

Investing in Non-Performing Loans in Italy: latest trends and investment opportunities

Contents

1. NPL portfolios – latest trends and opportunities
2. A window of opportunity
3. Our experience

1. NPL portfolios – latest trends and opportunities

According to the most recent data released by the Bank of Italy, non-performing loans (“NPL”) in the balance sheets of Italian banks totaled around Euro 160 billion in January 2014, rising nearly by 25% compared to a year ago. The factors leading to this increase depend mainly on the contraction of gross domestic product and in the increase of the unemployment rate.

Italian banks are now addressing the issue with more decision, due to the upcoming asset quality reviews and stress tests operated by the European Central Bank. During a recent speech in front of the Italian Banking Association (ABI), the Governor of the Bank of Italy, Mr. Ignazio Visco, stressed that NPLs are still very heavy on national banks’ balance sheets and it is therefore necessary an intervention on several grounds. On one hand, banks need to continue to raise financial hedges and to allocate funds proportionally to the risk degree of the assets owned; on the other, they need to make internal management procedures more effective or otherwise make use of operators specialized in the recovery of problematic loans. Some of them will have to sell at least part of their NPL portfolios to investors.

But if the large amounts of NPLs in the Italian banks’ balance sheets constitutes an issue for the banks, at the same time they represent a very attractive opportunity for investors. Italian banks have been very cautious and relatively few transactions have taken place in Italy compared to the aggregate size of NPLs. Other European countries, notably Spain and Ireland, have been much faster in tackling the issue. Now it seems it is Italy’s much awaited turn. In fact, after a calm period of several years, more and more funds and specialized investors are now becoming active on Italian NPL portfolios.

2. A window of opportunity

Due to the banks’ need to sell their distressed credit portfolios in order to get fresh liquidity and comply with the banking authorities requirements, it is now possible for investors to buy NPL portfolios at a fraction of their face value. Prices have been very low until now, due to the negative evaluations of Italy’s economy by international investors and rating agencies.

Now prices negotiated for portfolios are going up, reflecting an improvement of Italian economy’s perception. Clearly the discount rate to be applied is becoming more negotiated, as the vendors, due to the increasing market demand, are gaining negotiating power. Still, the aggregate size of NPL portfolios to be sold is such that the market should still remain attractive for some time. Inviting opportunities can still be found in different categories, such as consumer loans, corporate loans and asset-backed loans. Another category to be looked at is past-due receivables guaranteed by the state or other governmental entities.

3. Our Experience

We have frequently assisted foreign investors in the acquisition or disposal of credit portfolios, using various legal structures in order to implement the transaction, from direct credit purchases to securitizations, to the creation of corporate vehicles. We have been very active in a number of deals of different sizes, from small, tailored transactions, to the large deals the market has to offer. We are currently involved in some of the interesting transactions of this time. In the light of the fact that many interesting portfolios will become

This document is delivered for informative purposes only.

It does not constitute a reference for agreements and/or commitments of any nature.

For any further clarifications or research please contact:

Milan

Alessandro Giuliani
Tel. +39 02 763741
agiuliani@gop.it

Alessia Pastori
Tel. +39 02 763741
apastori@gop.it

Hong Kong

Stefano Beghi
Tel. +852 2156 3493
Mob. +852 55979001
sbeghi@gop.it

Rome

Milan

Bologna

Padua

Turin

Abu Dhabi

Brussels

Hong Kong

London

New York

www.gop.it

available on the Italian market, this is therefore definitely a good time for investors to act in order to get the best opportunities. The best course of action is to establish relationships with local players in order to get access to local market information and to be ready to do due diligence and have servicing capability in place if the right deal opportunity comes.

INFORMATION PURSUANT TO ARTICLE 13 OF LEGISLATIVE DECREE NO. 196/2003 (Data Protection Code)

The law firm Gianni, Origoni, Grippi, Cappelli and Partners (hereafter "the Firm") only processes personal data that is freely provided during the course of professional relations or meetings, events, workshops, etc., which are also processed for informative/divulgence purposes. This newsletter is sent exclusively to those subjects who have expressed an interest in receiving information about the Firm's activities. If it has been sent you by mistake, or should you have decided that you are no longer interested in receiving the above information, you may request that no further information be sent to you by sending an email to: relazioniesterne@gop.it. The personal data processor is the Firm Gianni, Origoni, Grippi, Cappelli & Partners, whose administrative headquarters are located in Rome, at Via delle Quattro Fontane 20.