

MARKET WATCH  
NPL 

Npl  
transaction  
market and servicing industry

*Forecasts 2022-2024*

SEPTEMBER 2022

FUTURE  
PROOF

# The key messages.

## IMPAIRED CREDIT IN THE ITALIAN BANKS

01

1. For the three-year period 2022-2024, an estimated €82 billion of new non-performing loans. Compared to the forecast of last February, an increase of €10 billion in new flows is assumed with a delay of 6/9 months (peak in 2023), due to the persistence of the critical issues of energy, raw materials and food prices together with the rate increase following the more restrictive monetary policy.
2. The deterioration rate of enterprises is expected to grow to a greater extent than in the household segment (in 2023, 4% vs 2.3%) due to the greater risk associated with ex-moratorium loans.
3. In the three-year period 2022-2024, the increase in non-performing flows will be offset by the continuation of the de-risking process, also in line with the plans of the main banks, with an *Npe ratio* on the banking system of 3.3% at the end of 2024.

## THE NPL AND UTP TRANSACTIONS MARKET THE NPL INDUSTRY

02

1. €35 billion of Npl transactions are expected in 2022, with the secondary market now a significant component (30%). Disposals of UtP portfolios for €12 billion are expected, of which €6 billion already finalized in mid-September.
2. The market will maintain high volumes of Npe also in the two-year period 2023-2024 (€47 billion in 2023 and €33 billion in 2024).
3. Disposals for €22bn of Npe were finalized in mid-September 2022 . Particularly:
  - I. Transactions with GACS accounted for 48% of volumes, absorbing 41% of secured portfolios transacted.
  - II. The unsecured component accounted for 48% of the total transacted, to which the GACS of the Intesa Sanpaolo vehicle Organa SPV contributed, which also included this type of asset.
4. Prices 2022 up slightly due to high incidence of transactions with GACS in addition to the effects produced by the more "fresh" unsecured portfolios (max 12 months) small denomination that meet the appetite of investors specialized in the segment. The increase is mitigated by the growing incidence of the secondary market.
5. At the moment, the effect of inflation and rate hikes, which could have an impact on the value of new NPL portfolios that will hit the market.

03

1. The bad credit industry has been working intensively for the stabilization of the Italian financial system:
  - I. Italian banks have achieved an important de-risking result: with an estimated €357 billion of Npe portfolios sold from 2015 to 2022.
  - II. ~100 investors have operated using ~90 billion € in 7 years to acquire NPL portfolios in the primary and secondary market.
  - III. The stock of NPEs in Italy decreased from €361 billion in 2015 to €321 billion in 2021, thanks to the management carried out by banks, investors and servicers.
2. An increase in the Npe stock is estimated from 2022 (€377 billion at the end of 2024) due to the increase in non-performing flows and the reduction in recovery rates, especially on larger tickets and secured credits that require longer recovery times .
3. The Italian non-performing credit sector saw continuous growth in revenues from 2013 to 2021 (+90% over the entire period), which will continue with +9% in 2022 and +4% in 2023.
4. The development of the impaired credit sector has meaning investments in human resources and technology, drivers of value creation confirmed by the growth of EBITDA (+20% on average per year).

## The focuses.



## THE IMPAIRED CREDIT OF THE MAIN BANKS IN THE EUROPEAN COMPARISON

04

1. The **EU Npe ratio** fell to **1.9%** in the first quarter of 2022, the lowest level since 2015. **The incidence of stage 2 loans is increasing**, as a reflection of a general forecast of worsening credit risk.
2. At the end of the 1st quarter 2022 the **credit volume non-performing loans of significant EU banks stands at €384 billion** (16% the incidence of Italian banks), the lowest value since the 2015 peak when the stock was almost €1,100 billion and Italy contributed 34%
3. The **default rate at Q1'22 of Italian businesses and households is lower than the EU average**. Among Italy's peer countries, only Spain records a significant deterioration.
4. The **debt** of Italian businesses and households compared to GDP and disposable income is, respectively, 11% and 33% **lower than the European average**.
5. Against the low indebtedness of households and businesses, **in the first quarter of 2022 Italy shows an incidence of bank loans classified in stage 2 (13.1%) higher than the EU average (9.1%)**, showing a greater prospective risk.

## PORTFOLIO ASSISTED BY GACS MARKET REAL ESTATE E WORKS OF THE COURTS

05

1. The **GACS have concretely supported the de-risking of Italian banks and the development of the Npl market with 107 billion of sales**.
  - I. 20 the banking institutions involved
  - II. ~32% of the total Npe transacted since 2016 ad today.
2. **All GACS-backed wallets initiated by the end of 2018 they underperformed the business plan**. **In the context of the most recent operations (from 2019 to today), however, 11 out of 17 portfolios exceeded the targets**.
3. **Compared to the pre-Covid period, the monthly trend of collections from portfolios with GACS shows a lower average recovery dynamic**. The first six months of 2022 have not shown an improvement.

06

1. **2021 was a record year for the Italian real estate market with a 47% higher number of sales (749,000) than the average recorded in the years preceding the pandemic**.
2. **In the first six months of 2022 they went to auction judicial ~78 thousand properties, for a value of €11.1 billion**. A still limited number of auctions still affected by the effects resulting from the closure of the courts in pandemic times. Strong acceleration is expected in the second half of 2022.
3. **Of the ~78,000 properties advertised at auction, 75% is represented by real estate executions, or properties subject to foreclosure; only 22% instead is attributable to insolvency proceedings, or bankruptcies, arrangements with creditors and other procedures attributable to corporate crises**.

NOTES: Major banks: significant banks according to the EBA definition.

## GDP Italy – changes y/y

Year	Previous estimate	Current estimate
2021	6.2%	6.6%

2022	4.0%	2.8%
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2023	2.5%	-0.4%
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2024	1.7%	1.8%
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## The Italian economy: investments and exports have driven the recovery but increases in prices and rates could produce a slowdown.

**The Italian GDP in 2021 closed with a higher than expected progress**, thanks to the reaction capacity of companies that continued to invest (for non-financial companies the increase in investments was +17%, bringing the fixed endowment of companies above pre- -crisis) and enhanced the international positioning of Made in Italy (+18.2 the increase in exports in value in 2021), but also for the effectiveness of government interventions (moratoria, strengthening of loans with public guarantees, blocking of layoffs , ...) and expansionary monetary policy.

**The first part of 2022 did not show a change in the dynamics of impaired credit** (0.96% the default rate in the 1st quarter following the average 1% in 2021) and GDP in the first half consolidated a growth of + 3.5% However, the **persistence of the criticality of the prices of energy, raw materials and foodstuffs (+9.1% the value of inflation in August 2022) together with the increase in interest rates** (on 8 September the ECB raised by 75 basis points the reference rate after +0.5% in July) lead to an estimate of lower growth than assumed a few months ago. In July, Italian industrial production sees a cyclical reduction of -2% and a trend of -1.1%

The forecast scenario factors in a worsening of production, mainly concentrated in 2023, on the basis of the following assumptions: **Ÿ The war in Ukraine further increases energy prices, even with potential rationing. Ÿ The EU intervenes on the energy market –** modification of the price formation mechanism and/or ceiling on the price of

gas – and **the Italian State activates aid to households and businesses** to minimize the impact of prices.

**Ÿ Inflation remains high in 2023 (~6% forecast)**, to then decrease in **2024 (~4%)** but without yet returning to the levels pre-pandemic.

**Ÿ Disinflation comes at a cost.** Major central banks have already responded to high inflation by raising interest rates, but the exact amount of monetary policy tightening needed to bring inflation down is not yet known and further action is anticipated as things stand. **Ÿ China's slowdown persists**, both due to the risk of further lockdowns and the financial effects triggered by the crisis

of *real estate*.

## Stakeholders



### Families



### businesses



### Banking system



### State and EU

The Italian economic fundamentals will be able to play the role of *mitigant*.

## Mitigants

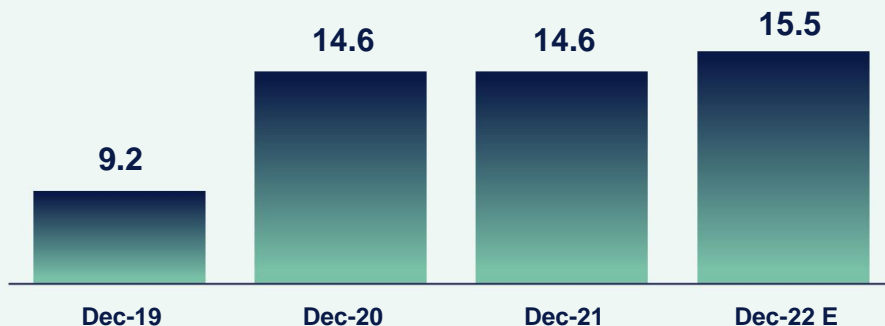
- › **€10,000bn net wealth of Italian households**, with real assets representing 56% of gross wealth and financial assets (4,800 billion €) the remaining 44%
- › **Continued growth in savings since the start of the COVID 19 pandemic**, with deposits up 12% in mid-2022 compared to December 2019.
- › **Low debt in international comparison:** 64.2% of disposable income vs 97.7% of the average EU at the end of Q1 2022.
- › **Resilient Italian companies with good recovery speed:** industry turnover up by +20.6% in the first half of 2022 vs the same period of 2021.
- › **Bankruptcy rates historically low and maintained after the end of the moratoriums:** in the 1st quarter 2022 -21.6% vs 2021 and -29.8% vs 2019.
- › **Growing liquidity:** over €400 billion in bank deposits, up 37% compared to December 2019.
- › **Low debt in international comparison:** 70% of GDP vs 79% of the EU average at the end of 1st quarter 2022.
- › **Banking system with profitability growing by 10.7%** the average ROE of the 7 main banking groups in the 1st semester 2022, up from 7.9% in the first half of 2021, even without excluding the «Russia» effect.
- › **Implementation of a major de-risking** with an *Npe Ratio* of 4% (EBA target 5%) at the end of the first quarter 2022.
- › **Development of risk early warning** systems, also based on frontier technologies (AI, big data, ...).
- › **Intensive public support in 2022: ~70 billion €** have been allocated with the three Aid Decrees.
- › Attention to a **structured solution for the management of higher risk credits due to ex-moratorium and assisted by a guarantee fund** (e.g. Glam platform hypothesis).
- › **Driven by Next Generation EU investments** (€191 billion), accompanied by a reform plan.

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Non-performing credit in  
Italian banks

In the two-year period 2020-2021, Italian banks recorded an increase in the riskiness of the private sector (households and businesses), classifying 14.6% of the related loans in Stage 2 (IFRS 9 accounting standard). A further increase of 1 percentage point is expected in 2022.

**LOANS IN BANK BALANCE SHEETS CLASSIFIED IN STAGE 2: ESTIMATED IMPACT ON TOTAL PRIVATE SECTOR PERFORMING LOANS - PERCENTAGES**



The amounts of performing loans classified in Stage 2 reflect a worsening of the customer risk profile compared to the previous valuation.

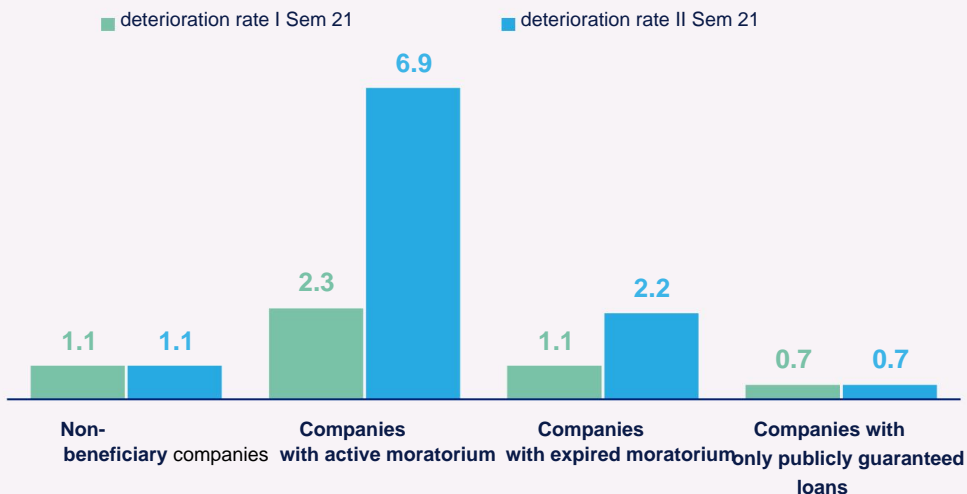
The assessment is based on a prospective vision based on a scenario forecast when preparing the financial statements.

SOURCE: Banca Ifis Research Department based on Banca d'Italia statistical database - Dec-19 estimate from Banca Ifis internal analyses.

NOTES: On the basis of IFRS 9, performing loans with higher risk are included in stage 2. The data refer to loans to the non-financial private sector.

The loans of companies with a moratorium, expired or still active as at 31 December 2021, had a higher default rate, and increasing in the second half of 2021, compared to loans with public guarantees and non-beneficiary companies.

#### DETERIORATION RATES FOR THE BENEFICIARIES OF SUPPORT MEASURES - PERCENTAGES



As at 31 December 2021, the deterioration rate of companies with a moratorium still active was 6.9%, up by 4.6% percentage points compared to the first half of the year. From 1.1% to 2.2%, on the other hand, the increase in credits with an expired moratorium.

This dynamic is consistent with the high percentage of loans in an expired moratorium (30%) classified in Stage 2 by the large Italian banks (significant institutions EBA).

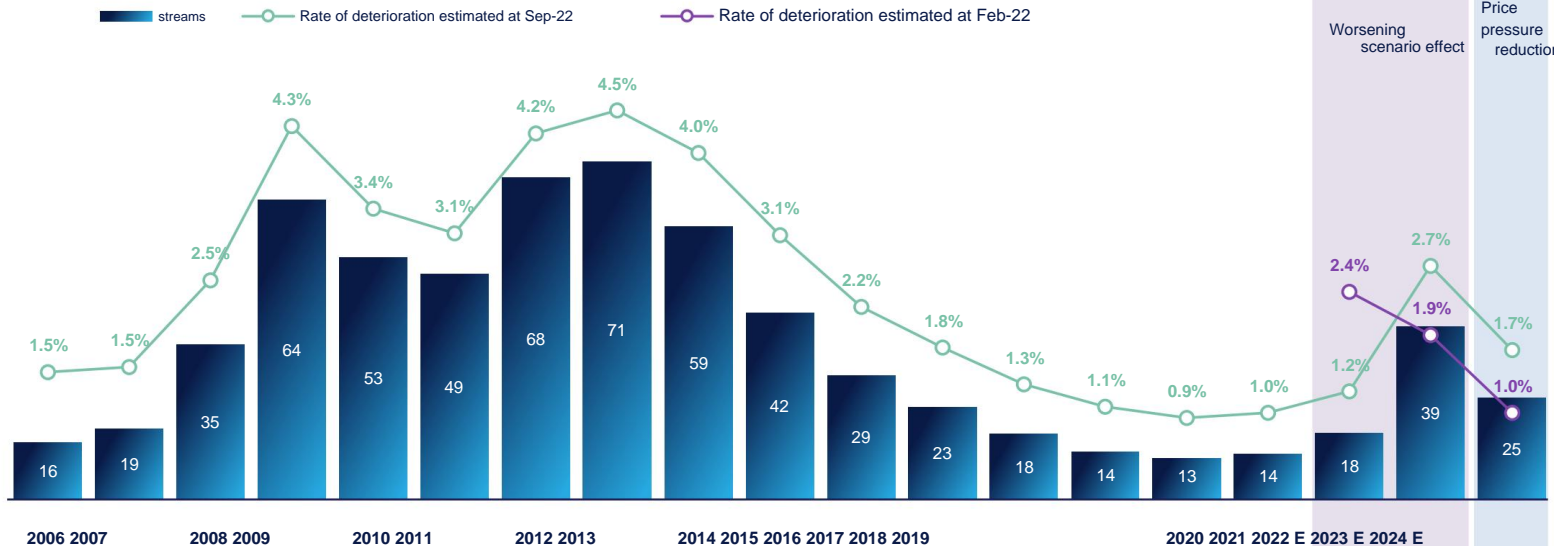
SOURCE: Internal analyzes of Banca Ifis on Press Office Press Releases of the MEF, Bank of Italy. NOTES: Annualized half-yearly impairment rate. Large Banks: Significant banks according to the EBA definition.



For the three-year period 2022-2024, €82 billion of new non-performing loans are estimated.

Compared to the forecast of last February, an increase of €10 billion in new flows is assumed with a delay of 6/9 months (peak in 2023).

#### ANNUAL FLOWS OF NEW LOANS IN DEFAULT AND DETERIORATION RATE OF LOANS RESIDENTS ONLY – €BN AND PERCENTAGES



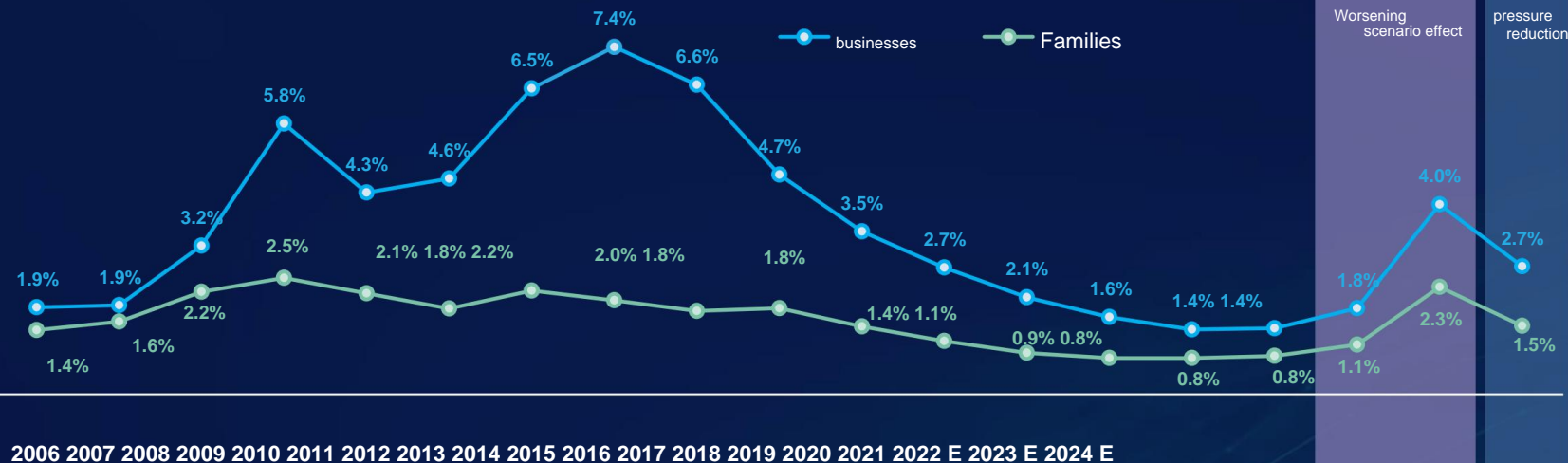
DETERIORATION RATE: annual flow of new defaulted loans adjusted / stock of non-defaulted loans adjusted for the previous year.

IMPAIRED FLOW: annual flow of new adjusted defaulted loans. SOURCE: Elaborated by the Banca Ifis Research Department on the Banca d'Italia statistical database.

The new forecasts take into account the good performance of the Italian economy in the first half of 2022 but also the change of scenario based on the new hypotheses indicated on page 4 and the *mitigants* on p. 5.

The non-performing rate of businesses is expected to grow to a greater extent than in the household segment, due to the risk associated with ex-moratorium loans.

#### DETERIORATION RATE BY TYPE OF DEBTOR RESIDENTS ONLY - PERCENTAGES

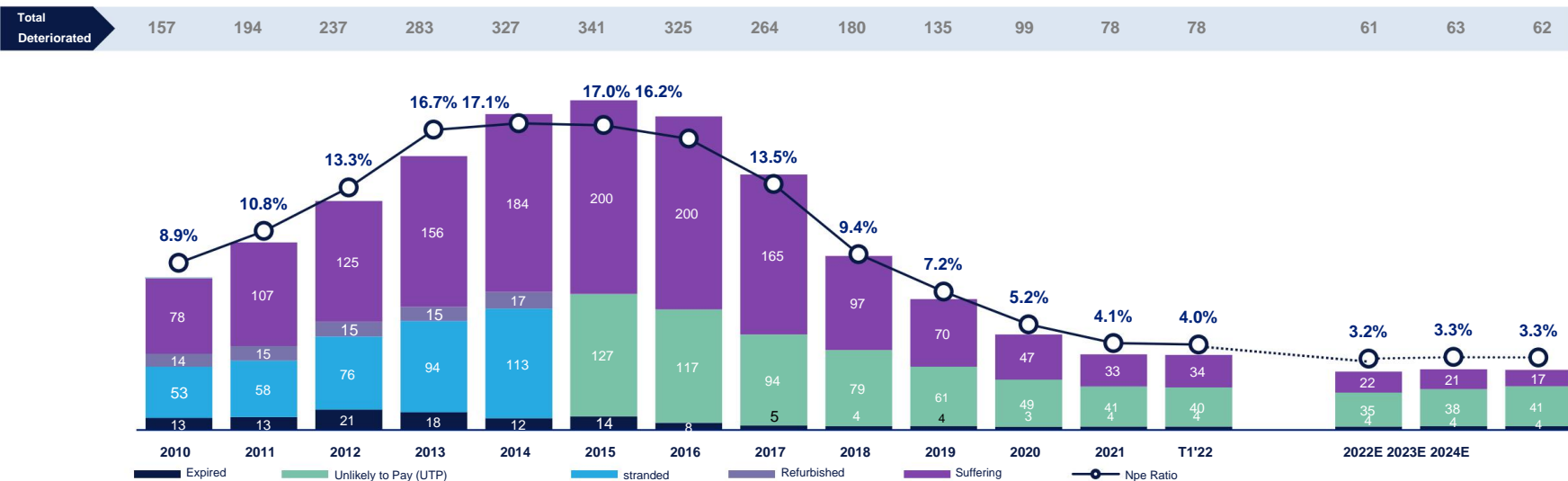


DETERIORATION RATE: annual flow of new defaulted loans adjusted / stock of non-defaulted loans adjusted for the previous year.

SOURCE: Elaborated by the Banca Ifis Research Department on the Banca d'Italia statistical database. NOTES: Firms include non-financial corporations and producer households; households include consumer households and other residual values.

The acceleration of disposals in the last part of the year brought *the 2021 Npe ratio* to 4.1%, below the EBA target of 5% In the three-year period 2022-2024, the increase in non-performing flows will be offset by the continuation of de-risking, also in line with the plans of the main banks.

**BANK GROSS NON-REPAIRING LOANS RESIDENT AND NON-RESIDENT DEBTORS – €BN AND PERCENTAGES - CLASSIFICATION OF NPL LOANS UPDATED IN 2015**



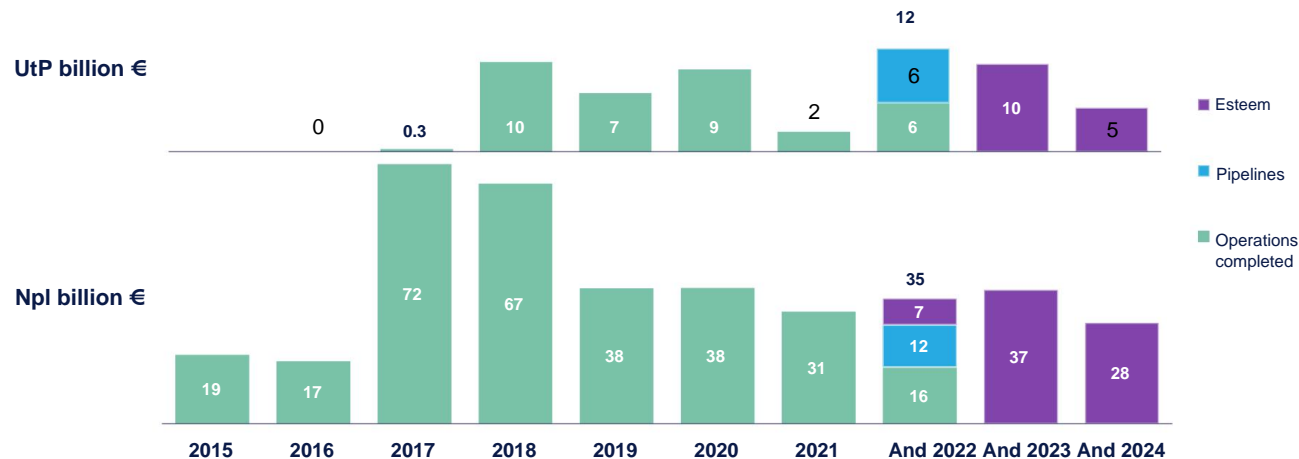
SOURCE: Elaborated by the Banca Ifis Research Department on the Banca d'Italia statistical database; 2022-2024 Banca Ifis internal estimates. NOTES: Normalized data. The new definition of default harmonized at European level has been in force since January 2021. The data include transactions with resident and non-resident subjects, excluding interbank relationships. Non-performing loans are reported at book value. Npe ratio calculated as the ratio of non-performing loans to total loans to customers.

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## The market for NPL and UTP transactions

€35 billion of Npl transactions are expected in 2022, with the secondary market now a significant component (30%). Disposals of UtP portfolios are expected for €12 billion, of which 6 have already been completed. The market will also remain dynamic in the two-year period 2023-2024.

**NPL AND UTP TRANSACTIONS MARKET TREND – €BN IN GBV AND PERCENTAGES**



	2015	2016	2017	2018	2019	2020	2021	And 2022	And 2023	And 2024
<b>%GACS</b>	0%	3%	44%	43%	27%	37%	36%	30%	N/A	N/A
<b>% Market Secondary</b>	31%	51%	4%	2%	24%	23%	32%	30%	24%	24%

The Npl market is also expected to have significant volumes in the two-year period 2023-2024 as a result of:   
 • Massive *de-resking plans*, especially by the main banks.   
 • Greater flows of non-performing loans.   
 • Investor appetite.

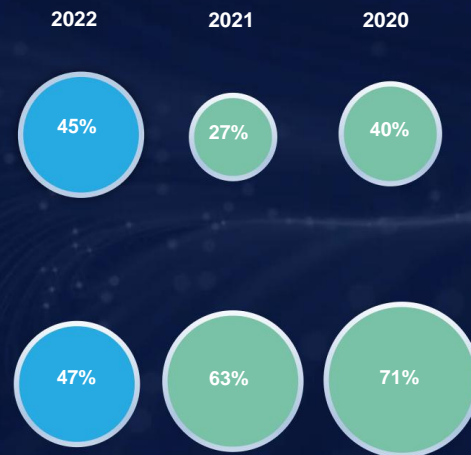
SOURCE: Banca Ifis Npl Market Database - News and press releases - Banca Ifis internal analyses.

In the first nine months of 2022, disposals for €22bn of Npe were finalised. In particular, the Npl transaction market is more dynamic than in 2021, as evidenced by the temporal phasing with almost double the volumes achieved compared to the same period of the previous year.

#### MARKET TREND 2022 NPL, UTP AND PIPELINE – €BN GBV E PERCENTAGES



#### INCIDENCE OF TRANSACTIONS AS OF SEPTEMBER 15TH



Among the most significant Npl transactions of 2022 are: • the securitization of Intesa

Sanpaolo for €8.5 billion • the securitization of UtP by Unicredit with €2 billion of GBV.

SOURCE: Banca Ifis Npl Market Database - News and press releases - Banca Ifis internal analyses.

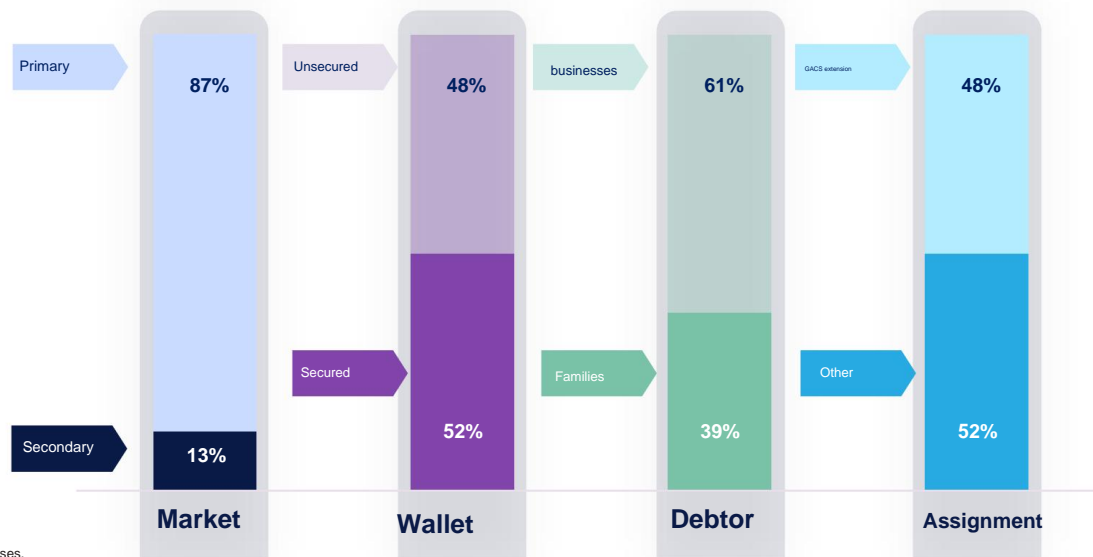
Transactions with GACS accounted for almost 50% of volumes in 2022, absorbing 41% of secured portfolios transacted.

The GACS of Intesa Sanpaolo's Organa SPV vehicle, on the other hand, contributed to the unsecured component which accounted for 48% of the total transacted in the first nine months of 2022.

22  
billion €

Npe transacted as  
of 15 September  
2022

TOTAL NPE 2022 TRANSACTIONS FROM JANUARY TO SEPTEMBER 15, 2022 BY MARKET TYPE, PORTFOLIO, DEBTOR AND TYPE OF ASSIGNMENT – €BN GBV AND PERCENTAGES



SOURCE: Banca Ifis Npl Market Database - News and press releases - Banca Ifis internal analyses.

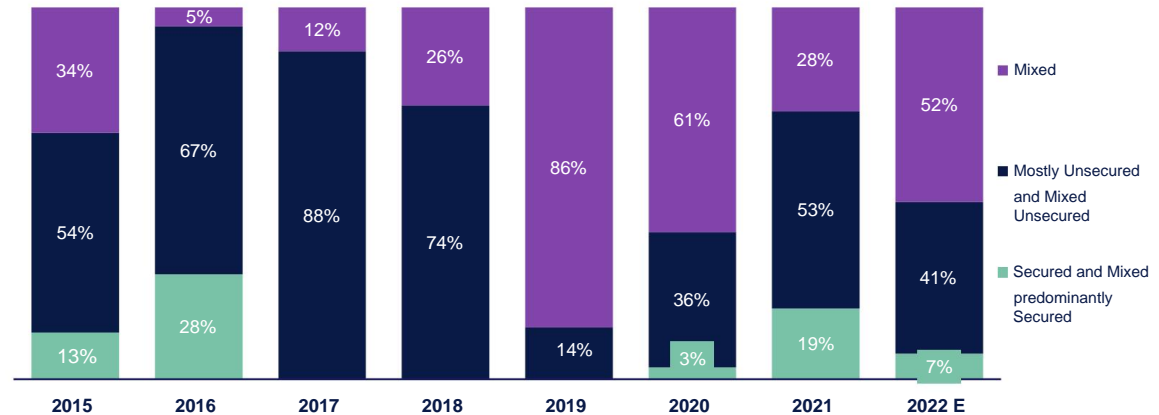
The Npl secondary market has developed over time reaching a transacted GBV of €48 billion in the period 2015-2021 and in 2022 it will contribute another €10 billion (30% of total volumes). Unsecured credits prevail because they are channeled to operators specialized in this type of asset.



The development of the secondary market is an efficiency driver, a symptom of the maturity of the sector.

#### NPL TRANSACTIONS ON THE SECONDARY MARKET BY PORTFOLIO TYPE – €BN AND PERCENTAGES

Year	2015	2016	2017	2018	2019	2020	2021	2022 E
billion €	6	9	3	2	9	9	10	10
% of the total Npl transacted	31%	51%	4%	2%	24%	23%	32%	30%



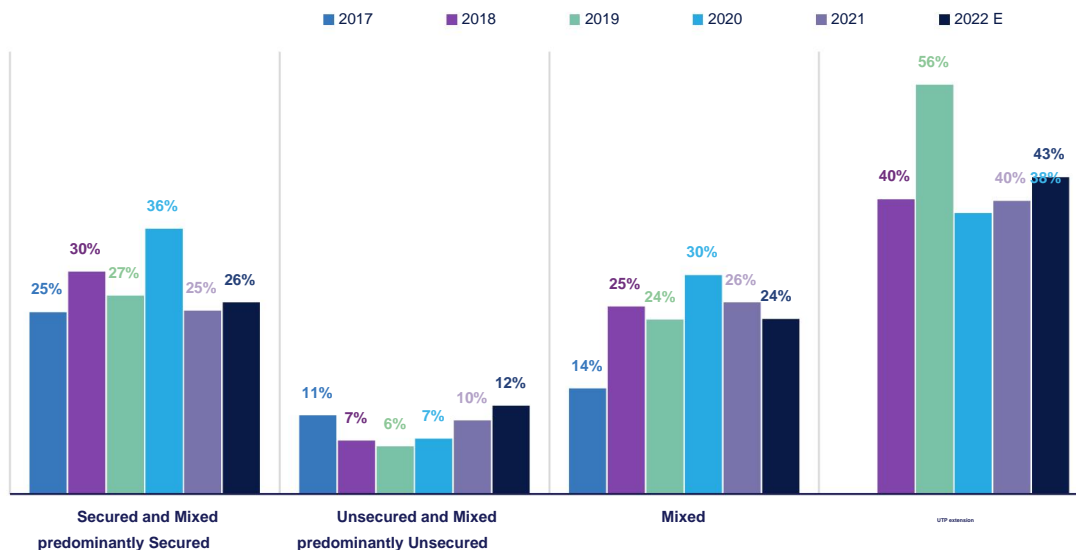
SOURCE: Banca Ifis Npl Market Database– Press releases and news– Banca Ifis internal estimates.



The high incidence of GACS trades, fresher portfolios and investor appetite have led to a slight increase in average prices in 2022.

At the moment we have not detected any impact of inflation and interest rates on the deals 2022.

#### PRICE TRENDS OF NPL AND UTP ASSIGNMENTS BY TYPE OF PORTFOLIO - PERCENTAGES



The price of Unsecured is increasing because it is influenced by Intesa Sanpaolo's GACS in addition to the effects produced by the more "fresh" portfolios (max 12 months) with small denominations that meet the appetite of specialized investors in the segment. The increase is mitigated by the growing incidence of the secondary market.

At the moment, the effect of inflation and rate increases is not observed on the 2022 deals, which could have an impact on the value of the new Npl portfolios that will arrive on the market.

SOURCE: Banca Ifis Npl Market Database - News and press releases - Banca Ifis internal analyses.

From January to September 2022, Npl transactions for €15.7 billion were completed. The estimate of Npl volumes still to be finalized in 2022 is €19 billion, €6 billion are already in the pipeline ("ongoing" in the pipeline table).

DETAILS OF NPL TRANSACTIONS FINALIZED IN SEPTEMBER 2022 AND 2022 PIPELINE

NPL Operations completed	Seller (Originator)	€bn GBV 8.5	Market	Investor Crc	Servicer
	Intesa Sanpaolo	1.3 1.1	Primary	and Bayview, other investors Illimity	Intrum Italy Illimity doValue
	Unicredit Unicredit	0.6 1.4	Primary	Various investors SOREC Srl	SOREC Srl
	Confidential Various	0.7 0.2	Primary		
	sellers Icrea Banca	0.4 0.5	Secondary		
	Monte dei Paschi di	0.4 0.6	Primary/Secondary	Banca Ifis	Banca Ifis
	Siena Monte dei	15.7	Primary	Various investors	doValue
	Paschi di Siena Illimity, Aporti		Primary	AMCO Intrum	AMCO
	Srl, Doria SPV Srl		Primary	(Alicudi spv)	Intrum
	Banco BPM		Secondary	Illimity, other investors	Cerved
Confidenziale and other minor		Primary	Various investors	Gardant (ex Credito Fondiario)	
Confidential and other minor		na	na	na	
Transactions Total 2022					

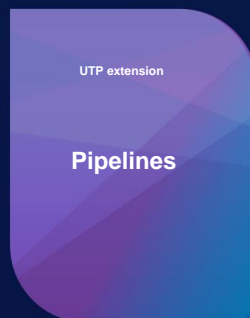
NPL Pipelines	Seller (Originator)	€bn GBV 2.6	Market	Potential Investor	Status
	UnipolRec	1.4 0.6	Secondary	AMCO extension	Ongoing
	Intesa Sanpaolo	0.5 0.3	Primary	AMCO extension	Ongoing
	BPER	0.3 1.0	Primary	na	Ongoing
	Bank Desio	0.7 0.6	Primary	na	Ongoing
	Bank of Fucino	1.5 0.9	Primary	AMCO (Partnership Project)	Ongoing
	BPM desk	6.4 2.3	Primary	na	Ongoing
	Unicredit	19.1	Primary	na	Planned
	Cooperative banks (Luzzatti)		Primary	Prelios	Ongoing
	Create Bank		Primary		Planned na
Multi-Originator		Primary	Taurus Fund - Polis Fondi Fund and PWC Announced		
Esteem		Primary	na	Planned	
Esteem		Secondary	na	Planned	
Confidential and other minor		Primary/Secondary	na	na	
Total pipeline 2022					

The market is enriched by the sales of UTPs: 5.8 billion € the GBV of the deals already concluded in 2021. Announced another 6.0 billion € of transactions in progress for the year.

#### DETAILS OF UTP TRANSACTIONS FINALIZED IN SEPTEMBER AND 2022 PIPELINE



Seller (Originator)	Billion € GBV	Market	Investor	Service providers
Unicredit	2.0	Primary	Various investors and CRCs	Prelios
Intesa Sanpaolo	0.1	Primary	AMCO extension	AMCO extension
Intesa Sanpaolo	2.2	Primary	confidential	na
Multi-originator	0.3	Primary	Hephaestus Credit Fund	na
Multi-originator	0.1	Primary	Kryalos SGR	Keystone Fund
BPM desk	0.4	Primary	various investors	Gardant (formerly Credito Fondiario)
Monte dei Paschi di Siena	0.3	Primary	Illimity	Illimity
Guber Bank	0.1	Primary	Illimity, Apeiron Management (Apollo)	na
Multi-originator	0.2	Primary	Illimity (Real Estate Credit)	Illimity
Confidential and other minor	0.1	na	na	na
<b>Total transactions 2022</b>	<b>5.8</b>			



Seller (Originator)	Billion € GBV	Market	Potential Investor	Status
Unicredit	0.4	Primary	na	Ongoing
Unicredit	1.0	Primary	doValue, Prelios, Intrum, Gardant and Arc	Ongoing
Create Bank	0.5	Primary	na	Ongoing
Multi-Originator	0.4	Primary	Efesto Fund (DoValue, Finint)	Ongoing
Credit Agricole	0.4	Primary	Illimity, Dovalue, Intrum	Ongoing
Carige group	0.3	Primary	na	Ongoing
Cooperative banks (Luzzatti)	0.2	Primary	FIA Prelios fund	Ongoing
BPM desk	0.7	Primary	Partnerships	Planned
Multi-Originator	0.9	Primary	AMCO, Prelios, Illimity	Planned
Intesa Sanpaolo	1.2	Primary	na	Ongoing
<b>Total pipeline 2022</b>	<b>6.0</b>			

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## The bad credit industry

# The development of a non-performing credit market has supported the easing of banks' balance sheets, reaching the EBA target of 5% in 7 years (2021).

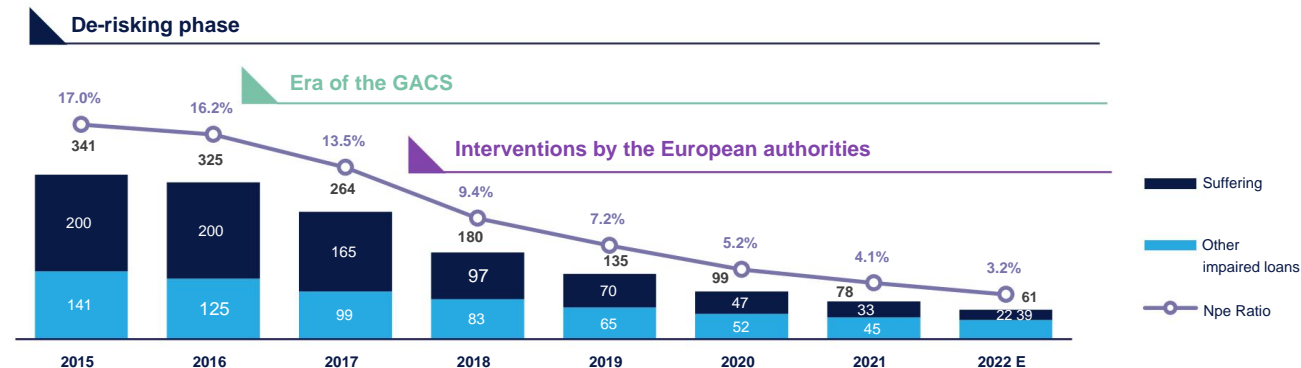
Over the course of 7 years, the banking sector has managed to reduce *the Npe Ratio* by more than 12 percentage points, going from 17% in 2015 to 4.1% in 2021, below the EBA threshold of 5%. A further reduction to 3.2% is expected for 2022

Total NPLs on bank balance sheets went from €341bn in 2015 to €78bn in 2021. A further decrease is expected in 2022 to €61bn of total NPLs.

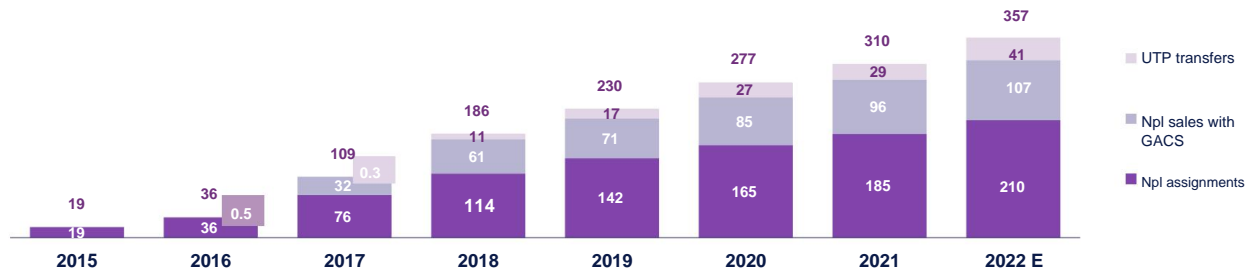
From 2015 to 2021, non-performing loans amounting to €310 billion were sold, of which €29 billion in Utp. In 2022 it is expected to reach €357 billion.

The GACS turned out to be one effective tool to facilitate the sale of non-performing loans with €107 billion of sales from 2016 to 2022.

BANK GROSS NON-REPAIRING LOANS RESIDENT AND NON-RESIDENT DEBTORS - BILLION € AND PERCENTAGES

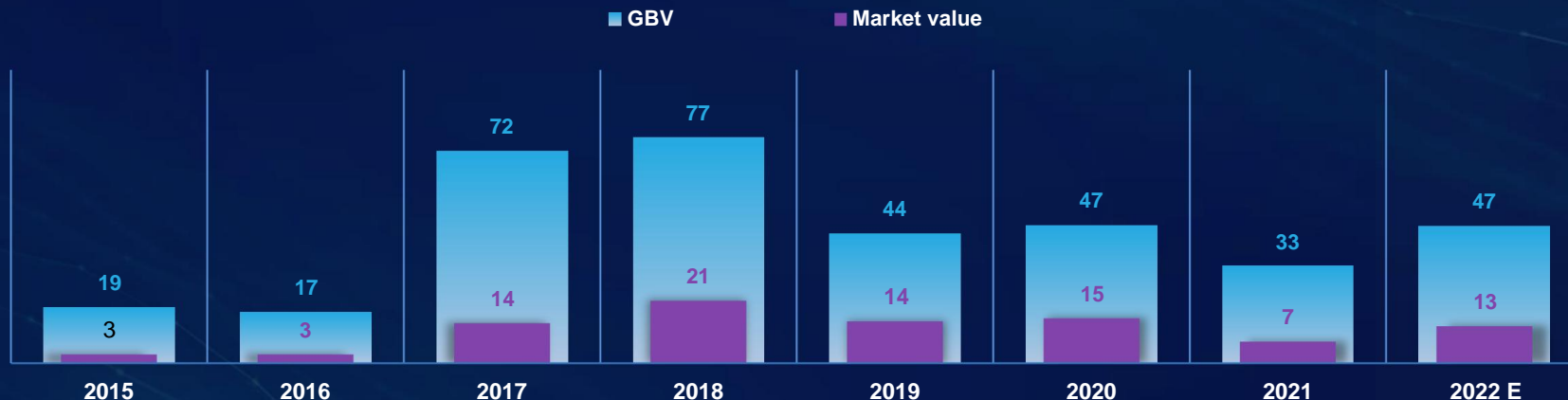


CUMULATIVE NPL, UTP MARKET TREND SINCE 2015 – GBV €BN



From 2015 to 2022, it is estimated that investors invested almost €90 billion in the Npe market on the primary and secondary markets.

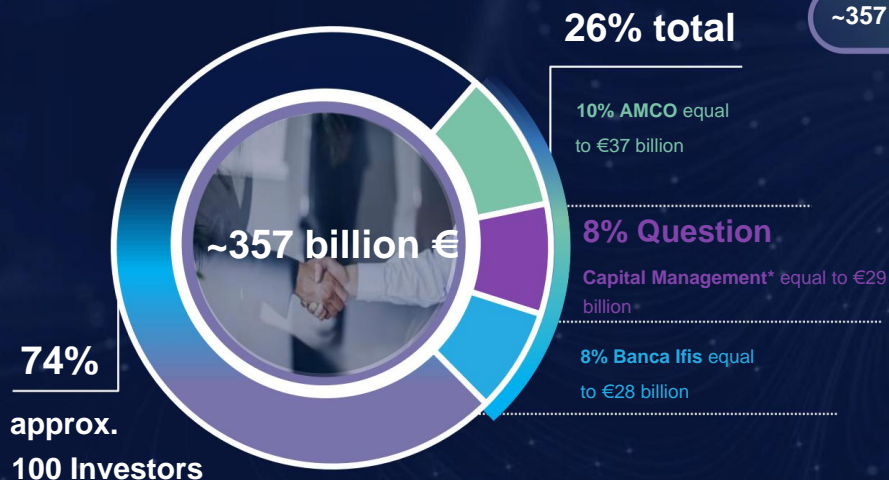
### GBV OF NPE PORTFOLIO AND ESTIMATED MARKET VALUE – €BN



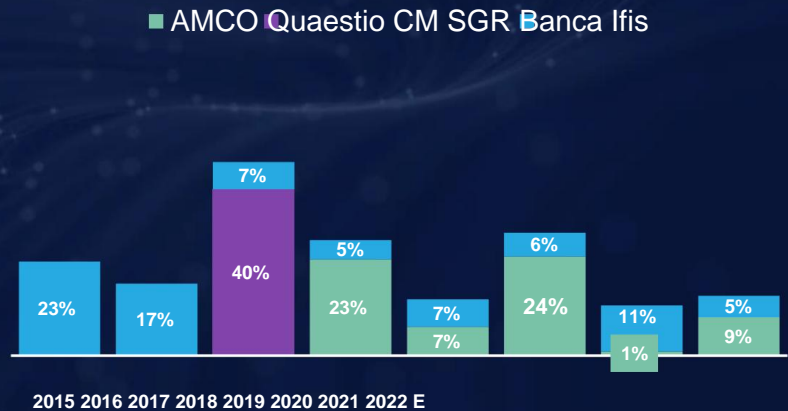
SOURCE: Banca Ifis Npl Market Database– Press releases and news– Banca Ifis internal estimates.

~100 active investors between 2015 and today, with the top 3 operators covering 26% of the total market. Banca Ifis the only active investor in all the years considered. Quaestio concentrated on MPS and AMCO portfolio mainly active on large system operations.

TOP 3 INVESTORS, INCIDENCE OF NPE PURCHASES FROM 2015 TO 2022 ESTIMATE – BILLION € AND PERCENTAGES



TOP 3 INVESTORS, RATIO OF NPE PURCHASES IN EACH SINGLE YEAR – €BN AND PERCENTAGES



SOURCE: Banca Ifis Npl Market Database – Press releases and news – Banca Ifis internal estimates. \*Notes: DEA majority shareholder.

Italian banks have achieved an important de-risking result. In the years 2017 and 2018 the record of sales, which continued at a rapid pace also in the following years thanks to a market for NPL transactions that has matured over time.

## TOTAL NON-PERFORMING LOANS NPL AND UTP ASSIGNED FROM 2015 TO 2022 ESTIMATE WITH DETAILS OF THE MAIN ASSIGNMENTS - BILLION €

### Year 2022 estimate

- An estimated €47 billion at the end of 2022. €22 billion have been transacted, of which €8.5 billion in NPLs with Intesa's GACS, and €6 billion in UTPs.

### Year 2021 •

Primary market characterized by a high number of transactions for smaller amounts on average. • 32% of sales on the secondary: historical high of this segment.

### Year 2020 •

€8bn MPS Hydra project, credit split in favor of AMCO. • €6.6 billion from Banca Intesa Sanpaolo as part of the derisking plan.

- €6.3 billion of Iccrea and the cooperative banks as part of the action by derisking.

### Year 2019 •

€10 billion in the secondary market, equal to 24% of the total market. • €10bn deleveraging by Unicredit. €2.8 billion in Banca Carige crisis.

### Year 2015 •

The Unicredit and MPS sales have weighed for 41% of the total.

### Year 2016 •

The first GACS of Banca Popolare di Bari for €480 million.

### Year 2017 •

€24 billion Monte Paschi di Siena. • €17.7 billion Unicredit Fino project. • €2.8 billion in the context of the rescue of Caricesena, Carim and Carismi.

### Year 2018 •

€18 billion from bankruptcy of the Venetian banks. • €12.5bn BPM sale of non-performing loan management platform and GACS. • €10.8 billion Intesa Sanpaolo joint venture with Intrum.

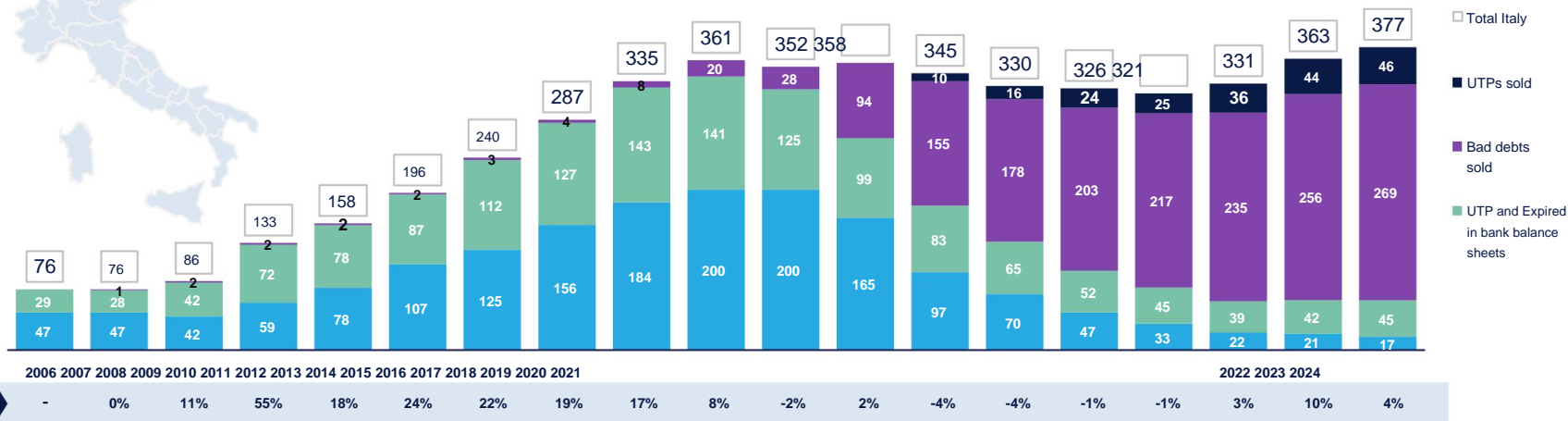




The stock of NPEs in Italy decreased from €361 billion in 2015 to €321 billion in 2021, thanks to the management carried out by banks and servicers.

From 2022, an increase in the stock is estimated due to the expected increase in non-performing flows and a reduction in recovery rates, especially on larger tickets and secured credits that require longer recovery times.

### ESTIMATED TOTAL AMOUNT OF NPE IN ITALY (RESIDENT AND NON-RESIDENT IN BANK BALANCE SHEETS + PORTFOLIO ASSIGNED NET OF RECOVERIES) – Bln €



SOURCE: Banca Ifis Research Department internal estimates from Npl Market Database of Banca Ifis, Banca d'Italia and Unirec.

NOTES: Normalized data. The new definition of default harmonized at European level has been in force since January 2021. The data include transactions with total customers of resident and non-resident subjects, excluding interbank relationships.

The Italian non-performing credit sector recorded continuous growth from 2013 to 2021. It is estimated that the development of revenues will continue with a +9% in 2022 and +4% in 2023.

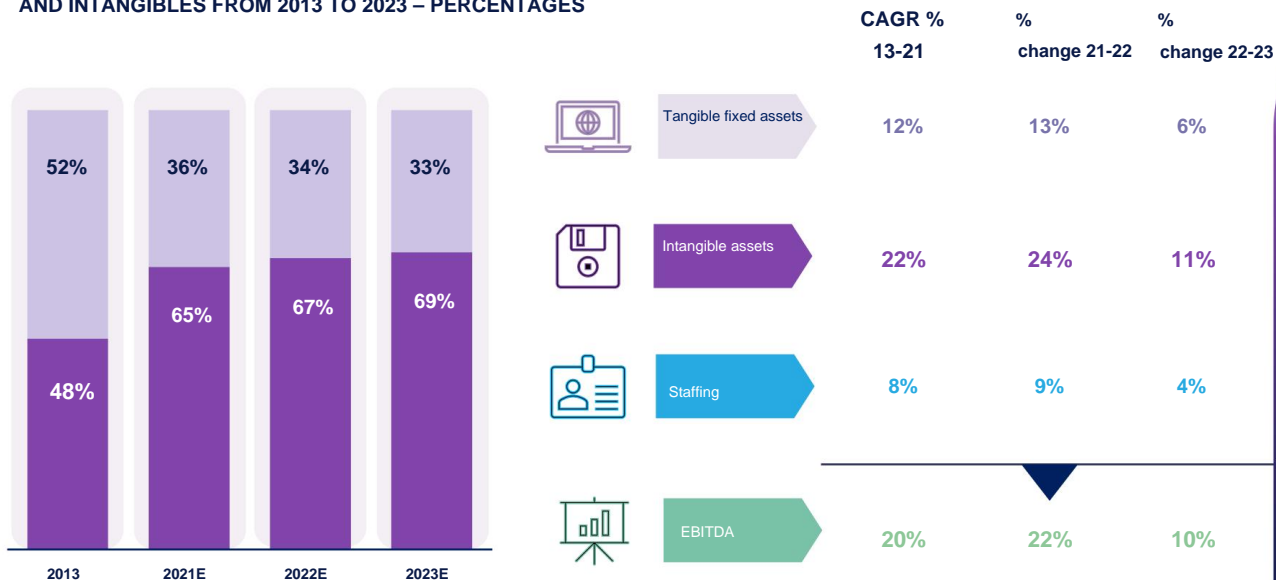
### Estimate of revenues from the Italian non-performing credit segment – €m and percentage changes



SOURCE: Elaborated by Banca Ifis Research Department on Cerved database. Perimeter: ATECO code 82.91.1.

Not just revenue. Over the past decade, the impaired credit sector has meant investments in human resources and technology, drivers of value creation confirmed by the growth in EBITDA (+20% on average per year).

#### ESTIMATED DISTRIBUTION OF TANGIBLE FIXED ASSETS AND INTANGIBLES FROM 2013 TO 2023 – PERCENTAGES



The growth of investments in intangible assets (software, patents, ...) has been particularly high: the servicers have prepared themselves for credit management through the use of emerging **digital technologies** :

- Dematerialization
- Big Data
- Business Process Management
- Robotic Process Automation
- Artificial intelligence

Objectives: cost efficiency, reduction of operational risks and improvement of the «experience»

SOURCE: Elaborated by Banca Ifis Research Department on Cerved database. Perimeter: ATECO code 82.91.1.

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NPL 

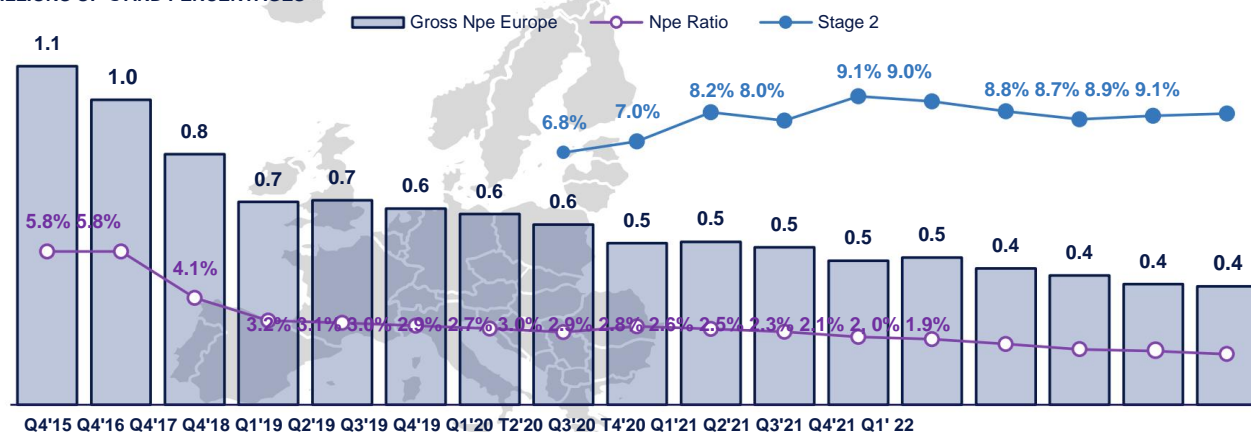
## Focus 1

The non-performing credit  
of the large Italian banks in  
comparison

European (*EBA significant  
banks perimeter*)

The EU Npe ratio decreased further to 1.9% in the first quarter of 2022, the lowest level recorded since 2015. The incidence of stage 2 loans has been increasing since mid-2019 across the EU, indicating a general forecast of worsening credit risk.

EU NON-PERFORMING LOANS (NPL) IN BANK BALANCE SHEETS, NPE RATIO AND STAGE 2 – SIGNIFICANT EBA BANKS ONLY - BILLIONS OF € AND PERCENTAGES



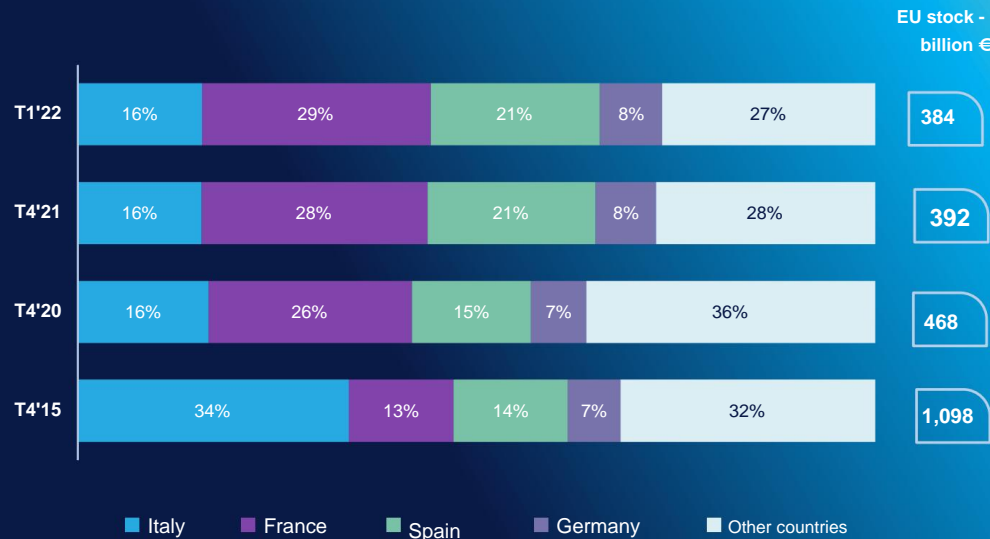
In the first quarter of 2022, the incidence of stage 2 loans continued to increase reaching 9.1% (from 6.8% at the end of 2019).

SOURCE: EBA "Risk Dashboard" report, Npl ratio based on weighted average. NOTES: Npe Ratio calculated according to the solution implemented by the ECB for the disclosures relating to the major European banks, as established by decision EBA/DC/130. Note that in the EBA report, the terms non-performing exposures (Npe) and non-performing loans (Npl) are used interchangeably. Big Banks: significant banks according to the EBA definition. The calculation of the Npe ratio and the Eurozone Default rate considers significant banks according to the EBA definition. Significant banks in the EU are large banks that have a high level of non-domestic exposures characterized by lower Npe ratios than the domestic one. According to this logic, the EU indicators are always lower than the corresponding ratios at national level or for specific customer segments.

At the end of the 1st quarter of 2022, the volume of non-performing loans of significant EU banks stood at €384 billion (16% the incidence of Italian banks), the lowest value since the 2015 peak when the stock was almost €1,100 billion and Italy contributed 34%

The incidence of Italian non-performing loans on the total has substantially halved compared to 2015, thanks to the NPE transaction market which has allowed the de-risking of bank balance sheets and the stabilization of new non-performing flows, reaching **16%** already at end of 2020.

INCIDENCE OF NON-PERFORMING LOANS FOR THE COUNTRIES ITALY, FRANCE, SPAIN E GERMANY – ONLY SIGNIFICANT BANKS EBA – PERCENTAGES AND €BN



SOURCE: Banca Ifis Research Department elaborations on the EBA "Risk Dashboard" report. NOTES: Large banks according to EBA definitions.

The *default rate* at Q1'22 of Italian businesses and households is lower than the EU average, the figure for which shows an increase, albeit limited, since the end of 2021.

Among Italy's *peer countries*, only Spain recorded a significant deterioration in the *default rate*, both in the business segment and in the household segment.

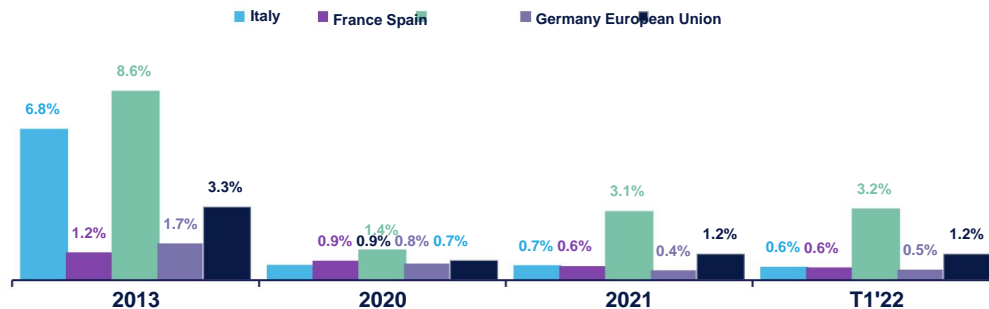
## The corporate *default rate*

- It has drastically decreased for all countries compared to the peak of 2013 (the stock reached, however, its maximum in 2015).
- Italy is below the EU average and in line with France and Germany.
- Spain's deterioration rate more than doubles in 2021 and remains level in Q1 2022.

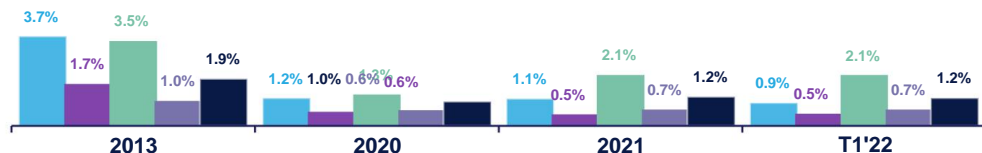
## The household *default rate*

- It has generally decreased since the 2013 peak, albeit with less effort than was needed for businesses.
- Italy is progressively aligning itself with France and Germany and shows a rate of transition to non-performing that is lower than the EU average.
- Spain also recorded an increase in the default rate for households starting from 2021, albeit less accentuated than that which occurred for businesses.

DEFAULT RATE COMPANIES IN ITALY, FRANCE, SPAIN, GERMANY AND EU - EBA SCOPE ONLY BANKS  
SIGNIFICANT - PERCENTAGES



DEFAULT RATE HOUSEHOLDS IN ITALY, FRANCE, SPAIN, GERMANY AND EU - EBA SCOPE ONLY BANKS  
SIGNIFICANT - PERCENTAGES



SOURCE: Banca Ifis Research Department elaborations on the EBA "Risk Dashboard-Risk parameters" report. NOTES: Large banks: significant banks according to the EBA definition. The calculation of the Npe ratio and the Eurozone Default rate considers significant banks according to the EBA definition. Significant banks in the EU are large banks that have a high level of non-domestic exposures characterized by lower Npe ratios than the domestic one. According to this logic, EU indicators are always lower than those at national level or for specific customer segments.

The debt of Italian businesses and households relative to GDP and disposable income is, respectively, 11% and 33% lower than the EU average.

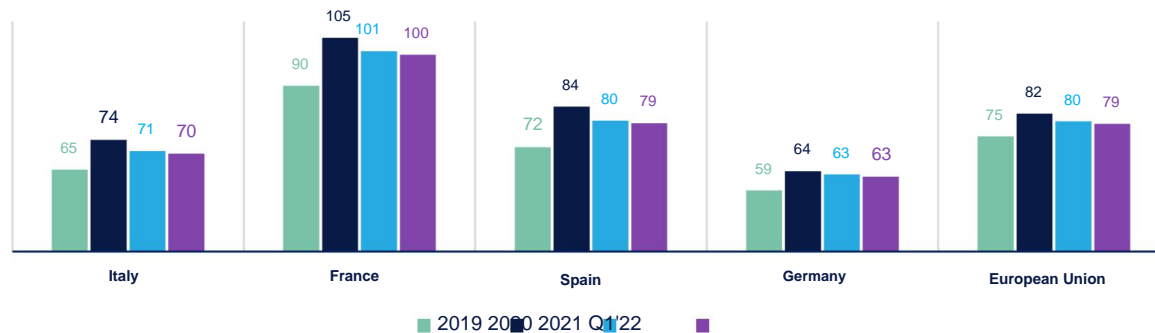
### businesses

- In the two-year period 2020/2021, the incidence of debt on GDP increased due to the combined effect of the drop in production and the measures to support the economy.
- In Q1 2022 the borrowing of Italian companies in relation to GDP is 11% lower than the European average.

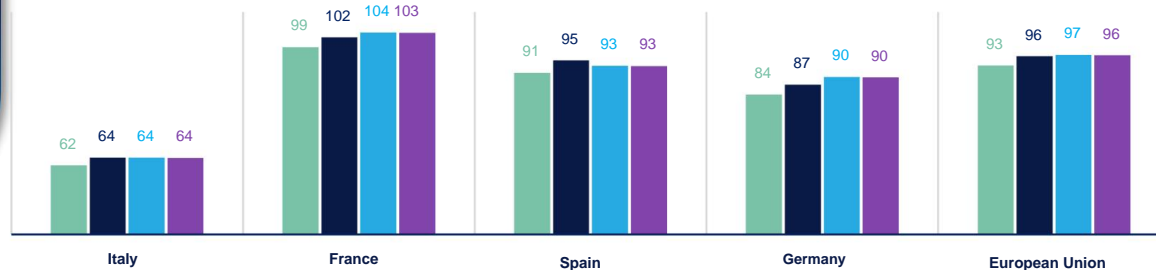
### Families

- In the two-year period 2020/2021 the incidence of debt to disposable income (index illustrated in the chart on the right) increased less than what happened for companies.
- In Q1 2022, Italian household debt affects disposable income by 33% less than the European average.

**FIRMS: INDEBTEDNESS AS A RELATION TO THE GDP OF ITALY, FRANCE, SPAIN, GERMANY AND THE UNION EUROPEAN - PERCENTAGES**



**HOUSEHOLDS: DEBT TO DISPOSABLE INCOME OF ITALY, FRANCE, SPAIN, GERMANY AND THE EUROPEAN UNION - PERCENTAGES**



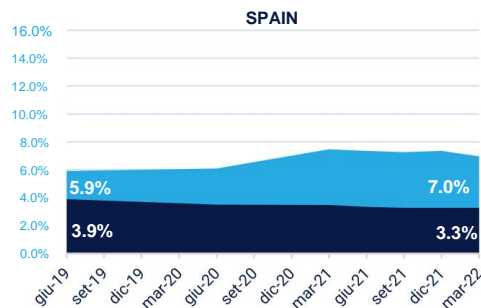
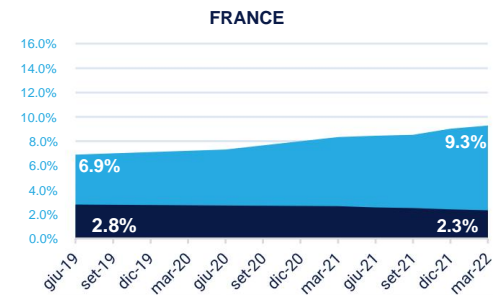
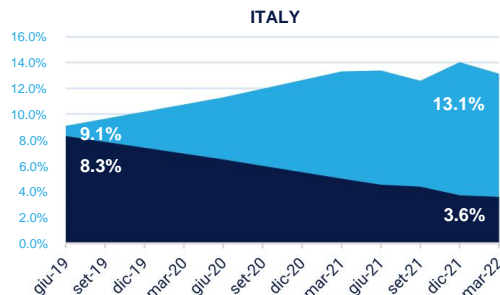
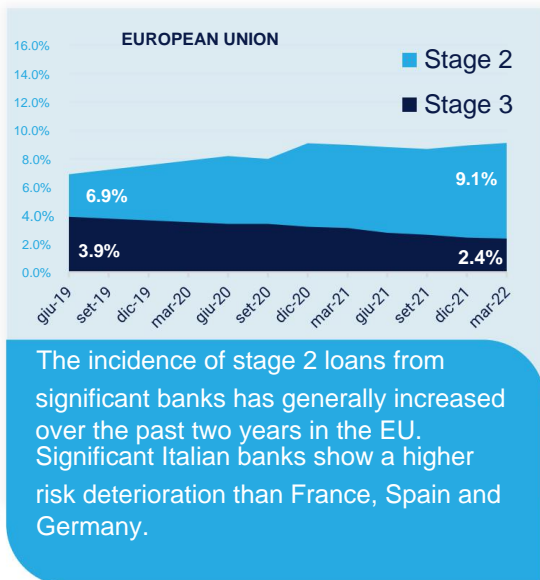
SOURCE: Banca Ifis Research Department elaborations on the ECB report Summary Indicators.

Market Watch NPLs 32



In Q1 2022, Italy shows an incidence of bank loans classified in stage 2 (13.1%) higher than the EU average (9.1%), showing a higher prospective risk.

### LOANS CLASSIFIED STAGE 2 AND STAGE 3 - ONLY SIGNIFICANT EBA BANKS - PERCENTAGE INCREASE



MARKET WATCH  
NPL 

Focus 2

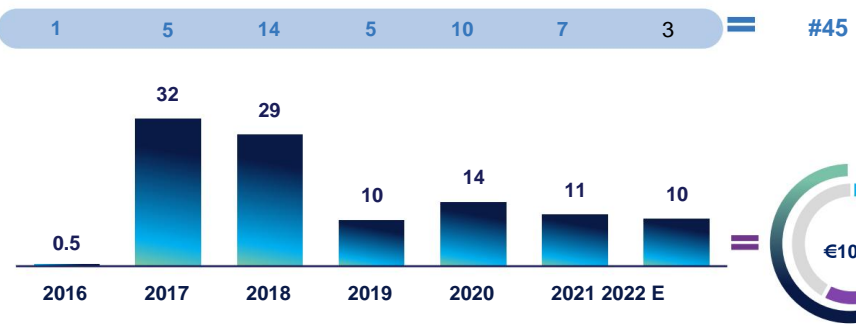
Portfolios assisted  
by GACS

The GACS have concretely supported the de-risking of Italian banks and the development of the Npl market with 107 billion in guaranteed sales. 98% of GACS wallets are managed by 5 servicers.

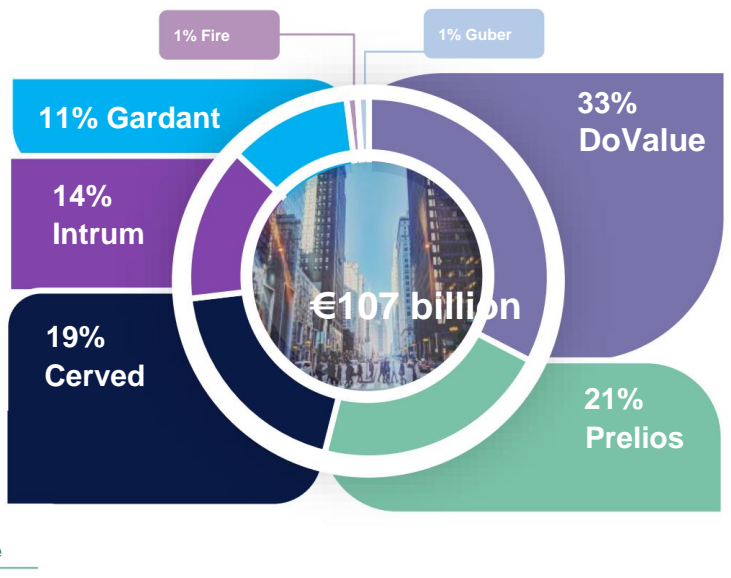
### The GACS from 2016 to the deadline of 14 June 2022

- 45# The number of GACS from 2016 to 2022
- €107 billion The total of the transactions with GACS sold in the market
- 32% The percentage share of the total Npl market transacted
- 20# The number of banks involved

NPL PORTFOLIO TREND ASSISTED BY GACS - €BN, # NUMBER OF TRANSACTIONS AND PERCENTAGES



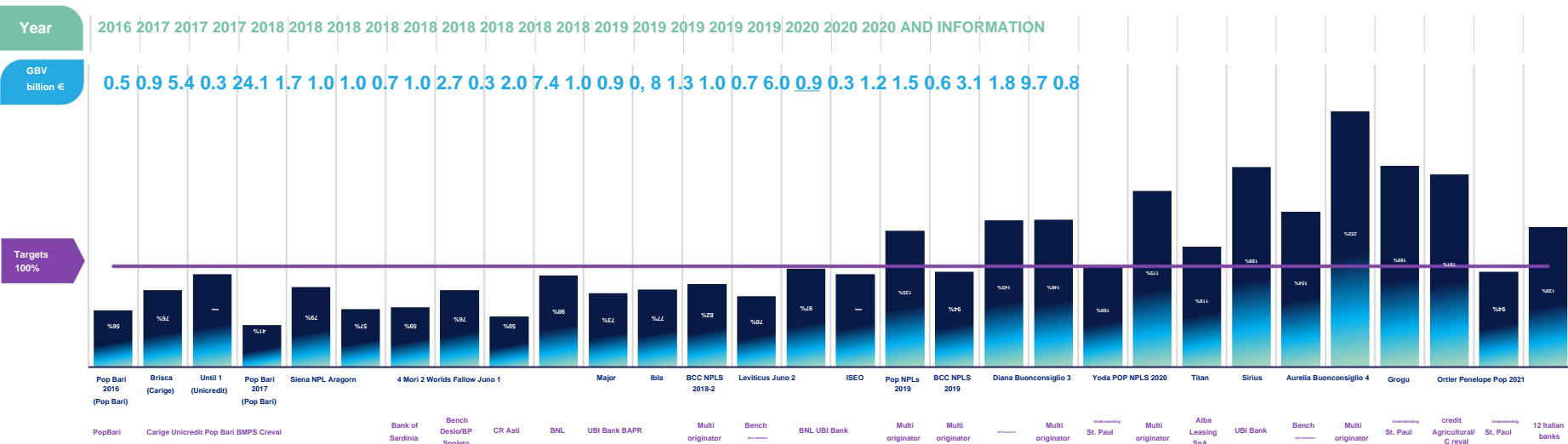
2016 – 2022 NPL PORTFOLIO TREND ASSISTED BY GACS BY SERVICER - €BN AND PERCENTAGES



SOURCE: Banca Ifis Npl Market Database– Press releases and news– Banca Ifis internal estimates.

All GACS-assisted portfolios launched by the end of 2018 underperformed the business plan. In the context of the most recent operations, however, 11 out of 17 portfolios exceeded the targets.

CUMULATIVE **GROSS COLLECTION RATIO**, COMPARISON TO INITIAL SERVICER BUSINESS PLANS AT LAST INTEREST PAYMENT DATE (IPD)- PERCENTAGE E BILLION €

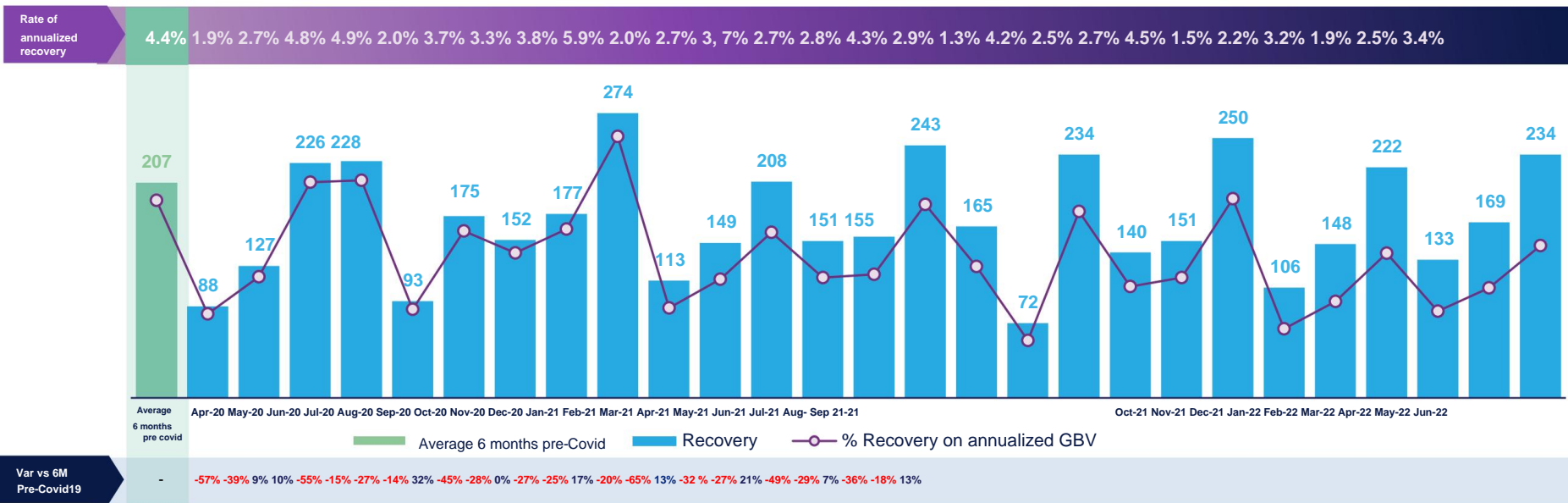


SOURCE: Banca Ifis Research Department elaborations on DBRS Morningstar European Nonperforming Loan Securitizations Performance - 2022 Update



Compared to the pre-Covid period, the monthly trend of collections from portfolios with GACS shows a lower average recovery dynamic. The first six months of 2022 have not shown an improvement.

TREND GROSS COLLECTIONS AND ANNUALIZED COLLECTION RATE OF NPL PORTFOLIO ASSISTED BY GACS - MILLION € AND PERCENTAGES ON GBV



SOURCE: Banca Ifis Research Department elaborations on Scope Italian Npl collections monthly report - June 2022.

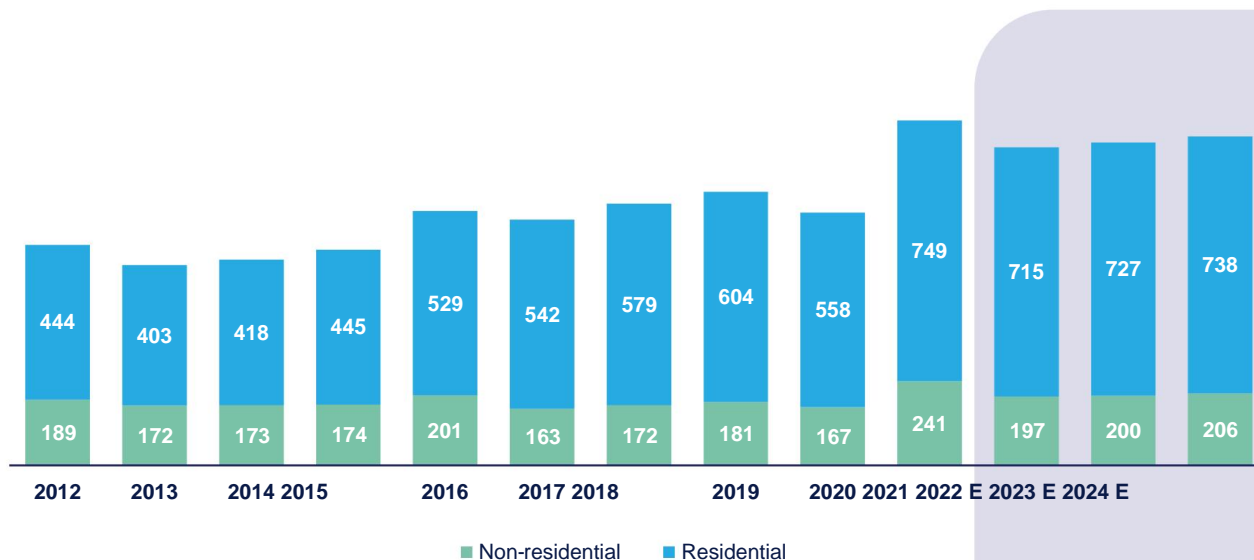
MARKET WATCH  
**NPL** 

## Focus 3

The real estate market and  
the proceedings of the  
courts

2021 was a record year for the Italian real estate market with a 47% higher number of sales (749,000) than the average recorded in the years preceding the pandemic.

#### NUMBER OF REAL ESTATE SALES IN ITALY (NTN) DIVIDED INTO RESIDENTIAL AND NON-RESIDENTIAL - UNITS IN THOUSANDS



The recovery of the real estate sector is the result of the progressive macroeconomic improvement recorded in the second half of 2021, with a higher number of transactions than estimated.

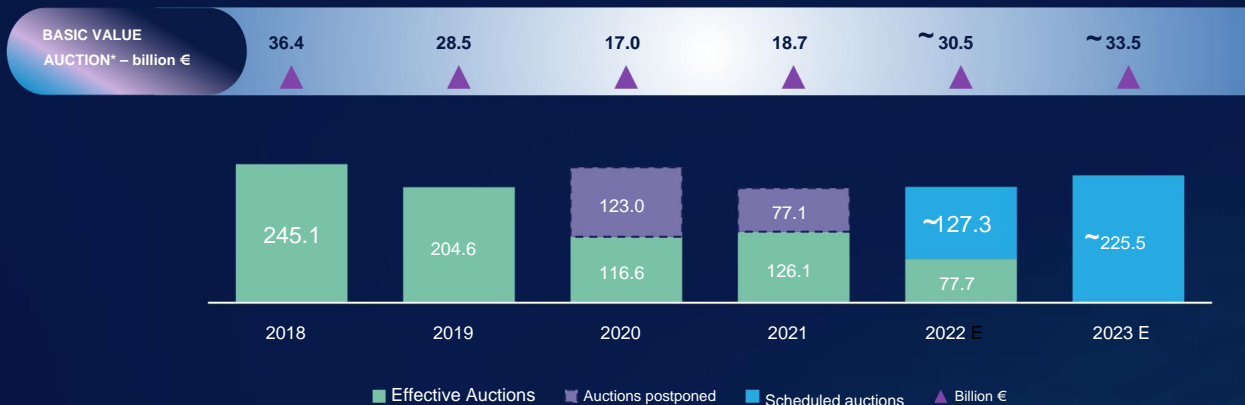
The non-residential market is influenced by the changes in working methods (smart working) and consumption of Italians. Despite this, this sector too saw an increase in transactions.

In 2022, the growth of the sector will continue to be sustained also thanks to tax incentives and the greater liquidity on the market.

SOURCE: Banca Ifis internal analyzes on data from the Revenue Agency, Nomisma, Bank of Italy, NTN is the number of standardized real estate units sold, taking into account the share of ownership transferred.  
NOTES: Residential excluding appurtenances/warehouses and garages and parking spaces.

In the first six months of 2022, 77,656 properties went to judicial auction, for a value of €11.1 billion. A limited number of auctions still affected by the effects resulting from the closure of the courts in pandemic times. Strong acceleration is expected in the second half of 2022.

REAL ESTATE AUCTIONS BY YEAR - NO. OF REAL ESTATE UNITS SUBJECT TO AUCTION DATA IN THOUSANDS AND BASIC AUCTION VALUE IN €bn



SOURCE: Banca Ifis internal analysis and estimates on T6, Reviva and Astasy data.

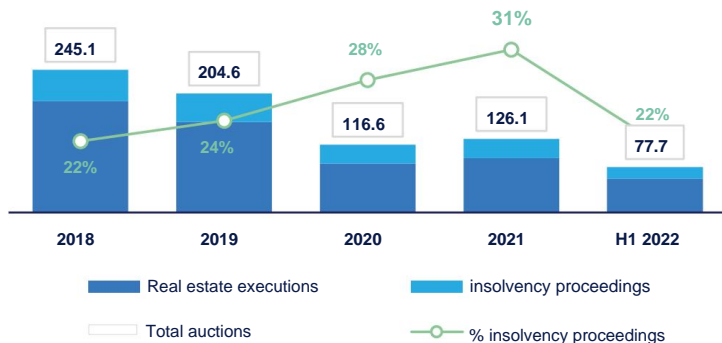
NOTES: The values relating to the years 2022 and 2023 are internal estimates by the Banca Ifis Research Department.

\*The basic auction value refers to the basic auction offer, the amount from which the bidding starts in a judicial auction.



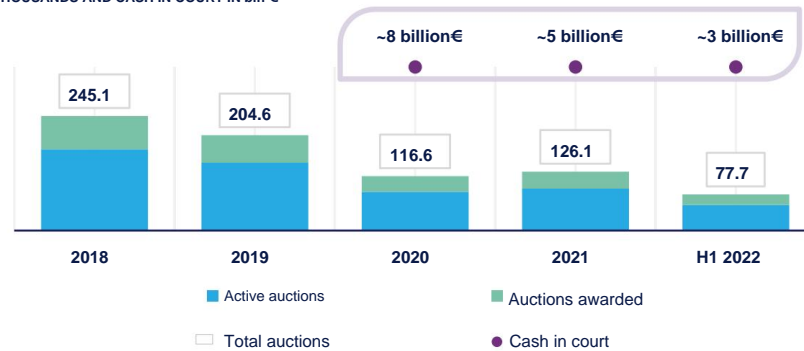
Of the 77,656 properties published at auction, 75% are represented by real estate executions, or properties subject to foreclosure; only 22% instead is attributable to insolvency proceedings, or bankruptcies, arrangements with creditors and other procedures attributable to corporate crises.

REAL ESTATE AUCTIONS BY YEAR AND TYPE OF PROCEDURE - NUMBER OF AUCTIONS DATA IN THOUSANDS AND PERCENTAGES



Of the 77.7 properties published at auction in the first half of 2022, 75% are represented by real estate executions, or properties subject to foreclosure; only 22% instead is attributable to insolvency proceedings, or bankruptcies, arrangements with creditors and other procedures attributable to corporate crises.

ACTIVE, AWARDED AND CASH IN COURT REAL ESTATE AUCTIONS PER YEAR – NO. OF AUCTIONS DATA IN THOUSANDS AND CASH IN COURT IN bln €



It is estimated that there will be around €8 billion in 2020 and €5 billion in 2021 of *cash in court* generated by awarded auctions, waiting to be distributed due to the slowness that characterizes the current phase. In addition to what has already been recorded in the first half of 2022, an increase of around €2 billion is estimated by the end of the year which will bring the 2022 total to €5 billion of cash in court.

SOURCE: Banca Ifis internal analysis on T6, Reviva and Astasy data. NOTES: *Cash in Court* indicates the amount of money which, following a judicial liquidation, is held in the current accounts of the courts pending the definition and implementation of a plan for the distribution of the proceeds among the beneficiaries of the liquidation, which is calculated on average over a year.

MARKET WATCH  
NPL 

In-depth  
tables

It is estimated that at the end of 2022 the top 7 AuM servicers will manage around €293bn (GBV) of NPLs.

Top 7 servicers for AuM	Vigilance Bank of Italy	AuM estimate GBV billion €	Market positioning
DoValue	115/106	78	Mostly secured, medium-high ticket
Intrum	115	50	Medium ticket mixed portfolio
Cerved Credit Management	106/115	45	Medium ticket mixed portfolio
AMCO extension	106	37	Medium ticket mixed portfolio
Prelios Credit Servicing	106	35	Secured large tickets
Ifis Npl Servicing (Banca Ifis)*	106 (bank)	28	Unsecured small ticket
Gardant	106/115	20	Medium ticket mixed portfolio

SOURCE: Banca Ifis Npl Market Database – News and press releases – Banca Ifis internal analyses.

\*NOTE: The credit portfolios owned by Banca Ifis are in the books of Ifis Npl Investing and managed by Ifis Npl Servicing. Portfolios managed on behalf of third parties are handled by Ifis Npl Servicing.  
Estimated AUM at 12/31/2022 - Gardant special servicing loans

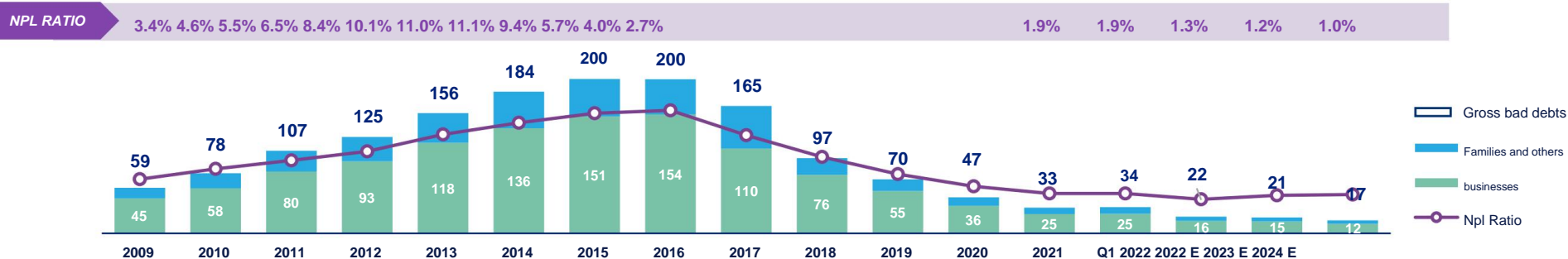
# The progressive development of the Npl market has determined the need to adopt servicing platforms and consequently M&A transactions, marking the years 2018 to 2022 as the M&A Era (31 main transactions).

	2018	2019	2020	2021	2022
	<p><b>Lindorff / Intrum</b> Acquisition of 100% of Mass Credit Collection (MCC) department.</p> <p><b>arrow</b> 100% Acquisition Parr Credit and Europe Investments</p> <p><b>Kruk</b> Acquisition of 51% of Agecredit.</p>	<p><b>iQera</b> BC Partners company Acquisition of Sistemla.</p> <p><b>IBL Banca</b> Acquisition of 9.9% of Frontis NPL.</p> <p><b>Banca Ifis</b> Acquisition of the remaining 10% of FBS</p> <p><b>DeA Capital</b> Acquisition of 38.8% of Quaestio Holding and the NPL branch of Quaestio</p>	<p><b>Cerved Credit Management</b> Acquisition of 100% of Quaestio Cerved Credit Management.</p> <p><b>Bain Capital Credit</b> Acquisition of Hypo Alpe Adria rebranded in Julia Portfolio Solutions</p>	<p><b>Hipoges</b> Acquisition of the majority of AXIS.</p> <p><b>Axactor</b> Acquisition of 100% of Credit Recovery Service Srl</p>	<p><b>Cerved Credit Management</b> Acquisition of REV Gestione Credit.</p> <p><b>Illimity Bank SpA</b> Acquisition of 100% of Aurora Recovery Capital SpA</p> <p><b>Intrum Italy</b> Acquisition of a stake in i-Law, a law firm specialized in NPL servicing.</p>
	<p><b>Anacap + Pimco</b> Acquisition of the Majority of Phoenix Asset Management.</p> <p><b>Cerberus</b> Acquisition of 57% of Officine CST</p>	<p><b>Financial Group</b> Acquisition of Generale Gestione Crediti Se.Tel. Services</p> <p><b>Banca Ifis</b> Acquisition of 90% of FBS.</p>	<p><b>MCS - DSO</b> (BC Partners company) Acquisition of 80% of Serfin</p> <p><b>HoistFinance</b> Acquisition of 100% of Maran</p>		
	<p><b>IBL Bank + Europa Factor</b> Joint venture for the creation of the Servicer Credit Factor (106 vehicle)</p> <p><b>Cerved + La Scala</b> law firm Law firm specializing in the management and judicial and extrajudicial recovery of credits of banking origin.</p>	<p><b>Intesa + Lindorff/ Intrum</b> Joint venture for the Intesa Sanpaolo Npl platform.</p> <p><b>Npl Re Solutions + Axactor</b> Joint venture to manage Npl and Utp</p>	<p><b>Gardant + Bank BPM</b> Joint venture for the management of BPM's NPL sales</p> <p><b>doValue + Aurora RE</b> Real estate UTP management platform</p>	<p><b>Strocchi family + Tinexta</b> Launch of FBS Next a new NPL servicer</p>	<p><b>Europa Factor and the lawyers of Convector</b> partnership on Npl management</p> <p><b>Gardant + BPER</b> Joint venture for the strategic management of Npl and Utp, (under negotiation)</p> <p><b>Intesa + Prelios</b> Partnership for the strategic management of UTPs.</p> <p><b>Luzzatti + Prelios</b> Fund creation for Utp management</p>

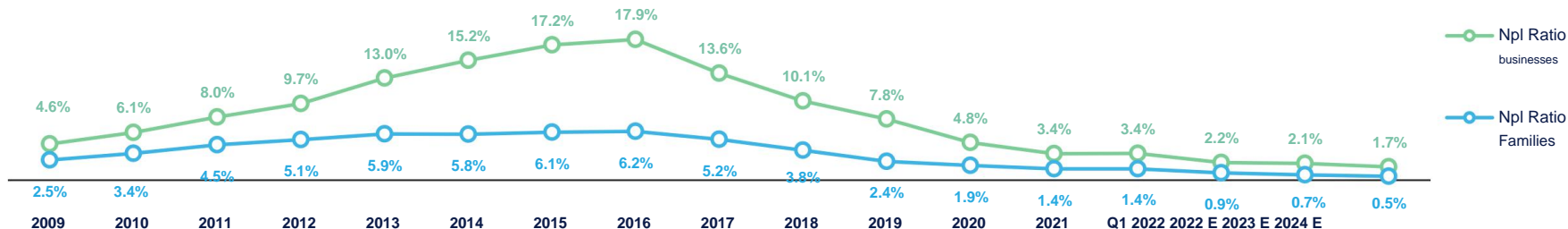


In 2022, the trend of reducing the stock of gross non-performing loans in bank balance sheets will continue, with an *NPL ratio* that will remain at a historically low level also in the next few years.

#### GROSS BANKING BAD LOANS BY TYPE OF DEBTOR: BILLION € AND PERCENTAGES



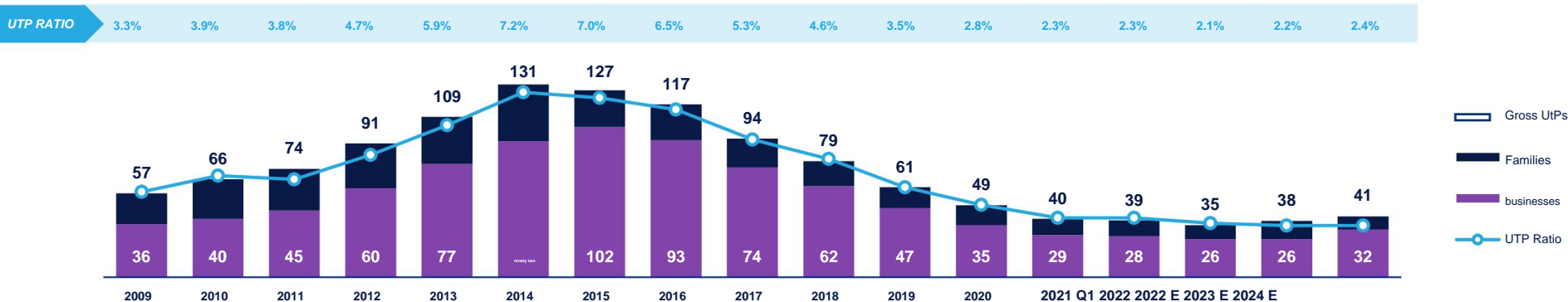
#### NPL RATIO: GROSS BANK BAD LOANS/LOANS BY TYPE OF DEBTOR - PERCENTAGES



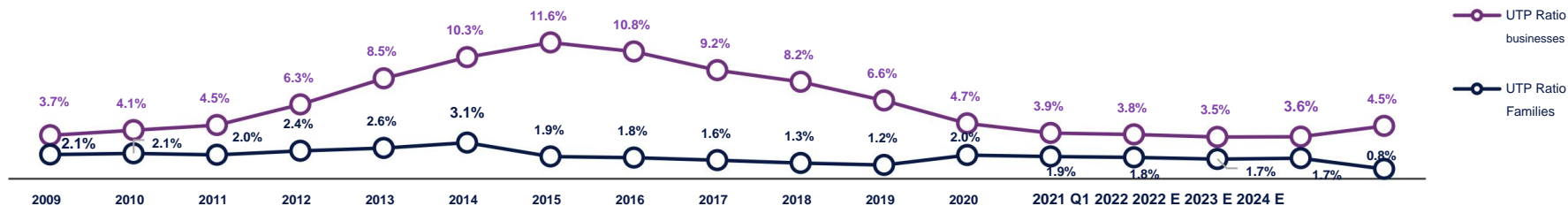
SOURCE: Elaborated by Banca Ifis Research Department on Banca d'Italia statistical database – estimate from Banca Ifis internal analyses. NOTES: The data include transactions with resident and non-resident subjects, excluding interbank relationships. Firms include only non-financial companies and producer households; households and others include consumer households and the rest of the total. Non-performing loans are reported at book value.

The stock of UTPs in bank balance sheets is also expected to decline in 2021. Growth, albeit limited, is estimated for the two-year period 2022-2023.

## PROBABLE DEFAULTS (UTP) BY RESIDENT DEBTOR TYPE - €BN AND PERCENTAGES



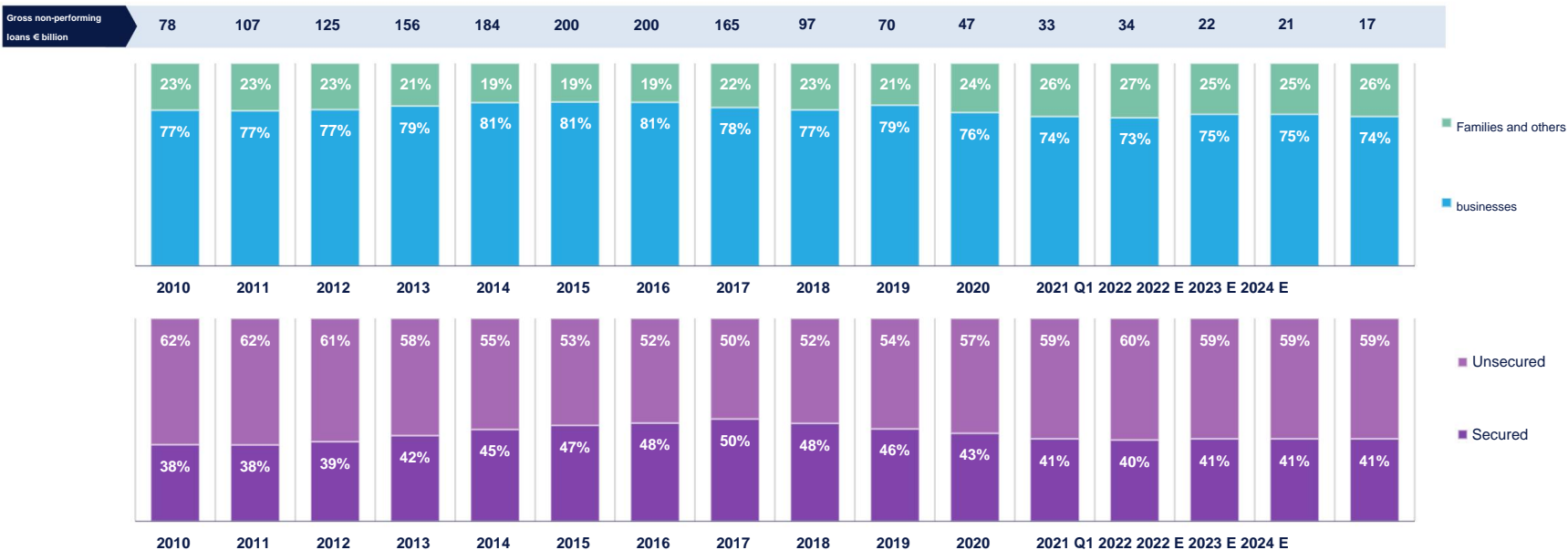
## UTP RATIO: LIKELY DEFAULTS (UTP) GROSS BANK/LOANS BY DEBTOR TYPE - PERCENTAGES



SOURCE: Elaborated by Banca Ifis Research Department on Banca d'Italia statistical database – estimate from Banca Ifis internal analyses. NOTES: The data include transactions with resident and non-resident subjects, excluding interbank relationships. Firms include only non-financial companies and producer households; households and others include consumer households and the rest of the total

The main share of non-performing loans still on the bank balance sheet is attributable to companies, with a slightly increasing share in 2022. The secured component is around 40% of the total.

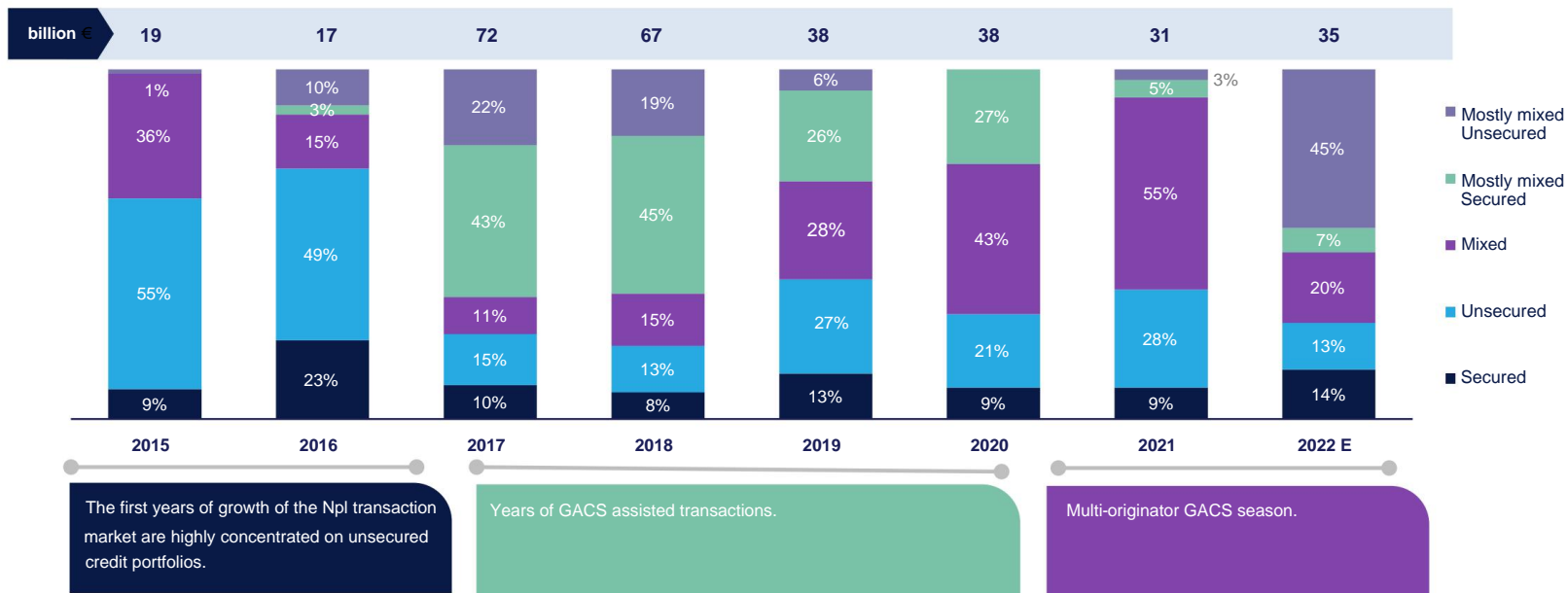
GROSS BANKING BAD LOANS – €BN, PERCENTAGES OF LOANS FOR HOUSEHOLDS AND BUSINESSES, SECURED AND UNSECURED (% OF TOTAL BAD LOANS)



SOURCE: Elaborated by Banca Ifis Research Department on Banca d'Italia statistical database – estimate from Banca Ifis internal analyses. NOTES: The data include transactions with resident and non-resident subjects, excluding interbank relationships. Firms include only non-financial companies and producer households; households and others include consumer households and the rest of the total. Non-performing loans are reported at book value.

# The 2022 forecast records an increase in the incidence of "mainly unsecured" and "mixed" portfolios.

## NPL TRANSACTIONS BY TYPE OF GUARANTEE – €BN AND PERCENTAGES



SOURCE: Banca Ifis Npl Market Database - News and press releases - Banca Ifis internal analyses.



## General Statement.

This publication was prepared by Banca Ifis.

The information contained herein has been obtained from sources deemed reliable by Banca Ifis, but is not necessarily complete, and its accuracy cannot be guaranteed.

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MARKET WATCH  
NPL 

