Deloitte.

Deleveraging Europe 2015-2016

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Deloitte Deleveraging Europe 2015-2016

A record 2015 with 2016 to follow suit

We have seen exceptional activity in the loan portfolio market across Europe with over €300bn of deals completed since 2013. In H1 2015, we estimated that market activity would be higher than 2014, and this has proven to be the case with €104.3bn in deals completed and a further €44.5bn ongoing at year end.

As we look ahead to 2016, we expect the increasing trend of deleveraging from European financial institutions to continue as they tackle over €2tr of non-core and non-performing assets.

Increased regulation (through the ECB driver SSM) and capital requirements for Banks and Insurance companies as a result of Basel III, Solvency II and in the future IFRS9 continue to stimulate divestitures.

Regulatory pressure aside, the markets are forcing the financial sector to accelerate the retreat to home markets and place a stricter focus on core businesses and strategic direction. This will undoubtedly drive higher levels of activity in the portfolio market.

Whilst buyer appetite remains strong, the supply of price-accretive loan-on-loan financing for large scale deals may prove more challenging. We expect buyers with strong track records and deep relationships with funders will continue to lead the way in acquisitions.

Overall the level of market activity in Europe is expected to remain strong. Certain markets are becoming more mature with some sellers now focusing on divesting their performing non-core assets; however we still believe that certain distressed situations in key European markets have yet to be unlocked.

Our prediction for 2016 … even more volume than prior years, pushing through €130bn in total sales.

Regards,
David Edmonds

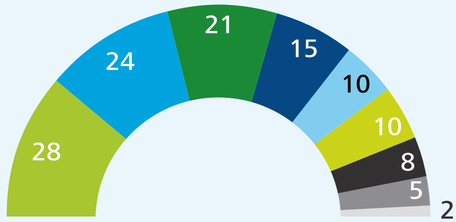
Headline facts and figures

Activity by year

Completed Ongoing

Over 20% increase in completed loan sales in 2015 compared to 2014

Number of completed deals 2015
Volume shift towards continental Europe



Italy UK Ireland
Spain Germany Austria CEE
Netherlands Portugal Nordics

Key factors driving ever increasing portfolio sales activity:

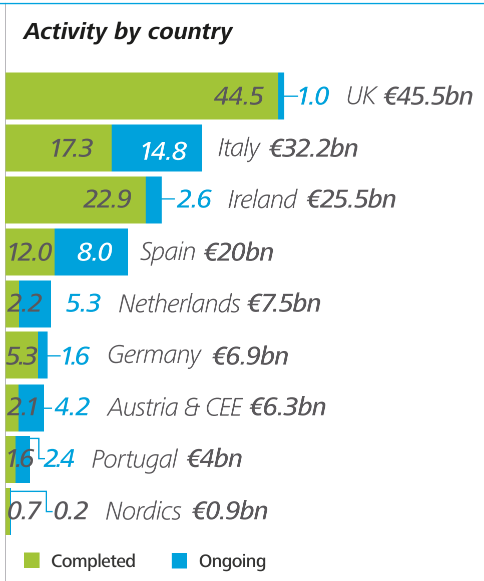
- Size of "non-core" universe c.€2tr
- Ever increasing regulatory pressure and oversight (Basel III, SII, IFRS, SSM)
- Market pressure to clean house and focus on return on capital
- Ever growing buyer demand for European assets (€100bn in capital raised and rising)

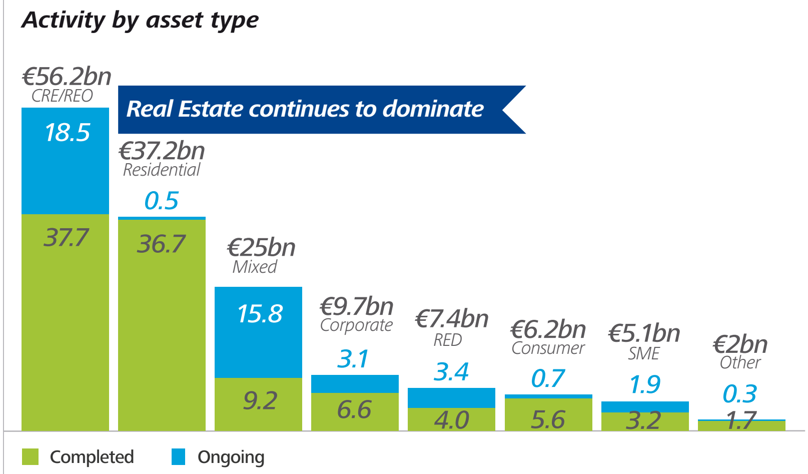
All these factors will lead to a record year in 2016 with volume likely breaching the €130bn mark.

Source: Deloitte Research. December 2015

European market 2015

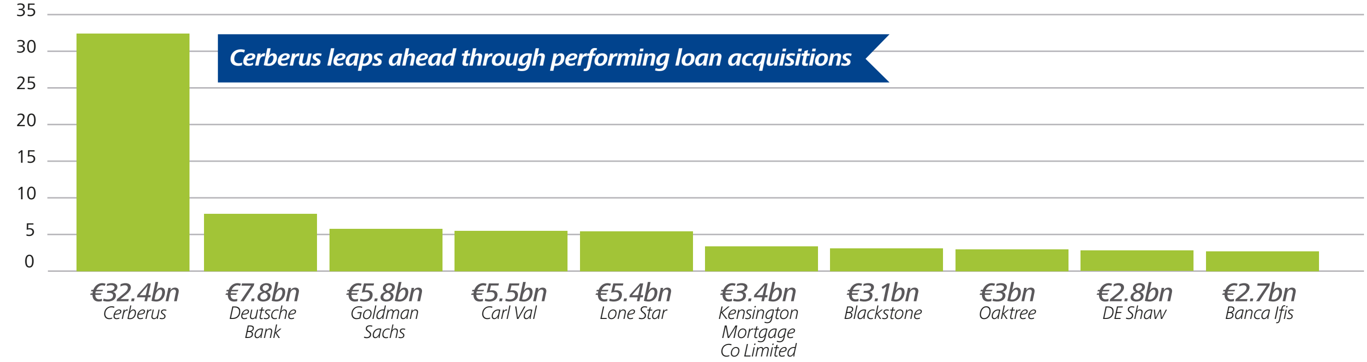
2015 loan sale activity has almost doubled since 2014. UK dominates, but Italy rising rapidly.



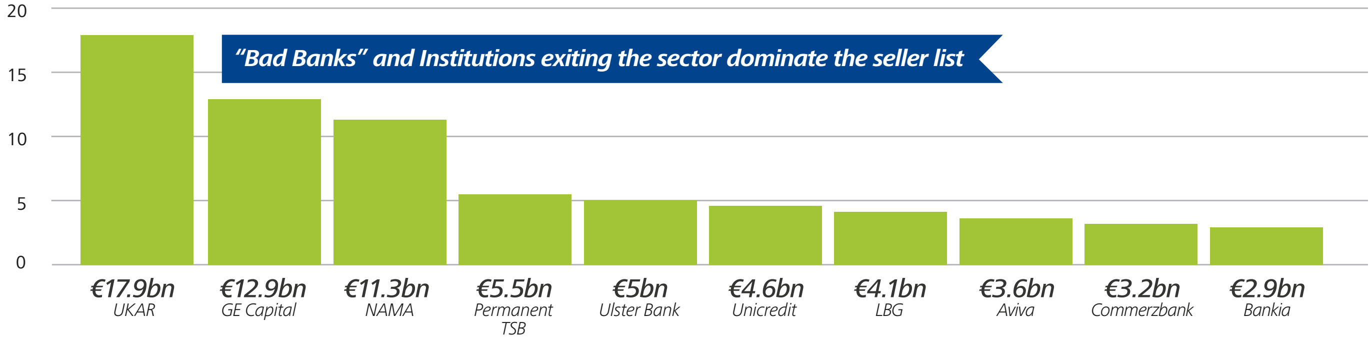


Source: Deloitte Research. December 2015

Top 10 most active buyers



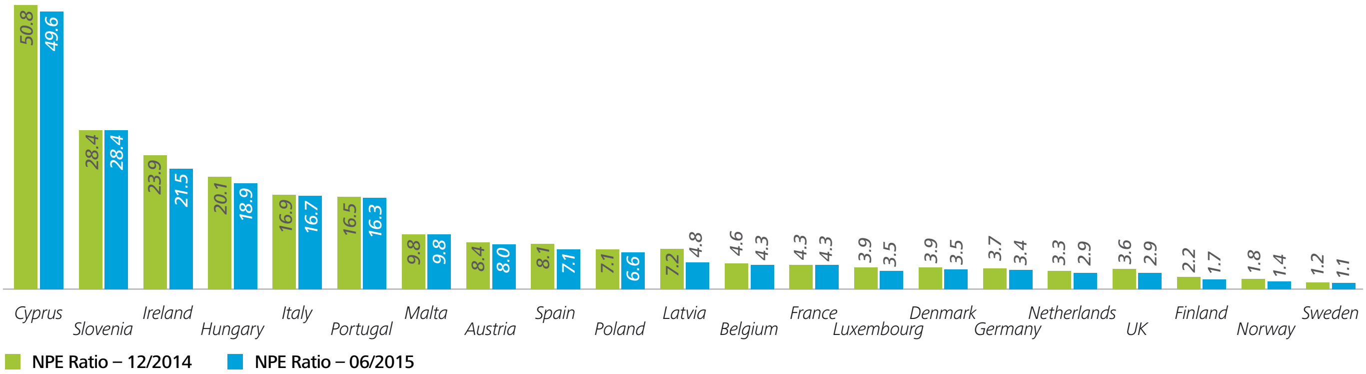
Top 10 most active sellers



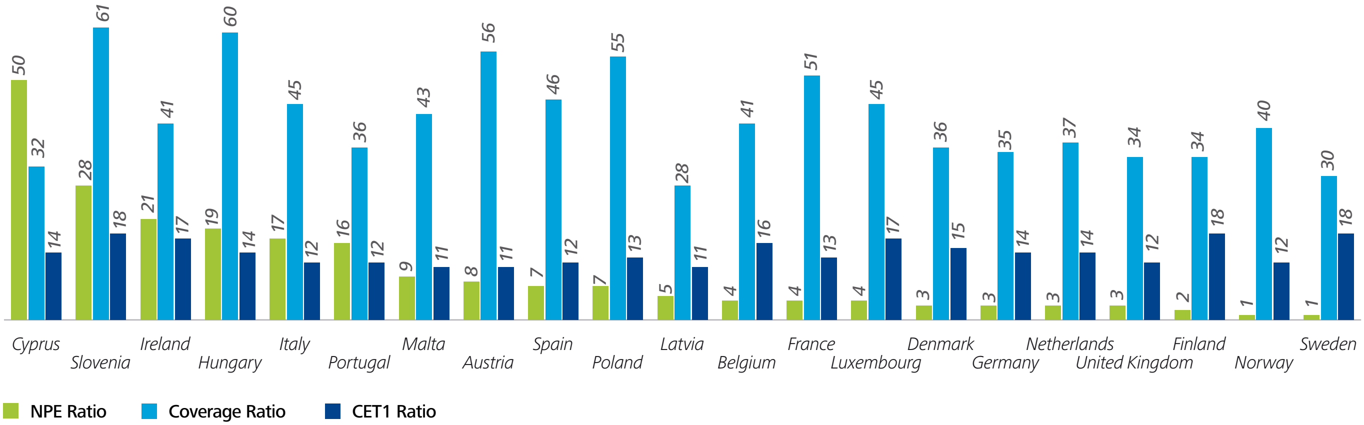
Source: Deloitte Research. December 2015

According to the European Banking Authority (EBA) the level of non performing exposures remains highly variable across different countries, ranging from 49.6% in Cyprus to 1% in Sweden. The EU average NPE ratio was 4.8% on average at June 15, down from 5.2% six months earlier.

Weighted average NPE ratio for loans and advances per banks; country of origin (%)



Weighted average NPE ratio, coverage ratio for loans and CET1 ratio advances per banks' country of origin



Source: 2015 EU-wide transparency exercise – aggregate report EBA

Regulatory update

It is becoming increasingly apparent that regulatory focus around the continuing high levels of NPLs in the European banking system is heightening due to concerns that this holds down credit growth and reduces overall economic activity.

In September 2015, the IMF published a detailed discussion paper outlining strategies for resolving problem loans in Europe; this advocated a three-pillared approach comprising of (i) tightened supervisory policies, (ii) insolvency reforms, and (iii) the development of distressed debt markets.

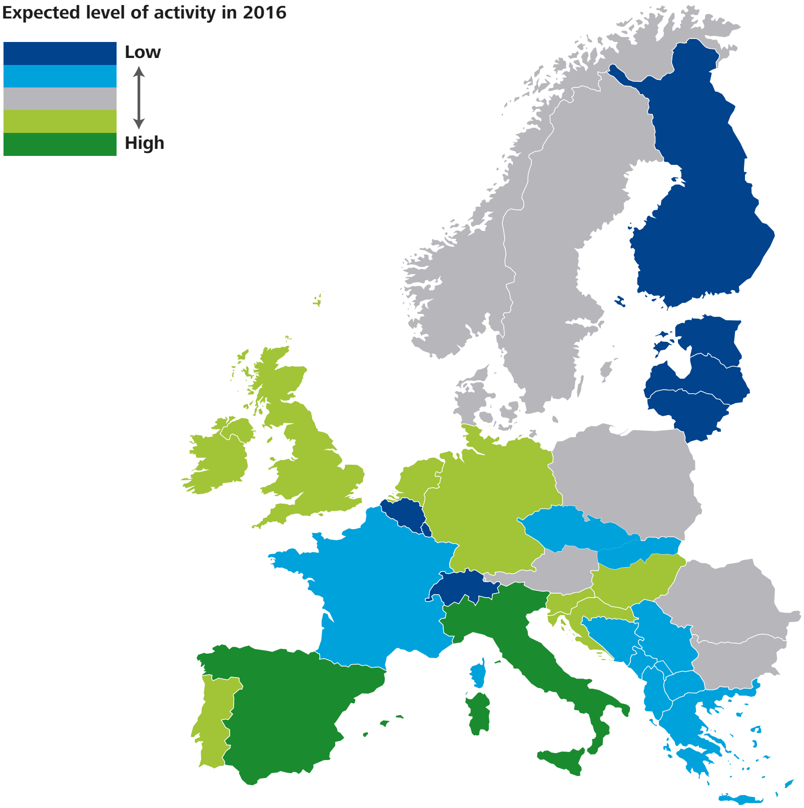
Partly as a response, the ECB published its list of SSM priorities for 2016 in early January identifying credit risk as one of five focus areas and, in particular noting that:

"Elevated levels of non-performing loans (NPLs) deserve heightened supervisory attention. The deterioration in the credit quality of loans to corporate and/or households as well as in credit standards is a source of concern in a number of SSM countries, particularly in ones hit hard by crisis. A task force on NPLs is reviewing the situation of institutions with higher levels of NPLs and will propose follow-up actions. In addition, exposure concentrations in areas such as real estate will be subject to greater supervisory scrutiny".

The NPL task force is being run in conjunction with the Central Bank of Ireland; no deadline or decision on publication of their findings has been published but as this paper goes to print, banks have started receiving requests for NPL specific data to support the work.

European loan sale market 2016

Deloitte prediction: Significant loan sale activity throughout Europe in 2016, with particular focus on Italy, Spain, Netherlands, Ireland, CEE and SEE in the distressed space. Performing volumes are set to rise rapidly in more mature markets. These volumes will likely exceed €130bn.



Despite activity slowing in certain countries, we are expecting to see continued high levels of loan sale activity across the board as country and asset class focus shifts. We are beginning to see a sustained shift away from portfolios of non-performing commercial loans towards performing, non-strategic residential and SME loan sales. Two of the largest traded portfolios in Europe last year, Project Churchill and Project Granite and the GE portfolios both largely comprised of performing loans.

While we expect high levels of activity in Italy, Spain, CEE and SEE, the Benelux and Nordic regions should also see increased deleveraging, as both government-owned and privately-owned institutions look to capitalise on investor sentiment and a general improvement in the European real estate markets.

The Netherlands will be in focus in H1 2016 with the sale of Propertize providing a launch pad for the year. Other large institutions are also known to be looking to accelerate their Dutch non-core divestment programmes. German activity appears to remain largely focused on foreign asset disposals, with most movement coming from so called “bad banks”.

The distressed market in the UK is quickly being replaced by significant volumes of performing loan products and we expect the UK to continue to top the country tables.

United Kingdom

If both of the rumoured UKAR transactions, totalling £24bn, occur in 2016, sales levels should surpass 2015 activity levels. Without these, sales will be significantly lower than last year's levels.

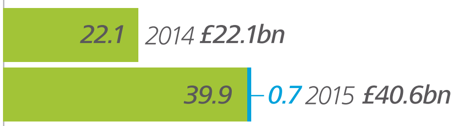
The most active country in terms of loan sales in 2015 with sales exceeding £32bn

If rumoured UK transactions occur, 2016 sales should surpass 2015 activity

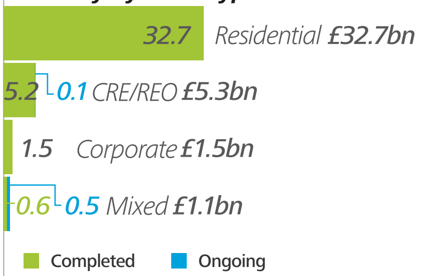
Residential and performing loan portfolios expected to be the focus in 2016

A number of UK institutions are committed to deleverage programmes, albeit these may be globally driven as opposed to UK focused

Activity by year

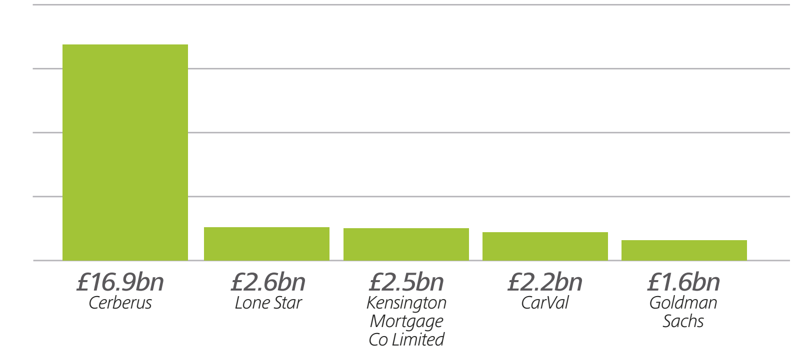


Activity by asset type

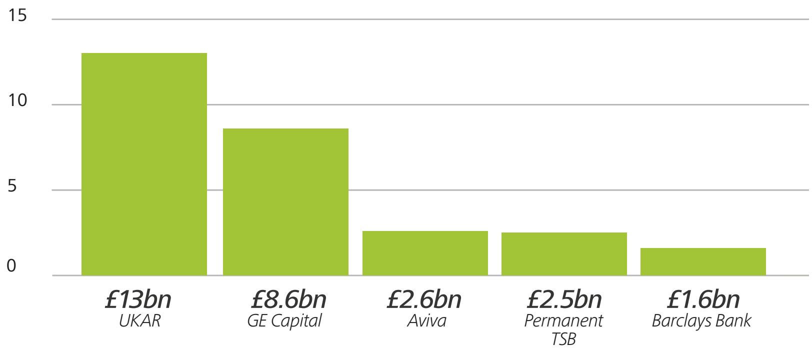


Source: Deloitte Research. December 2015

Top 5 most active buyers



Top 5 most active sellers



Source: Deloitte Research. December 2015

United Kingdom
Market overview

The last few years have been dominated by sales of non-performing portfolios as UK banks seek to 'right size' their balance sheets in response to new capital constraints and regulatory pressures.

We are now seeing an increasing trend towards sales of performing loan portfolios driven by the ongoing sell down of UKAR and the GE exit from the bulk of its GE Capital business.

We expect UKAR to continue to unwind its positions in 2016 with sales of legacy Northern Rock and Bradford and Bingley portfolios. UKAR currently has about £50bn left on its balance sheet (a reduction of nearly 50% since formation).

In addition, a number of UK institutions have recently announced or remain committed to an active deleveraging programme:

- HSBC – $290bn global reduction in RWA by 2017;
- Barclays – £35bn reduction in RWA by 2017; and
- Standard Chartered – $100bn reduction in RWA by 2018.

It remains to be seen what, if any, elements of these RWA programmes will be driven by UK assets but the directional shift is clear. For those banks with large emerging market exposure, we would expect, given headwinds in China and commodities in general, that this may be the focus of part of this programme – HSBC's exits from Brazil and Turkey and "Pivot to Asia" emphasising this trend.

UK residential mortgages will remain the key driver of market activity in UK loan sales in 2016. Market rumours point to UKAR sales of £7.5bn and a further £17bn Bradford and Bingley portfolio.

We expect appetite for these sales to remain strong with the 2015 private equity (PE) players: Cerberus, Blackstone, TPG, CarVal and Lone Star likely to dominate against perhaps stronger competition from challenger and high street banks.

According to EBA reporting, total NPL in the UK have declined to 2.9% with an average coverage ratio of 34% as at 30 June 2015. The NPL ratio is one of the lowest in Europe and points to the success of both the deleveraging efforts of the high street banks over the last few years, together with an improvement in the UK macro fundamentals. The income streams of UK institutions have historically placed them in a stronger position to allocate loss appetite for deleveraging programmes. As a result, we do not expect a significant uplift in UK NPL portfolio transactions in 2016 unless there is a noticeable macro shift.

United Kingdom
Transactions 2015

Noticeable sales for 2015 included the UKAR £13bn sale to Cerberus Capital, the sale of GE's UK residential book in 4 separate sales, Permanent TSB's partial sale of the Capital Home Loans portfolio and Aviva's sale of a £2.6bn commercial real estate book to Lone Star.

Completed transactions

Name	Date	Asset type	Buyer	Seller	GBV(£m)
Cannon Bridge House Junior Loan	Jan-15	CRE	Blackstone	Fortress	27
Confidential	Jan-15	CRE	Invel Real Estate	NAMA	140
Pioneer Point NPL	Jan-15	CRE	Kennedy Wilson	n/d	149
Project Herald	Jan-15	CRE	Heylo Housing / LCPF / Genesis HA / Fortis Living	RBS	98
Park Inn Hotel NPL	Feb-15	Secured	Kennedy Wilson	Natixis	93
Capital Home Loans	Mar-15	Residential RE	Cerberus	Permanent TSB	2,536
Confidential	Apr-15	Residential RE	One Savings Bank	GE Capital	260
Project Rathlin	May-15	CRE	Cerberus	Royal Bank of Scotland	1,400
European Sponsor Finance	Jun-15	Corporate	Sumitomo Mitsui Banking Corporation (SMBC)	GE Capital	1,512
Grosvenor House Hotel Loan	Jun-15	CRE	Reuben Brothers	Bank of China	299
Project Albion	Jul-15	CRE	Oaktree	NAMA	221
Confidential	Sep-15	Residential	GS/Pollen Street Capital	Barclays Bank	1,600
Confidential	Sep-15	Residential	CarVal	Citi	460
Project Churchill	Sep-15	CRE	Lone Star	Aviva	2,600
Confidential	Sep-15	Residential RE	Kensington Mortgage Co Limited	GE Capital	2,467
Hyde Group Social Housing Loan	Oct-15	Residential	Legal & General	Santander	147
Confidential	Nov-15	Residential RE	Blackstone/CarVal/TPG	GE Capital	3,800
Project Granite	Nov-15	Residential	Cerberus	UKAR	13,000
Confidential	Nov-15	Residential	TwentyFour Asset Management	Coventry Building Society	304
Project Forge	Dec-15	CRE	CarVal	AIB	435
Project Randolph	Dec-15	CRE	Tristan Capital	Lone Star	147
Confidential	Apr-15	Residential RE	Confidential	GE Capital	560
Total					**32,254**

Ongoing transactions

Name	Date	Asset type	Buyer	Seller	GBV(£m)
Project Detroit	Ongoing	CRE	Pending	RBS	600
Project Hurst	Ongoing	Mixed	Pending	Zurich	150
Total					**750**

Ireland

After almost three years of frenetic market activity with banks having deleveraged significant portions of their non-core and non-performing loans, the Irish loan sale market is slowing with sales down 25% from last year.

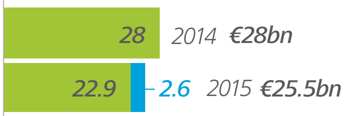
Total completed sales in 2015 were €22.8bn, down 19% from €28bn in 2014

NAMA and Ulster are the likely key sellers for 2016

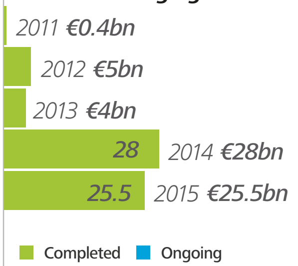
Pricing is widening as supply shrinks and investors look elsewhere

Those investors who have invested through the Irish cycle will be focused on asset resolution

Activity by year

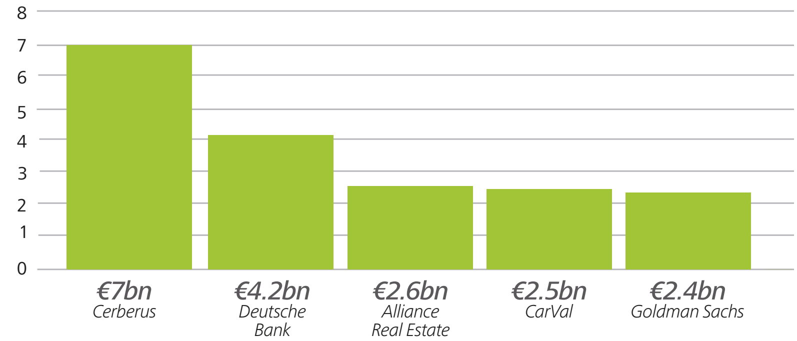


Irish deleveraging volumes by year

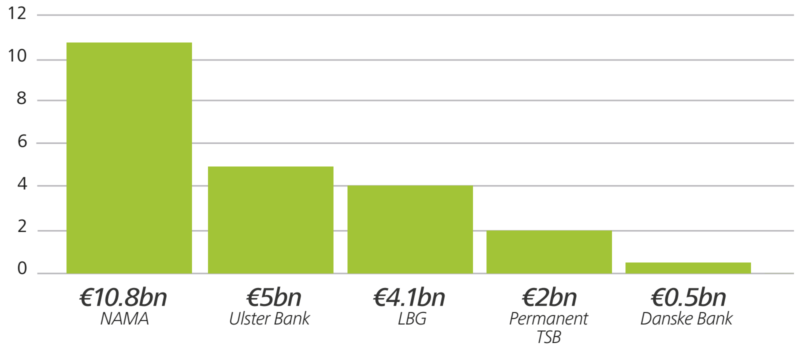


Source: Deloitte Research. December 2015

Top 5 most active buyers



Top 5 most active sellers



Source: Deloitte Research. December 2015

Ireland
Market overview

EBA reports indicate NPLs in the Irish banking sector of 20% at 30 June 2015, the third highest in Europe after Cyprus and Slovenia. With significant NPL sales occurring in H2 2015, the volume of NPLs remaining in the system are likely attributed to those remaining with the 'pillar' banks, BOI and AIB.

With NAMA having approximately €10bn remaining to dispose after Project Arrow, we expect 2016 sales will decrease significantly and will be led by NAMA and residual Ulster bank sales. We view it as unlikely that BOI or AIB will pursue a strategy of significant divestment of any elements of their Irish books, although selective overseas sales may remain a possibility as we have seen with Project Forge from AIB.

NAMA have indicated that a twin portfolio sale of €3bn each is probable in early Q1 2016, to be the last of the larger granular trades.

At this point in the cycle for Ireland, it is worth reflecting on what has been a hugely successful deleveraging programme, which commenced in 2011, with the sale of €400m of loans as part of LBG's first ever portfolio sale in the market.

In 2012, LBG dominated the market with 3 trades totalling €2.6bn traded to Apollo, Carval and Deutsche Bank/ Kennedy Wilson. Following the 2012 initial GE trade to Pepper, 2013 saw the emergence of whole loan residential mortgage portfolio trades. Total sales were however, dominated by IBRC and LBG and sales totalled €4bn in the year. 2014 saw €28bn in portfolios traded, dominated by IBRC liquidation trades and the emergence of Ulster Bank as a key seller. 2015 saw €22.5bn in portfolios traded, dominated by NAMA, LBG and Ulster Bank.

In total, Ireland has witnessed total completed portfolio trades of €62.9bn. This excludes UK centric trades from Irish institutions such as IBRC, PTSB and NAMA.

Investors have benefited from rising real estate markets and as the market begins to draw to a close, investors will be hoping for similar success in an alternative European market.

Ireland
Loan sale activity

In H1 2015, a number of loan portfolios were brought to market by Ulster Bank, NAMA, PTSB and LBG. Initially, it seemed that this momentum would continue, but market activity cooled somewhat post summer.

Deutsche Bank, Apollo, Cerberus, Lone Star, CarVal and Goldman Sachs have remained the main purchasers during the deleveraging cycle, and all now have well-established servicing arrangements. Interestingly Bank of Ireland, which had undertaken significant deleveraging since 2008, has started to refocus its efforts on growth, recently acquiring €200m performing loans from Lloyds as part of the Project Poseidon transaction.

The prime seller has been NAMA which kicked off 2015 with the sale of a €287m portfolio (Project Boyne) to Deutsche Bank and after five further sales totalling €4.3bn, has closed the year with a €6.25bn sale of Project Arrow to Cerberus. In total, the six NPL trades generated approximate cash proceeds for NAMA of just over €3bn.

NAMA, with a remaining estimated non-core exposure of c. €10bn, are currently considering joint venture partners for the potential build out of residual residential development assets held on the balance sheet, to begin in 2016. This strategy aims to return equity to the Irish Government on completion. Supported by additional rumoured loan sales, this strategy is envisaged to result in achieving the repayment of 80% of the outstanding debt by the end of 2016 and the remaining 20% ahead of schedule, before the 2020 deadline.

New investor money regulations, introduced in 2015 and due to be implemented from April 2016, relate specifically to the administration and management of loans to Irish individuals and SMEs in order to ensure these entities follow statutory protection requirements when loans are transferred to an unregulated purchaser. Whilst this legislation has an effect for all servicing agents operating in the market, it is unlikely to be significant.

Ireland
Transactions 2015

Completed transactions

Name	Date	Asset type	Buyer	Seller	GBV(€m)
Confidential	Jan-15	CRE	Invel RE	NAMA	189
Project Boyne	Jan-15	CRE	Deutsche Bank	NAMA	287
Project Pearl	Jan-15	Residential	Mars Capital	IBRC	400
Project Griffin	Feb-15	SME	Goldman Sachs/Bank of Ireland	Danske Bank	540
Project Leinster	Mar-15	CRE	Deutsche Bank/Apollo	Permanent TSB	1,000
Project Munster	Mar-15	CRE	Deutsche Bank/Apollo	Permanent TSB	500
Project Plum	Mar-15	Residential	Marathon Asset Management	NAMA	116
Project Coney	May-15	CRE	Sankaty	Ulster Bank	465
Project Arch	Jul-15	CRE	Deutsche Bank	NAMA	608
Project Connacht	Jul-15	CRE	CarVal	Permanent TSB	481
Project Finn	Jul-15	CRE	DB/Apollo/Cerberus	Ulster Bank	2,550
Project Maeve	Jul-15	CRE	Deutsche Bank	NAMA	786
Project Poseidon	Jul-15	CRE	Goldman Sachs/CarVal/ Bank of Ireland	LBG	4,120
Project Jewel	Sep-15	CRE	Alliance Real Estate/ Hammerson	NAMA	2,570
Project Arrow	Dec-15	CRE	Cerberus	NAMA	6,250
Project Clear	Dec-15	CRE	Cairn Homes/Lone Star	Ulster Bank	2,000
Total					**22,882**

Ongoing transactions

Name	Date	Asset type	Buyer	Seller	GBV(€m)
Project Abbey	Ongoing	CRE	Pending	NAMA	700
Project Lee	Ongoing	Secured	Pending	NAMA	350
Project Liffey Portfolio	Ongoing	CRE	Pending	NAMA	58
Project Tolka	Ongoing	CRE	Pending	NAMA	1,500
Total					**2,608**

Spain

Signs of recovery are present in Spain's key economic indicators, paving the way for a more active 2016 NPL market.

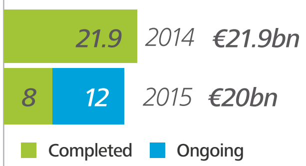
Circa €20bn of transaction volume placed on the market in 2015. Only €8bn was reportedly closed in the year with a further €12bn continuing into 2016

An estimated €148bn of non-performing assets (NPLs/REOs) still held on the banks' balance sheet as of September 2015

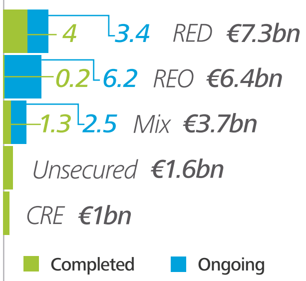
Spanish NPLs in the banking sector reduced to 11% as of September 2015 according to Bank of Spain

Most actively traded asset classes are REDs and REOs

Activity by year

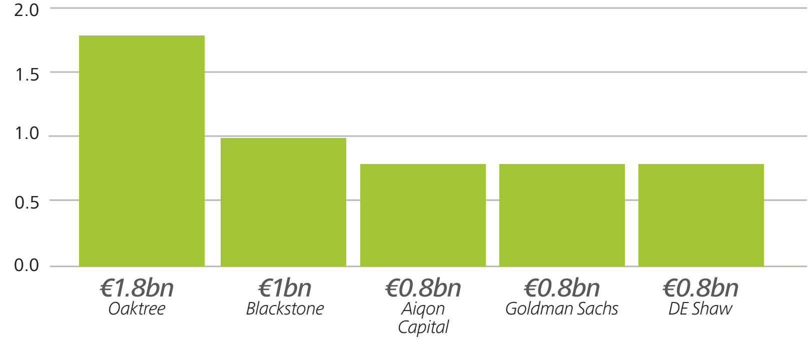


Activity by asset type

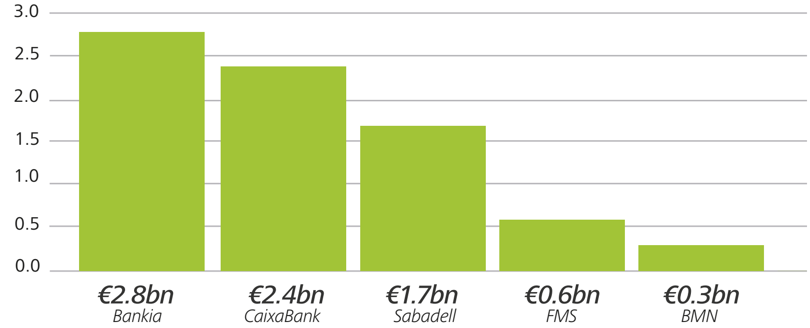


Source: Deloitte Research. December 2015

Top 5 most active buyers



Top 5 most active sellers



Source: Deloitte Research. December 2015

Spain
Market overview

Spain's GDP growth of 3.4% has been well ahead of other larger EU economies (more than double the Eurozone average).

Unemployment remains a problem in Spain, however there are continuing signs of improvement; the unemployment rate fell in eight successive quarters, from 26.5% in Q3 2012 to 22.5% in Q2 2015.

The decrease in CPI of 0.7% over the last year is easing the pressure felt by Spanish households.

The government's efforts to reduce the deficit through pension and labour reforms, together with spending cuts and supported by positive GDP growth and reduced borrowing costs, are bearing fruit and paving the way for an active 2016 Spanish NPL market.

The estimated stock of NPLs represents 11% of total bank assets. These assets are generating limited revenues and therefore placing pressure on bank income statements, constraining their ability to generate profits.

It remains important for the banks to continue their deleveraging efforts and to carry out timely, orderly and sizeable asset disposals.

We see the non-performing asset portfolio sale market in 2016 and beyond remaining active in Spain. This is due to the combination of a number of factors:

- the level of stocks in the financial system that is hurting profitability
- intensified pressure from the market to deleverage
- growing investor confidence in prospects for the Spanish economy and therefore increasing investor appetite for Spanish assets

However, one worrying sign is the number and size of uncompleted deals at the end of 2015.

Spain
Loan sale activity

In 2015 Spain confirmed its status as one the most active portfolio sale markets in Europe. In addition the Spanish market has now completed its transition, that began at the turn of 2013, from a purely unsecured loan market to a market that is now almost exclusively corporate/real estate-driven.

Approximately €20bn of portfolios were placed on the market in 2015 which is similar to the volumes observed in 2013 and 2014. However only 40% of these transactions by volume were reported to have closed by the end of 2015. This is an unusual occurrence, as sellers have previously tended to bring deals to completion. In 2015 however, the completion of some important transactions seem to have been delayed (and in some cases may be discontinued).

The major banks confirmed their status in Spain as active repeat sellers, having launched more than 15 transactions with aggregate volume (GBV) of over €12bn.

Sareb remained an active player in H2 2015 having launched several portfolio transactions with a combined nominal value above €2bn. This deleveraging activity took place in parallel with Sareb's strategic outsourcing of its asset management activity with Altamira Asset Management, Haya Real Estate, Servihabitat and Solvia.

So what will 2016 bring?

- NPL/REO stocks remain high and will be a drag on banks balance sheets and income statements;

- Market and regulatory pressure will increase for NPA's to be released to the market; and

- Improving economic conditions point to strengthening buyer sentiment.

Assuming the transactions that started in 2015 remain ongoing at the start of 2016 are to complete successfully, we anticipate the volume of closed deals in 2016 to reach similar levels to previous years.

Spain
Transactions 2015

Completed transactions

Name	Date	Asset type	Buyer	Seller	GBV(€m)
Project Aneto	Jan-15	RED	Blackstone	Sareb	240
Project Triton	Jan-15	RED	Deutsche Bank/Hipoges	Sabadell	550
Project Cadi	Mar-15	RED	Pimco/Finsolutia	Sabadell	250
Project Gaudi	Apr-15	CRE	Oaktree	FMS	600
Project Auster	May-15	Individuals/SME unsecured	Aiqon Capital	Sabadell	800
Project Castle	May-15	CRE	BAML	Bankia	380
Project Commander	May-15	RED	Sankaty	Bankia	550
Project Pampa	Jul-15	RED	Ellington Management	BMN	160
Project Tourmalet	Jul-15	RED	Blackstone	CaixaBank	800
Project Wind	Jul-15	Mix	Oaktree	Bankia	1,200
Project Coronas	Jul-15	REO	Apollo	BMN	100
Project More	Sep-15	Individuals/SME unsecured	Confidential	CaixaBank	780
Project Babieca	Dec-15	RED	Deutsche Bank	Bankia	650
Project Atalaya	Dec-15	RED	Goldman Sachs	CaixaBank	800
Total					**7,860**

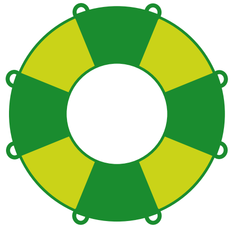
Ongoing transactions

Name	Date	Asset type	Buyer	Seller	GBV(€m)
Circa 15 ongoing transactions		REO, REO, Mix	n/a	Various	12,000
Total					**12,000**

Italy

After years of limited activity, the Italian loan sale market is growing fast thanks to strategic sales by Italy's largest banks, as well as global restructurings by the large international banking groups operating in Italy.

€17.4bn completed loan sales reported at the end of 2015 with an increase of 36.7%

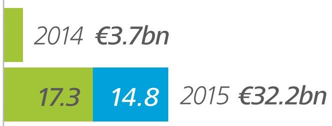


Italian government reforms aiming to accelerate loan recovery process and facilitate restructurings

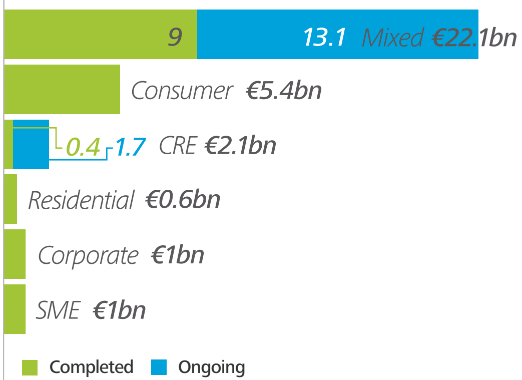
Recent government reform: Italian banks to offload NPL portfolios to private investors

€25bn of estimated loan sales in 2016, with Italian banks still having at least €200bn in bad debt

Activity by year

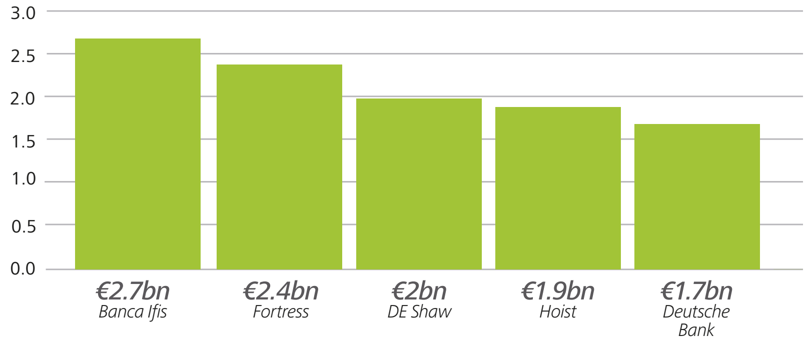


Activity by asset type

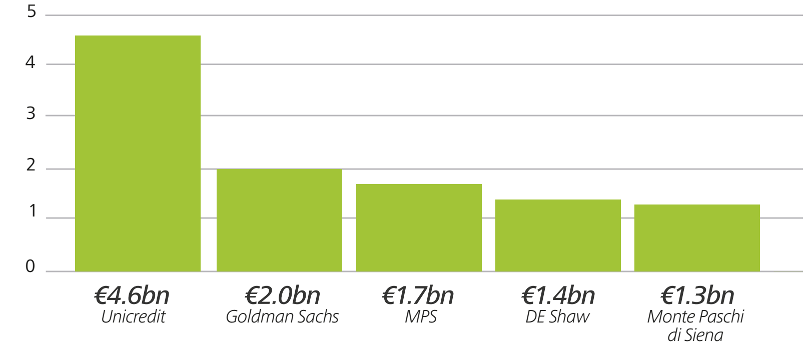


Source: Deloitte Research. December 2015

Top 5 most active buyers



Top 5 most active sellers



Source: Deloitte Research. December 2015

Italy
Market overview

The Italian parliament recently approved a package of reforms aimed at accelerating the recovery process for distressed loans. The new reforms will provide benefits to foreclosure procedures as well as insolvencies and bankruptcies. Shorter collateral recovery times could help reduce the bid/ask spread between sellers and investors. This might facilitate NPL portfolio sales and create a more dynamic market, where banks could reinvest proceeds from non-core portfolio sales into the real economy, improving profitability and asset quality, as well as optimising regulatory capital.

The reforms package includes a significant change in the fiscal regime for loan loss provisions, allowing full deduction for tax purposes in the year in which the loan loss provisions are taken. Before the introduction of these reforms, provisions were only being deducted over a five-year period, creating fiscal disincentives to provision non-core loan portfolios.

The announced reforms do not include the set-up of a bad bank, although the Italian government is still debating the set-up of an asset resolution company at a later stage. Market sentiment is that a bad bank, where loans are transferred on a voluntary basis, is not an absolute necessity as long as the conditions for a private NPL market improve.

Very recently the Italian government and the EU have reached an agreement designed to facilitate Italian banks to offload NPL portfolios to private investors. The plan is envisaging the possibility to transfer loan portfolios to securitisation vehicles whose senior notes will be guaranteed by the government. As currently designed, the scheme would not constitute state aid as the notes will be issued at market price (assumed to be based on CDS on Italian issuers with the same risk profile)

This reform is designed to reduce the burden of non-core assets in the banking sector, improve banks' profitability and ability to originate new loans to corporates and consumers and drive a gradual economic recovery after years of recession and stagnation.

Economic activity in Italy is expanding, creating a more appealing environment for foreign investment. In addition, gains in industrial production and a strengthening of household and business confidence are all contributing to the expansion of output.

Fostered by measures adopted by the ECB and by general economic recovery, a gradual improvement in the credit market is continuing, in particular for SMEs and manufacturing firms. According to the latest survey conducted by the Bank of Italy, there has been a further slight reduction in the cost of debt to SMEs; also credit supply improved moderately but still remains tight in the real estate and construction sectors.

Banking profitability is also improving. According to latest financial statements, in the first six months of 2015, the five largest Italian banking groups increased their annualised ROE from 2.9% to 6.3%. This increase in profitability is due mainly to effective cost-cutting and a reduction of 16.5% in doubtful loan write-offs.

Household savings continue to play a significant role in protecting the Italian economy from external macroeconomic shocks. According to Assogestioni, the net inflow of savings to Italian and foreign open-end investment funds was €70bn during the first half of the year.

Based on the volume of ongoing transactions, the steps taken by the Italian government to bail out four troubled banks, and on recent trends identified in 2015, we estimate that the total volume of distressed loan sales might reach €25bn in 2016.

Italy
Loan sale activity

While the flow of unsecured portfolio sales remained strong in H2 2015, we saw rapid developments in the market for other asset classes as well.

Joint Venture structures for complex corporate or CRE portfolios are now being considered by large banking groups as a tool to deleverage non-core assets while retaining significant upside potential. These structures enable banks to retain an economic stake in the portfolio and monetise any upside, as the portfolios are worked out by specialised asset management companies set up, often on an ad hoc basis, by co-investors.

Foreign banking groups are now very active in the market. While some groups are actively selling legacy NPL portfolios, others are marketing part of their non-core book, secured and unsecured, originated directly from their local branches.

More Italian banks are now putting up for sale granular mixed SMEs portfolios. The prospects of selling a large number of loans in a single trade, coupled with the specific nature of these loans, make this type of transaction interesting from both an operating and a financial standpoint.

Non-core leasing portfolios (both REO and leasing contracts) are attracting growing interest from both investors and sellers. The first transactions involving non-performing leases hit the market in Q4 2015. We expect significantly higher volume in 2016.

We have also noticed an increase in the volume of performing pools, mainly residential mortgages, as a result of global restructurings by large financial conglomerates.

In recent years NPL market activity has been limited compared to the UK, Ireland and Spain, as a result of the large bid-ask spread between the carrying value of loans and the price expectations of investors.

The prospects for a more dynamic economic environment and upturn in the Italian real estate market, coupled with more realistic expectations from sellers, suggest that the increase in portfolio trades can be sustained.

We predict that NPL transactions will increase as the economic environment recovers, seller price expectations become more realistic and prospects in the real estate market improve.

There has been an increase in reported transactions in Q3 and Q4 of 2015 and, as the larger Italian banks are continuing with their deleveraging plans (identifying which assets to hold, restructure or sell) we can envisage more portfolios coming to market in 2016.

As competition for distressed assets intensifies across Europe, more investors are actively looking to play a significant part in the Italian market. Investors are attracted by the size of market, the prospects of a significant deal flow in the coming years, and the presence of large strategic banking groups with a significant presence in Europe. Average yields also tend to be higher than in other jurisdictions.

Italy
Transactions 2015

Completed transactions

Name	Date	Asset type	Buyer	Seller	GBV(€m)
Project West	Jan-15	Confidential	Lone Star	Banca Tercas	400
Confidential	Feb-15	Resi	HIG / Bayside Capital	Cassa di Risparmio di Cesena	50
Confidential	Mar-15	Consumer	Banca Ifis	Findomestic	400
Confidential	Mar-15	CRE	TPG	Citigroup	220
Confidential	Mar-15	Resi	PVE Capital	Sofigeco	408
Confidential	Jun-15	Consumer	Pra Group	Unicredit	625
Confidential	Jun-15	Unsecured	Hoist	Banco Popolare	210
Project Consum.it	Jun-15	Consumer	Banca Ifis / Cerberus	Monte Paschi di Siena	1,300
Project Archon	Jun-15	Mixed	DE Shaw	Goldman Sachs	2,000
Confidential	Jun-15	Corporate	KKR	Intesa/Unicredit	1,000
Confidential	Jun-15	Consumer	Banca Ifis	Banca Sella	33
Confidential	Jun-15	Consumer	Banca Ifis	Confidential	200
Confidential	Aug-15	Consumer	Banca Ifis	Santander	630
Confidential	Sep-15	Mixed	JP Morgan	Unipol	55
Confidential	Sep-15	Legacy	AnaCap	Unicredit	1,300
Confidential	Sep-15	SME	Hoist	Banco Popolare	1,000
Project Molino Stucky	Oct-15	Hotel	Gruppo Marseglia	UniCredit/RBS	250
Project Romeo	Oct-15	Mixed & JV platform	Fortress	UniCredit	2,400
Confidential	Dec-15	Mixed	Fonspa	Creval	314
Confidential	Dec-15	Consumer	Hoist / Banca Ifis	Agos	650
Confidential	Dec-15	Consumer	Balbec	Banca Ifis	120
Confidential	Dec-15	Mixed	Deutsche Bank	MPS	1,700
Confidential	Dec-15	Residential	Algebris	Deutsche Bank	170
Confidential	Dec-15	CRE	BofA	RBS	100
Confidential	Dec-15	Legacy	PVE Capital	ICR 8	156
Confidential	Dec-15	Consumer	Banca Ifis	DE Shaw	1,400
Project Ticino	Dec-15	Leasing	Confidential	Unicredit	150
Project Raphael	Dec-15	CRE	Cerberus	Unicredit	100
Total					**17,341**

Ongoing transactions

Name	Date	Asset type	Buyer	Seller	GBV(€m)
Project Friuli	Ongoing	CRE + Platform	Pending	Heta	500
Confidential	Ongoing	Mixed	Pending	CR Chieti, BP Etruria, CR Ferrara, Banca Marche	8,500
Confidential	Ongoing	Legacy	Pending	EEA	300
Confidential	Ongoing	Mixed	Pending	Hypo Tyrol	320
Confidential	Ongoing	Legacy	Pending	GE/RBS/CA	4,000
Project Sandokan	Ongoing	CRE & JV platform	PIMCO	UniCredit	1,200
Total					**14,820**

Germany

The expectation for the German loan sales market in 2016 remains cautious, despite increased activity from German banks during 2015 driven largely by improving economic conditions.

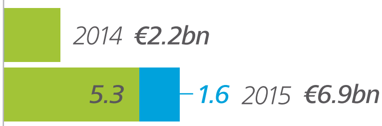
Total loan portfolio transactions reached €5bn for full-year 2015 vs. earlier projections of €8bn

Shipping loans continue to be a concern for German lenders

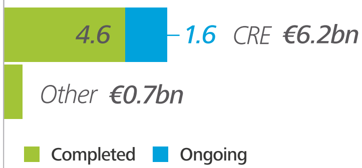
Overseas buyers remain dominant acquiring non-core/non-performing financial assets

Commerzbank is the most active seller in the German market

Activity by year

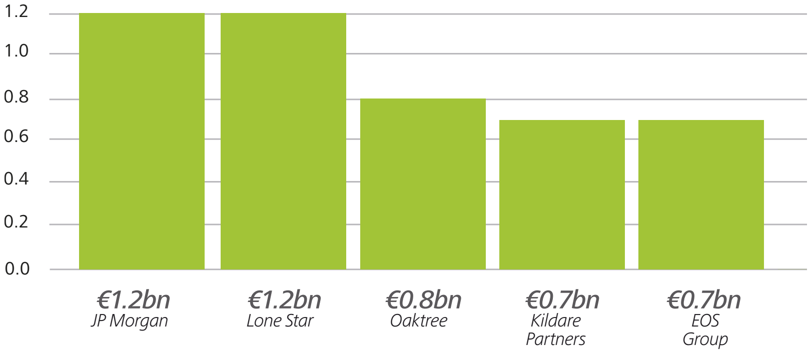


Activity by asset type

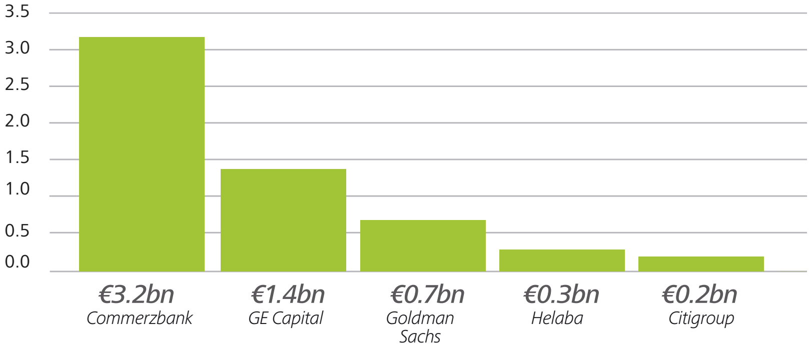


Source: Deloitte Research. December 2015

Top 5 most active buyers



Top 5 most active sellers



Source: Deloitte Research. December 2015

Germany
Market overview

Germany is the largest economy within the European zone and the second largest exporter in the world with exports accounting for more than one-third of its national output. And despite a difficult international economic environment backdrop, the economy is in good shape.

Gross domestic product increased by 1.8% in 2015 and is projected to strengthen further in 2016, as a result of a robust labour market, low interest rates and low oil prices that should underpin growth in private consumption.

The seasonally-adjusted unemployment rate has fallen to a 24-year record low of 4.5%. In addition to the fall in unemployment, positive developments in the labor market is creating scope for appreciable wage rises in real terms.

The continuing expansion in employment as a result of a moderate economic upturn is expected to be slightly tempered in 2016 as the large number of refugees currently arriving in Germany gradually impacts the labor market.

The positive economic climate has been strongly reflected in the German commercial real estate markets.

The German commercial and residential real estate investment sectors recorded strong levels of activity throughout 2015. By September 2015, transaction volumes were above €37bn in commercial real estate and €18bn in the residential investment market.

Despite improving activity, returns and sentiment in the German real estate markets, low levels of transactions relative to other countries in Europe have left investors hungry for more deals.

While there continues to be signs of an acceleration in Bank deleveraging with increased sale and internal loan management activity, the market remains cautious of the German banks commitment to sell NPLs at current market pricing given their low cost of funding.

In spite of potential signs of caution on the side of investors, continued political and financial turmoil in Southern European states and the volatility in the Chinese economy should improve the attractiveness of German assets.

Germany
Loan sale activity

Over the past 24 months, the German loan sale market has seen significant activity from non-German financial institutions selling German secured assets. Driven largely by the Lloyds Banking Group and Nationwide Building Society exiting the German market.

However in 2015, this trend changed with an increase in activity from German institutions (both those that have been federalised and those that are publicly owned) who have increased the pace of deleveraging as a result of improving German economic conditions, improving real estate markets and increased political pressure to tackle the non-core exposures on the bank balance sheets.

This is a change in focus for the German institutions who have been relatively successful in their wider international deleveraging efforts, of exiting assets in non-core jurisdictions such as the UK, Spain and further afield.

Commerzbank led the charge with sizable disposals of non-core assets. Transactions with US private Equity buyers Lone Star/JP Morgan (€2.4bn) and Oaktree Capital (€750m) ensured it topped the league tables.

However smaller trades such as Project Aurora from Helaba bank demonstrated the increased depth of the seller community in Germany.

In H1 2015, we expected to see increased activity with loans secured on shipping assets. H2 2015, saw this sector come to the fore as HSH Nordbank sought to transfer the bulk of its €15bn of non-performing loans into the State-owned bad bank. Although these figures are not represented in the transaction table given that it is state entity, it does signal a willingness of the banks to continue to deal with the issue of non-core assets.

Whilst there is no doubt that activity in the bank deleveraging space has increased, the German loan sale market has experienced trades, that have stalled unfortunately at relatively advanced stages of the bidding process.

This has led to an increasing awareness from investors to gain comfort throughout the bidding process from sellers on the commitment and pricing level at which German institutions are willing to trade, it has also potentially dampened the willingness of buyers to incur substantial due diligence expenses.

Overall investors remain extremely bullish to invest in German assets.

Looking forward we expect continued activity from most of German banks as they continue the clean up of their balance sheets of both German and overseas assets. We expect an increase in loan sale volumes and an increased level of interest from overseas investors for performing and non-performing German assets as international economic markets conditions remain challenging.

Germany
Transactions 2015

Completed transactions

Name	Date	Country	Asset type	Buyer	Seller	GBV(€m)
Project Wagner	Jan-15	Unknown	Unknown	EOS Group	Goldman Sachs	650
Helios Portfolio	Jan-15	Secured	Secured	BAML	Wells Fargo	60
Confidential	Apr-15	Secured	Secured	BlackRock	Citigroup	100
Confidential	Apr-15	Secured	Secured	Highbridge Principal Strategies	Citigroup	70
Confidential	Apr-15	Secured	Secured	Blackstone	GE Capital	279
Project Parrot	Jun-15	CRE	CRE	JPMorgan/Lone Star	Commerzbank	2,400
Project Sun	Jun-15	CRE	CRE	Oaktree	Commerzbank	750
Confidential	Jul-15	Secured	Secured	Kildare Partners	GE Capital	740
Project Aurora	Sep-15	Secured	Secured	Cerberus	Helaba	250
Total						**5,299**

Ongoing transactions

Name	Date	Country	Asset type	Buyer	Seller	GBV(€m)
Project Gobi	Ongoing	Unknown	CRE	Pending	Commerzbank	800
Project Tristan	Ongoing	Unknown	CRE	Pending	Archon (Goldman Sachs)	800
Total						**1,600**

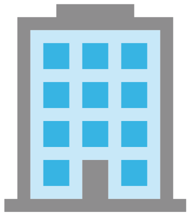
Netherlands

Project Lucas was the first significant Dutch NPL portfolio auction, completed at the end of 2015. Further deleveraging activity is now expected with major Dutch financial institutions publicly announcing their intention to sell loan portfolios.

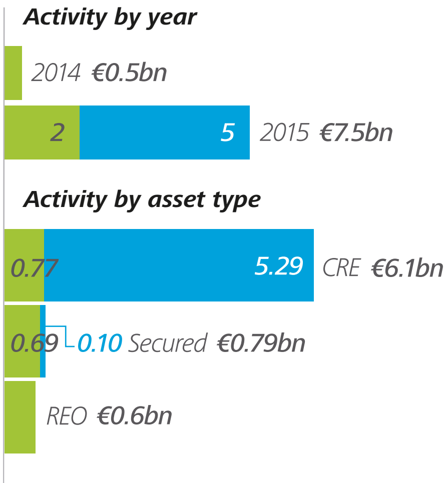
More than €80bn loans, mostly from Rabobank and Propertize, estimated to be classified as non-core

€2bn loans were sold in 2015

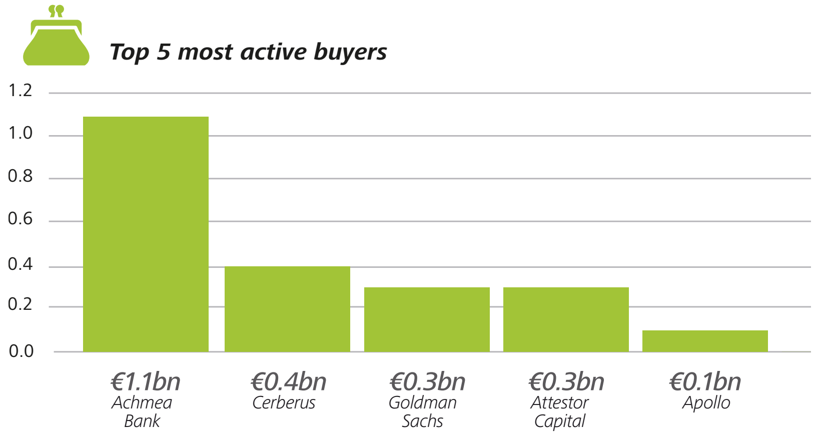
Propertize sale likely to focus attention at the start of 2016

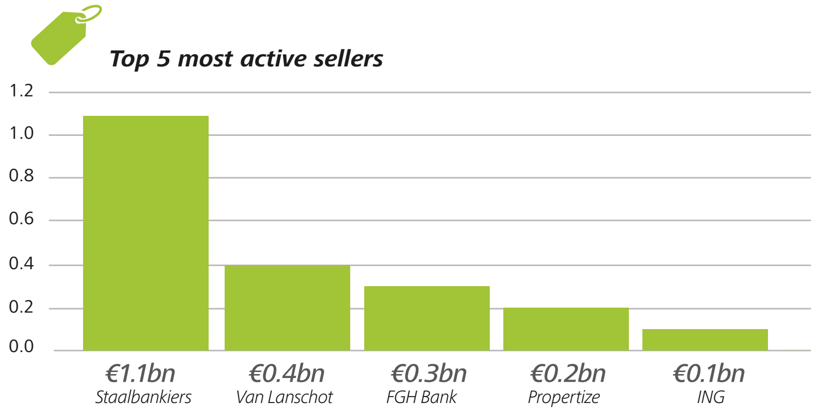


CRE likely to drive transaction activity in 2016



Source: Deloitte Research. December 2015





Source: Deloitte Research. December 2015

Netherlands
Market overview

Project Lucas, the €420m CRE NPL portfolio sold by Van Landshot to Cerberus in September 2015, was the first open auction of a sizeable Dutch portfolio and crystallised the interest of many investors. It is likely to trigger further sales on the market in the Netherlands, as seen with the recent announcement of the Propertize sale and Rabobank signalling the preparation of large-scale sell-offs.

The recent announcement by Rabobank of its intention to reduce assets by approximately €100bn by 2016/2017, in order to meet Basel IV compliance requirements relating to risk-weighted assets, is likely to attract greater interest from both investors and operators towards the Netherlands.

Coupled with the current sale process of Propertize, the bad bank holding the CRE and non-core assets of the former SNS Reaal, the momentum for larger volumes of NPL sales seems to be there. The Netherlands are generally considered a favourable investment case owing to a stable legal system, positive macroeconomic outlook and positive risk arbitrage compared to other European NPL markets.

The strength of the Dutch legal and institutional frameworks, together with macroeconomic performance, has a direct link with the quality of banks' portfolios. Simultaneously, the Dutch banks are under increasing pressure from the regulator to deleverage, as evidenced by a rumoured new AQR for Dutch institutions, that would be expected to apply more detailed and rigid rules for asset and company valuations, potentially leading to larger provisioning.

As a consequence, the bid-offer spread is likely to tighten, triggering more transaction activity.

Netherlands
Loan sale activity

The Netherlands saw a significant upturn in loan sales activity in 2015. The numbers are driven by large ongoing transactions, one of the largest is the disposal of the €4.9bn Propertize portfolio. Initially the bank presented a seven-year wind-down strategy for the full RE portfolio, consisting mainly of CRE exposures. The initial market expectation was that Propertize would sell its book piecemeal via mid-size portfolio transactions. However it now appears that a sale of the entire Propertize entity is the preferred approach of the government, as means of maximising value.

Dutch loans exposures are highly concentrated within seven banks/asset management companies: ING, ABN Amro, Rabobank, SNS Reaal, Propertize and NIBC hold above 87% of the assets in the Netherlands.

The 2014 ECB-led AQR did not result directly in significant portfolio sell-offs to date. Limited evidence of such sales emerged when Rabobank announced only recently its intention to divest businesses and loan portfolios. It is widely expected that the regulator may be more active going forward.

The condition of the Dutch economy seems to have also dampened the momentum for portfolio sales. The state-aided residential market prevents large sell-offs. National House Guarantee (NHG) is the public mortgage loan insurance scheme in the Netherlands that protects borrowers from any residual debt after a foreclosure following a default on their mortgage loan. The NHG guarantees any outstanding principal, accrued unpaid interest and disposal costs mortgages up to €245k (as of 1 July 2015). This insurance reduces credit and default risk for investors and also increases credit ratings for Dutch RMBS.

Netherlands
Transactions 2015

Completed transactions

Name	Date	Country	Asset type	Buyer	Seller	GBV(€m)
Project Dolphin	Dec-15	Unknown	Secured	Goldman Sachs	Propertize	220
Project Lucas	Aug-15	Unknown	CRE Residential	Cerberus	Van Lanschot	400
Project River	Aug-15	Unknown	CRE	Attestor Capital	FGH Bank	250
Confidential	Jul-15	Unknown	Secured	Achmea Bank	Staalbankiers	324
Confidential	Jul-15	Unknown	Residential	Achmea Bank	Staalbankiers	693
Confidential	Jul-15	Unknown	Secured	Achmea Bank	Staalbankiers	40
Project Ogon	Mar-15	Unknown	CRE	Apollo	ING	125
Omega/Dutch office loan	Jan-15	Unknown	Secured	Goldman Sachs	FGH Bank/HSH Nordbank	109
Total						**2,161**

Ongoing transactions

Name	Date	Country	Asset type	Buyer	Seller	GBV(€m)
Confidential	Ongoing	Unknown	CRE	Pending	Rabobank	250
Confidential	Ongoing	Unknown	CRE	Pending	Propertize	4,900
Confidential	Ongoing	Unknown	Secured	Pending	ING	100
Project Triple +	Ongoing	Unknown	CRE Offices	Pending	Propertize	140
Total						**5,390**

Austria and Central and Eastern Europe

Despite a noticeable pick up in market activity in the region completed deals remained in line with 2014 levels. A number of transactions initiated in late 2015 remain ongoing and will be a key driver for 2016 market trend. Failed deals are not helping the market develop and investors retain a healthy scepticism regarding the likelihood of deals completing.

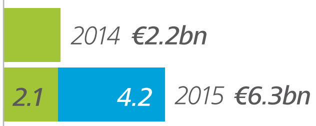
Completed deals remained in line with 2014, however overall activity increased significant

Slovenia and Croatia will likely see substantial increased deal activity in 2016

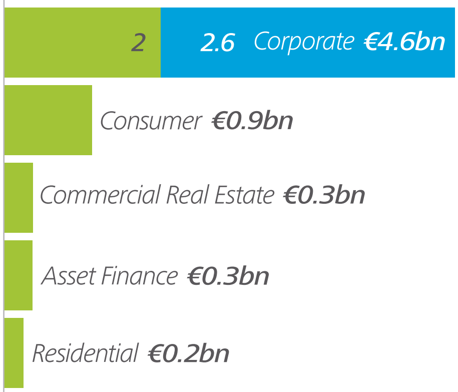
Romania remains the most active market

There has been a reduction in the pricing gap between buyers and sellers

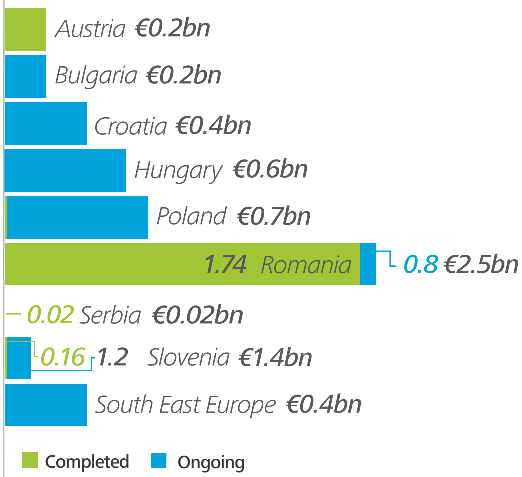
Activity by year



Activity by asset type

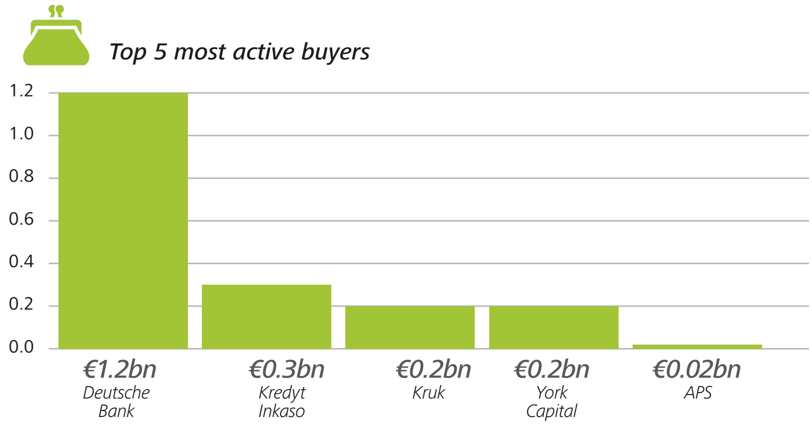


Activity by country

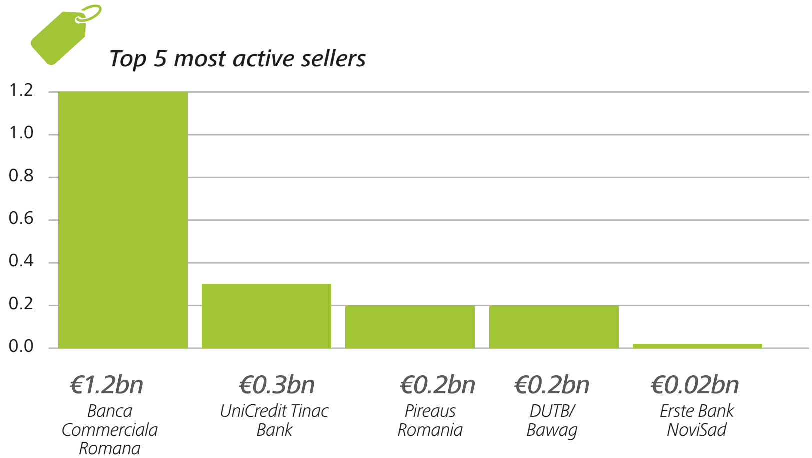


Source: Deloitte Research. December 2015

Top 5 most active buyers



Top 5 most active sellers



Source: Deloitte Research. December 2015

Austria and Central and Eastern Europe
Market overview

International investors are increasing their interest in Central and Eastern European countries and are currently working to establish key contacts and partnerships in the local markets to assist them to underwrite portfolios coming to market.

Establishing a servicing platform for secured portfolios is a key concern for many international investors.

Regional investors are also working to build relationships with international investors who lack the experience to operate in the region, but have the capital to purchase the larger portfolios which are coming to market.

There has been a narrowing of the pricing gap between buyers and sellers of NPLs in the CEE region, caused by changes in regulatory policies and additional write-offs relating to the latest round of AQR exercises.

Failed deals have made investors cautious about which banks to work with. This has made the data package provided by the seller more important, in order to attract investors to the transaction.

To date, single country portfolios have been the norm; however multi-country portfolios will become more prevalent in 2016 as international banking groups bring to market heavily-provisioned NPL portfolios that are spread across the region.

Slovenia and Croatia are expected to become more established in 2016, while Romania and Hungary are expected to remain active.

As highlighted in our H1 2015 report, the Western Europe banking groups that own most of the banks in the CEE region are taking significant steps to address the NPL problem.

The NPL problem in the CEE is impeding credit supply into the region and thus the healthy flow of credit into the local economies to further propel economic growth.

The European Investment Bank's (EIB) CESEE Bank Lending Survey which covers 14 countries, 15 international groups, 90 local banks and about 50% of the regional banking assets indicates that the existing high NPL volumes and the unsupportive regulatory environment are the two main factors exerting a substantial negative effect on credit supply.

Based on the same EIB survey, 75% of banks indicate that they intend to strengthen their balance sheets via sale of assets. This demonstrates increased willingness compared to the H1 2014 survey in which 60% of banks stated that this was their intention.

Local regulators and policy-makers in many countries are taking steps to address the NPL problem and have introduced new measures in relation to enforcement/insolvency procedures. However, other measures have been introduced in relation to historical FX lending, which have been aimed at protecting consumers to the detriment of the local banks.

Austria and Central and Eastern Europe
Loan sale activity

Loan sale activity in CEE increased significantly during the course of 2015 due to investors looking for higher returns and less competition than in some of the more mature NPL markets (i.e. the UK, Spain and Ireland). However the level of completed deals remained in line with 2014 levels.

Banks have also shown greater willingness to bring portfolios to market in order to reduce their NPL ratio for regulatory purposes, as well as enable them to focus on increasing their loan origination activity.

While there has been an increase in deal activity, there also have also been challenges. The two largest portfolios that were brought to market were subsequently withdrawn.

This has brought current activity to €6.3bn in 2015, including ongoing transactions. In view of withdrawn transactions, investors remain cautious.

It is expected that there will be increased activity in many of the less active CEE countries during 2016. Although the size of portfolios coming to market and the potential pipeline of NPLs for individual countries may not be sufficient to warrant interest from international investors, regional investors' interest remains strong.

Austrian and Italian financial institutions have been the most active sellers in the region and this will continue moving forward. This group of institutions provides a strong pipeline for future transactions in various jurisdictions in both the near and medium term.

Greek banks are also expected to have greater focus on the NPL problems of their foreign subsidiaries throughout the region in 2016.

Austria and Central and Eastern Europe
Transactions 2015

Completed transactions

Name	Date	Country	Asset type	Buyer	Seller	GBV(€m)
Project Henri	May 15	Romania	Consumer	Kruk	Pireaus Romania	200
Istrabenz Loans	Jun 15	Slovenia	Corporate	York Capital	DUTB/Bawag	156
Confidential	Sep 15	Serbia	Consumer	APS	Erste Bank Novi Sad	24
Confidential	Sep 15	Hungary	Corporate/Consumer	Erste bank	Citibank	Confidential
Confidential	Sep 15	Czech Republic	Corporate/Consumer	Raiffeisen	Citibank	Confidential
Confidential	Dec 15	Romania	Corporate	DB/ APS/ IFC	Banca Comerciala Romana	1,200
Project Triton	Dec 15	Romania	Corporate	Kredyt Inkaso	UniCredit Țiriac Bank (Unicredit Romania)	340
Confidential	2015	Austria	Corporate	Confidential	Confidential	70
Confidential	2015	Austria	Corporate	Confidential	Confidential	75
Confidential	2015	Slovenia	Corporate	BAML	DUTB	Confidential
Total						**2,065**

Ongoing transactions

Name	Date	Country	Asset type	Buyer	Seller	GBV(€m)
Confidential	Ongoing	Bulgaria	Consumer	Pending	Confidential	150
Confidential	Ongoing	Croatia	Corporate	Pending	Confidential	400
Confidential	Ongoing	Hungary	Commercial Real Estate	Pending	Confidential	300
Confidential	Ongoing	Hungary	Asset Finance	Pending	Confidential	300
Confidential	Ongoing	Romania	Consumer	Pending	Eurobank (Bancpost)	500
Project Rosemary	Ongoing	Romania	Corporate	Pending	Intesa Sanpaolo Romania	300
Confidential	Ongoing	Poland	Corporate	Pending	Bank Pekao	457
Confidential	Ongoing	Poland	Residential	Pending	Raiffeisen Bank Polaks	237
Confidential	Ongoing	Slovenia	Corporate	Pending	Confidential	400
Confidential	Ongoing	Slovenia	Corporate	Pending	Nova Ljubljanska Banka	800
Project Eagle	Ongoing	South Eastern Europe	Commercial Real Estate	Pending	HETA	Confidential
Confidential	Ongoing	South Eastern Europe	Corporate	Pending	Confidential	400
Total						**4,244**

Greece

The 2015 bank recapitalisations combined with enhanced regulatory pressure provide a backdrop for increased NPL activity in Greece over the medium term.

€14bn of new capital raised in Q4 by the big 4 banks

Loans at risk continue to increase, reaching €112bn as the economic outlook remains weak

To date there has been a lack of deleveraging activties by the banks this hampering investment opportunities

Optimism increasing for the development of the market over the medium term

Greece
Hot topics

Greece continue to suffer from high government debt and ongoing political turmoil, factors which have resulted in greater economic uncertainty and poorer investor appetite in comparison to much of the Eurozone.

GDP in the Eurozone increased by 1.6% in Q3 2015; the comparable figure for Greece was minus 0.4%.

Unemployment levels in the country remain the highest in Europe at 25%, compared to the average rate for the European Union at 9%.

Alpha Bank (ALB), Piraeus Bank (PIR), Eurobank Ergasias SA (EURB) and National Bank of Greece (NBG) collectively account for 95% of the entire Greek banking system. In aggregate as of March 2015 , it is estimated that these four banks had over €112bn of sub-performing or non-performing loans representing 42% of all loans held by the four banks.

A principal barrier since the crisis to NPL transactions has been the lack of capital and provision levels. The 2014 AQR and most recent capital raising programmes have largely rectified this.

Further the government’s opposition to NPL disposals has largely been lifted such that now the main obstacles appear to be the availability of servicing and a reliable pipeline. Both of these issues should be capable of being dealt with over the medium term.

Loan status

Loan status	ALB	%	PIR	%	EURB	%	NBG	%	Total	%
Non-performing	21.3	33.8	27.8	38.9	18.0	34.0	18.0	24.4	86.2	32.6
Sub-performing	8.1	12.8	9.5	13.3	3.2	6.0	4.9	6.6	26.0	9.8
Sub total	**29.4**	**46.6**	**37.3**	**52.2**	**21.2**	**40.1**	**22.9**	**31.0**	**112.2**	**42.4**
Performing	33.7	53.4	34.1	47.8	31.7	59.9	51.0	69.0	152.1	57.6
Total	**63.1**	**100.0**	**71.4**	**100.00**	**52.9**	**100.0**	**73.9**	**100.0**	**264.3**	**100.0**

Source: Goldman Sachs equity research report

Greece
Loan sale activity

The ECB adverse scenario stress test result from 30 October 2015 required the four biggest Greek banks to raise new capital in the region of €14bn to plug their shortfall. This was achieved successfully through a combination of private sector and state contributions.

	AQR Impact			Baseline Scenario		Adverse Scenario	
Banks	**Pre-AQR CET1 %**	**Post AQR CET1 %**	**Shortfall vs 9.5% post AQR (mn)**	**Post AQR CET1 %**	**Shortfall vs 9.5% post AQR (mn)**	**Post AQR CET1 %**	**Shortfall vs 9.5% post AQR (mn)**
Alpha Banks	12.7	9.6	–	9	263	2.1	2,743
Eurobank	13.7	8.6	339	8.6	339	1.3	2,122
NBG	**11.6**	**8.1**	**831**	**6.8**	**1,576**	**-0.2**	**4,602**
Piraeus	10.8	5.5	2,188	5.2	2,213	-2.4	4,933
Total	**12.1**	**7.9**	**3,348**	**7.6**	**4,381**	**0.1**	**14,400**

Source: ECB press release Oct 2015

In other market developments the Bank of Greece (BoG) has committed to deliver segmentation of non-performing loans on banks' balance sheets, with an assessment of banks' capacity to deal with each NPL segment. The Hellenic Financial Stability Fund (HFSF), in co-operation with the BoG, will also provide an analysis that identifies non-regulatory constraints and impediments (administrative, legal etc.) to the development of a dynamic NPL market.

Within the same time frame, a working group drawing on independent and cross-country expertise will recommend specific actions to accelerate NPL resolutions. Such recommendations are envisaged to include the removal of all unnecessary regulation around NPL servicing and disposals.

By year end the NPL ratio for Greece is expected have risen to 45%, an 11 percentage points increase since March 2015 figures.

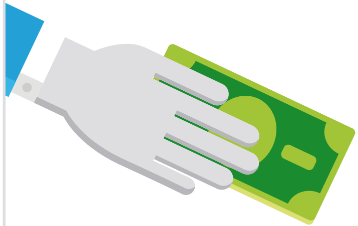
Since the onset of the crisis NPL sales in Greece have been limited in comparison to European counterparts. However as a result of recent developments and continuous growing pressure from ECB and SSM it is envisaged that the four large Greek banks will slowly but surely move towards NPL divestment as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

Assuming one-third of non-performing loans could be traded over a three-year period, one could expect about €29bn of transactions between 2017 and 2019.
In summary we expect a buoyant Greek NPL market over the medium to longer term.

Cyprus

NPL ratios in Cyprus have remained relatively constant over the year. The two programmes being pursued to remedy the high level of NPLs in the country include a focus on arrears management and an upgrading of the legal framework.

After repeated delays, the new Foreclosure Law came into force as of May 2015



According to the IMF, NPLs stood at 59% of the core domestic banking system as of April 2015

Year on year, real GDP rose by 0.2% in the first quarter and by 1.2% in the second quarter 2015

Recent adoption of a law to facilitate the sale of loan portfolios

Cyprus
Hot topics

According to a Cyprus review by the International Monetary Fund (IMF) in September 2015, the two main issues in relation to addressing the high level of NPLs have been:

- Strengthening banks' internal structures for arrears management.
- Upgrading the legal framework for private debt restructuring.

Historically, the institutions underpinning the relationship between lenders and borrowers in Cyprus have been weak. This is evidenced by the 2015 World Bank's Ease of Doing Business report, which ranked Cyprus at 113 out of 189 countries in the category of 'enforcing contracts'. With regard to 'resolving insolvency', Cyprus came in at 51; however this ranking is among the weakest in the Eurozone.

In particular, the IMF noted that enforcing contracts in Cyprus takes a long time, requires excessive procedures and is financially costly. Ongoing reforms under the programme seek to remedy this situation, although further effort will be needed to implement legal changes.

The strength of the legal and institutional frameworks, together with macroeconomic performance, has a direct link with the quality of banks' portfolios. Evidence from countries in the Eurzone for the period 2004-14 shows that the level of NPLs rises with higher unemployment and private sector indebtedness, and declining house prices.

The NPL ratio in the core domestic banking system (59% as at April) and provision coverage of NPLs (36%) have remained broadly unchanged since 2014.

New NPLs have largely represented interest arrears on existing NPLs, with currently-performing loans remaining relatively constant. The pace of NPL restructurings accelerated in recent quarters with an increasing proportion of agreements appearing to be based on long-term sustainable solutions instead of short-term forbearance measures such as grace periods.

Locally-active banks registered €90m profits before tax in the first quarter of 2015, compared to €48m in the same period in the previous year. This increase was driven mostly by a deceleration in building provisions, as loan quality stabilised.

Cyprus
Loan sale activity

A focus on insolvency and foreclosure frameworks coupled with positive GDP growth in 2015 could offer a positive outlook to Cypriot banks actively seeking to address their NPL balances.

For Bank of Cyprus, non-performing exposures fell by €366m (2%) to €14.8bn as at 30 June 2015 and accounted for 62% of total loans.

As part of its deleveraging strategy, Bank of Cyprus continues to dispose of operations considered non-core, such as its overseas banking subsidiaries, including the majority of its Russian operation.

Hellenic Bank reported their NPE ratio increasing from 58% (YE 2014) to 61% at the end of Q3 2015. NPE's are concentrated within non-financial institutions comprising c€1.9bn of the total €2.7bn stock. Coverage has remained relatively flat at 46% through the period which is noticeably higher than Bank of Cyprus at 35%. The bank continues to explore ways to deal with its high NPE ratio for example via debt for asset swaps with a recent deal reported in December with the Church of Cyprus.

According to the European Commission's Economic Adjustment Programme report in July 2015, the recovery of the financial sector in Cyprus is under way, with stabilised liquidity and prospects for a return to profitability, although the sustainability of these trends is still in question. The reliance on central bank funding was reduced as a result of asset disposals and capital increases.

However, despite progress in enhancing banks' operational capacity and policies to manage loans in arrears, both the amount and ratio of NPLs remain at very high levels. This is due to the recessionary economic environment, still-falling real estate prices and defaults by over-indebted borrowers, and the ineffective foreclosure and solvency frameworks in place until recently, which undermined incentives to service debt. Resolute action to address this issue was considered necessary in order to preserve the progress achieved so far, in terms of bank recapitalisation and stabilisation of deposits. The Cypriot Minister of Finance stated in May 2015 that the establishment of a bad bank to absorb non-performing loans from bank balance sheets continued to remain an option.

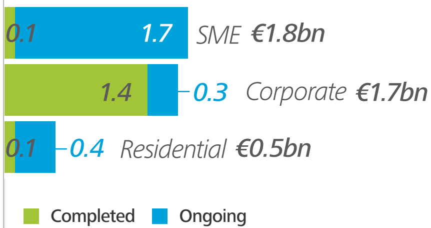
In December 2014, NPLs of both banks and cooperative institutions for local operations reached 58% of credit facilities to non-financial corporations and 52.7% of loans to individuals. The fact that NPLs to corporations are now representing more than half of the credit facilities of banks and cooperatives is an indication of the misallocation of resources during the credit boom. The majority of household NPLs relate to mortgages, but non-performing consumer loans are also significant. The provisioning coverage of NPLs stood at about 35% (December 2015), which is significantly lower than for European banks. This reflects a high level of collateralisation of loans, but at the same time renders banks vulnerable to a large fall in the market value of the collateral and sensitivity to changes in valuation policies. NPL sales in Cyprus have historically been limited in comparison to its European counterparts.

Portugal

Loan sale activity in Portugal is increasing, with €1.6bn of completed transactions in 2015 and further €2.4bn of ongoing transactions at year-end. This trend is expected to continue in 2016.

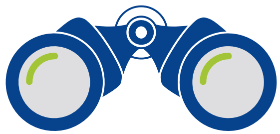
Activity in 2015

Activity by asset type



Source: Deloitte research December 2015

Gathering momentum. €1.6bn of completed transactions in 2015 and another €2.4bn ongoing



Market activity to strengthen in 2016 with several banks expected to become repeat sellers

Greater willingness from banks to bring portfolios to market and increased pressure from the regulator

NPL ratio in the banking sector down marginally to 16.3% as at June 2015

Portugal
Market overview

The increase in activity is due to greater willingness by banks to bring portfolios to market in order to reduce their NPL ratio for regulatory purposes. However, the market activity is also driven to a large extent by direct action from the Bank of Portugal in distressed bank situations (i.e. BANIF, Novo Banco).

We expect market activity to strengthen further in 2016, with several of the larger banks establishing themselves as repeat sellers. There is an apparent shift in the attitude of banks towards organised and competitive loan portfolio sales.

Only a couple of international investors currently own loan portfolios, however appetite for Portuguese assets from the investor community is strong. What has been missing so far is better visibility of potential deal flow and larger deal sizes. We expect increasing interest and presence of international investors in the market.

Economic recovery continued in H2 2015, boosted mainly by private consumption and exports. Year-on-year, the GDP grew by 1.5%, the same rate as in the previous year, as expansion in both domestic demand and investment were enough to offset the deterioration in net external demand.

Borrowing conditions in Portugal have continued to improve, in line with developments elsewhere in the euro area. The authorities took advantage of the more favorable market conditions to make early repayments of IMF loans received under the financial assistance program.

The European Commission and ECB made a positive statement following their second post-program surveillance mission: "Although cost-saving measures are beginning to take effect, profitability of the banking sector remains challenging, also due to the high levels of non-performing loans. Corporate loan restructurings need to accelerate, supported by a continuous monitoring of the functioning of the strengthened framework for corporate debt restructuring, also with a view to further increase the resilience of the banking system as a whole."

Portugal
Loan sale activity

Completed transactions

Name	Date	Asset type	Buyer	Seller	GBV(€m)
Project Orion	Apr-15	Corporate	Confidential	Confidential	400
Confidential	May-15	Corporate	Confidential	Confidential	800
Project Pool XX (Sec)	Sep-15	SME	Confidential	Santander	100
Project Pool XX (Unsec)	Sep-15	Corporate	Confidential	Confidential	200
Project Echo	Dec-15	Residential	Confidential	Confidential	120
Total					**1,620**

Ongoing transactions

Name	Date	Asset type	Buyer	Seller	GBV(€m)
Project Gama	Ongoing	SME	n/a	BANIF	1,700
Project Badajoz	Ongoing	Residential	n/a	Confidential	350
Project Cassiopeia	Ongoing	Corporate	n/a	Confidential	**250**
Project Light	Ongoing	Corporate	n/a	Confidential	**50**
Confidential	Ongoing	Corporate	n/a	Confidential	**50**
Total					**2,400**

This increased number of competitive loan sale transactions in the market has brought current activity to over €2.5bn in H2 2015, compared to levels below €0.5bn in the previous three six-month periods.

While there has been an increase in competitive deal activity, there have also been challenges: in the past 12 months the Portuguese market has seen a number of portfolios failing to transact, due mainly to the price expectations of the seller. The bid-ask gap is likely to narrow going forward, as the banks are seen to make better preparations for disposals and asset prices rise, driven by a better market outlook and increased investor appetite.

The size of portfolios coming to market and the potential pipeline of loan sales is expected to be sufficient to continue warranting interest from international investors already in Portugal and to attract attention from other international players.

Nordics

Limited loan sale activity in the region with Finansiel Stabilitet being the most active seller. Market activity in 2016 is likely to be subdued given strong balance sheets of regional banks.

Activity by year

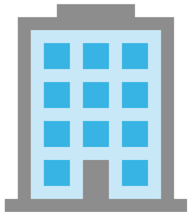
Activity by asset type

Completed   Ongoing

Source: Deloitte Research. December 2015

Limited loan portfolio trades in the past within the region

Finansiel Stabilitet, the Danish Bad Bank, remains an active seller with over €1.8bn of assets deleveraged since 2014



CRE basket portfolios remain the dominant asset class with limited corporate / SME loan trades

Loan sale activity going forward remains uncertain as regional banks have traditionally preferred to work-out loans in-house

Nordics
Market overview

The Nordic economies, with the exception of Finland, is forecast to continue growing in 2016 driven mainly by the improving outlook of its European trading partners.

The Nordic banking sector remains highly concentrated and is dominated by a few groups including Danske Bank, Nordea Bank, Handlesbanken and SEB.

The stock of NPLs within the region fell to €17bn (Dec 2014), a 19% drop from its 2012 peak of €21bn, representing an NPL ratio of 1.4%.

Denmark has the largest NPL ratio, standing at 4.5% (Dec-2014) as a result of the double dip recession that it has experienced since 2008 along with the real estate market crash during the same period. Prior to 2008, its NPL ratio was sub 1.0% which is comparable with its Nordic neighbours.

Loan sale activity has mainly come out of Denmark with Finansiel Stabilitet being the most active seller. The outlook is uncertain given limited trades by regional banks.

Nordics
Loan sale activity

Loan portfolio sales within the Nordics have been limited over the past few years with most of the trades coming out from Denmark. Since 2014, Finansiel Stabilitet (FS), the state-run Danish "bad bank", has completed a number of portfolio sales totalling c. €1.8bn. These portfolios have predominantly been commercial real estate backed debt with limited exposures to corporate and SMEs. With the last loan portfolio (Project Trio II) from FS currently out in the market, a significant doubt remains whether Nordics will be an active loan sale market going forward.

Compared with their European counterparts, Nordic banks have come out of the financial crisis relatively unscathed. The need to sell loan portfolios has somewhat been limited as most banks in the region have strong capital positions, low levels of NPLs and decent profitability. Work-out period for Nordic banks are typically longer with greater emphasis placed on finding an amicable solution with the borrower rather than enforcing on security.

Even if banks across the region do decide to bring loan portfolios to the market, a key challenge will be external servicing options available to a buyer.

With FS having set the precedent in the region, focus will now be on domestic banks. We expect that activity across the region may potentially increase as banks focus on optimising their capital base on the back of recovering real estate market and increased lending.

Completed transactions

Name	Date	Country	Asset type	Buyer	Seller	GBV(€m)
Project Trio	Mar-15	Denmark	CRE	Davidson Kempner	Finansiel Stabilitet	442
Project Trio II	Dec-15	Denmark	CRE/Corporate	Davidson Kempner	Finansiel Stabilitet	225
Total						**667**

Ongoing transactions

Name	Date	Country	Asset type	Buyer	Seller	GBV(€m)
Confidential	Ongoing	Denmark	SME	N/A	Bank Nordik	200
Total						**200**

Deloitte Portfolio Lead Advisory Services (PLAS)

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.

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The PLAS team are active in nearly every country in Europe buying and selling loan portfolio's as well as advising financial institutions on the non-core exposures.

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Sell-side Advisory

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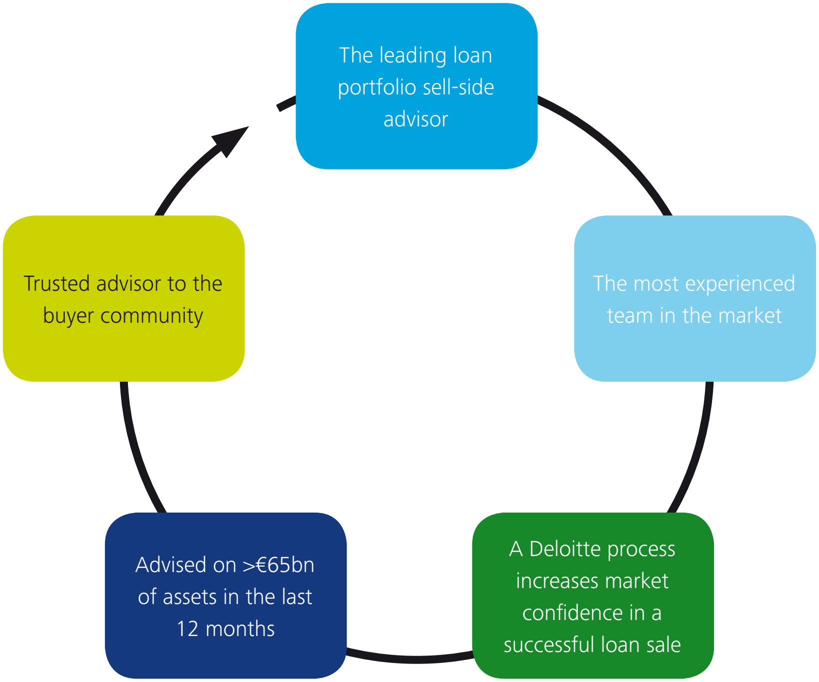

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