September 2017

Portfolio Advisory Group
Market update Q2 2017

pwc
European loan portfolio activity outlook and transactions in key markets

Welcome to our Q2 2017 market update.

With over €85bn of loan portfolio transactions already completed or in progress across Europe, 2017 is shaping up to be another strong year in the portfolio transactions market.

In this edition we discuss possible deal opportunities in relation to performing, long dated lending held by European banks, such as project finance and equity release loans. We believe that these will be attractive to a range of investors, including credit funds, private equity houses, banks, insurers and pension funds. Please see our article on the following page for further details.

As always, I hope you find this Market Update useful. If you would like to discuss any aspect of the market please contact me, Jaime Bergaz or any one of our colleagues listed on the back page.

Richard Thompson
Global Leader, Portfolio Advisory Group
PwC (UK)
Alternative credit opportunities: longer dated lending?

We believe there are increasing deal opportunities in respect of longer dated performing lending held by European banks.

Whilst for a long time the potential supply of long dated lending has exceeded market demand, with only a few deals in prior years, in 2016 we started seeing a significant increase in financing deals and acquisitions in this space.

The size of the potential opportunity in this market could be significant. We have outlined below our view on the likely areas of such deals based on selected asset classes and regions.

<table>
<thead>
<tr>
<th>Asset class</th>
<th>UK &amp; IRE</th>
<th>Germany</th>
<th>Italy</th>
<th>Netherlands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Finance &amp; Infrastructure</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>■</td>
</tr>
<tr>
<td>Equity release mortgages</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>■</td>
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<tr>
<td>Public financing</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>■</td>
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<tr>
<td>Aviation</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>■</td>
</tr>
<tr>
<td>Shipping</td>
<td>■</td>
<td>■</td>
<td>■</td>
<td>■</td>
</tr>
</tbody>
</table>

Source: PwC analysis

Most supply factors are determined by banks wanting to divest non-core positions. The demand factors are driven by a wide set of reasons such as portfolio diversification strategies, Solvency II principles driving investment considerations and geographical diversification.

### Demand factors
- The continued low interest rate environment encouraging insurers and pension funds to look for higher returns and stable cash flows to match their long term liabilities
- Sovereign Wealth Funds and Japanese banks looking for geographical diversification into Europe, searching for yield not available in domestic markets
- Insurers looking for ways to match annuity funding for example with appropriate loan assets and applying the benefit of the Matching Adjustment concept under Solvency II
- Funds increasingly setting up alternative investment arms to improve returns on investments

### Supply factors
- Banks holding these longer dated loans are now more focused on the management of these assets and assessing potential divestment
- Reduction of exposure or capital held against longer dated loans through whole loan sales or synthetically through securitisations / capital relief transactions
- Long dated assets transactions have increased liquidity, leading to more attractive pricing levels

### Conclusion
We are starting to see an increase in transactions of performing longer dated loans, which require different funding strategies to non performing lending. We expect to see further development and increasing activity in this sector going forward, leading to more opportunities in financing and acquiring these assets.
Over €85bn of portfolio transactions have either completed, or are in progress as at the end of Q2 2017

Value of transactions by country

Value of transactions by loan type

Source: PwC 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
2017 deals in key markets

Source: PwC 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
2017 deals in key markets

Spain

<table>
<thead>
<tr>
<th>Year</th>
<th>Face Value (€bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>€21bn</td>
</tr>
<tr>
<td>2015</td>
<td>€16.5bn</td>
</tr>
<tr>
<td>2016</td>
<td>€21.5bn</td>
</tr>
<tr>
<td>Q2 2017</td>
<td>€6.5bn</td>
</tr>
</tbody>
</table>

Ireland

<table>
<thead>
<tr>
<th>Year</th>
<th>Face Value (€bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>€30.5bn</td>
</tr>
<tr>
<td>2015</td>
<td>€19bn</td>
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<tr>
<td>2016</td>
<td>€12.5bn</td>
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<tr>
<td>Q2 2017</td>
<td>€2.5bn</td>
</tr>
</tbody>
</table>

Source: PwC 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
2017 deals in key markets

Germany

Face Value (€bn)

2014 2015 2016 Q2 2017

€10.5bn

Unsecured Retail, €0.5bn

CRE, €10bn

Specialised, €7.7bn

€11bn

SME/Corporate, €1bn

Secured Retail, €0.5bn

CRE, €1.6bn

€4.5bn

In progress, €1.7bn

SME/Corporate, €0.5bn

Secured Retail, €0.6bn

Secured Retail, €0.3bn

€6bn

Secured Retail, €0.5bn

CRE, €5.5bn

€10.5bn

Country: Netherlands

Face Value (€bn)

2014 2015 2016 Q2 2017

€3.5bn

SME/Corporate, €3bn

Unsecured Retail, €0.5bn

CRE, €1bn

€2.5bn

Secured Retail, €1.3bn

Unsecured Retail, €0.3bn

CRE, €1bn

<€1bn

In progress, €0.4bn

Note: Based on the location of the head office of the bank selling the assets

Source: PwC analysis

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