.a
Gextra (Intrum Italy)		100%	
Duepuntozero	100%		
Zenith Service (Arrow Group)	n.a	n.a	n.a

4 Includes: Abruzzo, Molise, Campania, Puglia, Basilicata, Calabria, Sicilia, Sardegna
5 doBank group figures include Italfondiario
6 Includes Credit Network Finance and Z1s
7 Revenues received are Pro forma data: Serfin and AREC YE18 divided by 2, CSS half-year results based on Year-To-October figures
8 AuM at first half 2018 reflects both Gross Book Value (GBV) of NPE portfolio both third parties portfolios GBV. With respect to third parties portfolios, the value of GBV reflects only six months while at full year 12 months of GBV outstanding are included

Type of loan resolution - Nr of Loans

Unsecured

Player	Judicial	Extrajudicial	Loan Sale
doBank[5]	11%	87%	2%
Cerved Credit Management	9%	91%	
MB Credit Solutions	n.a.	n.a.	n.a.
Credito Fondiario	2%	98%	
Guber	4%	96%	
Fire	30%	70%	
Advancing Trade	19%	81%	
Crif	15%	85%	
Sistemia	50%	50%	
Serfin	10%	90%	
Securitisation Services	n.a.	n.a.	n.a.
Europa Factor	3%	97%	
Hoist Italia	32%	68%	
FBS (Banca Ifis)	10%	81%	10%
CAF (Intrum Italy)	13%	49%	38%
Prelios Credit Servicing	34%	33%	33%
Bcc Gestione Crediti	17%	55%	28%
Officine CST	29%	70%	1%
Gruppo Frascino[6]	25%	49%	26%
Frontis NPL	14%	17%	69%
Euro Service Group	n.a.	n.a.	n.a.
Aquileia Capital Services	71%	29%	
Fides		100%	
Axactor Italy	1%	99%	
Finint Revalue	n.a.	n.a.	n.a.
CSS		100%	
AZ Holding	31%	69%	
Phoenix Asset Management	n.a.	n.a.	n.a.
Link Financial	4%	96%	
SiCollection	6%	94%	
Bayview Italia	n.a.	n.a.	n.a.
Aurora RE			
Centotrenta Servicing	n.a.	n.a.	n.a.
Gextra (Intrum Italy)	10%	90%	
Duepuntozero	83%	15%	2%
Zenith Service (Arrow Group)		n.a.	

Recent market activity and outlook

Key Message: the Italian banking system still goes on showing high willingness to manage in a proactive way the Italian NPE stock, to furtherly improve the credit recovery process and reduce the weight of Italian deteriorated loans on their system. NPE transaction volumes at the end of November 2018 peaked €68bn and other disposals equal to circa €20bn are expected for the forthcoming months (≈€5-10bn by the end of 2018).

Within the Italian NPE market, during the second half of 2018, several important NPE transactions took place. These deals are still part of the strategy adopted by most of the Italian banks, which envisages an intensive and proactive approach for NPE management and resolution. These NPE portfolio disposals further contributed to the reduction of the NPE stock observed in the last semester and prove the willingness of the Italian banking system to drastically reduce the amount of deteriorated loans present in their balance sheet.

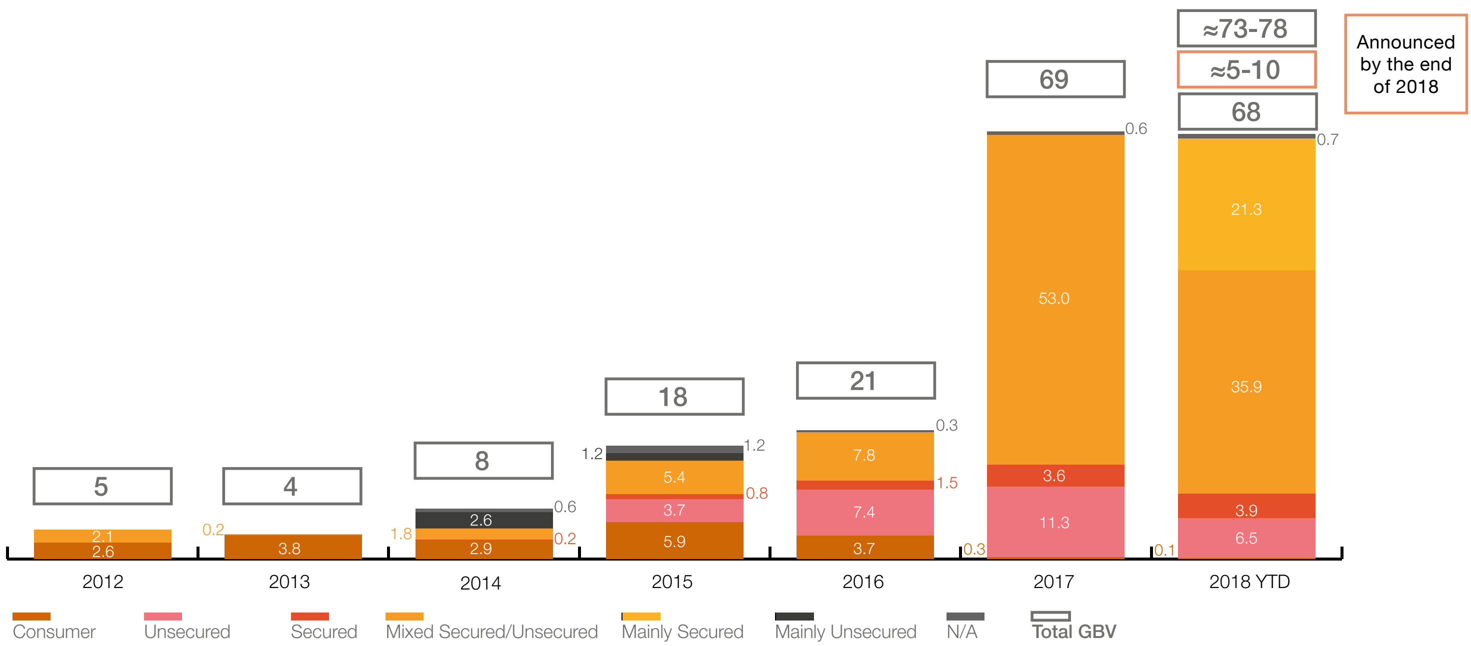
On the whole, 2018 thus far featured €68bn of closed transactions, including two jumbo deals such as the €24.1bn Bad Loan securitization completed by Monte dei Paschi di Siena and the €10.8bn NPE sale to Intrum of an Intesa Sanpaolo's NPE portfolio.

Additional noteworthy disposals driven by GACS from January to November 2018 were the sale of the €5.1bn Bad Loans portfolio* of Banco BPM, the disposal of a €2.7bn portfolio** of UBI Banca, the sale of a the €1.9bn portfolio** of BPER Banca and finally disposal of a €1.6bn multi-originator portfolio** from a pool of several Italian banks, all backed by the GACS securitization.

FY2018 also featured transactions in the secondary market as the disposal of a €425m portfolio by CRC – Bayview, the acquisition of a €263m portfolio by illimity, the sale of a €217m portfolio by Balbec and the disposal of a €113m non performing portfolio by Romeo SPV.

The pipeline for the next year, announced so far, sends a message which confirms the will of Italian banks to continue to make efforts to reduce their NPE stock and accelerate the Italian credit recovery. Among the upcoming announced and ongoing transactions on the primary market, the most significant ones could be the disposal of a Bad Loans portfolio by Banco BPM (in the range of between €3.5bn and 8.6bn), which potentially could also include the NPE platform, the sale of a €3bn UtP portfolio by UniCredit and the disposal of a €2.4bn NPE portfolio by Monte dei Paschi di Siena.

Chart 34: NPE transactions trend in the Italian market (€ bn)



Source: PwC estimates on public information and market rumours
Note: (*) GACS already obtained; (**) GACS requested

Table 14a: Closed NPE transactions in 2018

Date	Seller	Volume (€m)	NPE category	Macro asset class	Buyer	Primary / Secondary market
2018 Q2	Banca Monte dei Paschi di Siena	24,100	Bad Loans	Mixed Secured / Unsecured	Quaestio Capital SGR	Primary
2018 Q2	Intesa Sanpaolo	10,800	NPE	Mainly Secured	Intrum	Primary
2018 Q2	Banco BPM	5,100	Bad Loans	Mainly Secured	CRC	Primary
2018 Q3	UBI Banca	2,750	Bad Loans	Mixed Secured / Unsecured	Maior SPV	Primary
2018 Q4	Società gestione crediti Delta (SGCD)	2,000	NPE & performing	Unsecured	Cerberus	Primary
2018 Q4	BPER Banca	1,900	Bad Loans	Mainly Secured	Aqui SPV	Primary
2018 Q2	Credito Valtellinese	1,600	Bad Loans	Mainly Secured	Aragorn NPL 2018	Primary
2018 Q4	Pool of Italian banks (*)	1,579	Bad Loans	Mainly Secured	POP NPLs	Primary
2018 Q2	Sicilcassa	1,500	Bad Loans	Mixed Secured / Unsecured	MB Finance	Primary
2018 Q3	Cassa Centrale Banca (**)	1,400	Bad Loans	Mixed Secured / Unsecured	Guber, Varde, Barclays	Primary
2018 Q3	ICCREA (**)	1,050	Bad Loans	Mixed Secured / Unsecured	BCC NPLs 2018	Primary
2018 Q2	Banco di Desio e della Brianza	1,000	Bad Loans	Mixed Secured / Unsecured	2Worlds	Primary
2018 Q1	BNL	1,000	Bad Loans	Unsecured	Alicudi SPV	Primary
2018 Q2	BPER Banca	900	Bad Loans	Mixed Secured / Unsecured	4Mori Sardegna	Primary
2018 Q3	UniCredit	870	Bad Loans	Mixed Secured / Unsecured	IFIS NPL	Primary
2018 Q3	Credit Agricole Cariparma	700	Bad Loans	Mainly Secured	PIMCO	Primary
2018 Q3	Banca di Asti - Biver Banca	700	Bad Loans	Mainly Secured	Maggese SPV	Primary
2018 Q4	UniCredit	675	Bad Loans	Secured	Fortress	Primary
2018 Q3	Banca Intermobiliare di Investimenti e Gestioni	600	NPE	Mixed Secured / Unsecured	Nuova Frontiera SPV	Primary
2018 Q4	UniCredit	590	Bad Loans	Unsecured	J-Invest + illimity	Primary
2018 Q3	UniCredit	537	NPE	Unsecured	Banca IFIS	Primary
2018 Q2	Banca Monte dei Paschi di Siena	500***	UtP	Secured	Confidential	Primary
2018 Q3	Credit Agricole Cariparma	450	UtP	Secured	Bain Capital Credit	Primary
2018 Q3	CRC Bayview	425	Bad Loans	Unsecured	MB Credit Solutions	Secondary
2018 Q4	Confidential	370	NPE	Unsecured	IFIS NPL	Primary
2018 Q4	Banca Carige	366	UtP	Secured	Bain Capital Credit	Primary
2018 Q3	Banca Popolare di Ragusa	350	Bad Loans	Mainly Secured	IBLA	Primary
2018 Q4	Banca Popolare di Puglia e Basilicata	350	Bad Loans	Unsecured	illimity	Primary
2018 Q3	Findomestic Banca	300	NPE	Unsecured	Kruk Italia	Primary
2018 Q3	Istituto Finanziario del Mezzogiorno	263	Bad Loans	Mixed Secured / Unsecured	illimity	Secondary
2018 Q2	Credito Valtellinese	245	Mainly UtP	Secured	Algebris Investments	Primary

Date	Seller	Volume (€m)	NPE category	Macro asset class	Buyer	Primary / Secondary market
2018 Q4	Credito Valtellinese	222	Mainly UtP	Secured	Credito Fondiario	Primary
2018 Q3	Balbec	217	NPE	Unsecured	MB Credit Solutions	Secondary
2018 Q3	Banca Sella	210	NPE	Mixed Secured / Unsecured	B2 Kapital Investment	Primary
2018 Q3	Banca Monte dei Paschi di Siena	170***	UtP	Secured	Confidential	Primary
2018 Q3	Cassa di Risparmio di Volterra	155	NPE	Mainly Secured	illimity	Primary
2018 Q3	Deutsche Bank	155	NPE	Unsecured	IFIS NPL	Primary
2018 Q4	Cassa di Risparmio di Cento	145	Bad Loans	Mixed Secured / Unsecured	LCM	Primary
2018 Q3	Banca Patavina	145	NPE	Unsecured	Hoist Finance	Primary
2018 Q3	Emil Banca BCC	145	Bad Loans	Mixed Secured / Unsecured	Confidential	Primary
2018 Q3	Volksbank	140	NPE	Secured	AnaCap	Primary
2018 Q3	Confidential	140	NPE	Unsecured	Axactor Italy	Primary
2018 Q3	Banca Monte dei Paschi di Siena	135****	NPE	Secured	SC Lowy - Credito di Romagna	Primary
2018 Q2	UniCredit	125	NPE	Unsecured	MBCredit Solutions	Primary
2018 Q3	Romeo SPV	113	Bad Loans	Unsecured	Marte SPV	Secondary
2018 Q2	Alba Leasing	100	NPE	Mainly Secured	Bain Capital Credit	Primary
2018 Q1	Banca Monte dei Paschi di Siena	100***	UtP	Secured	Confidential	Primary
2018	Other less than €100m	1,060				
2018	**Total**	**68,400**				

Source: PwC estimates on public information and market rumours of primary and secondary market. Data refer to transaction from January to November 2018. 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). Maior SPV, Aqui SPV, Aragorn NPL 2018, BCC NPLs 2018, 2Worlds, Alicudi SPV, 4Mori Sardegna, Maggese SPV, Nuova Frontiera SPV and IBLA are Special Purpose Vehicles.

Note: (*) The pool is composed by 12 Popolari banks and 5 non-Popolari banks; (**) Cooperative Credit Bank Group under approval process. The volumes might refer also to banks which do not belong to the Group; (***) Aggregate amount of different single names transactions; (****) MPS disposed a $ 160m NPL portfolio in 2018-Q3, the value has been converted in € on the basis of the exchange rate of the closing period.

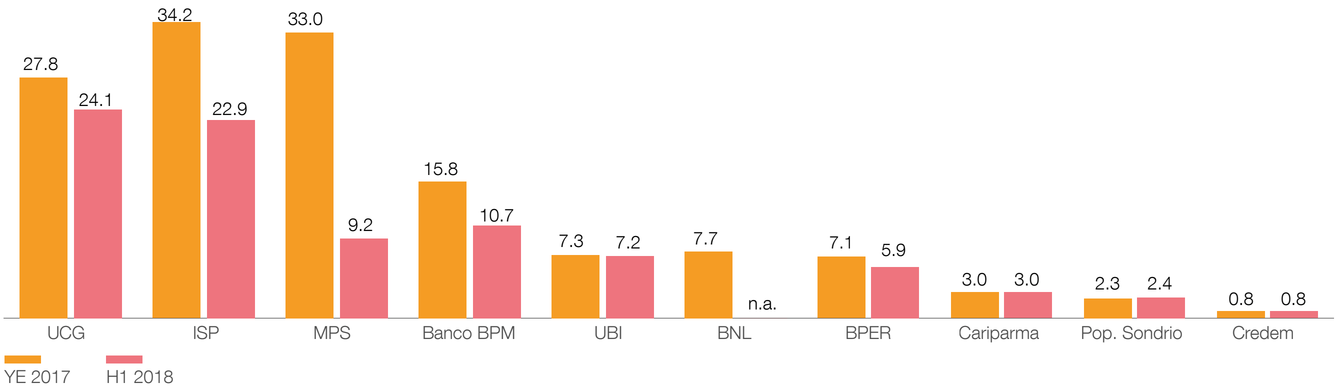
Table 14b: Announced/Ongoing NPE transactions as of November 2018

Seller	Volume (€m)	Portfolio type	Macro asset class
Banco BPM	3,500 - 8,600	Bad Loans	n/a
UniCredit	3,000	UtP	Mainly Secured
UBI Banca	<2,700	Bad Loans	Mainly Unsecured
Monte dei Paschi di Siena	2,400	NPE	Unsecured
Carige	1,000	NPE	n/a
Monte dei Paschi di Siena	900	NPE	Secured
Monte dei Paschi di Siena	600	UtP	Secured
Monte dei Paschi di Siena	420	UtP	Secured
Intesa Sanpaolo	250	UtP	Secured
Intesa Sanpaolo	250	UtP	Secured
Che Banca - Mediobanca	150	NPE	n/a

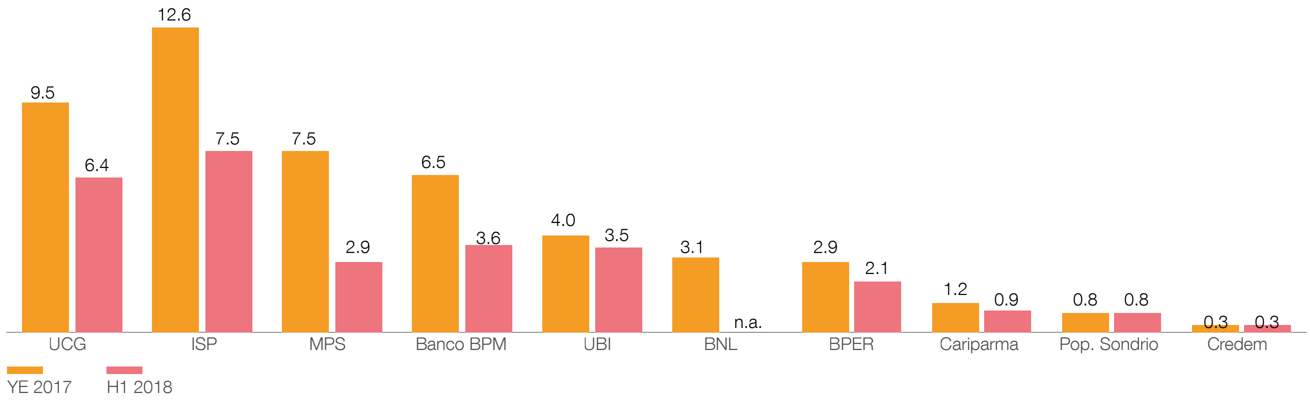
Source: PwC estimates on public information and market rumours.

Appendix

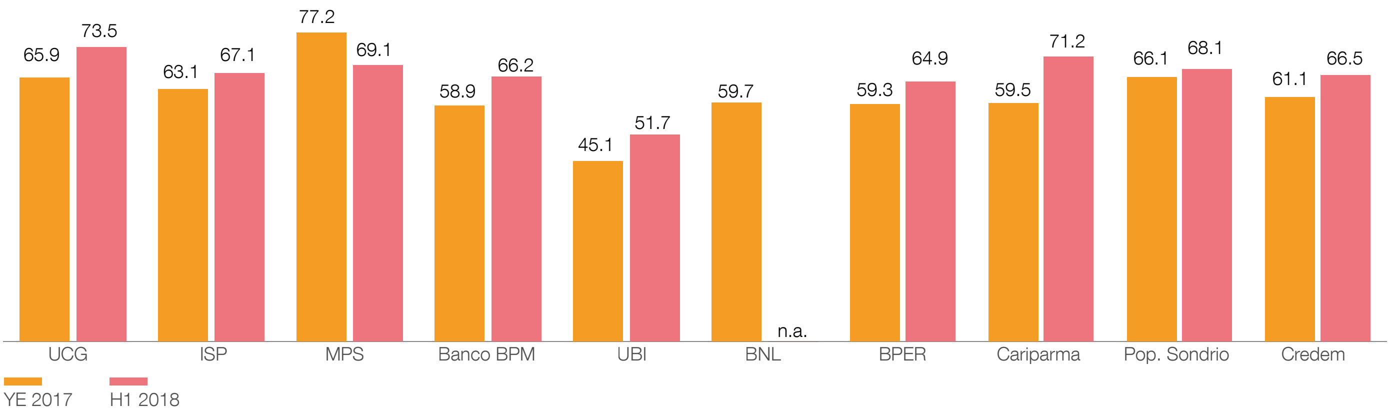
Gross Bad Loans volume (€ bn)



Net Bad Loans volume (€ bn)

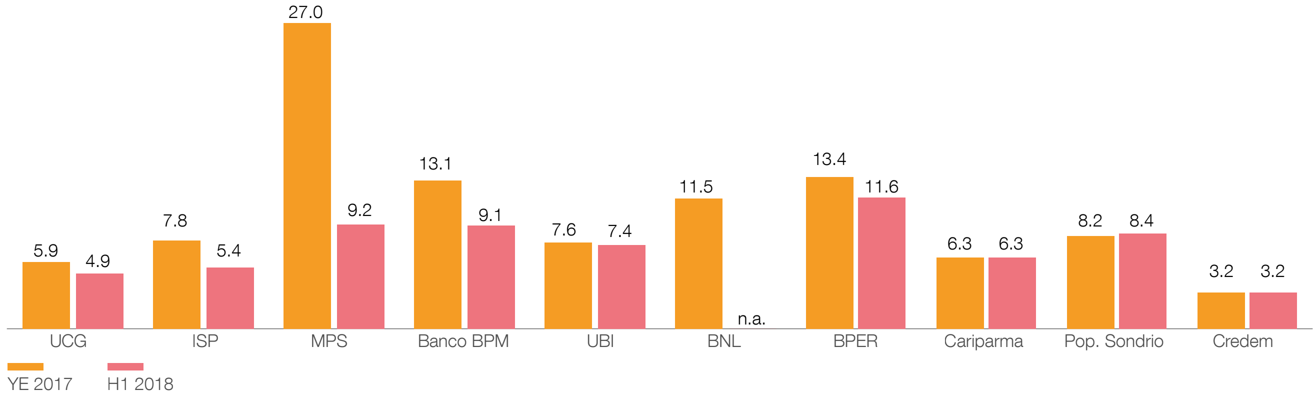


Bad Loans Coverage Ratio (%)

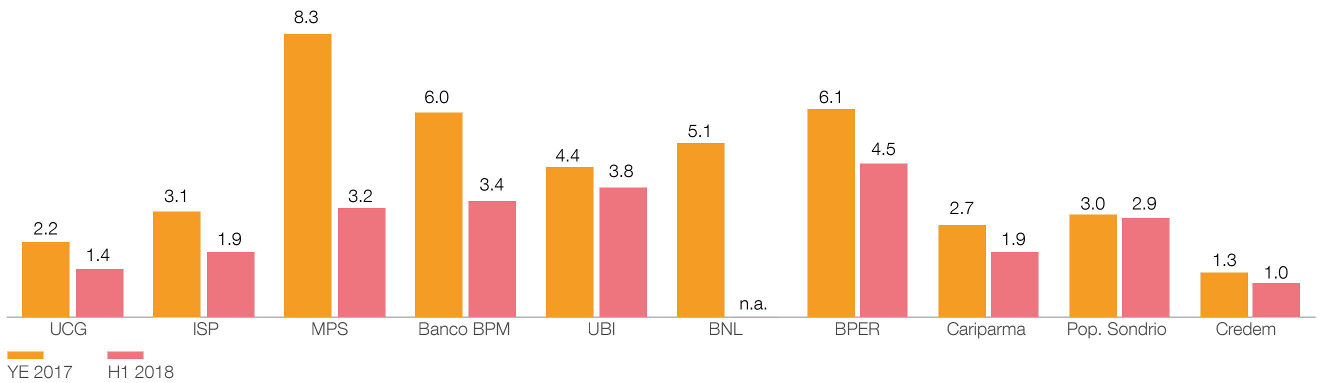


Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies. Latest available data for BNL as of YE-2017.

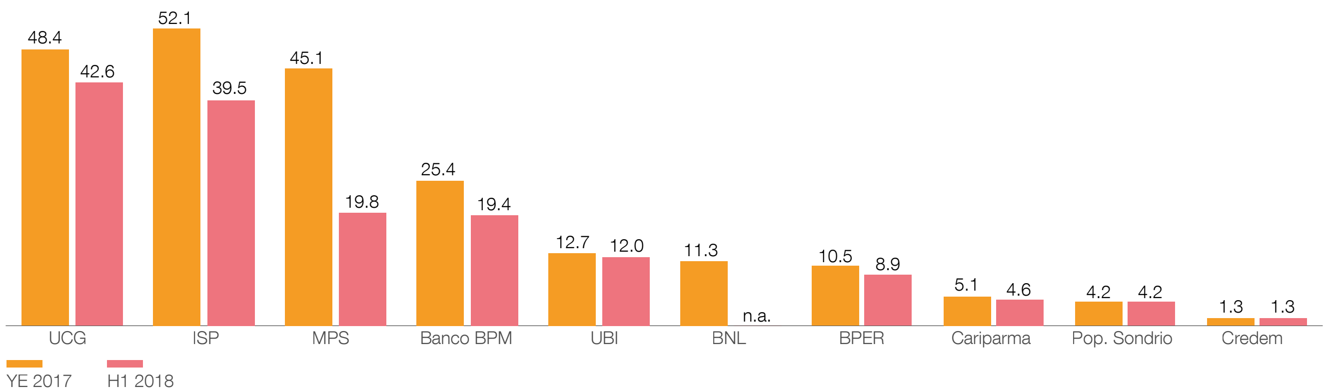
Gross Bad Loans Ratio (%)



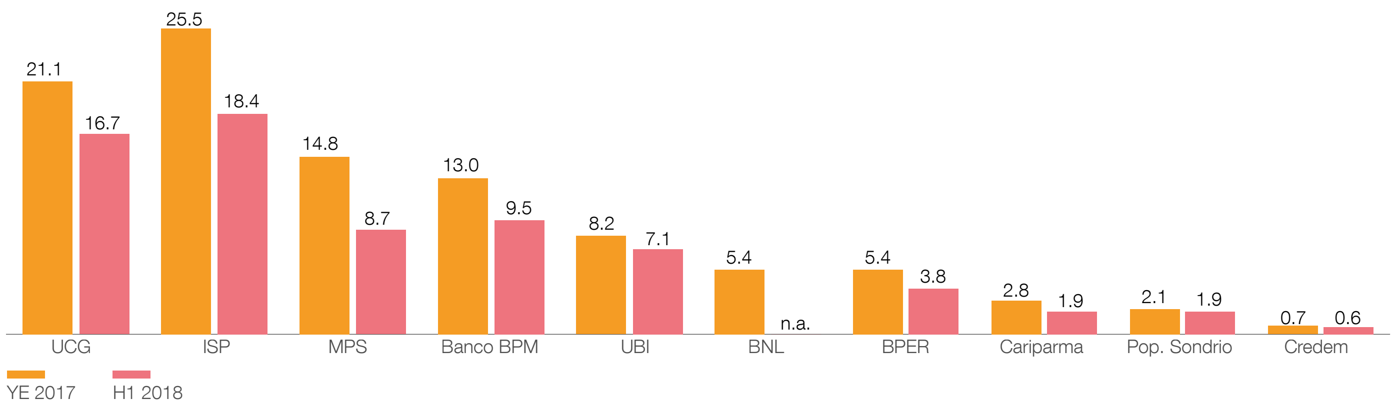
Net Bad Loans Ratio (%)



Gross NPE volume (€ bn)

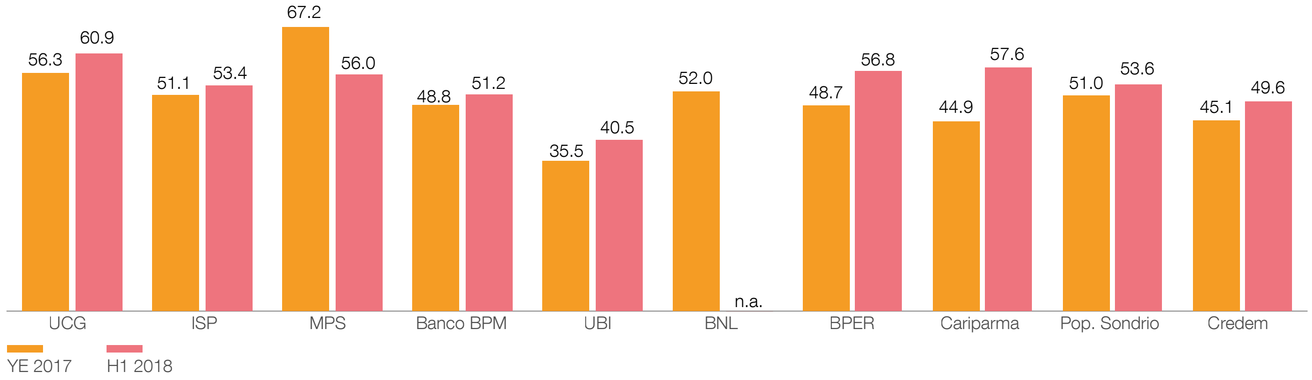


Net NPE volume (€ bn)

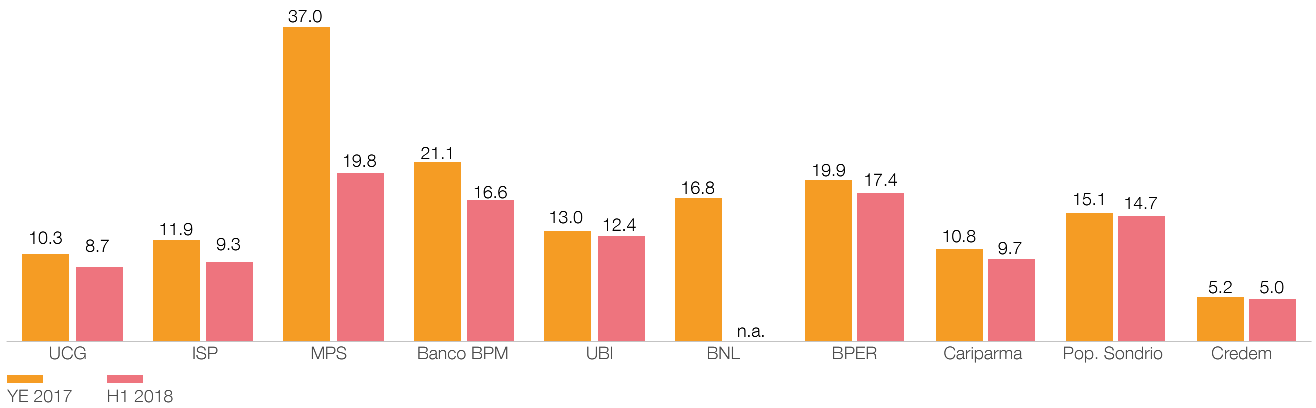


Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies. Latest available data for BNL as of YE-2017.

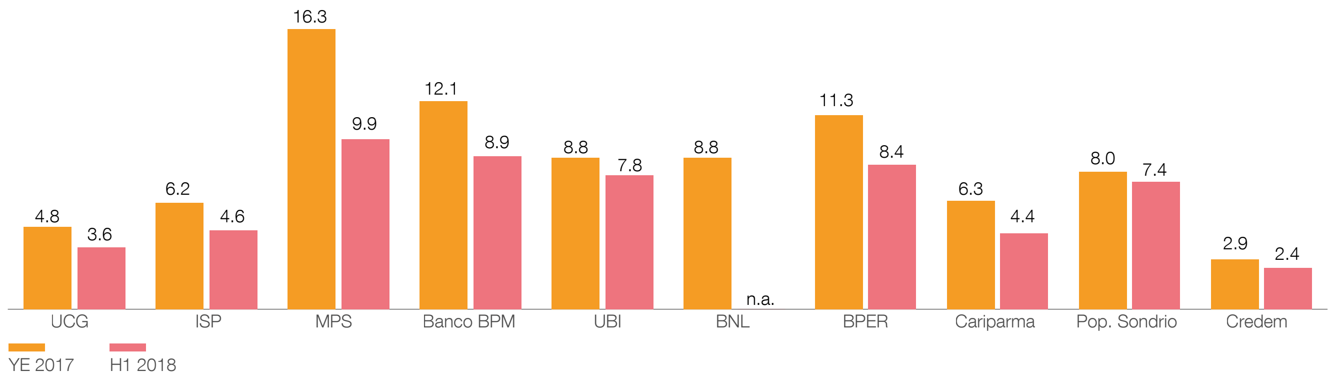
NPE Coverage Ratio (%)



Gross NPE Ratio (%)



Net NPE Ratio (%)



Source: PwC analysis on financial statements and analysts' presentations. Data affected by different write-off policies. Latest available data for BNL as of YE-2017.

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