

VIEWPOINT UNITED KINGDOM, APRIL 2018

European NPL Market 2018 Update

CBRE

INTRODUCTION

In this year's debt report, we identify the recent trends of Europe's loan sale market across various jurisdictions. We also review the principal features affecting the European loan sale market through an analysis of 2017 loan sale activity and provide our comments on the outlook for 2018 across Europe's key jurisdictions.

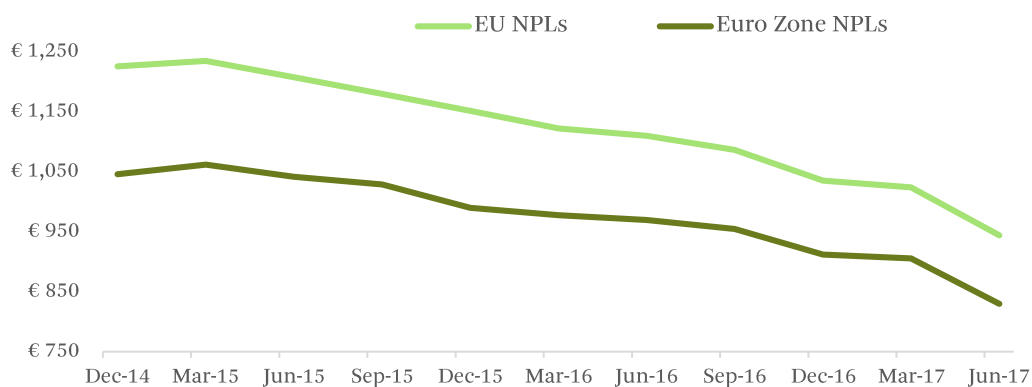
KEY HIGHLIGHTS:

- €114 billion of real estate backed loan sales recorded during 2017, the highest year on record for Europe. CRE loan sales make up 54% of total sales.
- European Banks are estimated to hold c. €1 trillion of Non-Performing Loans (NPLs) across all asset classes including real estate backed, unsecured & corporate loans. Banks remaining under pressure to resolve these exposures and loan sales are expected to continue playing a large part in this process.
- While loan sale volume increased, the number of transactions was in line with the previous 12 months. This increase in total value was driven by 5 large sales totalling €75 billion.
- In 2018 we expect loan sale activity to remain heavily concentrated in the Southern European countries led by Italy, Spain and Portugal.

LOAN SALE ACTIVITY: 2017 MARKET REVIEW AND BEYOND

While European banks are moving on from the legacy issues of the global financial crisis, Non-Performing Loans (NPL) continue to be a significant challenge creating NPL holding costs and opportunity cost of better capital allocation issues. Progress has been made by European banks to deleverage and reduce their NPL stocks however there is still significant progress to be done.

FIGURE 1: TOTAL AMOUNT OF NPLS OUTSTANDING IN EU (€, trillions)

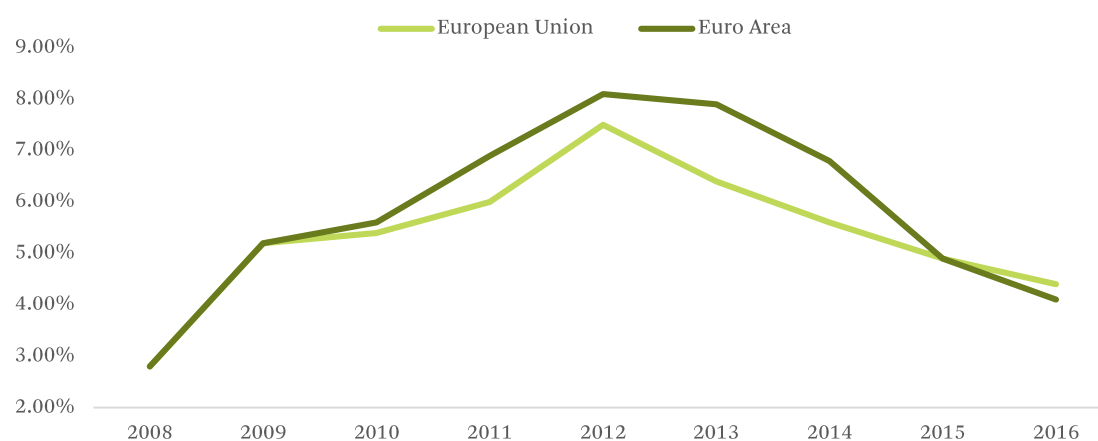


Source: Bloomberg

The ECB estimates that there are up to €1 trillion of NPLs outstanding across all loan types (secured, unsecured & corporate) held by European banks which account for c.4% of all loans in Europe.

Banks can be sometimes unprepared to manage NPLs effectively due to the sheer volume of loans outstanding, the lack of expertise of their staff to resolve NPLs and in some cases restrictions within individual jurisdictions in terms of the insolvency regime which can delay the ability of a lender to take enforcement action and recover the debt. Loan sales continue to offer a meaningful resolution for lenders to realise capital and resolve their historic NPL stocks.

FIGURE 2: RATIO OF EUROPEAN NON PERFORMING LOANS TO TOTAL LOANS

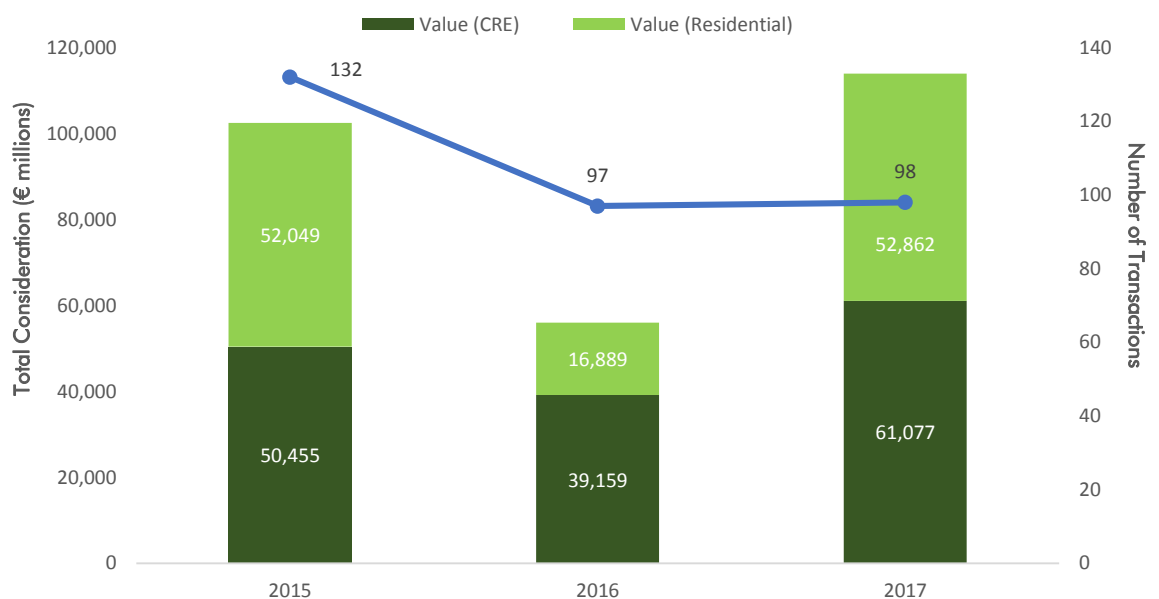


Source: The World Bank: World Development Indicators 2018

2017 saw a return to growth in the loan sales market after a decline in 2016. CBRE recorded a total of approximately €114 billion of commercial real estate (CRE) and residential loan sale transactions during 2017 across 98 transactions. 2017 has set the record for the year with the most recorded loan sales to date.

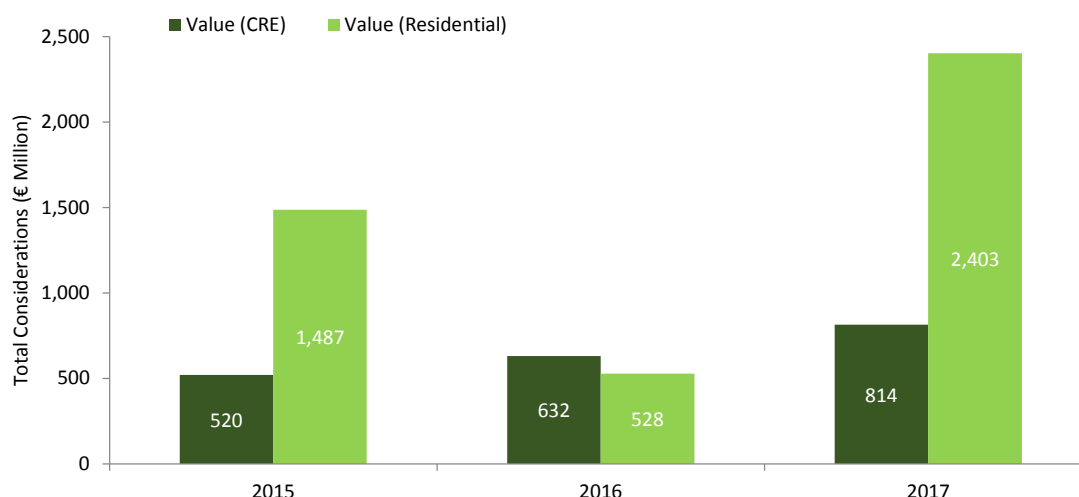
Another key feature of 2017 was the small number of relatively large transactions recorded. The top 5 transactions ranked by Unpaid Principle Balance (UPB) all related to portfolios in excess of €4 billion and accounted for €75 billion or 66% of all transactions which took place.

FIGURE 3: TRANSACTIONS CLOSED



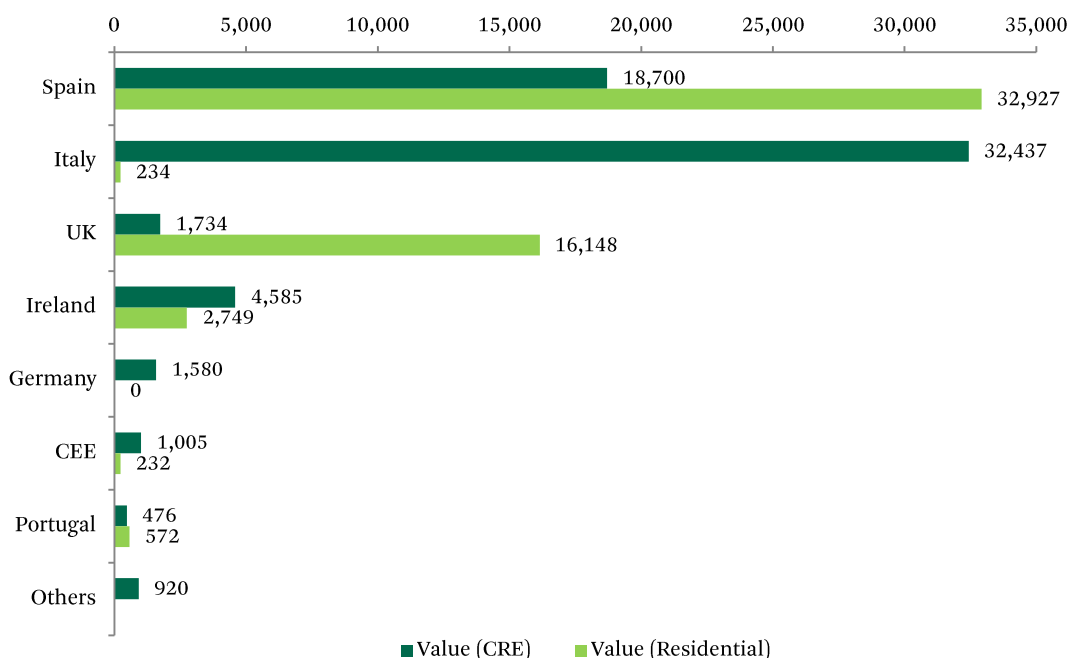
Source: CBRE Capital Advisors 2018

Given the size of the European NPL problem, a combination of regulatory pressure facing the banks to reduce NPL stock and continued investor demand is likely going to lead to loan sale and securitisation activity for a number of years into the future. 2017 saw a somewhat slow start to the rate of transactions' closed with most closures skewed towards the latter part of the year; 63% of sales closed during the H2 and 39% of all transactions closed during the final quarter. A larger portion of portfolios sales secured by residential assets was evident in 2017, making up 46% of all sales compared to 30% the previous year. CRE sales made up the remainder.

FIGURE 4: AVERAGE TRANSACTION SIZE BY UNPAID PRINCIPAL BALANCE


Source: CBRE Capital Advisors, 2018

2017 also witnessed the average size of a loan portfolio sale increase to c. €1.17 billion (CRE: €814m / Resi: €2.40 billion), although when the top 5 large transactions in excess of €4 billion each are removed, the average portfolio size reduces to c. €421 million (CRE: €429m, Resi: £393m) spread between 93 transactions showing the investors' preference for smaller transactions. CBRE recorded 69 such transactions with an unpaid principle balance below €500 million totalling €16 billion.

FIGURE 5: TRANSACTION CLOSED BY JURISDICTION, 2017


Source: CBRE Capital Advisors, 2018

In 2017, we observed the investor focus moving away from the traditional loan sale markets such as UK and the Netherlands which are further down the deleveraging process and towards other less mature markets such as Italy, Portugal and Greece which still have a significant stock of NPL loans to resolve.

Spain tops the table for the level of transactions closed on a UPB basis with €52 billion of sales although it should be noted that two transactions make up €43 billion of this figure.

Italy was the most active market by volume with 33 transactions recorded in total making up €32 billion. The vast majority of these transactions follow the securitisation route, however we estimate that some plain vanilla loan sales do still play a part in Italy with 25 transactions recorded, although the average size was €419m.

BUYER DEMAND

US private equity funds continue to be the biggest purchasers of loan portfolios with involvement in 79% of all trades. The top 5 transactions which we highlighted previously were all purchased by opportunistic funds and make up 66% or €75 billion of total sales recorded in 2017 (€114 billion). Banks (including nationalised bad banks) continue to be the main sellers of loan portfolios.

Top 10 Market Participants in 2017

Top Buyers	Transactions Closed (€ '000)	Top Sellers	Transactions Closed (€ '000)
Blackstone	46,195	Santander	30,000
Fund Atlante	19,680	Banca Monte dei Paschi di Siena (BMPS)	16,000
Cerberus Capital Management	19,631	UK Asset Resolution Limited	15,000
Bain Capital	3,744	BBVA	14,200
PIMCO/Goldman Sachs	1,744	NAMA	4,275
Waterfall Asset Management	1,457	UniCredit	2,225
Credito Fondiario (Fonspa)	1,200	Caricesana	2,135
Algebris Investments	1,073	Intesa Sanpaolo	2,001
Seer Capital Management	900	Banca Carige	1,950
Davidson Kempner	805	Danske Bank	1,744

Source: CBRE Capital Advisors, 2018

As in recent years the investor demand for NPL portfolios remains high with the vast majority of loan sales consisting of NPLs, however there does remain a market for performing loans or NPL portfolios which contain an element of performing loans. We have also recorded this year some traditional lenders purchasing performing loan books from private equities such as the sale of a residential performing loan book from Cerberus to Metro Bank.

Top CRE Market Participants in 2017

Top Buyers	Transactions Closed (€ '000)	Top Sellers	Transactions Closed (€ '000)
Fund Atlante	19,680	Banca Monte dei Paschi di Siena (BMPS)	16,000
Cerberus Capital Management	18,863	BBVA	13,300
Bain Capital	2,642	NAMA	4,230
Waterfall Asset Management	1,457	Caricesana	2,135
Credito Fondiario (Fonspa)	1,200	Intesa Sanpaolo	2,001
Algebris Investments	1,073	UniCredit	1,993
Seer Capital Management	900	Banca Carige	1,950
Davidson Kempner	805	Creval	1,579
D.E.Shaw	803	CaixaBank	1,473
Canada Pension Plan	794	Banco Sabadell	994

Source: CBRE Capital Advisors, 2018

In addition to loan sales there has been a number of acquisitions of lending platforms, loan servicers or debt collection agencies in specific jurisdictions notably Spain and Italy to enable investors the ability to service the loan portfolios. This demonstrates to us that the investors shall be engaged in further loan sales in these countries as they build up their infrastructure and capability to work out the loan portfolios post sale.

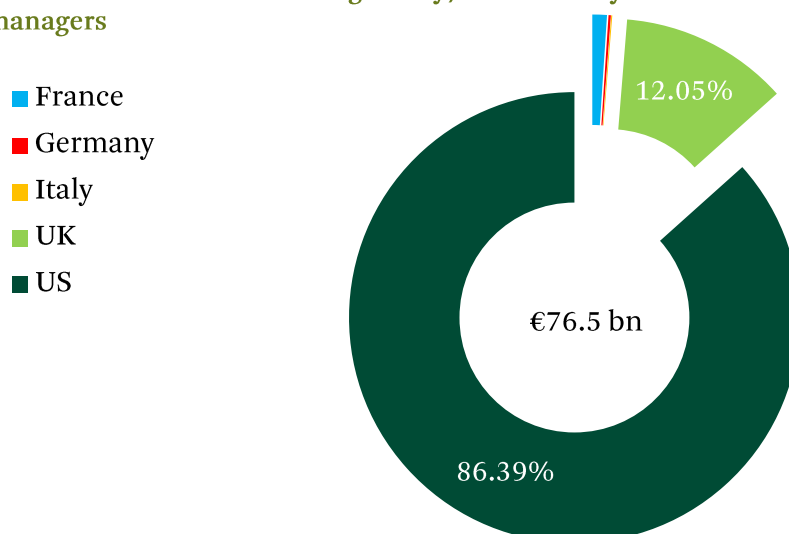
Top Residential Market Participants in 2017

Top Buyers	Transactions Closed (€ '000)	Top Sellers	Transactions Closed (€ '000)
Blackstone	45,700	Santander	30,000
PIMCO/Goldman Sachs	1,744	UK Asset Resolution Limited	15,000
Bain Capital	1,102	Danske Bank	1,744
Goldman Sachs	800	BBVA	900
Cerberus Capital Management	768	Cerberus Capital Management	716
Metro Bank	716	Liberbank	602
Deutsche Bank	375	SAREB	525
Alter Domus	264	Ibercaja Banco	500
Fortress Investment Group	234	Banco Popular	400
Chenavari	160	Allied Irish Bank	400

Source: CBRE Capital Advisors, 2018

CBRE are currently tracking that investors with a focus on European loan sales have an estimated €76.5 billion of dry powder available to invest. This is predominantly held by the US funds (86%) with the UK (12%) and other European countries making on the remaining amount. We estimate that the total dry powder available to investors has increased from the €67 billion we recorded in 2017. This indicates to us that the limited partners of the investors are attracted by the strong returns produced and will continue to invest in these funds.

FIGURE 6: CURRENT DRY POWDER BY FUND MANAGER DOMICILE
 €77 billion to invest in loans globally, most held by US based investment managers



Source: CBRE Capital Advisors, 2018

OUTLOOK FOR 2018

The outlook for 2018 varies depending on countries and jurisdictions. Some countries such as The Netherlands are at the end of their deleveraging process and we do not anticipate significant large transactions in 2018, a notable exception being Ireland which is still active and is expected to bring sales in excess of €11 billion this year, after analysts previously predicted a decline in volumes.

Other countries such as Italy and Spain have gained momentum and will continue to be the main drivers in the market for 2018 but given the total number of NPLs outstanding, these countries still have a long way to go in terms of resolving the issue.

As at the time of writing this report, CBRE are tracking c. 20 live transactions totalling €25 billion that are expected to complete in H1 2018, these sales are, as expected, predominately based in the Southern European countries: Italy, Portugal, Spain and Greece.

Given the notable large transactions recorded during 2017, we expect to see a similar trend for a number of large sales in 2018. We expect that if such sales do take place, the countries will likely be Spain, Italy, Ireland and Portugal.

Italy

Volume Outlook - Positive

Transactions Closed (€ Million)

Year	2015	2016	2017
CRE	4,637	11,963	32,437
Residential	628	575	234
Total	5,265	12,538	32,671

2017 Top Buyers

Purchaser Name	Nominal Value (€ '000)
Fund Atlante	19,680
Waterfall Asset Management LLC	1,400
Bain Capital	1,285

2017 Top Sellers

Vendor Name	Nominal Value (€ '000)
Banca Monte dei Paschi di Siena (BMPS)	16,000
Caricesana	2,135
Intesa Sanpaolo	2,001

2017 Review

- Previous obstacles to investment were removed in 2015 allowing the market to finally open up and become attractive for buyers mainly via securitisation.
- This led to the significant increase in deleveraging with double the volume in 2017 compared to 2016.
- Compared to other jurisdictions there continues to be a preference for securitisation rather than loan sales in order to take advantage of the GACS scheme; €22 billion of sales related to securitisation rather than direct loan sales.

2018 Outlook

- We expect the trend to continue for 2018 and beyond. Italian banks have in excess of €200 billion of NPLs on their balance sheets, the highest in Europe and the previous 12 months have shown that the Italian market is open for business.
- CBRE are currently tracking €7 billion of NPL sales in Italy.
- Securitisation will continue to play a key role although we do expect a small number of traditional vanilla loan sales as seen in 2017 although the prolonged enforcement timeframe in Italy can continue to defer some parties' interest.

UK

Volume Outlook - Negative

Transactions Closed (€ Million)

Year	2015	2016	2017
CRE	9,253	1,669	1,734
Residential	42,199	2,803	16,148
Total	51,452	4,472	17,882

2017 Top Buyers

Purchaser Name	Nominal Value (€ '000)
Blackstone	15,000
Metro Bank	716
Aprirose	630

2017 Top Sellers

Vendor Name	Nominal Value (€ '000)
UK Asset Resolution Limited	15,000
Cerberus Capital Management	716
Blackstone	552

2017 Review

- Major portfolio sale of the Bradford & Brigley to Blackstone makes up €15 billion of the notes transactions and inflates the data, removing this outlier shows sales of just under €2.9 billion.
- The UK market was an early leader in the deleveraging cycle and now has a limited volume of NPLs. Notably some of the trades in 2017 included performing loan books.

2018 Outlook

- We see a continuation of the sale of some performing trades during 2018. Any non performing sales shall likely be settled on a “loan by loan” basis or via smaller specific portfolios.

Spain

Volume Outlook - Positive

Transactions Closed (€ Million)

Year	2015	2016	2017
CRE	6,459	5,829	18,700
Residential	3,952	3,670	32,927
Total	10,411	9,499	51,627

2017 Top Buyers

Purchaser Name	Nominal Value (€ '000)
Blackstone	31,195
Cerberus Capital Management	13,858
Bain Capital	1,983

2017 Top Sellers

Vendor Name	Nominal Value (€ '000)
Santander	30,000
BBVA	14,200
CaixaBank	1,473

2017 Review

- Highest performer of NPL sales in Europe during 2017 in terms of transactions closed. This was driven by two large transactions valued at €43m. However, there continues to be strong investor demand for smaller portfolio sales with 21 transactions completed with a UPB of less than €500m.
- Investors appear committed to the Spanish market as we have noted investments made by bidders directly into loan service providers to build up their capacity and capability to deal with the portfolios effectively.

2018 Outlook

- No shortage of NPL stock from financial institutions including from the national “bad bank” Sareb.
- We are currently tracking £11 billion of live transactions which we expect to complete during 2018.
- Concern that some of the uncertainty remains surrounding the issue of Catalanian independence, which has led to hesitation from investors when considering portfolios heavily exposed to the region.

Ireland

Volume Outlook - Positive

Transaction Closed (€ Millions)

Year	2015	2016	2017
CRE	18,152	9,805	4,585
Residential	3,397	2,973	2,749
Total	21,549	12,778	7,334

2017 Top Buyers

Purchaser Name	Nominal Value (€ '000)
Cerberus Capital Management	4,300
PIMCO	1,744
Goldman Sachs	800

2017 Top Sellers

Vendor Name	Nominal Value (€ '000)
NAMA	4,275
Danske Bank	1,744
Allied Irish Bank	700

2017 Review

- 2017 displayed some reduced activity compared to 2016 as the main Irish banks held off implementing sales strategies.

2018 Outlook

- After the pause in sale activity in 2017, Irish banks are now back on track with their loan sales programmes. At the time of writing there are c. €11 billion worth of NPL portfolios expected in 2018 from AIB, PTSB and Lloyds Bank's final residential Irish book.
- Further NAMA trades should also be expected which will make 2018 Ireland's busiest year in terms of loan sales since 2015.
- We also expect there to be a small number of "loan by loan" sales over the next 12 months.

Portugal

Volume Outlook - Positive

Transaction Closed (€ Millions)

Year	2015	2016	2017
CRE	140	400	476
Residential	0	550	572
Total	140	950	1,048

2017 Top Buyers

Purchaser Name	Nominal Value (€ '000)
Bain Capital	476

2017 Top Sellers

Vendor Name	Nominal Value (€ '000)
Caixa Geral De Depositos (CGD)	776
Banco Montepio	272

2017 Review

- Delays in the governments laying out its plans for the sector such as the creation of a “bad bank” caused uncertainty amongst investors.
- Efforts from the local authorities to make Portugal NPLs more attractive to investors such as reducing the typical enforcement period and the time required for a lender to take control of an asset appear to have made a positive impact with bidders.
- Limited transactions during 2017 with no single trade in excess of €500 million.

2018 Outlook

- The Central Bank of Portugal estimates that there are €40 billion of NPLs remaining in Portugal.
- 2018 is expected to show a significant increase in loan sales compared to the previous years. The Portuguese government has ruled out the creation of a “bad bank” to absorb the NPLs and it's expected that the banks will see loan sales as the most efficient way to deleverage.
- CBRE are currently tracking 5 NPL portfolios with a UPB of over €2 billion.
- Possibility that securitisation may be considered by some banks to dispose of NPLs.

The Netherlands

Volume Outlook - Negative

Transaction Closed (€ Millions)

Year	2015	2016	2017
CRE	1,408	6,745	740
Residential	693	4,628	0
Total	2,101	11,373	740

2017 Top Buyers

Purchaser Name	Nominal Value (€ '000)
Bank of America	
Merrill Lynch	540
Attestor Capital	200

2017 Top Sellers

Vendor Name	Nominal Value (€ '000)
HSH Nordbank	540
ABN AMRO	200

2017 Review

- Dutch banks are advanced in the process of deleveraging their NPL portfolios compared with other European countries and this has been marked by significant reduction in sales during 2017.

2018 Outlook

- While activity in 2017 dropped off compared to previous years we anticipate some increase in sales for 2018 notably from Rabobank.

CEE

Volume Outlook – Mixed

Transaction Closed (€ Millions)

Year	2015	2016	2017
CRE	2,504	1,717	1,005
Residential	240	1,690	232
Total	2,744	3,407	1,237

2017 Top Buyers

Purchaser Name	Nominal Value (€ '000)
B2 Holding ASA	336
AGC Equity Partners	329
Supernova-Group	163

2017 Top Sellers

Vendor Name	Nominal Value (€ '000)
Société Générale	329
UniCredit	325
Banca Transilvania	260

2017 Review

- Reduced activity during 2017 with Romania displaying the highest number of transactions in the region.

2018 Outlook

- Growth in sales activity in Greece is expected this year. CBRE are currently tracking €7 billion of active portfolios expected during H1 2018.
- Some sales portfolios are anticipated notably in Czech Republic and Romania however investor demand is more focused on southern Europe compare to this region.

CONTACTS

For more information regarding this report or to discuss loan sale opportunities with our Capital Advisors team across EMEA, please contact:

United Kingdom

Anurag Sharma
Head of Loan Advisory
Capital Advisors
+44 20 7182 2575
anurag.sharma2@cbre.com

Jack Dolan
Senior Analyst
Capital Advisors
+44 20 7182 2739
jack.dolan@cbre.com

Ireland

Andy Tallon
Senior Director
Debt & Structured Finance
+44 207 7182 2973
andy.tallon@cbre.com

Netherlands

Robert-Jan Peters
Executive Director
Debt & Structured Finance
+31 20 626 26 91
robert-jan.peters@cbre.com

Spain

Iñigo Laspiur Oteiza
Director
Corporate Finance
+34 639 237921
inigo.laspiur@cbre.com

Italy

Martina Muehlhofer
Head of Capital Advisors
Italy
+39 02303 7771
martina.muehlhofer@cbre.com

Portugal

Francisco Horta e Costa
Managing Director
CBRE Portugal
+351 91 999 96 34
francisco.hortaecosta@cbre.com

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