

Npl meeting: the non-performing loan stock will rise to 385 billion Euro in 2021. 34 billion worth of new NPL expected on the market

- “The new Wave”: the ninth edition of the event organised by **Banca Ifis** for the NPL and bank restructuring market took place in Villa Erba in Cernobbio this morning
- The twelfth edition of the [NPL Market Watch](#) report was published

Cernobbio (Como), 30 September 2020 – A new wave of non-performing loans will soon be hitting our country, and the system is ready to manage it as efficiently as it did in the past. In the hypothesis of the macroeconomic economy recovering, in 2021, when grace periods are over, the default rate, that is performing loans becoming non-performing, should be 2.8% compared to 1.3% in 2019.

The total stock, on summing the NPL and the UTP amounts still present in bank’s financial statements and those already sold, the amount is expected to reach 338 billion Euro in 2020 (+5% on 2019) whereas exposures could rise to 385 billion Euro in 2021 and increase even further in 2022. The NPL transaction market, with 34 billion Euro in sales foreseen for 2020 and a further 34 billion Euro estimated for 2021, contrary to the timid expectations of a few years ago, will remain decidedly dynamic.

That was the scenario drawn this morning during the “**The New Wave**”: the ninth edition of the **Banca Ifis NPL Meeting**, the Italian main event for the Non-Performing Loan and bank restructuring market held at Villa Erba in Cernobbio (Como) in the presence of 300 guests, respecting Covid-19 protocols and directives, and more than one thousand participants in streaming.

The principal topics discussed during the main conference were the new NPL flows, industry management during the pandemic, whether to create a national *Bad Bank*, the Gacs (guarantees) policies. The macroeconomic scenario, the Italian debt market, the considerable provisioning calendar restriction, but also the value of real estate as collateral and the effect of moratoriums on bank financial statements.

The twelfth edition of the [NPL Market Watch](#) report was circulated and published for the occasion by the Banca Ifis Research Office.

*«Like other markets, the non-performing loan one will be entering a new economic cycle: we estimate an increase in bank financial statement non-performing exposures - explained **Luciano Colombini, CEO of Banca Ifis** from the stage. In 2021, when grace periods end, the default rate should reach 2.8%, double what was recorded in 2018-2019, but still lower than in the previous crisis when it reached 4.5%. A sensitivity analysis prepared by us showed that, based on less favourable macroeconomic hypotheses but still with no second total lockdown, a 2021 default rate could reach 3.4%».*

«However, the financial system is well placed compared to the previous crisis because banks have implemented identification/monitoring systems and active methods to manage NPE loans in the various deterioration stages. NPL are a real industry with about 8,000 operators and 230 billion Euro in NPE managed, able to intervene in the various loan process stages to contain deterioration and maximise NPL recoveries. In the next few months we want to be optimistic and positively consider the signs of recovery able to activate new virtuous cycles for our economy».

The Program.

Three panels on stage moderated by the journalist, Andrea Cabrini.

Corrado Passera, Ceo of Illimity, Mark Knothe, Ceo Intrum, Riccardo Serrini CEO Prelios and Andrea Mangoni, CEO DoValue discussed how the main operators have handled and are still managing the great Covid-19 challenge; that is how the servicing industry is preparing for the new NPL flows. Followed by the voice of the banking sector on capital and the grace period effect on the financial statements of our banks with **Biagio Giacalone, Head of Active Credit Portfolio Steering of Intesa Sanpaolo, Josè Brena, Head off Non-Core Asset Management Unicredit, Pietro Modiano former Carige Commissioner** and the “transversal” view of **Carlo Vanini, Head of Capital Markets Italy Cushman & Wakefield** on the real estate market.

To wind up, the debate on the project of a national bad bank and the guidelines of the provisioning calendar: impacts and solutions between old rules and new crisis authority answers, with protagonists: **Yves Mersch member of the Executive Board of the ECB, Gianfranco Torriero, Vice General Director of ABI and Stefano Cappiello, President of AMCO and Director of the Banking and Financial System Division of the MEF (Ministry for Economics and Finance).**

Guest of honour the **Nobel Prize winner for Economics, Michel Spence.**

The NPL Market Watch September 2020 – 12th edition.

- **Non-performing loans in Italian banks:** 2021 is expected to see a considerable increase in ~~the flows of~~ new NPL flows in the financial statements of banks, taking the NPE ratio to 7.3%, up compared to 6.2% in this 2020 (EU target: max 5%). The enterprise segment is estimated to have more of an impact than the family one.
- **NPL transactions:** in 2020 unsecured portfolios will have a greater incidence in NPL sales, for a 31% share of the total. The secondary market will contribute significantly to the transaction total: a 29% incidence expected in 2020, 30% in 2021. From 2015 to 2020, about 44% of the NPE sold, for 109 billion Euro, was taken over by 6 big investors. In order, by volume: Amco, Quaestio Capital Management, Banca Ifis, Fortress/PIMCO, Intrum and Credito Fondiario/Elliott.
- **The UTP market:** in the 2020-2021 two-year period, the UTP (Unlikely to pay) **transactions market is also expected to consolidate with 27 billion Euro of total sales expected (16 billion in 2020 alone).** These are mainly large transactions, like the 3 billion Euro originated by MPS in 2020 and €6.5 billion of UTP in the pipeline in 2021 from Unicredit.
- **The servicing industry:** 44% of the total Italian NPL volumes (% share related on sold from 2015 still now, pipeline included) is concentrated in the “hands” of just six servicers who are: DoValue (13%), Amco (9%), Prelios (7%), Cerved (7%), Banca Ifis (5%) and Credito Fondiario (3%). In the last six years, the servicing sector has had double digit average annual growth rates: +21% the change in revenues since 2013, +8% Ebitda of the entire sector.
- **Focus on the Gacs:** since 2016, the NPL transaction market has counted 31 transactions (6 those expected in 2020) for more than 77 billion Euro in GBV (*gross book value*). A survey of GACS (guarantees)

assisted portfolios, conducted pre-Covid showed that, compared to original business plans, at least 10 transactions out of 15 with state guarantee are under-performing. This could lead to new sales of Unsecured portfolios to specialised servicers. The flows would therefore further feed an already dynamic second market.

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