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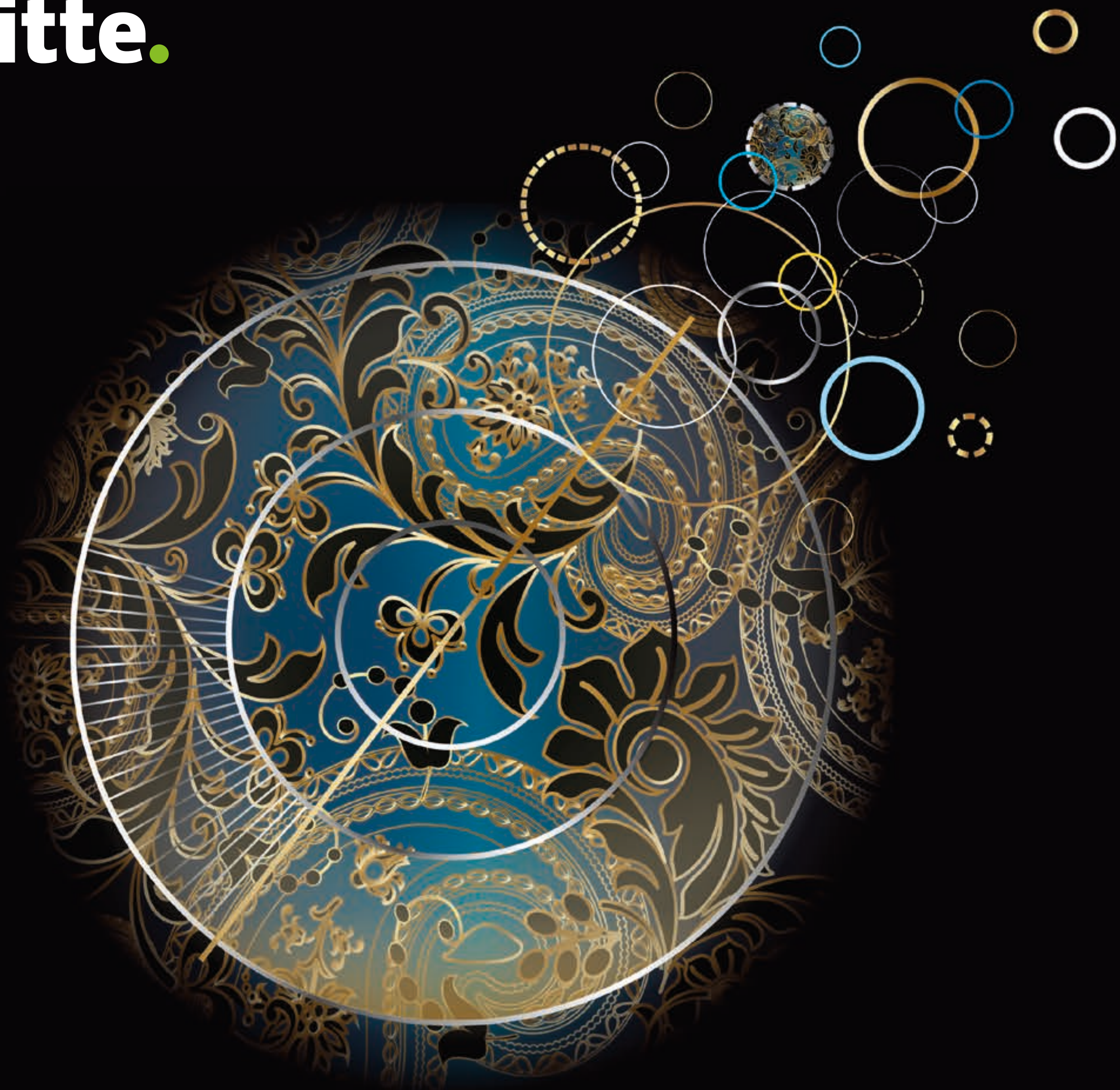


Deleveraging Europe

October 2019

Financial Advisory

Contents

David Edmonds
Global Head
Portfolio Lead Advisory Services

Andrew Orr
Global Transactions Leader
Portfolio Lead Advisory Services

William Newton
Head of Strategic Advisory
Portfolio Lead Advisory Services

Benjamin Collet
Southern Europe and LatAm Head
Portfolio Lead Advisory Services

About this report
Unless specified otherwise, all the data in the Deloitte Deleveraging report is based on ongoing tracking and monitoring of deal activity, based on Deloitte practitioners' insights into the respective markets together with public and industry sources, notably Debtwire. This combination of sources limits the detail we can provide on individual transactions or identifiable data segmentation.
All data in this report correct as of September 2019.

Introduction

The European loan portfolio market has had a quieter start to 2019, as investors and banks digest the €200bn traded last year. Recent activity has been particularly driven by the Italian and Spanish markets – between them accounting for over two thirds of the European market. There has also been a significant increase of activity in Portugal and the Aegean, where the annual volume of traded assets has more than doubled since 2017.

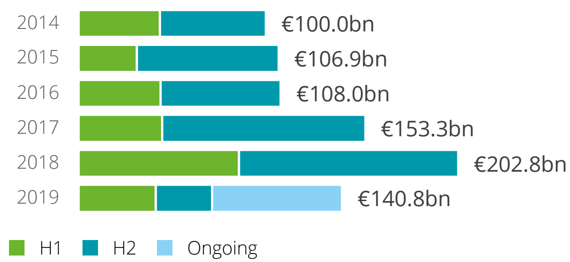
The volume of European loan portfolios traded has effectively doubled in just two years, reaching over €200bn in 2018, compared with €109bn in 2016. While unlikely to repeat last year's volume, with over €70bn sold in the year to date, a similar volume in ongoing sales, and continuing investor appetite for non-core and non-performing assets, the market is set to remain busy through 2019.

With overall non-performing loan (NPL) volumes and ratios continuing to reduce across Europe, the market is increasingly diversifying in terms of both asset classes and the types of loans to be traded and securitised – largely on the basis of national regulatory measures or market dynamics. Demonstrating this is the significant growth in real estate owned (REO) portfolios being traded as banks tackle their stocks of repossessed properties. This is seen particularly in Spain, where over half of the traded portfolio volume was in REO assets. There has been a similar trend in Italy where unlikely-to-pay (UTP) loans have increased from 4% of the volume traded in 2018 to over a third of the country's ongoing pipeline and traded volume in the year to date.

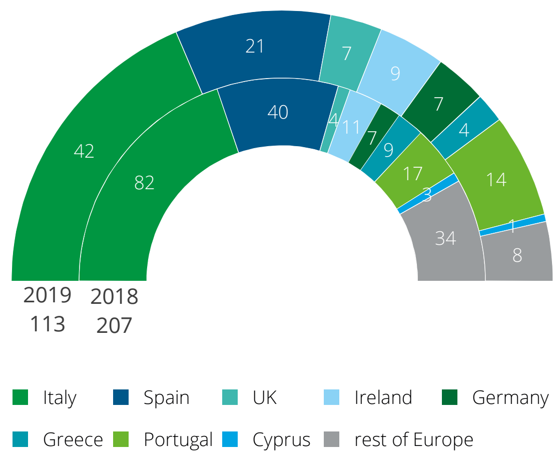
Shipping finance continues to attract investor interest, with German banks in particular reducing their non-performing exposures (NPE) in the category. This is expected to continue as an active sector given the significant volumes of shipping loans also held by Nordic, Dutch, and Greek banks.

With the increasing volume of loan sales there is a growing demand for third-party loan servicing expertise. This has led to regulatory developments at both the national and EU levels, fostering professionalisation and competition in the market, and driving a wave of consolidation as servicers scale up to achieve the geographical coverage and asset class expertise required by asset owners.

European loan portfolio activity by year (€bn)



Number of deals completed by country

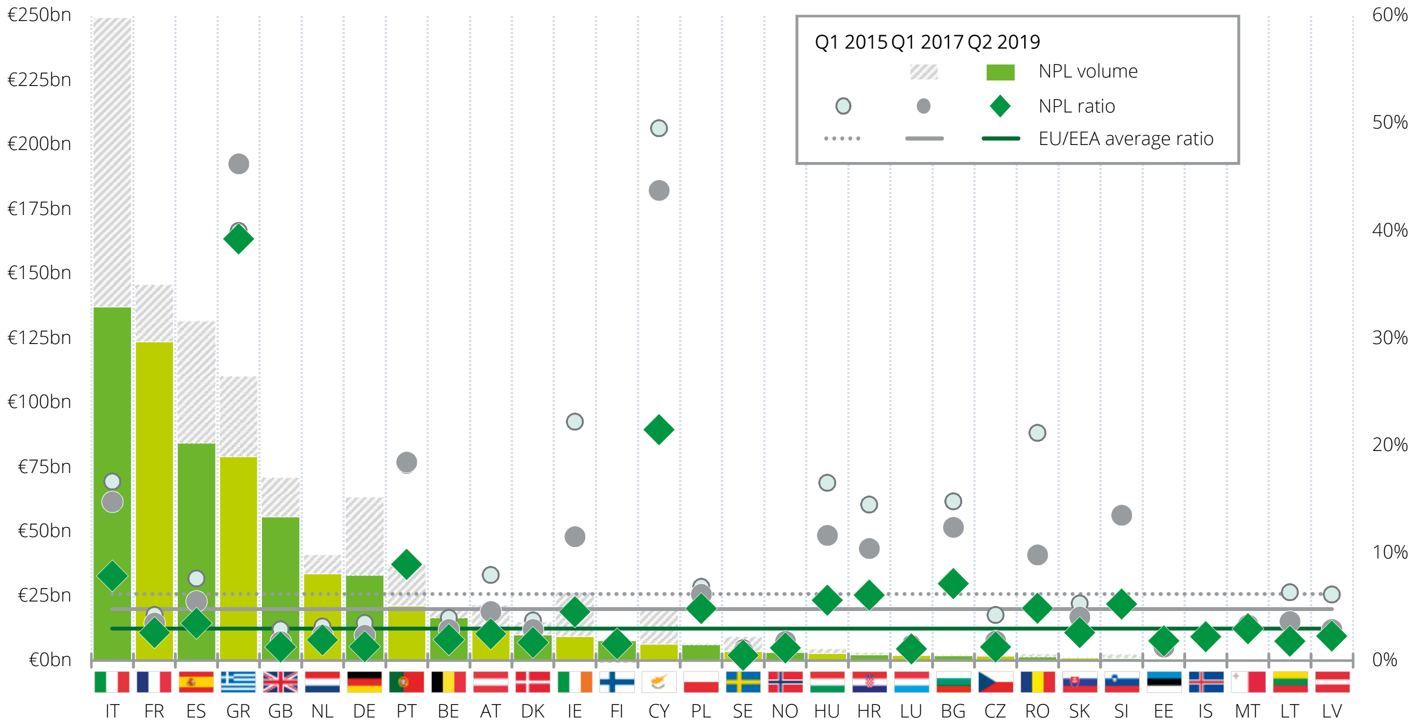


Overview of European NPLs

Portfolio trades continue to play a significant role in European banks' deleveraging activities as they address the stock of NPLs held on their balance sheets. The measures set out by the European Commission in the context of its 'Action Plan to Tackle Non-Performing Loans in Europe' (Action Plan) are maintaining pressure on banks and regulators to both address existing stocks of NPLs, and ensure measures are in place to avoid future build-ups.

These measures have helped achieve a reduction in the total volume of NPLs held by Europe's significant credit institutions (SIs) from €1tn (8% NPL ratio) at the start of the European Central Bank's (ECB) Single Supervisory Mechanism (SSM) in 2014 to €587bn (3.7%) in March 2019. In August, the ECB completed its overall framework for non-performing exposure (NPE) coverage under Pillar 2 which is designed to provide consistency and eliminate overlap with the EU's prudential treatment under Pillar 1.

€1tn stock of European NPLs in Q1 2017 reduced to €636bn in Q2 2019



Source: European Banking Authority Risk Dashboard – data as of Q2 2019

At the wider European level, the European Banking Authority's (EBA) latest Risk Dashboard calculates that the total stock of NPLs held by the banks in its scope has reduced by over €100bn during the past year to €636bn as of June 2019. The average NPL ratio has similarly reduced to 3.0% from 3.6%. The improvement is seen across Europe, with NPL ratios reducing in all but three nations, the most notable exception resulting from Nordea's move from Sweden to Finland. Meanwhile the banking systems of Italy, Germany, Spain, and Greece each achieved reductions in excess of €10bn since H2 2018.

This brings the number of European nations with NPL ratios below the European average up to 18 (from 17). The remaining 12 nations with ratios above the average hold 54% of the total NPL stock against 23% of the assets. Greece continues to be the significant outlier, with an NPL ratio of 39.2%; Cyprus (21.5%) and Portugal (8.9%) also continue to be significantly above average, despite achieving reductions in their NPL volumes and ratios over the past year.

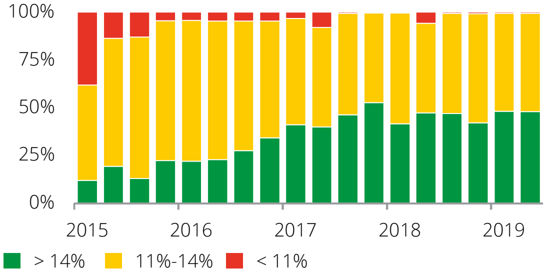
The Common Equity Tier 1 (CET1) ratios of European banks have remained broadly steady since late 2017, with just under half (47.9%) reporting a CET1 ratio above 14% – the EBA's threshold for 'best bucket'. Under 1% of banks reported ratios below 11% in each of the past four quarters.

Three quarters (74%) of banks reported an NPL ratio below 3% – now both the European average as well as the EBA's threshold ratio for 'best bucket'. This reflects the overall reductions, and is nearly double the share of banks reporting the equivalent NPL ratio in 2015 when the threshold was reduced from 5%. Under 3% of banks still hold NPLs in excess of 8% of gross loans and advances.

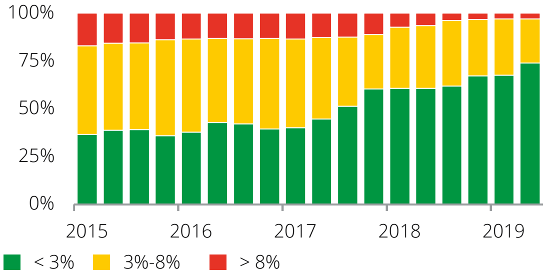
There is a more mixed picture in terms of banks' provisions for NPLs, with over half of banks reporting a coverage ratio in the 40-55% category. While the share of banks reporting a ratio over 55% has fallen consistently since 2018.

The quarterly Risk Dashboards produced by the EBA include data on a wide range of 'Key Risk Indicators' including liquidity, funding, solvency, profitability, and market risk, as well as asset quality including NPL ratios and totals. The data is based on a sampling of European banks – 150 in the latest report, covering over 80% of the EU banking sector by total assets. While it does not include NPLs held by AMCs, or state-owned 'bad banks' such as UKAR, NAMA, Sareb, or the newly-renamed AMCO, it provides a comprehensive baseline reading of the size of the outstanding NPL pool in Europe.

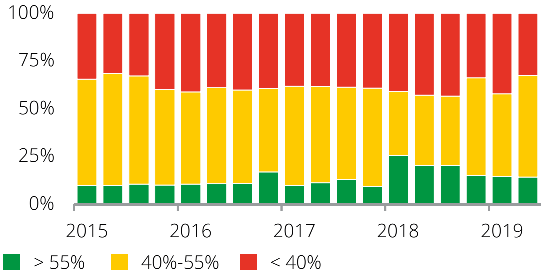
CET1 ratio



NPL ratio

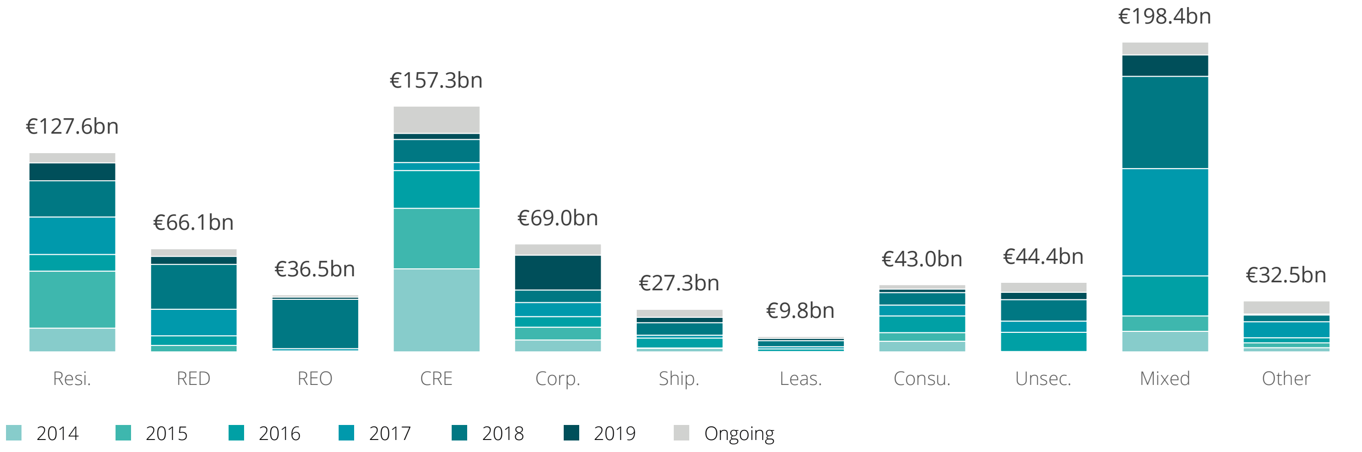


Coverage ratio of non-performing loans and advances

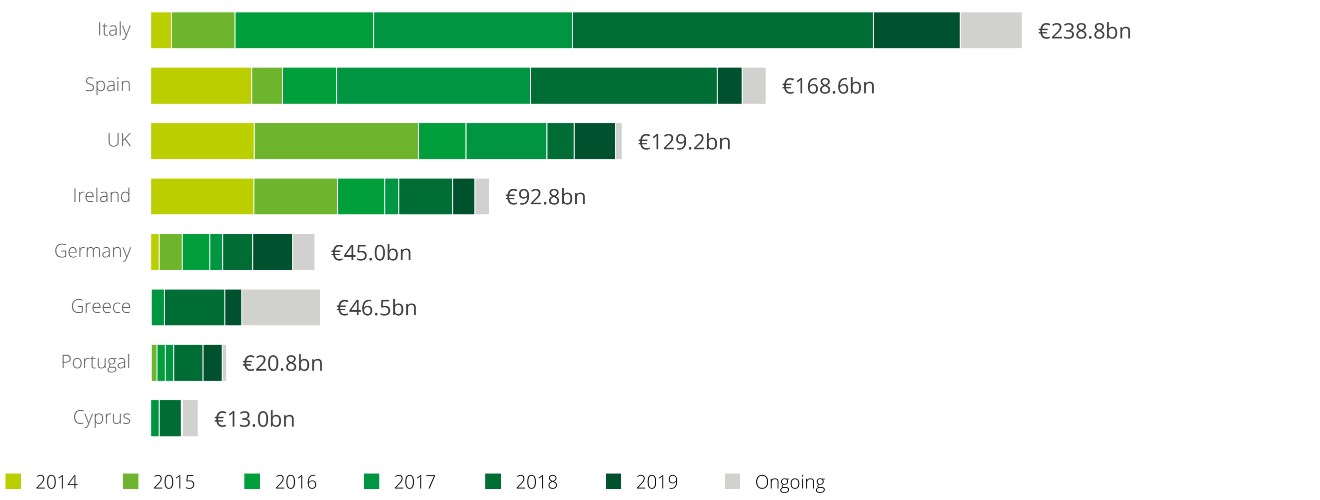


Source: European Banking Authority Risk Dashboard – data as of Q2 2019

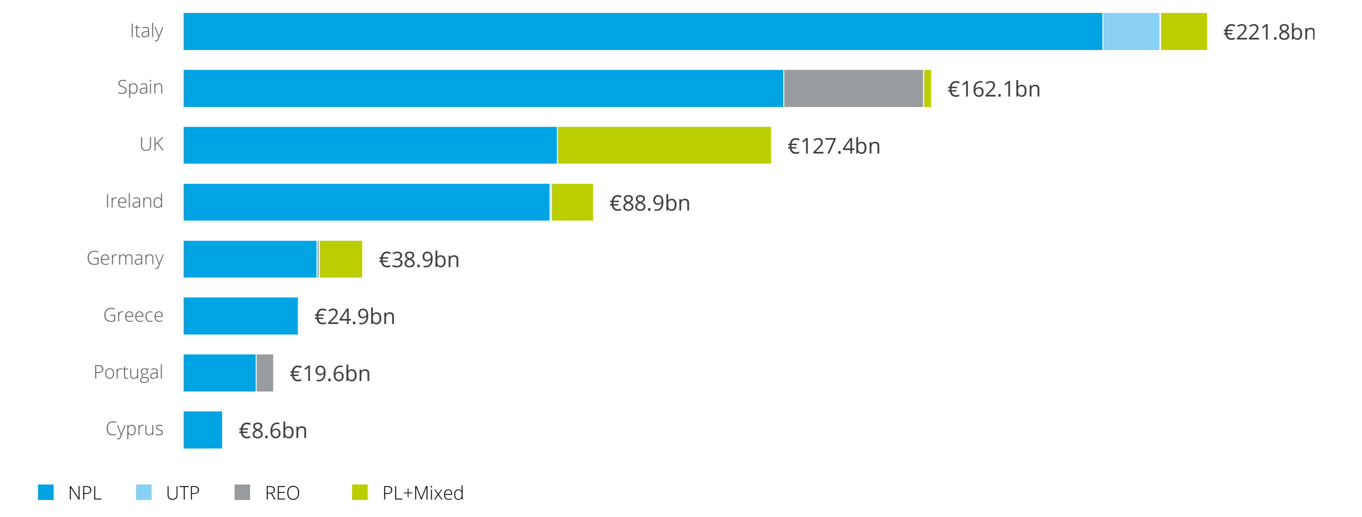
Activity by asset type since 2014 (€bn)



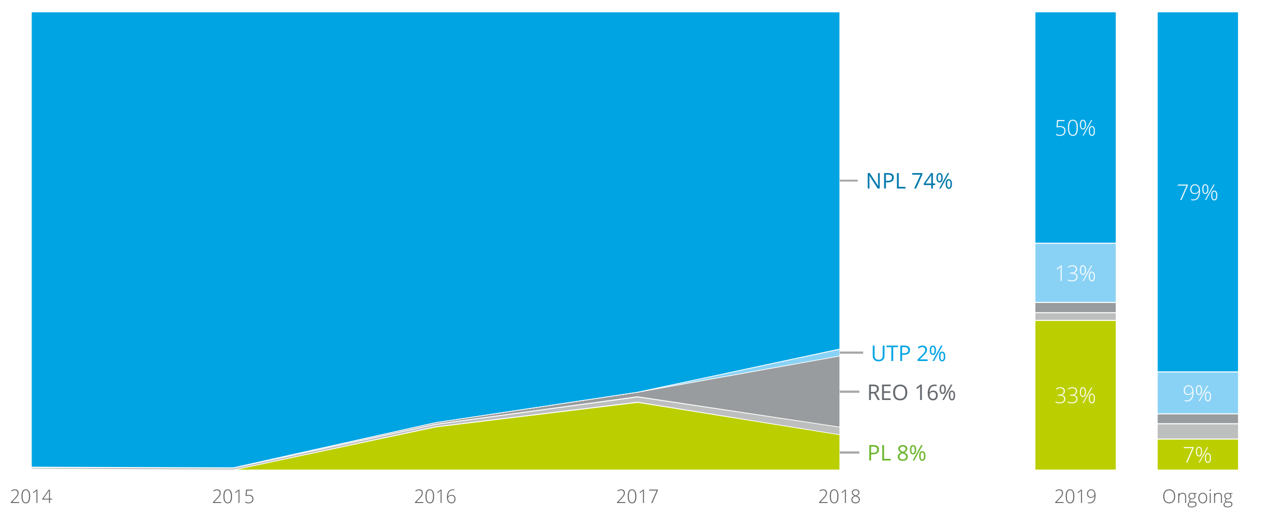
Completed and ongoing deals by country since 2014 (€bn)



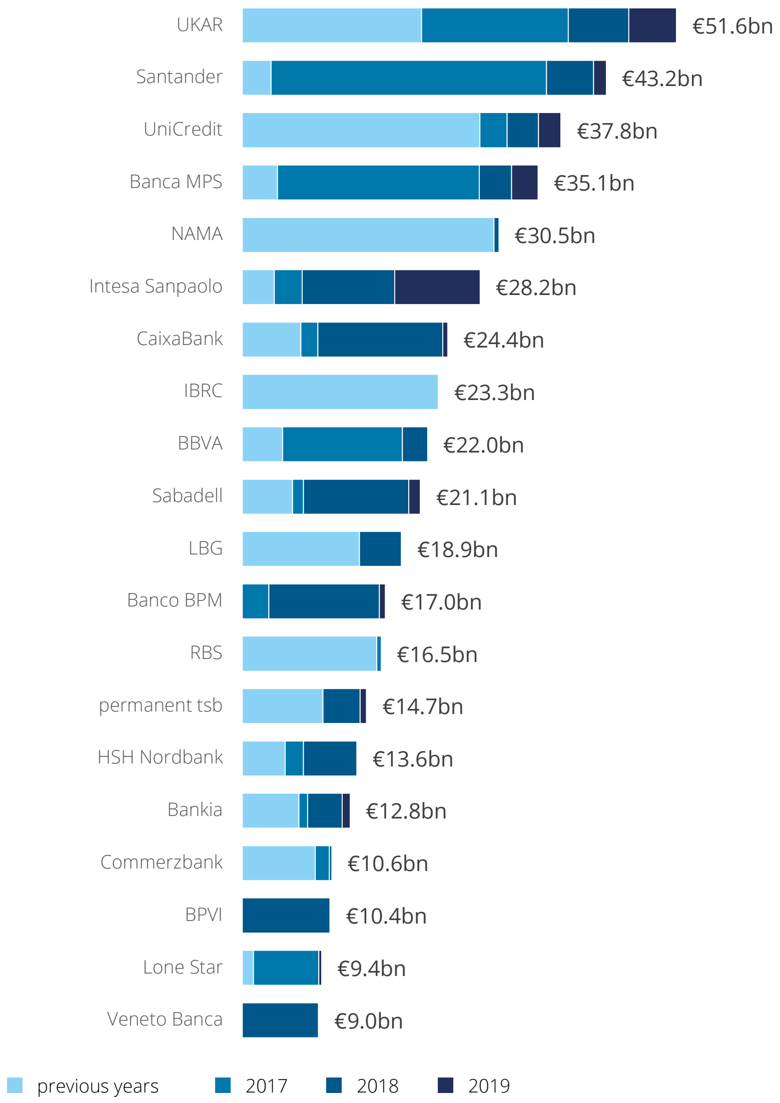
Completed deals by country since 2014 (€bn)



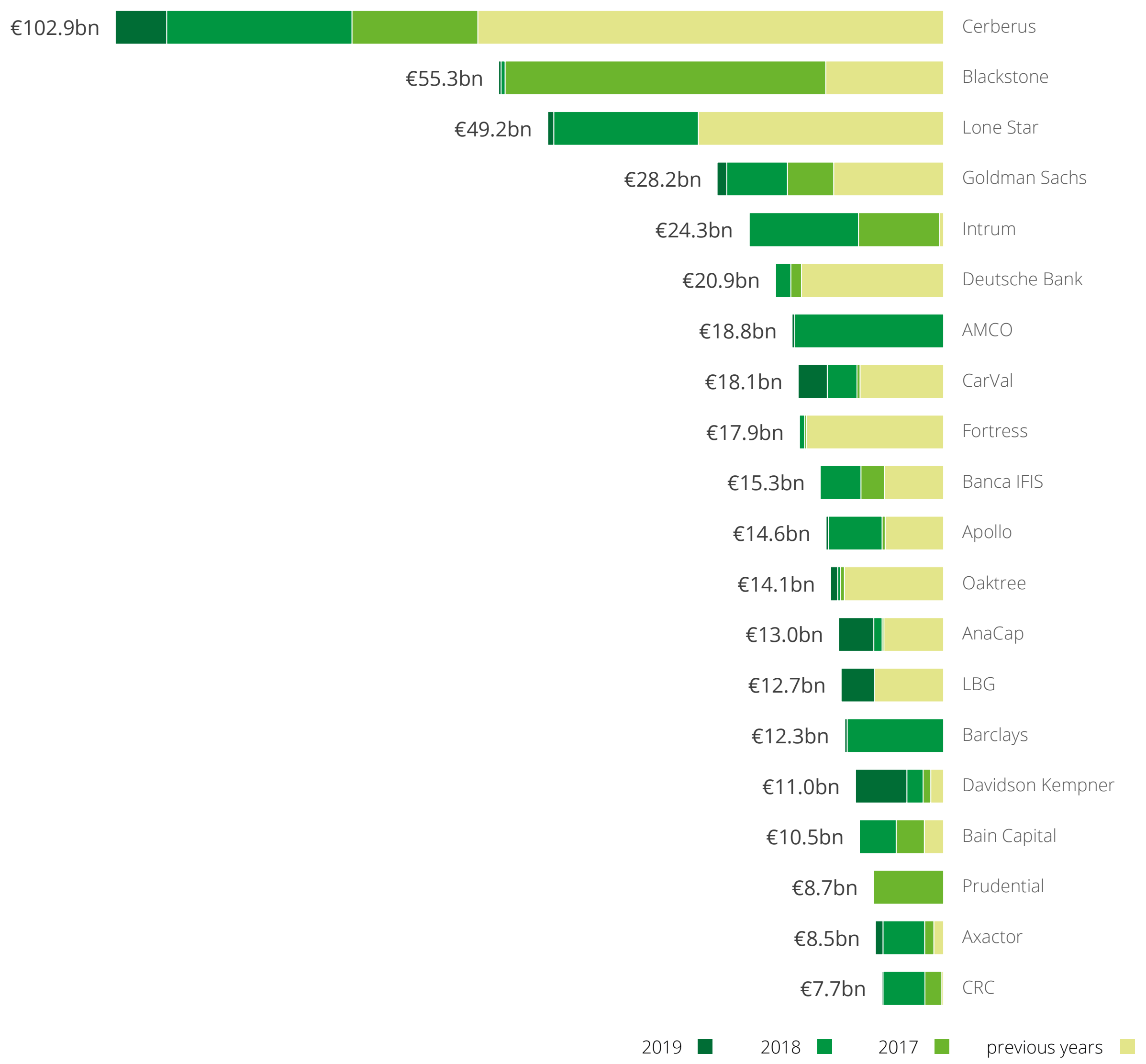
Loan sale activity by portfolio type (€bn)



Top sellers since 2014



Top buyers since 2014



European loan servicing landscape

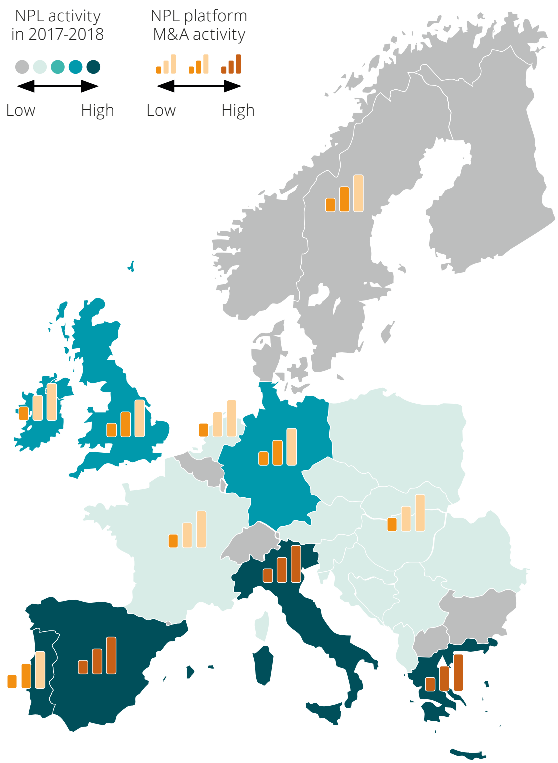
Loan and debt servicers are bridging geographical and asset class specialisations to achieve consolidation and professionalisation, leading to the development of more integrated servicing platforms.

The loan servicing, debt purchase and collection industries are an integral element of credit management and have played a key role in the reduction of NPL stocks across Europe. The industry landscape has evolved since the pre-financial crisis era as markets mature, regulations change, and competition intensifies, in the context of an increasingly global marketplace for NPL portfolio sales.

As the share of NPLs held by non-bank financial investors increases, so too does the market for firms with the breadth – in both geographical reach and asset class specialism – to address the growing requirement for third-party loan servicing. This is driving M&A activity across the European market, as the legacy debt collection and commercial loan servicing sectors converge to provide integrated solutions and expertise. As this consolidation continues to drive further integration and standardisation across the sector, individual firms can still be categorised by their organisational heritage, and business model focus.

Credit management platforms in the European market

Categories	Examples
Captive servicers with exclusive relationships with private equity NPL investors	Hudson with Lone Star Lapithus with Apollo
Loan servicing platforms linked with NPL private equity investors	CHL (UK and Ireland) and Haya (Spain) with Cerberus Pepper, HipoGes, and Pillarstone with KKR
Debt purchasing and collection agencies with growing secured servicing capabilities	Lowell, Arrow, Hoist, Cabot
Bank platforms or Asset Management Companies (AMC)	FMS Wertmanagement, Eurobank Financial Planning Services (FPS)
Global Commercial Real Estate (CRE) loan servicers	Situs, Mount Street, CBRE
Country-focused players	LOANCOS (Germany)
Business Process Outsourcing (BPO) integrated servicers	Link Asset Servicing, Computershare, Tech Mahindra (Target)



Consolidation and professionalisation of the loan servicing market

The fundamental changes within the industry are fuelling consolidation. The combination of an increasingly competitive market and sophisticated participants, the integration of state-of-the-art technology, and the operational implications of regulatory compliance are accelerating the transformation of the sector.

Alongside the emergence of crossover credit management companies, the likes of Hoist, Intrum, and Cabot are becoming truly global players, expanding beyond Europe to Asia and the Americas.

> "Large private equity and hedge funds are now dominating the major servicing markets, which is having a transformational effect on the industry."
> – Global NPL investor

Integrated loan servicing platforms — Future operating model

- Pan-regional or global reach
- People-driven, with highly-skilled professionals
- Expertise in multiple asset types
- Hub and spoke model
- High jurisdictional agility
- Strong IT and AI backbone
- Country-based data repository

Professionalisation through technology — 2013 - ongoing

- Streamlined and AI-supported, but human-led customer interactions
- Real-time KPIs and behavioural mapping
- Automation and machine learning
- Single borrower view
- Strengthened adherence to regulatory guidelines

Geographical and asset-type consolidation — 2009 - 2015

- Increased professionalisation
- Embedded experience of multiple NPL cycles
- Extension to new asset types
- International expansion through partnerships
- Traditional IT systems or data operators

Debt and loan servicing market pre financial crisis

Debt purchasers and collection agencies

- Legal practice centric
- Primarily process-driven
- Country-based, single asset class focus
- Heterogeneously regulated
- Technology or people centric

Servicers of Commercial and Residential Mortgage-Backed Securities (CMBS and RMBS)

- Performing portfolio administration
- Ancillary special servicing activity
- People's business
- Based predominantly in London, with country antennas
- Arms-length from borrowers and investors

Platform dynamics in Europe

The pace of consolidation across the loan servicing industry is accelerating across Europe, following the trend in NPL transactions. NPL investors are global in scope – operating across the Americas, Europe and Asia – and increasingly expect the same from their loan servicing partners.

"As an investor, the high staff turnover in special servicing appears the value chain's current biggest challenge."
– top-tier NPL bank desk

- **Increasing globalisation** as leading global servicers enter the European market, either directly or through acquisitions. Examples include Link Group with Capita Asset Services (CAS), Situs with Hatfield Philips (HPI), and Trimont's European market entry.
- **The rise of crossovers** as the likes of Arrow Global, B2Holdings, and Intrum combine debt purchasing, debt collection, and servicing of both secured and unsecured loans.
- **Move towards capital-light profiles** as widening bond spreads force Debt Collection Agencies (DCA) to reduce their own debt exposures, control portfolio growth, and partner with investors.
- **Market consolidation** as both leading European platforms and smaller players use M&A to achieve strategic growth and maintain critical mass. Examples include Mount Street and LOANCOS.
- **Outsourcing of primary and special servicing** by banks, including divestments of in-house platforms and capabilities. Examples include Aktua, Salduvia, Piraeus' Specialised Financing Solutions (SFS), as well as Commerzbank and CR Investment Management.

Credit ratings for servicers

In an increasingly competitive market for third-party servicing contracts, firms are turning to servicer evaluations from credit rating agencies to demonstrate their capabilities to asset owners. Of particular relevance is their performance against key challenges:

- **Staff capability and retention:** individual expertise and market knowledge is critical in this largely people-centric industry.
- **Technology and innovation:** the right technology platforms will enhance efficiency and consistency, particularly during periods of high growth or expansion into new markets.

In providing these independent evaluations, the rating agencies are establishing standardised metrics and benchmarks across the industry, enabling servicers to be objectively assessed against relevant peers and industry best practice.

"Arrow Global is moving from a purely investment firm to a manager of other people's money. It is expanding purposefully into high-margin businesses via internal transformation and selective acquisitions."
– Lee Rochford, Arrow Global

Regulatory environment for credit servicers

Measures proposed at the EU level aim to both tackle NPL levels, and provide a standardised framework for loan servicing and the recovery of collateral across the continent. Working from different starting points, Greece and Italy have developed regulatory approaches which are closely aligned to the EU proposals. By doing so they have set a template for other countries to follow which balances global standards and best practice with local customisation.

Building on its 2017 Action Plan, in 2018 the European Commission (EC) introduced a package of measures to tackle the continuing high levels of NPLs. This includes a proposed EU 'directive on credit servicers, credit purchasers and the recovery of collateral' (2018/0063/COD) and the EC 'blueprint for the set-up of national asset management companies' (AMC). While the measures require loan servicers to be licenced by the member states' competent regulatory authority, they also allow scope for local customisation of the legal frameworks.

> "We look for reliable long-term business partners. As NPLs are a long-term investment, the servicing team's dedication over time and performance sustainability are essential."
> – top-tier NPL investor

The licencing and legal framework for loan servicing in the Greek market, as implemented by the Bank of Greece in Law 4354/2015, closely follows the EU directive. This provides an opportunity to examine the rollout of some of the key measures, including:

- Loan servicers with a registered license in other member states can provide servicing activities in Greece providing they have a local presence licenced under Greek law. **Cross-border servicing is not currently recognised under Greek law.**
- Loan purchasers are not required to be licensed, although it is **mandatory to appoint a licensed servicer to manage loans.**
- The Greek **complaints procedure framework is comparable** to that set out in the EU directive.
- Credit servicers are **required to promptly communicate the identity of the loan servicer** to the borrowers they are managing.

There are a few aspects in which the regulatory environment in Greece differs from the EU directive:

- Greek Law 4354/2015 deals with the servicing and sale of **both NPLs and performing loans**, while the draft EU directive is focused only on NPLs.
- A **dual licensing framework** has been introduced in Greece which is comparable to the Italian framework, but contrasts with single process for all servicers outlined by the EU directive. This allows:
  - a more light-touch process for **servicers only managing receivables**, without offering refinancing services; and
  - a more comprehensive licensing process with enhanced capital requirements **enabling servicers to grant loans or credits** in the context of refinancing receivables or restructuring of the borrowing company.
- While the EU directive provides a **structured framework to the information obligations** as regards creditors, credit purchasers, and competent authorities – with due respect to personal data protection rules – the Greek regime relies on **more general principles of corporate law**, such as 'good faith' and 'business ethics'.

The Greek loan servicing market emerges

Greece has proved a testing ground for the EU and ECB regulatory approach; bringing liquidity, competition, and robust rules of conduct to the industry. EU 'passporting' has enabled external servicers to enter the market, although delays can still be faced by firms in establishing the local presence required by the Greek regulators.

"In smaller and dynamic markets like Greece, servicers' operating models must be nimble and adaptive to client needs – allowing asset managers to combine local experience with international best practice, and product and sector expertise."
– Natalie Vombiri, Mount Street, Greece

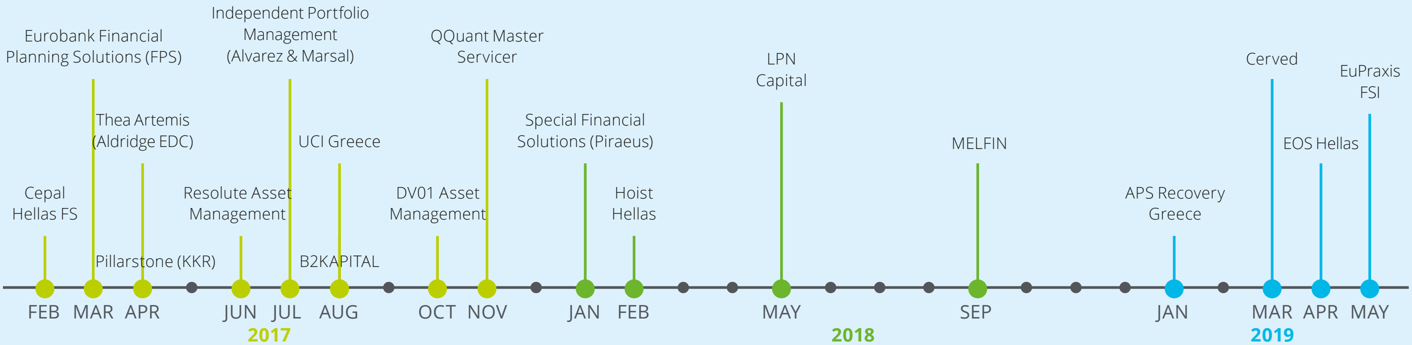
Prior to 2014 the Greek loan servicing market was primarily composed of Debt Collection Agencies (DCA) and legal firms. Since the introduction of Law 4354/2015 and Alpha Bank/Attica Bank joint venture, which formed Cepal in 2015, there has been a **rapid increase in loan servicer licences**, with 18 now issued, and a dozen more in process.

Competition amongst loan servicers in Greece is leading to **strategic market specialisation**, and forcing firms to refine their competitive edge and differentiation. The increasing demand for experienced practitioners is placing pressure on talent and staff retention.

International players have adopted a range of strategies to gain the local presence required to enter the Greek market:

- Aldridge EDC set up a joint venture with Attica Bank to form **Thea Artemis** in 2017;
- PIMCO acquired a minority stake in **QQuant** at the end of 2017;
- Italy's **doBank** (now doValue) entered a deal with the four systemic banks to co-manage €1.8bn in SME NPLs in 2018.

Building on the sector's experience in Ireland, Spain, and Italy, and responding to regulatory pressures at both national and European levels, the Greek loan servicing market has developed since 2014 into a significantly more professional and structured landscape today.



Credit servicing licences granted in Greece under Law 4345/2015

Dominance of a few major platforms in Italy

The Italian credit servicing market has undergone significant change over recent years as the volume of NPL transactions has grown. Professionalisation, in what was once the domain of small-scale loan collectors, has been driven by financial institutions' increasing requirements for specialist third party loan servicers to manage their credit volumes under work-out.

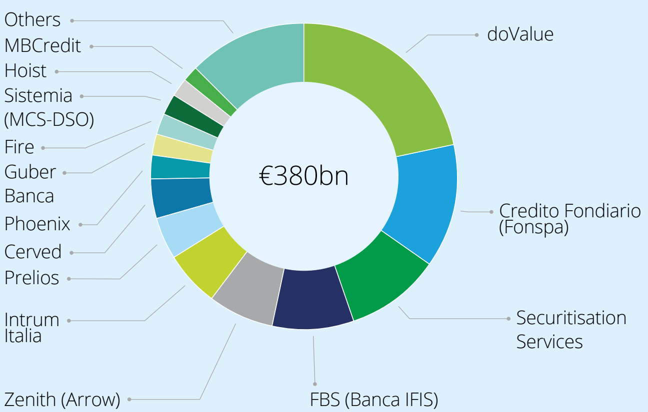
Nearly €400bn AuM by third party loan servicers in the Italian market, with **35 servicers each reporting AuM over €600m.**

doValue dominates with 22% of the Italian market, and a further 45% of AuM serviced between the next five. This scale enables them to secure the **most sizeable and profitable servicing contracts**, underpinning the case for further consolidation.

At the other end of the scale, 12% of the servicing market is serviced between 25 mid-sized firms (€500m-€5bn AuM).

Intrum's **ambitious strategy of acquisition and partnership** has seen its rapid entry into the increasingly concentrated top tier of Italian servicers.

Servicers in the Italian market by assets under management (AuM)



Source: company reports, Deloitte analysis

New contenders continue to **enter the Italian market with ambitious expansion plans**, such as the 2016 entry of Link AS to service Cerberus' €2bn portfolio, and targeting €12bn AuM by 2023.

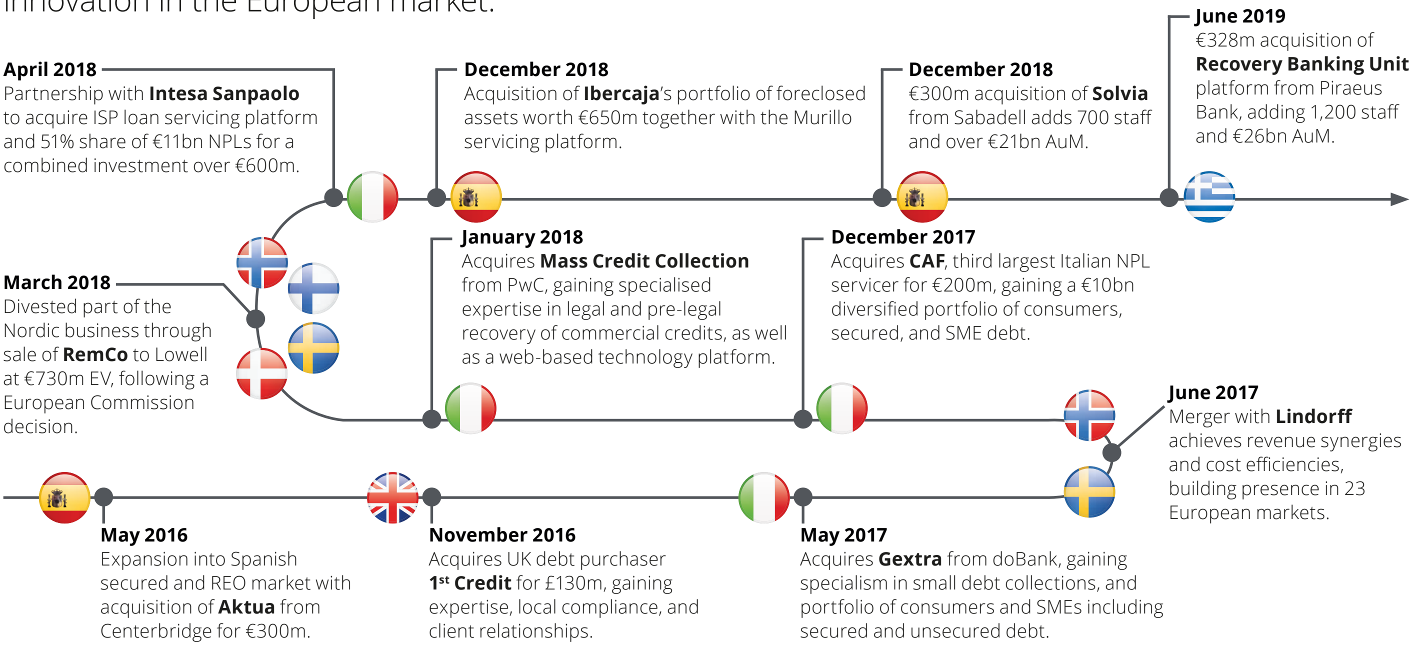
With few independent players of scale to target, attention has shifted to **carve-out opportunities from the banks**, such as BMPS' Juliet platform acquired by Quaestio and Cerved in 2017, or Italfondiario's 45% stake in BCC Gestione Credit, ICCREA's €2bn servicing platform.

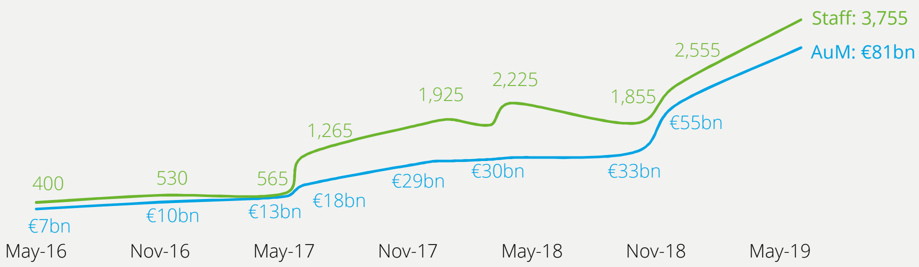
Similar to Greece, the Italian **regulatory environment for loan servicers** is broadly aligned with the EU measures.

- **Licensing – Article 106 TUB and 115 TULPS**
  Unlike the single licensing framework outlined in the draft EU directive, servicers in Italy can choose to either register as financial intermediaries under Article 106 of the Consolidated Law on Banking (Testo Unico Bancario "TUB"), enabling them to exercise financing activities, but subject to similar requirements as the banking sector; or under Article 115 of the Consolidated Law on Public Security (Testo Unico Leggi Publica Sicurezza "TULPS") with a lower level of regulatory requirements and supervision, but restricted to conducting civil recovery.
- **GACS vs. AMC**
  The notable difference between the Italian Treasury's Guarantee on Securitisation of Bank Non-Performing Loans (GACS) scheme and the EC blueprint for AMCs is that its scope is limited to only the senior tranches of less risky securitisations. While an extension to also include the less risky unlikely-to-pay (UTP) category was considered, this was not included in the latest extension in March 2019.

Case study: Intrum

Intrum has followed an ambitious strategy of M&A to increase its market presence tenfold in only three years, emerging as a leading Europe-wide credit services business with over €80bn AuM; achieving significant growth in Spain, Greece, and Italy; and rivalling global competitors in size and scale. Its journey, accelerated by the Lindorff merger, has set a model for further consolidation and innovation in the European market.





- Nearly tenfold increase in staff numbers achieved through successive acquisitions.
- Enabling transformational growth in market share, with €126% CAGR in AuM over the three years.

Source: company website, press articles, Deloitte analysis

Main European loan servicing platforms

Name	EBITDA	Revenue	ERC*	AuM	European presence	Ownership	Associated brands
Stater	€30m	€160m	-	€300bn	Netherlands	Infosys	
doValue	€139m	€489m	-	€132bn	Italy, Spain, Greece	Fortress	Altamira, Italfondiario
Computershare	€626m	€2bn	-	€87bn	UK	[listed]	
Quion	€20m	€95m	-	€63bn	Netherlands	[independent]	
Fonspa	€17m	€42m	-	€53bn	Italy	Elliott	Credito Fondiario
Securitisation Services	-	-	-	€38bn	Italy	[independent]	Banca Finint
Situs	€2m	€13m	-	€19bn	Europe-wide	Stone Point	
Prelios	€1m	€14m	-	€17bn	Italy	Davidson Kempner	
Target	-	€18m	-	€17bn	UK	Mahindra Tech	
Anida BBVA	-	-	-	€15bn	Spain	Cerberus, BBVA (joint-venture)	
Northview Group	€3m	€63m	-	€13bn	UK, Ireland	TPG, Blackstone (joint-venture)	Acenden, Kensington Mortgages, New Street Mortgages
Cepal	-	-	-	€10bn	Greece	Centerbridge, Alpha Bank (joint-venture)	
Guber Banca	-	€25m	-	€9bn	Italy	Värde (minority)	
Fire	€1m	€21m	-	€8bn	Italy	[independent]	
Trimont Re	-	-	-	€8bn	Western Europe	[independent]	
MBCredit	€16m	€40m	-	€7bn	Italy	Compass Banca	
Paratus	€2m	€11m	-	€5bn	UK	Fortress	
Exact Mortgage	-	€27m	-	€5bn	UK	Precise Mortgages	
CMIS	-	€22m	-	€5bn	Netherlands, Germany	Fortress	Brix, Hypokeur
BCC Gestione Credit	€3m	€8m	€4bn	€4bn	Italy	[independent]	ICCREA
Propertize	-	€49m	-	€3bn	Netherlands	Lone Star	
Thea Artemis	-	-	-	€2bn	Greece	Aldridge EDC, Attica Bank (joint-venture)	
Solutus	-	€2m	-	€2bn	UK	[independent]	

* ERC = Estimated Remaining Collections

Source: latest company reports, Deloitte analysis

European loan servicing and asset management companies

Name	EBITDA	Revenue	ERC*	AuM	European presence	Ownership	Associated brands
Link Asset Services	€20m	€88m	-	€82bn	Europe-wide	[listed]	
Mount Street Group	-	€30m	-	€56bn	Europe-wide	Greenfield Capital, Aareal Bank (minorities)	
Cerved Credit Management	€22m	€66m	-	€51bn	Italy	[listed]	
CBRE EMEA	€3m	€8m		€44bn	Europe-wide	[independent]	
Haya	€132m	€273m	-	€40bn	Spain	Cerberus	
Servihabitat	-	€344m	-	€25bn	Spain	Lone Star	
Solvia	€45m	€162m	-	€21bn	Spain	Intrum, Banco Sabadell (joint-venture)	
Anticipa	-	€59m	-	€20bn	Spain	Blackstone, Santander (joint-venture)	
Phoenix AM	€2m	€4m		€9bn	Italy	Anacap, PIMCO	
Copernicus	-	-	-	€6bn	Spain, Portugal, Italy	[independent]	
LoanCos	-	-	-	€2bn	Germany	ESO Capital	BIG, Immofori, Servicing Advisors
Pillarstone	€2m	€10m		€2bn	Spain, Italy,Greece	KKR	
Finangeste	-	-	-	€2bn	Portugal	HIG Capital	
Reviva Capital	-	-	-	€2bn	Nordics, Germany, UK, Spain	[independent]	
Silverton	-	-	-	€1bn	Germany	[independent]	
Heimdal Nordic	-	-	-	€1bn	Nordics, Germany	Cobblestone Group	

* ERC = Estimated Remaining Collections

Source: latest company reports, Deloitte analysis

European debt collection agencies and debt purchasing companies

Name	EBITDA	Revenue	ERC*	AuM	European presence	Ownership	Associated brands
Lowell	€476m	€953m	€3bn	€40bn	UK, Nordics, Germany, Austria, CEE	Permira	GFKL
Link Financial	€85m	€383m	€2bn	€30bn	Europe-wide	Brookfield AM (minority)	LCM Partners, Aiqon Capital España, Everyday Finance
Gescobro	€11m	€30m	€1bn	€12bn	Spain, Portugal	Cerberus	
Axactor	€46m	€239m	€1bn	€10bn	Nordics, Greece, CEE	Institutional Investors (minority)	ALTOR
MCS-DSO	€92m	€194m	€1bn	€10bn	France, Italy	BC Partners	Sistemia, Serfin
Hoist Finance	€66m	€264m	€3bn	€8bn	Europe-wide	[listed]	Robinson Way
Encore	€441m	€1.32bn	€3bn	€5bn	UK, Ireland, Spain,	[listed]	Midland CM, Grove CM, Cabot CM, Lucania Gestión, Baycorp, Refinancia
QQuant	€0m	€4m	-	€5bn	Greece	PIMCO (minority)	
PRA Group	€205m	€724m	€2bn	€5bn	Europe-wide	[listed]	Aktiv Capital
Servdebt	€7m	€20m	-	€4bn	Portugal, Spain	[independent]	
CSS	-	€5m	-	€3bn	Italy	[independent]	Covisian Group
EOS	€338m	€841m	€4bn	€2bn	Europe-wide	Otto Group	Cofidis, Collet AI
Finsolutia	-	€6m	-	€2bn	Portugal, Spain	[independent]	Credito Fondiario
Kruk	€116m	€272m	€1bn	€1bn	Europe-wide	[listed]	Agecredit, PRESCO
B2 Holding	€106m	€210m	€2bn	€1bn	Nordics, CEE	[listed]	NACC
Idem	-	€43m	-	€1bn	UK	Paragon Bank	

* ERC = Estimated Remaining Collections

Source: latest company reports, Deloitte analysis

Hybrid debt acquirers and loan servicers

Name	EBITDA	Revenue	ERC*	AuM	European presence	Ownership	Associated brands
Intrum	€567m	€1.53bn	€5bn	€81bn	Europe-wide	[listed]	CAF, Gextra, Aktua, Solvia, Tersia, (RBU/TBC)
Arrow	€121m	€362m	€2bn	€53bn	Europe-wide	[listed]	Whitestar, Capquest, Vesting Finance, Focum, Zenith Service, Mars Capital, Parr Credit
Pepper Finance	€20m	€135m	-	€33bn	UK, Ireland, Spain, Cyprus	KKR	
Banca IFIS/FBS	-	€465m	-	€23bn	Italy	[listed]	
APS	€6m	€23m	-	€8bn	Europe-wide	[listed]	
HipoGes	€3m	€15m	€1bn	€6bn	Spain, Portugal, Greece	KKR	

Captive servicers

Name	EBITDA	Revenue	ERC*	AuM	European presence	Ownership	Associated brands
Hudson Advisors	€9m	€77m	-	€46bn	Europe-wide	Lone Star (captive servicer)	
Lapithus	€8m	€37m	-	€14bn	UK, Germany, Ireland, Spain	Apollo (captive servicer)	
Curzon Advisers	-	€16m	-	€2bn	Europe-wide	Kildare (captive servicer)	
Sabal	€1m	€14m	-	€2bn	UK, Germany, Spain	Oaktree (captive servicer)	

* ERC = Estimated Remaining Collections

Source: latest company reports, Deloitte analysis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The developing market for shipping loans

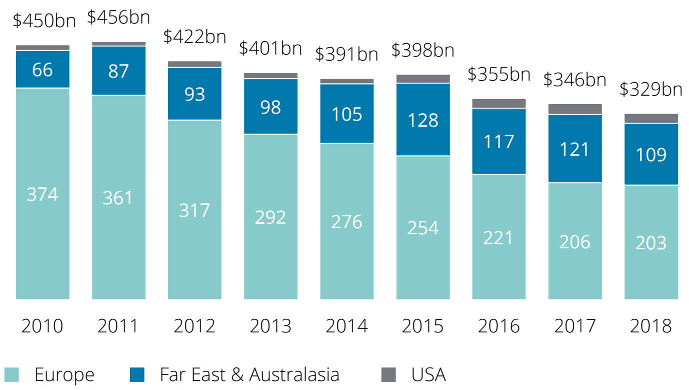
The global stock of ship financing is estimated to be in excess of €300bn, with European banks now holding 60% of the total. This marks a significant contraction over recent years, with European lenders reducing their exposure to shipping loans by nearly half since 2010.

Tepid growth in global trade has driven down freight and charter rates, forcing losses in a sector already bloated with over capacity built up prior to the global financial crisis. With revenues under growing pressure, new emissions regulations are adding to shipping companies' operating costs, further fuelling distress in the sector.

The exit of European banks from the sector continued throughout 2018, commencing with Deutsche Bank's sale of Project Lioness to Oak Hill Advisors and Värde Partners. Nord/LB also commenced the disposal of almost €7bn in two portfolios of shipping loans, as part of a wider restructuring plan to boost its capital ratio which reportedly also included the offer of an equity stake in the lender.

The first of these portfolios – Project Big Ben – was announced to have been acquired by Cerberus earlier this year. This deal makes Cerberus one of the largest non-bank owners of shipping loans, having also been part of the consortium – together with JC Flowers – which acquired HSH Nordbank in 2018 in a deal which included a significant portfolio of the bank's shipping loans.

Project Tower Bridge, the second of Nord/LB's transactions, has not yet been concluded with reports suggesting the bank is considering moving their remaining shipping assets to an internal 'bad bank', to be wound-down over the coming years.



Source: Petrofin Bank Research

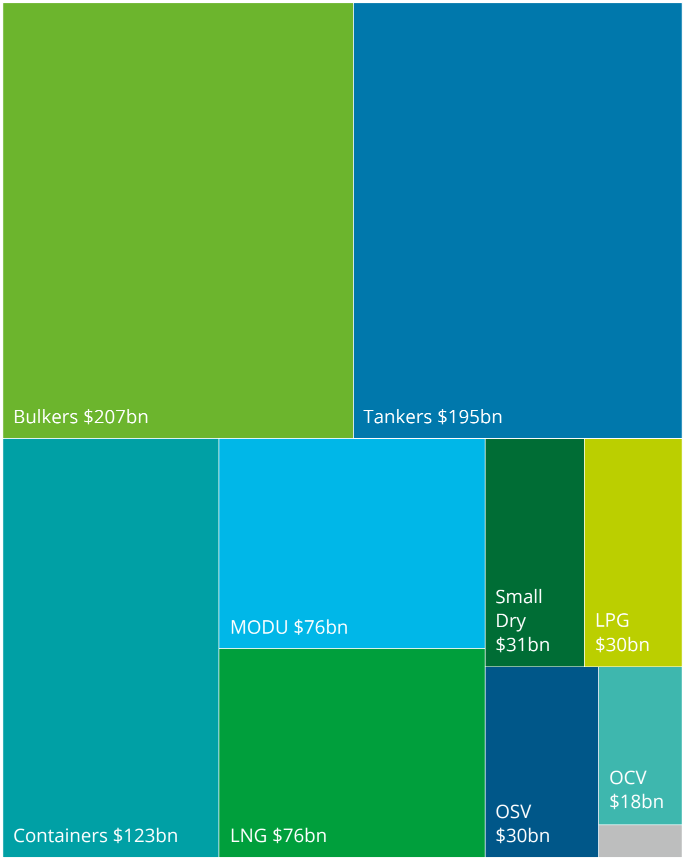
DVB Bank, the transportation lending subsidiary of DZ Bank, still has close to €10bn of shipping loans on their balance sheet. Following the sale of their aviation and rail transport portfolios, reducing exposure to shipping loans is likely to be the next priority for the bank, suggesting a continued flow of deleveraging activity from German banks in the shipping space.

The deleveraging of shipping exposures has extended to Greek banks, with Piraeus Bank selling a mixed portfolio of shipping and real estate loans worth €800m, dubbed Project Nemo.

A significant volume of ship financing is carried by Nordic and Dutch lenders, notably ING, ABN Amro, Nordea, DNB, and Danish Ship Finance. While these are predominantly performing loans, the current economic environment could lead some banks to consider strategic divestments of their exposures in this asset class through portfolio sales.

Meanwhile, investors' demonstrable appetite for shipping loans is leading to tightening bid-ask spreads, and incentivising further activity in the market.

Value of world fleet ($792bn)



Source: Lloyd's List Outlook 2019

Shipping deals

Portfolio name	Type	Country	Seller	Completed	Buyer	Size
Confidential	PL	France	Société Générale	12 H2	Citi	€1.3bn
Project White	NPL	UK	Lloyds Banking Group	14 H1	Oaktree	€1.0bn
Project White 2	NPL	UK	Lloyds Banking Group	14 H1	Davidson Kempner, Bank of America	€1.0bn
Confidential	Mixed	Germany	Commerzbank	14 H2	KKR, Borealis Maritime	$0.2bn
Hanseatic Ship Asset Management	Mixed	Germany	Commerzbank	15 H2	KKR, Borealis Maritime	$0.3bn
Ship Financing Portfolio	NPL	Germany	HSH Nordbank	16 H1	hsh portfoliomanagement AöR	€5.0bn
Confidential	NPL	Germany	Nord/LB	16 H2	KKR	$1.5bn
Project Jewel Fish	Mixed	Germany	Commerzbank	17 H1	Oak Hill Advisors, Värde Partners	€1.0bn
Confidential	NPL	Greece	Royal Bank of Scotland	17 H1	Orix, Berenberg Bank	$0.6bn
Project Moon Fish	Mixed	Germany	Commerzbank	17 H2	Cross Ocean, Berenberg Bank	€0.3bn
Project Isabella 1	NPL	Italy	Banca Carige	18 H1	MSC Group	€0.5bn
Confidential	NPL	Germany	DVB Bank	18 H1	Oak Hill Advisors	€0.1bn
Project Lioness	NPL	Germany	Deutsche Bank	18 H2	Oak Hill Advisors, Värde Partners	$1.1bn
Confidential	NPL	Italy	Banca Monte dei Paschi di Siena	18 H2	SC Lowy Fund	$0.2bn
Project Big Ben	NPL	Germany	Nord/LB	19 H1	Cerberus	€2.6bn
Project F.I.Nav	UTP	Italy	Intesa Sanpaolo, UniCredit	19 H1	Pillarstone	€0.4bn
Confidential	UTP	Italy	Banco BPM, UBI Banca, Banca IFIS	19 H1	DeA Capital	$0.2bn
Project Nemo	NPL	Greece	Piraeus Bank	19 H1	Davidson Kempner	€0.5bn
Confidential	Leases	UK	Confidential	19 H1	Confidential	$1.0bn
Project Tower Bridge	NPL	Germany	Nord/LB	Ongoing		€3.9bn
Confidential	NPL	Greece	National Bank of Greece	Ongoing		€0.4bn
Confidential	PL	Germany	Confidential	Ongoing		$0.9bn

The European ship financing landscape

The share of global shipping loans held by European banks has fallen to under 60%, from 83% in 2010. German banks, in particular, have significantly reduced their exposures through write-offs and divestments.

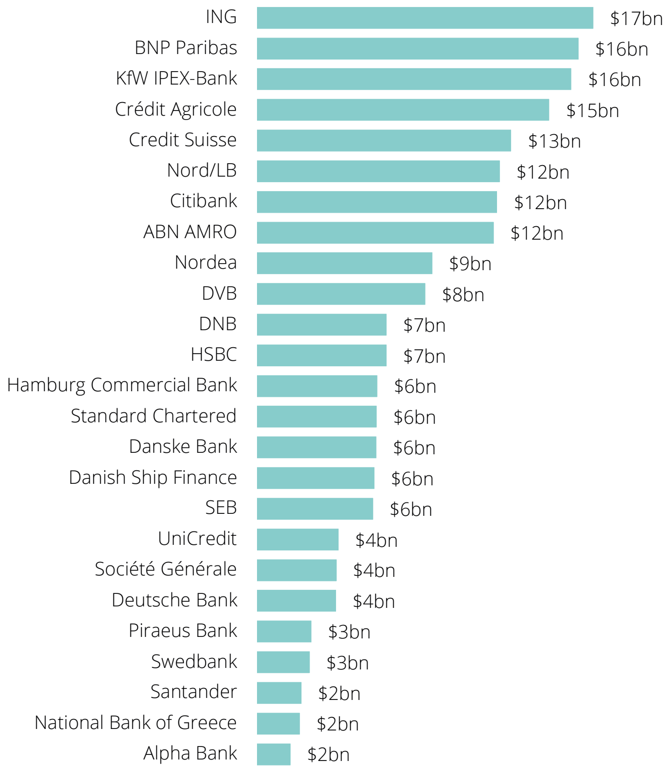
The latest market disclosures of the 25 European banks with the largest shipping finance exposures indicate a combined shipping loan book of $180bn. This reflects the declining number of European lenders to the industry, as well as significant reductions in the lending capacity of the remaining banks to the sector.

Once home to over a third of global ship financing, German banks have significantly reduced their lending to the sector since 2010, now only marginally ahead of their Scandinavian counterparts with under $60bn in shipping loans. Major European lenders – such as HSH, Commerzbank, and RBS – have reduced over three quarters of their combined shipping portfolios since 2012, to under $20bn.

The primary driver of these decreases is the loan impairments and write-offs incurred since the global financial crisis, when the shipping sector experienced its own 'crisis'. The losses arising from the collapse of freight rates, compounded by rising costs, drove down vessel valuations in the context of a broader contraction in traditional bank financing.

The resulting increase in NPLs prompted the European Central Bank (ECB) to carry out an in-depth review of European banks' shipping loan portfolios, leading many of the banks to strategically reassess their exposures and commence deleveraging. This has been met by an increasing appetite for shipping finance by Chinese banks and leasing companies.

Selected European and US shipping loan books



Source: latest published financial accounts as of December 2018

The Asian ship financing landscape

With European lenders sharply reducing their exposures, and the overall market contraction, the share of global ship financing provided by Asian banks has risen to nearly a third.

The loan books of the Asian banks with the largest exposures to shipping finance amounted to a combined $95bn as per their latest reported figures. China, in particular, is becoming a significant player in ship finance, with over 20 ship financial leasing businesses owning $15bn worth of vessels between them.

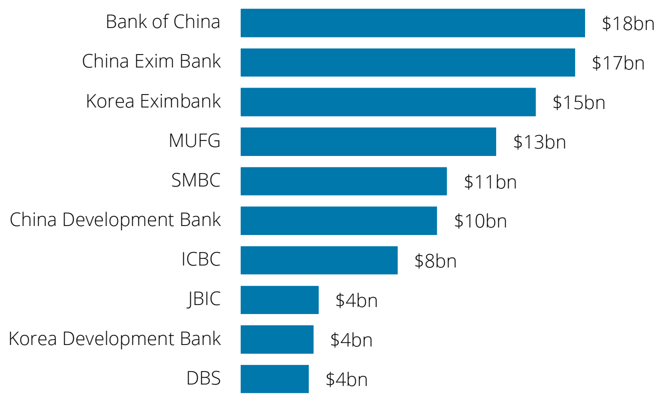
The shipping sector in Asia has experienced significant growth over recent years, as a result of increasing manufacturing activity in the region and lower operating costs.

Cargo shipping is expected to continue this trend, fuelled by rising online sales and consumer spending in Asia-Pacific, which is forecast by IHS Markit to represent 39% of global consumption by 2035, up from 27% in 2015.

Despite recent growth in the sector, the 'synchronised slowdown' in the global economy, together with recent escalations in the China-US trade war, could have a negative effect on shipping margins. This could have the result of increasing the levels of shipping NPLs held by Asian banks.

Over the coming years, it's likely that a number of Asian lenders will look to further increase their exposure to shipping finance. A likely way to achieve this would be by acquiring non-core – but performing – shipping assets from European banks. MUFG Bank's acquisition of Project Diana, the DVB aviation and transport portfolio, demonstrates the continuing interest for specialist lending books from Asian banks.

Selected Asian shipping loan books



Source: latest published financial accounts as of December 2018

United Kingdom

The UK market continues to be dominated by the ongoing wind-down of the loan books held by UK Asset Resolution (UKAR) since the wake of the financial crisis. Its latest transaction, Project Chester, saw the disposal of a £5bn performing residential mortgage portfolio to Citigroup, with financing from PIMCO.

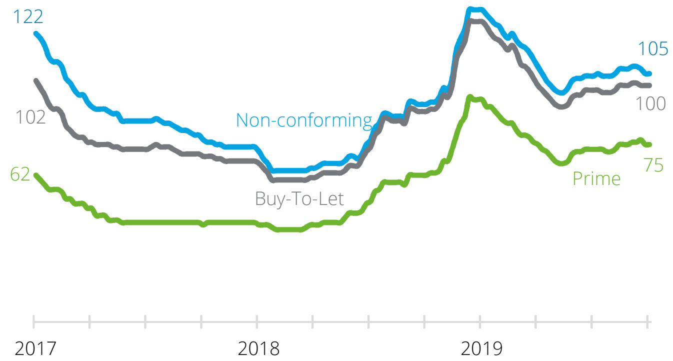
This sale brings the total reduction achieved to over £100bn (88%) since UKAR's formation in 2010, with the Chancellor announcing in April that the Treasury has now "recovered the full amount loaned to Northern Rock and Bradford & Bingley during the financial crash". UKAR is also understood to have divested the last of its residual commercial loan portfolio, with the Treasury's approval of the portfolio sale to Arrow and Davidson Kempner.

The remaining residential assets are now likely to be exited next year, achieving the full deleveraging of UKAR's portfolio significantly quicker than initially anticipated. Underpinning the strong demand for these assets has been the vast sums of capital raised by private equity funds, and cheap financing available through public securitisation markets.

The return of RMBS yields to previous years' levels is providing cheaper financing for prospective residential mortgage portfolios, which flows through to improved pricing for the portfolios in the market, and will likely encourage other sellers to consider taking advantage of the competitive pricing.

Banks and building societies are also expected to renew focus on exiting non-core portfolios, Sainsbury's Bank is reportedly considering an exit from the mortgage market, following rival Tesco Bank's sale of its £3.8bn mortgage portfolio to Lloyds. Other likely targets for deleveraging include equity release mortgages, social housing, residual run-off commercial loans, and potentially automotive loans. This will take place alongside the continuing flow of smaller secondary transactions from private equity funds clearing out residual portfolios.

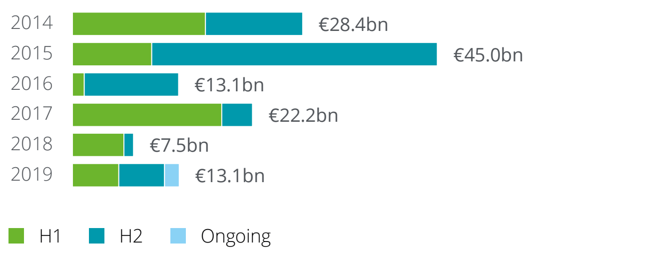
UK senior residential mortgage-backed securities (RMBS)



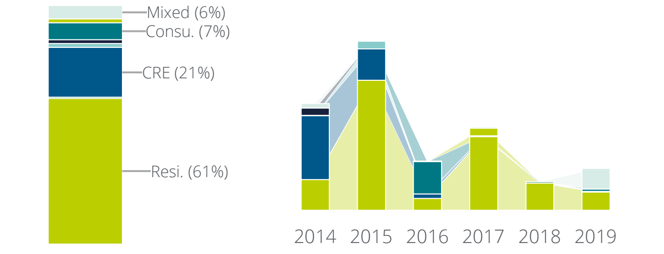
Source: J.P. Morgan

While NPL volumes have steadily declined since the financial crisis, the weakening market for bricks-&-mortar retailers, including high profile high street closures, is expected to place further stress on commercial lending to the sector. This could lead to further worsening in the market as commercial lenders look to reduce exposures to UK retail.

Activity by year

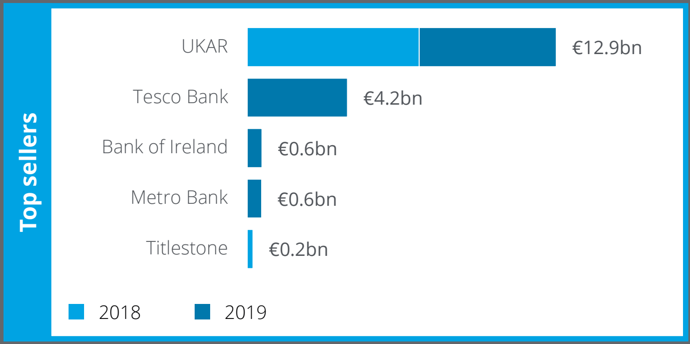


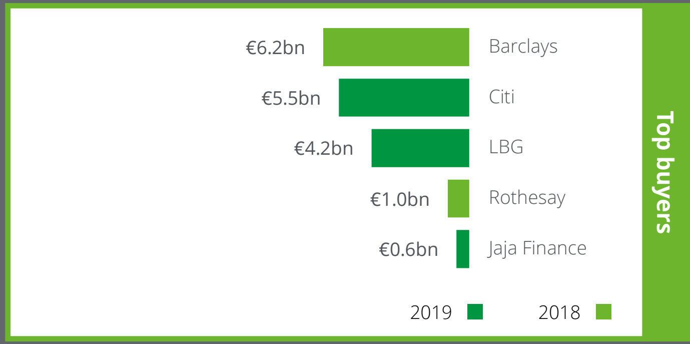
Activity by asset class



Completed transactions (2018)

Portfolio name	Asset class	Loans	Seller	Buyer	Size (€m)
Project Durham	Residential	PL	UKAR	Barclays-led consortium	6,214
Project James	Residential	PL	UKAR	Rothesay	972
Project Lancelot	RED	PL	Titlestone	CarVal	226
Confidential	RED	Mixed	Welcome Financial Services	AnaCap	94





Completed transactions (2019)

Portfolio name	Asset class	Loans	Seller	Buyer	Size (€m)
Project Chester	Mixed	PL	UKAR	Citi	5,548
Project Wylam	Corporate	PL	UKAR	Arrow Global , Davidson Kempner	119
Confidential	Residential	PL	Tesco Bank	Lloyds Banking Group	4,181
Confidential	Residential	NPL	Metro Bank	Cerberus	589
UK credit cards	Consumer	PL	Bank of Ireland	Jaja Finance	599
Confidential	Residential	PL	Raphael Mortgages	Arbuthnot	226
Confidential	Residential	PL	Magellan Funding	Arbuthnot	73

Transaction pipeline

Portfolio name	Asset class	Loans	Seller	Size (€m)
Confidential	Residential	PL	Sainsbury's Bank	1,469
Confidential	RED	NPL	Confidential	301

Ireland

Ireland has been the fastest-growing European economy for the past five years, achieving real GDP growth of 6.7% in 2018. Underpinning this strong performance is a well-educated and flexible labour force, an openness to foreign trade and investment, and attractive corporate tax regime.

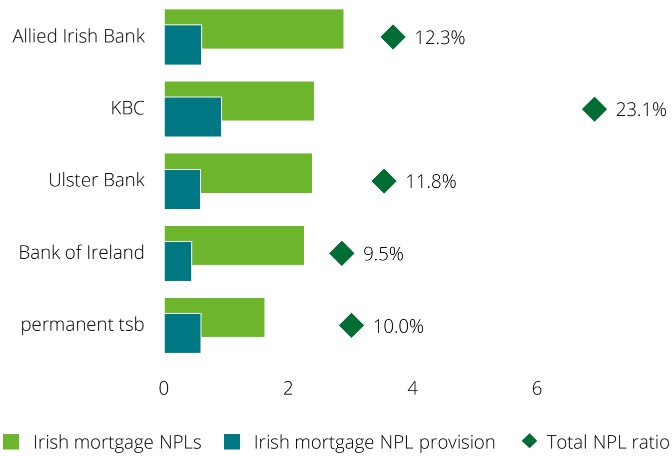
This has been achieved despite wider economic uncertainties, notably the ongoing Brexit discussions. The significance of the UK as a trading partner – accounting for 22% of Irish imports, and 12% of exports – means Ireland is likely to be more impacted by Brexit than any other EU member state. Yet, while GDP growth is forecast to slow over the coming years (3.9% in 2019), it is still expected to be double the overall OECD average of 1.8%.

The Irish residential mortgage market has seen sustained growth in recent years with confidence returning to the housing market. Mortgage arrears have consistently declined since the peak in 2013, and there has been strong growth in the number and value of mortgage approvals since that time.

The €15bn of Irish portfolio loan sales traded in 2018 makes it one of Europe's busiest markets. Yet NPL levels have remained stubbornly high, with most of the key Irish banks still facing ratios over 10% as of the end of 2018, although the three pillar banks – Bank of Ireland, Allied Irish Bank, and permanent tsb – have all achieved significant reductions through their NPL portfolio sales during the year.

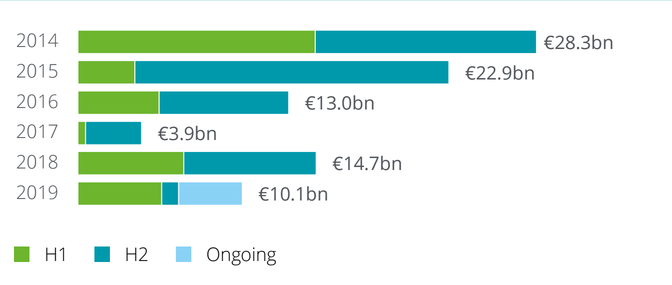
Most banks have been active in selling non-performing buy-to-let (BTL) mortgages, leaving primarily owner-occupied NPLs on their books. Given the successful recent securitisations by the Bank of Ireland and permanent tsb (Project Glenbeigh), this is likely to be explored as an option by other banks. This could be particularly attractive in terms of the customer experience for owner-occupied loans, since while the economic ownership would be transferred, the banks would continue servicing the loans.

Irish mortgage NPLs held by bank (€bn)

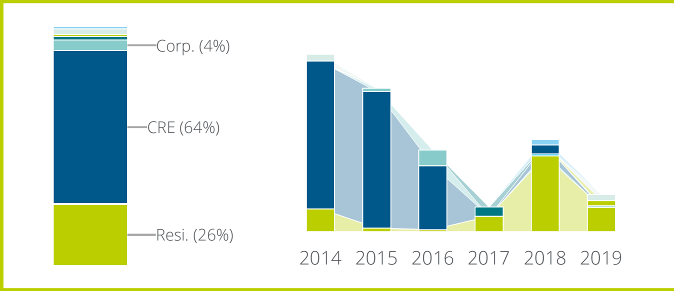


Source: latest published financial accounts as of December 2018

Activity by year

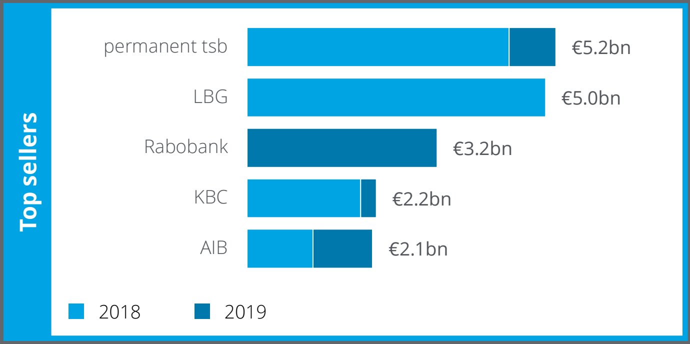


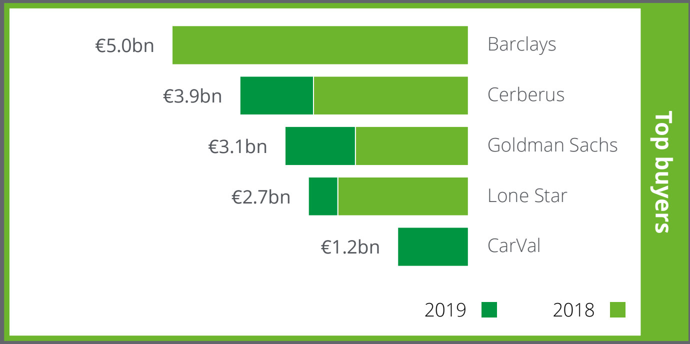
Activity by asset class



Completed transactions (2018)

Portfolio name	Asset class	Loans	Seller	Buyer	Size (€m)
Project Porto	Residential	PL	Lloyds Banking Group	Barclays-led consortium	5,000
Project Glas	Residential	NPL	permanent tsb	Lone Star	2,200
Project Glenbeigh	Residential	NPL	permanent tsb	[securitisation]	1,300
Confidential	Other	PL	permanent tsb	Pepper	890
Irish NPLs	Residential	NPL	KBC	Goldman Sachs	1,900
Project Scariff	Residential	NPL	Ulster Bank	Cerberus	1,400
Project Redwood	CRE	NPL	Allied Irish Bank	Cerberus	1,100
Project Lee	CRE	Mixed	NAMA	Deutsche Bank	300
Bolands Quay	REO	REO	NAMA	Google	300
Confidential	Residential	Mixed	Leeds Building Society	Dilosk	182
Project Field	Residential	NPL	StepStone	Cerberus	108





Completed transactions (2019)

Portfolio name	Asset class	Loans	Seller	Buyer	Size (€m)
Project Omni	Residential	NPL	Rabobank	Goldman Sachs, CarVal	2,400
Project Omni	Unsecured	NPL	Rabobank	Cabot	783
Project Beech	Mixed	NPL	Allied Irish Bank	Cerberus	1,000
Confidential	Residential	NPL	Bank of Ireland	[securitisation]	377
Project Snow 2	Residential	NPL	Bank of Ireland	Cerberus	250
Project Glas II	Residential	NPL	permanent tsb	Lone Star	506
Shamrock Residential	Residential	PL	Lone Star	Morgan Stanley	336
Confidential	Corporate	PL	KBC	Bank of Ireland	260

Transaction pipeline

Portfolio name	Asset class	Loans	Seller	Size (€m)
Project Alder	CRE	NPL	Allied Irish Bank	2,000
Project Birch	Residential	NPL	Allied Irish Bank	1,000
Project Deenish	Residential	PL	Ulster Bank	900

France

French banks hold Europe's second-highest stock of NPLs, having achieved only minimal reductions in the years since the financial crisis, with the majority of reductions over recent years coming from the banks' international exposures – notably in Italy.

This is offset against the country's banks reporting the largest volume of loans and advances in the EBA's latest risk dashboard, meaning the overall NPL ratio remains below the European average at just 2.6%, following steady reductions over the past five years.

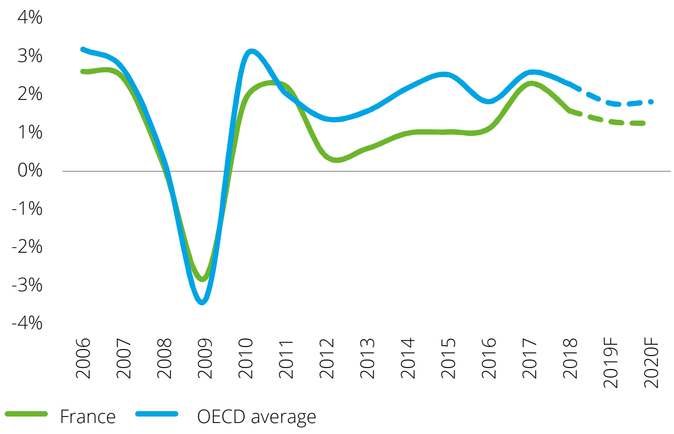
The country's largest commercial banks are generally well-capitalised, all reporting CET1 ratios of 11.5% or higher. They also enjoy generally low NPL exposures, the highest being BNP Paribas in both the volume and ratio held, at 4%.

The market for loan portfolios in France remains largely underdeveloped and primarily involving direct sales and small to medium-sized consumer portfolios, rather than the competitive tender processes seen elsewhere in Europe. Instead, French banks tend to rely on traditional resolution methods to manage their NPL volumes, focusing on addressing delinquency at early stages of default, rather than NPL disposals.

However, disposals could be set to take a more prominent role in the context of increasing pressures on margins and profitability, along with the EBA's focus on measures to prevent future build-ups of stressed assets. In addition, they present the opportunity for strategic divestments and carve-outs of non-core products.

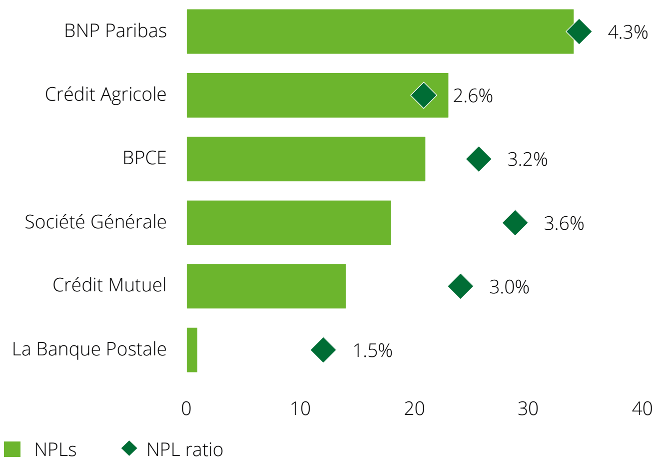
The three large secured transactions currently ongoing are some of the largest in the country over recent years, and suggest a changing attitude from French banks to take advantage of investors' demand in the market.

Real GDP growth



Source: OECD (F = forecast)

Gross NPLs held by top banks (€bn)



Source: latest published financial accounts as of December 2018

Germany

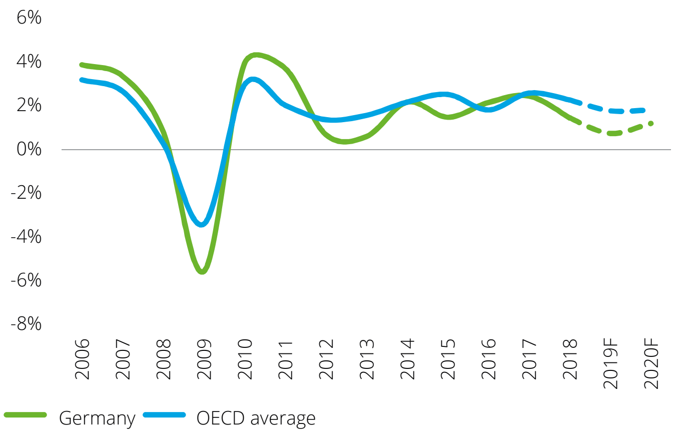
Despite the recent softening in economic forecasts, Germany's robust economic performance over the past decade has enabled its banking system to largely escape the debt problems seen in other countries following the global financial crisis and sovereign debt crisis in Southern Europe.

Annual aggregate volumes of loan portfolio deals have typically been below €10bn, and primarily focused on asset finance, particularly to the shipping sector, which has constituted over half of traded loans in the country since 2014. As some of the largest lenders to the shipping sector globally, the capital ratios of German banks have been particularly hit by the contraction in global trade, both following the global financial crisis, and the 'synchronised slowdown' in the context of increasing protectionism. This has led to extensive deleveraging activity, with €18bn in shipping assets divested since 2014 – notably the series of disposals from Commerzbank, Nord L/B, HSH Nordbank, and Deutsche Bank.

The recent restructuring of Deutsche Bank – Germany's largest lender – following its failed Commerzbank merger, represents the culmination of the bank's efforts to reverse its financial underperformance since the financial crisis. As part of this, it is reportedly considering establishing a 'bad bank' to manage up to €50bn in high-risk assets. The sale of its $1bn Project Lioness last year marked the re-emergence of shipping assets in the non-core markets.

Nord/LB – which scored worst amongst German banks in the EBA's 2018 stress tests – has also been pursuing an aggressive deleveraging of its shipping assets, with over €6bn put up for sale in its Big Ben and Tower Bridge projects. Similarly, DZ Bank has been winding down its troubled international transport finance division, DVB Bank, selling it's €6bn aviation portfolio to Japan's MUFG, and with the deleveraging of its €10bn shipping book ongoing.

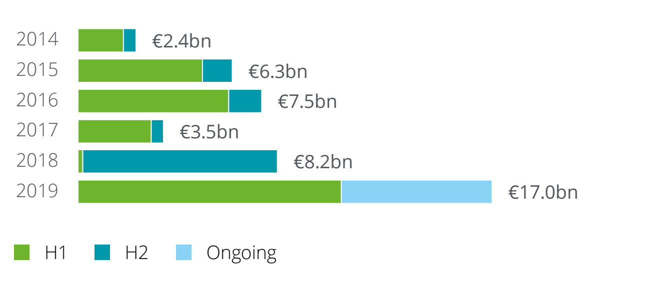
Real GDP growth



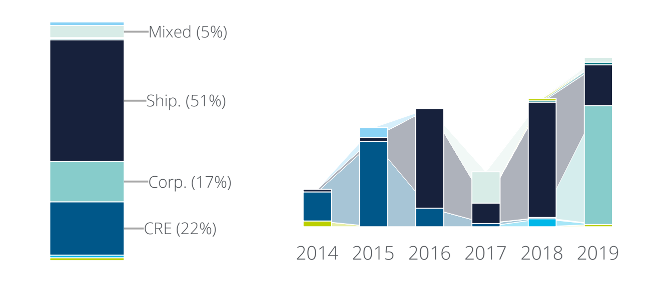
Source: OECD (F = forecast)

Meanwhile, the existing German 'bad banks', Erste Abwicklungsanstalt (EAA) and FMS Wertmanagement (FMS-WM), are continuing the wind-down of their managed assets, bringing small to mid-sized portfolios to market – particularly in the real estate space. Whilst the long-dated nature of their exposures have enabled them to thus far take a 'slow and steady' approach to deleveraging, an acceleration of pace through larger and more structured transactions can be anticipated from these 'bad banks'.

Activity by year

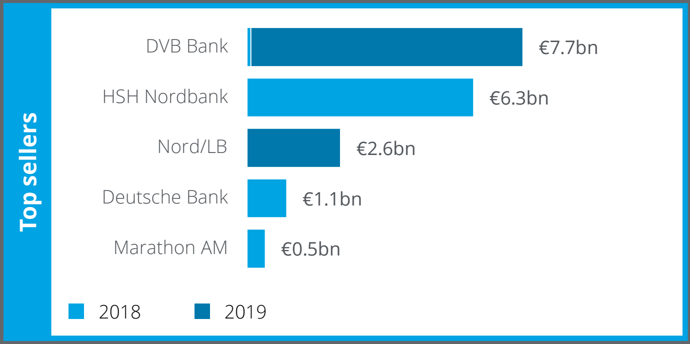


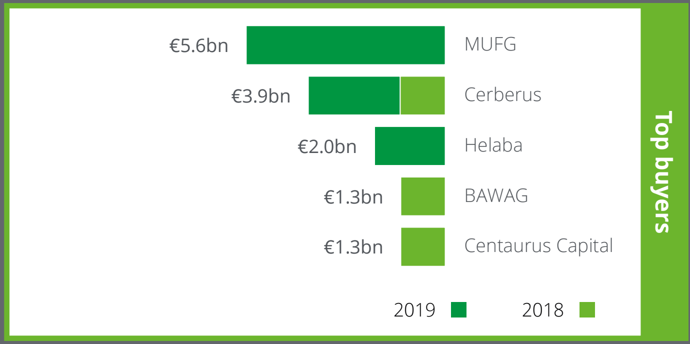
Activity by asset class



Completed transactions (2018)

Portfolio name	Asset class	Loans	Seller	Buyer	Size (€m)
Project Lioness	Shipping	NPL	Deutsche Bank	Oak Hill Advisors, Värde Partners	944
Project North	Shipping	NPL	HSH Nordbank	Cerberus-led consortium	6,317
Industrial REOs	REO	REO	Marathon Asset Management	Blackstone	500
Confidential	Consumer	NPL	Confidential	Axactor	80
Confidential	Unsecured	NPL	Deutsche Bank	Banca IFIS	155
Confidential	Shipping	NPL	DVB Bank	Oak Hill Advisors	100
Confidential	CRE	NPL	Kildare Partners	Silverton	90





Completed transactions (2019)

Portfolio name	Asset class	Loans	Seller	Buyer	Size (€m)
Project Diana	Corporate	PL	DVB Bank	Mitsubishi UFJ (MUFG)	5,600
Project Big Ben	Shipping	NPL	Nord/LB	Cerberus	2,600
Project Green	Residential	PL	Erste Abwicklungsanstalt (EAA)	Apollo	133
Project Cologne	Mixed	NPL	DE Shaw	Credito Fondiario (Fonspa), Fire Spa	300
Confidential	Corporate	PL	DVB Bank	Helaba	2,000
Confidential	Consumer	NPL	DSK Hyp	Cerato	175

Transaction pipeline

Portfolio name	Asset class	Loans	Seller	Size (€m)
Confidential	Leasing	NPL	Confidential	n/a
Project Tower Bridge	Shipping	NPL	Nord/LB	3,900
Project Omega	CRE	NPL	UniCredit	800
Confidential	Shipping	PL	Confidential	1,000
Confidential	CRE	Mixed	Confidential	500

Nordics

There has been an increase in NPL portfolio and deal activity in the Nordic region over the past year. This has been fuelled by the implementation of IFRS9 and new, considerably more challenging, capital regimes, along with the significant increase in consumer credit over recent years.

The transactions completed over the past year have delivered competitive results for the sellers, demonstrating investor demand, and encouraging other banks and consumer finance providers to consider divesting their own exposures.

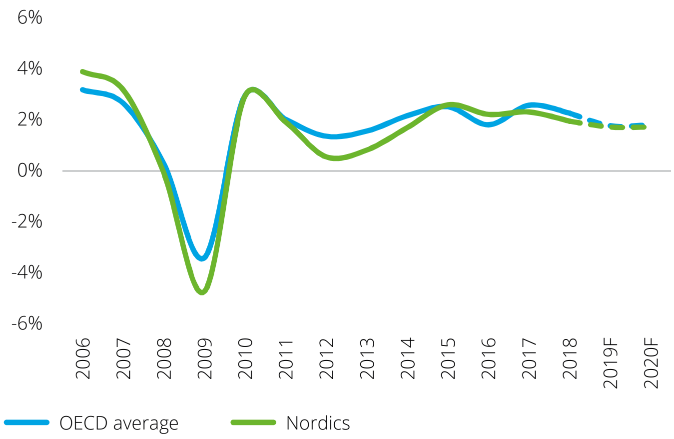
Regulatory developments – including the latest reforms to Basel III standards and IFRS9 – and increasing regulatory scrutiny are forcing Nordic banks to adopt a more pro-active, and often less accommodating, approach with both corporate and retail borrowers.

The effects of Norway's offshore shipping crisis in 2016, resulting from the fall in oil prices, are still being felt. The work-out process has proven considerably more challenging than expected, exacerbated by the timing of the new regulatory developments.

Despite this, the Nordic region continues to report below average loan loss rates – particularly amongst the more established credit providers – with robust recovery processes. Macroeconomic factors are expected to remain reasonably stable, although highly correlated with global trends.

The market for credit providers in the Nordics is increasingly competitive and diverse, with an increase in non-bank lenders. New entrants are being reported in all countries over recent years, joining the large and established lenders focusing on unsecured consumer credit – such as Bank Norwegian, Santander Consumer Bank, Ikano Bank, and Resurs.

Real GDP growth



Source: OECD (F = forecast)

They compete with the region's dominant banks – Nordea, Danske, Handelsbanken, SEB, DNB, Swedbank – along with the many medium and small savings banks. These smaller banks tend to be locally-focused, making them more exposed to localised events or economic trends.

The increasing regulatory pressures on capital adequacy and NPL resolution are forcing banks to assess their loan books, and consider mechanisms to divest assets which no longer meet their required return targets.

It is expected that an increasing number of non-core as well as non-performing and sub-performing consumer and residential loan portfolios will be brought to market. Direct sales of larger, single name, corporate NPLs are already underway, including the sale of individual ships and fleets.

Italy

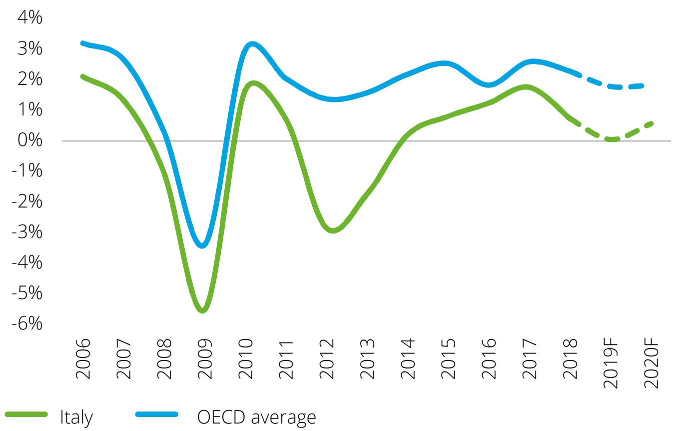
Market overview

Following a busy 2018, in which the volume of deleveraging activity in the primary market grew by 50% to over €80bn, 2019 has been off to a slow start, with just over €11bn traded till the end of June. However, with the hybrid sale and outsourcing by Intesa Sanpaolo of its €10bn unlikely-to-pay (UTP) portfolio to Davidson Kempner-backed Prelios in July, and a pipeline of over €17bn, the market is already regaining momentum as the Italian banking system continues to tackle its stock of distressed assets.

Having brought their NPL ratios to more manageable levels, focus is now shifting to the low-coverage provisions held by a number of banks for their UTP exposures. Having now been ruled out from the Garanzia sulla Cartolarizzazione delle Sofferenze (GACS) scheme, attention is shifting to the efforts already underway by banks, regulators, and the government to tackle these sub-performing loans.

In September the state-owned 'bad bank', Società per la Gestione di Attività (SGA), was renamed AMCO (asset management company) reflecting its role as a full-service credit manager and heralding its expanded scope to focus on the growing UTP market. Having already taken on the compulsory administrative liquidation of €18bn in bad loans from the Venetian banks, Veneto Banca and Banca Popolare di Vicenza, AMCO is now likely to absorb a further stock of up to €20bn in UTPs from Italian banks over the coming years, pending approval from the European competition watchdog.

Real GDP growth



Source: OECD (F = forecast)

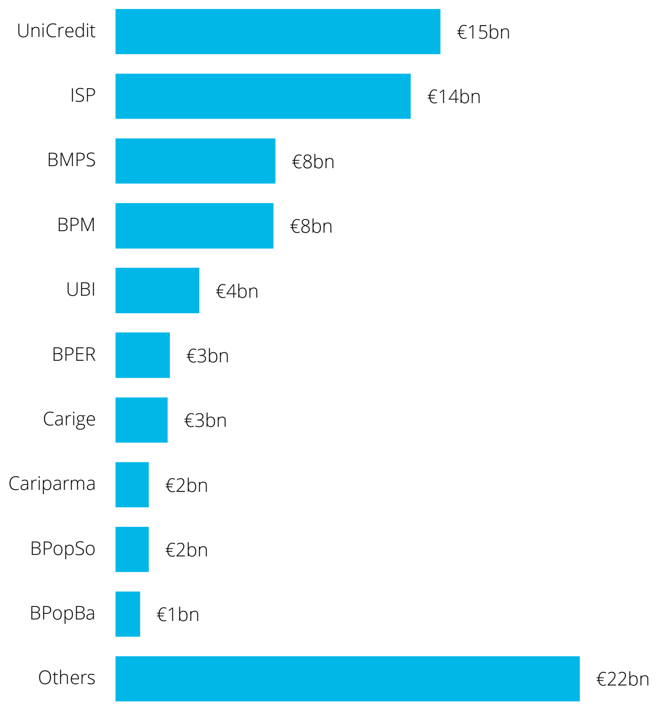
This year is proving an inflection point in the UTP market, having grown from €3bn in 2018 to €9bn so far this year, and a further €5bn already in the market – representing nearly 6% of the total volume of Italian portfolio sales over the past five years. The servicing of a further €7bn was outsourced in the strategic partnership agreed between Intesa Sanpaolo and Prelios in July, demonstrating the range of strategies being deployed as Italian banks tackle the estimated €80bn stock of UTPs on their books.

The recently-approved tax reforms – designed to benefit the real estate sector and work-outs of both NPL and UTP exposures – are expected to further improve the distressed real estate market. Banks have started to bring REO portfolios to market, meeting with positive feedback from investors who have demonstrated an appetite for the asset class.

With €200bn of NPLs divested over the past five years, and a further €220bn in NPLs and UTPs still held on Italian banks' balance sheets, the country represents a significant market for third party loan servicing, and a sound investment thesis for active investors in the market.

The competitive landscape, which is increasingly polarised between the largest players – notably the recently renamed doValue – and smaller to mid-sized firms, is expected to lead to consolidation and M&A activity as servicers seek to gain the scale to compete for the largest and most profitable contracts. This should, in turn, help to reduce the pricing gap, boosting returns and supporting banks in tackling their stocks of distressed assets.

Gross UTPs held by top banks (€bn)



Source: latest published financial accounts as of December 2018

Updated tax provisions for real estate securitisations

Law Decree no. 34/2019 was published in April 2019, providing a number of legislative and tax measures which are expected to have a positive impact on the NPL market.

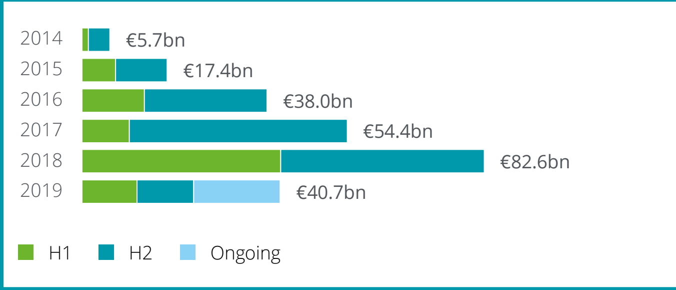
Of particular relevance is the express recognition that the assets of real estate securitisation SPVs as segregated assets (patrimonio separato), and therefore exempt from corporate income tax (IRES) and local income tax (IRAP) under the Securitisation Law.

Related to this are new with new provisions that the activities of ReoCos in acquiring, managing, and developing assets securing NPLs should be considered as a service activity to the SPV, rather than on its own behalf.

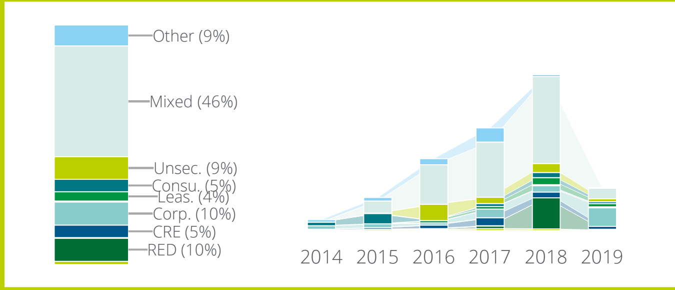
This reverses the tax authorities' clarifications in February, instead establishing the basis for all ReoCo income streams generated by the management of assets to be exempt from IRES and IRAP, so long as the revenues produced by the ReoCos remain within the waterfall of the securitisation structure.

The decree also reduces the cost of trading real estate properties by changing the transfer taxes to be levied in the context of transferring the assets to the ReoCo, ruling that cadastral, registration, and mortgage taxes are subject to a fixed fee of €200. The same allowance has also been made for the transfer from the ReoCo to a third-party buyer under specific circumstances, on the basis of undertakings by the purchaser regarding the sale of the property within five years.

Activity by year

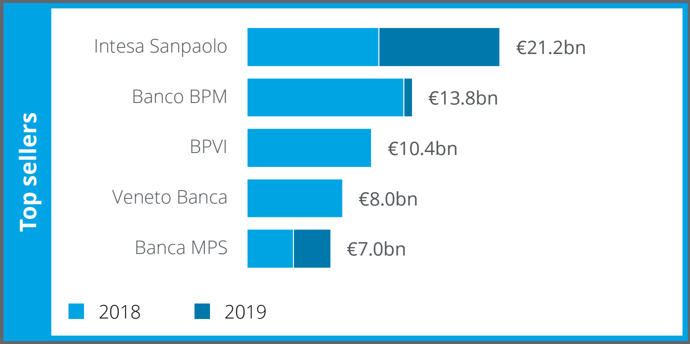


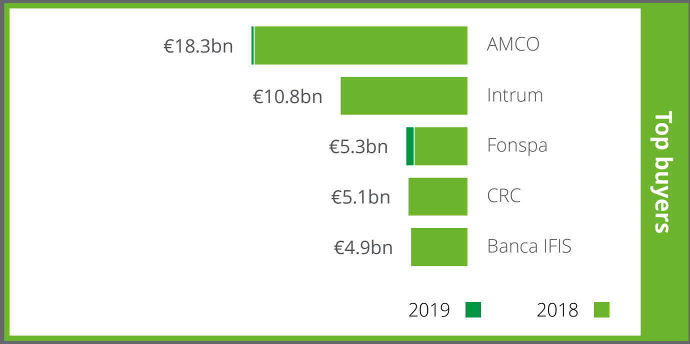
Activity by asset class



Completed transactions (2018)

Portfolio name	Asset class	Loans	Seller	Buyer	Size (€m)
Project Ace	Mixed	NPL	Banco BPM	Elliott, Fonspa	7,800
Project Exodus	Mixed	NPL	Banco BPM	CRC	5,097
Confidential	CRE	NPL	Banco BPM	York Capital	220
Project Savoy	RED	NPL	Intesa Sanpaolo	Intrum	10,800
Project Luce	Corporate	UTP	Intesa Sanpaolo	WRM	214
Confidential	Mixed	NPL	BPVI	AMCO	10,000
Project Bellini	Unsecured	PL	BPVI	BPSO	300
Prestinuova	Consumer	PL	BPVI	BPSO	100
Confidential	Mixed	NPL	Veneto Banca	AMCO	8,000
Project Merlino	Mixed	UTP	Banca MPS	Banca IFIS	1,160
Project Morgana	Leasing	NPL	Banca MPS	Bain Capital, Guber Banca, Barclays	945
Project Merlino	Mixed	NPL	Banca MPS	Fonspa, Fire Spa	818
Project Alpha 2	RED	UTP	Banca MPS	Algebris, GWM, Farallon	412
Project Merlino	Mixed	NPL	Banca MPS	Balbec	391
Confidential	Shipping	NPL	Banca MPS	SC Lowy Fund	137





Completed transactions (2018) – continued

Portfolio name	Asset class	Loans	Seller	Buyer	Size (€m)
Project Torino	Corporate	NPL	UniCredit	Banca IFIS	870
Project Milano	Corporate	NPL	UniCredit	Fortress	675
Project Narciso	Mixed	NPL	UniCredit	Banca IFIS	537
Project Amalfi A	Corporate	NPL	UniCredit	J-Invest	384
Confidential	Unsecured	NPL	UniCredit	Banca IFIS	348
Project Amalfi B	Corporate	NPL	UniCredit	Illimity	206
Confidential	Leasing	NPL	UniCredit	Guber Banca	170
Confidential	Unsecured	NPL	UniCredit	MBCredit Solutions	124
Confidential	Unsecured	NPL	UniCredit	MBCredit Solutions	80
Confidential	Mixed	NPL	ICCREA Banca	[GACS securitisation]	2,004
Confidential	Mixed	NPL	ICCREA Banca	[GACS securitisation]	1,046
Confidential	Unsecured	NPL	ICCREA Banca	Best Capital	128
Confidential	RED	NPL	UBI Banca	[GACS securitisation]	2,749
Confidential	Unsecured	NPL	UBI Banca	Confidential	271
Confidential	Unsecured	NPL	UBI Banca	Axactor	145

Completed transactions (2018) – continued

Portfolio name	Asset class	Loans	Seller	Buyer	Size (€m)
Project Indigo	Leasing	Mixed	ING	Goldman Sachs	2,500
Project Aragorn	Mixed	NPL	Creval	Davidson Kempner	1,671
Project GIMLI 1	CRE	UTP	Creval	Algebris	245
Project GIMLI 2	RED	UTP	Creval	Fonspa	222
Project Arcade	Consumer	NPL	Gruppo Delta	Cerberus	2,100
Confidential	Mixed	NPL	BPER	[GACS securitisation]	1,900
Confidential	Corporate	NPL	BPER	MBCredit Solutions	200
Confidential	Mixed	NPL	Banca Carige	[GACS securitisation]	964
Project Isabella 1	Shipping	NPL	Banca Carige	MSC Group	450
Project Isabella 2	RED	UTP	Banca Carige	Bain Capital	366
Confidential	RED	NPL	Banca BPB	[GACS securitisation]	1,578
Project Valery 2	CRE	NPL	Crédit Agricole Cariparma	PIMCO	700
Project Valery 1	CRE	UTP	Crédit Agricole Cariparma	Bain Capital	450
Project Valery 3	Corporate	NPL	Crédit Agricole Cariparma	Confidential	210
Confidential	Unsecured	PL	Crédit Agricole Cariparma	Axactor	145
Confidential	Unsecured	NPL	Sicilcassa	GMA	1,500
Project CCRES7	Mixed	NPL	Cassa Centrale Banca	Värde Partners, Barclays, Guber Banca	1,400
Confidential	Mixed	NPL	FBS	Banca IFIS	1,280
Confidential	Other	NPL	Banco di Desio	[GACS securitisation]	1,002
Project Diaz 2	Unsecured	NPL	CRC	J-Invest	532

Completed transactions (2018) – continued

Portfolio name	Asset class	Loans	Seller	Buyer	Size (€m)
Project Diaz	Unsecured	NPL	CRC	MBCredit Solutions	425
Project Juno 1	Mixed	NPL	Banca BNL	[GACS securitisation]	957
Confidential	CRE	NPL	Banco di Sardegna	[GACS securitisation]	900
Confidential	Residential	NPL	Cassa di Risparmio di Asti	[GACS securitisation]	697
Confidential	Consumer	NPL	Confidential	Banca IFIS	371
Project Mondovi	Mixed	NPL	Confidential	Bain Capital	180
Confidential	RED	NPL	Banca di Ragusa	[GACS securitisation]	349
Project Altea	Corporate	NPL	BPPB	Illimity	347
Confidential	Unsecured	NPL	Findomestic	Kruk	300
Project Borromini	CRE	PL	Commerzbank	Deutsche Bank, Davidson Kempner	280
Confidential	Mixed	NPL	IFIM	Illimity	263
Confidential	Unsecured	NPL	Balbec	MBCredit Solutions	217
Confidential	Mixed	NPL	Banca Sella	B2 Holding	214
Project Carnival	Mixed	NPL	Cassa Risparmio di Cento	LCM Partners	190
Confidential	Consumer	NPL	Deutsche Bank	Banca IFIS	155
Confidential	CRE	NPL	Cassa di Risparmio di Volterra	Confidential	155
Confidential	Mixed	NPL	Banca Patavina	Hoist	150
Confidential	Corporate	NPL	Volksbank	AnaCap	141
Project Leonardo	CRE	NPL	FMS Wertmanagement	GWM	100
Confidential	RED	NPL	Emil Banca	B2 Holding	100

Completed transactions (2019)

Portfolio name	Asset class	Loans	Seller	Buyer	Size (€m)
Confidential	Corporate	PL	Intesa Sanpaolo	AnaCap	4,000
Confidential	Mixed	UTP	Intesa Sanpaolo	Davidson Kempner	3,000
Confidential	Corporate	UTP	Intesa Sanpaolo	Prelios	3,000
Project Ismea	Corporate	NPL	Banca MPS	Illimity	517
Project Quebec	Corporate	NPL	Banca MPS	Illimity	500
Project Papa 2	RED	UTP	Banca MPS	Cerberus	500
Project Terzo	Corporate	UTP	Banca MPS	Cerberus	455
Confidential	Corporate	UTP	Banca MPS	Illimity	450
Confidential	Mixed	NPL	Banca MPS	Illimity	240
Confidential	CRE	UTP	Banca MPS	Confidential	202
Confidential	Mixed	NPL	Banca MPS	Confidential	137
Project Lima	Other	UTP	Banca MPS	Bank of America	130
Project Roma	Corporate	NPL	UniCredit	SPF	1,100
Project Matera	CRE	NPL	UniCredit	Illimity	730
Project Capri	Unsecured	NPL	UniCredit	Joint Buyer	450
Confidential	Consumer	NPL	UniCredit	MBCredit Solutions	160
Project Juno 2	Mixed	NPL	Banca BNL	[GACS securitisation]	968
Project River	Leasing	NPL	Banca BNL	Illimity	100
Confidential	Mixed	UTP	BPER	Unipol	1,000
Confidential	Leasing	NPL	UBI Banca	Credito Fondiario (Fonspa)	740
Project Buonconsiglio 2	CRE	NPL	Cassa Centrale Banca	Värde Partners, Barclays, Guber Banca	734
Confidential	Consumer	NPL	ICCREA Banca	[securitisation]	660
Project Ace	Leasing	NPL	Banco BPM	Illimity	650
Confidential	Unsecured	NPL	Confidential	Guber Banca	328
Confidential	Other	Mixed	Banca del Fucino	AMCO	314

Completed transactions (2019) – continued

Portfolio name	Asset class	Loans	Seller	Buyer	Size (€m)
Project F.I.Nav	Shipping	UTP	Intesa Sanpaolo, UniCredit	Pillarstone	300
Securitisation	Consumer	NPL	Eni	P.E.S.	230
Securitisation	Unsecured	NPL	Hoist	CarVal	225
Confidential	Shipping	UTP	Banco BPM, UBI Banca, Banca IFIS	DeA Capital	193
Securitisation	Unsecured	NPL	Joint Seller	Confidential	180
Confidential	Mixed	NPL	Various small banks	Illimity	175
Project Sand	Mixed	NPL	Banca Valsabbina	Guber Banca, Barclays	150

Transaction pipeline

Portfolio name	Asset class	Loans	Seller	Size (€m)
Project Sandokan 2	Mixed	UTP	UniCredit	2,000
Project Dawn	Other	UTP	UniCredit	1,000
Project Matera	CRE	NPL	UniCredit	750
Confidential	RED	NPL	UniCredit	500
Project Pelican	Unsecured	NPL	Crédit Agricole Cariparma	3,850
Project Hydra	RED	UTP	Banca Carige	3,360
Carve-out	Other	NPL	Banca Popolare di Bari	2,000
Securitisation	Other	NPL	UBI Banca	1,200
Confidential	Other	NPL	BPSO	1,000
Confidential	Leasing	NPL	Confidential	482
Confidential	RED	NPL	BPVI	400
Project Titan	Leasing	NPL	Alba Leasing	400
Confidential	Mixed	NPL	Cassa Centrale Banca	360
Confidential	REO	REO	Banca MPS	350
Project Rialto	Leasing	NPL	A-Leasing	150

Spain

2018 marked another record year for the Spanish non-core market, once again seeing over €50bn traded in NPL and real estate owned (REO) portfolios – one of the busiest European markets, with over €150bn since 2014.

Sales of REO assets have become a significant feature of the Spanish non-core market, driven largely by regulatory measures including the new provisioning guidelines for the asset class. REOs accounted for over half of the volume of traded portfolios in 2018, including some of the year's largest deals.

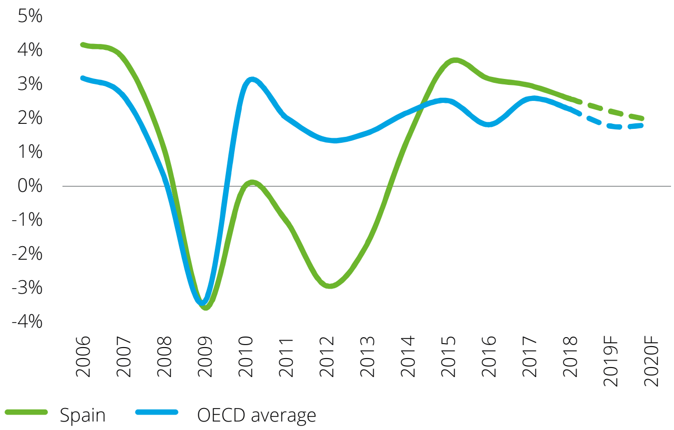
Activity continues to be fuelled by jumbo deals, following the trend which started with the €30bn Project Quassar sold by Santander in 2017. The past twelve months have seen thirteen portfolio sales worth over €1bn, including CaixaBank's €13bn Project Gamma, and Banco Sabadell's Projects Challenger and Coliseum with a combined GBV over €9bn.

These deals have placed CaixaBank and Banco Sabadell as the largest sellers in the Spanish market, with 29% and 24% of the total divested volume, respectively. With a further quarter of the volume sold by Bankia, Santander, BBVA, and the state-owned 'bad bank' Sareb.

Having acquired the largest REO portfolios, Cerberus and Lone Star topped the list of buyers in the Spanish market for 2018, with 31% of the market each. Blackstone has been notably quiet in the market, since it's 2017 acquisition of Project Quassar, the €30bn Banco Popular loan book, from Santander.

Italy's doValue made its debut into the Spanish NPL market, buying an 85% stake in Spain's largest loan servicer, Altamira. Meanwhile, Stockholm-based firms Axactor and Intrum continued their expansion in the country, with a series of portfolio acquisitions each.

Real GDP growth



Source: OECD (F = forecast)

The evolving Spanish market

Spain has been at the forefront of measures to address the stock of non-performing assets built up during global financial crisis and subsequent sovereign crisis which engulfed Southern Europe.

Real estate as been at the heart of Spain's financial crisis – with the vast majority of Spain's non performing-assets consisting of real estate developer (RED) loans, and their underlying inventory. This has placed the real estate sector – and it's subsequent recovery – at the forefront of investors' strategies.

- **IPOs** – there has been a number of IPOs in the real estate development sector – with more being prepared – as early non-core investors who took advantage of M&A opportunities in the sector realise their returns in the improving economic environment.
- **Shift to securitisation** – the emergence of public rated securitisations of non-core assets has served to increase both transparency and liquidity in the Spanish market, enabling greater scrutiny and broadening the set of prospective investors. This approach is likely to be used primarily by institutional investors due to the potential limitations it would place on banks' deleveraging efforts.

A timeline of M&A activity in the Spanish servicing sector

2012–2013

- **Aktua** – sold by Banesto to Centerbridge (€100m)
- **Aliseda** – joint venture between Kennedy Wilson and Värde acquires 51% stake from Banco Popular (€500m)
- **Altamira** – Apollo acquires 85% stake from Santander (€720m)
- **Haya RE** – renamed from Bankia Habitat by acquirers Cerberus (€90m)
- **Servihabitat** – TPG acquires 51% stake from CaixaBank (€185m)

2014–2015

- **Inmare** – sold by BNM to Centerbridge (€50m)
- **Neinor** – acquired by Lone Star from Kutxabank (€930m)
- **Servicing platform** – acquired by Haya RE (Cerberus) from Cajamar (€225m)
- **Anticipa** – renamed from CatalunyaCaixa Inmobiliaria by acquirers Blackstone (€40m)
- **Servicing SLAs** – awarded by SAREB to Altamira, Haya RE, Servihabitat, and Solvia

Real estate market

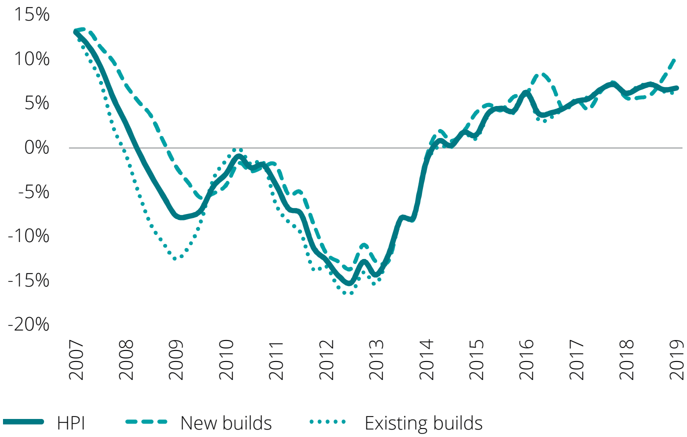
Following eight years of declining house prices, the Spanish real estate market has seen steady growth in both prices and demand over the past two years, growing in 2018 by 6.5% and 15%, respectively.

There is increasing demand for rental properties as a result of demographic changes including smaller family sizes, increasing labour mobility, as well as lower household savings. This is generating interest from non-core investors to identify, develop, and eventually sell rental property portfolios, with the combination of value growth and yield delivering annual returns on residential properties averaging 10.7%.

Growth continues to be driven by the prime urban areas – with Madrid and Barcelona accounting for over a quarter of housing transactions and 61% of ongoing developments – or by demand from overseas buyers in the Costa del Sol and other coastal regions.

Conversely, residential and retail assets continue to underperform in a number of regions, leading to concerns of overheating in the regions experiencing accelerated growth, and the emergence of a two-speed market in the country.

Housing Price Index (HPI) annual growth



Source: Instituto Nacional de Estadística (INE)

2016–2017

- **Salduvia** – acquired by Aktua (Centerbridge) from Ibercaja
- **Aktua** – sold by Centerbridge to Lindorff (€300m)
- **Aliseda** – Banco Popular repurchases the 51% stake following its acquisition by Santander (€600m)
- **Mihabitans** – acquired by Haya RE (Cerberus) from Liberbank (€85m)
- **HipoGes** – acquired by KKR (€30m)

2018–2019

- **Aliseda** – Blackstone acquires 51% stake from Banco Popular (Santander)
- **Diverian** – Cerberus acquires 80% stake from BBVA
- **Solvia** – acquired by Intrum from Sabadell
- **Servihabitat** – CaixaBank repurchases stake from TPG, and sells 80% stake of consolidated business to Lone Star
- **SDIN Residencial** – acquired by Oaktree from Banco Sabadell

Spain's 9-year deleveraging journey

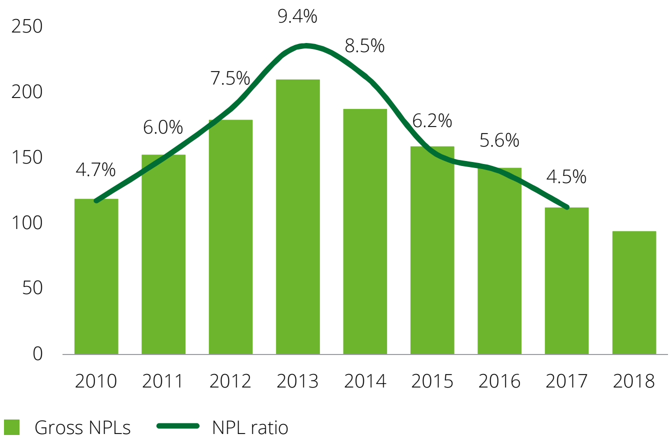
The Spanish economy has experienced a significant recovery in the nine years since the financial crisis, posting GDP growth ahead of the European average for the past four years, and halving unemployment to pre-crisis levels.

A similar progression can be seen in the financial sector's tackling of the non-core assets which had built up in the debt-fuelled property and construction boom of the pre-crisis years, peaking in 2013 with about €250bn in total NPAs.

What has followed is one of Europe's largest deleveraging programmes, with over €150bn of NPAs divested in the past five years. This has been characterised by three distinct stages:

- **Prior to 2013:** annual divestments ranged below €10bn, consisting primarily of small-scale unsecured portfolios. It also saw the introduction of the FROB (Fondo de Reestructuración Ordenada Bancaria) in 2009, and subsequent establishment of the national bad bank, SAREB, to manage the wind-down of over €50bn in assets from the four nationalised financial institutions.
- **2013-2016:** significant growth in the non-core market, more than doubling the annual volume of traded assets, with divestments by all of the largest banks, including both loan portfolios and servicing platform carve-outs. This growth attracted international players to the market, particularly real estate investors and servicers.
- **2017-present:** a steady flow of mid-size portfolios (approx. €500m GBV), and the emergence of a series of jumbo transactions – including secondary sales from the early investors – drives annual deal volumes to over €50bn. Market maturation is reflected by consolidation and professionalisation of the servicing landscape, while banks begin focusing on REO exposures ahead of the new provisioning guidelines.

Total banking system NPLs (€bn)



Source: Bloomberg

Spain's non-core market continues evolving, as the Spanish financial system still tackles one of Europe's largest stocks of non-performing exposures, together with a similar volume of REOs on the banks' balance sheets.

Market outlook

Despite a slow start to the year, with most banks still processing their transactions from 2018, the market has maintained steady momentum with €7bn in completed transactions, and a healthy pipeline of ongoing NPL and REO portfolio sales including the September launch of BBVAs reported twin portfolios, Projects Juno and Hera, worth a combined €5bn. Intrum's acquisition of 80% of the shares in Solvia from Banco Sabadell in April also includes the servicing of over €21bn of the bank's NPLs and REOs.

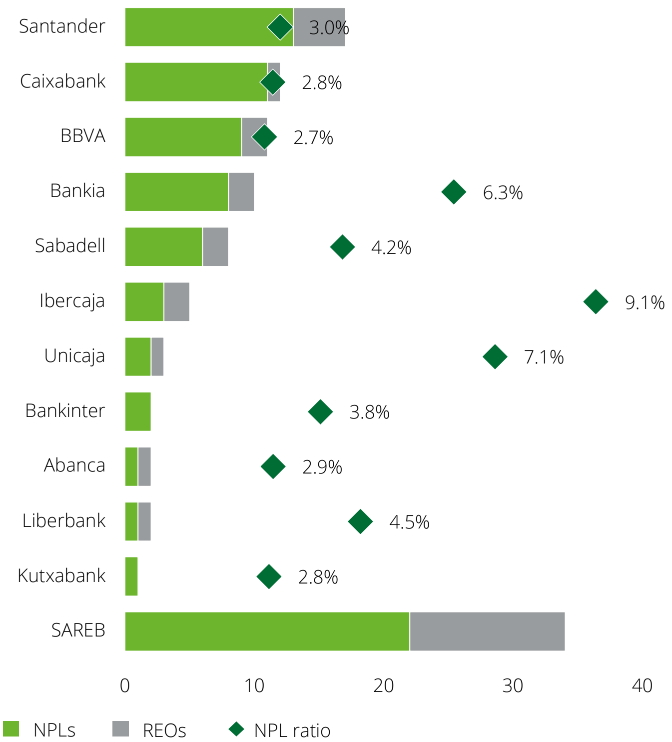
Having more than halved their NPL stock and ratios since the peak in 2013, Spanish banks are now looking deeper into their NPA pools, which is likely to lead to smaller-sized transactions, with more granular portfolio compositions.

Residential mortgages and sub-performing loan portfolios – asset categories in which the banks have achieved only limited progress thus far – are likely to feature prominently over the coming years. In particular aided by the Spanish Congress' passing of the Real Estate Loan Agreements Act 5/2019 (LCCI) in February, bringing the country's regulatory structures in line with the EU Directive.

Annual traded volumes are expected to stabilise around the €20bn historical average, although still driven largely by repeat sales from the largest banks, as they tackle the €140bn of NPAs held between them – over two thirds of the country's total stock. Meanwhile, Sareb continues to evolve its strategic direction, with the announcement of Project Sparta suggesting a shift in focus towards maximising the value of its assets under management, rather than deleveraging through institutional sales.

This will also likely lead to stratification in the buyer market, with increasing specialisation between the medium to smaller sized investors, while the larger investors expand in scale and expertise to widen their opportunities.

Gross NPAs held by top banks (€bn)

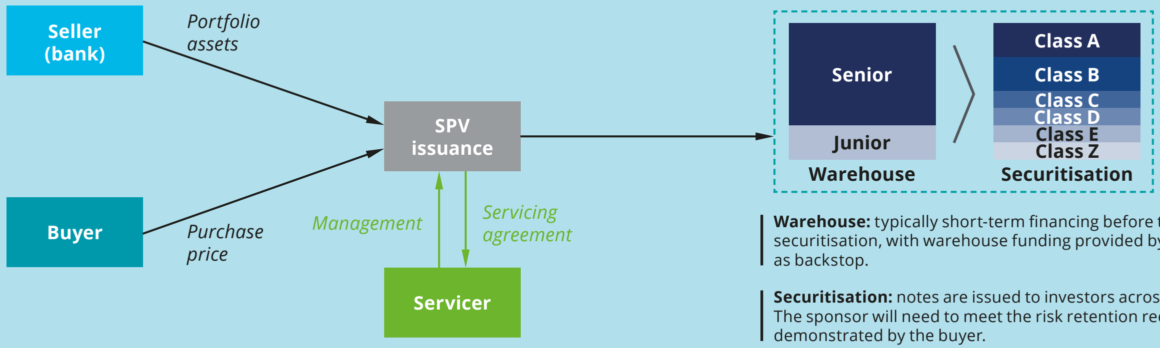


Source: latest published financial accounts as of December 2018

Non-core divestment structures

The evolving complexity in size and characteristics of the portfolios divested in the Spanish non-core market has given rise to a number of different transaction structures, which if property selected and executed, have been proven to maximize value for sellers and buyers.

Direct sale with securitisation package



Warehouse: typically short-term financing before the public securitisation, with warehouse funding provided by financing banks as backstop.

Securitisation: notes are issued to investors across capital stack. The sponsor will need to meet the risk retention requirements as demonstrated by the buyer.

The use of a securitisation package can capitalise on market liquidity and competition to achieve optimised pricing of assets at each risk rating. However, it can also face significant delays due to the enhanced due diligence requirements during the sale process.

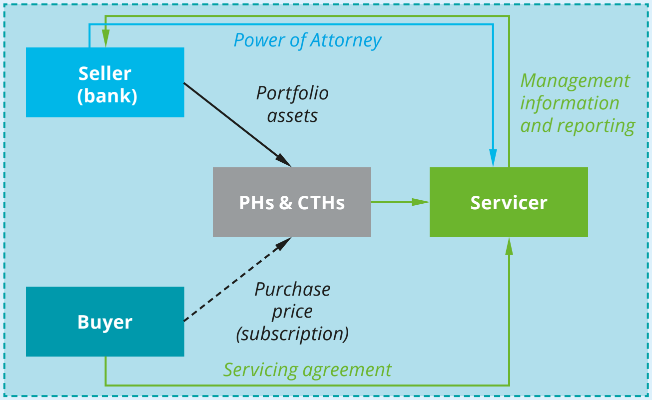
+

- Capitalises on market liquidity to achieve optimal pricing
- Individually risk-rated notes are able to attract a broader range of potential buyers – beyond traditional non-core investors
- The ability to distribute the notes to the most relevant internal investment teams will appeal to some investors

–

- A greater degree of detail and historical recovery information is required across the bank segment – including restructuring, overdue payments curve, probabilities of default, and recoveries in default
- Higher complexity in the rating exercise – requiring complex models and extensive coordination with the rating agencies throughout the process
- Legal due diligence by rating agencies will require further information and documentation – including validation of key loan data and sample real estate valuations
- Significantly extended execution timeline

Credit rights transfer



The use of participación hipotecaria (PHs) and certificados de transmisión de hipoteca (CTHs) can have a positive financial impact on transactions, however due to the complexity of the rights transfer mechanisms mean that they are best suited to larger value transactions and portfolios.

+

- Reduces the cost and administrative burden of transferring ownership in property register
- Does not incur sales tax (AJD), enabling improved pricing
- Eliminates on-boarding period – particularly attractive in granular portfolios

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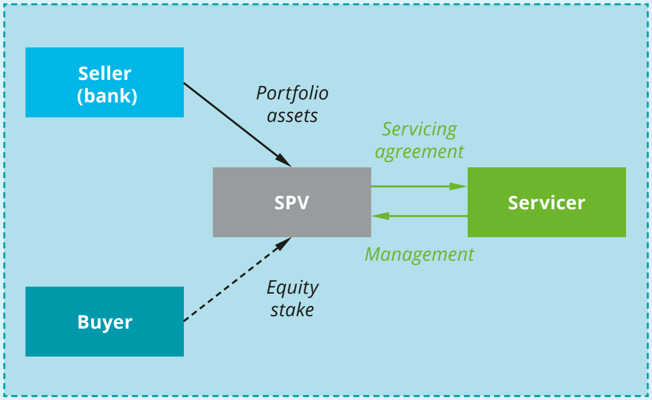
- Although not on balance sheet, bank remains the creditor, and is responsible for appropriate reporting
- Added complexity post-sale, with ongoing reporting requirements from servicer
- Reputational risk with servicer operating on bank's behalf to manage the loans
- Extended execution timeline

Joint venture



Creation of a jointly-owned SPV enables the bank to retain an interest in the up-side potential, although this also carries an ongoing exposure to future risks.

+

- Reduces the cost and administrative burden of transferring ownership in property register
- Does not incur sales tax (AJD) – if able to demonstrate that overall transaction will meet relevant tax obligations
- Losses can be tax deductible in the context of the transaction
- Bank retains an interest in up-side potential

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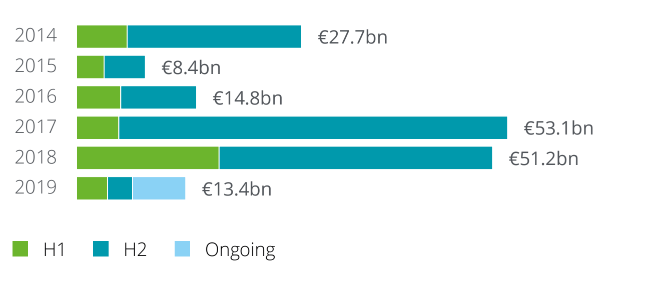
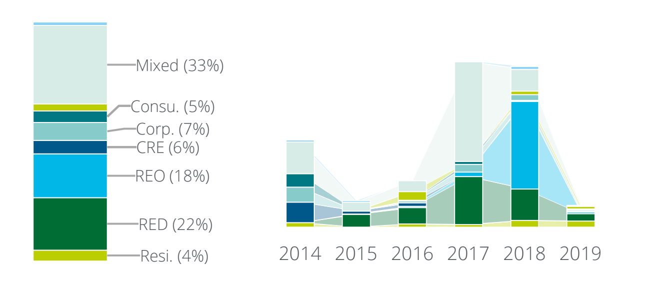
- Risk that buyer will push for full deconsolidation at later stage
- Reputational risk with SPV and servicer operating on bank's behalf to manage the loans
- Extended execution timeline

Activity by year

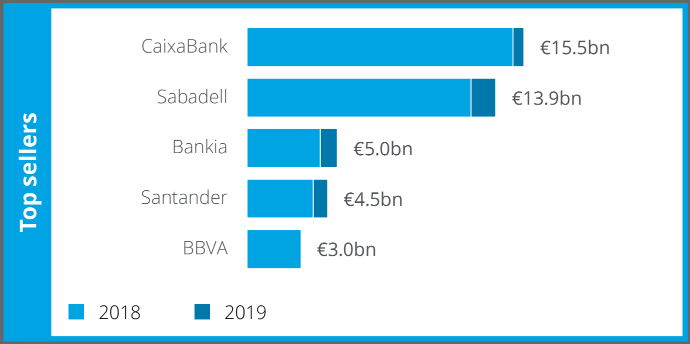


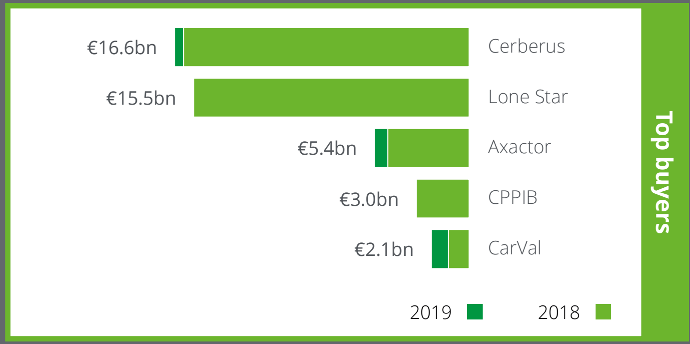
Activity by asset class



Completed transactions (2018)

Portfolio name	Asset class	Loans	Seller	Buyer	Size (€m)
Project Gama	REO	REO	CaixaBank	Lone Star	12,800
Project Olympia	Corporate	NPL	CaixaBank	DE Shaw	800
Project Agora	RED	NPL	CaixaBank	Cerberus	650
Project Orion	RED	NPL	CaixaBank	DE Shaw	600
Project Challenger	REO	REO	Sabadell	Cerberus	5,880
Project Coliseum	REO	REO	Sabadell	Cerberus	3,430
Project Makalu	RED	NPL	Sabadell	Deutsche Bank, CarVal	2,295
Project Galerna	Residential	NPL	Sabadell	Axactor	900
Project Mauser	Mixed	NPL	Confidential	Cerberus	3,154
Confidential	Unsecured	NPL	Confidential	Axactor	940
Confidential	REO	REO	Confidential	Intrum	600
Project Earth	REO	REO	Bankia	Lone Star	1,650
Project October	RED	NPL	Bankia	Lone Star	1,420
Project Newton	RED	NPL	Bankia	Waterfall	450
Project Beetle	RED	NPL	Bankia	Davidson Kempner, Farallon	400





Completed transactions (2018) – continued

Portfolio name	Asset class	Loans	Seller	Buyer	Size (€m)
Project Giants	RED	NPL	Bankia	GoldenTree	350
Project Vera	Corporate	NPL	Bankia	Cabot	180
Project Apple (residential)	REO	REO	Santander	Cerberus	2,700
Project Anfield	Other	NPL	Santander	Cabot	600
Project Wembley	Corporate	NPL	Santander	Intrum	383
Project Anfora	Mixed	NPL	BBVA	CPPIB	2,000
Project Sintra	RED	NPL	BBVA	CPPIB	1,000
Project Navia	RED	NPL	Sareb	Axactor	2,335
Project Adra	Residential	NPL	Sareb	Bank of America, Hayfin	250
Project Bidasoa	Residential	NPL	Sareb	Bain Capital	159
Project Lince	Mixed	NPL	Liberbank	Confidential	1,800
Project Bolt	REO	REO	Liberbank	GoldenTree	180
Confidential	Residential	NPL	Evo Banco	Elliott	751
Project Shell	RED	NPL	Kutxabank	Bain Capital	700
Project Warrior	REO	REO	Ibercaja	Intrum	650

Completed transactions (2018) – continued

Portfolio name	Asset class	Loans	Seller	Buyer	Size (€m)
Project Galleon	CRE	NPL	Cajamar	Link Financial Group	308
Confidential	Corporate	NPL	Cajamar	LCM Partners	300
Project Omega	REO	REO	Unicaja	Cerberus	230
Project Pacific	Corporate	NPL	Unicaja	AnaCap	100

Completed transactions (2019)

Portfolio name	Asset class	Loans	Seller	Buyer	Size (€m)
Project Greco	RED	Mixed	Sabadell	Oaktree	882
Project Rex	RED	NPL	Sabadell	Cerberus	342
Confidential	Residential	NPL	Sabadell	Azora	150
Project Castillo	Residential	NPL	Blackstone	CarVal	1,000
Project Match	Corporate	NPL	Bankia	Marathon Asset Management	500
Confidential	RED	NPL	Bankia	Blackstone	300
Project Barrosa	Unsecured	NPL	Bankia	Joint Buyer	150
Confidential	REO	REO	Unicaja	Castlelake, Urbania	477
Project Biznaga	Residential	PL	Unicaja	Mediterráneo Vida	245
Project Aloe	Residential	NPL	Unicaja	Cerberus, Davidson Kempner	227
Project Old Trafford	Unsecured	NPL	Santander	Axactor	600
Confidential	CRE	NPL	Santander	Apollo	200
Project Hokkaido	RED	NPL	CaixaBank	Farallon	350
Project Sapporo	Mixed	NPL	CaixaBank	DE Shaw	250
Project Ordesa	RED	NPL	Ibercaja	Marathon Asset Management	534
Project Buick	Residential	NPL	PIMCO	LCM Partners	250
Confidential	Unsecured	NPL	Confidential	Axactor	77
Confidential	CRE	NPL	Confidential	Axactor	40
Project Galia	Consumer	NPL	Oney	Savia Asset Management	113

Completed transactions (2019) – continued

Portfolio name	Asset class	Loans	Seller	Buyer	Size (€m)
Confidential	Consumer	NPL	Confidential	Intrum	100
Project Silex	Unsecured	NPL	ING	Axactor	77

Transaction pipeline

Portfolio name	Asset class	Loans	Seller	Size (€m)
Project Juno	Consumer	NPL	BBVA	2,500
Project Hera	Corporate	NPL	BBVA	2,500
Project Jarama	REO	REO	Bankia	500
Confidential	Unsecured	NPL	Confidential	170
Confidential	Residential	NPL	Confidential	100
Project Marconi	RED	NPL	Sareb	200
Project Ryder	RED	NPL	Bankinter	120
Project Summer Campaign	REO	REO	Liberbank	n/a
Confidential	REO	REO	Liberbank	74

Portugal

The non-core market in Portugal continues to gain momentum, with €5bn sold so far in 2019, and a further €1bn in ongoing transactions. Having been a comparatively quiet market over recent years – annual volumes traded capping at about €2bn – the volume of traded NPLs and REOs is now set to exceed €7bn for the second consecutive year.

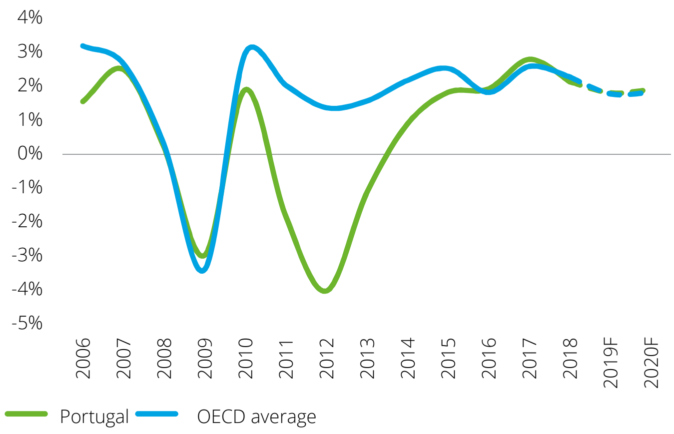
Portuguese banks have been pursuing a range of deleveraging efforts over recent years, improving their provision levels in the context of an improving economy and real estate market. Banco de Portugal reported an overall NPL ratio of 8.9% in early 2019, following steady reductions over the past two years. Meanwhile, the total stock of NPLs held by Portuguese banks has now halved to below €25bn since its peak in 2016.

Overall deal volumes continue to be driven by mega portfolios from Novo Banco – the 'good bank' established by the Banco de Portugal and the Resolution Fund, now 75% owned by Lone Star. With the combined €6.5bn sold since mid-2018 representing about half of the total volume traded in the country.

The state-owned Caixa Geral de Depósitos (CGD) sold €2bn in a number of portfolios last year, and has a non-core divestment goal of €1.5bn for 2019 as it targets an NPL ratio of 7% by 2021. In addition to this year's two portfolio sales, CGD is preparing to launch several loan transactions over the coming months, spanning a range of asset classes and originating both in Portugal and abroad.

Investor appetite for Portuguese non-core assets continues to grow, with domestic and international players recognising the opportunity to deploy capital in assets which benefit from the country's improving real estate market, healthy economic indicators, and current political stability to provide predictable cash recovery timelines.

Real GDP growth

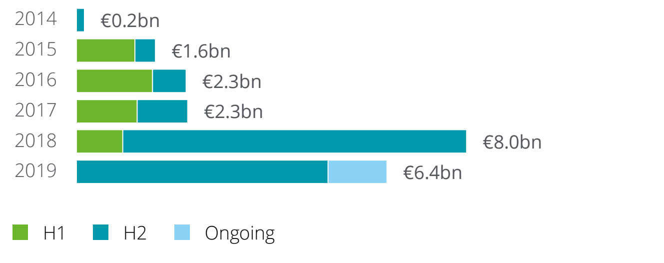


Source: OECD (F = forecast)

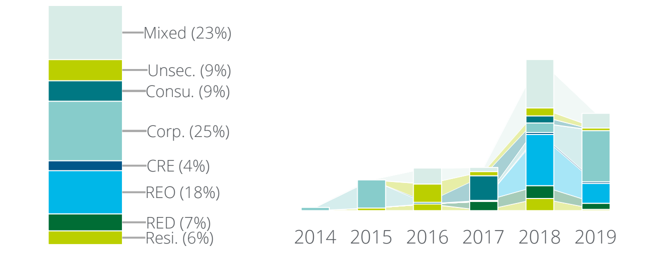
Portugal's servicing space has developed over recent years in line with investor demand resulting from increasing volumes of loan portfolios traded. Domestic servicers have been rapidly scaling-up their capabilities and technical infrastructure to take advantage of the opportunity, and compete with the international specialised servicers which have been replicating their successful formula in the Portuguese market.

2019 is on course to be another record-breaking year in the Portuguese market for non-core asset disposals. With the country's banks maintaining steady levels of activity while working towards their medium-term deleveraging targets.

Activity by year

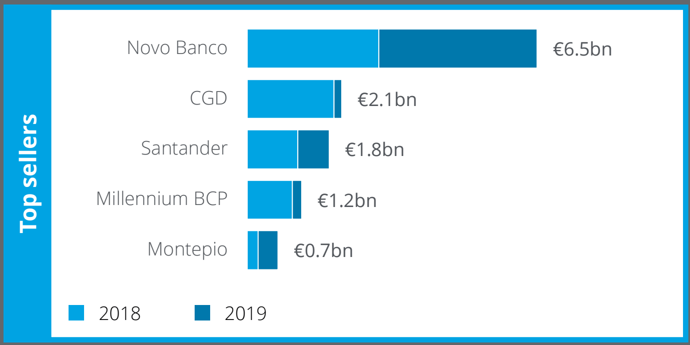


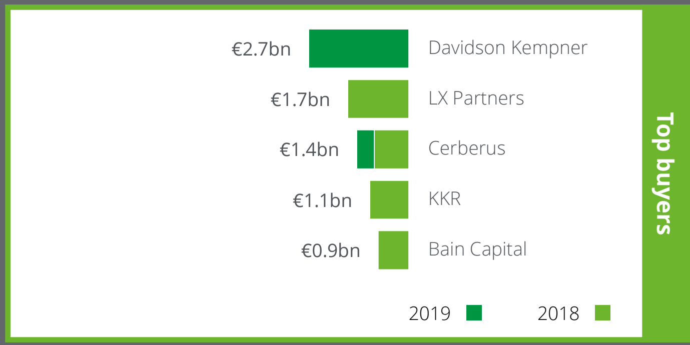
Activity by asset class



Completed transactions (2018)

Portfolio name	Asset class	Loans	Seller	Buyer	Size (€m)
Project Nata	Mixed	NPL	Novo Banco	KKR, LX Partners	2,150
Project Viriato	REO	REO	Novo Banco	Anchorage	786
Project Atlantic	REO	REO	CGD	Bain Capital	850
Project Pacific	Residential	NPL	CGD	AnaCap	350
Project Arctic	RED	NPL	CGD	Bracebridge	345
Project Indian	Residential	NPL	CGD	Cerberus	290
Confidential	RED	NPL	CGD	AnaCap	100
Project Crown	Corporate	NPL	Millennium BCP	LX Partners, Balbec	520
Project Wallabies	Mixed	NPL	Millennium BCP	LX Partners, Balbec	280
Project Wolf	Unsecured	NPL	Millennium BCP	LX Partners	200
Project Tagus	REO	REO	Santander	Cerberus	650
Confidential	CRE	NPL	Santander	CRC	100
Project Golden	REO	REO	Fidelidade	Apollo	425
Project Snipe	Unsecured	NPL	Bankinter	Arrow Global	228
Project Veleiro	Mixed	NPL	Bankinter	Arrow Global	135
Project Atlas	RED	NPL	Montepio	Mimulus Finance	239





Completed transactions (2019)

Portfolio name	Asset class	Loans	Seller	Buyer	Size (€m)
Project Nata 2	Corporate	NPL	Novo Banco	Davidson Kempner	2,732
Project Sertorius	REO	REO	Novo Banco	Cerberus	488
Project Albatroz	Mixed	NPL	Novo Banco	Waterfall	308
Guincho Finance	Mixed	NPL	Santander	Confidential	481
Pool 51	Unsecured	NPL	Santander	Confidential	135
Pool 50	CRE	NPL	Santander	Confidential	85
Project Atlas 2	RED	NPL	Montepio	Arrow Global	321
Project Brick	REO	REO	Montepio	AXA Investment Managers	120
Project Pumas	REO	REO	Millennium BCP	AnaCap	210
Project Mars	REO	REO	CGD	CRC	170

Transaction pipeline

Portfolio name	Asset class	Loans	Seller	Size (€m)
Project Eagle	Mixed	NPL	Millennium BCP	250
Project Tiger	Unsecured	NPL	Millennium BCP	100
Project Lemon	CRE	NPL	Banca BPI	250
Project Neptune	Corporate	NPL	CGD	200

Greece

The Bank of Greece (BoG) has maintained its focus on reducing both the NPL ratio and overall volume of non-performing assets held by Greek banks since the financial crisis. To this end it has implemented a programme of fiscal and macroeconomic measures over recent years, supported by the European Stability Mechanism (ESM).

These measures have included: legislation to protect bank officers from prosecution in the context of loan restructuring and write-offs; a simplified framework for licencing of credit servicing firms; enhanced rights for secured creditors in the distribution of NPL liquidations; and the launch of a number of e-auction platforms for disposing of individual properties.

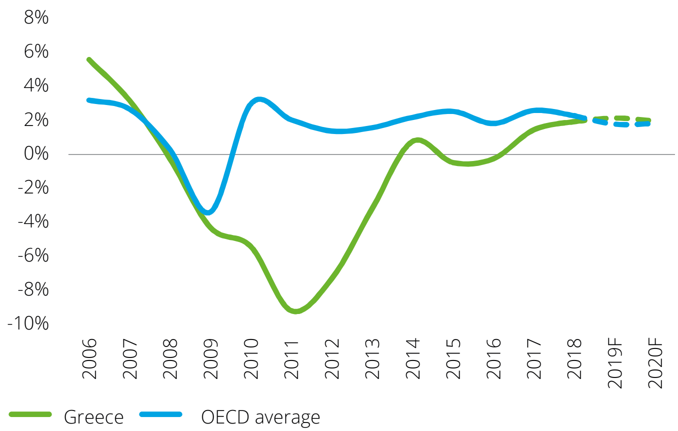
As a result, the Greek NPL market has grown from effectively nothing in 2016 to the third largest in Europe, with over €16bn traded in 2018. During which time Greek banks have reduced their stock of NPLs by nearly a quarter from the €105bn they held at the end of 2015.

However, despite this exponential ramping-up, the banks' deleveraging has fallen short of the BoG target of reducing NPLs to €81.5bn by the end of 2018, with the average NPL ratio of 39% still thirteen times the European average. With a pipeline of over €20bn in NPL sales – already significantly above the 2018 total – Greek banks are on course to reach the target of €65bn NPLs held by the end of 2019.

In addition to the traditional NPL portfolio sales, the Greek market offers a variety of innovative investment opportunities. This includes ongoing sales of servicing platforms with significant loan books under management, such as Piraeus Bank's agreement with Intrum on the sale of its entire restructuring business unit, or Project Europe being sold by Eurobank. Projects Cairo and Pillar have also offered structured loan deals worth €7.5bn and €2bn, respectively.

Eurobank's merger with Grivalia Properties is part of the bank's 'Acceleration Plan' to boost capital ratios and speed up the reduction of NPEs.

Real GDP growth



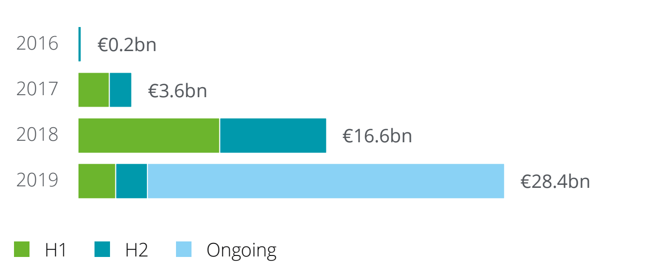
Source: OECD (F = forecast)

In October 2019 the European Commission approved the Hellenic Financial Stability Fund's (HFSF) proposed Asset Protection Scheme (APS), judging it "another good example of how Member States can help banks clean up their balance sheets without granting aid or distorting competition". The scheme, known as Hercules, is comparable to the Italian GACS, providing as much as €9bn in state guarantees on NPL securitisations in the country.

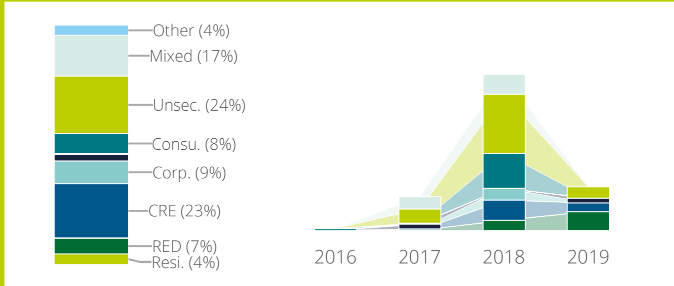
This follows European Commission approval for the Greek Primary Residence Protection Scheme, which has an annual budget of €132m, with strict eligibility criteria for qualification.

These and other recent enhancements to the legal and regulatory frameworks are helping to increase investor confidence in what is expected to be one of the most active Euopean NPL markets in 2019, as Greek banks continue their efforts to reduce NPE exposures and meet the BoG targets.

Activity by year



Activity by asset class

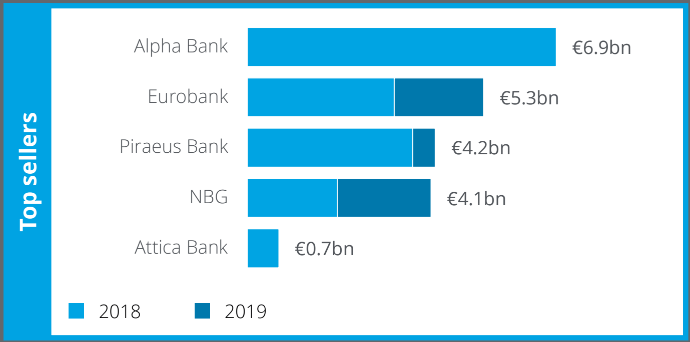


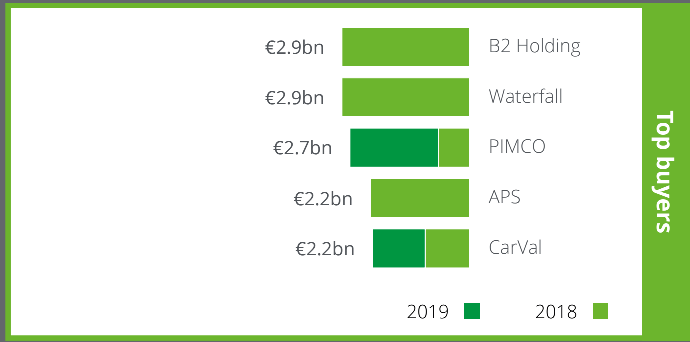
Completed transactions (2018)

Portfolio name	Asset class	Loans	Seller	Buyer	Size (€m)
Project Venus	Consumer	NPL	Alpha Bank	B2 Holding;Waterfall	3,740
Project Mercury	Mixed	NPL	Alpha Bank	Hoist	2,100
Project Jupiter	RED	NPL	Alpha Bank	Apollo, IFC	1,056
Project Arctos	Unsecured	NPL	Piraeus Bank	APS	2,238
Project Amoeba	CRE	NPL	Piraeus Bank	Bain Capital	1,450
Project Zenith	Unsecured	NPL	Eurobank	B2 Holding, Waterfall	2,024
Confidential	Corporate	NPL	Eurobank	[securitisation]	1,250
Project Earth	Unsecured	NPL	National Bank of Greece	CarVal, Intrum	2,000
Project Metexelixis	CRE	NPL	Attica Bank	Confidential	701

Completed transactions (2019)

Portfolio name	Asset class	Loans	Seller	Buyer	Size (€m)
Project Mirror	Unsecured	NPL	National Bank of Greece	CarVal	1,200
Project Symbol	CRE	NPL	National Bank of Greece	Joint Buyer	900
Project Pillar	RED	NPL	Eurobank	PIMCO	2,000
Project Nemo	Shipping	NPL	Piraeus Bank	Davidson Kempner	507





Transaction pipeline

Portfolio name	Asset class	Loans	Seller	Size (€m)
Project Cairo	CRE	NPL	Eurobank	7,400
Project Opus	REO	REO	Eurobank	85
Project Star	REO	REO	Eurobank	24
Project Ariadne	Mixed	NPL	PQH	4,500
Project Aeolus	Unsecured	NPL	PQH	1,500
Project Phoenix	Other	NPL	Piraeus Bank	2,000
Project Callaway	Corporate	NPL	Piraeus Bank	1,000
Project Iris	Unsecured	NPL	Piraeus Bank	700
Project Solar	Corporate	NPL	Piraeus Bank	500
Project Trinity	Corporate	NPL	Piraeus Bank	300
Project Orion	Residential	NPL	Alpha Bank	2,000
Project Neptune	Corporate	NPL	Alpha Bank	1,800
Project Icon	Corporate	NPL	National Bank of Greece	1,600
Confidential	Shipping	NPL	National Bank of Greece	300

Cyprus

The Cypriot banking sector has been tackling one of the highest NPL ratios in Europe, with the stock of bad debt concentrated in the largest banks. The nationalisation of the Cooperative Central Bank (CCB) in 2018 saw the separation of a 'good bank' which was acquired by rival Hellenic, and the remaining 'bad bank' becoming a state-owned AMC, and renamed the Cooperative Asset Management Company, including €7bn NPLs.

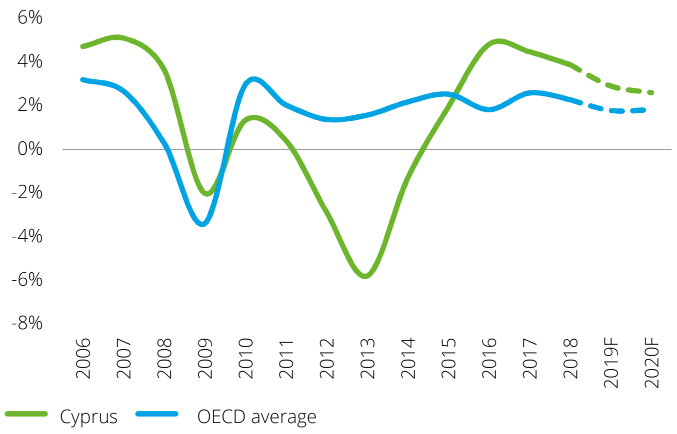
Significant deleveraging has been carried out by the remaining two largest banks, who between them hold over half of the loans, and two thirds of the country's bank deposits. This has reduced the total stock of non-performing facilities (NPF) in the banking system to €10bn according to the latest data from the Central Bank of Cyprus, representing a reduction of more than half since 2016, achieved through a combination of portfolio sales and organic work-out methods.

The pace of NPL portfolio sales has abated somewhat in 2019, although this is expected to increase in the second half of the year as the market processes the scale of activity from 2018, with €4bn in ongoing trades, including the follow-up portfolio from Bank of Cyprus, Project Helix 2.

The package of legislative measures approved by the Cyprus Parliament in July 2018 aims bring market stability and security by strengthening the legal frameworks for dealing with NPLs, including:

- clarification of rules governing the sale of credit facilities as regards the respective transfer rights, obligations, and priorities of the parties involved;
- simplification of procedures to rehabilitate debtors who have not committed offences;
- amendments to the Companies Law facilitating debt restructuring and corporate recovery; and
- a new framework for debt securitisation under the supervision of the Central Bank of Cyprus.

Real GDP growth

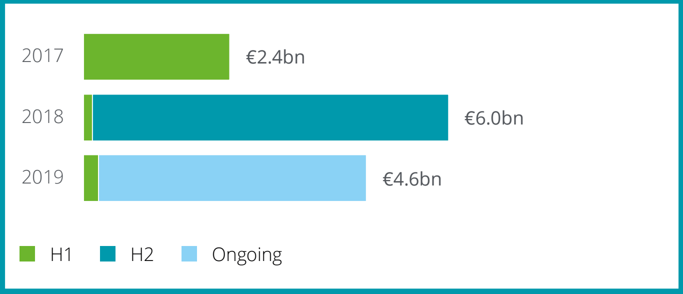


Source: OECD, World Bank, European Commission (F = forecast)

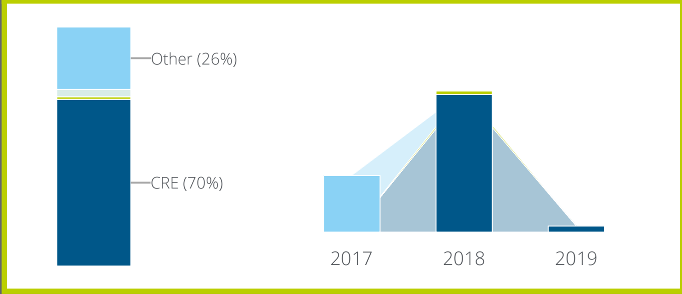
The government has also announced the Estia scheme, designed to reduce NPL levels through government subsidies enabling vulnerable borrowers to restructure long-standing non-performing loans mortgaged on their primary residence. While still pending the final launch, it is estimated that up to €3bn worth of loans would be eligible to participate in the scheme, with strong interest already demonstrated in the market.

Demand for third-party loan servicers is growing in Cyprus, with asset owners turning to specialist firms – including regional players such as APS or doValue-controlled Altamira – to manage the work-out of their remaining NPL stocks. This market is expected to grow, particularly as the share of Cypriot NPLs held by international investors and non-bank lenders increases.

Activity by year

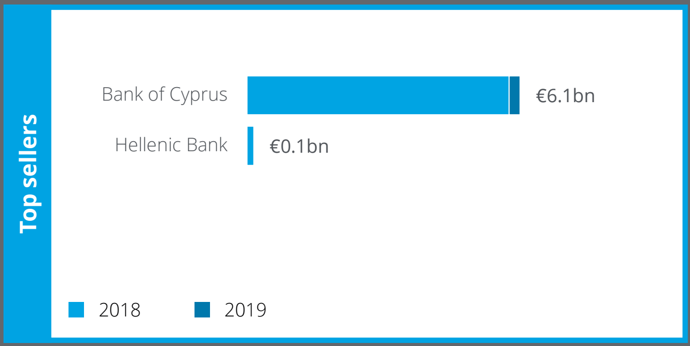


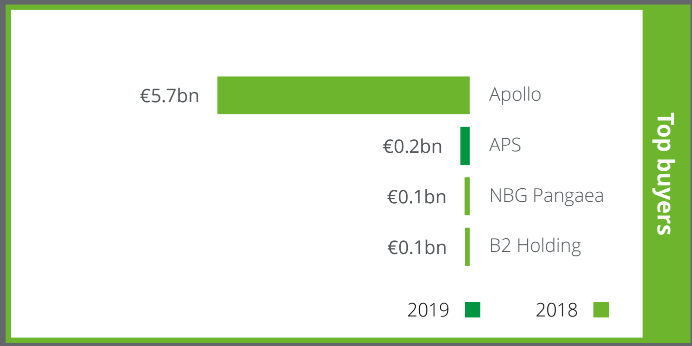
Activity by asset class



Completed transactions (2018)

Portfolio name	Asset class	Loans	Seller	Buyer	Size (€m)
Project Helix	CRE	NPL	Bank of Cyprus	Apollo	5,700
Confidential	CRE	PL	Bank of Cyprus	NBG Pangaea	149
Project Semele	Unsecured	NPL	Hellenic Bank	B2 Holding	145





Completed transactions (2019)

Portfolio name	Asset class	Loans	Seller	Buyer	Size (€m)
Confidential	CRE	NPL	Bank of Cyprus	APS	245

Transaction pipeline

Portfolio name	Asset class	Loans	Seller	Size (€m)
Project Helix 2	CRE	NPL	Bank of Cyprus	3,000
Confidential	Other	NPL	Hellenic Bank	1,000
Confidential	Mixed	PL	National Bank of Greece	400

Contacts

Global Portfolio Lead Advisory Services team

David Edmonds
Global Head
+44 (0) 20 7303 2935
dedmonds@deloitte.co.uk

Andrew Orr
Global Transactions Leader
+44 (0) 20 7007 0759
anorr@deloitte.co.uk

Will Newton
Head of Strategic Advisory
+44 (0) 20 7007 9191
wnewton@deloitte.co.uk

Benjamin Collet
Southern Europe and LatAm Head
+44 (0) 20 7007 0954
bcollet@deloitte.co.uk

Amo Chahal
Director
+44 (0) 20 7007 7323
achahal@deloitte.co.uk

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

Alok Gahrotra
Director
+44 (0) 20 7007 2164
agahrotra@deloitte.co.uk

Hardip Bhatti
Director
+44 (0) 20 7007 6740
hbhatti@deloitte.co.uk

Christophe Malherbe
Director
+44 (0) 20 7007 3616
cmalherbe@deloitte.co.uk

Nahuel Callieri
Director
+44 (0) 20 7303 7321
nacallieri@deloitte.co.uk

Ankur Patodi
Director
+44 (0) 20 7007 5258
anpatodi@deloitte.co.uk

Nicola Scardigli
Director
+44 (0) 20 7007 9730
nscardigli@deloitte.co.uk

Dominic Graham
Assistant Director
Business Development
+44 (0) 20 7303 6323
dominicgraham@deloitte.co.uk

Nordics

Tom Johannessen
Partner
+45 30 37 08 28
tjohannessen@deloitte.dk

CEE

Balazs Biro
Partner
+36 (1) 428 6865
bbiro@deloitteCE.com

Cyprus

Nicos Kyriakides
Partner
+357 258 68601
nkyriakides@deloitte.com

Denmark

Lars Berg-Nielsen
Partner
+45 20 24 73 10
lbergnielsen@deloitte.dk

Ireland

Martin Reilly
Partner
+353 1 417 2212
mreilly@deloitte.ie

France

Hrisa Nacea
Partner
+33 1 55 61 41 95
hnacea@deloitte.fr

Germany

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

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

Greece

Panagiotis Chormovitis
Partner
+30 210 678 1316
pchormovitis@deloitte.gr

Italy

Umberto Rorai
Partner
+39 02 8332 5056
urorai@deloitte.it

Portugal

Joaquim Paulo
Partner
+351 2104 22502 4002
jpaulo@deloitte.pt

Spain

Jose Antonio Olavarrieta
Partner
+34 9 1443 2875
jolavarrieta@deloitte.es

Deloitte Portfolio Lead Advisory Services

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

The Deloitte Portfolio Lead Advisory Services (PLAS) team is a recognised leader in UK, European, and global loan portfolio advisory projects. They cover deleveraging, specialised loan portfolio servicing, and buy and sell side mandates. The core senior team has advised governments, financial institutions, regulatory authorities, and global private equity firms on deleveraging and loan portfolio transactions across every major asset class covering over €560bn of assets.

PLAS comprises a core team of 40 professionals with experience in advisory, principal investment, and banking, together with a dedicated network of 150 professionals across the world. This is in addition to extensive resource and expertise available from Deloitte's global network of member firms. The PLAS team are active in nearly every country in Europe, and across Asia and many other emerging NPL markets.

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

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

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

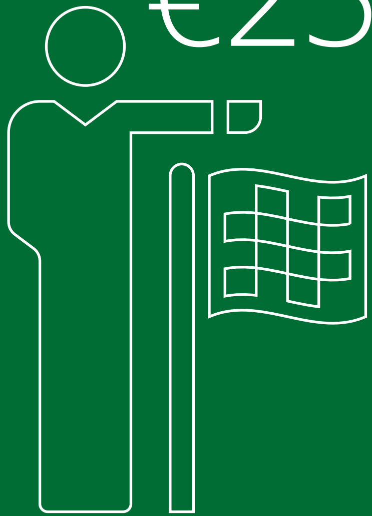
Advising holders, buyers and sellers of performing, distressed and non-core debt in deleveraging planning, loan portfolio management and strategy.

- The leading loan portfolio sell-side advisor
- The most experienced team in the market
- A Deloitte process increases market confidence in a successful loan sale
- Advised on >€100bn of assets in the last 12 months
- Trusted advisor to the buyer community

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

Completed deleveraging strategy plans on

€250bn



Unparalleled understanding

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

Global leader

in the loan portfolio advisory market

Buy-side advisor on over:

Global approach, local insight –

150+ strong team

worldwide, spanning every active market

Notes

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