Financing companies solutions and prospects

Ways to manage Non Performing Loans

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Athens, January 15th 2014

Why we are here? - Unique expertise in banking restructuring, deep understanding of Greek market and corporate financing

Wide experience in bank restructuring & troubled assets mgmt

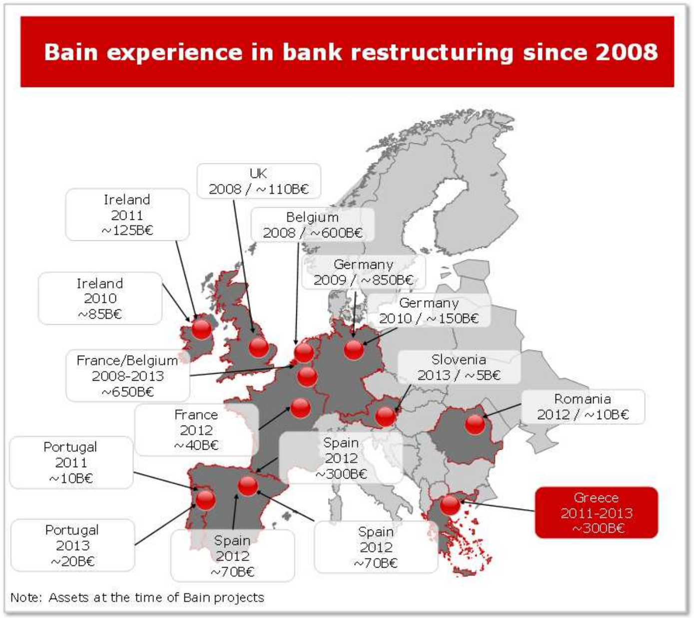
Unique track record of restructuring success, with direct involvement in most recent major bank restructurings

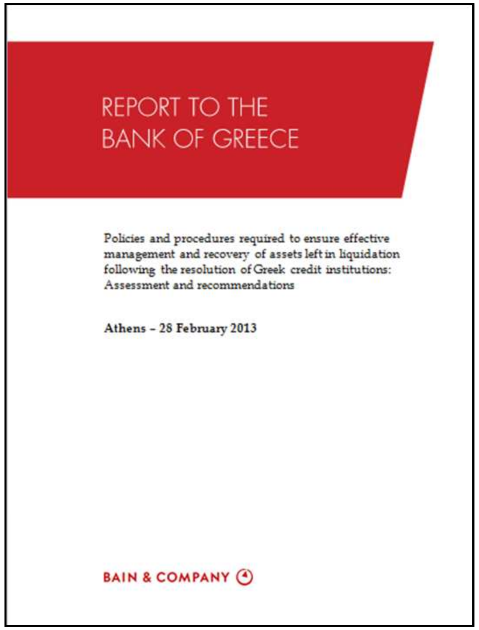
Report to the Bank of Greece

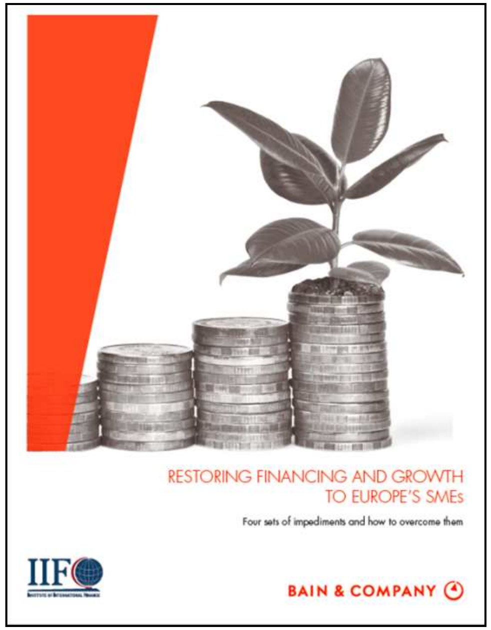
Assessment and recommendations on policies/procedures required to ensure effective management and recovery of assets left in liquidation following the resolution of Greek credit institutions

Report on restoring financing and growth to Europe's SMEs

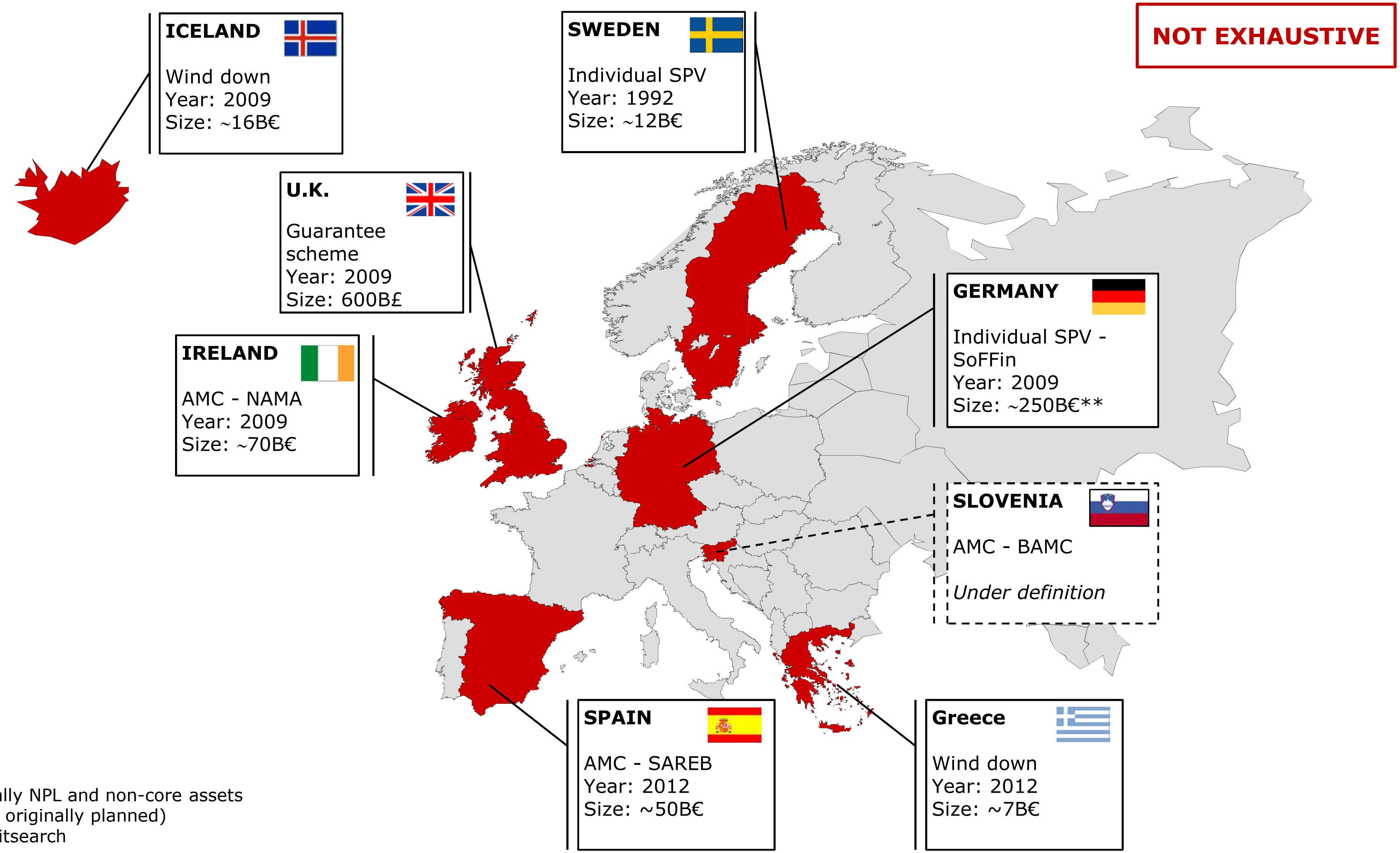
The IIF selected Bain as the partner for a study aimed to identify impediments and potential solutions to restore growth and financing for SMEs in Eurozone





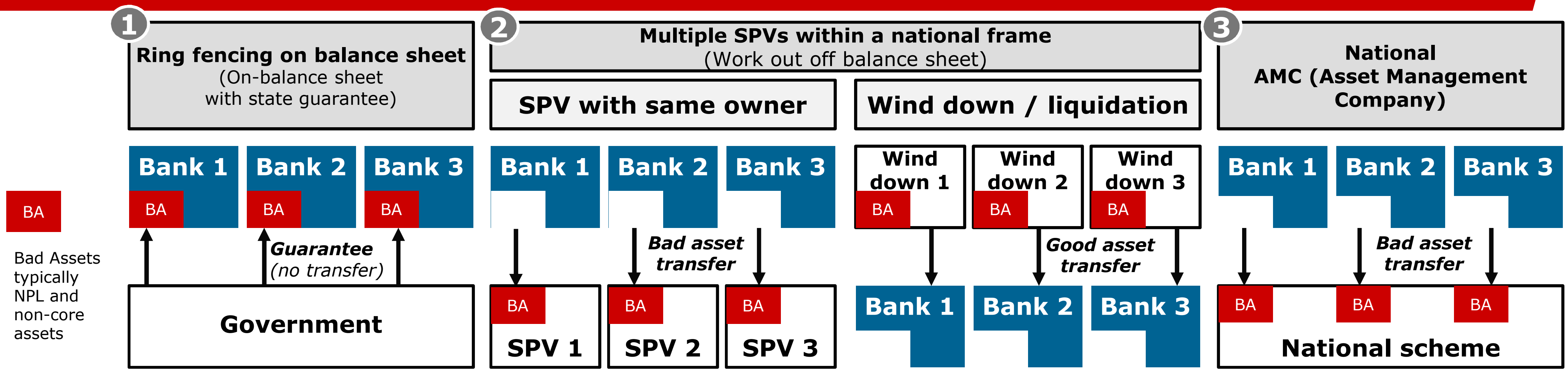


The European Landscape
Bad assets* affected significantly Europe during current crisis



(*) Typically NPL and non-core assets
(**) (400 originally planned)
Source: Litsearch

The European Landscape
3 main models of national scheme to address banking crisis



Model rationale	• Issue of a **state guarantee** on the bad assets ("BA")	• **Isolate bad assets into a bank-specific SPV** with same shareholder (no consolidation)	• **Extract good banks** and leave the bad assets in liquidation	• **Remove all bad assets** from an asset class from all banks and transfer them **into dedicated vehicles**
Examples	• UK	• Germany • Sweden	• Iceland • **Greece**	• Ireland – NAMA • Spain – SAREB
Pros	• **Banks keep full responsibility** of the recovery • Possibility to thin down losses over time	• **Banks keep full responsibility** of the recovery • Losses materialize immidiately	• Chance to **thin down losses over time**	• **Liquidity injections in the participating banks** • **Professional recovery approach** with limited coordination costs (one single entity manage all bad assets)
Cons	• **Sub-scale** process • Potential "**back-fire**" in case of further losses • Require a **State/public guarantee**	• **Sub-scale process** with potential **high coordination costs** • **Immediate** materialization of **losses on bad assets**	• **Sub-scale process** with potential high coordination costs • Require some **efforts to create a spin off activity**	• Require some **efforts** to create a **spin off** activity • Need for a **mark to market** evaluation • **Immediate** materialization of **losses** on bad assets

The European Landscape
Key lessons learnt from National Schemes

1
- It's **key for the success** of the national scheme **to have national supervision structure** in charge of harmonizing policies and procedures

2
- **Local specificities** may suggest different solutions

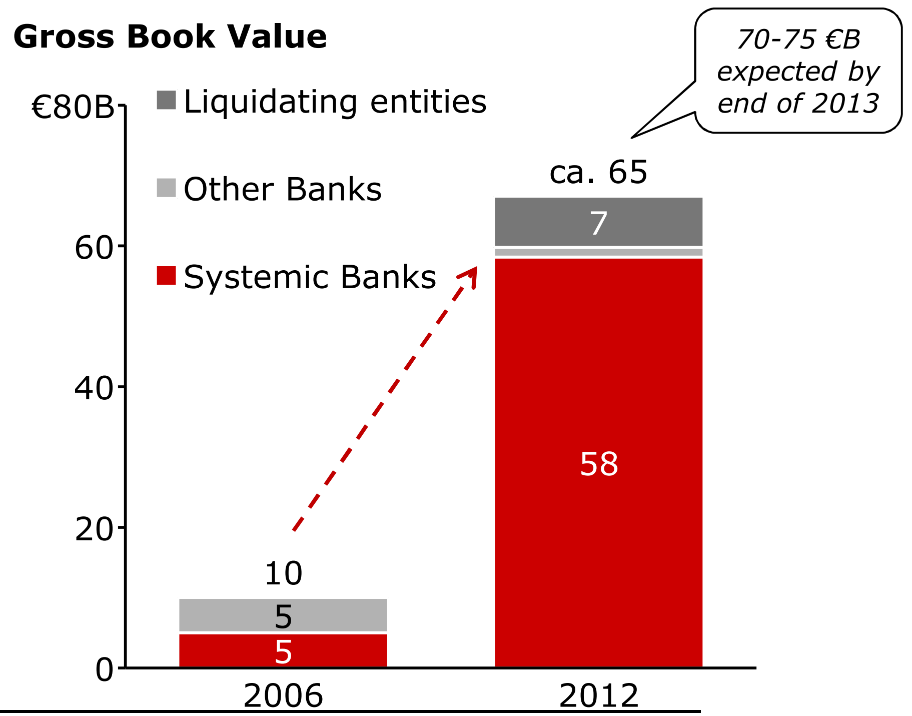
3
- **The approach** need to be **differentiate by relevant** asset classes (e.g. sub-performing, NPL, equity participations and Real Estate)

4
- Depending on the selected option, **someone will have to pay the bill** (often the tax payers)

5
- Setting up **efficient Servicing factories** will **reduce cost** and **improve effectiveness**

The Greek banking NPL landscape
Some specificities compared to other EU countries

Greek banking NPL evolution



	2006	2012
NPL/ gross loans	6%	29%
NPL/ total assets	3%	21%

Greek NPL market peculiarities
(in particular compared to other distressed countries such as Spain and Ireland)

- **High incidence of government debt/GDP** (in 2012 >150% highest level in EU vs ca. 125% Italy, ca. 110% Ireland, ca. 85% Spain)
- **High incidence of banking private NPL/GDP** (in 2012 >30% vs >80% Ireland but 8/15% in Italy, Portugal, Spain)
- **Industrial and economic crisis** affecting overall a scarcely efficient economy landscape
- **Significant incidence of "sub performing loans"** (30% of corporate NPL in liquidating entities at resolution date) **that need to be restructured/ refinanced rather than simply recovered**
- **Relatively low weight of real estate NPLs** (NPL mortgages GBV ca. 20% of liquidating entities at resolution date), while RE bubble was one of the key driver of Spanish/Irish banking bailout (RE NPLs > 70% in 2012)
- **High level of non collateralized loans on individuals**

Source: annual reports Greek banks, Bank of Greece, IMF, Central Bank of Spain and of Ireland, ECB

The Greek banking NPL landscape
3 different players with only apparently different scopes/issues

Landscape of the Greek Banking industry

	Liquidating entities	Systemic/Pillar banks	Other non-core banks
Which banks are included	• **9 banks** (of which 3 cooperative banks) - Proton Bank, T-Bank, Achaia, Lamia, Lesvos-Limnos, ATE, Hellenic Postbank, FBB, Probank	• **4 banks** - Piraeus Bank - Alpha Bank - National Bank of Greece - Eurobank	• **3 Banks**, of which - Attica - Panellinia (central bank of cooperative system), - IBG

Key figures (2012)		Liquidating entities	Systemic/Pillar banks	Other non-core banks
	• Total loans	**~€7Bn**	**~€220Bn**	**~€5Bn**
	• NPL GBV	**~€7Bn**	**~€58Bn**	**~€1Bn**
	• % NPL/ total loans	**~100%**	**~27%**	**~30%**

Main issues

- We expect **the systemic banks to act similarly to liquidating entities, thus are likely,** in the next months, **to consider seriously**:
  - **Developing dedicated units to effectively manage both NPLs and SPLs** and/or **outsource the recovery** service for (a part of) the NPL portfolio
  - **Selling NPLs in the market**, freeing up banking liquidity and capital

Source: annual reports Greek banks, Bank of Greece

The Greek banking NPL landscape

Liquidating entities NPL portfolio mix		Liquidating entities main issues from Bain assessment
Non Performing Loans	• **Little/no chances to bring back the client to a performing status**	• **Lack of collection strategy and dedicated organization** for each NPLs cluster • **Reporting/incentives systems not in place** • **Limited guarantee on effective performance for external servicing/protection against conflicts of interest** • **Governance** and **guidance on the execution of the liquidating activities** need to be enhanced in line with international standards
Sub Performing Loans	• **Chances to bring back the client to a performing status,** either by restructuring current loan or by refinancing it	• **Lack in the ability to provide short-term refinancing to assure going concerns** • **Dedicated processes/skills/organisation not in place**

- **2 different models to manage NPL/SPL to reduce systemic cost / help the economy to recover:**
  - **Modernization of current liquidation, entity by entity**
  - **Centralize servicing into a ServiceCo.**

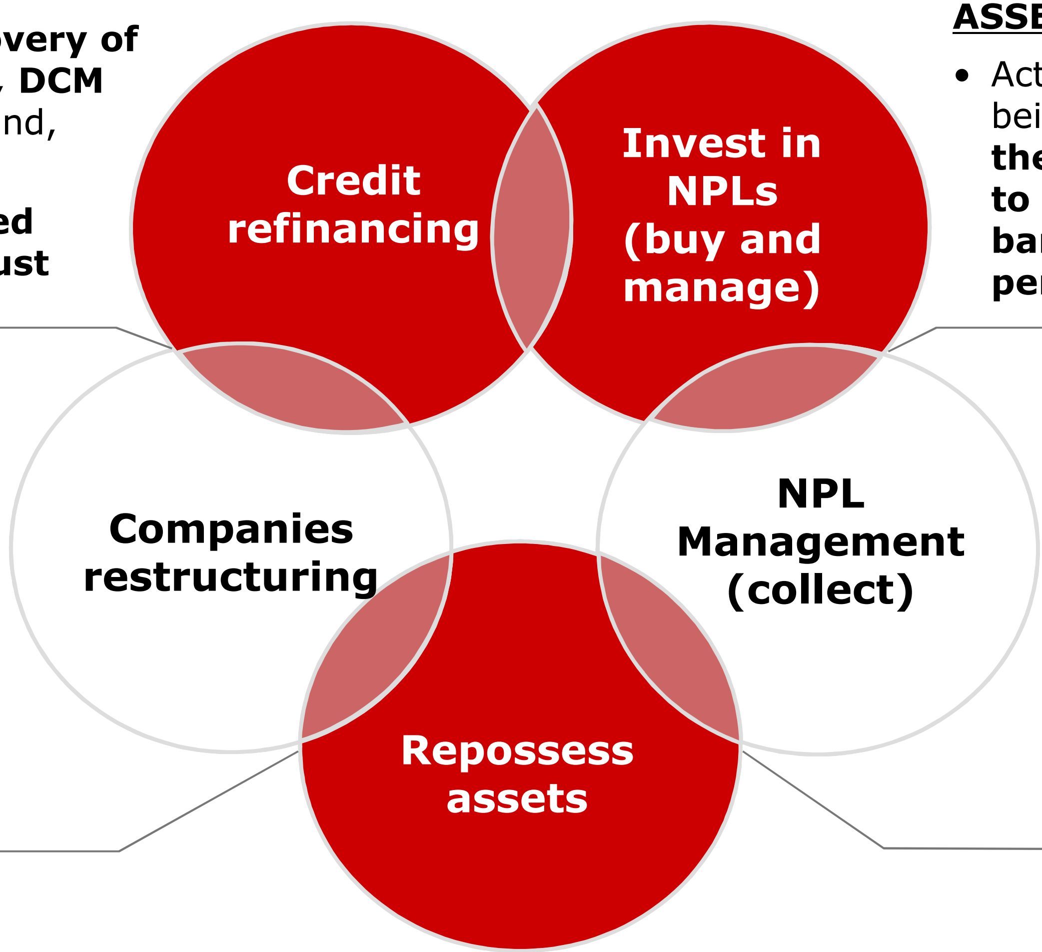
Reboot the market needs ability to attract capitals and to inject liquidity in the system

SPECIALIZED CREDIT FUNDS
AND/OR **MERCHANT BANKS**

- **Assisting in the recovery of corporates** with **ECM, DCM services** (e.g. mini bond, credit guarantees)
- **Invest in restructured companies with robust prospectus**

ASSET MANAGEMENT

- Activity: **invest in NPL portfolios** being sold by Greek banks; **assign the management of the portfolio to servicing companies** and/or **banks with strong recovery performances and internal units**



RESTRUCTURING ADVISORS

- **Restoring corporates to health** through **specialised restructuring** advisory **solutions**

COMMERCIAL BANKS/ SERVICE COMPANIES

- **Provide "end to end" specialised services** (to banks) and international investors **for managing and servicing non performing assets** (collection activities)

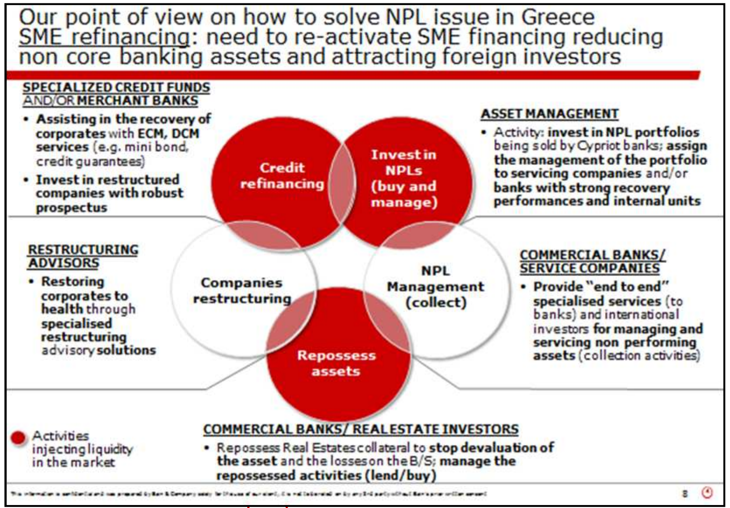
Activities injecting liquidity in the market

COMMERCIAL BANKS/ REAL ESTATE INVESTORS

- Repossess Real Estates collateral to **stop devaluation of the asset** and the losses on the B/S; **manage the repossessed activities (lend/buy)**

Diversified approaches in functions of the asset classes characteristics

ILLUSTRATIVE


Our point of view on how to solve NPL issue in Greece
SME refinancing: need to re-activate SME financing reducing non core banking assets and attracting foreign investors

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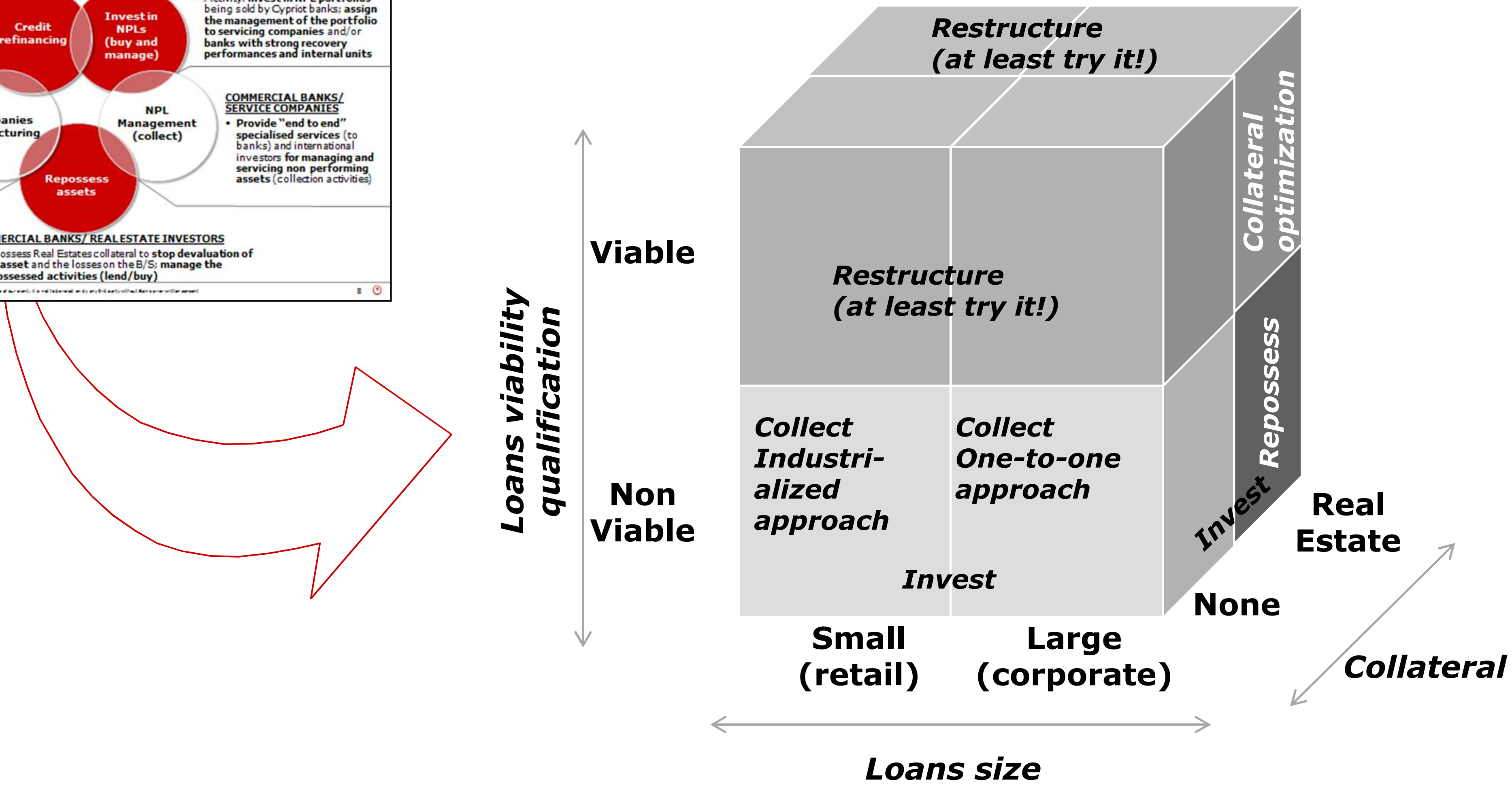
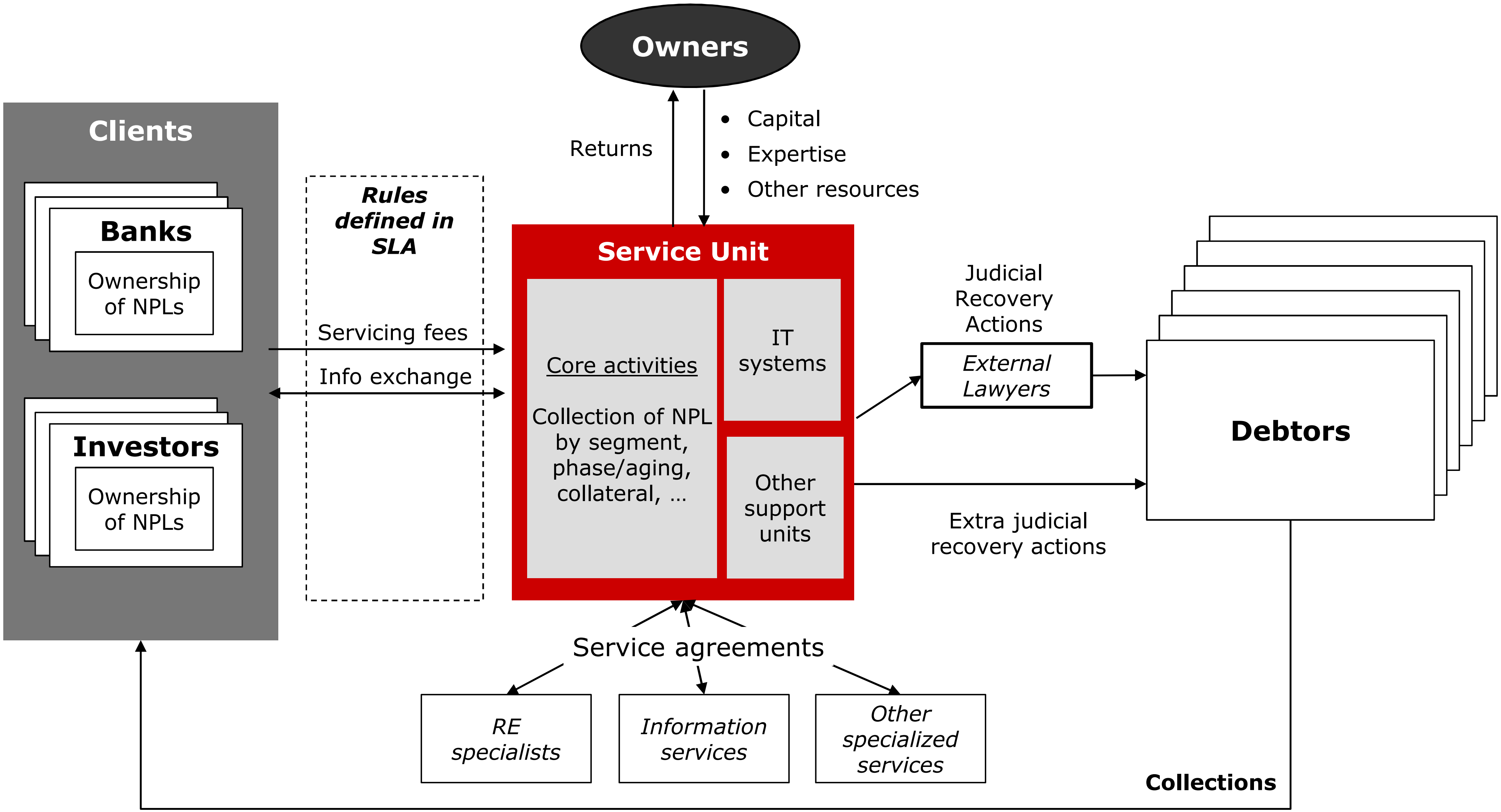


Ability to set up a NPL management units to serve investors willing to buy NPL portfolio from Banks



Real Estate: ad hoc actions to unveil the full recovery potential (specialized approach)

Clustering approach

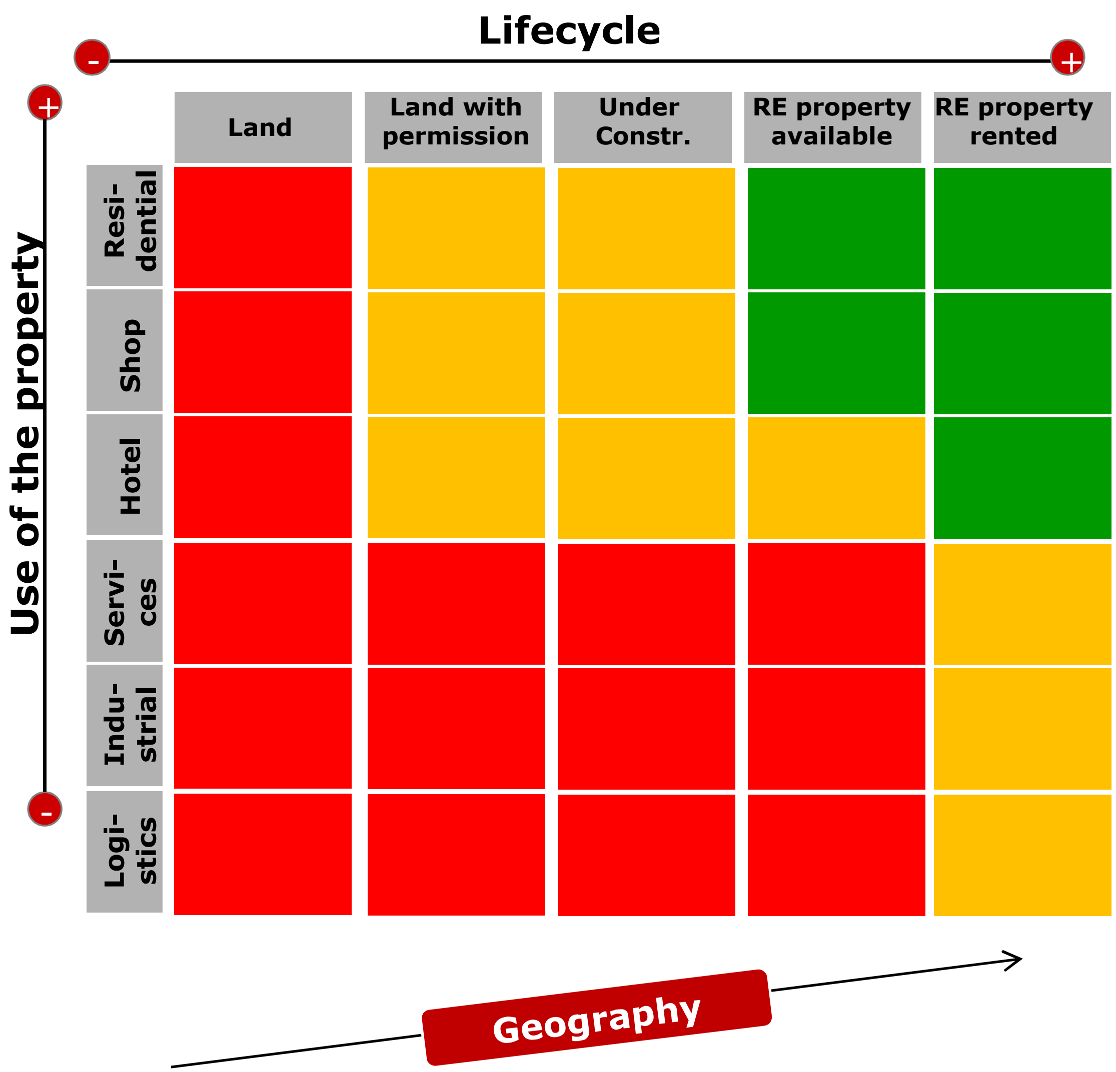
Target

- **Cluster the Real Estate collateral portfolio** highlighting key loan and RE/development issues
- **Identify dedicated credit strategies** and link strategies to each RE cluster

Metho-dology

- **Select drivers to address different risk profiles and effort to maximise value of the collateral**
  - **Use of the property** ➔ proxy of industrial sector risk
  - **Life cycle phase** ➔ proxy of market risk
  - **Geography** (prime vs no prime location) ➔ proxy of relative risk within the matrix

"Real Estate Matrix"



<u>NPL recovery factory</u>: key lessons learnt from our experience

1
- **Clear separation** between **ownership and servicing** (even within the same bank)

2
- **Design clear cut SLA** and correct incentive scheme: **avoid conflicting schemes**

3
- **Clear separation** between **restructuring client, recovering the loan, maximise the value of the collateral (once repossessed)**

4
- **Use repossess** as **a stop loss mechanism for Banks and economy, but** treat **Real Estate** as a «different vertical»

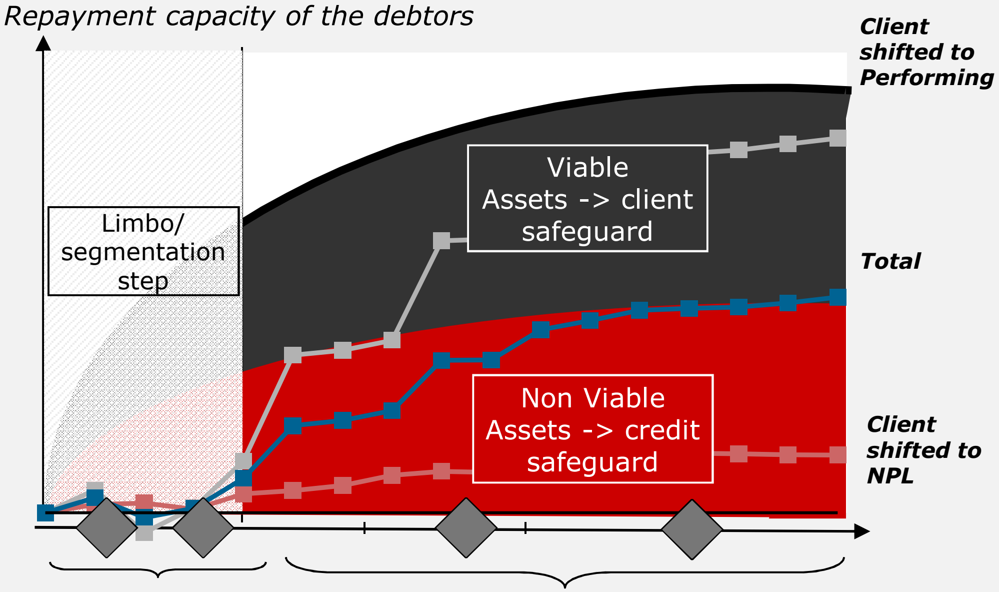
5
- **Design correct metrics**: be aware of «the accounting view» to speed up collection even with increasing number of transaction in favour of the debtor

6
- **Design and execute appropriate recovery processes**, dedicated systems, appropriate monitoring tools

Restoring corporates to health through specialised restructuring advisory solutions (1/2)

Framework

Limbo step | **Management strategy implementation**



Specialists intervention

- Asset segmentation and management strategy definition

Management/ Monitoring

- Management strategy implementation
- Value creation & results monitoring, audit & fine-tuning of management strategy/ actions

Approach

Limbo/ segmen-tation step

- **Specialist intervention:**
  - Identify any **"false Non Viable"** and restore the position
  - **Segment positions** into 'Viable' and 'Non Viable' categories
  - Define the **appropriate management strategy**

Viable Assets -> client safeguard

- Launch and management of the **Viable assets program** and associated **restructuring measures** to retrieve debtor performance

Non Viable Assets -> credit safeguard

- **Maximization of recovery and minimization of expected loss** by defining Non Viable Assets management initiatives to recover credit and to **strengthen safeguards**

Restoring corporates to health through specialised restructuring advisory solutions (2/2)

Industrial and Financial Diagnosis

1

Restructuring assessment

2

Capital Structure Stabilization

Financial Restructuring

Industrial Turnaround Plan

Financial Plan

Negotiation

2

Turnaround Plan Implementation

Turnaround

Definition of detailed turnaround plan

Turnaround Program Mgmt

SPL restructuring: key lessons learnt from our experience

1
- **Need for local expertise**: specialized teams, with expertise across all corporate finance products

2
- **Deep industry sector knowledge**: Deep experience in the most important sectors and industries of the economy to define ad hoc solutions

3
- **Funding provision**: continuous development of global universe of investors for provision of funding to assist client with pool refinancing

4
- **Dedicated processes and granting authorities**: define dedicated paths, roles and powers, while enabling value creation metrics to support decisions

5
- **Full management support**: Top management to be involved in high profile and sizeable transactions

6
- **Tight monitoring**: need for state of the art monitoring system to intercept early warning signals on restructured loans (e.g. mismatch of covenants)

Final considerations

- **Non Performing Loans, Sub Performing Loans** and overall **Non Core Banking Assets** are an **issue affecting the banking systems** (not only!) that will stay for several years -> Banks need to address quickly the topic

- **Injecting liquidity will solve the issue** -> There is appetite for (some) additional risk but Banks have most of their balance sheet «blocked»

- **Restructuring and recovery** is a **business by itself** and need to be threated as such -> the NPL and SPL management should be considered as **a separate business line to build/reinforce specialised dedicated platforms**

- By setting up the **«appropriate recovery and restructuring machine»** banks could **re-focus on the «good side» of the balance sheet** while specialists will concentrate on recovery «the bad side»

- **This strategy will attract potential investors**, accelerating exiting from crisis

- Marginal **improvements in recovery performances delivers big value for banks**, thus enabling and speeding up the needed support to economic recovery