

# NPA IN SPAIN

NOVEMBER 2018

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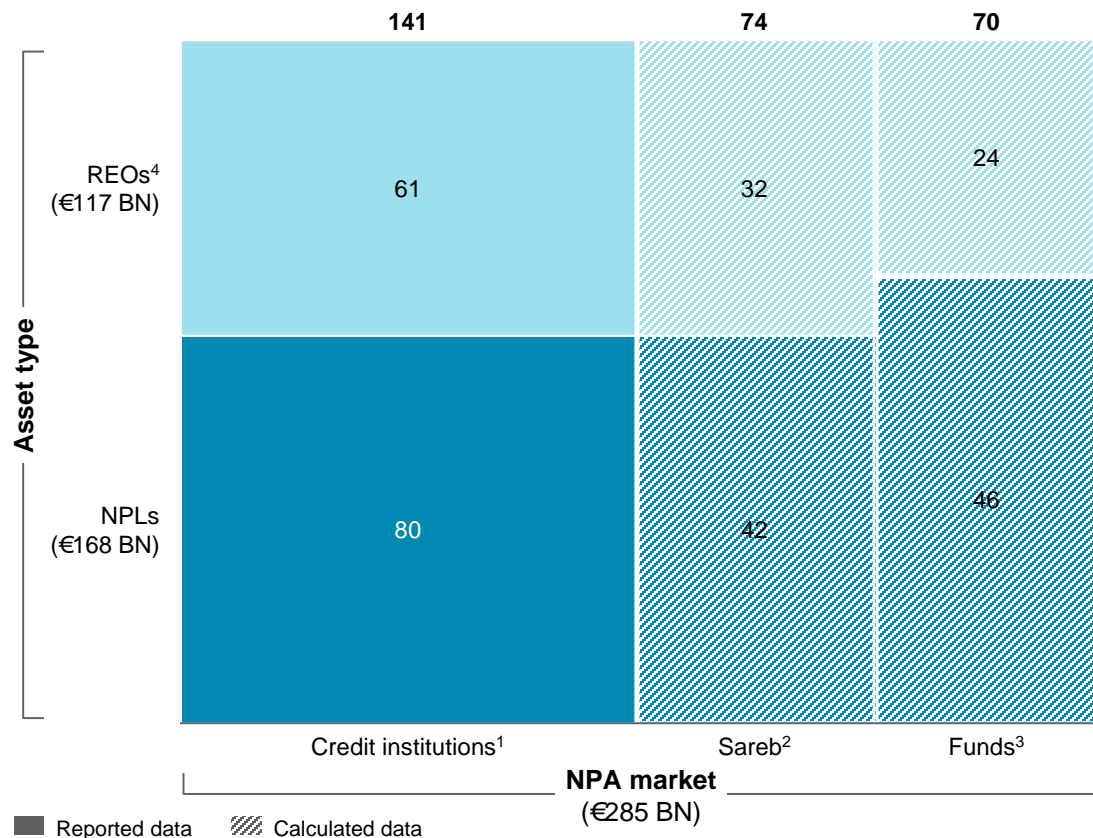
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# We estimate a total volume of NPAs of €285Bn across banks, Sareb and funds

## Non-performing assets in Spain by owner and asset type 2017 Q4- 2018 Q2, GBV, € BN



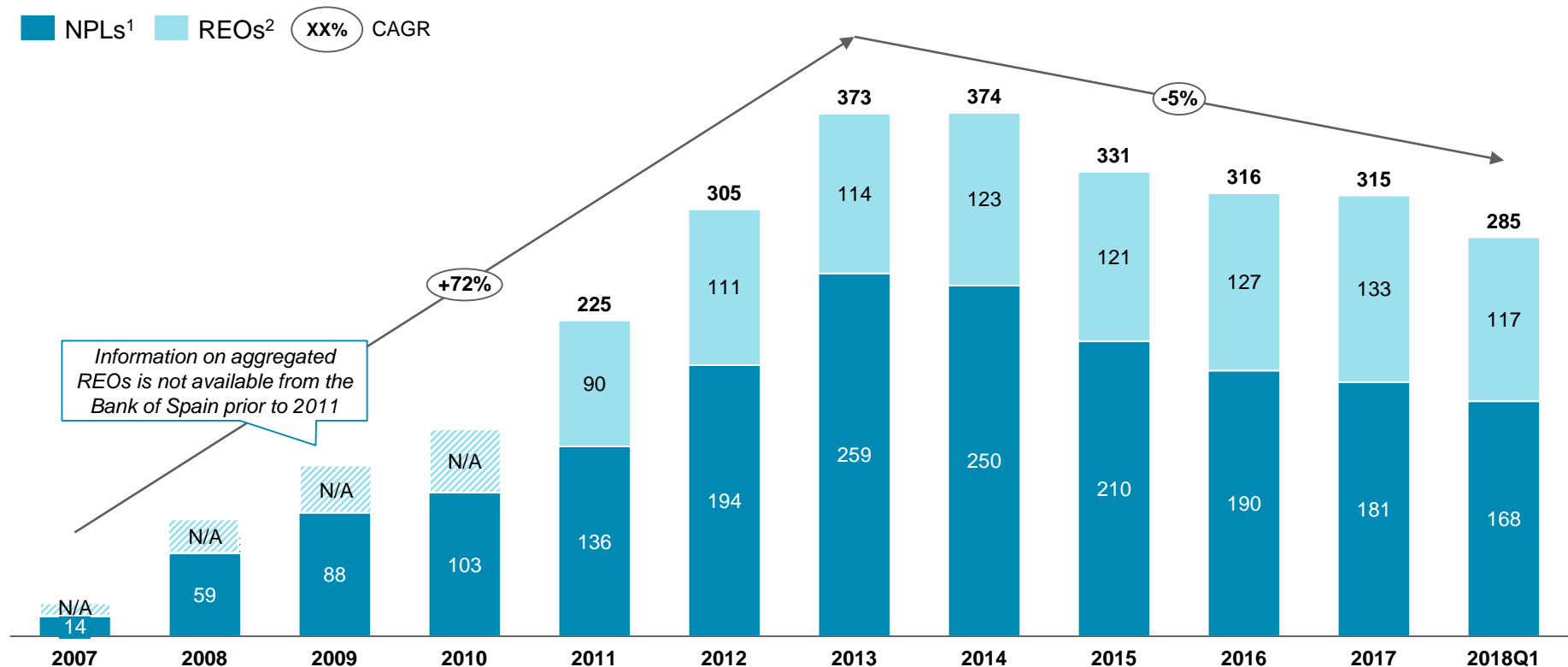
### Notes:

- **NPLs figures from credit institutions** are presented as reported in the Statistical Bulletin of the Bank of Spain
- **REOs from credit institutions are obtained from a bottom-up aggregation** for the 13 largest Spanish banks as stated in their financial reports (as the Bank of Spain does not report a comprehensive view on this information<sup>5</sup>)
- **Sareb reports NPAs in terms of NBV<sup>6</sup>**; for consistency across the presentation, GBVs are computed by applying to NBV the haircut used at the time of the transfer of assets to Sareb<sup>7</sup>
- **NPAs of funds are computed** based on bottom-up identification of individual historical portfolio transactions available to date; stock is computed using a weighted average life of 3 years for the portfolio

Source: 1. For NPLs: Bank of Spain – Statistical Bulletin (series 4.14, 4.19, and 4.24) up to 2018 Q1; For REOs: Banks financial reports as of 2018 Q2; 2. Sareb financial report as of 2017 (due to the unavailability of interim results for Sareb), and FROB press release on Sareb transfer; 3. NPL and REO related transactions computed from public databases up to 2018 Q1  
Notes: 4. GBV of REOs refers to GBV after foreclosure; 5. The Statistical Bulletin of Bank of Spain reports REOs for individual deposit institutions, while banks' financial reports include also REOs owned by their subsidiaries; 6. Sareb reports total loans NBV (€25.0 BN) as of 2017, of which NPLs (€23.0 BN); 7. The transfer of assets to Sareb had an average discount over total GBV of 63% for REOs (applied to NBV €11.7 BN in 2017) and 45.6% for RED loans (applied to NBV €23.5 BN in 2017)

We reached this point after a 25% reduction from a peak level of €374Bn in 2014

**Non-performing assets in Spain by type**  
2007-2018 Q1, GBV, € BN

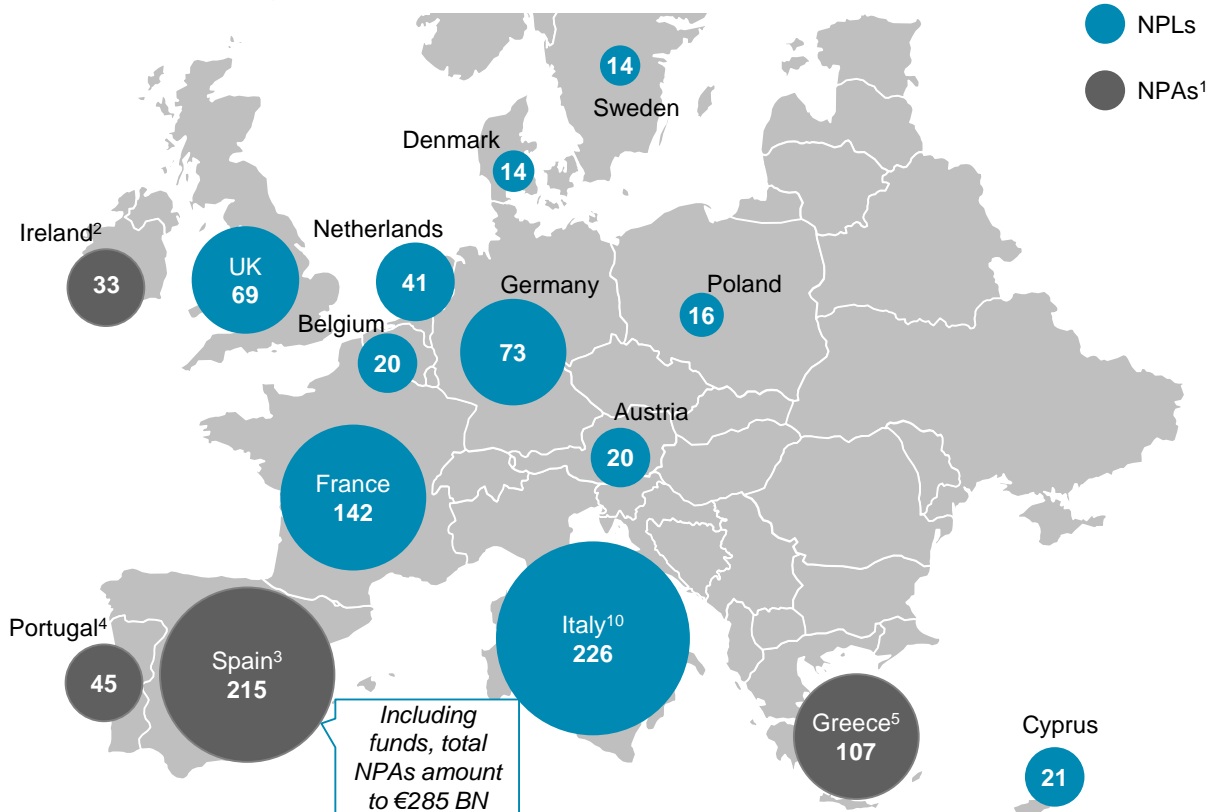


Source: 1. For banks – Bank of Spain – Statistical Bulletin (series 4.14, 4.19 and 4.24) up to 2018 Q1; for Sareb – financial reports from 2012 to 2017 (due to the unavailability of interim results for Sareb, 2018 Q1 figures assumed to be equal to 2017) and FROB press release on Sareb transfer; for funds – compilation of public databases with credit related transactions; 2. For banks 2011-2017 – Bank of Spain – Financial Stability Report as of May 2018, adjusted by a correction factor of 107% to account for REO exposures from banks’ subsidiaries (factor calculated as the average ratio of “REOs top-13 banks/ REOs Bank of Spain” for 2013-2017); for banks 2018 – bottom-up analysis of Top 13 banks’ accounts as of 2018 H1; for Sareb – financial reports from 2012 to 2017, and FROB press release on Sareb transfer; for funds – NPL and REO related transactions computed from public databases up to 2018 Q1

# Which makes Spain the second largest country in Europe in terms of NPA stock after Italy – excluding volumes managed by funds

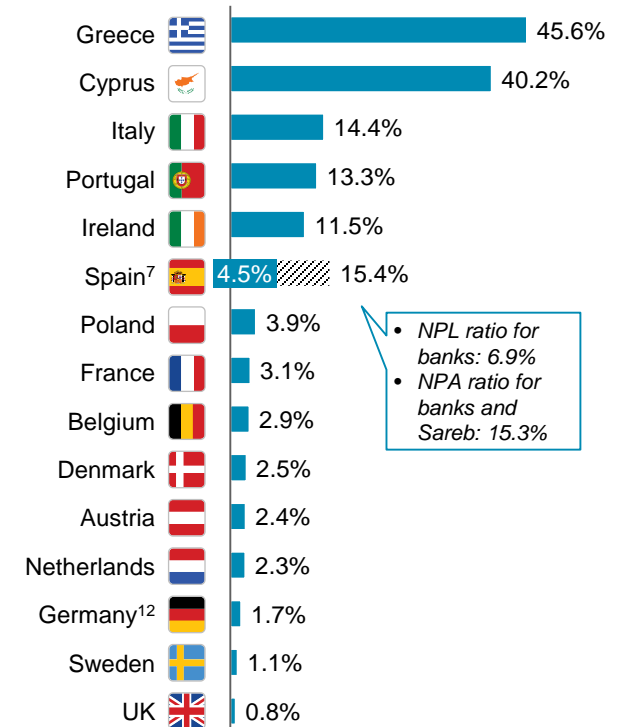
## NPAs<sup>8</sup> volume in Europe<sup>9</sup> (excl. funds)<sup>1</sup>

2017<sup>10</sup>, GBV, €BN, top-15 EU countries by NPL stock



## NPL ratios for banks<sup>6</sup>

NPLs as % of total gross loans, 2017

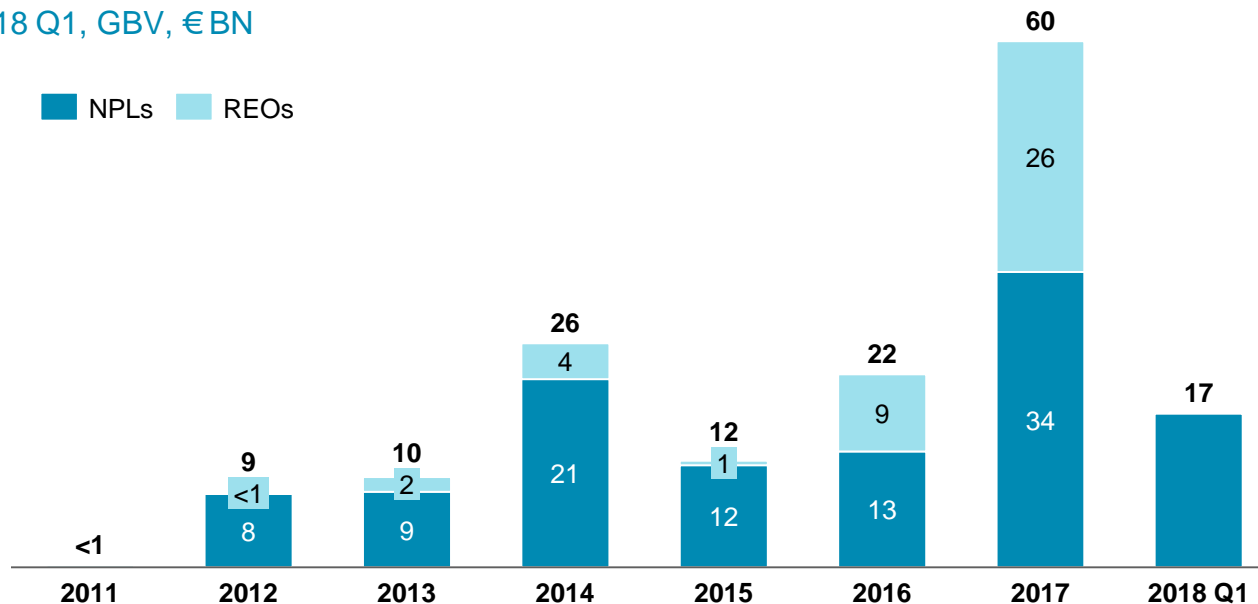


Source: 1. ECB Consolidated Banking Data (series A1100 and A1200); 2. Financial reports of 4 banks and NAMA (includes €31.5 BN NPLs and €0.5 BN REOs); 3. Bank of Spain – Statistical Bulletin up to 2017 Q4, Banks financial reports of the top 13 banks, Sareb financial report of 2017 (includes €122 BN NPLs and €93 BN REOs); 4. Banco de Portugal “Financial Stability Report June 2018” (includes €38 BN NPLs and €7 BN REOs); 5. Financial reports of 4 banks (includes €104 BN NPLs and €3 BN REOs); 6. World Bank Data; 7. Bank of Spain – Statistical Bulletin (series 4.11 and 4.14) up to 2018 Q1, Banks financial reports of top 13 banks

Notes: 8. REO assets included for countries where data is available; 9. Figures for each country includes NPLs of domestic banking groups and foreign (EU & non-EU) controlled subsidiaries and branches; 10. According to the Bank of Italy “Notes on Financial Stability and Supervision, No. 3, April 2016”, the share of foreclosed assets of total NPAs is negligible in Italy 12. 2016 figures

# Since 2011 Funds have also become a major actor in the market

Sum of identified NPA transactions from banks to funds  
2011-2018 Q1, GBV, € BN



KPMG <sup>1</sup>	-	-	-	9	14	38	17
Evercore <sup>2</sup>	-	-	-	-	-	34	-
Deloitte <sup>3</sup>	-	-	-	6	12	36	-
EY <sup>4</sup>	-	9	8	24	5	1	-
Alantra <sup>5</sup>	-	2	5	19	3	4	2
Dealogic <sup>6</sup>	<1	<1	1	4	<1	10	-
Press <sup>7</sup>	-	-	-	10	1	1	-

## Notes:

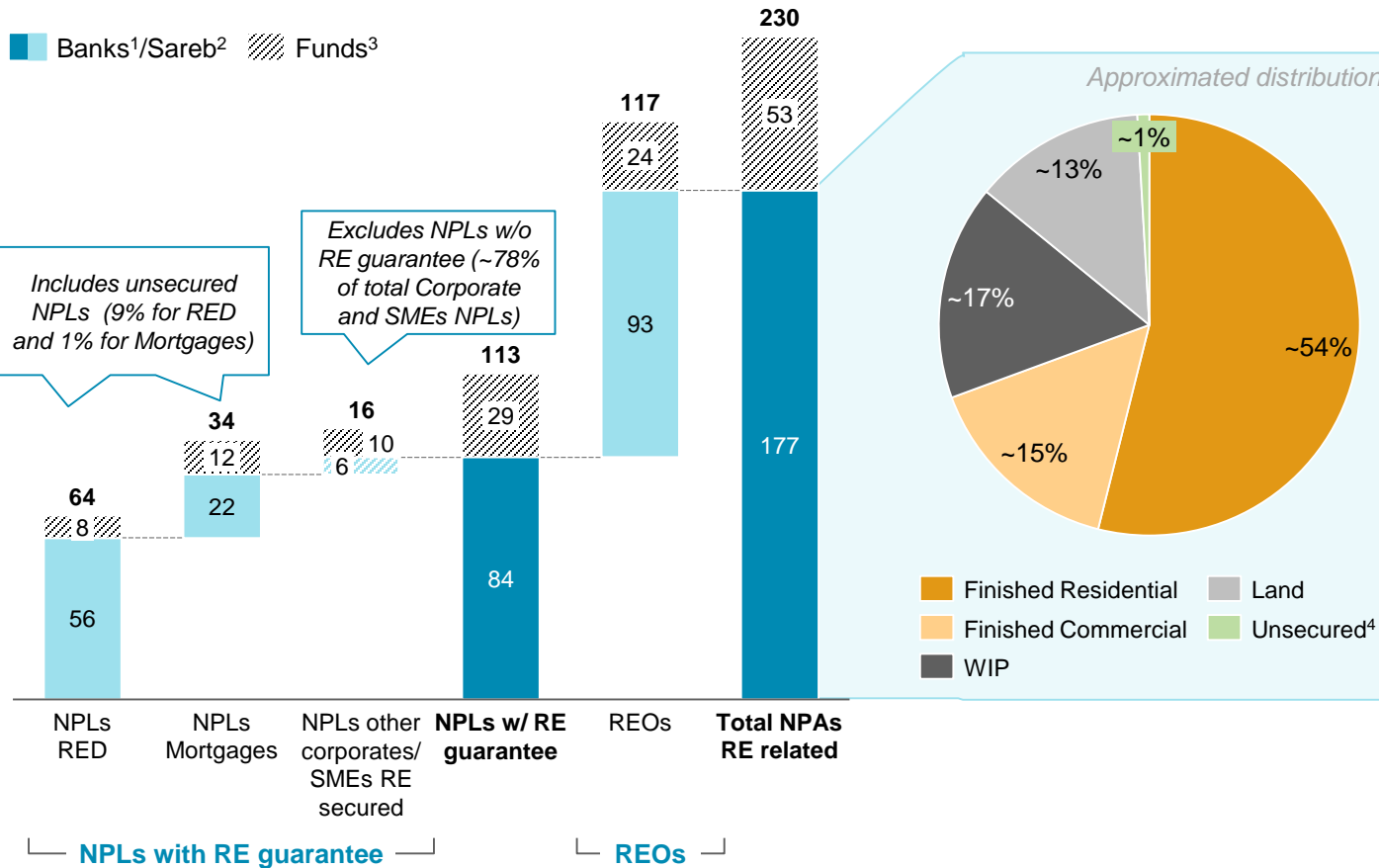
- ~480 transactions were compiled from 7 different sources of information (e.g. KPMG, Evercore, Deloitte – see footnote)
- Duplicates were removed through a bottom-up exercise of reconciliation
- For duplicates latest date and average transaction value has been used
- The perimeter was filtered to include transactions:
  - Occurred in Spain
  - Whose seller is a bank or Sareb
  - Whose acquirer is a fund
- A total of 252 different transactions has been identified, representing €156 BN

Source: 1. KPMG “European Transaction Dashboard”, as of 02/2018; 2. Evercore “European Distressed Real Estate Market”, Q42017; 3. Deloitte “Deleveraging Europe”, 2015-2016, 2016-2017, and 2017; 4. EY “Loan portfolio transactions markets”, 09/2015; 5. “Transactions Advised by Alantra”, 2012-2017; 6. Dealogic database of asset sales – Loans and REOs in Spain, as of 12/2017; 7. Public press releases/ news available online

€230 Bn of total €285 Bn NPAs are RE related assets, of which ~70% are finished and ~30% are WIP and land...

**NPAs RE related in Spain by segment and type**  
2017 Q4 – 2018 Q1-Q2, GBV, € BN

**NPAs RE related by type (excl. funds)**  
2017 Q4 – 2018 Q2, % total



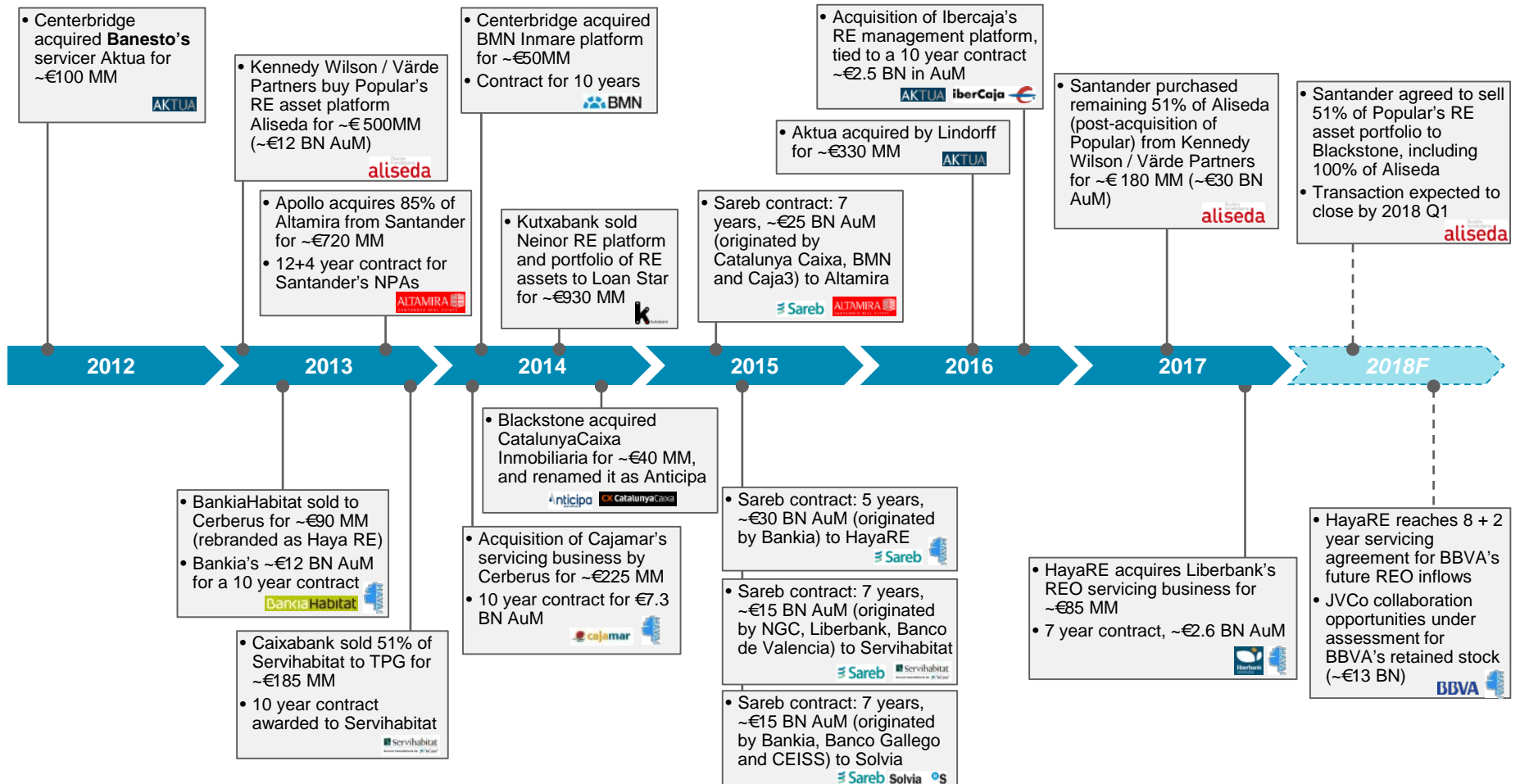
**Notes:**

- REDS and REOs breakdown** is based on financial reports of the 13 largest banks and Sareb
- Mortgages** are presented as in the Statistical Bulletin of Bank of Spain, applying 85% of the volume to finished residential and 15% to WIP
- Other corporates/ SMEs** are calculated based on the Statistical Bulletin of Bank of Spain and Sareb reported data; the same proportion of RE secured as in total loan book of credit institutions is applied (obtained from a bottom-up aggregation for the 13 largest banks)

Source: 1. Bank of Spain – Statistical Bulletin (series 4.14, 4.19, and 4.24) up to 2018 Q1, and banks financial reports as of 2018 H1; 2. Sareb financial report as of 2017 (due to the unavailability of interim results for Sareb), and FROB press release on Sareb transfer; 3. NPL and REO related transactions computed from public databases up to 2018 Q1  
Notes: 4. Non-performing assets not including any guarantee / collateral

# ...which has triggered the emergence of a new breed of servicers

## List of platform carve-outs and long-term servicing contracts<sup>1</sup> 2012-2018F, GBV, Non-exhaustive



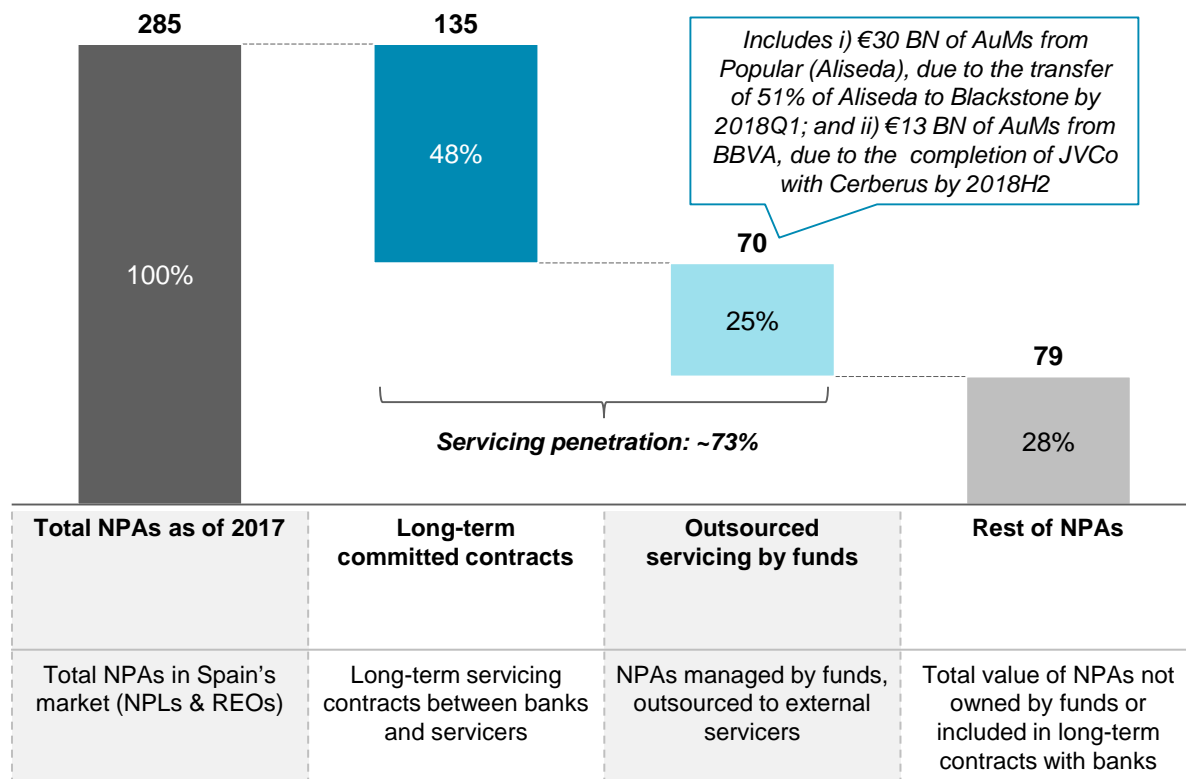
Source: 1. Banks and Servicers' websites; Sareb financial report of 2014 and FROB press release on Sareb transfer; Press release

Notes: 2. Computed using average haircut over total GBV of 63% for REOs and 46% for NPLs



# Servicers in Spain currently manage ~73% of the total NPA market, with almost ~48% under long-term contracts with banks and ~25% serving funds

**NPAs volumes by type of servicing contract**  
2018 Q1-Q2, € BN

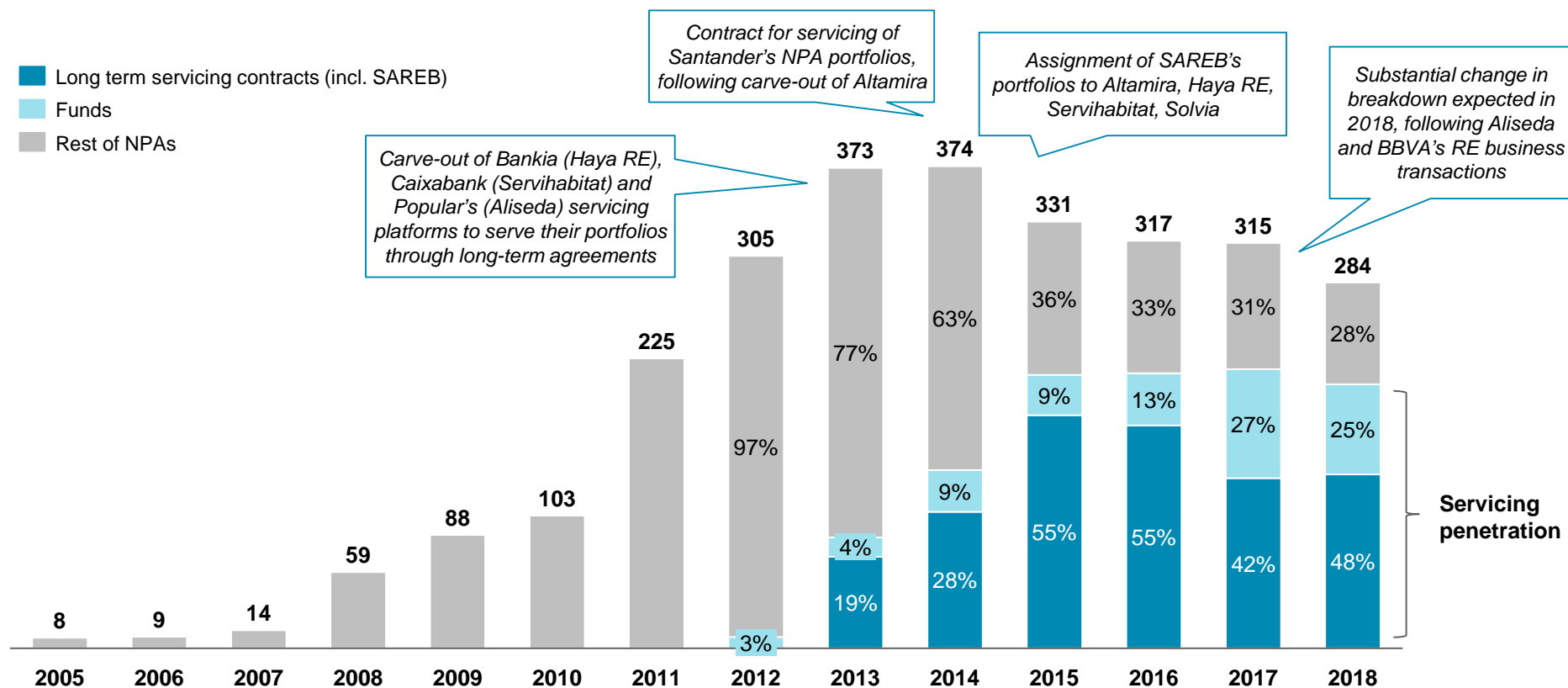


- The penetration of the servicing market in Spain is ~73% (€205 BN), of which:
  - 48% (€135 BN) is locked in long-term servicing commitments
  - 25% (€70 BN) are outsourced by funds to external providers – **Hypothesis: 100% of funds' NPAs outsourced to servicers**
- The NPAs that are not engaged in long-term commitments or owned by funds is 28% (€80 BN) include:
  - NPAs currently served by internal bank platforms and mostly for REOs (e.g. Solvia)
  - Portfolios under shorter-term outsourcing contracts in early stages of NPA recovery process
  - Portfolios composed of assets which are not part of the core servicing segments (e.g. corporate debt)
  - NPAs not being managed by any servicer

# Penetration of servicers in the Spanish non-performing assets market has been increasing from ~20-25% in 2013 to ~73% in 2018

## Non-performing assets and long-term servicing contracts<sup>1</sup>

2005-2018 Q1-Q2, Breakdown by long-term servicing contracts, funds and rest

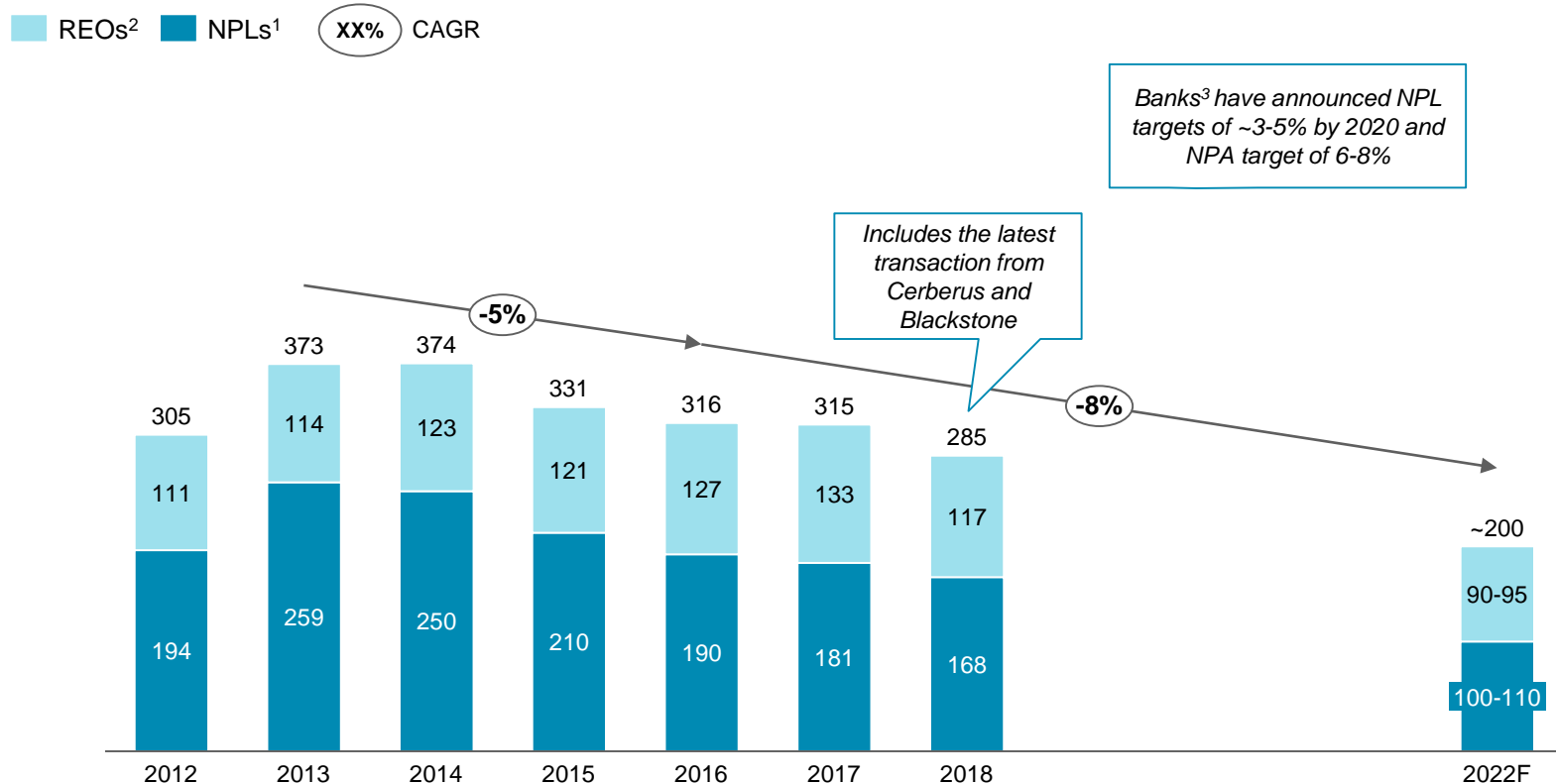


Source: 1. Bank of Spain – Statistical Bulletin up to 2018 Q1; Sareb financial report of 2017 (due to the unavailability of interim results for Sareb, 2018 Q1 figures assumed to be equal to 2017) and FROB press release on Sareb transfer; Press release

# Total Spanish NPAs could reach a stock of ~€200 Bn of GBV by 2022

## NPA volumes outlook in Spain

2012-2022F; NPA volumes, € BN (GBV)



Source: 1. For banks – Bank of Spain – Statistical Bulletin (series 4.14, 4.19 and 4.24) up to 2018 Q1; for Sareb – financial reports from 2011 to 2017 and FROB press release on Sareb transfer price; for funds – compilation of public databases with NPL related transactions; 2. For banks up to 2017 – Bank of Spain – Financial Stability report as of May 2018. REO data adjusted by a correction factor (107%) to account for REO exposures from banks’ subsidiaries. Correction factor calculated as the average ratio of Top 13 banks’ REOs/ Bank of Spain REO stock data for 2013-2017; For 2017 data, financial reports from Top 13 banks: 2018 H1; for Sareb – financial reports from 2011 to 2017 (due to the unavailability of interim results for Sareb, 2018 Q1 figures assumed to be equal to 2017), and FROB press release on Sareb transfer price; for funds – compilation of public databases with REO related transactions; 3. Banks’ latest strategic plans (Bankia, Sabadell and Liberbank)

# Future scenarios could be impacted by other factors and NPA volumes could move in a range of ~€80-235 Bn

## Bank only: Description of potential long-term scenarios

	Today	Positive macro scenario	Neutral macro scenario	Pessimistic macro scenario
<b>GDP volumes<sup>1</sup></b>	€1.2 TN	€1.7 TN	€1.5 TN	€1.2 TN
<b>Banking Penetration<sup>2,3</sup></b>	110%	130%	100%	130%
<b>NPL ratio<sup>2</sup></b>	8%	2%	5%	10%
<b>1 NPL volume</b>	€100 BN	€45 BN	€75 BN	€155 BN
<b>REO intensity<sup>4</sup></b>	81%	80%	70%	50%
<b>2 REO volumes</b>	€2 BN	€35 BN	€5 BN	€80 BN
<b>1 + 2 NPA volumes</b>	€182 BN	€80 BN	€130 BN	€235 BN

Source: 1. IMF – World Economic Outlook (October 2017) – Spain, Nominal GDP volumes; 2. Bank of Spain – Statistical Bulletin (series 4.14, 4.19 and 4.24)

Notes: 3. Calculated as total loan volume in Spain/ Spanish nominal GDP; 4. Calculated as REO volume from banks/ NPL volume from banks

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