Full steam ahead

Deleveraging report 2018 Q3

Financial Advisory

Contents

David Edmonds
Global Head
Portfolio Lead Advisory Services

Andrew Orr
Global Transactions Leader
Portfolio Lead Advisory Services

William Newton
Head of Strategic Advisory
Portfolio Lead Advisory Services

Benjamin Collet
Partner
Portfolio Lead Advisory Services

About this report

Unless specified otherwise, all the data in the Deloitte Deleveraging report is based on ongoing tracking and monitoring of deal activity, based on Deloitte practitioners' insights into the respective markets together with public and industry sources, notably Debtwire. This combination of sources limits the detail we can provide on individual transactions or identifiable data segmentation.

All data in this 2018 Q3 report correct as of October 2018.

Introduction

The European loan portfolio market continued at pace through 2018, with €120bn in face value of deals concluded in the year to date, already surpassing the total traded in 2016, and on course to exceed €200bn in the full year.

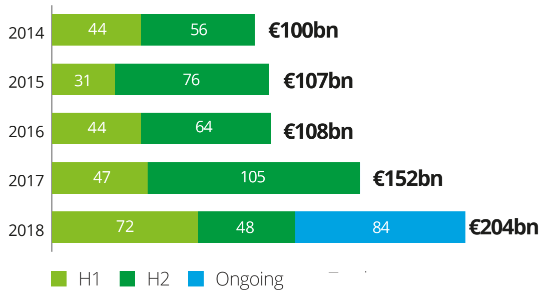
The pace of activity continued unabated through the usually quiet summer holidays, as banks respond to regulatory pressures to reduce leverage and offload assets, completing €48bn during the third quarter. The pipeline of €84bn in announced and ongoing deals across Europe puts 2018 on course to be another record year, and likely to surpass the €200bn milestone by year end, as anticipated in our last report.

Italy and Spain continue to dominate the market, between them accounting for over half of the portfolio trades. Portuguese banks have accelerated their activity with €3bn in completed trades and €4bn in ongoing deals. Deal activity has also taken off in the Aegean, with both Greek and Cypriot banks selling sizeable secured portfolios this year. This is likely to continue as central banks and regulators continue to apply pressure on the banks to escalate their deleveraging activities.

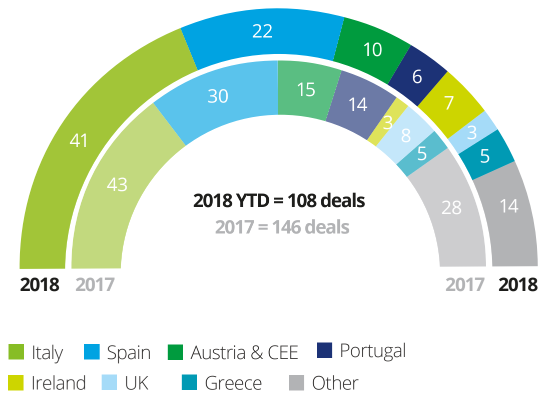
2018 has also seen a significant uplift in shipping loan portfolio activity, starting with the successful sale of Deutsche Bank's €1bn shipping loan portfolio, which has been subsequently followed by over €5bn of portfolios in the market across Europe.

The trend of an increasing proportion of performing loan portfolios continues, representing 15% of traded portfolios the first three quarters of 2018, as asset-backed security markets support pricing opportunities for non-regulated capital.

Activity by year (€bn)



Number of completed deals 2018 / 2017



European NPL market overview

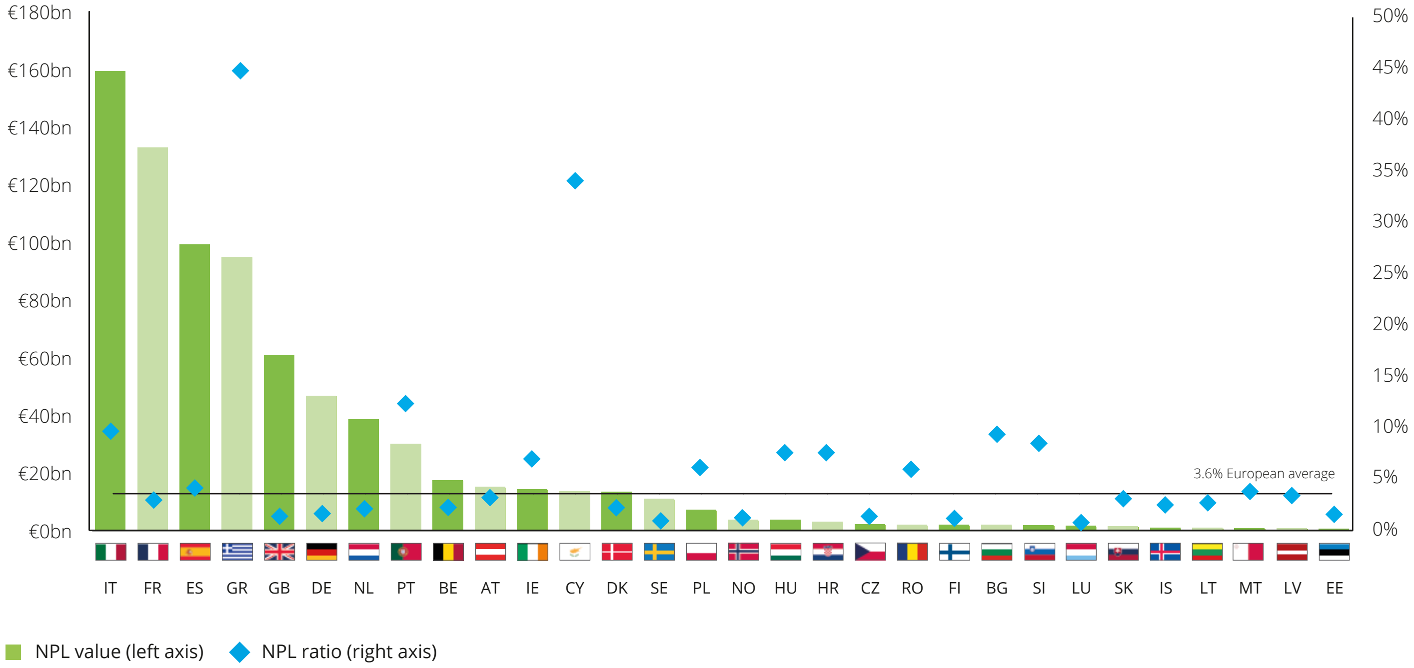
The stock of non-performing loans (NPLs) has been steadily declining across Europe over the past decade since the financial crisis. This trend has continued in the year since the European Commission's "Action Plan to Tackle Non-Performing Loans in Europe" was agreed, with the Council calling on banks and regulators across the EU to take action to tackle both the legacy stock of NPLs, and the risk of future build-up.

The latest EBA Risk Dashboard calculates an average NPL ratio of 3.6%, a significant reduction from 5% in 2015, but still leaving European banks holding an estimated €750bn of non-performing loans and advances.

There are 17 nations which have a ratio below the European average, with 13 above the average of 3.6% holding 55% of the NPL stock against only 23% of total assets.

There is significant disparity across European nations, with Greek and Cypriot NPL ratios significant outliers.

€750bn stock of NPLs held across Europe



Source: European Banking Authority Risk Dashboard 2018 Q2

At the bank level, the share of European banks with >14% CET1 ratio (considered 'good behaviour' by the EBA) has steadily increased over the past four years, despite a slight dip in early 2018.

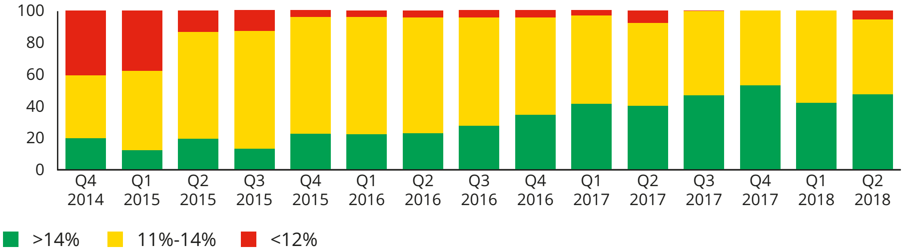
Similarly, there has been a steady increase in the number of European banks with NPL ratios below 3% ('good'), while the share of banks with NPL ratios above 8% ('worst') has more than halved over the past year 12.1% in mid 2017 to 5.9% in the latest report.

The picture has been less rosy in terms of coverage ratios, with the share of European banks in the 'worst' (42.9%) category increasing over the past four years.

The quarterly Risk Dashboards produced by the EBA include data on a wide range of 'Key Risk Indicators' including liquidity, funding, solvency, profitability, and market risk, as well as asset quality including NPL ratios and totals. The data does not include NPLs held by state-owned 'bad banks' such as Ireland's NAMA, or the UK's UKAR, and also does not reflect asset sales in Q3 of 2018. Nevertheless, the EBA data provides a comprehensive baseline reading of the size of the outstanding NPL pool in Europe.

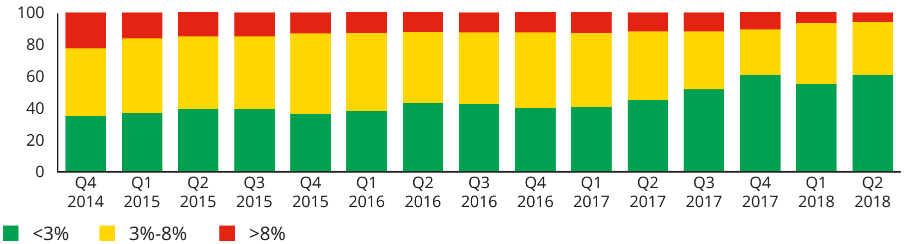
.

CET1 ratio



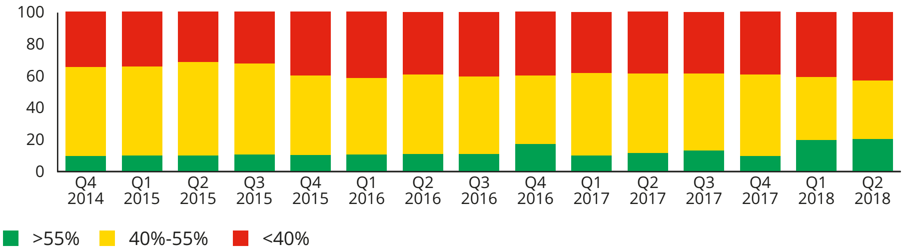
Source: European Banking Authority Risk Dashboard 2018 Q2

NPL ratio



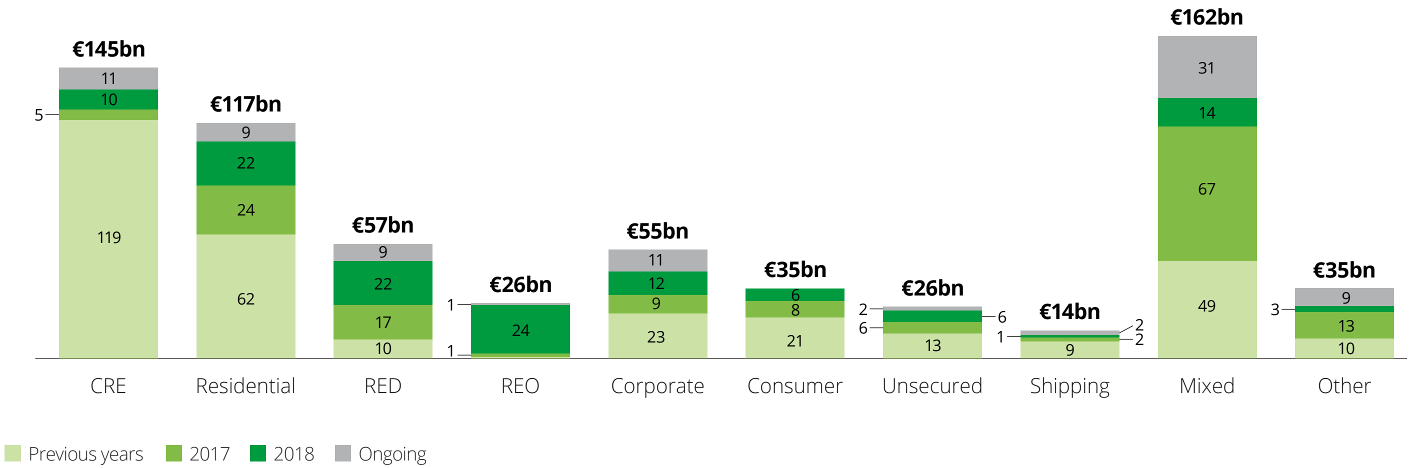
Source: European Banking Authority Risk Dashboard 2018 Q2

Coverage ratio of non-performing loans and advances

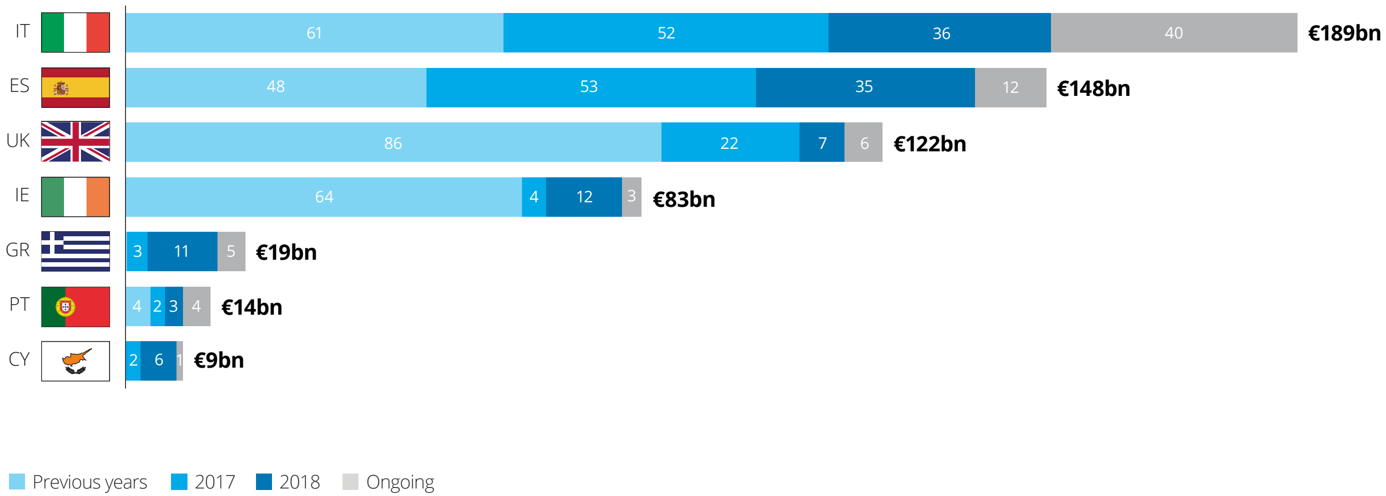


Source: European Banking Authority Risk Dashboard 2018 Q2

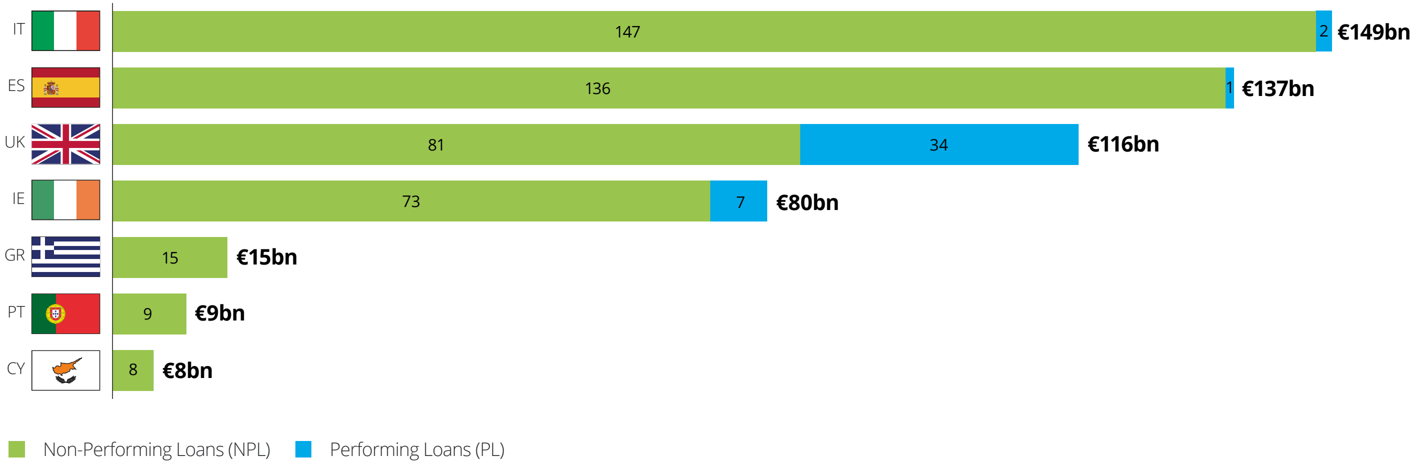
Activity by asset type since 2014 (€bn)



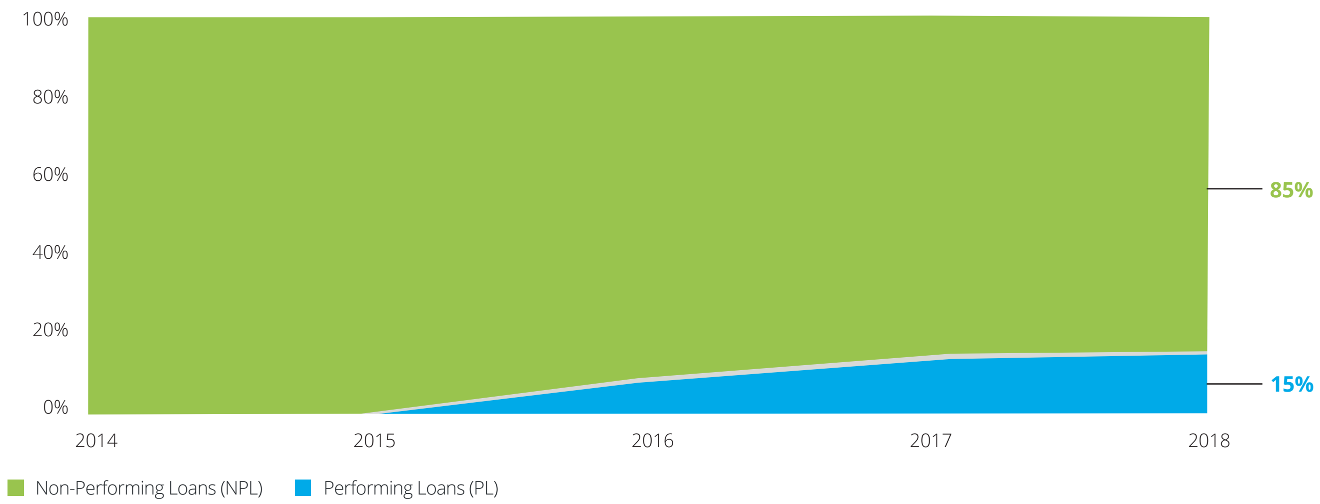
Activity by country since 2014 (€bn) – completed and ongoing transactions



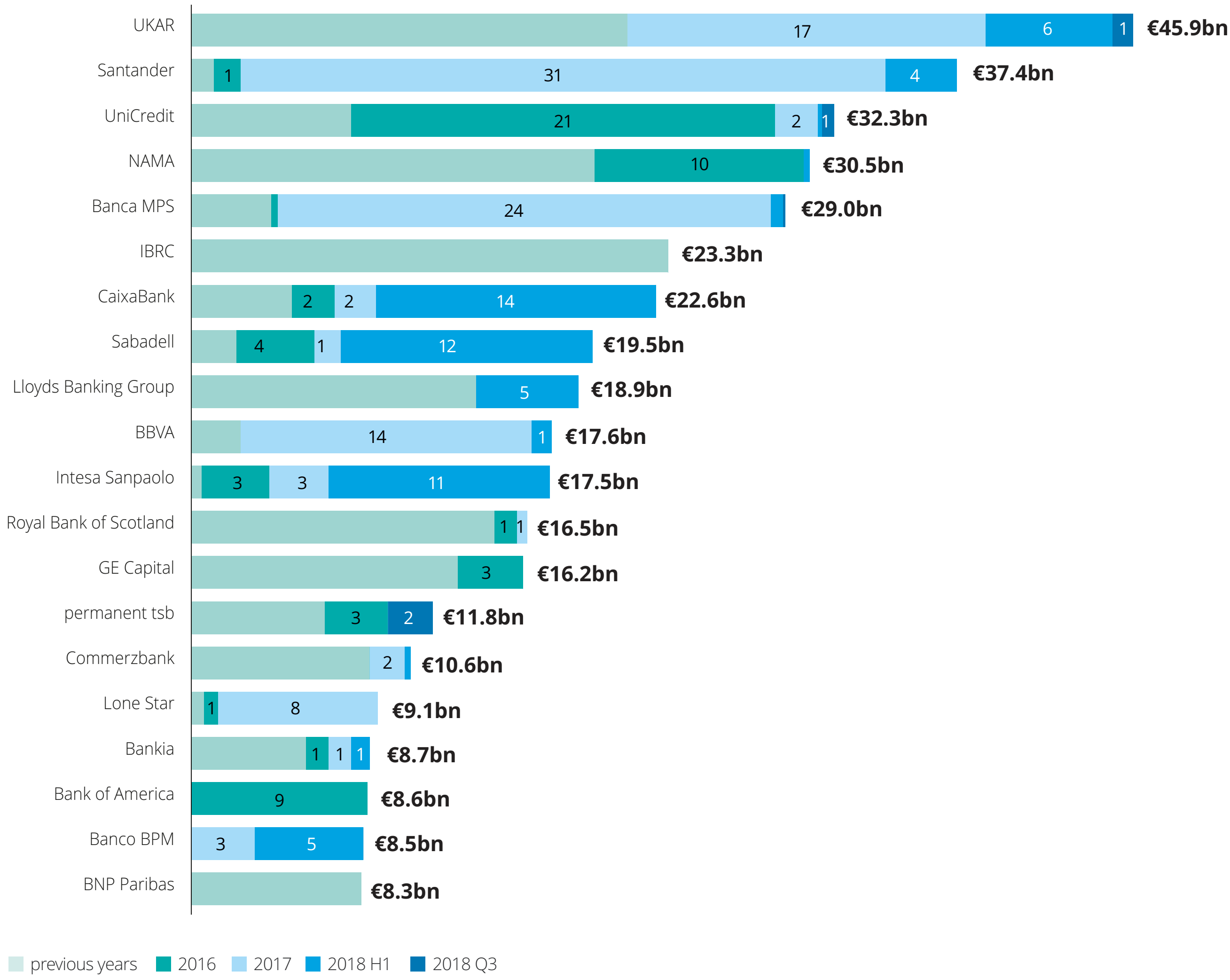
Loan sale activity by portfolio type per country since 2014 (€bn) – completed transactions



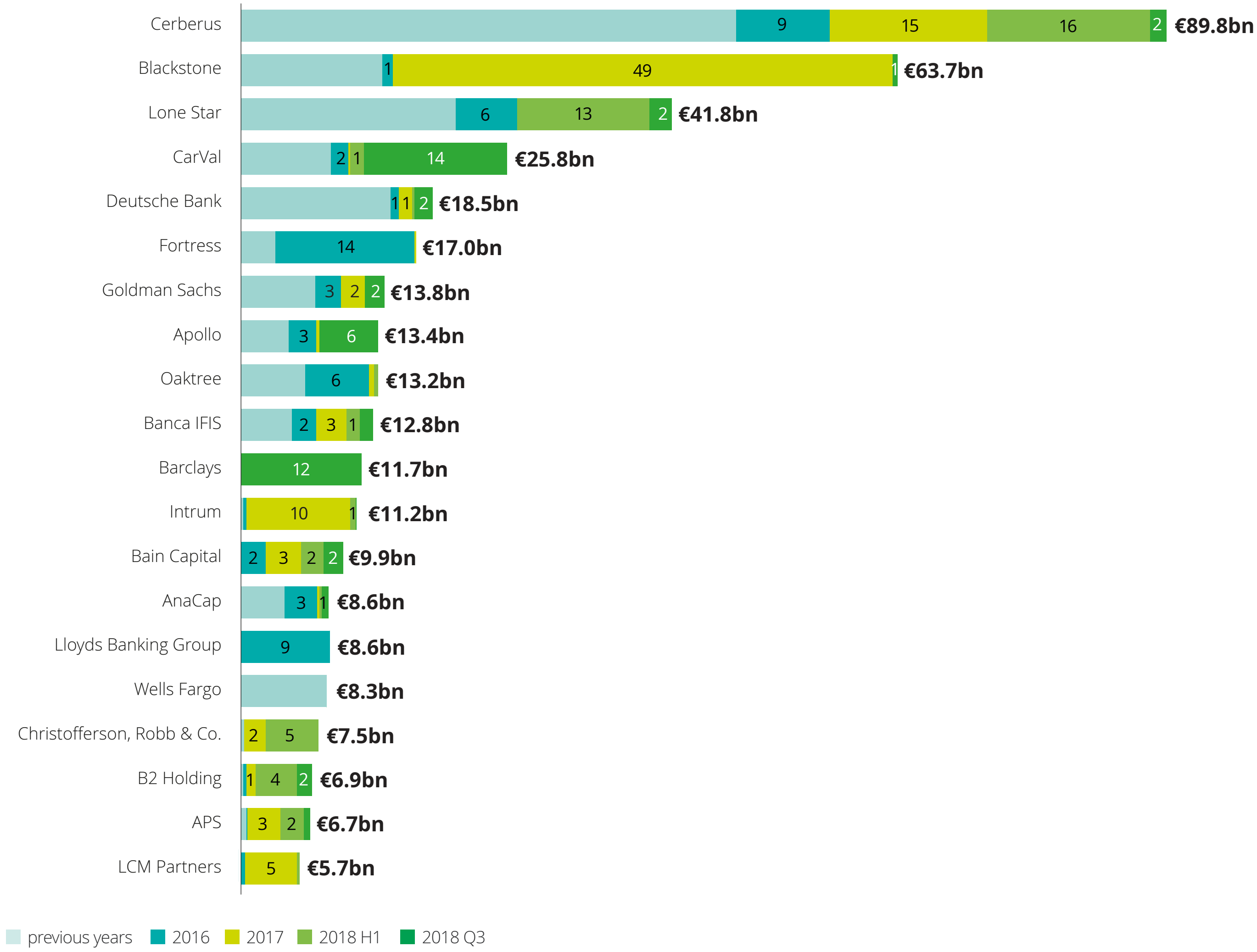
Loan sale activity by portfolio type (€bn) – completed transactions



Top sellers since 2014 (€bn)



Top buyers since 2014 (€bn)



Shipping deals

Project name	Type	Country	Seller	Completed	Buyer	Size
Confidential	PL	France	Société Générale	2012 H2	Citigroup	€1.3bn
Project White	NPL	UK	Lloyds Banking Group	2014 H1	Oaktree	€1.0bn
Project White 2	NPL	UK	Lloyds Banking Group	2014 H1	Davidson Kempner, Bank of America	€1.0bn
Confidential	Mixed	Germany	Commerzbank	2014 H2	KKR, Borealis Maritime	USD $0.2bn
Hanseatic Ship Asset Management	Mixed	Germany	Commerzbank	2015 H2	KKR, Borealis Maritime	USD $0.3bn
Ship Financing Portfolio	NPL	Germany	HSH Nordbank	2016 H1	hsh portfoliomanagement AöR	€5.0bn
Confidential	NPL	Germany	Nord/LB	2016 H2	KKR	USD $1.5bn
Confidential	NPL	Greece	Royal Bank of Scotland	2017 H1	Orix, Berenberg Bank	USD $0.6bn
Project Jewel Fish	Mixed	Germany	Commerzbank	2017 H1	Oak Hill Advisors, Värde Partners	€1.0bn
Project Moon Fish	Mixed	Germany	Commerzbank	2017 H2	Cross Ocean, Berenberg Bank	€0.3bn
Project Lioness	Mixed	Germany	Deutsche Bank	2018 H2	Oak Hill Advisors, Värde Partners	USD $1.1bn
Confidential	NPL	Italy	Banca MPS	2018 H2	SC Lowy Fund	USD $0.2bn
Project Isabella	NPL	Italy	Banca Carige	Ongoing		€1.4bn
Confidential	NPL	Germany	Nord/LB	Ongoing		€5.0bn
Project Nemo	NPL	Greece	Piraeus Bank	Ongoing		€0.8bn

Charting new waters
The market for shipping loans emerges

Based on conservative estimates, there is over €300bn of shipping finance globally, of which over two thirds sit on European banks' balance sheets. This is despite a sharp contraction over recent years, with European lenders reducing their exposure to shipping loans by over 40% between 2010 and 2016, as tepid growth in global trade has driven down freight and charter rates forcing losses in a sector already bloated with over capacity built up in the years leading to the global financial crisis.

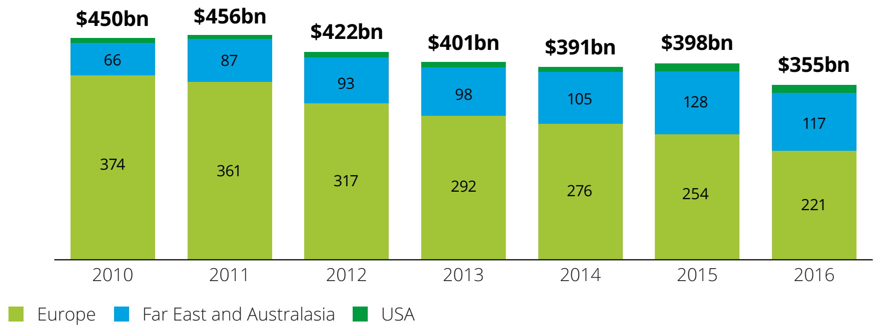
The exit of European banks from the shipping sector is continuing with both loan deleveraging and corporate transactions. The latter was seen in February's announcement of the sale of HSH Nordbank – a prominent issuer of shipping loans – by the German states of Hamburg and Schleswig Holstein to a private equity consortium led by Cerberus and JC Flowers for an estimated €1bn. This transaction demonstrates the changing fortunes of the shipping loan market, with the states reporting total losses between €10.8bn and €14bn over the decade leading up to the sale.

After years of relative calm, momentum is now building behind the disposal of shipping loan portfolios, with several notable portfolios coming to market, such as Deutsche Bank's sale of Project Lioness, which was sold to Oakhill Advisors and Värde Partners. In addition, Nord/LB (another German state-owned bank and a leading issuer of shipping finance) is also in the market looking to dispose of various shipping loan portfolios. The success of this will be a factor in their recently announced restructuring plan which could involve the sale of a significant stake in the lender in its bid to boost its capital ratio.

Piraeus Bank is also indicating an upcoming €800m shipping portfolio.

The growing pipeline of shipping assets is fuelled by the investor community's demonstrated interest in the sector, which is tightening the bid-ask spread, and in turn incentivising other banks to test the waters with their own stock of shipping loans.

Global ship finance portfolios by geographical region (US$bn)



Source: Petrofin Bank Research, annual reports, secondary research


CREDIT SUISSE

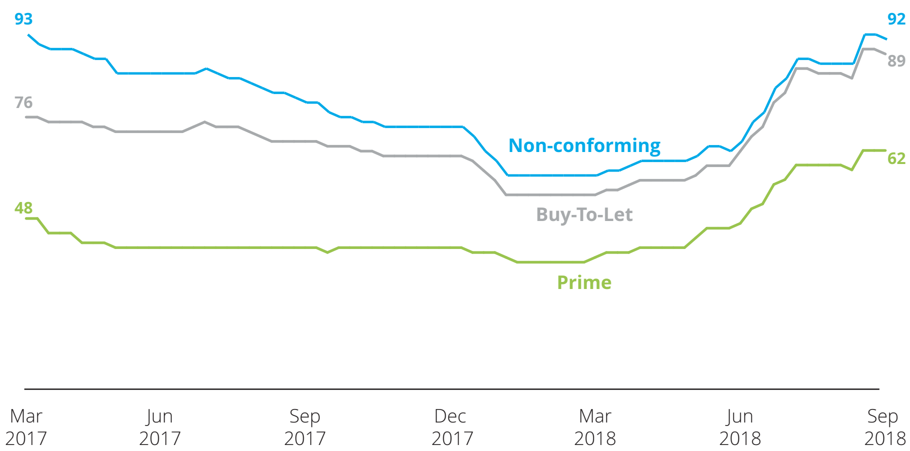
United Kingdom

The Rothesay acquisition of Project James, UKAR's £860m equity release mortgage book is the latest chapter in the ongoing disposal programme from the Northern Rock and Bradford & Bingley portfolios. This trade came close on the heels of the Project Durham £5.5bn buy-to-let (BTL) mortgage book traded to Barclays pre-summer and brings the total value of portfolios traded by UKAR (since their disposal programme began in 2014) to £48.8bn. Since formation, UKAR's original assets of £116bn has been reduced by 83% (£96bn), of which £38bn is a reduction in government debt, and £58bn in private sector debt. This leaves a portfolio of approximately £12bn which is expected to be brought to market in a series of trades over the next six months.

The widening in RMBS spreads over the summer will flow through to the pricing of the upcoming UKAR trades. Whilst the spreads have widened, they continue to be favourable and as a result, we expect that other holders of residential mortgages may look to take advantage of this, which combined with imminent call dates on some of the previous RMBS trades will result in a significant uplift in activity in the next six months. These sales are likely to elicit interest from the UK banks as they look to non-organic growth opportunities.

The latest EBA data (2018 Q2) reveals that the overall UK NPL ratio has continued to decline, and is now 1.4% (€60bn), down from 2.4% in late 2015.

UK Senior residential mortgage-backed securities (RMBS)



Source: J.P. Morgan

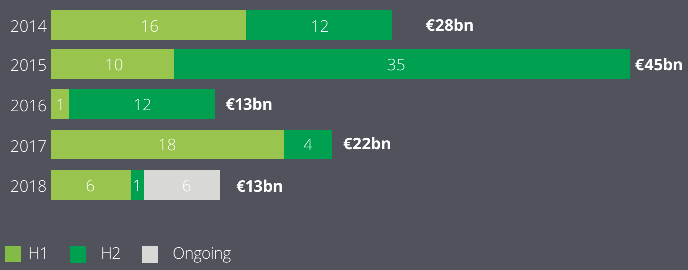
Whist NPL volumes have continued to decline, we expect that lending to retail-led real estate will start to become more stressed as a result of a number of high profile retailers announcing store closures.

This could result in commercial lenders looking to de-leverage their exposure to UK retail ahead of any worsening of the market.

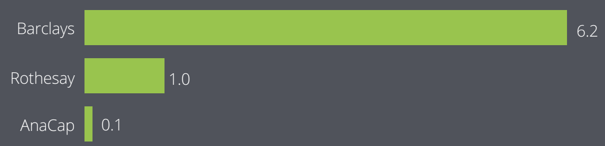
The broader UK market has remained comparatively quiet, with a small number of trades driven primarily by factors such as:

- Orphaned portfolios following UK ring-fencing or Brexit implications;
- Rump portfolios from private equity acquisitions from previous trades; and
- Remaining non-core portfolios.

Activity by year (€bn)



Top buyers 2018 (€bn)



Completed transactions (2018 H1)

Project name	Asset group	Type	Seller	Buyer	Size (€m)
Project Durham	Residential	PL	UKAR	Barclays-led consortium	6,214
Confidential	RED	Mixed	Welcome Financial Services	AnaCap	94
					6,308

Completed transactions (2018 Q3)

Project name	Asset group	Type	Seller	Buyer	Size (€m)
Project James	Residential	NPL	UKAR	Rothesay	972
					972

Transaction pipeline

Project name	Asset group	Type	Seller	Size (€m)
Confidential	Residential	PL	UKAR	6,000
Confidential	CRE	PL	Confidential	119
Confidential	Residential	PL	Confidential	20
				6,138

Ireland

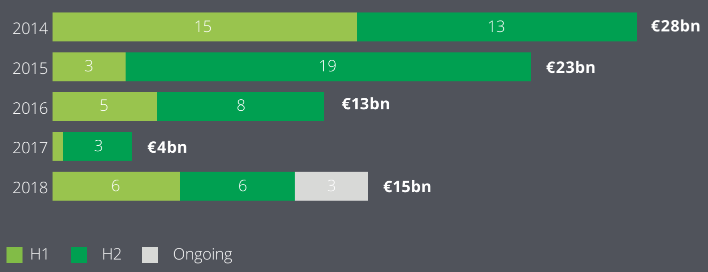
Ireland has been one of the most active markets for loan sales in 2018, with €12bn in completed sales in the year to date, and a €3bn pipeline of announced and ongoing portfolio sales.

Activity was driven by the portfolio sales from Allied Irish Bank (AIB), permanent tsb (PTSB), and Ulster Bank, reducing their NPL holdings. Lloyds Banking Group (LBG) also sold €5bn of performing non-core mortgages. This trade saw LBG completing their exit from the Irish market. The securitisation market witnessed active demand for Irish residential mortgage-backed securities (RMBS) which has resulted in strong interest from the investors on these loan portfolio sales and subsequent exits through public asset-backed security markets.

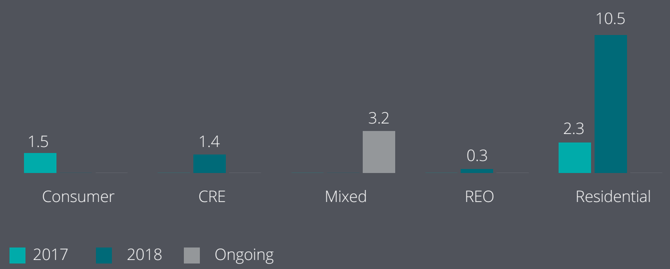
Potential legislation around greater debtor protection in the residential mortgage market and regulation of mortgage holders have created some uncertainty around the sale of primary dwelling mortgages, in particular around NPL trades.

Further sales are expected as the banks face continuing pressure to reduce their NPL ratios, which still remain nearly double the EU average despite the significant progress made in the past year. Irish banks' overall NPL ratio has decreased from 11.4% to 7% as of the latest EBA report.

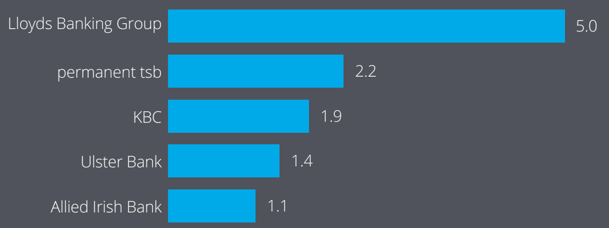
Activity by year (€bn)



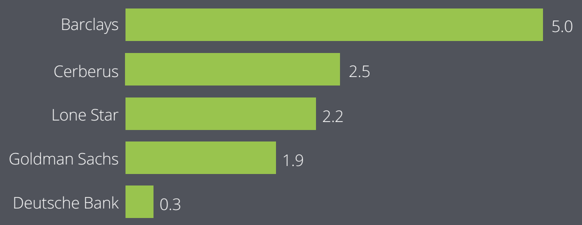
Activity by asset class (€bn)



Top sellers 2018 (€bn)



Top buyers 2018 (€bn)



Completed transactions (2018 H1)

Project name	Asset group	Type	Seller	Buyer	Size (€m)
Project Porto	Residential	PL	Lloyds Banking Group	Barclays-led consortium	5,000
Project Redwood	CRE	NPL	Allied Irish Bank	Cerberus	1,100
Bolands Quay	REO	NPL	NAMA	Google	300
					6,400

Completed transactions (2018 Q3)

Project name	Asset group	Type	Seller	Buyer	Size (€m)
Project Glas	Residential	NPL	permanent tsb	Lone Star	2,200
Confidential	Residential	NPL	KBC	Goldman Sachs	1,900
Project Scariff	Residential	NPL	Ulster Bank	Cerberus	1,400
Project Lee	CRE	Mixed	NAMA	Deutsche Bank	300
					5,800

Transaction pipeline

Project name	Asset group	Type	Seller	Size (€m)
ACC Loan Management	Mixed	Mixed	Rabobank	3,200
Charlestown Shopping Centre	REO	NPL	NAMA	36
Project Beech	Other	NPL	Allied Irish Bank	n/a
				3,236

Italy

Italy remains one of the busiest NPL markets in Europe, with over €35bn traded thus far in 2018. Of particular note was the €11bn included in Intrum's joint venture platform take-over of Intesa Sanpaolo's debt servicing unit. Together with known pipeline of at least €40bn, the country is set to exceed last year's completed value, setting a new post-crisis record. This activity has been buoyed by positive economic forecasts and an expected revival in the real estate sector which has experienced consistently rising demand and prices in the larger urban centres. As a result, global investors have been increasing their presence in the country, enhancing loan servicing capacity and capital ready to be deployed across asset classes. The secondary market is also now attracting the interest of established operators, bringing new opportunities to investors.

The market over the coming months is due to be dominated by unlikely to pay (UTP) loans, with established players and new local entrants increasingly investing to place themselves as front runners in this segment. In light of increasing regulatory pressure, Italian banks along with local and global players are discussing the run off of almost €100bn of UTP currently on their books. We should see this activity in 2019, with portfolio trades and long term industrial partnerships with well-rounded investors, servicers, and challenger banks.

The Garanzia Cartolarizzazione Sofferenze (GACS) securitisation programme introduced by the Italian government in 2016 is enabling the banking sector to speed up deleveraging programmes through increasingly large portfolios deconsolidated from banks' balance sheets.

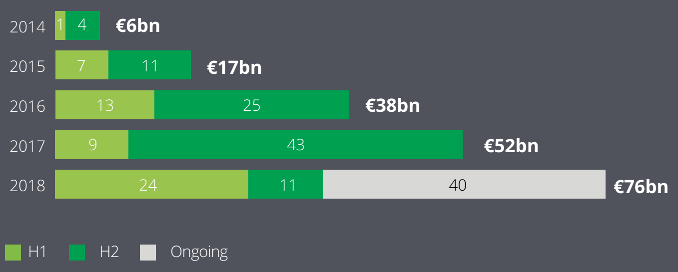
Banco BPM's completion of Project Exodus saw the junior notes of a €5bn securitization vehicle achieve a price in the region of 34¢. This has already been followed by their marketing of Project Ace comprising a portfolio of distressed loans and an NPL management platform, part of which could also be financed through GACS.

The second half of 2018 is also expected to see an increase in more traditional transactions, with a pipeline of portfolios from Unicredit, UBI, and Monte dei Paschi di Siena, as well as an estimated €5bn in GACS securitisation vehicles from smaller banks. Distressed debt activity may further increase in the coming months based on the ongoing discussions of the Italian government with the EU to introduce a new amendment to the current GACS legislation and allow the UTP exposure to participate in the scheme.

Given the pipeline of unaddressed NPLs in Italy's largest banks, we expect the growth in deal volumes to continue throughout 2019. The market continues to mature fast in the context of a more predictable regulatory setting and improved recovery times, while more established investor teams are bringing deeper market knowledge, enabling deals to be concluded more rapidly on the basis of greater confidence on valuations.

The political tensions between the newly-elected coalition government in Rome and Brussels have seen the sovereign debt yield spread nearly double since May, and show little sign of abating at least until the European elections next year. While this level of risk premium presents challenges for the country's economic and fiscal stability in the medium term, it is being driven primarily by the political uncertainty, rather than changes to the country's economic outlook. As such, it is unlikely to have a significant impact on the market for distressed debt in the short term.

Activity by year (€bn)



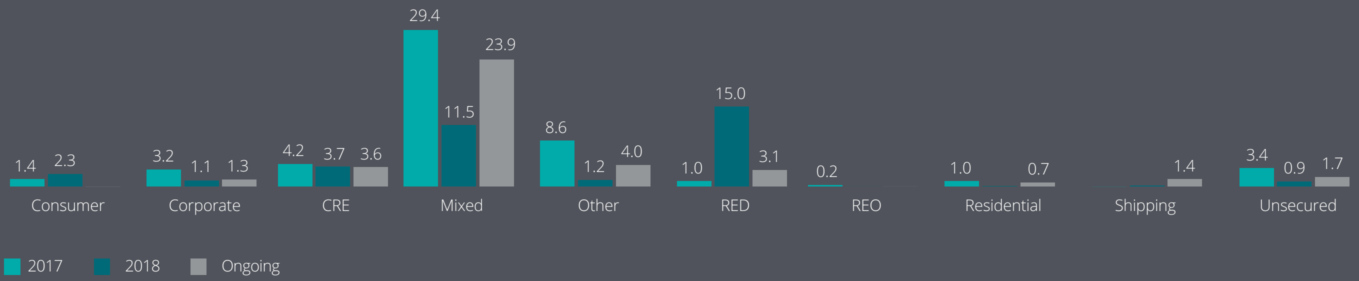
Completed transactions (2018 H1)

Project name	Asset group	Type	Seller	Buyer	Size (€m)
Project Savoy	RED	NPL	Intesa Sanpaolo	Intrum, CarVal	10,800
Project Exodus	Mixed	NPL	Banco BPM	CRC	5,100
Porta Vittoria Debt	CRE	NPL	Banco BPM	York Capital	220
Project Aragon	Mixed	NPL	Creval	Davidson Kempner	1,600
Project GIMLI 1	Mixed	NPL	Creval	Algebris	245
Confidential	CRE	NPL	Creval	Algebris	245
Project GIMLI 2	RED	NPL	Creval	Fonspa	222
Project Arcade	Consumer	NPL	Gruppo Delta	Cerberus	2,200
FBS acquisition	Mixed	NPL	FBS	Banca IFIS	1,280
Project Bubbles	RED	NPL	Veneto Banca	Cassa Centrale Banca	700
Project Bellini	Mixed	PL	BPVI	BPSO	300
Project Borromini	CRE	PL	Commerzbank	Deutsche Bank, Davidson Kempner	280
Confidential	Unsecured	NPL	UniCredit	MBCredit Solutions	124
Confidential	Unsecured	NPL	UniCredit	MBCredit Solutions	80
Confidential	CRE	NPL	CRV	Confidential	180
Project Leonardo	CRE	NPL	FMS Wertmanagement	GWM	100
Project Goldrake	CRE	NPL	Alba Leasing	Bain Capital	95
Confidential	Mixed	NPL	Confidential	Cerberus	50
					23,821

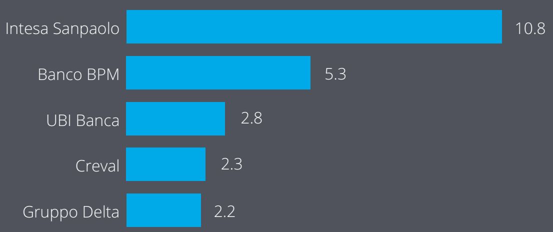
Completed transactions (2018 Q3)

Project name	Asset group	Type	Seller	Buyer	Size (€m)
Confidential	RED	NPL	UBI Banca	Confidential	2,750
Project CCRES7	Mixed	NPL	Cassa Centrale Banca	Värde Partners, Barclays, Guber Banca	1,400
Project Torino	Corporate	NPL	UniCredit	Banca IFIS	870
Confidential	Mixed	NPL	UniCredit	Banca IFIS	348
Confidential	CRE	NPL	Crédit Agricole	Confidential	700
Project Valery	CRE	NPL	Crédit Agricole	Bain Capital	450
Confidential	Other	NPL	Banco Desio	Securitisation	1,000
Confidential	Mixed	NPL	Iccrea Banca	Securitisation	1,000
Confidential	CRE	NPL	Banco di Sardegna	Securitisation	900
Project Diaz	Unsecured	NPL	CRC	MBCredit Solutions	425
Project Isabella (RE tranche)	RED	NPL	Banca Carige	Bain Capital	400
Confidential	Unsecured	NPL	Balbec	MBCredit Solutions	217
Confidential	Mixed	NPL	Banca Sella	B2 Holding	214
Confidential	Other	NPL	Banca Patavina	Hoist	150
Confidential	Corporate	NPL	Volksbank	AnaCap	141
Confidential	Shipping	NPL	Banca MPS	SC Lowy Fund	137
Confidential	RED	NPL	Emil Banca	B2 Holding	100
Confidential	Corporate	NPL	Banca di Pisa e Fornacette	AnaCap	84
Confidential	Unsecured	NPL	Confidential	Banca IFIS	25
Confidential	Unsecured	NPL	Confidential	Banca IFIS	12
Confidential	Unsecured	NPL	Carrefour Banca	Banca IFIS	17
Confidential	Unsecured	NPL	Vivi Banca, Credito Salernitano	MBCredit Solutions	12
Confidential	Unsecured	NPL	Consel	MBCredit Solutions	11
					11,364

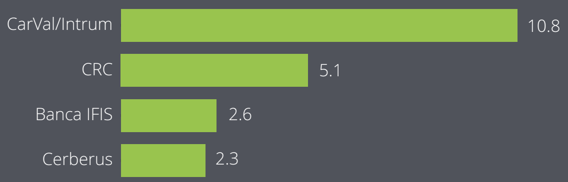
Activity by asset class (€bn)



Top sellers 2018 (€bn)



Top buyers 2018 (€bn)



Transaction pipeline

Project name	Asset group	Type	Seller	Size (€m)
Project Ace	Mixed	NPL	Banco BPM	9,000
Project Poppy	Mixed	NPL	Crédit Agricole	6,000
Project Merlino	Mixed	NPL	Banca MPS	2,400
Project Morgana	Other	NPL	Banca MPS	1,649
Confidential	RED	NPL	Banca MPS	500
Project Alpha 2	RED	NPL	Banca MPS	420
Confidential	Other	NPL	Banca MPS	400
Project Terzo	Mixed	NPL	Banca MPS	180
Project Sandokan 2	Mixed	NPL	UniCredit	2,000
Project Milano	Corporate	NPL	UniCredit	757
Project Amalfi	Unsecured	NPL	UniCredit	600
Project Isabella	Shipping	NPL	Banca Carige	1,400
Confidential	Other	NPL	Banca Carige	900
Erzelli Loan	RED	NPL	Banca Carige	210
Confidential	RED	NPL	BPB	1,500
Confidential	Other	NPL	BPB	800
Project REP	CRE	NPL	Intesa Sanpaolo	1,300
Project Levante	RED	NPL	Intesa Sanpaolo	260
Project Luce	CRE	NPL	Intesa Sanpaolo	180
Project Mira	RED	NPL	Intesa Sanpaolo	180
Confidential	Mixed	NPL	Cassa Centrale Banca	1,000
Project Buonconsiglio 2	CRE	NPL	Cassa Centrale Banca	900
Confidential	Mixed	NPL	BPER	1,800
Confidential	CRE	NPL	Unipol	1,000
Confidential	Mixed	NPL	Unipol	400
Confidential	Mixed	NPL	BNL	957
Confidential	Unsecured	NPL	UBI Banca	800
Confidential	Residential	NPL	Banca di Asti	697
Confidential	Corporate	Mixed	Banca Valsabbina	500
Project Altea	Unsecured	NPL	BPPB	340
Confidential	Other	NPL	Banca del Fucino	300
Project Carnival	Mixed	NPL	Caricento	190
Confidential	CRE	NPL	Banca Centropadana	170
				39,690

Spain

The Spanish market has continued building momentum through 2018, with a record-breaking €35bn in completed NPL and REO portfolio transactions in the first part of the year, fuelled by an increased number of jumbo deals, positioning it as one of Europe's most active non-core markets.

Spainish banks have accelerated their deleveraging activities this year, particularly through the disposal of larger portfolios, a trend started last year with Banco Santander's Project Quassar (€30bn) and BBVA's Project Marina (€12bn). The year's 22 completed transactions represent nearly a third of total European deal value in the year to date.

- **Caixabank** sold an 80% stake in its entire €13bn REO portfolio and its servicer, Servihabitat to Lone Star.
- **Projects Challenger and Coliseum** – Banco Sabadell agreed to the sale of two REO portfolios with an aggregated face value of €9bn to Cerberus.
- **Project Makalu** – Banco Sabadell sold a Real estate developer NPL portfolio with a face value over €2.5bn to a consortium led by Deutsche Bank.
- **Project Sintra** – BBVA sold a Real estate developer NPL portfolio worth €1bn to CPPIB.
- **Project Apple** – Banco Santander agreed to the sale of an REO portfolio with a face value of over €2bn to Cerberus.

Caixabank and Banco Sabadell have been the top non-core sellers in the year so far, accounting for 39% and 35% of total Spanish transactions, respectively. Along with Sareb, the state-owned bad bank, other sellers include Banco Santander, BBVA, Bankia, and Evo Banco, together representing a further 17% of total GBV sold in the country.

Given the significance of Caixa's and Sabadell's REO portfolio sales, the top buyer spot was heavily contested by Lone Star and Cerberus, constituting 36% and 35%, respectively, of the closed transactions in the first two quarters of the year. Other main investors included Axactor, Deutsche Bank, CarVal, and CPPIB.

The Spanish story

Following increased regulatory pressure and favourable market dynamics, Spain is on its way to its most active year to date, with €35bn in completed NPL and REO portfolio transactions in the year to date, already representing two thirds of the total volume divested in 2017.

Spain has come a long way since its five-year recession ending in 2013, with more than €135bn of non-core assets divested since then. The country's approach to deleveraging has reduced the financial sector's NPL ratio to 4.2% since its peak only five years ago.

The political turmoil that started with the Catalonian independence vote, culminating in the forceful change of government following corruption allegations, has done little to stall the country's recovery as unemployment continues to decrease and the country closed the 2017 year with a 3.1% GDP growth, making it one of the fastest growing economies in Europe.

As successful as Spanish financial institutions have been in their deleveraging thus far, plenty of work remains to be done. Approximately €100bn in non-performing assets (NPA) is still held by the largest banks alone, giving Spain the third largest non-core stock in Europe, a continuing burden on the banks' profitability, as domestic business continues to struggle under a low interest rate environment and declining lending activity.

In addition, Sareb continues to hold nearly €40bn in non-core assets, having halted its latest transaction, which would have been the bad bank's largest sale to date.

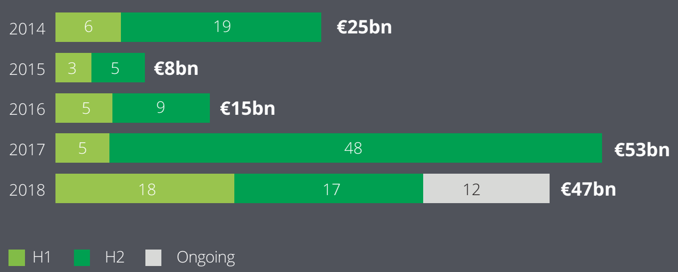
Completed transactions (2018 H1)

Project name	Asset group	Type	Seller	Buyer	Size (€m)
Confidential	REO	NPL	CaixaBank	Lone Star	12,800
Project Agora	RED	NPL	CaixaBank	Cerberus	650
Confidential	REO	NPL	CaixaBank	Testa Residential	207
Project Sintra	RED	NPL	BBVA	CPPIB	1,000
Project Beetle	Corporate	NPL	Bankia	Confidential	400
Project Giants	RED	NPL	Bankia	GoldenTree	350
Project Vera	Corporate	NPL	Bankia	Cabot	180
Confidential	Residential	NPL	Evo Banco	Elliot Management	751
Project Galleon	CRE	NPL	Cajamar	Link Financial Group	308
Confidential	Corporate	NPL	Cajamar	LCM Partners	300
Project Tango II	REO	NPL	Cajamar	Axactor	30
Project Wembley	Corporate	NPL	Santander	Intrum	500
Project Bolt	REO	NPL	Liberbank	GoldenTree	180
Project Sagrado	Other	NPL	Confidential	Deutsche Bank	105
Project Arana	Other	NPL	Confidential	Deutsche Bank	74
					17,835

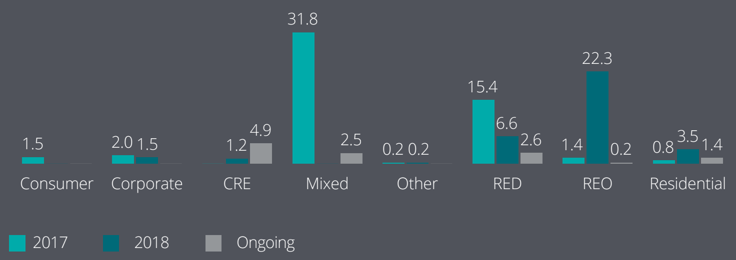
Completed transactions (2018 Q3)

Project name	Asset group	Type	Seller	Buyer	Size (€m)
Project Challenger	REO	NPL	Sabadell	Cerberus	5,700
Project Coliseum	REO	NPL	Sabadell	Cerberus	3,400
Project Makalu	RED	NPL	Sabadell	Deutsche Bank, CarVal	2,295
Project Galerna	CRE	NPL	Sabadell	Axactor	900
Project Apple (residential)	REO	NPL	Santander	Cerberus	2,700
Project Navia	RED	NPL	Sareb	Axactor	2,335
Project Pacific	Corporate	NPL	Unicaja	AnaCap	100
					17,430

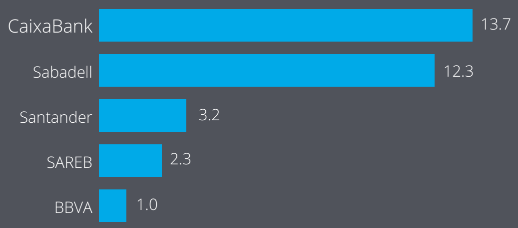
Activity by year (€bn)



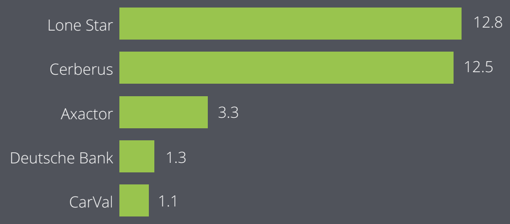
Activity by asset class (€bn)



Top sellers 2018 (€bn)



Top buyers 2018 (€bn)



Transaction pipeline

Project name	Asset group	Type	Seller	Size (€m)
Project Dubai II	CRE	NPL	SAREB	1,800
Confidential	RED	NPL	SAREB	800
Project Adra	CRE	NPL	SAREB	390
Project Esla	REO	NPL	SAREB	200
Project Bidasoa	Residential	NPL	SAREB	155
Project Apple (commercial)	CRE	NPL	Santander	2,700
Project Anfora	Mixed	NPL	BBVA	2,500
Confidential	Residential	NPL	Sabadell	1,000
Project Shell	RED	NPL	Kutxabank	700
Project Orion	RED	NPL	CaixaBank	600
Project Newton	RED	NPL	Bankia	450
Confidential	Residential	NPL	Liberbank	250
Project Omega	REO	NPL	Unicaja	n/a
				11,545

Portugal

Portuguese banks have accelerated the disposal of non-core assets throughout 2018 with €520m sold in the first half of the year, more than four times that volume over the summer months, and almost €5bn in ongoing transactions – more than doubling last year's total. Regulatory pressures and an improving economic environment, coupled with more realistic price expectations from sellers, are all pointing towards a very active deal pipeline in the upcoming months.

The Portuguese non-core market has been 'the market that never was' over recent years, with annual deal volumes capping out at about €2bn since 2015. 2018 is poised to be the breakout year for the market, driven primarily by the size of deals traded, rather than the volume of deals in the market – in keeping with the wider European trend.

The market continues to be concentrated around a few large sellers, with Project Atlantic, sold over the summer by state-owned Caixa Geral de Depositos (CGD), being the largest real estate secured NPL portfolio traded to date in Portugal, and nearly doubling the total sold by any other bank this year. CGD's activity continues with a strong pipeline as the bank aims to reach its divestment goal for the year. They are followed by Santander Totta, the Portuguese subsidiary of Banco Santander, with multiple portfolios currently in the market, worth over €1bn between them.

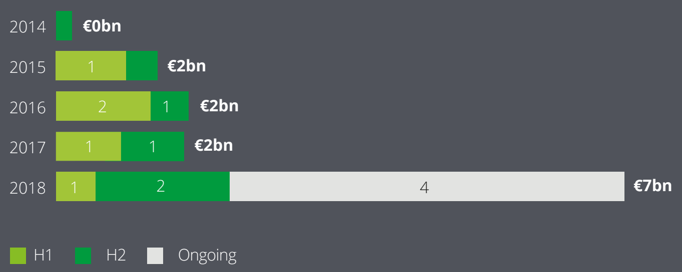
In a market where seller commitment has often been a challenge, banks now appear to be more committed to their deleveraging plans as they find themselves supported by higher provision levels, an improving economic context, and a growing real estate market. The six Portuguese banks with the highest NPL ratios have submitted deleveraging plans to Banco de Portugal and the Single Supervisory Mechanism aimed to reduce the financial system's NPL ratio to 10% by 2021 (from 12.4% in June 2018), through further portfolio sales and improvements to their loan recovery operations. While the overall asset quality of Portuguese banks has improved, the combined stock of NPLs (€30bn in June 2018) remains on the high side.

Investor enthusiasm in the country is also perking up, with investors recognising an opportunity to enter the competitive and booming real estate market, while benefiting from a stable political context and a predictable road to recovery – albeit less straightforward than neighbouring Spain, where this market is more established and commoditised.

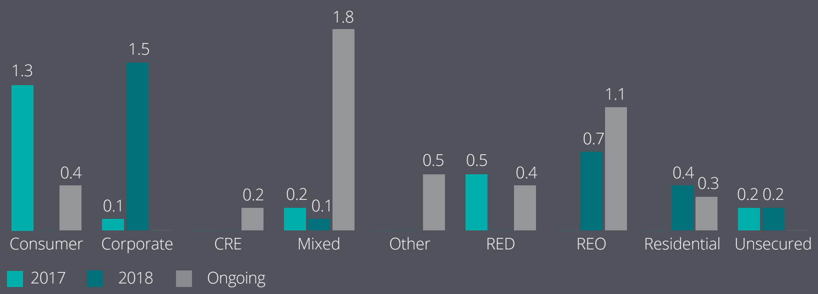
The servicing space in Portugal has developed over recent years to comprise a number of experienced and specialised servicers, including both domestic and established global players. The recent increase in non-core transactions has given servicers the opportunity to rapidly increase their assets under management, however it has also presented challenges for the local recovery firms whose capacity is being tested as they adapt and scale-up to tackle an asset class in which they have little past experience. This is compounded by increased competition from foreign servicers looking to replicate their proven formula and success within the Portuguese market. Thus the firms that succeed in the medium term will be those which most swiftly adapt to seize the opportunities presented by this new market dynamic.

2018 has raised the bar for Portugal's non-core market, and while their financial system benefits from a relatively smaller pool of NPLs as compared with its European peers, we anticipate strong levels of activity continuing in the near future, as additional banks commit to deleveraging plans.

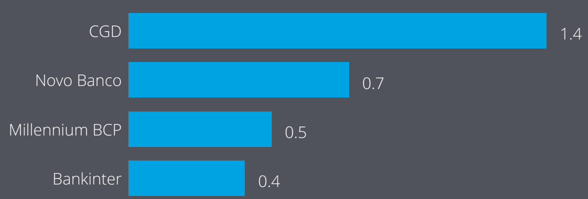
Activity by year (€bn)



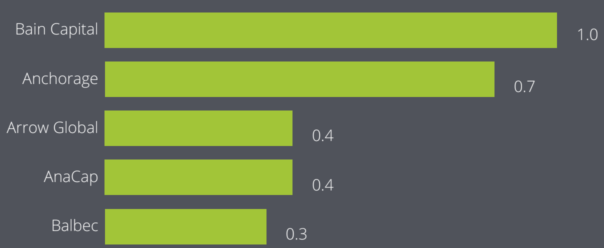
Activity by asset class (€bn)



Top sellers 2018 (€bn)



Top buyers 2018 (€bn)



Completed transactions (2018 H1)

Project name	Asset group	Type	Seller	Buyer	Size (€m)
Project Crown	Corporate	NPL	Millennium BCP	LX Partners, Balbec	520
					520

Completed transactions (2018 Q3)

Project name	Asset group	Type	Seller	Buyer	Size (€m)
Project Atlantic	Corporate	NPL	CGD	Bain Capital	1,000
Project Pacific	Residential	NPL	CGD	AnaCap	350
Project Viriato	REO	NPL	Novo Banco	Anchorage	716
Project Snipe	Unsecured	NPL	Bankinter	Arrow Global	228
Project Veleiro	Mixed	NPL	Bankinter	Arrow Global	135
					2,428

Transaction pipeline

Project name	Asset group	Type	Seller	Size (€m)
Project Nata	Mixed	NPL	Novo Banco	1,750
Project Tagus	REO	NPL	Santander	650
Confidential	Other	NPL	Santander	482
Pool XLV	Consumer	NPL	Santander	370
Project Arctic	RED	NPL	CGD	345
Project Indian	Residential	NPL	CGD	300
Project Golden	REO	NPL	Fidelidade	400
				4,297

Greece

Expectations that 2018 would prove a turning point year for the Greek NPL market have been met. The collective NPL ratio for the largest Greek banks is amongst the highest in Europe, with the four 'pillar' banks – Piraeus, National Bank of Greece (NBG), Eurobank, and Alpha – beginning the year with NPL ratios ranging from 35% to over 50%, and a total NPL stock of over €100bn in the Greek banking system. Real progress has been achieved this year in reducing NPLs, in line with targets agreed in 2017. A record €11bn has already been traded in 2018, with a pipeline of nearly €5bn already in the market, and due to be concluded before the year end.

Deal volumes are expected to rise higher during 2019 as Greek banks remain under intense pressure from the Bank of Greece and the ECB to increase the pace of reducing their non-performing exposures (NPE) to 35.2% (€65bn) by the end of 2019. The targets agreed with individual banks to reach this imply NPL reductions of €34bn in just over twelve months. A level of activity which could place Greece as the third largest European NPL market of the year, after Italy and Spain.

Regulatory pressure is only likely to increase, with the Bank of Greece's latest progress report already suggesting that targets for NPL disposals will be toughened further.

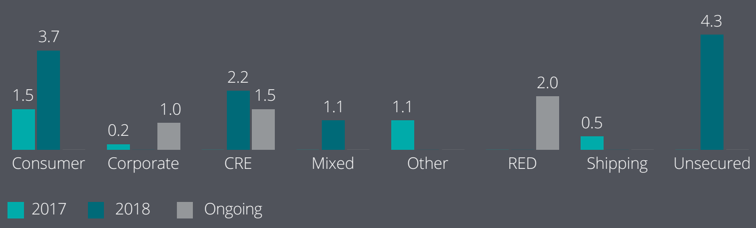
Outstanding Greek NPLs are divided roughly equally between SME loans, real estate lending, and large corporate loans. SME loans are often multibank exposures, presenting a particular set of challenges for disposal, although this issue is being addressed through the likes of Project Solar, a multibank servicing solution which is currently being implemented by doBank (a subsidiary of Fortress).

We expect to see more portfolios to come to market in the coming months; with further activity anticipated from Eurobank (which kickstarted the Greek market with last year's Project Eclipse), and sales expected from the Special Single Liquidator office which is managing the disposal of €9bn worth of NPLs derived from twelve banks that failed in the wake of the financial crisis.

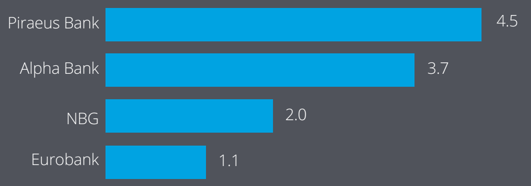
We also expect banks to consider options for their stock of shipping loans, and there are rumours of one pillar bank launching a transaction in the coming weeks.

Activity by year (€bn)

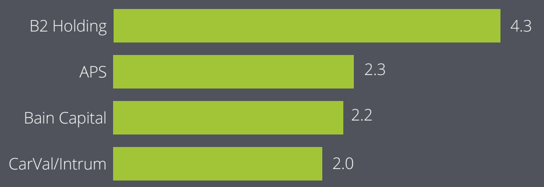
Activity by asset class (€bn)



Top sellers 2018 (€bn)



Top buyers 2018 (€bn)



Completed transactions (2018 H1)

Project name	Asset group	Type	Seller	Buyer	Size (€m)
Project Venus	Consumer	NPL	Alpha Bank	B2 Holding	3,700
Project Arctos	Unsecured	NPL	Piraeus Bank	APS	2,300
Project Amoeba	CRE	NPL	Piraeus Bank	Bain Capital	2,150
Project Earth	Unsecured	NPL	National Bank of Greece	CarVal, Intrum	2,000
					10,150

Completed transactions (2018 Q3)

Project name	Asset group	Type	Seller	Buyer	Size (€m)
Project Zenith	Mixed	NPL	Eurobank	B2 Holding, Waterfall	1,100
					1,100

Transaction pipeline

Project name	Asset group	Type	Seller	Size (€m)
Project Pillar	RED	NPL	Eurobank	2,000
Project Jupiter	CRE	NPL	Alpha Bank	1,190
Confidential	Corporate	NPL	Confidential	1,000
Confidential	CRE	NPL	Confidential	701
Project Pixel	RED	NPL	Confidential	22
				4,913

Cyprus

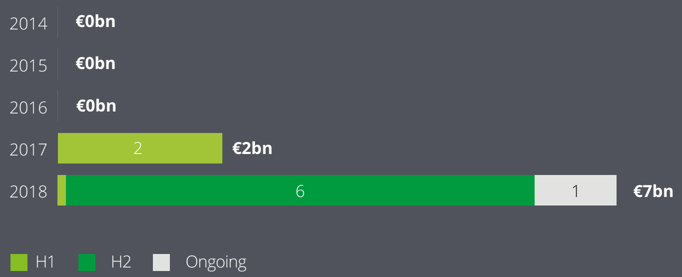
At over 34%, Cyprus has the second highest national NPL ratio in Europe, and an estimated €13bn in unaddressed bad loans held by Cypriot banks. At the start of 2018, the Bank of Cyprus was holding a reported NPL stock of just over €9bn, with a further €7bn on the Cooperative Central Bank's books, and over €2bn held by Hellenic Bank.

In recent years Cypriot banks have tended to concentrate on improving their management of distressed assets, but this year's launch of Project Helix, a significant portfolio of mainly secured corporate loans, by the Bank of Cyprus has revived the market after years of relative inactivity. The deal was signed with Apollo over the summer, enabling the bank to dispose of about a third of its NPL stock.

An agreement has now been reached regarding the Cooperative Central Bank, under a process supervised by the EU Competition Directorate, with the bank's NPLs transferred to a government-owned asset management agency, and the performing book bought by Hellenic Bank. This transaction enables Hellenic Bank to dramatically reduce its NPL ratio from 53% to 20%, reducing some of the pressure on it to rapidly dispose of NPLs.

Despite the record activity already seen this year, Hellenic Bank is reported to be preparing the sale of another €1bn portfolio, with further sales likely from the Bank of Cyprus and now state-owned Cooperative Central Bank over the coming months.

Activity by year (€bn)



Completed transactions (2018 H1)

Project name	Asset group	Type	Seller	Buyer	Size (€m)
Confidential	Unsecured	NPL	Hellenic Bank	B2 Holding	145
					145

Completed transactions (2018 Q3)

Project name	Asset group	Type	Seller	Buyer	Size (€m)
Project Helix	Corporate	NPL	Bank of Cyprus	Apollo	5,700
					5,700

Transaction pipeline

Project name	Asset group	Type	Seller	Size (€m)
Confidential	Other	NPL	Hellenic Bank	1,000
				1,000

Asian NPL markets

Asian NPL markets

While portfolio markets across Europe are showing no signs of slowing down, yield compression and stronger competition have encouraged investors to look further afield in pursuit of higher returns. The size and growth of the Indian economy has caught the interest of a number of investors, however the country continues to represent more of a special situations opportunity than a fully-fledged portfolio acquisition market. Consequently, we believe that investor activity will be focused on the building momentum in NPL portfolio markets in Thailand, Indonesia, Malaysia, and in particular China.

This year promises to be the busiest yet for Asian NPL trades. Over the last twelve months financial institutions across the region have escalated efforts to ready their balance sheets for potentially broader economic slowdown in the wake of the slowing growth of the Chinese economy to more normal global levels.

The ongoing adoption and implementation of IFRS9 is forcing banks to identify the non-core and non-performing exposures (NPE) they would be inclined to divest first, which can often include an exit from particular countries or geographies. While several markets are seeing 'first mover' activity in this regard, the majority of banks are currently taking a 'wait and see' approach, particularly those for whom this is not yet a strategic priority.

China

China continues to witness growing interest and activity from international investors, who have successfully closed a growing number of transactions over the past year.

The slowdown in Chinese economic growth and wider geopolitical uncertainties has continued to focus the attention of policy makers and regulators alike. The banking sector has seen a progressive increase in the nominal and relative level of NPLs, with the NPL ratio reaching 1.74% at the end of last year. Whilst the obvious cause for concern is being progressively addressed, it should provide an opportunity for increasing the level of participation in the distressed debt market in China.

The majority of Chinese NPL portfolios from the main AMCs are acquired by local investors, although external investors are increasingly tapping into the Chinese market, with recent acquisitions by Bain, Blackstone, and Oaktree which remain the most active of the foreign investors to date.

The Chinese NPL market represents an interesting and sizable opportunity, with attractive risk adjusted returns. The market is not without its challenges, and barriers to entry include servicing options and origination, given the differences to European market practices. Pricing is seen to be a challenge in the market this year, especially in the more popular regions, and successful foreign acquisitions have typically comprised older NPL stock or sizable unsecured elements.

India

While India remains one of Asia's fastest-growing economies, with falling inflation and wage growth fuelling private consumption in urban areas, its rural areas – home to over 60% of its population – are lagging across economic indicators. The government's demonetisation programme is also recognised to have been an expensive exercise which failed to deliver on its stated aim of reducing counterfeit currency in circulation.

As was widely anticipated, the measures taken by the Indian government and Reserve Bank of India (RBI) over recent years have driven up the gross non-performing assets (NPA) ratio in the Indian banking sector, rising from 10.2% in September 2017 to 11.6% in March 2018, with warnings that it could rise further. The scenario is worse in the public sector banks at 15.6%, although the ratios for private and foreign banks have also risen over the past year.

This is increasing the pressure on Indian banks to either increase their capital provisions or find ways to divest of their NPL exposures in order to remain below the minimum 9% CAR (Capital Adequacy Ratio). Even under the RBIs baseline projection, six public sector banks are forecast to fall below this minimum

threshold unless they are able to raise additional capital themselves, or secure government funding.

Recent pressure from the RBI following the introduction of the Insolvency and Bankruptcy code in 2016 is resulting in an increased momentum for the resolution of larger corporate NPL situations, while simultaneously forcing borrowers to come to the banks to discuss potential options.

Thailand

Thailand remains the most developed and mature of Asian portfolio markets, with activity continuing over the past year, although typically through private sales which do not receive public attention. The government-backed Bangkok Commercial Assets Management (BAM) and Sukhumvit Asset Management (SAM) retain their position as the most regular buyers of portfolios, although there are more than 30 smaller Asset Management Corporations active in the market, with international investors such as Bain and Lone Star also actively acquiring tranches.

Portfolios typically consist of multiple tranches comprised of residential, SME, and corporate debt bucketed by concentration and size. Over the coming year we anticipate a total of over $2bn worth of NPLs will be traded, with the level of stock increasing given general lending growth, especially to the SME sector, and macro-economic uncertainty across the region. We also expect IFRS9 to have an impact when implemented, although this could now be delayed until 2020.

Indonesia

Otoritas Jasa Keuangan (OJK), the Indonesian regulator, reports an overall NPL ratio of 2.73% as of July 2018, although several of the country's largest banks (such as Permata, Bank Mandiri, and CIMB Niaga) have ratios which are higher.

Indonesia remains an early-stage Asian NPL market, with foreign banks actively seeking to divest NPLs, but with challenges in terms of price expectations. Meanwhile the bulk of NPLs are held by state-owned banks and enterprises which are prohibited from selling them at a loss, and are thus unable to offer the discounts expected by the market.

The most prominent trade to have closed recently was Macquarie and CarVal's joint acquisition of a $400m corporate portfolio from Permata Bank. In addition, Bank Muamalat Indonesia (BMI) has also announced an asset swap, coordinated with Lynx Asia, to dispose of all of its Rp6tn NPLs in exchange for government backed bonds, which we understand is still pending OJK approval.

Separately, a number of off-balance sheet transactions have also taken place, but these have been primarily internal transfers between local subsidiaries and the parent banking group. We expect further activity over the coming year, with foreign banks looking to sell portfolios which are more granular and of a smaller ticket size. As such, developing a suitable servicing platform strategy will be key.

Malaysia

With an NPL ratio of only 1.6%, the Malaysian banking system is second only to Singapore in terms of asset quality in the region. Although the market is still in early stages of development, Malaysian banks are some of the most pro-active in the region in considering resolving NPLs via portfolio sales. A few unsecured portfolio trades have taken place over the last year with the banks looking to clear old NPL stock which have been sold to debt collection agencies, which follows the European experience, where banks have typically started with getting rid of the more provisioned unsecured stock in the first instance. We expect IFRS9 to be one of the drivers of behaviour going forward.

The Malaysian central bank, Bank Negara Malaysia (BNM), applies some of the most stringent regulations surrounding portfolio acquisitions in the region, with approval required to disclose customer information, and acquisitions restricted to entities which are at least 51% locally incorporated. However the country's well-established legal system and positive investor sentiment regarding the Malaysian economy are coupled with a willingness by banks to actively explore portfolio sales, thus suggesting the potential for further activity in the sector over the coming months.

Contacts

Global Portfolio Lead Advisory Services team

David Edmonds
Global Head
Portfolio Lead Advisory Services
+44 20 7303 2935
dedmonds@deloitte.co.uk

Andrew Orr
Global Transactions Leader
Portfolio Lead Advisory Services
+44 20 7007 0759
anorr@deloitte.co.uk

Will Newton
Head of Strategic Advisory
Portfolio Lead Advisory Services
+44 20 7007 9191
wnewton@deloitte.co.uk

Benjamin Collet
Partner
Portfolio Lead Advisory Services
+44 20 7007 0954
bcollet@deloitte.co.uk

Amo Chahal
Director
+44 20 7007 7323
achahal@deloitte.co.uk

Chi-Nang Kong
Director
+65 6800 2270
cnkong@deloitte.com

Alok Gahrotra
Director
+44 20 7007 2164
agahrotra@deloitte.co.uk

Hardip Bhatti
Director
+44 20 7007 6740
hbhatti@deloitte.co.uk

Ankur Patodi
Director
+44 20 7007 5258
anpatodi@deloitte.co.uk

Nahuel Callieri
Director
+44 20 7303 7321
nacallieri@deloitte.co.uk

Dominic Graham
Assistant Director
Business Development
+44 20 7303 6323
dominicgraham@deloitte.co.uk

Austria

Ben Trask
Partner, Financial Advisory
+43 1 537002950
bentrask@deloitte.at

CEE

Balazs Biro
Partner, Financial Advisory Services
+36 (1) 428 6865
bbiro@deloitteCE.com

Cyprus

Nicos Kyriakides
Partner, Financial Advisory Services
+357 258 68601
nkyriakides@deloitte.com

Denmark

Lars Berg-Nielsen
Partner, M&A Transaction Services
+45 20 24 73 10
lbergnielsen@deloitte.dk

Ireland

Martin Reilly
Partner, Financial Advisory Services
+353 1 417 2212
mreilly@deloitte.ie

France

Hrisa Nacea
Director, Financial Advisory
+33 1 55 61 41 95
hnacea@deloitte.fr

Germany

Frank Nagel
Partner
+49 697 5695 6870
frnagel@deloitte.de

Greece

Panagiotis Chormovitis
Partner, Financial Advisory Services
+30 210 678 1316
pchormovitis@deloitte.gr

Italy

Umberto Rorai
Partner, Financial Advisory Services
+39 02 8332 5056
urorai@deloitte.it

Netherlands

Haron Shah
Partner, Financial Advisory Services
+31 8 8288 6355
harshah@deloitte.nl

Nordics

Tom Johannessen
Partner, M&A Transaction Services
+45 30 37 08 28
tjohannessen@deloitte.dk

Portugal

Joaquim Paulo
Partner, Financial Advisory Services
+351 2104 22502 4002
jpaulo@deloitte.pt

Spain

Jose Antonio Olavarrieta
Partner, Financial Advisory Services
+34 9 1443 2875
jolavarrieta@deloitte.es

Shipping

Thomas Mazur
Partner, Financial Advisory
+49 40 32080 4582
thmazur@deloitte.de

Deloitte Portfolio Lead Advisory Services

We have advised on loan portfolio transactions and completed deleveraging projects covering over €560bn of assets globally; we are the most active loan portfolio advisor in the market.

The Deloitte Portfolio Lead Advisory Services (PLAS) team are recognised leaders in UK, European, and global loan portfolio advisory projects. They cover deleveraging, specialised loan portfolio servicing, and 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 €560bn of assets.

PLAS comprises a core team of 40 professionals with experience in advisory, principal investment, and banking, together with a dedicated network of 150 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 and many emerging NPL markets; buying and selling loan portfolios as well as advising financial institutions on non-core exposures.

Strategic Advisory
Full strategic advisory services including deleveraging strategy and non-core asset reduction, credit risk, contingency planning, operational wind-down, carve-out advisory and bad bank establishment.

Sell-Side Advisory
Full service advisory to vendors of loan portfolios from strategy and preparation to sales execution.

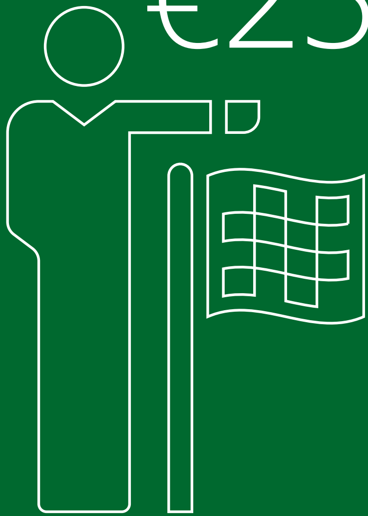
Buy-Side Advisory
Assisting buyers in portfolio acquisitions in analysing, understanding and pricing loan portfolios. We help them to develop a strategy and understand the risk profile of the portfolios.

Advising holders, buyers and sellers of performing, distressed and non-core debt in deleveraging planning, loan portfolio management and strategy.

We advise **holders**, **buyers** and **sellers** of performing, distressed and non-core debt in deleveraging planning, loan portfolio management and strategy

Completed deleveraging strategy plans on

€250bn



Unparalleled understanding

of the buyer community – we know which buyers are the most active in the market, their preferred asset types and pricing parameters

Global leader

in the loan portfolio advisory market

Lead sale advisor
on over
€120bn
of loan portfolio sales

Buy-side advisor on over:
€150 bn

Global approach, local insight –
100+ strong team
worldwide, spanning every active market

Designed and produced by Deloitte CoRe Creative Services, London. 144332-1