

# EU banking regulator's template could boost bad-loan sales in emerging Europe EXTRA

17 January 2018 15:30 GMT

By Vanya Damyanova

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The European Banking Authority's standardized data templates for sales of bad loans could help drive such deals in Central and Southeastern Europe, or CESEE, by lifting key barriers for investors and banks alike, said speakers at a forum in Vienna.

The European Banking Authority, or EBA, in December 2017 introduced templates for the screening, due diligence and valuation of nonperforming loans, saying their extended use across the EU should "widen the investor base, lower entry barriers to potential investors, improve data quality and availability, support price discovery and facilitate the development of the NPL secondary market."

The templates are not a regulatory requirement and can be applied voluntarily within EU countries, but Speakers at the Euromoney Central and Eastern Europe Forum agreed, however, that CESEE countries outside the EU should use them as well.

"I think this is particularly helpful," said Noel Edison, director of financial institutions at the [European Bank for Reconstruction and Development \(/web/client?auth=inherit#company/profile?KeyProductLinkType=2&id=4194508\)](#). Excluding Greece, Cyprus and Ukraine, where bad loan balances total some €122 billion, there are half a dozen other CESEE countries where more than 10% of loans are nonperforming, Edison said.

They include EU members Bulgaria and Croatia, along with Serbia, Albania, Montenegro and Bosnia and Herzegovina. In Albania and Serbia, the NPL ratios are 17% and 18%, Edison noted.

The overall balance of nonperforming loans, or NPLs, in CESEE, excluding Greece, Cyprus and Ukraine, amounts to €47 billion, or around 6.2% of gross loans, a far cry from the €290 billion and 16.4% in Italy. But, said Edison, "Even though the absolute amount of NPLs in those countries is relatively small, what we find is that these NPLs represent a significant challenge on the local market."

He added that the data collated by the EBA is of better quality and more comprehensive than what could be achieved if local regulators had to agree on a common format, and he said banks have a cost incentive to use the templates as well. The EBRD's experience has suggested that the wide range of assets that can form part of a sale can serve as a disincentive to buyers and sellers, given the investment of time and money that must be made to understand those assets.

"From the banks' point, actually for regulators to enforce templates would probably be the most efficient way because there will always be issues," said Arturas Feiferas, deputy CEO of Moldova's [Banca Comerciala Victoriabank SA \(/web/client?auth=inherit#company/profile?KeyProductLinkType=2&id=4238429\)](#). Obstacles include high costs, banks' reluctance to disclose "the real situation in the portfolio" and the collation of data for collateral valuation, he said.

"Different countries have different rules for collateral valuation and looking through the portfolio basically without more details you cannot have your own opinion about what is really sold with the NPL," Feiferas said. He noted that most countries pursuing accession to the EU, like Moldova, have followed suit with EU-

wide regulation and imposed similar rules, such as the new IFRS 9 accounting standard, suggesting that they could be willing to do so with NPL transaction templates as well.

From a buyer perspective, the EBA templates are "music to our ears," said Viktor Levkanič, chief investment officer of [APS Holding SE \(/web/client?auth=inherit#company/profile?KeyProductLinkType=2&id=4344861\)](#), a Czech asset manager that has been active in NPL purchases in the Central and Eastern Europe region since 2009. The biggest roadblock that the templates will remove will be the initial pricing of the collateral, Levkanič said, adding that data quality is key to setting an accurate price and smoothing the path to a sale agreement.

The EBA templates, built on existing reporting, provide data on a loan-by-loan basis, including information on counterparties to the loan and the collateral provided. Although the data set is standardized, there is room to accommodate national specifics, according to the EBA.

There were about €6 billion of NPL sales between January 2016 and June 2017, according to data from the Vienna Initiative, a grouping of regulators, European and international institutions and EU-based banks active in emerging Europe. More than 70% of those sales came from Romania, Croatia and Hungary, while sales of €4 billion in the 12 months to June 2017 comprised about 8.6% of the December 2016 NPL stock of €46.5 billion.

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