



EUROPEAN COMMISSION
DG Competition

***Case M.8888 - APOLLO MANAGEMENT / CYPRUS
COOPERATIVE BANK / ALTAMIRA CYPRUS***

Only the English text is available and authentic.

**REGULATION (EC) No 139/2004
MERGER PROCEDURE**

Article 6(1)(b) NON-OPPOSITION
Date: 08/05/2018

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In the published version of this decision, some information has been omitted pursuant to Article 17(2) of Council Regulation (EC) No 139/2004 concerning non-disclosure of business secrets and other confidential information. The omissions are shown thus [...]. Where possible the information omitted has been replaced by ranges of figures or a general description.

PUBLIC VERSION

To the notifying parties:

Subject: Case M.8888 - APOLLO MANAGEMENT / CYPRUS
COOPERATIVE BANK / ALTAMIRA CYPRUS
Commission decision pursuant to Article 6(1)(b) of Council
Regulation No 139/2004¹ and Article 57 of the Agreement on the
European Economic Area²

Dear Sir or Madam,

- (1) On 11 April 2018, the European Commission received notification of a proposed concentration pursuant to Article 4 of Council Regulation (EC) No 139/2004 by which Altamira Asset Management S.A. ("Altamira", Spain), controlled by Apollo Capital Management, L.P. ("Apollo", US), and Cyprus Cooperative Bank ("CCB", Cyprus) acquire within the meaning of Articles 3(1)(b) and 3(4) of the Merger Regulation joint control of the newly created full-functional joint venture Altamira Asset Management (Cyprus) Ltd ("Altamira Cyprus", Cyprus). Apollo and CCB are collectively referred to as "the Parties".

1. THE OPERATION

- (2) CCB is only active in Cyprus. It provides retail banking, corporate banking and bancassurance³ products to natural persons and legal entities residing in Cyprus.

¹ OJ L 24, 29.1.2004, p. 1 (the 'Merger Regulation'). With effect from 1 December 2009, the Treaty on the Functioning of the European Union ('TFEU') has introduced certain changes, such as the replacement of 'Community' by 'Union' and 'common market' by 'internal market'. The terminology of the TFEU will be used throughout this decision.

² OJ L 1, 3.1.1994, p. 3 (the 'EEA Agreement').

³ Bancassurance is an arrangement between a bank and an insurance company allowing the insurance company to sell its products to the bank's client base.

It also provides real estate finance only in the form of banking loans. CCB does not take on any risk in connection with bancassurance products.

- (3) Altamira is active in the management, enforcement and recovery of delinquent loans, and the management and sale of foreclosed real estate. In particular, Altamira provides banks with debt servicing covering the whole debt cycle of a non-performing loan, from pre-legal action to the sale of seized collateral. This activity is also called debt management. Altamira is controlled by Apollo, a group of global investment funds that invest in a wide range of industries. Altamira is active in Cyprus only through Altamira Cyprus which provides its management, enforcement and recovery of delinquent loans services exclusively for CCB by the management, administration, commercialisation and disposal of assets that CCB acquires when it seizes the collateral provided as security to the loans it has issued.

2. THE CONCENTRATION

- (4) Altamira Cyprus was created on 24 January 2018. Investment funds managed by affiliates of Apollo own 51% of the shares. The remaining 49% is owned by CCB. Its original purpose was exclusively to service some of CCB's non-performing assets. These consisted of EUR [...] million of CCB's non-performing loans⁴ ("NPLs") and EUR [...] million of accounting write-offs⁵ at 31 December 2017. Altamira Cyprus did not therefore fulfil the criteria determining full-functionality of a joint venture, since it served exclusively one of its parents.
- (5) On 13 April 2018, a resolution was adopted at the Altamira Cyprus' shareholders' meeting, pursuant to which the activities of Altamira Cyprus will be extended to include servicing of third parties' NPLs (i.e. NPLs not owned by CCB).
- (6) As a consequence of the resolution, Altamira Cyprus will become a market-facing service provider, as it intends to bid for the servicing of a substantial amount of NPLs. According to the information available, a number of important service contracts will be awarded in the course of the month of May 2018. According to the business plan submitted by the Notifying Parties, when these contracts are awarded to Altamira Cyprus, more than 50% of its turnover will be generated with third parties.
- (7) Moreover, Altamira Cyprus has sufficient own staff, financial resources and dedicated management for its operation and for the management of the NPLs under its responsibility (those of CCB and those of third parties). Furthermore, it intends to operate on a lasting basis. Therefore, Altamira Cyprus is fully functional.
- (8) Altamira Cyprus is also jointly controlled for merger control purposes, since both Parties have to agree on the annual budget and business plans of Altamira Cyprus, although Apollo alone decides on the nomination of the CEO.

⁴ Loans with arrears of more than 90 days past due

⁵ These are fully provided accounts taken off the balance sheet. As such, they do not appear in the official statistics of the country's NPLs.

- (9) Therefore, the transaction involves the acquisition of joint control of the newly created full-functional JV Altamira Cyprus by Apollo and CCB within the meaning of Article 3(1)(b) of the Merger Regulation.

3. EU DIMENSION

- (10) The undertakings concerned have a combined aggregate world-wide turnover of more than EUR 5 000 million⁶. Each of them has EU-wide turnover in excess of EUR 250 million. CCB achieves more than two-thirds of its aggregate EU-wide turnover within one Member State (Cyprus), but Apollo does not. The notified operation therefore has an EU dimension.

4. COMPETITIVE ASSESSMENT

4.1. Introduction

- (11) The Parties submit that the criteria set out in paragraph 5(a) of the Commission Notice on a simplified procedure for treatment of certain concentrations under Council Regulation (EC) No 139/2004⁷ ("the Commission Notice on a simplified procedure") are fulfilled.
- (12) The Parties are active in markets which are close and connected to each other, Altamira Cyprus' activities are in the management of NPLs and CCP's in retail banking activities, including mortgage loans. Consequently, the Commission has decided to apply paragraph 14 of the Commission Notice on a simplified procedure and revert to a normal procedure, in order to assess whether serious doubts arose as to the compatibility of the transaction with the internal market.

4.2. Product market definitions

NPL management services

- (13) In a recent decision,⁸ the Commission used the term credit management services (CMS) to refer to a number of related services that may be required by companies which provide goods or services on credit. The main types of CMS that can be distinguished are: credit information and scoring, payment services, invoicing and debt collection. CMS can be carried out by the company itself as part of its own operations or can be outsourced to a third party.⁹
- (14) In the same decision,¹⁰ the Commission defined debt collection as a separate relevant product market, distinct from other credit management services. Debt collection can involve a range of different measures, all designed with the aim of achieving repayment of a debt. The main phases in the debt collection process are reminders, amicable collection, legal collection and debt surveillance. Debt

⁶ Turnover calculated in accordance with Article 5 of the Merger Regulation.

⁷ OJ C 366, 14.12.2013, p. 5.

⁸ Case M.8287 Nordic Capital/Intrum Justitia AB, paragraph 24.

⁹ Case M.8287 Nordic Capital/Intrum Justitia AB, paragraph 12

¹⁰ Case M.8287 Nordic Capital/Intrum Justitia AB, paragraph 24.

collection is a regulated process, which can, in most countries, only be carried out by licensed providers.¹¹

- (15) Altamira Cyprus is active in NPLs management services, whereby a client assigns NPLs to a company to service the assets by enforcing the creditor's legal rights and operating or selling the assets. As such, it is very similar to debt collection services.¹²
- (16) In its past practice the Commission also considered further segmentations of the debt collection market (which seems equally relevant for NPLs management services) either on the basis of the sector in which the creditor operates banks and financial institutions, telecoms companies, utilities companies, the public sector and SMEs)¹³ or according to the size of the creditor (large companies, such as major banks, telecoms and utilities, and smaller companies, SMEs, online retailers, etc.)¹⁴. Altamira Cyprus is only active in providing debt collection services to banks and financial institutions.
- (17) The Commission also analysed a possible distinction between non secured and secured loans¹⁵ for the purposes of debt collection services.¹⁶ The Commission's past decision discussed in the previous paragraphs related primarily to unsecured loans. The Commission noted that there were strong indications that collection on secured and unsecured debt may form distinct product markets, but ultimately left open the question as to whether the debt collection market should be segmented according to the security level of the loan. The reason was that for that case, financial institutions (which represented the main creditors in the area of secured debt) in the Nordic markets do not typically outsource collection on secured debt. As such, secured debt represents only a very small proportion of the overall external debt collection market.¹⁷
- (18) Finally, the Commission indicated that debt collection carried out internally (in-house) by the creditor should not be considered as part of the same market as debt collection that is outsourced to third parties.¹⁸

Banking services and non-performing loans

- (19) The European Commission has held that banking services can be divided into four main segments: (i) retail banking (products supplied to individuals), (ii) corporate banking (with separate markets for small and medium-sized customers

¹¹ Case M.8287 Nordic Capital/Intrum Justitia AB, paragraph 25

¹² While in the present case the NPLs management services concern secured debts which are collateralised in M.8287 Nordic Capital/Intrum Justitia AB the companies involved were predominantly servicing unsecured debt (which is not collateralised).

¹³ Case M.8287 Nordic Capital/Intrum Justitia AB, paragraphs 35 - 44

¹⁴ Case M.8287 Nordic Capital/Intrum Justitia AB, paragraphs 44 -52.

¹⁵ A secured loan, is a loan in which the borrower pledges some asset (e.g. a car or property) as collateral for the loan, which then becomes a secured debt owed to the creditor who gives the loan

¹⁶ Case M.8287 Nordic Capital/Intrum Justitia AB, paragraphs 59 – 65.

¹⁷ Case M.8287 Nordic Capital/Intrum Justitia AB, paragraph 61.

¹⁸ Case M.8287 Nordic Capital/Intrum Justitia AB, paragraph 32.

and large corporate customers), (iii) investment banking, and (iv) financial market services.¹⁹

- (20) Retail banking generally includes all banking services for individuals, including deposits, payment services, lending and investment products. The Commission has considered further distinctions for consumer loans²⁰, card-based consumer credits²¹ and mortgage loans²².
- (21) Corporate banking generally includes banking services for large corporate customers and smaller commercial clients such as small and medium-sized enterprises. In particular, the precedents have recognised a market for loans granted to corporate customers.²³ The Commission's precedents have also considered separate product markets based on different corporate customer segments, i.e., large corporate customers and other corporate customers, including SMEs.²⁴
- (22) In the present case, the relevant market is constituted by the provision of loans by banks and financial institutions, which – once they become NPLs – need to be serviced either by a bank in-house or by external service providers.
- (23) Furthermore, there is no need to conclude on whether the provision of loans by banks and financial institutions should be further segmented on the basis of their underlying loan characteristics (e.g. secured/unsecured, retail/SME/corporate) given that the transaction does not give rise to competition concerns under any conceivable market definition.

4.3. Geographic market definitions

- (24) The Commission has defined the geographic market for debt collection as national in scope²⁵.
- (25) The Commission has consistently held that the geographic scope of retail banking is national.²⁶ This is due, amongst other factors, to the competitive conditions within individual countries and the “importance of a network of branches.”²⁷
- (26) With regard to corporate banking, and in particular services to SMEs, the Commission has generally taken the view that these services are supplied at national level. The Commission also noted, however, that some parts of corporate

¹⁹ Case M.6168 – *RBI / EFG Eurobank / JV*; M. 5726 - *Deutsche Bank/Sal. Oppenheim*; Case M.5384 - *BNP Paribas/Fortis*.

²⁰ Case M.6405 *BANCO SANTANDER/RAINBOW*; Case M.6164 *BARCLAYS BANK/EGG CREDIT CARD ASSETS*; Case M.5432 - *CREDIT MUTUEL / COFIDIS*.

²¹ Case M.6405 - *BANCO SANTANDER/RAINBOW*; Case M.5384 *BNP PARIBAS/FORTIS*.

²² Case M.6168 – *RBI / EFG Eurobank / JV*.

²³ Case COMP/M.4844 – Fortis/ABN AMRO.

²⁴ Case COMP/M.4844 – Fortis/ABN AMRO Assets.

²⁵ Case M.8287 Nordic Capital/Intrum Justitia AB, paragraph 85,

²⁶ Case M.6405 – *BANCO SANTANDER/RAINBOW*; Case M.6168 – *RBI / EFG Eurobank / JV*

²⁷ Case M.4844 – *Fortis/ABN AMRO ASSETS*.

banking may have a wider geographic dimension, in particular services and products offered to large corporations.²⁸

- (27) For the purposes of the transaction, the exact geographic market definitions may be left open since the transaction does not lead to competition concerns under any plausible market definition.

4.4. Assessment

- (28) Altamira Cyprus is active in the market of NPLs management services and CCB in the market of loan provision by banks and financial institutions. As NPLs management services are provided only for NPLs (the latter being provided by banks and financial institutions) , it is not necessary to include all loans in the assessment.
- (29) Currently, the overwhelming majority of Cypriot NPLs (estimated at EUR 22 400 million) held by large banks are managed in-house. Only two third parties are active (on a commercial basis) in the market for NPL management services in Cyprus: Debt Servicing Cyprus Ltd, which manages EUR 2 300 million of NPLs for the Bank of Cyprus, and Pepper Cyprus Limited, which manages EUR 800 million of NPLs for Hellenic Bank. These two providers together manage loans worth a total of EUR 3 100 million, equivalent to around 14% of the total value of Cypriot NPLs.²⁹
- (30) CCB's NPLs amounted to EUR [...] million at 31 December 2017, and the bank also had EUR [...] million of accounting writes off. Their servicing is performed exclusively by Altamira Cyprus. Additionally, CCB holds EUR [...] million of loans that are not yet NPLs but [may become so in the future]³⁰. These loans are currently managed by CCB, but will be transferred to Altamira Cyprus once they are classified as NPLs.
- (31) Altamira Cyprus' provision of NPLs management services for CCB can be considered to constitute internal NPLs management within CCB, since prior to the Transaction Altamira Cyprus was not active on the market.
- (32) Therefore, looking at the current merchant market for the servicing of NPLs in Cyprus, the transaction will not have any impact on the structure of the market, as neither Altamira Cyprus is offering its services on a commercial basis, nor is CCB purchasing NPLs managing services on the commercial market.
- (33) Based on the available information, the merchant market for NPLs servicing is likely to undergo significant structural changes in the near future, with the servicing of sizeable NPLs portfolios moving from in-house to outsourcing.
- (34) According to information provided by the Parties, a portfolio of EUR [...] million (or [30-40]% of all NPLs) currently held by Bank of Cyprus and a portfolio of EUR [...] million (or 5-10)% if all NPLs) currently held by the Housing Financial

²⁸ CaseCOMP/M.6168 – RBI/EFG Eurobank.

²⁹ In the present case, given the recent development of the debt servicing market, the only available metric is the value of the NPLs.

³⁰ These loans are currently in arrears, but less than 90 days past due. They become NPLs if they become more than 90 days past due.

Corporation is likely in the near future to be outsourced to third parties, potentially including Altamira Cyprus.

- (35) The Commission considers that, even under this scenario, the Transaction does not lead to competition concerns in the markets for servicing NPLs in Cyprus.³¹
- (36) First, Altamira Cyprus has not been commercially providing NPLs management services to the market pre-transaction. Post-transaction, Altamira Cyprus intends to increase its customer base and offer its services to other suppliers of NPLs (banks and other financial institutions in Cyprus). Therefore a new NPLs management service provider will enter the market and offer its NPLs management services to customers willing to outsource these activities in the near future.
- (37) Second, pre-transaction Altamira Cyprus services the NPLs of CCB on an exclusive basis (i.e. Altamira Cyprus's competitors did not have access to CCB's NPLs portfolio). This will not change as a consequence of the transaction.
- (38) The Commission notes that, in April 2018, the Cypriot government made a deposit of 2.5 billion euros in CCB. This deposit does not modify CCB's situation as regards NPLs or the JV's activities in the provision of NPLs management services. For the purposes of this decision it is not necessary or appropriate to determine whether or not this deposit to the JV partners involve the payment of state aid. The assessment that the present decision contains is entirely without prejudice to the Commission's eventual position on the existence and, if relevant, the legality of such State aid.
- (39) In conclusion, based on the above elements, there transaction does not raise any concerns as regards its compliance with the internal market.

Conclusion

- (40) For the above reasons, the European Commission has decided not to oppose the notified operation and to declare it compatible with the internal market and with the EEA Agreement. This decision is adopted in application of Article 6(1)(b) of the Merger Regulation and Article 57 of the EEA Agreement.

For the Commission

(Signed)

Margrethe VESTAGER
Member of the Commission

³¹ The assessment is carried out looking at the total NPLs market, but would be the same under any plausible segmentation of NPLs management services or NPLs portfolios.