Austrian and CEE NPL Market Update

Deloitte
Vienna 24 February 2016
Ben Trask

Austria and Central & Eastern Europe – Introductions
What we do – Portfolio Lead Advisory Services

We have advised on loan portfolio transactions as both buy-side and sell-side advisor, and completed deleveraging projects covering over €65bn of assets in the last 12 months, across almost all European countries and are recognised as the leading loan portfolio advisor in Europe

DELEVERAGING ADVISORY
Advising owners of debt with loan portfolio analysis, development and implementation of strategic wind-down deleveraging options

SELL-SIDE ADVISORY
Full service advisory to vendors of loan portfolios from strategy and preparation to sales execution

ASSET MANAGEMENT AND SERVICING
Supporting owners of loan portfolios in managing and extracting value from their assets whether on an advisory basis or through full service outsourcing

BUY-SIDE ADVISORY
Assisting buyers in portfolio acquisitions in analysing, understanding and pricing loan portfolios We help them to develop a strategy and understand the risk profiles

Europe’s leading loan portfolio sell-side advisor

Trusted advisor to the buyer community

The most experienced team in the market

Advised on >€65bn of assets in the last 12 months

A Deloitte process increases market confidence in a successful loan sale
Deloitte’s role in assisting clients across Europe

We have unique market and investor insight gained from numerous loan portfolio transactions performing sell-side and buy-side advisory, covering €400bn of loans across all asset classes since 2008

<table>
<thead>
<tr>
<th>Region</th>
<th>Transactions and Advisory Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>5 transactions (c. €3bn)</td>
</tr>
<tr>
<td>UK &amp; Ireland</td>
<td>UK - 25 transactions (c. €45bn) Ireland - 19 transactions (c. €43bn)</td>
</tr>
<tr>
<td>Italy</td>
<td>5 transactions (c. €6bn)</td>
</tr>
<tr>
<td>Spain &amp; Portugal</td>
<td>32 transactions (c. €27bn)</td>
</tr>
<tr>
<td>Slovenia</td>
<td>AQR lead advisor Deleveraging planning Portfolio sales</td>
</tr>
<tr>
<td>SEE region</td>
<td>Transaction support to B2 in acquisition of HAA’s CEE NPL portfolio (c. €0.2bn) Sell-side support CRO loan (c. €0.1bn)</td>
</tr>
<tr>
<td>Austria</td>
<td>4 loan sales (€0.5bn)</td>
</tr>
<tr>
<td>Hungary</td>
<td>NPL Sales (c. €0.3bn) Sale of leasing portfolio Lead sale advisory on Credigen Bank’s performing portfolio</td>
</tr>
<tr>
<td>Romania</td>
<td>NPL sale advisory (c. €0.4bn) MKB lead sale for bad banking and leasing portfolio (c. €0.2bn) Portfolio sale (c. €0.2bn) Bank deleveraging advisory and sale preparation – NPL sale (€0.3bn)</td>
</tr>
<tr>
<td>Austria</td>
<td>Buy-side for a corporate loan portfolio Transaction support for B2 Holding acquiring Ultimo Group</td>
</tr>
</tbody>
</table>

© Deloitte 2016
David Edmonds

Global & European NPL markets
2015 Market Snapshot

A record 2015 with 2016 to follow

**Headline facts and figures**

**Activity by year**

- **€104.3bn** Completed 2015
- **€44.5bn** Completed 2014
- **€148.8bn** Completed 2015
- **€82.9bn** Completed 2014

- **24** Completed
- **21** Completed
- **15** Completed
- **10** Completed
- **10** Completed
- **8** Completed
- **5** Completed
- **2** Completed

Completed and Ongoing

Over 20% increase in completed loan sales in 2015 compared to 2014

**Number of completed deals 2015**

Volume shift towards continental Europe

**Activity by country**

- UK €45.5bn
- Italy €32.2bn
- Ireland €25.5bn
- Spain €20bn
- Netherlands €7.5bn
- Germany €6.9bn
- Austria & CEE €6.3bn
- Portugal €4bn
- Nordics €0.9bn

**Activity by asset type**

- Residential €37.2bn
- Mixed €25bn
- Corporate €9.7bn
- CRE €7.4bn
- Consumer €6.2bn
- SME €5.1bn
- Other €2bn

Real Estate continues to dominate

Source: Deloitte Research. December 2015
Concentrated Buying, Fragmented Selling

Top 10 most active buyers:

- $32.4bn Cerberus
- $7.8bn Deutsche Bank
- $5.8bn Goldman Sachs
- $5.5bn Carl Val
- $5.4bn Lone Star
- $3.4bn Kensington Mortgage Co Limited
- $3.1bn Blackstone
- $3bn Oaktree
- $2.8bn DE Shaw
- $2.7bn Banca Ffs

"Bad Banks" and Institutions exiting the sector dominate the seller list:

- $17.9bn UKAR
- $12.9bn GE Capital
- $11.3bn NAMA
- $5.5bn Permanent TSB
- $5bn Ulster Bank
- $4.6bn Unicredit
- $4.1bn LBG
- $3.6bn Aviva
- $3.2bn Commerzbank
- $2.9bn Bankia

Source: Deloitte Research. December 2015
Key Activity Drivers

2016…a record year in the making

- Size of outstanding “non-core” universe c.€2tr
- Ever increasing regulatory pressure and oversight (Basel III, SII, IFRS, SSM)
- Market pressure to clean house and focus on return on capital
- Ever growing buyer demand for European assets (€100bn in capital raised and rising)
Deloitte prediction:

- Significant loan sale activity throughout Europe in 2016
- Particular focus on Italy, Spain, Netherlands, Ireland, CEE and SEE in the distressed space
- Performing volumes are set to rise rapidly in more mature markets
- Expected transactions to amount to €130bn out of €2tr non core/non performing asset pool
2016 Country Focus – United Kingdom

The most active country in terms of loan sales in 2015 with sales exceeding £32bn

If rumoured UK transactions occur, 2016 sales should surpass 2015 activity

Residential and performing loan portfolios expected to be the focus in 2016

A number of UK institutions are committed to deleverage programmes, albeit these may be globally driven as opposed to UK focused
2016 Country Focus – Ireland

Total completed sales in 2015 were €22.8bn, down 19% from €28bn in 2014

NAMA and Ulster are the likely key sellers for 2016

Pricing is widening as supply shrinks and investors look elsewhere

Those investors who have invested through the Irish cycle will be focused on asset resolution
2016 Country Focus – Spain

Circa €20bn of transaction volume placed on the market in 2015. Only €8bn was reportedly closed in the year with a further €12bn continuing into 2016.

An estimated €148bn of non-performing assets (NPLs/REOs) still held on the banks’ balance sheet as of September 2015.

Spanish NPLs in the banking sector reduced to 11% as of September 2015 according to Bank of Spain.

Most actively traded asset classes are REDs and REOs.
2016 Country Focus – Italy

- €17.4bn completed loan sales reported at the end of 2015 with an increase of 36.7%

- Recent government reform: Italian banks to offload NPL portfolios to private investors

- Italian government reforms aiming to accelerate loan recovery process and facilitate restructurings

- €25bn of estimated loan sales in 2016, with Italian banks still having at least €200bn in bad debt
2016 Country Focus – Netherlands

More than €80bn loans, mostly from Rabobank and Propertize, estimated to be classified as non-core

€2bn loans were sold in 2015

Propertize sale likely to focus attention at the start of 2016

CRE likely to drive transaction activity in 2016
The European deleveraging theme is still in its early stage. Like a marathon, it is picking up pace due to well-capitalized buyers and brisk regulatory pressures on sellers. Our bet for 2016 is that 6-7% of the non-core pool will change hands.
Balazs Biro

Central & Eastern Europe – NPL supply
Improving macroeconomic environment in the CEE region

“Investor interest in distressed assets usually increases once the prospects for economic recovery become clear and uncertainty about the long-term value of assets subsides.”

Source: ECB working paper, Resolving the legacy of non-performing exposures in euro area banks, May 2015

GDP growth in the CEE region (2013 - 2015 F)

Source: Local national banks, EIU
The real estate market in Hungary has recovered from the shock of the recession. The residential real estate prices are already approaching the 2008 levels, showing a significant increase since 2013.

The number of residential transactions is yet to reach the pre-crisis level (150,000 in 2008), however the current increasing trend is expected to continue through 2016 as well.

Hungarian residential real estate price index (Q1 2008 = 100)

Source: Duna House publications
CEE market - significant NPL volumes

Investors have an increasing interest towards the Central Eastern European and Austrian region, with a NPL portfolio acquisition potential of more than €70 bn. across the region.
Poland
Czech Republic
Slovakia
Hungary
Romania
Slovenia
Croatia
Bulgaria
Serbia

Retail NPL (EUR mn)
Corporate NPL (EUR mn)
NPL ratio (%), right axis

Source: National Banks, Deloitte analysis
Note: Only total NPL volumes were published in Romania in 2014 due to accelerated NPL disposals and write-offs
North region: PL, CZ, SK; South region: HU, RO, SI, CR, BG, SRB

© Deloitte 2016
NPL ratio, ROE and NPL volumes of leading bank groups in CEE

The total volume of NPLs of the 7 biggest bank groups amounted to approx. €26bn in 2014

The total volume of NPLs of the 7 biggest bank groups amounted to approx. €26bn in 2014

1. BCR (RO) – Erste
2. Pekao (PL) – UniCredit
3. OTP (HU) – OTP
4. Zagreb. B. (CR) – UniCredit
5. BRD (RO) – Soc.Gen.
6. Erste (HU) – Erste
7. Raiffeisen (HU) – Raiffeisen

Source: Banks’ data disclosure, ECB CBD, ISI Emerging Markets, Deloitte analysis
Notes: Bubble size: Q4 2014, NPL volume (EUR mn)
Increasing activity from the sellers’ side

**IMPROVING MACRO ECONOMICS**
Increasing confidence, improving credit rating, freeing up resources, etc.

**REGULATORY INITIATIVES**
AQR - Additional provisions decreasing pricing gaps
National banks’ regulatory requirement towards banks

**IMPROVING CAPITAL POSITIONS**
Opportunity for disposal

**IMPROVEMENT OF LENDING CAPACITY**
Release of the capital absorbed by the NPL portfolios improving balance sheet quality
CEE Outlook

Lack of transaction triggers historically restricted transaction activity

1. Dispersed volumes, economies of scale barriers
2. Foreign owned bank sector - no governmental pressure to sort out banking problems
3. Banks’ unwillingness to absorb losses
4. Local funds available are scarce
5. Limited presence of large scale professional collection companies (except for Poland)
6. Lack of historic track record

CE previously lacked transaction triggers, as contrary to Western Europe
Investor appetite – geographic preferences

Investor interest in 2015 was focused around Romania and Hungary. Investors are now more interested in Slovenia and Croatia driven by deal flow and strong macroeconomic indicators.
Current investor outlook

*Investors have a balanced scorecard approach to entering new markets. Lack of deal pipeline, uncertain legal framework and deal certainty deterred the larger US / UK investors but high returns have attracted others*

<table>
<thead>
<tr>
<th></th>
<th>Deal pipeline</th>
<th>Macro indicators</th>
<th>Real estate market liquidity</th>
<th>Legal and regulatory</th>
<th>Deal certainty</th>
<th>Competitive landscape</th>
<th>Deloitte predictions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Romania</td>
<td>green</td>
<td>green</td>
<td>green</td>
<td>green</td>
<td>green</td>
<td>green</td>
<td>Reduced activity / no new entrants</td>
</tr>
<tr>
<td>Hungary</td>
<td>green</td>
<td>green</td>
<td>green</td>
<td>green</td>
<td>green</td>
<td>green</td>
<td>Continued activity / new entrants expected</td>
</tr>
<tr>
<td>Slovenia</td>
<td>green</td>
<td>green</td>
<td>green</td>
<td>green</td>
<td>green</td>
<td>green</td>
<td>Continued activity / new entrants expected</td>
</tr>
<tr>
<td>Croatia</td>
<td>green</td>
<td>yellow</td>
<td>red</td>
<td>green</td>
<td>green</td>
<td>green</td>
<td>Increased activity / new entrants expected</td>
</tr>
<tr>
<td>Poland</td>
<td>green</td>
<td>green</td>
<td>green</td>
<td>green</td>
<td>green</td>
<td>green</td>
<td>Slow increase in activity</td>
</tr>
<tr>
<td>Ireland in 2012</td>
<td>green</td>
<td>green</td>
<td>green</td>
<td>green</td>
<td>green</td>
<td>green</td>
<td>Reduction in activity</td>
</tr>
</tbody>
</table>
Investor preferences

Themes arising from the Deloitte international investor roadshow

Investors’ preference

1. **Trend:** NPL markets are competitive in Western Europe, and certain international investors have an increasing interest towards CEE. Early stage acquisitions could help them dominate the market.

2. **Size:** Typical equity cheque is c. €30-50+m. Showing future deal flow is key to them spending time and money in the country.

3. **Strategy:** Investors see CEE as a new market. Investor focus has been on Romania, Hungary and Slovenia however there is increased interest in Croatia, Serbia and Bulgaria.

4. **Asset type:** Investors have their preferred asset type (corporate or retail, secured or unsecured). International investors typically prefer concentrated corporate secured portfolios as they are easy to diligence (therefore lower risk) and are easier to service/work-out.

5. **IRR:** The typical expected IRR rate is high teens – 20% with money multiples in excess of 1.5+
Increasing interest towards CEE

International NPL funds

CHRISTOFFERSON ROBB & COMPANY

B2 HOLDING

The Baupost Group

Revetas Capital

Värde Partners

Patron Capital Partners

Blackstone

APS HOLDING

CERBERUS Capital Management, L.P.

Lone Star Funds

Fortress

Kennedy Wilson

TPG Capital

Marathon Asset Management

FIMCO

OAKTREE

Apollo

Bayside Capital

AnaCap

Castlelake

Sankaty Advisors

HIG Europe

Kildare Partners

Bank of America Merrill Lynch

CARVAL INVESTORS

Deutsche Bank
Investor challenges

Themes arising from the Deloitte international investor roadshow

Potential challenges

1. **Readiness of banks:** A committed seller (coverage ratio) is key as there have been too many failed deals. Lack of data from the seller is also an issue and results in the perception that the seller is not committed.

2. **Portfolio composition:** International Investors do not like multi-country portfolios as they result in high due diligence costs (unless they already have portfolios in such countries).

3. **Collection process:** Investors require a suitable collection servicer (loan servicer) to manage the portfolio post acquisition. Understanding the legal framework is also a key consideration.

4. **Collaterals:** Investors prefer liquid collaterals (e.g. office and retail) rather than development land and rural industrial. Investors require a local real estate valuers and comparables in order to accurately underwrite the portfolios.

5. **Transaction process:** well-prepared and transparent processes together with well prepared documentation and data. Limited competition and timing is also key (due to competing deals).
Market activity

Market activity picked up significantly in 2015 and is forecast to be in excess of €6bn for 2016 with a number of large transactions ongoing.

**Transactional activity by year**

<table>
<thead>
<tr>
<th>Year</th>
<th>Completed</th>
<th>Ongoing</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>1,279</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>2,200</td>
<td>743</td>
</tr>
<tr>
<td>2016</td>
<td>5,671</td>
<td></td>
</tr>
</tbody>
</table>

**Transactional activity by asset type**

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>Completed</th>
<th>Ongoing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate</td>
<td>3,647</td>
<td></td>
</tr>
<tr>
<td>Consumer</td>
<td>2,829</td>
<td>537</td>
</tr>
<tr>
<td>Mixed / other</td>
<td>600</td>
<td></td>
</tr>
<tr>
<td>CRE / REO</td>
<td>560</td>
<td></td>
</tr>
<tr>
<td>Residential</td>
<td>1,487</td>
<td></td>
</tr>
</tbody>
</table>

Source: Deloitte research
Market activity – countries

Romania dominated the market in 2015. Large residential mortgage and corporate transactions are on-going in Hungary.

Most active countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Completed</th>
<th>Ongoing</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Romania</td>
<td>3,150</td>
<td>700</td>
<td>3,850</td>
</tr>
<tr>
<td>Hungary</td>
<td>1,550</td>
<td>300</td>
<td>1,850</td>
</tr>
<tr>
<td>Slovenia</td>
<td>1,200</td>
<td>325</td>
<td>1,525</td>
</tr>
<tr>
<td>Croatia</td>
<td>567</td>
<td>217</td>
<td>784</td>
</tr>
<tr>
<td>Poland</td>
<td>694</td>
<td>0</td>
<td>694</td>
</tr>
</tbody>
</table>

Source: Deloitte research
Market activity – buyers

Deutsche Bank have been involved in a number of transactions (as part of consortium bids). Regional debt purchase companies have also started to be more active in the market.

Most active buyers

<table>
<thead>
<tr>
<th>Name</th>
<th>€ m</th>
</tr>
</thead>
<tbody>
<tr>
<td>DB / APS / IFC</td>
<td>1,200</td>
</tr>
<tr>
<td>DB / APS</td>
<td>550</td>
</tr>
<tr>
<td>APS</td>
<td>471</td>
</tr>
<tr>
<td>DB / APS / AnaCap / HIG</td>
<td>460</td>
</tr>
<tr>
<td>Confidential</td>
<td>386</td>
</tr>
<tr>
<td>B2 Holding</td>
<td>416</td>
</tr>
<tr>
<td>Kredyt Inkaso</td>
<td>340</td>
</tr>
<tr>
<td>Kruk</td>
<td>200</td>
</tr>
</tbody>
</table>

Source: Deloitte research
Market activity – sellers

*Foreign banks in CEE dominated the NPL sales. We expect some activity from local banks in 2016*

Most active sellers

- **Erste**: €2,025
- **Axa**: €1,000
- **NLB**: €800
- **Bancpost (Eurobank)**: €500
- **Heta**: €499
- **Volksbank**: €535

Source: Deloitte research
## Market activity – completed transactions

A number of Romanian transactions signed at the end of 2015

<table>
<thead>
<tr>
<th>Date</th>
<th>Seller</th>
<th>Buyer</th>
<th>Project Name</th>
<th>Asset Type</th>
<th>Face value</th>
<th>Deloitte involvement</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>Postbank (Eurobank)</td>
<td>EOS</td>
<td>Confidential</td>
<td>Consumer</td>
<td>€143m</td>
<td>✔</td>
</tr>
<tr>
<td>2016</td>
<td>Confidential</td>
<td>Confidential</td>
<td>Velence</td>
<td>PL &amp; NPL leasing</td>
<td>€300m</td>
<td>✔</td>
</tr>
<tr>
<td>2016</td>
<td>Intesa Sanpaolo</td>
<td>APS</td>
<td>Rosemary</td>
<td>Corporate &amp; Retail</td>
<td>€300m</td>
<td>✔</td>
</tr>
<tr>
<td>2015</td>
<td>Confidential</td>
<td>Confidential</td>
<td>Rhein</td>
<td>Corporate</td>
<td>€75m</td>
<td>✔</td>
</tr>
<tr>
<td>2015</td>
<td>Confidential</td>
<td>Confidential</td>
<td>Wolga</td>
<td>Corporate</td>
<td>€70m</td>
<td>✔</td>
</tr>
<tr>
<td>2015</td>
<td>TBI Credit</td>
<td>APS</td>
<td>Confidential</td>
<td>Consumer</td>
<td>€50m</td>
<td>✔</td>
</tr>
<tr>
<td>2015</td>
<td>BNP Paribas</td>
<td>Confidential</td>
<td>Confidential</td>
<td>Consumer</td>
<td>€46m</td>
<td>✔</td>
</tr>
<tr>
<td>2015</td>
<td>Erste</td>
<td>B2 Holding</td>
<td>Janica</td>
<td>Corporate &amp; SME</td>
<td>€217m</td>
<td>✔</td>
</tr>
<tr>
<td>2015</td>
<td>Citibank</td>
<td>Raiffeisen</td>
<td>Marlow CZ</td>
<td>Corporate &amp; Retail</td>
<td>Confidential</td>
<td>✔</td>
</tr>
<tr>
<td>2015</td>
<td>MKB Bank</td>
<td>Failed</td>
<td>Danube</td>
<td>Corporate</td>
<td>€760m</td>
<td>✔</td>
</tr>
<tr>
<td>2015</td>
<td>Citibank</td>
<td>Erste Bank</td>
<td>Marlow HU</td>
<td>Corporate &amp; Retail</td>
<td>Confidential</td>
<td>✔</td>
</tr>
<tr>
<td>2015</td>
<td>Bank of Cyprus</td>
<td>Failed</td>
<td>Ariadne</td>
<td>CRE loans</td>
<td>€500m</td>
<td>✔</td>
</tr>
<tr>
<td>2015</td>
<td>Piraeus Bank</td>
<td>Kruk</td>
<td>Henri</td>
<td>Unsecured SME &amp; Retail</td>
<td>€200m</td>
<td>✔</td>
</tr>
<tr>
<td>2015</td>
<td>BCR</td>
<td>Failed</td>
<td>Neptune</td>
<td>Corporate &amp; Retail</td>
<td>€3.0bn</td>
<td>✔</td>
</tr>
<tr>
<td>2015</td>
<td>Unicredit</td>
<td>Kredyt Inkaso</td>
<td>Triton</td>
<td>Corporate</td>
<td>€340m</td>
<td>✔</td>
</tr>
<tr>
<td>2015</td>
<td>BCR</td>
<td>DB / APS / IFC</td>
<td>Tokyo</td>
<td>Corporate</td>
<td>€1.2bn</td>
<td>✔</td>
</tr>
<tr>
<td>2015</td>
<td>Heta</td>
<td>Withdrawn</td>
<td>Primo</td>
<td>REO</td>
<td>n/a</td>
<td>✔</td>
</tr>
<tr>
<td>2015</td>
<td>Erste</td>
<td>APS</td>
<td>Grey</td>
<td>Corporate</td>
<td>€21m</td>
<td>✔</td>
</tr>
<tr>
<td>2015</td>
<td>DUTB</td>
<td>APS</td>
<td>4 single loan sales</td>
<td>Corporate</td>
<td>Not disclosed</td>
<td>✔</td>
</tr>
<tr>
<td>2015</td>
<td>DUTB / Bawag</td>
<td>York Capital</td>
<td>Istrabenz Loans</td>
<td>Corporate</td>
<td>€156m</td>
<td>✔</td>
</tr>
<tr>
<td>2014</td>
<td>Volksbank</td>
<td>DB / APS / AnaCap / HIG</td>
<td>Donua</td>
<td>CRE loans</td>
<td>€460m</td>
<td>✔</td>
</tr>
<tr>
<td>2014</td>
<td>MKB Bank</td>
<td>APS</td>
<td>Gabriel</td>
<td>CRE loans</td>
<td>€100m</td>
<td>✔</td>
</tr>
<tr>
<td>2014</td>
<td>Banca Comerciale</td>
<td>DB / APS</td>
<td>Saturn</td>
<td>Corporate loans</td>
<td>€550m</td>
<td>✔</td>
</tr>
<tr>
<td>2014</td>
<td>Heta</td>
<td>B2 Holding</td>
<td>Dinara</td>
<td>Retail NPL</td>
<td>€169m</td>
<td>✔</td>
</tr>
</tbody>
</table>
## Market activity – on-going transactions

*Large Hungarian transactions expected to dominate 2016. Slovenia and Croatia also have a number of on-going and expected deals*

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Asset Type</th>
<th>Face value</th>
<th>Deloitte involvement</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Confidential</td>
<td>Corporate</td>
<td>€600m</td>
<td>✓</td>
<td>CEE</td>
</tr>
<tr>
<td>Goran</td>
<td>Corporate &amp; REO</td>
<td>€37m</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Confidential</td>
<td>Corporate</td>
<td>€200m</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Confidential</td>
<td>Corporate</td>
<td>€330m</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Helena</td>
<td>Corporate</td>
<td>€300m</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Confidential</td>
<td>Residential</td>
<td>€1,000-1,100m</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Confidential</td>
<td>Residential</td>
<td>€250-300m</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Confidential</td>
<td>Corporate</td>
<td>€457m</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Confidential</td>
<td>Residential</td>
<td>€237m</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Confidential</td>
<td>Corporate</td>
<td>€200m</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Confidential</td>
<td>SME &amp; Retail</td>
<td>€500m</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Pine</td>
<td>Corporate</td>
<td>€800m</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Confidential</td>
<td>Corporate</td>
<td>€400m</td>
<td>✓</td>
<td>SEE</td>
</tr>
<tr>
<td>Eagle</td>
<td>Real Estate</td>
<td>n/a</td>
<td>✓</td>
<td>SEE</td>
</tr>
<tr>
<td>Confidential</td>
<td>Corporate</td>
<td>€360m</td>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>
Amo Chahal

Central & Eastern Europe – Predictions
Conclusions and predictions…

Despite a noticeable pickup in market activity in the region, completed deals remained in line with 2014 levels. A number of transactions initiated in late 2015 remain ongoing and will be a key driver for 2016 market trend. Failed deals are not helping the market develop and investors retain a healthy scepticism regarding the likelihood of deals completing.

- Completed deals remained in line with 2014, however overall activity increased significantly.
- Slovenia and Croatia will likely see substantial increased deal activity in 2016.
- Romania remains the most active market.
- There has been a reduction in the pricing gap between buyers and sellers.
NPL transaction market – Envisaged timeline

2014  2015  2016 - 2018

EARLY BIRD

FULL STEAM

FINALE
Luca Olivieri
The Italian Loan Sales Market
The Italian government has recently found an agreement with the European Commission to introduce rules aiming at reducing the NPL’s stock from the books of Italian commercial banks.

The scheme envisages State guarantees as part of securitization transactions having NPL’s as underlying assets.

The recent reform of the “Popolari” banks is sparking a wave of consolidation among some of the largest banking groups in Italy.

Regulators are also trying to find M&A solutions for some of the most distressed financial institutions.

Foreclosure and insolvency reforms have been enacted to facilitate NPL portfolio sales and create a more dynamic market where banks could reinvest proceeds from non-core portfolio sales into the real economy.

A significant reform on the fiscal regime for loan loss provisions, allowing full deduction in the year the loan loss provisions are taken, has been introduced.

Amid an increase attention to asset quality by equity analysts, Italian banks are under pressure to set up comprehensive deleveraging strategies.

The transfer price of the 4 bailed in banks NPL portfolios (18%) has created additional pressure to increase the level of provisions.
More than €200bn on NPL and more than €320bn on impaired loans are held by Italian banks
Italian market – Expected Developments

*The Italian NPL markets is rapidly evolving in 4 key interconnected areas*

**UNDERLYING LOANS**
As unsecured granular loan portfolios remain a very liquid asset class, banks are increasingly focusing on SME and CRE loans as well as leasing.

**TRANSACTION STRUCTURE**
For the most complex asset classes, banks have started to set up JV structures with institutional investors and operating partners.

**ROLE OF GOVERNMENT AND REGULATORS**
Public authorities are currently playing an important role in the NPL market.
The high level of scrutiny from regulators and the willingness of the Italian government to resolve the NPL problem will be a key market driver and will have an impact on both buyers and sellers.

**DISPOSAL PROCESSES**
Banks are increasingly reluctant to involve a very large number of participants to NPL disposal processes.
We are seeing more deals being executed on an exclusive basis or “club deals” with a limited number of bidders.
Andrei Burz - Pinzaru

Key legal issues, practical insights, recent trends
CE Region - Overview regime

*An increasing trend in CE region*

**Transferability:** YES

- **Common exceptions:** contractual restrictions
- **Breach:** invalidity of transfer (most CE countries, including Poland, Slovakia) or damages (Romania, Estonia)

**Specific exceptions:** consumer loans – not transferable unless expressly mentioned (Bulgaria)

---

**Who can buy NPLs?**

- **Romania:** a portfolio classified as “bad debt” may be acquired by unregulated entities; exc.: Law 190
- **Czech Republic, Slovakia:** anyone

**N.B.** International deals - sensitive matter - transfer of foreign law-governed loans and security interests

**Financial institution:** Hungary, Kosovo, Albania (acquisition of loans on a regular basis); Serbia (or legal entity)

**Other particularities:** SPVs licensed for securitization purposes cannot buy loans under enforcement (Bulgaria)

**Other legal instruments:**
- assignment of contract
- novation (change of creditor)
- payment of debt

---

**How?**

- **Frequently used:**
  - assignment of receivables
  - no borrower consent (exc. Kosovo)
  - post-transfer notification formalities

**N.B.** Type of legal instrument used impacts consent requirements
Key practical aspects - Romania

The NDA & Bank’s burden to keep confidentiality

Permitted disclosure of protected info:

- **If the interested party’s consent is obtained in advance**
  - **Express**: finance documents (including Bank’s General Terms and Conditions for Facilities/Business Terms) to be reviewed during internal preparatory phase of the sale
  - **Implied**: transfer of the loan expressly permitted disclosure in the context of a sale implicitly allowed

- **If the Bank has and invokes a legitimate interest to communicate these information to another party**
  - “legitimate interest” – no legal definition
  - we consider disclosure for the purpose of a sale a legitimate purpose in general and even more in case of NPLs
    
i.e. loses which the seller is trying, by means of the transfer, to mitigate

Risks:

- contractual liability
- administrative liability
- criminal liability under certain specific circumstances

Minimum precautions:

- **To put in place NDAs**
  - involve extensive negotiations with potential bidders
  - duration of confidentiality obligation: law (unlimited) vs. practical approach/LMA standard (1 year)
  - to be reviewed by from a competition law perspective

- **Gradual disclosure process**
  - full disclosure only to bidders who proved their interest by submitting non-binding bids
Key practical aspects - Romania

Data room preparation (VDR or PDR)

- Preparation of a coherent and user friendly DR is essential for:
  - efficient time spent by the sell side advisors team
  - bidders’ local legal advisors to conduct a smooth due diligence exercise, within the established timeline, and to run a well-coordinated Q&A process

- Formal appearance of the VDR:
  - the VDR folder structure and the name of documents to be intuitive and easily identifiable for local legal advisors
  - documents have to be uploaded in proper and readable form to the correct sub-folders

- DR content:
  - the entire process (as well as any document/information uploaded in the DR) should be scrutinized from the perspective of competition law to avoid the exchange of sensitive/confidential information between competitors
  - the seller should consider the competition law aspects also when i) implementing DR rules and procedures and /or ii) when imposing limitations related to type of information the buyers be provided under DD report by their consultants etc.

- The DR rules/disclaimer:
  - to be reviewed from a legal perspective

- Documents uploaded to VDR:
  - to discuss with the VDR provider if the documents can be uploaded in a format to prevent downloading and what other mitigators recommendable from a data protection, confidentiality and competition law perspectives are available technically
  - to discuss if the VDR operator provides parties with CDs replicating the documents in the platform
Key practical aspects - Romania (cont’d)

Data protection rules – still a hot topic!

Invalidation of Safe Harbour principles by ECJ (October 2015)

Personal data transfers to US may be performed only based on the guarantees of transfer provided by the law:

- Standard contractual clauses approved by EC and recognized by the DPA; or
- Binging corporate rules; or
- The guarantees provided by Data Protection Law, which provide the situations in which the transfer is always permitted.

Impact on ongoing deals – how can we assist?
### Seller’s obligations:

To obtain consent from the data subjects, in particular if sensitive data are concerned, unless:

- Consent was already obtained based on the loan agreements
- A “legitimate interest” substantiates the disclosure/transfer of personal data:
  - Not defined by RO law
  - Guidelines at EU level (opinion of Article 29 WPG in 2014)

### Information of data subjects on minimum required information (rights, purposes etc.)

### Risk assessment per client type:

#### Corporate clients

- No risks for themselves;
- Risks re. individuals acting as representatives or shareholders, personal guarantors, security providers

#### Retail clients

- Higher risks
The findings of the bidders’ DD may impact not only the price offered, but also the bidder’s negotiation strategy on the LPTA’s key terms seller’s liability cap:

- defective receivables
- R&W
- allocation and management of risks

We strongly recommend clarifications to be provided to bidders before submission of binding bid:

- Q&A tool
- management discussions
- legal advisors’ meetings
Key practical aspects – Romania (cont’d)

**TUPE rules – applicable or not?**

**Phase I**
- (preparatory)
  - NPL sale qualifies as transfer of business under TUPE laws?
  - Practical criteria to be considered

**Phase II**
- (Employees identification)
  - job descriptions
  - organizational chart
  - actual tasks fulfilled

**Phase III**
- (Seller’s procedural obligations)
  - Buyer notification on rights of the employees attached to NPL Portfolio
  - Notification of its own employees
  - Consultation with its own employees

**YES**

Buyer generally asks the seller to make such assessment + to give a rep under the LPTA

Employees to be transferred from the seller to the buyer - protection against dismissal

Seller to secure key employees up to closing via implementation of retention policies
Key practical aspects – Romania (cont’d)

Antitrust approval needed?

Economic concentration

• Buyer’s analysis establishing to what extent the NPL Portfolio’s sale qualifies as an economic concentration

• If YES prior to deal implementation: buyer to notify the acquisition of control to the Romanian Competition Council/European Commission

Risks for seller:

• no financial sanction

• the competition authority has the power to reverse the transaction and to order to the parties to re-establish the initial situation if upon analysis of the transaction the competition authority declares it incompatible with the market
Key practical aspects – Romania (cont’d)

The LPTA - negotiation “likes”, “intends” and “musts”

SELLER’S LIABILITY:
- cap;
- time limit;
- De Minimis; basket

MARKET TRENDS:
How to keep per item prices confidential – custodian mechanics

CONDUCT OF BUSINESS PRIOR TO CLOSING

EXCLUSION OF RECEIVABLES:
criteria, time limit, buyer’s post signing due diligence

SELLER’S REPURCHASE OBLIGATIONS

REPS & WARRANTIES
Recent legislative updates in Romania

- Personal insolvency law – to enter into force on 31 Dec 2016

- Repeal of buyer licensing requirements for acquiring NPLs under Law 190 – to enter into force on 3 March 2016

- Retail loans – Retail loans – draft proposal under public discussion, not in force
  - Assignment permitted only to NFIs or legal entities with share capital of min RON 500k
  - Interdiction to assign NPLs to an entity not having headquarters/branch in Romania
  - Interdiction to ask for interest, default interest, fees by the debt collection company acquiring the NPL
  - Credit agreement loses its character of writ of execution post-transfer to the debt collection company

- Datio in solutum (retail mortgage consumer loans cancellation) – draft proposal under re-examination, not yet in force

- NPLs can be valorized up to a max floor of 2 x purchase price paid by the buyer, without exceeding the loan amount – under discussion, not in force
Panel Discussion
Speakers & Panel Participants

**Ben Trask**
Director
Deloitte Austria
Tel: +43 1 537 00 2950
Email: bentrask@deloitte.at

**Balázs Bíró**
Partner
Deloitte CEE
Tel: +36 20 326 2211
Email: bbiro@deloittece.com

**David Edmonds**
Partner
Deloitte UK
Tel: +44 20 7303 2935
Email: dedmonds@deloitte.co.uk

**Amo Chahal**
Director
Deloitte UK
Tel: +44 20 7007 7323
Email: achahal@deloitte.co.uk

**Luca Olivieri**
Director
Deloitte IT/UK
Tel: +44 20 7007 4292
Email: lolivieri@deloitte.co.uk

**Andrei Burz-Pinzaru**
Partner
Reff Associates/Deloitte CEE
Tel: +40 728 32 89 28
Email: aburzpinzaru@reff-associates.ro

**Christoph Kampitsch**
Head of Property Solutions
Erste Group Bank AG

**Viktor Levkanič**
Investment Director
APS Holding SE
This document is confidential and prepared solely for your information. Therefore you should not, without our prior written consent, refer to or use our name or this document for any other purpose, disclose them or refer to them in any prospectus or other document, or make them available or communicate them to any other party. No other party is entitled to rely on our document for any purpose whatsoever and thus we accept no liability to any other party who is shown or gains access to this document.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte has in the region of 200,000 professionals, all committed to becoming the standard of excellence.

This publication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the “Deloitte Network”) is, by means of this publication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional advisor. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this publication.

This communication is for internal distribution and use only among personnel of Deloitte Touche Tohmatsu Limited, its member firms, and their related entities (collectively, the “Deloitte Network”). None of the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this publication.