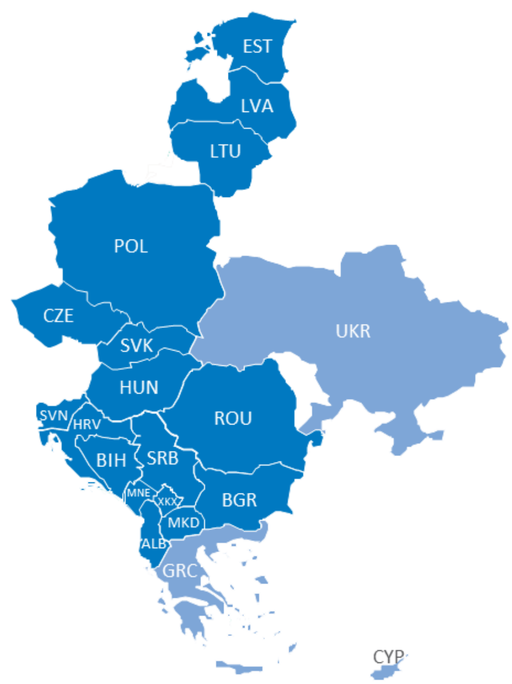
EBCI Vienna Initiative

NPL monitor for the CESEE region[1]

Edition: H2 2021

The NPL monitor is the semi-annual publication of the NPL Initiative, a subset of the Vienna Initiative. The publication reviews the latest non-performing loan (NPL) trends in 17 countries[2] in central, eastern and south-eastern Europe (CESEE). This edition focuses on changes in asset quality as Covid-19 support measures expire.



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[2] 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 by the CESEE NPL data, although the NPL Initiative has started to follow NPL reform more closely in these countries.

Contents

Executive summary

"The full impact of pandemic effects on private sector resilience and the quality of firm balance sheets might yet emerge into full view in the period to come, with direct impact on lending activity and the need for resolute forward-looking action."[3]

Recent NPL trends in the CESEE region suggest that the Covid-19 pandemic has not yet fully materialised into a significant worsening of bank asset quality, as initially feared. Overall, the region's NPL levels have followed the declining trend of the recent past, albeit at a slower pace. This is in large part due to the success of measures implemented to support borrowers, banks and economies, such as payment moratoria and public guarantee schemes.

As of 30 June 2021, the NPL ratio in the CESEE region stood at 3.2 per cent, compared with 2.3 per cent in the European Union (EU)/European Economic Area (EEA). This is well below the 5 per cent threshold the European Banking Authority (EBA) definition of a high NPL ratio. The region's coverage ratio has also remained stable since 2018, at 64.5 per cent as of 30 June 2021.[4]

While the region has proved resilient to the crisis, economies remain fragile and significant disparities in performance are evident from country to country and bank to bank. It is possible that the effects of the crisis on some industry sectors have yet to be felt.

For example, the industries most impacted by the short-term liquidity shocks of the crisis, such as food, accommodation and entertainment, may see issues arising in 2022 as the benefits of support measures begin to wane. These sectors will remain vulnerable to any further shocks caused by the pandemic, which could jeopardise the viability of already weakened businesses.

Regulators are also closely monitoring other sectors, such as commercial real estate and high-street retail, at risk of accelerated structural change due to the pandemic. For now, real-estate collateral is holding firm, with some regions seeing a continued rise in property values. There are, however, fears of value readjustments to come.

[3] Boris Vujčić, Governor of the National Bank of Croatia (HNB), in remarks to the Full Forum meeting of the Vienna Initiative, October 2021.

[4] Data are from the International Monetary Fund's (IMF) Financial Soundness Indicators (FSIs). Missing data are sourced from monetary authorities or, failing that, the most recently available data are used. More information on data and their interpretation is provided throughout this publication.

I. NPL evolution in the CESEE region

Faster decline in NPL volumes over the past 12 months for most CESEE jurisdictions

- At the regional level, NPL volumes fell 7.8 per cent in the 12 months to Q2 2021 (ending 30 June 2021), compared with a decline of 3.9 per cent from Q4 2019 to Q4 2020.
- In relative terms, the decline in NPL stocks was most significant in Hungary, North Macedonia and Estonia, where they fell 28 per cent, 23 per cent and 22 per cent, respectively, during the period.
- The largest contributor to the decline in absolute terms was Poland, where the stock of NPLs declined by almost €2 billion, or 14.6 per cent.
- The decline was more pronounced among the comparator countries (Greece, Cyprus and Ukraine). NPL volumes in Greece almost halved over the period, decreasing by close to €30 billion, supported by new transactions under the Hercules asset protection scheme.

Regional NPL ratio declined 0.4 percentage point in the year to June 2021

- National NPL ratios continued to fall, by and large, through the latter half of 2020 and the first half of 2021, increasing in only 4 of the 20 countries covered.
- Bulgaria saw the largest decline, posting a 1.2 percentage point drop during the period.
- The NPL ratio stagnated in Croatia, increased marginally in Kosovo and the Czech Republic (by 0.1 and 0.2 percentage point, respectively) and saw a larger 0.7 percentage point rise in Montenegro.

Coverage ratios have started to decline, but remain higher than pre-crisis levels

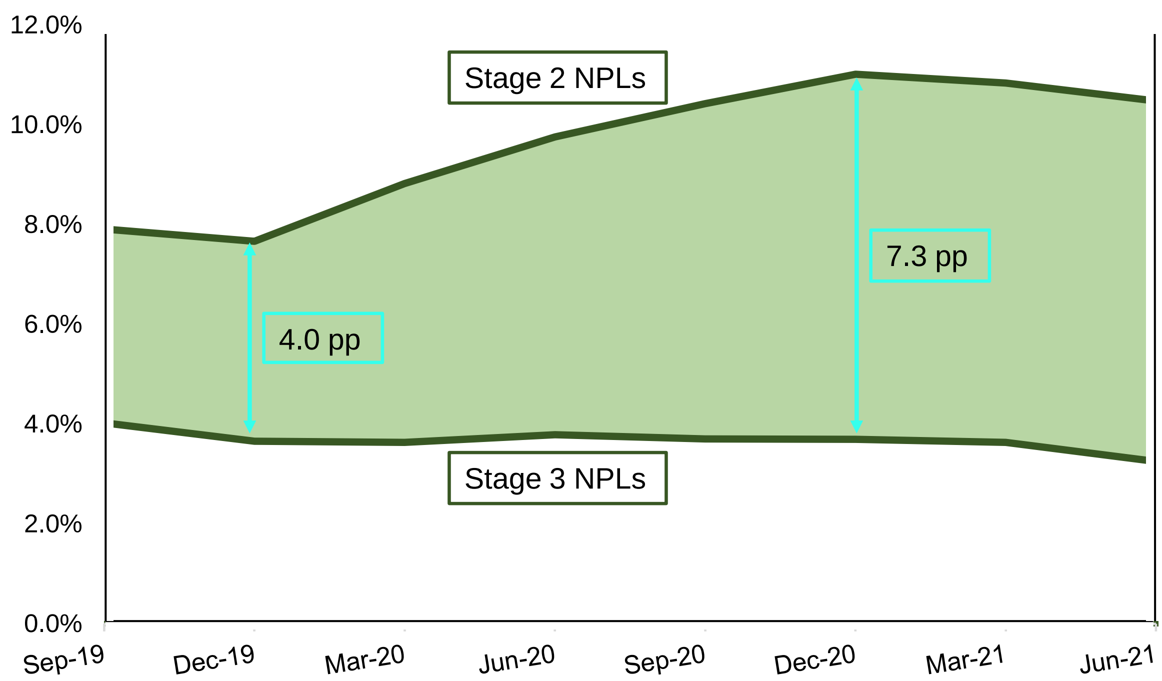
- On aggregate, in the CESEE region, from June 2020 to June 2021, the NPL coverage ratio[5] showed a deterioration of 1.2 percentage point to 64.5 per cent, as banks started to pare back the provisioning levels they had built up at the beginning of the Covid-19 crisis.
- Croatia maintains the highest coverage ratio in the region, at 82 per cent, in contrast to the Baltic countries, where provision levels remain below 40 per cent. Such differences can be explained by country-specific disparities, such as diverging approaches to collateralisation, accounting standards, provisioning policies and types of exposure.

[5] Percentage of NPL provisions divided by the NPL stock.

The gap between stage 2 and stage 3 loans has widened due to Covid-19[6]

- As can be seen in Figure 1, the Covid-19 crisis has widened the gap between stage 2 and stage 3 loans. The divide had increased to 7.3 percentage points in December 2020 from 4 percentage points in December 2019, suggesting a potential deterioration in asset quality.
- Since December 2020, both stage 2 and 3 loans as a share of total loans have decreased slightly, indicating less stress on banking asset quality. Between December 2020 and June 2021, the average share of stage 2 loans held in EU members of the central and eastern European (CEE) region decreased from 11.0 per cent to 10.5 per cent, while their share of stage 3 loans slipped from 3.7 per cent to 3.3 per cent. Stage 2 and stage 3 loans, therefore, decreased at a comparable rate in the first half of 2021. While this is encouraging, the conversion of stage 2 to stage 3 loans is still possible as support measures expire.
- A similar dynamic can be observed at bank level. In a sample of the five largest banks by total assets in each of the Vienna Initiative partner countries,[7] stage 2 loan volumes increased in 18 out of 25 banks, both from December 2018 to December 2019 and from December 2019 to December 2020. Simultaneously, problem loans[8] decreased in 15 of the banks from pre-crisis levels.

Figure 1: Evolution of stage 2 and 3 loans in EU-CEE countries[9]



[6] As classified by International Financial Reporting Standard (IFRS) 9, unless otherwise specified. Data on staging are from the EBA interactive tool.

[7] Vienna Initiative partner countries are Albania, Croatia, Hungary, Montenegro and Serbia.

[8] For definition and sources, please see Annex 3.

[9] Please see the EBA Risk Dashboard.

Sectors most vulnerable to the Covid-19 crisis still account for a larger share of stage 2 loans

- NPL ratios have decreased in the region since December 2019, but have increased in the sectors hardest hit by the Covid-19 crisis.
    - From March 2020 to June 2021, NPL ratios increased 2.5 percentage points, on average, in the EU-CEE region's entertainment sector, reaching 9.1 per cent.
    - In the hospitality sector, NPL ratios more than doubled to 14.9 per cent in June 2021 from 7.2 per cent in March 2020. Sector NPLs continued to increase from March 2021 to June 2021, suggesting that hospitality services remain affected by the crisis. This trend may worsen as support measures are removed.
- The CESEE countries that saw the greatest increase in share of stage 2 loans from September 2019 to June 2021 were the Slovak Republic (7.3 percentage points), Hungary (6.5 percentage points) and Romania (7.0 percentage points).
- Overall, NPL ratios in the manufacturing sector have decreased in the EU-CEE region. This is not the case for countries where exposure to manufacturing accounts for a higher share (at or above 20 per cent) of total loans, however. In these countries, NPLs have stagnated or increased, with the exception of Hungary.
- In Poland and Romania, for example, NPL ratios in the manufacturing sector have remained more than 1 percentage point above their pre-crisis level. This tallies with the difficulties the countries have faced in importing and exporting in the post-Covid-19 environment, despite a rise in external demand, as supply chains remain disrupted.

Figure 2a. NPL volumes and ratios in the CESEE region as of 30 June 2021

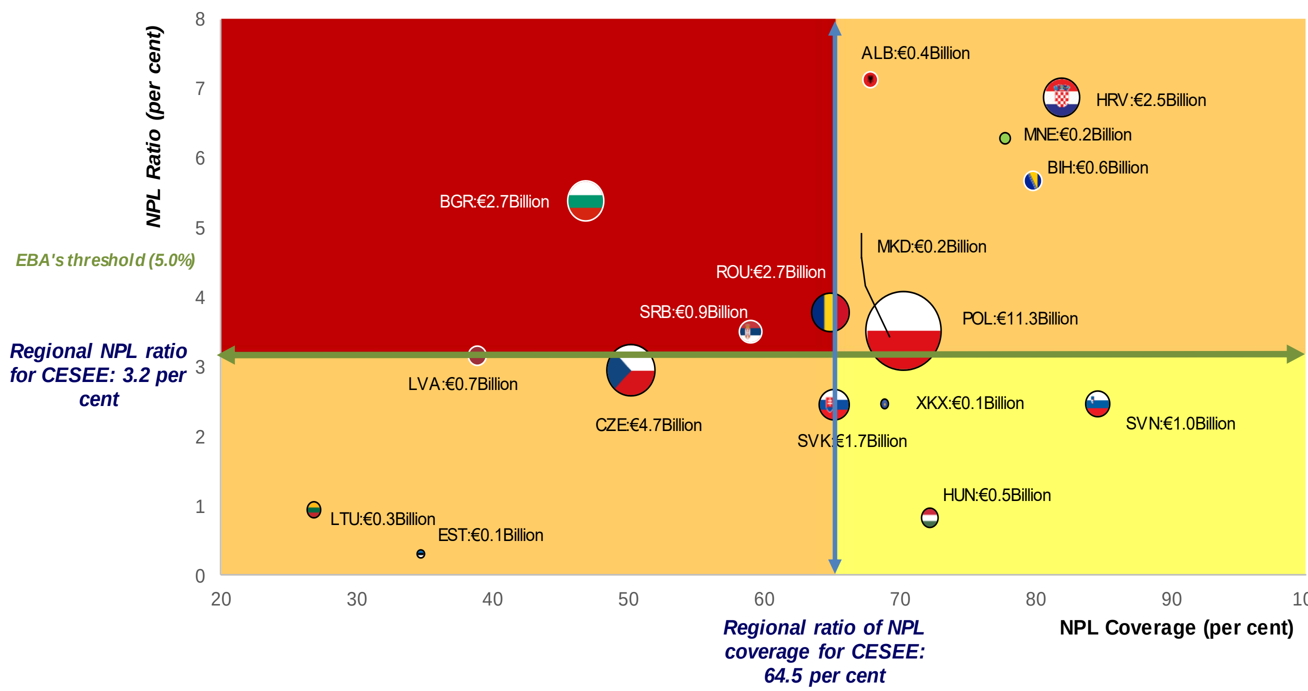


Figure 2b. NPL coverage ratios by coloured quadrant in Figure 1a (Q2 2021)

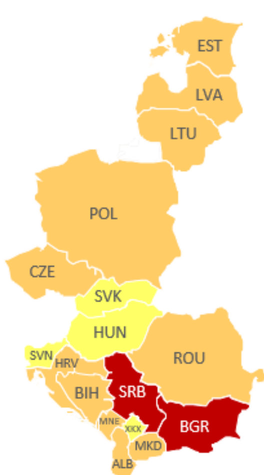


Figure 2c. Net NPL ratio (Q2 2021)

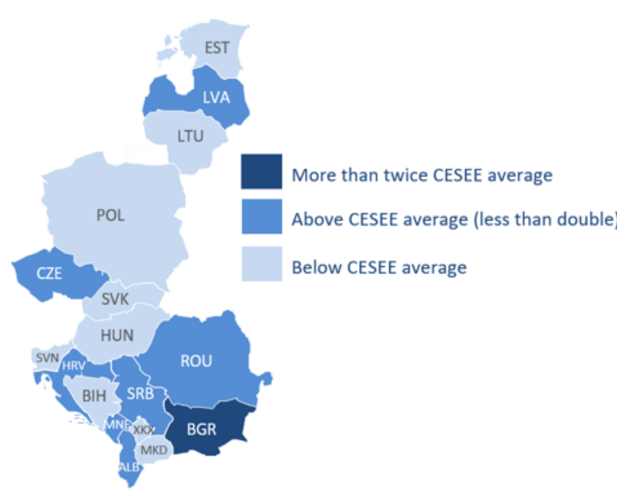


Table 1: Overview of the NPL profile in the CESEE region, 30 June 2020 to 30 June 2021

	NPL volume (€ bn)			NPL ratio (%)			NPL coverage ratio			Net NPL ratio (%)			Net NPL / Capital (%)			NPL to GDP (%)		
Country	Jun-21		Variation(%)	Jun-21		Δ(pp)	Jun-21		Δ(pp)	Jun-21		Δ(pp)	Jun-21		Δ(pp)	Jun-21		Δ(pp)
Albania (ALB)	0.4	▼	(7.6)	7.1	▼	(1.0)	67.9	▲	2.7	2.3	▼	(0.5)	8.6	▼	(2.0)	2.5	▼	(0.3)
Bosnia & Herz. (BIH)	0.6	▼	(13.3)	5.7	▼	(1.0)	79.9	▼	(0.5)	1.1	▼	(0.2)	6.9	▼	(0.8)	3.4	▼	(0.7)
Bulgaria (BGR)	2.7	▼	(10.9)	5.4	▼	(1.2)	46.9	▲	1.5	2.9	▼	(0.7)	18.6	▼	(3.7)	4.3	▼	(0.7)
Croatia (HRV)	2.5	▼	(1.8)	6.9	▲	0.0	82.0	▼	(2.6)	1.2	▲	0.2	5.4	▲	0.5	4.7	▼	(0.3)
Czech Republic (CZE)	4.7	▲	13.9	2.9	▲	0.2	50.2	▼	(4.5)	1.5	▲	0.2	10.1	▲	1.3	2.1	▲	0.2
Estonia (EST)	0.1	▼	(22.4)	0.3	▼	(0.1)	34.8	▼	(3.0)	0.2	▼	(0.1)	0.9	▼	(0.3)	0.2	▼	(0.1)
Hungary (HUN)	0.5	▼	(28.3)	0.8	▼	(0.4)	72.3	▲	3.4	0.2	▼	(0.2)	1.1	▼	(0.7)	0.4	▼	(0.2)
Kosovo (XKX)	0.1	▲	11.6	2.5	▲	0.1	68.9	▲	0.1	0.8	▲	0.0	4.5	▲	0.1	1.2	▲	0.1
Latvia (LVA)	0.7	▼	(7.2)	3.2	▼	(0.6)	38.9	▼	(2.1)	1.9	▼	(0.3)	15.7	▼	(2.4)	2.1	▼	(0.2)
Lithuania (LTU)	0.3	▲	10.7	0.9	▼	(0.1)	26.8	▼	(52.9)	0.7	▲	0.5	12.4	▲	9.3	0.7	▲	0.1
North Macedonia (MKD)	0.2	▼	(23.2)	3.4	▼	(1.1)	69.4	▼	(3.4)	1.0	▼	(0.2)	5.2	▼	(1.2)	1.8	▼	(0.6)
Montenegro (MNE)	0.2	▲	15.7	6.3	▲	0.7	77.8	▼	(6.5)	1.4	▲	0.5	7.8	▲	2.9	4.1	▲	0.3
Poland (POL)	11.3	▼	(14.6)	3.5	▼	(0.5)	70.3	▲	0.7	1.0	▼	(0.2)	7.5	▼	(1.5)	2.2	▼	(0.3)
Romania (ROU)	2.7	▼	(7.8)	3.8	▼	(0.6)	64.9	▲	2.0	1.3	▼	(0.3)	8.1	▼	(2.0)	1.1	▼	(0.2)
Serbia (SRB)	0.9	▲	2.2	3.5	▼	(0.2)	59.1	▼	(3.5)	1.4	▲	0.0	5.9	▲	0.6	1.8	▼	(0.0)
Slovak Republic (SVK)	1.7	▼	(8.8)	2.4	▼	(0.4)	65.2	▲	0.0	0.9	▼	(0.1)	6.1	▼	(1.1)	1.8	▼	(0.2)
Slovenia (SVN)	1.0	▼	(7.7)	2.5	▼	(0.7)	84.7	▲	4.5	0.4	▼	(0.3)	2.8	▼	(1.5)	2.1	▼	(0.2)
CESEE	30.6	▼	(7.8)	3.2	▼	(0.4)	64.5	▼	(1.2)	1.1	▼	(0.1)	7.5	▼	(0.7)	1.9	▼	(0.2)
Cyprus (CYP)	4.7	▼	(18.0)	15.0	▼	(2.7)	44.4	▼	(1.3)	8.4	▼	(1.3)	50.1	▼	(10.1)	21.8	▼	(5.0)
Greece (GRC)	34.6	▼	(46.4)	16.0	▼	(15.3)	12.6	▼	(35.0)	14.0	▼	(2.4)	105.4	▼	(13.2)	20.2	▼	(18.0)
Ukraine (UKR)	11.9	▼	(33.4)	37.2	▼	(11.3)	89.1	▼	(1.8)	4.0	▼	(0.4)	21.1	▼	(3.7)	8.9	▼	(4.4)
Other	51.2	▼	(41.9)	18.3	▼	(13.7)	33.3	▼	(22.9)	12.2	▼	(1.8)	85.3	▼	(10.6)	15.7	▼	(11.4)
Total Countries	**81.8**	▼	**(32.6)**	**6.7**	▼	**(3.6)**	**45.0**	▼	**(13.8)**	**3.7**	▼	**(0.5)**	**24.3**	▼	**(3.6)**	**4.2**	▼	**(2.2)**

Notes on the data and the interpretation of results

- Variation (per cent) is calculated as ((value period 1/value period 0) -1), with June 2020 as period 1 and June 2021 as period 0 (where available).
- Δ (percentage points) is the variation, between two periods. It is calculated as (per cent period 1 – per cent period 0).
- For most of the countries covered in this edition of the NPL Monitor, data to 30 June 2021 are the latest available.
- When not available from the IMF FSI, data are found on the websites of the monetary authorities of the countries in question. Such data include the latest information on selected indicators for Greece and Lithuania. When information is neither available on national websites nor from the IMF FSI, time-adjacent data are used to plug the gaps. The countries for which IMF data are not available for Q2 2021 are Cyprus (Q4 2020), Greece (Q4 2020), Kosovo (Q1 2021), Lithuania (Q2 2020) and Poland (Q1 2021).
- The NPL-to-gross domestic product (GDP) ratio (per cent) is calculated using annual GDP values for 2020 and projections for 2021, respectively (rather than quarterly data), in line with reporting for the IMF World Economic Outlook.

II. Reforms, regulatory updates and recommendations from the EU

EU regulators remain prudent, closely monitoring credit risk and the evolution of distressed loans in the belief that the full impacts of the crisis have yet to fully materialise. Credit risk is expected to remain one of the main priorities of EU regulators in 2022, both at the European and national level.

While 2022 may see a return to somewhat more "normal" (pre-Covid-19) priorities, there will be a particular emphasis on the credit risk issues identified in 2021 to ensure that early signs of borrowers' distress are spotted and acted on in a timely way. Effective actions have been taken to date to prevent significant Covid-19 pandemic-induced effects on banks' asset quality. Attention will now turn to ensuring that the transition out of support measures does not give rise to NPLs over the coming year.

In addition to preventing a new rise in NPLs, EU regulators are progressing the implementation of various actions set out in the European Commission's NPL action plan of December 2020 to tackle problem loans in the aftermath of the Covid-19 pandemic (the NPL Action Plan 2020).[10]

We discuss below some of the activities that have taken place since the last NPL Monitor for H1 2021, which are relevant to credit risk and the implementation of the NPL Action Plan 2020.

Key credit risk management deficiencies identified by the ECB

Recall that the European Central Bank (ECB) issued two "dear CEO" letters to banks in 2020,[11] setting out its expectations with regard to credit risk management in the context of Covid-19:

- 28 July 2020: *Operational capacity to deal with distressed debtors in the context of the Covid-19 pandemic*
- 4 December 2020: *Identification and measurement of credit risk in the context of the Covid-19 pandemic*.

In recent months, the ECB has been assessing banks' credit risk management practices and whether they meet expectations. These assessments have highlighted a broad range of deficiencies at some banks that are a cause for concern and which will remain a focus both this year and next.

Some examples of the widespread issues identified by the ECB include:[12]

- **early warning systems and indicators:** not sufficiently granular, outdated and mainly backward-looking

[10] See European Commission (2020).
[11] See ECB (2020a; 2020b).
[12] See ECB (2021).

- **forbearance:** incorrect flagging, with bank policies ignoring relevant regulatory requirements and lacking clear and granular criteria to effectively identify financial difficulties
- **unlikeliness to pay (UTP):** no updated information or additional UTP triggers tailored to the specificities of the pandemic
- **stage 2:** delayed recognition of stage 2 exposures, leading to inadequate provisioning and the deterioration of loans into NPLs
- **provisions:** use of biased approaches that artificially stabilise provisions, including insufficient numbers of scenarios predicting future losses and/or macroeconomic data not being regularly updated
- **overlays:** inadequate governance and risk management frameworks for properly estimating overlays
- **triggers:** adjusted triggers to reduce the number of stage transfers, with triggers not always adequately set to capture significant increases in credit risk
- **collaterals:** deficiencies in immovable collateral valuations, such as infrequent monitoring and updating and the absence of clear linkages between market risk reviews and collateral revaluations
- **strategic planning:** inadequate inclusion of the potential impact of Covid-19 in banks' strategic and business planning (leaving them ill-prepared for an increase in distressed debtors).

As the benefits of support measures begin to wane and the effects of the crisis materialise, it remains essential that banks can identify signs of borrower distress early to avoid a new rise in NPLs. Banks are likely to remain under close scrutiny by the EU and national regulators in 2022 to ensure that the shortcomings in credit risk management identified this year are remediated swiftly and effectively. In addition, EU regulators will maintain efforts to improve the European secondary market for NPLs to ensure that banks have all the tools they need in the event of a new rise in problem loans.

EU Directive on NPLs

An important component of the NPL Action Plan 2020 is to further harmonise the regulation of the European secondary market for NPLs while protecting borrowers' rights. The EU Directive on NPLs (on credit servicers and credit purchasers),[13] the first draft of which was circulated in 2018, is now set to meet the final stage of approval and enter into force shortly. The directive should then be transposed into national law within two years.

The directive introduces stricter requirements for credit servicers, clear codes of conduct for servicers and purchasers in their interaction with debtors and new disclosure obligations on debt-collection activities. It also introduces measures that favour the renegotiation or refinancing of loans.

[13] See Council of the European Union (2021).

Before selling a loan, creditors will need to perform a debtor assessment, taking into account the individual circumstances of the consumer, their interests, rights and ability to repay. Borrowers should not be worse off following the transfer of their credit agreement and should not be subject to additional fees, charges or costs.

Credit purchasers will not need special authorisation to acquire loans, but will have to comply with borrower protection rules. Credit servicers will, however, need authorisation and be subject to supervision by the competent authorities of EU Member States. All credit purchasers of consumer portfolios will need to appoint a credit servicer in the host country. Third-country credit purchasers of small and medium-sized enterprise (SME) loan portfolios will also have to appoint a credit servicer to protect the businesses.

EBA NPL data templates

As part of the NPL Action Plan 2020, the EBA was invited to review its voluntary NPL data templates[14] with a view to streamlining them and making them more proportionate and effective. The consultation period ended on 31 August 2021 and the EBA expects to make the updated version available to market participants by the end of 2021.

The EU Directive also says that the EBA will be mandated to transpose the data templates into implementing technical standards (ITSs) for credit institutions. This suggests that the templates will evolve from a voluntary tool to an official requirement for credit institutions, to be used as the defined data format for sales of non-performing credit agreements. This would not only cover sales to third-party investors, but also between credit institutions.

Before transposing the templates into ITSs, the EBA will publish a consultation paper. It is, therefore, unlikely that the new ITSs will come in effect before late 2022.

European Commission's targeted consultation on improving transparency and efficiency in secondary markets for NPLs

The European Commission also completed on 8 September 2021 a targeted consultation on improving transparency and efficiency in secondary markets for NPLs.[15]

The proposal consisted of:

1. Introducing additional pillar 3 disclosure requirements for NPLs under Capital Requirements Regulation (EU) 575/2013, aimed at painting a more complete picture of NPL portfolios by providing more extensive data on performance over time. It would complement the additional disclosure requirements for NPL data for securitisation, which entered into force last year.
2. Creating a central EU data hub to act as a data repository for the NPL market, which would provide access to anonymised data and information on NPL portfolios and

[14] See EBA (2021).
[15] See European Commission (2021).

realised transactions. The aim would be to provide better access to data to sellers and buyers to gain granular insights into NPL portfolios.

Industry feedback is currently being assessed by the European Commission, which will then decide on its approach and next steps.

“Best execution” sales process guidelines

Another key target of the NPL Action Plan 2020 is the development of guidelines for sellers of NPLs on what constitutes a “best execution” sales process for transactions on secondary markets. These guidelines are being drafted by the European Commission, with the support of the NPL Advisory Panel (a select group of industry NPL specialists), in cooperation with the EBA, the ECB and other relevant stakeholders.

The guidelines will aim to provide recommendations that encourage good sell-side processes and help smaller banks or sellers that may have less experience with secondary-market transactions. They will be a tool for fostering good sales practices and market participants will not be obliged to follow them.

The draft guidelines are expected to be ready for consultation in the coming months.

III. An overview of the impact of Covid-19 and recent policy actions in response to the pandemic

A recent business survey of businesses on the impact of Covid-19 has shown their resilience and ability to adapt to the pandemic to be shaped by their pre-pandemic traits. Companies that were less likely to go bankrupt before the crisis have proved significantly better able to adapt to it, in particular, by digitalising their services. While these companies were still severely affected, so far, they have managed to avoid bankruptcy. In Bulgaria, for example, the average decline in year-on-year sales since the Covid-19 pandemic hit has been 24 per cent, whereas the insolvency rate during that time has been close to zero. This suggests that policies to mitigate the impact of Covid-19 impact have been instrumental in keeping businesses afloat.[16]

All Vienna Initiative partner countries implemented policies and measures to mitigate the negative impacts of the Covid-19 crisis on credit risk. Most of the measures have now expired or are about to end in the coming months. The effect of the crisis may, therefore, be felt with a lag in 2022 as the benefits of those measures begin to fade.

It is important to keep monitoring those loans that were subject to moratoria or other forms of government support, to ensure early identification of signs of distress in borrowers if they arise.

Table 2: Overview of ongoing and expired mitigating policies in Vienna Initiative partner countries

1. All Vienna Initiative partner countries implemented measures to mitigate the negative impacts of the Covid-19 crisis on credit risk. 2. Most measures have now expired or are about to end in the coming months. 3. Some of the effects of the crisis may be felt with a delay in 2022.		**Albania**	➢ Moratorium: 13 March 2020 to 31 August 2020 ➢ Leniency on loan classification and provisioning: extended to January 2022 ➢ Key policy rate cut to all-time low of 0.5 percent ➢ Credit protection packages worth 1.4 percent of GDP in 2020
Croatia	➢ Moratorium: three-month ending June 2021 ➢ Temporary deferment of public obligations: three-month ending June 2021 ➢ Lower reserve requirement ratio in 2021 ➢ Public guarantees on loans in 2020 and 2021 worth about €644 million	**Hungary**	➢ Moratorium on all loans: March 2020 to 20 June 2022 ➢ Grace period on repayment of loans to the Growth Funding Facility (subsidised lending to SMEs supported by the MNB): to 30 June 2021 ➢ €1.55 billion in public guarantees on loans – April 2020
Montenegro	➢ Moratorium on companies affected by Covid-19 or operating in a sector affected by Covid-19: six-month ending August 31 2021 ➢ Reduction in reserve requirement of 2 percentage points: announced on 12 May 2021	**Serbia**	➢ Seven-month moratorium on tax debt under rescheduling: March 2020 to September 2020 ➢ ECB commitment to extend the duration of the precautionary repo line to March 2022 ➢ €2 billion guarantee scheme for loans – approved in April 2020

For example, in the EU countries, there are visible signs of a deterioration in loans under moratoria and public guarantee schemes, in rising NPL ratios and share of stage 2 loans. This trend is likely to be echoed in non-EU CESEE countries. As moratoria expire in the less vulnerable sectors, the share of NPLs and stage 2 loans under moratoria is likely to increase.

[16] See EIB and EBRD (forthcoming).

It is also essential that competent national authorities continue their pre Covid-19 work on policy initiatives to facilitate NPL resolution and sales. Impediments remain to be addressed in some countries. For example, certain jurisdictions still have limitations on asset classes that can be sold (for example, retail loans can only be traded between institutions with a banking licence). There are also financial and tax disincentives for banks to sell NPLs in some countries. Most importantly, work remains to be done to further improve enforcement and insolvency frameworks and strengthen judicial frameworks.

It is important that these impediments are resolved to avoid a build-up of NPLs in future.

Albania

Policy actions[17]

- **Tax deferral**: The government has adopted measures allowing all large companies (except banks, telecoms companies, public enterprises and other essential businesses) to defer payment of tax on profits for Q2 and Q3 2020 until 2021. The tourism sector and call centres can defer payments for the remainder of 2020 until 2021. Small businesses with turnover of less than ALL 14 million will not pay tax on profits for the remainder of 2021. The 2021 budget, approved by the Parliament in 2020, plans some ALL 17.2 billion worth of anti-Covid-19 measures (1 per cent of GDP).
- **Loan classification and provisioning**: On 28 May 2020, the Bank of Albania adopted regulations allowing banks to restructure loans without additional provisioning or downgrades to borrowers' status. The entry into force of more stringent classification and provisioning measures for reclassified loans was postponed by one year to 2022. Out-of-court restructuring for distressed borrowers was extended for another year, to 2022, under a special regulation.
- **Distribution of bank dividends**: On 13 January 2021, the central bank lifted its suspension on the distribution of 2019 bank dividends, but suspended the distribution of 2020 and 2021 dividends to end 2021.
- **Repo line with the ECB**: On 17 July 2020, the Bank of Albania announced it had set up a €400 million repo line with the ECB. On 4 February 2021, the ECB announced a nine-month extension of the line to March 2022.

[17] See IMF (n.d.).

Croatia

Policy actions[18]

- **Pay-out ban on dividends**: The Croatian National Bank (CNB) lifted its dividend pay-out ban effective 1 October 2021 (three months earlier than planned). The measure was initially put in place to strengthen the resilience of the banking system.
- **Job support measures**: Since July 2021, the government has been phasing out its job support measures, which now target only the most impacted businesses. The measures have also been made conditional on a minimum percentage of employees having a valid Covid-19 vaccination pass.
- **Recovery and resilience plan**: In July 2021, the European Commission issued a positive assessment of Croatia's recovery and resilience plan. Croatia had requested €6.3 billion in grants from the EU's Recovery and Resilience Facility (RRF), with 40 per cent of its allocation going to green measures and 20 per cent to digital measures.

Hungary

Policy actions

- **Successive loan moratoria**: Hungary established significant economic safeguards worth 30 per cent of GDP, including loan moratoria, an economic recovery fund and guarantee programmes. Its March 2020 moratorium on loan repayments for the corporate and retail sectors, originally set to expire at the end of 2020, was partly extended to end June 2021 and then again to June 2022.
- **Monetary policy normalisation**: The Hungarian central bank raised its base rate by 30 basis points to 0.9 per cent on June 2021, becoming the first country in the EU to embark on a rate-hiking cycle to combat growing price pressures in the aftermath of the Covid-19 pandemic.[19]

[18] Information provided by EBRD staff.
[19] See Szakacs (2021.

Montenegro

Policy actions[20]

- **Moratorium:** On 1 March 2021, the Central Bank of Montenegro imposed a mandatory debt moratorium for SMEs operating in the sectors hardest hit by Covid-19. The central bank also ordered a debt moratorium for private individuals providing accommodation and food services who had borrowed to prepare for the tourist season. The central bank required commercial banks to increase by as much as five years the tenure of loan repayments for private individuals who faced more than a 10 per cent salary decrease due to Covid-19. On 28 April 2021, the country's "endangered business activities" list was extended to 111 business activities. On 25 May 2021, the Central Bank expanded the categories of company that could benefit from the moratorium (ending 31 August 2021) to include those that saw at least a 50 per cent year-on-year decline in total revenues in 2020.
- **Covid-19 restructuring:** On 29 October 2021, the Central Bank of Montenegro decided to end Covid-19 restructuring measures for registered companies. This meant that restructured loans for companies after 30 October 2021 would no longer be treated as a new lending and would require additional provisioning and rating changes, as had been the case prior to Covid-19. This was due to a decline in the number of Covid-19-related restructuring requests, the recovery of companies and a general return to regular financial flows.
- **AQR results**: An external independent auditing firm conducted an asset quality review (AQR) of all 13 banks in the Montenegrin banking sector between March 2020 and September 2021, based on data available on 31 December 2019. This followed on from the recommendations of the 2016 Financial Sector Assessment Programme (FSAP) mission. The results confirmed the stability of Montenegro's banking sector and the satisfactory quality of its assets and capital adequacy ratios. The average solvency ratio of the banking sector after the AQR adjustment was 16.2 per cent (compared with 17.8 per cent prior to the AQR), significantly above the regulatory minimum of 10 per cent.

[20] See IMF (n.d.). Additional information provided by EBRD staff.

Serbia

Policy actions[21]

- **State financial support programme:** In January 2021, the government announced a stimulus package worth around €2.5 billion to bolster the economy during the Covid-19 crisis, including:
    - Support for micro-, small and medium-sized enterprises (MSMEs) and large companies worth 50 per cent of three months' minimum wage for each employee. This amounts to almost €130 per month per employee for three months from April 2021.
    - A one-off assistance payment of €60 for every adult citizen and an additional €50 for pensioners.
    - A one-off assistance payment to city hotels of €350 per bed and €150 per room/apartment.
    - A monthly payment of €600 per bus for transport companies for a period of six months.
    - An additional 1.5 months' minimum wage (around €260) per employee for companies in Covid-19-sensitive sectors (such as hospitality, tourism and hotels).
    - In March 2021, the government of Serbia announced the extension of its support programme to the end of June 2022, increasing the value of the package by €500 million, as well as a €500 million expansion of the state-guaranteed bank loan scheme for SMEs.
- **Moratoria on loan repayments:** Serbia's third and final loan-repayment moratorium ended in April 2021.
- **Repo line arrangement with the ECB:** In February 2021, the National Bank of Serbia (NBS) extended its repo line with the ECB to promote euro liquidity. It remained in place until March 2022. Because of banks' ample liquidity, the NBS discontinued its auxiliary liquidity facilities (foreign-currency swap and dinar-denominated securities repo auctions) in 2021.

[21] See IMF (n.d.). Additional information provided by EBRD staff.

IV. NPL transactional trends

In the NPL market, demand is tentative and supply remains very limited

Supply remains low

- The impact of Covid-19 on new NPL flows has been limited until now and banks have good provisioning levels on existing stock.
- Some sectors remain more at risk but, to date, there have been no major industry failures.
- Real-estate collateral values have increased significantly, or at least stayed stable, in most jurisdictions.
- Most complex commercial real-estate and distressed corporate exposures have already been restructured.
- Banks are, therefore, left with mostly old, legacy NPL stocks and are under little pressure to sell for now.

Demand remains, but it is tentative

- Investors are still in the market, looking at opportunities, if banks are willing to sell.
- They are exercising caution, however, as uncertainties remain and there is still the risk of value corrections.
- The number of investors present in the region is mainly limited to the ones that already have portfolios and servicing capabilities in the region.
- These investors may be interested in smaller loan books and large single-name exposures.

Looking ahead …

- The crisis is not yet over and banks must be ready to act should a spike in NPLs occur as the effects of the pandemic begin to materialise.
- Robust lending practices are essential, as well as accurate loan classification, staging and provisioning.
- Adequate early warning systems, with indicators tailored to the specificities of the pandemic, are also fundamental to ensuring that signs of borrower distress are identified early and addressed swiftly to ensure value preservation.

Table 3: Summary of the CESEE NPL market environment

1. Stable banks' asset quality	▪ Impact of Covid-19 on banks' asset quality more limited than expected ▪ Overall, NPL ratios are low and banks have good levels of provisioning ▪ Some sectors are more at risk (such as food and hospitality, SMEs)
2. Collateral values remain strong	▪ Real-estate (collateral) values have increased significantly in many jurisdictions, providing greater exposure coverage ▪ Most of the large distressed cases (commercial real estate and corporates) have been restructured already ▪ Will there be value readjustments?
3. Limited pressure to sell NPLs	▪ A large part of the remaining NPL stock in banks is old and of low value ▪ No pressure on banks to sell NPLs, so very limited market activity
4. Investors' liquidity in the market	▪ There is still investor demand and liquidity in the region; the issue is supply. ▪ Limited number of investors (those already present in CESEE, with servicing capabilities, can acquire small books) ▪ Investors remain prudent on prices in case of a downward correction
5. The crisis is not over	▪ Final impacts (post moratoria and state guarantees) remain uncertain. ▪ Situation may change in 2022-23 if the effects of the crisis begin to materialise ▪ Importance of prudent lending practices ▪ Identifying new signs of distress early on will be key to value preservation ▪ Unlikeliness to pay (UTP) could be the challenge

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Annex 1: NPL servicers in the CESEE region

Table 4: 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 real estate	CRE	Albania	Bosnia	Bulgaria	Czech Republic	Croatia	Cyprus	Estonia	Greece	Hungary	Kosovo	Latvia	Lithuania	Monte negro	North Macedonia	Poland	Romania	Serbia	Slovak Republic	Slovenia	Ukraine	
APS Holding	✓	✓	✓		Yes	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓		✓	✓				✓		✓	✓	✓	✓	✓	✓	
AxFina	✓	✓				✓	✓	✓	✓	✓					✓				✓							✓			✓		
Best S.A	✓		✓		Yes	✓	✓	✓	✓																✓						
B2 Holding	✓	✓	✓		Yes	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓		✓	✓	✓		✓		Present in Poland through Ultimo
Cepal	✓	✓	✓		No	✓	✓			✓								✓													
Chartered Debt Management	✓	✓	✓		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	✓	✓			✓								✓													Bought by DoValue
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 German asset management subsidiary of EAA, 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, acting as their servicing partner

Source: KPMG and EBRD

NPL Servicers * Primary servicers: monitor and manage loans
* Special servicers: try and restructure the loan and work with the 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

Annex 2: Summary of recent decisions by Vienna Initiative stakeholders and EU regulators[22]

Table 5: Covid-19 measures for the banking sector implemented by EU regulators since the H1 2021 edition of the NPL monitor

Date	Authority	Measure	Source
16/08/2021	EC	Since the outbreak of Covid-19 in early 2020, the EU, EU Member States and European financial institutions, as Team Europe, have disbursed €34 billion in support to partner countries	Source
17/08/2021	ECB	The European Commission disbursed €289 million in pre-financing to Lithuania to help with its pandemic-related economic recovery	Source
09/09/2021	EC	The European Commission disbursed €157 million in pre-financing to Cyprus to help with its pandemic-related economic recovery	Source
10/09/2021	EC	The European Commission disbursed €237 million in pre-financing to Latvia to help with its pandemic-related economic recovery	Source
16/09/2021	EC	To help Tunisia cope with the impact of the Covid-19 pandemic and the worrying health situation in the country, the EU and its Member States continued to mobilise emergency aid via the EU Civil Protection Mechanism	Source
08/10/2021	ECB	The European Commission, on behalf of the EU, has disbursed €50 million in macro-financial assistance to Moldova in response to the Covid-19 pandemic	Source
13/10/2021	ECB	The European Commission disbursed €822.7 million in pre-financing to the Slovak Republic to help with its pandemic-related economic recovery	Source
25/10/2021	ECB	The European Commission disbursed €600 million in macro-financial assistance to Ukraine to help with its pandemic-related economic recovery	Source
27/10/2021	ECB	The European Commission adopted a review of EU banking rules (the Capital Requirements Regulation and the Capital Requirements Directive).	Source

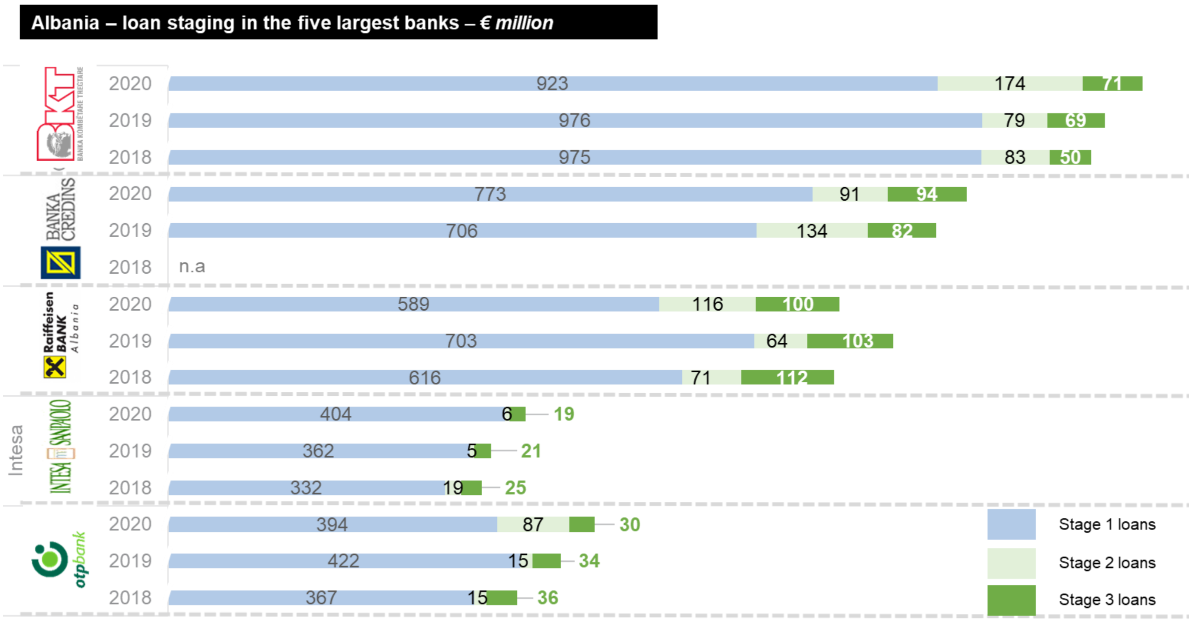
[22] Unless otherwise specified, sources are the websites of the respective institutions.

Table 6: Other Covid-19-related measures from the stakeholders of the NPL Initiative since the H1 2021 edition of the NPL Monitor

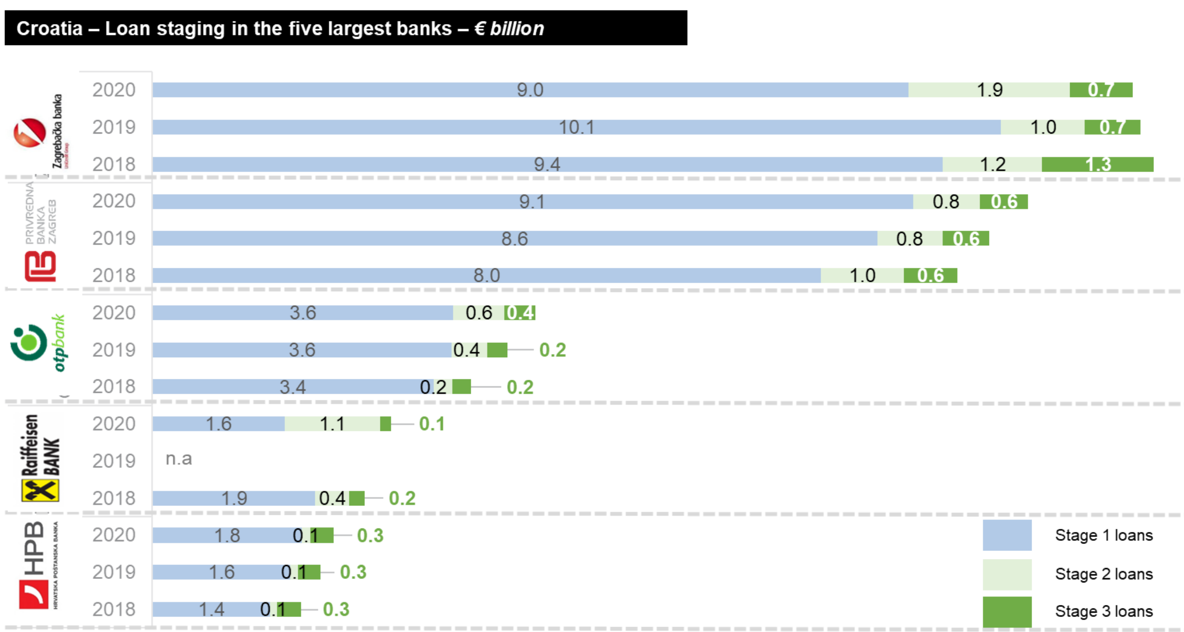
Date	Authority	Measure	Source
02/06/2021	EIB	The European Investment Bank (EIB) and CIH BANK Morocco signed their first financing partnership, comprising a €60 million (MAD 640 million) package of support for SMEs and mid-caps in the face of the pandemic	Source
22/06/2021	EIB	The EIB made a US$ 50 million line of credit available to Bank of Palestine to be lent on to SMEs, particularly those affected by the pandemic	Source
22/06/2021	EIB	The EIB lent US$ 32 million to Quds Bank to be lent on primarily to local SMEs severely affected by the economic consequences of the Covid-19 pandemic	Source
28/06/2021	EIB	The EIB provided a €40 million loan to Kosovo to support access to finance for MSMEs impacted by the Covid-19 crisis	Source
30/06/2021	EIB	The EIB provided €200 million to the Development Fund of Serbia to support the faster Covid-19 recovery of Serbian SMEs and mid-cap firms	Source
30/06/2021	WB	The World Bank provided more than US$4 billion for the purchase and deployment of Covid-19 vaccines for 51 developing countries	Source
08/07/2021	EIB	The EIB provided an additional €146 million to improve the resilience of the healthcare sector in Hungary during the Covid-19 pandemic	Source
09/07/2021	WB	The World Bank approved US$ 20 million for the Turkmenistan Covid-19 Response Project.	Source
26/07/2021	WB	COVAX and the World Bank will accelerate Covid-19 vaccine supply for developing countries through a new financing mechanism that builds on Gavi, the Vaccine Alliance's newly designed Advance Market Commitment (AMC) cost-sharing arrangement	Source
30/09/2021	WB	The World Bank provided US$ 400 million in credit to support Nigeria's Covid-19 vaccination efforts	Source
01/10/2021	WB	The World Bank provided US$ 500 million to strengthen Argentina's Covid-19 vaccination plan	Source
08/10/2021	EIB	The EIB provided €100 million in guarantees to UniCredit Bank Slovakia to hasten companies' recovery from the Covid-19 pandemic	Source
12/10/2021	IMF	The IMF has provided US$ 118 billion to 87 countries since the start of the pandemic	Source

Annex 3: NPL monitor – Bank level[23]

This section focuses on asset quality of the five largest banks in each of the Vienna Initiative partner countries.[24]



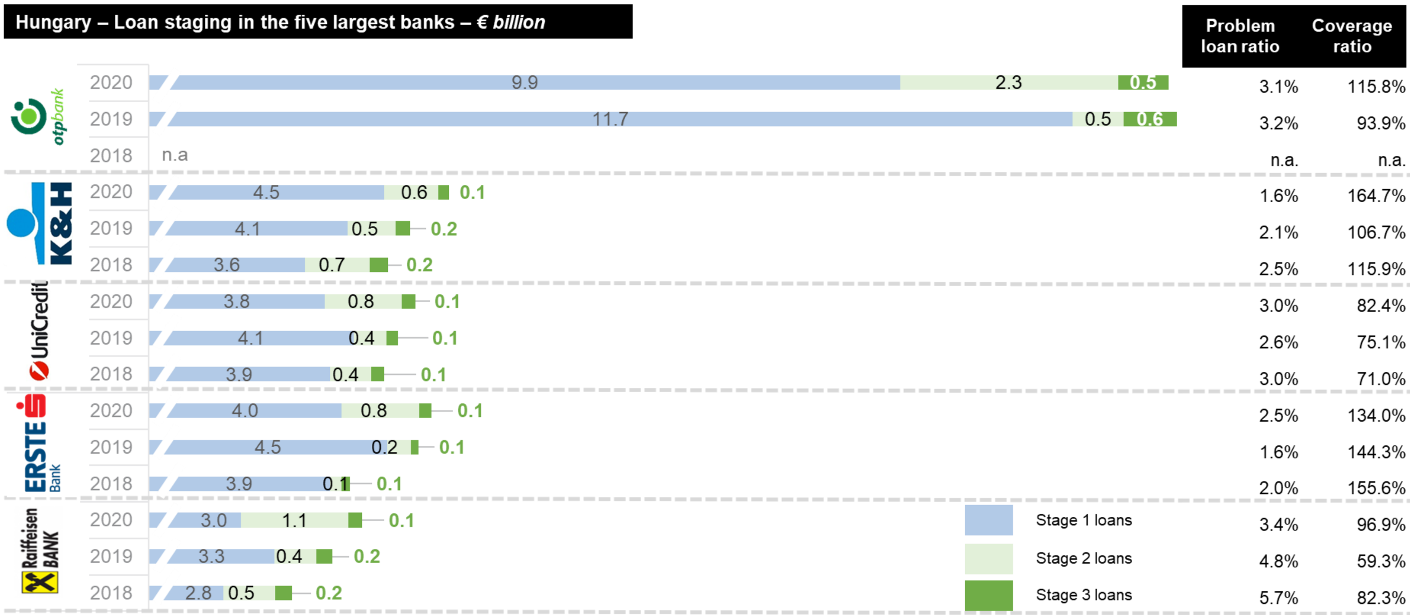
		Problem loan ratio	Coverage ratio
BKT	2020	6.1%	80.8%
	2019	6.1%	67.7%
	2018	4.5%	92.3%
Banka Credins	2020	12.8%	75.7%
	2019	11.2%	69.9%
	2018	n.a.	n.a.
Raiffeisen Bank Albania	2020	12.4%	89.9%
	2019	11.8%	83.1%
	2018	14.0%	85.4%
Intesa Sanpaolo	2020	4.2%	89.9%
	2019	5.2%	83.3%
	2018	6.2%	88.8%
otpbank	2020	5.6%	132.0%
	2019	5.8%	118.3%
	2018	7.3%	113.5%

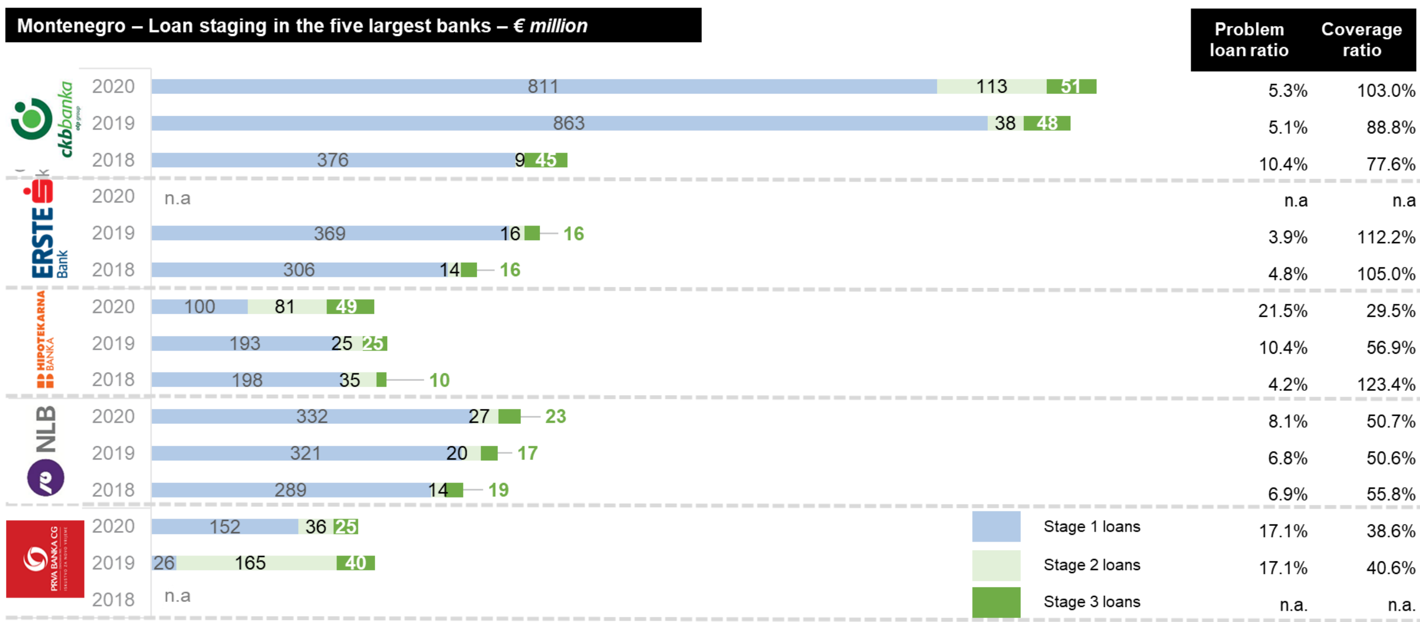


		Problem loan ratio	Coverage ratio
Zagrebačka banka	2020	6.4%	88.7%
	2019	5.7%	83.6%
	2018	11.1%	67.0%
Privredna banka Zagreb	2020	5.5%	83.3%
	2019	5.6%	85.9%
	2018	6.6%	86.7%
otpbank	2020	8.2%	93.3%
	2019	5.5%	126.0%
	2018	6.0%	149.9%
Raiffeisen Bank	2020	4.0%	137.0%
	2019	6.0%	n.a
	2018	6.9%	92.9%
HPB	2020	13.0%	74.3%
	2019	13.2%	77.9%
	2018	16.0%	73.2%

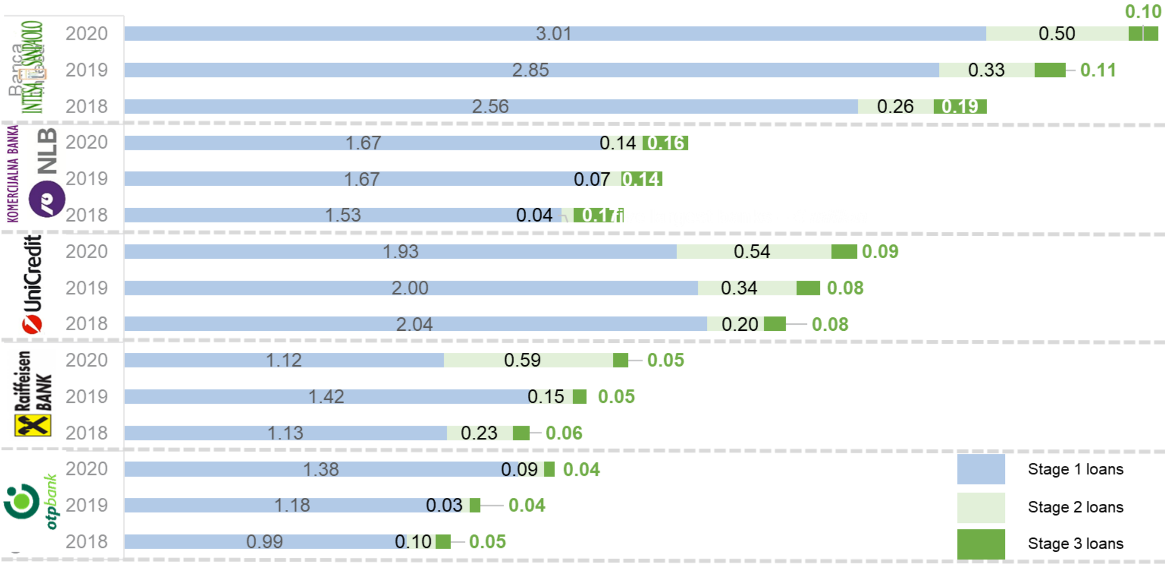
[23] S&P Capital IQ pro as of 2 November 2021.

[24] Data used are from S&P Capital IQ pro. "Problem loans" is as reported by S&P capital IQ pro and may cover different categories of loan (non-performing, impaired, net impaired) depending on the bank on question. Caution is advised when comparing the "problem loan" ratios of one bank with another. Where data were unavailable, bank financial statements were used. Reserves are the amount of impairment allowances as reported by banks.


Hungary – Loan staging in the five largest banks – € billion
Problem loan ratio
Coverage ratio
2020
2019
2018
n.a
9.9
2.3
0.5
11.7
0.5
0.6
4.5
0.6
0.1
4.1
0.5
0.2
3.6
0.7
0.2
3.8
0.8
0.1
4.1
0.4
0.1
3.9
0.4
0.1
4.0
0.8
0.1
4.5
0.2
0.1
3.9
0.1
0.1
3.0
1.1
0.1
3.3
0.4
0.2
2.8
0.5
0.2
Stage 1 loans
Stage 2 loans
Stage 3 loans
3.1% 115.8%
3.2% 93.9%
n.a. n.a.
1.6% 164.7%
2.1% 106.7%
2.5% 115.9%
3.0% 82.4%
2.6% 75.1%
3.0% 71.0%
2.5% 134.0%
1.6% 144.3%
2.0% 155.6%
3.4% 96.9%
4.8% 59.3%
5.7% 82.3%


Montenegro – Loan staging in the five largest banks – € million
Problem loan ratio
Coverage ratio
2020
2019
2018
811
113
51
863
38
48
376
9
45
n.a
369
16
16
306
14
16
100
81
49
193
25
25
198
35
10
332
27
23
321
20
17
289
14
19
152
36
25
26
165
40
n.a
Stage 1 loans
Stage 2 loans
Stage 3 loans
5.3% 103.0%
5.1% 88.8%
10.4% 77.6%
n.a n.a
3.9% 112.2%
4.8% 105.0%
21.5% 29.5%
10.4% 56.9%
4.2% 123.4%
8.1% 50.7%
6.8% 50.6%
6.9% 55.8%
17.1% 38.6%
17.1% 40.6%
n.a. n.a.

Serbia – Loan staging in the five largest banks – € *billion*



	Year	Problem loan ratio	Coverage ratio
Banca Intesa Sanpaolo	2020	2.8%	128.6%
	2019	3.3%	99.1%
	2018	6.2%	76.2%
Komercijalna banka NLB	2020	8.1%	65.3%
	2019	7.6%	76.1%
	2018	9.9%	73.0%
UniCredit	2020	3.5%	93.7%
	2019	3.4%	81.6%
	2018	3.4%	77.1%
Raiffeisen Bank	2020	3.0%	109.4%
	2019	3.0%	92.1%
	2018	4.2%	95.6%
otpbank	2020	2.5%	154.4%
	2019	2.9%	111.3%
	2018	4.6%	85.8%

Annex 4: Definitions

- **NPL volume (or gross NPLs):**
  - NPLs are defined and reported differently from country to country, as there is no international standard. For countries reporting financial soundness indicators (FSIs) to the IMF, the FSI Compilation Guide recommends reporting NPLs when: (i) payments of principal and interest are past due by 90 days or more; or (ii) interest payments equal to 90 days' interest or more have been capitalised, refinanced or rolled over; and (iii) loans are less than 90 days past due, but recognised as non-performing under national supervisory guidance.
  - European national supervisory authorities tend to use 90 days past due as a quantitative threshold, alongside 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 sets out the technical standards submitted by the EBA).
  - While most NPL data in this report are sourced from the IMF FSI, NPL data for Serbia come directly its central bank (from, for example, its financial stability reports, banking reports, macroeconomic reports and statistical databases). Serbia uses a definition in line with that of the IMF. Montenegro defines NPLs as loans that are more than 90 days past due, without interest, prepayments and accruals.
- **NPL ratio:** NPL volume divided by the total gross value of the loan portfolio (including gross NPLs 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, before the deduction of specific loan-loss provisions).
- **Net NPL/capital:** Net NPLs divided by capital. Capital is measured as capital plus reserves; 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, in the case of Serbia, as directly published). While most countries report to the IMF, they do not always report the same data. For example, some countries include loans among deposit-takers when calculating the total gross loan portfolio, while some exclude such loans (increasing their NPL ratio). Other specificities listed below may also create a slight upward or downward bias in the results. However, despite some discrepancies, the definitions and data used in this monitor are consistent overall between countries and can be relied on for comparability purposes.

		NPLs	Gross loans	Provisions (or Net NPLs)	Comments
1	**Albania**	- 90 days past due for the instalment loans; - 60 days past due for limit loans (ex. Overdrafts) - 60 days over limit usage for limit loans borrower's financial situation and inflows are assessed as insufficient to regularly meet the default liabilities; or the bank does not possess the complete required or updated information, needed to fully assess his financial condition	Book value of principal plus accrued interest. The accrued interest for non-performing loans, after becoming non-performing, is not counted.	Specific provisions for NPLs are counted for. Only financial collateral is taken into consideration for loan provisioning.	
2	**Bosnia and Herzegovina**	Until the fourth quarter of 2010 non-performing loans consisted of C (substandard, 90 days) and D category loans. E category loans are part of non-performing loans beginning from the fourth quarter of 2011.		From the fourth quarter of 2009, FSI used non-performing loans net of provisions to Tier 1.	
3	**Bulgaria**	Until 2014, non-performing loans were the risk exposures where principal or interest payments had been past-due over 90 days. Since 2015 the definitions and the scope of the NPLs have been in line with 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 EBA standards. The source of the data is the FinRep reporting template (F18, rows 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 the 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). However, a loan can be considered as a "pass" even if it is 90 days overdue if it is well covered with collateral and if the process of foreclosures has started.		Provisions refer to non-performing loans.	
5	**Cyprus**	From 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 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 non-performing.	This excludes non-current assets (or disposal groups) classified as held for sale.		
7	**Estonia**	Deposit-takers usually undertake loan reviews monthly, depending on the needs of any given credit institution. Collateral and guarantees are not taken into consideration. Restructured loans are treated as performing loans. There is no credit register in Estonia, but there is a register containing information on bad loans and problematic debtors only. If there is a problem with a loan granted by bank "A" and that debtor has also taken a loan from bank "B" and that loan "works well", bank "B" does not need to make any provisions or downgrade the loan.			
8	**Greece**	In accordance with EBA ITS on supervisory reporting, non-performing loans will comprise the exposures defined under Commission Regulation (EU) № 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**	Loans that are overdue by 90 days are classified as non-performing loans.	These are 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**	Non-performing 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.	According to EBA Guidance note compiling the IMF financial soundness indicators for deposit-takers using the ITS on supervisory reporting (June 2018 edition).	Provisions are the total amount of provisions (general and specific) for the total loan portfolio of the credit institutions.	

12	**Lithuania**	NPLs are the sum of impaired loans and advances and non-impaired loans and advances that are past due 60 days or more. In their accounting policies, banks specify the individual provisions and conditions under which interests on non-performing assets are not accrued. This includes interest accrued on some NPLs. This also includes some financial assets besides loans, for example, deposits and funds held in other banks and credit institutions.	This includes interest accrued on some NPLs. In their accounting policies, banks specify the individual provisions and conditions under which interests on non-performing assets are not accrued.		
13	**Montenegro**	NPLs include only principal, excluding interest due as well as accrued interest and fees. Loans are defined as non-performing using the 90-days past due criterion, or if there is a high probability of incurring losses due to clearly disclosed weaknesses jeopardising their repayment. According to CBM's "Decision on Minimum Standards for Credit Risk Management in Banks" ("Official Gazette of MNE", no. 22/12, 55/12, 57/13, 44/17, 82/17) loans are classified in five categories (A, B, C, D, E) depending on the probability of incurring losses. Loans that fall into C, D and E categories are considered to be non-performing. A loan that is over 90 days past due may not be classified in higher classification category other than C. Indeed, banks may determine a loan to be non-performing if they have evidence suggesting the inability of the borrower to repay debt.		Provisions refer to value adjustments as per IAS 39 / IFRS 9, as they are allocated by banks' own criteria. Apart from value adjustments, which are balance sheet data, there are also regulatory provisions, which are not balance sheet data. They are calculated by the CBCG-prescribed criteria and serve as a prudential filter. Namely, if regulatory provisions are higher than value adjustments for a particular loan, the difference essentially leads to a deduction from the bank's core capital.	
14	**North Macedonia**	"Non-performing credit exposure" shall denote: - credit exposure which on any basis (principal, interest, other non-interest claims) has not been collected in a period longer than 90 days from the maturity date, while the uncollected amount which is due for a period longer than 90 days is greater than: Denar 1,000 (for credit exposures to natural persons), Denar 3,000 (for credit exposures to small companies) or Denar 10,000 (for credit exposures to other legal entities); - credit exposure for which it has been determined that the client will not be able to meet his/her liabilities to the bank, regardless whether collateral has been established and regardless of the amount that has not been collected or the number of days of delay (unlikeness to pay). The bank shall assess whether there is unlikeness to pay by the client, at least on the basis of the following data and information: - blocked account of the client; - deteriorating risk category at a level of the banking system; - deteriorating financial position of the client; - client's work permit revoked by the competent body; - sale of another credit exposure from the client with a significant loss; - extension of grace period for payment of principal and interest longer than 18 months; - writing off which significantly reduces the amount of credit exposure All bank's credit exposures to one client-legal entity should be treated as non-performing credit exposures if the bank's on balance-sheet credit exposure which is past-due for more than 90 days exceeds 20% of the total balance-sheet credit exposure of the bank to that client. Amid the corona-crisis, amendments to the Decision on the methodology for credit risk management were introduced (adopted in March and April 2020). More specifically, these amendments allowed for temporary change of the definition of NPL. The threshold of 90 days past due for assigning the non-performing status was increased to 150 days past due for all clients with a performing status before the corona crisis (before entrance into force of the amendments). Moreover, banks were not obliged to apply provisions for determining clients' unlikeliness to pay nor the provision according to which all bank's credit exposures to one client-legal entity should be treated as non-performing credit exposures if the bank's on balance-sheet credit exposure which is past due for more than 90 days exceeds 20% of the total balance-sheet credit exposure of the bank to that client. Banks could use these exceptions until September 30th, 2020 for credit	This includes loans to financial and non-financial sectors.	Provisions include provisions for non-performing and performing loans.	Definitions on gross loans and provisions (or net NPLs) are published based on the IMF FSI compilation guide. The Central Bank also calculates and publishes on its website loans and non-performing loans in the non-financial sector only and net-NPLs netted by loan-loss provision against NPLs only.

		exposures that were determined as performing (classified in A, B or C risk category) as of February 29th, 2020 or were approved (as performing credit exposures classified in A or B risk category) in the period from 1 March to 30 September 2020. However, in order to adequately address the possible risks, banks were required to fully adjust to the existing "regular" criteria for determining non-performing credit exposures (90 days and unlikeliness to pay), not later than December 31, 2020.			
15	**Poland**	This excludes repurchase agreements that are not classified as deposits. It includes some other financial assets besides loans: data represent total receivables, such as originated loans, purchased receivables and guarantees that are being exercised. It excludes loans to the central bank. Deposit-takers in distress or in receivership are not included.	This excludes repurchase agreements that are not classified as deposits. It includes some other financial assets besides loans: data represent total receivables, such as originated loans, purchased receivables and guarantees which are being exercised. It excludes loans to the central bank.	From the first quarter of 2010, data include all receivables excluding the central bank. Banks that follow Polish Accounting Standards 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 are based on reports from all banks, for Romanian legal persons for which loans meet the non-performance criteria (overdue for more than 90 days and/or in which case legal proceedings were initiated). Since December 2015, based on a definition by the EBA: the ratio of the gross carrying amount of non-performing loans and advances to the total gross carrying amount of loans and advances.	These exclude loans among deposit-takers. Deposit-takers in distress or receivership are not included.	From June 2014 to December 2015, International Financial Reporting Standards impairment losses (provisions) for non-performing loans determined (based on reports from all banks) were subtracted from non-performing 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	**Slovak Republic**	Deposit-takers use not only quantitative criteria (in other words, 90-days past due criterion) but also their own judgement 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**	This includes all financial assets at amortised cost (not just loans) and some non-loan assets (tax assets, non-current assets and disposal groups classified as held for sale, and so on).	This includes all financial assets at amortised cost (not just loans) and some non-loan assets (tax assets, non-current assets and disposal groups classified as held for sale, for example).	All financial assets at amortised cost and that 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**	This is consistent with the criteria "of 90 days". Since the first quarter of 2017, NPLs include loans classified as the lowest class, in particular: class 10 – loans to corporate borrowers (excluding banks and state-owned entities); and class 5 – loans to other borrowers or counterparties accounted in the balance sheet. The bank is a legal entity with separate subdivisions in Ukraine and abroad.	Since the first quarter of 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. The bank is a legal entity with separate subdivisions in Ukraine and abroad.		

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