European Portfolio Advisory Group

Market update

October 2013

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European NPL outlook and transactions in key markets

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Welcome to our bi-annual market update. This short document covers our latest analysis of the level of non-performing loans around Europe, together with a quick round up of loan portfolio transactions.

Reported NPLs have continued to increase mainly driven by countries in Southern Europe (mainly Italy, Spain and Greece), along with Ireland. There are 6 countries, Germany, the UK, Spain, Ireland, Italy and France that are reporting NPLs in excess of €100bn in their banking system at the end of 2012 – a staggering total of nearly €900bn. With an uncertain economic climate it is difficult to forecast any meaningful reduction in aggregate across Europe and indeed we believe that reported NPLs in many countries will continue to rise over the next couple of years, adding further impetus to the already buoyant loan portfolio market.

In calendar year 2012 we saw loan portfolios with a face value of €46bn trade, primarily originated from banks in the UK, Ireland, Spain and Germany and at the beginning of this calendar year we forecast an increasing volume of deals in 2013 – with a face value of €60bn. We have not been disappointed, with over €46bn transacted in the first 8 months with a further €12bn in the pipeline. Our expectations for the year are likely to be exceeded – indeed we are currently lead advising on deals totalling over €8bn which we expect to complete by end of the year.

These transactions are set against the backdrop of a continuing significant deleveraging challenge facing many of Europe's largest banks – the majority of the top 50 having established non-core or equivalent divisions, comprising both performing and non-performing lending, with the objective of achieving an increased focus on selling or running down unwanted assets.

Price, of course, remains a much talked about issue when looking at the potential for transactions. Our latest survey of investor return requirements will be published in the next few weeks. This survey, covering expected buying behaviour, shows return requirements remaining largely unchanged over the last year – but there is fierce competition for deals and demand continues to outstrip supply.

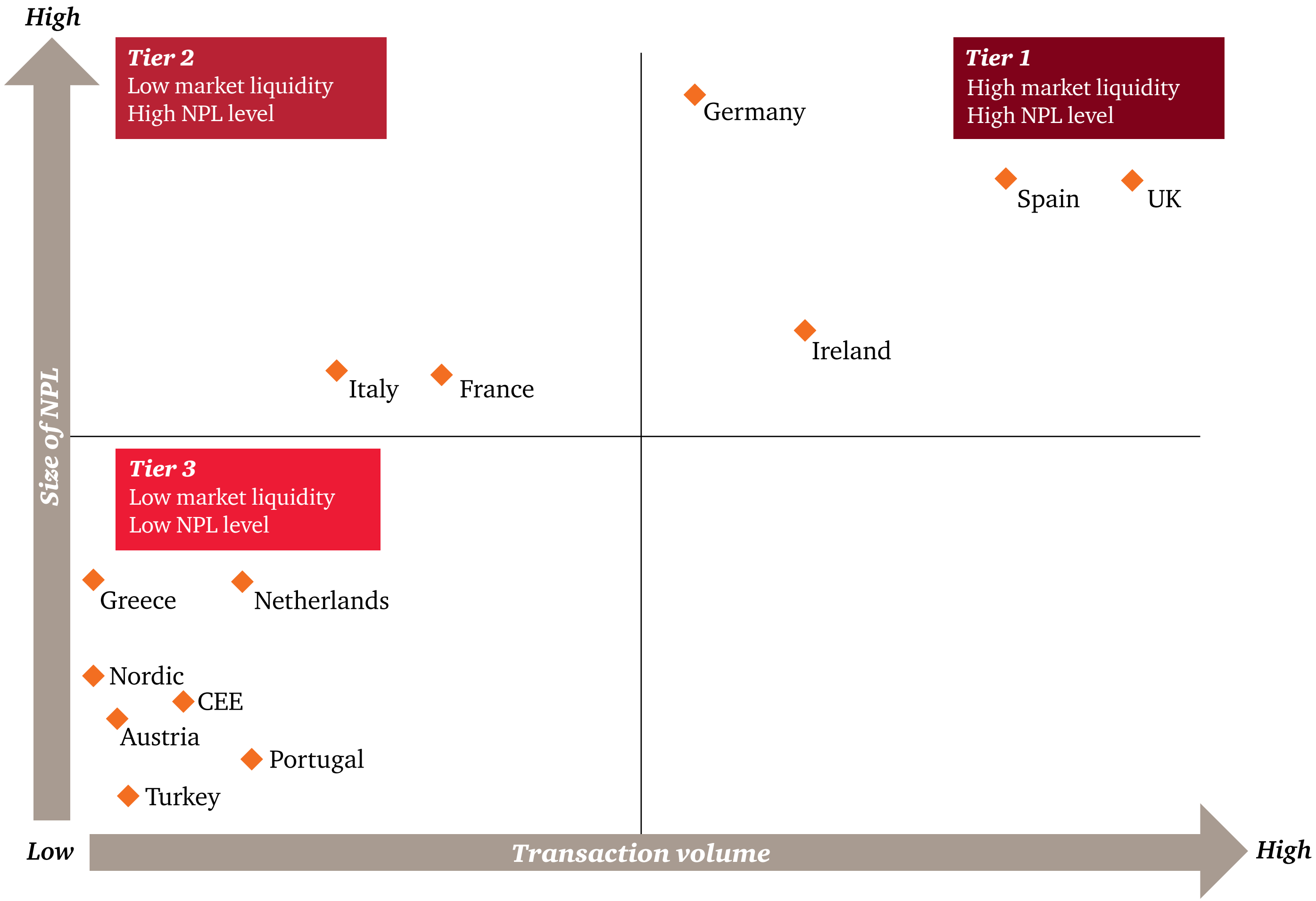
I hope you find this publication useful, and if you would like any further information please contact me or one of my colleagues listed at the end of this document.

NPL by country 2008–2012

In billions EUR	*2008*	*2009*	*2010*	*2011*	*2012*
Germany	142	204	192	179	179
United Kingdom	88	155	172	172	164
Spain	66	97	111	136	167
Ireland	15	88	109	119	135
Italy	42	59	78	107	125
France	51	77	133	133	125
Sub-total	***404***	***680***	***795***	***846***	***895***
Netherlands	32	58	52	52	57
Greece	12	19	27	40	56
Russia	n/a	27	32	34	39
Austria	9	12	17	18	21
Poland	9	12	15	15	17
Portugal	5	8	10	12	17
Ukraine	11	11	11	12	16
Denmark	8	13	16	17	15
Sweden	7	15	14	13	13
Romania	1	3	5	6	11
Hungary	2	3	5	7	8
Turkey	7	10	10	8	8
Czech Republic	3	4	5	6	6
Norway	2	4	4	4	5
Slovakia	1	2	2	2	2
Finland	1	1	1	1	1
Total Europe	***514***	***882***	***1,021***	***1,093***	***1,187***

Sources: Company accounts, other public information, and PwC analysis

Market liquidity



Note: Our index above rates the key European markets taking into consideration the overall size of NPLs in 2012, along with the cumulative level of transactions over the period Jan 2010 to Aug 2013.

Source: PwC analysis

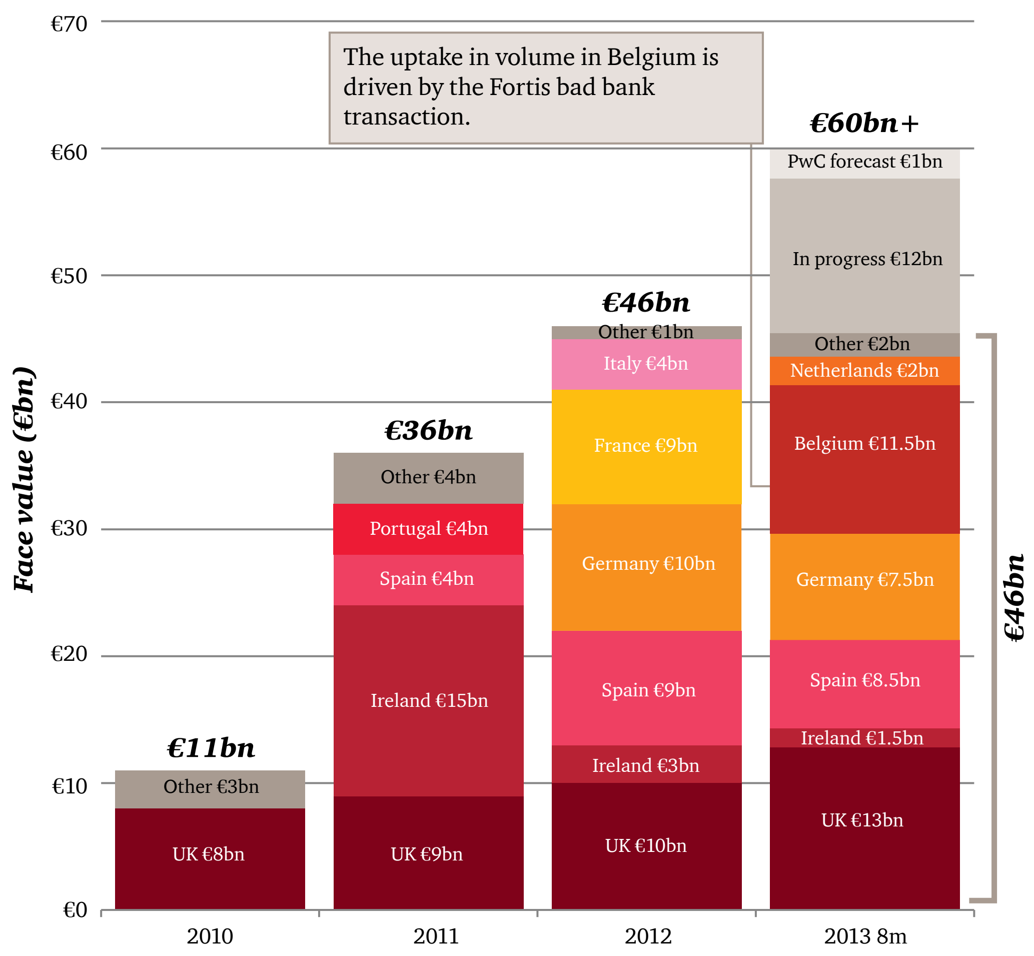
Tier 1 (Liquid market with large NPL size)
This tier represents mature loan transaction markets that are a main focus of international investors. This tier includes UK, Spain, Ireland and Germany. We expect these markets will continue to be key non core asset markets in 2013/14.

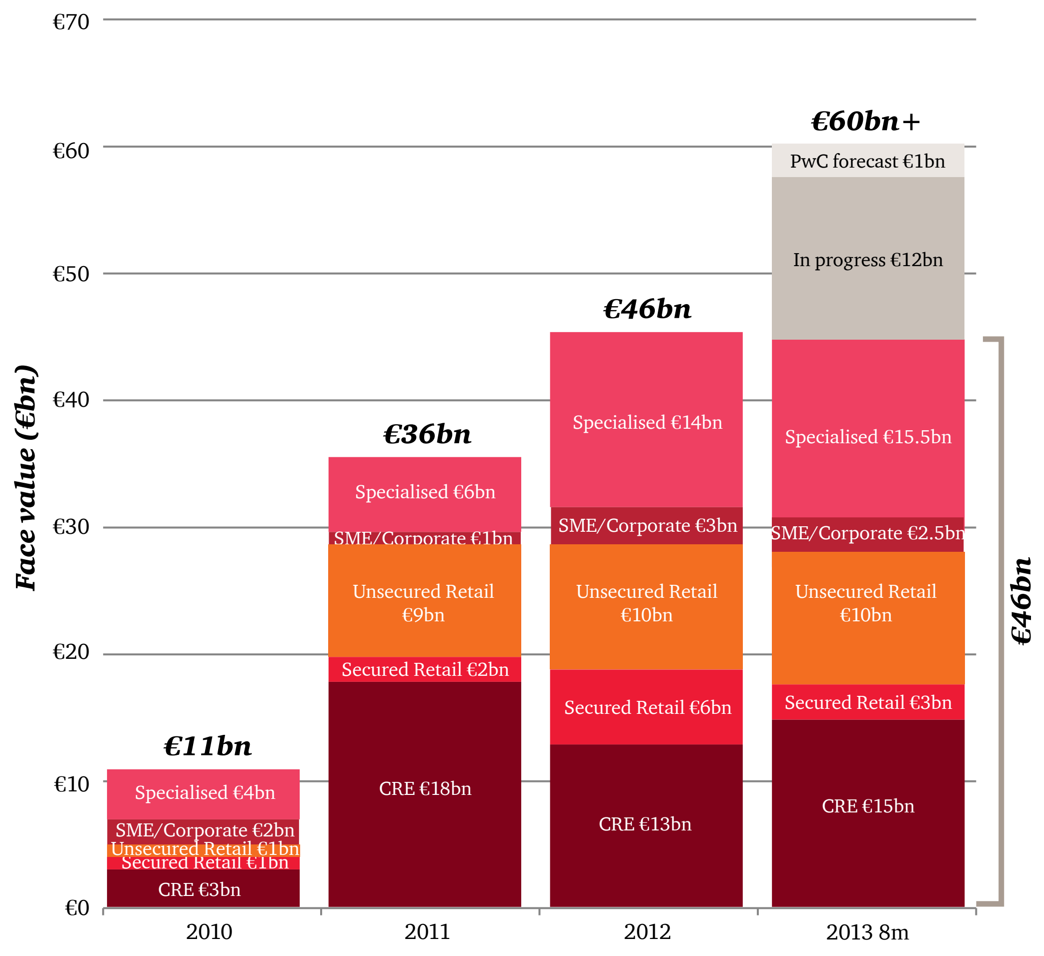
Tier 2 (Illiquid market with large NPL size)
This tier includes France and Italy, two of the largest European markets that remain relatively illiquid considering the overall NPL levels. French banks have been active in exiting their overseas non core businesses in recent years but have been relatively inactive domestically. In Italy, loan transaction levels have been gradually increasing after a long period of inactivity. We expect these trends will continue in 2013/14.

Tier 3 (Illiquid markets with moderate NPL size)
This tier includes moderate size markets with relatively few non core asset transactions. Greece and the Netherlands are the largest markets in this tier with the highest level of NPLs. We expect the two markets to become the focus of investors over the next 12-24 months.

€46bn of loan portfolios have traded in first 8 months of 2013

CRE and unsecured retail remain the most actively traded asset class



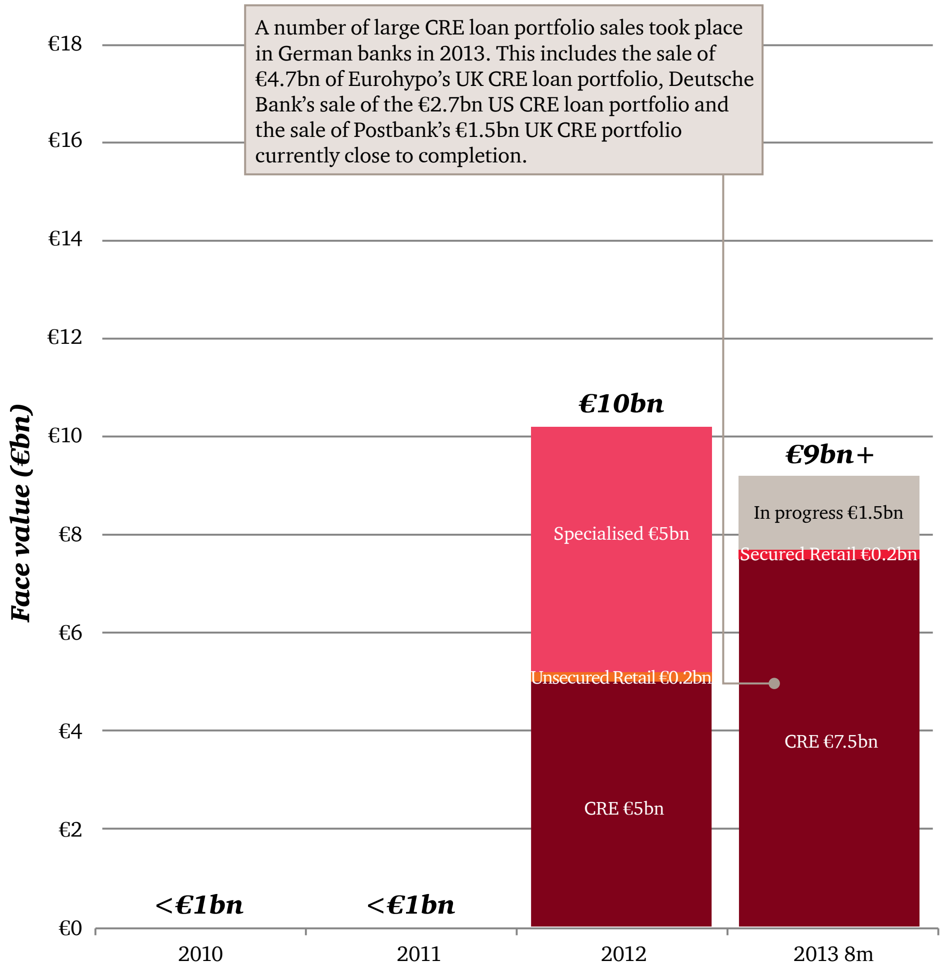


Source: Publicly available information, PwC information and analysis
Note: Based on the location of the head office of the bank selling the assets

Note: "Specialised" includes certain structured and asset backed products, shipping, infrastructure, energy and aviation exposures

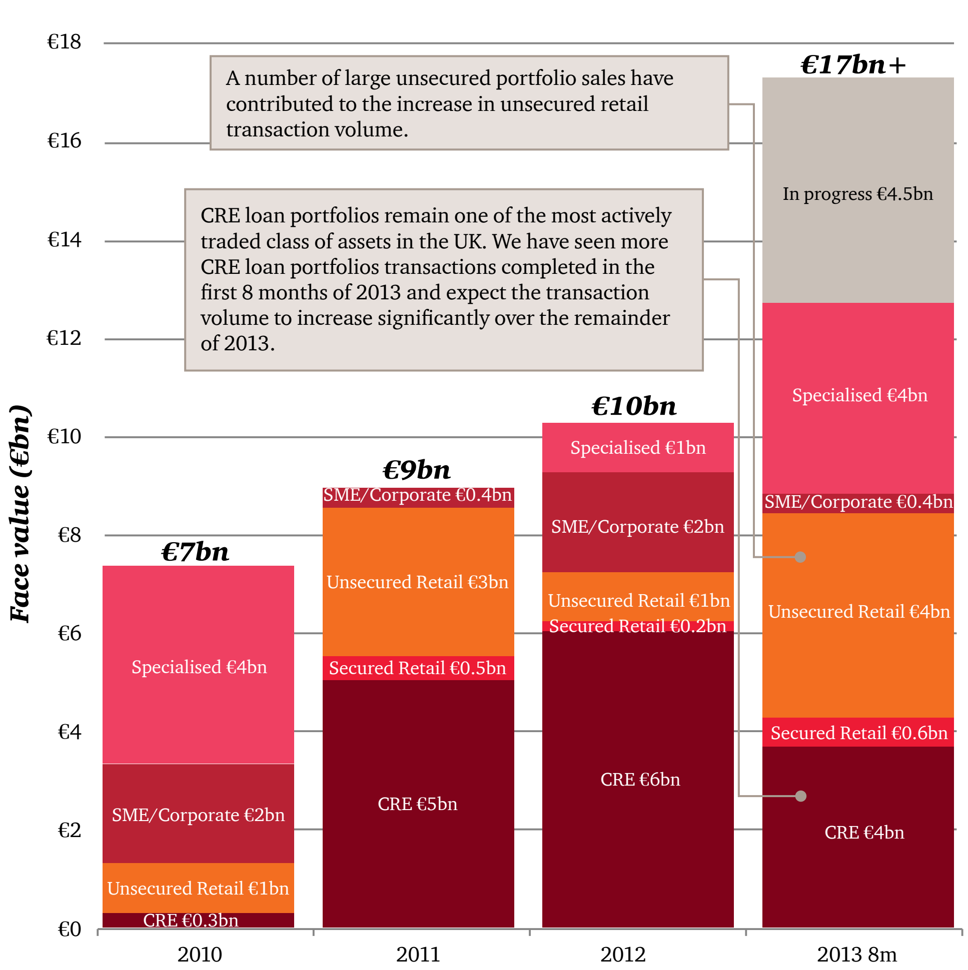
2013 deals in key markets

Germany



Source: Publicly available information, PwC information and analysis
Note: Based on the location of the head office of the bank selling the assets

UK



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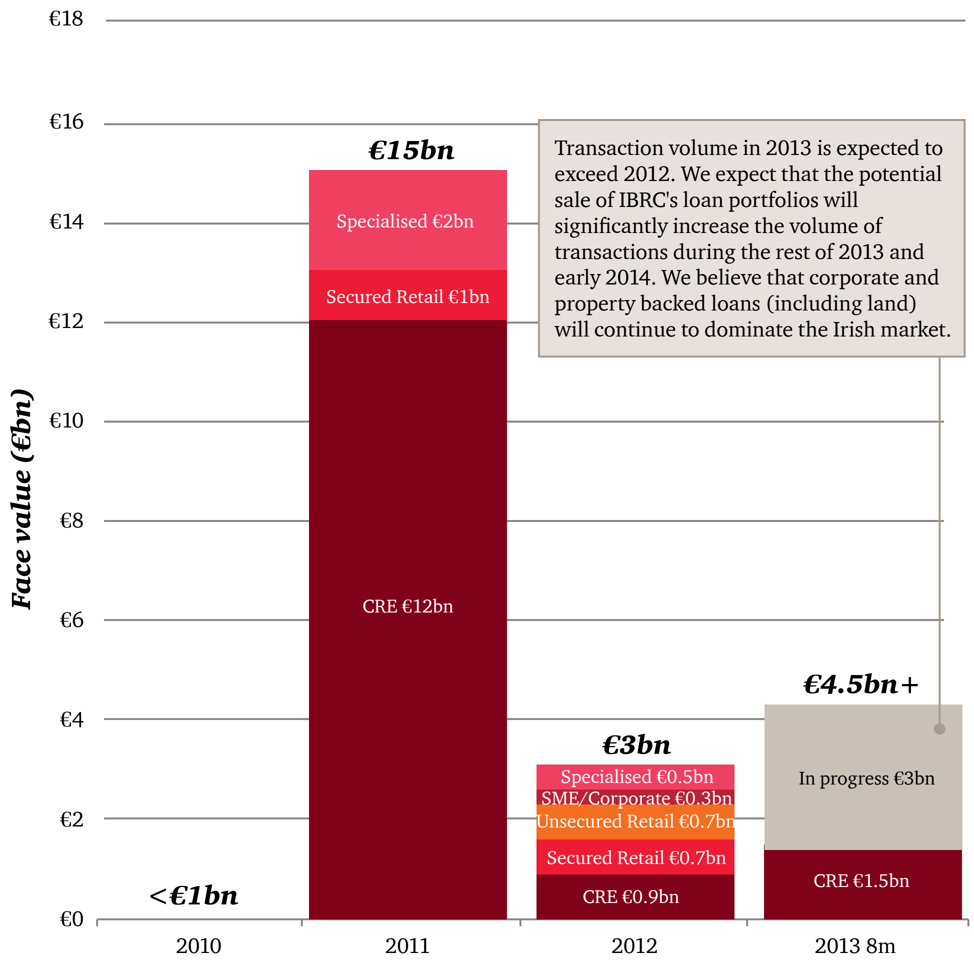
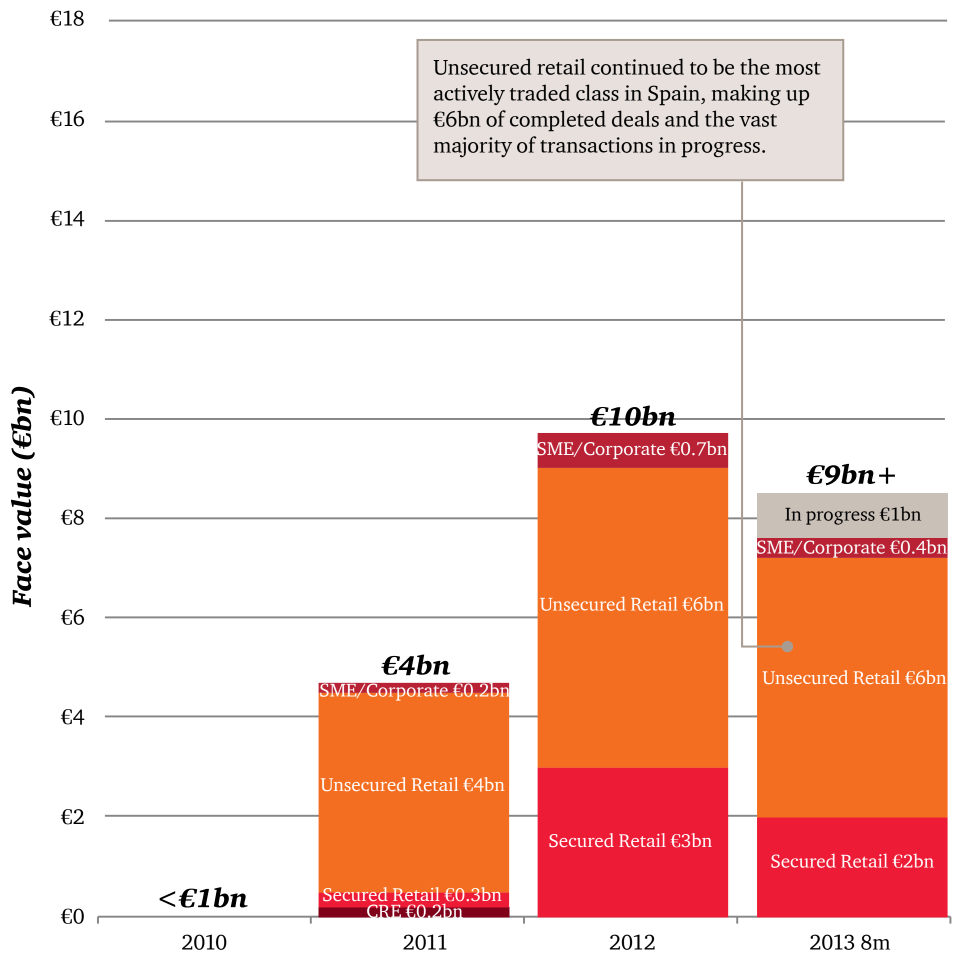
2013 deals in key markets

Ireland



Source: Publicly available information, PwC information and analysis
Note: Based on the location of the head office of the bank selling the assets

Spain

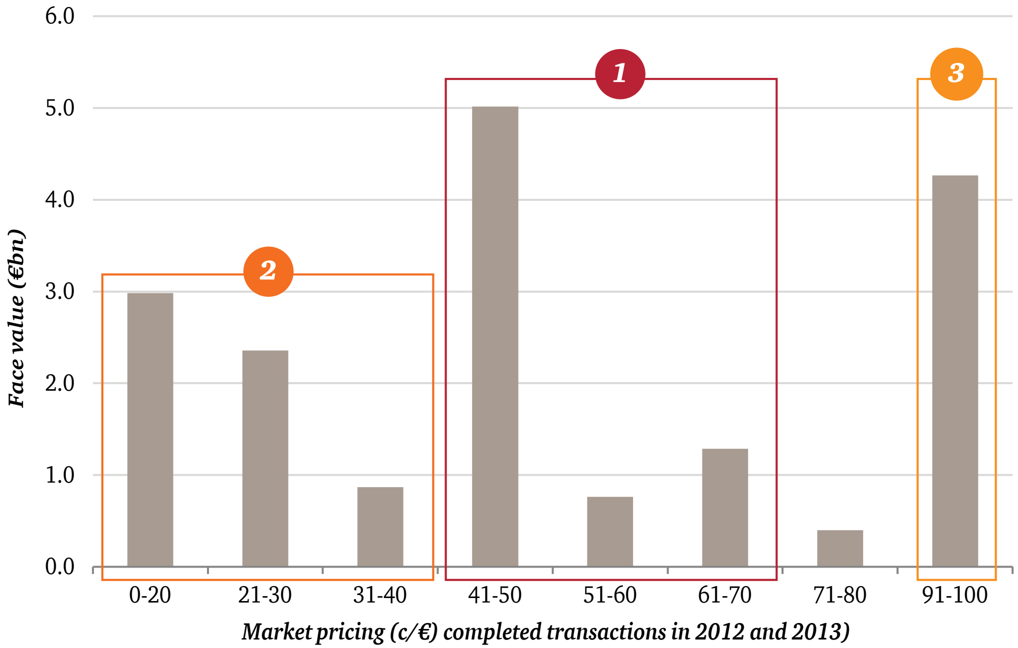


Note: "Specialised" includes certain structured and asset backed products, shipping, infrastructure, energy and aviation exposures

The above analysis includes both completed and in progress deals as at the time of publication

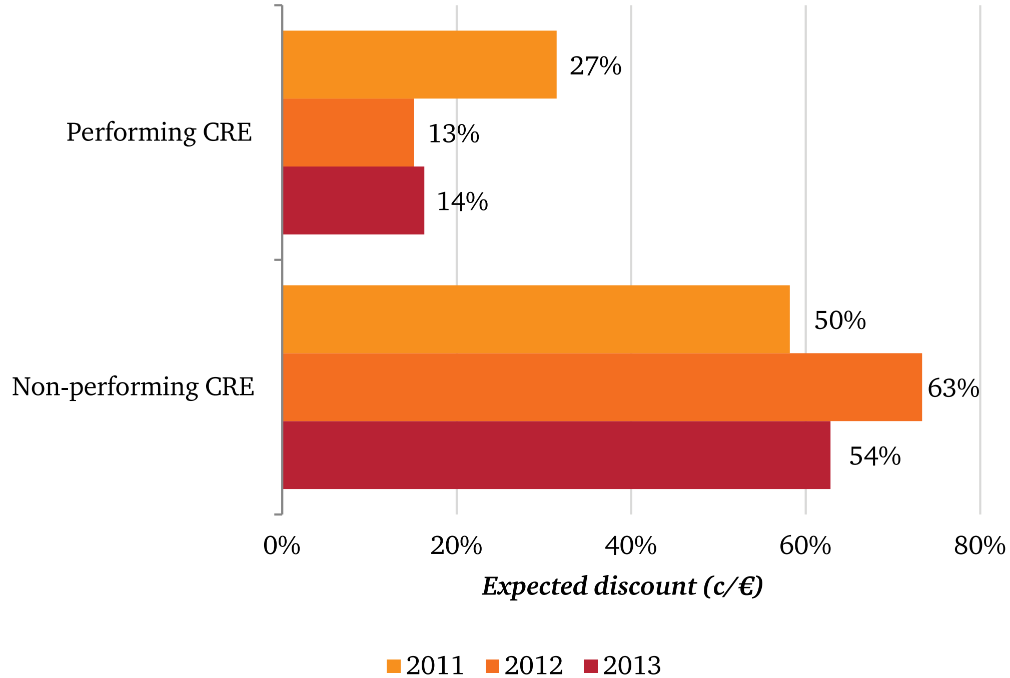
European commercial real estate loans pricing trends

2012 and 2013 European CRE loan portfolio market pricing



Source: Publicly available information, PwC analysis

Investor pricing expectations: European CRE



Source: PwC Investor Survey 2013

1 In line with our 2013 investor survey, the majority of non-performing European CRE assets were priced at 41-50 c/€ range. Most of these portfolios were secured by assets in the UK and Germany and we have seen pricing varied widely depending on the asset quality and specific property locations.

2 Irish assets have generally attracted a lower price of between 10-40 c/€, with prominent difference in pricing between prime and non-prime properties.

3 Performing CRE assets were priced at a discount of around 10%. This is in line with the findings of our investor survey.

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