

NPL transactions and NPE stock in Italy

Flash Update 2020



Executive Summary.



2020 NPL TRANSACTIONS FORECAST

01

- 1. The NPL portfolios transaction market will continue to be dynamic:** € 32 billion of new transactions are estimated, a decrease of only € 5 billion compared to the previous forecast, due to a downward trend in prices, which will keep interest high in the investment of well-established operators on the market, and thanks confirmed of sales plans by large banks.
- 2. The secondary market will be very dynamic,** with an incidence of 26% on the amount transferred.
- 3. Uncertainty of the scenario may slow down new investments of operators with a yet to be consolidated market position and without a platform.**

Hypotheses adopted for the forecast analysis: the estimates of this observatory assume a phase 2 with gradual reopening of activities and transactions and a progressive normalization of the context in 2021.

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



NPL AND UTP STOCKS IN ITALY 2020

02

- 1. The amount of NPE to be recovered could reach € 351 billion at the end of 2020.**
- 2. After 2 years of reduction an increase of 7% (+€ 23 billion) in the NPE stock** is estimated as a result of NPLs slowdown in the banks' balance sheets.

The NPL portfolio transactions market forecast will be influenced by "push" and "pull" factors that will tend to investors with an established position in the industry.

01

Tailwind trend

1. **Portfolio price reduction trend** following the change in the market scenario will stimulate interest of investors with a consolidated position in the sector.
2. **Tax incentive** for banks and financial companies to transfer impaired loans (NPL) by converting deferred tax assets (DTA) into tax credits.
3. **Sale on the secondary market** of portions of securitized portfolios according to the **GACS** scheme.
4. **New potential bad loan flows** in bank balance sheets due to the increased risk due to the slowdown in production.
5. **Change in the competitive context** with some buyers who are organizing to operate in sharing mode.

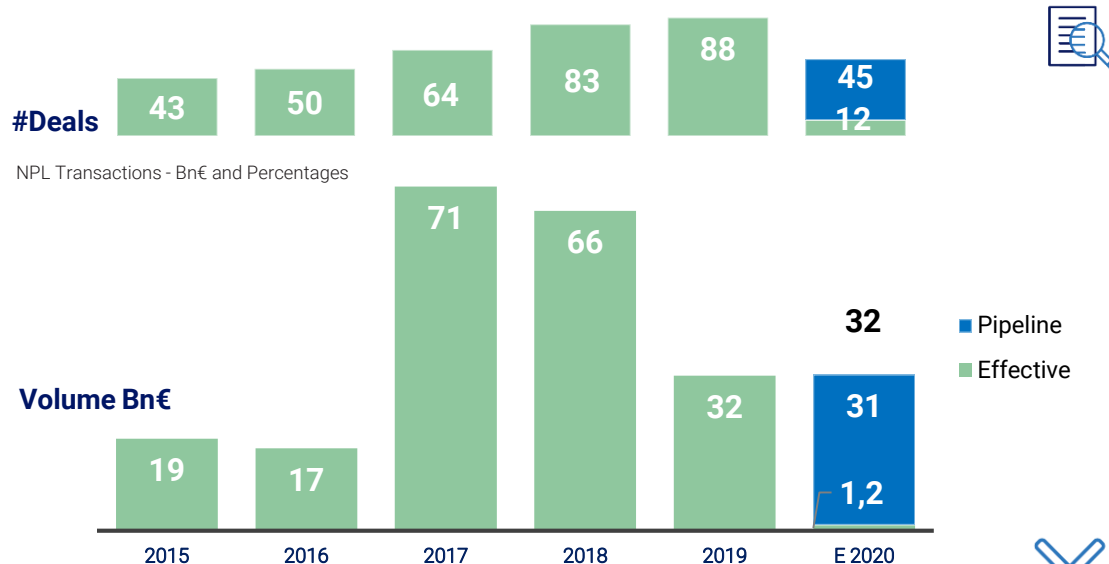
02

Headwind trend

1. **A lower propensity to invest in some Funds**, especially foreign ones without a management platform, as a result of the greater uncertainty of the current.
2. **The slowdown in the recovery activity** may lead to difficulties in defining the **new business plans**.
3. **Falling prices may slow down some divestment projects**.

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

The 2020 NPL transactions could reach a significant amount of € 32 Bn, with an important boost from the secondary market.



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



2020 FORECASTS DRIVEN BY:

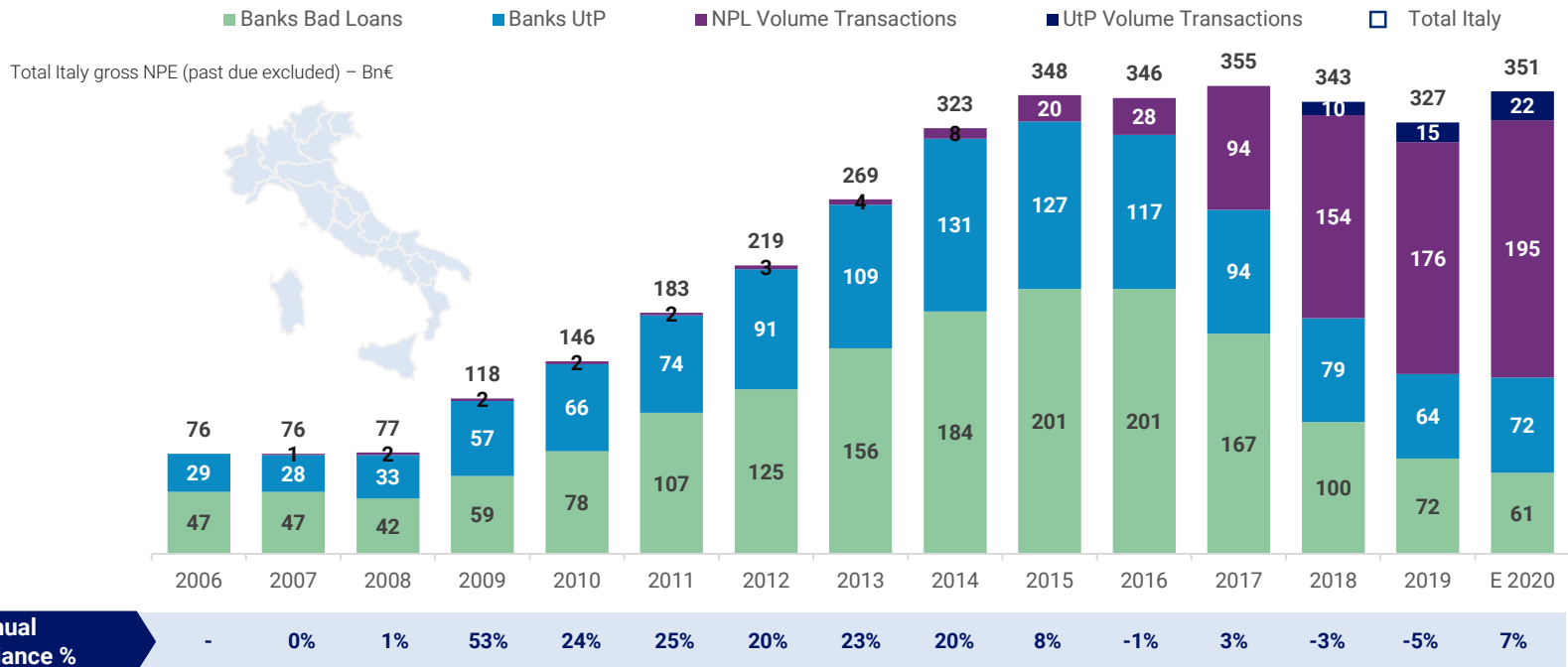
- **Price reduction trend** that will keep the investment interest of well-established operators high on the market
- **High dynamism** of the secondary market
- **Confirmation of the disposal plans** by some large originators
- **Increased flows of new NPL** in bank balance sheets which will encourage the originators' propensity to sell
- **Potential new UTPs** in the second half of the year following performing loans subject to a payment moratorium



COMPARED TO THE PREVIOUS ESTIMATE, THE REDUCTION OF ALMOST € 5 BN IN 2020 TRANSACTIONS DETERMINED BY:

- **Investment slow down foreign operators** without management platform
- **Postponement of projects** to sell small portfolios

In 2020, the NPE stock to be recovered is estimated to start growing again at € 351 Bn, returning to 2017 levels, because the NPE in the banks' balance sheets slows down its decline.



In the second half of the year the effectiveness of the payment moratorium could impact the impaired stock

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

General Statement.

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