Deloitte.

NPL securitisations and related governmental guarantee schemes in Europe

MAKING AN IMPACT THAT MATTERS since 1845

PLAS| October 2020

Contents

NPL securitisations

Securitisation of NPLs, RPLs and supporting governmental schemes

A brief history and recent developments

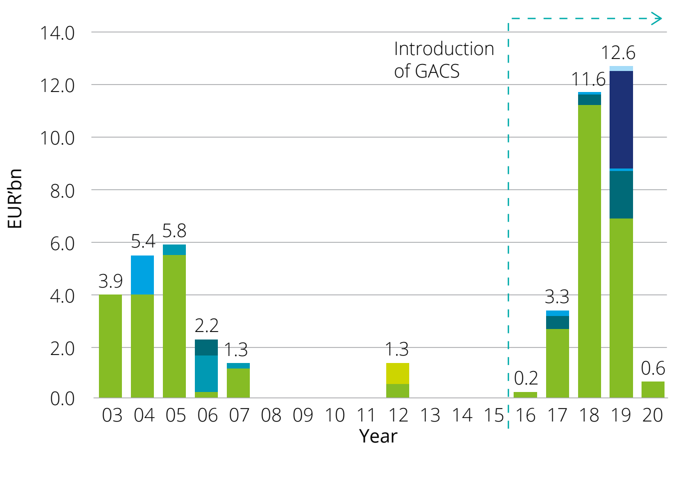
A resurgent European market

Government–backed schemes have helped kick start new NPL securitisation transactions

Origination activity in the securitisation market shut down almost completely after the Global Financial Crisis (GFC). 10 years later, largely facilitated by government–backed schemes like Italy's Garanzia Cartolarizzazione Sofferenze (GACS) and Greece's Hellenic Asset Protection Scheme (HAPS), the non-performing loan (NPL) securitisation market is seeing a revival.

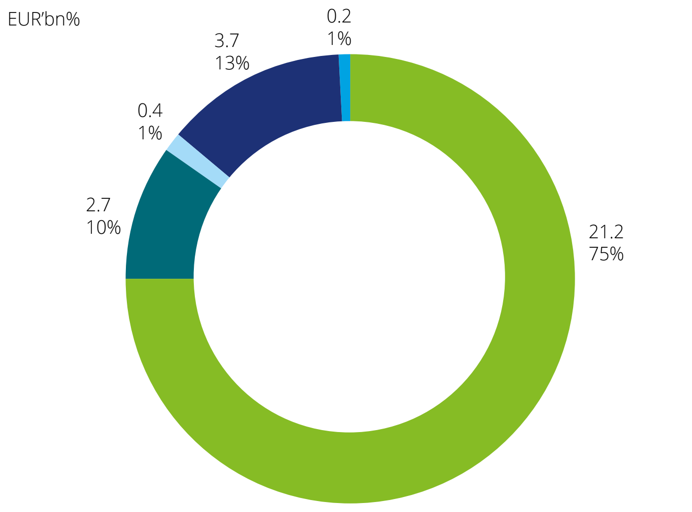
Since 2016, there have been total transactions of EUR 88.8bn by gross book value (GBV) and EUR 28.2bn by notional value, with over 75% of the deals based in Italy, followed by Greece, Ireland, Portugal, and Spain. Around 75% have included an element of government guarantee.

European deal volume 2003-2020 by notes' notional



Source: Deloitte elaboration on publicly available data

Country deal volume 2016-2020 by notes' notional

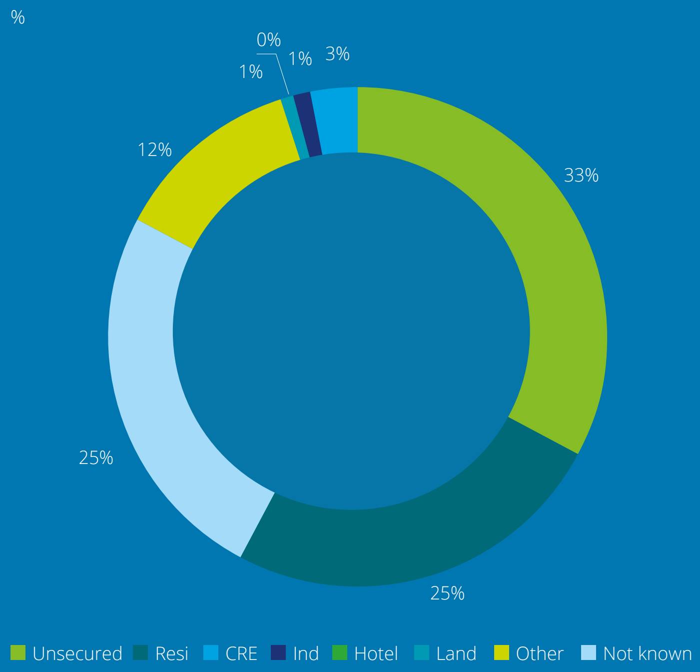


Source: Deloitte elaboration on publicly available data

A short history and recent trends

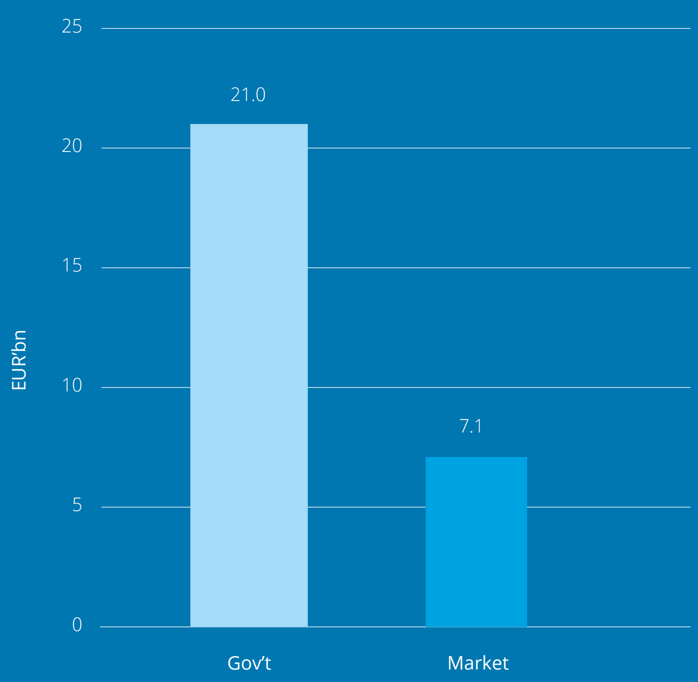
- NPL securitisations are not a new tool in the armoury for dealing with high NPL levels. Between 2003 and 2007 there were a number of NPL securitisations, primarily in Italy but also Belgium, Portugal and Germany (EUR 19.9bn by notes' notional). Prior to this they had been used during the US savings and loans crisis of the 1980s and the Asian financial crisis of the 1990s.
- The European market, however, shut down almost completely after the financial crisis of 2007/08 and only reopened 10 years later, thanks largely to government–backed schemes like GACS and, more recently, HAPS.
- We are also witnessing the return of non-government backed securitisations in Ireland and Portugal – where there aren't governmental schemes – and also in Italy. These cases, however, still represent a relatively small part of the market.
- Since the 2016 market reopening, 75% of the deals were based in Italy, followed by Greece (13%), Ireland (10%), Portugal and Spain (each 1%).
- Unsecured represents the largest portion by GBV (but less by ticket), followed by secured residential – Italian deals are mostly mixed, whereas Irish deals, on the other hand, are all residential mortgages.

Asset classes deal volume 2003-2020 by GBV



Source: Deloitte elaboration on publicly available data

Deals' nature between 2016-2020 by notes' notional



Source: Deloitte elaboration on publicly available data

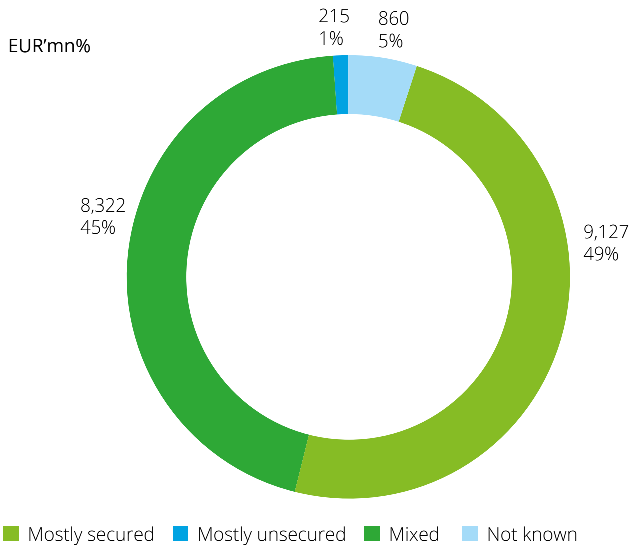
Italian GACS securitisations

Introduction of GACS and latest developments

- The GACS scheme was launched in 2016 with the aim of helping Italian banks shed their stock of NPLs, which had ballooned following the GFC and the European sovereign debt crisis. The provisions of the GACS scheme are to be read in the context of the pre-existing securitisation law 130 of 1999. Therefore they do not diverge from previous regulations but integrate them with additional elements.
- The core of the scheme consists of bundling NPLs to be securitised into a special purpose vehicle (SPV), typically three tranches, of which the most senior receives a state guarantee provided it secures investment grade ratings. The guarantee comprises a credit default swap (CDS) issued by the Italian Government which (to avoid state aid issues) must be remunerated by the SPV at market levels.
- As well as GACS, the Italian securitisation law was further improved in June 2017 including, for example, to allow: the inclusion of a ReoCo, alongside the SPV, to manage real estate assets; acquisition of real estate leasing contracts; and provision of further finance to specific positions when it would be value accretive to the note holders.
- The scheme had a slow start in 2016 but it consolidated strongly over the following years and we have traced **32 transactions** so far for a notional value of **EUR 18.5bn.** The notional value of mezzanine and junior notes disposed was around **EUR 3.8bn**.
- On the back of these successes, in **March 2019** the Italian Government **extended GACS** for another 24 months, **until March 2021**, where after it will be extendable by another 12 months.
- GACS **does not cover Unlikely to Pay (UTP)** exposures – only NPLs.

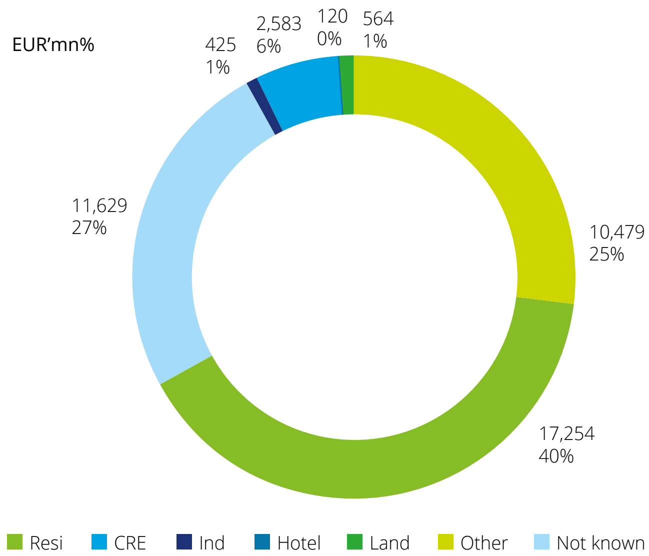
GACS deals	Year	2016	2017	2018	2019	2020	Total		Avg. Notio.
Closed deals	**#**	**1**	**6**	**13**	**10**	**2**	**32**	**100%**	
Mostly secured	#	1	3	5	8	1	18	56%	
Mostly unsecured	#	–	–	1	–	–	1	3%	
Mixed	#	–	2	7	1	1	11	34%	
Not known	#	–	1	–	1	–	2	6%	
Closed deals by Notional	**EUR'm**	**151**	**2,571**	**10,594**	**4,590**	**617**	**18,523**	**100%**	**579**
Mostly secured	EUR'm	151	836	3,478	4,387	274	9,127	49%	507
Mostly unsecured	EUR'm	–	–	215	–	–	215	1%	215
Mixed	EUR'm	–	874	6,901	203	343	8,322	45%	757
Not known	EUR'm	–	860	–	–	–	860	5%	430
Asset classes by GBV	**EUR'm**	**471**	**11,349**	**44,648**	**15,976**	**2,377**	**74,821**	**100%**	
Secured	EUR'm	299	5,063	23,668	12,490	1,533	43,053	58%	
Unsecured	EUR'm	172	3,485	20,980	3,190	844	28,671	38%	
Not known	EUR'm	–	2,800	–	297	–	3,097	4%	
Sub-asset classes by GBV	**EUR'm**	**299**	**5,063**	**23,668**	**12,490**	**1,533**	**43,053**	**100%**	
Resi	EUR'm	135	2,313	8,918	5,628	260	17,254	40%	
CRE	EUR'm	37	1,795	399	177	175	2,583	6%	
Ind	EUR'm	81	246	–	–	98	425	1%	
Hotel	EUR'm	19	101	–	–	–	120	0%	
Land	EUR'm	15	283	–	149	117	564	1%	
Other	EUR'm	12	326	9,557	441	143	10,479	24%	
Not known	EUR'm	–	–	4,795	6,094	740	11,629	27%	

Asset classes deal volume 2016-2020 by notes' notional



Source: Deloitte elaboration on publicly available data

Secured sub-asset classes deal volume 2016-2020 by GBV



Source: Deloitte elaboration on publicly available data

Market securitisations

Market (or non-government backed) securitisations are also being originated

It is not only a story of government–backed securitisations, however. In Ireland, Portugal, and Spain – where there aren't governmental schemes – there have been a number of purely market transactions recently. In Italy too, there have been a number of non-government backed securitisations in the last two years.

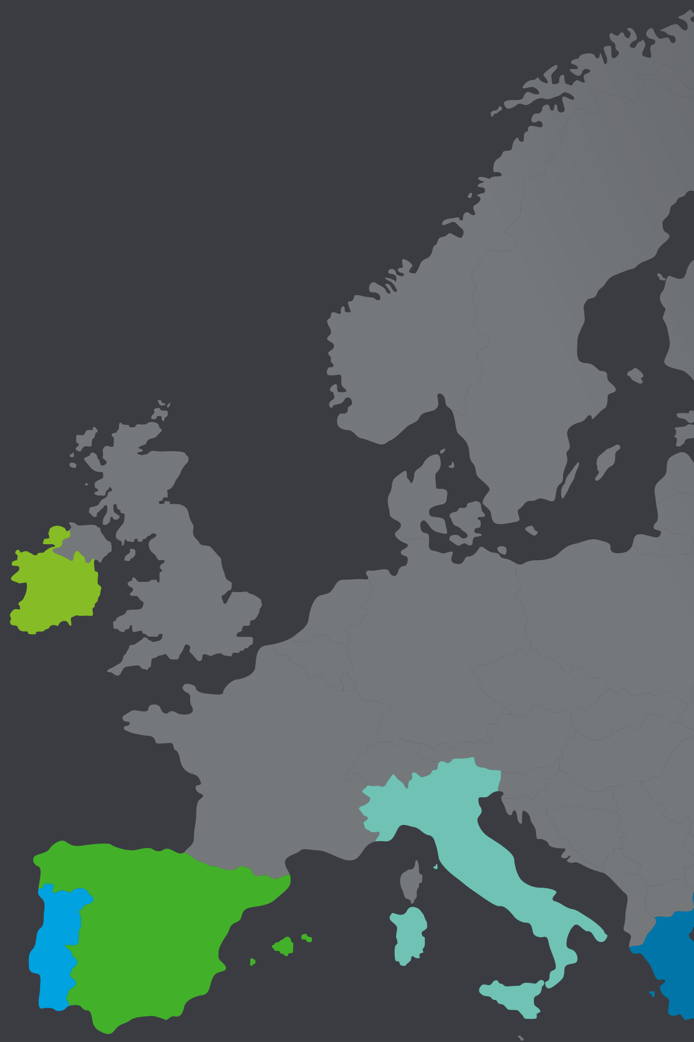
The instrument is used primarily to effect secondary sales transactions by which purchasers of NPL portfolios can exit the tails of portfolios that are close to reaching the funds' investment period end. In such scenarios, typically the original investor sells into the market the senior notes to institutional investors whilst retaining the junior notes.

Ireland

- Deals differ from other European countries in that they typically include re-performing loans (RPLs) in addition to typical NPLs.
- In addition, they are more dynamic in nature with loans that can change from NPL to RPL or vice-versa.
- As a result, Irish deals do not have the triggers that benchmark against the original business plan.
- The latest NPL securitisations in the country are public.
- All deals since 2016 have been secondary in nature and contain mortgages originated by banks or other institutions and securitised by a third-party sponsor.
- Lone Star is by far the most active sponsor of securitisations with five deals closed since 2016 (two are now closed down).
- MS is the dominant arranger in the market.

Portugal

- Currently dominated by relatively small primary trades.
- It is worth noting that, according to a recent report issued by Moody's prior to the COVID-19 crisis, all Portuguese NPL securitisations were comfortably outperforming their business plans.
- Similar to Italy, JPM is the dominant arranger in the market.
- Altamira, Hipoges, and Whitestar are the servicers with local presence most active in this space.



Recent market transactions

				GBV	Notion.
Deal name	**Country**	**Seller**	**Year**	**(€'m)**	**(€'m)**
Evora Finance	Portugal	Caixa	2017	581	176
Grand Canal 2	Ireland	Mars	2017	518	518
ERLS 2017-1	Ireland	Lone Star	2017	229	n.a.
Belvedere	Italy	CRC, Bayview	2018	2,451	485
Guincho	Portugal	Santander	2018	481	123
ERLS 2018-1	Ireland	Lone Star	2018	356	356
Marathon	Italy	Hoist	2019	5,000	337

				GBV	Notion.
Deal name	**Country**	**Seller**	**Year**	**(€'m)**	**(€'m)**
Kerma	Italy	Intesa	2019	2,700	1,700
ERLS 2019-2	Ireland	Lone Star	2019	1,338	1,331
Futura 2019	Italy	Guber	2019	1,256	203
Salduero	Spain	KKR	2019	495	231
ERLS 2019-1	Ireland	Lone Star	2019	459	456
Gaia	Portugal	Caixa	2019	234	70
Pinzolo	Italy	Hoist	2019	225	n.a.

Source: Deloitte elaboration on publicly available data

Greece

- As at the time of writing, there has been only one non-HAPS transaction in Greece, Project Pillar by Eurobank.

Spain

- Likewise, there has been only one NPL securitisation deal consisting of a secondary trade sponsored by KKR in 2019.
- There are, however, a number of other deals being prepared.

Italy

- In the "new cycle" of NPL securitisations since 2016 there have been five transactions not backed by the GACS guarantee.
- Four of these have been sponsored by NPL investors rather than Italian banks.
- Pure NPL investors like CRC and Bayview typically would sell the senior notes and retain the mezzanine and junior notes. This allows them to free up capital to invest while retaining the higher return tranches.
- NPL investors backed by non-Italian banks (which can't use GACS), such as Hoist, would typically sell 95% the mezzanine and junior notes (except 5% for retention rules) and keep the senior notes. This allows the Bank to de-consolidate the NPLs from their Balance Sheet.
- The only exception to the above is represented by the Kerma transaction, originated by Intesa Sanpaolo in Italy. The underlying loans consisted of UTPs rather than NPLs and did not qualify for the GACS scheme.

Originators and buyers

Italy has been by far the most active originator since 2016

Italian GACS originators

Banco Monte Paschi di Siena (BMPS) is responsible for the largest disposal of loans via GACS. This was done via a single large one-off transaction facilitated by the Italian Recovery Fund as a resolution to the bank's long term struggles with NPLs.

UniCredit too has been a large user of GACS, notably with the landmark transaction FINO in 2016 and 2017 with which the bank addressed a large portion of its NPLs.

Other frequent and large users of GACS have been Banco BPM, ICCREA Banca, BPER Banca and UBI Banca.

In these transactions, the originator typically retains the senior notes of the transaction and sells the mezzanine and junior notes (except a mandatory retention of 5%) to investors.

The largest buyers of Italian GACS junior and mezzanine notes have been Prelios/DK, SPF, and the Italian Recovery Fund.

Italian GACS originators since 2016	# deals	Total	Sec	Unsec	Unknown	GBV (EUR'm) Resi	CRE	Ind	Hotel	Land	Other	Unknown
BMPS	1	24,100	10,845	13,255	–	4,067	–	–	–	–	6,778	–
Banco BPM	2	11,297	7,800	3,497	–	2,170	–	–	–	–	1,476	4,154
Unicredit	2	9,410	6,856	2,554	–	5,337	1,309	–	–	143	66	0
ICCREA	3	4,350	3,413	937	–	814	399	–	–	149	441	1,609
BPER	3	4,236	2,459	1,777	–	561	175	98	–	117	428	1,079
UBI	2	3,606	2,139	1,468	–	2,139	–	–	–	–	–	–
CreVal	2	3,005	2,233	772	0	423	149	180	101	85	94	1,200
Caricesena, Carim, Cassa di San Miniato	1	2,800	–	–	2,800	–	–	–	–	–	–	–
Multioriginator	2	2,404	1,238	1,166	–	565	177	–	–	–	496	–
Carige	2	1,925	1,031	894	1	529	85	66	–	55	297	–
BNL	2	1,925	1,175	749	–	–	–	–	–	–	–	1,175
Cassa Centrale Banca	3	1,639	1,350	289	–	197	251	–	–	–	–	902
Banco di Desio & Banca Popolare di Spoleto	1	1,000	532	468	–	236	–	–	–	–	296	–
Banca Popolare di Sondrio	1	1,000	740	260	–	–	–	–	–	–	–	740
Banca Popolare di Bari	2	784	474	310	–	215	37	81	19	15	107	–
Banca di Asti	1	695	438	257	–	–	–	–	–	–	–	438
Banca Agricola Popolare di Ragusa	1	349	332	17	–	–	–	–	–	–	–	332
Banca del Fucino	1	297	–	–	297	–	–	–	–	–	–	–
Grand Total	**32**	**74,821**	**43,053**	**28,671**	**3,097**	**17,254**	**2,583**	**425**	**120**	**564**	**10,479**	**11,629**

Source: Deloitte elaboration on publicly available data

Italian market NPL securitisation originators

Most market NPL securitisations (non-GACS) have consisted of secondary portfolios. They consist of portfolios acquired by funds and/or servicers.

This is obvious as, for Italian banks wanting to use the instrument of an NPL securitisation, the use of GACS is almost automatic.

The only exception to the rule is the Intesa Sanpaolo transaction which, since it consisted of UTP loans, did not qualify for GACS.

Typically these trades are effected by the fund/servicer as a way to exit a portfolio and/or raise cash in the process.

Hoist has been the most active seller with totally unsecured portfolios (their core business), whereas CRC, Bayview and Guber have instead brought mixed portfolios to the market.

Italian market originators since 2016	# deals	Total	Sec	Unsec	Unknown	GBV (EUR'm) Resi	CRE	Ind	Hotel	Land	Other	Unknown
Hoist	2	5,225	–	5,225	–	–	–	–	–	–	–	–
Intesa	1	2,700	2,700	–	–	–	–	–	–	–	–	2,700
CRC, Bayview	1	2,451	1,005	1,446	–	547	458	–	–	–	–	–
Guber	1	1,256	640	615	–	301	339	–	–	–	–	–
Grand Total	**5**	**11,632**	**4,345**	**7,286**	**–**	**848**	**798**	–	–	–	–	**2,700**

Source: Deloitte elaboration on publicly available data

Italy dominates thanks to GACS, but other countries are emerging

Other European originators

Greece: Only two transactions have closed so far, one which utilised HAPS and one which did not.

However, the HAPS scheme was only approved at the end of 2019. We understand that there are currently several HAPS transactions in the pipeline.

Ireland: All recent transactions have been secondary trades sponsored by private equity funds, primarily Lone Star.

All are exclusively residential transactions and all are public.

Portugal: A few transactions have completed between 2017 and 2019, all orginated by local banks.

The appetite to use the NPL securitisation instrument in the country seems to be real. A governmental scheme like those adopted in Italy and Greece may make a big difference.

Spain: Only one transaction has been noted so far, sponsored by the American fund KKR.

We are aware of several other secondary transactions as well as primary being contemplated.

In line with Portugal and other jurisdictions, a governmental scheme may play an important role.

Rest of Europe originators since 2016		GBV (EUR'm)										
	# deals	Total	Sec	Unsec	Unknown	Resi	CRE	Ind	Hotel	Land	Other	Unknown
Greece												
Eurobank	2	9,500	2,000	–	7,500	1,740	104	–	–	–	128	28
Grand Total	**2**	**9,500**	**2,000**	–	**7,500**	**1,740**	**104**	–	–	–	**128**	**28**
Portugal												
Caixa	2	815	367	448	0	246	99	–	–	–	22	–
Santander	1	481	248	233	–	–	–	–	–	–	–	248
Grand Total	**3**	**1,296**	**615**	**681**	**0**	**246**	**99**	–	–	–	**22**	**248**
Ireland												
Lone Star	5	2,383	2,383	–	–	2,383	–	–	–	–	–	–
Mars Capital	1	518	518	–	–	518	–	–	–	–	–	–
Grand Total	**6**	**2,900**	**2,900**	–	–	**2,900**	–	–	–	–	–	–
Spain												
KKR	1	495	465	30	–	339	65	–	3	46	14	–
Grand Total	**1**	**495**	**465**	**30**	–	**339**	**65**	–	**3**	**46**	**14**	–

Source: Deloitte elaboration on publicly available data

Buyers of NPL securitisations in Italy and Europe

The majority of the notes of European NPL securitisations were placed privately. Irish transactions however were all **public.**

DK have been amongst the most active buyers in Italy, perhaps on the back of their ownership of Prelios, which is the servicer of many of the GACS transactions.

The **Italian Recovery Fund** has been involved in two very large transactions, but more within a government sponsored banking restructuring.

Other buyers include some classic NPL investors like Guber, Pimco and Carval on the junior side etc., alongside more conservative ones like Generali on the senior side.

Buyers since 2016	#deals							
	IT-GACS	IT-Market	GR-HAPS	GR-Market	PT	IR	SP	Total
Public	–	1	–	–	–	4	1	6
Davidson Kempner	3	–	–	–	1	–	–	4
SPF	3	–	–	–	–	–	–	3
Italian Recovery Fund	2	–	–	–	–	–	–	2
CarVal	–	2	–	–	–	–	–	2
CRC	1	–	–	–	–	–	–	1
Locam	1	–	–	–	–	–	–	1
Good Hill Partners	1	–	–	–	–	–	–	1
Green Arrow Global	1	–	–	–	–	–	–	1
Waterfall	1	–	–	–	–	–	–	1
King Street	1	–	–	–	–	–	–	1
Pimco	–	–	1	–	–	–	–	1
Mediobanca	–	1	–	–	–	–	–	1
doValue	–	–	–	1	–	–	–	1
Not disclosed	12	–	–	–	2	–	–	14

Source: Deloitte elaboration on publicly available data

Other market players

A market with few international players and an array of local participants

Main players

Advisors and other players since 2016	#deals							
	IT GACS	IT mkt	GR HAPS	GR mkt	PT mkt	IR mkt	SP mkt	Total
Arrangers								
JPM	13	2	–	–	3	–	1	19
IMI	8	1	–	–	–	–	–	9
Mediobanca	7	1	1	–	–	–	–	9
SocGen	5	–	1	–	–	–	–	6
MS	1	–	1	–	–	4	–	6
Rating agencies								
Moody's	12	3	–	–	3	4	1	23
Scope	15	3	–	–	–	–	1	19
DBRS	14	1	–	–	–	3	1	19
Master servicers								
Prelios	15	1	–	–	–	–	–	16
doValue	4	–	–	–	–	–	–	4
Credito Fondiario	3	–	–	–	–	–	–	3
Italfondiario	2	–	–	–	–	–	–	2
Zenith	2	–	–	–	–	–	–	2
Altamira	–	–	–	–	2	–	–	2
Whitestar	–	–	–	–	1	–	–	1
Hipoges	–	–	–	–	–	–	1	1
Special servicers								
Prelios	15	–	–	–	–	–	–	15
doValue	4	–	–	–	–	–	–	4
Cerved	4	–	–	–	–	–	–	4
Italfondiario	3	–	–	–	–	–	–	3
Hipoges	–	–	–	–	1	–	1	2
Altamira	–	–	–	–	2	–	–	2
Whitestar	–	–	–	–	2	–	–	2
Start Mortgages	–	–	–	–	–	2	–	2

Source: Deloitte elaboration on publicly available data

Arrangers

The arranger oversees the process of **preparing and marketing** the transaction. In this latter role it is also known as the placement agent. Most arrangers will also underwrite potentially unsold notes of the transaction.

- The market of arrangers is dominated by international investment banks that can operate in several jurisdictions.
- **JPM** is the **main arranger** of NPL securitisations, both GACS and non-GACS, in Italy as well as in other countries.
- **Banca IMI** and **Mediobanca** are strong local players in their reference market, which is Italy. Mediobanca is starting to venture into other jurisdictions e.g., Greece.

Rating agencies

The rating agency issues a **credit default rating** to the tranches of the securitisation. The core of their work consists of running a statistical model based on the data tape provided by the originator. The model provides the rating of the different tranches under a base case but also considers alternative scenarios.

- The market is dominated by some of the large international rating agencies.
- **Moody's, Scope Ratings** and **DBRS** are all extremely active in almost equal measure in this market.

Servicers

Servicers are heavily involved in the preparation of the transaction. For primary GACS transactions the bank has to engage an independent servicer to manage the portfolio. For secondary transactions, the servicer would typically be the one currently managing the portfolio. The key role of the servicer is to prepare the **business plan** against which servicer performance will be measured. The service may be replaced if it doesn't meet the business plan.

- With the exception of **doValue**, most servicers are focused on one or two key jurisdictions.
- In terms of number of deals, **Prelios** is the largest servicer on the back of its prominent position in Italian GACS. It is followed by doValue, Credito Fondiario, and Cerved. All of them are Italian servicers.

Advisors

We observe more and more frequently the presence of financial advisors in the preparation and marketing of transactions. Advisors can provide overall **project management, data preparation**, and act as a sounding board for the **business plans** prepared by the servicers.

- The market of financial advisors too is characterised by the presence of international players.
- Big 4 advisors are more often than not involved in transactions on the back of their experience in the preparation of sell-side portfolio transactions.

Lawyers

Legal advisors are present in the structuring of the operation and in the preparation of the legal documentation, including the prospectus and the SLAs between SPV and the servicers.

- They are a mix of international offices like Orrick – very active – and A&O, and local players like Chiomenti in Italy and Karatzas in Greece.

Structures

A general NPL securitisation concept adapted to government-backed schemes

NPL securitisations

Under a NPL securitisation, portfolios of NPLs are transferred to a SPV that finances the acquisition through the issuance of Asset Backed Securities (ABS) – or notes – which can carry either a fixed or floating rate coupon and are typically arranged in different seniority tranches. Within this framework, the NPLs constitute the underlying collateral backing the ABS. In contrast to a straight sale, securitisations benefit banks through capital relief and lower immediate P&L impact. Advantages and disadvantages are nuanced though and are discussed in greater detail later on in this document.

Generic structure

In the absence of the prescriptive requirements of government-backed NPL securitisations, the structures of market NPL securitisations tend to follow investor and sponsor demand. Nevertheless, they typically fit into the generic structure outlined below:

01. SPV purchases NPL portfolio and issues notes to finance the acquisition;
02. Notes are typically tranched as senior, mezzanine and junior, although it's possible to have less, or more;
03. The senior tranche has first claim, followed by mezzanine and then junior;
04. Although not a requirement in market transactions, the originator may appoint an independent servicer;
05. Interest payments are calculated on outstanding notes' notional value and can be made on an annual, semi-annual or quarterly basis;
06. Liquidity lines are usually granted to manage mismatches between potential collections' shortfalls and interest payments on notes;
07. All collections are aggregated in one pool and are then subject to a single waterfall of payments;
08. A minimum of 5% of mezzanine and 5% junior notes must be retained by the Bank to comply with risk retention requirements (for the originator to keep "skin in the game").

Government-backed NPL securitisation principles

The government provides a guarantee to the senior tranche, in the form of a CDS contract between the State and the SPV. This needs to be approved by the European Commission in the case of guarantees provided by an EU member state.

In contrast to market transactions, government-backed schemes generally provide better pricing and therefore minimise potential losses for originating banks.

Such schemes have already been implemented in Italy (GACS) and Greece (HAPS), and aim to:

01 Facilitate the reduction of NPLs;

02 Increase the credit worthiness of senior tranches;

03 Reduce the SPV's funding costs; and;

04 Create liquidity for Banks.

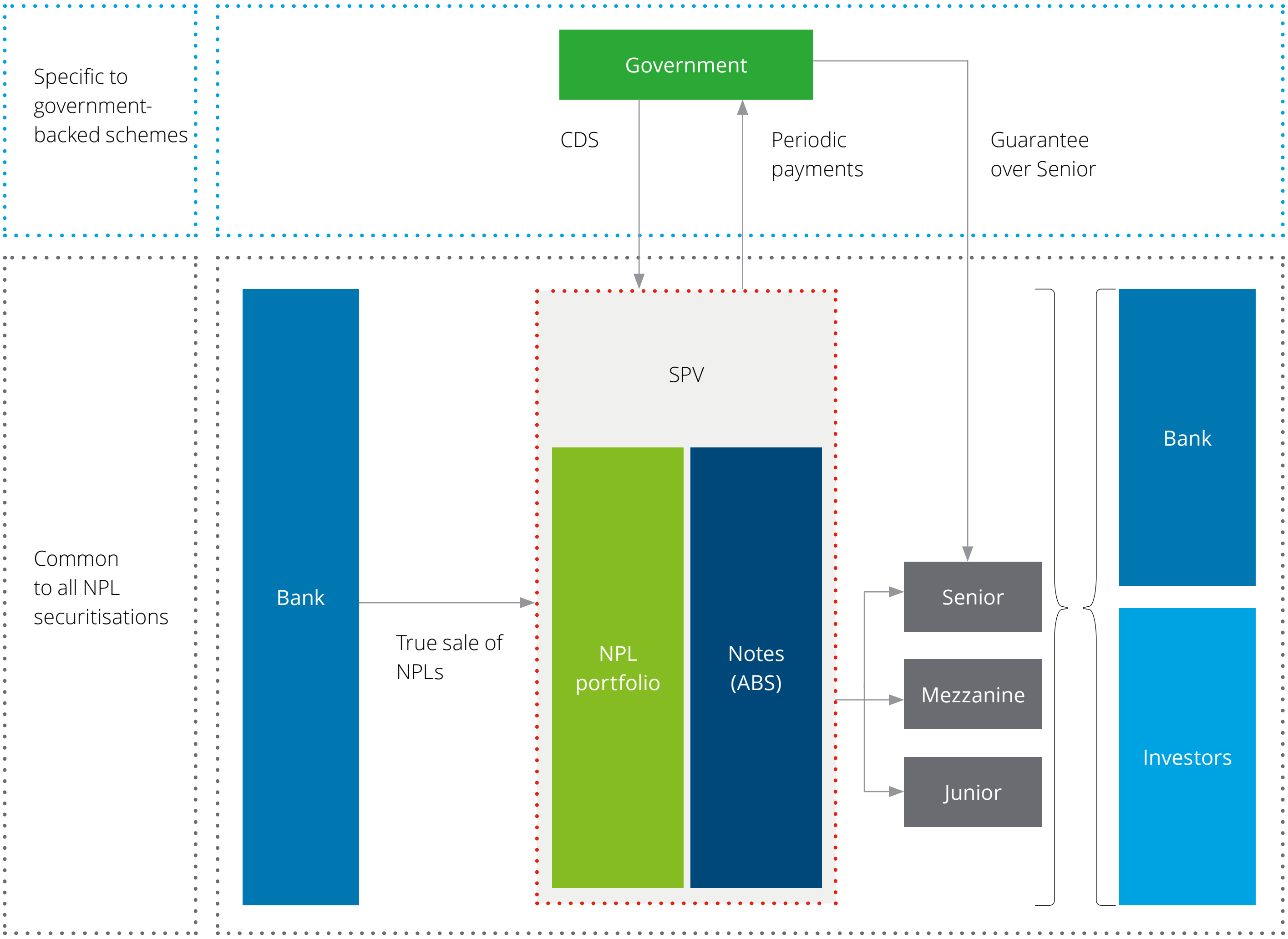
For such schemes to get approval, the European Commission has to conclude that they are "free of state aid within the meaning of EU state aid rules"

In broad terms, the free of state aid condition is satisfied when:

- The exposure taken by the State is clearly defined and limited;
- The State's remuneration for the guarantee provided is at market terms.

In order for the guarantee to become effective the originator should:

- Sell more than 50% plus 1 share of the junior notes to private investors at a positive value;
- Achieve accounting de-recognition by selling a sufficiently large portion of the junior and mezzanine notes at a positive price.



Stylised example/not to scale. From a tranching perspective, the Senior tranche typically comprises 70% to 80% of the notional value of notes issued

Specificities of government-backed schemes

Servicer

Servicers are appointed by the originator and **in the context of government-backed schemes it is a requirement that they are external and independent.** This aims to:

01. Prevent possible conflicts of interest; and
02. Allow rating agencies to take into consideration the benefits arising from the selected servicer's work-out capabilities.

Typically a master servicer is responsible for the overall management of the portfolio vis-à-vis the investors and regulatory authorities, whereas the special servicer(s) is(are) responsible for the work-out of the underlying loans.

Master and special servicer roles could be undertaken by the same company. In some cases a back-up servicer may also be added to the structure, which is typically viewed positively by rating agencies and investors.

Rating

Government-backed schemes require for the senior tranche to be rated and calibrated (i.e. thickness of the tranche) by an External Credit Assessment Institution (ECAI) approved by the ECB. To be eligible for the government guarantee, the senior tranche should receive a rating equal to or higher than a predetermined target (BBB for GACS; BB- for HAPS).

In order to assign a rating, rating agencies take into consideration the cost of the guarantee but not the protection that derives from it. As part of their rating process they also:

01. Evaluate servicer's expertise and historical performance;
02. Review the servicer's Business Plan;
03. Estimate base case cash flows;
04. Conduct stress tests to assess the probability of full repayment in line with the assigned rating.

Notes can receive ratings by more than one rating agency. In such cases, a state guarantee is provided only if both are equal to or higher than the target rating. Rating agencies can update or even discontinue their rating during the lifetime of the deal.

Guarantee fee

The price of the guarantee fee is calculated on market terms to ensure the state aid-free nature of the scheme and comprises of a base rate and a penalty[1], which is always payable if the senior notes are still unpaid after 3 years.

The base rate is calculated on a benchmark CDS with a rating similar to that of the guaranteed securities. During years 1 to 3 the base rate is equal to the spread of the 3-year benchmark CDS, while in years 4 to 5 the base is equal to the spread of the 5-year benchmark CDS. The penalty is equal to the difference in payments from the 5-year benchmark CDS held over years 1 to 5 compared to the actual payments made in years 1 to 3. The same framework applies for years 6 to 7.

This time-varying fee structure is used to remunerate the State at market terms for the entire duration that the senior tranche remains unpaid.

Priority of payments

The waterfall structure of government-backed schemes follows a certain template in line with the applicable law. Key features of such waterfalls are:

- Guarantee fee is paid senior;
- Principal payments to mezzanine and junior notes only after full repayment of senior tranche;
- Deferrable mezzanine note interest;
- Floating rate interest on senior and mezzanine notes.

A typical government-backed waterfall structure is outlined below:

01. Servicer fees, interest on liquidity line, CDS fees, swap payments;
02. Interest on senior notes;
03. Liquidity line replenishment (if used);
04. Interest on mezzanine notes;
05. Principal on senior notes;
06. Principal on mezzanine notes;
07. Payout on junior notes.

Subordination triggers

To insulate senior investors from risk and facilitate credit enhancement in times of underperformance, subordination triggers are typically added to securitisation structures.

GACS transactions have historically incorporated both a NPV Profitability Ratio and a Cumulative Collection Ratio trigger. In almost all transactions, the breach of either leads to the deferral of mezzanine interest. Trigger thresholds usually vary across transactions but typically fall within the range of 70%-90%.

In order to provide a more standardised framework[2], the 3rd prolongation of GACS introduced the following deferrals when the Net Cumulative Collection Ratio falls below 90%:

01. Mezzanine interest deferral
02. Servicer fee deferral (at least 20%)

Deferred payments can be resumed only if the senior tranche is fully repaid or actual recoveries catch up with Business Plan figures.

Enforcement triggers

The guarantee is enforceable by senior noteholders in the event of missed interest or principal payments. The timeframe within which the State has to repay senior noteholders can vary from scheme to scheme. To date, given GACS was only introduced in 2016 and HAPS even more recently, there have been no instances of the guarantee being called.

1 HAPS also includes an Adjusted Spread Ratio Factor (explained in greater detail on page 20)
2 Applicable to all government-backed NPL securitisations that will take place in Italy after May 2019

GACS and HAPS in action

Hercules – Hellenic Asset Protection Scheme (HAPS)

In October 2019, the Greek government, with the agreement of the European Commission, introduced rules aiming at reducing the NPLs stock from Greek systemic banks, similar to those already used in Italy through GACS.

The HAPS envisages State guarantees (up to the amount of EUR 12bn in total) on senior notes and provides the possibility for Greek banks to transfer NPLs to SPVs that will finance the acquisition through the issuance of notes in different tranches.

In line with the GACS framework, to ensure the state aid-free nature of the scheme guarantee fees will be on market terms.

The scheme aims to accelerate Greek banks' disposal of NPLs and reduce the stock of NPLs to 20% by the end of 2021. As of July 2020, Alpha Bank, Piraeus Bank and NBG have all announced their plans to participate in HAPS with NPL securitisations amounting to c. EUR 23.6bn that are expected to be launched / completed within 2020. In response, the Greek Finance Ministry informed creditors that it will closely monitor the demand for Hercules in order to proceed with Hercules 2 if necessary (i.e. extend the duration of the programme and go beyond EUR 12bn in guarantees).

HAPS in action – Project Cairo

In June 2020, Eurobank closed the largest Greek NPL securitisation to-date, Project Cairo, with a portfolio size of EUR 7.5bn GBV and comprising of NPLs at different restructuring and enforcement stages.

Greek Systemic Banks – Stock of NPLs (EUR bn)

Bank	Dec 17	Dec 18	Dec 19	NPL Ratio
Piraeus Bank	32.9	27.3	24.5	49%
Alpha Bank	29.3	25.7	21.8	45%
NBG	17.3	15.4	10.6	31%
Eurobank	20.1	16.7	13.0	29%

Source: Deloitte elaboration on publicly available data

The transaction marked the first Greek NPL securitisation under HAPS with the Greek government providing a guarantee for senior notes amounting to EUR 2.4bn. More specifically:

- Portfolio pricing at 33.3% of GBV;
- Senior notes of EUR 2.4bn, mezzanine notes of EUR 1.4bn and junior notes of EUR 3.7bn were issued;
- Eurobank retained 100% of senior notes, 5% of mezzanine and 5% of junior notes;
- DoValue S.p.a. acquired 50.1% of junior notes and 20% of mezzanine notes;
- 75% of mezzanine notes and 44.9% of junior notes were distributed as dividend in kind to Eurobank shareholders.

3rd GACS extension

With over EUR 74bn in NPL securitisations since 2016, GACS was renewed for a 3rd time in May 2019 – this time for an additional 24 months.

The 3rd extension of the GACS scheme introduced 13 updates with the most important being:

- Minimum required senior tranche rating increased from BBB- to BBB;
- Mezzanine interest deferral made compulsory if Net Cumulative Collection Ratio falls below 90%;
- Servicer fee deferral of at least 20% of overdue fees made compulsory if Net Cumulative Collection Ratio falls below 90%;
- Compulsory servicer replacement with no penalty if state guarantee is called upon and the Servicer has collected less than projected for two consecutive interest payments;
- CDS basket value to be calculated using mid-prices simple average of the previous 2 months.

Differences between GACS and HAPS

Although similar to each other, the two schemes are not identical. The main differences between the two are:

01

Minimum rating required
Minimum rating required under GACS framework is BBB (investment grade) while HAPS requires BB– (non-investment grade).

02

Guarantee pricing
Whilst the GACS guarantee fees are linked[1] to a basket of single name CDS of Italian corporates, in the Greek scheme, the guarantee pricing is linked to that of the Greek government CDS.

03

Servicer fee deferral (at least 20%) trigger
In GACS, the threshold for servicer fee deferral is set at 10% underperformance (i.e. Net Cumulative Collection Ratio < 90% of the business plan). In HAPS, underperformance threshold is set at 20%.

04

Mezzanine interest deferral trigger
GACS makes the deferral of mezzanine interest compulsory if Net Cumulative Collection Ratio is below 90%. HAPS law requires the deferral of at least 20% of mezzanine interest if Net Cumulative Collection Ratio is below 80%.

05

Servicer replacement
In HAPS, upon enforcement of the guarantee the servicer can be replaced if Net Cumulative Collection Ratio for two consecutive payments is below 70%.
In GACS, upon enforcement of the guarantee, the servicer must be replaced if Net Cumulative Collection Ratio has been below 100% for two consecutive payments.

06

Guarantee payout
In case there is interest or principal due on senior notes, the Greek government will have 80 days to pay the noteholders. In GACS, the Italian government has 9 months to pay any interest or principal due. In both schemes, by making the relevant payment, States are subrogated to the rights of senior noteholders and are entitled to recover the amount paid along with interest at the legal rate and costs incurred.

1 An "Adjusted Spread Ratio Factor" is also used to account for differences in the rating between the senior tranche and Greece's actual credit rating

Capital impact

Regulatory considerations for NPL securitisations

Regulatory background
The GFC and subsequent Eurozone crisis created a legacy of NPL exposures for banks and credit institutions across Europe. These large stocks of NPLs were among the key factors that led to the sweeping regulatory changes that have followed in the decade since.

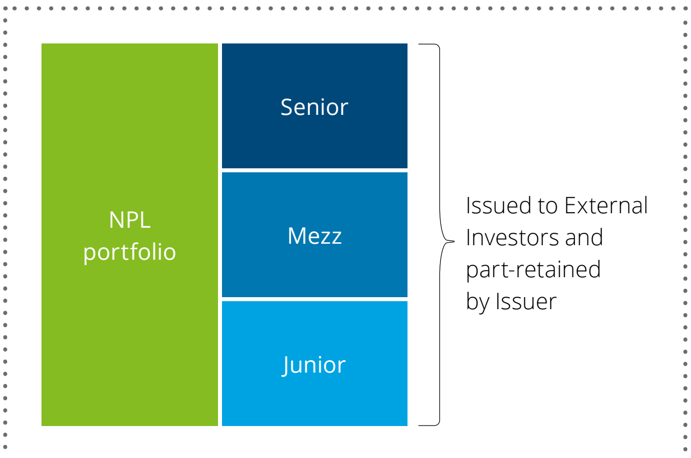
For securitisations in particular, a regulatory overhaul was proposed in 2015, with the resulting EU Securitisation Regulation coming into force in 2019. This new framework established a uniform set of rules for the European securitisation market, including requirements on risk retention and transparency, and a ban on re-securitisation. It also created a specific framework for simple, transparent and standardised ('STS') securitisations.

As regulation continues to evolve, banks remain under ever increasing pressure to reduce their NPLs quickly. In Italy, for example, NPL securitisations have allowed credit institutions to shed NPLs at a very fast rate and have been an important component of the considerable bank deleveraging that has occurred in the country in the last few years.

With the only exception of Portugal, there have been no other bank deleveraging transactions using the instrument of market NPL securitisations i.e., without the backing of the Government, considering primary trades (transactions in Ireland and Spain were all secondary). The adoption of government guarantee schemes such as GACS and HAPS across other European jurisdictions may potentially help the development of NPL securitisations in other countries and provide an additional boost to deleveraging of bad loans at a time of increased stress due to the COVID-19 crisis.

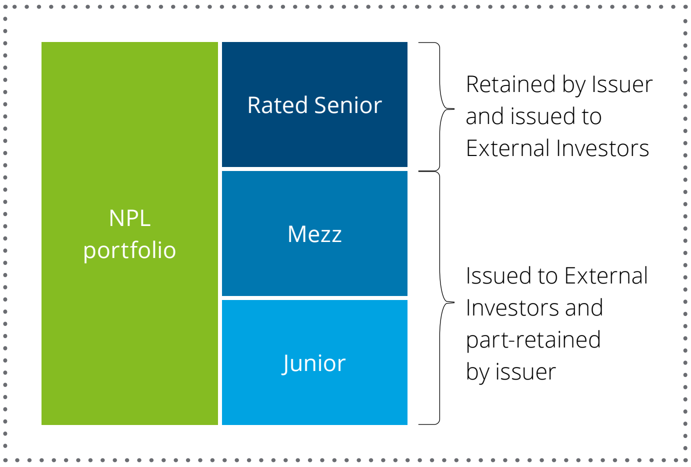
Market NPL securitisations – non-rated vs rated
Market NPL securitisations (i.e., not government guaranteed) can be broadly separated into two categories: non-rated vs rated. Due to the impaired nature of the underlying assets, obtaining a rating of an NPL tranche can be challenging for financial institutions, and requires substantial structuring consideration of the non-performing portfolio. However, in a rated transaction, the senior tranche is rated by the credit rating agencies, as illustrated below, with potential significant capital benefits (compared to unrated transactions):

Non-rated NPL securitisation



- Originator required to retain an ongoing interest of 5% the nominal value of the underlying exposures.
- Risk-weighting method of either standardised approach (SEC-SA) or internal-ratings based approach (SEC-IRBA).
- Significantly greater risk-weighting on retained portion due to the risk-weightings on SEC-SA and SEC–IRBA.
- Senior tranche issued to external investors typically not suffering from capital constraints (e.g. investment funds, private equity...etc.).

Rated NPL securitisation



- Originator retains senior tranche, obtaining a rated instrument.
- Risk-weighting method of external-ratings based approach (SEC-ERBA)[1] in addition to SEC-SA and SEC-IRBA.
- Significantly lower risk-weighting on retained senior tranche with SEC-ERBA methodology.
- Senior tranche retained by financial institution, effectively swapping high risk-weighted NPL assets for low risk-weighted rated securities.

Market NPL securitisations – Project Pillar (Eurobank)
In June 2019, Eurobank Ergasias S.A. (Eurobank) successfully completed one of the first rated NPL securitisations in Greece, called Project Pillar, with a total issuance of EUR 2.0bn. The transaction qualified for a significant risk transfer, with 95% of the mezzanine and junior notes issued externally to global investment management firm Pimco. The transaction was a market NPL securitisation in that it did not request the application of the HAPS scheme. Below are the characteristics of the deal:

Notes	Ratings (DBRS)	Notes Amount (EUR'm)	% of Notes	% Retained	% External	% of GBV (2,000 EUR'm)	% of GBV Retained (1,092 EUR'm)
Senior	BB (Low)	1,044	52.2%	100%	0%	52.2%	95.6%
Mezzanine	Not rated	310	15.5%	5%	95%	0.8%	1.4%
Junior	Not rated	645	32.3%	5%	95%	1.6%	3.0%
		1,999	**100.0%**			**54.6%**	**100.0%**

1 The ability of an IRB bank to apply SEC-ERBA is limited via the hierarchy of approaches (as per Article 254 of regulation 2017/2401).

Under the Capital Requirements Regulation (CRR), the underlying assets securitised were excluded from the risk-weighted asset (RWA) calculation. Instead, with its retained 54.6% rated senior tranche, Eurobank treated these exposures as *Securitisation Positions*, rather than *Exposures at Default* had the underlying remained unstructured. We have illustrated the RWA densities and capital impact below, assuming the following:

- as the only active securitisation vehicle at year-end 2019, the entire EUR 1,062m securitisation position relates to Project Pillar;
- the risk weightings do not take into consideration whether or not the bank was under the transitional provisions or whether the new securitisation approaches had been applied at this point;
- the securitised portfolio of NPLs would have been classified under the *Exposures in Default* segment if not sold; and,
- the average RWA density of the *Exposures in Default* segment remains constant (c.103.5%).

The rated NPL securitisation resulted in a modest reduction in the RWAs attributed to Eurobank's post-transaction exposure compared with the pre-securitisation RWAs, estimated at approximately €127m (0.31%) in RWAs and and a common equity tier 1 (CET1) ratio gain of 5 bps; however this shows how rated securitisations can be used to improve a bank's capital position.

In summary, Eurobank successfully swapped a higher risk-weighted portfolio of NPL assets for lower risk-weighted rated securities.

Eurobank Pillar 3 FY19	Actual (with transaction)			Hypothetical (without transaction)	
EUR'm	**Exposure**	**RWA Amount**	**Av. Risk Weight**	**Exposure**	**RWA Amount**
Exposures to Central Govs. & Banks	15,625	5,686	36.4%	15,625	5,686
Exposures in Default	1,386	1,434	103.5%	2,448	2,533
Securitisation Positions	1,062	972	91.5%	0	0
Other Credit Exposures	-	28,639	-	-	28,639
Credit Risk		**36,731**			**36,858**
Other Risks		**4,676**			**4,676**
Total RWAs		**41,407**			**41,534**

€1,062 NPL-Backed Securities, with average risk-weight 91.5%

Had securitisation not happened, €1,062 treated as NPL Exposures at Default, with average risk-weight 103.5%

NPL Securitisation Position Exposure	1,062
NPL Securitisation Position RWAs (91.5%)	972
NPL Exposures at Default RWAs (103.5%)	1,099
RWAs Reduction	**127**
As a percentage of the transaction	**12.0%**
As a percentage of total bank's RWAs	**0.31%**

Government-backed NPL securitisations – GACS and HAPS

Both GACS and HAPS are structured the same as rated NPL securitisations: both schemes require a rated senior tranche. GACS requires senior tranches to have at minimum an investment grade credit rating (BBB or higher), whilst HAPS requires at least BB- (due to the long-term sovereign rating of Greece being just below investment grade).

However, as noted previously, the schemes include, in addition to the rated NPL securitisation, a CDS on the senior tranche. The CDS with the government acts as insurance on the senior tranche in the event of default, but does not extend to the mezzanine or junior tranches.

The government becomes the ultimate counterparty of the senior tranche, effectively converting the notes into sovereign exposures. Under the CRR framework's standardised approach, sovereign and central bank exposures have significantly lower risk weights.

Fundamentally, per article 114 of the CRR, exposures to Member States' central governments, and central banks denominated and funded in the domestic currency of that central government and central bank shall be assigned a risk-weight of 0%.

Specifically, S&P have even reported that under HAPS, *"the single supervisory mechanism (SSM) approved that senior notes will have zero risk weight in banks' regulatory capital framework, despite the current non-investment-grade sovereign rating on Greece."*[1]

Under GACS and HAPS, banks retaining these government guaranteed notes are replacing higher risk-weighted portfolios of NPL assets with significantly lower risk-weighted quasi-government debt, therefore dynamically reducing their capital requirements.

Government-backed NPL securitisations – Project Aragorn (Creval)

In June 2018, a portfolio of NPLs with GBV of approximately EUR 1.67bn was transferred by Credito Valtellinese (Creval) to SPV Aragorn NPL 2018 Srl. This transaction qualified for the GACS government guarantee, with the characteristics of the table below.

Per Creval's Pillar 3 2018, the transaction substantially transferred all the risks and rewards of the underlying portfolio. The portfolio therefore qualified for accounting derecognition from Creval's balance sheet. Furthermore, the senior securities retained under the Aragorn transaction were, *"weighted at 0% as they are guaranteed by the state, while the mezzanine and junior securities were weighted at 1,250%."*[2]

Unlike Eurobank's Project Pillar transaction, by qualifying for the government guarantee, Creval successfully deleveraged a higher risk-weighted portfolio of NPL assets for a significantly lower risk-weighted quasi-sovereign bond, greatly reducing both its credit exposure and capital requirements simultaneously.

Had Project Pillar applied for HAPS, we have illustrated the capital impact on the next page using Project Aragorn as a template, assuming the following:

- as the only active securitisation vehicle at year-end 2019, the entire €1,062m securitisation position relates to Project Pillar, of which 95.6% (€1,016m) relates to the guaranteed senior notes that would be categorised as *Exposures to Central Governments*;
- the risk weightings do not take into consideration whether or not the bank was under the transitional provisions or whether the new securitisation approaches had been applied at this point;
- the risk weightings remain the same as the Project Aragorn transaction (senior: 0%, mezzanine: 1,250%, junior: 1,250%); and,
- the securitisation position can be proportionally split to represent Eurobank's retained senior, mezzanine and junior holdings.

Project Aragorn capital structure

Notes	Ratings (DBRS/Scope)	Amount (EUR'm)	% of Notes (%)	% Retained (%)	% External (%)	% of Total GBV (% - 1,671 EUR'm)
Senior	BBBL/BBB-	509.5	86.9%	100%	0%	30.5%
Mezzanine	CCC/B	66.8	11.4%	5%	95%	4.0%
Junior	Not rated	10.0	1.7%	5%	95%	0.6%
		586.3	**100.0%**			**35.1%**

1 Hercules Asset Protection Scheme: How Greek Banks Are Adjusting Their NPL Strategies Due To COVID-19, S&P Global Ratings, 23 April 2020 https://www.spglobal.com/ratings/en/research/articles/200423-hercules-asset-protection-scheme-how-greek-banks-are-adjusting-their-npl-strategies-due-to-covid-19-11451480
2 p.102, Creval Pillar 3 Report, 31 December 2018, http://www.gruppocreval.com/cartellaPDF/parsedPDF/2019/Terzo-pilastro-31.12.2018_eng%20.pdf

Project Pillar hypothetical (with HAPS) capital structure

Notes	Total GBV (EUR'm)	% Retained (%)	GBV Retained (EUR'm)	GBV at Year-End (EUR'm)	Risk-Weighting (%)	RWAs (EUR'm)
Senior	1,044	100%	1,044.0	1,015.6	0%	0.0
Mezzanine	310	5%	15.5	15.0	1250%	188.5
Junior	645	5%	32.3	31.4	1250%	392.4
	1,999		**1,091.8**	**1,062.0**		**580.8**

Eurobank Pillar 3 FY19	Actual (with transaction)			Hypothetical (with HAPS)	
EUR'm	**Exposure**	**RWA Amount**	**Av. Risk Weight**	**Exposure**	**RWA Amount**
Exposures to Central Govs. & Banks	15,625	5,686	36.4%	16,641	5,686
Exposures in Default	1,386	1,434	103.5%	1,386	1,434
Securitisation Positions	1,062	972	91.5%	46	581
Other Credit Exposures	-	28,427	-	-	28,639
Credit Risk		**36,731**			**36,340**
Other Risks		**4,676**			**4,676**
Total RWAs		**41,407**			**41,016**

€1,062 NPL-backed securities, with average risk-weight of 91.5%

With government guarantee, senior notes c.€1,016 treated as *Exposure to Central Govs.*, with specific risk-weight of 0.0%

Mezz and junior notes c.€15 and €31, with specific risk-weights of 1250%

NPL Securitisation Position Exposure	1,062
NPL Securitisation Position RWAs	972
NPL Exposure to Central Govs. RWAs	581
RWAs Reduction	**391**
As a percentage of the transaction	**36.8%**
As a percentage of total RWAs	**0.94%**

Government-backed NPL securitisations – Comparison

Below we present the comparative findings of the above analysis, using Eurobank as an illustrative example:

Scenario Eurobank FY19	Exposure (EUR'm)	Transaction RWAS (EUR'm)	Av.RWA Density (%)	Total RWAs (EUR'm)	CET1 Ratio % (EUR'm)
No Transaction Non-Performing Loans (*Estimate*)	1,062	1,099	103.5%	41,534	16.65%
Market Transaction Rated Securities (*Actual*)	1,062	972	91.5%	41,407	16.70%
Government-Backed Transaction Government Exposure (*Estimate*)	1,062	581	54.7%	41,016	16.86%

Had the senior notes of the Project Pillar transaction been government-backed, we estimate an approximate decrease of €391m (0.95%) in RWAs, with the CET1 ratio increasing by 15 bps.

In summary, Eurobank would have been able to reduce their credit risk exposure and capital requirements even further had the bank adopted HAPS for year-end 2019. At the time of the transaction, that was not possible as the law had not yet been passed.

Regulatory developments

In October 2019, the European Banking Authority (EBA) published its opinion to the European Commission on the regulatory treatment of NPL securitisations. The EBA noted that, under the current framework, investors in non-rated NPL securitisations are being unduly saddled with significantly higher capital charges to positions exhibiting similar risk profiles.

The CRR securitisation framework assumes that all securitisations are of performing assets, sold at roughly par value. However, when a portfolio of NPLs are securitised, the SPV accounts for the non-refundable purchase price discount (NRPPD) to arrive at the net book value. Under the CRR framework, capital charges are not calculated on this sales amount (i.e. the market / fair value of the portfolio) but rather the gross book value, with the NRPPD treated as credit-enhancement.

The EBA suggested a number of measures to deal with these heavily discounted portfolios, including but not limited to:

- Reassessing the technical calibration method and bases of NPLs under the framework (SEC-SA & SEC-IRBA vs SEC-ERBA);
- Introducing a RWA cap of 100% on the original GBV of the underlying portfolio, mitigating unduly high capital requirements; and,
- Providing a specific risk retention calculation method to take into account the NRPPD, mitigating any compliance issues and encouraging further market participants on the sell-side.

In June 2020, the Bank of International Settlements (Basel) also published a technical amendment, regarded as a comparative retreat to the sweeping measures considered by the EBA. Basel proposed:

- a flat 100% RWA floor for all NPL securitisation exposures;
- a fixed 100% risk weight applicable to the most senior tranche of qualifying NPL securitisations, where "qualifying" refers to securitisations in which the NRPPD is equal to or larger than 50% of the outstanding amount of the NPLs; and
- a ban on the use of Foundation IRB parameters as inputs for the SEC-IRBA for all NPL securitisations.

European Commission's securitisations review

In July 2020, the European Commission proposed a number of measures as part of the wider Capital Markets Recovery Package, itself a part of the commission's COVID-19 recovery strategy. Specifically, the securitisation measures[1] proposed the below amendments.

The intial reactions to the European Commission review of the securitisation regulation have been generally positive. The possible exception is represented by the proposals regarding the application of risk weights to the different tranches of the securitisation. Whilst the EBA approach was considered more aligned to current common practice, the European Comission has taken a view in line with the relatively more punitive Basel proposal in this particular aspect.

EC proposed amendments	Impact
NPL securitisation definition	An NPL securitisation has a formal definition as a securitisation backed by a pool of non-performing exposures, the value of which makes up at least 90% of the pool's value at inception.
Risk weight on senior tranche	Senior tranches of NPL securitisations will qualify for a fixed 100% risk weight if the NRPPD is equal to or above 50% of the securitised portfolio's GBV.
Risk weight floor on other tranches	The risk weight for the non-senior tranches of NPL securitisation exposures shall be subject to a flat floor of 100%.
Foundation IRB	The use of the so-called Foundation IRB parameters (in case of securitisation exposures eligible for the use of the SEC-IRBA) is prohibited.
Maximum capital requirements	Where institutions apply a cap to positions they hold in NPL securitisations, the expected losses will be calculated net of the NRPPD and of any additional specific credit risk adjustments.
Risk retention - Calculation	The 5% risk retention requirement is calculated on the basis of the discounted value of the exposures transferred to the securitisation SPV, as opposed to the notional value.
Risk retention - Servicer	The servicer in an NPL transaction is allowed to take on the risk retention slice, given its position ensuring the alignment of its interests with those of the investors.

1 *Coronavirus response: How the Capital Markets Union can support Europe's recovery, European Commission* publications, 24 July 2020, https://ec.europa.eu/info/publications/200722-proposal-capital-markets-recovery_en

Looking forward

The NPL securitisation regulatory landscape is fast changing. In the last year alone, the EBA, Basel and the European Commission have all proposed significant amendments to the current regulatory capital treatment of NPL securitisations. Further, the current securitisation framework is scheduled to be reviewed in depth in January 2022.

The recent amendments appear to propose a more standardised, transparent, and structured direction, with the intention of making NPL securitisations an easier, more efficient and more liquid instrument. On the other hand, some of the proposals may be more punishing from a capital perspective than some market participants would have initially hoped.

Ultimately however, it is important to note that until the European Parliament and the Council agree to the new legislative texts, they remain proposals at this stage. Indeed, the European Parliament has recently published two draft reports amending the European Commission's proposal. Amongst others, the main divergences are across.

- The European Parliament suggested changing the NPL securitisation definition to: a securitisation backed by a pool of non-performing exposures and the value of which makes up at least 90% of the pool's **net value** at the time of origination and **at any subsequent date on which exposures are added or removed from the underlying pool**; and,
- The European Parliament suggested that the 100% risk weight applicable to the senior tranche of traditional NPL securitisations should be defined as a **ceiling** per the EBA's proposal, **not a fixed floor** per Basel and the European Commission's amendments. This is to allow for the application of more risk sensitive risk weights in accordance with SEC-ERBA, SEC-IRBA or SEC-SA.

The European Parliament has scheduled a vote on the two draft reports for the end of October 2020. As such, it remains critical to continue observing the evolution of these developments, and how they may be translated into formal legislation in the near-to-medium term.

Pricing of GACS deals

Do GACS deals achieve a better pricing for the benefit of banks?

Comparing GACS' prices to straight transactions

GACS transactions are usually structured around three tranches: senior, mezzanine, and junior. The notional value of the notes is not an indication of the value of the portfolio as, whilst the senior notes are usually retained by the bank at face value, mezzanine and junior notes are sold to third party investors at a, often steep, discount.

Therefore, in our analysis, we've considered the price of the transaction to be the sum of the notional value of the senior notes and the sales value of the mezzanine and junior notes.

We could trace the sales prices of mezzanine and junior notes of 17 GACS transactions. For greater clarity, we have further split these transactions into different asset mix degrees from secured to unsecured.

We have then considered 28 straight sale transactions for which we had visibility on the pricing and performed a side-by-side comparison.

There are numerous caveats to our analysis, such as the fact that the sample of transactions is limited, that it includes GACS schemes of slightly different nature and that every transaction is in and on itself different. Furthermore, we only compared transactions by the proportion of secured/unsecured mix but we did not and could not compare the quality of the credits and assets included in each.

Nevertheless, our initial observation is that, on average, GACS transactions have commanded higher prices than straight sales. However, in the Secured and Mostly Secured asset mix, we observed strikingly similar prices between GACS and straight sales.

Pricing comparison	GACS						Straight sale					
	Nr. deals #	GBV EUR'm	GBV sec %	GBV uns %	Price EUR'm	WA Price Price / GBV	Nr. deals #	GBV EUR'm	GBV sec %	GBV uns %	Price EUR'm	WA Price Price / GBV
Asset mix												
Secured	2	4,958	100%	0%	1,604	32%	15	3,765	100%	0%	1,200	32%
Mostly secured	7	16,429	70%	30%	4,844	29%	3	12,700	79%	21%	3,597	28%
Mixed	7	32,599	47%	53%	6,664	20%	–	–	n.a.	n.a.	–	17%*
Mostly unsecured	1	964	39%	61%	184	19%	5	23,546	37%	63%	2,713	12%
Unsecured	–	–	n.a.	n.a.	–	n.a.	5	2,803	0%	100%	101	4%
Total	**17**	**54,949**	**58%**	**42%**	**13,295**	**24%**	**28**	**42,814**	**53%**	**47%**	**7,610**	**18%**

Source: Deloitte elaboration on publicly available data
* Straight sale mixed: given absence of comparables, interpolated value using sec/unsec sale values weighted by the comparable mix in a GACS securitisation

Nr. deals						
#	Sec.	Mostly Sec.	Mixed	Mostly Usec.	Unsec.	Total
Year						
2016	–	1	–	–	–	**1**
2017	–	2	1	–	–	**3**
2018	–	3	6	1	–	**10**
2019	2	1	–	–	–	**3**
Total	**2**	**7**	**7**	**1**	**–**	**17**

GBV						
EUR'm	Sec.	Mostly Sec.	Mixed	Mostly Usec.	Unsec.	Total
Year						
2016	–	471	–	–	–	**471**
2017	–	2,366	313	–	–	**2,679**
2018	–	7,391	32,286	964	–	**40,641**
2019	4,958	6,200	–	–	–	**11,158**
Total	**4,958**	**16,429**	**32,599**	**964**	**–**	**54,949**

Price/GBV						
%	Sec.	Mostly Sec.	Mixed	Mostly Usec.	Unsec.	Total
Year						
2016	n.a.	31%	n.a.	n.a.	n.a.	**31%**
2017	n.a.	32%	28%	n.a.	n.a.	**31%**
2018	n.a.	33%	20%	19%	n.a.	**23%**
2019	32%	25%	n.a.	n.a.	n.a.	**28%**
Total	**32%**	**29%**	**20%**	**19%**	**n.a.**	**24%**

Source: Deloitte elaboration on publicly available data

Time evolution

It has been argued that, with time passing and market players getting more sophisticated in their understanding of the product, pricing has also adjusted to more closely reflect the real value of the underlying assets.

Therefore we've also analysed how pricing of GACS has evolved over time. Unfortunately the supporting evidence is limited. For example, the Mostly Secured category shows a clear decrease in pricing in 2019 compared to previous years but it's only based on one transaction. Similarly, the Mixed category indicates a clear decrease in 2018 compared to 2017, but the 2017 figure is again based only on one transaction.

Therefore the results of our analysis seem to support the view that GACS prices have progressively adjusted to the market, although this must be taken with some caution due to the limited data available.

Conclusion

Whilst the price of GACS sales is nominally not too dissimilar from straight sales – especially for secured and mostly-secured transactions – market participants caution that business plans have been historically overly optimistic.

This would explain the raft of recent rating downgrades, even before the COVID-19 crisis hit the market. With this in mind, GACS transactions have represented a good deal for banks, and conversely not so much for investors.

In order to restore the confidence in the product, the level of due diligence performed on the sell-side and the credibility of the business plans must be enhanced.

Options around structures

There isn't a solution that fits all situations

As a tool to increase deal flow, GACS has been embraced enthusiastically by Italian banks and has been hailed as an all-around success story. It is clear that GACS securitisations have contributed to a considerable extent to the deleveraging process of Italian banks since 2016.

There are early indications that HAPS is playing a similar role in Greece. Furthermore, these government-backed schemes have shown resilience during the early stages of the COVID-19 crisis with two new GACS closed in June 2020 and a number of ongoing transactions in Italy and Greece.

There are a number of aspects to be taken into consideration, however, when determining the mechanics to effect a loan portfolio deleveraging and they may be pointing to different solutions depending on the specific circumstances of the selling banks or the portfolio.

In the table below we summarised the key dimensions of the analysis that, in our opinion, should be taken into consideration. Ultimately there isn't a solution that fits all situations and the transaction type must be chosen after careful consideration.

Dimension	Straight sale	Market securitisation	Government-backed securitisation
Sales price	As described earlier, it has historically commanded a slightly lower price than other options.	There is limited comparable information but arguably in between a straight sale and a government-backed securitisation.	As described earlier, it has historically commanded a higher price than other options, and particularly the straight sale.
P&L impact (short term upon sale)	Assuming it commands a slightly lower price, then the straight sale will produce an inversely higher loss.	In between the straight sale and the government-backed securitisation.	Assuming it commands a slightly higher price, then the government-backed securitisation will produced an inversely lower loss.
P&L impact (long term return on reinvestment of proceeds)	Proceeds from the sale can be reinvested by the bank into lending at the same rate or return of the bank's other investments.	It depends on the portion and class of notes retained.	Senior notes, which are typically retained, yield very low returns and therefore have a dampening impact on long term P&L results. Proceeds from the sale of 95% of the Mezzanine and Junior notes can be reinvested, but they represent a small portion of the securitisation.
Capital impact	Positive capital impact as NPLs are replaced with loans of a similar nature of the bank's assets.	Positive capital impact on rated notes. Capital impact on unrated notes dependent on transaction characteristics.	Very positive capital impact with 0% weighting of the senior notes.
Accounting derecognition	Full derecognition.	Derecognition if a sufficient portion of the mezzanine and junior tranches are sold to third parties.	Derecognition if a sufficient portion of the mezzanine and junior tranches are sold to third parties.
Timing	In addition to the preparation of the portfolio for sale, there are typically two bidding phases that can take a further 3 to 4 months.	If the securitisation is rated then the timeframe is similar to that of a government-backed securitisation. If it's not rated then it's even shorter.	The preparation phase is a bit longer of that of a straight sale as it involves the credit rating process. The sale is shorter as it requires less due diligence and it's typically only one phase. Overall shorter time frame.
Control	Affords total control over the portfolio on the buyer.	The control is fully in the hands of the servicers. Even in case of servicer replacement due to underperformance, the note holders have little control over the day-to-day activities.	The control is fully in the hands of the servicers. Even in case of servicer replacement due to underperformance, the note holders have little control over the day-to-day activities.

Portfolio Lead Advisory Services ("PLAS")

Specialist team within Deloitte that operates as the Global Centre for Excellence for Loan Portfolio Advisory Services, bringing together global experts across geographies

We advise **holders**, **buyers** and **sellers** of performing, distressed and non-core debt in deleveraging planning, loan portfolio management and strategy

Completed deleveraging strategy plans on €250bn

Lead sale advisor on over €120bn of loan portfolio sales

Buy-side advisor on over: €150 bn

Unparalleled understanding of the buyer community – we know which buyers are the most active in the market, their preferred asset types and pricing parameters

Global leader in the loan portfolio advisory market

Global approach, local insight – 150+ strong team worldwide, spanning every active market

- **Leading loan portfolio sell-side advisor**
- **Highly experienced team in the market**
- **Trusted advisor to the buyer community**
- **Advised on over €100bn of assets in the last 12 months**
- **Team is highly mobile and globally active**
- **A Deloitte process increases market confidence in a successful loan sale**

Our Core Services

- **Sell-side advisory** – full service market advisory to financial institutions and sellers of loan portfolios from strategy and preparation to sales execution.
- **Strategic advisory** – advising financial institutions on loan portfolio analysis; development and implementation of strategic deleveraging options; structural and operational opportunities to maximise value including bad bank establishment, operational carve outs, operational wind-downs and outsourced servicing.
- **Balance sheet advisory** – advising financial institutions on their capital/liability strategies and options, credit risk management and de-risking tools. Comprehensive support in stakeholder outreach.
- **Buy-side acquisitions** – supporting investors with all aspects of due diligence on loan portfolios including analysing, understanding and pricing.

Contacts

Global Portfolio Lead Advisory Services

David Edmonds
Global Head
+44 (0)20 7303 2935
dedmonds@deloitte.co.uk

Austen Koles-Boudreaux
Head of Balance Sheet Advisory
+44 (0)20 7007 7002
akolesboudreaux@deloitte.co.uk

Chi-Nang Kong
Asia Head
+65 6800 2270
cnking@deloitte.com

Amo Chahal
Partner
+44 (0)20 7007 7323
achahal@deloitte.co.uk

Nahuel Callieri
Director
+44 (0)20 7303 7321
ncallieri@deloitte.co.uk

Ankur Patodi
Director
+44 (0)20 7007 5258
anpatodi@deloitte.co.uk

George Wildmoore
Director
+44 (0)20 7303 0252
gwildmoore@deloitte.co.uk

Andrew Orr
Global Transactions Leader
+44 (0)20 7007 0759
anorr@deloitte.co.uk

Benjamin Collet
Southern Europe and LatAm Head
+44 (0)20 7007 0954
bcollet@deloitte.co.uk

Alok Gahrotra
Partner
+44 (0)20 7007 2164
agahrotra@deloitte.co.uk

Richard Bevan
Director
+44 (0)20 7007 3616
rbevan@deloitte.co.uk

Christophe Malherbe
Director
+44 (0)20 7007 3616
cmalherbe@deloitte.co.uk

Nicola Scardigli
Director
+44 (0)20 7007 9730
nscardigli@deloitte.co.uk

Michele Pedrotti
Director
+44 (0)20 7303 2184
mpedrotti@deloitte.co.uk

Global Financial Advisory

Nordics
Bjorn Lagerstam
Partner
+45 30 93 48 30
blagerstam@deloitte.dk

Greece
Panagiotis Chormovitis
Partner
+30 210 678 1316
pchormovitis@deloitte.gr

Cyprus
Nicos Kyriakides
Partner
+357 258 68601
nkyriakides@deloitte.com

Denmark
Lars Berg-Neilsen
Partner
+45 20 24 73 10
lbergnielson@deloitte.co.uk

Thomas Clifford
Partner, Financial Risk
+45 30 93 40 31
thclifford@deloitte.dk

Ireland
Martin Reilly
Partner
+353 1 417 2212
mreilly@deloitte.ie

France
Hrisa Nacea
Partner
+33 1 55 61 41 95
hnacea@deloitte.fr

Germany
Frank Nagel
Partner
+49 697 5695 6870
frnagel@deloitte.de

Thomas Mazur
Partner
+49 40 320804582
thmazur@deloitte.de

CEE
Balazs Biro
Partner
+36 (1) 428 6865
bbiro@deloitteCE.com

Italy
Umberto Rorai
Partner
+39 02 8332 5056
urorai@deloitte.it

Portugal
Joaquim Paulo
Partner
+351 2104 22502 4002
jpaulo@deloitte.pt

Spain
Jose Antonio Olvarrieta
Partner
+34 9 1443 2875
jolavarrieta@deloitte.es

Brazil
Luis Vasco Elias
Partner
+55 11 5186 1715
luisvasco@deloitte.com

Credit and Financial Risk

Richard Tedder
Partner, Credit Risk Measurement
+44 (0)20 7007 6475
rtedder@deloitte.co.uk

Ian Wilson
Partner, Financial Risk Measurement
+44 (0)20 7303 6420
iwilson@deloitte.co.uk

Andrew Spooner
Partner, Financial Instruments
+44 (0)20 7007 0204
aspooner@deloitte.co.uk

Mark Rhys
Partner, Financial Instruments
+44 (0)20 7303 2914
mrhys@deloitte.co.uk

NPL securitisations

Appendices

GACS performance

An overview of GACS portfolio performance

GACS performance against Business Plan estimates

Scope has reported that 11 of the 19 GACS transactions (for which it provides a rating) are currently under-performing in terms of gross collections. However, looking at net collections, 14 transactions perform slightly better suggesting that costs have been lower than expected.

Portfolio	Performance against Gross BP estimates	Performance against Net BP estimates
POP NPLs 18	110%	119%
Juno 1	58%	77%
Juno2	31%	38%
Riviera NPL	27%	37%
Prisma SPV	16%	14%
RED SEA	12%	19%
BCC NPLs 2018-2	10%	15%
Major SPV	8%	14%
Aqui SPV	-1%	5%
2 Worlds	-4%	-3%
Leviticus	-5%	-1%
BCC NPLs 18	-7%	-8%
Maggese	-8%	2%
Ibla	-9%	-10%
4 Mori	-12%	8%
Aragorn NPL	-18%	-12%
Siena NPL 2018	-24%	0%
Elrond NPL	-27%	-27%
Bari NPLs 17	-29%	-27%

Source: Scope Q2 Update: 57% of Italian NPL securitisations now under-performing, 18 June 2020, https://www.scoperatings.com/ScopeRatingsApi/api/downloadstudy?id=7bc725dd-8057-4834-8853-5fdf7398b3a6

Latest performance ratios & subordination triggers

Since 2016, only two subordination events have taken place (both concerned Aragorn NPL). Currently, Aragorn NPL mezzanine interest is being paid senior again as a result of CCR returning above the threshold during IPD 3.

Portfolio	Latest IPD	NPV Profitability	Cumulative Collection Ratio	Subordination Trigger	Trigger Definition
POP NPLs 18	4/30/2020	100.7%	218.5%	90.0%	CCR & NPV
Juno 1	1/31/2020	100.3%	158.3%	85.0%	CCR & NPV
Juno 2	1/31/2020	100.3%	131.3%	85.0%	CCR & NPV
Riviera NPL	1/31/2020	100.1%	141.7%	90.0%	CCR & NPV
Prisma SPV	5/5/2020	102.4%	112.9%	90.0%	CCR & NPV
RED SEA	4/30/2020	106.4%	118.2%	70.0%	CCR & NPV
BCC NPLs 2018-2	1/31/2020	151.4%	100.4%	80.0%	CCR & NPV
Maior SPV	1/31/2020	125.0%	111.9%	90.0%	CCR & NPV
Aqui SPV	4/30/2020	102.2%	105.9%	95.0%	CCR & NPV
2Worlds	1/31/2020	122.3%	96.4%	85.0%	CCR & NPV
Leviticus	1/31/2020	104.3%	98.0%	70.0%	CCR & NPV
BCC NPLs 18	12/31/2019	101.2%	94.6%	90.0%	CCR & NPV
Maggese	1/31/2020	103.7%	101.3%	90.0%	CCR & NPV
Ibla	4/30/2020	156.0%	90.4%	85.0%	CCR & NPV
4Mori	1/31/2020	134.3%	106.8%	90.0%	CCR & NPV
Aragorn NPL	1/31/2020	113.9%	91.8%	90.0%	CCR & NPV
Siena NPL 2018	4/30/2020	103.6%	75.8%	50.0%	CCR
Elrond NPL	1/31/2020	136.9%	72.7%	N/A	N/A
Bari NPLs 17	4/30/2020	100.2%	74.2%	90.0%	NPV
Fino	4/30/2020	N/A	N/A	70% & 75%	% GBV
Brisca	6/30/2020	111.7%	105.1%	90.0%	CCR & NPV
Bari NPLs 16	6/30/2020	103.0%	75.0%	90.0%	CCR & NPV

CCR: Cumulative Collection Ratio
NPV: NPV Profitability Ratio
% GBV: Cumulative collections as % on GBV
Source: Deloitte analysis on DBRS performance reports and "Scope Q2 Update: 57% of Italian NPL securitisations now under-performing"

Rating downgrades

Portfolio	Rating Agency	Class A	New Rating	Class B	New Rating
Bari NPLs 17	Scope/Moody's	BBB/Baa3	BB –/Ba2	B+/NR	CC/NR
Elrond NPL	Scope/Moody's	BBB –/Baa3	B+/Ba3	B+/B1	CCC/Caa1
Aragorn NPL	Scope/DBRS	BBB –/BBB (low)	B+/B (low)	B/CCC	CC/CC
4Mori	Scope	A-	U/R	BB-	B+
2Worlds	Scope	BBB	BBB-	B	B-
BCC NPLs 2018	Scope/Moody's	BBB –/Baa3	BB –/Ba1	B+/Caa2	CC/Caa2
Maggese	Scope/Moody's	BBB/Baa3	BBB –/Ba1	NR	NR
Red Sea	Scope/Moody's	BBB/Baa2	BBB –/Baa1	NR	NR
Riviera NPL	Moody's	Baa3	Ba1	Ca	Ca
Bari NPLs 16	Moody's	Baa1	Ba1	B2	B3
Brisca	DBRS	BBB (high)	BBB (low)	B (low)	CCC
BCC NPLs 2018-2	Scope	BBB	BBB-	B+	B
Prisma SPV	Moody's	Baa1	Baa2	B3	B3
BCC NPLs 2019	Moody's	Baa2	Baa3	B3	Caa1

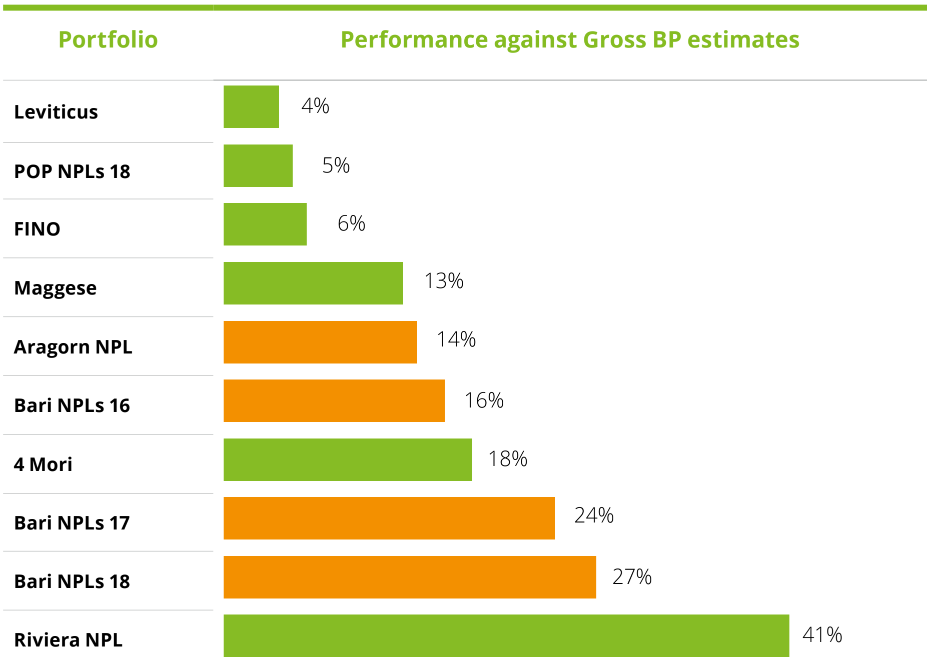
U/R: Under Review
NR: Not Rated
Source: Deloitte analysis on Scope and Moody's Ratings

GACS secondary sales

As of December 2019, GACS collections from secondary sales to third parties amounted to c. EUR 231m representing 4.7% of total collections.

On March 2020, Debtwire reported that the pace of secondary sales had increased significantly. More specifically, in 2H19 GACS collections from secondary sales amounted to EUR 117m (representing 9.5% of total) compared to EUR 22m in 1H18 (representing 1.7% of total). Such sales are part of the normal NPL management of the portfolios however, for portfolios with poor performance they can be a way to maintain cash flow.

GACS secondary sales – Top 10 portfolios



Source: Debtwire "GACS Secondary Sales" – March 2020

List of deals since 2016

GACS securitisations

		Secured/Unsec	Year		Notes split			
Deal name	**Seller**	**Simplified**	**closed**	**GBV (€'m)**	**S**	**M**	**J**	**Buyer**
BPB NPLS 2016 S.r.l.	Banca Popolare di Bari	Mostly Secured	2016	471	127	14	10	Davidson Kempner (Junior)
Elrond NPL 2017	CreVal	Mostly Secured	2017	1,405	464	43	20	Waterfall (95% of M and J)
Brisca	Carige	Mostly Secured	2017	961	267	31	12	Davidson Kempner
Caricesena GACS	Caricesena, Carim, Cassa di San Miniato	Not known	2017	2,800	360	500	–	Italian Recovery Fund (Mezz)
Buonconsiglio	Cassa Centrale Banca	Mostly Secured	2017	560	TBC	TBC	TBC	Locam (Junior)
BPB NPLS 2017 GACS	Banca Popolare di Bari	Mixed	2017	313	81	10	13	Not disclosed
Fino 1 securitisation S.r.l. (Fino phase 2)	Unicredit	Mixed	2017	5,310	650	70	50	King Street
Siena NPL 2018 S.r.l.	BMPS	Mixed	2018	24,100	2,918	848	565	Italian Recovery Fund (95% of the M and J)
Aragorn NPL 2018	Creval	Mostly Secured	2018	1,600	510	67	10	Davidson Kempner (95% of M and J)
Red Sea (a.k.a. Exodus project)	Banco BPM	Mostly Secured	2018	5,097	1,657	153	51	CRC (95% of M and J)
4Mori Sardegna	BPER	Mixed	2018	1,045	232	13	8	Not disclosed
2Worlds	Banco di Desio & Banca Popolare di Spoleto	Mixed	2018	1,000	289	30	9	Not disclosed
BCC NPLs 2018	ICCREA	Mostly Secured	2018	1,046	282	31	10	Not disclosed
Maggese	Banca di Asti	Mostly Secured	2018	695	171	24	11	Not disclosed
Maior SPV S.r.l.	UBI	Mixed	2018	2,749	629	60	27	Not disclosed
Aqui SPV S.r.l.	BPER	Mixed	2018	1,814	545	63	11	Not disclosed
Pop NPLs 2018	Multioriginator	Mixed	2018	1,578	426	50	16	Not disclosed
Riviera NPL	Carige	Mostly Unsecured	2018	964	175	30	10	Not disclosed
BCC NPLs 2018-2	ICCREA	Mostly Secured	2018	2,004	478	60	20	Good Hill Partners
Juno 1	BNL	Mixed	2018	957	136	26	2	SPF (95% of M and J)
Juno 2	BNL	Mostly Secured	2019	968	204	48	13	Not disclosed
Leviticus (a.k.a. Ace project)	Banco BPM	Mostly Secured	2019	6,200	1,440	222	249	Elliot (95% of M and J)
Buonconsiglio 2	Cassa Centrale Banca	Mostly Secured	2019	734	n.a.	n.a.	n.a.	Guber, Barclays, Varde
Etna SPV	Cassa Centrale Banca	Mostly Secured	2019	345	n.a.	n.a.	n.a.	Green Arrow Global
Fucino NPLs S.r.l.	Banca del Fucino	Not known	2019	297	n.a.	n.a.	n.a.	Not disclosed
Ibla S.r.l.	Banca Agricola Popolare di Ragusa	Mostly Secured	2019	349	85	9	4	SPF (B and J notes)
Prisma SPV	Unicredit	Mostly Secured	2019	4,100	1,210	80	30	SPF (95% of M and J notes)
Iseo SPV S.r.l.	UBI	Mostly Secured	2019	858	335	25	14	Not disclosed
Pop NPLs 2019	Multioriginator	Mixed	2019	826	173	25	5	Not disclosed
BCC NPLs 2019 (aka Octavia)	ICCREA	Mostly Secured	2019	1,300	355	53	13	Not disclosed
Spring SPV	BPER	Mixed	2020	1,377	320	20	3	Not disclosed
Diana	Banca Popolare di Sondrio	Mostly Secured	2020	1,000	235	35	4	In progress

Other European NPL securitisations

Italy (Market NPL securitisations)

			Secured/ Unsec	Year		Notes split			
Deal name	**Seller**	**Type**	**Simplified**	**closed**	**GBV (€'m)**	**S**	**M**	**J**	**Buyer**
Belvedere	CRC, Bayview	NPL securitisation	Mixed	2018	2,451	320	165		Mediobanca (100% of S notes)
Pinzolo	Hoist	NPL securitisation	Mostly Unsecured	2019	225	n.a.	n.a.	n.a.	CarVal (95% of the Junior notes)
Kerma SPV S.r.l.	Intesa	NPL securitisation	Mostly Secured	2019	2,700	1,258	383	60	Prelios (95% of M and J notes)
Marathon SPV S.r.l.	Hoist	NPL Securitisation	Mostly Unsecured	2019	5,000	286	25	25	CarVal (95% of the M and J notes)
Futura 2019 S.r.l.	Guber	NPL securitisation	Mixed	2019	1,256	158	37	8	Public (Senior notes)

Greece

			Secured/ Unsec	Year		Notes split			
Deal name	**Seller**	**Type**	**Simplified**	**closed**	**GBV (€'m)**	**S**	**M**	**J**	**Buyer**
Pillar	Eurobank	NPL securitisation	Mostly Secured	2019	2,000	1,000	300	700	Pimco (95% of M and J notes)
Cairo	Eurobank	NPL securitisation (HAPS)	Not known	2019	7,500	799	500	1,199	doValue and bank's shareholders (95% of M and J notes)

Portugal

			Secured/ Unsec	Year		Notes split			
Deal name	**Seller**	**Type**	**Simplified**	**closed**	**GBV (€'m)**	**S**	**M**	**J**	**Buyer**
Evora Finance	Caixa	NPL securitisation	Mixed	2017	581	123	20	34	Not disclosedd
Guincho	Santander	NPL securitisation	Mixed	2018	481	84	14	25	Not disclosedd
Gaia Finance	Caixa	NPL securitisation	Mixed	2019	234	48	8	15	Davidson Kempner

Ireland

			Secured/Unsec	Year		Notes split			
Deal name	**Seller**	**Type**	**Simplified**	**closed**	**GBV (€'m)**	**S**	**M**	**J**	**Buyer**
ERLS 2016-1 DAC	Lone Star	NPL securitisation	Mostly Secured	2016	0				Public
ERLS 2017-NPL1 DAC	Lone Star	NPL securitisation	Mostly Secured	2017	229				Public
Grand Canal Securities 2 DAC	Mars Capital	NPL securitisation	Mostly Secured	2017	518	231	9	10	Public
ERLS 2018-1 DAC	Lone Star	NPL securitisation	Mostly Secured	2018	356	215	19		Public
ERLS 2019-NPL1 DAC	Lone Star	NPL securitisation	Mostly Secured	2019	459	202	34	30	Public
ERLS 2019-NPL2 DAC	Lone Star	NPL securitisation	Mostly Secured	2019	1,338	622	60	60	Public

Spain

			Secured/Unsec	Year		Notes split			
Deal name	**Seller**	**Type**	**Simplified**	**closed**	**GBV (€'m)**	**S**	**M**	**J**	**Buyer**
ProSil Acquisition S.A. (aka project Salduero)	KKR	NPL securitisation	Mostly Secured	2019	495	170	30	15	Public (S, M), retained (J and Z)

Deal pipeline

At least EUR 35bn of deals by GBV at different stages of preparation

				Secured/Unsec		GBV	Known
Deal name	**Country**	**Seller**	**Type**	**Simplified**	**Status**	**(€'m)**	**Sell-side roles**
Titan	Italy	Alba Leasing	NPL securitisation (GACS)	Not known	Ongoing	400	Prelios (servicer), KPMG (advisor), Chiomenti (legal)
N/A	Italy	Cariparma	NPL securitisation (GACS)	Not known	Pipeline	1,000	–
N/A	Italy	Banco di Desio	NPL securitisation (GACS)	Mixed	Pipeline	1,100	Banca IMI (arranger)
N/A	Italy	REV	NPL securitisation (GACS)	Not known	Rumoured	2,000	–
N/A	Italy	Unicredit	NPL securitisation (GACS)	Not known	Ongoing	2,200	doValue (servicer)
N/A	Italy	Banca Popolare di Sondrio	NPL securitisation (GACS)	Not known	Ongoing	500	Banca IMI, SocGen (arrangers), KPMG (advisor), Prelios (servicer)
N/A	Italy	Confidential	NPL Securitisation	Mixed	Pipeline	1,000	JPM (arranger), KPMG (advisor)
Galaxy (Retail)	Greece	Alpha Bank	NPL securitisation (HAPS)	Not known	Ongoing	7,600	–
Galaxy (Wholesale)	Greece	Alpha Bank	NPL securitisation (HAPS)	Not known	Ongoing	3,000	–
Frontier	Greece	National Bank of Greece	NPL securitisation	Not known	Rumoured	6,000	–
Bridge	Greece	Piraeus Bank	NPL securitisation	Mostly Secured	Rumoured	1,000	–
Phoenix	Greece	Piraeus Bank	NPL securitisation (HAPS)	Mostly Secured	Ongoing (awaiting HAPS)	2,000	UBS (arranger), Alantra (advisor)
Vega	Greece	Piraeus Bank	NPL securitisation (HAPS)	Mostly Secured	Rumoured	5,000	JPM (arranger), Alantra (advisor)
N/A	Spain	Confidential	NPL securitisation	Not known	Pipeline	4,000	JPM (arranger), Deloitte (advisor)

Glossary of terms

ABS	Asset Backed Securities; the securities issued by the SPV when creating the securitisation, also known as notes
BP	Business Plan; against which servicer performance is measured
CDS	Credit Default Swap; effectively an insurance against the default of a financial instrument
CET1	Common Equity Tier 1
CRR	Capital Requirements Regulation
EBA	European Banking Authority
EC	European Commission
GACS	Garanzia Cartolarizzazione Sofferenze; the Italian guarantee scheme for NPL securitisations
GBV	Gross Book Value; the gross value of loans on a bank's balance sheet before adjustments and write-offs
GFC	Global Financial Crisis; the financial crisis that hit markets in 2007/08
HAPS	Hellenic Asset Protection Scheme; the Greek guarantee scheme for NPL securitisations
NBV	Net Book Value; the net value of loans on a bank's balance sheet after adjustments and write-offs
Notional	Value on the face of a security, like the notes of the securitisation, which does not necessarily reflect the intrinsic value
NPLs	Non-Performing Loans
NRPPD	Non-Refundable Purchase Price Discount; the discount between the GBV and sale prices of a NPL securitisation transaction
RPLs	Re-Performing Loans
RWAs	Risk-Weighted Assets
SEC-ERBA	Risk-weighting under the Securitisation External Ratings-Based Approach
SEC-IRBA	Risk-weighting under the Securitisation Internal Ratings-Based Approach
SEC-SA	Risk-weighting under the Securitisation Standardised Approach
SPV	Special Purpose Vehicle; the generic name given to the entity to which the NPLs are apportioned and which issues the ABS
UTPs	Unlikely to Pay Loans

Deloitte.

Designed by CoRe Creative Services. RITM0531827