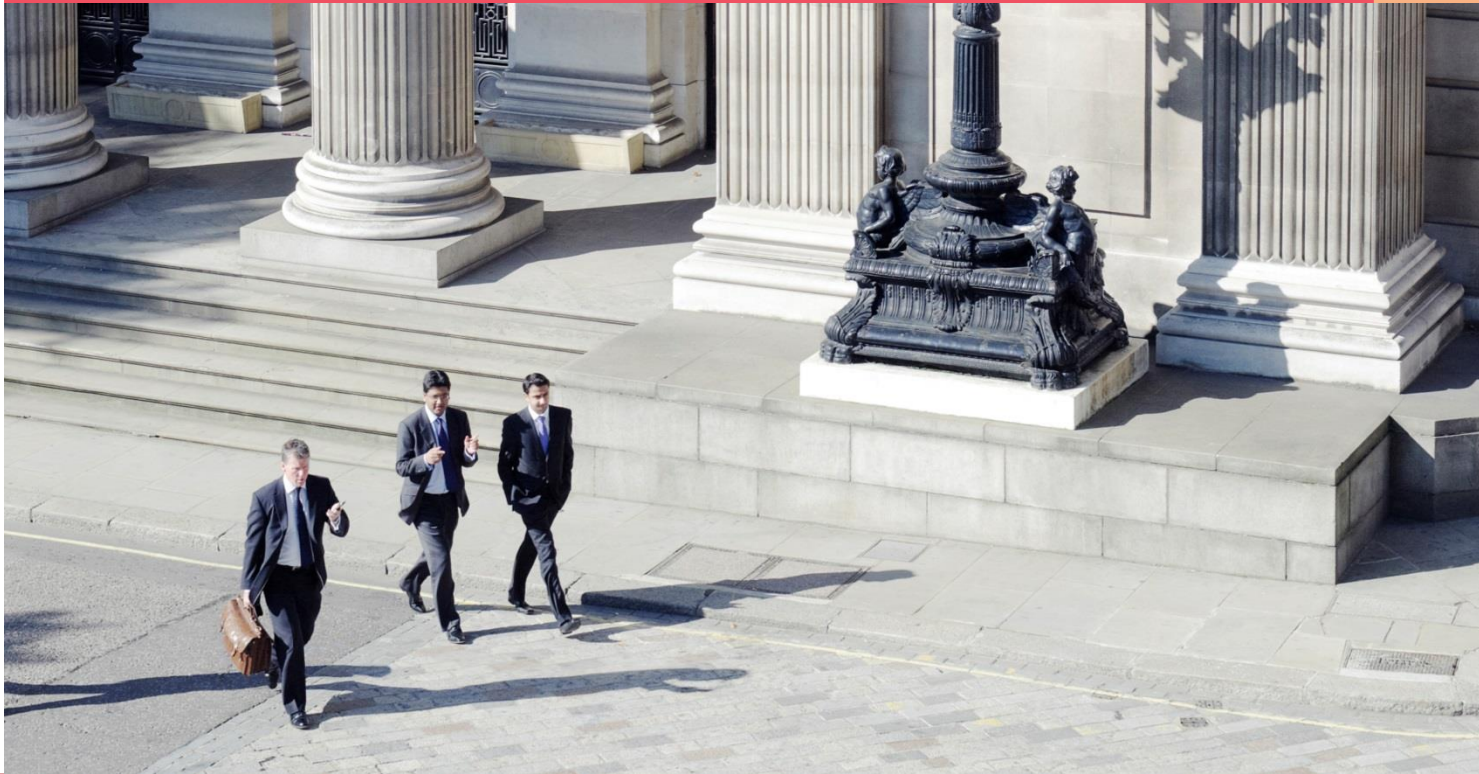


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Portfolio Advisory Group Market Survey 2015

March 2015

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Market Survey 2015

Introduction



Richard Thompson

Global Leader - Portfolio Advisory
Group, PwC UK

Welcome to our Market Survey 2015. This is the 4th year we have undertaken the survey and have once again had a tremendous response from both buyers and sellers of loan portfolios, with over 60 different groups taking part. Those surveyed ranged from banks to hedge funds to private equity groups. This is a market leading loan portfolio survey and seeks to understand and evaluate the loan portfolio sale market, as well as what and where investors are planning to target next.

We estimate European banks currently hold €1.9trn of non-core loans. Whilst the majority of deleveraging is expected to be by way of natural run-off, in line with our predictions there has been a substantial increase in deal activity in loan portfolios – most notably in commercial real estate. In 2014 we saw loan portfolios with a face value of €91bn trade, mostly coming from banks in the UK, Ireland, Spain and Germany.

We estimate that the investors in this market have more than €70bn of equity available and many are undergoing further fundraising. We expect volumes of loan portfolio deals to continue to increase over the next few years as European banks continue to restructure and deleverage.

We also expect the size of the non-core pool to increase in 2015 and 2016 as banks continue to re-assess what is central to their strategy in the emerging economic and regulatory landscape and become more transparent about their non-core portfolios and deleveraging efforts. The recent Asset Quality Reviews are acting as a further prompt to banks.

Price, of course, remains a much talked about issue when looking at the potential for transactions. Whilst our survey shows return requirements remaining largely unchanged over the last year, on the ground we have seen competition and demand for deals continuing to increase.

Whilst we have observed rising prices in a number of markets and asset classes, unlevered IRR, expectations appear little changed over the year. This could indicate the adoption of more aggressive assumptions as investors evaluate the trade.

There was real depth and breadth in the debt market to finance deals throughout most of 2014. Although we have observed a recent tightening in the market, we believe there to be sufficient capacity for expected transaction volumes in 2015.

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

Highlights

Size of the market

Respondents are estimated to have more than €70bn of funds available to invest in European loan portfolios. When combined with leverage, we estimate that these investors could close significantly more deals this year and we expect portfolios with a face value of around €90-100bn to trade in 2015.

Investment considerations

95% of investors stated that data quality is their key investment consideration other than price. There are many other factors that investors consider before investing but the location of the underlying assets and the availability of complete and accurate data are by far the most important considerations.

Countries

Investor interest in portfolio sales in the UK and Ireland is likely to be redistributed to Italy and a number of other markets in 2015. Long established markets such as Spain and Germany are expected to consolidate in 2015.

Asset type and return

Non performing assets remain the most popular asset class amongst investors due to the returns they offer. However, average discounts to face value have decreased due to fierce competition for deals in some of the established and more liquid markets.

Leverage

The availability of leverage has continued into 2014. Leverage has increased on average as a % of deals. 21% less investors have stated that they will use no leverage in 2015 versus 2014 their deals, with 11% and 5% more buyers stating that they will use 1-25% and 75%+ respectively.

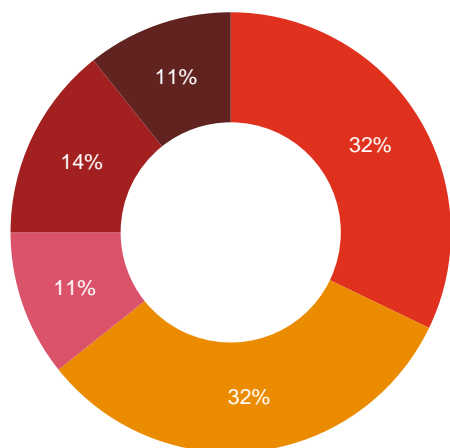


The market



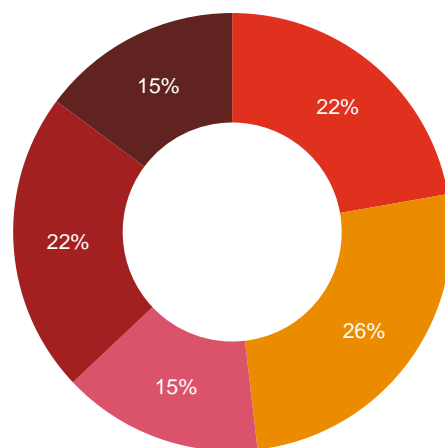
Investors have more than €70bn of equity available to invest in European loan portfolios and expect loan portfolio transactions to peak in 2015

Funds available in 2014



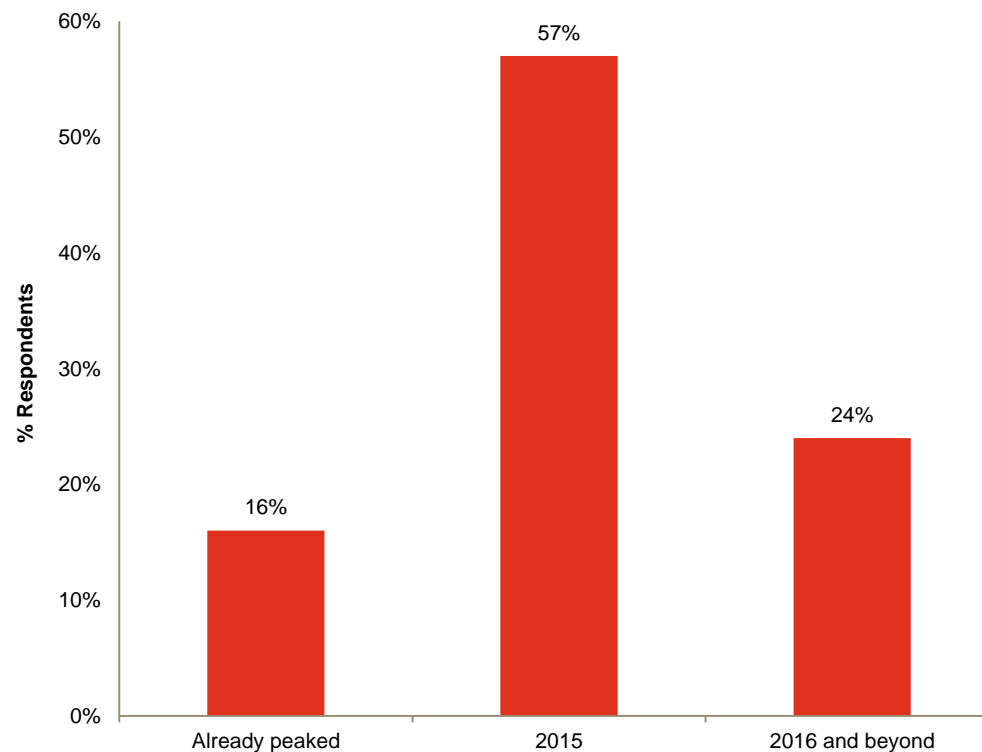
- Up to €250m
- €251m to €500m
- €501m to €1,000m
- €1,001m to €5,000m
- More than €5,000m

Funds available in 2015



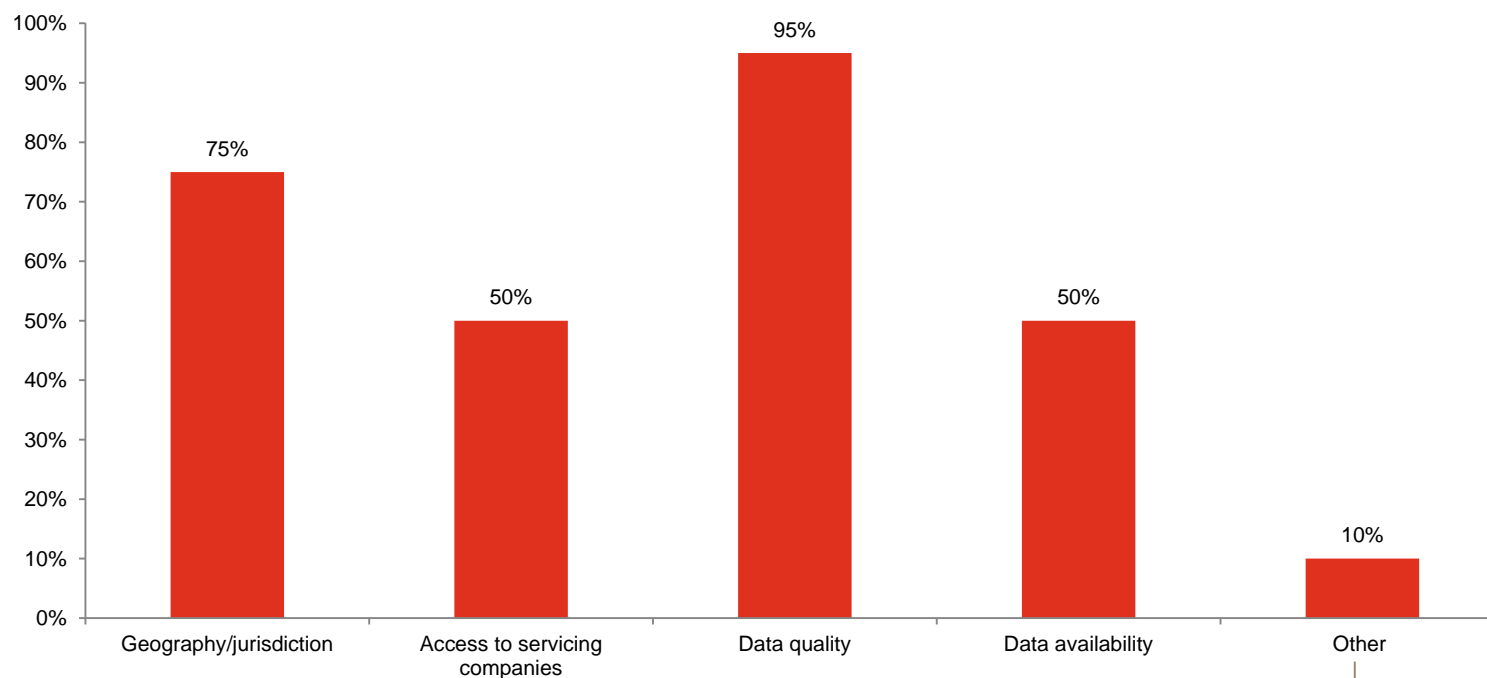
- Up to €250m
- €251m to €500m
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- €1,001m to €5,000m
- More than €5,000m

When will the number of portfolios taken to market peak?



PwC comment: Although the volume of loan portfolios transacted may peak in 2015 we expect there to be a very buoyant market for many years to come.

The key factor other than price for investors when considering investments is data quality



Note: respondents may select multiple options

PwC comment: The importance of data quality and availability has been a consistent theme of our surveys. Poor quality data is the key cause of failed transactions and even if the transaction completes poor data will lead to a significant price discount.

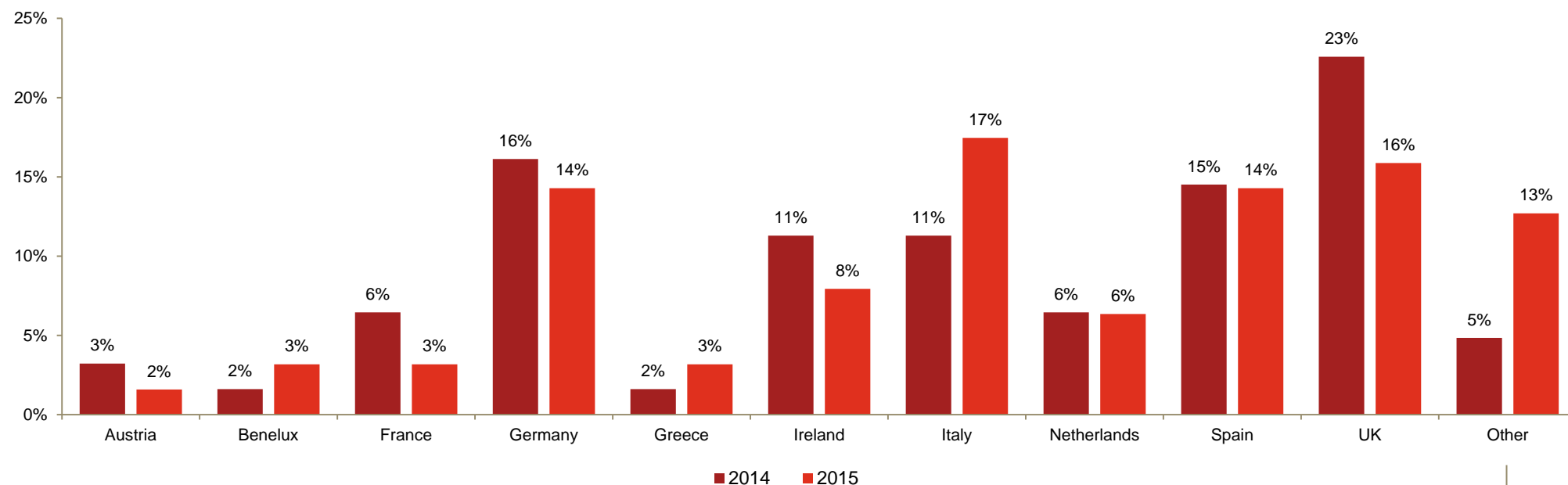
Other factors include:

- Benchmark data
- Asset quality
- Competition
- Legal/regulatory framework
- Exclusivity
- Collection performance
- Ability to be a market leader in that geography and asset class
- Credit assessment

Investor interest in UK and Ireland is likely to be redistributed to Italy and a number of other countries in 2015. Spanish and German interest is expected to consolidate in 2015

In which 5 European countries did you make your highest level of loan portfolio sales /purchases 2014; and in 2015 what are the top 5 countries you will be investing / selling your portfolios within?

Buyers + Sellers: Top European countries for investment



Other countries include:

- CEE
- Poland
- Portugal
- Nordics
- US

PwC comment: There continues to be much talk of the transaction market in Italy really taking off. We think 2015 will be the year this finally happens.

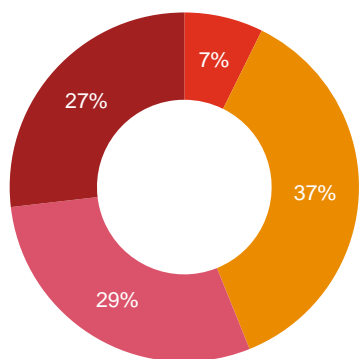
Doing Deals



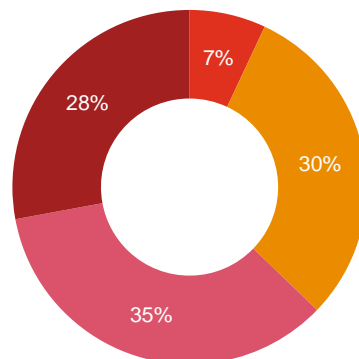
Investor appetite for non performing loans remains strong, with appetite broadly spread across all asset classes

Investments in performing loans

PL 2014



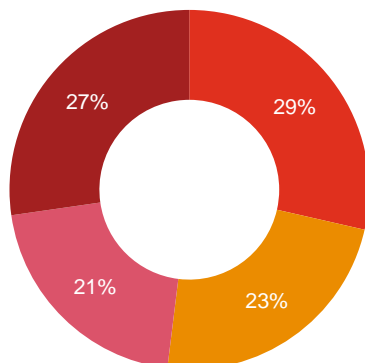
PL 2015



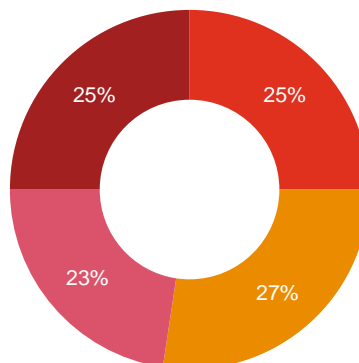
PwC comment: Real estate backed transactions will continue to be dominant in the market. But it is in the corporate sector where demand continues to outstrip supply.

Investments in non performing loans

NPL 2014



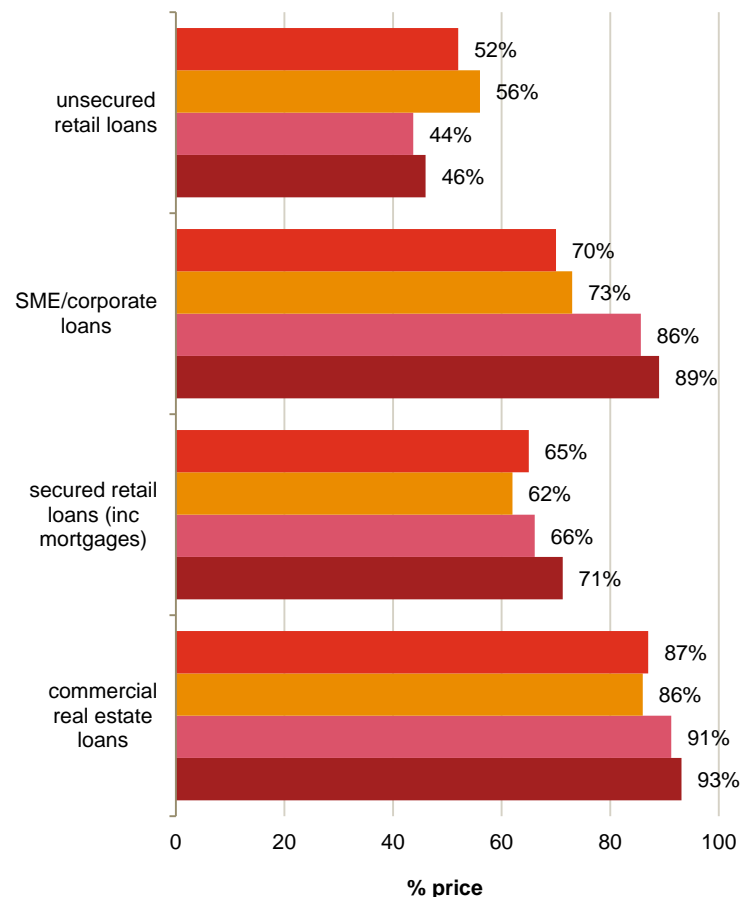
NPL 2015



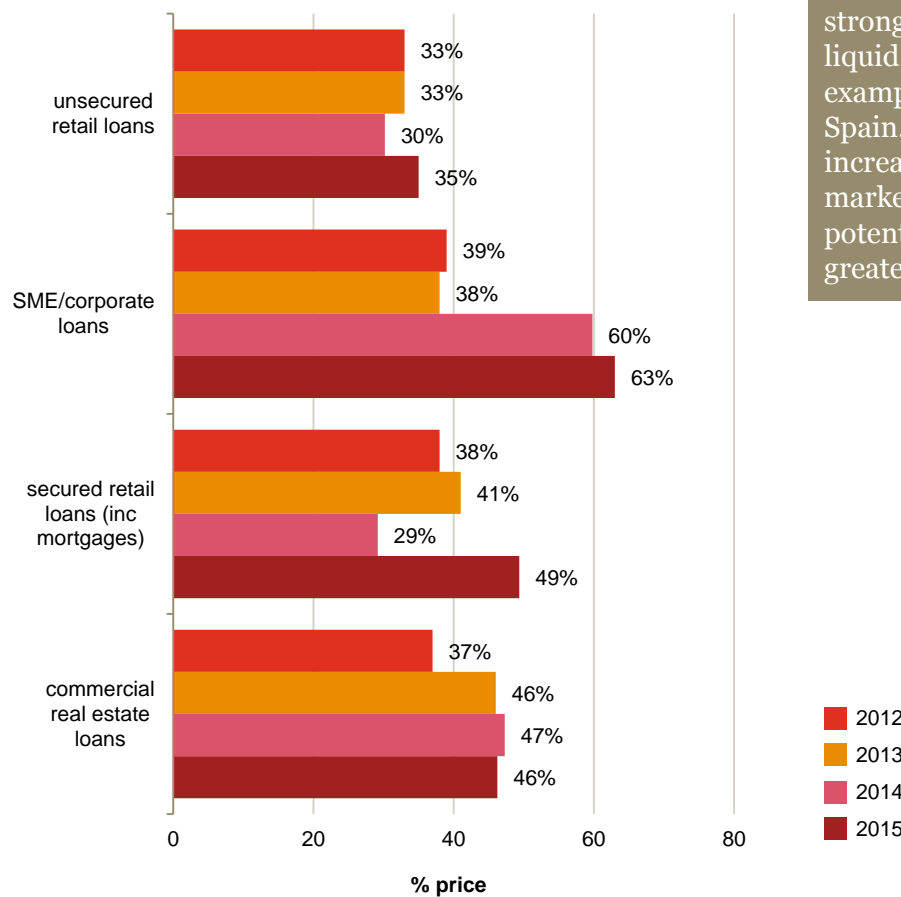
- Commercial real estate loans
- Secured retail loans (inc mortgages)
- SME/corporate loans
- Unsecured retail loans

Significant competition for deals drove up pricing in 2014 across most asset classes from 2013. 2015 is expected continue this trend

Average price on face value – performing loans



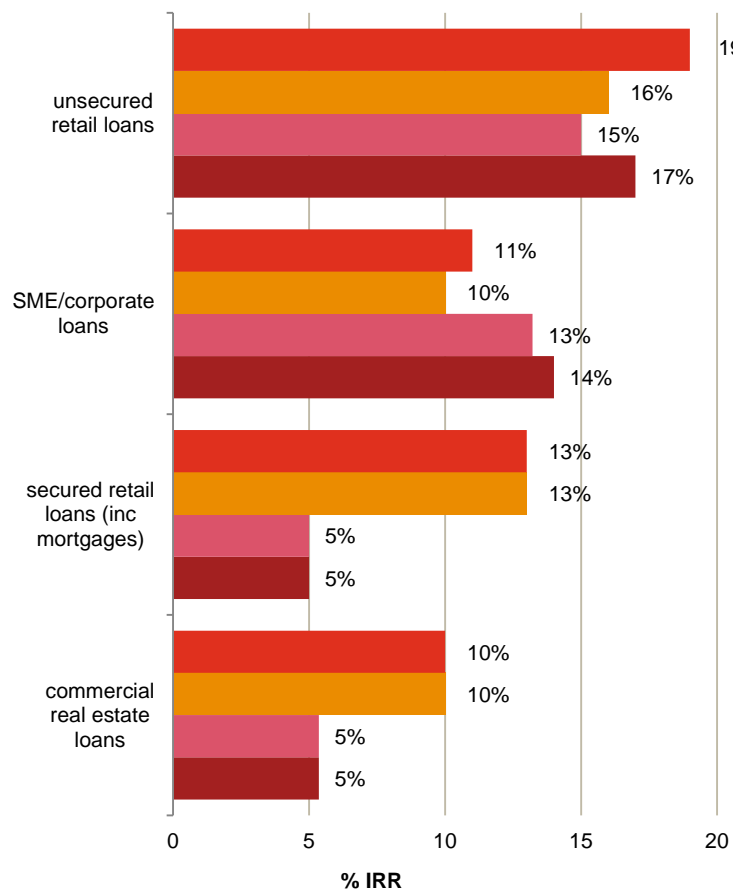
Average price on face value – non performing loans



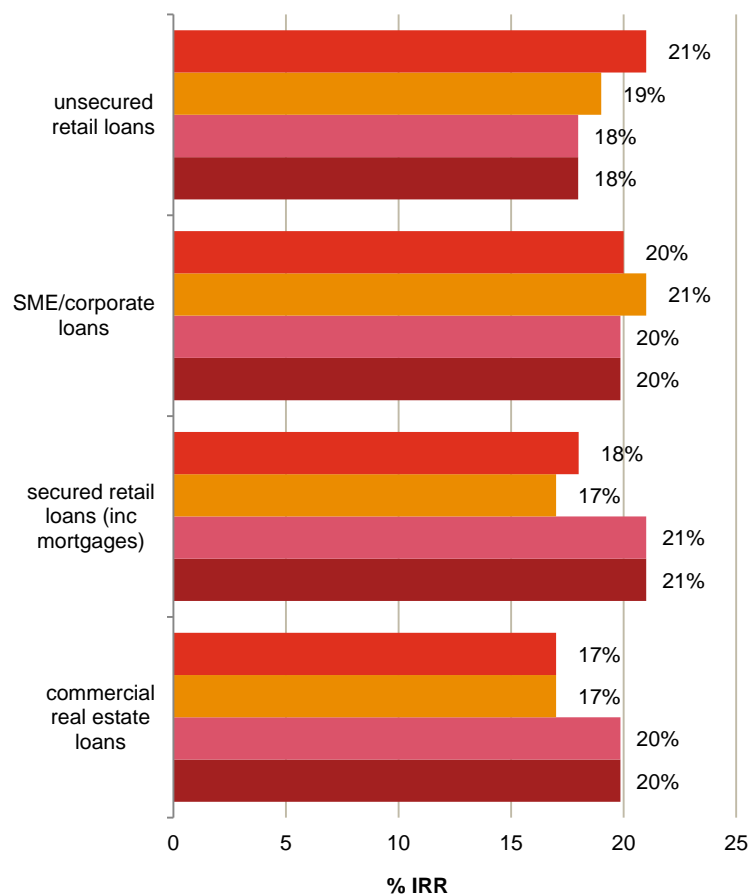
PwC comment: There is strong competition in the most liquid markets including for example, the UK, Ireland and Spain. Many investors are increasingly looking at other markets that have the potential to offer greater returns.

Unlevered IRR expectations have remained broadly the same as those of a year ago

Average IRR – Performing loans



Average IRR – Non-performing loans



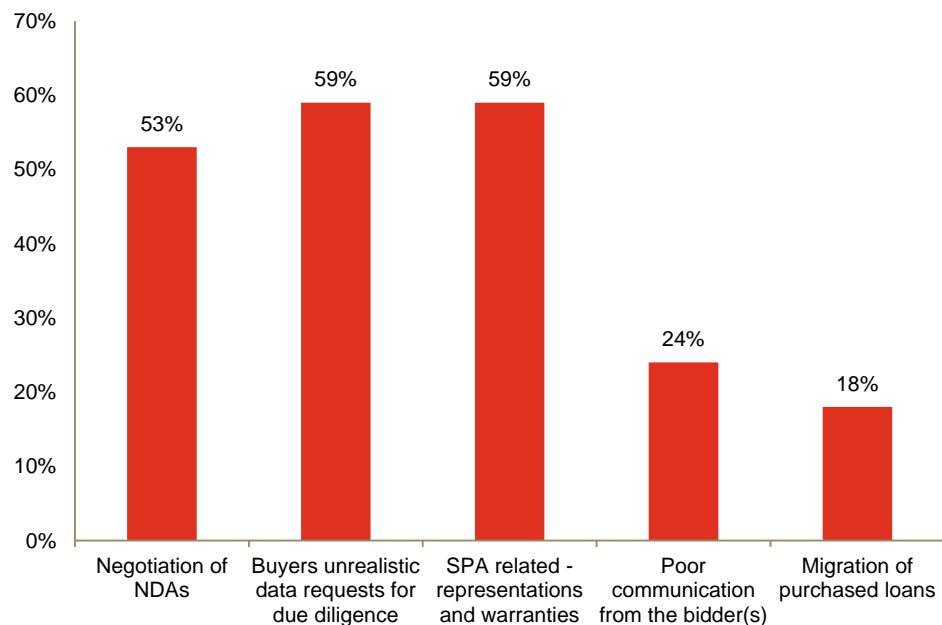
PwC comment: We have observed price increases in the number of markets over the last year as competition for deals remains high. However, unlevered return expectations appear broadly similar. This could point to the adoption more aggressive assumptions concerning potential returns.

■ 2012
■ 2013
■ 2014
■ 2015

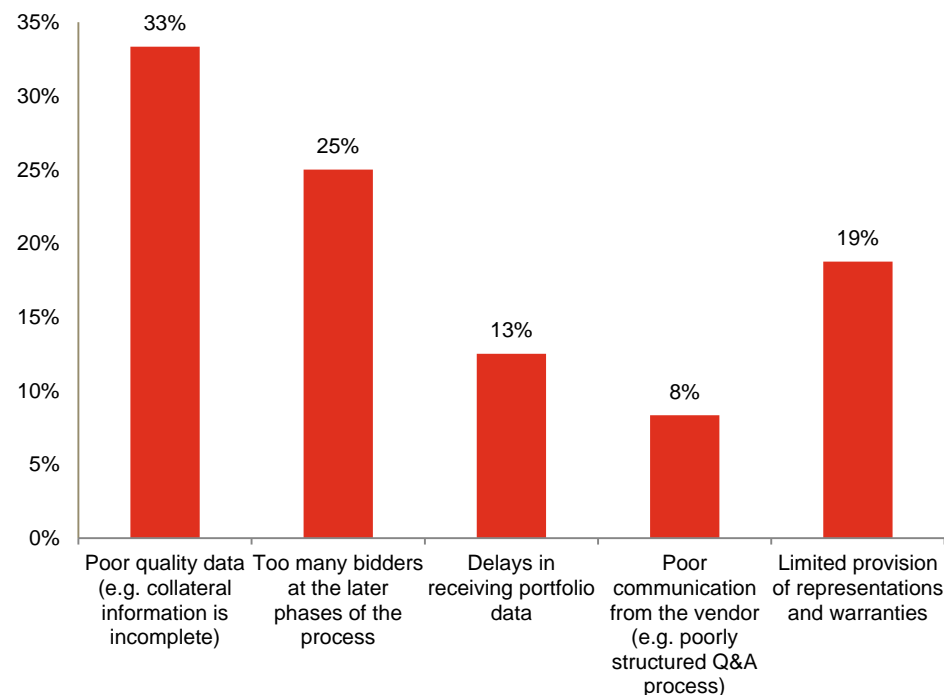
Most buyers, unsurprisingly, value data quality as key to a smooth running deal. Sellers find SPA negotiations, buyers unrealistic data requests and negotiations of NDAs the most frustrating deal aspects

What do you consider to be the most frustrating aspects of sale processes you have been involved in?

Sellers perspective



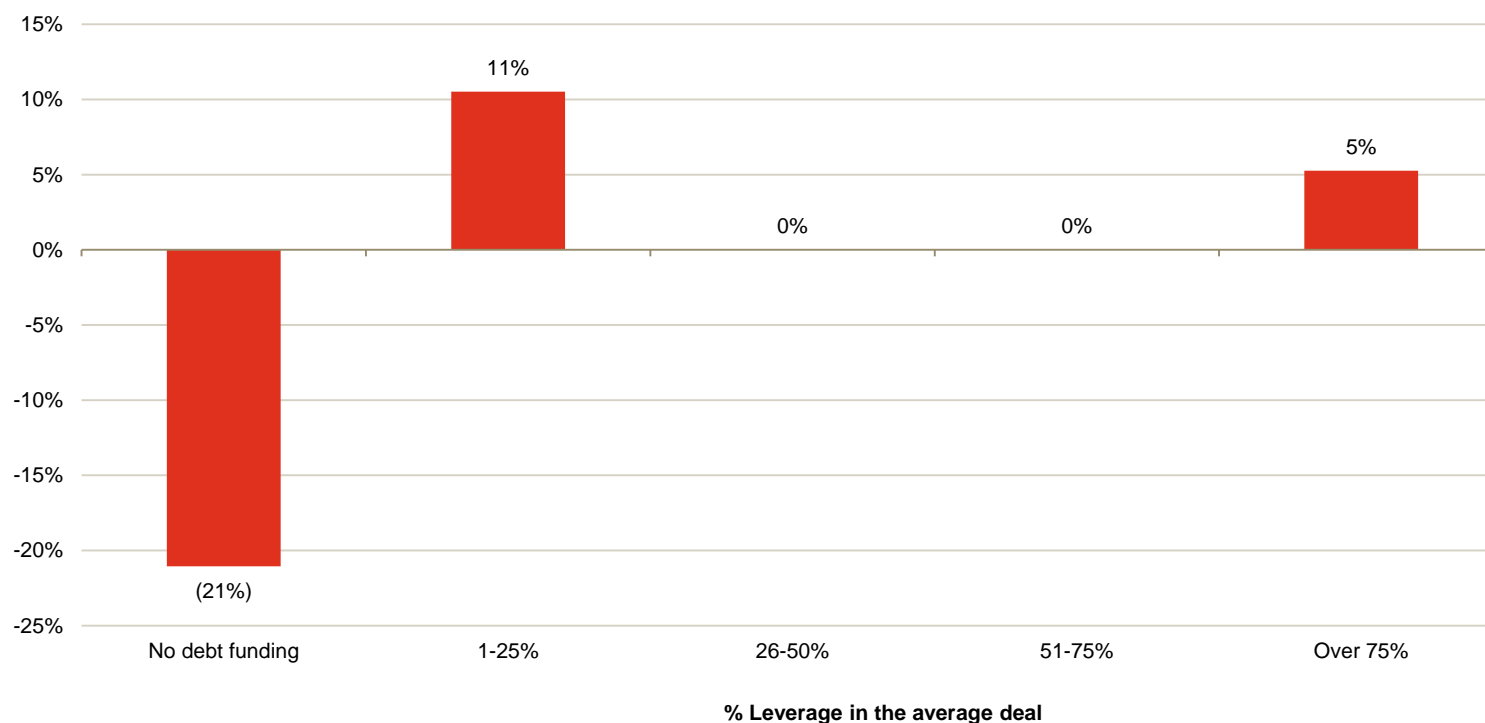
Buyers perspective



PwC Comment: The findings from this question are not surprising – a key role of the advisers on any transaction is to smooth the process, manage expectations and seek solutions acceptable to both parties.

Leverage as a % of transactions is increasing at the lowest leverage and highest leverage bands. The number of deals with no leverage is expected to fall significantly in 2015

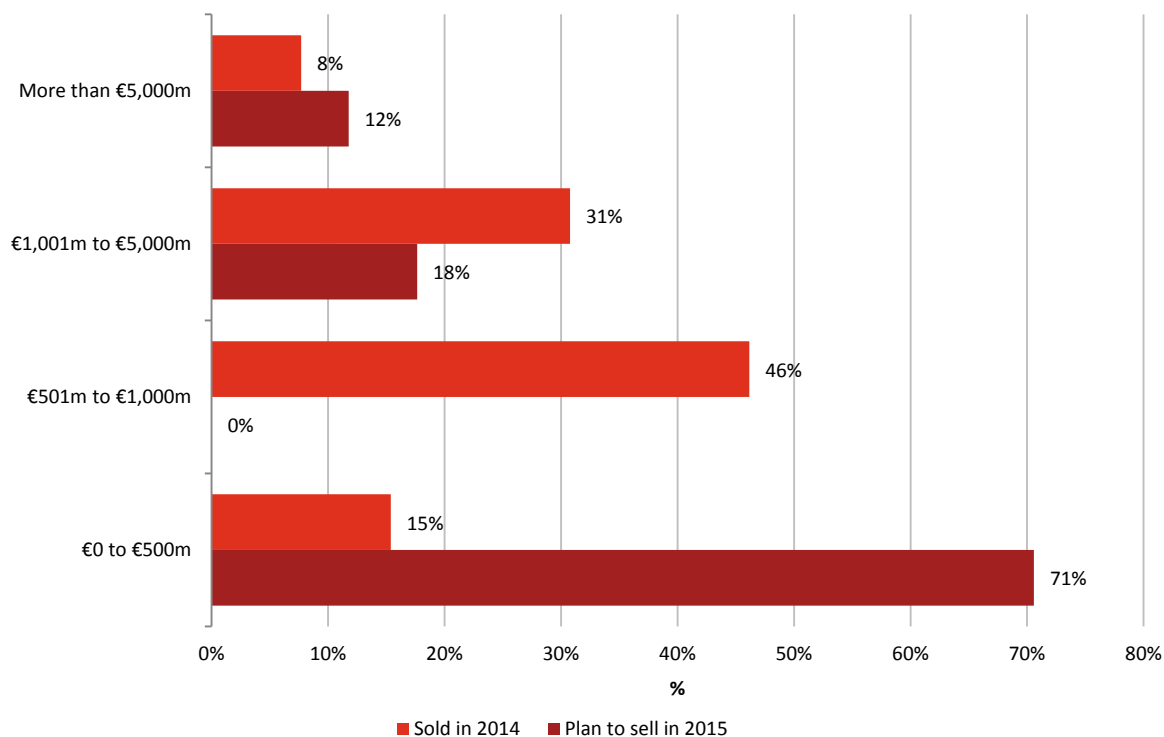
Leverage in transactions % change from 2014 to 2015



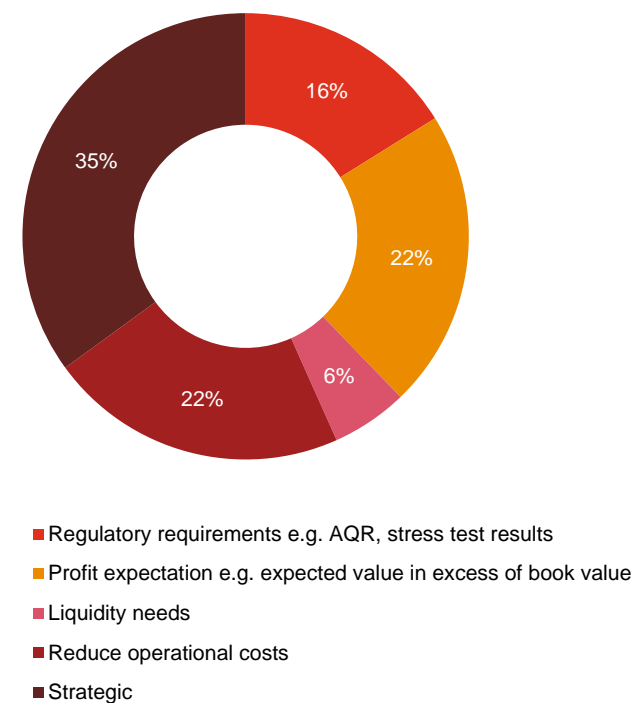
PwC comment: There was real depth and breadth in the debt markets throughout most of 2014. Although we have observed a recent tightening in the market, we believe there to be sufficient capacity for expected transaction volumes in 2015.

Compared to 2014, vendors look set to sell more portfolios at the €0-500m level, and +€5bn, with the majority of banks looking to sell due to profit expectations, reducing operational cost or regulatory requirements

Face value loan portfolios, (vendors)



Motivation for selling



PwC comment: We expect average deal sizes to continue to increase. The major investors have significant funds to deploy and are being more selective as to which processes they take seriously.





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