

MARKET WATCH
NPL 

BANCA IFIS

**NPL TRANSACTION MARKET
AND SERVICING INDUSTRY
2019 AND FORECAST 2020**

January 2020

NPL MARKET



8 key calls from NPL Market.



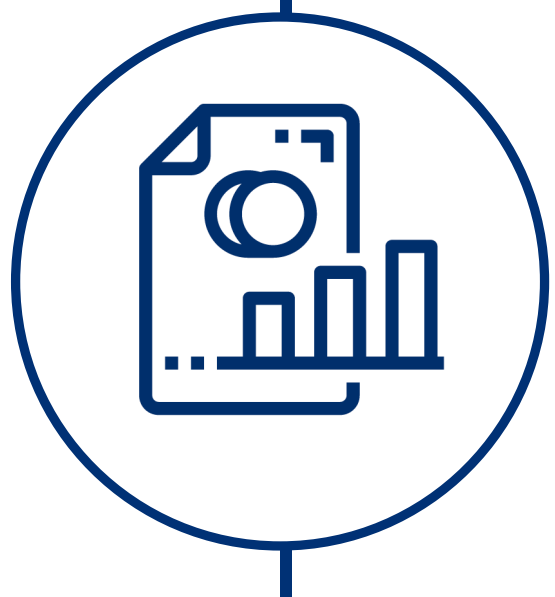
Italian Banks NPE's scenario

- 1. Improving situation in the Italy bank NPE stock:** gross NPE stocks have halved since 2015 peak and we expect they will close 2019 at 145 Bn€ with an NPE ratio forecasted at 7,7%
- 2. There is still a long way to go:** Italy has one of the strongest reductions in NPE ratio amongst other European countries, but it still has one of the biggest NPE ratio (in Q2 2019: 8% vs 3% EU average vs 5% which constitutes the target required by the ECB)
- 3. The state of new non-performing flows remains dynamic:** the pace of deterioration of performing loan is back to the pre-crisis levels but the switch from UtPs to NPLs remains higher than pre-crisis level because of Construction Industry



NPL transactions and pipeline

- 4. NPL Transaction market continues to function actively:** 2019 NPL transactions reached 32 Bn€ + 6 Bn€ of UtP, with an increasing share of secondary market (17% out of total)
- 5. In 2020 portfolio disposals will go on to support the achievement of the NPL ratio European target (5% NPE ratio):** expected at 37 Bn€ with a growing incidence of secondary market + 7 Bn€ of UtP



NPL Industry

- 6. Enormous amount of NPEs to manage:** in Italy there are ~325 Bn€ of NPLs and UtPs yet to be recovered
- 7. Servicers financial data confirms the need to invest to run the industry:** from 2014 to 2018 strong annual average increase for both human resources +4% and for investments +21% per year
- 8. Very dynamic M&A in the servicer sector:** we can see both interest of foreign investors as well as a strong JV trend



In-depth analysis: key messages.



GACS role in NPL market

1. **GACS supports market volumes:** from 2016 transactions subject to securitization with GACS have involved 24 deals for an amount of 70 Bn€: in 2020 an additional 6 billion euros of transactions assisted by GACS are estimated
2. **Average prices show an upward trend:** the average market prices move according to secured share of GBV in the different years
3. **GACS deals show a good recovery performance vs original business plan:** the cumulative Gross and Net Collection average ratios of GACS portfolios included in the analysis (historical data available) are performing slightly ahead the original business plan thanks to 5 portfolios above the target for both net and gross collection indicators
4. **Recovery performance is averaging 3% on yearly basis:** so far it doesn't depend on secured incidence and debtor type (Corporate or Individual) of GACS portfolios



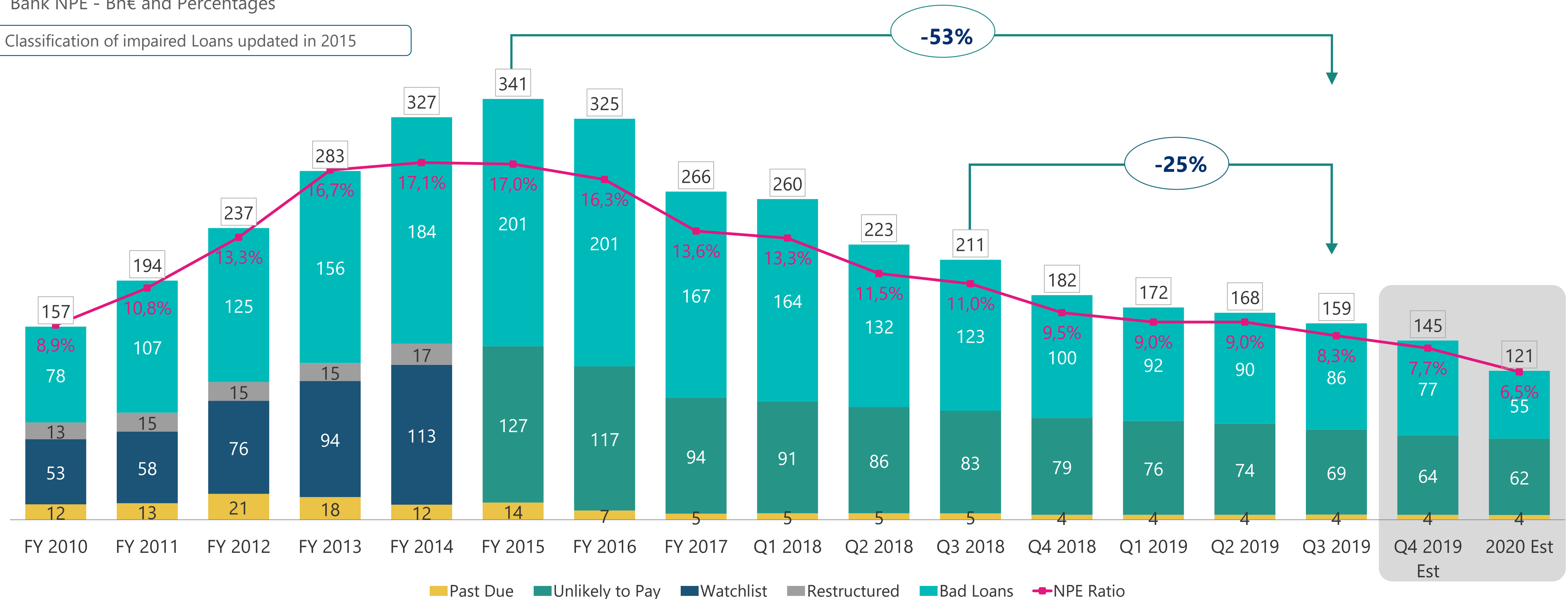
BANKS NPE'S SCENARIO



Gross NPE stocks have halved since 2015 peak and we expect they will close 2019 amount at 145 Bn€ with a NPE ratio forecasted at 7,7%

Bank NPE - Bn€ and Percentages

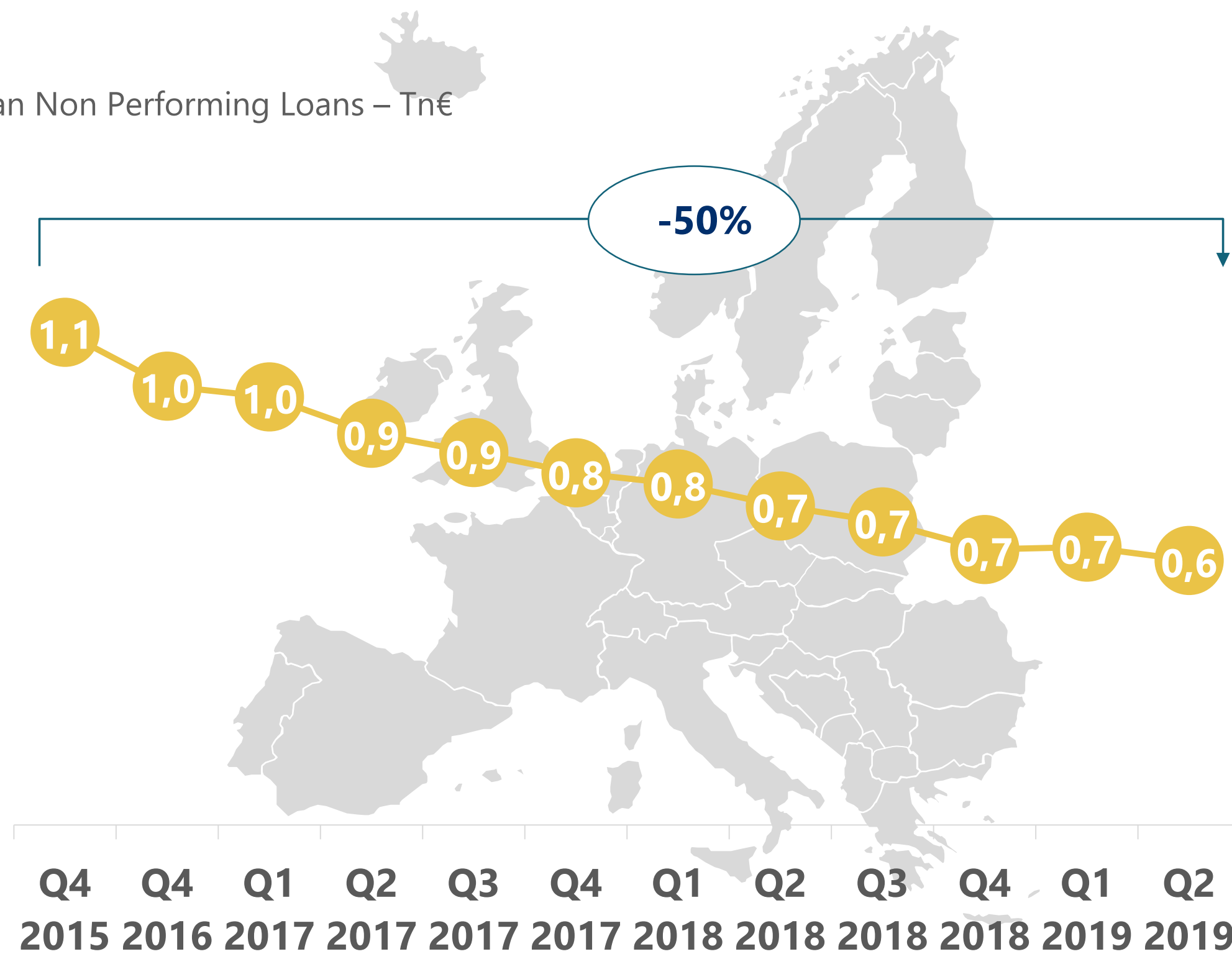
Classification of impaired Loans updated in 2015



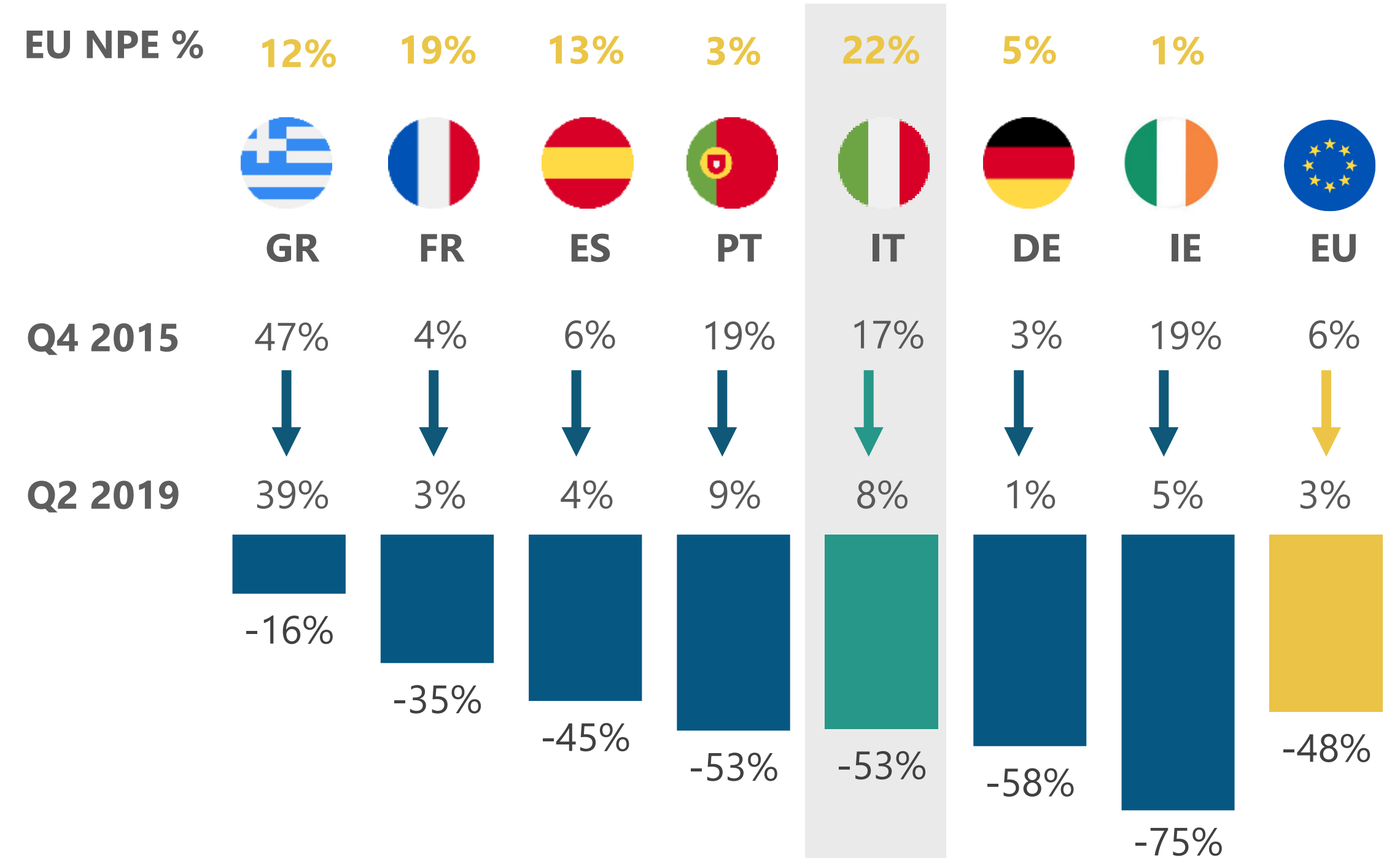


European NPEs as of June 2019 stood at 636 Bn€ down by 50% compared with 2015 maximum. Italy has one of the strongest drops in NPE ratio amongst other European countries, but an NPE ratio almost three times higher than the EU average.

European Non Performing Loans – Tn€



European Landscape - Bank NPE Ratio* - Percentages

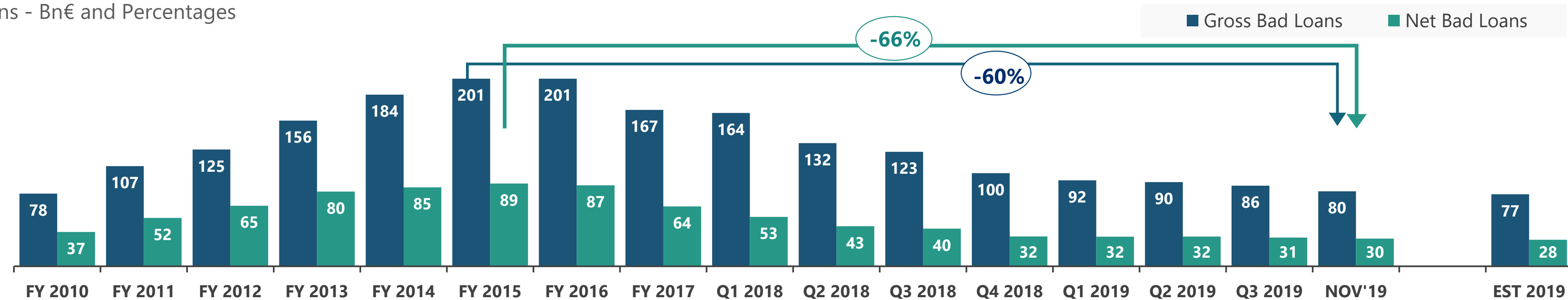


NPL Ratio recalculated bases on the solution implemented by the EBA to disseminate information on EU's largest banks, as established by Decision EBA/DC/130
 *Note that the terms "non-performing exposure (NPE) and "non-performing loan" (NPL) are used interchangeably in the EBA "Risk Dashboard"

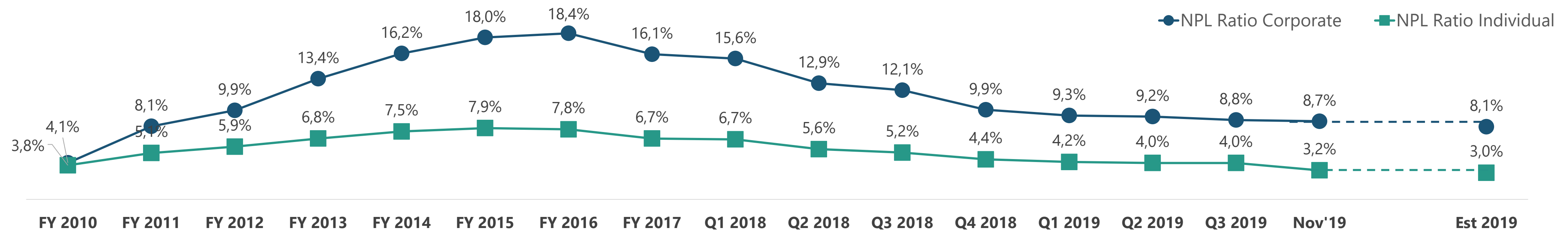


In 2019 the reduction of Bank Gross Bad Loans continues with a coverage ratio over 60% as of now for 4 years. The NPL ratio by debtor type is indicative of the hard work performed on corporate NPL component.

Bank Bad Loans - Bn€ and Percentages



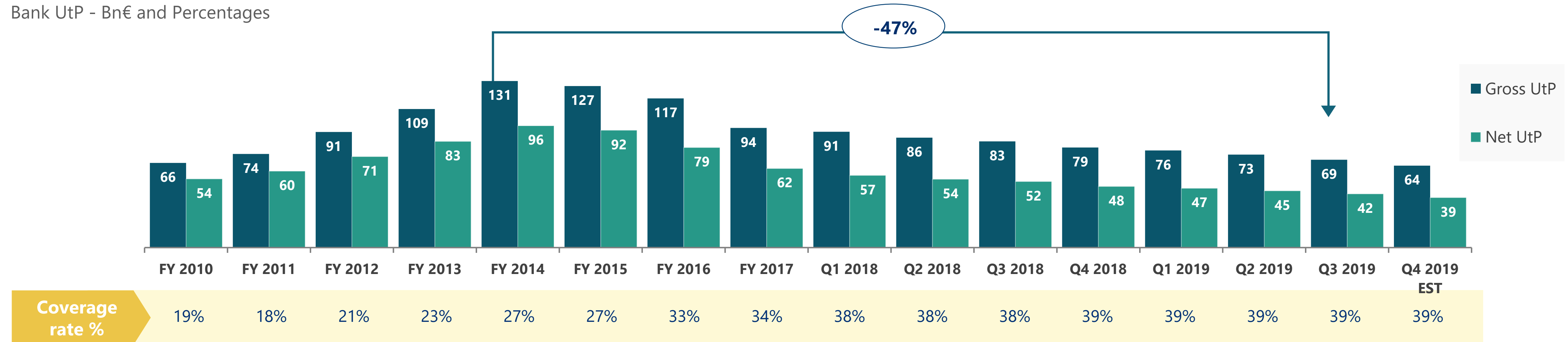
Bank Gross Bad Loans/Total Asset by debtor type - Percentages



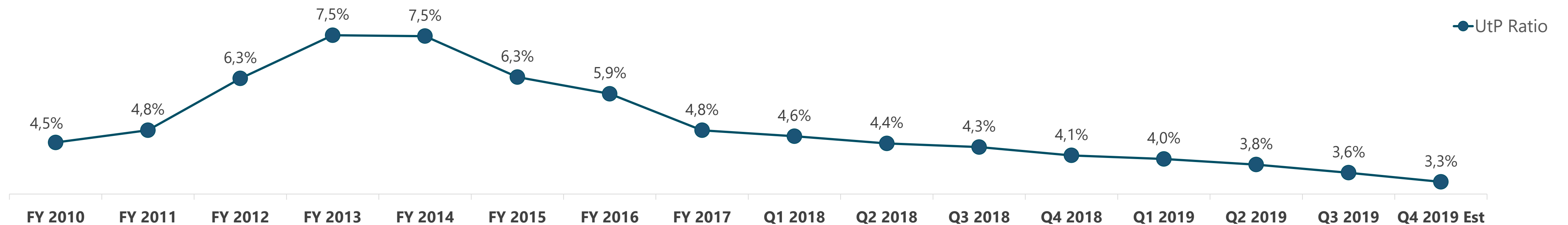


Gross UtP stock has halved since 2014 peak and we expect it will close 2019 at 64 Bn€ with gross UtP ratio forecasted at 3,3%

Bank UtP - Bn€ and Percentages



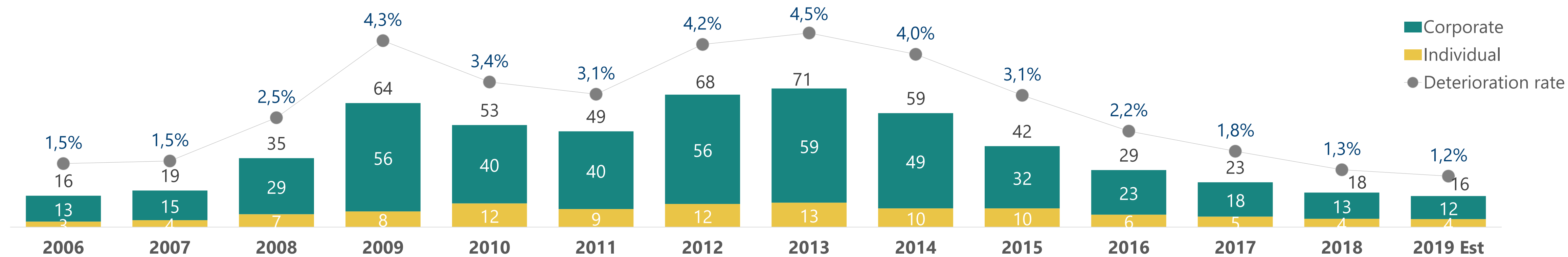
Bank Gross UtP/Total Asset - Percentages



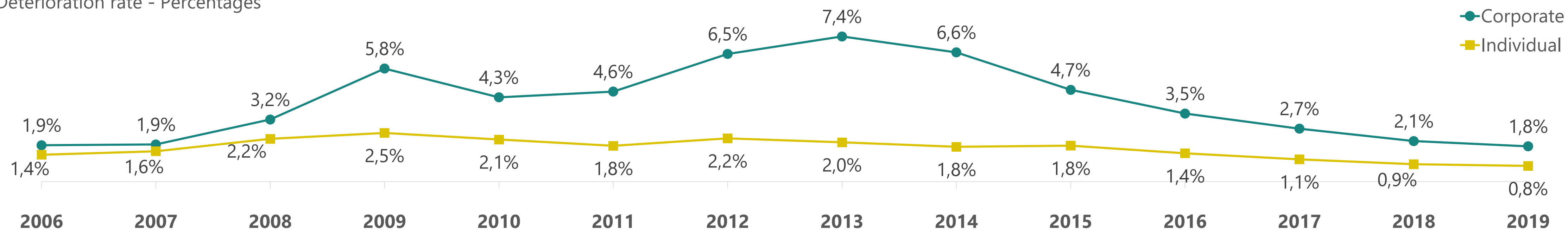


The flows from performing to NPE show a very positive trend with -30 bps as compared to 2007 pre-crisis level thanks to Individual component performance.

Banks' NPE Inflows from Performing and Deterioration rate by debtor type - Bn€ and Percentages



Deterioration rate - Percentages

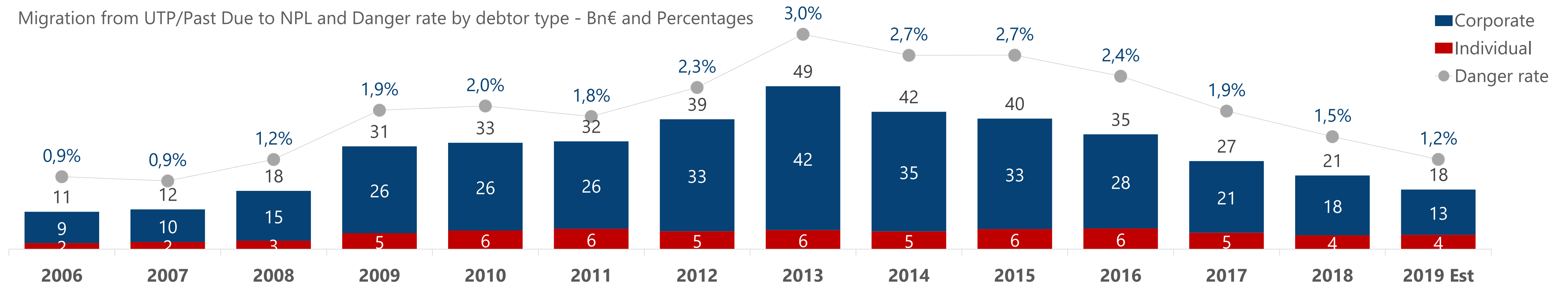


Deterioration rate: Annual flow of adjusted non-performing loans/Stock of performing loans at the previous year (2019 annualized estimate data)

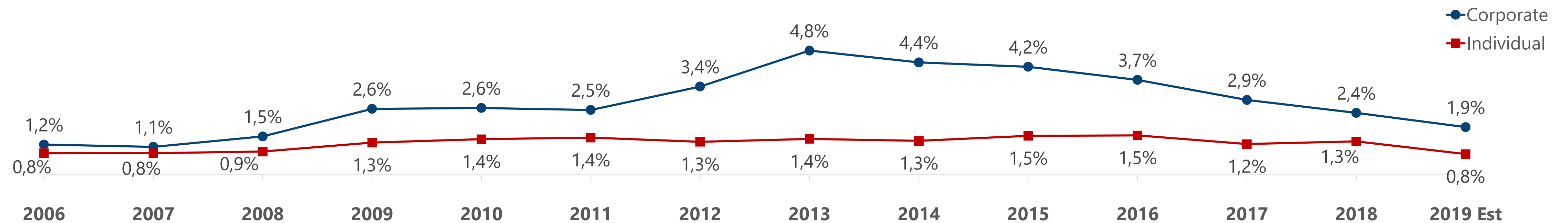


The Danger rate (flows from UtP/Past Due to Bad Loan) remains well above 2007 pre-crisis levels as mainly effect of Corporate loans.

Migration from UTP/Past Due to NPL and Danger rate by debtor type - Bn€ and Percentages



Danger rate - Percentages

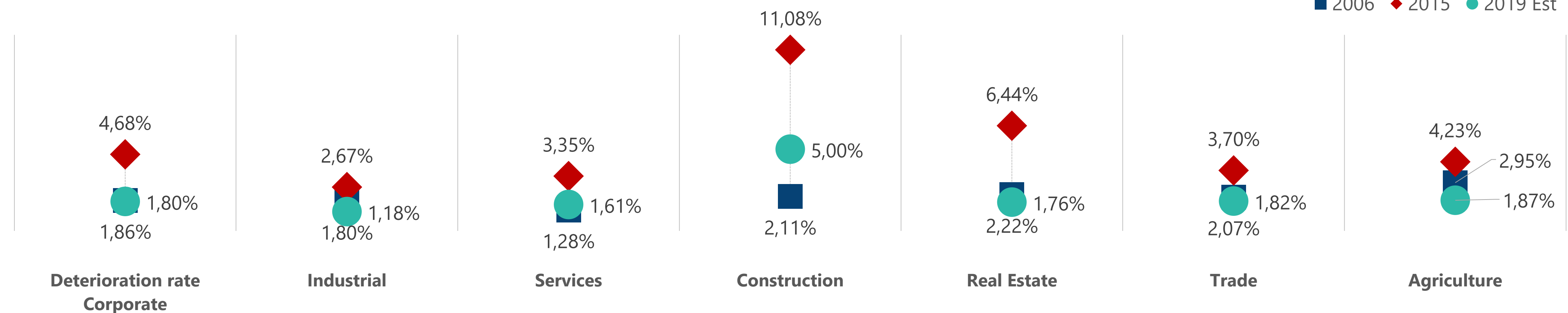


Danger rate: Annualized flow of new adjusted bad loans/Stock of performing loans at the previous year (2019 annualized estimate data)

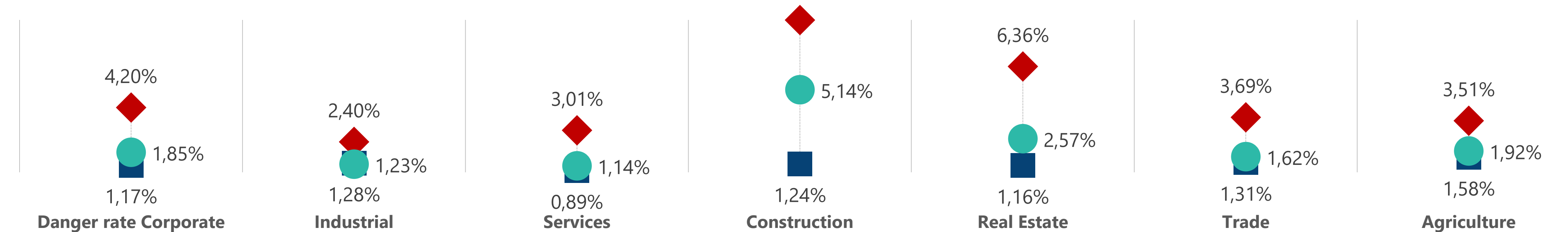


The Construction industry shows the highest rate of debt deterioration among industries and Danger Rates in Construction and Real Estate are respectively 4x and 2x the pre-crisis levels.

Deterioration rate corporate - %



Danger rate corporate - %



Deterioration rate: Annual flow of adjusted non-performing loans/Stock of performing loans at the previous year (2019 annualized estimate data)

Danger rate: Annualized flow of new adjusted bad loans/Stock of performing loans at the previous year (2019 annualized estimate data)

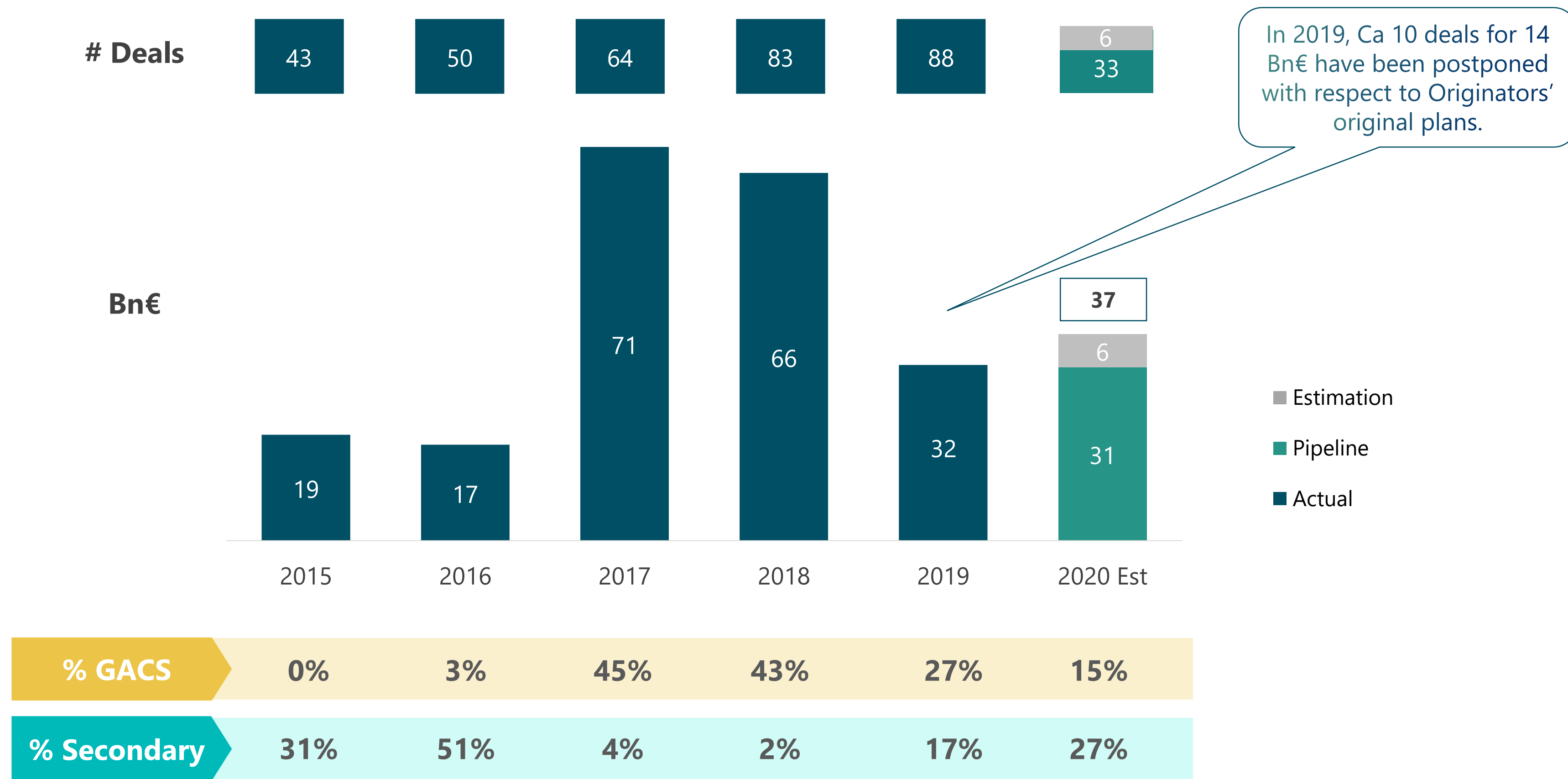


NPL TRANSACTIONS AND PIPELINE



2019 NPL transactions reached ~ 32 Bn€. In 2020 the NPL transactions will continue approximately 37 Bn€ forecast. The secondary market component will increase with respect to previous years.

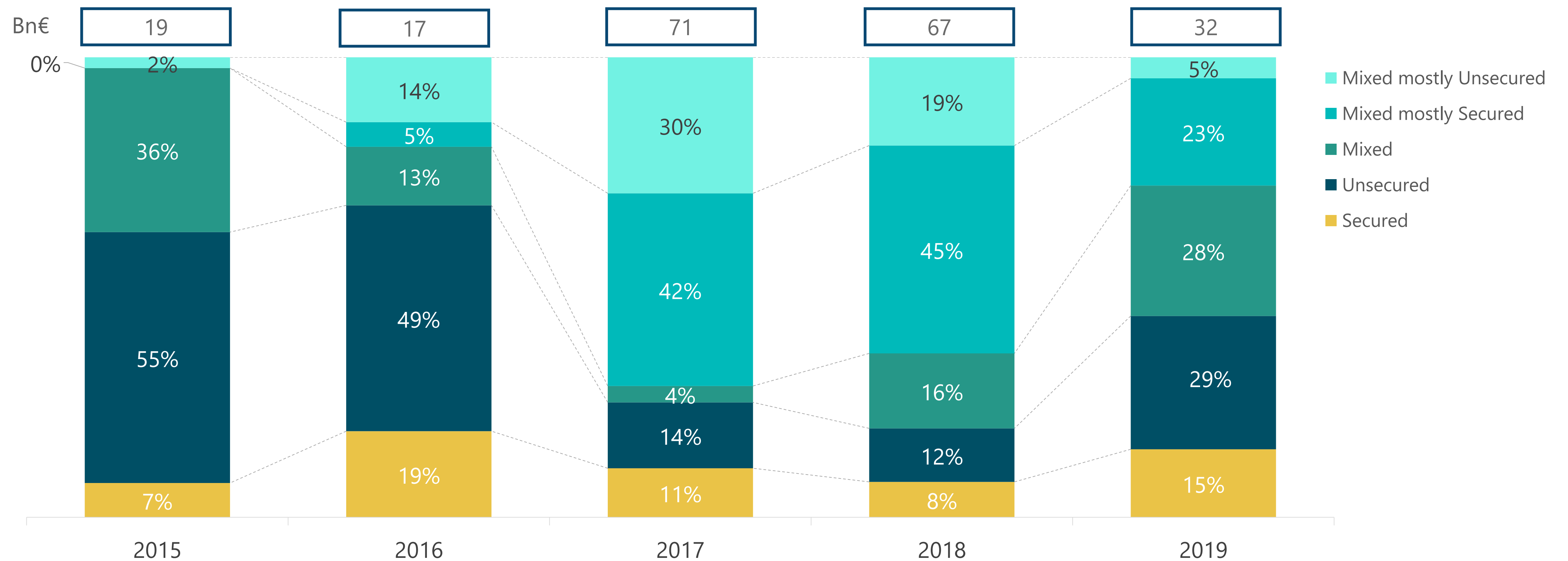
NPL Transactions - Bn€ and Percentages





In the past two years the share of secured portfolios has been increasing.

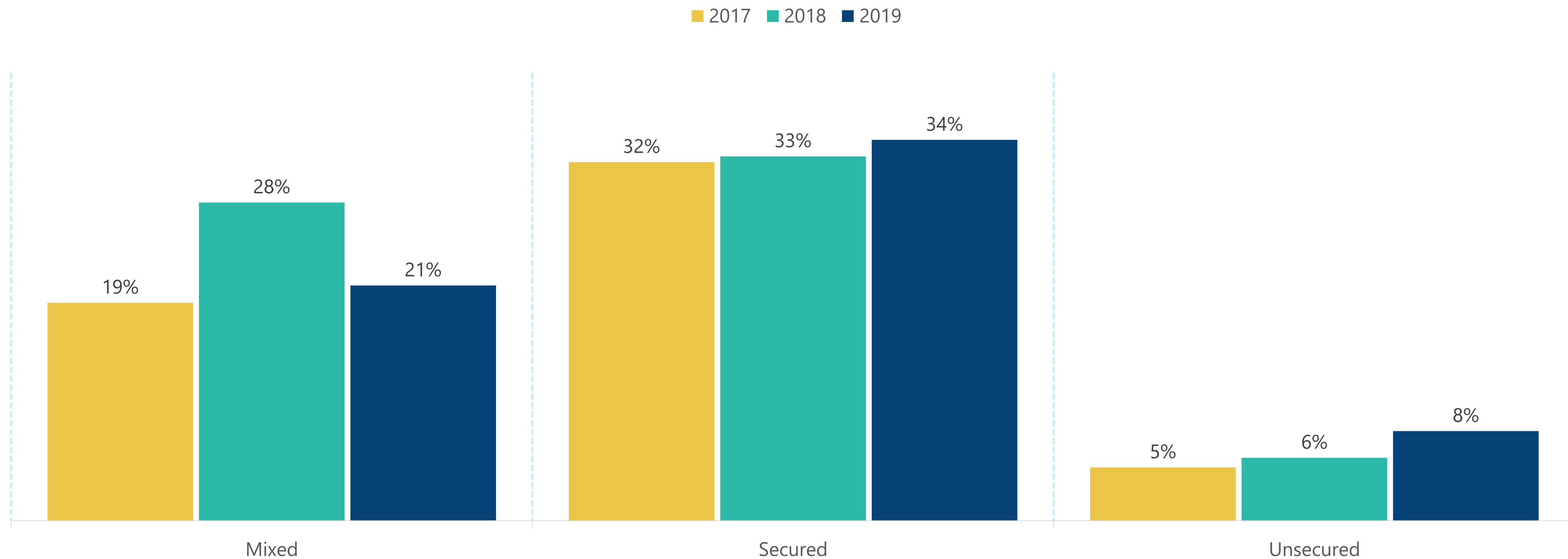
NPL Transactions by portfolio type - Bn€ and Percentages





Primary market: in 2019 the prices of secured portfolios are basically stable. Average prices of unsecured increased from 6% to 8% due to Consumer type transactions with less in-house processing and greater documentation completeness.

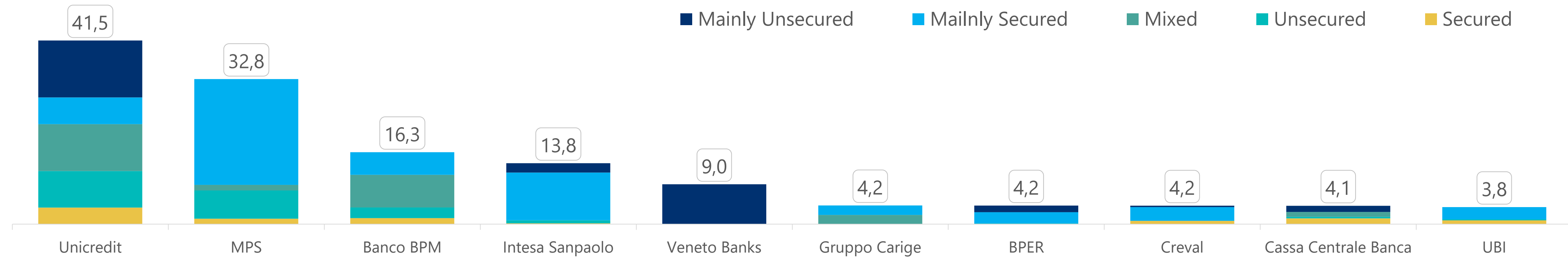
NPL Transactions: Estimated avg prices - Percentages



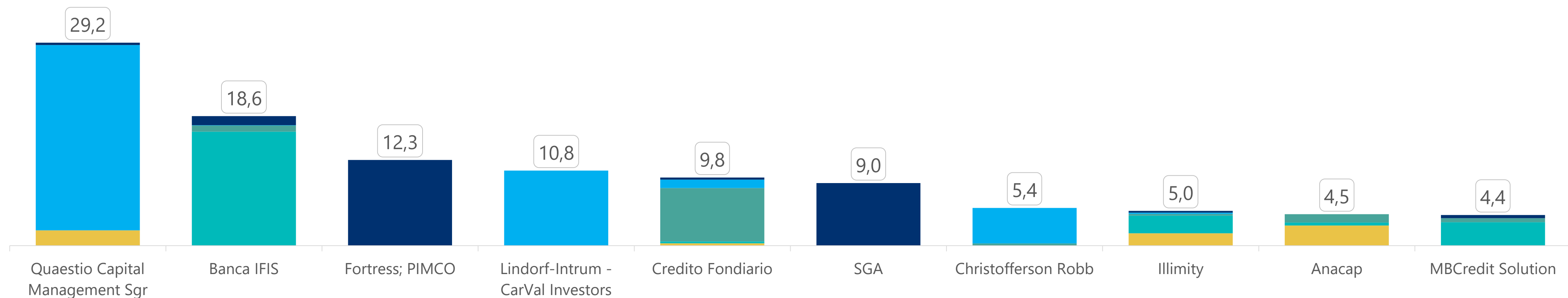


The NPL large portfolio transactions have determined a volume concentration of 66% on the top 10 Sellers. A large number of operators are interested in investing.

2015- 2019 NPL Transactions Top Originator Sellers - Bn€



2015- 2019 NPL Transactions Top Buyers - Bn€



The 2019 NPL transactions have been characterized by a smaller size as compared to previous years.

Buyer	Bn€ GBV	Servicer	Seller
Amco (ex SGA)	1,1	Amco (ex SGA)	Gruppo Carige
Amco (ex SGA)	0,2	Amco (ex SGA)	Banca del Fucino
Bain Capital Credit	0,6	Aquileia Capital Services	Monte dei Paschi di Siena
Banca IFIS	2,4	Banca IFIS	All confidential deals
Banca IFIS	0,3	Banca IFIS	Findomestic Banca
Banca IFIS	0,2	Banca IFIS	Gruppo ICCREA
Barclays Bank, Guber Banca	0,2	Guber Banca	Unicredit
Barclays Bank, Guber Banca	0,9	Guber Banca	Confidential
Gruppo Arrow Global	0,3	WhiteStar Asset Solutions	Cassa Centrale Banca
Guber Banca	0,4	Guber Banca	Confidential
Guber Banca	0,3	Guber Banca	Monte dei Paschi di Siena
Illimity	0,7	Illimity	Banco BPM
Illimity	0,3	Illimity	Confidential
Illimity	1,8	Illimity	Monte dei Paschi di Siena
Illimity	1,1	Illimity	Unicredit
SPF Investment Management LP	1,1	n.a.	Unicredit
Unipol Rec	1,3	Unipol Rec	BPER
Varde, Barclays, Guber Banca	0,7	Guber Banca	Cassa Centrale Banca
Confidential and other minus	17,8	n.a.	n.a.
Total	31,8		

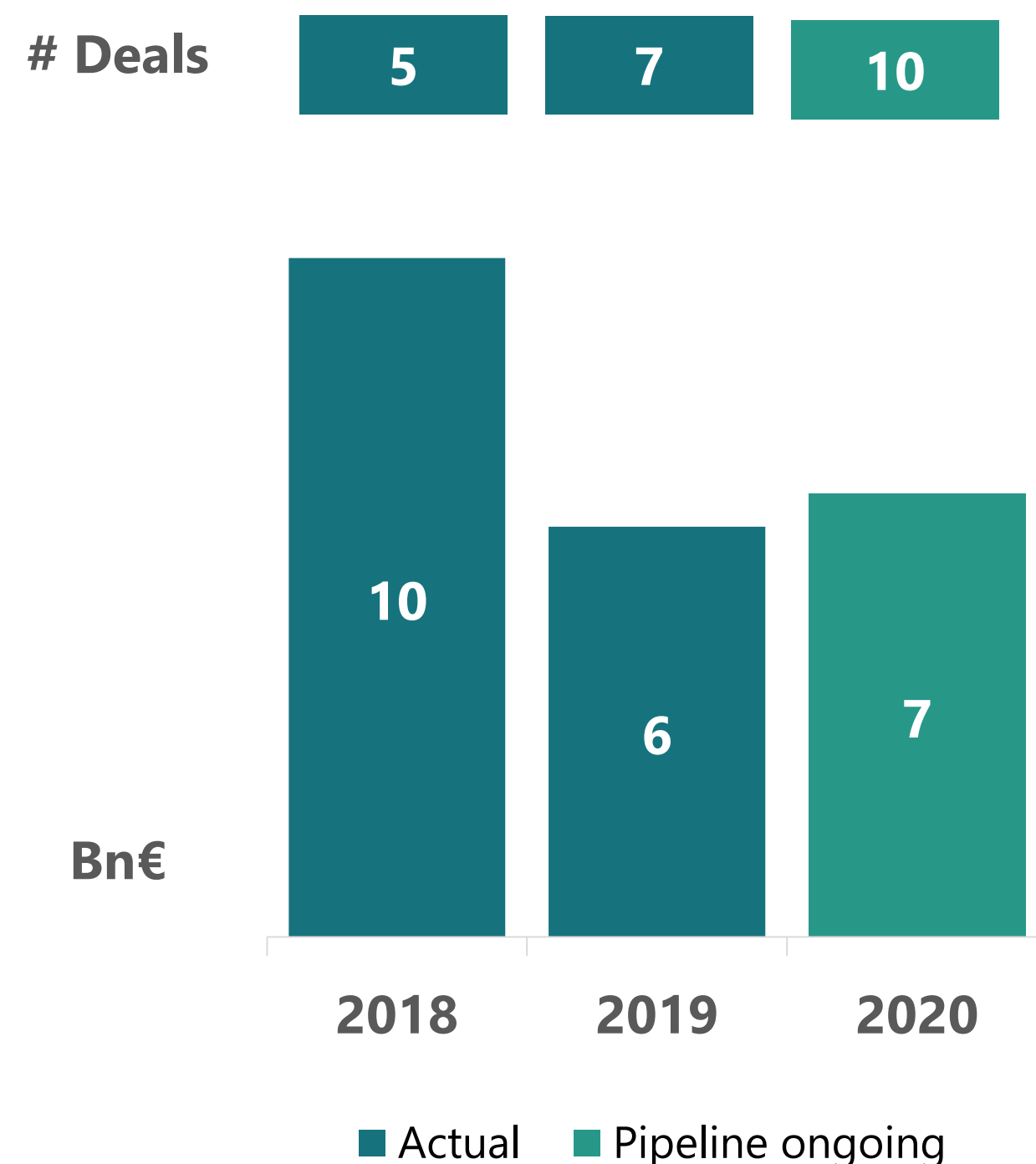
2020 Pipeline shows a high level of progress on several projects.

Seller	Project	Disposal Type	Ongoing	On plan	Announced	Bn€ GBV
Unicredit	Capri	Straight Sale	0,3	-	-	0,3
Unicredit	Forward Flow	Forward Flow	-	0,2	-	0,2
Unicredit	Roma	Straight Sale	1,4	-	-	1,4
Unicredit	Sandokan II	Straight Sale	-	-	0,8	0,8
Unicredit	n.a.	Straight Sale	-	-	3,0	3,0
Iccrea Banca	n.a.	Straight Sale	-	2,8	-	2,8
Iccrea Banca	n.a.	GACS	1,2	-	-	1,2
Intesa Sanpaolo	Rep	Straight Sale	1,4	-	-	1,4
Intesa Sanpaolo	n.a.	Straight Sale	-	2,2	-	2,2
Banco BPM	n.a.	Straight Sale	-	3,5	-	3,5
BPER	n.a.	Straight Sale	1,0	-	-	1,0
BPER	n.a.	GACS	1,5	-	-	1,5
Banca Popolare di Bari	n.a.	Securitization	2,0	-	-	2,0
Banca Popolare di Sondrio	n.a.	GACS	1,5	-	-	1,5
Cariparma	n.a.	GACS	-	1,0	-	1,0
Creval	n.a.	Straight Sale	-	0,8	-	0,8
Hypo Alpe Adria Bank	Terzo	Straight Sale	-	-	0,8	0,8
UBI	n.a.	Straight Sale	0,7	-	-	0,7
Cassa Centrale Banca	n.a.	Securitization	-	0,7	-	0,7
Confidential and other minus	n.a.	n.a.	1,1	7,2	2,4	10,6
Total Pipeline 2020			12,0	18,4	7,0	37,4



The major banks are planning to sell big UtP portfolios: we forecast that 2020 volumes could reach 7 Bn€ as a result of current ongoing deal closing.

UtP Transactions - Bn€



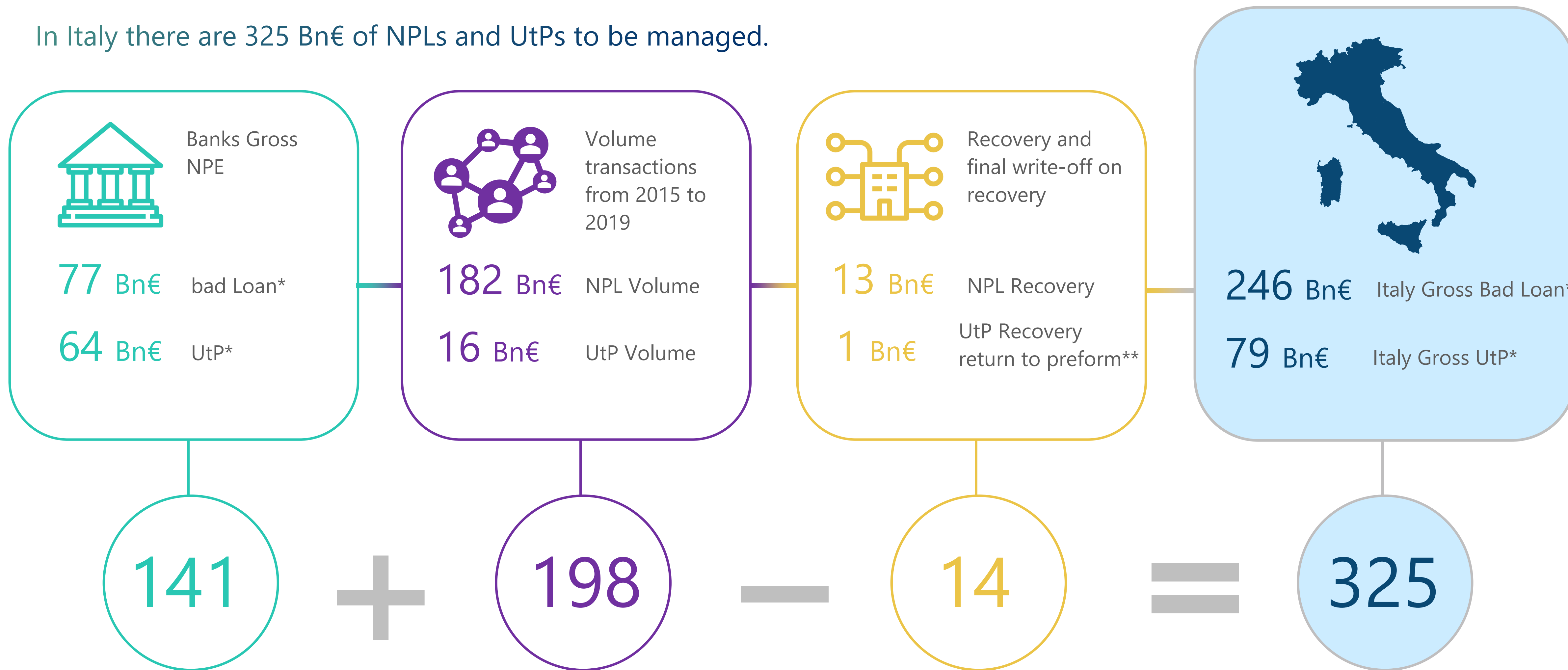
Year	Seller	Project	Buyer	Bn€ GBV
2018	Veneto banks	n.a.	SGA	9,0
	Credit Agricole - Cariparma	Valery	Bain Capital Credit	0,5
	Monte dei Paschi di Siena	Alfa 2	Algebris	0,3
	Monte dei Paschi di Siena	Alfa 2	GWM and Farallon	0,1
	Gruppo Carige	n.a.	Bain Capital Credit	0,4
				10,2
2019	Monte dei Paschi di Siena	Papa2	Cerberus	0,5
	Monte dei Paschi di Siena	Quebec	Illimity	0,5
	Monte dei Paschi di Siena	n.a.	Confidential	0,2
	Intesa Sanpaolo e Unicredit	n.a.	Pillarstone (KKR)	0,3
	Intesa Sanpaolo	n.a.	Prelios	3,0
	Gruppo Carige	Hydra	Amco (ex SGA)	1,7
	Banca del Fucino	n.a.	Amco (ex SGA)	0,1
				6,2
Total Actual				16,4
Year	Seller	Project	Potential Buyer	Bn€ GBV
2020 Pipeline Ongoing	Gruppo Carige	Messina	CDP	0,5
	Intesa Sanpaolo	Levante	n.a.	0,3
	Monte dei Paschi di Siena	Lima	Bofa Merrill Lynch	0,1
	Unicredit	Dawn	n.a.	1,0
	MultiSeller	Cuvée	Amco (ex SGA)	2,0
	MultiSeller	n.a.	n.a.	2,0
	Confidential and other minus	n.a.	n.a.	0,8
				6,7
Year	Seller	Project	Potential Buyer	Bn€ GBV
2020 Other assumed projects	Monte dei Paschi di Siena	n.a.	Amco (ex SGA) - Partnership	7,0
	Monte dei Paschi di Siena	n.a.	n.a.	0,2
	Unicredit	n.a.	Dea Capital e Clessidra	6,0
				13,2



NPL INDUSTRY



In Italy there are 325 Bn€ of NPLs and UtPs to be managed.













*Bad Loan at Q4'19, UtP at Q4'19 Banca IFIS estimate

**UtP recovery/return to perform based on Bank of Italy transition matrix



The top 10 servicers concentrate 78% of the AuM in the Italian market.

Top ten servicers		Bank of Italy Surveillance	Rating	Bn€ AuM	% AuM
DoValue		106/115	S&P, Fitch	82	20%
Credito Fondiario		Bank	Fitch	52	13%
Cerved Credit Management		106/115	Fitch	46	11%
Intrum Italia		115	Fitch	41	10%
IFIS NPL, FBS		106	Fitch	24	6%
Prelios		106	S&P, Fitch	24	6%
AMCO		106	S&P, Fitch	20	5%
Phoenix Asset Management		115	n.a.	10	2%
Guber		Bank	Fitch	9	2%
Sistemìa		115	Fitch	9	2%
Total				317	78%



Top servicer financial data confirms the need to invest in Human Resources (+4% annual increase in the last 4 years) and to employ latest Technology (+21% annual investment increase in the last 4 years).

Key features of servicing business



Uman intensive business



Technology Innovation

Average annual change from 2014 to 2018 (CAGR)



+4%
(headcount)



+21%
(asset increase)



Very dynamic M&A in the servicer sector: we can see both interest of foreign investors and a strong JV trend.

2018 ————— 2019 ————— 2020 —————>



Acquisitions

<p>Lindorff / Intrum Acquisition of 100% of PwC Mass Credit Collection</p> <p>Arrow Acquisition of 100% of Parr Credit and Europa Investimenti</p>	<p>Anacap + Pimco Acquisition of a majority stake in PAM</p> <p>Kruk Acquisition of 51% of Agecredit</p> <p>Banca IFIS Acquisition of 90% of FBS</p>	<p>Cerberus Acquisition of 57% of Offi cine CST</p> <p>Financial Group Acquisition of Generale Gestione Crediti Se.Tel. Servizi</p>	<p>Hoist Finance Acquisition of 100% of Maran</p> <p>MCS - DSO (a BC Partners company) Acquisition of 80% of Serfin</p>	<p>Illimity Acquisition of 70% of IT Auction</p> <p>IBL Banca Acquisition of 9.9% of Frontis NPL</p>	<p>DeA Capital Acquisition of 38,82% Quaestio Holding and NPL company branch of Quaestio SGR</p>	
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Joint Venture

<p>IBL Banca + Europa Factor Joint venture for the creation of the new Servicer Credit Factor</p>	<p>Intesa + Lindorff / Intrum Joint venture for the NPL platform of Intesa Sanpaolo</p>	<p>Cerved + Studio legale La Scala Joint venture for the creation of a specialized NPL law firm</p>	<p>Npl Re Solutions + Axactor Joint venture to manage NPL and UTP</p>	<p>Credito Fondiario + Banco BPM Creation of a Joint venture for the management and disposals of Banco BPM NPLs</p>	<p>DoValue + Aurora RE (Mosaico) Creation of a multioriginator platform to manage UTP portfolio secured by real estate</p>	<p>Amco + Prelios (Cuvée) Creation of a multioriginator platform to manage UTP portfolio secured by real estate</p>
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Opportunity assessment

				<p>MCS - DSO (a BC Partners company) Acquisition of Sistemica subject to approval</p>		<p>Cerved Evaluation phase: Intrum and Credito Fondiario are negotiating the acquisition of NPL company division</p>
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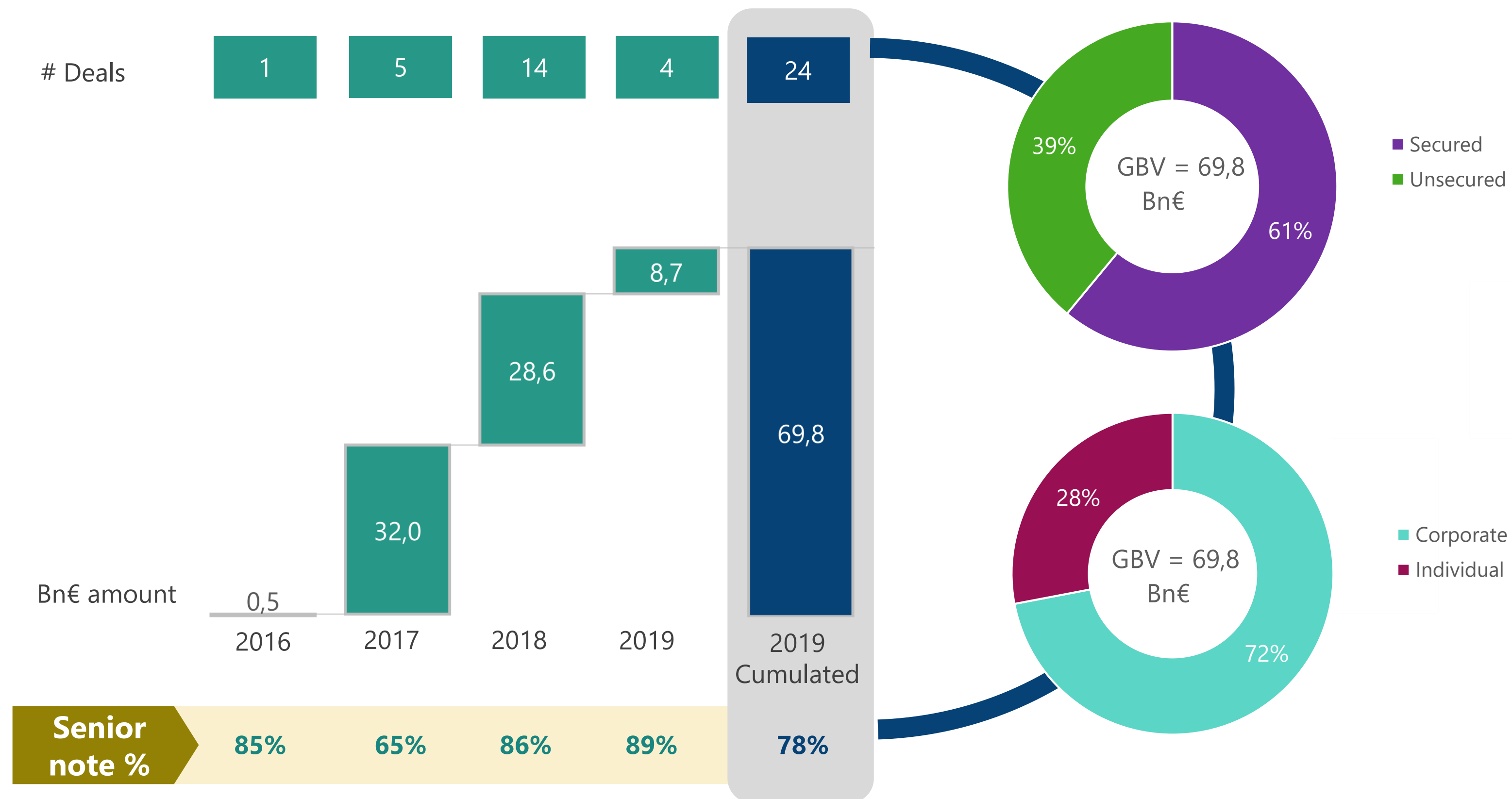
In-depth analysis

GACS role in NPL market

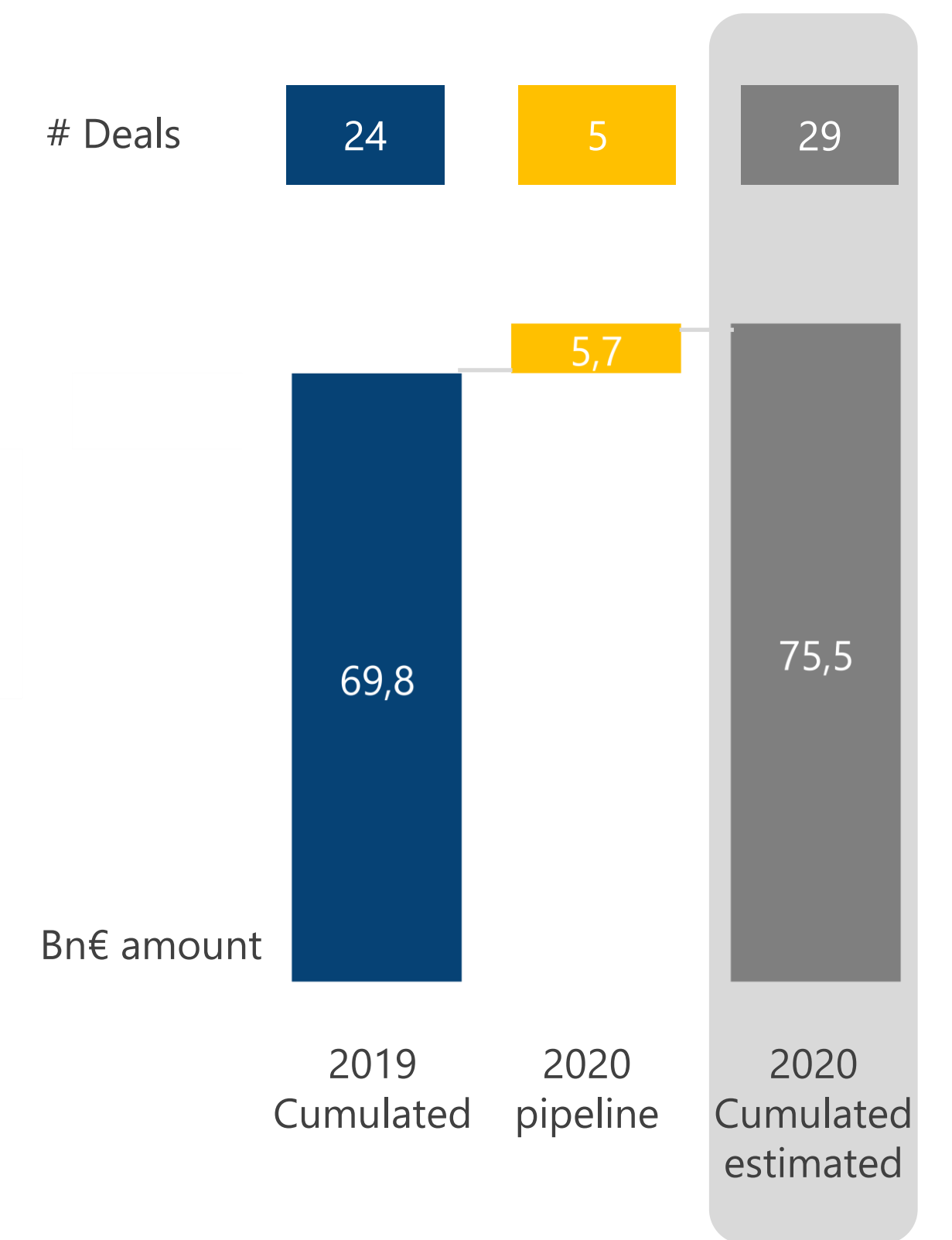


From 2016 to 2019 GACS have supported market volumes: 70 Bn€, 24 Deals.
Other ~6 Bn€ of GACS deals are expected in 2020.

NPL GACS Transactions - Bn€ and # Deals

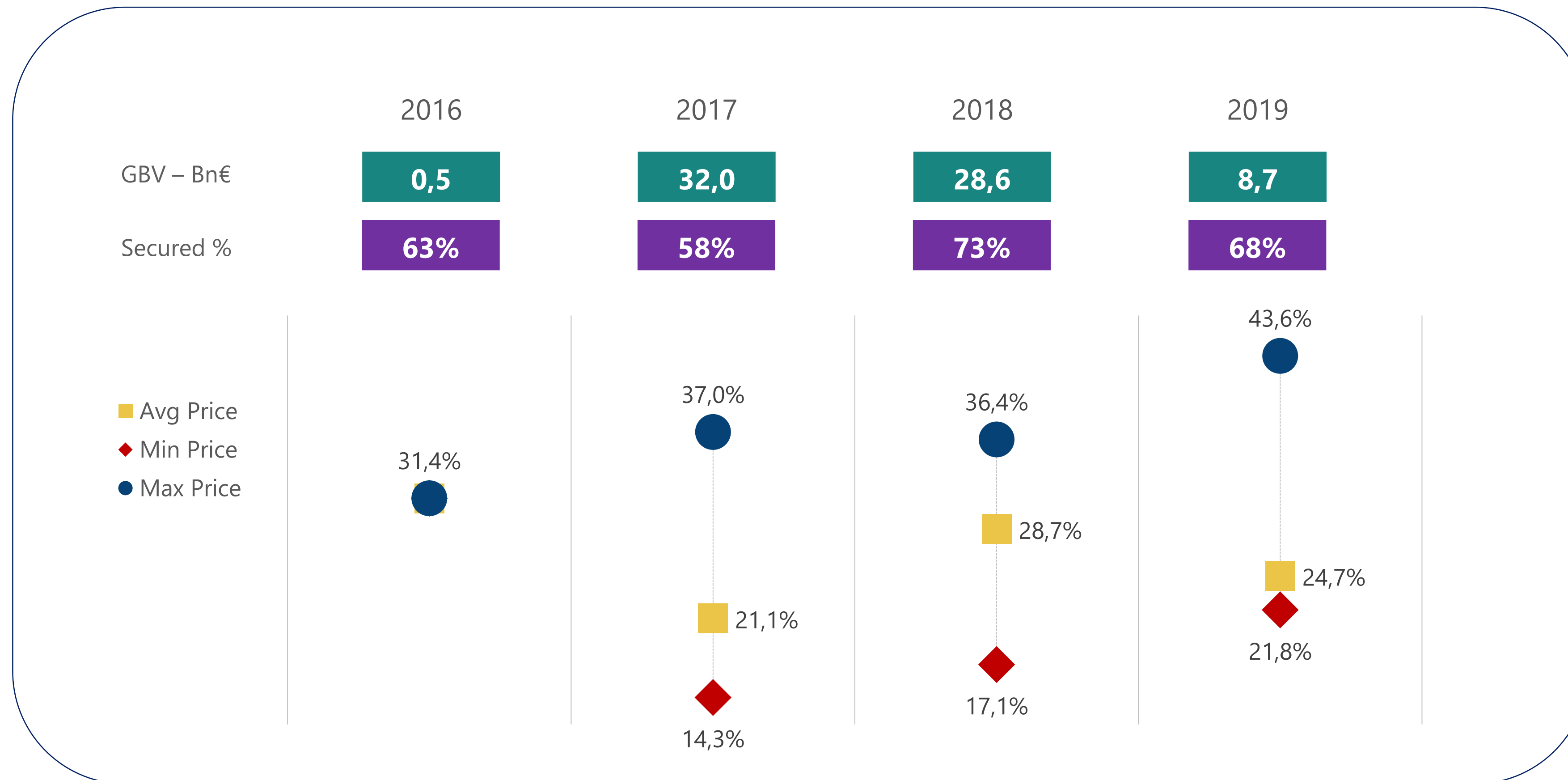


NPL GACS Transactions - Bn€ and # Deals



GACS average prices trending upward according to secured share of GBV.

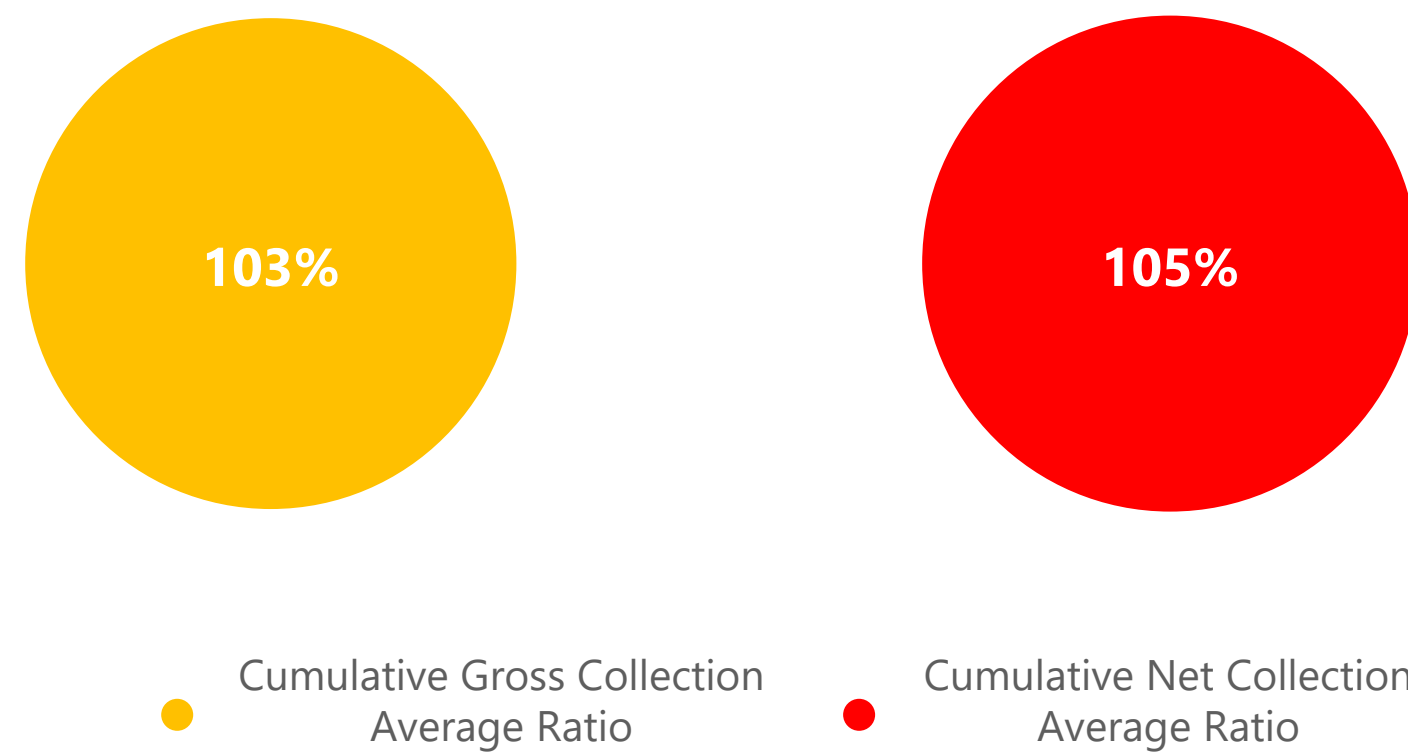
NPL GACS Transactions - Bn€ and Percentages





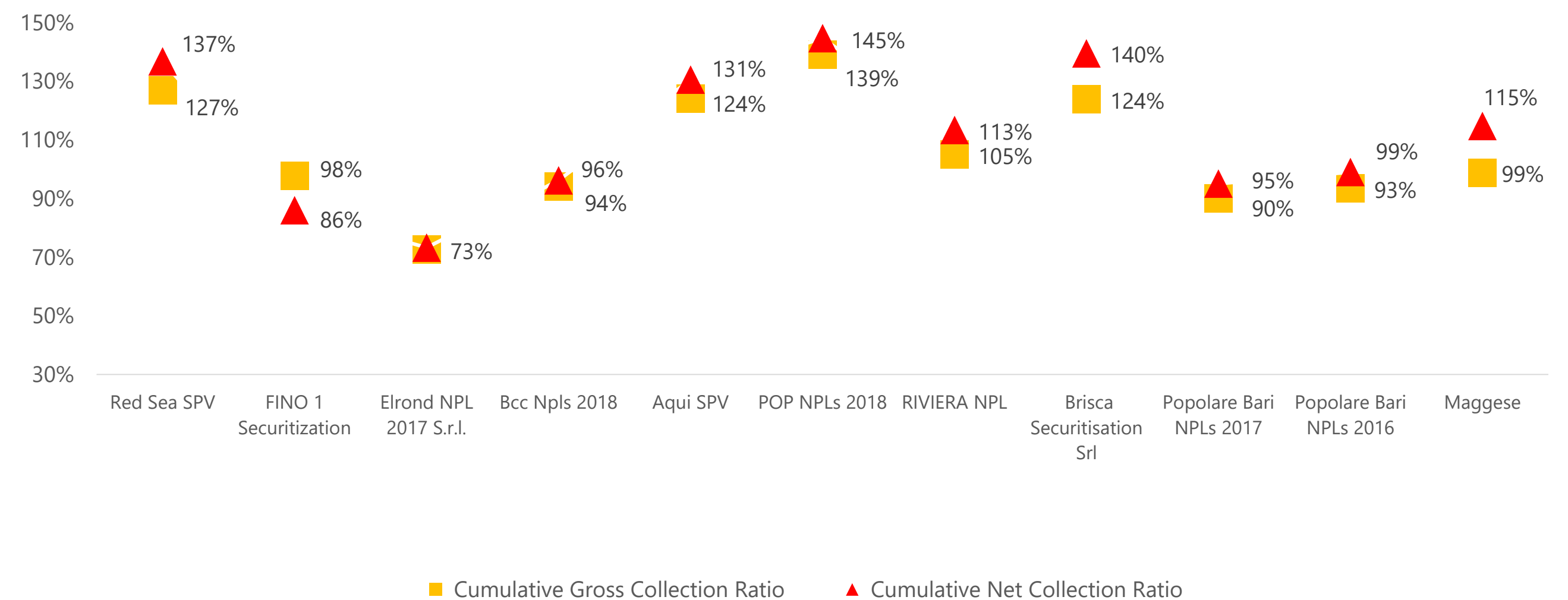
Five of eleven portfolios are above the business plan both for gross and net cumulative collection ratio. The net collection is trending even more positively as a result of recovery expenses and service fees weighing less than expected.

Cumulative Gross/Net Collection Ratio: Actual on Business Plan* - Percentage



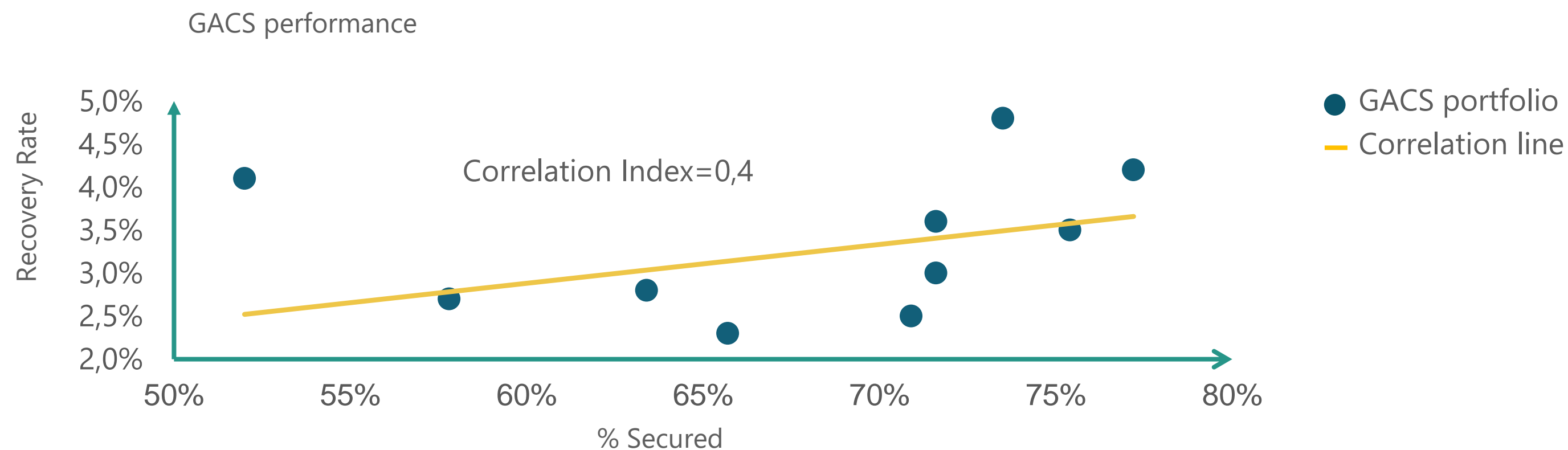
* Cumulated ratio based on weighted average of 11 GACS portfolios with sufficient performance historical data

Cumulative Gross and Net Collection Ratio: Actual on Business Plan. T2=H1 2019 - Percentage

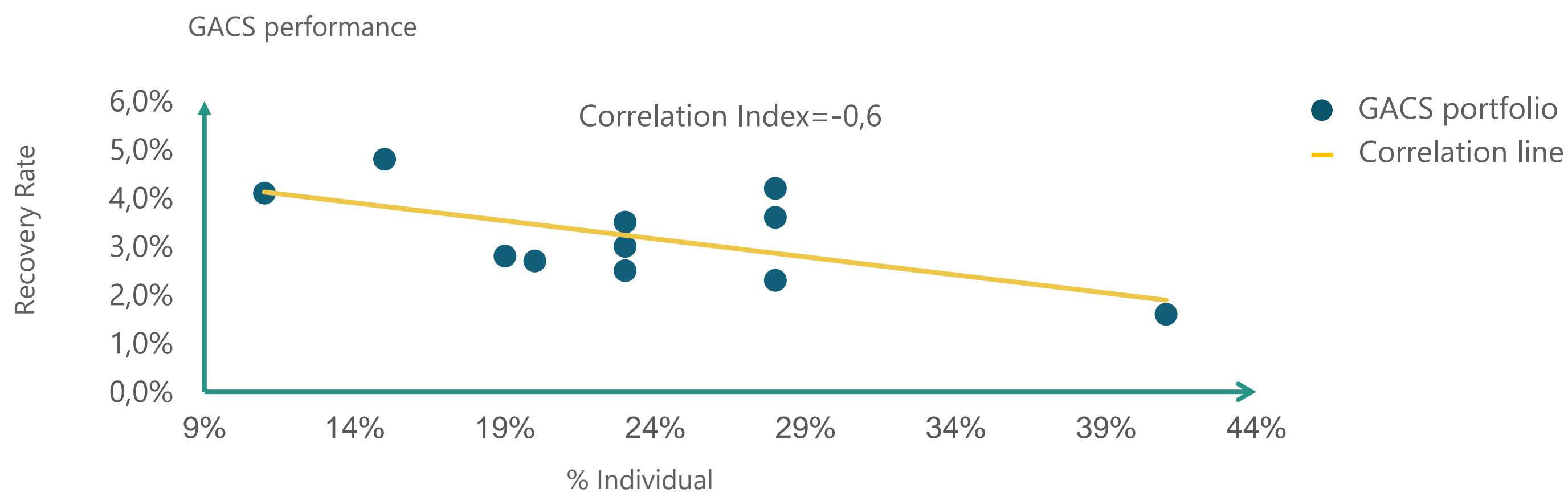




Recovery performance is averaging 3% on yearly basis and so far it doesn't depend on secured incidence and to the type of debtor in the portfolio.



GACS shows no correlation between recovery rate and % of guaranteed credits



GACS shows no correlations between recovery rate and % of individual on portfolio

GENERAL STATEMENT

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