

NPL transaction market and servicing industry

2020 and 2021 forecasts

THE NEW WAVE

Executive Summary.



BANK NPE'S SCENARIO

01

1. **In 2021 notable increase in new flows of NPEs in bank balance sheets is expected**, with a deterioration rate increasing from 1.3% in 2020 to 2.8% in 2021, as a result of the 2020 economic downturn.
2. **The forecast of increase in bank NPE'S will bring the NPE Ratio to 7.3% in 2021**, compared to 6.2% in 2020, which is an improvement compared to previous year ratio, thanks to the disposals of NPL portfolios.
3. **In the estimated increase of 2021 NPEs the Corporate segment will have a greater impact than Individual segment.**



NPL AND UTP TRANSACTIONS IN ITALY

02

1. **With 34 Bn€ expected for 2020 and a forecast of 34 Bn€ in 2021 the NPL the transaction market will remain dynamic.**
2. **In 2020, Unsecured portfolios will be the transaction type with the greatest impact on NPL transactions (31% of the total)**, maintaining stable prices as compared to previous years.
3. **The secondary NPL market will contribute significantly** to transactions' amount both in 2020 (29% expected incidence) and in 2021 (30%), with disposals focused on Unsecured and Mixed portfolios.
4. **In 2020-2021 the UTP transaction market also consolidates with 27 Bn€ of expected disposals.**
5. **The top 6 investors acquired 44% (109 Bn€) of the NPE portfolios transacted from 2015 to 2020**, highlighting the favorable position of operators who work on this market on a stable and continuous basis.



GACS

03

1. **Since 2016, the GACS have contributed to the NPL transaction market**, especially for Secured portfolios, **with 31 deals (6 expected in 2020) of over 77 Bn€ of GBV.**
2. For portfolios assisted by GACS based on available data, the comparison with the original business plans shows that **10 out of 15 portfolios are underperforming compared to the target.** This trend could lead to the disposal of Unsecured portfolios shares that require a different management expertise and specialization.



SERVICING INDUSTRY

04

1. **The total stock of NPEs to be managed in Italy is already expected to grow in 2020 (+5% y/y), with a forecast of a strong increase in 2021** that could amount to 385 Bn€ with a possible further increase in 2022.
2. **44% of the 2020 NPE stock in Italy (338 Bn€) is managed by 6 servicers.**
3. **From 2013 to 2019, the servicing sector achieved average double-digit annual growth rates**, in terms of revenues, assets under management and investments.
4. From 2013 to 2019 **a progressive consolidation in AuM operated by servicers is observed.**

Bank NPE's scenario

JAN FEB MAR



JUL

AUG

SEP

OCT

NOV

DEC

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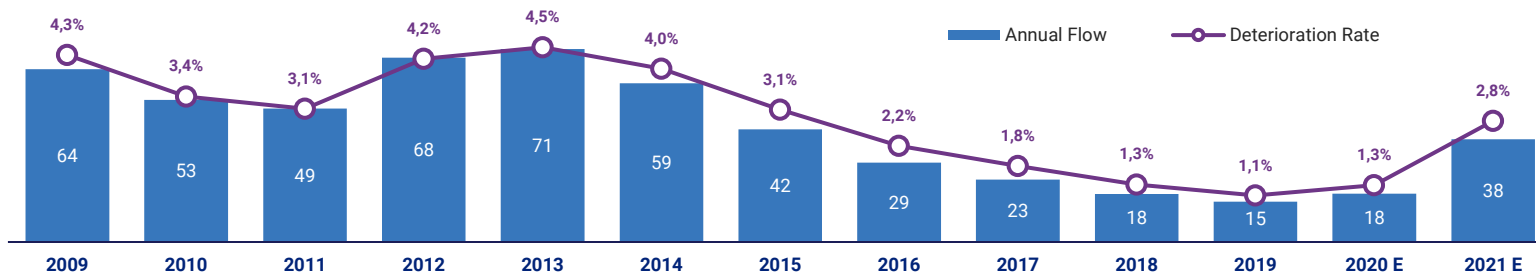
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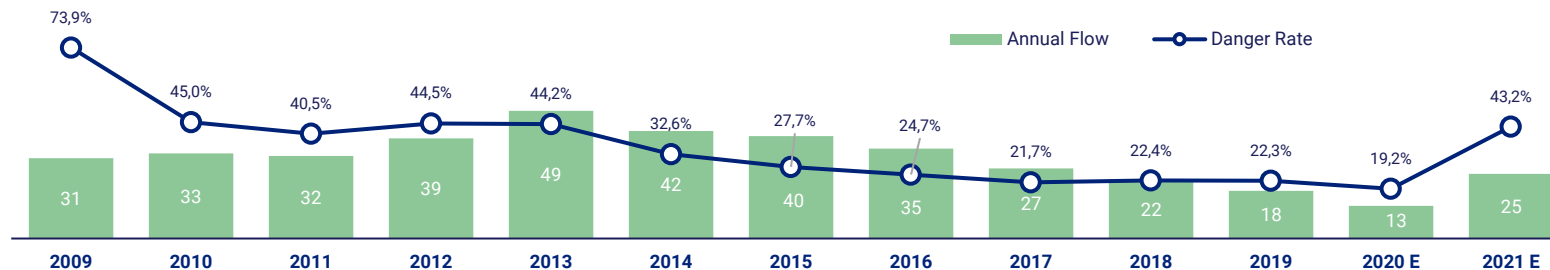
In 2021, a notable increase in the new NPEs in banks balance sheets is expected. 2020, on the other hand, is expected to be essentially in line with recent years due to economic policy interventions extended until the end of the year.

BANKS' NPE INFLOWS FROM PERFORMING AND DETERIORATION RATE - BN€ AND PERCENTAGES



In 2021 we estimate a doubled deterioration rate, as compared to the end of 2020. That figure, however, is much lower when compared to the 4.5% peak recorded in 2013.

NEW BAD LOAN ANNUALIZED FLOWS AND DANGER RATE - BN€ AND PERCENTAGES



Danger rate (from UtP to NPL) in 2021 is expected to be in line with the percentage values recorded in 2013 but with lower absolute amount thanks to management of bank NPEs over last years.

DETERIORATION RATE: Annual flow of adjusted non-performing loans/Stock of performing loans at the previous year (2020, 2021 annualized estimate data). SOURCES: Banca Ifis internal analysis based on Banca d'Italia statistical Database
DANGER RATE: Annualized flow of new adjusted bad loans/Stock of UTP and Past Due at the previous year (2020, 2021 annualized estimate data). SOURCES: Banca Ifis internal analysis based on Banca d'Italia statistical Database

Scenario adopted for 2020 and 2021 forecasts of deterioration rates.

01

The forecasts were based on the following assumptions:

1. Covid-19 pandemic impact on GDP: -9% in 2020 and a recovery in 2021 with a + 5%
2. Absence of a second generalized lockdown
3. Fall in world trade by -12% in 2020
4. Extension until January 2021 of the moratorium on loans and the layoff freezing
5. EBA waiver until September 2020 of the forbearance classification of loans subject to a moratorium
6. Distribution over several years, 2021 and 2022, of the new non-performing flows

02

Mitigants compared to previous economic crises

The default rate of the crisis resulting from Covid-19 is lower than in the 2011-2012 financial crisis thanks to:

1. Strong intervention by central banks based on liquidity injections at all-time high
2. Plans to support the economy and debtors (i.e. moratoriums, state-guaranteed loans) activated by world governments
3. The shorter economic crisis which foresees a recovery already in 2021, while the 2009-2010 financial crisis was followed by the sovereign debt crisis of 2011-12
4. The greater solidity of banks in terms of underwriting of new loans and management of non-performing loans

03

Variability of scenario and sensitivity analysis

Several factors could affect the economic scenario:

1. Duration and length of the Covid-19 infection
2. Evolution of global demand
3. Corporate and household confidence level
4. Effectiveness of economic policies

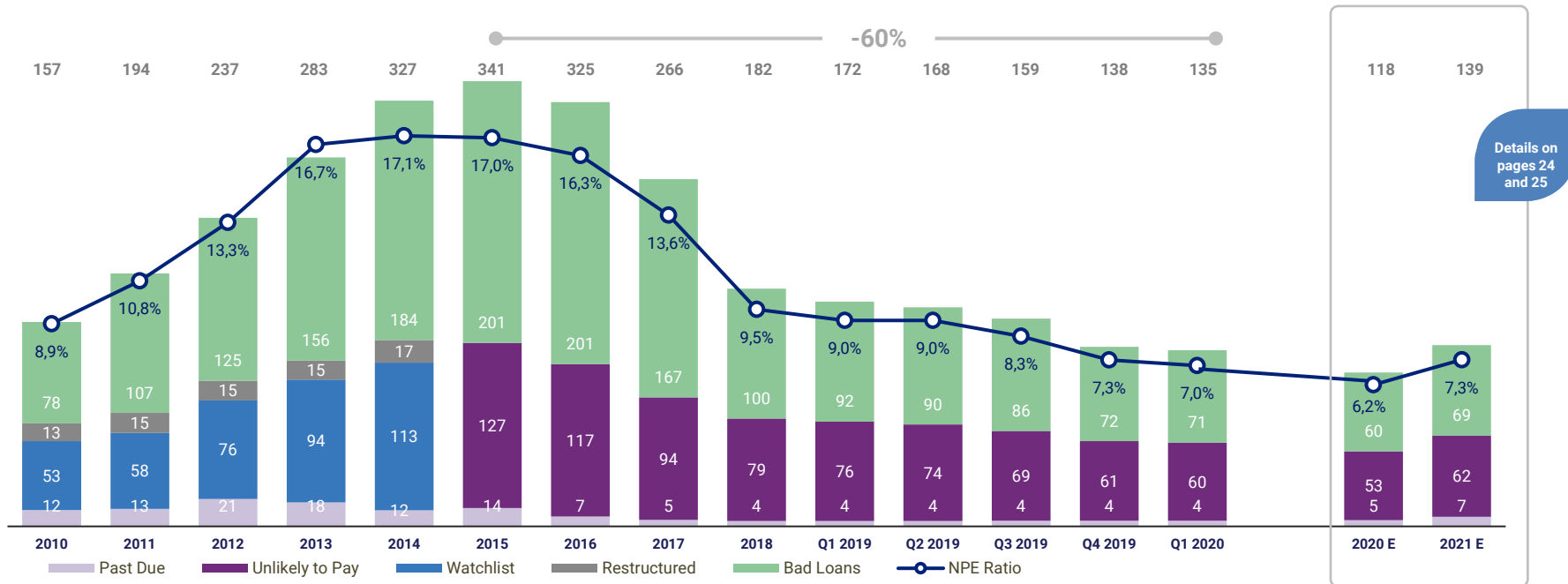
In a worsening context (GDP 2020: -13% and 2021 + 4.8%; reduction of world trade by -20%):

1. The 2021 deterioration rate could rise to 3.4%, a value that would still remain at a lower level than the 2013 peak
2. 2021 danger rate would increase to 57.8%

SOURCES: Banca Ifis internal analysis

In 2020, a further decline of NPEs in banks balance sheets is expected (-15% in 2020 vs -24% in 2019). 2021 forecast sees a strong increase in NPE Ratio to 7,3%, in line with 2019 ratio.

BANK NPE - BN€ AND PERCENTAGES – CLASSIFICATION OF IMPAIRED LOANS UPDATED IN 2015

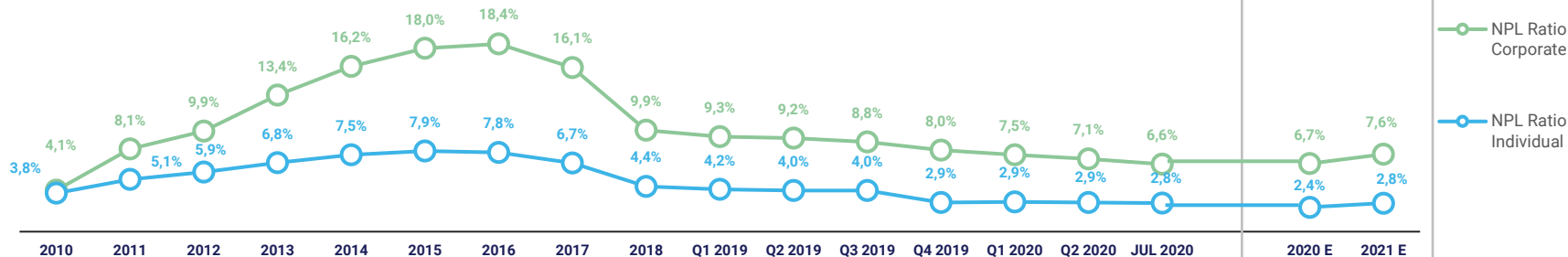


Details on pages 24 and 25

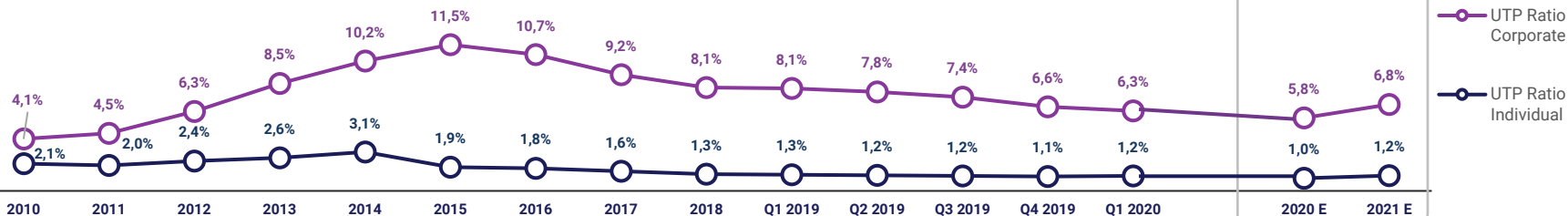
SOURCES: Banca Ifis internal analysis based on Statistical Database Banca d'Italia; NPE ratio revised on EBA guidelines; 2020, 2021 Forecast: Banca Ifis internal estimate

In 2021 the incidence of non-performing on total loans is expected to increase for all customers segments, but with a higher increase in the corporate segment.

BANK GROSS BAD LOANS/TOTAL ASSET BY DEBTOR TYPE - PERCENTAGES



BANK GROSS UTP/TOTAL ASSET BY DEBTOR TYPE - PERCENTAGES



SOURCES: Banca d'Italia, based on Statistical Database; Forecast: Banca Ifis internal estimate

MARKET WATCH
NPL 

NPL and UTP transactions

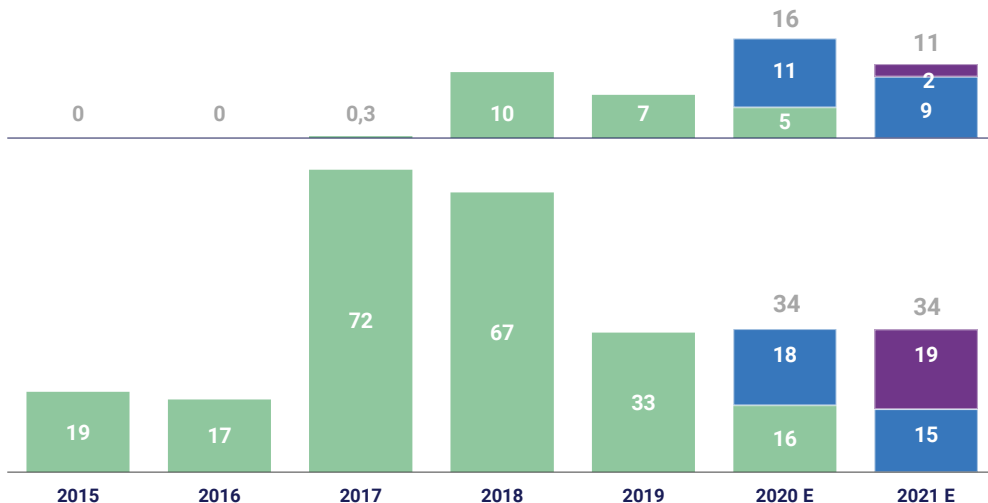


A significant amount of NPL transactions is expected in both 2020 and 2021. The market for transactions on UTP portfolios is also strengthened.

NPL AND UTP TRANSACTIONS - Bn€ AND PERCENTAGES

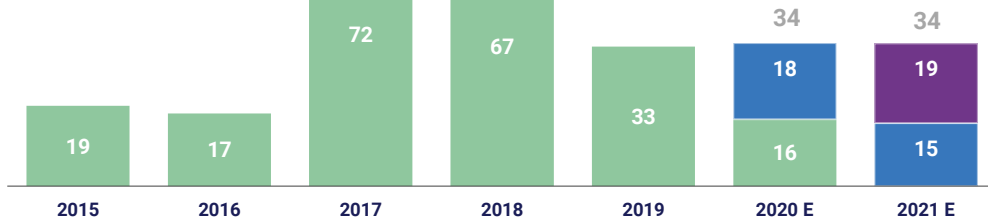
UTP Bn€

Details on pages 26, 27 and 28



NPL Bn€

■ Estimation
■ Pipeline
■ Actual



	2015	2016	2017	2018	2019	2020 E	2021 E
% GACS	0%	3%	44%	43%	30%	18%	NA
% Secondary	31%	51%	4%	2%	16%	29%	30%

SOURCES: Banca Ifis NPL Market Database – Press releases and news – Banca Ifis internal estimate

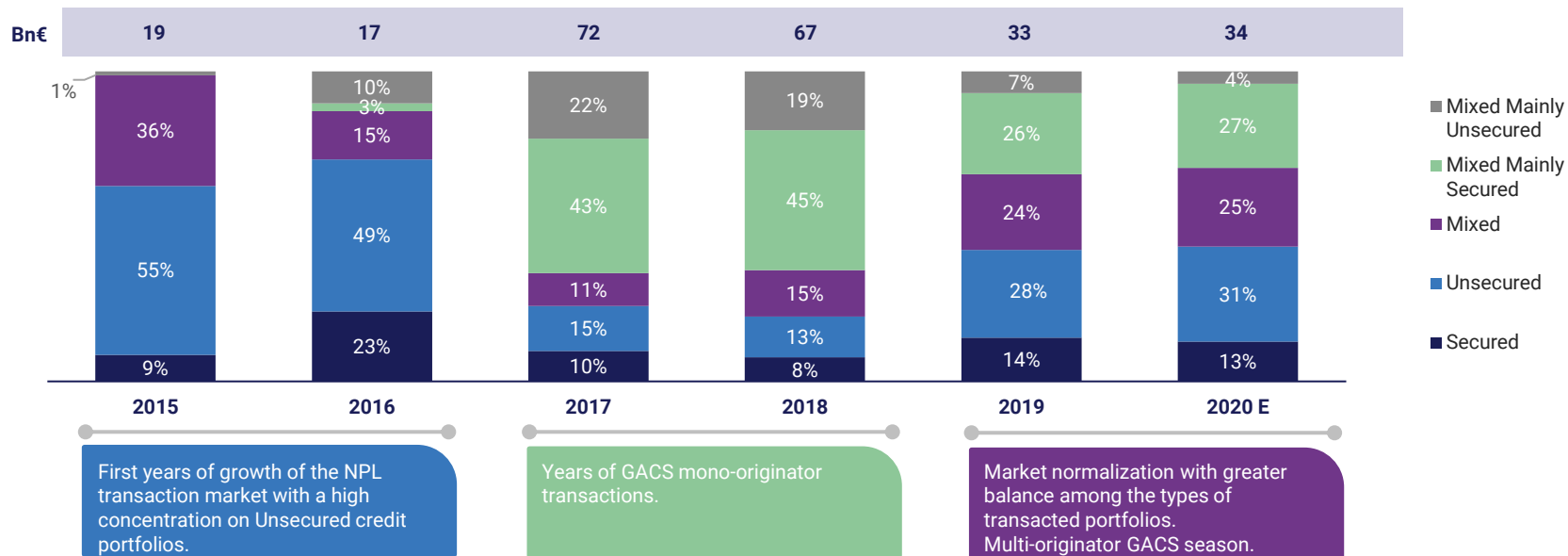
The dynamism of the 2020 market is confirmed by transactions already closed in the first nine months, amounting to 16 Bn€, almost 50% of the forecast for the year. 2020 and 2021 pipelines take into account the statements made in banks' deleveraging strategies.

2021 estimates foresee the secondary market contributing about 30% to NPL transactions. This incidence could also increase given the tendency of investors to sell portfolio shares on Unsecured loans.

In the two-year period 2020-2021, 27 Bn€ of disposals on UTP portfolios are expected, with a concentration on large operations (e.g. 3 Bn€ MPS in 2020, 6.5 Bn€ Unicredit in 2021).

2020 will see “Unsecured” as the type of transactions with the greatest incidence (31% of total amount).

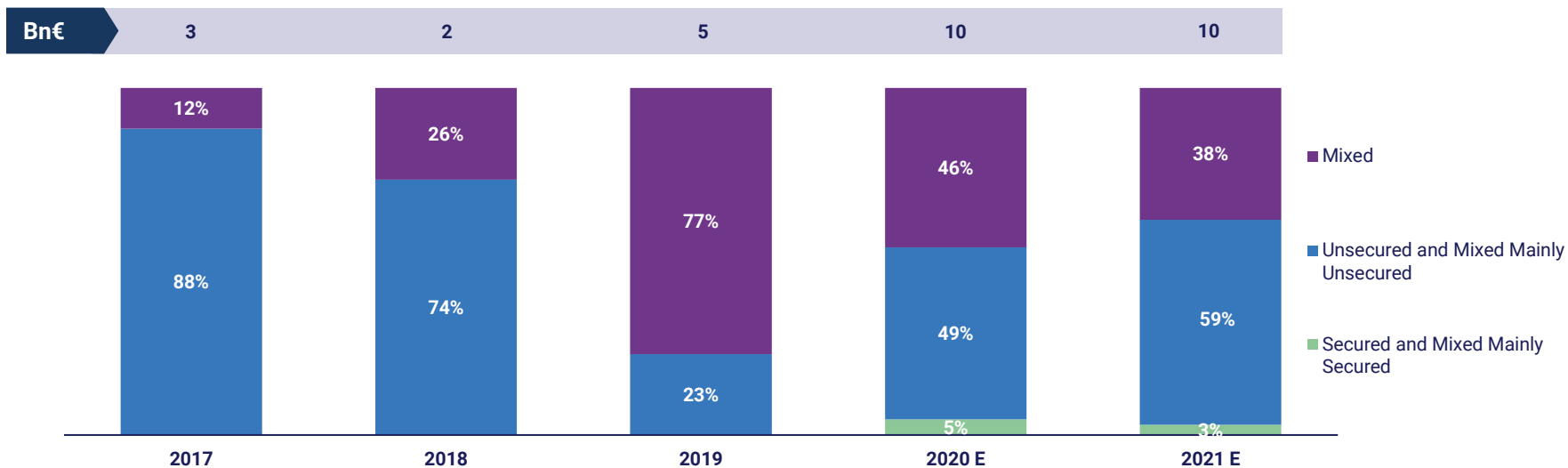
NPL TRANSACTIONS BY PORTFOLIO TYPE - Bn€ AND PERCENTAGES



SOURCES: Banca Ifis NPL Market Database – Press releases and news - Banca Ifis internal estimate

Disposals on the NPL secondary market are almost exclusively on Unsecured and Mixed portfolios. Investors who have acquired Mainly Secured portfolios since 2020 have begun disposing Unsecured shares that require specialized servicers.

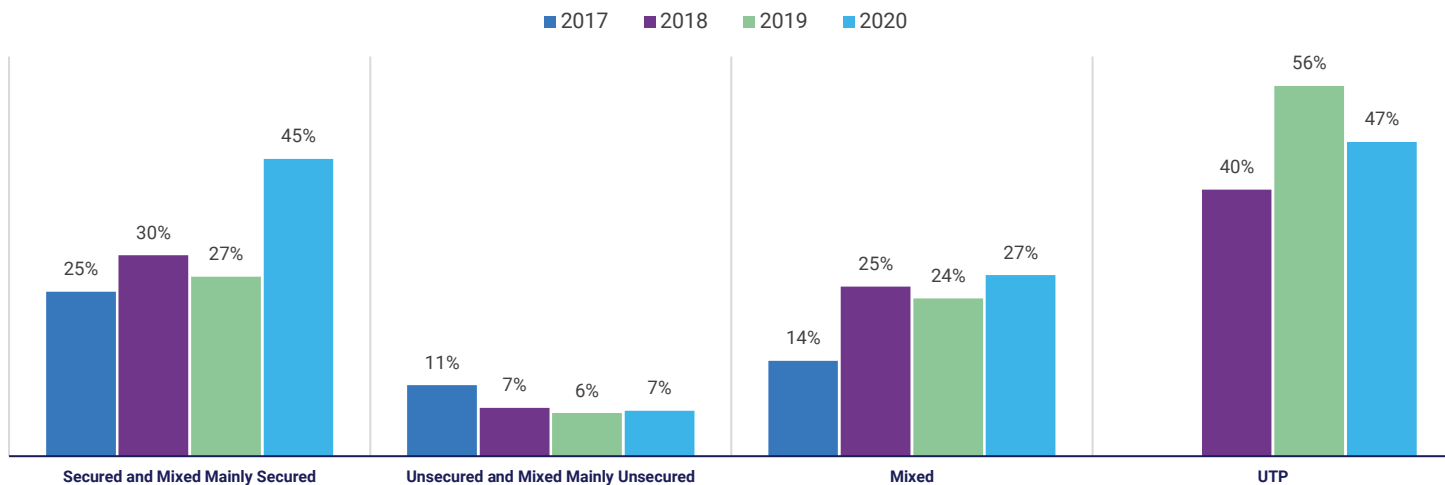
NPL TRANSACTIONS ON THE SECONDARY MARKET BY PORTFOLIO TYPE - Bn€ AND PERCENTAGES



SOURCES: Banca Ifis NPL Market Database - Press releases and news - Banca Ifis internal estimates

The valuation of average sale price of Unsecured portfolios remains stable. The prices of Mixed, Secured and UTP portfolios have a variability conditioned by large deals.

NPL TRANSACTIONS: ESTIMATED AVG PRICES BY PORTFOLIO TYPE - PERCENTAGES

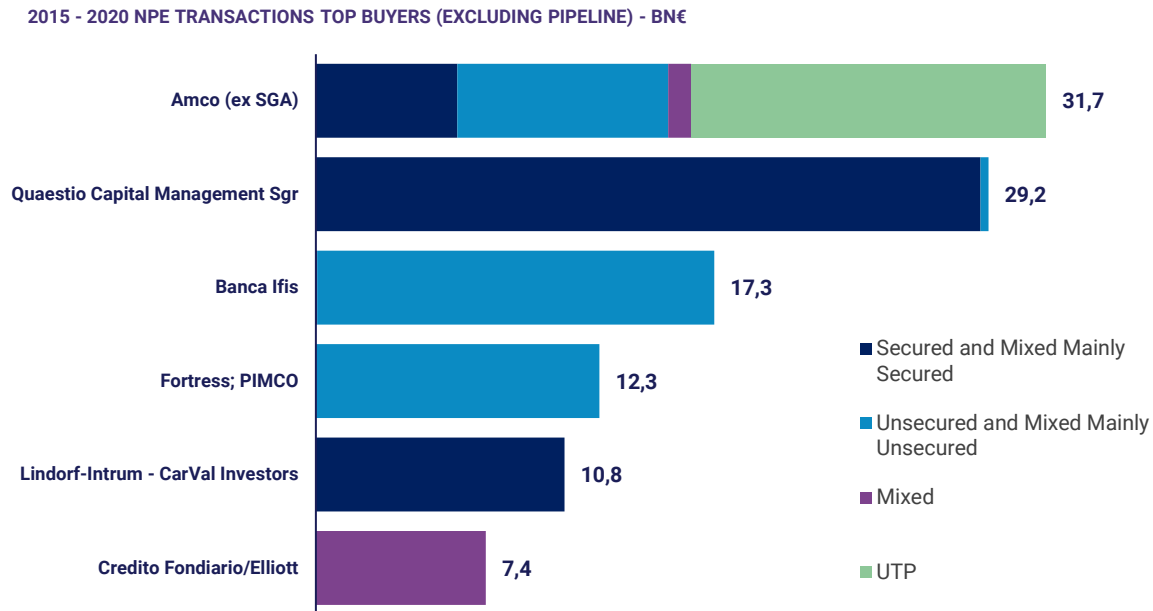


2020 average price of Secured is influenced by the valuation of the MPS-Amco deal of 8 Bn€ (60% NPL).

The prices of Mixed portfolios have remained stable since 2018. The 2017 average price was impacted by the "Fino" transaction of Unicredit. Not considering main transactions, the stability in 2020 prices is the combined effect of the negative impact of Covid on the market, offset by the disposal of more recent and less processed loans and by the confirmation of investments of leading and senior operators in the Italian market.

SOURCES: Banca Ifis NPL Market Database – Press releases and news - Banca Ifis internal estimate

With the exception of Amco, the main market investors show a high rate of specialization in acquired portfolios.



109 Bn€

total volumes of 6 top investors representing

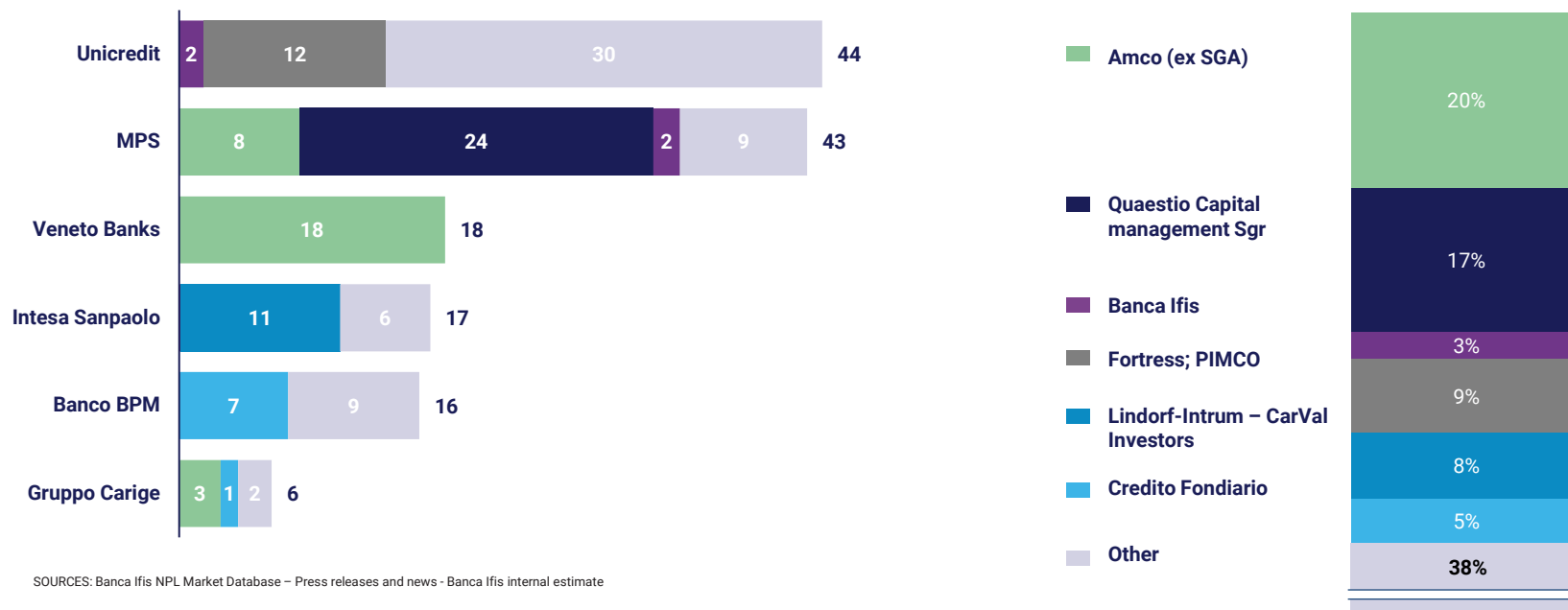
44%

of total NPE transactions (2015-2020)

SOURCES: Banca Ifis NPL Market Database – Press releases and news - Banca Ifis internal estimate

62% of NPE portfolios disposed by main banks were bought by six investors.

2015- 2020 BIG PLAYERS WHO BOUGHT DISPOSED PORTFOLIOS BY MAIN BANKS – BN€ AND PERCENTAGE OF TOTAL DISPOSED VOLUMES



SOURCES: Banca Ifis NPL Market Database – Press releases and news - Banca Ifis internal estimate

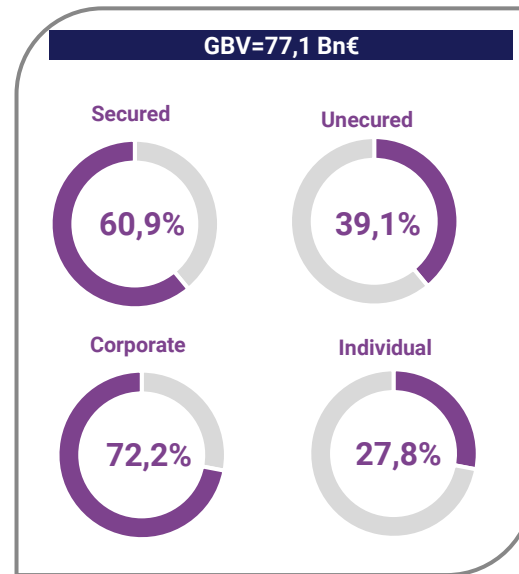
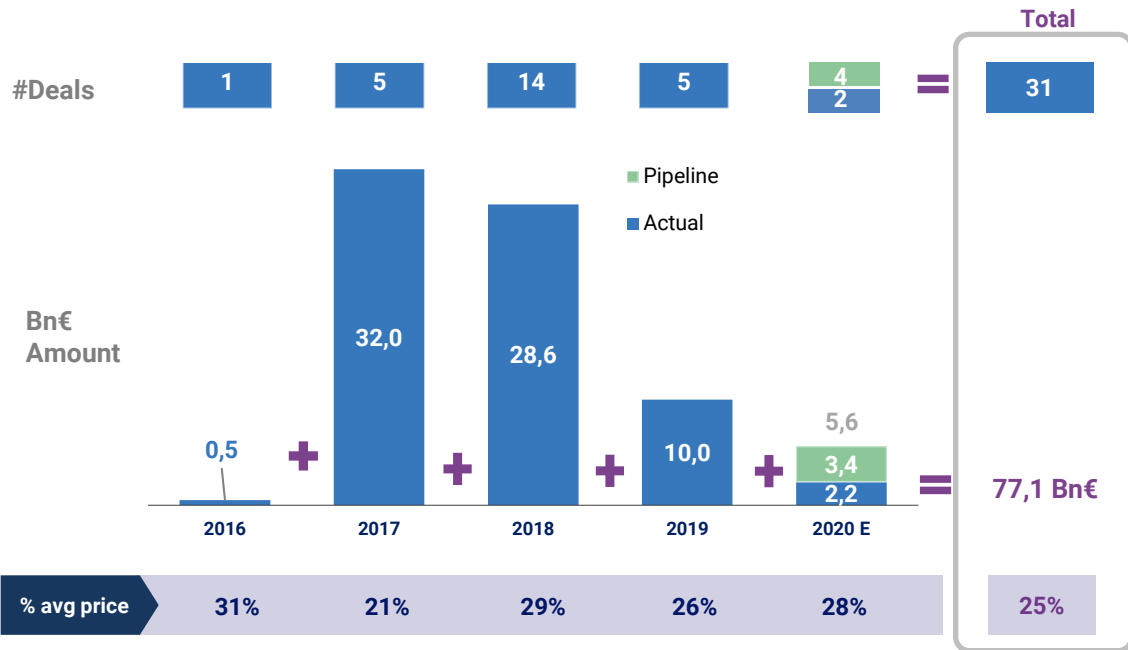


GACS deep analysis



Since 2016, GACS have supported the volumes of NPL transaction market, mainly on Secured portfolios, with 31 deals for 77 Bn€ of GBV.

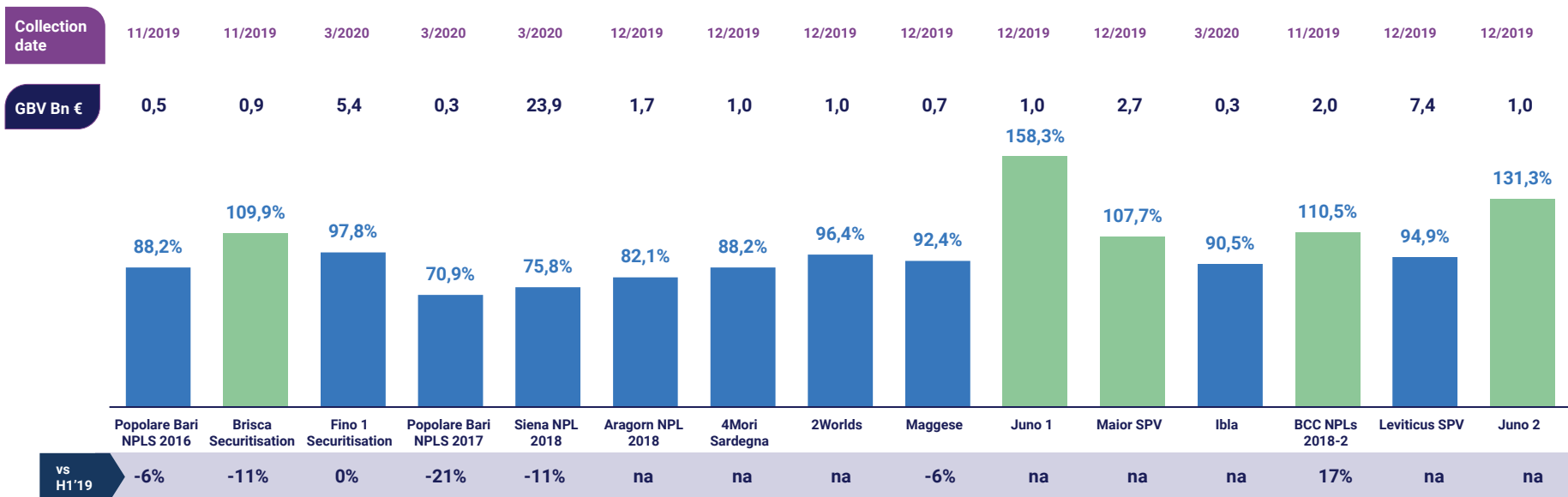
GACS ASSISTED NPL PORTFOLIO TREND – BN€, # DEALS AND PERCENTAGES



SOURCES: Banca Ifis NPL Market Database – Press releases and news - Banca Ifis internal estimate

The GACS assisted portfolios show 10 out of 15 cases that underperform the business plan, even if the collection date is prior to Covid-19 crisis. This trend could lead to new sales of shares of Unsecured portfolios to specialized servicers.

CUMULATIVE GROSS COLLECTION RATIO, ACTUAL ON INITIAL BUSINESS PLANS - PERCENTAGES



SOURCES: Banca Ifis NPL Market Database – Press releases and news - Banca Ifis internal estimate; DBRS Morningstar - June 2020, last collection date available

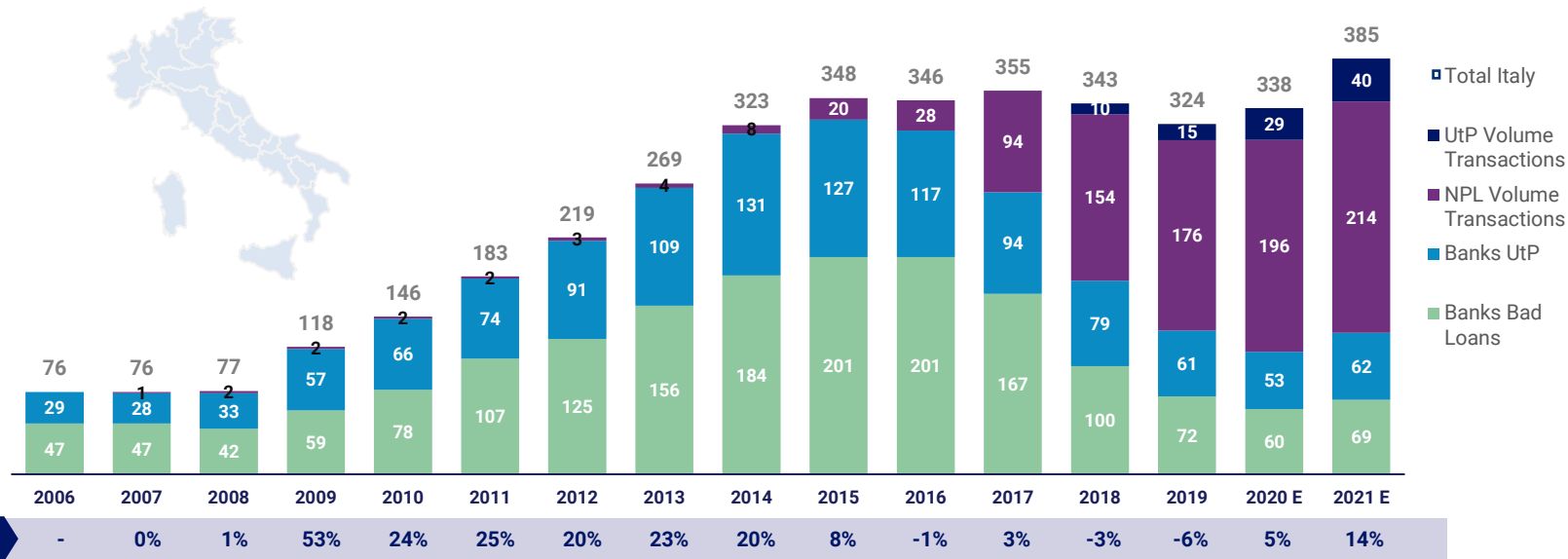
MARKET WATCH
NPL 

NPL industry



The total NPE stock in Italy is expected to grow as early as 2020, with an acceleration in 2021 that could lead to an amount of 385 Bn€ and a possible further increase in 2022.

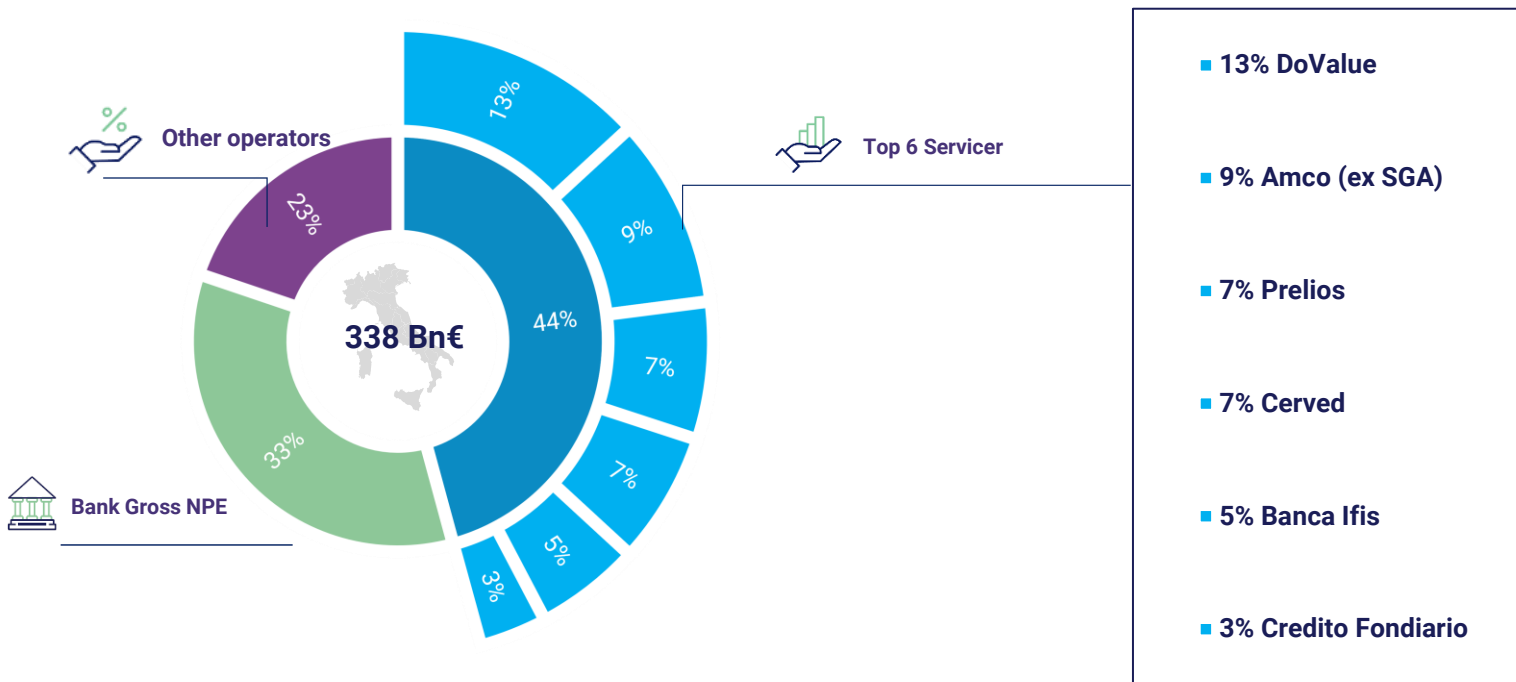
TOTAL ITALY GROSS NPE (PAST DUE EXCLUDED) – Bn€



SOURCES: Banca Ifis NPL Market Database – Press releases and news – Banca Ifis internal estimate, Banca d'Italia and Unirec

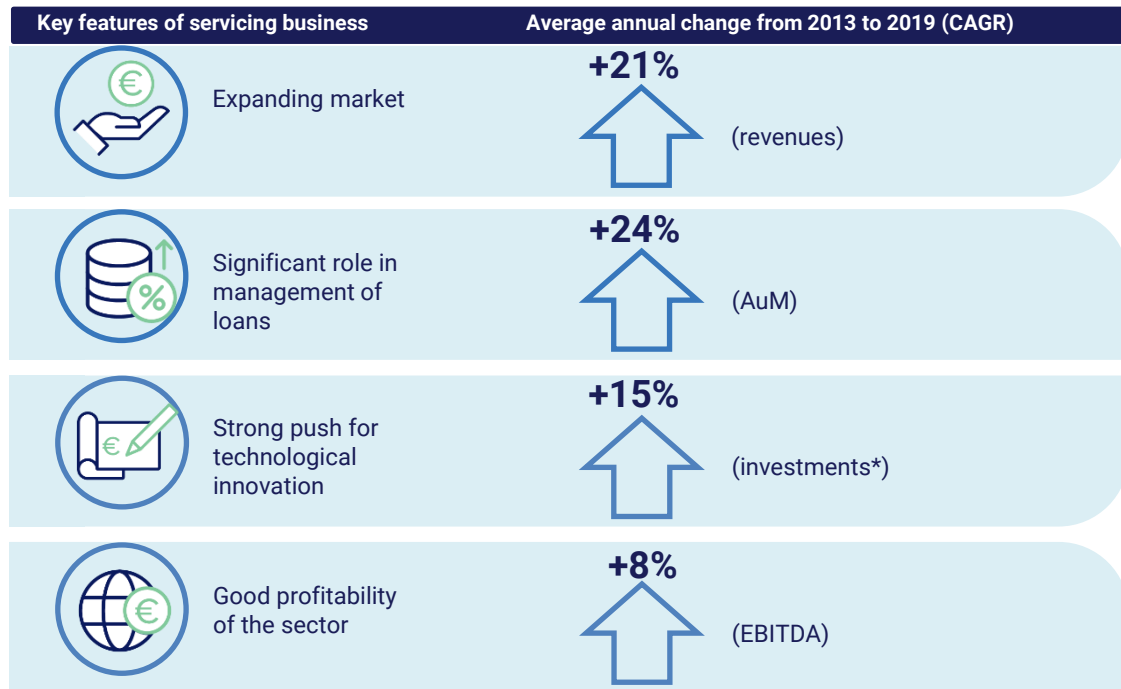
44% of the Italian NPE volumes is managed by 6 servicers.

NPE TRANSACTIONS: BANK GROSS NPE, NPL AND UTP DEALS CLOSED FROM 2015 TO 2020 (INCLUDING 2020 PIPELINE) BN€, PERCENTAGES



SOURCES: Banca Ifis NPL Market Database – Press releases and news – Banca Ifis internal estimate, Banca d'Italia and Unirec

Since 2013 the servicing industry has grown at double-digit average annual rates. Sector profitability trend is positive and steady.



* tangible and intangible fixed assets from balance sheets

SOURCES: Banca Ifis internal analysis on Annual Reports 2013-2019

MARKET WATCH
NPL 

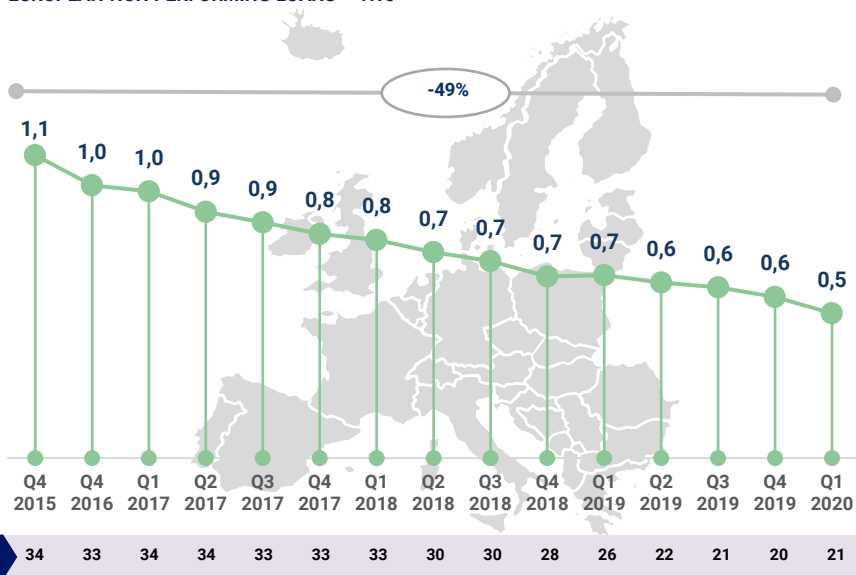
In-depth tables

 Banca Ifis

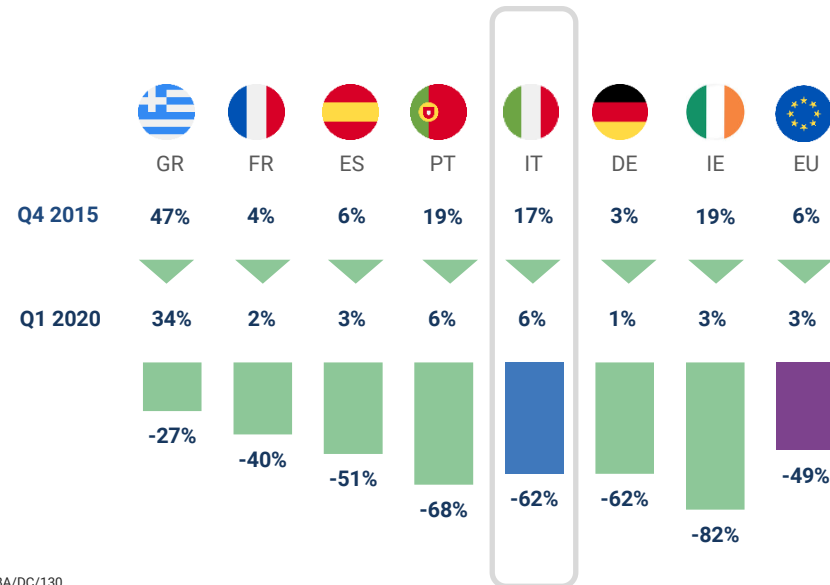
NPL MARKET

Since 2015, the Italian NPE Ratio has decreased much more than the European average. Italian non-performing loans represent 21% of total volumes in Europe, compared to 34% in 2015.

EUROPEAN NON PERFORMING LOANS – Tn€



EUROPEAN LANDSCAPE - BANK NPE RATIO* - PERCENTAGES



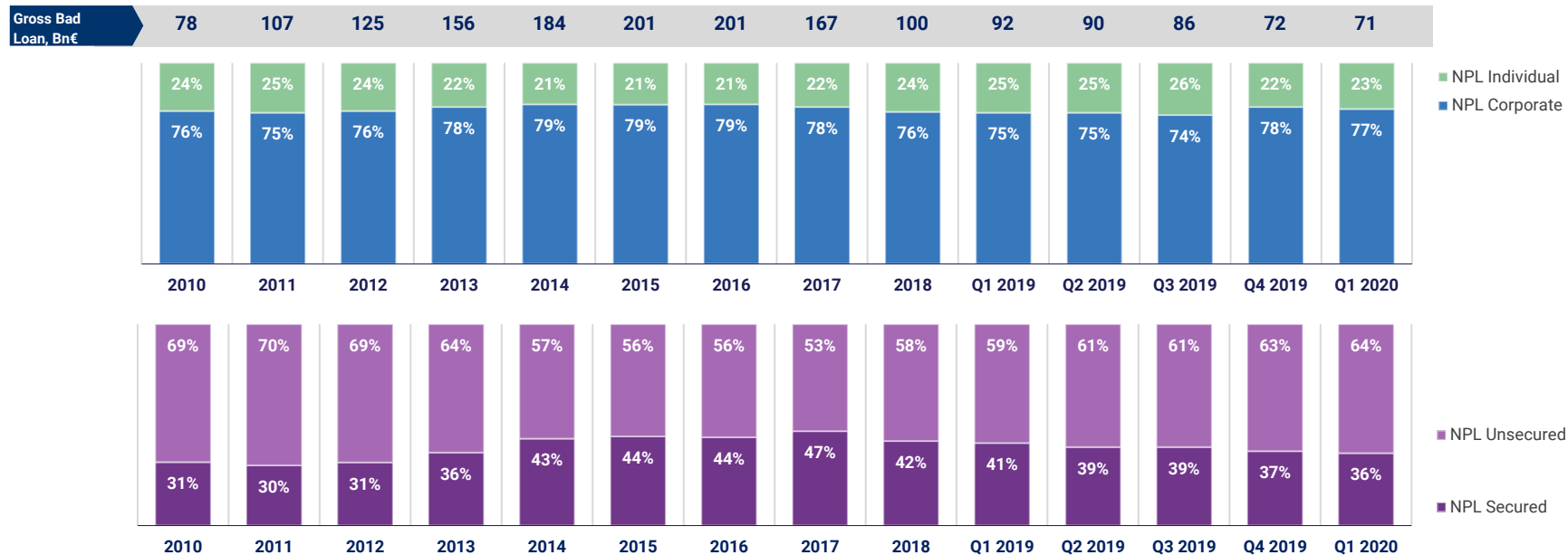
NPL Ratio recalculated bases on the solution implemented by the EBA to disseminate information on EU's largest banks, as established by Decision EBA/DC/130

*Note that the terms "non-performing exposure (NPE)" and "non-performing loan" (NPL) are used interchangeably in the EBA "Risk Dashboard"

SOURCES: EBA "Risk Dashboard" report, NPL ratio based on weighted average

The main share of loans still in bank balance sheets is due to Corporates, with a substantially stable share since 2010. The incidence of Unsecured loans is growing.

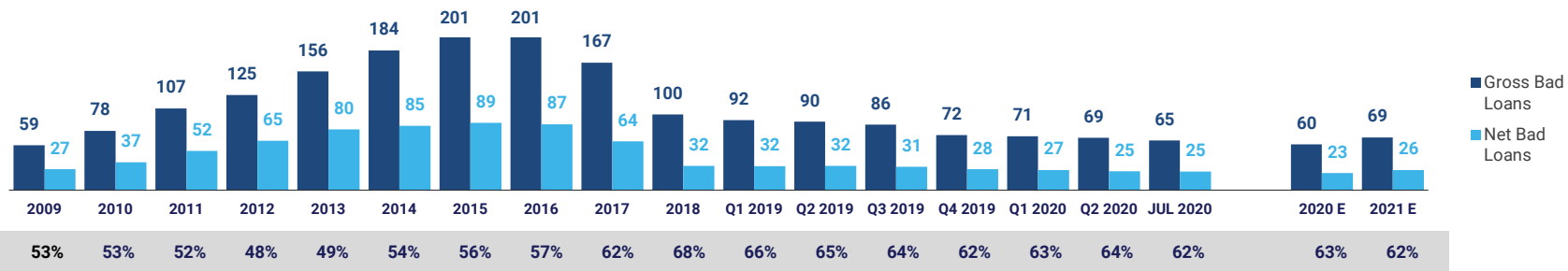
BANK GROSS BAD LOANS – PERCENTAGES OF CORPORATE AND SECURED LOANS (% ON TOTAL BAD LOANS)



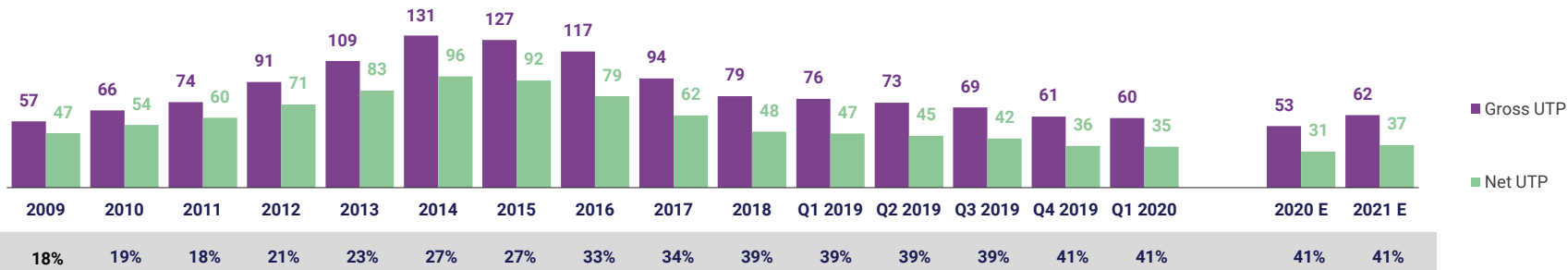
SOURCES: Banca d'Italia, based on Statistical Database; Forecast: Banca Ifis internal estimate

The coverage rate is expected to be stable for both NPLs and UTPs.

BANK BAD LOANS - BN€ AND PERCENTAGES



BANK UTP - BN€ AND PERCENTAGES



SOURCES: Banca d'Italia, based on Statistical Database; Forecast: Banca Ifis internal estimate

NPL transactions in first nine months of 2020 have a limited average size (~600 Mn€), with the exception of MPS-Amco deal.

NPL

Buyer	Bn€ GBV	Servicer	Seller
Amco (ex SGA)	4,8	Amco (ex SGA)	Monte dei Paschi di Siena
Amco (ex SGA)	0,3	Amco (ex SGA)	CreVal
Amco (ex SGA)	0,8	Amco (ex SGA)	Banca Popolare di Bari
Confidential	1,2	Prelios	BPER
Confidential	1,0	Prelios	Banca Popolare di Sondrio
Confidential	0,1	n.a.	Prelios Innovation
Confidential	0,3	n.a.	CreVal
Confidential	0,1	n.a.	Cassa di Risparmio di Volterra
NPL Securitisation Italy SPV srl	1,7	J-Invest	J-Invest
Apeiron Management (Apollo)	1,3	n.a.	Grandi Lavori Finconsit
Banca Ifis	0,8	Banca Ifis	Unicredit
Banca Ifis	0,3	Banca Ifis	Illimity
Illimity	0,6	Illimity	Unicredit
Illimity	0,2	Illimity	Confidential
Barclays, Guber Banca	0,6	Guber Banca	Unicredit
MBCredit Solution	0,1	MBCredit Solution	Deutsche Bank
MBCredit Solution	0,1	MBCredit Solution	CreVal
MBCredit Solution	0,3	MBCredit Solution	Cofidential
Hoist Finance	0,4	n.a.	CreVal
Confidential e altre minori	0,6	n.a.	n.a.
Total	15,6		

SOURCES: Banca Ifis NPL Market Database – Press releases and news - Banca Ifis internal estimate

In the last quarter of 2020, several NPL transactions are expected to close, of which almost 7 Bn€ are already at an advanced stage of processing.

NPL

Seller	Project	Disposal Type	Ongoing	On plan	Announced	Bn€ GBV
Unicredit	Roma	Disposal	-	-	1,4	1,4
Unicredit	Sandokan II	Disposal	-	-	0,8	0,8
Unicredit	New York	Disposal	0,7	-	-	0,7
Intesa Sanpaolo	Rep	Disposal	-	-	1,4	1,4
Intesa Sanpaolo	Simba 2	Disposal	0,3	-	-	0,3
Iccrea Banca	n.a.	GACS	1,6	-	-	1,6
UBI	n.a.	Disposal	1,0	-	-	1,0
Cariparma	n.a.	GACS	1,0	-	-	1,0
Cassa Centrale Banca	n.a.	GACS	0,7	-	-	0,7
Banco Desio	n.a.	GACS	-	0,5	-	0,5
Banca Popolare di Sondrio	n.a.	Disposal	0,4	-	-	0,4
Monte dei Paschi di Siena	n.a.	Disposal	0,4	-	-	0,4
Banca del Fucino	n.a.	Securitization	0,3	-	-	0,3
Confidential e altre minori	n.a.	n.a.	0,4	6,3	1,1	7,7
Total Pipeline 2020			6,8	6,8	4,6	18,2

SOURCES: Banca Ifis NPL Market Database – Press releases and news - Banca Ifis internal estimate

The UTP transactions market will be dynamic in 2020: 4.6 Bn€ of deals concluded with a pipeline of over 10 Bn€.

UTP

Year	Seller (originator)	Project	Investor	Bn€ GBV
2020	Monte dei Paschi di Siena	Hydra	Amco (ex SGA)	3,3
	Banca Popolare di Bari	n.a.	Amco (ex SGA)	1,2
	Banca Popolare Valconca	n.a.	Confidential	0,1
Total				4,6

Year	Seller (originator)	Project	Investor	Bn€ GBV
Pipeline Ongoing 2020	Unicredit	n.a.	Pool of funds and servicers	6,5
	Unicredit	Dawn	n.a.	1,0
	Banco BPM	n.a.	Partnership	2,0
	Intesa Sanpaolo	Levante	n.a.	0,3
	Intesa Sanpaolo	Simba	n.a.	0,3
	Confidential and other minus	n.a.	n.a.	0,6
Total Pipeline				10,7

SOURCES: Banca Ifis NPL Market Database – Press releases and news - Banca Ifis internal estimate

General Statement.

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