

A close-up photograph of a hand with a pink manicure pointing at a tablet. The tablet screen displays various financial charts, including a donut chart in the foreground and a line chart in the background. The background is dark, and the lighting is focused on the hand and the tablet.

# NPEs: Market perspective - Investors' view and support measures

June 2021

# In Q1 21, most banks have a level of Cost of Risk below their 2019 level (average CoR in 2019 was 38bp)

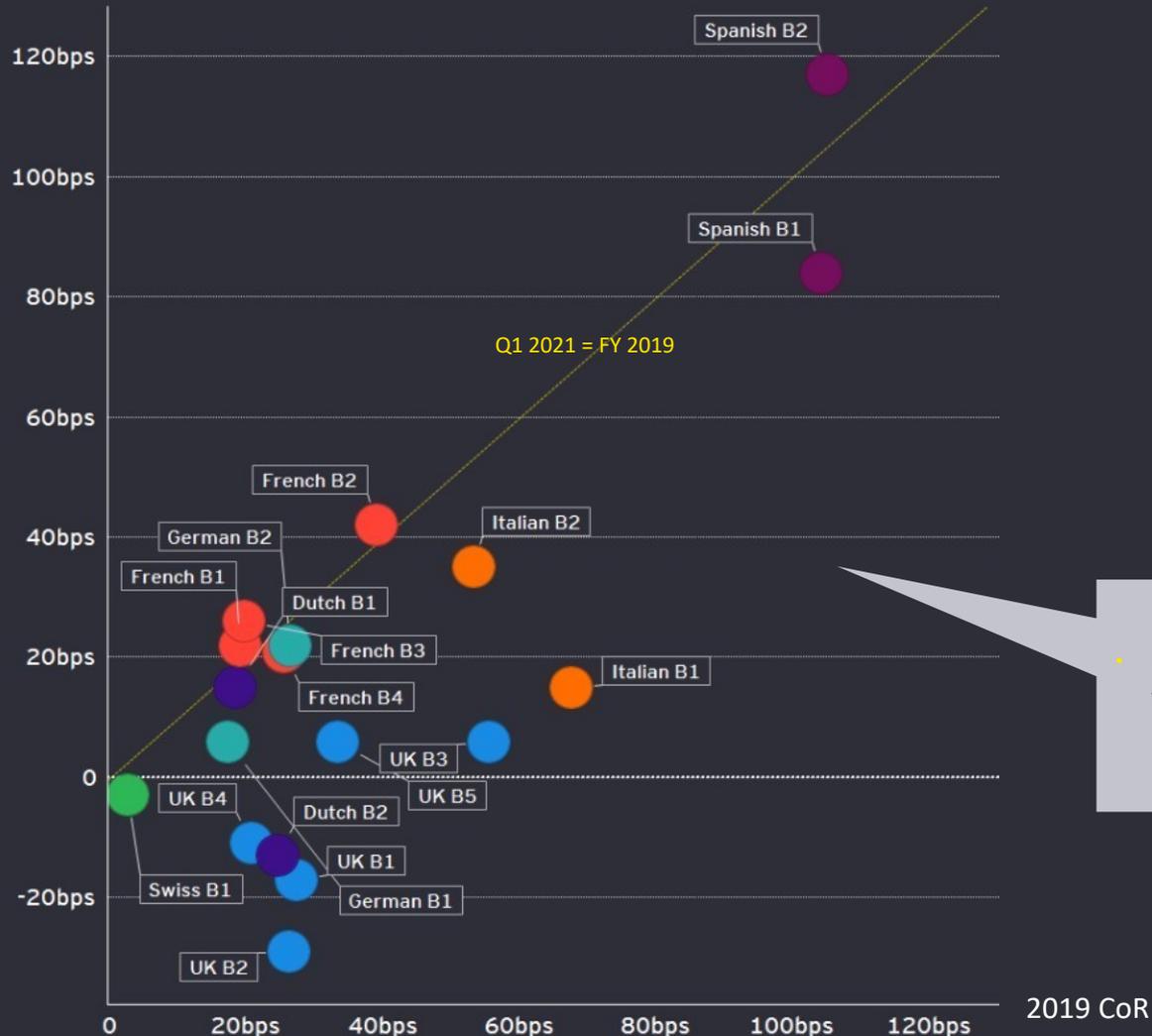
Cost of Risk ratio (bps) = Q1 2021 ECL compared to 2019 CoR

Q1 2021 CoR  
(annualized = x4)

Spain and France are close to 2019 levels

UK banks show a negative or almost nil CoR

Half of the banks are close to their 2019 CoR level, while five banks show a release



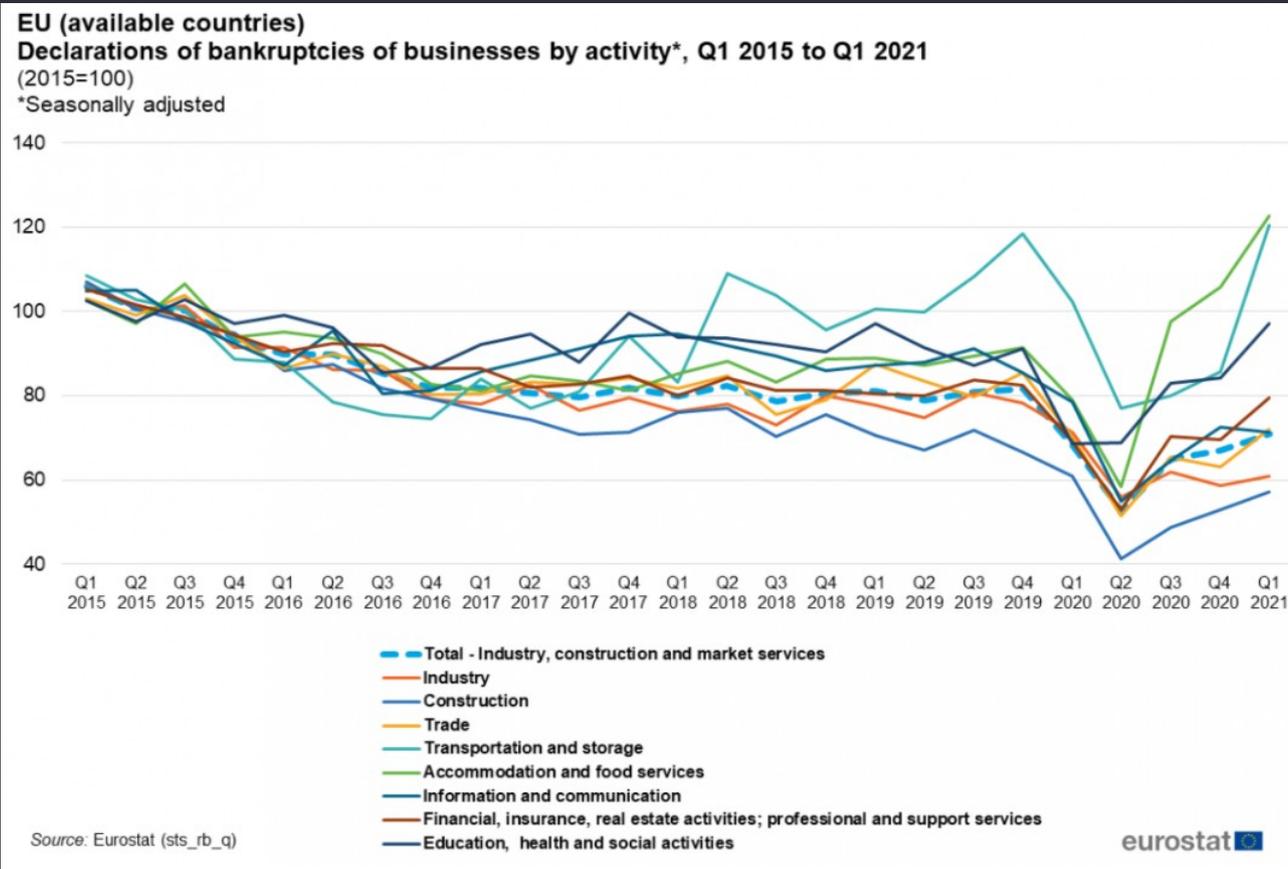
# European NPE Market Analysis – 1Q'21

Bank	Country	NPL Expected Inflows	Cost of Risk
Bank 1	Spain	Stable	Lower
Bank 2	Spain	Higher	Lower
Bank 3	Spain	Higher	Lower
Bank 4	UK	Lower	Lower
Bank 5	UK	Lower	Lower
Bank 6	UK	Stable	Lower
Bank 7	Italy	Lower	Lower
Bank 8	Italy	Lower	Lower
Bank 9	Italy	Stable	Lower
Bank 10	France	Stable	Lower
Bank 11	France	Stable	Lower
Bank 12	France	Lower	Lower
Bank 13	Germany	Lower	Lower
Bank 14	Germany	Lower	Lower
Bank 15	Ireland	Stable	n.a.
Bank 17	Netherlands	Lower	Lower
Bank 18	Netherlands	Lower	Lower
Bank 19	Austria	Lower	Lower
Bank 20	Nordics	Higher	Higher

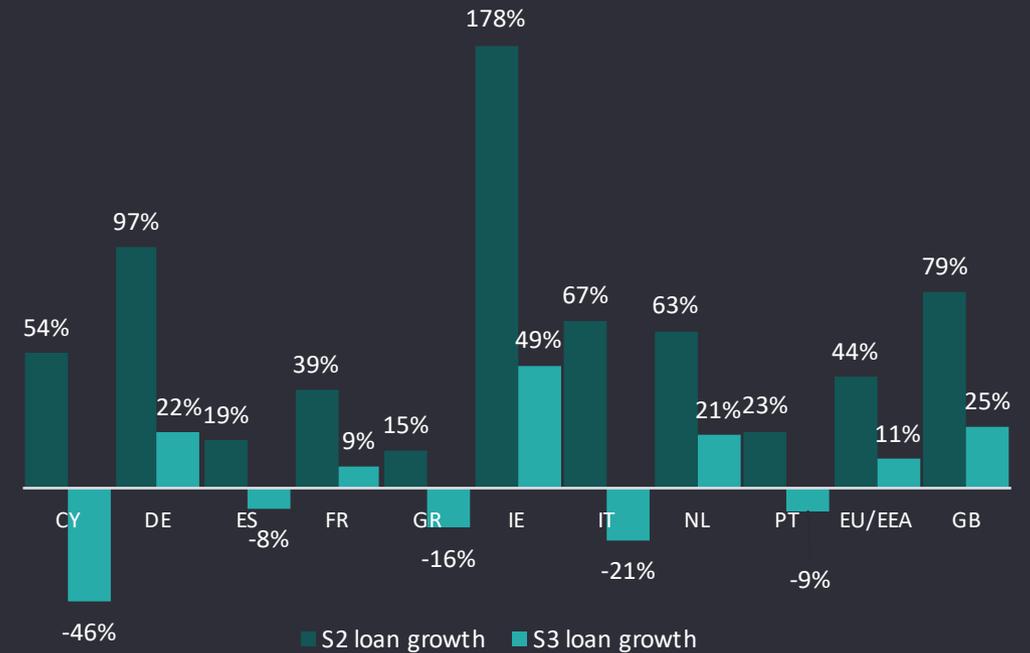
- Most European banks have lowered their expectations of NPL formation in the short time.
- Some banks reported lower NPL ratios during Q1 21, but others saw NPLs as largely stable and a few banks saw NPL ratios increase
- Almost all the 20 banks experienced slightly lower costs of risk during Q1 2021 thanks to the enhanced economic outlook

# Bankruptcies trend and portfolios migration to Stage 2 and Stage 3

## Declaration of Bankruptcies Q1 15 – Q1 21

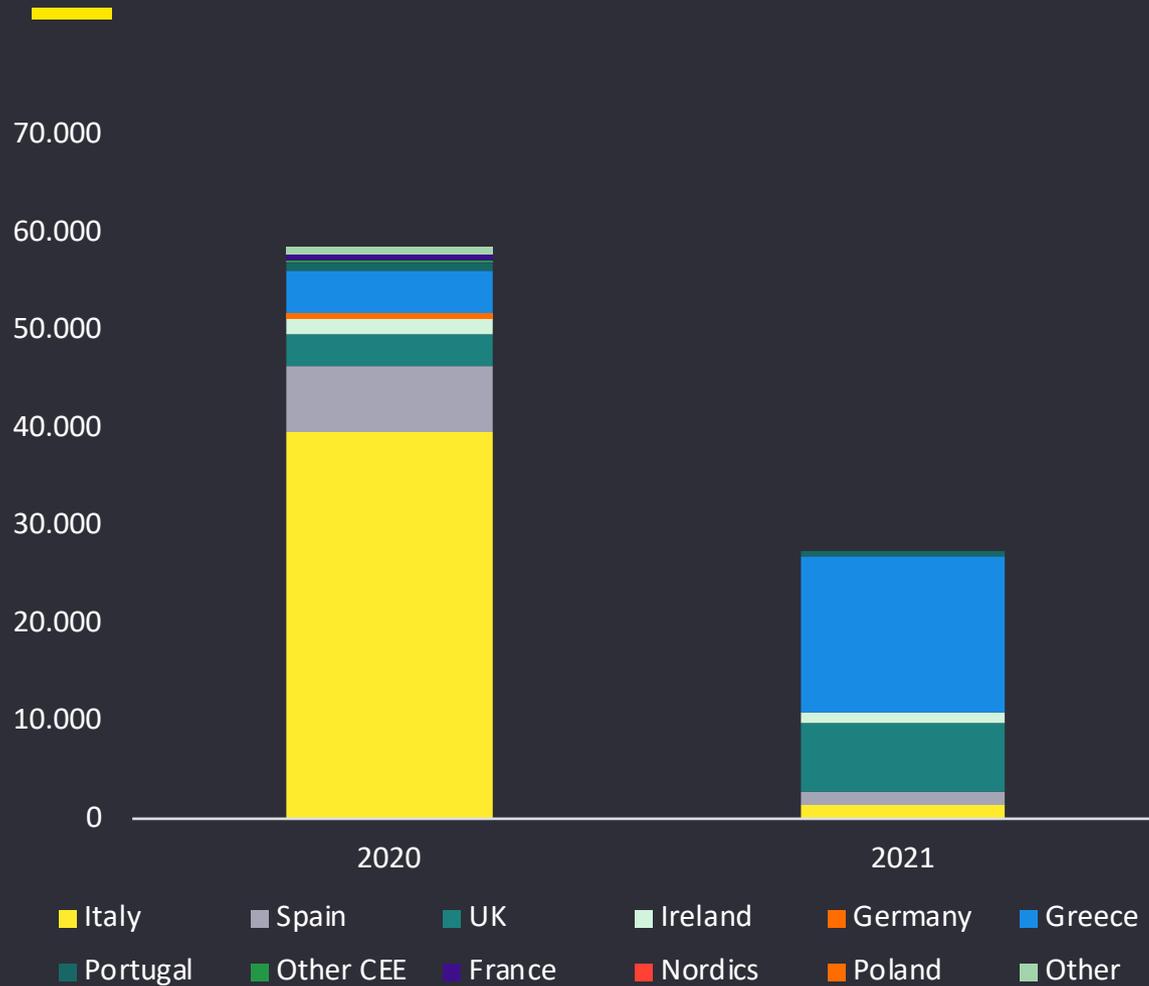


## Stage 2 & 3 loans YoY growth (4Q20 vs 4Q19)

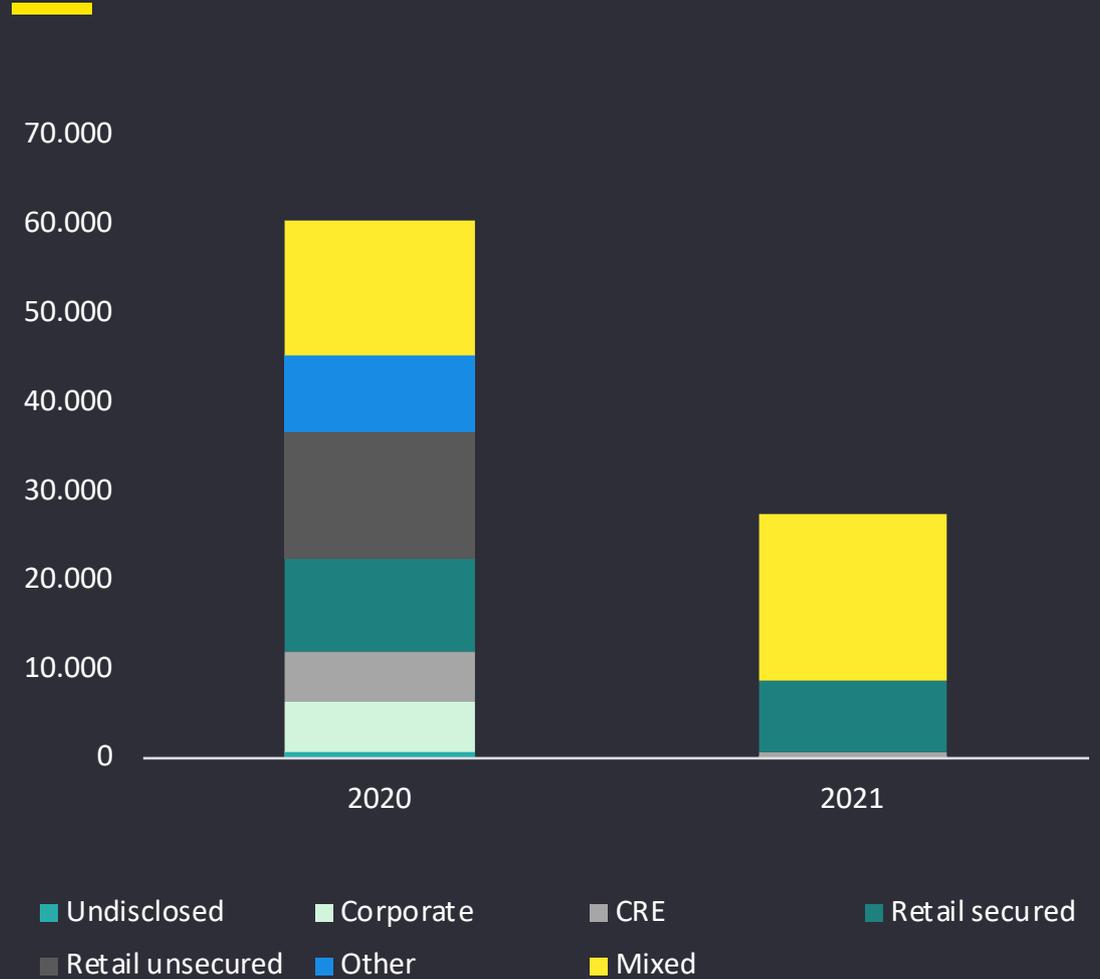


# Recent NPL activity

## NPL transaction volumes in Europe by region (€bn)



## NPL transaction volumes in Europe by asset class (€bn)



# Market environment & Investors' positioning

## 1. NPE Opportunity

- **Broader European opportunity**, rather than Southern Europe only
- **Sector focused:** Leisure, Hospitality, Retail, Office space.
- **Different type of borrowers:** SMEs, rather than commercial real estate backed loans
- **Speed:** cycle will be faster because of depth of market and tools available as well as regulatory stance (i.e. calendar provisioning).

## 3. Opportunity size

- **NPE market:** €1Tn. +. In addition, NPL that were transacted did not disappear, leading to more vibrant secondary market.
- **Non-core assets:** €1Tn
- **Probably 2Tn of Stage 2 loans** being reviewed...
- **Leading to flows:** €80-150bn flows not considering secondary markets.

## 2. Opportunity themes

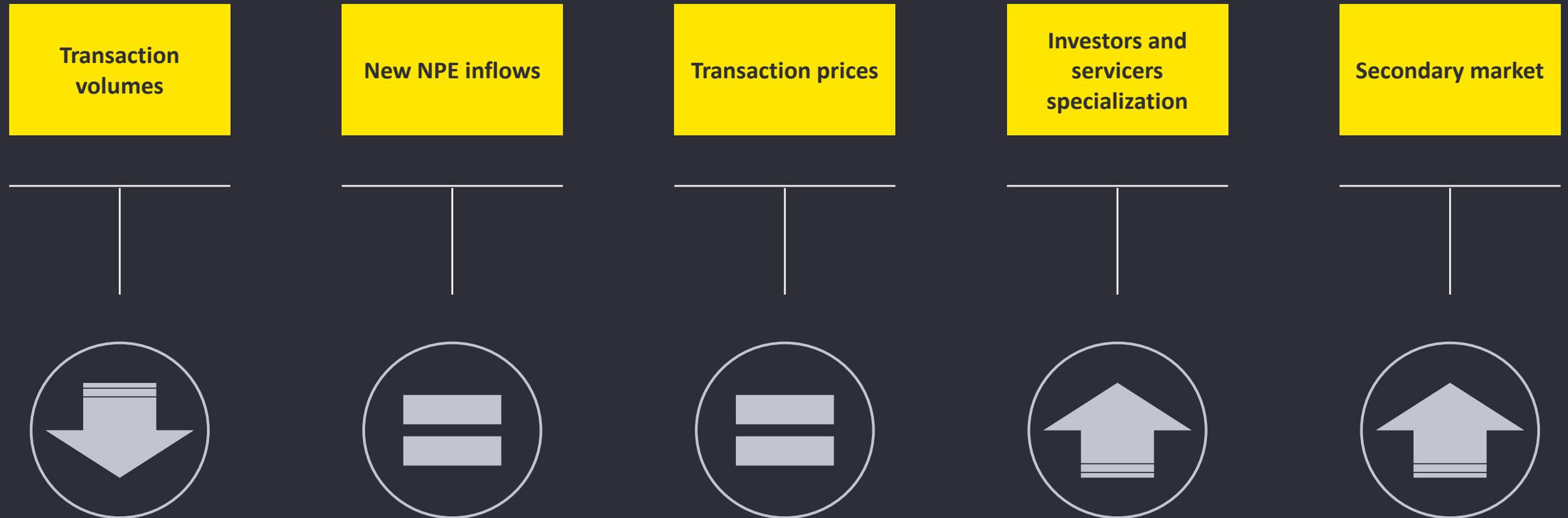
- **NPL new flows** (it is probably a '22-'23 opportunity, when banks gain better visibility of lasting impact on borrowers). *Consensus is that 20-30% of what is now under moratoria will deteriorate.*
- **Preexisting NPL stock** (€500bn)
- **Non-core assets disposals** – i.e. financing, balance sheet businesses no longer core (i.e. Basle IV pushing banks away from commercial real estate financing, also ESG mentioned as rationale to reassess portfolio of businesses)
- **Stage 2/reperforming loans opportunity** – which requires more structured solutions

## 4. Investors country appetite\*

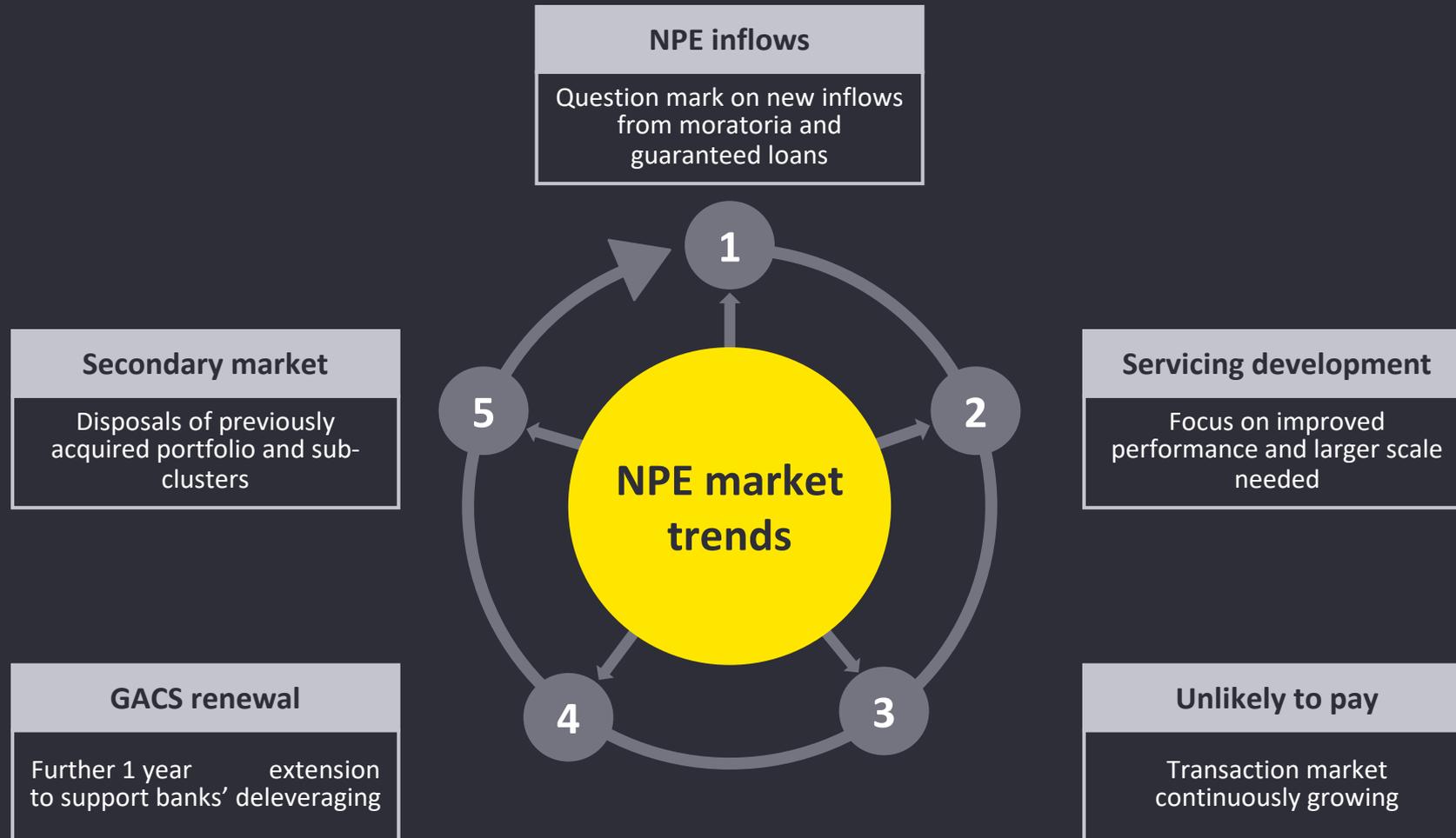
- **Italy**, domestic players remain active and secondary market growth
- **Spain**, for some investors, less attractive since 2019, seen as overbought too expensive
- **Greece** very interested but complex
- **UK** first signs of deleveraging (mentioned as a key market)
- **Germany**, remains big question, as volume large but banks still not selling
- **France**, if market is finally unlocked
- **Cyprus** (even if small) and CEE Countries

# What are we currently seeing in the Italian NPEs market?

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# Which trends could shape the market going forward?



# Are you prepared?

We see the threats and opportunities facing banks across a number of areas which all have significant ramifications for reputational, financial and operational resilience. To implement their NPE strategies, banks will need a range of core capabilities. We have grouped these into five complementary and connected areas:



## 1. Customer relationships

- ▶ Understanding changing customer needs, communicating clearly and providing enhanced digital experiences where possible.
- ▶ Optimising collections while ensuring fair customer treatment and avoiding harm.



## 2. Portfolio management

- ▶ Building robust management reporting frameworks that timely triage loans into categories ready for new money commitment/support, restructuring, work out or disposal.
- ▶ That includes applying reliefs, monitoring eligibility and affordability in real time, identifying covenant breaches and preparing for NPL disposals.



## 3. Stress testing and provisioning

- ▶ Analysing the impact of macro and micro indicators on creditworthiness.
- ▶ Modelling economic scenarios, calculating expected credit losses under IFRS9 and calibrating asset write-downs and impairment charges.



## 4. Operations

- ▶ Preparing people, processes and technology for new conditions and higher workloads.
- ▶ That includes mobilising and training scaled-up teams, implementing automation where possible, adjusting workforce KPIs, partnering with third-party servicers.



## 5. Transforming collection and recovery

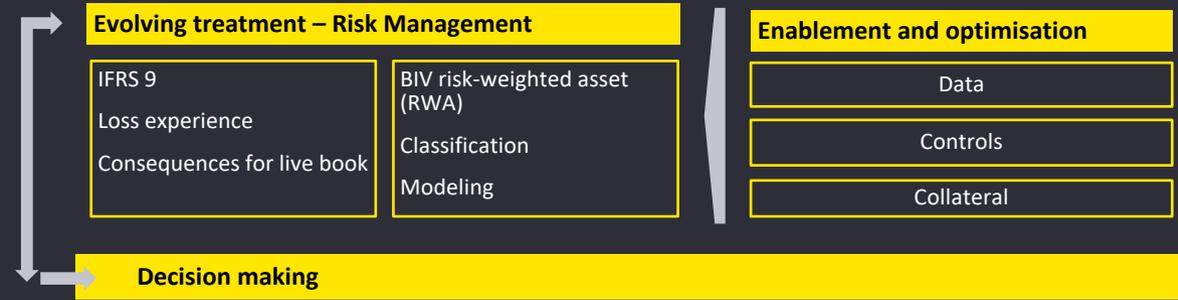
- ▶ Using digital technology to transform the efficiency of collections and recoveries.
- ▶ That might involve using decision support to ensure consistent treatment or warning customers with digital EWIs. New technology can be integrated into legacy systems or banks can opt to implement clean end-to-end platforms.

# Developing Loan Portfolio Review & NPE Strategy



## Description and market context

- The current environment demand new solutions to new challenges
- In addition to adapting credit risk management procedures, stakeholders are required to plan/re-fresh their work-out/sales strategy.
- An ambitious NPL strategy, requires taking into account the various aspects associated with NPLs in terms of governance, risk management, forbearance, provisioning, as well as appropriate data and collateral valuation.



### A. Strategy

- ▶ Financial
- ▶ Conduct
- ▶ Operational
- ▶ Capital

### B. Addressable book & internal solutions

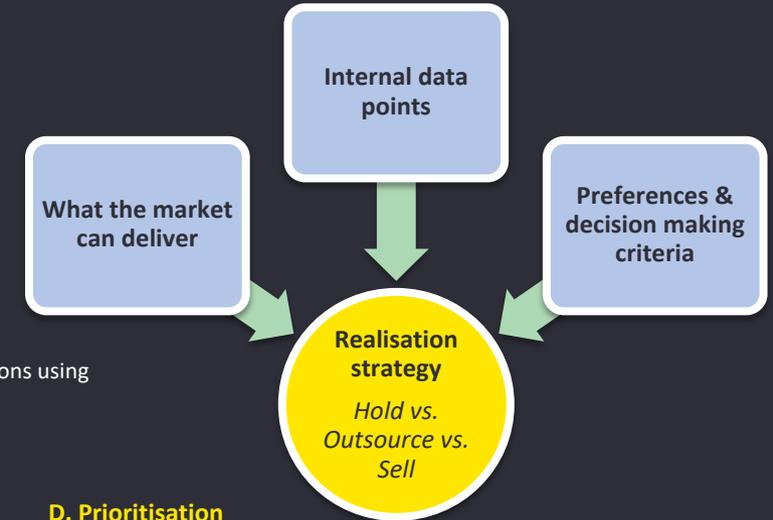
- ▶ Clarity on volumes
- ▶ Treatment strategies
- ▶ Liquidation rates or realisations using own call center
- ▶ Cost to liquidate or realise
- ▶ Confidence in compliance

### C. External solutions

- ▶ Liquidation or recovery rates
- ▶ Panel management requirements
- ▶ Auditing requirements
- ▶ Know your buyer or supplier

### D. Prioritisation

- ▶ RWA relief
- ▶ Operational bandwidth
- ▶ Impairment write back
- ▶ NPL ratio
- ▶ Reputation



## Key questions and themes to drive credit market in new environment

- Resourcing: How are you preparing to adapt your existing credit expertise and future capacity requirements of your teams? How will do you manage the resource needs across credit, risk and collections and recoveries?
- Capital management: How do you review, conserve and manage capital over time?
- Portfolio management: How do you plan to adapt your reporting frameworks to triage loans?
- Stress testing and provisioning: What are the steps you are taking to analyse the impact of micro and macro indicators on ECLs, impairment charges etc.
- Transforming collection and recovery: Are you intending to use new technologies to transform the efficiency of collections and recoveries?
- Customer relationships: How do you look to assess changing customer needs and ensure fair treatment?
- NPL markets: Do you expect to continue/start selling pools of NPLs to manage asset quality