

Banking in the new normal

Austria & CEE non- performing assets overview 2013

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Foreword



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Dear reader,

the CEE non-performing assets market is steadily opening up, with **strong and proven investor interest** from both regional and large, international names.

While some of the **well known global names are already engaged in various deals** across the region, more have expressed their interest in the area and have engaged in bidding, with positive impact on the processes' quality.

Encouraged by an increasing successful track record of NPL sales, **banks in the region are rapidly gaining confidence**, with several sizeable deals announced or in progress, both in secured and unsecured space.

Further, with increased capital optimization pressure expected from new regulations (e.g. CDR IV/ CRR, BRRD) and comprehensive assessment (including AQR and Stress Test), **banks are more often deciding in favour of (quick) clean-ups** of their non-core portfolios through market disposals.

Last but not least, there is a **sensible regulatory and fiscal framework improvement** in the region, with national regulators being supportive of non-core assets disposals coupled with favorable fiscal regimes.

I hope you will enjoy discovering the opportunities of the Austrian & CEE region through this already 3rd edition of our annual non-performing assets report and wish you a pleasant reading.

With best regards,
Bernhard

Highlights

Mid to long term, CEE is expected to continue its catching up race, with a GDP growth rate roughly double that of Western Europe's. Nonetheless, structural imbalances remain in some territories.

NPL volume continues its growth, with close to EUR 180b NPL expected at year end 2014 for Austria & CEE region. NPL ratios remain stable at 7% for CEE and 3% for Austria.

Romania, Kazakhstan, Hungary, Bulgaria and Croatia make-up the regional Top 5 by NPL ratio and volume growth at year-end 2013. Conversely, provisions coverage varies widely, with CEE regional average at 67%.

Lending growth remains a key NPL driver, while regionally in CEE there are positive signs indicating a year-on-year loans to customers growth (+10%) twice the size of the NPL volume.

Deleveraging to continue, with NPL disposals expected to accelerate in Romania, Bulgaria, Croatia and Slovenia.

NPL ratio reached 12% for the 6 banks group – well above CEE's 7% average, while NPL Coverage median stood at 59%.

45% of the loan books belonging to Austria's largest 6 CEE banking groups are amassed in this region.

Macro economic snapshot

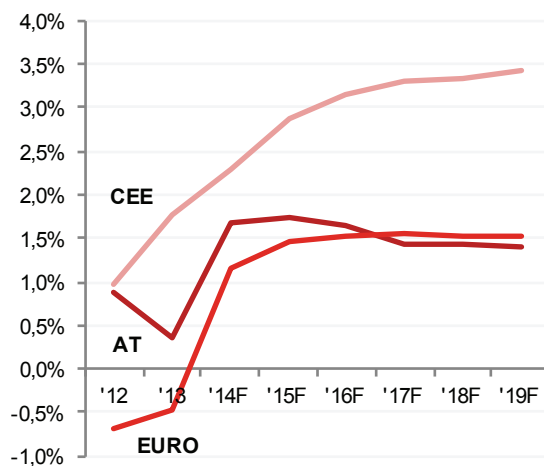
- Positive mid to long term expectations
- Structural imbalances remain in some of CEE's territories

CEE optimism

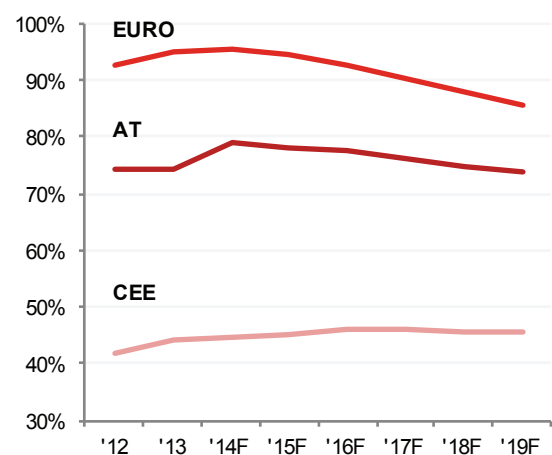
With modest growth expected for Austria and the wider Euro area, CEE is seen to continue its economic catching up race, with a growth rate roughly double that of W. Europe's.

Conversely, with a public debt ratio to GDP ca. half of Eurozone's, CEE is set to benefit from a higher flexibility in its growth model.

GDP Growth (% , '12-'19F)

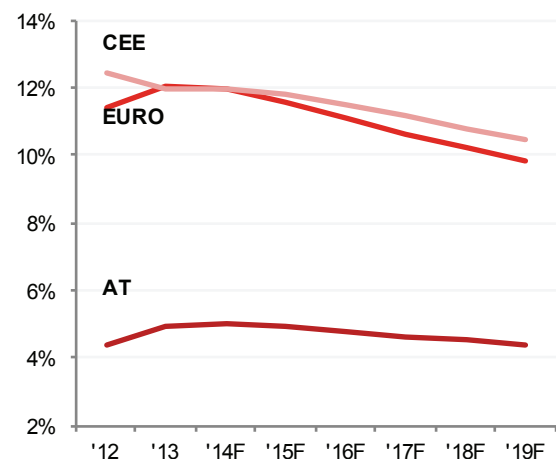


Government Debt / GDP (% , '12-'19F)



Unemployment rate is expected to drop, prompted by the Eurozone's, to which is closely related as the area's "production yard".

Unemployment (% , '12-'19F)

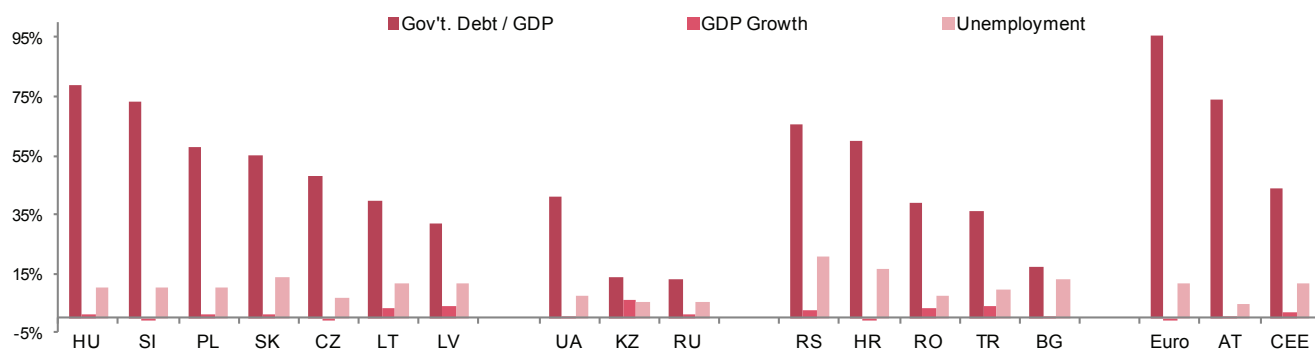


Source: IMF, PwC Analysis.

Structurally different

Significant structural differences remained across the CEE region, with Hungary and Slovenia leading the Central European cluster in government indebtedness, while the latter is spurring also negative growth. Within CIS, Ukraine showed the strongest weakness in its structural mix, while some South East European states (Serbia, Croatia) also showed signs of structural imbalances.

Regional side by side comparison: Government Debt / GDP, GDP Growth, Unemployment (% , eoy 2013)



Source: IMF, PwC Analysis.

Market overview at year end 2013

- Austria's and CEE NPL volume reach EUR 180b at eoy 2014
- Regional distribution changed due to volume advances in Romania, Hungary and Croatia

NPL volume poised for further growth

NPL volumes has continued its ascent across the CEE, with aprox. EUR 157b NPL for year end 2013 (+5% yoy), while registering a slight decrease in Austria (down to EUR19.9b).

For both Austria and CEE, the NPL volume is expected to reach EUR 180b at year end 2014. Russia, Ukraine and Poland continued to sum-up more than half of CEE's NPL volume.

Nevertheless, Russia lost 6pp regional share (down to 36%), on a background of increased shares of Romania, Hungary and Croatia.

NPL Volume (BEUR)

Territory	2012	2013	2014F	Share in CEE eoy 2013
Austria	20,5	19,9	19,7	-
CEE*	150	157	160	100%
Russia	52,3	58,1	56,2	36,2%
Ukraine	16,5	14,2	15,4	9,9%
Poland	12,5	13,1	14,4	9,3%
Romania	8,5	10,6	12,9	8,3%
Kazakhstan	9,7	10,6	10,5	6,8%
Turkey	10,2	11,7	10,1	6,5%
Hungary	8,9	8,8	9,6	6,2%
Croatia	5,3	5,9	6,6	4,3%
Czech Rep.	5,9	5,9	5,8	3,7%
Slovenia	6,5	4,9	5,0	3,5%
Bulgaria	4,8	4,9	5,0	3,1%
Slovakia	2,0	2,1	2,1	1,3%
Belarus	0,9	1,0	1,6	1,0%
Other**	5,8	5,2	4,6	3%

* Serbia not included due to lack of data;

** less than 1% regional share; Source: IMF, PwC Analysis.

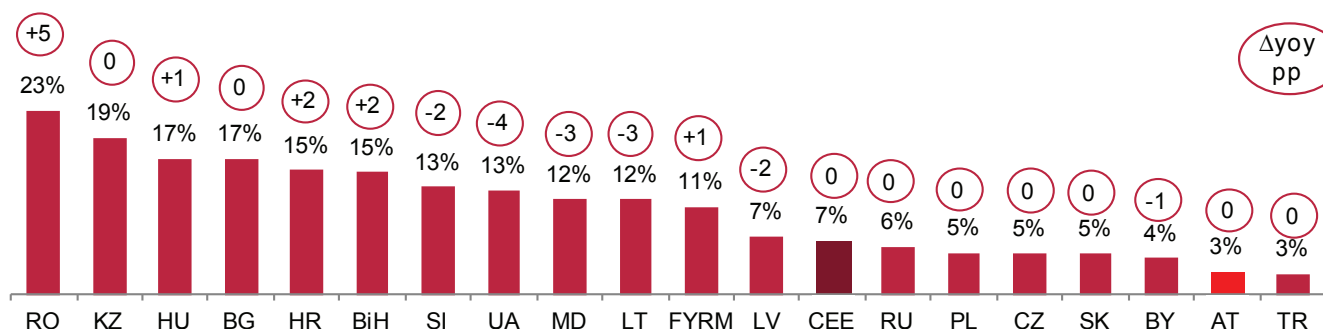
NPL ratio rather stable

Romania registered the highest yearly NPL ratio jump with ca. 5pp to almost 23%, while Kazakhstan, Hungary and Bulgaria enjoyed fairly stable ratios but still increasing volumes.

With a 15% NPL ratio and almost EUR 6b volume for end of 2013, Croatia made a strong entrance in the regional growth Top 5. Signs of changing winds come from Slovenia, which saw a decrease both in NPL volume and ratio.

Alas, the CEE regional NPL ratio stood at 7% (a modest -0,3% yoy), while Austria's same ratio hovered at close to 3%, virtually unchanged year on year.

NPL Ratio (% , pp Δyoy, 2013)



Source: IMF, PwC Analysis.

Markets overview at year end 2013

- Growth of lending remains the key driver behind NPL ratio change
- Provisions coverage varies widely, with the CEE regional NPL coverage ratio at ca. 67%

New lending as key driver of NPL dynamics

Subdued lending growth remains the main driver behind NPL ratio dynamics, as countries showing highest NPL ratio growth (e.g. Romania, Bosnia, Croatia) show an NPL volume growth yoy 2013 backed by an almost null improvement in Loans to Customers (LtC) for the

same period. Notwithstanding, region wide there are positive signs, with CEE's LtC growth (+10%) almost double that of its NPL volume.

Yearly growth NPL Volume vs. Loans to Customers (% , 2012/13)

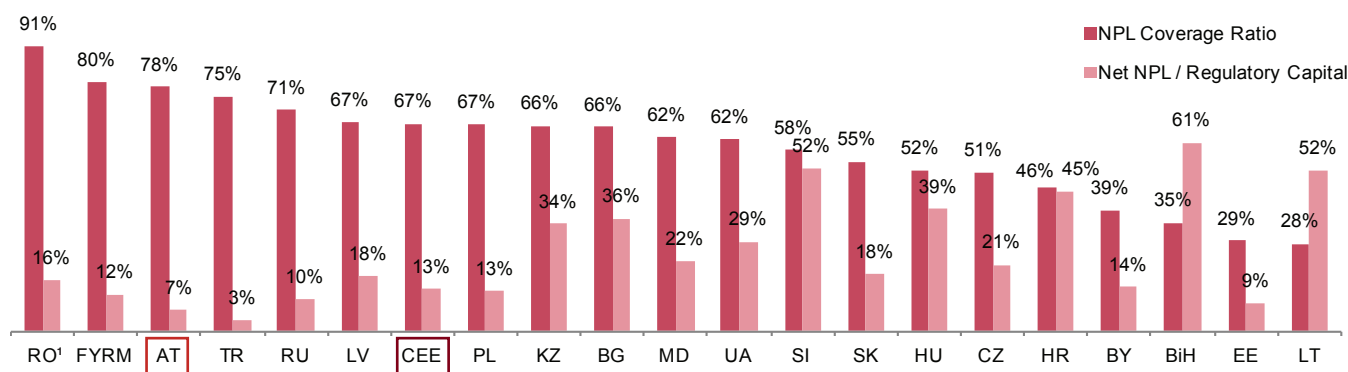


Provisions paint a different picture

With over 90% NPL coverage ratio¹ and ca. 7x more capital than remaining uncovered NPL, Romania is set to benefit from a swift clean-up of its NPL stock.

Similarly positive position enjoy countries such as Bulgaria or Kazakhstan. Conversely, countries such as Hungary or Croatia are lagging behind the regional average of 67% coverage.

NPL Coverage ratio vs Net NPL to Regulatory Capital (% , eoy 2013)



Source for all above graphics: IMF, PwC Analysis.

¹ Includes prudential filter as per Romania's national bank regulation - see Glossary for details

Markets overview at year end 2013

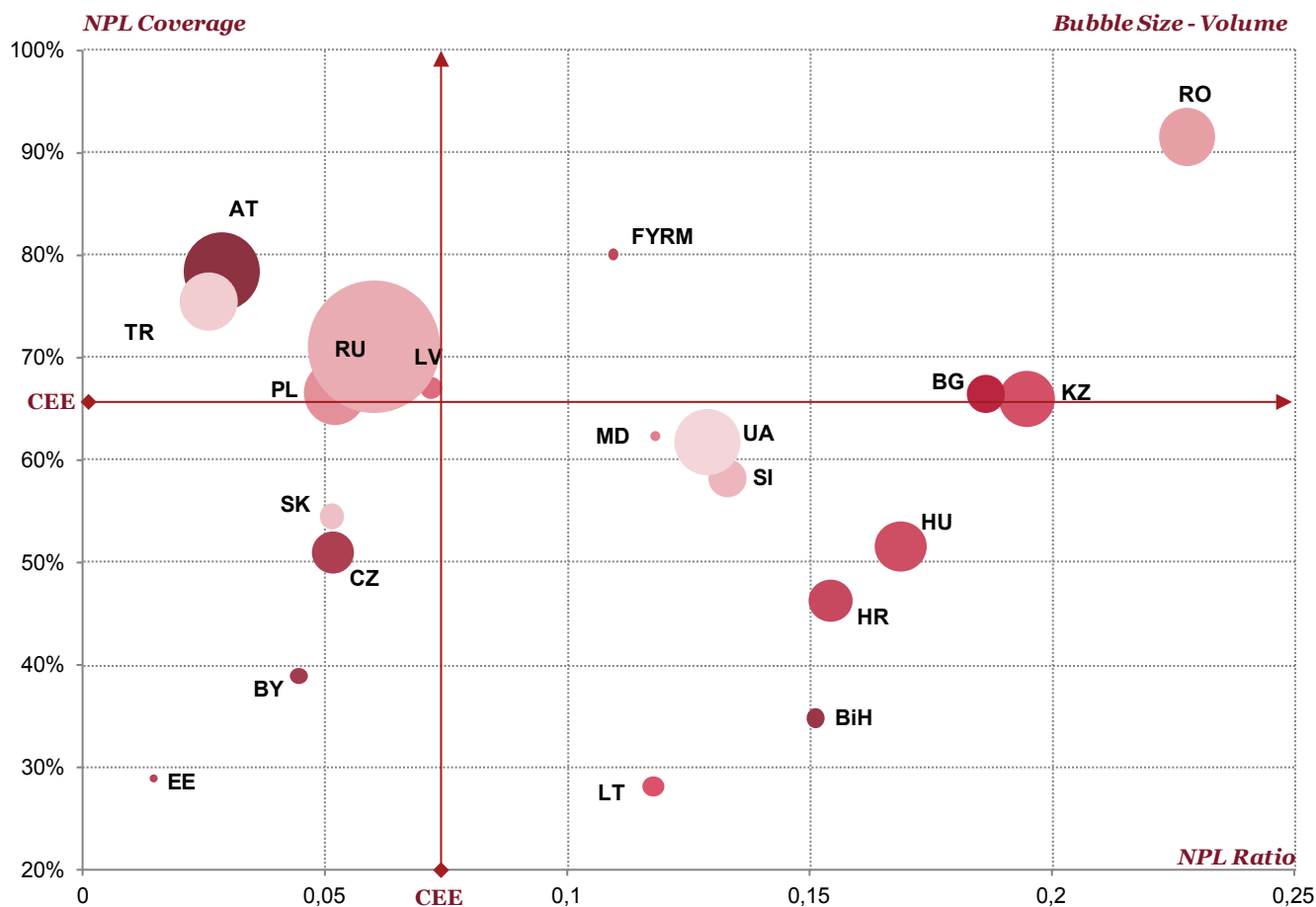
- High NPL ratio combined with sizeable provisions coverage and sufficient volumes to provide the right combination for a quick deleveraging
- NPL disposals expected to continue and accelerate in Romania, Bulgaria, Croatia and Slovenia

Deleveraging to continue

Spurring a combination of high NPL ratio on a background of sizeable provisioning and a relatively large volume, a number of countries are poised for deleveraging in the period to come.

Backed by a friendly regulatory environment, supportive of NPL resolution, we expect market disposals, usually in the form of portfolio sales, to continue and accelerate in countries such as Romania, Bulgaria, Slovenia and Croatia.

NPL Ratio, Coverage and Volume (% BEUR, eoy 2013)



Source: IMF, PwC Analysis.

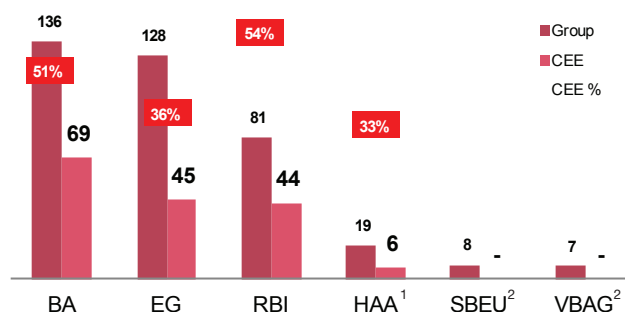
Top 6 Austrian banking franchises in CEE at year end 2013

- 45% of Austria's largest CEE present banking groups loans are amassed in this region
- NPL ratio reached 12% for the 6 banks group – above CEE's 7% average, while NPL Coverage median stood at 59%

Close to EUR 400b of loans held by Austria's 6 largest banks with CEE presence (CEE-6)

- UniCredit Bank Austria (BA) continues to lead the CEE-6 group with ca. EUR 136b loans to customers on its books, closely followed by Erste Group (EG) and Raiffeisen Bank International (RBI); Hypo Alpe Adria (HAA), Sberbank Europe (SBEU) and Österreichische Volksbanken (VBAG) come further down the list
- In terms of CEE concentration, the highest volume is held by BA, with almost EUR 70b loans amassed in the region, while proportionally, RBI takes the lead with 54% of its loan book stemming from the CEE

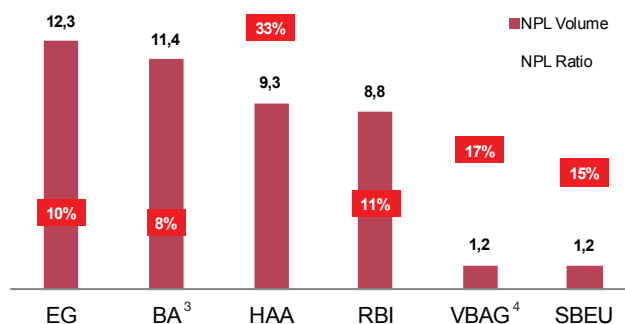
Total Group vs. CEE Customers Loans (BEUR, eoy 2013)



More than EUR 44b NPL volume, with an weighted average ratio of ca. 12%

- EG and BA hold together more than half of CEE-6 NPL volume
- HAA leads substantially in terms on NPL ratio, with 33% group-wide
- All 6 Austrian bank groups track above CEE's average NPL ratio (7%), with an weighted average NPL ratio for CEE-6 of 12%

NPL Volume & Ratio (BEUR, %, eoy 2013)



1 Refers to SEE Group

2 No data available

3 Refers to impaired loans volume & ratio

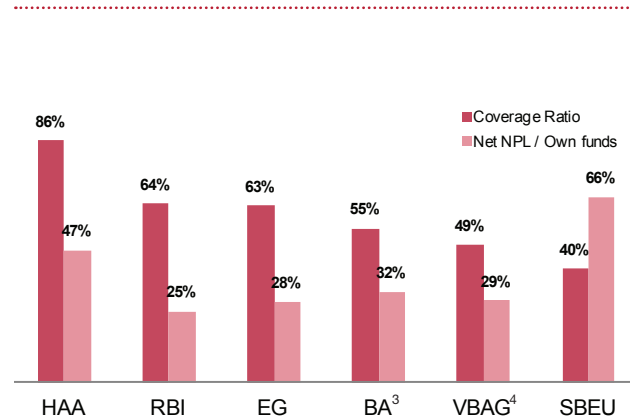
4 Refers to loans to customers and credit institutions

Source: Annual Reports 2013, PwC Analysis.

NPL coverage ratios reveal differences

- With 86%, HAA leads the CEE-6 group also in terms of provisioning for its NLP stock
- RBI and EG are in line with CEE regional average (67%) while BA, VBAG and SBEU sit at the other end of the spectrum, with the latter's coverage ratio reaching 40%
- Median ratio for the CEE-6 stands at 59%

Coverage Ratio vs. Net NPL / Own Funds (% , eoy 2013)



Source: Annual Reports 2013, PwC Analysis.

3 Refers to impaired loans volume & ratio

4 Refers to loans to customers and credit institutions

Top 6 Austrian banking franchises in CEE at year end 2013

- Decreasing loan books yoy combined with higher NPL volumes prompt increases in NPL ratios
- Coverage ratio change varies across the CEE-6, on a background of generalized restructuring measures

Bank Austria



Δ LTC '13	Δ NPL Vol. '13	Δ NPL % '13	Δ CR '13
+3%	-11%	-1.2pp	+7pp

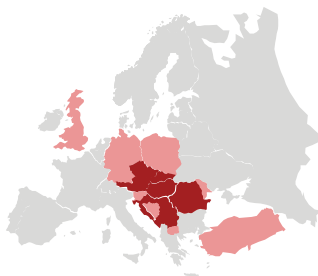


- A growing loan book backed by a substantial decrease in NPL volume, improved BA's NPL ratio with 1.2pp, down to 8% at eoy 2013.
- Conversely, the coverage ratio increased with 7pp, reaching 55% for the same period, still below its peer group median of 59%.

Erste Group



Δ LTC '13	Δ NPL Vol. '13	Δ NPL % '13	Δ CR '13
+3%	+2%	+0.8pp	+1pp



- Opposite to BA, EG's loan book decreased with 3% by eoy 2013, while its NPL volume increased slightly with 2%, prompting an NPL ratio increase of close to 1pp.
- Positively, the coverage ratio increased with 1pp, reaching 63%, which is 4pp above its peer group median.

Raiffeisen Bank International



Δ LTC '13	Δ NPL Vol. '13	Δ NPL % '13	Δ CR '13
-2%	+7%	+0.9pp	-3.9pp



- RBI registered a slight decrease of its loan book, marked by a 7% increase in its NPL volume and 1pp hike in NPL ratio.
- RBI's NPL coverage ratio decreased with almost 4pp, standing at 63%, above its peer group median.

Source: Annual Reports 2013, PwC Analysis.

Hypo-Alpe-Adria Group



Δ LTC '13	Δ NPL Vol. '13	Δ NPL % '13	Δ CR '13
-21%	-3%	+6pp	+7pp



- In spite of a substantial decrease in its loan book (-21% by eoy 2013), HAA NPL volume decreased only with 3%, pegged by an increase in NPL ratio of 6pp, mostly as a result of the sale of HBA and overall asset reduction.
- Coverage ratio further grew during 2013, reaching 86% at year's end, well above regional average and peers' median.
- According to the Bank, the structure of the future Asset Resolution Wind Down unit is clarified, as "previous years restructuring (...) provide sound basis for swift implementation of government plans".

Österreichische Volksbanken-AG



Δ LTC '13	Δ NPL Vol. '13	Δ NPL % '13	Δ CR '13
-30%	-29%	+6.6pp	+1pp



- In line with its re-focusing strategy, VBAG loan book reduced significantly during 2013 to reach ca. EUR 7b at year's end, down 30 from the previous period.
- In spite of the NPL volume's sizeable drop of almost 30%, the NPL ratio jumped ca. 7pp, paralleled by an increase in the coverage ratio of only 1pp.

Sberbank Europe



Δ LTC '13	Δ NPL Vol. '13	Δ NPL % '13	Δ CR '13
+15%	-9%	-0.8pp	-2.5pp



- Loan growth of 15% yoy substantially above NPL volume growth, leading to a reduction of the NPL ratio by ca. 1pp.
- NPL coverage ratio decreased 2.5pp, due to "improved restructuring and collection activities".

Source: Annual Reports 2013, PwC Analysis.

Our specialists are fully conversant with the Austrian & CEE non-core & non-performing markets

Deep technical know-how, regional understanding coupled with strong transactional experience enable us to accompany our clients, advising and providing them with active support across the full value chain of non-performing / non-core assets value extraction.

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1. Options analysis

Comprehensive impact analysis of various NPL management solutions on financial, accounting, legal, regulatory and tax levels

2. Work-out optimization

Defining non-performing asset portfolios work-out and capital optimization strategies

3. Dedicated structures

Channels for restructuring, run-off or disposal of non-performing / non-core assets such as SPVs, external / internal bad-banks NPL platforms

4. Transactions advice

Investor sounding, accounting, financial, tax, legal and regulatory structuring, valuation, negotiation and closing support

Annex

Definition, glossary, disclaimer

Term	Definition
NPL according to IMF's interpretation	<p>Loan where payments of interest and/or principal are past due by 90 days or more, or interest payments of 90 days or more have been capitalized, refinanced, or delayed by agreement, or payments are less than 90 days overdue, but there are other good reasons – such as a debtor filing for bankruptcy – to doubt that payments will be made in full.</p> <p>After a loan is classified as non-performing, it (and/or any replacement loans(s)) should remain classified as such until written off or payments of interest and/or principal are received on this or subsequent loans that replace the original.</p> <p>Banks might have different approaches on how to measure NPL. Therefore the comparability of the provided NPL figures might be slightly reduced.</p>
NPL according to Erste Group	One or more of the default criteria under Basel II are met: full repayment unlikely, interest or principal payments on a material exposure more than 90 days past due, restructuring resulting in a loss to the lender, realisation of a loan loss, or initiation of bankruptcy proceedings.
NPL according to Bank Austria	Formally impaired loans, being exposure to insolvent borrowers, even if the insolvency has not been recognised in a court of law, or borrowers in a similar situation.
NPL according to RBI	Event where a specific debtor is unlikely to pay its credit obligations to the bank in full, or the debtor is overdue more than 90 days on any material credit obligation.
NPL according to HAA	Loans assigned to risk category 5 based on the reason for default, namely borrowers are past due by more than 90 days.
NPL according to VBAG	Loans past due by more than 90 days or debtor is classified as unlikely to pay its credit obligations
NPL ratio	Non-performing loans divided to total gross loans
Prudential filter in Romania	For financial stability analysis purposes, starting with 2012, the central bank of Romania uses the coverage ratio of non-performing loans with IFRS provisions and prudential filters for NPLs in order to assess provisioning adequacy. Including prudential filters in the calculation of the indicator, along with the IFRS provisions registered in the balance sheet, is justified by the fact that the prudential filter represents an amount deducted from own funds with a view to increasing their capacity of absorbing credit risk losses. The central bank decided to further use in 2013 the prudential filters introduced in 2012 along with the implementation of IFRS and to gradually phase them out during 2014-2018.
RWA	Risk Weighted Assets: Assets or off-balance sheet exposures of a bank, weighted according to their underlying risk.
TGL	Total Gross Loans: Sum of loans to all non-bank customers

Abbrev.	Description
AT	Austria
BA	Bosnia and Herzegovina
BAG	Bank Austria Group
BG	Bulgaria
bn	Billion
BY	Belarus
CAGR	Compound annual growth rate
CE	Central Europe: CZ, HU, LV, LT, PL, SI, SK
CEE	Central and Eastern Europe
CR	Coverage Ratio
CIS	Commonwealth of Independent States: KZ, RU, UA
CZ	Czech Republic
EE	Estonia
EG	Erste Group
EUR	Euro
eoy	End of Year
F	Forecast
FYRM	Former Yugoslav Republic of Mazedonia
GDP	Gross Domestic Product
HAA	Hypo-Alpe-Adria Group
HBA	Hypo Alpe-Adria-Bank AG
HR	Croatia
HU	Hungary
IMF	International Monetary Found
KZ	Kazakhstan

Abbrev.	Description
LTC	Loan to Costumer
LV	Latvia
LT	Lithuania
m	Million
MD	Moldova
NPL	Non-performing loan
PL	Poland
PLN	Polish Zloty
pp	Percentage points
Q	Quarter
qoq	quarter-on-quarter
RBI	Raiffeisen Bank International
RO	Romania
RON	Romanian New Leu
RS	Serbia
RU	Russia
RWA	Risk-weighted assets
SEE	South Eastern Europe: BG, HR, RO, RS, TR
SI	Slovenia
SK	Slovakia
TCR	Total Capital Ratio
TGL	Total gross loans
tn	Trillion
TR	Turkey
UA	Ukraine
VBAG	Österreichische Volksbanken-AG
yoy	year-on-year

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