



Croatia Securitization

Key Development Steps

Securitization Steering Committee

Zagreb

22nd December 2006

Presentations

Project Development

Draft RIA

Conclusions

Project Development Steps

20+ Key Events!

**2nd Steering
Committee Meeting**

ILA Opinion on Zero Draft Law

Zero Draft Law

Draft RIA Issued

ILA Final Guidelines

Market Feedback

MoF Press Conference

ILA Draft Guidelines

ILA Consultative Document

**1st Steering
Committee Meeting**

Independent Legal Advisor (ILA) Opinion

LSG Principles Issued

Legal Solution Group (LSG)

Created (D,I&HR)

Convergence, EBRD,
KfW meetings in Zagreb

Project Governance

Structure Set-Up

Consultations with local regulators

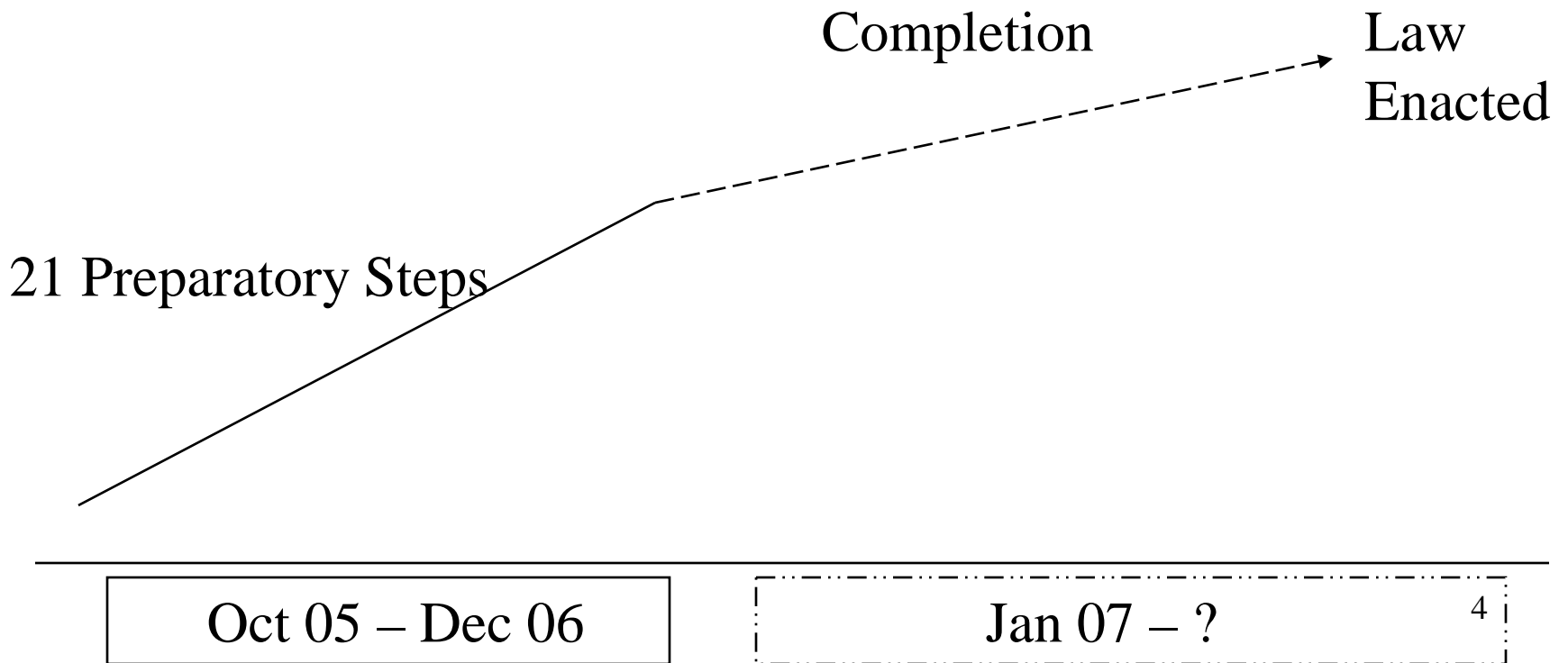
MoF Convergence
CBA Issue Exploration
EBRD invitation Working Group

First MoF-Convergence discussion

CBA Book Launch Endorsed by Authorities

Oct 05 Dec Jan 06 Apr May Jun Jul Aug Sep Oct Nov Dec 06

The Last Leap Forward



Next Project Development Steps To Bring Securitization to Croatia

- MoF and authorities to complete drafting the law, based on existing comprehensive multi-source legal due diligence processed under rigorous governance conditions
 - Local industry views
 - International and local market lawyers
 - Market consultations
 - Local independent review by MoF-designated law firm

Project Development Steps

Critical Requirement

- Close coordination among local authorities (MoF, CNB and HANFA) for both legislative and regulatory development
 - To design an effective regulatory framework

A Possible Catalyst For Coordination

- The draft RIA document could be an useful platform to build a common understanding of objectives, constraints, concerns and possible remedial policy actions and tools
- “Final” RIA should reflect the authorities’ views
 - Better coordination and better communication

RIA: From Draft to Final

1. Thorough analysis of present draft
2. Public discussion in February 2007
 - The case for regulation
 - The impact on foreign debt and domestic credit dynamics
 - Benefits for domestic borrowers and investors
 - Benefits for Croatia's capital market development
3. Authorities prepare final RIA reflecting their views and public discussion in March 2007
 - Better coordination and better communication

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RIA in brief

- An aid, not a substitute for decision making
- Reflecting main benefits and costs/pitfalls from the perspectives of all stakeholders
- Using maximum possible quantifications
- Reflecting possible regulatory options
- Open-ended document to be supplemented by analytical work of all parties involved

Stakeholders' Perspectives

Households

+

- Borrowing at more favourable terms
- Lower volatility of supply of new loans and leasing (long-run)
- In general, more stable access to finance at better terms

-

- Lower incentives to monitor final borrowers (SPV's incentives problem)
- Changing legal position of final borrowers needs to be prevented

Stakeholders' Perspectives

Corporate Sector incl. SMEs

+

- New funding instrument
- More stable access to finance at better terms
- New potential channel for public (IFI's) intervention to support SMEs lending

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- Lower incentives to monitor final borrowers (SPV's incentives problem)
- Changing legal position of final borrowers needs to be prevented

Stakeholders' Perspectives

Banks and Other Intermediaries

+

- Improvement in management of liquidity, capital and A/L structure in general
- Diversification of credit risk
- Reduced volatility of earnings

-

- Banks buying equity (high risk) tranches expose themselves to macro risks
- Changing legal position of final borrowers needs to be prevented

Stakeholders' Perspectives

Domestic Investors

+

- New opportunity to generate returns on investment
- New opportunity to diversify risks
- Especially related to pension funds

-

0

Stakeholders' Perspectives

Foreign Investors

+

- New opportunity to generate returns on investment
- New opportunity to diversify risks

-

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Stakeholders' Perspectives

HANFA / MoF

+

- More precise pricing of debt (increased market efficiency)
- New funding instrument for public sector projects
- Further integration with EU single financial market
- Retaining degree of control over transactions after full liberalization of capital flows

-

- Required resources

Stakeholders' Perspectives

Croatian National Bank

+

MICRO

- Improvement in liquidity management
- Increased stability of banks
- Improved early warning signals

MACRO

- Stronger links between domestic savings with domestic credit growth and investment

-

- Unsustainable growth of foreign debt

Results of Survey of Potential Originators

Type	Assets estimated by respondents as presently suitable for securitization EUR mln	Expected transactions EUR mln								
		Year 1			Year 2			Year 3		
		No. of trans.	o/w cross border	Total amount	No. of trans.	o/w cross border	Total amount	No. of trans.	o/w cross border	Total amount
Mortgage loans	4 719	4	0	700	6	2	1 300	7	2	1 350
Car loans	927	0	0	0	1	1	50	1	1	50
Leasing portfolio	395	0	0	0	3	0	50	3	0	60
Other	733	0	0	0	0	0	0	1	1	100
TOTAL	6 774	4	0	700	10	3	1 400	12	4	1 560
memo: synthetic				80			70			50
Avg amount of true sales transact.				175			127			120
Avg amount of MBS				175			217			193

Domestic Demand Estimate

	Year 1	Year 2	Year 3	Year 4
Rate of AUM - pension	30%	26%	23%	20%
Rate of AUM – investment	35%	30%	26%	22%
Allocation in % of AUM as stated by respondents	2,5%-5%	4%-5%	5%-6%	assumed the same as Year 3
Total demand estimate (EUR mn)	202	412	571	714
banks	100	120	140	160
funds	102	282	431	554
Funds' allocation as % of AUM	2.5%	5.4%	6.5%	6.9%
Annual increase in funds' allocation as % of annual increase in AUM	10.0%	16.4%	10.6%	8.8%
Aggregate demand estimate (EUR mn) after 20% correction for non-responded demand estimate	242	484	675	857

Scenario A Based on Expert Assessment of Likely Developments and Scenario B based on Survey

EUR million		2007	2008	2009	2010
SCENARIO A					
1	Supply: total cumulative o/w banks	0 0	900 800	2 000 1 890	3 000 2 890
2	Domestic demand estimate (cumulative)	242	494	675	857
3	Supply – demand (cumulative stock): potential foreign demand	0	406	1 325	2 143
4	Implied increase (-decrease) in gross foreign debt if banks use 100% of securitization receipts to repay foreign debt*		-494	-675	-857
SCENARIO B					
1	Supply: total cumulative o/w banks	700 700	2 100 2 000	3 660 3 550	- -
2	(minus) supply cross border**	(0)	(434)	(820)	-
3=1-2	Supply: domestic cumulative	700	1 666	2 840	-
4	Domestic demand estimate (cumulative)	242	494	675	857
5=3-4	Supply – demand (cumulative stock): potential foreign demand	458	1 202	2 165	-
6	Expected cost of funds savings in bps	23	23	23	23
7	Supply if marginal reserve is applied	300	350	610	-
8=7-5	Supply – demand (cumulative stock) with marginal reserve requirement applied	-58	-144	-65	-
9	Implied increase (-decrease) in gross foreign debt if banks use 50% of securitization receipts to repay foreign debt and if cross-border securitization takes place (worst case scenario)	108	581	1 210	

Summary Quantitative Impact Assessment

MICROECONOMIC PERSPECTIVE		Cumulative amount in EUR million (3 years perspective except for consumers)		Methodology of microeconomic calculation	Amount of savings in EUR million (PV over 3 years except for consumers)	
		Scenario B	Scenario A		Scenario B	Scenario A
Banks	Securitized loans	3 550.0	2 890	Lower cost of funding (net)	-35.5	7.5
	Lower capital requirement	355	289	Lower cost of capital	44.2	27.9
Consumers / banks' clients*	Borrowing at better terms (bps decrease as of end period)		-23	Consumer surplus*	170.2	170.2
	Increase in banks' lending to the private sector		600-700 p.a.			
Leasing	Additional finance at lower cost	110.0	110.0	Multiple of additional supply and cheaper funds	0.2	0.2
Domestic investors	Positive shift of risk/return frontier given total allocation to MBS and ABS securities	675.0	857.0	Additional yield/lower risk over alternative investment	17.9	24.6
TOTAL MICROECONOMIC BENEFITS					197.0	230.4
o/w short term					26.8	60.2
o/w long term					170.2	170.2
Total as % of 2006 GDP					0.6%	0.7%
MACROECONOMIC PERSPECTIVE						
Decrease in banks' foreign borrowing		1 775.0	2 890	Repayment of old foreign debt due to cost of regulation		
Non-resident investors' purchases of bonds in 3 ys		2 985.0	2 143			
Impact on growth of gross foreign debt in 3 ys		1 210.0	-747.0	Cumm. growth	4.3%	-2.7%
Impact on growth of net foreign debt in 3 ys		605.0	-374.0	Cumm. growth	3.7%	-2.3%

In Addition ...

... RIA shows second – round impacts on use of released reserves and impact on net international debt, also showing that banks' incentives is to use maximum receipts from securitization for repayment of foreign debt ...

... RIA also shows how coordinated implementation of Securitization Law, Securitization Framework of Basle II and high Marginal Reserve which is not applied to securitization receipts may lead to firm control and even decline of foreign debt ...

... but ...

... THE POINT IS TO SHARE RIA'S MODELS AND RESULTS SO THAT RIA BECOMES A BALANCED REFLECTION OF VIEWS AND BELIEFS OF ALL THE PARTIES INVOLVED.

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The Vision for the Final RIA

Broad Consensus On Key Principles

- The case for regulation
 - Stakeholders' perspectives
 - Costs, benefits and pitfalls
 - Policy options assessment
- Quantitative Impact Assessment
 - Domestic supply and demand
 - Role of foreign investors
 - Banks' incentives
 - Foreign debt and domestic credit dynamics
 - Consumer Surplus

Time To Completion?

- March 2007
 - Official draft of Law
 - Consultation with EU Commission
 - Final RIA
- April-May 2007
 - Government consultation
- June 2007
 - Submission to Parliament
- July-December 2007
 - Parliamentary procedures and CNB/HANFA regulatory work
- January 2008
 - First securitization transactions launched
 - *30 months after first public debate*