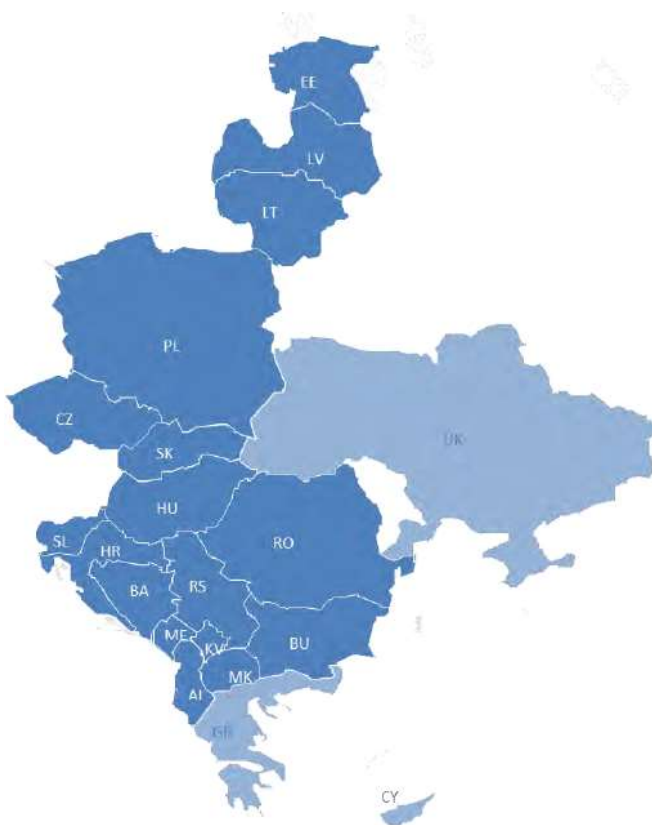


EBCI | Vienna Initiative



NPL Monitor for the CESEE region¹ H1 2019

The NPL Monitor is the semi-annual publication of the NPL Initiative, a subset of the Vienna Initiative. The publication reviews the latest NPL data² of 17 countries³ in central, eastern and south-eastern Europe (CESEE), while reporting on progress on recent structural reforms, NPL transactions and regional loan servicing capacities.



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² 30 September 2018 is the latest date for which data are available for all countries covered in this edition of the Monitor. We note that some countries have made further improvements in resolving NPLs since the 30 September 2018 cut-off, which will be reflected in the next edition of the NPL Monitor (H2 2019).

³ CESEE (dark blue on the map): Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Kosovo, Latvia, Lithuania, Montenegro, North Macedonia, Poland, Romania, Serbia, Slovak Republic and Slovenia. Non-CESEE (light blue): Cyprus, Greece and Ukraine are not covered in the CESEE NPL data, although the NPL Initiative has started following more closely NPL reform in these countries.

EXECUTIVE SUMMARY

The situation regarding non-performing loans (NPLs) has continued to improve in CESEE since the last *NPL Monitor*, with NPL volumes at their lowest in eight years (€37.9 Bn as of 30 September 2018 for the region), and the NPL ratio reaching 4.4% (a decrease of 1 pp yoy). Further sales of NPLs from banks to investors have continued to drive the decrease, with loan sales activity amounting to €3.1 Bn in 2018.

This year marks the 10th anniversary of the Vienna Initiative and the 6th anniversary of the NPL Initiative. Since the launch of the NPL Initiative in 2014, important regulatory, supervisory and tax reforms have been implemented to improve the resolution of NPLs, and the conditions for a sound secondary NPL market (although still not perfect) contributed greatly to the ability of banks to deleverage a large part of the stocks. This resulted in a gross NPL ratio in the region, more than halving since its peak of 9.8% in Q1 2014 to 4.4% in Q3 2018.

However, work is still not complete. Progress in recent years has in large part been driven by the need to tackle the NPL stock, but more must be done to embed changes within the banks themselves for sustainable long-term NPL prevention and management.

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1. SNAPSHOT UPDATE SINCE THE LAST EDITION OF *NPL MONITOR*

NPL evolution in the CESEE

The downward trend of non-performing loans (NPLs) has continued across most countries of the CESEE region, both for NPL volumes and ratios.⁴ Please refer to section 2 for more details.

- The NPL volumes stood at €37.9 Bn⁵ as of 30 September 2018, a reduction of 12.9% year-on-year (yoy).
- The average NPL ratio reached 4.4%, down by 1.0 percentage points (pp) yoy.⁶
- Disparities between countries remain, with the NPL ratios⁷ ranging from 1.4% in Estonia to 12.9% in Albania.
- Only two countries now remain above the 10% threshold in the CESEE (Albania at 12.9% and Croatia at 10.2%), which is a considerable improvement on recent years.
- The region's average net NPL, net NPL/capital and NPL/GDP ratios all continued the improving trend (1.7%, 11.0%, and 2.8%, respectively).
- The NPL coverage ratio has, however, slightly decreased (currently at 62.0% from 62.2% in the previous 12 months), which might be partly explained by the banks' write-offs and sales of portfolios stocks.

Progress with reforms

The continuous progress across different NPL metrics can be attributed to a combination of macroeconomic developments and policy actions aimed at reducing impediments to resolution (see section 3 for more details) and NPL sales (section 4). Although not all countries are progressing at the same rate, numerous jurisdictions have significantly improved their legal frameworks and judicial infrastructure. This helps to accelerate the enforcement of securities and increase the speed and effectiveness of insolvency proceedings.

A. NPL Initiative (under the Vienna Initiative)

Further NPL work has been carried out by international financial institutions (IFIs) under the umbrella of the Vienna Initiative. See below for what has been happening since the last edition of *NPL Monitor*.

⁴ Unless stated otherwise, all data are sourced from the IMF Financial Soundness Indicators (IMF FSI), available at <http://data.imf.org/regular.aspx?key=61404590>, last accessed on 15 May 2019. For individual country definitions and more precise comparisons, please consult the IMF FSI metadata and refer to the individual country authorities for further details. Please also refer to the Appendix of the *NPL Monitor* for more details. Unless stated otherwise, NPL refers to Gross NPL values throughout the publication.

⁵ All data were sourced in local currency and converted to US dollars and then euros, using IMF exchange rates available here: National Currency per US Dollar, end of period <http://data.imf.org/regular.aspx?key=61545862>.

⁶ Net NPL ratio net of provision (%) is calculated by taking the value of total NPLs net of provisions as the numerator, and the value of total gross loans as the denominator. Please see the Appendix for definitions.

⁷ The NPL ratio is calculated by taking the NPL volume as the numerator, and the total gross value of the loan portfolio (including gross NPLs, that is, before the deduction of specific loan-loss provisions) as the denominator. Please see the Appendix for definitions.

- The founding members and partners of the Vienna Initiative gathered⁸ in Vienna on 27 and 28 March 2019 to reflect on the achievements of the decade of multinational coordination that was instrumental in preserving financial stability in the region. It was agreed that the Vienna Initiative would continue to coordinate between policymakers and bankers to address the remaining and future challenges surrounding NPLs and beyond, including the resolution of bad debt, regulatory reform, deepening of financial integration, availability of funding for innovation, and mobilising the private sector's contribution to climate and energy goals.
- The 10th anniversary of the Vienna Initiative also marked the sixth anniversary of the NPL Initiative (launched in 2014).
 - The situation regarding NPLs in the CESEE region has improved considerably since the launch of the NPL Initiative. The gross NPL ratio in the region more than halved from its peak of 9.8% in Q1 2014 to 4.4% in Q3 2018.
 - However, large stocks of NPLs still remain in many countries in the region, and fundamental structural challenges still exist within a number of banks, particularly the smaller local banks which have not felt the same pressures to change as the subsidiaries of European or international groups have.
 - Local restructuring skills remain limited in numerous CESEE countries. Poor and incomplete data still characterise many banks, and inadequacies in credit underwriting practices and NPL management can be observed across the region.
 - Thus, the next phase of the NPL Initiative is to improve the region's banking systems, coordinating joint IFI support and working closely together with national competent authorities (NCAs) in promoting and supporting further implementation of best practices in the areas of credit underwriting and NPL management within the banks under their supervision.
- In March 2019 the EBRD and DLA Piper (together with its partner law firms in the region) published a comprehensive study⁹ on enforcement of creditors' claims within a commercial context in five European countries with the highest NPL ratios in the NPL monitor (Albania, Croatia, Cyprus, Greece and Ukraine). The report highlights gaps in legislation and institutional practices relating to enforcement of unsecured and secured claims which may contribute to the NPL issue. The report also makes recommendations on how to improve the enforcement framework for discussion with government authorities.
- In Albania in April 2019 the EBRD finalised a report containing the roadmap on the legal and operational framework necessary to set up the Credit Register Bureau. The advisory report was submitted to the Albanian Association of Banks and Bank of Albania.
- In Croatia the EBRD has assisted the Ministry of Justice in strengthening the framework for insolvency practitioners (IPs) and establishing a sustainable training framework. In May and June 2019 the EBRD delivered training for IPs and trainers.

⁸ <https://www.ebrd.com/news/2019/-vienna-initiative-10-years-on-makes-case-for-deeper-financial-integration-in-emerging-europe-.html>

⁹ Direct link for download at <https://www.ebrd.com/insolvency-sector-assessment/enforcement-study.pdf>.

B. European regulatory landscape with NPLs

Since the last *NPL Monitor*, important new measures based on best practices have been published and are being implemented in Europe to tackle NPLs. These include:

- The European Banking Authority (EBA) guidelines on non-performing and forborne exposures coming into effect from June 2019;
- The European Parliament adopting in April 2019 a text amending the CRR, which introduced minimum provisioning levels for newly originated loans that become non-performing (that is, a provisioning backstop, a pillar 1 measure with direct CET 1 reduction for insufficient provisioning); and
- Consultation on the EBA's draft version of its new guidelines on loan origination, monitoring and internal governance during the summer 2019.

Evolution of NPL transactions in CESEE

- Since H2 2015, NPL transactions in the CESEE region amounted to €12.9 Bn. Please refer to section 4 for more details.
- In 2018, total loan sales amounted to €3.1 Bn, compared to €2.6 Bn in 2017. The annual increase of 22% demonstrates the continued strength of investors demand in the region despite a lower supply from the peak of 2016 / early 2017.
- In H2 2018, 13 out of 17 CESEE countries¹⁰ recorded a total of €0.7 Bn of transactions, which demonstrates a similar trend as in the previous year, where H2 2017 has been less active than H1 with transactions.¹¹
- There is some indication of the continued trend with at least €1.3 Bn transactions confirmed in H1 2019.

¹⁰ Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Estonia, Latvia, Lithuania, North Macedonia, Poland, Romania, Serbia and Slovenia.

¹¹ Caveat for transactions H2 2018: Due to source availability for public transactions the sourcing methodology has changed for that period, which may result in not all transactions being represented. The transaction figure for H2 2018 is therefore indicative only.



2. NPL EVOLUTION IN CESEE

Steady improvements in NPL volumes with some disparities

- NPL volumes have recorded a significant decrease¹² of 12.9% (or €5.6 Bn) in the region in the 12 months leading up to September 2018.
- The reduction in NPL volumes across the region is largely attributed to the improvements in the following economies (ordered by absolute value decreases): Romania (€1.2 Bn reduction; -25.7% yoy); Bulgaria (€1.0 Bn, -21.7% yoy); Serbia (€0.9 Bn; -43.4% yoy); Croatia (€0.9 Bn; -19.6% yoy); Hungary (€0.8 Bn, -35.8% yoy); Slovenia (€0.5 Bn, -43.5% yoy); and Czech Republic (€0.5 Bn, -9.0% yoy). In addition, reductions above the CESEE average (12.9% yoy) were also recorded in (ordered by percentage value decreases): North Macedonia (-18.1% yoy); Kosovo (-14.5% yoy); and Latvia (-13.5% yoy).
- Two partner countries of the NPL Initiative – Hungary (-35.8% yoy) and Serbia (-43.4% yoy) – as well as Slovenia (-43.5% yoy) showed the largest improvements in terms of reductions year-on-year.
- Estonia and Poland recorded the most significant increase in NPL volumes (€0.8 Bn increase from €12.2 Bn in the previous period for Poland and €0.1 Bn increase from €0.1 Bn in the previous period for Estonia).
- Compared with the improving trend in the CESEE region (NPL total volume of €37.9 Bn and 16.1% yoy reduction); Cyprus, Greece, and Ukraine still record significantly higher total NPL volumes (€123.5 Bn) although with the growing cross-national divergences in trends.
- The NPL volume in Cyprus and Greece fell by 51.4% and 14.8%, respectively; Ukraine recorded an increase of 6.8% in NPL volume, which reinforced the Ukrainian NPL ratio as the highest in emerging Europe (54.3%), albeit the ratio itself marginally fell.

Reduced dispersion in the national NPL ratios

- As of September 2018, the NPL ratio (as a proportion of NPLs to total gross loans) across the region fell to 4.4%, a reduction by 1.0 pp from 12 months earlier.
- The net NPL ratio (net of provision)¹³ stood at 1.7%, down 0.4 pp for the same period.
- With the exception of Estonia and Latvia (0.6 pp increase to 1.4%; and 0.1 pp increase to 6.0%), all CESEE countries have improved their NPL ratios.
- Serbia, one of five partner countries of the NPL Initiative, has continued to improve the most, with -5.8 pp yoy, followed by Bulgaria (-3.1 pp yoy), Romania (-2.4 pp yoy) and Croatia (-2.2 pp yoy).
- There is still significant – albeit decreasing – dispersion in the national NPL ratios, ranging from the lowest: 1.4% in Estonia (+0.6 pp yoy) to the highest: 12.9% in Albania (-1.9 pp yoy).

¹² Any variations between volumes are calculated as $((\text{value period 1}/\text{value period 0}) - 1)$ and between ratios as $(\% \text{ period 1} - \% \text{ period 0})$. See Appendix for all definitions.

¹³ Net NPL ratio net of provision (%) is calculated by taking the value of total NPLs net of provisions as the numerator, and the value of total gross loans as the denominator. See Appendix for all definitions.

NPL coverage ratios improving despite seven CESEE countries with deteriorating metrics

- On a region-wide basis, the NPL coverage ratio (measured as the proportion of loan-loss provisions to NPLs) has remained overall stable over the period, with a marginal decrease of 0.2 pp yoy to 62.0% as of September 2018.
- Deteriorating coverage ratios have been observed in seven CESEE countries (ordered by relative value decreases: Albania -7.8 pp, Lithuania -6.4 pp, Latvia -5.0 pp, Poland -3.7 pp, Romania -1.8 pp, Serbia -0.9 pp and Kosovo -0.2 pp), while all other CESEE countries have seen their coverage ratio increasing over the period.
- On a country-by-country basis, Kosovo still has the highest coverage ratio at 90.0% despite a marginal reduction of 0.2 pp yoy, followed by North Macedonia (at 79.2% with the decrease of 0.9 pp yoy) and Slovenia (at 79.1% with the increase of 4.0 pp yoy).
- The countries with the lowest NPL coverage ratios are Latvia and Lithuania, which witnessed further deterioration in the last 12 months (39.1% with a 5.0 pp yoy decrease for Latvia; and 34.6% with a 6.4 pp yoy decrease for Lithuania). However, both countries have considerably reduced their NPL volumes (Latvia reducing 13.5% yoy and Lithuania 6.3% yoy) and maintained relatively low NPL ratios (Latvia at 6.0% and Lithuania at 2.6%), which reduces risks associated with the lower coverage ratios.
- The largest relative improvement in an NPL coverage ratio was achieved by Estonia, recording 72.1% (+50.3 pp yoy)¹⁴, combined with an 87.2% increase in its total NPL volume (i.e. by €0.3 Bn).
- Despite having its NPL ratio above the CESEE average (6.7% versus 4.4%), Montenegro, a partner country of the NPL Initiative, has made the second largest relative improvement by increasing its coverage ratio by 14.8 pp yoy to 74.3%.

¹⁴ Estonian coverage ratio scores are highly sensitive to different definitions of the NPL net of provisions (and advances) adopted by the IMF and EBA. Thus, the EBA recorded the coverage ratio of 23.8% in September 2017 and 26.0% in September 2018.

Figure 1a - NPL ratio, coverage ratio and volume (% , € Bn, Q3 2018)

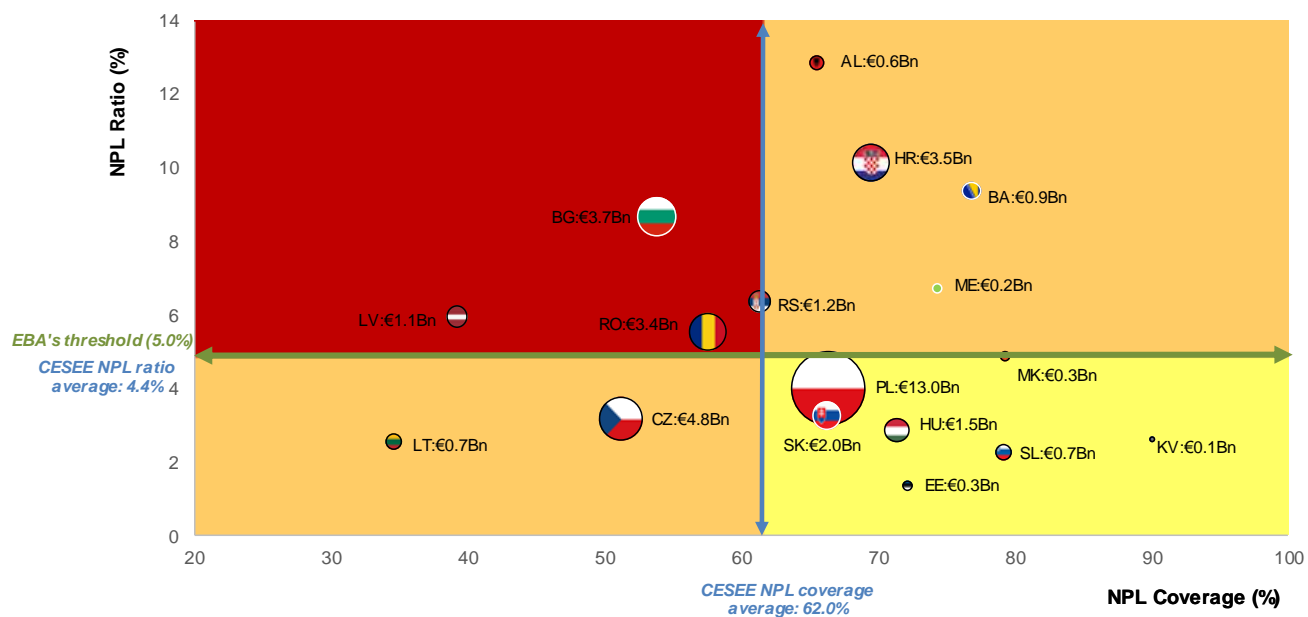


Figure 1b - NPL ratio and % NPL coverage ratio as per colour-quadrants in Figure 1a (% , Q3 2018)

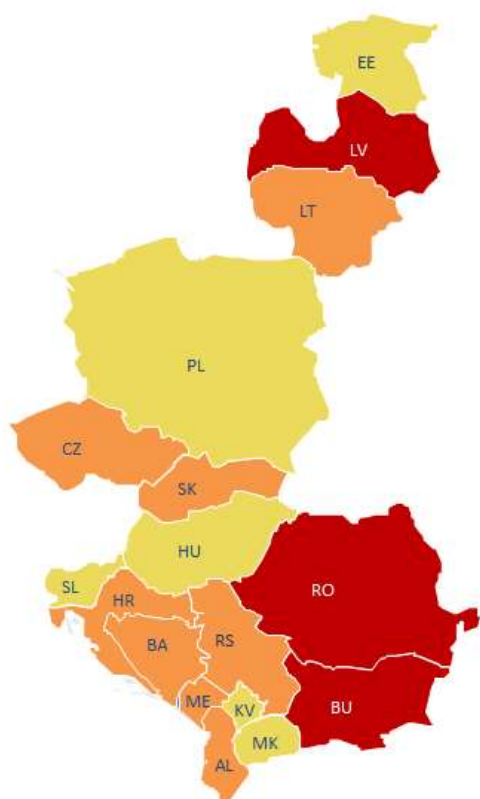


Figure 1c - Net NPL ratio (% , Q3 2018)

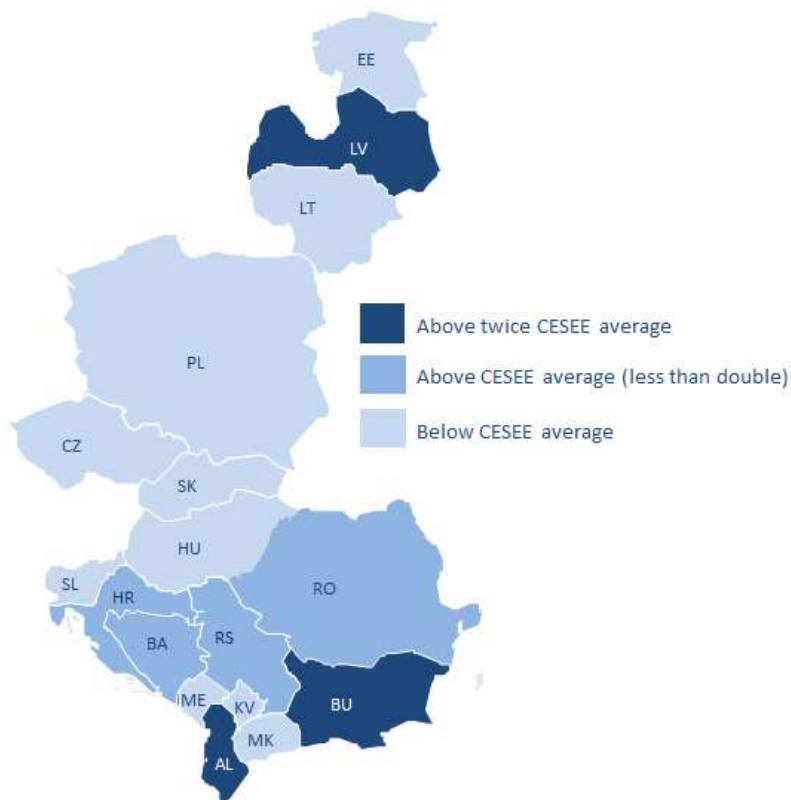


Table 1 - Overview of the NPL profile in CESEE, 30 Sep 2017 to 30 Sep 2018^{15, 16, 17, 18}

Note: Please refer to footnotes 2-4 and the Appendix for definitions and discussion about comparability.

| | NPL volume (€ bn) | | | NPL ratio (%) | | NPL coverage ratio | | | Net NPL ratio (%) | | Net NPL / Capital (%) | | NPL to GDP (%) | | | | | |
|---------------------------|-------------------|--------------|--------|---------------|-------|--------------------|--------|-------|-------------------|--------|-----------------------|-------|----------------|-------|--------|------|---|--------|
| Country | Sep-18 | Variation(%) | | Sep-18 | Δ(pp) | | Sep-18 | Δ(pp) | | Sep-18 | Δ(pp) | | Sep-18 | Δ(pp) | | | | |
| Albania (AL) | 0.6 | ▼ | (11.3) | 12.9 | ▼ | (1.9) | 65.5 | ▼ | (7.8) | 4.5 | ▲ | 0.5 | 17.5 | ▲ | 0.7 | 4.9 | ▼ | (0.9) |
| Bosnia & Herzegovina (BA) | 0.9 | ▼ | (6.8) | 9.4 | ▼ | (1.4) | 76.8 | ▲ | 1.0 | 2.2 | ▼ | (0.4) | 13.5 | ▼ | (2.4) | 5.7 | ▼ | (0.9) |
| Bulgaria (BG) | 3.7 | ▼ | (21.7) | 8.7 | ▼ | (3.1) | 53.8 | ▲ | 2.0 | 4.0 | ▼ | (1.6) | 28.9 | ▼ | (10.0) | 7.2 | ▼ | (3.3) |
| Croatia (HR) | 3.5 | ▼ | (19.6) | 10.2 | ▼ | (2.2) | 69.4 | ▲ | 0.6 | 3.1 | ▼ | (0.7) | 13.3 | ▼ | (4.2) | 7.1 | ▼ | (2.4) |
| Czech Republic (CZ) | 4.8 | ▼ | (9.0) | 3.2 | ▼ | (0.6) | 51.1 | ▲ | 2.9 | 1.6 | ▼ | (0.4) | 12.3 | ▼ | (2.8) | 2.4 | ▼ | (0.5) |
| Estonia (EE) | 0.3 | ▲ | 87.2 | 1.4 | ▲ | 0.6 | 72.1 | ▲ | 50.3 | 0.4 | ▼ | (0.2) | 2.4 | ▼ | (1.3) | 1.1 | ▲ | 0.4 |
| Hungary (HU) | 1.5 | ▼ | (35.8) | 2.9 | ▼ | (1.9) | 71.3 | ▲ | 2.7 | 0.8 | ▼ | (0.7) | 3.6 | ▼ | (3.3) | 1.3 | ▼ | (0.8) |
| Kosovo (KV) | 0.1 | ▼ | (14.5) | 2.6 | ▼ | (1.0) | 90.0 | ▼ | (0.2) | 0.3 | ▼ | (0.1) | 1.5 | ▼ | (0.4) | 1.2 | ▼ | (0.3) |
| Latvia (LV) | 1.1 | ▼ | (13.5) | 6.0 | ▲ | 0.1 | 39.1 | ▼ | (5.0) | 3.6 | ▲ | 0.3 | 24.2 | ▲ | 1.5 | 4.2 | ▼ | (1.1) |
| Lithuania (LT) | 0.7 | ▼ | (6.3) | 2.6 | ▼ | (0.6) | 34.6 | ▼ | (6.4) | 1.7 | ▼ | (0.2) | 19.0 | ▲ | 0.4 | 1.6 | ▼ | (0.2) |
| Montenegro (ME) | 0.2 | ▲ | 0.4 | 6.7 | ▼ | (0.7) | 74.3 | ▲ | 14.8 | 1.7 | ▼ | (1.3) | 9.9 | ▼ | (5.5) | 4.7 | ▼ | (0.6) |
| North Macedonia (MK) | 0.3 | ▼ | (18.1) | 4.9 | ▼ | (1.5) | 79.2 | ▲ | 0.9 | 1.0 | ▼ | (0.4) | 5.5 | ▼ | (2.1) | 2.5 | ▼ | (0.7) |
| Poland (PL) | 13.0 | ▲ | 6.5 | 4.0 | ▼ | (0.1) | 66.3 | ▼ | (3.7) | 1.4 | ▲ | 0.1 | 9.8 | ▲ | 0.7 | 2.8 | ▼ | (0.0) |
| Romania (RO) | 3.4 | ▼ | (25.7) | 5.6 | ▼ | (2.4) | 57.5 | ▼ | (1.8) | 2.4 | ▼ | (0.9) | 14.1 | ▼ | (7.0) | 1.9 | ▼ | (1.0) |
| Serbia (RS) | 1.2 | ▼ | (43.4) | 6.4 | ▼ | (5.8) | 61.3 | ▼ | (0.9) | 2.5 | ▼ | (2.1) | 8.0 | ▼ | (6.3) | 3.0 | ▼ | (3.1) |
| Slovakia (SK) | 2.0 | ▼ | (10.8) | 3.3 | ▼ | (0.7) | 66.2 | ▲ | 4.9 | 1.1 | ▼ | (0.5) | 8.0 | ▼ | (2.7) | 2.3 | ▼ | (0.4) |
| Slovenia (SL) | 0.7 | ▼ | (43.5) | 2.3 | ▼ | (2.1) | 79.1 | ▲ | 4.0 | 0.5 | ▼ | (0.6) | 3.5 | ▼ | (4.2) | 1.6 | ▼ | (1.5) |
| CESEE | 37.9 | ▼ | (12.9) | 4.4 | ▼ | (1.0) | 62.0 | ▼ | (0.2) | 1.7 | ▼ | (0.4) | 11.0 | ▼ | (2.5) | 2.8 | ▼ | (0.7) |
| Cyprus (CY) | 10.3 | ▼ | (51.4) | 21.1 | ▼ | (12.1) | 49.0 | ▲ | 3.3 | 10.8 | ▼ | (7.3) | 110.4 | ▼ | (80.2) | 52.5 | ▼ | (66.4) |
| Greece (GR) | 93.0 | ▼ | (14.8) | 44.1 | ▼ | (3.1) | 50.4 | ▲ | 1.3 | 21.9 | ▼ | (2.2) | 161.4 | ▼ | (13.6) | 51.6 | ▼ | (10.6) |
| Ukraine (UK) | 20.1 | ▲ | 6.8 | 54.3 | ▼ | (2.1) | 86.6 | ▲ | 9.8 | 7.3 | ▼ | (5.8) | 65.5 | ▼ | (16.8) | 22.2 | ▼ | (3.6) |
| Other | 123.5 | ▼ | (17.2) | 41.6 | ▼ | (3.8) | 56.2 | ▲ | 4.1 | 18.2 | ▼ | (3.5) | 144.4 | ▼ | (21.4) | 42.5 | ▼ | (13.5) |
| Total Countries | 161.4 | ▼ | (16.3) | 13.9 | ▼ | (3.0) | 57.6 | ▲ | 3.2 | 5.9 | ▼ | (1.8) | 40.7 | ▼ | (12.6) | 9.7 | ▼ | (2.9) |

¹⁵ Variation (%) is calculated as ((value period 1/value period 0) -1), with September 2018 as period 1 and September 2017 as period 0 (where available).

¹⁶ Δ (pp) is the variation, expressed in percentage points, between 2 periods. It is calculated as (% period 1 - % period 0).

¹⁷ As per footnotes 2, 5, and 13; the latest available data are for September 2018.

¹⁸ NPL to GDP (%) is calculated from annual GDP values for 2017 and 2018, respectively (rather than quarterly data), which is in line with the IMF World Economic Outlook reporting.



3. PROGRESS WITH REFORMS¹⁹

Lessons from the European Union (EU): from firefighting to the embedding of NPL management practices

- **Embedding NPL management practices into business-as-usual (BAU).** As mentioned in the previous *NPL Monitor* (H2 2018), the European Banking Authority (EBA) published guidelines on non-performing and forborne exposures that come into effect in June 2019. These guidelines apply to all financial institutions in Europe and are very similar in content to the ECB Guidance to Banks on NPL management issued in March 2017 (to which only the Significant Institution under SSM supervision are subject). Both the ECB and the EBA are now expecting banks to start having fully integrated and embedded NPL management practices within the broader banks' BAU governance, operations and systems. NPL stocks should now be under control (for most EU banks) and EU regulators want to ensure that banks are ready to tackle any new flows of NPLs to avoid repeating NPL stock accumulation issues of the recent past.
- **Ensuring robust credit underwriting practices for preventing new NPL flows.** The focus on NPL flow rather than stock is in line with the EBA and ECB credit risk priorities for 2019. This is also reflected in new initiatives to ensure adequate and robust credit underwriting practices within EU banks. In other words, to ensure that banks' loan origination and risk management practices are strong enough to withstand risks and prevent (to the extent possible) new flows of NPLs. For example:
 - **ECB credit underwriting templates.** One of the ECB's priorities for 2019 is ensuring the quality of banks' underwriting criteria but it has insufficient data to undertake the relevant analysis. As a result, in May 2019 the ECB asked the banks it supervises to supply it with information on credit underwritings by 1 July 2019. The resulting data will be used to assess the quality of the banks' lending practices and standards to identify potential trends and risks originating from credit underwriting.
 - **EBA guidelines on loan origination, monitoring and internal governance.** The EBA is expected to publish the draft version of its new guidelines for consultation during the summer 2019. These guidelines will define the expectations for all supervised financial institutions in Europe with regards to credit underwriting and all surrounding practices. Once the final guidelines are in effect (date not yet announced), the National Competent Authorities (NCAs) in EU countries will be expected to begin rolling out the principles of the guidelines (on a proportional level) to the banks they supervise. Banks will therefore be expected to ensure they fully comply with these best practices or explain where their practices might divert.
 - **Supervisory and prudential provisioning expectations.** Inadequate provisioning of NPLs in the European banking system has been a source of risk for banks and a limiting factor to the divestment of NPL portfolios. To enhance banks' resilience to NPL risks and limit accumulation of under-portioned NPL stocks, numerous measures have been implemented in the last 15 months.

¹⁹ Source when not specified: EBRD.

- The ECB Guidance published in March 2018 on supervisory provisioning expectations (a provisioning calendar as a pillar 2 measure) for all exposures newly classified as non-performing from 1 April 2018 onwards. The ECB requires (in a blended approach) for the unsecured part of exposures to be provisioned at 100 per cent after two years and for the secured part after seven years, starting at year 3 and increasing gradually.
- The ECB also sent to selected banks it supervises, as part of the Supervisory Review and Evaluation (SREP) 2018, further supervisory expectations for the minimum provisioning of NPL stocks (that is, those classified as NPLs prior to April 2018). While this provisioning requirement is bank-specific, it follows a similar blended approach. This is also a pillar 2 measure (together with the previous provisioning calendar).
- The European Parliament also adopted in April 2019 a text amending the CRR, which introduced minimum provisioning levels for newly originated loans that become non-performing. This measure is applicable to all EU credit institutions and investment firms and covers institutions active in the secondary market. Unsecured exposures are expected to be provisioned at 100 per cent from the first day of year 4 following NPL classification. The provisioning of secured exposures starts from year 4 with full coverage after 8 to 10 years. This “backstop” consists in the reduction from CET1 capital to account for insufficient provisioning of individual NPLs (thus a pillar 1 measure).

Highlights of reforms and measures implemented in the last six months or under way for the five “partner countries” under the Vienna Initiative 2.0.



- **Bankruptcy law framework:**²⁰ The government, in partnership with the IFC/World Bank, is drafting three new sets of regulations: (1) Regulation of the Registry of Information Concerning Insolvency Decision; (2) Regulation on the Presentation of Accounts and Final Discharge of the Insolvency Representative; and (3) Regulation on Out of Court Restructuring Agreements for Financially Distressed Debtors. The regulatory proposals are currently in the process of consultation with stakeholders, while the final approval is expected before the year-end 2019.
- **Upgrade of Credit Register and establishment of a credit bureau.** In October 2018 the EBRD engaged an international expert and local legal firm to prepare a roadmap on the legal and operational framework necessary to set up a new comprehensive Credit Bureau. The advisory report was submitted to the Albanian Association of Banks (AAB) and Bank of Albania (BoA) in April 2019. In addition to providing the roadmap to establishing a standalone Private Credit Bureau, the report contains legal and technical analysis of two other options: (1) the expansion of the existing Credit Registry database to add data from entities not licensed by the BoA; and (2) the outsourcing of Credit Bureau services to an international credit bureau (Hub & Spoke). The AAB will decide on the best option after further discussions with commercial banks and the BoA, although there is no official timescale.
- **Out-of-Court debt Restructuring (OOCR):** The BoA is currently analysing submissions to the second consultation procedure on the latest draft of a new framework for OOCR, drafted with the assistance from the World Bank. The framework is expected to be approved by the Supervisory Council of BoA in June 2019.
- **Instruction to amend private bailiffs’ tariffs:** In August 2018 the government approved a new instruction to improve bailiff fees, although it was subsequently challenged²¹ and suspended until a final decision is reached. Due to the ongoing Justice Reform, not all members of the High Court have been appointed. Therefore, no decision has been taken on the instruction. Thus, the Private Bailiff’s Chamber has issued a directive for all bailiffs to follow the previous instruction (with high fees and tariffs).
- **Amendments to the Regulation “On credit risk management”.** The BoA is considering reducing the time for the obligatory write-off of the lost loans from three years to two years after they have been in the “lost” category.

²⁰ IMF, Staff Concluding Statement of the 2017 Article IV Mission in Albania, October 2017 ([link](#))

²¹ By the Chamber of Private Bailiffs at the Administrative court



Croatia

- **Framework for insolvency and restructuring practitioners.** The EBRD is assisting the Ministry of Justice (MoJ) in strengthening the framework for insolvency practitioners (IPs) and establishing a sustainable training framework for the future. Support includes delivering training for IPs and trainers in May and June 2019. The aim is to encourage outside investment, improve the prospects for recovery of viable yet struggling businesses and their employees, as well as to secure the long-term health of the banking and financial sector. An analysis of the existing regulatory framework for IPs was completed in October 2018, while the consultants have also updated the MoJ's actual training methodology, which has yet to be officially adopted by the authorities. The project is funded by the European Commission via the Structural Reform Support Service.



Hungary

- **New Bankruptcy Law.** In May 2019 the Ministry of Justice (MoJ), European Commission, EBRD and its experts met to launch a project to support the MoJ with the reform of Hungary's 1991 Bankruptcy Law. The objectives of the new legislation include better opportunities for reorganisation in insolvency, greater protection of creditors' interests and improving the efficiency of court-led insolvency processes. The MoJ plans to submit the primary legislation for adoption by parliament in Q4 2019.



Montenegro

- **Alignment with EU Regulation.** The Bank Recovery and Resolution Directive (BRRD) is being transposed into two new laws: (1) Credit Institutions; and (2) Credit Institutions Resolution (both to be adopted by the end of 2019), and the modification of the Law on Bank Bankruptcy and Liquidation. The new Law on Credit Institutions will be prepared within the framework of the Twinning project (with the central banks of Germany, the Netherlands and Croatia as twinning partners and financed by the EU) and envisages the transposition of the EU's CRD IV package comprising Directive 2013/36/EU and Regulation (EU) 575/2013. The Law on Bank Bankruptcy and Liquidation is being aligned with the BRRD. The package of all three draft laws was adopted by the Council of the Central Bank of Montenegro (CBCG) at the end of 2018 and submitted to the Ministry of Finance for further action. Public debate was concluded in March 2019. The laws are expected to be adopted by the end of 2019. In addition, the CBCG prepared the decision on the minimum standards for management of credit risk in line with the EBA guidelines (to be applied as of 1 July 2019) and is currently working on decisions on capital adequacy, liquidity, large exposures, LCR indicator, remuneration, conditions for acquiring qualified participation, and conditions to be met by the members of managing bodies.

- **Upgrade of the Credit Registry:** In December 2018 the Council of the CBCG increased reporting obligations for banks in either liquidation or bankruptcy procedures by requiring them to report to the CBCG for the needs of the Credit Registry. The update of the Credit Registry aims to enhance individual and aggregated-level data. In accordance with the new non-banking FI legislation, data from leasing, factoring, receivable repurchase companies and from banks in bankruptcy are now included in the Credit Registry (since January 2019).



- **NPL Resolution Programme 2018-20:** In December 2018 the Serbian government adopted the new NPL Resolution Programme for the period 2018-20, together with the accompanying action plan.²² The Programme is a successor to the NPL strategy adopted in 2015. In accordance with the law, a new working group was also established. The first inaugural session of the new working group was held in May 2019. The Programme focuses on three key areas: (i) resolution of NPLs of banks in bankruptcy as well as claims in the name and for the account of the state; (ii) improvement of the bankruptcy framework; and (iii) activities aimed at preventing new NPL accumulation.
- **Resolution of the Deposit Insurance Agency (DIA) NPL portfolio.** In October 2018 the DIA announced its first auction for the sale of the NPL portfolio of €242 million. The auction was successfully completed in February 2019, and the DIA is finalising the SPA with the top bidder, with transaction signing and closing targeted for Q2 2019. This is the first auction in the resolution of the DIA NPL portfolio, with the second public tender announcement date targeted for Q3 2019.
- **Other NPL-related regulatory updates.** A procedure on the national standards in the Bankruptcy Law for realisation and distribution of all applicable assets in bankruptcy was published in August 2018. In addition, the Judicial Academy conducted training in 2018 for all commercial court judges; the training covered the application of the Bankruptcy Law. The Judicial Academy will continue with the training under the new NPL Programme.

²² <http://www.mfin.gov.rs/pages/article.php?id=10762>



4. EVOLUTION OF NPL TRANSACTIONS IN CESEE²³

NPL sales Due to source availability, the sourcing methodology for NPL transaction has changed in H2 2018. As a result, not all transactions for H2 2018 might be represented below and the transaction figure for H2 2018 is therefore indicative only. All transactions reported in the Monitor were corroborated through multiple sources, including central bank reports, EBRD network, KPMG network and public media outlets (S&P Global Market and Debtwire²⁴).

- Since H2 2015, NPL transactions in the CESEE region amounted to a total €12.9 Bn (face value transactions).
- In 2018, total loan sales amounted to €3.1 Bn, which represents an increase of 22% to 2017 (with €2.6 Bn sales realised). This demonstrates the continued strength of investors demand in the region despite a lower supply from the peak of 2016 / early 2017.
- In H2 2018, 13 out of 17 CESEE countries²⁵ realised NPL transactions for a total of €0.7 Bn of transactions. This demonstrates a similar trend as in the previous year, where H2 2017 was less active than H1.²⁶
- There is some indication of the continued investor interest with at least €1.3 Bn transactions confirmed in H1 2019.
- The CESEE's distressed debt market has mostly consisted of outright sales to non-bank participants. While some bank acquisitions were realised in H2 2018 (i.e. operations and loan portfolio), these are not included in the figures presented here.
- In the context of five partner countries, Albania and Montenegro are yet to develop an NPL market.
- Among the partner countries, Croatia continued to attract considerable investor interest in 2018 and in H1 2019, with a total of €0.5 Bn transactions realised in 2018 and a strong pipeline already in 2019 (primarily attributed to one of the largest Croatian NPL sales; €0.8 Bn sold by Heta Asset Resolution).
- Alongside numerous NPL sales realised in recent years, we observed continued increase of servicing capabilities in the region.
- There are now more than 20 servicers and collection agencies operating in at least one of the CESEE countries, and some have cross-border activities. The expertise also varies across retail, SME, corporate and residential asset classes. However, the extent of capabilities, service offerings and asset classes covered differs between countries, and some servicers only manage their own assets (see Table 3).

²³ Based on publicly available data, last accessed 1 June 2019.

²⁴ <http://www.debtwire.com/pdf/EuropeanNPLFY18!.pdf>

²⁵ Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Estonia, Latvia, Lithuania, North Macedonia, Poland, Romania, Serbia and Slovenia.

²⁶ Caveat for transactions H2 2018: Due to source availability for public transactions the sourcing methodology has changed for that period, which may result in not all transactions being represented. The transaction figure for H2 2018 is therefore indicative only.

Figure 3: Realised NPL portfolio transactions in CESEE based on publicly available data (July 2015 to December 2018)²⁷

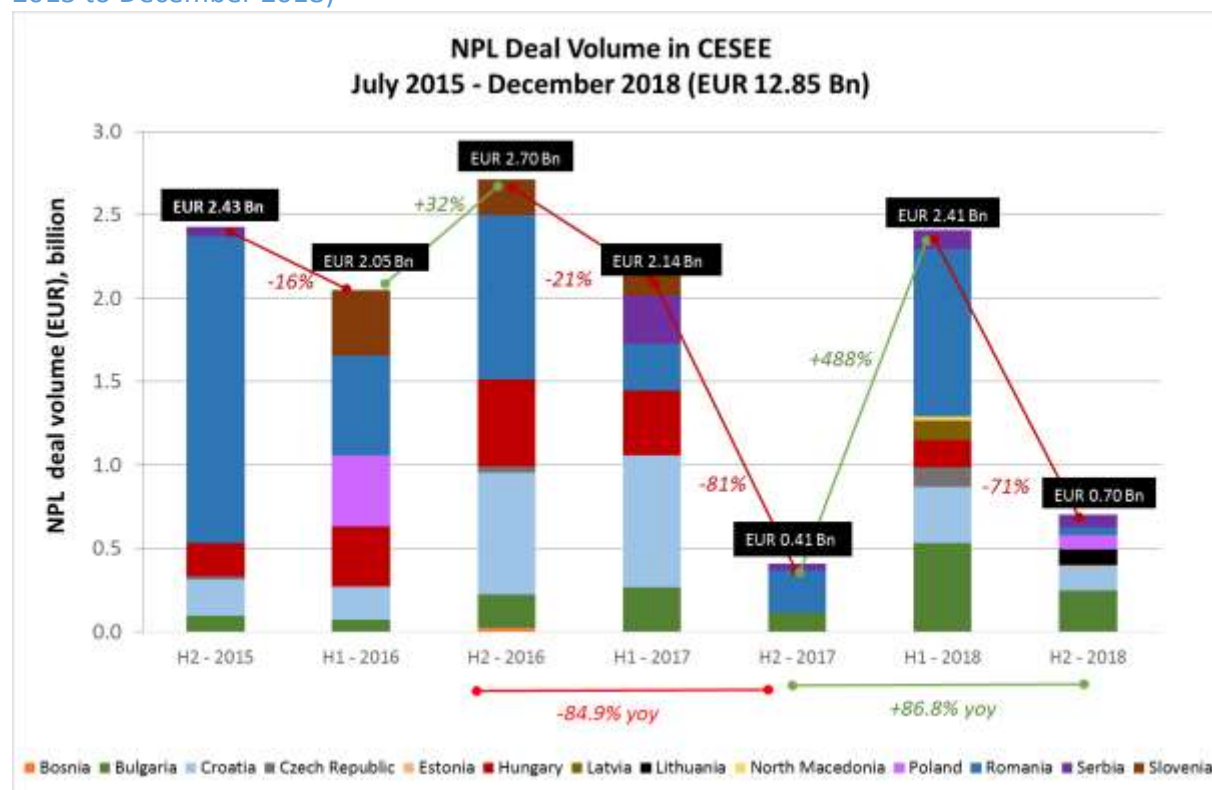


Table 2: Sample of recent (publicly available) NPL transactions in CESEE

| Period | Country | Vendor | Project | Type | Buyer | Face Value (€m) |
|-----------|-----------|-----------------------|-------------|-------------|---|-----------------|
| H1 - 2019 | Croatia | Heta Asset Resolution | Solaris | Consumer | DDM Group and B2Holding | 800 |
| H1 - 2019 | Poland | Get Back | Undisclosed | Consumer | Hoist Finance | 94 |
| H1 - 2019 | Romania | Patria Bank | Undisclosed | Corporate | Kruk Group | 70 |
| H1 - 2019 | Bulgaria | Eurobank Bulgaria | Undisclosed | Corporate | Eos Matrix | 350 |
| H2 - 2018 | Serbia | Undisclosed | Undisclosed | Undisclosed | Undisclosed | 74 |
| H2 - 2018 | Poland | mBank | Undisclosed | Consumer | Undisclosed | 82 |
| H2 - 2018 | Bulgaria | UniCredit | Undisclosed | Consumer | Debt Collection Agency EAD (B2 Holding) | 249 |
| H2 - 2018 | Estonia | Versobank | Undisclosed | Consumer | AS LHV Pank | 12 |
| H2 - 2018 | Lithuania | Investor Group | Undisclosed | Corporate | Uab Easy Debt Service | 95 |
| H2 - 2018 | Croatia | Raiffeisen Bank | Sunset | Other | DDM | 140 |
| H2 - 2018 | Romania | Patria Bank | Undisclosed | Consumer | InvestCapital | 51 |

Sources: Central bank reports, EBRD network, KPMG network and public media outlets (S&P Global Market and Debtwire²⁸)

²⁷ The figures are based on disclosed transactions from public sources. As a result, they may not include all transactions closed in the market and are estimations for indicative purposes only. The sourcing methodology changed for the deals from H2 2018 onwards.

²⁸ <http://www.debtwire.com/pdf/EuropeanNPLFY18!.pdf>

Table 3: List of major NPL servicers in the CESEE region

| Servicer | Type of servicer * | | | | Also Investor? | Asset class | | | | | Country | | | | | | | | | | | | | | | | | Comments | | | | | |
|---------------------------------|--------------------|---------|-----------------|-----------------|----------------|-------------|--------|-----|-----------|----------------|---------|---------|--------|----------|----------------|---------|--------|---------|--------|---------|--------|--------|-----------|-------------|-----------------|--------|---------|----------|----------|----------|---------|---|--|
| | Primary | Special | Recovery Agency | Own assets only | | Yes / No | Retail | SME | Corporate | Residential RE | CRE | Albania | Bosnia | Bulgaria | Czech Republic | Croatia | Cyprus | Estonia | Greece | Hungary | Kosovo | Latvia | Lithuania | Monte negro | North Macedonia | Poland | Romania | Serbia | Slovakia | Slovenia | Ukraine | | |
| APS Holding | ✓ | ✓ | ✓ | | Yes | ✓ | ✓ | ✓ | ✓ | ✓ | | | | ✓ | ✓ | ✓ | | ✓ | ✓ | | | | | ✓ | | ✓ | ✓ | ✓ | ✓ | | | | |
| Altamira | | | | | | | | ✓ | ✓ | ✓ | | | | | | ✓ | | ✓ | | | | | | | | | | | | | | | In 2017 the servicer created a joint venture with Cooperative Central Bank (CCB), in which Altamira holds a 51% stake and which has been operational since 2018. |
| Best S.A | ✓ | | ✓ | | Yes | ✓ | ✓ | ✓ | ✓ | | | | | | | | | | | | | | | | | ✓ | | | | | | | |
| B2 Holding | ✓ | ✓ | ✓ | | Yes | ✓ | ✓ | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ | | | ✓ | | | Present in Poland through Ultimo |
| Castlelake | | | | ✓ | Yes | | ✓ | ✓ | ✓ | ✓ | | | | ✓ | | | | | ✓ | | | | | | | ✓ | ✓ | | | ✓ | | | |
| Cepal | ✓ | ✓ | ✓ | | No | ✓ | ✓ | | | | | | | | | | | ✓ | | | | | | | | | | | | | | | |
| Chartered Debt Management (CDM) | ✓ | ✓ | ✓ | | Yes | ✓ | ✓ | ✓ | | | | | | | | | | | | | | | | | | | ✓ | | | | | | CDM typically partners with international investors in Romania to act as their servicing partner. |
| CreditExpress | | | ✓ | | No | ✓ | | | | | | ✓ | | ✓ | ✓ | | | | ✓ | | | | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |
| Coface | | | ✓ | | No | ✓ | | | | | ✓ | | ✓ | ✓ | ✓ | | | | ✓ | | | | | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | |
| Delfi | | | | | No | | | | | | | | | | | ✓ | | | | | | | | | | | | | | | | | |
| EOS Group | ✓ | ✓ | ✓ | | Yes | ✓ | ✓ | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ | | | ✓ | ✓ | ✓ | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | |
| Eurobank FPS | ✓ | ✓ | ✓ | | Yes | ✓ | ✓ | | | ✓ | | | | | | | | ✓ | | | | | | | | | | | | | | | |
| Hoist Finance | | | | ✓ | Yes | ✓ | ✓ | | | | | | | | | | | ✓ | | | | | | | | ✓ | | | | | | | |
| Intrum | ✓ | ✓ | ✓ | | Yes | ✓ | ✓ | ✓ | ✓ | | | | ✓ | | | | ✓ | ✓ | ✓ | | ✓ | ✓ | | | ✓ | ✓ | | ✓ | | | | | In June 2017, Intrum Justitia officially merged with Lindorff. The new entity is called Intrum. |
| Kredyt Inkaso | ✓ | ✓ | ✓ | ✓ | Yes | ✓ | ✓ | ✓ | ✓ | ✓ | | | ✓ | | ✓ | | | ✓ | | | | | | | | ✓ | ✓ | | | | | | |
| Kruk | ✓ | ✓ | ✓ | | Yes | ✓ | ✓ | ✓ | ✓ | ✓ | | | | ✓ | | | | | | | | | | | | ✓ | ✓ | | ✓ | | | | |
| Lexus EGF | | | ✓ | | No | ✓ | | ✓ | | ✓ | | | | | | | | | | | | | | | | ✓ | | | | | | | |
| Mount Street | ✓ | ✓ | ✓ | | No | | ✓ | ✓ | | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ | | ✓ | ✓ | | | | | | | ✓ | ✓ | | ✓ | ✓ | ✓ | | In January 2017, Mount Street acquired EPA, the management subsidiary of EAA, the German asset management company created in 2009 to manage the assets of the former WestLB AG |
| Pepper | ✓ | ✓ | | | No | | | | | | | | | | | ✓ | | | | | | | | | | | | | | | | | |
| Pillarstone | ✓ | ✓ | ✓ | | Yes | | ✓ | ✓ | | ✓ | | | | | | ✓ | | ✓ | | | | | | | | | | | | | | | |
| PraGroup | | ✓ | ✓ | | Yes | ✓ | ✓ | | | | | | | | | | | | | | | | | | | ✓ | | | | | | | |
| Resolute | | ✓ | ✓ | | No | ✓ | ✓ | ✓ | ✓ | ✓ | | | ✓ | | | ✓ | | ✓ | | | | | | | | | ✓ | | | | | | |
| QQuant Master Servicer | ✓ | ✓ | ✓ | | No | | | | | | | | | | | | | ✓ | | | | | | | | | | | | | | | |
| Tagor Asset Management | | ✓ | ✓ | | Yes | | | ✓ | | ✓ | | | | | | | | | | | | | | | | | ✓ | | | | | | Tagor often bids alongside international investors in Romania to act as their servicing partner. |

Source: KPMG
NPL Servicers

* Primary servicers: monitor and manage loans

* Special servicers: try and restructure the loan and work with debtor in case of default

* Recovery servicers: aim to collect as much as possible in case of default and after all restructuring options have been exhausted

APPENDIX

DEFINITIONS

- **NPL Volume (or Gross NPLs):**
 - NPLs are defined and reported differently across countries as there is no one international standard. For countries reporting financial soundness indicators (FSIs) to the IMF, the FSI Compilation Guide (IMF, 2006) recommends reporting NPLs when: (1) payments of principal and interest are past due by 90 days or more or (2) interest payments equal to 90 days' interest or more have been capitalised, refinanced or rolled over; and (3) includes loans with less than 90 days past due but recognised as non-performing under national supervisory guidance.
 - European national supervisory authorities tend to use the 90 days of payments past-due as a quantitative threshold as well as bankruptcy as objective criteria for reporting NPLs.
 - It is also important to note that in January 2015, the EU adopted harmonised and consistent definitions of both forbearance and non-performing exposures (Regulation (EU) No. 680/2014, which lays down the technical standards submitted by the EBA).
 - While most NPL data in this report are sourced from the IMF FSI, NPL data for Montenegro and Serbia come directly from information made available by their respective central banks (financial stability reports, banking reports, macroeconomic reports or statistical databases). Serbia adopts a definition that is in line with the IMF. Montenegro defines NPLs as loans past due longer than 90 days, without interests, prepayments and accruals.
- **NPL Ratio:** NPL volume divided by the total gross value of the loan portfolio (including gross NPLs (that is, before the deduction of specific loan-loss provisions)).
- **NPL Coverage Ratio:** Total specific loan-loss provisions divided by gross NPLs.
- **Net NPLs:** NPLs minus specific loan-loss provisions.
- **Net NPL Ratio:** Net NPLs divided by the total gross value of the loan portfolio (including gross NPLs (that is, before the deduction of specific loan-loss provisions)).
- **Net NPL/ Capital:** Net NPLs divided by capital. Capital is measured as capital and reserves, and for cross-border consolidated data, total regulatory capital can also be used.
- **Market Share NPLs:** Total country gross NPLs divided by total CESEE gross NPLs.
- **Market Share Loans:** Total country gross loans divided by total CESEE gross loans.

METADATA

To provide a comprehensive view of the underlying data used in this *Monitor*, we summarise below the key indicators used in the analysis, as detailed by central banks when reporting to the IMF (or, as in the case of Albania, Montenegro and Serbia, directly published). While most countries report to the IMF, they do not always report exactly the same data. For example, some countries include loans among deposit-takers in the calculation of the total gross loan portfolio whereas some exclude such loans (increasing the NPL ratio for the latter). Other specificities listed below may also slightly create an upwards or downwards bias in the results presented. However, despite some discrepancies, the definitions and data used in this monitor are overall consistent across countries and can be relied on for comparability purposes.

| | | NPLs | Gross Loans | Provisions (or Net NPLs) | Comments |
|----|----------------------|---|--|---|---|
| 1 | Albania | N/A | N/A | N/A | |
| 2 | Bosnia & Herzegovina | Until fourth quarter of 2010 nonperforming loans were consisted of C (substandard, 90 days) and D category loans. E category loans are part of nonperforming loans beginning from fourth quarter 2011. | | Until fourth quarter of 2009, instead of using nonperforming loans net of provisions for calculation of this FSI used nonperforming assets net of provisions to Tier 1. From the fourth quarter of 2009 for calculation of this FSI used nonperforming loans net of provisions to Tier 1. | |
| 3 | Bulgaria | Until 2014, Non-performing loans are the risk exposures where principal or interest payments have been past-due over 90 days. Since 2015 the definitions and the scope of the NPLs have been in line with the EBA standards. | Until 2014, loans to deposit takers were excluded from the calculations. Since 2015 the definitions and the scope of the NPLs have been in line with the EBA standards. The source of data is the FinRep reporting template F18 row 70 and 250 column 10 which cover all Loans and advances, including to deposit-takers | All deposit takers must assess, classify and provision loans at least on a quarterly basis and submit a regulatory report to Bulgarian National Bank. Compliance is enforced via off-site surveillance and on-site inspections. | |
| 4 | Croatia | Non-performing loans are all gross loans (to all sectors) not classified as performing (90 days overdue basis is used). However, loan can be considered as a Pass even if it is 90 days over due if it is well covered with collateral and if the process of foreclosures have started. | | Provisions refer to Non-performing loans. | |
| 5 | Cyprus | Since December 2014, the EBA Final Implementing Technical Standards on Supervisory reporting on forbearance and non-performing exposures under article 99(4) of Regulation (EU) No. 575/2013 have come into force. Non-performing exposures are those that satisfy either or both of the following criteria: (a) material exposures which are more than 90 days past-due; (b) the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or of the number of days past due. | | | |
| 6 | Czech Republic | Besides the FSI Guide-recommended 90-day rule, the financial condition of the debtor is also used in determining loans as nonperforming loans | Excludes loans to central bank. OFCs data are not included. Credit cooperatives are not included. Banks in receivership and in liquidation are not included. | | |
| 7 | Estonia | Collateral and guarantees are not taken into consideration. Restructured loans are treated as performing loans. | | If there is a problem with a loan granted by bank A and the debtor has also taken a loan from bank B and that loan "works well", creditor B does not need to make any provisions or downgrade the loan. | |
| 8 | Greece | In accordance with EBA ITS on supervisory reporting. In accordance with EBA ITS on supervisory reporting. Non-performing loans will comprise the exposures defined under Commission Regulation (EU) N° 680/2014 of 16 April 2014 laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council. | In accordance with EBA ITS on supervisory reporting. Total gross loans will comprise Non Performing Loans before the deduction of specific loan loss provisions. | In accordance with EBA ITS on supervisory reporting. Only specific loan provisions are deducted from NPLs. | |
| 9 | Hungary | 90-day overdue-loans are classified as nonperforming loans. | Gross loans provided to customers and banks. | Only the specific provisions (impairment) attributed to the NPLs are netted out from NPLs | |
| 10 | Kosovo | N/A | N/A | N/A | |
| 11 | Latvia | Nonperforming loans are considered to be those whose term due for the accrued income payment is overdue for a period of more than 90 days or the payment, provisions are the total amount of provisions (general and specific) for the total loan portfolio of the credit institutions. | According to EBA Guidance note compiling the IMF financial soundness indicators for 'deposit-takers' using the ITS on supervisory reporting (June 2018 edition). | | |
| 12 | Lithuania | NPLs is the sum of impaired loans and advances and non-impaired loans and advances that are past due 60 days or more. Includes interest accrued on some NPLs. Includes some other financial assets besides loans. | Includes interest accrued on some NPLs. Includes deposits and funds held in other banks and credit institutions. Banks in distress and in receivership are not included into the coverage of FSIs. Credit Unions are excluded (very insignificant market share). Subsidiaries in the insurance subsector are included. | | |
| 13 | Montenegro | Includes Cat C, D and E (ie. from 90 days past due onwards). Excludes interests and prepayments and accruals | | Value adjustment of loans and other receivables. | Not reported by FSI. Source: CBCG Annual Report and Macroeconomic Quarterly report |
| 14 | North Macedonia | According to the Decision on credit risk management (currently applicable), as nonperforming is considered individual contract which on any basis (principal, interest, other noninterest income) has not been collected in a period longer than 90 days from the date of maturity (applying certain materiality thresholds) as well as exposures classified in D or E risk categories, meaning: credit exposure to illiquid client; the collection of credit exposure depends on the use of collateral; the client enjoys defined low credit rating; the client has undergone bankruptcy or liquidation proceedings; the client denies the existence of credit exposure; the bank expects to collect only an insignificant portion of credit exposure to the client. This definition of NPLs is valid until 30 June 2019. With the recently adopted Decision on Credit risk management that is entering into force on 1 July 2019, the definition of NPL will be fully in line with ECB and EBA standards on NPLs. | Includes loans to financial and nonfinancial sector. | Provisions include provisions for nonperforming and performing loans as well. | Definitions on Gross loans and Provisions (or Net NPLs) are published based on the IMF FSI compilation guide. The Central Bank also calculate and publish on their web site loans and non-performing loans on non-financial sector only and Net-NPLs netted by loan loss provision against NPLs only. |

| | | NPLs | Gross Loans | Provisions (or Net NPLs) | Comments |
|----|----------|---|---|--|--|
| 15 | Poland | | Excludes repurchase agreement that are not classified as deposits. Includes some other financial assets besides loans: Data represent total receivables, such as originated loans, purchased receivables, and guarantees which are being exercised. Excludes loans to central bank. Deposit takers in distress or in receivership are not included. | Up to 2009Q4 data include nonfinancial corporations, households, and NPISH. From 2010Q1 data on all receivables excluding central bank. Up to 2009Q4 provisions include general provisions, which equal 1.5% of the total claims and granted guarantees, formed by banks that follow Polish Accounting Standards (about 25% of total banking sector assets). Banks that follow Polish Accounting Standards (about 25% of total banking sector assets) decrease the carrying value of all loans except those classified to loss category by proportional share of general provisions as well as by impairment provisions. | |
| 16 | Romania | Since June 2014, NPLs based on reports from all banks, Romanian legal persons for loans that meet the non-performance criteria (i.e. overdue for more than 90 days and/or in which case legal proceedings were initiated). Since December 2015, based on EBA Definition: ratio of the gross carrying amount of non-performing loans and advances to the total gross carrying amount of loans and advances. | Exclude loans among deposit-takers. Deposit takers in distress or receivership are not included. | From June 2014 to December 2015, IFRS impairment losses (provisions) for nonperforming loans determined (based on reports from all banks) were subtracted from nonperforming loans. Since December 2015, NPLs net of provisions have been compiled as gross carrying amount of non-performing loans and advances minus the accumulated impairment of non-performing loans and advances. | |
| 17 | Serbia | NPL means the total outstanding debt under an individual loan (including the amount of arrears): where the debtor is past due (as envisaged by the decision governing the classification of bank balance sheet assets and off-balance sheet items) for over 90 days, with respect to payments of interest or principal; - where at least 90 days of interest payments have been added to the loan balance, capitalised, refinanced or delayed by agreement; - where payments are less than 90 days overdue, but the bank has assessed that the borrower's repayment ability has deteriorated and doubts that the payments will be made in full. | | Specific provisions of NPLs. | Not reported by FSI. Sources: Quarterly Review of Dynamics of Financial Stability; Quarterly banking report statistical annex; Annual Financial Stability Report |
| 18 | Slovakia | Deposit takers use not only quantitative criteria (i.e., 90-days past due criterion) but also own judgment for classifying loans as NPLs. | | Specific provisions that are netted out from NPLs in compiling the series NPLs net of provisions include not only the provision attributed to the NPLs but also the provisions constituted for performing loans. General provisions are not netted out. | |
| 19 | Slovenia | Includes all financial assets at amortized cost (not just loans) and some non-loan assets (tax assets, non-current assets and disposal groups classified as held for sale, etc). | | All financial assets at amortised cost and all risk bearing off-balance sheet items are included. Off-balance sheet items comprise financial guarantees issued, avals, uncovered letters of credit and transactions with similar risk based on which a payment liability could arise for the bank. | |
| 20 | Ukraine | Consistent with the criteria "of 90 days" From the 4th quarter of 2012, NPLs defined as credit transactions attributed to the IV and V quality categories. (Doubtful and Loss (write-off)) Ukraine is not fully compliant with NPL definition established by EBA ITS in 2013: NBU regulation No.351 has definition of non-performing assets equivalent to degaulted loans (it does not include "unlikely to repay" criteria which is broader than defaulted loans). | Since Q1 2017 debts arising from credit transactions that comprise loans to customers, interbank loans and deposits (including the accrued interest), and do not include off-balance sheet liabilities on guarantees and loans given to banks and customers, are used for credit risk assessment. Bank is a legal entity with separate subdivisions on the territory of Ukraine and abroad. | | |

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