

MARKET WATCH  
NPL 

June 2022

NPL and UTP  
market  
transactions in a  
historical  
perspective  
*Flash update*

# Key numbers and messages.

**8**

Measures on accounting principles, regulations and laws from 2016 to 2021, aimed at favoring the de-risking of bank balance sheets and the development of a new market for non-performing credit transactions.

**342  
bn€**

The peak of Npes in bank balance sheets was determined by the two crises of 2008 and 2011 which have taken a strong impact on the real economy.

**310  
bn€**

The cumulative GBV that was transacted on the Italian Npe market from 2015 to 2021 thanks to the enhancement of an efficient non-performing credit market which made it possible to alleviate bank balance sheets, reaching the European Npe target of 5%.

**>100#**

The number of active investors in the NPL market from 2015 to 2021.

**28%**

The share of Npe market volumes acquired by the 3 top Investors: Amco, Quaestio and Banca Ifis, the latter is the only investor active for the period 2015 to 2021.

**96  
bn€**

The GBV of the Npl deals assisted by GACS from 2016 to 2021.


**48  
bn€**

The GBV transacted on the secondary market, which allows for good liquidity of the assets. In 2021 it exceeded 30% of the total volumes of the year.

**25#**

The main extraordinary transactions (JVs and acquisitions) carried out between 2018 and 2021 following the need for investors to enforce themselves with servicing platforms.

# The evolution of the regulatory framework: from 2016 to 2017

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- 2016**
- IFRS 9**
- The new accounting standard establishes that the hedge fund for expected losses must be based on the Expected Loss Model, which replaced the Incurred Loss Model from IAS 39. Specifically, the new standard esteem for the provision of expected losses as soon as the receivable is recorded, and such expected losses are accounted for the entire residual life of the same. The new credit impairment model responds to the need to more promptly acknowledge expected losses, a weakness of the previous standard (IAS 39) which represented a major limitation especially during the financial crisis.
- 2016**
- GACS**
- The GACS decree (Guarantee on the Securitization of Non-performing Loans) introduced for the first time in February 2016, and then renewed subsequently, provides for a guarantee by the Italian State, according to the guidelines of the European Commission, aimed at facilitating the disposal of non-performing loans from bank balance sheets. The guarantee covers holders of senior notes in the event of non-payment of the amounts due for principal and interest.
- 2017**
- ECB GUIDELINES**
- In March 2017, the ECB published "guidelines" on Npe, aimed at significant banks and relating to the methods of managing non-performing loans, with an emphasis on the timely provisioning and write-off of non-performing positions.

# The evolution of the regulatory framework from 2018 to 2019

2018

## **ADDENDUM TO THE GUIDELINES**

- The ECB has published an Addendum to supplement the ECB Guidelines on Npes on Calendar Provisioning, specifying the minimum times within which non-performing loans should have been fully written down based on the type of credit and guarantee.

2018

## **EBA FINAL GUIDELINES ON NPE AND FORBORNE MANAGEMENT**

- The European Banking Authority (EBA) has published the "Final Guidelines" on the management of Npe and Forborne, with the aim of ensuring that credit institutions are equipped with adequate tools and frameworks to be able to effectively manage non-performing exposures ( Npe) in place and achieve a sustainable reduction in the weight of the same in its financial statements. One of the most important interventions was the indication of the objective of 5% of the gross Npl ratio, also considering the adjustments in terms of governance and operations.

2019

## **PRUDENTIAL BACKSTOP**

- The European Parliament has included within the CRR Regulation a rule, known as the prudential backstop, which provides for a scheduling of provisions on new Npe flows and requires banks to adopt an approach like that envisaged by the Addendum. The measure provides a specific definition of Npe, the minimum coverage amounts (so-called "minimum loss coverage") and the components for calculating provisioning.

# The evolution of the regulatory framework from 2020 to 2021.

2020

## TARGET SREP

- From 2020, the ECB provides for minimum coverage levels on the existing Npe stock for banks under its direct supervision (the so-called significant banks) up to the full devaluation of the stock of non-performing loans over a predefined multi-year period, indicatively by 2026.

2021

## THE NEW DEFINITION OF DEFAULT

- The new definition of default envisaged by the European Regulation relating to prudential requirements for credit institutions and investment firms enters into force (Article 178 of EU Reg. No. 575/2013). The transition to default is automatic if both of the following components of the materiality threshold are exceeded for more than 90 consecutive days:
  - › in absolute terms:
    - 100 € for retail exposures (Individuals and SMEs)
    - 500 € for other exposures (companies);
  - › in relative terms:
    - 1% of the total amount of all customer exposures to the bank.

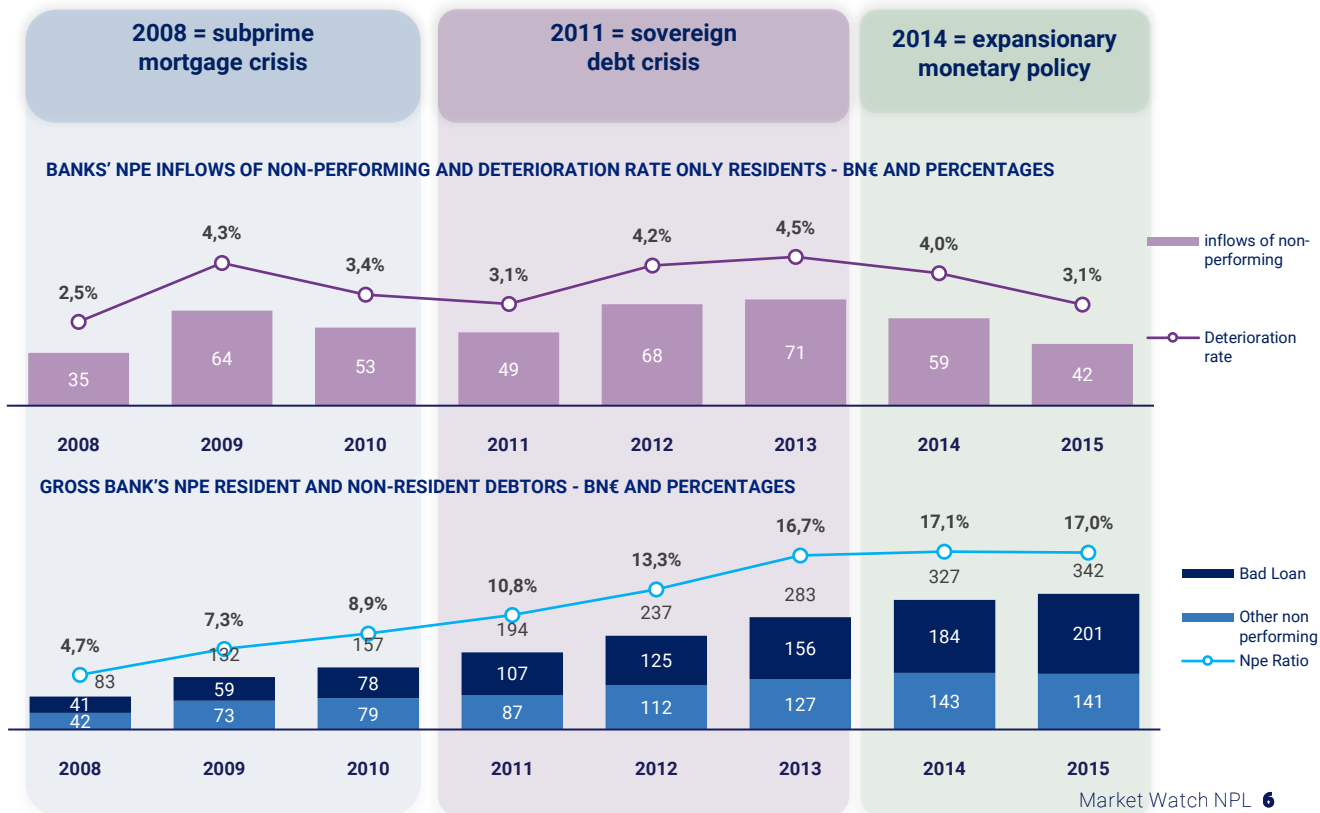
# The two crises of 2008 and 2011 had a strong impact on the real economy resulting in an increase of Npes in bank balance sheets which peaked at 342 bn€ in 2015.

- The 2008 crisis started in the United States with Lehman Brothers bankruptcy and known as the subprime mortgage crisis, which led to an unprecedented trust crisis.

- The collapse of the public finances of Greece, announced in October 2009, marked the passage to a new phase usually called "sovereign debt crisis".

- The crisis had its epicenter in the peripheral countries of the eurozone (Portugal, Ireland and Greece) and then spread over the course of 2011 to Spain and Italy.

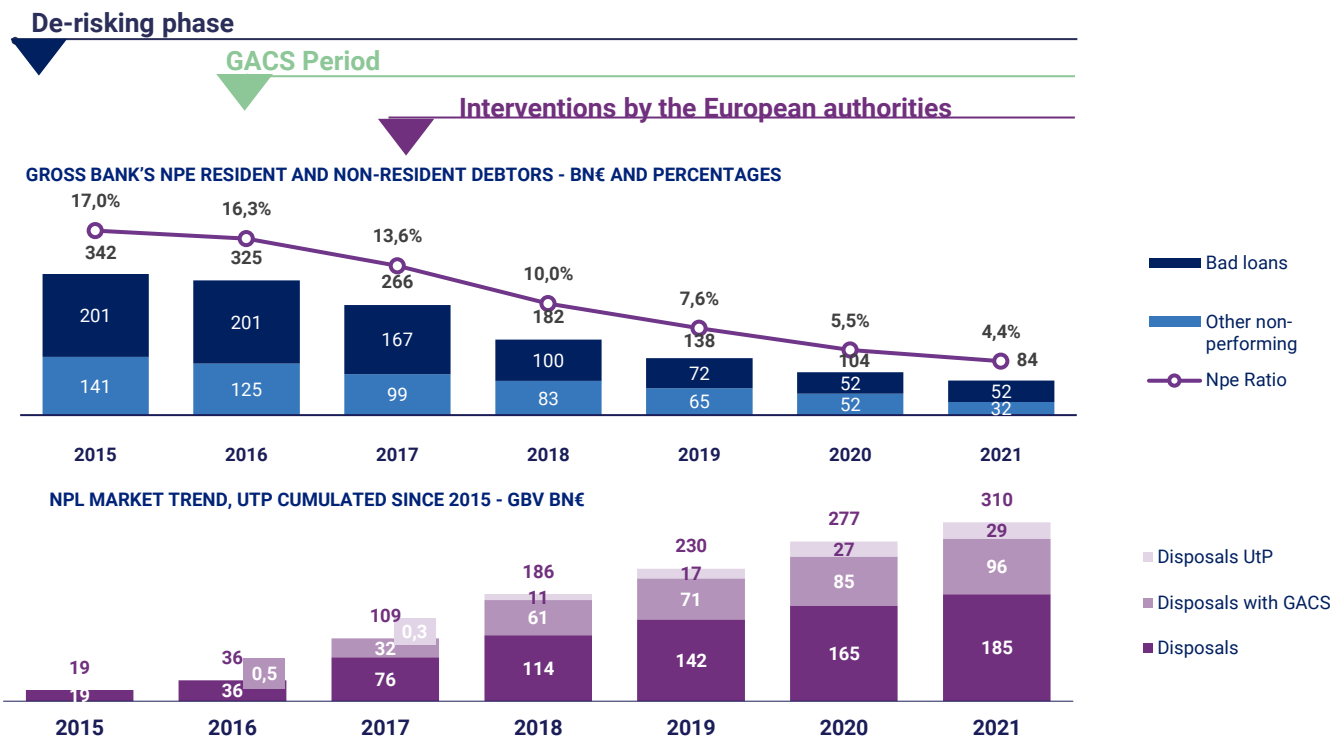
- Since 2014, the ECB has taken two extraordinary measures: the Targeted Long Term Refinancing Operation (TLTRO) and the purchase of government ABS and Covered Bonds (Quantitative Easing), measures through which the ECB and international bodies have implemented "unconventional" monetary policy.



SOURCES: Banca Ifis internal analysis based on Statistical Database Banca d'Italia; NPE ratio revised on EBA guidelines; 2020,2022 Forecast: Banca Ifis internal estimate.  
 DETERIORATION FLOW: annual flow of new loans in default adjusted. annualized estimate data. SOURCES: Banca Ifis internal analysis based on Banca d'Italia statistical Database.  
 DETERIORATION RATE: annual flow of new loans in default adjusted / stock of loans not in default adjusted previous year. SOURCES: Banca Ifis internal analysis based on Banca d'Italia statistical Database.

# The development of an efficient Npl market alleviated the bank balance sheets, reaching the European target of 5% in 5 years.

- The banking sector has managed, within 5 years, to reduce the Npe ratio by more than 12 percentage points from 17% in 2015 to 4.4% in 2021, below the European target of 5%.
- The total impaired in bank balance sheets went from € 342 billion in 2015 to € 84 billion in 2021.
- From 2015 to date, € 310 billion impaired loans have been sold, of which € 29 billion from Utp.
- The GACS proved to be an effective tool to facilitate the sale of bad loans with € 96 billion in sales from 2016 to 2021.



The Italian banks carried out an important de-leveraging and de-risking activity. In the years 2017 and 2018 the record of sales, which continued at a rapid pace also in the following years.

TOTAL NPL AND UTP SOLD FROM 2015 TO 2021 AND DETAILS OF THE MAIN SALES TRANSACTIONS - € BN

### Year 2021

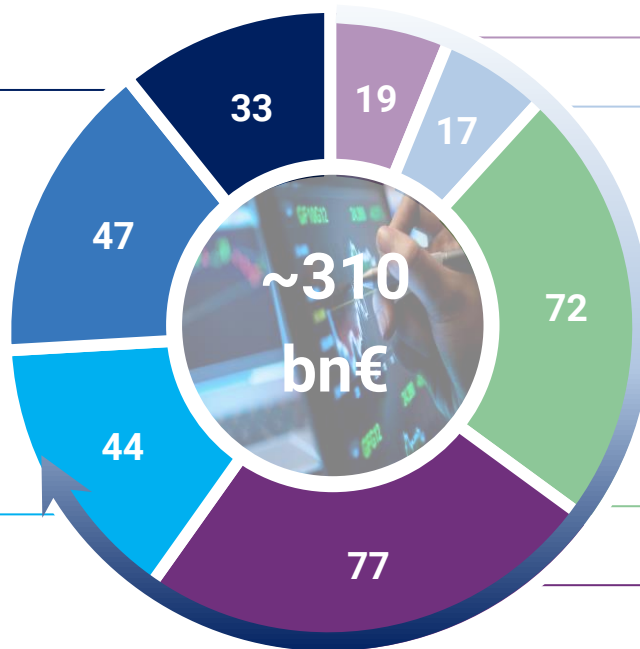
- Primary market characterized by a high number of transactions of a lower average amount
- 32% of sales on the secondary market: an all-time high for this segment.

### Year 2020

- 8 bn€ MPS Hydra project, credit split in favor of AMCO
- 6,6 bn€ Banca Intesa Sanpaolo as part of the de-risking plan.
- 6,3 bn€ Iccrea and Banche Popolari as part of the de-risking action.

### Year 2019

- 10 bn€ secondary market equal to 24% of the total market
- 10 bn€ de-leveraging of Unicredit
- 2,8 bn€ Banca Carige crisis



### Year 2015

- The Unicredit and MPS disposals accounted for 41% of the total

### Year 2016

- The first GACS of Banca Popolare di Bari of € 480 bn

### Year 2017

- 24 bn€ Monte Paschi di Siena
- 17,7 bn€ Unicredit Fino project
- 2,8 bn€ as part of the rescue of Caricesena, Carim e Carismi

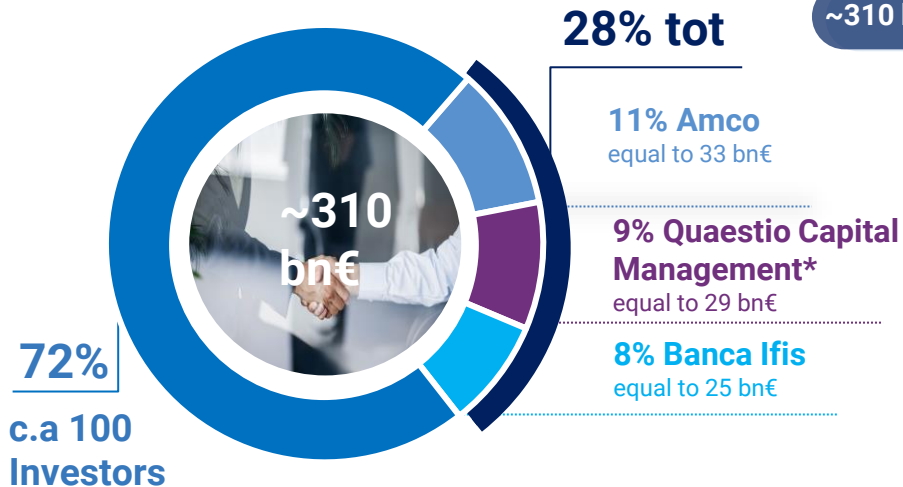
### Year 2018

- 18 bn€ da bankruptcy of the Venete banks
- 12,5 bn€ BPM sale of the deteriorated credit management platform and GACS
- 10,8 bn€ Intesa joint venture with Intrum

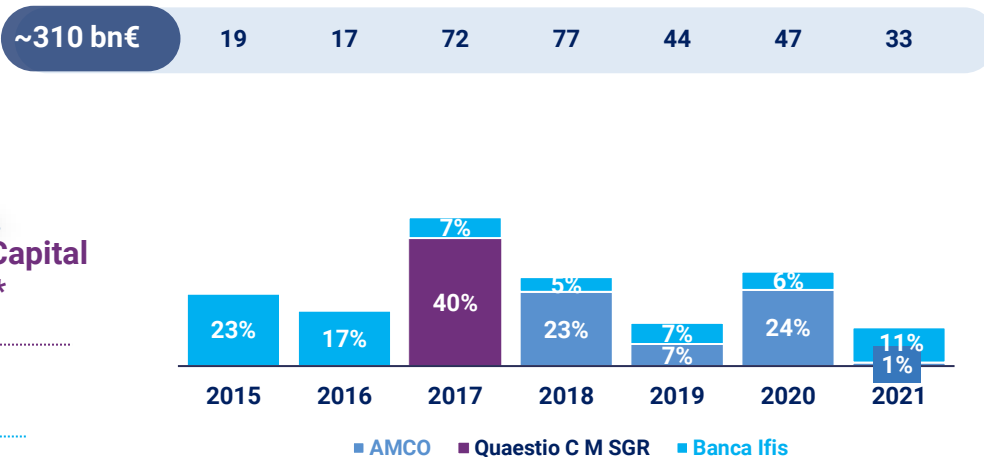


~100 active investors between 2015 and 2021, with the top 3 investors concentrating 28% of the total market transactions. Banca Ifis is the only investor active in all the years considered. Quaestio focused on MPS loans and Amco portfolio is mainly active on large system operations.

TOTALE NUMBER AND TOP 3 INVESTORS, INCIDENCE OF PURCHASES FROM 2015 TO 2021 – BN€ AND PERCENTAGES



TOP 3 INVESTORS, INCIDENCE OF PURCHASES IN EVERY SINGLE YEAR – BN€ AND PERCENTAGES



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

\*Notes: DEA majority shareholder

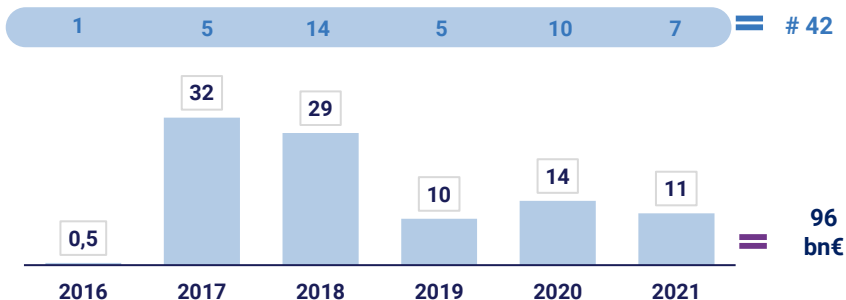


The GACS have concretely supported the deleveraging of Italian banks and the development of the Npl market with 96 bn€ of GBV. 98% of GACS portfolios are managed by 5 servicers.

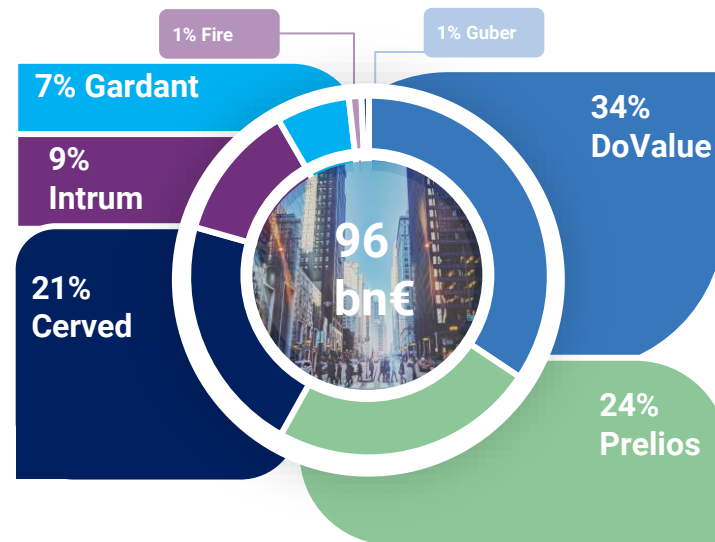
### The GACS from 2016 in numbers



GACS ASSISTED NPL PORTFOLIO TREND – BN€, # OF DEALS AND PERCENTAGES



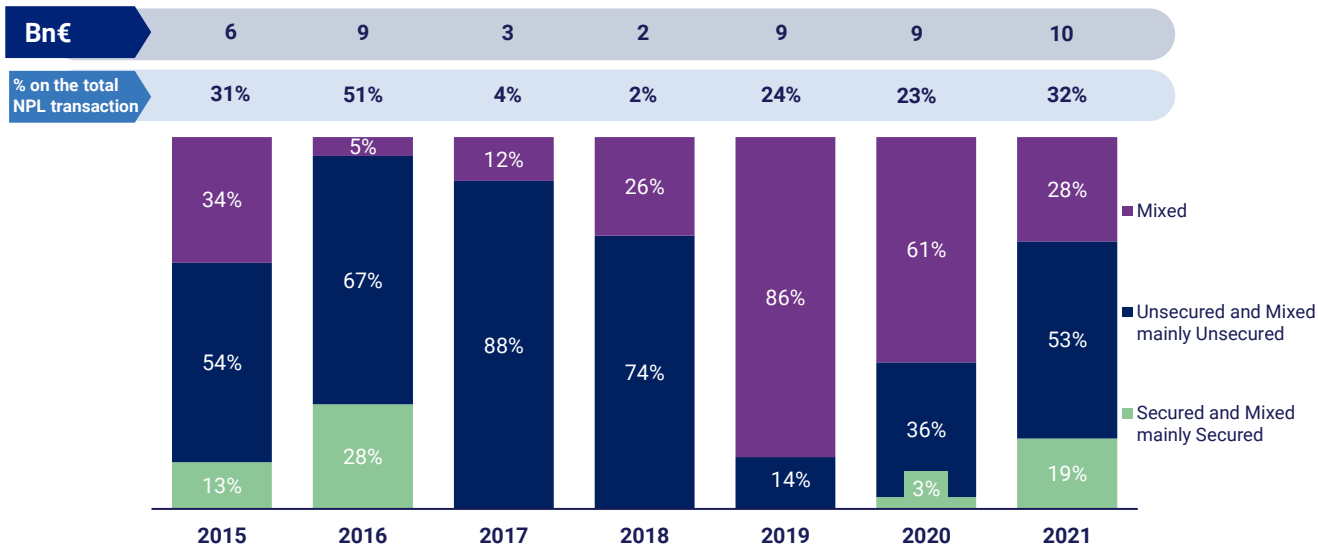
2016 - 2021 GACS ASSISTED NPL PORTFOLIO TREND PER SERVICER - BN€, AND PERCENTAGES



The Npl secondary market developed in recent years reaching a good cumulated amount (48 bn€), which in 2021 exceeded 30% of the total year volumes. In the secondary market unsecured portfolios prevail due to value of specialization.





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



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

# The strong development of the Npl market led to the need to equip it with servicing platforms and consequently enhanced M&A deals, targeting the years of 2018 to 2021 as the M&A Era (25 main transactions).

	2018	2019	2020	2021	
 <p>Acquisition</p>	<p><b>Lindorff / Intrum</b> Acquisition of 100% of Mass Credit Collection (MCC) department.</p> <p><b>Anacap + Pimco</b> Acquisition of majority of Phoenix Asset Management.</p> <p><b>Cerberus</b> Acquisizione del 57% di Officine CST</p>	<p><b>Arrow</b> Acquisition of 100% Parr Credit and Europa Investimenti</p> <p><b>Financial Group</b> Acquisition of Generale Gestione Crediti Se.Tel. Servizi</p> <p><b>Banca Ifis</b> Acquisizione del 90% di FBS.</p>	<p><b>Kruk</b> Acquisition of 51% di Agecredit.</p> <p><b>MCS - DSO</b> (BC Partners company) Acquisition of 80% di Serfin</p> <p><b>Hoist Finance</b> Acquisition of 100% di Maran</p>	<p><b>iQera</b> BC Partners company Acquisition of Sistemta.</p> <p><b>IBL Banca</b> Acquisition of 9.9% of Frontis NPL.</p> <p><b>Banca Ifis</b> Acquisizione del restante 10% d FBS</p> <p><b>DeA Capital</b> Acquisition of 38,8% di Quaestio Holding e del ramo Npl di Quaestio</p>	<p><b>Cerved Credit Management</b> Acquisition of 100% di 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 di AXIS.</p> <p><b>Axactor</b> Acquisition of 100% di Credit Recovery Service S.r.l.</p>
	 <p>Joint Venture</p>	<p><b>IBL Banca + Europa Factor</b> Joint venture for the creation of the Servicer Credit Factor (106 vehicle)</p> <p><b>Cerved + Studio legale La Scala</b> Law firm specializing in the management and judicial and extrajudicial recovery of banking credits.</p>	<p><b>Intesa + Lindorff/ Intrum</b> Joint venture for theNpl platform ofIntesa Sanpaolo.</p> <p><b>Npl Re Solutions + Axactor</b> Joint venture to manage Npl and Utp</p>	<p><b>Credito Fondiario + Banco BPM</b> Joint venture for the management of BPM Npl sales</p> <p><b>doValue + Aurora RE</b> Real estate Utp management platform</p>	<p><b>Famiglia Strocchi + Tinexta</b> Launch ofFBS Next a new NPL servicer</p> <p><b>Europa Factor e gli avvocati di Convecta</b> partnership on the management of NPLs</p>

# General Statement.

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