

Portfolio sale of distressed assets by wind-down entity in CEE

Dr. Julius Freiherr Grote
Consumer Debt Sale conference

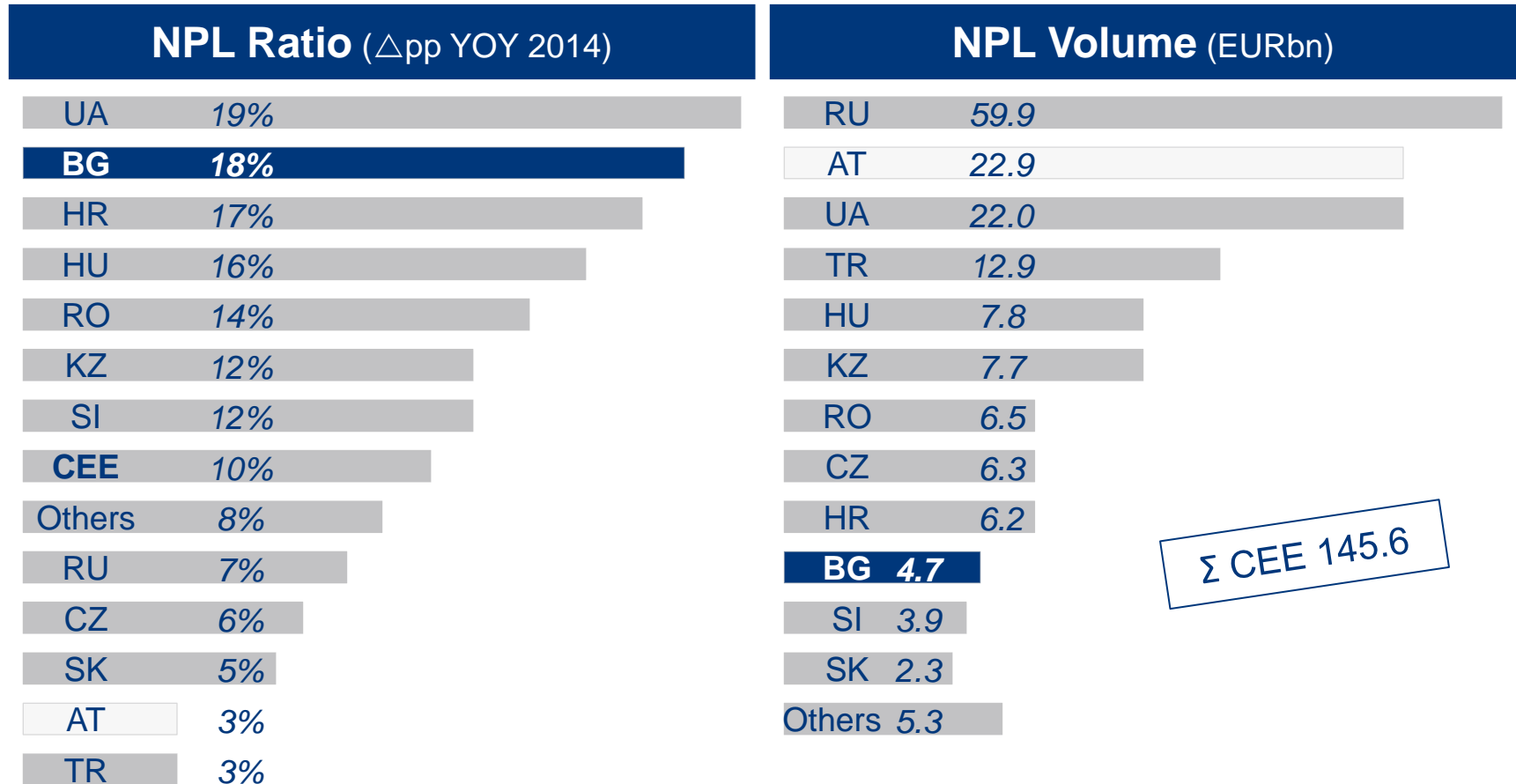
Berlin, 27th November 2015

- I. NPL markets – CEE vs. Bulgaria
- II. HETA in Bulgaria – Key facts
- III. Portfolio sale – Challenges and solutions
- IV. Outlook / Questions and answers

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CEE Market – NPL Development

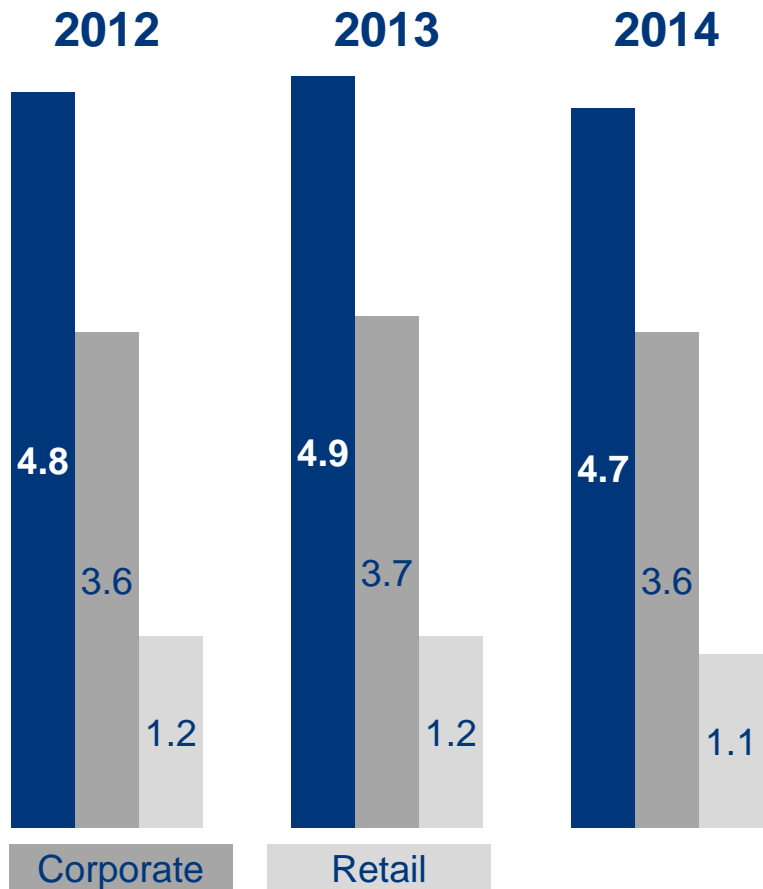
NPL in Banking Sector in CEE in EOY 2014



Source: National Banks

Bulgarian Market – NPL Development

NPL Volume by Client (EURbn)



Key insights

- NPL ratios increased in last 3 years up to 13% (Retail) and 21% (Corporate) in 2014
- Corporate NPLs substantially exceed housing & consumer NPLs
- High level of NPLs and provisioning leads to Banking willing to sell
- Though sufficient NPL stock available service platforms limited
- Type of potential investors attracted by (amongst others) total NPL portfolio size
- Trend of increasing NPLs expected to continue as result of scheduled AQRs in 2016

Source: Bulgarian National Bank, IMF

Bulgarian Market – Potential buyer side perspective

Selected Transactions with Local Buyers

Seller	Buyer	Amount (EURmln)	Segm't
TBI Credit	APS BG	~49	Retail
BNP Paribas	Frontex	~47	Retail
BNP Paribas	N/A	~45	Retail
UBB	EOS	~30-35	Retail
N/A	APS BG	~29	Corporate

Advisors Opinions

„... small Retail portfolio deals every month, bigger Retail portfolios 1-2 p.a. ..“

„... just a couple of Corporate portfolio deals observed so far ..“

„... no corporate sales deals observed due to distressed situation ..“

Considering this environment, HETA Asset Resolution Bulgaria to assess best option for envisaged exit strategy

Source: Publicly available information

Source: Bulgarian Big4 Transaction Advisors (2015)

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HETA Asset Resolution („HAR“) is the wind-down part of the former Austrian bank Hypo Alpe Adria

Quo Vadis HETA Asset Resolution



- HETA Asset Resolution Group had been established in 2014 while having carved out good bank of former Hypo Alpe Adria Bank and successfully privatized
- Remaining part is **wind-down** part, present in 11 countries in Central and South Eastern Europe including HETA Asset Resolution in Bulgaria
- **By 2020** latest, **all entities shall have been closed**; thus, both portfolio and structures are continuously shrinking
- HETA Asset Resolution Bulgaria consists of a gross exposure of 3-digit EURmln, o/w **significant part non performing**
- Mostly unsecured NPL portfolio consists of both, Retail and Corporate loans/finance lease agreements; **majority had been fully provisioned** – signals in case of embezzlements
- For preparing its wind-down, HETA Asset Resolution Bulgaria carefully assessed all appropriate **exit strategies**

Driving wind-down process via portfolio sales is preferred exit strategy for HAR Bulgaria

Exit strategies analysis

1	Corporate sale	2	Portfolio sale	3	Single tickets sale	4	Run off
<ul style="list-style-type: none"> Fast execution Transfer of staff Eliminating potential close down cost 	<ul style="list-style-type: none"> Preserving value Staff transfer poss. Combination of (PL and NPL) investor universe 	<ul style="list-style-type: none"> Maximize value for individual large tickets 	<ul style="list-style-type: none"> Use existing resources and systems Write-off loans 	<ul style="list-style-type: none"> No value maximization Questionable investor appetite for corporate sale 	<ul style="list-style-type: none"> No immediate NPL resolution More complex Platform possibly not sold 	<ul style="list-style-type: none"> Residual part of portfolio could be unsolved Time consuming Platform and staff not sold 	<ul style="list-style-type: none"> Long time needed Fix costs base remains Decreasing profitability during time

Preferred option

How to structure one-off sale?

Pro Con

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Structuring the portfolio shall consider both, specifics of seller structure and addressing buyer expectations

Portfolio Sale – Size and Structure as essential criteria “to map”

	Buyer perspective	Seller perspective – HAR view
Size	Investor type	Investm't capable (in EURm)
	Supranational	~15-20 (e.g. EBRD, IFC, ..)
	International	> ~50 (e.g. GS, LSF, DB ¹ , ..)
	Regional	~15-20 (e.g. Artemis, PPF, ..)
	Local	~10-50 (e.g. EOS, APS, ..)
Structure	Criteria for portfolio tranching	
	<ul style="list-style-type: none"> ▪ Client segment ▪ Performance/DPD ▪ Underlying asset ▪ Size of loan/lease 	<ul style="list-style-type: none"> ▪ Data quality & completeness ▪ Stage of litigation ▪ ...

Possible criterion, considering envisaged

- portfolio size ~EURm 100 (exemplarily)
- price range ~2-25% (depending on portfolio structuring and tranching)

Possible criterion, broken down e.g. by

- partially provisioned (i.e. asset not yet repossessed),
- fully provisioned (i.e. asset repossessed but not sold),
- pure debts

“Value drivers” of selected portfolio structure criteria to be assessed

Source: Publicly available information 1 GS - Goldman Sachs / LSF – Lone Star Funds / DB – Deutsche Bank

Leveraging quality of a portfolio structured by stages of litigation while focussing on „value drivers“

Challenge “Litigation process”

1. Non performing lessee but recovery potential?
2. (Finance) lease agreement terminated?
3. Ignored notary invitation with voluntary payment?
4. Leased asset repossessed?
5. Criminal signal filed (in case of missing asset)?
6. Any outstanding exposure after asset sale?
7. Any documents (e.g. **promissory notes**) for accelerated writ of execution available? Potential value driver
8. Lessee ignored voluntary payment by bailiff?
9. **Enforcement title** issued by Court? Potential value driver
10. **Decision not objected** by defendant? Potential value driver
11. Declaratory claim filed? Potential value driver
12. ... Potential value driver

Possible solution

- **Legal due diligence:** validity of receivable based on legal analysis of underlying contracts assessed
- **Appropriate tranching:** structure portfolio by value drivers
- **Comprehensive documentation:** high quality of documentation of validity of debt in data room (cooperating with externals)

Source: Bulgarian Civil Code of Procedure

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Outlook / Q&A

Outlook of envisaged portfolio sale – seller perspective

Select advisor

Determine appropriate transaction and legal advisor with required local market know-how and expertise

Complete data room

Ensure having data room with complete documentation in place fulfilling investor expectations

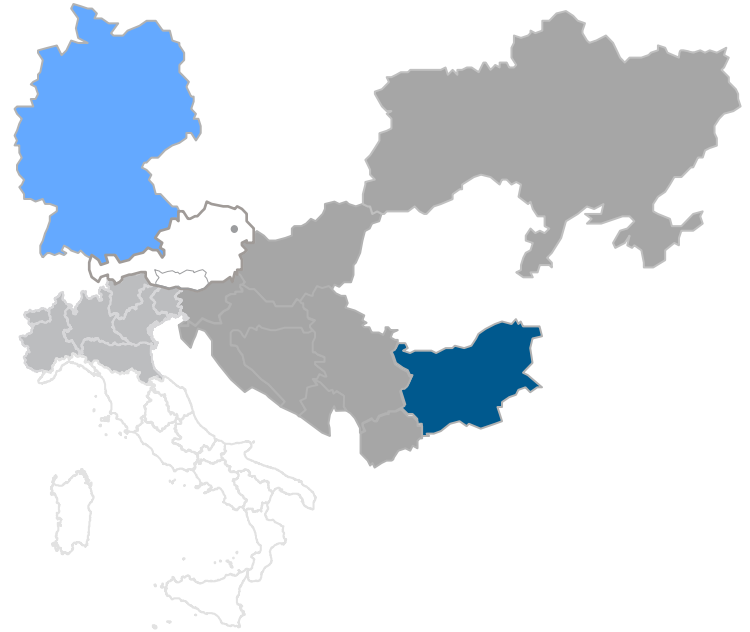
Clarify servicing

Define if service platform shall be offered as well acknowledging increasing investor interests

Identify investors

Approach suitable potential buyers (e.g. local or regional investors) considering portfolio specifics

Thank you very much



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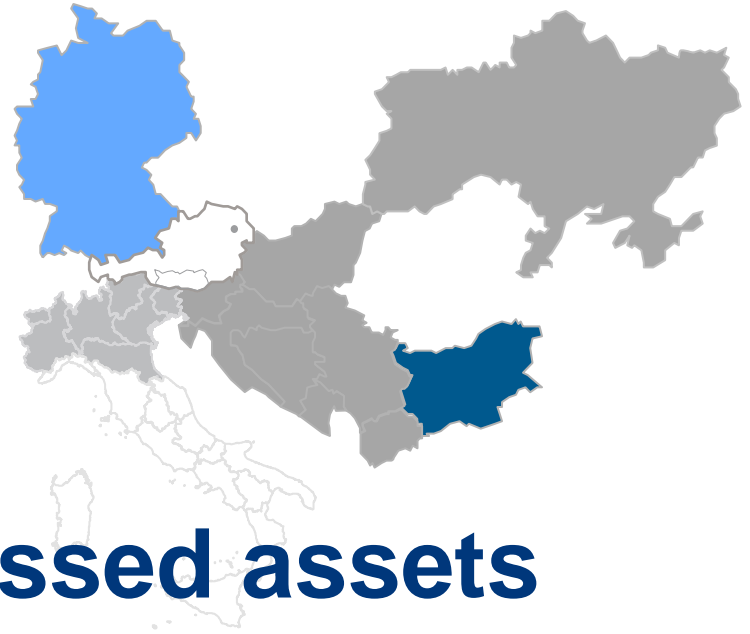
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