



Navigating European distressed markets

European debt sales
report 2022

Portfolio Solutions Group
November 2022

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Foreword

Welcome to KPMG's European debt sales 2022 report. In this report, we identify and discuss key topics of the European bank deleveraging landscape that we believe will take center stage in 2022. We also look back at how Europe's loan-sale markets performed over the previous year.

The deterioration in asset quality due to COVID-19 has not been as strong as anticipated. This is largely due to the successful economic support measures put in place at the national and EU levels. On the other hand, macroeconomic developments — increasing tensions at the EU border, rising inflation and the persistent risk of new waves of COVID-19 — are looming over the anticipated recovery for 2022–2023.

The forecasts for the years ahead, which were made in the first quarter of 2022, projected strong growth across the Union as COVID-19 support measures largely remained in place — albeit most Member States are gradually winding down these programs — and the availability of additional funding through the Next Generation EU (NGEU) credit facility.

However, the geopolitical tensions unfolding in Ukraine will first impact EU countries due to the country's close proximity to the Union and its strong economic relationships to the region. Therefore, the previously anticipated growth has been revised downward across the continent, particularly in countries with stronger reliance on imported fossil fuels. For reference, the previously expected GDP growth rate within the EU had been estimated at ~4.0; percent, this has now been revised to ~2.7 percent.¹

This uncertain outlook poses a threat to banks' asset quality, and it will drive more conservative assumptions of default and danger rates in the short and medium term. Already banks, on average, have increased coverage ratios due to COVID-19 risks.

KPMG expects the culmination of these factors will lead to an increase in NPE stocks in banks in 2022 and 2023. Consequently, banks will likely have to accelerate their deleveraging strategies.

The non-performing exposures (NPE) market gained traction in 2021 due to (i) banks' rising appetite to offload non-core activities, (ii) regulatory requirements (i.e., minimum loss coverage) and initiatives to further develop the NPE market (i.e., the action plan for tackling NPLs post-pandemic, or the directive on credit servicers and purchasers), and (iii) high demand from investors whose dry powder has reached record levels in Europe. These factors, along with higher migration rates to default, are expected to result in a strong acceleration in deal volumes for 2022 and 2023.

Materially, NPE securitizations contributed to overall volumes for 2021. The market has been mainly dominated by Italy and Greece in recent years, where transactions have leveraged local asset protection schemes. However, the success of the programs can drive other EU jurisdictions to introduce such schemes in anticipation of the worsening economic outlook.

KPMG's Portfolio Solutions Group is the leading advisor in Europe's loan sale and bank deleveraging marketplace. We are therefore delighted to share our knowledge and insights with you in this report, which reflects the strength and depth of our transaction experience across our European network.



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Group Co-Head
Partner, KPMG in Italy



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¹ EC Economic Forecast (Spring 2022)

Our consideration about the market



Dario Maria Spoto

Partner, KPMG in Italy

"The Italian non-performing exposures (NPE) market is one of the largest in Europe, both in terms of deteriorated available stocks and portfolio deals. Italian banks have been consistently leveraging the GACS scheme in order to considerably reduce the NPL stocks in recent years. The last wave of GACS for 2022 (expired in June) and increased appetite to deleverage also under-performing portfolios, i.e. UTP, will sustain the volume of deals in the market. M&A driven growth strategies are expected in the credit servicing industry, even in the context of extremely high macroeconomic uncertainty."



Marina Kapetanaky

Partner, KPMG in Greece

"We expect an increasing volume of secondary sales in the market on the back of the large securitizations that have already happened in the past two years. Similarly, and in line with the securitization Business Plans, we expect a very active real estate market supported by high demand while prices increase. Finally, we are closely monitoring the effect of the energy crisis and the impact of increasing interest rates that could lead to a new wave of NPLs."



Carlos Rubi

Partner, KPMG in Spain

"The Spanish market has shown great activity and relevant size of opportunities, allowing new investors to position in the market alongside other consolidated investors. Spain will likely continue to deliver opportunities on a wide range of asset types, from non-performing loans and real estate assets to reperforming and performing loans, including more specialized opportunities. Therefore, we will likely continue to see a large volume of assets being sold of a higher quality."



Alan Boyne

Partner, KPMG in Ireland

"The high level of portfolio transaction activity in 2021 was primarily driven by the phased exits from the Irish banking market by KBC and Ulster Bank. It is anticipated that 2022 will continue to be busy with the wind down of the residual tranches of Ulster Bank's loan portfolio alongside the continued deleveraging activities by the remaining pillar Irish banks of their legacy NPL and UTP portfolios. However, Ireland's strong projected economic recovery post-pandemic will likely result in significantly less COVID-19-related credit defaults than had been originally expected."



Rodrigo Lourenço

Partner, KPMG in Portugal

"Market activity in 2021 continued to perform below pre-COVID levels. We expect volumes to continue to recover in 2022 with different asset classes being brought to market. Looking beyond 2022, the market will be driven by the rise of inflation and interest rates coupled with the economic slowdown and continued regulatory pressure."



Arnaud Demeocq

Partner, KPMG in France

"Following 2 years of dynamic market, 2021 was characterized by a relative slowdown. In 2022, some significant portfolios both in the secured and unsecured space were placed on the market in the first semester.

Investors appetite is still very high and the market is expecting a catch-up in Q4 2022 and in beginning of 2023."



Marios Lazarou

Partner, KPMG in Cyprus

"In 2021, a number of significant NPL deals have been signed off from banks which reduced their NPL ratios at a single digit. These deals are expected to be closed either in late 2021 or in 2022 with full migration being achieved in 2022. We expect a significant drop of NPL transactions in 2022 with potentially a few small ticket transactions taking place, if any."

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Regulatory environment



Regulatory focus on NPLs in the aftermath of COVID-19

The NPL topic has been in recent years a key priority for the European Central Bank (ECB) and national governments, resulting in successful deleveraging activities in the last decade. During the pandemic, the need to preserve the economies from the prolonged lockdowns has been met with a strong European support framework to the economies and businesses. This has successfully halted the increasing NPL stocks registered in Q1 2020, with NPL stocks back on track to the pre-COVID-19 downward trend at the end of 2021. Banks also increased coverage ratios, driven by a combination of high uncertainty and increasing regulatory expectations from the provisioning backstop regulation.²

Concerns from the regulators, however, remain that the real effects of the pandemic on banks' credit risk might still be yet to come, as the benefits of the support measures erode. Such pressures on asset quality are also now being amplified by rising inflation, the prospect of recession, high energy costs, and the looming uncertainty resulting from the war in Ukraine. The main challenge for banks remains to understand the actual risks on credit exposures related to the various macroeconomic implications, but also the potential knock-on effects across the supply chains and industries.

As a result, EU banking supervisors are now putting a greater emphasis on sectors already vulnerable to the pandemic, expensing their focus to new conflict-related vulnerable sectors, monitoring sectors highly dependent on energy and raw material, and intensifying their oversight of exposures to leveraged transactions.

With regards to the war in Ukraine, the ECB already increased its supervisory scrutiny to assess the risks of potential cut of energy supply from Russia. It requested, for example, banks in some jurisdictions to perform stress testing of the impacts based on an adverse scenario of potential disruption of oil or gas supply on their relevant portfolios and clients. The ECB is also closely monitoring any concentrations for sectors highly dependent on energy and raw material. Supervisors are also planning supervisory deep dives on new conflict-related vulnerable sectors such as commodity trading and energy utility sectors.

Another area of particular concern for the ECB is commercial real estate (CRE), due to the potential impact of a downturn and the current environment of higher interest rates likely to put additional strain on the real estate sector. The EU supervisors are

therefore strengthening their oversight of banks' CRE loans and collateral valuations.

The ECB has already been performing CRE on-site inspections (OSIs) since 2018, including collateral re-valuation. This program targeted so far 40 banking groups, with new phases of OSIs already planned for the remaining of 2022 and into 2023. This complements the CRE targeted reviews program which started in 2011, with 32 banks reviewed until now and more banks to be added in the subsequent phase.

The culmination of all these factors is expected to lead to an increase in NPLs stocks in the medium term across jurisdictions and sectors. It is anticipated that strong supervisory pressures will prevail on banks to maintain their NPL ratios at suitable levels, intensifying momentum for banks' deleveraging activities from 2023 as NPL levels rise. This increase in credit risks will likely require a shift in banks' NPLs strategies from a singular focus on reducing legacy NPLs to also prevent NPLs from accumulating in the future.

This is foreseen to lead to an increasing number of NPL transactions and securitizations from 2023. We already observe an increased appetite by banks to deleverage underperforming portfolios (i.e. unlikely to pay loans, or UTP), as many banks now aim to tackle the rise in distressed exposures early on. As pressure mounts on the real estate market, we also anticipate a dynamic level of transactions for this segment, both for NPLs and foreclosed assets.



Eric Cloutier
Partner
KPMG Ireland, ECB Office

² Expectations for NPEs stocks defaulted after 31/03/2018 (loans originated before 25/04/2019) to be fully provisioned by 2023–2026, depending on whether secured or unsecured (Pillar 2). Expectations for NPEs stocks defaulted after 31/03/2018 (loans originated from 26/04/2019) to be fully provisioned by 2023, for unsecured exposures, and between 2027 and 2029 for secured exposures depending on the type of collateral

We focus in this section on the main areas of the EU regulatory response in 2021 to the COVID-19 pandemic impacts on credit risk, as such initiatives still remain relevant in light of the new crisis.

Supervisory 2022–2024 key focus areas for credit risk management

The ECB's first priority for 2022–2024 is to ensure that banks will emerge healthy from the pandemic.³ The key strategic objectives include a heightened focus on banks' credit risk management practices, in particular for exposure to COVID-19 vulnerable sectors and leveraged finance. The humanitarian crisis in Ukraine accentuates the risks already identified and reinforces these ECB objectives. In 2022, Joint Supervisory Teams (JSTs) are focusing on ensuring timely identification, forward-looking measurement and mitigation of credit risks. Banks should address the gaps and findings identified, and continue improving their IFRS 9 models and provisioning frameworks to also account for impacts of the new crisis.

2021 regulatory initiatives to tackle NPLs in the aftermath of COVID-19

In December 2020, the European Commission published its Action Plan for tackling NPLs in the aftermath of the COVID-19 pandemic.⁴ The plan introduced a broad range of policy initiatives to be implemented at the EU level. A key area of focus is to further develop the EU secondary distressed debt markets. Among others, the EU Directive on credit servicers and credit purchasers, which entered into force as of December 2021, aims at harmonizing the secondary market and increasing the market's transparency using the European Banking Authority (EBA) data templates. We discuss these initiatives in further detail on the following pages.



³ https://www.bankingsupervision.europa.eu/banking/priorities/html/ssm.supervisory_priorities2022~0f890c6b70.en.html

⁴ https://ec.europa.eu/commission/presscorner/detail/en/ip_20_2375

Regulatory activities likely to impact Europe's NPL market

EU Directive on credit servicers and credit purchasers

The new EU Directive on credit servicers and purchasers (the Directive on NPLs) officially entered into force on 28 December 2021.⁵ In addition to setting out authorization and supervision requirements for credit servicers, it calls for further standardization in the data requirements for sales of non-performing credit agreements.

The EU aims to further harmonize its secondary NPL markets

The EU Directive on NPLs is a key element of the European Commission's action plan on NPLs published in December 2020. It aims to further harmonize the regulation of Europe's secondary NPL markets, facilitating cross-border risk-sharing, while protecting borrowers' rights. This is expected to impact all the main actors involved in the sale process: originators, servicers and credit purchasers.

Implications for servicers: authorization application and a broad range of new requirements

Credit servicers may be the most impacted by the Directive, as they will need to obtain an authorization in a home Member State before commencing activities in that territory.

The Directive on NPLs introduces several other new requirements that will likely impact credit servicers. Among others, these include having to demonstrate robust governance arrangements and adequate internal control mechanisms, with appropriate policies in place ensuring compliance with rules for the protection, and the fair and diligent treatment of borrowers. Moreover, the management will be expected to have adequate knowledge and experience to conduct business, competently and responsibly, as well as having in place adequate AML and CTF provisions.

Individual Member States will be responsible in each jurisdiction for determining whether credit servicers are allowed to hold and receive borrowers funds in order to transfer those funds to credit purchasers. The permission to hold and receive borrower funds cannot be outsourced, and may only be passported from a home Member State to a Host Member, both allowing servicers to manage borrower funds.

Implications for purchasers: authorization needed if the purchaser services the loans itself

Credit purchasers are not required to apply for an authorization unless they intend to perform the credit servicing operations themselves. If the borrower is a

natural person, or a micro, small or medium-sized entity (SME businesses), a third country credit purchaser must appoint both an EU-domiciled representative and an authorized credit servicer. The Directive on NPLs also prescribes minimum requirements for credit servicing agreement, such as the detailed description of credit servicing activities, the remuneration and how it is calculated, the level of representation with the borrower and a clause requiring the fair and diligent treatment of the borrowers.

Implications for sellers: new data requirements from the sale of NPLs

The Directive on NPLs calls for the European Banking Authority (EBA) to review its NPL data templates in order to become, at least partly, the new data format for selling non-performing credit agreements, including sales to other credit institutions. These new mandatory data templates are expected to be required for all NPL transactions related to credits issued on or after 1 July 2018 that become non-performing after 28 December 2021. On 15 May 2022, the EBA launched a Consultation Paper on the draft Implementing Technical Standards (ITS) for these NPL transaction data templates. See next page for more details.

Timing of implementation

- The Directive on NPLs entered into force on 28 December 2021.
- Member States are expected to adopt measures implementing the Directive by 29 December 2023 and to apply those measures from 30 December 2023.
- Credit servicers already carrying out credit servicing activities on 30 December 2023 will be allowed to continue carrying out those activities in their home Member State until the earlier of 29 June 2024, or the date on which they obtain an authorization under the Directive.

⁵<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32021L2167&from=EN>

Regulatory activities likely to impact Europe's NPL market

EBA NPL data templates and other data initiatives

Improving the availability, quality and comparability of NPL data has been identified as a critical step in the development of Europe's secondary NPL markets in the Commission's 2020 action plan on NPLs. Ongoing initiatives include setting new minimum data standards for NPL sales, potentially adding new NPL pillar 3 disclosure requirements, and eventually and possibly, creating a pan-EU NPL data hub.

The EBA NPL templates are the new minimum data set required for NPL transactions

The Directive on NPLs stipulates that the EBA should review its existing NPL data templates and develop them into implementing technical standards (ITS). Credit institutions will subsequently be required to use these data templates for transfers of non-performing credit agreements, including to other credit institutions.

The templates are expected to evolve from a voluntary tool into a defined data format compulsory for the sale of non-performing credit agreements to third-party investors and for transactions between credit institutions. The aim of the templates is to provide more uniform and standardized NPL data to credit purchasers, to facilitate their analysis, financial due diligence and valuation.

The consultation period for the review of the EBA NPL templates ended on 31 August 2021, and the EBA is now preparing the ITS for which a draft is expected to be submitted to the Commission.

The ITS will provide details on which data fields are mandatory and the data treatment for confidential information. It is not yet known how this will be applied in practice, how compliance will be monitored by the regulators, or what would be the consequences for sellers who do not comply. Some exceptions may also apply, and proportionality will be considered depending on the nature and size of the loans being transacted.

Sellers are advised to closely monitor these changes as the new data requirements are likely to impact how banks prepare for NPL sales. They may also bring another level of complexity for banks in terms of overall data management, when combined with other supervisory data expectations. We, however, expect a strong correlation between these new data requirements and (i) the requirements of the EBA Guidelines on non-performing and forborne loans, and (ii) the origination data requirements as set out in the EBA Guidelines on loan origination and monitoring.

Possible new pillar 3 disclosure requirements and the creation of a central EU data hub

In parallel with the EBA's work, on 8 September 2021 the European Commission completed a targeted consultation on improving the transparency and efficiency of secondary NPL markets. The proposal consisted of the introduction of additional pillar 3 disclosure requirements for NPLs under the Capital Requirements Regulation (CRR) and the creation of a central EU data hub to act as a data repository for the NPL market.

The aim of these initiatives is to increase the quantity, quality and comparability of NPL data available to market participants, facilitating price discovery and NPL transactions.

The additional pillar 3 disclosure requirements would focus on providing a more complete picture of NPL portfolios, possibly adding data points such as recovery rates, time to recovery and judicial costs. These would also complement the additional disclosure requirements for NPL data for securitization which entered into force last year. However, the comments received from the public consultation stated that the level of granularity of pillar 3 disclosure is satisfactory and provides enough information to the market. Any additional disclosure should carefully balance the advantages with the costs for the banks.

The potential creation of a pan-European data hub is also being investigated. The idea is that such a data hub could act as a central data repository, providing access to anonymized data and information on realized NPL transactions and post-transaction performance. The data could be used to create better portfolio insights, allowing buyers and sellers to make granular portfolio comparisons using various indicators and based on diverse factors, such as region, sectors and asset classes. This would ultimately support more accurate pricing and encourage new entrants to the market. This idea remains very preliminary, and a broad range of technicalities would first need to be answered (e.g., the scope of the hub, its governance structure, the assets perimeter, data protection issues).

Regulatory activities likely to impact Europe's NPL market

Other highlights for 2021

New prudential regime for investment firms

The European Commission introduced a new prudential framework that consists of the Investment Firm Directive (IFD) and Investment Firm Regulation (IFR). The new framework aims to apply a different prudential treatment to investment firms and credit institutions while ensuring a level playing field. IFR and IFD introduced a new classification system for investment firms, based on their activities, systemic importance, size and interconnectedness. Each class will be subject to a different set of prudential requirements, with some larger, significant firms remaining under the Basel-derived CRR/CRD regime.

From 26 June 2021, systemically relevant investment firms, also called Class 1 IFs, became banks and have to submit an application for re-authorization as a "credit institution". As a result, they will now be subject to ongoing banking supervision according to the Basel-derived CRR/CRD regime. Class 2 and Class 3 investment firms will instead be regulated under the new prudential regime (IFR/IFD). The former will be subject to the full prudential IFR/IFD regulation (e.g., risk-based capital requirement and initial capital requirements, remuneration code), whereas Class 3 IFs will be subject to less extensive requirements.

Revised regulatory technical standards (RTS) on credit risk adjustments

The final report published by the EBA on 13 December 2021 answers the European Commission's ask for a revision of the treatment of defaulted exposures under the standardized approach for credit risk (SA). Prior to this EBA's proposal in December 2021, a 100 percent risk weight, instead of the normal 150 percent, could be only applied when provisions would cover more than 20 percent of the exposures. Write-downs accounted for in the transaction price of exposures could not be discounted in the calculation.

As detailed in the RTS, the proposed amendments will instead allow for the recognition of such write-offs accounted for in the price of NPL transaction, and will ensure that exposure's risk weight will not increase after its sale.

New regulations to enhance the securitization framework in the EU

European Regulations No 557 and No 558 of 2021 have entered into force on 6 April 2021, amending the SR and CRR regulation following the publication in the EU official journal and EBA publication of final draft RTS.

Changes have been made on the back of wider efforts within the EU to incentivize the use of securitizations and leverage such tools to boost economic recovery. One of the key aims of the regulation is to remove some of the impediments impacting transactions through risk retention requirements, allowing the servicer to hold the risk retention in securitization transactions with NPE portfolios as underliers — albeit only in cases of consolidated expertise in servicing when such kinds of exposures and adequate internal policies are in place.

Secondly, the regulation extends the STS (simple, transparent and standardized securitizations) to synthetic securitizations (i.e., a transaction in which risk transfer is achieved through the use of credit derivatives or guarantees, and the securitized exposures are not offloaded from the originator's balance sheet) resulting in a stronger alignment with traditional securitization structures.

Moreover, the amendments are targeting the development of sustainable securitization frameworks with heightened focus on climate, environmental, social and governance related effects.

IFR and IFD introduced a new classification system for investment firms, based on their activities, systemic importance, size and interconnectedness.

Source: European Banking Authority (EBA); Official Journal of the European Union

Creditor coordination in resolving non-performing corporate loans

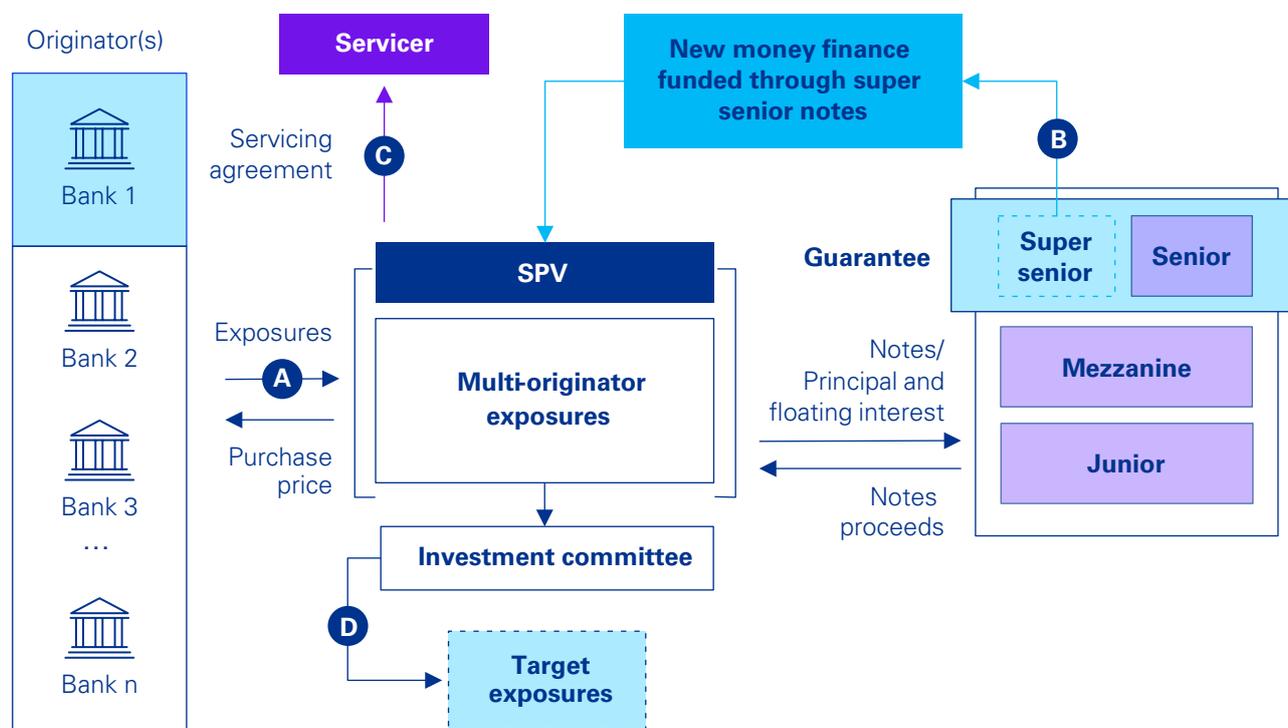
As part of its Financial Stability Review of November 2021, the ECB published a special feature that examines the market inefficiencies arising when loan disposals involve more than one creditor.⁶ Multi-generator NPLs have proven particularly difficult to resolve. Moreover, such exposures have overall lower provision coverages, reflecting more optimistic valuations by individual banks and a limited recognition of the expected costs of multi-creditor coordination.

The ECB proposes a strategy to overcome creditor coordination failures and costs, through the use of data platforms providing *ex ante* transparency to NPL investors.

The ECB argues that a higher level of efficiency and transparency in this field, and consequently a reduction in pricing spreads, can be achieved through data and coordination platforms where all the exposures belonging to the same borrower can be consolidated and can allow the investor to easily acquire a qualified majority of the debt. Moreover, the borrower would benefit from dealing with a specialized investor that has greater restructuring expertise and willingness to inject new finance.

The structure can also be enhanced through a securitization structure, to facilitate the transfer of the exposures and allow the provision of state or private guarantees. A similar framework can be especially useful for unlikely-to-pay (UTP) loans.

Illustrative structure to tackle multi-originators UTP exposures through securitization



- A** Banks transfer the exposures to the Special Purpose Vehicle (SPV) and receive notes in return, senior notes in most cases.
- B** New money finance can be funded from a super senior note, with total maximum amount agreed at inception and first priority repayment in the waterfall of payments.
- C** SPV can involve a Servicer to (i) evaluate borrowers creditworthiness; (ii) grant new credit financing after the Investment Committee's approval; and (iii) manage the return to reperforming status of the exposures.
- D** The Servicer is monitored and supervised by the Investment Committee.

⁶https://www.ecb.europa.eu/pub/financial-stability/fsr/special/html/ecb.fsrart202111_03~c2d5efd0e9.en.html



European NPE market



European NPE market landscape

NPE stocks declined by 61.8 percent since September 2015, with new defaults from COVID-19 expected to materialize later in 2022–2023.

European NPE stocks are continuing the downward trend registered in 2020 on the back of persisting support measures, such as state guarantees and moratoria. The COVID-19 effect has not been registered so far, but banks and regulators are preparing for an increase expected in the next couple of years when economic stimulus packages will begin to reduce on the back of growing national debt and accelerating inflation.

Substantial upgrade in asset quality since 2015.

The NPE volume in EU banks decreased further to EUR419 billion in September 2021, from EUR510 billion the previous September. This drop was primarily driven by increased NPE sales and securitizations with limited visible effects of COVID-19 on asset quality in 2021.

Average asset quality is improving across all the segments.

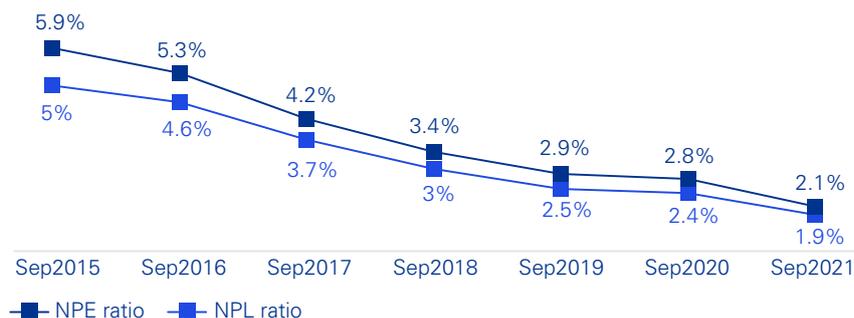
As of September 2021, average asset quality is improving across all segments, in particular for mortgages and CRE, with both segments improving year-on-year by approximately 25 percent. The SME and mortgage loan segments remain the largest sub-segments by volume.

Chart 1: EU loans and advances^(a) and NPE volumes^(b) (EUR billion) (Sep2015 – Sep2021)



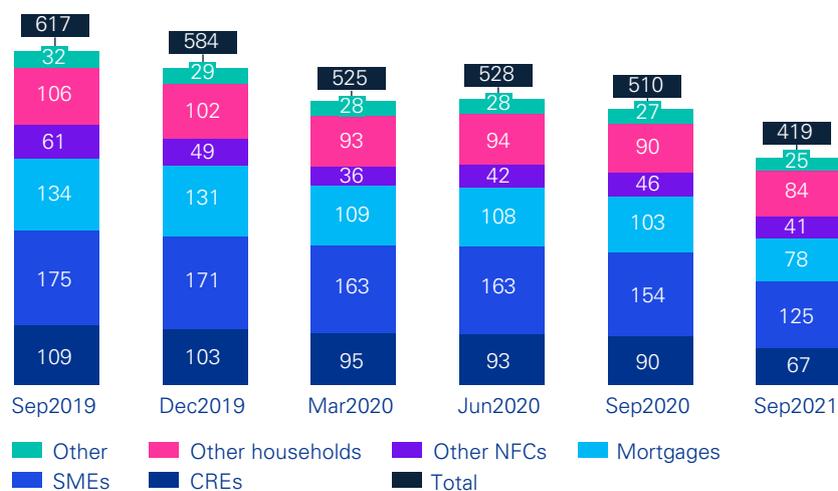
Notes: ^(a) Gross carrying amounts, other than trading exposures
^(b) Gross carrying amounts, loans and advances at amortized cost (excluding at fair value through OCI and through P&L, excluding trading exposures)
 Source: EBA Risk Dashboard

Chart 2: EU NPL ratio^(a) (percentage) (Sep2015 – Sep2021)



Note: ^(a) Non-performing loans and advances/Total gross loans and advances
 Source: EBA Risk Dashboard

Chart 3: EU NPL volumes (EUR billion) by segments (Sep2019 – Sep2021)



Source: EBA Risk Dashboard

The NPE coverage ratio reduced marginally in the 12 months before September 2021.

The NPE coverage ratio has decreased slightly compared to September 2020 due to a more promising outlook driven by an overall resilient economy and positive expectations for COVID-19 in 2022 that would avoid additional lockdowns.

The forbearance ratio remained stable over the same period, and the danger rate will need to be closely monitored in the upcoming quarters.

The potential deterioration of stage 2 exposures toward the NPL bucket will be a crucial factor in tackling non-performing inflows in the COVID-19 aftermath. As mentioned in the previous section, the Regulator is keen on remaining vigilant on early monitoring policies and to discourage rash reductions in coverage ratios.

Uncertainty persists due to the unknown impact of the crisis as well as additional risk factors from geopolitical tensions and inflation.

The COVID-19 effect has been muted so far, but emerging risk factors, such as inflation and geopolitical tensions, are impacting commodity prices in the EU. The combination of these different factors could materially increase operational expenses for corporates and reduce domestic demand. It is expected that the increase in defaults from the change in the economic cycle will be partially offset by medium-term funding, for example, the Next Generation EU and EU Recovery Fund that will finance large-scale projects in the region for years to come.

Chart 4: Coverage ratio at EU level (percentage) (Jun2019 – Sep2021)



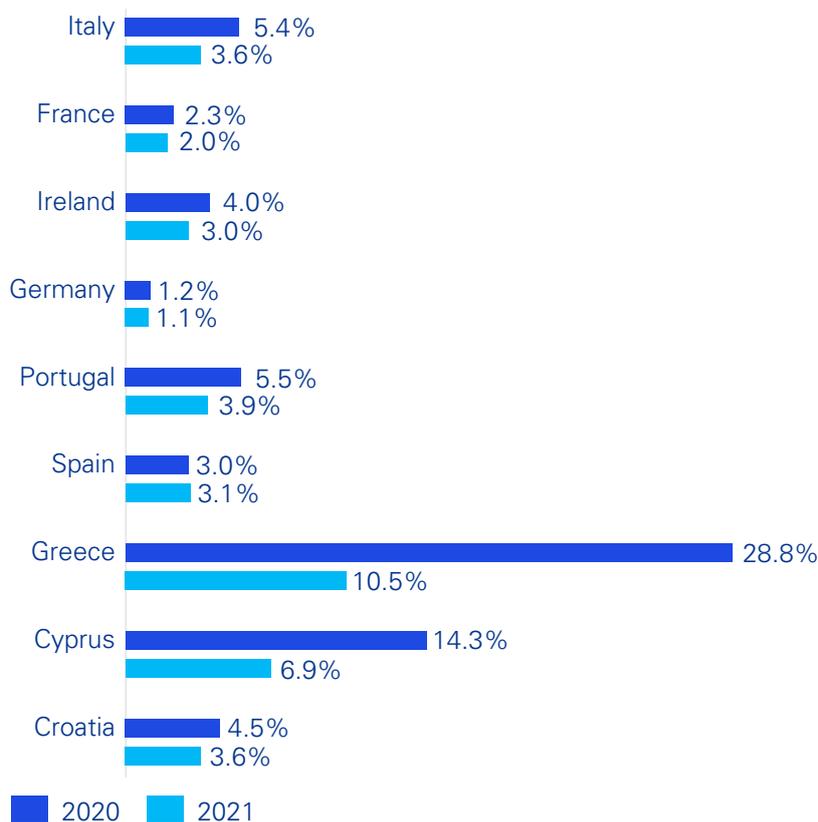
Source: EBA Risk Dashboard; "EBA report on NPLs"

Chart 5: Forbearance ratio at EU level (percentage) (Jun2019 – Sep2021)



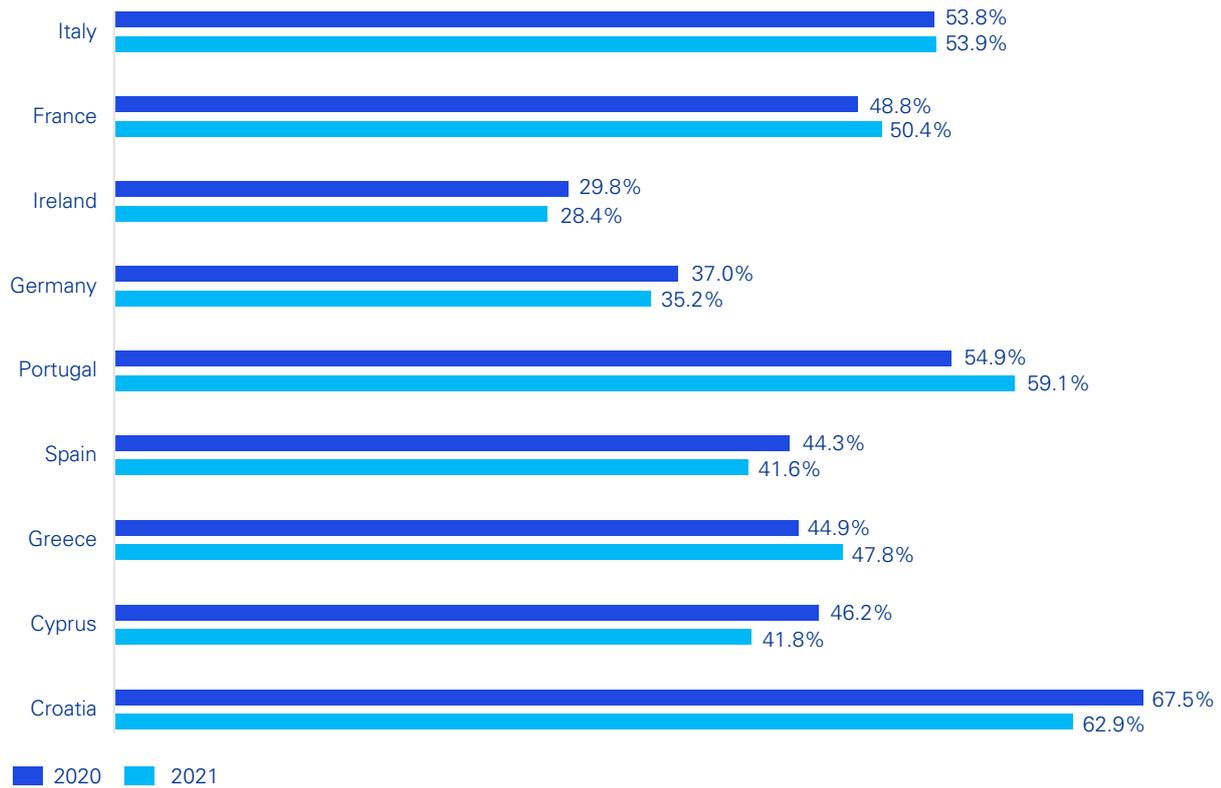
Source: EBA Risk Dashboard; "EBA report on NPLs"

Chart 6: Country level NPL ratio (percentage) (Sep2019 – Sep2021)



Source: EBA Risk Dashboard; "EBA report on NPLs"

Chart 7: Country level coverage ratio (percentage) (Sep2020 – Sep2021)



Source: EBA Risk Dashboard; "EBA report on NPLs"



Main active actors



Originators main risks and vulnerabilities

Due to the effects of COVID-19, European banks will likely face challenging and demanding issues in the coming years.

	Risk description	Short-term outlook ^(a)
 <p>Credit risk</p>	<p>The impacts of COVID-19 remain a source of concern for regulators. While NPL ratios have reduced so far, regulators are deeply focused on ensuring that the banking sector remains resilient. The key focus is on early identification and classification of distressed borrowers, appropriate collateral valuation (i.e., for CRE exposures) and adequate provisioning.</p>	<p>Further deterioration in asset quality and additional provisioning needs may arise as economic support is slowly unwound and if COVID-19 vulnerable sectors do not return to pre-pandemic profitability and growth.</p>
 <p>Market risk</p>	<p>After strong recoveries across sectors and asset classes in 2021, new emerging risks are impacting valuations in the market on the back of accelerating inflation and pricing of geopolitical tensions in Europe.</p>	<p>High volatility in the markets is expected in the short term as geopolitical tensions are impacting commodities prices in Europe, while increasing exposure risks to countries directly involved in the conflict. This is in addition to already accelerating inflation rates that started at the end of 2021 and strong economic support due to COVID-19.</p>
 <p>Liquidity and funding</p>	<p>Overall banks have maintained solid liquidity positions throughout COVID-19. Deposit growth is expected to decelerate in 2022 as households will likely increase spending as restrictions ease. On the other hand, the ECB targeted longer-term financing operations (i.e., TLTRO-III) will provide attractive funding conditions to support the real economy.</p>	<p>Banks should be able to tackle short-term volatility in the markets with sufficient liquidity buffers. Highly vulnerable institutions with exposures toward high-risk countries directly involved in geopolitical tensions in Europe will be closely monitored by regulators to limit contagion risks in the financial system.</p>
 <p>Profitability level</p>	<p>Profitability ratios have been improving toward the end of 2021, slowly recovering from the sharp decline registered in 2020. Improvements have been mainly driven by reductions in provisions, which will likely be discouraged by regulators going forward. Rising rates, on the back of higher inflation, can accelerate improvements in net interest margins.</p>	<p>M&A deals can provide opportunities to reduce costs on a stand-alone basis, while it is likely that COVID-19 provision levels will not be reduced in the short term due to potential risks of new COVID-19 variants as well as an uncertain economic outlook.</p>
 <p>Operational resilience</p>	<p>Institutions have demonstrated strong operational resilience during COVID-19 with existing infrastructure able to sustain the shift toward remote working arrangements. However, the number of cyber incidents reported to the ECB, including those with malicious intent, has increased since 2020.</p>	<p>With smart working arrangements likely to persist, it is expected that increased regulatory focus will be on operational risk management practices and outsourcing risks (e.g., leveraging cloud service providers).</p>

Note: (a) The short-term outlook refers to a 6-month period

Source: **EBA** (https://www.bankingsupervision.europa.eu/banking/priorities/html/ssm.supervisory_priorities2022~0f890c6b70.en.html),

IHS Markit (<https://ihsmarkit.com/research-analysis/top-themes-global-banking-2022-risk-and-uncertainty.html>),

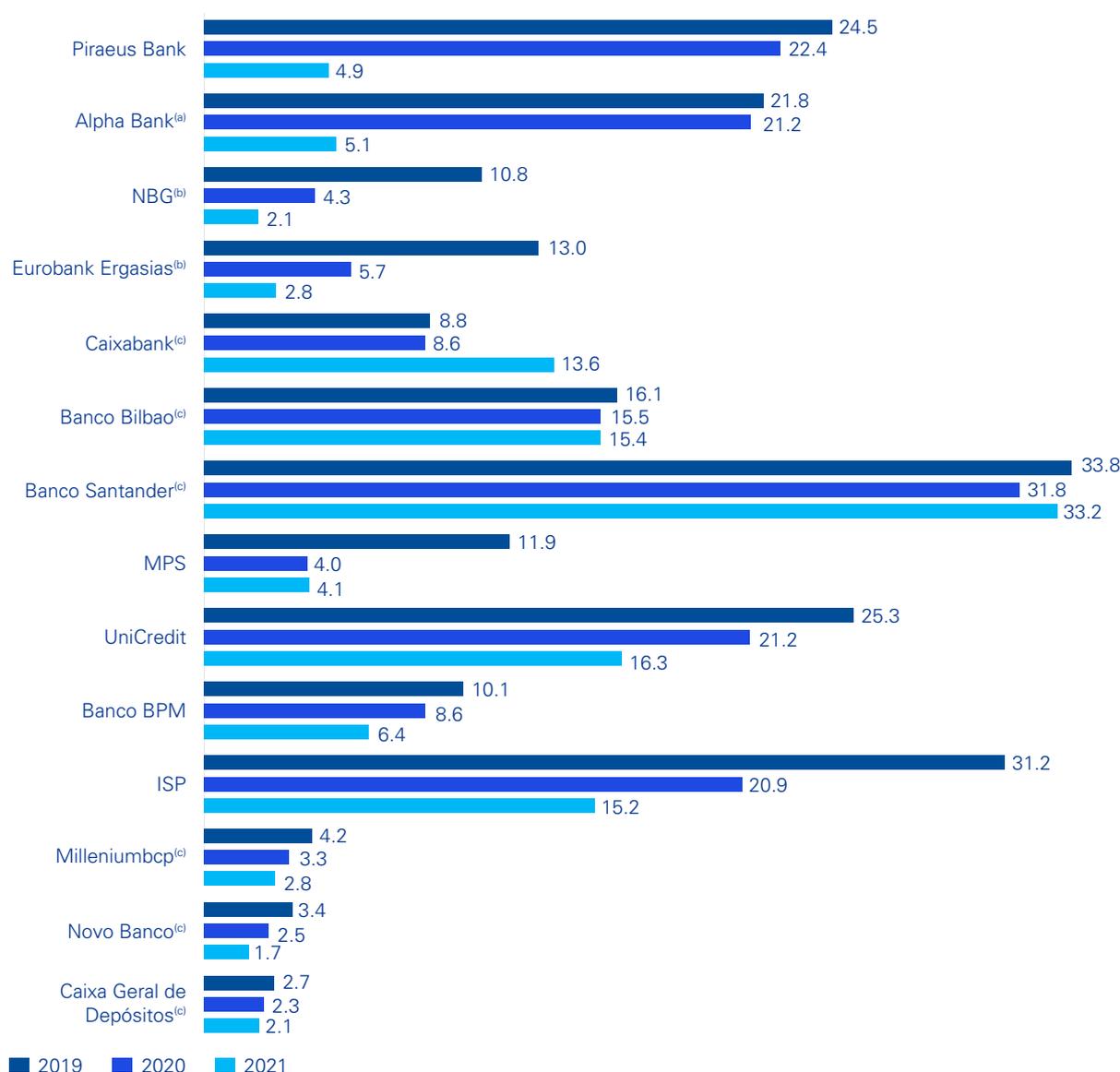
EBA (<https://www.bankingsupervision.europa.eu/press/pr/date/2022/html/ssm.pr220210~6455538b07.en.html>),

S&P (https://www.spglobal.com/_assets/documents/ratings/research/101248235.pdf)

NPE stocks of major banks

Over the past 3 years, major European banks have witnessed a continuous decline in NPL stocks. Initial concerns of increased flows coming out of COVID-19 have not yet materialized, while uncertainty in the region remains very high.

Chart 8: Gross NPL stocks (EUR billion) — 2019–2021



Notes: ^(a) Pro-forma for Galaxy including senior notes on the basis

^(b) Calculation made using the NPE coverage ratio

^(c) NPE stock

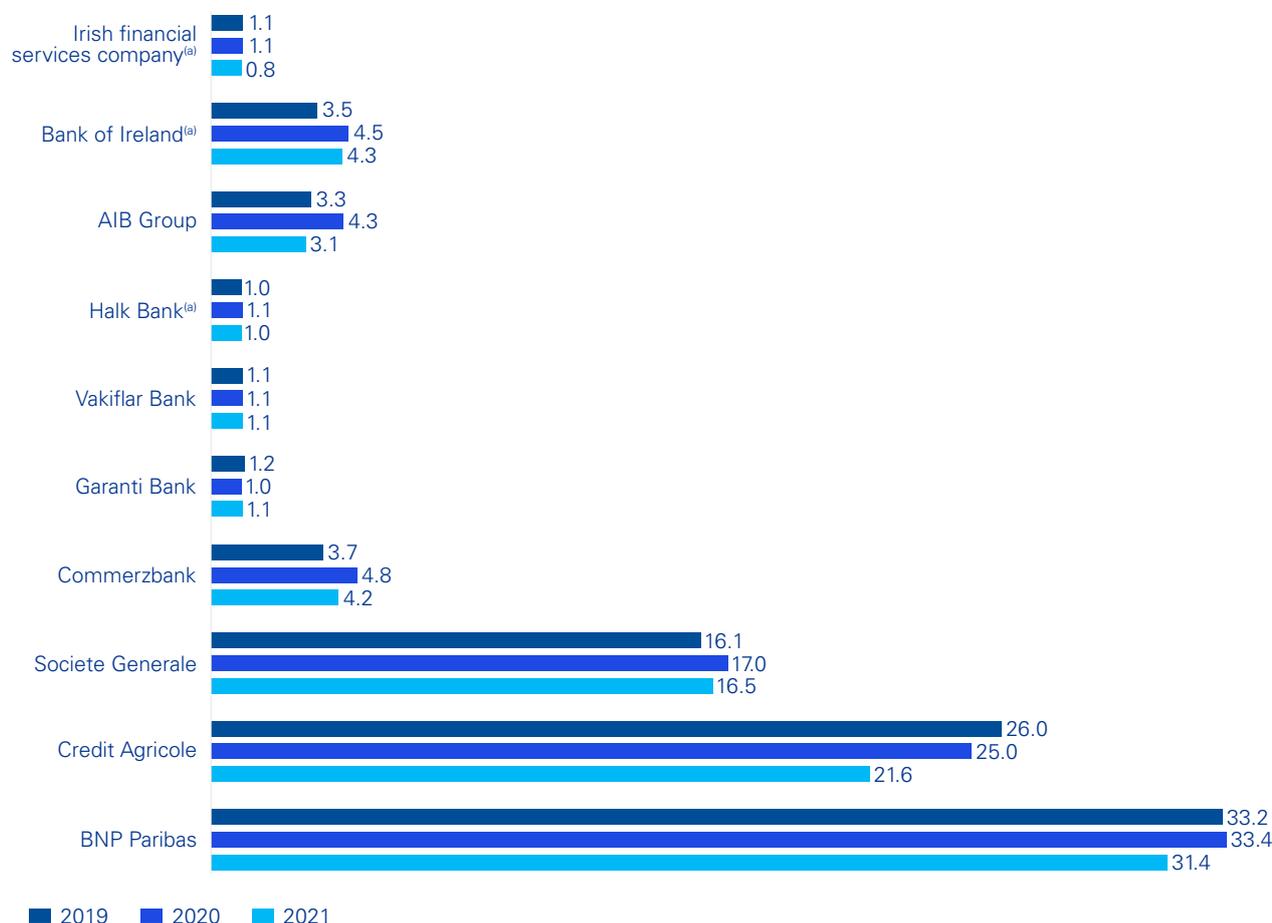
Source: Company annual/quarterly filings; Capital IQ; accessed Mar2022

The total stock of NPEs has declined among major European banks, from about **EUR270 billion in 2020 to about EUR209 billion in 2021**. The full impact of COVID-19 is yet to be seen and the reverse trend for NPEs may accelerate in 2022 and beyond as overdue loans may increase when the payment holiday expires in many jurisdictions.

In 2021, **Spain's NPEs for major banks increased slightly**, and alongside **French banks, registered the largest total amounts of NPEs in Europe in 2021 followed by German and Italian banks**. In Italy, banks reported lower NPL amounts thanks to the heavy de-risking plans leveraging the GACS framework.

Portugal, Ireland, Germany, Turkey and France, though active, have shown lower volume of transactions when compared with southern EU countries such as Italy, Spain and Greece.

Chart 9: Gross NPL stocks (EUR billion) – 2019–2021



Note: ^(a) Calculation made using the 9M21 NPL ratio as the 2021 ratio is not available

Source: Company annual/quarterly filings; Capital IQ; accessed Mar2022

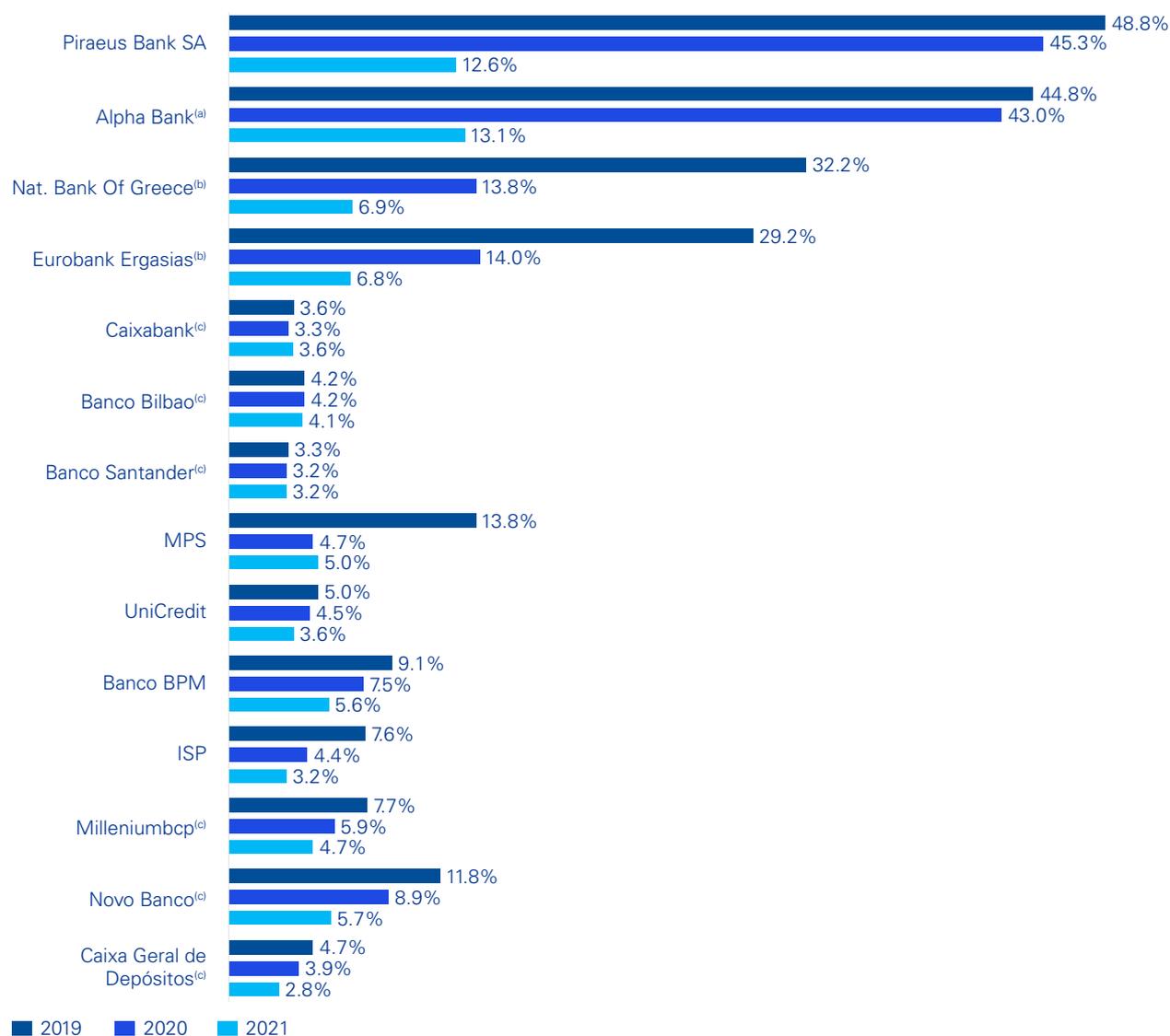
German banks started trading credit portfolios in 2003 and 2004 after the downturn of the Eastern Germany real estate market. Banks currently have quite moderate levels of NPLs in their loan portfolios and quite comfortable regulatory equity ratios that keep the pressure low for the need of selling NPLs. Mortgage loan portfolios benefited from positive real estate market trends and higher property values in recent years leading to lower overall LTVs in the baking books. Borrowers also used opportunities to lock-in low fixed interest rates for 10 to 25 years making them less vulnerable to increasing interest rates.

The French NPL market is not very active compared to EU southern countries, despite reporting a large stock of NPL. Actually, French banks have high levels of NPLs (in value) but not in percentage, with most of the stocks located in France, but also in some foreign subsidiaries. France has experienced a slight slowdown in NPL sales in FY21, due to COVID-19, with increased volumes being brought to the market in FY22 as banks have reduced their NPL balances. Major banks are now implementing a more comprehensive NPL strategy, which includes more significant sales.

NPE ratios of major banks

Asset quality remains a key risk amid the strong uncertainty in the macroeconomic environment.

Chart 10: Gross NPL ratios (percentage)^(a) — 2019–2021



Notes: ^(a) Pro-forma for Galaxy including senior notes on the basis

^(b) Calculation made using the NPE coverage ratio

^(c) Calculation made using the NPL ratio

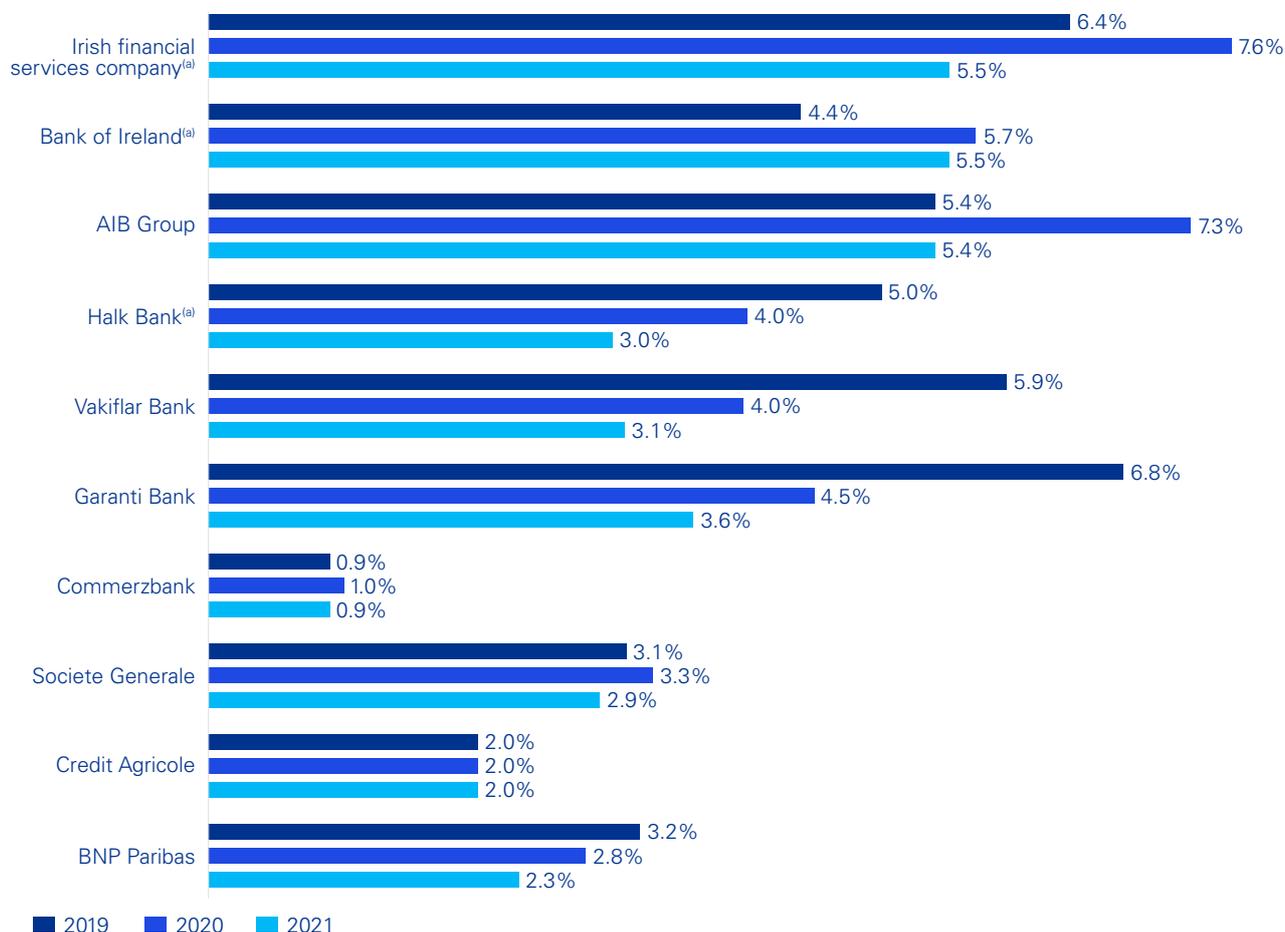
Source: Company annual/quarterly filings; accessed Mar2022

The NPE ratios of major European banks witnessed a downward trend, **declining from an average of 8 percent in 2020 to 5 percent in 2021**, possibly a result of increases in total loans and advances, and a lighter impact from COVID-19 defaults compared to expectations.

In 2021, Greek banks reported among the highest NPE ratios, which were materially reduced from previous years. All major banks in Greece have been involved in successful disposal schemes, leveraging the HAPS framework.

Asset quality remains a key risk amid the strong uncertainty in the macroeconomic environment.

Chart 11: Gross NPL ratios (percentage)^(a) — 2019–2021



Note: ^(a) Calculation made using the 9M21 NPL ratio as the 2021 ratio is not available

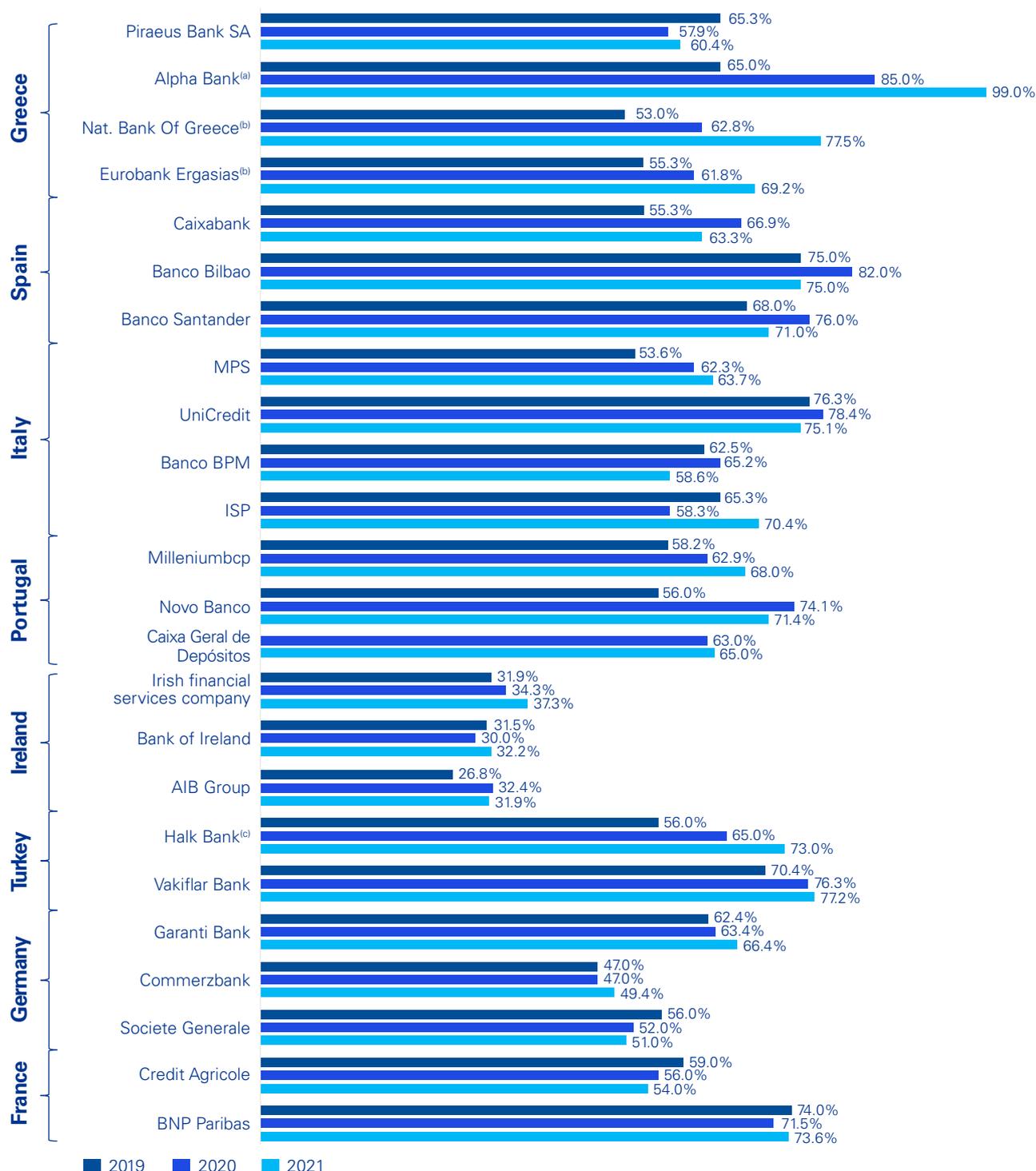
Source: Company annual/quarterly filings; accessed Mar2022

French financial institutions, despite a high stock of bad loans, maintain a modest level of NPE ratios due to the high amount of loans and advances. In other countries, volumes have remained mostly stable, if not declining, due to continued fiscal support from governments and incentives to sustain local economies through newly granted loans.

It is important for European banks to closely monitor the asset quality of their credit portfolios as the high uncertainty in the overall macroeconomic environment — due to emerging risks from geopolitical tensions and inflation alongside COVID-19 — can result in a sudden spike in the numbers of defaults.

NPL coverage ratio of major banks

Chart 12: NPL coverage ratios (percentage) — 2019–2021



Notes: ^(a) Pro-forma for Galaxy including senior notes on the basis

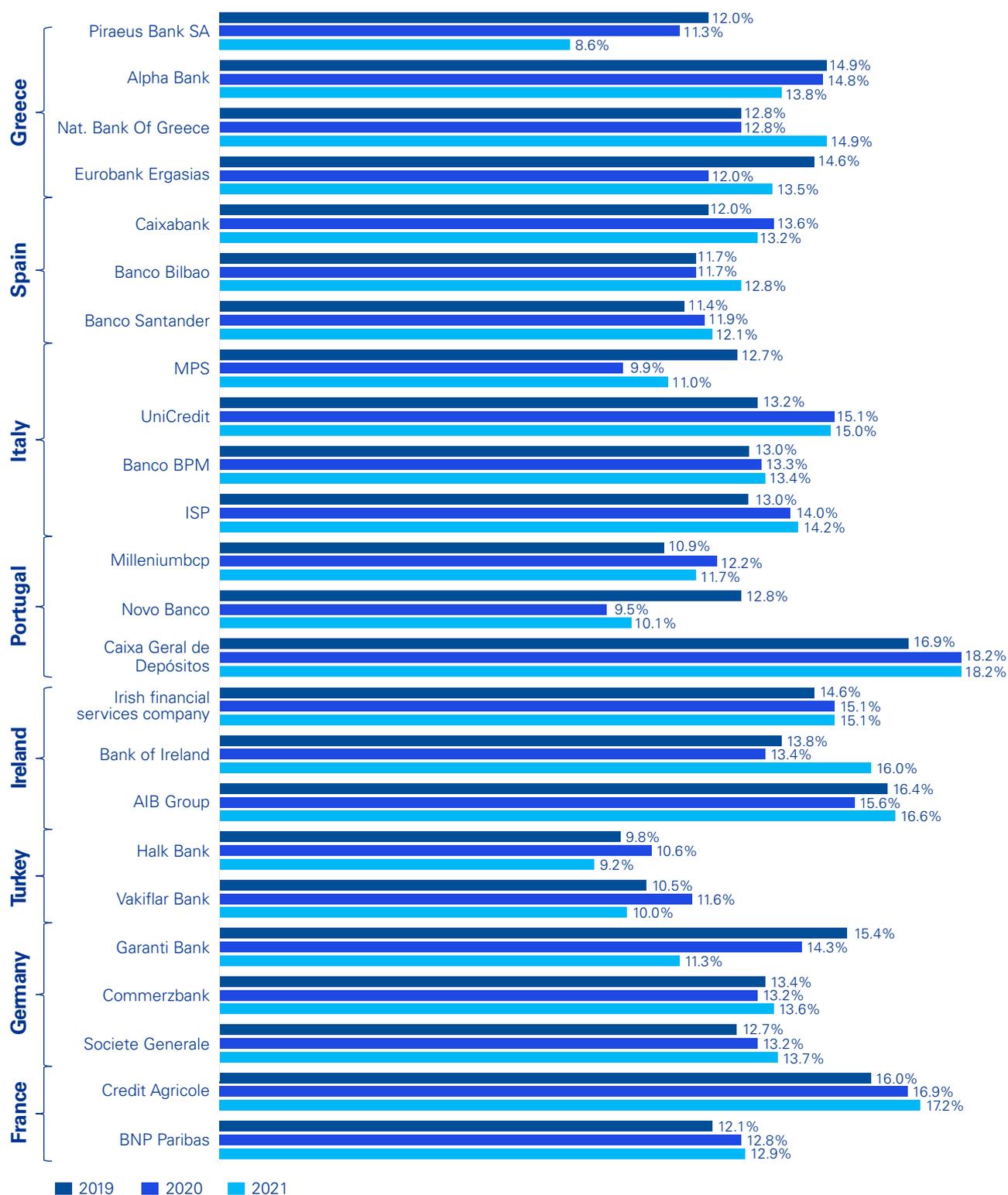
^(b) Calculation made using the NPE coverage ratio

^(c) Calculation made using the 9M21 NPL ratio as the 2021 ratio is not available

Source: Company annual/quarterly filings; accessed Mar2022

Fully loaded (CET1) ratio of major European banks

Chart 13: CET1 ratio (fully loaded, percentage) — 2019–2021



Source: Company annual/quarterly filings

Originators: Relationship matrix

Chart 14: Top European Banks — Relation between market cap^(a) and NPE ratio^(b)



Different NPE ratios exist among top European banks, ranging between 1.7 percent and 3.6 percent. New emerging risks in the EU are likely to impact all credit institutions with German and French banks registering lower ratios.

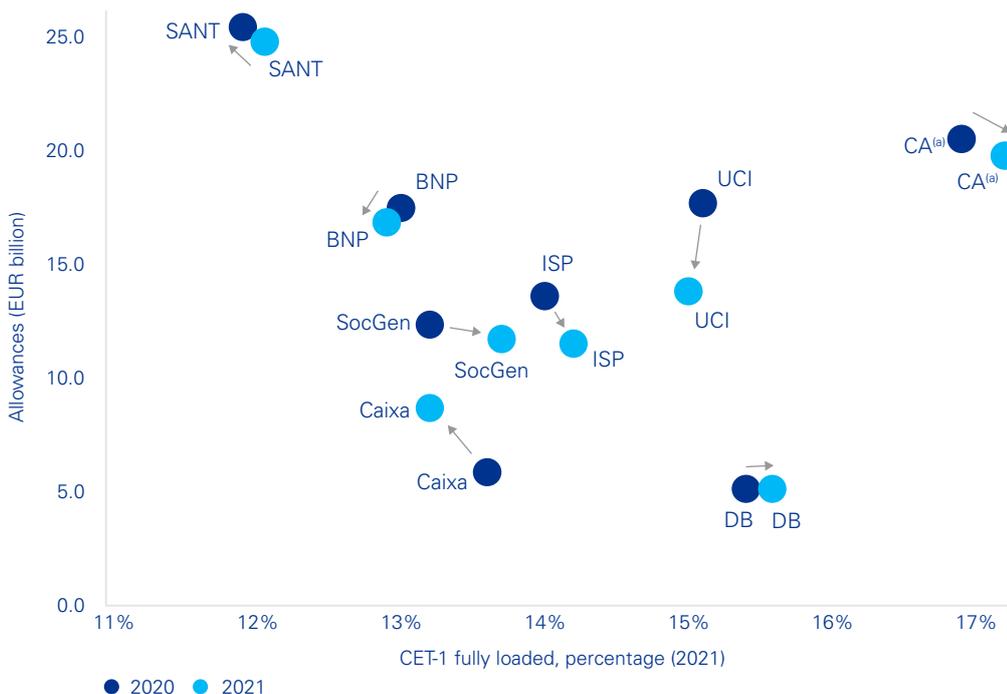
Notes: ^(a) Market cap sourced from Capital IQ. Calculated as six months average (Sep–Feb)

^(b) Figures as of Sep 2021

^(c) The numbers for Credit Agricole represents Credit Agricole Group

Source: Capital IQ; Company annual/quarterly filings; accessed Mar2022

Chart 15: Top European Banks — Relation between allowances and CET1 fully loaded percentage



In 2021, mixed results were registered by EU banks, showing a reduction in allowances mainly driven by ongoing deleveraging activities, in particular for Italian banks.

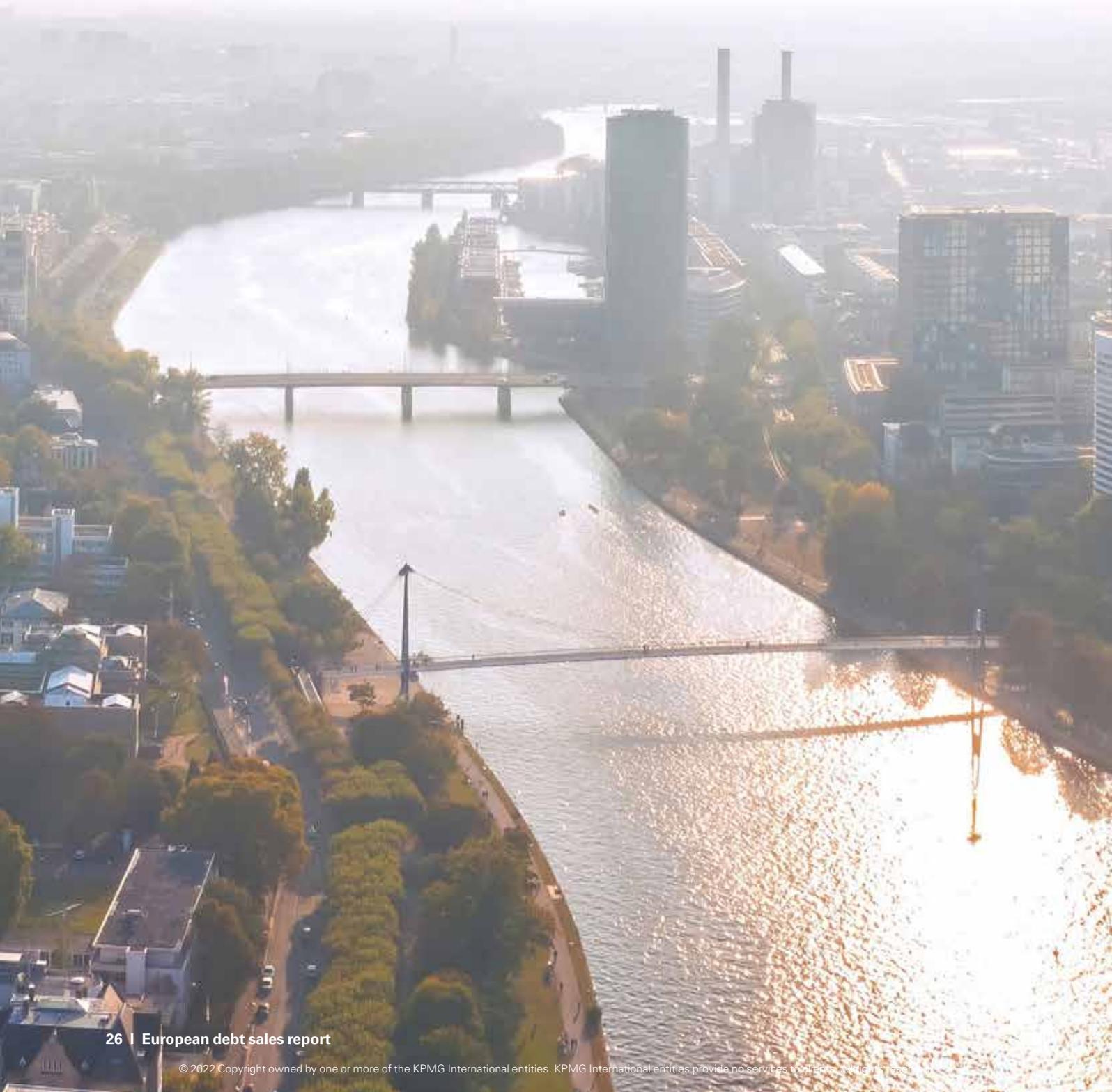
Prolonged uncertainty in the economic outlook and increases in regulatory requirements are likely to push banks to preserve current levels of provisioning.

Note: ^(a) The numbers for Credit Agricole represents Credit Agricole Group

Source: Company annual/quarterly filings; accessed Mar2022



Servicing market



Servicing market overview and trends

The servicing market has evolved toward offering a combination of servicing capabilities and appetite to directly acquire credit portfolios. Key growth drivers will come from increasing specialization, technology and artificial intelligence investments, and 360° management capabilities. The market expects a rise in consolidations and M&A-driven growth strategies across Europe in the coming quarters, while professionalization in special servicing is also expected. Investments in technology and people will be incentivized by increasing regulatory expectations on disclosures and servicing standards (i.e., NPL Directive for Credit Servicers and Purchasers).

Market overview

Servicing versus purchasing capabilities

Distinct separation between:

- **Pure credit servicing players** targeting all banks and investors, with independent business models, which do not involve direct investments in loan portfolios.
- **Capital-intensive players** acquiring NPE portfolios.

Specialization

An increased level of **strong specialization** is required for the different asset classes or degree of financial distress, resulting in **end-to-end servicers** that offer a complete set of support connected to the core servicing activity, such as due diligence, real estate, legal, data governance and data quality service, for managing and collecting loans. Therefore, traditional operators are changing their industrial fundamentals, whereas **new players** with highly experienced teams are approaching the market.

360° management capabilities

Market players are required to have cross-border capabilities to serve a more **global** market that is experiencing renewed regulatory efforts to promote cross-border credit servicing in Europe. With the increased need of a more proactive management for UTP, it is necessary to show **360° NPE management capabilities**, requiring financing and refinancing capabilities, as well as industry, restructuring and turnaround connections alongside legal skills. **Real estate expertise** is becoming even more necessary for an effective management of underlying assets.

Capital intensive

Investments in **human capital and technology innovation** are required to accelerate portfolio performance.

Market trends

Market consolidation

In the coming years, **large international servicing platforms can accelerate growth** through acquisition of smaller players, in order to leverage strong economies of scale, competence and commercial presence. Moreover, by undertaking **rating issuance processes**, mandatory for most asset protection schemes with state guarantees, **servicers** could increase their market share, resulting in stronger market positioning, reputation and accountability.

New players

Large private equity and hedge funds will invest in **new players with highly experienced management**, in order to efficiently approach the servicing market and reduce entry barriers.

International platform

Larger players are likely to acquire foreign targets in order to **increase both volume and profitability** of their core business via an **external growth strategy**.

Regulatory framework

The **regulatory framework** within the market is expected to be updated with stricter requirements for credit servicers to operate in the EU, such as authorization process and disclosure requirements.

Investments in technology and people

Investments in **technology innovation** will allow the credit-servicing industry to **increase efficiency** and revenue margins.

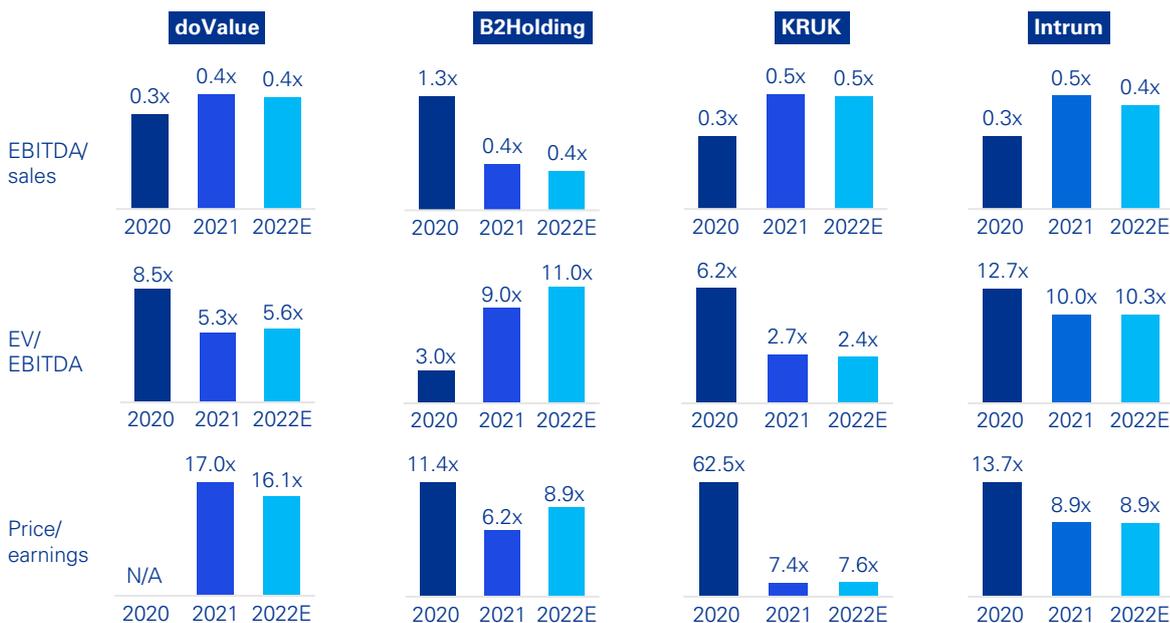
Servicers share prices have shown high volatility due to greater vulnerabilities to COVID-19 impacts on collections performance across jurisdictions. KRUK has been one of the few exceptions as the company's share price has rallied on the back of very positive results for H1 2021.

Chart 16: Stock prices of the main EU servicers



Date as: 13 January 2021: 9 months performance
Source: FactSet

Chart 17: Multiples of the main EU servicers



Source: KPMG elaborations on FactSet data as of 31 December 2021

NPL platforms relevant transactions

Year	Target	Buyer	AuM (EUR billion)	Employees	SLA duration
2022	BPER	Ongoing — not disclosed	11.0	Not disclosed	10Y
2021	Alpha Bank	Davidson Kempner	10.8	1,100	13Y
2020	Eurobank	doValue	25.0	947	14Y
2019	Banco BPM	Credito Fondiario	9	~100	10Y
2019	Piraeus Bank	Intrum	28	~1,300	10Y
2018	Intesa Sanpaolo	Intrum	~40	~600	10Y
2018	Gruppo Banca Carige	Credito Fondiario	2.6 ^(a)	~50	10Y
2018	Monte dei Paschi di Siena	Cerved	4.5	110	10Y
2017	Banca Popolare di Bari	Creved	1.1	~20	10Y
2014	Credito Valtellinese	Cerved	2.0	n.a.	10Y
2014	Unicredit	Fortress/Prelios	34.0	~600	10Y
2014	Cajamar	Cerberus	7.3	216	10Y
2019	Sistemica	iQuera	9	185	n.a.
2019	Altamira	doValue	55	n.a.	n.a.
2018	Europa Investimenti	Arrow	n.a.	35	n.a.
2018	FBS	Banca Ifis	7.0	127	n.a.
2018	Parr Credit	Arrow	n.a.	200	n.a.
2018	B2 Holding	NACC	1.1	90	n.a.
2017	CAF	Intrum	8.0	~200	n.a.
2017	Lindorff/Intrum	Lowell/Permira	n.a.	~900	n.a.
2016	Aktua	Lindorff	5.0	400	Variable
2016	MCS + DSO Group	BC Partners	n.a	n.a	n.a

Note: ^(a) AUM at EUR1.4 billion excluding portfolio disposal

Source: Public data

Toward a mature servicing market in the Union

● France

High NPL volumes in the country have not been materially addressed due to the low overall NPL ratio, but it is expected that banks will be under pressure to tackle deteriorated assets soon. In the past years, the market was dominated by local investor-servicers. As part of the broader growth in the European servicing market, the appetite for French NPL is expected to be strong in the coming quarters.

● Germany

The German NPL market has been one of the least active within the European countries, reporting lower than average NPL ratio.

However, in the uncollateralised loan segment (consumer finance), banks are partnering up with debt collection servicers selling monthly standardised packages of NPLs based on framework agreements and agreed fixed prices.

● Greece

The Greek market is one of the most active within the EU, particularly due to the sale of servicing platforms from the top three banks as part of their broader deleveraging activities under the Hercules Asset Protection Schemes.

● Spain

In Spain, increased market activities are expected as a result of asset management company Sareb reappointing its servicing contracts, which expired in June 2022. The key market players expected to compete are owned by Cerberus (Haya RE), DoValue (Altamira), Blackstone (Anticipa/Aliseda), KKR (Hipoges) and Intrum (Solvia).

● Italy

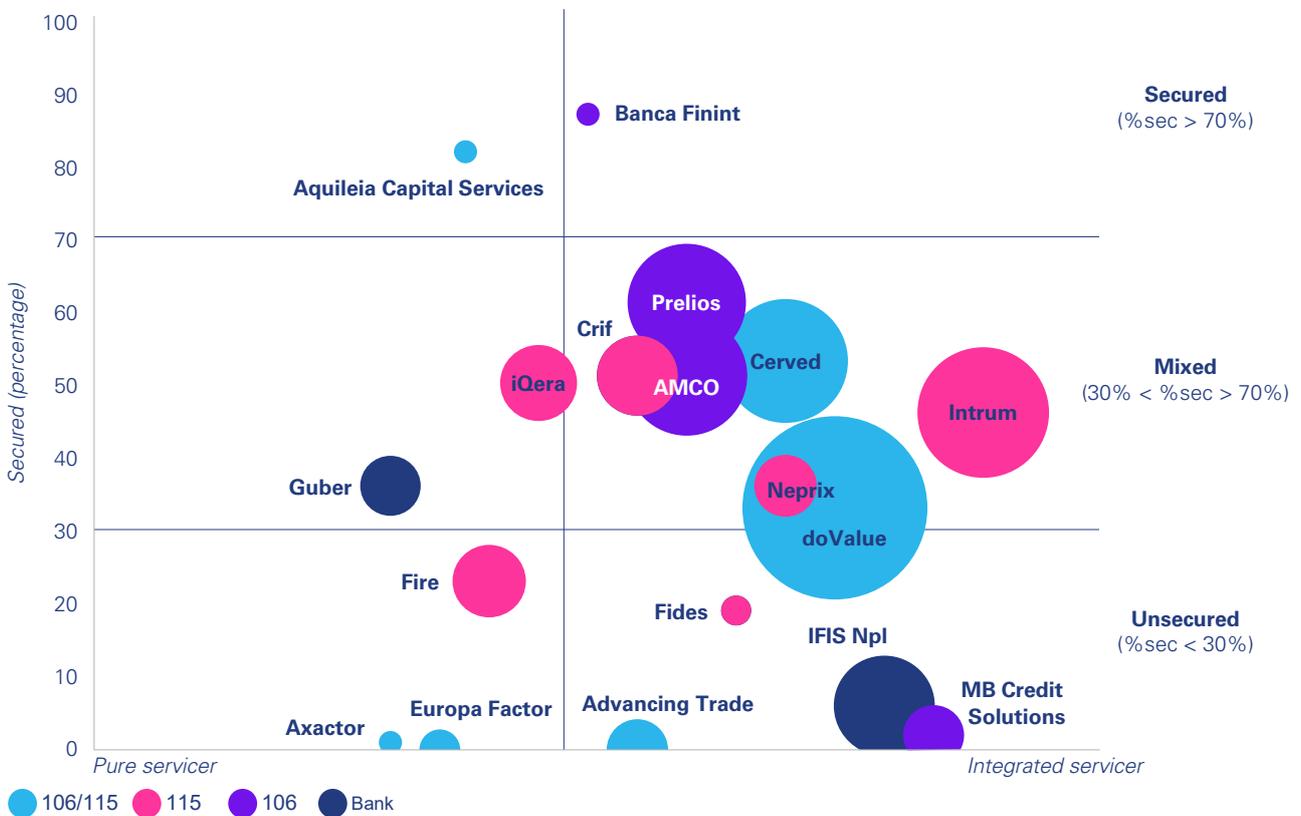
In the Italian market, there are six main servicers operating across asset classes that together account for approximately EUR217 billion of AuM. In the medium term, smaller companies are likely to be incorporated by international players, leading to a more concentrated market. There is also the need to provide tailored offerings for UTP management due to growing volumes expected in 2022.

The Italian servicing market

Major market trend

 <h3>Innovation Technology</h3> <p>Investments in innovation technology will enable automated processes and improve data quality in an industry that is still very human intensive.</p>	 <h3>Proactive management</h3> <p>More proactive management toward UTPs is needed, which requires experience in the specific industry, as well as experience with restructuring and legal processes.</p>	 <h3>Market consolidation</h3> <p>In the medium-long term, smaller actors might be incorporated into international players that will leverage economies of scale and high specializations, leading to a more concentrated market.</p>	 <h3>Specialization</h3> <p>There is an increased demand for end-to-end servicers that offer more comprehensive services, which is encouraging traditional operators to reconsider their fundamentals and attract new specialized players.</p>
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Market positioning^(a)

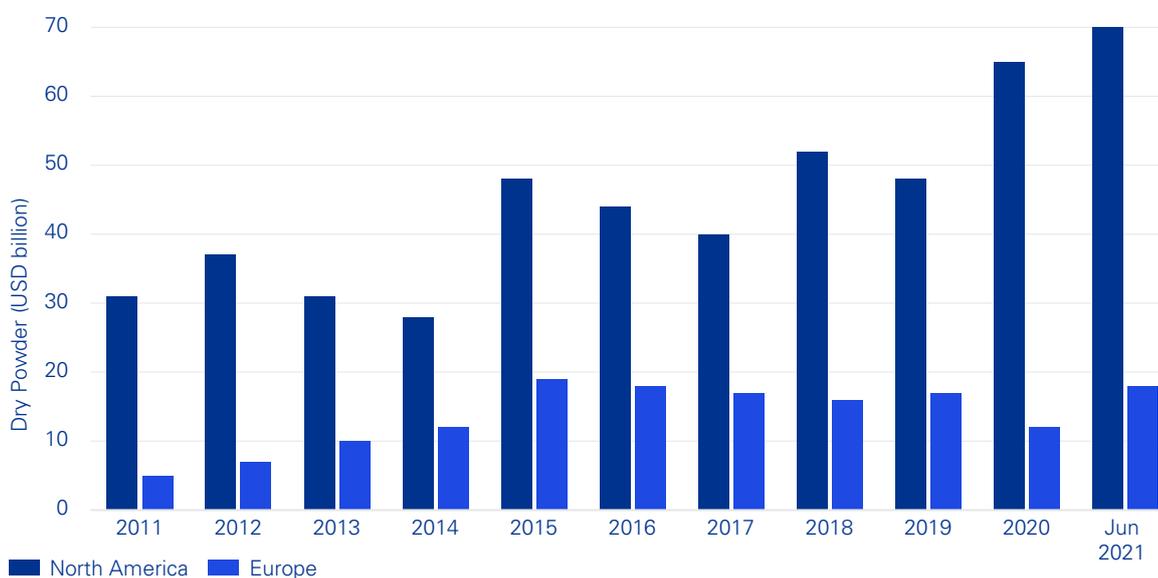


Note: ^(a) The dimension of the spheres is proportional with respect to the AuM in 30 June 2021
 Source: KPMG elaborations

Investors market overview

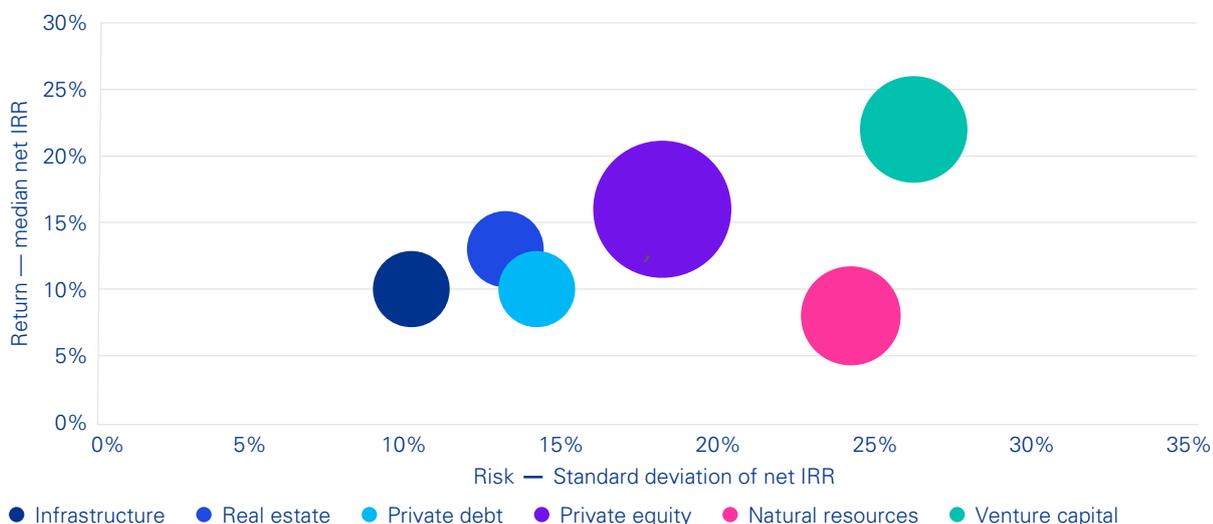
Investor dry powder reached record levels in Europe, but investment opportunities are yet to emerge. Historical benchmarks from the US Financial Crisis in 2008 and the European Crisis in 2011 suggest a time lag of several years between market dislocation and investment opportunities. On the other hand, limited investment opportunities in the short term could mean increasing competition for the same assets at a time where rising interest rates might result in higher costs for financing deals.

Chart 18: Distressed debt dry powder: North America vs. Europe focused funds, 2011–2021 YTD



Source: Preqin, data as of June 2021 and Preqin Global Private Debt Report 2022

Chart 19: Private capital: Risk/return by asset class (vintages 2009–2018)



Source: Preqin data (Vintage 2009–2018) and related glossary, KPMG elaborations

According to Preqin, the median private debt net-IRR over the last decade has been close to 9 percent, and offers lower volatility when compared to other investment alternatives (Chart 30). More granular data (Chart 31) shows higher risk-adjusted returns for direct lending and mezzanine debt compared to distressed debt and special situations alternative investments.

Chart 20: Private debt: Risk/return by fund type (vintages 2009–2018)

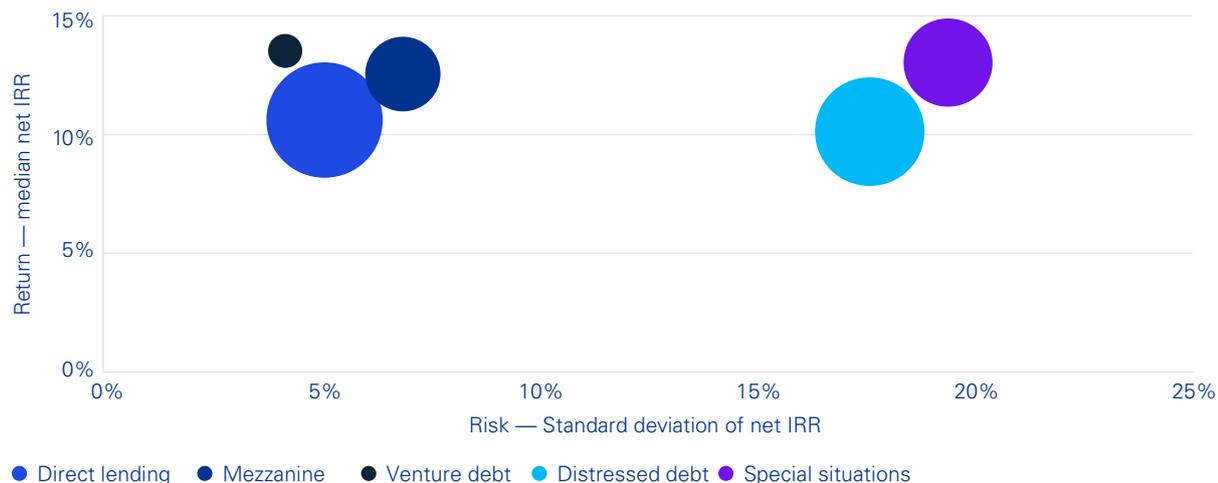


Chart 21: Private debt: Median net IRRs by fund type and vintage year



Transactions overview



European loan sales market in a nutshell

Cyprus

High NPL deal activity in 2021. Bank of Cyprus (Project Helix 3), Hellenic Bank (Project Starlight) and Alpha Bank (Project Sky) are disposing significant pools of NPLs driving downwards the NPL ratio of the Cyprus banking system.

Greece

Very active NPL market mainly due to the deleveraging activity of the four largest Banks and the sale of their servicing platforms. Approximately EUR49 billion of loans are now fueling the secondary market of NPL sales on the back of the securitized business plans submitted under the Hercules Asset Protection Scheme (HAPS) that carries the Greek State guarantee. Eurobank Ergasias stood eighth amongst the top 20 sellers, having a total GBV of EUR5.2 billion.

Portugal

Market volumes started to recover in 4Q21 and are projected to continue to improve until 2022 year-end. In 2021 the activity was pulverized among small trades from several sellers (the trend in 2022 is similar). Looking forward to 2023 and beyond, the pressure on credit quality associated with the new interest rate environment (repricing will be mostly concentrated in 2H22 and 1Q23) and the projected economic slowdown, coupled with the regulatory pressure will continue to drive the NPL market in Portugal. The increased leverage costs for NPL investors will also play a role, particularly in larger transactions.

France

There is an overall increase in activity and traction in the market with larger and more frequent deals, catching up with high investor appetite. 2021 saw a decrease in transaction volumes mainly due to COVID-19, but recovery in sales volumes has already been registered in 2022.

Ireland

The Irish market has been very active in recent years and 2021 continued this trend driven by KBC and Ulster Bank's decisions to exit the market. In 2021, KBC Ireland announced the sale of approximately EUR10 billion of loans, of which circa EUR1.4 billion were non-performing. Ulster Bank's UK parent company, NatWest, opted to withdraw from the market on a more phased basis that could last until 2023. NatWest agreed the sale of EUR11.8 billion of Ulster Bank performing loans in 2021.

Spain

The Spanish market has shown great activity and relevant size of opportunities, allowing new investors to position in the market alongside other consolidated investors. Spain will continue to deliver opportunities on a wide range of asset types, from non-performing loans and real estate assets to reperforming and performing loans, including more specialized opportunities. Therefore, we will continue to see a large volume of assets being sold of a higher quality.

Germany

Limited activity in the market as the country already dealt with higher NPL volumes earlier in the economic cycle compared to the other EU countries. Recent investment opportunities have been mostly related to portfolios of shipping loans.

Italy

High market activities due to deleveraging volumes mainly from Intesa Sanpaolo, UniCredit and BPER. The largest transactions continue to leverage the GACS scheme and deals volume are expected to remain high through 2022 with additional portion of UTP transactions compared to the past.

Turkey

NPL deleveraging activities are expected to grow in 2022 following the upward trend of recent years.

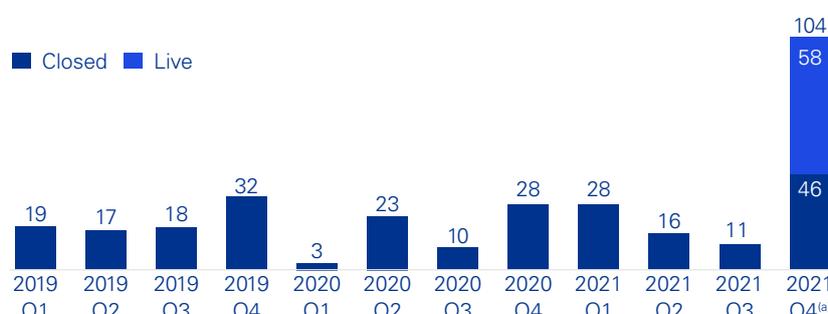
Source: KPMG elaborations on public available information

Market transactions from originators perspective

The fourth quarter of 2021 saw the highest GBV for portfolio transactions by banks.

The spike in the fourth quarter of 2021 was mainly driven by closed deals in both Italy and Greece, which were backed by the GACS and HAPS schemes, as well as the ongoing KBC and Ulster Bank portfolio transactions in Ireland.

Chart 22: Deals by quarter (EUR billion)



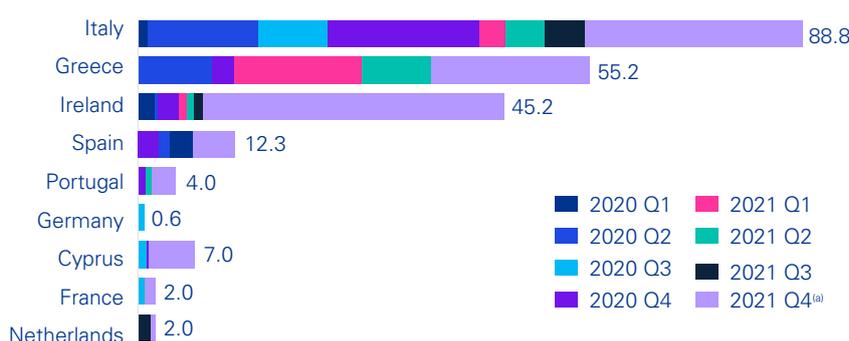
Note: ^(a) Ongoing transactions as at Q4 2021 (totalling EUR58 billion) are included in the figures presented for Q4 2021.

Source: KPMG elaborations on Debtwire data

EU peripheral countries as well as Ireland were the most active portfolio transaction markets between 2020 and 2021.

Italy and Greece rank among the top markets by volume in 2021. In Ireland, the portfolio sale market has been very active due to top tier banks closing operations in the country.

Chart 23: Deals by country (EUR billion)



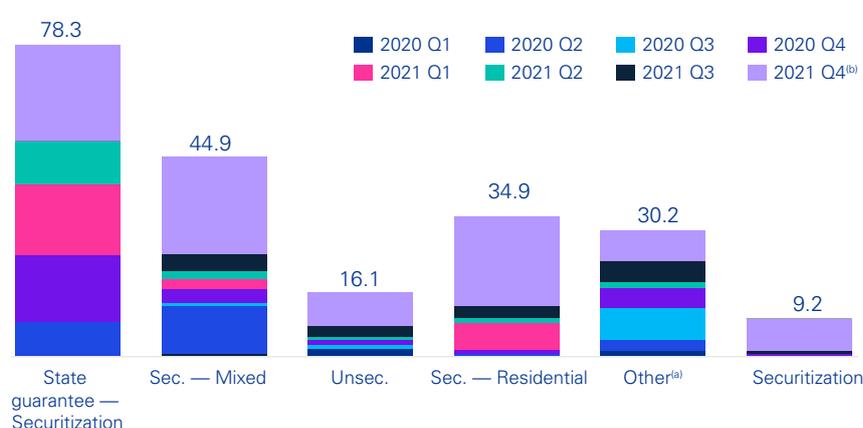
Note: ^(a) Ongoing transactions as at Q4 2021 (totalling EUR58 billion) are included in the figures presented for Q4 2021.

Source: KPMG elaborations on Debtwire data

The majority of NPE deals that have closed or are ongoing leverage securitization schemes with state guarantee.

The asset protection schemes in Italy and Greece have demonstrated the relevance and efficacy of the securitizations structures to address high NPL volumes in the different jurisdictions. In both countries, all top tier banks have leveraged these frameworks, which have been extended through to 2022. In 2021, traded GBV amounted to EUR37 billion in Greece and EUR12 billion in Italy.

Chart 24: Activity by asset type (EUR billion)

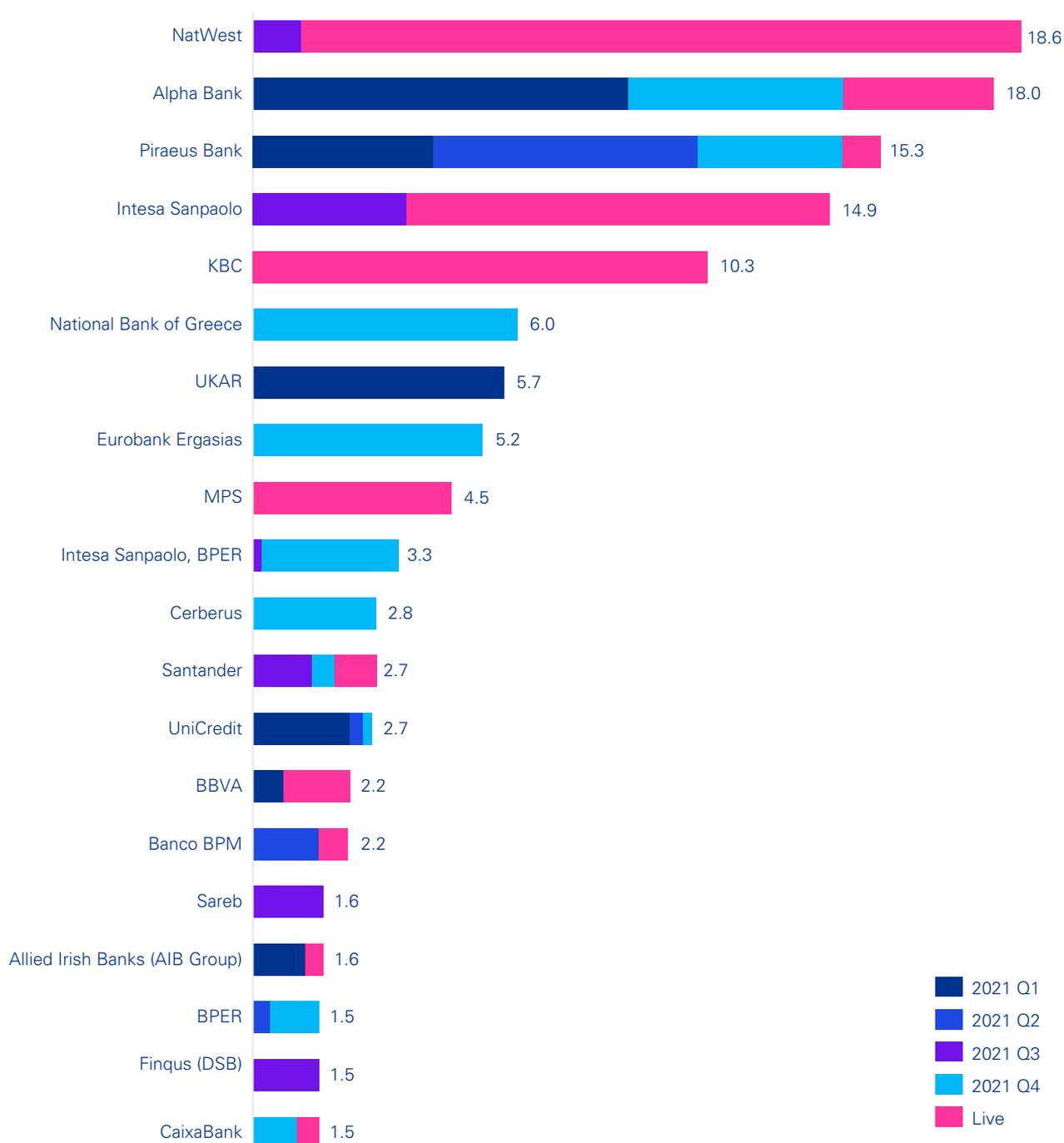


Notes: ^(a) The category other includes exposures with undefined underlying assets

^(b) Ongoing transactions as at Q4 2021 (totalling EUR58 billion) are included in the figures presented for Q4 2021.

Source: KPMG elaborations on Debtwire data

Chart 25: Top sellers in 2021 (EUR billion)



Source: KPMG elaborations

From a sellers perspective, the market is highly concentrated, with few players conducting the majority of deals. The top 20 sellers account for 80 percent of GBV transacted in 2021.

As expected the top 20 chart is dominated by Greek banks and banks with operations in Ireland. In the latter case, it is well publicized that certain banks are currently in the process of disposing whole credit portfolios. In Greece, HAPS has been intensively leveraged in its second year since introduction and all major banks are reporting high NPL disposal volumes. Lower deal volumes in Italy are a result of large bank disposals closing in previous years. However, the consistent presence of main institutions on the list indicate that Italian banks have implemented a recurring selling strategy to manage non-core exposures.

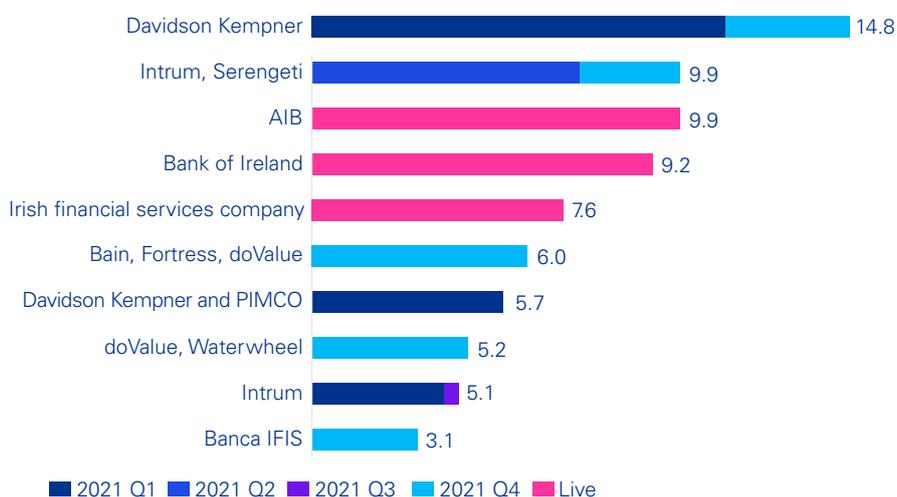
Overview of main European buyers

Greece's buy-side market is the most active in Europe.

The high trade volumes in Greece are mostly linked to HAPS securitization. Of the top buyers, Davidson Kempner accounted for all transactions originated by Alpha Bank, as is the case for Intrum with Piraeus Bank and the consortium composed of Bain, Fortress and doValue for NBG's project Frontier. Ireland is the next most active buy-side market as a result of NatWest and KBC closing their Irish operations. AIB and a top tier Irish bank have reached agreement with NatWest to purchase its Ulster Bank performing loan portfolios while Bank of Ireland has agreed to acquire the KBC Ireland performing loan book. Each of these transactions is expected to complete by mid-2023.

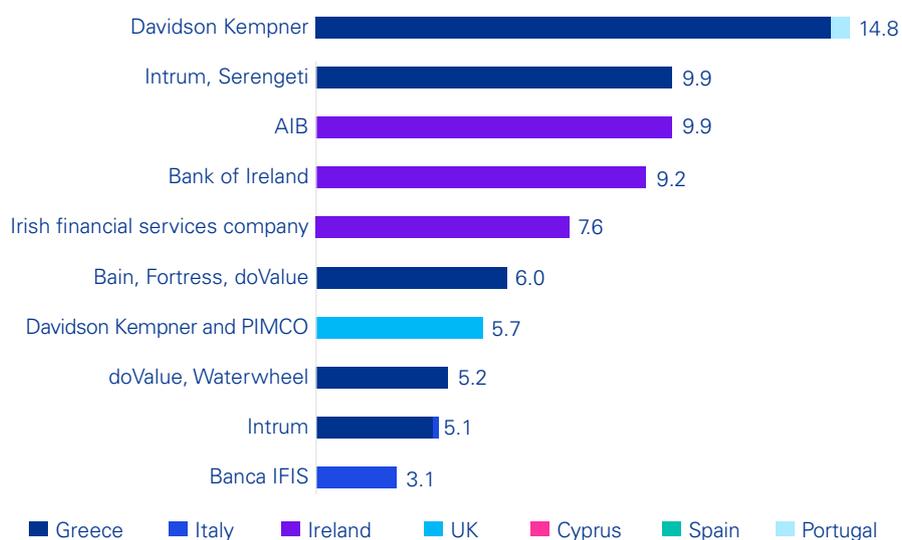
Low country differentiations among buyers is driven by market activity being mostly concentrated in Greece, Ireland and Italy.

Chart 26: Top buyers in 2021 (EUR billion)^(a)



Note: ^(a) The total GBV acquired by each investor is calculated considering its share in the transaction. When the information is not available, the total GBV of the transaction is divided by the number of buyers
Source: KPMG elaborations

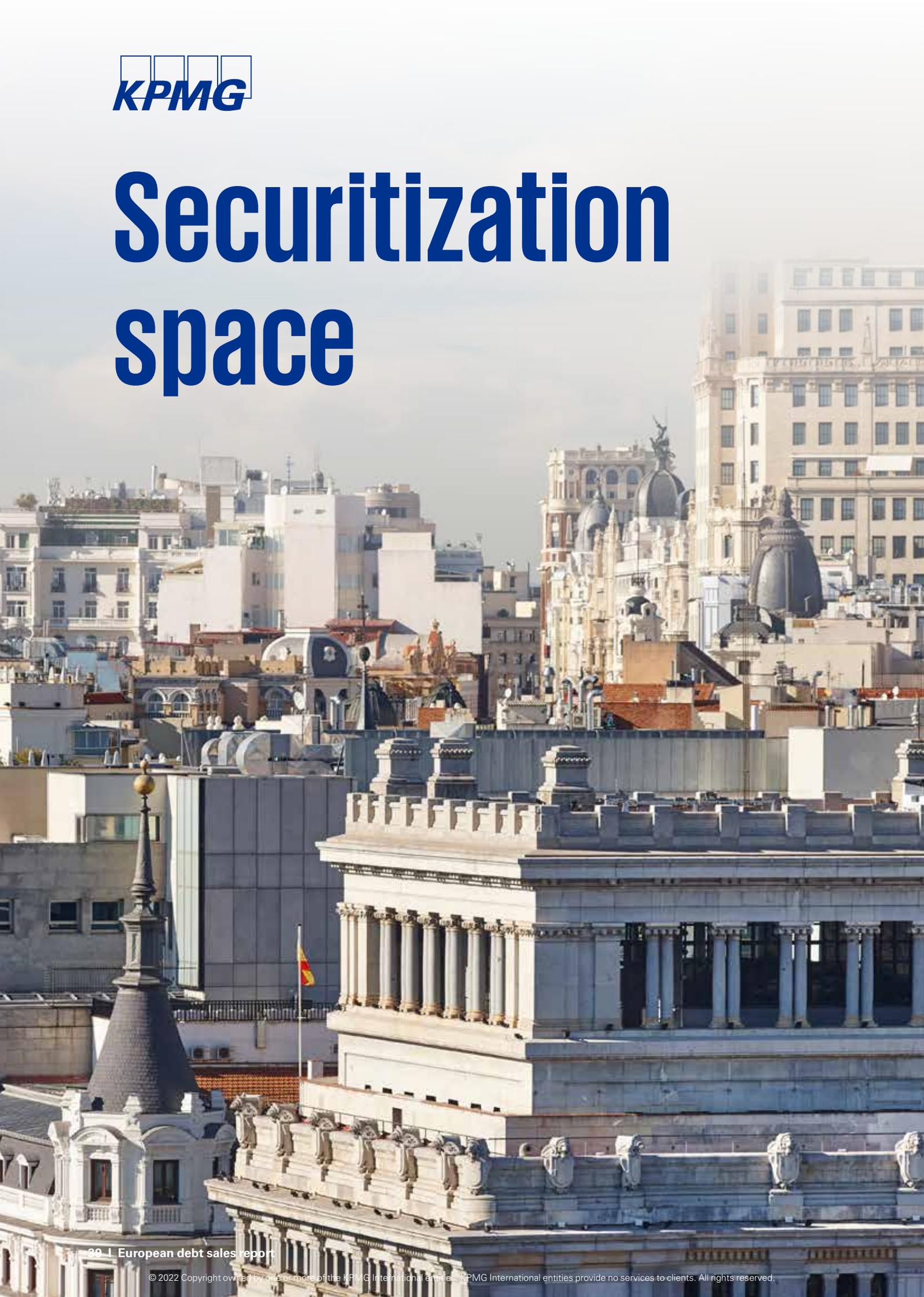
Chart 27: Top buyers deals per countries (EUR billion)^(a)



Note: ^(a) The total GBV acquired by each investor is calculated considering its share in the transaction. When the information is not available, the total GBV of the transaction is divided by the number of buyers
Source: KPMG elaborations



Securitization space

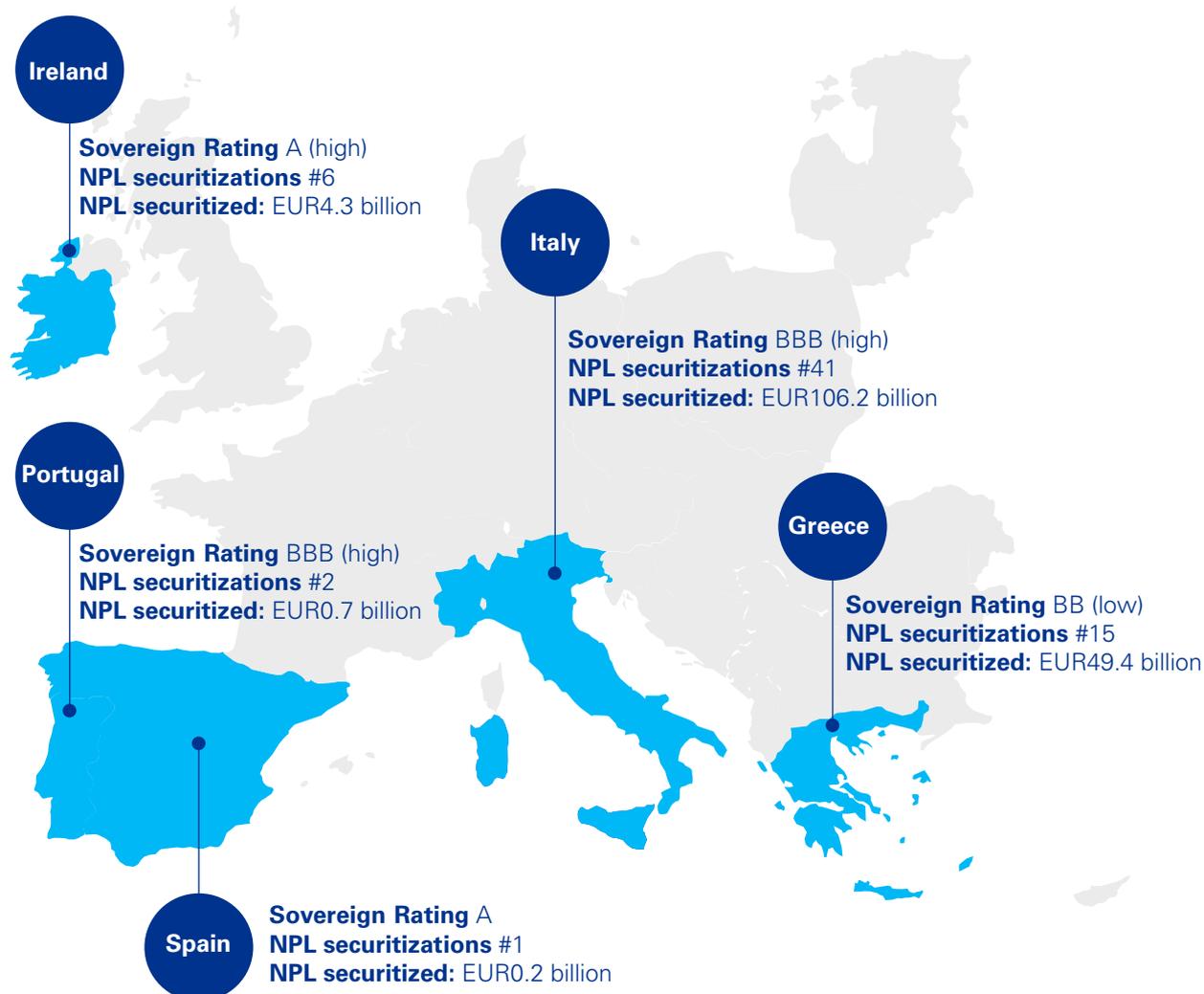


The securitization tool across Europe

NPL securitizations have been the key factor for the successful management of distressed exposures in the EU, as demonstrated by Italy and Greece, while at the same time providing investors with an increasing spectrum of opportunities in the distressed market.

The European securitization market has reached a mature state in Italy and Greece where the asset protection schemes have been widely recognized as a solution to tackle high NPL ratios, while at the same time, providing opportunities for international investors in the local distressed markets. The inherent delays caused by COVID-19 restrictions, such as courts proceedings timing, certainly had a negative impact on securitization performance in the main markets. As the outlook improves, collection ratios from judicial recovery activities are increasing, albeit less than was forecasted. With ongoing recovery from the pandemic anticipated in 2022 and 2023, new NPL flows are expected. This will likely be a result of increased coverage from the regulator on older stocks as well as banks' increased focus on core activities.

Chart 28: NPL securitizations across Europe



The key developments, which recently shaped the European NPL securitization market include:

01

Legal backlog from COVID-19 restrictions is improving with positive impact on performances

European NPL securitizations have reported lower than anticipated collections compared to assumptions made in the initial business plan. Transactions that were linked to consensual repayment terms have been able to recover quicker. Recoveries have also been registered from courts activities and collateral liquidation; however, improvements in performance have been lower than expected.

02

Asset protection schemes are a key factor in NPL management in the aftermath of the pandemic

Several factors are pointing towards a renewed flow of transactions for 2022, including the potential renewal of state-sponsored schemes in Italy and Greece. To date, the impacts of the crisis on the quality of banks' assets have not been as significant as anticipated. This trend is likely to shift as further deterioration in asset quality is expected, and banks will want to prepare and execute strategies to reduce potential risks. Moreover, international investors are ready to deploy their record-level cash reserves toward high yield assets, and have been showing particular attention toward core and emerging markets in the EU.

03

Regulatory pressure for further deleveraging

The current European regulatory framework, which has been further enhanced by the recent action plan to tackle NPLs in the EU, encourages banks to exploit the securitization market for capital relief purposes and significant risk transfer transactions. Doing so will enable banks to optimize their capital structure and benefit from specifically designed schemes which may lower the bid-ask price spread and accelerate NPL reduction plans.

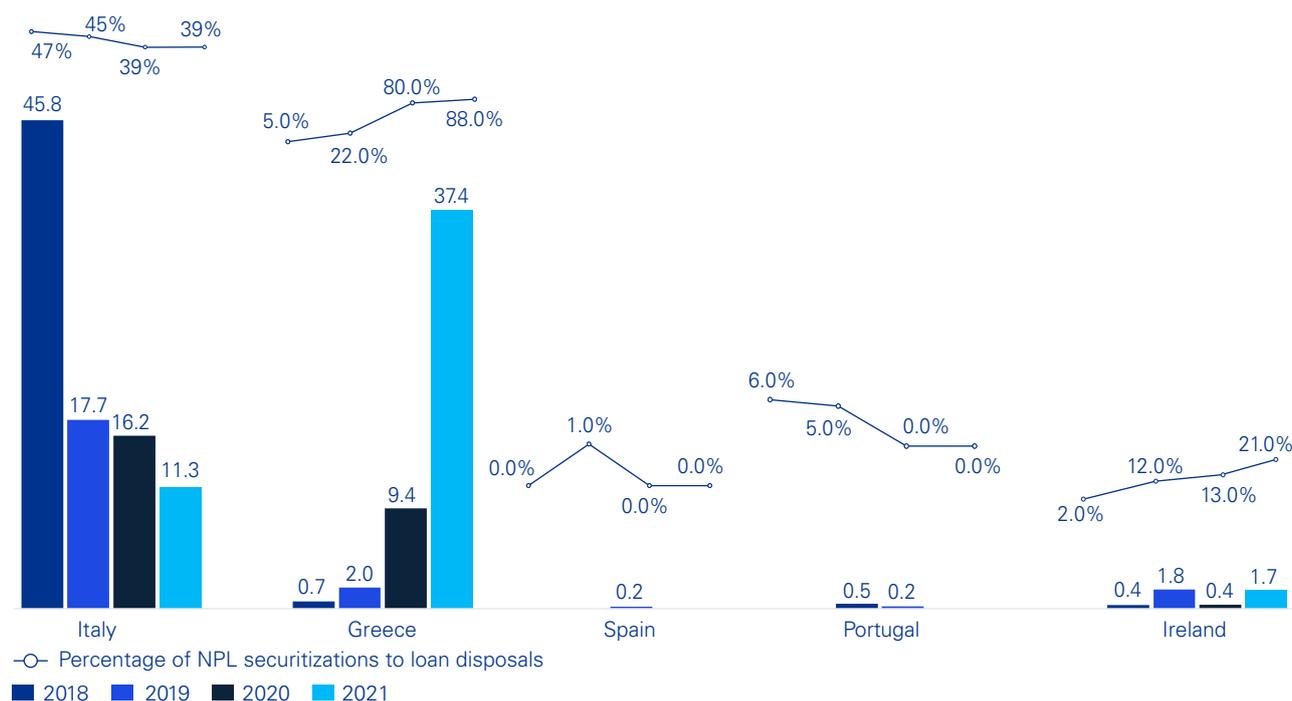


Dario Maria Spoto
Partner
KPMG in Italy

Market trends in the securitization space

NPL securitizations have been the key factor for the successful management of distressed exposures in the EU, as demonstrated by Italy and Greece, while at the same time providing investors with an increasing spectrum of opportunities in the distressed market.

Chart 29: NPL securitizations in Europe (EUR billion, #)



Source: KPMG elaborations

Performance trends in the aftermath of COVID-19

NPL securitizations have been severely impacted across the main markets. A downward trend in performance is being observed across jurisdictions, with the exception of very few deals, and with a registered shift toward amicable workout solutions to offset delays from the legal backlog. Signs of recovery were spotted in early 2022. In Greece, the previous year was a busy one with all four of its big banks involved in securitizations under the HAPS scheme, deleveraging a total of EUR37 billion during 2021. More activity is expected in 2022 now that the HAPS has been extended to October 2022.

Engagement in NPL securitization expected to increase due to recent successes in Italy and Greece.

Spain, Portugal and Ireland have previously registered securitization transactions, but activity has been muted in recent years. We expect this to change as securitization structures will gain traction as NPL volumes increase in the short and medium terms, particularly in Spain and Ireland.



Securitized assets allow investors to build up diversified portfolios exposed to market segments and alternative borrowers, such as SMEs, while providing a high degree of transparency and risk segmentation. Fixed income investors with longer-dated risk profiles also find it a real advantage to invest in securities backed by corporate credit or residential mortgage loans.

European Stability Mechanism,
 Reviving securitization in Europe for CMU,
 July 2021

Market trends in the securitization space

State-sponsored transactions have constituted a considerable portion of European NPL securitizations.

Since the launch of GACS in Italy in 2016 and the HAPS Law in Greece in 2019, the majority of transactions in the two countries have been backed by state guarantee on senior notes issued by the SPV. This has reduced NPLs by banks while also decreasing the bid-ask price spread, which has limited losses by Italian and Greek banks.

To benefit from state guarantees, underlying portfolios must have specific characteristics.

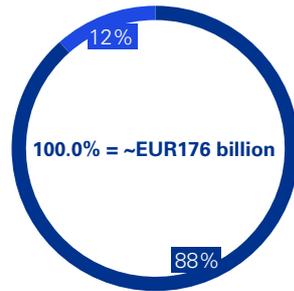
Transactions backed by HAPS and GACS are typically characterized by a predefined structure that consists of some stability of cash flows and relatively granular loan collateral. Such features will ensure the transactions are eligible for state protection and have an appropriate risk profile. To test the adequacy of capital structure as well as the asset and liability side cash flows of the transaction, rating agencies will run stress scenarios in addition to the estimated base case.

Large institutional investors continue to find value in the European NPL market.

The active European NPL market continues to offer opportunities for M&A, joint ventures and other partnerships. International investors are acquiring controlling stakes in major players of the servicing market by bringing further consolidation, growth and expertise. Banks transferred significant amounts of AuM to major servicers that acted as third-party investors alongside primary investment funds.

Chart 30: Breakdown by state-sponsored NPL securitizations or other NPL securitizations in 2016–2021 (percentage of GBV)

Other NPL securitizations: ~EUR20 billion

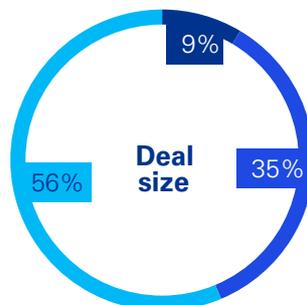


GACS and HAPS: ~EUR156 billion

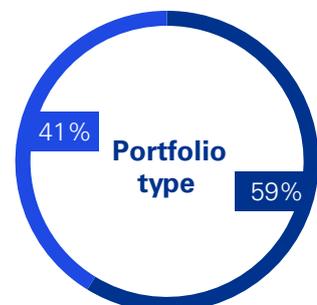
- State-sponsored transactions (GACS and HAPS)
- Other

Source: KPMG elaborations

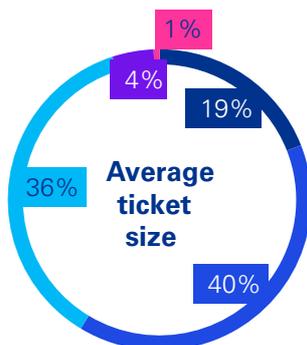
Chart 31: Portfolio composition of GACS and HAPS transactions (percentage of GBV)



- <EUR1 bn
- EUR1 – 5 bn
- >EUR5 bn



- Secured
- Unsecured



- Lower than EUR100 k
- EUR100 – 300 k
- EUR300 k – 1 M
- EUR1 – 5 M
- Undisclosed

Source: KPMG elaborations

State-sponsored transactions: Italy and Greece

Italy has the highest number of NPL securitization transactions in Europe.

Since the introduction of GACS, 41 deals have been completed from 2016 to 2021 for a total of EUR106 billion. The GACS scheme enabled several Italian banks to implement large and continuous divestments, helping them to achieve significant benefits in terms of capital relief and move closer to their respective NPL ratio targets.

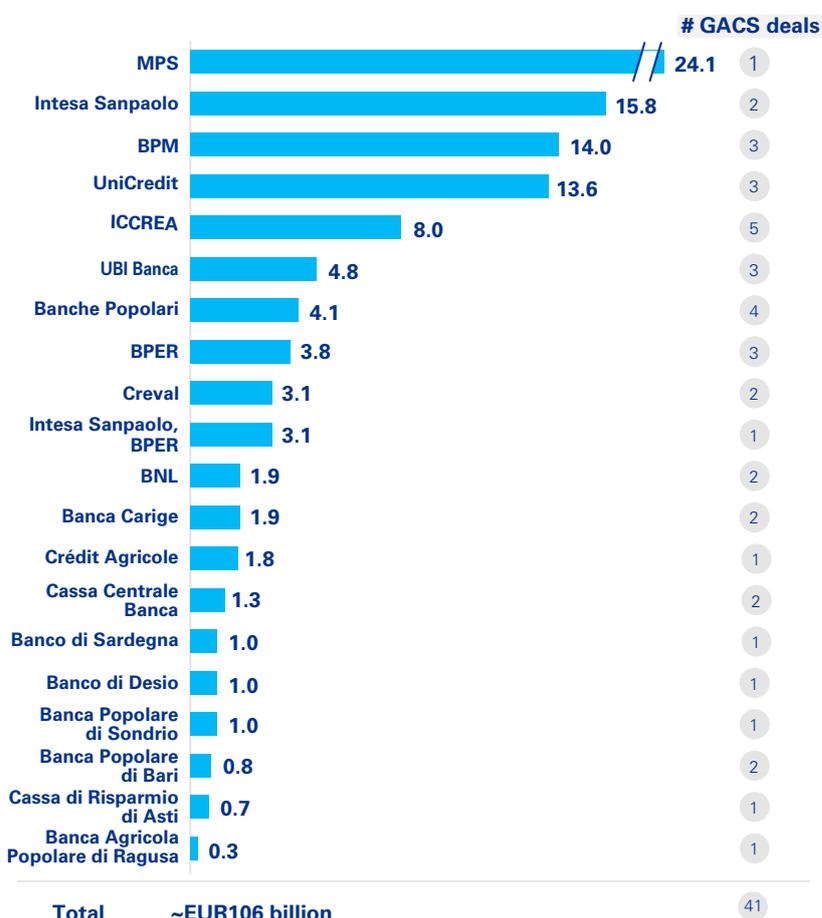
The GACS scheme is implemented in a range of Italian NPL securitization transactions.

Through the implementation of multi-originator transactions, where significant synergies are generated in terms of pricing and risk diversification through economies of scale, the GACS scheme has facilitated the reduction of NPLs for small and medium-sized Italian popular and cooperative banks. GACS has also found application in NPL securitizations for underlying portfolios of leasing contracts.

The Greek NPL securitization market is likely to continue in its deleveraging efforts.

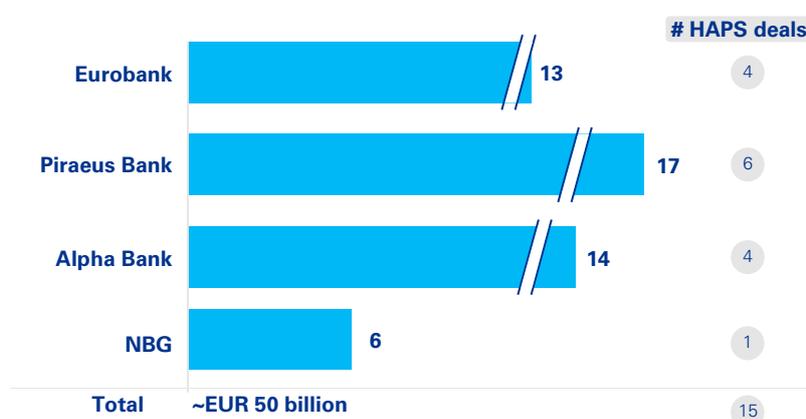
The Greek state guarantee, HAPS, which was modeled on the GACS scheme, has been the primary instrument to accelerate deleveraging strategies by Greek banks in 2021. Looking ahead to 2022, a pipeline of further portfolio sales is expected.

Chart 32: GACS originators in Italy (EUR billion)



Source and notes to the charts 30–32: Prequin data (vintage 2009–2018) and related glossary, KPMG elaborations

Chart 33: HAPS transactions in Greece

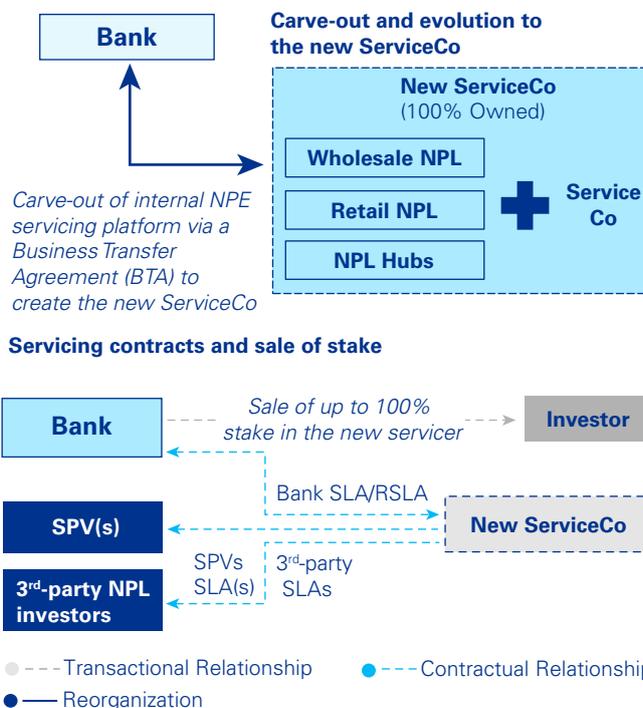


Source: KPMG elaborations

Non-core deleveraging structures — Case studies

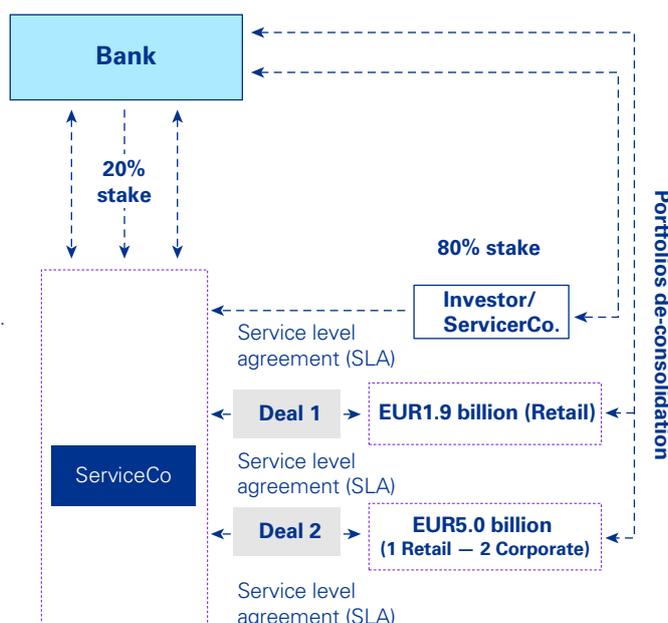
Example 1

Serviced perimeter	The bank transfers its current internal NPE servicing platform as an ongoing concern through a Business Transfer Agreement.
Contract duration	Initial term of 10 years.
Shareholder structure	Investor acquires up to 100 percent of the shares of the new ServiceCo from the Bank.
Other	<p>New ServiceCo and the Bank will enter into a Reverse Service Level Agreement ("RSLA") under which the Bank provides services to the New ServiceCo, supporting the servicing of the core portfolio (e.g., credit operations support, IT support).</p> <p>New ServiceCo maintains the servicing of third-party NPL assets currently managed by the ServiceCo via their respective SLAs.</p>



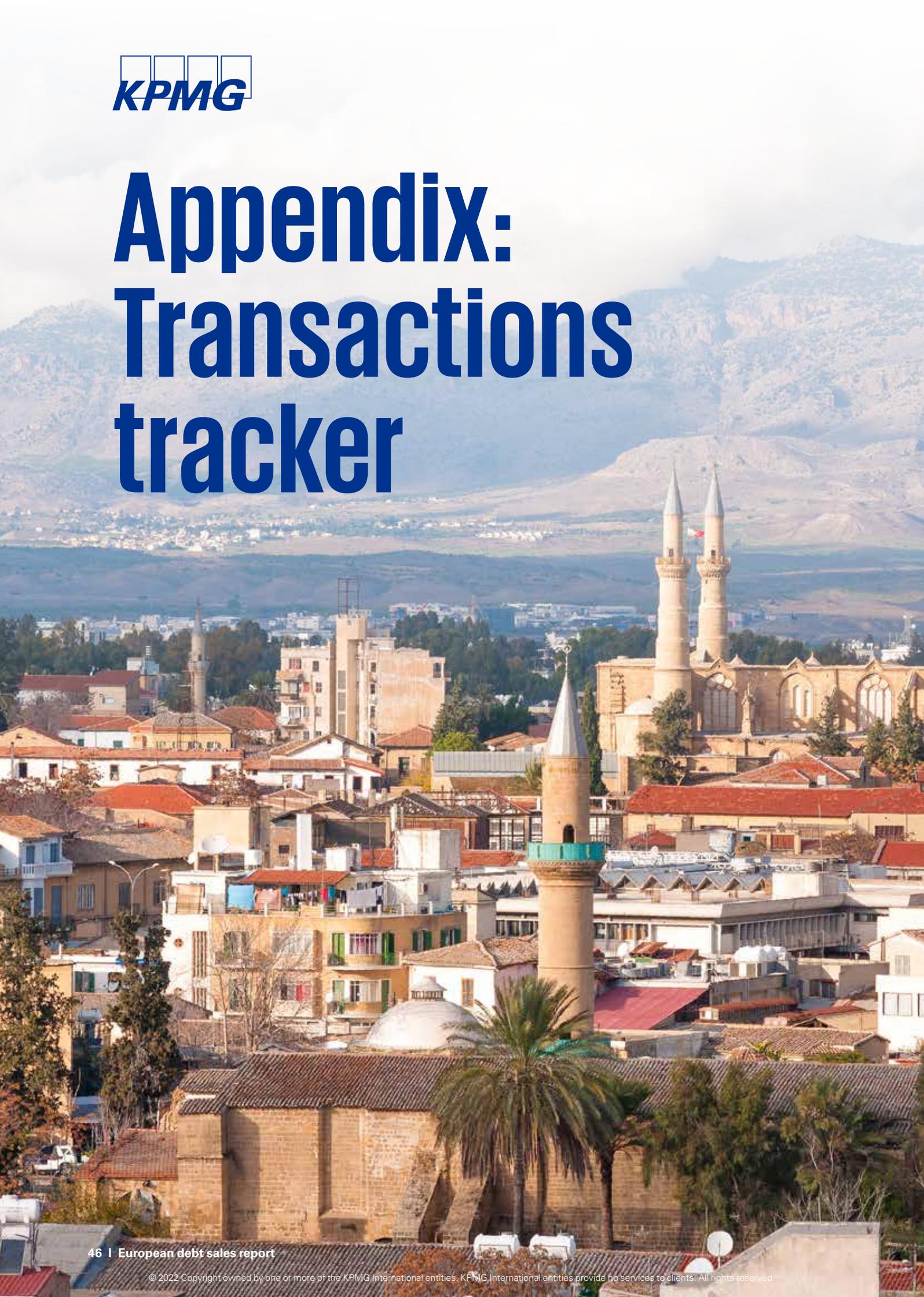
Example 2

Serviced perimeter	<p>Total servicing perimeter: EUR6.9 billion</p> <p>Deal 1: EUR1.9 billion (Retail)</p> <p>Deal 2: EUR5.0 billion (1 Retail and 2 Corporate)</p>
Contract duration	Initial term of 10 years.
Shareholder structure	Eighty percent of the new ServiceCo will be held by the Investor and 20 percent by the Bank.
Other	The Bank after the SLA with the investor, has completed two securitizations. In particular, one portfolio was securitized through three different special purpose vehicles to provide flexibility: one retail and two corporate.



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Appendix: Transactions tracker



List of closed and ongoing European PL/NPL transactions

Italy

Closed transactions: 2021

Year	Vendor	Project	Type	Buyer	GBV (EUR million)
2021	UniCredit	NA	Unsecured	KRUK, MBCredit Solutions	222
2021	Luzzatti banks	Luzzatti POP NPLs 2021	Secured (53.7%)	NA	790
2021	Crédit Agricole Italia	Stelvio	GACS securitization	Ortles 21 Srl	1,834
2021	Credito Fondiario	Palatino SPV	GACS securitization	NA	865
2021	Cassa Centrale	Buonconsiglio 4	GACS securitization	Buonconsiglio 4 Srl	578
2021	Intesa Sanpaolo, BPER	Skywalker	GACS securitization	Grogu Spv Srl	3,100
2021	Iccrea Group, Banca Ifis, Guber Banca, Cassa di Risparmio di Asti	BCC NPLs 2021	GACS securitization, secured (58%) and unsecured	BCC NPLs	1,312
2021	Cerberus	Adige	Unsecured	Banca Ifis	2,800
2021	DE Shaw	NA	Secured and unsecured	Illimity	350
2021	Intesa Sanpaolo	NA	Unsecured	KRUK, MBCredit Solutions	2,600
2021	Intesa Sanpaolo	Portland	Real estate leases	Intrum, Deva Capital	1,100
2021	Intesa Sanpaolo	Kenobi	Secured corporate and SME	Intrum, Deva Capital	610
2021	Intesa Sanpaolo, BPER	Mandalorian	Unsecured consumer	Intrum	225
2021	York Capital	Grey	Unsecured	Hoist Finance	400
2021	Banco BPM	Aurelia SPV	GACS — Mixed secured and unsecured (securitization)	Credito Fondiario	1,500
2021	UniCredit	NA	Unsecured	KRUK	304
2021	BPER	Winter	Secured	Intrum, Deva Capital	248
2021	UniCredit	NA	Mixed secured and unsecured	Olympia Spv Srl	2,200
2021	Iccrea	NA	Mainly secured	AMCO	264

Italy (Cont.)

Closed transactions: 2021	Year	Vendor	Project	Type	Buyer	GBV (EUR million)
	2021	Banca Ifis	NA	Mixed secured and unsecured	NA	1,300
	2021	Arrow	NA	Unsecured	NA	1,000
	2021	Italo Sicav	NA	Unsecured	ISCw	483
	2021	18 banche piccole e medie e 4 intermediari	NA	NA	Value Italy Credit (Value Italy sgr)	361
	2021	BNP Paribas	NA	NA	Comway SPV	357
	2021	Illimity, UBS	NA	Mainly secured	Aporti Srl	356
	2021	Findomestic Banca	NA	Unsecured	Banca Ifis	254
	2021	Illimity	NA	Mixed secured and unsecured	NA	231
	2021	Iccrea Banca, Banca Sviluppo altre BCC gruppo Iccrea	NA	Secured	AMCO	222

Ongoing transactions: 2021	Year	Vendor	Project	Type	Buyer	GBV (EUR million)
	Ongoing	Iccrea	NA	Mixed secured and unsecured	NA	700
	Ongoing	MPS	NA	Mixed secured and unsecured	NA	4,500
	Ongoing	Banco BPM	NA	NA	NA	650
	Ongoing	Gruppo CCB	NA	Mixed secured and unsecured	NA	700
	Ongoing	Intesa Sanpaolo	Leila	GACS	Organa SPV	8,500
	Ongoing	Intesa Sanpaolo	Jedi & Jawa	Leasing	NA	2,100
	Ongoing	AMCO, Intesa Sanpaolo e Prelios sgr	NA	UTP Secured	NA	1,000
Other transactions with deal value < EUR200 M						1,641

Netherlands

Closed transactions: 2021	Year	Vendor	Project	Type	Buyer	GBV (EUR million)
	2021	a.s.r	NA	Mortgages	Achmea Bank	500
	2021	Fingus (DSB)	NA	Mortgages and unsecured loans	NIBC	1,500

Spain

	Year	Vendor	Project	Type	Buyer	GBV (EUR million)
Closed transactions: 2021	2021	Santander	Talos	Secured	Marathon	600
	2021	Santander	Bramall Lane	Unsecured	Axactor	459
	2021	CaixaBank	MoMa	Mortgages	KKR	576
	2021	CaixaBank	Pompidou	Unsecured	Cabot (SME), Hoist (consumer)	400
	2021	Cajamar	Jaguar	Residential	Cerberus	500
	2021	Sareb	NA	Developer loans	Procobro	1,600
	2021	Chenavari	Wave and Zenith	Secured and REO — Residential, commercial and development (secondary)	Metric Capital with Albatris	700
	2021	BBVA	Dakar	Mixed secured and unsecured	KKR	700
Ongoing transactions: 2021	Ongoing	BBVA	Minolta	Secured	NA	500
	Ongoing	Santander	Titan	SME	NA	600
	Ongoing	CaixaBank	Guggenheim	Corporate and SME	NA	500
	Ongoing	BBVA	NA	Mixed secured and unsecured	NA	1,000

Ireland

	Year	Vendor	Project	Type	Buyer	GBV (EUR million)
Closed transactions: 2021	2021	Bank of Ireland	Mulcair Securities No. 2	Residential	NA	339
	2021	Goldman Sachs	Toucan	Residential	Balbec Capital	450
	2021	Allied Irish Banks (AIB Group)	Oak	Secured — Residential	Apollo	1,000
	2021	Allied Irish Banks (AIB Group)	Iris	Secured — Residential	Home Solutions Initiative	150
Ongoing transactions: 2021	2021	Irish financial services company	NA	Secured — Residential	Morgan Stanley	390
	2021	KBC	NA	Residential	CarVal	1,100
	2021	KBC	NA	Secured — Residential	Bank of Ireland	9,200
	2021	Allied Irish Banks (AIB Group)	Bay	Secured — Residential	Mars Capital Finance Ireland, Ellington Management	400
	2021	NatWest	NA	Residential, SME & Asset Finance	Irish financial services company	7,600
	2021	NatWest	NA	Secured — Corporate & CRE	AIB	4,200
	2021	NatWest	NA	Secured — Residential	AIB	5,700

Closed transactions: 2021

Year	Vendor	Project	Type	Buyer	GBV (EUR million)
2021	AIB Group	NA	NA	Allica Bank	684
2021	NatWest	Mercatus	Secured — CRE	Attestor, Octane, Ellandi	456
2021	Just Group	NA	Equity release	Phoenix Group	342
2021	Santander	Blitzen	High LTV mortgage securitization	NA	650
2021	Just Group	NA	Lifetime mortgages	Rothsay Life	290
2021	Barclays	Barclays Asset Finance	Secured	Pan European Asset Co and HPS Investment Partners	1,312

Ongoing transactions: 2021

Ongoing	UKAR	Jupiter	Secured — Residential	Davidson Kempner and PIMCO	5,704
Ongoing	NatWest	NA	Secured — CRE	NA	627

Greece

Closed transactions: 2021					
Year	Vendor	Project	Type	Buyer	GBV (EUR million)
2021	Alpha Bank	Orbit	Unsecured	Hoist Finance	1,200
2021	Piraeus Bank	Sunrise II	HAPS securitization	Intrum, Serengeti	2,700
2021	Alpha Bank	Cosmos	HAPS securitization	Davidson Kempner	3,400
2021	National Bank of Greece	Frontier	HAPS — Secured (securitization)	Bain, Fortress, doValue	6,000
2021	Eurobank Ergasias	Mexico	HAPS — Secured (securitization)	doValue	5,150
2021	Piraeus Bank	Sunrise I	HAPS securitization	Intrum, Serengeti	7,200
2021	Attica Bank	Omega	Securitization — HAPS	Ellington	1,300
2021	Piraeus Bank	Vega	HAPS — Secured (securitization)	Intrum	4,859
2021	Alpha Bank	Galaxy	HAPS (securitization)	Davidson Kempner	10,767
Ongoing transactions: 2021					
Ongoing	Piraeus Bank	Astir	Corporate	NA	340
Ongoing	Piraeus Bank	Libra Group loans	Secured	Castlelake, Davidson Kempner	500

Cyprus

Ongoing transactions: 2021					
Year	Vendor	Project	Type	Buyer	GBV (EUR million)
Ongoing	Bank of Cyprus	Helix 3	Secured	PIMCO	698
Ongoing	Hellenic Bank	Starlight	Secured	NA	1,371
Ongoing	Alpha Bank	Sky	Secured	NA	2,400

Portugal

Closed transactions: 2021

Year	Vendor	Project	Type	Buyer	GBV (EUR million)
2021	Novo Banco	Wilkinson	Single names	Davidson Kempner	220
2021	Millennium BCP	Row	Unsecured	EOS	155
2021	BPI	Lord II	Single names	Davidson Kempner	130
2021	Bain	Mayfair	Single names	Orthogon	130
2021	Novo Banco	Carter	Single names	NA	79
2021	Millennium BCP	Lucia	Mixed	LX Partners	90
2021	Banco BPI	Lime	Unsecured	LX Partners	300
2021	Millennium BCP	Ellis	Secured CRE	Davidson Kempner	270
2021	Millennium BCP	Webb	Mixed	Arrow and CRC	265

Ongoing transactions: 2021

Closed in 2022	Santander	Pool XVII and XVIII	Secured and Unsecured	EOS	120
Closed in 2022	EuroBic	Robin	Unsecured	LX Partners	90
Closed in 2022	Bankinter	Laser	Mixed	LCM Partners	150
Closed in 2022	Montepio Geral	Gerês	Mixed	Tilden Park / Lx Partners	255
Closed in 2022	Novo Banco	Orion	Mixed	CPPIB / LX Partners	230
Closed in 2022	Caixa Geral Depósitos	Mercury	Mixed	CRC/Arrow	85
Closed in 2022	BPI	Citron	Mixed	LX Partners	145
Ongoing	Montepio Geral	Alvito	Unsecured	NA	130
Ongoing	NA	Crow	REOs/Single names	NA	1,500
Ongoing	NA	Park	Unsecured	NA	80
Ongoing	Montepio Geral	Alqueva	Secured	NA	140
Ongoing	NA	Maria	Secured	NA	95
Ongoing	Undisclosed	Aurora	Mixed	NA	80
Ongoing	Novo Banco	Phoenix	Mixed	NA	182
Ongoing	Novo Banco	Minerva	REOs	NA	140
Ongoing	Banco Santander	Guadiana	REOs	NA	120

France

	Year	Vendor	Project	Type	Buyer	GBV (EUR million)
Closed transactions: 2021	2021	Société Générale	Orsay	Secured - CRE	Confidential	200
	2021	Confidential	NA	Auto, unsecured	Confidential	30
	2021	BPCE	NA	Secured - CRE	Confidential	100
	2021	Major French Investor & Servicer (Confidential)	NA	Unsecured	Confidential	800
	2021	Crédit Logement	House	Residential	Confidential	160
Ongoing transactions: 2021	2021	Crédit Immobilier de France	NA	Residential	NA	150

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