Deloitte.

Diverse CEE NPL landscape

Strong investor appetite amid shrinking volumes

Contents

Dear Reader,

It is a great pleasure to introduce you the 8th edition of our annual report reviewing recent trends of loan portfolio markets in the CEE region.

As the leading loan portfolio advisor in the CEE region we have been working closely together with the most active sellers and buyers from relatively small size single-ticket transactions to landmark deals largest ever transacted in a specific country. Therefore, we are delighted to provide a hands-on overview on the dynamics of the CEE loan portfolio markets as well as the the evolution of key NPL metrics across fifteen countries.

Mainly due to the still solid distressed debt market activity, the downward trend of NPLs continued across almost all countries in the region. The combination of benign macroeconomic conditions, the supervisory and political attention as well as banks' efforts to tackle non-performing loans stimulated the positive trends during the past years.

CEE NPL markets show a diverse landscape. On markets that have dealt with most of their NPLs we expect the emergence of new asset classes and deal structures. Secondary market transactions are also expected to accelerate mainly driven by the consolidation of smaller players on the distressed debt collection and servicing market. On the other hand, NPL investors can still benefit from the substantial supply of NPLs in certain countries where we anticipate dynamic NPL sale activity. We also expect sell-side activity growth driven by deposit insurance funds which is already evidenced in completed and ongoing transactions. In the short term, asset quality reviews can also give a positive stimulus to NPL transactions.

We hope you enjoy reading this year's CE NPL Study and you will find this deep dive into CEE debt markets informative and insightful. We encourage you to contact us in case you need further understanding on any of the markets listed in the study.

Best regards,

Balázs Bíró
Financial Advisory Managing Partner,
Central Europe
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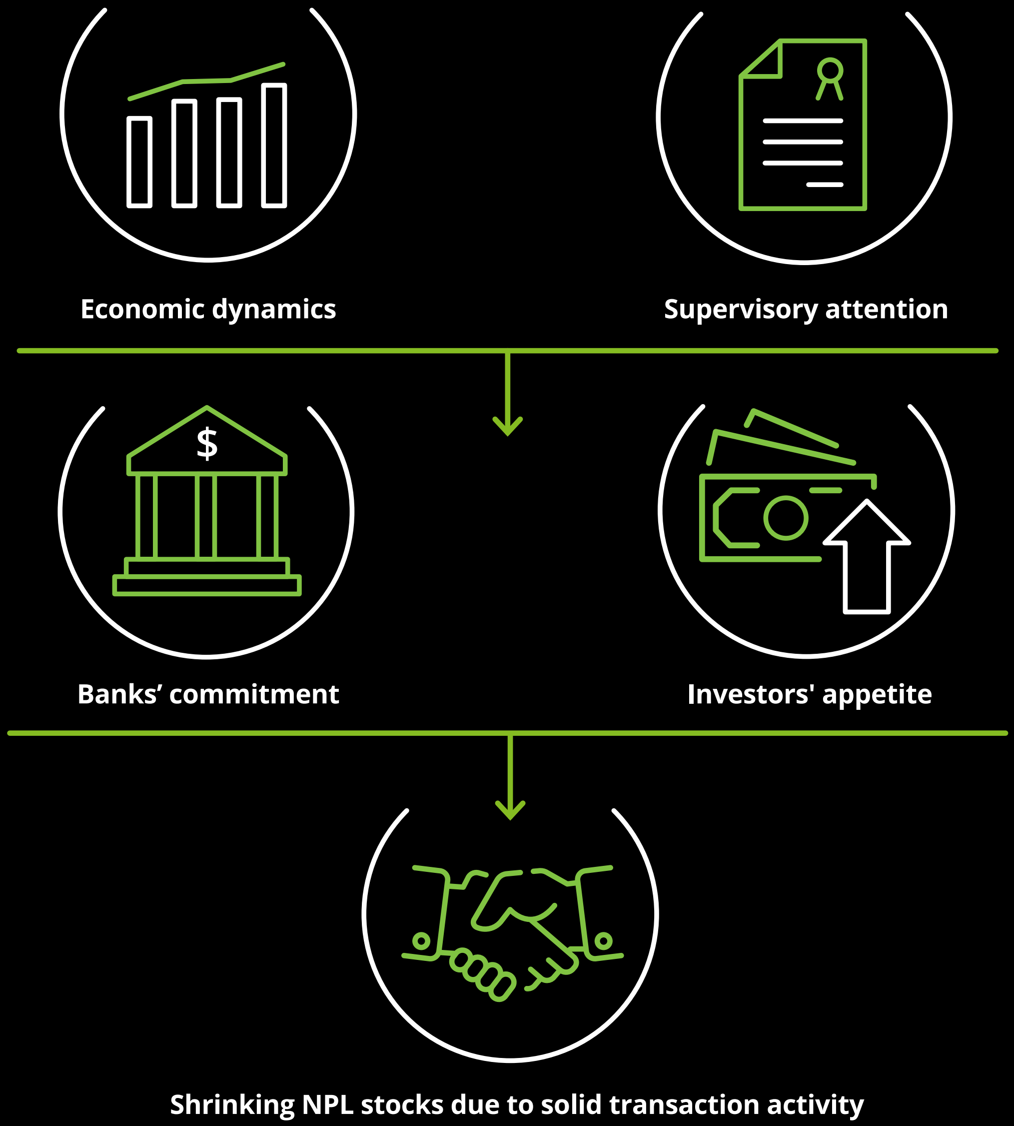
Highlights

Portfolio disposals continue to play a significant role in banks' deleveraging activity in the CEE region evidenced by the material volume of non-performing assets traded in 2018 (EUR 5.9bn) and the completed and ongoing transactions in the year to date (EUR 7.2bn). As a result of sizeable non-performing loan portfolio disposals as well as banks' active NPL portfolio management, the **downward trend of non-performing assets continued across almost all countries** covered by the study. Following a subdued NPL sale activity in 2017, countries experienced a more **dynamic transaction activity** in 2018 and this solid volume is expected to decrease in 2019 and 2020. Given the NPL ratios and volumes continuing to reduce across the CEE region, **increasing rivalry** is experienced on the demand side, which **has been gradually improving the pricing of the portfolios** during the past years among other factors.

Main catalysts of dynamic NPL markets



The combination of economic upturn, the supervisory and political attention as well as banks' commitment to tackle non-performing assets has been the main catalyst for shrinking NPL stocks

Although the disparities between banking sectors in the CEE region remained visible in terms of NPL volumes and ratios, the gap across the countries in the region reduced significantly compared to 2015 when we referred to a 'North-South divergence'. **As of end-2018, only three countries reported total NPL ratios above the 10%** threshold, namely Croatia (12.1%), Albania (11.8%) and Ukraine (54.0%).

The decreasing unemployment rate, increasing wages, low interest rates and the upturn in the real estate market supported not only the financial position of households and corporates but it also had a positive impact on investors' appetite through higher recovery expectations, reduced recovery periods as well as the access to cheap funding. The gradual tackling of legacy non-performing loans in tandem with the reduced inflow of new NPLs and investors' interest in the prospect of higher yields contributed to the decrease of non-performing assets.

The **regulatory and supervisory attention** to European financial institutions in order to mitigate the impediments to resolving NPLs and measures to urge banks to improve NPL management **is** also of **high importance**. In July 2017, the European Commission published its Action Plan to Tackle Non-Performing Loans in Europe. The Action Plan focused on the enforcement and insolvency frameworks, the development of markets for NPLs and macro-prudential aspects. The Action Plan also included a call for the European Central Bank to implement guidance on NPLs and for the European Banking Authority to issue guidelines on NPL management. Besides the NPL management, the **aim of the newly published guidelines is to tackle the risk of future build-up of NPLs** focusing on loan origination and monitoring (consultation paper on Guidelines on loan origination and monitoring). This is also of high relevance in the light of the expected economic slowdown and increase in interest rates.

Due to the aforementioned supervisory and political pressure and the strengthening of profitability and lending capability, banks showed increased willingness to dispose of non-performing assets. Besides portfolio sale, write-offs, restructuring as well as collateral repossession and liquidation were the main tools of tackling non-performing loans.

Investors having their servicing capacity in the CEE region continue to show strong demand

Poland and Ukraine reported the highest non-performing loan stocks as of end-2018 with volumes well above EUR 10bn. NPL sellers and investors benefit from a well-established loan sales market in **Poland with a strong track record in the retail secured and unsecured asset classes**. Due to the inadequate framework for claim and collateral enforcement and insolvency regimes, the **Ukrainian NPL market is still relatively untapped by international investors** despite its sizeable NPL stock mainly in the corporate segment. In order to accelerate the portfolio cleansing process, the National Bank of Ukraine is likely to adopt a regulation on NPL resolution at Ukrainian banks which might give an impetus to NPL markets as well.

Serbia made efforts to address the resolution of NPL portfolios managed by the **Deposit Insurance Agency** and the Development Fund **of Serbia**. In October 2018, the DIA announced its first public tender for the sale of overdue corporate loans. In February 2019, the transaction containing loans of Serbia's insolvent lenders was completed and DIA **released its second public call for bids for a portfolio containing the receivables of nine financial institutions in the amount of EUR 1.8bn** in September 2019. **The National Deposit Insurance Fund of Hungary** also **sold** eleven **claims towards credit institutions undergoing liquidation procedures**. The main driving force of these transactions from the perspective of the insurance fund is to reduce the time and uncertainty relating to usually lengthy recovery and to realise an immediate income. In that respect, deposit insurance funds in other countries across the CEE region might also assess the impact of a potential disposal of claims towards insolvent lenders which eventually will trigger the transaction activity.

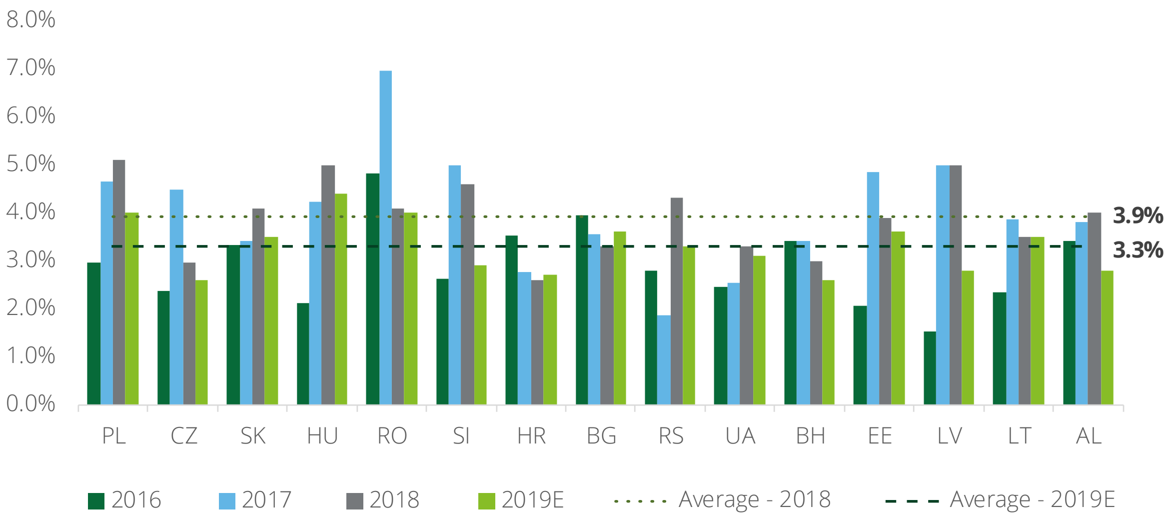
In 2019, the **asset quality review** and the **stress test** of six **Bulgarian banks** were performed by ECB. The results showed solid situations at leading international banks, with room for improvement at local players. In 2019 and 2020, the ECB is going to conduct a **comprehensive assessment** of five **Croatian banks** as well. Given that these banking sectors still reported relatively high NPL ratios in 2018, **the exercises are likely to accelerate portfolio trades**.

Looking forward, **markets that have dealt with most of their NPLs are expected to start tackling their non-core assets** and are likely to sell more performing and subperforming loans. Banks' efforts to increase the efficiency of NPL management might give way to a **closer cooperation between banks and credit portfolio servicers** in the near future. For instance, UniCredit Bank Hungary signed an agreement with EOS in 2019 for a three-year forward flow program on the new NPL inflows mainly in the retail segment. Similar agreements are expected to emerge in other countries across the region as well, dominated by the management of NPLs in the retail segment. Retail portfolios are more granular and the inflow of new NPLs is more regular and predictable, which creates ideal conditions for such agreements.

As a result of gradually diminishing large NPL portfolios offered for sale and in line with the recent ambition of regulators to develop sustainable long-term NPL prevention, we also expect the **sale of corporate single-tickets** to soar on mature markets. Secondary market transactions are also expected to emerge in the forthcoming years, especially **on markets that saw an early NPL market development**. Secondary market activity will be driven by the consolidation of the NPL servicers.

Macroeconomic overview

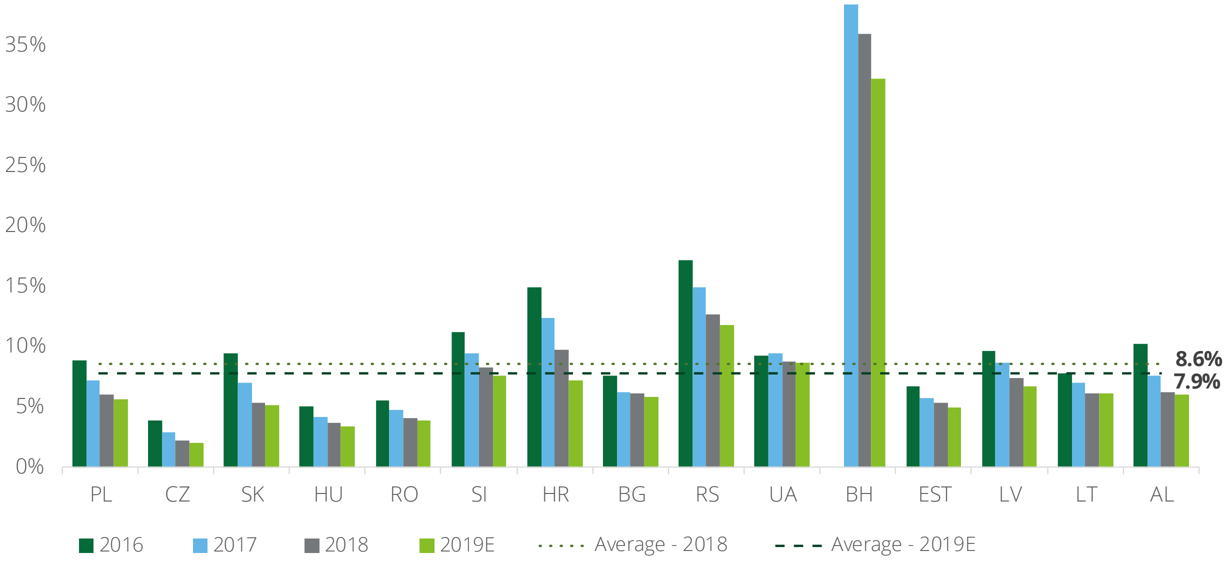
Figure 1. Changes in real GDP, 2016-2019 (Estimate)



Source: Local national banks, EIU

In 2018, all analysed countries reported positive GDP growth. The highest growth rates were recorded in Poland (5.1%), Hungary (5.0%) and Latvia (5.0%). The key driver of growth in Poland can be attributed to an increasing domestic demand fuelled by improving labour market conditions and favourable consumer prices. In Hungary, domestic consumption and investment were the major contributors to economic growth, while the drivers of the Latvian GDP growth were consumer optimism and EU fund inflows. In general, the overall growth of the fifteen countries present in the study has reached 3.9% in 2018. Similar to the previous year, the primary driver of the growth in the CEE region was the decreasing unemployment, and higher wages resulting in increasing consumption. Economic growth in the CEE region is stable but the signs of slowdown are visible.

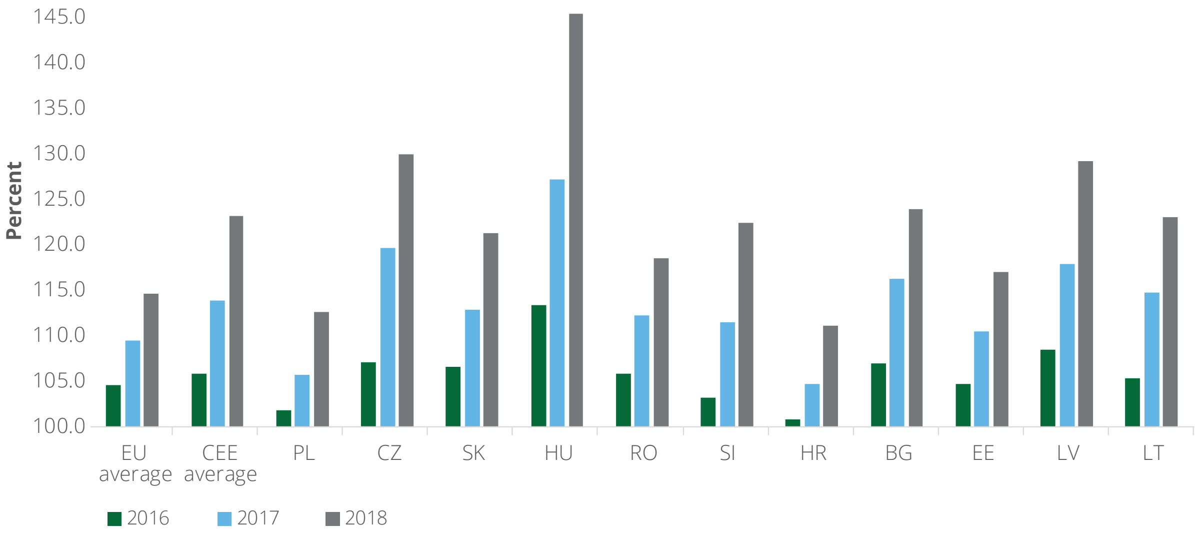
Figure 2. Unemployment rate, 2016-2019 (Estimate)



Source: Local national banks, EIU

Recorded unemployment rate further decreased in all analysed countries in 2018, with the exception of Bulgaria, where the unemployment rate stagnated at 6.2%. However, the pace of decrease saw a slowdown in 2018. Most significant improvements were recorded in Croatia (-2.6 percentage points), Bosnia and Herzegovina (-2.4 percentage points) and Serbia (-2.3 percentage points). As a result, the overall unemployment rate for the fifteen countries stood at 8.6% in 2018, which is an average decrease of 1.2 percentage points compared to 2017. Recorded unemployment rate continued its downward trend in 2019 as well and is estimated to be under 8.0% as of end-2019.

Figure 3. House price index (2015 = 100%)



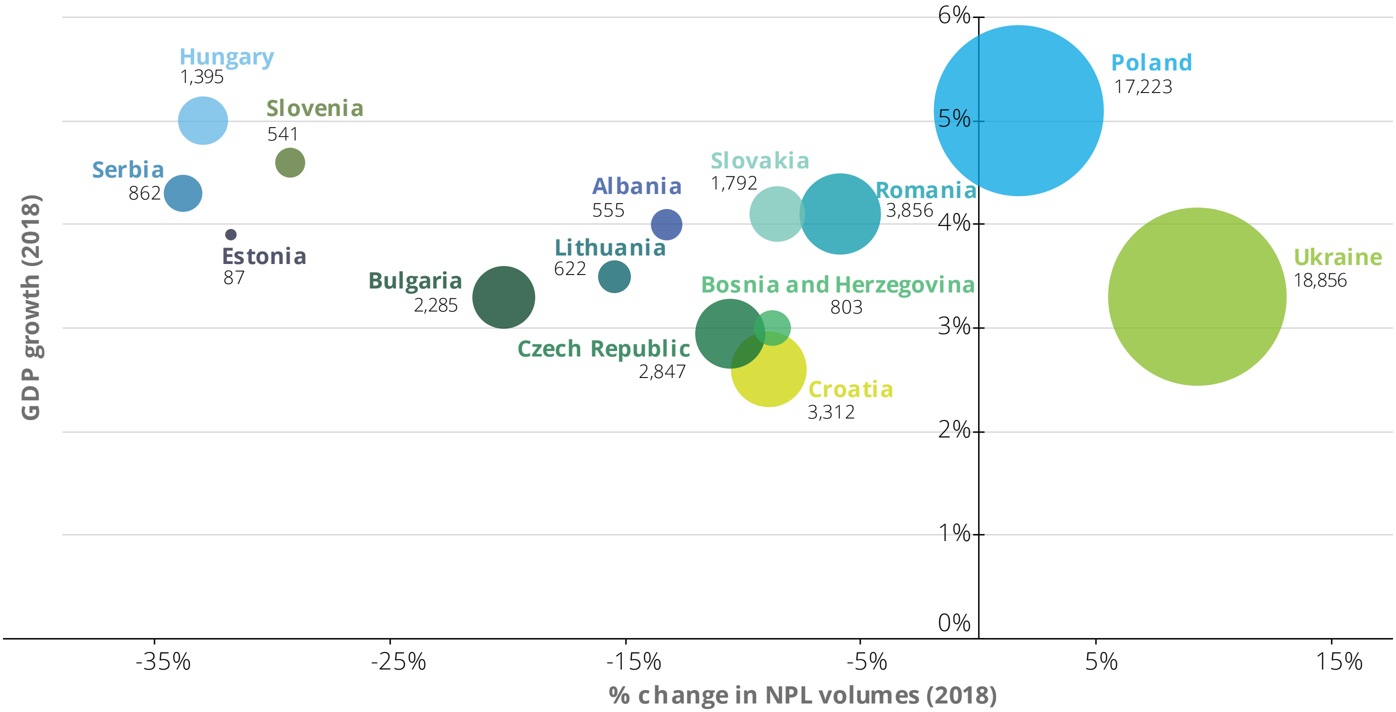
Source: Eurostat
Note: Countries are presented on the chart for which figures are disclosed by Eurostat.

Figure 3. shows and compares residential property prices in selected countries covered by the study. Housing prices remained on an upward trend in 2018 with an average annual growth of 5% in the EU in the last three years. The CEE region outpaced this growth with an average annual increase of 7%. Housing prices grew even at a faster pace in the Czech Republic, Latvia and Hungary. The development of residential markets in the last three years positively affected both the NPL investors' appetite and the debtors' willingness to repay their outstanding loans and avoid collateral enforcement. Due to the strong relationship between the residential market and the banking sector, local authorities also keep an eye on the real estate market trends and are eager to keep at bay potential risky lending. Measures to regulate lending include debt cap rules (loan-to-value limit, maximum maturities, cap on debt servicing ratio) and certain capital requirements.

NPL metrics summary

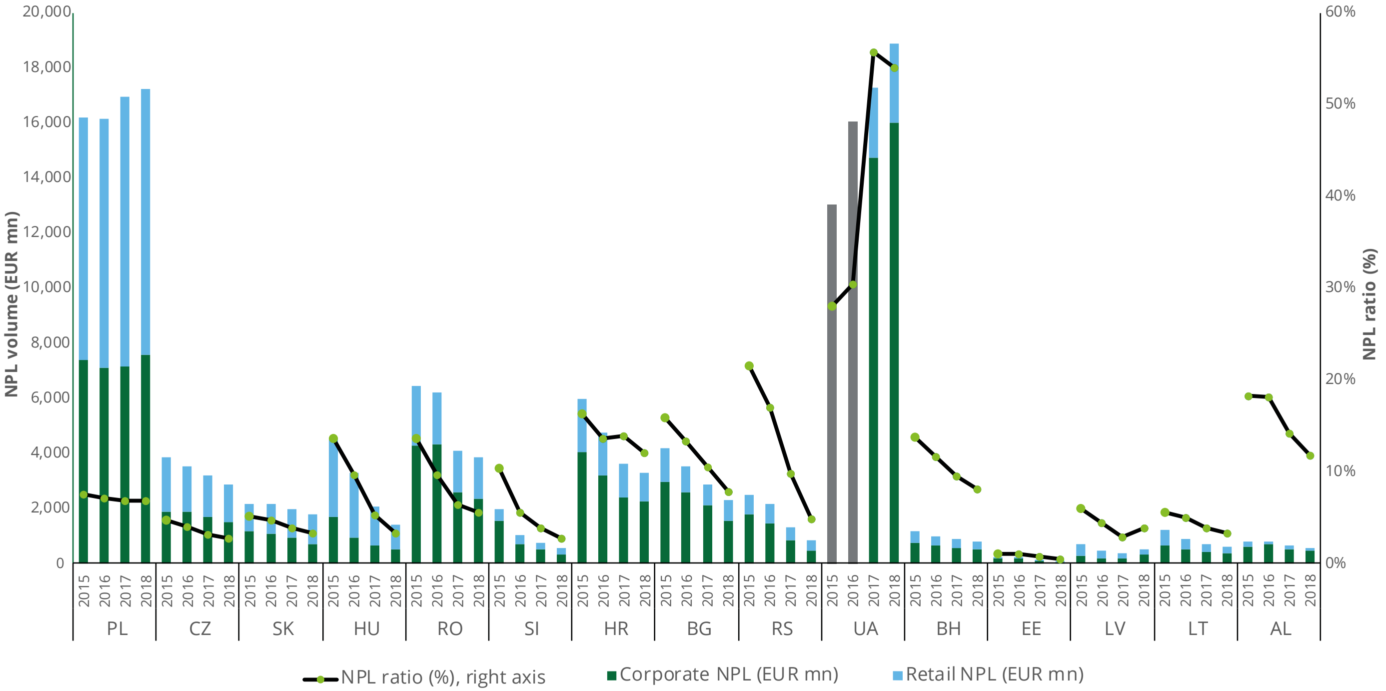
The improvement of asset quality is evidenced in the NPL ratios gradually trending back to the pre-crisis levels. Although the disparities between the countries in the CEE region in terms of NPL ratios remained visible, only three countries reported NPL ratios in the double-digit territory at end-2018, namely Croatia with 12.1%, Albania (11.8%) and Ukraine (54.0%). The combination of economic upturn, the supervisory and political attention as well as banks' efforts to tackle non-performing loans stimulated the positive trends of NPL evolution in the past few years. Looking forward, in the light of expected increase in interest rates and economic slowdown banks need to closely monitor the asset quality and possible deterioration of default rates in order to prevent future build-up of distressed assets.

Figure 4. Evolution of NPL volumes and GDP, Q4 2017 - Q4 2018



Source: Local national banks, EIU Bubble size: Q4 2018 NPL volume (EURmn) Note: For presentation purposes, Latvia is not included on the chart.

Figure 5. Evolution of key NPL metrics, 2015 - 2018



Source: National Banks, Deloitte analysis
Note: Disclosure of NPL volumes and ratios by segments (retail / corporate) is not available until 2017 in Ukraine. Therefore, total NPL volume is presented in the previous years.

The NPL ratios in the CEE region remained on a downward trend which was also supported by the increasing lending volumes in almost all countries. Credit expansion was spurred by stable economic growth, low interest rates, healthy capital ratios as well as declining unemployment rate.

Two countries with the largest NPL stocks are Poland and Ukraine and both countries have registered an increase in their NPL volumes, contrasting the decreasing trend of other countries in the CEE region. However, the NPL ratio of the Polish banking sector stagnated at 6.9% in 2018, whilst the NPL ratio marginally decreased in Ukraine to 54.0% due to the increase in lending activity. NPL sellers and investors benefit from a well-established loan sales market in Poland dominated mainly by secured and unsecured retail loans offered for sale. The sizeable NPL stock mainly in the corporate segment in Ukraine may well attract international investors, although the market is still relatively untapped.

Despite recorded positive trends in terms of asset quality, Croatia still needs to face challenges to reduce the relatively high stock of NPLs mainly in the corporate segment. The total stock of non-performing loans exceeded EUR 3.0bn as at end-2018. Although Croatia has a strong transaction track record, NPL activity somewhat slowed down in 2018 and 2019. According to the Vienna Initiative, the EBRD is working together with the Ministry of Justice in strengthening the framework of claim and collateral enforcement and insolvency regimes.

Asset quality of the Albanian banking sector is on the mend, although the total NPL ratio still stood above the 10% threshold as of year-end 2018. The decrease of 2.5 percentage points from 2017 to 2018 is mainly attributable to repayments, write-offs and restructuring measures. According to the Bank of Albania, the level of collateralization is also relatively high. Besides Albania, Bosnia and Herzegovina reported no major loan sales activity so far, except for one transaction in 2019. The NPL ratio fell from 9.5% in 2017 to 8.1% in 2018 mainly due to permanent write-offs, more efficient credit risk management and frequent implementation of loan rescheduling.

Hungary, Bulgaria and Serbia saw an outstanding improvement in asset quality between 2017 and 2018 with a decrease of the banking sector's total NPL volume of 32.9%, 20.2% and 33.8% respectively. In Hungary, the decrease of NPLs is mostly attributed to NPL sales mainly in the retail segment in 2017 and 2018. Bulgaria also showed strong NPL activity mainly in the corporate segment where NPL volume amounted to more than EUR 1.5bn as at end-2018. This was also supported by supervisory measures mainly initiated by the Bulgarian National Bank aiming to bolster the distressed debt markets. The NPL ratio of the Serbian banking sector fell to 4.9% in 2018 , i.e. the lowest level since 2008, backed by the credit expansion spurred by benign macroeconomic trends as well as Serbia's NPL Resolution Strategy.

Romania was among the most active NPL markets in the CEE region between 2015 and H1 2018, followed by a moderate deal activity in H2 2018 and 2019. We expect a decline in the stock of NPLs offered for sale by Romanian banks, which is the result of multiple changes in legislation. Banks are likely to postpone planned transactions which is expected to decelerate the reduction of remaining NPL stocks.

The Czech Republic, Slovakia and Slovenia further reduced their NPL volumes and ratios in 2018 from an already sustainable level.

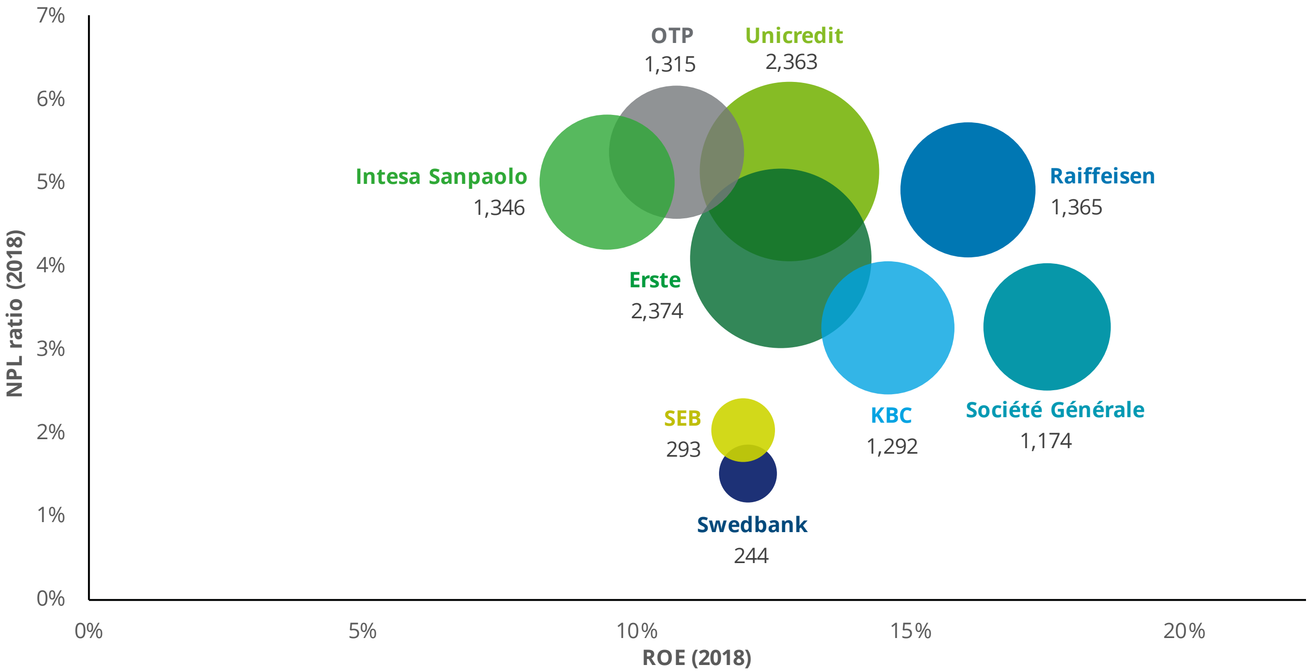
Table 1. NPL volumes and ratios, Q4 2018

Country	Corporate (EUR mn)	Corporate NPL ratio (%)	Retail (EUR mn)	Retail NPL ratio (%)	Total (EUR mn)	Total NPL ratio (%)
Poland	7,574	8.7%	9,649	5.9%	17,223	6.9%
Czech Republic	1,500	3.6%	1,347	2.1%	2,847	2.7%
Slovakia	718	3.9%	1,074	2.9%	1,792	3.3%
Hungary	534	2.3%	861	4.5%	1,395	3.3%
Romania	2,371	9.8%	1,484	5.2%	3,856	5.6%
Slovenia	323	3.4%	218	2.1%	541	2.7%
Croatia	2,237	20.4%	1,074	6.6%	3,312	12.1%
Bulgaria	1,552	8.7%	733	6.5%	2,285	7.8%
Serbia	482	5.2%	380	4.5%	862	4.9%
Ukraine	16,024	55.8%	2,833	46.0%	18,856	54.0%
Bosnia and Herzegovina	498	10.8%	305	6.5%	803	8.1%
Estonia	54	0.7%	33	0.4%	87	0.5%
Latvia	349	4.6%	177	3.1%	526	3.9%
Lithuania	364	4.1%	258	3.0%	622	3.3%
Albania	459	14.3%	96	6.4%	555	11.8%
Total	**35,039**		**20,522**		**55,561**	

Source: National banks, Deloitte analysis
Note: Estonia NPL ratios is based on DPD 60

Total NPL volume in the CEE region was down to EUR 56bn in 2018 from EUR 57bn in 2017. Although most of the countries managed to decrease the stock of non-performing loans, the increase of EUR 290m registered by Poland and the material increase of approximately EUR 1.6bn reported by Ukraine partially offset the positive trend. As the banking sector in the CEE region gradually decreases the NPL ratio to a sustainable level, the pace of annual decrease in NPL stock slows down. Figure 6. shows the connection between ROE and NPL ratio for the nine leading banking groups in the CEE Baltic region. The figure suggests that the dispersion between banking groups in the universe of NPL ratio and ROE gradually disappears. The average profitability of the banking sector in the CEE region increased in 2018 compared to 2017 with an average ROE of 11.3% and an average ROA of 1.3%. The profitability was mainly supported by the marginal increase of loan loss provisions due to the improving asset quality, the increasing loan demand, low interest rates as well as slightly increasing interest margins.

Figure 6. NPL ratio, ROE and NPL volumes of leading banking groups in CEE and Baltic (EUR mn)



Source: Banks' data disclosure, EMIS, Deloitte analysis Notes: Bubble size: Q4 2018, NPL volume (EUR mn)
Swedbank, SEB metrics are based on impaired loans as no NPL metrics are disclosed

Table 2. NPL ratios and volumes in subsidiaries of major banking groups in CEE and the Baltic region

UniCredit subsidiaries in CEE (2018, EUR mn)

	Bank name	Loans	NPL %	NPL vol.
CZ	UniCredit Bank Czech Republic	16,018	2.3%	369
HR	Zagrebacka Banka	9,593	10.3%	988
BG	UniCredit Bulbank AD	4,605	6.0%	276
HU	UniCredit Bank	4,463	3.1%	138
RO	UniCredit Bank	4,804	5.6%	267
SI	UniCredit Banka Slovenija	1,924	3.8%	73
RS	UniCredit Banka	2,265	3.4%	78
BH	UniCredit Bank d.d. Sarajevo	1,891	7.3%	138
BH	UniCredit Banka a.d. Banja Luka	517	6.8%	35
	Total	**46,079**	**5.1%**	**2,363**

Erste Group subsidiaries in CEE (2018, EUR mn)

	Bank name	Loans	NPL %	NPL vol.
CZ	Ceska sporitelna	26,388	1.8%	475
SK	Slovenska Sporitelna	12,398	3.5%	438
RO	Banca Comerciala Romana	6,615	9.1%	603
HR	Erste & Steiermarkische	6,739	9.5%	640
HU	Erste Bank Hungary	3,994	4.1%	162
RS	Erste Bank	1,267	1.5%	19
BH	Sparkasse Bank	539	6.9%	37
	Total	**57,940**	**4.1%**	**2,374**

KBC subsidiaries in CEE (2018, EUR mn)

	Bank name	Loans	NPL %	NPL vol.
CZ	CSOB	10,718	2.4%	387
HU	Kereskedelmi és Hitelbank	4,499	4.1%	186
SK	Ceskoslovenska Obchodna Banka	5,974	2.0%	121
CZ	Hypotecni banka	11,704	1.3%	148
CZ	Českomoravská Stavební	4,561	4.4%	203
BG	United Bulgarian Bank	2,324	10.6%	246
	Total	**39,781**	**3.2%**	**1,089**

Raiffeisen subsidiaries in CEE (2018, EUR mn)

	Bank name	Loans	NPL %	NPL vol.
SK	Tatra Banka	9,940	2.5%	244
CZ	Raiffeisen bank CZ	8,974	1.8%	162
HU	Raiffeisen Bank Hungary	3,336	5.1%	170
RO	Raiffeisen Bank	5,653	4.1%	232
HR	Raiffeisenbank Austria	2,517	8.1%	204
BG	Raiffeisenbank EAD	2,569	2.7%	69
RS	Raiffeisen Banka	1,344	3.2%	43
BH	Raiffeisen BANK d.d. BiH	1,330	5.7%	75
UA	Raiffeisen Bank Aval	1,492	11.1%	166
	Total	**37,154**	**3.2%**	**1,292**

Société Générale subsidiaries in CEE (2018, EUR mn)

	Bank name	Loans	NPL %	NPL vol.
CZ	Komercni banka	23,077	2.2%	519
RO	BRD	6,771	4.6%	311
SI	SKB Banka	1,868	3.4%	64
BG	Societe Generale Expressbank AD	2,109	7.8%	165
RS	Société Générale Banka	2,035	5.7%	115
	Total	**35,860**	**3.3%**	**1,174**

OTP Group subsidiaries in CEE (2017, EUR mn)

	Bank name	Loans	NPL %	NPL vol.
HU	OTP Bank	7,947	4.5%	358
BG	DSK Bank EAD	4,186	6.7%	280
HU	OTP Jelzálogbank	3,330	2.3%	77
HR	OTP Banka Hrvatska	3,673	5.5%	203
SK	OTP Banka Slovensko	1,225	7.4%	91
RO	OTP Bank Romania	1,798	5.1%	92
RS	OTP Bank Srbija [1]	1,231	3.9%	48
UA	OTP Ukraine	1,104	15.1%	167
	Total	**24,493**	**5.4%**	**1,315**

[1] Including Vojvodjanska Banka

Intesa Sanpaolo subsidiaries in CEE (2018, EUR mn)

	Bank name	Loans	NPL %	NPL vol.
SK	VUB	13,142	3.5%	455
HR	Privredna Banka Zagreb	5,462	7.3%	399
HU	CIB Bank	2,713	6.4%	174
RS	Banca Intesa	3,034	6.1%	186
SI	Banka Intesa Sanpaolo	1,846	5.5%	102
BH	Intesa Sanpaolo Banka, d.d. BiH	726	4.1%	30
	Total	**26,923**	**5.0%**	**1,346**

Swedbank subsidiaries in Baltic (2018, EUR mn)

	Bank name	Loans	NPL %	NPL vol.
EE	SWED	7,784	0.8%	59
LV	Swedbank	3,318	3.9%	131
LT	Swedbank	5,180	1.1%	55
	Total	**16,282**	**1.5%**	**244**

SEB subsidiaries in Baltic (2018, EUR mn)

	Bank name	Loans	NPL %	NPL vol.
EE	SEB	5,022	1.6%	79
LV	SEB Banka	3,628	1.9%	68
LT	SEB Bankas	5,739	2.5%	146
	Total	**14,388**	**2.0%**	**293**

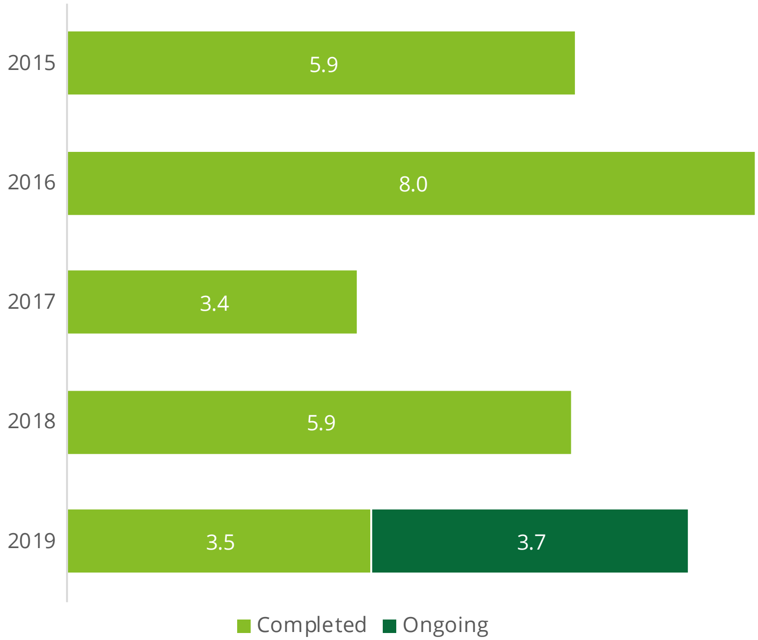
Source: Banks' data disclosure, ECB CBD, Deloitte analysis

Loan sales market overview – Selected transactions

The volume of loan portfolios traded in 2017 decreased materially compared to the peak recorded in 2016. However, the revival of NPL markets is observed in the CEE region in 2018, whilst a slight decrease is expected in 2019 when the face value of completed and ongoing transactions amounts to EUR 7.2bn as of October 2019 [2]. Figure 7 shows the volume of traded portfolios in the last five years in the CEE region reflecting that investors continue to show strong demand in the CEE region. Higher recovery expectations and cheap funding in the wake of the benign macroeconomic environment had a positive impact on the pricing of the portfolios. The pricing gap, which was often blamed as the main 'deal breaker' between banks and NPL investors a couple of years ago, not only reduced but many transactions were closed with a positive banking P&L impact recently.

Poland, Hungary and Romania contributed to the volume of completed transactions in 2018 with above EUR 1bn each.

Figure 7. Activity by year - CEE (EUR bn)



Source: Deloitte intelligence

[2] Please note that all figures and charts concerning transaction activity are based on publicly available deal information and Deloitte intelligence, therefore the actual market activity might differ.

Loan sales market is vibrant in **Poland** with substantial supply dominated mainly by secured and unsecured household loans and well-established mainly local servicers as well as investors on the demand side. **Hungary** also has a strong transaction track record with completed deals amounting to EUR 5.1bn between 2015 and 2019. In terms of asset classes, Hungarian banks disposed of material amounts of corporate NPLs in 2016 and 2017, which was followed by a gradual shift towards retail mortgages. In 2019, the National Deposit Insurance Fund sold eleven claims towards credit institutions undergoing liquidation procedures, which was the sale of the largest ever NPL portfolio in Hungary of EUR 660mn. **Romania** was one of the hot markets in the CEE region with over EUR 6.5bn traded portfolios between 2015 and H1 2018, followed by a moderate deal activity in H2 2018 and 2019. A decline in the stock of NPLs offered for sale by Romanian banks is expected due to multiple changes in legislation.

Croatia also saw a relatively strong NPL activity in the region, although the banking sector still needs to tackle the sizeable amount of NPLs mainly in the corporate segment. The majority of transactions in Croatia accumulated in corporate, mixed and commercial real estate asset classes so far. One material transaction was closed in May 2019 when DDM Debt announced the acquisition of HETA AG's distressed debt portfolio amounting to c. EUR 800mn. The acquisition was conducted through a joint venture structure together with B2Holding. The ongoing asset quality review performed by the ECB as well as the improvement of lengthy and expensive judiciary processes in case of insolvency and collateral enforcement can promote further transactions.

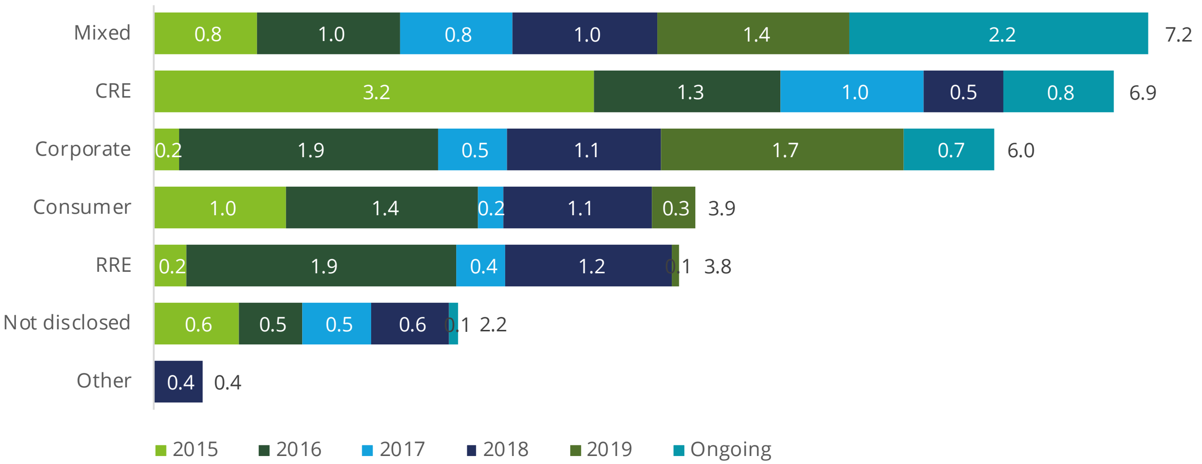
The asset quality review of six **Bulgarian** banks was completed in 2019. Transaction activity increased in 2018 with an estimated volume of EUR 0.6bn completed transactions, which is expected to inch higher in 2019 based on completed and ongoing deals as of October 2019. The results of the AQR can also result in some loan disposals.

Serbia will definitely attract strong investor interest as the Deposit Insurance Agency released its second public call for bids for a portfolio containing the receivables of nine insolvent financial institutions in the amount of EUR 1.8bn. In February 2019, DIA completed its first public tender with EOS being the successful bidder to a portfolio of EUR 242mn.

In **Ukraine**, there is a material amount of NPLs and hence there is plenty of room for NPL transactions to be undertaken, however the market is still infant; therefore legal and tax-related impediments of resolving NPLs still need to be handled. However, signs of positive improvements are undisputedly visible. In order to accelerate the portfolio cleansing process, the NBU is likely to adopt a regulation on NPL resolution at Ukrainian banks. Given that high NPLs are a burden mainly in case of state-owned banks, new independent supervisory boards have been established in order to promote balance sheet clean-up and develop strategies.

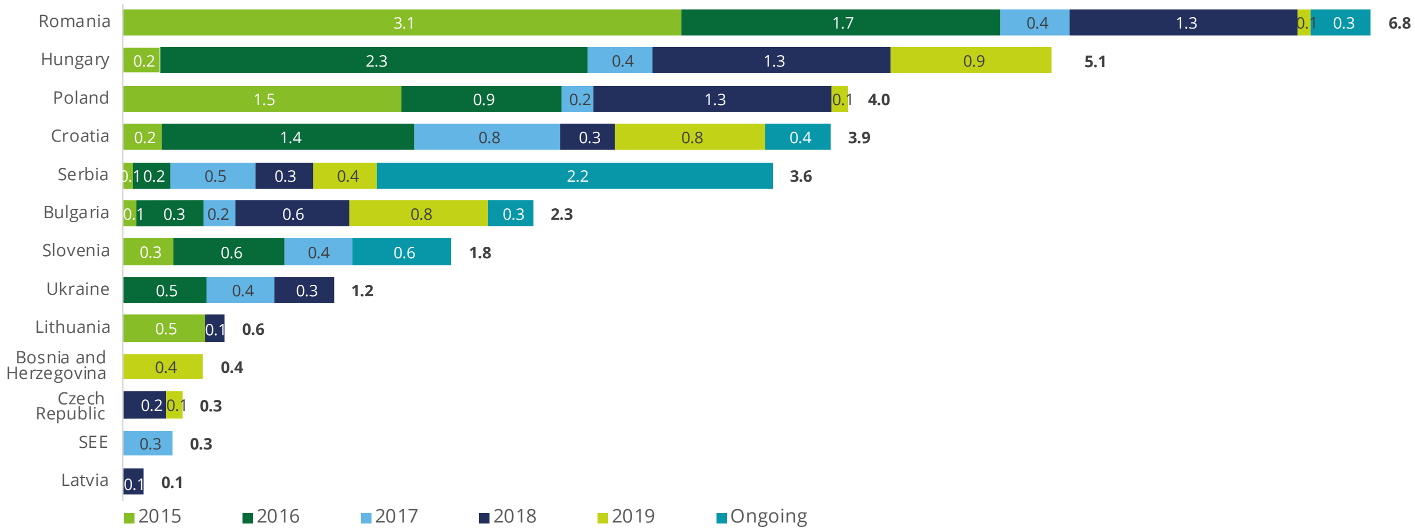
The banking sector in Albania and Bosnia and Herzegovina reported relatively high NPL ratios as of end-2018. Therefore, these relatively small and untapped NPL markets have some potential for investors. Based on the public call for bids, HETA AG launched the divestment of its shareholding in BORA d.o.o. Banja Luka and also launched the sale of non-performing loans and real estate assets. UniCredit sold a small non-performing corporate loan portfolio in Bosnia and Herzegovina in 2019.

Figure 8. Activity by asset class, 2015 - 2019 (EUR bn)



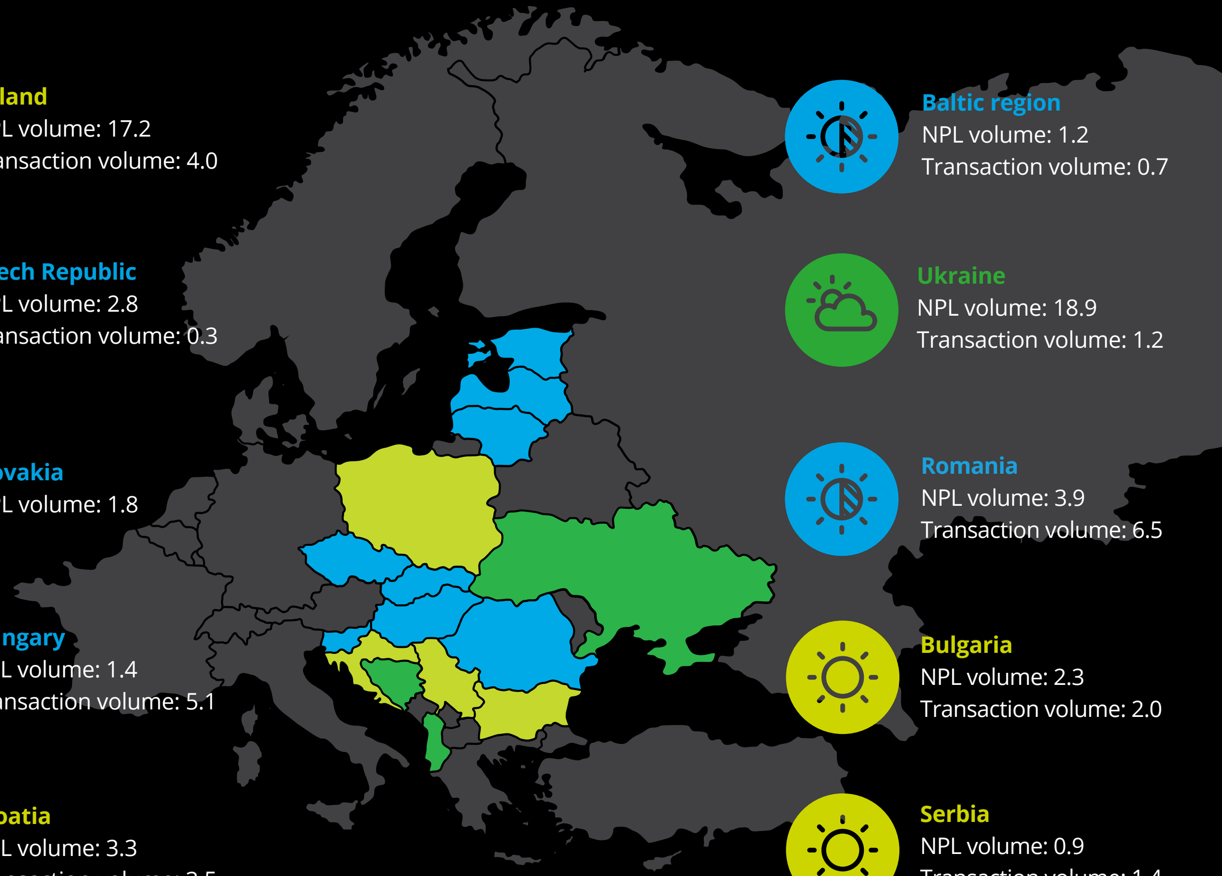
Source: Deloitte intelligence

Figure 9. Activity by country, 2015 - 2019 (EUR bn)



Source: Deloitte intelligence

CEE NPL market dynamics



Poland
NPL volume: 17.2
Transaction volume: 4.0

Czech Republic
NPL volume: 2.8
Transaction volume: 0.3

Slovakia
NPL volume: 1.8

Hungary
NPL volume: 1.4
Transaction volume: 5.1

Croatia
NPL volume: 3.3
Transaction volume: 3.5

Slovenia
NPL volume: 0.5
Transaction volume: 1.3

Bosnia & Herzegovina
NPL volume: 0.8
Transaction volume: 0.4

Baltic region
NPL volume: 1.2
Transaction volume: 0.7

Ukraine
NPL volume: 18.9
Transaction volume: 1.2

Romania
NPL volume: 3.9
Transaction volume: 6.5

Bulgaria
NPL volume: 2.3
Transaction volume: 2.0

Serbia
NPL volume: 0.9
Transaction volume: 1.4

Albania
NPL volume: 0.5

Note: All figures are presented in EUR bn

Poland

The total loan portfolio in Poland increased by 1% between 2017 and 2018. This can be attributed to the positive macroeconomic trends of the country, posting an economic growth of 5.1% in 2018, above the EU average.

Growth in overall lending activity led by retail segment

In 2018, the retail segment continued to achieve growth, while the corporate segment saw a slight decrease in terms of loan volume. Retail loans increased by 2.2%, while the corporate segment decreased by 1.2% from 2017 to 2018. These results can be attributed to an increasing but slowing economic upwards trend and to stable interest rates and capital ratios.

According to the Financial Stability Report of the NBP, demand for housing and housing loans increased in 2018 and the estimated availability of housing loans remained at a stable level.

NPL volumes remained on a downward trend in the retail segment, while the corporate segment saw a slight increase in 2018

In the retail segment, the NPL ratio has kept trending downwards for loans to households mainly due to the solid increase in the volume of new loans. However, the volume of non-performing loans in domestic currency expanded by 7.8 percentage points. The one-year probability of default for households is estimated to rise in the next 12 months for both housing loans and consumer credit.

The increase of the corporate NPL ratio was broad-based across the economy, being visible for all categories of firms in terms of size and business sector. However, micro-enterprises and firms in the construction and real estate sub-sectors reported an improvement. Similarly, the probability of default is estimated to increase for all categories of firms in the following year, the most affected being those for which banks took the largest number of non-performing loan resolution measures, i.e. micro-enterprises and firms in the construction and real estate sub-sectors.

Macro indicators	2016	2017	2018	Change 2017-18 (% or % point)
GDP (% real change pa)	3.0%	4.7%	5.1%	0.4%
Consumer prices (% change pa)	-0.6%	2.0%	1.7%	-0.3%
Recorded unemployment (%)	8.9%	7.3%	6.1%	-1.2%

Banking sector	2016	2017	2018	Change 2017-18 (% or % point)
Retail loans (EUR mn)	148,376	160,048	163,563	2.2%
Corporate loans (EUR mn)	77,952	87,710	86,654	-1.2%
Interest rates				
Lending (%)	4.7%	4.8%	4.8%	0.0%
Deposit (%)	1.6%	1.5%	1.6%	0.1%
NPL volumes				
Retail NPLs (EUR mn)	8,983	9,762	9,649	-1.2%
Corporate NPLs (EUR mn)	7,182	7,171	7,574	5.6%
NPL ratios				
Retail NPL ratio (%)	6.1%	6.1%	5.9%	-0.2%
Corporate NPL ratio (%)	9.2%	8.2%	8.7%	0.5%

Key ratios				
CAR (%)	17.7%	19.0%	19.0%	0.0%
ROE (%)	7.5%	6.9%	7.0%	0.1%
ROA (%)	0.8%	0.8%	0.8%	0.0%
CIR (%)	57.6%	57.2%	56.7%	-0.5%
L/D (%)	93.3%	93.7%	93.3%	-0.4%
FX share of lending (%)	28.4%	22.2%	22.4%	0.2%
LLP coverage (%)	61.0%	61.2%	65.2%	4.0%

Source: EIU, NBP, ECB CBD

Domination of secured and unsecured retail loans is still visible on the Polish distressed debt market

Based on KRUK S.A. reports, the nominal value of consumer and mortgage debts offered for sale amounted to c. EUR 2.1bn in 2018, whilst the supply of corporate portfolios amounted to c. EUR 0.7bn. The average price of consumer and mortgage debts increased from 15% of the nominal value in 2017 to 19% in 2018 mainly driven by the more recent issues sold by entities in Poland. In H1 2019, the supply of consumer and mortgage debt amounted to EUR 2.0bn, of which EUR 0.7bn on the primary market, at an average price of 9% based on KRUK estimates. Increased activity of non-bank financial institutions was observed on the supply market.

Besides KRUK S.A. being a market leader in terms of value of acquired portfolios in 2018, other relevant players on the Polish distressed debt market are Best S.A., HoistPolska sp. z o.o. and EOS KSI Polska sp. z o.o.

#	Bank (2018, EUR mn)	Total Assets	Loans	Equity	Net income	ROA	ROE	NPL ratio	NPL vol.	Major shareholder
1.	**PKO**	69,863	44,040	8,921	783	1.1%	8.8%	4.9%	2,158	State
2.	**Pekao**	42,871	29,342	5,075	542	1.3%	10.7%	5.5%	1,822	State
3.	**Santander Bank Polska**	42,567	27,536	5,549	509	1.2%	9.2%	3.5%	965	Santander
4.	**ING BSK**	32,026	24,282	3,101	358	1.1%	11.5%	2.8%	680	ING
5.	**Mbank**	32,011	22,578	3,529	309	1.0%	8.8%	4.8%	1,084	Commerzbank
6.	**BGZ BNP Paribas**	24,840	16,388	2,459	86	0.3%	3.5%	5.7%	927	BNP Paribas
7.	**Bank Gospodarstwa Krajowego**	19,702	4,420	4,807	122	0.6%	2.5%	7.4%	458	State
8.	**Millennium**	18,437	12,680	1,892	169	0.9%	9.0%	2.5%	320	BCP
9.	**Alior Bank**	17,033	13,697	1,523	172	1.0%	11.3%	11.6%	1,587	State
10.	**Getin Noble**	11,786	10,494	717	(104)	-0.9%	-14.5%	15.6%	1,633	Private Investor
	Banking sector total	**443,742**	**250,217**	**47,642**	**3,338**	**0.8%**	**7.0%**	**6.9%**	**17,223**	

Source: Banks' data disclosure, EMIS, NBP

Czech Republic

NPL ratios in the Czech banking sector continued to decrease in 2018, while the total volume of loans increased by 6%, resulting in a strong, stable outlook for the sector.

Stable growth in both retail and corporate segments

In 2In 2018, both the retail and the corporate segments were able to grow in terms of loan volume, keeping up the upward trend of previous years. The retail segment posted an increase of 6.8%, while the corporate loans grew by 4.9% in 2018. This overall expansion was reported in a macroeconomic enviroment with decelerating growth, reaching a real GDP increase of 2.9% and an unemployment rate of 2.2%.

Continued decline in both retail and corporate NPL volumes

The NPL ratio of of the banking sector went down by 0.5% points to 2.7% at end-2018. The lowest NPL ratio since 2007 was achieved through a combination of an increase in total loans (accounting for 42%) and a decrease in the stock of NPLs (accounting for 58%). This decrease was due not only to positive economic developments, but also to solid credit growth, which contributed to an increase in the denominator of the NPL ratio.

According to the Financial Stability Report of CNB, the coverage of NPLs by provisions did not change materially in the household sector and rose slightly in the non-financial corporations sector. The increase in the NPL coverage ratio in the non-financial corporations sector was due to the slower release of provisions in comparison with the rate of decline in NPLs.

Macro indicators	2016	2017	2018	Change 2017-18 (% or % point)	
GDP (% real change pa)	2.4%	4.5%	2.9%	-1.6%	
Consumer prices (% change pa)	0.7%	2.4%	2.0%	-0.4%	
Recorded unemployment (%)	3.9%	2.9%	2.2%	-0.7%	

Banking sector	2016	2017	2018	Change 2017-18 (% or % point)	
Retail loans (EUR mn)	52,458	59,798	63,855	6.8%	
Corporate loans (EUR mn)	36,107	40,014	41,993	4.9%	
Interest rates					
Lending (%)	3.9%	3.6%	3.5%	-0.1%	
Deposit (%)	0.4%	0.3%	0.3%	0.0%	
NPL volumes					
Retail NPLs (EUR mn)	1,679	1,490	1,347	-9.6%	
Corporate NPLs (EUR mn)	1,862	1,692	1,500	-11.4%	
NPL ratios					
Retail NPL ratio (%)	3.2%	2.5%	2.1%	-0.4%	
Corporate NPL ratio (%)	5.2%	4.2%	3.6%	-0.6%	
Key ratios					
CAR (%)	18.4%	19.3%	19.6%	0.3%	
ROE (%)	11.9%	13.0%	13.3%	0.3%	
ROA (%)	1.2%	1.1%	1.1%	0.0%	
CIR (%)	46.6%	47.1%	47.0%	-0.1%	
L/D (%)	84.3%	94.9%	101.9%	7.0%	
FX share of lending (%)	19.6%	18.9%	19.8%	0.9%	
LLP coverage (%)	54.1%	51.0%	66.9%	15.9%	

Source: EIU, CNB, ECB CBD

Healthy level of non-performing loans contributes to a limited but stable supply on the Czech distressed debt market

IBased on KRUK estimates, the supply of debt portfolios amounted to c. EUR 0.4bn on the Czech and Slovak market in 2018. The average price as a % of nominal value was 21% in 2018.

In 2018, Moneta Bank sold a portfolio of unsecured retail loans at a face value of approximately EUR 120mn to B2 Kapital Czech Republic.

#	Bank (2018, EUR mn)	Total Assets	Loans	Equity	Net income	ROA	ROE	NPL ratio	NPL vol.	Major shareholder
1.	**Ceska Sporitelna**	52,878	26,388	4,552	583	1.1%	12.8%	1.8%	475	Erste
2.	**Ceskoslovenska Obchodni Banka**	52,553	10,718	3,282	675	1.3%	20.6%	2.4%	387	KBC
3.	**Komercni Banka**	38,931	23,077	3,604	594	1.5%	16.5%	2.2%	519	Société Générale
4.	**UniCredit**	25,661	16,018	2,860	348	1.4%	12.2%	2.3%	369	UniCredit
5.	**Raiffeisenbank**	14,094	8,974	1,119	131	0.9%	11.7%	1.8%	162	Raiffeisen
6.	**Hypotecni Banka**	12,003	11,704	1,641	92	0.8%	5.6%	1.3%	148	KBC
7.	**PPF Banka**	9,141	714	452	86	0.9%	19.0%	12.9%	92	PPF Group
8.	**Moneta Money Bank**	8,040	4,800	1,033	172	2.1%	16.6%	2.8%	134	No majority shareholder
9.	**Ceskomoravska Stavebni Sporitelna**	5,756	4,561	333	34	0.6%	10.2%	4.4%	203	KBC
10.	**J&T Banka**	5,627	2,111	728	60	1.1%	8.2%	15.7%	332	J&T Finance Group
	Banking sector total	**270,770**	**105,848**	**21,720**	**2,984**	**1.1%**	**13.3%**	**2.7%**	**2,847**	

Source: Banks' data disclosure, EMIS, CNB

Slovakia

The increase in loan volumes and the improvements in asset quality were driven by a strong economy, benefitting from substantial GDP growth, decreasing unemployment and solid domestic demand.

Growth in retail lending was still the strongest among EU countries with an annual increase of 11.3% in the outstanding stock

The benign macroeconomic environment, demonstrated by a 4.1% real GDP growth and a further decline in the unemployment rate to 5.4% supported the lending activity in both the retail and the corporate segments. In the retail segment the 11.3% growth was primarily fueled by housing loans, while consumer lending experienced a limited slowdown over 2018.

To control the retail market lending trends the NBS has implemented multiple measures since the middle of 2018, including the 90% cap on mortgage LTV and the introduction of a new limit on the borrowers' debt-to-income ratio. This coupled with the saturation of the market and the plateauing of the interest rates seems to have moderated retail lending volumes so far in 2019.

The trend in the corporate segment was more balanced in 2018. The credit expansion was mainly driven by investment loans over operational loans, which in turn seems to have changed to higher operational loan growth compared to investment loan growth in 2019.

Macro indicators	2016	2017	2018	Change 2017-18 (% or % point)
GDP (% real change pa)	3.3%	3.4%	4.1%	0.7%
Consumer prices (% change pa)	-0.5%	1.4%	2.5%	1.1%
Recorded unemployment (%)	9.5%	7.1%	5.4%	-1.7%

Banking sector	2016	2017	2018	Change 2017-18 (% or % point)
Retail loans (EUR mn)	29,361	32,816	36,538	11.3%
Corporate loans (EUR mn)	16,514	17,626	18,533	5.1%
Interest rates				
Lending (%)	2.7%	2.4%	2.4%	0.0%
Deposit (%)	0.4%	0.2%	0.2%	0.0%
NPL volumes				
Retail NPLs (EUR mn)	1,084	1,043	1,074	3.0%
Corporate NPLs (EUR mn)	1,077	917	718	-21.7%
NPL ratios				
Retail NPL ratio (%)	3.7%	3.2%	2.9%	-0.3%
Corporate NPL ratio (%)	6.5%	5.2%	3.9%	-1.3%
Key ratios				
CAR (%)	18.2%	18.8%	18.2%	-0.6%
ROE (%)	9.9%	9.3%	9.3%	0.0%
ROA (%)	0.9%	0.9%	0.8%	-0.1%
CIR (%)	54.9%	57.8%	56.4%	-1.4%
L/D (%)	90.5%	96.2%	98.5%	2.3%
FX share of lending (%)	0.4%	0.2%	0.1%	-0.1%
LLP coverage (%)	67.4%	74.1%	89.6%	15.5%

Source: EIU, NBS, ECB CBD

Asset quality shows further major improvements in the corporate segment, but also the share of retail NPLs declined modestly

Share of corporate NPLs declined by 1.3% point to 3.9% in 2018, while retails NPLs slightly lowered by 0.3% points to 2.9%. According to the Financial Stability Report of the NBS, the drop in the corporate NPL ratio was against a backdrop of an expansionary phase of the business cycle, showing low default rates and substantial positive reclassifications. This trend has been also visible over 2019.

In terms of retail lending, the NBS sees reduced potential losses in case of adverse market conditions, because of the aforementioned measures introduced. However, property market developments and soaring house prices still pose certain risks to the system.

Increasing lending activity matched with gradually decreasing stock of non-performing loans

Based on KRUK estimates, the supply of debt portfolios amounted to c. EUR 0.4bn on the Czech and Slovak market in 2018. The average price as a % of nominal value was 21% in 2018. In H1 2019, the nominal value of the supply increased to EUR 1.0bn mainly driven by the sale of receivables by a financial institution leaving the Slovak market.

#	Bank (2018, EUR mn)	Total Assets	Loans	Equity	Net income	ROA	ROE	NPL ratio	NPL vol.	Major shareholder
1.	**Slovenska Sporitelna**	17,413	12,398	1,480	180	1.0%	12.2%	3.5%	438	Erste
2.	**Vseobecna Uverova Banka**	16,369	13,142	1,609	156	1.0%	9.7%	3.5%	455	Intesa Sanpaolo
3.	**Tatra Banka**	12,944	9,940	1,066	110	0.8%	10.3%	2.5%	244	Raiffeisen
4.	**Ceskoslovenska Obchodna Banka**	8,507	5,974	786	53	0.6%	6.8%	2.0%	121	KBC
5.	**Postova Banka**	4,268	2,384	634	50	1.2%	8.0%	7.9%	189	J&T Finance group
6.	**Prima Banka Slovensko**	3,600	3,086	327	22	0.6%	6.7%	4.5%	139	Penta Investments
7.	**Prva Stavebna Sporitelna**	3,080	2,293	243	15	0.5%	6.4%	4.8%	109	Schwäbisch Hall
8.	**OTP Banka Slovensko**	1,412	1,225	112	(4)	-0.3%	-3.6%	7.4%	91	OTP
9.	**Privatbanka**	723	382	83	8	1.2%	10.1%	n.a.	n.a.	Penta Investments
10.	**Slovenska Zarucna a Rozvojova Banka**	547	325	299	7	1.3%	2.3%	11.7%	38	Ministerstvo financii Slovenskej republiky
	Banking sector total	**81,726**	**55,071**	**8,620**	**802**	**0.8%**	**9.3%**	**3.3%**	**1,792**	

Source: Banks' data disclosure, EMIS, NBS

Hungary

Benign macroeconomic conditions with 5.0% annual real GDP growth and unemployment at 3.7% contributed to the expansion of retail and corporate credit, as well as the cleaning of the NPL stocks.

Favorable conditions in both retail and corporate segments drove the overall lending growth

The total loan portfolio increased by 6.6% YoY to EUR 42.0bn, primarily driven by the expansion in corporate lending (10.4% to EUR 23.0bn) and retail lending also changed positively in 2018 (2.4% to EUR 19.0bn).

Eased credit conditions, healthy credit demand and the Market-based Lending Scheme of the NBH drove the increase in corporate lending. In order to keep future market growth healthy the NBH launched the Funding for Growth Scheme Fix at the beginning of 2019; furthermore the new bond purchase program launched in July 2019 aims to foster the diversification of corporate financing.

Strong level of housing and consumer loan disbursements were the main drivers of the retail segment, noting that on a total retail level the annual increase was still partially off-set by the amortization of the pre-crisis home equity loans. In its Financial Stability Report the NBH highlights limited risk concerns due to healthy debtor credit profiles. In the retail segment, banks have experienced a buoyant demand also in the early months of 2019, which is expected to continue in the remainder of the year.

Further asset quality improvements were evidenced by the drop in retail and corporate NPL stocks

SThe overall NPL stock has declined to EUR 1.4bn, out of which EUR 0.9bn and EUR 0.5bn were retail and corporate, respectively. Over the total portfolios, this represents a 3 percentage point decline to 4.5% in case of the retail NPL ratio, and a 1 percentage point improvement to 2.3% for the corporate NPL ratio.

In the corporate segment, the asset quality improvement is attributable to the continued portfolio cleansing (although at a slowing pace compared to earlier years) and the growth in total outstanding loans. The NBH highlights that the recently observed wage inflation could pose additional risks for highly indebted sectors (including construction, real estate, trade and vehicle repairs), in case productivity improvements are not able to compensate for higher personal expenses.

In retail lending the sales of receivables was the main driver of the decline in NPLs, in addition to the recovery of some of the less than 90 days defaults. An important characteristic of new delinquencies is that per the NBH approximately 85% of these loans was disbursed before 2010, with more than the majority of claims being handled by financial enterprises. On a separate note, the upswing of the real estate market benefitted some of the delinquent borrowers in debt settling; however, this was not the case in every part of the market.

Macro indicators	2016	2017	2018	Change 2017-18 (% or % point)
GDP (% real change pa)	2.1%	4.2%	5.0%	0.8%
Consumer prices (% change pa)	0.4%	2.4%	2.8%	0.4%
Recorded unemployment (%)	5.1%	4.2%	3.7%	-0.5%

Banking sector	2016	2017	2018	Change 2017-18 (% or % point)
Retail loans (EUR mn)	18,306	18,574	19,016	2.4%
Corporate loans (EUR mn)	19,027	20,842	23,005	10.4%
Interest rates				
Lending (%)	2.1%	1.5%	1.5%	0.0%
Deposit (%)	0.6%	0.1%	0.1%	0.0%
NPL volumes				
Retail NPLs (EUR mn)	2,324	1,402	861	-38.6%
Corporate NPLs (EUR mn)	1,029	678	534	-21.3%
NPL ratios				
Retail NPL ratio (%)	12.7%	7.5%	4.5%	-3.0%
Corporate NPL ratio (%)	5.4%	3.3%	2.3%	-1.0%
Key ratios				
CAR (%)	18.7%	16.8%	17.1%	0.3%
ROE (%)	11.7%	14.5%	14.6%	0.1%
ROA (%)	1.3%	1.5%	1.6%	0.1%
CIR (%)	62.6%	64.4%	63.1%	-1.3%
L/D (%)	74.5%	71.8%	74.5%	2.7%
FX share of lending (%)	22.1%	23.4%	23.5%	0.1%
LLP coverage (%)	66.2%	66.8%	80.3%	13.5%

Source: EIU, NBH, ECB CBD

Elevated transactional activity in 2018 with solid pipeline in 2019 year-to-date

After relative calmness on the NPL market in 2017 in terms of face value of completed transactions, distressed debt markets saw a revival in 2018 and 2019. Based on publicly available information, in total six deals added up to a volume of EUR 1.3bn in 2018, compared to EUR 0.4bn the year before, in terms of face value. Closed and on-going deals in 2019 so far totaled EUR 0.9bn in face value, with predominantly mixed and retail asset classes. In 2019, the National Deposit Insurance Fund sold eleven claims towards credit institutions undergoing liquidation procedures, which was the sale of the largest ever NPL portfolio in Hungary of EUR 660mn. In 2019, UniCredit Bank Hungary signed an agreement with EOS for a three-year forward flow program on the new NPL inflows mainly in the retail segment. We expect to see more examples of similar cooperation between banks and loan portfolio servicers in the near future.

#	Bank (2018, EUR mn)	Total Assets	Loans	Equity	Net income	ROA	ROE	NPL ratio	NPL vol.	Major shareholder
1.	**OTP Bank**	26,457	7,947	4,700	544	2.1%	11.6%	4.5%	358	OTP
2.	**Kereskedelmi és Hitelbank**	10,044	4,499	942	179	1.8%	19.0%	4.1%	186	KBC
3.	**UniCredit**	9,490	4,463	1,046	184	1.9%	17.6%	3.1%	138	UniCredit
4.	**Erste Bank**	7,648	3,994	1,083	180	2.4%	16.6%	4.1%	162	Erste
5.	**Raiffeisen Bank**	7,495	3,336	646	72	1.0%	11.2%	5.1%	170	Raiffeisen
6.	**CIB Bank**	5,917	2,713	687	45	0.8%	6.5%	6.4%	174	Intesa Sanpaolo
7.	**MKB Bank**	5,781	2,636	496	79	1.4%	16.0%	n.a	n.a.	PE/VC
8.	**Magyar Fejlesztési Bank**	3,819	821	671	6	0.2%	0.9%	18.8%	155	State
9.	**Budapest Hitel- és Fejlesztési Bank**	3,800	2,767	454	29	0.8%	6.5%	7.0%	195	State
10.	**OTP Jelzálogbank**	3,761	3,330	236	86	2.3%	36.5%	2.3%	77	OTP
	Banking sector total	**123,506**	**42,020**	**13,196**	**1,974**	**1.6%**	**14.6%**	**3.3%**	**1,395**	

Source: Banks' data disclosure, EMIS, NBH

Romania

Due to the favorable economic trends, the Romanian banking sector's total loan portfolio increased by 7.7% in 2018, NPL volumes and NPL ratios changed favorably, however some caution is incorporated into the monetary outlook on asset quality.

Strong credit expansion in the retail segment and a reversal in previous credit trends in the corporate segment

TIn terms of the macroeconomic environment real GDP growth of 4.1% was down YoY, but still above the EU average, and unemployment declined further down to 4.1% in 2018, however inflation was up to an annual 4.6%, driven by excess demand. Under these conditions, lending rates remained high, with an 9.0% increase in the retail credit stock and a 6.1% growth in the corporate loan stock.

In the retail segment, the credit expansion was primarily driven by housing loans, with consumer credit playing a smaller part. Borrowers' interest primarily increased in lei denominated loans and fixed rate interest rate structures. Trends in retail lending led to the introduction of counter-cyclical measures by the NBR from the beginning of 2019, such as setting up a cap on indebtedness. Due to this, the pace of lending in 2019 already shows signs of deceleration.

Corporate lending also benefitted from the economic expansion as well as the improving profitability and solvency indicators of borrowers. In terms of currency, lei denominated lending continued to drive the growth, while FX loans contracted further.

Favorable NPL trends in both retail and corporate segments, however some credit risk deterioration is expected by the NBR

The NPL stock remained flat at EUR 1.5bn in the retail segment in 2018, and dropped by 9.1% in the corporate segment to EUR 2.4bn from EUR 2.6bn in 2017. Taking into consideration the changes in the performing stock, retail NPL ratio improved by 0.5 percentage points to 5.2% in 2018 from 5.7% in 2017, while corporate NPL ratio dropped by 1.6 percentage points to 9.8% in 2018 from 11.4% in 2017.

By retail NPLs, the largest improvements were coming from consumer lending, followed by housing and credit cards, with loan sales having a lower impact in 2018 due to the unfavourable changes in legislation. At the same time, the NBR notes in its Financial Stability Report that the probability of default is expected to increase near term. Although the NPL ratio continued to decline in the first months of 2019, the NBR sees potential risk on consumer lending, should the favorable developments in the labor market subside.

The corporate NPL ratio benefitted largely from a decrease in the share of loans more than 90 days past due in 2018, and to a smaller extent to loan sales and write-offs. Regarding near term trends, in its Financial Stability Report the NBR anticipates an increase in default rates by 2020 driven by macroeconomic factors.

Macro indicators	2016	2017	2018	Change 2017-18 (% or % point)
GDP (% real change pa)	4.8%	7.0%	4.1%	-2.9%
Consumer prices (% change pa)	-1.6%	1.3%	4.6%	3.3%
Recorded unemployment (%)	5.6%	4.8%	4.1%	-0.7%

Banking sector	2016	2017	2018	Change 2017-18 (% or % point)
Retail loans (EUR mn)	24,922	26,176	28,543	9.0%
Corporate loans (EUR mn)	22,883	22,798	24,197	6.1%
Interest rates				
Lending (%)	5.7%	5.6%	6.8%	1.2%
Deposit (%)	1.1%	0.9%	1.3%	0.4%
NPL volumes				
Retail NPLs (EUR mn)	1,841	1,488	1,484	-0.3%
Corporate NPLs (EUR mn)	4,345	2,608	2,371	-9.1%
NPL ratios				
Retail NPL ratio (%) [3]	7.4%	5.7%	5.2%	-0.5%
Corporate NPL ratio (%) [3]	19.0%	11.4%	9.8%	-1.6%
Key ratios				
CAR (%)	19.7%	20.0%	19.7%	-0.3%
ROE (%)	10.6%	11.7%	13.6%	1.9%
ROA (%)	1.1%	1.3%	1.5%	0.2%
CIR (%)	52.4%	54.9%	53.5%	-1.4%
L/D (%)	68.2%	69.2%	68.2%	-1.0%
FX share of lending (%)	43.4%	37.8%	33.7%	-4.1%
LLP coverage (%)	65.1%	71.6%	83.8%	12.2%

Source: EIU, NBR, ECB CBD

[3] NPL ratios as at September 2018

Moderate deal activity in 2018, with reduced supply from banks in 2019 due to unfavourable changes in fiscal code

In terms of transactions, 2018 proved to be relatively active, with approximately seven deals adding up to a total value of EUR 1.2bn. However, changes in legislation had a negative impact on the supply of debt already in 2018.

According to KRUK, supply of consumer debt portfolios amounted to EUR 0.3bn, whilst the supply of corporate NPLs reached EUR 0.7bn. In H1 2019, KRUK estimates the drop of supply of distressed assets to approximately EUR 0.1bn. The declining stocks offered for sale by banks is a result of multiple changes in legislation, including among others the income tax deductibility of losses realised on portfolio transactions, treatment of the differences in sale price and loan value, and a raise in income tax in terms of receivable transactions. Banks are likely to postpone planned transactions with the prospect of favourable changes in legislative environment or develop their own work-out team.

#	Bank (2018, EUR mn)	Total Assets	Loans	Equity	Net income	ROA	ROE	NPL ratio	NPL vol.	Major shareholder
1.	**Banca Transilvania**	15,892	8,323	1,589	262	1.6%	16.5%	3.1%	257	Private Individuals
2.	**Banca Comerciala Romana**	14,595	6,615	1,749	209	1.4%	11.9%	9.1%	603	Erste
3.	**BRD - Groupe Societe Generale**	11,597	6,771	1,571	332	2.9%	21.1%	4.6%	311	Société Générale
4.	**UniCredit**	8,929	4,804	978	118	1.3%	12.1%	5.6%	267	UniCredit
5.	**Raiffeisen Bank**	8,607	5,653	882	189	2.2%	21.5%	4.1%	232	Raiffeisen
6.	**CEC Bank**	6,301	4,060	555	78	1.2%	14.1%	4.6%	185	State
7.	**Alpha Bank Romania**	3,636	2,498	376	24	0.7%	6.4%	4.2%	106	Alpha Bank
8.	**OTP Bank Romania**	2,375	1,798	261	6	0.2%	2.2%	5.1%	92	OTP
9.	**Garanti Bank**	2,199	1,529	246	24	1.1%	9.9%	4.5%	69	Garanti BBVA
10.	**Banca de Exp-Imp a României – Eximbank**	1,548	734	241	24	1.6%	10.1%	8.7%	64	State
	Banking sector total	**99,751**	**52,740**	**10,745**	**1,528**	**1.5%**	**13.6%**	**5.6%**	**3,856**	

Source: Banks' data disclosure, EMIS, NBR

Slovenia

Beneficial macroeconomic trends helped the improvement of asset quality and the expansion of retail lending, while corporate lending remains burdened by lower natural demand in the segment.

Positive macro trends fueled retail lending with consumer lending as the main contributor, however corporate lending remained on decline

The macroeconomic environment was favorable in 2018, even though the 4.6% real GDP growth was somewhat below the 5.0% last year, but above the Eurozone average. The Slovenian economy was further supported by a shrinkage in the unemployment rate and improving debt and balance ratios. In terms of lending, the benign economic environment supported the retail credit expansion, which continued at an annual rate of 6.5%, however the corporate segment still contracted, by 1.5% YoY. Effective from November 2019, BSI decided to limit retail credit growth by imposing stricter rules on consumer lending such as cap on the maturity as well as on the ratio of the annual debt servicing cost to the borrower's net income.

In retail lending the labor market trends, including higher employment and increasing wages led to elevated levels of credit growth, primarily driven by consumer lending, with less pronounced changes in housing. In consumer lending, in addition to the healthy demand from borrowers, lenders have also been focusing strongly on new originations, in part to off-set the weakness in corporate lending. In order to keep lending trends at bay the BSI introduced certain macroprudential measures in October 2018, including a cap on debt servicing costs and maximum maturities.

As for the corporate segment, corporates in Slovenia are relatively unindebted and despite improving creditworthiness, low interest rates and benign credit conditions, internal resources and parent undertakings remain the important sources of financing. Even though the BSI highlights certain funding risks related to the external financing of corporates in its Financial Stability Report, the overall assessment is low risk in the sector.

Further asset quality improvements in retail and corporate portfolios, with an optimistic near term outlook maintained by the BSI

Asset quality improvements can be evidenced in both segments, with a 0.5 percentage point decline in the retail NPL ratio to 2.1% in 2018 from 2.6% in 2017 and a 1.9 percentage point improvement in the corporate segment to 3.4% from 5.3% YoY.

By retail NPLs the reduction of non-performing loans was to a larger extent due to repayment of claims as a consequence of strong economic growth, and to smaller part to write-offs and the sale of claims. Considering the positive economic growth forecasts and the low

Macro indicators	2016	2017	2018	Change 2017-18 (% or % point)
GDP (% real change pa)	2.6%	5.0%	4.6%	-0.4%
Consumer prices (% change pa)	-0.2%	1.5%	1.9%	0.4%
Recorded unemployment (%)	11.2%	9.5%	8.3%	-1.2%

Banking sector	2016	2017	2018	Change 2017-18 (% or % point)
Retail loans (EUR mn)	9,154	9,736	10,370	6.5%
Corporate loans (EUR mn)	9,711	9,645	9,497	-1.5%
Interest rates				
Lending (%)	2.8%	2.6%	2.4%	-0.2%
Deposit (%)	0.1%	0.0%	0.0%	0.0%
NPL volumes				
Retail NPLs (EUR mn)	275	253	218	-14.0%
Corporate NPLs (EUR mn)	728	511	323	-36.8%
NPL ratios				
Retail NPL ratio (%)	3.0%	2.6%	2.1%	-0.5%
Corporate NPL ratio (%)	7.5%	5.3%	3.4%	-1.9%
Key ratios				
CAR (%)	21.4%	20.2%	20.6%	0.4%
ROE (%)	7.8%	9.1%	10.7%	1.6%
ROA (%)	1.0%	1.1%	1.3%	0.2%
CIR (%)	61.4%	63.7%	59.9%	-3.8%
L/D (%)	74.0%	74.7%	74.0%	-0.7%
FX share of lending (%)	4.2%	3.7%	3.1%	-0.6%
LLP coverage (%)	69.5%	71.4%	70.8%	-0.6%

Source: EIU, BSI, ECB CBD

indebtedness level of households, the BSI does not expect a significant deterioration of asset quality on medium term.

In the corporate segment, the substantial drop was primarily coming from the SME segment to a major part driven by the BSI's supervisory activites, including among others introducing guidelines for restructuring of micro and SMEs and workout of NPLs in the same group of firms. Moreover, corporate default rates continued to decline and are expected by the BSI to drop even further.

Distressed debt market in Slovenia registered no major activity in 2018

The year 2018 did not bring any major debt sale transaction to the Slovenian market. However, HETA AG is progressing with the wind-down of its Slovenian operation via the sale of the remaining approximately EUR 0.6bn of claims without disclosing the buyer until the end of October 2019. Based on the public call for bids, the package is composed of EUR 386mn non-performing claims, whilst the performing exposure amounts to EUR 166mn as well as real estate with a fair market value of EUR 110mn.

#	Bank (2018, EUR mn)	Total Assets	Loans	Equity	Net income	ROA	ROE	NPL ratio	NPL vol.	Major shareholder
1.	**Nova Ljubljanska Banka**	8,811	4,006	1,295	165	1.9%	12.7%	6.3%	252	State
2.	**Nova KBM**	4,978	2,545	723	76	1.5%	10.4%	4.2%	107	Apollo
3.	**Abanka**	3,729	1,928	583	66	1.8%	11.4%	4.6%	89	State
4.	**SKB**	2,747	1,868	342	48	1.7%	14.1%	3.4%	64	Société Générale
5.	**UniCredit Banka Slovenija**	2,656	1,924	251	11	0.4%	4.4%	3.8%	73	UniCredit
6.	**Banka Intesa Sanpaolo**	2,596	1,846	284	11	0.4%	3.8%	5.5%	102	Intesa Sanpaolo
7.	**SID Banka**	2,319	639	422	14	0.6%	3.4%	5.6%	36	State
8.	**Gorenjska Banka**	1,832	826	205	15	0.8%	7.5%	9.3%	139	AIK Banka
9.	**Sberbank**	1,748	1,191	173	8	0.5%	4.7%	9.0%	107	Sberbank
10.	**Addiko Bank**	1,618	1,081	174	37	2.3%	21.4%	1.9%	21	Addiko
	Banking sector total	**43,094**	**19,867**	**5,102**	**552**	**1.3%**	**10.7%**	**2.7%**	**541**	

Source: Banks' data disclosure, EMIS, BSI

Croatia

Despite recorded positive trends in terms of asset quality, Croatia still needs to face challenges to reduce the relatively high stock of NPLs mainly in the corporate segment.

The Croatian banking sector's loan portfolio increased significantly in 2018 compared to previous years

The growth of the loan stock was mainly driven by the retail segment, which posted a growth of 7.7% in 2018, leading to an outstanding volume of EUR 16.4bn at end-2018. The growth was mainly driven by the increased consumer optimism at the time of economic recovery, positive labour market trends as well as historically low interest rates. Thus, household debt increased moderately in 2018, mainly due to the increase in general-purpose cash loans. Housing loans also increased slightly, partially driven by the government's subsidy programme.

The corporate segment recorded only a slight increase of 0.9% in 2018. Total debt of non-financial corporations stagnated in 2018 mainly due to the deleveraging of public companies abroad, which offset the moderate growth of domestic borrowing to private corporations. The debt-to-GDP ratio of the non-financial corporate sector continued to decrease as a consequence of GDP growth and the appreciation of the exchange rate of the kuna. On the other hand, the smaller debt repayment burden reduced the vulnerability of this sector and the increase of investment loans is also likely to have a favourable effect on the segment's prospects.

The NPL ratio of the banking sector is still in double-digit territory as of year-end 2018, although signs of recovery are undisputedly visible

The retail NPL ratio decreased by 1.5 percentage points in 2018, whilst the corporate segment saw a decrease of 1.8 percentage points in 2018 arriving to 20.4%. According to the HNB, the currency and interest rate structure of outstanding debt led to a moderate level of structural risks in the non-financial corporate sector. Despite the decrease in interest rate and currency risks, the structural risk is still prevalent. On the other hand, the gradually decreasing debt burden and growth in non-financial corporate earnings had a positive effect on mitigating the risks to the sector.

The resolution of the former Agrokor Group is still in progress after the company was put under state-run administration in 2017 due to overindebtedness. In April 2019, the legal successor Fortenova Grupa was incorporated and started the sale of its non-core assets and businesses, which was preceded by a financial and ownership restructuring. The claims of Agrokor's creditors were settled through debt-for-equity swap and subordinated convertible bonds. Some of the creditors have already sold or are considering the sale of these instruments.

Macro indicators	2016	2017	2018	Change 2017-18 (% or % point)
GDP (% real change pa)	3.5%	2.8%	2.6%	-0.2%
Consumer prices (% change pa)	-1.1%	1.1%	1.5%	0.4%
Recorded unemployment (%)	15.0%	12.4%	9.8%	-2.6%

Banking sector	2016	2017	2018	Change 2017-18 (% or % point)
Retail loans (EUR mn)	14,986	15,195	16,365	7.7%
Corporate loans (EUR mn)	11,033	10,854	10,956	0.9%
Interest rates				
Lending (%)	5.0%	4.2%	3.5%	-0.7%
Deposit (%)	1.4%	0.7%	0.4%	-0.3%
NPL volumes				
Retail NPLs (EUR mn)	1,548	1,225	1,074	-12.3%
Corporate NPLs (EUR mn)	3,121	2,411	2,237	-7.2%
NPL ratios				
Retail NPL ratio (%)	10.3%	8.1%	6.6%	-1.5%
Corporate NPL ratio (%)	28.3%	22.2%	20.4%	-1.8%
Key ratios				
CAR (%)	22.5%	23.3%	21.1%	-2.2%
ROE (%)	8.9%	5.9%	8.8%	2.9%
ROA (%)	1.2%	0.8%	1.2%	0.4%
CIR (%)	52.8%	52.1%	50.7%	-1.4%
L/D (%)	85.3%	82.1%	85.3%	3.2%
FX share of lending (%)	65.0%	60.9%	59.5%	-1.4%
LLP coverage (%)	72.3%	70.8%	73.6%	2.8%

Source: EIU, HNB, ECB CBD

In 2019 and 2020, the European Central Bank is going to conduct a comprehensive assessment of five Croatian banks (Zagrebačka banka, Privredna banka Zagreb, Erste & Steiermärkische Bank, OTP banka Hrvatska, Hrvatska poštanska banka). The excercise will include an asset quality review and a stress test. In addition, the ECB is also going to assess the relevant Croatian legislation and their implementation.

Highly active distressed debt sales market somewhat slowed down in 2018 and 2019 in terms of volume of transactions

In May 2019, DDM Debt announced that it closed the first phase of an acquisition from HETA AG of a distressed asset portfolio containing secured corporate receivables in Croatia. The acquisition was conducted through a joint venture structure together with B2Holding. The face value of the portfolio amounted to approximately EUR 800mn.

#	Bank (2018, EUR mn)	Total Assets	Loans	Equity	Net income	ROA	ROE	NPL ratio	NPL vol.	Major shareholder
1.	**Zagrebacka Banka**	15,319	9,593	2,222	251	1.6%	11.3%	10.3%	988	UniCredit
2.	**Privredna Banka Zagreb**	11,213	5,462	1,914	187	1.7%	9.8%	7.3%	399	Intesa Sanpaolo
3.	**Erste&Steiermakische Bank**	8,310	6,739	1,056	108	1.3%	10.2%	9.5%	640	Erste
4.	**OTP Banka Hrvatska**	5,686	3,673	803	30	0.5%	3.7%	5.5%	203	OTP
5.	**Raiffeisenbank Austria Zagreb**	4,414	2,517	572	30	0.7%	5.2%	8.1%	204	Raiffeisen
6.	**Hrvatska Poštanska Banka**	2,823	1,385	268	20	0.7%	7.6%	9.8%	136	State
7.	**Addiko Bank**	2,486	1,514	392	23	0.9%	5.9%	6.6%	100	PE Advent
8.	**Sberbank**	1,300	895	154	11	0.8%	7.1%	11.9%	107	Sberbank
9.	**Istarska Kreditna Banka Umag**	478	n.a.	42	3	0.7%	7.7%	n.a.	n.a.	Intercommerce
10.	**Podravska Banka**	457	280	60	2	0.4%	2.9%	n.a.	n.a.	Generali
	Banking sector total	**64,698**	**27,321**	**8,634**	**763**	**1.2%**	**8.8%**	**12.1%**	**3,312**	

Source: Banks' data disclosure, EMIS, HNB

Bulgaria

Favourable trends in credit expansion and asset quality across retail and corporate portfolios driven by benign macroeconomic environment.

Household and corporate lending remained on an expansionary track supported by solid macroeconomic trends

The Bulgarian economy was solid with slightly lower real GDP growth of 3.3% in 2018 compared to 2017, stable unemployment rate, increasing wages and decreasing public debt. The lending market showed signs of strength via the expansion of retail credit by 11.6% and corporate credit by 5.2% YoY.

In the retail segment, lending was driven by low interest rates and favourable labour market economics, resulting in substantial growth in both housing and consumer loans. Of note, consumer lending experienced a one-off increase in April 2018, with the inclusion of BNP Paribas Personal Finance S.A., which was previously included in the other financial intermediaries segment.

By the corporate segment, investments as well as working capital and inventory purchases drove higher demand for credit. From the supply side, credit conditions remained stable, without any significant changes in the credit standards of banks.

The portfolio clean-up is on track with improvements in household and corporate NPL ratios

Asset quality improved further in both segments over 2018, due to continued loan restructuring and write-offs reducing the levels of NPLs in the system. This led to the retail NPL ratio dropping by 0.9 percentage points to 6.5% in 2018 from 7.4% in 2017, while due to the aforementioned processes, the corporate NPL ratio went down by 3.8 percentage points to 8.7% from 12.5%. The portfolio clean-up trend is expected to continue, given that banks are mandated by the BNB to reduce their share of NPLs in Bulgaria.

In order to mitigate the potential risk that an economic downturn could have on the capital position of the banks, in September 2019 the BNB decided to introduce a 0.5 percentage point countercyclical capital buffer applied to resident credit risk exposure, effective from October 2019. Subsequently, in 2019 the BNB announced an additional 0.5 percentage point increase to take effect from April 2020.

Moreover, in July 2019 the results of the comprehensive assessment of six Bulgarian banks concluded by ECB have been released, showing solid situations at leading international banks, with room for improvements at local players. The exercise comprised an asset quality review and a stress test.

Macro indicators	2016	2017	2018	Change 2017-18 (% or % point)
GDP (% real change pa)	3.9%	3.6%	3.3%	-0.3%
Consumer prices (% change pa)	-0.8%	2.1%	2.8%	0.7%
Recorded unemployment (%)	7.7%	6.2%	6.2%	0.0%

Banking sector	2016	2017	2018	Change 2017-18 (% or % point)
Retail loans (EUR mn)	9,497	10,118	11,287	11.6%
Corporate loans (EUR mn)	16,965	16,955	17,829	5.2%
Interest rates				
Lending (%)	6.4%	5.4%	4.9%	-0.5%
Deposit (%)	0.2%	0.0%	0.0%	0.0%
NPL volumes				
Retail NPLs (EUR mn)	954	747	733	-1.9%
Corporate NPLs (EUR mn)	2,569	2,115	1,552	-26.6%
NPL ratios				
Retail NPL ratio (%)	10.0%	7.4%	6.5%	-0.9%
Corporate NPL ratio (%)	15.1%	12.5%	8.7%	-3.8%
Key ratios				
CAR (%)	22.2%	22.1%	20.4%	-1.7%
ROE (%)	11.3%	10.2%	11.8%	1.6%
ROA (%)	1.5%	1.3%	1.6%	0.3%
CIR (%)	42.6%	45.1%	45.3%	0.2%
L/D (%)	72.4%	72.6%	75.5%	2.9%
FX share of lending (%)	45.5%	39.1%	41.7%	2.6%
LLP coverage (%)	54.3%	54.3%	61.6%	7.3%

Source: EIU, BNB, ECB CBD

NPL sales surged in 2018, with expected activity stagnating in 2019 in terms of face value of transactions

The measures of BNB, which aimed to bolster the Bulgarian distressed debt markets, including the asset quality review and banking market stress test in 2016 as well as the strict monitoring of the forbearance and non-performing exposures finally bore fruit. This can be evidenced by an estimated EUR 0.6bn transactional activity in 2018 and completed and expected transactional volume of approximately EUR 1.0bn in 2019 year to date.

These volumes represent a large increase compared to the periods in 2017 and before, with the most active sellers being Eurobank, Fibank, UBB and Unicredit Bulbank, while on the buyer side Apollo, APS Holding, B2 Holding and EOS have been visible since the beginning of 2018.

#	Bank (2018, EUR mn)	Total Assets	Loans	Equity	Net income	ROA	ROE	NPL ratio	NPL vol.	Major shareholder
1.	**UniCredit Bulbank**	9,926	4,605	1,447	220	2.2%	15.2%	6.0%	276	UniCredit
2.	**DSK Bank**	7,390	4,186	1,366	116	1.6%	8.5%	6.7%	280	OTP
3.	**UBB**	5,762	2,324	709	89	1.5%	12.5%	10.6%	246	KBC
4.	**First Investment Bank**	4,761	3,306	450	80	1.7%	17.8%	21.9%	724	Private individuals
5.	**Eurobank Bulgaria**	4,196	2,867	644	85	2.0%	13.3%	11.5%	331	Eurobank
6.	**Raiffeisenbank**	3,977	2,569	466	68	1.7%	14.5%	2.7%	69	Raiffeisen
7.	**Societe Generale Expressbank**	3,287	2,109	401	56	1.7%	14.0%	7.8%	165	OTP
8.	**Central Cooperative Bank**	2,871	1,212	245	17	0.6%	6.9%	8.4%	102	CCB Group
9.	**Bulgarian Development Bank**	1,546	n.a.	401	20	1.3%	4.9%	n.a.	n.a.	State
10.	**Piraeus Bank Bulgaria**	1,489	837	194	4	0.2%	1.9%	22.6%	199	Eurobank
	Banking sector total	**55,236**	**29,116**	**7,390**	**891**	**1.6%**	**11.8%**	**7.8%**	**2,285**	

Source: Banks' data disclosure, EMIS, BNB

Serbia

Due to the advantageous macroeconomic trends, loan volumes further increased and NPL ratios remained on a downward trend in 2018 also thanks to Serbia's NPL Resolution Strategy.

Loan volumes significantly increased in both retail and corporate segments in 2018

The In 2018, the volume of new household loans was higher by 8.4% YoY, as a result of favourable labour market trends and falling interest rates, with total receivables from households up by 12.5% in nominal terms. In terms of loan types, cash and housing loans were dominant.

Domestic corporate lending, excluding the exchange rate effect, further increased in 2018. This rise contributed to the accelerated recovery of overall domestic lending activity. The absolute growth in the loan stock was recorded in almost all sectors. Observed by purpose, the bulk of new loans were liquidity and current assets loans, followed by investment loans. The growth of outstanding domestic corporate loan volume reached 8.1% YoY in 2018, excluding the exchange rate effect.

The NPL Resolution Strategy of the National Bank of Serbia as well as the supportive macroeconomic environment contributed to the decrease of the NPL volume

A significant reduction in NPLs over 2018 in tandem with the credit expansion further boosted the profitability of the banking sector. At the end of 2018, the NPL ratio stood at 5.7%, down by 16.7 percentage points since the adoption of the NPL Resolution Strategy in 2015, this being the lowest level since September 2008 when the reporting of NPLs was introduced as a mandatory element of bank reporting. The drop in Serbia's NPL ratio since 2008 is the largest among the countries covered by the study. In addition to NPL resolution efforts (e.g. sale of NPL portfolios, write-offs, improvement of the legal framework, etc.), lending growth also contributed to the decrease of the NPL ratio in 2018.

The share of NPLs in total gross household loans stood at 4.5% in 2018, down by 1.3 percentage points from end-2017. In response to unsecured non-purpose household lending at unreasonably long terms, the NBS adopted a set of regulatory measures in December 2018 to prevent potential negative consequences on financial stability.

In 2018, banks wrote off corporate NPLs worth approximately EUR 180mn and sold non-performing loans amounting to c. EUR 290mn to non-banking sector entities, which contributed to the significant decrease of corporate NPLs. According to the Financial Stability Report of NBS, despite the considerable drop in NPLs, at end-2018 the accounts of 55,658 corporates were blocked, up by 4.8% relative to 2017. The lingering problems with illiquidity and reduced solvency of the corporate sector are indicated by the continued rise in the number of blocked accounts, equalling c. EUR 2.4bn in 2018, up by 0.39% YoY.

Macro indicators	2016	2017	2018	Change 2017-18 (% or % point)
GDP (% real change pa)	2.8%	1.9%	4.3%	2.4%
Consumer prices (% change pa)	1.2%	3.2%	2.0%	-1.2%
Recorded unemployment (%)	17.2%	15.0%	12.7%	-2.3%

Banking sector	2016	2017	2018	Change 2017-18 (% or % point)
Retail loans (EUR mn)	6,798	7,666	8,508	11.0%
Corporate loans (EUR mn)	8,180	8,570	9,265	8.1%
Interest rates				
Lending (%)	8.5%	8.2%	7.7%	-0.5%
Deposit (%)	2.9%	2.8%	2.8%	0.0%
NPL volumes				
Retail NPLs (EUR mn)	678	444	380	-14.3%
Corporate NPLs (EUR mn)	1,277	858	482	-43.9%
NPL ratios				
Retail NPL ratio (%)	10.0%	5.8%	4.5%	-1.3%
Corporate NPL ratio (%)	15.6%	10.1%	5.2%	-4.9%
Key ratios				
CAR (%)	21.8%	22.6%	22.3%	-0.3%
ROE (%)	3.4%	10.5%	11.3%	0.8%
ROA (%)	0.7%	2.1%	2.1%	0.0%
CIR (%)	67.7%	63.2%	62.1%	-1.1%
L/D (%)	92.5%	93.5%	90.4%	-3.1%
FX share of lending (%)	69.3%	67.5%	68.5%	1.0%
LLP coverage (%)	67.8%	58.1%	60.2%	2.1%

Source: EIU, NBS, ECB CBD

The resolution of the Deposit Insurance Agency's NPL portfolio started in October 2018 with the first successfully completed deal of EUR 242mn in February 2019

According to the NPL Vienna Initiative, the Serbian government adopted a new NPL Resolution Programme for the period of 2018-2020. The main goal of the new Programme is to resolute the NPLs of banks in bankruptcy and claims in the name of the state, improve the bankruptcy framework as well as prevent new NPL accumulation.

In October 2018, the DIA has announced its first public tender for the sale of a portfolio of EUR 242mn mainly consisting of secured and unsecured overdue corporate loans. The transaction was successfully completed in February 2019 with EOS being the bidder. Released in September 2019, the second public call for bids contains the receivables of nine financial institutions in the amount of EUR 1.8bn. Based on the public call, non-binding offers shall be submitted by 2nd December 2019.

#	Bank (2018, EUR mn)	Total Assets	Loans	Equity	Net income	ROA	ROE	NPL ratio	NPL vol.	Major shareholder
1.	**Banca Intesa**	4,832	3,034	902	107	2.2%	11.8%	6.1%	186	Intesa Sanpaolo
2.	**UniCredit Banka**	3,701	2,265	658	78	2.1%	11.8%	3.4%	78	UniCredit
3.	**Komercijalna Banka**	3,394	1,415	572	69	2.0%	12.0%	9.5%	134	State
4.	**Société Générale Banka**	2,674	2,035	374	69	2.6%	18.4%	5.7%	115	Société Générale
5.	**Raiffeisen Banka**	2,470	1,344	490	56	2.3%	11.4%	3.2%	43	Raiffeisen
6.	**Banka Poštanska**	1,862	420	165	19	1.0%	11.4%	5.2%	22	State
7.	**AIK Banka**	1,748	1,001	476	48	2.7%	10.0%	4.6%	46	BDD M&V Investments
8.	**Erste Bank**	1,717	1,267	200	25	1.4%	12.3%	1.5%	19	Erste
9.	**Eurobank**	1,434	n.a.	444	19	1.3%	4.3%	n.a.	n.a.	Eurobank Ergasias
10.	**Vojvođanska Banka**	1,131	396	148	5	0.4%	3.4%	7.6%	30	OTP
	Banking sector total	**31,677**	**17,772**	**5,732**	**646**	**2.1%**	**11.3%**	**4.9%**	**862**	

Source: Banks' data disclosure, EMIS, NBS

Ukraine

Positive trends in corporate and household lending supported by slowing but still benign macroeconomic trends. The NPL ratio of the banking sector was still higher than 50% at end-2018.

The Ukrainian macroeconomic environment changed favorably in 2018, evidenced by the acceleration of real GDP growth to 3.3%, the further drop in inflation, the decline in unemployment and the increase of disposable income. These factors had a positive impact on the lending activity of banks, increasing retail lending by 25.7% and corporate lending by 9.9% YoY in 2018.

The growth in retail lending is primarily driven by consumer loans, which after bottoming out in the previous years picked up in 2018, which trend the NBU expects to continue, as per its Financial Stability Report.

In the corporate segment, privately-owned and foreign banks accounted for the majority of the credit expansion, whilst corporate lending of state-owned banks practically stopped growing. As for denomination, FX loan volumes posted an increase in 2018, the first time since the crisis in 2014.

The retail NPL ratio saw a decrease in 2018, whilst the corporate segment remained stagnant, although this is mainly attributable to the growth in the credit portfolio

As at 1 April 2019, the NPL ratio of solvent banks stood at 51.7%, amounting to a total of EUR 21.5bn non-performing loans. The corporate sector accounted for 85% of total non-performing loans. The majority of the NPLs are composed of large loans as loans of more than UAH 100mn accounted for 96% of total corporate NPLs as of 1 April 2019, whilst three-quarters of the NPLs are concentrated on the balance sheets of 128 corporates. According to the Financial Stability Report released by NBU in June 2019, the high level of defaults of corporate borrowers are mainly associated with external shocks, war and the loss of territories and markets. However, the NBU also mentions internal factors in the banking system, among others low underwriting standards, high concentration of debt and the high volume of FX lending.

The total NPL ratio continued to decline, albeit at a relatively slow pace. This is mainly due to the rapid growth of the loan stock in the corporate segment, which is statistically diluting the percentage of NPLs. According to NBU's Financial Stability Report, most banks have almost fully recognized losses from their NPLs, with provisions for these loans exceeding 90%. Still, the banks are cleaning their balance sheets from non-performing loans very slowly.

Macro indicators	2016	2017	2018	Change 2017-18 (% or % point)	
GDP (% real change pa)	2.4%	2.5%	3.3%	30.7%	
Consumer prices (% change pa)	13.9%	14.4%	10.9%	-3.5%	
Recorded unemployment (%)	9.3%	9.5%	8.8%	-0.7%	

Banking sector	2016	2017	2018	Change 2017-18 (% or % point)	
Retail loans (EUR mn)	5,537	4,895	6,152	25.7%	
Corporate loans (EUR mn)	29,803	26,112	28,701	9.9%	
Interest rates					
Lending (%)	19.2%	16.4%	19.0%	2.6%	
Deposit (%)	11.5%	9.1%	11.8%	2.7%	
NPL volumes					
Retail NPLs (EUR mn)	n.a.	2,619	2,833	8.1%	
Corporate NPLs (EUR mn)	n.a.	14,631	16,024	9.5%	
NPL ratios					
Retail NPL ratio (%)	n.a.	53.5%	46.0%	-7.5%	
Corporate NPL ratio (%)	n.a.	56.0%	55.8%	-0.2%	
Key ratios					
CAR (%)	12.7%	16.1%	16.2%	0.1%	
ROE (%)	-128.8%	-17.9%	14.7%	32.6%	
ROA (%)	-12.6%	-2.1%	1.7%	3.8%	
CIR (%)	53.5%	57.2%	61.2%	4.0%	
L/D (%)	120.3%	114.1%	119.1%	5.0%	
FX share of lending (%)	49.4%	43.9%	42.8%	-1.1%	
LLP coverage (%)	99.5%	85.2%	90.3%	5.1%	

Source: EIU, NBU, ECB CBD

Note: Disclosure of NPL volumes and ratios by segments (retail / corporate) is not available until February 2017.

The high NPL ratio remains a major challenge for the Ukrainian banking sector, mainly in case of state-owned banks

In order to accelerate the portfolio cleansing process, the NBU is likely to adopt a regulation on NPL resolution at Ukrainian banks. The regulation is expected to require banks to set a specific timeframe for decreasing the NPLs. Furthermore, the government is also expected to issue an additional decree that will govern the handling of non-performing exposures of state-owned banks.

Based on NBU's Financial Stability Report, independent supervisory boards have been established at state-owned banks with the primary aim of promoting the balance sheet clean-up, develop strategies and business models eventually leading to the increase of operational efficiency.

#	Bank (2018, EUR mn)	Total Assets	Loans	Equity	Net income	ROA	ROE	Impaired loan ratio	Impaired loan vol.	Major shareholder
1.	**CB PrivatBank**	8,893	9,205	992	363	4.1%	36.6%	77.2%	7,108	State
2.	**State Savings Bank of Ukraine**	6,882	4,024	581	4	0.1%	0.7%	49.9%	2,007	State
3.	**JSC Ukreximbank**	5,074	4,327	265	25	0.5%	9.5%	58.1%	2,513	State
4.	**Ukrgasbank**	2,597	1,691	182	24	0.9%	13.1%	15.8%	268	State
5.	**Raiffeisen Bank Aval**	2,496	1,492	366	158	6.3%	43.2%	11.1%	166	Raiffeisen
6.	**Alfa Bank Ukraine**	1,898	1,312	157	39	2.1%	24.9%	7.7%	101	Abh Ukraine
7.	**UkrSibbank**	1,661	937	212	83	5.0%	39.0%	12.0%	113	BNP Paribas
8.	**First Ukrainian International Bank**	1,574	1,155	201	63	4.0%	31.6%	11.8%	137	SKM Finance TOV
9.	**OTP Bank**	1,036	1,104	166	61	5.9%	37.1%	15.1%	167	OTP
10.	**Credit Agrocole Bank**	1,034	755	132	46	4.4%	34.4%	5.6%	42	Credit Agricole
	Banking sector total	**60,704**	**34,941**	**4,922**	**722**	**1.7%**	**14.7%**	**54.0%**	**18,856**	

Source: Banks' data disclosure, EMIS, NBU
Note: Banking sector's impaired loan ratio is calculated by NPL volume divided by the total gross volume (NPL ratio), whilst the impaired loan ratio of individual bank is calculated by loan loss provisions divided by total gross volume reported by the bank.

Bosnia and Herzegovina

Slightly improving macroeconomic conditions led to a sizeable expansion in credit and the improvement in asset quality in both retail and corporate segments.

Improving macro indicators supported the growth in household and corporate lending

The macroeconomic trends remained benign with slightly lower real GDP growth at 3.0% in 2018 compared to 2017, declining unemployment rate and public debt, and modest inflation. In terms of lending this led to an expansion of both segments, with an increase of 6.2% in retail and 3.5% in corporate credit.

In the retail segment, more favorable labor market conditions and lower interest rates were the primary drivers behind lending growth. In terms of lending structure, housing loans grew at a bit higher pace compared to consumer loans; however, in terms of loan shares consumer loans still accounted for the majority of the outstanding credit.

In the corporate segment, demand increased to finance working capital loans via revolving loans, primarily by companies in the trade, manufacturing, agriculture, forestry and fishing industries. The lending growth also benefitted from the decrease in the interest rates as well as from the increasing rivalry among competing banks.

Positive asset quality trends in lending to households and corporates

Asset quality continued to show signs of improvement, evidenced by the 1 percentage point drop in the share of retail NPLs to 6.5% in 2018 from 7.5% in 2017 and the 1.5 percentage point drop in the corporate NPL ratio to 10.8% from 12.3%.

The drop in the retail NPL ratio was a result of several factors, including permanent write-offs, more efficient credit risk management, frequent implementation of loan rescheduling, while the intensity of loans' reclassifications to NPLs also decreased compared to previous years. In terms of purpose, the decrease was led by housing loans, while the share of non-performing consumer loans slightly increased.

As per the Financial Stability Report of the CBBH, the clean-up of corporate NPLs decelerated, due to the higher volume of NPL transactions and write-offs in the previous years. In terms of sectors, all but agriculture, construction and catering recorded a drop in the share of NPLs. On a separate note, the report also highlights that the default rate in 2018 was slightly higher YoY, but the CBBH deems the repayment behavior of corporates overall as improving.

Macro indicators	2016	2017	2018	Change 2017-18 (% or % point)	
GDP (% real change pa)	3.4%	3.4%	3.0%	-11.8%	
Consumer prices (% change pa)	-1.6%	0.8%	1.4%	0.6%	
Recorded unemployment (%)	n.a.	38.4%	36.0%	-2.4%	

Banking sector	2016	2017	2018	Change 2017-18 (% or % point)	
Retail loans (EUR mn)	4,129	4,423	4,698	6.2%	
Corporate loans (EUR mn)	4,475	4,459	4,614	3.5%	
Interest rates					
Lending (%)	5.2%	4.4%	3.8%	-0.6%	
Deposit (%)	1.6%	1.2%	1.0%	-0.2%	
NPL volumes					
Retail NPLs (EUR mn)	352	332	305	-8.0%	
Corporate NPLs (EUR mn)	653	548	498	-9.2%	
NPL ratios					
Retail NPL ratio (%)	8.6%	7.5%	6.5%	-1.0%	
Corporate NPL ratio (%)	15.3%	12.3%	10.8%	-1.5%	
Key ratios					
CAR (%)	15.8%	15.7%	17.5%	1.8%	
ROE (%)	7.3%	10.2%	9.6%	-0.6%	
ROA (%)	1.1%	1.5%	1.3%	-0.2%	
CIR (%)	n.a.	n.a.	n.a.	n.a.	n.a.
L/D (%)	98.3%	95.2%	91.2%	-4.0%	
FX share of lending (%)	59.9%	58.9%	55.4%	-3.5%	
LLP coverage (%)	74.4%	76.7%	77.4%	0.7%	

Source: CBBH, ECB CBD

Distressed debt market remains subdued

No sale of larger non-performing loan portfolios has been reported in Bosnia and Herzegovina in recent years. Although, based on the public call for bids, HETA AG launched the divestment of its shareholding in BORA d.o.o. Banja Luka and the sale of non-performing portfolios as well as real estate assets in 2017.

#	Bank (2018, EUR mn)	Total Assets	Loans	Equity	Net income	ROA	ROE	NPL ratio	NPL vol.	Major shareholder
1.	**UniCredit Bank**	3,043	1,891	407	50	1.6%	12.3%	7.3%	138	Zagrebacka Banka
2.	**Raiffeisen Bank**	2,248	1,330	280	43	1.9%	15.4%	5.7%	75	Raiffeisen
3.	**Nova Banka**	1,121	517	79	5	0.5%	6.5%	6.3%	32	Private Individuals
4.	**Intesa Sanpaolo Banka**	1,054	726	141	19	1.8%	13.5%	4.1%	30	Privredna Banka Zagreb
5.	**UniCredit Banka**	848	517	112	14	1.7%	12.7%	6.8%	35	UniCredit
6.	**Sparkasse Bank**	750	n.a.	118	8	1.1%	6.8%	6.9%	37	Erste
7.	**Sberbank BH**	732	512	89	3	0.5%	3.9%	6.8%	35	Sberbank
8.	**NLB Banka, Banja Luka**	721	n.a.	88	16	2.2%	18.4%	n.a.	n.a.	NLB Group
9.	**NLB Banka**	591	393	77	-	0.0%	0.0%	n.a.	n.a.	NLB Group
10.	**ZiraatBank BH**	519	n.a.	88	0	0.0%	0.0%	n.a.	n.a.	T.C. Ziraat Bankasi
	Banking sector total	**15,794**	**9,942**	**2,139**	**205**	**1.3%**	**9.6%**	**8.1%**	**803**	

Source: Banks' data disclosure, EMIS, CBBH

Baltics

Favorable economic trends, solid growth in lending and improvement in asset quality characterize the Baltic countries.

Estonia

The macroeconomic conditions supported the growth in retail lending, while corporate credit increased at a slower pace

The Estonian macroeconomic environment remained favorable with a GDP growth at 3.9% YoY in 2018, 1 percentage point below last year's increase but still above the EU average. The unemployment rate dropped further by 0.4 percentage points to 5.4%, while inflation remained at the same rate as in 2017. In lending both retail and corporate segments expanded, by 6.3% and 3.6%, respectively.

The expansion of retail lending was a result of multiple factors such as increasing demand, including the rapid growth in wages, high levels of confidence and the low interest rate environment. In terms of loan types, housing loans and car leases were the main drivers of the increase. From the supply side, certain smaller banks have started expanding in the consumer loan segment due to higher potential yields, however on an aggregated level the growth of consumer lending remained moderate.

In corporate lending the primary source of growth was energy companies; however, changes in the structure of the Estonian banking market, in particular fewer banks offering large loans, had an upwards impact on pricing, to some extent constraining the volume of corporate lending.

Trends in NPLs also benefitted from the strong economic environment, with modest improvement in retail and a sizeable drop in corporate NPLs

The share of NPLs trended down even further in 2018, with a modest 0.07 percentage point improvement in the retail to 0.38% and a 0.55 percentage point improvement in the corporate NPL ratio to 0.74%. The BoE in its Financial Stability Report cites good circumstances driving the asset quality of households, with no major imminent threat to this state.

Macro indicators	2016	2017	2018	Change 2017-18 (% or % point)
GDP (% real change pa)	2.1%	4.9%	3.9%	-1.0%
Consumer prices (% change pa)	0.1%	3.4%	3.4%	0.0%
Recorded unemployment (%)	6.8%	5.8%	5.4%	-0.4%

Banking sector	2016	2017	2018	Change 2017-18 (% or % point)
Retail loans (EUR mn)	7,711	8,242	8,765	6.3%
Corporate loans (EUR mn)	7,499	7,078	7,330	3.6%
Interest rates				
Lending (%) [2]	2.2%	2.1%	2.1%	0.0%
Deposit (%)	0.4%	0.5%	0.6%	0.1%
NPL volumes				
Retail NPLs (EUR mn)	41	37	33	-10.1%
Corporate NPLs (EUR mn)	115	91	54	-40.5%
NPL ratios				
Retail NPL ratio (%)	0.5%	0.4%	0.4%	0.0%
Corporate NPL ratio (%)	1.5%	1.3%	0.7%	-0.6%
Key ratios				
CAR (%)	34.6%	30.1%	30.3%	0.2%
ROE (%)	11.1%	9.2%	9.8%	0.6%
ROA (%)	1.5%	1.4%	1.4%	0.0%
CIR (%)	44.5%	46.3%	45.3%	-1.0%
L/D (%)	99.0%	89.8%	93.5%	3.7%
FX share of lending (%)	0.8%	0.7%	0.5%	-0.2%
LLP coverage (%)	61.1%	37.1%	41.8%	4.7%

Source: Eesti Pank, ECB CBD

[2] Estimated based on the weighted average rate between retail and corporate

Note: NPL volumes and ratios are based on 60 days past due basis

Moderate distressed debt market activity

Based on publicly available intelligence, Versobank sold a EUR 12mn portfolio to AS LHV Pank in the second half of 2018. In 2019, Danske's Estonian branch transferred a private financing portfolio to LHV and a commercial financing portfolio to Danske's Lithuanian branch.

#	Bank (2018, EUR mn)	Total Assets	Loans	Equity	Net income	ROA	ROE	NPL ratio	NPL vol.	Major shareholder
1.	**Swedbank**	10,577	7,784	1,713	183	1.7%	10.7%	0.8%	59	Swedbank AB
2.	**SEB**	6,379	5,022	833	86	1.3%	10.3%	1.6%	79	SEB AB
3.	**Luminor**	3,853	3,121	465	41	1.1%	8.8%	3.4%	106	Luminor Group AB
4.	**LHV Pank**	1,636	929	114	16	1.0%	13.6%	1.1%	10	LHV Group
5.	**Bigbank**	527	446	118	18	3.4%	15.0%	3.3%	15	Private individuals
6.	**Coop Pank**	439	333	42	0	0.0%	0.4%	0.4%	1	Coop Investeeringud
7.	**Inbank**	298	230	35	6	2.1%	17.9%	0.9%	2	No majority shareholder
8.	**Tallinna Aripanga**	215	55	27	1	0.7%	5.3%	2.5%	1	Leonarda Invest Aktsiaselts
	Banking sector total	**26,559**	**16,095**	**3,826**	**377**	**1.4%**	**9.8%**	**0.5%**	**87**	

Source: Banks' data disclosure, EMIS, Eesti Pank

Latvia

Healthy lending rates driven by a solid macroeconomic environment, in both retail and corporate segments

Macroeconomic indicators remained strong, with a slower real GDP growth in 2018 than in 2017, but still above the EU average, an improvement in unemployment, stable inflation and a decrease in public debt. In terms of lending, both retail and corporate lending grew in size in 2018, by 3.6% and 7.3%, respectively.

As in other parts of the Baltic region, retail lending benefitted from the development of the labor market, characterized by higher employment levels and higher wages. Moreover, additional supporting factors were the low interest rates and the state support program for house purchase, which was extended to additional client groups in March 2018.

In the corporate segment, multiple factors influenced the lending trends over 2018, including the exit of certain players, which was offset primarily by some large sized long-term loans. In the same period, overall interest rates on loans remained stable.

Asset quality metrics remained solid, with the central bank expecting further improvements

On a portfolio level, as per the financial stability report of BoL, the NPL ratio (for more than 90 days overdue loans) declined below 4%, driven by gradual improvements in the credit portfolio of banks. In terms of segments, retail NPL ratio stood at 3.1% and corporate NPL ratio at 4.6% at the end of 2018.

Macro indicators	2016	2017	2018	Change 2017-18 (% or % point)	
GDP (% real change pa)	1.5%	5.0%	5.0%	0.0%	
Consumer prices (% change pa)	0.2%	2.9%	2.5%	-0.4%	
Recorded unemployment (%)	9.6%	8.7%	7.4%	-1.3%	

Banking sector	2016	2017	2018	Change 2017-18 (% or % point)	
Retail loans (EUR mn)	5,581	5,531	5,727	3.6%	
Corporate loans (EUR mn)	7,943	7,144	7,668	7.3%	
Interest rates					
Lending (%)	2.6%	2.6%	2.7%	0.1%	
Deposit (%)	0.0%	0.1%	0.1%	0.0%	
NPL volumes					
Retail NPLs (EUR mn) [4]	275	182	177	n.a.	n.a.
Corporate NPLs (EUR mn) [4]	172	182	349	n.a.	n.a.
NPL ratios					
Retail NPL ratio (%) [4]	4.9%	3.3%	3.1%	n.a.	n.a.
Corporate NPL ratio (%) [4]	2.2%	2.5%	4.6%	n.a.	n.a.
Key ratios					
CAR (%)	21.5%	21.4%	21.6%	0.2%	
ROE (%)	14.3%	7.6%	9.2%	1.6%	
ROA (%)	1.5%	0.9%	1.2%	0.3%	
CIR (%)	47.8%	58.4%	61.3%	2.9%	
L/D (%)	62.4%	60.6%	62.4%	1.8%	
FX share of lending (%)	12.5%	8.4%	4.2%	-4.2%	
LLP coverage (%)	46.3%	44.2%	40.3%	-3.9%	

Source: Latvijas Banka, ECB CBD

[4] Pre-2018 figures exclude non-residents, from 2018 non-residents are also included

The improvement in the retail NPL share was attributable to the increase in the creditworthiness of households, because of the steady rise in real wage. In the corporate segment, among all the sectors real estate related sectors faced the most significant decrease in NPLs in 2018. Overall, the BoL expects the quality of loan portfolios to improve further, along with economic growth and increase in the income of households.

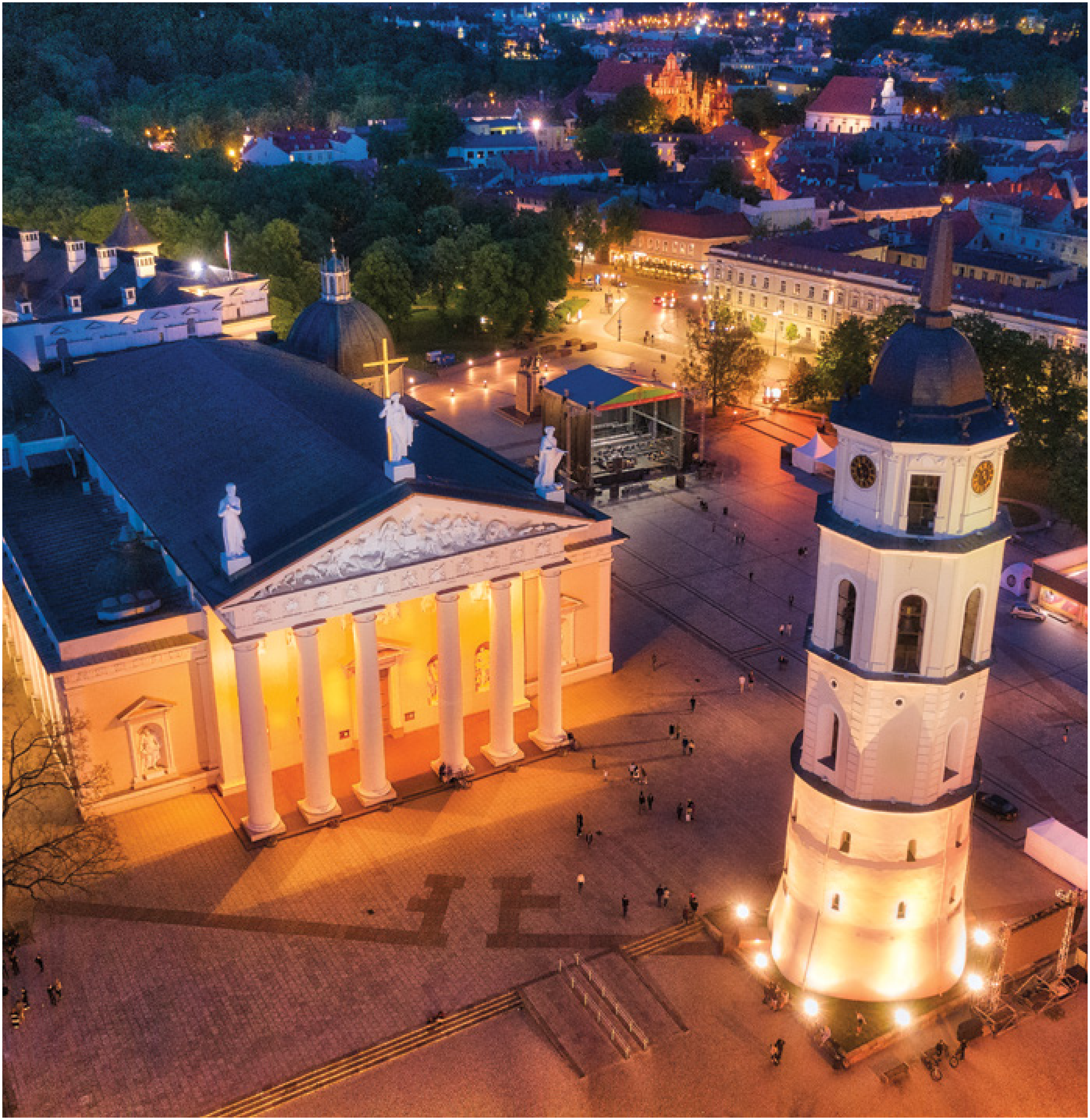
One publicly available NPL transaction in 2018

SIA Hiponia's EUR 119mn portfolio sale to B2 Holding was the only transaction disclosed to the public over 2018.

#	Bank (2018, EUR mn)	Total Assets	Loans	Equity	Net income	ROA	ROE	Impaired loan ratio	Impaired loan vol.	Major shareholder
1.	**Swedbank**	5,835	3,318	805	111	1.9%	13.8%	3.9%	131	Swedbank
2.	**Luminor**	4,692	2,887	547	44	0.9%	8.1%	8.4%	243	DNB & Nordea Bank
3.	**SEB Banka**	3,706	3,628	371	46	1.2%	12.4%	1.9%	68	SEB
4.	**Citadele Bank**	2,330	1,016	268	33	1.4%	12.3%	9.1%	93	Ripplewood Holdings
5.	**Rietumu Bank**	1,546	782	470	34	2.2%	7.2%	34.9%	273	Private individuals
6.	**PNB Banka [5]**	577	197	49	(5)	-0.9%	-10.4%	56.4%	111	Private individuals
7.	**BlueOrange Bank**	479	194	66	7	1.5%	11.2%	7.2%	14	BBG
8.	**Rigensis Bank**	456	49	66	3	0.7%	4.5%	0.0%	0	Private individuals
9.	**Baltic International Bank**	287	66	25	(0)	-0.1%	-1.2%	46.1%	30	Private individuals
10.	**Reģionālā investīciju banka**	283	104	33	6	2.2%	18.9%	24.5%	25	No majority shareholder
	Banking sector total	**22,583**	**13,395**	**2,893**	**266**	**1.2%**	**9.2%**	**3.9%**	**526**	

Source: Banks' data disclosure, EMIS, Latvijas Banka

[5] Norvik Banka changed its name to PNB Banka as of November 2018



Lithuania

Strong economic situation driving the expansion of the credit markets in both the retail and corporate segments

The economic indicators of Lithuania improved further YoY in 2018, showing a healthy situation with among others increasing real GDP growth, lowering unemployment rates and inflation under control. In terms of lending both retail credit and corporate credit expanded in 2018, by 8.2% and 4.2% YoY, respectively.

In the retail segment, solid growth can be accounted to the favorable economic environment, which synthetized in higher disposable income and thus in an improved credit profile at households, and was further supported by the historically low interest rates. In terms of lending purpose, housing loans were the main driver of the increase in loans, however consumer lending also picked up in 2018.

In the corporate segment, the increase in lending was due to improving corporate expectations regarding future business prospects and the related more active investments. Moreover, the income and profits of firms have also been trending positively, which could be considered as an additional factor related to stronger borrower profiles.

Improving asset quality over most of the retail and corporate portfolios

Asset quality improved further in 2018, indicated by a 0.7 percentage point drop in the retail NPL ratio to 3.0% from 3.7% and a 0.9 percentage point drop in the corporate NPL ratio from 5.0% to 4.1%.

The share of retail NPLs went down in both housing and consumer segments, also benefitting from the benign macro conditions, along with retail lending in general.

By corporate NPLs the improving financial health of the private sector had a substantial positive impact on asset quality trends. On a separate note, in its Financial Stability Report the BoL highlights increasing credit risk in the construction, accommodation and catering sectors, which to some extent offset the asset quality improvement in the segment.

Macro indicators	2016	2017	2018	Change 2017-18 (% or % point)
GDP (% real change pa)	2.3%	3.9%	3.5%	-0.4%
Consumer prices (% change pa)	0.7%	3.7%	2.5%	-1.2%
Recorded unemployment (%)	7.9%	7.1%	6.2%	-0.9%

Banking sector	2016	2017	2018	Change 2017-18 (% or % point)
Retail loans (EUR mn)	8,382	9,000	9,736	8.2%
Corporate loans (EUR mn)	8,303	8,521	8,882	4.2%
Interest rates				
Lending (%)	2.8%	2.8%	3.2%	0.4%
Deposit (%)	0.2%	0.3%	0.3%	0.0%
NPL volumes				
Retail NPLs (EUR mn)	317	307	258	-15.8%
Corporate NPLs (EUR mn)	519	429	364	-15.2%
NPL ratios				
Retail NPL ratio (%)	3.8%	3.7%	3.0%	-0.7%
Corporate NPL ratio (%)	6.3%	5.0%	4.1%	-0.9%
Key ratios				
CAR (%)	19.4%	19.1%	18.8%	-0.3%
ROE (%)	11.9%	9.1%	12.3%	3.2%
ROA (%)	1.0%	0.9%	1.2%	0.3%
CIR (%)	47.7%	48.9%	44.9%	-4.0%
L/D (%)	82.3%	78.8%	82.3%	3.5%
FX share of lending (%)	0.7%	0.5%	0.4%	-0.1%
LLP coverage (%)	35.7%	35.1%	34.3%	-0.8%

Source: Bank of Lithuania, ECB CBD

Distressed debt markets recorded two transactions publicly available in 2018

In 2018, there were two completed transactions in the country based on publicly available market intelligence. First, Investor Group's EUR 95mn corporate NPL portfolio sale to Uab Easy Debt Service.

In December 2018, UAB Easy Debt Service also acquired an EUR 17mn corporate NPL portfolio from AB Medicinos Bank.

#	Bank (2018, EUR mn)	Total Assets	Loans	Equity	Net income	ROA	ROE	Impaired loan ratio	Impaired loan vol.	Major shareholder
1.	**Swedbank**	9,331	5,180	808	106	1.1%	13.1%	1.1%	55	Swedbank
2.	**SEB Bankas**	7,860	31,329	767	104	1.3%	13.5%	0.5%	146	SEB
3.	**Luminor Bank**	6,792	5,739	756	43	0.6%	5.7%	2.5%	184	DNB
4.	**Siauliu Bankas**	2,222	1,251	269	53	2.4%	19.7%	5.9%	74	EBRD
5.	**Citadele Bankas**	492	n.a.	55	4	0.8%	7.2%	8.2%	n.a.	Citadele Banka
6.	**Medicinos Bankas**	328	159	31	2	0.7%	8.0%	n.a.	n.a.	Saulius Karosas
7.	**Lietuvos Centrinės Kredito Unijos**	135	n.a.	16	0	0.1%	0.8%	n.a.	n.a.	n.a.
	Banking sector total	**28,620**	**18,618**	**2,747**	**338**	**1.2%**	**12.3%**	**3.3%**	**622**	

Source: Banks' data disclosure, EMIS, Bank of Lithuania

Albania

Solid macro conditions were driving retail lending, corporate credit expansion remained limited, while asset quality improved in both segments.

Substantial increase in retail lending, while corporate lending remaining almost unchanged

TThe Albanian economy remained healthy with a slightly improved real GDP growth at 4.0% in 2018, 0.2 percentage points higher YoY, declining unemployment rate, and stable inflation. Growth in lending was concentrated to retail lending, where the increase was 11.8% from 2017 to 2018, while the corporate portfolio only grew marginally, by 0.9%.

In retail lending, the increase of employment and wages were the supporting factors for the credit expansion. In terms of denomination, lek loans were driving the growth.

Marginal growth in the corporate segment can be attributed to the impact of the contraction of real estate and working capital loans.

Asset quality trends remained supportive in both retail and corporate credit, driving down the share of NPLs

Share of NPLs changed positively in both segments, in retail dropping 1.2 percentage points to 6.4% in 2018 and in corporate 2.6 percentage points to 14.3%. The decline was a result of several factors, including repayments, write-offs and restructuring. Furthermore, in its Financial Stability Report the BoA notes overall high levels of collateralization.

The drop in retail NPLs was coming from lek loans, while asset quality of FX loans did not change significantly over 2018. Per the BoA, the increase in cash collection can be considered as the main contributor to the decline.

The decrease of corporate NPLs was primarily related to lek denominated loans, mostly via repayments and to a smaller extent to write-offs.

Macro indicators	2016	2017	2018	Change 2017-18 (% or % point)
GDP (% real change pa)	3.4%	3.8%	4.0%	0.2%
Consumer prices (% change pa)	1.3%	2.0%	2.0%	0.0%
Recorded unemployment (%)	10.3%	7.6%	6.3%	-1.3%

Banking sector	2016	2017	2018	Change 2017-18 (% or % point)
Retail loans (EUR mn)	1,247	1,339	1,497	11.8%
Corporate loans (EUR mn)	3,192	3,181	3,208	0.9%
Interest rates				
Lending (%)	5.5%	7.2%	6.8%	-0.4%
Deposit (%)	0.8%	0.8%	0.9%	0.1%
NPL volumes				
Retail NPLs (EUR mn)	125	102	96	-5.9%
Corporate NPLs (EUR mn)	683	538	459	-14.6%
NPL ratios				
Retail NPL ratio (%)	10.0%	7.6%	6.4%	-1.2%
Corporate NPL ratio (%)	21.4%	16.9%	14.3%	-2.6%
Key ratios				
CAR (%)	15.7%	16.6%	18.2%	1.6%
ROE (%)	7.2%	15.7%	13.0%	-2.7%
ROA (%)	0.7%	1.5%	1.2%	-0.3%
CIR (%)	61.2%	71.9%	77.6%	5.7%
L/D (%)	51.9%	51.5%	49.2%	-2.3%
FX share of lending (%)	59.0%	56.0%	56.1%	0.1%
LLP coverage (%)	70.5%	71.7%	65.6%	-6.1%

Source: AAB, BoA

No major deal on the Albanian distressed debt market as the banking sector remained relatively healthy

Acquiring loans on a regular basis in Albania is considered as financing activity, thus falling under the provisions of Law on Banks and the entity should be licensed as a bank or non-banking financial entity in Albania.

Same as in the previous years, 2018 and year-to-date in 2019 no major NPL sale transaction was observed on the Albanian market. However, larger banks might consider the disposal of NPLs in order to accelerate their balance sheet clean-up process.

#	Bank (2018, EUR mn)	Total Assets	Loans	Equity	Net income	ROA	ROE	NPL ratio	NPL vol.	Major shareholder
1.	**Banka Kombëtare Tregtare**	3,443	1,062	380	51	1.5%	13.4%	3.6%	38	Calik Finansal Hizmetler
2.	**Raiffeisen Bank Albania**	1,806	800	219	27	1.5%	12.5%	14.1%	113	Raiffeisen
3.	**Credins Bank**	1,570	821	126	3	0.2%	2.5%	11.3%	93	No majority shareholder
4.	**Intesa Sanpaolo Bank Albania**	1,388	377	164	4	0.3%	2.2%	6.6%	25	Intesa Sanpaolo
5.	**Societe Generale Albania**	666	409	58	(5)	-0.7%	-7.8%	8.3%	34	Societe Generale
6.	**American Bank of Investments**	630	224	73	5	0.7%	6.3%	15.6%	35	Tranzit Finance
7.	**Alpha Bank Albania**	625	300	70	(8)	-1.3%	-11.3%	8.5%	25	Alpha Bank
8.	**Tirana Bank**	591	198	103	(13)	-2.2%	-12.9%	25.5%	51	Piraeus Bank
9.	**Union Bank**	416	183	37	4	1.0%	11.6%	8.5%	16	Unioni Financiar Tirane
10.	**ProCredit Bank**	259	181	25	(6)	-2.5%	-25.0%	7.9%	14	ProCredit Holding
	Banking sector total	**11,772**	**4,705**	**1,074**	**141**	**1.2%**	**13.0%**	**11.8%**	**555**	

Source: Banks' data disclosure, AAB

For more details behind the study, use the QR scanner

List of abbreviations

AQR	Asset Quality Review
AAB	Albanian Association of Banks
bn	Billion
BAMC	Bank Asset Management Company
BNB	Bulgarian National Bank
BoA	Bank of Albania
BoE	Bank of Estonia
BoL	Bank of Latvia; Bank of Lithuania
BSI	Bank of Slovenia
c.	circa
CAR	Capital Adequacy Ratio
CBBH	Central Bank of Bosnia and Herzegovina
CCB	Countercyclical Capital Buffer
CEE	Central and Eastern Europe
CIR	Cost-to-income ratio
CNB	Czech National Bank
CRE	Commercial real estate
DGF	Deposit Guarantee Fund
DIA	Deposit Insurance Agency
E	Estimate
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
ECB CBD	European Central Bank Consolidated banking data
EIU	Economist Intelligence Unit
EU	European Union
EUR	Euro
FX	Foreign exchange
GDP	Gross Domestic Product
HNB	Croatian National Bank
HUF	Hungarian forint
IMF	International Monetary Fund
LLP	Loan Loss Provision
LTV	Loan-to-value
L/D ratio (L/D)	Loan-to-deposit ratio
mn	Million
NBR	National Bank of Romania
NBH	National Bank of Hungary
NBP	National Bank of Poland
NBS	National Bank of Slovakia/National Bank of Serbia
NBU	National Bank of Ukraine
NIM	Net interest margin
NPL	Non-performing loan
pa	Per Annum
PLN	Polish zloty
ROA	Return on Assets
ROE	Return on Equity
RRE	Residential real estate
SME	Small and medium-sized enterprises
UAH	Ukraine Hryvnia
USD	United States Dollars
YoY	Year-on-Year

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