European Debt Market - Opportunities and Concerns

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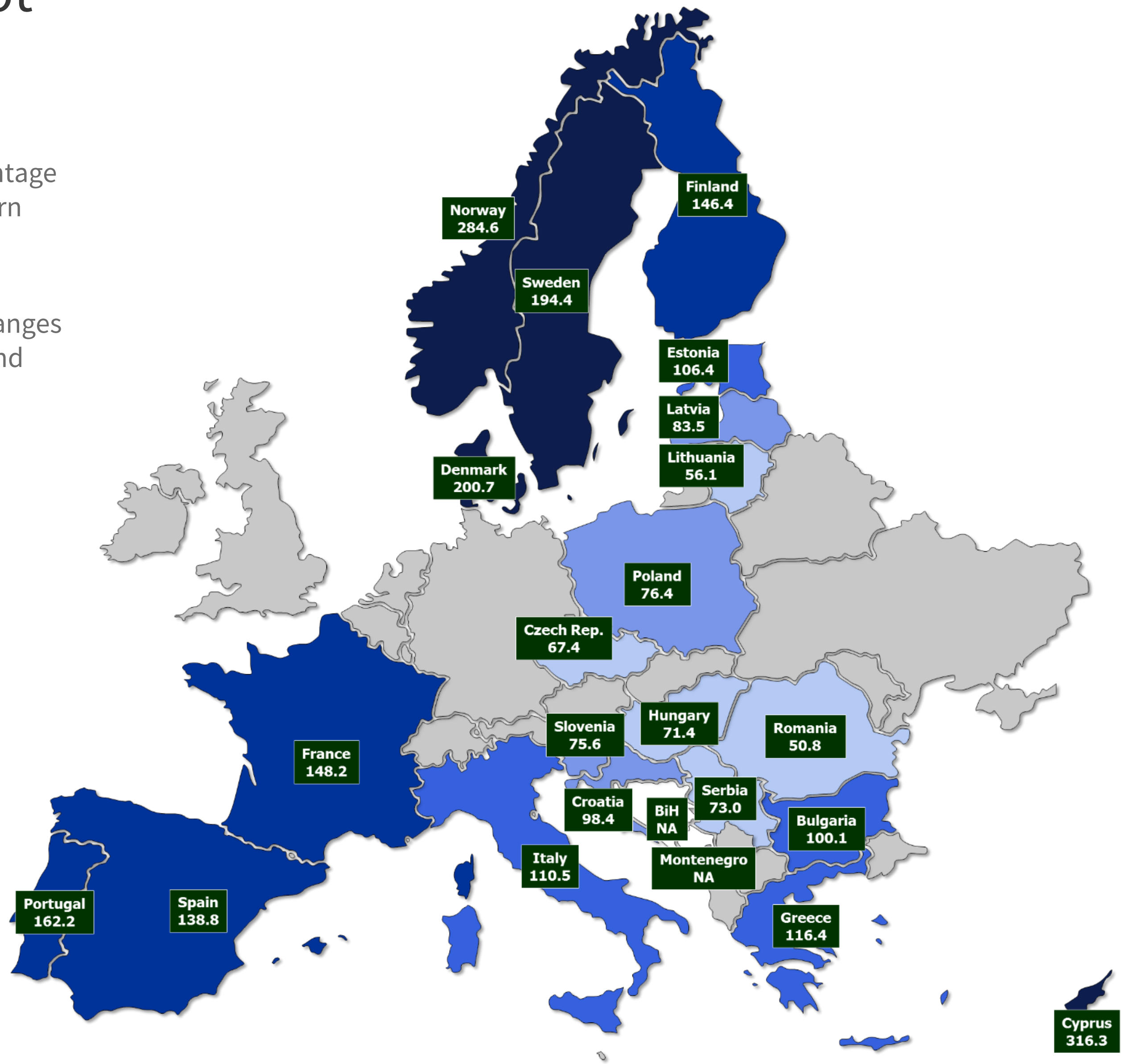
Macroeconomic snapshot

Private sector debt[1)] as % of GDP

- CE and SEE regions have relative lower percentage of private sector debt as % of GDP than Western Europe

- Should the trends of favourable legislative changes continue, would result in higher willingness and higer ability levels among debtors



Source: Eurostat; 2017 data.

1) Eurostat definition of Private sector debt: the stock of liabilities held by the sectors Non-Financial corporations and Households and Non-Profit institutions serving households.

Micro update

Legal & political environment

Legal & Regulatory environment

- In Romania, the last 5 years the unpredictability of the legal framework relevant to the banking system caused a negative impact in economy. In mid March 2019 the Constitutional Court rejected a set of populist laws – that would affect negatively the Debt Purchasing & Servicing industry - which deemed them unconstitutional
- In Greece Bankruptcy laws become less and less protective for the debtors and combats the known problem with strategic defaulters
- In Cyprus relevant legal initiatives were introduced within 2018, and generally perceived as steps in the right direction in order to overcome the judicial system's long-standing impediments
- In Bulgaria tendency for populist measures was successful faced by the industry since 2017

Political environment

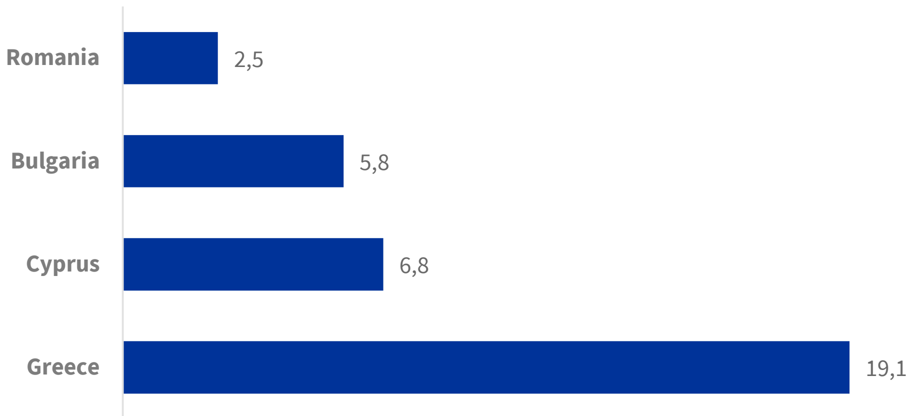
- Cyprus and Bulgaria have relevant political stability with last presidential elections having taken place in early 2018 and mid 2017 accordingly
- In Greece the national elections will take place by Oct. 2019 and expected to lead in a change of government. Investors perspective is that the political backdrop in Greece is more stable and the electoral outcome will not lead to significant delays in critical areas such as privatization, improvements in the business environment, etc.
- European commission and several countries expressed their warnings and concerns to Romania regarding the emergency laws that is about to pass. Risk in weakening the country's justice system - which has been changed by unpredictable modifications - and its ability to fight corruption

Improved legal environment with populist actions successfully faced

Market Trends - Top Deals & Vendors SEE Region

2018 an active year with a record of €19 bn traded in Greece

Activity by country (Face Value of deals in € bl)



Comments

- Real progress has been achieved in 2018 for the Greek NPL market with a strong pipeline in 2019
- Cyprus, with the 2nd highest NPL ratio in the region, during 2018 has revived the market after years of inactivity
- In Bulgaria – a more mature market – focus was turned to secured or mixed portfolios. Forward Flows approach has been tripled in the last two years
- Romania market has moved from large transactions towards smaller deals and single tickets

Top vendors across industries

FINANCIAL SERVICES	OTHER
Banks	Utilities, telecom etc.
UniCredit, Eurobank, National Bank of Greece, BRD Groupe Societe Generale, Raiffeisen Bank, Erste Bank, Alpha Bank, Piraeus Bank, Hellenic Bank, Bank of Cyprus	orange, T-Mobile, vodafone

Market Trends - M&A activity in servicing sector SEE Region

Strategic consolidations in the servicing industry already initiated in the Region

Done Deals

2017 – Romania

intrum

Acquired 100% of

topfactoring

Top Factoring is one of the leading companies for purchased debt in Romania mainly present in the bank and telecom segment

2018 – Greece

pepper

Acquired 100% of

NAI Hellas

NAI Hellas is an RE company, specializing in RE advisory valuation and property management

2019 – Greece, Romania & Serbia

Cerved

Acquired 100% of

Eurobank Property Services

EPS is one of the largest RE companies in Greece and in the SEE countries, specializing in RE Advisory, Investment Management, etc.

2019 – Spain, Portugal, Greece & Cyprus

doBank

Acquired 85% of

ALTAMIRA

Altamira is a Leader in SEE in credit and RE asset management market, covering financial asset management, RE marketing, etc.

Prospective Deals

H2 2019

Piraeus will establish a new platform in order to manage existing owned NPEs and REOs, new inflows as well as third party assets. 80% acquired by Intrum

intrum

Acquired 80% of

RBU Business PIRAEUS BANK

H2 2019 – Greece

PIMCO

Candidate Acquirers of 100% of

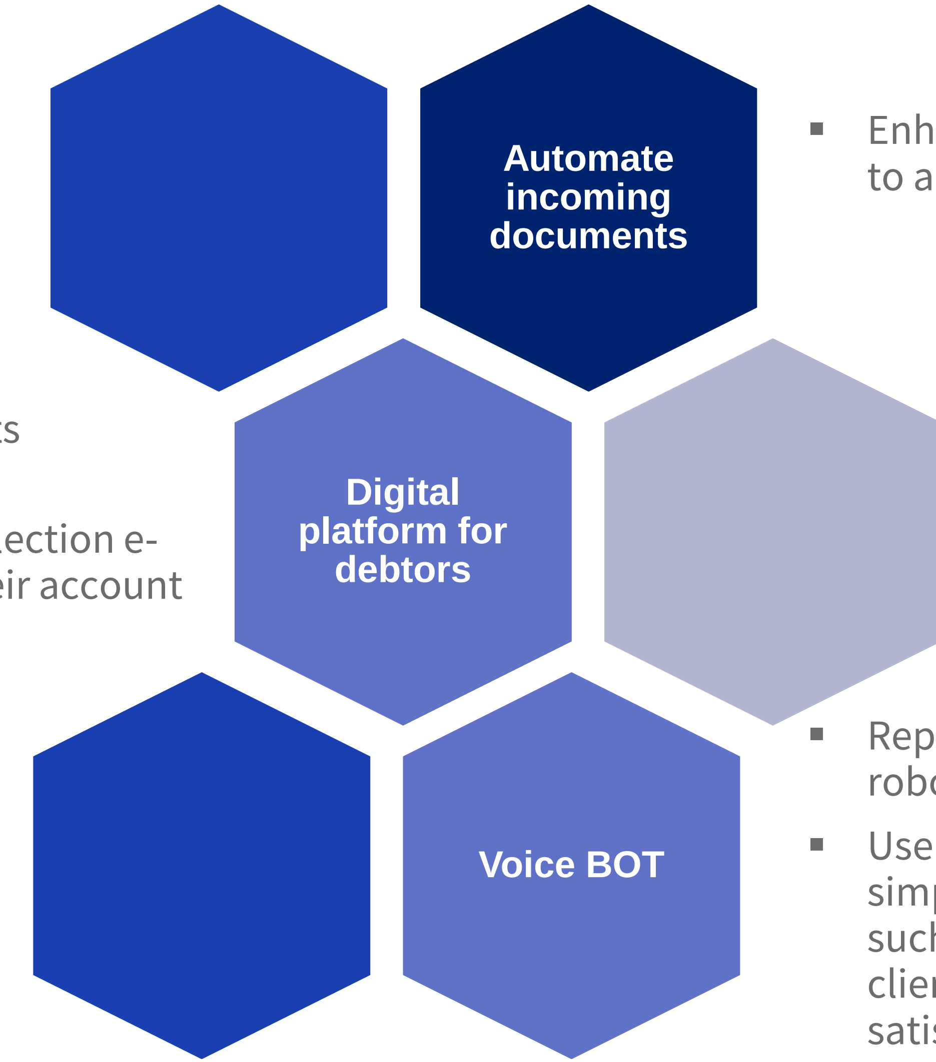
Eurobank Financial Planning Services

Market Trends - Automation

Debt Collection is starting to catch-up other industries

- Enhancing automation in relation to all legal documents

- Increase online payments percentage
- Enrol clients on debt collection e-Platforms to manage their account online



- Replace simple conversations by robots
- Use Bots for CC support (in simple and repeatable processes) such as maintenance, pre-calling, clients verification, customer satisfaction survey

European Debt market Concerns - Market

Pan-European banks-only NPL market is in excess of €0,5 trillion, without non-bank and telcos

Regulatory Pressure

ECB guidelines for further reduction of NPLs (%) and higher operational targets to the Banks

Secondary Market

Gradual creation of a secondary market (resale of already sold once portfolios)

Unlikely-to-pay

New IFRS standards are deemed to result in “Stage 2” (or “Unlikely to Pay”) perimeters that will burden even more the capital adequacy ratios

Spin-offs

Carve out of restructuring departments of Systemic Banks – NPL management is a non core activity for banks which requires a lot of resources in terms of employees and capital

Servicing M&A

Strategic consolidations/acquisitions in both Investor and Servicing industry already initiated and larger scale increasingly needed; intense activity among top-tier traditional players and big funds

European Debt market Concerns - Regulators

Fragmentation as a source of concern

1 Fragmented Regulation

Market fragmentation can arise for a number of reasons, such as technological differences, divergent tax regimes or differences in local financial structures. Diverging regulation and supervisory practices can also play a role here.

In Europe, for example, **financial integration has gone into reverse since the crisis broke and is only very gradually coming back.** Today, intra-euro area cross-border risk sharing is at uncomfortably low levels. And without private risk sharing, country-specific shocks will continue to cause persistent dispersion in economic outcomes across euro area countries, undermining real convergence and hampering the conduct of the single monetary policy.

2 Harmonizing Insolvency Frameworks

In Europe, **50% of entrepreneurs experience economic failure in the first five years of activity**, according to figures from the European Economic and Social Committee (EESC). One of the **proposals**, which has been long promulgated by Brussels, is **to replicate the Chapter 11 framework of the US bankruptcy laws.**

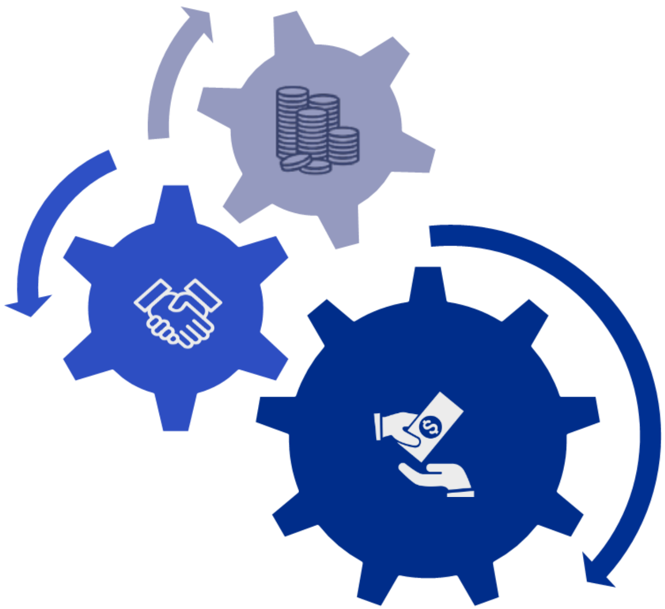
3 Centralizing Oversight and Supervision

The final outcome of the review of the three European Supervisory Authorities (ESAs) fell short of its initial ambitions, in particular on governance aspects, where **national authorities retain a leading role** despite a strengthened profile for the ESAs' chairpersons.

(1) Dinner remarks by Benoît Cœuré, Member of the Executive Board of the ECB, at the International Swaps and Derivatives Association, Frankfurt am Main, 25 June 2019
https://www.ecb.europa.eu/press/key/date/2019/html/ecb.sp190625_1~49befd1908.en.html

European Debt market Concerns –NPL Modelling

Pricing NPL portfolios is always challenging



In Europe, performance varies widely according to the jurisdiction where the loans originate.

Local factors such as current legislation and past experience can be analyzed for clues on what to expect in terms of NPL performance and recovery rates. But NPL portfolios in the most distressed countries such as Greece have short and therefore unreliable track records. This often results in pricing that is characterized by high bid/ask spreads, making it far more difficult and risky to invest

Buyers keen to determine the likelihood and the speed at which they can expect the underlying assets to recover must digest a great deal of portfolio-specific information ahead of a sale, too. Many investors have resorted to appointing or acquiring local 'servicers' to assess their risks in different markets.

These local providers help investors gain insight into the nature of potential NPL investments – or leverage the servicer's database of information about the borrower.

Sterling – European Non Performing Loans 2019
https://cdn2.hubspot.net/hubfs/4418697/European%20Non-Performing%20Loans%202019-1.pdf

Market Trends - 2019 Outlook

Shift of focus to current hot markets and busy times ahead

Table 1. NPL volumes and ratios, Q4 2017

Country	Corporate (EUR mn)	Corporate NPL ratio (%)	Retail (EUR mn)	Retail NPL ratio (%)	Total (EUR mn)	Total NPL ratio (%)
Poland	7,171	8.2%	9,762	6.1%	16,933	6.8%
Czech Republic	1,692	4.2%	1,490	2.5%	3,183	3.2%
Slovakia	917	5.2%	1,043	3.2%	1,959	3.8%
Hungary	678	3.3%	1,402	7.5%	2,080	5.3%
Romania	2,608	11.4%	1,488	5.7%	4,097	6.4%
Slovenia	511	5.3%	253	2.6%	764	3.9%
Croatia	2,411	22.2%	1,225	8.1%	3,636	14.0%
Bulgaria	2,115	12.5%	747	7.4%	2,862	10.6%
Serbia	858	10.1%	444	5.8%	1,302	9.8%
Ukraine	14,744	56.5%	2,547	52.0%	17,291	55.8%
Bosnia and Herzegovina	548	12.3%	332	7.5%	880	9.5%
Estonia	91	1.3%	37	0.4%	128	0.8%
Latvia	182	2.5%	182	3.3%	363	2.9%
Lithuania	429	5.0%	253	2.8%	682	3.9%
Albania	538	16.9%	102	7.6%	639	14.1%
Total	**35,493**		**21,307**		**56,800**	

Source: National banks, Deloitte analysis
Note: Estonia NPL ratios are DPD 60

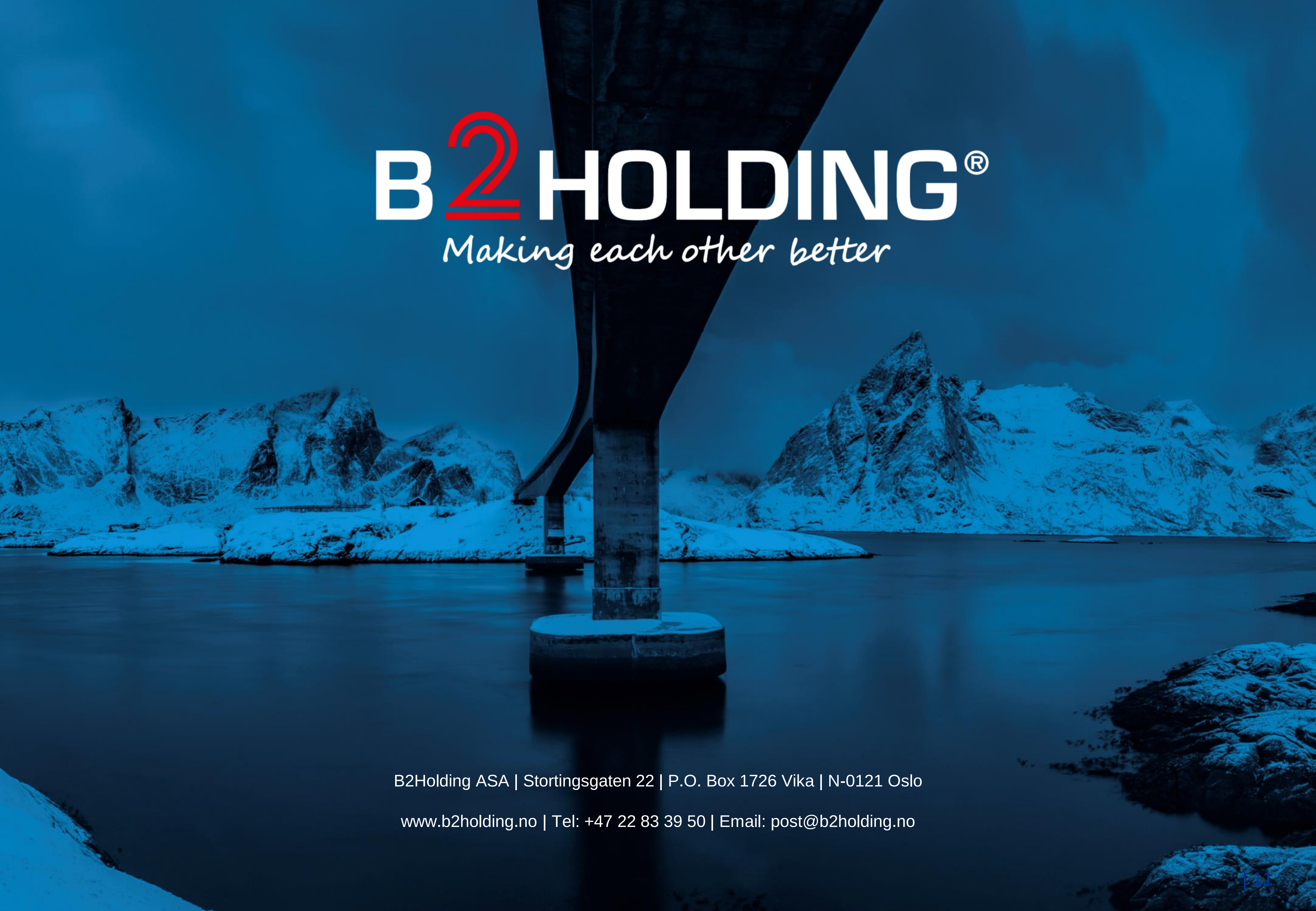
As many international investors have already shifted their focus to current hot markets in Europe like Italy, Spain and Greece, we also anticipate subdued demand in the coming years.

On the other hand, looking at the numerous deals currently ongoing and the strong deal pipeline in some countries, we expect the deceleration of the loan sales market activity to be slower than previously anticipated.

This is likely to lead to a prolonged final phase of deleveraging in the CEE region.

As we entered 2019 with whispered warnings of recession in the air, it's unlikely that distressed-credit managers and investors seeking upside from managing NPLs will be any less busy in the year ahead.

Deloitte , Non Performing Loans Study 2019
https://www2.deloitte.com/content/dam/Deloitte/ce/Documents/about-deloitte/non-performing-bank-loans-npl-study-2019.pdf



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B2Holding ASA | Stortingsgaten 22 | P.O. Box 1726 Vika | N-0121 Oslo

www.b2holding.no | Tel: +47 22 83 39 50 | Email: post@b2holding.no