A new wave

Investing in the Irish loan portfolio transaction market

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Contents

Foreword

Welcome to our most recent review of the Irish loan portfolio transaction market.

During the height of the financial crisis, the Irish banking sector was one of the hardest hit in Europe. As part of the Irish Government's rescue measures, the National Asset Management Agency (NAMA) was established. NAMA purchased around €74b of primarily non-performing commercial real estate (CRE) loans at a discount to their book value. Since the crisis, the wind-down of NAMA and the subsequent portfolio sales have been the key driver of Ireland's loan portfolio transaction market.

We are now witnessing a new wave of portfolio sales. Irish banks are under increasing pressure to deleverage and meet the 5% non-performing exposures (NPE) target set by the ECB.[1] Much of the remaining non-performing loans (NPLs) in Irish banks are residential loans and are significantly aged, and are unlikely to be cured easily through business-as-usual measures. Combined with the scale and speed of the reduction required, this necessitates that loan sales will be a significant part of the solution. We therefore expect a material number of portfolios to come to market and, indeed, the first half of 2018 has evidenced this. However, it is also worth noting that not all of the activity in the Irish loan market is related to NPLs. Since the crisis, several international lenders have made the decision to either exit or curtail their involvement in the Irish market. This is now adding to the portfolio pipeline.

Through collateral prices, wage growth and exposure to businesses, the underlying quality of Irish loan portfolios is inherently linked with the country's economic prospects. Consequently, as Ireland's economy has returned to stable growth, loan portfolios have become increasingly attractive to investors. This good news is predicted to continue, with a strong consensus that the Irish economy will continue to grow. Forecasters expect annual GDP increases of 3%–4% through to 2021.[2] Of particular interest to many investors is the resurgent property market — national prices have increased steadily since the crash, up 34% since 2013.[3] Analysts predict rises of up to 10% in 2018 alone.[4]

The attractiveness of the Irish Loan sales market is supported by the capital markets appetite for re-performing NPLs, especially residential mortgages.

This is not to suggest that the Irish market does not face its own challenges — legal and regulatory hurdles do still exist. However, the Irish Government and Opposition have both consistently reaffirmed their commitment to a viable, privately owned banking sector that can support the Irish economy.

This document sets out the opportunities and challenges of investing in the Irish loan portfolio transaction market. In particular, we have provided an overview of the economic context, trade types as well as outlining the current market drivers and challenges. We have then considered assets for sale, buyers in the market and taken a specific look at the servicing landscape.

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[1] "ECB target 'impossible' without loans sale, PTSB says," *Irish Times website*, www.irishtimes.com, 22 March 2018.
[2] IMF — 2019: 3%, 2020: 2.9%, 2021: 2.8%.
[3] "House prices surge by 34% since 2013," *Irish Examiner website*, www.irishexaminer.com, 3 January 2017.
[4] "House prices forecast to rise by 10% in 2018," Irish Times website, www.irishtimes.com, 11 April 2018.

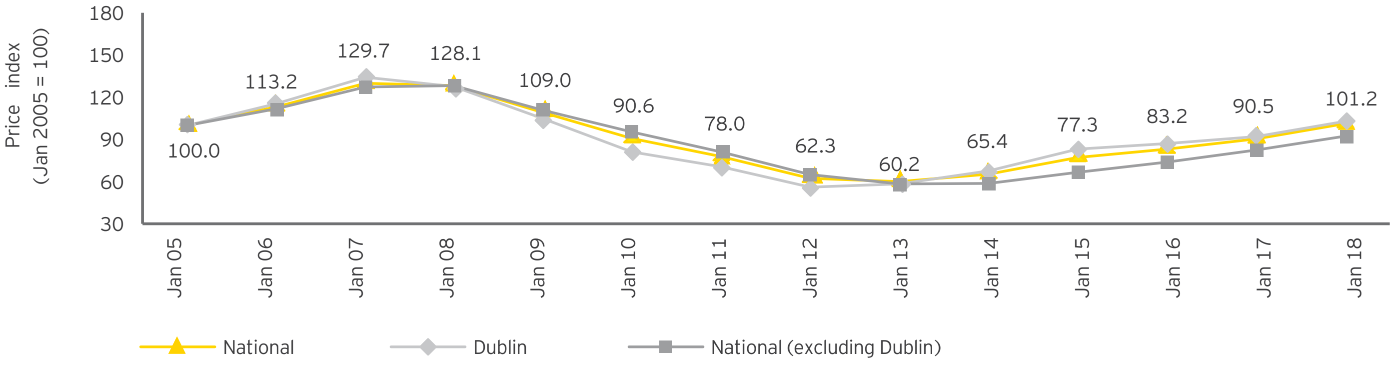
At a glance: the Irish loan portfolio transaction market

Mature loan sale environment with a clear pipeline

Economic backdrop

Ireland continues to see positive trends in macroeconomic, employment and property market indicators. According to EY's Summer 2018 forecasts, economic growth is estimated to be close to 4.9% in 2018.[5] The outlook for the Irish economy and loan portfolios remains broadly positive, with forecasters expecting annual GDP increases of 3%–4% through to 2021 and continuing declines in unemployment levels.[6] Of particular interest to many investors is the resurgent property market, with national residential property prices experiencing 10% year-on-year growth at present.[7]

Residential property price index[8]



Trade type

1. NPL sales

- NPL sales make up the vast majority of portfolio sales in the Irish market.
- They are driven by the wind-down of NAMA and attempts by the banks to reduce their NPL ratios.

2. Performing sales

- European lenders have continued to rationalize their business models.
- This has led to some exiting the Irish market in whole or part, adding to the portfolio sale pipeline.

3. Value exits (securitizations)

- We have observed the purchasers of European distressed secured loans securitizing their portfolios.
- As residential mortgage portfolios emerge in the Irish market, we expect to see an increase in securitizations.
- Residential mortgage-backed securities (RMBS) have been suggested as both a mechanism for resolving Ireland's split mortgage challenge and for recently restructured loans with a limited performance history.

[5] "*Independent website*," www.independent.ie, IMF upgrades Ireland's growth forecast for this year and 2018, 11 October 2017, updated 7 June 2018.
[6] IMF – 2019: 3%, 2020: 2.9%, 2021: 2.8%.
[7] "House prices forecast to rise by 10% in 2018," *Irish Times website*, www.irishtimes.com, 11 April 2018.
[8] CSO Ireland.

At a glance: the Irish loan portfolio transaction market

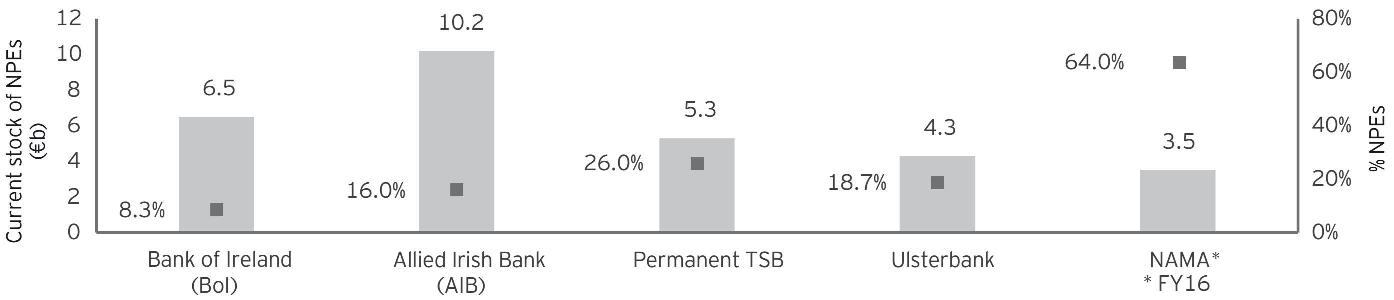
Market drivers and pipeline

- Irish banks are committed to reducing their NPLs, which stand at over €29.8b[9, 10] across the country's four biggest banks and NAMA.
- The transition from IAS 39 to IFRS 9 provides some relief when recognizing additional losses including those from NPLs.
- Foreign banks continue to rationalize their business models, with exits from the market precipating performing loan sales.

Market challenges

- Proposed change to the Consumer Protection Bill 2015 could increase the regulatory burden on purchasers.
- Enforcement times remain extended for residential mortgages.
- Some Irish split mortgages cannot be reclassified as performing and require alternative solutions.

NPEs as a % of gross loans – FY17[9]*



Assets for sale and buyers in the market

- Processes remain highly competitive, with significant interest from a wide variety of investors.
- Each of Deutsche Bank, Cerberus, Barclays, Carval, Oaktree, Goldman Sachs and Apollo has acquired in excess of €2b of portfolios[10] between 1Q 2015 to YTD 2018.
- Cerberus has so far been the largest purchaser in the Irish market, with over €15b purchased. In early 2018, Cerberus agreed acquisition for €1.1b of a portfolio of non-performing property loans from AIB – known as Project Redwood.[11]

Loan servicing and transaction infrastructure

- Ireland has a competitive and mature servicing landscape. Servicers are primarily regulated by the Consumer Protection (Regulation of Credit Servicing Firms) Act 2015. Under the act, all credit servicing firms require authorization from the Central Bank.
- The established legal and regulatory framework has led to several servicing options emerging, with deep coverage of all key assets classes, including residential mortgages.

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[9] Company filings.
[10] EY analysis.
[11] "AIB confirmed that Cerberus has agreed to acquire €1.1b of bad loans" *Irish Times website*, www.irishtimes.com, 17 May 2018.

Economic backdrop

GDP growth

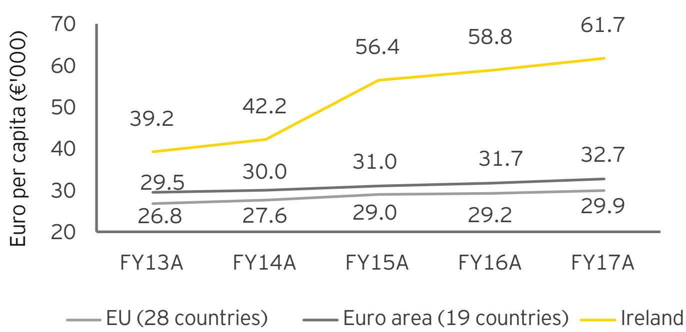
- Ireland's economy is enjoying a period of impressive growth, which is forecast to continue. During 2017, outlooks have been consistently revised upward by almost all forecasters.

Table 1: Summary of Irish forecasts[12]

Ireland GDP	2018	2019	2020
Department of Finance	3.7%	3.1%	2.7%
ESRI	4.7%	3.9%	-
IMF	4.5%	4.0%	3.5%
EY	4.9%	3.8%	3.5%

- Ireland's strong economic performance is supported by foreign direct investment, a growing population and rising consumer spending levels due to increased employment and availability of credit. Recent budgets have also seen increased government and infrastructure spending.
- It remains difficult to gauge the impact of Brexit on the Irish economy given the lack of clarity over of the land border between the Republic of Ireland and Northern Ireland and, crucially, trade arrangements.
- Ireland's GDP (at current market prices) per capita has increased 57% from 2013 (€39,200 pc) to 2017 (€61,700 pc). This compares favorably with both the EU average increase of 12% and the euro area increase of 11%.[13]

GDP at current prices per capita



Note: gross domestic product at current market prices, euro per capita.

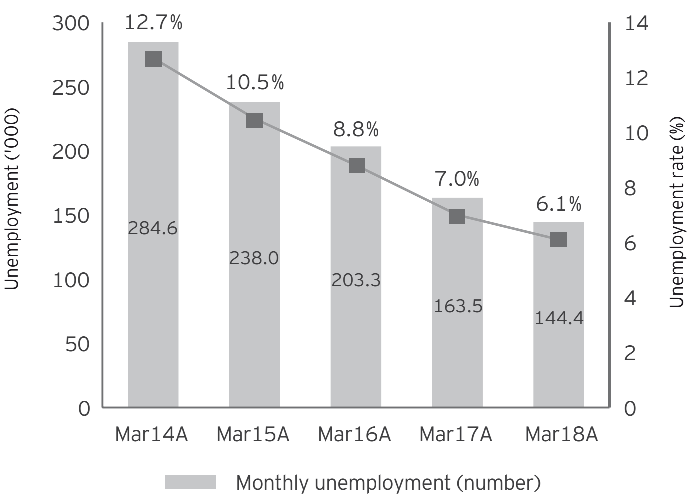
[12] EY analysis.
[13] *Eurostat website*.

Economic backdrop

Sharp decline in unemployment

- Encouragingly, the labor market has continued to expand; direct immigration and unemployment have fallen back to 2008 levels.
- Seasonally adjusted unemployment rate for March 2018 was 6.1%, down from 7.0% for March 2017. The seasonally adjusted number of unemployed people has reduced from 163,500 to 144,400 over the same period.[14]
- Current unemployment figures compare very favorably with 2014 levels where unemployment rates were nearly at 13% – close to 300,000 people. Current levels indicate a reduction of 50% from only four years ago.

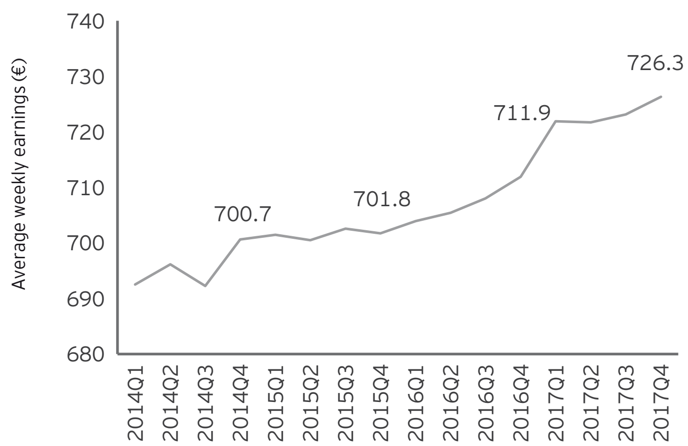
Seasonally adjusted unemployment[14]



Strengthening weekly earnings

- Seasonally adjusted average weekly earnings have strengthened by €33.8 (5%) per week from €692.5 in 2014Q1 to €726.3 in 2017Q4.[15]
- This increase mirrors the growth in the Irish economy with weekly earnings remaining flat between 2012Q1 and 2014Q1.
- Irish households are in slightly stronger positions now to repay existing mortgage debt or meet the existing bank restructuring conditions going forward.

Average weekly earnings (euro)[15]



Note: Seasonally adjusted monthly unemployment data represent combined male and female persons aged 15 to 74 years.

[14] *CSO.*
[15] *CSOx.*

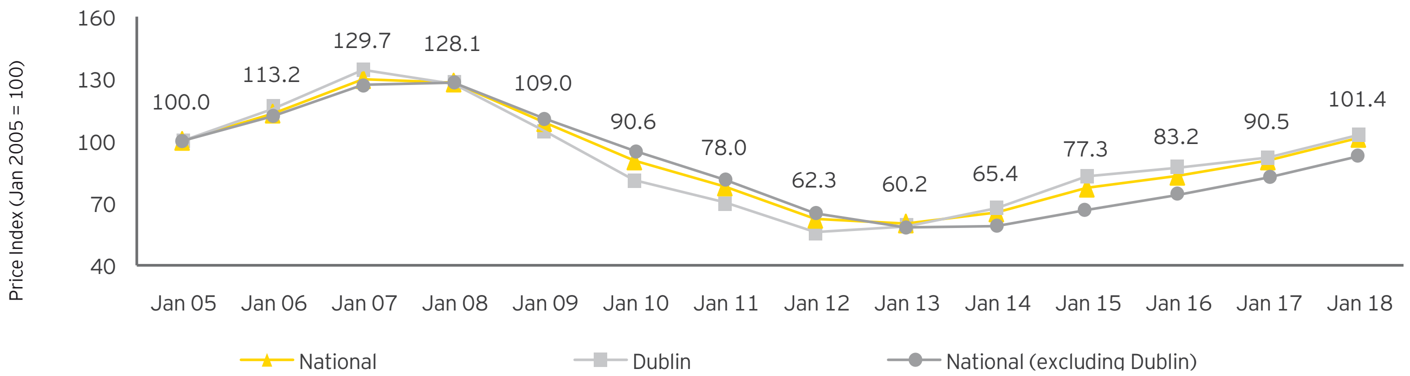
Commercial property market

- The Irish commercial property market is once again attracting strong investor interest after a decade of dealing with distressed debts, excessive borrowing and a weak banking system. Commercial property prices have increased strongly with property funds offering attractive growth and strong yields.[16]
- The Dublin office leasing market in 2017 return was on par with the pre-crisis peak of 2007, with the Dublin prime office rent's five-year CAGR ranging from 14.7% (Dublin 2 and 4) to 17.9% (Dublin suburban).[17]

Residential property market

- Recent reports suggest property prices have returned to 2005 levels. Consensus forecasts indicate high single-digit growth in the coming years, given the continued undersupply of residential property. Demand for new builds is estimated at 30,000 per annum but official figures for 2016 suggest that only 15,000 houses were built.[18]
- The positive trends, particularly in the residential and rental markets, support the overall investment case in the Irish market.
- Residential property in the year to February 2018 has increased by 13% nationally, with prices in Dublin alone rising by 12.7% and prices in the rest of Ireland (excl. Dublin) increasing by 13.3% in the same period.[19]
- This compares with an increase of 9.7% in the 12 months to February 2017 nationally.[19]
- The property price index below illustrates the sharp property crash experienced across Ireland in the years 2008 to 2013, with a reversal from 2014 to present.
- Rapidly increasing residential property prices have insulated individuals from negative equity and reduced impairments for the banks.
- As home LTVs continue to surge, mortgage restructuring continues to be a viable option for banks to retain value.
- From the trough in 2013, prices per CSO show increases of 74.6% nationally, with property prices in Dublin increasing by 90.6% since February 2012.[19]
- As illustrated in the graph, house prices nationally are 101.4 of base 100 in January 2005. Many market commentators expect increases in the near term, with house prices having returned to 2005 levels.[19]

Irish residential property price Index (RPPI) compared against Dublin index and Ireland (excluding Dublin) index[15]



[15] *CSOx.*
[16] "Commercial property market finally finishes firefighting," *Irish Times website*, www.irishtimes.com, 6 December 2017.
[17] *Cushman & Wakefield, Office Market Snapshot*, Q4 2017.
[18] "Irish housebuilding activity doubles but still far off meeting demand," *Irish Times website*, www.irishtimes.com, 30 November 2017.
[19] "*Residential Property Price Index February 2018," CSO statistical publication*, 12 April 2018.

Trade types

- The primary type of trade we see in the Irish loan portfolio transaction market is the whole loan book sale of non-performing portfolios. This has been true historically, with the wind-down of NAMA, and is expected to continue to be the case as the banks attempt to reduce their NPE ratios.
- Nevertheless, we are seeing some changes in both trade types, including the underlying assets traded. We are witnessing reperforming NPLs and performing assets being increasingly traded and securitizations being considered used by both banks and investors.
- In recent deals, we have also seen a shift from CRE portfolios toward residential secured portfolios, reflecting the predominate of these assets as NPLs on banks' balance sheets.

	Overview	Specific drivers
NPL sales	▶ NPL sales make up the vast majority of portfolio sales in the Irish market. ▶ They are driven by the wind-down of NAMA and attempts by the banks to reduce their NPL ratios. ▶ There have been €39.7b of NPL sales in the last 3.5 years.[20]	▶ Ireland has relatively high NPL ratios, with pressure from national and European regulators to deleverage. ▶ Banks are increasingly looking to NPL sales to allow them to accelerate their progress and meet their targets.
Performing sales	▶ Performing loan sales have contributed a small but material proportion of Irish portfolio sales. ▶ We have observed €8b of performing sales between 2017 and YTD 2018.[20] ▶ The largest of these was sale for €4.7b of performing loans (Gross Book Value (GBV) €5b) by Lloyds Banking Group to Barclays.[21]	▶ European lenders have continued to rationalize their business models. ▶ This has led to some exiting the Irish market in whole or part, adding to the portfolio sale pipeline.
Value exits (securitizations)	▶ Securitizations have been used as exit tools by financial institutions and investors. ▶ Barclays successfully purchased a primarily performing Irish mortgage portfolio from Lloyds Bank in early 2018. The bank's investment arm has now indicated that it will pursue a securitization process to sell the underlying risk to third-party investors. ▶ Residential mortgage-based securitizations (RMBS) have been increasingly used by purchasers of Southern European portfolios as a method of leveraging their transactions. As Irish retail mortgage portfolios emerge, we expect such transactions to increase. ▶ Securitization vehicles have also been voiced as a solution to Ireland's split mortgage challenge. There is a perception that any Irish bank's sale of split mortgages would unfairly expose cooperative borrowers to enforcement-focused investment funds.	▶ Securitizations offer banks the opportunity to retain control and servicing responsibility, while increasing liquidity. ▶ Indeed we also witnessing the successful re-financing of these structures, indicating their success and durability. In March 2018 Morgan Stanley was engaged to refinance a Lone Star securitisation vehicle of performing, re-performing and non-performing loans. Morgan Stanley had already established a strong record in the Irish market, with highlights including a €691m securitisation of ex-PTSB performing and re-performing loans in 2016. ▶ PTSB has indicated that it may review securitization as a potential exit opportunity with regard to its split mortgage portfolio.

[20] EY analysis.
[21] EY analysis, "Lloyds sells Irish mortgage book to Barclays" RTE *website*, www.rte.ie, 18 May 2018.

Completed loan sales Q1 2016 to YTD 2018[22]

Project name	Seller	Buyer	Completed/ period	Portfolio/ asset class	Performance	Balance (million)
Undisclosed	Lloyds Banking Group	Barclays	2018 Q2	Resi	Performing/ non-performing	€5,000*
Project Redwood	AIB Bank	Cerberus	2018 Q2	CRE + Resi	Non-performing	€1,100
Project Cypress	Allied Irish Bank	Goldman Sachs	2017 Q2	Resi	Non-performing	€400
Project Tolka	NAMA	Colony Capital	2017 Q1	CRE	Performing/ non-performing	€1,500
Undisclosed	KBC Ireland	Cabot	2017 Q1	Resi	Non-performing	n/a
Project Gem	NAMA	Cerberus	2016 Q4	CRE + Resi	Non-performing	€3,050
Project Oyster	Ulster Bank	Cerberus	2016 Q4	Resi + SME	Non-performing	€2,500
Project Liffey	NAMA	Ongoing	2016 Q4	CRE	Non-performing	€58
Project Madrid	NAMA	Ongoing	2016 Q4	CRE	Non-performing	€27
Undisclosed	Undisclosed	Undisclosed	2016 Q4	CRE	Non-performing	n/a
Project Abbey	NAMA	Apollo Global Management	2016 Q3	CRE	Non-performing	€700
Project Pluto	Danske Bank	Cerberus	2016 Q3	Resi	Non-performing	€300
Project Beara	NAMA	Deutsche Bank	2016 Q3	CRE	Non-performing	€232
Project Arch	NAMA	Deutsche Bank	2016 Q2	CRE	Non-performing	€608
Project Albion	NAMA	Oaktree Capital	2016 Q2	CRE	Non-performing	€255
Project Ruby	NAMA	Oaktree Capital	2016 Q2	CRE + Resi	Non-performing	€2,200
Project Emerald	NAMA	Oaktree Capital	2016 Q2	CRE + Resi	Non-performing	€2,500
Undisclosed	Lone Star	Bank of Ireland	2016 Q3	Resi	Re-performing	€640
Project Proteus	Danske Bank	Pimco/Goldman Sachs	2017 Q3	Resi	Performing	€1,800

* This loans sale deal by Lloyds includes €4.7b of performing loans and €0.3b of non-performing loans.

Case study: Lone Star securitization

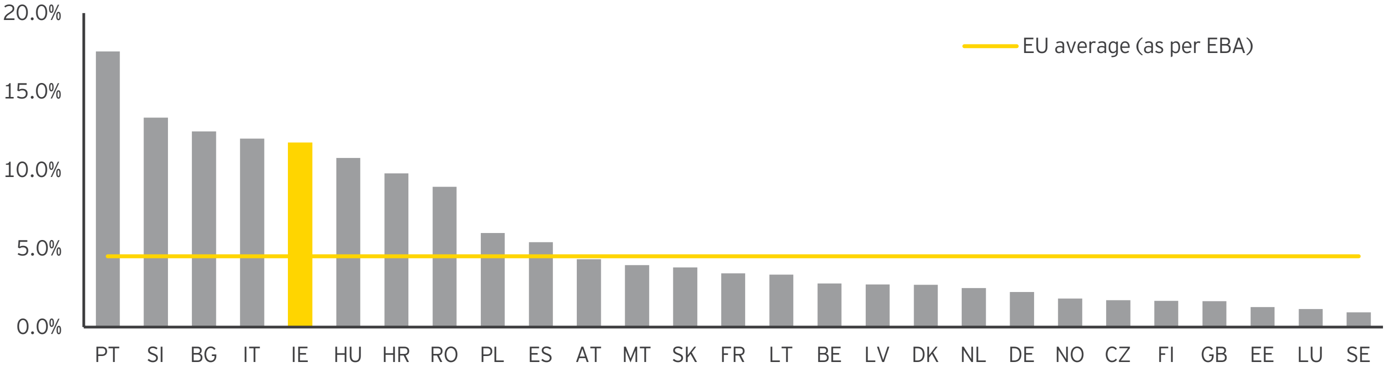
- In 2017, Lone Star securitized €564m of acquired Irish Nationwide Building Society mortgage loans through an RMBS.[23] Around two-thirds of loans were non-performing, with a third performing.
- The Loan Star deal was notable in that it demonstrated investors are increasingly confident in the Irish market and willing to consider assets of varying quality if the return merits the risk.

[22] EY analysis.
[23] "Lone Star to tap bond markets for Irish Nationwide mortgages," *Irish Times website*, www.irishtimes.com, 29 November 2017.

Market drivers and pipeline

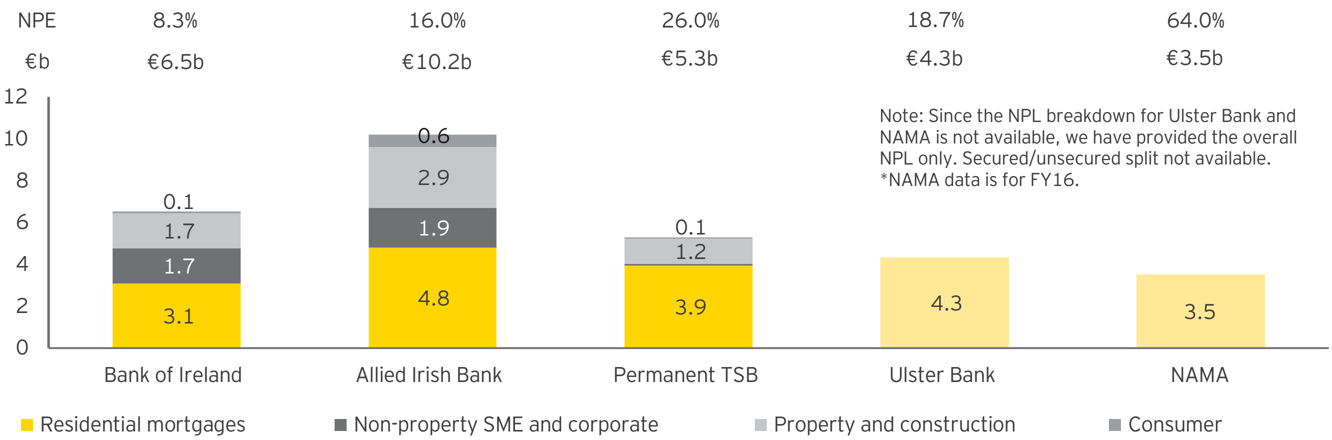
Pressure to reduce NPLs[24]

NPL coverage ratios across the EU (as at Q2 2017, excluding Greece and Cyprus)



- In Q3 2017, Irish NPLs stood at €29.8b across the four biggest Banks and NAMA, a decline of over €50.0b from 2013.[25] This was primarily achieved through the transfer of CRE loans to NAMA. However, regulators are now putting greater pressure on banks to reduce their NPEs by a further €21.2b.[26] To achieve these reductions, Irish banks will need to consider disposing of bad loans across all asset classes — including residential mortgages.
- The EBA's consultation paper — Draft Guidance to Banks on Non-Performing Loans (Sep 2016) — may also provide a further impetus for sales by increasing provisioning on newly emerged NPLs.
- It is worth reflecting that not all drivers of the Irish portfolio sales market are NPL related. Since the crisis, several international lenders have taken the decision either to exit or curtail their involvement in the Irish market.

Breakdown of NPLs by largest Irish institutions — FY17[27*]



[24] "EBA Risk Assessment Reports," *EBA website*, www.eba.europa.eu.
[25] Central Bank of Ireland Macro financial review 2017 (vol. 2).
[26] EY analysis.
[27] Company filings.

Note: the consumer loans are primarily unsecured, non-property SME and corporate are mix of secured and unsecured, and residential mortgages and property and construction loans are secured.

IFRS 9

- 2018 marked the start of banks' transition from IAS 39 to IFRS 9. By moving from an incurred loss to an expected loss model, this new accounting standard has significantly altered how banks calculate their provisions.
- The change is expected to lead to an increase in provisions. An additional overlay is required to account for expected losses rather than previous method of just recognizing provisions when an "incurred loss event" occurs. This overlay needs to be considered for all relevant instruments, including non-performing loans.
- Consequently, in December 2017, the European Commission issued Regulation 2017/2395. This provided European banks with transitional relief that allowed them to spread the immediate impact of the additional provisions on their CET 1 capital over a five-year period.
- The adoption of IFRS 9 has increased the cost of holding NPLs, encouraging banks to consider loan sales. However, the transition has also resulted in greater scrutiny. The ECB has announced it will be reviewing banks' IFRS 9 treatment and the associated transition relief. We are also observing greater scrutiny from prospective investors during portfolio sales processes.

Market challenges

Progress in overcoming investment barriers

- The Irish market is overwhelmingly dominated by NPL sales. In 2016 and 2017 there were €14.3b NPL trades in Ireland compared with only €2.2b performing portfolio trades.[28]
- As such, it is unsurprising that the main market challenges for participants are factors which specifically impact NPL sales.

Proposed amendment to 2015 Consumer Protection Bill and proposed Keeping People in their Homes Bill 2017

- In January 2018, PTSB announced that it had engaged EY to sell a €2b mortgage portfolio consisting primarily of loans to owner-occupiers – known as Project Glas.[29] This is a particularly complex transaction and, in combination with AIB's recently concluded sale of the Project Redwood portfolio, has been the subject of significant media and political interest.
- There has been an attempt by the Opposition to amend the 2015 Consumer Protection (Regulation of Credit Servicing Firms) Bill. The amendment, put forward by the Opposition Finance Spokesman Michael McGrath, could present challenges to investors. It could lead to the regulation of investors under the Code of Conduct on Mortgage Arrears 2013 and Consumer Protection Code. Under the proposals, additional information would also be provided to affected borrowers, including any discount at which their loan was sold.
- Purchasers are also assessing the impact of the proposed Keeping People in their Homes Bill 2017, which has recently been fast-tracked by the Government. When deciding on repossession orders, this would require courts to take into account the price paid for the loan and the impact on all householders.

EY analysis

- Both the Government and the Opposition are publically committed to achieving a privately owned banking sector and, consequently, to accepting the steps, including portfolio sales, necessary to achieve that.
- All of these proposals should be seen in the light of this cross-party political commitment.
- This remains a live issue under active scrutiny from investors.

Lengthy enforcement times

- Lengthy enforcement times have been repeatedly highlighted by the Central Bank of Ireland as an impediment to the country's resolution of NPLs – with the enforcement of primary residences often taking in excess of seven years.
- Extended enforcement timelines have reduced the price that investors are willing to pay, and have held back Irish banks from bringing certain transactions to market.

EY analysis

- Slow enforcement times are principally due to the fact that there can be several months waiting time between court appearances for specific cases, as opposed to any specific legal restrictions.
- Ireland has also been quick to reform its legislative framework since the crisis. The Personal Insolvency Act 2012 sets out a new three-stage debt resolution process for mortgage non-payers and the 2015 Consumer Protection Bill clarified the position of loan servicers across asset classes. These changes have also helped facilitate an accelerated process for buy-to-let loans, which are now generally enforced within 6–12 months. We expect enforcement times to continue to decrease as reforms are incrementally agreed.

[28] EY analysis.
[29] "Overseas funds circle up to €11b of Irish loans," Irish Times website, www.irishtimes.com, 14 February 2018.

Split mortgages

- The Irish Government's 2011 Keane report sets out three key resolution tools for non-performing mortgage holders:
  - Trade down mortgages that facilitate borrowers to downsize and deleverage
  - Split mortgages where part of debt is frozen
  - Sales by agreement
- As regulators increasingly focus on NPL ratios, there has been growing confusion surrounding split mortgages. Post restructuring, NPLs are "forborne" for two years before the bank can recognize the loan as performing and gain the capital benefit.
- The current ECB position suggests that if a split mortgage was originated through one overarching contract then it is unlikely to become performing. However, if it is based on seperate contracts then the reperforming element of the loan can possibly become performing.

EY analysis

- We expect there to be clarification on split mortgages in the coming months. There is generally a consensus that when split mortgages have been originated as two individual contracts then the unfrozen element has the potential to be reclassified as performing. PTSB is currently seeking guidance from the regulator on this issue.
- The debate around split mortgages will be of limited concern to investors. Regardless of the outcome, the banks will still need to reduce their NPLs by a similar amount. As such, the conclusion of this debate is likely to impact the mix of asset types sold, not the overall volume of portfolios coming to market.
- As part of the solution, we may see split mortgages being offered to investors via RMBS securitization, with servicing being retained by the lender.

Assets for sale and buyers in the market

First of the residential portfolios

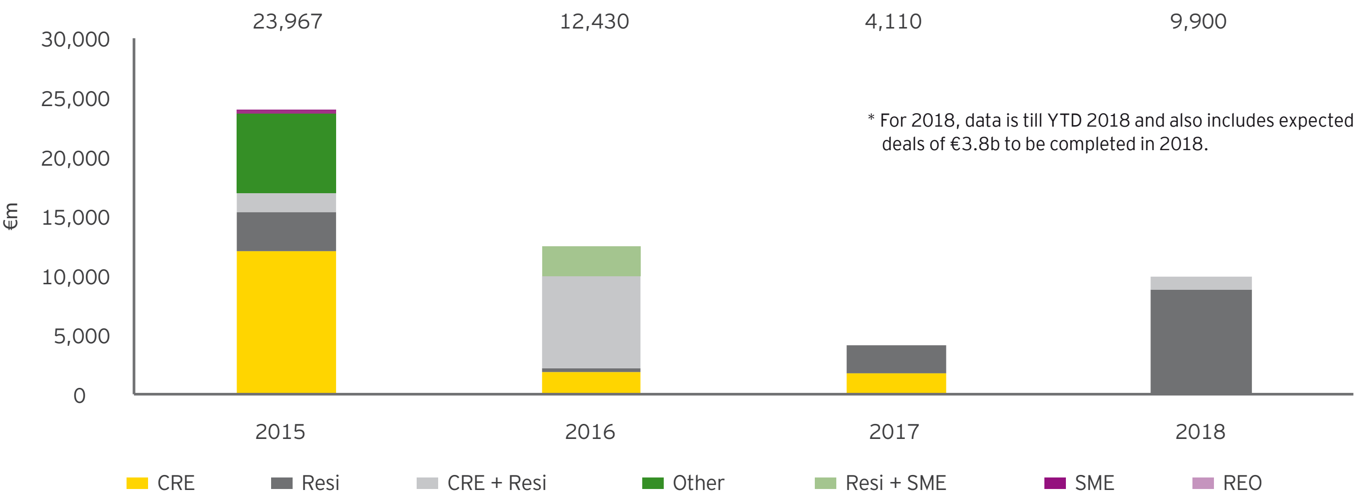
- The 2015–17 market was dominated by the wind-down of NAMA and the transfer of CRE loans to private investors.
- However, the key driver of the Irish portfolio transaction market is now regulatory pressure on the banks.

Regulators' focus on pushing banks to reduce their NPLs ratios has led to a wider number of assets coming to market. In particular, in 2018, we have seen two very large residential portfolios coming to market.

Immediate transaction pipeline

Bank	Buyer	Date	Portfolio	Performance	Value
Rabo Bank[30]	Live	Expected 2018	Residual ACC loan book (SMEs + agricultural)	Performing/non-performing	Undisclosed
PTSB – Project Glas[31]	Live	Expected 2018	Private dwelling homes (PDH) and Buy-to-let (BTL)	Non-performing	€2.2b
Ulster Bank[32] – Project Scariff	Undisclosed/planned	Expected 2018	PDH and BTL	Non-performing	€1.6b
Allied Irish Bank	Undisclosed	Expected 2018	SME Connections	Non-performing	€1.5b

Trend of assets purchased by investors (Q1 2015 to YTD 2018*)[33]

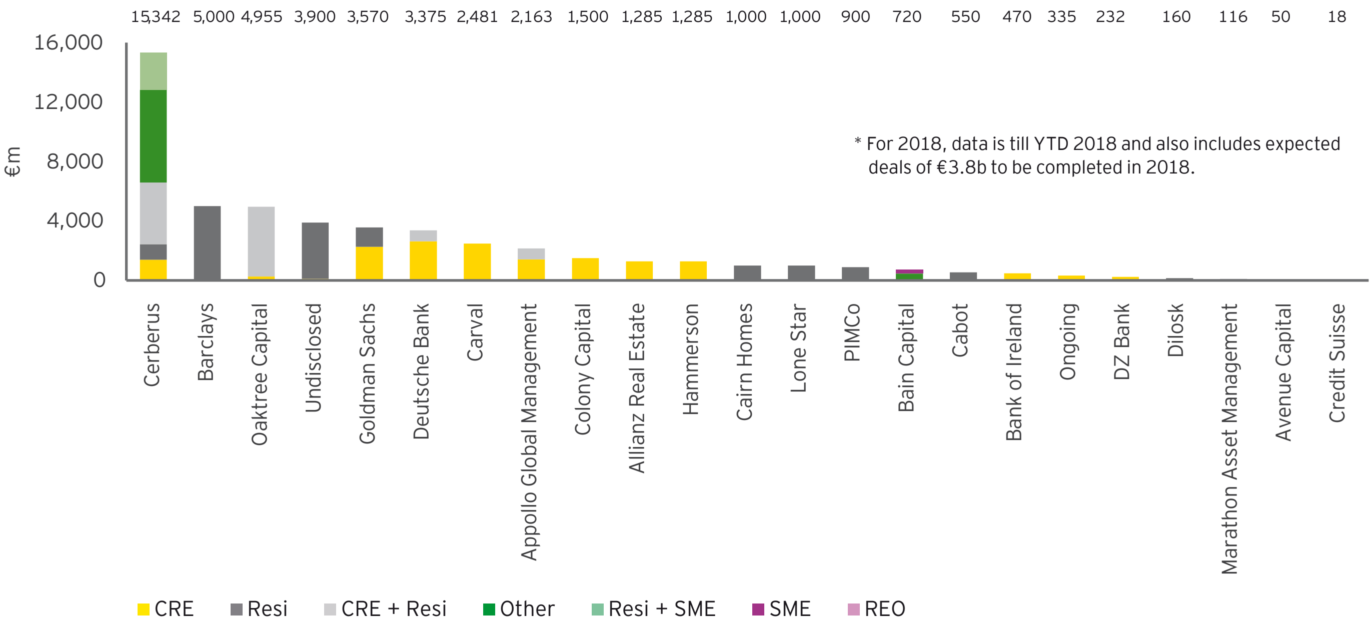


[30] "Rabobank is preparing to offload its residual ACC loan book," *The Times website,* www.thetimes.co.uk, 13 May 2018.
[31] "Ireland's PTSB reduces bad loan sale plan to 2.2 billion euros," *Reuters website,* www.reuters.com, 16 May 2018.
[32] "Ulster Bank puts €1.6b in defaulted mortgages on market," *Irish Times website,* www.irishtimes.com, 10 May 2018.
[33] EY analysis.

Existing market participants facing disruption

- In the recent past, the Irish portfolio transaction market has been dominated by a few key players. Historically, the portfolios coming to market have been very large CRE portfolios, meaning only the largest European credit funds were able to compete.
- However, with the arrival of residential portfolios, albeit still very large portfolios, we are seeing wider interest. We expect this trend to continue, with the potential for some upside in pricing over time.

Assets purchased by investors (Q1 2015 to YTD 2018*)[34]



Investors' capital waiting to be deployed

- The Irish market is likely to be one of the largest sources of portfolio trades over the next 12 to 24 months. We expect these transactions to be competitive.
- Although not all information is publically available, specialist funds have at least uncalled capital commitments, pre-leverage, of just over €12.6b (with the largest five having €8.7b).[33]
- Moreover, we are witnessing a new wave of investors entering the Irish market. PIMCO and Goldman Sachs' recent win of Danske's €1.8b tracker mortgage book demonstrates the increasing appetite among more generalist investors.[34]

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[33] EY analysis.
[34] "Pimco/GS in €1.8b bond switch for Danske book," *Independent website*, www.independent.ie, 26 October 2017.

Loan servicing and transaction infrastructure

Diverse servicer offering

- Given the maturity of the Irish loan portfolio transaction market, it is not surprising that some firms already have existing relationships with investors.
- In particular, Pepper, Hudson, Finance Ireland, Magnetar and Lapithus are all owned by funds who have previously invested in the loan portfolio transaction market.
- Nevertheless, some of the biggest independent servicers, including Link (previously Capita) and Computershare/HML, also operate in the Republic.

A mature regulatory environment

Once authorized, credit servicers are required to follow a tried and tested regulatory regime. This includes certain requirements such as:

- Liasing with holders of credit:
  - Credit servicing firms must inform (in writing) the holder of the credit of its obligations under financial services legislation
  - Credit servicing firm must demonstrate how its agreement with the holder of the credit enables it to comply in full with its obligations under financial services legislation
- Codes: consequential amendments to the Consumer Protection Code (CPC), the Small and Medium Enterprises (SMEs) Code, the Code of Conduct on Mortgage Arrears 2013 (CCMA) and the Minimum Competency Code 2011 (MCC 2011)

Significant servicer coverage across asset classes

Irish servicers	Existing relationships	Consumer/SME loans?	CRE?	Mortgages?
Pepper	Owned by KKR	Yes	Yes	Yes
Link	Independent	Yes	Yes	Yes
Hudson	Owned by Loan Star	Yes	Yes	Yes
Computershare/HML	Independent	No	Yes	Yes
Acenden	Independent	No	No	Yes
Finance Ireland	Investors include PIMCO and ISIF	Yes	Yes	No
Everyday	Independent (Owned by Link)	Yes	No	No
Lapithus	Owned by Apollo	No	Yes	Yes
First Citizen Finance	Owned by Magnetar	Yes	Yes	Yes
Cabot Ireland	Owned by Cabot, which is ultimately owned by Encore Capital	Yes	No	Yes

Glossary

GBV	Gross Book Value
BTL	Buy-to-let
CAGR	Compound annual growth rate
CCMA	Code of Conduct on Mortgage Arrears 2013
CET 1	Common Equity Tier 1
CPC	Consumer protection code
CRE	Commercial real estate
CSO	Central Statistics Office
EBA	European Banking Authority
ECB	European Central Bank
EU	European Union
GDP	Gross domestic product
LTV	Loan-to-value
MCC	Minimum Competency Code 2011
NAMA	National Asset Management Agency
NPE	Non-performing exposure
NPL	Non-performing loan
PDH	Private dwelling home
REO	Real estate owned
RMBS	Residential mortgage-backed securities
SME	Small and medium enterprise

Credentials

EY has significant exposure to the Irish loan sale market. This includes buy and integrate and sell and separate engagements, in addition to strategic and product reviews of various portfolios.

Ireland

2018	**Project Redwood**	Buy and integrate support and transaction advisor €1.1b mixed CRE portfolio
2018	**Project Glas**	Sell and separate lead advisory on €3.7b loan portfolio
Ongoing	**Confidential**	NPL resolution and strategic advisor to Irish financial institution
2016	**Project Jewel**	Buy-side support, financial modelling and transaction advisor €2.5bn CRE portfolio
2015	**Project Finn**	Sell-side IBRs and valuations due diligence transaction support €400m Mixed SME portfolio
2016	**Project Beara**	Sell-side lead advisory services NPL portfolio with par debt of €230m
2014	**Project Button**	Sell and separate lead advisory on mortgage portfolio (£250m)

Moreover, EY is a proven market leader across the European loan sales market, leading transactions across the continent.

Greece	2018	**Secured loan sale**	Sale of a portfolio of secured retail loans for a major Greek bank
UK	2017	**Unsecured loan sale**	Ongoing debt sale advisory to a major UK bank and c.£6b unsecured debt sold over three years
France	2017	**Secured loan sale**	Sell and separate advisory on a €106m cross-country portfolio
Czech Republic	2017	**Unsecured loan sale**	Sale of a portfolio of retail loans
Italy	2016	**Corporate and SME portfolio sale**	Buy and integrate advisory on a €20b portfolio of non-performing corporate and SME loans for an Italian bank
Spain		**Unsecured loan sale**	EY provided M&A analysis services in the sale of an unsecured NPL portfolio
Croatia		**Mixed loan sale**	Sale adviser of a mixed NPL portfolio – corporate/retail in Croatia

EY team and solution offerings

Our team

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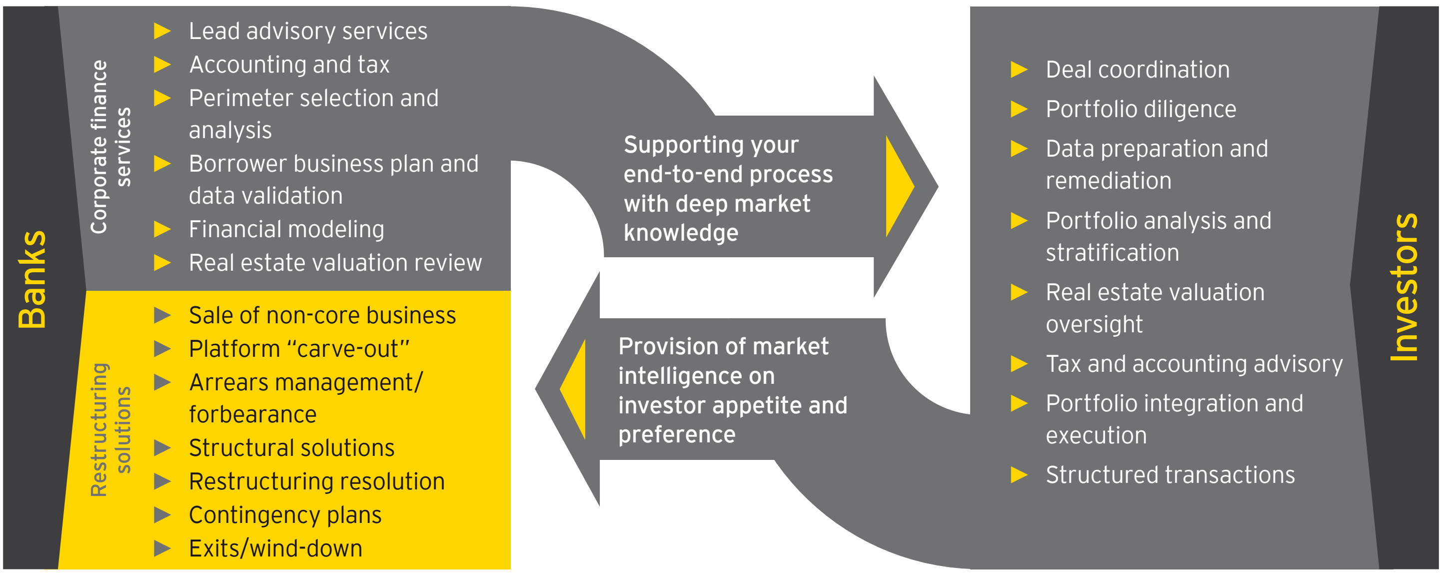
Our solutions

EY loan portfolio solutions

- EY Loan Portfolio Solutions provide advisory services to a wide array of financial institutions with regards to non-performing loans portfolios, delivering value through breadth of knowledge and expertise.
- Our network has significant experience throughout Europe providing solutions to clients who require:
  - Buy and integrate mandates
  - Sell and separate mandates
  - Internal work-out



Notes

Notes

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