EBCI | Vienna Initiative

NPL monitor for the CESEE region[1]

Special edition: H1 2020

Prevention of new NPL flows in the context of the Covid-19 crisis

The NPL monitor is the semi-annual publication of the NPL Initiative, a subset of the Vienna Initiative. The publication reviews the latest NPL trends of 17 countries[2] in central, eastern and south-eastern Europe (CESEE). This special edition focuses on the potential impact of the Covid-19 pandemic and discusses possible measures to mitigate new flows of NPLs in the region.

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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 in the CESEE NPL data, although the NPL Initiative has started following more closely NPL reform in these countries.

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Executive summary

In the aftermath of the global financial crisis of 2008-09, the CESEE region became heavily burdened with the accumulation of non-performing loans (NPLs) in the banking systems. While challenges remain, the CESEE NPL situation has improved considerably since the launch of the NPL Initiative workstream of the Vienna Initiative in 2014. This allowed the development of greater transparency of the NPL resolution framework, support for country reforms in the area, improvement in restructuring environments and facilitation of an NPL sales market in the region.

These measures led to a considerable decrease in the gross NPL ratio in the region, more than halving from its peak of 9.8 per cent in the first half of 2014 to 3.8 per cent on 31 December 2019. NPL volumes decreased from €65.7 billion to €33.8 billion over the same period.[3] While the NPL situation was stabilising in the region, banks could focus once again on profitability, new lending and growth.

The emergence of the Covid-19 pandemic brought unexpected new pressures on the region and the world. The looming aftermath of the lockdown implemented across jurisdictions will bring macroeconomic and sectorial contractions, with a likely new surge in NPLs. While banks are better equipped to tackle new flows of NPLs than during the prior financial crisis in 2008, the measures taken in the coming months to pre-empt and prevent a rise in the number of distressed borrowers will be defining.

Considering the disruptive nature of the Covid-19 pandemic, there is considerable uncertainty as to the nature and extent of the impact on economies, borrowers and banks. This version of the NPL Monitor will not focus on historical NPL data but will rather discuss some of the key considerations for banks regarding loan management and NPL prevention in the context of Covid-19.

[3] Source: IMF FSI, central bank reports.

1. Potential impact of Covid-19 on the progress made with NPLs

Banks are facing multifaceted challenges as a result of the Covid-19 pandemic. These range from ensuring the safety of their employees and customers to surmounting operational hurdles for providing their core (and critical) services in a seamless manner, while minimising risks such as cyber-attacks and fraud.

Most jurisdictions have implemented measures to assist individuals and enterprises in mitigating loss of revenues or employment, such as payment moratoria, loan programmes and similar measures. However, these measures are temporary in nature and many banks are likely to face a cliff-edge effect of new distressed borrowers when these measures expire.

Regulators and banks are increasingly anxious that high volumes of new NPL inflows will emerge once the economic effects of the crisis begin to materialise. This was recently underscored by the **EBA in its preliminary analysis of the impact of Covid-19 on the EU banking sector.**[4] This is especially true for the most vulnerable sectors (for example, tourism, aviation, catering) and customers (such as small and medium-sized enterprises, consumer financing), with risk contagions and knock-on effects on entire industries and economies.

Considering the substantial efforts undertaken in recent years to decrease NPL stocks in the CESEE region, and the costs associated with doing so, the risk of having large new inflows of distressed loans is genuine. There are also many countries and banks with remaining high levels of NPL stocks, for which new flows may prove more challenging.

While the effects might be more short-lived than the 2008-09 crisis due to the nature of the current situation (in other words, caused by a temporary lockdown), we can anticipate different waves of new flows of NPLs depending of the speed of economic recovery:

(1) **an immediate "spike" adjustment in Q4 2020** as the Covid-19 measures expire and the frailer borrowers begin defaulting or fail the unlikely-to-pay test

(2) **a second, slower and more spread-out wave from H1 2021**, with the intensity of business failures and employment losses highly dependent on how much the economy or markets were impacted and how fast recovery occurs

(3) **a third wave resulting from the knock-on effects** of failures between sectors and across supply chains, which is likely to start emerging towards the end of 2021 and beyond (and once again depending on a wide range of factors).

Therefore, banks must anticipate (and plan for) the impacts of Covid-19, not only as a direct result of the lockdown, but also from a medium to long-term perspective.

[4] The EU banking sector: First insights into the Covid-19 impacts, Thematic note, EBA/REP/2020/17 (link).

2. Best practices for loan management and NPL prevention

The level of impact on the banks' loan portfolios will depend on their ability to identify early potential signs of distress and on the robustness and speed of the remediation measures implemented. This is also essential to avoid entanglement of borrowers that are temporarily stressed by Covid-19 into the existing NPL stocks.

However, because of the breadth of variables at play and the uncertainties still ahead (including if and where second peaks of infection occur and when a vaccine and/or antiviral treatment will be discovered), there is no simple NPL prevention approach that can be implemented without a broad range of assumptions and hypotheses. Banks must attempt to understand as best as they can the impact (current and forecasted, direct and indirect) of the crisis on the different risk clusters of their loan portfolios at a sufficiently granular level. This requires access to detailed data on the individual borrowers to allow grouping them into representative cohorts. It also requires having access to suitable industry and economic data in order to develop a relevant and sufficiently precise hypothesis to map and quantify the forecasted impacts.

What steps can be taken to pre-empt potential new flows of NPLs?

Banks are taking steps to understand the impacts of the pandemic on their loan portfolios and to anticipate potential clusters. While these steps may vary between institutions, we can observe similarities in best practices. We detail below a general approach, but each bank must define the best approach, depending on its own particularities and the composition of its credit portfolio.

Banks can take series of steps to prevent "at-risk" customers from becoming distressed:

i. **Portfolio segmentation and assumptions:** Review the entire bank's portfolios and segment them into cohorts of loans as granular as possible based on the risks of Covid-19 impact (in other words, clients' segments, sub-sectors, location of business, received moratoria or other measures). This requires making a series of assumptions about which sectors and borrowers are at potential risk, including macroeconomic factors and the level of correlation between industry segments. The risk clustering should also consider the potential impact in the short term (3-6 months), medium term (6-12 months) and longer term (over 12 months) to support the forecasting of the financial position of customers as the sectorial and macroeconomic conditions evolve and as the Covid-19 measures in place arrive at maturity. At a minimum, the bank should clearly identify:

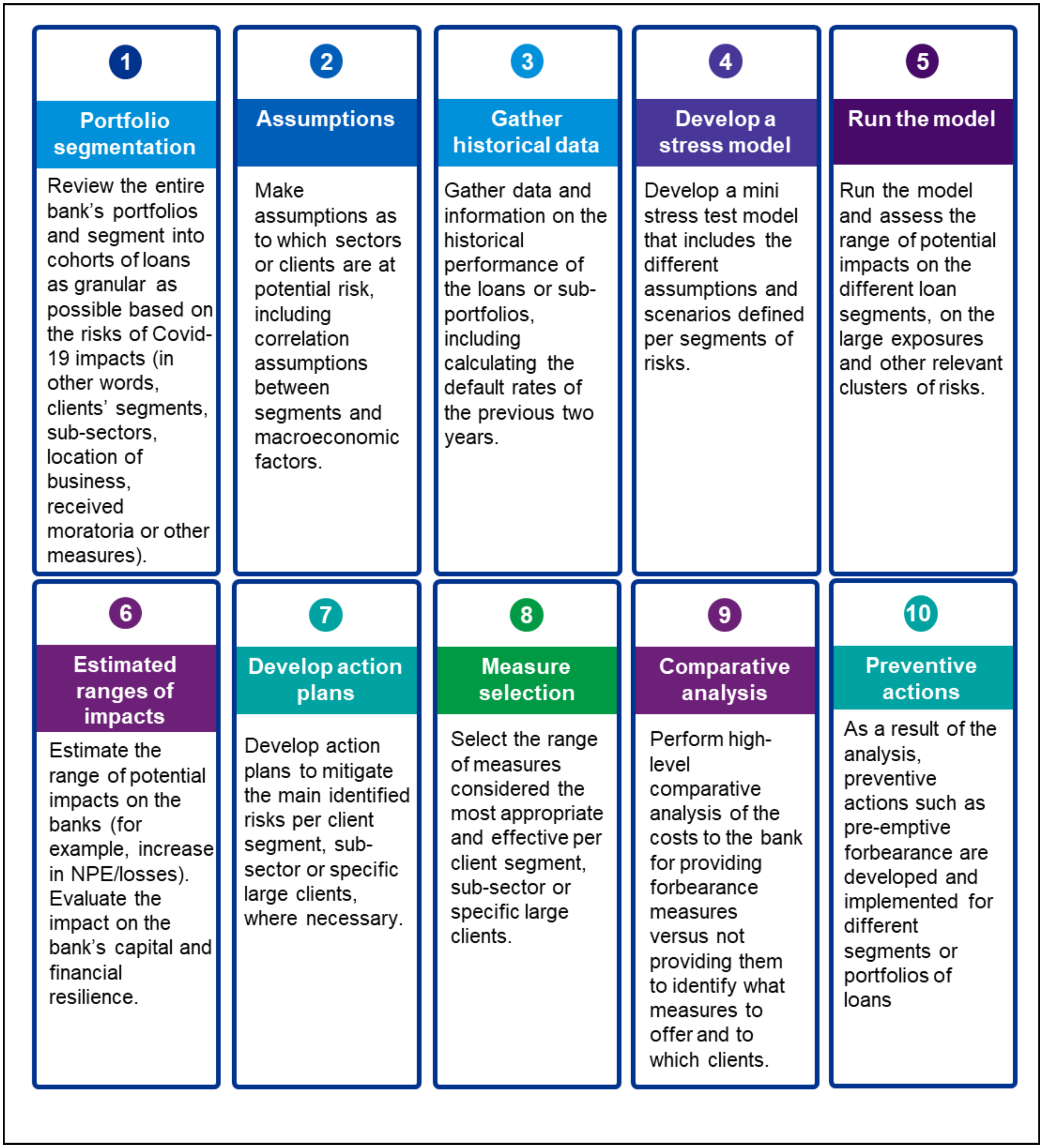
a) *the borrowers that are subject to Covid-19 measures (for example, moratoria, payment breaks)*
b) *the borrowers that are at direct risk of Covid-19 impacts (in other words, in the same category as (a) but who did not apply for Covid-19 measures)*
c) *the loans not subject to Covid-19 measures but that may be at risk (for example, supply chain risks, contagion between industries)*

ii. **Data gathering:** Compile all available data – internal and external – on the borrowers impacted by Covid-19 and on the relevant (sub)-industry sectors. Gather data and information on the historical performance of the individual borrowers and sub-portfolios, including calculating the default rates of previous years as relevant. Where possible, manage in a separate subset of the banks' system for ease of management. This dataset will be essential to closely monitor the impacted customers' performance and forecast potential signs of distress. Some banks may, however, face hurdles with gathering sufficiently robust data and information to support forecasting and to perform granular analysis, considering that completeness of historical data is often an issue in banks. Data proxies and robust assumptions can allow for filling some of these gaps.

iii. **Running of scenarios:** Develop, where possible, mini "stress test" models in which the bank can run different scenarios for the diverse risk clusters, updating and adjusting the assumptions and hypotheses as the situation evolves. Such models are useful for understanding the potential correlations and knock-on effects of failure within the credit portfolio but also on the bank, such as on capital and financial resilience. Simulate the future resilience to the crisis of the diverse customer cohorts (at a granular level) to anticipate potential pressure points in the credit portfolio and to identify which customers are at greater risk of deterioration in order to pre-empt and prevent movement into NPLs.

iv. **Action plan:** On the back of the portfolio segmentation and the stress testing of scenarios, banks develop action plans to mitigate the main risks identified (in other words, potential cohorts at greater risk of distress), breaking them down to as granular a level as possible. These measures are in addition to the broad Covid-19 measures (such as industry-wide moratoria) and aim to intervene early, in case of failing the unlikely-to-pay test or default events. The viability of the different measures for the bank will require a comparative costs analysis for providing each measure, including contrasting them to no action. This should also be done in view of both the prudential and accounting impacts of each measure.

Figure 1. Steps for portfolio analysis and preventive actions in Covid-19 crisis



Source: KPMG.

3. The impact of Covid-19 on banks' NPL strategies

The NPL strategies of banks developed prior to Covid-19 are likely to require adjustments. In Europe, there are concerns that the crisis may have an impact on the deleveraging strategies of significant institutions. In anticipation, the ECB has informed the significant institutions under its remit of possible extensions to the submission of the updated NPL figures and consequent strategy. The ECB is also expected to revisit the NPL reduction targets set with banks and will discuss the NPL strategies with individual banks on a case-by-case basis. Similar considerations are expected to be applicable to smaller banks outside the ECB remit and for banks outside of the EU. Regulators and supervisors have, however, reiterated that credit assessment has to continue, and any deterioration of portfolios has to be closely monitored.

Banks have advanced greatly in the last couple of years in developing plans to inform the internal management of NPLs and to support the NPL reduction efforts (as agreed with their regulator). As a result of decreasing NPL levels, many banks have been reducing their work-out, collection and recovery capabilities in view of cost-cutting and have been refocusing on new lending. Now that new flows of NPLs are looming, many factors must be rapidly evaluated by the banks.

Numerous questions must be answered by the bank to inform potential forward flow strategies to best tackle these new NPLs, including the following:

- In which customer segments do we expect new flows of NPLs in the next 6, 12 and 24 months?
- Are the foreseen levels of new NPL flows likely to bring new clusters of risks above the 5 per cent threshold, driving closer scrutiny by the supervisors and regulators?
- Does the bank have the necessary capacity to tackle these new flows of NPLs, both in terms of number of resources and skills (for example, restructuring, industry-specific)?
- Should the bank manage these new NPLs internally, have them serviced by a third-party servicer or sell them?
- Are there sufficient servicing capabilities available in the market, at the right level of specialisation and would it be cost effective for the bank to externalise servicing?
- Does the bank foresee a buyer market in the eventuality that the banks will need to divest (part of) the new flow of NPLs?
- Will the future market conditions and information available be sufficiently transparent to all parties to support transactions?
- Will investors be requiring a greater risk premium due to the Covid-19 uncertainties and what would be the impacts on the pricing gaps?
- Are there structural options available to optimise recovery, such as partnership with investors, pre-qualification of buyer pools, securitisation and so on?
- What does this all mean for recoverability by borrowers' cohort and how should this inform credit risk appetite, credit risk strategy, risk limits and credit pricing?

4. Implications for the NPL transaction markets

The NPL market in the CESEE region has considerably developed in the recent years, partly as a result of reforms undertaken across most jurisdictions to resolve prior impediments to NPL sales. The region is characterised by more experienced sellers, a proven demand from international investors and more robust servicing capabilities in many jurisdictions. Overall, the CESEE NPL market is in a much better place than it was prior to the 2008 crisis.

Before the coronavirus crisis, investors' appetite to purchase NPLs in the region remained relatively high, but NPL supplies from banks were becoming smaller. As a result, transactions were mainly for individual technical exposures and small portfolios rather than large transactions as seen in previous years.

At the moment, as a result of Covid-19, NPL transactions are occurring, but at a very slow pace. Banks are mostly focused on dealing with the operational challenges of Covid-19 and on the Covid-19 measures for borrowers (for example, moratorium). NPL transaction activities that were not closed in Q1 2020 have in most part stopped or have been postponed as investors wait to see how the situation evolves. Some other transactions are receiving bids, but they are facing difficulties in closing.

If the aftermath of Covid-19 does bring considerable new flows of NPLs to banks, it is likely that many banks will again seek to reduce their distressed portfolios with sales to investors. The type of new NPL sales in the region, their timing and pricing will depend on numerous factors.

- The level of uncertainty regarding recovery is likely to create challenges in matching sellers' pricing expectations and investors' bids. It is also expected that banks will need to re-evaluate their "stabilised" credit portfolios before making any important decisions on large portfolio sales.
- Some investors (and servicers) are also likely to face difficulties in respect of the recovery of the portfolio they currently hold, which may limit their willingness (or ability) to take further risks in the short to medium term. Time will also be needed for investors to regain confidence and to improve pricing transparency in different markets.

For the near term, transactions are expected to remain on individual exposures rather than large portfolio transactions. The shape and form of the NPL market in the CESEE region in the next 12-24 months will also depend on factors including additional measures being introduced at the national level to generate transactions stimulus. For example, state guarantee frameworks may be introduced (similar to those in Italy) to support securitisation or national asset management companies may be created.

5. Summary of key measures taken by European banking regulators in response to Covid-19[5]

EU regulators have been implementing a broad range of measures to assess the potential impact of Covid-19 on the European banking system and to provide support to banks and the economy in mitigating these impacts. We detail in the appendix the list of key measures implemented since March 2020. The following section is an overview of a selection of different types of measure most relevant to NPLs (and their prevention).

1) Banking package and amendment to the Capital Requirements Regulation (CRR)

Institution	Date	Details
European Parliament	10 June 2020	**The EU Parliament published a report on proposed amendments to CRR [6] [7]** • The EU Parliament's Committee on Economic and Monetary Affairs (ECON) published a report (A9-0113/2020) on the proposed Regulation containing amendments to the Capital Requirements Regulation (575/2013) (CRR) with regard to adjustments in response to the Covid-19 pandemic (2020/0066(COD)). • ECON adopted the report on 9 June 2020, as explained in a related press release. • EU Parliament will consider the proposed regulation during its plenary session (17/18 June 2020). It will discuss the legislative proposal, which will be adopted by the Council and the EU Commission by end of June/early July. • CRR amendments included (selected extract): – extension by two years of the transitional arrangements for IFRS 9 (international accounting standard) and further relief measures (capital add back) will ensure that banks can further provide credit to the real economy – alignment of minimum coverage requirements for non-performing loans guaranteed by the public sector with those guaranteed by official export credit agencies – deferred application of the leverage ratio buffer (leverage ratio is the ratio between a bank's capital and its exposures) by one year to January 2023 – this further allows banks to increase the amount of funds they would be able to loan – advanced application of a more favourable prudential treatment of loans to pensioners or employees with a permanent contract that are backed by the borrower's pension or salary – advanced application of both the SME and infrastructure-supporting factors, which allows for a more favourable prudential treatment of certain exposures to SMEs and infrastructure, ensuring credit flow to SMEs and supporting infrastructure investments – banks will no longer be required to deduct certain software assets from their capital, supporting an accelerated digitalisation of the banking sector – liquidity measures provided by central banks in a crisis context will be effectively channelled by banks to the economy.

[5] Source: KPMG.

[6] CRR (Capital Requirements Regulation) established in 2013. This has been subsequently amended:
- 2017/2395: Regulation has inserted in the CRR transitional arrangements for mitigating the impact on own funds from the introduction of IFRS9.
- 2019/630: Regulation has introduced in the CRR a requirement for minimum loss coverage for non-performing exposures.
- 2019/876 (CRR II): Regulation has added to the CRR some of the final elements with a new definition of the leverage ratio and a leverage ratio buffer.

[7] Source: https://www.europarl.europa.eu/doceo/document/A-9-2020-0113_EN.pdf.

		• Among the proposals is that banks' non-performing government-guaranteed loans are exempt from provisioning for seven years, leaving it to banks to decide whether or not a provision should be made against such loans. The regulation amendment will also reset transitional arrangements for fully neutralising the effect of new IFRS 9 provisions – except on impaired loans – on banks' Common Equity Tier 1 (CET1) capital in 2020 and 2021, allowing EU banks to spread the effect of the crisis during the phase-in period (until 2024).[8] • In order to support funding options in non-euro member states also impacted by the coronavirus pandemic, the Economic and Monetary Affairs Committee reintroduced transitional arrangements related to preferential treatment for when governments and central banks are exposed to bonds denominated in currencies of non-euro member states and prolonged transitional with respect to their treatment under the large exposure limits. • Taking into account the impact of the pandemic and the extreme levels of volatility in the financial markets leading to increased yields for public debt and, in turn, to unrealised losses on banks' holdings of public debt, MEPs agreed to introduce a temporary prudential filter to calculate losses accumulated since 31 December 2019 and to neutralise their impact.
European Commission	28 April 2020	**Comprehensive banking package** [9] [10] • Aims to support banks' lending to help mitigate the economic impact of Covid-19. In line with previous statements of the ECB and the EBA. • Encourages banks and supervisory bodies to apply the EU's accounting and prudential rules more flexibly and clarifies the following: – IFRS 9: Assessment of significant increase in credit risk (SICR) should be based on the remaining lifetime of the financial assets. Sudden, temporary and punctual increases in probability of default (PD) caused by the pandemic should neither lead to an increase in the lifetime PD nor to a SICR. Loan guarantees neither increase nor reduce the credit risk, but reduce the amount of credit loss given default. Banks need to consider these guarantees when calculating the amount of expected credit loss. – Payment moratoria: Loans should not automatically be reclassified as forborne or considered to have suffered a SICR due to becoming subject to private or statutory moratoria. As days past due are reset and counted based on moratoria, they impact the 30-day rebuttable assumption, as well as the consideration of default (90 days past due). – Definition of default – use of guarantees: Making use of a guarantee in itself does not trigger the classification as defaulted. The bank has to form an opinion of whether the obligor is in a position to meet their obligations irrespectively. • Proposes a series of targeted amendments to the CRR, including (among others): – IFRS 9 transitional arrangements (in particular, Article 473a): transitional arrangements are extended only for the dynamic component. – Reference date for increase in provisions that would be subject to the extended transitional arrangements is moved from 1 January 2018 to 1 January 2020. – Transition for the dynamic component is extended, allowing institutions to fully add back any increase in new provisions recognised in 2020 and 2021 for their financial assets that are not credit-impaired to their CET1 capital. The amount that could be added back from 2022-24 would decrease in a linear manner. – Dynamic component will be subject to a revised transitional adjustment factor. – Temporary treatment of public guarantees (Article 500a) following the factors of Article 47c(4) instead of Article 47c(3) do not trigger the classification as defaulted. The bank has to form an opinion of whether the obligor is in a position to meet his obligations irrespectively.

[8] Moody's (2015) EU's solvency rule amendments will improve banks' capital ratios and support economy.
[9] https://ec.europa.eu/commission/presscorner/detail/en/qanda_20_757.
[10] Source: https ://ec.europa.eu/finance/docs/law/200428-banking-package-proposal_en.pdf.

2) Classification (prudential and accounting)

<table>
<tr><th>Institution</th><th>Date</th><th>Details</th></tr>
<tr><td>EBA</td><td>25 May 2020</td><td>Statement on application of prudential framework regarding default, forbearance and IFRS 9[11]

The EBA called for flexibility and pragmatism in the application of the prudential framework regarding default, forbearance and IFRS 9 to mitigate the impact of the coronavirus crisis on the EU banking sector.
The statement covers the following:

– General considerations for the accounting and regulatory framework:
✓ In case of debt moratoria, there is no systematic classification in default, forborne or IFRS 9 status
✓ Credit institutions have an obligation to check the credit quality of the exposures that benefit from those measures and identify borrowers who are unlikely to pay
– Prudential identification of default
✓ Defaults executed by market distortions can past its 90 days due date on material credit obligation
✓ Institutions have an obligation to assess the obligator's unlikeliness to pay
– Classification of forbearance
✓ No automatic reclassification is needed in case of general moratoria of government being offered
✓ The core of the EBA's definition of forbearance is the individual assessment of the borrower's financial difficulties and granting measures tailored to the financial situation of the borrower
✓ There is no clarification on prerequisites borrowers have to fulfil to be granted Covid-19 forbearance measures or how to distinguish moratoria and forbearance measures systemically
– Considerations on IFRS 9
✓ No strict automatic increase in credit risk or stage 2 transfers
✓ Banks need to assess which obligors are likely to restore their creditworthiness. The EBA does not specify criteria for this distinction and the expected time frame.

</td></tr>
<tr><td>ECB</td><td>20 May 2020</td><td>The ECB introduce supervisory flexibility regarding the treatment of NPLs

Through prudential treatment of loans backed by public support measures.[12] Details are as follows:
The classification of obligors as "unlikely to pay" when institutions call on public guarantees in the context of the Covid-19 crisis.
Extend preferential treatment for NPLs guaranteed by official export credit agencies to exposures guaranteed or counter-guaranteed by the public sector in the context of Covid-19 related measures. (in other words, 0 per cent minimum coverage expectation for the first seven years of the NPE vintage count[13])
Flexibilities regarding timing and scope of the assessment on unlikely-to-pay classification of exposures covered by legally imposed payment moratoriums in context of Covid-19 crisis.
</td></tr>
</table>

[11] https://eba.europa.eu/eba-provides-clarity-banks-consumers-application-prudential-framework-light-covid-19-measures.
[12] https://www.bankingsupervision.europa.eu/press/pr/date/2020/html/ssm.pr200320~4cdbbcf466.en.html.
[13] The ECB encourages the European co-legislator to consider adopting a similar interpretation for all exposures that fall within the scope of the CRR minimum requirements regarding loss coverage for NPEs (Articles 47(a-c) of the CRR).

3) Measures to alleviate the impact of Covid-19

Institution	Date	Details
EBA	2 April 2020	**Guidelines on legislative and non-legislative moratoria on loan repayment in order to support the financial system during the Covid-19 crisis[14].** **The details are as follows:** • General payment moratorium that falls under the guidelines will not be classified as a forbearance measure and distressed restructuring. • The criteria for general payment moratorium set out by the EBA are as follows: – The moratorium was introduced in response to the Covid-19 crisis and launched before 30 June 2020. – The scope of the moratoria application should be broad in order to cover a sufficient number of institutions, while avoiding targeting obligors only based on their creditworthiness or financial situations. – The moratorium is not mandatory. The moratorium should offer the same condition and only envisage changes to the schedule of payments. • Institutions have an obligation to perform the credit quality assessment of exposures under the moratoria. • Institutions should collect information on applied moratoria, to be shared with the supervisor.
BIS	3 April 2020	**The Basel Committee on Banking Supervision set out additional measures to alleviate the impact of Covid-19. [15]** • Institutions can exclude Covid-19-related payment moratorium periods from the counting of days past due. • Borrowers who accept the terms of payment moratorium or have access to other relief measures should not be categorised as forborne.

4) Reporting

Institution	Date	Details
EBA	2 June 2020	**The EBA published guidelines on reporting and disclosure of exposures subject to measures applied in response to the crisis.[16]** • The guidelines address data gaps in supervisory reporting and disclosure associated with Covid-19-related measures. • The guidelines cover a broad range of measures including legislative moratoria and public guarantees; specifically, they cover (i) reporting requirements to monitor the use of payment moratoria and the credit quality evolution of the exposures subject to such moratoria in accordance with the Guidelines on moratoria; (ii) disclosure requirements for such exposures; (iii) reporting and disclosure requirements for the new loans from Covid-19-related public guarantees; and (iv) reporting requirements on other Covid-19-related forbearance measures.

[14] https://eba.europa.eu/regulation-and-policy/credit-risk/guidelines-legislative-and-non-legislative-moratoria-loan-repayments-applied-light-covid-19-crisis.
[15] https://www.bis.org/press/p200403.html.
[16] https://eba.europa.eu/regulation-and-policy/supervisory-reporting/guidelines-covid-19-measures-reporting-and-disclosure.

5) Improving new lending practices

The European Banking Authority (EBA) published on 29 May 2020 its final guidelines on loan origination and monitoring (EBA/GL/2020/06).[17]

This important publication must be considered in close conjunction with the EBA guidelines on management of non-performing and forborne exposures[18] as they complete the loans' life cycle. While not Covid-19 specific, sound lending practices and the prevention of new NPLs are particularly crucial in the current uncertain economic times.

The guidelines apply to all financial institutions in the EU and provide specifications depending on the size, nature, complexity and risk level of the institution. They were developed using international best practices and are expected to be referenced as the new best-in-class standard to follow also outside of the EU, similar to the previous guidelines on NPEs.

These Guidelines aim to improve practices related to credit governance and culture, processes and mechanisms in relation to credit granting and ensuring the subsequent robust management and monitoring of the loans. It is key to ensure that newly originated loans are of high credit quality in order to prevent loans from becoming non-performing in the future.

The guidelines provide detailed requirements and recommendations across five main topics:

EBA GLS on Loan Origination and Monitoring: Chapter with functional/technical requirements	Proportionality level: Institution	Borrowers	Credit facility/ collateral
4 Internal governance for credit granting and monitoring	✓		
5 Loan origination procedures		✓	✓
6 Pricing		✓	✓
7 Valuation of immovable and movable property			✓
8 Monitoring framework	✓	✓	✓

Source: KPMG ECB Office

- ✓ *Chapters 4 to 8 are applicable to loans and advances originated after 30 June 2021.*
- ✓ *Chapter 5 is applicable after 30 June 2022 for loans and advances (originated before 30 June 2021) for which terms and conditions have been changed/renegotiated after 30 June 2022.*
- ✓ *Chapter 7 is applicable to any valuation, monitoring and revaluation of immovable property and movable property collateral, excluding financial collateral, conducted after 30 June 2021.*
- ✓ *For Chapter 8, if all the relevant information and data is available to be used for the monitoring of existing borrowers or credit facilities granted before the application date, financial institutions should collect missing information and data until 30 June 2024.*

[17] https://eba.europa.eu/regulation-and-policy/credit-risk/guidelines-on-loan-origination-and-monitoring.
[18] https://eba.europa.eu/regulation-and-policy/credit-risk/guidelines-on-management-of-non-performing-and-forborne-exposures.

6. Measures implemented in response to Covid-19 by banking regulators of the five "partner countries" under the Vienna Initiative

Each jurisdiction has implemented its own tailored series of measures to support its economy and limit the short and longer-term impacts of Covid-19. We highlight below some of the measures implemented in the "partner countries" of the Vienna Initiative.

Albania

- **State support package for people and business affected by the COVID-19 pandemic**[19]
  - The government has implemented two support packages of a combined size of ALL 45 billion (2.8 per cent of GDP).
  - The first package is a combination of spending reallocations, spending increase and sovereign guarantees to support affected business.
  - The second package includes a sovereign guarantee to provide loans for working capital for all private companies where government guarantees 60 per cent of the loans and interest rates are capped at 5 per cent.
- **Defer payment of income tax until September**[20]
  - Taxpayers registered for Corporate Income Tax (CIT) purposes would be entitled to submit their Annual Financial Statements of 2019 by 31 July 2020.
  - Taxpayers having realised an annual turnover less than ALL 14 million will be able to pay CIT liabilities due for 2019 within the second half of 2020.
  - The CIT advance payments for 2020 for taxpayers having realised an annual turnover of less than ALL 14 million would be payable by 31 December 2020.
- **Temporary change on the classification and provisioning**[21]
  - The first intervention measure in March was for banks and other credit financial institutions to suspend the requirements for classification and provision of loans for the same period.
  - The second intervention for banks took place at the end of May 2020. The regulatory measures were to suspend the requirements for classification and provision of loans until end of August 2020, but also to the relaxation of loan classification and provisioning for loans restructured between March 2020 and December 2020.
  - New stricter regulatory requirements for restructured loans classification and provisioning, anticipated to enter into force on January 2021, were postponed to enter into force on January 2022[22].
- **Suspended dividend distribution**

  For 2019-20 for banks until the end of June to boost capital and support lending.

[19] https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19.
[20] https://home.kpmg/al/en/home/insights/2020/04/covid-19---new-deadlines-and-relieves-for-income-tax-declaration.html.
[21] https://home.kpmg/al/en/home/insights/2020/03/legislative-measures-to-cope-with-covid19-outbreak.html.
[22] https://www.bankofalbania.org/Press/Press_Releases/Document_Title_26867_1.html.

Croatia

- **Moratorium for three months on obligations to bank**[23]
  - Banks will not apply enforcement measures during this period. The Croatian Banking Association has agreed to defer repayment of loans to the tourism sector until end of June 2020. Depending on clients' possibilities and needs, regular interest may be paid for the duration of the moratorium, according to the existing payment schedule or the loan maturity may be extended to adapt monthly loan instalments to clients' possibilities and cash inflow.
  - The CNB has temporarily adjusted its supervisory practices in line with the EBA statement on 12 March.[24]
- **A moratorium on debt service for three months**[25]

  The Croatian Bank for Reconstruction and Development (HBOR) issued a moratorium on debt service for three months, can provide liquidity loans, export guarantees and restructure obligation. The EC approved several subsidised loan programmes.
- **Tax relief** [26]
  - The government proposed tax relief measures on 17 March 2020 to mitigate the effects caused by the Covid-19 pandemic. Among the tax relief measures, provisions include the amounts received by individuals and companies as grants to mitigate the special circumstances caused by the coronavirus would not be considered taxable for the purposes of individual income tax or corporate profit tax.
  - Exemption from the payment of tax liabilities is applicable to:
    i. Entrepreneurs:
       - whose business activities are, in special circumstances, banned, disabled or significantly impeded by decisions of the competent authority,
       - who have a decrease in income of at least 50 per cent in the period from 20 March 2020 to 20 June 2020 compared to the same period in the previous year.
    ii. Taxpayers, if they:
       - had income or receipts of less than HRK 7.5 million in 2019, full exemption on tax payments due,
       - had income or receipts of more than HRK 7.5 million in 2019, partial exemption on tax payments due proportionate to the decline in income compared to the same period of the previous year.
  - Exemption is applicable on all taxes and public charges due in the period from 1 April 2020 to 30 June 2020.

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[23] https://home.kpmg/hr/en/home/insights/2020/03/overview-of-government-measures-to-mitigate-the-effects-of-special-circumstances-caused-by-the-coronavirus-epidemic.html.
[24] https://eba.europa.eu/eba-statement-actions-mitigate-impact-covid-19-eu-banking-sector.
[25] https://www.hbor.hr/en/tema/moratorium/.
[26] https://home.kpmg/hr/en/home/insights/2020/03/implementation-of-the-tax-payment-deferral-procedure-in-special-circumstances.html.

- **Corporate Tax Return and other financial statement filing deadlines postponed**[27]
  - The submission deadlines for the financial statements and accounting records for 2019 are postponed.
  - The deadline for payment of liabilities determined on the basis of the Corporate Profit Tax return and the accompanying reports has been also delayed to 31 July 2020.

Hungary

- **Simplified lump-sum taxation amendments**[28]
  On 18 March 2020, simplified lump-sum taxation amendments were introduced. Entrepreneurs dealing with passenger transport who opted for simplified lump-sum taxation are not obliged to pay lump-sum tax in the March-June 2020 period.
- **Surtax on credit institutions**[29]
  Credit institutions will be required to pay surtax in the 2020 tax year, which has an effective date of 1 May 2020.
- **Filing of financial reporting has been postponed**[30]
  The deadline for preparation, deposit, publication and submission of annual reports by certain entities is extended to 30 September 2020.
- **Tax relief**[31]
  In the case of taxes, for which calculations are based on data from an annual report (for example, corporate income tax, “Robin Hood tax,” local business tax, innovation contribution and small business tax), the deadline to submit and settle (pay) the tax obligations is 30 September 2020. In addition, a taxpayer can request a reduction of the tax advance payment before the due date in certain instances.
- **Corporate income tax**[32]
  According to the draft legislation, the tax base-decreasing item in relation to the development reserve would be capped at the amount of the total pre-tax profit for the tax year—instead of the previous 50 per cent limit—but would still not be allowed to exceed HUF 10 billion per tax year. A transitional provision would provide that this treatment could already be applied to the 2019 tax year, on election by the taxpayer.
- **Relief on capital buffer requirement**[33]
  The additional capital buffer requirement for systemically important banks will be temporarily eliminated as of 1 July.

[27] https://home.kpmg/hr/en/home/insights/2020/04/implementation-of-the-second-package-of-tax-measures-covid-19.html.
[28] https://home.kpmg/xx/en/home/insights/2020/04/hungary-tax-developments-in-response-to-covid-19.html.
[29] https://home.kpmg/us/en/home/insights/2020/04/tnf-hungary-surtaxes-imposed-credit-institutions-retail-sector.html.
[30] https://home.kpmg/hu/en/home/insights/2020/04/adoriado-2020-04-22.html.
[31] https://home.kpmg/us/en/home/insights/2020/04/tnf-hungary-financial-reporting-tax-relief-measures.html.
[32] https://home.kpmg/xx/en/home/insights/2020/04/hungary-tax-developments-in-response-to-covid-19.html.
[33] https://www.mnb.hu/en/pressroom/press-releases/press-releases-2020/mnb-supports-lending-activity-of-banking-system-by-releasing-capital-buffer-requirements-for-systemically-important-banks.

Montenegro

- **Moratorium on loan repayments**[34]
  - On 17 March 2020 the central bank announced a moratorium on loan repayments for a period of up to 90 days.
  - The moratorium is available to all borrowers and includes the interim suspension of all payments of obligations based on the loan (principal, interest, default interest, fees and so on).
  - From 20 April 2020 banks could also approve a new moratorium for borrowers facing difficulties due to the pandemic. Banks may also, under clearly specified conditions, approve the restructuring of loans, including unsecured cash loans.
- **Temporarily prohibit dividends for banks**[35]
  The central bank announced measures to temporarily prohibit banks from paying dividends to shareholders, except in the form of equity, and to allow banks to increase exposures to a person or group of related parties beyond the prescribed exposure limit (25 per cent of the bank's own funds), with prior central bank approval.
- **Halve the fee for withdrawing or reducing reserve requirement liquidity**[36]
  The central bank also announced a halving of the fee that banks are required to pay for withdrawing reserve requirement liquidity on 7 May 2020 and the reduction of the reserve requirement rate by two percentage points on 12 May 2020.
- **Deferral of tax payment for business affected by the Covid-19 crisis**[37]
  The government provided tax relief in response to the coronavirus pandemic, including measures for the deferral of payments. A decree is effective 31 March 2020 and includes a 90-day postponement for businesses economically affected by the pandemic to pay their tax liabilities.
- **Corporate Tax Return and other financial statement filing deadlines postponed**[38]
  The deadline for filing financial statements and corporate income tax returns from 31 March 2020 to 15 April 2020. However, this relief does not extend the deadline for the payment of corporate income tax.

[34] https://www.cbcg.me/en/public-relations/information/faq/moratorium-on-loan-repayment-and-benefits-to-bank-clients-during-the-government-of-montenegros-interim-measures-to-mitigate-the-effects-of-the-new-coronavirus-pandemic.
[35] https://www.ebrd.com/documents/admin/montenegro-coronavirus-policy-response-.pdf?blobnocache=true.
[36] https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/montenegro-s-central-bank-cuts-mandatory-reserve-requirements-for-local-lenders-58600032.
[37] https://home.kpmg/me/en/home/insights/2020/03/montenegrin-government-adopted-economic-measures-due-to-covid-19-pandemic.html.
[38] https://home.kpmg/me/en/home/insights/2020/03/montenegrin-government-adopted-economic-measures-due-to-covid-19-pandemic.html.

Serbia

- **State Financial Support Programme**[39]
  Programme of Financial Support regulating conditions for approval of loans for business entities including corporations, MSMEs and entrepreneurs, aimed at maintenance of liquidity and working capital in the total amount of €200 million. It has a grace period of 12 months, a repayment period of 36 months and a 1 per cent interest rate
- **State Guarantee Scheme**[40]
  On 16 April 2020, the government issued a decree on establishing a guarantee scheme for loans of €2 billion for the benefit of banks, which will provide entrepreneurs, agricultural households and MSMEs that satisfy conditions, with loans for liquidity financing and working capital.
- **Moratorium on debt payments**[41]
  On 18 March 2020, NBS adopted a decision imposing a moratorium on debt payments for all debtors, including natural persons, farmers, entrepreneurs and corporations and implies a suspension of debt payments for at least 90 days. Banks and lessors will not charge any default interest on past due outstanding receivables for the period of the state of emergency (15 March 2020 to 6 May 2020).
- **Deferring of corporate income tax advance payment**[42]
  Taxation reliefs on Corporate Income Tax (CIT), including the deferral of payments of advance corporate income tax for Q2 2020 and the deferral of payment of final CIT obligations for fiscal year 2019, through deferral of 2019 corporate income tax return. The corporate income tax returns deadline for 2019 calendar-year taxpayers (originally due by 29 June 2020) and fiscal year-end taxpayers (originally due 180 days from the end of the tax year) has been postponed to 3 August 2020.
- **Reduction of the default interest rate (repealed as of 6 May)**[43]
  The default interest rate is returned to the NBS annual reference rate increased by 10 percentage points, totalling 11.5 per cent.
- **Filing of financial statements has been postponed**[44]
  Filing of financial statements for 2019 postponed, including regular financial statements (3 August 2020), consolidated (2 September 2020) and interim financial statements (4 June 2020). Filing of annual reports and financial statements with auditor's report for all entities whose reporting requirements are regulated by the *Law on Capital Markets* or the *Law on Investment funds* or the *Law on Open-Ended Investment Funds With a Public Offering* has been postponed to 6 July 2020.

[39] https://home.kpmg/rs/en/home/insights/2020/04/program-of-financial-support-through-the-development-fund.html.
[40] https://www.oecd.org/south-east-europe/COVID-19-Crisis-in-Serbia.pdf.
[41] https://home.kpmg/xx/en/home/insights/2020/04/serbia-government-and-institution-measures-in-response-to-covid.html.
[42] https://home.kpmg/us/en/home/insights/2020/04/tnf-serbia-postponed-deadlines-corporate-income-tax-returns-financial-statements.html.
[43] https://home.kpmg/xx/en/home/insights/2020/04/serbia-tax-developments-in-response-to-covid-19.html.
[44] https://home.kpmg/rs/en/home/insights/2020/05/deadlines-after-termination-of-the-state-of-emergency-in-serbia.html.

7. What's next for the NPL Initiative?

The coming months will be defining with regard to how the NPL situation will evolve as a consequence of the Covid-19 pandemic. While we can anticipate some surge in NPLs in most impacted sectors and jurisdictions, it remains too early to precisely forecast the extent to which the quality of the banks' assets will be impacted. We foresee that most CESEE jurisdictions will be much better equipped to deal with such new flows as they arise in light of all the recent years' reforms to improve debt restructuring frameworks, enforcement legislations and insolvency regimes. Impediments to NPL sales have also greatly diminished in the region.

National competent authorities (NCAs) and financial institutions must consider a broad range of topics with regards to NPLs in these times of crisis, including among others:

i. **Data:** The importance of having adequate and complete data for NPL prevention, management and sales
ii. **Prevention:** Approaches to early warning management and early intervention
iii. **Forecasting:** Portfolio analytics and assessment in the context of Covid-19
iv. **Monitoring:** Loan monitoring post moratoria (and similar) measures to avoid cliff-edge into NPLs
v. **Restructuring:** Identification of optimal forbearance measures per NPL clusters
vi. **Capacity:** Work-out and restructuring capability and know-how
vii. **Strategy:** Forward flow approach to NPL management and sales
viii. **Sales:** Monitoring of investors' appetite, demand and pricing
ix. **Servicing:** Availability of external servicing capabilities for the main asset classes
x. **Provisioning and capital:** Anticipate the impacts of new NPLs on provisioning and the bank's capital, to also adjust NPL strategies
xi. **Prudential reporting:** Ensure adequate resources (skills, capacity and system) to allow compliance with Covid-19-specific prudential reporting requirements.

Furthermore, financial institutions should take a forward-looking approach to credit underwriting and adjust their lending practices in these uncertain times.

We will continue monitoring the NPL situation closely to track any potential NPL fluctuations resulting from the impacts of the Covid-19 crisis. The NPL Initiative stands ready to assist its partner countries and other participating countries under the Vienna Initiative where needs arise to help mitigate the impacts of the pandemic on the quality of the banks' loan portfolios. This includes, among others, technical assistance on an ad hoc basis (such as in policymaking) and training in modern restructuring principles to further build local skills.

APPENDIX

Table 1. Covid-19 measures for the banking sector implemented by EU regulators (1/2)

Date	Authority	Measure
12/03	ECB	Temporary capital and operational relief (link)
	ECB	Support bank liquidity conditions and money market activity (link)
	EBA	Actions to mitigate the impact of Covid-19 (ST 2020) (link)
13/03	EC	Response to counter the economic impact of Covid-19 (link)
16/03	EIB	Up to €40 billion to fight crisis caused by Covid-19 (link)
18/03	ECB	€750 billion Pandemic Emergency Purchase Programme (link)
19/03	EC	Temporary Framework to support the economy
20/03	ECB	Announced reprioritised supervisory activities and adjusted expectations to ensure that sufficient bank internal resources are available to manage the impacts of Covid-19
	EC	Fiscal framework's general escape clause (link)
25/03	EBA	Clarity of application of prudential framework including on definition of default (DoD), forbearance and IFRS 9 (link)
	EBA	Consumer and payment issues
	EBA	Banks' focus on key operations: postponed EBA activities
	ESMA	Statement on accounting implications of Covid-19 (link)
27/03	ECB	Recommendation on dividend distribution (link)
	ESMA	Guidance on financial reporting deadlines (link)
31/03	EBA	Supervisory reporting and Pillar 3 disclosures (link)
	EBA	Actions to mitigate financial crime risks (link)
	EBA	Dividends, share buybacks and variable remuneration (link)
02/04	EBA	Guidelines on legislative and non-legislative moratoria (link)
09/04	ECB	Complementary package of temporary collateral easing measures
15/04	ECB	Supervisory reporting measures in the context of Covid-19 (link)
16/04	ECB	Temporary relief for capital requirements for market risk (link)
22/04	ECB	ECB takes steps to mitigate impact of possible rating downgrades on collateral availability (link)
	EBA	Statement on additional supervisory measures in the Covid-19 pandemic
	EBA	Statement on the application of the prudential framework on targeted aspects of market risk in the Covid-19 outbreak (link)
	ECB	Temporary measures on capital markets (link)
	EBA	Further clarity on how additional flexibility will guide supervisory approaches to market risk (link)
23/04	EBI	Backs €5 billion investment for Covid-19 business resilience and medical technology (link)

Table 1. Covid-19 measures for the banking sector implemented by EU regulators (2/2)

Date	Authority	Measure
28/04	EC	State aid framework flexibility and other measures, including comprehensive banking package for supporting banks' lending
	EC	Proposed targeted amendments of temporary nature on to the Capital Requirement Regulation (CRR) (link)
30/04	ECB	Announced series of monetary policy decisions including on TLTRO III, PELTROs, PEPP, APP and Interest rates
04/05	EBA	Additional EU-wide transparency exercise, for information prior the start of Covid-19 (link)
14/05	ESRB	Amended priorities for the European Systemic Risk Board
18/05	ECB	Opinion on amendments to the Union prudential framework in response to the Covid-19 pandemic (link)
	ESMA	Implications of the Covid-19 outbreak on the half-yearly financial reports (link)
20/05	ECON	Draft report (PE652.396v01-00) on the proposed regulation for amendments to the CRR (575/2013) for adjustments in response to the Covid-19 pandemic (2020/0066(COD)) (link)
	EC	Proposal for a EU budget of €1.1 trillion for seven years to combat the impact of the coronavirus crisis (link)
25/05	EBA	Report with preliminary assessment of the Covid-19 impact for EU banks (link)
02/06	EBA	Guidelines to address gaps in reporting data (link)
04/06	ECB	Increase of Pandemic Emergency Purchase Programme (PEPP) (link)
08/06	EBA	Releases bank-by-bank data at the start of the Covid-19 crisis (link)
	ESRB	Second set of measures in response to Covid-19 (link)
10/06	ECON	Adoption of a report on proposed CRR Amending Regulation (link)

Source: KPMG.

Table 2. Other Covid-19-related measures from the stakeholders of the NPL Initiative

	Authority	Measure
03/03	WB	Announced up to US$ 12 billion fast-track financing package (link)
13/03	EBRD	€1 billion Solidarity Package of measures to help companies across its regions (link)
16/03	EIB	€40 billion financing package to set up a further guarantee for SME and mid-cap support (link)
17/03	WB	Increased package of fast-track financing to US$ 14 billion (link)
19/03	WB	US$ 8 billion fast-track financing facility under IFC (part of US$ 160 billion broader economic programme over next 15 months) (link)
25/03	IMF & WB	Joint statement to the G20 concerning debt relief for IDA countries (link)
26/03	EIB	€25 billion Pan-European Guarantee Fund (link)
08/04	EIB	Contributed €5.2 billion to EU Response to Covid-19 outside EU (link)
09/04	IMF	Enhance the Fund’s emergency financing toolkit to US$ 100 billion (link)
13/04	IMF	US$ 500 million grants to debt relief to 25 countries (link)
15/04	IMF	Short-term Liquidity Line for member countries (link)
23/04	EBRD	Increased Solidarity Package to €21 billion over the period 2020-21 (link)
10/06	EC	Proposed an emergency European Recovery Instrument, equipped with €750 billion raised on financial market to be channelled through the EU budget to Member States (link)

Source: KPMG.

Figure 2a. NPL ratio, coverage ratio and NPL volume (per cent, € billion, Q4 2019)[45]

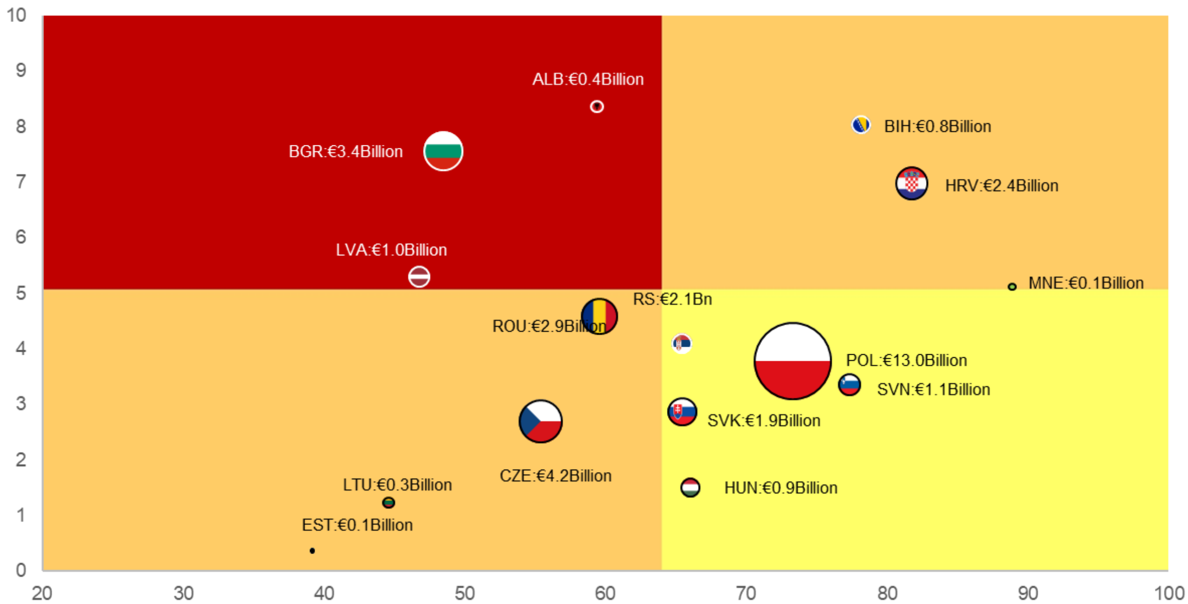


Figure 2b. NPL ratio and percentage NPL coverage ratio as per colour-quadrants in Figure 1a (per cent, Q4 2019)[46]

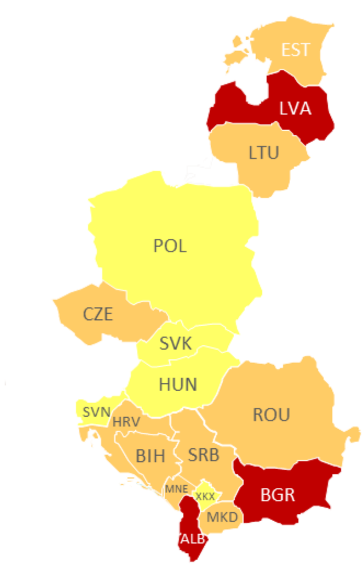
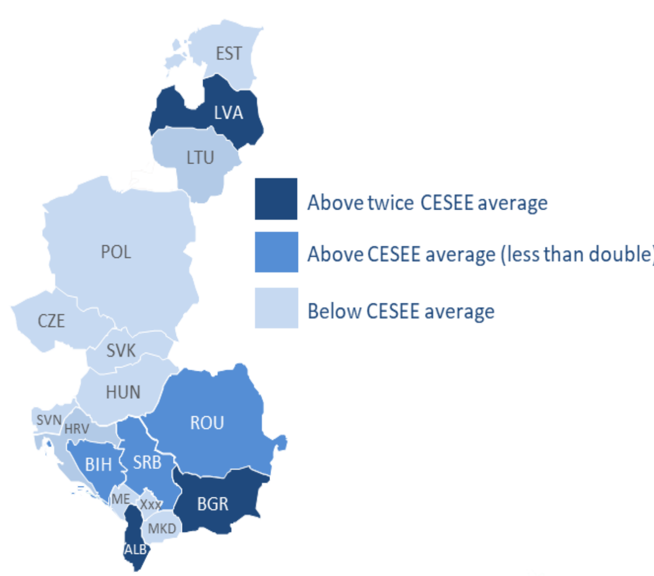


Figure 2c. Net NPL ratio (percent, Q4 2019)[47]



[45] Source: IMF FSI, central bank reports.
[46] Idem as above
[47] Idem as above

Table 3. Overview of the NPL profile in the CESEE region, 31 December 2018 to 31 December 2019[48]

	NPL volume (€ bn)		NPL ratio (%)		NPL coverage ratio		Net NPL ratio (%)		Net NPL / Capital (%)		NPL to GDP (%)	
Country	Dec-19	Variation(%)	Dec-19	Δ(pp)	Dec-19	Δ(pp)	Dec-19	Δ(pp)	Dec-19	Δ(pp)	Dec-19	Δ(pp)
Albania (ALB)	0.4	▼ (25.0)	8.4	▼ (2.7)	59.4	▼ (6.2)	3.4	▼ (0.4)	12.7	▼ (2.3)	2.9	▼ (1.0)
Bosnia and Herz. (BIH)	0.8	▼ (6.1)	8.0	▼ (0.7)	78.1	▲ 0.8	1.8	▼ (0.2)	9.9	▼ (2.2)	4.6	▼ (0.5)
Bulgaria (BGR)	3.4	▲ 0.2	7.6	▼ (0.2)	48.4	▼ (2.6)	3.9	▲ 0.1	25.7	▼ (2.5)	5.7	▼ (0.5)
Croatia (HRV)	2.4	▼ (27.6)	7.0	▼ (2.7)	81.8	▲ 11.5	1.3	▼ (1.6)	5.6	▼ (7.3)	4.6	▼ (2.0)
Czech Republic (CZE)	4.2	▼ (7.6)	2.7	▼ (0.4)	55.4	▲ 3.6	1.2	▼ (0.3)	9.4	▼ (2.0)	1.9	▼ (0.3)
Estonia (EST)	0.1	▼ (17.5)	0.4	▼ (0.1)	39.2	▲ 3.8	0.2	▼ (0.1)	1.0	▼ (0.9)	0.3	▼ (0.1)
Hungary (HUN)	0.9	▼ (31.6)	1.5	▼ (1.0)	66.0	▼ (2.8)	0.5	▼ (0.3)	2.5	▼ (0.7)	0.6	▼ (0.4)
Kosovo (XKX)	0.1	▼ (1.4)	2.4	▼ (0.2)	-	- -	-	- -	-	- -	1.0	▼ (0.1)
Latvia (LVA)	1.0	▼ (1.5)	5.3	▲ 0.0	46.8	▲ 7.1	2.8	▼ (0.4)	24.9	▲ 3.2	3.4	▼ (0.2)
Lithuania (LTU)	0.3	▼ (46.0)	1.2	▼ (1.0)	44.6	▲ 11.2	0.7	▼ (0.8)	11.4	▼ (6.5)	0.7	▼ (0.7)
North Macedonia (MKD)	0.3	▼ (2.7)	4.6	▼ (0.4)	109.6	▼ (9.4)	(0.4)	▲ 0.5	(2.4)	▲ 2.8	2.3	▼ (0.2)
Montenegro (MNE)	0.1	▼ (26.5)	5.1	▼ (2.3)	88.9	▲ 6.7	0.6	▼ (0.8)	3.5	▼ (5.1)	2.9	▼ (1.4)
Poland (POL)	13.0	▲ 2.8	3.8	▼ (0.1)	73.4	▲ 5.3	1.0	▼ (0.2)	7.8	▼ (1.6)	2.5	▼ (0.1)
Romania (ROU)	2.9	▼ (7.6)	4.6	▼ (0.4)	59.5	▲ 1.0	1.9	▼ (0.2)	11.6	▼ (0.7)	1.3	▼ (0.2)
Serbia (SRB)	1.0	▼ (12.1)	4.1	▼ (1.6)	65.4	▲ 5.3	2.0	▼ (0.3)	6.1	▼ (1.6)	2.1	▼ (0.4)
Slovak Republic (SVK)	1.9	▼ (0.7)	2.9	▼ (0.2)	65.5	▼ (3.2)	1.0	▲ 0.0	7.3	▲ 0.3	2.0	▼ (0.1)
Slovenia (SVN)	1.1	▼ (40.8)	3.4	▼ (2.6)	77.3	▲ 7.0	0.8	▼ (1.0)	5.3	▼ (7.3)	2.4	▼ (1.8)
CESEE	33.8	▼ (8.2)	3.8	▼ (1.1)	66.3	▲ 3.5	1.3	▼ (0.3)	8.6	▼ (1.9)	2.2	▼ (0.5)
Cyprus (CYP)	8.7	▼ (9.0)	18.1	▼ (1.4)	49.9	▲ 2.1	9.1	▼ (1.1)	82.2	▼ (18.5)	39.5	▼ (6.5)
Greece (GRC)	73.6	▼ (17.0)	36.4	▼ (5.5)	46.9	▼ (3.4)	19.4	▼ (1.5)	129.2	▼ (28.4)	39.3	▼ (8.5)
Ukraine (UKR)	19.7	▲ 0.5	48.4	▼ (4.5)	90.4	▲ 4.4	4.6	▼ (2.8)	25.3	▼ (34.9)	13.4	▼ (5.3)
Other	102.0	▼ (13.4)	35.1	▼ (8.9)	55.5	▼ (0.5)	15.6	▼ (1.8)	105.4	▼ (32.8)	28.6	▼ (12.3)
Total Countries	**135.8**	▼ **(12.2)**	**11.5**	▼ **(4.2)**	**58.2**	▲ **0.6**	**4.8**	▼ **(0.8)**	**18.8**	▼ **(20.2)**	**7.1**	▼ **(2.2)**

Note:

- *Variation (per cent) is calculated as ((value period 1/value period 0) -1), with December 2019 as period 1 and December 2018 as period 0 (where available).*
- *Δ (pp) is the variation, expressed in percentage points, between 2 periods. It is calculated as (% period 1 - % period 0).*
- *31 December 2019 is the latest date for which data are available for most of countries covered in this edition of the Monitor. 30 September 2019 is the latest data for Bulgaria, Cyprus, Lithuania, Poland, and Romania. 30 June 2019 is the latest data for Kosovo and Serbia (For Serbia, NPL Volume and NPL ratio are based on November 2019).*
- *NPL to GDP ratio (per cent) is calculated from annual GDP values for the end of 2019, respectively (rather than quarterly data), which is in line with the IMF World Economic Outlook reporting.*

[48] Source: IMF FSI, central bank reports.

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: (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) includes loans with less than 90 days' past due but recognised as non-performing under national supervisory guidance.
  - European national supervisory authorities tend to use the 90 days of payments past-due as a quantitative threshold, as well as bankruptcy, as objective criteria for reporting NPLs.
  - It is also important to note that in January 2015, the EU adopted harmonised and consistent definitions of both forbearance and non-performing exposures (Regulation (EU) No. 680/2014, which lays down the technical standards submitted by the EBA).
  - While most NPL data in this report are sourced from the IMF FSI, NPL data for Serbia comes directly from information made available by its central banks (such as financial stability reports, banking reports, macroeconomic reports or statistical databases). Serbia adopts a definition that is in line with the IMF. Montenegro defines NPLs as loans past due longer than 90 days, without interests, prepayments and accruals.
- **NPL ratio:** NPL volume divided by the total gross value of the loan portfolio (including gross NPLs before the deduction of specific loan-loss provisions).
- **NPL coverage ratio:** Total specific loan-loss provisions divided by gross NPLs.
- **Net NPLs:** NPLs minus specific loan-loss provisions.
- **Net NPL ratio:** Net NPLs divided by the total gross value of the loan portfolio (including gross NPLs – before the deduction of specific loan-loss provisions).
- **Net NPL/capital:** Net NPLs divided by capital. Capital is measured as capital and reserves, and for cross-border consolidated data, total regulatory capital can also be used.
- **Market share NPLs:** Total country gross NPLs divided by total CESEE gross NPLs.
- **Market share loans:** Total country gross loans divided by total CESEE gross loans.

Metadata

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

		NPLs	Gross loans	Provisions (or Net NPLs)	Comments
1	**Albania**	- 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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