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Spanish bank NPLs decrease in 1Q20, though surge from coronavirus pandemic expected — analysis

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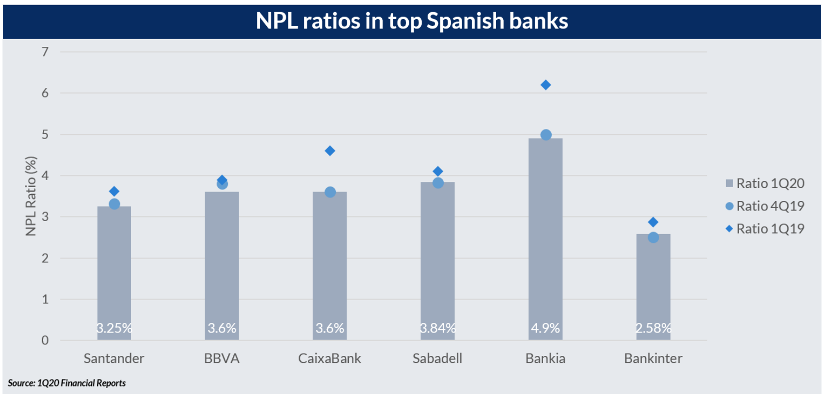
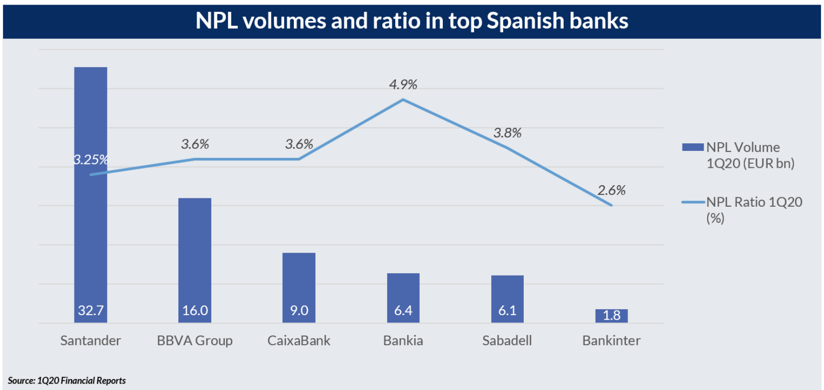
The volume of non-performing loans of Spain's six largest banks decreased further during 1Q20, but the banks have still set aside record levels of provisions to cover losses from an expected surge in bad loans due to the coronavirus pandemic.



The total level of NPLs for Santander Group, BBVA Group, CaixaBank, Sabadell, Bankia, and Bankinter was EUR 71.9bn at the end of March, earnings reports released this week showed. At the end of 2019, NPLs at the six banks totalled EUR 73.6bn, about 92% of the EUR 79.2bn total still on Spanish banks' balance sheets, according to the EBA Risk Dashboard. One year ago, at the end of 1Q19, the six banks had EUR 80bn of NPLs, 90.8% of the Spanish total of EUR 88.1bn.



Among the six banks, only Bankinter and CaixaBank saw a slight quarter-on-quarter increase in their NPL volumes. CaixaBank had EUR 8.9bn of NPLs, from EUR 8.8bn in December, with its NPL ratio still at 3.6% and down from 4.6% a year ago, when the volume was EUR 10.9bn. Bankinter's NPL volume was EUR 1.75bn in March, up from EUR 1.68bn in December, with its NPL ratio at 2.58% up from EUR 2.51% the previous quarter, but still down from EUR 1.77bn and 2.87% from previous year.

After years of cutting NPLs, the trend is now set to reverse. "A conservative estimation is that the level of NPLs in Spain will double from now to the end of 2021, with up to EUR 100bn new NPLs," said Jose Nestola, CEO of NPL servicer Copernicus.

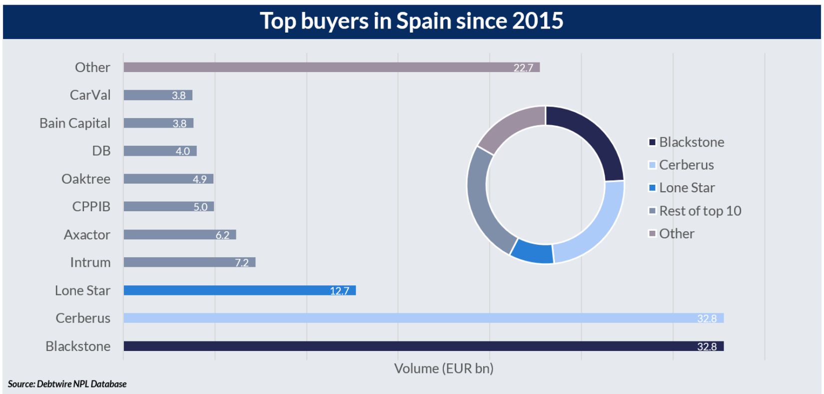
The six banks took a total of EUR 6.2bn in provisions for the first quarter. Over half is accounted for by Santander Group's EUR 3.9bn, of which EUR 1.6bn was specifically for losses linked to the pandemic.

While NPL sales have completely stopped, market players believe activity will come back in the second half of the year. "Now investors can't price the assets," said Nicolas Pellen, an independent advisor with pan-European experience in real estate and NPLs. "But the forecast is for activity to come back by late September, early October."

Players that have been active in Spain in previous years but were pushed back by high prices will make a comeback, Pellen added.

"Those that had missed the boat, entered the market too late will also come back, attracted by lower prices," Copernicus's Nestola said.

The Spanish market has been very polarised, with Blackstone, Cerberus and Lone Star having bought over half of the NPL and REO portfolios in the past five years, as *Debtwire*'s analysis shows.



The funds will be facing losses because of the drop in pricing of assets, but will also have opportunities, according to market players.

"The first buyers will remain the big funds," said Jose Masip, a partner at Axis Corporate. "They know this is a market of volume. The strategy for the funds is to get the volume that the market will offer." In 1Q20 only two sizeable portfolio sales closed in Spain for EUR 1.8bn, according to *Debtwire*'s 1Q20 European NPLs report. Still, in 2H20, sales could be up to EUR 20bn, Masip forecast.

The market players expected most sales to be of legacy NPLs that the banks will focus on selling before having to face the new wave of NPLs. Additionally, there will be secondary sales, which Masip forecast to be about 30% of the total, coming from the jumbo deals of past years.

"Seventy-five percent of the new NPLs will be SMEs and corporate, sales will first be unsecured and then secured SMEs while I expect a stop of mortgage portfolio sales," Nestola said.

"The big question," Nestola added, "is whether banks and investors will agree on prices. Still, with the current appetite we are seeing in the market, prices will drop but not as much as people expect."

by Alessia Pirolo and Amy Finch