

# Non-Performing Loans (NPLs)

The challenges, opportunities and our services






# The challenges

Grant Thornton's Financial Services Advisory, regulatory and transactions experts have specialist 'end-to-end' experience in Non-Performing Loans (NPLs) strategy development and execution. Across the eurozone, total NPLs are estimated to value more than €1 trillion. With the changes in NPL management highlighted below, the space for banks to manoeuvre through this balance sheet challenge has shrunk considerably.

## NPL management enforcement drivers

Banks operating with >15% NPLs are now deemed to be holding a 'high NPL' position. There is a limited number of options for exiting this position, these may be pursued exclusively or in combination, but either route must be guided by a clear overarching NPL strategy.

Reporting and monitoring 	Guidance and standards 	Model and capital impacts 
<p><b>Regulatory reporting:</b></p> <ul style="list-style-type: none"> <li>European Banking Authority - Implementing Technical Standards on Supervisory Reporting.</li> </ul> <p><b>Supervision:</b></p> <ul style="list-style-type: none"> <li>Single Supervisory Mechanism.</li> </ul>	<p><b>European Central Bank guidance:</b></p> <ul style="list-style-type: none"> <li>NPL recognition, work-out units and management.</li> </ul> <p><b>Accounting standards:</b></p> <ul style="list-style-type: none"> <li>IFRS 9 lifetime expected credit losses.</li> </ul>	<p><b>Internal models:</b></p> <ul style="list-style-type: none"> <li>definition of default; and</li> <li>targeted review of internal models.</li> </ul> <p><b>Capital:</b></p> <ul style="list-style-type: none"> <li>punitive capital and provision requirements to hold NPE.</li> </ul>

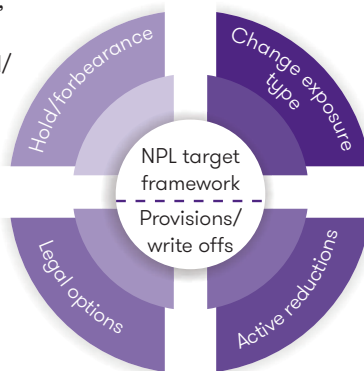
## NPL reduction outlets

### Change exposure type

Options include foreclosure, debt to equity swapping, debt to asset swapping and/ or collateral substitution.

### Legal options

Legal options include insolvency proceedings or out-of-court solutions.



### Change exposure type

Options include foreclosure, debt to equity swapping, debt to asset swapping and/ or collateral substitution.

### Active reductions

Achieved through sales and/ or writing off provisioned exposures deemed unrecoverable. Strongly linked to provision adequacy, collateral valuations, quality exposure data and NPL investor demand.

# The opportunities

We have significant capability to support both banks and market participants across all stages and activities in the NPL life cycle, including:

- NPL strategy development, enablement and execution;
- restructuring and resolution activities for banks and market participants;
- corporate finance, restructuring, refinancing and due diligence advice; and
- quantitative risk and specialist modelling support for IRB, IFRS9 and stress testing.

## NPL strategy core building blocks



### Operational assessment:

- assessing the operating environment, including internal NPL capabilities; and
- external conditions impacting NPL workout and capital implications.

### Strategic development:

- developing the NPL strategy, including targets in terms of development of operational capabilities (qualitative) and projected NPL reductions (quantitative), over short, medium and long-term time horizons.

### Implementation planning:

- implementing the operational plan, including any necessary changes in the organisational structure of the bank.

### Embedding:

- fully embedding NPL strategy into the management processes of the bank, also including a regular review and independent monitoring.

## Key management contacts for our local team include:



**Paul McCann**  
Partner, Head of Banking  
T +353 (0)1 680 5604  
E paul.mccann@ie.gt.com



**Stephen Tennant**  
Partner, Head of Financial  
Services Advisory  
T +353 (0)1 680 5672  
E stephen.tennant@ie.gt.com



**Dwayne Price**  
Partner, Financial Services  
Advisory  
T +353 (0)1 436 6494  
E dwayne.price@ie.gt.com



**Patrick Dillon**  
Partner, Corporate Finance  
T +353 (0)1 680 5793  
E patrick.dillon@ie.gt.com

Offices in Dublin, Belfast, Cork, Galway, Kildare, Limerick and Longford.



[www.grantthornton.ie](http://www.grantthornton.ie)



[@GrantThorntonIE](https://twitter.com/GrantThorntonIE)



Grant Thornton Ireland



**Grant Thornton**  
An instinct for growth™

[grantthornton.ie](http://grantthornton.ie)

© 2018 Grant Thornton Ireland. All rights reserved. Authorised by Chartered Accountants Ireland ("CAI") to carry on investment business.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton International Ltd (GTIL) and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.