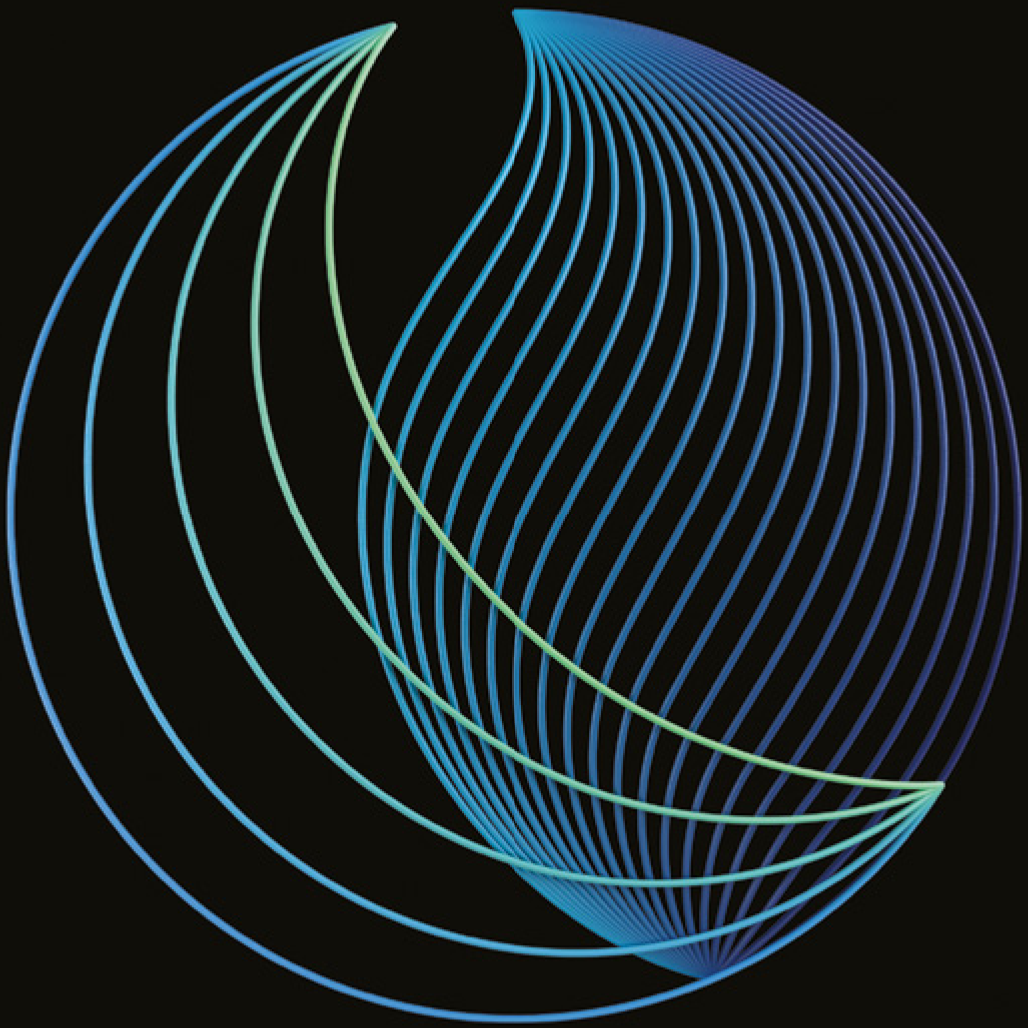
Deloitte.



What’s beyond the peak?

CEE loan markets still offer new opportunities

Contents

Highlights	2
Macroeconomic overview	4
NPL metrics summary	6
Loan sales market overview – Selected transactions	14
CEE NPL market dynamics	17
Poland	18
Czech Republic	22
Slovakia	26
Hungary	30
Romania	34
Slovenia	38
Croatia	42
Bulgaria	46
Serbia	50
Ukraine	54
Bosnia and Herzegovina	58
Baltic Region	62
Albania	71
List of abbreviations	75
Contact us	76

Dear Reader,

It is a great pleasure to introduce you the 7th edition of our annual report reviewing recent trends of non-performing loan portfolio markets in the CEE region.

In the study we provide an overview on the main developments of the CEE NPL market, analysing the evolution of key NPL metrics as well as the dynamics of loan portfolio transactions. As a novelty, this year's report is covering Albania as well, increasing the number of analysed countries to fifteen.

Asset quality indicators are on the mend in the CEE region, although positive trends are not evenly seen among the countries covered by the study. Whilst NPL ratios are trending back to single-digit figures or even converging the pre-crisis levels in some countries, other markets still posted NPL ratios exceeding 10% at end-2018.

Regulatory and supervisory pressure as well as banks' motivation to focus on their core activity and release capital have facilitated active balance sheet management in recent years. This contributed to well-functioning NPL markets in many countries in the CEE region.

Given the sizeable NPL transactions concluded between 2015 and 2018 and the continuously diminishing NPL portfolios, we expect to see a slowdown in the pace of NPL transaction activity in the CEE region. As many international investors have already shifted their focus to current hot markets in Europe like Italy, Spain and Greece, we also anticipate subdued demand in the coming years.

On the other hand, looking at the numerous deals currently ongoing and the strong deal pipeline in some countries, we expect the deceleration of the loan sales market activity to be slower than previously anticipated. This is likely to lead to a prolonged final phase of deleveraging in the CEE region.

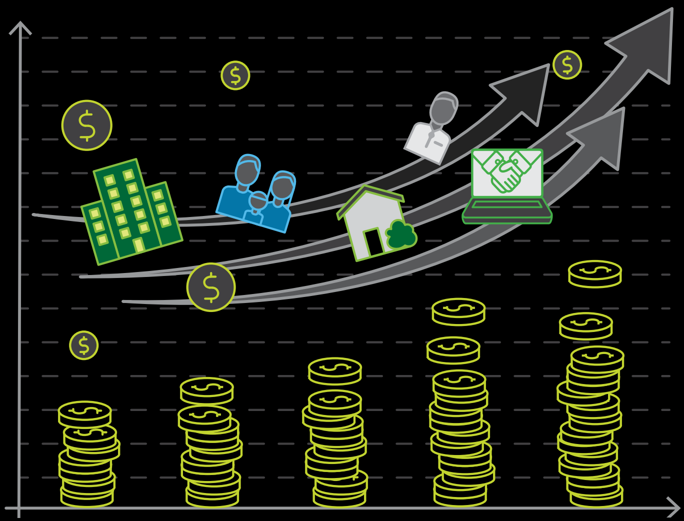
We hope you enjoy reading this year's CEE NPL Study and you will find this deep dive into CEE distressed debt markets informative and insightful. We encourage you to contact us in case you need further understanding on any of the markets listed in the study.

Best regards,

Balázs Bíró
Partner, Central European leader of
Portfolio Lead Advisory Services

Highlights

Deleveraging via disposals remained an important option to address non-performing loans among financial institutions in the CEE region[1]. Although, **CEE loan sales markets recorded a subdued activity in 2017 and 2018 H1 compared to record deal-making in 2016** as banks have been gradually decreasing their NPL portfolios to a sustainable level. As a result of continuously diminishing NPL portfolios, **competition remained strong on the demand side** mainly among investors who have already built their servicing capacity in the region. However, the tools of credit portfolio management also included significant write-offs of bad debts as well as restructuring agreements instead of traditional in-court and collateral enforcement proceedings.

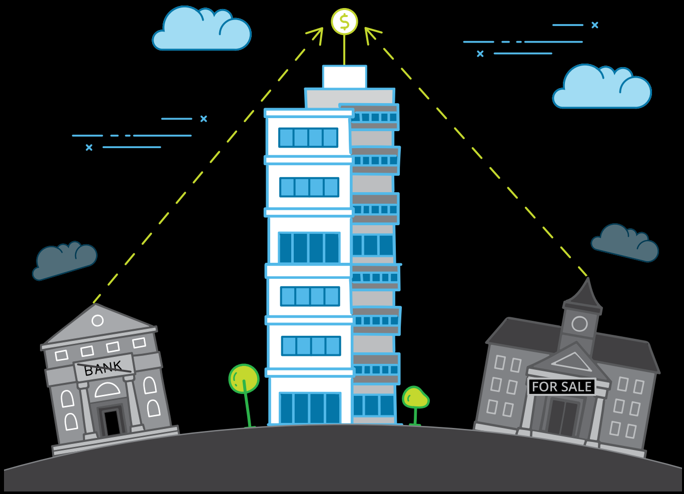


Improvement of asset quality indicators

The improvement of asset quality is evidenced in the **NPL ratios gradually trending back to single-digit figures or even converging the pre-crisis level in some countries.** This was also stimulated by the recovery of lending activity driven by the continued positive trends in the macroeconomic environment. The economic upturn also contributed to **a better financial position of both corporates and households,** which gave a stimulus to the repayment of legacy non-performing loans.

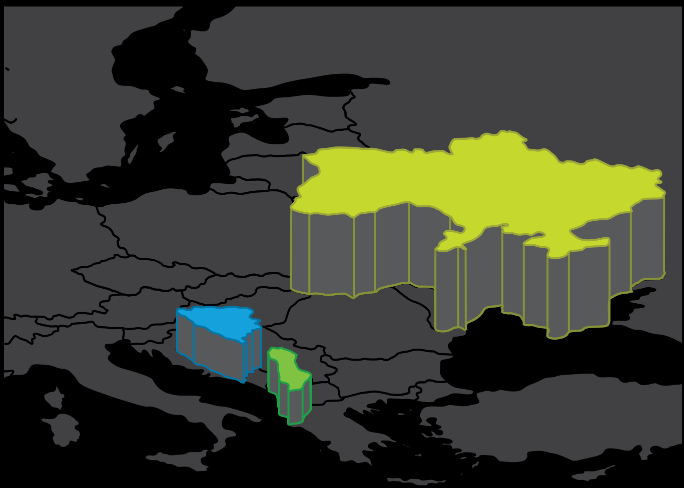
The improvement of the credit portfolio quality is also evidenced in the **declining default rates** that are indicative of the inflow of new NPLs. Nevertheless, time since the rebound of lending is relatively short to draw robust conclusions in terms of the NPL formation in the coming years. **The expected rise in interest rates** from the historical lows may also put pressure on the debtors' repayment capacity.

[1]CEE region includes the following countries: PL, CZ, SK, HU, RO, SI, HR, BG, RS, UA, BH, EE, LV, LT, AL



Consolidation of the banking sector

The outlook of the CEE loan sales markets envisages a miscellaneous picture. Activity on markets that have already tackled most of their NPLs are likely to gradually subside in the coming years and **the trade of other non-core assets** – among others performing leasing and loan portfolios, subsidiaries of financial institutions as well as servicing platforms – **will gain momentum.** This trend will be driven by **the consolidation of the banking sector** as well as banks' efforts to reshape their portfolios and divest assets considered as strategically non-core. On the other hand, **we still anticipate some larger transactions on markets considered to enter the final phase of the deleveraging process as new comers are assessing the option of selling their non-performing loan books** in order to accelerate the balance sheet clean-up.



CEE NPL markets are still benefiting from solid deleveraging activity

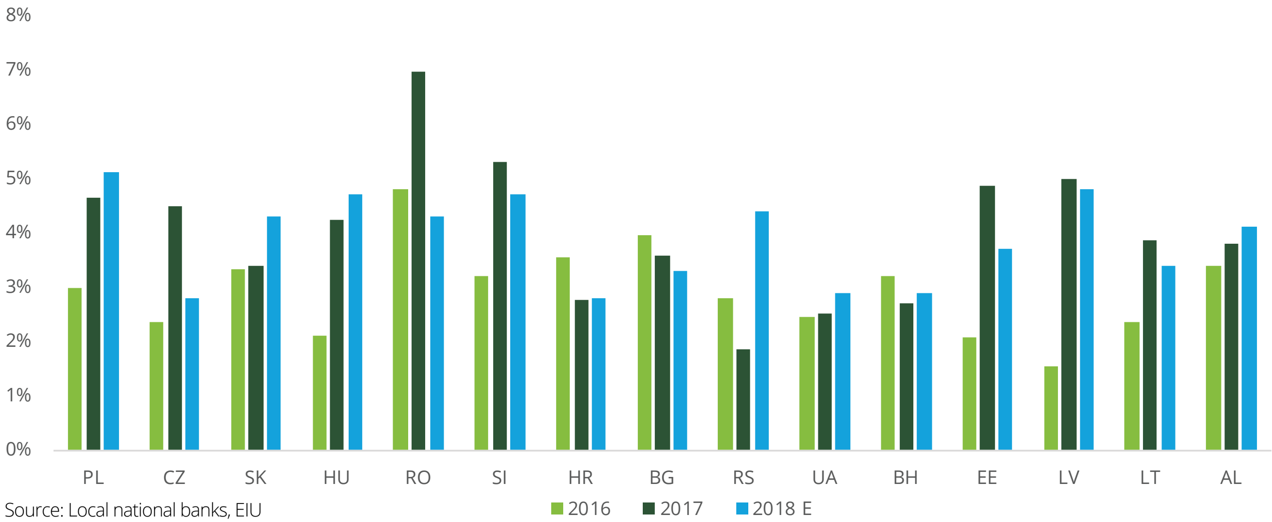
Romania, Hungary and Croatia have experienced a strong transaction track record between 2015 and 2017 with just over EUR 9.5bn worth of deals concluded. In addition, we observed **continued interest from international and domestic investors** on these loan sale markets based on the volume of transactions completed in 2018 H1 as well as the number of reported ongoing transactions. Acceleration of the secondary NPL markets is also evidenced by completed transactions in Romania and Hungary.

Relatively **untapped markets with potential future deal flow are Ukraine with its sizeable NPL market, and also Bosnia and Herzegovina and Albania where no major loan sales activity has been reported so far.** International and domestic NPL investors keep an eye on the Ukrainian market mainly due to the material supply of non-performing corporate loans, however the desired stimulus to the legal and insolvency framework as well as the infrastructure of distressed debt market is still awaited. Robust provisioning of NPLs potentially contributes to a reduced pricing gap between the investors and sellers, which could also promote the number of deal-makings.

In the wake of shrinking supply of unsecured and secured corporate NPL portfolios, **investors are adapting themselves to the changing market conditions and looking for new opportunities, shifting their focus to retail mortgages.**

Macroeconomic overview

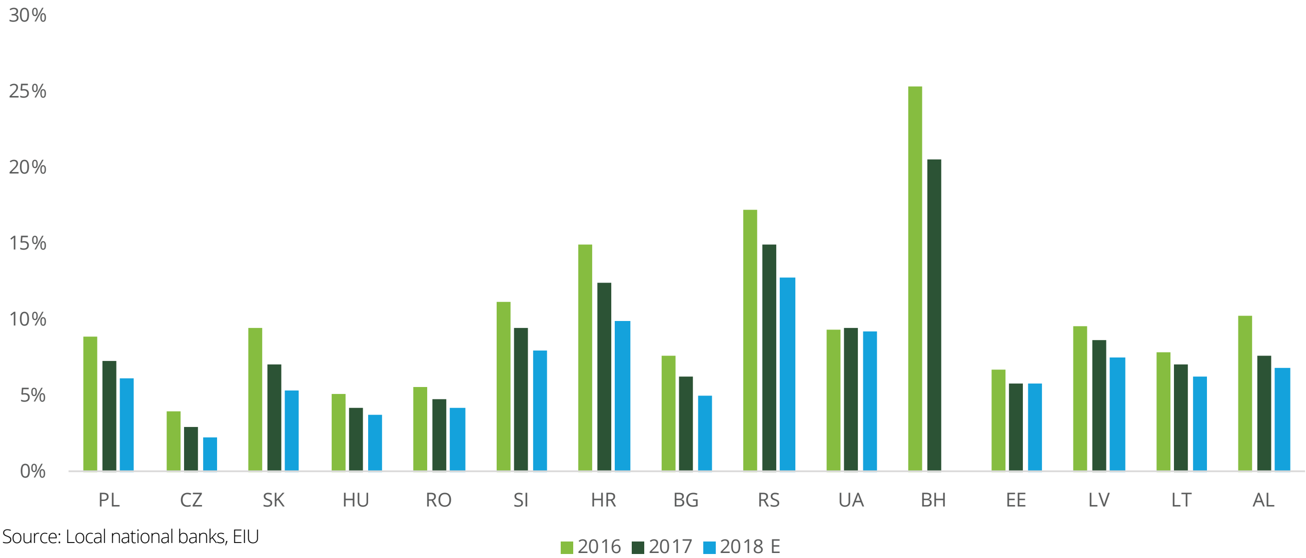
Figure 1. Changes in real GDP, 2016-2018 (Estimate)



Source: Local national banks, EIU

All countries analysed in the study recorded positive GDP growth in 2017. The highest growth rates were achieved by Romania (7.0%), Latvia (5.0%) and Slovenia (5.0%). Romania experienced increasing wages and decreasing VAT which resulted in the boost of private consumption. In Latvia and Slovenia export activity and private consumption generated the above-average expansion of the economy. As a result, average GDP growth of the fifteen countries covered by the study reached 4.0% in 2017. The main source of growth was the positive trend on the labour market across the CEE region and low consumer prices which contributed to increasing domestic demand. Besides the economic upturn, further structural reforms are expected in several countries to develop productivity, competitiveness, education and labour markets. In 2018, the economy of the fifteen countries is slowing, with an estimated average GDP growth of 3.9%.

Figure 2. Unemployment rate, 2016-2018 (Estimate)



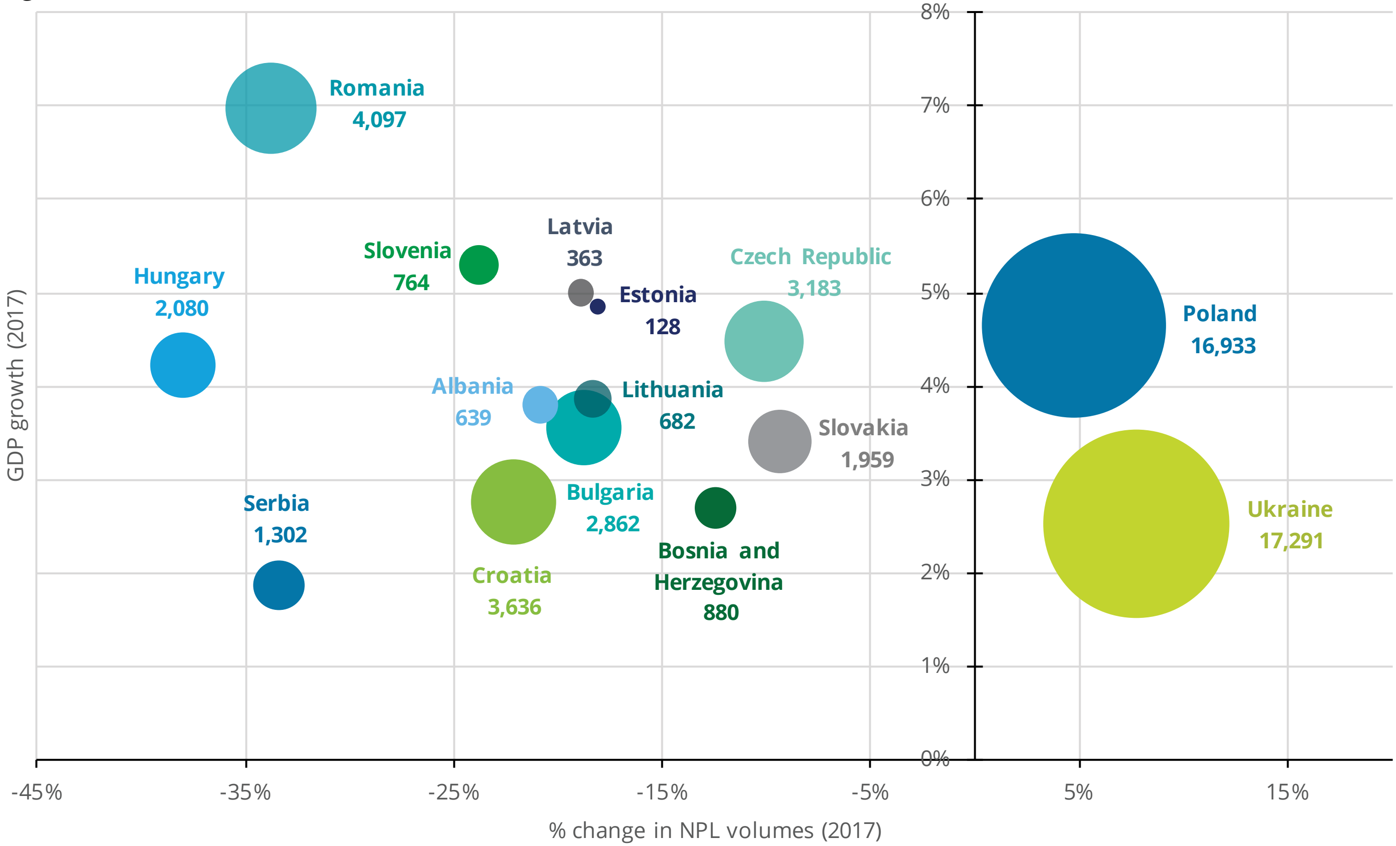
Source: Local national banks, EIU

Recorded unemployment rate decreased in almost all countries in 2017, except for Ukraine which recorded only a slight increase compared to 2016. The most significant improvements were posted in Bosnia and Herzegovina (-4.9% points), Albania (-2.7% points), Croatia (-2.5% points) and Slovakia (-2.4% points). On average, unemployment rate decreased by 1.7% point from 10.2% to 8.6% in 2017 on the back of growing economies. Most countries experienced a significant real wage increase on top of the decreasing unemployment rate, which resulted in the gradual increase of inflation. Recorded unemployment rate continued its downward trend in 2018 as well, the average decrease is likely to be close to 2.0% points in 2018.

NPL metrics summary

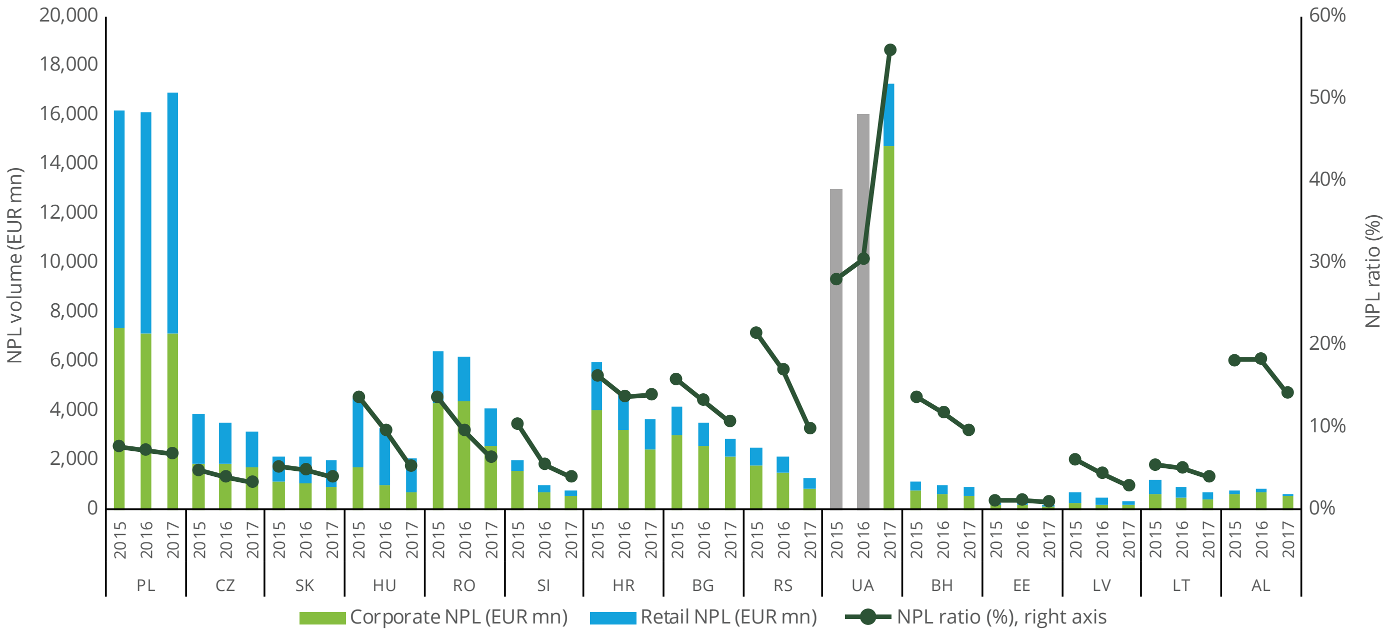
With the continuing GDP growth in all covered countries in 2017, lending volumes generally increased and almost all countries displayed a decrease in total NPL stock. The lending activity has been advanced by the stable economic growth and low interest rates as well. This, combined with the strong labour market increased the demand for housing loans in almost all countries in 2017, furthering the strides made in 2016. Both corporate and retail loans showed a continuing positive trend, which was also reflected on a generally positive outlook on NPL volumes and ratios, with the exception of Ukraine whom are still rebounding from political unrest. In most cases the downward trend resulted from banks' active credit portfolio management mainly through write-offs, bad debt restructuring agreements and sales of distressed non-performing loan portfolios.

Figure 3. Evolution of NPL volumes and GDP, Q4 2016 - Q4 2017



Source: Local national banks, EIU   Bubble size: Q4 2017 NPL volume (EURmn)

Figure 4. Evolution of key NPL metrics, 2015 - 2017



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.

Romania posted an exceptional improvement, with their corporate and retail NPL volumes falling by 19.1% and 40% respectively. Although corporate lending continued to decrease, it was at a slower pace of 0.4%, with the corporate NPL ratio falling 7.5% point. Despite the positive trends, there is still room for improvement as a corporate NPL ratio stood at 11.4% at end-2017 is still relatively high amongst the studied countries. Like Romania, Hungary also recorded sizeable decreases in retail and corporate NPL volumes by 39.7% and 34.1% and ratios by 5.1% point and 2.2% point respectively. Serbia also posted an outstanding improvement in its asset quality indicators, with the NPL ratio of the banking sector standing below the pre-crisis level of 9.8% at end-2017. Unlike its surrounding countries, Ukraine still posted an extremely high NPL ratio of 55.8% at end-2017. However, the total volume of consumer loans increased between 2016 and 2017, and corporate loan volume grew by 2.7% in UAH-terms, which can be attributed to a return in economic confidence post political turmoil. Despite this, there is still a mountain of distressed assets, with the record high level NPL ratio of 56.2% in May 2018. This NPL ratio was reported after Ukraine introduced of new definitions of NPL's to closer comply with common global standard definitions. The large quantity of corporate NPL's may

well attract international investors, but currently the loan sales market is limited to domestic investors. The banking sector remains heavily contaminated with distressed assets amassed from the political instability.
The entirety of the CEE NPL ratio is looking altogether more positive with only four countries still in double-digit territory as of year-end 2017. Croatia, with the second highest NPL ratio of 14.0% is currently on the rebound from the Agrokor crisis, whilst Ukraine remains the anomaly due to the aforementioned unrest, meanwhile Bulgaria edges ever closer to single digits, stood at 10.6% at end-2017. Albania also posted a total NPL ratio above the 10% threshold as of year-end 2017, with 14.1%.
The NPL ratios of Poland and Lithuania have rather stagnated, whilst the NPL ratio of Slovenia remained on its downward trend.

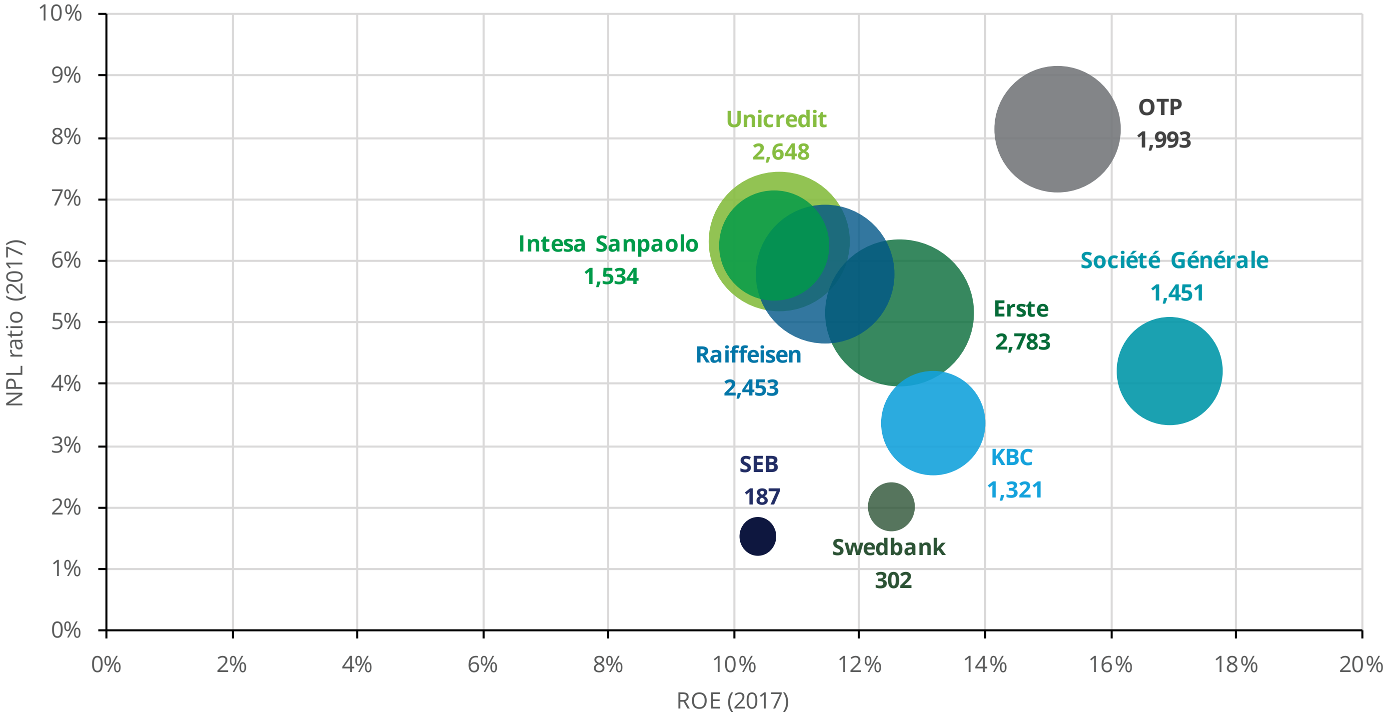
Table 1. NPL volumes and ratios, Q4 2017

Country	Corporate (EUR mn)	Corporate NPL ratio (%)	Retail (EUR mn)	Retail NPL ratio (%)	Total (EUR mn)	Total NPL ratio (%)
Poland	7,171	8.2%	9,762	6.1%	16,933	6.8%
Czech Republic	1,692	4.2%	1,490	2.5%	3,183	3.2%
Slovakia	917	5.2%	1,043	3.2%	1,959	3.8%
Hungary	678	3.3%	1,402	7.5%	2,080	5.3%
Romania	2,608	11.4%	1,488	5.7%	4,097	6.4%
Slovenia	511	5.3%	253	2.6%	764	3.9%
Croatia	2,411	22.2%	1,225	8.1%	3,636	14.0%
Bulgaria	2,115	12.5%	747	7.4%	2,862	10.6%
Serbia	858	10.1%	444	5.8%	1,302	9.8%
Ukraine	14,744	56.5%	2,547	52.0%	17,291	55.8%
Bosnia and Herzegovina	548	12.3%	332	7.5%	880	9.5%
Estonia	91	1.3%	37	0.4%	128	0.8%
Latvia	182	2.5%	182	3.3%	363	2.9%
Lithuania	429	5.0%	253	2.8%	682	3.9%
Albania	538	16.9%	102	7.6%	639	14.1%
Total	**35,493**		**21,307**		**56,800**	

Source: National banks, Deloitte analysis
Note: Estonia NPL ratios are DPD 60

Following a widely positive year in reducing both NPL ratio and volume, the decrease enhanced when comparing to last year's edition (excluding Albania from the comparison since it was added in this edition). Total NPL volume in the CEE region was down to EUR 57bn in 2017 from EUR 61bn in 2016. Given that banks have already disposed sizeable amounts of non-performing loans in 2015 and 2016, the pace of decrease saw a slowdown in 2017.
Figure 5. shows the connection between ROE and NPL ratio for the nine leading banking groups in the CEE and Baltic region. Profitability of the banking sector remained reassuring in 2017, however average ROE of 10% is still below the pre-crisis-highs. The profitability was supported mainly by the limited volume of new loan loss provisions due to improving asset quality, the release of former provision stocks as well as gradually increasing loan demand. All of the banking groups reported a ROE above 10% at end-2017, whilst NPL ratios varied between 4% and 8%.

Figure 5. 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 2017, 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 (2017, EUR mn)

	Bank name	Loans	NPL %	NPL vol.
CZ	UniCredit Bank Czech Republic	14,663	3.0%	446
HR	Zagrebacka Banka	8,282	11.4%	944
BG	UniCredit Bulbank AD	5,198	9.0%	468
HU	UniCredit Bank	4,033	n/a	n/a
RO	Unicredit Bank	4,744	8.1%	384
SI	Unicredit Banka Slovenija	1,447	7.4%	107
RS	UniCredit Banka	2,027	5.9%	119
BH	Unicredit Bank d.d. Sarajevo	1,670	8.7%	145
BH	UniCredit Banka a.d. Banja Luka	496	7.2%	36
	Total	**42,560**	**6.2%**	**2,648**

Erste Group subsidiaries in CEE (2017, EUR mn)

	Bank name	Loans	NPL %	NPL vol.
CZ	Ceska sporitelna	24,071	2.1%	505
SK	Slovenska Sporitelna	11,875	3.8%	451
RO	Banca Comerciala Romana	6,556	11.1%	729
HR	Erste & Steiermarkische	6,371	12.3%	783
HU	Erste Bank Hungary	3,697	5.8%	215
RS	Erste Bank	849	6.6%	56
BH	Sparkasse Bank d.d. BiH	523	8.2%	43
	Total	**53,941**	**5.2%**	**2,783**

KBC subsidiaries in CEE (2017, EUR mn)

	Bank name	Loans	NPL %	NPL vol.
CZ	CSOB	11,034	2.3%	257
HU	Kereskedelmi és Hitelbank	4,396	7.1%	312
SK	Ceskoslovenska Obchodna Banka	5,287	2.1%	109
CZ	Hypotecni banka	10,981	n/a	n/a
CZ	Českomoravská Stavební	4,516	2.2%	101
BG	CIBank EAD	997	9.9%	99
BG	United Bulgarian Bank	1,989	22.3%	443
	Total	**39,201**	**3.4%**	**1,321**

Raiffeisen subsidiaries in CEE (2017, EUR mn)

	Bank name	Loans	NPL %	NPL vol.
PL	Raiffeisen Bank Polska	8,184	8.9%	724
SK	Tatra Banka	9,519	2.9%	276
CZ	Raiffeisen bank CZ	8,577	2.5%	214
HU	Raiffeisen Bank Hungary	3,056	7.1%	216
RO	Raiffeisen Bank	4,375	6.0%	261
HR	Raiffeisenbank Austria	2,524	11.4%	288
BG	Raiffeisenbank EAD	2,350	5.7%	134
RS	Raiffeisen Banka	1,284	4.7%	60
BH	Raiffeisen BANK d.d. BiH	1,226	5.7%	70
UA	Raiffaisen Bank Aval	1,338	15.6%	209
	Total	**42,433**	**5.8%**	**2,453**

Société Générale subsidiaries in CEE (2017, EUR mn)

	Bank name	Loans	NPL %	NPL vol.
CZ	Komercni banka	21,735	1.9%	413
RO	BRD	6,889	8.2%	565
SI	SKB Banka	1,835	7.6%	140
BG	Societe Generale Expressbank AD	2,122	6.0%	127
RS	Société Générale Banka	1,847	11.1%	206
	Total	34,427	4.2%	1,451

OTP Group subsidiaries in CEE (2017, EUR mn)

	Bank name	Loans	NPL %	NPL vol.
HU	OTP Bank	9,003	6.4%	579
BG	DSK Bank EAD	3,818	7.9%	303
HU	OTP Jelzálogbank	3,193	0.9%	29
HR	Splitska Banka	2,275	12.7%	289
HR	OTP Banka Hrvatska	1,340	6.6%	88
SK	OTP Banka Slovensko	1,234	9.4%	116
RO	OTP Bank Romania	1,724	13.5%	232
RS	OTP Bank Srbja	326	10.3%	34
RS	Vojvođanska Banka	663	8.7%	58
UA	OTP Ukraine	926	26.4%	266
	Total	24,502	8.1%	1,993

Intesa Sanpaolo subsidiaries in CEE (2017, EUR mn)

	Bank name	Loans	NPL %	NPL vol.
SK	VUB	11,365	4.4%	506
HR	Privredna Banka Zagreb	5,276	10.9%	574
HU	CIB Bank	2,662	4.8%	127
RS	Banca Intesa	2,741	7.8%	214
SI	Banka Intesa Sanpaolo	1,775	4.2%	74
BH	Intesa Sanpaolo Banka, d.d. BiH	686	5.7%	39
	Total	**24,506**	**6.3%**	**1,534**

Swedbank subsidiaries in Baltic (2017, EUR mn)

	Bank name	Loans	Impaired loan %	Impaired loan vol.
EE	SWED	7,265	2.3%	167
LV	Swedbank	3,152	1.6%	51
LT	Swedbank	4,704	1.8%	84
	Total	**15,121**	**2.0%**	**302**

SEB subsidiaries in Baltic (2017, EUR mn)

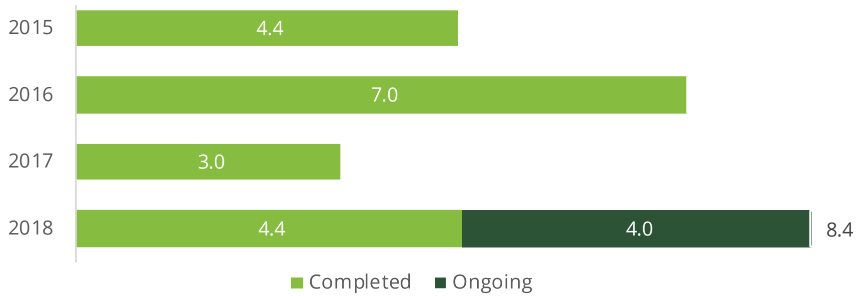
	Bank name	Loans	Impaired loan %	Impaired loan vol.
EE	SEB	4,627	2.2%	101
LV	SEB Banka	2,358	1.5%	34
LT	SEB Bankas	5,147	1.0%	52
	Total	**12,132**	**1.5%**	**187**

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

Loan sales market overview – Selected transactions

Whilst the momentum in NPL market activity that peaked in 2015 and 2016 stumbled in 2017, there was a somewhat rejuvenation in 2018 H1. The transaction amount, having fallen from EUR 7.0bn to c. EUR 3.0bn between 2016 and 2017, rebounded to EUR 4.4bn in 2018 H1, with Figure 6. showing the face value of completed transactions[2] . The deleveraging in the CEE region has been driven mainly by Italian, Austrian and Greek-owned banks.

Figure 6. Activity by year - CEE (EUR bn)



Source: Deloitte intelligence

The large number of commercial real estate and corporate NPL portfolios transacted between 2015 and 2016 has subsided as banks are gradually cleaning up the balance sheets and arriving to a sustainable level of non-performing loans. However, countries like Ukraine still offer a substantial supply of corporate NPL's which attracts international distressed asset investors' attention. However, a number of legal and tax-related obstacles hinders the opening of the Ukrainian NPL market for investors outside the country. Improvement of the legal and insolvency framework along with the rights of creditors is of paramount importance in order to give comfort and confidence to international investors towards a less developed debt sales market. One of the main tasks of the Deposit Guarantee Fund in Ukraine is the resolution of insolvent banks and the facilitation of the sale of the assets acquired from failed banks. The gross book value of ongoing transactions announced by DGF amounted to c. EUR 11bn as at end-2018[3] .

Albania and Bosnia and Herzegovina are relatively small markets in terms of non-performing loan volume with EUR 0.6bn and EUR 0.9bn NPLs as at end-2017 respectively. No larger transactions have been concluded so far, although there are some banks in Albania potentially considering the disposal of NPLs in order to accelerate their balance sheet clean-up process. There is one ongoing portfolio sale in Bosnia and Herzegovina in the amount of c. EUR 400mn as of October 2018.

Despite Romania's massive transaction track record in the past years, investors continued to show interest in 2018 H1 when debt sale transactions amounted to EUR 1.1bn. Romania dominates the loan

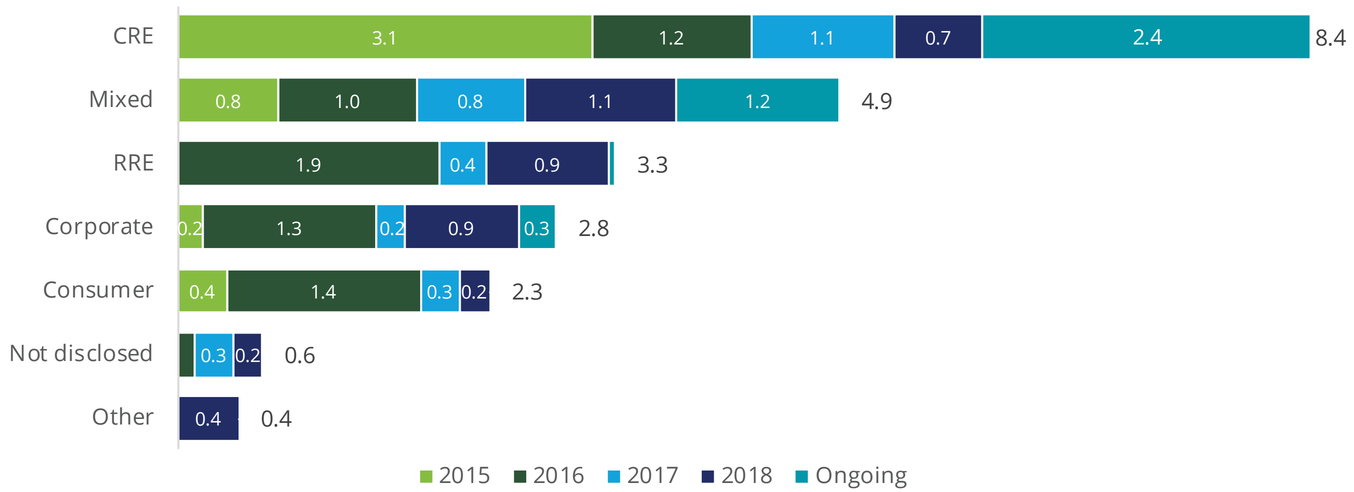
[2] Please note that all figures and charts concerning transaction activity are based on publicly available deal information and Deloitte intelligence, therefore the actual market activity might differ.
[3]The source of Ukrainian transaction information is ICU as at cut-off date 31 December 2018. The auction for the sale of DGF's portfolio acquired from insolvent banks is not included in the charts.

sales markets in the CEE region with a deal-making of EUR 5.9bn face value between 2015 and 2018, followed by Hungary with EUR 4.1bn deal value. The Polish loan sale market is one of the region's largest and most mature markets with unsecured retail loans dominated the market.

Croatia and Bulgaria also saw a relatively strong NPL activity in the region. The majority of the transactions in Croatia were concentrated in mixed and commercial real estate asset classes, standing at c. EUR 1.4bn and EUR 1.9bn deal value respectively. Bulgaria is also committed to address NPLs through improvement of the infrastructure of the distressed debt market. Such improvements include the removal of certain legal-related obstacles to collateral enforcement, insolvency regimes and bad debt restructuring which is likely to promote further transactions.

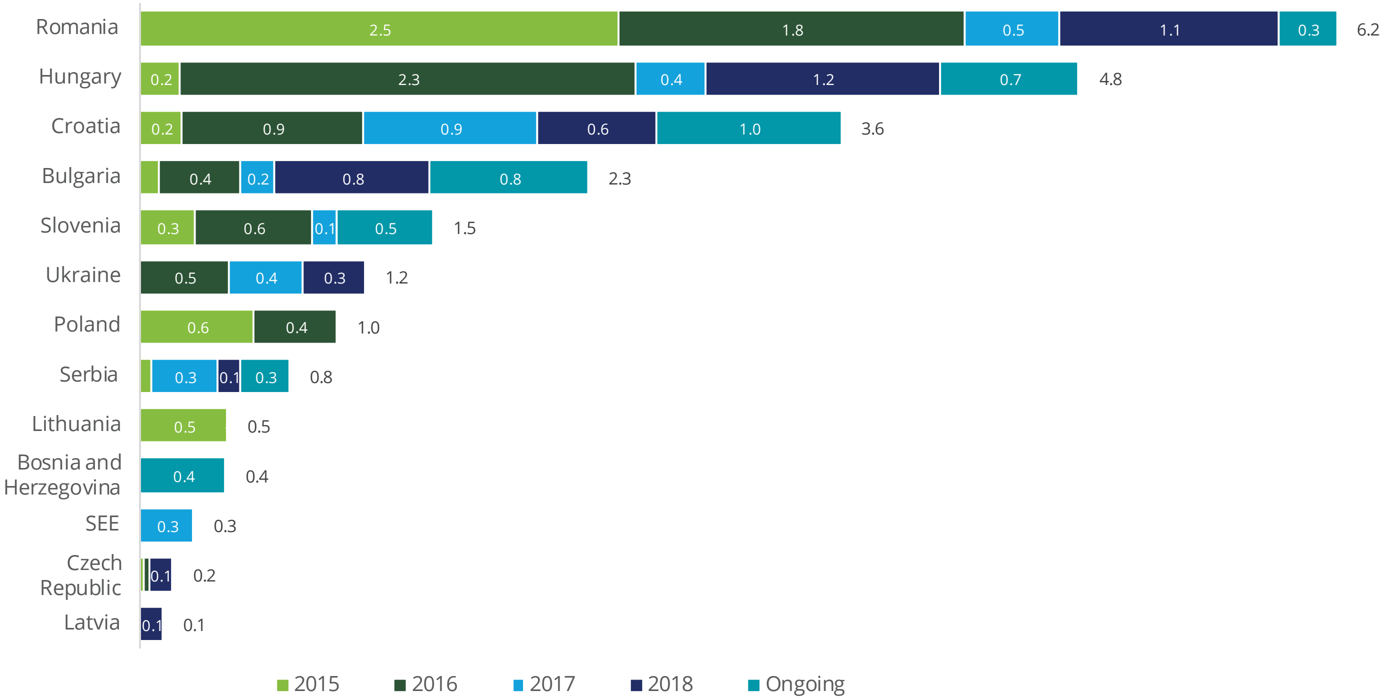
Serbia saw modest deleveraging activity between 2015 and 2018 H1, however the resolution of the Deposit Insurance Agency of Serbia has started in October 2018 with the launch of the sale part of its NPL portfolio at a face value of EUR 240mn.

Figure 7. Activity by asset class, 2015 - 2018 (EUR bn)



Source: Deloitte intelligence

Figure 8. Activity by country, 2015 - 2018 (EUR bn)

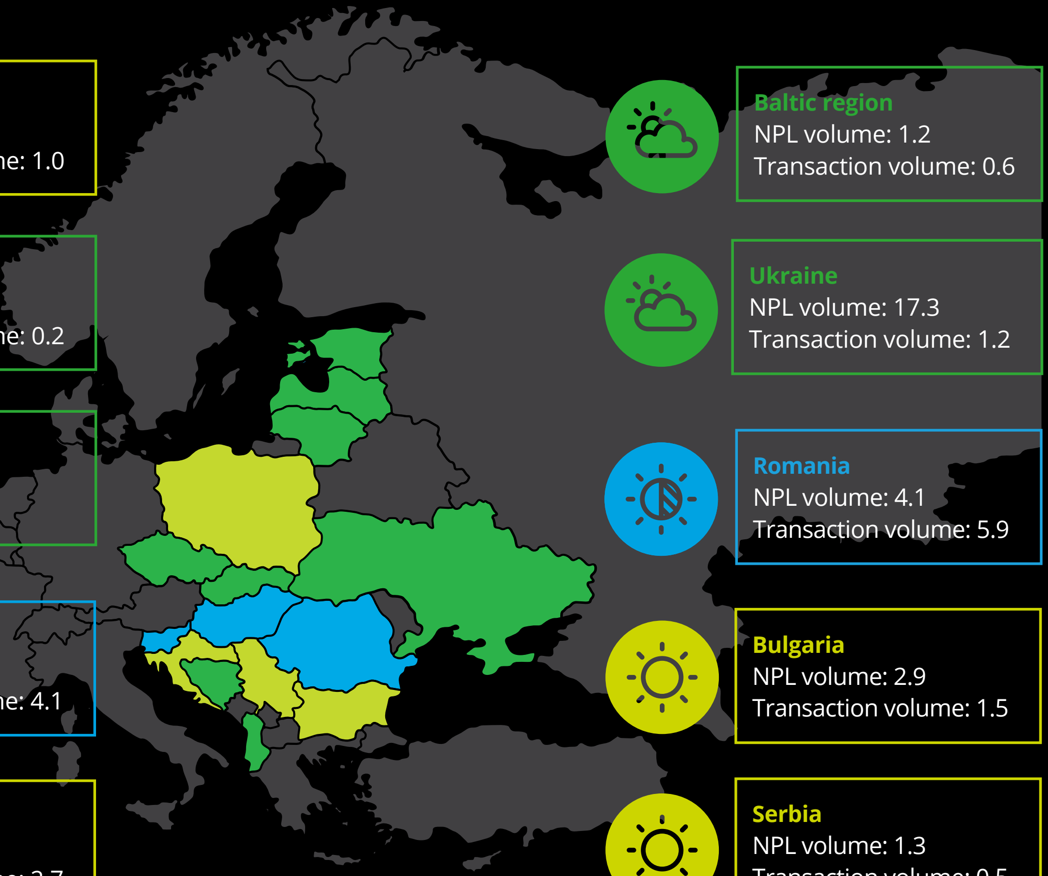


Source: Deloitte intelligence

Although there are some emerging markets in the CEE region, NPL transaction activity is expected to slow down in the coming years having banks already disposed sizeable NPL portfolios in recent years. The demand is also more subdued compared to the peak levels in 2015 and 2016 as international investors have already shifted their focus to current hot markets in Europe like Italy, Spain and Portugal where large portfolios are offered for sale. Investors are also willing to commit resources in less mature markets like Greece and Cyprus in the light of material supply of non-performing portfolios as regulatory pressure on Greek and Cypriot banks to deleverage is increasing.

However, competition among investors who have already built their servicing capacity and gained experience in debt collection in the CEE region is expected to remain intense.

CEE NPL market dynamics



Poland
NPL volume: 16.9
Transaction volume: 1.0

Czech Republic
NPL volume: 3.2
Transaction volume: 0.2

Slovakia
NPL volume: 2.0

Hungary
NPL volume: 2.1
Transaction volume: 4.1

Croatia
NPL volume: 3.6
Transaction volume: 2.7

Slovenia
NPL volume: 0.8
Transaction volume: 1.0

Baltic region
NPL volume: 1.2
Transaction volume: 0.6

Ukraine
NPL volume: 17.3
Transaction volume: 1.2

Romania
NPL volume: 4.1
Transaction volume: 5.9

Bulgaria
NPL volume: 2.9
Transaction volume: 1.5

Serbia
NPL volume: 1.3
Transaction volume: 0.5

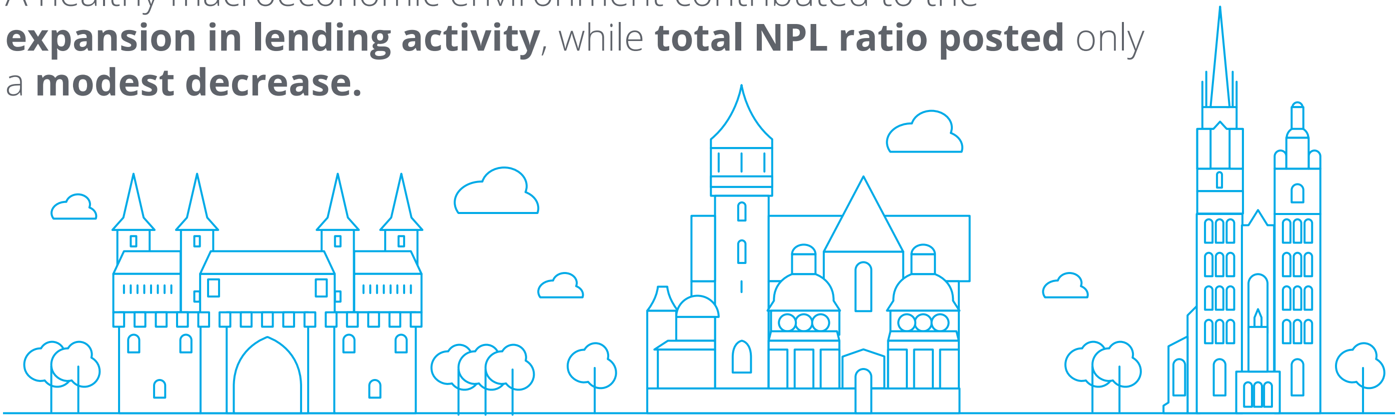
Bosnia & Herzegovina
NPL volume: 0.9

Albania
NPL volume: 0.6

Note: All figures are presented in EUR bn

Poland

Total loans outstanding in Poland **increased by 9.5%** YoY in 2017. A healthy macroeconomic environment contributed to the **expansion in lending activity**, while **total NPL ratio posted** only a **modest decrease.**



Growth in overall lending activity led by corporate segment

Both retail and corporate loan volumes continued the upward trend YoY in 2017. Retail loans increased by 7.9%, whilst the stock of corporate loans also increased by 12.5%. Loan growth was spurred by low interest rates, healthy capital ratios, economic growth and a strong labour market.

The growth of corporate loan stock was propelled mainly by working capital loans, both to large enterprises and SMEs. According to the Financial Stability Report of the NBP, housing loans saw an increase in activity, but was not accompanied by a corresponding increase in risk levels as lending policy did not ease and the growth was close to GDP growth. The conversion of foreign-currency-denominated mortgage loans could reduce capital requirements resulting in an even stronger credit activity. Based on macroeconomic forecasts, further strengthening of credit activity is expected.

Macro indicators	2015	2016	2017	Change 2016-17 (% or % point)
GDP (% real change pa)	3.8%	3.0%	4.7%	1.7%
Consumer prices (% change pa)	-0.9%	-0.6%	2.0%	2.6%
Recorded unemployment (%)	10.5%	8.9%	7.3%	-1.7%

Banking sector	2015	2016	2017	Change 2016-17 (% or % point)
Retail loans (EUR mn)	146,559	148,376	160,048	7.9%
Corporate loans (EUR mn)	76,489	77,952	87,710	12.5%
Interest rates				
Lending (%)	4.9%	4.7%	4.8%	0.1%
Deposit (%)	1.9%	1.6%	1.5%	-0.1%
NPL volumes				
Retail NPLs (EUR mn)	9,130	8,983	9,762	8.7%
Corporate NPLs (EUR mn)	7,631	7,182	7,171	-0.2%
NPL ratios				
Retail NPL ratio (%)	6.2%	6.1%	6.1%	0.0%
Corporate NPL ratio (%)	10.0%	9.2%	8.2%	-1.0%
Key ratios				
CAR (%)	16.5%	17.7%	19.0%	1.3%
ROE (%)	7.7%	7.5%	6.9%	-0.6%
ROA (%)	0.9%	0.8%	0.8%	0.0%
CIR (%)	60.2%	57.6%	57.2%	-0.4%
L/D (%)	95.1%	93.3%	93.7%	0.3%
FX share of lending (%)	29.9%	28.4%	22.2%	-6.1%
LLP coverage (%)	61.6%	61.0%	61.2%	0.2%

Source: EIU, NBP, ECB CBD

Increase in retail NPL volumes matched with relatively flat corporate volumes

The trend of growing NPL volume in the retail sector coupled with slightly decreasing corporate NPLs continued in 2017. Retail NPLs increased by 8.7% from 2016 to 2017, while the stock of corporate NPLs decreased slightly by 0.2% driven mainly by the robust financial situation of companies. NPL ratios stayed flat in the retail segment, while corporate ratios even decreased by 1.0% point driven by the increase in total amount of corporate loans outstanding. According to NBP's Financial Stability Report, high growth in high-value loans with longer maturities increased the risk of the retail loan portfolio, however the potential increase in risk was mitigated by the absence of credit standards easing.

Unsecured retail loans dominated the distressed debt market in the past few years

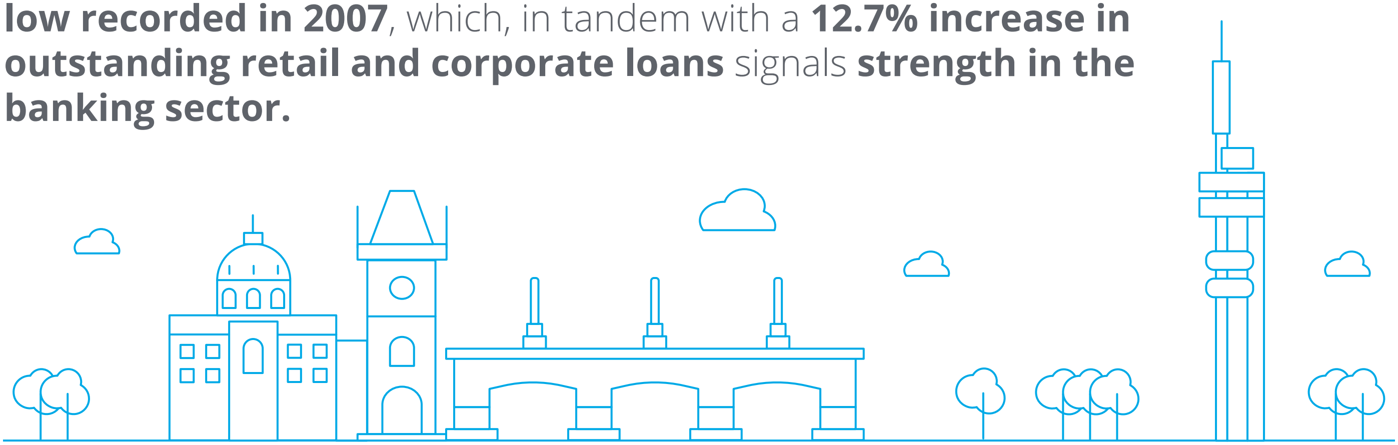
The loan sale market in Poland saw an increased competition in 2017. Due to the consolidation of the fragmented Polish banking sector, market players are considering to reshape their portfolios contributing to an increase of the supply of not only non-performing loans, but also performing and sub-performing loans. Unfavourable changes in the legal environment concerning the interest of creditors also triggered the surge of loan sale.

#	Bank (2017, EUR mn)	Assets	Loans	Equity	Net income	ROA	ROE	NPL ratio	NPL vol.	Major shareholder
1	PKO	66,503	45,196	8,616	664	1.0%	7.7%	5.8%	2,604	State
2	Pekao	43,590	29,560	5,329	500	1.1%	9.4%	5.4%	1,596	PZU
3	BZ WBK	31,808	26,978	4,989	459	1.4%	9.2%	5.8%	1,557	Santander
4	mBank	29,823	20,589	3,421	261	0.9%	7.6%	5.2%	1,071	Commerzbank
5	ING BSK	29,233	21,162	2,768	323	1.1%	11.7%	2.8%	593	ING
6	BGK	17,796	5,188	4,800	124	0.7%	2.6%	10.0%	519	State
7	BGZ BNP Paribas	17,213	12,370	1,571	71	0.4%	4.5%	5.4%	667	BNP Paribas
8	Millennium	16,911	11,709	1,805	155	0.9%	8.6%	2.9%	336	BCP
9	Alior Bank	16,610	12,282	1,629	129	0.8%	7.9%	10.8%	1,326	PZU
10	Getin Noble	14,426	10,991	1,040	(136)	-0.9%	-13.1%	n/a	n/a	Leszek Czarnecki
	Banking sector total	**427,453**	**247,758**	**48,782**	**3,357**	**0.8%**	**6.9%**	**6.8%**	**16,933**	

Source: Banks' data disclosure, EMIS, NBP

Czech Republic

The NPL ratio has been gradually trending towards the **historical low recorded in 2007**, which, in tandem with a **12.7% increase in outstanding retail and corporate loans** signals **strength in the banking sector.**



Double-digit growth in both retail and corporate loan amounts

Previous years' growth further accelerated in 2017 with retail loans growing at 14.0% and corporate loans at 10.8% supported by favourable economic conditions, among them 4.5% GDP growth and rising employment rate in 2017. The Czech National Bank increased its key monetary policy rate twice in 2017, however this was not reflected in client rates.

Macro indicators	2015	2016	2017	Change 2016-17 (% or % point)
GDP (% real change pa)	5.4%	2.4%	4.5%	2.1%
Consumer prices (% change pa)	0.3%	0.7%	2.4%	1.8%
Recorded unemployment (%)	5.1%	4.0%	2.9%	-1.1%

Banking sector	2015	2016	2017	Change 2016-17 (% or % point)
Retail loans (EUR mn)	48,894	52,458	59,798	14.0%
Corporate loans (EUR mn)	34,076	36,107	40,014	10.8%
Interest rates				
Lending (%)	4.3%	3.9%	3.6%	-0.3%
Deposit (%)	0.5%	0.4%	0.3%	-0.1%
NPL volumes				
Retail NPLs (EUR mn)	1,991	1,679	1,490	-11.2%
Corporate NPLs (EUR mn)	1,949	1,862	1,692	-9.1%
NPL ratios				
Retail NPL ratio (%)	4.1%	3.2%	2.5%	-0.7%
Corporate NPL ratio (%)	5.7%	5.2%	4.2%	-0.9%
Key ratios				
CAR (%)	18.4%	18.4%	19.3%	0.9%
ROE (%)	11.3%	11.9%	13.0%	1.2%
ROA (%)	1.2%	1.2%	1.1%	-0.1%
CIR (%)	46.5%	46.6%	47.1%	0.5%
L/D (%)	81.8%	84.3%	94.9%	10.5%
FX share of lending (%)	18.7%	19.6%	18.9%	-0.7%
LLP coverage (%)	n/a	54.1%	51.0%	-3.1%

Source: EIU, CNB, ECB CBD

Steep decline in both retail and corporate NPL volumes

Positive past trends continued in the NPL area as well with significant improvement in retail NPL volumes that shrank by 11.2% and similar decrease of 9.1% in corporate NPL stock. The decrease in NPL volumes combined with the rising pace of lending led to further improvement in the NPL ratios, where both retail and corporate NPL ratio decreased by 0.7% point and 0.9% point respectively. According to the Economist Intelligence Unit, considerable activity in the household sector is supported by mortgage growth with demand driven by low interest rates and rising residential property prices. However, the CNB highlights overvaluation in the housing market, which can lead to increased risk in the sector. In June 2016, the CNB implemented measures to respond to rising housing prices with a new cap on mortgages (95% from October 2016 and 90% from April 2017). The scope of these measures was expanded in June 2017 to include non-mortgage loans and non-bank lenders. In 2018, the mortgages were capped at 80% of collateral and nine times the borrower's earnings.

The CNB also highlighted that the risk level of new or recently provided loans to non-financial corporations is trending upwards compared to previous years.

Limited stock of non-performing loans available for sale

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 (2017, EUR mn)	Assets	Loans	Equity	Net income	ROA	ROE	NPL ratio	NPL vol.	Major shareholder
1	**CSOB**	50,404	11,034	3,281	601	1.2%	18.3%	2.3%	257	KBC
2	**Ceska sporitelna**	49,483	24,071	4,528	588	1.2%	13.0%	2.1%	505	Erste Group
3	**Komercni banka**	37,050	21,735	3,470	584	1.6%	16.8%	1.9%	413	Societe Generale
4	**UniCredit Bank Czech Republic**	21,219	14,663	1,977	244	1.1%	12.3%	3.0%	446	UniCredit
5	**Raiffeisen bank CZ**	13,232	8,577	1,065	111	0.8%	10.4%	2.5%	214	Raiffeisen
6	**Hypotecni banka**	11,291	10,981	1,543	166	1.5%	10.8%	n/a	n/a	KBC
7	**PPF banka**	9,122	1,095	397	60	0.7%	15.1%	6.8%	74	PPF Group
8	**Moneta Money Bank**	7,731	4,980	1,051	143	1.8%	13.6%	4.1%	204	GE Capital
9	**Českomoravská Stavební**	5,843	4,516	358	41	0.7%	11.5%	2.2%	101	KBC
10	**Fio banka**	4,213	536	65	16	0.4%	24.6%	n/a	n/a	Private individuals
	Banking sector total	**263,294**	**99,812**	**21,294**	**2,772**	**1.1%**	**13.0%**	**3.2%**	**3,183**	

Source: Banks' data disclosure, EMIS, CNB

Slovakia

Strong performance of the Slovak economy is highlighted in **improved indicators in terms of both lending growth and NPL portfolios. GDP growth** has exceeded **3.0%** in the three years up to 2017, approaching its potential and supporting the financial services sector.

Outstanding loan amount increased by 9.9% while housing loan growth is among the highest in the EU in recent years

Growth in lending activity is driven by the retail sector, where outstanding loan volumes increased by 11.7% from 2016 to 2017 representing only a slight deceleration compared to previous years' growth. Compared to the retail sector, growth was more modest in the corporate segment, which has grown by 6.7% YoY in 2017. Similarly to other countries, this growth was supported by a strong macroeconomic environment combined with low interest rates. As falling interest rates have put pressure on banks' profitability, they responded through increased lending activity.

The NBS constantly monitors the increased risk as a result of the debt expansion and was planning to introduce new measures from July 2018 to tighten regulatory lending requirements. These new measures include a 90% cap on the LTV ratio of mortgages and a partial reduction in the share of loans that have more than 80% LTV, along with loan contracts with a total exposure greater than eight times the borrower's annual income. A countercyclical capital buffer of 0.5% was also adopted by the NBS, which took effect in August 2017. The CCB was increased to 1.25% effective from August 2018 and is to increase to 1.5% from August 2019.

Macro indicators	2015	2016	2017	Change 2016-17 (% or % point)
GDP (% real change pa)	3.9%	3.3%	3.4%	0.1%
Consumer prices (% change pa)	-0.3%	-0.5%	1.4%	1.9%
Recorded unemployment (%)	11.5%	9.5%	7.1%	-2.4%

Banking sector	2015	2016	2017	Change 2016-17 (% or % point)
Retail loans (EUR mn)	25,906	29,390	32,834	11.7%
Corporate loans (EUR mn)	16,606	17,073	18,210	6.7%
Interest rates				
Lending (%)	3.1%	2.7%	2.4%	-0.3%
Deposit (%)	0.5%	0.4%	0.2%	-0.1%
NPL volumes				
Retail NPLs (EUR mn)	1,007	1,084	1,043	-3.8%
Corporate NPLs (EUR mn)	1,155	1,077	917	-14.9%
NPL ratios				
Retail NPL ratio (%)	3.9%	3.7%	3.2%	-0.5%
Corporate NPL ratio (%)	7.4%	6.5%	5.2%	-1.3%
Key ratios				
CAR (%)	17.7%	18.2%	18.8%	0.7%
ROE (%)	9.7%	9.9%	9.3%	-0.6%
ROA (%)	0.9%	0.9%	0.9%	0.0%
CIR (%)	55.0%	54.9%	57.8%	2.9%
L/D (%)	90.3%	90.5%	96.2%	5.7%
FX share of lending (%)	0.4%	0.4%	0.2%	-0.2%
LLP coverage (%)	69.5%	67.4%	74.1%	6.7%

Source: EIU, NBS, ECB CBD

Strength of the sector is evidenced by further improvement in asset quality indicators mainly in the corporate sector

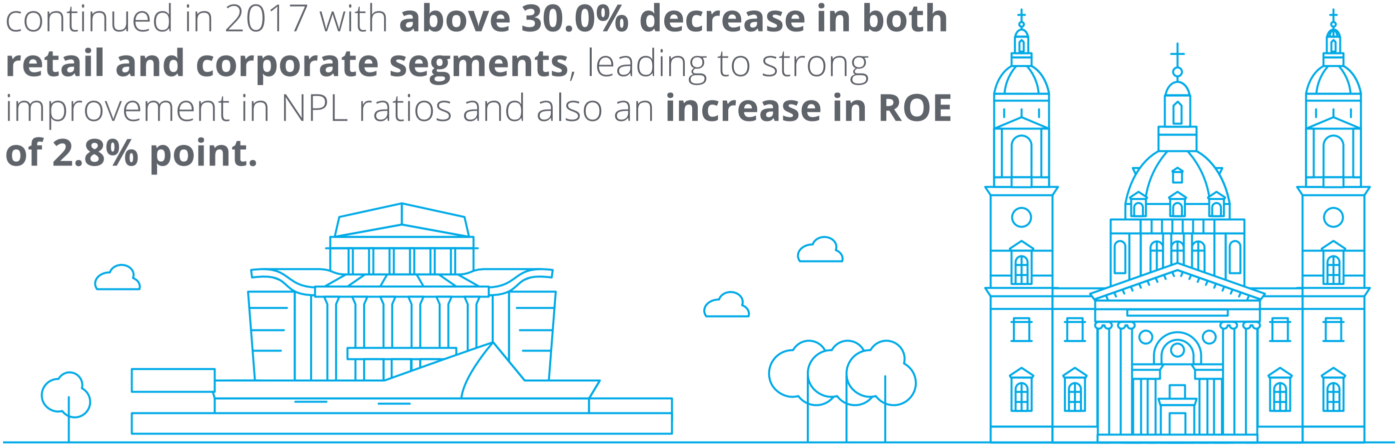
Corporate NPL volume decreased by 14.9% from 2016 to 2017, leading to a decrease in the NPL ratio as well, which declined from 6.5% to 5.2% in 2017. Retail NPLs also decreased, albeit at a less spectacular pace of 3.8% YoY in 2017. Correspondingly, retail NPL ratio decreased 0.5% point YoY also on the back of lending expansion. According to the Financial Stability Report of the NBS, the improving asset quality is attributable to the low default rates, continuing repayments of defaulted loans and write-off of non-performing loans.

#	Bank (2017, EUR mn)	Assets	Loans	Equity	Net income	ROA	ROE	NPL ratio	NPL vol.	Major shareholder
1	**Slovenska Sporitelna**	16,315	11,875	1,505	162	1.0%	10.8%	3.8%	451	Erste
2	**VUB**	14,469	11,365	1,556	160	1.1%	10.3%	4.4%	506	Intesa Sanpaolo
3	**Tatra Banka**	12,281	9,519	935	113	0.9%	12.1%	2.9%	276	Raiffeisen
4	**Ceskoslovenska Obchodna Banka**	8,032	5,287	763	51	0.6%	6.7%	2.1%	109	KBC
5	**Postova Banka**	4,311	2,350	643	48	1.1%	7.5%	10.2%	239	J&T Finance group
6	**Prima Banka Slovensko**	3,553	1,723	304	15	0.4%	4.9%	n/a	n/a	Penta Investments
7	**Prva Stavebna Sporitelna**	3,004	2,226	235	17	0.6%	7.2%	4.7%	104	Schwäbisch Hall
8	**OTP Banka Slovensko**	1,458	1,234	126	(6)	-0.4%	-4.8%	9.4%	116	OTP
9	**Privatbanka**	658	357	78	9	1.4%	12.1%	n/a	n/a	Penta Investments
10	**Slovenska Zarucna a Rozvojova Banka**	553	313	297	3	0.6%	1.2%	n/a	n/a	Finance Ministry of Slovakia
	Banking sector total	**77,632**	**51,044**	**8,384**	**777**	**0.0%**	**-0.6%**	**3.8%**	**1,959**	

Source: Banks' data disclosure, EMIS, NBS

Hungary

Previous year's pace of **reduction in NPL volumes** continued in 2017 with **above 30.0% decrease in both retail and corporate segments**, leading to strong improvement in NPL ratios and also an **increase in ROE of 2.8% point.**



Exceptionally strong growth in corporate segment drives the 5.6% YoY increase in total lending

Increase in lending volume was strong in the corporate segment, where outstanding loans grew by 9.5% YoY in 2017. The retail sector posted a relatively slower growth of 1.5% from 2016 to 2017. High growth in the corporate segment was attributable to a 12.0% increase in loans provided to SMEs. This trend continued in 2018 H1, when the stock of outstanding corporate loan volume increased by 12.0% with SME loans growing by 15.0% YoY. The National Bank of Hungary will launch a new scheme at the beginning of 2019 called the Funding for Growth Scheme Fix (FGS fix) with a facility amount of HUF 1,000bn (approximately EUR 3.2bn). The primary objective of this scheme is to reshape the structure of credit provided to SMEs by increasing the proportion of loans with long maturity and fixed interest rate.

Macro indicators	2015	2016	2017	Change 2016-17 (% or % point)
GDP (% real change pa)	3.3%	2.1%	4.2%	2.1%
Consumer prices (% change pa)	-0.1%	0.4%	2.4%	2.0%
Recorded unemployment (%)	6.8%	5.1%	4.2%	-0.9%

Banking sector	2015	2016	2017	Change 2016-17 (% or % point)
Retail loans (EUR mn)	18,792	18,306	18,574	1.5%
Corporate loans (EUR mn)	18,933	19,027	20,842	9.5%
Interest rates				
Lending (%)	2.9%	2.1%	1.5%	-0.6%
Deposit (%)	1.1%	0.6%	0.1%	-0.5%
NPL volumes				
Retail NPLs (EUR mn)	3,312	2,324	1,402	-39.7%
Corporate NPLs (EUR mn)	1,816	1,029	678	-34.1%
NPL ratios				
Retail NPL ratio (%)	17.6%	12.7%	7.5%	-5.1%
Corporate NPL ratio (%)	9.6%	5.4%	3.3%	-2.2%
Key ratios				
CAR (%)	17.8%	18.7%	16.8%	-1.9%
ROE (%)	0.3%	11.7%	14.5%	2.8%
ROA (%)	-0.1%	1.3%	1.5%	0.3%
CIR (%)	83.9%	62.6%	64.4%	1.7%
L/D (%)	78.6%	74.5%	71.8%	-2.7%
FX share of lending (%)	23.5%	22.1%	23.4%	1.4%
LLP coverage (%)	62.4%	66.2%	66.8%	0.6%

Source: EIU, NBH, ECB CBD

One of the highest percentage decrease in NPL volumes among the countries covered by the study

Significant decrease of NPL volumes in both retail and corporate segments with 39.7% and 34.1% respectively, leading to a 5.1% point improvement in retail NPL ratio and 2.2% point decrease in corporate NPL ratio. Both increasing lending activity and banks' continuous portfolio cleansing contributed to the decline in NPL ratios.

The NBH also reported that the default rate of mortgage loans disbursed in the new lending cycle is minimal, the vast majority of the non-performing portfolio consists of loans concluded before the crisis. It should be noted though that the time elapsed since their disbursement is relatively short and the current favourable macroeconomic trends and low interest rates also affected positively the service of household debt.

The NBH also regularly monitors the property market in order to analyze any potential risks arising from the dynamic lending activity driven by the rise in Hungarian housing prices.

In July 2017, an additional capital buffer was introduced for banks with significant portfolios of commercial real estate NPLs. The capital buffer rates along with the countercyclical capital buffer rate, ranging from 0.125% to 2%, will gradually increase until 2020 to incentivize banks to clean up their balance sheet.

Following a subdued non-performing loan sales activity in 2017, deal activity accelerated in 2018 with approximately EUR 1.2bn worth of deals up to October 2018 and many already ongoing transactions

NPL transactions in Hungary proved to be cyclical over the last 4 years in terms of transaction volume. 2016 and 2018 each boasted a total transaction value over EUR 1bn, with 2016 reaching EUR 2.3bn, while 2018 saw 5 completed deals up to October 2018, totaling EUR 1.2bn. 2015 and 2017 proved relatively calm with EUR 0.2bn and EUR 0.4bn transacted face value, respectively. Between 2015 and 2018, residential and commercial real estate were the most actively traded asset classes in terms of overall NPL transactions value. In 2018, the sale of probably one of the last large NPL portfolios in Hungary composed of commercial real estate assets was completed at a face value of EUR 500mn.

#	Bank (2017, EUR mn)	Assets	Loans	Equity	Net income	ROA	ROE	NPL ratio	NPL vol.	Major shareholder
1	**OTP Bank**	25,059	9,003	4,596	814	3.2%	17.7%	6.4%	579	OTP
2	**Kereskedelmi és Hitelbank**	9,806	4,396	858	135	1.4%	15.7%	7.1%	312	KBC
3	**UniCredit Bank**	9,154	4,033	1,031	158	1.7%	15.3%	n/a	n/a	Unicredit
4	**Erste Bank Hungary**	7,026	3,697	1,163	262	3.7%	22.5%	5.8%	215	Erste
5	**Raiffeisen Bank Hungary**	7,004	3,056	654	92	1.3%	14.1%	7.1%	216	Raiffeisen
6	**MKB Bank**	6,651	3,311	520	100	1.5%	19.2%	n/a	n/a	PE/VC
7	**CIB Bank**	5,410	2,662	665	72	1.3%	10.9%	4.8%	127	Intesa Sanpaolo
8	**MFB**	3,824	2,062	689	43	1.1%	6.2%	9.3%	193	State
9	**OTP Jelzálogbank**	3,482	3,193	244	74	2.1%	30.2%	0.9%	29	OTP
10	**Budapest Hitel- és Fejlesztési Bank**	3,310	2,398	435	45	1.4%	10.3%	9.6%	231	State
	Banking sector total	**120,108**	**39,416**	**12,370**	**1,797**	**0.3%**	**2.8%**	**5.3%**	**2,080**	

Source: Banks' data disclosure, EMIS, NBH

Romania

Romania was one of the **hot markets in the CEE region with over EUR 5.5bn deals** between 2015 and 2018 H1. Combined with **efficient distressed portfolio management,** the **credit quality indicators posted an exceptional improvement.**

Gradual recovery in lending activity in the household segment, whilst the downward trend of loan stock granted to non-financial corporations continued in 2017

The volume of retail loans increased continuously in 2017 by 5.0% compared to 2016 driven mainly by the leu-denominated mortgage lending whilst the stock of foreign currency loans contracted further strengthening financial stability. As in 2016, the volume of corporate loans slightly decreased in 2017 however at a slower pace of 0.4%. Interest rates not only stayed low, but decreased supporting the loan expansion. Although, the domestic and financial environment remained favourable in 2018, economic growth slowed down to 4.1% in 2018 H1 according to NBR's Financial Stability Report.

The NBR has also announced a set of new prudential measures with the aim of curbing risky lending and promoting lending in the corporate sector. As a result of continued sales of non-performing loans since 2015, the volume of outstanding exposure has been shrinking gradually mainly in the corporate segment which have a track record of higher NPL ratios.

Macro indicators	2015	2016	2017	Change 2016-17 (% or % point)
GDP (% real change pa)	3.9%	4.8%	7.0%	2.2%
Consumer prices (% change pa)	-0.6%	-1.6%	1.3%	2.9%
Recorded unemployment (%)	6.8%	5.6%	4.8%	-0.8%

Banking sector	2015	2016	2017	Change 2016-17 (% or % point)
Retail loans (EUR mn)	23,889	24,922	26,176	5.0%
Corporate loans (EUR mn)	23,632	22,883	22,798	-0.4%
Interest rates				
Lending (%)	6.8%	5.7%	5.6%	-0.1%
Deposit (%)	1.9%	1.1%	0.9%	-0.2%
NPL volumes				
Retail NPLs (EUR mn)	2,174	1,841	1,488	-19.1%
Corporate NPLs (EUR mn)	6,182	4,345	2,608	-40.0%
NPL ratios				
Retail NPL ratio (%)[1]	9.1%	7.4%	5.7%	-1.7%
Corporate NPL ratio (%)[1]	26.2%	19.0%	11.4%	-7.5%
Key ratios				
CAR (%)	19.2%	19.7%	20.0%	0.3%
ROE (%)	11.3%	10.6%	11.7%	1.1%
ROA (%)	1.2%	1.1%	1.3%	0.2%
CIR (%)	57.9%	52.4%	54.9%	2.5%
L/D (%)	67.6%	68.2%	69.2%	1.0%
FX share of lending (%)	49.9%	43.4%	37.8%	-5.5%
LLP coverage (%)	62.5%	65.1%	71.6%	6.5%

Source: EIU, NBR, ECB CBD

Note: [1]Data as at March 2018

NPL ratios have been trending downwards, however there is still room for improvement mainly in the corporate segment where NPL ratio is significantly higher than in the retail segment

Asset quality is on the mend, with both retail and corporate NPL volumes continued to trend downwards in 2017. The downward trend resulted mostly from banks' active credit portfolio management through write-offs and sales of distressed debt. Retail NPL volume decreased by 19.1%, while corporate NPL volume fell by 40.0% owing mainly to the fall in commercial real estate loans. Retail NPL ratio decreased by 1.7% point arriving to 5.7%, whilst corporate NPL ratio fell by 7.5% point arriving to 11.4% which is still relatively high among the analysed countries. Nevertheless, the NBR reported high and potentially increasing default risk for loans granted to the private sector.

Changes are undergoing in the local legislative environment currently that may affect the profitability of the banking sector as well as certain aspects of the local NPL market

Romania proved to be one of the most active markets in the CEE region between 2015 and 2018. Total value of executed debt sale transactions recorded EUR 5.9bn, exceeding Hungary, the second most active market's total value of EUR 4.1bn. Commercial real estate portfolio contributed c. EUR 2.0bn to Romania's NPL transaction activity between 2015 and 2018 H1. Debt sale transactions amounted to EUR 1.0bn in 2018 H1 reflecting a significantly lower level than the peak of 2015 when total transaction volume reached EUR 2.5bn.

In 2018, B2 Kapital Management acquired a portfolio of non-performing loans sold by Banca Transilvania. In early 2018, Alpha Bank also sold a non-performing corporate portfolio to an international investor consortium including Deutsche Bank, AnaCap Partners and APS at a face value of EUR 360mn.

#	Bank (2017, EUR mn)	Assets	Loans	Equity	Net income	ROA	ROE	NPL ratio	NPL vol.	Major shareholder
1	**Banca Comerciala Romana**	14,540	6,556	1,598	122	0.8%	7.6%	11.1%	729	Erste
2	**Banca Transilvania**	12,733	6,896	1,496	255	2.0%	17.0%	3.1%	210	Private individuals
3	**BRD**	11,482	6,889	1,509	296	2.6%	19.6%	8.2%	565	Société Générale
4	**Unicredit Bank**	8,060	4,744	722	70	0.9%	9.7%	8.1%	384	UniCredit
5	**Raiffeisen Bank**	7,746	4,375	756	105	1.4%	13.9%	6.0%	261	Raiffeisen
6	**CEC Bank**	6,803	3,657	455	40	0.6%	8.8%	8.4%	306	State
7	**Alpha Bank Romania**	3,357	2,438	379	46	1.4%	12.1%	7.7%	188	Alpha Bank
8	**Bancpost**	2,345	1,621	265	14	0.6%	5.3%	7.1%	115	Eurobank Ergasias
9	**Garanti Bank**	2,143	1,524	265	28	1.3%	10.6%	6.0%	91	Turkiye Garanti Bankasi AS
10	**OTP Bank Romania**	1,965	1,724	247	18	0.9%	7.3%	13.5%	232	OTP
	Banking sector total	**93,739**	**48,974**	**9,774**	**1,148**	**1.3%**	**11.7%**	**6.4%**	**4,097**	

Source: Banks' data disclosure, EMIS, NBR

Slovenia

The improvement of credit quality is not only evidenced by the gradually **decreasing NPL ratios** but also reflected in the **declining default rates and increased loan repayments.**

Loan growth is picking up mainly on the back of household loans, whilst the growth of corporate loans remained on a downward trend in 2017 similarly to the previous year

The stock of corporate loans slightly declined in 2017, however at a slower pace than in the previous year. Future growth of corporate lending could be limited by the fact that corporates in Slovenia are likely to finance their investments and current operation from internal resources. However, positive economic environment and high export activity is expected to contribute to the strengthening of corporate lending. The growth of 6.4% of outstanding loans in the household segment was mainly attributable to the consumer loans, whilst the stock of housing loans practically stagnated in 2017. The positive trends on the labour market as well as the increased consumer confidence were the main factors behind retail credit growth. In general, measures to tackle non-performing portfolios in banks' balance sheets also contributed to the decline of credit exposure mainly in the corporate segment.

Macro indicators	2015	2016	2017	Change 2016-17 (% or % point)
GDP (% real change pa)	2.0%	3.2%	5.3%	2.1%
Consumer prices (% change pa)	-0.7%	-0.2%	1.6%	1.7%
Recorded unemployment (%)	12.3%	11.2%	9.5%	-1.7%

Banking sector	2015	2016	2017	Change 2016-17 (% or % point)
Retail loans (EUR mn)	8,856	9,154	9,736	6.4%
Corporate loans (EUR mn)	10,502	9,711	9,645	-0.7%
Interest rates				
Lending (%)	3.5%	2.8%	2.6%	-0.2%
Deposit (%)	0.2%	0.1%	0.0%	0.0%
NPL volumes				
Retail NPLs (EUR mn)	416	275	253	-7.8%
Corporate NPLs (EUR mn)	1,607	728	511	-29.8%
NPL ratios				
Retail NPL ratio (%)	4.7%	3.0%	2.6%	-0.4%
Corporate NPL ratio (%)	15.3%	7.5%	5.3%	-2.2%
Key ratios				
CAR (%)	20.8%	21.4%	20.2%	-1.2%
ROE (%)	3.5%	7.8%	9.1%	1.3%
ROA (%)	0.4%	1.0%	1.1%	0.2%
CIR (%)	61.0%	61.4%	63.7%	2.3%
L/D (%)	74.1%	74.0%	74.7%	0.7%
FX share of lending (%)	4.9%	4.2%	3.7%	-0.5%
LLP coverage (%)	66.1%	69.5%	71.4%	1.9%

Source: EIU, BSI, ECB CBD

The positive trends in the economic environment as well as banks' active balance sheet clean-up process resulted in healthy NPL ratios

Trends continued in the NPL area as well with a remarkable improvement in corporate NPL volumes that shrank by 29.8% and a smaller decrease of 7.8% in retail NPL volumes. The decrease in NPL volumes and the increase of the stock of retail loans contributed to lower ratios, where retail NPL ratio decreased by 0.4% point and corporate NPL ratio decreased by 2.2% point. Both the retail and corporate NPL ratio are among the lowest in the CEE region. Banks also reported declining default rates, which is indicative of the inflow of new NPLs.
According to the BSI, banks' most common approaches to reduce the share of non-performing loans were the master restructuring agreements, the sale of distressed portfolios, transfer to the BAMC and write-offs.
NPL ratios continued their downward trend in 2018 as well with NPL ratios of non-financial corporations still standing at a higher level than the ratio of the household sector. Despite a fast increase in exposure, the quality of the household portfolio is favourable and continuously improving.

Decreasing distressed debt market activity since 2016, rebounding with potential HARSI transaction in 2019

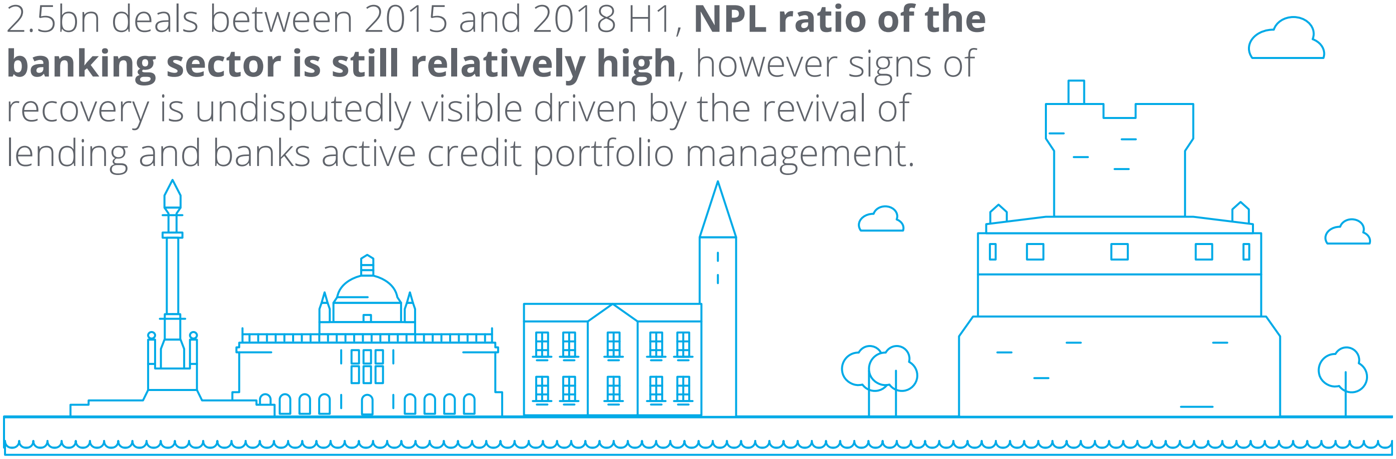
The non-performing loan market in Slovenia showed moderate activity between 2015 and 2018 H1 with approximately EUR 1.0bn deal value. The highest activity was reported in 2016 with a transacted face value of EUR 0.6bn. Corporate assets dominated the loan sale market, amounting to a face value of c. EUR 0.6bn based on publicly available market intelligence.
End of 2018, HETA AG announced it intends to divest all shares and/or all assets in HARSI, TCK, and TCV and the selected cross border portfolio of HETA. HARSI, TCK and TCV are operationally connected companies located in Ljubljana, Slovenia. According to public announcement, as of 30 September 2018, the Target Group held a total gross loan/leasing portfolio of EUR 551mn (including the NPL cross border portfolio of HETA in the amount of c. EUR 10m), thereof EUR 386mn are non-performing and EUR 166mn are performing gross exposures.

#	Bank (2017, EUR mn)	Assets	Loans	Equity	Net income	ROA	ROE	NPL ratio	NPL vol.	Major shareholder
1	NLB d.d.	8,713	4,624	1,381	189	2.2%	13.7%	8.1%	375	State
2	Nova KBM d.d.	4,914	2,208	683	46	0.9%	6.7%	8.1%	179	Apollo
3	Abanka d.d.	3,656	1,967	579	43	1.2%	7.4%	12.2%	241	State
4	SKB Banka	2,991	1,835	359	42	1.4%	11.7%	7.6%	140	Société Générale
5	Unicredit Banka Slovenija	2,706	1,447	277	38	1.4%	13.7%	7.4%	107	Unicredit
6	SID Banka	2,452	733	410	14	0.6%	3.4%	6.6%	48	State
7	Banka Intesa Sanpaolo	2,398	1,775	285	4	0.2%	1.4%	4.2%	74	Intesa Sanpaolo
8	Gorenjska Banka	1,872	1,050	200	6	0.3%	3.0%	7.4%	78	Sava d.d.
9	Sberbank Banka	1,741	1,198	172	3	0.2%	1.7%	12.0%	144	Sberbank
10	Addiko Bank	1,538	1,104	141	19	1.2%	13.5%	3.4%	38	Addiko
	Banking sector total	**41,750**	**19,381**	**5,043**	**459**	**1.1%**	**9.1%**	**3.9%**	**764**	

Source: Banks' data disclosure, EMIS, BSI

Croatia

Despite a highly active debt sales market with over EUR 2.5bn deals between 2015 and 2018 H1, **NPL ratio of the banking sector is still relatively high**, however signs of recovery is undisputedly visible driven by the revival of lending and banks active credit portfolio management.



After falling for several years, lending activity in the household sector began to rebound, whilst the stock of loans to non-financial corporates contracted in 2017 although at a slower pace compared to the previous year

The stock of retail loans increased by 1.4% in 2017 backed by the economic recovery and favourable conditions on the labour market. Furthermore, the easing of credit standards also accelerated credit demand in the retail segment. However, a potential negative outcome of the restructuring of Agrokor Group could negatively impact the disposable income and debt servicing capacity of several households directly or indirectly affiliated with the Group.
The corporate sector was hit hard by the crisis of Agrokor Group in 2017, which is currently under special insolvency procedure. Corporate loans outstanding remained on a downward trend in 2017 with a decrease of 1.6% YoY. Recent accelerated distressed debt sales activity of domestic banks and write-offs also drove a decline in the amount of corporate loan stock.

Macro indicators	2015	2016	2017	Change 2016-17 (% or % point)
GDP (% real change pa)	2.4%	3.5%	2.8%	-0.8%
Consumer prices (% change pa)	-0.5%	-1.1%	1.1%	2.3%
Recorded unemployment (%)	17.1%	15.0%	12.4%	-2.5%

Banking sector	2015	2016	2017	Change 2016-17 (% or % point)
Retail loans (EUR mn)	15,773	14,986	15,195	1.4%
Corporate loans (EUR mn)	11,430	11,033	10,854	-1.6%
Interest rates				
Lending (%)	6.2%	5.0%	4.2%	-0.7%
Deposit (%)	2.1%	1.4%	0.7%	-0.7%
NPL volumes				
Retail NPLs (EUR mn)	1,922	1,548	1,225	-20.9%
Corporate NPLs (EUR mn)	3,963	3,121	2,411	-22.8%
NPL ratios				
Retail NPL ratio (%)	12.2%	10.3%	8.1%	-2.3%
Corporate NPL ratio (%)	34.7%	28.3%	22.2%	-6.1%
Key ratios				
CAR (%)	19.2%	22.5%	23.3%	0.8%
ROE (%)	-6.8%	8.9%	5.9%	-3.0%
ROA (%)	-0.9%	1.2%	0.8%	-0.4%
CIR (%)	57.6%	52.8%	52.1%	-0.7%
L/D (%)	89.2%	85.3%	82.1%	-3.3%
FX share of lending (%)	71.2%	65.0%	60.9%	-4.1%
LLP coverage (%)	66.1%	69.5%	71.4%	1.9%

Source: EIU, HNB, ECB CBD

As a result of continued positive trends in the macroeconomic environment and banks' balance sheet clean-up, asset quality indicators improved moderately in 2017 despite the crisis of Agrokor Group

The NPL ratio of the banking sector still exceeded the 10% threshold as of year-end 2017 (in tandem with Albania, Bulgaria and Ukraine). Both retail and corporate NPL volume decreased markedly by 20.9% and 22.8% respectively from 2016 to 2017, contributing to a decrease in the retail NPL ratio as well, which declined from 10.3% to 8.1% in 2017. Corporate NPL ratio has also remained on a downward trend and reduced by 6.1% point arriving to 22.2% in 2017. Needless to say that the insolvency of the Agrokor Group and its directly or indirectly affiliated companies deteriorated the corporate credit quality. Both retail and corporate NPL ratios are amongst the highest compared to the analysed countries covered by the study and only Ukraine reported higher ratios at end-2017.

The third largest distressed debt market in terms of deal face value since 2015

Croatia continued to attract high investor interest in 2017 and 2018 H1 when overall deal face value amounted to EUR 0.9bn and EUR 0.6bn, respectively. The last two years' activity contributed to a total transaction value of EUR 2.7bn between 2015 and 2018 H1. Most of the transactions were based in the mixed and commercial real estate asset classes, where the mixed asset class amounted to EUR 1.4bn between 2015 and 2018.
In June 2018, UniCredit announced through its Croatian subsidiary Zagrebacka Banka the disposal of a non-performing credit portfolio to B2 Kapital with a gross book value of EUR 246mn.

#	Bank (2017, EUR mn)	Assets	Loans	Equity	Net income	ROA	ROE	NPL ratio	NPL vol.	Major shareholder
1	**Zagrebacka Banka**	13,735	8,282	1,956	135	1.0%	6.9%	11.4%	944	UniCredit
2	**Privredna Banka Zagreb**	10,199	5,276	1,759	225	2.2%	12.8%	10.9%	574	Intesa Sanpaolo
3	**Erste & Steiermarkische**	7,689	6,371	1,044	109	1.4%	10.4%	12.3%	783	Erste
4	**Raiffeisenbank Austria**	4,219	2,524	588	64	1.5%	10.9%	11.4%	288	Raiffeisen
5	**HBOR (Croatian Bank for Reconstruction and Development)**	3,734	1,649	1,367	125	3.3%	9.1%	12.4%	205	State
6	**Splitska Banka**	3,614	2,275	456	(13)	-0.4%	-2.9%	12.7%	289	OTP
7	**Addiko Bank d.d.**	2,849	1,511	441	21	0.7%	4.8%	8.2%	124	PE Advent
8	**Hrvatska Poštanska Banka**	2,661	1,327	222	2	0.1%	0.9%	13.9%	184	State
9	**OTP Banka Hrvatska**	2,641	1,340	233	9	0.3%	3.9%	6.6%	88	OTP
10	**Sberbank**	1,196	819	142	(21)	-1.8%	-14.8%	12.6%	103	Sberbank
	Banking sector total	**61,265**	**26,049**	**8,320**	**488**	**0.8%**	**5.9%**	**14.0%**	**3,636**	

Source: Banks' data disclosure, EMIS, HNB

Bulgaria

Despite recorded positive trends in terms of asset quality indicators, Bulgaria still **needs to face challenges to reduce the relatively high stock of distressed debt.**

Despite positive trends in the macroeconomic environment, corporate loan increase remained subdued combined with the surge in household lending

The volume of retail loans increased markedly in 2017 by 6.5%, while corporate loan volume practically stagnated in 2017 similarly to the previous year. The growth of the household sector indebtedness was mainly driven by the favourable conditions on the labour market and the low interest rate environment. The corporate sector continued to face challenges in terms of the legacy non-performing loans, which hindered lending activity.

Macro indicators	2015	2016	2017	Change 2016-17 (% or % point)
GDP (% real change pa)	3.6%	3.9%	3.6%	-0.4%
Consumer prices (% change pa)	-0.1%	-0.8%	2.1%	2.9%
Recorded unemployment (%)	9.2%	7.7%	6.2%	-1.4%

Banking sector	2015	2016	2017	Change 2016-17 (% or % point)
Retail loans (EUR mn)	9,363	9,497	10,118	6.5%
Corporate loans (EUR mn)	17,018	16,965	16,955	-0.1%
Interest rates				
Lending (%)	7.4%	6.4%	5.4%	-1.0%
Deposit (%)	0.6%	0.2%	0.0%	-0.1%
NPL volumes				
Retail NPLs (EUR mn)	1,215	954	747	-21.7%
Corporate NPLs (EUR mn)	2,972	2,569	2,115	-17.7%
NPL ratios				
Retail NPL ratio (%)	13.0%	10.0%	7.4%	-2.7%
Corporate NPL ratio (%)	17.5%	15.1%	12.5%	-2.7%
Key ratios				
CAR (%)	22.2%	22.2%	22.1%	-0.1%
ROE (%)	8.0%	11.3%	10.2%	-1.2%
ROA (%)	1.0%	1.5%	1.3%	-0.2%
CIR (%)	47.5%	42.6%	45.1%	2.5%
L/D (%)	73.4%	72.4%	72.6%	0.2%
FX share of lending (%)	50.7%	45.5%	39.1%	-6.4%
LLP coverage (%)	52.9%	54.3%	54.3%	0.1%

Source: EIU, BNB, ECB CBD

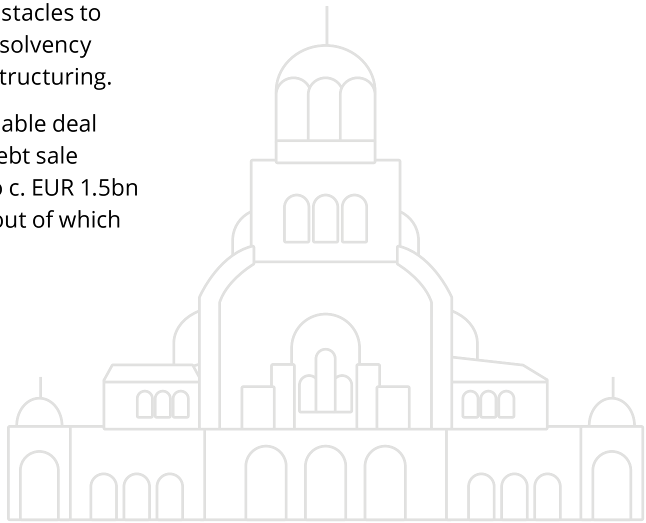
Despite the active credit portfolio management in recent years, NPLs remained a burden on banks' balance sheets

The banking sector implemented the NPL reduction strategy promoted by the BNB including write-offs, disposal of distressed loans and stricter portfolio monitoring which resulted in the improvement of the asset quality. Retail NPL volume fell substantially by 21.7% and the stock of corporate NPLs also decreased markedly by 17.7% from 2016 to 2017. The significant decrease of the NPL stock contributed to a drop in the NPL ratios as well, with the retail NPL ratio declining from 10.0% to 7.4% in 2017. Corporate NPL ratio is still high compared to households' NPL ratio; however, it also trended downward by 2.7% point arriving to 12.5%. The corporate NPL ratio is still the third highest ratio among the analysed countries and the Bulgarian banking sector posted a double-digit NPL ratio as of year-end 2017 with 10.6%.

The improvement of the infrastructure of distressed debt market could further stimulate the NPL resolution of the banking sector

The Bulgarian National Bank has adopted measures in order to promote banks to address non-performing loans in their balance sheets. These steps included the asset quality review and stress test of the entire banking system in 2016 and the strict monitoring of forbearance and non-performing exposures. A comprehensive assessment of selected banks will be conducted by the ECB in 2019. According to the IMF's Financial System Stability Assessment, the improvement of the infrastructure of the distressed debt market could have a positive impact on the NPL resolution. Such improvements include the removal of certain legal-related obstacles to collateral enforcement, insolvency regimes and bad debt restructuring.

According to publicly available deal information, distressed debt sale transactions amounted to c. EUR 1.5bn between 2015 and 2018, out of which EUR 0.8bn was transacted in 2018. Total amount of tendered NPLs in 2017 amounted to c. EUR 736mn. In 2018, United Bulgarian Bank (KBC) concluded a transaction of EUR 235mn with EOS Matrix, which was initiated in 2017. Also, UniCredit Bulbank announced the sale of a EUR 250mn NPL portfolio composed of secured and unsecured loans granted to private individuals, SMEs and corporate clients. The disposal is in line with UniCredit Group's strategy to reduce the stock of non-performing loans. Eurobank also followed suit with a sizeable portfolio of EUR 365mn.

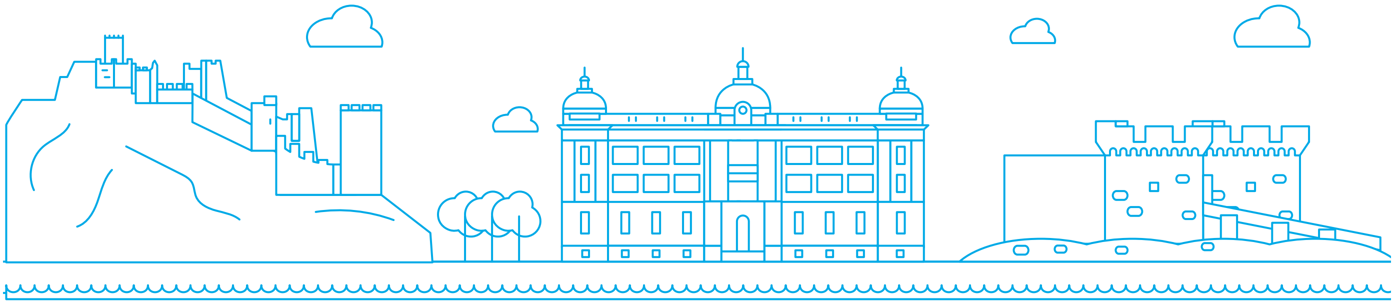


#	Bank (2017, EUR mn)	Assets	Loans	Equity	Net income	ROA	ROE	NPL ratio	NPL vol.	Major shareholder
1	**UniCredit Bulbank AD**	9,764	5,198	1,459	152	1.6%	10.4%	9.0%	468	Unicredit
2	**DSK Bank EAD**	6,212	3,818	792	130	2.1%	16.4%	7.9%	303	OTP
3	**First Investment Bank AD**	4,419	2,947	475	44	1.0%	9.3%	17.6%	519	Private individuals
4	**Eurobank Bulgaria AD**	3,795	2,469	632	70	1.8%	11.1%	13.0%	321	Eurobank Ergasias
5	**United Bulgarian Bank**	3,758	1,989	496	(29)	-0.8%	-5.8%	22.3%	443	KBC
6	**Raiffeisenbank EAD**	3,578	2,350	472	69	1.9%	14.6%	5.7%	134	Raiffeisen
7	**Societe Generale Expressbank AD**	3,288	2,122	388	55	1.7%	14.2%	6.0%	127	Societe Generale
8	**Central Cooperative Bank AD**	2,767	1,193	236	18	0.7%	7.6%	9.7%	116	CCB Group
9	**CIBank EAD**	1,851	997	197	16	0.9%	8.1%	9.9%	99	KBC Bank
10	**Piraeus Bank Bulgaria AD**	1,553	805	196	7	0.5%	3.6%	11.4%	92	Piraeus Bank
	Banking sector total	**50,734**	**27,072**	**6,581**	**668**	**1.3%**	**10.2%**	**10.6%**	**2,862**	

Source: Banks' data disclosure, EMIS, BNB

Serbia

Similar trends are prevalent as in other CEE countries with growing loan volumes and improving NPL statistics along with similar percentage decrease in NPL volumes of both retail and corporate segments, leading to **significant improvement in the profitability of the financial services industry.**



Loan growth is picking up owing to both demand and supply side, fueled by NBS's monetary policy easing, positive labour market trends and the more relaxed credit standards

Loan growth has exceeded average levels of recent years in 2017. Since the beginning of the country's IMF program in 2014, loan growth has averaged at 2.7%. In 2017, overall loan growth reached 8.4% with retail loan volumes growing at 12.8% and corporate volumes at 4.8%.

According the Financial Stability Report of the NBS, the credit expansion was mainly driven by the reduced interest rates on dinar loans. This reduced interest rate was a result of the monetary easing of NBS, the fall in risk premium, fiercer bank competition and low interest rates in the euro area.

The outlook for lending activity is bright in the upcoming years thanks to the improved labour market conditions with a decreasing unemployment rate of 2.2% point from 2016 to 2017, and strong business investment as well.

Macro indicators	2015	2016	2017	Change 2016-17 (% or % point)
GDP (% real change pa)	0.8%	2.8%	1.9%	-0.9%
Consumer prices (% change pa)	1.4%	1.2%	3.2%	2.0%
Recorded unemployment (%)	19.3%	17.2%	15.0%	-2.2%

Banking sector	2015	2016	2017	Change 2016-17 (% or % point)
Retail loans (EUR mn)	6,248	6,798	7,666	12.8%
Corporate loans (EUR mn)	8,161	8,180	8,570	4.8%
Interest rates				
Lending (%)	8.8%	8.5%	8.2%	-0.3%
Deposit (%)	3.1%	2.9%	2.8%	-0.1%
NPL volumes				
Retail NPLs (EUR mn)	725	678	444	-34.5%
Corporate NPLs (EUR mn)	1,631	1,277	858	-32.8%
NPL ratios				
Retail NPL ratio (%)	11.6%	10.0%	5.8%	-4.2%
Corporate NPL ratio (%)	20.0%	15.6%	10.1%	-5.5%
Key ratios				
CAR (%)	20.9%	21.8%	22.6%	0.8%
ROE (%)	1.6%	3.4%	10.6%	7.2%
ROA (%)	0.3%	0.7%	2.1%	1.4%
CIR (%)	62.2%	64.8%	59.9%	-4.9%
L/D (%)	99.0%	92.0%	95.0%	3.0%
FX share of lending (%)	71.9%	69.3%	67.5%	-1.8%
LLP coverage (%)	62.3%	67.8%	58.1%	-9.7%

Source: EIU, NBS, ECB CBD

The NPL ratio of the banking sector stood below the pre-crisis level at 9.8% at end-2017 with a significantly higher corporate NPL ratio than in the household sector

Positive trends are emerging concerning the NPL volumes as well, where retail NPL volumes declined by 34.5% in 2017. Corporate NPLs trailed retail with 32.8% decrease in the stock of bad debt. Decrease in NPL volumes in tandem with the rising lending activity resulted in a fall in NPL ratios of 4.2% point and 5.5% point decrease in retail and corporate segment respectively.

The NPL ratio of the banking sector reached its lowest level in a decade by the end of 2017. According to the NBS, the asset quality indicator stood at 9.8% at end-2017. The decrease in the NPL ratio is mainly attributable to NBS regulatory activities, fostering banks to address distressed loans in their portfolios through write-offs, assignment and sale of NPL portfolios.

Modest distressed debt sale activity in the past, but recent developments promise more transactions in the future

According to the NPL Vienna Initiative, additional amendments of the NPL Resolution Strategy is expected to accelerate the trade of state-owned NPLs and give an impetus to the resolution of NPL portfolios managed by the Deposit Insurance Agency and the Development Fund.

The resolution of the Deposit Insurance Agency of Serbia has started in October 2018 with the launch of the sale part of its NPL portfolio in the amount of EUR 240mn. Further disposal of non-performing assets is expected to be launched as the total volume of DIA’s distressed asset portfolio amounts to c. EUR 1bn.

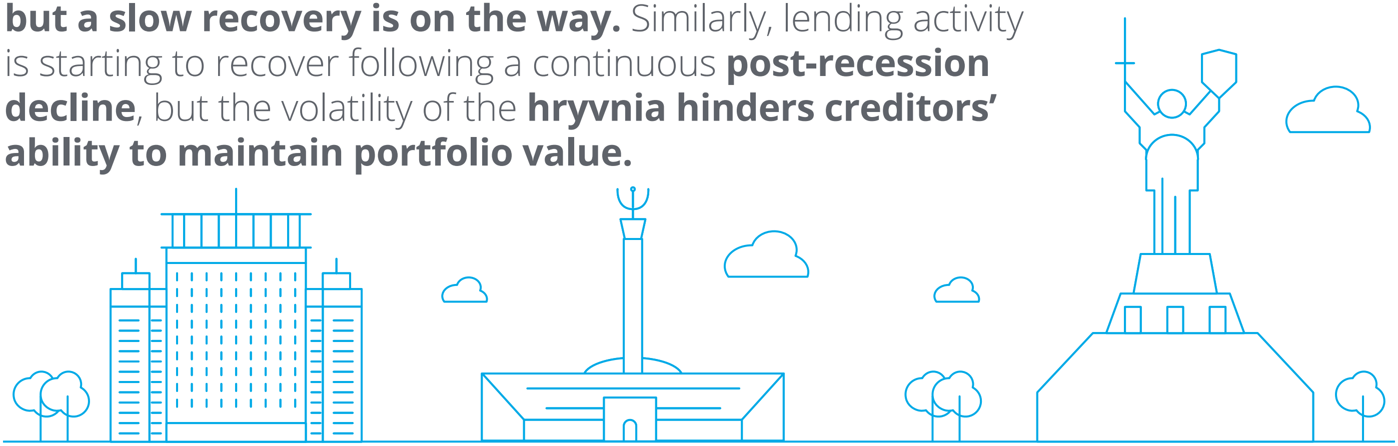
Serbia has shown modest activity between 2015 and 2018 H1 concerning non-performing loan sales with a transacted deal volume of EUR 0.5bn. In 2018, Slovenia’s Nova Ljubljanska Banka announced the sale of Serbian non-performing loan portfolio of approximately EUR 115mn gross book value.

#	Bank (2017, EUR mn)	Assets	Loans	Equity	Net income	ROA	ROE	NPL ratio	NPL vol.	Major shareholder
1	**Banca Intesa**	4,768	2,741	1,005	100	2.1%	10.0%	7.8%	214	Intesa Sanpaolo
2	**Komercijalna Banka**	3,116	1,304	534	69	2.2%	12.9%	11.1%	145	State
3	**UniCredit Banka**	3,062	2,027	585	56	1.8%	9.6%	5.9%	119	UniCredit
4	**Société Générale Banka**	2,431	1,847	341	51	2.1%	15.0%	11.1%	206	Société Générale
5	**Raiffeisen Banka**	2,234	1,284	485	56	2.5%	11.5%	4.7%	60	Raiffeisen
6	**AIK Banka**	1,767	840	516	102	5.8%	19.8%	17.4%	146	Private individuals
7	**Erste Bank**	1,367	849	176	22	1.6%	12.5%	6.6%	56	Erste
8	**Eurobank a.d. Beograd**	1,337	975	432	18	1.3%	4.2%	11.4%	111	Eurobank Ergasias
9	**Banka Poštanska**	1,186	n/a	134	33	2.8%	24.6%	n/a	n/a	JP PTT
10	**Vojvođanska Banka**	1,036	663	152	(18)	-1.7%	-11.8%	8.7%	58	OTP
	Banking sector total	**28,540**	**16,236**	**5,588**	**591**	**2.1%**	**10.6%**	**9.8%**	**1,302**	

Source: Banks' data disclosure, EMIS, NBS

Ukraine

A transient political milieu had made **NPL levels skyrocket, but a slow recovery is on the way.** Similarly, lending activity is starting to recover following a continuous **post-recession decline**, but the volatility of the **hryvnia hinders creditors' ability to maintain portfolio value.**



The banking sector recorded a slight increase in lending activity in 2017 and only a modest recovery is projected in the forthcoming years

Throughout 2017, consumer lending had begun to recover from its post-recession decline as the share of retail loans in UAH-terms started to rise for the first time since 2008. We have seen this trend continue in 2018, with retail loans accounting for 16.6% of total gross loans in April 2018, up from a 10-year low of 15.7% in 2016. In UAH figures, the total volume of consumer loans increased by 8.7% between 2016 and 2017, with a 2.7% concurrent increase in corporate loans, resulting in a 3.7% increase in combined loan volume largely attributable to returning confidence and economic stability following the recent years' political turmoil. However, it should be noted that the ongoing devaluation of the hryvnia has actually led to a decline in the EUR value of these loan portfolios.

The surge in credit supply is still awaited, as several individual banks need to focus on cleaning up their balance sheets and stabilise their capital adequacy ratios.

Macro indicators	2015	2016	2017	Change 2016-17 (% or % point)
GDP (% real change pa)	-9.8%	2.4%	2.5%	0.1%
Consumer prices (% change pa)	48.7%	13.9%	14.4%	0.5%
Recorded unemployment (%)	9.1%	9.3%	9.5%	0.2%

Banking sector	2015	2016	2017	Change 2016-17 (% or % point)
Retail loans (EUR mn)	6,127	5,537	4,895	-11.6%
Corporate loans (EUR mn)	28,869	29,803	26,112	-12.4%
Interest rates				
Lending (%)	21.8%	19.2%	16.4%	-2.8%
Deposit (%)	13.0%	11.5%	9.1%	-2.4%
NPL volumes				
Retail NPLs (EUR mn)	n/a	n/a	2,547	n/a
Corporate NPLs (EUR mn)	n/a	n/a	14,744	n/a
NPL ratios				
Retail NPL ratio (%)	n/a	n/a	52.0%	n/a
Corporate NPL ratio (%)	n/a	n/a	56.5%	n/a
Key ratios				
CAR (%)	12.3%	12.7%	16.1%	3.4%
ROE (%)	-82.1%	-128.8%	-17.9%	110.9%
ROA (%)	-6.2%	-12.6%	-2.1%	10.5%
CIR (%)	74.4%	65.9%	67.0%	1.1%
L/D (%)	134.8%	120.3%	114.1%	-6.1%
FX share of lending (%)	51.8%	47.7%	n/a	n/a
LLP coverage (%)	80.2%	99.5%	85.5%	-13.9%

Source: EIU, NBU, ECB CBD

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

Mountain of distressed assets mainly in the corporate sector

The NPL ratio had reached a record high 58% in July 2017 but consistently shrunk in H2 2017, arriving to 55.8% at end-2017. In early 2018, the ratio slightly increased to 56.2% in May 2018, stemming from a reclassification within the chart of accounts. Most of the NPL volume is comprised of corporate NPLs, with large groups being particularly unwilling to pay off substantial balances, putting off payment in hopes of obtaining preferential terms. The 20 largest corporate groups recorded an NPL ratio of 86% as of April 2018. In the retail sector, the transitory political-legal environment makes foreign currency loans particularly risky, with a 96% NPL ratio for household FX loans in both December 2017 and April 2018.

The four largest state-controlled banks by total assets of the Ukrainian banking sector reported extremely high impaired loan ratios in 2017. The highest impaired loan ratio of approximately 86% was recorded by the nationalized Privatbank, whilst the impaired loan ratio of Oschadbank (42%) and Ukreximbank (42%) stood above 40% as of December 2017. As a result of low collateral coverage of bad debts, banks report high losses on non-performing loans.

The substantial supply of non-performing corporate loans could attract the interest of international investors, however current debt sales market is mainly focused on the retail segment and is solely limited to domestic investors

International distressed asset investors keep an eye on the Ukrainian banking market, however due to the current risks associated with the sector they are unlikely to enter the market.

The local authorities in cooperation with the EBRD started to work on the implementation of a new financial restructuring procedure in order to stimulate the system to tackle high volumes of non-performing loans. The improvement of rights of creditors is of paramount importance, as they are not protected properly under the current fragmented judicial practice. NBU also reported legal and tax-related obstacles that hinder the potential restructuring of bad debts.

#	Bank (2017, EUR mn)	Assets	Loans	Equity	Net income	ROA	ROE	Impaired loan ratio	Impaired loan vol.	Major shareholder
1	**PrivatBank**	14,477	7,870	740	(797)	-5.5%	-107.6%	85.4%	6,719	State
2	**Oschadbank**	8,833	3,825	938	19	0.2%	2.0%	41.9%	1,601	State
3	**Ukreximbank**	6,700	3,461	419	26	0.4%	6.2%	41.7%	1,444	State
4	**Ukrgazbank**	2,393	1,278	168	21	0.9%	12.5%	21.4%	274	State
5	**Raiffaisen Bank Aval**	2,366	1,338	326	149	6.3%	45.7%	15.6%	209	Raiffeisen
6	**Sberbank Ukraine**	1,877	1,621	156	4	0.2%	2.8%	37.7%	611	Sberbank
7	**Ukrsotsbank**	1,732	1,317	138	(121)	-7.0%	-88.0%	65.8%	867	ABH Holdings S.A.
8	**Alfa Bank Ukraine**	1,730	1,095	117	20	1.2%	17.0%	23.0%	252	ABH Holdings S.A.
9	**First Ukrainian International Bank**	1,631	994	145	26	1.6%	18.0%	23.4%	233	SKM Finance TOV
10	**Ukrsibbank**	1,570	853	166	49	3.1%	29.4%	22.2%	189	BNP Paribas
	Banking sector total	**55,759**	**31,007**	**4,698**	**(936)**	**-1.7%**	**-19.9%**	**55.8%**	**17,291**	

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 banks is calculated by loan loss provisions divided by total gross loan volume reported by the bank.

Bosnia and Herzegovina

A continuing economic upturn and decreasing interest rates have left **businesses and consumers alike hungry for credit.** Lenders are happy to oblige, with an increase in outstanding loans across the board. At the same time, **banks** are taking active steps to **mitigate credit risk and decrease both household and corporate NPL ratios.**

Given the positive trends in the economic environment, lending activity continued to strengthen in 2017 similar to previous years

Improving labour market conditions and a decrease in interest rates had resulted in an increased demand for loans within the household sector. Combined with banks' willingness to offer replacement loans with more attractive repayment terms due to increased competition to gain higher market share, this resulted in a 7.1% increase in the volume of retail loans. In the corporate sector, a general growth in economic activity combined with the aforementioned change in interest rates had resulted in a surge in businesses' demand for credit, however corporate loan outstanding practically stagnated in 2017.

Macro indicators	2015	2016	2017	Change 2016-17 (% or % point)
GDP (% real change pa)	3.1%	3.2%	2.7%	-0.5%
Consumer prices (% change pa)	-1.0%	-1.1%	1.3%	2.4%
Recorded unemployment (%)	27.7%	25.4%	20.5%	-4.9%

Banking sector	2015	2016	2017	Change 2016-17 (% or % point)
Retail loans (EUR mn)	3,980	4,129	4,423	7.1%
Corporate loans (EUR mn)	4,435	4,475	4,459	-0.4%
Interest rates				
Lending (%)	5.8%	5.5%	4.4%	-1.1%
Deposit (%)	1.5%	0.9%	1.2%	0.3%
NPL volumes				
Retail NPLs (EUR mn)	383	352	332	-5.8%
Corporate NPLs (EUR mn)	769	653	548	-16.0%
NPL ratios				
Retail NPL ratio (%)	9.7%	8.6%	7.5%	-1.1%
Corporate NPL ratio (%)	17.2%	15.3%	12.3%	-3.0%
Key ratios				
CAR (%)	14.9%	15.8%	15.7%	-0.1%
ROE (%)	2.0%	7.3%	10.2%	2.9%
ROA (%)	0.3%	1.1%	1.5%	0.4%
CIR (%)	n/a	n/a	n/a	n/a
L/D (%)	103.2%	98.3%	95.2%	-3.1%
FX share of lending (%)	1.4%	1.3%	n/a	n/a
LLP coverage (%)	71.2%	74.4%	76.7%	2.3%

Source: CBBH, ECB CBD

Asset quality is on the mend, however corporate NPL ratio stood slightly above 10% at end-2017

The Bosnian loan market's household NPL ratio stood at 7.5% at the end of 2017. This amounts to a 1.1% point year-on-year decrease, continuing a now 5-year trend of consistently improving asset quality. This is most likely attributable to the banking sector's ongoing, active management of credit portfolios, including permanent write-offs, more efficient collection and rescheduling the outstanding liabilities of clients who have encountered payment difficulties. The year-end corporate NPL ratio was 12.3%, a 3.0% point decrease in line with the previous two years' downward movements. In addition to the above detailed strategies for active credit risk management, the decrease in the corporate NPL ratio has also been facilitated by the across-the-board economic recovery putting borrowers in a better position to remit payments.
The Banking Agencies constantly monitors the lending activity as the excessive credit growth could result in higher credit risk and the deterioration of the asset quality in the coming years.

Distressed debt market overview

No larger sale of non-performing loan portfolios was reported in Bosnia and Herzegovina in recent years with HETA Asset Resolution being the most active player on the loan sales market based on publicly available market intelligence.

#	Bank (2017, EUR mn)	Assets	Loans	Equity	Net income	ROA	ROE	NPL ratio	NPL vol.	Major shareholder
1	**Unicredit Bank d.d. Sarajevo**	2,676	1,670	392	46	1.7%	11.7%	8.7%	145	Zagrebacka Banka d.d.
2	**Raiffeisen BANK d.d. BiH**	2,115	1,226	280	37	1.8%	13.3%	5.7%	70	Raiffeisen
3	**Nova Banka a.d. Banja Luka**	1,108	644	80	7	0.6%	8.6%	5.7%	37	Private Individuals
4	**Intesa Sanpaolo Banka, d.d. BiH**	954	686	138	13	1.4%	9.4%	5.7%	39	Privredna Banka Zagreb d.d.
5	**Sparkasse Bank d.d. BiH**	690	523	85	10	1.5%	11.9%	8.2%	43	Steiermarkische Bank Und Sparkassen AG
6	**UniCredit Banka a.d. Banja Luka**	757	496	103	13	1.7%	12.8%	7.2%	36	UniCredit
7	**Sberbank BH d.d. Sarajevo**	684	500	89	3	0.4%	3.1%	7.4%	37	Sberbank Europe AG
8	**NLB banka, Banja Luka**	670	545	84	24	3.5%	28.1%	3.7%	20	NLB Group
9	**NLB Banka d.d. Sarajevo**	531	493	69	8	1.6%	12.0%	6.9%	34	NLB Group
10	**Addiko Bank d.d. Sarajevo**	456	311	108	4	0.8%	3.3%	28.5%	89	Hypo Alpe-Adria-Bank AG Klagenfurt
	Banking sector total	**14,464**	**9,228**	**3,817**	**172**	**1.5%**	**10.2%**	**9.5%**	**880**	

Source: Banks' data disclosure, EMIS, CBBH

Baltic region

Growing economy, low unemployment rates, increasing wages combined with an **external environment with robust economic fundamentals** are the main features of the economic climate of the Baltic states.

Estonia

Driven by the positive trends on the labour market with an unemployment rate trending towards its lowest level of the past decade as well as the increasing household income, the stock of household loans increased markedly by 6.9% YoY in 2017. According to Eesti Pank, the growth of retail loans was mainly facilitated by the rapid increase of car leases. The continued good economic performance of Estonia's trading partners contributed to an improving financial position of Estonian companies. However, the stock of corporate loans decreased by 5.6% from 2016 to 2017.

The surge of credit activity was posted mainly in the construction and real estate sector.

Both retail and corporate NPL volumes remained on a downward trend in 2017 leading to NPL ratios of 0.4% and 1.3% respectively. There are no signs of the deterioration of credit quality in the coming years thanks to the favourable economic environment.

Luminor Bank was established in all three Baltic states in 2017 and listed as a systemically important credit institution. In 2018, ECB approved the integration of Luminor bank's operation throughout the Baltics. As a result of the integration starting from 2019, the Latvian and Lithuanian entities will be branches while the bank will operate in Estonia.

Macro indicators	2015	2016	2017	Change 2016-17 (% or % point)
GDP (% real change pa)	1.7%	2.1%	4.9%	2.8%
Consumer prices (% change pa)	-0.5%	0.1%	3.4%	3.3%
Recorded unemployment (%)	6.2%	6.8%	5.8%	-1.0%

Banking sector	2015	2016	2017	Change 2016-17 (% or % point)
Retail loans (EUR mn)	7,331	7,711	8,242	6.9%
Corporate loans (EUR mn)	6,933	7,499	7,078	-5.6%
Interest rates				
Lending (%)	4.5%	4.2%	4.2%	0.0%
Deposit (%)	0.5%	0.4%	0.5%	0.1%
NPL volumes				
Retail NPLs (EUR mn)	57	41	37	-10.5%
Corporate NPLs (EUR mn)	104	115	91	-20.8%
NPL ratios				
Retail NPL ratio (%)	0.8%	0.5%	0.4%	-0.1%
Corporate NPL ratio (%)	1.5%	1.5%	1.3%	-0.2%
Key ratios				
CAR (%)	36.0%	34.6%	30.1%	-4.5%
ROE (%)	6.8%	11.1%	9.2%	-1.9%
ROA (%)	1.1%	1.5%	1.4%	-0.2%
CIR (%)	44.6%	44.5%	46.3%	1.9%
L/D (%)	97.6%	99.0%	89.8%	-9.2%
FX share of lending (%)	1.1%	0.8%	0.7%	-0.1%
LLP coverage (%)	52.1%	61.1%	37.1%	-23.9%

Source: Eesti Pank, ECB CBD

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

#	Bank (2017, EUR mn)	Assets	Loans	Equity	Net income	ROA	ROE	Impaired loan ratio	Impaired loan vol.	Major shareholder
1	**SWED**	9,964	7,265	1,704	191	1.9%	11.2%	2.3%	167	Swedbank
2	**SEB**	5,919	4,627	821	67	1.1%	8.2%	2.2%	101	SEB
3	**Luminor**	3,579	3,190	n/a	7	0.2%	n/a	5.9%	187	JV: Nordea and DNB Bank
4	**LHV**	1,726	740	90	11	0.6%	12.2%	4.4%	32	AS LHV Group
5	**Bigbank**	457	396	110	17	3.7%	15.6%	6.8%	27	Private individuals
6	**Coop Pank**	367	242	42	(0)	-0.1%	-0.7%	1.8%	4	Coop Investeeringud OÜ
7	**Versobank**	294	44	19	0	0.1%	1.5%	n/a	n/a	Ukrselhosprom PCF LLC
8	**Tallinna Aripanga**	231	44	26	2	0.7%	6.5%	2.4%	1	Leonarda Invest Aktsiaselts
9	**AS Inbank**	126	93	22	7	5.9%	33.8%	n/a	n/a	Cofi Investeeringud OÜ
	Banking sector total	**25,325**	**15,320**	**3,743**	**345**	**1.4%**	**9.2%**	**0.8%**	**128**	

Source: Banks' data disclosure, EMIS, Eesti Pank

Latvia

The volume of retail loans continued to decrease in 2017. Recovery in household lending is expected to gain momentum in the coming years owing mainly to the favourable trends on the labour market, increasing disposable income of the households, decreasing unemployment rate as well as the relatively low interest rates.

The stock of corporate loans outstanding decreased significantly by 10% from 2016 to 2017. The amount of corporate loans was negatively impacted by a one-off effect when part of Nordea AB's domestic credit portfolio was transferred to its parent company in Sweden. Even taking into account this one-off effect, the credit demand of corporates lagged behind the economic growth in 2017.

The stock of corporate NPLs slightly increased from 2016 to 2017, still mirroring a healthy level of corporate bad debts. The amount of retail NPLs remained on a downward trend in 2017 with a 34.0% decrease YoY. As a result of projected robust economic growth, reduced credit risk is expected in terms of both retail and corporate credit portfolio. Asset quality is expected to remain high resulted mostly from the improving debt servicing of both households and companies.

Macro indicators	2015	2016	2017	Change 2016-17 (% or % point)	
GDP (% real change pa)	2.8%	1.5%	5.0%	3.5%	🟢
Consumer prices (% change pa)	0.2%	0.2%	2.9%	2.8%	🟢
Recorded unemployment (%)	9.9%	9.6%	8.7%	-0.9%	🟢

Banking sector	2015	2016	2017	Change 2016-17 (% or % point)	
Retail loans (EUR mn)	5,594	5,581	5,531	-0.9%	🔴
Corporate loans (EUR mn)	7,874	7,943	7,144	-10.1%	🔴
Interest rates					
Lending (%)	3.1%	2.6%	2.6%	0.0%	🔴
Deposit (%)	0.0%	0.0%	0.1%	0.1%	🔴
NPL volumes					
Retail NPLs (EUR mn)	405	275	182	-34.0%	🟢
Corporate NPLs (EUR mn)	278	172	182	5.3%	🔴
NPL ratios					
Retail NPL ratio (%)	7.2%	4.9%	3.3%	-1.6%	🟢
Corporate NPL ratio (%)	3.5%	2.2%	2.5%	0.4%	🔴
Key ratios					
CAR (%)	22.8%	21.5%	21.4%	-0.1%	🔴
ROE (%)	10.7%	14.3%	7.6%	-6.7%	🔴
ROA (%)	1.2%	1.5%	0.9%	-0.6%	🔴
CIR (%)	51.2%	47.8%	58.4%	10.7%	🔴
L/D (%)	59.9%	62.4%	60.6%	-1.8%	🔴
FX share of lending (%)	13.8%	12.5%	8.4%	-4.0%	🟢
LLP coverage (%)	48.7%	46.3%	44.2%	-2.1%	🔴

Source: Latvijas Banka, ECB CBD

#	Bank (2017, EUR mn)	Assets	Loans	Equity	Net income	ROA	ROE	Impaired loan ratio	Impaired loan vol.	Major shareholder
1	**Swedbank**	5,292	3,152	629	94	1.8%	15.0%	1.6%	51	Swedbank
2	**Luminor Bank**	4,745	3,009	511	(1)	0.0%	-0.1%	10.0%	301	JV: Nordea and DNB Bank
3	**ABLV Bank***	3,685	887	378	51	1.4%	13.5%	4.2%	38	Private individuals
4	**SEB Banka**	3,671	2,358	344	39	1.1%	11.4%	1.5%	34	SEB
5	**Rietumu Bank**	3,002	1,007	418	35	1.2%	8.4%	8.2%	82	Private individuals
6	**Citadele Bank**	2,545	1,179	295	1	0.0%	0.4%	4.6%	54	ERAB
7	**Norvik Banka**	810	128	93	(11)	-1.3%	-11.3%	82.5%	106	Private individuals
8	**BlueOrange Bank**	661	160	74	5	0.7%	6.5%	10.0%	16	Private individuals
9	**Baltic International Bank**	369	74	29	(3)	-0.7%	-9.2%	15.5%	11	Private individuals
10	**Reģionālā investīciju banka**	303	122	54	4	1.2%	6.9%	30.2%	37	Private individuals
	Banking sector total	**28,554**	**12,675**	**3,220**	**245**	**0.9%**	**7.6%**	**2.9%**	**363**	

Source: Banks' data disclosure, EMIS, Latvijas Banka

*Note: ABLV Bank announced to self-liquidate and no longer has a banking license in 2018

Lithuania

Lending activity in Lithuania picked up in 2017 for the third consecutive year. As a result of decreasing unemployment rate, rising wages and low interest rates, total debt of households edged up markedly by 7.4% YoY in 2017. The rising pace of household lending is particularly evident in housing loans. The growth of corporate loans outstanding also remained on an improving trend, increasing by 2.6%.

The level of non-performing loans has been gradually trending towards the pre-crisis level mainly owing to the write-off of bad debts. The NPL ratio of the banking sector stood at 3.9% at end-2017. According to the Financial Stability Report of Bank of Lithuania, the value of loan write-offs nearly halved in 2017 compared to 2016 and the inflow of new non-performing loans is also decreasing.

Macro indicators	2015	2016	2017	Change 2016-17 (% or % point)
GDP (% real change pa)	2.0%	2.3%	3.9%	1.5%
Consumer prices (% change pa)	-0.7%	0.7%	3.7%	3.0%
Recorded unemployment (%)	9.1%	7.9%	7.1%	-0.8%

Banking sector	2015	2016	2017	Change 2016-17 (% or % point)
Retail loans (EUR mn)	7,797	8,382	9,000	7.4%
Corporate loans (EUR mn)	7,727	8,303	8,521	2.6%
Interest rates				
Lending (%)	3.0%	2.8%	2.8%	0.0%
Deposit (%)	0.3%	0.2%	0.3%	0.1%
NPL volumes				
Retail NPLs (EUR mn)	381	317	253	-20.2%
Corporate NPLs (EUR mn)	648	519	429	-17.2%
NPL ratios				
Retail NPL ratio (%)	4.9%	3.8%	2.8%	-1.0%
Corporate NPL ratio (%)	8.4%	6.3%	5.0%	-1.2%
Key ratios				
CAR (%)	24.9%	19.4%	19.1%	-0.3%
ROE (%)	7.5%	11.9%	9.1%	-2.8%
ROA (%)	0.9%	1.0%	0.9%	-0.1%
CIR (%)	52.5%	47.7%	48.9%	1.2%
L/D (%)	83.8%	82.3%	78.8%	-3.4%
FX share of lending (%)	1.0%	0.7%	0.5%	-0.2%
LLP coverage (%)	35.3%	35.7%	35.1%	-0.6%

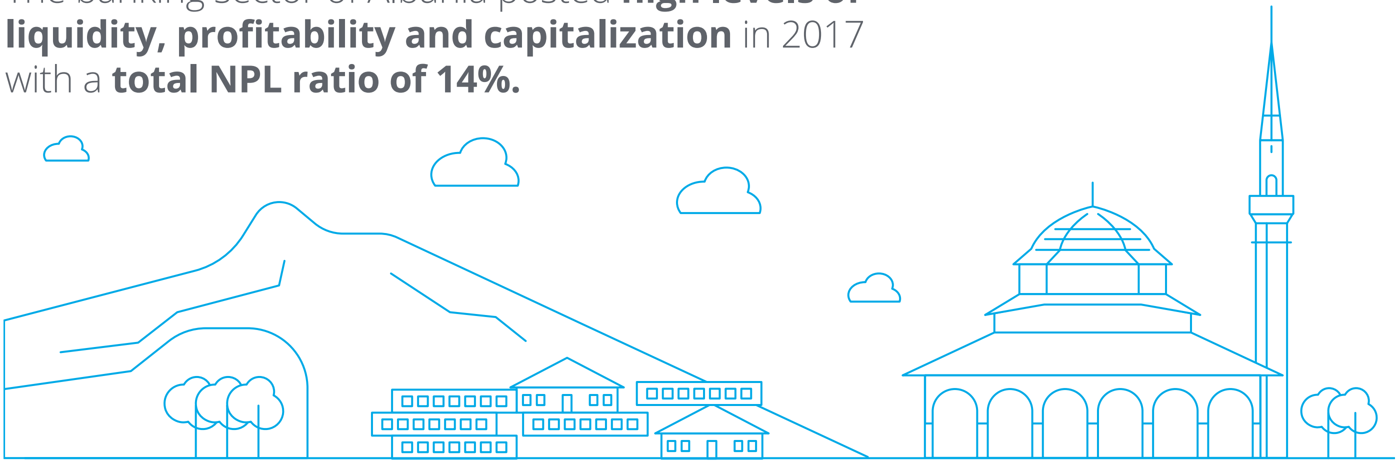
Source: Bank of Lithuania, ECB CBD

#	Bank (2017, EUR mn)	Assets	Loans	Equity	Net income	ROA	ROE	Impaired loan ratio	Impaired loan vol.	Major shareholder
1	**Swedbank**	7,807	4,704	765	102	1.3%	13.3%	1.8%	84	Swedbank
2	**SEB Bankas**	7,721	5,147	765	94	1.2%	12.3%	1.0%	52	SEB
3	**Luminor Bank AB**	6,870	4,207	721	(13)	-0.2%	-1.8%	5.4%	225	JV: Nordea and DNB Bank
4	**Siauliu Bankas**	1,990	1,063	202	31	1.6%	15.3%	1.1%	12	EBRD
5	**Citadele Bankas**	542	258	53	3	0.5%	5.1%	2.0%	5	Citadele Banka
6	**Medicinos Bankas**	286	163	27	2	0.6%	6.0%	9.9%	16	Saulius Karosas
7	**Lietuvos centrinės kredito unijos**	141	8	16	1	0.4%	3.3%	n/a	n/a	n/a
	Banking sector total	**27,324**	**17,521**	**2,565**	**234**	**0.9%**	**9.1%**	**3.9%**	**682**	

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

Albania

The banking sector of Albania posted **high levels of liquidity, profitability and capitalization** in 2017 with a **total NPL ratio of 14%.**



Expanding total loan portfolio was driven by retail sector with an offset of corporate segment lendings

Growth in overall lending activity comes solely from the retail sector's 7.3% yoy increase in the value of outstanding loans, supported by the new loans to residents. The corporate sector's 0.4% contraction in portfolio value is attributable to the depreciation of foreign currency loans stemming from exchange rate fluctuations. 56% of all outstanding credit is in non-domestic denominations, which means exchange rate changes play an amplified role in the Albanian credit market. The contraction of non-performing loans also contributed to the decline in the stock of corporate loans outstanding.

Asset quality indicators have been improving gradually as a result of banks' efforts to efficiently address NPLs in their portfolios

Both household and corporate NPL volumes decreased moderately from 2016 to 2017, the stock of retail NPLs posted an 18.4% decrease, whilst the corporate NPLs fell by 21.3%. Thanks to banks' efforts to clean up their balance sheets mainly through write-offs and loan restructuring, retail and corporate NPL ratio dropped by 2.4% point and 4.5% point respectively. The growth in new lending as well as the repayment of non-performing loans on the back of favourable macroeconomic conditions also facilitated the positive trend.

Macro indicators	2015	2016	2017	Change 2016-17 (% or % point)
GDP (% real change pa)	2.2%	3.4%	3.8%	0.4%
Consumer prices (% change pa)	1.9%	1.3%	2.0%	0.7%
Recorded unemployment (%)	13.3%	10.3%	7.6%	-2.7%

Banking sector	2015	2016	2017	Change 2016-17 (% or % point)
Retail loans (EUR mn)	1,126	1,247	1,339	7.3%
Corporate loans (EUR mn)	3,142	3,192	3,181	-0.4%
Interest rates				
Lending (%)	8.7%	9.8%	8.2%	-1.6%
Deposit (%)	1.4%	0.8%	0.8%	-0.1%
NPL volumes				
Retail NPLs (EUR mn)	146	125	102	-18.4%
Corporate NPLs (EUR mn)	632	683	538	-21.3%
NPL ratios				
Retail NPL ratio (%)	13.0%	10.0%	7.6%	-2.4%
Corporate NPL ratio (%)	20.1%	21.4%	16.9%	-4.5%
Key ratios				
CAR (%)	15.7%	15.7%	16.6%	0.9%
ROE (%)	13.2%	7.2%	15.7%	8.5%
ROA (%)	1.2%	0.7%	1.5%	0.8%
CIR (%)	n/a	n/a	n/a	n/a
L/D (%)	53.2%	52.0%	51.6%	-0.4%
FX share of lending (%)	60.8%	59.0%	56.0%	-3.0%
LLP coverage (%)	70.8%	70.5%	71.7%	1.2%

Source: AAB, BoA

Competitive landscape

The banking sector in Albania is concentrated and dominated by banks with foreign ownership. As at December 2017, 16 second tier banks operated in Albania with the largest five banks holding approximately 74% of the banking sector's total assets. Credins Bank, the third largest bank by total assets reported the largest amount of NPLs with c. EUR 169mn as at end-2017. Raiffeisen Bank, NGB Bank and BKT also recorded high volumes of NPLs relative to other players on the baking market with EUR 107mn, EUR 56mn and EUR 50mn respectively.

The banking sector of Albania is well-capitalized with CAR at 16.6% as end-2017, well-above the capital requirements, reflecting robust resilience against potential shocks.

Distressed debt market overview

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.

Given the relatively small size of the Albanian distressed debt market in terms of total NPL volume, no larger debt sale transactions have been recorded so far. However, there are some banks among the top ten players who might consider the disposal of NPLs in order to accelerate their balance sheet clean-up process.

#	Bank (2017, EUR mn)	Assets	Loans	Equity	Net income	ROA	ROE	NPL ratio	NPL vol.	Major shareholder
1	Banka Kombëtare Tregtare	3,058	1,021	327	49	1.6%	15.0%	4.9%	50	Çalik Finansal Hizmetler
2	Raiffeisen Bank Albania	1,880	775	223	34	1.8%	15.1%	13.8%	107	Raiffeisen SEE Region Holding GmbH
3	Credins Bank	1,351	852	114	8	0.6%	7.1%	19.9%	169	Private individuals
4	Intesa sanpaolo Bank Albania	1,160	365	148	12	1.1%	8.4%	6.0%	22	Intesa Sanpaolo S.p.A
5	Societe Generale Albania	612	380	68	3	0.5%	4.5%	8.7%	33	Societe Generale S.A
6	Tirana Bank	585	206	109	1	0.1%	0.5%	23.2%	48	Piraeus Bank
7	Alpha Bank Albania	577	251	72	-6	-1.1%	-8.6%	6.6%	17	Alpha Bank A.E
8	Union Bank	350	147	29	3	0.7%	8.8%	26.9%	40	Financial Union of Tirana
9	American Bank of Investments	309	78	29	4	1.4%	15.3%	9.9%	8	Transit
10	NBG Bank Albania	297	203	58	-4	-1.4%	-7.2%	27.5%	56	American Bank of Investments
	Banking sector total	**10,964**	**4,520**	**1,283**	**88**	**0.8%**	**6.8%**	**14.1%**	**639**	

Source: AAB, Banks' data disclosure, BoA

List of abbreviations

AAB	Albanian Association of Banks
bn	Billion
BAMC	Bank Asset Management Company
BNB	Bulgarian National Bank
BoA	Bank of Albania
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
ICU	Investment Capital Ukraine
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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