

Portfolio sales: what role in resolving the NPL problem in Cyprus?

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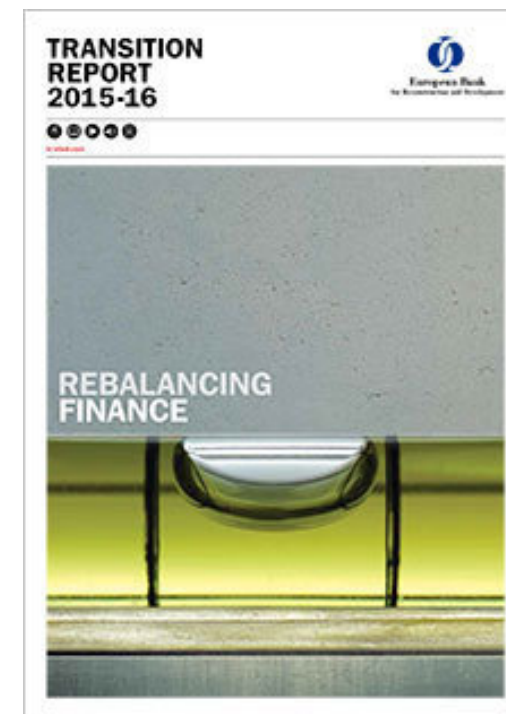
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Banks unlikely to handle a large scale restructuring effort well



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- Banks excel in relationship lending – and those which maintained front line resources in branches recovered better from the crisis than others (EBRD, 2015)
- However their capacity to handle large scale/systemic restructuring is questionable:
 - even where owners so desire, bank workout departments are unlikely to implement a value maximising strategy (incentives).
 - Demand for restructuring skills are highly cyclical and not normally in sufficient supply
 - markets for distressed assets are illiquid or missing entirely.
 - macroeconomic benefit of private deleveraging exceeds private benefit



<http://2015.tr-ebrd.com/en>

But the market for distressed loans suffers from deeper structural flaws



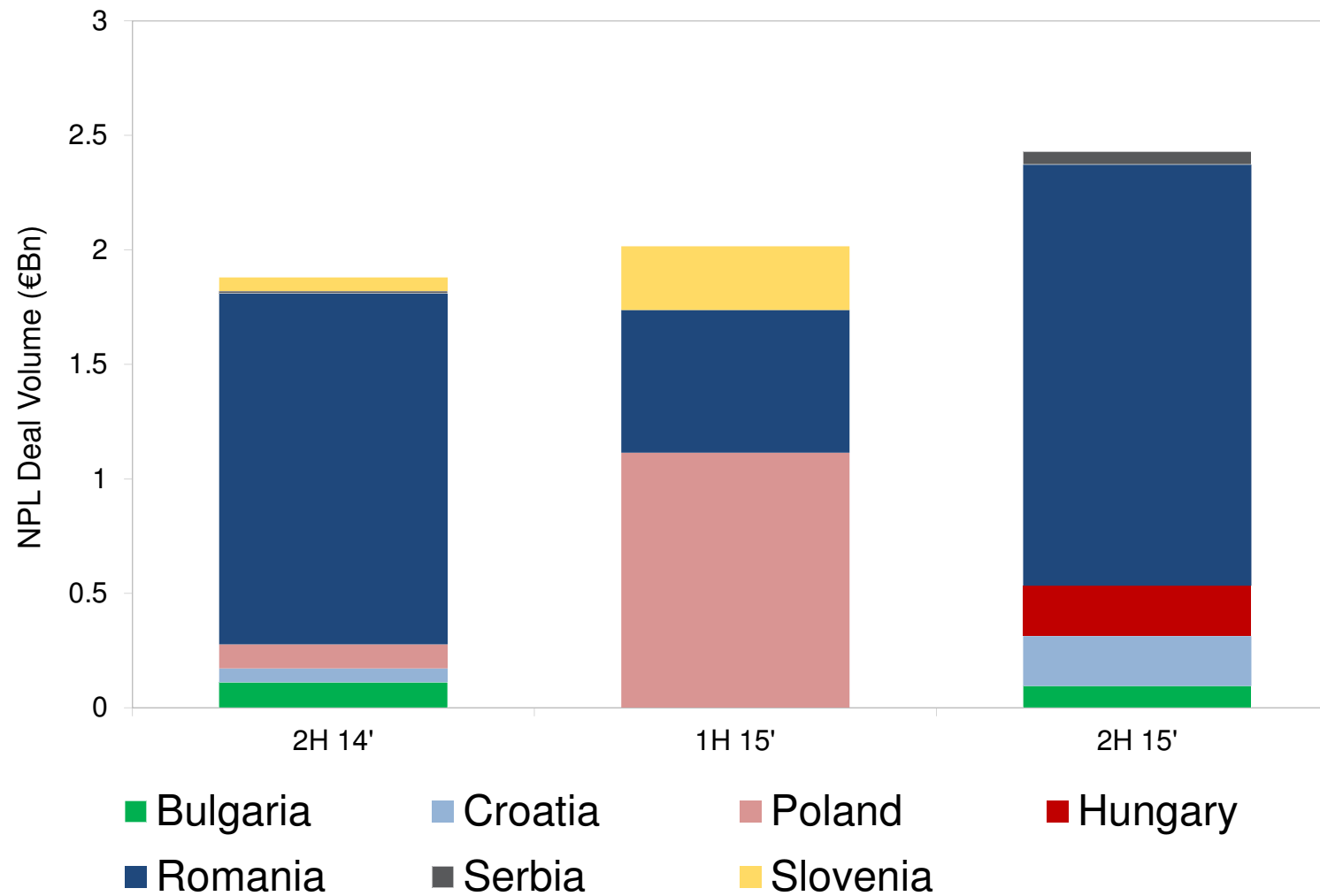
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1. 'Informational asymmetry' between investors and creditors leads to adverse selection, and drives good assets (viable restructuring) from the market, leaving only 'lemons' behind.
2. Institutions are still poor: credit registries, collateral valuation principles, judiciary, though gradually greater momentum in reforms.
3. In immature financial systems the supervisor has not enforced market-value based provisioning.
4. In an illiquid market there are significant costs to a first mover transaction.

But other commonly cited obstacles are more apparent than real:

- Risks and macroeconomic outlook
 - Return expectations of distressed investors
 - Local servicing capacity, governance of private enforcement
 - Market scale/'ticket size'
-

What success in emerging Europe?



Source: KPMG, Deloitte, Debtwire, EBRD analysis

Sample of realized NPL transactions



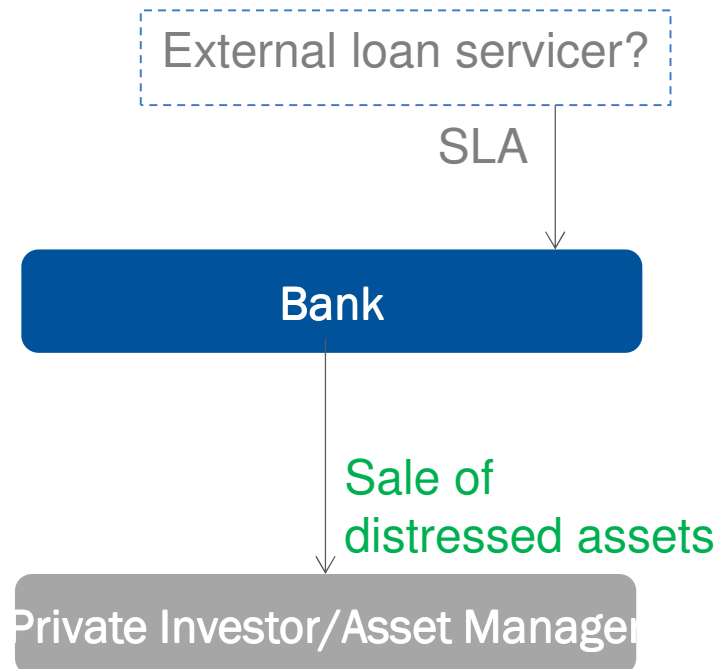
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Date	Country	Vendor	Project	Type	Buyer	Buyer Country	Face value (€m)
2H-15	Bulgaria	TBI Credit	Retail Portfolio	Consumer	APS Holding	Czech Republic	50
2H-15	Bulgaria	BNP Paribas	Retail Portfolio	Consumer	Undisclosed	N/A	46
2H-15	Croatia	Erste & Steiermärkische	Project Janica	Corporate / SME	B2Holding	Norway	217
2H-15	Czech Republic	Confidential	Syndicated loan – Czech asset	CRE	Confidential	N/A	20
2H-15	Hungary	MKB Bank	Project Danube – Symmetry Arena	CRE	Lone Star	United States	200
2H-15	Hungary	Major Hungarian Bank	Syndicated Loan	CRE	Confidential	N/A	20
2H-15	Romania	Banca Comercială Română	Project Tokyo	CRE / Corporate / Retail	Deutsche Bank, IFC and APS Holding	Germany, International, Czech Republic	1200
2H-15	Romania	UniCredit Tiriac Bank	Project Triton	CRE / SME	Kredyt Inkaso	Poland	340
2H-15	Romania	Pireaus Bank	NPL Portfolio	-	Libra Group	International Conglomerate	300
2H-15	Serbia	Erste Bank Novi Sad	Project Grey	Corporate	APS Holding	Czech Republic	21
2H15	Serbia	Banca Intesa	NPL Portfolio	SME	Confidential	N/A	35
1H-15	Poland	Santander	Consumer Debt Portfolio	Consumer	Kruk Group	Poland	75
1H-15	Poland	Bank Zachodni	Corporate NPL Portfolio	Corporate	Confidential	N/A	800
1H-15	Poland	Raffaisen Polbank	Mortgage debt Portfolio	Residential	Confidential	N/A	240
1H-15	Romania	Pireaus Bank	Project Henri	Consumer	Kruk Group	Poland	189
1H-15	Romania	Banca Comercială Română	Project Saturn	CRE	Deutsche Bank	Germany	433
1H-15	Slovenia	BAMC (DUTB)	Portfolio of claims to four companies	Corporate	Bank of America Merrill Lynch	United States	123
1H-15	Slovenia	BAWAG & Debtors	Istrabenz loans	CRE	York Capital / Elements Capital	United States / Slovenia	156

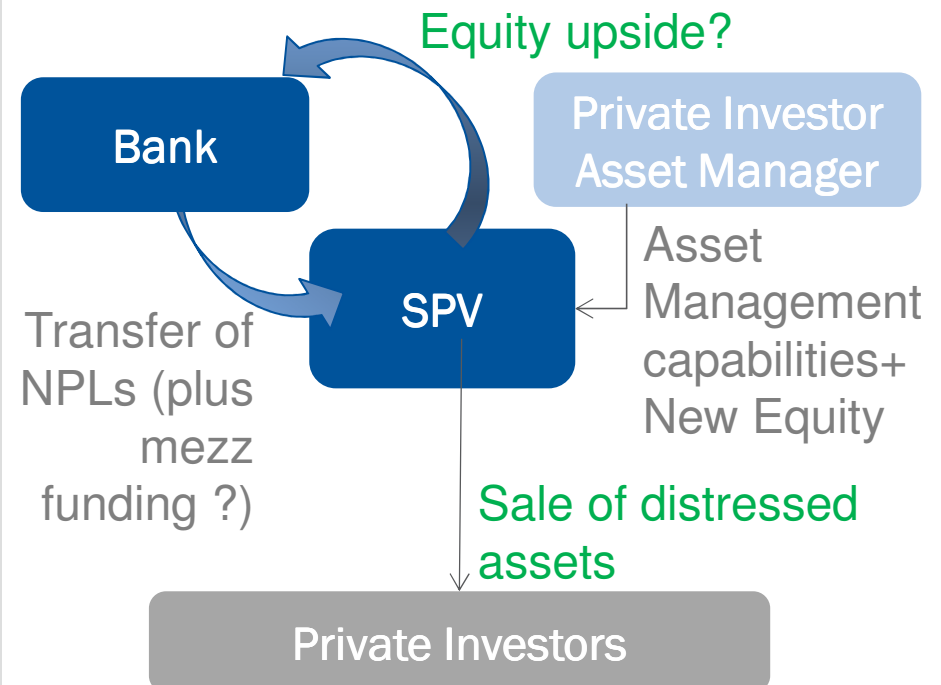
Source: KPMG, Deloitte, Debtwire, EBRD

Alternative private solutions

Straight sale of NPL



Transfer into new structure and attract investors / servicing skills



... and even more diverse solutions implemented

Multi-asset classes / sectors

Pros

- ✓ Single solution / transaction
- ✓ Optimal when bank specific

Cons

- ✗ Complexity
- ✗ Need for broad expertise
- ✗ Can become unfocussed



BAMC

Est.: 2013
4 banks
GBV: €4.9B



FMS-W / EAA

Est.: 2010
Each 1 bank
GBV: €175B / :
€178B



VAMC

Est.: 2013
Systemic
Target acquisition:
up to ~ €28B

Asset class specific

Pros

- ✓ Greater focus to a specific industry
- ✓ Can integrate multiple banks
- ✓ Simpler structure / implementation

Cons

- ✗ NPLs remaining at banks
- ✗ Multiple AMCs may be required



SAREB

Est.: 2012
9 banks
GBV: € 107B



NAMA

Est.: 2009
5 banks
GBV: €74B



MARK

Est.: 2014
Systemic
Initial capital:
~ €1B

Other solutions?

- The new Italian GACS (Garanzia Cartolarizzazione Sofferenze - Guarantee on Securitization of NPLs)

Building of markets and institutions - what support from the IFIs?



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EBRD stands ready to:

- invest in NPL portfolios (following intensive due diligence)
- encourage the sale process through our strong relationships with systemic regional banks
- support specialised investors as a minority investor consortium member
- support/financing for NPL asset managers with a focus on integrity and high-standard collection practices
- fund single-credit corporate restructurings (ideally taking on ‘super seniority’)

PUBLIC

DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT

FINANCIAL SECTOR STRATEGY 2016 – 2020

As approved by the Board of Directors on 13 January 2016

PUBLIC

EBRD Financial Sector
Strategy 2016-2020

Regulatory assistance will be coordinated with other IFIs under the Vienna Initiative NPL Action Plan



- ✓ Deal with crisis legacy in bank balance sheets
- ✓ Maintain equal pace in balance sheet cleansing within and outside the SSM area (i.e. subsidiary networks will not become residual of poorer asset quality).
- ✓ Financial restructuring in debt-distressed corporates
- ✓ Thereby revive credit markets and ultimately growth
- ✓ Transparency in restructuring environment, capacity building and knowledge sharing.

EBCI | Vienna Initiative



September 26, 2014

Vienna Initiative pushes for action plan to deal with NPLs in central and south-eastern Europe

Fostering an effective framework for NPL restructuring and resolution

Participants at a workshop of the Vienna 2 Initiative have called for decisive, timely and targeted action to address non-performing loans (NPLs) in central and south-eastern Europe (CESEE), while taking note of recent progress in some jurisdictions from NPL sales and write-offs.

The Vienna Initiative is a private-public sector platform which brings together key International Financial Institutions (IFIs), international organisations, public authorities and private banks to coordinate responses to pressing financial sector issues in emerging Europe.

This latest meeting was also attended by other market players, including potential investors and advisory services.

NPLs are a serious impediment to recovery from the financial crisis in certain CESEE countries.

The overhang of distressed assets distracts banks from focusing on developing new businesses. As the European Central Bank is about to conclude its asset quality review and stress tests for systemically important Eurozone banks, participants at the workshop, held in Vienna on 23 September, stressed the importance for action also outside the euro area.

The systemic importance of subsidiaries of Eurozone-based banks in the region should foster an effective coordination mechanism for addressing NPLs.

The meeting recommended that country-specific groups be set up in order to identify and address the key obstacles to NPL resolution and propose potential remedies. These groups will draw on the input of workout professionals of commercial banks, legal experts, local regulators and IFIs.

Thanks for your attention!



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<http://vienna-initiative.com/npl-initiative/presentations-and-events/>
