

# EBCI | Vienna Initiative



## NPL Monitor for the CESEE region <sup>1</sup>

### H2 2017

This NPL Monitor reviews the latest NPLs data consistently available from the IMF (as of 31 December 2016<sup>2</sup>) for the 17 economies of Central, Eastern and South Eastern Europe (CESEE) countries<sup>3</sup>. The monitor also reports on progress with recent structural reforms in the five NPL Initiative “Partner Countries”<sup>4</sup>, on recent NPLs transactions closed in the region, and summarizes regional loan servicing capacities in the CESEE<sup>5</sup>.

### 1. SNAPSHOT UPDATE SINCE THE LAST MONITOR

Overall, NPLs in the CESEE region continue their positive decrease, with a relatively active NPL secondary market (despite a drop in recent transactions). There has been some improvements in national regulatory frameworks facilitating NPL resolution and sales and a number of regulatory changes are foreseen in the next 12 months. The strong momentum of EU regulators to tackle the NPL challenge in Europe more effectively is expected to also have positive spill over effects on adjacent CESEE countries, increasing the sense of urgency to align with best practices. We provide below a brief overview of the recent changes observed with NPLs in the CESEE, with more details in the subsequent sections.

#### NPL Evolution

- Based on the latest IMF Financial Soundness Indicators, as of 31 December 2016<sup>6</sup> Non-Performing Loans (NPLs)<sup>7</sup> in the CESEE region amounted to €46.5 Bn<sup>8</sup>, which equates to circa 3.8% of GDP and 6.2% of gross loans. A further €121.8 Bn in NPLs were recorded in Cyprus, Greece and Ukraine.

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<sup>2</sup> 31 December 2016 is the latest common date where data are available for most countries covered in this monitor and used for comparison purposes.

<sup>3</sup> We classify the 17 economies, comprising the EBRD country groups of central Europe and the Baltics (CEB), and south-eastern Europe (SEE), collectively as central and south-eastern Europe (CESEE), and wherever appropriate separately list figures for Cyprus, Greece and Ukraine. Please refer to Table 1 for the detailed list of countries. Note that Georgia (which was included in previous editions of the NPL Monitor) has been removed from the list, as it belongs to another region.

<sup>4</sup> Albania, Croatia, Hungary, Montenegro and Serbia.

<sup>5</sup> Servicing capacities are one of the crucial areas needed to deepen NPL markets. See table 3 for a list of NPL servicers operating in CESEE.

<sup>6</sup> 31 December 2016 is the latest common date where data are available for (nearly) all of the countries covered in this monitor. This date was therefore chosen for comparison purposes. We note that some countries have made further improvements in resolving NPLs since June 2016 (e.g. the NPL ratio in Romania and Hungary has further dropped to 8.3% and 5.4% respectively as of June 2017). This will be reflected in the next edition of the NPL Monitor.

<sup>7</sup> Unless stated otherwise, all data are sourced from the IMF Financial Soundness Indicators (IMF FSI), available here <http://data.imf.org/regular.aspx?key=61404590>, accessed on 16 August 2017. For individual countries definitions and to allow more precise comparisons, it is advised to consult the IMF FSI metadata and to refer to the individual country authorities for further details. Please also refer to the Appendix section for more details. Unless stated otherwise, NPL refers to Gross NPL across the document.

- Since December 2015, NPL volumes, ratios and coverage ratios have continued to improve across the CESEE.
- Moreover, two countries (Hungary and Romania) have managed to reduce their NPL ratio below the 10% threshold since December 2015 and no country recorded a NPL ratio above 20%.
- Despite the progresses, NPL ratios remain persistently high, exceeding 10% in 6 of the 17 CESEE countries.

## Regulatory initiatives

### NPL Initiative (under the Vienna Initiative):

- In the last 6 months, IFIs members of the Vienna Initiative have provided a broad range of technical support as detailed in Section 3.
- EBRD has remained active with providing technical assistance to the CESEE countries under the NPL Initiative, including among others in Hungary, Croatia and Bulgaria:
  - **Hungary:** EBRD provided technical assistance to help develop the Central Bank's (MNB) recommendation on out-of-court restructuring, which officially came into force in June 2017<sup>9</sup>. EBRD also led an industry workshop to support its implementation.<sup>10</sup>
  - **Croatia:** In October 2017, EBRD led a legal workshop for strengthening the legal framework for bankruptcy and pre-bankruptcy proceedings and organised a training for 150 judges.
  - **Bulgaria:** EBRD organised in September 2017 a half day industry workshop to discuss solutions to increasing investment in NPLs in Bulgaria.<sup>11</sup>

### European regulatory landscape with NPLs:

- Initiatives from EU regulators with NPLs have evolved greatly since the beginning of the year, with an ambitious NPL action plan put forward by the Council of the EU<sup>12</sup> and its ongoing implementation.
- Ongoing key initiatives by regulators include, among others, efforts for reinforcing banks' NPL provisioning schedules (i.e. consultation for "ECB Prudential Provisioning Backstop"<sup>13</sup> and the "EC Statutory Prudential Provisioning Backstop"<sup>14</sup>) and with harmonising quality and completeness of NPL data to support sales (i.e. development of EBA NPL Transaction Data Templates<sup>15</sup> for banks).

## Transactions

- In H1 2017, a total of of €1.3 Bn (publically available) NPL transactions in the CESEE region was observed.
- While market absorption for NPLs sales in the CESEE was relatively constant in the previous three semesters (€2.4 Bn per semester on average)<sup>16</sup>, H1 2017 represents an important decrease. On a year-on-year basis, NPL transaction volumes were 37.1% lower in H1 2017 than H1 2016.
- The low level of transactions in H1 2017 can be partly explained by squeezing of returns in large markets (such as Romania), leading to many investors holding off on bidding to focus on other hot markets (e.g. Italy).
- As per the previous periods, most asset classes of NPLs continue to be transacted, but H1 2017 was dominated by CRE-only and mixed corporate/consumer transactions (making up nearly 70% of H1 2017 transactions).

<sup>8</sup> All data sourced in local currency is converted to US\$ and then €, using IMF exchange rates available here: National Currency per US Dollar, end of period <http://data.imf.org/regular.aspx?key=61545862>

<sup>9</sup> MNB, Recommendation 6/2017, Official Announcement ([link](#)) and Document ([link](#))

<sup>10</sup> [Link](#) to press release

<sup>11</sup> [Link](#) to press release

<sup>12</sup> European Council, Council conclusions on Action plan to tackle non-performing loans in Europe , July 2017, ([link](#))

<sup>13</sup> Public consultation for the ECB prudential backstops for NPLs (addendum to the ECB NPL Guidance to Banks on NPL management) ([Link](#))

<sup>14</sup> Public consultation for the EC statutory prudential backstops for NPLs ([Link](#))

<sup>15</sup> EBA NPL transaction templates ([Link](#))

<sup>16</sup> Average transactions for H2 2015, H1 2016 and H2 2016

- Croatia was the largest contributor (over 50%) of overall transactions in H1 2017 (mainly due to “Project Taurus” sold by Unicredit).
- See section 4 for more details.

## 2. NPL EVOLUTION IN CESEE

### Since December 2015, the pace of NPLs reduction in CESEE has accelerated.

- On a region-wide basis, the NPL volume has recorded a substantial decrease<sup>17</sup> of 18.1% (or €10.2 Bn) in the 12-month period since December 2015. All CESEE countries have seen a drop in NPL volume year-on-year (yoy), with the exception of a small increase in Albania (+4.1% yoy).
- The reduction in the NPL volume across the region was primarily attributable to decreases in NPL stock in Romania (€2.6 Bn, -33% yoy), Hungary (€1.6 Bn, -31.9% yoy), Slovenia (€1.6 Bn; -51.5% yoy) and Croatia (€1.2 Bn; -20.3% yoy).
- The reduction in NPL stock in these countries results from a combination of NPLs sales (see section 3) and regulatory requirements (leading to increased write-offs).
- The secondary NPL market was stable (and improved) in the region in 2016, with total NPL sales reaching €4.8 Bn. However, a slow start has been recorded in 2017 (see section 3). The relatively stable market absorption in the previous three semesters (€2.4 Bn per semester on average) has almost been halved to €1.3 Bn in H1 2017.
- Structural reforms have been made to help improve the business environment and deepen NPL secondary markets, but several regulatory, legal and tax impediments to market entry remain in many of the CESEE countries. Additionally, a squeeze in margins in certain key markets has constrained NPL investors’ appetite.

### The NPL ratio for the CESEE region has continued to decrease since December 2015.

- As of December 2016, the NPL ratio (as a proportion of NPLs to total gross loans) across the CESEE was 6.2%, a 1.5 percentage-point (pp) decrease since December 2015.
- In line with the drop in volumes, all countries have recorded a drop in their NPL ratio since December 2015, with the exception of Albania (+0.1 pp yoy).
- The NPL ratio on a country-by-country basis continues however to vary greatly, ranging from a low of 0.9% in Estonia to a high of 18.3% in Albania.
- Despite improvements, NPL ratios also remain persistently high in Serbia (17%), Croatia (13.6%) and Bulgaria (13.2%)<sup>18</sup>.
- Albania, the only country which saw a (small) increase in its NPL ratio, only accounts for 1.7% of all NPLs in the region, while only representing 0.6% of total gross loans.

### NPL coverage ratios have also improved in the last 12 months.

- Across the CESEE the NPL coverage ratio (measured as the proportion of loan-loss provisions to NPLs) has increased to 63.1% as of December 2016, a 1.9 pp improvement since December 2015.
- On a country-by-country basis Kosovo, Latvia and FYR Macedonia still have the highest NPL coverage ratio with 91.4%, 89.3% and 80.9% respectively, with Latvia recording the single largest increase (+11.5 pp) – this is however partly due a substantial drop (-24%) in NPL volumes.
- Despite having two of the highest NPL ratios in the region, Croatia and Serbia have made substantial improvements in terms of provisioning: they have recorded the second and third largest coverage ratio increases (+8.2 pp and +5.6 pp respectively) since December 2015, bringing their coverage ratios well above

<sup>17</sup> Any variations between volumes are calculated as  $((\text{value period 1}/\text{value period 0}) - 1)$  and between ratios as  $(\% \text{ period 1} - \% \text{ period 0})$ .

<sup>18</sup> Bulgaria’s improved NPL ratio is also the result of a change in NPL ratio computation methodology. See footnote 21 and Appendix 1.

the regional average and at the median (9<sup>th</sup> and 10<sup>th</sup> overall), also partly explained by a drop in NPL volumes.

- The countries with the lowest NPL coverage ratio as of December 2016 were Estonia and Lithuania at 28.2% and 42.2% respectively, with Lithuania also maintaining a relatively high Net NPL/capital ratio at 25.3%. However, both countries have decreased their NPL volumes (especially Lithuania, by 14.5%) and maintain a low NPL ratio (0.9% and 4.9% respectively), thereby reducing risks associated with lower coverage.
- The Net NPL ratio in the CESEE region stood at 2.3%, a 0.7 pp drop in the last 12 months. As of December 2016, no country had a net NPL ratio above 7%.

Figure 1. NPL ratio, coverage ratio and volume (% , € Bn, December 2016)

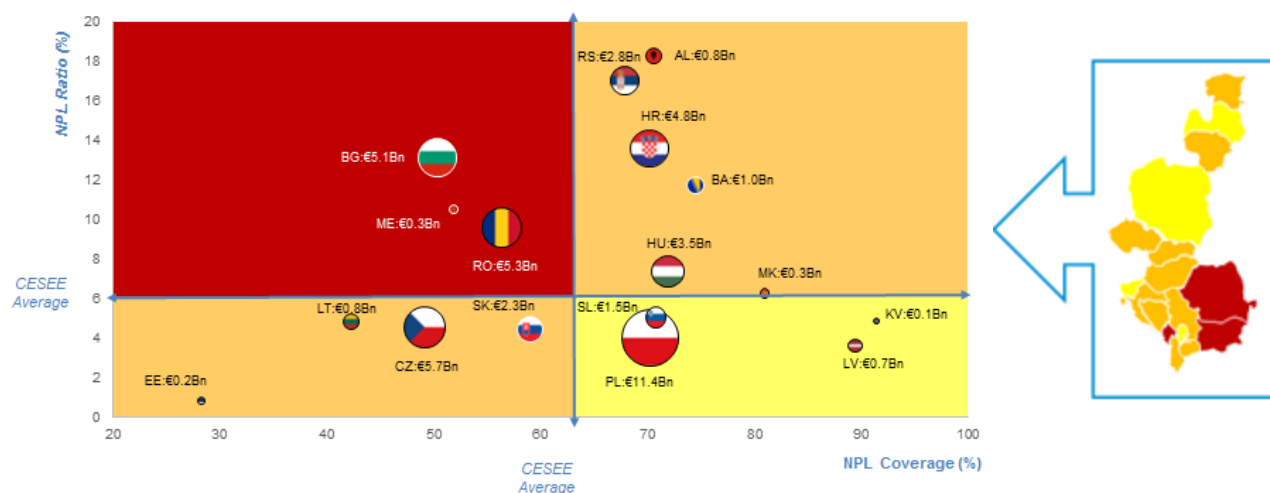


Table 1. Overview of the NPL profile in CESEE, 31 December 2015 to 31 December 2016 <sup>19, 20, 21, 22, 23</sup>

Country	NPL volume (€ bn)		NPL ratio (%)		NPL coverage ratio		Net NPL ratio (%)		Net NPL / Capital (%)		Market Share NPLs (%)		Market Share Loans (%)	
	Dec-16	Variation(%)	Dec-16	Δ(pp)	Dec-16	Δ(pp)	Dec-16	Δ(pp)	Dec-16	Δ(pp)	Dec-16	Δ(pp)	Dec-16	Δ(pp)
Albania (AL)	0.8	▲ 4.1	18.3	▲ 0.1	70.5	▼ (0.3)	5.4	▲ 0.1	23.1	▼ (1.2)	1.7	▲ 0.4	0.6	▲ 0.0
Bosnia & Herzegovina (BA)	1.0	▼ (12.1)	11.8	▼ (1.9)	74.4	▲ 3.2	3.0	▼ (0.9)	18.5	▼ (8.4)	2.2	▲ 0.2	1.1	↔ 0.0
Bulgaria (BG)	5.1	▼ (7.1)	13.2	▼ (1.4)	50.3	▲ 1.4	6.6	▼ (0.9)	44.7	▼ (5.2)	11.0	▲ 1.3	5.1	▲ 0.1
Croatia (HR)	4.8	▼ (20.3)	13.6	▼ (2.7)	70.1	▲ 8.2	4.1	▼ (2.2)	19.3	▼ (14.9)	10.3	▼ (0.3)	4.7	▼ (0.3)
Czech Republic (CZ)	5.7	▼ (11.8)	4.6	▼ (0.9)	49.1	▲ 3.0	2.3	▼ (0.6)	17.7	▼ (4.5)	12.2	▲ 0.9	16.3	▲ 0.5
Estonia (EE)	0.2	▼ (3.0)	0.9	▼ (0.1)	28.2	▼ (1.0)	0.6	▼ (0.1)	4.6	▼ (1.1)	0.3	▲ 0.1	2.4	▲ 0.2
Hungary (HU)	3.5	▼ (31.9)	7.4	▼ (4.3)	71.8	▲ 2.5	2.1	▼ (1.5)	9.7	▼ (9.8)	7.5	▼ (1.5)	6.3	▲ 0.3
Kosovo (KV)	0.1	▼ (11.2)	4.9	▼ (1.2)	91.4	▲ 0.9	0.4	▼ (0.2)	2.2	▼ (0.7)	0.2	▲ 0.0	0.3	▲ 0.0
Latvia (LV)	0.7	▼ (24.0)	3.7	▼ (1.0)	89.3	▲ 11.5	0.4	▼ (0.6)	2.3	▼ (3.9)	1.4	▼ (0.1)	2.4	▼ (0.1)
Lithuania (LT)	0.8	▼ (14.5)	4.9	▼ (0.9)	42.2	▼ (7.6)	2.8	▼ (0.1)	25.3	▲ 4.0	1.8	▲ 0.1	2.3	↔ 0.0
FYR Macedonia (MK)	0.3	▼ (38.5)	6.3	▼ (4.0)	80.9	▼ (5.8)	1.2	▼ (0.2)	7.1	▼ (1.2)	0.6	▼ (0.2)	0.6	▼ (0.0)
Montenegro (ME)	0.3	▼ (14.9)	10.6	▼ (2.0)	51.8	▲ 2.6	5.1	▼ (1.3)	25.2	▼ (7.8)	0.5	▲ 0.0	0.3	↔ 0.0
Poland (PL)	11.4	▼ (5.4)	4.0	▼ (0.3)	70.2	▲ 0.1	1.2	▼ (0.1)	9.2	▼ (1.0)	24.6	▲ 3.3	37.5	▼ (0.2)
Romania (RO)	5.3	▼ (33.0)	9.6	▼ (3.9)	56.3	▼ (1.4)	4.2	▼ (1.5)	28.9	▼ (12.3)	11.4	▼ (2.6)	7.3	▼ (0.6)
Serbia (RS)	2.8	▼ (20.1)	17.0	▼ (4.6)	67.8	▲ 5.6	5.5	▼ (2.7)	17.6	▼ (8.3)	6.0	▼ (0.2)	2.2	▼ (0.0)
Slovakia (SK)	2.3	▼ (0.4)	4.4	▼ (0.4)	58.9	▲ 4.9	1.8	▼ (0.4)	11.8	▼ (2.1)	4.9	▲ 0.9	6.7	▲ 0.5
Slovenia (SL)	1.5	▼ (51.5)	5.1	▼ (4.9)	70.7	▲ 3.9	1.5	▼ (1.8)	10.8	▼ (14.3)	3.2	▼ (2.2)	3.8	▼ (0.3)
<b>CESEE</b>	<b>46.5</b>	<b>▼ (18.1)</b>	<b>6.2</b>	<b>▼ (1.5)</b>	<b>63.1</b>	<b>▲ 1.9</b>	<b>2.3</b>	<b>▼ (0.7)</b>	<b>15.2</b>	<b>▼ (5.3)</b>	<b>100.0</b>	<b>↔ 0.0</b>	<b>100.0</b>	<b>↔ 0.0</b>
Cyprus (CY)	23.6	▼ (14.8)	48.7	▲ 0.9	41.4	▲ 4.2	28.5	▼ (1.5)	208.5	▼ (55.1)	-	-	-	-
Greece (GR)	84.0	▼ (3.7)	36.3	▼ (0.4)	68.9	▲ 1.1	11.3	▼ (0.5)	81.6	▲ 0.9	-	-	-	-
Ukraine (UK)	14.2	▲ 0.4	30.5	▲ 2.4	72.7	▲ 8.1	8.3	▼ (1.6)	89.4	▼ (39.7)	-	-	-	-
Other	121.8	▼ (5.7)	37.3	▲ 0.1	64.0	▲ 3.1	13.4	▼ (1.2)	102.0	▼ (9.6)	-	-	-	-
<b>Total Countries</b>	<b>168.3</b>	<b>▼ (9.5)</b>	<b>15.6</b>	<b>▼ (1.5)</b>	<b>63.7</b>	<b>▲ 2.8</b>	<b>5.6</b>	<b>▼ (1.0)</b>	<b>39.1</b>	<b>▼ (8.4)</b>	-	-	-	-

**Note:** Please refer to footnotes 5-6 and the Appendix for definitions and discussion about comparability issues.

<sup>19</sup> Variation (%) is calculated as ((value period 1/value period 0) - 1), with December 2016 as period 1 and December 2015 as period 0.

<sup>20</sup> Δ (pp) is the variation, expressed in percentage points, between 2 periods. It is calculated as (% period 1 - % period 0).

<sup>21</sup> Bulgaria: in 2015, the methodology to compute NPL has changed and is now based on EBA standards (see more details in Appendix 1). Figures reported to the IMF FSI are comparable from December 2015 onwards (which is the case here).

<sup>22</sup> Lithuania: due to lack of data, it is assumed that December 2016 data are equal to September 2016 values.

### 3. PROGRESS WITH NPL RESOLUTION<sup>24</sup>

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

While no “one-size-fits-all” model can be applied to several countries, a broad consensus exists in terms of NPL resolution in the European Union (EU) and emerging Europe. There is now full awareness and recognition of the systemic challenge posed by the high stock of NPLs in Europe and 2017 has seen numerous initiatives by national regulators but also by European regulators and IFIs – in consultation with banks, investors and industry experts – to increase the speed and effectiveness of NPL resolution.

In particular, the Council of the EU announced in July 2017 an action plan to reduce NPLs, which will involve several key European institutions (see details below). NPLs are expected to remain high on the European Agenda in the foreseeable future (2018/2019), with ambitious regulatory measures planned for the next 12 months in Europe. It is expected that the regulatory measures implemented in the EU will also have positive spill over effects, including to a certain extent on adjacent non-EU CESEE countries. Hence, CESEE countries are likely to continue their efforts on improving their NPL resolution framework and attracting investors into their secondary NPL market. In that context, it is crucial that the dialogue and knowledge-sharing around best practices for NPL solution remain active, including via technical assistance from IFIs and access to information on platforms such as the NPL Initiative website (<http://npl.vienna-initiative.com/>).

#### *Council of the EU’s action plan on NPL<sup>25</sup>*

On 11 July 2017 the Council of the EU announced its conclusions on an action plan to tackle NPLs, which was enhanced further on 11 October by the EC in its 'Communication on completing the Banking Union'. Below is a summary of the key actions, timeline and status.<sup>26</sup>

Member States, EU institutions, bodies and agencies	Description of Action	Proposed deadline	Status
ECB	NPL Guidance on Non-Performing Loans	March '17	Published
ECB	Expectations for a prudential provisioning backstop on both quantitative and time targets (Addendum to the ECBs guidance on NPLs)	October '17	Published
EBA + ECB + EC	Strengthen the data infrastructure with standardise data for NPLs and consider the setting-up of NPL transaction platforms.	End-2017	Ongoing
EBA	Guidelines for banks on loan tapes monitoring (incl. minimal information requirements)	End-2017	Ongoing
EC	Develop a 'blueprint' for the potential set-up of national AMCs	Spring '18	Ongoing
EC	Results of the benchmarking exercise on national loan enforcement/insolvency	Spring '18	Ongoing

<sup>23</sup> FYR Macedonia: NPL volume and ratios continued to fall as a result of measures in December 2015 (the amendments of the Credit Risk Management Regulation) to write off by end June 2016 NPLs that are fully provisioned for more than two year.

<sup>24</sup> Source when not specified: EBRD

<sup>25</sup> Council of the EU, Council conclusions on Action plan to tackle non-performing loans in Europe, July 2017 ([link](#))

<sup>26</sup> Source: Council of the EU, footnote 25, and KPMG analysis.

	regimes		
<b>EC</b>	European approach to foster the development of secondary markets for NPLs. Remove impediments to the transfer of NPLs. Simplify and potentially harmonise the licensing requirements for third-party loan servicers.	Spring '18	<b>Ongoing</b>
<b>ESRB</b>	Macro-prudential approaches to prevent the emergence of system-wide NPL problems	Spring '18	<b>Ongoing</b>
<b>EBA + ESMA</b>	Enhanced disclosure requirements on asset quality and NPLs to all banks	Spring '18	<b>Ongoing</b>
<b>EBA</b>	General guidelines on NPL management	Summer '18	<b>Ongoing</b>
<b>EBA</b>	Guidelines on banks' loan origination, monitoring and governance	Summer '18	<b>Ongoing</b>
<b>ECB</b>	Guidance similar to 'Guidance to banks on NPLs' for less significant institutions.	End-2018	<b>Ongoing</b>
<b>Member States</b>	To consider carrying out dedicated peer-reviews on insolvency regimes across the EU.	End-2018	<b>Ongoing</b>

As background to the Council of the EU action plan, please refer also to the European Commission's reflection paper of the European Council's NPL Action Plan<sup>27</sup>, the findings of the subgroup on NPLs of the European Council's Financial Services Committee (FSC)<sup>28</sup> and the report of the ESRB Expert Group on NPLs<sup>29</sup>.

#### *Key publications resulting from the above*

- Following the first stocktake undertaken in 2016 the ECB's Single Supervisory Mechanism (SSM) published in June 2017 a second stocktake<sup>30</sup> reviewing the range of practices relating to NPL workout in all 19 SSM countries (as opposed to only 8 high-NPL countries in the first stocktake) as of end-2016.
- In October 2017, the Bank for International Settlements (BIS) also published a paper on the Resolution of NPLs and policy options<sup>31</sup>, drawing on several country cases and extracting some practical insights about the success factors behind specific NPL resolution strategies.
- On October 4, 2017 the ECB published a draft addendum to the ECB Guidance on NPLs<sup>32</sup>, which clarifies the ECB's supervisory expectations for a prudential provisioning backstop. The addendum concerns only exposures newly classified as Non-Performing Exposures ("NPEs") in line with the EBA definition as of 1 January 2018. The ECB provides expectations on both quantitative and time targets, such as full provisioning after 2 years for the unsecured portion of NPEs and 7 years (linear) for the secured portion. While non-binding, deviations may dictate additional supervisory measures. The public consultation period runs until the 8 December 2017.
- On 10 November 2017, the EC launched a public consultation (until 30 November) for a statutory prudential backstops for NPLs.<sup>33</sup> Its content is very similar to the ECB' NPL prudential backstop published for consultation on 4 October 2017. The EC backstop would be compulsory, covering all EU-27 banks and would include automatic mechanisms with Pillar 1 measures.

<sup>27</sup> EU Commission, *Reflection Paper on the Deepening of the Economic and Monetary Union*, May 2017 ([link](#))

<sup>28</sup> Council of the EU, *Report of the FSC Subgroup on Non-Performing Loans*, May 2017 ([link](#))

<sup>29</sup> ESRB Expert Group on NPLs, *Resolving Non-Performing Loans in Europe*, July 2017 ([link](#))

<sup>30</sup> ECB, *second stocktake of national supervisory practices and legal frameworks related to NPLs*, June 2017 ([link](#))

<sup>31</sup> BIS, *Financial Stability Institute Insights, Resolution of non-performing loans – policy options*, October 2017 ([link](#))

<sup>32</sup> Public consultation on the draft addendum to the ECB Guidance to banks on non-performing loans ([link](#))

<sup>33</sup> Public consultation for the EC statutory prudential backstops for NPLs ([link](#))



- Following the requests from the European Commission<sup>34</sup> and the Council<sup>35</sup>, the EBA is developing NPL templates aimed at reducing information asymmetries between potential buyers and sellers in NPL transactions.
- The templates will be voluntary (i.e. non-binding) and will address the different data needs during the screening and during the financial due diligence (FDD) / valuation phase of NPL transactions. The aim is to enhance the granularity, quality and comparability of NPL data, thereby increasing transparency and market certainty. The templates will be published by end of 2017.<sup>36</sup>

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<sup>34</sup> Requests from the European Commission for NPL Templates ([link](#))

<sup>35</sup> Requests from the Council for NPL Templates ([link](#))

<sup>36</sup> EBA published these draft templates for interaction with the industry ([link](#)).

## Highlights of reforms and measures implemented in the last 12 months or underway for the five “partner countries” under the Vienna Initiative 2.0.

### Albania

- **NPL Working Group (NPL WG) and action plan:** The NPL strategy and action plan<sup>37</sup> is being monitored and revisited periodically. Several structural improvements have been made (see below), but the Working Group has lost traction in the last year, with ongoing efforts to revive it.
- **Bankruptcy law:** Prepared in collaboration with IFC and approved by the Parliament on 26 October 2016.<sup>38,39</sup> Implementation of the new law has however been limited. In particular, adoption of the bylaws is encouraged to create the adequate implementation framework<sup>40</sup> – this has been delayed due to a prolonged election process.
- **Amendment to the Civil Procedure Code:** Approved in November 2016 and currently undergoing an amendment, it will shorten the procedures for the execution of collateral, avoiding lengthy court proceedings and providing security to creditors on their rights.<sup>41</sup>
- **Amendment to Judicial Bailiff and Law on Judicial Bailiff Service:** Approved in October 2016<sup>42</sup>, the amendment should have paved the way for further changes in the Instruction that regulates the fees for the private bailiff. However, this Instruction was changed in June 2017, not reflecting the success fee structure and more than doubling the private bailiff fees. This risks hindering the collateral execution process<sup>43</sup>.
- **Upgrade of Credit Register and establishment of a credit bureau:** Following an initial assessment and a feasibility study commissioned by European Bank for Reconstruction and Development (EBRD) ending first half of 2017, the BoA has concluded to the difficulty of introducing a full credit scoring system within the existing Credit Register. Both the BoA and commercial banks have agreed that a comprehensive credit bureau would help create a more complete risk profile for borrowers. To that end, the Albanian Association of Banks has undertaken the initiative of establishing a private credit bureau. The EBRD will provide technical assistance in the initial phase of setting up such credit bureau.<sup>44</sup>
- **Out-of-Court debt Restructuring (OOCR):** In 2016, in further consultation with banks, the BoA unified and revised the guidelines set in 2013. As of October 2017, the BoA is preparing, with the assistance of the World Bank, a final draft of the new Framework for Out of Court Restructuring.

### Croatia

- **New Bankruptcy Act and further amendments:** In 2017, the Ministry of Justice (MoJ) launched a process to eliminate inconsistencies or unclear provisions from the new Bankruptcy Act. In that context, EBRD and the MoJ co-organised in October 2017 a workshop in Zagreb about “strengthening the legal framework for bankruptcy and pre-bankruptcy proceedings in Croatia”<sup>45</sup>. In particular, the workshop outlined the need for amendments to the Bankruptcy Act to encourage the effective

<sup>37</sup> IMF, *Fifth and Sixth Review under the Extended Arrangement, February 2016; Bank of Albania, Action Plan for Non-Performing Loans*, ([link](#))

<sup>38</sup> IMF, *Staff Report for the 2016 Article IV Consultation in Albania, June 2016* ([link](#))

<sup>39</sup> EBRD’s Resident Office Albania

<sup>40</sup> IMF, *Staff Concluding Statement of the 2017 Article IV Mission in Albania, October 2017* ([link](#))

<sup>41</sup> See footnote 30

<sup>42</sup> Government of Albania: *Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding with the IMF, May 2016* ([link](#))

<sup>43</sup> See footnote 39

<sup>44</sup> See footnote 38

<sup>45</sup> EBRD assists Croatia to strengthen its bankruptcy framework, 09 October 2017 ([Press Release](#))



implementation of PBSP, OOCR, and the training of insolvency office holders and members of the judiciary. A number of these amendments are expected to be enacted by the MoJ in 2018.

- **Capacity-building in the judiciary:** in October 2017, EBRD organised, in cooperation with the High Commercial Court of Croatia, a training for 150 judges to address current problems with the Land Registry in bankruptcy cases, the judges' main difficulties in pre-bankruptcy procedures, the rights of secured creditors and guarantors in pre-bankruptcy and bankruptcy procedures and the costs and efficiency of the current bankruptcy framework. The outcome of the training will allow the MoJ to better pinpoint the required amendments to the Bankruptcy Act to be passed in 2018.
- **Guidelines on out-of-court restructuring:** Efforts to further implement the OOCR guidelines (introduced in October 2015) are ongoing. Following the industry workshop organised in Zagreb in November 2016 by EBRD and the MoJ,<sup>46</sup> EBRD is planning to provide further support for promoting the use of OOCR.
- **New tax reform, including a one-off tax incentive for NPL resolution:** Adopted by the Parliament in late 2016 and entered into force in January 2017, the tax reform includes changes to a set of several tax regulations. Among other, and in effort to help banks reduce their NPLs, a one-off measure, valid for 2017 only, allows banks to treat provisions related to NPLs as tax-deductible expenses.<sup>47</sup>

### Hungary

- **New MNB recommendation on out-of-court restructuring:** Developed with technical assistance of EBRD and officially in force since June 2017<sup>48</sup>, it sets out best practice guidelines on OOCR and consensual settlement of NPLs in the corporate sector. The recommendation is technically non-binding but is expected to have significant power of persuasion and to be an important tool for NPL resolution. A workshop was jointly organized by MNB and EBRD in October 2017 to clarify and promote the use of the recommendation<sup>49</sup>.
- **Systemic Risk Capital Charge:** announced in late 2014 and effective since July 2017, this additional capital buffer applies to banks with large portfolios of commercial real estate (CRE) NPLs.<sup>50</sup> It was designed to provide significant incentives for banks to clean up their balance sheet.
- **Law on enforcement procedure:** Law adopted in March 2017 to increase the minimum sale price of a foreclosed homes from the current 70% to 100% of the market value (i.e. price set by the appraisal of the bailiff), provided that (i) the claim to be enforced stems from a consumer contract; (ii) it is the debtor's only property; and (iii) the debtor resided in that property for at least six months prior to the initiation of the enforcement procedure. If the property cannot be sold within one year, the minimum sale price may be reduced to 90% of the market value. The law also allows the parties to freely agree on a minimum sale price below the 100% threshold, on the condition that the creditor's claim terminates upon the sale of the property and the distribution of the enforcement proceeds (irrespective of full recovery).
- **MARK Zrt sd:** In mid-2017, Mark was sold to private NPL investor APS Holding and will continue supporting the purchase of non-performing corporate assets.<sup>51</sup>

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<sup>46</sup> EBRD workshop in Zagreb on corporate out-of-court restructuring of NPLs, November 2016 ([Press Release](#))

<sup>47</sup> EBRD Resident Office in Croatia

<sup>48</sup> MNB, Recommendation 6/2017, Official Announcement ([link](#)) and Document ([link](#))

<sup>49</sup> EBRD supports Hungary in implementing corporate out-of-court restructuring guidelines, October 2017 ([Press Release](#))

<sup>50</sup> IMF Staff Report for the 2017 Article IV Consultation in Hungary, May 2017 ([link](#))

<sup>51</sup> APS, APS will acquire MARK Zrt. from The Central Bank of Hungary, April 2017 ([link](#))

## Montenegro

- **Supervisory Regime**<sup>52</sup>: To address remaining supervisory shortcomings, and in particular extend CBM's supervisory remit to factoring, leasing, and credit and guarantee operations<sup>53</sup>, six new laws and related directives have recently been introduced<sup>54</sup>: (i) Central Bank Act (adopted by the Parliament in October 2017); (ii) Law on Financial Institutions (adopted by the Parliament in October 2017), to, in particular, expedite the resolution of NPLs offloaded from banks' balance sheets into factoring companies; (iii) Law on Voluntary Financial Restructuring (see below); (iv) Deposit Insurance Law (adoption expected in 2018); (v) Banking Law; and (vi) Law on Recovery and Resolution of Banks, the latter two being related to Montenegro's alignment with EU regulation (see below). Introduction of new IFRS9 regulation (expected to lead to more stringent provisioning practices) and asset quality reviews is planned for 2018/2019.
- **Law on Voluntary Financial Restructuring in line with the "Podgorica Approach"**: Initially with a 2-year validity period ending in May 2017, the law has been extended to May 2018 and the Parliament adopted in June 2017 amendments to broaden coverage of assets under restructuration and increase participation incentives (e.g. fast-track procedure to confirm prepackaged workout plans).
- **Alignment with EU Regulation**: Montenegro is amending its legislation to reflect the EU's Bank Recovery and Resolution Directive (BRRD). This will be legislated through two laws: the Law on Recovery and Resolution of Banks and the Banking Law. The first draft of the Law on Recovery and Resolution of Banks was adopted by CBM in July 2017 and is going through internal reviews. The final draft will then be sent to the European Commission for its opinion. Adoption of the new Banking Law, which will be fully in line with Basel III framework, is envisioned by end-2018.<sup>55</sup>
- **Consumer Bankruptcy Law**: The law was revoked by the Constitutional Court in February 2017 and is not implemented anymore.<sup>56</sup>

## Serbia

- **"NPL Resolution Strategy" and "Action Plan"**: Being implemented and monitored by an official Working Group (WG).<sup>57</sup> EBRD, with financial support from DFID<sup>58</sup>, has been providing coordination support to MoF in that area. It also prepared a report with KPMG on "Analysis of the existing impediments to the sale of NPLs in Serbia"<sup>59</sup>, published end 2016.
- **Explanation on tax deductibility of distressed debts write-offs**: To further clarify and allow favorable tax treatment of corporate and retail loans write-offs, the MoF is preparing amendments to the Corporate Income Tax Law and Personal Income Tax Law, which should be adopted by the end of 2017.
- **Supervisory Guidance for Loan-Loss Provisioning (LLP)**: Setting expectations for LLP under IAS 39, banks are in the process of implementing recommendations for strengthening their internal accounting policies. Furthermore, National Bank of Serbia (NBS) is working with banks and their auditors to prepare for implementation of IFRS9 starting in January 2018, while simultaneously strengthening its

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<sup>52</sup> IMF, *Framework for Nonperforming Loans Workout and Insolvency and Creditor Rights – Technical Note, Financial Sector Assessment Program, June 2016* ([link](#))

<sup>53</sup> IMF, *Staff Report for the 2015 Article IV Consultation in Montenegro, February 2016* ([link](#))

<sup>54</sup> IMF, *Staff Report for the 2017 Article IV Consultation in Montenegro, September 2017* ([link](#))

<sup>55</sup> EBRD Resident Office in Montenegro

<sup>56</sup> See footnote 52 and 55

<sup>57</sup> Serbian Government, *NPL Resolution Strategy, Official Gazette of the Republic of Serbia, Number 72/15, Q2 2015* ([link](#))

<sup>58</sup> UK Department for International Development

<sup>59</sup> Refer to the NPL Initiative [website](#) and [link](#) to document

own analytical and supervisory capacity for IFRS.<sup>60</sup> Basel III capital and liquidity standards have been effective starting end-June 2017, and additional capital requirements are in place. But while the required reserves for estimated loan losses will remain in force until 2019, recent amendments allow banks to reduce their required reserve in accordance with improvements of their NPL ratios.<sup>61</sup>

- **Amendments to corporate insolvency law:** Amendments were submitted to the Parliament in August 2017, with a view to being adopted by the end of 2017.<sup>62, 63</sup> Amendments are aimed at ensuring: (i) adequate safeguards for the secured creditors' rights; (ii) better value maximization and more predictable and swift disposal of assets where assets are not strictly necessary for rehabilitation; and (iii) stronger protection of new creditors in a reorganization.
- **Amendment to the Civil Procedure Act:** The objective is to grant unconditional right to the new creditor (NPL acquirer) to take over an ongoing dispute without additional consent from the counterparty. MoJ has formed Working Group in order to prepare a draft of the Amendment by the end of 2017.<sup>64</sup>
- **Law on Enforcement and Security:** To resolve a legal ambiguity and misinterpretation of the law related to the transfer of the seller's rights to the buyer of distressed assets, an authentic interpretation of the Law on Enforcement and Security was submitted in July 2017, to be adopted in q4 2017.<sup>65, 66</sup>
- **Law on Real Estate Appraisers:** A draft law was adopted by the National Assembly in December 2016 and became effective in June 2017.<sup>67, 68</sup> Amendments will be implemented in 2018 to the regime that regulates the profession of court-sworn experts to ensure their real estate appraisals prepared during enforcement procedures under the Law on Enforcement and Security are aligned with the standards of the Law on Real Estate Appraisers. The first exam for new licensed appraisers is scheduled for January 2018.<sup>69, 70</sup>
- **Banking Secrecy Rules:**<sup>71</sup> Following work by EBRD (with NBS, MoF and MoE), NBS published in May 2017 a revised opinion clarifying that disclosure of information considered to be a "bank secret" is now permissible for purposes of loan transfers, purchase of bank shares and bank mergers, as well as in the context of due diligence on these transactions.

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<sup>60</sup> IMF, Sixth Review under the Stand-by arrangement – Republic of Serbia, December 2016 ([link](#))

<sup>61</sup> IMF, Seventh Review under the Stand-by arrangement – Republic of Serbia, September 2017 ([link](#))

<sup>62</sup> IMF, Fourth and Fifth Reviews under the Stand-by arrangement – Republic of Serbia, August 2016 ([link](#))

<sup>63</sup> See footnote 24

<sup>64</sup> See footnote 24

<sup>65</sup> See footnote 67

<sup>66</sup> See footnote 24

<sup>67</sup> National Assembly of the Republic of Serbia, Adopted Law, ([link](#))

<sup>68</sup> See footnote 24

<sup>69</sup> See footnote 67

<sup>70</sup> See footnote 24

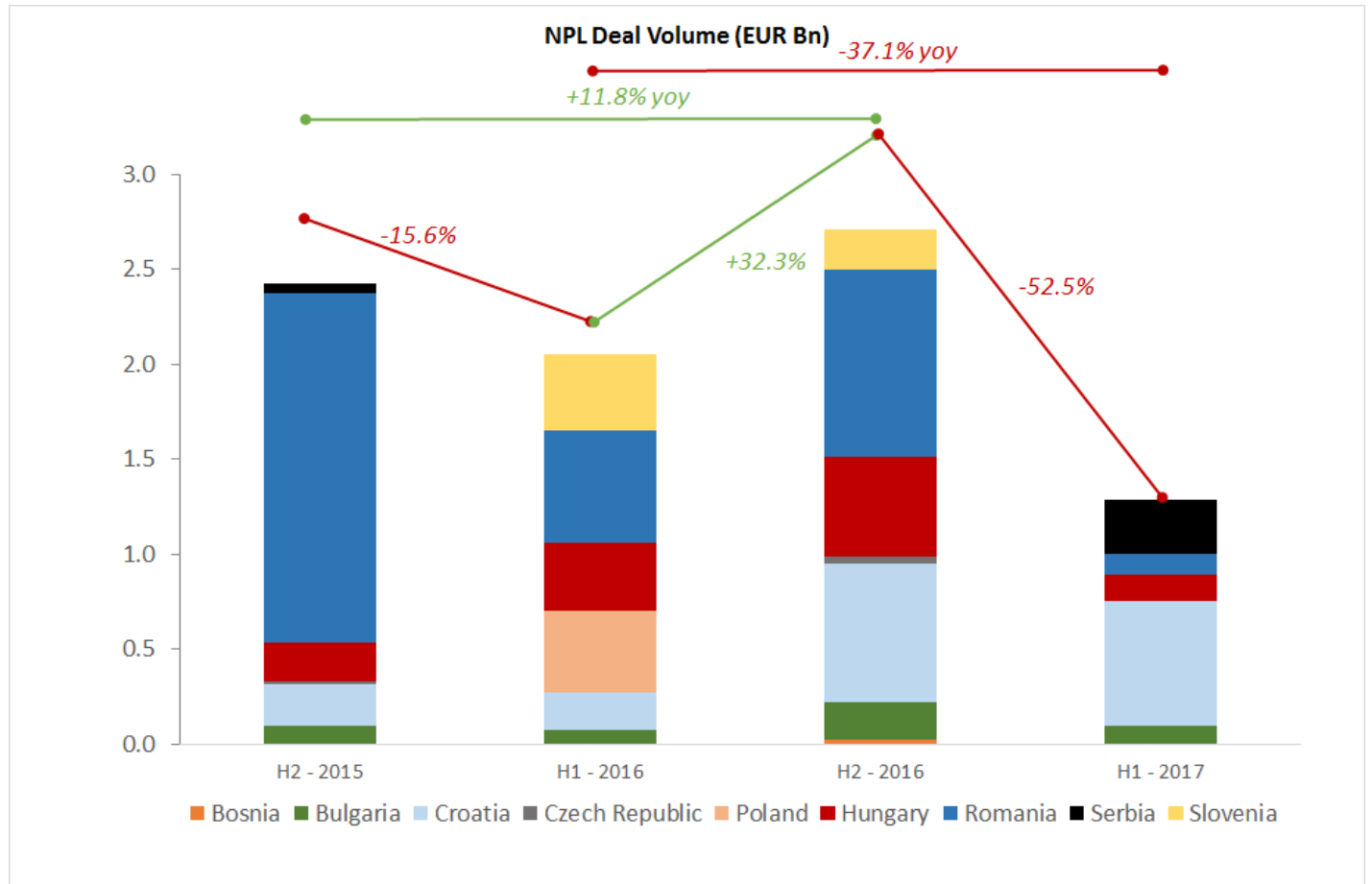
<sup>71</sup> See footnote 67

## 4. EVOLUTION OF NPL TRANSACTIONS IN CESEE OVER THE LAST 18 MONTHS

### NPL Sales for the last 18 months (January 2016 – June 2017)

- Over the last 18 months, ca. €6 Bn in NPL transactions have been realised in the CESEE region.
- Romania, Croatia and Hungary still accounted for over 70% of the total sale value in the last 18 months.
- NPL sales of €4 Bn in the last 12 months accounted for 8.6% of the NPL stock (€46.5 Bn, December 2016).

Figure 2. Realised NPL portfolio transaction (July 2015 to June 2017)<sup>72,73</sup>



<sup>72</sup> KPMG European Transaction Dashboard ([link](#)), DebtWire, Deloitte

<sup>73</sup> These figures are based on known transactions from both public sources. As a result, they may not include all transactions closed in the market and are estimations for indicative purposes only

Table 2. Sample of recent (publicly available) NPL transactions in CEE <sup>74</sup>

Date	Period	Country	Vendor	Project	Type	Buyer	Face Value (€m)
Jan-17	H1 - 2017	Bulgaria	Unicredit Bulbank	Project Taurus (Bulgaria)	Corporate	B2Holding	93
Jun-17	H1 - 2017	Croatia	Unicredit	Project Taurus (Croatia)	Corporate / Consumer	APS Holding	448
Feb-17	H1 - 2017	Croatia	Heta Asset Resolution	Undisclosed	Corporate	Confidential	47
Feb-17	H1 - 2017	Croatia	Heta Asset Resolution	Undisclosed	CRE	Supernova	163
Mar-17	H1 - 2017	Hungary	Unicredit	Hungarian NPL Portfolio	Residential	APS Holding / Balbec	138.9
Jun-17	H1 - 2017	Romania	Banca Transilvania	Romanian unsecured NPL	Consumer	Confidential	110
May-17	H1 - 2017	Serbia	Heta Asset Resolution	Project Onyx	CRE	Undisclosed	289
Sep-16	H2 - 2016	Bulgaria	Heta Asset Resolution	Project Vitosha	Corporate	Confidential	130
Sep-16	H2 - 2016	Bulgaria	United Bulgarian Bank (NBG Group)	Consumer Loan Portfolio	Consumer	Confidential	70
Dec-16	H2 - 2016	Croatia	Hrvatska Postanska Banka	Project Sunrise	Consumer	B2Holding	325
Nov-16	H2 - 2016	Croatia	Heta Asset Resolution	Project Pathfinder	CRE / Corporate	Confidential	406
Nov-16	H2 - 2016	Hungary	Erste Group	Hungarian NPL Portfolio	Residential	Intrum Justitia	300
Jul-16	H2 - 2016	Hungary	Confidential	Project Rita	Corporate / SME	Confidential	224
Oct-16	H2 - 2016	Romania	BRD - Societe Generale group	Romanian NPL Portfolio	Corporate	Confidential	329
Aug-16	H2 - 2016	Romania	Banca Comerciala Romania (Erste Group)	Project Blue Lake	Residential	EOS Matrix / B2Holding	370
Jul-16	H2 - 2016	Slovenia	Nova Ljubljanska Banka (NLB)	Slovenian NPL portfolio	Consumer	Undisclosed	104

<sup>74</sup> See footnotes 72 and 73

Table 3. List of NPL Servicers in the CESEE region

Servicer	Type of servicer *				Also Investor? yes / no	Asset class					Country															Comments						
	Primary	Special	Recovery Agency	Own assets only		Retail	SME	Corporate	Residential RE	CRE	Albania	Croatia	Hungary	Monte negro	Serbia	Bulgaria	Romania	Slovenia	Ukraine	Greece	Cyprus	Bosnia	Czech	Estonia	Kosovo		Latvia	Lithuania	FYR Macedonia	Poland	Slovakia	
Kruk	✓	✓	✓		Yes	✓	✓	✓	✓	✓						✓							✓						✓	✓		
EOS Group	✓	✓	✓		Yes	✓	✓	✓	✓	✓			✓	✓	✓	✓	✓		✓			✓	✓		✓			✓	✓	✓		
CreditExpress			✓		No	✓								✓		✓	✓	✓				✓	✓				✓	✓	✓		Preliminary Information	
B2 Holding	✓	✓	✓		Yes	✓	✓	✓	✓	✓			✓	✓	✓	✓	✓		✓			✓	✓	✓		✓	✓		✓		Present in Poland through Ultimo	
Intrum	✓	✓	✓		Yes	✓	✓	✓	✓			✓				✓			✓				✓	✓		✓	✓		✓	✓	In June 2017, Intrum Justitia officially merged with Lindorff. The new entity is called Intrum.	
Coface			✓		No	✓							✓	✓	✓	✓	✓					✓						✓	✓		Preliminary Information	
APS Holding	✓	✓	✓		Yes	✓	✓	✓	✓	✓			✓	✓	✓	✓				✓		✓						✓	✓		Extensive Experience in Romania Greece; license approval is pending (expected by end 2017)	
Kredyt Inkaso	✓	✓	✓	✓	Yes	✓	✓	✓	✓	✓			✓			✓	✓		✓									✓				
Lexus EGF			✓		No	✓		✓		✓																		✓			Preliminary Information	
Tagor Asset Management		✓	✓		Yes			✓		✓						✓															Tagor often bids alongside international investors in Romania to act as their servicing partner	
Chartered Debt Management (CDM)	✓	✓	✓		Yes	✓	✓	✓								✓															Preliminary Information. CDM typically partners with international investors in Romania to act as their servicing partner	
GetBack			✓		Yes	✓			✓							✓											✓			GetBack is a publicly-listed company on Warsaw Stock Exchange. They service their own as well as third party portfolios. They also manage securitized funds of NPL assets		
Hoist Finance				✓	Yes	✓	✓																					✓			Purchased NaviLex in 2014, a Polish debt collection agency, which has consolidated its presence in Poland	
PraGroup		✓	✓		Yes	✓	✓																					✓				
Best S.A	✓		✓		Yes	✓	✓	✓	✓																			✓				
Castlelake				✓	Yes		✓	✓	✓	✓			✓			✓						✓						✓	✓			
Mount Street	✓	✓	✓		No		✓	✓		✓				✓	✓	✓	✓	✓	✓	✓	✓	✓	✓					✓	✓		In January 2017, Mount Street acquired EPA, the management subsidiary of EAA, the German asset management company created in 2009 to manage the assets of the former WestLB AG	
Pillarstone	✓	✓	✓		Yes		✓	✓		✓									✓	✓												

Source: \* Primary servicers: monitor and manage loans  
 KPMG \* Special servicers: try and restructure the loan and work with debtor in case of default  
 NPL Servicers \* Recovery servicers: aim to collect as much as possible in case of default and after all restructuring options have been exhausted



## APPENDIX

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### DEFINITIONS

- **NPL Volume (or Gross NPLs):**
  - NPLs are defined and reported differently across countries as there is no one international standard. For countries reporting financial soundness indicators (FSIs) to the IMF, the FSI Compilation Guide (IMF, 2006) recommends reporting NPLs when (1) payments of principal and interest is past due by 90 days or more, or (2) interest payments equal to 90 days interest or more have been capitalised, refinanced, or rolled over, and (3) includes loans with less than 90 days past due but recognized as non-performing under national supervisory guidance.
  - European national supervisory authorities tend to use the 90 days of payments past-due as a quantitative threshold as well as bankruptcy as objective criteria for reporting NPLs.
  - It is also important to note that in January 2015, the EU adopted harmonized and consistent definitions of both forbearance and non-performing exposures (Regulation (EU) No. 680/2014 which lays down the technical standards submitted by the EBA).
  - While most NPL data in this report are sourced from the IMF FSI, NPL data for Albania, Montenegro and Serbia directly come from information made available by their respective central banks (Financial Stability Reports, Banking Reports, Macroeconomic Reports or Statistical Databases). Albania and Serbia adopt a definition which is in line with the IMF. Montenegro defines NPLs as loans past due longer than 90 days, without interests, prepayments and accruals.
- **NPL Ratio:** NPL volume divided by the total gross value of the loan portfolio (including gross NPLs (i.e. before the deduction of specific loan-loss provisions)).
- **NPL Coverage Ratio:** Total specific loan-loss provisions divided by gross NPLs.
- **Net NPLs:** NPLs minus specific loan-loss provisions
- **Net NPL Ratio:** Net NPLs divided by the total gross value of the loan portfolio (including gross NPLs (i.e. before the deduction of specific loan-loss provisions)).
- **Net NPL / Capital:** Net NPLs divided by Capital. Capital is measured as capital and reserves, and for cross-border consolidated data, total regulatory capital can also be used.
- **Market Share NPLs:** Total country gross NPLs divided by total CESEE gross NPLs.
- **Market Share Loans:** Total country gross loans divided by total CESEE gross loans.

### METADATA

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

	NPLs	Gross Loans	Provisions (or Net NPLs)
Albania	Non-performing loans include “substandard”, “doubtful”, and “loss” classes; The criteria to define a loan as “non-performing” is the number of past due days (90 days).	Stock of loans gross (plus accrued interests)	NPL loan-loss provisions
Bosnia & Herzegovina	Until fourth quarter of 2010 nonperforming loans were consisted of C (substandard, 90 days) and D category loans. E category loans are part of nonperforming loans beginning from fourth quarter 2011.		
Bulgaria	Until 2014, Non-performing loans are the risk exposures where principal or interest payments have been past-due over 90 days. Since 2015 the definitions and the scope of the NPLs have been in line with the EBA standards.	Until 2014, loans to deposit takers were excluded from the calculations. Since 2015 the definitions and the scope of the NPLs have been in line with the EBA standards. The source of data is the FinRep reporting template F18 row 70 and 250 column 10 which cover all Loans and advances, including to deposit-takers	All deposit takers must assess, classify and provision loans at least on a quarterly basis and submit a regulatory report to Bulgarian National Bank. Compliance is enforced via off-site surveillance and on-site inspections.
Croatia	Non-performing loans are all gross loans (to all sectors) not classified as performing (90 days overdue basis is used). However, loan can be considered as a Pass even if it is 90 days over due if it is well covered with collateral and if the process of foreclosures have started.		Provisions refer to Non-performing loans.
Cyprus	Since December 2014, the EBA Final Implementing Technical Standards on Supervisory reporting on forbearance and non-performing exposures under article 99(4) of Regulation (EU) No. 575/2013 have come into force. Non-performing exposures are those that satisfy either or both of the following criteria: (a) material exposures which are more than 90 days past-due; (b) the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or of the number of days past due		
Czech Republic	Besides the FSI Guide-recommended 90-day rule, the financial condition of the debtor is also used in determining loans as nonperforming loans	Excludes loans to central bank. OFCs data are not included. Credit cooperatives are not included. Banks in receivership and in liquidation are not included.	
Estonia	Collateral and guarantees are not taken into consideration. Restructured loans are treated as performing loans.		If there is a problem with a loan granted by bank A and the debtor has also taken a loan from bank B and that loan “works well”, creditor B does not need to make any provisions or downgrade the loan.
Greece	Rescheduled loans are not included in the calculation of NPLs. Collaterals and guarantees are not taken into consideration. Restructured troubled loans are reported separately and are not included in the calculation of NPLs	Excludes repurchase agreements that are not classified as deposits.	Strictly speaking and in accordance with the legal framework, banks are not required to downgrade all loans to a common debtor if any of these loans are classified as impaired. Nevertheless, if one bank proceeds to downgrading, it is highly likely that other banks will follow suit. Reviews are conducted on a quarterly basis by banks for the best clients and at least annually in most cases.
Hungary	90-day overdue-loans are classified as nonperforming loans.	Gross loans provided to customers and banks.	Only the specific provisions (impairment) attributed to the NPLs are netted out from NPLs
Kosovo	N/A	N/A	N/A
Latvia	N/A	N/A	N/A

	NPLs	Gross Loans	Provisions (or Net NPLs)
Lithuania	NPLs is the sum of impaired loans and advances and non-impaired loans and advances that are past due 60 days or more. Includes interest accrued on some NPLs. Includes some other financial assets besides loans.	Includes interest accrued on some NPLs. Includes deposits and funds held in other banks and credit institutions. Banks in distress and in receivership are not included into the coverage of FSIs. Credit Unions are excluded (very insignificant market share). Subsidiaries in the insurance subsector are included.	
FYR Macedonia		Includes loans to financial and nonfinancial sector.	Provisions include provisions for nonperforming and performing loans as well.
Montenegro	Includes Cat C, D and E (ie. from 90 days past due onwards). Excludes interests and prepayments and accruals		Value adjustment of loans and other receivables
Poland		Excludes repurchase agreement that are not classified as deposits. Includes some other financial assets besides loans: Data represent total receivables, such as originated loans, purchased receivables, and guarantees which are being exercised. Excludes loans to central bank. Deposit takers in distress or in receivership are not included	
Romania	Since June 2014, NPLS based on reports from all banks, Romanian legal persons for loans that meet the non-performance criteria (i.e. overdue for more than 90 days and/or in which case legal proceedings were initiated). Since December 2015, based on EBA Definition: ratio of the gross carrying amount of non-performing loans and advances to the total gross carrying amount of loans and advances	Exclude loans among deposit-takers. Deposit takers in distress or receivership are not included.	From June 2014 to December 2015, IFRS impairment losses (provisions) for nonperforming loans determined (based on reports from all banks) were subtracted from nonperforming loans. Since December 2015, NPLs net of provisions have been compiled as gross carrying amount of non-performing loans and advances minus the accumulated impairment of non-performing loans and advances
Serbia	NPL means the total outstanding debt under an individual loan (including the amount of arrears): - where the payment of principal and interest is 90 days or more past due its original maturity date; - where at least 90 days of interest payments have been added to the loan balance, capitalized, 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
Slovakia	Deposit takers use not only quantitative criteria (i.e., 90-days past due criterion) but also own judgment for classifying loans as NPLs.		Specific provisions that are netted out from NPLs in compiling the series NPLs net of provisions include not only the provision attributed to the NPLs but also the provisions constituted for performing loans. General provisions are not netted out.
Slovenia		Includes all financial assets at amortized cost (not just loans) and some non-loan assets (tax assets, non-current assets and disposal groups classified as held for sale, etc).	
Ukraine	Consistent with the criteria "of 90 days" From the 4th quarter of 2012, NPLs defined as credit transactions attributed to the IV and V quality categories. (Doubtful and Loss (write-off))	Credit unions (that accept deposits) and deposit takers in distress or in receivership are not included. Total gross loans defined as debts arising from credit transactions, including loans to customers, interbank loans and deposits, off-balance sheet liabilities on guarantees and loans given to banks and customers, used for credit risk assessment.	