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# NPL Transactions in Serbia and SEE Region

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# Introduction – Serbia at a Glance

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- EU Accession (SAA 2008; candidate - March 2012).
- Negotiation process (**June 2013**)
- **5 /35** Chapters opened:
  - *Public procurement* (5)
  - *Judiciary & Fundamental Rights* (23)
  - *Justice, Freedom and Security* (24)
  - *Financial Control* (32)
  - *Other Issues: Relations with Kosovo* (35)
- 1 chapter opened and temporary closed: *Science and Research* (5)
- Main awaited: *Financial Services* (9) and *Free Movement of Capital* (4)
- 3Y Stand-By Arrangement with IMF / Memorandum on Economic and Financial Policies
- National Strategy for Resolving NPLs (August 2015)



# Introduction – Serbia at a Glance

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## World Bank (2015)

Population	7.098m
GDP	\$37.16b
GDP growth	0.8%
Inflation	1.4%

- Ongoing fiscal consolidation
- High Public Debt – end of 2016 amounts cc. **EUR 26 bn. (78% GDP)**
- State deficit decreased in 2016 for more than **EUR 1bn**
- Realistic state deficit in 2016 – **2,5% GDP** (instead of planned 4% GDP)
- GDP growth for 2016: NBS - **1,8% to 2,5%**; EU Commission -**1,6% to 2,0%**
- 2017: potential GDP rise cc. **3%** (*Fiscal Council*)
- Fitch, Standard and Poor’s rating of Serbia: from **B+** to **BB-** with stable expectations to improve over time



# Introduction – Serbia at a Glance (Expectations)

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- Increase of **FDI**
- **3 pillars** of focus:
  - Privatisations
  - Public utility companies
  - Public administration
- **Credit activity** recovery (NBS)
- Decrease of the exposures of the **international banking groups**
- **Tax administration** reform





# Banking Sector

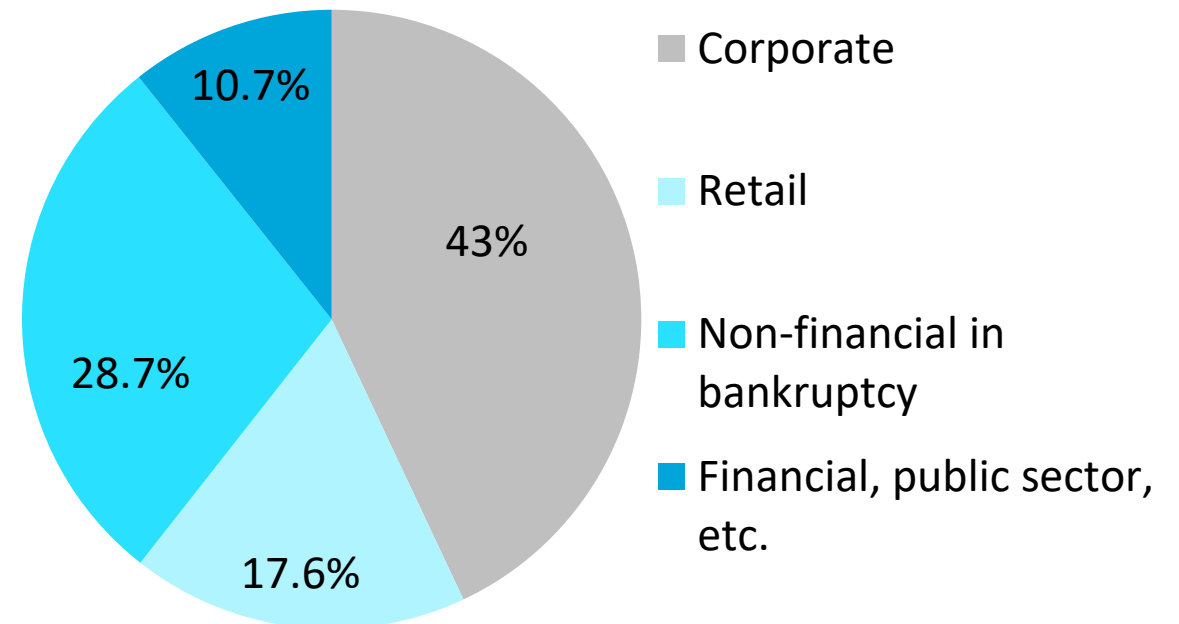
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- Around **30 banks** out of which 8 domestic capital based and 23 foreign capital based (mostly from Italy, Austria, France, Russia, Greece, Slovenia, China, Turkey)
- High capitalization –**CAR 21,15%** (September 2016)
- **Consolidation of banking sector:** privatization of Komercijalna banka, acquisition of AIK Bank and Alpha Bank by local conglomerate MK Group, sale of Findomestic Bank by BNP Paribas to Direktna Banka (ex KBN Bank, recently acquired by Serbian businessmen), Piraeus Bank and NBG, Russian banks (SberBank, VTB) seeking exit
- **Stress tests** indicate that the banking system remains **solvent** even if long-lasting recession and depreciation occur and that liquidity will not be affected in case of deposit withdrawals
- Relative stability of the **foreign exchange rate**

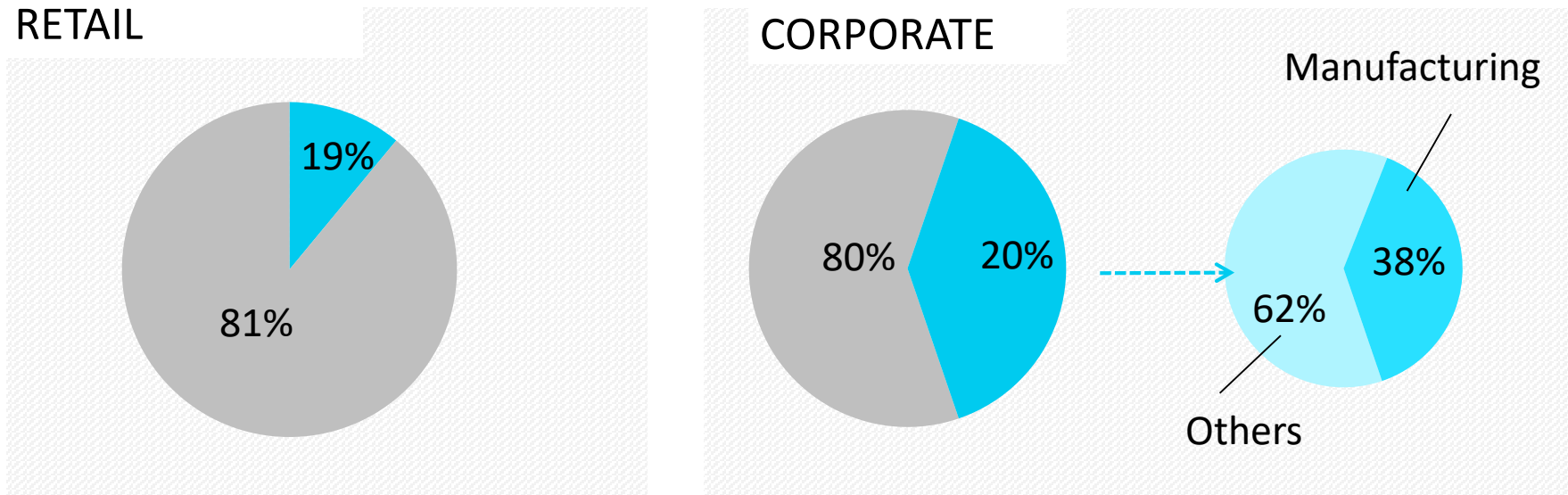
# NPL Statistics and Market

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- Continuous growth since **2008** to date.
- NPL Gross Value – **EUR 3,3 bn**
- Banking sector still capitalized and liquid
- High NPL coverage ratio (reservations – **114,5%** September 2016)
- NBS: *“current NPL ratio neutral re credit risk”*



# NPL Statistics and Market (part 2.)

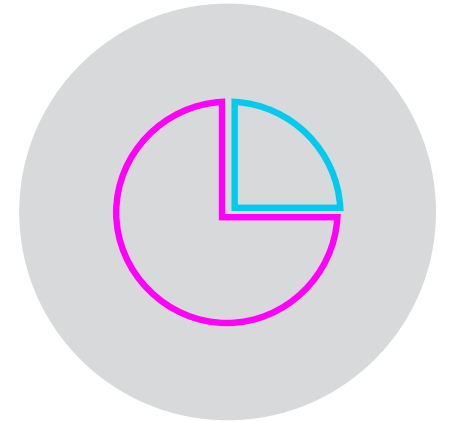


■ NPLs  
■ OTHER

# NPL Resolution Strategy (August 2015)

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- **Strategy and Action Plan for NPLs Resolution** (Government and NBS) adopted in 2015 with the help of IFIs (IMF, WB and EBRD).
- Obligation towards IMF under the Memorandum on Economic and Financial Policies.
- EBRD and KPMG Analysis of Restrictions for NPL sales in Serbia (December 2015).







## NPL Resolution Strategy (August 2015)

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- Diagnostic studies - strengthening **banks' capacities**
- Proper **valuation of collaterals** (Law in Dec 2016)
- More efficient handling of **state NPLs managed by the Deposit Insurance Agency**
- Developing the legislative framework for **mortgages** (Law Amendments Jul/Oct 2015)
- Developing the regulatory framework for **insolvency** / Personal insolvency



## NPL Resolution Strategy (August 2015)

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- New Law on **Enforcement** (December 2015/1 July 2016)
- Changes in the **tax legislation**
- New Law on **Consensual Restructuring** (October 2015 /February 2016)
- Changes to by-laws of the National Bank of Serbia i.e. alignment with **Basel III Standards**

# NPL Transfer Rules



NPLs (loans „due“ or „problematic“):

- Risk Management Decision
- Law on Consumers of Financial Services
- FX Law



- Legal entity/entrepreneur
- Retail
- Only *local* assignment of the loans granted by Serbian banks to Serbian borrowers

Notification to the NBS before assignment (30 days) + draft documentation.  
Once assignment effected, notice to the NBS within 5 days.

# NPL Market

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- The market has began to develop through **smaller NPL portfolio transfers**/single ticket transactions (Project Grey, Marfin portfolio)
- Sale of the NPL portfolio of Banca Intesa (**Project Simonida**), largest to date in Serbia
- Serbia – **Project Victor** (Piraeus), **Project Onyx** (Heta), **NLB** Serbia, State receivables expect to debut on the market (insolvent banks, liquidated banks, state creditors)
- Slovenia – **Project Pine** – secondary market, **Heta Slovenia**
- Croatia –**Hrvatska poštanska banka**, **Taurus**
- Investor presence (**APS**, **B2**, **APartners Capital**, **Deutsche Bank**, **York/Elements**)



# NPL Market – Moving Forward

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- Allowing transfer of **retail loans** to entities outside of the banking sector
- Clarifications from regulators regarding the application of the **bank secrecy** definition in relation to NPL transactions to facilitate easier implementation
- Removing obstacles for banks' **write-offs of loans**
- Regulating **synthetic transfers**



## NPL Market – Moving Forward

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- Fortifying the institutional framework regarding **collaterals** and their re-registration with competent authorities (cadastral registries and pledge registry)
- Speeding up **enforcement proceedings** and bringing into harmony the current situation with the newly adopted Law on Enforcement
- Promoting **out of court debt restructuring** in practice with the new regulatory framework
- Building up investor appetite for providing **fresh cash of highest priority** in relation to existing creditors in the process of out of court voluntary debt restructuring

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Thank you!