NPL MEETING 2019

NPLs AND REGULATION

Pier Paolo Masenza

FS Leader, PwC Italy

Powered by

BANCA IFIS

2015-2018: disruptive years for the Italian banking system

170 bn NPE
in 1Q19 versus 341 bn at the end of 2015

11.7% NPE ratio
with a reduction of ca 9pp

54% coverage ratio
from a 45% level

25k branches and 278k employees
From 30k and 303k in 2015

16 servicers
with more than 5bn AuM

However…

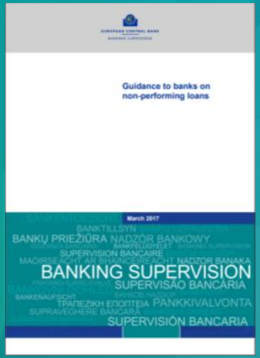
Market capitalization
still below Tangible Book Value
(0.46x in average for listed Italian Banks)

Profitability
still below cost of capital

5% NPE ratio
considered sustainable by the Regulators is still far

Source: PwC analysis on Banca d'Italia «Banche e istituzioni finanziarie: condizioni e rischiosità del credito per settori e territori, articolazione territoriale» March 2019;

The regulatory framework has been a key driver of change pushing banks to



- develop adequate **NPL strategies**, review their **operating models** and accelerate **disposals**

IFRS

- adopt a **forward looking** approach following the introduction of **IFRS 9**

and favoring

- larger **disposal** through the public guarantee on bad loans **(GACS)**
- accelerated **recovery procedures** through specific legislative measures
- a **better management** of securitized exposures through SPV reform

however the combined effect of existing rules with

NPL MEETING 2019

…new rules may further reshape the market…

Calendar provisioning and **New definition of default** will **deeply impact** the way **NPE** will be managed

Guidelines on origination and monitoring will affect lending activities (consultation paper EBA - June 2019)

Regulations on credit servicers and **recovery procedures** (EU directive under approval)

NPL MEETING 2019

…challenging market strategy of all key players

Traditional banks

- Extra-effort on NPE management (servicing and sale)
- Maximise value from UTP and NPE internal platforms
- Business model Transformation (new lending risks and rewards)
- M&A NPE free (including cross border)

Debt purchaser / Challenger banks

- Speciality finance
- NPE (re)financing
- UTP lending
- Secondary Market
- De-banking or alternative investments options

Servicers

- Need for efficiency and critical mass through consolidation
- Expand revenue base (new products, new geographies, specialisation
- State of the art technology

NPL MEETING 2019

Some food for thoughts…

Will the impact of **calendar provisioning** be so **disrutpive?**

Which will be the **Most Effective** way to **tackle UtP?**

How the NPL market will **evolve:** rise of **Secondary Market?**

Debt servicers/debt purchaser: **further evolution** of their future **business models?**

THANK YOU

NPL MEETING 2019

Powered by

BANCA IFIS