

**Releasing economic growth in Ireland and the EU:
The impact of Non-Performing Loans. Resolving the
issue.**

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Shóna & Beau,

Thank you x

Abstract

This paper seeks to examine and evaluate the strategies employed by the Irish banking system to clean up bank balance sheets by reducing persistently high and problematic Non-Performing Loan ratios. The input and influence of EU policy makers is also considered and discussed.

The purpose of this research is to address an existing research gap regarding the impact of high Non-Performing Loan ratios across Europe in the wake of the global financial crisis of 2008. Most specifically, the researcher seeks to examine and explain the Non-Performing Loan predicament from Ireland's perspective, and evaluate the major Non-Performing Loan rectification efforts which have been employed.

The existing and relatable literature is predominantly descriptive and cross-sectional. There is a dearth of qualitative studies on matters regarding problematic Non-Performing Loan ratios in Ireland and across Europe. The researcher has adopted a qualitative research approach. A purposive sample of senior-ranking professionals from private and public institutions within the banking, and financial services industries were interviewed. Their knowledge and experience of the subject matter was crucial to adding value and credence to the research.

The banking system needs to build its resilience in advance of another potential economic shock. Counter-cyclical reforms have been implemented across the EU and internationally. Most significantly, provisioning requirements for banks have been extensively revised and intensified.

Non-Performing Loans are a source of vulnerability to a banking system. It is incumbent upon banks to deleverage by clearing large volumes of Non-Performing Loans from their balance sheets. Secondary market portfolio sales have emerged as the primary approach adopted by Irish banks. The researcher predominantly aims to understand the resolution approaches adopted in Ireland and evaluate their effectiveness.

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List of Abbreviations

AECE	Accelerated Extrajudicial Collateral Enforcement
AMC	Asset Management Company
CBI	Central Bank of Ireland
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
EMU	European Monetary Union
EU	European Union
GDP	Gross Domestic Product
IAS 39	International Accounting Standards 39
IFRS 9	International Financial Reporting Standard 9
NAMA	National Asset Management Agency
NPL	Non-Performing Loan
SME	Small and medium-sized enterprise

Chapter 1: Introduction

Introduction

The EU's NPL problem has been enduring since the arrival of the financial crisis which ensued after the global economic crash of 2008. NPLs restrict a bank's ability to lend to the real economy, which is essentially their core economic function. NPLs have a negative impact on credit supply which has a direct impact on economic growth (Us, 2017).

In March 2018 the EC presented its package of measures aimed at tackling NPLs and preventing their future build up. Efforts have been made predominantly at individual national level across EU member states (European Commission, 2018). This granular approach to resolving NPLs has been somewhat cumbersome and there remains a disparate outlook around Europe. The European Parliament has recently redoubled their focus on NPLs, engaging with the ECB and EC, to formulate strategies aimed at expediting a resolution. Economic recovery and growth among member states is being impeded by substantial blocks of legacy NPLs on their bank's balance sheets (Jackson, 2018).

Direct sales to private investors provide the opportunity to dispose of NPLs quickly (Constancio, 2017). Ireland currently has the second largest market for distressed debt loan sales in Europe. This year alone, Irish lenders have sold €6.2bn worth of loans up to 22 July 2019, second only to Italy's €6.5bn (Irish Times, 2019).

Supervisory and regulatory reforms, intent on reducing persistently high NPL ratios and bolstering member states' banking systems, have been formulated by the ECB. The effectiveness of EU member states' executed resolution approaches have not yet been fully analysed and evaluated.

Ireland's banks have made significant progress in recent years. The researcher has identified a distinct lack of qualitative studies directly addressing the NPL problem

from an Irish perspective. The overarching context of this study predominantly relates to the Irish narrative.

The aim of this research is to contribute towards closing the identified gap. The researcher intends to evaluate some of the resolution and reform efforts which have been implemented by EU policy makers, and understand their effectiveness, particularly in the Irish context. Given this direction, the research can be focussed on three key research questions;

- (i) *How has Ireland's banking system dealt with reducing NPL ratios?*
- (ii) *Has the EU/ECB responded to the issue and implemented effective recovery measures?*
- (iii) *How effective are secondary market for tackling NPL ratios?*

To address these questions, the researcher has adopted a qualitative approach. As mentioned, it has become evident to the researcher that there is a dearth of qualitative studies on matters regarding problematic NPL ratios in Ireland and across Europe. The literature is predominantly descriptive and cross-sectional. Qualitative research usually emphasises words as opposed to quantification in the collection and analysis of data (Bryman, 2008). Furthermore, qualitative research primarily emphasises an inductive approach to the relationship between theory and research, whereby the emphasis is centred on generating theories (Bryman & Bell, 2011). By applying an inductive approach, the researcher builds theory. Essentially the theory is the outcome of research. The researcher has interwoven empirical data collected from the participants with theoretical propositions taken from reviewing the literature (Yin, 2011).

Dissertation Structure

The paper is organised as follows:

Chapter 1: Introduction provides a summary to the research paper, an overview of the objectives of the research and sets out the structure of the paper.

Chapter 2: Literature Review details the apt and applicable literature for the research questions under review and identifies gaps in the literature which provide the focus for this study.

The literature review centres on journals, books, papers, articles and studies which concentrate on the subject of problematic NPL ratios. The most pertinent propositions emerging from the literature have been selected as the basis of the empirical research.

The researcher aims to critically evaluate the theoretical environment relevant to the research paper.

Chapter 3: Methodology details the selected research philosophy, strategy, approach, and method. Additionally, the researcher describes the rationale, the data collection and analysis methods, and the ethical considerations and limitations associated with the research.

Chapter 4: Findings describes the main findings of the study and the sample set.

Chapter 5: Discussion considers and reviews the findings and aims to draw parallels with the literature reviewed. Conclusions are subsequently extracted.

Chapter 6: Conclusion brings the dissertation to a considered and informed close.

The conclusions of the study are presented, limitations of the research are explained and recommendations for future research are put forward.

Chapter 2: Literature Review

Introduction

NPLs are bank loans which are subject to late repayment or are not likely to be repaid by the borrower (European Commission, 2019). Borrowers' capacity to repay their loans was aggravated during the financial crisis and the subsequent recessions. A severe accumulation of NPLs was widely common on the balance sheets of many banks. This was exceptionally prevalent across numerous EU member states.

Substantial volumes of NPLs are harmful to bank's balance sheets. This has been an enduring problem affecting Ireland's banking system since the Economic Crash which occurred in 2008. The problem is not unique to Ireland; this issue has broadly impacted the entire EU. A solution is imperative, otherwise economic recovery and growth among EU member states will be undermined (Jackson, 2018).

Encouragingly, since 2014, average NPL ratios across the EU have been reduced by more than one third. Total volumes of NPLs have remained persistently high however due to the slow progress of several member states to reduce them. EU regulators have set an indicative NPL ratio target of 5% which all banks must progress towards, and achieve (Quinn, 2018). To counter the assumed position of target setting, some studies have suggested the benefit of an approach whereby it would be more effective to disaggregate an industry wide NPL reduction target into individual bank targets. This alternative approach may lead to a banking system realising optimal efficiency levels (Yang, 2017).

The EBA most recently published data and figures pertaining to NPLs across Europe (Early 2019). The average NPL ratio has been determined at 3.6%, a substantial decrease from the 5% calculated in 2015. Taking a broader perspective however, it is estimated that European banks are still holding €750bn of NPLs. There are 17 countries with a ratio below the EU average, while 13 are over the average of 3.6% (Deloitte, 2018). There is considerable disparity across EU member states.

Deputy Governor of the CBI, Ed Sibley, commented that;

“NPLs go to the heart of banking – both its simplicity and complexity. Because credit, like banking more generally, ultimately requires trust. High levels of NPLs can erode that trust and confidence in the banking system.....In short, they can cause serious dysfunction for the banking system and hence its ability to serve the economy and its customers” (Sibley, 2017).

This research piece aims to investigate the risks caused to financial stability by large stocks of NPLs across the EU, most specifically in relation to Ireland. The researcher will examine why outstanding high volumes of NPLs are detrimental to economic growth and evaluate the Irish banking system’s response and emergent ECB policies. The ECB’s Financial Stability review of May 2017 presented its strategies for tackling the NPL problem. Several member states have already seen their banks, in recent years, begin to significantly reduce NPLs from their balance sheets. Existing literature suggests that there is not one single optimal solution.

i) Background: The NPL crisis antecedent (Ireland)

The global financial crisis of 2008 severely impacted upon Ireland’s economy and financial system. The domestic crisis was triggered by a highly leveraged banking sector (Donnery et al, 2018). Prior to the crisis, Ireland experienced an unprecedented phase of economic growth and prosperity. Eurozone membership saw interest rates fall drastically. Ireland joined the single EU currency at the turn of the millennium. Cheap and abundant cross-border funding was readily available. Global financial markets featured an extended period of high liquidity and low risk premia. Ireland’s integration with other European financial markets facilitated the onset of a lending boom (Regling & Watson, 2010). Access to wholesale funding, and the competitive conditions that subsequently pervaded the Irish banking industry, would lead to devastating errors of misjudgement in bank management and governance; both central contributors to the aforementioned domestic crisis.

Macroeconomic theory assumes NPL to Total Loan ratios to be procyclical within the economic cycle. It is accepted that increased economic activity will accordingly improve the banking sector's loan portfolio quality, and vice versa (Festić et al., 2009). During the boom years, Irish banks became ever more ominously exposed by their concentrations of credit risk assumed primarily in the field of commercial real estate. The ratio of bank loans to the private sector in total banking assets is held as a proxy of risk assumed by banks (D'Avack & Levasseur, 2007). Furthermore, theoretical studies have confirmed that long-term mismanagement of lending institutions is positively correlated with their encountering insolvency (Männasoo, K., 2005). Bank management in Ireland appeared to have forgotten the very nature of credit, namely that the provision of credit is not merely the sale of bank services, moreover the acquisition of a risky asset. Banks appear to have emphasised and valued loan sales skills above risk and credit analysis skills. Transactional prudence was widely deserted, and risk mitigation abandoned. Expanding sales was the real concern. The resultant risk concentration of exposure to property would leave these institutions vulnerable to an economic downturn. The subsequent reality of a global financial crisis left them perilously close to extinction (Nyberg, 2010).

An ostensibly green assumption that property prices would continually increase and that exit finance would remain available sustained a reckless lending boom that propelled Ireland's economy toward an unprecedented crash (Honohan, 2010). The drastic downturn in Ireland's economy and bursting of the property bubble resulted in huge losses incurred by Irish banks (€67.8bn lost by the six largest banks over the period 2008 – 2012) (Sibley, 2017). The extraordinary reversal of credit-fuelled property prices led to a steep decline in economic activity, and a seismic rise in unemployment. Ireland's economy, like the vast majority within the European Monetary Union ("EMU"), was shown profoundly lacking in resilience to such an adverse shock. The consequent deterioration in the asset quality on banks' balance sheets was reflected in a rapid increase in NPLs, the scale of which would severely compromise the solvency of Ireland's banking system (Donnery et al, 2018).

Ireland quickly addressed the issue with an "off-balance sheet" approach. An AMC was established (NAMA) which removed €74bn worth of loans off Irish banks' balance sheets. This measure was intended primarily to free the banks of their toxic

asset burden and encourage lending to small businesses (Ishmael, 2009). In hindsight, NAMA has been widely revered as a success. The homogeneity of assets, predominantly real estate loans, and the subsequent recovery of the Irish real estate market, contributed considerably to the success of NAMA (Kalfaoglou, 2018).

It has been remarked upon that the financial crisis represented an aligning of the stars for so-called “vulture funds”, who ordinarily seek to profit from purchasing distressed debt at a discount. The inevitable requirement for banks to deleverage in the wake of the crisis would eventually lead to plentiful deal making opportunities (Wigglesworth, 2012).

ii) Defining NPLs and Discussing their impactfulness

An NPL is a loan where the borrower is unable to make scheduled payments to cover interest or capital reimbursements. A loan is classified as non-performing when repayments are more than 90 days past due, or the loan is assessed as ‘unlikely to pay’ (Jassaud & Vidon, (2017). The classification of loans as non-performing is done independently of whether or not the debtor has provided collateral for the loan (European Commission, 2018).

NPLs restrict a bank’s ability to lend to the real economy, which is essentially their core economic function (Us, 2017). There are three principal reasons;

1. NPLs result in a bank losing out on regular interest income. This loss is compounded by an increase in costs associated with servicing said NPLs. Loanable funds must be reserved as provisions for potential bad debts. The bank will therefore be less productive in terms of creating profit.
2. NPLs require elevated levels of regulatory capital due to higher risk weights on impaired assets, therefore limiting a bank’s ability to extend credit.
3. Banks with substantial volumes of NPLs are normally more risk averse. They will be less willing to invest in enterprise (Kalfaoglou, 2018).

NPLs have a negative impact on credit supply which has a direct impact on economic growth. A reduction in banks' lending capacities will disproportionately affect SMEs who are more reliant on bank financing. The real economy is acutely impacted in jurisdictions where banking-sovereign linkages are strong. Economic activity, across the EU, largely relies on bank financing (Donnery et al, 2018). The European Parliament has stated their concerns on the subject of high levels of NPLs across numerous member states, giving recognition to the fact that the problem has predominantly been addressed at national level (European Parliament, 2017). The three critical areas where NPLs adversely impact on banks, and hence the economy, are profitability, capital, and funding (Donnery et al, 2018).

Pro-cyclicality, in relation to banks' loan loss provisioning, has been extensively examined and commented upon. IFRS 9 became effective from 1 January 2018. IFRS 9 centres on the treatment of provisions against credit losses. IFRS 9 has replaced standard *incurred loss* models with an expected credit loss model, which instructs banks to adopt a front-loaded provisioning system (White & Case LLP, 2018). The newly introduced minimum regulatory provisioning levels are intent on a) putting an end to under-provisioning and, b) avoiding the consequential loss forbearance shouldered by banks as a result of a "wait and see" approach, adopted in the hope of averting eventual loss-recognition measures (Baierlein et al, 2018). The countercyclical IFRS 9 is a long-term proactive risk management policy aimed at providing a softer landing for impacted economies in the event of another significant shock. In critique of this type of policy, a substantial amount of economics literature identifies instances where lending supply tightens due to negative shocks to bank capital (Gaffney & McCann, 2018).

Since 2018 banks across Europe have quickly adapted to IFRS 9 and found opportunity borne out of the requirement for banks to make balance sheet provisions for expected losses in the future, instead of losses already made. Numerous banks have taken advantage of IFRS 9, and most specifically the new accounting rule to defer the impact on capital from the additional provisions required to take on bad debts earmarked for sale. This eliminates a significant hurdle which has previously prevented banks from tidying their balance sheets (Arnold, 2018).

NPL ratios – the percentage of total gross loans and advances - have been decreasing in recent years across the EU member states. Despite this encouraging trend, full economic recovery and improved credit supply are still being impeded by abundant legacy stocks of distressed loans and assets in numerous member states (Baierlein et al, 2018). Studies typically find a significantly adverse impact of rising NPL ratios on GDP growth and employment (Balgova et al, 2016). The NPL issue needs to be resolved in order to allow banks to resume lending, and in turn, create profits. The regulatory capital ratio in Ireland stipulates that every euro of credit associated with an NPL tied up on a bank's balance sheet, is a euro that is not permissible for directing towards new lending (Donnery et al, 2018). ECB calculations have estimated that if the total amount of capital constrained by NPLs, within the euro area, was channelled into new lending, total credit volume for the area could rise by 2.5 per cent (or up to 6 per cent in high NPL member states) (Constancio, 2017). Research has determined that an increase in a bank's NPL ratio is normally followed by diminished cost efficiencies. This is demonstrated by impacted banks subsequently incurring additional overheads in relation to managing debt recoveries, preparing loan portfolios for secondary markets, and adopting a more thorough approach to the administration of their existing performing loan portfolios. Conversely, diminishing cost efficiencies ordinarily precede increased NPLs due to inept management practices, such as inadequate underwriting and monitoring practices (Mazreku et al., 2018).

NPLs have impacted banks' funding costs, distorting credit allocation in the economy. Banks with high NPL ratios tend to pass higher funding costs on to borrowers by charging elevated interest rates (Donnery et al, 2018). Funding costs for banks can impact the outlook for economic growth and inflation. Funding costs for banks are therefore a key consideration vis-à-vis monetary policy. After the crisis, financial markets regarded banks with high NPL ratios as riskier, funding costs rose significantly thereafter, which applied upwards pressure on lending rates (Beau, 2014). Funding costs have an impact on financial stability. Increased funding costs will reduce bank profitability in a scenario where the bank opts to leave its loan rates unchanged, choosing to absorb the increased costs themselves. On the other hand, banks might opt to pass higher funding costs on to borrowers by charging elevated interest rates on new lending. This higher cost of credit could have an

adverse impact on overall economic activity and, due to increased costs of servicing debt, more loan defaults may consequently occur. An increased number of NPLs on the banks' balance sheets only serves to compound the existing problem. Diminishing profit levels could cause a deterioration in a bank's capital buffer, which poses a threat to its solvency, and a risk to financial stability (Beau, 2014). Efforts to resolve the NPL issue must be accelerated in order to facilitate economic growth across all affected EU member states. It is estimated that, in countries where the reduction of NPLs has been afforded priority, subsequent GDP growth rates are 3-4 per cent higher, and investment growth rates are 10 – 15 per cent higher, in comparison to other economies where NPL issues are not tackled and are allowed continue (Accornero et al. 2017).

iii) Addressing the issue

“Comprehensive strategies are needed to address the NPL problem. These strategies should include common elements. For these elements a harmonised approach at the European level is of utmost importance, complemented with country-specific elements in each high-NPL constituency in the euro area.” (Constancio, 2017).

NPLs are a threat to the European banking sector. Although there are varying outlooks among individual member states, there are numerous banks across the jurisdiction that have continued to encounter low aggregate profitability. The ECB, the EBA and the EC have all taken a determined approach toward managing and improving the enduring and troublesome NPL issue (European Parliament, 2017). Studies have found that regulatory reforms are effective for adding impetus to a NPL clean-up. This was observed in Bangladesh where substantial stocks of NPLs were tackled by prescribed reform measures such as more stringent provisioning regimes, revised minimum capital requirements, and corporate governance improvements (Amin et al., 2019)

The EBA and the EC have been tasked with formulating and implementing policy proposals pertaining to the EU's adherence to the Basel III framework, which was finalised in December 2017 (Congiu, 2018). Basel III is a set of international banking regulations developed by the Bank for International Settlements which aims to foster and promote a stable international financial system. Basel III is a global accord concerning reforms which have been conceived with the intention of improving regulation, supervision, and risk management within the banking sector. In response to the global financial crisis, the framework, inter alia, sets out leverage ratios and minimum capital requirements for banks (Cosma Daniela, 2013). The principal objective of Basel III is to reduce the ability of banks to damage the economy by taking on excess risk.

Capital adequacy requirements for banks have been targeted under the Basel III international regulatory framework. The EBA has endeavoured to assess the potential impact of the different elements of the Basel reform on the EU banking sector and the wider economy. According to the EC, the total volume of EU NPL's is approximately €910 billion (Baierlein et al, 2018). In July 2017, the Council of the EU adopted an "*Action Plan to Tackle Non-Performing Loans in Europe*", which sets out policy actions in four key areas;

- Bank supervision and regulation;
- Structural reforms of insolvency and debt recovery frameworks;
- Development of secondary markets for distressed assets, and
- Fostering restructuring of the banking system;

The actions will be assumed at national level, and at Union level where applicable. Some of the policies will predominantly impact on banks' risk assessment at loan origination; others will promote quicker identification and improved NPL management; and some may help to decrease high NPL market valuations (European Commission, 2018). Alone, these measures would not be adequately effective, they will be deployed in conjunction with each other and are intended to mutually reinforce.

Europe has not provided a capital injection to banking systems as was the case in the U.S., where NPLs were addressed and largely resolved in a swift manner. The US government formulated and implemented the Troubled Asset Relief Program which injected fresh capital, from the government's coffers, into the banks. This afforded the banks scope to discard toxic assets after the financial crisis. NPL ratios in the U.S. have fallen to just 1% consequently (Kowsmann & Patrick, 2019). There were criticisms of this recovery plan because U.S. banks were extended no-strings loans. Some observers regarded the programme as a reward for bad behaviour and warned that this would establish a dangerous precedent of dependency.

In March 2018, the EC issued their proposed package of reforms aimed at a) reducing the levels of NPLs held by banks of member states, and b) mitigating against their future accumulation.

As mentioned, a harmonised strategic approach at a European level is essential. The EC's proposal is centred on two primary strategies for avoiding the future build-up of NPL stocks on banks' balance sheets;

1. Legal & Administrative Reforms

The proposal aims to improve debt recovery procedures, enabling banks to manage NPLs more effectively by implementing an AECE system. This type of out-of-court recovery mechanism can be used by banks to enforce over secured credit agreements. This procedure will be appropriate only where it has been agreed upon in advance between borrower and lender and written into the loan facility agreement (European Commission, 2018). The AECE system will only be applicable to business borrowers. The EC and EBA are advocates for consumer protection, therefore loan restructuring practices and insolvency proceedings are exhorted and encouraged in relation to consumer credit. Expedient recovery procedures for secured loans will allow banks effectively resolve their outstanding NPL cases, and just as crucially, mitigate against the risk of NPLs stockpiling (Baierlein et al, 2018).

Distinct judicial systems, and asymmetrical national bankruptcy and enforcement procedure inefficiencies, across the EU member states, may prove to be a stumbling block to successfully harmonising this particular strategy. The vast majority of NPLs on banks' balance sheets are loans which are secured by collateral. Banks across the EU endeavour to undertake collateral enforcement proceedings under their national insolvency and debt recovery frameworks; cumbersome processes devoid of guaranteed outcomes (European Commission, 2018). For example, the Greek Central Bank have announced their newly devised "legal armoury" which will include, uniquely, empowering their banks to compel incumbent shareholders of defaulter companies to; inject extra capital into their companies to enable them to repay overdue debts, or alternatively, step down. (Brunsden, 2016).

At national level, inefficient recovery, enforcement, and insolvency proceedings must be revised and improved. This will bolster banks' ability to realise greater recovery values through their NPL work-out units. More significantly, in terms of stimulating economic activity and growth, banks' capacity to concentrate on new lending to viable customers will be enhanced (Baierlein et al, 2018).

A comparable NPL problem was encountered in Bangladesh in the late 1990's, where the national aggregate NPL ratio rose to 41%. A government bailout was not a viable solution. Aggressive regulatory reforms in tandem with remarkably improved bank management quality and internal governance resulted in the NPL ratio decreasing to 10% by 2012 (Amin et al., 2019). This study has clearly demonstrated that regulatory reforms and improved banking practices can resolve the issue. A longer timeframe is necessary. Also, crucially, economic growth and financial development are requisite for such an approach to prevail.

2. Development of Secondary NPL Markets

Heightened regulatory and supervisory pressure, due to the introduction of IFRS 9 and the EBA/EC guidelines on NPL treatment, will be a major catalyst for banks' increased deleveraging efforts across the EU. The regulatory pressures primarily compel banks to free up capital. There is a compulsory requirement for them to focus on balance sheet management strategies (Deloitte, 2018).

The EC's proposal encourages the development of secondary markets for NPLs. The ECB is unequivocally supportive of this directive asserting that...

“the development of secondary markets may contribute to reducing NPLs....well-functioning secondary markets may also prevent stocks of NPLs from building up in the future....a well-functioning secondary market may have a positive effect on financial stability to the extent that it could facilitate the transfer of the risks of NPLs off credit institutions’ balance sheets. (European Central Bank., 2018, Page 2).

Outsourcing of the servicing of NPLs to specialised servicers or selling of credit agreements to speculative purchasers may prove effective strategies for banks managing NPLs, assisting them to extract added value from their stocks of NPLs. Secured NPLs can hold significant asset collateral which is attractive for potential investors given that speculative returns would be perceived to be lucrative. This is certainly the case where the real estate market is mushrooming (De Luisa & Rubio, 2018).

The EC's proposal, once implemented, will remove impediments to the transfer of ownership of NPLs by banks to non-banks, and at the same time licensing requirements for third-party loan servicers across all member states will be harmonised. Common standards and proper conduct will be supervised. These measures should serve to stimulate competition among service providers throughout the EU, thus creating a more investor-friendly secondary market. Cost of entry to the markets will be lowered by a) improved accessibility, and b) decreased servicing costs (European Commission, 2018). The EC has stated that policies with the intention of increasing the functional effectiveness of secondary markets will be crucial to a robust solution.

Most recently, here in Ireland we have seen numerous NPL portfolio sales by our Banks. Private Equity investors such as Cerberus, Lone Star and Tanager have speculatively spent billions of euros on acquiring these portfolios (Labbé, 2016). NPLs have been sold to investors at deep discounts compared to their nominal value.

This is primarily due to regulatory pressures on banks to free up capital (Labbé, 2016).

Direct sales to investors provide the opportunity to dispose of NPLs quickly (Constancio, 2017). Ireland's stock of NPLs has been significantly reduced through loan portfolio sales; NPL levels fell from 30 percent in Q1 2014 to just over 15 percent by Q4 2017 (Deloitte, 2018). 40% of the population in Ireland are aged under 40, six years below the EU average. This specific demographic profile supports optimistic forecasts for mortgage lending in Ireland (Moore, 2018). Engaging in rigorous deleveraging strategy is vital for Irish banks to free up provisioned capital and hence, capitalise on impending opportunities for new lending.

Conclusion

The prelude to the NPL problem has been extensively examined and there is an abundance of existing literature covering that area. Europe's newly formed strategies aimed at reducing NPL ratios within member states are positively linear and focussed. Due to the recent publication of the EC's proposed strategies, the researcher has identified that, evaluating and analysing the EU's current NPL landscape and the remediation measures implemented, most specifically in relation to Ireland, is a worthwhile exercise. Given that the NPL problem is a relatively new phenomenon, there is a distinct gap in the existing literature in relation to the NPL reforms in Ireland and the EU. The researcher's goal is to construct a project which will significantly fill the identified gap.

The following chapter will describe the purpose of the dissertation and the specific research questions to be addressed.

Chapter 3: Dissertation Purpose and Aim

Introduction

This paper aims to address a research gap pertaining to the impact of high NPL ratios across Europe in the wake of the global financial crisis of 2008. Most specifically, the researcher seeks to examine the NPL predicament from the Irish perspective and evaluate the major NPL rectification efforts which have been employed.

The literature review primarily consists of quantitative research studies, and empirical studies, relating to comparable financial crises which have occurred in the USA, Bangladesh, Korea, and several African economies. Much of the literature provides discussion and description regarding their relative NPL reduction efforts based on already existing literature.

In developing the core research proposition for this paper, the areas for future research in these studies were reviewed, many of which suggested that more in depth studies of a qualitative nature would provide added value and richer understanding through peoples own lived experiences, expert insights, and informed opinions.

Research Aim

The research aim is to establish whether regulatory and supervisory measures implemented by the ECB have been strictly adhered to, and ultimately, gauge their effectiveness. It is quite evident that fixing the problem is not a straightforward process. The ECB has rolled out a set of policies and reforms which are intended to be mutually reinforcing (European Commission, 2018). Individual EU member states have experienced differing rates of NPL ratio reductions within the past decade. The researcher predominantly aims to understand the resolution approaches adopted by Ireland and evaluate their effectiveness.

Research Questions

This research aims to explore, evaluate, and comprehend the strategies employed by the Irish banking system in the effort to clean up bank balance sheets by reducing persistently high and problematic NPL ratios. The input and influence of EU policy makers is also considered, discussed, and examined.

The following three questions are those which the researcher has endeavoured to answer through the research;

- (iv) *How has Ireland's banking system dealt with reducing NPL ratios?*
- (v) *Has the EU/ECB responded to the issue and implemented effective recovery measures?*
- (iii) *How effective are secondary market for tackling NPL ratios?*

The next section will explain the elected methodology for the study. The appropriateness of the adopted approach, method, and design will be rationalised and justified in relation to this study. The chapter will close with a description of the researcher's ethical considerations, and the limitations encountered.

Chapter 4: Research Methodology

Introduction

Research is a practice implemented by individuals in an attempt to discover findings in a systematic way (Saunders et al., 2009).

This chapter builds on the introduction to the topic in Chapter 1, and the detailed review of the literature in Chapter 2, where the research questions were stated and were linked to the gaps identified in the relevant literature.

This chapter describes the research strategy which has been employed by the researcher for the purpose of addressing the defined research questions. *Inter alia*, the areas outlined include;

- Research Philosophy
- Research Approach
- Research Strategy
- Research Choice

The selected design for empirical data collection and analysis will be presented along with justifications for the various strands to the strategy. It is crucial that the investigative process is undertaken methodically and systematically. This approach will not only reinforce the integrity of the research outcomes, but also clearly convey the intended logic which will convince the reader to believe in the report (Ghauri & Gronhaug, 2005).

The chapter concludes with consideration of the ethical implications and the limitations

Proposed Research Methodology

There is a gap in the existing literature in relation to the EU's NPL reforms, and more specifically relative to Ireland's banks' recovery progress. The researcher's goal is to construct a project which will address the identified gap by examining the participants opinions, attitudes, and experiences; unhampered by the restrictions of quantitative analysis (Bryman & Bell, 2011).

The research ‘onion’ describes the key requisite stages which the researcher must consider when formulating an effective methodology (Saunders et al., 2009). The defined layers of the research Onion guide the research process.

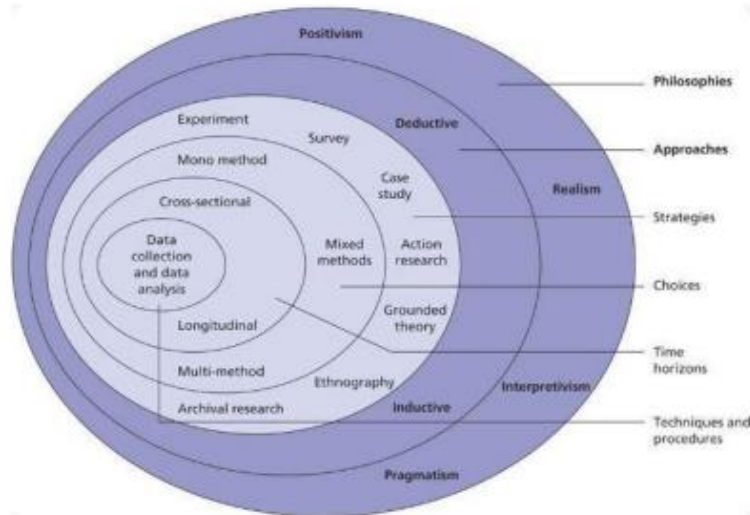


Figure 1: The Research ‘Onion’ (Saunders, Lewis & Thornhill, 2009, p. 108)

The research philosophy is defined firstly, and thereafter the research approach can be appropriately selected. Adopting the research strategy is the third stage, and the fourth ‘layer’ will identify the time horizon. The fifth step denotes the data collection identification stage. Irrespective of the approach, the data collected will comprise two types: primary and secondary (Saunders et al., 2009). The research onion is beneficial for its simplified methodical approach. The defined stages illustrate different methods of data collection, and the steps by which a methodological analysis can be described (UKEssays, 2018).

The researcher has chosen the research topic and accordingly decided upon the objectives and the essential data. A thoroughly unbiased approach is desirable however not entirely plausible. In relation to research orientation, the researcher’s background inevitably influences the research process and the research method (Ghauri & Gronhaug, 2005).

The philosophical framework adopted by the researcher will direct the approach. One school of thought observes that theory guides and influences the collection and analysis of data. This outlook construes research as a process which endeavours to resolve queries which have been posed by theoretical considerations. Conversely – theory may be interpreted as the resultant product which occurs consequent to collecting and analysing the pertinent data (Bryman & Bell, 2011). The researcher will broadly infer the implications of the research findings. This approach to the relationship between theory and research is ostensibly inductive (Bryman & Bell, 2011).

Research Philosophy

The research philosophy is the first, and most crucial, layer of the onion. Research philosophy has been defined in broad terms as the ‘development of knowledge and the nature of that knowledge’ (Saunders et al., 2009).

In practicality, the question posed by the researcher seldom fits perfectly with one single philosophical sphere as intimated by the ‘onion’ (See figure 1). To determine which research philosophy is most beneficial is a subjective matter, depending on a) the individual research question at hand, and b) the researcher’s personal assumptions regarding knowledge and the process by which it is developed (Saunders et al., 2009).

Regarding research orientation, the researchers background undoubtedly influences the process and the method of research adopted by the researcher (Ghauri & Gronhaug, 2005). The research onion explains several distinctly different philosophies. The most prominent standpoints relate to epistemology, axiology and ontology. Each aspect of these research philosophies has a different philosophy attached to them, influencing the researcher’s thoughts and personal approach to the research process. The most significant are positivism, realism, interpretivism, and pragmatism (Bryman & Bell, 2011).

Given that the researcher is concerned about what constitutes acceptable knowledge of NPLs, the research position consequently adopted is epistemological. Participant’s opinions have been considered as valid knowledge and were treated as information

in this domain. The philosophy adopted in this study was interpretivism, benefiting from the sound cognisance of social practices and an allowance of complexity and contextual factors (Bryman and Bell, 2011). Interpretivism advocates that the researcher must be understanding of the differences between humans in their roles as social actors. Essentially, interpretivists make the assertion that reality is subjective (Saunders et al., 2009). This disposition underlines the difference between performing research among humans rather than objects. Interpretivism promotes ‘small sample, in depth-investigation’ which the researcher has considered appropriate for investigating how troublesome NPLs can be most effectively tackled in order to resolve the enduring problem both at home, in Ireland, and across the European Economic Area (Saunders et al., 2009). A research approach which is philosophical of the participants’ individuality is fundamental to an interpretivist epistemological standpoint (Bryman & Bell, 2011).

Research Approach

The second layer of the onion is research approach (Saunders et al., 2009). There are two ways for the researcher to ascertain a true understanding and accordingly draw informed conclusions thereafter: induction and deduction. Induction is grounded upon empirical evidence, and deduction is centred upon logic (Ghauri & Gronhaug, 2005).

The researcher has opted to undertake a qualitative rather than quantitative research strategy. From investigating and examining the literature, it has become apparent to the researcher that there is a dearth of qualitative studies on the topic of tackling NPLs in Ireland and across Europe. The literature is predominantly descriptive and cross-sectional.

Qualitative research usually emphasises words as opposed to quantification in the collection and analysis of data (Bryman, 2008). Furthermore, qualitative research primarily gives emphasis to an inductive approach to the relationship between theory and research, whereby the emphasis is centred on generating theories (Bryman & Bell, 2011). By applying an inductive approach, the researcher builds theory. Essentially the theory is the outcome of research. The researcher has interwoven

empirical data collected from the participants with theoretical propositions taken from reviewing the literature (Yin, 2011).

The researcher's inductive approach coincides with the underlying interpretivist's philosophy. This approach has complemented the researcher's objective to gain an insightful comprehension of the research context by understanding, and interpreting, the way in which humans interpret the social world (Saunders et al., 2009).

A defined and limited timeframe was one of the limitations encountered by the researcher, therefore a relatively small sample of senior-ranking professionals from private and public institutions within the banking and financial services industries were interviewed which rendered the inductive approach appropriate for this research.

Further justification for an inductive approach was the researcher's preference of qualitative data. It is more likely for a researcher who has adopted an inductive approach to work with qualitative data to establish and collect that data by the application of various methods to identify different judgments and interpretations of phenomena (Saunders et al., 2009).

Research Strategy

The research strategy applied by the researcher may be correlated with the aforementioned research philosophies and also with an inductive or deductive approach. The most fundamental and crucial motive of the strategy is to enable the researcher to answer the constructed research questions and meet the identified objectives (Saunders et al., 2009). The chosen research strategy should create a coherent link to research approach, philosophy and its intention. Additional considerations include; time constraints, the degree of existing knowledge, availability of resources, and access to participants and other data sources. This layer of the onion comprises several strategies which are not mutually exclusive, including: experiment, survey, case study, ethnography, action research, grounded theory and archival research (Saunders et al., 2009).

Action research, surveys, and ethnography can form a cross sectional study. The purpose is to study a subset or entire population by analysing and correlating the

information gathered from the various techniques, representative at a single point in time (Bryman & Bell, 2011). The researcher has deemed such forms of research unsuitable for the research specific questions put forward in this dissertation. Given the researcher's necessity to extract the pertinent and applicable data required, many of the data collection strategies already discussed were not considered appropriate.

The nature of this research is predominantly exploratory. An exploratory study allows the researcher to ascertain what is taking place; to unearth new understandings; to ask questions and to evaluate phenomena from an alternate perspective (Robson, 2002). Searching the literature and interviewing experts in the field are the principal methods for undertaking exploratory research (Saunders et al., 2009). This study has employed a strategy which comprised an in-depth literature review and conducting of semi-structured interviews. The findings of the interviews were compared with the literature to establish divergence or concurrence.

Research Choice

Researchers have a choice concerning the research methods which they apply to their study. There are two choices;

1. Mono method: Single data collection technique and corresponding analysis procedures; or
2. Multiple methods: More than one data collection technique and analysis procedures to answer the research questions (Saunders et al., 2009).

The research pertaining to this dissertation has been compiled by mono method. The researcher's choice of a qualitative approach has already been discussed. The data will be collected by conducting in-depth interviews intent on obtaining well-informed intelligence on how NPLs affect the economy and how they are being addressed, primarily at a national level, from experienced and knowledgeable industry experts. It is commonly recognised that, for exploratory and inductive research, qualitative methods are most useful because they generally lead the researcher to hypothesis building and explanations (Ghauri & Gronhaug, 2005).

Secondary data collection

Secondary data has been classified into three main subgroups consisting of survey-based, documentary, and those compiled from multiple sources (Saunders et al., 2009). Secondary research refers to the sort of data that may have already been collected for a different purpose. This data is nonetheless especially useful for finding information to a) solve research problems and, b) enable the researcher to better understand and explain the research problem at hand (Ghauri & Gronhaug, 2005).

Secondary data should be collected firstly. A vast amount of data is available from secondary sources. The benefits of secondary data to the researcher include;

1. Satisfying the research questions or deciphering some or all of the research problems;
2. Assisting the formulation of distinct and defined research questions;
3. Deciding on the suitability of proposed research methods (Ghauri & Gronhaug, 2005).

Secondary data is also advantageous for being unobtrusive, permanent, and for its ease of access and availability (Saunders et al., 2009). Despite the evident numerous advantages, this type of data must be treated with some level of cautiousness. It was conceivably collected for objectives which do not match with the researcher's individual research problem and therefore should be tested to fit the requirements (Saunders et al., 2009).

This research project commenced with secondary research conducted through the analysis of relevant academic literature and journals, and industry publications (longitudinal sources). The electronic academic database of National College of Ireland provided the main source for accessing secondary data.

Qualitative Data Primary Collection

Research design involves developing a study plan which incorporates data collecting and analysis and the application of a research framework (Saunders et al., 2009). A research design should effectively generate the desired information within the

distinct constraints and parameters under which the researcher works (Ghauri & Gronhaug, 2005).

Qualitative research permits the researcher to investigate and examine attitudes and opinions in significant detail. In the main, qualitative methods are considered most appropriate when the research objectives require in-depth insight into a phenomenon (Ghauri & Gronhaug, 2005). Four traditions of qualitative research have been suggested; naturalism, ethnomethodology, emotionalism, and postmodernism. The naturalist tradition is most common. The researcher evidently associates with this tradition for its tendency to seek comprehension of social reality in its own terms, which provides vivid descriptions of people and interaction in a natural context (Bryman & Bell, 2011).

Qualitative research procedures have been classified as;

1. indirect (disguised) methods, which include projective techniques and observation techniques; and
2. direct (non-disguised) methods including procedures such as individual in-depth interviews and focus groups (Bryman & Bell, 2011).

The primary data collection method employed by the researcher was semi-structured interviews. These are particularly valuable for the opportunity they allow the researcher to explore topics which evolve during the interview (Saunders et al., 2009). Qualitative research facilitates the recording and comprehending of human perspectives which do not simply translate to statistics – considered as a detrimental partiality demonstrated by quantitative methods (Bryman & Bell, 2011).

All interview participants were fully informed in advance how the researcher intended to use the information obtained, and the way it would be presented. The participants were provided with the main themes for discussion prior to undertaking the interviews. Furthermore, the participants were informed of the ethical and security measures, and the methods of storage of the transcripts. Before the interviews, each participant reviewed and signed a consent form, which provided further detail regarding the purpose of the research. All participants consented to taking part in the research process.

The researcher conducted six semi-structured face-to-face interviews and one telephone interview with;

- Three current senior ranking officials in the Recoveries Departments of individual Irish Pillar Banks.
- One current senior rank economist within the European Stability Mechanism (“ESM”).
- One former senior rank civil servant within the Department of Finance.
- Two current senior executives of a special advisory firm to a prominent US Private Equity corporation.

The semi-structure interview questions were predominantly probing which allowed the researcher to direct the participant and maintain focus. Probing questions were intermittently followed up with closed questions where the researcher sought to clarify a specific statement or confirm a fact or opinion (Saunders et al., 2009). After all interviews were concluded, a cross-sectional thematic analysis was undertaken by the researcher using Braun and Clarke’s (2006) guidelines. Firstly, the researcher repeatedly read through the compiled data until it became absolutely familiar. Next, relevant codes were identified by clustering similar quotes. From these codes, themes were derived. These themes were then reviewed and revised, and the researcher lastly extracted several central themes.

This method aligns with the chosen research approach, philosophy, and design and is therefore deemed suitable. The research method also supports an inductive approach, which further reinforces the suitability of the researcher’s chosen primary data collection tool (Bryman & Bell, 2011).

It is implausible that comprehensive amounts of significant and in-depth data will be obtained in focus groups because of the difficulty for the researcher to concentrate solely on one well-informed individual (Ghauri & Gronhaug, 2005). Qualitative research was deemed most conducive for accomplishing the research objective.

Population & Sample Size

Firstly, the interview questions were confirmed, and thereafter the researcher identified and approached the preferred participants. Said participants were selected from reliable organisations operating in the financial sphere at national and EU level. The researcher based the selection of the participants on their suitability which derived from their individual professional status and area of expertise, rather than fixating on the actual quantum of participants (Ghauri & Gronhaug, 2005). The researcher leveraged existing professional and personal relationships to gain access to the necessary sample. The researcher endeavoured to extract informed and subjective insights from the participants in relation to the research subject under investigation. Purposive sampling was used to select the seven participants as their knowledge and experience of the subject matter was crucial to adding value and credence to the research (Saunders et al., 2009).

Analysing Qualitative Data

In consideration of the requirement to consequently analyse the gathered data, the researcher made sure that all interviews were audio-recorded and transcribed almost immediately afterwards. Transcribing interviews is a time-consuming process which is advantageous for keeping intact the participants discourse, which will assist the researcher's analysis thereafter by recapturing the actual data and allowing an easily accessible recap of the interview in its own context (Bryman & Bell, 2011).

Several inductively based analytical procedures have been identified in the academic literature, each of which facilitates the analysis of qualitative data. These are;

- data display and analysis;
- grounded theory;
- template analysis;
- analytic induction;
- narrative analysis;
- discourse analysis (Saunders et al., 2009).

A degree of narrative analysis was used for the purpose of this research. This technique provided the researcher with an uncomplicated method to explore correlations, linkages, and socially formed explanations which develop organically within narrative accounts. The researcher identified some comparable structures within the participants narratives which were used to simplify the process of comparing, contrasting, and ultimately linking the perspectives of different participants (Saunders et al., 2009).

The researcher was cognisant of the three different approaches to qualitative data analysis put forward by Miles and Huberman (1994). These being: social anthropological, interpretative, and collaborative social research approaches. As already confirmed, the approach assumed for this research has been interpretative. Among the various methods which can be adopted for the analysis of content, the Grounded Theory approach is widely regarded as most fundamental (Glaser, 1978). Developing on this, for the purpose of analysing the interview transcripts, the researcher has also adopted the approach of Strauss and Corbin (1998). Content analysis is undertaken for analysing oral, written, and verbal communications, developed by way of words and patterns, or themes (Cole, 1988). The researcher can form categories, by developing the themes, in order to extract conclusions from the compiled data (Kynga, 2007). Consistent with the research objectives, a coding guide has been produced (See appendix 1). The researcher used a colour guide to highlight the most prevalent phrases, themes, and keywords which occurred throughout the interview transcripts (See appendix 2).

Data analytics software systems were not employed for the purpose of this research.

Ethical Considerations

When dealing with human participants it is essential that the researcher acknowledges and exercises strict ethical consideration. Ethics can be defined as *'norms or standards of behaviour that guide moral choices about our behaviour and our relationships with others'* (Cooper, 2008). The researcher must ensure that the research is designed to be methodically sound and morally defensible to all concerned (Saunders et al., 2009).

The selected primary research participants were considered and adequately protected by the researcher. The researcher insisted on the informed consent of all participants. Consent forms have been obtained in instances where participants have disclosed sensitive information. All data recorded was stored securely, solely used for the purpose of this dissertation, and destroyed appropriately thereafter. Participation was voluntary and participants had the right to withdraw at any stage. To ensure compliance with the Data Protection Act, 1998 – 2003 the researcher has duly anonymised the names of those participating. The researcher demonstrated integrity and objectivity at all various research stages and the privacy of all parties involved was respected.

Limitations of Research

Limitations were encountered by the researcher. Limitations are deemed the extraneous events that restrict the researcher's investigation, examination and analysis. To avoid any significantly detrimental impact on the investigation's outcomes and findings, the researcher should be cognisant of any conceivable limitations to the research (Hair et al., 2003).

The relatively small sample size is compatible with the researcher's chosen inductive approach, however generalising the findings is consequently less straightforward. Unconscious bias is a potential by-product of a qualitative piece of research because the researcher is the pivotal data collection instrument (Creswell and Creswell, 2018). Quantitative research is subjected to rigid controls, in contrast, the intrinsic subjectivism in qualitative research raises concerns regarding validity, reliability, and generalisation of data (Bryman & Bell, 2011).

Qualitative data is subjective, and consequently matters concerning the validity, reliability and generalisation of data are raised (Cohen et al., 2007). The role of the researcher and the singularity of the specific context or circumstance renders the study difficult to replicate (Bryman and Bell, 2011). Triangulation was not carried out however its benefits are acknowledged. The absence of a quantitative study is also acknowledged as a limitation and relates to the time restraints under which the research was carried out.

Chapter 5: Findings & Analysis

Introduction

In the aftermath of the global financial crisis, numerous national banking systems within the EU were left saddled with extraordinarily high levels of NPLs. Ireland has been one of the worst impacted countries by this legacy issue. The ECB has intervened and redoubled its focus, setting directives and reforms aimed at resolving the Eurozone NPL problem. Several new policies have been put into effect and volumes of NPLs have subsequently reduced steadily if not spectacularly.

This chapter will present the findings and outcomes which have been derived from the researcher's qualitative research process. Bearing in mind the aforementioned research questions - the objective of the primary research was to reinforce, support, and possibly rebuke those conclusions which were drawn from examining the secondary data.

To avoid ambiguity, the findings have been presented into three distinct parts: (i) The EU emphasis, (ii) Ireland's Banks and (iii) A burgeoning Secondary Market.

To commence the research, a purposive sample of a group of senior ranking finance experts was selected. The participants have all acquired extensive knowledge of subject matter relative and germane to the research. 7 interviews were conducted in total. The question set emerged from themes which were extracted from the researcher's examination of the literature. To allow for appropriate referencing, and to inform the reader, the researcher has assigned letters to each participant. See table below on participants' demographics:

Participant Demographics				
Code	Employer	Position	Gender	Length of Service
P1	Bank of Ireland	Senior role within debt solutions Department	Male	18
P2	AIB	Senior role within debt solutions Department	Female	12
P3	KBC	Senior role within debt solutions Department	Male	9
P4	European Stability Mechanism	Senior Economist	Female	4
P5	Department of Finance (Ireland)	Former senior official	Male	28
P6	US Private Equity Firm	Vice President	Male	5
P7	US Private Equity Firm	Vice President	Male	6

Table 1: Participant demographics

(i) Resolving NPLs: The EU emphasis

The EU council has clearly outlined concerns in relation to foreseeable threats posed to the stability of the Eurozone’s financial system by high NPL ratios. Widespread stocks of NPLs are an enduring and persistent barrier to full economic recovery in the EU.

“Widespread high NPL ratios could potentially cause a kind of cross-border contamination regarding the wider EU economy and financial system. The knock-on effect being severely detrimental on market perceptions across the Union’s banking sector.” (P4)

The European Parliament and European Commission devised and subsequently advocated a series of legal and regulatory guidelines aimed at accelerating NPL resolutions. The EU council implemented an action plan in mid-2017 which intended to encourage member states and their banks to use a mix of complementary policy actions. Such measures included reforming debt enforcement regimes and insolvency frameworks, enhanced prudential supervision by introducing best practices for lending and provisioning, and development of secondary markets for NPLs (this particular measure will be discussed later in further detail). A further measure put forward was the establishment of national AMCs, which are specifically formed for dealing with NPLs, and would facilitate restructuring member states’ banks.

“Creating dedicated external asset management companies, such as NAMA in Ireland, has proved especially successful where NPLs were bunched in a specific sector.” (P5)

The establishment of AMCs and the development of secondary markets for NPLs are measures which have proven complementary and mutually reinforcing. Most notably, the Spanish and Irish banking systems have benefited from the introduction of external AMCs. Their success was underpinned by their ability to enhance the liquidity of typically illiquid assets (i.e. NPLs) by the creation of a secondary market. These AMCs have significantly helped to cure bank’s balance sheets. NPLs in both member states were predominately concentrated in the real estate sector, therefore the AMCs benefitted from a) experienced NPL workout specialists, and b) economies of scale. This measure was bolstered further because;

“NPLs had been shifted to an independent entity and as a result, we (Irish banks) were forced to subdivide our delinquent assets, establish specialised NPL workout departments, and give emphasis to the management of those NPLs....we isolated the NPL stocks into a “bad bank” and focussed on workout and recovery procedures. We tackled NPLs head on, early on. The process began at a somewhat rudimentary level and developed organically through the recession years and into the subsequent economic recovery. Our ratios have consistently fallen” (P2)

Both Spain and Ireland were well primed to benefit from this two-pronged solution. At the time of their respective AMCs’ establishment, both these countries had investment grade credit ratings and market access. They could therefore obtain sustainable funding, guarantee their respective AMCs, and appeal to private investment.

From the outset the establishment of NAMA was particularly advantageous for Ireland. It allowed Irish banks to carry on as stock market entities, which;

“...meant that the ECB was able to part fund the Irish Government’s deficit. This was due to the guise that the CBI wasn’t directly purchasing government bonds.” (P3).

IFRS 9 became effective on 01 January 2018, this required banks to transition from an incurred loss to a forward-looking expected loss model. This new accounting standard has necessitated that banks comprehensively revise and adjust how they calculate their provisions. In the EU, lenders have had to increase provisioning requirements for expected losses, in contrast to the former IAS39 financial instrument, which recognised provisions after the occurrence of an incurred loss event. The enhanced provisioning requirements have impacted upon banks' treatment of NPLs.

Banks have been given *“extra motivation to sell loan portfolios because the costs associated with carrying our stocks of NPLs have increased since the implementation of IFRS 9” (P1)*. The ECB has subsequently put banks under additional scrutiny since the introduction of IFRS 9. Regular and systematic reviews of banks' IFRS 9 treatment are commonplace. The new standard has resulted in lower valuations, which has assured and encouraged additional investors into secondary markets.

“Virtually across the board, the reforms aimed at cleaning up banks' balance sheets have actually conspired to promote bulk portfolio sales. Between ourselves and the banks, a successful brokered deal is really a win win.” (P7).

Bailouts are no longer permissible under the EU's altered and improved regulatory landscape. It is therefore essential that additional structural reforms and supervisory actions are formulated and put into effect in order to continue offloading NPLs and cleansing the banks' balance sheets. In circumstances where bailouts are not available, (Amin et al., 2019) have undertaken salient research which determined that increased risk management and enhanced corporate governance will contribute to NPL ratio reductions, albeit over an extended period. Other research discovered in the literature describes the importance of AMCs in a non-bailout scenario. The “stock approach” to NPL ratio reductions was put forward by (Klingebiel, 2000). This study ascertained that AMCs are an effective tool for resolving insolvent financial institutions where some prerequisite industry context must exist i.e. asset class which can be easily liquified (real estate), availability of specialised servicers, political independence, apt funding, and adequate foreclosure and bankruptcy laws.

The conditions under which NAMA was established were favourable in consideration of the aforementioned research.

(ii) Resolving NPLs: Ireland's Banks

Since the most recent recession which befell the Irish economy in 2008, the Irish banking sector consequently endured an extended period of low profitability. NPL rates increased exponentially which the research has established as being the foremost detrimental factor impeding banks' profitability growth;

“Beside the detrimental impact to potential income flows from new lending. NPLs administrative costs and provisioning requirements seriously damage our profit levels. Capital requirements have gone up and up because of risk weights on non-performing assets....and another factor to highlight is the cost of funding for individual institutions which has been undoubtedly affected because of our weakened risk profile.” (P3).

Corporate governance and risk management, within Irish banks, were commonly disregarded in the boom years. In fact, not only were they disregarded, they would typically be derided and regarded with contempt by those at senior management level who were principally focussed on sustained revenue growth. Regulation was flimsy, lacking in rigour and authority. The European parliament has been critical of the ostensibly light-touch approach which had been prevalent in the years which preceded the cataclysmic crash.

“It is absolutely vital that regulation has to be grounded upon solid foundations. We have experienced first-hand the difficulties caused by a pro-cyclical approach.” (P5).

The ECB and the EBA remain acutely conscious of the severe lessons from the global financial crisis. Maintaining a financially stable economic environment is their core focus, and this has resulted in a significantly more robust approach to prudential supervision in relation to the banking sectors.

In recent years, Irish banks have increased their focus and intensified efforts to divest large volumes of NPLs which have remained unresolved. Regulators, both at home

and abroad, are exerting considerable pressure on banks to expedite the restoration of balance sheets still burdened by careless and reckless lending practices during the boom years.

The CBI acknowledges that the widespread prolonged existence of NPLs in the Irish banking system is a source of vulnerability. The CBI extolls the virtues of a proactive approach in advance of another eventual downturn. This clearly articulated mandate is extensively comprehended across the banking sector;

“We need to minimise vulnerability and safeguard against another downturn. With that in mind it’s crucial that we continue to reduce our NPL ratios. We have adopted a controlled systematic approach which ensures sustainability and provides protections for borrowers. We haven’t lost sight of societal responsibilities in the haste to improve our own conditions...Loan portfolio sales have become increasingly more prevalent in recent years. This approach has worked. Our NPL ratios have been reduced quite significantly, this has shrunk our balance sheet.”
(P2).

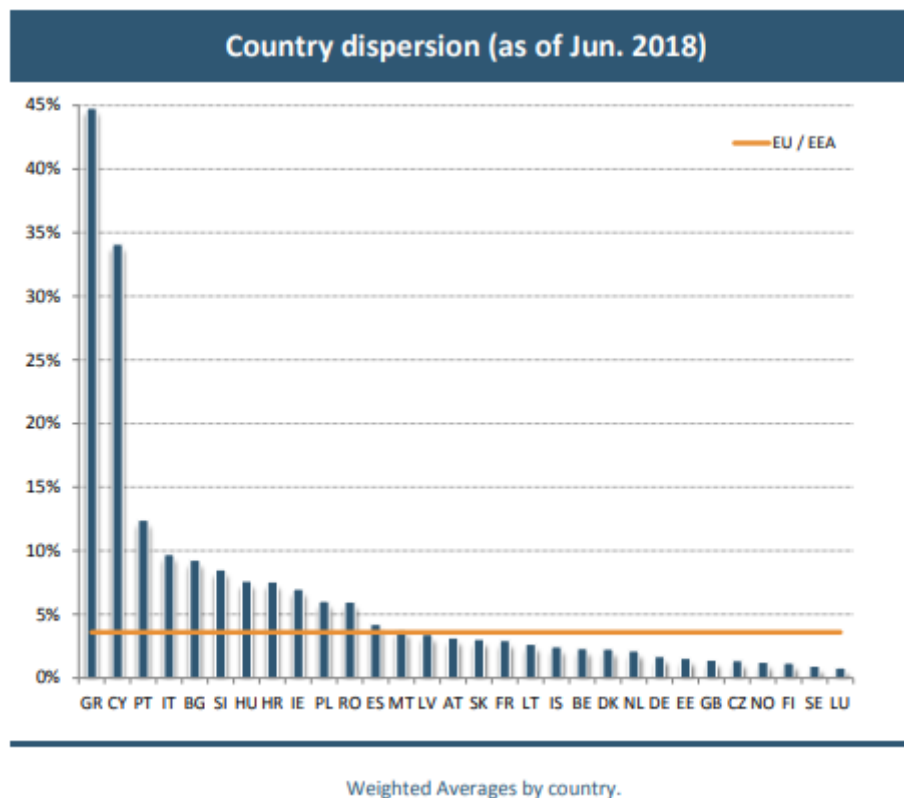
Despite the significantly negative social commentary regarding loan sales as a deleveraging tool used by banks, there are clear benefits. Aside from banks cleansing their respective balance sheets, there are other upshots. With regard to national risk exposure.;

“Credit risk and funding risk are transferred to the purchasing investment fund.”
(P4)

The funds investors are typically resident in a foreign country and as a result the Irish Economy benefits from a reduction to macro financial risk.

For Ireland’s banking sector to achieve the objective of realising a functioning lending market that serves the country, it is necessary to explore and pursue any viable and legitimate policies and processes which will ultimately facilitate that realisation. As P2 stated, loan sales are effective for the purpose they serve to the bank. Clinically speaking this measure is evidently expedient and effective - albeit controversial.

The EBA released figures in October 2018 which revealed that Irish banks had reduced their NPL exposures by in excess of €12 billion in the previous twelve months. The results achieved to date are undoubtedly encouraging. Irish banks are generally working through their NPL stocks on an individual institutional basis, and we have observed some impressive NPL ratio reductions in recent years. An alternative approach which the CBI might consider in future has been discovered in the literature: (Yang, 2017) undertook an empirical study which established that central regulators are more likely to achieve greater results, regarding NPL reductions, by devising incentive measures to encourage banks to implicitly strive for industry-wide efficiencies. The research determined the value of policy makers developing an efficient NPL reduction scheme. A more comprehensive and streamlined improvement of the entire banking industry would provide more sustainable benefits to stability going forward.



▪ *Figure 2: Ratio of non-performing loans and advances_ NPL ratio (European Banking Authority, 2018)*

It is evident that Irish banks are continuing to make huge progress in getting NPLs off their books. Ireland's NPL ratio was reduced by almost 20% in the year to June 2017.

The above table indicates that, at end June 2018, Ireland's NPL ratio had encouragingly fallen to 7%. Over the course of that same twelve-month period, the loan book value of Irish NPLs reduced remarkably from €26.1 billion to €14 billion.

“The impact of the reductions achieved to date are significant. The stability and robustness of Ireland's banking system is reliant on our (banks) having orderly balance sheets...It's essential that we do not make the same mistakes which preceded the crisis.” (P1).

Further NPL reductions will be necessary for Ireland to accomplish an important milestone. The stated EU objective is to ensure that all countries have NPL levels below 5%. It is entirely feasible that this objective will be achieved by the end of 2021, and possibly much sooner depending on portfolio sales volumes.

Despite the ostensible developments regarding NPL reductions in Ireland, policy makers and institutional leaders alike must avoid complacency. There are other looming threats to the Irish financial system which cannot be ignored;

“It is vital that the encouraging rate of reductions is sustained. The banks must continue to focus on reducing the existing stocks of NPLs. Further improvements will only help to prepare them for other potential threats i.e. Brexit, trade wars, or even reduced ECB liquidity.” (P5).

New balance sheet losses caused by another downturn would only serve to compound the existent problems caused by large stocks of NPLs. Irish banks must maintain focus. It might be worth considering the recommendation put forward by (Yang, 2017). As opposed to the somewhat contradictory approach amongst Irish Banks, who have been addressing NPLs individually and toward achieving a collective target. It may prove more sustainable, and develop more industry robustness, by tackling NPL ratios in a more practical manner – setting

individualised ratio targets based on relative size and significance within the industry.

(iii) Resolving NPLs: A burgeoning Secondary Market

Although Japanese and US banks pioneered portfolio trading in the late 1980’s, it was German banks who developed the practice as a mechanism of balance sheet management (Wulfken and Grieser, 2014, p. 16). Conventionally, the main objectives for a bank selling down a loan portfolio are primarily to;

- Improve profitability.
- Transfer risk by releasing equity.
- Realise liquidity.
- Redirect resources to concentrate on core business.

Ireland currently has the second largest market for distressed debt loan sales in Europe. This year alone, Irish lenders have sold €6.2bn worth of loans up to 22 July 2019, second only to Italy’s €6.5bn (Irish Times, 2019). The table below clearly illustrates Ireland’s banks favourable disposition toward this approach;

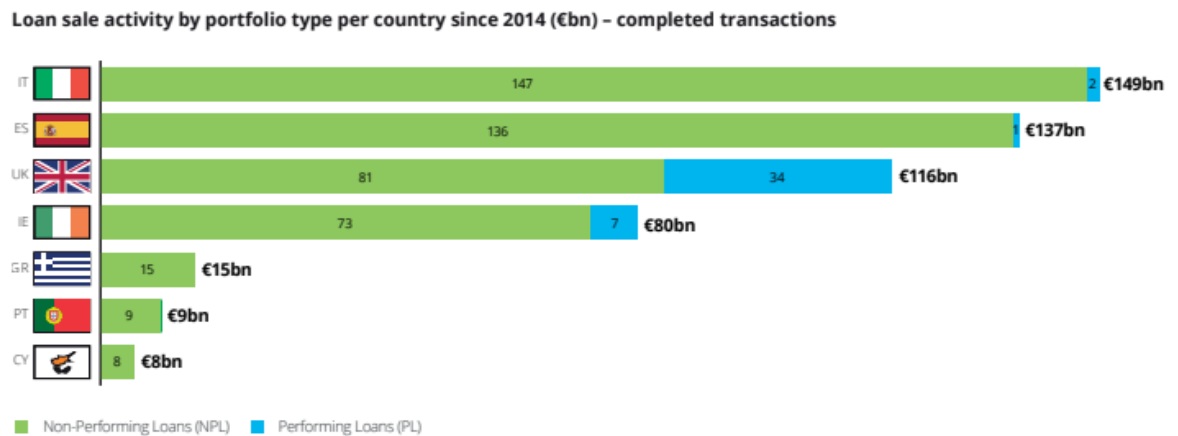


Figure 3: Loan Sale Activity by Portfolio type per country since 2014 (Deloitte, 2018)

The development of secondary markets for NPLs across the EU is one of the central resolution measures set out by the European Commission. Over the last few years, Ireland’s banks have ramped up their efforts preparing sizeable portfolios of NPLs

for sale to private investors. Loan portfolios have become increasingly appealing to investors as a result of Ireland's ever more stable return to economic growth;

“High volumes of deal making indicates there is clearly strong demand for Irish loan assets given our resurgent property market. Banks can dispose of large amounts of NPLs off their books because of the prevailing favourable economic conditions. This is in spite of the potential risks associated with Brexit.” (P5).

After a portfolio sale transaction completes, the bank will generally realise a significant reduction to their respective NPL ratio. The bank's capital provisioning requirement will also consequently reduce, and therefore increased lending opportunities can be pursued which should enable markedly increased future profitability. This strategy for resolving NPLs has gradually become the norm for Irish banks. As already stated, Irish banks are under growing pressure to deleverage and satisfy the 5% target set by the ECB. The effectiveness of portfolio sales for the purpose of achieving NPL ratio targets cannot be refuted.

Contrary to common perceptions, borrowers can in fact benefit from their loan facilities being sold to a private investor (irrespective of the widespread public anger and outcry in relation to “vulture funds”). Private Equity Funds have been purchasing loan portfolios in Ireland, and across Europe, at a discount. They do not incur the capital charges which a bank will; therefore the running costs associated with the acquired loans are lesser for the purchasing fund than for the bank;

“Firstly we will meticulously underwrite.....and thereafter we negotiate the terms of the potential transaction. Depending on the favourability of the economic outcome of the transaction, we will have room for cutting deals with borrowers which can typically involve significant debt write downs.” (P7).

Approximately €110bn worth of NPLs were disposed of by Eurozone banks in 2018. Subsequently, 2019 has trended similarly due to high volumes of NPL stocks held by banks in Southern Europe and Ireland, and their sustained strategy of loan portfolio sales rather than distinctly cumbersome internal recovery procedures (S&P Global Ratings, 2019). This prevailing trend is supported by several features, such as;

- a) *“The secondary market is operating more effectively due to improved streams of data and information regarding historical performance. Greater levels of transparency around the performance of previous transactions are now afforded to investors. This is a significant development which mitigates some risk for the investor...making the potential deal more attractive.”*
- b) *To encourage NPL sales, banks are now commonly aligning the valuations of their NPLs to the market price. Banks are tending to accept frontloading more losses than expected to facilitate disposal of distressed assets.”*
- c) *And lastly, “the ECB actively participated with the banks to confront this issue with a determined and focussed approach. Banks were expected to formulate and implement sound resolution strategies. The ECB did not instruct banks to commence shotgun “clearance sales”, however a reasonable degree of expedience was implicit.” (P4).*

The European Commission has articulated that the widespread NPL problem is one of the most damaging legacies of the crisis. The problem has been identified as a potential source of financial fragility for the wider common economic area. The researcher was informed that private investors purchasing loan portfolios perform a valuable service in *“cultivating the economy” (P6).*

Participants working within Private Equity firms in Ireland are adamant that their work does contribute to Ireland’s economic recovery;

“Government bodies will not undertake the exercise of resolving these distressed loans with the vigour and dynamism that we do. They have not formulated any particularly effective techniques. We absolutely contribute to the clean-up – every transaction removes another chunk of distressed assets off one of the banks’ balance sheets.” (P7).

“Banks are reaping the benefits from selling to us. This is a relatively straightforward solution that provides important liquidity”. (P6)

The provision of liquidity in a generally illiquid market is invaluable to a recovering economy. It is apparent that the sale of NPL portfolios does provide a solution to stakeholders, namely banks, and some borrowers (not all will have the means even

for a cut price settlement). This trading market will undoubtedly endure. Deleveraging efforts by banks in Ireland and Spain, and other member states, will carry on for some years, aided by recovering economies and improving real estate markets. Private investors will continue to invest where opportunity for lucrative returns exist (De Luisa & Rubio, 2018).

Conclusion

By undertaking interviews with experienced professionals who have acquired vast amounts of knowledge and expertise on the selected subject matter, it is apparent that the NPL issue is being addressed with extensive focus across the entire Eurozone. There are clear incentives for various stakeholders with varying motivations. All those respective objectives and outcomes will gradually relieve banks' balance sheets of NPLs and eventually allow greater economic recovery, stability and growth.

The next chapter aims to describe and interpret the relevance, significance and meanings of the researcher's findings. The results of the study will be analysed, taking into consideration the existent literature, and evaluating the outcomes against the researcher's stated research questions.

Chapter 6: Discussion

Introduction

In this chapter the researcher will evaluate and discuss the findings derived from the qualitative research. The relevance, substance and implications of those findings will be explored. Those results will be juxtaposed and compared with the material and themes which have been extracted from the primary research.

The discussion herein intends to address the research questions.

(i) How has Ireland's banking system dealt with reducing NPL ratios?

From investigating the existent academic literature, industry reports, and from questioning interview participants it is evident that Irish banks have made considerable strides in reducing NPL ratios.

Irish banks were left perilously close to extinction after the global financial crisis. Irish banks were effectively saved as a result of the Irish Government availing of a €67.5bn EU-IMF bailout package in 2009 (Taylor, 2017). As ascertained from the literature the Irish government setup NAMA; an AMC which was created as a 'bad bank' for the purpose of removing €74bn worth of distressed loans from the banks' balance sheets. Ireland's Minister for Finance at the time, Brian Lenihan (deceased), stated that NAMA was a vehicle for shedding all bad debts from the bailed-out banks and restoring credit back into the system (McDonnell, 2019).

This approach to NPL resolution is referred to as an 'off-balance sheet' approach (Kalfaoglou, 2018). Although controversial at first, it has been widely recognised as a success. Ireland's economic fortunes turned post 2009 and, correspondingly so did the real estate market. This fortunate circumstance similarly benefitted the Spanish economy and their own AMC, SAREB, has achieved comparable success. In May 2019 it was announced that NAMA was primed to return a profit of €3.5bn back to the State (McDonnell, 2019). *P5* appeared to concur with the positive sentiment towards the creation of an AMC in Ireland, stating that NAMA has proved "*especially successful where NPLs were bunched in a specific sector.*"

The creation of NAMA and the establishment of a secondary market for NPLs are measures which have proven complimentary and mutually reinforcing. This has been a crucial development for Irish banks curing their balance sheets. Bulk deleveraging is possible by selling portfolios of NPLs on the secondary market. Provisioning requirements subsequently decrease, and banks' lending ability is therefore enhanced, which benefits a developing economy, and facilitates bank's profitability growth.

Considering the entirely reprehensible disregard for corporate governance and risk management practices within the Irish banking system in the years antecedent to the crash, it is clear that major reforms were absolutely essential and fundamental to the recovery. As noted in the literature, a sustained and reckless lending boom propelled Ireland's economy toward an unprecedented crash. Bank management emphasised loan book development above all else, expanding sales was the primary concern – risk management was not conducive to rapid business development and was therefore largely ignored (Nyberg, 2010).

Introducing strict regulatory reforms create the foundations for a distinctly more stable and robust industry which should have greater resilience against future potential shocks. The case study of Bangladesh's banking crisis and subsequent development and recovery has been observed within the literature. These studies have demonstrated that a significant NPL issue can be resolved by implementing aggressive regulatory and governance reforms in an emerging market context (Amin et al., 2019).

The importance of reforms which intend to consciously build industry resilience was touched on during the researcher's interview with *P5*;

“We have experienced first-hand the difficulties caused by a pro-cyclical approach.”

The findings and analysis also discussed the CBI's acknowledgment of NPLs being a source of vulnerability to the Irish banking system. The CBI promotes a proactive approach in advance of another eventual downturn. Present day bank management subscribe with the CBIs advices and are advocates of the same approach – *P2* stated

that Irish Banks “*need to minimise vulnerability and safeguard against another downturn*”.

Clearing NPLs off banks’ balance sheets is evidently critical to sustained recovery and strengthening of the banking system. The secondary market can quickly provide liquidity to an illiquid market. The researcher interprets this process as a key instrument for recovery due its ostensible effectiveness for removing vulnerability from the bank’s balance sheets.

(ii) *Has the EU/ECB responded to the issue and implemented effective recovery measures?*

The EU has endorsed and formally adopted IFRS 9. The new reporting standards as set out by the International Accounting Standards Board were implemented across the EU from 1st January 2018. The literature explained that IFRS 9 intended to replace existent pro-cyclical methods and practices, prevalent under IAS 39, with counter-cyclical alternatives (White & Case LLP, 2018). A key objective of IFRS 9 is to cease under-provisioning and avoid the consequential loss forbearance shouldered by banks as a result of a “wait and see” approach. The countercyclical IFRS 9 is a long-term proactive risk management policy aimed at providing a softer landing for impacted economies in the event of another significant shock (Baierlein et al, 2018).

Due to the application of minimum supervisory coverage requirements under IFRS 9, banks were further incentivised to sell NPL portfolios. Swift deleveraging measures have been most beneficial for banks in dealing with regulatory and reporting reforms (which has further increased the appeal of secondary markets).

Irish banks still carry substantial amounts of NPLs on their balance sheets. *PI* stated that banks have been given “*extra motivation to sell loan portfolios because the costs associated with carrying our stocks of NPLs have increased since the implementation of IFRS 9*”.

The EC has released its proposed package of reforms intent on reducing NPL ratios across the Union and mitigating against a future reoccurrence. There are four key areas within the scope of these reforms;

- Bank supervision and regulation;
- Structural reforms of insolvency and debt recovery frameworks;
- Development of secondary markets for distressed assets, and
- Fostering restructuring of the banking system; (European Commission, 2018).

The researcher has interpreted that the EC may be guilty of setting targets and directives without any evident threat of repercussions. It has been left incumbent on national policy makers and regulators to implement and supervise the proposed reforms.

A more drastic and perhaps aggressive approach to resolving NPLs across the EU, particularly in those countries with persistently high NPL ratios, may need to be considered by EU policy makers. An examination of the Bangladesh NPL resolution process may provide a clear conceptual basis for the EU to work from; and shift approach thereafter. The researcher would emphasise two specific reforms implemented by Bangladeshi banks;

- 1) Write off Policy: Banks were permitted to write off 5-year-old bad loans on condition that a 100% provision had been maintained. This was a key reform;
- 2) Defaulted borrowers: Banks were prohibited from renewing or extending credit to previously defaulted borrowers (Amin et al., 2019).

Although extreme, the above policies would provide banks in the EU with the opportunity to reduce their bad debt exposures in an accelerated manner and would also safeguard against reckless and gratuitous borrowing. The write off policy would prove abundantly more consumer friendly than the currently prevalent practice of selling NPLs to private investors with commercial intent. These investors are predominantly Private Equity funds focussed on profit-making and are unsympathetic to implicated borrowers left at risk of losing their most coveted possession, the family home.

As mentioned in the findings, there has been substantial public and political outcry regarding NPL sales to Private Equity investors. Developing a more considerate

approach, in terms of preserving taxpayer's dignity and household security would be a social accomplishment. The Troubled Asset Relief Program was observed from the literature. This recovery plan was implemented in the U.S. in order to mitigate foreclosures. It required the government to inject a substantial amount of cash into illiquid banks. It achieved its objective of stabilising the country's financial system and allowed borrowers to remain in possession of their homes (Kowsmann & Patrick, 2019).

(iii) How effective are secondary market for tackling NPL ratios?

Industry publications discuss how recent regulatory reforms and policies have sparked increased efforts by EU banks to deleverage their balance sheets (Deloitte, 2018).

Development of secondary markets for NPLs is a reform which the ECB advocates. The ECB has made statements condemning the significant volumes of NPLs present on banks' balance sheets. This situation reduces their ability to fulfil their function as providers of credit to the real economy and shackles the operational flexibility and overall profitability that are vital to a well-functioning banking sector (European Central Bank, 2018).

It is essential that the legal framework applicable to secondary markets enables the efficient transfer of NPLs off the balance sheet of credit institutions." (European Central Bank, 2018).

Irish banks have been prominent sellers of NPLs since 2014. As established earlier, Irish loan portfolios have become increasingly appealing to investors given Ireland's notable economic growth in recent years. P5 commented that that there have been large amounts of portfolio sales in Ireland primarily due to the resurgent property market. This point is supported by findings in the literature which assert that Ireland's deleveraging efforts will endure while aided by the momentum of a recovering economy and improving real estate market (De Luisa & Rubio, 2018).

There is an understanding that shrewd Private Equity investors are motivated to, and financially capable of striking while the iron is hot. The CBI and the Irish Banks have come under political scrutiny due to the common perception that they have

effectively rolled out the red carpet for the “vulture funds”. Is this however, quite frankly, a necessary evil? The researcher believes so.

Additional findings in the literature illustrate resolution policies which consider the disposal of distressed assets; whereby banks must judge the best possible balance between value and time in order to maximise the recovery value of the assets and to gauge the correct disposal time for avoiding value depreciation. (Kalfaoglou, 2018). EU member states are coming under mounting pressure to cleanse balance sheets. Their economies are growing, and real estate sectors are generally improving. This is an evidently opportune time for banks to enter the secondary market as a seller of NPL portfolios. There is evidence to verify that the opportunity has been grasped, for example, approximately €110bn worth of NPLs were disposed of by Eurozone banks in 2018 (S&P Global Ratings, 2019).

In chapter 5, the findings highlighted that Irish banks alone had sold over €70bn worth of NPLs on the secondary market in the four-year period from 2014-2018. This substantial deleveraging provided Irish banks with the latitude to capitalise on new lending opportunities, in their abundance in a flourishing economy. *P6* explained that the selling process for banks is expedient, effective, and uncomplicated.

This approach is relatively new in an Irish context. The secondary market for NPLs in Ireland was virtually non-existent a decade ago. Over the years to come, the market will continue to develop and become more integrated in the Irish finance industry. The researcher sees merit in future research studies which might take a retrospective view of the process with the invaluable benefit of hindsight. The ability to comprehensively review the process and the results would be constructive for future disaster recovery planning purposes.

Conclusion

The empirical findings derived from the participants contributions are broadly consistent with the literature. Banking systems across the EU which continue to be burdened by persistently high NPL ratios are increasingly under pressure to achieve significant reductions. It is incumbent upon banks to deleverage by clearing large volumes of NPLs from their balance sheets. NPLs are a source of vulnerability to a banking system and need to be eliminated.

To build robustness within the banking system, proactive measures must be implemented. Accelerated resolution measures are necessitated. Risk management and corporate governance reforms are insufficient on their own. Such measures have been determined more effective as preventative rather than restorative.

Ireland's banks have increasingly opted to liquidate rather than restructure. Secondary market portfolio sales have emerged as the primary approach adopted by Irish banks. This approach is buoyed by a revived economy and rejuvenated real estate sector. Both these elements are crucial contributory requirements. Therefore consequently, not coincidentally, Ireland's banks have realised impressive deleveraging results by selling off their NPL stocks.

The following chapter will expand upon the recommendations for future research as mentioned above. Final conclusions and research limitations will also be explained.

Chapter 7: Conclusion

Introduction

The central findings will be appraised in this chapter and comparisons will be drawn against the research aim and objectives. The researcher will consider the theoretical and practical implications of the findings and the research limitations which have been encountered shall be discussed.

Finally, to close out the dissertation the researcher puts forward recommendations for future potential research studies.

Achievement of Research Aim and Objectives

The overarching purpose of this study was to analyse and evaluate the extent of the persisting NPL problem across the EU's member states. Additionally, the researcher proposed to evaluate the resolution and reform efforts which have been implemented by EU policy makers, and understand their effectiveness, particularly in the Irish context.

This paper enhances our comprehension of the stated objectives in several ways, most specifically in relation to Ireland's NPL clean-up efforts. The adoption of counter-cyclical reforms is the most demonstrable lesson drawn from the financial crisis by the ECB and by extension, the banking systems of all its associated member states. The introduction of IFRS 9 which has imposed enhanced provisioning requirements on banks is an important risk management policy which will positively enable banks to better withstand the impact of any potential future shocks to the economy.

A well-functioning banking system is vital to a successful economy. The CBI has declared that it is critical that trust and confidence in Ireland's banking system is restored. Pro-cyclical behaviour has been identified as a central contributory factor to the unprecedented magnitude of the financial crisis. Heightened supervisory reforms have been implemented which will improve corporate governance at an institutional level. Lessons have been learned from the past. The light touch regulation which was prevalent during the boom years is no longer tolerable.

Promoting distressed debt markets was a key NPL resolution policy identified by EU policy makers. Irish banks have achieved significant NPL ratio reductions through secondary market participation. The researcher had reservations in relation to the stark development of secondary market activity in Ireland. Social conscience can cloud one's judgment in relation to the fundamental purpose of this burgeoning industry. It is evident however that the Private Equity investors who have been purchasing substantial volumes of NPLs from Irish banks are making a significant contribution to the ongoing economic recovery. The findings highlighted that this year alone, Irish lenders have sold €6.2bn worth of loans up to 22 July 2019. The direct upshot being a further €6.2bn made available for lending to prospective business ventures which could contribute to the economy in numerous ways.

From the research and subsequent analysis undertaken by the researcher, it can be concluded that the development of secondary markets is most effective for resolving troublesome and persistent NPL ratios. To reiterate; *P6* explained that the selling process for banks is expedient, effective, and uncomplicated. Irish banks will continue to pursue NPL portfolio sales over the coming years in order to pursue continued deleveraging, and to meet the 5% ratio target set by the ECB.

Research Limitations

The research undertaken for this exploratory study is not without its limitations. The researcher was limited to a defined timeframe within which to conclude the dissertation. This has restricted the depth of information collected and analysed. Additional time would have afforded the researcher the opportunity to collect additional data, achieve greater insight and consequently express a more comprehensive understanding.

Matters concerning the validity, reliability and generalisation of data are raised (Cohen et al., 2007). In addition, generalisation cannot be applied to the findings of the research due to the relatively small sample size of participants.

As stated, the research method employed was qualitative in nature. Interviews were undertaken as the method of primary research. The participants were reticent to disclose their identity, so their anonymity has therefore been preserved. In

accordance with the participants desire to maintain confidentiality, references to sensitive information discussed during interviews were duly removed from transcripts. A generalised reference to examples is therefore consequential. Substantiating the reliability of the results was problematic.

Because participants' responses are subject to their own interpretations and biases, interviews can be disregarded as a primary source of data. The researcher encountered a lot of "stock" answers from those participants working in banks and in private equity firms. These cohorts of participants provided quite standard "company line" answers and appeared reluctant to divulge information and insights. This certainly hindered the depth and richness of the findings gathered by the researcher.

Lastly, there is a distinct lack of research which directly addresses the NPL problem from an Irish perspective. Because of the ostensible scarcity of qualitative studies relating to the Irish NPL problem; this represented the predominant context for the research as there are limited supplementary qualitative studies. This research has endeavoured to contribute towards closing this gap.

Suggestions for Further Research

Tackling unprecedentedly high NPL ratios across the EU, and more specifically in Ireland, is a relatively new challenge. Resolving the problem is an ongoing process at present, and that process is subject to continuous developments. Secondary markets have emerged across the Eurozone in parallel with industries of associated service providers. The body of literature on this subject would benefit from a retrospective viewpoint; a study which analyses the resolution process over a more protracted period with a comprehension of the outcomes and how they were achieved. This would allow for the construction of more insightful recommendations for future recovery procedures grounded upon more expansive understanding.

This research paper, and the further research which has been suggested by the researcher, would be beneficial to supervisory policy makers for the purpose of future economic disaster recovery planning.

Another noteworthy proposition for a future piece of research is a cross analysis of NPL ratio reduction measures which have been successfully implemented by various

EU member states. Such a study would allow individual member states to evaluate and determine the most appropriate approach and/or set of resolution measures to adopt in their specific circumstance.

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Appendices

Appendix 1 – Interview Questions

1. Tell me what you see as the main issues caused to Irelands economic recovery by the continued presence of Non-Performing Loans (NPLs) on our Banks' balance sheets.
2. Specifically, how are banks held back by carrying high volumes of NPLs?
3. What was the aim of Nama? Did Ireland pioneer the approach? Has it been successful?
4. The Irish Government has not been as proactive as the US where the Federal Government allocated \$50 billion for housing programs under the Troubled Asset Relief Program (TARP). Can Ireland do more to help people resolve home loan debt problems?
5. Capital adequacy requirements for banks have been targeted under the Basel III international regulatory framework. Have Ireland's banks taken the easiest option by selling NPLs to Private Equity (Vulture) Funds?
6. The Irish Government has enticed such funds by the introduction of tax breaks for Section. 110 entities. Does the DoF consider that NPLS are most effectively resolved via secondary markets?
7. Given that most Section. 110 companies are not regulated in Ireland. How vital is it that their chosen Service Providers in the state are closely supervised by the Financial Regulator?
8. The IMF have brought this issue high on their agenda, and measures have been implemented already addressing the issue across the EU. Has Ireland adopted a high priority approach? Are preventative measures as crucial as the ongoing disaster recovery?
9. In general, have you observed any particular resolution approach as being most effective?
10. Are different approaches more suitable for different impacted countries?
11. How would you evaluate Ireland's efforts to resolve the NPL predicament?
12. How high on the agenda (at EU level) is the resolution of NPLs?
13. Is there anything further which has not been discussed today, that you feel would be valuable to the research being undertaken?

Appendix 2 – Content Analysis Coding Schedule

Coding Schedule		
Research Objectives		
Objective 1: Determine how Irish banks have dealt with reducing NPL ratios.	Objective 2: Determine has the EU/ECB responded adequately to the NPL problem and implemented effective recovery measures.	Objective 3: Determine how effective are secondary markets for tackling NPL ratios.
Themes: used as part of the coding process		
Coding: Themes which focussed on Irish Banks tackling their NPLs.	Coding: Themes which focussed on EU/ECB recovery measures in relation to NPL ratios.	Coding: Themes focussed on how effective are secondary markets for resolving NPLs.
Key words: used as part of the coding process		
Ratios	Reforms	Private Investors
Vulnerability	EU / ECB	Liquidity
Balance sheets	AMCs	Expedient
Proactive approach	Provisioning	Sales
Provisioning	Stability	Deleverage

Appendix 3 – Content Analysis Coding Colour Guide

Colour Coding Guide
Irish Banks tackling NPL ratios
EU recovery measures and reforms
Secondary markets effectiveness