PRELIOS

PRESS RELEASE

PRELIOS ROUND TABLE ON NPLs

Focus on Non-Performing Loans

Prelios, an efficient market for NPLs is needed

Milan, 18 November 2016 - According to the most recent data available from the International Monetary Fund, since 2008 the number of NPLs in Italy has grown by 20% per year to about Euro 333 billion, or nearly 24% of GDP. Last year in Italy transactions involving non-performing loans doubled in number compared to 2014 and the trend in the first part of 2016 does not show any signs of slowing.
For some time now, the data has made the topic of NPLs a key element in the sustainability of the Italian banking system and thus a priority item in the Government's agenda.

It is in this scenario that the discussion titled "**NPLS: There is not one solution. There are many different ones**" took place, organised by Prelios S.p.A., one of the leading European *Alternative Asset Management* and Real Estate Services Group. The meeting was held today, 18 November, in Milan, with the goal of understanding the prerequisites and the obstacles that need to be overcome to develop an efficient NPL market in light of numerous market solutions, including public securitisation with State-guarantees and the Multi-seller vehicle that Prelios was first to introduce in Italy.

"We really think that today, a large and more transparent NPL market can be created especially with public transactions. We must, and we can find solutions that reduce the gap between supply and demand. Today, there are 200 billion NPLs with a difference of about 25 percentage points, amounting to about Euro 50 billion, if the portfolios were sold directly to opportunistic investors." explained **Riccardo Serrini, General Manager of Prelios and Managing Director of Prelios Credit Servicing,** to open the discussion.

"*In Italy, non-performing loans are a treasure worth more than 20% of GDP that risks deteriorating if we continue to look the other way, as Italy has done up to now. Unlike the other PIIGS countries, like Spain and Ireland, which addressed the problem after the crisis"* explained **Serena Sileoni, Deputy General Manager of Istituto Bruno Leoni**, highlighting the scenario; *"In fact, Italy has ignored the indebtedness and economic difficulties as if they did not exist. This did not solve the problem. On the contrary, it also prevented the development of the awareness necessary to find a solution from both a debt and credit point of view*"

Facing the problem and removing the obstacles. According to **Guglielmo Manetti, Deputy General Manager of Intermonte SIM**, the obstacles that need to be removed are right under the noses of the capital markets: *"For an investor that looks to the Italian market, clarity needs to be provided regarding the problem of bank recapitalisations through the sale of NPLs in a relentless regulatory environment on the one hand, and the lack of transparency in the securitisation process on the other."* In other words, it will remain difficult for the banks to show their value if they do not know or do not make non-performing loan information and the basis for the NPL portfolios more intelligible.

For **Giuseppe Castagna, Managing Director and General Manager of BPM**: *"The topic of NPLs in Italian banks is one of the reasons, if not the main reason, why up to now bank consolidation has not begun".*
The banks need to deal with increasingly strict capital ratios.

Catia Tomasetti, Partner at Bonelli Erede and President of Acea knows this all too well as she presided over Caricesena during the most critical phase of the institution's restructuring that led to the Interbank Deposit Protection Fund underwriting a capital increase: *"When faced with the problem of bank capitalisations, shareholders often find it difficult to understand the reason for the gap between the value of non-performing loans in the balance sheet and the value that the market is willing to give. Even more so in the small banks where the stock of non-performing loans is too small and not diversified enough to access sophisticated structures that would permit them to maximise their value. Personally, I am in favour of innovative multi-seller structures in which the small and medium-sized banks can pool together to get the best out of the market and share any returns with the old shareholders."*

Therefore, closing of the gap between the book values of the non-performing loans in the balance sheets and the value the market is able to give, is fundamental. Banca Popolare di Bari's experience demonstrates this and is a point of reference for all future public securitisations. *"Our experience"*, explained **Gianluca Jacobini, Co-General Manager of Banca Popolare di Bari** *"was a successful pioneering transaction, at this moment in the market; the first in Italy*. *We are working on a second round because with the Public Guarantee, thanks to which the NPLs were priced at 30%, the value obtained was far higher than what the market would allow prior to the introduction of GACS (State-backed, securitised non-performing loans)."*

So, what needs to be done to reduce the gap?
Michelangelo Margaria of Moody's added: "*NPL asset-backed securities are not new to the Italian market, and even though nine years have passed since the last transactions, the basic critical issues have not changed: the quality of information regarding NPLs and the timing of the recovery process are fundamental."*

Maurizio Bernardo, Chairman of the IV Parliamentary Committee on Finance of the Chamber of Deputies*,* closed the discussion stating "*all too often, rescuing troubled banks under current legislation results in savers shouldering the burden. We need to get acquainted with the tools available within the banking system, obtain a greater understanding of the potential provided by the State Guarantees and the transparency provided to savers and the citizens. Regarding GACS, I feel that it is in the best interest of everyone, including the Government, to extend the commitment beyond the expiry date of August 2017, and personally, I think that it should be done."*

Therefore, there are essentially two areas to focus on: the efficiency of the justice system and solutions that reduce the average cost of capital to a minimum. According to analyses performed by Prelios Credit Servicing, it can still take 5 years for foreclosures and 7 years for bankruptcies. Solutions are needed that reduce the average cost of capital to a minimum, such as State-backed securitisation or Multi-seller vehicles. Market solutions.

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For further information:
Prelios Press Office
Tel. +39.02.62.81.69747 - Mobile. +39.335.735.71.46
pressoffice@prelios.com
Prelios Investor Relations Tel. +39.02.6281.4104
ir@prelios.com
www.prelios.com