

# Eurozone Update 2015

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## ABI 11<sup>th</sup> Annual International Insolvency & Restructuring Symposium

Eurozone Update 2015 – Ireland

Tony O'Grady, Matheson

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Hedge Fund Journal

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## Topics

- 2008 – The Economic Crisis
- The EU / IMF Economic Adjustment Programme
- Bank Resolution and Recovery Directive
- NAMA
- Bank Deleveraging
- 2015
  - Loan Portfolio Sales
  - Insolvency Statistics
- Options and Challenges
- Future Outlook

## 2008 – The Economic Crisis

- Factors:
  - Narrow tax base dependent on housing boom
  - High levels of public spending
  - Bank balance sheets disproportionate to size of economy
  - Inability of banks to access short term inter-bank lending due to international financial crisis
- By 2010, yields on Irish government debt reached 9%
- Ireland unable to access international bond markets

## The EU / IMF Economic Adjustment Programme

- 28 November 2010, Ireland agreed a financial assistance package with EU / IMF
  - €22.5 bn from IMF Extended Fund Facility
  - €22.5 bn from the European Financial Stabilisation Mechanism
  - €22.5 bn from the European Financial Stability Facility (€17.7 bn) and bilateral loans from the UK (€3.8 bn), Sweden (€0.6 bn) and Denmark (€0.4 bn)
  - Ireland also contributed €17.5 bn
- Final review completed December 2013
- Final disbursement made March 2014

## Bank Recovery and Resolution Directive

- Transposed into Irish law through the *EU (Bank Recovery and Resolution) Regulations, 2015*
- Single Resolution Mechanism (SRM)
  - Centralised responsibility for resolution of significant and cross border banks assigned to Single Resolution Board (SRB)
- Central Bank of Ireland – national resolution authority
- 4 significant Irish banks and 1 cross border bank within scope

## **National Asset Management Agency (NAMA)**

- Established December 2009
- Acquired certain loan assets (land and development and associated loans)
- Objective was to obtain best achievable return on assets for Ireland



**NAMA (contd.)**

- By end of 2011, a total of €74 bn in loans transferred to NAMA by five participating institutions and €31.8 bn paid as consideration – overall discount of 57%

	AIB	Anglo	BOI	EBS	INBS	Total
Loan balances transferred	20.4	34.1	9.9	0.9	8.7	74
Consideration paid	9.0	13.4	5.6	0.4	3.4	31.8
Discount	56%	61%	43%	57%	61%	57%

## **NAMA (contd.)**

- By end of 2014, NAMA had overseen loan sales with a nominal value of over €13 bn
- At Q3 2015, NAMA had collected €29 bn from loans
  - €23.5 bn from disposal receipts
  - €5.5 bn from non-disposal receipts – mainly rental income

## NAMA (contd.)

- NAMA loan portfolios sold include:
  - Project Eagle (€5.6 bn loan value) to Cerberus (2014)
  - Project Tower (€1.85 bn) to Blackstone (2014)
  - Project Spring (€400 m) to Deutsche (2014)
  - Project Drive (€200 m) to Patron Capital (2014)
  - Project Holly (€370 m) to Lone Star (2014)
  - Project Acorn (€130 m) to Varde Partners (2014)
  - Project Club (€250 m) to CarVal (2013)
  - Project Aspen (€800 m) to Starwood Capital / Key Capital Real Estate and Catalyst Capital (2013)

## Bank Deleveraging

- Ireland among the most active loan sale markets in Europe
- International banks aiming to reduce exposure in Ireland
  - Lloyds Banking Group reduced gross non-performing loans to circa £6.6 bn by Q2 2015
  - Ulster Bank / RBS – approx. €2.5 bn remaining non-performing capital assets
  - Danske Bank – all of Irish SME portfolio and majority of Irish commercial portfolio sold by 2015

## Bank Deleveraging (contd.)

- Activity of core domestic lenders limited in 2015 – no pressing need to deleverage – exception PTSB (sale of €5 bn in non-core assets)
- While total outstanding amount of debt securities for eurozone banking area decreased by 7.2% in last 12 months, the outstanding amount of debt securities issued by both Irish resident entities and the Irish Government remained broadly unchanged (€855.4 bn at end of August 2015)

## Bank Deleveraging (contd.)

- Examples of loan sales:
- Bank of Ireland
  - Shelbourne Hotel (€200 m loan value)
- Ulster Bank / RBS
  - Project Achill (€1.2 bn), Project Nadal (€200 m)
- Anglo / IBRC
  - Project Stone (€9.3 bn), Project Evergreen (€2.5 bn), Project Sand (€1.8 bn), Project Rock & Salt (€7.3 bn)
- Danske Bank
  - Project Circle (€100 m), Project Griffin (€540 m)

## 2015 – Loan Portfolio Sales

### ■ Loan

Institution	Portfolios	Loan Value €bn	Buyer
Ulster Bank	Aran	5.6	Cerberus
Lloyds	Poseidon	4.2	CarVal / Goldman Sachs / Bank of Ireland
Ulster Bank	Finn	2.6	Apollo / Deutsche / Sankaty / Cerberus
Lloyds	Parasol	2	CarVal / Goldman Sachs
Permanent TSB	Munster / Leinster	1.5	Apollo / Deutsche
Permanent TSB	Connacht	0.5	CarVal
Ulster Bank	Coney	0.5	Sankaty
Total		<b>16.9</b>	
<b>Currently on the market</b>			
NAMA	Arrow	7.2	On market
Ulster Bank	Clear	TBC	Currently being launched

## 2015 – Loan Portfolio Sales (contd.)

- Individual Borrowers

Institution	Portfolios	Loan Value €bn	Buyer
NAMA	Arch	0.6	Deutsche
NAMA	Maeve	0.8	Deutsche
NAMA	Jewel	2.4	Deutsche



## 2015 – Loan Portfolio Sales (contd.)

### ■ Assets

Institution	Portfolios	Price paid €bn	Buyer
NAMA	Project Trinity	0.2	Chartered Land and Abu Dhabi Investment Group
Lone Star	Dublin Portfolio	0.5	Starwood
<b>Currently on the market</b>			
NAMA	Hazel Portfolio	On market	
Bank of Ireland	National Portfolio	On market	

## Options for purchasers of debt

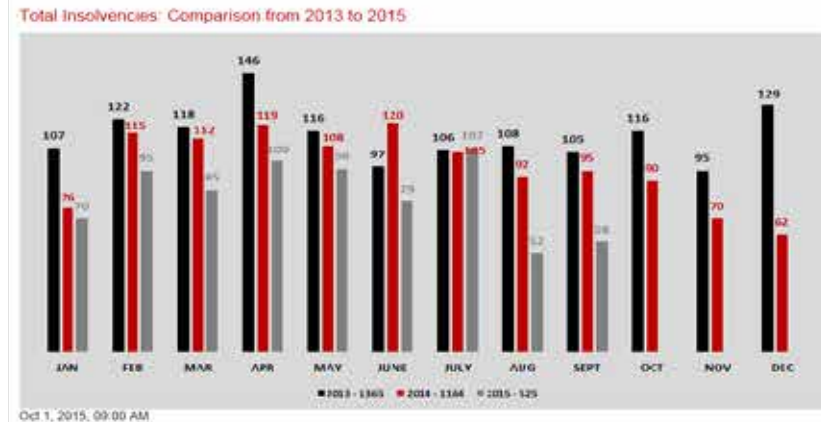
- Receivership
- Examinership

## Challenges

- Receivership
  - Judicial scrutiny of enforcement
    - *O'Flynn v Carbon Finance Limited & Others*
    - *In the matter of Luxor Investments Limited*
    - *Flynn & Benray v Breccia*
    - *McPhillips v ACC Loan Management Limited & Others*
    - *The Merrow Ltd v Bank of Scotland plc*
    - *Declan McDonald v Thomas Hill*
- Examinership
  - Interloper risk
    - *In the matter of Ladbroke (Ireland) Limited & Others / Eircom*

## 2015 (contd).

### ■ Corporate Insolvencies



Source: [www.insolvencyjournal.ie](http://www.insolvencyjournal.ie)

### ■ 2015 projected total: 990

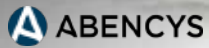
## Future Outlook

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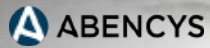


***11th Annual International Insolvency & Restructuring Symposium***

Luis Martín Bernardo

Madrid, 23 October 2015





## QUESTIONS

Legal and economic framework of restructuring in your country.

Sectors under restructuring currently, and sectors likely to be restructuring in the future in your country.

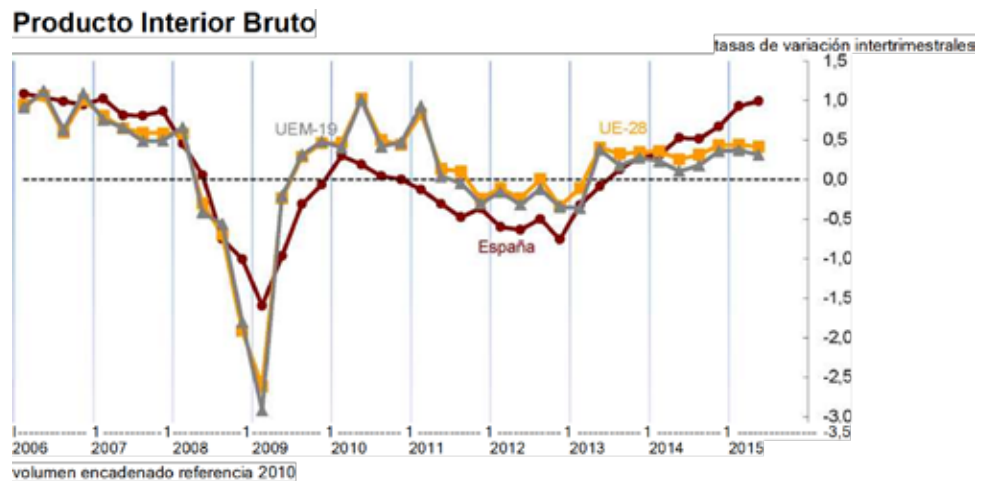
Practical recommendations and success factors for outstanding restructuring in your country.

Madrid, 11 September 2015



**QUESTION 1:** Legal and economic framework of restructuring in Spain

1. The Spanish economy suffered its deepest recession of the past 25 years, in the period 2008-2013. The recession affected first the real estate and building sectors and, gradually, its effect extended to other sectors, which also suffered from the crisis. The gross domestic product was reduced vastly, due to falling demand.
2. These past eight years have seen a change in the economic structure of Spain. In most cases, these changes were forced and were not anticipated by the different stakeholders acting in the economy. In order to improve the productivity of our economy there are certain actions that need to be taken in order to facilitate its growth from a solid foundation.



### QUESTION 1: Legal and economic framework of restructuring in Spain

**3.** Improvements in productivity came from the reduction of prices in cost factors, including labor factor, while maintaining a model of labor relations anchored in the past and giving some protection to social parties that are remote to be connected with their supposed representatives. The labor reform has been invalidated by the court resolutions, often based on defects in procedure, rather than on substantive issues.

**4.** As a result of lived experience, statistics show that Spanish GDP decreased from 1,087 billion euros in 2008 to 1.023 billion in 2013. This meant that the bankruptcy proceedings increased from 1,147 in 2007 and 3,298 in 2008 to 9,937 in 2013. In 2015, the latest estimation is for bankruptcy proceedings to be reduced to 5,000. Companies controlling multiple Spanish highways filed for bankruptcy between 2012 and 2014. With respect to listed companies: in 2008, 2 companies were protected by the bankruptcy proceedings, in 2013 8 companies filed for insolvency and, in 2014, only 4 companies went bankrupt.



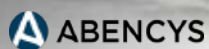
**QUESTION 1: Legal and economic framework of restructuring in Spain**

5. We have threats on the horizon from the socio-political vision of international conflicts and internal conflicts, which will shape the future of short-term and that are causing a situation with great levels of uncertainty; only the liars or those with vast amounts of information will be able to foresee and to anticipate and therefore ensure its success.

6. The legislation on insolvency has been modified in the last six years in twenty times. On some occasions, these changes affected deeply our legislation but on other occasions, the changes introduced had little impact. In some cases, changes were introduced for specific situations, always trying to avoid two evil assumptions: the fall of big business and clawback actions that could affect negatively our financial system. Our financial system has been the main operator in the Spanish restructuring process, deciding companies who were going to be rescued and at what time. The reason for this has been the decision made by our Government to prevent any financial institution to fail. Due to this, Spanish citizens have been penalized with an increase in their taxes in order for savers and depositors to maintain their savings.

7. The consequences of these changes and the influence of the financial sector will be: out of court insolvencies handled by the financial institutions concerned and with less responsiveness by other creditors; less control over the debtor due to the weakening of the professionalization of the receivers and the elimination of the figure of the independent expert. In short, a Spanish bankruptcy system that moves away, after all these changes, from bankruptcy systems in Western countries. Finally, and we are already seeing some examples, financial institutions which are now financially healthy and had refinanced large companies in difficulties in order to sustain their own balance sheets, have begun to drop these companies that they once supported

Madrid, 23 October 2015



### **QUESTION 2:** Sectors currently under restructuring, and the industries likely to be restructuring in the future in Spain

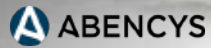
We expect a future that requires deep structural changes in some areas: production model and productivity improvement, public deficit reduction and modernization of our labor market. We cannot lose sight of the sectors that underpin our economy: tourism, food processing, medical and automotive. Moreover, we cannot lose sight of sectors with problems: energy, construction, equipment and infrastructure. All of those companies that have completed their second and third refinancing processes without solving their operating problems will still be in trouble.

### **QUESTION 3:** Practical Recommendations and success factors for outstanding restructuring in Spain

The main decision for investment/restructuring in special situations is whether to do a turnaround or whether to file for insolvency. Restructure or invest to do turnaround requires short term financial resources and certainty in quick cash flow generation, being careful to avoid any claw-back action in case of filing for insolvency.

Restructuring or invest in companies or assets during the insolvency procedure is safer, being ruled and protected by court, but those assets may be less interesting due to higher deterioration or market reluctance for being in the process.

Madrid, 23 October 2015



Thank you for your attention

Luis Martín Bernardo



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Madrid, 23 October 2015