



NPL resolution in non – euro zone countries

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NPL resolution has proceeded at low speed in recent years...

✓ Obstacles to faster NPL resolution:

- Limited work-out expertise and arrears management capacity, in particular for smaller banks
- Inefficient pre-insolvency/insolvency procedures
- Lack of forceful supervisory action aimed at incentivising banks to clean up balance sheets
- Underdeveloped markets for distressed assets (in some countries, quasi non-existent for corporate debt)



...but, has recently gained some momentum

✓ **Developments supporting NPL resolution:**

- Overhaul of insolvency procedures and introduction of out-of-court workouts
- Enhanced focus on provisioning requirements to facilitate write-offs and sales of distressed assets
- Loan portfolio reviews/asset quality reviews
- Increased interest of foreign investors in distressed assets in non-euro zone countries



Sales of distressed assets have picked up in several non-euro zone countries (I)

- ✓ **Increased demand of foreign equity funds for distressed assets in these countries**
- ✓ **Key factors driving decisions to engage in debt sales transactions in these countries:**
 - Data quality and availability
 - Access to asset servicing companies on local markets
 - Availability of a "critical mass" of distressed assets

Sales of distressed assets have picked up in several non-euro zone countries (II)

- Availability of certain asset classes
- Predictability of the legal and regulatory framework
- Efficiency of the judicial system
- Debt collection and recovery performance
- Possibility to become main players in the distressed debt market



Case study - Sales of impaired assets in Romania

- Asset sales have increased since 2014, albeit driven mainly by impaired asset disposals by large banks
- Portfolio sales have been triggered, *inter alia*, by the 2014 NPL resolution plan of the National Bank of Romania
- Several flagship transactions were completed in 2014 and further sales are in the pipeline in 2015
- Recent debt sales transactions have covered both corporate and mortgage loans portfolios



AMCs ("bad banks") – a solution for non-euro zone countries? (I)

- ✓ **Limited experience and incentives so far for setting up AMCs in these countries**
- ✓ **Appetite to establish AMCs has been dampened by:**
 - Concerns regarding potential impact on public finances (in case of state ownership)
 - Difficulties to secure private ownership
 - State-aid considerations related to the transfer price of assets and funding of such vehicles

AMCs ("bad banks") - a solution for non-euro zone countries? (II)

- Challenges to prepare a viable business plan for such vehicles
- Lack of high volumes of sufficiently homogeneous distressed assets
- Difficulties to ensure from inception an appropriate operational capacity to manage impaired assets



Thank you for your attention !

