

Npl Meeting: credit deterioration rate at 1,2% in 2023, lowest since 2006.

The de-risking of bank balance sheets continues even beyond the EBA targets.

- From 2015 to 2022, Italian banks improved credit quality by selling 352 billion Euro of impaired loans
- Over the 2015-2022 period, the Italian impaired loan industry contributed to the reduction of the Npe stock by almost 55 billion Euro (from 361 billion Euro in 2015 to 306 billion Euro in 2022) also thanks to the collection action of specialised operators
- Collaboration between banks and Npl operators continues in a virtuous manner even with Npe ratio well below the EBA threshold (5% target)
- Over the past 8 years, the Npe ratio has decreased by almost 14 percentage points, from 17% in 2015 to 3,1% in 2022
- The risk gap between Northern and Southern Italy is narrowing, but the country maintains a level of risk higher than the EU average

Cernobbio (Como), 22 September 2023 - At the end of 2023, the credit deterioration rate of Italian banks is expected to stand at 1,2%, a level below the lows of the period before the subprime crisis. At the same time, the work of the Italian Npl industry continues to foster better credit quality thanks to the synergic work with the banking sector, which is fostering a financial return to health. Over the past 8 years, **the Italian impaired credit industry has helped generate 55 billion Euro of reduction in the Npe stock**, bringing it from 361 billion Euro at the start of 2015 to 306 billion Euro at the end of 2022. In the same period, operators specialised in the **Npl market facilitated the de-risking process of Italian banking institutions, with 352 billion Euro of impaired loans transacted between 2015 and 2022**. Of this, as much as 42 billion Euro was sold in 2022, although the EBA target of 5% had already been reached in 2021, confirming synergies that are set to continue over the next three years thanks to the work of a structured Npl industry.

These are the main themes emerging from the "**Npl Market Watch**" prepared by the **Banca Ifis Research Department** and presented at the **12th edition of the Npl Meeting**, the annual event dedicated to the impaired credit industry held today at Villa Erba, Cernobbio, which was entitled "Step Up".

Banca Ifis's analysis has turned the spotlight on the de-risking path of Italian banks: a path that has no equal in Europe and that has put the national financial system in a position to generate a **better quality of new credit**, as demonstrated by the evolution of the **Npe ratio**. This **decreased by almost 14 percentage points**, from 17% in 2015 to 3,1% in 2022, with a further decrease expected by the end of 2023 when it should stand at 3%, a level far below the 5% threshold defined by the EBA.

Even though the main scenario forecasts outline a strong resilience of global economies, the future of Italian credit is still affected by the unknown factor of the macro scenario: the mix between the prolonged period of high rates, the possible lack of correction of interest rate policies by central banks in relation to the economic slowdown, and geopolitical tensions could generate new flows of impaired loans.

The Banca Ifis Market Watch also offers a forward-looking look at the future of the Italian Npl industry. During 2023, it is expected that **32 billion Euro worth of Npe transactions** will be completed, a figure that also includes some 8 billion Euro worth of transactions whose closing might be delayed until early 2024. More generally, in the **three-year period 2023-2025**, it is expected that **some 84 billion Euro worth of transactions** will be completed.

The evolution of the market will be characterised by an **increasing weight of the secondary market**, which will come to drive around **50% of total transacted amounts**. In particular, the increase in the incidence of the secondary market will be driven by the development of sales platforms and disposals by historically acquisitive operators, investor interest in GACS-backed portfolios, and the activity of new entrants. The primary market, on the other hand, will be mainly characterised by the continuation of the de-risking process of the major banks and the potential moderate increase in new impaired flows.

With this in mind, the forecast for the **rate of new credit deterioration over the three-year period 2023-25** shows **a significant reduction**, as evidenced by the projected rate for 2023, which is expected to stand at **1,2%**. Despite this improving context, **Italian banks have a higher prospective risk than European banks**, both in stage 2 and forbore performing loans.

"Although the economic environment presents more than one unknown factor, the Italian economy remains resilient thanks mainly to expansionary fiscal stimuli and positive private consumption dynamics. Bank balance sheets show a deterioration rate at an all-time low, below even the pre-subprime crisis levels, although a higher than EU-average prospective risk remains on our institutions, as confirmed by predictive ratios. Our Market Watch shows a positive trend in the flow of newly impaired for the coming years. For this reason too, the future of the Italian Npl market will see an increasing role for the secondary market, which will be driven by the need to act on securitisation proceeds, of which the GACS will be an important component. Finally, it is very interesting to note the trend in the territorial gap with the difference in the deterioration rate between the North and the South reaching an all-time low. These are positive numbers on which the role of strong support to the banking system played by the Italian Npl industry is evident", comments **Frederik Geertman, CEO of Banca Ifis**.

Banca Ifis's "Market Watch Npl: 2023-2025 scenario" was presented on Friday 22 September 2023 during the 12th edition of the "Npl Meeting", the annual event dedicated to the analysis of the impaired credit market. The event, which was opened by Banca Ifis Chairman **Ernesto Fürstenberg Fassio**, was addressed by the Minister of Justice, **Carlo Nordio**, who discussed how justice reform can help make the management of impaired loans more efficient; and the Deputy Minister of Enterprise and Made in Italy, **Valentino Valentini**, who outlined the health of Italian companies and their resilience to energy and inflation shocks and geopolitical tensions thanks to the competitiveness of Made in Italy. Then the CEO of Banca Ifis, **Frederik Geertman**, gave an overview of the main dynamics of the Italian and European Npl market, before handing over to **Michael Spence**, 2001 Nobel Prize winner for Economics, who illustrated macroeconomic trends and the international geopolitical scenario. The panel devoted to supervision featured dialogue between **Stefano Capiello**, Director of Regulation and Supervision of the Financial System at the Department of the Treasury, Ministry of Economy and Finance, and **Ida Mercanti**, Deputy Head of the Banking and Financial Supervision Department at the Bank of Italy, who addressed the topic of the new regulations on the Npl secondary market and the supervision of the authorities. Finally, two round tables followed. The first, dedicated to an in-depth look at the main trends and challenges in the credit market, featured speeches by **Gian Luca Sichel**, CEO of Compass; **Corrado Pavanati**, Head of Risk Italy at Unicredit; and **Roberto Parazzini**, CEO of Deutsche Bank Italia. The second panel discussion focused on how the European Npl recovery industry is facing this historical period and its impacts on portfolio prices, through the addresses given by **Katia Mariotti**, CEO of Ifis Npl Investing, **Marco Grimaldi**, CEO of Arrow Global Italy and **Francesco Buffi**, Director of AB CarVal.

The Market Watch Npl - 18th edition

- **Impaired loans in banks, Italy and the EU compared:** in the first quarter of 2023, **the stock of impaired loans on the balance sheets of EU banks rose by 1%** compared to the last quarter of 2022, going **from 355 billion Euro to 357 billion Euro, but the proportion of total loans remained unchanged**. The slight increase represents a slight reversal of a trend towards a sharp decline in the stock, which in European banks has fallen by 64% since the beginning of 2015 when it stood at 1.098 billion Euro. The forward-looking indicators of the major EU banks are improving, although remaining at higher levels than pre-Covid. In the first quarter of 2023, loans on EU bank balance sheets classified as **stage 2 stand at 1.439 billion Euro (9,1% of the total)**, down from 1.458 billion Euro (9,4% of the total) at the end of 2022. In the same period, the **stock of loans classified as forborne performing fell to 164 billion Euro (0,87% of the total)** from 171 billion Euro at the end of 2022 (0,93%). **Italy has a higher prospective risk than the EU average:** loans classified as stage 2 account for 11,3% while those in forborne performing account for 1,41%.
- **The total stock of Npe (bank and investor balances) in Italy:** at the end of 2022, **total Npe in Italy reached 306 billion Euro**, down sharply from the peak of 361 billion Euro reached at the end of 2015. For the three-year period 2023-2025, uncertain macroeconomic conditions are expected to lead to a new but moderate increase in the stock to 311 billion Euro in 2023, 317 billion Euro in 2024 and 321 billion Euro at the end of 2025.
- **Npl and UtP transactions:** by 2023, it is estimated that **Npe transactions amounting to 32 billion** will be carried out. This figure incorporates some 8 billion Euro of transactions, the accounting for which could be delayed until early 2024. More generally, **in the three-year period 2023-2025, 84 billion Euro of Npe transactions are estimated**. These will be mainly supported by the secondary market for Npl portfolios, the weight of which will increase to approximately 50% in both 2023 and 2024. Transactions in the primary will instead be driven by the continued de-risking process of the major banks and flows of impaired loans over the three-year period. The composition of assets transacted on the secondary market will instead see a significant increase in mixed and unsecured as a consequence of the assumed sale of portions of GACS-backed portfolios.
- **Evolution of Italian risk levels at geographical level:** over the 2015-2023 period, the process of de-risking impaired credit led to the progressive realignment of risk levels in the different areas of Italy. In particular, in March 2023, **the gap in the Npe ratio of southern areas over northern Italy has narrowed to just 2,2 percentage points**, compared to the 6,4 percentage points in 2015¹. Even more pronounced is the realignment of the risk level, represented by the loan deterioration rate, between Southern and Northern Italy: this has gone from a differential of 2,1% at the start of 2015 to a differential of 0,4% in March 2023.
- The **trends of the impaired loan industry:** despite having already reached the EBA target of 5% in 2021, the impaired loan industry continued to foster the de-risking process of Italian banks in 2022. In 2023, it is estimated that **non performing exposures on the balance sheets of credit institutions will stand at 3%**, down slightly from 3,1% at the end of 2022 and continuing a trend of strong easing that has continued since the peak in 2015. **In the last 8 years, impaired loans amounting to 352 billion Euro were transacted**, of which 39 billion were UtP. In doing so, the banking sector managed to **reduce the Npe ratio by 14 percentage points**, from 17% at the start of 2015 to an estimated 3% by the end of 2023. As a result of this process, **non performing exposures on bank balance sheets fell from 341 billion Euro at the beginning of 2015 to 58 billion Euro at the end of 2022**, with a further reduction to 56 billion Euro expected by the end of 2023.

¹ Data includes only transactions with resident customers, excluding Monetary Financial Institutions.

