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Deleveraging Europe Market Update

European loan sales
soar to new heights

GO ▶

H1 2015



Deleveraging Europe

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Deloitte Deleveraging Europe Market Update H1 2015

Welcome to the Deloitte Deleveraging Europe Market Update H1 2015. This report provides a brief overview of the non-core and NPL market across Europe and looks into market activity so far in 2015 and our expectations of future developments.

- Current indications are that market activity in 2015 will be even greater than 2014, with sales expected to reach over €150 billion.
- Deloitte research estimates that major European banks have over €800 billion of NPLs on their balance sheets.
- Some countries, such as UK and Ireland, are reaching the end of the deleveraging cycles and we anticipate activity in these markets to continue for approximately one more year.
- We expect Italy, Spain and CEE to be the key markets for future loan sale activity.
- Significant demand for distressed debt and fierce competition among buyers has caused prices to increase.
- Debt investors have reportedly raised around €100 billion targeted for Europe, which with leverage means they potentially have c.€300 billion+ in cash ready to spend.

The Deloitte Portfolio Lead Advisory Services team continues to lead the market, advising both sellers and buyers across Europe on virtually every significant portfolio trade in the last two years. We hope you find the piece interesting.

Regards,



David Edmonds
Global Head
Portfolio Lead
Advisory Services

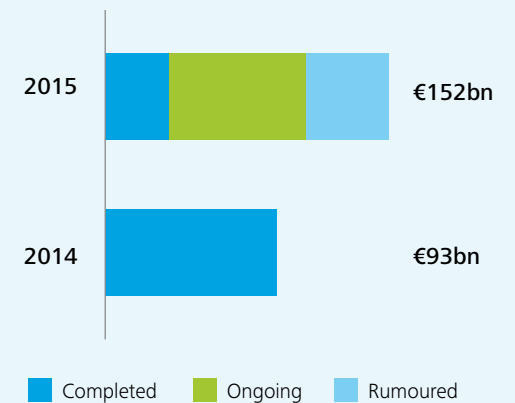


Andrew Orr
Partner
Portfolio Lead
Advisory Services

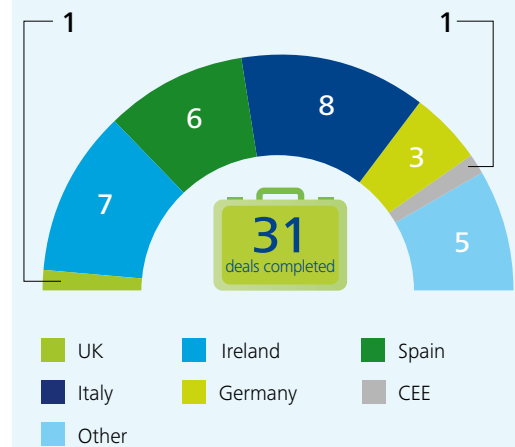
Headline facts and figures

Over 60% increase in total loan sales expected in 2015 compared to 2014

Activity by year



H1 2015 deals completed

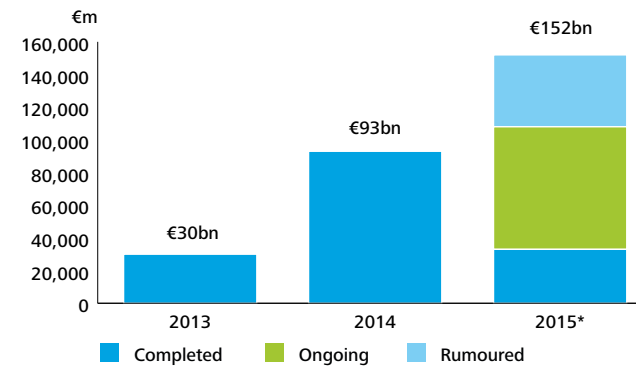




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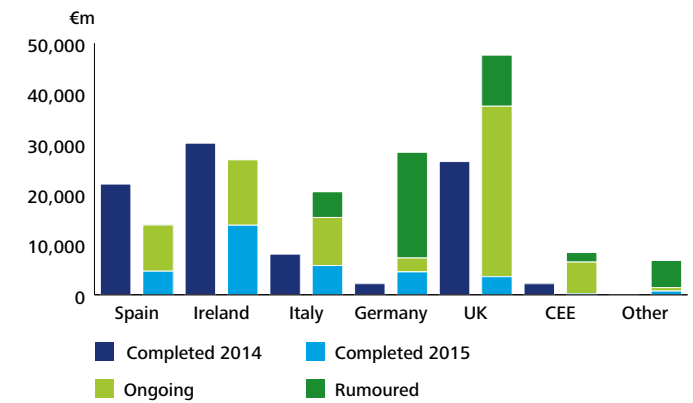
2015 loan sale activity is expected to significantly exceed 2014, with c.€152bn of completed, ongoing and rumoured transactions at the end of H1. Commercial Real Estate (CRE) loans are still highly traded across Europe, but there has been a strong rise in sales of residential loan portfolios. UK, Ireland and Spain continue to be the active markets, and sales in Italy, Germany and CEE are accelerating.

Activity by year



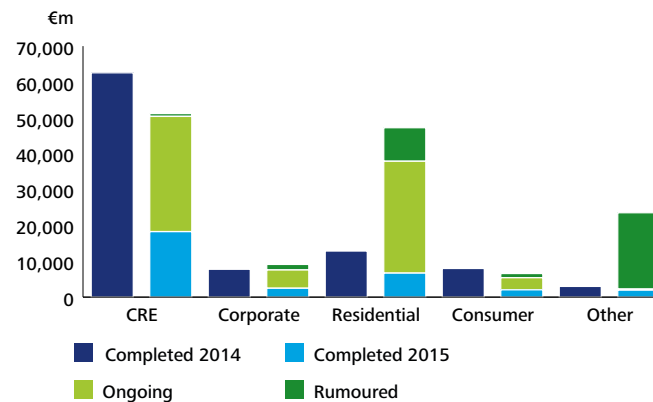
*As of June 2015

Activity by country



As of June 2015

Activity by asset type



As of June 2015

2015 vs. 2014

- 190% – increase in loan sales (GBV) in Italy from 2014 to 2015.
- Loan sales in CEE expected to quadruple in 2015 compared to 2014.
- 40% – expected increase in sale of residential mortgages (GBV) in 2015 compared to 2014.
- Sale of corporate loans to double (in GBV).

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European loan sale market

Deloitte research indicates over €800bn of non-performing loans reside on the balance sheets of European banks.



Financial institutions across Europe have implemented non-core strategies and are following through with divestments. We estimate that there is over €800bn of NPLs on the balance sheets of European banks.



Regulatory and market pressure to improve capital positions and reduce risk weighted assets along with last year's AQR programme has contributed towards this trend of increased divestment.



There are still loan portfolios being brought to market in Spain, Ireland and the UK. However, we see increased levels of activity across other markets, including Italy, Germany and the CEE. The NPL stock in Italy continues to grow, and more banks are looking towards deleveraging and portfolio sales.

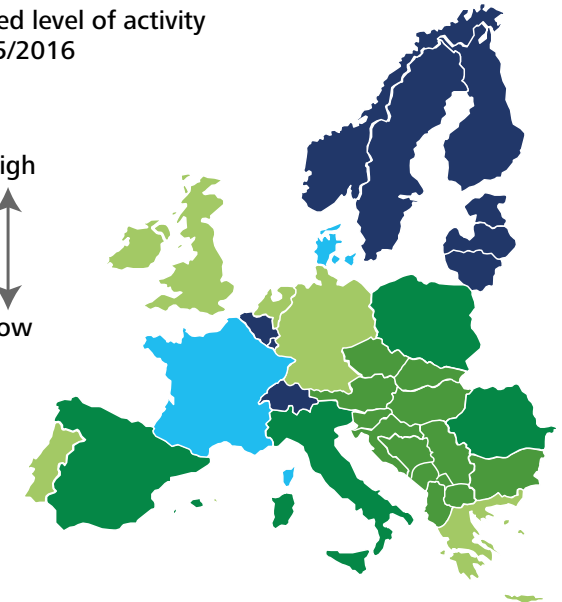
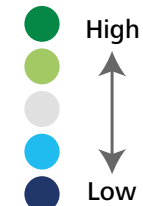


From 2014 being the year of platform sales in Spain, we have seen increased activity around the underlying loan portfolios, with a greater emphasis on secured loan products.



The demand for non-core assets and non-performing loans has soared, with distressed debt investors and private equity funds having raised over €100 billion in the past 18 months. With the ability to leverage, these buyers potentially have c.€300 billion+ at their disposal to make purchases across Europe.

Expected level of activity in 2015/2016



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United Kingdom



c.£35bn of loans estimated to be sold in 2015



Both UK and overseas lenders will bring portfolios to market

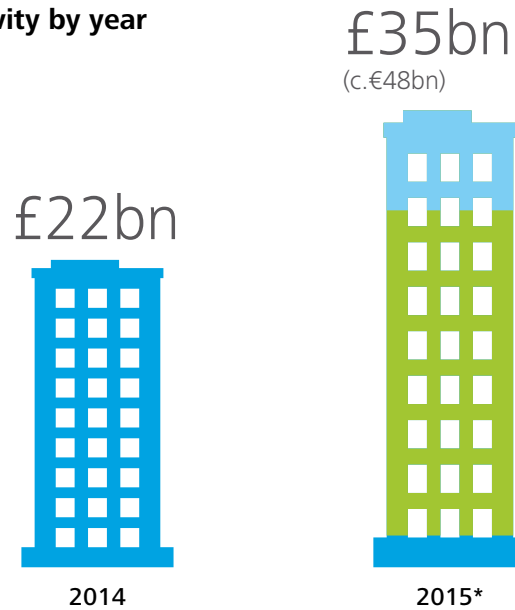


Residential loan portfolios to drive UK market in 2015



Slow start in 2015 with only £2.7bn of loan portfolio sales completed in H1

Activity by year



Completed Ongoing Rumoured

*As of 30 June 2015

Activity by asset type



Completed Ongoing Rumoured

*As of 30 June 2015

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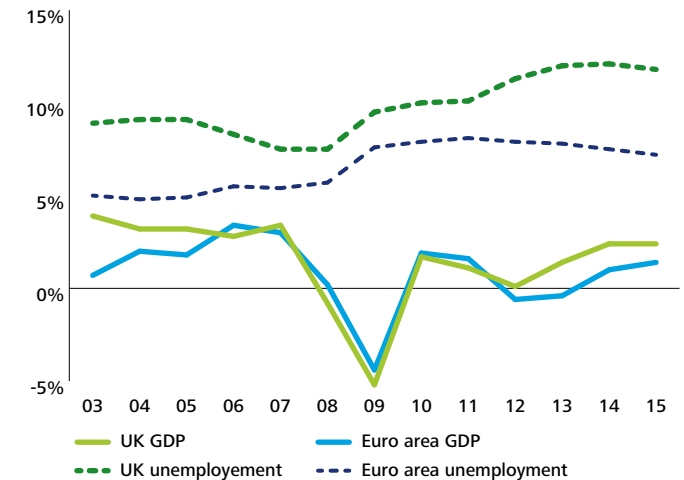


The market

Macroeconomic snapshot

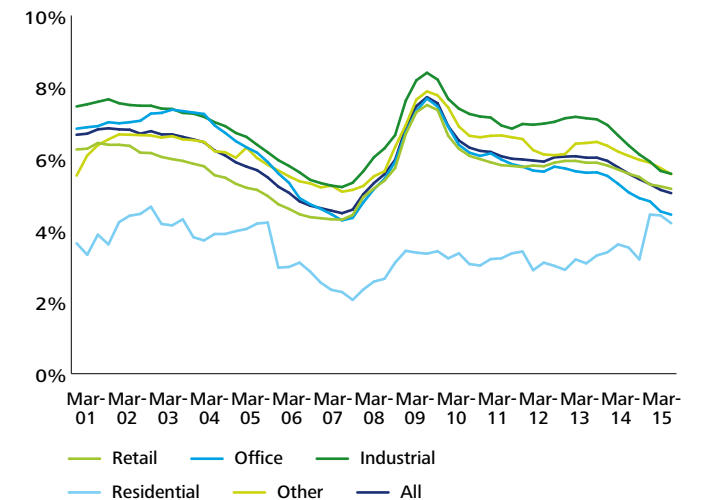
- Expectations for economic performance were high at the start of the year. Although revised estimates reported a slowdown in Q1 (2014: 0.8%, Q1 2015: 0.4%), the economy grew 0.7% in Q2 and expectations are that the economy will continue to gather momentum over the remainder of the year.
- Commercial property prices are rising significantly with easy access to credit. Although credit availability from banks for commercial property investments has eased, funding from so-called 'shadow banks' has been increasingly available for CRE property development activity.
- The UK residential market continues to perform strongly. On average UK house prices are now 11% higher than at their low point in 2009, with 9 percentage points of growth coming in the past year.
- Property initial yields have seen a contraction since the peak in 2009 and contracted another 7bps to 5.30% in Q1 2015.
- Although this was the lowest initial yield recorded since December 2007, the fall in yields has slowed.

GDP growth and unemployment rate



Source: OECD Stat Extract

UK Property yields, 2001 – 2015



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Loan sale activity

The United Kingdom's loan portfolio market has continued to see significant levels of activity over the past 12 months. Volumes have remained robust and the market has seen a more diverse mix of lenders (both UK and overseas) bringing portfolios to the market.

In the past 12 months the focus has shifted from CRE to residential loans. Project Slate, the £2.7bn residential mortgage book sold at a premium to CarVal/JPMorgan in October 2014 followed by Cerberus' acquisition of a portion of the CHL book and the CHL platform, setting the scene for more major residential mortgage loan portfolio sales in the UK.

We estimate total loan sales to reach over £35 billion in 2015. Completed and currently ongoing deals have reached £27.7 billion and there is another c.£7 billion in the pipeline. We expect to see an increase in the amount of residential loans traded over the next 12 months as UK and overseas lenders seek to benefit from both the increase in appetite and market pricing for performing and non-performing residential mortgages.

Completed and ongoing transactions – H1 2015

Name	Date	Asset Type	Buyer	Seller	GBV (£m)
Granite	Ongoing	Residential	Pending	UKAR	13,000
n/d	Ongoing	Residential mortgage platform	Pending	GE	7,700
Churchill	Ongoing	CRE	Pending	Aviva	2,600
Albion	Jul-15	CRE	Oaktree	NAMA	226
n/d	May-15	CRE	Kennedy Wilson	n/d	149
Rathlin	May-15	CRE	Cerberus	Ulster Bank	1,400
Capital Home Loans	Mar-15	Residential	Cerberus	Permanent TSB	2,500
n/d	Jan-15	CRE	Invel Real Estate	NAMA	140
n/d	Jan-15	CRE	Blackstone	Fortress	27
TOTAL					27,742

Snapshot of UK institutions' non-core assets

Institution	Non-core
Royal Bank of Scotland	<ul style="list-style-type: none"> The RBS non-core unit, RBS Capital Resolution, has risk-weighted assets of £22bn (31st December 2014)
UKAR	<ul style="list-style-type: none"> Has £51.1bn of residential mortgages (31st March 2015)
Barclays	<ul style="list-style-type: none"> £236bn of leverage exposure with a target to reduce to £180 bn by the end of 2016 The unit includes European retail banking operations and non-core corporate banking in Europe and the Middle East
The Co-operative Bank	<ul style="list-style-type: none"> Set up a non-core unit in 2014 with £12.5bn of assets The strategy is to run down the unit or exit by means of sales of single assets and portfolios, optimisation of borrowers' funding structures, re-banking of non-core customers, and running down closed businesses

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Ireland

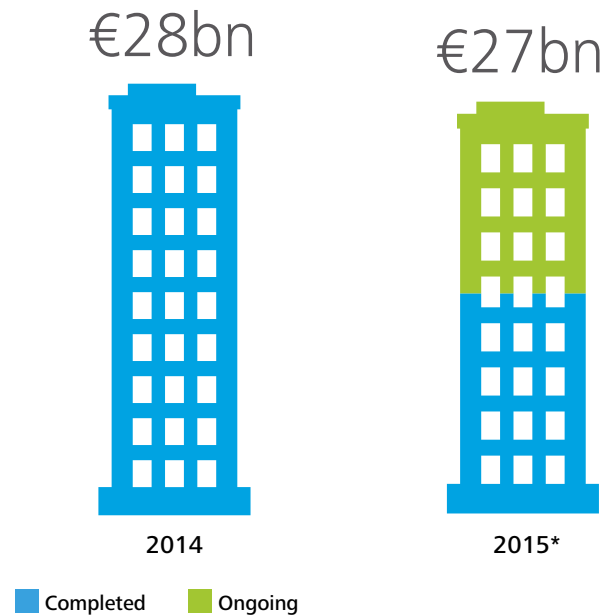
€27bn of loan sales expected in 2015

NAMA continues to be an active seller with c.€14bn of ongoing transactions

CRE-backed loans remain highest traded asset class

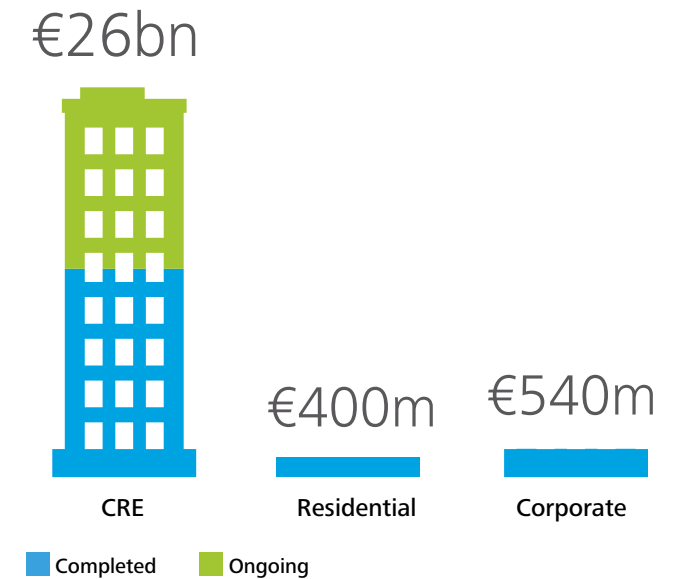
Nearly €14bn of Irish loan portfolios sold in H1

Activity by year



*As of 30 June 2015

Activity by asset type



As of 30 June 2015

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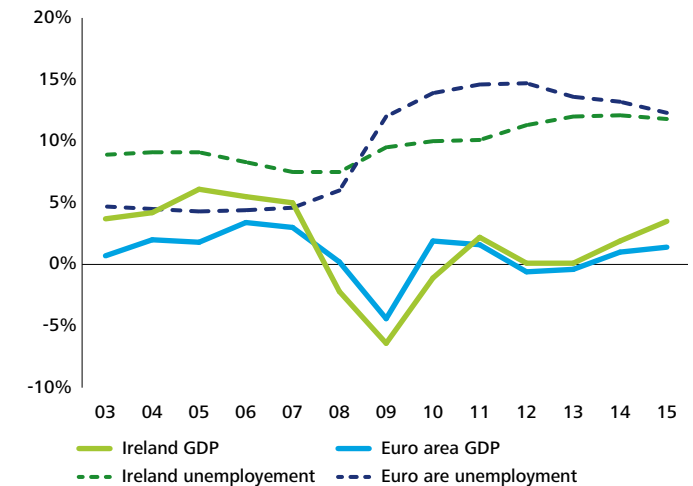
The current outlook indicates that the Irish market will be as active in 2015 as in 2014.

Macroeconomic snapshot

- Positive economic growth for the past two years (2013: 0.2%; 2014: 4.8%) with GDP expected to grow to 3.6% in 2015.
- Reducing unemployment which currently stands at 9.7% (April 2015) and is expected to further decline going forward.
- Quantitative Easing and the new mortgage rules will likely result in a larger private rented sector.
- Availability of fresh credit to SME continue to be a challenge and may have an impact on future economic recovery.
- Prime yields on commercial property have continued to contract over the last 12 months on prime industrial and prime high street retail properties. Yields have not reduced to their pre-2008 levels.

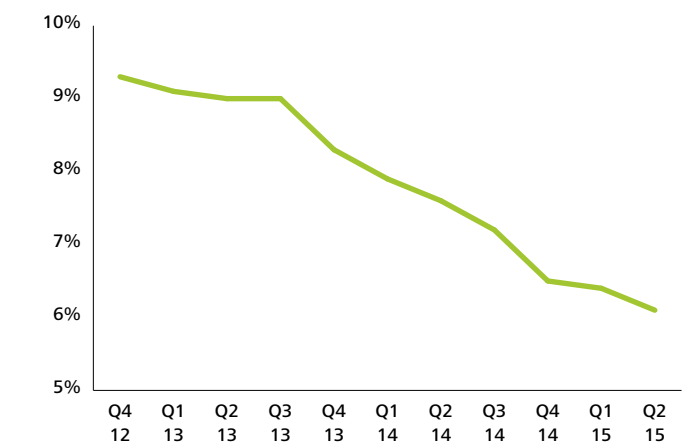
Ireland continued to be amongst the most active loan sale markets in Europe, however activity is expected to be moderate beyond 2015.

GDP growth and unemployment rate



Source: OECD Stat Extract

Commercial property average yields



Source: IPD

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Loan sale activity

NAMA increased sale activity

NAMA increased its sales activity over the last 18 months with multiple loan portfolio transactions. A review was conducted by the Irish Minister of Finance in 2014, and subsequent to the review being completed NAMA updated their targets to repay 80% of the outstanding debt that was used for the initial purchase of loans by the end of 2016.

This would require an expedited pace of deleveraging given an additional €9 billion in collections are required by the end of 2016 to meet the required payments. NAMA management are confident they will repay the remaining 20% of debt earlier than the original 2020 deadline.

Continued focus on CRE

Past memories of the Irish property bubble are still present, with CRE still accounting for the large majority of non-core in Ireland. However, given the CRE portfolio sales activity over the last 18 months, the CRE proportion of the overall non-core has decreased.

Corporate lending, a key driver in any functioning economy, continues to be seen as the most sensitive part of domestic banking operations. There has been limited deleveraging of corporate loan portfolios by domestic banks, with the only exception being the sale of Project Taylor by IBRC in 2014.

Residential mortgages continue to be a concern for all banks in Ireland. The overall amount of residential mortgages in arrears has declined in recent quarters. However, mortgage accounts on principal dwelling houses (PDH) that are 720 days past due are still rising albeit at a slower pace. In Q1 2015, approximately 80% of the arrears balance relates to mortgage accounts that are 720 days past due.

Loan portfolio sales

IBRC and NAMA dominated the sellers by bringing over €17 billion of Irish debt to the market in 2014. NAMA continues to be an active seller with c.€13 billion in ongoing transactions to date and a solid pipeline of upcoming transactions for H2 2015.

Activity from other core domestic lenders has been limited and is expected to remain subdued given public perception and no urgent need to deleverage assets. PTSB is the only domestic lender (besides NAMA) that has brought several portfolios to market this year.

Deleveraging from international banks continues. LBG, Ulster and Danske brought significant loan portfolios to the market in the past 18 months, reducing their non-core exposure in Ireland. LBG and RBS are believed to have virtually reached the end of their Irish deleveraging programs.



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Completed and ongoing transactions – H1 2015

Name	Date	Asset Type	Buyer	Seller	GBV (£m)
Abbey	Ongoing	CRE	Pending	NAMA	700
Arrow	Ongoing	CRE / Resi.	Pending	NAMA	8,400
Tolka	Ongoing	CRE	Pending	NAMA	1,500
Jewel	Ongoing	CRE	Pending	NAMA	2,400
Arch	Aug-15	CRE	Deutsche Bank	NAMA	600
Finn	Jul-15	CRE/ Corp. / Resi	Deutsche Bank / Apollo / Cerberus / Sankaty	Ulster Bank	2,500
Connacht	Jul-15	CRE	CarVal	Permanent TSB	900
Maeve	Jul-15	CRE	Deutsche Bank	NAMA	778
Poseidon	Jul-15	CRE / SME	Goldman Sachs / CarVal / Bank of Ireland	Lloyds Banking Group	4,100
Coney	May-15	CRE	Sankaty	Ulster Bank	465
Rathlin	May-15	CRE	Cerberus	Ulster Bank	1,750
Leinster	Mar-15	CRE	Deutsche Bank / Apollo	Permanent TSB	1,000
Munster	Mar-15	CRE	Deutsche Bank / Apollo	Permanent TSB	500
Griffin	Feb-15	Corp.	Bank of Ireland / Goldman Sachs	Danske Bank	540
Pearl (Tranche 2)	Feb-15	Resi.	Mars Capital	IBRC	400
Boyne	Jan-15	CRE	Deutsche Bank	NAMA	287
Total					26,820



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Spain




€14bn of completed and ongoing transactions in H1 2015



Estimated €180bn of NPLs in the banking system



Corporate and real estate backed loans most traded



c.73% of the total NPL stock is held by the six major Spanish banking groups

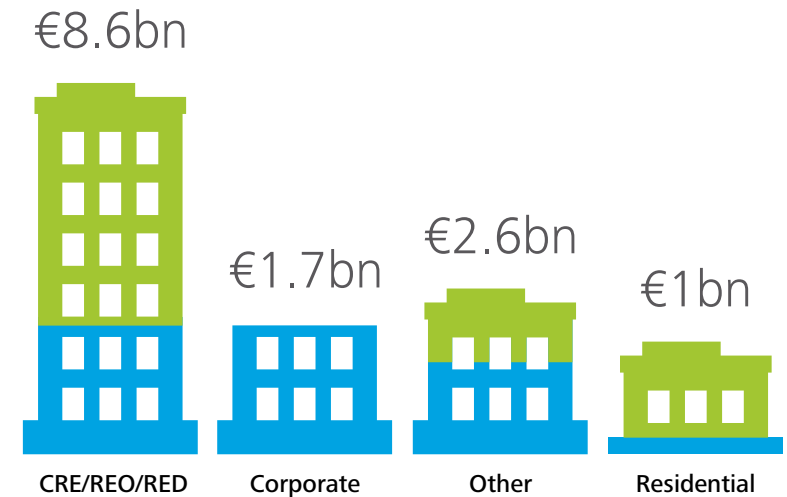
Activity by year



Completed Ongoing

*As of 30 June 2015

Activity by asset type



Completed Ongoing

As of 30 June 2015

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Macroeconomic snapshot

- The Spanish economy advanced 1.4% in 2014 and is forecast to grow 2.9% in 2015 with Spanish exports and the consumer sector acting as the main drivers.
- The unemployment rate peaked at 27.6% in June 2013 and decreased to 22.7% in April 2015 following several government led initiatives. However, the high unemployment rate will continue to be a drag on the recovery.
- Rising real estate prices are expected to further stimulate growth in the economy.

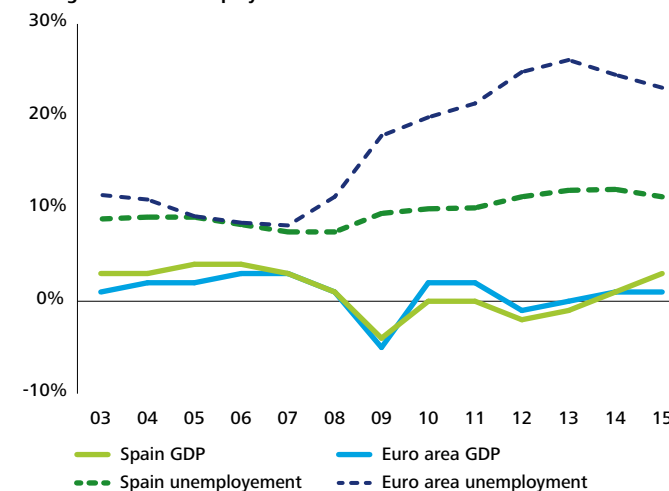
Market participants

At a national level, the Spanish banking sector remains highly concentrated. Following several bank mergers in the 2000s and the consolidation process of saving banks which reduced their numbers from circa 50 in 2007 to less than 15 in 2012, six banking groups – Santander, BBVA, Caixabank, Bankia, Sabadell and Banco Popular – emerged as the key players in the domestic market. Together these top six entities represent c. 85% of the Spanish banking sector.

Real estate market

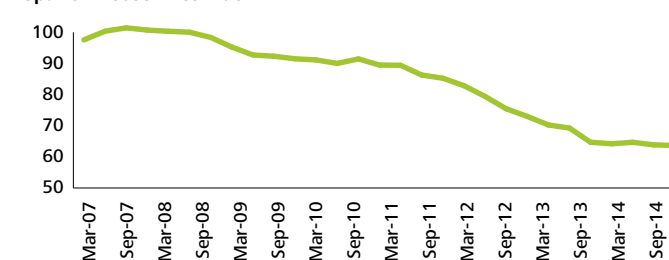
In 2006 the Spanish construction sector contributed more than 13% of the country's GDP and there were more houses built in Spain than in all of Germany, France, Britain and Italy combined. However since then the Spanish residential real estate market suffered a prolonged period of depreciation, seeing close to a 40% price decrease. More recently there have been indications that the property market is finally stabilizing with house prices having increased the last four consecutive quarters an average of 1.1% on a year-on-year basis. However, the large stock of unsold houses, along with a potentially deflationary Eurozone and elevated Spanish unemployment rates will continue to be a drag on the recovery.

GDP growth and unemployment rate



Source: OECD Stat Extract

Spanish House Price Index



Source: Instituto Nacional de Estadística

The Spanish banking recovery is currently moving at two speeds; banks with more exposure to international markets are recovering faster than those more reliant on the domestic market.



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Loan sale activity

The stock of NPLs in Spain fell at the beginning of 2014 for the first time since the outset of the crisis. It currently stands at €180 billion, an 8% drop from its 2013 year-end peak, representing a NPL ratio of 13%.

Approximately 73% of the total NPL stock is held by the six major Spanish banking groups. International banks (Santander and BBVA) have lower NPL ratios than banks that are more dependent on the domestic market.

The Spanish loan sale market has seen a clear evolution in the past five years. Until 2012 it was a market that was dominated by unsecured NPL trades. However in the past 18-24 months the nature of the Spanish market has changed, it has evolved towards larger trades of more complex pools of real estate related loans involving a wide variety of SME and corporate debtors. 2014 proved to be a real turning point both in terms of level of activity and nature of the activity being displayed and the trend is being confirmed in 2015.

We believe conditions are right in Spain for the loan sale market to remain as one of the more active in Europe for the next couple of years:

- With a reported €180 billion of NPLs held by the main Spanish banks plus the assets held by SAREB there is still significant stock to feed a strong and deep deal pipeline.
- A number of repeat sellers have emerged amongst the larger Spanish banks. These banks have typically developed their deleveraging strategies and have set about to achieve them. They are educated sellers with reasonable price expectations. Smaller banks are expected to follow their example.
- Large exit trades by foreign entities are likely to further strengthen the Spanish pipeline.
- A large number of international investors have bought into the Spanish story and many of them have geared up for the medium to long term by buying asset servicing platforms from local banks allowing them to gain an in-depth understanding of the various distressed asset classes and providing them with the necessary local operations to substantially scale up their investments.

We therefore anticipate the level of activity in the years to come to remain high, at least at the levels observed in 2014 where circa €22bn of loan portfolios traded. We expect the SME/RED NPL segment to develop substantially and even become dominant for two reasons: first because of its sheer size and second because it is by far the most problematic asset class for banks to manage in-house. Besides NPLs we also anticipate the residential REO product to become another highly active segment in the Spanish market.

The SME/RED NPL segment will develop substantially and become a highly traded asset class, as it is by far the most problematic asset class for banks to manage in-house.



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Name	Date	Asset Type	Buyer	Seller	GBV (£m)
Mamut	Ongoing	Residential mortgages	Pending	Santander	800
Eurostars	Ongoing	REO	Pending	CaixaBank	103
Kite	Ongoing	REO	Pending	Ibercaja	800
Otelo	Ongoing	REO	Pending	BBVA	n/d
Coast	Ongoing	Secured loans	Pending	Fortress	500
Big Bang	Ongoing	REO	Pending	Bankia	4,800
More	Ongoing	Mixed	Pending	CaixaBank	780
Tourmalet	Ongoing	RED	Pending	CaixaBank	800
Neptune	Ongoing	RED	Pending	Banco Mare Nostrum	200
Tower	Ongoing	RED	Pending	CaixaBank	400
Wind	Jul-15	Mixed	Oaktree / Chenavari	Bankia	1,300
Pampa	Jul-15	Residential mortgages	Ellington Management	Banco Mare Nostrum	160
Auster	May-15	Individuals/SME unsecured	Aiqon Capital	Banco Sabadell	800
Castle	May-15	CRE	BAML	Bankia	400
Commander	May-15	SME/Corporates secured and unsecured	Sankaty	Bankia	500
Cadi	Mar-15	RED	Pimco / Finsolutia	Banco Sabadell	250
Gaudi	Apr-15	CRE	Oaktree	FMS	604
Aneto	Jan-15	RED	Blackstone	Sareb	237
Triton	Jan-15	SME secured & REO	Deutsche Bank / Hipoges	Banco Sabadell	435
TOTAL					13,869

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Italy



C.€21bn of estimated loan sales in 2015



NPL stock approaching €200bn



Activity is expected to pick up with €10bn of transactions currently ongoing



€6bn of completed transactions in H1 2015

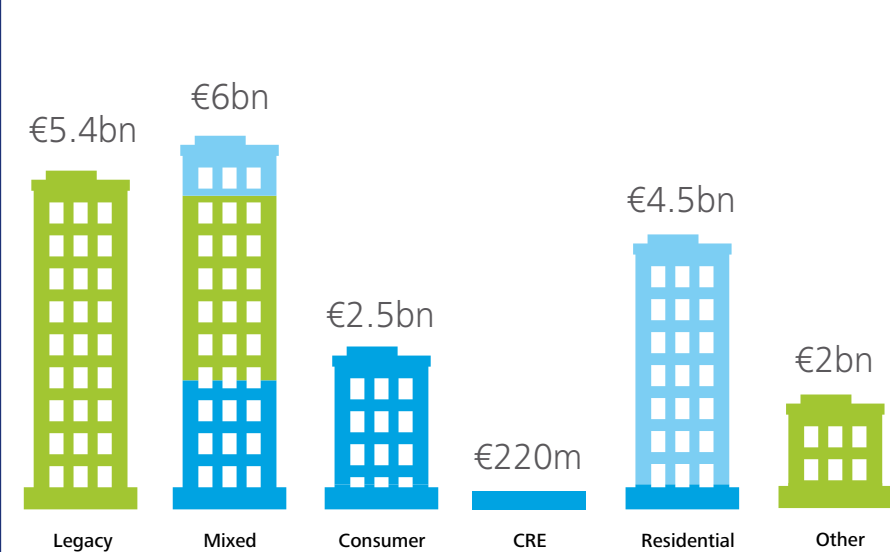
Activity by year



Completed Ongoing Rumoured

*As of 30 June 2015

Activity by asset type



Completed Ongoing Rumoured

As of 30 June 2015

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Macroeconomic snapshot

- Italy experienced a double-dip recession as a result of a prolonged contraction in domestic demand with the second phase being more severe in scale and duration compared with other countries in the OECD.
- The economy slipped once again into recession in 2014, with the OECD predicting limited growth of 0.6% in 2015 and 1.5% in 2016.
- The current unemployment rate is 12.5% (May 2015) and is forecast to fall marginally to 12.3% by the end of 2015 as domestic firms are not expected to commit to job creation in response to modest increases in household spending.

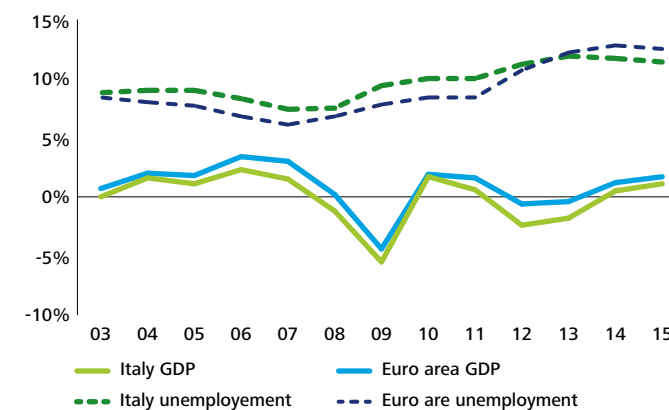
The Italian banking landscape

As with most other European countries, there is pressure to increase credit availability but Italian banks remain cautious about underwriting new business. Bank lending on a monthly basis, to non-financial companies and households, decreased from €1.88 billion to €1.83 billion in the past years.

The €400 billion of TLTRO was aimed at increasing the level of credit made available to the SME sector. Whilst the terms were favourable and the scale of funds significant, the results of the TLTRO were regarded as disappointing by most observers. In the first two TLTRO operations European banks borrowed a total of €212 billion under the scheme falling short of the €400 million target.

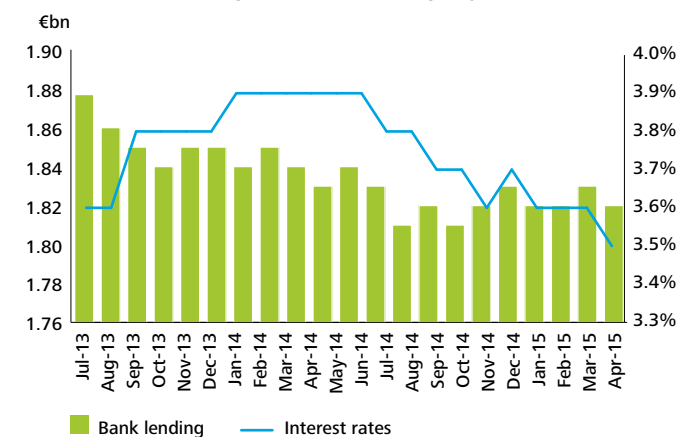
Italian banks including UniCredit (€9.9 billion), Intesa Sanpaolo (€12.6 billion), and Monte dei Paschi (€6.3 billion) were among the largest recipients of funds with a total allocation of €43.1 billion. However, earlier this year UniCredit publicly stated that it had fully allocated its entire TLTRO funding to borrowers, well in advance of their original estimates. This may well be a signal of an increased appetite to borrow by companies.

GDP growth and unemployment rate



Source: OECD Stat Extract

Total Italian bank lending (non-financial lending only)



Source: ABI Monthly Outlook, May 2015

The Italian economy slipped once again into recession in 2014, but showed slightly improved economic growth early this year. Unemployment is still high compared to previous years, but is expected to fall by the end of 2015.



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Loan sale activity

Establishment of non-core divisions and a 'bad bank'

In contrast to the UK and Ireland, Italy's largest banks only started to set up internal non-core divisions in the past 12 months. Intesa Sanpaolo and UniCredit have been the most active in the establishment of internal non-core divisions and have set out deleveraging strategies which include potential NPL sales.

Although other large banks have been less specific on the issue, their management have indicated that NPL sales may be used to accelerate reductions in non-core assets.

NPL sales

In recent years NPL market activity has been limited in contrast to the UK, Ireland and Spain. A significant obstacle has been the bid-ask spread between the carrying value of loans and the price expectations of investors.

Limitations in the quality of portfolio data, and concerns over the Italian enforcement regime have also been barriers to successful transactions. Prior to 2014 the majority of reported large NPL trades have related to unsecured portfolios, with bid-ask spreads being noticeably wider for real estate assets.

There has been an increase in the volume of transactions during the last 12 months. The prospects for a more stable economy and potential upturn in the Italian real estate market, coupled with more realistic provision levels, suggest that this increase can be sustained.

There are a number of foreign banks with Italian loan exposures. These institutions have been able to sell unsecured portfolios successfully, but as yet there has been no reported disclosure of a sizeable corporate, commercial real estate or residential mortgage transaction. This inertia (for both foreign and domestic banks) is expected to change as mortgage lending increases and the real estate market recovers with regards to price and liquidity.

Increased activity on the horizon

In 'The Deloitte Italian NPL Outlook 2014-15' issued in July 2014 we suggested that an increase in NPL transactions was likely in the near term. We sighted the drivers as being; the prospects of a more stable economy and potential upturn in the real estate market and more realistic provision levels. We stand by this prediction.

There has been an increase in reported transactions in Q1 and Q2 of 2015 as the larger Italian banks are preparing deleveraging plans; identifying which assets to hold, restructure or sell, we can envisage more portfolios coming to market this year.

As competition for distressed assets intensifies in the more established European NPL markets, investors are likely to turn to Italy to take advantage of potential opportunities.

We also commented on the potential for Italian banks to sell foreign assets (particularly CEE) post AQR, especially if the Austrian banks look to sell portfolios. Given the significant NPL levels in that region, we remain of the view that sales in that region will come from Italian banks.

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European loan sale market

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Loan sale activity

Completed and ongoing transactions – H1 2015

Name	Date	Asset Type	Buyer	Seller	GBV (£m)
n/d	Ongoing	Legacy	Pending	n/d	350
n/d	Ongoing	Mixed	Pending	Carige	1,500
n/d	Ongoing	Legacy	Pending	Investment Bank	1,000
n/d	Ongoing	Mixed	Pending	Multi-Bank	1,200
n/d	Ongoing	Mixed	Pending	Multi-Bank	300
n/d	Ongoing	Legacy	Pending	General Electric	4,000
n/d	Ongoing	CRE & JV platform	Pending	UniCredit	1,200
n/d	Jun-15	Consumer	Pra Group	Unicredit	625
n/d	Jun-15	Unsecured	Hoist	Banco Popolare	210
n/d	Jun-15	Consumer	Banca Ifis / Cerberus	Monte Paschi di Siena	1,300
Archon	Jun-15	Mixed	DE Shaw	Goldman Sachs	2,000
n/d	Mar-15	Consumer	Banca Ifis	Findomestic	400
n/d	Mar-15	CRE	TPG	Citigroup	220
n/d	Mar-15	Resi.	PVE Capital	Sofigeco	408
n/d	Feb-15	Mixed	HIG / Bayside Capital	Cassa di Risparmio di Cesena	50
West	Jan-15	n/d	Lone Star	Banca Tercas	600
TOTAL					15,363

With an estimated NPL stock approaching €200bn, it was expected that loan sale activity in 2015 would be high. Six months down the line and banks are still hesitant to bring portfolios to market, but there is increasing activity on the horizon.



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Austria and CEE




Estimated €90bn of NPLs in the region



€6.5bn of completed and ongoing transactions reported



Romania, Austria, Hungary and Bulgaria the most active markets



Austrian and Italian banks are reducing their exposures across the CEE

Activity by year



Completed Ongoing Rumoured

*As of 30 June 2015

Activity by asset type



Completed Ongoing Rumoured

As of 30 June 2015

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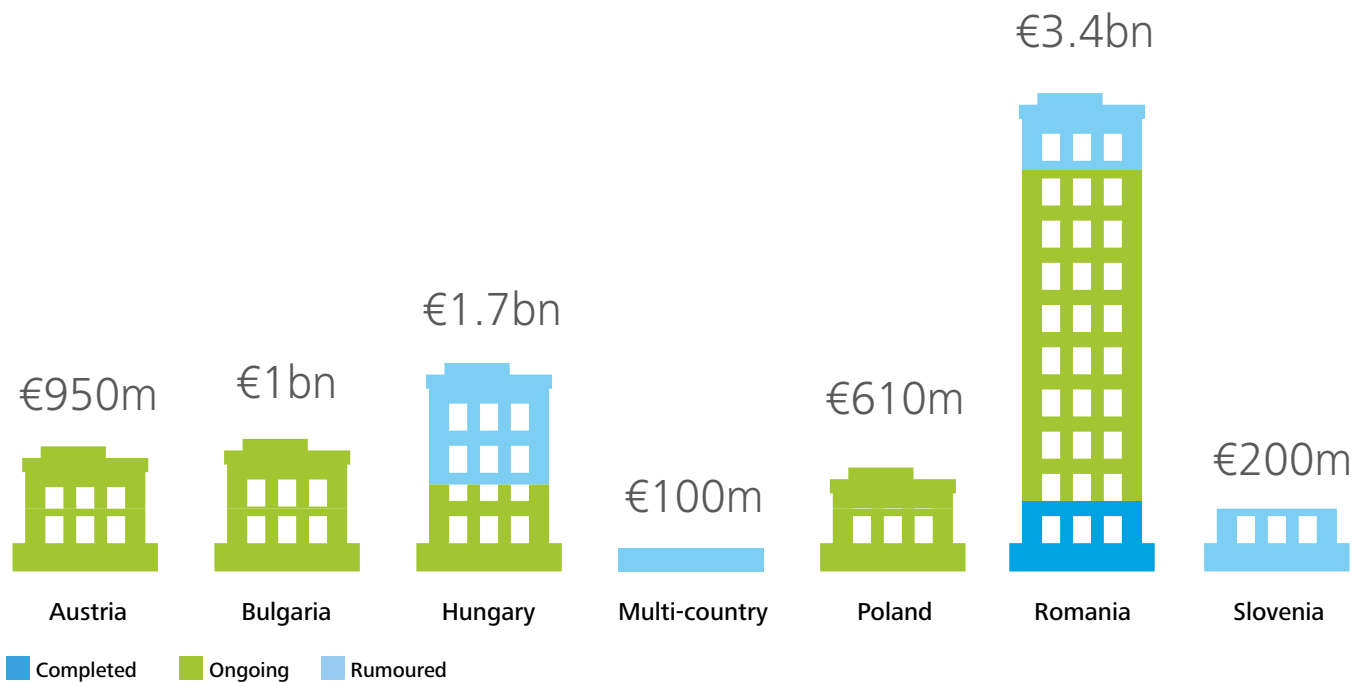
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Austria and CEE

Activity by country



*As of 30 June 2015

Transactions to reach nearly €9bn in 2015, more than 4 times the sales in 2014 (in GBV)



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The market

The level of activity in the CEE market has significantly increased over the past 12 months, with a number of lenders considering portfolio disposals across the region.

Macroeconomic snapshot

- Preliminary data show that the majority of CEE countries started 2015 with positive economic growth.
- The Czech Republic and Romania saw the highest growth in Q1 with year-on-year growth of 4.2% and 4.3%, respectively. GDP in Bulgaria, Hungary, Poland, Slovakia and Poland was between 2% and 4% in Q1.
- Flat growth is expected in 2015 for the region.

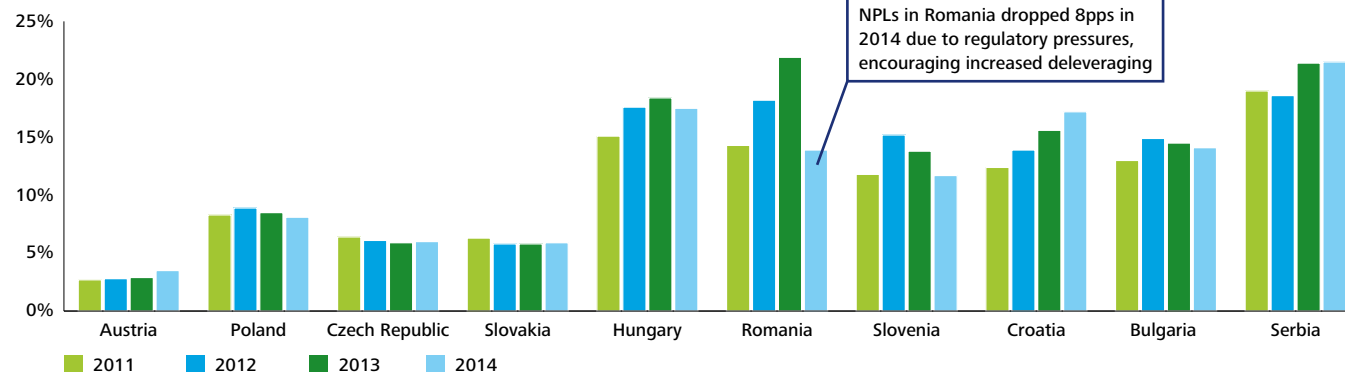
The banking landscape

In the CEE, foreign ownership in the banking sector has gradually decreased over the past year, and is now c.70% of total assets. The overall decline has mainly been driven by a reduction of foreign ownership in Poland, a state-led restructuring of ownership in Hungary and government bail-outs in Slovenia.

2014 saw a turning point in the CEE market as Western European banks began to address their loan exposures across the region.

The overall NPL ratio in the CEE dropped from 9.1% to 8.5% in December 2014, following a five year cumulative increase of 5.2%. Romania has seen the largest drop in NPL ratio, triggered by strong regulatory pressure.

Austria and CEE NPL ratios



Source: National Banks, IMF, National Financial Supervisory Authorities

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Loan sale activity

Loan sale activity in CEE has increased in the past year, due to growing investor appetite and greater willingness by banks to bring portfolios to market. Still, limited transactions have completed so far in 2015, although there are c.€6.3 billion in on-going sales and the pipeline only looks to be growing.

Romania has been the most active market to date, triggered by tough provisioning requirements imposed by the central bank last year, encouraging local lenders to increase NPL disposals. The market will remain active in 2015 and into 2016. Other key markets in the region are Hungary and Slovenia.

With another €1.5 billion of rumoured portfolios coming to market, we believe the Austrian and CEE loan sale markets will continue accelerating in 2015 and 2016. Growth in the Austrian market will most likely involve sales of non-Austrian assets by Austrian banks and state-owned financial institutions. Major Italian banks are also expected to reduce their CEE exposure and bring more portfolios to market. We also believe that Greek banks will follow suit and decrease their NPLs in the region.

As NPL markets are becoming more competitive in Western Europe, international investors are increasing their interest in Eastern European countries. Investors are aware that early stage acquisitions could help them dominate the market.

Varying enforcement and judicial processes in each CEE country are among the potential challenges for investors looking to enter the market. There is also a lack of suitable collection servicers to manage portfolios post acquisition. There are examples of small deals in the market where the vendor has provided no servicing solution thus resulting in less competitive, or worst case, failed process.

As returns continue to come under pressure in established markets, investors are increasing their interest towards Central Eastern European opportunities.



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Completed and ongoing transactions – H1 2015

Name	Date	Asset Type	Buyer	Seller	Country	GBV (£m)
Velence	Ongoing	Asset finance	Pending	Confidential	Hungary	300
n/d	Ongoing	CRE	Pending	Confidential	Romania	285
n/d	Ongoing	Corporate	Pending	Confidential	Austria	800
n/d	Ongoing	Residential	Pending	Raiffeisen Bank Polaks	Poland	240
n/d	Ongoing	Consumer	Pending	Bank Pekao	Poland	370
n/d	Ongoing	Corporate	Pending	Confidential	Austria	75
n/d	Ongoing	Corporate	Pending	Confidential	Hungary	400
n/d	Ongoing	Corporate	Pending	Confidential	Austria	70
Marlow	Ongoing	Corporate / Consumer	Pending	Confidential	Czech Republic	n/d
Neptune	Ongoing	Corporate / CRE	Pending	Banca Comerciala Romana	Romania	2,700
Velence	Ongoing	Corporate	Pending	Confidential	Bulgaria	300
Danube	Ongoing	Corporate	Pending	MKB Bank	Bulgaria	760
Marlow	Ongoing	Corporate / Consumer	Pending	Confidential	Hungary	n/d
Henri	Mar-15	Corporate / Consumer	n/d	Confidential	Romania	200
TOTAL						6,500



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Germany



Completed and ongoing sales of German loan portfolios in H1 2015 is already three times more than in 2014



€5.3bn of completed transactions in H1 2015

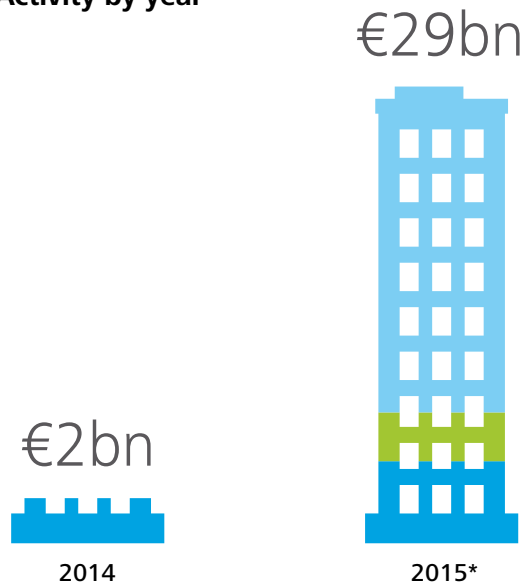


Commerzbank is the most active seller



Shipping loans continue to be a concern for German lenders

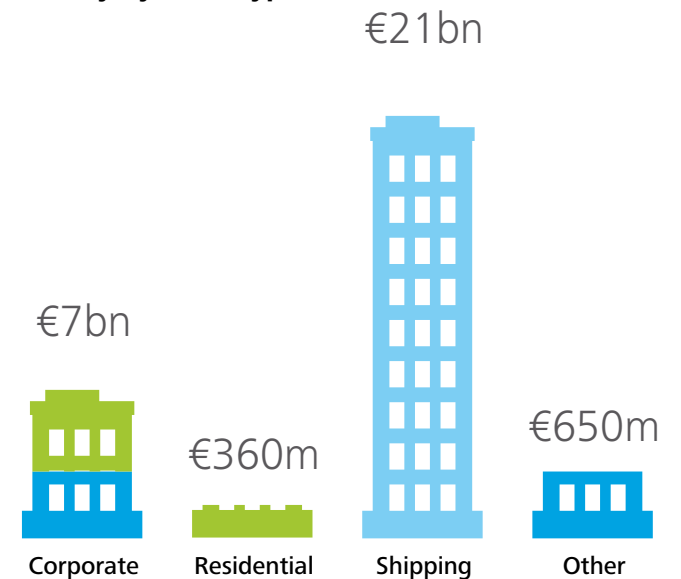
Activity by year



Completed Ongoing Rumoured

*As of 30 June 2015

Activity by asset type



Completed Ongoing Rumoured

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The market

Macroeconomic snapshot

- GDP growth reached 0.3% in March 2015, and is estimated to grow to 1.6% by the end of the year.
- Private consumption continues to be the main anchor of growth in the first quarter.
- Unemployment continued to fall and was 4.7% in April, down from 4.9% at the end of 2014.
- The commercial real estate sector has been less vibrant than the residential market since the onset of the financial crisis, but is expected to benefit from the improvement in the domestic economy.

The German banking landscape

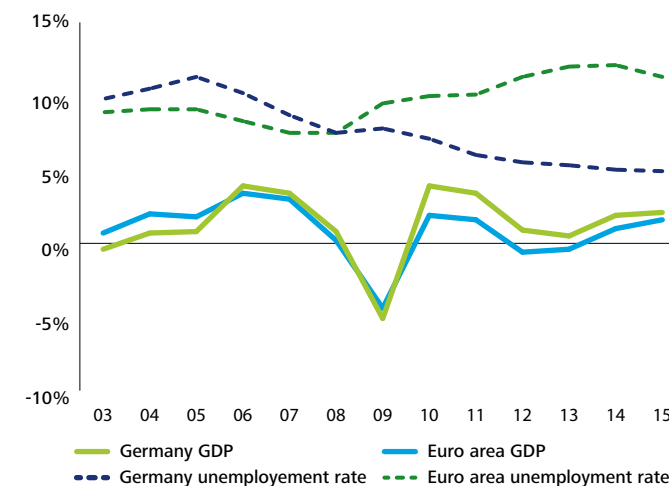
German banks have low levels of NPLs, although this is partly due to the large amount of NPLs transferred to the 'non-bank bad banks' that were established during the financial crisis. The estimated stock of NPLs in the main German banks is €66 billion, a relatively modest amount compared to banks in other European countries.

For most German banks, the relatively small percentage of NPLs on their balance sheet is not a problem requiring immediate attention. As a result, they have been reluctant to dispose of domestic loan portfolios and only external factors, such as regulatory pressure or a sharp rise in funding costs, would change the situation and prompt a sharp rise in portfolio sales.

German banks have been among the most affected in Europe by the severe crisis in the shipping industry, after many firms were hurt as overcapacity and an economic slump pushed down cargo prices.

Three banks have accumulated significant exposure and have taken approximately €4 billion in provisions for bad shipping debt in the past three years – HSH Nordbank, Commerzbank and Nord L/B. These banks have demonstrated a steady focus on winding-down shipping loan portfolios.

GDP growth and unemployment rate



Source: OECD Stat Extract

Germany enjoys a low level of unemployment and consistent GDP growth. The banking sector has generally benefitted from the strong economy with banks re-focusing their activities on the domestic market.

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Loan sale activity

In the last two years the volume of NPLs sold has been quite large – but this has been a small number of major transactions rather than a constant flow of deals. In 2015 German banks have increased activity in disposing of their non-core assets.

The loan sale market has been characterised by foreign banks disposing of their non-core assets in Germany (e.g. Nationwide's sale of Project Adelaide to Oaktree and Lloyds Banking Group's sale of Project Indie) and by German banks selling their non-core foreign assets abroad (e.g. Commerzbank's sale of UK and Spanish portfolios in 2014).

We have seen increasing activity in the German loan sale market so far in 2015. Commerzbank continues to be an active seller, having completed over €3 billion of loan trades to date, reducing its loan book by 17%. The bank will market more CRE portfolios in the next 12 months as it looks to halve its €14.5bn commercial property portfolio by the end of 2016.

FMS Wertmanagement, one of the German wind-down agencies, has completed one transaction so far and has recently brought another CRE portfolio to market.

Investor appetite for German loan portfolios remains high, as demonstrated by the number of participants in the recent sales by Commerzbank. Interest is coming not only from investors with long-term presence in the local market but also from newcomers wanting to benefit from the positive outlook for the German economy.



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Name	Date	Asset Type	Buyer	Seller	GBV (£m)
Confidential	Ongoing	CRE	Pending	Confidential	Confidential
Confidential	Ongoing	Resi	Pending	Confidential	Confidential
Gobi	Ongoing	CRE	Pending	Commerzbank	800
Tristan	Ongoing	CRE	Pending	Archon (Goldman Sachs)	800
Aurora	Jun-15	CRE	Withdrawn	Helaba	500
Gaudi	Apr-15	CRE	Oaktree	FMS	750
n/a	Apr-15	CRE	Blackrock / Highbridge	Citigroup	170
Parrot	Jun-15	CRE	JPMorgan / Lone Star	Commerzbank	2,400
Sun	Jun-15	CRE	Oaktree	Commerzbank	750
Wagner	Jan-15	n/d	EOS Group	Goldman Sachs	650
Helios	Jan-15	CRE	Bank of America Merrill Lynch	Wells Fargo	60
TOTAL					8,040

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Deloitte Portfolio Lead Advisory Services (“PLAS”)

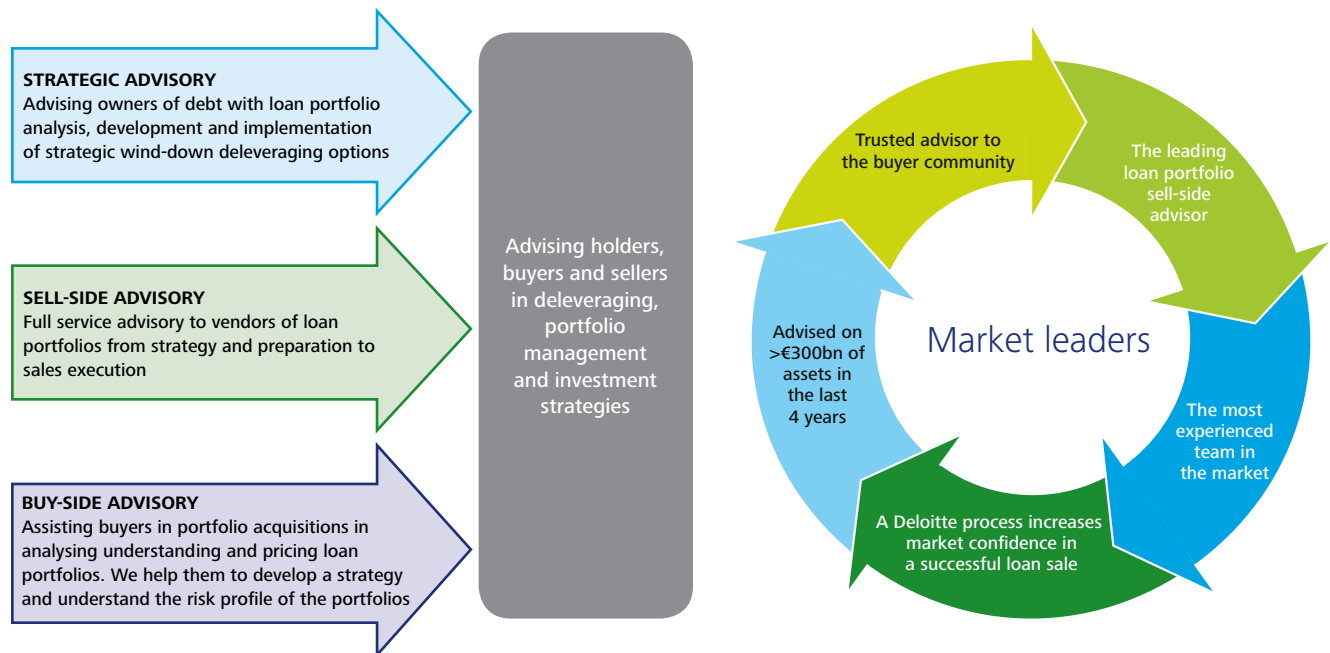
We have advised on loan portfolio transactions and completed deleveraging projects covering over €300bn of assets across all major European countries; we are the most active loan portfolio adviser in the market.

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PLAS team members are recognised leaders in UK, European and global loan portfolio transactions 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 €300bn of assets.

All senior team members have more than 20 years experience as both advisors and principal investors in loan portfolios and hence bring a unique perspective to advising clients on portfolio acquisition and divestment. The core PLAS team is supported by a dedicated network of over 140 professionals across Europe.



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