



MARKETWATCH

MARKET WATCH NPL

The Italian Scenario

January 2018



Italian macroeconomic scenario

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- Continuous improvement of Italian economic scenario according to the GDP positive trend and the employment rate increase
- Strong improvement of purchasing power and real estate transactions due to the increase of household disposable income

Italian NPE scenario

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- NPE data shows the positive effect of NPL portfolio disposals (Gross NPL: -14% from the end of the previous year)
- Net NPL focus shows a relevant amount decrease for both absolute value (-24% vs December 2016) and scaled to loans (-140 bps vs December 2016)
- Gross NPL decreased by 14% but NPL ratio is still above the European average
- In 2017 the NPL market's maturation affected the bank NPL momentum: **net balance shows outflows 3 Bn€ higher than inflows**

NPL Transactions on the Italian market

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- 72 Bn€ of NPL transactions were finalized in 2017
- The market value of total 2017 transactions can be estimated at around 13 Bn€
- 2017 NPL Transactions provides a view concentrated on Mixed portfolios with a deep use of securitization
- In 2017 Mixed transactions have shown a positive correlation between disposal price and secured incidence

Focus on the NPL pipeline

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- 57 Bn€ of NPL portfolios are expected to be traded 2018, of which 26 Bn€ already in under way (ongoing phase)
- 2018 pipeline is characterized by mixed deal prevalence

Servicing market

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- In 2017 new players have entered Italian servicing sector and others have improved their operational capacity
- Few servicers will manage the largest Italian NPL deals: Quaestio, DoBank, Cerved, SGA

Regulatory variables

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- Regulatory variables affected the NPL market environment

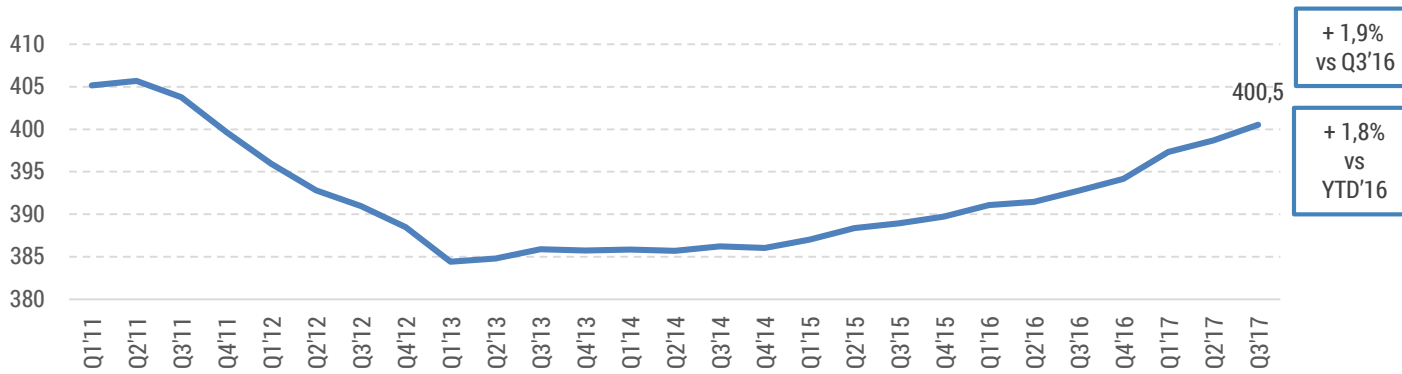
ITALIAN MACROECONOMIC SCENARIO



Demonstrated continuous improvement within Italian economic scenario.



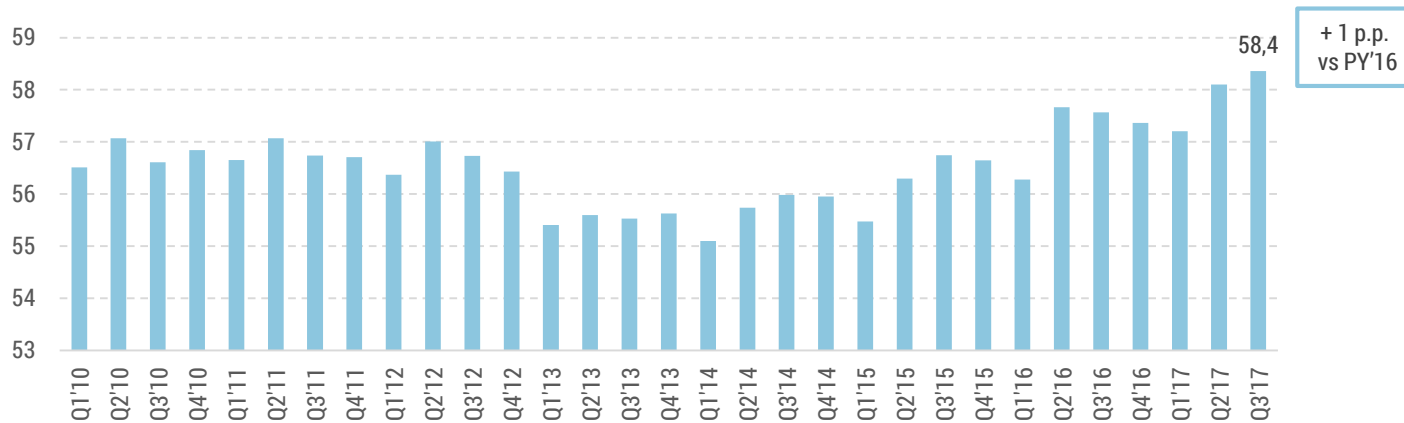
GDP - Bn€



HIGHLIGHTS

- The GDP positive trend is showing an acceleration
- According to the latest ISTAT calculation, the value is growing by 1,9% quarterly base and 1,8% for '17 YtD vs the same period 2016

Employment rate - Percentages

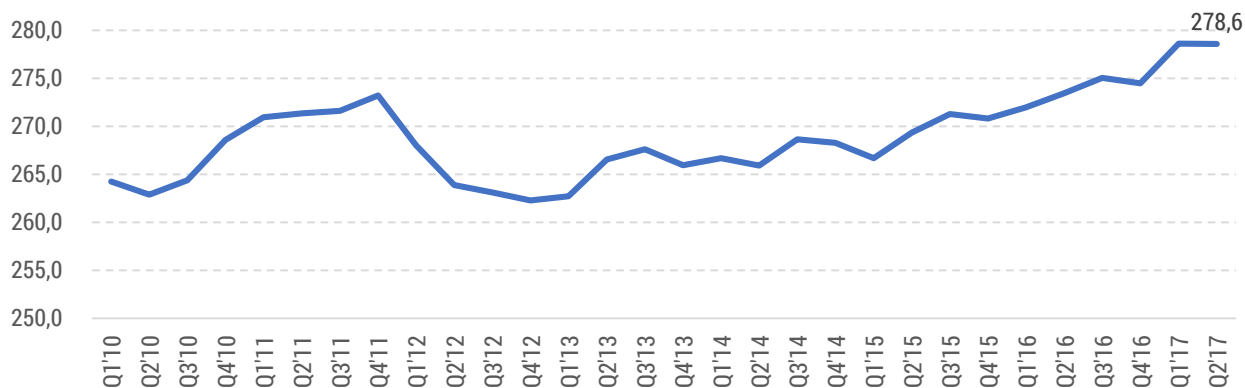


- Employment rate increase confirms the economic health improvement

Strong increase of purchasing power and real estate transactions.



Household disposable income - Bn€



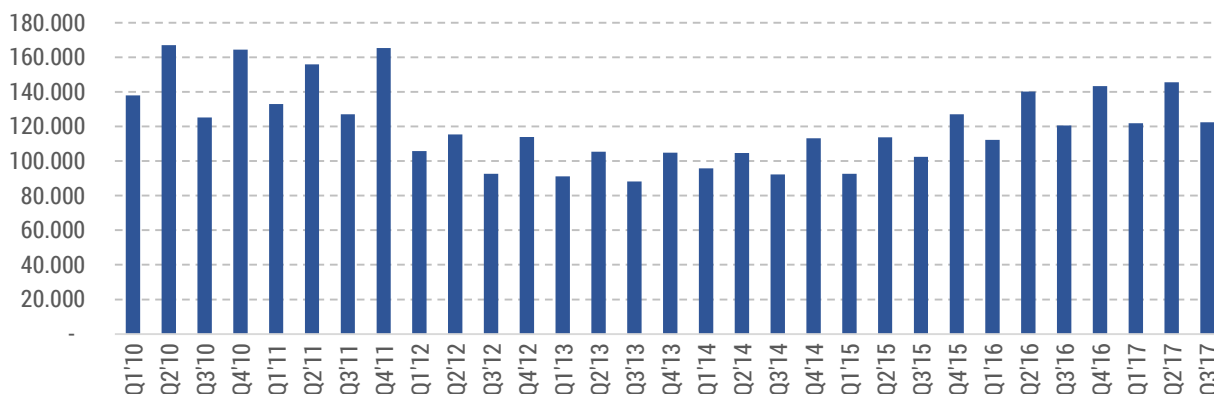
+ 1,9%
vs Q2'16

+ 2,2%
vs YTD'16

HIGHLIGHTS

Households are increasing their purchasing power, counting on disposable income improved by 2,2% in the first 9 months of 2017

Residential Real Estate - NTN (number of real estate standardized units exchanged)*



+1,5%
vs Q3'16

+4,5%
vs YTD'16

The real estate market is continuing the positive trend highlighting an increase of approximately 4% the first 3 quarters of 2017

ITALIAN NPE SCENARIO

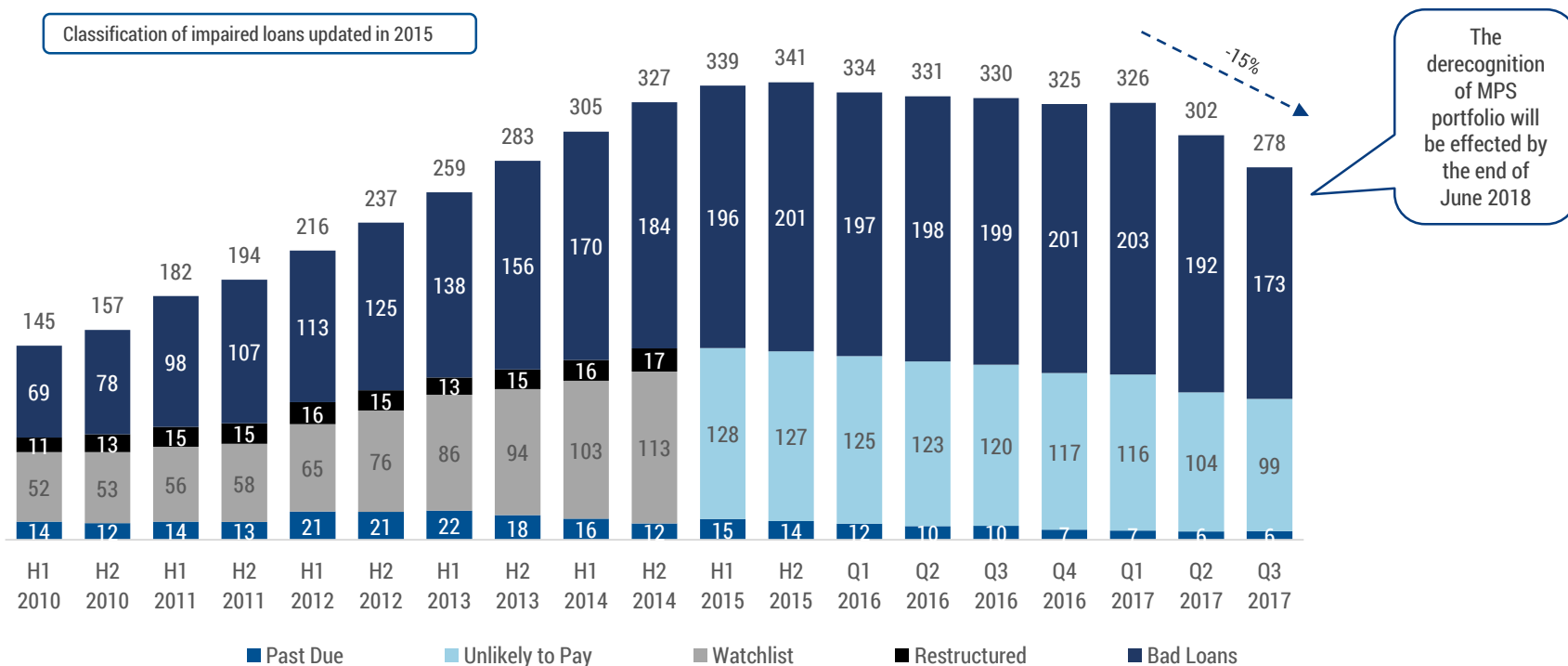


Bank NPE data shows the positive effect of NPL portfolio disposals.



Bank and CDP NPE Total - Bn€

Classification of impaired loans updated in 2015



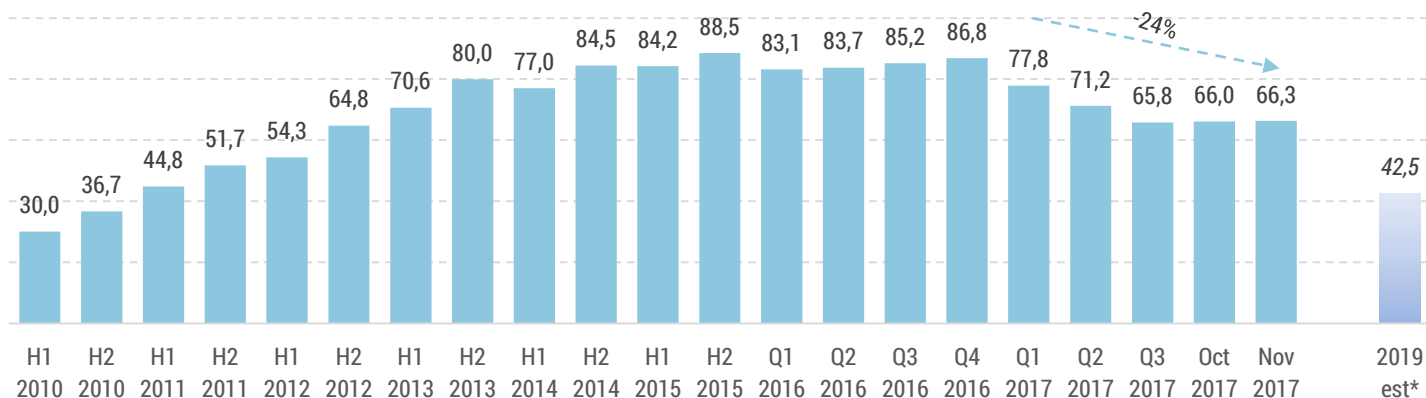
HIGHLIGHTS

- The 2017 data shows a turnaround in bank NPE
- Q3 '17 closed with a drop around 15% vs previous year end
- The derecognition of MPS portfolio (26,1 Bn€) from financial statement will be effected by the end of first half 2018, with an expected decrease around 10% of total NPE
- UTP amount (99 Bn€) weights the 36% of total NPE
- The NPL coverage ratio is 62%, therefore "net non-performing loans" equal to 66 Bn€. For UTPs, the coverage ratio is 34%, therefore "net UTP" amount to 66 Bn€

Net NPL focus shows a relevant decrease of amount for both absolute value and scaled to loans.



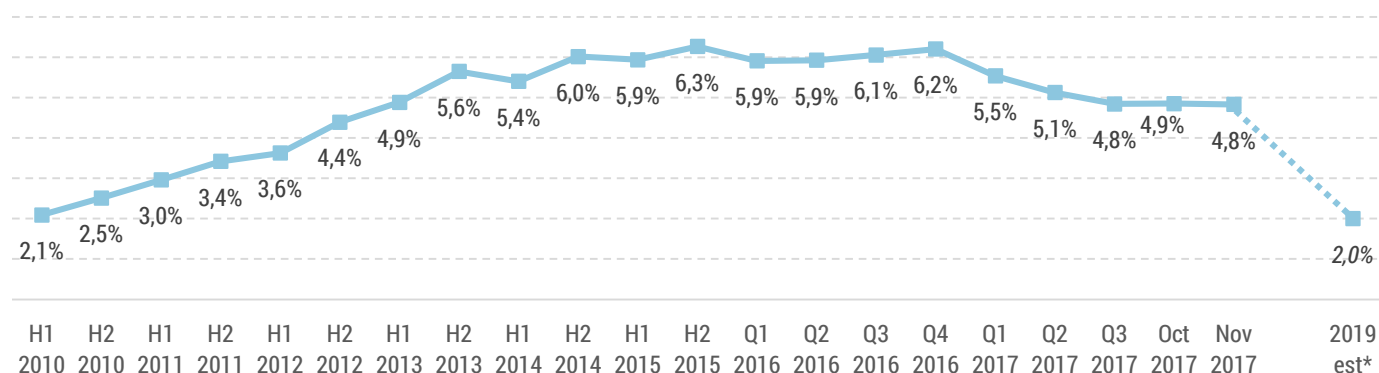
Net NPL - Bn€



HIGHLIGHTS

- The Net NPL amount continued to decrease between 2016 year end and November 2017 (-24%)
- According to the last ABI estimate the Net NPL amount could drop to 42,5 Bn€ at the end of 2019 (-36% vs November 2017) thanks to bank disposal acceleration and fall in new impaired loans

Net NPL ratio (Net NPL/Total Asset) - Percentages

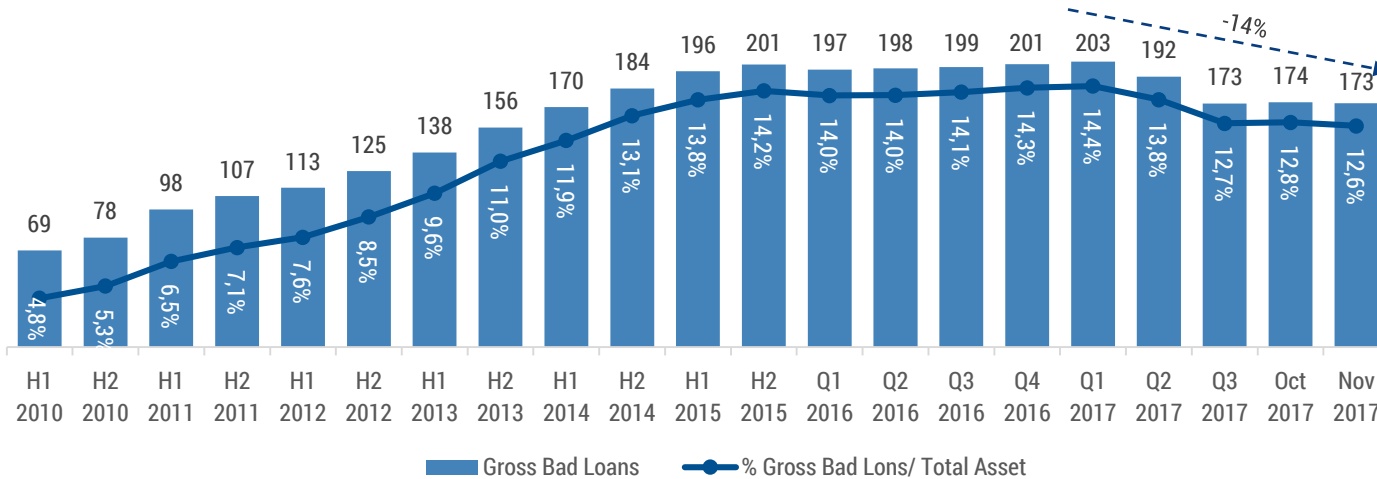


- The net NPL ratio followed a declining trend in 2017 (-140 bps vs Dec 2016)
- ABI economic expectations are for continued drop in this ratio (expected 2% at the end of 2019)

Gross NPL decreased by 14% but NPL ratio is still above the European average.



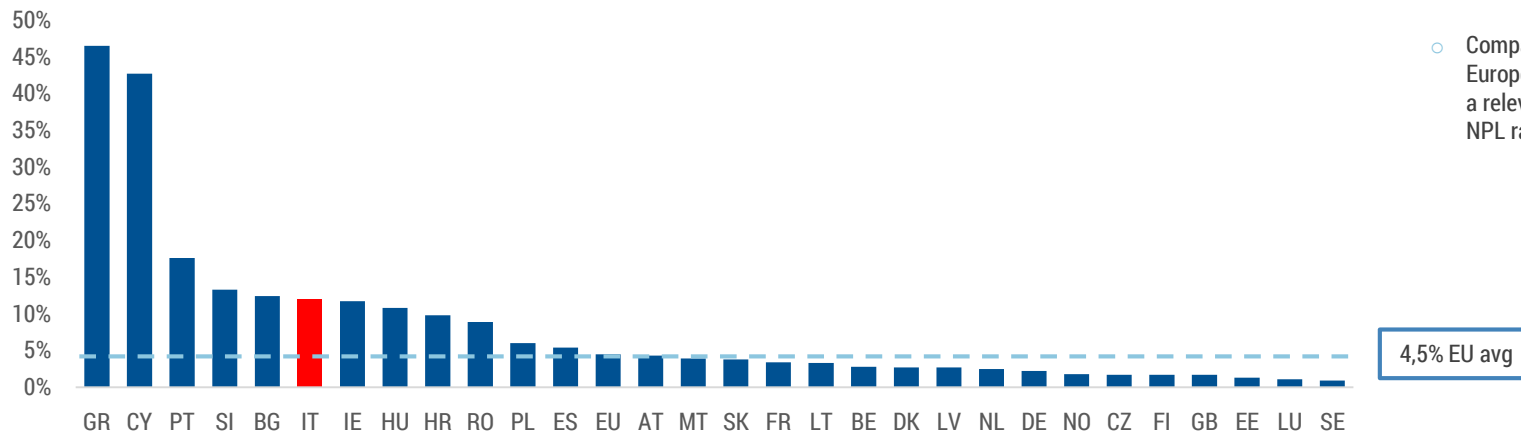
Gross NPL ratio (Gross NPL/Total Asset) – Bn€ and Percentages



HIGHLIGHTS

- From December 2016 the **NPL amount is drop to 14% (-28 Bn€)** due to NPL portfolio disposals and improvement in bad loan management

European NPL ratios (Gross Bad Loans/Total Asset)– Jun'17 - Percentages

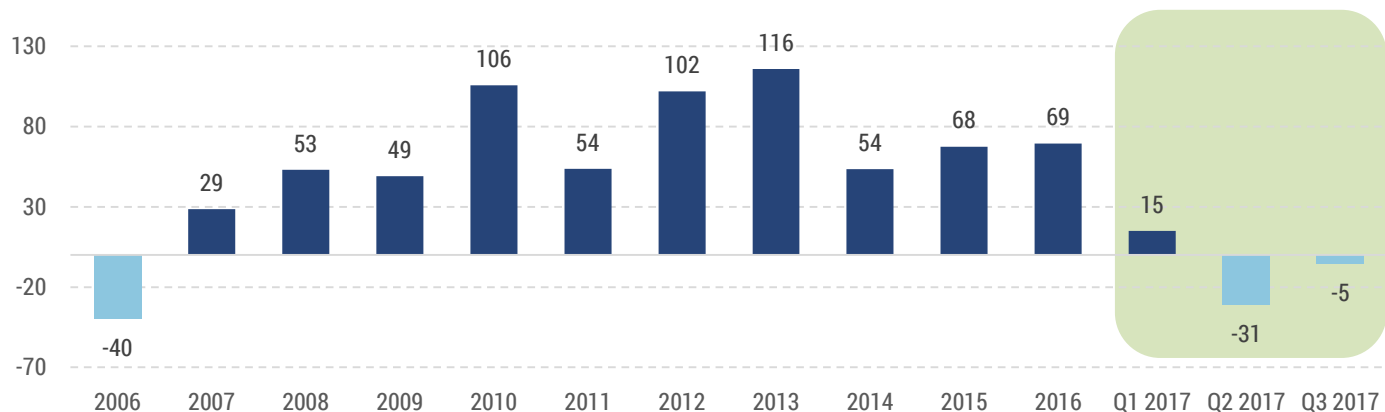


- Comparison with other European countries highlights a relevant distance of Italian NPL ratio from EU average

In 2017 the NPL market's maturation affected the bank NPL momentum.



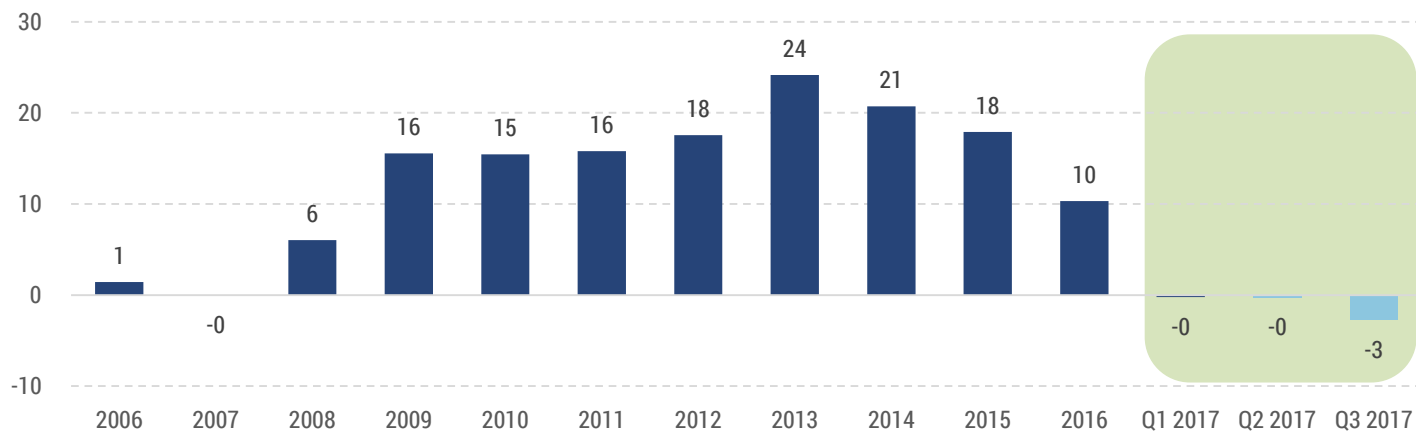
Bank NPL- Net balance between New and Closed positions – K Positions



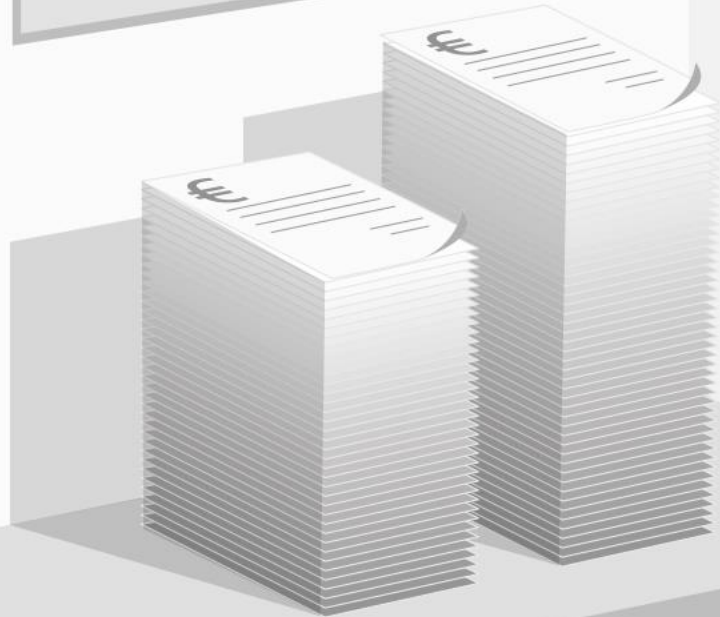
HIGHLIGHTS

- In the first 3 quarters of 2017 the NPL positions provide a positive balance (-21k net closures) as of NPL market growth

Bank NPL- Net balance between New and Closed positions – Bn€



- Also in terms of volumes the net balance shows outflows 3 Bn€ higher than inflows



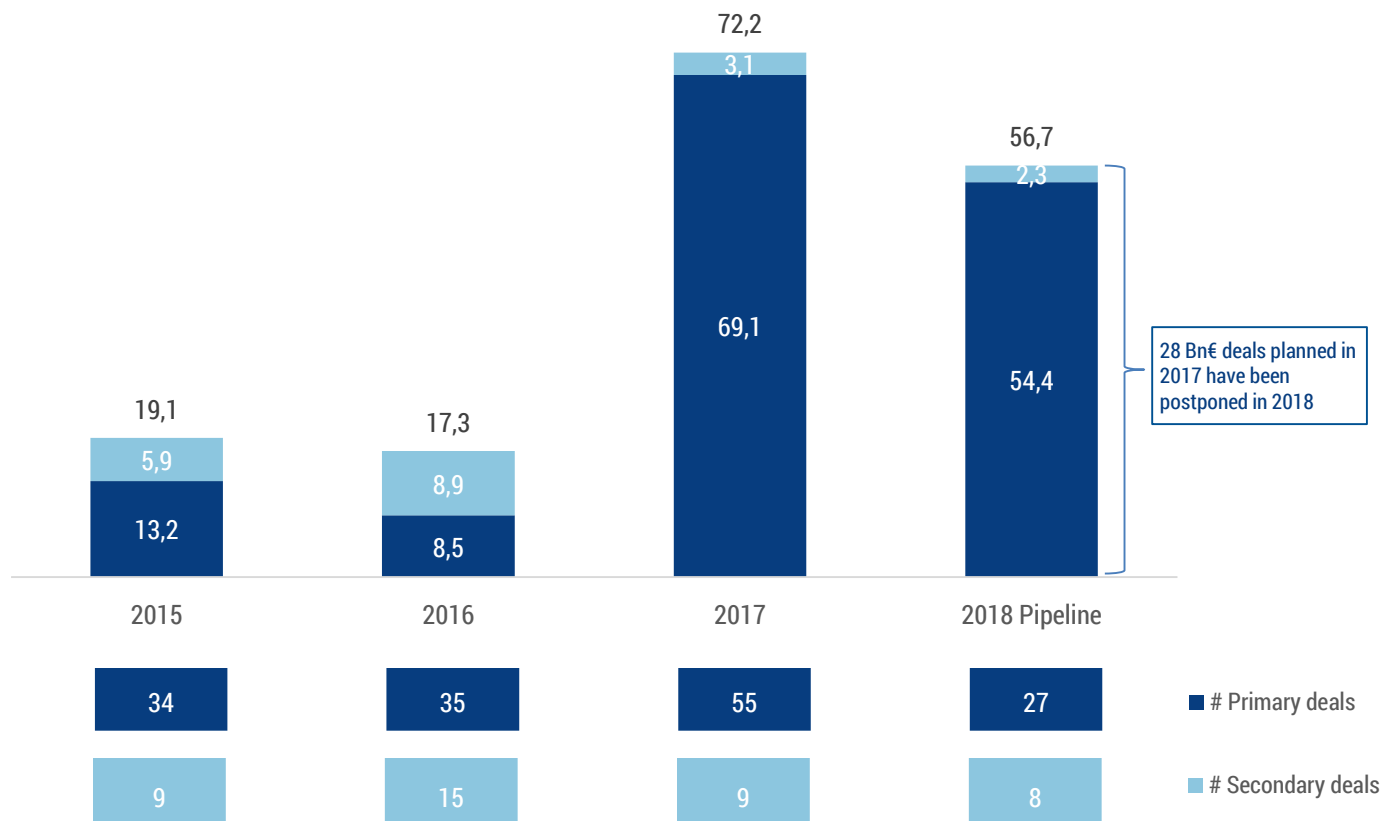
NPL TRANSACTIONS ON THE ITALIAN MARKET

72 Bn€ of NPL transactions were finalized in 2017 and the 2018 projections have already reached 57 Bn€ of potential volumes.



NPL Transactions - Bn€ and units

HIGHLIGHTS



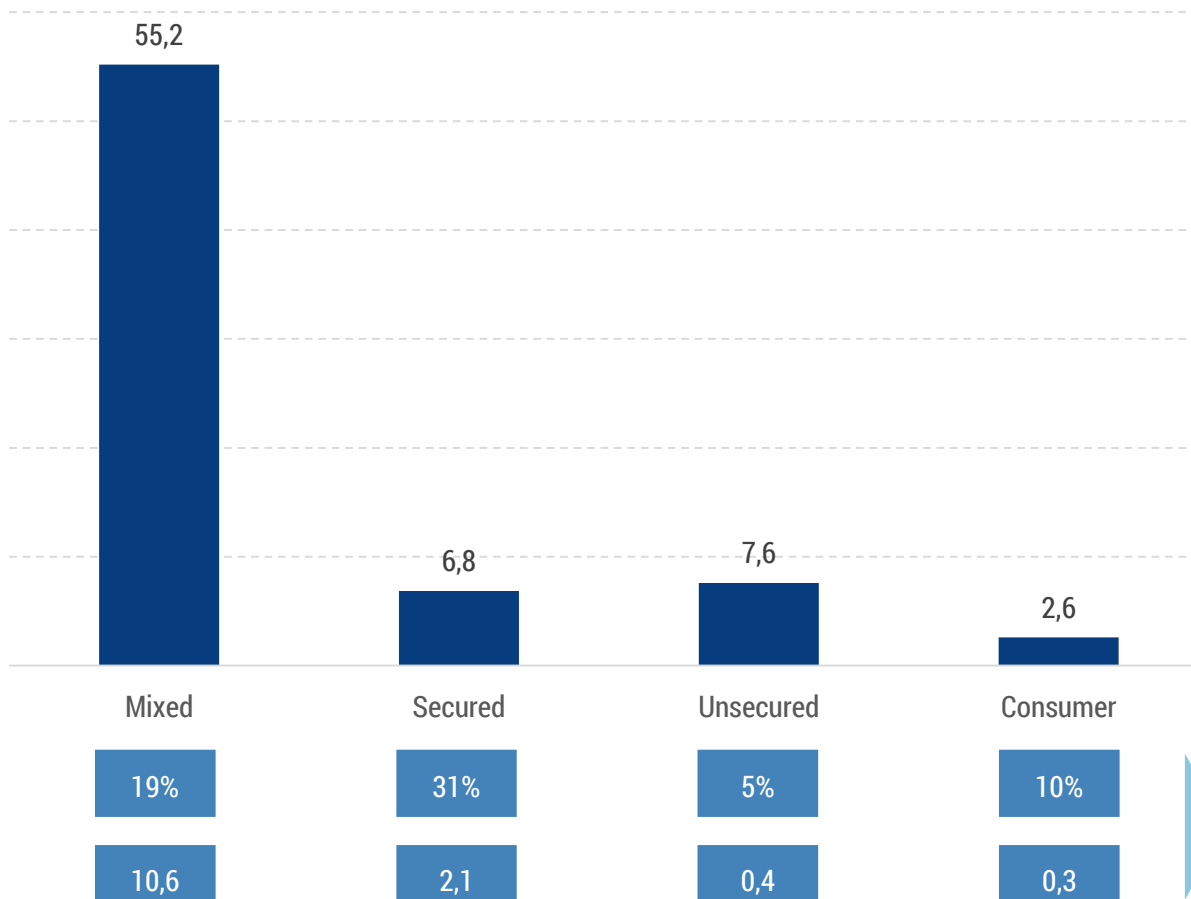
- The 2017 NPL transactions have amounted to 72 Bn€, including 26,1 Bn€ MPS disposal
- Around 28 Bn€, originally planned in 2017, have been postponed to 2018, which already shows 57 Bn€ amount in pipeline
- Top deals postponed in 2018:
 - Venete 16,8 Bn€ NPL & UTP
 - Gruppo Delta 2,2 Bn€
 - BNL (Saturnia) 1 Bn€
 - Intesa Sanpaolo (REP) 1,4 Bn€
 - Unipol 3,7 Bn€



Transaction deal categories – Bn€ - Internal estimation

HIGHLIGHTS

- Mixed deals have exploded in 2017, due to the Jumbo deals
- The transaction prices (disclosed or estimated) related on different portfolio types can be used to estimate the market value of 2017 NPL transactions



The market value of total 2017 transactions can be estimated at around 13 Bn€

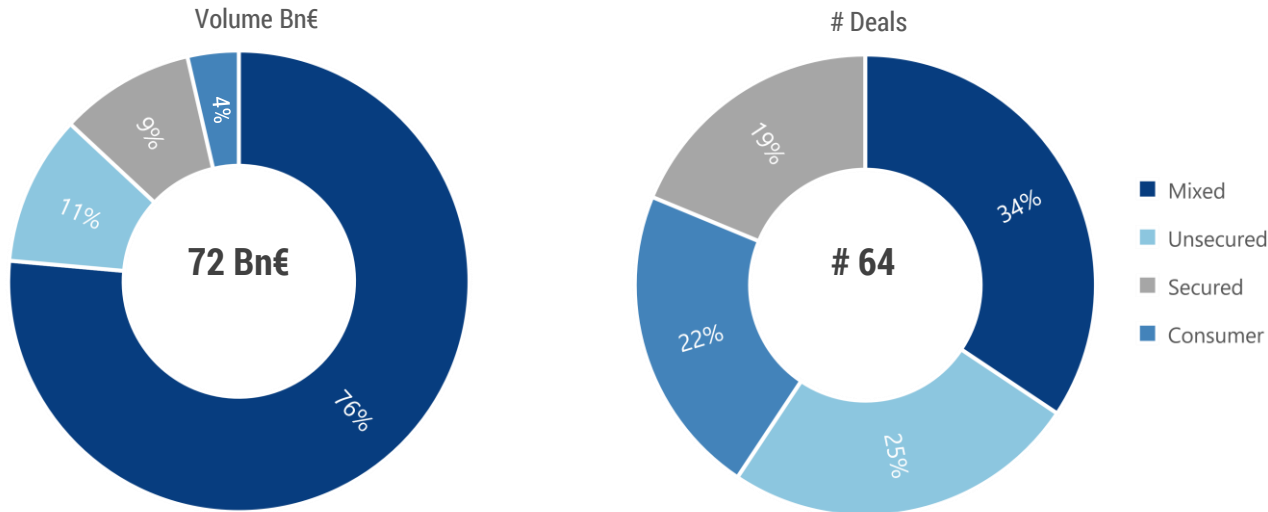
2017 NPL Transactions provides a view concentrated on Mixed portfolios with a deep use of securitization.



2017 NPL Transactions by portfolio type - Bn€ and # Deals

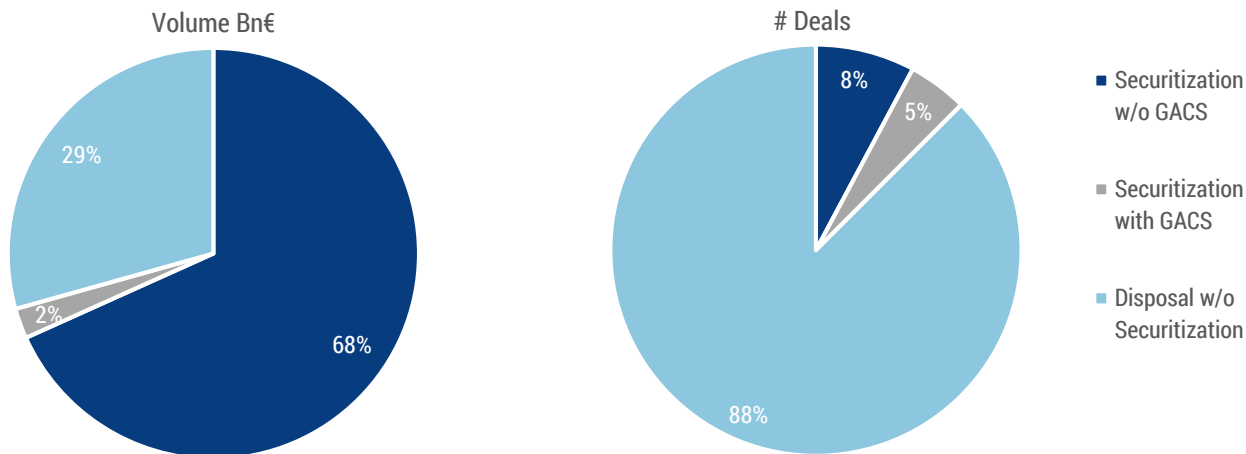
HIGHLIGHTS

- **Jumbo deals have strongly effected the Mixed category volume**, which has been 76 % of the 2017 total
- In term of # deals, 2017 transactions have been distributed across all portfolio types



2017 NPL Transactions by disposal methodology - Percentages

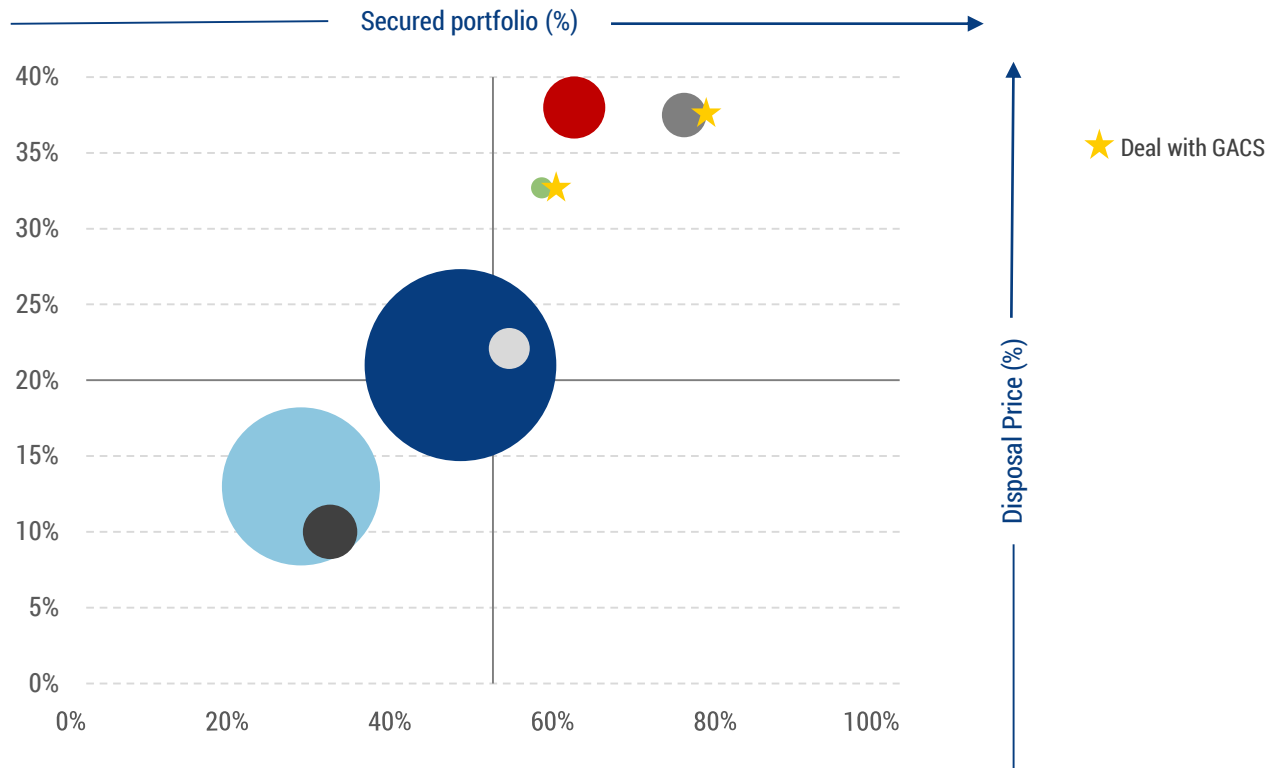
- **The originator approach has been characterized by securitization of large-size portfolios**
- **In 2017 GACS has been used only for small portfolios**





2017 NPE mixed transactions have shown a positive correlation between disposal price and the incidence of secured assets.

2017 NPE Mixed Transactions – Percentages, Bn€ (bubble size: transaction volume)



HIGHLIGHTS

- 2017 transactions have enhanced the value of loan collateral
- NPL portfolios supported by GACS were sold at a higher price
- Portfolio mixed (red bubble) with a share of UTP shows an higher price as a consequence of better quality loans

FOCUS ON THE NPL PIPELINE



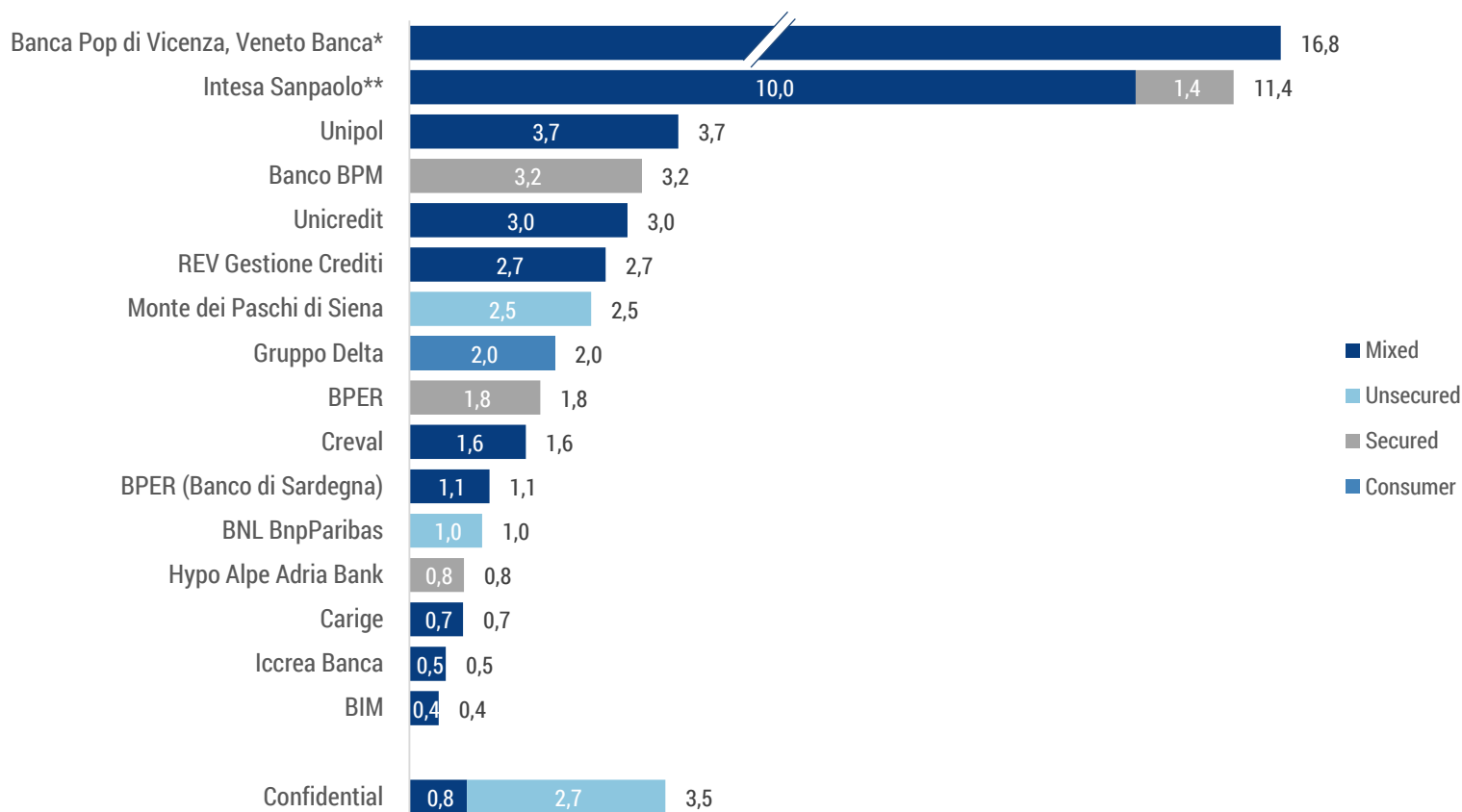


2018 Pipeline - Bn€

Seller	Disposal Methodology	Ongoing	Announced	On plan	Grand total
Banca Pop di Vicenza, Veneto Banca*	SGA	16,8	-	-	16,8
Intesa Sanpaolo**	n.a.	1,4	10,0	-	11,4
Banco BPM	GACS	-	-	3,2	3,2
Carige	n.a.	-	0,7	-	0,7
Iccrea Banca	GACS	0,5	-	-	0,5
Monte dei Paschi di Siena	n.a.	-	2,5	-	2,5
REV Gestione Crediti	GACS	-	-	1,5	1,5
REV Gestione Crediti	n.a.	-	-	1,2	1,2
Unicredit	Securitization	-	-	3,0	3,0
Unipol	n.a.	-	-	3,7	3,7
BPER	GACS	-	1,8	-	1,8
Creval	GACS	1,6	-	-	1,6
Hypo Alpe Adria Bank	n.a.	-	0,8	-	0,8
Gruppo Delta	n.a.	-	2,0	-	2,0
BNL BnpParibas	n.a.	1,0	-	-	1,0
BIM	n.a.	-	0,4	-	0,4
BPER (Banco di Sardegna)	GACS	1,1	-	-	1,1
Confidential	n.a.	3,5	-	-	3,5
Grand total		25,9	18,2	12,6	56,7



2018 Pipeline - Bn€



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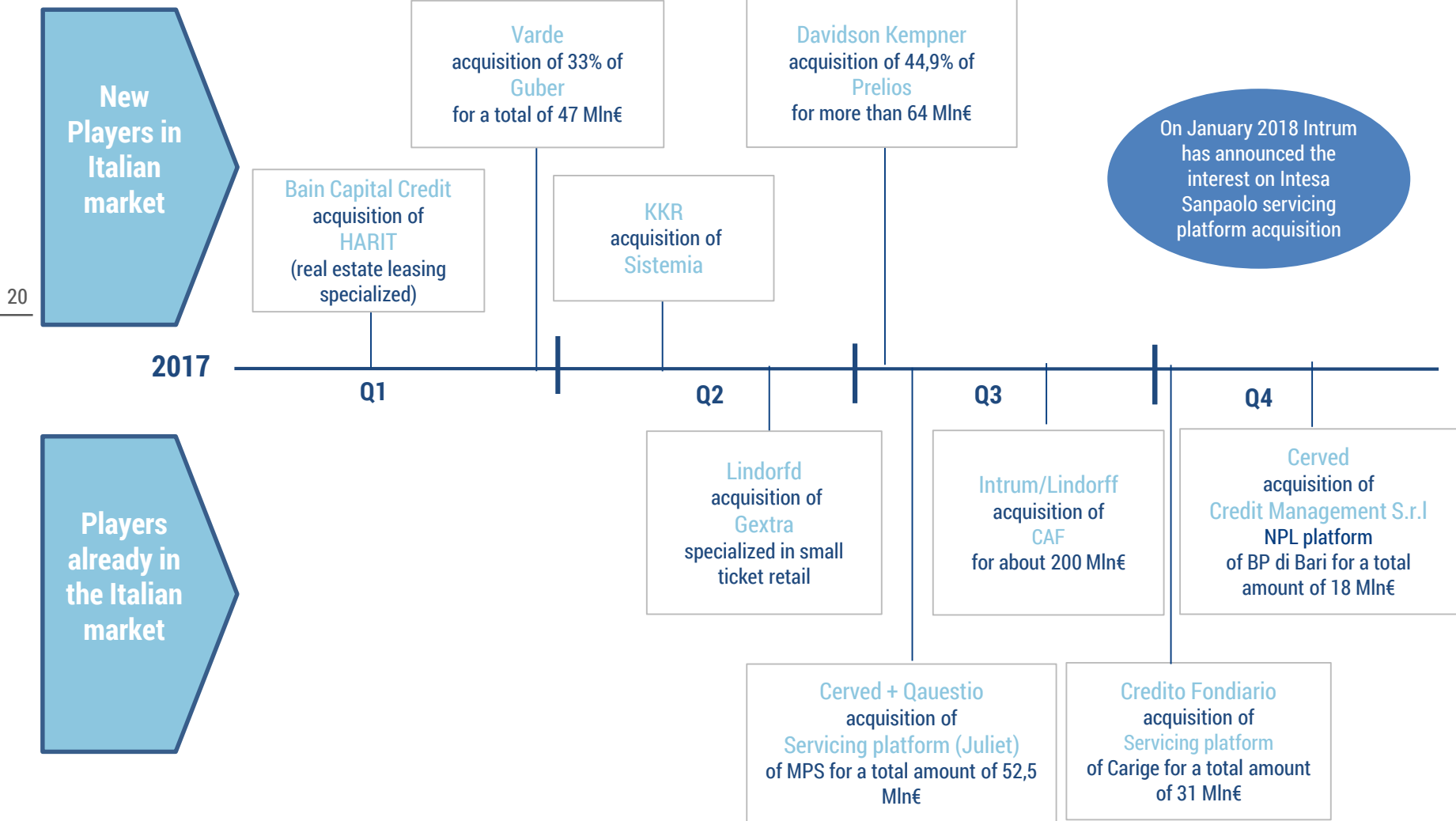
* Venete 16,8 Bn€ amount is related to NPL & UTP

** Intesa Sanpaolo 10 Bn€ amount announced is related to total NPE



SERVICING MARKET

In 2017 new players have entered the Italian servicing sector and others have improved their operational capacity.



Few servicers will manage the largest Italian NPL deals.



	Large Deals	Size - Bn €	Servicers	
Italian Recovery Fund*	MPS	13,0	Quaestio – Cerved (Juliet)	} 31 Bn€
		8,0	DoBank	
		5,1	Quaestio	
	Caricesena; Carim; Carismi	2,7	Quaestio	
Nuova Banca Etruria; Nuova Banche Marche; Nuova CariChieti	2,2			
	Banche venete	16,8	SGA	
	Unicredit (Fino)	14,3	DoBank	
		3,4	Phoenix Asset Management S.p.A.	

REGULATORY VARIABLES





	Disposal	Internal Management	Comments
March 2017: ECB Guidelines	+	+	<ul style="list-style-type: none"> Higher NPL disposal to meet the reduction objectives Selection of the best recovery strategies tailored to each NPL portfolio categories (both through internal departments and outsourcing)
June 2017: Reform of the Securitization Law (Article 7.1)	+	-	The introduction of the new article 7.1 has the objective to ease the disposal of NPLs improving the action of SPV 130, in case of recovery situations or resulting from leasing contracts. The reform operates on several directions: possibility to concede loans; possibility to sign for equity or other instruments in case of recovery or restructuring situations; possibility to set SPV corporations (ReoCo) to purchase and manage assets securing securitized receivables (including assets object of leasing contracts); improved information to be given in case of disposal to an SPV that are not identifiable as a pool ("in blocco")
End of 2017: Accelerated loan security project	+	-	The European Commission launches a public survey in order to ease the development of a secondary market to avoid negative effects of increasing levels of NPL
January 2018: IFRS 9	+/-	+/-	<ul style="list-style-type: none"> On the one hand, the adoption of a "forward-looking" approach in the exposures valuation could lead a share of loans previously judged as performing to be considered as non performing in order to anticipate losses at the first signals of deterioration On the other hand, the increase of new Bad Loans could be restrained upstream by the impact of the IFRS 9 adoption of banks' internal processes such as stricter selection of borrowers through the "forward-looking approach", establishment of Early Warning signals and adoption of pre-collection and collection processes aimed at setting up corrective actions
EBA publishes methodology for the 2018 EU-wide stress test	+/-	+/-	Banks are required to stress a common set of risks (credit risk – including securitizations – market risk and counterparty credit risk, operational risk – including conduct risk). In addition, banks are requested to project the effect of the scenarios on net interest income and to stress P&L and capital items not covered by other risk types. The methodology is based on constraints including a static balance sheet assumption but with adjustments to incorporate IFRS 9 implementation



	Disposal	Internal Management	Comments
October 2017: Addendum to the ECB "Guidance to banks on nonperforming loans: Prudential provisioning backstop for non-performing exposures" (Consultation paper)	+	-	<ul style="list-style-type: none"> The draft addendum (consultation paper) specifies quantitative supervisory expectations for minimum levels of prudential provisions for new NPLs. The prudential provisioning expectations will apply to all exposures that are newly classified as non-performing in line with the EBA definition as of 1 January 2018. These take into account the length of time a loan has been non-performing and the extent and valuation of collateral: banks are expected to provide full coverage for the unsecured portion of new NPLs after 2 years at the latest and for the secured portion after 7 years at the latest. If not, banks are expected to explain any deviation from the guidance to supervisors. Based on the banks' explanations the ECB will assess the need for additional supervisory measures The final version of Addendum should be released by the end of 1Q 2018
November 2017: ECB urges Europe-wide trading platform for bad bank loans	+	-	A possible solution to NPLs would be the creation of a single platform that acts as a data warehouse for bad debt, a transaction system and a trade data repository: the ECB said it is part of its biannual Financial Stability Review
December 2017: EBA NPL templates	+	-	Following calls from the EU Commission and the EU Council to develop data templates to reduce information asymmetries between potential buyers and sellers of Non-Performing Loans (NPL), the EBA developed such standardized data templates. On December 2017 the EBA provided these templates to allow banks to supply comparable and standardized data on NPLs to investors and other stakeholders
Massive Disposal – Neutralization of LGD (Loss Given Default) impact proposal under discussion	+	-	The European Parliament is working on a draft related the new banking directive (Crr2 and Crd5) thanks to which the negative impact on institutions' balance sheets, deriving from the disposal of Non-performing Loans, would be neutralized, a sort of "slide" to facilitate the sale of impaired loans, which would sterilize their accounting effects in the event of "massive disposals"



General statement

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