Deloitte.

Uncovering opportunities in 2017

Deloitte Deleveraging Europe 2016 – 2017

Financial Advisory

Contents

Introduction

The European loan portfolio market has regained much of the momentum it established over the last number of years. Uncertainty over the terms of Brexit and the US Presidential transition temporarily delayed deal making in mid-2016, but the fundamental balance sheet and regulatory drivers of loan sale transactions proved stronger. Six months ago we forecast a second half resurgence in loan portfolio sales; that is what has happened, with more to come in 2017.

By the numbers

The record rate of loan disposals achieved in 2015 has been repeated again in 2016, with just over €103 billion of completed deals for the full year. Yet the Brexit-induced mid-year pause in dealmaking had an impact on the final deal numbers. The number of ongoing deals at the end of 2016 is considerable, with 56 deals representing €70 billion by value.

Accordingly, we expect the deal rate to rise in 2017, as paused deals are completed and new markets open. We expect to see a shift in the asset mix, as sellers move on to market more performing, sub-performing and complex portfolio structures.

Italy has already become the biggest loan sale market by value in 2016 with €36 billion in completed deals and even more ongoing. While some uncertainty persists about the recapitalisation of Italy's more troubled banks several of which still hold significant NPLs on their books, the overall direction of travel is towards more, not less resolution of troubled assets. Spain is also set for a record year of transactions after just under €13 billion worth of deals in 2016; an improving real estate market will help make Spain among the leading European loan sale markets in 2017. Portugal, which has yet to deliver a significant deal flow, is likely to achieve more than the €1.8 billion of completed deals in 2016, if pricing becomes more realistic.

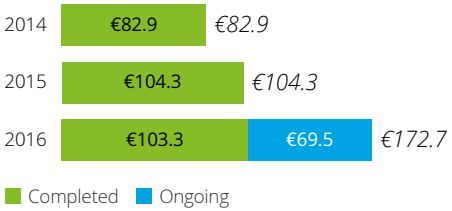
Different markets, changing assets

These markets will take the lead from Ireland and the UK, which are nearing the end of their deleveraging journey. The asset mix will also change: in markets such as Italy and Spain we are already seeing more complex loan portfolios coming to market, as the loan sale market overall continues the inevitable evolution from fully-provisioned unsecured loans to more difficult-to-value real estate and business asset secured loans.

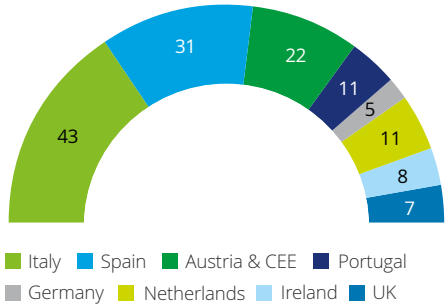
Improving economies are bringing better values for loan securities, while regulatory pressure continues to push troubled banks to face reality and resolve their NPL and non-core issues. 2017 will see banks dealing with more stringent accounting rules and higher capital adequacy rules. This is an ongoing process and we expect it will take five or more years of bank restructuring and risk reduction before the demands of regulators and the capital resources of banks reach something approaching a point of equilibrium. In the meantime we estimate that there remains €2 trillion in unresolved non-core assets in Europe, suggesting that the loan sale market has the potential to expand in 2017.

Headline facts and figures

Activity by year (€bn)



Number of completed deals FY 2016



Note: All data correct as of 31 December 2016

Market overview

Deloitte prediction: deal flow in the loan sale market will continue to be more prominent in Southern Europe. Spain and Italy are expected to be the most active markets both in terms of volume and value of transactions, with some trades likely to happen in Portugal. The Greek loan sale market may begin to see activity by year end. Activity in Ireland and the UK is likely to continue with more transactions in residential loans.

In the UK the market saw a fall in completed transactions during 2016 following the UK's decision in June to withdraw from the European Union. However 2017 will likely see a return to normality, with delayed trades now coming back to market. Over the next 18 to 24 months we expect the completion of UKAR's sale of Project Rippon, the €19 billion portfolio of Bradford & Bingley mortgages, as well as sales of some commercial real estate loans and Public Finance Initiative loans.

The Brexit vote also had knock-on effects on the portfolio market in Ireland, as did tax changes that ended tax deductibility for investors in loans secured on Irish property. Ireland is effectively entering its second phase of deleveraging and NPL resolution, and this is reflected in the level of deal activity. Completed transactions reached €13 billion in 2016, a substantial reduction compared to the €22.9 billion completed in 2015 that saw IBRC and NAMA completing a substantial amount of deleveraging.

Some residential loans are expected to come to the market with all the main Irish banks having substantial residential NPLs on their balance sheets.

Loan sale activity in Germany has not been as high as one would expect given the size of the non-core assets in the system (in excess of €240 billion). Local banks have already disposed of non-German assets, but many are holding on to German assets due to the positive economic outlook and the generally low cost of capital. 'Bad banks' EAA and FMS-WM are expected to continue to bring portfolios to market, albeit at a relatively slow pace due to their long-term wind-down targets.

Commercial real estate dominates the loan sale market in the Netherlands; even though the NPL ratio in the Netherlands is less than 3%. We expect sales from ABN Amro and Rabobank which is on course to reduce its total loan book by €100 billion by the end of 2017.

Spain and Italy will be among the strongest loan sale markets in 2017. In Spain look for sales from Banco Popular, which recently re-provisioned its real-estate lending. Italy has been the most active loan sale market in Europe in 2016 and the pace of deal-making is likely to continue in 2017.

"There is a lot more political risk and uncertainty – especially in Europe, with upcoming elections in France, the Netherlands and in Germany. The uncertainty premium should rise."

European Loan/Principal Investor

Increasingly realistic pricing and a political commitment to NPL resolution are all pointing in the direction of an active deal pipeline. In 2017 investors will start to test whether legal reforms have succeeded in making the Italian market more creditor-friendly, but with the highest NPL ratio of the large European economies the Italian deal flow is likely to match or exceed the €36 billion that we saw in 2016.

Portugal is also on the cusp of loan sales, with regulatory and political pressure mounting against the background of a 14% plus NPL ratio (with at least €40 billion in bank NPLs). We expect progress on the creation of a 'bad bank' solution by the end of the second quarter 2017, with portfolios coming to market later in the year.

In Austria & Central and Eastern Europe (CEE) banks and wind-down institutions have targets that will continue to support deal-flow in 2017, after a busy year in 2016. Pricing in CEE will continue to reflect the risks and costs of a multi-jurisdiction deal environment, and the difficulty of leveraging CEE deals. Deal opportunities are likely to be in Serbia, Slovenia and Croatia.

"After a mid-year pause in loan sales caused by the EU referendum, deal activity across Europe bounced back in the second half of 2016 to reach record levels. NPL resolution is high on the European Central Bank's agenda and this is putting enormous pressure on banks. This will be the key driver of loan sale activity in 2017."

David Edmonds, Global Head, Portfolio Lead Advisory Services

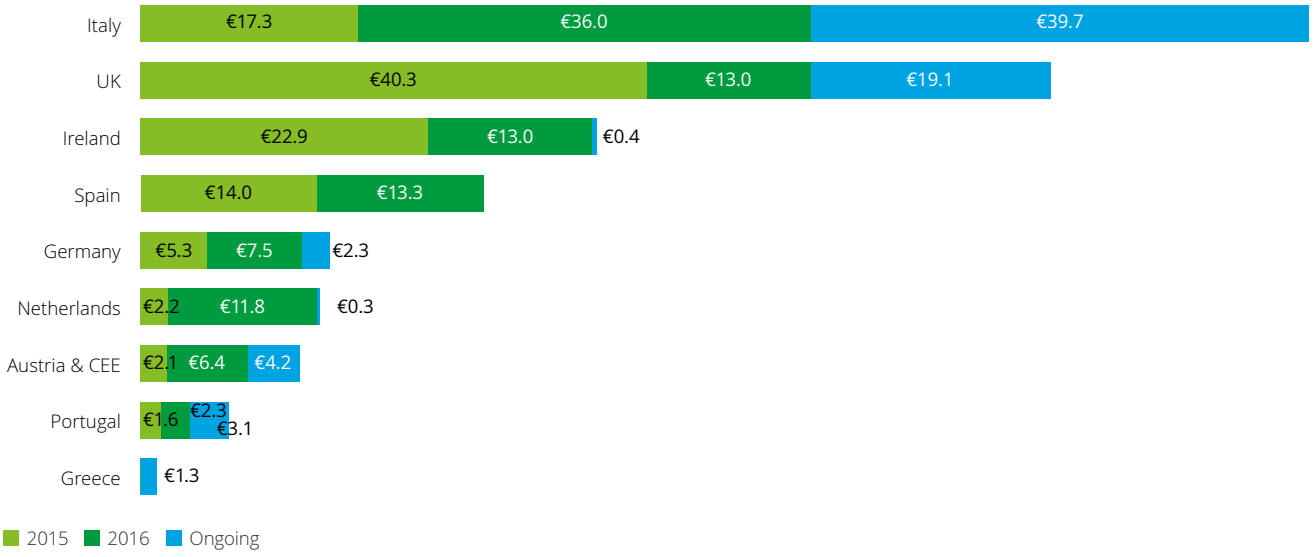
The NPL markets in Greece & Cyprus could begin to move in 2017, although many investors remain sceptical of the NPL performance targets issued by the Bank of Greece in late 2016. The target is to reduce an estimated €100 billion worth of NPLs to around €66 billion by the end of 2019, through a mixture of resolutions, liquidations and portfolio sales of €7.4 billion. When deals do start to flow, we expect banks to begin by disposing unsecured loans before moving on to more challenging secured loans.

The Cyprus market remains similarly untested although banks still have around €30 billion of NPLs and the completion of legal reforms may begin to give confidence in a future pipeline.

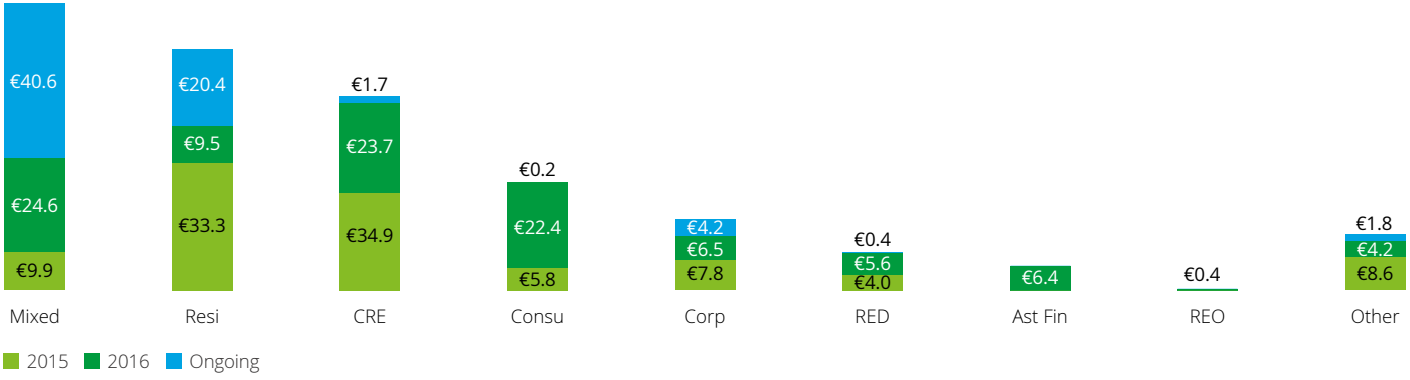
In the Nordic region bank consolidation is the market driver. But the market remains small reflecting conservative lending policy and low NPL ratios in the region.

In all markets there will be little let up in regulatory pressure on bank balance sheets. Following the EBA stress tests in 2016, the coming year will see banks preparing for changes in accounting rules on valuing NPLs ahead of the introduction of IFRS 9 accounting standards in 2018, and banks will also be preparing for the expected 'Basel 4' rules which are likely to include a requirement for a higher ratio of core tier 1 capital than the 7% in Basel 3.

Activity by country (€bn)

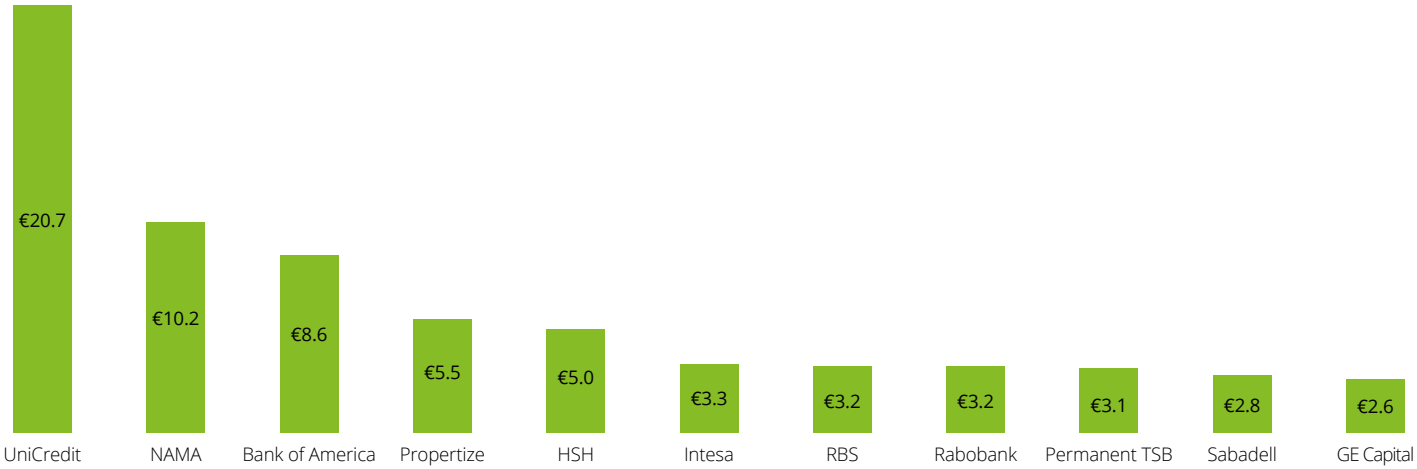


Activity by asset type (€bn)



Top buyers (€bn)

Top sellers (€bn)



Viewpoint: Risks and opportunities in 2017

The coming year will be very active in terms of deleveraging activity, despite heightened 'event risk' in Europe, says a senior European Loan/Principal Investor.

"If you look back to 2011/12, investors spent a lot of time thinking about the risks of the breakup of the Euro system and even the EU itself. That risk seemed to be taken off the table after the ECB committed itself to doing 'whatever it takes' to underwrite the Euro. Today, some of those tail risks are being discussed once again due to the more volatile political environment."

But risk can open new opportunities for debt investors, especially where the risk is concentrated in specific regions or economies. "Uncertainty also creates potential investing opportunities. You often have sellers that need transaction certainty regardless of the market environment – something we have experienced several times in recent months. In the immediate aftermath of Brexit, for example, we acquired assets in the UK and on the continent when others were stepping back due to significant concern as to the impact of the vote."

In terms of country opportunities, the investor says that the UK and Ireland are now 'later market' in the deleveraging cycle, with more limited sales volumes. The most active markets are likely to be Spain and Italy, with other markets like the Netherlands also being active.

The investor points out that deleveraging activity is picking up across European jurisdictions as markets mature and buyers' and seller's price expectations converge. The investor foresees a strong year of deal-making in Europe with ongoing economic growth and recovery, irrespective of heightened political risks. "Many players are looking to deploy funds in the European non-core asset space. As the deleveraging cycle continues, you no longer hear people worrying about whether there is enough capital to mop up all the bad assets – if anything you hear people worrying about whether there are enough assets for all the capital to buy."

"If you look back to 2011/12, investors spent a lot of time thinking about the risks of the breakup of the euro system and even the EU itself. That risk seemed to be taken off the table after the ECB committed itself to doing 'whatever it takes' to underwrite the Euro. Today, some of those tail risks are being discussed once again due to the more volatile political environment."

European Loan/Principal Investor

United Kingdom and Ireland

UK

The transition to residential transactions continues

The UK loan sale market saw a sharp drop in loan sale activity during 2016 when €13 billion worth of transactions completed, compared to €40 billion in 2015. The UK's decision in June to withdraw from the EU affected both buyer and seller confidence with a number of loan sale transactions and property-related deals suspended or abandoned, as buyers waited to assess the longer term effects on commercial and residential property prices, portfolio valuation and lending terms. However, the second half of 2016 saw a cautious return to normality as it became clear that not only did the property and capital markets take the prospect of 'Brexit' in their stride but as many investment firms reaffirmed their view that the UK remains a core market for investment.

The UK appears to be now in the latter stages of its NPL resolution process. Over the next 18 to 24 months we expect the completion of UKAR's sale of Project Rippon, the €19 billion portfolio of Bradford & Bingley mortgages, as well as sales of some commercial real estate loans and Public Finance Initiative loans from some other UK financial institutions.

Fewer deals, more competition

Overall the UK is becoming predominantly a residential property loan sale market, with most sellers having resolved the bulk of their commercial real estate loan problems, and in this market challenger banks are increasingly competing with private equity to strike deals on UK mortgages, although the private equity and financial buyers remain dominant with such transactions as the Cerberus acquisition of PTSB's €2.8bn residential loan book in late 2016. With fewer portfolios coming to market, many investors have widened their focus to continental Europe. Nevertheless, investors continue to view the UK as the market of preference, due to the creditor-friendly legal environment, the predictability of deal flow, and the quality of returns on investment.

"In the traditional markets like Ireland, the UK and Spain, prices are quite high and processes are quite competitive. However, you have confidence in the diligence process and that the deal will get done."

Senior Manager, US Distressed Debt Specialist

Ireland

Deals will test the residential market

Deal flow in Ireland also suffered from the knock-on effects on confidence of the UK's Brexit vote, together with tax changes in the 2016 Finance Bill that ended tax deductibility for investors in loans secured on Irish property. The result was that deals in H1 2016 were somewhat fewer than forecast, although by the beginning of H2 2016 transactions resumed albeit at prices that reflected the imposition of 25% tax on secured loan portfolio profits.

Ireland is effectively entering its second phase of deleveraging and NPL resolution, with NAMA having completed €10.2 billion in CRE sales in 2016. The UK banks have already exited their non-core Irish lending, NAMA has come close to the end of its open market loan sales programme, and the commercial loan market is now primarily a secondary market.

The next phase will see residential loans come to the market. Allied Irish Bank (AIB) and Bank of Ireland (BoI) both have large residential holdings, and while other banks have sold their residential loans these two 'pillar' banks have not.

The legacy of default

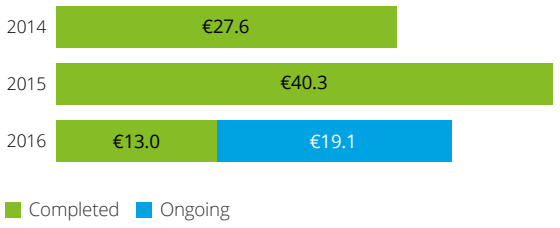
A critical factor in 2017 will be how investors asses these lending books given the current market. Although Irish property prices are in recovery there remains an inbuilt legacy of default with significant numbers of owner occupiers still carrying negative equity in their properties.
The Irish pillar banks have found it easier to sell commercial and buy-to-let loan books, but are now under increased pressure to bring residential loans to market following their poor performance in the 2016 European Banking Authority stress tests (AIB and BoI were among the weakest of all 51 EU banks included in the stress tests).

Although Ireland remains seen as a moderately investor-friendly loan sale market, investors have been disappointed with the pace of asset recovery. Although the market is well-understood in terms of legal framework and processes, the work-out period for asset recoveries has proved longer than many anticipated.
But after the downturn in mid-2016 the deal flow has started to recover, and there remain several large funds with a significant footprint in the market ready to do deals.

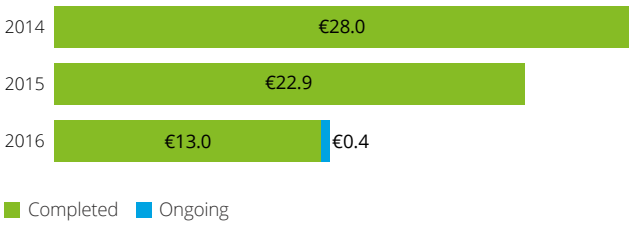
"Prices tend to become more realistic over time - it is a normal part of the cycle for the bid-ask gap to close. This always happens after the market has bottomed – the first sellers to price realistically and sell successfully are usually foreign banks, or those with a strong strategic incentive to sell. Local banks are usually last."

European Loan/Principal Investor

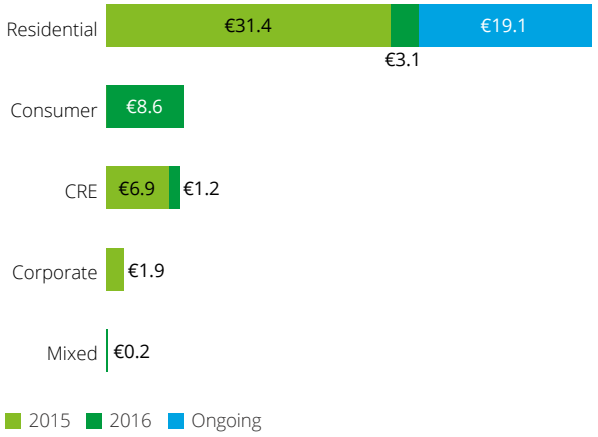
UK activity by year (€bn)



Ireland activity by year (€bn)



UK activity by asset class (€bn)



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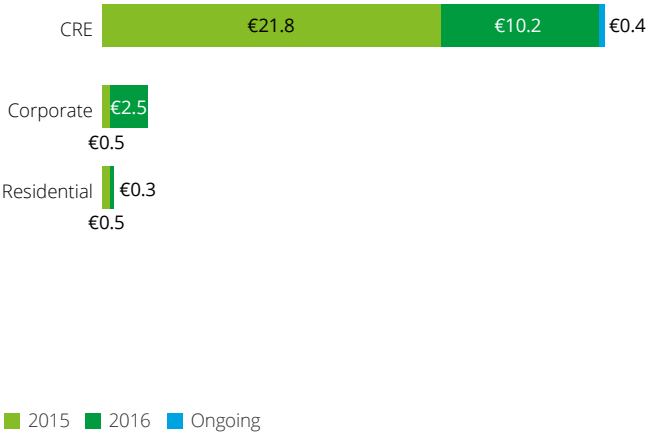
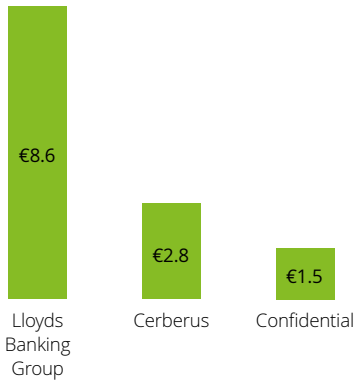
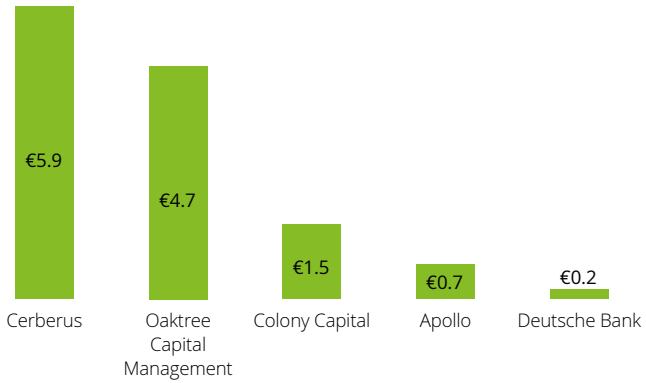


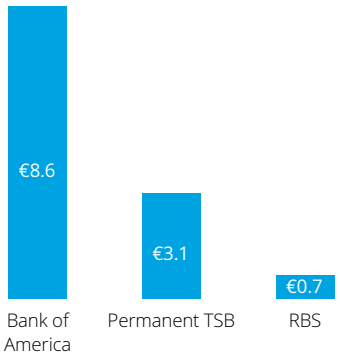
UK top buyers (€bn)



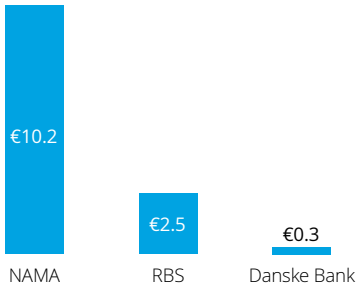
Ireland top buyers (€bn)



UK top sellers (€bn)



Ireland top sellers (€bn)



UK completed transactions

Project name	Date	Asset type	Buyer	Seller	Size (€m)
Project Avon	Jan-16	CRE	UK infrastructure fund	Kennedy Wilson	133
Project Oak	Apr-16	CRE	Confidential	NAB	300
Project Hurst	Jun-16	Mixed	Confidential	Zurich	184
Project Detroit	Jun-16	CRE	Confidential	RBS	735
Confidential	Oct-16	Residential	Cerberus	Permanent TSB	2,803
MBNA credit card business	Dec-16	Consumer	Lloyds Banking Group	Bank of America	8,569
Confidential	Dec-16	Residential	Confidential	Permanent TSB	260
Total					**12,984**

Ireland completed transactions

Project name	Date	Asset type	Buyer	Seller	Size (€m)
Project Ruby	Jun-16	CRE	Oaktree	NAMA	2,200
Project Emerald	Jun-16	CRE	Oaktree	NAMA	2,500
Project Pluto	Jun-16	Residential	Cerberus	Danske bank	300
Project Abbey	Jul-16	CRE	Apollo	NAMA	700
Project Beara	Sep-16	CRE	Deutsche Bank	NAMA	232
Project Oyster	Oct-16	Corporate	Cerberus	RBS	2,500
Project Gem	Dec-16	CRE	Cerberus	NAMA	3,050
Project Tolka	Dec-16	CRE	Colony Capital	NAMA	1,500
Total					**12,982**

UK ongoing transactions

Project name	Asset type	Seller	Size (€m)
Project Rippon	Residential	UKAR	19,146
Total			**19,146**

Ireland ongoing transactions

Project name	Asset type	Seller	Size (€m)
Project Lee	CRE	NAMA	350
Total			**350**

Viewpoint: Banks still need to face reality

According to a Global Distressed Debt investor, there remains a strong pipeline of potential European NPL deals. "When you think of new markets in 2017 you have to ask which are the countries with large NPL holdings that have not been dealt with. Portugal is one, but the big ones are Italy and Spain. Despite the volume of deals this year Italy is still only scratching the surface. Germany also has a big inventory of NPLs that have not been addressed."

But will potential deals turn into completed sales? Much depends on the attitudes of bank managements in the economies where NPLs are still to come to market. "It is really just a question of whether managements want to recognise reality. You have banks that have had big problems and are really trying to do something about it, and you have banks that are not doing that. Bank management teams are still perfectly capable of ignoring the real issues."

"It is really just a question of whether managements want to recognise reality. You have banks that have had big problems and are really trying to do something about it, and you have banks that are not doing that. Bank management teams are still perfectly capable of ignoring the real issues."

Complacency over NPLs is very frustrating for investors. "In Europe you can still find indecisiveness, and even a lack of ability to assemble meaningful data. If that is to change the regulators will have to lead – and the direction of travel so far suggest that they will lead, and they will continue to pile pressure on the banks to clear their NPL problems."

"The market's current perception is that Brexit is going to be benign, and there are not going to be a string of populist governments in Europe that tear the EU to pieces," he concludes. "That could be wrong, but it is not unreasonable to assume the markets are right. If investors have reason to believe that politics and economies are going in the right direction, then Europe will trade well."

Germany and the Netherlands

Germany

Loan sale activity in Germany has picked up, with completed and ongoing transactions reaching €10 billion (compared to €5.3 billion in 2015). However, current volumes seem low when compared to the scale of non-core assets and NPLs currently on the balance sheet of a number of German institutions (in excess of c.€240bn). So far banks have not felt the economic pressure to dispose of non-core assets in any significant volume or with any particular pace primarily due to the positive economic outlook in Germany and for many, their relatively low cost of capital. However, political and regulatory pressure (e.g. IFRS 9 and stricter rules regarding the recognition of capital) may change this in the coming 12-24 months and may push institutions to accelerate disposals.

Over the last number of years 'bad banks' EAA and FMS-WM have sold both German and non-German assets. Combined these two institutions have c.€130bn in non-core assets still on their balance sheets despite both having a mandate to wind-down their portfolios (EAA wind-up target: 2027; FMS-WM wind-up target: 2020). We expect that they will continue to be active sellers going forward however the pace of disposals may not be as fast as many market participants would like.

In 2016 HSH Nordbank transferred €5 billion of NPL assets into a special vehicle (HSH Portfolio Management). In addition, they also brought to the market Project Leo, a portfolio containing aircraft, energy, shipping, and commercial real estate loans. The portfolio was initially marketed at €3.2 billion, but was reduced to €2 billion following the removal of some loans.

NordLB's sale of a €1.2bn loan book to KKR was the largest reported German transaction that closed in 2016 (apart from HSH Nordbank's transfer of €5bn of loans). Another sizeable performing residential portfolio that was on the market is believed to have stalled due to differing view on pricing between buyers and the seller. This bid-ask gap seems to be one of the main key reasons for the lack of successful sales completing in the German market. While banks are under continued pressure from the ECB to tackle their non-core assets they are still reluctant to recognise any losses. High price expectations are likely to continue in 2017 especially for performing loan portfolios.

Netherlands

Although the NPL ratio for the financial institutions in the Netherlands is relatively benign at less than 3% as a ratio of all loans when compared to some other European countries, this contrasts with the fall in Dutch commercial real estate values of 22% in the period 2008 – 2016, historically one of the primary drivers of distress on European financial institution balance sheets.

2016 was dominated by trades involving commercial real estate and residential mortgage loans which reached €11.8bn, in excess of 500% of total value of completed deals in 2015. Despite these sizeable volumes, 2016 activity from the three largest banks – ING, ABN Amro and Rabobank – has been relatively modest.

Transaction sizes in the country have been varied with the Project Swan sale of the Propertize 'bad bank' €5.5bn loan book to Lone Star representing the largest sale of legacy real estate loans in the Netherlands to date. The level of interest in the sale is likely to provide some comfort to other banks interested in divesting non-core loans.

A number of smaller sales (Project Rembrandt, Project Triple + and the sale of Eurocommerce loans) have been ongoing since H1 2016 but are expected to close in the first half of 2017.

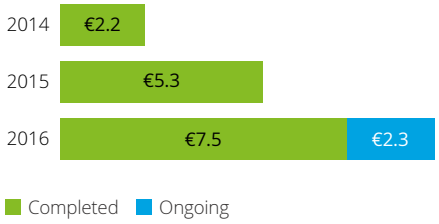
Of the main Dutch banks, Rabobank with a stated aim of reducing €150 billion of non-core assets from its balance sheet by 2020, initial focus has been on its residential loans. To date it has completed the €1bn sale to insurance company Vivat Verzekeringen and the sale of Project Yellow to CarVal Investors and Vesting Finance.

In December 2016, Rabobank withdrew from the sale of its €250 million non-performing CRE portfolio, Project Orange. Whilst the bank did not give a reason for its decision, it is unlikely to be a lack of investor appetite. Given Rabobank's core strategic objectives, we expect the bank to continue as an active seller in 2017.

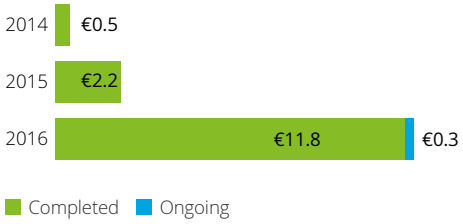
Of the other main Dutch banks, we expect ING to consider future deleveraging options in 2017 alongside ABN Amro who have already begun with the sale of a non-performing CRE loan portfolio in 2017. The bank's appetite to bring further trades to market throughout the year is likely to depend on the success of this inaugural trade, but all signs suggest that the pace of disposals in the Netherlands in 2017 may increase compared to previous years.

Going forward, we would expect continued interest from all buyers and would also expect Lone Star to feature as a competitive player in any future loan trades using the Propertize platform for future acquisitions.

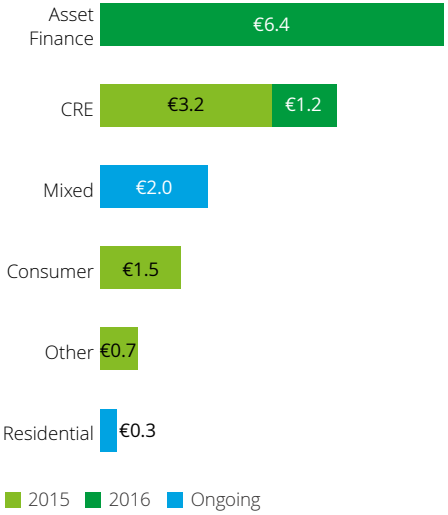
Germany activity by year (€bn)



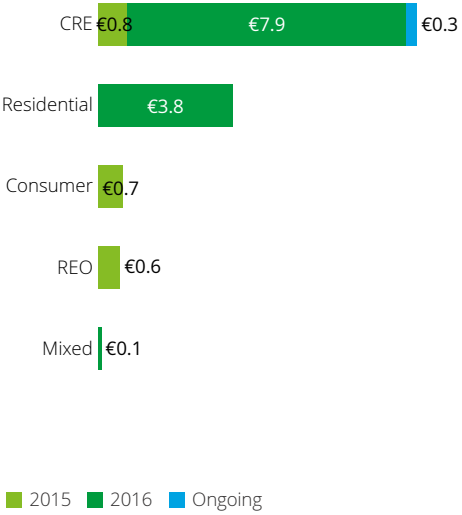
The Netherlands activity by year (€bn)



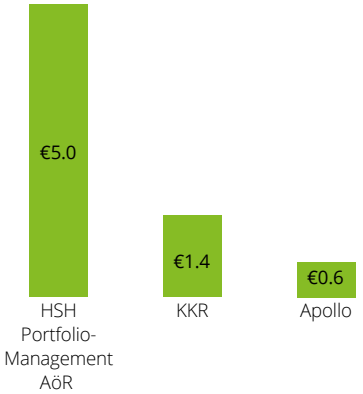
Germany activity by asset class (€bn)



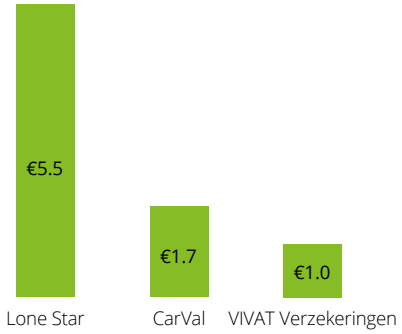
The Netherlands activity by asset class (€bn)



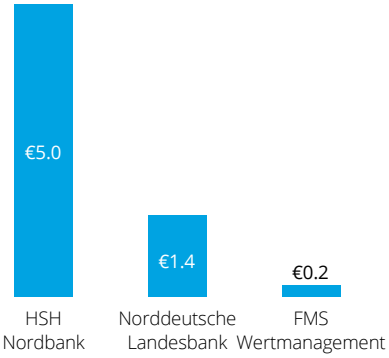
Germany top buyers (€bn)



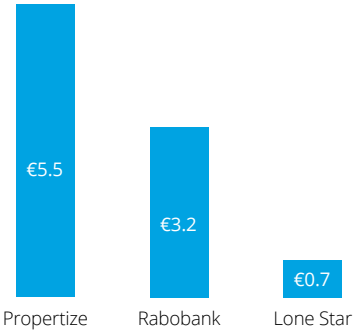
The Netherlands top buyers (€bn)



Germany top sellers (€bn)



The Netherlands top sellers (€bn)



Germany completed transactions

Project name	Date	Asset type	Buyer	Seller	Size (€m)
Project Silberpfeil	Feb-16	CRE	Octane Capital	LBBW	350
Project Samba	Apr-16	CRE	Cerberus	FMS Wertmanagement	230
Confidential	Jun-16	Asset Finance	HSH Portfolio-Management AöR	HSH Nordbank	5,000
Amelia Portfolio	Jun-16	CRE	Apollo	Confidential	600
Confidential	Aug-16	Asset Finance	KKR	Norddeutsche Landesbank	1,356
Total					**7,536**

Germany ongoing transactions

Project name	Asset type	Seller	Size (€m)
Project Botticelli	Residential	Erste	340
Project Leo	Mixed	HSH Nordbank	2,000
Total			**2,340**

The Netherlands completed transactions

Project name	Date	Asset type	Buyer	Seller	Size (€m)
Confidential	Feb-16	CRE	Around town property holdings	LoneStar	700
Confidential	Mar-16	Mixed	AnaCap	GE Capital	127
Confidential	Mar-16	Residential	VIVAT Verzekeringen	Rabobank	1,000
Project Swan	Jun-16	CRE	Lone Star	Propertize	5,500
Confidential	Jul-16	Residential	Delta Lloyd Leven	Rabobank	500
Confidential	Jul-16	CRE	NN Investments	FGH Bank	650
Confidential	Jul-16	Residential	Achmea Bank	Staalbankiers	245
Project Hieronymus	Aug-16	CRE	Goldman Sachs	FMS Wertmanagement	580
Project Yellow	Sep-16	Residential	CarVal	Rabobank	1,700
Project Castor	Oct-16	CRE	Anbang	Blackstone	500
Confidential	Oct-16	Residential	Binckbank	Obvion	340
Total					**11,842**

The Netherlands ongoing transactions

Project name	Asset type	Seller	Size (€m)
Eurocommerce Loans – Secured	CRE	ING	150
Project Rembrandt	CRE	FGH Bank	n/a
Project Triple +	CRE	Propertize	140
Total			**290**

Spain and Portugal

Spain

Europe's hotspot, with more to come

In 2016 Spain continues to consolidate its status as one of Europe's most active loan sale market; after a muted start to the year when activity was curbed by national political and European economic uncertainty, Spain closed the year with circa €13 billion in completed portfolio sales coming from an increasing number of active sellers.

Banco Sabadell and CaixaBank were amongst the most active vendors in the Spanish market, having completed around seven transactions and with the aggregate total volume of their transactions making up more than one-third of the total Spanish deal volume during 2016.

The level of activity provides more evidence that progress is being made on the deleveraging of the Spanish financial sector, with the country's NPL ratio decreasing to 9.3% in 2016 from its peak of around 14% in 2013. However, as Spain continues to lag behind the UK and Ireland in its deleveraging journey with around €120 billion of NPLs (excluding REOs which make up a significant part of Spain's non-core problem) still held by local banks, further sales activity is expected in the coming year against a backdrop of an improving real estate market and a positive economic outlook.

Sareb sales accelerate

Sareb, the Spanish 'bad bank' which continues to be the largest holder of Spanish non-core assets, remained an active player in the loan sale market having completed portfolio deals with an aggregated nominal value of over €1.3 billion. By the end of H1 2016, Sareb reported €42 billion in net non-core assets, and total revenues of around €1.4 billion (45.8% of which came from the divestment of loans and real estate assets), below the €1.6 billion generated during the same period the previous year.

Sareb's performance was restricted during the first half by its need to comply with a new accounting framework set forth by the Bank of Spain, and by the completion of its asset migration to new servicers (Altamira Asset Management, Haya Real Estate, Servihabitat and Solvia). Sareb closed the year completing its largest sale to date (Project Eloise, a €553 million RED book), a step many believe to be a change from the retail oriented strategy portrayed over the past year, and a sign of things to come.

The asset mix becomes more complex

In Spain's evolving loan sale market, 2016 presented a more diverse range of asset classes. The portfolios transacted became more complex as secured SME and corporate exposures are becoming a larger part of the market.

Nevertheless, the market continues to be dominated by portfolios driven by a residential real estate component whether in RED, REO or retail mortgage format. We estimate that these trades represent about two-thirds of the total invested in loan and REO portfolios in Spain during 2016.

Average portfolio sizes are showing a downward trend with total transacted value remaining comparable to previous years, but made up of an increasing number of transactions and vendors. As banks look to more complex asset classes to realise their wind-down targets, the size of potential portfolios is becoming more limited by the level of provisioning carried by such complex asset pools.

Servicing remains highly active

The rate of M&A activity within the servicing industry also remained high in 2016. Following the trend set by other banks, at the beginning of the 2016 Ibercaja sold its real estate platform to Aktua, owned by the American distressed opportunity fund Centerbridge which in turn went on to sell Aktua to Norwegian servicing platform Lindorff Group AB.

New entrants are adding to M&A activity in the servicing sector; acquisitions included Norwegian Axactor's purchase of Gelisco's servicing platform, Poland-based Kruk's acquisition of Espand Soluciones de Gestion and the acquisition of Optimus by Sweden's Hoist Finance.

Portugal

High loan sale activity level expected

The Portuguese financial system has approximately €30bn to €40bn of NPLs (equivalent to a 15% or higher NPL ratio), which is potentially unsustainable. While investors remain comfortable with the legal environment governing asset transferability and recovery process in Portugal, the key issues in this market remain seller commitment and price expectation. Nevertheless, regulatory and political pressure are likely to generate a high level of loan sale activity.

> "In any market the first non-core sales are almost always in the unsecured NPL loan category, because banks are generally forced to fully provision them, so even if they sell at two or three cents in the dollar it is still capital accretive."

European Loan/Principal Investor

Independent transactions vs systemic solution

Activity in Portugal will depend on the outcome of government negotiations with the private financial sector on creating a 'bad bank' type solution for the Portuguese NPLs. The deadline for this decision is likely to be the first quarter of 2017 which will potentially translate into a lower level of loan portfolio transactions until then compensated by a significant increase in activity thereafter. The market will also be influenced by the likely conclusion of negotiations over the future of Novo Banco, the 'good bank' successor of Banco Espirito Santo (formerly the second largest Portuguese bank). Following the suspension of sale negotiations it now seems possible that Novo Banco will be nationalised; a successful resolution of this issue will contribute to building confidence in Portuguese banking reform.

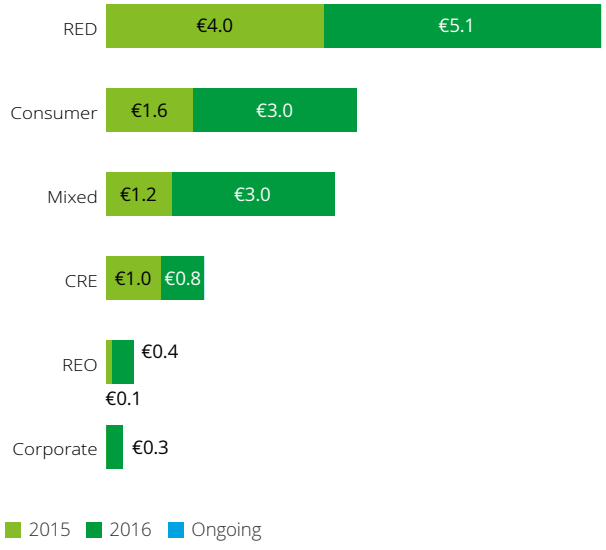
Initial market signs are positive

The sizeable Spanish banks active in Portugal started their deleveraging process over four years ago, and have now largely sold off their loan books. Portuguese banks did not follow suit and are now making their first forays into the market with unsecured loan portfolios that are highly, if not fully, provisioned and that will translate into a straightforward positive P&L impact when traded. This has helped push the total of completed and on-going trades in Portugal to around €3.3 billion in 2016; investors hope that banks will now come forward with larger, secured packages but so far pricing has not proved realistic.

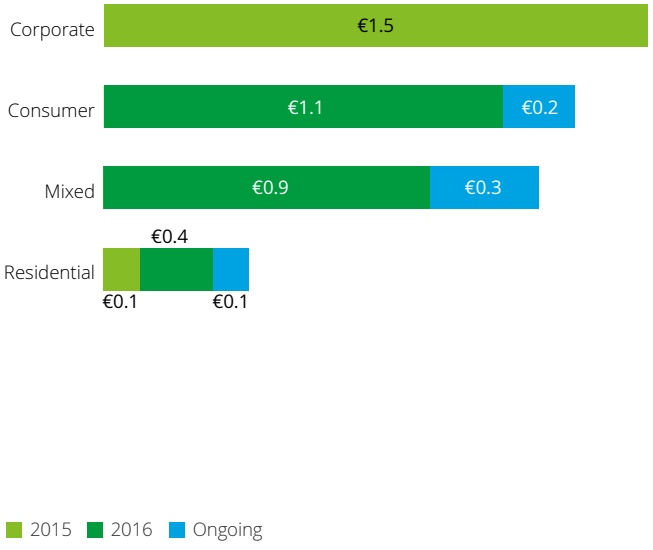
Spain activity by year (€bn)

Portugal activity by year (€bn)

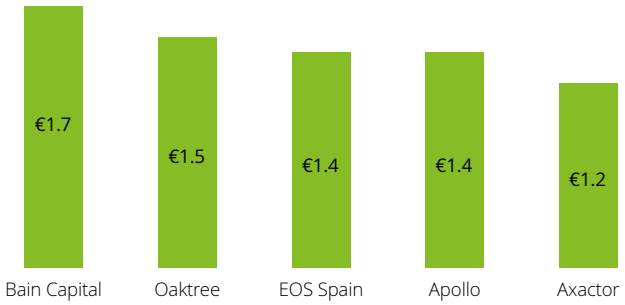
Spain activity by asset class (€bn)



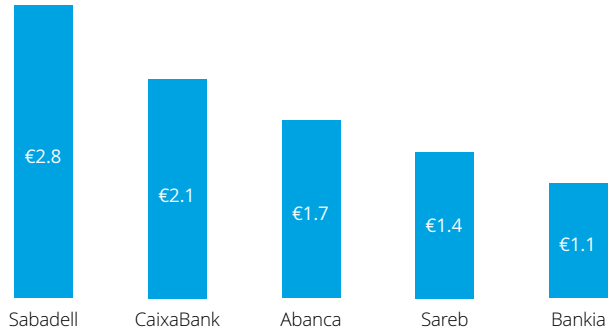
Portugal activity by asset class (€bn)



Spain top buyers (€bn)



Spain top sellers (€bn)



Spain completed transactions

Project name	Date	Asset type	Buyer	Seller	Size (€m)
Project Hungaroring	Jan-16	Consumer	Cabot/Grove	Santander	400
Project Argent	Feb-16	RED	Bank of America /Hayfin	Sareb	74
Project Zagato	Apr-16	RED	Apollo	GE	600
Project Corus	May-16	Consumer	Cabot/Grove /Lindorff	Sabadell	1,000
Project Pirene	Jun-16	RED	Bain Capital	Sabadell	492
Project ONS	Jun-16	Consumer	EOS Spain	Abanca	1,383
Project Ocean	Jun-16	SME/Corp	Deutsche Bank	Bankia	400
Project Lane	Jul-16	REO	Bain Capital	Bankia	400
Project Otello	Jul-16	Consumer	Axactor	BMN	162
Project Baku	Jul-16	Consumer	Grove/Lindorff	Santander	500
Project Carlit	Jul-16	RED	Goldman Sachs	CaixaBank	847
Confidential	Aug-16	Mixed	Axactor	Confidential	565
Project Baracoa	Aug-16	RED	Bain Capital	Cajamar	500
Project Madrid	Sep-16	RED	Bank of America /Hayfin	Sareb	158
Project Sun	Oct-16	CRE	Apollo	CaixaBank	543
Project Sil	Oct-16	Mixed	KKR	Abanca	300
Project Tag	Oct-16	Mixed	Oaktree	Deutsche Bank	500
Project Tizona	Nov-16	Mixed	Ellington Management/ Waterfall Asset Management	Bankia	300

Spain completed transactions continued

Project name	Date	Asset type	Buyer	Seller	Size (€m)
Project Fenix	Nov-16	RED	Bank of America /Hayfin	Sareb	202
Project Far	Dec-16	Consumer	DE Shaw/ Lindorff	CaixaBank	700
Project Normandy	Dec-16	RED	Oaktree	Sabadell	950
Project Eloise	Dec-16	RED	Goldman Sachs	Sareb	553
Project Traveller	Dec-16	SME/Corp	Bain Capital	Sabadell	350
Project Sevilla	Dec-16	RED	Deutsche Bank	Sareb	80
Project Marina	Dec-16	RED	Deutsche Bank	Sareb	80
Confidential	Dec-16	Consumer	Axactor	Banco CEISS	196
Confidential	Dec-16	Corporate	Axactor	Unicaja	250
Confidential	Dec-16	Corporate	Axactor	Banco CEISS	250
Project Antares	Dec-16	RED	Confidential	Sareb	141
Project Berlin	2016	RED	Confidential	Sareb	67
Confidential	2016	CRE	Apollo	Banco Popular	220
Confidential	2016	RED	Blackstone	Banco Popular	400
Total					**13,313**

Portugal completed transactions*

Project name	Date	Asset type	Buyer	Seller	Size (€m)
Project Root	Feb-16	Consumer	Confidential	Confidential	440
Project Gama	Mar-16	Consumer	Confidential	Confidential	400
Project Echo	Mar-16	Residential	Confidential	Confidential	150
Project Cassiopeia	Apr-16	Mixed	Confidential	Confidential	250
Project Badajoz	Jun-16	Residential	Confidential	Confidential	200
Project Pool XXV - C	Jun-16	Consumer	Confidential	Confidential	120
Project Leaf	Dec-16	Mixed	Confidential	Confidential	400
Project Pool XXXIV	Dec-16	Mixed	Confidential	Confidential	100
Project Pool XXX	Dec-16	Consumer	Confidential	Confidential	90
Project Pool XXXI	Dec-16	Mixed	Confidential	Confidential	100
Total					**2,250**

*Selected key transactions

Portugal ongoing transactions*

Project name	Asset type	Seller	Size (€m)
Project Andorra	RED	Confidential	500
Project Tree	Mixed	Confidential	200
Project Seed	Consumer	Confidential	200
Project Listing	Residential	Confidential	94
Project Cassiopeia 2	Mixed	Confidential	59
Total			**1,053**

Italy

Despite uncertainty, the deals will flow

Italy has been the most active loan sale market in Europe in 2016 and the pace of deal-making is likely to continue in 2017. More realistic pricing expectations, an improving transaction environment and a political commitment to NPL resolution are all pointing in the direction of a crowded deal pipeline. The rejection of the government's proposed constitutional reform package in December has created a new element of uncertainty over policy and the timing of new elections, but in the meantime government is likely to continue to stress the need for Italy to keep to its commitments on bank recapitalisation and NPL resolution.

The government has created a new regime to allow government guarantees to support NPLs portfolios coming to market. These guarantees (GACs) will support the transfer of NPLs from banks into securitisation special purpose vehicles which can then issue notes to the market.

Legal reforms have also been significant. Legislation passed in the last two years has the potential to speed up credit recovery. The enforcement process has been streamlined, and more flexibility introduced on court led real estate auctions.

"Italy is further back on the curve compared to say Spain, but today for the first time the larger banks have a realistic view of how their assets would trade in the market. The smaller banks still have a way to go."

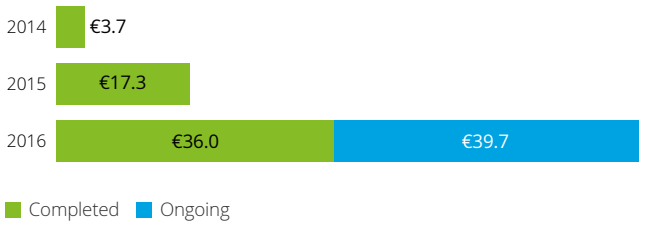
European loan/principal investor

There are also measures to increase the creditors' governance during enforcement and to cut the number of possible legal oppositions that a borrower might put in place to delay the process. These measures are likely to reduce recovery costs and reduce recovery time.

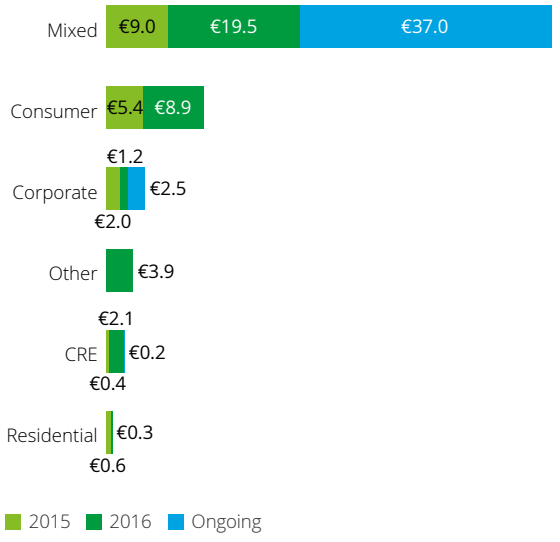
According to the Bank of Italy Italian banks had a total of €360 billion of NPLs at the beginning of 2016 with an NPL ratio of 18%, the highest in Europe. But with completed and on-going deals totalling around €76 billion, Italy's loan sale transaction rate in 2016 was equivalent to that of UK, Ireland, Spain and Netherlands combined. This rapid turnover of deals has been facilitated by intensive government support of the loan sale market which we expect to continue or even accelerate in 2017.

Overall the Italian market is moving towards more complex deal structures, including more loan transactions backed by GACs. The pipeline is beginning to include more small and medium-sized business loans, as well as sub-performing and performing loans being sold. Real estate leasing portfolios are also expected to contribute significantly to 2017 pipeline.

Italy activity by year (€bn)

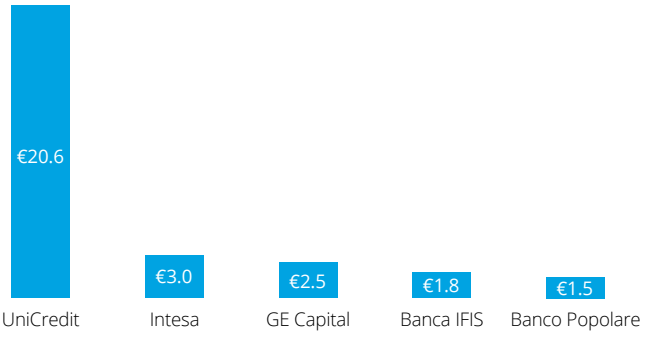


Italy activity by asset class (€bn)



Italy top buyers (€bn)

Italy top sellers (€bn)



Italy completed transactions

Project name	Date	Asset type	Buyer	Seller	Size (€m)
Confidential	Mar-16	Mixed	Confidential	Carim	35
Confidential	Mar-16	Mixed	Bayview	Miltiple (BCC)	300
Project Compilation	Mar-16	Other	AnaCap	GE Capital	2,500
Confidential	Mar-16	Mixed	CS Union	Confidential	223
Project Sandokan	Apr-16	CRE	Pimco	UniCredit	1,200
Confidential	Apr-16	Consumer	Banca IFIS	Deutsche Bank	240
Confidential	Apr-16	Consumer	Banca IFIS	Confidential	208
Confidential	Apr-16	CRE	Anacap	Unicredit	420
Confidential	May-16	Consumer	Banca IFIS	Confidential	70
Confidential	May-16	Consumer	Banca IFIS	Confidential	1,000
Confidential	May-16	Consumer	Idea FIMIT	Cariparma	54
Confidential	May-16	Consumer	Confidential	Intesa	2,600
Project Spark	Jun-16	Residential	Algebris	BR Bolzano	320
Project Please	Jun-16	Mixed	Algebris/ Cerberus	BPER	450
ProjectHyperius	Jun-16	Consumer	Confidential	Intesa	400
Confidential	Jun-16	Consumer	Kruk	Monte Paschi di Siena	290
Confidential	Jun-16	Consumer	Banca IFIS	Banco Popolare	152
Confidential	Jun-16	Consumer	Banca IFIS	Locam	466
Confidential	Jun-16	Consumer	Confidential	Banca IFIS	45
Confidential	Jul-16	Asset Finance	Confidential	Banco Popolare	53
Confidential	Jul-16	Consumer	Banca IFIS	Confidential	104
Confidential	Jul-16	Consumer	Confidential	Banca IFIS	226
Confidential	Jul-16	Consumer	Banca IFIS	Confidential	72
Project Friuli	Aug-16	Other	Bain Capital	Heta	657
Confidential	Sep-16	Corporate	Balbec Asset Management	UniCredit	570
Confidential	Sep-16	Consumer	Banca IFIS	Confidential	35
Confidential	Sep-16	Consumer	Confidential	Confidential	40
Confidential	Oct-16	Consumer	Credito Fondiario (Fonspa)	Creval	106
Confidential	Oct-16	Mixed	n/a	Banco Popolare	480
Confidential	Oct-16	Consumer	Locam	Cassa Centrale Banca	338
Confidential	Oct-16	Consumer	Kruk	Unicredit	940
Confidential	Oct-16	Consumer	Confidential	Banca IFIS	816
Project Adele	Oct-16	Consumer	Hoist	Banco Popolare	618
Confidential	Nov-16	Consumer	Banca IFIS	Confidential	71
Project Juliet	Nov-16	Mixed	Cerved	Monte Paschi di Siena	n/a
Project Secondo	Dec-16	CRE	Goldman Sachs	Hypo Alpe Adria	528
Confidential	Dec-16	Mixed	Bayview	Iccrea Banca	500
Project Fino	Dec-16	Mixed	Fortress	UniCredit	13,500
Project Fino	Dec-16	Mixed	PIMCO	UniCredit	4,000
Confidential	Dec-16	Other	Kruk	Banca IFIS	750
Confidential	Dec-16	Corporate	Confidential	BPER	150
Confidential	Dec-16	Corporate	Creditech	Banco Desio and Banca Popolare di Spoleto	150
Confidential	Dec-16	Corporate	Hoist	Confidential	350
Total					**36,027**

Italy ongoing transactions

Project name	Asset type	Seller	Size (€m)
Confidential	Mixed	CARIGE	1,500
Italian loan portfolio	Mixed	Monte Paschi di Siena	27,000
CRE NPLs	CRE	Cassa Centropadana	170
Project Beyond the Clouds	Corporate	Intesa	2,500
Confidential	Mixed	CR Chieti, BP Etruria, CR Ferrara, Banca Marche	8,500
Total			**39,670**

Italy has been the most active loan sale market in Europe in 2016 and the pace of deal-making is likely to continue in 2017. More realistic pricing expectations, an improving transaction environment and a political commitment to NPL resolution are all pointing in the direction of a crowded deal pipeline. The rejection of the government's proposed constitutional reform package in December has created a new element of uncertainty over policy and the timing of new elections, but in the meantime government is likely to continue to stress the need for Italy to keep to its commitments on bank recapitalisation and NPL resolution.

Viewpoint: Italy and Spain will lead

The centre of gravity in European NPL trading will remain in southern Europe in 2017, says Alon Avner, Head of Bain Capital Credit Europe and a Managing Director in its Opportunistic Credit team.

"I think Spain, Italy and Ireland will be the biggest European NPL markets in 2017, probably followed by Portugal and CEE, the latter continuing to provide smaller deals. Greece clearly has the potential to be an important market and it has the legal framework, but there needs to be the political will to implement it," says Mr Avner.

The key to a healthy market in Italy is progress on bank recapitalisations, says Fabio Longo, a Managing Director and head of Bain Capital Credit's European NPL and real estate business. "The Italian banking system is currently one of the weakest in the Eurozone. Recapitalisation is the best way to strengthen it in our view. Progress is visible – MPS and UniCredit are moving in the right direction. I believe the banks will be recapitalised, but whether they will actually go on to sell secured assets is another question. If they do it will start at the top end with the bigger banks, and then trickle on down to the next tier. NPL sales in Italy are also contingent on the government's desire to involve the bad bank, Atlante."

Mr Longo adds that Spain is a more predictable market, and there is a clear pipeline of deals extending beyond 2017. "In Spain some banks have not sold much while others were very active – the NPL ratio still stands at 9-10%, with around $120 billion of NPLs, and it is going to take three to four years for those to be cleared."

"We are primarily a buyer of corporate real-estate secured portfolios and in that business there will be a slew of opportunities in Italy. There will be SME portfolios in Spain, and we are already seeing those in the pipeline. As for Greece I just can't tell if there will be real opportunities, but if I could choose the preference would be for tourism-related portfolios."

"In Spain banks are still holding significant real estate owned (REO) portfolios on their balance sheets – probably between €60-100 billion – and the sales of those have been slower than for NPLs. Our view is that price expectations are still too high, but I would expect the REO market to pick up significantly in 2017 as the recovery in residential real estate spreads to secondary locations."

"I think Spain, Italy and Ireland will be the biggest European NPL markets in 2017, probably followed by Portugal and CEE, the latter continuing to provide smaller deals. Greece clearly has the potential to be an important market and it has the legal framework, but there needs to be the political will to implement it,"

Alon Avner, Head of Credit Europe, Bain Capital

Austria and CEE

2016 was the most active year to date for NPL transactions in Austria and Central Eastern Europe (CEE), with over €10 billion of completed or on-going deals. Banks and wind-down institutions across the region have targets that will continue to support deal-flow in 2017, but the peak of activity has been reached.

The largest Italian, Austrian and Greek banks all expanded heavily into CEE and it is the purging of those distressed or non-performing assets that has provided, and will continue to drive, the volume of deals.

Price gap is narrowing

The surge in loan sale transactions across the region largely comes down to a narrowing in the price gap. Loan sellers are becoming more realistic in their price expectations, driven by a mix of increased regulatory pressure and management accepting the market price of their assets. Banks are becoming more committed to the sales processes and are less likely to withdraw deals resulting in fewer failed transactions. Investors have also become more aggressive in their return requirements reflecting their willingness to do deals and chase yield in the region.

The region has seen most activity in corporate secured loans, with fewer deals in corporate unsecured and retail loans, where debt recovery specialists tend to buy relatively small portfolios.

The end of the road

Most Austrian and Italian banks are getting closer to the end of their NPL disposal processes in Central and Eastern Europe. Unicredit, Erste Bank and Immigon (the wind-down vehicle for Volksbanken) have all been aggressive in their portfolio sales, and 2017 is likely to see a reduction of their sales programmes in the region.

HETA (the Austrian wind-down institution for Hypo Alpe) has completed sales of its Italian subsidiary, but given its strict wind-down targets, we expect it to bring to market loan packages in Serbia, Slovenia and Croatia.

Raiffeisen has been less active to do NPL deals. The bank has €7bn of NPLs and we expect it to be a more prominent seller in the next 12-18 months. We expect the Greek banks to start focussing more on their NPLs at home in Greece as opposed to CEE. We expect an uplift in Serbian NPL transactions in 2017. One Serbian deal has already closed. HETA may come to market with its Serbian NPL book as well as Nova Ljubljanska Banka (NLB) – the largest bank in Slovenia.

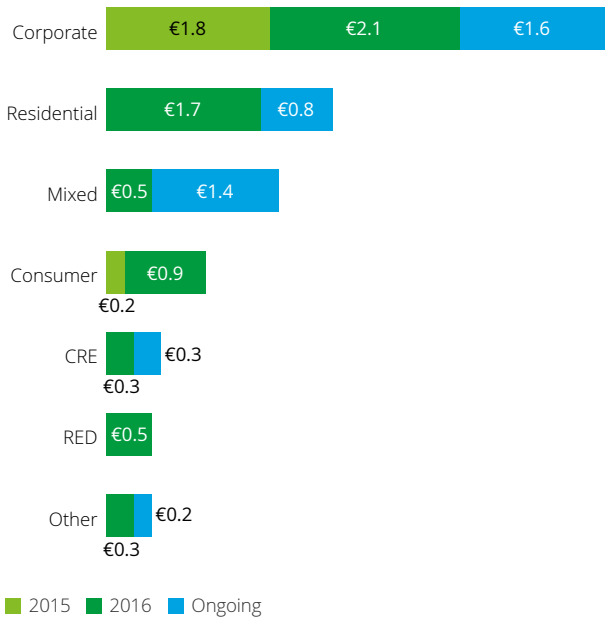
Overall we believe that total regional non-core assets and NPLs stand at around €60 billion.

"There will be deals in Eastern Europe, but the issue is often the limited size of the individual markets. If you want to find deals of size in Eastern Europe that often means a multi-jurisdictional deal, entailing significant due diligence time and cost. You need to ensure that the seller is committed, well advised, and understands the market pricing context."

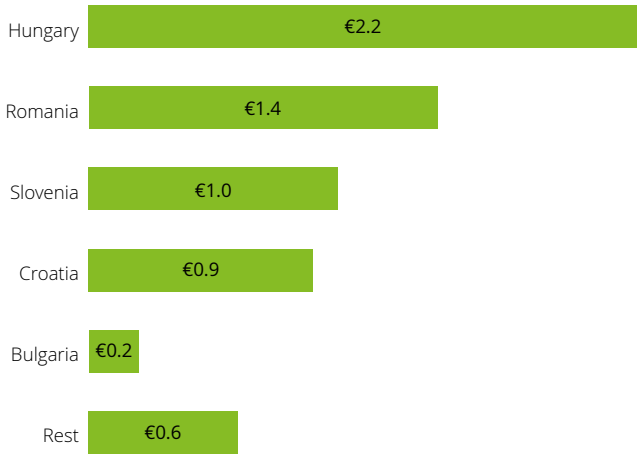
European Loan/Principal Investor

Austria and CEE activity by year (€bn)

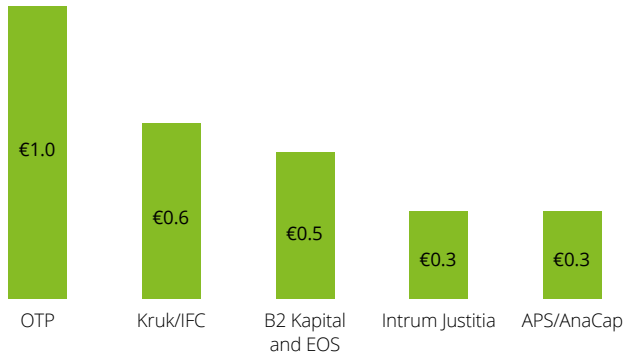
Austria and CEE activity by asset class (€bn)



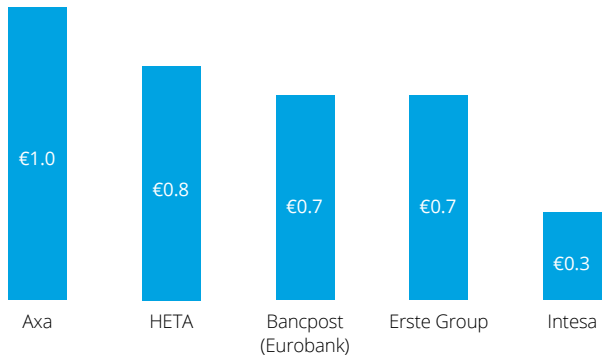
Austria and CEE activity by country (€bn)



Austria and CEE top buyers (€bn)



Austria and CEE top sellers (€bn)



Austria and CEE completed transactions

Project name	Date	Country	Asset type	Buyer	Seller	Size (€m)
Confidential	Jan-16	Hungary	Mixed	Confidential	Confidential	120
Project Velence	Jan-16	Hungary	Other	Confidential	Confidential	300
Project Rosemary	Jan-16	Romania	Mixed	APS/ AnaCap	Intesa	261
Confidential	Feb-16	Bulgaria	Consumer	EOS	Bancpost (Eurobank)	143
Confidential	Feb-16	Hungary	Residential	OTP	Axa	1,000
Project Helena	May-16	Hungary	Corporate	Confidential	Confidential	250
Project Metro	May-16	Romania	Consumer	Kruk / IFC	Bancpost (Eurobank)	597
Confidential	Jun-16	Slovenia	Corporate	n/a	NLB	396
Confidential	Jun-16	Slovenia	Consumer	n/a	NLB	104
Confidential	Jul-16	Bosnia & Herzegovina	Corporate	Confidential	HETA	23
Project Blue Lake	Sep-16	Romania	Residential	B2 Kapital and EOS	Erste Group	370
Confidential	Sep-16	Bulgaria	Consumer	n/a	National Bank of Greece	70
Confidential	Oct-16	Croatia	Corporate	Confidential	Confidential	324

Austria and CEE completed transactions continued

Project name	Date	Country	Asset type	Buyer	Seller	Size (€m)
Project Pathfinder	Nov-16	Croatia	CRE	n/a	HETA	332
Confidential	Nov-16	Hungary	Residential	Intrum Justitia	Erste Group	320
Project Rita	Nov-16	Hungary	Corporate	n/a	Confidential	250
Confidential	Dec-16	Serbia	Mixed	Confidential	Confidential	150
Confidential	Dec-16	Slovenia	Corporate	Confidential	Confidential	390
Slovenian loan portfolio	Dec-16	Slovenia	Corporate	B2 Kapital	UniCredit	110
Project Ivica	2016	Croatia	Corporate	Confidential	Confidential	200
Project Eagle	2016	SEE	RED	Lone Star	HETA	450
Project Elizabeth	2016	Romania	Corporate	Confidential	Confidential	200
Total						**6,360**

Austria and CEE ongoing transactions

Project name	Country	Asset type	Seller	Size (€m)
Confidential	Austria	Other	Confidential	100
Confidential	Bosnia & Herzegovina	CRE	HETA	17
Project Vitosha	Bulgaria	Corporate	HETA	130
Confidential	Croatia	Corporate	Confidential	800
Confidential	Croatia	CRE	HETA	155
Confidential	Croatia	Corporate	HETA	47
Project Otto	Hungary	Residential	Aegon	360
Confidential	Hungary	Residential	Confidential	250
Confidential	Poland	Residential	Raiffeisen Bank Polaks	237
Confidential	Romania	Mixed	Veneto Banca	1,030
Project Iris	Romania	Mixed	BRD Societe Generale	329
Confidential	Romania	CRE	Erste Group	110
Project Drava	SEE	Corporate	HETA	286
Confidential	Slovenia	Other	NLB	90
Confidential	Serbia	Corporate	Confidential	299
Total				**4,240**

Greece and Cyprus

Greece

For debt investors Greece is an opportunity in waiting. Only a few loan portfolios were brought to market in 2016. Royal Bank of Scotland attempted to sell a €2.3 billion shipping loan book in early 2016, but eventually decided to wind down the shipping business as the bid-ask spread was too wide. Over the past years Greek banks have been actively disposing non-Greek assets in the CEE as they had been set a target to reduce exposures in the region by 2018. Banks are now on track to meet their target and are likely start focusing on domestic assets.

Three key initiatives were put in place in 2016 that are likely to jumpstart loan sale activity in Greece. Firstly, the Bank of Greece issued an operational framework with specific targets to reduce banks' non-performing exposures. The framework includes all Greek commercial and cooperative banks, which between them hold over €100 billion worth of non-performing assets. The target is to reduce the non-performing exposure volume to c.€67 billion by the end of 2019, through a mixture of resolutions and liquidations. €7.4 billion is expected to be resolved through portfolio disposals. Second is the appointment of a Single Special Liquidator (SSL) to manage the total assets under special liquidation (c. €9 billion). We expect the SSL to bring portfolios to market starting in 2017. Third is the recent governance overhaul of the banking sector, led by the Hellenic Financial Stability Fund. The evaluations and replacement of board members on the boards of the four big 'systemic banks' aims to ensure a right fit given the changes in the banking sector. While significant measures have been taken towards facilitating NPE resolution and loan sales the fact that bank management is personally liable for decisions that may have an unfavourable impact on P&L slows the decision making process and inhibits loan portfolio sales.

There has also been significant change in the legal environment that should make acquisition and servicing of Greek NPLs easier. The NPL Law introduced in 2015 became fully effective at the end of Q1 2016, defining special purpose vehicles for NPL acquisition and creating a license system for outsourced NPL management. A number of institutions have applied to the Bank of Greece for NPL management licenses, and as of going to press only one is known to have successfully obtained a license.

The recent improvements represent a significant change in tone for the Greek banking sector. Up to now the emphasis has largely been on bank restructuring, asset quality assessments, and managing the existing loan books. Now there is a realistic prospect of a sales pipeline.

"The environment has changed in Greece. Banks understand they need to be more pro-active on NPLs, and they are taking steps such as investing in their in-house capabilities, and engaging with third parties to outsource servicing across a whole range of debt categories."

Senior Manager, US Distressed Debt Specialist.

"I think Greek banks do want to sell assets, but you have a situation where banks have not been servicing loans for several years. Nobody knows how much can be recovered – and you also have very thin trading in the real estate market, so it is very difficult to price even when you believe you can recover assets. So if there are going to be sales they will largely be unsecured assets, and those don't amount to large deals."

Managing Director, European distressed debt investor

Cyprus

Cyprus remains an untested market, despite having the highest NPL ratio in Europe. Legal changes to facilitate bank NPL sales and to reform the corporate and personal insolvency framework have been completed, but banks still have around €30 billion of NPLs and no significant deals are on-going.

Greece ongoing transactions

Project name	Asset type	Seller	Size (€m)
Confidential	Other	Confidential	1,000
Greek Shipping Portfolio	Asset Finance	RBS	n/a
Confidential	Other	Confidential	117
Confidential	Corporate	Confidential	150
n/a	Other	Confidential	n/a
Total			**1,267**

Nordics

Bank consolidation remains a more important theme than deleveraging in the Nordic region; banks are relatively well capitalised, delinquency rates in bank lending are low, and the supply of loan sale transactions is correspondingly low.

The banking sector is highly concentrated and becoming more so: six large banks (Nordea, Danske, Handelsbanken, SEB, DNB and Swedbank) dominate the market, with several hundred more small or very small banks. The large banks continue to consolidate their existing operations and to absorb some small bank operations – in 2016 Nordea and DNB combined their Baltic operations to create the second-biggest bank in the Baltic region, Danske having already sold its Baltic operations to Swedbank.

In total these six banks only have c. €14 billion of NPLs on their balance sheets. And they are more likely to hold on to these loans as the region's economies continue to grow. However, continued regulatory pressure on capital adequacy could drive banks to review both their lending portfolios and their core business and bring to market assets that no longer fit the emerging strategic profile. These may include non-core or sub-performing consumer or residential property loans as well as non-performing corporate loans.

"For NPL investors, unless you have buyers of consumer debt in packages of no more than 30 million, with a platform that can work with every single individual debtor, then you will struggle to find deals in the Nordics. It is not a market for large players. This is why you see specialists such as Lindorff hoovering up all the consumer debt. Remember, in Scandinavia you never escape from consumer debt unless you resolve it. Debt forgiveness is very rare. Recovery is very effective."

Tom Johannessen, Nordea

Viewpoint: Slow growth in Nordic markets

According to Tom Johannessen of Nordea the Nordic debt market is unlike any other in Europe. "The banks just don't have significant NPL holdings," says Johannessen. "The delinquency rate is of the order of the low tens of basis points. That doesn't mean that there is no market for distressed loan assets or performing loan assets in the region, but it does mean the market isn't comparable to NPL markets in the rest of Europe."

It's a local market

Nordea says that in 2016 there is very little distressed corporate lending in the region, which is why there have been no large disposals since the Danish resolution fund Finansiel Stabilitet completed its sales in 2014. Distress levels are slightly higher for personal loans and credit card debt, but those packages are typically sold to local workout groups with the ability to service a retail customer base.

"Although you might expect corporate NPLs to be rising in sectors that are economically stressed like energy and shipping, the fact is these sectors are cyclical, they have been through periods of considerable stress before, and they are quite well versed in dealing with the situation," adds Johannessen. "You have companies freezing capex and running the business for cash, so up to now the banks have not had to step in. And the fact is the banks want these businesses to survive. We don't want to see them default."

The capital adequacy challenge

Nordea says that all the large Nordic banks face the challenge of increasing their Core Tier 1 levels before new capital adequacy rules come into force in 2019. "It could be that banks decide to sell some existing assets, or alternatively, change the profile of their lending book," explains Tom Johannessen. "For us and for Nordic banks in general it is likely to be the latter. Banks are more likely to change their origination model than to sell loan assets. As for changing the definition of what is and what is not core lending business, traditionally Nordic banks are very reluctant to define anything at all as non-core. You may occasionally see sales of assets where the bank concludes that it is too difficult to cross-sell products to that customer group, but that is going to be rare."

Nordea concedes that a changing economic environment could bring new NPL supply to the market. "If the Nordic macro-economic environment were to deteriorate, it would become an attractive market for larger players, just as it did in the 1990s or more recently when Danish agricultural businesses ran into trouble. But for now it is much more of a private market – sellers tend to know buyers, and deals are done through bilateral discussions rather than open market auctions."

"...it is much more of a private market – sellers tend to know buyers, and deals are done through bilateral discussions rather than open market auctions."

Tom Johannessen, Nordea

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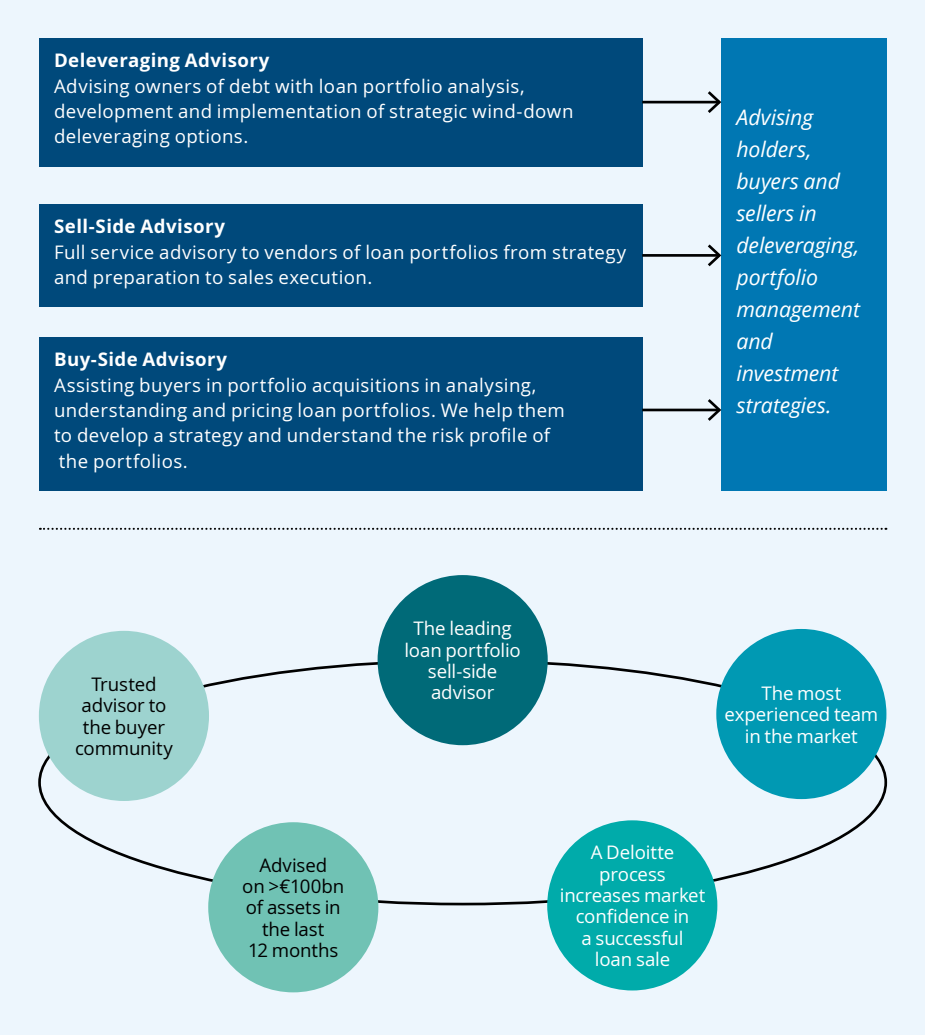

Contacts

Global team

David Edmonds
Global Head – Portfolio Lead Advisory Services
Tel: +44 20 7303 2935
Email: dedmonds@deloitte.co.uk

Andrew Orr
UK Head, Portfolio Lead Advisory Services
Tel: +44 20 7007 0759
Email: anorr@deloitte.co.uk

Will Newton
Partner, Portfolio Lead Advisory Services
Tel: +44 20 7007 9191
Email: wnewton@deloitte.co.uk

Benjamin Collet
Partner, Portfolio Lead Advisory Services
Tel: +44 20 7007 0954
Email: bcollet@deloitte.co.uk

David Lane
Partner, Portfolio Lead Advisory Services
Tel: +44 20 7303 7262
Email: dlane@deloitte.co.uk

Amo Chahal
Director, Portfolio Lead Advisory Services
Tel: +44 20 7007 7323
Email: achahal@deloitte.co.uk

Alok Gahrotra
Director, Portfolio Lead Advisory Services
Tel: +44 20 7007 2164
Email: agahrotra@deloitte.co.uk

Claire Keat
Director, Portfolio Lead Advisory Services
Tel: +44 20 7007 4385
Email: ckeat@deloitte.co.uk

Chi-Nang Kong
Director, Portfolio Lead Advisory Services
Tel: +65 6800 2270
Email: cnkong@deloitte.com

Luca Olivieri
Director, Portfolio Lead Advisory Services
Tel: +44 20 7007 4292
Email: luolivieri@deloitte.co.uk

Laya Carnevale
Assistant Director, Business Development,
Portfolio Lead Advisory Services
Tel: +44 20 7007 8531
Email: lcarnevale@deloitte.co.uk

Austria

Ben Trask
Partner, Financial Advisory
Tel: +43 1 537002950
Email: bentrask@deloitte.at

CEE

Balazs Biro
Partner, Financial Advisory Services
Tel: +36 (1) 428 6865
Email: bbiro@deloitteCE.com

Cyprus

Nicos Kyriakides
Partner, Financial Advisory Services
Tel: +357 258 68601
Email: nkyriakides@deloitte.com

Denmark

Lars Berg-Nielsen
Partner, M&A Transaction Services
Tel: +45 20 24 73 10
Email: lbergnielsen@deloitte.dk

Ireland

Martin Reilly
Partner, Financial Advisory Services
Tel: +353 1 417 2212
Email: mreilly@deloitte.ie

France

Arnaud Deymier
Partner, Financial Advisory Services
Tel: +33 1 58 37 02 88
Email: adeymier@deloitte.fr

Germany

Andrea Ritzmann
Partner
Tel: +49 6 97 5695 6932
Email: aritzmann@deloitte.de

Greece

Panagiotis Chormovitis
Partner, Financial Advisory Services
Tel: +30 210 678 1316
Email: pchormovitis@deloitte.gr

Italy

Umberto Rorai
Partner, Financial Advisory Services
Tel: +39 02 8332 5056
Email: urorai@deloitte.it

Netherlands

Jeroen Jansen
Partner
Tel: +31 8 8288 5650
Email: jeroJansen@deloitte.nl

Portugal

Joaquim Paulo
Partner, Financial Advisory Services
Tel: +351 2104 22502 4002
Email: jpaulo@deloitte.pt

Spain

Jose Antonio Olavarrieta
Partner, Financial Advisory Services
Tel: +34 9 1443 2875
Email: jolavarrieta@deloitte.es

Notes

Notes

PLAS is recognised as the leading advisor on portfolio deleveraging; our vast experience ensures we can deliver enhanced value for holders of non-core and distressed loans/assets.

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