Deloitte Survey on Italian Non-Performing Loans

Outlook 2014-2015

Milan, July 8th 2014

Summary of survey results

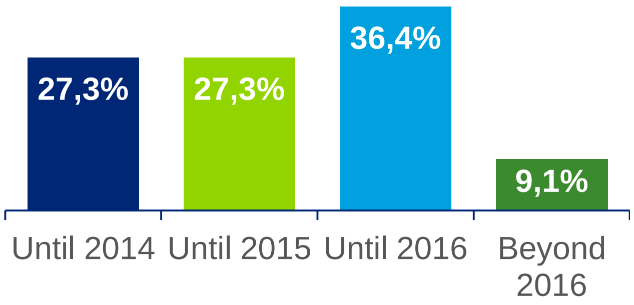
After two years from its previous edition, the survey highlights:

- A further **worsening of credit quality** and the **postponing of the economic recovery.**
- An **endurance** of the same critical factors hindering the successful closing of NPL transactions.
- A willingness to find an **industrial solution** to the problem.
- An **unvaried outlook** on the market from the banks' perspective.

The ball is not moving …

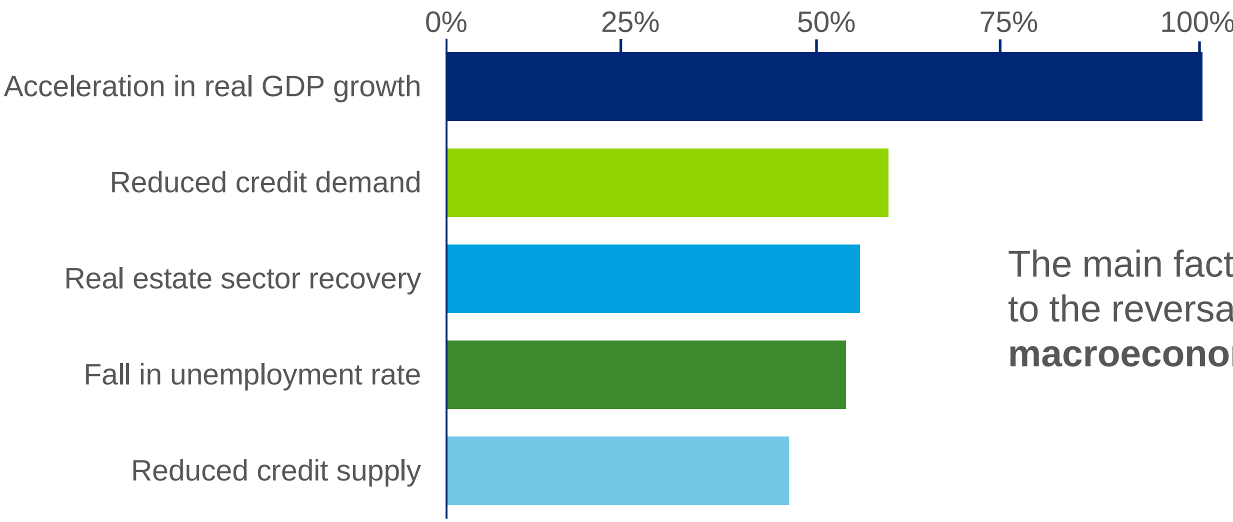
Banks expectations about NPL growth

UNTIL WHEN NPLs WILL CONTINUE TO GROW



The majority of banks expects **NPL stocks to continue to grow for at least two years more.**

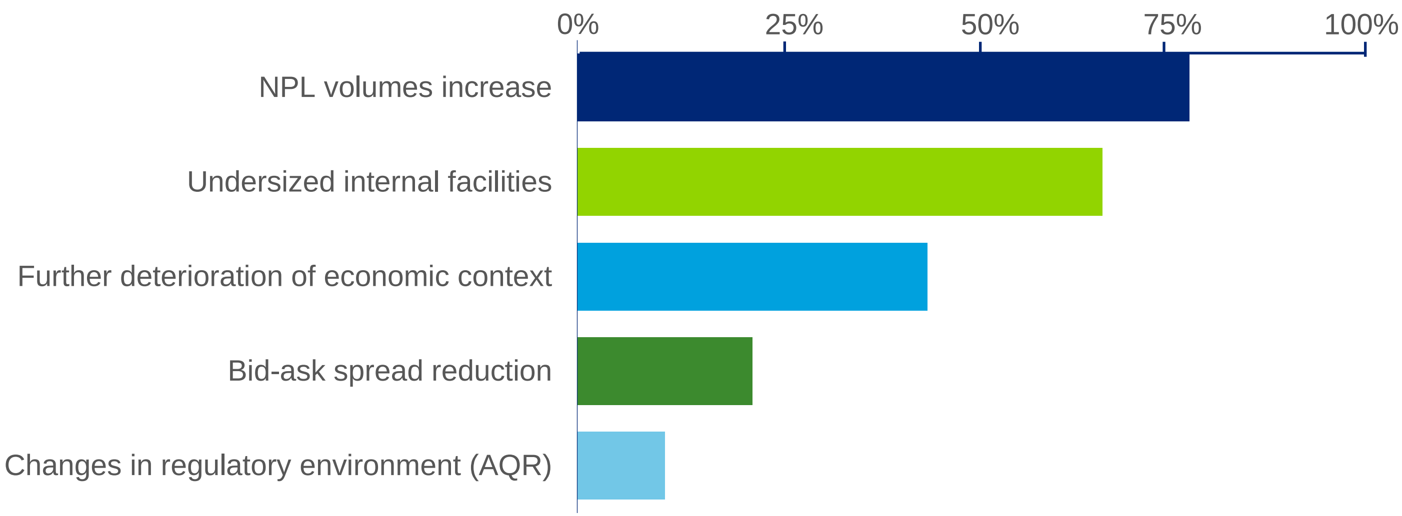
FACTORS THAT WILL INVERT THE TREND



The main factor that will contribute to the reversal of this trend is the **macroeconomic recovery.**

80% of banks declared a change of their NPL management strategy in the last two years

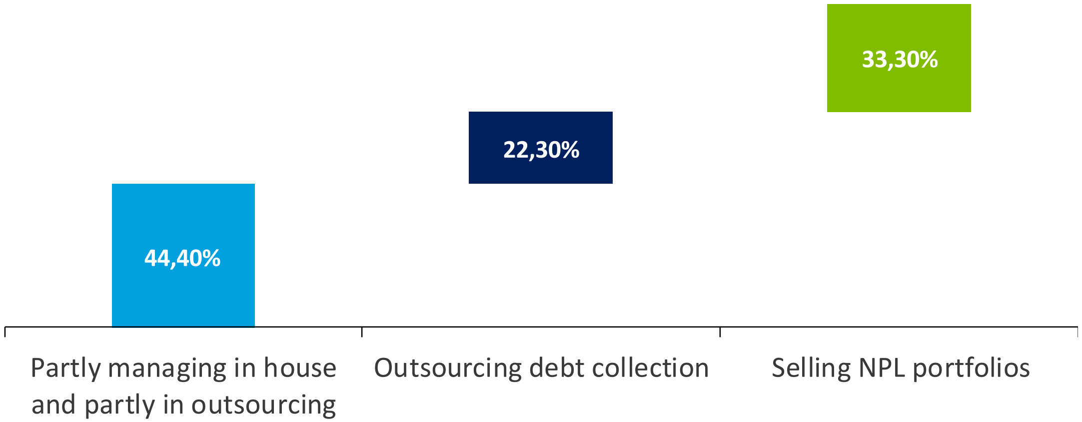
REASONS EXPLAINING THE CHANGE IN STRATEGY



Rather than implications from the AQR process or the market's expectations (i.e. bid-ask spread reduction), the key driver explaining the strategy change is the will to cut direct and indirect costs associated with NPLs.

Future NPL disposals will not be driven exclusively by the difference between market value and current book value.

How banks intend to manage the problem of NPLs over the next 24 months

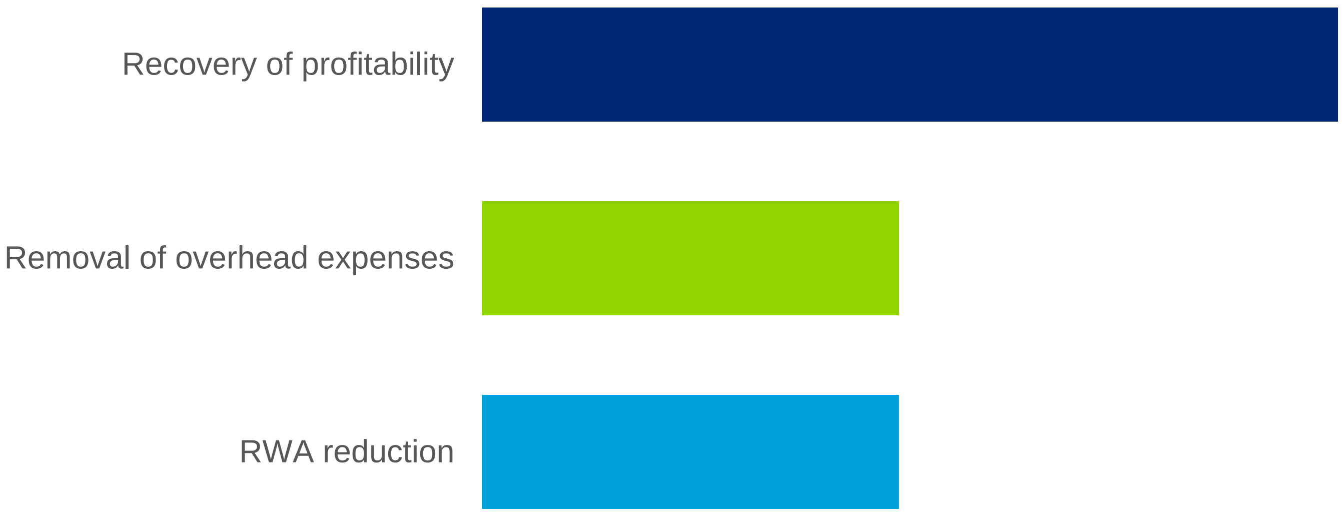


In order to tackle the problem posed by NPLs, banks look at collection **outsourcing** and sale of these assets.

BENEFITS OF OUTSOURCING:

- Increase in collections rates associated to a reduction in provisions.
- Collections costs almost variable and linked to effective collections.
- Improvement of portfolio data quality.
- Possibility to sell in the future at price conditions better than today, also due to improvement to data quality.

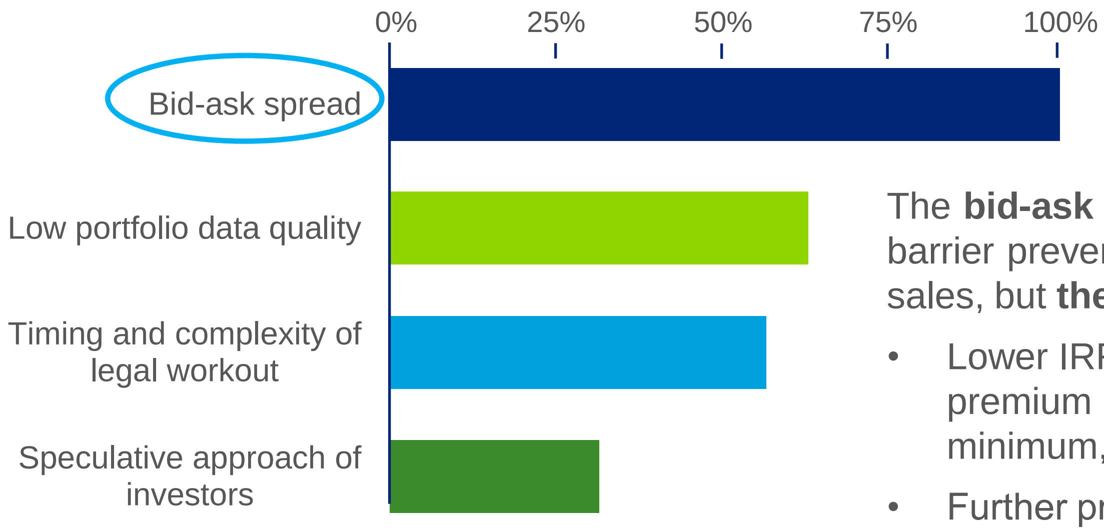
Main reasons for portfolio disposals



The recovery of profitability is the main reason for selling NPL portfolios.

The reduction of NPL management costs has emerged to be as important as RWA reduction.

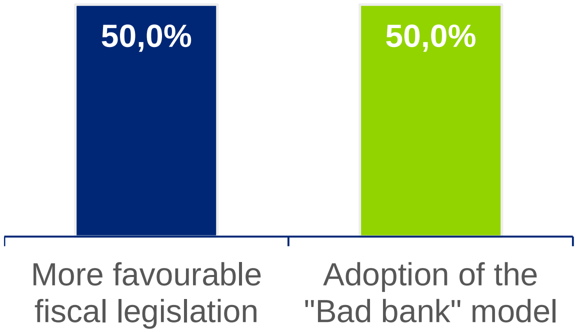
What constitutes the biggest barrier to completing an NPL portfolio sale?



The **bid-ask spread** is confirmed as the principal barrier preventing the completion of NPL portfolio sales, but **the gap is narrowing thanks to:**

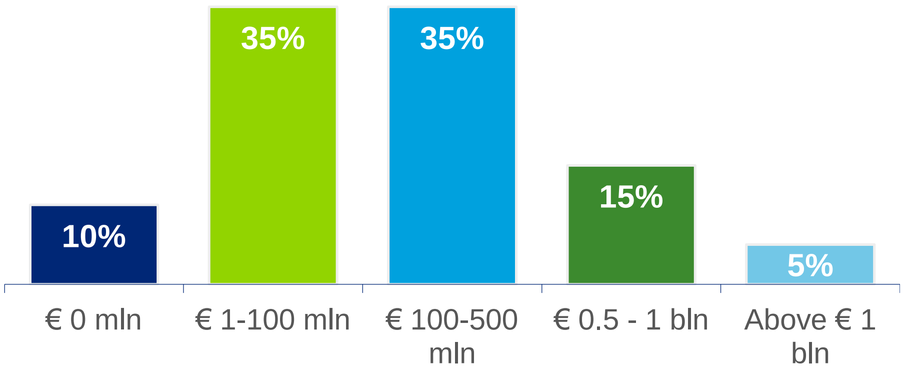
- Lower IRR required by investors (country risk premium reduction, interest rates at minimum, competition among investor).
- Further provisions on banks' portfolios deriving from AQR process.

FACTORS THAT WILL FURTHER REDUCE THE GAP



Banks are equally split between the approval of a more favorable fiscal legislation and the adoption of the bad bank model in the future, as triggers of a further narrowing of bid-ask spread.

NPL volume in nominal terms (GBV) that banks expect to sell within 2015 and disposal strategy



Over the next 24 months, 70% of the credit institutions interviewed expects to dispose of a maximum NPL volume of Euro 500 mln in terms of GBV. This means that the overall disposal will be included in a range of Euro 10 and 16 billion over this period.

DISPOSAL STRATEGY THAT BANKS FORESEE TO ADOPT

Banks foresee to adopt competitive bidding processes to dispose of NPLs, and only a modest percentage is oriented to bilateral negotiations. In most cases, credit institutions are willing to offer financial support to potential investors of NPL portfolios (e.g. vendor financing).