NPL Markets in ECA – State of Play

Andreea Moraru

May 2018
1. Overview of NPLs in ECA

2. The Most Active Markets

3. Key Challenges for NPL Transaction in ECA

4. Vienna Initiative – NPL Workstream

5. EBRD’s NPL Resolution Framework
NPLs Remain a Major Economic Challenge for Many Countries in ECA

• The high level of non-performing loans (NPLs) remains one of the major economic challenges in Europe and Central Asia (ECA), despite some progress to date

• A large stock of legacy NPLs (estimated to almost EUR 300 billion in 25 countries of ECA) continues to restrict economic growth in many of the countries

• NPL stock is not evenly distributed: more than half of the countries in this region have NPL ratios above 10%; Greece, Cyprus, Ukraine and Tajikistan are particularly badly impacted with NPLs above 40%

• Many countries in CESEE region and Turkey have developed well functioning NPL markets in the recent years, successfully bringing down the NPL ratios primarily through on-going portfolio sales

• Greece remains the country with the highest stock of NPLs in this region (above EUR 100bn), and NPL ratio of almost 50%; This market is also in the focus of many European and US investors given its size and NPL reduction targets that Greek banks committed to (targets will be mainly achieved through portfolio sale)

• NPL market in Central Asia is still underdeveloped, and it would require significant effort by the local governments and banks to attract distressed asset investors
### Large Number of EBRD’s Countries of Operation Have NPL Ratios Above 10%

(As of Q3 2017)

<table>
<thead>
<tr>
<th>Country</th>
<th>NPL ratio (%)</th>
<th>NPL total stock (EUR bn)</th>
<th>NPL coverage ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Major ECA Countries</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Greece</td>
<td>45%</td>
<td>100.4</td>
<td>48%</td>
</tr>
<tr>
<td>Cyprus</td>
<td>43%</td>
<td>21.2</td>
<td>46%</td>
</tr>
<tr>
<td>Russia</td>
<td>10%</td>
<td>81.9</td>
<td>69%</td>
</tr>
<tr>
<td>Turkey</td>
<td>3%</td>
<td>14.9</td>
<td>80%</td>
</tr>
<tr>
<td>Ukraine</td>
<td>56%</td>
<td>18.7</td>
<td>77%</td>
</tr>
<tr>
<td>Moldova</td>
<td>17%</td>
<td>0.3</td>
<td>70%</td>
</tr>
<tr>
<td>Albania</td>
<td>15%</td>
<td>0.7</td>
<td>73%</td>
</tr>
<tr>
<td>Belarus</td>
<td>13%</td>
<td>0.0</td>
<td></td>
</tr>
<tr>
<td>Croatia</td>
<td>12%</td>
<td>4.3</td>
<td>38%</td>
</tr>
<tr>
<td>Serbia</td>
<td>12%</td>
<td>2.1</td>
<td>69%</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>12%</td>
<td>4.8</td>
<td>62%</td>
</tr>
<tr>
<td>BiH</td>
<td>11%</td>
<td>1.0</td>
<td>52%</td>
</tr>
<tr>
<td>Romania</td>
<td>8%</td>
<td>4.6</td>
<td>76%</td>
</tr>
<tr>
<td>Montenegro</td>
<td>7%</td>
<td>0.2</td>
<td>59%</td>
</tr>
<tr>
<td>FYRM</td>
<td>6%</td>
<td>0.3</td>
<td>60%</td>
</tr>
<tr>
<td>Poland</td>
<td>4%</td>
<td>12.1</td>
<td>112%</td>
</tr>
<tr>
<td>Kosovo</td>
<td>4%</td>
<td>0.1</td>
<td>70%</td>
</tr>
<tr>
<td><strong>CESEE</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tajikistan</td>
<td>42%</td>
<td>0.4</td>
<td>48%</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>13%</td>
<td>4.4</td>
<td>78%</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>8%</td>
<td>0.1</td>
<td></td>
</tr>
<tr>
<td>Armenia</td>
<td>7%</td>
<td>0.3</td>
<td>55%</td>
</tr>
<tr>
<td>* Azerbaijan</td>
<td>7%</td>
<td>N/A</td>
<td>35%</td>
</tr>
<tr>
<td>Georgia</td>
<td>3%</td>
<td>0.2</td>
<td></td>
</tr>
<tr>
<td>** Uzbekistan</td>
<td>0%</td>
<td>0.1</td>
<td>58%</td>
</tr>
<tr>
<td>Turkmenistan</td>
<td>N/A</td>
<td>N/A</td>
<td>67%</td>
</tr>
</tbody>
</table>

* *Azerbaijan: due to data availability, 2015Q4 data was used.*

** Uzbekistan: due to data availability, 2017Q2 data was used.

Source: IMF and National Central Banks
NPL Levels Are Further Improving in Majority of Countries

- Ukraine, Greece and Cyprus have the highest NPL ratios in Europe (56%, 45% and 43% respectively)
- NPL levels are slowly decreasing in most of the countries, primarily through sales and write-offs (with the notable exception of Ukraine, where NPL calculation standards changed in Q1 2017)

Change in NPL ratio (Q3 2017 vs Q3 2016)

**Major ECA Countries**

- Greece
- Cyprus
- Russia
- Turkey
- Ukraine
- Moldova
- Albania
- Belarus
- Croatia
- Serbia
- Bulgaria
- BiH
- Romania
- Montenegro
- FYRM
- Poland
- Kosovo
- Tajikistan
- Kyrgyz Republic
- Armenia
- Georgia
- Azerbaijan
- Turkmenistan

**CESEE**

**Central Asia and Caucasus**

Bar: 2017Q3
Dot: 2016Q3

*Ukraine: there was a NPL calculation standard change in Q1 2017.
** Tajikistan: due to data availability, Q3 2017 vs Q4 2016 is displayed.
** Uzbekistan: due to data availability, Q2 2017 vs Q3 2016 is displayed.

Source: IMF and National Central Banks
A Few CESEE Countries Still Have Persistently High NPL Ratios

- As of September 2017 NPLs in the CESEE region amounted to EUR 42.8bn, the lowest level in 7 years, which equates to 5.3% of gross loans.

- The NPL ratio remains persistently high (exceeding 10%) in 5 of the 17 CESEE countries (Albania, Bosnia and Herzegovina, Bulgaria, Croatia and Serbia), even though it has downward trends in all of these markets.

Snapshot of NPLs in CESEE (September 2017)

Size of the bubble represents total amount of NPLs in the country.

Source: IMF FSI, Central Banks, September 2017
There Have Been Significant NPL Sales in CESEE Region in the Past Three Years

**Realised NPL portfolio transactions in the past 3 years**

- Dynamic NPL transactions in the CESEE region since 2015, with cumulative **volume of ca. €10.9bn** (ca. €1.5bn between July 2017 and April 2018).
- High sales volume is partly explained by the **broad range of initiatives** undertaken in recent years to address inadequacy of provisioning and other impediments to NPL sale.
- In 2017 ca. €2.5bn realised transactions were recorded in the region, accounting for ~6.6% of the NPL stock for the ten monitored countries (€38.5bn, September 2017).
- Romania, Bulgaria Croatia and Serbia were the countries with the most active NPL market in CESEE region.

Source: NPL Monitor for the CESEE, 1H2018
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GREECE: Greek Banks Plan to Reduce NPLs Through Write-offs and Sales

Operation Targets For NPE Reduction Set by the Banks

- Absolute amount (EUR billion)
- NPE ratio (Percent)

- Greek banks are now targeting a **37% reduction of their NPEs to EUR 65 billion** in 2019.
- The timing of the NPE reduction is **back loaded** and will take place mostly in 2018 and 2019.
- Most of the reduction is planned to come from **portfolio sales and write-offs**, as internal work-out strategy (which most of the banks preferred) gave limited results so far.
- Banks intend to **accelerate the sale** of loans, in the consumer, corporate and SMEs portfolios (significant pipeline of portfolios is already in the market).

Source: Bank of Greece, Report on Operational Targets for Non-Performing Exposures, 5 Dec 2017
GREECE: Investors Believe in Market Potential for NPL Transactions

- The more developed European NPLs markets appear close to saturation, with excess liquidity pushing prices beyond the levels at which investors are comfortable to participate.
- Searching for yield, the focus of NPL investors has migrated to Italy, Spain and Portugal in the past few years.
- Most recently Greece and Cyprus are at the forefront of the investor community’s attention.

Key Drivers of Investors’ Interest in Greece

Expected growth of Greek economy
- Growing view that the Greek economy has reached the low point in the cycle, and that the country’s macroeconomic situation will show steady improvement, mainly driven by the hospitality sector.
- However, political volatility and underlying fiscal weaknesses remain significant challenges.

Legislative reforms
- Recent changes of security enforcement and restructuring legal framework should help create an effective secondary debt market.
- Indication of government’s commitment to support resolution of banking sector’s NPL issue.

Low current asset valuation
- Opportunity in the low current asset valuations in the market.

Question to the Investors: “In which of these Southern European countries are you most likely to invest in the next 12 months (select two options)” *

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greece</td>
<td>84%</td>
</tr>
<tr>
<td>Italy</td>
<td>53%</td>
</tr>
<tr>
<td>Cyprus</td>
<td>26%</td>
</tr>
<tr>
<td>Spain</td>
<td>21%</td>
</tr>
<tr>
<td>Portugal</td>
<td>16%</td>
</tr>
</tbody>
</table>

* Source: Debtwire research, September 2017
GREECE: There Is a Significant Pipeline and a Few Transactions Already Closed

- First significant portfolio sales started in 2017 with the total of **EUR 7bn being sold so far**
- There is a **pipeline of almost EUR 9bn** additional transactions that are expected to be closed in the next few months

<table>
<thead>
<tr>
<th>Seller</th>
<th>Buyer</th>
<th>Project name</th>
<th>Closing date</th>
<th>Asset type</th>
<th>Size (EUR million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ALPHA BANK</td>
<td>B2 HOLDING</td>
<td>Project Venus</td>
<td>Mar 2018</td>
<td>Consumer</td>
<td>3,700</td>
</tr>
<tr>
<td>Eurobank</td>
<td>Intrum</td>
<td>Project Eclipse</td>
<td>Oct 2017</td>
<td>Consumer</td>
<td>1,500</td>
</tr>
<tr>
<td>Attica Bank</td>
<td>ALDRIEDG EDC</td>
<td>Confidential</td>
<td>Aug 2017</td>
<td>Other</td>
<td>1,000</td>
</tr>
<tr>
<td>RBS</td>
<td>ORIX, Berenberg</td>
<td>Confidential</td>
<td>Jan 2017</td>
<td>Asset finance</td>
<td>542</td>
</tr>
<tr>
<td>Confidential</td>
<td>Confidential</td>
<td>Confidential</td>
<td>Jan 2017</td>
<td>Corporate</td>
<td>150</td>
</tr>
<tr>
<td>Confidential</td>
<td>Confidential</td>
<td>Confidential</td>
<td>Jan 2017</td>
<td>Other</td>
<td>117</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>c. 7,000</strong></td>
</tr>
</tbody>
</table>

Source: Deloitte, Deleveraging Europe H1 2017; Debtwire
Despite the number of sizeable transactions in Greece and CESEE region, there have been no large scale NPL transactions in Cyprus so far.

The downward trend in NPLs can be attributed to increased repayments, restructurings successfully completed and reclassified as performing facilities, write-offs as well as settlement of debt through swaps with immovable property.

As of December 2017, NPLs amounted to EUR 20.3bn in Cyprus with the NPL ratio of 40.2% and the NPL coverage ratio of 46%. As a comparison, the entire stock of NPLs in CESEE countries was EUR 42.8bn, corresponding to a NPL ratio of 5.3% as of September 2017.

In order to stimulate NPL resolution and sale the government has taken a list of measures:
- Introduced tax incentives for debt restructuring
- Adopted legislation on the sale of credit facilities
- Adopted a new foreclosure and insolvency framework to balance the rights of debtors and creditors (aiming to tackle the problem of strategic defaulters)
ROMANIA: NPLs Significantly Reduced Due to Proactive Government Measures

- Romania took some important steps to develop a sound and receptive private distressed debt market, which allows banks to sell part of their NPL portfolio when necessary

As of December 2017, NPLs in Romania amounted to EUR 4.6bn with the NPL ratio of 8.0% and the NPL coverage ratio of 59.4%. Over the course of 4 years NPL ratio was reduced by more than 15.6 percentage points

NBR and the Government took proactive steps to reduce NPL ratios by:
- Encouraging banks to write-off or sell non-collateralized, fully-provisioned, NPLs and recognise market value of collaterals
- Updating accounting policies on unrecoverable loans and impairment
- Centralization of collateral valuations data to support collateral pricing
- New insolvency laws adopted to strengthen out-of-court practices

Source: IMF, EBRD
<table>
<thead>
<tr>
<th>Period</th>
<th>Vendor</th>
<th>Project</th>
<th>Type</th>
<th>Buyer</th>
<th>Face Value (€m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1 - 18</td>
<td>Alpha Bank</td>
<td>Project Mars (unsecured)</td>
<td>Other</td>
<td>B2Holding</td>
<td>50</td>
</tr>
<tr>
<td>H1 - 18</td>
<td>Piraeus Bank</td>
<td>Undisclosed</td>
<td>Other</td>
<td>Kruk Group</td>
<td>200</td>
</tr>
<tr>
<td>H1 - 18</td>
<td>Raiffeisen Bank</td>
<td>Undisclosed</td>
<td>Corporate / Retail</td>
<td>B2Holding</td>
<td>271</td>
</tr>
<tr>
<td>H1 - 18</td>
<td>Alpha Bank</td>
<td>Project Mars (secured)</td>
<td>Corporate</td>
<td>Anacap/ DB/ APS</td>
<td>360</td>
</tr>
<tr>
<td>H2 - 17</td>
<td>Banca Transilvania</td>
<td>Project Arena</td>
<td>Secured and unsecured</td>
<td>B2Holding</td>
<td>250</td>
</tr>
<tr>
<td>H1 - 17</td>
<td>Banca Transilvania</td>
<td>unsecured NPL</td>
<td>Consumer</td>
<td>Confidential</td>
<td>110</td>
</tr>
<tr>
<td>H2 - 16</td>
<td>Intesa Sanpaolo</td>
<td>Project Rosemary</td>
<td>CRE / Residential</td>
<td>AnaCap / APS</td>
<td>287</td>
</tr>
<tr>
<td>H2 - 16</td>
<td>BDR- Societe Generale group</td>
<td>NPL portfolio</td>
<td>Corporate</td>
<td>Confidential</td>
<td>329</td>
</tr>
<tr>
<td>H2 - 16</td>
<td>Banca Comerciala România (Erste Group)</td>
<td>Project Blue Lake</td>
<td>Residential</td>
<td>EOS Matrix / B2Holding</td>
<td>400</td>
</tr>
<tr>
<td>H2 - 16</td>
<td>Unicredit</td>
<td>Project Taurus</td>
<td>Corporate / Consumer</td>
<td>Undisclosed</td>
<td>Undisclosed</td>
</tr>
<tr>
<td>H1 - 16</td>
<td>Eurobank</td>
<td>NPL portfolio</td>
<td>Consumer</td>
<td>Kruk Group / IFC</td>
<td>597</td>
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<tr>
<td>H2 - 15</td>
<td>Piraeus Bank</td>
<td>NPL portfolio</td>
<td>Various</td>
<td>Libra Group</td>
<td>300</td>
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<tr>
<td>H2 - 15</td>
<td>UniCredit Tiriac Bank</td>
<td>Project Triton</td>
<td>CRE / SME</td>
<td>Kredyt Inkaso</td>
<td>340</td>
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<tr>
<td>H2 - 15</td>
<td>Banca Comercială Română</td>
<td>Project Tokyo</td>
<td>CRE/Corporate/ Retail</td>
<td>DB / IFC / APS</td>
<td>1200</td>
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<tr>
<td>H1 - 15</td>
<td>Piraeus Bank</td>
<td>Project Henri</td>
<td>Consumer</td>
<td>Kruk Group</td>
<td>189</td>
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<tr>
<td>H1 - 15</td>
<td>Banca Comercială Română</td>
<td>Project Saturn</td>
<td>CRE</td>
<td>DB</td>
<td>433</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td>****</td>
<td>****</td>
<td>****</td>
<td>****</td>
<td><strong>5.316</strong></td>
</tr>
</tbody>
</table>

*Source: EBRD NPL Monitor for the CESEE*
CROATIA: Relatively Mature Market After a Few Years of Large NPL Sales

- NPLs rose sharply after the 2008 crisis and **began to stabilise only at the end of 2015**, when more aggressive write-offs and sales started to occur.

- NPLs **in Croatia have continued to fall thanks to NPL write-offs and sales** (Croatian National Bank reported constant increase in aggregate amount of gross claims sold during the last three years).

**NPL Ratio in Croatia**

- As of end-2017, NPL ratio stood at **11.4%**. This is almost 5 percentage points less than 2 years before.

- Total stock of NPLs is **EUR 4.3bn**, with majority of it being corporate NPLs.

- **Coverage ratio** has been steadily increasing (61.5% as of end 2017), which has been one of the main pre-requisite for the banks to start with the NPL portfolio sales.

- **Market potential:**
  - After large transactions in the previous years, it is expected that the **new transactions will be smaller but more frequent**.
  - Banks are expected to **sell NPLs overdue for more than 1Y**, and to pursue internal work-out solutions for shorter DPD.

*Source: IMF*
## CROATIA: Notable Transactions

<table>
<thead>
<tr>
<th>Period</th>
<th>Vendor</th>
<th>Project</th>
<th>Type</th>
<th>Buyer</th>
<th>Face Value (€m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1 - 17</td>
<td>Unicredit</td>
<td>Project Taurus</td>
<td>Corporate / Consumer</td>
<td>APS Holding</td>
<td>448</td>
</tr>
<tr>
<td></td>
<td>Heta Asset Resolution</td>
<td>Undisclosed</td>
<td>Corporate</td>
<td>Confidential</td>
<td>47</td>
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<tr>
<td>H1 - 17</td>
<td>Heta Asset Resolution</td>
<td>Undisclosed</td>
<td>CRE</td>
<td>Supernova</td>
<td>163</td>
</tr>
<tr>
<td>H2 - 16</td>
<td>Hrvatska Postanska Banka</td>
<td>Project Sunrise</td>
<td>Consumer</td>
<td>B2Holding</td>
<td>325</td>
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<tr>
<td>H2 - 16</td>
<td>Heta Asset Resolution</td>
<td>Project Pathfinder</td>
<td>CRE / Corporate</td>
<td>Confidential</td>
<td>406</td>
</tr>
<tr>
<td>H1 - 16</td>
<td>Privredna Banka Zagreb (Intesa Sanpaolo)</td>
<td>Project Ivica</td>
<td>CRE / Corporate</td>
<td>B2Holding</td>
<td>200</td>
</tr>
<tr>
<td>H2 - 15</td>
<td>Erste &amp; Steiermärkische</td>
<td>Project Janica</td>
<td>Corporate / SME</td>
<td>B2Holding</td>
<td>217</td>
</tr>
</tbody>
</table>

**TOTAL** 1,806

*Source: EBRD NPL Monitor for the CESEE*
BULGARIA: AQR in Bulgaria Was One of the Triggers for NPL Resolution

- **NPL ratio** in the Bulgarian banking sector is **10.4%**, and the total stock of **EUR 4.2bn** as of Q4 2017
- There has been a **sizable reduction in NPLs since 2015** thanks to write-offs and sales boosted by the sector-wide asset quality review which took place in 2016

**NPL Ratio in Bulgaria**

- Q4 2015: 13.2%
- Q4 2016: 13.2%
- Q4 2017: 10.4%

**Source:** IMF, EBRD NPL Monitor for the CESEE

- As of December 2017, NPLs in Bulgaria amounted to **EUR 4.2bn** with the **NPL ratio of 10.4%** and the **NPL coverage ratio of almost 70%**.
- **Most of the NPLs stock** (c.73%) is in the **wholesale** segment, with 16% in mortgages and the remaining 11% in retail (consumer) loans

**Market potential:**
- Further **sizeable sales are expected in 2018-2019** as many banks continue cleaning legacy NPLs
- **The NPE disposals are mostly expected in the wholesale segment**
- Majority of properties in the retail mortgage segment are already sold via auctions and the consumer portfolios have already been off-loaded to the local buyers
## BULGARIA: Notable Transactions

<table>
<thead>
<tr>
<th>Period</th>
<th>Vendor</th>
<th>Project</th>
<th>Type</th>
<th>Buyer</th>
<th>Face Value (€m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>H2 - 17</td>
<td>Debt Collection Agency EAD</td>
<td>Undisclosed</td>
<td>Other</td>
<td>Unicredit BulBank</td>
<td>84</td>
</tr>
<tr>
<td>H2 - 17</td>
<td>Eurobank Ergasias</td>
<td>Project Metro 2</td>
<td>Corporate</td>
<td>Undisclosed</td>
<td>33</td>
</tr>
<tr>
<td>H1 - 17</td>
<td>UniCredit Bul Bank</td>
<td>Project Taurus (Bulgaria)</td>
<td>Corporate</td>
<td>B2Holding</td>
<td>93</td>
</tr>
<tr>
<td>H2 - 16</td>
<td>Confidential</td>
<td>Bulgarian NPL portfolio</td>
<td>Corporate / Consumer</td>
<td>Undisclosed</td>
<td>Undisclosed</td>
</tr>
<tr>
<td>H2 - 16</td>
<td>United Bulgarian Bank (NBG Group)</td>
<td>Consumer loan portfolio</td>
<td>Consumer</td>
<td>Confidential</td>
<td>70</td>
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<tr>
<td>H2 - 16</td>
<td>Heta Asset Resolution</td>
<td>Project Vitosha</td>
<td>Corporate</td>
<td>Confidential</td>
<td>130</td>
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<tr>
<td>H1 - 16</td>
<td>Eurobank</td>
<td>Bulgarian NPL portfolio</td>
<td>Consumer</td>
<td>EOS Matrix</td>
<td>73</td>
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<tr>
<td>H2 - 15</td>
<td>TBI Credit</td>
<td>Retail Portfolio</td>
<td>Consumer</td>
<td>APS Holding</td>
<td>50</td>
</tr>
<tr>
<td>H2 - 15</td>
<td>BNP Paribas</td>
<td>Retail Portfolio</td>
<td>Consumer</td>
<td>Undisclosed</td>
<td>46</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>579</strong></td>
</tr>
</tbody>
</table>

Source: EBRD NPL Monitor for the CESEE
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2. The Most Active Markets
3. Key Challenges for NPL Transaction in ECA
4. Vienna Initiative – NPL Workstream
5. EBRD’s NPL Resolution Framework
Key Challenges for NPL Transaction in ECA and Examples of Good Practice

- Private investors are looking into opportunities to purchase NPL portfolios in ECA, but a number of factors need to be taken into consideration before a successful loan sale market can be established.
- There are examples of good practice on how NPL sale can be stimulated by both regulators and banks.

### Key challenges for investors

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perceived pricing gap</td>
<td>Adequate provisioning policies for banks</td>
</tr>
<tr>
<td>Poor data quality, incl. incomplete, outdated or erroneous information</td>
<td>Stricter collateral valuation requirements</td>
</tr>
<tr>
<td>Regulatory barriers: need of banking licence requirements</td>
<td>Investor-friendly licensing requirements/regulation for servicers</td>
</tr>
<tr>
<td>Resource intensive DD process vs. other potential deals in Western Europe</td>
<td>Clarity on Bank Secrecy Rules to improve data availability to investors</td>
</tr>
<tr>
<td>Undeveloped local servicing capabilities</td>
<td>Availability for prompt answering of investors’ questions</td>
</tr>
<tr>
<td>Lack of tax incentives upon transfer of loans or write-off</td>
<td>Excellent quality and detailed data for investors</td>
</tr>
<tr>
<td>Multiple lenders/lack of control on exposure</td>
<td>Availability for prompt answering of investors’ questions</td>
</tr>
<tr>
<td>Collateral valuation: Lack of comparables on real estate market on CEE NPLS</td>
<td>Excellent quality and detailed data for investors</td>
</tr>
<tr>
<td>Legal barriers: transfer of loan receivables often requires consent</td>
<td>Excellent quality and detailed data for investors</td>
</tr>
</tbody>
</table>

### Examples of good practice

**What regulators can do**

- Adequate provisioning policies for banks
- Investor-friendly licensing requirements/regulation for servicers
- Clarity on Bank Secrecy Rules to improve data availability to investors
- Stricter collateral valuation requirements
- Removal of tax disincentives for NPL sales
- Better out-of-court restructuring and training of judges

**What banks can do**

- Excellent quality and detailed data for investors
- Clarity on negotiation of SPA agreements and other documents
- Availability for prompt answering of investors’ questions
- Target the right buyers (process often run by external consultants)
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Overview of the Vienna Initiative

- Vienna Initiative is a framework for safeguarding the financial stability of emerging Europe (launched in 2009), currently primarily focusing on banks’ developing and NPL resolution

- Key stakeholders include international financial institutions (IMF, WB, EIB, EBRD), European Commission, regulatory and fiscal authorities and the largest banking groups operating in emerging Europe

**Vienna Initiative 1.0 (VI1)**

*Launched in Jan 2009*

- Prevent a large-scale withdrawal of cross-border bank groups from the region, and maintain adequate level of capital in CESEE subsidiaries
- Ensure that national support of cross-border groups benefited their subsidiaries in the region
- Implement basic crisis management principles in CESEE

**Vienna Initiative 2.0 (VI2)**

*Launched in Jan 2012*

- Avoid disorderly deleveraging.
- Ensure that potential cross-border financial stability issues are resolved
- Achieve joint policy actions (e.g. in supervision), that are in the best joint interest of home and host countries

**NPL Initiative Workstream**

*Launched in Jan 2012*

- Enhance the transparency of restructuring frameworks
- Capacity-building through TA
  - Policy dialogue
  - Impediment analysis
  - Structural reforms design
  - Training in modern restructuring principles
- Knowledge-sharing
Vienna Initiative: NPL Action Plan

5 Partner countries: Albania, Croatia, Hungary, Montenegro, Serbia

The 3 Pillars of the regional NPL Action Plan:

1. **Transparency of the restructuring environment and of reform efforts**: improve access to existing analysis; country assessments based on comparable methodology making local distressed assets and restructuring situations more accessible to investors and advisors; local workshops and communities of experts; national action plans and reform targets; regular interaction on progress with other regulators.

2. **Capacity building**: further technical assistance focussed and coordinated between the IFIs; upgrade to out-of-court restructuring principles employed by bank subsidiaries (INSOL replication); training of local restructuring professionals.

3. **Knowledge sharing**: regional conferences and workshops; notes on best practice in restructuring and NPL resolution; regional community of practice (http://vienna-initiative.com/npl-initiative/)
NPL Monitor Snapshot

Regional Overview

Tracking Country Reforms

2. PROGRESS WITH RESOLVING IMPEDIMENTS TO NPLs

Resolving impediments to NPL resolution and transactions has remained at the top of the agenda of international financial institutions, regulators, and policymakers across the region.

- If banks have continued to work with regulators and the local banking industry to understand the roots of the NPL issue and to contribute in defining and implementing solutions.
- In addition to ongoing regulatory reform, there have been developments in the region, such as (among others):
  - SWF’s report on the extent of the NPL problem, explaining the impediments and laying out a strategy for a comprehensive NPL resolution.
  - ESAs report on the current state of cross-border dispersion and possible drivers of the non-performing exposures (NPEs) in the EU banking sector.
- European regulators have also been very active in finding solutions for their NPL challenges.

The ESAs has published guidelines on NPLs (under public consultation until 12 November 2016) which will serve as a basic framework for conducting the supervisory evaluation of banks under ECB’s NCA. In this specific area, banks across the board should expect to align with its core principles but “high NPL banks” (i.e., banks with NPL level considerably higher than EU average) can expect closer scrutiny.

- The European Commission, in an effort to reduce the discrepancies prevailing between countries, is developing an important instrument on restructuring and pre-foreclosure which is expected to be published by the end of October.
- Significant measures have continued to be successfully implemented by countries across the CESEE (see highlights of “Partner Countries” for examples) but this is only the beginning. Important challenges remain (i.e. legal, regulatory, tax, structural, etc.) to be tackled in many of the CESEE countries, still preventing banks to resolve their NPLs and/or attract secondary market investors.

Highlights of reforms and measures implemented in the last 12 months or underway for the five “Partner Countries” under the Vienna initiative 2.6.

| Albania | NPL Working Group and action plan: A comprehensive strategy to address the NPL issue was developed and published in November 2015. It integrates and sequences reforms in the areas of supervision, enforcement, debt restructuring, and insolvency.
| Austria | Regulatory framework: The Albanian Ministry of Finance has recently implemented a new bankruptcy law aiming to modernize the existing framework allowing for expedited procedures of restructuring and insolvency.
| Bulgaria | Management of large exposures: A regulation was issued by the National Bank of Bulgaria (NBP) in July 2015 to enhance the prudential supervision of large exposures to persons/clients/counterparties and to enhance the protection of the financial system.
| Croatia | Bankruptcy law: A new bankruptcy law was submitted to the Croatian Parliament in June 2016 but is still to be adopted. The draft law incorporates the best international practices, simplifies the existing framework, and allows for expedited procedures.
| Czech Republic | Amendments to the Bankruptcy Law: Amendments were submitted to parliament in June 2016 in order to increase the efficiency of foreclosure procedures and debt collection.

3. SNAPSHOT OF NPL TRANSACTIONS IN THE CEE

NPL Sales for the last 18 months (January 2015 – June 2016)

- Over the last 18 months, approximately €6.9 billion NPLs have been sold in the CEE region.
- NPL sales reached €6.8 billion in 2015 accounting for 7.2% of GDP, and at December 2016 (€5.5 billion).
- An important surge in transactions realised in the second half of 2015 (€1.9 billion), the first half of 2016 (€1.5 billion) saw a decrease of 25.3% compared to previous period.
- Results in 2015 were however skewed by the exceptionally high level of transactions realised in Romania driven by a recent surge in write-offs, representing 78% of the total transaction value respectively.
- As per the prior period, the majority of asset classes (such as real estate, corporate, and backed loans) continue to be exposed in NPL transactions.
- Overall, market absorption for NPL sales in the CEE has been relatively constant between periods, with an average of realised transactions around €0.40 billion per half-year period in the last 12 months.
- H2 2015 is also proving to be dynamic, with already 6 realised transactions announced (see table 2).

<table>
<thead>
<tr>
<th>Table 5: Sample of recent publicly available NPL transactions in the CEE (2015-2016)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country</td>
</tr>
<tr>
<td>Albania</td>
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<tr>
<td>Bulgaria</td>
</tr>
<tr>
<td>Croatia</td>
</tr>
<tr>
<td>Czech Republic</td>
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<tr>
<td>Estonia</td>
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<tr>
<td>Hungary</td>
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<tr>
<td>Poland</td>
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<tr>
<td>Romania</td>
</tr>
<tr>
<td>Slovakia</td>
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<tr>
<td>Slovenia</td>
</tr>
</tbody>
</table>

NPL Monitor for the CESEE

2016

Prepared by EBC

This NPL Monitor will review the latest NPL dataset for banks (as of 31 December 2016) for the 18 economies of Central, Eastern and South Eastern Europe ("CESEE") economies, in conjunction with reporting on the recent progress with reforms in the CESEE region and on the NPL transactions realised in the region since 30 June 2015 and 2016.

The highest vulnerability to NPLs remains concentrated mostly towards the south of the region.

Figure 2, NPL ratio, coverage ratio and intensity (% of GDP December 2015)

Table 5, Overview of the NPL profile of the CEE, 31 December 2015 to 31 December 2016

- NPLs (% of GDP at end of reporting period): Albania, 10.6; Bulgaria, 8.0; Croatia, 1.0; Czech Republic, 0.3; Estonia, 0.0; Hungary, 0.0; Poland, 0.0; Romania, 0.0; Slovakia, 0.0; Slovenia, 0.0; and Turkey, 0.0.
- NPLs (% of GDP at end of reporting period): Albania, 10.6; Bulgaria, 8.0; Croatia, 1.0; Czech Republic, 0.3; Estonia, 0.0; Hungary, 0.0; Poland, 0.0; Romania, 0.0; Slovakia, 0.0; Slovenia, 0.0; and Turkey, 0.0.
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NPL Resolution Framework

Summary

- Up to **EUR 300mn** to be invested by EBRD in transactions NPLs in Central & South-eastern Europe, Turkey, Greece and Cyprus over a period of five years.

- EBRD will be a **minority investor** in all transactions and will seek to partner up with other private investors; total Framework, including private co-investment, is expected to reach **EUR 1.5bn**

**Eligible countries – Region**

<table>
<thead>
<tr>
<th>Country</th>
<th>CESEE</th>
<th>Type of investment</th>
<th>Asset classes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>BiH</td>
<td>Servicer investment</td>
<td>Eligible NPL asset classes will include:</td>
</tr>
<tr>
<td>Estonia</td>
<td>FYR</td>
<td></td>
<td>• Unsecured consumer loans</td>
</tr>
<tr>
<td>Latvia</td>
<td>Macedonia</td>
<td></td>
<td>• Commercial real estate-backed loans</td>
</tr>
<tr>
<td>Romania</td>
<td>Serbia</td>
<td>NPL portfolio investment</td>
<td>• Leases</td>
</tr>
<tr>
<td>Turkey</td>
<td>Cyprus</td>
<td></td>
<td>• Corporate/SME loans</td>
</tr>
<tr>
<td></td>
<td>Greece</td>
<td></td>
<td>• Retail loans</td>
</tr>
</tbody>
</table>

**Type of investment**

- **Servicer investment**
  - **Equity** investments in NPL Servicers established in the Region
  - EBRD’s participation is **up to 15%**

- **NPL portfolio investment**
  - **Equity, quasi-equity and senior debt instruments** (including profit participation instruments) investments in SPVs that are purchasing NPLs in the Region
  - EBRD’s participation is **up to 30%**

**Asset classes**

- **Eligible NPL asset classes** will include:
  - Unsecured consumer loans
  - Commercial real estate-backed loans
  - Leases
  - Corporate/SME loans
  - Retail loans

NPL portfolios may consist of a single asset class or a mix of two or more