



Irish Debt Sale report

**Country Profile:
Ireland**

Portfolio Solutions Group
March 2021

[kpmg.ie](https://www.kpmg.ie)

Executive Summary

Ireland – Historic Market Context

The Irish NPL market is a mature and well established market. Over the past 10 years, an array of international Private Equity buyers have invested heavily in large-scale Irish loan portfolios comprising of all loan types and all major asset classes – the 2013 Special Liquidation of IBRC and the resulting loan sales delivered by KPMG kick-started the growth of the deleveraging cycle.

These investors have been attracted to Ireland in part due to its stable legislative environment and its mature regulatory regime, but also due to the sustained performance of Ireland's economy over this period following the global financial crisis. The sheer depth of Irish banks' NPL stocks also ensured that there was enough product available to maintain the interest of the international buyer audience. All of the major lenders and institutions including NAMA, AIB, Bank of Ireland, Danske, PTSB, Rabobank and Ulster Bank have adopted NPE portfolio sales as part of their overall deleveraging strategy in order to target NPL ratios in line with European averages.

Current Market Context

Ireland has now reached the mature phase of its post-recession NPL life cycle. The banks have either worked out or disposed of almost all of their legacy NPL stocks in most asset classes, including CRE, corporate, SME, residential BTL, retail, hospitality, and unsecured/consumer debt. However, it is only very recently that Banks have sought to address the major remaining over-hang from the global financial crisis – non-performing owner-occupied residential mortgages. In addition to the pressure on banks to resolve the negative balance sheet impact of this asset class, it is inevitable that additional pressure will start to mount as the expected wave(s) of COVID-19 impacted loans turn from performing to non-performing over the coming 6-12 months. Ireland's high proportion of

multinational pharma and ICT firms together with State backed pandemic wage supports and sector-led payment relief measures have thus far prevented a significant increase in NPL volumes. However, this is expected to change as support measures reduce, particularly in sectors more susceptible to the impacts of the pandemic (e.g. tourism, hospitality, retail (non-grocery), and leisure)

Transactions Overview

Unlike other active NPL markets such as Greece and Italy, the vast majority of deleveraging transactions in the Irish market are whole loan sale transactions. Whilst a number of securitisations have been undertaken in the Irish market, most of securitised portfolios comprise of restructured, reperforming or "split" loans, rather than solely NPL exposures.

2019 was a very active year in the Irish NPL market with transaction levels exceeding €10 billion. Rabobank disposed of its subsidiary ACC Bank's residual loan book of c.€4.2 billion in a market exit trade. Approximately €2.7 billion of this comprised of loans secured against a mix of asset classes which was sold to a consortium of CarVal and Goldman Sachs, whilst the remaining €1.5 billion of unsecured loans was sold to Cabot. AIB sold two large mixed NPL portfolios to Cerberus in 2019 with an aggregated GBV of just over €4 billion, and appears set to continue its deleveraging strategy with two prospective residential portfolio transactions completing in 2021, totalling approximately €1.4 billion.

Following a pause in the market during Q1-Q3 2020 due to the impact of the coronavirus pandemic, Permanent TSB announced the sale of a portfolio of performing Buy-To-Let ("BTL") loans with aggregated balances of €1.4 billion to Citibank in October 2020.




Table of contents

A snapshot of Irish macro-economics 4

Irish NPLs and originators market 7

Irish NPL transactions overview 10

Annexes 13



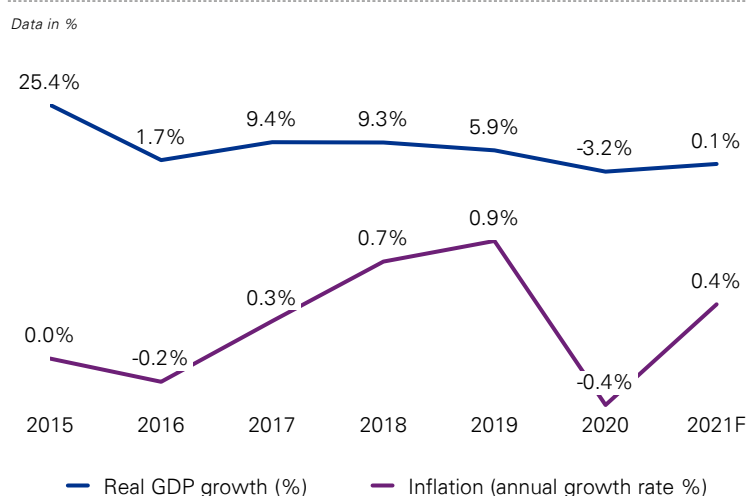
A snapshot of Irish macro- economics

Irish macro-economic outlook

GDP

According to the OECD, **Ireland's GDP contracted by 3.2% in 2020** reflecting the impact of the COVID-19 pandemic on the local economy. Whilst OECD is **forecasting GDP growth of 0.1% in 2021**, this forecast was published in December 2020 before the trade deal was reached between the EU and the UK. The Irish Government believes that the **impact of agreeing this trade deal could be worth as much as 3%** on the Irish 2021 GDP growth rate. Actual growth will also be largely dictated by whether or not the **coronavirus** is actively under control in terms of Irish citizens' ability to work, travel and spend to support the local economy.

Chart 1. Real GDP and Annual Inflation Y-o-Y 2015 - 2021F growth



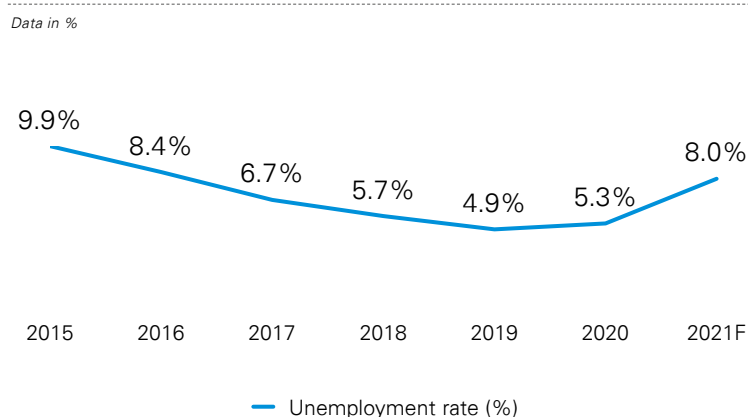
Source: OECD Data as of February 2021

Unemployment

The unemployment rate fluctuated during 2020 reflecting the impact that the tightening and loosening of public health restrictions has had on businesses. However, the overall **employment rate for the year was 5.3%**, a minor increase on the 2019 unemployment rate of 4.9%.

As at the end of February 2021, many businesses in Ireland continue to be impacted by ongoing public health restrictions, which in turn will continue to adversely impact national unemployment. The OECD is **forecasting an unemployment rate of 8.0% in 2021**.

Chart 2. Unemployment rate 2015 - 2021F



Source: OECD Data as of February 2021

"On a relative basis Ireland could perform better than most EU peers – thanks to big technology and pharma firms"

- NTMA Investor Presentation – November 2020

"Exports have held up due to multinationals and tourism being a smaller sector for Irish economy"

- NTMA Investor Presentation – November 2020

Irish macro-economic outlook (Cont'd)

Bonds and ratings

The historic spread of the Irish 10 Year Bond vs the German Bund has remained reasonably consistent over the past 5 years relative to other European jurisdictions, **ranging between c.15bps – 110bps** over that period. The yield differential as at the end of December 2020 was approximately 30 bps, reflecting Ireland's ability to remain attractive to investors despite the adverse economic and budgetary impact of COVID-19. In November 2019, Standard and Poor's **upgraded Ireland's long-term sovereign credit rating to AA-** from A+, with a stable outlook. This credit rating upgrade returned Ireland to the AA rating category for the first time since entering the Troika programme in late 2010. This rating was affirmed by S&P's in November 2020 following a scheduled review, providing a show of **confidence in the Government's policy response** to the COVID-19 pandemic.

Macro-economic outlook

Like other jurisdictions throughout Europe, since the end of Q1 2020 the Irish economy has been adversely impacted by the outbreak of the COVID-19 pandemic. The **Government responded promptly and strongly** by introducing a number of **stimulus policies** in order to protect the economy and those most impacted by the crisis. However, these policies are being implemented at a significant cost to the State resulting in a material increase in Ireland's overall debt position.

Whilst the threats and uncertainties looming late last year in the context of a potential No-Deal Brexit have dissipated as a result of the trade deal struck between the EU and the UK in December 2020, the more immediate **threats to the economy resulting from COVID-19 are ongoing**. However, it is hoped and expected that Ireland's **export markets and internationally traded sectors (such as Pharma and ICT) will continue to stand up well** in the face of this crisis.

Chart 3. Ireland vs Germany 10y gvt bond spread



Source: Bloomberg

Table 1. Irish ratings

Rating Agencies	Rating	Outlook	Last Update	Action
Standard & Poor's	AA-	Stable	27/11/2020	Affirmed
Moody's Investors Service	A2	Stable	18/08/2020	Rating confirmation
Fitch Ratings	A+	Stable	28/08/2020	Affirmed
DBRS	A (High)	Stable	29/01/2021	Rating confirmation

Source: Rating Agencies websites



Irish NPLS and originators market

Irish NPL and originators landscape

Irish banks entered the COVID-19 pandemic with much stronger resilience and a better capitalisation compared to the previous global financial crisis of 2009. There are however concerns that prolonged stresses on the economy and industries may trigger a new wave of distressed loans for banks to tackle, in addition to the remaining legacy stock still prevailing on Irish banks' balance sheets.

The CET 1 ratios of Irish banks remain strong, with an average of 14.5% in line with the EU 27 average of 15.1%.

Irish banks are strongly capitalised, allowing them to withstand financial stresses from the COVID-19 pandemic and remain solvent. According to the EBA Risk Dashboard of Q3 2020, the fully loaded CET1 average for Ireland is in line with the EU 27.

However, it is still too early to understand the extent of loan losses which will need to be absorbed as a result of COVID-19 and the outlook for 2021 will depend on many factors, such as the need for further lockdown measures, the timing of a vaccine and the speed of recovery of the economy. It is anticipated that, as the benefits of the payment breaks (moratoria) provided in response to COVID-19 begin to erode, the effects of the crisis on borrowers will start materialising in the first half of 2021, leading to a new wave of NPLs. This will lead to increases in banks' credit RWA and capital requirements.

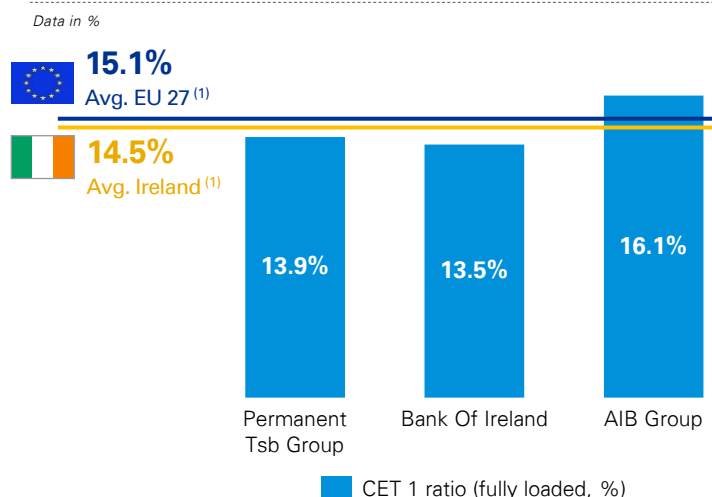
In response to these challenges presented by COVID-19, the Central Bank of Ireland (CBI) will not expect Irish banks to operate above the level of their P2G before the end of 2022. This is in line with the announcement of the European Central Bank (ECB) of 28 July 2020.

In 3Q 2020, the 3 Irish pillar banks still present NPL ratios above the EU 27 average of 2.8% and above the ECB "high NPL" threshold of 5%.

While NPL levels in Irish banks' balance sheets decreased considerably in recent years, legacy stocks remain and most banks still face a NPL ratio above the 5% threshold defined by the ECB categorisation of a "high NPL" level.

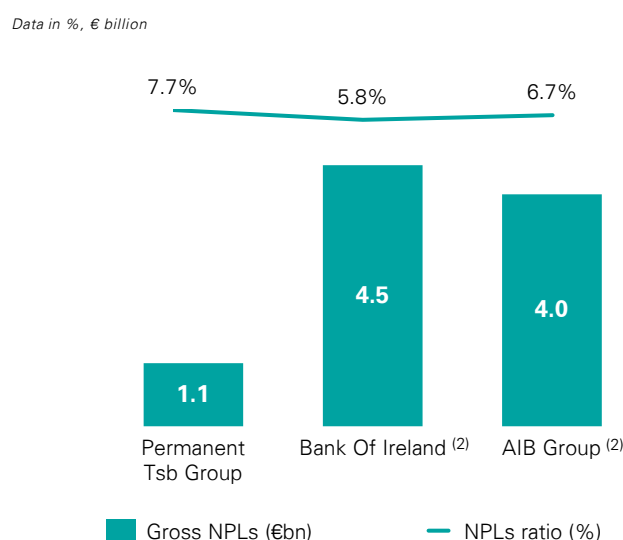
The average coverage ratio for the 3 Irish pillar banks has remained stable over time, standing at 31.0% as of 30 September 2020. This is lower than the EU average of 45.5% (source EBA Risk Dashboard Q3 2020), which is partly attributable to the comparatively high level of collateral coverage of the NPLs in Ireland.

Chart 4. CET 1 ratio for the 3 Irish pillar banks



Source: Banks balance sheet Data as of 3Q 2020; Data for Permanent Tsb Group as of 1H 2020
 Note: (1) Sourced from the EBA Risk Dashboard Q3 2020, which only includes the Financial Holdings in Ireland which are part of the EBA transparency exercise (i.e. BOI, AIB and Citl).

Chart 5. NPLs stock and ratio for Irish pillar banks⁽¹⁾ – 3Q 2020



Source: Banks annual/quarterly filings data as of 3Q 2020
 Note: (1) All data refers to Group; (2) Data refers to NPEs

Irish NPL and originators landscape

From 2017 to 2020, banks in Ireland were firmly committed to deleverage NPLs from their balance sheets, with consistent reduction each year. We can however observe a slight increase in NPLs in 3Q 2020, partly explained by the liquidity pressures of COVID-19 on borrowers and by the implementation of the new definition of default by banks.

NPLs in the three Irish Pillar banks decreased by 56.4% since 2017, from €22.0bn in 2017 to €9.6bn in 3Q 2020.

NPL sales have been the main contributor to this rapid drop in NPL levels on Irish banks' balance sheets in recent years. However, more recently in the third quarter of 2020, banks faced a slight increase in their NPL volumes. This is likely attributable to the early impacts of the COVID-19 pandemic on already fragile borrowers and by the implementation of the new regulatory definition of default. Moreover, no new loan sales transactions were completed during that period, which prevented further deleveraging by banks.

Any new increase in NPLs arising from the COVID-19 crisis is expected to be subject to close scrutiny from the regulators, with banks needing to demonstrate a robust NPL strategy and credible plans to prevent further accumulation of stocks. NPLs sales are likely to remain the preferred mechanism to efficiently tackle new NPL flows, alongside continued customer restructuring.

Bank of Ireland:

The bank's NPL ratio increased by c.140 bps during the first 9 months of 2020, partly due to credit migration (ca. EUR 0.6b) and the implementation of the new definition of default ("DoD"; ca. EUR 0.5b). About two-thirds of the increase in new NPE flow was for exposures to the property and construction sectors.

AIB Group

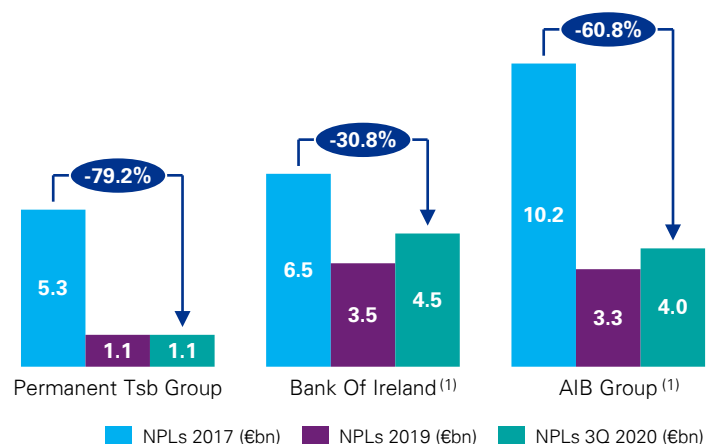
AIB levels of NPLs also increased in similar proportion to BOI (by c.130 bps), also partly due to new NPE flows (ca. EUR 0.5b) and the implementation of the new DoD (ca. EUR 0.3b). Nearly 58% of the bank's NPLs are residential mortgages.

Permanent TSB

PTSB has significantly reduced its NPL stock in recent years, by 79.2% since 2017. NPLs only increased by EUR 50m in the first half of 2020, which is partly attributable to the relatively small size of the bank's loan book. As of 1H 2020, 95% of the bank's NPLs were in the residential sector (home loans and buy-to-let).

Chart 6. Reduction in the NPLs stock trends

Data in %, € billion

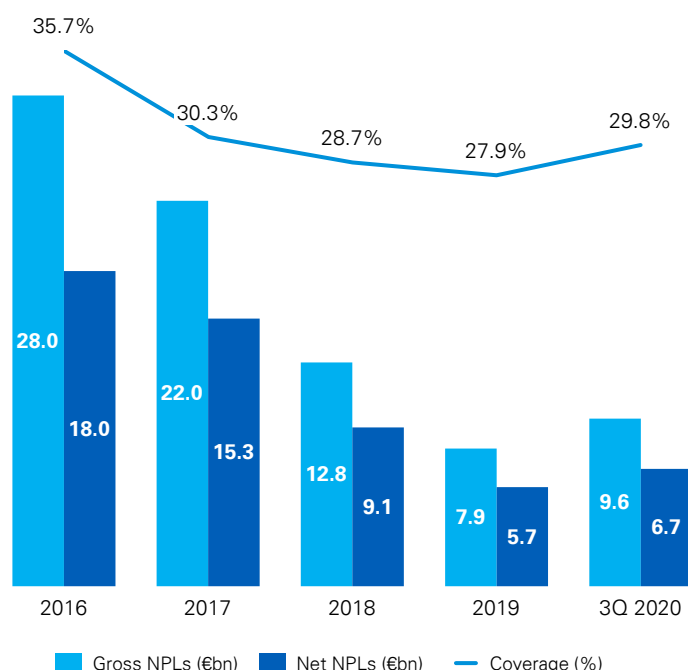


Source: Banks annual/quarterly filings

Note: All data refers to Group; (1) Data refer to NPEs

Chart 7. NPLs & coverage ratio from 2016 – 3Q 2020

Data in %, € billion



Source: Banks annual/quarterly filings

Note: Includes only the 3 Irish Pillar Banks AIB, BOI and PTSB. All data refers to Group.



Irish NPL transactions overview

Main actors on the market

Ireland has been one of the most active deleveraging markets in Europe since the peak of the post-crisis recession in 2013. As outlined in the previous section, Irish banks and institutions have implemented a sustained strategy of NPL portfolio disposals in order to target NPL ratios in line with wider European averages. This trend continued in 2019 with approximately €10.5 billion of loans sold across a variety of different asset classes.

Whilst all of the transactions that were being actively marketed in early March 2020 were put on hold following the global outbreak of COVID-19, it is anticipated that Sellers will look to recommence these deleveraging initiatives in the near term. Sellers remain cognisant of the anticipated increase in NPL flows arising as a result of the pandemic's impact across many different sectors and are endeavouring to develop robust strategies to prevent a build-up of NPL stocks that was prevalent across all Irish banks following the global financial crisis in 2008.

Rabobank and AIB were the two largest sellers in the Irish market over the past 24 months.

Whilst the Rabobank sale of its Irish subsidiary ACC Bank's residual loan book of c.€4.2 bn represented a market-exiting sale, AIB's successful disposal of two large mixed-security portfolios during 2019 reflected a continuation of its deleveraging strategy and a significant reduction in its NPL balance sheet position. Ulster Bank, PTSB, Bank of Ireland and Lone Star also delivered sales of predominantly non-performing residential mortgages of varying scale, whilst PTSB most recently in Q4 2020 sold a portfolio of performing Buy-To-Let loans with aggregated balances of €1.4 bn to Citibank in October 2020.

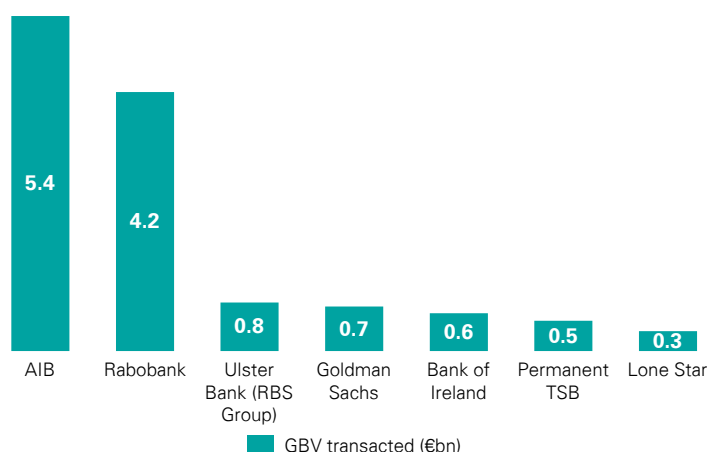
Whilst Cerberus retains its position as the most prolific loan buyer in Ireland, there was a diverse range of buyers across varying asset classes during 2019.

Cerberus' acquisition of the two large AIB portfolios, coupled with its purchase of an NPL mortgage portfolio from Bank of Ireland, puts Cerberus at the top of the buyer list yet again covering more than 40% of GBV transacted in the last two years.

CarVal and Goldman Sachs' purchase of Rabobank's (ACC Bank's) residual secured portfolios, alongside Cabot's acquisition of the unsecured portfolio, represented continued success for these buyers in the Irish market. The expanded buyer audience captured in Chart 9 reflects the strong and diverse level of interest across the Irish loan sale market during the past 2 years.

Chart 8. Top Sellers 2019 – 2020 completed transactions

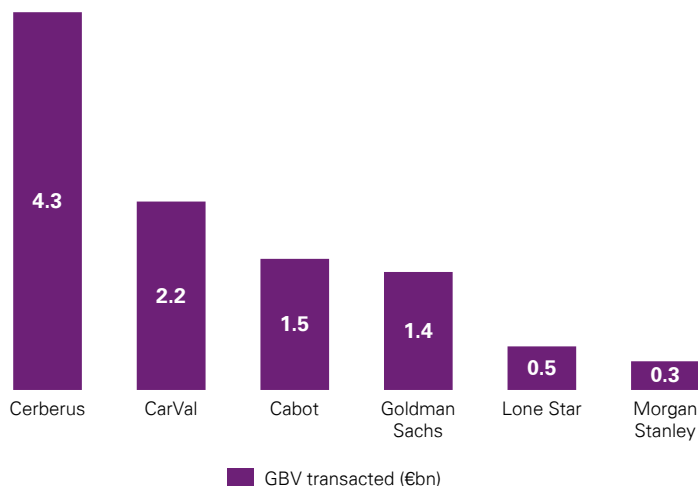
Data in € billion



Source: KPMG Elaborations ; Data as of 1Q 2021

Chart 9. Top Buyers 2019 – 2020 completed transactions

Data in € billion



Source: KPMG Elaborations ; Data as of 1Q 2021

Transactions overview and analysis

Despite its relatively small size compared to other European countries, Ireland continues to maintain high levels of transaction activity. In the last 2 years, Ireland has transacted volumes in excess of €10.0 bn (GBV) despite the adverse impact of the global health pandemic on overall deal activity during the past 10 months. Furthermore, there is approximately €2.1 billion of GBV that is expected to come back on the market shortly following periods of extended deferrals and delays due to COVID-19.

It is anticipated that a number of ongoing transactions will convert in 3Q 2021.

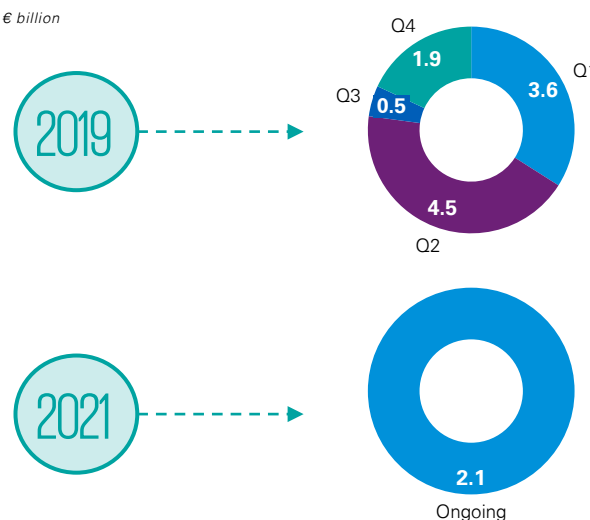
The first half of 2019 was extremely active with mega portfolio transactions successfully completed by both AIB and Rabobank. Whilst deal activity slowed in the latter half of 2019 and then completely stalled towards the end of Q1 2020 due to COVID-19, the €1.4 billion performing BTL portfolio transaction announced by PTSB in Q4 2020 has provided some cause for optimism for the months ahead. As at the end of February 2021, there was c.€2.1 billion of prospective NPL transactions either being actively marketed or nearing completion.

With the exception of a single unsecured transaction (in Q1 2019), all other transactions in the past 24 months have been whole loan sales backed by predominantly real estate collateral.

The large Rabobank and AIB transactions in H1 of 2019 were secured against a broad mix of asset classes including CRE, SME, land, agricultural and residential BTL property. However, since then we have observed banks seeking to address the major remaining over-hang from the global financial crisis – non-performing owner-occupied residential mortgages. It is anticipated that such residential mortgages will continue to be a focus area for banks as they develop their future strategies against the backdrop of a post-COVID recession.

Chart 10. Completed and prospective deals 2019 – Ongoing (GBV)

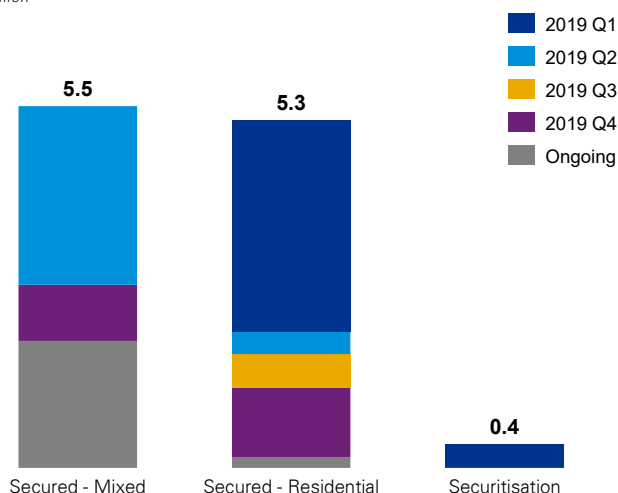
Data in € billion



Source: KPMG Elaborations ; Data as of 1Q 2021

Chart 11. Transactions per asset type 2019 – Ongoing (GBV)

Data in € billion



Source: KPMG Elaborations ; Data as of 1Q 2021

Annexes

List of completed
and prospective
Irish NPL
transactions

List of closed and prospective Irish NPL transactions



Overview of the completed and prospective operations

Closed transactions: 2019 - 2020

Year	Vendor	Project	Type	Buyer	GBV (€ m)
2019	Allied Irish Banks (AIB)	Beech	Secured - Residential	Cerberus	3,200
2019	Rabobank	Omni (Secured)	Mixed Secured and Unsecured	CarVal and Goldman Sachs	2,700
2019	Rabobank	Omni (Unsecured)	Unsecured	Cabot	1,500
2019	AIB Group	Alder	Secured	Cerberus	850
2019	Ulster Bank (RBS Group)	Deenish	Secured - Residential	CarVal	800
2019	Permanent TSB	Glas 2	Secured - Residential	Lone Star	506
2019	Bank of Ireland	Mulcair Securities	Secured - Residential (Securitisation)	NA	377
2019	Lone Star	Deauville	Secured - Residential	Morgan Stanley	337
2019	Bank of Ireland	Snow 2	Secured - Residential	Cerberus	250

Prospective transactions: 2021

Year	Vendor	Project	Type	Buyer	GBV (€ m)
2021	Allied Irish Banks (AIB Group)	Oak	Secured - Residential	NA	1,200
2021	Goldman Sachs	Toucan	Secured - Mixed	NA	465
2021	Allied Irish Banks (AIB Group)	Iris	Secured - Residential	NA	180
2021	Goldman Sachs	Robin	Secured - Mixed	NA	170
2021	Goldman Sachs	Wren	Secured - Mixed	NA	100

Source: KPMG Elaborations

Contacts

KPMG in Ireland

Alan Boyne
Partner, KPMG Ireland
Transaction Services

T: (+353) 1 4102645

E: alan.boyne@kpmg.ie

Ciaran Scally
Director, KPMG Ireland
Corporate Finance

T: (+353) 1 4102159

E: ciaran.scally@kpmg.ie

Drew Donnelly
Associate Director, KPMG
Ireland

Corporate Finance

T: (+353) 1 7004815

E: drew.donnelly@kpmg.ie

KPMG Portfolio Solutions Group Leadership

Domenico Torini
Partner, KPMG Italy
EMA Co-Head Global
Portfolio Solutions Group

T: (+39) 3483059270

E: dtorini@kpmg.it

Carlos Rubi Montes
Partner, KPMG Spain
EMA Co-Head Global
Portfolio Solutions Group

T: (+34) 914513162

E: crubi@kpmg.es

kpmg.ie

The information contained in this report comes from publicly available sources. KPMG does not in any way guarantee the accuracy, completeness and correctness of the information contained herein. This report is neither a sales offer nor a solicitation for purchases of any type. Similarly, it does not intend to provide any suggestions or recommendations in terms of investment. KPMG will not accept any responsibility for loss or damage deriving from the improper use of this report or the information contained herein.

© 2021 KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.
The KPMG name and logo are registered trademarks or trademarks of KPMG International.