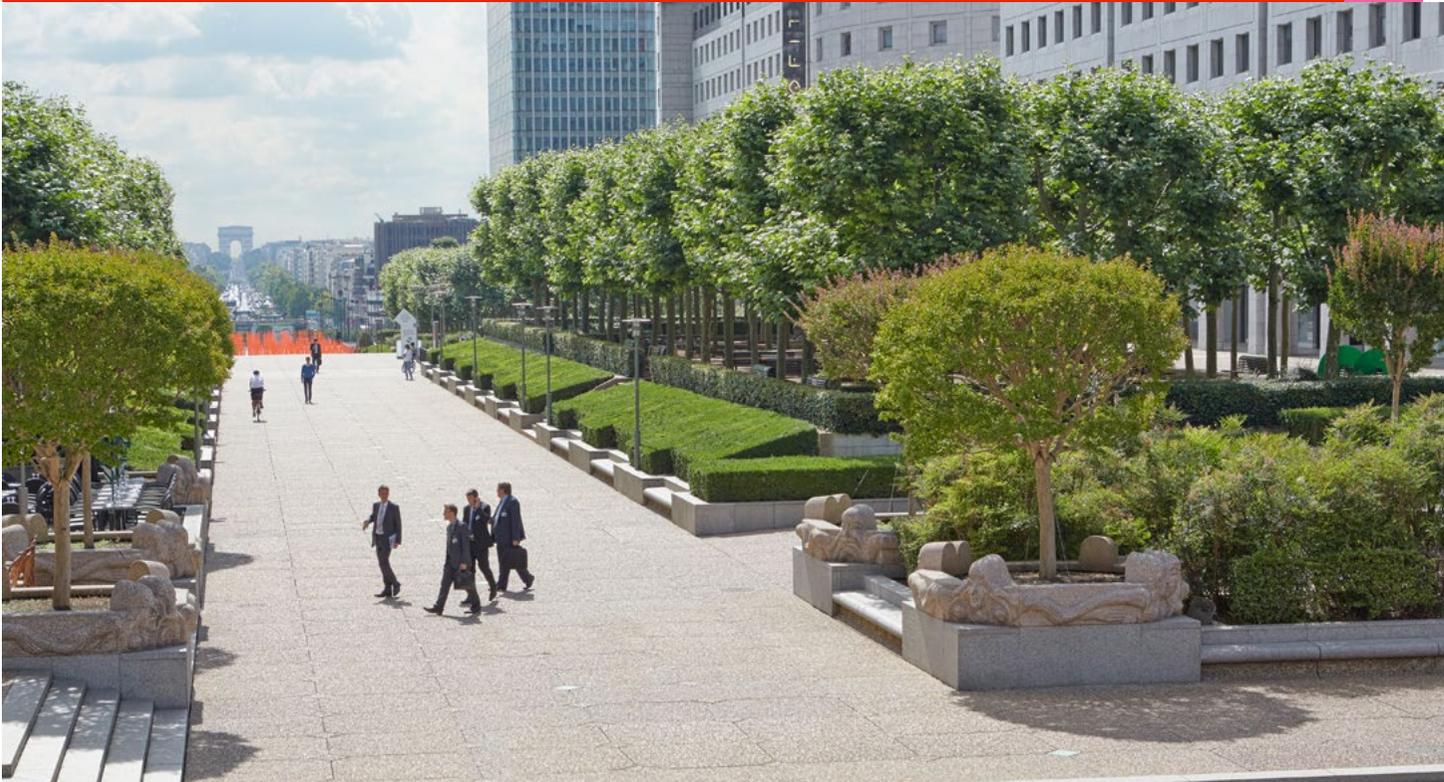


Portfolio Advisory Group

Market update Q2 2015

August 2015

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European loan portfolio activity outlook and transactions in key markets



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Thompson**

Global Leader,
Portfolio Advisory Group

Welcome to our Q2 2015 market update. In this edition, we show that after a strong start in Q1 2015, European banks are disposing of their unwanted loan portfolios at a record rate. During the first half of this year, transactions have been completed for portfolios with a face value of around €55 billion, an increase of 20% on the same period in 2014.

As well as increased volumes, higher prices are being driven by continued demand from investors and favourable debt markets allowing investors to leverage many transactions. Continued calls from stakeholders for banks to continue with their necessary restructuring and deleveraging – prompted in part by last year’s Asset Quality Review – has acted as a further prompt to a number of banks.

In addition to the c. €55bn of portfolio transactions already completed this year, European transactions currently in process total around €84 billion, and with a flood of new transactions expected to be launched after the summer holiday period, total sales for the year are expected to be

close to €150bn, compared to €91bn in 2014 – a projected 60% increase. The UK and Irish markets are arguably the most mature portfolio transaction markets in Europe and it is widely predicted that the growth markets will be in mainland Europe such as in Italy, the CEE and the Netherlands. Whilst we also share this view, it is the UK and Irish markets which are still seeing the most activity; over 60% by value of the current portfolio transactions in progress throughout Europe are in these two markets.

As we expected, Italy has seen a large increase in activity in 2015 and is one of the main focus areas for international investors and funds. Completed transactions for 2015 are already at the 2014 level and with a strong pipeline we fully expect Italy to be one of the success stories of 2015.

The dust has finally settled from the ECB asset quality review and stress tests. Management are considering the impact of their own restructuring plans which include balance sheet clean-up exercises and further restructuring.

With the recent economic and financial developments in Greece, we believe this market will remain fluid. Increased levels of borrower defaults are possible and this market could become very active when there is greater financial and economic stability.

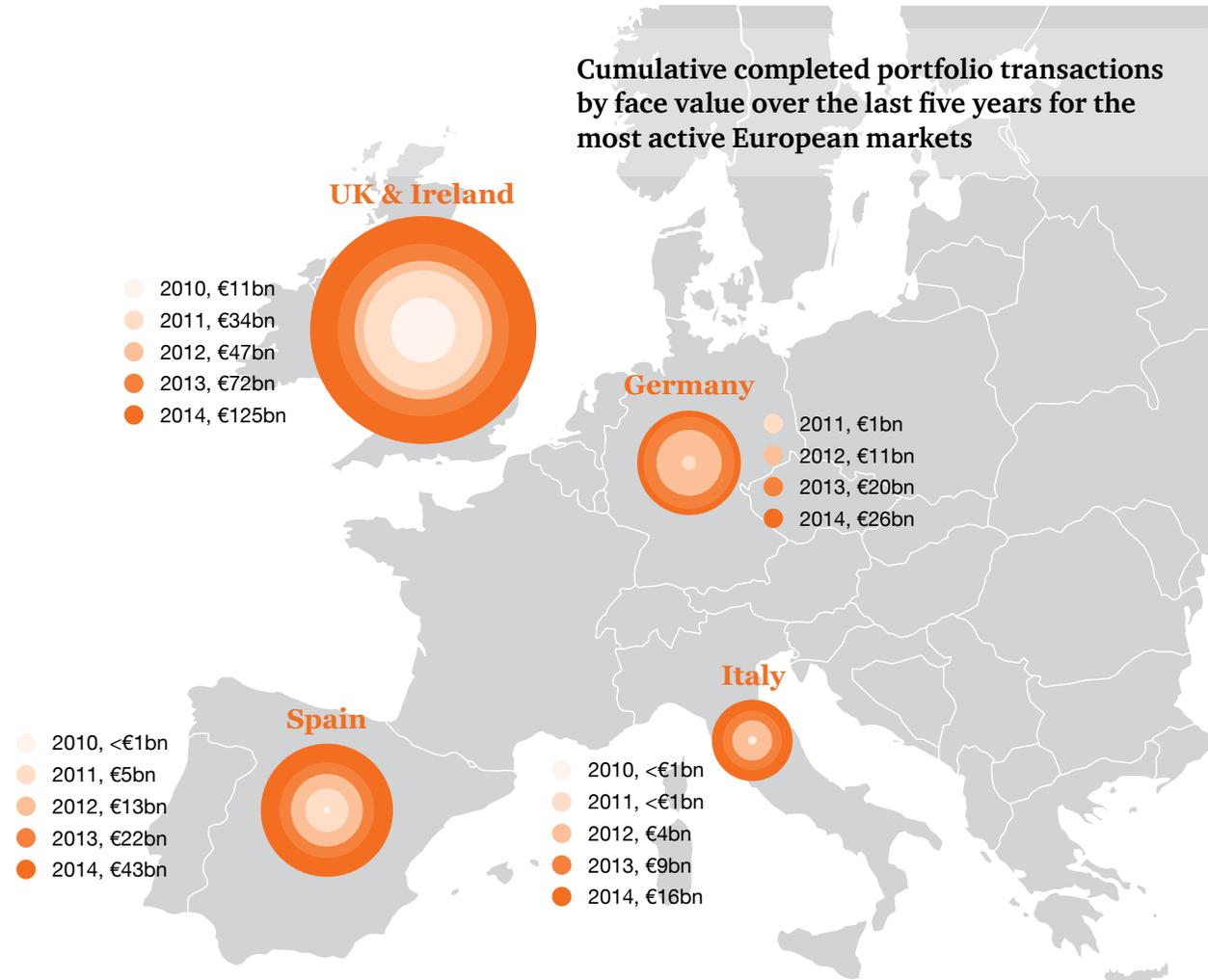
We see loan portfolios backed by real estate as continuing to be the most traded asset class, with around 80% of all transactions completed so far this year being either residential mortgages or lending backed by commercial real estate. This represents an increase from around 70% in 2014.

I hope you find this Market Update informative and insightful. If you would like to discuss any aspect of the market please contact me, Jaime Bergaz or any one of our colleagues listed on the back page.

The UK, Ireland and Spain have been historically the most active portfolio transaction markets in Europe

But elsewhere in Europe the market is gathering pace

- It is no surprise the UK and Ireland, followed by Spain, have been the most active portfolio transaction markets in Europe given that banks locally have been very active in cleaning up their balance sheets.
- Italy and Germany have shown steady growth in the portfolio transaction market, with a significant number of transactions nearing completion or in the pipeline (see pages 6-7).
- We predict the UK and Ireland will have another strong year in 2015, but it will be the Italian market which will be the talking point as the market responds to regulatory reforms and increasingly high trends of investor appetite.
- The CEE and Netherlands are forecast to have significant portfolio transaction activity in 2015 as well and we think bank restructuring still has a way to go in these regions.



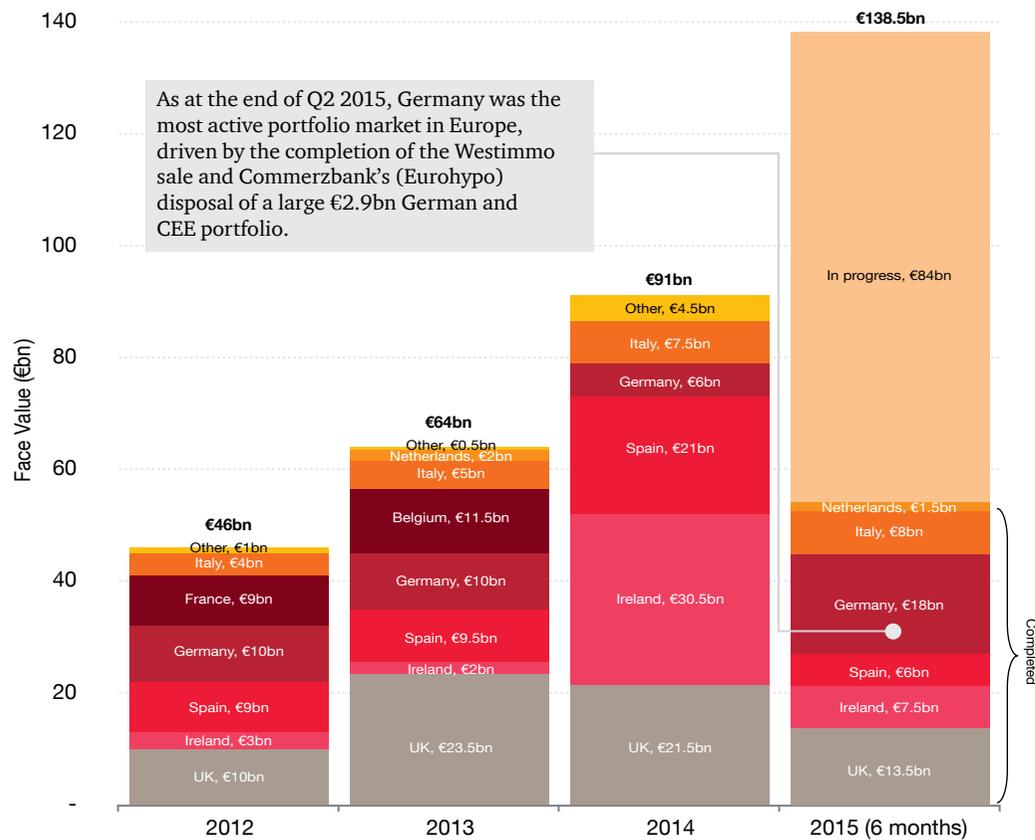
Source: PwC analysis

Note: Based on the location of the head office of the bank selling the assets

2015 is set to become another record year for the portfolio transactions market in Europe

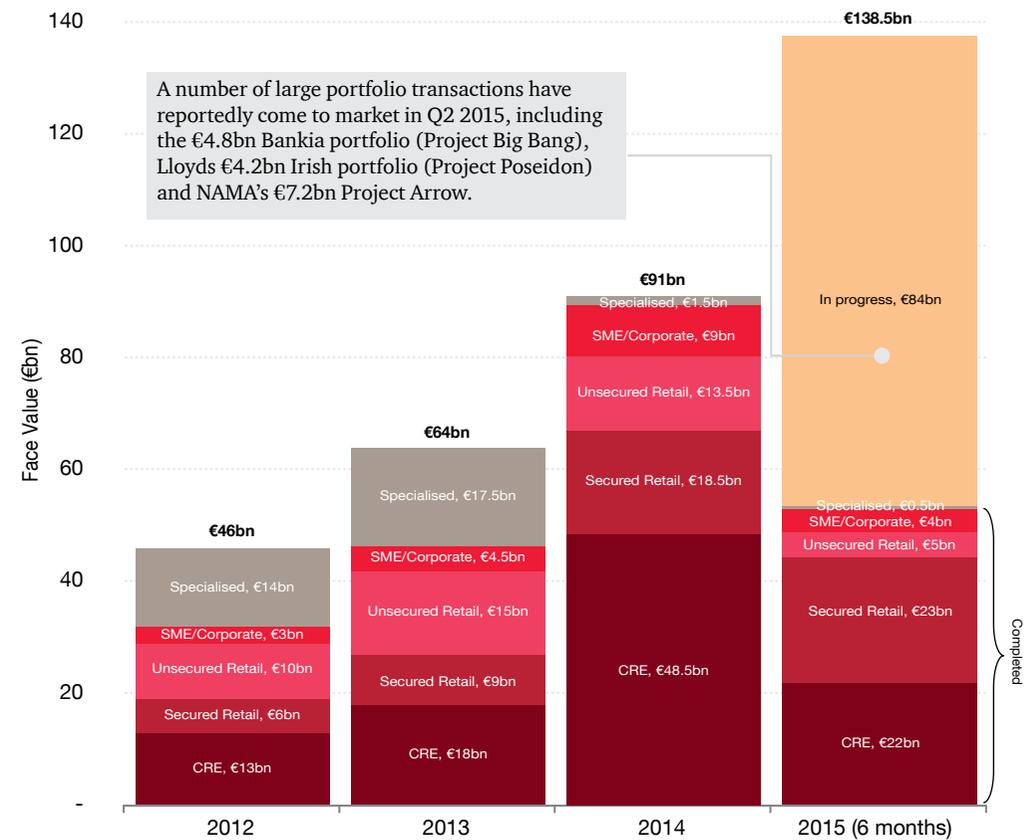
Large transactions in the mature markets and growth in the developing markets are driving the increase

Value of Transactions by Country



Source: PwC analysis
Note: Based on the location of the head office of the bank selling the assets

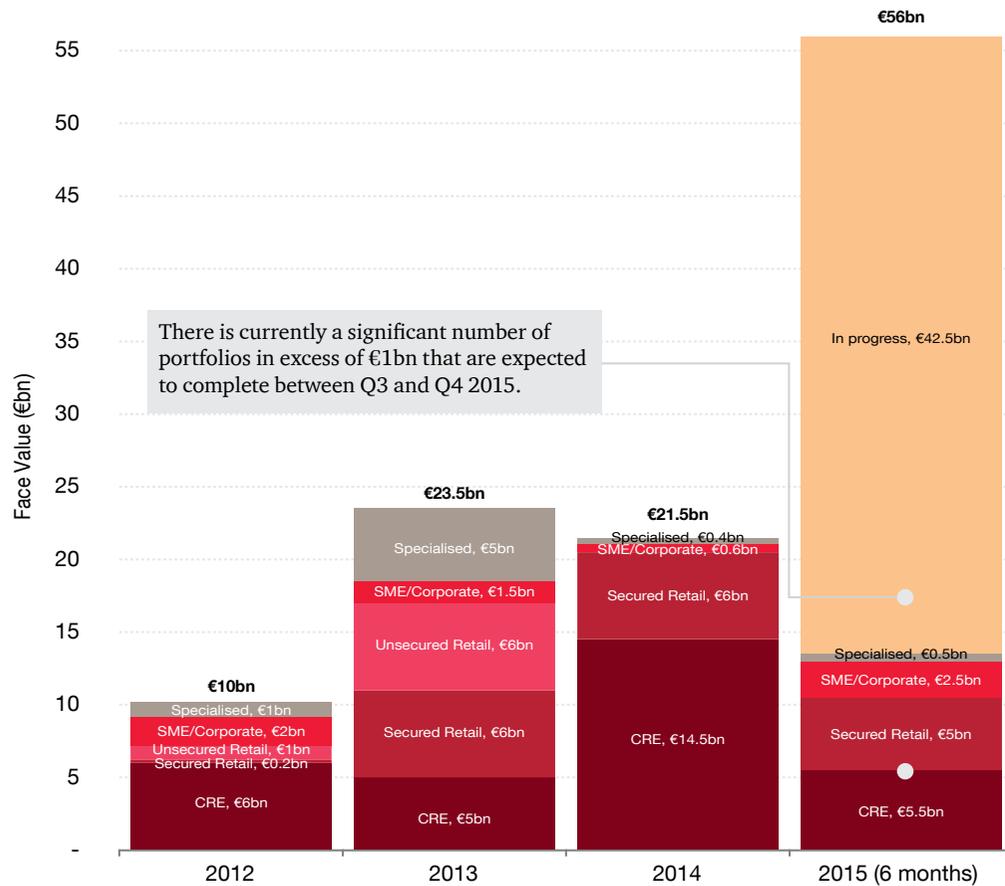
Value of Transactions by Loan Type



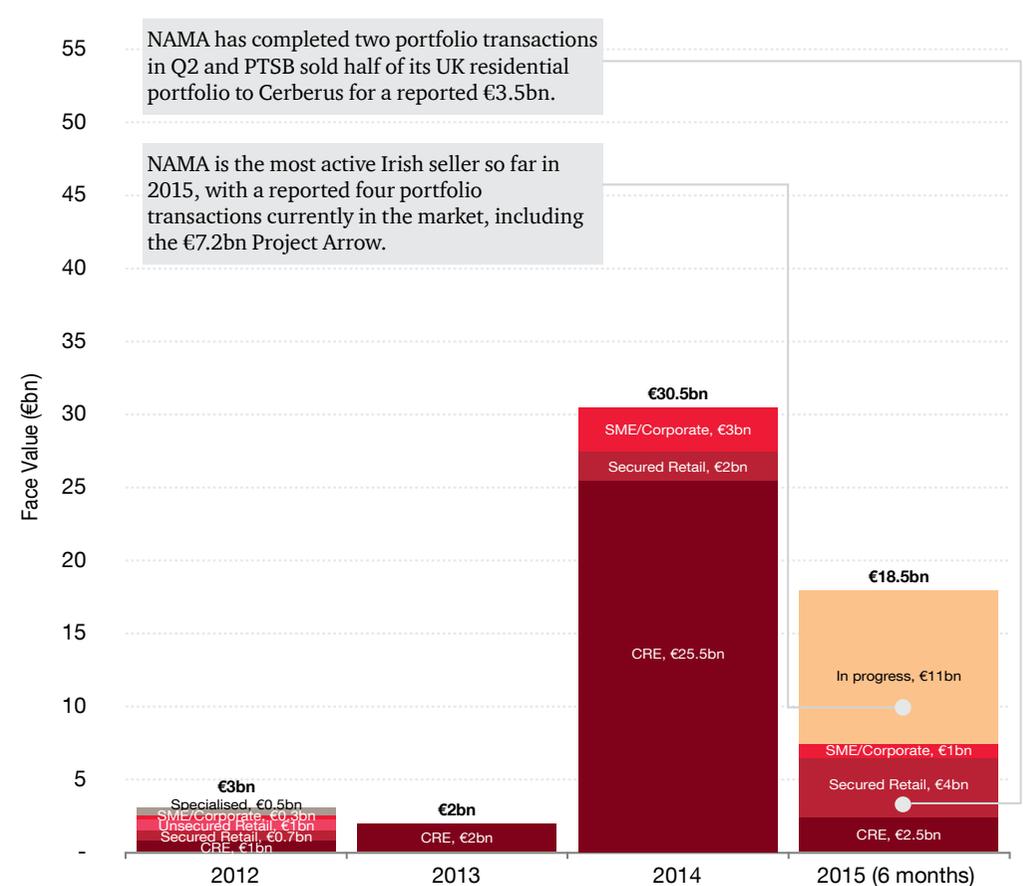
Note: 'Specialised' includes certain structured and asset backed products, shipping, infrastructure, energy and aviation

2015 year-to-date deals in key markets

UK



Ireland



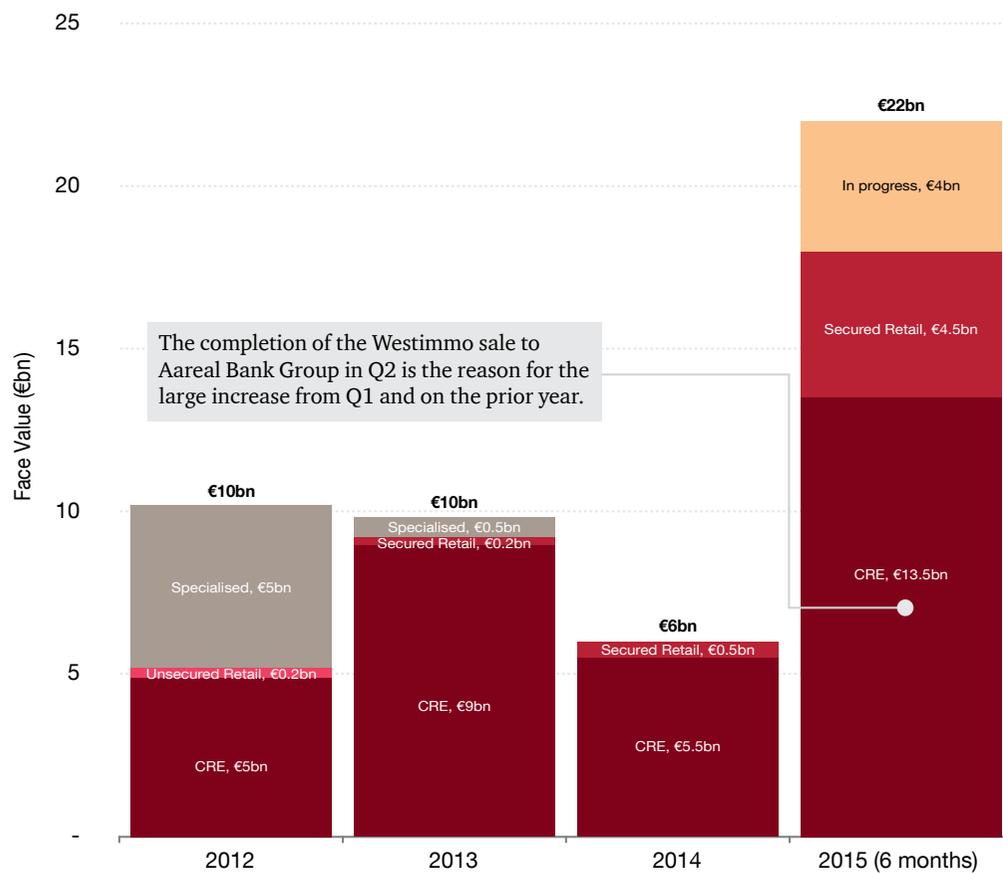
Source: PwC analysis

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2015 year-to-date deals in key markets

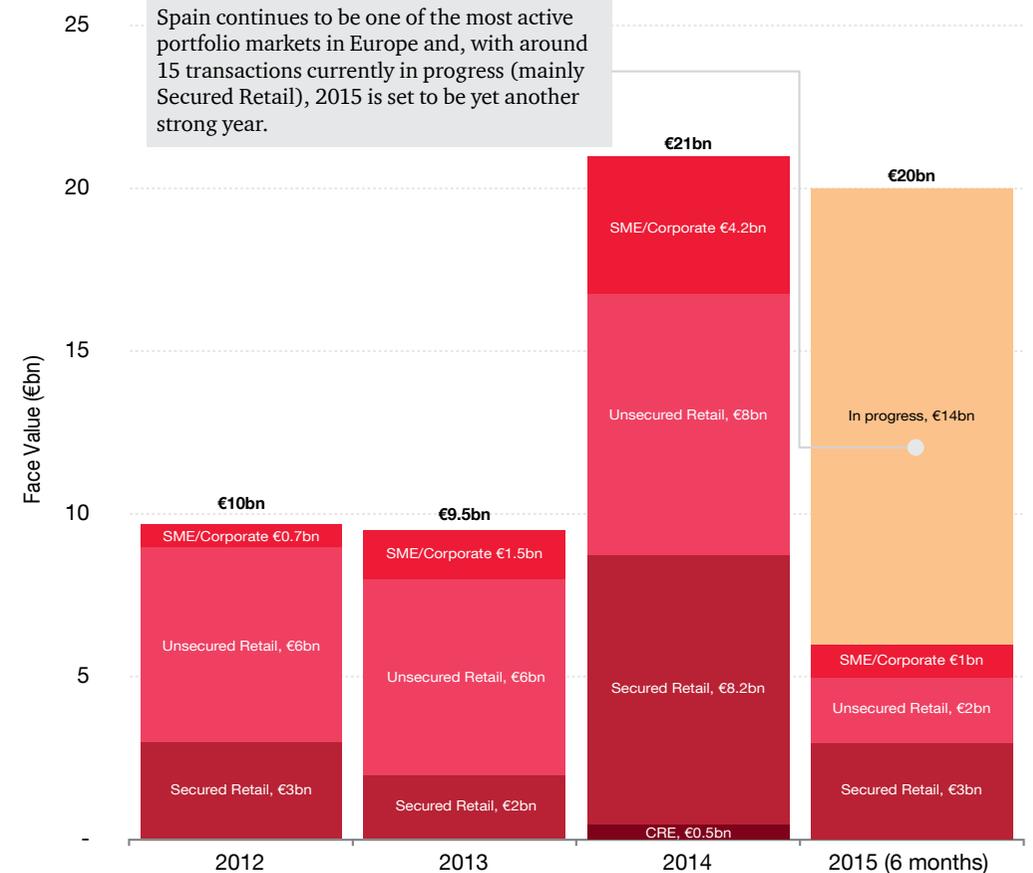
Germany



Source: PwC analysis

Note: Based on the location of the head office of the bank selling the assets

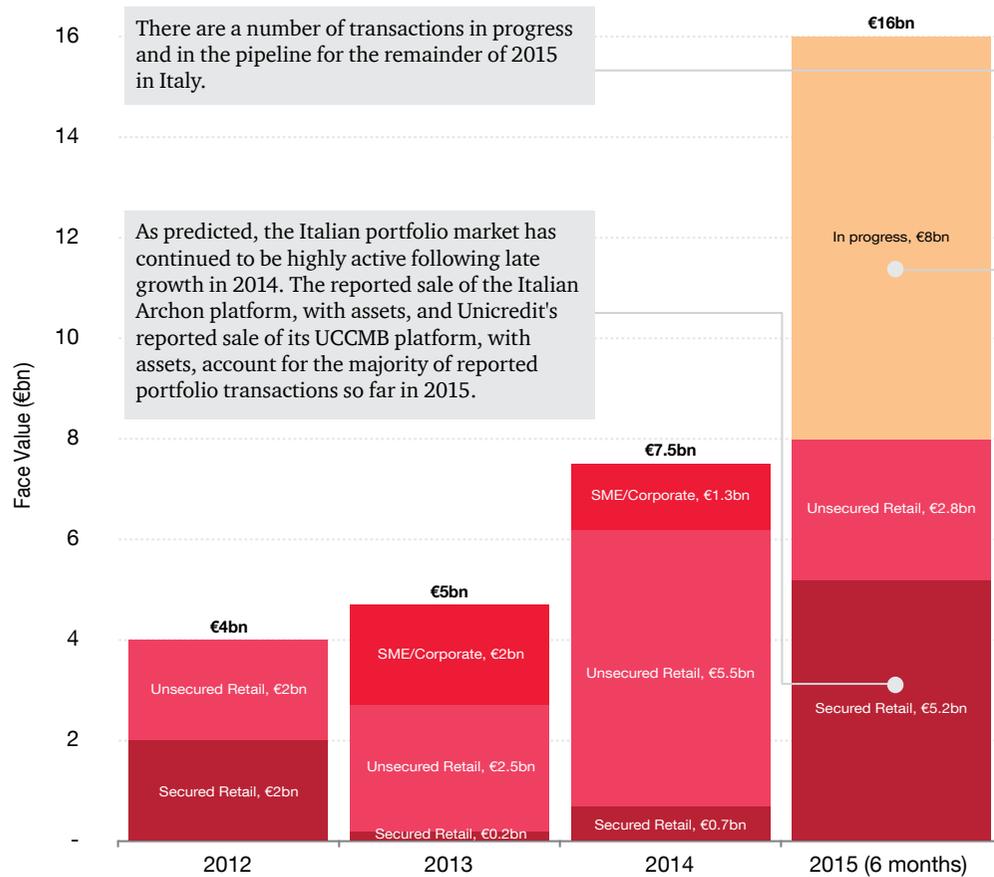
Spain



Note: 'Specialised' includes certain structured and asset backed products, shipping, infrastructure, energy and aviation

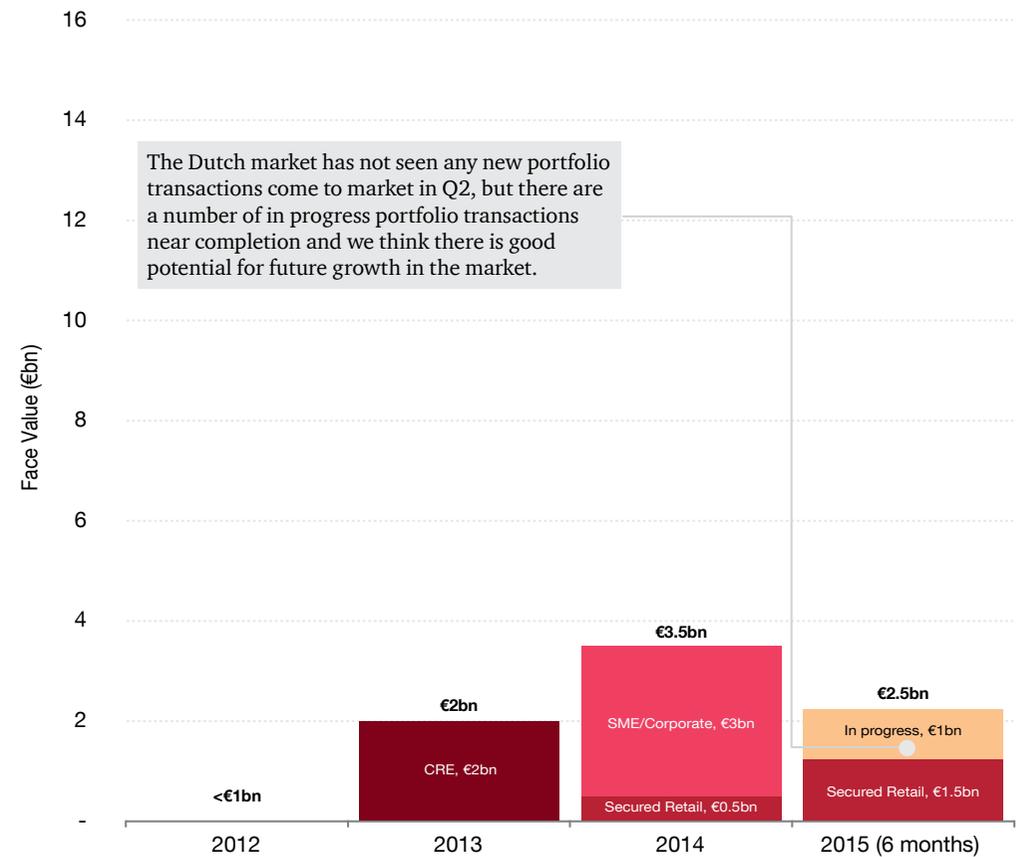
2015 year-to-date deals in key markets

Italy



Source: PwC analysis
 Note: Based on the location of the head office of the bank selling the assets

Netherlands



Note: 'Specialised' includes certain structured and asset backed products, shipping, infrastructure, energy and aviation

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