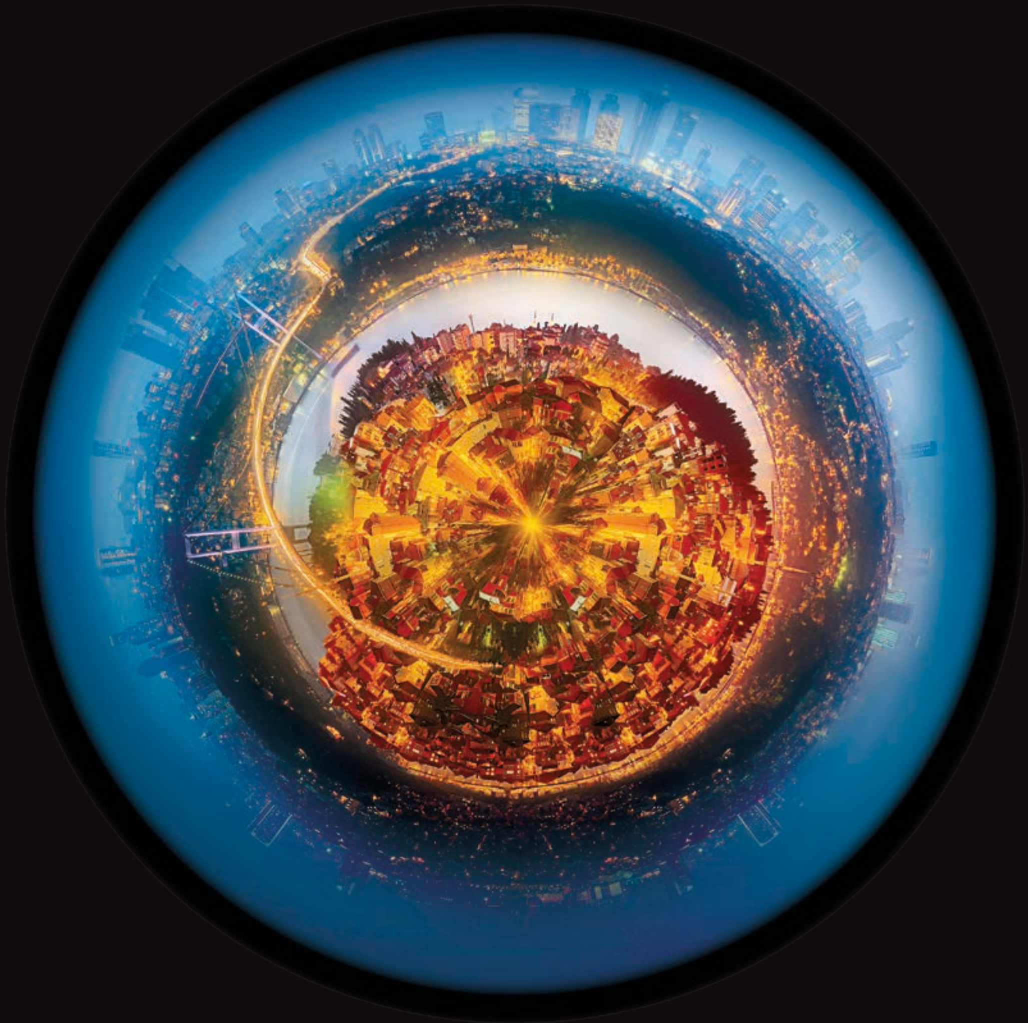

Deleveraging Europe 2016

H1 Market Update

Contents

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Market update

Introduction

In our 2015 Deleveraging Report we anticipated increased activity in the loan portfolio market across Europe for 2016.

While the first months of 2016 had activity levels in line with our expectations across broader Europe, the uncertainty generated by the UK referendum on its EU membership had a considerable impact slowing UK loan portfolio and broader M&A activity both on the lead up to and since the Referendum on the 23rd of June.

Looking at the actual numbers, by the end of H1 2016, reported completed loan portfolio sales in Europe were €44.3bn with €67.8bn in ongoing transactions. Combined with as yet unannounced transactions for 2016 it is expected total transactions will reach c.€140bn. These numbers compare favourably to the total sales in 2015 of €104.3bn.

Across Europe, increased regulation, governmental reforms and higher capital requirements have added pressure on banks to divest. This pressure can be seen with increased loan sale activity levels in Italy and Spain.

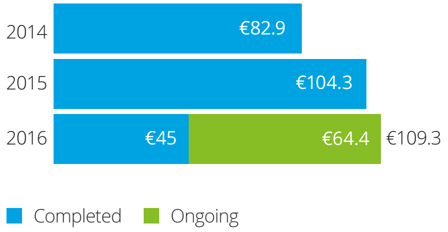
Italy in particular has seen a significant increase in loan portfolio activity pushing completed and ongoing transaction levels to €52.1bn, driven by governmental reforms and the introduction of a State guarantee securitisation scheme. These reforms have meant that Italy is currently the most active country in Europe for loan portfolio transactions, challenging the UK & Irish markets which have been the historical sales leaders.

Whilst loan portfolio activity remains strong, there is still significant headway to be made in deleveraging terms as the non core volume in Europe is still estimated to be at least €2trn, with UK, Spain and Italy having the largest reported volumes at present.

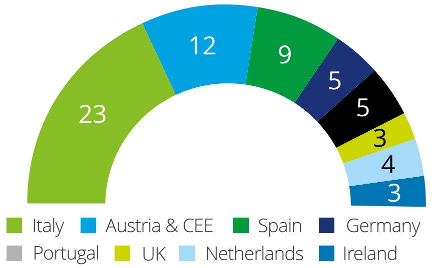
Although the markets continue to digest the impact of Brexit and the recently released European wide bank stress test results, a busy end to the year is expected with well-capitalised buyers hoping to make up lost ground to invest in transactions across Europe.

Headline facts and figures

Activity by year (€bn)



Number of completed deals H1 2016



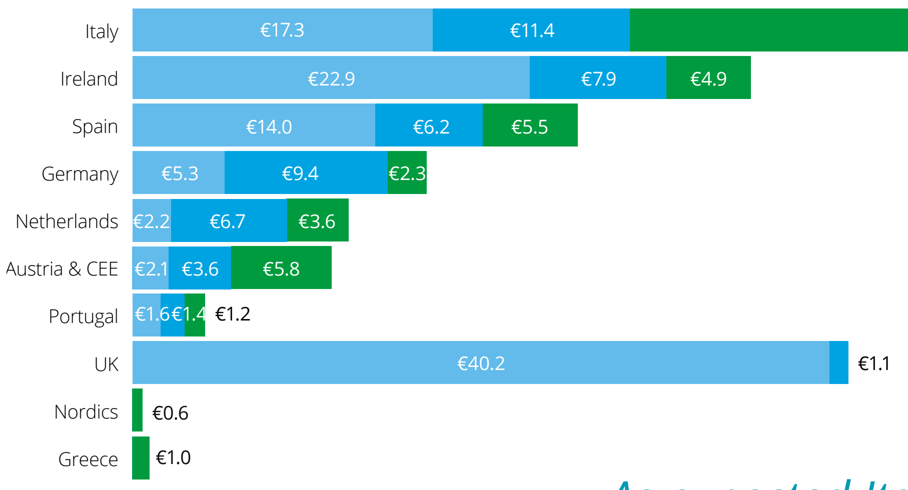
Key factors driving the loan sale market in 2016:

- Non core assets in Europe at least €2trn
- Well capitalised investors
- Increased regulation
- Government reforms
- High capital requirements

Source: Deloitte Research. June 2016

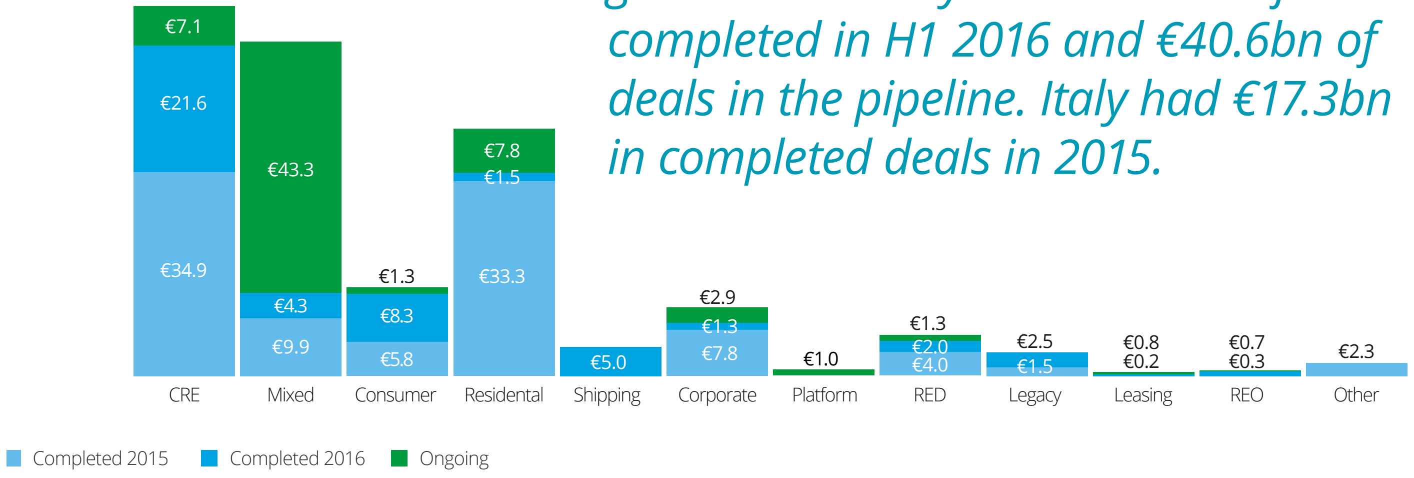
European market overview H1 2016

Activity by country (€bn)



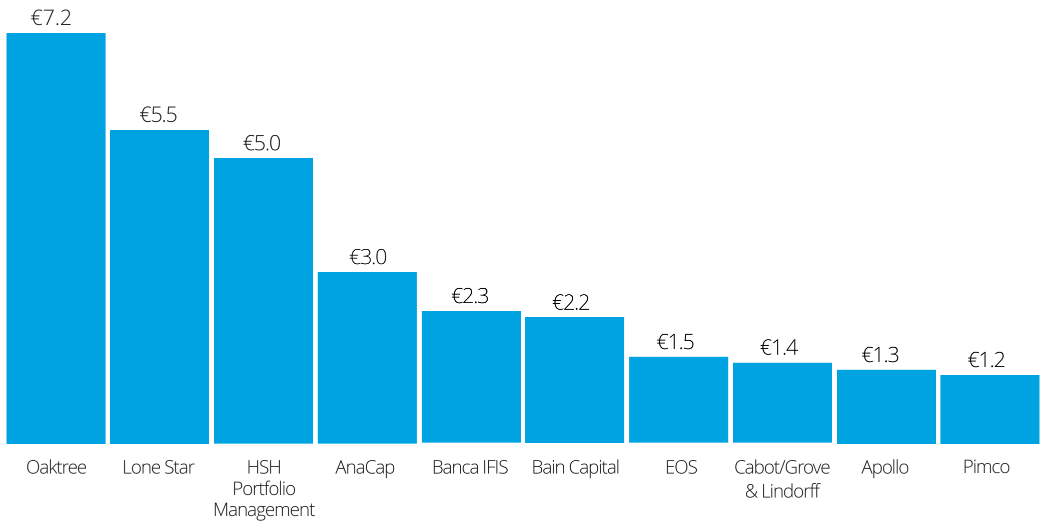
As expected Italy has seen substantial growth in activity with €11.4bn of deals completed in H1 2016 and €40.6bn of deals in the pipeline. Italy had €17.3bn in completed deals in 2015.

Activity by asset class (€bn)



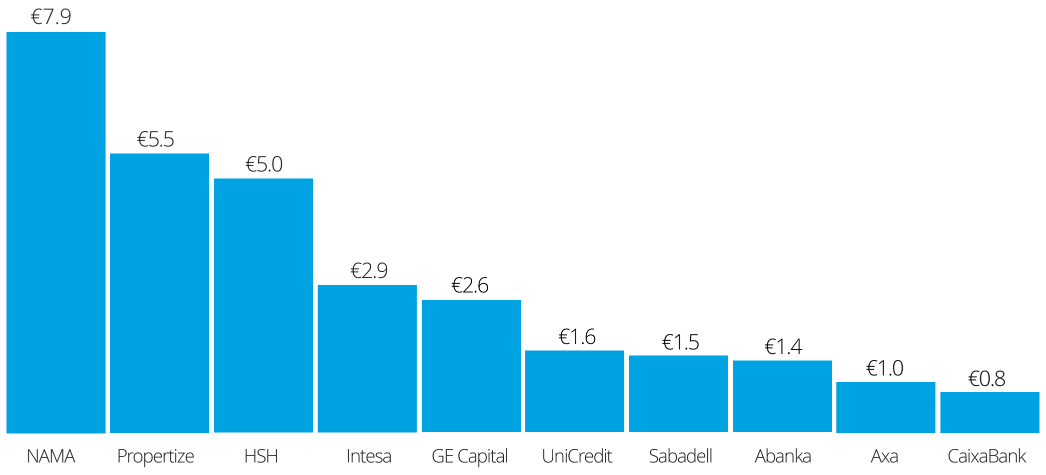
Source: Deloitte Research. June 2016

Top 10 most active buyers



Oaktree leads the buyer tables with its acquisition of the Ruby and Emerald portfolios from NAMA.

Top 10 most active sellers



Bad banks continue to dominate the seller list.

Source: Deloitte Research, June 2016

Deleveraging Europe 2016 | H1 Market Update

European market overview H1 2016

Market overview

Deloitte prediction: Levels of activity are expected to pick up into Q4 across Europe following a mixed start to the year, with continued focus on Italy and Spain. Increased activity expected in Germany and potentially an increase in activity in the United Kingdom following the Brexit referendum. Volumes are expected to be c.€140bn for 2016.

There have been four key themes in the loan portfolio market in Europe during the first six months of 2016. Firstly the strong activity levels seen in Southern Europe, led notably by Italy and Spain, a single large transaction in the Netherlands, the impact of the pre and post Brexit referendum in the United Kingdom and the results of the European Banking Authority (EBA) stress test.

Whilst the large Propertize transaction in the Netherlands has now been awarded to the Lone Star led consortium, we expect the ongoing turmoil in the Italian banking landscape and the continuing uncertainty about a post Brexit UK economy will continue to dominate the second half of 2016.

Deal pipeline in Italy will continue to be driven by the pressing need of Italian banks to deleverage their non-performing loans. Recent legal changes designed at improving the efficiency of the Italian enforcement process should enable bidders to be more certain in their pricing and close the bid ask gap between sellers pricing expectations and buyers bids.

The implications of Brexit continue to evolve on a daily basis, but what is clear in the short term is that a number of loan transactions were temporarily put on hold.

Uncertainty around the UK economic environment and the future direction of interest rates will weigh on the market in the short term. A fall in the value of the pound may increase foreign investment in CRE property, although investors will be weary of committing foreign capital considering increased market volatility. However, in the long run UK property may remain a safe haven market. Market fundamentals remain robust and the CRE transaction infrastructure will continue to be strong, transparent and liquid.

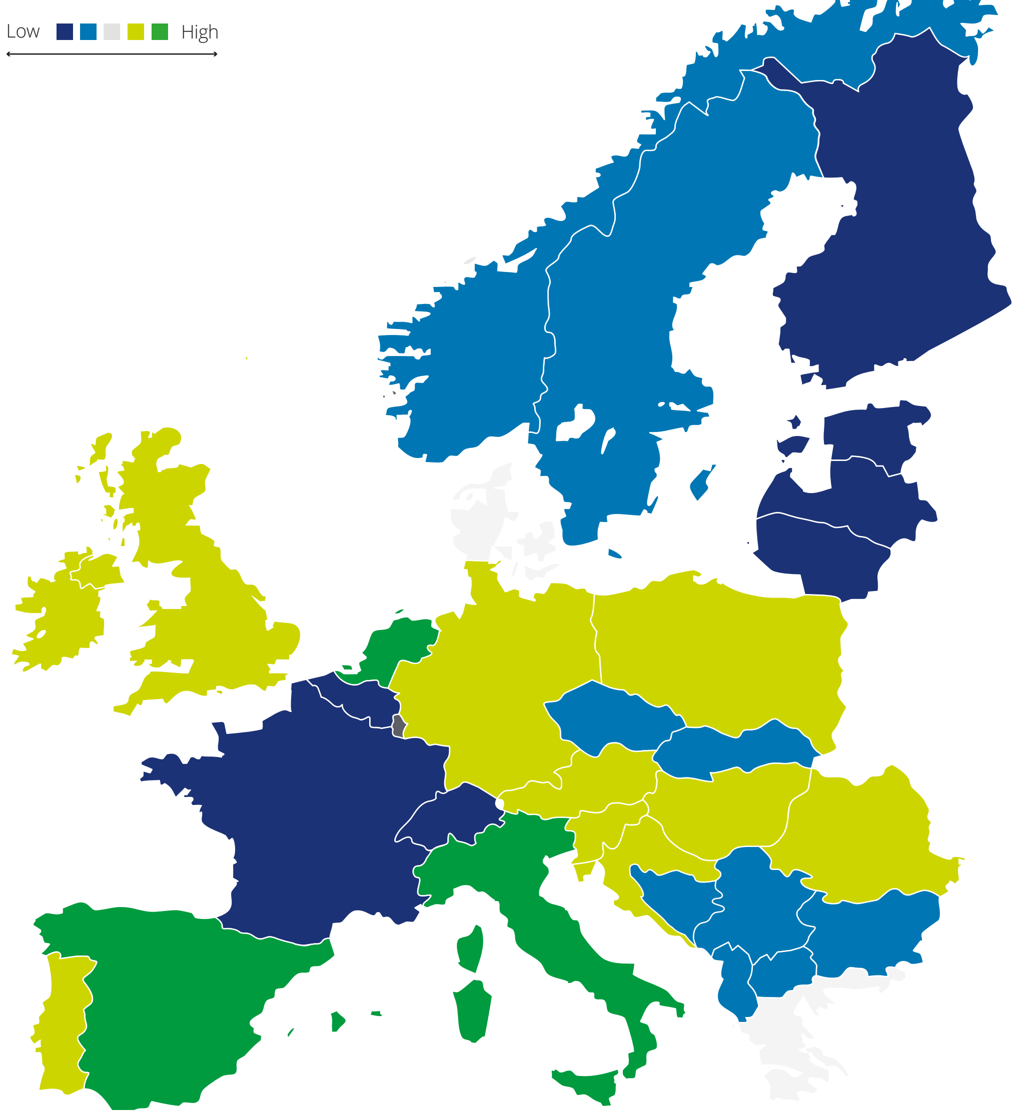
Additionally, as revealed by the stress test results, certain European banks still need to work on strengthening their capital buffers. Overall, capital ratios were perhaps better than might have been expected, reinforcing greater steps towards bank resilience the sector as a whole has taken. The EBA stressed the "continued capital strengthening of EU banks" since the last stress test. EU banks in the sample raised more than €180bn in capital, increasing the capital ratio from 11.1% at end-2013 to 13.2% at end-2015.

Average weighted CET1 ratios on a transitional basis decreased from 13.2% at end-2015 to 9.4% by end-2018 in the adverse scenario. On a fully loaded basis, the average weighted CET1 ratio decreased from 12.6% to 9.2%. SSM (Single Supervisory Mechanism) banks in the sample on average did slightly worse, culminating in a CET1 ratio of 9.1% on a transitional basis and 8.9% on a fully loaded basis by end-2018.

Although overall the results were positive, a handful of banks stood out on the downside: Monte dei Paschi, and to a lesser degree Allied Irish Bank and Royal Bank of Scotland, which together accounted for the top three greatest falls in capital ratios.

Whilst the continued uncertainty is likely to create opportunity for buyers in certain markets, we still expect a further move towards performing assets as banks across Europe build on their ongoing long term restructuring and deleveraging efforts of the last number of years.

Expected level of activity in 2016



We still expect a further move towards performing assets as banks across Europe build on their ongoing restructuring and deleveraging efforts of the last number of years.

United Kingdom & Ireland

Completed Transactions 2015
€62.8bn/#38 Deals

Completed Transactions H1 2016
€8.8bn/#6 Deals

Ongoing Transactions H1 2016
€4.9bn/#5 Deals

United Kingdom

Brexit

There is no doubt that the single biggest impact on the first half of 2016 has been the United Kingdom's referendum on its EU membership. In the months preceding the 23rd June referendum, activity in the loan portfolio and general M&A market had been relatively subdued as both investors and sellers expressed signs of caution in completing transactions ahead of a potentially landmark decision.

Since the result, the impact of the decision to leave has had a dramatic impact not only on the financial markets but also on the political landscape in the United Kingdom. Financially, we have seen large movements in the sterling currency markets as well as tentative signs of distress in the commercial real estate market with a number of retail property funds temporarily closing their funds to redemptions.

Whilst it is difficult to ascertain the longer term effects of Brexit on the economy, the commercial real estate values and the loan portfolio market, what is clear is that financial institutions and investors will continue to assess the risks over the next few months. As we are go to press a number of transactions previously suspended have come back to the market indicating a return of confidence.

EBA stress test results

Royal Bank of Scotland and Barclays emerged as the least resilient of the four UK banks included in the latest EBA stress test. The results show that RBS' capital ratios would fall by more than seven percentage points under the tests, thus ending up with an 8% capital ratio, while Barclays' capital ratio would fall by four percentage points. EBA's minimum CET 1 requirement is 4.5%.

More to come from UKAR?

In the March 2016 budget, the UK Government announced its plan to sell £17.5bn former Bradford & Bingley loans over the next two years, with the first of a number of transactions rumoured to be in the second half of 2016. Whilst no further announcements have been made in relation to this potential disposal following the recent change in the UK Chancellor to the Exchequer, it is still expected that the UKAR loans remain non-core for the UK Treasury.

Ireland

Continued deleveraging focus

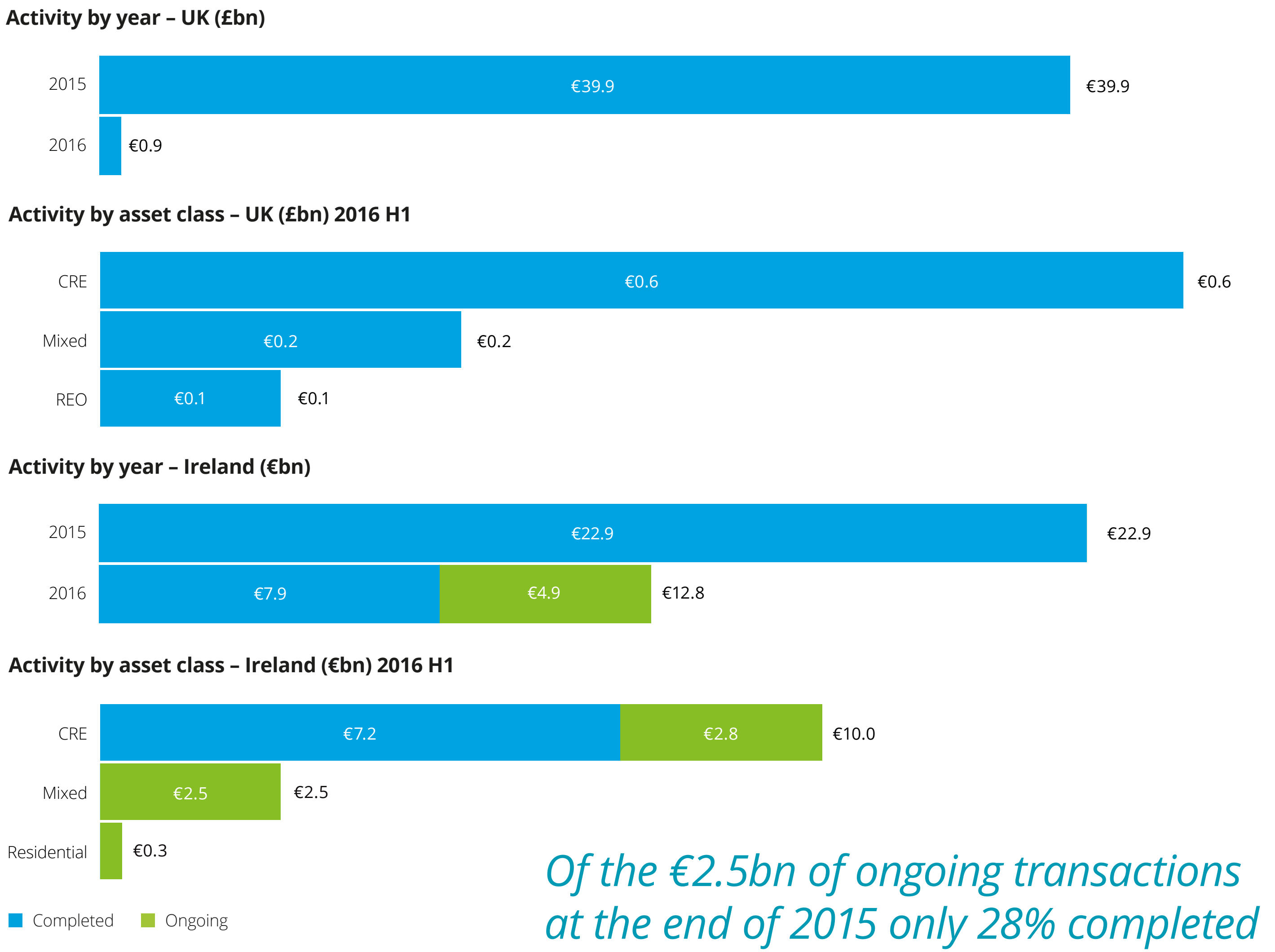
Ireland has continued to see large scale portfolio transactions throughout 2016. Whilst NAMA has started to come to the end of its large transaction pipeline with the successful sale of Project Ruby and Project Emerald to Oaktree Capital Management, other potential sellers either wait in the wings or continue to press ahead with their strategic divestments. Whilst some loan portfolios were temporarily put on hold in the post-Brexit fallout, it is expected that these transactions will restart over the course of the summer.

Irish residential mortgages for sale?

Of significance is the rumoured potential sale of Irish residential mortgages by one of the country's 'pillar' banks, Allied Irish Bank (AIB) . If this transaction was to materialise, it would be one of the first times that a pillar bank has sold Irish retail residential mortgages.

Stress test results

Ireland's two main lenders, Allied Irish Bank and Bank of Ireland (BoI), were among the five least resilient of the 51 EU banks covered in the stress test. Despite their efforts to recover from the financial crisis, the results imply the banks still need a few more years of economic growth to build up sufficient capital buffers to meet EBA requirements.



Source: Deloitte Research, June 2016

Of the €2.5bn of ongoing transactions at the end of 2015 only 28% completed in H1 2016. €1.8bn is still ongoing

Completed transactions UK

Name	Date	Asset type	Buyer	Seller	Size (GBP)
Project Avon	Jan-16	CRE	UK infrastructure fund	Kennedy Wilson	109
Project Hurst	Jun-16	Mixed	Not disclosed	Zurich Bank	150
Project Detroit	Jun-16	CRE	Not disclosed	RBS	600
Total					**859**

Completed transactions Ireland

Name	Date	Asset type	Buyer	Seller	Size (€m)
Project Ruby	Jun-16	CRE	Oaktree Capital Management	NAMA	4,700
Project Emerald	Jun-16	CRE	Oaktree Capital Management	NAMA	2,500
Project Abbey	Jul-16	CRE	Apollo	NAMA	700
Total					**7,900**

Ongoing transactions Ireland

Name	Date	Asset type	Seller	Size (€m)
Project Tolka	Ongoing	CRE	NAMA	1,500
Project Lee	Ongoing	CRE	NAMA	350
Project Oyster	Ongoing	Mixed	Ulster bank	2,500
Project Pluto	Ongoing	Residential	Danske bank	300
Project Beara	Ongoing	CRE	NAMA	232
Total				**4,882**

Germany & Netherlands

Completed Transactions 2015
€7.5bn/#17 Deals

Completed Transactions H1 2016
€12.9bn*/#9 Deals

Ongoing Transactions H1 2016
€5.1bn*/#9 Deals

Germany

Potential large scale deleveraging in Germany in 2016 & 2017?

Large portfolio sales have not been a key feature of the German loan portfolio market over the past 24 months. With the exception of overseas lenders and local lender Commerzbank, German lenders have not actively brought distressed loans to the market in any meaningful scale. However with the rumoured portfolio sale of circa €3bn in commercial real estate and shipping loans from one of Germany's largest banks, this could be about to change.

Any potential sale is likely driven by the provisional plan agreed by the EU Commission in October 2015 to split HSH Nordbank into a holding company and operating company (ultimately to be sold). To make the operating company viable, HSH, hampered by losses within its shipping loan portfolio, is expected to sell its loans to the two German states that own it, as well as to the wider market. This forms part of the EU's May 2016 approved plan to boost HSH's guarantees from the two German states from €7bn to €10bn.

Flight to quality with an emphasis on performing assets?

Whilst it has primarily been the UK, Ireland and the Netherlands that has seen large scale disposals of residential portfolios, Germany has recently seen portfolio transactions focused on performing residential assets. Project Orange and Project Anfield are just two portfolios that have come to the market in the past 12 months with overseas buyers looking to acquire performing assets in what is seen as one of Europe's most economically stable countries. However, the continued pressure on banks to avoid the cost of holding funds at the ECB may potentially drive fierce competition from local bank buyers in the portfolio market as they seek to deploy money.

Netherlands

The biggest but not the only transaction in the Netherlands

Following significant levels of speculation on the likely sale, structure and buyer of Propertize's €5.5bn Project Swan, the Dutch State has eventually signed an agreement with Lone Star Funds to acquire this mixed residential and commercial loan portfolio. Lone Star, along with its consortium partner JP Morgan, bought the Propertize portfolio, beating Cerberus Capital Management. Whilst this transaction has dominated the portfolio market in the Netherlands, it has by no means been the only deal, with Rabobank also featuring prominently in ongoing transactions.

Steady deal flow

Whilst project Swan overshadowed many of the other transactions happening in the Dutch market, what is clear is that the Netherlands continues to see a steady flow of deals both as direct real estate and in loan format from a variety of sellers including Rabobank and GE Capital. Whilst there has been no obvious signs of the Dutch market being impacted by the Brexit result across the channel, we expect Dutch institutions to continue to bring to market portfolios in an attempt to clean and deleverage their balance sheets.

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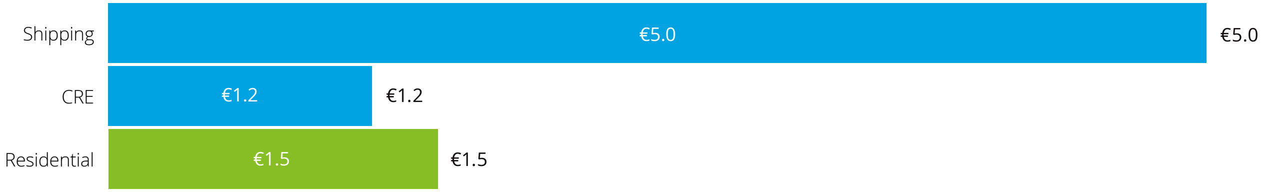
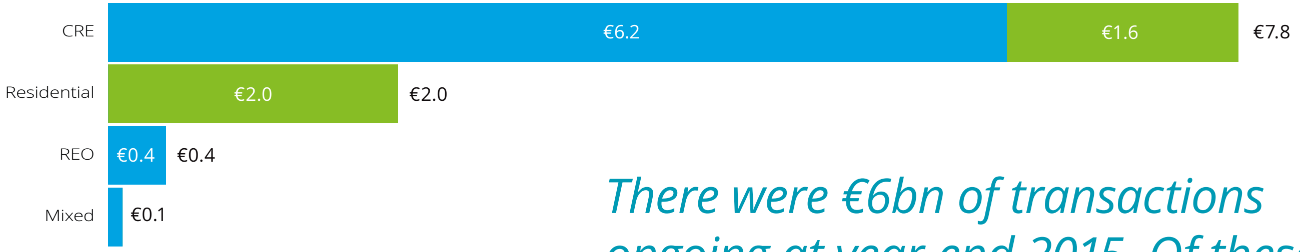
Activity by year – Germany (€bn)

Activity by asset class – Germany (€bn) 2016 H1



Activity by year – Netherlands (€bn)

Activity by asset class – Netherlands (€bn) 2016 H1



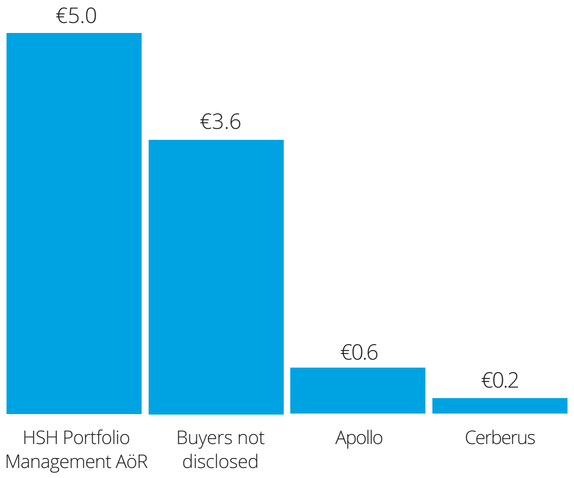
There were €6bn of transactions ongoing at year-end 2015. Of these €5.5bn closed in H1 2016.

Completed Ongoing

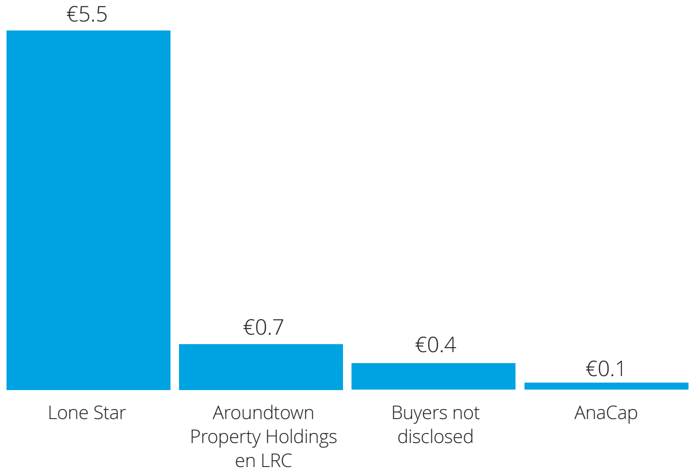
*Value for all deals are not disclosed

Source: Deloitte Research, June 2016

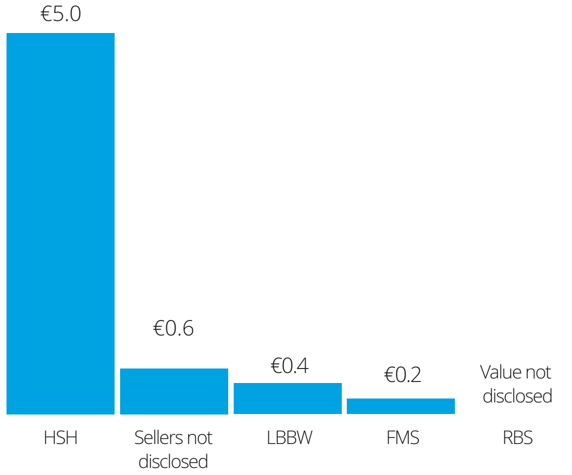
Top buyers – Germany (€bn)



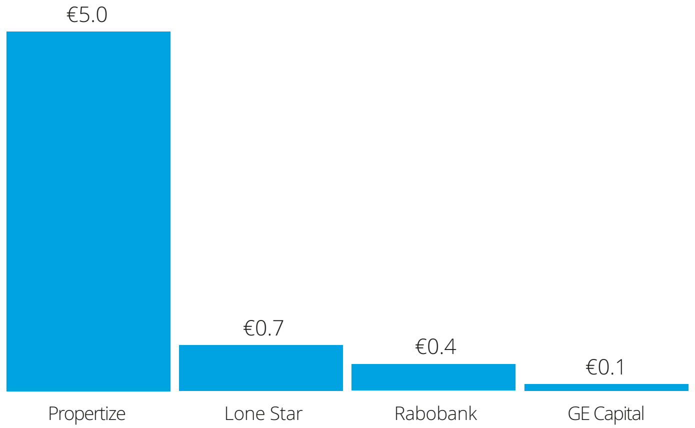
Top buyers – Netherlands (€bn)



Top 5 sellers – Germany (€bn)



Top sellers – Netherlands (€bn)



Completed transactions Germany

Name	Date	Asset type	Buyer	Seller	Size (€m)
Project Samba	Apr-16	CRE	Cerberus	FMS	230
Project Silberpfeil	Feb-16	CRE	Octane Capital	LBBW	350
Ship Financing Portfolio	Jun-16	Shipping	HSH Portfolio-Management AöR	HSH Nordbank	5,000
Amelia Portfolio	Jun-16	CRE	Apollo	Not disclosed	600
Pegasus Portfolio	May-16	CRE	Not disclosed	RBS	Confidential
Total					**6,180**

Ongoing transactions Germany

Name	Date	Asset type	Seller	Size (€m)
Project Anfield	Ongoing	Residential	Confidential	1,500
Total				**1,500**

Completed transactions Netherlands

Name	Date	Asset type	Buyer	Seller	Size (€m)
Eve Portfolio	Feb-16	CRE	Aroundtown Property Holdings en LRC	Lone Star	700
Dutch Residential & CRE Loan portfolio	Mar-16	Mixed	AnaCap	GE Capital	127
Project Swan	Jun-16	CRE	Lone Star	Propertize	5,500
De Rotterdam Towers	Jun-16	REO	Amundi Real Estate	Rabobank	360
Total					**6,687**

Ongoing transactions Netherlands

Name	Date	Asset type	Seller	Size (€m)
Eurocommerce Loans – Secured	Ongoing	CRE	ING	150
Project Hieronymus	Ongoing	CRE	FMS	580
Project Rembrandt	Ongoing	CRE	FGH Bank	n/a
Project Yellow	Ongoing	Residential	Rabobank	2,000
Project Triple +	Ongoing	CRE	Propertize	140
Project Orange	Ongoing	CRE	Rabobank	250
Project Castor	Ongoing	CRE	Blackstone	500
Project Kingfisher	Ongoing	CRE	TPG / Patron	n/a
Total				**3,620**

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Spain & Portugal

Completed Transactions 2015
€14bn/#32 Deals

Completed Transactions H1 2016
€7.6bn/#14 Deals

Ongoing Transactions H1 2016
€6.7bn/#16 Deals

Spain

The market is showing resilience despite the continued political uncertainty and the recent Brexit vote

After a slow start to the year activity substantially picked up from the beginning of Q2. By the end of H1 2016 reported NPL sales in Spain were approximately €11.7bn of which €6.2bn were completed transactions and €5.5bn remain ongoing.

Continued political uncertainty following the June general elections coupled with the recent Brexit vote in the UK are certainly having an impact on the local market dynamic, with some trades reportedly being postponed or deadline extended. However, taken into account investor appetite for Spanish assets and the number of additional rumoured transactions expected to be launched in H2 2016 transaction volumes for this year are likely to comfortably exceed the €20bn mark. Spain continues to be one of the most active loan sales market in Europe.

Predominantly a residential real estate play

2016 continues to see the market dominated by portfolios with a residential real estate component whether in RED, REO or retail mortgage format.

We estimate that these trades represent in investment terms about two-thirds of the total invested in NPL portfolios in Spain in 2015 and H1 2016. The rest is divided between Corporate/SME, CRE and retail unsecured product.

The Spanish market has also seen in 2016 an increase in the number of secondary trades, supported in part by the change in ownership of recovery platforms, as well as by early entry investors bringing previously purchased portfolios to market as they decide to exit Spain. We expect this trend to continue and grow in the years to come as the market matures and consolidates.

Continued activity in the servicing arena

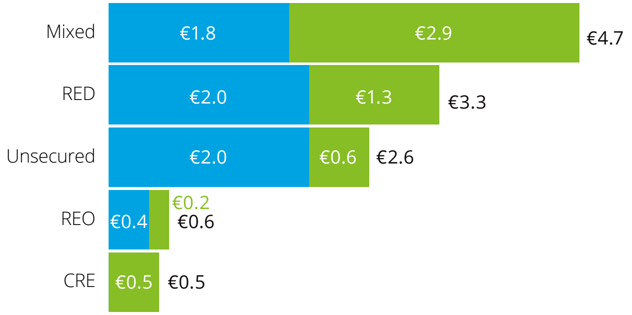
The pace of M&A activities within the servicing industry has not slowed in 2016. At the start of the year, Ibercaja followed the trend set by other banks and sold its RE platform to Aktua, owned by the American distressed opportunity fund Centerbridge. They then went on to sell Aktua to Norwegian servicing platform Lindorff Group AB. Furthermore, new entrants are adding to the M&A activity with Axactor recently entering the Spanish market through the acquisition of Geslico's servicing platform.

Portugal

At the end of 2015 the Portuguese loan sale market seemed to have turned a corner with larger deals ongoing or in the pipeline supported by mounting investor interest. However expectations have not been met yet, as most of the larger deals have not closed and the pipeline is being delayed. As a result market activity remained relatively low in H1 2016 with five completed transactions reported with an aggregate volume of €1.4bn, mostly unsecured granular NPL portfolios. It is expected the activity will eventually pick up once the outcome of Novo Banco is clarified and recapitalisation of some of the key financial institutions finalised.

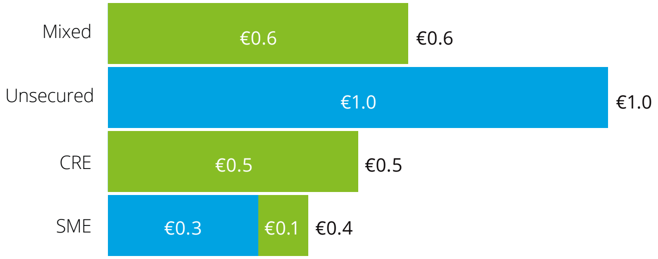
Activity by year – Spain (€bn)

Activity by asset class – Spain (€bn) 2016 H1



Activity by year – Portugal (€bn)

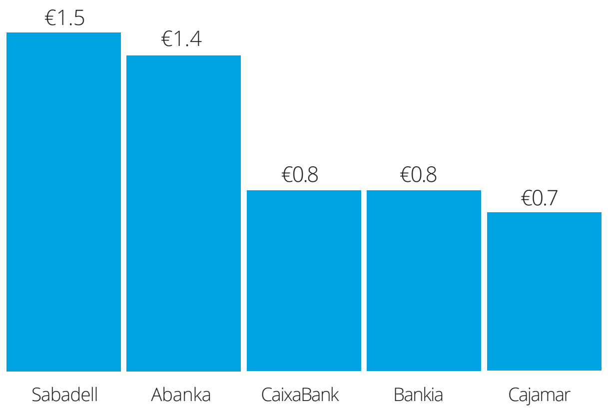
Activity by asset class – Portugal (€bn) 2016 H1



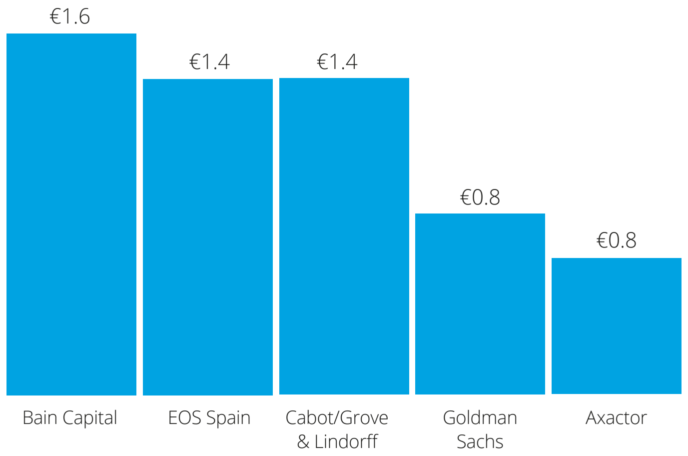
Completed Ongoing

Source: Deloitte Research, June 2016

Top 5 sellers – Spain (€bn)



Top 5 buyers – Spain (€bn)



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Completed transactions Spain

Name	Date	Asset type	Buyer	Seller	Size (€m)
Project Corus	2016	Unsecured	Cabot/Grove & Lindorff	Sabadell	1,000
Project Hungaroring	2016	Unsecured	Cabot/Grove	Santander	400
Project Baracoa	2016	RED	Bain Capital	Cajamar	700
Project Pirene	2016	RED	Bain Capital	Sabadell	492
Project Carlit	2016	RED	Goldman Sachs	CaixaBank	847
Project Ocean	2016	Mixed	Deutsche Bank	Bankia	400
Project ONS	2016	Mixed	EOS Spain	Abanca	1,400
Project Lane	2016	REO	Bain Capital	Bankia	400
Confidential	2016	Unsecured	Axactor	Geslico	560
Total					**6,199**

Ongoing transactions Spain

Name	Date	Asset type	Seller	Size (€m)
Project Sun	Ongoing	CRE	CaixaBank	543
Project Normandy	Ongoing	RED	Sabadell	1,100
Project Tizona	Ongoing	Mixed	Bankia	500
Project Sil	Ongoing	Mixed	Abanca	300
Project Firefox	Ongoing	REO	Ares Management & York Capital	180
Project Vermont	Ongoing	RED	Confidential	200
Project McLaren	Ongoing	Mixed	Lone Star	152
Confidential	Ongoing	Mixed	Confidential	1,000
Confidential	Ongoing	Unsecured	Confidential	411
Confidential	Ongoing	Unsecured	Confidential	162
Confidential	Ongoing	Mixed	Confidential	500
Confidential	Ongoing	Mixed	Confidential	440
Total				**5,488**

Completed transactions Portugal

Name	Date	Asset type	Buyer	Seller	Size (€m)
Project Root	Feb-16	Unsecured	Not disclosed	Not disclosed	440
Project Gama	Mar-16	Unsecured	Not disclosed	Not disclosed	400
Project Cassiopeia	Apr-16	SME	Not disclosed	Not disclosed	250
Project Badajoz	Jun-16	Residential	Not disclosed	Not disclosed	200
Project Pool XXV – C	Jun-16	Unsecured	Not disclosed	Not disclosed	120
Total					**1,410**

Ongoing transactions Portugal

Name	Date	Asset type	Seller	Size (€m)
Project Andorra	Ongoing	CRE	Not disclosed	500
Project Portfolio Leaf	Ongoing	Mixed	Not disclosed	400
Project Portfolio Tree	Ongoing	Mixed	Not disclosed	200
Project Elvas	Ongoing	SME	Not disclosed	60
Total				**1,160**

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Italy

Completed Transactions 2015
€17.3bn/#28 Deals

Completed Transactions H1 2016
€11.8bn/#23 Deals

Ongoing Transactions H1 2016
€40.6bn/#12 Deals

Important steps towards balance sheet improvement
The financial crisis and its aftermath left Italian banks with €360bn of non-performing loans – equivalent to 20% of Italy's GDP. It is now clear that the NPL issue has reached a dimension that require specific attention from the regulators as well as the government.

Italy's third largest lender and the world's oldest bank, MPS, was under particular scrutiny in the period leading up to the EBA stress test results due to its large NPL stock (over a third of the bank's loans are classified as NPLs). The results revealed a fully loaded CET 1 ratio of -2.44% for the bank in 2018 under the adverse scenario.

As a result, the bank has now taken important steps to remedy the position. Under the recently announced rescue plan MPS will transfer its €27bn NPL stock to a securitisation vehicle at 33% of the face value. The intention is that the vehicle will be backed by a new fund, Fondo Atlante, a government-sponsored closed-end fund managed by Questio Sgr. Fondo Atlante, whose shares have been underwritten by banks, insurance companies and Cassa Depositi e Prestiti. It has c. €20bn at its disposal and plans to invest up to 70% in bank equity and at least 30% in NPLs. The program will bring the CET 1 capital ratio to c.13% as requested by regulators. In addition, MPS will raise a further €5bn of capital from private investors. By initiating this plan MPS avoids facing a bail-in under the new European banking regulations, which would likely entail losses for its bondholders and depositors that hold over €100,000.

Increased Governmental role in the NPL market
With the ongoing focus from European and Global investors on the Italian banking landscape, the Italian Government has increased its role in the market. The set-up of the government guarantee scheme for NPL securitisations, a more proactive role in making sure the NPL market remains open to foreign and buyers and legal reforms aimed at making the credit recovery process more efficient are just some of the actions designed to improve the attractiveness of the market to portfolio investors.

Among the latest legal reforms are ones that aim to speed up the real estate auction process by allowing bids up to 25% below the reserve price, reduce bureaucracy by allowing a more extensive use of electronic documentation, the possibility to credit bid at auctions more efficiently and finally to directly transfer the title over the real estate assets to a given entity.

A new NPL market framework for the Italian troubled banks
Similar to some extent to what was experienced in UK, Ireland and Spain following the 2008 turmoil, the Italian government, due to recent EU rulings, is facing the issue of not being able to deploy the same instruments that allowed other European peers to solve, albeit partially, the very same issue: chiefly nationalisation of banks, set up of bad bank(s) and the injection of public money into the banking sector.

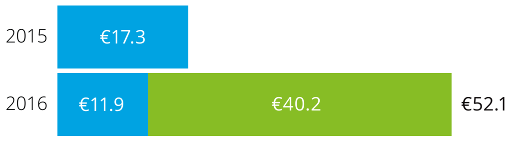
Hence the government has been moving in two directions: i) structuring of private bail out solutions like Fondo Atlante and ii) increasing engagements with European authorities in order to maximise the impact of future reforms and banking sector supervision.

Fondo Atlante: a new key player in the NPL market
Atlante is expected to be a key strategic and systemic player in the short term and will enable the most troubled banks to issue new equity capital as well as cleaning up part of the NPL stock. Furthermore, should Atlante be successful, this scheme can be replicated relatively quickly providing an additional cushion to the Italian banking system.

Fondo Atlante is expected to enhance the credibility of the Italian NPL market and the sustainability of the Italian banking system business model. As a consequence, this should, encourage foreign investments and allow the Italian banks to stabilise their financial conditions and regain trust from the international financial markets.

In particular, Fondo Atlante's goals are the creation of a more efficient market for NPLs and the reduction of the bid/ask spread, specifically in the context of large deleveraging programs put together by the most troubled banks. In such a context, support from the Italian government should be non-existent and limited in new, more efficient laws rather than in the deployment of public money which is considered a very sensitive topic in the current political landscape.

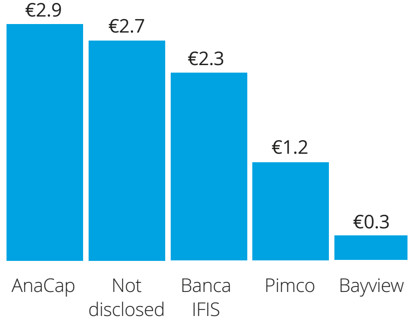
Activity by year – Italy (€bn)



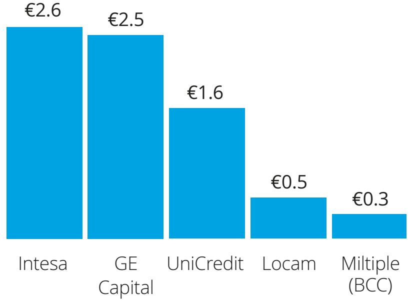
Activity by asset class – Italy (€bn) 2016 H1

Source: Deloitte Research, June 2016

Top 5 buyers – Italy (€bn)



Top 5 sellers – Italy (€bn)



At year-end 2015 there was €14.8bn in ongoing transactions, of which 30% completed in H1 and 57% is still ongoing, and 13% were withdrawn.

Completed transactions Italy

Name	Date	Asset type	Buyer	Seller	Size (€m)
Not disclosed	Mar-16	Mixed	Bayview	Miltiple (BCC)	300
Not disclosed	Mar-16	Mixed	Not disclosed	Carim	35
Not disclosed	Mar-16	Mixed	CS Union	Not disclosed	223
Project Compilation	Mar-16	Legacy	AnaCap	GE Capital	2,500
Project Sandokan	Apr-16	CRE	Pimco	UniCredit	1,200
Not disclosed	Apr-16	Unsecured	Banca IFIS	Deutsche Bank	240
Not disclosed	Apr-16	Unsecured	Banca IFIS	Not disclosed	208
Not disclosed	Apr-16	CRE	Anacap	Unicredit	420
Gavia Portfolio	May-16	Mixed	Credito Fondiario (Fonspa)	Creval	106
Not disclosed	May-16	Unsecured	Banca IFIS	Not disclosed	70
Not disclosed	May-16	Unsecured	Banca IFIS	Not disclosed	1,000
Not disclosed	May-16	Secured	Idea FIMIT	Cariparma	22
Not disclosed	May-16	Unsecured	Not disclosed	Intesa	2,600
Project Friuli	Jun-16	CRE	Bain	Heta	657
Not disclosed	Jun-16	Unsecured	Kruk Group	BMPS	290
Not disclosed	Jun-16	Unsecured	Banca IFIS	Banco Popolare	152
Not disclosed	Jun-16	Unsecured	Banca IFIS	Locam	466
Not disclosed	Jun-16	Mixed	Not disclosed	Banca IFIS	45
Project Spark	Jun-16	Residential	Algebris	BR Bolzano	320
Project Please	Jun-16	Mixed	Algebris/ Cerberus	BPER	450
Not disclosed	Jun-16	Unsecured	Banca IFIS	Confidential	104
Not disclosed	Jun-16	Unsecured	Banca IFIS	Confidential	72
Project Hyperius	Jun-16	Unsecured	Confidential	Intesa	400
Total					**11,880**

Ongoing transactions Italy

Name	Date	Asset type	Seller	Size (€m)
Not disclosed	Ongoing	Mixed	CARIGE	1,500
Project Square	Ongoing	Mixed	CR Chieti, BP Etruria, CR Ferrara, Banca Marche	8,500
Project Isabel	Ongoing	Residential	Deutsche Bank	400
Boscolo Hotels	Ongoing	Real Estate	n/a	n/a
Not disclosed	Ongoing	Unsecured	Banca Popolare di Bari	800
Italian Consumer Portfolio	Ongoing	Unsecured	Banca IFIS	226
Not disclosed	Ongoing	Unsecured	Banco Popolare	53
Project Juliet	Ongoing	Mixed	BMPS	n/a
Project Arno	Ongoing	Mixed	UniCredit	1,200
Project Secondo	Ongoing	Leasing	Hypo Alpe Adria	500
Not disclosed	Ongoing	Mixed	Monte dei Paschi di Siena	27,000
Total				**40,179**

Half of Italian NPL trades during the period, both completed and ongoing involve mixed loan books mainly containing small SME loans and secured and unsecured assets. The large volume of these types of loan portfolio trades is largely a result of Italian enforcement laws, whereby the debtor is still liable for any residual debt after asset enforcement. Multiple debts are then packed into portfolio trades.

Austria & Central Eastern Europe

Completed Transactions 2015
€2.1bn/#10 Deals

Completed Transactions H1 2016
€3.6bn*/#12 Deals

Ongoing Transactions H1 2016
€5.8bn/#19 Deals

Reduction in the pricing gap
There has been a surge of completed transactions in the CEE with c. €3.6bn of portfolios exchanging hands in the first half of 2016, compared with c.€2.1bn during 2015. The increase in completed transactions is largely due to the narrowing of the pricing gap between buyers and sellers which should ensure that the existing pipeline of €6.3bn of ongoing transactions stand a strong chance of closing by the end of the year.

Heta
HETA Asset Resolution ("Heta"), the Austrian wind-down entity for Hypo Alpe-Adria-International AG, has set a target to complete the disposal of their performing and non-performing loans by 2020. Heta is currently pursuing a medium-term plan for 2016-2020 in order to dispose of 80% of all assets by the end of 2018. These assets, which are located across Austria, Italy, Hungary, Bulgaria and the former Balkan States are primarily comprised of secured corporate loans.

As at 31 December 2015, Heta had €4.5bn of loans to customers and credit institutions. This demonstrates that their portfolio could provide significant pipeline to a region that has the interest of both local and international investors. Whilst the exact strategy to achieve their deleveraging targets by 2018 and 2020 is currently unknown, it is clear that in the short term Heta's disposal activity has significantly increased during the first half of 2016 as shown in the most recent ongoing transaction listing for the region. In addition to portfolios being sold in the Austria and CEE region, Heta recently sold a c.€650m Italian leasing portfolio and supporting platform.

Serbian activity may pick up with more transactions expected
We expect that portfolio activity will increase in Serbia over the next 12 months. The Serbian finance ministry and central bank are implementing a deleveraging strategy which includes structural and legal reform of NPL resolution mechanisms. This changes could be a catalyst for potential portfolio transactions.

Bulgarian AQR results
Bulgaria's AQR results are expected to be published later in August. Whilst the results are not yet known, there is potential that this may provide a motivation for further deleveraging by banks in the country when combined with increasing political pressure to resolve large NPL stocks.

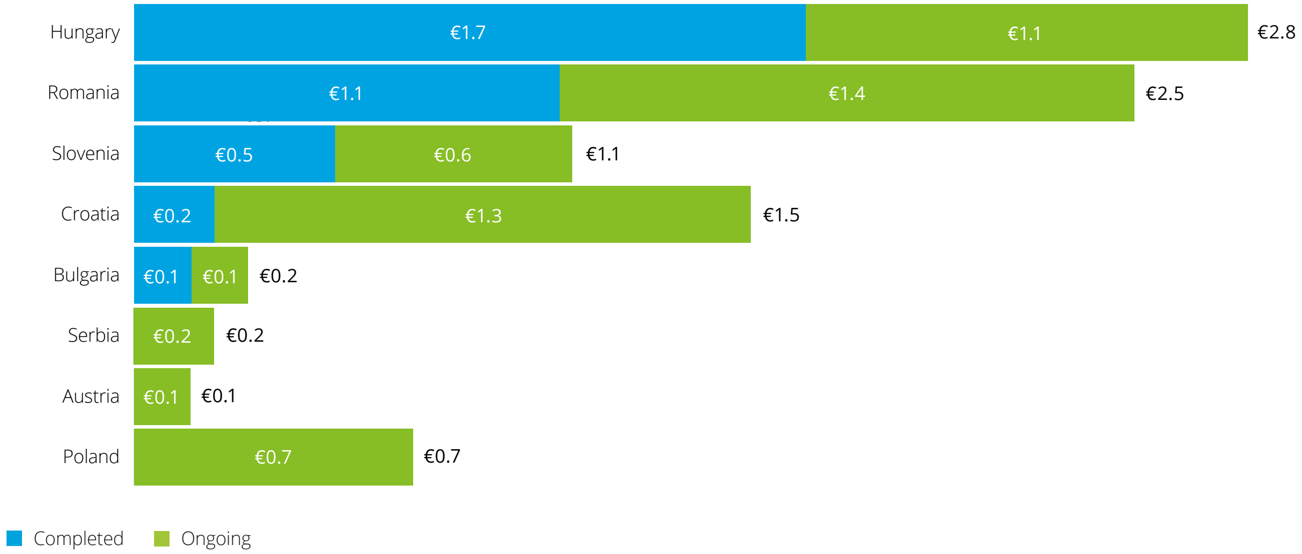
In addition to local banks, the majority of assets in Bulgaria are controlled by foreign banks. This could provide further deleveraging opportunities as the foreign banks continue to retreat from non-core positions.

Deleveraging Europe 2016 | H1 Market Update

Activity by year – Austria & CEE (€bn)

Activity by asset class – Austria & CEE (€bn) 2016 H1

Activity by country – Austria & CEE (€bn) 2016 H1



*Value for all deals are not disclosed

Completed transactions Austria & CEE

Name	Date	Country	Asset type	Buyer	Seller	Size (€m)
Not disclosed	Jul-16	Slovenia	Corporate	n/a	NLB	396
Not disclosed	Jul-16	Slovenia	Retail	n/a	NLB	104
Project Eagle	Jun-16	SEE	Real Estate	Lone Star	HETA	Not applicable
Project Elizabeth	Jun-16	Romania	Corporate	Not disclosed	Not disclosed	200
Not disclosed	May-16	Hungary	Corporate	Not disclosed	Not disclosed	250
Project Metro	May-16	Romania	Consumer	Kruk/IFC	Bancpost (Eurobank)	597
Project Ivica	Mar-16	Croatia	Corporate	Not disclosed	Not disclosed	200
Not disclosed	Feb-16	Bulgaria	Consumer	EOS	Postbank (Eurobank)	143
Not disclosed	Feb-16	Hungary	Residential	OTP	Axa	1,000
Syndicated loan portfolio	Jan-16	Hungary	Mixed	Not disclosed	Not disclosed	120
Project Velence	Jan-16	Hungary	Leasing	Not disclosed	Not disclosed	300
Project Rosemary	Jan-16	Romania	Mixed	APS/ AnaCap	Intesa Sanpaolo	261
Total						**3,571**

Ongoing transactions Austria & CEE

Name	Date	Country	Asset type	Seller	Size (€m)
Not disclosed	Ongoing	Austria	Leasing	Not disclosed	100
Not disclosed	Ongoing	Bosnia & Herzegovina	CRE	HETA	17
Project Vitosha	Ongoing	Bulgaria	Corporate	HETA	130
Not disclosed	Ongoing	Croatia	Corporate	Not disclosed	800
Project Pathfinder	Ongoing	Croatia	Corporate	HETA	332
Not disclosed	Ongoing	Croatia	CRE	HETA	155
Not disclosed	Ongoing	Croatia	Corporate	HETA	47
Not disclosed	Ongoing	Hungary	Corporate	Not disclosed	250
Project Otto	Ongoing	Hungary	Residential	Aegon	360
Not disclosed	Ongoing	Hungary	Residential	Not disclosed	250
Not disclosed	Ongoing	Hungary	Residential	Not disclosed	250
Not disclosed	Ongoing	Poland	Corporate	Bank Pekao	457
Not disclosed	Ongoing	Poland	Residential	Raiffeisen Bank Polaks	237
Not disclosed	Ongoing	Romania	Residential	BCR	400
Not disclosed	Ongoing	Romania	Mixed	Veneto Banca	1,030
Not disclosed	Ongoing	Serbia	Mixed	Not disclosed	150
Not disclosed	Ongoing	Slovenia	Leasing	NLB	90
Not disclosed	Ongoing	Slovenia	Corporate	Not disclosed	500
Project Drava	Ongoing	SEE	Corporate	HETA	286
Total					**5,841**

Greece & Cyprus

Completed Transactions 2015
None

Completed Transactions H1 2016
None

Ongoing Transactions H1 2016
€3.4bn*/#4 Deals

Continuing regulatory legislative change

The Greek market continues to be one of the most challenging banking landscapes in Europe. The continued pressure from the Troika and changes being implemented by the Greek government should see an improvement in the regulatory and legislative environment around asset management and loan sales. As part of Greece's Third Economic Adjustment Programme, in December 2015 the Greek government introduced a framework for the sale and management of NPL portfolios originated by Greek banks. While certain clarifications are still being discussed, this is a positive development which should help foster NPL market activities in Greece.

In Cyprus a number of legislative changes have been passed by the Government to facilitate the sale of loan portfolios by local banks. Whilst these changes provide the means for banks to deleverage their balance sheets, the market remains untested. In addition, potential illiquidity in the real estate market which underpins much of the NPL portfolio market remains an issue.

NPL reduction/deleveraging targets

Since the onset of the crisis, NPL sales in Greece have been limited in comparison to its European counterparts. However as a result of recent developments and continuous growing pressure from the ECB and SSM it is envisaged that the four large Greek banks will slowly but surely utilise NPL divestment as a strategy.

The immediate opportunity is around the non-core exposures held by Greek banks in the central and eastern European region where they have deleveraging or AUM reduction targets for mid 2018. This could be done via the divesture of portfolios or of entire banking operations. Overall, we expect portfolio trades will take place given the NPL reduction targets set by each of the banks. However, whilst we may see Greek test portfolios brought to market in H2 2016, this is likely to be more of a 2017/18 opportunity.

Changes in Greek Asset management

Given the scale of the NPL issue, Greece continues to be an under-served loan servicing market with most independent players focussing on unsecured portfolios. There is a clear asset management opportunity for new entrants in the market and we are beginning to see players positioning themselves to capture this. At present this opportunity is focused on the retail and large corporate portion of bank portfolios, however, we expect this to embrace the full asset class spectrum as the market matures.

Ongoing transactions Greece

Name	Date	Asset type	Seller	Size (€m)
Confidential	Ongoing	Platform/ portfolio	Confidential	1,000
Not disclosed	Ongoing	Shipping	RBS	2,300
Total				**3,300**

Ongoing transactions Cyprus

Name	Date	Asset type	Seller	Size (€m)
Project Ellie	Ongoing	Platform	Hellenic Bank	Not disclosed
Total				**Not disclosed**

*Value for all deals are not disclosed
Source: Deloitte Research, June 2016

Ongoing Greek bank non core transactions

Name	Date	Asset type	Seller	Size (€m)
Project Aegean	Ongoing	Corporate	Confidential	123
Total				**123**

Greek banks NPL reduction targets

	Alpha Bank	Eurobank (medium term)	National Bank of Greece	Piraeus bank (2018)
Non performing loans	National Bank of Greece	Mid-term NPL ratio of 15% (60% reduction in NPLs); Target €5bn write-off	Corporate	NPL ratio < 17%

Source: Citi research

Nordics

Completed Transactions 2015 None

Completed Transactions H1 2016 None

Ongoing Transactions H1 2016 €600m/#1 Deals

Potentially a tough road ahead for banks
The past ten years has seen a rapid development of the financial services sector in the Nordic region. However the region, which has been traditionally dominated by a handful of players, has not been immune from the wider global credit crisis. Whilst countries within the region have been impacted differently, by and large they have been coping well. In Norway, a country which may be detrimentally affected by lower economic growth as a result of falling oil prices, new regulatory measures came into force in July 2015 aimed at dampening household credit demand. For Finland, one of the weaker performing economies within the EU in recent years (its economy is still 5% smaller than before the financial crisis), it is difficult to see how banks maintain growth and profitability targets. Whilst the region as a whole has not seen large provisioning in specific asset classes (CRE, Shipping, etc.) like in other parts of Europe, there are clearly areas of concern that banks will need to address in light of worsening economic conditions.

In the region, the banking sector remains dominated by a handful of players. Nordea Bank and Danske Bank probably have the strongest influence with total assets of about €650bn and €410bn respectively. Whilst this level of concentration in the sector can cause contagion issues across the region, many of the players are diversified financial service providers with insurance and asset management divisions which should lessen the impact of any fall-off in core banking profitability.

Limited activity with the potential for more
There has been a limited number of loan portfolios for sale to date. However like their counterparts elsewhere, the Nordics banks continue to look to exit from non-Nordic operations. Danske Bank, which has built up a significant presence in Ireland is looking to complete its exit from the country and has brought the remainder of its loan book to market in a project dubbed Project Pluto.

More locally, Denmark has dominated the loan portfolio sales in the region with Finanisel Stabilitet (FS) completing c.€1.8bn of NPL sales.

Ongoing transactions Nordics

Name	Date	Country	Asset type	Seller	Size (€m)
Kappa 3	Ongoing	Nordics	CRE	Finansiel Stabilitet	600
Total					**600**

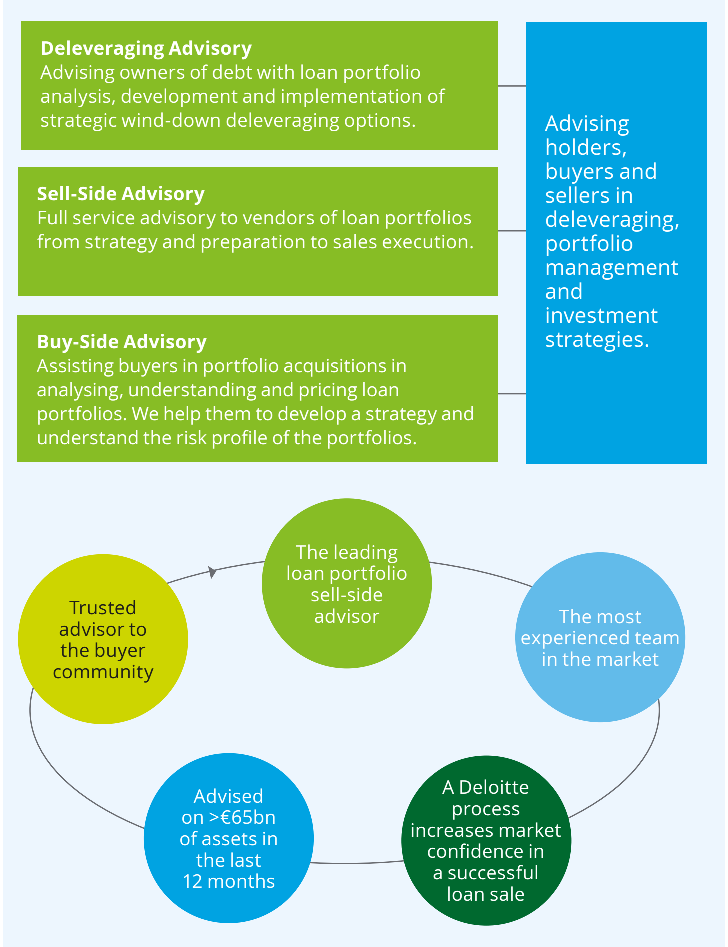
Deloitte Portfolio Lead Advisory Services

We have advised on loan portfolio transactions and completed deleveraging projects covering over €400bn of assets across all major European countries; we are the most active loan portfolio advisor in the market.

Introducing Portfolio Lead Advisory Services (PLAS)
PLAS team members are recognised leaders in UK, European and global loan portfolio advisory projects covering deleveraging, specialised loan portfolio servicing, buy and sell side mandates. The core senior team has advised governments, financial institutions, regulatory authorities and global private equity firms on deleveraging and loan portfolio transactions across every major asset class covering over €400bn of assets.

PLAS is supported by a core team of 30 professionals who have worked in advisory, principal investment and banking and by a dedicated network of 140 professionals across Europe. This is in addition to extensive resource and expertise available from Deloitte's global network of member firms. The PLAS team are active in nearly every country in Europe buying and selling loan portfolios as well as advising financial institutions on non-core exposures.

PLAS is recognised as the leading loan portfolio advisor on portfolio deleveraging; our vast experience ensures we can deliver enhanced value for holders of non-core and distressed loans/assets.



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