

Deloitte.



NPL Event

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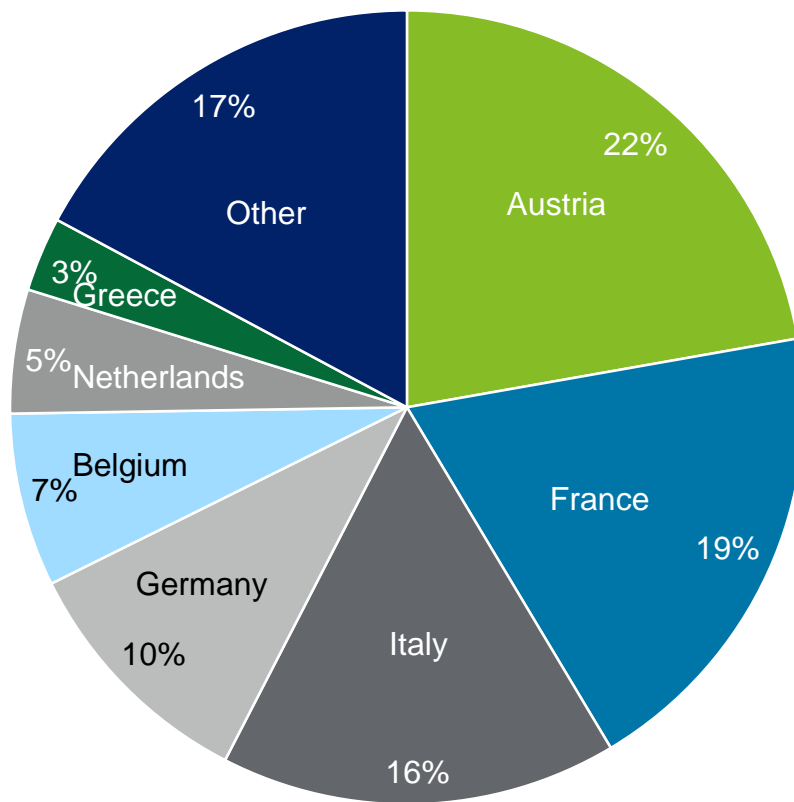
Ben Trask

Introduction and welcome

KPI's EU banking market

Austria's share of total exposure to CESEE is with 22% the highest among all EU-15 countries

EU-15 banks' shares in total exposure to CESEE in Q3 16

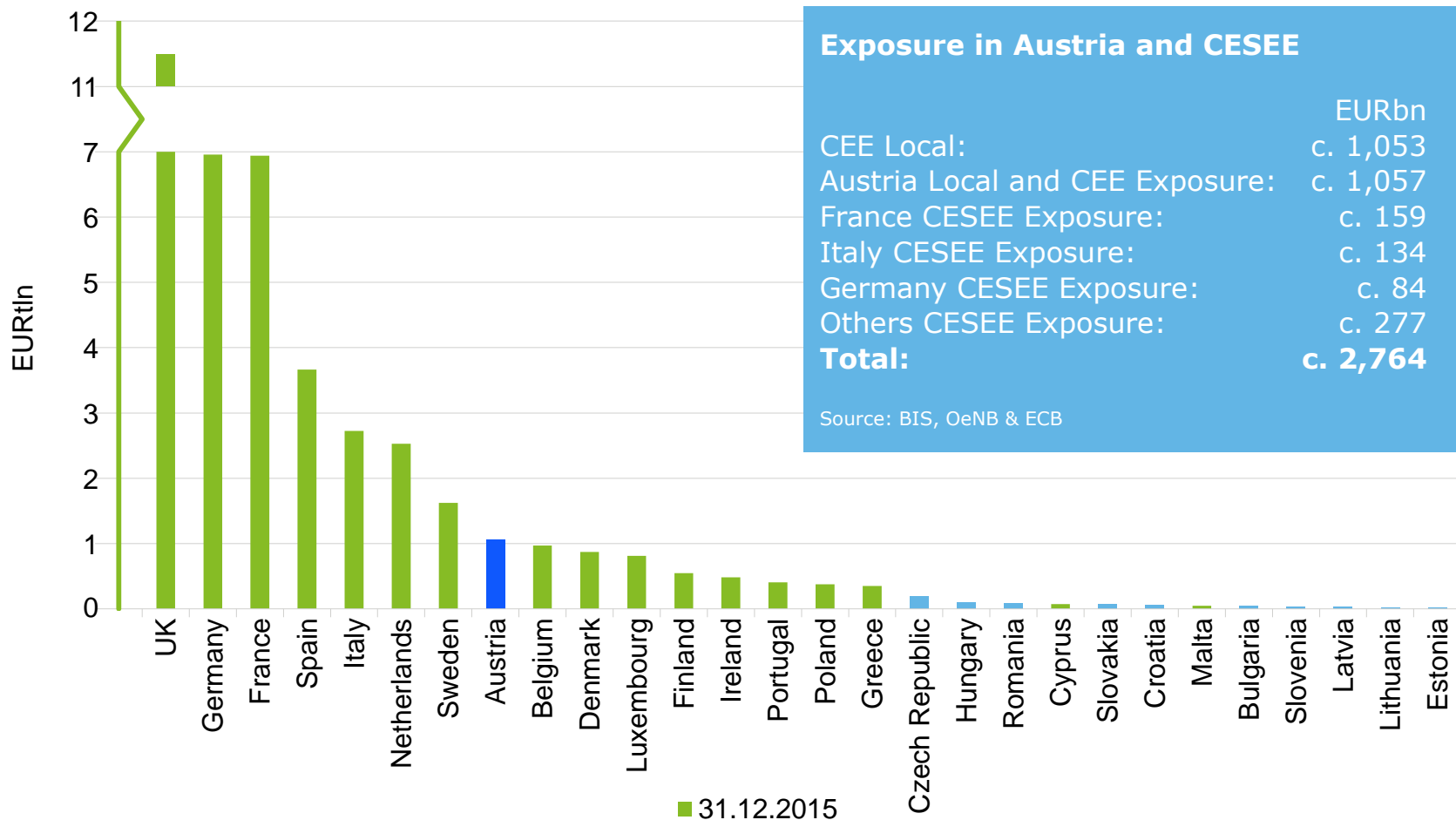


Source: BIS

KPI's EU banking market

Overview

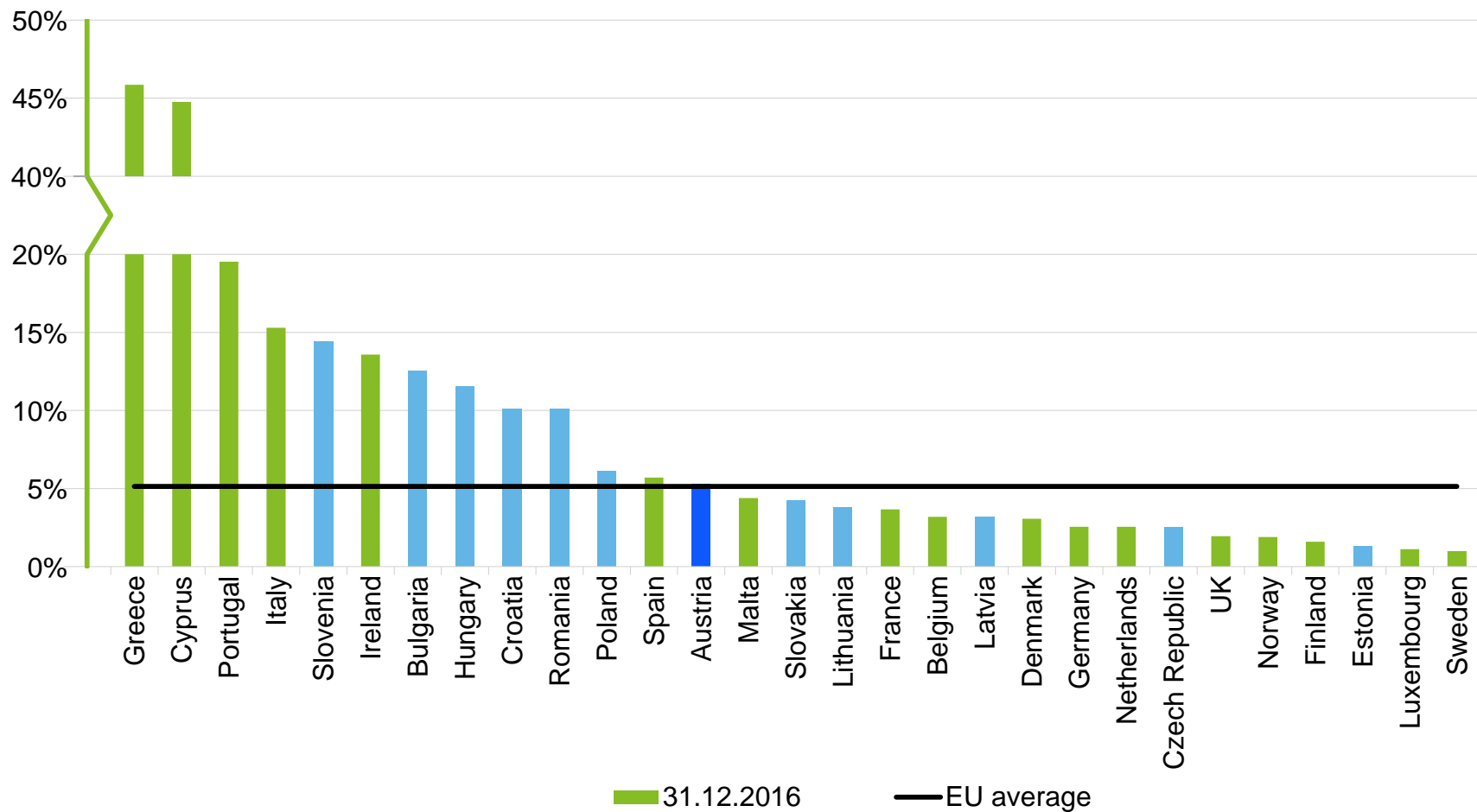
Total banking assets in EU countries



Source: ECB

KPI's EU banking market Overview

NPL ratio in EU countries



Source: EBA Risk Dashboard

Albert Hannak

Restructuring procedures in Austria & CEE

Introduction

Significant changes have been implemented (or are planned) to restructuring legislation across Austria and CE



- Efforts to standardize and simplify restructuring procedures across the region influenced by EU attempts to harmonize legislation
- General desire to make restructuring easier and a more effective resolution tool



- Well-functioning insolvency and restructuring systems are key to supporting economic growth and job creation. EU Insolvency initiative aims to:
 1. Increase opportunities for companies to restructure early
 2. Help prevent bankruptcy and avoid laying off staff
 3. Ensure entrepreneurs get a second chance after bankruptcy
 4. Lead to more effective and efficient insolvency procedures throughout the EU



- Croatia's new restructuring law ('Law on the Procedure of extraordinary administration in companies of systemic importance for the Republic of Croatia' or 'Lex Agrokor')



- Proposals to implement an Austrian Reorganization Act, similar to the UK Scheme of Arrangement

Lex Agrokor

Croatian government passed an emergency law to protect the national economy from a potential collapse of Agrokor

AGROKOR

- Largest privately owned Croatian retail group
- €6.5bn in revenue, 60,000 employees in 2015, €6bn debt (six times equity)
- Making headlines since early 2016 – growing speculation regarding restructuring



Timeline

- *6 April 2017: Croatian Parliament passed the 'Law on the Procedure of extraordinary administration in companies of systemic importance for the Republic of Croatia' aka Lex Agrokor*
- *7 April 2017: Agrokor applies to Court to enter the new procedure with immediate effect*
- *10 April 2017: Court places Agrokor into the new procedure and appoints Ante Ramjolak special trustee*



Stated Goals

- Protect the viability of companies of systemic importance for Croatia
- A rapid and effective procedure for restructuring
- Provide liquidity, stability and sustainability for the company
- reach a settlement with creditors

Lex Agrokor

Lex Agrokor gives extensive powers to the trustee, but also offers creditors a super-seniority olive branch



New roles

- **Special trustee:** Authorized to undertake all actions for regular business operations
- **Creditor's council:** Up to nine members representing each class of creditor
- **Advisory body:** Provides its opinions on the actions and decisions of the Special trustee at the request of either the Croatian Ministry or the Court



Key terms

- Super seniority for new financial lending (i.e. DIP financing)
- Settlement agreement between debtor and creditors within 12 months
- Extraordinary administration creates a moratorium => protection from creditors



Outlook

- If special administration fails: insolvency would likely result in a chain reaction supplier of insolvencies
- Potential issues: The new law could contravene Croatian constitutional property ownership rights

Austrian Reorganization Act

A more dynamic pre-insolvency/restructuring procedure

Current status: Law on Reorganizations is inflexible, time consuming and difficult to utilize in practice.

Purpose

Modernization by furthering efficiency
Avoiding insolvency while going concern is at risk
Enhancing depth and liquidity of Austrian capital markets
Attracting creditors to lend, companies to restructure

Going concern

Positive going concern forecast as required by the current Law
But no imminent insolvency (contrary to AIA)

Law Reform

Reference to the UK Scheme of Arrangement

Recognized flexible tool for implementing complex international restructurings

Legislative agenda for 2017

New court-approved out-of-court restructuring solution

Austrian Ministry of Justice

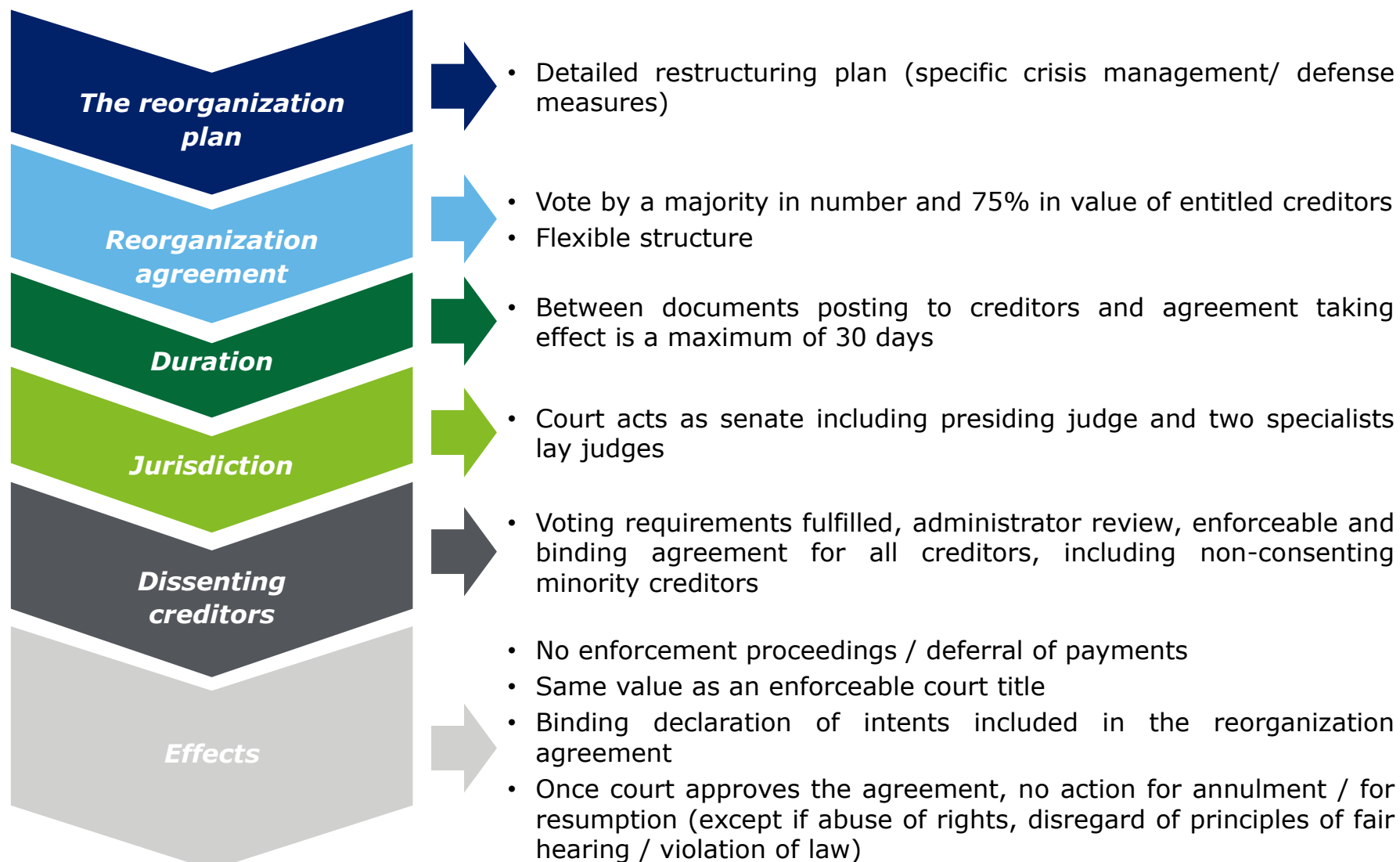
The new Law is currently under consideration by a working group within the Austrian Ministry of Justice

Business size

Procedure open to small, cross border and listed stock companies

Austrian Reorganization Act

Proposed new law envisages the following procedural steps



Conclusion

In-line with proposed EU reforms, there is a general trend away from formal insolvency towards pre-insolvency restructuring procedures which seek to maximize value for all stakeholders



Austrian Reorganization Act

- Moving the emphasis away from formal insolvency procedures to a more dynamic pre-insolvency / restructuring procedure
- Create a more attractive environment for creditors to lend and companies to restructure their debts
- Our view: The implementation of this new restructuring tool could constitute a considerable step towards making Austria a more attractive location for lenders and creditors alike



Lex Agrokör

- Though the law was implemented in an expedited manner, it has provided a degree of stability to the beleaguered company, avoided a potentially catastrophic insolvency and created platform on which to negotiate a restructuring
- Risks remain that the law could be challenged
- Our view: The real question is not the letter of the law, but how it is implemented and whether it treats all creditors fairly – we will start to see the answer later this year and into 2018

Will Newton
ECB regulations

Political agenda

The past 18 months have finally seen European authorities wake up to the durability of the NPL problem in Europe

Working groups



- EC Finance Ministers sub-committee on NPLs
- ECB/EBA joint working group
- ECB task force

Initiatives



- Data
- Securitisation
- Bad banks

Guidelines



- ECB SREP priorities for 2017
- ECB NPL guidelines
- ECB leveraged lending guidelines

Thought papers & speeches



- ECB Board member speeches
- ECB Financial Stability Review

ECB Financial Stability Review – May 2017

Thoughts & initiatives to help fix a “failing” market



- “Large stocks of NPLs ... continue to present risks to financial stability”
- “Significant legal and administrative reforms have been undertaken in recent years ... yet the market continues to provide low level NPL valuations that result in wide bid-ask spreads thus impeding large-scale NPL sales”



- “Recent publication of the ECBs guidance ... should provide an important supply-side impetus”
- “Demand-side impediments ... remain a factor in many markets”
- “... the market has not yet priced-in the effect of reforms due to concerns regarding the efficiency of their actual implementation and/or because of a highly conservative approach to valuation”



- “... some degree of market failure may be playing a role in the persistence of large bid-ask spreads ...”
- “... information asymmetries may be a key factor in explaining these wide bid-ask spreads”
- “A comprehensive range of policy options may have to be pursued to tackle large stocks of NPLs and to address the attendant market failures”

Proposed & potential initiatives

Increased intervention in the market in the future

Securitisation



- GACS
- FSR proposals: State guarantee of junior tranches

Forward purchase scheme



- FSR proposals on partial financing by State of direct NPL sales
- Low cost financing of forward price element in excess of normal bid price

Bad banks



- Constancio speech on central Europe-wide AMC
- ECB initiative to explore possibilities within State Aid framework

Data harmonisation



- EBA initiative
- Potential for future NPL clearing

ECB NPL guidelines

A summary



Requirements

- Definition of ambitious but realistic NPL strategies
- Quantitative NPL reduction targets
- Credible operational plans



Intention

- Increased provisioning
- Narrowing bid-ask spread
- Increased loan sales
- Enhanced supervision



Supervisory approach

- Banks will not get it right first, or second, or third time
- Banks do not yet seem to realise just how much detail we will require
- This is going to be a multi-year, iterative process

Amo Chahal

Europe market overview

Key activity drivers

2016 – another record year

Size of market



Outstanding non-core and NPL universe
c. €2trn

Market pressure



Pressure to clean house and focus on
return on capital

Regulations



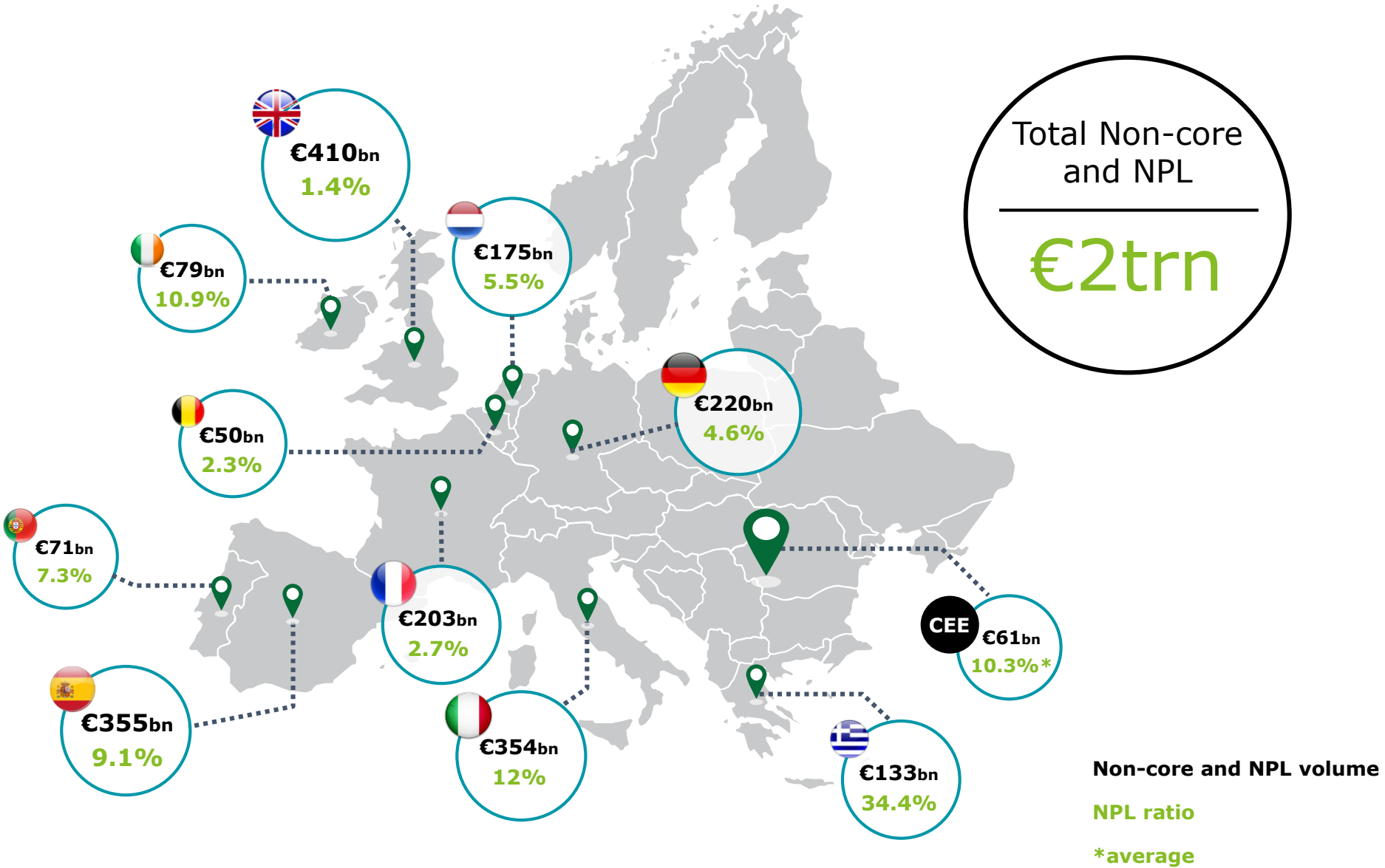
Ever increasing regulatory pressure and
oversight – Basel III, SII, IFRS, SSM

Investor demand



Ever growing buyer demand for
European assets – €100bn in capital
raised and rising

European market overview – Size and nature of market

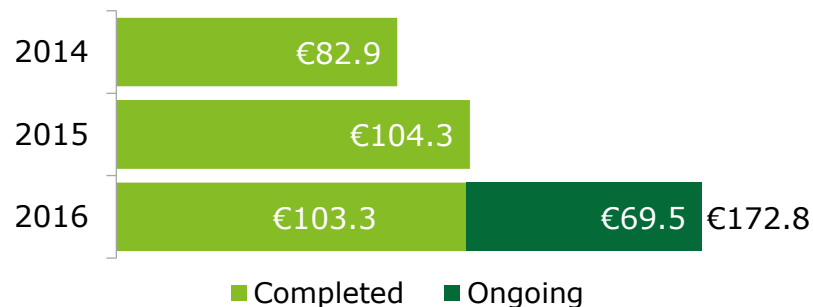


European market overview

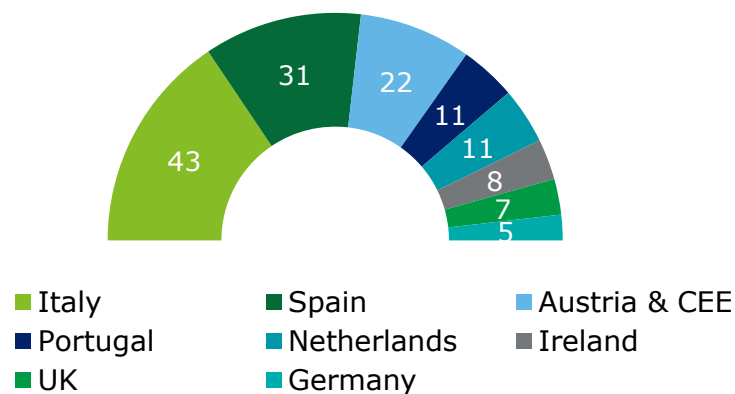
The record rate of loan disposals achieved in 2015 has been repeated again in 2016, with just over €103bn of completed deals

- Strong activity levels seen in Southern Europe, led notably by Italy and Spain
- Improving economies are bringing better values for loan securities
- Regulatory pressures continue to push banks to resolve NPL and non-core issues
- Deal rate is expected to rise in 2017 as paused deals are completed
- Shift in the asset mix expected

Activity by year



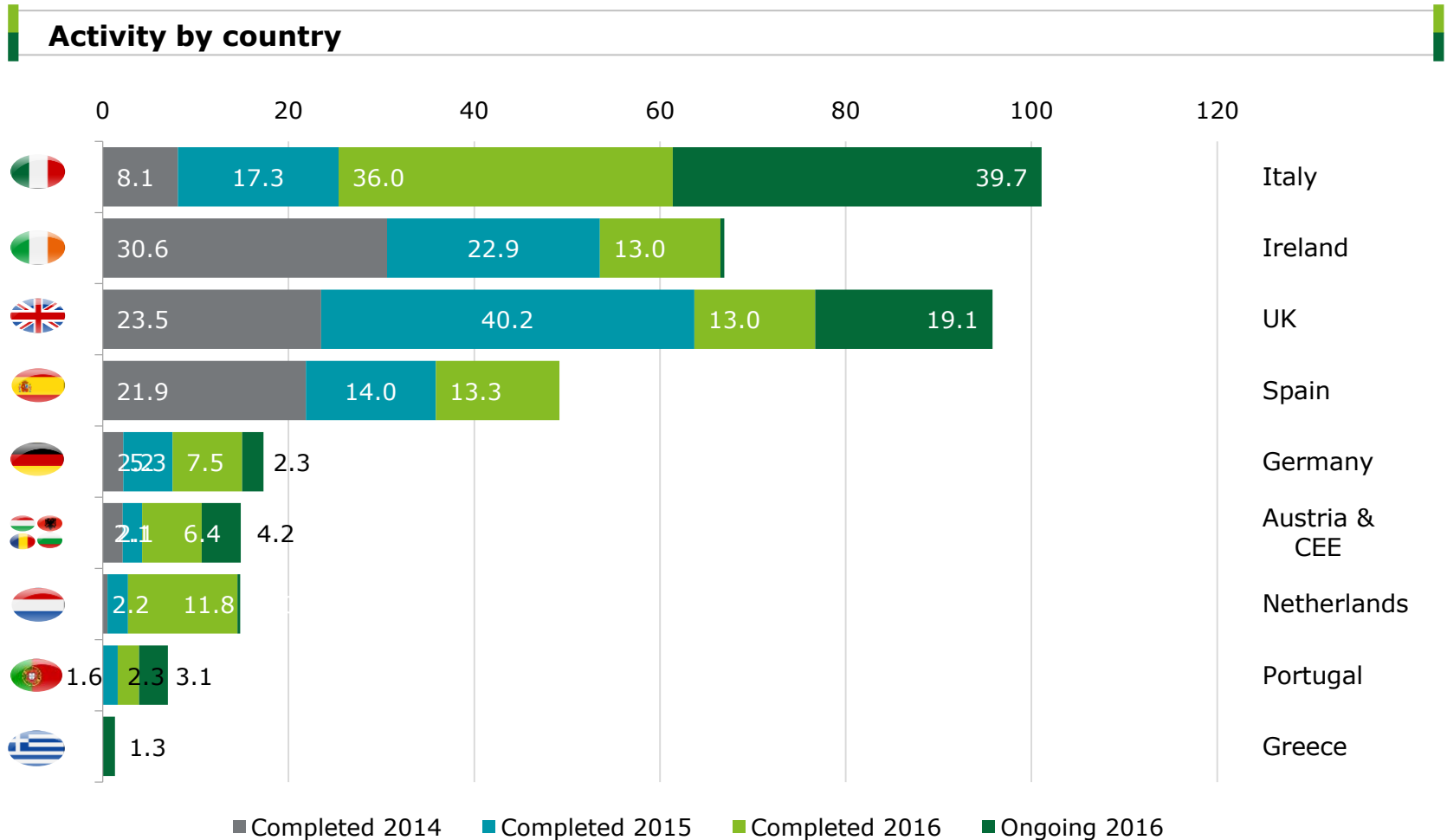
completed deals 2016



Note: data correct as of 31 December 2016 and based on GBV

European market overview

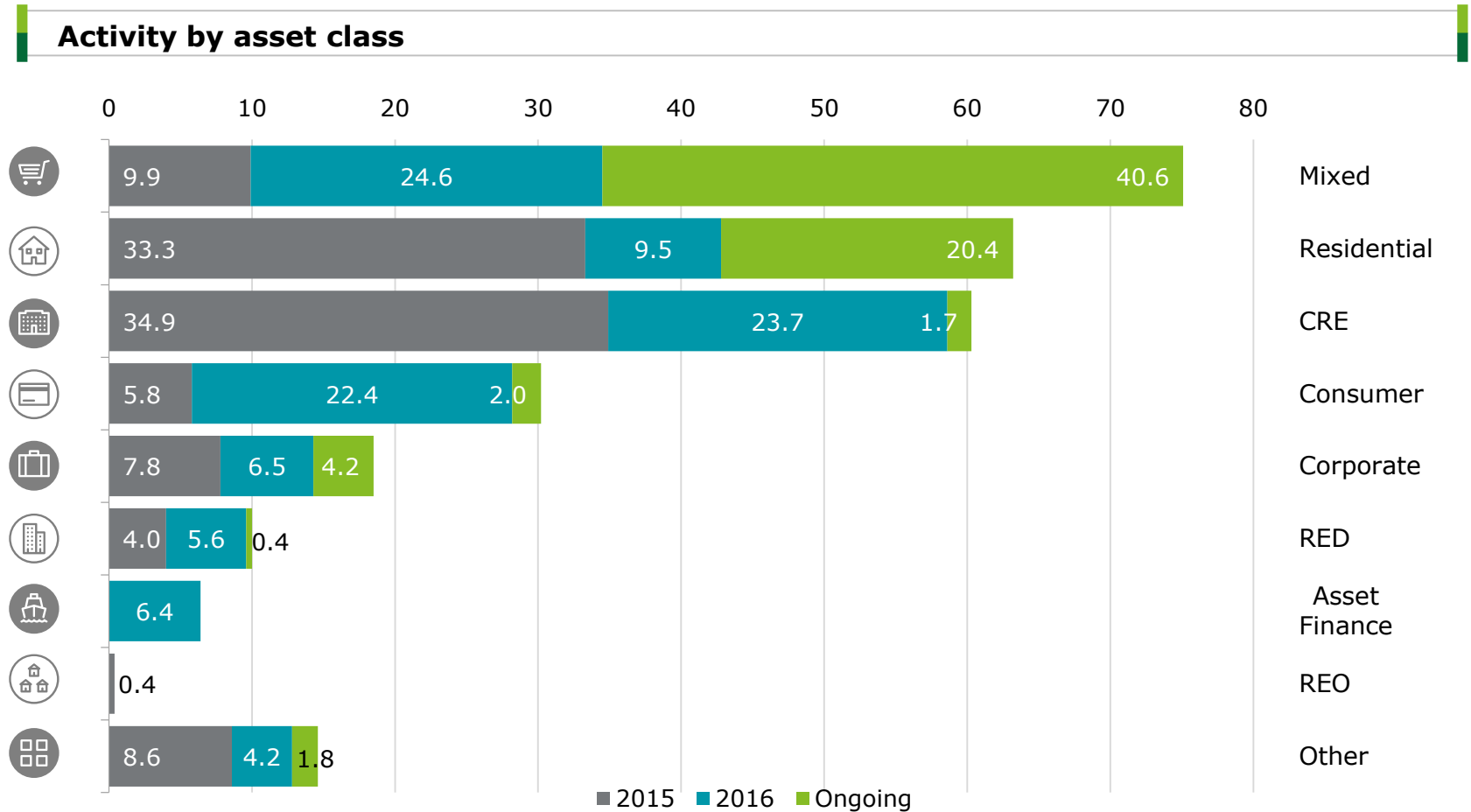
The loan sale market in Italy continues to grow



Note: data correct as of 31 December 2016 and based on GBV

European market overview

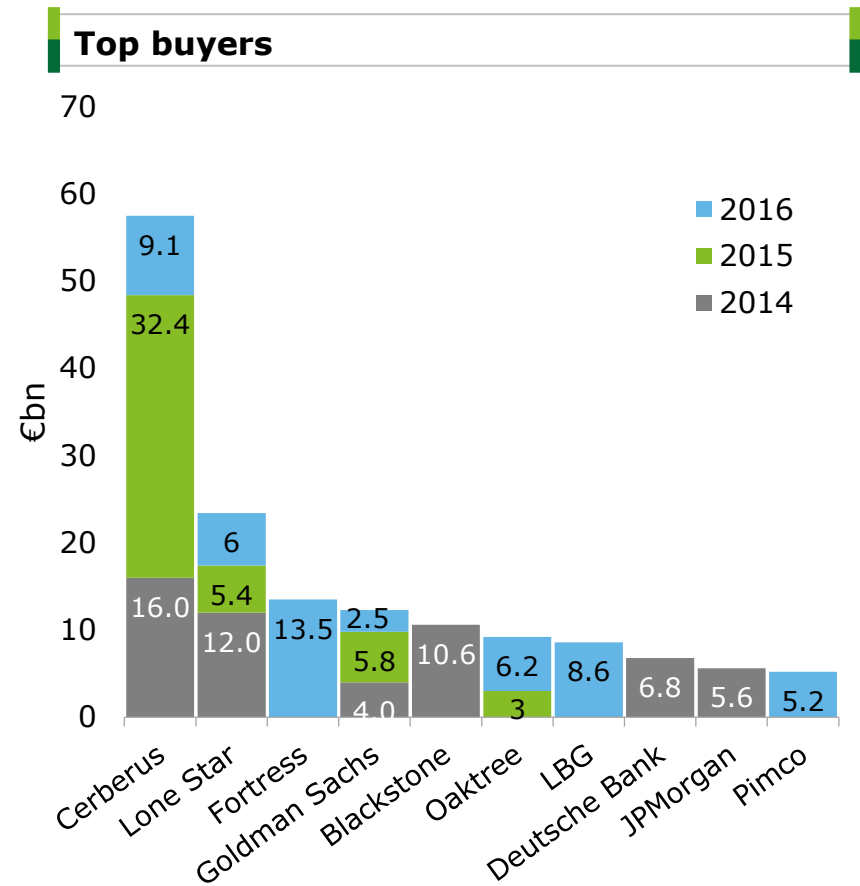
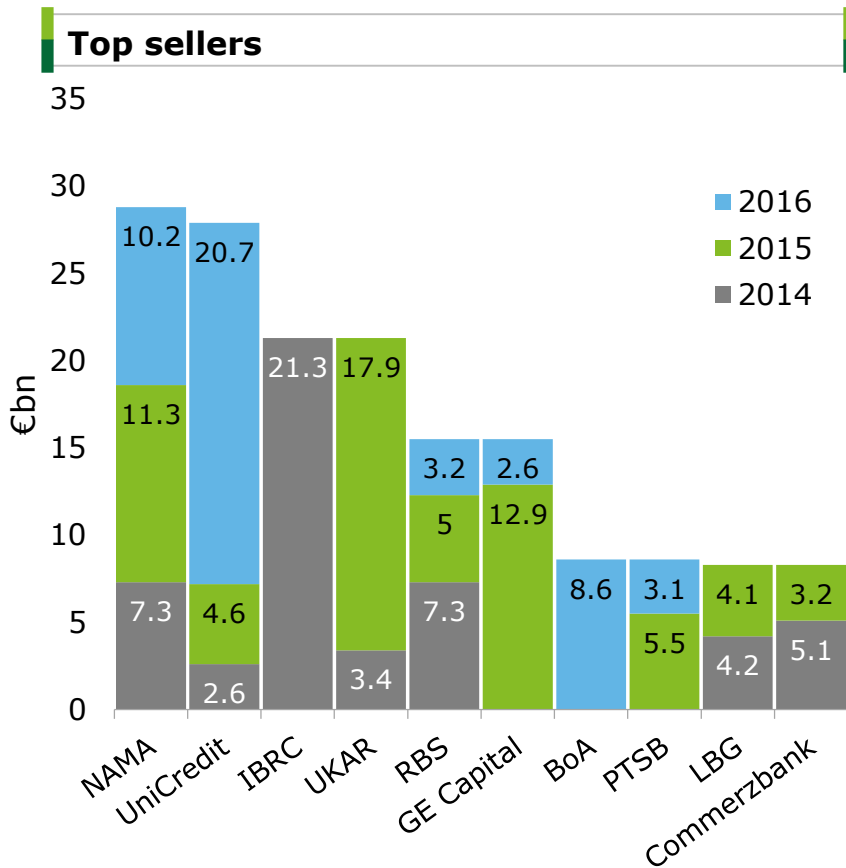
Sale of residential and mixed loan portfolios picking up



Note: data correct as of 31 December 2016 and based on GBV

European market overview

Top sellers and buyers



Note: data correct as of 31 December 2016 and based on GBV

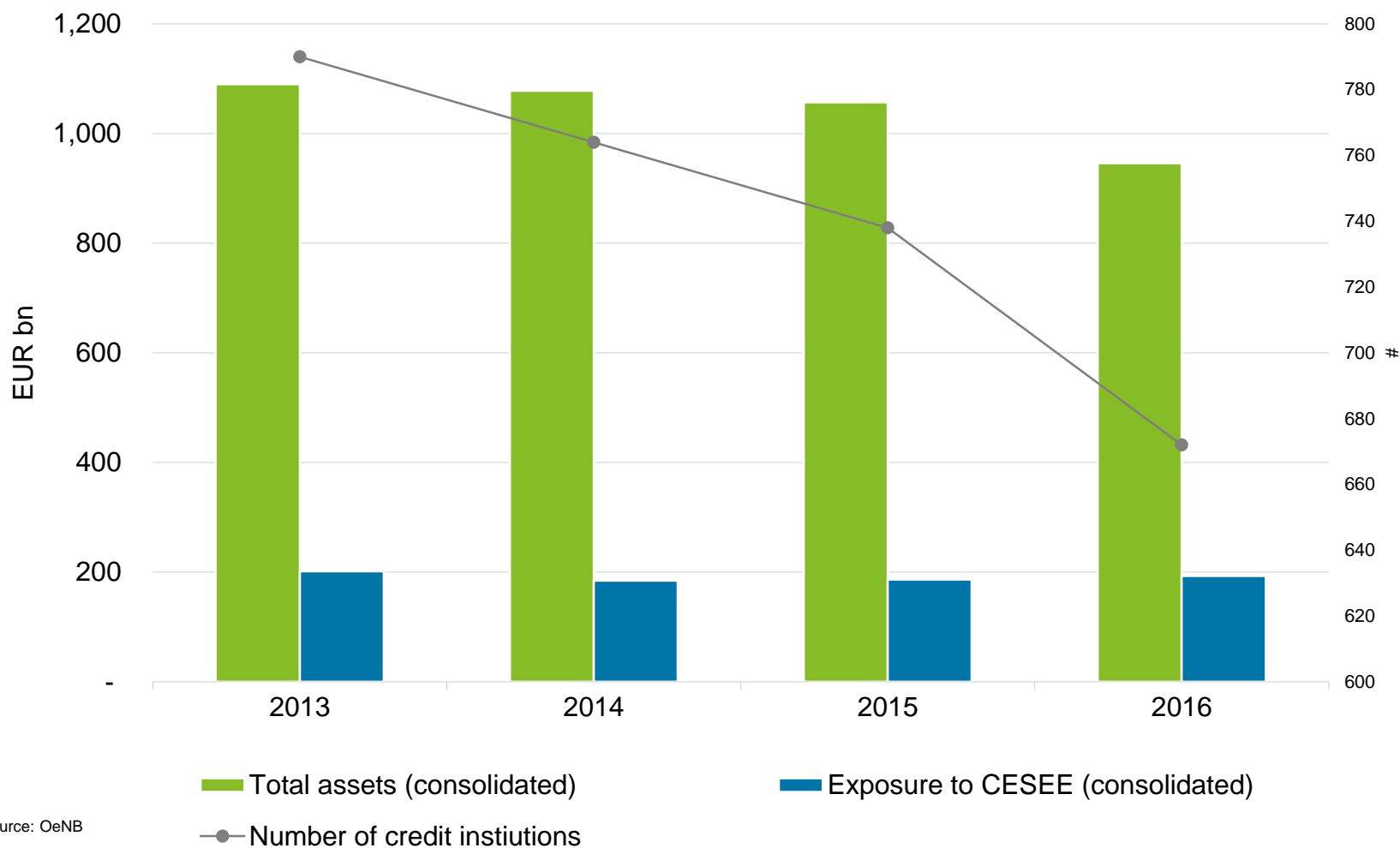
Stephan Brandweiner

Austrian banking update

Austrian banking market

Austrian banks continue to be faced with weak economic growth

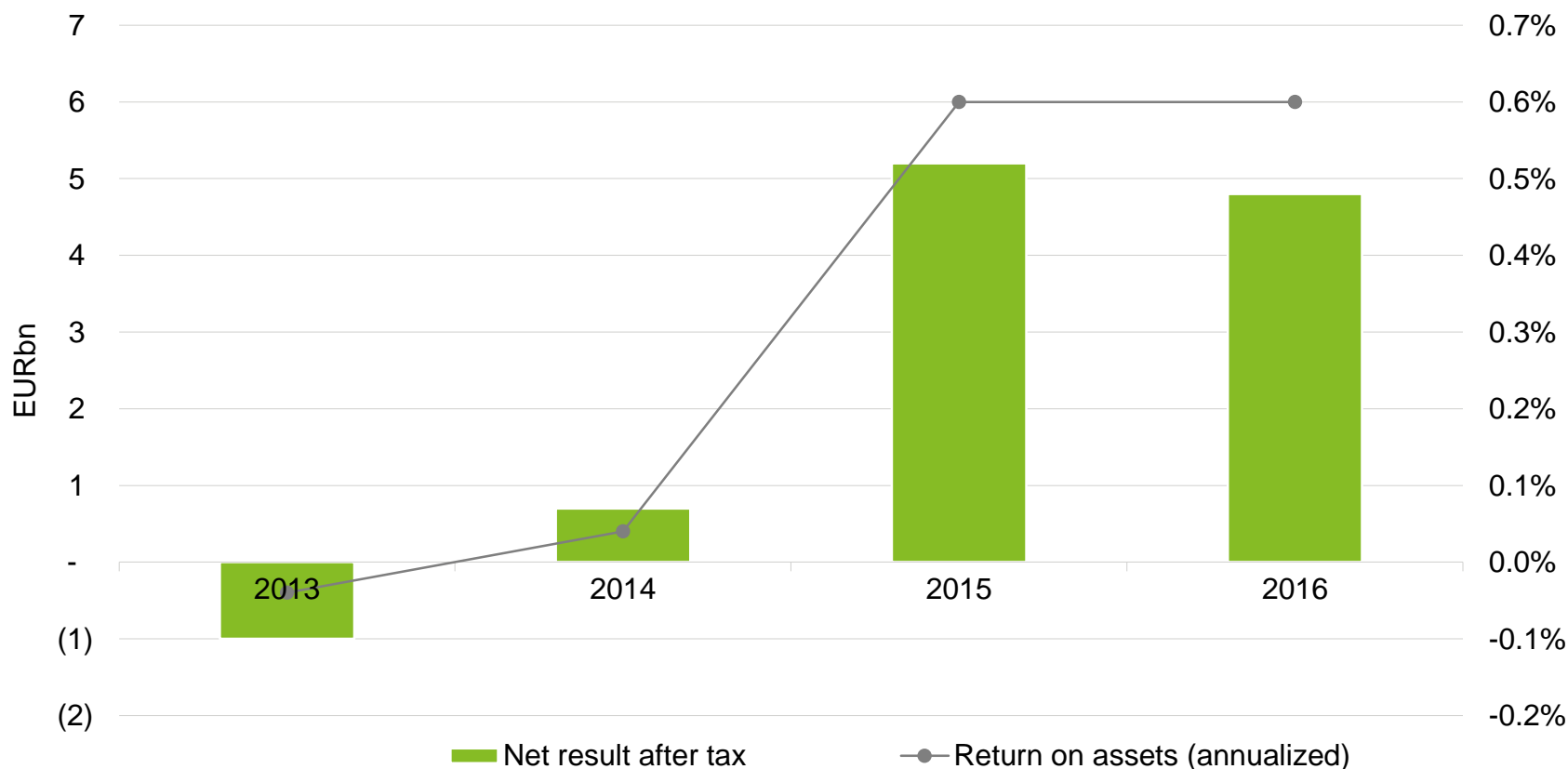
Austrian banking market



Austrian banking market

In this challenging environment, Austrian banks progressed with the necessary structural adjustment process in 2016 to increase efficiency and hence step up profitability in the longer term.

Austrian banks - Profitability

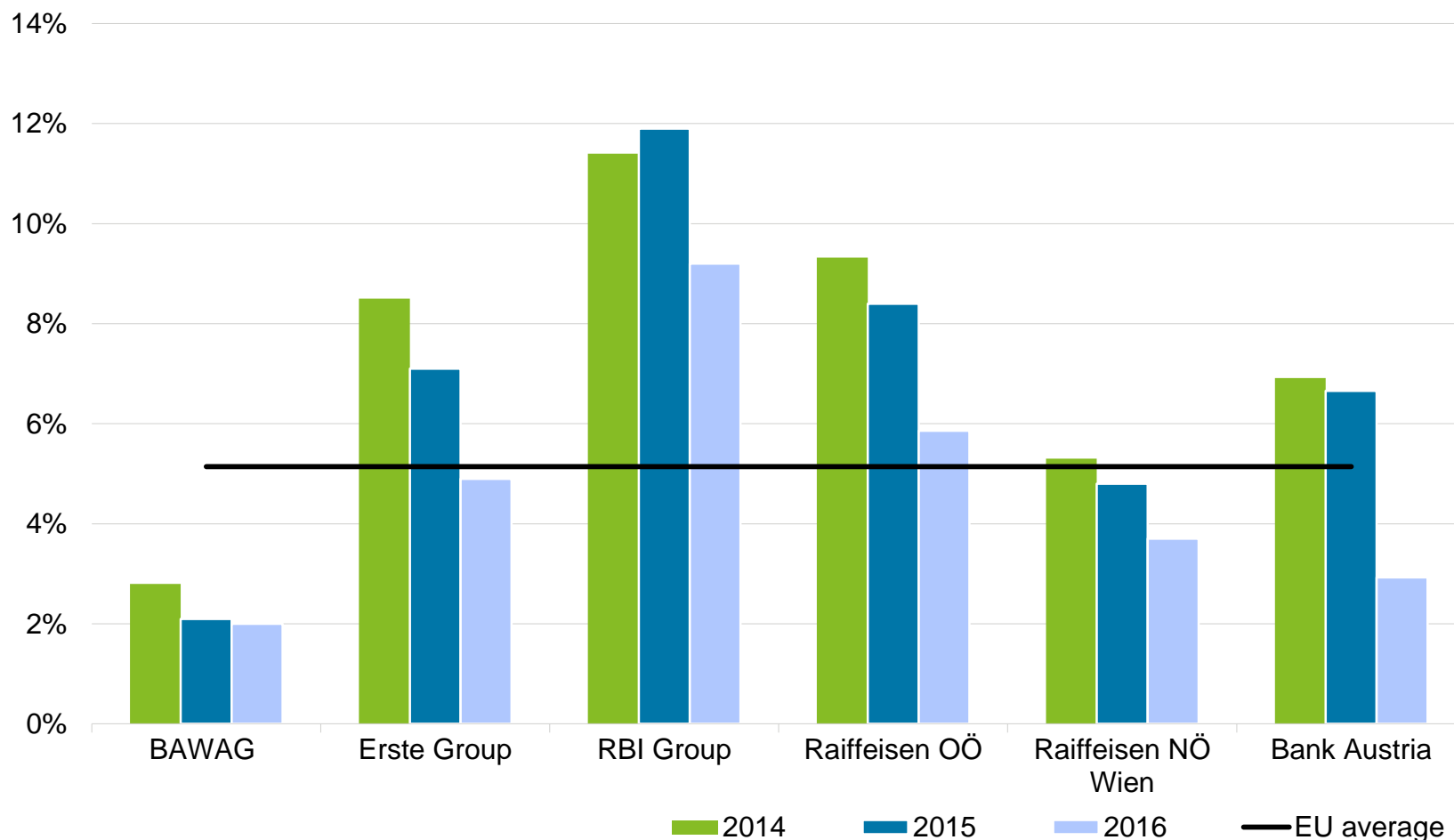


Source: OeNB

Austrian banking market

NPL ratios have steadily decreased over the past years

NPL ratios

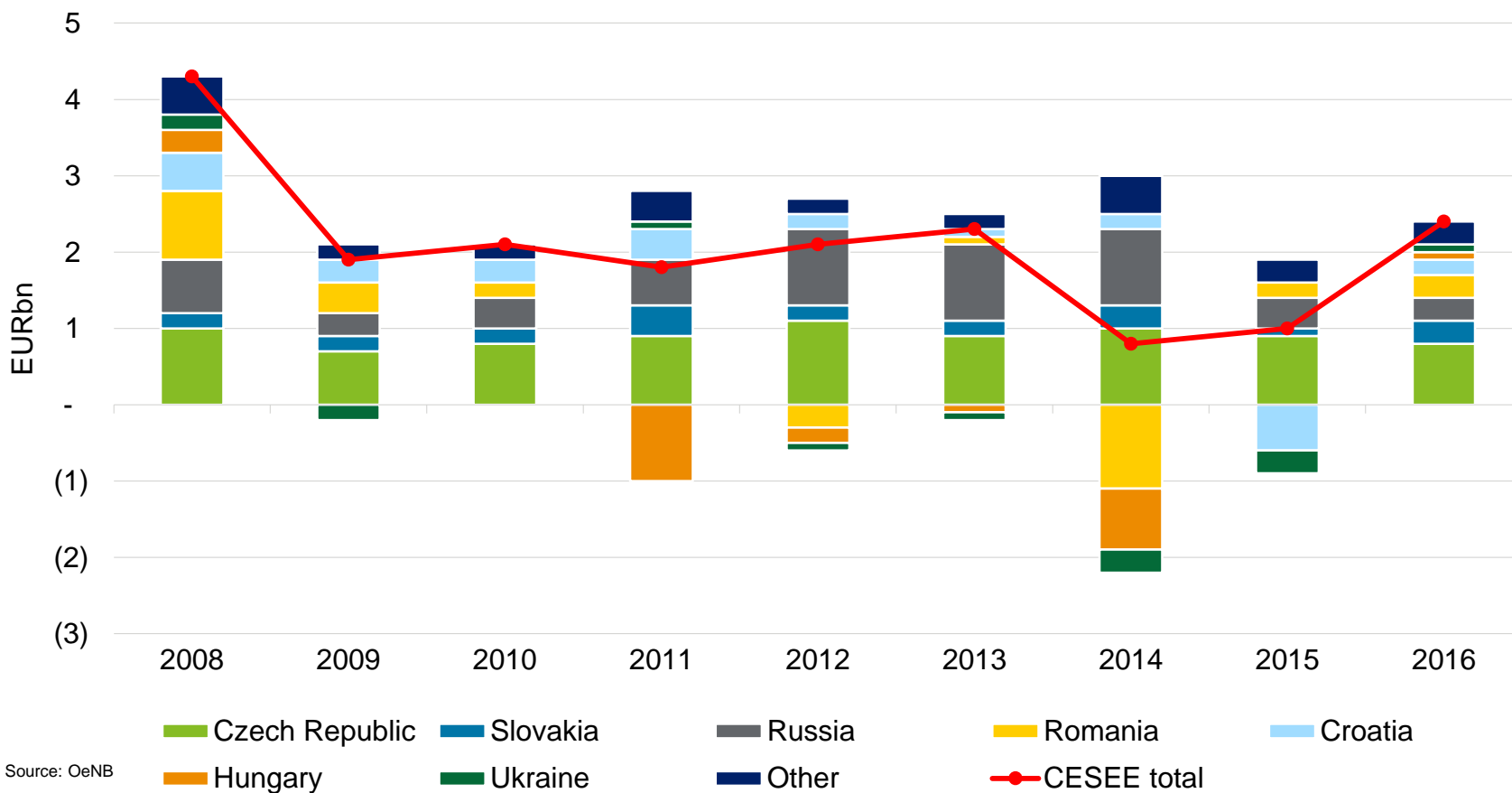


Source: Annual Reports

Austrian banking market

CESEE has been profitable in all years from 2008 to 2016

Net results of Austrian banks' subsidiaries in CESEE

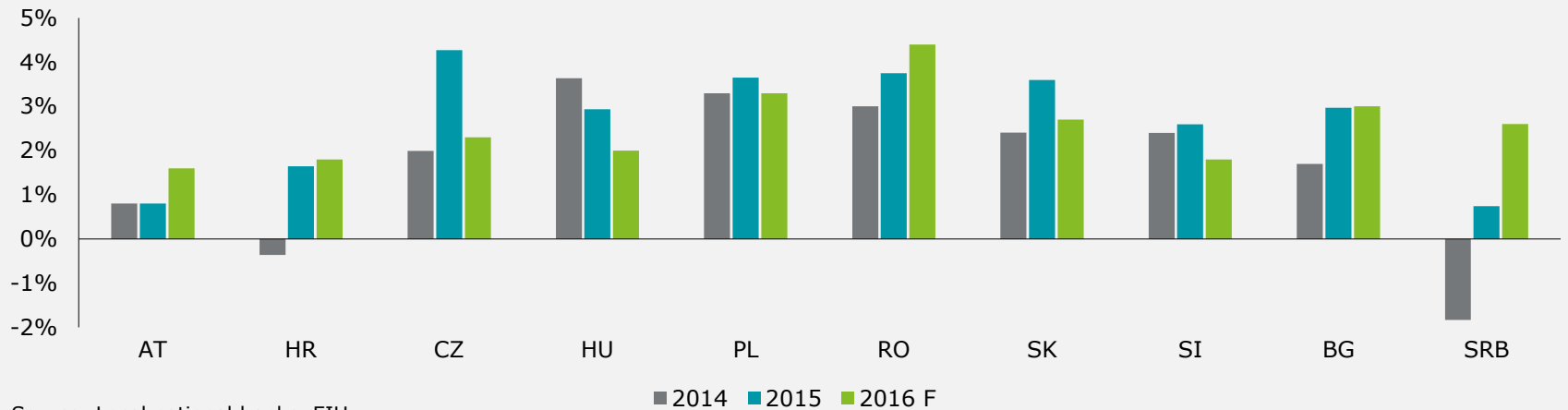


Balazs Biro

CEE market update

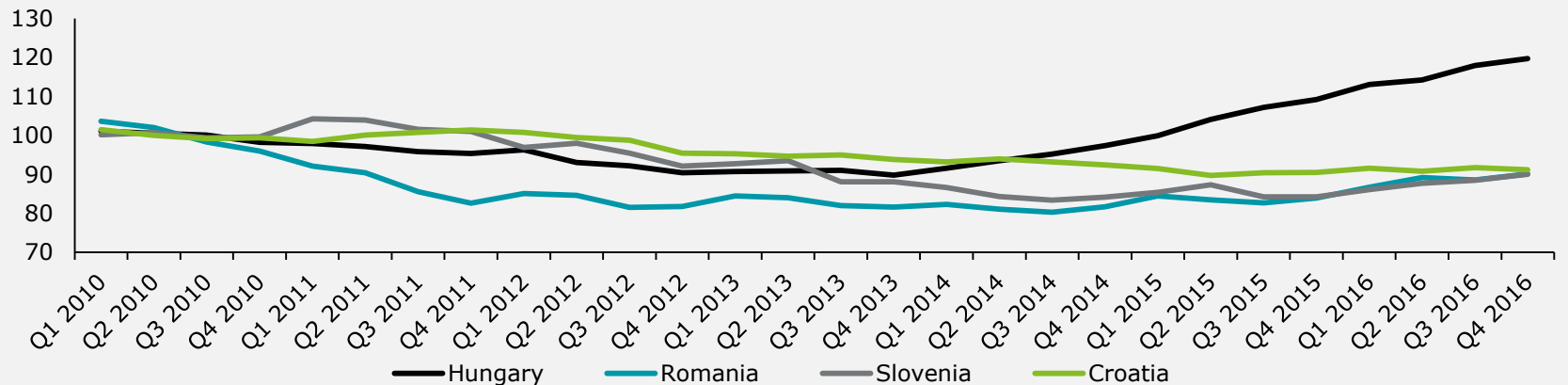
The improving macroeconomic environment remained the main catalyst for NPL markets

GDP growth in the CEE region (2014 - 2016 F)



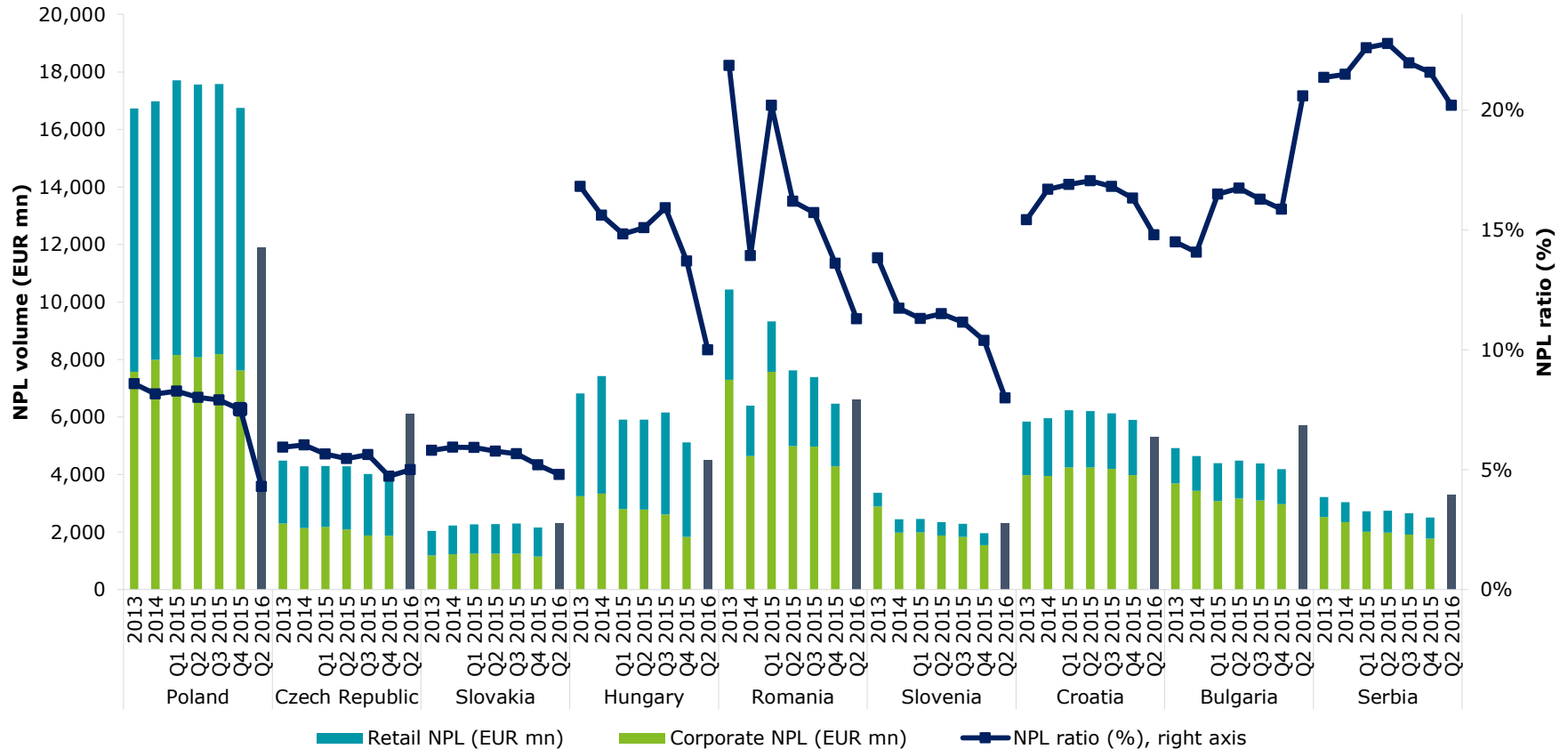
Source: Local national banks, EIU

House price index - Residential properties (2010 = 100)



Source: Eurostat

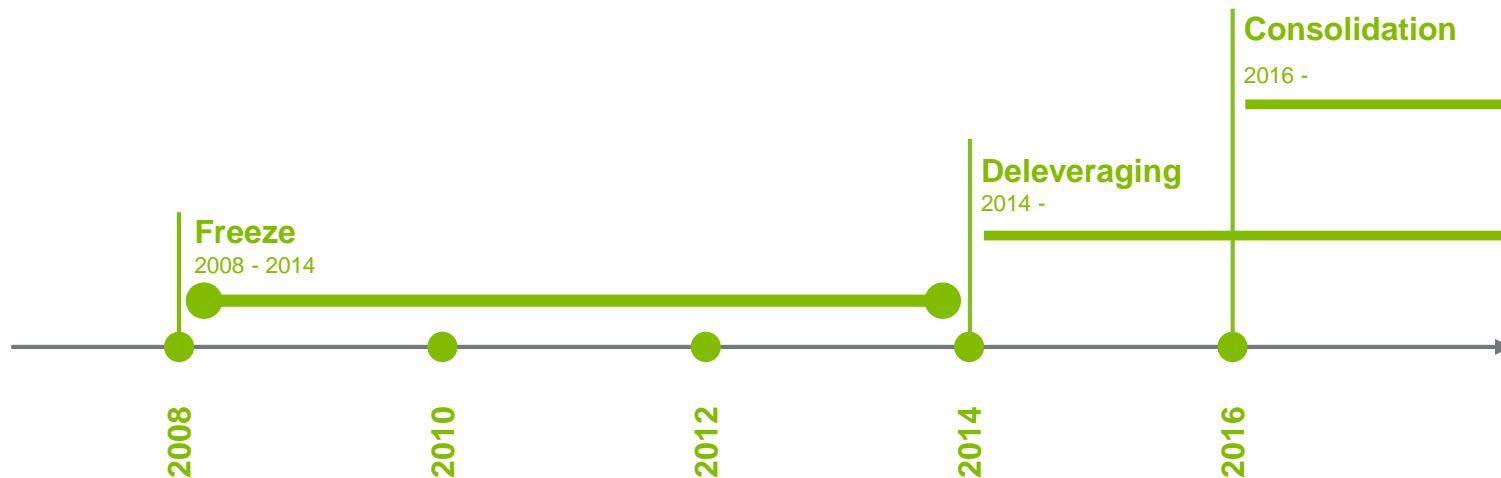
Both NPL volumes and ratios fell in 2016 compared to 2014



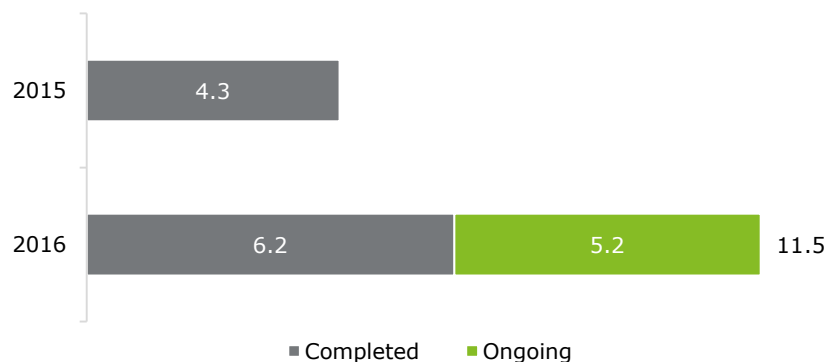
Source: National Banks, Deloitte analysis

Banking trends – deleveraging at full steam, consolidation starting

Banking Market

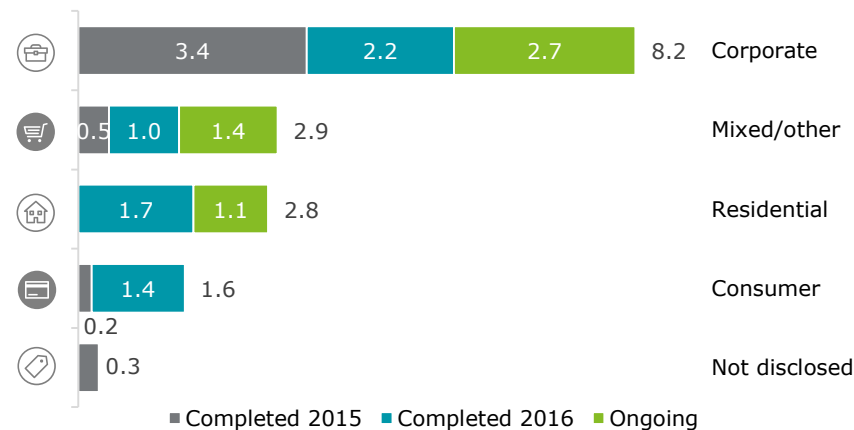


Activity by year - CEE (€ bn)



Source: Deloitte Intelliaence as of 31 Dec 2016

Activity by asset class - CEE, 2015 - 2016 (€ bn)



Source: Deloitte Intelliaence as of 31 Dec 2016

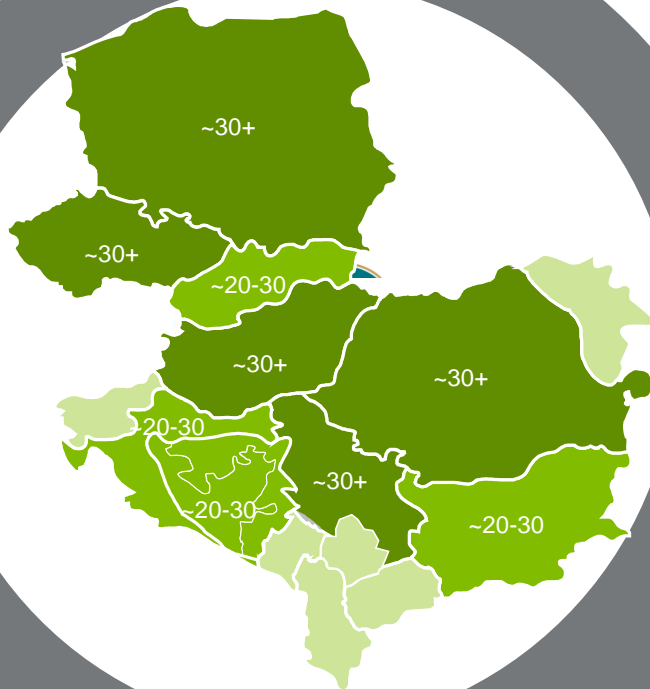
Bank consolidation

Consolidation of the banking industry is expected to promote transaction activity in the CEE region

Numerous banks are present in each country

Gradually exiting the region

Active buyers in the region



 **otpbank**

 **ERSTE** BANK

 **KBC**

 **APS**

Recent trends and CEE outlook

-  Transaction activity will level off or possibly further increase in 2017
-  Corporate NPL volumes are shrinking considerably in Romania and Hungary, although NPL supply showed only a moderate decrease in the Adriatic region
-  Investors turned their interest towards retail mortgages in 2016
-  The declining supply of unsecured NPLs resulted in increasing prices
-  Secondary NPL transaction markets are reviving and activity is expected to further increase in the forthcoming years
-  Consolidation of the CEE banking sector is expected
-  NPL investors are expected to show higher interest in acquiring banks

Andrei Burz-Pinzaru

Key legal issues in distressed debt acquisitions

Loan Transfer Deals Experience in Romania



- Legal advisor in more than 10 loan transfer transactions (aggregate par value close to €3 bn).



- Type of projects assisted:
 1. deal structuring
 2. sell side/buy side assistance
 3. portfolio/single ticket deals
 4. local/cross-border transfers
 5. true sale/synthetic transfers
 6. performing / non-performing portfolios



- Sample NPL portfolio engagements include
 1. Buy side legal advisor in over EUR 300 m corporate and retail portfolio
 2. Buy side legal advisor in EUR 400 m corporate and retail portfolio
 3. Buy side legal advisor in multiple large corporate real estate single tickets
 4. Sell side legal advisor in EUR 261 m secured SME and corporate portfolio
 5. Sell side legal advisor in over EUR 500 m secured corporate portfolio
 6. Sell side legal advisor in EUR 200 m unsecured portfolio
 7. Sell side legal advisor in EUR 165 m secured corporate and retail portfolio
 8. Sell side legal advisor in EUR 16.8 m unsecured corporate and retail leasing portfolio

A long, hot summer for Romanian NPL market

EUR 1.5 bln

portfolio deals expected for second half of 2017

Investor challenges

Portfolio deals versus single ticket transactions

1 Readiness of banks

Portfolios: 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
Single tickets: Seller commitment – same as above. Lack of data normally not an issue by reference to loan/security docs. Usually an issue by reference to updated info on collateral (particularly for income producing assets)

2 Portfolio composition

Portfolios: International Investors do not like multi-country portfolios as they result in high due diligence costs (unless they already have portfolios in such countries)
Single ticket: buyers are usually specialized investors (local or international with strong local presence)

3 Collection process

Portfolios: Investors require a suitable collection servicer (loan servicer) to manage the portfolio post acquisition. Understanding the legal framework is also a key consideration
Single ticket: understanding the legal framework is even more important. Distressed corporate debt servicing: in-house vs outsourced

Investor challenges

Portfolio deals versus single ticket transactions

4 Collaterals

Portfolios: 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

Single ticket: development/turnaround

5 Portfolio composition

Portfolios: well-prepared and transparent processes together with well prepared documentation and data. Limited competition and timing is also key (due to competing deals)

Single ticket: less organized process. Many times is ad-hoc. Usually no outside advisors sell-side (except for lawyers).

Structuring the NPL deal... on who's risks and costs? Seller's proposal is for the Buyer to incur...



Transaction costs

- Authentication of SPA
- Publicity of change of creditor
- Notification of assigned debtors
- Taking over the underlying documentation
- Custodian



Other related costs

- Historical expenses
- Obligation to take over ongoing agreements



Risk of the contract

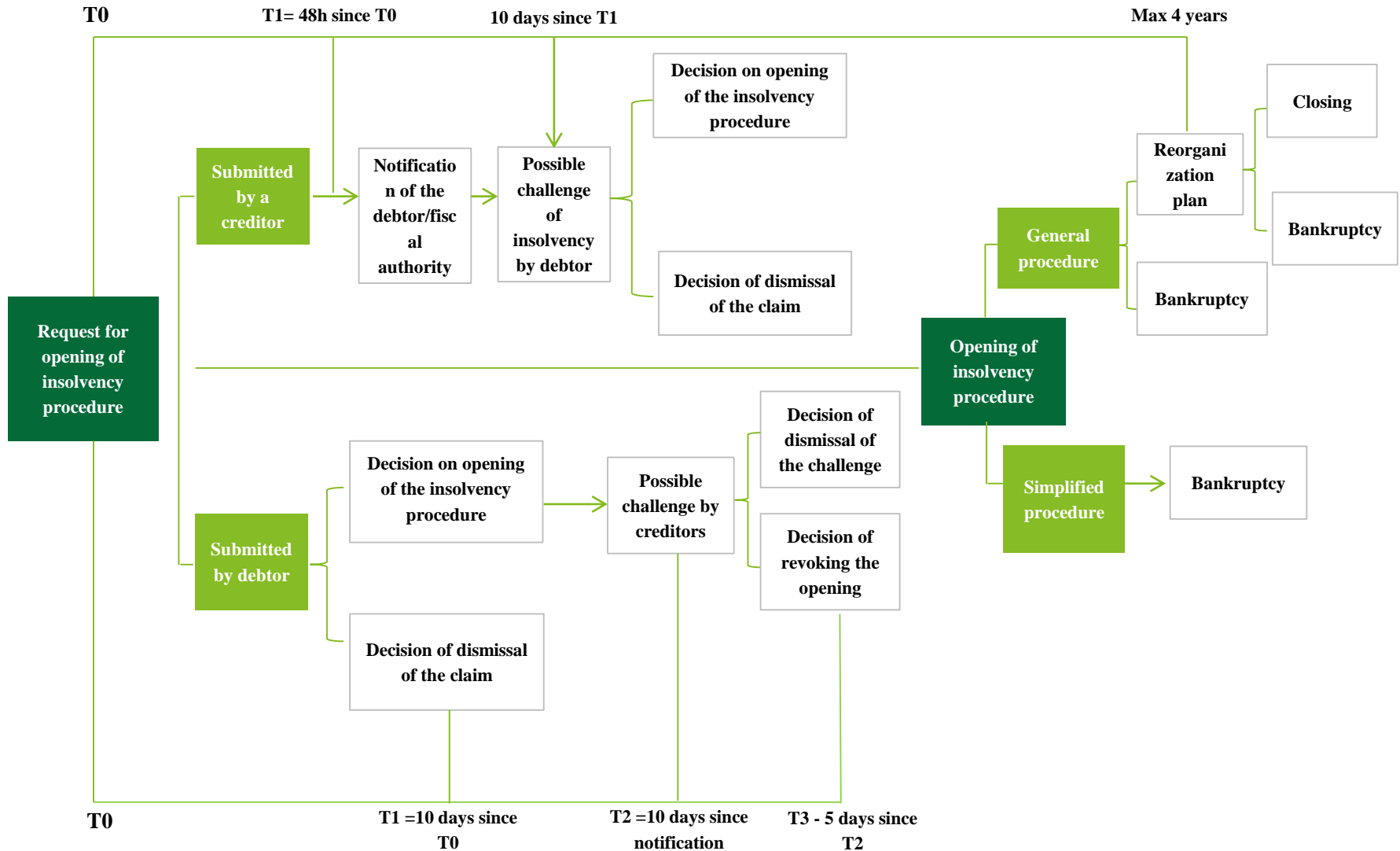
- Structure
- Form (i.e. notarized or not)
- Acquisition vehicle
- Change of law etc.



Other risks

- Current or future litigations
- Criminal seizures/ attachments
- Fraud cases
- Fulfilment of notification formalities

A glimpse into the insolvency maze



A glimpse into the insolvency maze

Key legal aspects concerning to receivables to be acquired



- Proper registration of the receivables (secured/not secured, the entire amount requested, if the entire amount is due or not);



- Consider if the receivable could potentially be subjected to a haircut through the reorganization plan and to what extent (depending on the category of the receivable and the status of the insolvency process);



- Consider if the receivable to be acquired would allow you to:
 1. change the judicial administrator (to extent there are grounds for such change assuming you would have such intentions);
 2. run the procedure to a more rapid closing/swifter acquisition of secured assets (position to impact on the decisions of the creditors' meetings or, on the contrary, no power to actually influence the outcome of the creditors committees'/creditors meetings' decisions);
 3. oppose to the approval of a reorganization plan (e.g. by identifying the number of categories of creditors, identifying various scenarios under which a reorganization plan might be approved by the creditors).

A glimpse into the insolvency maze

Key legal aspects concerning to receivables to be acquired



- Understand the overall status of the insolvency procedure, in order to identify:
 1. potential risks for the procedure to be blocked/delayed by other creditors (e.g. creditors in the same group with the debtor);
 2. fees / costs incurred by the company which may have higher priority than your secured claims (in addition to liquidator's fees);
 3. challenges against the receivable to be acquired that would endanger your position in the insolvency procedure (e.g. challenges against the amount of the receivable/security counterclaims);
 4. various transactions/contracts executed by the debtor prior to the opening of the insolvency procedure aiming at diminishing the assets owned by the debtor (e.g. promissory sale-purchase agreement/other agreements concluded with other affiliated creditors).
 5. existence of litigations outside the insolvency process which could impact the creditors' table (and consequently your position as creditor entitled to insolvency proceedings).

A glimpse into the insolvency maze

Time(ing) is of the essence



- Certain strict deadlines must be observed within the insolvency proceedings to insure protection of creditors' interests (e.g. registration as creditor, submitting a reorganization plan).



- Various challenges within the procedure (even vexatious challenges) may "steal" time and block the course of the procedure (e.g. challenges against preliminary table of receivables which must be finally resolved as a condition, together with the evaluation of securities, to proceed to the preparation of the final table of receivables).



- The insolvency proceedings are long term procedures – be prepared

Reff & Associates – Deloitte Legal in a nutshell

R&A – Deloitte Legal is member of the global Deloitte Legal network, with more than 1,750 legal professionals in over 75 countries around the globe.

LOAN TRANSFER DEALS EXPERIENCE

- Legal advisor in more than 10 loan transfer transactions in Romania (aggregate par value close to €3bn).
- Sample NPL portfolio engagements include
 - Buy side legal advisor in over EUR 300 m corporate and retail portfolio
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AWARDS AND NOMINATIONS

- "Law firm of the year" Award from CIJ (CEE Construction & Investment Journal) (2016)
- Award for 10 years of activity - Ziarul Financiar (2016)
- Six Awards for the most important real estate transaction of the year (2015, 2014, 2013, 2012, 2010, 2009) - Ziarul Financiar, Lawyers' Gala Awards
- The Award for the largest deal in Retail in Romania (sale of 12 Hypermarkets) - Ziarul Financiar, Lawyers' Gala Awards 2015
- Nomination for the most important banking transaction of the year 2010 - Ziarul Financiar, Lawyers' Gala Awards
- Award for the most important transaction of the year 2010 - Avocatnet Gala 2011

TEAM

- 73 team members
- 65 lawyers
- 5 Partners and 16 Managing Associates

TRANSACTIONS TYPES

- During the last five years, assisted clients in deals of approx. € 1 bn per year, including:
 - M&A deals in various industries:
 - Energy
 - Financial services industry
 - Real Estate
 - Retail
 - Manufacturing, etc.
 - Public offerings on Bucharest Stock Exchange
 - Banking loan transactions
 - Loan finance (new funds and restructurings)
 - Loan transfers
 - Insolvency cases

INTERNATIONAL LEGAL DIRECTORIES

- Ranked by Legal 500 EMEA as a tier 1 law firm in Real Estate, and recognized as a leading firm in: Banking & Finance, Corporate and M&A, Dispute Resolution, PPP & Procurement
- Recommended by Chambers & Partners for Banking & Finance, Corporate / M&A, Real Estate
- Ranked by IFLR1000 for Banking

DEALS: FACTS AND FIGURES

- The deals assisted by Reff & Associates (whether M&A, Real Estate, public offerings, or loan finance) exceed in aggregate € 1 bn per year.
- Based on publicly available data over the last years, each year, one or more of the deals assisted were included in the Top Ten Largest Deals in Romania



Panel discussion

Panel participants

Klaus Gugglberger – HETA



Pavel Haskovec - UniCredit



Viktor Levkanič - APS



Balázs Bíró – Deloitte

