The NPL Market in the post COVID-19 era

Technology takes centre stage

June 2020

Index

1. COVID-19 outbreak in Italy and lockdown measures

During the current COVID-19 pandemic, social distancing and related measures were emphasised by several governments as alternatives to an enforced quarantine of heavily affected areas. According to UNESCO monitoring, 144 countries have implemented nationwide school closures in response to COVID-19, impacting over two thirds of the world's student population (2020).

In Italy, the Council of Ministers passed a first Decree Law on the 23rd of February 2020 with measures to prohibit access end exit from municipalities where there were outbreak hotspots and suspended demonstrations and events with large gatherings of people. Subsequently, a number of increasingly stringent Decrees were issued. Amidst the series of Decrees, we can highlight the DPCM of the 9th of March 2020 "Iorestoacasa" and the DPCM of the 11th of March 2020, which closed all non-essential commercial activities, including most judicial processes.

Among various subsequent measures adopted, the Order of the 22nd of March 2020 has been of significant impact. Signed jointly by the Minister of Health and the Minister of the Interior, the Order prohibited all persons from moving by foot, by public or private means of transport to a municipality other than the one in which they were located, except for proven labour necessities of absolute urgency or for health reasons.

Eventually, as the health crisis eased, the DPCM of the 26th of April 2020, introduced less stringent measures of containment of the COVID-19 emergency, with Italy entering the so-called "phase two". The provisions of the Decree were made effective from the 4th of May 2020 and substituted the provisions given by the DPCM of the 10th of April 2020, and were made effective until the 17th of May 2020, with some exceptions regarding corporate activities.

Finally, Decree Law 33 of 2020 regulated the end of the restrictions on travel and the reopening of productive, commercial and social activities starting from the 19th of May until 31st of July 2020. The current prevention and containment measures for living with the coronavirus were defined with the DPCM of the 17th of May 2020 (Italian Ministry of Health, 2020).

2. COVID-19 impacts

2.1. On the Italian economy

The COVID-19 outbreak is having a massive impact on the global Economy. Social distancing measures implemented to contain the spread of the virus have driven many economies into recession as many sectors have been forcibly halted or are experiencing a slow-down caused by operational challenges. The results on the Italian economy can be clearly viewed in Figure 1, where a steep crash in the Italy Production Index based on ISTAT data is shown (Prelios Group Market Research, 2020).

Figure 1

Compared to the last global recession caused by the 2008 financial crisis, COVID-19 is a public-health crisis. The restrictions imposed to tackle the pandemic have strained the liquidity position not only of SMEs, but also of large corporates and consequently of households (Morgan Stanley, 2020). This is reflected by the redundancy layoff funds requested for roughly 7.7 million Italian labourers as of the 21st of May with close to further 1.1 million requests currently pending (INPS, 2020). At Italian level and according to the Bank of Italy, the GDP for the first quarter shows an initial quantification of the effects of the crisis on the economy: the drop in economic activity compared to the previous quarter was registered at -4.7%, (2020). In March, the measures taken to contain the epidemic in Italy and in the main trading partners had and will have a negative impact on the country's foreign trade. In fact, the Bank of Italy forecasts a -15.4% change in exports and a -17.3% change in imports for 2020. Retail sales are forecasted to fall by 8.8%, in the presence of a sharp increase in e-commerce. The impact of the health emergency on prices is currently dominated by slight deflationary effects linked to the containment of demand with a forecasted CPI of -0.1% for the year (2020). The social mood index on the economy shows further deterioration in daily perceptions of the economy's performance, standing at -0.33 at the end of the first quarter (ISTAT, 2020)

In this scenario, however, the banks are better equipped on many metrics (e.g. capital, liquidity) to face the disruption today than they were in 2008, and the policy response has also been more rapid. Nonetheless, the economic shock to societies and public finances is considerable, and the longer the lockdowns and social distancing measures extend, the longer lasting impacts we will be likely to observe.

In order to keep banks on the right path of the last years with huge improvements on the NPL-ratio, the Italian Government has recently passed the "Cura Italia" law decree, incentivizing inter alia Banks to keep offloading NPLs from their balance sheets.

Similar impacts can be viewed throughout the entire European Union. According to the business and consumer survey results published for April 2020 by the European Commission, the Economic Sentiment Indicator crashed significantly both in the Euro Zone and EU, decreasing by 27.2 points and 28.8 respectively. According to the Commission, this was the strongest monthly decline in the ESI on record since 1985, far below the long-term averages and very close to the levels reached during the last financial crisis and the subsequent Great Recession. The employment expectation indicators crashed to the lowest level ever recorded, reaching 63.7 and 63.3 in the Euro Zone and EU respectively (2020). The impact can be clearly viewed by the real GDP figure projections given by the IMF and illustrated in Figure 2 as reworked by Prelios Group Market Research (2020).

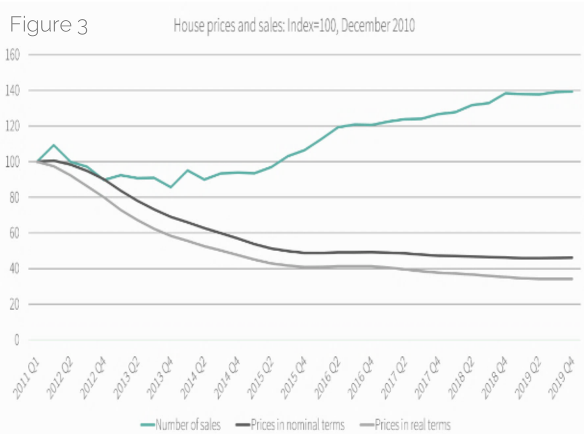
Figure 2

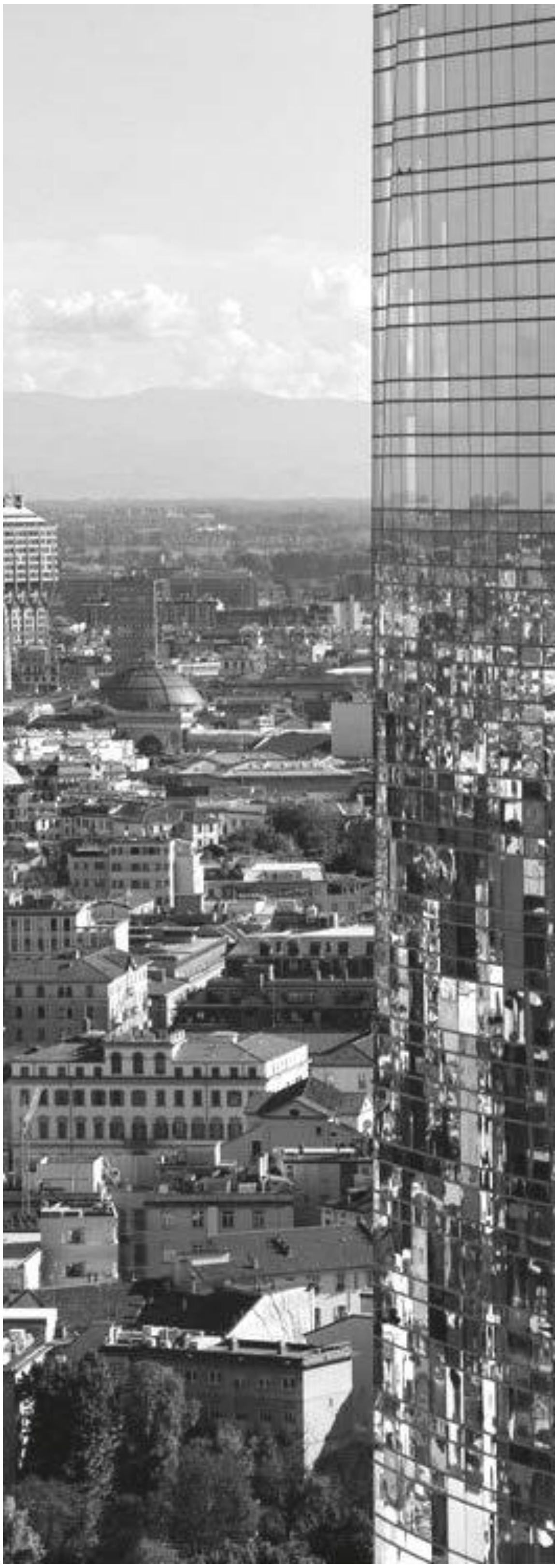
Area	Country	2019	2020	2021
Europe		1.6	-6.6	4.5
Euro Area		1.2	-7.5	4.7
	Germany	0.6	-7.0	5.2
	France	1.3	-7.2	4.5
	Italy	0.3	-9.1	4.8
	Spain	2.0	-8.0	4.3
	Ireland	5.5	-6.8	6.3
	U.K.	1.4	-6.5	4.0
	Switzerland	0.9	-6.0	3.8
	Russia	1.3	-5.5	3.5

2.2. On the real estate market

Corporate real estate investments in Italy registered transaction volumes of EUR 1.2bn in Q1 2020 (-27.9% compared to Q1 2019). According to Prelios Group Market Research, this reflects the impact of the COVID-19 emergency on figures for Q1 2020, which were nevertheless already showing signs of weakness in January and early February. The office market asset class registered the highest investor demand, at EUR 500m, despite a year on year downturn of 44.7%. The retail sector bucked the trend, with transactions for a total of EUR 280m. Investments in the logistics segment rose to EUR 130m, an increase of 27.5% compared with Q1 2019. Milan confirmed itself as the city with the largest volume of transactions totaling over EUR 400m, despite a year on year decrease of 53.8%, while investments in Rome (-17.7% YoY) amounted to EUR 130m and were led by the office sector. The investor breakdown changed slightly: capital continued to come largely from abroad, with foreign investors accounting for 63.8%, or EUR 750m (72.5% in Q1 2019), of which over a third from Germany and France. The most important overseas investments came from the USA. Domestic investors and Italian property funds in particular, represented 36.2% of total volumes. The long-term trend of transactions and house pricing which seemed to diverge over the last decade seems to have stabilized during 2019. Figure 3 illustrates indexed number of sales versus housing prices according to Bank of Italy data (Prelios Group Market Research, 2020).

Figure 3





2.3. On the NPL market

2.3.1. On new flows

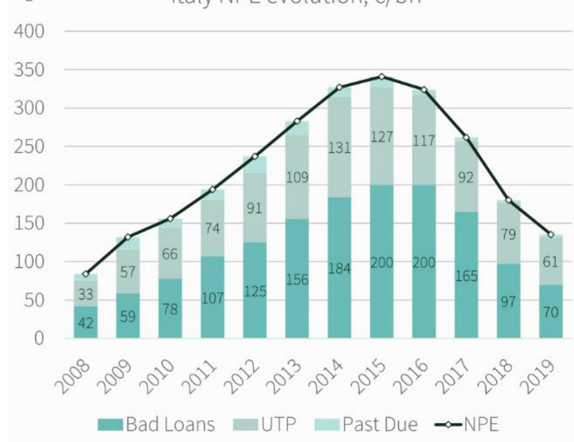
Compared to the 2008 financial crisis, some banks are entering the slowdown with a higher starting point on non-performing loans and are hence more exposed to risks of further loan losses (Morgan Stanley, 2020). This can be visualised in Figure 4, which shows Italian NPL, UTP, past due and total NPE stock over the last 12 years according to Bank of Italy data (Prelios Group Market Research, 2020). The Italian NPL ratio has experienced a strong decrease following the introduction of the GACS scheme by Decree-Law no. 18 of the 14th of February 2016. The GACS scheme provides a state guarantee backed by the Ministry of Economy and Finance and is designed to increase investor confidence by providing a deep process standardisation and coverage of senior tranche securities on liabilities issued through the securitisation of NPL portfolios transferred from financial institutions to a special purpose vehicle. However, despite recent efforts supported by sharp NPL reductions, the Italian banking system needs to continue its deleveraging process.

COVID-19 may have a detrimental impact on the Italian credit market. According to Morgan Stanley it is not uncommon for Italian SMEs to hold cash buffers for about one month only. About 50% of Italian banks' loan book is corporate, and about 6% on average relates to retail SMEs. Morgan Stanley estimates that about 40% of corporate exposure is below investment grade (2020). In order to partially absorb the impact of the COVID-19 outbreak on Italian SMEs, the Italian Ministry of Economic Development has ordered Invitalia to suspend the repayment instalments of subsidised loans, in accordance with the provisions of the "Decreto Cura Italia". Therefore, Micro and Small and Medium-Sized Enterprises benefiting from the facilities managed by Invitalia and not already subject to revocation or termination of the loan may request, in accordance with the provisions of art. 56 of the Decree, the suspension of the payment of the instalments of loans falling due until the 30th of September 2020, obtaining an extension of the repayment plan (2020).

According to Morgan Stanley, Italian banks have cut NPLs by 30% in 2019 but nevertheless still have a UTP stock of roughly EUR 60bn, which in percentage points reflects an average of 3-4% of Italian banks' loan books. This is similar to the European average for the entire stock of NPLs. Furthermore, UTPs' average coverage ratio is reported at only 40%. This represents a significant risk in the current environment. During a recession, Morgan Stanley researchers expect up to 60% of UTP loans to migrate to NPLs. In 2019, an average of 10-15% of UTPs migrated to NPL status, during the great recession, this number reached 30-50% on average, with some Italian financial institutions reaching 60% (2020).

The Prelios Group expects the COVID-19 outbreak to have at least a similar impact on the Italian banking system, increasing the UTP stock and pushing the majority of UTPs towards NPL status, with a large swath of bankruptcies primarily impacting the corporate SME exposures, which represent a significant portion of the Italian economic landscape.

Figure 4 Italy NPE evolution, €/bn



2.3.2. On collection and enforcement proceedings

On the 8th of March 2020, Italy introduced Decree-Law 11, "Extraordinary and urgent measures to combat the epidemiological emergency given by COVID-19 and contain the negative effects on the judicial process". As a consequence, enforcement proceedings came to a halt due to the suspension of most judicial activities.

In order to facilitate the financial struggles many people are facing due to the COVID-19 outbreak, Italy introduced Law no. 27 on the 24th of April 2020. According to the edit of Article 54-ter of the Decree, from the 3rd of April 2020 to the 3rd of October 2020, Italian enforcement procedures concerning primary houses have been suspended. The Law regulates the suspension of any enforcement procedure for real estate foreclosure and has hence been designed to include enforcement proceedings already underway, following a real estate foreclosure. It further extends to enforcement proceedings which could begin, in the absence of this suspension, as a result of foreclosure. The Law concerns only the ones regarding the debtor's main dwelling, which is to be understood as the house in which the owner-debtor resides. Decree 18/2020 is based on the regulations of article 76 of Presidential Decree 602/1973, which prevents the expropriation of real estate by tax authorities, and the regulations of article 41-bis of Decree 124/2019 (converted into Law 157/2019), which prevents the bank from executing against a borrower who requested to renegotiate the loan. The Law does not apply to luxury properties in case of fiscal expropriation. In case of suspension of execution against a request for debt renegotiation, the Law is limited to mortgage backed bank loans, whilst the COVID-19 suspension is granted to any debtor for any type of debt (Busani, A., 2020).

The above Law regarding enforcement procedures on places of residency strongly reminds of the Katseli Law applied in Greece. As a matter of fact, there is more than one parallel that can be observed in how Italy and Greece are learning from each other's experience in tackling the financial system's NPE crisis. A further prime example can be noticed in the similarity of the Hellenic Project Hercules to the Italian GACS scheme.

As the recently introduced Decrees have initially blocked, increased the backlog and subsequently slowed down legal proceedings, according to an EY research, market operators feel the need to speed up proceedings via digitalization and de-bureaucratisation of processes. This should be especially applied to the formalisation of notarial deeds, chiefly regarding the enforcement proceedings and the distributions of at least 75% of the distributions in stock, estimated to at EUR 10bn. These derive mainly from real estate enforcement procedures for which creditors have already approved distribution, without having to go from fixing the hearing, as amended by Legislative Decree no. 59/2016. According to the same report, some operators would also like to see total or partial suspension of the public vendor portal contribution, for a period of at least 12 months (2020).

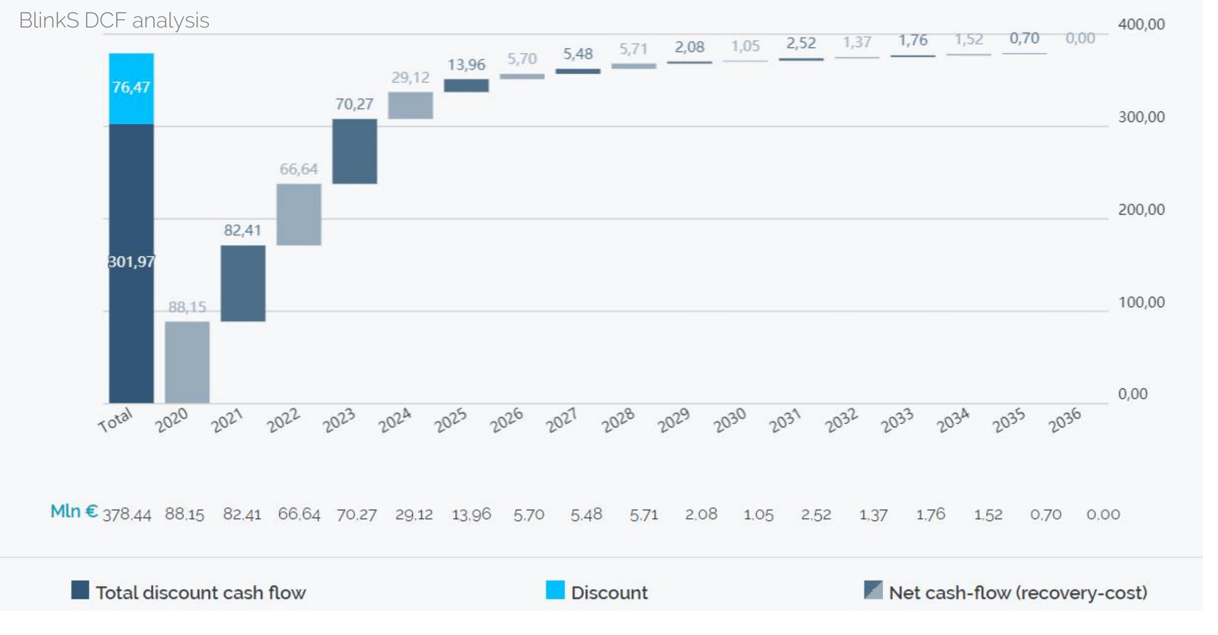
2.3.3. On collection rates

Moody's Investor Services has recently downgraded and placed under downgrade review 11 Italian NPL deals. According to the rating agency, the downgrades are the result of the registered underperformance in the recovery process, benchmarked to the initial business plan assumptions and recovery expectations. The impact has been mainly driven by the slow-down in proceedings related amongst others, to the above-mentioned Decrees implemented by the Italian Government in order to tackle the COVID-19 health crisis. In fact, negative investor sentiment provoked by the experienced economic disruption have been mentioned as reasons for the vulnerability and deterioration of expected cash flows (2020).

As an example, according to Moody's, the gross cumulative collection ratio of some securitisations has ranged from roughly 70% to 90% percent, when compared to the original business plan performance expectations. As NPL transaction cash flows are dependent on legal proceedings, which have been temporarily halted, the backlog has increased and current measures are freezing the Italian legal system, causing a delay expected recovery transactions. Furthermore, the negative investor sentiment reflected on the Italian property market, which negatively impacts expected work out rates on real estate backed credit (2020).

2.3.4. On investor strategies

According to results obtained by a Prelios Innovation market sounding on NPL investors, most have not changed their appetite for the type of credit sought, with only 4.8% of the interviewed investors having declared a change of preferred asset class due to the current situation. Investors remain chiefly focused on secured loans, preferring residential and hotel backed mortgages followed by logistic facilities. Whilst most investors have declared to be seeking to increase their portfolios with credits guaranteed by real estate distributed throughout the country, the investors that have expressed a location bias are clearly focusing on northern Italy. We have also noted a strong increase in appetite for UTP credits, compared to previous market soundings. Preferences regarding the average ticket size within an NPL portfolio, clearly fall in the EUR 500k+ range. 42.9% of the interviewed investors have declared that the COVID-19 situation has not impacted their investment appetite, 28.6% declared to be momentarily on halt waiting for further developments, whilst 14.3% and 9.5% have declared to have significantly increased and decreased their investment appetite respectively.



3. Technology in support of social distancing

The use of digital technologies has sustained many corporations in keeping business continuity and limiting the impact on operations by implementing agile working frameworks. The response of social distancing has been rapid, and is causing disruptions to workplace, education and leisure. Offices in areas of exposure are shifting to remote working, universities and schools are shifting to online courses. The last few months have provided a change in how technology supports our daily lives, possibly with long-term consequences as well. Web-based platforms are already demonstrating their immense value. Companies such as Zoom, Microsoft, and Slack are opening up some of their paid collaboration platforms at discount or for free to students, businesses, and individuals. In Italy, the Ministry for Technological Innovation and Digitalisation has launched the digital solidarity scheme to support such actions (2020).

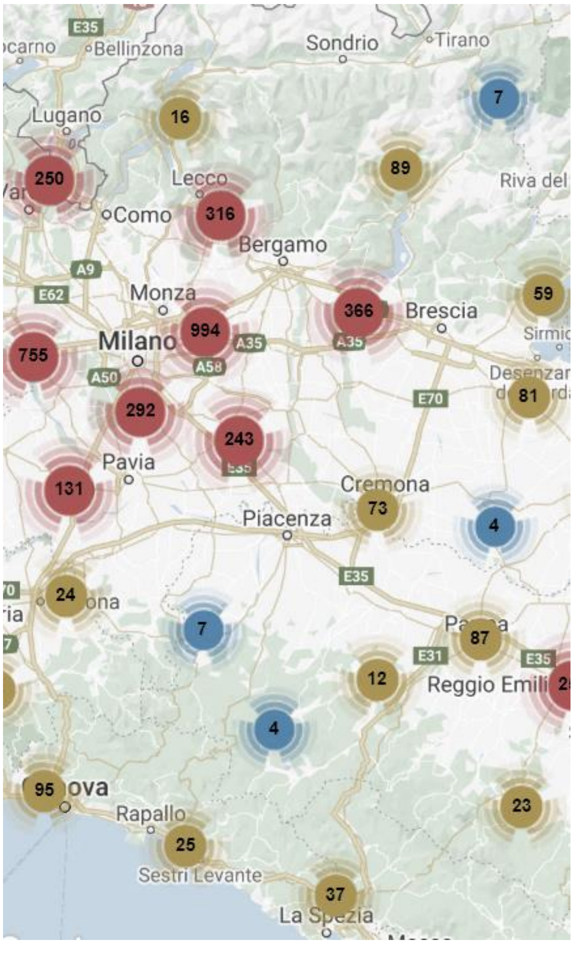
4. Technology in support of NPL transactions during and after COVID-19

As NPL ratios are expected to significantly increase for most financial institutions, and COVID-19 will force social distancing and new potential lockdowns to continue for an undefined time period, the adoption of digital NPL trading platforms may support the banking system in continuing the deleveraging process within this challenging environment. Once again technology may provide crucial support during this phase, and the BlinkS NPL marketplace developed by the Prelios Group may provide a viable and easily accessible solution to NPL primary and secondary market sellers and buyers.

BlinkS is a digital marketplace and data warehouse for NPL trades, which through a KYC process based on financial institution best practices, permits primary and secondary market sellers and professional buyers to access an open market containing both NPL portfolios and single name loans. The platform is built on a cloud-based infrastructure that provides rapid scalability, the highest measures of cybersecurity and fully abides to the General Data Protection Regulation (EU) 2016/679.

The BlinkS Platform runs on two standardised input data-tapes: a loan-by-loan data tape for credit, real estate and judicial proceeding information and an assumptions data tape for cash flow simulations. Furthermore, the platform includes a virtual data room to upload documentation regarding the uploaded assets. Both sellers and buyers have access to simulation tools that may help them to establish the correct pricing for an NPL portfolio or single name loan. In order to avoid conflicts of interest and possible legal issues, the platform is not permitted to service, sell, or purchase loans and all settlements occur outside the platform.

BlinkS real estate collateral map



Furthermore, digital transaction platforms may contribute to reduce inefficiencies that were already observable on the NPL market before the COVID-19 health crisis arose. These have been well described by a 2017 working paper published by ECB staff and may be summarised as follows:

A) Information asymmetry

The first element can be simply defined as the information asymmetry between sellers and buyers. Buyers are uncertain of the credit quality such as described by the sellers and create a first gap between the judgements of the potential value of an NPL portfolio. Whilst buyers may reduce information asymmetries through investor due diligence, the costs associated with this stage during traditional processes often turns out to be substantial. Only a limited number of buyers can face those costs, creating a high entry barrier into the market (Fell, J. et al, 2017). The sale of more fragmented portfolios as an ordinary process of deleveraging rather than an extraordinary process of large portfolio sales may reduce this entry barrier increasing competition.

B) Limited playing field

This constitutes the second element, as a consequence of the above, the Euro area NPL market has become a limited playing field in which few buyers obtain great bargaining power against sellers who are often enforced to reduce their NPL ratio, resulting in decreased transaction prices. Although the number of potential Buyers for NPL assets is relatively large, only a little proportion of these players dominate the market landscape in Europe, where the characteristics of an oligopsony can be observed. On the secondary market, buyers also seem fragmented by country and furthermore asset class, as during the time frame between 2015 and 2017, 67 Buyers were active but the number of Buyers per country and asset class never exceeded 14 (Fell, J. et al, 2017) .

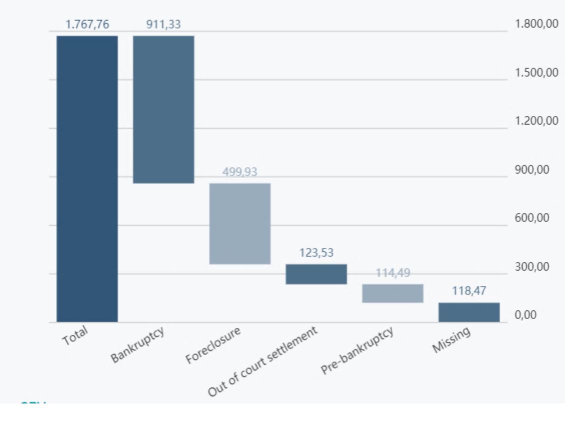
C) Lack of standardisation and transparency

The third element can be defined as a lack of transparency and standardisation of processes. Defaulted debtors are often exposed to multiple creditors, making it hard for investors to compete during the recovery stage which again is factored into their bids. As a consequence of the multiple securitisations of the last years, it is getting harder for potential buyers to identify current servicers/owners of the defaulted claims. Since every and single seller has its own selling process, it makes it harder, more time consuming and cost expensive to take part to bidding processes. Sellers could relieve this potential issue by coordinating among themselves, the lack of transparency and standardisation makes cooperation harder and expensive (Fell, J. et al, 2017).

"By offering the prospect of greater transparency in NPL markets, fostering wider investor participation and addressing coordination issues, NPL transaction platforms could help in overcoming all three of these market failures" (Fell, J. et al 2017, p.130).

We expect that the combined action of financial incentives, digital platforms and the perspective of worsening NPL ratios, will keep NPL transactions on a steady path.

BlinkS legal proceeding clustering



5. Our views and numbers on:

BlinkS creates an open market for NPL trades and disrupts the traditional mechanisms of the NPL trading process in order to reduce costs, increase transparency and generate more market liquidity. Our approach is not only based on digitalisation: the goal is to standardise and innovate by disrupting the entire process.

5.1. the process

Joining an open, yet regulated market platform automatically comes with a few perks. Once a single name or a loan portfolio is placed for sale, it is available for purchase to all its participants. This completely cuts out the time primary and secondary market sellers spend in identifying and contacting potential buyers. Furthermore, it also means that the investor network is extended beyond the seller's contact list. At the same time, the platform only permits institutional players that pass a rigorous KYC process to participate and all parties are covered by back to back NDAs, executed before being admitted to the platform. As a result, participants save time, money and can rest assured to have reliable counterparties.

The BlinkS platform runs on two standardised spreadsheet data tapes.

The cardinal one, is the so-called "GACS loan-by-loan" data tape, which has proven to provide all necessary information buyers need to analyse in order to establish a pricing for the portfolio or single loan and is now an established market-standard. This permits standardisation in data analysis through algorithms that determine data quality of portfolios or single loans as well as analysing and clustering portfolios.

Further details on credit, collateral and debtors are contained in the fully embedded virtual data room. All documents in the data room are highly protected and cannot be shared with third parties, hence being available only to platform users. Moreover, the documentation self-destroys once the period for submitting binding offers has ended.

The embedded and standardised VDR means that NPL market players do not need to go through the process of scouting and contracting a third party VDR provider for every new NPL deal. It also means that players will become accustomed to a standardised procedure to share and examine documentation which saves time and money for all parties.

The duration of the sales process can be chosen by the seller and may last up to 60 days. The platform permits to sell NPL portfolios or single names either through an English auction mechanism or by indicating a desired selling price on a first come first served basis: the first bidder to offer the indicated asking price, automatically obtains the legal right and obligation to purchase the portfolio or single name under the previously agreed upon conditions.

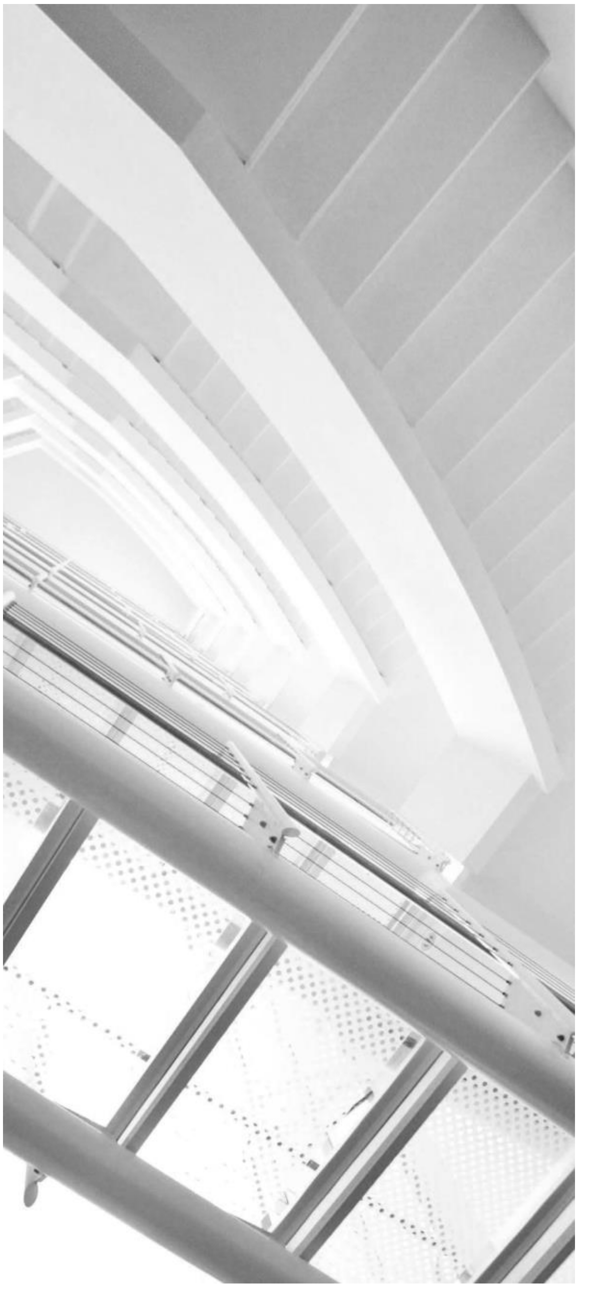
The BlinkS trading process eliminates the non-binding stage (peculiar to traditional NPL trades) and combined with its above-mentioned process disruptions, the platform reduces the "time-to-market" of all transactions.

5.2. the time-to-market

Since its launch in September 2019, over EUR 1bn GBV of NPL single names and portfolios have been published for sale on the BlinkS platform. From the data gathered during the first three trimesters of platform activity, we have observed the following empirical evidence on the length of the sales process: the mean time to market consisted of 31 days, whilst the median time to market was registered at 30 days. The shortest sales process was completed within 9 days whereas the longest sales process lasted 45 days. Analysing the distribution of the gathered data we can observe a leptokurtic distribution with a kurtosis of 4.3 and a standard deviation of 7.4 days from the mean. The distribution is slightly negatively skewed, which shows that the sales process tends to be moderately towards the longer time-to-market given by platform processes, which still is by far shorter than the average time-to-market compared to out platform transactions as experienced by the Prelios Group and market insights.

5.3. the bid-ask spread

Eliminating the non-binding stage, standardising trading processes and opening up to a wider variety of potential buyers and sellers not only reduces time-to-market, it also has a compelling effect on bid-ask spreads. First of all, the traditional NPL trading process sees very few parties involved throughout the sales of a portfolio, when it come to the binding stage, it is common for only a handful of players to be involved.



BlinkS' open market structure, non-negotiable purchase agreement proposed by the seller at the beginning of the sale process and its English auction sales mechanism, enable players to compete on an even playing field and assure that the portfolios or single names are sold to whomever has the expertise to maximise their returns.

As a result, the average bid-on-bid increase registered by the platform stands close to 20%. As sellers bind themselves to a minimum sales price, which can be kept secret or made visible, most transactions in the platform occur with no bid-ask spread. Nevertheless, if the asking price should not be met by the bidding investors, the buyer has the right to decide whether to sell at the current spread at the end of the auction period. So far, empirical evidence given by data collected by the platform has shown wider bid-ask spreads on unsecured portfolios, whereas for secured portfolios the gap has tended to be more narrow. Overall, the platform's mechanisms and transparency incentivise and enable both sides of the table to price single loans and NPL portfolios at a fair market value.

6. The post-COVID-19 era

6.1. Further resort to technologies in banking activities

Digital transformation of the European economy is one of the cardinal aspects of the EU Recovery Plan, and is hence, of utmost priority for the Italian economy also. In fact, this has been clearly put in evidence by Ignazio Visco, Governor of the Bank of Italy, during his latest official statements. Furthermore, it is particularly encouraged within the financial sector, where the Milanese start-up scene has experienced a strong growth in Fintech ventures. In fact, the Fintech District start-up hub has seen its members grow from 32 to 150 over the last couple of years (Graziani, A., 2020).

In order to encourage and sustain continued growth in fintech ventures, the Bank of Italy has declared the intention to build a formal support structure, facilitating surveillance, coordination, and financing. According to data published by Bank of Italy, digitalisation within medium to large sized Italian banks has reached over 80% of customers, whilst it remains lacklustre for smaller financial institutions (Graziani, A., 2020). This may be given by the fact that the digitalisation process often requires economies of scale to have positive returns on investments. Nevertheless, as of today, most digitalisation processes within the Italian banking system have been focused on retail banking activities and little has been done regarding NPE management and disposal.

6.2. UTP flows

Given the impact COVID-19 has had on the economy, we expect a large bulk of UTPs to move to NPL status. At the same time, we can expect some performing loans to become UTPs, and hence create a new wave of NPE flows. Technology and process standardization may support the banking system in selling new NPEs on a regular basis as the process will be less cost and time consuming. This applies to financial institutions of all sizes. Loans may be sold soon as they move to UTP or NPL status, and should hence become more appealing to the market, usually willing to bid higher prices, ceteris paribus, on credit with less vintage.

The consequences should have a positive impact on the whole financial system, increasing recovery rates as NPEs pass into experts' hands sooner. At the same time, lenders will sell their NPEs at better conditions and with more regularity, keeping the stock lower and consequently being able to emit more credit. This should create a positive virtuous circle, keeping bank balance sheets healthier and increasing money supply into the real economy.

6.3. Digital platforms take centre stage

Digital disruption is taking centre stage in all aspects of life and we are certain that the NPE market will not be excluded. Throughout the years, we have seen deal activities moving from physical data rooms to digitalised documentation shared through VDRs, and NPL trading platforms have recently obtained an increased traction on the market. We believe that the NPL trading process, which when faced with a traditional approach remains cumbersome and costly is currently shifting towards a more standardised and hence optimised approach.

In our vision, the same will happen with UTP transactions that have become increasingly relevant in recent years. As a consequence, the BlinkS platform will soon operate on UTP deals with its next release. At the same time, we believe that digitalisation will continue not only in the trading process but will be required throughout the whole range of services buyers and sellers need in order to face the complete NPE trading cycle. As a result, the BlinkS platform is opening up to a network of certified partners in order to link its users to a complete network of service providers, covering each stage and need from deal origination to execution.

6 .4. Future trends in NPL and real estate digitalisation

As mentioned above, we expect digital disruption to impact the entire NPE industry. As NPL trading platforms have already started to become centre stage, we expect this to extend to UTP transactions also. Of course, real estate is an important component of NPE transactions as secured credits are often backed by real estate assets. In fact, digitalization has already occurred in many stages of the real estate industry. We can cite real estate valuations as an example: throughout the years, the Prelios Group has evolved and sophisticated its statistical analysis tools for real estate appraisal.

This has started ten years ago, from indexation given by market inquiries, to basic statistical analysis conducted on multiple pricing sources, to finally including socio-economic and demographic data, analysed through machine learning algorithms and artificial intelligence. It enables us, not only to increase the precision with which real estate is valued, but also to significantly narrow the prediction interval on multiple scenario forecast analysis. Using machine learning techniques, enables us to automatically increase precision and sophistication as further data is gathered throughout time.

6.5. Asset classes on digital transactions

From our experience we have seen a broad range of NPL portfolios and single names being managed by the BlinkS platform. Whilst flows have remained steady during the COVID-19 outbreak, we have noticed a significant shift towards secured portfolios. This might be a direct consequence of the shutdown of the Italian judicial system and the resulting postponement of foreclosure procedures. The outcome is a postponement of predicted cash-flows which especially impacts securitised portfolios, for which the sale of underlying credits has become pivotal in recovery strategies.

At the same time, the COVID-19 impact on households and SMEs will increase future unsecured NPE flows, which will also be placed for sale as a pro-active management and collection strategy.

In our view, in the near future all asset classes will be traded on digital platforms, in order to ensure increased transparency, a quicker time-to-market and a reduced bid-ask spread.

6.6. Platforms to assure regulatory compliance

Digitalisation and standardisation of processes can disrupt the current NPE industry and be leveraged to ensure regulatory compliance by creating more efficiency and transparency in the market. According to EBA and ECB Guidelines the NPL strategy needs to be regularly traceable and measurable in the medium and long run by a clear set of KPIs. This can be facilitated by standardising processes and reporting and by creating a regular routine for NPE sales. This allows for an easily traceable and measurable reporting to top management which can overview and coordinate NPE management and activities, which can be as a consequence reviewed in a clear manner by the regulators.

Transparency and regulatory compliance is of utmost importance, but becomes even more so when state guarantees such as in the GACS scheme and Project Hercules are involved. Furthermore, the COVID-19 outbreak and the resulting economic crisis has put additional pressure on the banking system. As a result, the European Banking Authority has published guidelines to address gaps in reporting data and public information in the context of COVID-19. The document highlights the importance of information availability for monitoring purposes in order correctly assess current risks. The guidelines are designed in order to understand the stability of financial institutions "without impacting their treatment of creditors under moratoria or public guarantees" (2020). .

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Contacts

Francesco Uggenti - *Head of Business Development*

Via Valtellina 15/17 - 20159 Milan - Italy
T +30 02 6281 - 4348
M + 39 366 7700450
francesco.uggenti@prelios.com
blinks.prelios.com
prelios.com

Alessandro Tazzioli - *Business Development*

Via Valtellina 15/17 - 20159 Milan - Italy
T +30 02 6281 - 4453
M + 39 340 2740736
alessandro.tazzioli@prelios.com
blinks.prelios.com
prelios.com

Matteo Casadonte - *Head of Operations*

Via Valtellina 15/17 - 20159 Milan - Italy
T +39 02 6281 - 4827
M + 39 380 495001
matteo.casadonte@prelios.com
blinks.prelios.com
prelios.com

Beatrice Albanese - *Operations*

Via Valtellina 15/17 - 20159 Milan - Italy
T +30 02 6281 - 4440
M + 39 335 54077295
beatrice.albanese@prelios.com
blinks.prelios.com
prelios.com
