European Portfolio Advisory Group

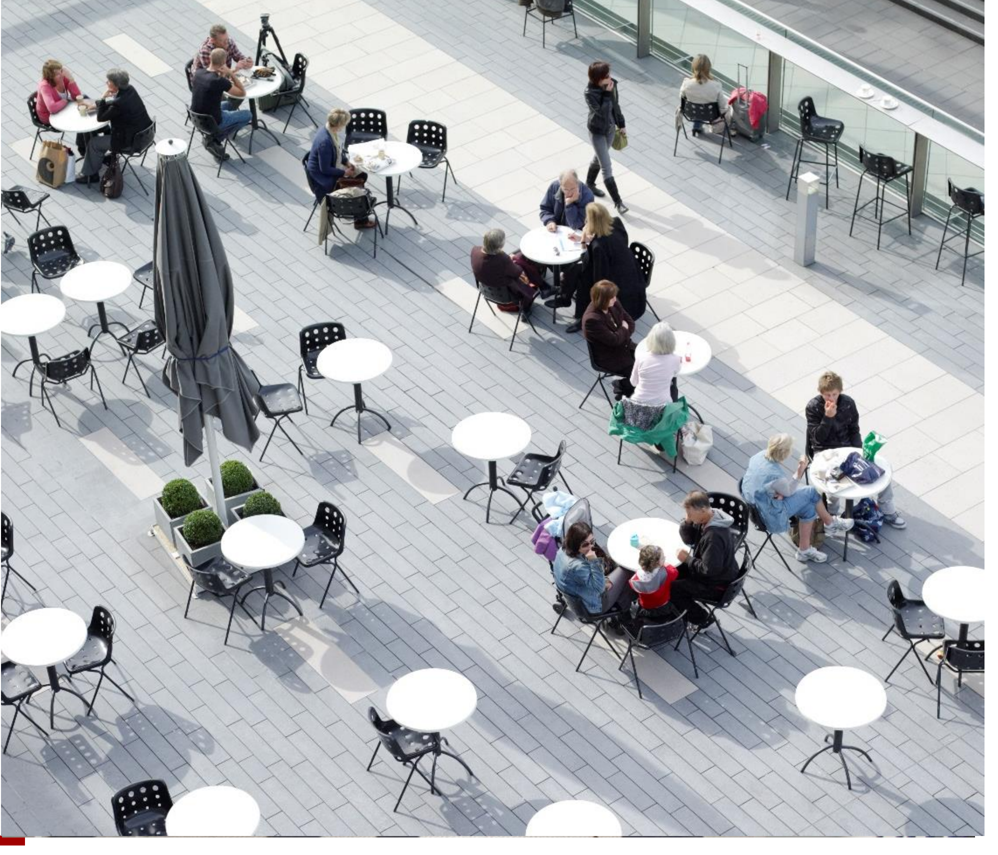
Innovation as growth engine

PwC Europe's Bank Restructuring Conference

Participants follow-up notes

Financial Services Publications

October 2017



pwc

PwC Europe's Bank Restructuring Conference 2017
Vienna, October 20th

pwc

Event Summary

On October 20th this year, PwC Financial Services invited the main players in the financial industry to the 6th annual Bank Restructuring conference. This year Western European markets like Belgium, the Netherlands and Germany have joined the stage with CEE region representatives. With close to 30 speakers and ca. 200 participants from about 80 banking and investor groups, it was the largest NPL event focused on the CEE region to date- covering also Russia, Ukraine and Turkey.

Host: Bernhard Engel, Leader of Financial Services Deals PwC Europe

The focus

The key trends on the CEE distressed debt market, from all players' perspective, has been the focus

Challenged by new factor from digitalisation, increased regulatory environment and shifting consumer behaviour, the banking industry must respond in multiple layers by using innovation. This is why this year our participants tackled "the future of the distressed financial sector" throughout our panel discussion, leading to valuable input for all participants on the restructuring market: sellers, investors, servicers and advisors. These included representatives of the regional central banks, international banks with strong presence in CEE, regional and global investors, servicers and legal experts.

Distressed Assets Market Overview

Looking ahead, deal flow expected to continue given the regulatory changes (IFRS 9, ECB's NPL guideline) and availability of cheap funding, albeit deals will tend to become more compact in size and diverse in their underlying assets, pushing principals to look for more efficient sale processes with the help of technology.

PwC introduced its response to upcoming challenges of debt restructuring market

Conference

The conference started with the response of PwC to the upcoming challenges in the debt restructuring market: PwC Dealmaker - platform designed to facilitate the deal making process from strategy to execution to post-deal asset management. Following the new products' introduction, five panel discussions took place– covering also specific new markets like Russia, Ukraine and Turkey. During the breaks, participants and PwC experts were able to share their experience in this fast growing area & provide valuable insight into the expected- to a certain extent uncertain but challenging-future.

pwc

Key points discussed

Panel A "Changes in the continental investment environment"

Panel A participants

The panel constituted of :

- Bernd Mittermair, Head of Group Workout / Erste Group
- Andreas Stuppnig, Director / Deutsche Bank
- Arpad Sebe, Partner, Head of Europe / Balbec
- Josep M. Julia, Global Head of the Distressed Asset Investment / IFC
- Friederike Sibbe, Senior Advisor / Castlelake

The discussion was chaired by Ms. Diana Arjoca, Senior Manager in PwC Europe Financial Services.

The topics mainly revolved around the development of the **next focus markets** in the distressed credit market from banks, investors and servicers perspective.

While last year's trend on Croatia and Romania has been re-confirmed with material sales expected for the next 1.5 years, the discussions brought new but anticipated players like Russia and Ukraine into the spot light. However, compared to other highly active countries like Italy, Greece and Spain the Norther CEE markets are lacking historic data for reliable pricing benchmarking and have only few servicers active. Nevertheless, participants agree Russia, Ukraine and Turkey to be the source of the third NPL wave as SEE activity cools down.

Promising markets like Russia & Ukraine lack historic data as well as local servicers

On the current (and expected) legal and regulatory framework, the participants agreed it should facilitate rather than force deals and support in **closing the gap price between sellers and investor**. A prime focus of regulators on improving the framework for valuation (e.g. time to money in Italy) and consolidation regarding aspects like licensing need for similar European markets would allow investors a more-seller friendly pricing.

Furthermore, the current environment is providing room for **emerging dealmaking processes** like platforms, securitisation structures and synthetic sales. Most naturally this is also a result of the shift into the banks NPL strategy depending on its position into the NPL cycle: opportunistic in early stage and strategic in advanced stages. Additionally it was noted that development towards strategic decisions is among other the **use of multi-layered work-out strategies** which go beyond a going / gone concern for corporate tickets.

Key points discussed

Next to data, segmentation is a key challenge for transaction success

The panellists exchanged further key factors on transactions efficiency. A recurring topic is the improvement in data quality and VDR sampling, however, a key success factor, factored right at transaction generation, has been the focus this year: the portfolio segmentation. Investors and servicers have highlighted that segmentation into specific asset classes leads to increase in transaction competition and eliminates the needs of partnerships between investors when acquiring portfolios.

The discussion ended with the joint view that NPL servicers, who will prevail in low-ratio NPL periods will be a **very valuable partners** for sellers/ NPL investors as non-core assets will in the future be part of business as usual in the financial sector.

Panel B "Country focus: Germany, the Netherlands & Belgium"

The panel constituted of :

- Torsten Hollstein, Board Member / CR Management
- Dr. Jörg Keibel, Senior Key Account Manager, Hoist
- Gunther Kotz, Managing, Director / Cerato
- Wilbert van den Heuvel, Partner / PwC Netherlands

The discussion was chaired by Mr. Rolf Jan Keijer, Senior Manager in PwC Europe Financial Services.

Panel B participants

No next big NPL expected to come from these economies.

Though this panel covered wide economies with material NPL volume, the discussion concluded that no big NPL disposal wave is expected to raise from these countries. Nevertheless, future regulatory changes will trigger the need to optimize the balance sheet (e.g. RWA penalisation of high LTV mortgages). In Germany in particular, panellists agree that banks are currently not facing capital needs, mainly due to influences from the public sector. Therefore shareholders focus rather on internal optimisation (e.g. Commerzbank optimizing the work-out departments) than NPL transactions. However, specialized ship-financing assets are offered to sale but hindering pricing gap between sellers and buyers is restraining the transaction record. Some synthetic sales / ABS transactions took place, however, only limited as money is widely available for banks and complex transactions are not preferred by sellers. The main trigger for these structured transfers have been regulatory reasons, e.g. limitations regarding true sale.

Key points discussed

With regards to the Netherlands, mainly the AQRs performed by EBA triggered the recent NPL transaction activity in e.g. Dutch standardized mortgage products. The NPL stock is concentrated within 3-4 players. Few examples of structured solutions have been noted on the market, e.g. sale of SME portfolio to pension insurance funds. Of particular importance for sellers to consider such transactions on the Netherlandish market is the duty of care which they prefer to keep and therefore limiting the influence of the structuring partner in the direct contact with the clients. Regarding Belgium, this is noted to be a more conservative, relationship-driven economy, with material transaction rather related to international clients with partial Belgian exposure.

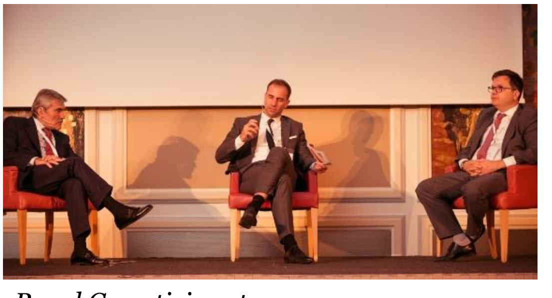
The panellists concluded that upcoming regulations expected to trigger the internal assessment of restructuring / work-out costs while the market participants require a higher optimisation of transaction with regards to standardisation, support of platforms justification of prices.

Panel C "Banking in the new technological & regulatory era"

The panel constituted of :

- Alexander Tscherteu, CEO / HETA ASSET RESOLUTION
- Mag. Alois Steinbichler, CEO / Kommunalkredit

The discussion was chaired by Mr. Bernhard Engel, Leader FS Deals, PwC Europe.



Panel C participants

The panel revolved around the technological changes and expected regulatory environment, challenging the question on how banks will shape their future.

Regulation wishes to be preventive & to facilitate banks' survival during hard times but creates cost burden for them

With increased regulatory requirements- which aim to protect the consumer- banks face incremental costs of business, leading them to optimize the balance sheet and to eliminate complex and sophisticated assets while limiting their capabilities. However, new regulation might lead to the developing of new niche industries, like in the situation of HETA. As a bad bank, it has in the course of its wind-down developed a new business model and the enhancement of the CEE NPL market. In the outlook, bank's will need partners e.g. Fintech in providing sophistication to the products and specialized outsourcing.

Key points discussed

As digitalisation is emerging, and as clients are developing their expectations from the banking sector, banks are challenged not only from the regulators but also from the peers- which are more and more non-standard banking institutions. Current focus should lie on getting the needed bid data to tackle consumer behaviour. Furthermore, participants expects the need for qualitative services (e.g. asset management products) to remain of high importance also in the future.

While the environment is changing- panellists expect banks to move rather to core banks than the universal bank business model- digitalisation can be of particular benefit, like in the case of the recent development of the retail segment by Kommunalkredit.

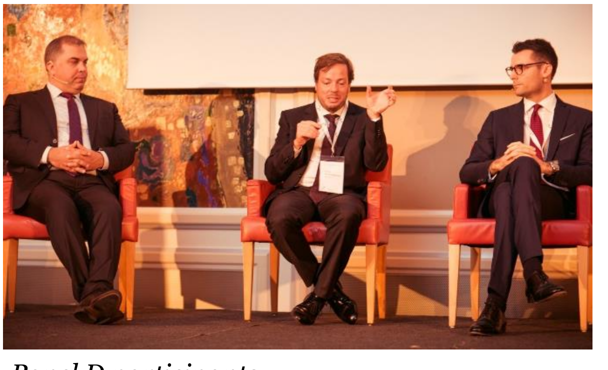
Regarding the NPL industry, the presence of non-core assets on the bank's book is expected to prevail as business as usual in the future.

Panel D "Country focus: CEE / CIS"

The panel constituted of :

- Anton Dmitrakov, General Director / EOS
- John McNaughton, Board Member / ExpoBank
- Luca Orsenigo, Group Distressed Asset Solutions / UniCredit Group

The discussion was chaired by Mrs. Darija Hikec, Advisory Director PwC Croatia.



Panel D participants

Next NPL wave expected from Russia, Ukraine and Turkey

While **CEE is expected to be supplied with transactions during 2018**, the panels focus has been on the merging markets Serbia, Ukraine and Russia. Governed often by lack of historic data, emerging markets offer prospects and often local partners to ease the opportunity seek and transaction process.

In Kazakhstan panellist consider European investors to still be very cautious, whereas in **Serbia** not only portfolio transactions but also **successful M&A processes took place**.

The Russian Federation, is said to offer opportunities not only due to its massive scale (EUR 80b NPL stock in 2016 according to IMF), but also by its local legal framework, especially regarding servicers- ca. 100 active on the market.

pwc

Key points discussed

With **recent regulation being enforced starting January 2017**, servicers and debt collectors have raised to standards close to the ones seen on the European market. Benefiting from digitalisation, they have invested in technological development to ease the debt collection process and atomize processes (e.g. data from bailiff, communication) in such a geographically dispersed country. On the outlook panellists expect banks to tend to outsource the loan servicing more intensively and bailiffs are expected to see debt collection agencies as partners.

Lastly, a specific characteristic noted by panellists on the Russian market is that the workout of large **corporate is still kept in-house**, whereas for retail and SME often outsourced. Furthermore, to facilitate the sell of NPL big corporate tickets it is of advantage to find buyers with relationship to the client.

Panel E "Country focus - Turkey"

The panel constituted of :

- Özer Yeniay, Director / Deutsche Bank
- Hilmi Güvenal, CEO / Hayat Varlık
- Sezin Ünlüdoğan, CEO / Güven Varlık
- Teoman Alponat, Senior Vice President / Garanti Bank

The discussion was chaired by Mr. Serkan Tarmur, Partner, PwC Turkey.

Panel E participants

With consumer sector well serviced, opportunities present in niche segments

The panel offered firstly a deep-dive into the Turkish market and their players. With 14 Asset Management Companies ("AMCs") active two main companies (represented by the panellists) lead with ca. 60% the NPL market. As a result of the recent state aid (EUR 58b injected by the Credit Guarantee Fund), the NPL-flow reduced, however, this is expected by our panellist to be a momentary effect.

Additionally **new players might soon enough join the market** (e.g. state banks), raising the NPL volume to a total of ca. EUR 20b. Being a sellers driven market, Turkey has for over 5 years build an extensive **track record of consumer portfolio transactions-** predominantly unsecured. For a successful new entry, panellists note tackling a niche market (e.g. large corporates) is necessary.

pwc

Key points discussed

On the corporate sector, as noted by our panellists, the **banks prefer to insource their work-out while ensuring full control over client relationship**. However, recent balance sheet deteriorations on the corporate side might soon force banks to sell selected corporate commercial tickets. Currently the lack of the transaction record has mainly been the result of the gap pricing as AMCs look at cash collection wile banks follow more of a collateral realisation approach.

The discussion continued by highlighting **two additional expected upcoming trends**: first vintage of credit insurance transactions and consumer receivables (e.g. telecoms).

Lastly, the panel ended with another example of **responses to digitalisation and technological changes**: AMCs in Turkey are incrementally investing in R&D centres, data managers and IT analytics to develop in-house software (e.g. for use in communication with legal offices).

We thank all participants for joining our event and are looking forward to welcoming you at the 7th edition of our annual "PwC Europe's Bank Restructuring Conference " in 2018!

PwC is the European leader in Non-core and Non-performing Assets Resolution

Annual conference on European Bank Restructuring held in Vienna

Annual report on European distressed debt market

Your Contacts in PwC Europe

Bernhard Engel
Partner, FS Deals Leader
PwC Europe
bernhard.engel@pwc.com

Michael De Roover
Partner, BRS Leader
PwC Europe
michael.de.roover@pwc.com

Serkan Tarmur
Partner, FS Deals Leader
PwC Turkey
serkan.tarmur@pwc.com

Volker Skowasch
Partner, FS Deals Leader
PwC Germany
Volker.Skowasch@pwc.com

Wilbert van den Heuvel
Partner, FS Deals Leader
PwC Netherlands
wilbert.van.den.heuvel@pwc.com