

# PwC's Dealmaker Financial Services Summit

*Vienna 2018*

## *Follow-up notes*

7th

edition

150+

participants

80+

companies

20+

speakers

# PwC's Dealmaker Financial Services Summit

Vienna, September 2018

## Event Summary

On September 18<sup>th</sup> this year, PwC Europe re-united Europe's leading Financial Services (FS) deals professionals at the Dealmaker Financial Services Summit which was organized in Vienna. With over 20 speakers and more than 150 participants from numerous international commercial and investment banks, investors and regulators, it was once again one of the largest events dedicated to FS deals in continental Europe.

*Consolidations, new market entrants & digitalisation seen as key trends shaping the FS deals universe*

### **The focus**

The FS sector as we know it is being re-shaped by observed consolidation, entrance of new players of the digital sphere as well as by a changing regulatory environment. The banking industry must respond in multiple layers by using different forms of innovation. This is why this year our participants discussed both challenges and opportunities of the current financial market throughout our panel discussions, leading to valuable inputs for all participants.

### **Conference**

The conference started with an introduction of PwC's latest progress on the Dealmaker platform, first announced at last year's event (registration is already possible at [pwcdealmaker.com](http://pwcdealmaker.com)!).

As the cost of starting a new business has been in steep decline and continues to fall, customer retention is seen as the new holy grail. This is reflected by PwC's Dealmaker - with a new attitude, we move from a transactional to a membership economy. PwC looks to venture in this new FS world and creates "collaborative deals", meaning participants will act more as a community than ever before and will grow together because of it.

Following an introduction, four panel discussions and keynote speeches took place – covering topics such as a broader view on M&A in today's FS market, debt deals from both banks' and investors' perspective and financing. During the breaks, participants and PwC experts were able to share their experience in this fast changing market and provide valuable insight into the challenging future.



*Host: Bernhard Engel, Leader of Financial Services and Deals in PwC Austria*

*Shift to a membership economy & importance of "collaborative deals" where a deal is no longer a zero-sum game but creates additional value for all parties involved*

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## Block A

### **Keynote speech- "Setting the Scene" by Burkhard Eckes (Partner, Leader Banking and Capital Markets, PwC EMEA)**

Mr. Eckes highlighted increased focus on 'good assets' as these asset classes could also have a material impact on profitability and on interest rates. According to his speech, the three key pillars for banks are profitability, sustainability and viability. He closed his speech by mentioning that the biggest challenge in the European banking sector now is cybercrime and IT disruptions and that for banks it is getting harder to efficiently and safely manage their vast amounts of data.

### **Panel discussion - "FS M&A Market"**



*Panel A participants*

The discussion was chaired by Mr. Christoph Baertz, FS Deals Leader, PwC Europe.

The panel constituted of :

- Selim Alantar, Member of the Executive Board and COO / Semper Constantia
- Haris Hajro, Chief Administrative Officer / BAWAG Group
- Maximilian Clary, Head of Group Strategy Division / Erste Group
- Ivo Holdener, Executive Director Investment Banking / Raiffeisen Bank International

The topics mainly revolved around the opportunities in the FS market and challenges of M&A transactions from both banks and investors' perspective. Furthermore, the speakers touched upon ongoing Fintech trends and regulatory challenges.

It was highlighted during the discussion that integration plays a very important role in FS M&A transactions. A lot of market players are looking for new targets, however, M&A transactions are often lengthy, cumbersome and costly and as such, finding the right opportunity is crucial. In order to remain competitive and to be able to withstand the increased competition, banks (especially smaller-scale ones) must find their true competitive advantage compared to other market players.

*The European FS market has been flagged as "overbanked" with low profitability and high capital requirements*

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Participants agreed that the European FS sector is struggling to keep up with the U.S. and China and it is hard to compete globally with large players as a result of the current regulatory setup in Europe. As such, a prime focus of the ECB is to encourage banks to engage in 'cross-border' mergers to improve the profitability of banks and to ensure a long-term sustainability of the banking sector.

However, in case of 'cross-border' transactions, a scale effect is harder to leverage on and regulatory requirements are becoming much more complicated due to nature of the transactions.

The discussion continued with the biggest disruptive challenges in the FS market. Panelists concluded that digitalization impacts all financial institutions and as such its significance is unparalleled in the market.

The current environment is providing room for technology developments as banks started to realize that having an effective digital strategy is priority and they need to invest in new technologies to provide customer convenience.



*Audience incl. 150+ European FS deals professionals*

Lastly, it was pointed out that Fintech companies push banks to improve their systems and that financial institutions should find their focus areas where they can effectively integrate Fintech services.

## ***Block B***

***Keynote speech - "Debt Instruments" by Sabine Abfalter (Partner, Capital Markets & Accounting Advisory, PwC Europe)***

New impairment rules create P&L volatility that is new to banks and as such they need to find innovative ways to address this. High volume of NPL transactions have been observed in the market, however, more is expected to come with increased focus on performing assets. Overall conclusion was that new accounting measures may drive banks' appetite to sell more on the market.

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## Panel discussion - "Debt deals: Bank's perspective"

The discussion was chaired by Ms. Jessica Lombardo, Partner, FS Deals, PwC Europe.

The panel constituted of :

- Sabine Abfalter, Partner, Capital Markets & Accounting Advisory / PwC Europe
- Tomaz Znidarsic, Head of SEE Desk-Restructuring, Workout & Collections / Sberbank Europe
- Massimo Prestipino, Group Distressed Asset Solutions / UniCredit Group
- Lars Fankemölle, Chief Risk Officer / Banco do Brasil



Panel B participants

The center of the discussion was potential solutions that banks have as ways to reduce their level of non-performing loans (NPLs) / non-performing exposures (NPEs), such as true sales (e.g. via portfolio or single tickets disposals as well as forward flow agreements) or synthetic sales. In addition, changes in the regulatory framework (IFRS 9, EBA etc.) call for a more dynamic optimization of banks' NPEs.

Pressure from regulatory bodies remain on banks to tackle distressed assets already in the early stages including Stage 1 and Stage 2 cases, such as unlikely to pay (UTP) and forborne exposure. As a result, financial institutions are seeking innovative & efficient solutions for reducing NPEs by implementing signal systems and apply certain restructuring measures already from the early stages.

*Single tickets disposals & forward flows are seen as the new way of dealing with non-core assets*

One of the key conclusions during the discussion was that banks need to improve the efficiency of their workout departments and react faster when handling distressed assets.



In the current market environment, where traditional NPL volumes are lower than in the past years, the general focus of banks is a continuous disposal of NPEs and to avoid piling up during good economic conditions. The key focus of the discussions revolved around new solutions when addressing NPEs.

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One way of addressing NPEs is single ticket transactions that are attractive for both banks and investors as it offers a tailor-made deal structure and as such, banks are able to maximize value. While the key advantage of forward flow deals is that they offer pre-agreed conditions providing high predictability to both sellers and buyers allowing a mutually beneficial transaction.



The speakers also discussed synthetic securitization and the conclusion was that despite the fact that synthetic deals have attractive features, in order to be beneficial there are several factors that should be pre-agreed and aligned between parties with respect to the risk taking, servicing etc. As such, synthetic sales are more of an interim solution to address distressed assets.

## Block C

### **Keynote speech - “Debt Solutions” by Nikola Avramovic (Senior Manager, PwC Europe)**

The ‘Debt Solutions’ platform developed by PwC was initially set-up with the purpose to serve as a pure NPL servicing machine. However, a wider scale of services has been added, such as compliance and other resource intensive services that investors and banks likewise are looking to outsource. The platform is already active and well-perceived by the market with a number of ongoing mandates in the region.

### **Panel discussion - “Debt deals: Investor’s perspective”**

The discussion was chaired by Mr. Rolf Jan Keijjer, Senior Manager, PwC Europe.

The panel constituted of :

- Stefan Selden, Partner / 720° restructuring & advisory
- Marwin Ramcke, Managing Director/ EOS Group
- Ivan Cicvaric, Project Manager / B2 Kapital
- Viktor Levkanic, Chief Investment Officer / APS



Panel C participants

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The current market sentiment in the CEE/SEE region and NPL transactions trends were the main discussion topics amongst panelists.

While countries like Croatia, Slovenia and Romania have experienced sizeable transactions in recent years, banks in Bosnia & Herzegovina, Montenegro, Serbia still show high NPL volumes.



The discussion then moved to the current regulatory situation for financial institutions and their impact on distressed asset transactions. The panelists agreed on an overall positive effect of regulation on the activity in NPL sales markets. It was mentioned that especially regulatory acts like ECB's "Guidance to banks on non-performing loans" pushes financial institutions to reduce their NPL stocks.

However, it was pointed out that overregulation (e.g. in the form of the EBA-templates for NPL transactions) may increase due-diligence costs and even hamper market activity.



The next topic covered in the panel related to the attractiveness of forward flow agreements ("FFA") compared to one-off sales. The opinion prevailed that the success of these deal structures depends on a stable economic and legal environment as well as suitable underlying assets.

Furthermore, panelists highlighted that they expect single asset transactions to be a hot topic in the CEE/SEE region following an era of large portfolio transactions which may also lead to the entrance of other market participants, such as private equity funds.

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The conversation then shifted to structured deals, where investors highlighted the key success factors for this type of transaction. These being an alignment of interests between sellers and buyers, a clear structure of the deal accompanied by hands-on and experienced advisors as well a seller who is actually incentivized to follow through with the transaction.

Overall, the distressed asset market is expected to become more diverse in terms of deal and asset structures with single countries being in different stages of maturity and a challenging regulatory environment.

*The distressed asset market is expected to become more diverse in terms of deal and asset structures*

## Block D

### **Keynote speech - "Securitization" by Stefan Paulmayer (Senior Manager, Head of Capital Markets, PwC Legal Austria)**

It is well known fact that securitization has enjoyed a bad reputation for the last decade and has even been blamed for global financial crisis in 2008. In his speech, Stefan Paulmayer highlighted however that carefully structured securitisations have been recognized as an important factor for a sound financial system and that they facilitate additional investment opportunities for investors in assets that would otherwise not be available.

### **Panel discussion - "Financing perspective"**

The discussion was chaired by Mr. Thomas Veith, Partner, Leader Real Estate, PwC Europe

The panel constituted of:

- Gabriel Arsene, Head of Workout Portfolio Management / Erste Group
- Jonathan Wheatley, Principal Investment Officer - Head of Distressed Assets, EMENA region / IFC
- Sebastian Nitsch, Member of the Board, CFO / 6B47
- Stefan Paulmayer, Senior Manager, Head of Capital Markets / PwC Legal Austria



*Panel D participants*

The topics mainly revolved around different types of financing solutions on the market and how each of these can potentially impact the market sentiment.



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*Markets like Greece and Italy show a lot of potential*

Looking at the distressed asset market in Europe, the panellists pointed out Italy and Greece as the ones with enormous NPL volume (over EUR 100bn). Regarding CEE region specifically, they have emphasised that although the market might have reached its peak, the music has not stopped yet, as there are few more sizable transactions ahead. Moreover, there are more opportunities for smaller and regional investors because of single ticket transactions.

Second tier banks and advisors could also benefit from such a trend, as smaller banks have the chance to bring their assets onto the market, and advisors can help them to get familiarized with that type of transaction.

Additionally, the panelists see financing structures/transactions as becoming more complex and restrictive, predicting an increase in bond issuances in financing NPL acquisitions.



Lastly, the panelist agreed that there are overpriced assets on the market but there is still a room for growth. The market will still continue to have a supply of NPLs and the interest rate environment will probably control the demand.

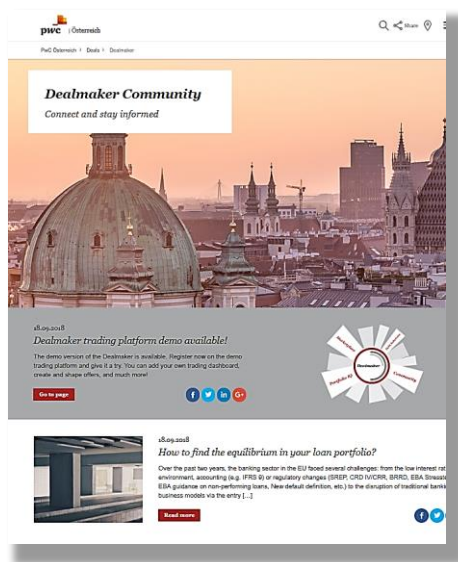
Certain markets have been underdeveloped (e.g. Greece) and some have not yet opened at all (e.g. Ukraine). The real estate market continues to be liquid with strong consumer demand and no sharp decline in prices is on the horizon, at least in developed cities.

***We thank all participants for joining our event and are looking forward to welcoming you at our next edition of the “PwC Dealmaker Financial Services Summit ” in 2019!***

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## *PwC is the European leader in non-core asset resolution*



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### *Your PwC Dealmaker contacts*



**Bernhard Engel**  
**Partner, FS & Deals Leader**  
PwC Europe  
[bernhard.engel@pwc.com](mailto:bernhard.engel@pwc.com)



**Bogdan Popa**  
**Director**  
PwC Europe  
[bogdan.petre.popa@pwc.com](mailto:bogdan.petre.popa@pwc.com)

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