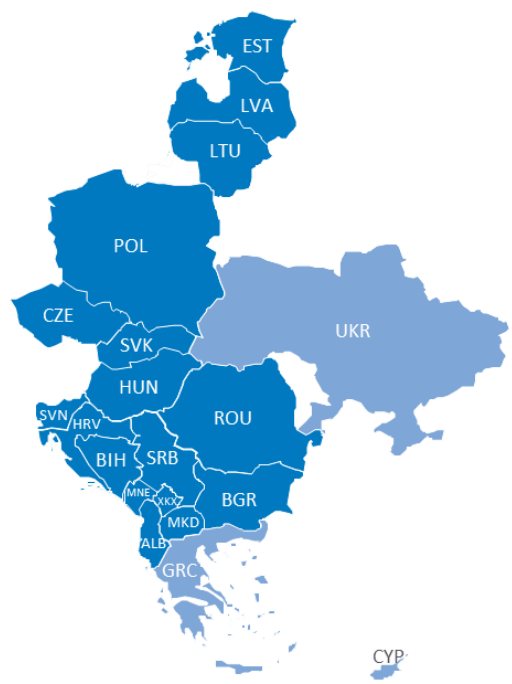
EBCI | Vienna Initiative

NPL monitor for the CESEE region[1]

Edition: H1 2021

The NPL monitor is the semi-annual publication of the NPL Initiative, a subset of the Vienna Initiative. The publication reviews the latest non-performing loan (NPL) trends in 17 countries[2] in central, eastern and south-eastern Europe (CESEE). This edition focuses on the challenge that exiting the Covid-19 crisis could constitute for banks as fiscal and regulatory support are scaled back.



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

Contents

Executive summary

The worst-case scenario feared in the first half of 2020 – that a significant rise in non-performing loans (NPLs) would occur as a result of the Covid-19 pandemic – is now unlikely to materialise. Still, the ultimate impact of the crisis on banks' asset quality remains uncertain and regulators across Europe and beyond are monitoring the situation very closely.[3]

The public measures implemented in most jurisdictions mitigated, at least temporarily, the negative effects of the pandemic on banks' asset quality. The region saw a decline in the NPL ratio over the course of 2020, as the decrease in NPLs exceeded the decrease in loans and advances. As of 31 December 2020, the region's NPL ratio remained relatively stable, at 3.5 per cent, down 0.2 percentage points on the year.[4]

NPLs are still expected to rise, however, as government measures begin to wane. While the extent of the impact remains to be seen, the recent increase in stage 2 loans,[5] particularly among loans that benefited from payment moratoria, can be seen as an indicator of intensifying credit risks in future. Economies reliant on sectors most vulnerable to the crisis (such as accommodation and food, arts and entertainment, commercial real estate (CRE) or transport) are also likely to be particularly affected. In addition, the widespread use of payment moratoria and other forbearance measures creates additional monitoring challenges for banks, putting them under accrued pressure.[6]

When it comes to NPL sales, there is very much a wait-and-see approach, with a limited number of NPL transactions having taken place in 2020. Banks are still assessing the pandemic's impact on their balance sheets – delayed by government support measures – and the number of new portfolios for sale has been negligible. Many banks have also indicated that they will first try to manage internally any new NPL flows as they arise and focus instead on resolving their outstanding legacy stock. This strategy will depend on the volume of such new NPL flows, as well as the capabilities of individual banks to manage such flows themselves (many banks had reduced the size of their workout units as NPL volumes had decreased in recent years).

[3] See KPMG (2021).
[4] Data are from the International Monetary Fund's (IMF) Financial Soundness Indicators (FSIs). Missing data are sourced from monetary authorities or, failing that, the most recently available data are used. More information on data and their interpretation is provided throughout this publication.
[5] A loan on which the credit risk has increased significantly since initial recognition.
[6] See ECB (2021a).

I. NPL evolution in the CESEE region

Continued decrease in NPL volumes over the last 12 months for most CESEE jurisdictions

- At regional level, NPL volumes fell 3.9 per cent in the 12 months from Q4 2019 to Q4 2020.
- In relative terms, the decline in NPL stocks was most significant in Latvia, Hungary and North Macedonia, where they fell 37 per cent, 36 per cent and 26 per cent during the period, respectively.
- The largest contributor to the decline in absolute terms was Poland, where the stock of NPLs declined by almost €370 million, or 2.8 per cent.
- Among comparators (Greece, Cyprus and Ukraine), the decline was more pronounced. Greece saw a sizeable drop in NPL volumes of close to 21 per cent in 2020, supported by recent transactions under the Hercules asset protection scheme.

Decline in the regional NPL ratio slows to 0.2 percentage point over 2020

- Similar to the trend in NPL volumes, NPL ratios continued to decrease in 2020 in all but five CESEE countries.
- The largest decline was registered in Bosnia and Herzegovina with a 4.3 percentage point drop on the year.
- NPL ratios increased marginally in Croatia and Estonia, with a larger rise in Poland, Kosovo and Montenegro – at 0.3, 0.6 and 0.8 percentage points, respectively.

Regional NPL coverage ratio improves, yet the metric decreased in half of the CESEE countries

- On aggregate for the CESEE region in 2020, the NPL coverage ratio[7] showed a slight improvement of 0.3 percentage point, supported by prudent provisioning in the context of Covid-19 and the slight decrease in NPLs.
- In countries where the NPL coverage ratio declined, such as Estonia and Slovakia, we observed a lower-than-average NPL ratio.
- The largest decrease, of around 17 percentage points, was in Kosovo, where the NPL ratio was significantly below average, at 0.9 per cent.
- Significant national disparities remain when it comes to NPL coverage ratios. Latvia posted the lowest country ratio, at 30.4 per cent, and Croatia the highest, at 83.3 per cent. Such differences can be explained by country-specific disparities, such as diverging approaches to collateralisation, accounting standards, provisioning policies and types of exposure.[8]

[7] Percentage of NPL provisions divided by the NPL stock.
[8] See EBA (2020).

Stage 2 loans increased in H2 2020, suggesting potential deterioration in bank asset quality[9]

- The European Banking Authority's (EBA) latest Risk Dashboard[10] underscores how banks remain vulnerable to adverse credit-risk movements and how the sectors hit hardest by the pandemic – such as accommodation, restaurants, arts, entertainment and recreation – are already showing signs of falling asset quality.
- According to the EBA data, the overall share of stage 2 loans in the European Union (EU) rose to 9.1 per cent of total loans in the last quarter of 2020 from 8.2 per cent in Q2 2020, with stage 2 loans as a share of loans still under moratorium nearly triple that (26.4 per cent).
- The regional share of stage 2 loans to total loans in CESEE countries increased slightly, by 0.8 percentage point, over the course of H2 2020. A similar, but more pronounced development could be observed in Croatia and Hungary, whereas the share of stage 3 loans in both countries varied to a lesser degree. An increase in stage 2 loans requires banks to increase their provisioning and can impact profitability.
- The CESEE countries in which the share of stage 2 loans increased most throughout 2020 were Hungary (3.9pp), Romania (3.6 pp) and Poland (3.0pp). The risks are limited for Hungary, where the NPL net of provisions-to-capital ratio remains well below the CESEE average (1.4 per cent compared with 7.9 per cent).

Table 1: Stage 2 loan evolution in EU CESEE countries in H2 2020[11]

in %	Jun 20	Dec 20	Δ (pp)
Bulgaria	9.6%	10.8%	1.1pp
Croatia	8.7%	11.3%	2.6pp
Cyprus	14.0%	18.2%	4.3pp
Czech Rep.	4.8%	5.8%	0.9pp
Estonia	11.4%	10.7%	-0.7pp
Greece	13.6%	13.7%	0.0pp
Hungary	8.1%	12.0%	3.9pp
Latvia	10.9%	5.1%	-5.8pp
Lithuania	9.9%	8.4%	-1.5pp
Poland	9.5%	12.6%	3.0pp
Romania	16.1%	19.7%	3.6pp
Slovakia	16.3%	16.1%	-0.2pp
Slovenia	6.1%	8.1%	2.0pp
CEE avg.	**10.1%**	**11.0%**	**0.8pp**
EU/EEA	***8.2%***	***9.1%***	***0.9pp***

[9] As classified by International Financial Reporting Standard (IFRS) 9, unless otherwise specified. Data on staging are from the EBA interactive tool.
[10] See EBA (2021a).
[11] *Ibid*. Due to rounding, variations may not equal the simple difference between figures.

Figure 1a. NPL volumes and ratios in the CESEE region as of 31 December 2020

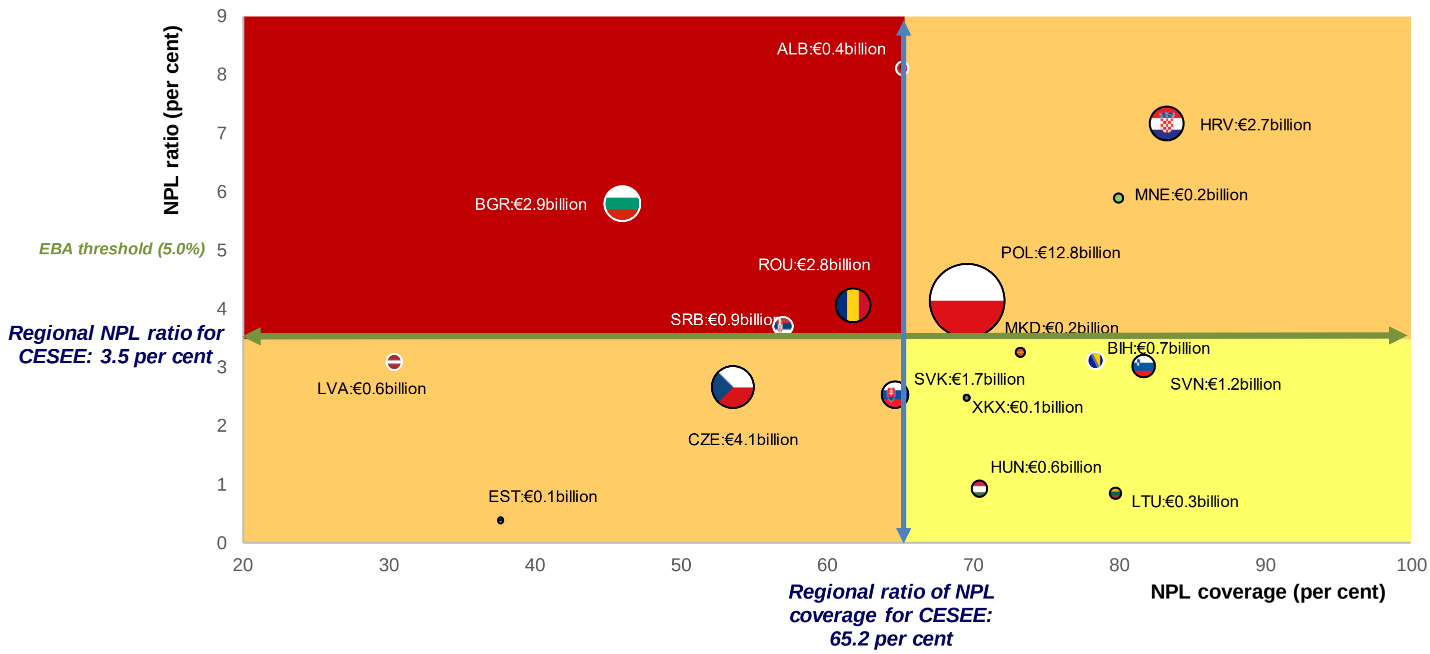

Figure 1b. NPL coverage ratios by coloured quadrant in Figure 1a (Q4 2020)

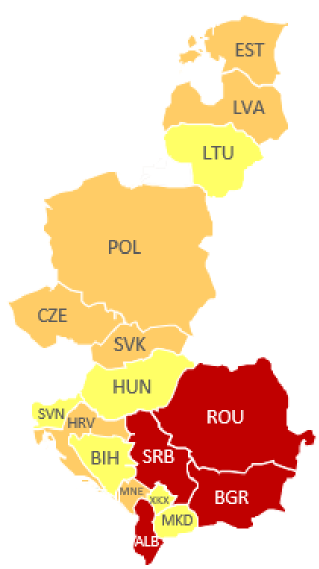

Figure 1c. Net NPL ratio (Q4 2020)

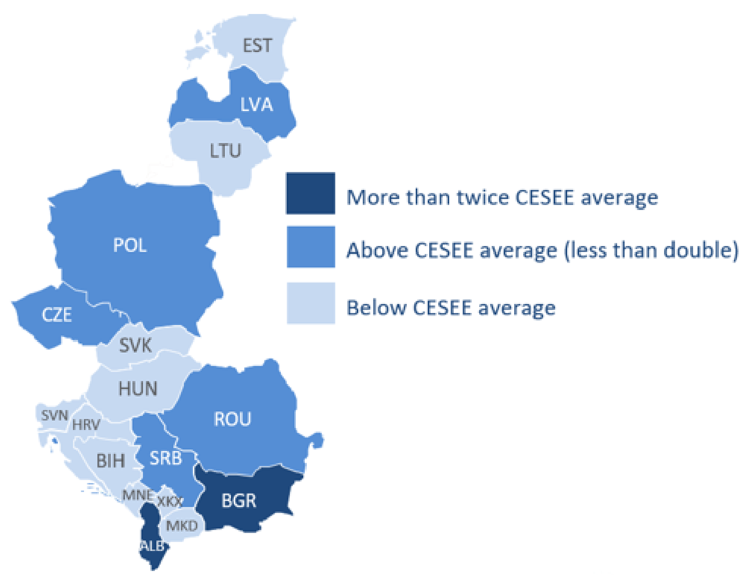

Table 2: Overview of the NPL profile in CESEE, 31 December 2019 to 31 December 2020

Country	NPL volume (€ bn)		NPL ratio (%)		NPL coverage ratio		Net NPL ratio (%)		Net NPL / Capital (%)		NPL to GDP (%)	
	Dec-20	Variation(%)	Dec-20	Δ(pp)	Dec-20	Δ(pp)	Dec-20	Δ(pp)	Dec-20	Δ(pp)	Dec-20	Δ(pp)
Albania (ALB)	0.4	▲ 1.1	8.1	▼ (0.3)	65.2	▲ 5.8	2.8	▼ (0.6)	10.5	▼ (2.2)	3.2	▲ 0.3
Bosnia & Herz. (BIH)	0.7	▼ (16.6)	3.1	▼ (4.3)	78.4	▲ 1.4	0.7	▼ (1.0)	7.8	▼ (2.1)	4.1	▼ (0.2)
Bulgaria (BGR)	2.9	▼ (6.4)	5.8	▼ (0.8)	46.0	▼ (1.6)	3.1	▼ (0.3)	20.8	▼ (3.1)	5.2	▲ 0.1
Croatia (HRV)	2.7	▲ 7.9	7.2	▲ 0.2	83.3	▲ 1.5	1.2	▼ (0.1)	5.4	▼ (0.2)	5.7	▲ 1.2
Czech Republic (CZE)	4.1	▼ (3.1)	2.7	▼ (0.1)	53.6	▼ (1.8)	1.2	▲ 0.0	8.6	▼ (0.8)	2.1	▲ 0.2
Estonia (EST)	0.1	▲ 7.7	0.4	▲ 0.0	37.7	▼ (2.7)	0.2	▲ 0.0	1.1	▲ 0.1	0.3	▲ 0.1
Hungary (HUN)	0.6	▼ (35.6)	0.9	▼ (0.6)	70.4	▲ 4.2	0.3	▼ (0.2)	1.4	▼ (0.9)	0.5	▼ (0.2)
Kosovo (XKX)	0.1	▲ 39.8	2.5	▲ 0.6	69.6	▼ (17.3)	0.8	▲ 0.5	4.5	▲ 3.0	1.4	▲ 0.5
Latvia (LVA)	0.6	▼ (37.2)	3.1	▼ (1.9)	30.4	▼ (14.0)	2.2	▼ (0.6)	17.4	▼ (7.3)	2.2	▼ (1.0)
Lithuania (LTU)	0.3	▲ 0.8	0.8	▼ (0.2)	79.8	▲ 15.3	0.2	▼ (0.2)	3.1	▼ (3.3)	0.7	▲ 0.1
North Macedonia (MKD)	0.2	▼ (26.4)	3.3	▼ (1.4)	73.2	▲ 5.5	0.9	▼ (0.6)	4.5	▼ (3.4)	1.9	▼ (0.4)
Montenegro (MNE)	0.2	▲ 19.6	5.9	▲ 0.8	80.0	▼ (8.9)	1.2	▲ 0.6	7.1	▲ 3.6	4.4	▲ 1.5
Poland (POL)	12.8	▼ (2.8)	4.1	▲ 0.3	69.6	▲ 0.1	1.3	▲ 0.1	8.6	▼ (0.3)	2.6	▲ 0.2
Romania (ROU)	2.8	▲ 3.4	4.1	▼ (0.0)	61.8	▲ 1.1	1.5	▼ (0.1)	9.6	▼ (0.5)	1.4	▲ 0.2
Serbia (SRB)	0.9	▲ 0.6	3.7	▼ (0.4)	57.0	▼ (4.5)	1.6	▲ 0.0	6.1	▲ 0.6	2.0	▲ 0.1
Slovakia (SVK)	1.7	▼ (7.5)	2.5	▼ (0.3)	64.7	▼ (0.8)	0.9	▼ (0.1)	6.5	▼ (0.8)	2.0	▲ 0.0
Slovenia (SVN)	1.2	▲ 4.8	3.0	▼ (0.4)	81.7	▲ 4.3	0.6	▼ (0.2)	4.1	▼ (1.2)	2.8	▲ 0.4
CESEE	32.0	▼ (3.9)	3.5	▼ (0.2)	65.2	▲ 0.3	1.2	▼ (0.1)	7.9	▼ (0.7)	2.2	▲ 0.1
Cyprus (CYP)	5.4	▼ (33.6)	16.9	▼ (0.2)	45.9	▼ (4.4)	9.1	▲ 0.6	56.1	▼ (20.5)	27.5	▼ (8.9)
Greece (GRC)	58.2	▼ (21.0)	27.0	▼ (9.5)	48.1	▲ 1.2	14.0	▼ (5.4)	105.4	▼ (23.8)	37.7	▼ (2.6)
Ukraine (UKR)	12.4	▼ (37.8)	41.0	▼ (7.4)	89.3	▼ (1.2)	4.4	▼ (0.2)	21.9	▼ (3.4)	10.0	▼ (4.5)
Other	76.0	▼ (25.3)	27.3	▼ (7.6)	54.6	▼ (1.1)	12.4	▼ (3.1)	86.3	▼ (18.3)	25.6	▼ (4.2)
Total Countries	**108.0**	▼ **(20.0)**	**9.0**	▼ **(2.1)**	**57.8**	▼ **(0.2)**	**3.8**	▼ **(0.9)**	**25.1**	▼ **(6.4)**	**6.3**	▼ **(0.7)**

Notes on data and interpretation of results

- Variation (per cent) is calculated as ((value period 1/value period 0) -1), with December 2020 as period 1 and December 2019 as period 0 (where available).
- Δ (percentage points) is the variation, between two periods. It is calculated as (per cent period 1 - per cent period 0).
- For more of the countries covered in this edition of the NPL Monitor, data to 31 December 2020 are the latest available. The latest available data for Lithuania and Poland are to 30 June 2020.
- When not available from the IMF FSI, data are found on the websites of monetary authorities of the countries in question. Such data include the latest information on selected indicators for Latvia, Poland and Serbia. When information is neither available on official websites of respective countries nor in IMF FSIs, time-adjacent data are used to fill gaps. The countries for which IMF data are not available for Q4 2020 are Cyprus, the Czech Republic, Estonia, Lithuania (Q2) and Poland (Q2).
- The NPL-to-GDP ratio (per cent) is calculated using annual GDP values for 2019 and 2020, respectively (rather than quarterly data), in line with IMF World Economic Outlook reporting.

II. Reforms, regulatory updates and recommendations from the EU

The design and volume of 2020 Covid-19 support measures varied considerably from country to country in the EU, ranging from public guarantee schemes to direct fiscal measures and other measures. The European Central Bank (ECB) focussed on public guarantee schemes and moratoria.

The ECB has been closely monitoring the support measures – such as debt moratoria, direct grants and labour-market initiatives, which can have a significant impact on borrowers' ability to service their loans – to prevent potential cliff effects when they expire.[12]

The European Commission also published its new NPL action plan in December 2020 and is in the process of implementing some of its actions, with the support of the ECB and the EBA. We discuss below some highlights of recent EU supervisory activities relevant to credit risk and NPLs.

Credit risk continues to top the SSM Supervisory Priorities for 2021

While the ECB/Single Supervisory Mechanism's (SSM) worst-case scenario is now less likely to come to fruition, asset-quality deterioration as a result of the Covid-19 pandemic remains one of the central bank's main concerns for 2021.[13, 14]

In 2020, the ECB focussed closely on assessing banks' credit-risk management practices and identified a broad array of weaknesses persisting in EU banks, including an underestimation of expected credit losses (ECLs), the inappropriate classification of debtors and weak monitoring processes.[15, 16] In its SSM Supervisory Priorities for 2021, the ECB reiterates the importance that banks resolve these weaknesses to ensure that the short-term consequences of the crisis do not evolve into longer-term issues.

In addition, the ECB sent a "Dear CEO" letter[17] to EU banks on 4 December 2020, which set out its expectations as regards credit-risk identification and measurement in the context of Covid-19. Banks were required to provide a detailed answer to the ECB by 31 March 2021, which will help to inform specific supervisory activities in relation to credit risk in 2021. Follow-up measures to remediate shortcomings will be undertaken as part of annual Supervisory Review and Evaluation Process (SREP) decisions and/or *ad hoc* operations.

For less significant institutions that come under the supervision of competent national authorities, the focus will be on assessing the impact of the wind-down of national support measures and banks' readiness to deal with any potential increase in defaults.

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[12] See McCaul (2021).
[13] See ECB (2021a).
[14] See also KPMG (2021).
[15] See ECB (2021b).
[16] See ECB (2021c).
[17] See Anira (2021).

European Commission action plan on NPLs (December 2020)

In December 2020, the ECB and the European Commission published a new action plan on NPLs. This new plan is a follow-up to the European Commission's 2017 EU action plan on NPLs and aims to continue improving the framework for dealing with NPLs in response to the Covid-19 crisis. Accordingly, various EU regulators are being tasked with implementing individual actions over the course of 2021.

The action plan on NPLs is structured around four strategic axes:[18]

- developing secondary markets for distressed assets to facilitate bank balance-sheet cleansing
- reforming EU legislation on debt recovery and corporate insolvency
- supporting the establishment and cooperation of national asset management companies
- implementing precautionary public support measures to keep channelling funds into the real economy.

Figure 2: Some highlights of the EU Action Plan on NPLs of December 2020

1 Further develop secondary markets for distressed assets

- Work to ensure the adoption of the Commission's proposal on credit servicers and credit purchasers.
- Establish a central electronic data hub at EU level.
- The EBA should update its transaction templates.
- Draw on relevant data sources and reporting to make information available to NPL investors (while maintaining confidentiality).

2 Support national asset management companies

- - Explore how cooperation could be fostered by establishing an EU network of national AMCs (ensuring AMCs have sufficient financial firepower in terms of loss-absorbing capacity/equity).
- - AMCs must be a market-based solution.
- - Create a potential link to the data hub to share information.
- - Implement alternative impaired asset measures (bank-driven initiatives, securitisation-based approaches, guarantees or asset-protection schemes (ASPs), as well as ad hoc AMCs common to one or several banks.

3 Reform the EU's corporate insolvency and debt recovery legislation

- Aim to agree the legislative proposal for minimum harmonisation rules on accelerated extrajudicial collateral enforcement.
- Address regulatory impediments to NPL purchases by banks (namely, the regulatory treatment of purchased defaulted assets and risk weights for capital requirements under the Standardised Approach).
- The Recovery and Resilience Facility (RRF) will incentivise the reduction of NPLs, in particular, to improve the efficiency of national insolvency frameworks and administrative and judicial systems.

4 Implement precautionary public support measures

- Provide measures where needed, in line with the Bank Recovery and Resolution Directive (BRRD) state aid frameworks and the exception in Article 32(4)(d)(iii); the BRRD may be applied during the Covid-19 crisis.
- Consider whether a simplified approach to identifying real economic value could be used to strengthen banks' capital and loss absorption requirements (for provisioning policy).
- Use precautionary measures to finance the transfer of NPLs to an AMC in BRRD's AMC Blueprint, provided such transactions pursue the same capital injection objectives and meet the same conditions as Assured Payment Systems

Source: KPMG, authors' adaptation.

EBA NPL transaction templates[19]

As part of the NPL Action Plan, the EBA has been reviewing (streamlining) the NPL transaction templates it developed in 2017-18. The EBA launched a consultation paper for this update, which runs until 31 August 2021. Improving the templates will be key to facilitating the sale of NPLs in the aftermath of the Covid-19 pandemic. The templates aim to address information asymmetries, so as to promote price discovery between buyers and sellers.

[18] See European Commission (2020a).
[19] See EBA (2021b).

European Commission's legislative proposal on credit servicers and credit purchasers

The European Commission and the EBA are seeking to address regulatory impediments to NPL purchases by banks. The Commission, in particular, has urged the European Parliament to adopt its legislative proposal on credit servicers and credit purchasers.[20, 21] The directive was approved by the Committee on Economic and Monetary Affairs in January 2021 and features among the legislative priorities of the EU institutions for 2021.

The directive aims to foster the development of secondary markets for NPLs by tackling undue obstacles to credit servicing and the transfer of bank loans to third parties across the EU ("passporting"). It comprises:

- a definition of the activities of credit servicers, to establish common standards for authorisation and supervision and to impose conduct rules across the EU
- a mechanism to accelerate value recovery from secured loans by way of extrajudicial enforcement of procedures, commonly used to realise collateral.

[20] See European Commission (2020b).

[21] See European Parliament Legal Observatory (2021).

III. Macroeconomic summary and recent policy actions in response to Covid-19

In this section, we provide a high-level summary of the recent macroeconomic situation in the five "partner countries" of the Vienna Initiative and discuss the measures implemented in recent months with a view to mitigating the impact of Covid-19 on banks' asset quality and NPLs. Countries may also collaborate with international financial institutions to undertake measures necessary for better NPL management and set customised guidelines.[22]

Albania

Summary of macroeconomic projections

The Covid-19 pandemic was preceded by the November 2019 earthquake, in a first negative shock to the local economy. The Covid-19 crisis severely impacted the real economy of Albania, which relies heavily on vulnerable sectors that employ nearly 40 per cent of the active population.[23] The IMF's real GDP forecasts have been revised significantly downwards from its 2019 projections, with a permanent output loss of around 7 per cent.[24] The Bank of Albania is expecting a deterioration in bank asset quality in 2021, with a resulting rise in NPLs, but expects the issue to remain at manageable levels for banks.[25]

Policy actions[26]

- The low rate policy (0.5 per cent) was extended to at least Q3 2021.
- On 13 January 2021, the central bank lifted its suspension of the distribution of 2019 dividends, but suspended the distribution of 2020 and 2021 dividends until end 2021.
- The central bank waived commissions for dematerialised transfers in local currency.
- The 2021 budget approved by parliament on 16 November 2020 allocated ALL 14.2 billion (0.8 per cent of GDP) in Covid-19 related spending. This includes ALL 2.5 billion for a temporary increase in social assistance payments (to June 2021) and unemployment benefits.

[22] See World Bank (2020).

[23] EBRD staff calculation based on International Labour Organization (ILO) data. Vulnerable sectors include retail, transportation and storage, accommodation and food services, arts and recreation, and other services.

[24] See IMF (2020), p. 14.

[25] Ibid.

[26] See IMF: Policy responses to COVID-19.

Croatia

Summary of macroeconomic projections

Like Albania, Croatia suffered the shock of an earthquake – in 2020, only to have the effects compounded by the Covid-19 crisis. While the European funds (Multiannual Financial Framework 2014-20 and 2021-27) enabled the country to attenuate somewhat the effects of the pandemic on private consumption, investment and goods exports in 2020, this was not sufficient to avert a recession. As tourism plays an important role in the Croatian economy, the 2020 recession was particularly harsh, with a 9 per cent drop in GDP.[27] Overnight stays by foreign tourists, for instance, saw a 55.3 per cent decline from 2019, according to the Croatian Bureau of Statistics.

Croatia's debt-moratorium measures will soon be lifted (end of June 2021),[28] so banks have increased their loss provisions, negatively affecting their profitability. NPLs are expected to remain stable or increase slightly in 2021-22, depending on the quality and timing of the recovery. Croatia's NPL rate stood at 7.2per cent as of December 2020, up from 6.7 per cent in March 2020.[29]

Policy actions[30]

- The Croatian National Bank (CNB) extended its ban on the payment of dividends and profits to the end of 2021. It aims to review this policy at the end of Q3 2021 and potentially revoke should economic developments prove favourable.
- On 17 December 2020, the government announced that it would maintain its job-support measure of HRK 4,000 per employee for January and February 2021. At end February 2021, the job-retention grants were extended by another month.
- In January 2021, the European Commission approved Croatia's HRK 1.53 billion state aid programme for companies in the tourism and sports sectors. The programme facilitates state guarantees of up to 90 per cent of the loan principal, or up to 35 per cent in the case of first-loss guarantees.[31] The supports, worth up to €800,000 per entrepreneur, will be issued by 30 June 2021 at the latest, but only to companies that were not in difficulty as of 31 December 2019 (apart from micro- and small enterprises, which are eligible even if they had business problems at that time).

27 IMF – Republic of Croatia: At a glance
28 See IMF: Policy responses to COVID-19.
29 IMF Financial Soundness Indicators, consulted 20 April 2021.
30 See IMF: Policy responses to COVID-19.
31 See European Commission (2021).

Hungary

Summary of macroeconomic projections

Hungary was strongly affected by the Covid-19 crisis, with the economy contracting 6 per cent in 2020. This was largely driven by the economic slowdown induced by the first wave of the virus and the resulting national restrictions. Industrial production offset somewhat the losses in the tourism sector, which accounts for around 10 per cent of GDP, as overnight stays by foreign tourists contracted 90 per cent during the year.[32] Bank deposits grew a substantial 20 per cent during the crisis, fuelling hopes of a rebound in private consumption now that the most restrictive measures have been repealed. EU funding is also expected to be an important element in Hungary's recovery, estimated at a cumulative 20 per cent of 2021 GDP, or €26 billion. Public support for the economy is expected to facilitate the recovery, with a forecast 4.5 per cent growth rate in 2021 after the 6.3 per cent drop in GDP in 2020.[33]

NPLs are expected to increase only slightly as public support diminishes. Similar to other CEE countries, Hungarian banks entered the crisis with a strong capital position and a historically low rate of NPLs.

Policy actions

- Hungary established significant economic safeguards worth 30 per cent of GDP, including loan moratoria, an economic recovery fund and guarantee programmes. Its moratorium on loan repayments for both the corporate and retail sectors, adopted in March 2020 and originally set to expire at the end of 2020, was extended to end June 2021.

Montenegro

Summary of macroeconomic projections

Montenegro, a relatively undiversified economy reliant on tourism (which accounts for around 20 per cent of its revenue), was hit hard by the Covid-19 crisis. More recent estimates for the economy show it in recession in 2020, with GDP seeing a drop of 15 per cent on the year.[34]

The country's low level of NPLs prior to the pandemic resulted in a fairly comfortable and stable NPL rate of 5.9 per cent as of December 2020.[35] This figure is expected to increase as support measures and the moratorium are phased out. In addition, the central bank's low level of control over monetary policy in the face of euroisation makes an exit from the crisis harder to control.

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[32] See Standard and Poor's (2021), p. 3
[33] Ibid.
[34] See Moody's Investors Service (2021), p. 2
[35] IMF Financial Soundness Indicators, consulted 20 April 2021.

Policy actions

- **Moratorium**: On 1 March 2021, the Central Bank of Montenegro imposed an obligatory debt moratorium until 31 December 2021 for SMEs that operate in activities hardest hit by Covid-19. The central bank also ordered a debt moratorium for private individuals who had borrowed to prepare for the tourist season and who provide accommodation and food services. The central bank required commercial banks to increase by as much as five years the tenor of loan repayments for private individuals who faced more than a 10 per cent salary decrease due to Covid-19.[36] On 28 April 2021, the country's "endangered business activities" list was extended to 111 different business activities.[37]

Serbia

Summary of macroeconomic projections

Serbia's real GDP contracted 1.0 per cent in 2020 due to the Covid-19 shock,[38] faring better than its regional peers. This was partly thanks to the country's robust economic momentum prior to the pandemic. The structure of the economy also contributed to its resilience, with a relatively large share of industrial output concentrated in sectors more resistant to the pandemic (such as agriculture and food). In March 2021, both Moody's Investor Service and Fitch Ratings upgraded Serbia's sovereign credit rating (to Ba2 and BB+, respectively). The National Bank of Serbia forecasts GDP growth of up to 6 per cent in 2021, with growth stabilising around 4 per cent thereafter.[39]

Uncertainties remain with regard to banks' asset quality and the possible rise of NPLs, as the effects of the crisis on individual and corporate borrowers are likely to have been delayed by support measures.

Policy actions

- **State financial support programme:** In January 2021, the government announced a stimulus package with a view to bolstering the economy during the Covid-19 crisis. The package is worth approximately €2.5 billion and, among other things, comprises:
  - Support for micro-, small and medium-sized enterprises and large companies worth 50 per cent of three months' minimum wage for each employee. This amounts to close to €130 to the company per month per employee.

[36] See Central Bank of Montenegro (2021a).
[37] See Central Bank of Montenegro (2021b).
[38] See The World Bank in Serbia.
[39] See National Bank of Serbia (2021).

- Covid-19-sensitive sectors (hospitality, tourism, hotels, etc.) will be entitled to an additional 1.5 months' minimum wage per employee (around €200 per employee).
  - In March 2021, the government of Serbia announced the extension of its support program to the end of June 2022, increasing the value of the package by €500 million.
- **Moratoria on loan repayments:** [40], [41] Serbia's third and final loan-repayment moratorium ended in April 2021
- **Repo line arrangement with the ECB:**[42] In February 2021, the NBS extended its repo line with the ECB to promote euro liquidity. It will remain in place until March 2022.

[40] See KPMG (2020).
[41] See IMF: Policy responses to COVID-19.
[42] See ECB (2020).

IV. NPL transaction trends

The NPL market remains arid in the CESEE region, as banks continue to assess the impact of the Covid-19 crisis on their balance sheets.

- Since the last edition of the NPL Monitor, no sizeable public NPL transactions have been realised in the CESEE region, largely due to the limited number of new portfolios put up for sale by banks in the region.
- This dearth of supply is in part down to the smaller-than-expected flow of new NPLs resulting from the Covid-19 crisis, thanks to the various support measures that have mitigated (or delayed) the impacts of the crisis on banks' asset quality.
- Demand for NPLs, however, remains active and a number of investment firms and private equity funds are ready, willing and able to invest in this market.
- In these market conditions however, it is difficult for banks to assess a fair price and a good timing to sell their NPL portfolios. This contributes to delays in putting up new portfolios for sale.
- As banks gain visibility on the quality of their assets (as NPLs begin to materialise) and the macroeconomic conditions from 2022, the market should become more active.
- Price reductions have not materialised to date and there is no sign of investors pushing for higher risk premia.
- Outside the CESEE region, the Greek market has been particularly active thanks to the Hercules asset protection scheme. Recent Hercules transactions include:

  - **Cairo**: DoValue bought the mezzanine and junior tranches of a €7.5 billion non-performing exposure (NPE) portfolio sold by Eurobank Eragsias – *June 2020*
  - **Frontier**: €6 billion NPE disposal by the National Bank of Greece – *ongoing*
  - **Sunrise 1**: €7 billion securitisation by Piraeus Bank – *ongoing*
  - **Galaxy**: €10.4 billion securitised and sold in February 2021 by Alpha Bank

Box 1. The Hercules securitisation scheme in Greece: a model for other CESEE countries?

Background

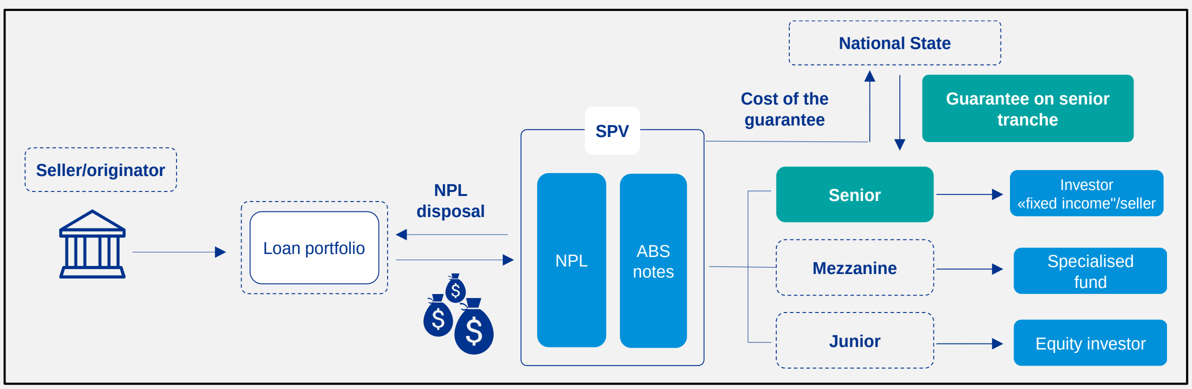
The Hercules asset protection scheme was established in October 2019 to help Greek banks reduce their on-balance-sheet non-performing exposure. The scheme was based on the 2016 Italian Non-Performing Loan Securitisation Guarantee (GACS) model. It allows Greek banks to apply for a state guarantee on the senior tranche of a securitised NPL portfolio, as long as the majority of the portfolio is sold to private investors. The state is remunerated on market terms.

Hercules has shown significant results, both at bank and country level, with the NPL ratio decreasing by about 10 percentage points from the introduction of the scheme to end December 2020. As of April 2021, the Greek authorities reported applications to the scheme for the securitisation of NPLs worth €31.3 billion (at gross book value). Due to its success, the Greek authorities are considering a possible extension of the scheme to 2022.

Features

1. The NPLs are securitised in at least two tranches: senior and junior. It is also possible to issue a tranche of mezzanine debt. The state guarantee only applies to the senior debt.
2. The NPLs are securitised in at least two tranches: senior and junior. It is also possible to issue a tranche of mezzanine debt. The state guarantee will only apply to the senior debt.
3. The guarantee can be activated only if the rating of the senior tranche of the securitised loans is, at its inception, no lower than a BB-.
4. Upon securitisation, the special purpose vehicle appoints an independent servicer to work out the underlying NPLs of the securitisation.
5. The interests of the main parties – the originator, investor(s) and servicer(s) – should be aligned to avoid opportunistic behaviour.
6. The securitisation structure has a liquidity buffer sufficient to achieve the minimum required rating.
7. The initially appointed NPL servicer can be replaced.

Simplified representation of the Hercules structure



Source: KPMG Italy.

Considerations for asset protection schemes

In considering asset protection schemes, such Italy's GACS or Greece's Hercules programme, for other jurisdictions, is it important to assess the specific local situation and its suitability. For example, national frameworks should allow such securitisation operations, the overall NPL stock should be large enough to make the structure attractive, the national capital market should have sufficient depth and the country should have an appropriate rating (investment grade). It is also advisable to create a structure whereby the state takes limited risk and ensures compliance with a market-investor approach (so it does not take the form of state aid).

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Annex 1: NPL servicers in the CESEE region

Table 3: List of major NPL servicers in the CESEE region

Servicer	Type of servicer *				Also investor?	Asset class					Country																				Comments
	Primary	Special	Recovery agency	Own assets only	Yes / No	Retail	SME	Corporate	Residential real estate	CRE	Albania	Bosnia	Bulgaria	Czech Republic	Croatia	Cyprus	Estonia	Greece	Hungary	Kosovo	Latvia	Lithuania	Monte negro	North Macedonia	Poland	Romania	Serbia	Slovakia	Slovenia	Ukraine	
APS Holding	✓	✓	✓		Yes	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓		✓	✓				✓		✓	✓	✓	✓	✓	✓	
Best S.A	✓		✓		Yes	✓	✓	✓	✓																✓						
B2 Holding	✓	✓	✓		Yes	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓		✓	✓	✓		✓		Present in Poland through Ultimo
Cepal	✓	✓	✓		No	✓	✓			✓								✓													
Chartered Debt Management	✓	✓	✓		Yes	✓	✓	✓																		✓					CDM typically partners with international investors in Romania to act as their servicing partner.
CreditExpress			✓		No	✓									✓										✓	✓	✓			✓	
Coface			✓		No	✓					✓		✓	✓	✓				✓						✓	✓	✓	✓	✓		
Delfi					No											✓															
EOS Group	✓	✓	✓		Yes	✓	✓	✓	✓	✓		✓	✓	✓	✓			✓	✓	✓			✓	✓	✓	✓	✓	✓	✓		
Eurobank FPS	✓	✓	✓		Yes	✓	✓			✓								✓													Bought by DoValue
Hoist Finance				✓	Yes	✓	✓											✓							✓	✓					
Intrum	✓	✓	✓		Yes	✓	✓	✓	✓					✓			✓	✓	✓		✓	✓			✓	✓		✓			In June 2017, Intrum Justitia officially merged with Lindorff. The new entity is called Intrum.
Kredyt Inkaso	✓	✓	✓	✓	Yes	✓	✓	✓	✓	✓			✓		✓										✓	✓					
Kruk	✓	✓	✓		Yes	✓	✓	✓	✓	✓				✓											✓	✓		✓			
Lexus EGF			✓		No	✓		✓		✓															✓						
Mount Street	✓	✓	✓		No		✓	✓		✓								✓													In January 2017, Mount Street acquired EPA, the German asset management subsidiary of EAA, created in 2009 to manage the assets of the former WestLB AG
Pepper	✓	✓			No											✓															
Pillarstone	✓	✓	✓		Yes		✓	✓		✓						✓		✓													
PraGroup		✓	✓		Yes	✓	✓																		✓						
Resolute		✓	✓		No	✓	✓	✓	✓	✓			✓			✓		✓	✓							✓					
QQuant Master Servicer	✓	✓	✓		No													✓													
Tagor Asset Management		✓	✓		Yes			✓		✓																✓					Tagor often bids alongside international investors in Romania, acting as their servicing partner

Source: KPMG and EBRD

NPL Servicers * Primary servicers: monitor and manage loans

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

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

Annex 2: Summary of recent decisions by VI stakeholders and EU regulators[43]

Table 4: Covid-19 measures for the banking sector implemented by EU regulators

Date	Authority	Measure	Source
25/11/2020	ECB	ECB review sees increased medium-term vulnerabilities for companies and banks	Source
10/12/2020	ECB	ECB increases the envelope of the pandemic emergency purchase programme (PEPP) by €500 billion to a total of €1,850 billion; it also extends the horizon of net purchases under the PEPP to at least the end of March 2022	Source
10/12/2020	ECB	ECB announces three new TLTRO III operations with a maturity of three years to be allotted in June, September and December 2021; borrowing allowance raised to 55 per cent of eligible loans	Source
14/12/2020	EC	State aid: European Commission gives green light to the pan-European Guarantee Fund, worth up to €200 billion in financing for companies affected by the Covid-19 outbreak in 21 member states	Source
15/12/2020	ECB	ECB asks banks to refrain from paying or to limit dividends until September 2021	Source
16/12/2020	EC	European Commission presents its NPL action plan	Source
21/12/2020	EBA	EBA provides additional clarity on the implementation of certain Covid-19 policies	Source
23/12/2020	EC	State aid: European Commission approves €2.9 billion Polish scheme to support micro-, small and medium-sized enterprises in the context of Covid-19	Source
29/01/2021	EBA	EBA launches 2021 EU-wide stress test	Source
04/02/2021	ECB	ECB extends bilateral euro liquidity lines with non-euro area central banks; central banks of Albania, Croatia, Hungary, the Republic of North Macedonia, Romania, San Marino and Serbia agree to extend the duration of their euro liquidity lines with the ECB to March 2022	Source
11/03/2021	EC	State aid: European Commission approves €1.1 billion Polish scheme to further support companies affected by Covid-19	Source
16/03/2021	EBA	EBA makes its Basel III monitoring exercise mandatory	Source
31/03/2021	ESAs	European Supervisory Authorities (ESAs) issue their first joint risk assessment report of 2021	Source
09/04/2021	ECB	State aid: European Commission approves prolongation of market conform asset protection scheme for banks in Greece	Source
15/04/2021	EBA	EBA updates list of Other Systemically Important Institutions	Source
28/04/2021	ESIF	European Structural and Investment Funds: spending doubled in 2019-20	Source
29/04/2021	EBA	EBA consults on draft technical standards on how to identify appropriate risk weights and conditions when assessing minimum loss given default (LGD) values for exposures secured by immovable property	Source
03/05/2021	EC	Coronavirus: European Commission proposes easing restrictions on non-essential travel to the EU while addressing variants through new 'emergency brake' mechanism	Source
04/05/2021	EBA	EBA launches consultation on NPL data template	Source
07/05/2021	ECB	ECB updates treatment of leverage ratio in the Eurosystem monetary policy counterparty framework	Source
10/05/2021	EC	State aid: European Commission approves €1.9 billion Czech scheme to support companies in context of Covid-19	Source
11/05/2021	EC	State aid: European Commission approves €500 million Greek scheme to support food-service companies affected by Covid-19	Source
17/05/2021	ESAs	Published report on the implementation and functioning of the securitisation regulation	Source
18/05/2021	EBA	EBA announces plans for its risk assessment report	Source
20/05/2021	EC	Coronavirus: European Commission signs a third contract with BioNTech-Pfizer for an additional 1.8 billion doses	Source
21/05/2021	EC	Global leaders adopt agenda to overcome Covid-19 crisis and avoid future pandemics	Source

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

Table 5: Other Covid-19-related measures from the stakeholders of the NPL Initiative

Date	Authority	Measure	Source
11/10/2020	EIB	EIB Group adopts Climate Bank Roadmap and approves €400 million for COVAX initiative to ensure global access to the Covid-19 vaccine, part of €7.8 billion for Covid-19 support, transport, water and cities.	Source
28/10/2020	WB	IFC helps businesses in the poorest countries fight the pandemic with US$ 4 billion In Covid-19 financing	Source
16/12/2020	EIB	EIB backs € 12.5 billion Covid-19 support for business, clean-energy transport and urban investment	Source
22/12/2020	IMF	IMF Executive Board concludes 2020 discussions on common euro-area policies with member countries	Source
10/02/2021	WB	IFC more than doubles issuance of social bonds in FY2020 to more than US$ 3 billion amid Covid-19	Source
11/02/2021	WB	First World Bank support for Covid-19 vaccine rollout in Africa	Source
11/03/2021	EIB	EIB backs €3.7 billion COVID-19 business support for renewable energy, internet, health, education and sustainable urban investment	Source
23/03/2021	IMF	IMF Executive Directors discuss a new Special Drawing Rights (SDR) allocation of US$ 650 billion to boost reserves, help global recovery from Covid-19	Source
24/03/2021	EBRD	EBRD to resume investing in Czech Republic following Covid-19 pandemic	Source
05/04/2021	IMF	IMF Executive Board extends debt service relief for 28 eligible low-income countries through 15 October 2021	Source
05/04/2021	IMF	Global recovery: The EU disburses SDR 141 million to the IMF's catastrophe containment and relief trust	Source
20/04/2021	WB	World Bank financing for Covid-19 vaccine rollout reaches US$ 2 billion	Source
05/05/2021	EIB	European Guarantee Fund accelerates access to recovery funding for EU companies	Source
07/05/2021	EIB	EIB President highlights at EU Social Summit the need to scale up investment in skills and digitalisation to accelerate Covid-19 recovery	Source
19/05/2021	WB	Africa: IFC announces US$ 2 billion investment in SMEs and trade to support recovery from Covid-19	Source

Annex 3: Definitions

- **NPL volume (or gross NPLs):**
  - NPLs are defined and reported differently from country to country, as there is no international standard. For countries reporting financial soundness indicators (FSIs) to the IMF, the FSI Compilation Guide recommends reporting NPLs when: (i) payments of principal and interest are past due by 90 days or more; or (ii) interest payments equal to 90 days' interest or more have been capitalised, refinanced or rolled over; and (iii) loans are less than 90 days past due, but recognised as non-performing under national supervisory guidance.
  - European national supervisory authorities tend to use 90 days past due as a quantitative threshold, alongside bankruptcy, as objective criteria for reporting NPLs.
  - It is also important to note that in January 2015, the EU adopted harmonised and consistent definitions of both forbearance and non-performing exposures (Regulation (EU) No. 680/2014, which sets out the technical standards submitted by the EBA).
  - While most NPL data in this report are sourced from the IMF FSI, NPL data for Serbia come directly its central bank (from, for example, its financial stability reports, banking reports, macroeconomic reports and statistical databases). Serbia uses a definition in line with that of the IMF. Montenegro defines NPLs as loans that are more than 90 days past due, without interest, prepayments and accruals.
- **NPL ratio:** NPL volume divided by the total gross value of the loan portfolio (including gross NPLs before the deduction of specific loan-loss provisions).
- **NPL coverage ratio:** Total specific loan-loss provisions divided by gross NPLs.
- **Net NPLs:** NPLs minus specific loan-loss provisions.
- **Net NPL ratio:** Net NPLs divided by the total gross value of the loan portfolio (including gross NPLs, before the deduction of specific loan-loss provisions).
- **Net NPL/capital:** Net NPLs divided by capital. Capital is measured as capital plus reserves; for cross-border consolidated data, total regulatory capital can also be used.
- **Market share NPLs:** Total country gross NPLs divided by total CESEE gross NPLs.
- **Market share loans:** Total country gross loans divided by total CESEE gross loans.

Metadata

To provide a comprehensive view of the underlying data used in this monitor, we summarise below the key indicators used in the analysis, as detailed by central banks when reporting to the IMF (or, as in the case of Serbia, as directly published). While most countries report to the IMF, they do not always report the same data. For example, some countries include loans among deposit-takers when calculating the total gross loan portfolio, while some exclude such loans (increasing their NPL ratio). Other specificities listed below may also create a slight upward or downward bias in the results. However, despite some discrepancies, the definitions and data used in this monitor are consistent overall between countries and can be relied on for comparability purposes.

		NPLs	Gross loans	Provisions (or Net NPLs)	Comments
1	**Albania**	- 90 days past due for the instalment loans; - 60 days past due for limit loans (ex. Overdrafts) - 60 days over limit usage for limit loans borrower's financial situation and inflows are assessed as insufficient to regularly meet the default liabilities; or the bank does not possess the complete required or updated information, needed to fully assess his financial condition	Book value of principal plus accrued interest. The accrued interest for non-performing loans, after becoming non-performing, is not counted.	Specific provisions for NPLs are counted for. Only financial collateral is taken into consideration for loan provisioning.	
2	**Bosnia and Herzegovina**	Until the fourth quarter of 2010 non-performing loans consisted of C (substandard, 90 days) and D category loans. E category loans are part of non-performing loans beginning from the fourth quarter of 2011.		From the fourth quarter of 2009, FSI used non-performing loans net of provisions to Tier 1.	
3	**Bulgaria**	Until 2014, non-performing loans were the risk exposures where principal or interest payments had been past-due over 90 days. Since 2015 the definitions and the scope of the NPLs have been in line with EBA standards.	Until 2014, loans to deposit takers were excluded from the calculations. Since 2015, the definitions and the scope of the NPLs have been in line with EBA standards. The source of the data is the FinRep reporting template (F18, rows 70 and 250, column 10) which cover all loans and advances, including to deposit-takers.	All deposit-takers must assess, classify and provision loans at least on a quarterly basis and submit a regulatory report to the Bulgarian National Bank. Compliance is enforced via off-site surveillance and on-site inspections.	
4	**Croatia**	Non-performing loans are all gross loans (to all sectors) not classified as performing (90 days overdue). However, a loan can be considered as a "pass" even if it is 90 days overdue if it is well covered with collateral and if the process of foreclosures has started.		Provisions refer to non-performing loans.	
5	**Cyprus**	From December 2014, the EBA Final Implementing Technical Standards on Supervisory reporting on forbearance and non-performing exposures under article 99(4) of Regulation (EU) No. 575/2013 have come into force. Non-performing exposures are those that satisfy either or both of the following criteria: (a) material exposures which are more than 90 days past-due; (b) the debtor is assessed as unlikely to pay credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or of the number of days past due.			
6	**Czech Republic**	Besides the FSI Guide-recommended 90-day rule, the financial condition of the debtor is also used in determining loans as non-performing.	This excludes non-current assets (or disposal groups) classified as held for sale.		
7	**Estonia**	Deposit-takers usually undertake loan reviews monthly, depending on the needs of any given credit institution. Collateral and guarantees are not taken into consideration. Restructured loans are treated as performing loans. There is no credit register in Estonia, but there is a register containing information on bad loans and problematic debtors only. If there is a problem with a loan granted by bank "A" and that debtor has also taken a loan from bank "B" and that loan "works well", bank "B" does not need to make any provisions or downgrade the loan.			
8	**Greece**	In accordance with EBA ITS on supervisory reporting, non-performing loans will comprise the exposures defined under Commission Regulation (EU) № 680/2014 of 16 April 2014 laying down implementing technical standards, with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council.	In accordance with EBA ITS on supervisory reporting. Total gross loans will comprise non-performing loans before the deduction of specific loan-loss provisions.	In accordance with EBA ITS on supervisory reporting. Only specific loan provisions are deducted from NPLs.	
9	**Hungary**	Loans that are overdue by 90 days are classified as non-performing loans.	These are gross loans provided to customers and banks.	Only the specific provisions (impairment) attributed to the NPLs are netted out from NPLs.	
10	**Kosovo**	N/A	N/A	N/A	
11	**Latvia**	Non-performing loans are considered to be those whose term due for the accrued income payment is overdue for a period of more than 90 days or the payment.	According to EBA Guidance note compiling the IMF financial soundness indicators for deposit-takers using the ITS on supervisory reporting (June 2018 edition).	Provisions are the total amount of provisions (general and specific) for the total loan portfolio of the credit institutions.	

12	**Lithuania**	NPLs are the sum of impaired loans and advances and non-impaired loans and advances that are past due 60 days or more. In their accounting policies, banks specify the individual provisions and conditions under which interests on non-performing assets are not accrued. This includes interest accrued on some NPLs. This also includes some financial assets besides loans, for example, deposits and funds held in other banks and credit institutions.	This includes interest accrued on some NPLs. In their accounting policies, banks specify the individual provisions and conditions under which interests on non-performing assets are not accrued.		
13	**Montenegro**	NPLs include only principal, excluding interest due as well as accrued interest and fees. Loans are defined as non-performing using the 90-days past due criterion, or if there is a high probability of incurring losses due to clearly disclosed weaknesses jeopardising their repayment. According to CBM's "Decision on Minimum Standards for Credit Risk Management in Banks" ("Official Gazette of MNE", no. 22/12, 55/12, 57/13, 44/17, 82/17) loans are classified in five categories (A, B, C, D, E) depending on the probability of incurring losses. Loans that fall into C, D and E categories are considered to be non-performing. A loan that is over 90 days past due may not be classified in higher classification category other than C. Indeed, banks may determine a loan to be non-performing if they have evidence suggesting the inability of the borrower to repay debt.		Provisions refer to value adjustments as per IAS 39 / IFRS 9, as they are allocated by banks' own criteria. Apart from value adjustments, which are balance sheet data, there are also regulatory provisions, which are not balance sheet data. They are calculated by the CBCG-prescribed criteria and serve as a prudential filter. Namely, if regulatory provisions are higher than value adjustments for a particular loan, the difference essentially leads to a deduction from the bank's core capital.	
14	**North Macedonia**	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 has 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 calculates and publishes on its website loans and non-performing loans in the non-financial sector only and net-NPLs netted by loan-loss provision against NPLs only.
15	**Poland**	This excludes repurchase agreements that are not classified as deposits. It includes some other financial assets besides loans: data represent total receivables, such as originated loans, purchased receivables and guarantees that are being exercised. It excludes loans to the central bank. Deposit-takers in distress or in receivership are not included.	This excludes repurchase agreements that are not classified as deposits. It includes some other financial assets besides loans: data represent total receivables, such as originated loans, purchased receivables and guarantees which are being exercised. It excludes loans to the central bank.	From the first quarter of 2010, data include all receivables excluding the central bank. Banks that follow Polish Accounting Standards decrease the carrying value of all loans except those classified to loss category by proportional share of general provisions as well as by impairment provisions.	
16	**Romania**	Since June 2014, NPLs are based on reports from all banks, for Romanian legal persons for which loans meet the non-performance criteria (overdue for more than 90 days and/or in which case legal proceedings were initiated). Since December 2015, based on a definition by the EBA: the ratio of the gross carrying amount of non-performing loans and advances to the total gross carrying amount of loans and advances.	These exclude loans among deposit-takers. Deposit-takers in distress or receivership are not included.	From June 2014 to December 2015, International Financial Reporting Standards impairment losses (provisions) for non-performing loans determined (based on reports from all banks) were subtracted from non-performing loans. Since December 2015, NPLs net of provisions have been compiled as gross carrying amount of non-performing loans and advances minus the accumulated impairment of non-performing loans and advances.	

17	**Serbia**	NPL means the total outstanding debt under an individual loan (including the amount of arrears), where the debtor is past due (as envisaged by the decision governing the classification of bank balance sheet assets and off-balance sheet items) for over 90 days, with respect to payments of interest or principal; where at least 90 days of interest payments have been added to the loan balance, capitalised, refinanced or delayed by agreement; where payments are less than 90 days overdue, but the bank has assessed that the borrower's repayment ability has deteriorated and doubts that the payments will be made in full.		Specific provisions of NPLs.	Not reported by FSI. Sources: Quarterly Review of Dynamics of Financial Stability; Quarterly banking report statistical annex; Annual Financial Stability Report.
18	**Slovak Republic**	Deposit-takers use not only quantitative criteria (in other words, 90-days past due criterion) but also their own judgement for classifying loans as NPLs.		Specific provisions that are netted out from NPLs in compiling the series NPLs net of provisions include not only the provision attributed to the NPLs but also the provisions constituted for performing loans. General provisions are not netted out.	
19	**Slovenia**	This includes all financial assets at amortised cost (not just loans) and some non-loan assets (tax assets, non-current assets and disposal groups classified as held for sale, and so on).	This includes all financial assets at amortised cost (not just loans) and some non-loan assets (tax assets, non-current assets and disposal groups classified as held for sale, for example).	All financial assets at amortised cost and that risk-bearing off-balance sheet items are included. Off-balance sheet items comprise financial guarantees issued, avals, uncovered letters of credit and transactions with similar risk, based on which a payment liability could arise for the bank.	
20	**Ukraine**	This is consistent with the criteria "of 90 days". Since the first quarter of 2017, NPLs include loans classified as the lowest class, in particular: class 10 – loans to corporate borrowers (excluding banks and state-owned entities); and class 5 – loans to other borrowers or counterparties accounted in the balance sheet. The bank is a legal entity with separate subdivisions in Ukraine and abroad.	Since the first quarter of 2017, debts arising from credit transactions that comprise loans to customers, interbank loans and deposits (including the accrued interest) and do not include off-balance sheet liabilities on guarantees and loans given to banks and customers are used for credit risk assessment. The bank is a legal entity with separate subdivisions in Ukraine and abroad.		

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