

Portfolio Advisory Group

Market update (9 months 2014)

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European NPL outlook and transactions in key markets



Richard Thompson

Chairman,
European Portfolio
Advisory Group
PwC (UK)

Welcome to our Q3 2014 market update, in which we provide an overview of the activity levels in the European non core asset market so far in 2014 and likely forecasts for the remainder of the year.

The European market continues to display unprecedented levels of activity, making 2014 the most active year on record.

One of the key talking points over the last few months has been the European Central Bank (“ECB”) stress tests and Asset Quality Reviews. With the results finally in, there is further evidence that the lively transaction markets within Europe are set to continue well into next year.

The results show, as many have predicted, that a number of banks, out of more than 120 tested, will need to take some remedial action.

Whilst 25 banks have been judged to be short of capital as at the 31 December 2013 testing date, 12 of these are technical failures as they have since raised new capital. For the remaining 13 there is now a requirement to prepare a

remediation plan to address their capital shortfall. Along with many commentators I predicted that Italian banks were likely to be under the spotlight and 4 of these 13 are Italian.

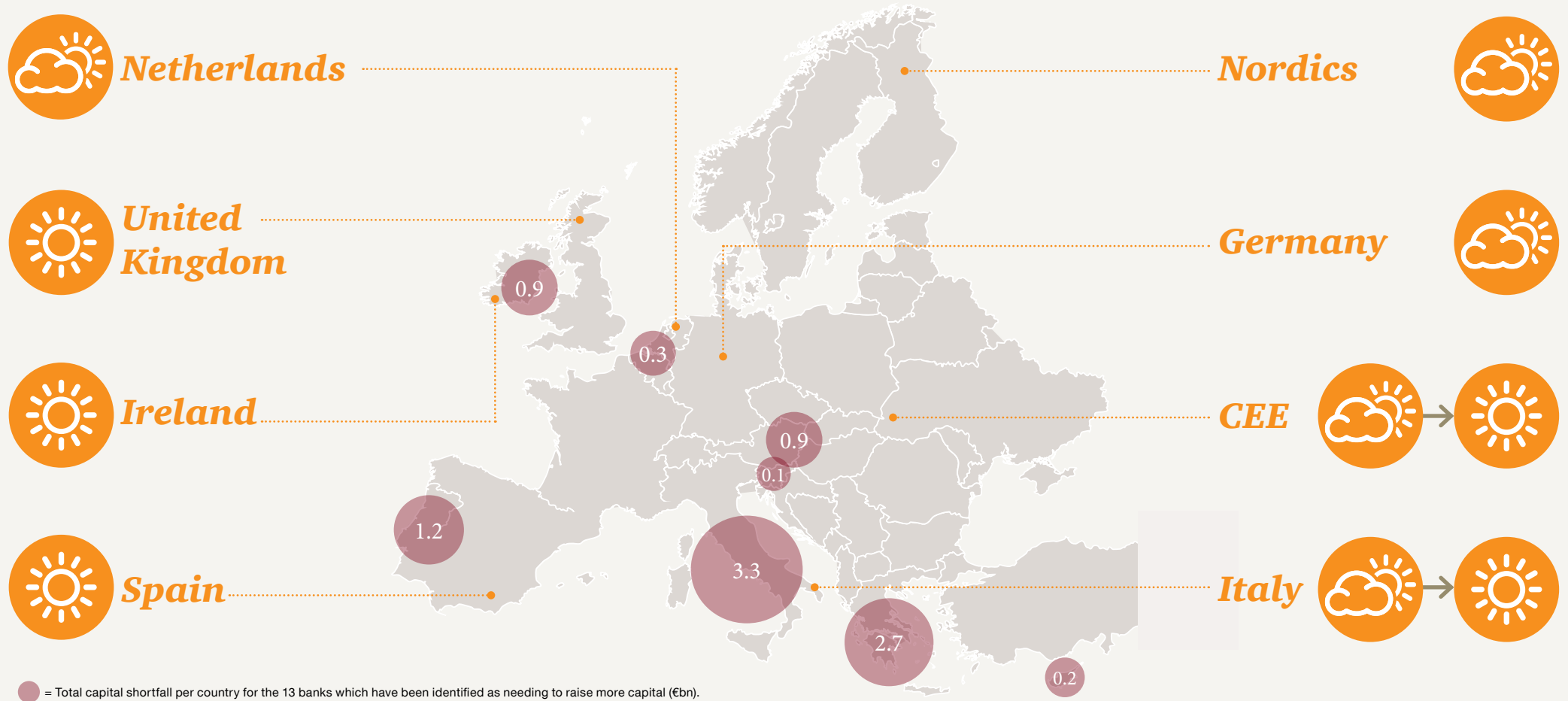
Although much of the speculation leading up to the publication of the results has focused on how many and which banks will fail, I believe such speculation misses a broader point. For the first time, we now have more than 10,000 data points on a consistent basis concerning bank balance sheets. This will provide the market and investors with a rich data set to compare and contrast the state of the Eurozone’s banks.

Whilst the act of failure provides an immediate need for clean-up and new capital for a few banks, I think, in the end, it will be the market that provides the impetus for continued (much needed) restructuring of the banking sector. In a world with long term changes in trade flows, increasing costs of regulation and increased operational risks, too many banks continue to hold assets which are likely to remain poorly performing for at least the medium term, or do not fit with a viable longer term business model.

The disposal of non-core lending by banks has reached new highs in 2014, as illustrated in the following pages, with the face value of loan portfolios transacted likely to exceed €100bn this year. Whilst the immediate impact of the ECB review might not lead to a sudden spike in transaction volumes, as market pressures come to bear, transaction volumes will remain high for the foreseeable future.

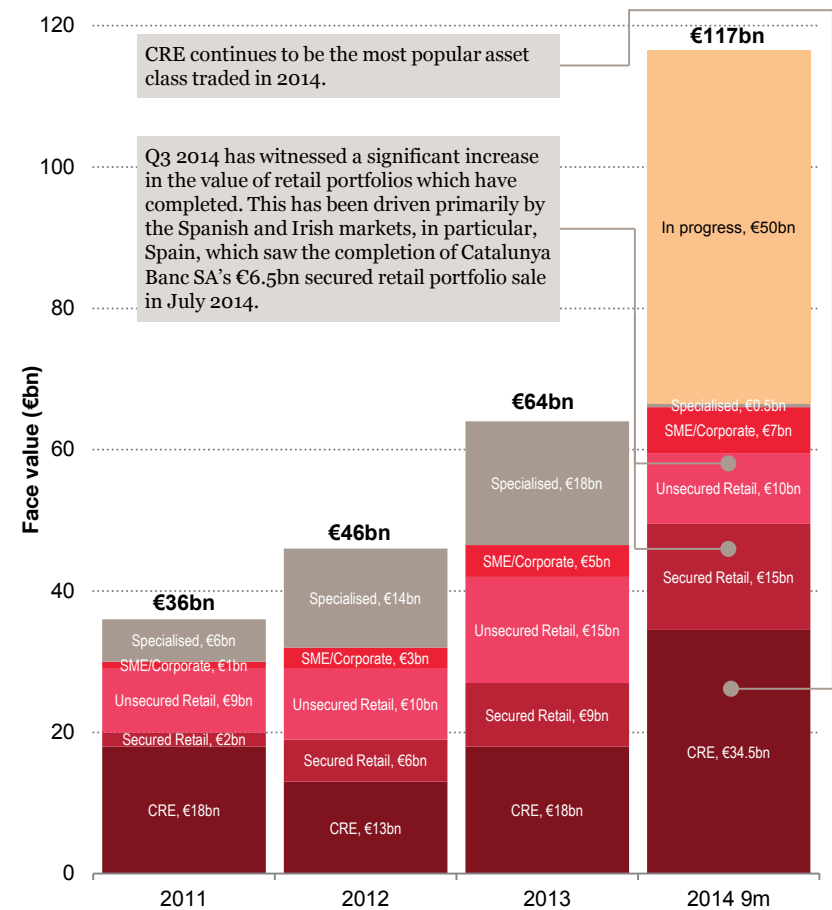
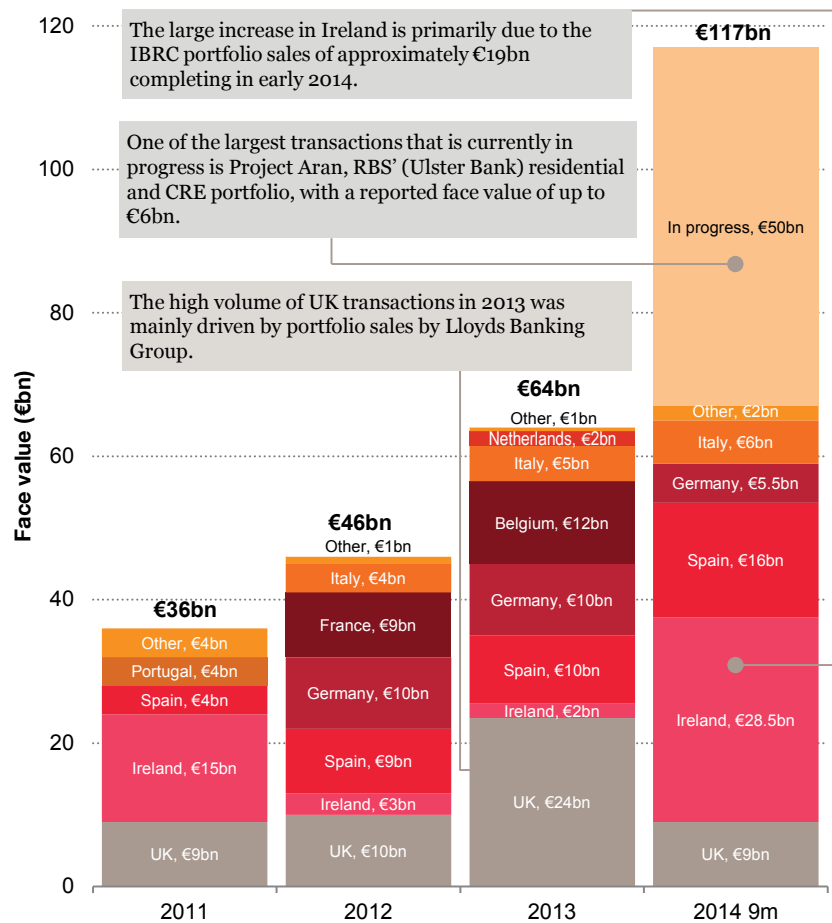
In terms of what we are seeing in the market right now, while a lot of the transactional activity to date has been non-performing portfolios, we are seeing an increasing number of transactions involving performing portfolios. With new sources of lower-cost money entering the market, there’s an appetite for such portfolios, as well as a developing focus from some investors on building large scale financial services businesses. CRE transactions continue to be the most traded portfolio type, however Q3 has witnessed significant activity in the trade of retail portfolios, a trend which we think will continue for the remainder of 2014 and into 2015.

Transaction climate 2014/15 and ECB stress test capital shortfalls



€67bn of loan portfolios have traded in the first nine months of 2014

We expect the total volume traded in 2014 will surpass €100bn

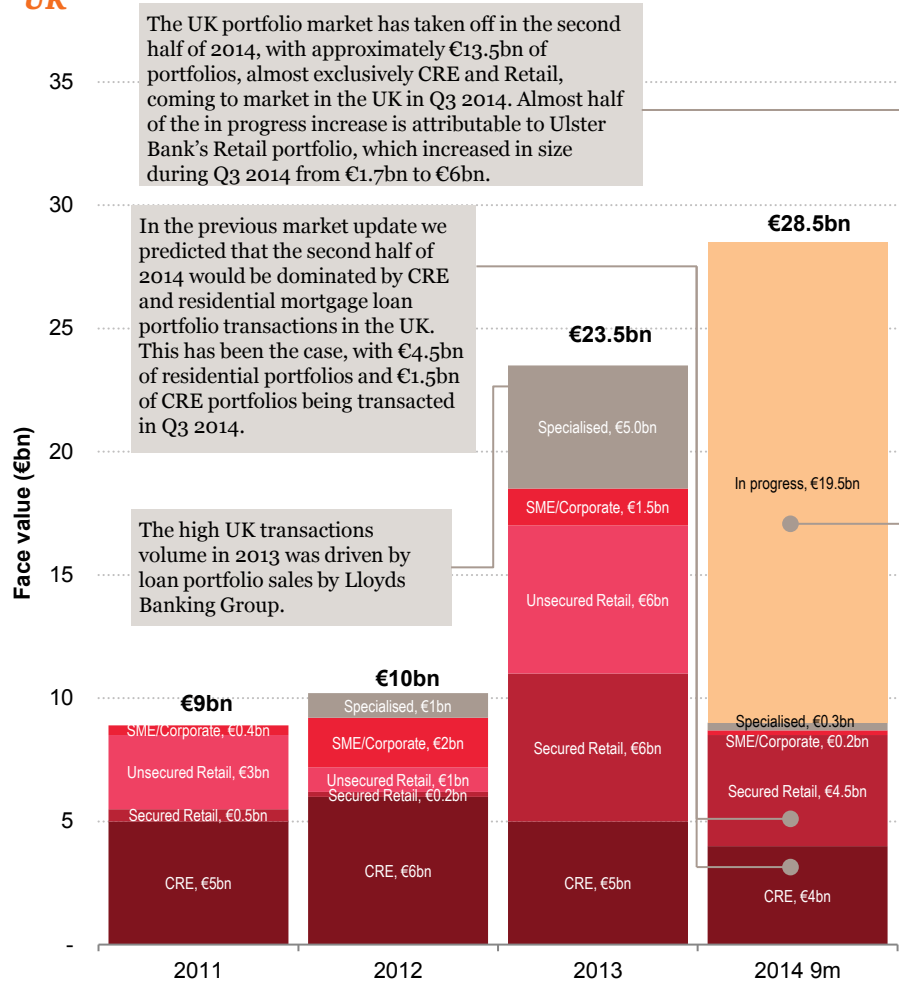


Source: Publicly available information, PwC information, analysis and estimates
 Note: Based on the location of the head office of the banking selling the assets

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

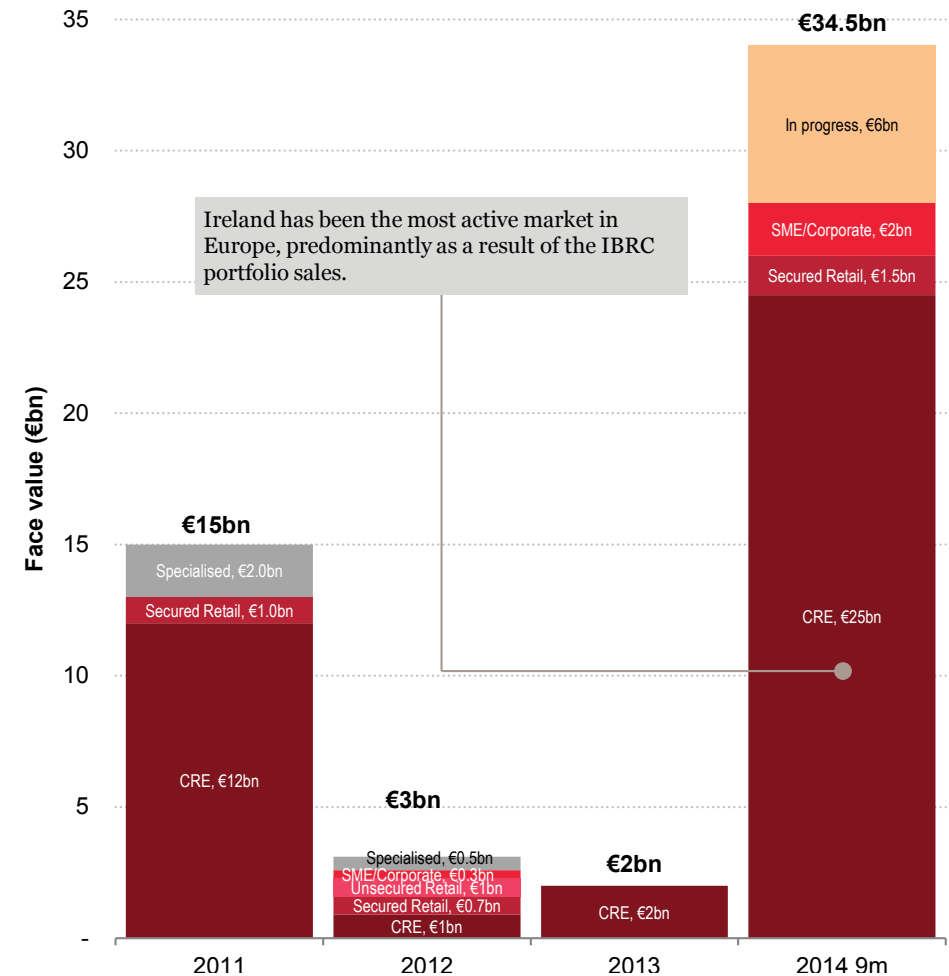
2014 deals in key markets

UK



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

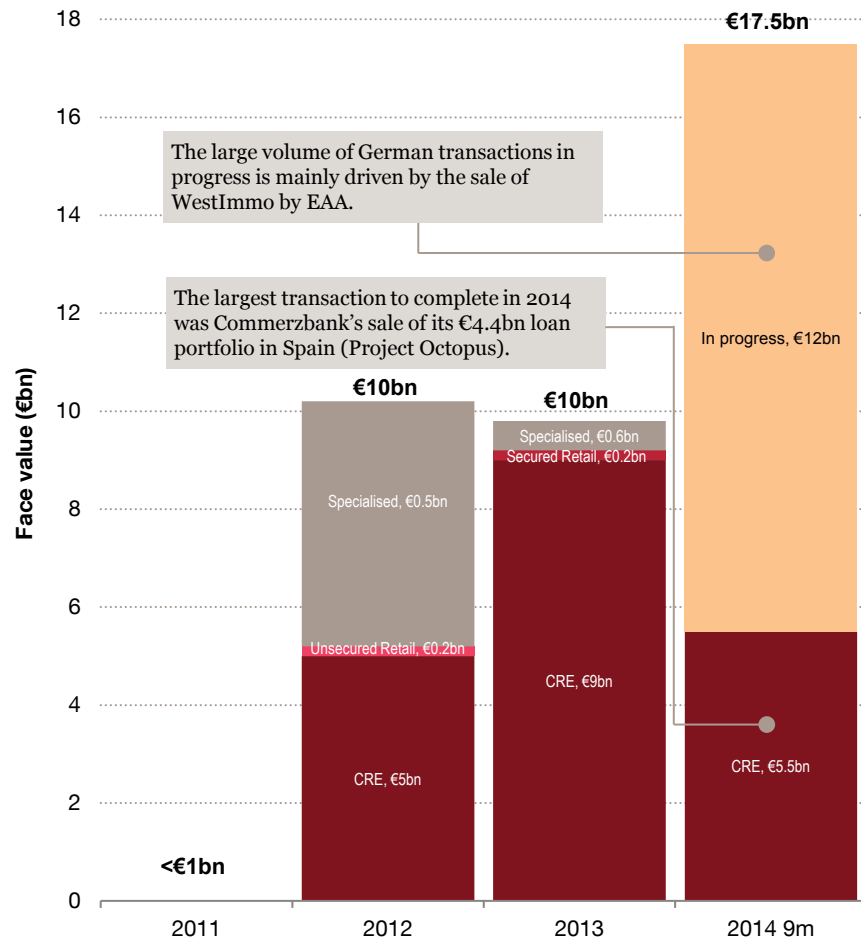
Ireland



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

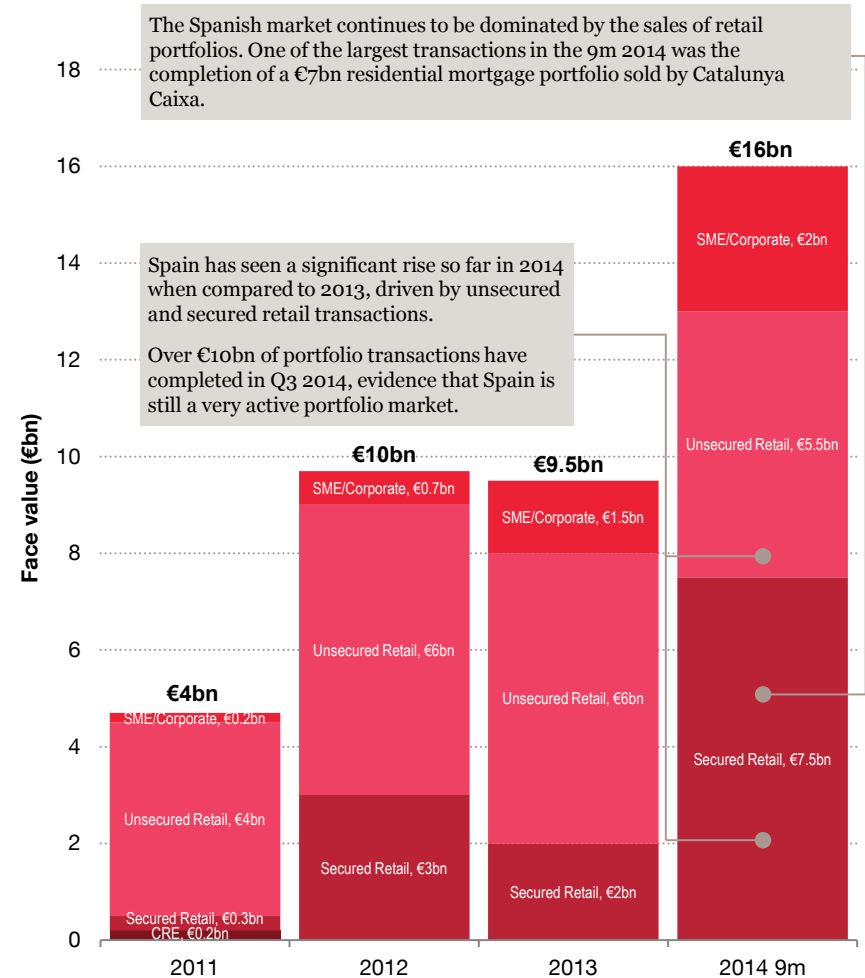
2014 deals in key markets

Germany



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

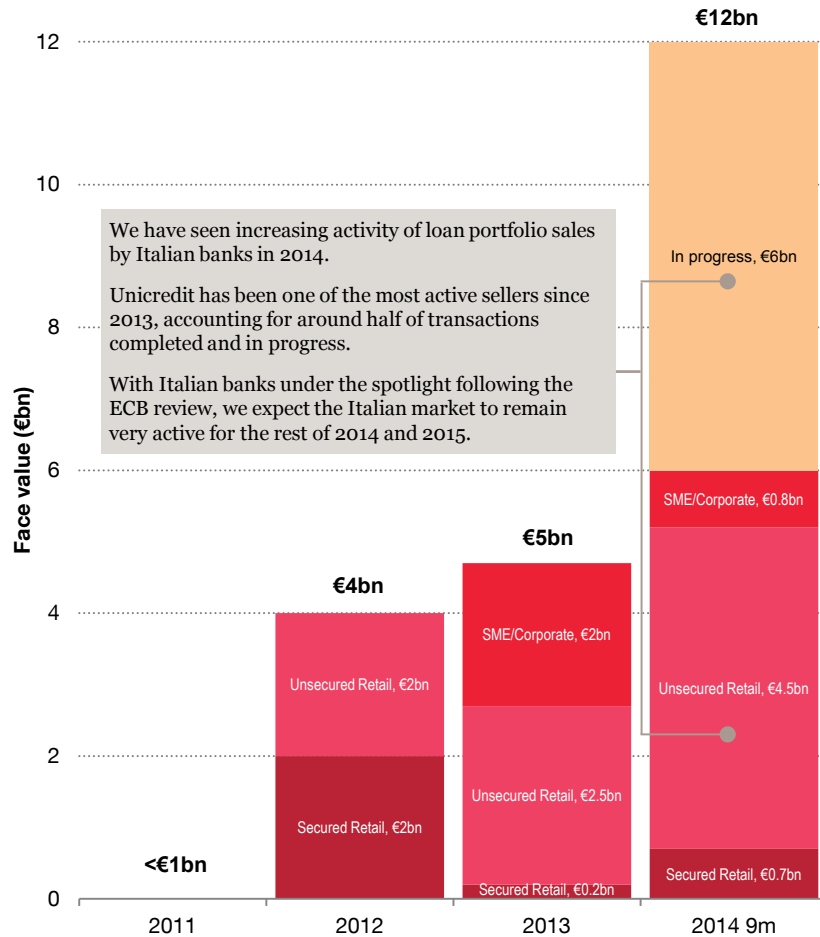
Spain



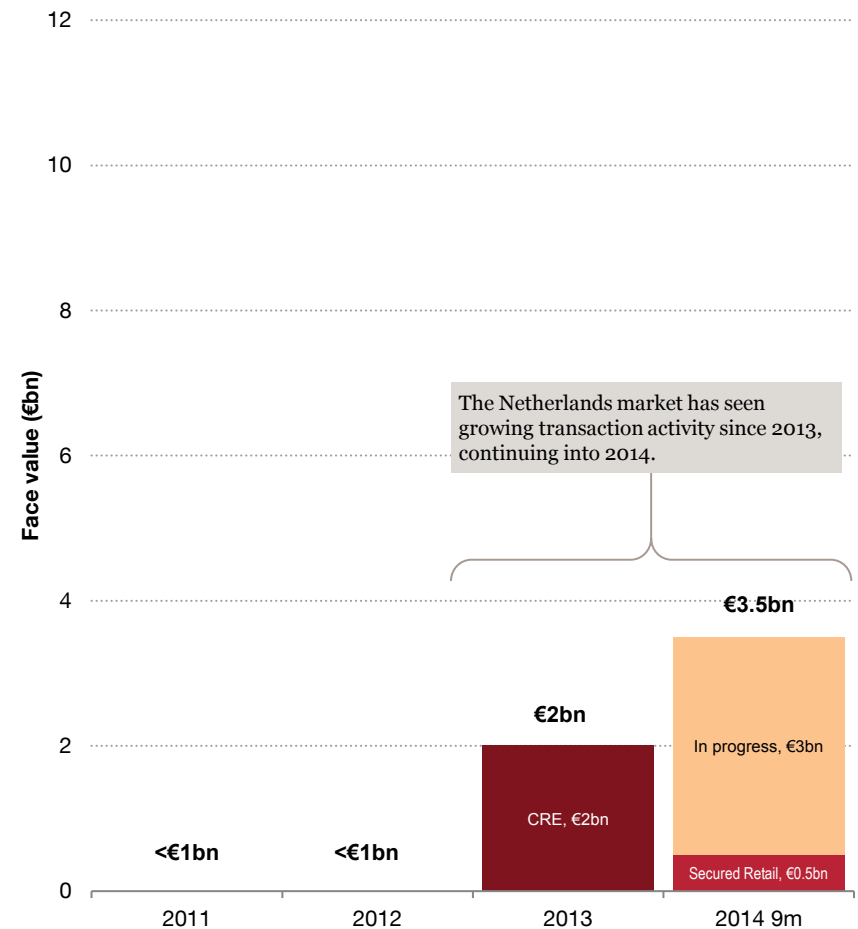
Note: "Specialised" includes certain structured and asset backed products, shipping, infrastructure, energy and aviation

2014 deals in key markets

Italy



Netherlands



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

Richard Thompson
+44 (0) 20 7213 1185
richard.c.thompson@uk.pwc.com

Jaime Bergaz
+34 915 684 589
jaime.bergaz@es.pwc.com

Austria

Jens Roennberg
+49 69 9585 2226
jens.roennberg@de.pwc.com

Bernhard Engel
+43 150 188 1160
bernhard.engel@at.pwc.com

CEE

Jonathan Wheatley
+40 212 253 645
jonathan.wheatley@ro.pwc.com

Czech Republic and Slovakia

Petr Smutny
+420 251 151 215
petr.smutny@cz.pwc.com

Denmark

Bent Jørgensen
+45 3945 9259
bent.jorgensen@dk.pwc.com

France

Hervé Demoy
+33 156 577 099
herve.demoy@fr.pwc.com

Finland

Harri Valkonen
+35 840 539 9339
harri.valkonen@fi.pwc.com

Germany

Christopher Sur
+49 699 585 2651
christopher.sur@de.pwc.com

Thomas Veith
+49 699 585 5905
thomas.veith@de.pwc.com

Greece

Emil Yiannopoulos
+30 210 687 4640
emil.yiannopoulos@gr.pwc.com

Hungary

Miklos Fekete
+36 1461 9242
miklos.fekete@hu.pwc.com

Ireland

Aidan Walsh
+353 1792 6255
aidan.walsh@ie.pwc.com

Italy

Antonella Pagano
+39 8064 6337
antonella.pagano@it.pwc.com

The Netherlands

Joris van de Kerkhof
+31 88 792 7622
joris.van.de.kerkhof@nl.pwc.com

Lizelle du Plessis
+31 88 792 5573
lizelle.du.plessis@nl.pwc.com

Norway

Lars Johansson
+47 (0) 4816 1792
lars.x.johansson@no.pwc.com

Poland

Lukasz Bystrzynski
+48 22 523 4228
lukasz.bystrzynski@pl.pwc.com

Portugal

Antonio Rodrigues
+35 12 1359 9181
antonio.rodrigues@pt.pwc.com

Romania

Cornelia Bumbacea
+40 212 253 960
cornelia.bumbacea@ro.pwc.com

Spain

Jaime Bergaz
+34 9156 84589
jaime.bergaz@es.pwc.com

Guillermo Barquin
+34 915 685 773
guillermo.barquin.orbea@es.pwc.com

Pablo Martinez-Pina
+34 9156 84370
pablo.martinez-pina@es.pwc.com

Juan Velayos Lluís
+34 932 532 540
juan.velayos.lluis@es.pwc.com

Richard Garey
+34 915 684 156
richard.garey@es.pwc.com

Antonia Fernandez
+34 915 684 052
antonia.fernandez.garcia_fraile@es.pwc.com

Sweden

Per Storbacka
+46 8555 33132
per.storbacka@se.pwc.com

Turkey

Aykut Tasel
+90 212 355 5838
aykut.tasel@tr.pwc.com

Ukraine

Vladimir Demushkin
+380 444 906 776
vladimir.demushkin@ua.pwc.com

United Kingdom

Richard Thompson
+44 20 7213 1185
richard.c.thompson@uk.pwc.com

Robert Boulding
+44 (0) 20 7804 5236
robert.boulding@uk.pwc.com

Chris Mutch
+44 (0) 20 7804 7876
chris.mutch@uk.pwc.com

Ben May
+44 (0) 20 7212 3664
benjamin.d.may@uk.pwc.com

Chiara Lombardi
+44 (0) 20 7213 8367
chiara.lombardi@uk.pwc.com

North America

Mitchell Roschelle
+1 646 471 8070
mitchell.m.roschelle@us.pwc.com

Jeff Nasser
+1 267 330 1382
jeffrey.nasser@us.pwc.com

Asia Pacific

Ted Osborn
+852 2289 2299
t.osborn@hk.pwc.com

Latin America

Nico Malagamba
nicolas.malagamba@br.pwc.com

Middle East

Duncan Sawyer
+971 430 43454
duncan.sawyer@ae.pwc.com

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