

Portfolio Advisory Group

Market update Q4 2014

January 2015

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European NPL outlook and transactions in key markets



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Welcome to our latest quarterly market update. In this edition we provide an overview of the activity levels in the European non core asset market during 2014 and our expectations for 2015.

2014 has been another record year for portfolio transaction in Europe, with over €90bn completing within the year. This represents an increase of over 40% over the prior year and easily exceeded my original estimate of €80bn.

With around €40bn of transactions already in progress across Europe, 2015 is shaping up to be another strong year for portfolio sales, and I expect overall transaction levels to be similar to 2014.

What I find really interesting is looking at the geographical spread of transactions in Europe and predicting where we will see the next portfolio transaction boom. Ireland, Spain and the UK dominated the European transactions market in 2014 and will continue to be strong in 2015. However, I predict that the Italian, Dutch and CEE markets will see strong growth in

portfolio sales during the coming year, driven by a number of factors including the European Central Bank's Asset Quality Review ("AQR") and stress tests and a more active buyer universe in these regions.

The traditional investment banks and PE houses which dominate the buyer universe still have large funds available and a mandate to invest. Due to the high levels of competition in the UK, Ireland and Spain, a number of these investors are looking at alternative markets in Europe in an effort to increase their returns. 2015 will be a really exciting year for portfolio transactions in the European mainland.

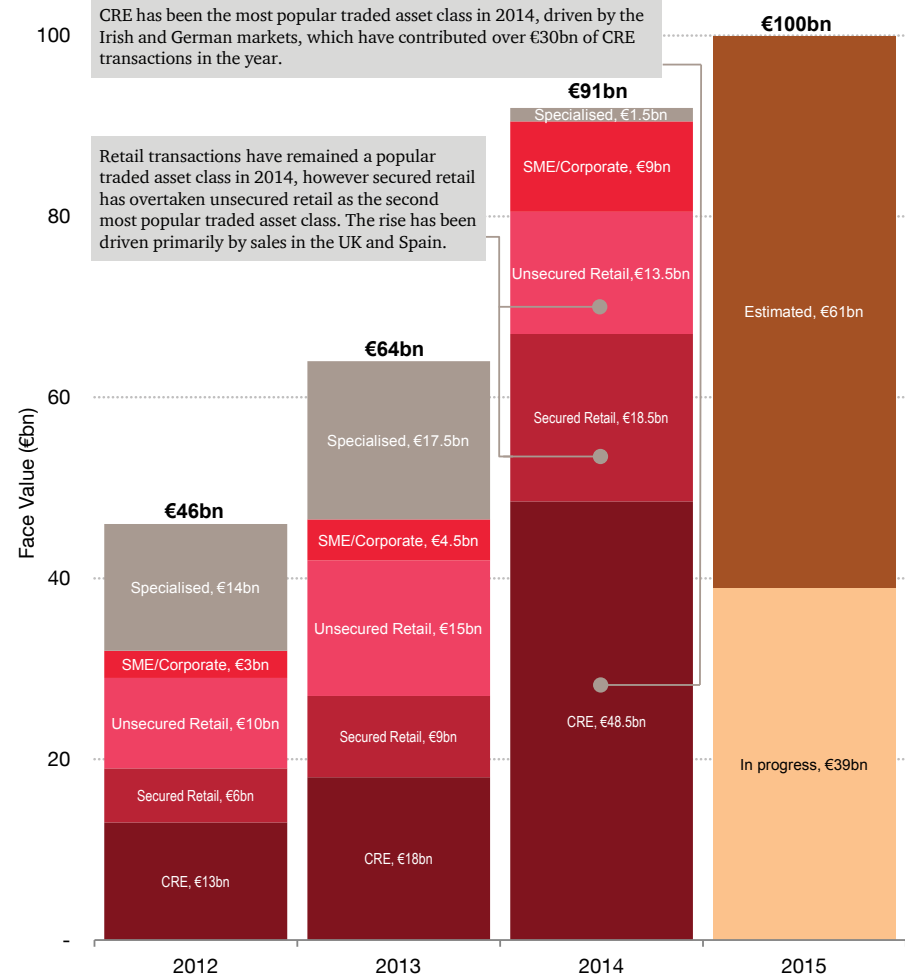
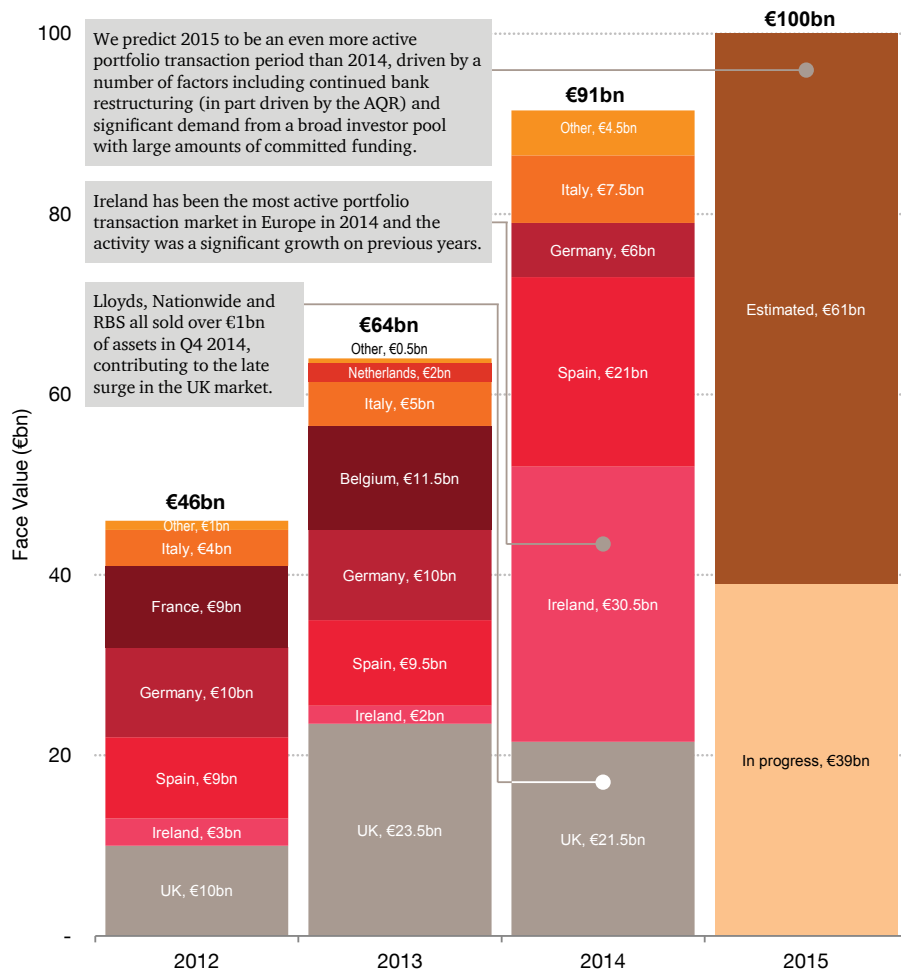
The aforementioned AQR and stress tests brought to light over €136bn of troubled loans that may require reclassification on balance sheets. These findings should provide a further impetus for many banks to sell their non-core and non-performing portfolios in an effort to "clean-up" their balance sheets and improve their use of capital.

Finally, our annual conference looking at transaction opportunities has now become a major event for bankers and investors to share views and debate the changing banking landscape. This year we are meeting in London towards the end of March. If you have not received an invitation and are interested in attending please do get in touch with myself or your usual PwC contact.

With 2014 proving to be such a strong year and 2015 already shaping up well, it is truly an exciting time to be in the market.

€91bn of loan portfolios have traded in 2014

2014 has been a record year for portfolio transactions in Europe, and with around €40bn in progress so far in 2015, this is set to be another strong year

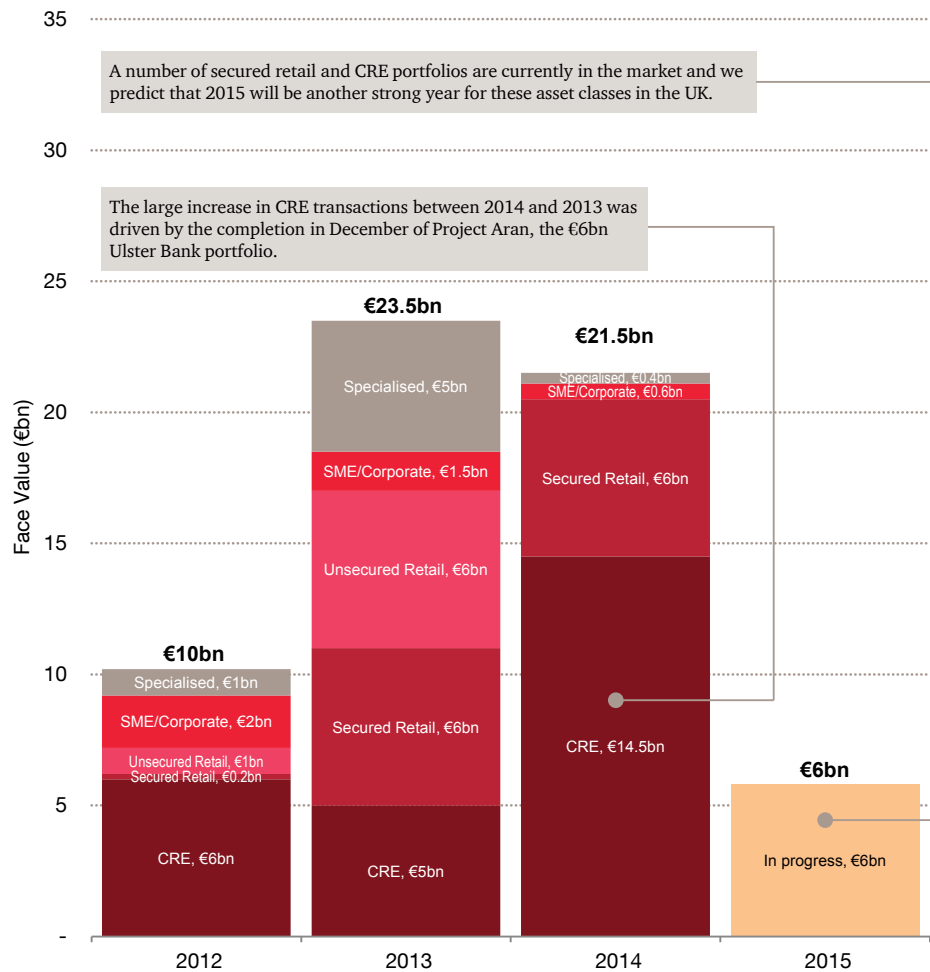


Source: Publicly available information, PwC information, analysis and estimates
 Note: Based on the location of the head office of the bank selling the assets

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

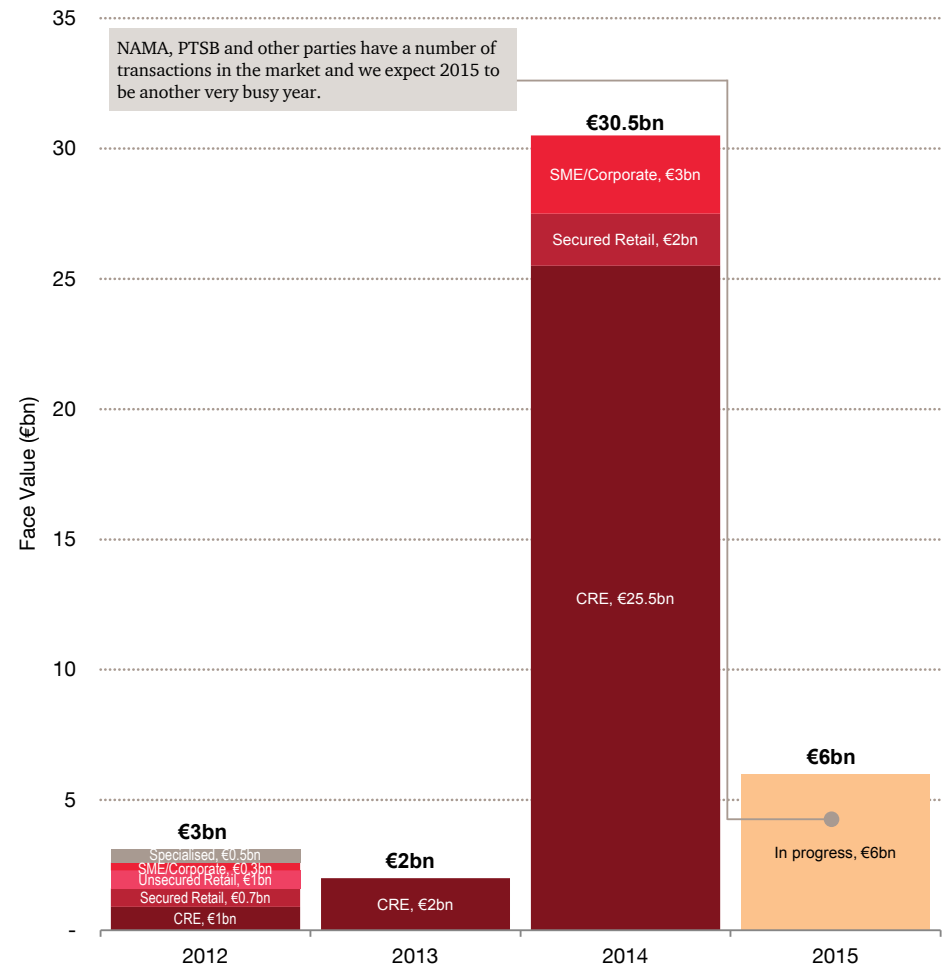
2014 deals in key markets

UK



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

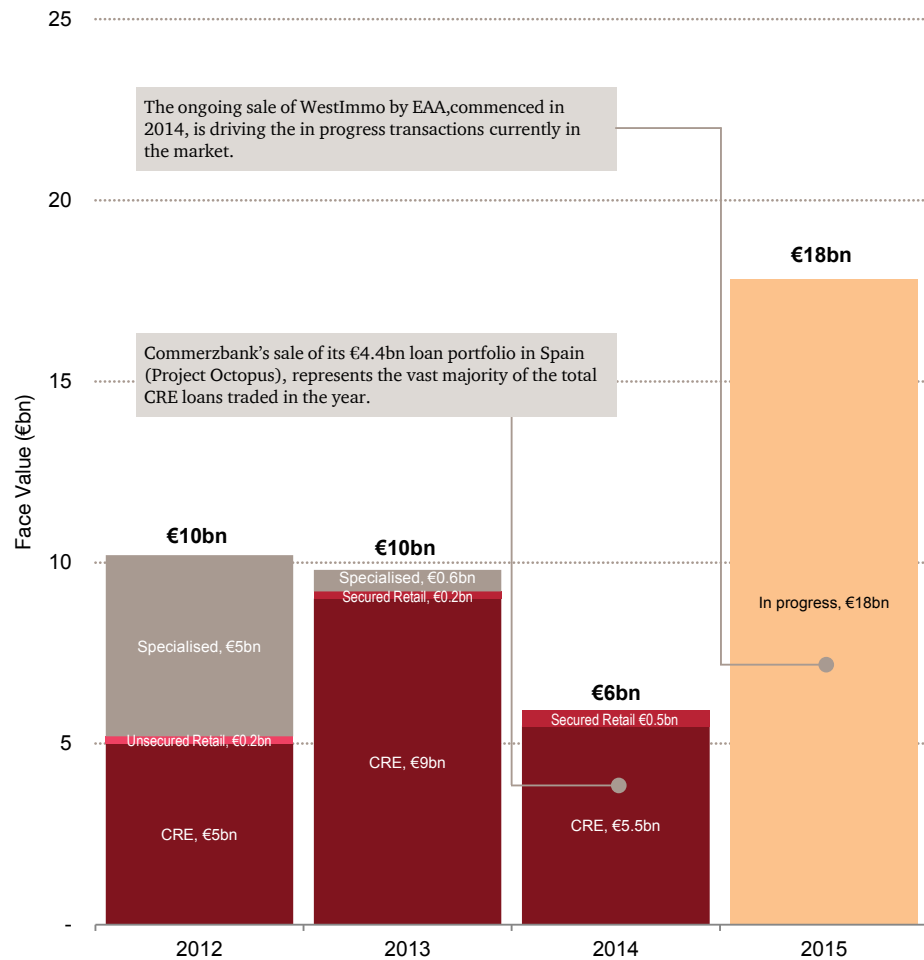
Ireland



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

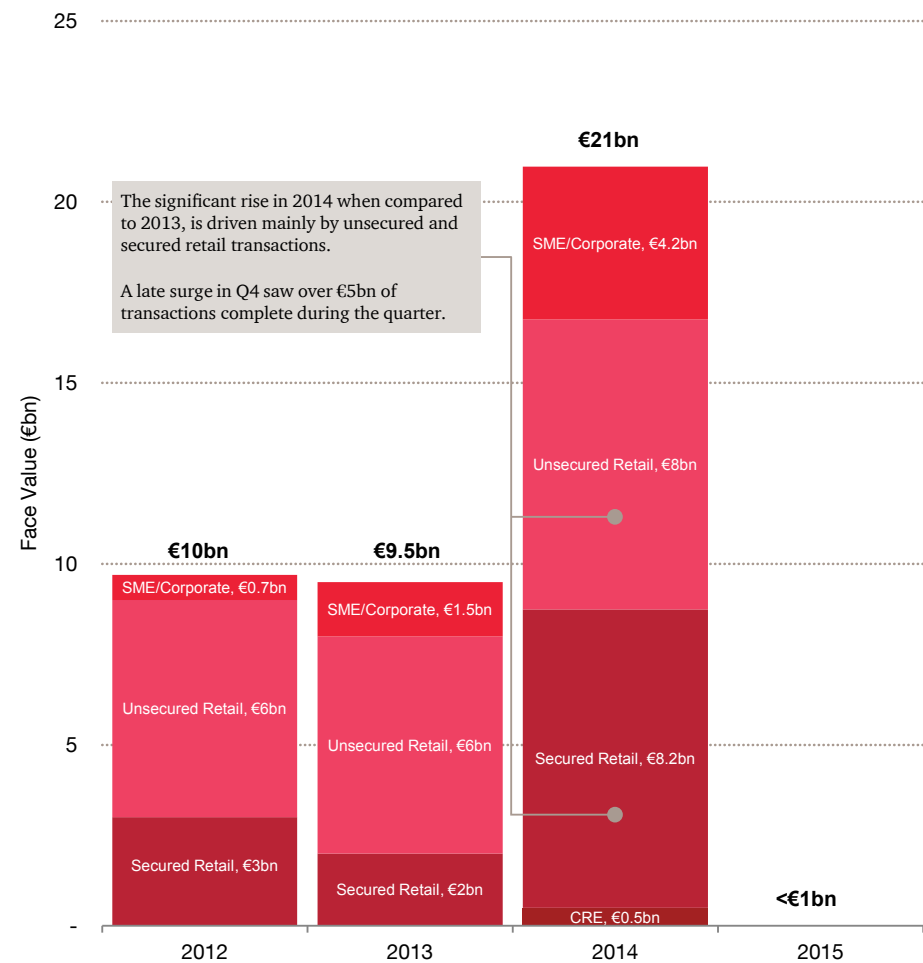
2014 deals in key markets

Germany



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

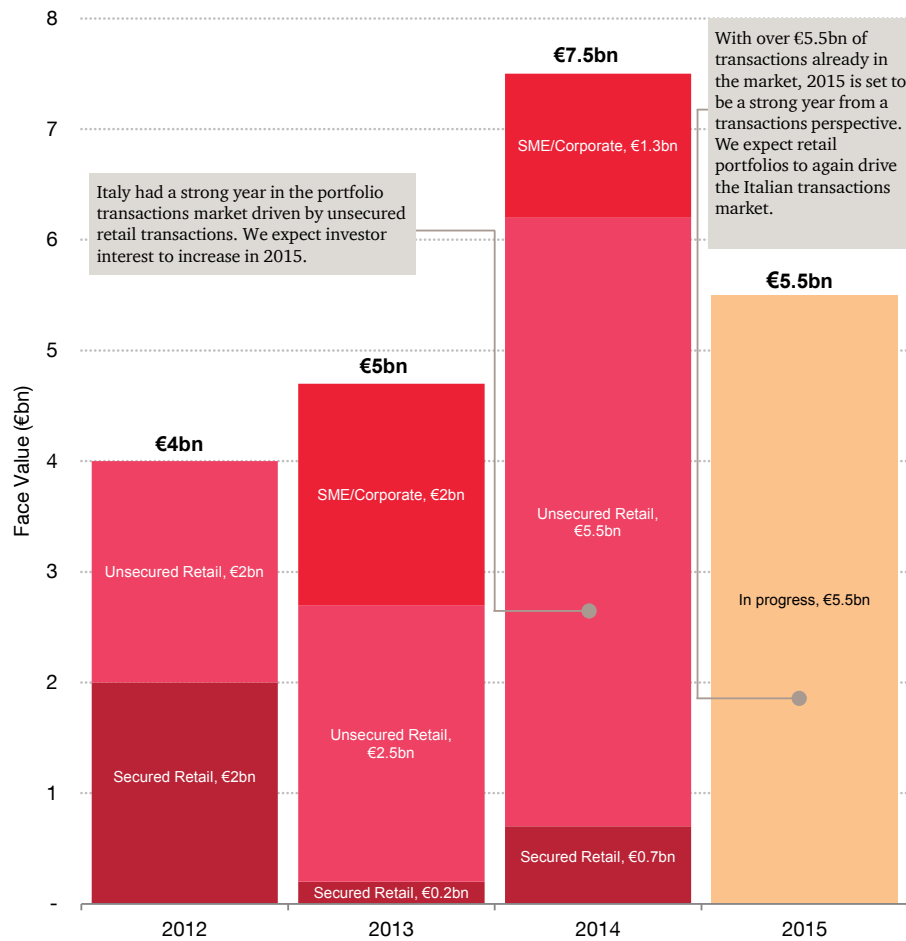
Spain



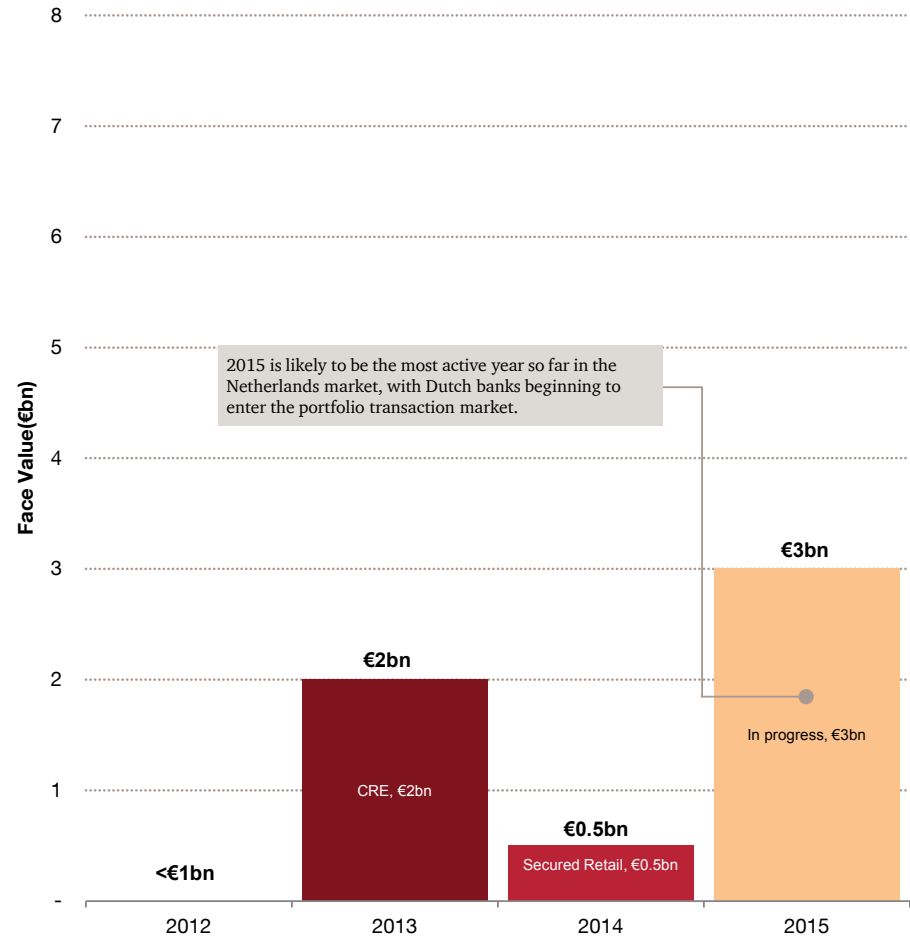
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2014 deals in key markets

Italy



Netherlands

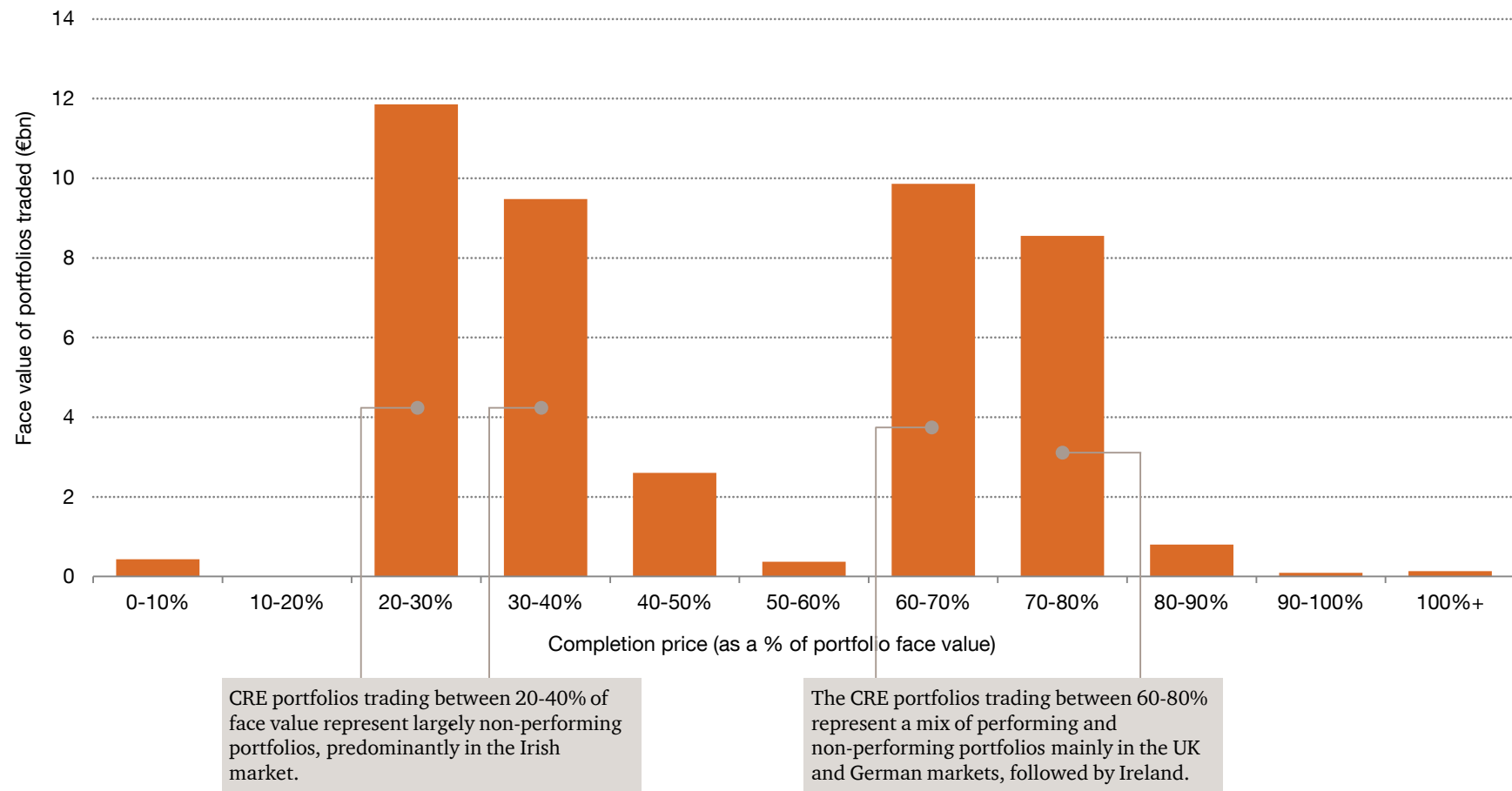


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Overview pricing for CRE portfolios traded across Europe in 2014

The below graph shows total face value (€bn) of CRE portfolios traded across Europe in 2014, based on price (% of face value) achieved



Source: Publicly available information, PwC information, analysis and estimates

Note: The data presented above is only where pricing levels are publicly available. Not all CRE transactions have been captured above and the data will not reconcile to transaction graphs elsewhere in this document

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