

**Business Diagnostics**  
Covid-19 response

May 2020

# COVID-19 impact

The pandemic has had a **drastic impact on companies liquidity.**



- Significant **effect** on both demand and supply of **global** and **local** businesses
- **Crisis started on the supply-side** with closures of businesses due to employee health concerns and subsequent government imposed quarantines
- Due to closure of businesses, mandatory quarantines and social distancing rules, **demand has declined significantly**, in some sectors to practically zero
- Businesses will turn to banks for **debt holidays**, **ST liquidity** to overcome down-time and **working capital** financing for renewed start of production
- **Other liquidity constraints** will come from companies' inability to collect receivables, loss of credit limits and factoring
- Macro-economic forecasts, which predict significant GDP decline, indicate a high likelihood that more **significant restructuring will be required across a variety of businesses once the initial crisis will be overcome.**

- Government proposed several categories of measures to mitigate crisis (e.g. payment moratoria or state aid measures)
- Lending moratorium legislation currently in force indicates an up to **9m moratorium** on loan principal instalments/interests/fees (up to 31 December 2020)
- **Eligible consumer debtors'** incomes must have been directly or indirectly affected by the COVID-19 pandemic; **eligible non-consumer debtors** must (a) hold one of the emergency situations certificates issued by the Ministry of Economy, Energy and Business Environment evidencing that either (i) their incomes or collections have decreased with at least 25% in March 2020 compared to the average of January and February 2020, or (ii) their activity was interrupted in full or in part as per public authorities' decisions related to the emergency situation, and (b) not be subject to insolvency proceedings
- **Material amendments** to the said legislation are being contemplated by the Parliament.

# Deloitte company diagnostic

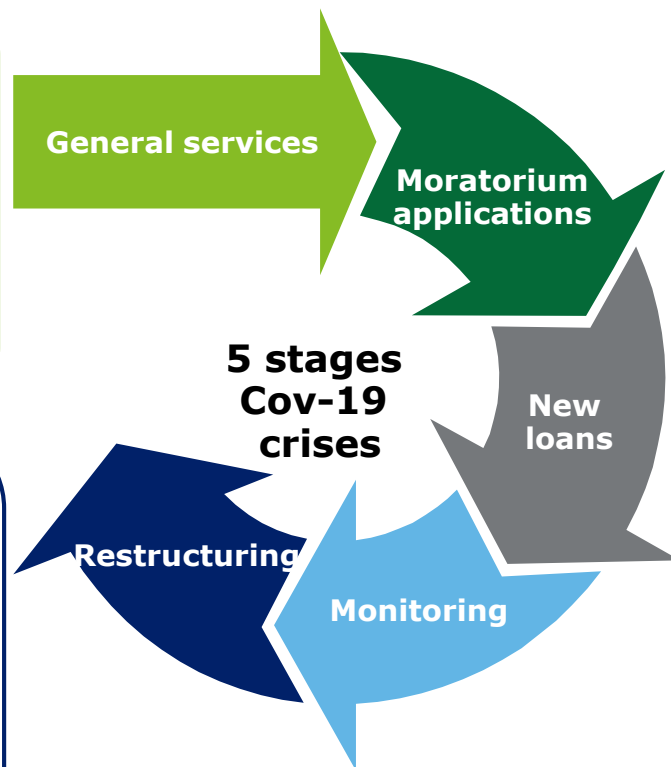
Our team can **support** you in **5 possible stages** of the Covid-19 crises, from outsourcing of **initial application** process, to comprehensive **debtor monitoring** and **full restructuring support**

## 1 General services

- **Legal assessment** on the eligibility of borrowers and lending products for legal moratoria and its impact on guarantees
- Preparing a **customized lender's decision-making tree** on the application of moratoria and development of **public and private moratorium criteria checklists**
- Preparing **moratoria-related template** documentation for loan/standstill/inter-creditor agreements and Excel **model templates** for business plans and cash flow outlooks

## 5 Restructuring services

- **First-term response** for strategy, modelling (including 13-week CF and monitoring), future viability, operational management, etc.
- **Independent view** on the subject business and **lender's options** (via IBR) or business plan review;
- Provide a wide variety of services in relation with **financial restructuring** (amend & extend, compulsory settlement, hard consensual restructuring, etc.), **operational restructuring**, **NPL sales** and **distressed M&A**, considering financial, business, tax and legal implications
- Legal assistance for **preparing and negotiating** relevant transaction documentation, including standstill and inter-creditor documentation



## 2 Private and public moratoria applications

- Assistance in **processing public and private** moratorium applications
- **Checking eligibility** of borrowers for public or private moratorium under the applicable laws or lenders' internal rules
- **Reviewing** borrowers' financials, **provide comments** regarding impact of crisis on their business
- Preparing template loan **amendments and notices** related to public moratorium, as well as **addenda** to existing loan documents for private moratoria
- Assistance with obtaining **State guarantees** and other forms of **state aid**

## 3 New loan processing

- **Check eligibility** of borrowers, depending on the lender's internal criteria, **review** their **financials**, **business plans** and **forecasts**
- Legal assistance for due diligence (including title checks) and **preparing and negotiating new loan documents**

## 4 Monitoring

- Monitor **periodical borrower reporting**, as may be required by the bank
- **All-encompassing monitoring** of business performance including regular management meetings
- Issue **recommendations** of **eligibility for exiting moratorium** and other liquidity schemes
- **Early warning** in case of detecting restructuring signs with clear **recommendation on next steps**

# Diagnostics and eligibility

## Initial **diagnostics** of applications and administration/**legal** support

### Initial diagnostics and assessment of borrowers



#### Overview

1. **COVID-19 shut down entire economies**, causing severe and immediate business disruption
2. Businesses left with **no or little revenues** overnight and are unable to service debt and suppliers
3. **Government adopted legislation** allowing borrowers affected by COVID-19 pandemics to obtain an up to **9-month moratorium** on payments of principal instalments/interests/fees arising from loan agreements
4. The current **legislation mandates banks to approve all applications** of borrowers that meet criteria laid out in the legislation



#### Deloitte services

1. Legal assessment of the **implications of the application of private or public moratoria** over ongoing financing agreements (e.g. cross-default assessment)
2. Assistance in **handling of moratorium applications**, from borrower's request up to issuing/signing of the amendments
3. **Legal and financial review and assessment** of moratorium applications (including assessment of legal criteria)
4. **Independent business plan assessment and/or review** for borrowers requesting moratoria (including of the liquidity situation and measures taken by the borrower) or regular new loans
5. Assistance in preparing documentation for applications for **state guarantees** or other forms of **state aid**



#### Solution

1. **Manage borrowers application process** to assist your in-house resources
2. **Report** on borrowers application against the application checklists (including list of missing or non-compliant documentation)
3. **Customized lender's decision-making tree** on the application of private moratoria to ensure that only borrowers who meet bank's moratorium criteria are approved
4. **Legal, tax and financial due diligence** in relation to the application of private moratoria or regular new loans for large corporate borrowers
5. **Standardized loan documentation** amendments and notices pertaining to the application of legal or private moratoria
6. **Smooth process** of obtaining state guarantees for all eligible loans or other form of state aid

# Monitoring

Tracking **Moratorium compliance** of borrowers and **comprehensive performance monitoring** for early identification of restructuring signs

## Tracking borrowers' compliance



### Overview

- 1. Banks are required to diligently monitor performance of borrowers receiving public moratorium assistance**
- Borrowers granted moratorium assistance may be required by the lenders to continue to prepare **periodical reports** for the lender
- Reports should include borrowers' **measures to improve liquidity** and comprehensive view on changes to the borrowers financial position, including **prospective financial information**
- Banks can still **call defaults** for loans not subject to public moratoria or which are subject to private moratoria:
  - if public moratorium is applied for **one or several loans** of a borrower, while others are maintained ongoing;
  - risk of **cross-default** upon the application of the moratorium;
  - a borrower **provided false information** in the moratorium application.



### Deloitte services

- Monthly borrower **monitoring according to lender's request**
- Provide **comprehensive monitoring of key borrowers** performance and outlook. Includes regular management meetings and sector analyses to interpret and discuss the borrowers' performance and constantly assess immediate future outlook
- Monitor** borrowers' financial health focusing on **mid- and long-term liquidity** and performance prospects
- Sector outlook** monitoring and report on signs of recovery or further deterioration
- Identification and legal assessment of the **risk of cross-defaults** in connection with loans not subject to moratoria and other operations
- Review borrower's application to **identify false information** (Forensics)
- Legal assessment of the **impact of fraud** in the case of public moratorium



### Solution

- Periodical reporting** summary covering the legal amendments, waivers, as well as the application of the public moratorium
- Comprehensive borrower monitoring** reports. Provide a 360° understanding their financial performance
- Identification of remedies** available to the bank in case of cross-defaults and other defaults in the context of applied moratoria. Legal assessment of **lender's options**
- Early warnings** in case a borrower's financial condition worsens to a point that raises questions of long term solvency. Initial assessment of **lender's options**
- Identification of options** available to the bank in relation with the **suspicion of fraud** in the context of public moratorium

# Restructuring

## Assistance in full scope restructuring of distressed businesses

### Assistance in restructuring and insolvency services



#### Overview

1. GDP is predicted to fall significantly and speed of economic recovery is uncertain
2. Some borrowers may be affected to a degree their **operating models** and **financial position** becomes **structurally unhealthy**
3. Healthy borrowers, with sound future outlook, may, depending on the duration of the current crisis, **shift from initial liquidity problems to structural financial challenges**
4. Moratoria on loan agreements and potential liquidity injections may not suffice as measures of assisting businesses. Financial and operating **restructuring measures will be needed for certain businesses**



#### Deloitte services

1. **IBRs, operational reviews** of borrowers with structural deficiencies discovered during initial screening
2. **Lender's options** analysis based on operational and financial restructuring success (bankruptcy, compulsory settlement, etc.), other classic restructuring services, etc.
3. **Turnaround and restructuring services** if borrower's solvency is endangered. These services include crisis management (operational and cash low), turnaround & performance improvement, managed exits, corporate simplifications, complex and less complex financial restructuring solutions, etc.
4. **Contingency planning and insolvency procedures** if no other viable option left for borrower
5. **Sale** of individual loan exposures (or packages) through our portfolio lead financial and legal advisory services
6. **Full transaction legal assistance services** for implementing the restructuring option chosen by the lender

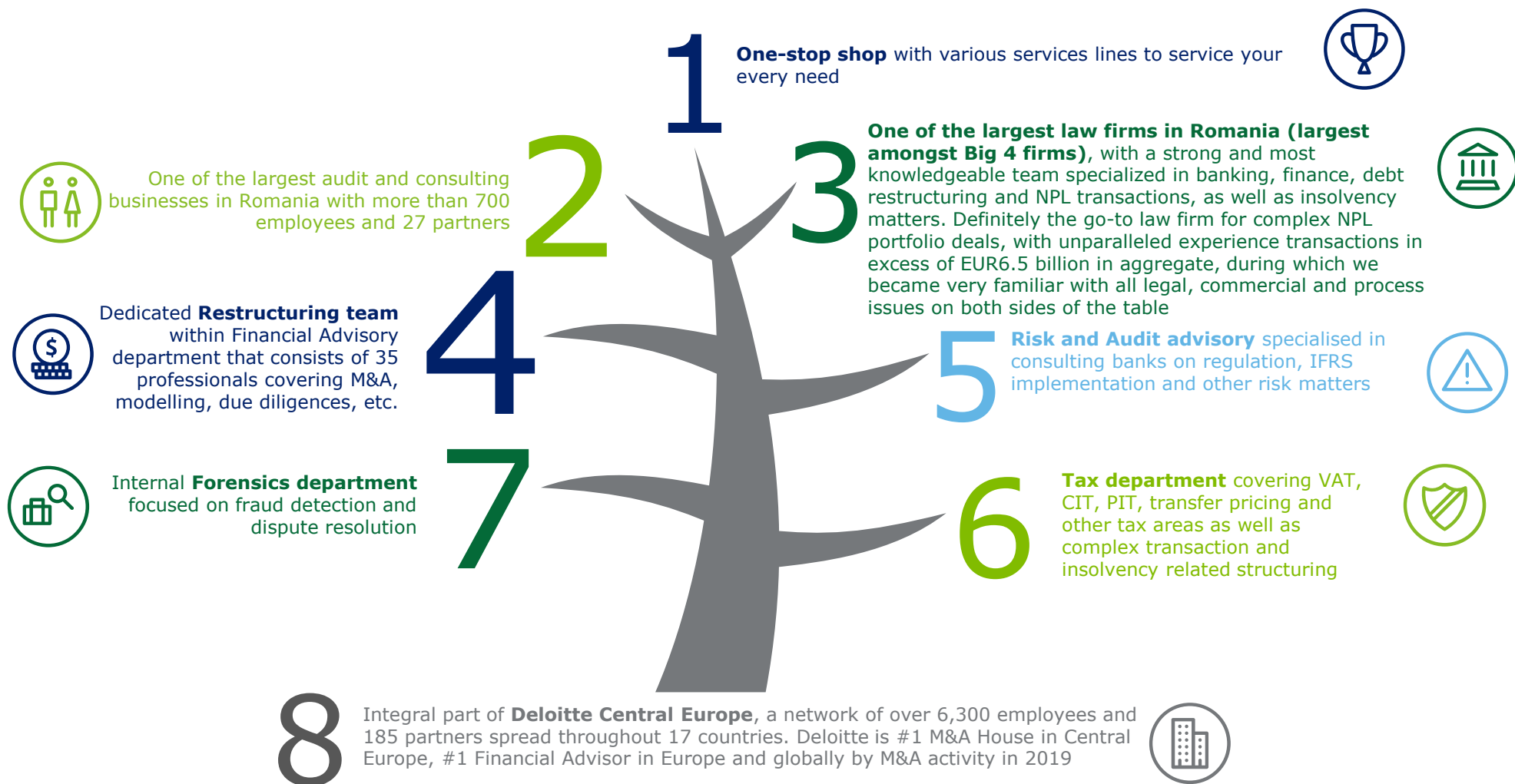


#### Solution

1. Use all available options (including **less complex restructuring**) to preserve borrower's ability to repay initial exposure
2. If above not possible, use all available options to recover as much exposure as possible through **sale of exposures, hard restructuring** or formal **insolvency procedures**
3. **Monitoring and reporting on suspicious transactions** from the perspective of potential insolvency claw-back rules
4. **Assessment of legal position of the bank in insolvency scenario** (i.e. ability to control insolvency process and related risk areas)

# Deloitte Romania

Deloitte is well positioned to **assist you in** managing your clients, from **tax & legal** to **financial** and **operational** aspects. In addition we can offer risk & regulatory related services as well as audit



# Senior delivery team

One of the most **experienced advisory teams** in Romania, combining **experts from all areas** needed to support you and your clients through the whole crisis cycle

**Financial Advisory**

**Radu Dumitrescu**  
Partner, Head of Transaction Services  
Radu is currently leading our Transaction Services practice. He has over 20 years of experience in financial advisory and financial analysis support.

**Virgil Bucur**  
Assistant Director, Transaction Services  
Virgil has over 12 years of experience in audit, transaction support and restructuring engagements.

**Ioana Boca**  
Assistant Director, Transaction Services  
Ioana has 11 years of professional experience in Big4 companies, out of which nine years in financial consulting and mergers and acquisitions

**Vlad Balan**  
Assistant Director, Transaction Services  
Vlad is an Assistant Director with expertise in financial advisory projects. He is based in Bucharest, and has been working with Deloitte in Bucharest since 2008 practicing financial advisory and audit.

**Andrei Burz-Pinzaru**  
Partner, Reff & Associates  
Andrei is heading Deloitte's corresponding Law Firm, Reff & Associates. He has over 20 years legal practice and advisory experience in Banking, Finance, Capital Markets, financial services regulatory, M&A, Corporate Governance and legal risk management.

**Andreea Serban**  
Senior Manager, Reff & Associates  
Andreea has a broad specialisation in banking & finance matters. She focuses on distressed debt projects, having advised parties from all sides of the industry in more than 20 high-profile loan portfolio transactions, with a face value aggregating over EUR 7 billion.

**Elena Grigore**  
Director, Risk Advisory  
Elena has vast experience in credit risk management. Over the past years, she coordinated the development and implementation of various internal models: rating models, impairment models, Early Warning System, restructuring decision an optimization models.

**Andrada Tanase**  
Senior Manager, Risk Advisory  
Andrada is a Senior Manager with 9 years of experience in risk management and Basel requirements, gained by conducting several advisory projects for banks both in Romania and other CE countries

**Legal**

**Risk advisory**

**Your Deloitte. Experts**





Please note that this proposal is subject to our standard client acceptance procedures as required by our internal policies and that any contract entered into for the purposes of the herein mentioned services is conditional on execution of said procedures.

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