

GET IN SHAPE



YOUR PORTFOLIO

az
holding®

Foreword

1) **Look in the Mirror**

(Identifying international prospect-target and overview of the Italian situation)

2) **Plan a Roadmap to Health**

(The importance of a “local” partner and how it can contribute to debt collection)

3) **Say no to Stress**

(Procedures, analysis and technology to decrease the DSO for the originator)

4) **Stay one step ahead**

(AZ innovative products)

Foreword

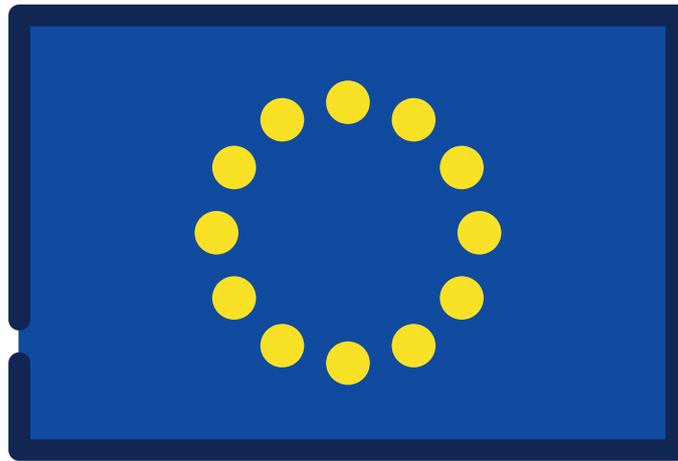
Getting a tired body in shape from routine, stress and a poor diet is not a simple matter. A sedentary lifestyle deprived of any stimulus often leads to accumulate physical and mental uncertainties which prevent to appreciate how interesting your own person can be.

Fortunately, once you accept that is nothing but a mental state, rather than purely physical, you try to batten down the hatches to get back in shape and take the proper energy to keep going.

However, what does physical shape have to do with Credit Servicer and specifically with debt collection?

The connection is just made! Not only the body, but even a credit portfolio can “regain its own form.” We have identified a number of steps that could reflect the different stages of a physical recovery, and at the same time we have been inspired by these to explain how it is possible to revive the fate of a portfolio of non-performing loans.





Our aim is to draw the basic lines designed to show the economic situation in Italy, while illustrating the right approach to the different types of debt collection. More specifically, we have decided to choose international prospects, showing the need of relying on a “local” partner that knows how to rally round given the complexity of debt collection in Italy. Besides the socio-political factor, a big impact is given by the legal aspect too, without leaving out a technological and analytical part that completes the Italian collection-profile.

The rules outlined by the European Union, though well-structured in theory, often do not meet a practical response, and delays gathered by the courts, bureaucratic problems, as well as poor communication between the parties, make the collection a real challenge indeed. In these circumstances a credit servicer turns out to be the trump card which drives towards the success of an operation. Also, not all credits are identical, either in terms of “origin” (which is why a segmentation of them is required, in order to increase their sales value) or for the context they are placed in.

Furthermore, the consistency of the credit considerably affects both method and timing of collection, with the latter being one of the most important variables that somehow needs to be reduced.

The following are the points in which we have decided to split our path:

- **Look in the Mirror** (overview of the Italian situation and analysis of our target: the international prospects)
- **Plan a Roadmap to Health** (the importance of a “local” partner within the dynamics of debt collection in Italy)
- **Say no to Stress** (procedures, analysis and technology to decrease DSO for the originator and increase IRR for the investor)
- **Stay one step ahead** (Innovations within the field of debt collection)

Enjoy the reading!

1. LOOK IN THE MIRROR

Looking in the mirror, to find out what we do not like, what is good, what it needs to be changed. A reflection on ourselves, in short, which can help us improve and represent the first step towards a positive action. In the same way, we should “reflect ourselves” onto the socio-economic environment to understand how the current situation is like and what necessary steps are to be taken in order to reach a satisfying and positive result for the financial system.

Europe is currently coming out very slowly from the crisis begun in the US in 2007. 9 years after its beginning, we can say that global economy is gradually coming out of it.

Probably thanks to the disruption it generated, that crisis can teach Governments and Central Banks how to avoid them and how to prevent new ones to begin, by adopting flexible measures of regulation which submit the risk to an adequate control, in proportion to the particular stage in which the economy is set.

However, in spite of several steps forward in a global context, the European economy remains fragmented and, consequently, the different Countries which compose it react in different ways. **Germany**, for example, continues to be the nation that holds the reins of the entire Community; **Spain**, after reaching the bottom in recent times, lately has seemed to be living a much faster recovery than expected. **Great Britain**, of course, is living a very unusual situation, sprung by the Brexit which affected, and will still affect, the economic performances of the entire Union. **Italy**, despite the first, optimistic perspectives, is falling short of expectations, with a struggling growth in spite of the positive data from the last period.

ECB



Thus, taking a quick look at the Eurozone, we find ourselves in front of a situation filled with uncertainties, characterized by a slow economy and fragmented visions. The **ECB**, led by Mario Draghi, continues to adopt countermeasures in order to overcome the moment and find an incentive response to different needs. Focusing on the Italian case, we have a situation characterized by negative sides which affect different areas of our economy. Starting from the banking system, the growth of non-performing loans has reached a very important level, thus necessitating targeted measures by experts in the field, as well as from the State government. The current governmental situation, given the referendum result, has definitely brought to a further moment of “panic-by-investment” concerning the saving of historical credit institutions, needless to talk about the MPS case, the headlines of several months now. On top of this, we have a particularly quibbling bureaucracy, with legal entities known for their slowness in carrying out practices, which certainly does not facilitate the work.

Finding detailed information within the financial area is not an easy task considering the fragmentary nature of the appointed institutions. Therefore, the Italian situation is actually problematic to date, in spite of some flashes of optimism, given also the amount of non-performing loans gathered by banks. By now, the term NPL is well known even by those not involved in the financial sector, but identifying a strategic plan to decrease bad loans is still a difficult task to date. Several are the factors which have contributed to lead to this situation, and different are the elements to be analysed in order to develop a strategy aimed to debt collection.

The key sentence is: “know the market”! And, at moment, the Italian one is among the most difficult and complicated across the entire Eurozone.

2. PLAN A ROADMAP TO HEALTH

In some ways, the importance of choosing a “local” partner by international entities who wish to work in our country has the same value of a personal trainer who decides to take up an athletic and nutritional path. The value of such decision lies in the possibility to achieve the desired results in both cases, but methods and time (as well as the chance of success itself) are quite different. Being self-taught, regardless of how much effort and enthusiasm is put, is often not enough, or at least requires an excessive waste of energy that could be avoided by relying on expert hands, without running the risk to make bad choices. It’s exactly for this reason that choosing a “territorial” Servicer is the winning move, if you want to face the NPL market in the Italy.

Several are the advantages in this regard:

- **Knowledge of the market** - As previously mentioned, the Italian situation of NPLs is so complicated to date, that it requires a specific attention by the Government, not just aimed to control its flow. With constant attention from European and global investors within the Italian banking field, the Government has strengthened its role in the market. The Government setup of the guarantee scheme for the NPL securitization has therefore a proactive role in ensuring that the NPL market remains open to foreigners.



Knowing the market, the needs, the percentage in which secured and unsecured loans affect their buying and selling, becomes a fundamental requirement for a business-targeted choice

- **Legislative Knowledge** – This is another crucial point in the resolution of operations concerning NPL.

To date, unfortunately, the Italian legislative reality is not a minor obstacle within the collection of NPL-portfolios. With their red tape, courts add a further negative step to debt collection. The possibility to benefit from the help of experts in the field, capable of interacting with different entities and knowledgeable about legal dynamics, guarantees a considerable time reduction (which is no small feat). Moreover, the knowledge of local rules reduces the risk of running into sanctions from the Authority, which could derive from misconduct within the collection activities.

- **Relationships** – The persistence of a business within a certain context is mainly given by the network of contacts and relationships, very often fundamental to carry on working aspects which are vital for the success of a business. In our case, it goes without saying that the direct contact with Credit Institutions, rather than with dedicated entities, proves to be a great advantage within the dynamics of portfolios management. Therefore, building relationships, whether they are active or passive, implies knowledge of the territory, a source of experience concerning field activities. In this case, operational structures located in Italy will also act in full compliance with the current regulations, as they are familiar with all their parts and aspects.



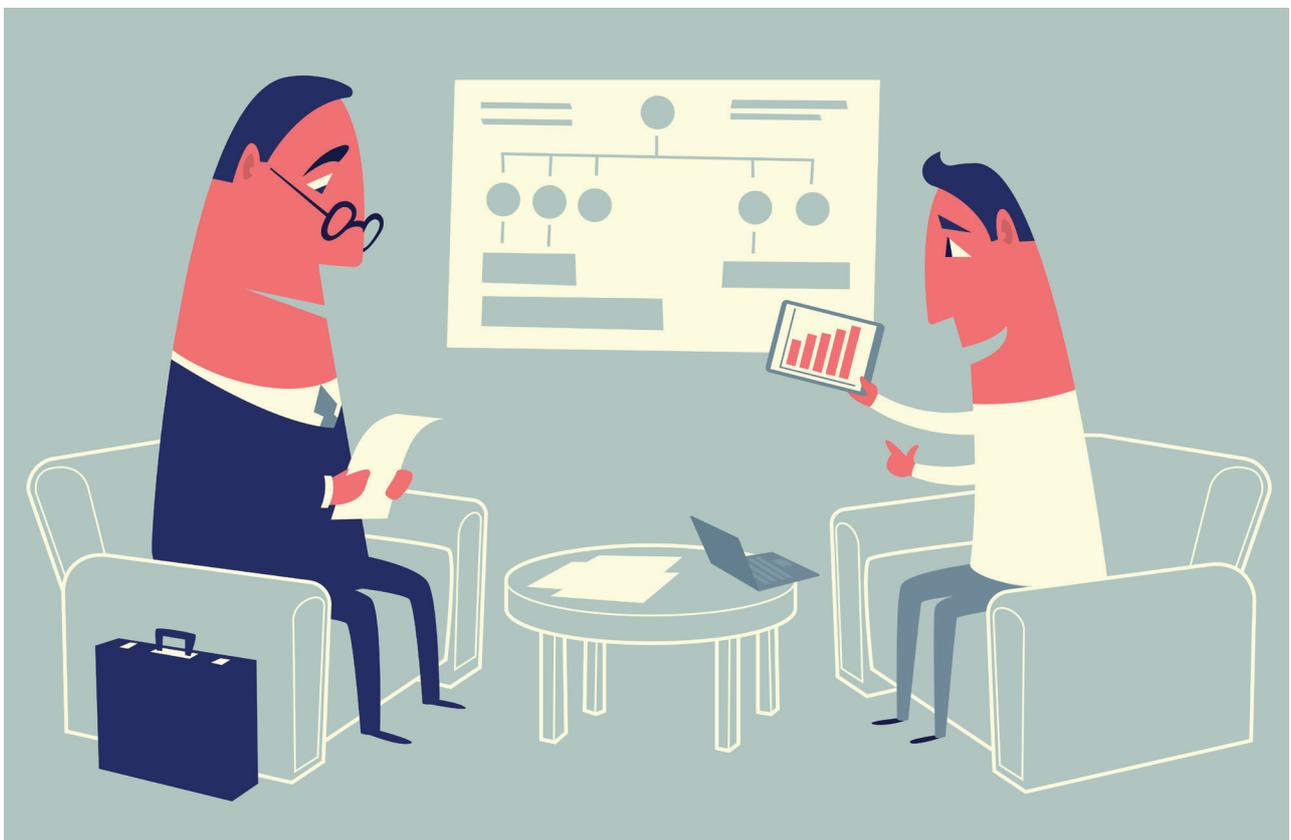


- **Servicer and info providing** – In view of the above, the support of a local Servicer represents an incentive more than appropriate for a foreign investor who decides to work in Italy. Additionally, if the Servicer is also equipped with an infoproviding structure, the result is doubled as you don't need to subcontract activities to third parties. In fact, this allows an in-house production of investigated information which supports the debt collection and provides integration within the collection processes, resulting in better performances, a reduction of management time and a rise in availability rates. There is also to consider the specialization in the various asset classes: corporate, individual or real estate. This point becomes critical for the debt collection performed by banks.

Each asset is characterized by different parts and fields, thus the approach with the client and the planned strategy varies according to the specific asset. We talk about Corporate, when companies have run up debts due to bad investments or a failed return of payments they thought to be secure; individual, due to loans or mortgages to privates who later become unable to repay the debt; real estate, when it comes to secured credits characterized by one or more properties that can be potentially seized, therefore with better guarantees for the creditor.

- **Investors should not start from scratch** – At the end, thanks to the support of a local partner it's easier to identify the most appropriate strategy. The approach, in fact, will be dictated by an internal, specific activity of monitoring and benchmarking, thus increasing its effectiveness.

With a qualified servicer, a creditor can rely on two channels of collection, either extrajudicial or legal, which will respond to the different needs of collection, developed by the credit management sector. Of course, both require a qualified team that knows the right approach to take with the customer, as well as an adequate technological support for the attainment of the objective. In the first case (extrajudicial collection) we refer to a “friendly” approach, split into an initial phone stage, and a secondary home collection, whereas the second case concerns credits harder to collect, and is carried out by a real network of lawyers. Given the more challenging and specialized approach, it's no small feat to benefit from the support of an in-house infoproviding sector.



3. SAY NO TO STRESS

Today, debt collection is among the main problems of any organization, from banks to companies. This aspect includes many facets (how to collect, how quickly, what the benefits are) all of them very important in determining the best collection strategy to adopt once the task has been assigned. Among these, the one concerning time is most often considered the key variable. Countless are the analytical models that try to assess the impact of time on the credit value, either “ex ante”, during the assessment phase, or “ex post”, to determine the collection value. “Time” is so important that the latest regulatory actions from the Italian legislature concerning “debt collection” are all designed to simplify procedures and timelines, thus allowing creditors to operate faster according to the applicable regulations and regain possession of the sums distributed and not returned.

According to some evaluations, a one-year reduction in the debt collection time is worth a few percentage points in terms of bid-ask gap reduction between banks and specialized funds; in other words, it greatly contributes to the deconsolidation of non-performing loans from banks’ balance sheets. The reduction of debt collection time, not only derives from the necessary bureaucratic and regulatory simplifications, but also implies a high specialization of those in charge for it. With specialization we do not exclusively mean the knowledge “of the rule”, but also the existence of an organization prepared and suited to do it in a professional manner and over more “channels”, making use of combined actions and a well-designed strategy, which follow business models similar to those of the most advanced logistics systems.

The recruitment of skilled human resources, a flexible and proactive approach to the customer, simple and efficient processes, strong investments in technology, the innovative use of a database to speed up the search for attractive information, are all features necessary to make the difference while reducing time.



Today, the digitization of processes is essential in this field. The management of growing bulk data, the ability to read and analyse them within tight deadlines and be able to adopt any necessary corrective measure, is strongly pushing the credit management world towards the digital disruption, leading to the path of fintech.

In this context, the use of information becomes strategic as a resource capable of leading to the best choices of decision-making.

Here comes into play with a leading role the informational enrichment, better known as infoproviding in the Italian context. Getting to know a customer, having access to good quality information about granular portfolios, speeds up and simplifies the collection process. Being able to count on an internal production of investigative information allows achieving an increase of performance, a reduction of management time and a consequent reduction of unavailability rates. And if the whole is supported by a digital and innovative database, it also allows the creation of dynamic workflows as well as the application of specific strategies for every single stage of working, integrating the client policy within the flow itself.

AZ Holding in this respect has created a new web portal: C.I.R.O.

The new platform allows customers to deliver cases, follow the working process and receive the necessary material in short time and with high performance. With over 1.5 million tax codes, “C.I.R.O.” allows a faster and cheaper tracing of the debtor, all in complete safety as it avoids the email step.

Innovation, digitization and internal information guarantee that the objective is achieved “without stress” and within the right time.

C.I.R.O.

Credit Information Report Online.



C.I.R.O.

WE TAKE CARE OF YOUR NPL'S

4. STAY ONE STEP AHEAD

Knowing the market, answering to its variable needs, in some cases being ahead of time foreseeing direction and strength, are aspects of vital importance to give coherent and good quality answers, and to maintain customer confidence. AZ Holding, trained to outline customized answers to any demanded need, has developed products which meet the need of creating value in every portfolio or asset context.

The following list, though not exhaustive, gives a good idea of what building a product together with the customer means.

- **Tracing Heirs**

If you consider the increasing price of settled portfolios on the market, it's easy enough to understand that drawing value from difficult portions of portfolio is considered a must if you want to reach the market IRR. One of the sensitive issues for NPL portfolios is the fact of being too often filled with the presence of deceased subjects. In some cases, the cluster of deceased ones can be around 5-6% of the GBV from a medium-sized portfolio.

“Tracing heirs” operations, developed by AZ Holding, use a revolutionary method that makes possible a massive processing of the deceased fractions within NPL portfolios. The system allows a direct identification of accepting heirs, thus excluding those with benefit of inventory, who often result in a further increase of costs of the portfolio.

- **Small Ticket**

The spread of extremely granular products on the market (mainly done by utilities) has led buyers of NPL portfolios to seek new ways of working these, in order to contain collection costs against the IRR targets. It goes without saying that “infoproviding” is one of the strategic resources to meet the expected profitability.

In this respect AZ Holding has developed a product specifically designed to enhance portfolios with useful info, allowing a well-informed processing. In addition to the usual residence data, in fact, the small-ticket provides information about employment, pension, income, type of employment contract, which simplifies the confirmation activity, restricting this just to the most sensitive, collection-aimed info.

- **Tracing Checking Account**

The tracing of checking account is another product of advanced infoproviding conceived for the collection of complex portfolios or with complex clusters to solve. Owning info on checking accounts related to an individual is very valuable, especially in the context of portfolios to be worked under Legal Unit. Think of an entrepreneur, a freelancer, an employee with a fifth of salary deducted...

In this type of segment, having the chance to perform legal collection on a checking account represents a competitive advantage and allows retrieving important, decimal fractions on the yield return of a NPL portfolio. AZ Holding has created a product specifically designed for the NPL line, keeping unchanged the concepts of sustainable cost and short delivery time even on massive amounts too, thus introducing this type of product in the context of granular portfolios, as well as on categories often not performing, such as entrepreneurs, professionals or VAT holders.

- **Asset Hound & Asset View**

Following the tendency to work NPL portfolios with an increasing polarization on the larger amounts of debt to be collected, the capacity of expanding the debtors' assets around which beginning legal actions becomes strategically important. In this respect, the presence of real properties and the ability to perform collection actions in a targeted way gain an important role.

Real properties, in fact, have the advantage of being static (that is, tracing them does not constitute an issue) but managing their information is not as easy, because of their technical complexity and, above all, their cost (burdened with states' rights).

AZ Holding, in this regard, has developed flexible and modular real estate products which optimize costs without compromising quality, thus enabling a massive work even on portfolios where it seemed impossible to achieve it.



• **Golden Cluster**

The NPL market has found out that that segmenting portfolios means adding value to them, either during the origination phase, or from the buyer side.

The goal, then, is to make the different clusters of debtors or Assets internally uniform, in order to create some database which:

- from the origination side, can be sold separately to various funds that treat different assets.
- from the buyer side, can be worked with distinguished collection strategies in accordance with their different typology, aiming to maximize chances of collection and optimize processes and costs.

It is easy to realize that clustering variables used by Advisors or whoever builds portfolios are very limited compared to the more extended possibilities of an infoprovider.

The first ones can rely on historical data (often unreliable) derived from the contract, but still limited at any rate.

The latter, however, can enhance portfolios with strategic info (ie. income level, employment contract, presence of the fifth of salary deducted, etc ...)

In this case too, AZ Holding has dedicated a specific product to guide collectors towards a strategically relevant activity, that allows a significant increase of the portfolio's value, either from the originator side or from the buyer's one.



Milano

Via Borgogna 2, 20122
Tel. +39 02 760 22 442
Fax +39 02 760 26 408

Napoli

Via Santa Lucia 50, 80132
Tel. +39 081 764 60 60
Fax +39 081 247 11 60

Napoli

Centro Direzionale
Via G. Porzio Isola A2
Tel. +39 081 192 30 800
Fax +39 081 247 11 60