EBCI Vienna Initiative

NPL Monitor for the CESEE

2H 2016

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This NPL Monitor will review the latest IMF data on NPLs (as of 31 December 2015) for the in 18 economies of Central, Eastern and South Eastern Europe ("CESEE") countries[2]*, in conjunction with reporting on the recent progress with country reforms by the five "Partner Countries"* [3] *of the Vienna Initiative and on the NPLs transactions realised in the region between 30 June 2015 and 30 June 2016.*

1. NPL EVOLUTION IN THE CESEE

As of December 2015, Non-Performing Loans ("NPLs")[4] amounted to €55.5 Bn which equates to circa 5.1% of GDP or 7.7% of gross loans. A further €129.2 Bn in NPLs were recorded in Cyprus, Greece and Ukraine as at December 2015. NPL volume, NPL ratios and NPL coverage ratios continue to improve across the CESEE region as a whole when compared to levels recorded in December 2014. Despite this improvement, NPL ratios remain persistently high, exceeding 10% in 10 of the 18 CESEE countries. However, because of differences in NPL definitions between countries (even across banks), comparison of NPL ratios are indicative only.[5]

The December 2015 volume of NPLs in the CESEE represents a substantial decrease on prior year levels.

- On a region wide basis, NPL volume decreased[6] by 6.5% (or €3.9 Bn) on December 2014 levels. With the exception of increases for Czech Republic (1.7% year on year, "yoy"[7]), Macedonia[8] (4.7% yoy) and Bulgaria (20% yoy), all CESEE countries[9] recorded a drop in NPL volume yoy.
- The reduction in NPL volume across the region was primarily attributable to decreased NPL stock in Hungary (€2.6 Bn, 33.5% yoy), Slovenia (€0.9 Bn; 22.1% yoy) and Albania (€0.2 Bn; 19.6% yoy).
- The significant year on year reduction in NPL stock in these counties was mostly attributable to sales of NPLs (e.g. Hungary and Slovenia) but also to a combination of other factors such in Albania the introduction of regulation mandating the write-offs of loans of more than 3 years in the lost category.

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[1] All views presented here are the author's views only. For more details, please contact NPL@ebrd.com
[2] We classify the 18 economies, comprising the EBRD country groups of central Europe and the Baltics (CEB), and south-eastern Europe (SEE), collectively as central and south-eastern Europe (CESEE), and wherever appropriate separately list figures for Cyprus, Greece and Ukraine. Please refer to Table 1 for the detailed list of countries.
[3] Albania, Croatia, Hungary, Montenegro, Serbia.
[4] All data are sourced from the IMF Financial Soundness Indicators ("IMF FSI"), unless stated otherwise.
[5] For individual countries definitions and to allow more precise comparisons, it is advised to consult the IMF FSI' metadata and refer to the individual country authorities for further details.
[6] Any variations between volumes are calculated as (("value period 1"/"value period 0") -1) and between ratios as (% period 1 - % period 0).
[7] Any reference to year on year comparison between 31-12-2015 ("period 1") and 31-12-2014 ("period 0") is abbreviated as "yoy".
[8] Note for Macedonia: when considering the regulatory changes from December 2015 (i.e. the amendments of the Credit Risk Management Regulation), the banks were required by the end of June 2016 to write-off the credit exposures which have been fully provisioned longer than 2 years. Even though these exposures are transferred from on-balance to off-balance sheet, the banks should still take actions for recovery/collection of these claims. As a result, as of June 2016, the NPLs volume decreased by 31.7% yoy and the NPL ratio reduced to 7.5%.
[9]This excludes Romania as the IMF data for Romania dated December 2015 were preliminary at the time of the production of the report. Moreover, due to a methodological change in the computation of NPLs as of December 2015, comparison of data for Romania between 2014 and 2015 are not fully representative and for indicative purpose only.

- The secondary NPL market has remain relatively stable for the region, allowing it to absorb a consistent level of NPLs despite impediments to market entry for NPL investors in the legal, tax and regulatory frameworks.

The NPL ratio for the CESEE region has decreased in 2015.

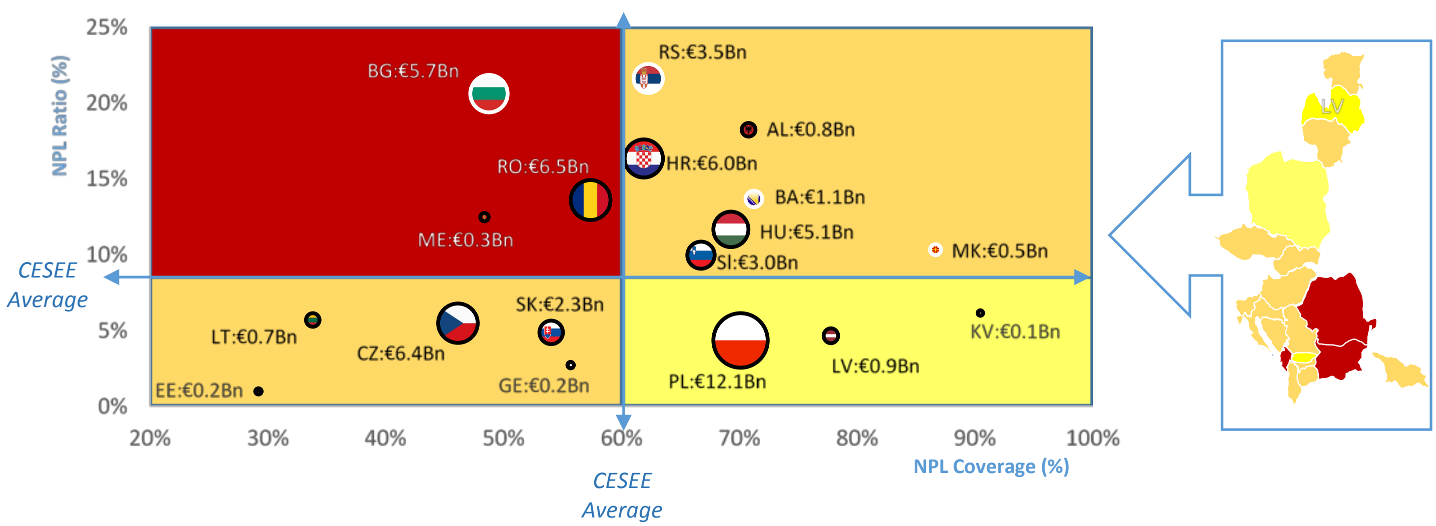
- As at December 2015, the proportion of NPLs to total loans across the CESEE was 7.7%. This figure represents a decrease of 0.7% on the NPL ratio of 8.4% recorded in December 2014.
- Of the 18 countries comprising the CESEE, 15 have seen a decrease in their NPL ratios when compared to the same period in 2014.
- The NPL ratio on a country by country basis continues however to vary greatly, ranging from a low of 1% in Estonia to a high of 21.6% in Serbia.
- In addition to Serbia; Bulgaria, Albania and Croatia have recorded the highest NPL ratios at 20.6%, 18.2% and 16.3% respectively.
- With regard to the 3 countries which saw increases in their NPL ratio; Latvia recorded a marginal increase of 0.04% while Bulgaria and Serbia recorded increases of 3.9% and 0.1% respectively. These three account for 18.2% of all NPLs in the region while accounting for only 8.7% of total gross loans.

NPL coverage ratios also continued to improve for most countries over 2014.

- Across the CESEE the NPL coverage ratio (measured as the proportion of loan loss provisions to NPLs) has increased from 59.4% in December 2014 to 60.9% in December 2015 (an increase of 1.5% yoy).
- On a country by country basis; Kosovo, Macedonia and Latvia have the highest NPL coverage ratio at 90.5%, 86.7% and 77.8% respectively.
- The countries with the lowest NPL coverage ratio as at December 2015 were Lithuania and Estonia at 33.8% and 29.2% respectively. The risk arising from this lower coverage is reduced by both of the countries having relatively low NPL ratios of 5.7% and 1% respectively. This should also be evaluated in conjunction with factors such NPL/capital ratio, where for example Lithuania is relatively high at 21.3%.

The highest vulnerability to NPLs remains concentrated mostly towards the south of the region.[10]

Figure 1. NPL ratio, coverage ratio and volume (%, € Bn, December 2015)[11]



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[10] *See footnote 5 with regards to shortcomings of comparison of NPL rations between countries.*

[11] *Source: IMF Financial Soundness Indicators, Financial stability reports from the central banks of individual countries.*

Table 1. Overview of the NPL profile of the CEE, 31 December 2014 to 31 December 2015[12,13]

Country	NPL volume[14] (€ 'billion')		NPL ratio[15,16] (%)		NPL coverage ratio[17,18] (%)		Net NPL / Capital[19]		Market Share NPLs[20]		Market Share Loans[21]	
	Dec-15	Variation (%)[22]	Dec-15	Δ[23] (%)	Dec-15	Δ (%)	Dec-15	Δ (%)	Dec-15	Δ (%)	Dec-15	Δ (%)
Albania (AL)	0.8	▼ (19.6)	18.2	▼ (4.6)	70.8	▲ 3.7	24.0	▼ (6.8)	1.4	▼ (0.2)	0.6	— 0.0
Bosnia & Herzegovina (BA)	1.1	▼ (0.2)	13.7	▼ (0.5)	71.2	▲ 1.5	26.4	▼ (1.6)	2.1	▲ 0.1	1.2	— 0.0
Bulgaria (BG)	5.7	▲ 20.0	20.6	▲ 3.9	48.8	▼ (0.7)	52.1	▲ 8.6	10.3	▲ 2.3	3.8	▼ (0.2)
Croatia (HR)	6.0	▼ (3.4)	16.3	▼ (0.4)	61.9	▲ 11.0	34.2	▼ (9.3)	10.8	▲ 0.4	5.1	▼ (0.2)
Czech Republic (CZ)	6.4	▲ 1.7	5.5	▼ (0.1)	46.1	▼ (1.6)	22.2	▼ (0.8)	11.6	▼ 0.9	16.2	▲ 0.3
Estonia(EE)	0.2	▼ (23.6)	1.0	▼ (0.4)	29.2	▲ 4.0	5.7	▼ (1.2)	0.3	▼ (0.1)	2.3	▲ 0.1
Georgia (GE)	0.2	▼ (4.5)	2.7	▼ (0.3)	55.7	▼ (1.8)	5.6	▲ 0.8	0.3	— 0.0	0.9	— 0.0
Hungary (HU)	5.1	▼ (33.5)	11.7	▼ (4.0)	69.3	▲ 9.9	19.5	▼ (19.6)	9.2	▼ (3.7)	6.1	▼ (0.9)
Kosovo (KV)	0.1	▼ (20.5)	6.2	▼ (2.2)	90.5	▲ 0.3	3.0	▼ (1.7)	0.2	— 0.0	0.3	— 0.0
Latvia (LV)	0.9	▼ (12.5)	4.6	— 0.0	77.8	▲ 0.6	6.2	▼ (1.7)	1.6	▼ (0.1)	2.6	▼ (0.5)
Lithuania (LT)	0.7	▼ (28.5)	5.7	▼ (2.5)	33.8	▲ 6.5	21.3	▼ (13.2)	1.3	▼ (0.4)	1.8	— 0.0
Macedonia (MK)	0.5	▲ 4.7	10.3	▼ (0.5)	86.7	▲ 4.8	8.4	▼ (3.1)	0.9	▲ 0.1	0.7	— 0.0
Montenegro (ME)	0.3	▼ (25.1)	12.5	▼ (4.3)	48.4	▲ 2.8	33.2	▼ (15.5)	0.5	▼ (0.1)	0.3	— 0.0
Poland (PL)	12.1	▼ (4.3)	4.3	▼ (0.5)	70.1	▲ 0.8	10.2	▼ (1.9)	21.8	▲ 0.5	38.6	▲ 1.4
Romania (RO) [24]	6.5	▲ 1.4	13.5	▼ (0.3)	57.4	▼ (12.5)	26.2[25]	— 0.0	11.8	▲ 0.9	6.7	▲ 0.1
Serbia (RS)	3.5	▼ (0.2)	21.6	▲ 0.1	62.3	▲ 7.4	25.9	▼ (5.1)	6.3	▲ 0.4	2.2	▼ (0.1)
Slovakia(SK)	2.3	▼ (1.6)	4.9	▼ (0.5)	54.1	▲ 4.9	13.9	▼ (1.9)	4.1	▲ 0.2	6.4	▲ 0.3
Slovenia (SI)	3.0	▼ (22.1)	10.0	▼ (1.8)	66.8	▲ 3.9	25.0	▼ (11.6)	5.5	▼ (1.1)	4.2	▼ (0.5)
CESEE	**55.5**	**▼ (6.5)**	**7.7**	**▼ (0.7)**	**60.9**	**▲ 1.5**	**12.8**	**▼ (3.4)**	**100.0**	**— 0.0**	**100.0**	**— 0.0**
Cyprus	27.8	▼ (3.3)	47.7	▲ 2.8	37.2	▲ 6.1	263.6	▼ (12.9)	…	…	…	…
Greece	87.2	▼ 12.6	36.6	▲ 2.9	67.8	▲ 12.0	80.8	▼ (39.7)	…	…	…	…
Ukraine	14.2	▼ 8.2	28.0	▲ 9.1	64.6	▲ 0.6	129.0	▲ 68.0	…	…	…	…
Grand Total	**184.7**	**▲ 3.4**	**17.3**	**▲ 0.5**	**60.9**	**▲ 7.3**	**35.9**	**▼ (7.2)**	**…**	**…**	**…**	**…**

[12] *Source: IMF Financial Soundness Indicators, unless stated otherwise.*
[13] *See footnote 5.*
[14] *IMF: 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 is 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 recognized as nonperforming 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 harmonized and consistent definitions of both forbearance and nonperforming exposures (Regulation (EU) No. 680/2014 which lays down the technical standards submitted by the EBA).*
[15] *Defined as NPL volume divided by the total value of the loan portfolio (including NPLs and before the deduction of specific loan loss provisions)".*
[16] *NPL ratio data for Albania, Montenegro and Serbia for December-2015 from the Financial Stability Reports published by the central banks. Montenegro defines NPLs as non-performing loans (loans past due longer than 90 days, without interests, and prepayments and accruals) divided by total loans. Serbia defines NPLs as gross non-performing loans (loans past due longer than 90 days, including interest payments that are past due for 90 days or more, if at least 90 days of interest payment have been capitalized; and loan past due less than 90 days for which the bank has reasons to doubt that payment will be made in full) divided by total gross loans. Albania has same definition as IMF.*
[17] *Source IMF; Calculated as Total specific loan-loss provisions only divided by NPLs.*
[18] *Data for Montenegro and Serbia for December 2015 from the Financial Stability Reports published by the central banks. Both countries define it as specific loan loss provisions / total gross NPLs.*
[19] *Source: IMF; Calculated by taking the value of NPLs less the value of specific loan provisions as the numerator, and capital as the denominator. Capital is measured as capital and reserves, and for cross-border consolidated data, also total regulatory capital.*
[20] *Calculated as total country gross NPL divided by total CESEE gross NPLs.*
[21] *Calculated as total country gross loans divided by total CESEE gross loans.*
[22] *Variation (%) is calculated as (("value period 1"/"value period 0") -1), with December 2015 as "period 1" and December 2014 as "period 0".*
[23] *Δ (%) is the delta in percentage points between 2 periods, calculated as (% period 1 - % period 0).*
[24] *Romania's NPL volume, NPL ratio and NPL coverage ratio for December 2015 are based on preliminary figures utilised by the IMF in their 2016 Article IV consultation. Finalised numbers will be incorporated in the subsequent NPL monitor report. See also footnote 5.*
[25] *Romania's Net NPL / Capital ratio for December 2015 is assumed to be same as December 2014, due to lack of information for the period.*

2. PROGRESS WITH RESOLVING IMPEDIMENTS TO NPLS[26]

Resolving impediments to NPL resolution and transactions has remained at the top of the agenda of international financial institutions (IFIs), regulators, and banks across the region.

- IFIs have continued to work with regulators and the local banking industries to understand the roots of the NPL issues and to contribute in defining and implementing solutions.
- In addition to supporting in-country projects, important research have been undertaken by the IFIs, such as (amongst others):
  - IMF's report[27] analysing the extent of the NPL problem, explaining the impediments and laying out a strategy for a comprehensive NPL resolution.
  - EBA's report[28] analysing the recent dynamics, cross-country dispersion and possible drivers of the non-performing exposures (NPE) in the EU banking sector.
- European regulators have also been very active in finding solutions for Europe's NPL challenge:
  - The ECB has published a guidance[29] on NPLs (under public consultation until 15 November 2016) which will serve as a basic framework for conducting the supervisory evaluation of banks under ECB's remit in this specific area. Banks across the board should expect to align with its core principles but "high NPL banks" (i.e. banks with NPL level considerably higher than EU average) can expect closer scrutiny.
  - The European Commission, in an effort to reduce the discrepancies prevailing between countries, is developing an important instrument on restructuring and pre-insolvency which is expected to be published by the end of October.
- Significant measures have continued to be successfully implemented by countries across the CESEE (see highlights of "Partner Countries" for examples) but this is only the beginning; important challenges remain (i.e. legal, regulatory, tax, structural, etc.) to be tackled in many of the CESEE countries, still preventing banks to resolve their NPLs and/or attract secondary markets investors for them.
- Finally, capacity building and development of local expertise remains a vital need across the region, where significant gaps and inconsistencies remain both within banks' own organisations and in the judicial and insolvency professions.

New NPL Initiative Website

As part of the Vienna Initiative project, the EBRD has launched in September 2016 a new site dedicated to NPLs (http://npl.vienna-initiative.com), as an information sharing hub for the industry. The website features publicly stated national reform commitments, summarises ongoing support by international institutions and provides access to the latest industry publications.

[26] *Source when not specified: EBRD, Central Banks websites and Financial Stability Reports of individual countries, KPMG.*

[27] *A Strategy for Resolving Europe's Problem Loans, IMF, September 2015*

[28] *Dynamics and Drivers of Non-Performing Exposures in the EU Banking Sector, EBA, 22 July 2016*

[29] *https://www.bankingsupervision.europa.eu/press/pr/date/2016/html/sr160912.en.html*

Highlights of reforms and measures implemented in the last 12 months or underway for the five "Partner Countries" under the Vienna Initiative 2.0.

Albania

- **NPL Working Group and action plan:** A comprehensive strategy to address the NPL issues was developed and published in November 2015[30]. It integrates and sequences reforms in the areas of supervision, enforcement, debt restructuring, and insolvency.
- **Regulatory write-off:** A Bank of Albania regulation came into force in early 2015 to mandate the write-offs of loans that have spent more than 3 years in the lost category.[31]
- **Out of Court debt Restructuring (OOCR):** Guidelines on corporate OOCR and OOCR for individuals were issued by the Bank of Albania in 2013 to guide banks with OOCR in view of accelerating the reduction of NPLs
- **Management of large exposures:** [32] A regulation was issued by the Bank of Albania in July 2015 to enhance the responsibility of Board of Directors and set out rules and criteria for calculating, supervising and reporting bank's large exposures to a person/client or group of persons/clients connected between them or with the bank.
- **Bankruptcy law:** A new Bankruptcy law was submitted by the Ministry of Justice to parliament in June 2016 but has still to be adopted. The draft law incorporates the best international practices, simplifies the existing framework, allows for expedited approval of reorganisation plans and protects economic and governance rights of secured and unsecured creditors.[33]
- **Amendment to Private Bailiffs Law:** Amendments were submitted to parliament in June 2016 in order to increase the efficiency of foreclosure procedures and debt collection.[34]
- **Upgrade of Credit Register:** The Albanian Ministry of Finance plans to upgrade the Credit Register by the end of December 2016. [35]
- **Amendment of Civil Procedure Code:** A submission has been made to parliament to amend the Civil Procedure Code in order to increase the efficiency of litigation and foreclosure procedures. This is currently under discussion at committee level.

Croatia

- **New Bankruptcy Law:** Adopted in June 2015, the new Bankruptcy Law aims to shorten the notoriously long bankruptcy procedures and strengthen creditors' control over the process. It speeds up the transition from the pre-bankruptcy procedure to the bankruptcy procedure, which are now both under court supervision.[36]
- **Consumer Bankruptcy Act:** The Act was introduced in January 2016 and represents the legal concept of consumer bankruptcy in the legal system for the first time. It aims to benefit creditors from increased collection of their claims, while consumers can be released from those obligations that

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[30] *International Monetary Fund, Fifth and Sixth Review under the Extended Arrangement and Request for Modification and Waiver of Applicability of Performance Criteria-Press Release, February 2016*

[31] *International Monetary Fund, Staff Report for Albania 2016 Article 1V, June 09, 2016*

[32] *Regulation on the risk management from large exposures of banks, Bank of Albania, February 26, 2014.*

[33] *International Monetary Fund, Staff Report for Albania 2016 Article 1V, June 09, 2016*

[34] *International Monetary Fund, Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding – Albania, May 10, 2016*

[35] *Idem*

[36] *The Pre-Bankruptcy Settlement Act has been repealed.*

remain after their assets have been sold and after the proceeds obtained, subject to protections for the debtor's primary residence.[37]

- **Implementation of 2010 ESA definitions for monetary statistics:** Implemented in January 2015 with a view to reclassify data series back to January 2011, which included gross loan claims of banks. Further, methodology was improved in early 2016 to better take into account write-offs for banks. [38]
- **Pre-Bankruptcy Settlement Procedure (PBSP):** Introduced in 2012 but halted in 2014 after problems arose relating to minority creditor rights. A revised version of the 2012 procedure is under review and should be in effect in 2016.

Hungary

- **New recommendation on out-of-court restructuring:** Expected to be issued by the MNB (Hungarian Central Bank) by December 2016 to all financial institutions under its regulatory regime, the MNB recommendation will set out best practice guidelines on OOCR and consensual settlement of NPLs in the corporate sector. The recommendation is technically non-binding but is expected to have significant power of persuasion and to be an important tool for NPL resolution. The recommendation was first drafted in cooperation between the MNB and the EBRD.
- **Report on "Analysis of International OOCR and Implementation in Hungary"**: Published in Q2 2016 by the EBRD with the assistance of EY, this explains the origin of the MNB recommendation to be issued on OOCR.
- **Report on "Analysis of Corporate Restructuring and Insolvency in Hungary"**: Published in Q1 2015 by the EBRD with the assistance of EY and White & Case, this provides an overview of the key impediments to NPL resolution in the corporate restructuring and insolvency framework. [39]
- **Amendment to the Personal Bankruptcy Act**: The Act, introduced in 2015, simplifies the existing framework and creates an efficient personal bankruptcy system to provide relief to qualifying debtors and at the same time the creditor interests are taken into account.[40] It applies mainly to households whose residence would be subject to enforcement and sale and other over-indebted persons.
- **Electronic Sales System (EÉR):** Launched on 1st January 2015 as an online platform for selling the assets of debtors in liquidation.
- **MARK Zrt sd:** An entity established by the MNB in November 2014 with the purpose of reducing risks inherent in the Hungarian financial system through the cleansing of bank portfolios. Valuation principles were agreed with the European Commission in February 2016. The design of MARK benefitted from IMF technical assistance, and was ruled free of state aid by the EU Commission in February 2016. It is expected to begin purchasing commercial real estate ("CRE") exposure with the aim of reaching a significant drop in corporate NPL and has been given a 10 year horizon.

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[37] *Schönherr, Croatia: Consumer Bankruptcy Act Introduces Consumer Bankruptcy into the Legal System, January 5, 2016*

[38] *International Monetary Fund, Staff Report for Republic of Croatia 2016 Article 1V, June 28, 2016*

[39] *Refer to EBRD - Vienna Initiative website – Link for document (http://vienna-initiative.com/wp-content/uploads/2015/03/Analysis-of-Corporate-Restructuring-and-Insolvency-in-Hungary-Final-Report1.pdf)*

[40] *The Hungarian Personal Bankruptcy Act, published by "Lawyer Issue", accessed on April 25, 2016*

Montenegro

- **Insolvency regime for natural persons:** Introduced in August 2015 but is considered to require amendments.
- **Draft Law on Voluntary Financial Restructuring in line with the "Podgorica Approach":** Prepared by the Central Bank of Montenegro in cooperation with experts from the World Bank and the Ministry of Finance. Adopted and its application commenced on 1 May 2015 with validity period of 2 years, i.e. until 1 May 2017.

Serbia

- **Report on "Analysis of the existing impediments to the sale of NPLs in Serbia":** A study prepared by the EBRD with assistance from KPMG and published for public consultation by the Ministry of Finance in 2H 2016 , highlighted areas for further action in order to support the development of a secondary market for NPLs.[41]
- "**NPL Resolution Strategy" and "Action Plan**": Adopted by the Government in August 2015 is being implemented and monitored by an official Working Group. [42]
- **Amendments to the Mortgage Act:** Adopted in July 2015, with one of the most prominent changes being the possibility of any creditor regardless of the ranking of its claim, to initiate the foreclosure procedure. [43]
- **Amendments to the Banking Act**: [44] Became in effect in 1H 2015 and incorporated numerous changes, such as reflecting some of the provisions of the BRRD[45], including an asset separation tool allowing NBS to transfer the assets, rights or liabilities of a bank under resolution to the Deposit Insurance Agency as the resolution authority ("DIA") or (one or multiple) asset management vehicle(s) ("AMC").[46]
- **Explanation on tax deductibility of distressed debts write-offs:** The government issued official explanation on the tax deductibility of distressed debt write-offs.
- **Supervisory Guidance for Loan Loss Provisioning (LLP):** Setting expectations for LLP under IAS 39 (Implemented in December 2015). Banks are in the process of implementing recommendations for strengthening their internal accounting policies with the objective of addressing all material weaknesses by end of 2016.
- **Law on Consensual Financial Restructuring:** Amendments proposed in October 2015 to the laws on Consensual Financial Restructuring to include individual entrepreneurs.
- **Law on Agency for Bankruptcy Administrators in 2015** established a new bankruptcy agency for private and state cases centralizing all bankruptcy procedures and administration.[47]
- **Amendments to corporate insolvency law:** Amendments are aimed at ensuring: (i) adequate safeguards for the secured creditors' rights; and (ii) better value maximization and more predictable and swift disposal of assets where assets are not strictly necessary for rehabilitation. In progress. Public consultation process for amendments of the corporate insolvency law is expected to be initiated in autumn 2016.[48]

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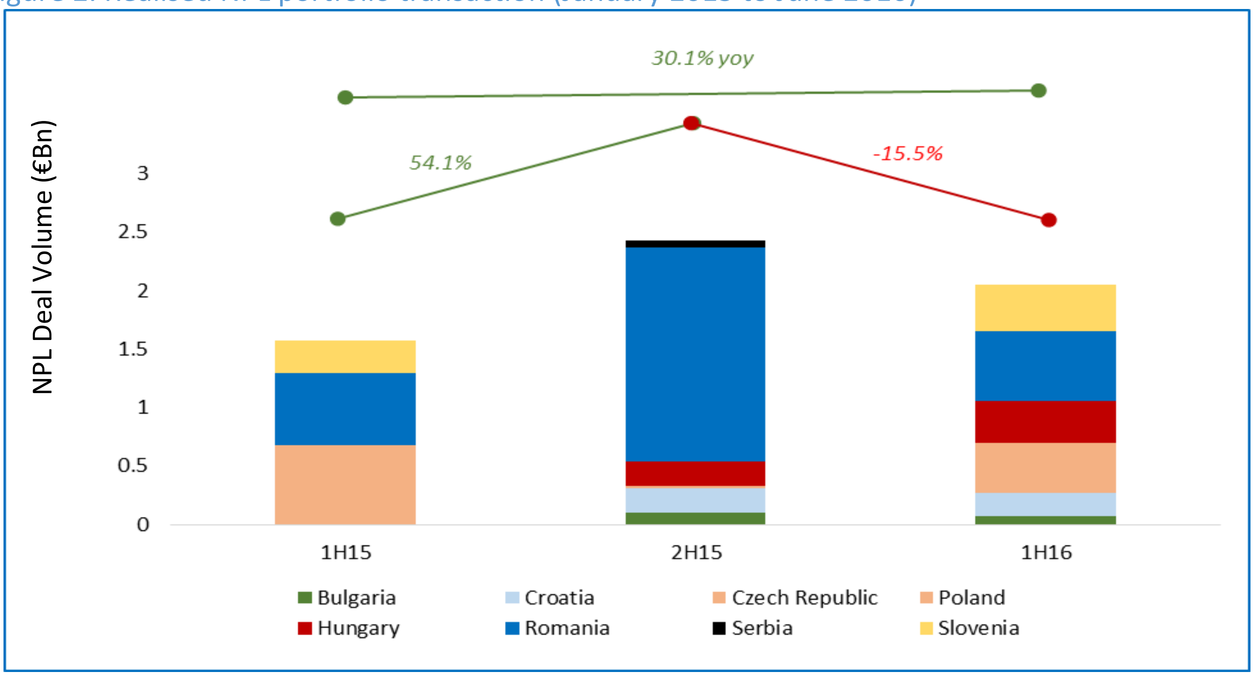
[41] *Refer to EBRD - Vienna Initiative website – http://mfin.gov.rs/UserFiles/File/strategije/NPL_resolution_in_Serbia_DRAFT_FINAL_18APR.pdf*
[42] *Serbian Government, NPL Resolution Strategy, Official Gazette of the Republic of Serbia, Number 72/15, Q2 2015*
[43] *Recent developments in Serbian mortgage law, published on October 2015, article published by Gecic Law*
[44] *Zakon o bankama, "Official Gazette of RoS" Nos. 107/2005, 91/2010 and 14/2015*
[45] *Bank Recovery and Resolution Directive, EU Directive 2014/59/EC*
[46] *Source: BDK Advokati*
[47] *International Comparative Legal Guides, Corporate Recovery & Insolvency 2016 – Serbia, June 24, 2016*
[48] *International Monetary Fund, Fourth and Fifth Reviews under the Stand-by arrangement – Republic of Serbia, August 31, 2016*

3. SNAPSHOT OF NPL TRANSACTIONS IN THE CEE[49]

NPL Sales for the last 18 Months (January 2015 – June 2016)

- Over the last 18 months, approximately €6 Bn in NPL transactions have been realised in the CESEE region.
- Romania, Poland and Slovenia accounted for over 75% of the total sale value in the last 18 months.
- NPL sales realised of €4 Bn in 2015 accounted for 7.2% of NPL stock as at December 2015 (€55.5 Bn).
- After an important surge in transactions realised in the second half of 2015 ("2H 2015"), the first half of 2016 ("1H 2016") saw a small decrease of 15.5% compared to previous period.
- Results in 2H 2015 were however skewed up by the atypically high level of transactions realised in Romania (driven by a recent surge in write-offs), representing 75% of the transactions in this period.[50]
- On a year on year comparison, transaction volumes have been 30.1% greater in 1H 2016 than 1H 2015.
- The distribution of transactions between countries was also more balanced in 1H 2016, with Romania, Poland, Slovenia and Hungary accounting for 29%, 21% and 19% of the total transaction value respectively.
- As per the prior period, the majority of asset classes (such as retail, corporate, CRE backed loans) continue to been exposed to NPL transactions.
- Overall, market absorption for NPLs sales in the CESEE has been relatively constant between periods, with an average of realised transactions around €1.9 Bn[51] per half-year period in the last 24 months.
- H2 2016 is also proving to be dynamic, with already 6 realised transactions announced[52] (see table 2).

Figure 2. Realised NPL portfolio transaction (January 2015 to June 2016)[53,54]



[49] Please also refer to "NPL Resolution: Sale of NPL Portfolios In CEE" for more details on the transactions in 2015.
[50] Transaction for Project Tokyo (€ 1.2 billion of face value) was close in 2H 2015 but signed in 1H 2016. See also footnote 56.
[51] Average transactions for 2H 2014,1H 2015, 2H 2015 and 1H 2016
[52] At the date of publication of the monitor, October 2016.
[53] Source: KPMG European Debt Sales 2016 Dashboard (https://home.kpmg.com/xx/en/home/insights/2016/02/european-debt-sales-2016-dashboard.html), DebtWire, Deloitte
[54] These figures are based on known transactions from both public sources. As a result, they may not include all transactions occurred in the market and are estimations for indicative purpose only.

Table 2. Sample of recent (publicly available) NPL transactions in the CEE [55], [56], [57]

Date	Country	Vendor	Project	Type	Buyer	Buyer Country	Face Value (€m)
2H-16	Bulgaria	Confidential	Bulgarian NPL portfolio	Corporate / Consumer	Undisclosed	N/A	Undisclosed
2H-16	Czech Republic	Confidential	Project Bohemia	Consumer	Confidential	N/A	31
2H-16	Romania	Banca Comerciala Romania (Erste Group)	Project Blue Lake	Residential	EOS Matrix / B2Holding	Croatia / Norway	400
2H-16	Romania	Intesa Sanpaolo	Project Rosemary	CRE / Residential	AnaCap / APS Holding	United Kingdom / Czech Republic	261
2H-16	Romania	Confidential	Romanian NPL portfolio	Corporate / Consumer	Undisclosed	N/A	Undisclosed
2H-16	Slovenia	Nova Ljubljanska Banka (NLB)	Slovenian NPL portfolio	Retail	Undisclosed	N/A	104
1H-16	Bulgaria	Eurobank	Bulgarian NPL portfolio	Consumer	EOS Matrix	Croatia	73
1H-16	Croatia	Privredna Banka Zagreb (Intesa Sanpaolo)	Project Ivica	CRE / Corporate	B2Holding	Norway	200
1H-16	Hungary	Confidential	Hungarian Syndicated loan	CRE	Confidential	N/A	120
1H-16	Hungary	CIB	Project Helena	Corporate / SME	Confidential	N/A	237
1H-16	Poland	Confidential	Project Sunset	Consumer	Confidential	N/A	427
1H-16	Romania	Eurobank	Romanian NPL portfolio	Consumer	Kruk Group / IFC	Poland / Int.	597
1H-16	Slovenia	Nova Ljubljanska Banka (NLB)	Project Pine	Corporate	Undisclosed	N/A	396
2H-15	Bulgaria	TBI Credit	Retail Portfolio	Consumer	APS Holding	Czech Republic	50
2H-15	Bulgaria	BNP Paribas	Retail Portfolio	Consumer	Undisclosed	N/A	46
2H-15	Croatia	Erste & Steiermärkische	Project Janica	CRE / Corporate	B2Holding	Norway	217
2H-15	Czech Republic	Confidential	Syndicated loan – Czech asset	CRE	Confidential	N/A	20
2H-15	Hungary	MKB Bank	Project Danube – Symmetry Arena	CRE	Lone Star	United States	180
2H-15	Hungary	Major Hungarian Bank	Syndicated Loan	CRE	Confidential	N/A	20
2H-15	Romania	Banca Comerciala Romania	Project Tokyo[58]	CRE / Corporate / Retail	Deutsche Bank / IFC / APS Holding	Germany / International Org. / Czech Republic	1200
2H-15	Romania	Piraeus Bank	NPL portfolio	Various	Libra Group	International Conglomerate	300
2H-15	Romania	UniCredit Tiriac Bank	Project Triton	CRE / SME	Kredyt Inkaso	Poland	340
2H-15	Serbia	Banca Intesa	NPL portfolio	SME	Confidential	N/A	35
2H-15	Serbia	Erste Bank Novi Sad	Project Grey	Corporate	APS Holding	Czech Republic	21

[55] *Transactions from both public sources. As a result, this list may not include all transactions which occurred in the market and is for indicative purpose only.*

[56] *Source: KPMG European Debt Sales 2016 Dashboard (https://home.kpmg.com/xx/en/home/insights/2016/02/european-debt-sales-2016-dashboard.html), DebtWire, Deloitte*

[57] *Other transactions have occurred in 1H 2016 (idem sources as 45) but have been excluded from this list, not being NPL portfolio transactions. For example, in Hungary (1) Project Velence, a leasing portfolio (mix performing and NPLs) of ~ FV €300 million, and (2) Axa Bank sale of a the banking operations and loans to OTP Bank for ~ FV €1 billion. In Romania, Project Elizabeth concerned a retail / SME loans portfolio (mix performing and NPLs) of ~ FV €200 million.*

[58] *This transactions has been signed in 2H 2015 but has been closed in 1H 2016. It is kept in 2H 2015 considering that the delay in cliosing was due to administrative requirements and to better represent the high level of investors' demand in 2H 2015 in Romania following the banks' write-offs.*