

EBRD – Investing in NPLs and Considerations for Private Investors

April 2015



European Bank
for Reconstruction and Development

- Following the end of the credit boom in emerging Europe, banking systems in many of our Countries of Operation (“CoO”) have become burdened with a large overhang on NPLs
- A large number of our CoO have not established the institutional prerequisites and market structures to sustain an on-going NPL reduction
- High and persisting levels of corporate NPLs* are a drag on credit, growth and ultimately job creation:
 - ✓ Bulgaria: 19.2% (16.7% total)
 - ✓ Croatia: 30.5% (17%)
 - ✓ Romania: 22%** (13.9%)
 - ✓ Serbia: 27.4% (23%)
 - ✓ Hungary: 19% (17%)

* Source: central banks, data as of end of 2014; for Serbia data as of June 2014; for Hungary data as of June 2014 and end of 2014 respectively, source WB; ** Data as August 2014

Corporate NPLs in Europe: some progress

- Meaningful corporate NPL sales in Romania (provision level/coverage in Romania at 67%^{***})

Date	Seller	Buyer	Portfolio type	PL/NPL	Portfolio Size (EURm)
Aug-2014	MKB ^{**}	APS	Corporate Recovery	NPL	85 [*]
Aug-2014	RBS	Unicredit	Corporate business	PL, NPL	260 (assets)
July 2014	BCR	DB, APS	Corporate	NPL	250
July 2014	Volksbank	DB, Anacap, H.I.G. Capital, APS	Mortgage (84%) and corporate loans (16%)	NPL	495

Source: Deloitte; * Gross client receivables as of 31 Dec 2013; ** Corporate Recovery Management unit based in Romania

*** as of Aug 2014

- Transfer to AMC in Slovenia (DUTB d.d.)
- MARK set up

Corporate NPL Transaction considerations for Private Investors

Investor strategy

Foreclosure/recovery/liquidation:

- Efficiency and timing of bankruptcy, foreclosure and enforcement process
- Servicing activity/Servicer available
 - Asset management industry
 - Collateral: market liquidity for real estate assets

Restructuring:

- Requires operational changes
- Supportive regulatory/legal environment
- Super-seniority of additional funding

Deal and Market considerations

Size of market/portfolio/FX
Ability to do additional deals
Targeted returns

Bilateral conversations or auction
Access to data/quality of DD

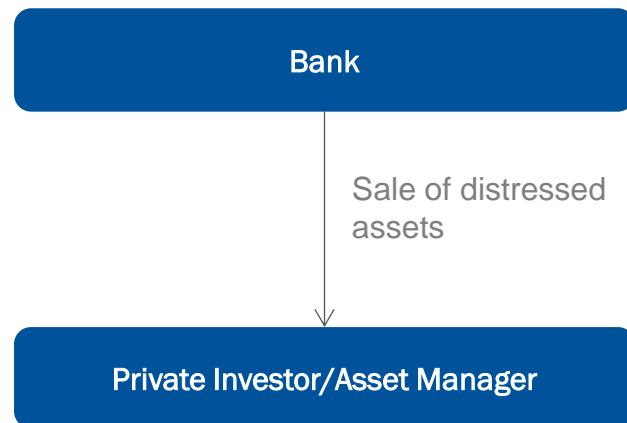
Tax, legal and regulatory framework
- Requirement of a licence?

Single asset (target investor)
or Portfolio Sales (capital impact)

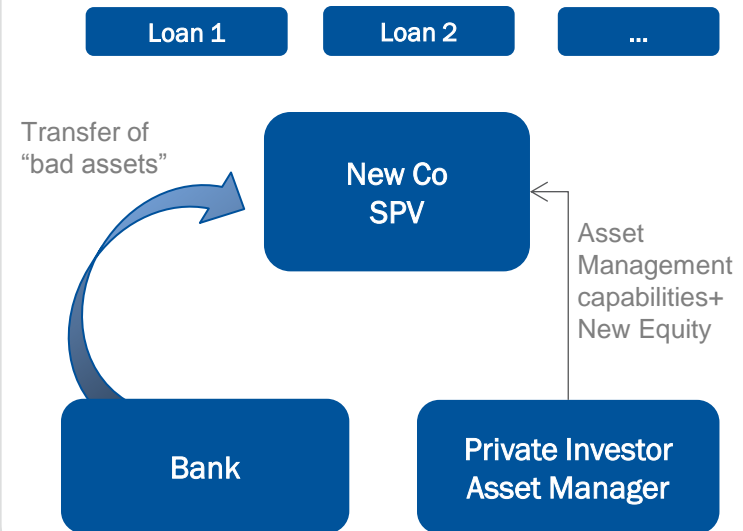
- While sales of consumer loan portfolios have been relatively straightforward, corporate NPL sales have key challenges:
 - ✓ a perceived pricing gap - linked to provisioning levels
 - ✓ uncertain local regulation/law for enforcing and restructuring in some countries
 - ✓ lack of tax incentives
 - ✓ highly resource intensive and careful due diligence
 - ✓ in CEE often Corporates often have lending from multiple banks => lack of control of exposure

Corporate NPL Transactions Private Investors structures

Straight sale of NPL



Corporate Restructuring Vehicle/ Asset Management Company



- Distressed asset sales or transfer allows the banks to re-focus on the core business
- Loan work-out or restructuring process receives full attention from specialist investor/asset manager
- Private Investors include: Private Equity with special distressed fund, Credit/Special situations funds and Real Estate funds, Investment banks, local banks (focus on Performing Loans)

EBRD's involvement in NPL resolution

- EBRD's engagement in NPL resolution and corporate debt restructuring is an effort across different departments

Office of the General Counsel (OGC)/ Legal Transition Team (LTT)

Supporting legal reforms
Private principles for out-of-court restructuring
Capacity building/training on insolvency

Office of the Chief Economist (OCE)

TC
Focus on NPL resolution
Vienna 2 Initiative

Banking/Financial Institutions

Supporting sales of distressed assets
Investments on asset managers
Acquisition of corporate and
secured portfolios

Banking/Industry, Commerce & Agribusiness (ICA)

Restructuring of corporates

EBRD's Operational Role in Corporate NPL Transactions

- Investor in NPL portfolios (requires intensive DD)
- Investor/financier in single-credit corporate restructurings (Banking/ICA)
- Support for specialised investors as a minority investor consortium member
- Support/financing for NPL asset managers
 - ✓ Focus on integrity and reputable collection practices
- Strong relationships with systemic regional banks
- Support for SPV or asset management structures with Private Investors putting in new money for re-structuring of corporate assets

- EBRD actively involved since 2010 – transaction and policy level (Vienna Initiative)
- Policy-level efforts to focus all relevant players on reducing NPLs
- NPL sales in the consumer loan space mainly with the exception of Turkey and more recently Romania
- Corporate NPL discussions difficult due to pricing gaps => increasing provisions could lead to corporate NPL sales in the near future
- Increased interest by private investors such as specialised funds and investment banks in our region
- NPLs transactions still relatively new in our region=> *requires more sales to become a destination for capital*

Annex: EBRD existing engagements related to NPLs



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TurkAsset

- ✓ Invested debt & equity in 2011
- ✓ Leading NPL asset manager in Turkey
- ✓ Market is both retail and corporate
- ✓ All major private banks selling regularly

Vostok Finance

- ✓ Provided debt in 2013
- ✓ Leading NPL asset manager & servicer in Ukraine & Russia
- ✓ Unsecured retail loan sales in both markets
- ✓ Most banks are sellers

Frontex International

- ✓ Provided debt in 2014
- ✓ Leading NPL asset manager & servicer in Bulgaria
- ✓ Unsecured retail loan sales
- ✓ Most banks considering sales

Annex: EBRD Successful Restructuring Deals

To date EBRD has worked on numerous corporate restructuring opportunities - below are listed the successful transactions where EBRD was able to provide financing:

Ciech

- ✓ Provided senior debt in 2011
- ✓ Leading chemicals producer in Poland
- ✓ Balance Sheet and Corporate Restructuring
- ✓ Followed by a successful SPO listing

Prista and Monbat

- ✓ Provided super senior debt, equity and convertible loan in 2012
- ✓ Leading Lubricants Oil and Car Battery producers in Bulgaria
- ✓ Balance Sheet, Corporate and Operational restructurings

Sofia Med

- ✓ Provided super senior debt in 2013
- ✓ Leading copper producer in Bulgaria
- ✓ Balance Sheet and Operational Restructuring

Celsa

- ✓ Provided super senior debt in 2011
- ✓ Leading r-bars producer in the Polish subsidiary
- ✓ Balance Sheet and Operational Restructuring