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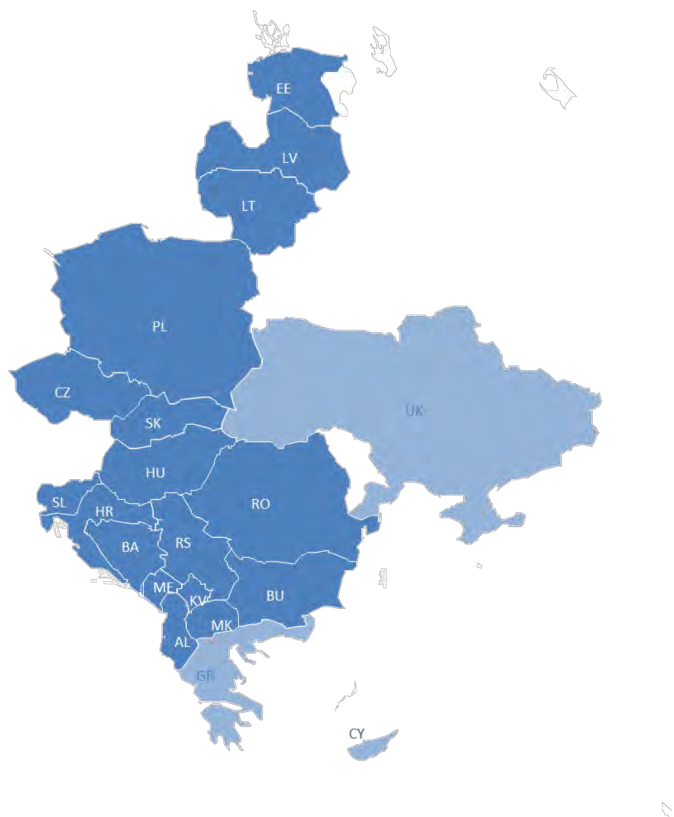
EBCI | Vienna Initiative

NPL Monitor for the CESEE region [1]

H1 2018

The NPL Monitor is the semi-annual publication of the NPL Initiative, a subset of the Vienna Initiative. It reviews the latest NPLs data[2] of 17 countries[3] in Central, Eastern and South Eastern Europe (CESEE) and reports on progress with recent structural reforms, recent NPLs transactions, and regional loan servicing capacities.



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[2] *30 September 2017 is the latest common date where data are available for (nearly) all of the countries covered in this Monitor. This date was therefore chosen for comparison purposes. Where Q3 2017 data was not available, data from Q2 2017 was issued (e.g. Lithuania).We note that some countries have made further improvements in resolving NPLs since then (e.g. the NPL ratio has dropped to 13.65% in Albania as of February 2018 and to 3.1% in Kosovo as of December 2017).This will be reflected in the next edition of the NPL Monitor.*

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

EXECUTIVE SUMMARY

The NPL situation has continued to improve in the CESEE since the last NPL Monitor, with NPL volumes reaching their lowest level in 7 years (€42.8 Bn as of 30 September 2017 for the region). This recent decrease in NPLs is mainly attributable to stricter write-off policies and improved NPL resolution. NPL transactions have been subdued in H2 2017 (with only €0.4 Bn realised) but there are signs of the market activity picking-up in 2018.

While there are still important disparities between countries, most jurisdictions have continued to implement reforms to resolve the remaining impediments to NPL resolution and sales. Moreover, the EU regulators have also been very active in introducing a broad range of new initiatives around NPLs. These are expected to put further pressure on adjacent countries to the European Union (EU) to align with these European best practices, particularly for accession countries and where subsidiaries of European banks are present.

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1. SNAPSHOT UPDATE SINCE THE LAST MONITOR

NPL Evolution in the CESEE

Overall, Non-Performing Loans (NPLs) continue improving across the CESEE, with the IMF latest figures[4,5] demonstrating a steady downward trend of the NPL volumes and ratios for all 17 countries reviewed. See section 2 for more details.

- The NPL volume in the region has considerably decreased, by 15.9% year-on-year (yoy), or €8.1 Bn, to €42.8 Bn[6] as of 31 September 2017, the lowest level in 7 years.
- The NPL ratio average for the CESEE stood at 5.3%, down by 1.4 percentage point[7] (pp) yoy.
- A large variation between countries however remains, with NPL ratios[8] ranging from 0.7% to 14.8%, and remains persistently high (exceeding 10%) in 5 of the 17 CESEE countries (Albania, Bosnia and Herzegovina, Bulgaria, Croatia and Serbia).
- The regions' coverage ratio average also rose to 63.2%, up from 61.9% a year earlier.

Progress with reforms

The continuous progress observed is attributable to a combination of policy actions taken in the region to reduce impediments to resolution and sales of NPL, which we discuss in section 4.

A. NPL Initiative (under the Vienna Initiative):

IFIs members of the Vienna Initiative continue providing a broad range of technical support related to NPLs across the region. For example,

- **Albania:** Presentation on 26 April 2018 in Tirana of a new approach for the resolution of large borrowers, which was designed by the Bank of Albania with the assistance of the World Bank (FinSAC).
- **Ukraine:**
  - The World Bank organized a conference in Kiev on 14 March 2018, to discuss legal barriers to resolution of NPLs in Ukraine.
  - EBRD organised a 2-day conference in Kiev on 25-26 April 2018, to commemorate the 1st year anniversary of the Law for Financial Restructuring and discuss the way forward for sound NPL resolution. The event was organised by EBRD, in collaboration with the IMF, World Bank and the Independent Association of Banks of Ukraine, and brought over 120 attendees from the industry banks.[9]

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4 *Unless stated otherwise, all data are sourced from the IMF Financial Soundness Indicators (IMF FSI), available here http://data.imf.org/regular.aspx?key=61404590, accessed on 20 April 2018. For individual countries definitions and to allow more precise comparisons, it is advised to consult the IMF FSI metadata and to refer to the individual country authorities for further details. Please also refer to the Appendix section for more details. Unless stated otherwise, NPL refers to Gross NPL across the document.*

5 *See footnote 2*

6 *All data sourced in local currency is converted to US$ and then €, using IMF exchange rates available here: National Currency per US Dollar, end of period http://data.imf.org/regular.aspx?key=61545862*

7 *See footnote 19*

8 *NPL ratio is calculate by taking the NPL volume as the numerator, and the total gross value of the loan portfolio (including gross NPLs, i.e. before the deduction of specific loan-loss provisions)as the denominator. See appendix for definitions.*

9 *NPL Initiative website, (link)*

- **Greece:** EBRD is organising[10] a 5-day restructuring course in Athens from 14-18 May 2018 for bank workout practitioners from Greece and Cyprus ("Problem Loans, Distressed Debt Restructuring and Introduction to Distressed Debt Sales").

B. European regulatory landscape with NPLs:

The ambitious NPL action plan of the Council of the EU[11] published in July 2017 continued to be implemented by European regulators.

- A broad range of recent market defining initiatives were introduced in Europe, such as, amongst others, the EBA NPL Templates[12], the ECB prudential supervisory expectations for NPL provisioning[13] and the EBA Draft Guidelines[14] on management of non-performing and forborne exposures.
- The latest development is EBA's publication on 27 April 2018 of a Consultation Paper on its Draft Guidelines on Disclosure of non-performing and forborne exposures.[15]
- We expect these European initiatives to also have a spill over effect on adjacent and accession countries to the EU, particularly where European subsidiaries are present.

Evolution of NPL transactions in CESEE

- The loan sales activity amounted to €3.8 Bn between January 2017 and April 2018 (with an estimated additional €1.1 Bn ongoing), with sales activities in 10[16] of the 17 CESEE countries.
- However a slowdown in the pace of NPL sales can be observed in the region in H2 2017, with only €0.4 Bn realised.
- This slowdown in sales is attributable to many of the large banks' NPL portfolios ready for sale having been sold and the focus of investors turning south to Cyprus and Greece, as portfolios are reaching the market.
- We expect the situation in H2 2017 to be only temporary and new regulations are foreseen to continue putting pressure on banks to deleverage further their NPLs.
- A slow pick-up is evidenced by sales activity in Q1 2018 being more than double the volume than that in H2 2017. However, investors still remain less dynamic than the 24 months leading up to June 2017, due to other competing hot markets such as Italy and Greece.
- As a result of the numerous transactions realised in recent years, we can observe considerable improvements in specialised servicing capabilities in the region. While cross-border servicing remains challenging, we see the number of firms operating in the region growing across asset classes and types of services. We provide a list of firms operating in the region[17] in Table 3.

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[10] *In cooperation with Euromoney Learning Solutions and Deloitte*

[11] *European Council, Council conclusions on Action plan to tackle non-performing loans in Europe , July 2017, (link)*

[12] *EBA, NPL transaction templates, (link)*

[13] *ECB, Public consultation for the prudential backstops for NPLs (addendum to the ECB NPL Guidance to Banks on NPL management), (link)*

[14] *EBA, Guidelines for credit institutions on how to effectively manage non-performing exposures and forborne exposures, (link)*

[15] *EBA, EBA consults on Guidelines on disclosure of non-performing and forborne exposures, (link)*

[16] *Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Latvia, Poland, Romania, Serbia, Slovenia*

[17] *To EBRD's knowledge; please inform us of any inaccuracy or omission. This will be included in the next issue of the Monitor.*

2. NPL EVOLUTION IN CESEE

NPLs volumes continue their reduction in the CESEE

- On a region-wide basis, the NPL volume has recorded a substantial decrease[18] of 15.9% (or €8.1 Bn) in the 12-month period leading up to September 2017.
- The reduction in the NPL volume across the region was primarily attributable to decreases in NPL stock in Poland (€12.2 Bn, -1.4% yoy), Czech Republic (€5.2 Bn, -13% yoy), Bulgaria (€4.8 Bn, -11.5% yoy), Romania (€4.6 Bn; -20.6% yoy) and Croatia (€4.4 Bn; -16.7% yoy).
- Hungary, Serbia and Slovenia achieved the largest variation yoy with a drop of 45%, 35% and 31% respectively in their NPL volumes.
- However, a significant drop in the CESEE market activity has been recorded in H2 2017. The relatively stable market absorption in the three semesters leading up to June 2017 (€2.3 Bn per semester on average) dropped by about 80% to €0.41 Bn in H2 2017.
- Structural reforms have been made to help improve the business environment and deepen NPL secondary markets, but several regulatory, legal and tax impediments to market entry remain in many of the CESEE countries. Additionally, a squeeze in margins in certain key markets (such as Romania) has constrained NPL investors' appetite.
- A further €146.4 Bn in NPLs stock were recorded in Cyprus, Greece and Ukraine. While both Cyprus and Greece have seen their NPL volumes decrease since September 2016 (yoy by 13.2% and 4.6% respectively), Ukraine have increased its stock yoy by +32.7%. Despite the efforts to reduce the level of NPLs in Cyprus, they still represent 113% of GDP.

The NPL ratio has decreased for all 17 countries of the CESEE region

- As of September 2017, the NPL ratio (as a proportion of NPLs to total gross loans) across the CESEE was 5.3%, down 1.4 pp since September 2016.
- The Net NPL ratio (net of provision)[19] in the CESEE region stood at 2%, down 0.6 pp in the last 12 months.
- All 17 countries have recorded a drop in their NPL ratio and no country recorded a NPL ratio above 15%.
- Serbia and Albania recording the largest improvement with -7.3 pp and -6.5 pp yoy respectively.
- However, the NPL ratio on a country-by-country basis continues to vary greatly, ranging from a low of 0.7% in Estonia to a high of 14.8% in Albania.
- NPL ratios remain high, exceeding 10% in five countries: Albania (14.8%), Croatia (12.3%), Serbia (12.2%), Bulgaria (11.6%)[20] and Bosnia and Herzegovina (10.8%).
- During the period, Albania dropped below the 20% threshold and Montenegro below the 10% threshold.

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[18] *Any variations between volumes are calculated as ((value period 1/value period 0) -1) and between ratios as (% period 1 - % period 0).See Appendix for all definitions.*

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

[20] *Bulgaria's improved NPL ratio is also the result of a change in NPL ratio computation methodology. See footnote 2, Appendix 1.*

- Albania's declining ratio is attributed largely to mandatory write-offs and Bank of Albania's proactive approach in facilitating the resolution of large borrowers' NPLs. In contrast, NPL sales in Albania have been limited due to low expected recovery rates and tax impediments.

NPL coverage ratios have also improved in the last 12 months

- Across the CESEE the NPL coverage ratio (measured as the proportion of loan-loss provisions to NPLs) has increased to 63.5% as of September 2017, a small 1.6 pp improvement yoy.
- On a country-by-country basis Kosovo, Latvia and FYR Macedonia still have the highest NPL coverage ratio with 89.7%, 87.9% and 78.3% respectively.
- The countries with the lowest NPL coverage ratio were Estonia and Lithuania at 22.2% and 42.3% respectively, with Lithuania also maintaining a relatively high Net NPL/capital ratio at 21%. However, both countries have decreased their NPL volumes (by 25% and 21.5%) and maintain a low NPL ratio (0.7% and 3.3%), thereby reducing risks associated with lower coverage.
- Despite suffering from the highest NPL ratio in the region, Albania has made substantial improvements in terms of provisioning recording the largest coverage ratio increase (+8pp), bringing it well above the regional average. This is partly explained by a drop in NPL volume (-28.1%)[21].

[21] *In local currency, the decrease of NPL volume was 29,7% in the period Q3 2016 to Q3 2017 (source: Bank of Albania).*

Figure 1a. NPL ratio, coverage ratio and volume (%, € Bn, September 2017)[22]

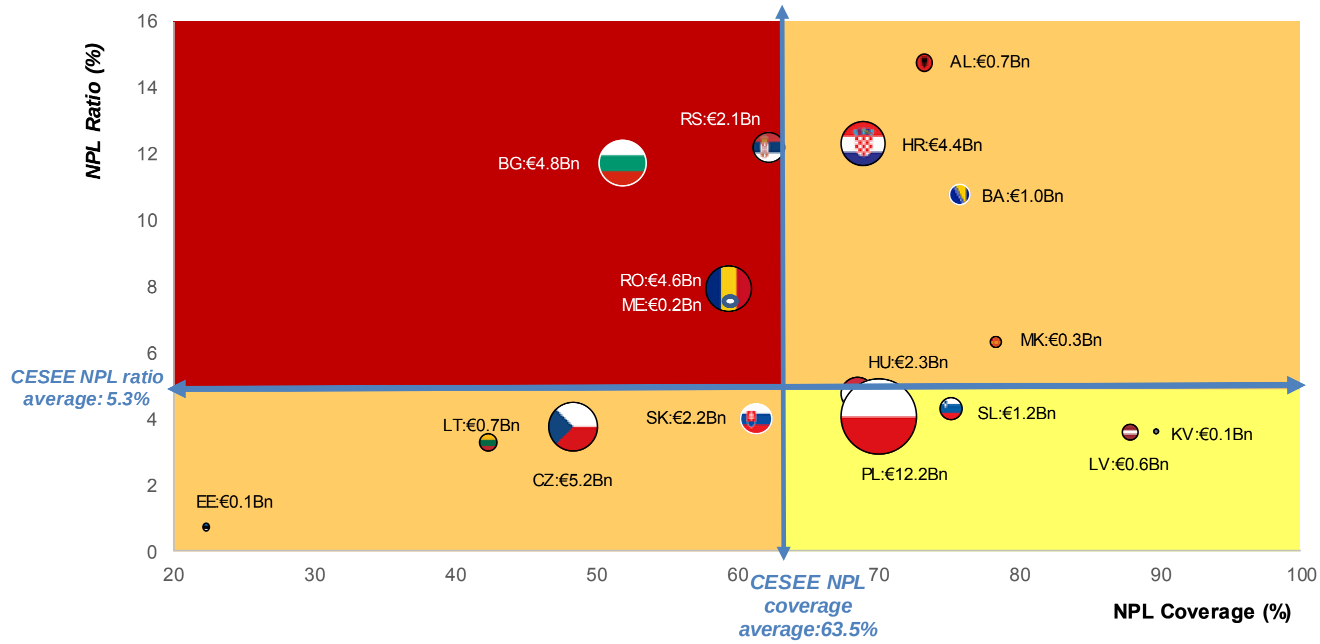


Figure 1b. NPL ratio and NPL coverage ratio as per colour-quadrants in Figure 1a (%, September 2017)

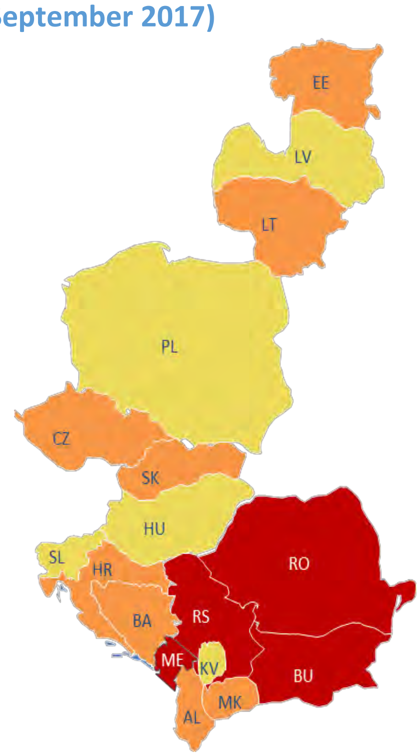
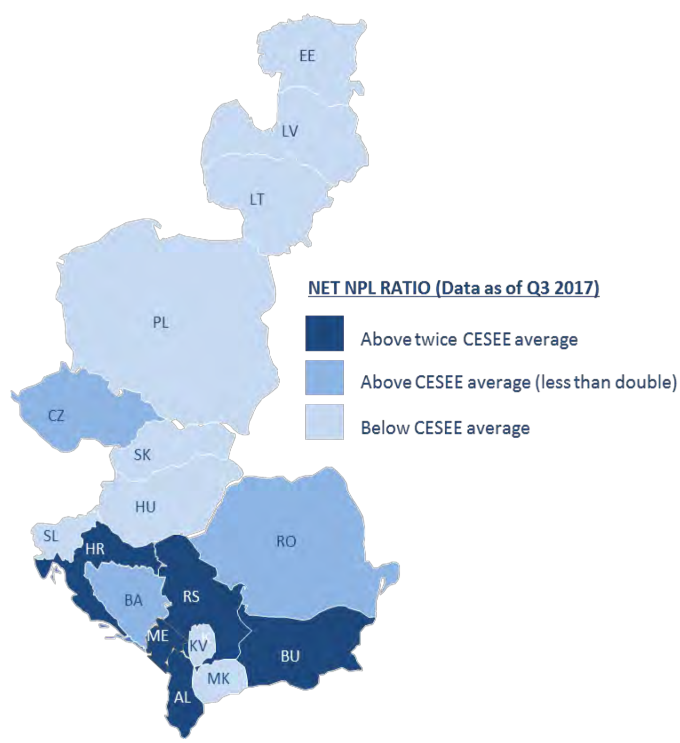


Figure 1c. Net NPL ratio (%,September 2017)



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[22] *See footnotes 2-4 and Appendix with definitions and metadata*

Table 1. Overview of the NPL profile in CESEE, 30 June 2016 to 30 June 2017 [23, 24, 25, 26, 27]

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

	NPL volume (€ bn)		NPL ratio (%)		NPL coverage ratio		Net NPL ratio (%)		Net NPL / Capital (%)		NPL to GDP (%)	
Country	Sep-17	Variation(%)	Sep-17	Δ(pp)	Sep-17	Δ(pp)	Sep-17	Δ(pp)	Sep-17	Δ(pp)	Sep-17	Δ(pp)
Albania (AL)	0.7	▼ (28.1)	14.8	▼ (6.5)	73.2	▲ 8.0	4.0	▼ (3.5)	16.9	▼ (15.1)	5.8	▼ (2.6)
Bosnia & Herzegovina (BA)	1.0	▼ (5.3)	10.8	▼ (1.3)	75.8	▲ 3.0	2.6	▼ (0.7)	15.9	▼ (4.2)	6.3	▼ (0.6)
Bulgaria (BG)	4.8	▼ (11.5)	11.7	▼ (2.3)	51.8	▲ 1.0	5.6	▼ (1.3)	38.9	▼ (6.6)	9.6	▼ (2.3)
Croatia (HR)	4.4	▼ (16.7)	12.3	▼ (2.1)	68.9	▲ 0.9	3.8	▼ (0.8)	17.4	▼ (5.5)	9.1	▼ (2.3)
Czech Republic (CZ)	5.2	▼ (13.0)	3.8	▼ (1.0)	48.3	▲ 2.1	1.9	▼ (0.6)	15.1	▼ (5.2)	2.7	▼ (0.7)
Estonia (EE)	0.1	▼ (25.0)	0.7	▼ (0.3)	22.2	▼ (2.8)	0.6	▼ (0.2)	3.6	▼ (2.0)	0.6	▼ (0.3)
Hungary (HU)	2.3	▼ (44.9)	4.8	▼ (4.2)	68.5	▼ (2.4)	1.5	▼ (1.1)	7.0	▼ (5.8)	2.0	▼ (1.8)
Kosovo (KV)	0.1	▼ (20.9)	3.6	▼ (1.4)	89.7	▼ (1.3)	0.4	▼ (0.1)	2.0	▼ (0.5)	1.4	▼ (0.5)
Latvia (LV)	0.6	▼ (16.3)	3.6	▼ (0.4)	87.9	▲ 5.9	0.4	▼ (0.3)	2.4	▼ (2.0)	2.3	▼ (0.7)
Lithuania (LT)	0.7	▼ (21.5)	3.3	▼ (1.6)	42.3	▼ (0.3)	1.9	▼ (0.7)	21.0	▼ (6.8)	1.7	▼ (0.5)
FYR Macedonia (MK)	0.3	▼ (7.5)	6.3	▼ (0.7)	78.3	↔ 0.0	1.4	▼ (0.2)	7.6	▼ (1.3)	3.0	▼ (0.5)
Montenegro (ME)	0.2	▼ (21.6)	7.4	▼ (2.8)	59.5	▲ 7.6	3.0	▼ (1.9)	0.0	▼ (24.5)	5.0	▼ (1.7)
Poland (PL)	12.2	▼ (1.4)	4.1	▼ (0.3)	70.0	▼ (0.2)	1.2	▼ (0.1)	9.1	▼ (0.6)	2.7	▼ (0.2)
Romania (RO)	4.6	▼ (20.6)	8.0	▼ (2.0)	59.4	▲ 4.9	3.2	▼ (1.3)	21.2	▼ (9.5)	2.6	▼ (0.9)
Serbia (RS)	2.1	▼ (35.0)	12.2	▼ (7.3)	62.2	▼ (3.2)	4.6	▼ (2.1)	14.3	▼ (6.8)	5.7	▼ (3.9)
Slovakia (SK)	2.2	▼ (4.5)	4.0	▼ (0.6)	61.3	▲ 4.9	1.6	▼ (0.5)	10.7	▼ (2.6)	2.6	▼ (0.2)
Slovenia (SL)	1.2	▼ (30.7)	4.3	▼ (2.0)	75.1	▲ 5.8	1.1	▼ (0.9)	7.7	▼ (6.1)	3.0	▼ (1.5)
CESEE	42.8	▼ (15.9)	5.3	▼ (1.4)	63.2	▲ 1.2	2.0	▼ (0.6)	2.4	▼ (14.6)	3.2	▼ (0.8)
Cyprus (CY)	21.2	▼ (13.2)	43.1	▼ (8.2)	45.8	▲ 6.4	23.4	▼ (7.7)	190.5	▼ (32.1)	113.4	▼ (23.6)
Greece (GR)	106.3	▼ (6.8)	46.6	▼ (0.5)	47.5	▼ (0.7)	24.5	▲ 0.1	177.7	▲ 5.7	58.7	▼ (6.4)
Ukraine (UK)	18.9	▲ 32.7	56.4	▲ 25.4	76.9	▲ 11.0	13.0	▲ 2.5	82.2	▼ (9.4)	22.7	▲ 4.7
Other	**146.4**	▼ **(4.2)**	**47.1**	▲ **1.6**	**50.6**	▲ **2.2**	**23.3**	▼ **(0.2)**	**167.8**	▼ **(2.3)**	**51.7**	▼ **(4.4)**
Total Countries	**189.2**	▼ **(7.1)**	**17.0**	▼ **(1.6)**	**53.4**	▲ **1.6**	**7.9**	▼ **(1.0)**	**12.8**	▼ **(48.5)**	**11.6**	▼ **(1.6)**

[23] *Variation (%) is calculated as ((value period 1/value period 0) -1), with September 2017 as period 1 and September 2016 as period 0.*
[24] *Δ (pp) is the variation, expressed in percentage points, between 2 periods. It is calculated as (% period 1 - % period 0).*
[25] *Bulgaria: in 2015, the methodology to compute NPL has changed and is now based on EBA standards (see more details in Appendix 1). Figures reported to the IMF FSI are comparable from December 2015 onwards (which is the case here).*
[26] *See footnote 2. Where Q3 2017 data was not available, data from Q2 2017 was issued (e.g. Lithuania).*
[27] *Data for Greece was sourced from the EBA Risk Dashboard (data as of Q2 2017 and data as of Q4 2017) instead of IMF FSI to allow comparability between periods. In 2017, Bank of Greece complied with the EBA NPE definition requirements when reporting the IMF FSIs. This change was considered in the IMF Country Metadata for 2017 but historical data remained on the prior definition. The EBA data is provided on the same definition for both periods, September 2016 and September 2017, and allows comparison.*

3. PROGRESS WITH REFORMS[28]

Regulators, international financial institutions (IFIs) and the banking industry continue working together to define solutions for the reduction of the high level of NPLs stock in Europe

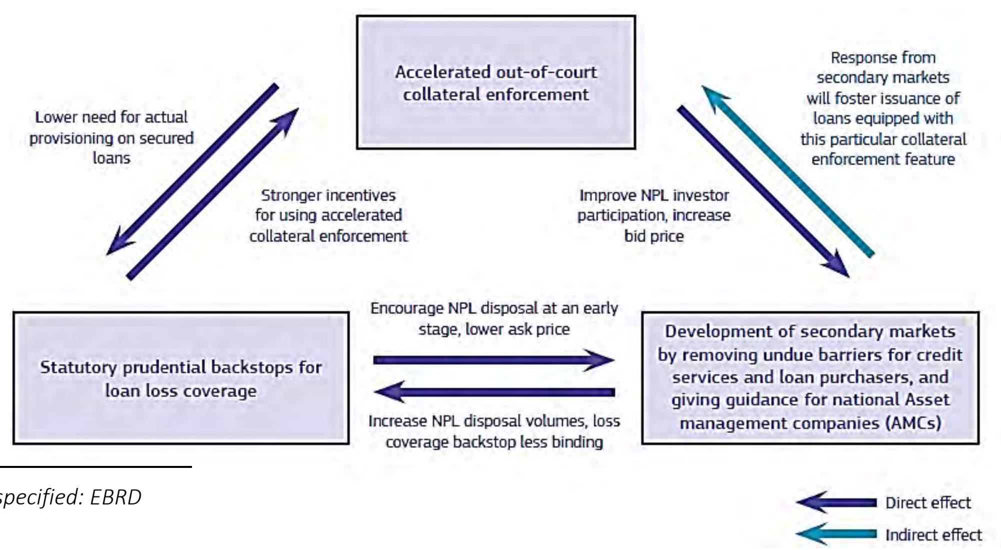
As the EU continues its focus on reducing Europe's NPL problem with ambitious regulatory measures planned for the next 12 months in Europe, this is expected to have positive spill over effects, including to a certain extent on adjacent non-EU CESEE countries. Hence, CESEE countries are likely to continue their efforts on improving their NPL resolution framework and attracting NPL investors. In that context, it is crucial that the dialogue and knowledge-sharing around best practices for NPL solution remain active, including via technical assistance from IFIs and access to information on platforms such as the NPL Initiative website.

Activities at European level addressing NPLs

The Council adopted in July 2017 an "Action Plan on reducing NPLs in Europe"[29], which calls upon various EU regulators) to take appropriate measures to address the challenges of high NPLs in Europe. Below is a summary with its key actions, timeline and updated status.[30]

The European Commission (EC) also published Progress Reports in January[31] and March 2018[32] on the Reduction of NPLs in Europe. Despite good progress, more needs to be done to address remaining stocks of NPLs and possible build-up in the future.[33] The EC published an ambitious and comprehensive package of measures in March to tackle remaining NPLs in Europe (see figure 2).[34]

Figure 2: EU's comprehensive package of measures to tackle NPLs[35]



[28] Source when not specified: EBRD
[29] See footnote 11
[30] See footnotes 28,31 and 32 and KPMG analysis.
[31] European Commission, First Progress Report on the Reduction of NPLs, January 2018 (link)
[32] European Commission, Second Progress Report on the Reduction of NPLs, March 2018 (link)
[33] European Commission, Press release, (link)
[34] See footnote 33 and European Commission, Memo/18/1803, (link)
[35] European Commission, (link) and (link)

Some highlights of recent regulatory publications as a response to the EC action plan on NPLs

- The EBA introduced in December 2017 NPL transaction templates[36] for the screening, due diligence and valuation of nonperforming loans.
- The EBA launched a consultation (which runs until 8 June 2018) on its proposed Guidelines[37] for credit institutions on how to effectively manage non-performing exposures (NPEs) and forborne exposures (FBEs).[38]
- The EBA also updated its Risk Dashboard[39] in April 2018 showing significant improvements across EU banks but stressing that elevated NPLs remain a challenge to profitability.[40]
- The ECB published in March 2018 its final Addendum to its NPL Guidance on NPLs specifying supervisory expectations for prudential provisions of NPEs (Pillar 2 measure).[41]
- The EC published its proposal to amend the Capital Requirements Regulations to introduce a provisioning backstop for NPEs, which would affect all banks in EU-27 countries (Pillar 1 measure).[42]
- The EBA published in March 2018 its advice[43] on the expected impact that a statutory prudential backstop (as proposed by the EC) would have on banks.

[36] *See footnote 12*
[37] *European Banking Authority, Consultation paper,* (link)
[38] *European Banking Authority, news,* (links)
[39] *European Banking Authority, Risk Dashboard, Data as of Q4 2017, (*link)
[40] *European Banking Authority, news,* (link)
[41] *European Parliament, Briefing on NPLs: Stocktaking and challenges,* (link)
[42] *See footnote 33 and 34*
[43] *European Banking Authority, Report on statutory prudential backstops,* (link)

Summary of measures under the European Council NPL Action Plan [44,45]

Following the publication in November 2016 by the EC of a proposal for a Directive on reforming preventive restructuring frameworks and insolvency laws[46], the EC also published in March 2018 a new proposal for a Directive to enable accelerated out-of-court enforcement of loans secured by collateral[47]. While there is currently no indication of when these would enter in force when final, these would greatly contribute to harmonising NPL resolution frameworks across the EU.

	European Commission	European Banking Authority	European Central Bank	Other
Managing the stock of NPEs	Results of the benchmarking exercise on national loan enforcement/insolvency regimes (by end-2017)	Proposed Guidelines on NPEs and FBEs (March 2018, draft in consultation)	NPL Guidance for directly supervised banks (March 2017)	Supervision of banks not directly supervised by the ECB, including outside the banking union (continuing)
	Interpretation of existing supervisory powers laid down in EU legislation with a view to clarifying their usability as regards banks' provisioning policies for NPLs under Article 16 of CRD IV. European Council to consider amendment to Art. 104 CRD IV (by summer 2018)	Guidelines for banks on loan tapes monitoring (incl. minimal information requirements) (by end-2017)	NPL Guidance for non-directly supervised banks in banking union (End-2018)	
		Guidelines on NPL management, consistent with ECB Guidance to banks on NPLs (by summer 2018)		
		Enhanced disclosure requirements on asset quality and NPLs to all banks (in consultation with ESMA, and competent authorities) (by-end-2018)	Intensive supervision and regular assessments (SREP) (continuing)	
Managing the flow of new NPEs	Statutory prudential backstop (proposed Regulation, March 2018)	Guidelines on loan origination, monitoring and governance (by summer 2018)	Supervisory expectations for prudential provisioning of NPEs (March 2018)	ESRB to develop macro-prudential approaches to prevent the emergence of system-wide NPL problems (by end-2018)
Increasing investor demand for banks' NPEs	Blueprint for national asset management companies (March 2018)	NPL transaction templates to provide data transparency for investors (December 2017)	Supervisory expectations for provisioning against stock of NPEs (Addendum to the ECBs guidance on NPLs) (October 2017)	Implementation of IFRS 9 (from January 2018)
	Proposed Directive on credit servicers, credit purchasers and the recovery of collateral (March 2018)			
Improving market structure	Proposed Directive on insolvency, restructuring and second chance (November 2016)			Member states to consider carrying out dedicated peer-reviews on national insolvency regimes (by end-2018)

Legend: Published | On-track/forthcoming | Delayed

[44] *See footnote 30 and 34*

[45] *Adapted from KPMG, Report on "EBA Guidelines on non-performing and forborne* exposures", *(link)*

[46] *European Union, EUR-lex,(link)*

[47] *European Union, EUR-lex,(link)*

Highlights of reforms and measures implemented in the last 6 months or underway for the five "partner countries" under the Vienna Initiative 2.0

Albania

- **Bankruptcy law:** Prepared by the Albanian government in collaboration with the IFC (World Bank Group) and approved by the Parliament on 26 October 2016.[48,49,50] The first drafts of bylaws for its implementation (notably, of insolvency practitioner profession) have been prepared with the support of the IFC and approval is expected in May 2018. While implementation of the new law is outstanding, adoption of the bylaws is encouraged to create the adequate implementation framework.[51]
- **Upgrade of Credit Register and establishment of a credit bureau:** Following an initial assessment and a feasibility study commissioned by EBRD finalized first half of 2017, the Central Bank of Albania (BoA) has concluded to the difficulty of introducing a full credit scoring system within the existing Credit Register. As a result, the Albanian Association of Banks has undertaken the initiative of establishing new comprehensive Credit Bureau. The EBRD is in the process of recruiting consultants in 2018 to provide technical assistance in the initial phase of setting up this credit bureau.
- **Out-of-Court debt Restructuring (OOCR):** In 2016, in further consultation with banks, the BoA unified and revised the guidelines[52] set in 2013. Since October 2017, the BoA is preparing, with the assistance of the World Bank, a final draft of the new Framework for OOCR, expected to be approved by the Supervisory Council of BoA in June 2018[53].
- **Financial health assessment of top Albanian corporates:** The IFC and FinSAC sponsored a study conducted by Deloitte of the financial health of top Albanian corporates. The report analyses different financial ratios across industries, covering a period from 2014 to 2016, and will be published in June 2018.

Croatia

- **New Bankruptcy Act and further amendments:** In 2017, the MoJ launched a process to eliminate inconsistencies and unclear provisions from the new Bankruptcy Act. In that context, EBRD and the MoJ co-organised in October 2017 a workshop in Zagreb about "strengthening

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[48] IMF, Staff Report for the 2016 Article IV Consultation in Albania, June 2016 (link)
[49] EBRD Resident Office Albania
[50] IMF, Staff Concluding Statement of the 2017 Article IV Mission in Albania, October 2017 (link)
[51] See footnote 50
[52] Bank of Albania, (link)
[53] For complete implementation of the approach a reporting package has already been drafted since January 2018 and delivered to banks for periodic data submission. Individual plans or resolution of large borrowers, performing and non-performing, consisting of an exposure larger than 10% of the regulatory capital, is closely monitored and discussed with banks where informed is delivered periodically every quarter.

the legal framework for bankruptcy and pre-bankruptcy proceedings in Croatia"[54]. The workshop outlined the need for amendments to the Bankruptcy Act to encourage the effective implementation of the pre-bankruptcy settlement procedure, OOCR, and the training of insolvency office holders and members of the judiciary. A resulting EBRD report will be presented before the authorities in spring 2018 with a set of recommendations on strengthening the framework for bankruptcy and pre-bankruptcy proceedings, following which a number of amendments are expected to be enacted by the MoJ in 2018.

- **Framework for insolvency and restructuring practitioners:** The EBRD is assisting the MoJ with strengthening the framework for insolvency and providing training for IRPs raising the capacity of all stakeholders. The objective is to encourage outside investments, improve the prospects for recovery of viable yet struggling businesses and their employees and to secure the long-term health of the banking and financial sector. The project, kicked off in March 2018 will be carried out in two phases (i) analysis of the existing regulatory framework for IRPs based on which (ii) an IRP training methodology and training materials will be prepared and IRPS be trained. The MoJ is to set up a pilot group in Q2 2018 to monitor the project and ensure trainings of IRPs in the future. Assessment of the current framework and design of a uniformed training methodology expected to be completed in Q4 2018.
- **Regional study on the deficiencies in the legal framework for the enforcement of creditor claims:** Prepared by EBRD and discussed in March 2018 with the local authorities, who are committed to carrying out a major overhaul of the Enforcement Act and related legislation. EBRD is expected to present specific recommendations by May/June 2018.

Hungary

- **New MNB recommendation on out-of-court restructuring:** developed with technical assistance of EBRD and officially in force since June 2017[55], it sets out best practice guidelines on OOCR and consensual settlement of NPLs in the corporate sector. The recommendation, applicable since November 2017 is technically non-binding but is expected to have significant power of persuasion and to be an important tool for NPL resolution. A workshop was jointly organized by the National Bank of Hungary (MNB) and EBRD in October 2017 to clarify and promote the use of the recommendation.[56]
- **Systemic Risk Capital Charge:** Effective since July 2017, this additional capital buffer applies to banks with large portfolios of commercial real estate (CRE) NPLs.[57] As part of its annual review, the Financial Stability Board of the MNB in December 2017 to maintain the countercyclical capital buffer rate applicable from 1 January 2018 at 0%, with a view to supporting lending.[58] The capital buffer rates, ranging from 0.125% to 2%, will gradually increase until 2020. It was designed to provide significant incentives for banks to clean up their balance sheet, especially in

[54] *EBRD,(link)*
[55] *MNB, Recommendation 6/2017, Official Announcement (link) and Document (link)*
[56] *EBRD, (link)*
[57] *IMF Staff Report for the 2017 Article IV Consultation in Hungary, May 2017 (link)*
[58] *The Magyar Nemzeti Bank, Press release, (link)*

relation to commercial real estate exposures, thereby increasing the stability and resilience of the financial intermediary system across credit cycles.[59]

Montenegro

- **International Financial Reporting Standards (IFRS9):** The authorities introduced IFRS9, which is expected to result in more stringent provisioning practices. [60]
- **Law on Voluntary Financial Restructuring in line with the "Podgorica Approach": i**nitially with a 2-year validity period ending in May 2017, the law has been extended yet another year to May 2019 and the Parliament adopted in June 2017 amendments to broaden coverage of assets under restructuration and increase participation incentives (e.g. fast-track procedure to confirm prepackaged workout plans, lower administrative costs, tax incentives, revised disclosure requirements). Since the adoption of amendments, loans restructured through the Law reached EUR 23 million as of February 2018 and resulted in an estimated 8.5% decline in the NPL portfolio.[61]
- **Law on Financial Leasing, Factoring, Purchase of Receivables, Micro-Lending and Credit-Guarantee Operations:** Enacted in October 2017 to regulate provisioning of factoring services and purchase of receivables. This is essential as factoring grew rapidly in recent years in view of the significant decline in NPLs being mostly the result of the transfer of non-performing assets from the banks' balance sheet to factoring companies.[62] The Law is expected to improve legal clarity and legal certainty of non-bank financial services, increase efficiency of provision of services on the supply side and protection of consumers' rights on the demand side, as well as enhance the supervisory and regulatory role of the Central Bank.[63]
- **Alignment with EU Regulation:** the authorities are amending a number of legislations to transpose the EU directives on capital requirements, banking recovery and resolution and deposit insurance.[64] The proposed Development Policy lending (DPL)/Policy-Based Guarantees (PBG)-2 aims to support further strengthening of the financial safety net through amendments to the Banking Law, enactment of the Bank Recovery and Resolution Law and the Deposit Protection Law (both of which going through internal reviews[65]), and of the financial sector supervisory framework through the adoption of the new Banking Law (envisioned by end-2018[66]).[67]Montenegro is expected to adopt by 2019 amendments to the Decision on the minimum standards for management of credit risk in line with the EBA guidelines to (a) prohibit

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[59] *EBRD Resident Office Hungary and footnote 57*

[60] *IMF, Staff Concluding Statement of the 2018 Article IV Mission, 7 March 2018 (link)*

[61] *World Bank*

[62] *International Bank for Reconstruction and Development, Document for a proposed first fiscal and financial sector resilience policy-based guarantee, (link)*

[63] *See footnote 62*

[64] *See footnote 62*

[65] *EBRD Resident Office in Montenegro*

[66] *See footnote 65*

[67] *See footnote 62*

banks to classify assets as performing or nonperforming on the basis of adequate collateral, rather than the borrowers' ability to repay; and (b) strengthen requirements for reclassification of nonperforming assets to higher categories ensuring uniform prudential treatment of restructured loans.[68]

Serbia

- **"NPL Resolution Strategy" and "Action Plan"**[69]: An update of the NPL Resolution Strategy, potentially with focus on state-owned NPLs and remaining obstacles (e.g. for efficient resolution of NPL portfolios managed by the Deposit Insurance Agency, the Development Fund and the Export Credit and Insurance Agency) is foreseen as the implementation of the current Strategy ends in August 2018.[70]
- **Law on Real Estate Appraisers**: It was put into effect in June 2017.[71,72] Amendments are expected to be implemented in 2018 to the regime that regulates the profession of court-sworn experts to ensure their real estate appraisals prepared during enforcement procedures are aligned with these standards.[73]
- **Rights of NPL Purchasers:** The MoJ formed a Working Group (WG) for the preparation of amendments to the Civil Litigation Law (expected to be implemented by end of H1 2018), to grant unconditional right to the new creditor (NPL acquirer) to take over an ongoing dispute without additional consent from the counterparty. Planned by the end of H1 2018. A new interpretation of the Law on Enforcement and Security was published by the Parliament in December 2017 to improve efficiency of corporate and entrepreneurial debt enforcement.[74] This will resolve a legal ambiguity and misinterpretation of the Law related to the transfer of the seller's rights to the buyer of distressed assets, further stimulating the NPL market, and enhancing pricing mechanisms.[75]
- **Consensual Financial Restructuring (CFR):** Plan published by the Serbian Chamber of Commerce with the aim of improving and promoting out-of-court debt restructuring.[76]
- **Bankruptcy Law:** Amendments adopted in December 2017 to improve in-court debt resolution and mortgage framework and to enhance the insolvency regulatory framework. A Working Group for the preparation of all necessary by-laws was formed in January 2018. Furthermore,

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[68] *See footnote 62*
[69] *Ministry of Finance, NPL Resolution Strategy, Executive Summary and Action Plan, March 2018 (link)*
[70] *EBRD Resident Office in Serbia*
[71] *National Assembly of the Republic of Serbia, Adopted Law, (link)*
[72] *Report of the Working group for the NPL Resolution Strategy Action plan for the Implementation of the NPL Resolution Strategy for the Q2 and Q3 of 2017, (link)*
[73] *Serbia, Letter of Intent to IMF, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding, December 2017 (link)*
[74] *See footnote 73*
[75] *IMF, Eight Review under the Stand-by arrangement – Republic of Serbia, December 2017 (link)*
[76] *Serbian Chamber of Commerce, (link)*

the Judicial Academy realized trainings during 2017 for all judges in Serbian commercial courts on the application of the Bankruptcy Law.[77]

- **Supervisory Guidance for Loan-Loss Provisioning:** National Bank of Serbia adopted a number of regulations in November 2017[78] to support the implementation of IFRS9, including in the field of accounting and financial reporting and with strengthening its own analytical and supervisory capacity.[79] Basel III capital and liquidity standards have been effective starting end-June 2017, and additional capital requirements are in place but while the required reserves for estimated loan losses will remain in force until 2019, recent amendments allow banks to reduce their required reserve in accordance with improvements of their NPL ratios.[80]

[77] *See footnote 73 and 75*

[78] *National Bank of Serbia, Regulations to enable application of IFRS 9 in Banks, November 2017*, *(link)*

[79] *IMF, Sixth Review under the Stand-by arrangement – Republic of Serbia, December 2016 (link)*

[80] *IMF, Seventh Review under the Stand-by arrangement – Republic of Serbia, September 2017 (link)*

4. EVOLUTION OF NPL TRANSACTIONS IN CESEE[81]

NPL Sales

- NPL transactions in the CESEE region have been quite dynamic since 2015 with ca. €11 Bn in NPL transactions in ten CESEE countries[82], of which ca. €1.6 Bn observed between July 2017 and April 2018.
- The sales volume is partly explained by the broad range of initiatives undertaken in recent years to address inadequacy of provisioning and tackle impediments to NPL resolution and sales.
- In the year 2017 ca. €2.5 Bn realised transactions were recorded in the region, accounting for ~6.6% of the NPL stock for the ten monitored countries (€38.5 Bn, September 2017).
- The sales volume in the CESEE dropped 85% to €0.41 Bn in H2 2017, compared to €2.7 Bn in H2 2016.
- Romania, Bulgaria and Serbia were the sole contributors of transactions in H2 2017 (with Romania accounting for over 60% of the sales volume). Romania also dominated market activity in 2018, representing 80% of the total sales volume, followed by relatively equal shares in the Czech Republic, Serbia and Latvia (~9.3-9.6%).
- The low level of transactions in CESEE in H2 2017 can be partly explained by squeezing of returns in large markets (such as Romania), leading to many investors holding off on bidding to focus on other hot markets (e.g. Italy and Greece).
- The market has picked up again in Q1 2018 after a drop in levels of transactions in H2 2017 (€ 1.2 Bn in Q1 2018 versus €0.41 Bn in H2 2017).
- Transactions in 2018 have been in large part characterised by Greek bank's foreign deleveraging in the CESEE.
- Most asset classes of NPLs continue to be transacted but, unlike the previous periods, 2018 was no longer dominated by CRE-only and mixed corporate/consumer transactions but rather focused on corporate/retail.
- Since H2 2016 an additional €9.6 Bn have been transacted in Greece and Cyprus, of which Greece accounts for 90% of the total sales value (with a recorded €4 Bn in 2017 and €4.7 Bn in Q1 2018 alone.) The total sales during the 12 months period account for ~ 7% of their combined NPL stock as of September 2016. Cyprus and Greece still hold a combined NPL stock of € 127.5 Bn (more than triple the volume compared to the whole of CESEE) and investor's interest has been steadily increasing since H2 2016.
- The pace of sales in CESEE is anticipated not to be as strong as prior to June 2017, partly due to many of the largest and most attractive portfolios having been sold already and investors shifting their focus to the markets in South with the prospect of a flood of supply in Cyprus and Greece.

[81] *Based on publicly available data, KPMG European Transaction Dashboard (link),accessed 2 May 2018*

[82] *Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Latvia, Poland, Romania, Serbia, Slovenia*

Figure 3. Realised NPL portfolio transactions in CESEE based on publically available data (July 2015 to April 2018)[83]

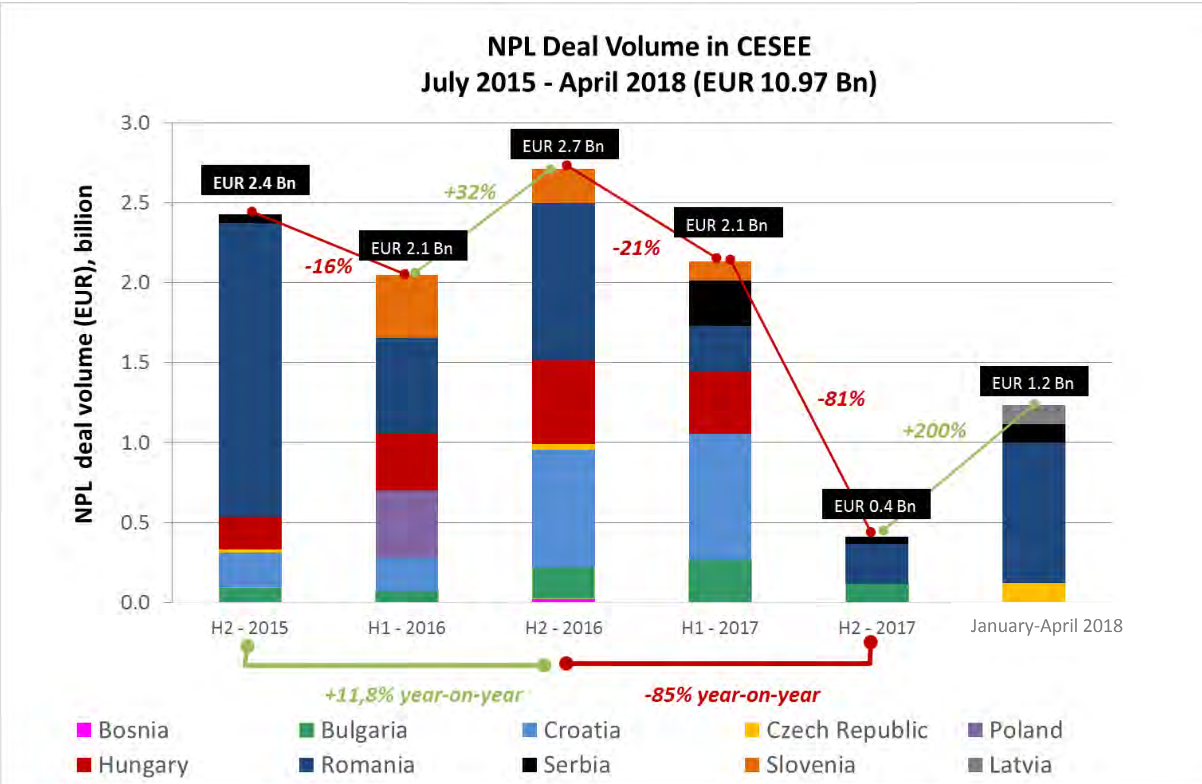

Table 2. Sample of recent (publicly available) NPL transactions in CESEE [84]

Period	Country	Vendor	Project	Type	Buyer	Face Value (€m)
H1 - 2018	Czech Republic	Moneta Money Bank	Undisclosed	Retail	B2 Kapital Czech Republic	119
H1 - 2018	Romania	Alpha Bank	Project Mars (secured)	Corporate	Anacap / Deutsche Bank / APS Investments	360
H1 - 2018	Romania	Alpha Bank	Project Mars (unsecured)	Other	B2Holding	50
H1 - 2018	Romania	Raiffeisen Bank	Undisclosed	Corporate / Retail	B2Holding	271
H1 - 2018	Latvia	SIA Hiponia	Undisclosed	Secured and unsecured	B2Holding ASA	119
H1 - 2018	Serbia	Nova Ljubljanska Banka (NLB)	Undisclosed	REO	Undisclosed	115
H1 - 2018	Romania	Piraeus Bank	Undisclosed	Other	Kruk Group	200
H2 - 2017	Bulgaria	Debt Colletion Agency EAD	Undisclosed	Other	UniCredut Bulbank	84
H2 - 2017	Bulgaria	Eurobank Ergasias	Project Metro 2	Corporate	Undisclosed	33
H2 - 2017	Romania	Banca Transilvania	Project Arena	Secured and unsecured	B2Holding	250
H2 - 2017	Serbia	Piraeus Bank	Undisclosed	Corporate / SME	Confidential	43

[83] *See footnote 81 and 82. These figures are based on known transactions from public sources. As a result, they may not include all transactions closed in the market and are estimations for indicative purposes only. H1 2018 covers only January to April 2018.The final transaction volume for the entire period H1 2018 will be reported in the next NPL Monitor.*
[84] *See footnote 83*

Table 3. List of NPL Servicers in the CESEE region

Servicer	Type of servicer *				Also Investor?	Asset class					Country																				Comments
	Primary	Special	Recovery Agency	Own assets only	Yes / No	Retail	SME	Corporate	Residential RE	CRE	Albania	Bosnia	Bulgaria	Czech Republic	Croatia	Cyprus	Estonia	FYR Macedonia	Greece	Hungary	Kosovo	Latvia	Lithuania	Monte negro	Poland	Romania	Serbia	Slovakia	Slovenia	Ukraine	
APS Holding	✓	✓	✓		**Yes**	✓	✓	✓	✓	✓			✓	✓	✓	✓				✓				✓	✓	✓	✓	✓			Extensive Experience in Romania.
Altamira																✓															In 2017 the servicer created a joint venture with Cooperative Central Bank (CCB), in which Altamira holds a 51% stake and which has been operational since 2018.
Best S.A	✓		✓		**Yes**	✓	✓	✓	✓																✓						
B2 Holding	✓	✓	✓		**Yes**	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓		✓	✓		✓	✓	✓	✓	✓	✓		✓		Present in Poland through Ultimo
Castlelake				✓	**Yes**		✓	✓	✓	✓				✓						✓					✓	✓		✓			
Chartered Debt Management (CDM)	✓	✓	✓		**Yes**	✓	✓	✓																		✓					CDM typically partners with international investors in Romania to act as their servicing partner.
CreditExpress			✓		**No**	✓						✓		✓	✓			✓		✓					✓	✓	✓	✓	✓	✓	
Coface			✓		**No**	✓					✓		✓	✓	✓					✓					✓	✓	✓	✓	✓		
Delfi																✓															
EOS Group	✓	✓	✓		**Yes**	✓	✓	✓	✓	✓		✓	✓	✓	✓			✓	✓	✓	✓			✓	✓	✓	✓	✓	✓		
GetBack			✓		**Yes**	✓			✓																✓	✓					GetBack is a publicly-listed company on Warsaw Stock Exchange. They service their own as well as third party portfolios. They also manage securitized funds of NPL assets.Since April 2018 the listing of GetBack shares and bonds has been suspended on the Warsaw Stock Exchange. On May 2, 2018 GetBack applied to a district court for opening of restructuring proceedings.
Hoist Finance				✓	**Yes**	✓	✓																		✓						Purchased NaviLex in 2014, a Polish debt collection agency, which has consolidated its presence in Poland.
Intrum	✓	✓	✓		**Yes**	✓	✓	✓	✓					✓			✓		✓	✓		✓	✓		✓	✓		✓			In June 2017, Intrum Justitia officially merged with Lindorff. The new entity is called Intrum.
Kredyt Inkaso	✓	✓	✓	✓	**Yes**	✓	✓	✓	✓	✓			✓		✓				✓						✓	✓					
Kruk	✓	✓	✓		**Yes**	✓	✓	✓	✓	✓				✓											✓	✓		✓			
Lexus EGF			✓		**No**	✓		✓		✓															✓						
Mount Street	✓	✓	✓		**No**		✓	✓		✓		✓	✓	✓	✓	✓			✓	✓					✓	✓		✓	✓	✓	In January 2017, Mount Street acquired EPA, the management subsidiary of EAA, the German asset management company created in 2009 to manage the assets of the former WestLB AG
Pepper	✓	✓														✓															
Pillarstone	✓	✓	✓		**Yes**		✓	✓		✓						✓			✓												
PraGroup		✓	✓		**Yes**	✓	✓																		✓						
Resolute		✓	✓		**No**	✓	✓	✓	✓	✓			✓			✓			✓							✓					
Tagor Asset Management		✓	✓		**Yes**			✓		✓																✓					Tagor often bids alongside international investors in Romania to act as their servicing partner.

Source: KPMG

NPL Servicers * Primary servicers: monitor and manage loans

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

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

APPENDIX

DEFINITIONS

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

METADATA

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

		NPLs	Gross Loans	Provisions (or Net NPLs)	Comments
1	**Albania**	Non-performing loans include “substandard”, “doubtful” and “loss” classes. The criterion to define a loan as “non-performing” is the number of past due days (90 days) and the financial situation of the borrower. Loans are classified as “substandard” when, instalment loans: a. Borrower’s financial position shows inability to meet its obligations; or b. Instalments have not been paid for at least 90+ days. Credit Lines (ex. overdrafts): a. Borrower’s financial position shows inability to meet its obligations; or b. Low account activity compared to loan principal; or c. No repayments have occurred 60+ days after its maturity.	Stock of loans gross (plus accrued interests)	NPL loan-loss provisions	Not reported by FSI. Source: Bank of Albania Financial Stability Report H1 2017, p60.
2	**Bosnia & Herzegovina**	Until fourth quarter of 2010 nonperforming loans ware consisted of C (substandard, 90 days) and D category loans. E category loans are part of nonperforming loans beginning from fourth quarter 2011.			
3	**Bulgaria**	Until 2014, Non-performing loans are the risk exposures where principal or interest payments have been past-due over 90 days. Since 2015 the definitions and the scope of the NPLs have been in line with the EBA standards.	Until 2014, loans to deposit takers were excluded from the calculations. Since 2015 the definitions and the scope of the NPLs have been in line with the EBA standards. The source of data is the FinRep reporting template F18 row 70 and 250 column 10 which cover all Loans and advances, including to deposit-takers	All deposit takers must assess, classify and provision loans at least on a quarterly basis and submit a regulatory report to Bulgarian National Bank. Compliance is enforced via off-site surveillance and on-site inspections.	
4	**Croatia**	Non-performing loans are all gross loans (to all sectors) not classified as performing (90 days overdue basis is used). However, loan can be considered as a Pass even if it is 90 days over due if it is well covered with collateral and if the process of foreclosures have started.		Provisions refer to Non-performing loans.	
5	**Cyprus**	Since December 2014, the EBA Final Implementing Technical Standards on Supervisory reporting on forbearance and non-performing exposures under article 99(4) of Regulation (EU) No. 575/2013 have come into force. Non-performing exposures are those that satisfy either or both of the following criteria: (a) material exposures which are more than 90 days past-due; (b) the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or of the number of days past due			
6	**Czech Republic**	Besides the FSI Guide-recommended 90-day rule, the financial condition of the debtor is also used in determining loans as nonperforming loans	Excludes loans to central bank. OFCs data are not included. Credit cooperatives are not included. Banks in receivership and in liquidation are not included.		
7	**Estonia**	Collateral and guarantees are not taken into consideration. Restructured loans are treated as performing loans.		If there is a problem with a loan granted by bank A and the debtor has also taken a loan from bank B and that loan “works well”, creditor B does not need to make any provisions or downgrade the loan.	
8	**Greece**	Since December 2014, the EBA Final Implementing Technical Standards on Supervisory reporting on forbearance and non-performing exposures under article 99(4) of Regulation (EU) No. 575/2013 have come into force. Non-performing exposures are those that satisfy either or both of the following criteria: (a) material exposures which are more than 90 days past-due; (b) the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or of the number of days past due			
9	**Hungary**	90-day overdue-loans are classified as nonperforming loans.	Gross loans provided to customers and banks.	Only the specific provisions (impairment) attributed to the NPLs are netted out from NPLs	
10	**Kosovo**	N/A	N/A	N/A	No Data
11	**Latvia**	N/A	N/A	N/A	No Data

		NPLs	Gross Loans	Provisions (or Net NPLs)	Comments
12	**Lithuania**	NPLs is the sum of impaired loans and advances and non-impaired loans and advances that are past due 60 days or more. Includes interest accrued on some NPLs. Includes some other financial assets besides loans.	Includes interest accrued on some NPLs. Includes deposits and funds held in other banks and credit institutions. Banks in distress and in receivership are not included into the coverage of FSIs. Credit Unions are excluded (very insignificant market share). Subsidiaries in the insurance subsector are included.		
13	**FYR Macedonia**		Includes loans to financial and nonfinancial sector.	Provisions include provisions for nonperforming and performing loans as well.	No Data
14	**Montenegro**	Includes Cat C, D and E (ie. from 90 days past due onwards). Excludes interests and prepayments and accruals		Value adjustment of loans and other receivables.	Not reported by FSI. Source: CBCG Annual Report 2016, Table 2.4 p 42 AND macroeconomic report qi 2016 p7
15	**Poland**		Excludes repurchase agreement that are not classified as deposits. Includes some other financial assets besides loans: Data represent total receivables, such as originated loans, purchased receivables, and guarantees which are being excercised. Excludes loans to central bank. Deposit takers in distress or in receivership are not included.		
16	**Romania**	Since June 2014, NPLS based on reports from all banks, Romanian legal persons for loans that meet the non-performance criteria (i.e. overdue for more than 90 days and/or in which case legal proceedings were initiated). Since December 2015, based on EBA Definition: ratio of the gross carrying amount of non-performing loans and advances to the total gross carrying amount of loans and advances.	Exclude loans among deposit-takers. Deposit takers in distress or receivership are not included.	From June 2014 to December 2015, IFRS impairment losses (provisions) for nonperforming loans determined (based on reports from all banks) were subtracted from nonperforming loans. Since December 2015, NPLs net of provisions have been compiled as gross carrying amount of non-performing loans and advances minus the accumulated impairment of non-performing loans and advances.	
17	**Serbia**	NPL means the total outstanding debt under an individual loan (including the amount of arrears): where the debtor is past due (as envisaged by the decision governing the classification of bank balance sheet assets and off-balance sheet items) for over 90 days, with respect to payments of interest or principal; - where at least 90 days of interest payments have been added to the loan balance, capitalised, refinanced or delayed by agreement; - where payments are less than 90 days overdue, but the bank has assessed that the borrower's repayment ability has deteriorated and doubts that the payments will be made in full.		Specific provisions of NPLs.	Not reported by FSI. Source: NBS Quarterly Banking Report, Q3 2017, p16
18	**Slovakia**	Deposit takers use not only quantitative criteria (i.e., 90-days past due criterion) but also own judgment for classifying loans as NPLs.		Specific provisions that are netted out from NPLs in compiling the series NPLs net of provisions include not only the provision attributed to the NPLs but also the provisions constituted for performing loans. General provisions are not netted out.	
19	**Slovenia**		Includes all financial assets at amortized cost (not just loans) and some non-loan assets (tax assets, non-current assets and disposal groups classified as held for sale, etc).		
20	**Ukraine**	Consistent with the criteria "of 90 days" From the 4th quarter of 2012, NPLs defined as credit transactions attributed to the IV and V quality categories. (Doubtful and Loss (write-off)) Ukraine is not fully compliant with NPL definition established by EBA ITS in 2013: NBU regulation No.351 has definition of non-performing assets equivalent to degaulted loans (it does not include "unlikely to repay" criteria which is broader than defaulted loans).	Credit unions (that accept deposits) and deposit takers in distress or in receivership are not included. Total gross loans defined as debts arising from credit transactions, including loans to customers, interbank loans and deposits, off-balance sheet liabilities on guarantees and loans given to banks and customers, used for credit risk assessment.		

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You can find a full spectrum of our work on NPL resolution (and best practices) on our NPL Initiative webpage: http://npl.vienna-initiative.com/