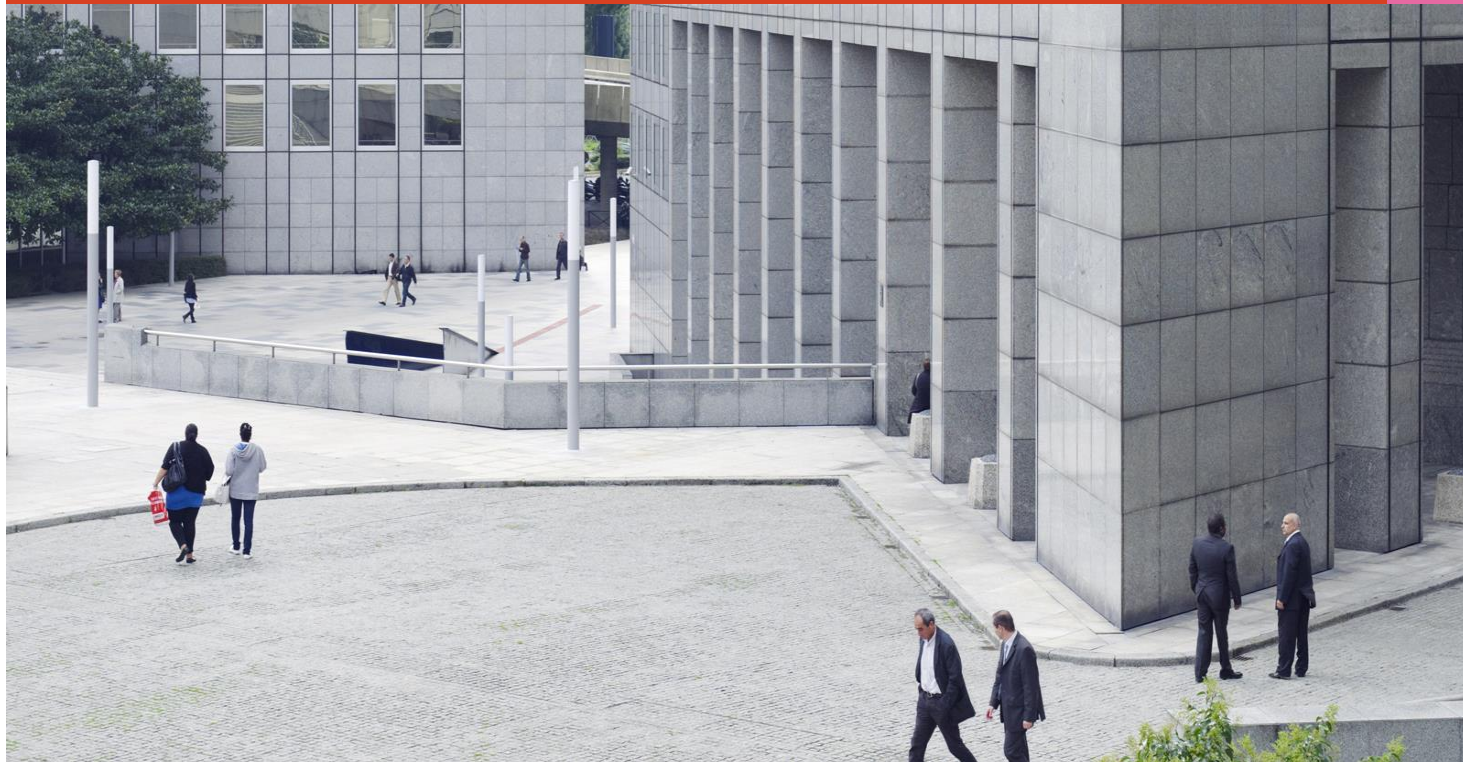


Portfolio Advisory Group

Market update Q1 2017

May 2017



European loan portfolio activity outlook and transactions in key markets



**Richard
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PwC (UK)

Welcome to our Q1 2017 market update.

In March 2017 we hosted our eighth annual European Bank Restructuring Conference, attended by more than 500 market participants from over 25 countries.

Our conference discussed the fundamental issues facing the European Banking market - banks need to boost returns and lay the longer term foundations for competing in a market facing continuing technological, regulatory and political upheaval. Almost a decade after the onset of the financial crisis barely a handful of European banks are covering the cost of equity and delivering an economic profit¹.

Conference participants debated the causes of this continued underperformance – noting that some are largely out of the banks' hands (e.g. subdued economic growth, low interest rates and a continuing stream of new compliance demands). However, some are clearly inherent within the industry itself including, for example, oversupply, operational inefficiencies and a continuing legacy of unwanted assets.

Our research shows that despite huge transaction volumes European financial institutions continue to hold around €2.1trn of non-core loans², split broadly equally between performing and non-performing assets.

It is against this backdrop that we see 2017 completed or in progress transaction volumes have already reached over €50bn and, we believe that for third year in a row, transaction volumes could exceed €100bn.

Outside of Europe, our conference touched on emerging loan sale opportunities in other parts of the world including, for example, India and China where we believe these markets will continue to gain momentum.

Despite continued political and economic tension, what came through strongly from the conference discussions is that deal momentum remains strong spanning a very wide spectrum of activity: from non-performing and non-core asset sales; to strategic business portfolio adjustments (finding 'better owners' of assets and businesses); to collaborations and alliances on infrastructure, products, customers and technology innovation; through to

opportunistic M&A.

In short, given the current performance of European banks and the large stock of non-core assets, there is still an enormous opportunity for investors and vendors alike.

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.

¹Return on equity higher than cost of equity

²PwC estimate based on public information and discussions with banks

European banks continue to hold more than €1trn of NPLs

EUR bn	2011	2012	2013	2014	2015	2016
Italy	107	125	156	184	200	202
Germany	179	166	154	152	149	135
France	133	125	122	130	126	120
Spain	136	167	197	173	134	116
Greece	40	56	77	90	107	105
Russia	34	39	54	61	60	80
United Kingdom	172	164	136	107	75	60
Ireland	147	151	149	115	93	59
Netherlands	52	57	55	55	46	42
Cyprus	9	18	29	29	27	24
Austria	18	21	19	23	23	20
Portugal	12	17	19	20	20	18
Denmark	19	32	24	21	20	17
Poland	15	17	17	17	18	17
Turkey	9	11	11	14	16	16
Ukraine	12	16	14	13	14	14
Bulgaria	5	5	5	5	5	6
Hungary	7	8	8	7	5	5
Czech Republic	5	6	5	6	6	5
Croatia	5	5	6	6	6	5
Romania	6	11	11	8	7	4
Sweden	7	6	5	4	6	4
Serbia	3	3	3	3	3	3
Norway	4	5	5	3	3	2
Slovakia	2	2	2	2	2	2
Slovenia	5	6	4	3	3	2
Finland	1	1	2	2	2	1
Total	1,144	1,240	1,289	1,253	1,176	1,084

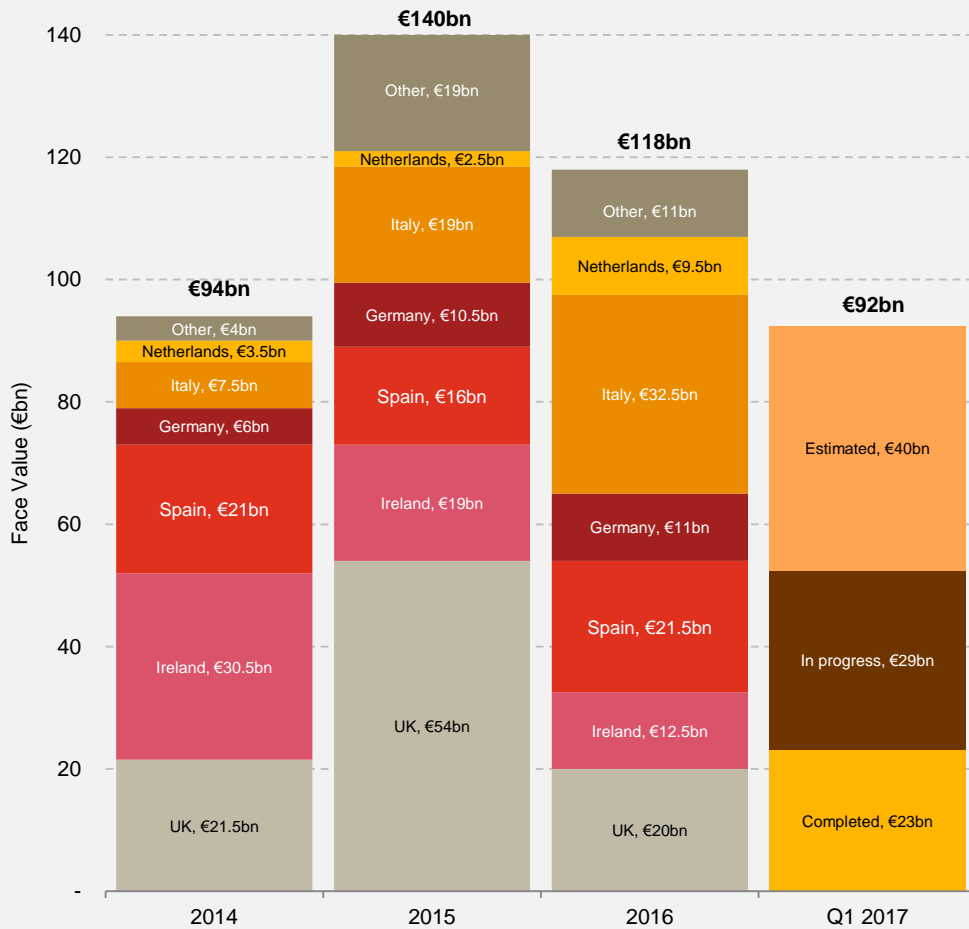
Source: PwC analysis

Note: Based on the location of the head office of the bank selling the assets. These figures do not include "NPE" (Non-Performing Exposures"). For example, Italy has a reported approximately €140bn of NPEs that have been excluded from the above.



Over €50bn of portfolio transactions have either completed, or are in progress as at the end of Q1 2017

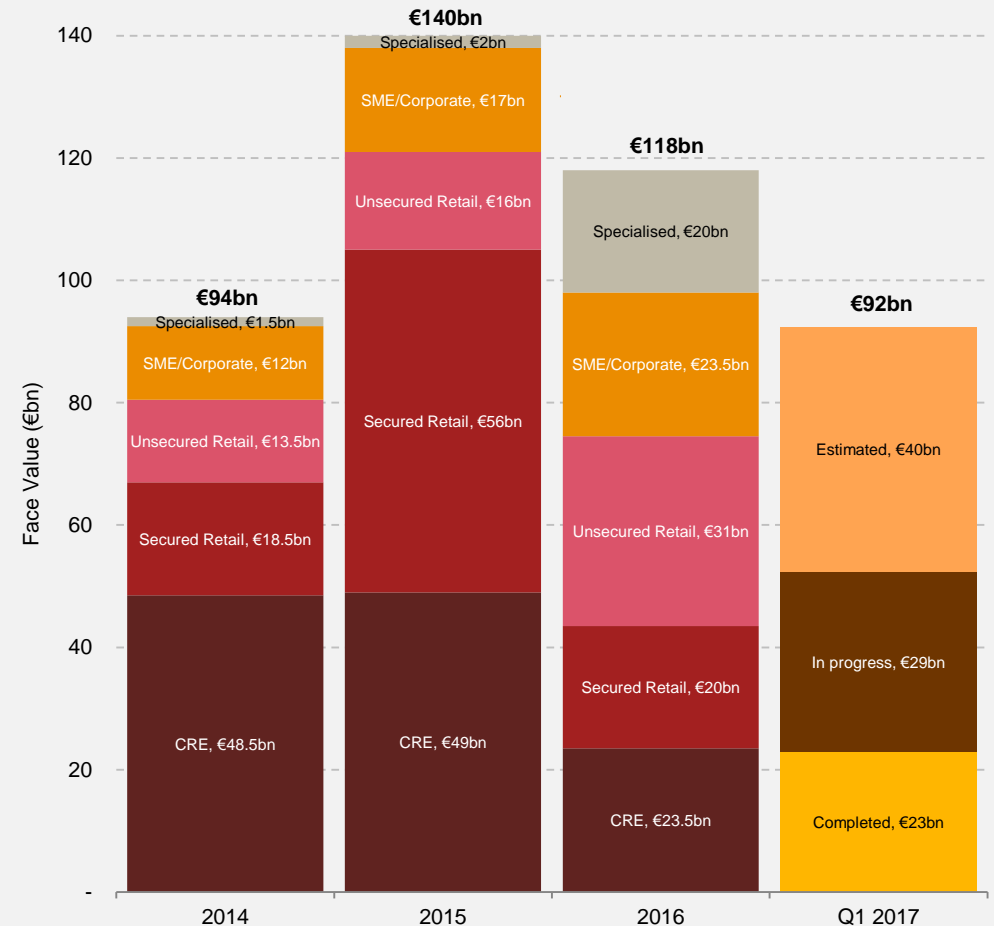
Value of transactions by country



Source: PwC analysis

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

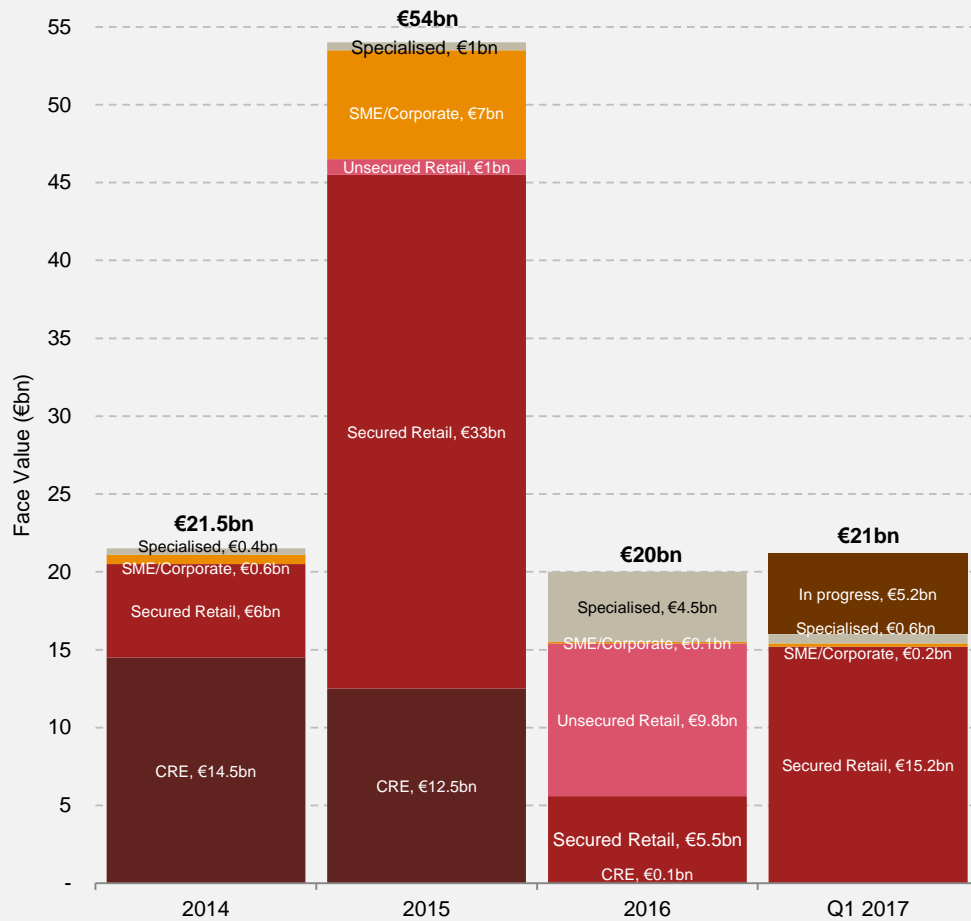
Value of transactions by loan type



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

2017 deals in key markets

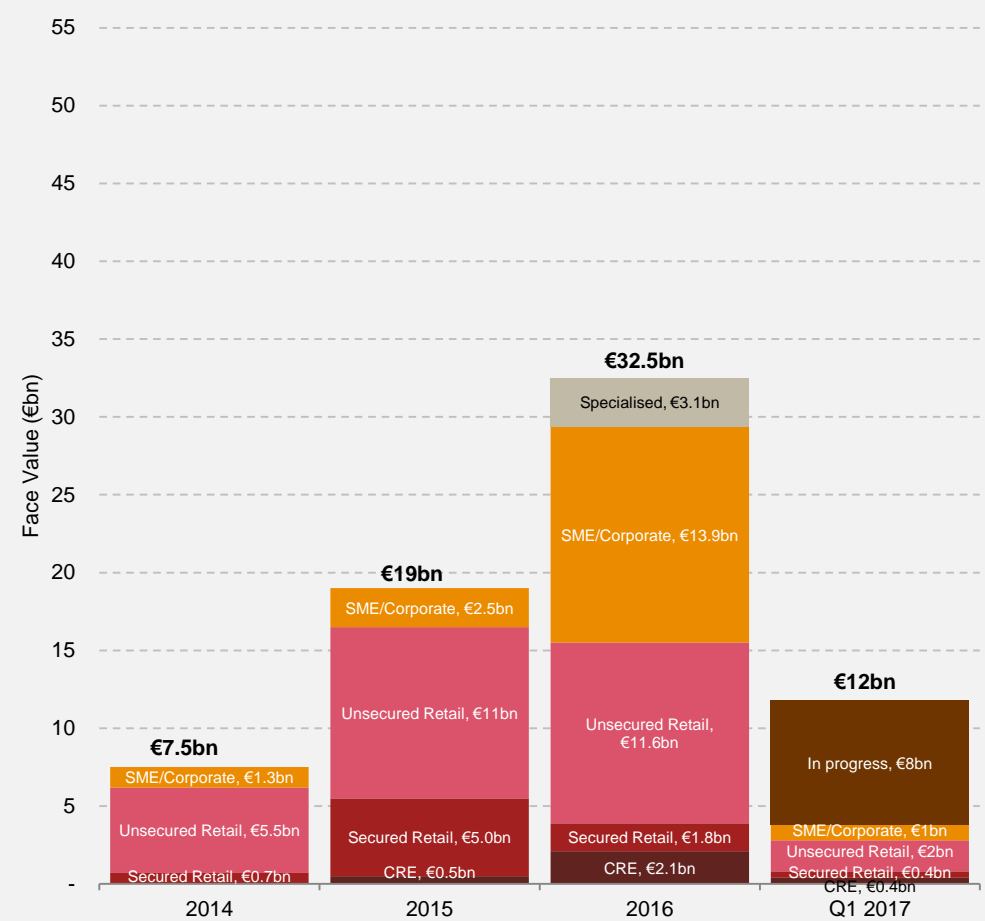
UK



Source: PwC analysis

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

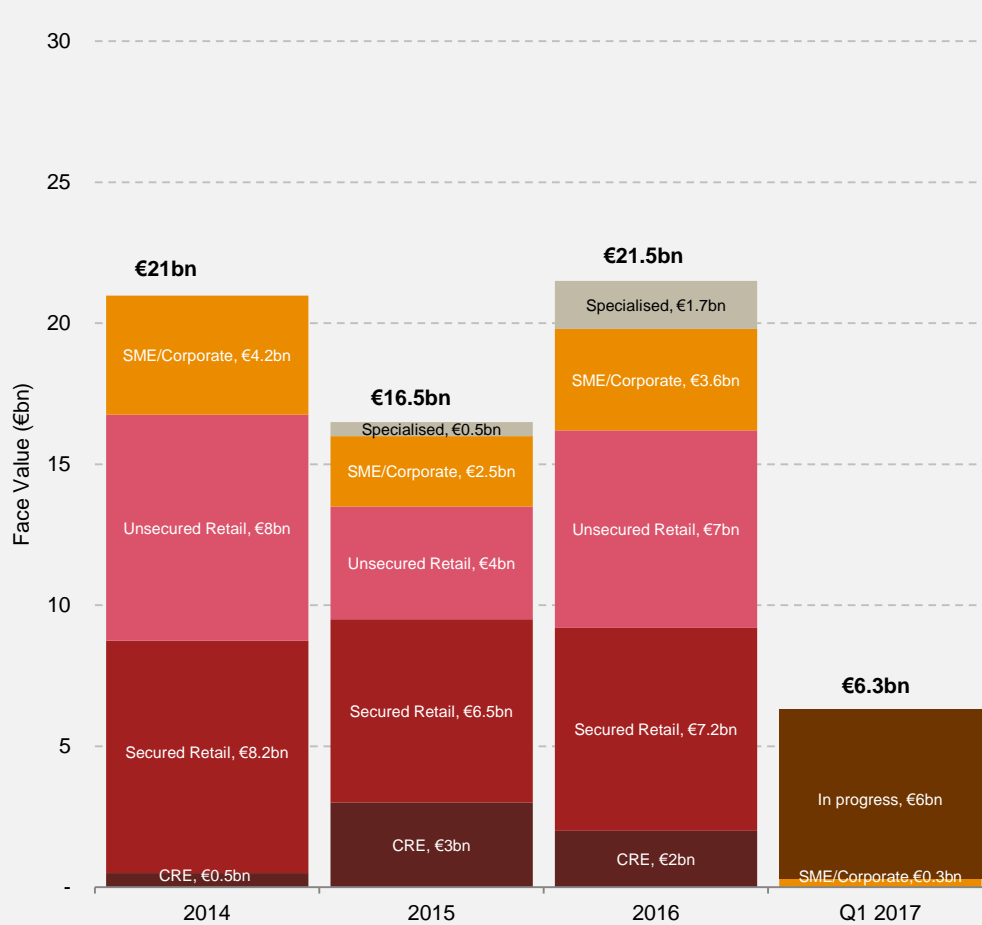
Italy



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

2017 deals in key markets

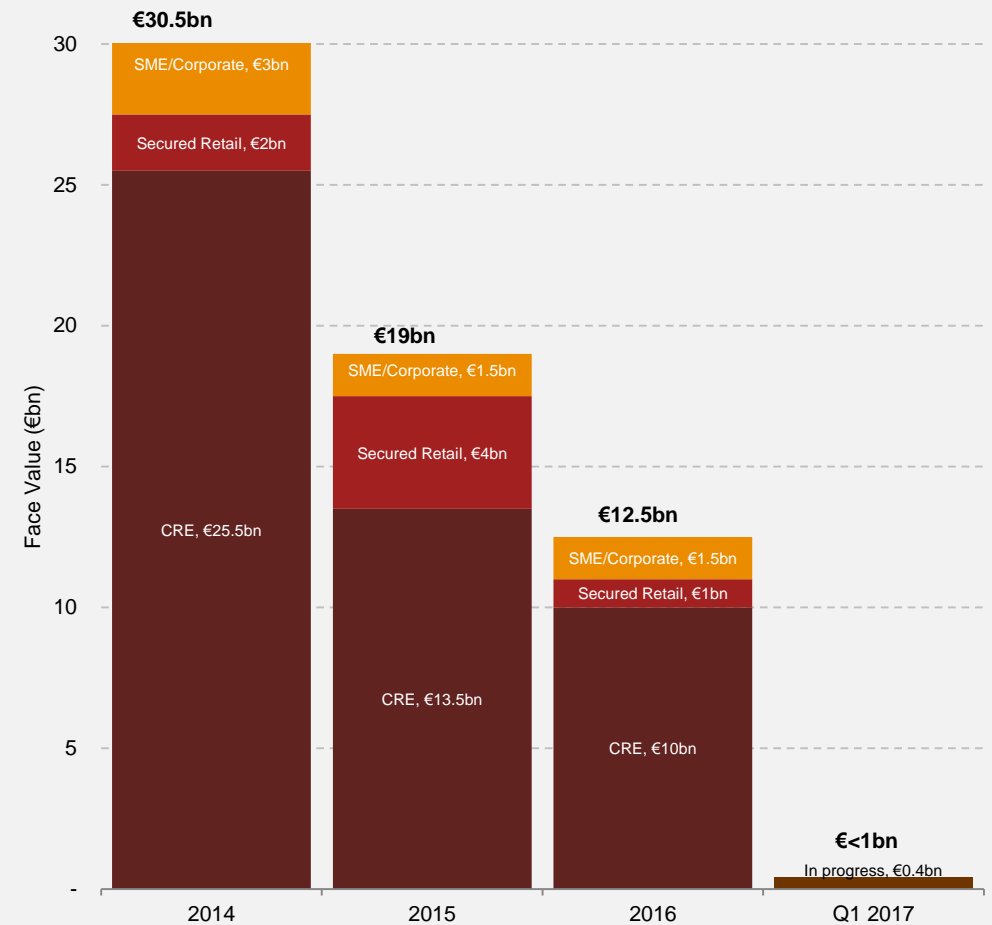
Spain



Source: PwC analysis

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

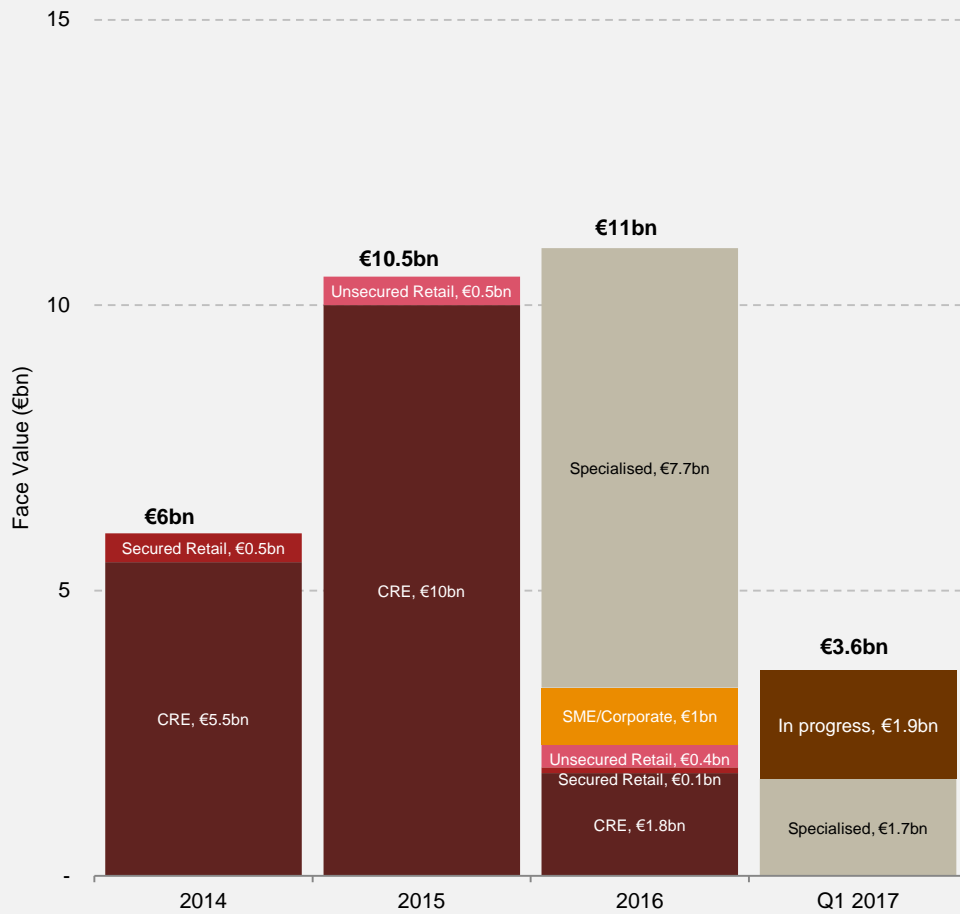
Ireland



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

2017 deals in key markets

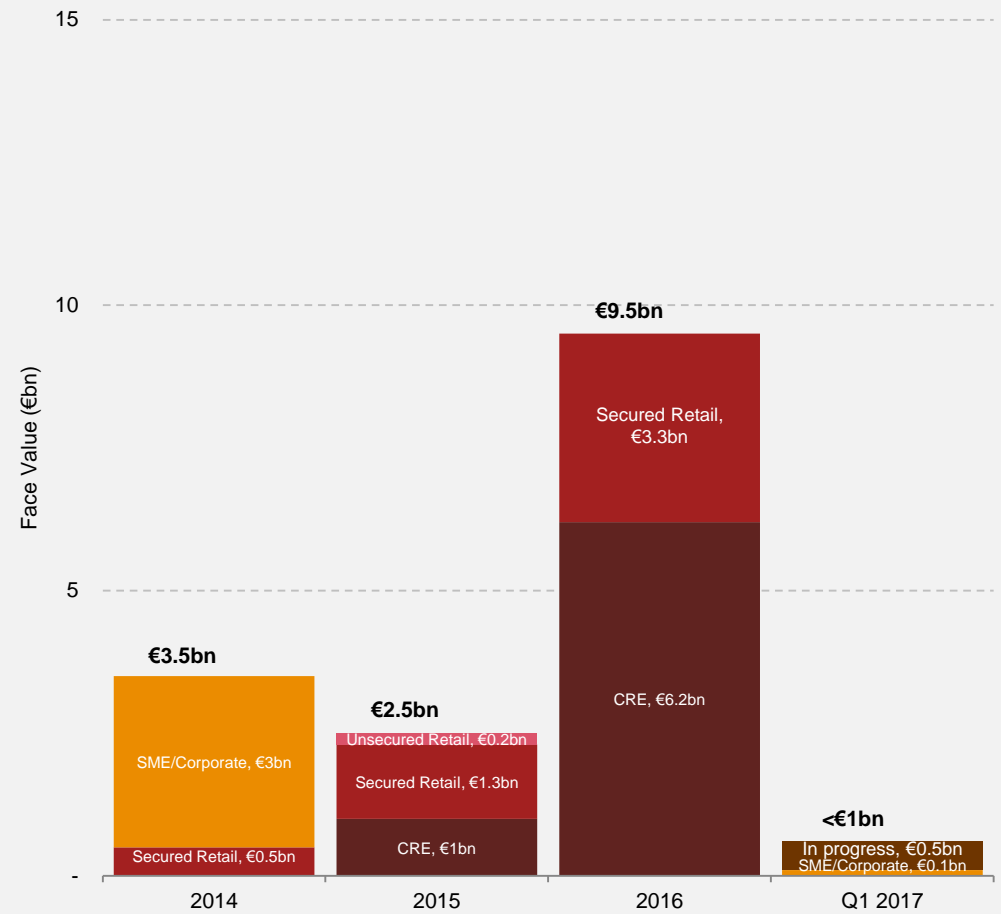
Germany



Source: PwC analysis

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

Netherlands



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

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