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NPL servicing platforms. Effectiveness of debt collection agencies in the region.

APS Group

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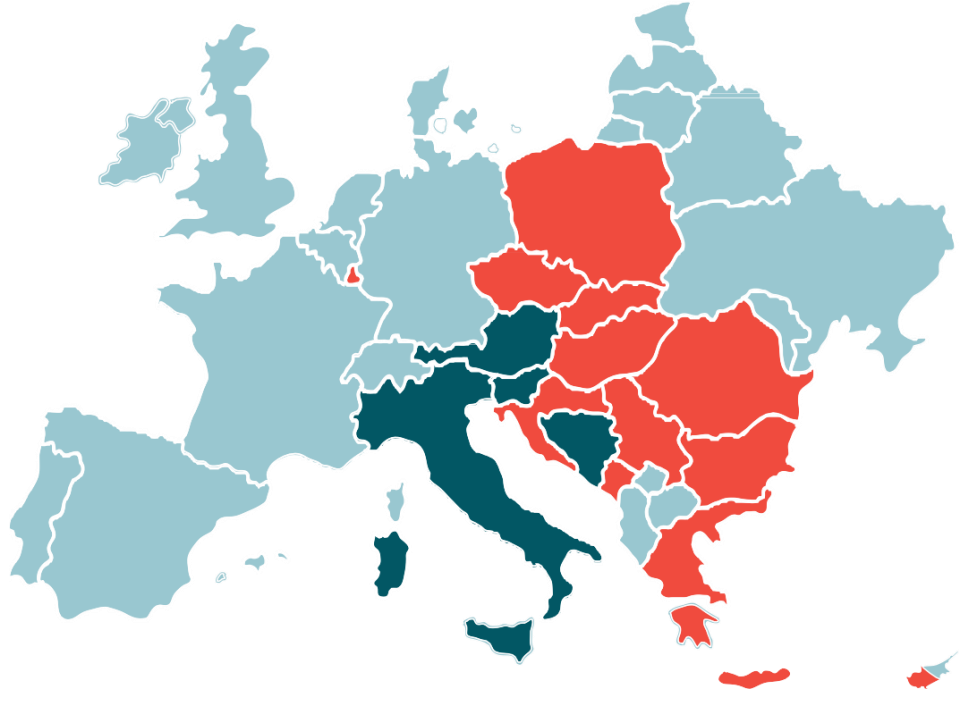
APS - Leading NPL Investment and Recovery platform in CE & SEE

14 EUROPEAN COUNTRIES COVERED, OVER 750 PROFESSIONALS

EUROPE	Since
Austria	2018
Bulgaria	2012
Bosnia	2018
Croatia	2017
Cyprus	2016
Czech Republic	2004
Greece	2014
Hungary	2016
Luxembourg	2017
Montenegro	2005
Poland	2007
Romania	2007
Serbia	2005
Slovakia	2005



active coverage
expansion target

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Section 1

Where does Europe stand?

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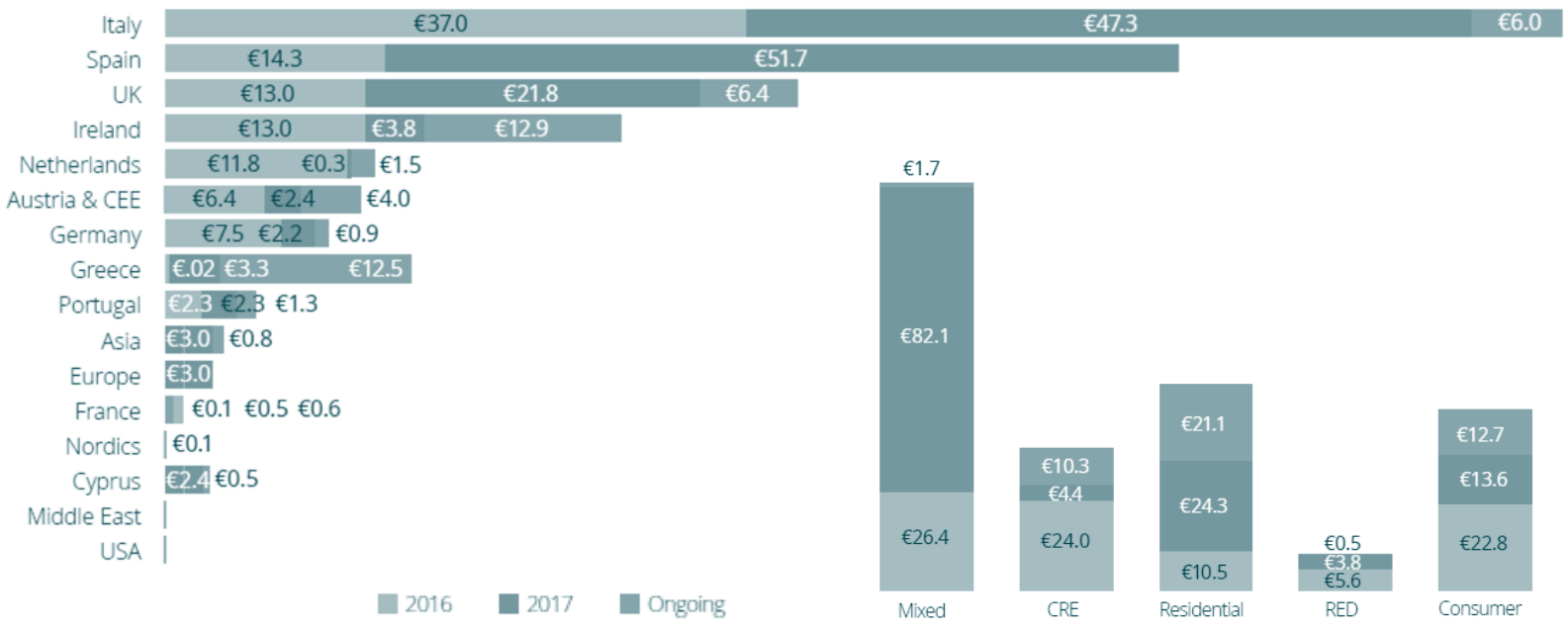
Overview on the European NPL Market

| Where does Europe stand?

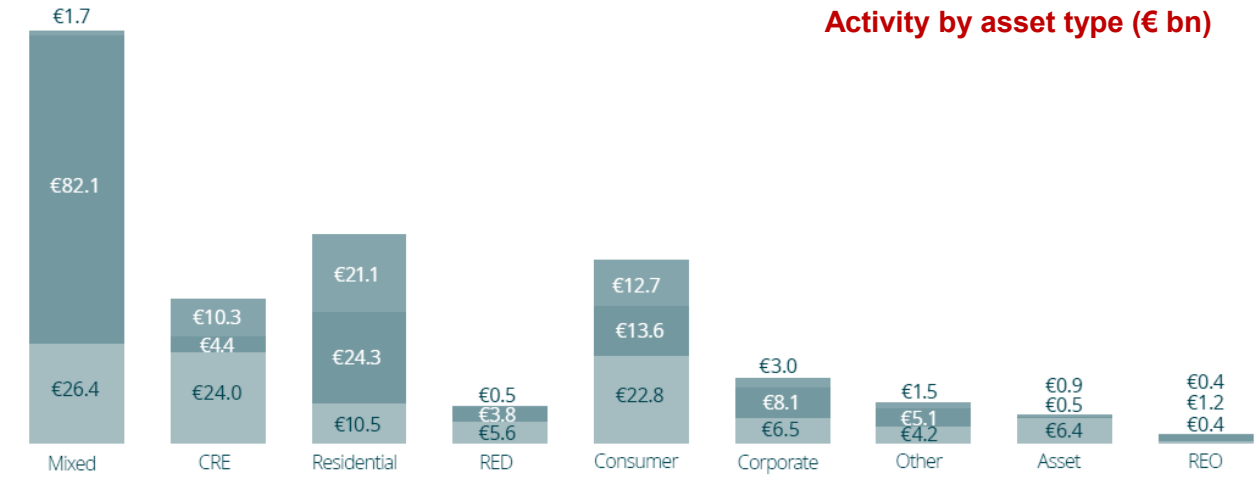
Deleveraging and balance sheet optimization continues across the European banking sector, with loan sales remaining an important deleveraging tool for banks.

2017 has been the most active year in the loan sale market and activity levels are likely to persist

Activity by country (€ bn)



Activity by asset type (€ bn)



Note: All data as of 31 December 2017

Source: Deloitte research, Global Deleveraging Report 2017 - 2018

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Overview on the European NPL Market

Market summary and forecast

*With some of the potential sellers in 2018 already identified, the **Irish** market is expected to see **at least two more years of significant deal-making**.*

***The Nordic Region** remains Europe's outlier in terms of NPL holdings and portfolio deals. However, **regulatory pressure could drive banks to review their lending portfolios**.*

*The **Austria/CEE** NPL market is **entering it's the final phase**, with investor interest remaining high and competition still strong despite de gradual wind-down of the pipeline.*

***UK** market is still dominated by UK Asset Resolution (UKAR), the state-owned wind-down institution, with the **prospects for continued disposals during 2018 remaining good**.*

*The **German** loan sales market has continued to be small in relation to its potential, with **German banks remaining reluctant to sell at prices the market is prepared to pay**.*

***Ukrainian** NPL market **is just opening up** in comparison to the rest of the countries in the CEE region, being the only exception in the region in 2017.*

***Netherlands** stock held by banks remains substantial and **further portfolios are expected to come to market in 2018**.*

*Tackling bad debts remained a priority in 2017 in the **SEE** area (Croatia, Serbia, Romania, Bulgaria, Hungary), with the **wave of deals shifting in 2018 more to the smaller Balkan markets**.*

***Modest disposals** on the **French** loan portfolio market, due to low regulatory pressure and banks preferring internal work-out solutions. However, it is expected that this will change in 2018.*

*The long-awaited **Greek deal pipeline is finally becoming visible**, with the rapid development of the market being accelerated by the Bank of Greece's adoption of NPL resolution targets.*

***Spain** continues to have the third largest stock of NPLs in Europe and **pressure on banks to accelerate the cleansing of their BS continues**.*

*The activity in the **Portuguese** NPL market has accelerated in the second half of 2017 and the **market is likely to see the biggest deal pipeline since the financial crisis**.*

***Italy** is **expected to still remain one of the most active players in the European NPL market in 2018**. The acceleration in the Italian NPL market has been accompanied by consolidation and restructuring of the debt servicing market in 2017.*

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Overview on the European NPL Market

Latest regulatory and supervisory developments (1)

IFRS 9 Implementation

__New financial reporting standard__ enters into force in 2018, __directly affecting many aspects of banks' functioning__. the methodology of impairment losses changes. The loss model in favour of the expected loss model is abandoned.

The adoption of IFRS 9 means that banks have to calculate provisions on their loan portfolio according to the new rules and apart from the group of working and non-working loans, a new category of loans appears with a significant increase in credit risk. __For part of the loans previously classified as working the bank will need to calculate reserves within the life horizon of the instrument__.

Recent results of EBA show that 10-20% of the current portfolio will go to this new group, which __directly translates into an increase in the level of write-downs__. The total increase in the cost of write-downs may reach as much as 30%.

ECB NPL Guidelines

Innovation in the regulatory framework continued in Europe through 2017 with further developments being scheduled for 2018, with the scope of __building up the pressure on slow-moving banks and national regulators for a more rapid clearing of Europe's non-performing loans__.

The action plan focuses on the classification of supervisory powers, enforcement and insolvency frameworks, __development of secondary markets for NPLs and macro-prudential approaches to prevent the emergence of future system-wide NPL issues__.

Standardized templates were already issued by EBA and although adoption of these templates is not a supervisory requirement, EBA intends that they become the EU standard for reporting impaired loan data and for transaction purposes.

BSCB Guidelines for prudential treatment of problem assets

The Basel Committee on Banking Supervision released guidance on the definition of non-performing exposures and forbearance.

The definition of non-performing exposures introduces harmonized criteria for categorizing loans and debt securities that are centered on delinquency status (90 days past due) or the unlikeliness of repayment and introduces clear roles for interaction between forbearance and non-performing status. The definition of forbearance provides a harmonized view on the modification or refinancing of loans and debt securities that result from a borrower's financial difficulty

These guidelines __improve identification and monitoring, and promote consistency in supervisory reporting and disclosures by banks__

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Section 2

NPL Servicing Platforms. Effectiveness of debt collection agencies in the region

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NPL Servicing Platforms

Role of the NPL Servicing Platforms in the market

The purpose of the NPL Servicing Platforms is to ease the strain of NPLs on the financial system and ensure their professional management in compliance with the market principles of maximizing the recovery rates on such assets, as well as to support the development of capital markets

NPL Servicing Platforms' added-value

Extensive expertise with acquisitions and recovery of NPL portfolios of all types (retail, corporate, SME, secured and unsecured)

INCREASED LOAN RECOVERY RATES
Unlike banks, an NPL Servicing Platform may defer the sale of loan collaterals or manage / liquidate them at a later stage, for a maximum possible value

Have the capacity of pooling entire classes of NPLs instead of handling troubles exposures on an individual basis

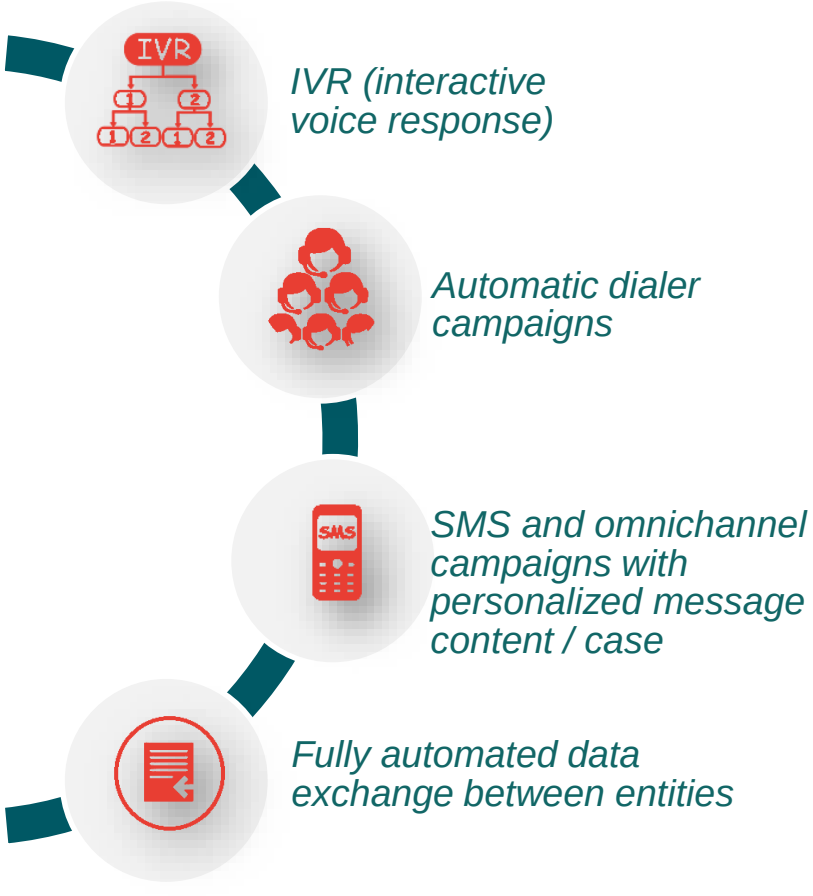
EXPLOITING SYNERGIES
Unlike banks, an NPL Servicing Platform can exploit synergies, as its internal organization may be more flexible to deal with NPLs of different natures

Have in place the required infrastructure and resources for the proper and efficient set-up of such business

STATE OF ART RECOVERY STRATEGIES AND INFRASTRUCTURE
used to maximize recovery in a timely manner: the NPL Servicing Platform will be able to apply a broader range of workout tools, which from an overall business perspective would mean a better return could be achieved

NPL Servicing Platforms

| Effectiveness of debt collection agencies in the region



IVR (interactive voice response)

Automatic dialer campaigns

SMS and omnichannel campaigns with personalized message content / case

Fully automated data exchange between entities

Technology provides opportunities to do old things better and to introduce new products, services and ways of working.

The benefits of leveraging technology in the debt collection agencies activity include enhancing opportunities to meet customers' evolving needs with new recovery service offerings and platforms plus streamlining operations and speeding processes.

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NPL Servicing Platforms

| Effectiveness of debt collection agencies in the region (2)

2:00 AM – 4:00 AM

Night process: *portfolio segmentation and strategy association*

Segment	Strategy
No contract phone numbers	**Letter** – *APS contact details*
No payments last 15 days	**Dialer campaign** - *No 15D payments*
Constant payers	**SMS** - *Payment details*
Letters sent 15 days ago	**IVR campaign** – *Letter feedback*

11:00 AM – 13:00 PM

SMS - *Payment details*

- ***Process*** *generate a batch of SMSs every 30 minutes*

11:00 AM – 14:00 PM

Inbound flow **SMS** - *Payment details*

- ***Process*** *automatic inbound calls allocation based on call center agent skills*

15:00 PM – 17:00 PM

IVR campaign – *Letter feedback*

- ***Process*** *start IVR (robot interactive voice response) campaign*

8:00 AM – 9:00 AM

Letter – *APS contact details*

- ***Daily Process:*** *letter printing automatic scheduler*

9:00 AM

Dialer campaign - *No 15D payments*

- ***Process*** *start predictive dialer campaign*

15:00 PM – 15:30 PM

Load payments

- ***Daily Process:*** *access FTP, activate payments loading process*

16:00 PM – 16:30 PM

Payment agreement strategy

- ***Daily Process:*** *set Payment agreements status and strategy association*

Segment	Strategy
PA Kept	**Dialer campaign** – *PA Kept*
PA Broken	**Dialer campaign** – *PA Broken*

16:30 PM – 18:00 PM

Dialer campaign - *PA Kept* **&** *PA Broken*

- ***Process*** *start predictive dialer campaigns*

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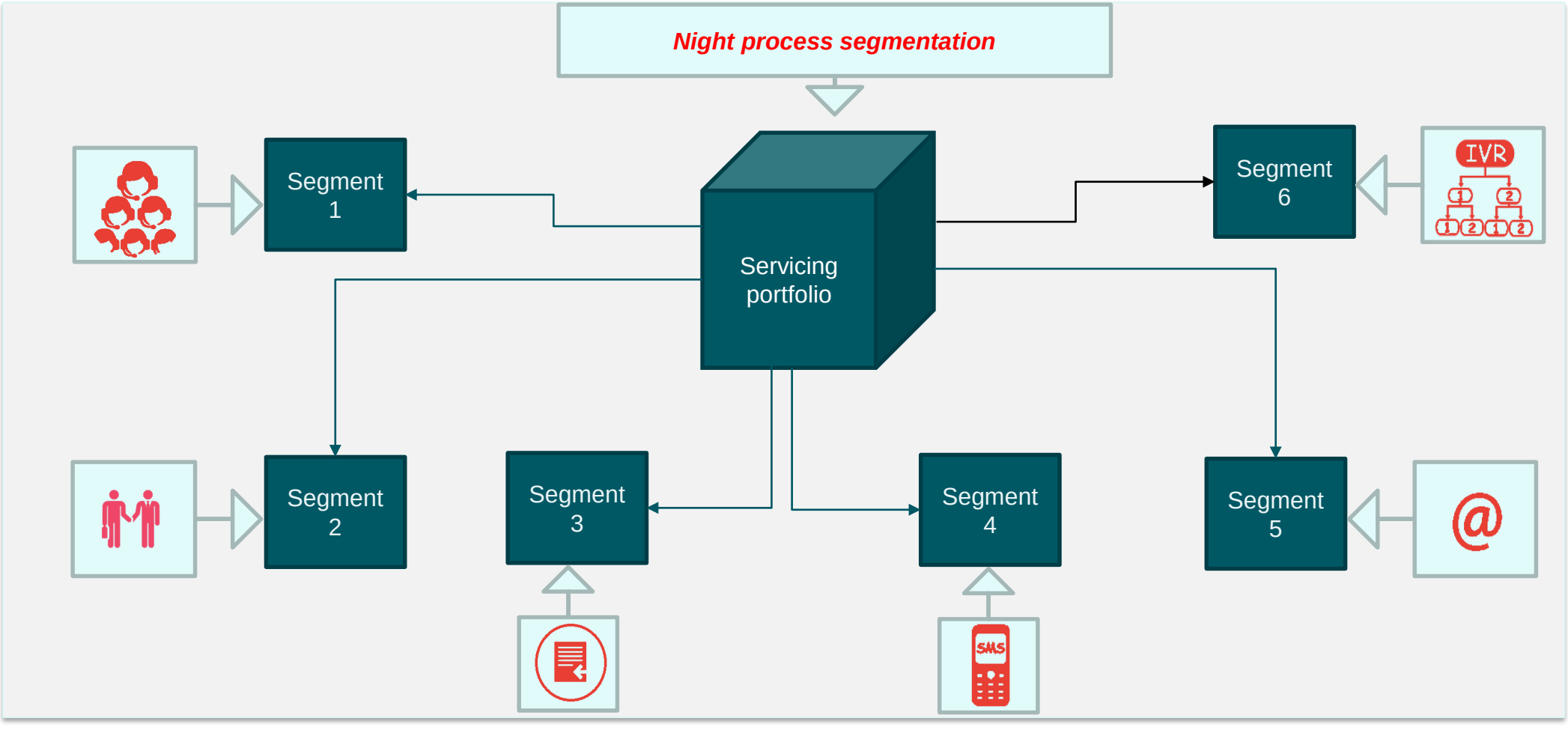
NPL Servicing Platforms

| Effectiveness of debt collection agencies in the region (3)



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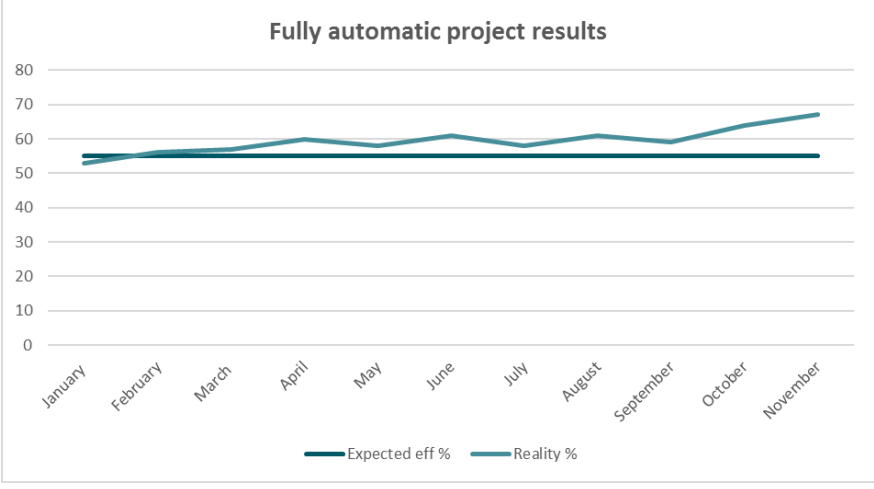
NPL Servicing Platforms

| Conclusions

At APS, we believe that embracing them is vital for the delivery of top level services at competitive costs to our Clients

Automatic solutions: Keeping up with the Fourth Industrial Revolution

- *Each Client is unique with respect to their business model, approach and issues*
- *All Clients, on the other hand, expect service excellence at reasonable prices*
- *Both can be reached with help of carefully planned and executed automated processes*
- *While machines can take over all repetitive actions, potential of our employees can be used where the human factor is irreplaceable*



Automated customer service (CS) pilot project

- *Including IVR (interactive voice response) campaigns supported by text messages (SMS) and e-mails*
- *Moreover, the data exchange has been also fully automated, thanks to the use of SFTP servers and internal IT solutions*
- *Over time the incoming calls represented practically 99% of pure debt collection calls, largely only as a confirmation after the payment had been made*
- ***This pilot project has proved that automated CS scheme allows us to offer appropriate rates for our Clients while maintaining both excellence and high profitability of projects***

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Thank you

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