EBCI Vienna Initiative

NPL Monitor for the CESEE region[1]

H2 2019

The Non-Performing Loan (NPL) Monitor is the semi-annual publication of the NPL Initiative, a subset of the Vienna Initiative. The publication reviews the latest NPL data[2] of 17 countries[3] in central, eastern and south-eastern Europe (CESEE), while reporting on progress in recent structural reforms, NPL transactions and regional loan servicing capacities.

[1] Prepared by Eric Cloutier, Senior NPL Adviser, EBRD; Bojan Markovic, Deputy Director, EBRD; Dan Meshulam, Analyst, EBRD; and Jaeyoung Wee, Analyst, EBRD. We would like to extend our gratitude to colleagues across the EBRD (in alphabetical order: Sanja Borkovic, Catherine Bridge Zoller, Eirini Christodoulaki, Frederique Dahan, Petru David, Selma Demirovic, Jolanta Gabriel, Peter Herczog, Anjeza Hobdari, Marko Lazarevic, Jakov Milatovic, Ivana Milicic, Andreea Moraru, Tamir Mostarac, Sweta Penemetsa, Miha Polak, Naum Ribaroski, Peter Tabak, Endrita Xhaferaj). All remaining omissions or errors are our own. All views presented here are those of the authors and do not necessarily reflect the official EBRD standpoint. For more details, please contact NPL@ebrd.com.

[2] The latest date for which data are available for most of countries covered in this edition of the Monitor is 30 June 2019. The latest data for Croatia, Cyprus, Greece, Lithuania, Poland and Slovenia is from 31 March 2019.

[3] CESEE (shown as 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: Cyprus, Greece and Ukraine (shown as light blue on the map) are not covered in the CESEE NPL data, although the NPL Initiative has started following more closely NPL reform in these countries.

Contents

Executive summary

The decrease of non-performing loans (NPLs) in central, eastern and south-eastern Europe (CESEE) continues on a steady trajectory, reaching €35.2 billion as of 30 June 2019 for the region, for an average NPL ratio of 4.0% (a decrease of 0.9 percentage points year-on-year). This is a considerable improvement, relative to the 9.8% ratio in March 2014.

The reasons for the steady decrease continue to be a combination of factors, including the reduction of legal, regulatory and tax impediments, sales of NPLs by banks and an overall improvement of macroeconomic conditions.

1) Benefits are being observed from recent improvements to regulatory and legal environment to support NPL reduction, and further progress is being made. See section 3 for more detail.
2) The rate of NPL transactions realised has slowed but sales continue across the region, with €1.7 billion[4] transactions realised in the first half of 2019. See section 4 for more detail.
3) Macroeconomic fundamentals and access to finance have improved, after credit was tightened post-crisis. These conditions help find solutions and avoid the accumulation of new NPLs.

European regulators continue to put emphasis on the risks presented by the remaining stock in European Union (EU) banks' balance sheets but are also increasingly focusing on the quality and robustness of credit underwriting, as well as the management practices of banks, to prevent future NPL flows. This is relevant for CESEE banks in the eurozone, but also for adjacent countries, as investors will require similar qualities in banks' practices for risk assessment across the region.

Therefore, as the NPL stock continues to fall, the focus should continue to be on improving data systems in banks, embedding NPL management practices into "business as usual" and ensuring that credit underwriting practices are adequate to prevent new flows of NPLs or future accumulation. Focusing on preventing new NPL flows and identifying borrowers' distress at an early stage will be the main challenges for CESEE banks as the stock of NPLs keeps declining.

[4] Face value

Snapshot update

NPL evolution in the CESEE

The downward trend of non-performing loans (NPLs) has continued across most countries of the CESEE region, both for NPL volumes and ratios.[5] See section 2 for more detail.

- The NPL volumes stood at €35.2 billion[6] as of 30 June 2019, a reduction of 8.4% year-on-year.
- The average NPL ratio reached 4.0%, down by 0.9 percentage points year-on-year.[7]
- Disparities between countries remain, with the NPL ratios[8] ranging from 0.4% in Estonia to 11.2% in Albania.
- Albania is the only country in CESEE where the NPL ratio remains above the 10.0% threshold, which is a considerable improvement in the region in recent years.
- The region's average NPL coverage ratios, net NPL, net NPL/capital and NPL/GDP ratios all continued the improving trend, and stand at 63.4%, 1.5%, 9.8%, and 2.5%, respectively.

Progress with reforms

The continuous progress across different NPL metrics can be attributed to the combination of macroeconomic developments and policy actions aimed at reducing impediments to resolution (see section 3 for more detail), as well as to NPL sales (section 4). Although not all countries are progressing at the same pace, numerous jurisdictions have significantly improved each country's legal framework and judicial infrastructure. This helps to accelerate the enforcement of security and increase the speed and effectiveness of insolvency proceedings.

European regulatory landscape with NPLs

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

- The draft European Banking Authority (EBA) guidelines on loan origination and monitoring, published on 19 June 2019 to be effective from 30 June 2020

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[5] Unless stated otherwise, all data are sourced from the IMF Financial Soundness Indicators (IMF FSI), available at http://data.imf.org/regular.aspx?key=61404590, last accessed on 20 October 2019. For individual country definitions and more precise comparisons, please consult the IMF FSI metadata and refer to the individual country authorities for further details. Please also refer to the Appendix of the NPL Monitor for more details. Unless stated otherwise, NPL refers to gross NPL values throughout the publication.

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

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

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

- The European Central Bank (ECB) and EBA credit risk priorities, including reducing NPLs stocks and preventing new flows, which have already been published and remain a key priority for 2020
- A revision to the ECB's provisioning calendar, published on 22 August 2019[9], for non-performing exposures (NPEs) to align with the new Capital Requirements Regulation (CRR) provisioning calendar.

Evolution of NPL sale transactions in CESEE

- Since the second half of 2015, NPL sale transactions in the CESEE region has amounted to €14.6 billion as of June 2019. Please refer to section 4 for more detail.
- In the first half of 2019, total NPL sales at face value amounted to €1.7 billion, compared to €2.4 billion during the same period in the previous year.
- In the first half of 2019, seven out of 17 countries[10] in the CESEE region recorded NPL sale transactions, and a total of 13 countries recorded transactions since 2015.
- Among partner countries, Albania had its first NPL sale transactions of this kind this year.
- There is some early indication of at least €0.5 billion in transactions confirmed in the second half of 2019 so far.

[9] https://www.bankingsupervision.europa.eu/press/pr/date/2019/html/ssm.pr190822~f3dd1be8a4.en.html
[10] Albania, Bulgaria, Croatia, Czech Republic, Hungary, Poland and Romania.

1. NPL evolution in CESEE

Steady improvements in NPL volumes, with some disparities

- NPL volumes have recorded a decrease[11] of 8.4% (or €3.2 billion) in the CESEE region in the 12 months leading up to June 2019, reaching a level of €35.2 billion[12].
- The reduction in NPL volumes across the region is largely attributed to improvements in the following economies (ordered by absolute value decreases): Bulgaria (€0.6 billion reduction; -15.8%), Croatia (€0.6 billion reduction; -14.6%) Romania (€0.5 billion reduction; -14.6%). In addition, Slovenia (-33.1%), Montenegro (-30.9%), Serbia (-28%), Estonia (-26.9%) and Hungary (-25.5%) experienced significant NPL volume reductions above the CESEE average.
- The two countries that have experienced NPL volume increases since June 2018 are Poland by €0.3 billion (€13 billion; 2.4%) and North Macedonia (€0.3 billion; 17.2%) by €0.04 billion.
- Compared with the CESEE region, Cyprus, Greece and Ukraine still record significantly higher total NPL volumes (€116.2 billion), driven mainly by Greece (€87.3 billion). These countries had a more sizeable reduction of 13.6% year-on-year.
- The NPL volume in Cyprus and Greece fell by 42.6% and 10.6%, respectively. Ukraine recorded a decrease of 5.0% in NPL volume, but still holds the highest NPL ratio in emerging Europe (50.8%).

Continued improvements in NPL ratios

- As of June 2019, the NPL ratio (as a proportion of NPLs to total gross loans) across the CESEE region fell to 4.0%, a reduction by 0.9 percentage points from 12 months earlier.
- The net NPL ratio (net of provision)[13] stood at 1.5%, down 0.3 percentage points for the same period.
- Apart from North Macedonia (with a 0.5 percentage point increase to 5.4%), all CESEE countries have improved their NPL ratios.
- The five partner countries of the NPL Initiative continued their NPL ratio reduction (year-on-year as of June 2019), with Albania by -2.0 percentage points (to reach an NPL ratio of 11.2%), Croatia -1.7 percentage points (9.4%), Hungary -1.1 percentage points (2%), Montenegro -2.7 percentage points (5.3%) and Serbia also by -2.7 percentage points (5.3%).

Average NPL coverage ratios improved despite six CESEE countries with deteriorating metrics

- On a region-wide basis, the NPL coverage ratio (measured as the proportion of loan-loss provisions to NPLs) has improved by 1.4 percentage points to 63.4% as of June 2019.
- Deteriorating coverage ratios have been observed in six CESEE countries (ordered by relative value decreases): Lithuania -13.4 percentage points; Serbia -9.6 percentage points; North

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[11] 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.

[12] In Croatia, Cyprus, Greece, Lithuania, Poland and Slovenia, the data is true as of March 2019.

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

Macedonia -6.4 percentage points; Albania -4.5 percentage points; Hungary -3.9 percentage points; and Bulgaria -3.5 percentage points. All other CESEE countries have seen their coverage ratio increasing over the period.

- The countries with the lowest NPL coverage ratios are the Baltic states: Lithuania (23.6%); Estonia (35.9%); and Latvia (38.8%). However, all three countries experienced a reduction of over 15.0% in NPL volume, with Estonia having the second lowest NPL volume (€ 0.1 billion) in the CESEE region.

Chart 1. NPL ratio, coverage ratio and NPL volume (%, € billion, second quarter of 2019)[14]

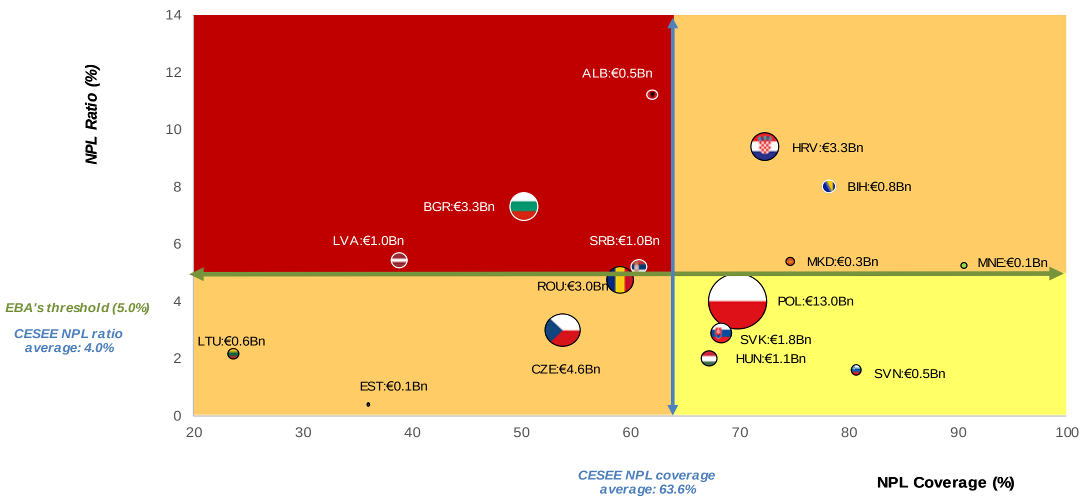


Figure 1a. NPL ratio and % NPL coverage ratio as per colour-quadrants in Chart 1 (%, Q2 2019)[16]

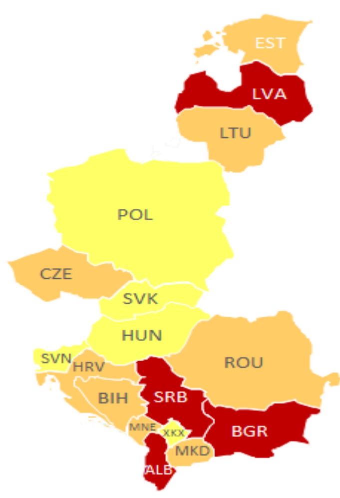
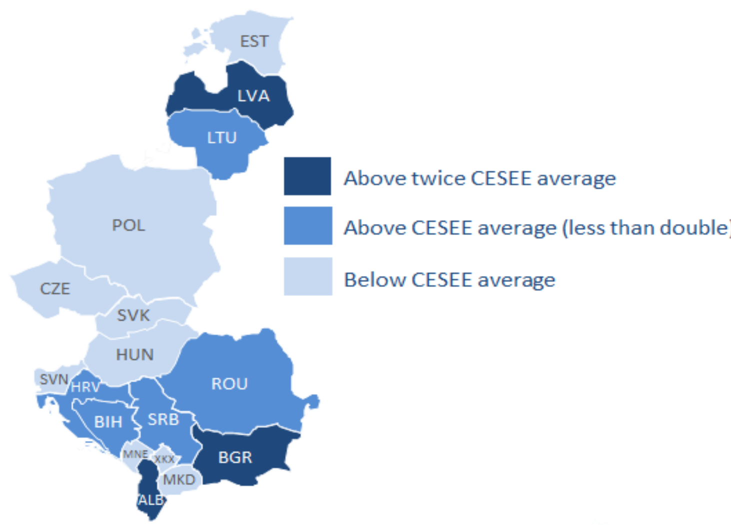


Figure 1b. Net NPL ratio (%, Q2 2019)[15]



[14] Source: IMF FSI, Central Bank reports
[15] Source: Same as above
[16] Source: Same as above

Chart 2. Overview of the NPL profile in CESEE, 30 June 2018 to 30 June 2019[17]

	NPL volume (€ bn)			NPL ratio (%)			NPL coverage ratio			Net NPL ratio (%)			Net NPL / Capital (%)			NPL to GDP (%)		
Country	Jun-19	Variation(%)		Jun-19	Δ(pp)		Jun-19	Δ(pp)		Jun-19	Δ(pp)		Jun-19	Δ(pp)		Jun-19	Δ(pp)	
Albania (ALB)	0.5	▼	(16.2)	11.2	▼	(2.0)	62.0	▼	(4.5)	4.3	▼	(0.2)	16.1	▼	(1.2)	3.9	▼	(1.4)
Bosnia and Herz. (BIH)	0.8	▼	(8.1)	8.0	▼	(1.3)	78.2	▲	1.0	1.8	▼	(0.4)	11.2	▼	(2.0)	4.9	▼	(0.7)
Bulgaria (BGR)	3.3	▼	(15.8)	7.3	▼	(2.0)	50.2	▼	(3.5)	3.6	▼	(0.7)	23.3	▼	(6.5)	6.0	▼	(1.6)
Croatia (HRV)	3.3	▼	(14.6)	9.4	▼	(1.7)	72.3	▲	2.6	2.6	▼	(0.8)	11.3	▼	(3.3)	6.4	▼	(1.5)
Czech Republic (CZE)	4.6	▼	(1.2)	3.0	▼	(0.3)	53.8	▲	2.4	1.4	▼	(0.2)	11.1	▼	(1.2)	2.3	▼	(0.1)
Estonia (EST)	0.1	▼	(26.9)	0.4	▼	(0.2)	35.9	▲	8.9	0.2	▼	(0.2)	1.2	▼	(1.4)	0.3	▼	(0.1)
Hungary (HUN)	1.1	▼	(25.5)	2.0	▼	(1.1)	67.2	▼	(3.9)	0.7	▼	(0.2)	3.1	▼	(0.7)	0.9	▼	(0.4)
Kosovo (XKX)	0.1	▼	(1.6)	2.4	▼	(0.4)	-	-	-	-	-	-	-	-	-	1.1	▼	(0.1)
Latvia (LVA)	1.0	▼	(17.3)	5.4	▼	(0.4)	38.8	▲	0.3	3.3	▼	(0.3)	28.0	▲	3.8	3.5	▼	(1.1)
Lithuania (LTU)	0.6	▼	(16.2)	2.2	▼	(0.6)	23.6	▼	(13.4)	1.6	▼	(0.1)	27.0	▲	7.8	1.3	▼	(0.4)
North Macedonia (MKD)	0.3	▲	17.2	5.4	▲	0.5	74.6	▼	(6.4)	1.4	▲	0.4	7.6	▲	2.6	2.8	▲	0.2
Montenegro (MNE)	0.1	▼	(30.9)	5.3	▼	(2.7)	90.6	▲	17.5	0.5	▼	(1.6)	2.7	▼	(9.9)	3.1	▼	(1.7)
Poland (POL)	13.0	▲	2.4	4.0	▼	(0.1)	69.8	▲	3.7	1.2	▼	(0.2)	8.9	▼	(1.2)	2.7	▼	(0.0)
Romania (ROU)	3.0	▼	(14.6)	4.7	▼	(1.0)	59.0	▲	2.2	1.9	▼	(0.5)	11.9	▼	(4.9)	1.5	▼	(0.4)
Serbia (SRB)	1.0	▼	(28.0)	5.2	▼	(2.7)	60.8	▼	(9.6)	2.0	▼	(0.3)	7.4	▼	(0.3)	2.4	▼	(1.2)
Slovakia (SVK)	1.8	▼	(9.7)	2.9	▼	(0.6)	68.3	▲	2.8	0.9	▼	(0.3)	6.8	▼	(1.9)	2.0	▼	(0.4)
Slovenia (SVN)	0.5	▼	(33.1)	1.6	▼	(0.9)	80.7	▲	4.7	0.3	▼	(0.3)	2.3	▼	(1.8)	1.1	▼	(0.7)
CESEE	35.2	▼	(8.4)	4.0	▼	(0.9)	63.4	▲	1.4	1.5	▼	(0.3)	9.8	▼	(1.8)	2.5	▼	(0.2)
Cyprus (CYP)	9.4	▼	(42.6)	20.0	▼	(7.5)	48.8	▲	1.7	10.2	▼	(4.3)	97.2	▼	(54.0)	45.1	▼	(37.9)
Greece (GRC)	87.3	▼	(10.6)	42.2	▼	(3.3)	50.0	▼	(1.6)	21.1	▼	(0.9)	159.5	▼	(3.9)	47.1	▼	(7.1)
Ukraine (UKR)	19.5	▼	(5.0)	50.8	▼	(4.9)	89.0	▲	2.3	5.6	▼	(1.8)	38.3	▼	(23.9)	18.6	▼	(4.8)
Other	116.2	▼	(13.6)	39.8	▼	(4.2)	56.5	▲	0.01	17.3	▼	(1.5)	133.5	▼	(16.7)	40.3	▼	(6.4)
Total Countries	**151.3**	▼	**(12.5)**	**12.8**	▼	**(2.9)**	**58.1**	▲	**0.4**	**5.4**	▼	**(1.0)**	**37.4**	▼	**(6.8)**	**9.0**	▼	**(1.3)**

Note:

- *Variation (%) is calculated as ((value period 1/value period 0) -1), with June 2019 as period 1 and June 2018 as period 0 (where available).*
- *Δ (pp) is the variation, expressed in percentage points, between 2 periods. It is calculated as (% period 1 - % period 0).*
- *As per footnotes 2, 5, and 13; the latest available data are for June 2019.*
- *NPL to GDP (%) is calculated from annual GDP values for end of 2018, respectively (rather than quarterly data), which is in line with the IMF World Economic Outlook reporting*

[17] Source: IMF FSI, Central Bank reports

2. Progress with reforms[18]

As the NPL stock in the EU declines, the focus is moving towards the prevention of new flows

While the average NPL ratio in the EU and European Economic Area (EEA) has reached 3%, in large part due to the large NPL portfolio sales and NPL securitisations of recent years, nearly €634 billion in NPL stock remains[19] in the EU banking system. The NPL ratio remains above pre-crisis levels in numerous euro area banks and the high level of NPL stocks continues to raise concerns. In addition to the remaining legacy stock, it is a top priority for European regulators to ensure that the situation does not repeat itself, in that new stocks accumulate during a possible economic downturn or other situations of financial stress.

EBA published a report on NPLs[20] in November 2019

The report highlights the positive progress with NPLs in the EU in recent years, but also emphasises the fact that work remains to be done.

- **Progress:** Asset qualities in banks have improved greatly in the last four years, with NPL ratios improving at an average pace of 75 basis points per year. NPL volumes have also decreased by half since 2015, mostly resulting from NPL sales and securitisation. Forbearance ratios have also decreased consistently, in line with the NPL ratio.
- **Regulatory framework**: As a result of the implementation of the European Commission's action plan with NPLs from 2017 onwards, a much more robust framework is now in place to tackle the remaining stock and to prevent the accumulation of new flows.
- **Road ahead**: There are still significant obstacles to NPL resolution, such as inefficiency of legal framework and the underdeveloped market for NPLs, in some countries, particularly in those with high NPLs. Some banks are also still struggling with legacy portfolios with past dues greater than one year, which are much harder to resolve. These legacy assets remain material and concentrated in some countries. Banks are advised to continue to monitor closely potential asset quality deterioration, especially for riskier segments and in anticipation of changes in economic conditions.

ECB Banking Supervision published a risk assessment for 2020[21]

The risk assessment highlights both the execution risk of NPL strategies and the easing lending standards as relatively high driver impacts of risk and risk drivers for profitability.

- **Execution risk of NPL strategies**
  - Older NPL vintages might be difficult to work out
  - Inflows of new NPLs still appear to be high
  - Maturing economic cycle might limit progress in implementing NPL strategies

[18] Source when not specified: EBRD.
[19] EBA risk dashboard, Data as of Q2 2019. Link here
[20] EBA published report on NPLs: Progress made and challenges ahead. Link here
[21] https://www.bankingsupervision.europa.eu/ecb/pub/ra/html/ssm.ra2020~a9164196cc.en.html

- **Easing lending standards**
  - Some sectors (for example, residential real estate) are seeing more relaxed lending standards
  - Some countries have high loan-to-value ratios, which, combined with high borrower indebtedness, limit resilience to economic shocks
  - Search for yield lead investors to turn to riskier sectors to invest into
  - Potential future build-up of NPLs highlights the importance of strengthening new credit practices

The focus on preventing new NPLs was highlighted in the EBA and ECB credit risk priorities for 2019 and reiterated in their 2020 work programmes.

ECB's Single Supervisory Mechanism (SSM) priorities 2020[22]

- **Follow-up on NPL guidance**
  - Follow up on bank-specific supervisory expectations to continue its efforts in addressing the stock and preventing new build-up in the future
- **Credit underwriting criteria and exposure quality**
  - Assessment of credit underwriting criteria
  - On-site work on real estate exposures and leveraging finance

EBA 2020 Work Programme[23]

- The EBA will continue to support strengthened loan origination and management and contribute to the European Council's action plan for tackling NPLs in Europe, as initiated in July 2017.
- The main outputs planned for 2020 related to loan management and valuation are:
  - Follow-up work from the Council's action plan for tackling NPLs in Europe
  - Assisting the implementation of the EBA's Guidelines on loan origination and monitoring see below
  - Draft Implementing technical standards (ITS) on NPL data (subject to a mandate in the forthcoming directive)
  - Guidelines on valuation of secured exposures

EBA guidelines on loan origination and monitoring

- Published on 19 June 2019, these guidelines were developed with the aim of becoming a new standard for credit underwriting in Europe.
- The focus is placed on ensuring more robust, prudent and uniform standards across jurisdictions and banks across Europe.
- The guidelines were also developed in response to the European Council's action plan, published in 2017, on tackling NPLs and are concerned with the prevention of new NPLs.

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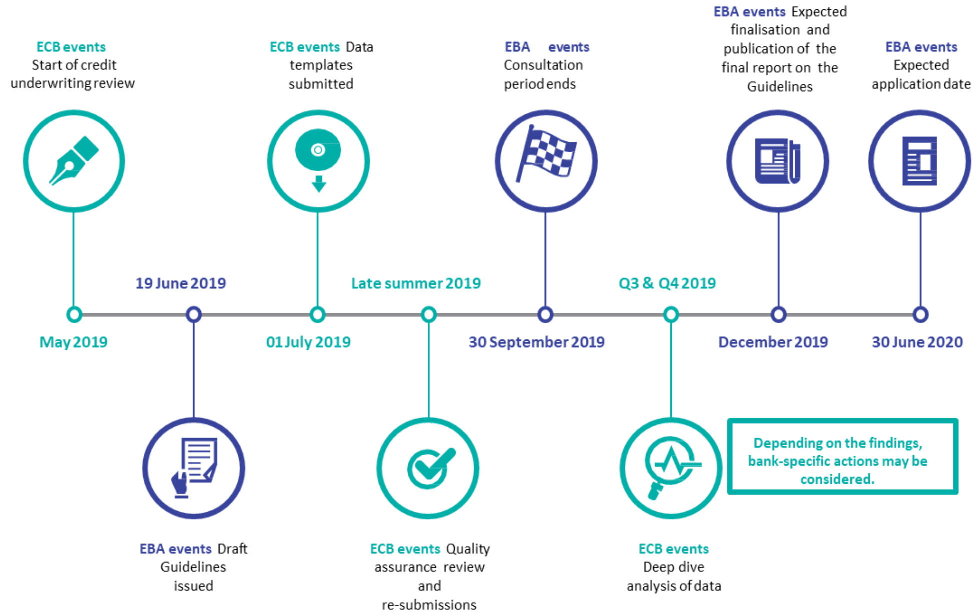
22 https://www.bankingsupervision.europa.eu/banking/priorities/html/ssm.supervisory_priorities2020~b67449d936.en.html

23 https://eba.europa.eu/about-us/work-programme/current-work-programme

- These new guidelines are to be considered within the broader end-to-end life cycle of loans and are linked with the EBA guidelines on managing non-performing and forborne exposures. They have been in effect since 30 June 2019.[24]

The anticipated timeline for the implementation of the guidelines is closely aligned with the data gathering exercise for credit underwriting that has been conducted by the ECB.



Source: Extract from KPMG report dated October 2019. See report here.

Provisioning of NPLs in the Eurozone

- The ECB published on 22 August 2019[25] a revision of its provisioning calendar for NPEs to align with the new Capital Requirements Regulation (CRR) provisioning calendar.
- The purpose is to eliminate disparities between the two calendars and to allow for a smoother transition between them.
- It does not impact the supervisory review and evaluation process (SREP) provisioning requirements for the stock (in other words, NPEs prior to April 2018) provided to SSM-supervised banks on an individual basis.
- The revision stipulates that:
  - The ECB provisioning rules will continue to cover all new NPEs from April 2018, with a Pillar 2 impact for non-compliance. However, the scope will be limited to NPEs arising from loans originated between April 2018 and 26 April 2019.
  - New loans originated from 26 April 2019 that become NPEs will solely be subject to the CRR provisioning rules and to the Pillar 1 backstop.
  - The provisioning requirements for NPE stock (in other words, NPEs classified before April 2018) provided by the ECB as part of the SREP letters will remain unchanged.

[24] EBA GLs on management of non-performing and forborne exposures: link here
[25] https://www.bankingsupervision.europa.eu/press/pr/date/2019/html/ssm.pr190822~f3dd1be8a4.en.html

– The changes to the ECB provisioning rules to align them with the CRR (Pillar 1) treatment include the prudential provisioning timeframes, the progressive path to full implementation, the split of secured and unsecured exposures, as well as the treatment of NPEs guaranteed or insured by an official export credit agency.
– The ECB communication on coverage expectations[26] for NPEs provides further details.

EBA also launched a consultation on 16 October 2019 (opened until 16 January 2020) on supervisory reporting changes related to CRR2 and Backstop Regulation[27], more specifically on:

- The amending Regulation (EU) 2019/876 ('CRR2'), which implements several key measures such as liquidity, leverage and large exposures;
- The amending Regulation (EU) 2019/630 ('Backstop Regulation'), which sets minimum loss coverage for future non-performing exposures (NPEs).

Progress with reforms continues in the five "partner countries" of the Vienna Initiative 2.0.

Albania

- **Bankruptcy law framework**[28]
  The government, in partnership with the International Finance Corporation and the World Bank, is drafting three new sets of regulations: (1) Regulation on the Registry of Information Concerning Insolvency Decision; (2) Regulation on the Presentation of Accounts and Final Discharge of the Insolvency Representative; and (3) Regulation on Out of Court Restructuring Agreements for Financially Distressed Debtors. The regulatory proposals are currently in the process of consultation with stakeholders, while final approval is expected before the end of 2019. In addition, the National Standard for Bankruptcy Administration will be approved with a decision from the Council of Ministers in December 2019.
- **Upgrade of Credit Register and establishment of a credit bureau**
  The Albanian Association of Banks (AAB), upon recommendations of an advisory project by the EBRD, is planning the outsourcing of credit information. The AAB is currently preparing an international tender for the provision of services.
- **Out-of-Court debt Restructuring (OOCR)**
  The Bank of Albania (BoA) approved in July 2019 a Regulation on out-of-court treatment of distressed borrowers by banks, under the "Tirana Approach", drafted with assistance from the World Bank. It is expected to be in force for 18 months, until December 2020. Its purpose is to facilitate the financial recovery of large past-due borrowers that are exposed to more than one bank and envisages the establishment of a common interbank platform to find an adequate solution for the borrower. In October 2019, all Albanian banks signed the Interbank Cooperation Agreement on Treatment of Distressed Borrowers (in annex 1 of the

[26] https://www.bankingsupervision.europa.eu/press/letterstobanks/shared/pdf/2019/ssm.supervisory_coverage_expectations_for_NPEs_201908.en.pdf
[27] https://eba.europa.eu/eba-consults-on-supervisory-reporting-changes-related-to-crr2-and-backstop-regulation-framework-3-0-
[28] IMF, Staff Concluding Statement of the 2017 Article IV Mission in Albania, October 2017 (link)

abovementioned Regulation) to be used as the basis for case-by-case collaboration on large exposures.

- **Amendments to the Regulation "On Credit Risk Management"**
  The BoA approved in July 2019 two amendments to the Regulation which foresee: (i) reducing the period for the obligatory write-off of lost loans from three years to two years after they have been in the "lost" category; (ii) enforcing stricter rules for the classification and provision of restructured loans. The second change to this regulation will enter into force in January 2021.

Croatia

- **Framework for insolvency and restructuring practitioners**
  The EBRD is assisting the Ministry of Justice (MoJ) in strengthening the framework for insolvency practitioners and establishing a sustainable training framework. The aim is to encourage external investments, improve the prospects of recovery for stressed but viable businesses and their employees, as well as to secure the long-term health of the banking and financial sectors. Insolvency practitioners and trainers will be trained by the EBRD by March 2020. The project is funded by the European Commission via the Structural Reform Support Service.

Hungary

- **New Bankruptcy Law**
  In May 2019 the Ministry of Justice (MoJ), European Commission, the EBRD and its experts met to launch a project to support the MoJ with the reform of Hungary's 1991 Bankruptcy Law. The objectives of the new legislation include better opportunities for reorganisation in insolvency, greater protection of creditors' interests and improving the efficiency of court-led insolvency processes. The reform will also include implementation of the new EU directive on preventative restructuring frameworks. The MoJ plans to submit the primary legislation for adoption by parliament in 2020.

Montenegro

- **Alignment with EU Regulation**
  The Bank Recovery and Resolution Directive (BRRD) is being transposed into two new laws: (1) Law on Credit Institutions; and (2) Law on Credit Institutions Resolution, as well as the modification of the Law on Bankruptcy and Liquidation of the Banks. The Law on Bank Bankruptcy and Liquidation is also being aligned with the BRRD. The package of all three draft laws, including the draft Law on Deposit Protection, was adopted by the government on 10 October 2019 and submitted to the parliament for further action. They are expected to be adopted by the end of 2019.

In addition, the Central Bank of Montenegro (CBCG), with assistance from the World Bank Financial Sector Advisory Center (FinSAC), implemented new minimum standards for managing credit risk in line with the EBA guidelines, which should be applied from 1 January 2020. Amendments included: (i) terminating the use of collaterals as the criteria for loan classification; (ii) removing the definition of prime collateral; (iii) subjecting loan classification to the borrower's ability to repay; and (iv) ensuring unified prudential treatment of restructured loans.

- **Strengthening of the Central Bank's supervisory function**
  CBCG is strengthening the supervisory function of commercial banks. Based on recommendations from the International Monetary Fund (IMF) and the World Bank, Asset Quality Review (AQR) of the overall banking sector is planned for 2020. The AQR could result in an increase in NPLs in some banks.
- **New limits to the banks for providing cash loans**
  The growth of cash loans in the overall loan portfolio with higher tenor is a key risk for financial stability. As a result, new limits to banks providing cash loans will be applicable from 15 November 2019 (in other words, shorter tenor and better collateralisation). This is a preventative measure.

Serbia

- **NPL Resolution Programme 2018-20**
  In December 2018 the government adopted the new NPL Resolution Programme for the period 2018-20, with an accompanying action plan. A new working group was also established, with its first inaugural session held in May 2019. The Programme focuses on three key areas: (i) resolution of NPLs of banks in bankruptcy as well as claims in the name and for the account of the state; (ii) improvement of the bankruptcy framework; and (iii) activities aimed at preventing new NPL accumulation.
- **Corporate financial health assessment**
  As part of the Programme's activities to prevent new NPL accumulation, KPMG, in cooperation with FinSAC, conducted a draft study in November 2019 on corporate indebtedness and prevention of NPLs in Serbia. The study provided a cross-sectoral analysis of close to 60% of Serbian companies by assessing their ability to service debt in the future.
- **Training of commercial court judges**
  Following training conducted by the Judicial Academy in 2018 for all commercial court judges, the new NPL Programme includes the continuation of such training covered the application of the Bankruptcy Law. The Judicial Academy will continue with the training under the new NPL Programme.
- **Internet auction portal**
  Work is expected to begin, as part of the NPL Programme, for the development of an internet auction portal for online auctions of bankruptcy assets.

3. Evolution of NPL transactions in CESEE[29]

All transactions reported in the Monitor are either from public sources or identified as confidential and were corroborated through multiple sources, including central bank reports, the EBRD network, the KPMG network and S&P Global Market Intelligence. This is purely indicative as it does not include other unknown or undisclosable transactions.

Evolution of transactions in the CESEE region

- Since the second half of 2015, NPL transactions in the CESEE region have amounted to a total of €14.5 billion (face value transactions), as of the first half of 2019.
- Bulgaria, Croatia, Hungary and Romania have accounted for 83% of sales values since the second half of 2015.
- In the first half of 2019, total realised transactions in the CESEE region amounted to nearly €1.7 billion.
- This is a decrease of 30.4% from the first half of 2018, but an increase from the second half of 2018 (although second halves of years are historically slower with transactions).
- In the first half of 2019, seven out of 17 countries in the CESEE region recorded NPL transactions, and a total of 14 countries have recorded transactions since 2015.
- At least €0.5 billion in transactions were already confirmed for the second half of 2019 and further assets already being put for sale (for example, the Deposit Insurance Agency (DIA) in Serbia).
- In the context of the five partner countries, multiple NPL transactions were realised in Albania for the first time (with a face value of €0.17 billion) in the first half of 2019.
- In Serbia, the Deposit Insurance Agency (DIA) has begun its resolution and the sale of its NPLs. In October 2018, the DIA announced its first auction for the sale of the NPL portfolio of €242 million. The sale was successfully completed in July 2019, with EOS Matrix as its buyer. On 30 September 2019, the DIA announced its second auction sale of the NPL portfolio of €1.822 billion. The process is expected to conclude during the second quarter of 2020.
- Croatia continued to attract considerable investor interest in the first half of 2019 and with a pipeline in the second half of 2019. In the first half of 2019, a single transaction (made public) was realised in Croatia: a €0.8 billion sale by Heta Asset Resolution, which represented one of the largest NPL sales in the region in recent years.

[29] Based on publicly available data, last accessed 1 June 2019.

NPL transactions trends

- Transactions continue to be relatively dynamic but with a noticeable slowdown, particularly in some of the countries that have already cleared large portfolios in recent years, such as Romania and Hungary.
- In Romania, the slowdown in NPL transactions is also partly attributable to the tightening of the fiscal regime, applicable to NPLs sold by banks to third parties (introduced in 2018 by the former government through the Fiscal Code).
- There are still some large portfolio transactions expected to occur (for example, from the DIA in Serbia), but single debtor name transactions are being observed and more complex restructuring cases are being sold.
- Some of the smaller countries are also opening to the concept of sales, as it has been observed in Croatia.
- While supply is decreasing, investors' demand remains relatively high, but for the right yield. Investors therefore need to become more creative to achieve adequate volumes.
- The next wave of transactions as NPLs supply for sale decreases is also expected to come from unlikely-to-pay (UTP) exposures, as regulatory pressures on the prevention of new flows may push banks to deleverage earlier.
- As the market moves to more complex exposures and UTP exposures are sold, more specialised investors and servicing capabilities will be required.

NPL Servicers

- The servicing infrastructures in many countries were developed to support large "older vintage" portfolios, with limited restructuring needs that are more recovery-focused. As these types of transactions plateau, there will be implications for servicers to expend their reach and further develop skills.
- We detail in **Table 2** a list of active servicers and collection agencies operating in at least one of the CESEE countries.

Chart 3. Realised NPL portfolio transactions in CESEE (July 2015 to June 2019)[30]

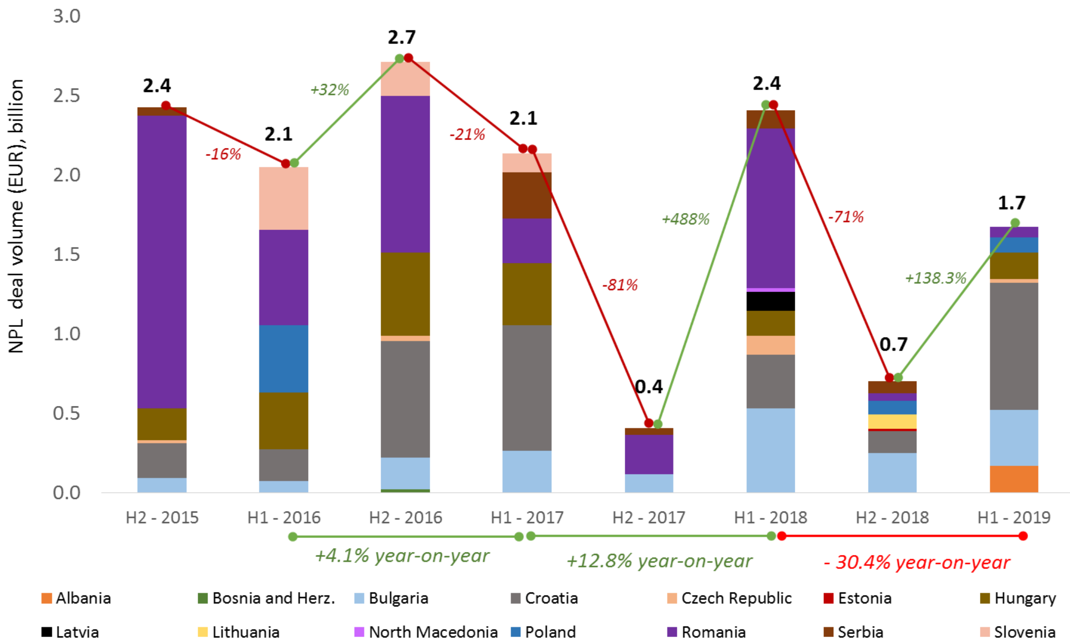


Table 1. Sample of recent NPL transactions in CESEE (publicly available)[31]

Period	Country	Vendor	Project	Type	Buyer	Face Value (€m)
H2 - 2019	Hungary	MKB Bank Zrt.	Undisclosed	Consumer	Investor Group	75
H2 - 2019	Hungary	UniCredit Bank Hungary Zrt.	Undisclosed	Consumer	EOS Faktor Magyarország Zártkörűen Működő Részvénytársaság	28
H2 - 2019	Bosnia and Herz.	Two UniCredit Banks	Undisclosed	Undisclosed	B2 KAPITAL d.o.o. for business services	24.5
H2 - 2019	Serbia	Investor Group	Undisclosed	Undisclosed	EOS Matrix EOOD	242
H2 - 2019	Croatia	Zagrebačka banka d.d.	Project Lion	Consumer & Corporate	DDM Debt AB	203.3
H1 - 2019	Hungary	National Deposit Insurance Fund of Hungary	Undisclosed	Undisclosed	Hungarian Real Estate Financing Zartkoruen Mukodo Reszvenytarsasag	164.5
H1 - 2019	Czech Republic	MONETA Money Bank a.s.	Undisclosed	Consumer	Bohemia Faktoring, a.s.	27.1
H1 - 2019	Albania	Undisclosed	Multiple Transactions	Undisclosed	Undisclosed	170
H1 - 2019	Croatia	Heta Asset Resolution	Solaris	Consumer	DDM Group and B2Holding	800
H1 - 2019	Poland	Get Back	Undisclosed	Consumer	Hoist Finance	94
H1 - 2019	Romania	Patria Bank	Undisclosed	Corporate	Kruk Group	70
H1 - 2019	Bulgaria	Eurobank Bulgaria	Undisclosed	Corporate	Eos Matrix	350

[30] The figures are mostly based on disclosed transactions from public sources. As a result, they may not include all transactions closed in the market and are estimations for indicative purposes only. The sourcing methodology changed for the deals from the second half of 2018 onwards. Source: Central bank reports, the EBRD network, the KPMG network and S&P Global Market Intelligence.

[31] Source: Same as above.

Table 2. List of major NPL servicers in the CESEE region [32]

Servicer	Type of servicer *				Also Investor?	Asset class					Country																				Comments
	Primary	Special	Recovery Agency	Own assets only	Yes / No	Retail	SME	Corporate	Residential RE	CRE	Albania	Bosnia	Bulgaria	Czech Republic	Croatia	Cyprus	Estonia	Greece	Hungary	Kosovo	Latvia	Lithuania	Monte negro	North Macedonia	Poland	Romania	Serbia	Slovakia	Slovenia	Ukraine	
APS Holding	✓	✓	✓		Yes	✓	✓	✓	✓	✓			✓	✓	✓	✓		✓	✓				✓		✓	✓	✓	✓			
Altamira	✓	✓	✓		Yes	✓	✓	✓	✓	✓						✓		✓													In 2019, doBank (Italian NPL servicer) acquired 85% of Altamira's share capital
Best S.A	✓		✓		Yes	✓	✓	✓	✓																✓						
B2 Holding	✓	✓	✓		Yes	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓		✓	✓	✓		✓		Present in Poland through Ultimo
Castlelake				✓	Yes		✓	✓	✓	✓				✓					✓						✓	✓		✓			
Cepal	✓	✓	✓		No	✓	✓			✓								✓													
Chartered Debt Management (CDM)	✓	✓	✓		Yes	✓	✓	✓																		✓					CDM typically partners with international investors in Romania to act as their servicing partner
CreditExpress			✓		No	✓						✓		✓	✓				✓					✓	✓	✓	✓	✓	✓	✓	
Coface			✓		No	✓					✓		✓	✓	✓				✓						✓	✓	✓	✓	✓		
Delfi					No											✓															
EOS Group	✓	✓	✓		Yes	✓	✓	✓	✓	✓		✓	✓	✓	✓			✓	✓	✓			✓	✓	✓	✓	✓	✓	✓		
Eurobank FPS	✓	✓	✓		Yes	✓	✓			✓								✓													
Hoist Finance				✓	Yes	✓	✓											✓							✓						
Intrum	✓	✓	✓		Yes	✓	✓	✓	✓					✓			✓	✓	✓		✓	✓			✓	✓		✓			
Kredyt Inkaso	✓	✓	✓	✓	Yes	✓	✓	✓	✓	✓			✓		✓			✓							✓	✓					
Kruk	✓	✓	✓		Yes	✓	✓	✓	✓	✓				✓											✓	✓		✓			
Lexus EGF			✓		No	✓		✓		✓															✓						
Mount Street	✓	✓	✓		No		✓	✓		✓		✓	✓	✓	✓	✓		✓	✓						✓	✓		✓	✓	✓	
Pepper	✓	✓			No											✓															
Pillarstone	✓	✓	✓		Yes		✓	✓		✓						✓		✓													
PraGroup		✓	✓		Yes	✓	✓																		✓						
Resolute		✓	✓		No	✓	✓	✓	✓	✓			✓			✓		✓								✓					
QQuant Master Servicer	✓	✓	✓		No													✓													
Tagor Asset Management		✓	✓		Yes			✓		✓																✓					Tagor often bids alongside international investors in Romania to act as their servicing partner.

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

[32] Source: KPMG

Appendix

Definitions

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

Metadata

To provide a comprehensive view of the underlying data used in this Monitor, we summarise below the key indicators used in the analysis, as detailed by central banks when reporting to the IMF (or, as in the case of North Macedonia, Kosovo and Serbia, 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, whereas some exclude such loans (increasing the NPL ratio for the latter). Other specificities listed below may also slightly create an upwards or downwards bias in the results presented. However, despite some discrepancies, the definitions and data used in this monitor are overall consistent across countries and can be relied on for comparability purposes.

		NPLs	Gross Loans	Provisions (or Net NPLs)	Comments
1	**Albania**	N/A	N/A	N/A	
2	**Bosnia 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 nonperforming 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**	According to the Decision on credit risk management (currently applicable), as non-performing is considered to be an individual contract, which, on any basis (principal, interest, other non-interest income), has not been collected in a period longer than 90 days from the date of maturity (applying certain materiality thresholds), as well as exposures classified in D or E risk categories, meaning: credit exposure to illiquid client; the collection of credit exposure depends on the use of collateral; the client enjoys defined low credit rating; the client has undergone bankruptcy or liquidation proceedings; the client denies the existence of credit exposure; or the bank expects to collect only an insignificant portion of credit exposure to the client. This definition of NPLs is valid until 30 June 2019.	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 calculate and publish on their website loans and non-performing loans on non-financial sector only and net-NPLs netted by loan loss provision against NPLs only.
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 from 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	**Slovakia**	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 on the territory of 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 on the territory of Ukraine and abroad.		

Contacts

Bojan Markovic
Deputy Director
Economics, Policy and Governance Department
EBRD
Tel: +44 7551 127331
Email: markovib@ebrd.com

Eric Cloutier
Senior Adviser, NPL Initiative
Economics, Policy and Governance Department
EBRD
Tel: +353 8774 41839
Email: cloutiee@ebrd.com