



# UPDATE ON THE IRISH & UK NPL MARKETS

*Tom McAleese, Managing Director*

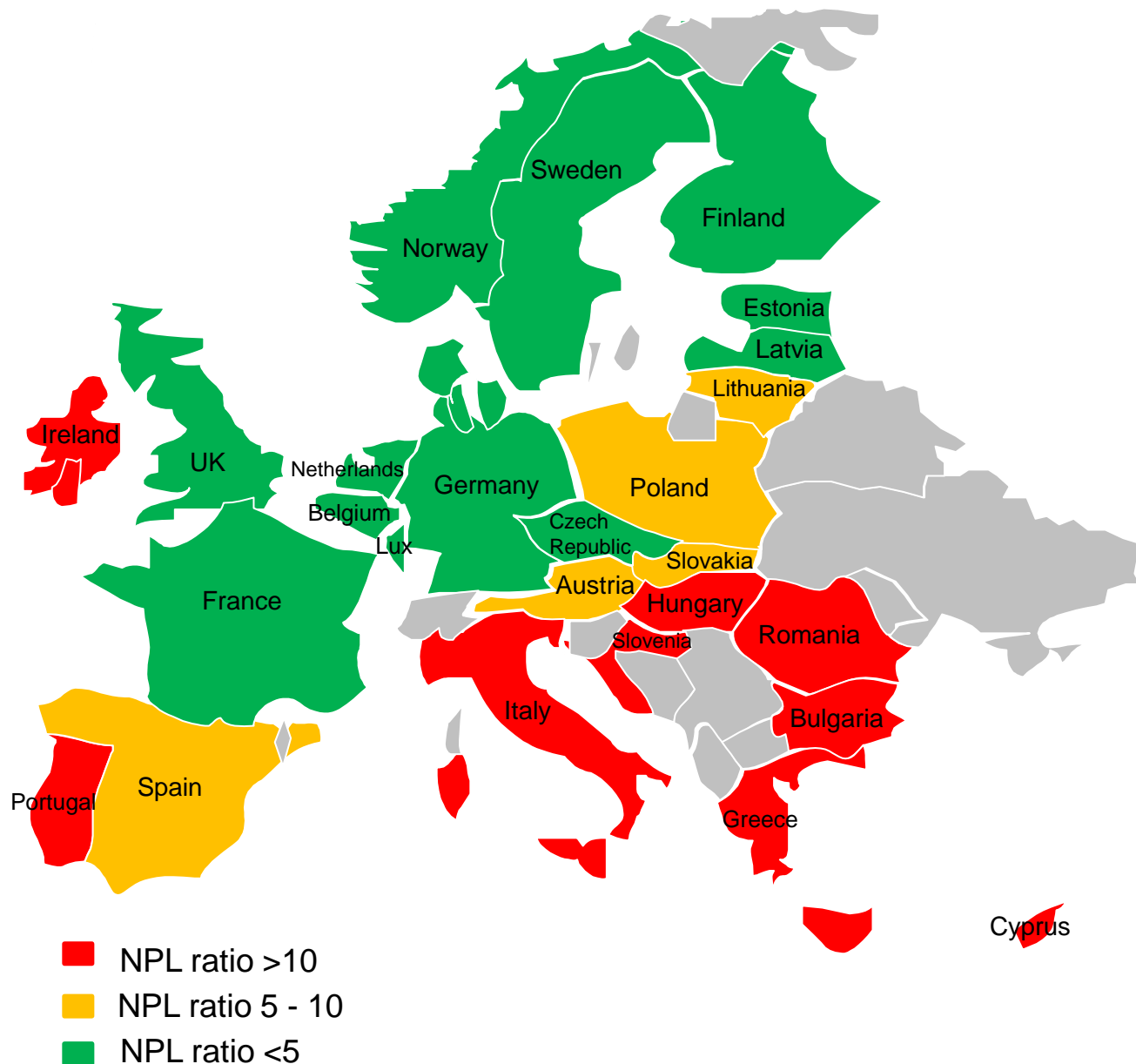
29 September 2016



# EU NPL MARKET OVERVIEW (1/3)

Total EU non-performing assets were estimated to c. €760bn as off end of 2015, for the EBA stressed-tested SIBs

Accounting for smaller banks, overall non-performing assets in the EU region are estimated around €1 trillion

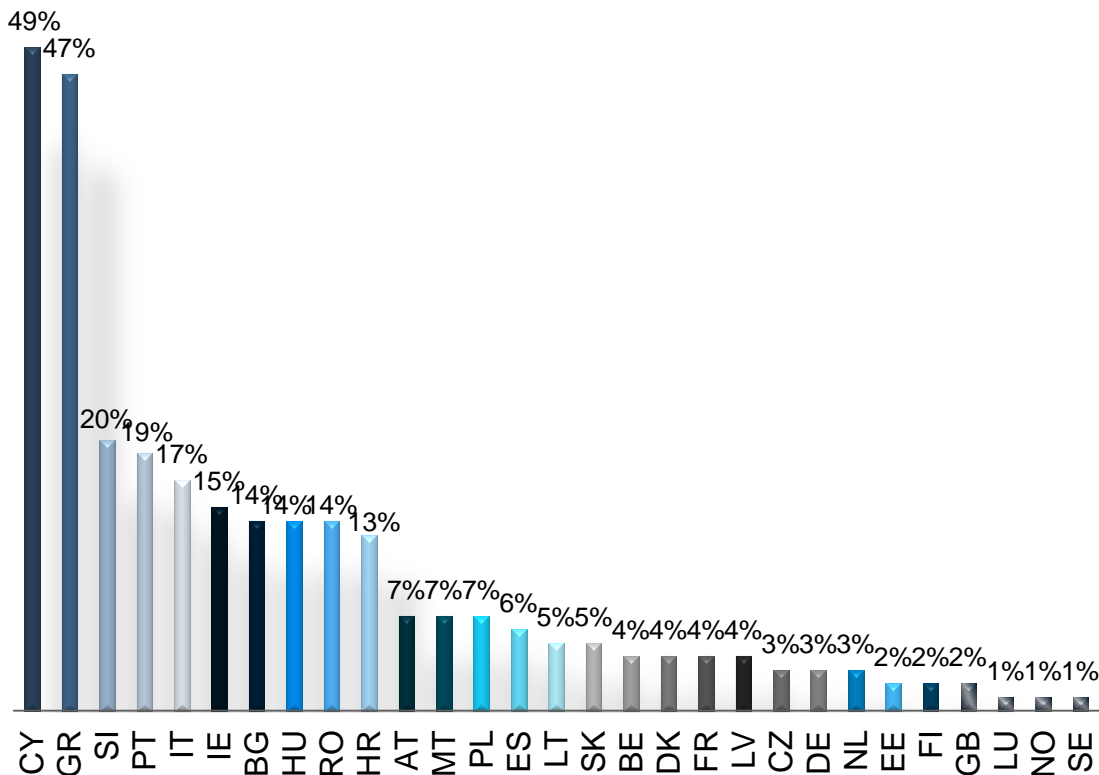


- NPL ratio >10
- NPL ratio 5 - 10
- NPL ratio <5

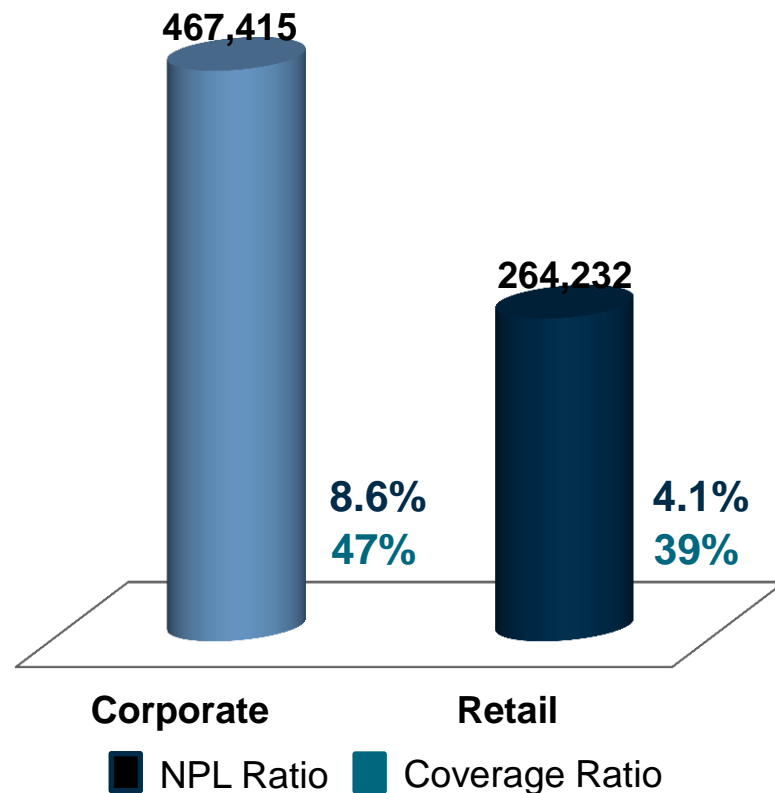
# EU NPL MARKET OVERVIEW (2/3)

**NPL ratios in the EU market are generally higher in the corporate than in the retail sector. Highest NPL concentration is evidence in Cyprus and Greece**

**EU Countries: NPL Ratio**  
(Mar 2016)



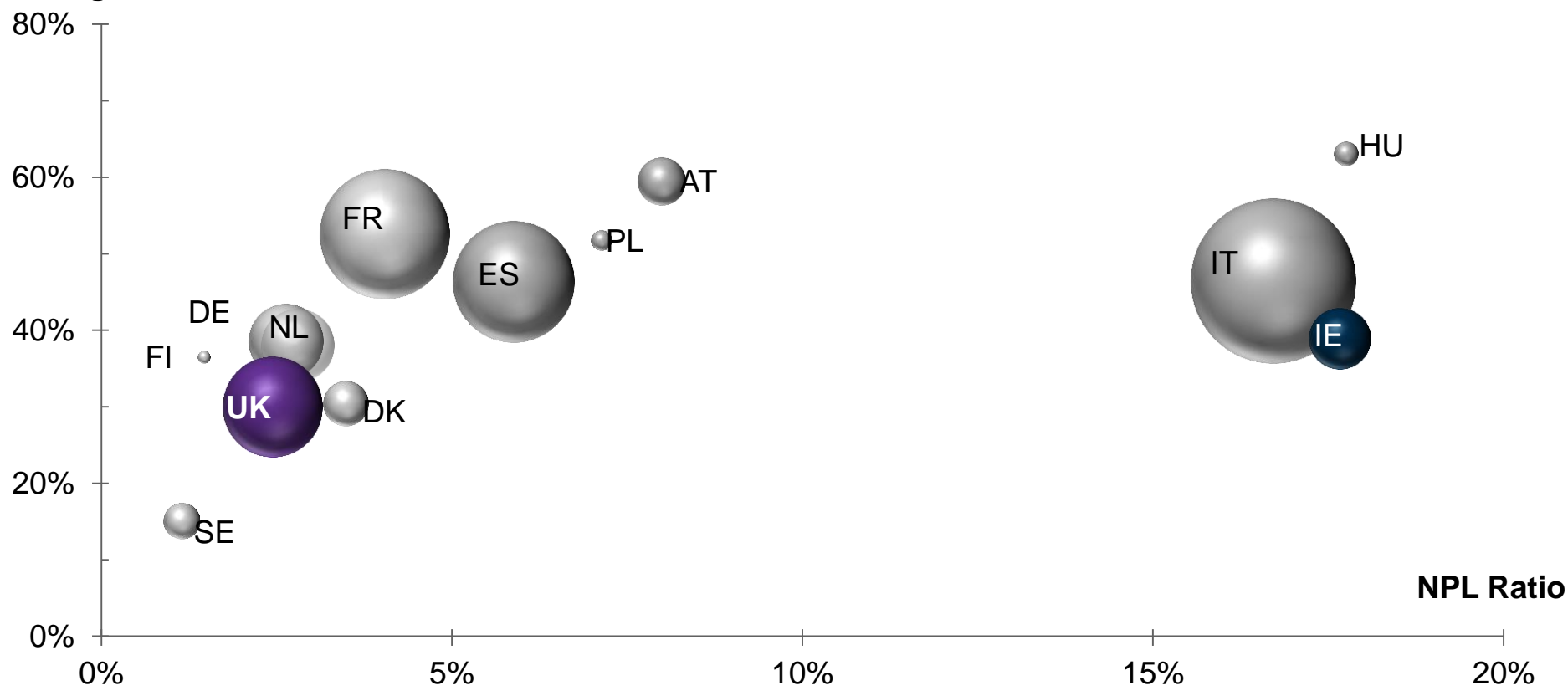
**EU: NPLs per Asset Class**  
(2015, €m)



## EU NPL MARKET OVERVIEW (3/3)

EU market coverage ratios vary from country to country. A low coverage ratio does not necessarily imply a risk of under-provisioning, since it could also reflect rigorous lending practices (high collateralisation of exposures) or a strong collateral enforcement/liquidation framework (i.e. collateral repossession is easy for creditors)

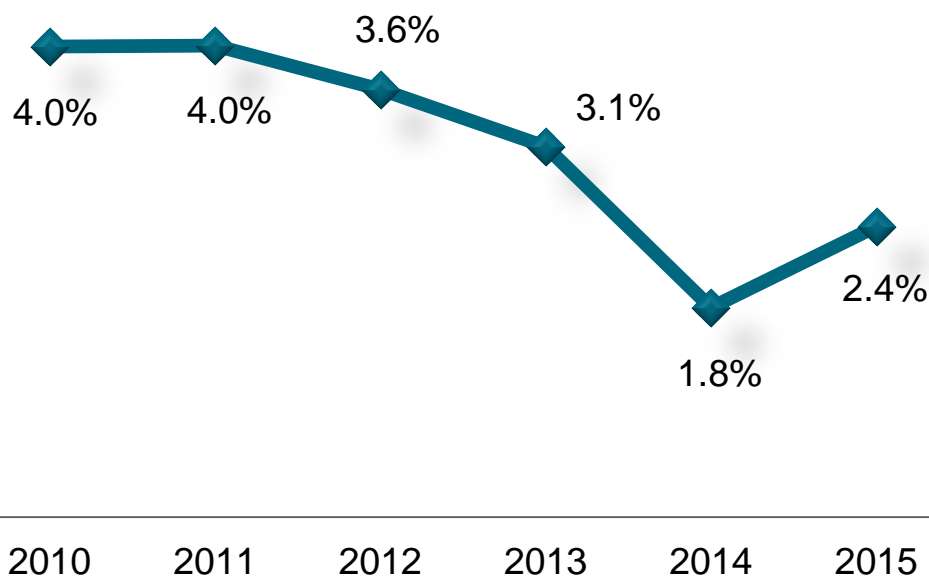
Coverage Ratio



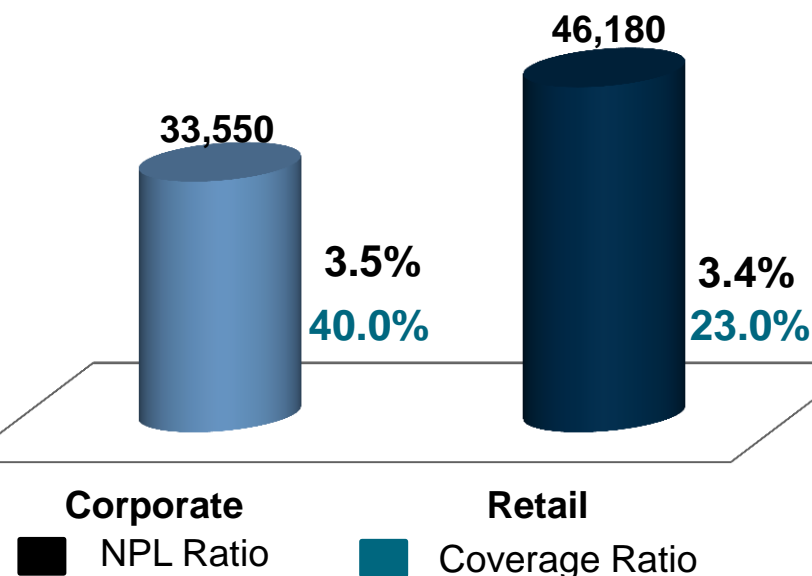
# UK NPL MARKET OVERVIEW (1/2)

Total NPL in the UK have declined to 2.4% with an average coverage ratio 34% as of 2015

## UK: NPL Ratio Evolution

















## UK: NPLs per Asset Class (2015, €m)



The NPL ratio is one of the lowest in Europe and points to the success of both deleveraging efforts and improvement in the UK macro fundamentals. But Brexit....

# UK NPL MARKET OVERVIEW (2/2)

## NPL CONCENTRATION IN UK BANKS (SIBs ONLY)

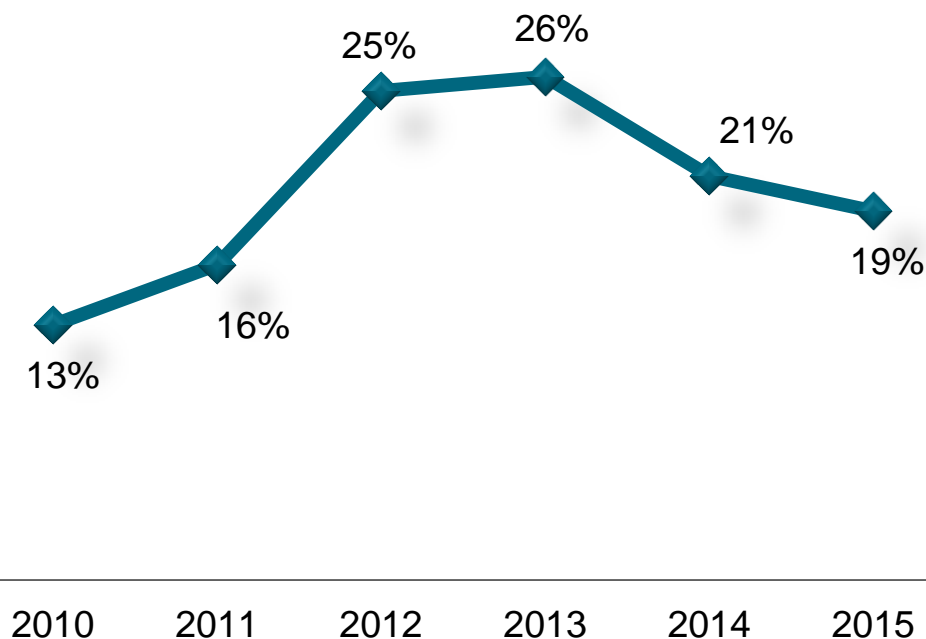
Bank	NPLs	NPL ratio	Coverage ratio	Coverage + Guarantees
	761.281	4,8%	44%	86%
	82.160	2,4%	30%	82%
HSBC 	24.615	1,9%	29%	78%
LLOYDS BANK 	23.280	3,4%	15%	84%
 RBS <small>The Royal Bank of Scotland</small>	22.547	4,1%	40%	85%
 BARCLAYS	11.718	1,5%	42%	75%
 UniCredit	80.909	13,1%	51,3%	81,6%
 BNP PARIBAS	42.681	5,8%	54,0%	84,2%
 Santander	36.934	3,8%	47,3%	97,8%
 CRÉDIT AGRICOLE	30.039	3,4%	52,1%	78,7%
 SOCIÉTÉ GÉNÉRALE	25.125	5,3%	55,8%	81,2%
Deutsche Bank 	15.086	2,4%	36,7%	77,0%
Nordea 	7.125	2,0%	29,8%	101,0%
COMMERZBANK 	7.167	2,3%	46,0%	91,5%

G-SIBs  
peer  
group

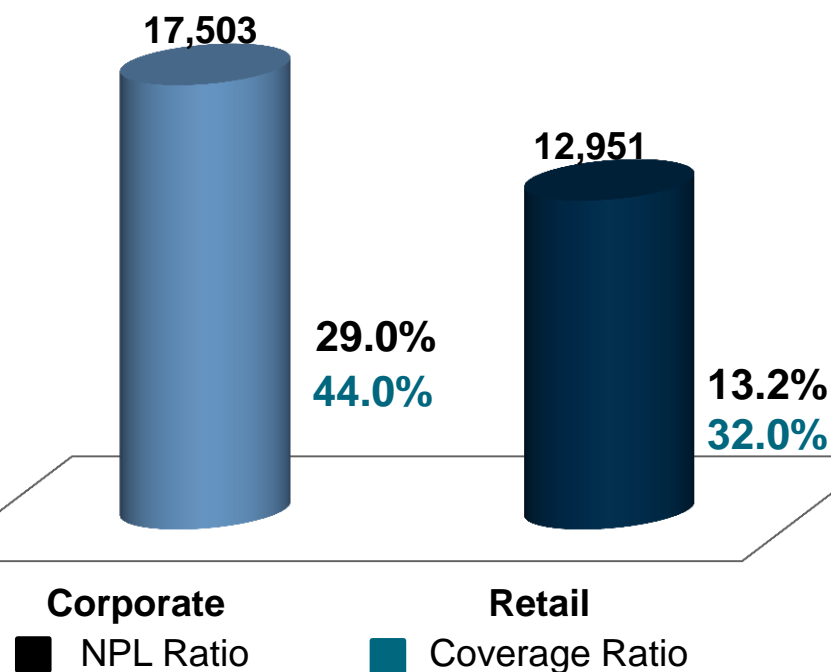
# IRELAND NPL MARKET OVERVIEW (1/2)

**NPL ratio has dropped to 19%, illustrating the results of the banking sector's intensive deleveraging efforts**

## Ireland: NPL Ratio Evolution
















## Ireland: NPLs per Asset Class (2015, €m)



The largest NPL player, NAMA, had initially predicted to wind down completely by 2020, but at the current rate of sales, it is considered likely that NAMA will be able to wind down prior to its mandate in 2018. However it has recently had to deal with political issues on Project Eagle.

# IRELAND NPL MARKET OVERVIEW (2/2)

## NPL CONCENTRATION IN IRISH BANKS (SIBs ONLY)

Bank	NPLs	NPL ratio	Coverage ratio	Coverage + Guarantees
	761.281	4,8%	44%	86%
	30.735	17,7%	39%	83%
 <b>Allied Irish Bank</b>	18.024	24,9%	35,8%	87,6%
<b>Bank of Ireland</b> 	12.711	12,5%	43,3%	76,1%
 <b>BANCA INTESA</b>	63.311	15,5%	47,5%	87,6%
 <b>BNP PARIBAS</b>	42.681	5,8%	54,0%	84,2%
 <b>CRÉDIT AGRICOLE</b>	30.039	3,4%	52,1%	78,7%
<b>LLOYDS BANK</b> 	23.280	3,4%	15,0%	84,5%
 <b>RBS</b> <small>The Royal Bank of Scotland</small>	22.547	4,1%	40,0%	85,3%
 <b>Sabadell</b>	13.035	7,9%	40,6%	90,7%
<b>ERSTE</b> 	9.329	6,4%	57,1%	90,4%
 <b>ABN-AMRO</b>	8.573	2,7%	45,6%	45,6%
<b>COMMERZBANK</b> 	7.167	2,3%	46,0%	91,5%

**G-SIBs  
peer  
group**

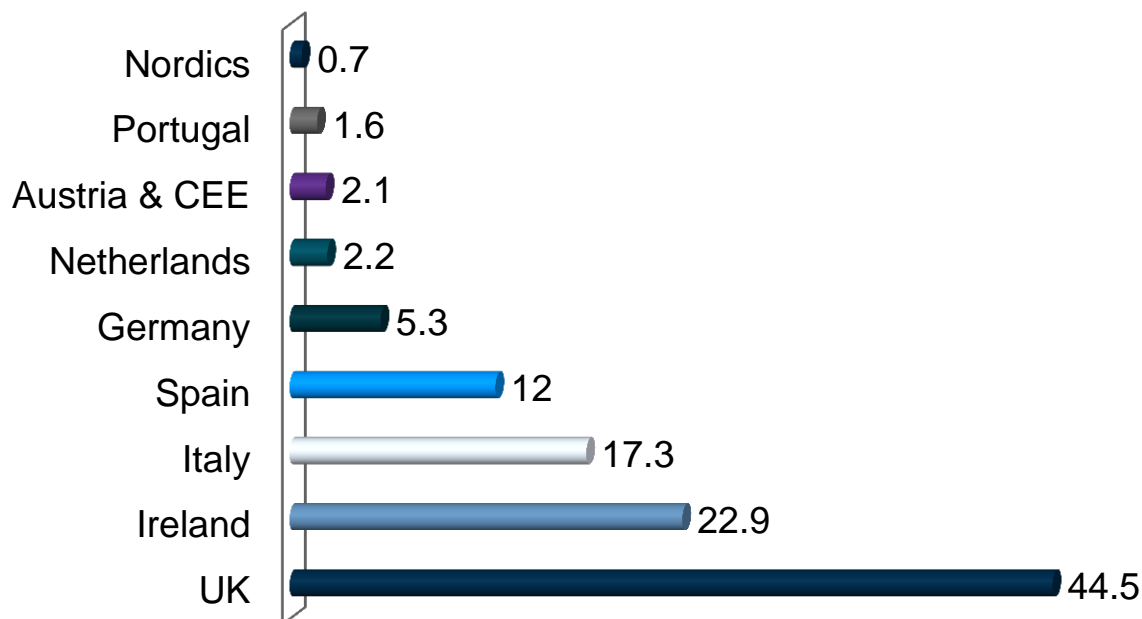


# EU LOAN MARKET OVERVIEW

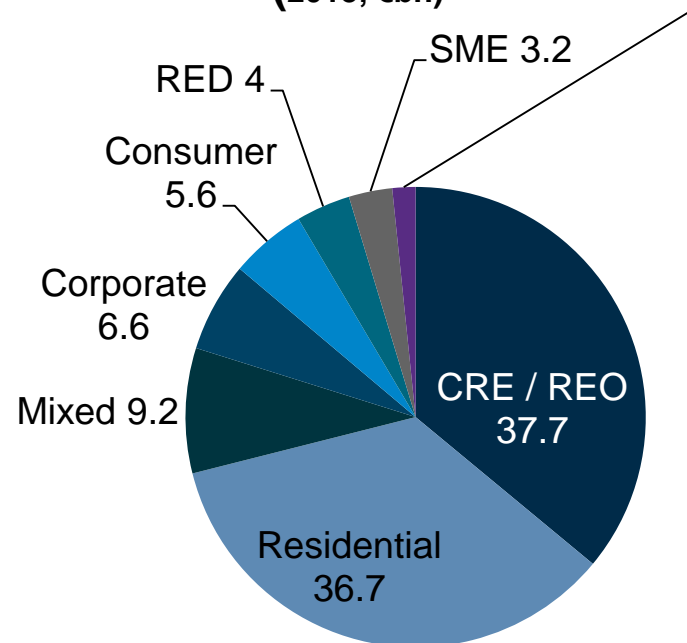
## Deals of €300bn since 2013 in the EU loan portfolio market

- In 2015, over €104 billion in closed transactions across 30 European countries.
- Hot spots over the past year included the United Kingdom (UK), Ireland, Italy, and Spain, where over €86 billion of transactions closed.
- Investors looking into Greece and Cyprus for future investment opportunities as they work to revive their banking sectors

**Activity by Country**  
(2015, €bn)



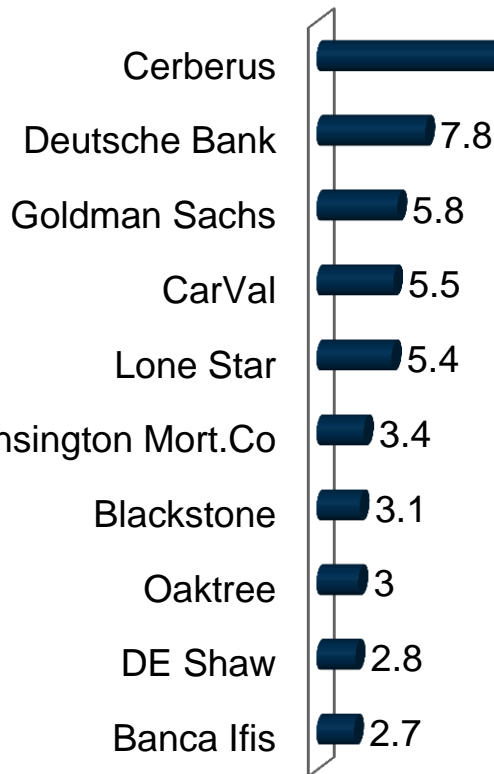
**Activity by Asset Class**  
(2015, €bn)



# INVESTORS ACTIVE IN THE EU LOAN MARKET

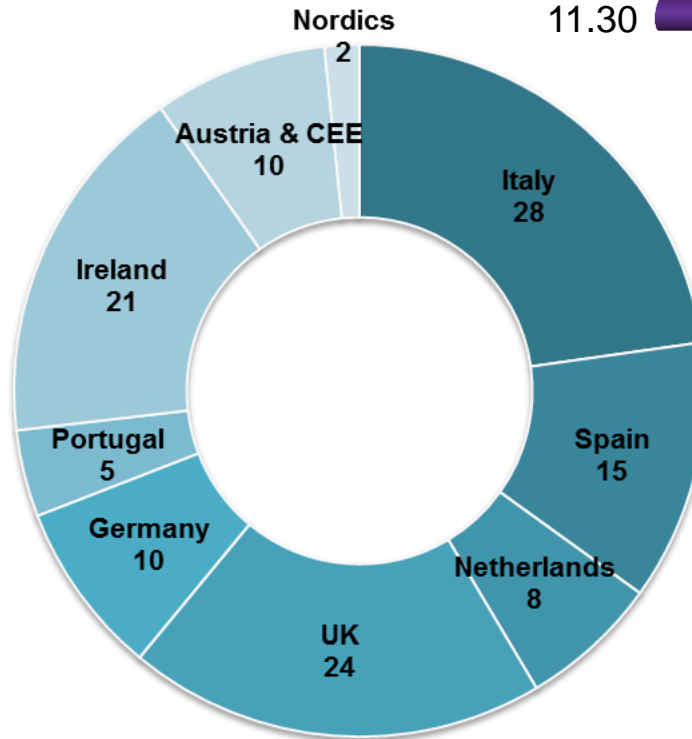
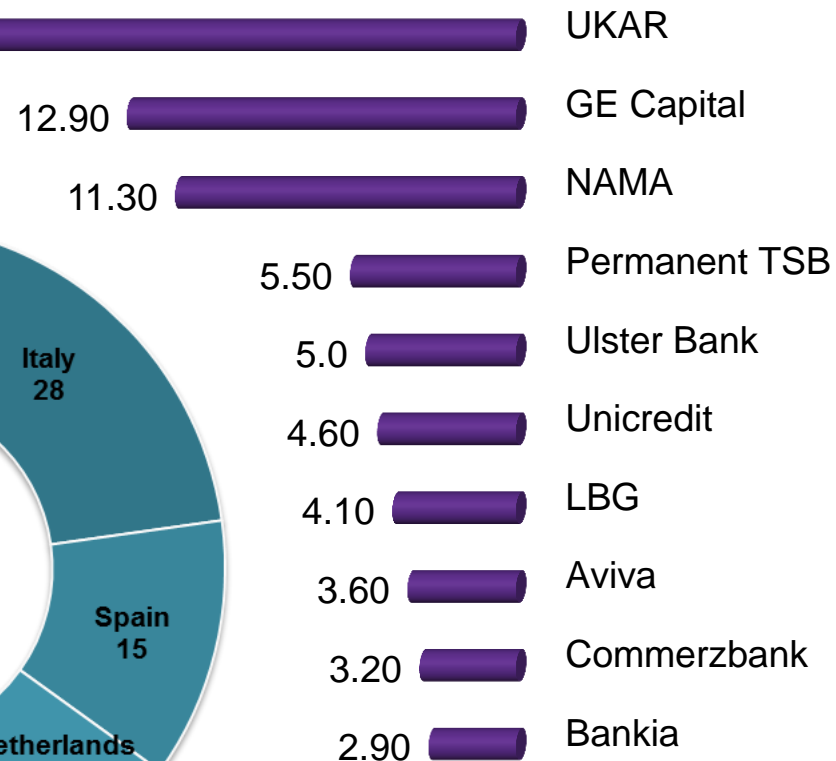
## EU: Most Active Buyers

(2015, €bn)



## EU: Most Active Sellers

(2015, €bn)



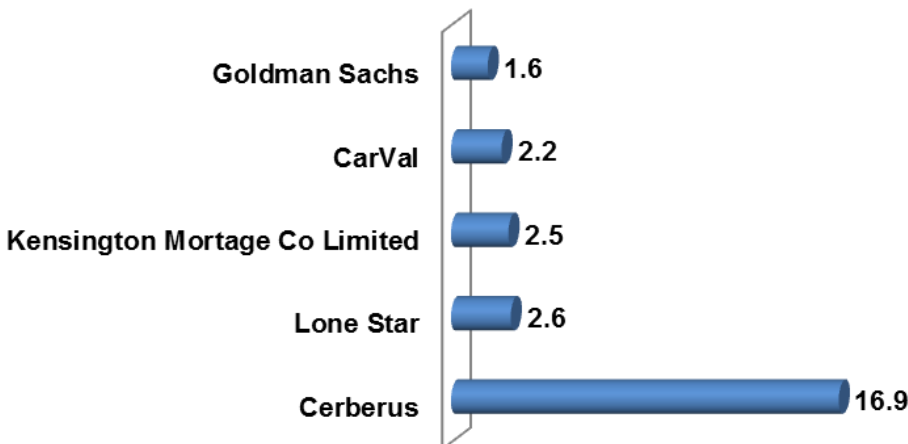
EU: Number of Completed Deals (2015)

# INVESTORS ACTIVE IN THE UK LOAN MARKET

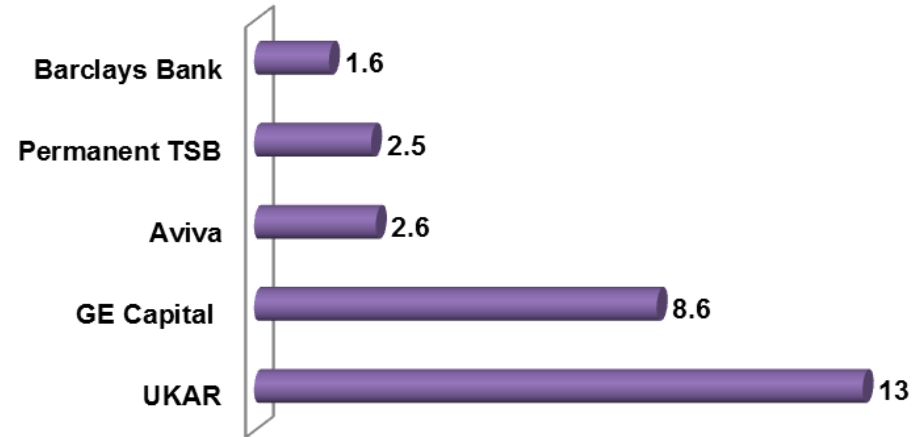
## UK is the most active country in loan sales in 2015, with sales exceeding £32bn

- The last few years have been dominated by sales of non performing portfolios, however there is now an increasing trend towards performing portfolios.
- In 2016, transactions are expected to surpass the 2015 activity, with residential and performing portfolios expected to be the focus.

**UK: Most Active Buyers (2015, £bn)**



**UK: Most Active Sellers (2015, £bn)**



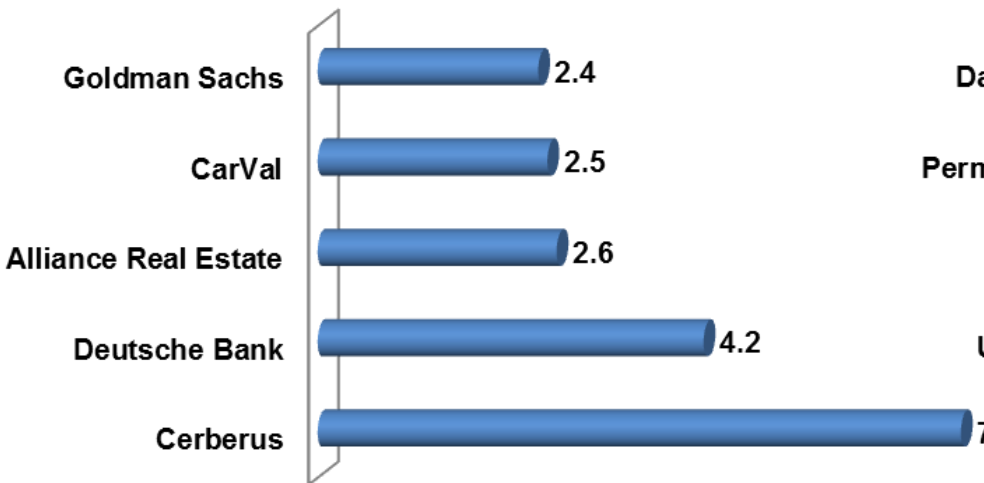
UK Completed Transactions (2015)				
Project	Buyer	Seller	Asset Type	Value (£mil.)
Project Granite	Cerberus	UKAR	Residential	13,000
Confidential	Blackstone/CarVal/TPG	GE Capital	Residential RE	3,800
Project Churchill	Lone Star	Aviva	CRE	2,600
Capital Home Loans	Cerberus	Permanent TSB	Residential RE	2,536
Confidential	Kensington Mortgage Co Limited	GE Capital	Residential RE	2,467

# INVESTORS ACTIVE IN THE IRISH LOAN MARKET

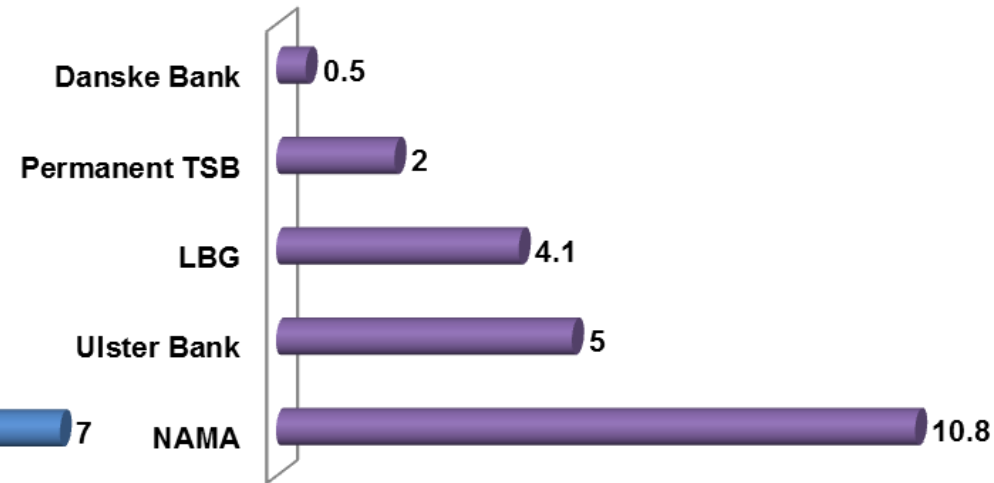
**Ireland has completed portfolio trades of €62.9bn**

- Total completed sales in 2015 were €22.8bn, 19% down from €28bn in 2014.
- Activity in 2016 is between 2014 & 2015 levels

**Ireland: Most Active Buyers (2015, €bn)**



**Ireland: Most Active Sellers (2015, €bn)**



Ireland				
Completed Transactions (2015)				
Project	Buyer	Seller	Asset Type	Value (£mil.)
Project Arrow	Cerberus	NAMA	CRE	6,250
Project Poseidon	Goldman Sachs/CarVal/Bank of Ireland	LBG	CRE	4,120
Project Jewel	Alliance Real Estate/Hammerson	NAMA	CRE	2,570
Project Finn	DB/Apollo/Cerberus	Ulster Bank	CRE	2,550
Project Leinster	Deutsche Bank/Apollo	Permanent TSB	CRE	1,000

# 1H2016 MARKET UPDATE

**While strong activity levels were evident across broader Europe for the first months of 2016, the uncertainty generated by the UK referendum and Brexit had a considerable impact in slowing the loan portfolio and broader M&A markets**

- By the end of H1 2016, reported completed loan portfolio sales in Europe were €44.3bn with €67.8bn in ongoing transactions. Combined with as yet unannounced transactions for 2016 it is expected total transactions will reach c.€140bn. These numbers compare favourably to the total sales in 2015 of €104.3bn.
- Oaktree, Lone Star, HSH Portfolio Management and AnaCap were among the most active buyers, while NAMA, Propertize and HSH among the most active sellers.

UK		Completed Transactions (1H2016)		
Project	Buyer	Seller	Asset Type	Value (£mil.)
Project Avon	UK infrastructure fund	Kennedy Wilson	CRE	109
Project Hurst	Not disclosed	Zurich Bank	Mixed	150
Project Detroit	Not disclosed	RBS	CRE	600
Ireland		Completed Transactions (1H2016)		
Project	Buyer	Seller	Asset Type	Value (£mil.)
Project Ruby	Oaktree Capital Management	NAMA	CRE	4,700
Project Emerald	Oaktree Capital Management	NAMA	CRE	2,500
Project Abbey	Apollo	NAMA	CRE	700

# RECENT DEVELOPMENTS

## Regulatory Developments

On-going SSM strict monitoring on high NPL banks and high NPL countries ("NPL Taskforce")

September 2016 ECB draft guideline is increasing oversight on NPL management, deleveraging and calls for harmonized approach (e.g. definitions) between member states

April 2016 FCA working paper on NPL classification and accounting will impact accounting treatment of assets

September 2015 IMF paper on EU NPLs resolution calls for reforms to enhance deleveraging

## Market Developments

Brexit impact

Exposure of EU banks to the oil sector (potential loan losses could reach \$18bn)

A surge in the cost of credit default swaps could force banks to "mark to market" - write down the value of the debt

**Managing Director  
Head of Bank  
Restructuring Europe  
Financial Industry  
Advisory Services**



## TOM MCALEESE

- Tom McAleese is a Managing Director and Head of the Bank Restructuring practice in Europe with over 25 years experience in Financial Services, covering leadership roles in banking private equity and consulting in Ireland, the UK and the US. At A&M Tom is an expert in bad bank structuring, bank resolution, non-core & NPL management and bank risk & governance as follows:
  - Advising a large **Portuguese bank** on its options to sell its NPLs, real estate assets and servicing platforms
  - Advising an **Austrian bad bank** on its options following resolution (current)
  - Advised the **Dutch state** on the sale of a bad bank with primarily CRE loans and REOs (on-going)
  - Advised an **Irish Pillar bank** on their Resolvability Assessment Process, inc. HoldCo set-up and operational continuity (09/15)
  - Advised an **Irish Pillar bank** on the customer segmentation of the Corporate Bank( 09/15)
  - Advising a **systemic Greek bank** with the deleverage and work-out plan for its international network in CEE (06/15).
  - Advised a **foreign bank** in Ireland with their wind-down plan and SME loan servicer selection (09/13)
  - Responsible for operational and financial due diligence performed on a **large European loan servicing platform** (10/14)
  - Co-lead of A&M's Comprehensive Assessment project team, advising European banks (06/14)
  - Advised **PE firms** on credit due diligence projects including: a bid for an Irish loan portfolio (c. €675m nominal of CRE loans, 06/12) , an Italian CRE loan book (12/12), the acquisition of a Czech leasing business (01/14) and a Dutch bank (07/15).
  - Advised **an Irish Pillar Bank** on the Balance Sheet Assessment / Asset Quality Review performed by the Central Bank of Ireland (12/13).
  - Advised the **Central Bank of Cyprus** on the banking sector bail-out and restructuring, with responsibility for the overall bank restructuring, sector-wide troubled borrower strategy (all asset classes) and delivery of the Troika's MOU (08/13).
  - Ran the Asset Transfer work-stream as part of the establishment of the Spanish Asset Management Company, **SAREB**, when 145,000 assets / loans with nominal value of EUR79bn were transferred from the four Group 1 banks (12/12).
  - Led a team in preparing the strategic plan for the non-core division of a **large foreign bank's** Irish operations (c. €5bn CRE, SME book) (08/12).
  - Co-led the Asset Quality Review (i.e. loan portfolio valuation and review) of the CRE exposures (c. €8bn) of three main Irish banks as part of the 2012 Financial Measures Program in Ireland conducted for the **Central Bank of Ireland** (05/12).
  - Acted as a Senior Advisor to the A&M team which assisted a **systemic Greek bank** with its preparations for the Troika-led bank stress tests in late 2011.
  - Interim Chief Credit Officer (CCO) for **EBN Building Society** for 16 months (08/10 – 11/11) during a period of significant restructuring, a sale process, bank recapitalisation, transfer of loans to NAMA, 2011 PCAR stress tests and the merger and integration into AIB Group. Tom was responsible for managing Retail Underwriting, Arrears Support Unit, Commercial RE Credit and the NAMA Servicing Unit (c. 120 staff). Chair of Credit Committee and Deputy Chair of Risk Committee.
- Prior to joining A&M, Mr. McAleese served as the Managing Director for five years **at Barclays Bank Ireland plc**, with **ABN AMRO Bank** for eight years including: Country Representative – Ireland, Group Vice President of the Leasing and Tax Products Group in Chicago, and Head of Business Development of ABN AMRO IFSC. Tom's other roles included executive roles for GPA Group plc , KPMG, Consulting and Swiss Re. Chaired Credit Committees at Barclays and ABN AMRO.
- Tom is a Fellow of the Institute of Chartered Accountants, a Fellow of the Institute of Bankers and a Member of the American Institute of Certified Public Accountants.
- Tom is also a non-executive director and chairs the audit and risk committee of the **Strategic Banking Corporation of Ireland**. Tom is currently President of the Trinity Business Alumni and audit chair of the Dublin Chamber of Commerce.

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ALVAREZ & MARSAL