KINSTELLAR

ASSET YIELD

Kinstellar Asset Solutions

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1 NEWS: WE ARE IN THE MARKET

KINSTELLAR were delighted to hold our first ASSET SOLUTIONS team offsite on 21 and 22 May 2019 in Vienna, Austria. Our multi-jurisdiction/multi-discipline team arrived from Belgrade, Bucharest, Budapest, Bratislava, Istanbul, Kyiv, and Sofia. We met with clients across the spectrum of non-performing and non-core assets, including banks, funds, and advisors. We discussed market trends, asset classes, structuring and restructuring, sale and acquisition, and recapitalising and refinancing, and heard excellent presentations on such topics as “*NPL Securitisation*”, “*Distressed Real Estate Investment*”, and “*Update on the Turkish Market*”. We returned to our home countries with extensive contacts and deep insights.

KINSTELLAR will join other sector experts this month in Brussels. ASSET SOLUTIONS have been invited to participate in a Roundtable on European NPL Platforms sponsored by the European Commission. Discussions will include developing market standards and the role of technology in secondary market transactions. We will keep you updated.

2 INSIGHTS: OUR NEIGHBOURHOOD

Highlight on BULGARIA, ROMANIA, POLAND

GetBack Gets Sold

Pan-European distressed investor Hoist Finance completed acquisition in April 2019 of a portion of the Polish non-performing loan portfolio of GetBack. The portfolio was valued at approximately PLN 400m (EUR 93m) and was comprised of unsecured consumer loans. Established in Poland in 2012 by several market leading private equity funds, debt investor/servicer GetBack also maintained operations in Romania, Bulgaria and Spain.

GetBack enjoyed a five year growth trajectory of 50% annual profit increases which enabled it to issue retail bonds and ultimately led to an IPO on the Warsaw Stock Exchange in July 2017. At its peak, GetBack was the second largest debt investor/servicer in Poland behind Kruk and was also dominant in Romania and Bulgaria. GetBack spiralled into collapse when it defaulted on debt payments in April 2018, which led to the disclosure of financial inconsistencies and securities violations. By June 2018, several members of GetBack management, including its CEO, had been arrested. Certain GetBack entities were placed into court administered restructuring and their respective portfolios sold.

Because of its immense appetite for non-performing loans and its many related activities, including banking, both the rise and fall of GetBack had an outsized effect on certain financial sectors. Polish, Romanian and Bulgarian competitors of GetBack have for some time contended with skewed market pricing and asset distribution. In the aftermath of GetBack, financial regulators are reviewing the activities and oversight of debt investors/servicers.

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2 NSIGHTS: OUR NEIGHBOURHOOD

Highlight on SERBIA

The long awaited privatisation of Serbia's largest State owned bank, Komercijalna Banka, was formally announced on 31 May 2019. Two key structuring issues are: a. The treatment of EBRD and IFC put options, and b. The treatment of the >450mn EUR non-performing loan portfolio.

Sberbank Srbija have initiated Project Martha, the sale of a secured non-performing Serbian loan and REO portfolio.

Several bankrupt Serbian companies were placed on sale in May. The assets included the shares and/or real property of Engine Industry Rakovica (IMR), Putevi Sremska Mitrovica, Termoelektro's, Subotica's 29. Novembar, PPT Zaptivke and PPT Hidraulika. As well, several bankrupt Serbian hotels located in Vranje, Banja Koviljača Spa and Mt Jastrebac were placed on sale.

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2 INSIGHTS: NPL SECURITISATION

Greek bank Eurobank announced in May the securitisation of a 2.0 billion EUR notional value portfolio of non-performing loans (NPLs), while National Bank of Greece disclosed plans to securitise 3.0 billion EUR notional value NPLs by 2022. As well, Portuguese bank Caixa Economica Montepio Geral recently announced its second securitisation of an NPL portfolio following a successful NPL portfolio securitisation in November 2017. These NPL securitisations join NPL securitisations issued by banks in Italy, Spain, UK, and Ireland, as European banks increasingly look to securitisation as an effective and efficient method of NPL transfer.

Since the 2008 financial crisis, the European NPL securitisation market has grown exponentially.

Since the 2008 financial crisis, the European NPL securitisation market has grown exponentially. Between 2003 and 2007, there were only 15 NPL securitisations issued in Europe. Since 2016, Italian banks alone have issued 20 NPL securitisations, involving NPL portfolios with notional values as high as 24.1 billion EUR securitised in May 2018 by Italian bank Monte dei Paschi di Siena. In Europe, 15.0 billion EUR of NPL securitisation notes have been issued since 2016. With over 700 billion EUR notional value of European NPLs still outstanding, there remains a substantial NPL market for securitisation.

Securitisation benefits both NPL originators and NPL investors.

Securitisation benefits both NPL originators and NPL investors. In jurisdictions with high NPL ratios and/or without "bad bank" structures, securitisation provides originators with a relatively expedited manner of disposing of large volume NPLs or illiquid NPLs (which may be tranched with liquid NPLs) to a diverse pool of investors. Simultaneously, securitisation provides NPL investors with access to tranched risk and immediate liquidity. As well, greater informational transparency enhances pricing for originators and transactional certainty for investors. Italy's NPL securitisation scheme, initiated in 2016, effectively created the country's NPL market. Securitisation complements traditional bilateral sales and auctions as an additional means of transferring NPL exposure.

NPL securitisation structures share certain common characteristics.

NPL securitisation structures may differ by transaction and legal jurisdiction, but they share certain characteristics in common with each other and with performing asset securitisations. As in the securitisation of a performing loan portfolio, an NPL portfolio is transferred from the lender or originator to a securitisation entity/SPV, which as issuer, issues notes to investors. The repayment of such notes is funded by cash flow from the securitised NPL portfolio. Participants in a traditional NPL portfolio sale play similar roles in an NPL securitisation. The NPL servicer collects and processes payments, manages defaults, and enforces against collateral in the securitised NPL portfolio, while the asset manager monitors the underlying assets in the securitised NPL portfolio. As opposed to a traditional NPL portfolio sale, however, a liquidity provider provides the securitisation entity/SPV and, accordingly the investors, with immediate and consistent cash flow; a credit enhancement provider improves the credit rating and therefore the marketability of the issued notes by guaranteeing payments to investors in the event of a default or reduction in cash flow; and a trustee protects the rights of the various tranches of investors. In Italy, the State initially guaranteed the senior tranche of secured NPL portfolio notes, although other jurisdictions such as Portugal have successfully securitised NPL loans without credit enhancement.

2 INSIGHTS: NPL SECURITISATION

The EU Securitisation Regulation 2019 and NPL securitisation.

Effective as of 1 January 2019, the new EU Securitisation Regulation (Regulation) is intended to integrate legal regimes and standardise securitisation transactions across the EU. It is unclear at this time if and how the Regulation will apply to NPL securitisations. However certain provisions of the Regulation may prove difficult to implement as to NPLs. For instance, the Regulation requires that the originator apply a sound, consistent, and well-defined credit criteria, whereas NPLs, by definition, have been and/or are currently outside of such criteria. Similarly, the Regulation requires that the investor satisfy certain diligence and disclosure requirements which may be impossible in NPL scenarios where originators are often insolvent and documentation is often incomplete. The NPL market awaits further guidance from the European Supervisory Authority.

Securitisation may address a range of issues in Central, Eastern and South Eastern Europe.

Subject to local law, NPL securitisation may be implemented in Central, Eastern and South Eastern Europe (C/SEE) to resolve a broad range of commercial and legal issues. Amongst other C/SEE jurisdictions, Ukraine, with an NPL ratio of over 50% and notional value in excess of 20 billion USD, and Turkey, with a current highly restrictive NPL investment regime, would both benefit from a robust NPL securitisation market supported by corresponding legal reform. Such barriers to traditional NPL transfer as banking secrecy, licensing, enforcement of remedies, and consumer protection regulations may be addressed through NPL securitisation. Poland has successfully securitised NPLs for over 15 years.

Securitisation is one of several NPL transfer strategies.

In conclusion, securitisation is one of several NPL transfer strategies in addition to traditional bilateral and auction sales, which offers commercial and legal benefits and solutions in the European NPL market.

3 EVENTS: OUR ACTIVITIES

KINSTELLAR CHAIRS AT WJ GLOBAL'S DEBT IN EUROPEAN EMERGING MARKETS FORUM

ASSET SOLUTIONS was delighted to chair at WJ Global's *Debt in European Emerging Markets Forum* held on 11 April 2019 in Bucharest, Romania. ASSET SOLUTIONS Sector Head Denise Hamer moderated the panel on *Exploring NPL Transactions Across CEE/SEE*, which featured representatives of such prominent C/SEE regional distressed asset investors as EOS Group, DDM, and KRUK.

Amongst the many topics discussed, the panel noted that distressed asset investors are adapting to an evolving distressed asset investment market. Traditional portfolio investors are acquiring single assets and implementing a private equity style turn-around resolution strategy. As well, they are acquiring semi-performing and performing, but non-core, assets. Seeking opportunities in a changing market, distressed asset investors are even creating their own distressed assets in a sort of vertical integration. KRUK, for instance, have in April 2019 acquired the Polish entity of UK based online lender, Wonga. Wonga recently fell into administration as one of many UK payday lenders impacted by the new consumer protection legislation. All panellists concurred that the activities of a few bad players (see *GetBack Gets Sold* above) have affected C/SEE markets by increasing regulatory pressures and accordingly, pressures on liquidity and revenue.

KINSTELLAR supports the evolving market with legal expertise in M&A, Private Equity, Regulatory, Restructuring, Finance, and Litigation.

3 EVENTS: OUR ACTIVITIES

KINSTELLAR PARTICIPATES IN DEBTWIRE'S CEE RESTRUCTURING FORUM

ASSET SOLUTIONS joined C/SEE's leading distressed asset investors, lenders, and advisors at Debtwire's *CEE Restructuring Forum* held 2 April 2019 in Vienna, Austria. A broad agenda covered C/SEE regional topics from the impact of cov-lite loans on future restructurings to the evolving Agrokor saga to regulatory changes in the energy sector that have rendered existing projects unsustainable. To those of us long in the distressed asset market, it was evident that many issues that either triggered or surfaced during the 2008 financial crisis remain unresolved and we should be prepared to again confront them in the next downturn.

KINSTELLAR advises on all issues related to Finance, Energy, Tech, Restructuring, Regulatory, and Litigation.

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