

FINANCIAL SECTOR ADVISORY CENTER (FinSAC)

# Renewed supervisory challenges in light of tightened financial conditions and economic slowdown

May 9–10, 2023 | Vienna, Austria

Session 3: The never-ending NPL threat: how to prepare for it?  
The current state of play and potential risks

Presentations by:

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Michael Haralabidis – Hellenic Financial Stability Fund

Jonida Kaçani – Bank of Albania

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# The never ending NPL threat: how to prepare for it?

The current state of play and potential risks

*May 9, 2023*

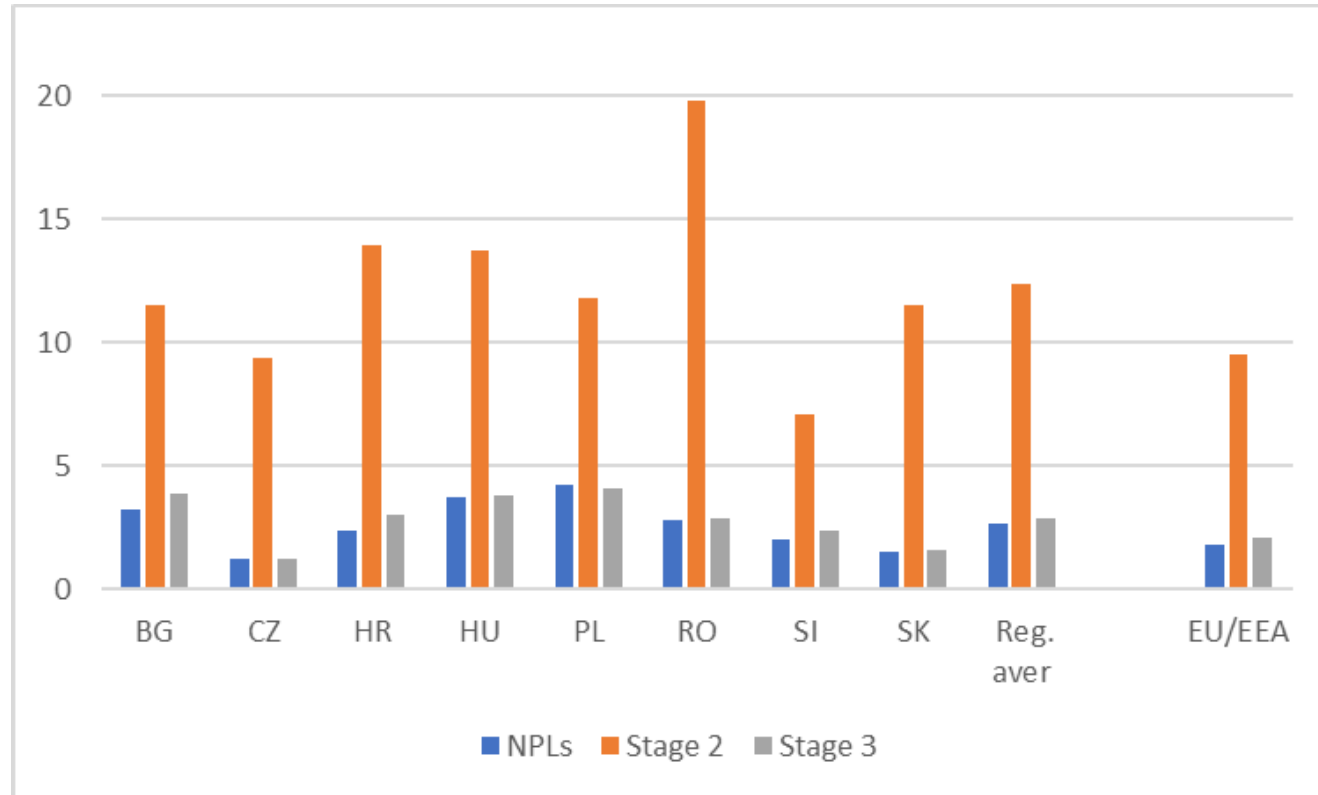
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**Senior Financial Sector Specialist**

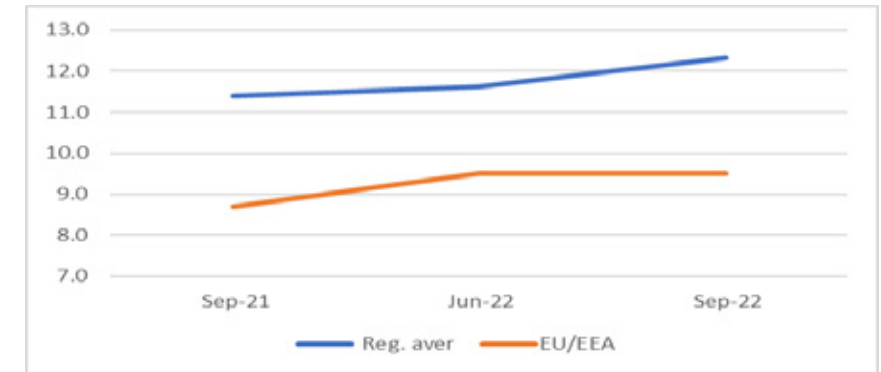
**FinSAC, World Bank Group**

# Credit risk recognition

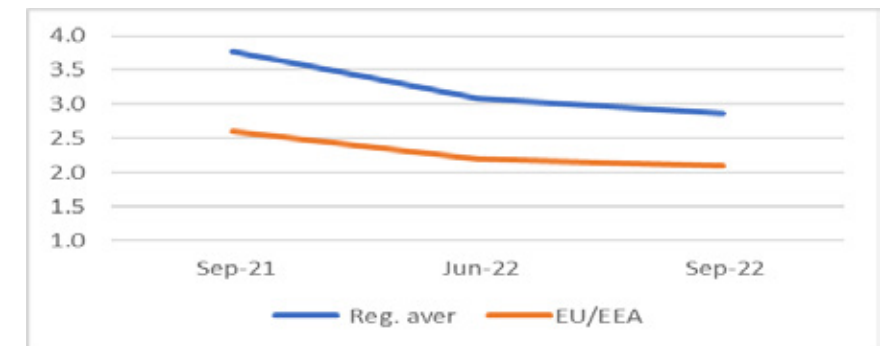
NPLs, Stage 2 and 3 loans in %, Sep 2022



Increase in Stage 2 loans



Decrease in Stage 3 loans



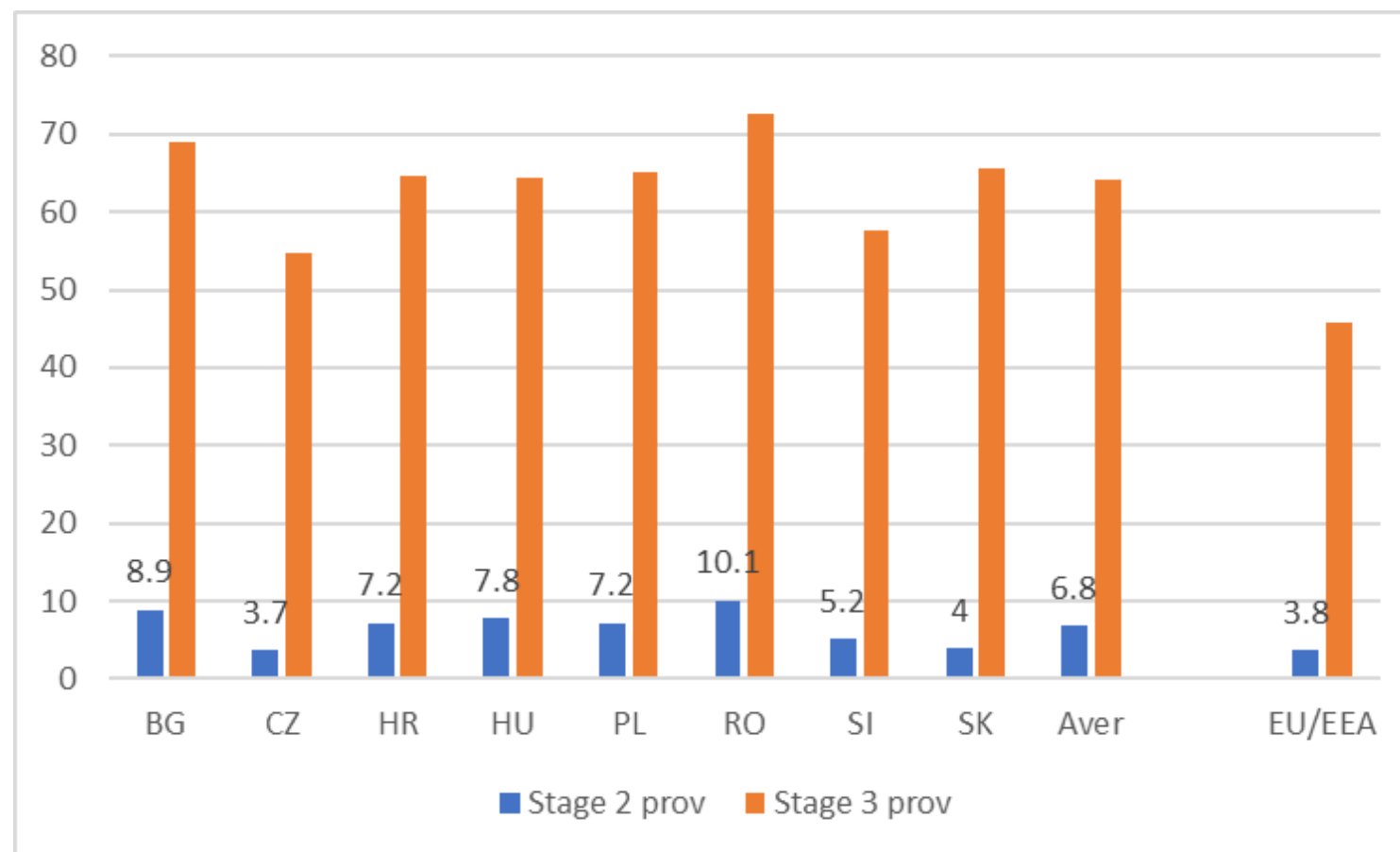
Source: FinSAC calculations; EBA Risk Dashboard, Q3, 2022

- The **NPL ratio** in EU decreased from 2.1% in Sep-21 to 1.8% in Sep-22 and from **3.4% to 2.6%** in the regional sample (BG,CZ, HR, HU, PL, RO, SI, SK). This is line with the pattern in Stage 3 loans in the respective regions.
- However, there is a **worrying increase** in **Stage 2** loans from 8.7% in Sep-21 to 9.5% in Sep-22 in EU and from **11.4% to 12.3%** in the regional sample.
- 23% of Stage 2 loans in EU are with **expired EBA-compliant moratoria** requiring additional vigilance and monitoring.
- Anecdotal evidence suggests that most of restructured loans in the sample region have a **light payment schedule** during the first two years.

# Loan provisioning

- The coverage of **Stage 2** and 3 loans decreased from **4.1%** (Sep-21) to **3.8%** (Sep-22) and **47.3%** to **45.8%** in the EU respectively.
- This might be **too optimistic** in particularly regarding **Stage 2 loan provisions** when the share of them increases.
- The **level of Stage 2 provisions** in certain countries is **relatively high** and might indicate a high likelihood of being transferred to Stage 3 soon.

Stage 2 and 3 loan provision rate in %, Sep-22



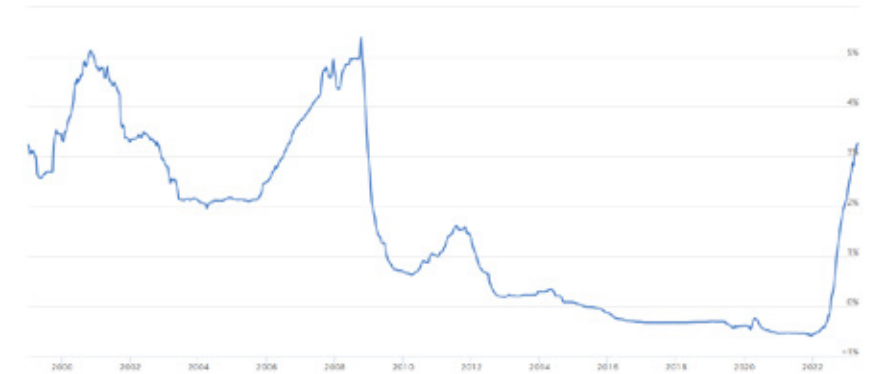
Source: FinSAC calculations; EBA Risk Dashboard, Q3, 2022



# Higher interest rates

- **Interest rates** in EUR and USD have increased substantially.
- 3 months **Euribor** rate reached **3.28%** on May 4, 2023.
- The share of **floating rate loans** for house purchase is **25%** in the euro area.
- ECB's study shows that a **1 percentage point increase** in **mortgage rates** leads to a **decline of around 5% in house prices** (after two years) and a drop in housing investment of 8%.
- **EU house price indexes** started to show **negative q/q growth** in Q3 2022 – DK, IT, RO, FI, SE (Source: Eurostat).
- **Increasing debt servicing costs and decrease in collateral values** will put additional pressures on banks' asset quality.

3 months Euribor rate, %



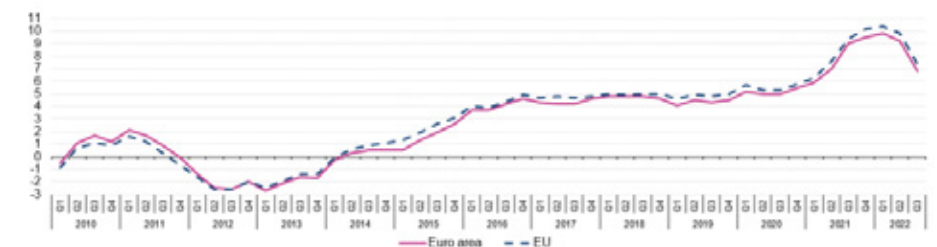
Source: EURIBOR

Share of floating rate loans for housing, euro area, %



Source: ECB

House prices – EU aggregate, y/y, %

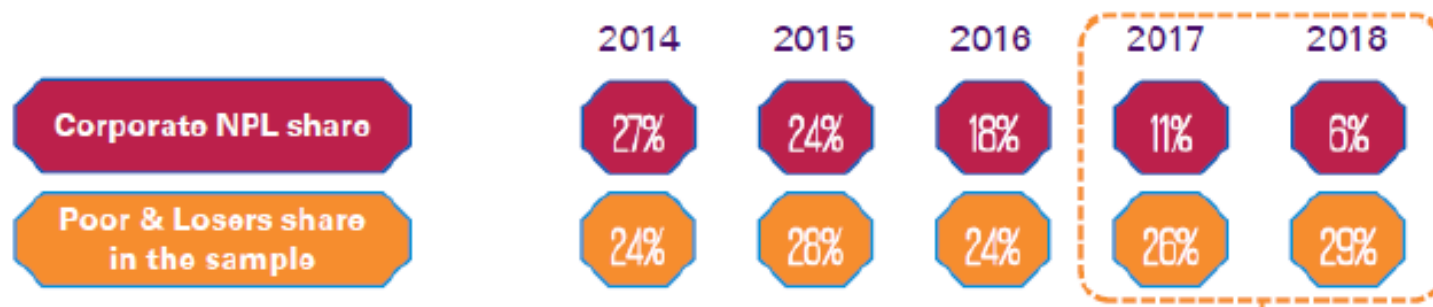


Source: Eurostat

# Indebtedness of corporate borrowers

- In a rising interest rate environment, the analysis of borrowers' **financial viability** is of key importance.
- FinSAC has conducted three **corporate viability studies** in ECA and MENA countries. The studies were **representative** and covered the major part of the corporate sector in each country.
- Main findings:
  - Even if NPLs were reduced in the banking system, the share of **zombie companies** remained the same or even increased,
  - A large share of SOEs and private companies is **overleveraged** and companies are **not able to service their debt** payments in full,
  - A large share of **SOEs is not bankable** based strictly on financial viability analysis.

Share of NPLs and zombie companies, country X



Financial ratios of private sector, country X

	2016	2017	2018	2019	2020
Net debt/EBITDA	6.08 0.87	5.04	4.91	5.79	5.79 0.74
DSCR		0.92	0.89	0.90	
ROA	3.5% 3.42	4.7%	4.3%	4.8%	2.9% 4.41
EBITDA (m)		3.96	4.46	5.32	
Liquidity ratio	1.11 0.82	1.10	1.12	1.13	1.16 0.88
Acid test		0.82	0.82	0.84	

Financial ratios of SOEs, country X

	2016	2017	2018	2019	2020
Net debt/EBITDA	12.11 0.45	15.96	19.05	16.79	22.07 0.39
DSCR		0.48	0.44	0.30	
ROA	-3.3% 52.39	-2.2%	-1.8%	0.0%	-2.8% 34.11
EBITDA (m)		24.01	55.83	41.06	
Liquidity ratio	0.88 0.65	0.86	0.83	0.80	0.81 0.55
Acid test		0.66	0.62	0.57	

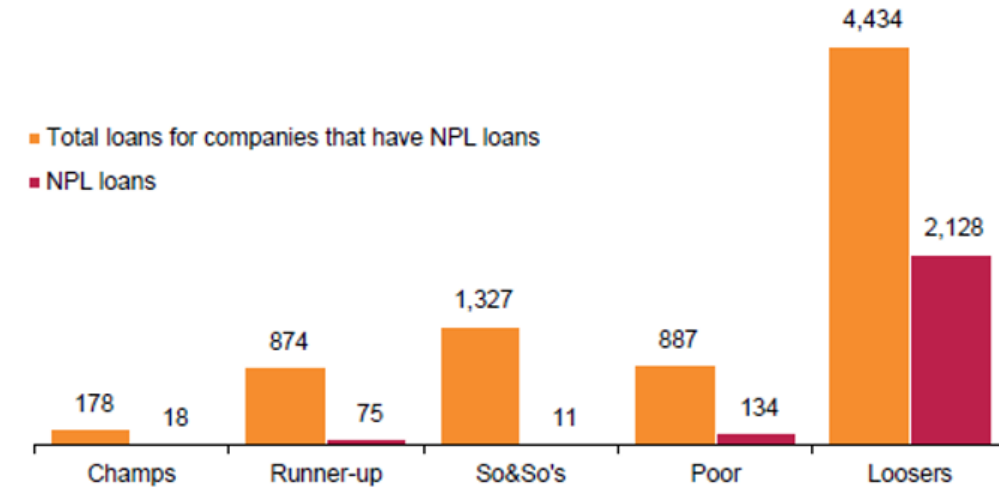
# Indebtedness of borrowers

- Main findings (continued):
  - In many cases loans to **zombie companies** are classified both as performing and non-performing in the same or different banks.
  - Companies in certain **economic sectors** are financially more **vulnerable** than others, particularly coming out of the pandemic.

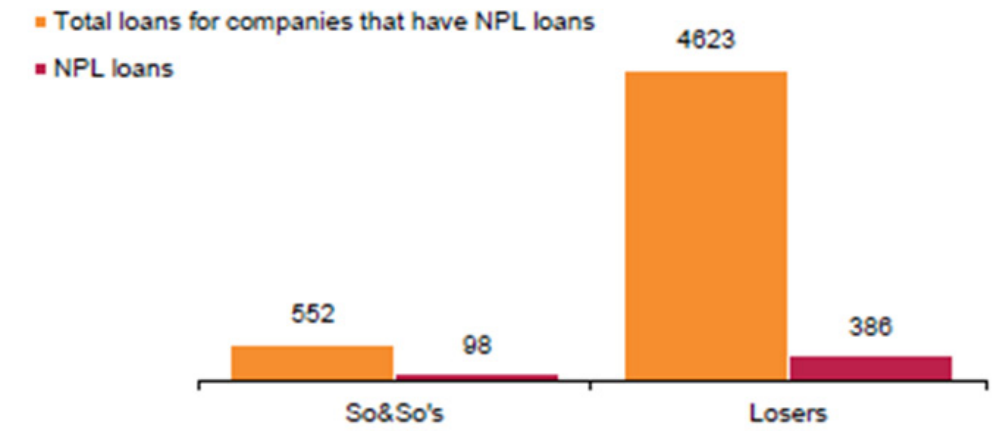
Specific company financial performance according to economic sectors, country X

Industry overview in 2018 (in MEUR)															
Industry	Companies number	Total Assets	Total Revenue	%	EBITDA	%	Net Income	%	Net debt	ROA	Net debt/ EBITDA	Liquidity ratio	ACID test	Employees number	%
Construction	59	1,678	1,816	5%	137	4%	57	4%	420	5.4%	7.1	1.5	1.2	11,967	4%
Electricity and gas	14	106	403	1%	3	0%	2	0%	4	2.1%	0.5	1.1	1.1	74	0%
<b>Manufacturing industry</b>	<b>302</b>	<b>12,652</b>	<b>13,831</b>	<b>35%</b>	<b>1,496</b>	<b>44%</b>	<b>713</b>	<b>47%</b>	<b>2,897</b>	<b>6.2%</b>	<b>3.8</b>	<b>2.3</b>	<b>1.4</b>	<b>126,907</b>	<b>45%</b>
Food, beverages & cigarettes	117	5,082	4,890	12%	527	15%	200	13%	1,641	4.6%	5.7	1.8	1.1	35,344	13%
Ores and metal	36	985	1,190	3%	99	3%	53	3%	171	6.3%	2.0	3.0	1.7	9,443	3%
Pharma & chemicals	15	1,149	1,041	3%	139	4%	72	5%	173	5.7%	1.3	4.2	2.1	5,477	2%
Vehicles	25	2,023	2,733	7%	270	8%	112	7%	374	6.0%	6.5	2.3	1.5	28,873	10%
Other	109	3,413	3,977	10%	461	13%	276	18%	538	7.8%	2.2	2.4	1.5	47,770	17%
Mining	6	3,550	2,380	6%	447	13%	230	15%	888	4.5%	23.6	2.2	1.1	5,970	2%
Real estate	10	953	106	0%	45	1%	(11)	-1%	651	8.6%	16.8	1.4	1.4	390	0%
<b>IT, Telco, Media</b>	<b>27</b>	<b>1,974</b>	<b>1,469</b>	<b>4%</b>	<b>378</b>	<b>11%</b>	<b>140</b>	<b>9%</b>	<b>1,206</b>	<b>6.9%</b>	<b>4.2</b>	<b>2.0</b>	<b>1.9</b>	<b>8,793</b>	<b>3%</b>
IT	12	247	341	1%	22	1%	7	0%	2	9.1%	0.1	3.4	3.2	2,312	1%
Media	6	280	159	0%	25	1%	9	1%	76	3.3%	15.6	0.9	0.9	1,775	1%
Telecommunications	9	1,447	970	2%	331	10%	124	8%	1,129	6.3%	2.5	0.8	0.7	4,706	2%
<b>Wholesale and retail</b>	<b>358</b>	<b>8,149</b>	<b>15,913</b>	<b>40%</b>	<b>671</b>	<b>20%</b>	<b>284</b>	<b>19%</b>	<b>1,812</b>	<b>6.4%</b>	<b>3.3</b>	<b>1.8</b>	<b>1.1</b>	<b>84,310</b>	<b>30%</b>
Repair of motor vehicles	25	296	777	2%	26	1%	17	1%	20	5.2%	2.0	1.6	0.8	2,047	1%
Retail	71	2,503	4,918	12%	238	7%	68	4%	334	6.2%	2.2	1.5	0.8	50,160	18%
Food, beverages & cigarettes	59	1,632	3,055	8%	89	3%	45	3%	548	6.7%	7.0	1.8	1.2	8,505	3%
Machinery & equipment	34	479	864	2%	47	1%	33	2%	58	7.5%	2.2	2.0	1.2	4,095	1%
Oil and gas	31	537	1,726	4%	38	1%	23	2%	72	6.2%	4.0	2.1	1.4	2,855	1%
Pharma & chemicals	50	1,265	2,139	5%	109	3%	58	4%	203	6.7%	2.8	1.8	1.1	4,551	2%
Other	88	1,436	2,435	6%	125	4%	38	2%	576	6.1%	2.7	2.0	1.2	12,097	4%
Transportation, storage	35	828	1,603	4%	64	2%	3	0%	234	4.5%	3.9	1.5	1.4	9,221	3%
Science, tech., eng.	27	673	553	1%	35	1%	36	2%	51	8.7%	1.4	2.0	1.8	6,662	2%
Agriculture	44	1,218	898	2%	69	2%	37	2%	214	3.7%	3.3	2.1	1.1	5,974	2%
Other service activities	27	442	793	2%	90	3%	40	3%	104	7.7%	1.7	2.8	1.9	20,342	7%
<b>Total</b>	<b>909</b>	<b>32,222</b>	<b>39,765</b>	<b>100%</b>	<b>3,434</b>	<b>100%</b>	<b>1,530</b>	<b>100%</b>	<b>8,481</b>	<b>6%</b>	<b>3.9</b>	<b>2.0</b>	<b>1.3</b>	<b>280,610</b>	<b>100%</b>

Classification of loans depending on company financial viability (private sector), country X



Classification of loans depending on company financial viability (SOEs), country X





# How to prepare for a potential NPL increase

- It is better to **prepare** for a potential NPL increase **in advance** and not during the crisis.
- A **holistic approach** is best as piecemeal approach brings inferior results.
- Specific actions to take:
  - Identify **bottlenecks** in NPL identification, provisioning, and resolution (comprehensive assessment of existing NPL resolution framework),
  - Improve national **multi-lender out of court settlement frameworks** (often corporates have multiple lenders, evidence shows 3-8),
  - Improve **collateral enforcement and insolvency** frameworks,
  - Remove impediments for **NPL transactions** as one of avenues to resolve NPL stock and flow,
  - For high NPL banks, prepare a regulation for mandatory **NPL reduction strategies** in banks and prepare a framework on how to assess them.

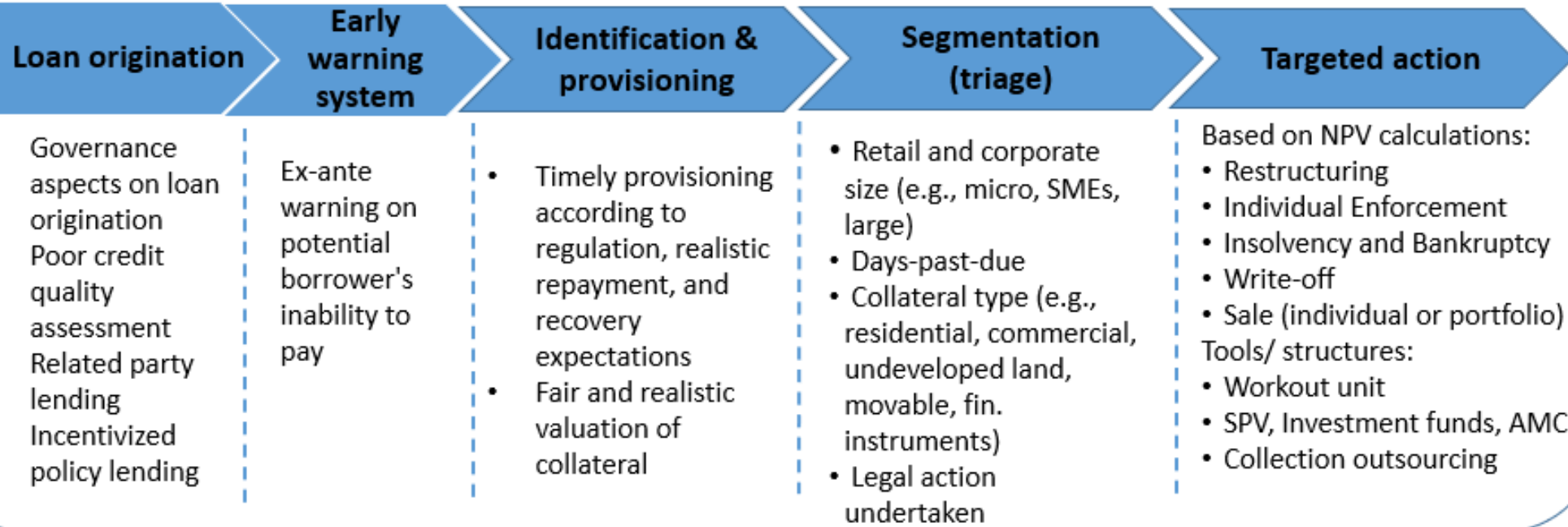
Supervisory assessment framework for banks with high NPLs

		Bank 1	Bank 2	Bank 3	Bank 4	Bank 5	Bank X	Average
Nr.	Group	Score						
1	General (A)	4	4	1	4	1	1	2.500
2		3	3	1	4	3	2	2.667
3		4	3	2	1	1	2	2.167
4	Internal capacity assessment (B)	1	2	3	4	4	3	2.833
5		2	3	4	1	2	3	2.500
6	External environment assessment (C)	1	2	1	1	2	2	1.500
7	Capital impact assessment (D)	2	3	3	2	1	3	2.333
8	Description of Strategy options and targets (E)	1	2	3	2	4	3	2.500
9		2	2	2	3	2	2	2.167
10		2	2	3	2	3	2	2.333
11	Embedding Strategy in internal governance system	4	3	4	2	3	4	3.333
12		1	2	3	2	3	4	2.500
13		1	4	1	4	1	1	2.000
14	Credibility and ambitiousness of	2	3	2	3	2	2	2.333
15		3	1	4	1	4	2	2.500
		1.992	2.417	2.667	2.133	2.367	2.450	2.338

Source: FinSAC methodology

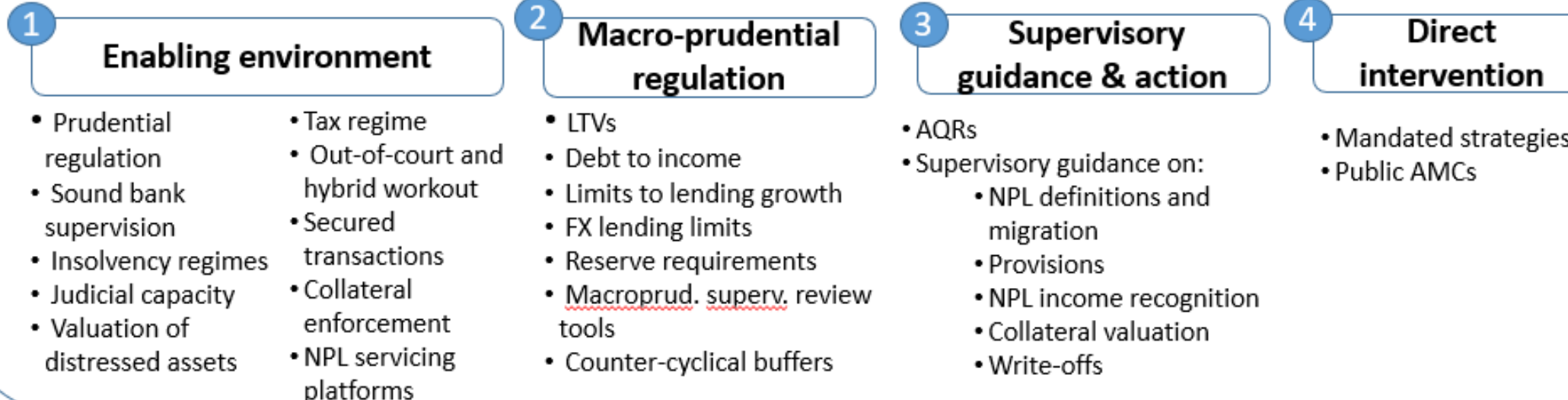
# Holistic approach to NPL resolution

## Private Sector Treatment



## Public Sector Policy (Regulator, CB, MoF, MoJ, other authorities)

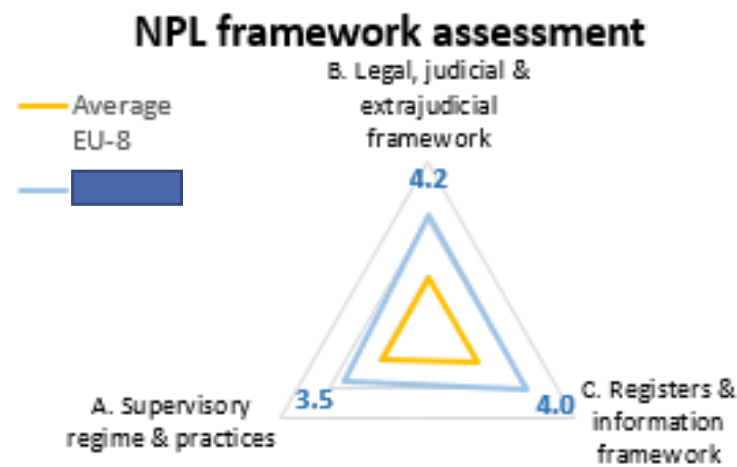
more interventionist →



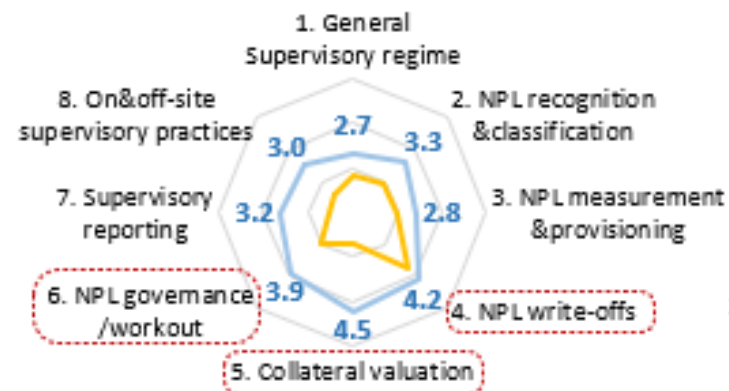
# Example of country's NPL framework assessment

11 priority areas for improvement were identified in the preliminary assessment of the NPL resolution framework

- The assessment was conducted in March 2017
- It was based on the ECB approach and analysed the framework in 3 pillars and 17 areas
- 11 areas were identified with negative scores above 3.5 (circled on the diagram)
- Priority status of recommended improvements was assigned to these areas



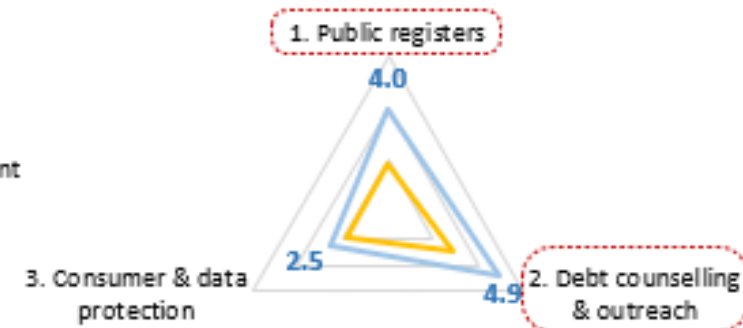
## A. Supervisory regime & practices



## B. Legal, judicial & extrajudicial



## C. Registers & information framework



Source: ECB Stocktake of national supervisory practices and legal frameworks related to NPLs (November 2016), WB estimates  
 Charts interpretation: score 5 stands for the worst NPL framework, whereas 0 score stands the best practice NPL framework



Many thanks for your attention!

FinSAC's web site: <http://www.worldbank.org/en/programs/financial-sector-advisory-center#1>







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## **NPL Strategic and Operational plans: The Bank of Greece experience**

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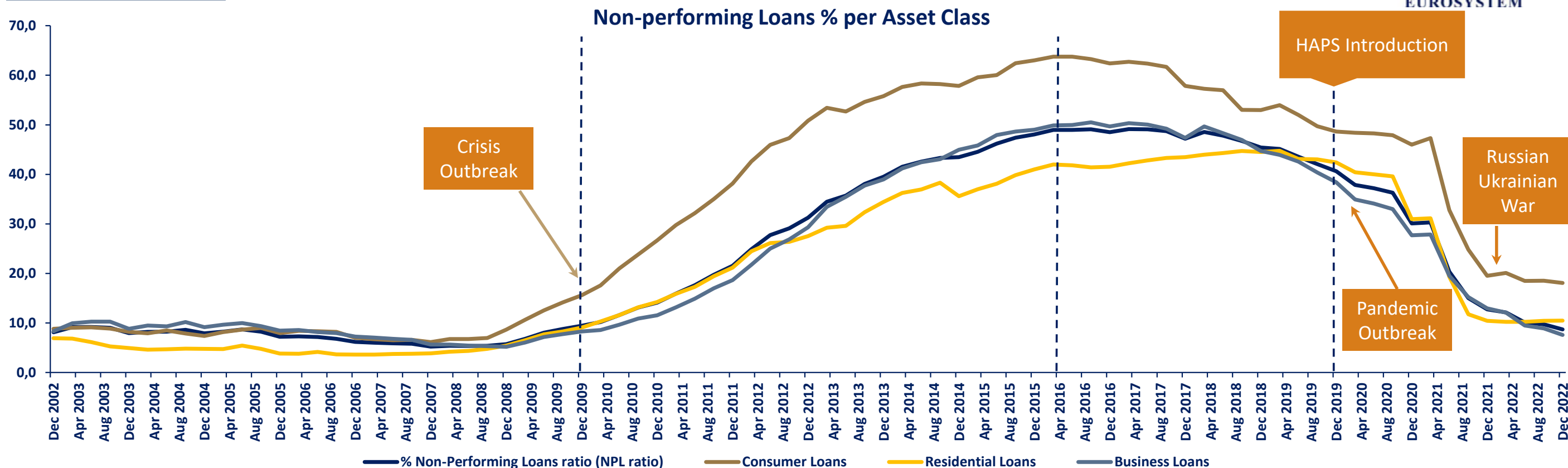
*Nikolaos Stavrianou*

*Vienna, May 2023 – FinSAC Annual Conference / NPL Session*





# NPLs: a long-standing problem



## Commentary

- The Greek sovereign crisis and the accompanying acute and prolonged economic recession in Greece took a toll on the asset quality of Greek banks.
- At the peak of the crisis, the stock of NPLs reached c. €108 bn representing 49% of total loans. The problem was more profound in the consumer portfolio (64% NPLs ratio), the Small and Medium Enterprises (60%) and the Small Business and Professionals (68%); high NPL ratio across most sectors of the economy.
- Three distinct periods regarding the evolution of NPLs: i) the build-up phase; ii) stagnation; iii) gradual clean-up, despite the eruption of the pandemic and the impact of the Russian Ukrainian war.
- The Hellenic Asset Protection Scheme (HAPs) accelerated the balance sheet clean up.

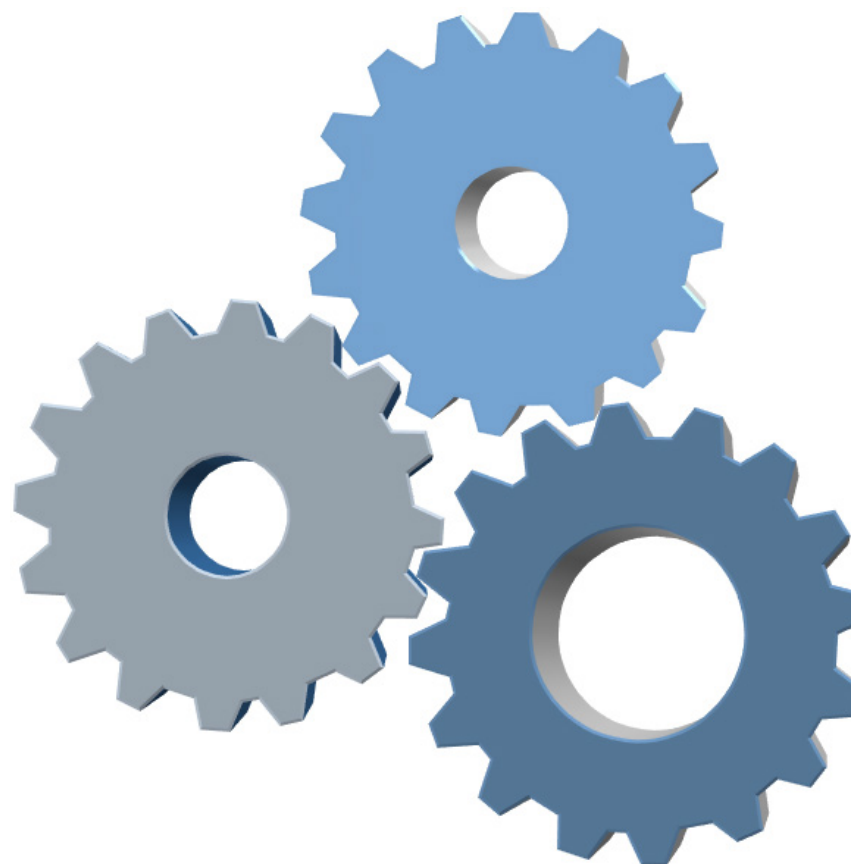
# The authorities' response: a three-pronged national NPL resolution strategy



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## Enhanced supervision

- ✓ Guidelines for NPL management
- ✓ Code of Conduct
- ✓ Troubled Asset Review
- ✓ On-site inspections
- ✓ NPE operational targets
- ✓ Provisioning calendar.



## Development of a secondary market for NPL servicing and sales

- ✓ Non-bank NPL servicers
- ✓ Hellenic Asset Protection Scheme

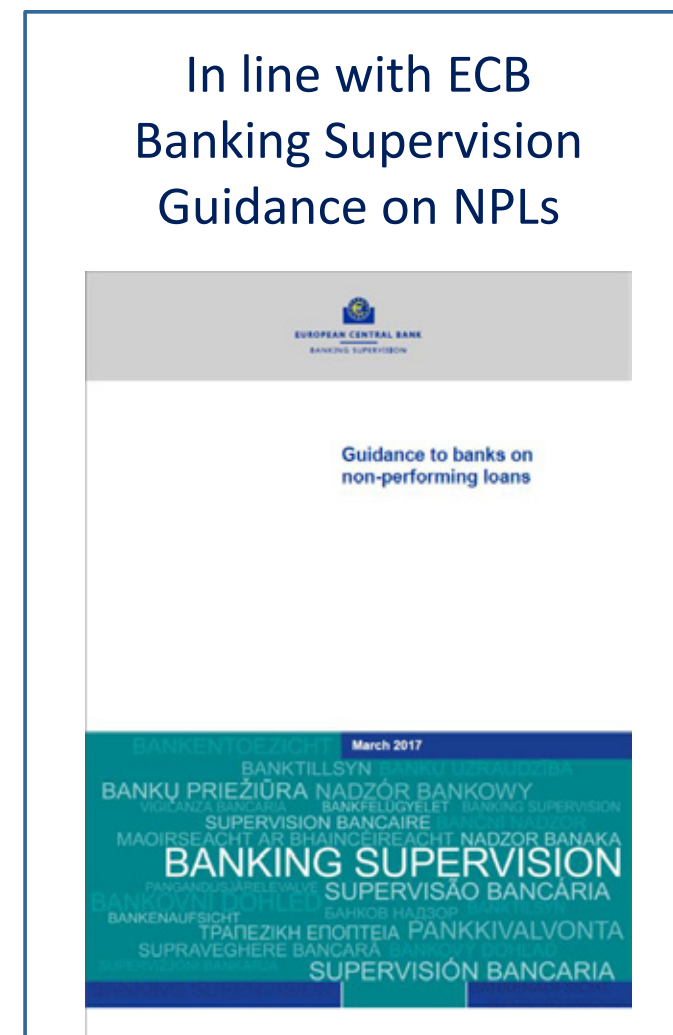
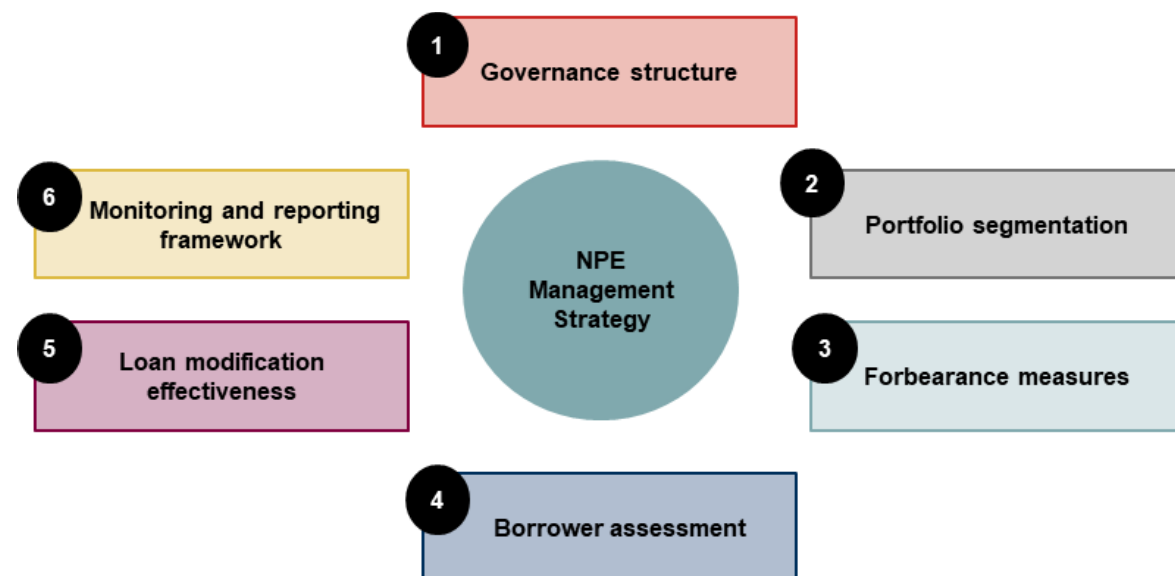
## Removal of legal and administrative impediments

- ✓ Limit undue borrower protection
- ✓ Reform legal procedures and bankruptcy law
- ✓ E-auctions
- ✓ Address tax issues.



# Bank of Greece focus: supervisory framework for NPEs

- With the issuance of Executive Committee Act 42/2014 the BoG aimed at introducing a harmonized framework and accelerating the efforts of banks regarding efficient NPE management, inter alia, by:
  - ✓ Dedicated units for NPE management.
  - ✓ Appropriate segmentation of NPE portfolio.
  - ✓ Enhanced modification options and toolkit.
  - ✓ Improved borrower information and assessment.
  - ✓ Improvement of IT and MIS systems.
  - ✓ Comprehensive prudential reporting (enhanced in 2016).



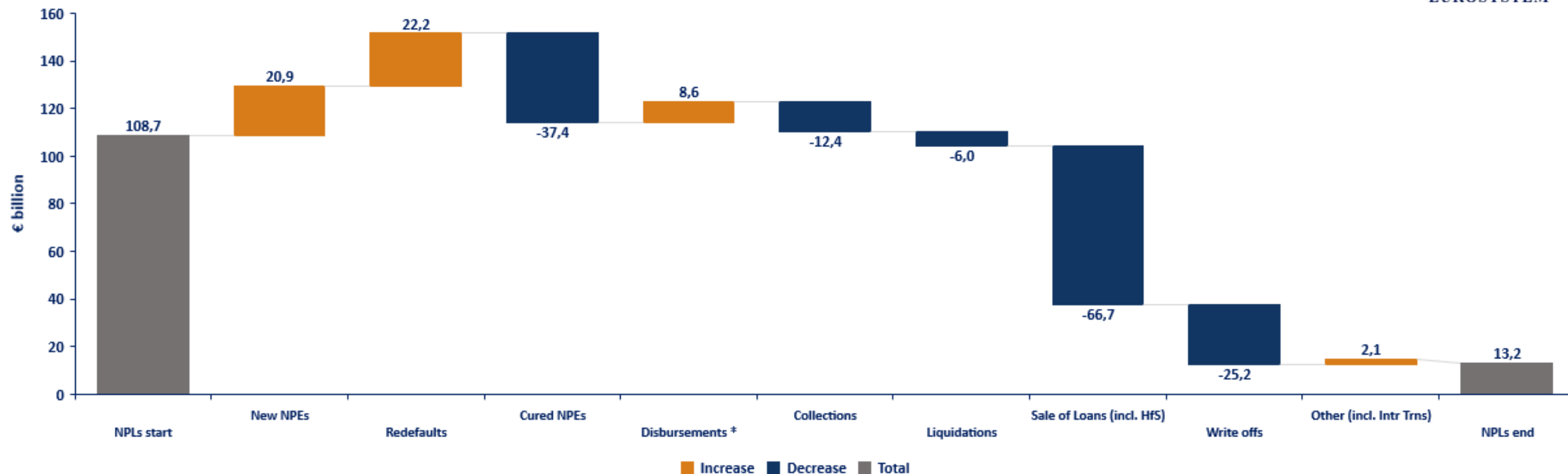
# NPE operational targets framework

- The Bank of Greece in close cooperation with the ECB Banking Supervision designed a framework of NPE operational targets:
  - ✓ Covering the period June 2016 – December 2019;
  - ✓ Agreed after extensive consultation with the banks.
- NPE targets updated on an annual basis:
  - ✓ Quarterly breakdown for the following year;
  - ✓ Revisions considering past performance and changes in the economic, legal and operational environment or bank strategy.
- NPE targets closely monitored on a quarterly basis:
  - ✓ Detailed prudential reporting (ECA 102/2016);
  - ✓ Banks' reports explaining key drivers and deviations;
  - ✓ Meetings with Heads of NPE units;
  - ✓ BoG aggregate report to promote transparency and accountability.





# Decomposition of NPL evolution since 2016 Q1 peak



Source: Bank of Greece

Disbursements include Purchase of Loans, Arrears Capitalisation and Accrued Interest

Sale of Loans includes Transfer to Held for Sale and Intragroup Transfers related to hive down restructurings

Other includes Intragroup Transfer

## Commentary

- The main drivers for the NPL deleveraging (€94 bn or 88%) have been **direct sales / securitizations** (€67 bn), **write-offs** (€25 bn) and **collections** (€12 bn).
- At the same time, **new defaults and re-defaults** (€43 bn), outpaced the **curing of loans** (€37 bn), while **liquidations** (€6 bn) were small.
- Monetary and fiscal support measures to address the impact from the pandemic have mitigated net NPL flows. Fiscal measures also helped to curb the impact from the Russian invasion to Ukraine, while monetary policy normalisation will be a drag going forward.





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## Annex

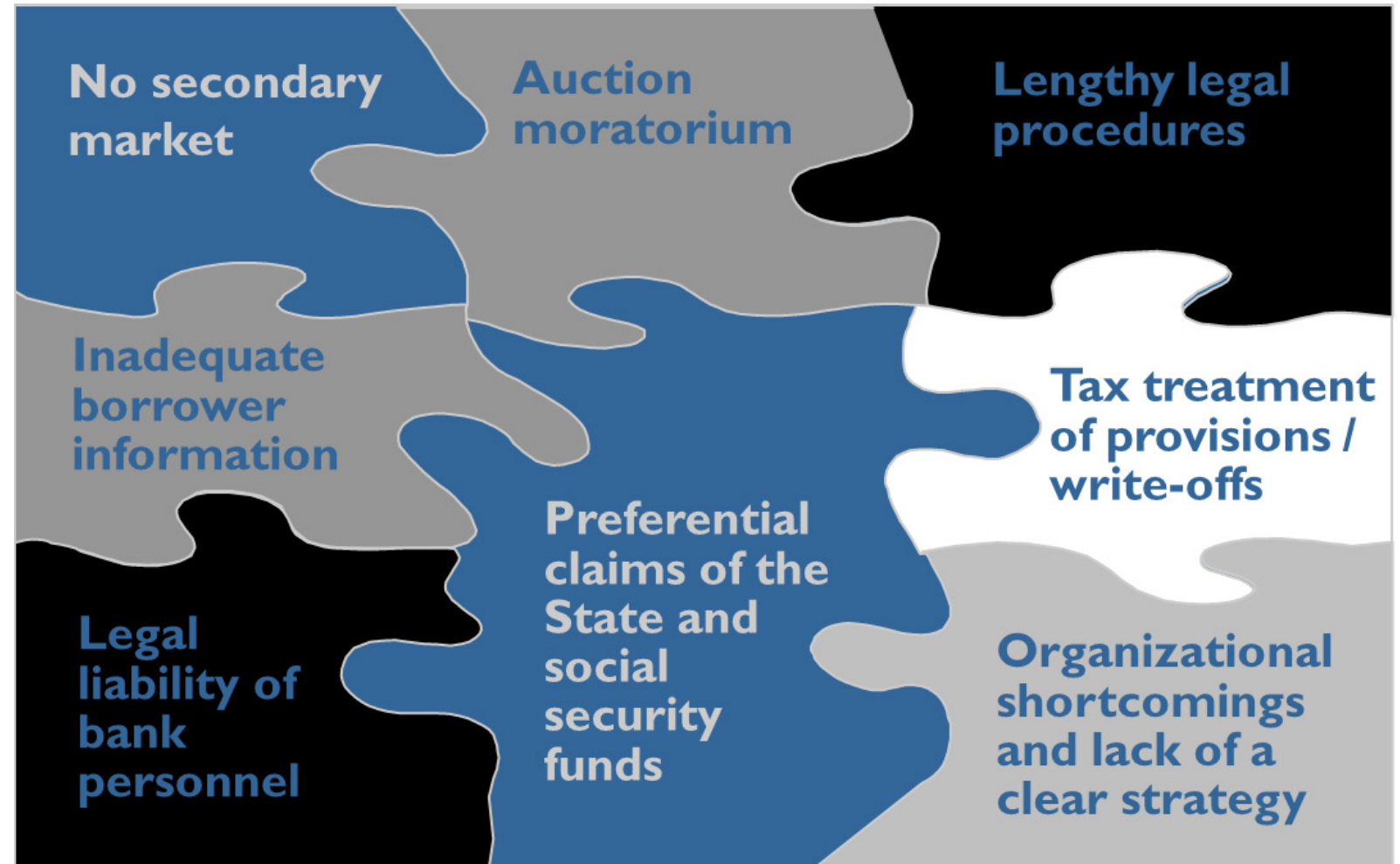
- Impediments to NPL resolution
- Detailed description of NPE operational targets
- Troubled Asset Review
- Code of Conduct

# Banks faced a number of impediments regarding efficient NPL management



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- The deep and prolonged recession was not the only driver for the emergence and persistence of elevated NPL levels.
- A number of impediments constrained banks' efforts with negative repercussions:
  - ✓ “Wait and see” approach
  - ✓ Emphasis in collections
  - ✓ Short term restructuring solutions
  - ✓ No “credible threat”
  - ✓ Strategic defaulters
  - ✓ Low recovery rates.



# **NPE operational targets description**

## **Action-oriented**

- NPEs above 720 dpd that have not yet been denounced / total NPEs.
- Denounced loans for which legal action has been initiated / total denounced loans.
- Active NPE SMEs for which a viability assessment has been conducted in the latest 12 months / Active NPE SMEs.
- Common SME and Corporate NPEs for which a common restructuring solution has been implemented.
- Corporate NPEs for which a specialist has been engaged for the implementation of a company restructuring plan.

## **Results-oriented**

- NPE volume
- NPLs volume (> 90 dpd)
- Cash recoveries from NPEs including collections, collateral liquidation and sales / Total average NPEs
- Share of long-term forbearance measures.



Supplemented by Key Performance Indicators to identify drivers.



# Troubled asset review

- In September 2015 BoG appointed BlackRock Solutions to:
  - ✓ Provide a granular stratification of the NPE portfolio of the four significant banks.
  - ✓ Review the NPL segmentation per bank alongside the existing forbearance measures and closure solutions for mortgages, small and medium enterprises (SMEs) and small business and professionals (SBPs).
  - ✓ Assess the preparedness and capacity of banks to deal with each NPL segment in a rigorous manner.
- The report was delivered in November 2015 and key findings and recommendations were communicated to banks:
  - ✓ The NPE portfolio segmentation was not adequately linked with proposing tailored-made modification options.
  - ✓ Predominance of short-term forbearance measures.
  - ✓ Delays in handling denounced loans coupled with limited use of closure solutions.
  - ✓ Lack of medium-term FTE capacity and IT development plans.
- Banks revised their NPE strategies accordingly and implemented detailed action plans with concrete initiatives and timetable.





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# Code of Conduct on NPL management

- The Code of Conduct (August 2014) provides guidelines regarding the interaction of credit and other financial institutions with borrowers in arrears:
  - ✓ Endorses the concept of “cooperative borrower”.
  - ✓ Describes the steps of the arrears resolution process, respective deadlines and information requirements.
  - ✓ Encourages selection of appropriate forbearance measures for every borrower.
- Enhancement of the Code of Conduct (July 2016):
  - ✓ Treatment per borrower group (e.g. individuals & professionals, very small businesses, other legal entities, common borrowers).
  - ✓ Guidance on standardized assessment templates and international principles.
- Implementation monitored on a quarterly basis through prudential reporting.
- Covering all supervised entities (e.g. credit institutions, leasing companies, NPL servicers, etc.).







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## **FinSAC Annual Conference**

“Renewed supervisory challenges in light of  
tightened financial conditions and economic  
slowdown”

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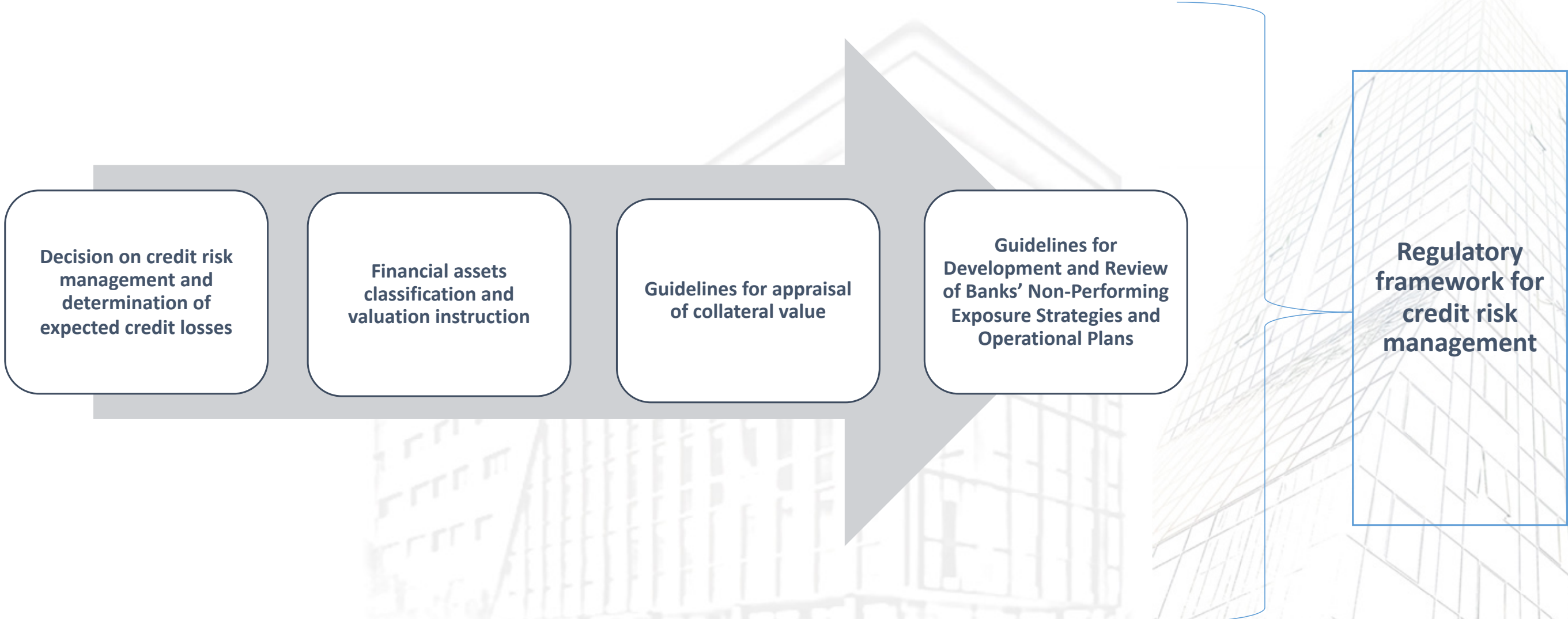
**NPL STRATEGIC AND OPERATIONAL PLANS**

*May 9-10th 2023  
Vienna*

1. Regulatory framework – Credit risk Management
2. Decision on CRM - Treatment of Non-Performing Exposures
3. Guidelines for the Development and Monitoring of a Strategy for Non-performing Exposure Treatment
4. Banking Sector of BiH - NPL Statistics
5. Supervisory approach – assessment of NPL strategies and NPL operational plans

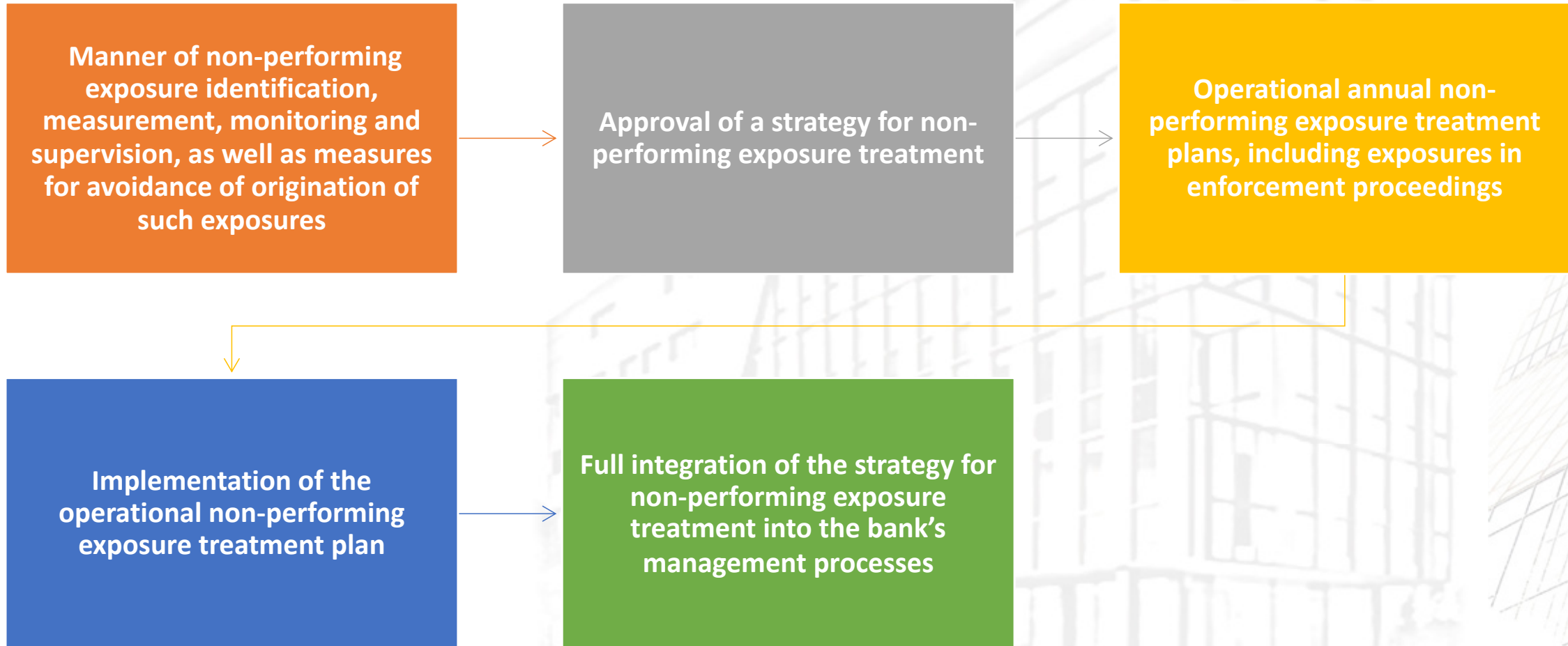


# Regulatory framework for credit risk management



# Decision on CRM - Treatment of Non-Performing Exposures

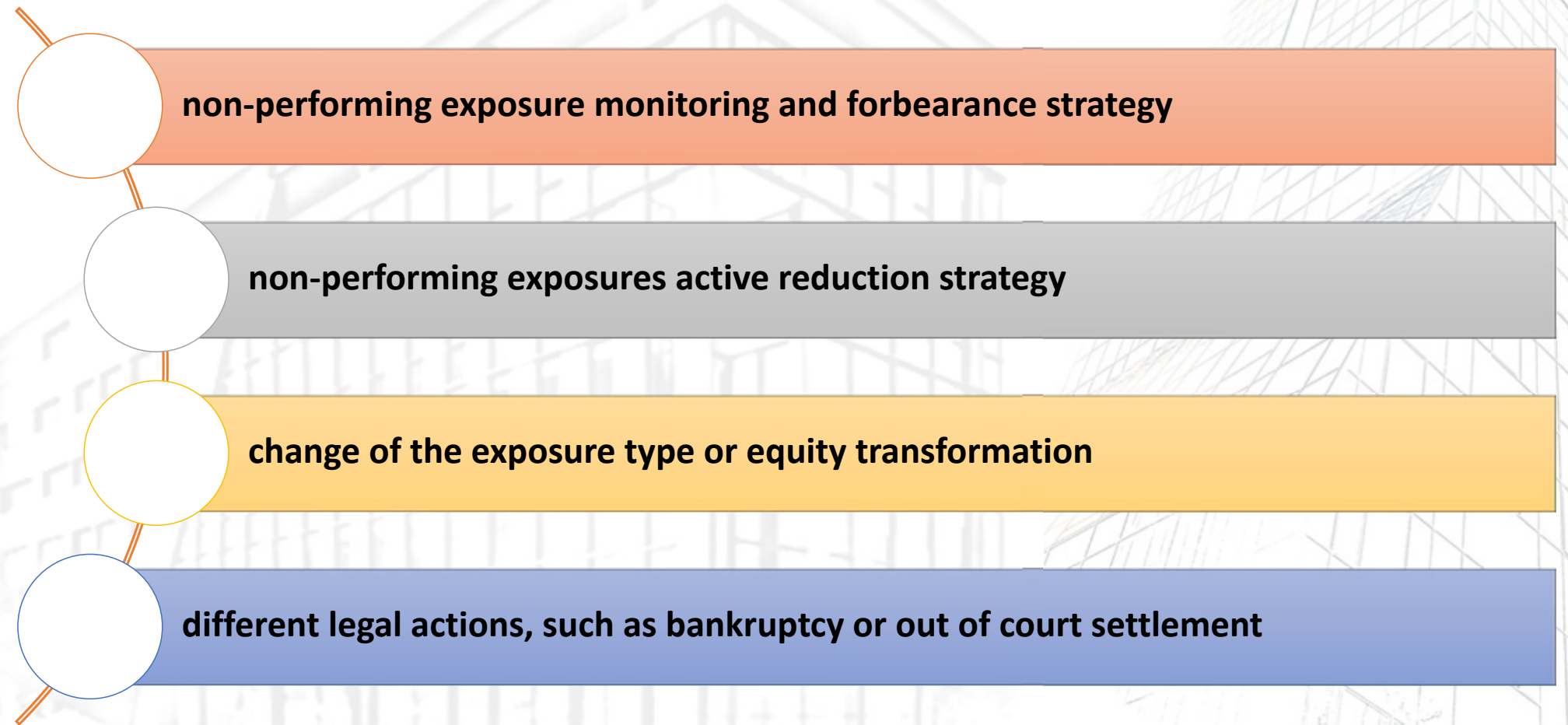
□ All banks shall establish an adequate non-performing exposure treatment framework, which shall include:



## Decision on CRM - Treatment of Non-Performing Exposures

- The bank shall analyze the impact of non-performing exposures on the own funds, profitability, liquidity, and the bank's other performance indicators

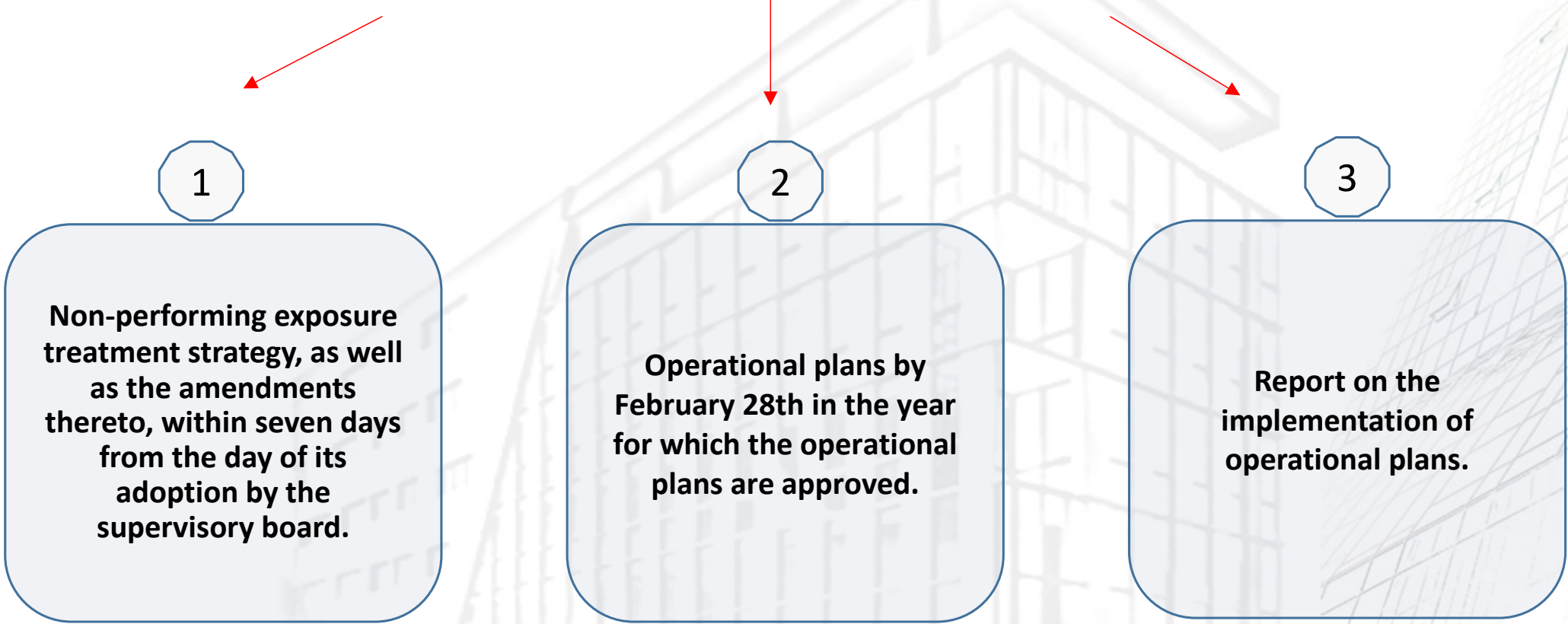
**When setting strategic goals bank shall take into account:**





# Decision on CRM - Treatment of Non-Performing Exposures

The bank whose share of non-performing loans in total loans has been greater than 5% for three months continuously shall provide to the entity banking Agencies:



## Banks' NPE Strategies

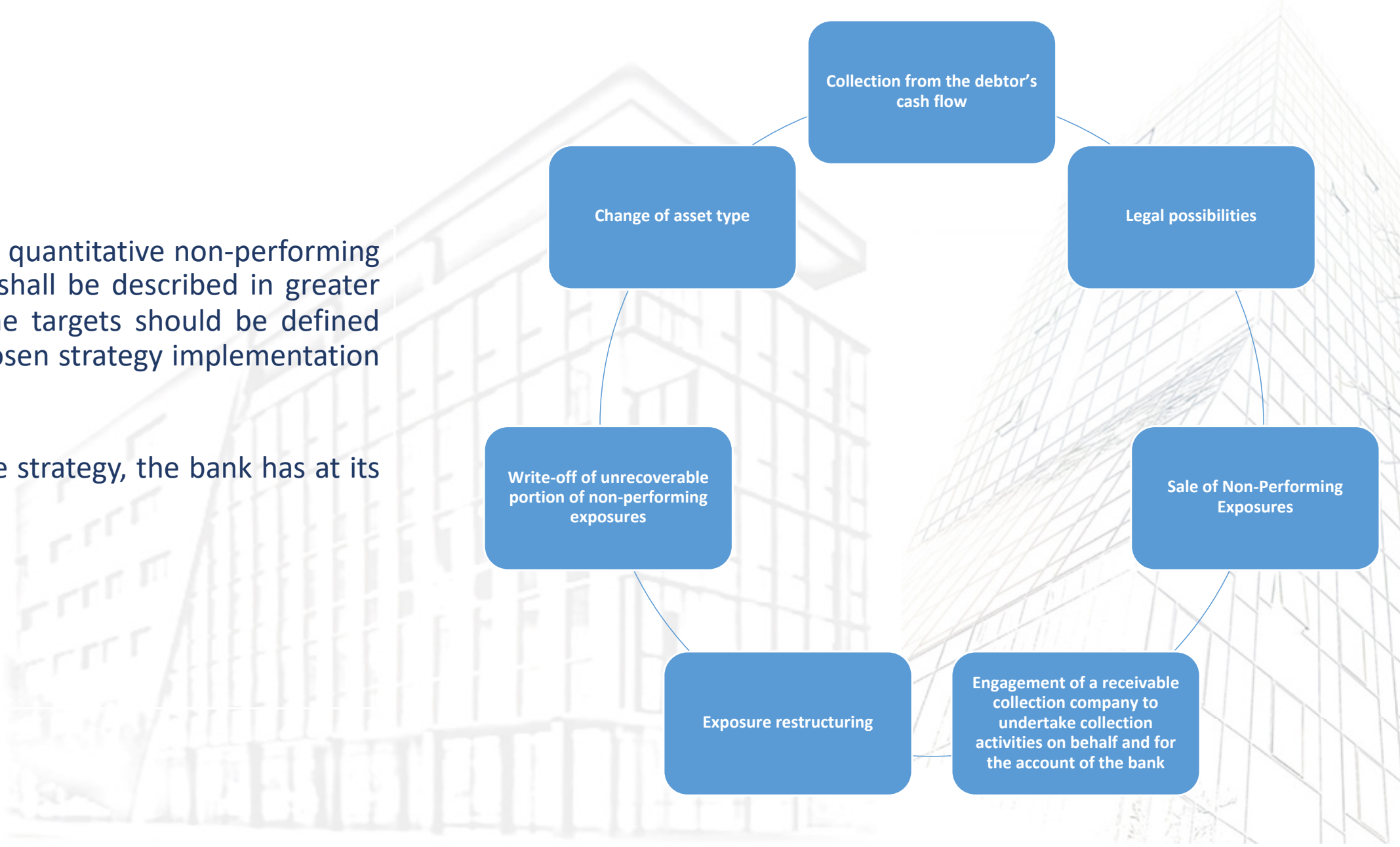
- ❑ The strategy should contain the bank's specific approach and objectives to achieve required reduction of non-performing exposures by utilizing available options
- ❑ The building blocks of the bank's strategy are as follows:
  - internal capacity assessment,
  - external environment assessment,
  - capital impact assessment,
  - description of the strategy options and targets, and
  - embedding the strategy in the internal governance system.



# Guidelines for the Development and Monitoring of Banks' Strategy for Non-performing Exposure Treatment

## Banks' NPE Strategies

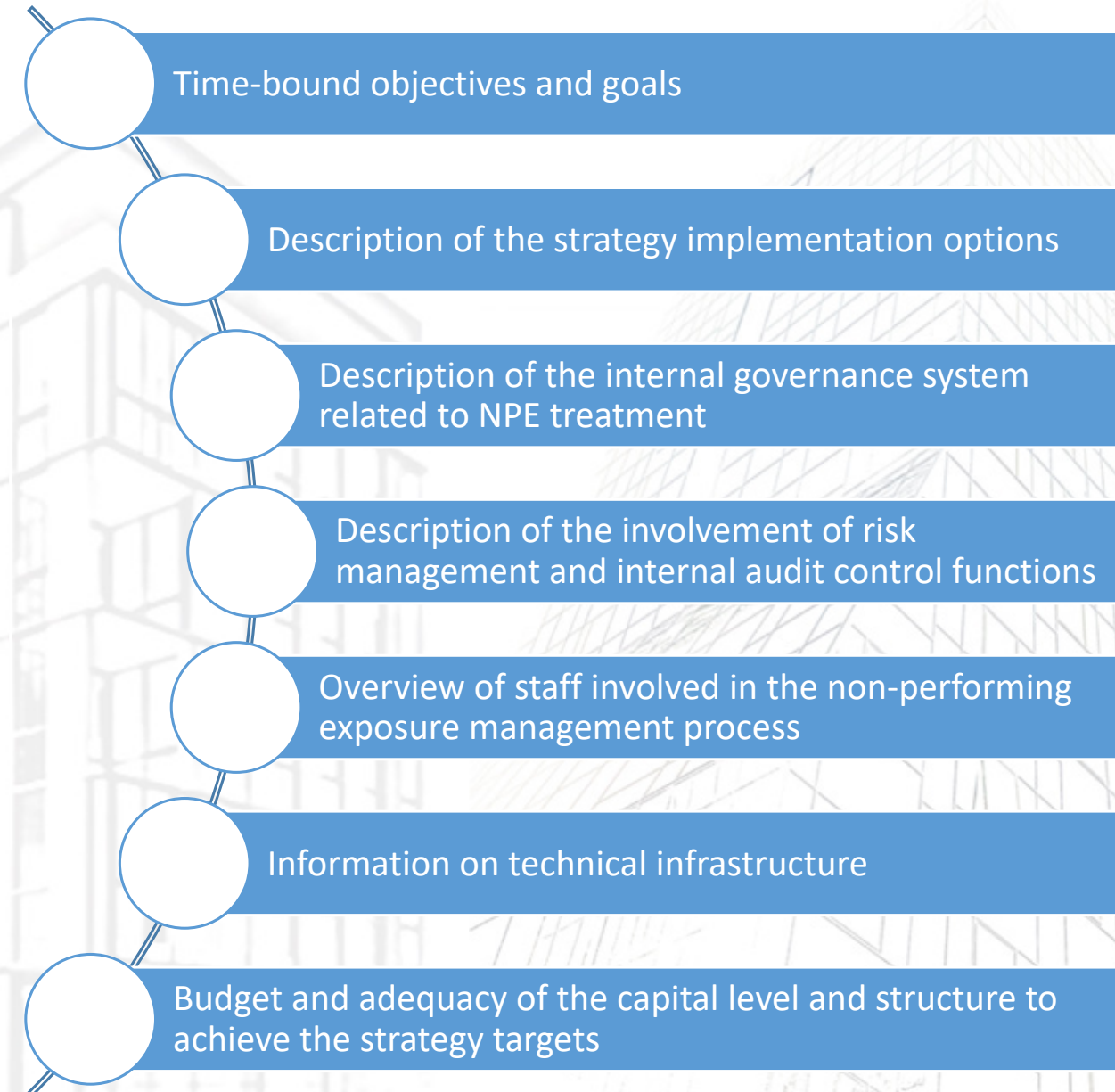
- ❑ Strategy should define time-bound quantitative non-performing exposure reduction targets which shall be described in greater detail in the operational plans. The targets should be defined sufficiently granularly to reflect chosen strategy implementation options
- ❑ For efficient implementation of the strategy, the bank has at its disposal a large choice of options



# Guidelines for the Development and Monitoring of Banks' Strategy for Non-performing Exposure Treatment

## Banks' Operational Plans

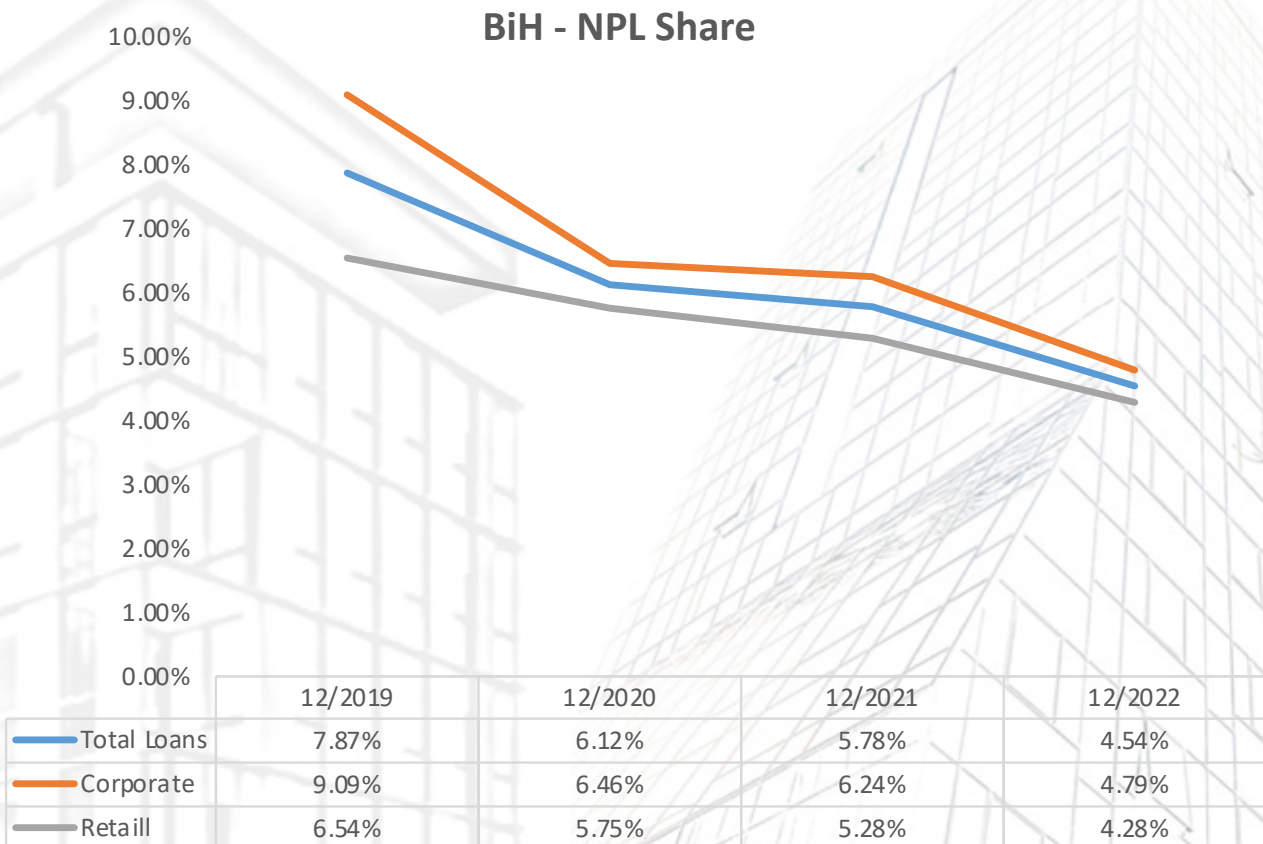
- ❑ Implementation of the strategy is done based on the operational plans
- ❑ Main purpose of the operational plans is to show the movement of non-performing exposures, recovery and other planned figures, as well as the activities undertaken to reduce existing and new non-performing exposures
- ❑ Implementation of the strategy in the short- and medium-term period must be clearly described





# BANKING SECTOR OF BIH – NPL Statistics

	12/2021	12/2022
<b>Bosnia and Herzegovina</b>		
Number of banks	22	21
NPL Ratio	5,78%	4,54%
Number of banks with more than 5% of NPL share	9	4
<b>Federation of BIH</b>		
Number of banks	14	13
NPL Ratio	6,40%	4,80%
Number of banks with more than 5% of NPL share	5	3
<b>Republica Srpska</b>		
Number of banks	8	8
NPL Ratio	4,00%	3,70%
Number of banks with more than 5% of NPL share	4	1





# Supervisory approach – assessment of NPL strategies and NPL operational plans

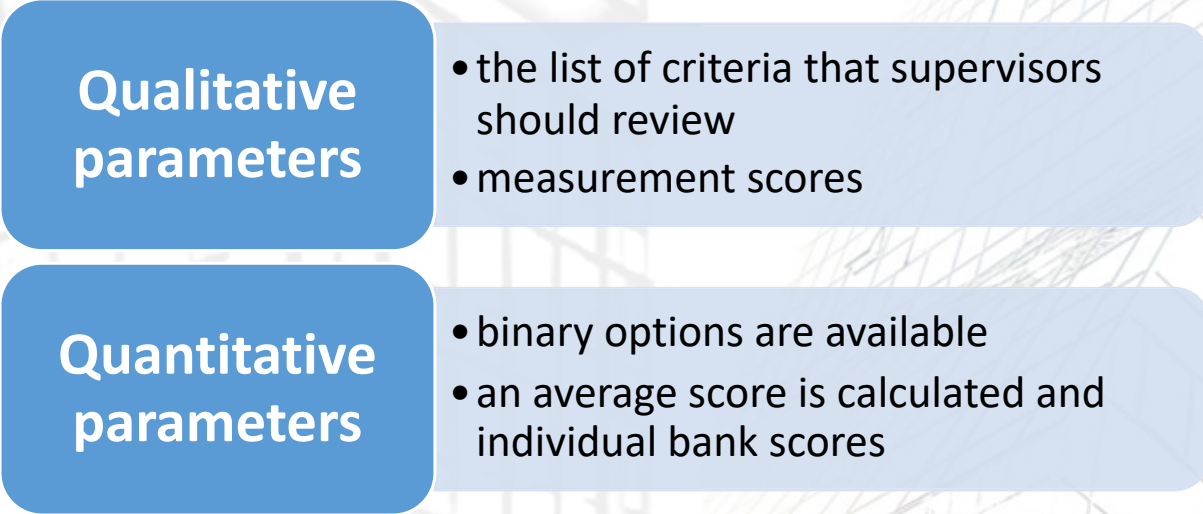
□ Further alignment and facilitate monitoring by banks and regulators required the establishment of a common framework for a non-performing exposure treatment strategy by banks to achieve non-performing exposure reduction targets

□ Agencies are developing internal guidelines for the review of banks’ non-performing exposure strategies, which will provide a set of guiding principles that supervisors should use during the review process and expectations regarding:

- ✓ review of internal and external non-performing exposure recovery capacity,
- ✓ capital impact assessment,
- ✓ setting clear targets for NPE reduction,
- ✓ description of the options that will be used,
- ✓ integration of the strategy within the bank’s risk management framework and business plan.

□ This will ensure consistency during the review process

□ This guidelines will outline the Agency’s expectation regarding preparation and implementation of a non-performing exposure strategy and will include:



## Assessment of the Strategy and Operational Plans by the Agencies

---

- ❑ The Agency will review and assess the implementation of the bank's strategy. Review of the strategy, its targets and implementation, is part of the Supervisory Review and Evaluation Process (SREP) and is an interactive process between the bank and the Agency in case when the bank meets the requirements defined in the CRM Decision
- ❑ The Agency will establish a framework to measure the ambitiousness of the bank's non-performing exposure reduction targets, allowing for level playing field and ensuring a consistent assessment approach
- ❑ The framework will include the benchmarking analysis in order to ensure comparability of the targets regarding non-performing exposure reduction



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Thank you for  
your attention!



# **Corporate Restructuring in Türkiye: The Framework Agreements (2018–21)**

Fernando Dancausa, Senior Financial Sector  
Specialist (EFNFI)



# Introduction: Credit Growth and Currency Crisis (2010–18)

**FIGURE 1.1:** CVI for Türkiye In 2017–21 Including the 2018 Currency Crisis



Source: Credit Research Initiative, National University of Singapore (NUS) 2022.

Note: CVI: Corporate Vulnerability Index. See footnote 7.

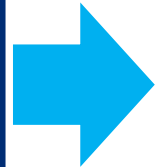
- Financial sector played critical role in 2010-2018 economic expansion
- 77% corporate debt-to-GDP ratio in 2018; 65% FX denominated
- 2018 currency crisis led to corporate vulnerability
- **Policy response:** corporate restructuring, FAs, governance reforms, AMC activities



# Development of the Framework Agreements

## Initial Design:

- BRSA issued Restructuring Regulation, August 2018
- Banks Association of Türkiye (BAT) prepared multi-creditor agreement
- FA endorsed in September 2018
- Target: large corporate loans over TRY 100 million
- Temporary tool with prudential standard amendments



## Early Reactions:

- Criticism from international creditors
- November 2018 amendment allowed foreign creditor participation



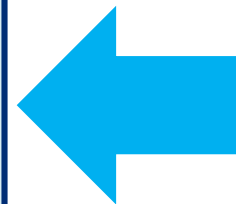
## 2019 Amendments to Banking Law:

- Addressed shortcomings and low application levels
- Provided legislative basis and incentives for restructuring
- Temporary measures, extendable by two years



## Large-Scale and Small-Scale FAs:

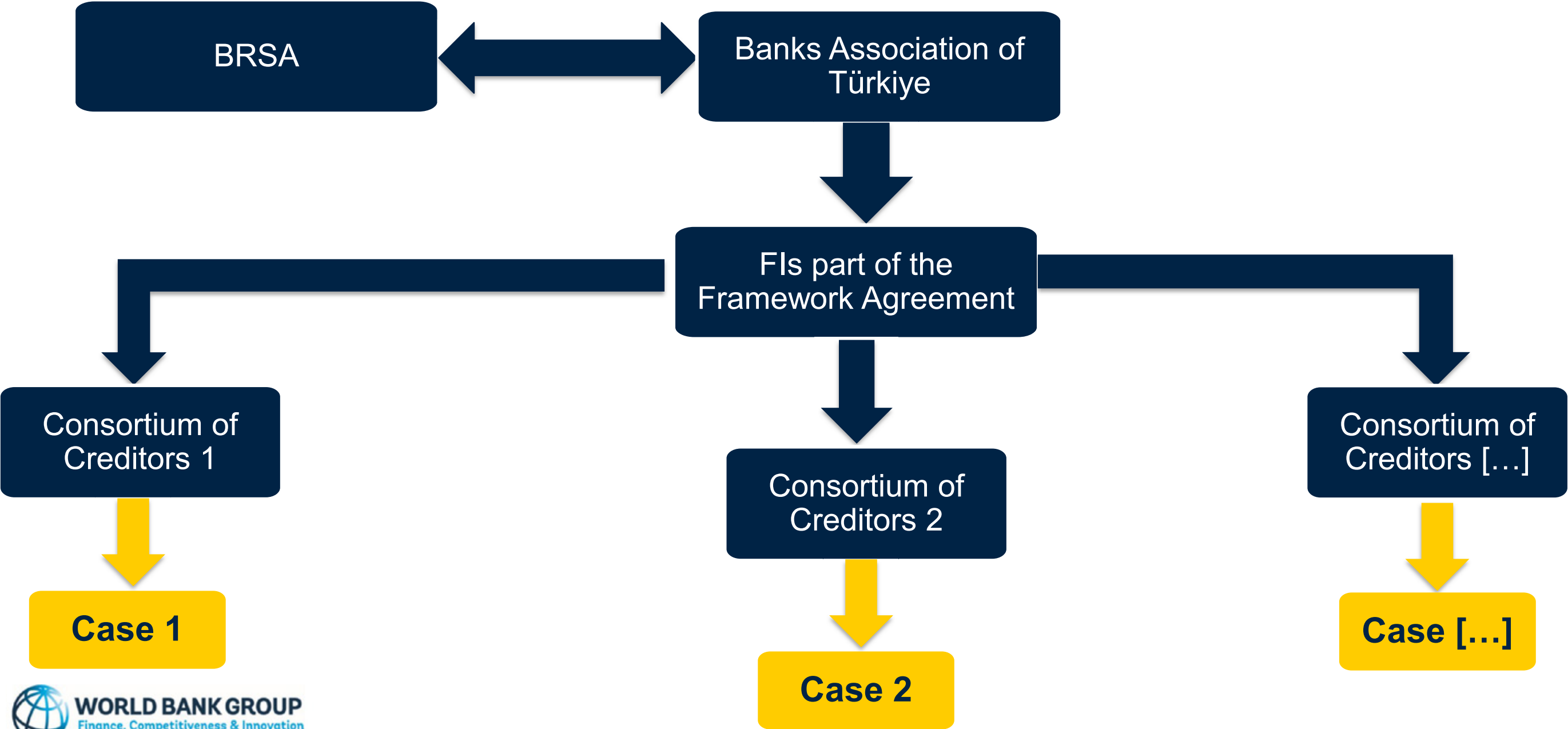
- Two distinct FAs for different debt thresholds
- Addressed concerns of distressed SMEs



## COVID-19 Pandemic:

- FAs extended until July 2023
- New versions of FAs in July 2021 with revised debt thresholds and restructuring parameters

# Institutional Structure for FAs in Türkiye



# Fundamental Pillars of the FAs (1)

1.

**Intercreditor Agreement:** outlines negotiation procedures, decision-making mechanisms, standstill period for financial creditors.

2.

**Voluntary Borrower Participation:** borrowers request restructuring from the CCI, cooperate with FA rules; creditors negotiate, respect standstill period.

3.

**Case-by-Case Restructuring:** individual debtor assessment, largest creditor leads negotiations, CCI decisions need majority approval.

## Fundamental Pillars of the FAs (2)

4.

**“Cram down”**: majority-agreed terms imposed on dissenting creditors, formalized in Financial Restructuring Contract (FRC).

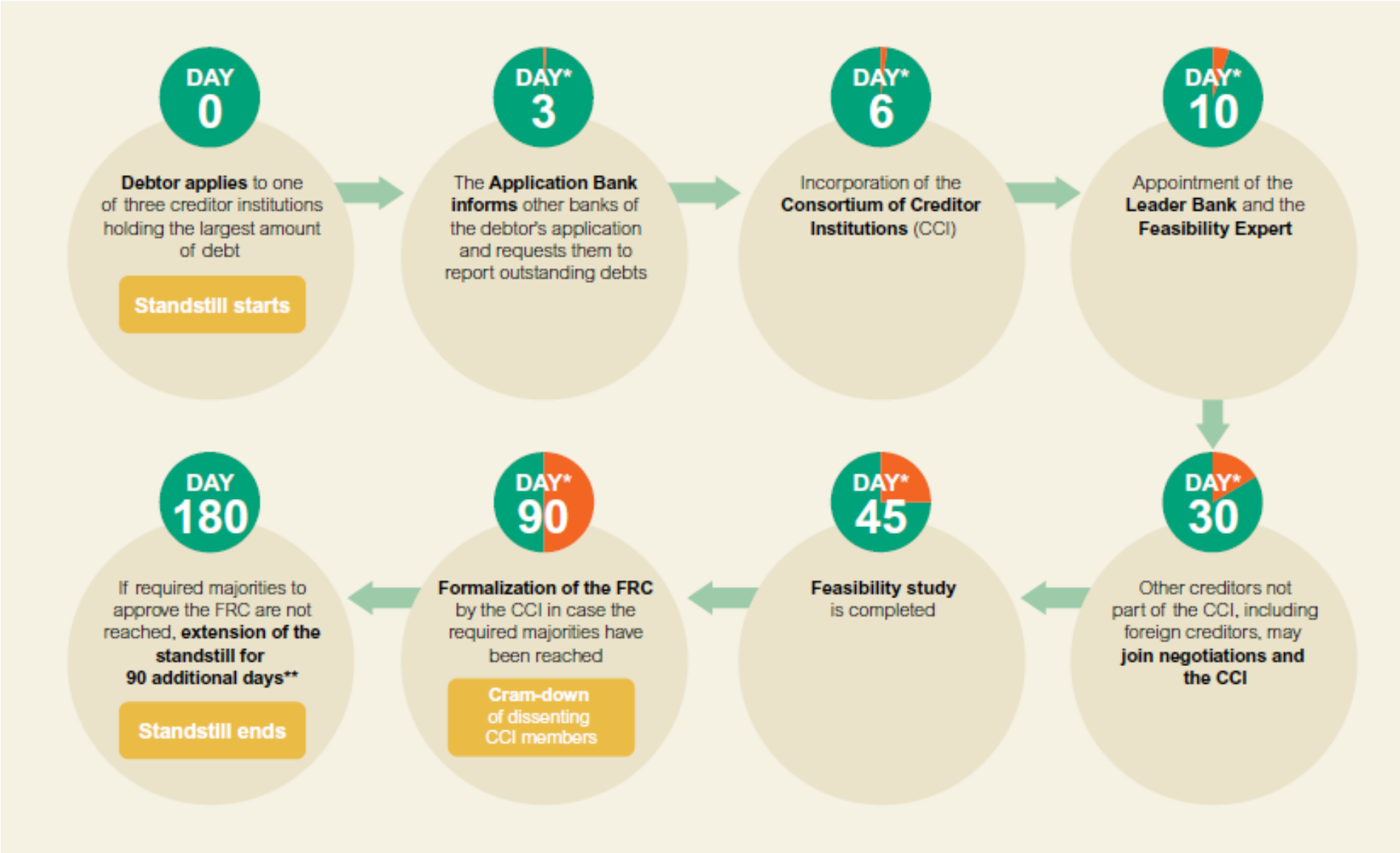
5.

**Information Sharing and Confidentiality**: consortium-based data exchange, strict confidentiality maintained.

6.

**Time-Bound Process**: CCI-FRC agreement deadline varies; depends on Large-Scale or Small-Scale borrower classification.

# Timeline for completing an FRC under the Large-Scale FA (2021 version)



Source: World Bank staff elaboration based on Framework Agreement, 2021.

Note: The timeline is based on the Large-Scale Framework Agreement (2021). Estimates provided for Day 30 and Day 45 are practical assumptions.

\*Business days. \*\*Subject to provisional articles granting time extensions because of COVID-19. See Section XIV—Provisional Article.

FA = Framework Agreement. FRC = Financial Restructuring Contract.



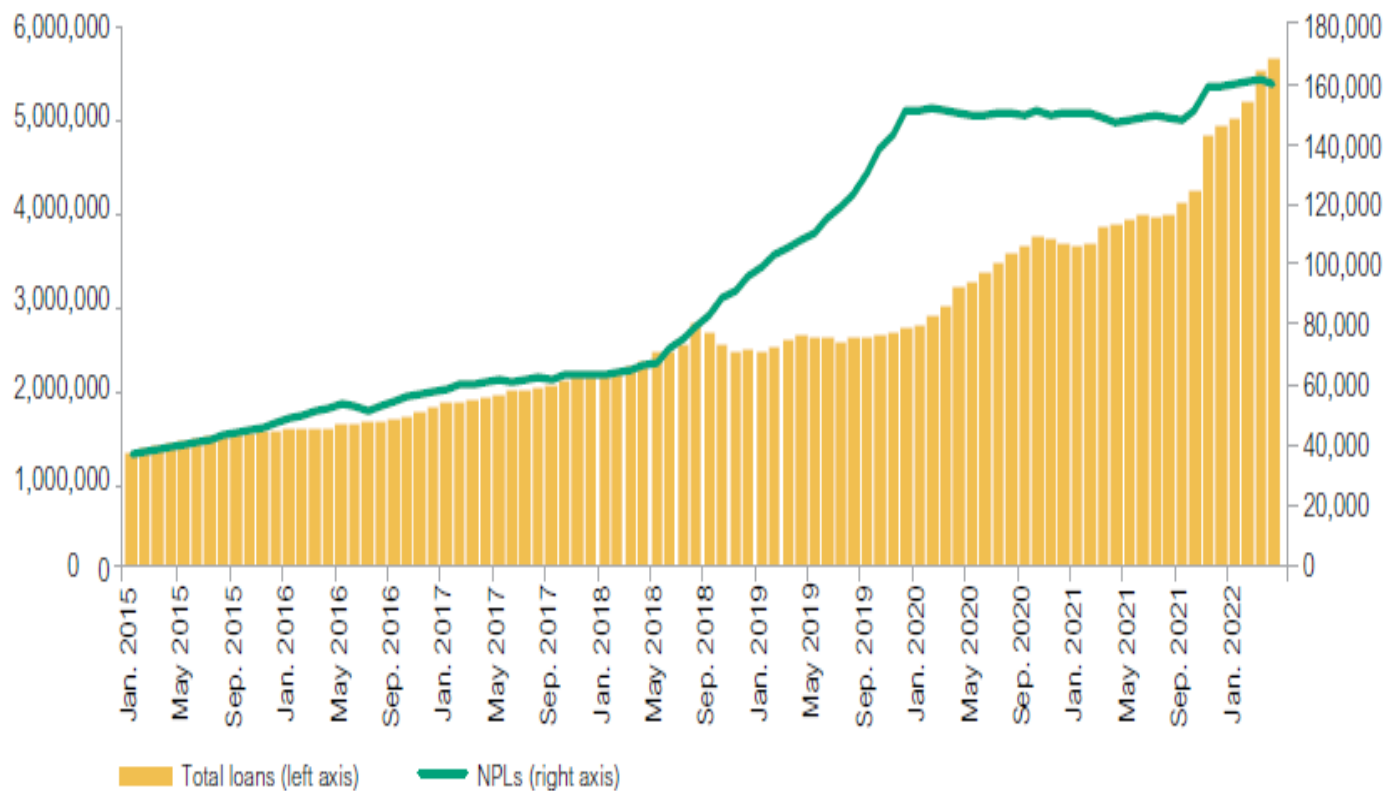
# Experiences of Banks and Potential Limitations

- Earlier FAs introduction (mid-2018) would've been beneficial.
- Lower rejection rate after 2019 Banking Law amendments.
- Grace periods are common tool, debt forgiveness and new financing rare.
- Restructuring period takes almost 1 year.

- FAs restructurings: debt rescheduling focus, **operational changes rare.**
- **Sustainability concern** due to lack of additional financing
- Viability needed for FA entry, not exit = limited **affordability analysis.**

# NPLs and Corporate Restructuring in Türkiye since 2018

FIGURE 4.1: Increases In NPL Volumes and Total Loans, 2015–21 (TRY, millions)

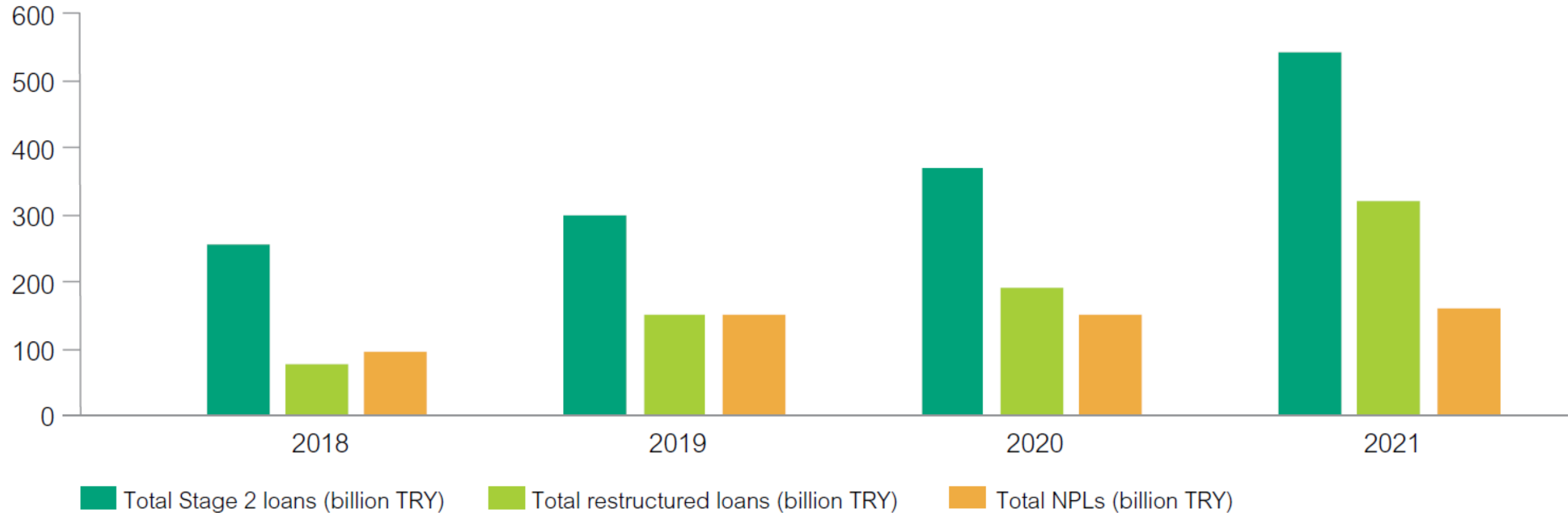


Source: Fitch Ratings Turkish Banks Datawatch; WBG staff calculations.

Note: NPL = nonperforming loan. TRY = Turkish lira.

- **Türkiye NPL levels:** peak 5.4% (Dec 2019), decline 2.9% (Dec 2021).
- **FAs:** critical in **preventing NPL** surge.
- **Restructured loans:** fourfold increase, TRY 78 billion to TRY 320 billion.
- FA loans represent 6.1% of total loan portfolio.
- **Stage 2 loans:** peak 11.1% (Dec 2021), 3.4x NPL volume.

# “Problem assets” after the introduction of the FAs



- Stage 2 loans doubled, from 257 to 543 Billion TL (2018-21).
- Restructured loans 4x increase, peaking at 11.1% of total loans in 2021.
- Stage 2 loans were 3.4 times higher than NPLs as of end of 2021.

Thank you!







# Large Corporate NPL Resolution: The case of Greece

Financial Sector Advisory Centre (FinSAC)  
Annual Conference  
May 9 - 10, 2023 - Vienna, Austria

Michael P. Haralabidis  
Chief Risk Officer



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# HFSF in a nutshell

- The [Hellenic Financial Stability Fund](#) (HFSF) was founded in July 2010 as a private legal entity, and it is not part of the public sector.
- It has administrative and financial autonomy, operates exclusively under the rules of the private economy and is governed by the provisions of its [founding law](#).
- The HFSF objective is: (a) to contribute to the maintenance of the stability of the Greek banking system for the sake of public interest and (b) ) the effective disposal of shares or other financial instruments held in credit institutions, which is based on a divestment strategy with a specific time horizon of definite and full implementation.
- HFSF portfolio consists of shareholdings in the four systemic banks, and in one less significant institution in Greece.



27.0%



40.4%



9.0%

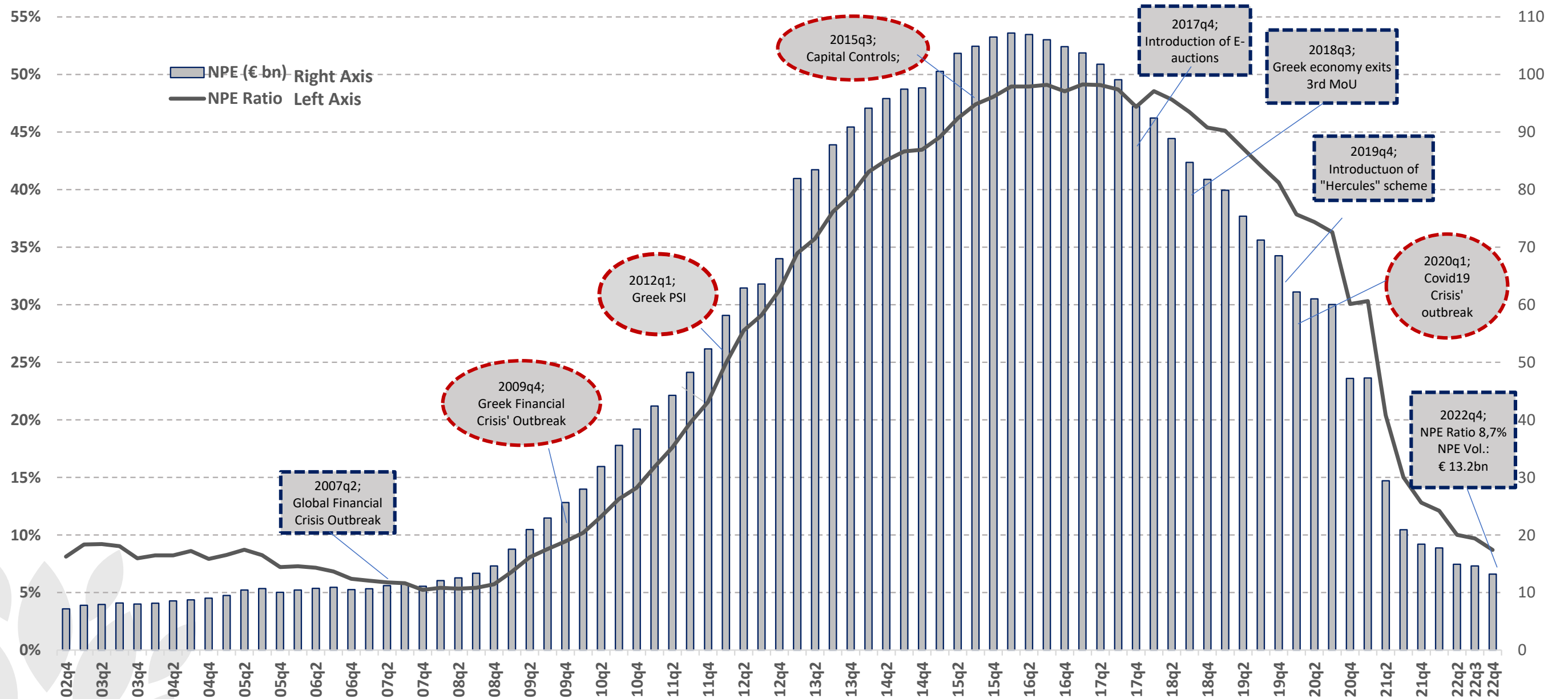


1.4%



69.5%

# NPL evolution in Greece: Navigating through the “perfect storm”



Source: Bank of Greece



# Major Reforms and Initiatives towards NPL Resolution in Greece

## “Hercules” Asset Protection Scheme

The “Hercules” scheme, based on relevant HFSF’s proposal to Ministry of Finance, came into effect at the end of 2019, aiming to **assist banks in securitizing NPEs and moving them out of their balance-sheets**. The success of the scheme led to its prolongation until October 2022 (NPE reduction estimated at c. €50 bn.) (See sl. 12)

## Large corporates’ NPLs Resolution (NPL Forum)

The **NPL Forum** was established in Jan. 2017 by the four systemic banks, based on relevant HFSF’s proposal. The objective was to achieve a closer cooperation in terms of corporate loan restructurings of common distressed borrowers, which was integral both to the economy and to the accomplishment of banks’ respective NPE targets and Balance Sheet “clean-up”. The Forum ended its operations in 2020. (NPE reduction estimated at c. €9 bn.) (see sl. 6-10)

## New Insolvency Law

The new Law (for the settlement of Debts and Provision of Second Chance) came into effect in Jun. 2021. It introduces a single, unified legal framework for the settlement of both **consumer and enterprise debt**, overhauls the **OCW framework**, harmonize local proceedings with **EU Directive 1023/2019**, ahead of all member states. (see sl. 13)

## E-Auctions Platform

The E-auctions electronic platform was initiated in Nov. 2017 offering a **transparent, cost-efficient, standardized process**. Users of the online auction service can participate in online auctions **without physical presence**. The process of managing and conducting online auctions takes on **certified Auction Officers**. Since 01/1/2018 c.111k auctions were completed successfully out of total 172k registered auctions. (see sl. 13)

## Credit Servicing Firms (CSFs)

Setting the **legal and regulatory framework**, including organizational governance and internal control mechanisms, for companies licensed by the BoG (Law 4354/2015) in the, at that time, newly established **credit servicing sector** (Servicers).

Key-focus area also was the framework defining the relationship between **Servicers and debtors** and the protection of customer rights.

## NPL Coordination Committee

The Hellenic Bank Association (HBA) **NPL Coordination Committee** was initiated in 2017 for reviewing, monitoring and proposing on the legal and regulatory framework of both wholesale and retail NPLs (e.g., OCW mechanism, Household Insolvency, NPL sales & servicers, asset and debt management companies, Code of Conduct).

# NPL Forum: Objectives and Principles

## Objectives

**Set out a**, not legally mandatory **framework** which, promotes continuity, consistency and effectiveness in the way that Banks cooperate on Corporate NPL

**Establish the principles of the cooperation framework** and balance competing demands

**Safeguard the effectiveness of the Banks' cooperation**, by overseeing the decision making process

**Act as an escalation body for dispute resolutions** amongst the Banks

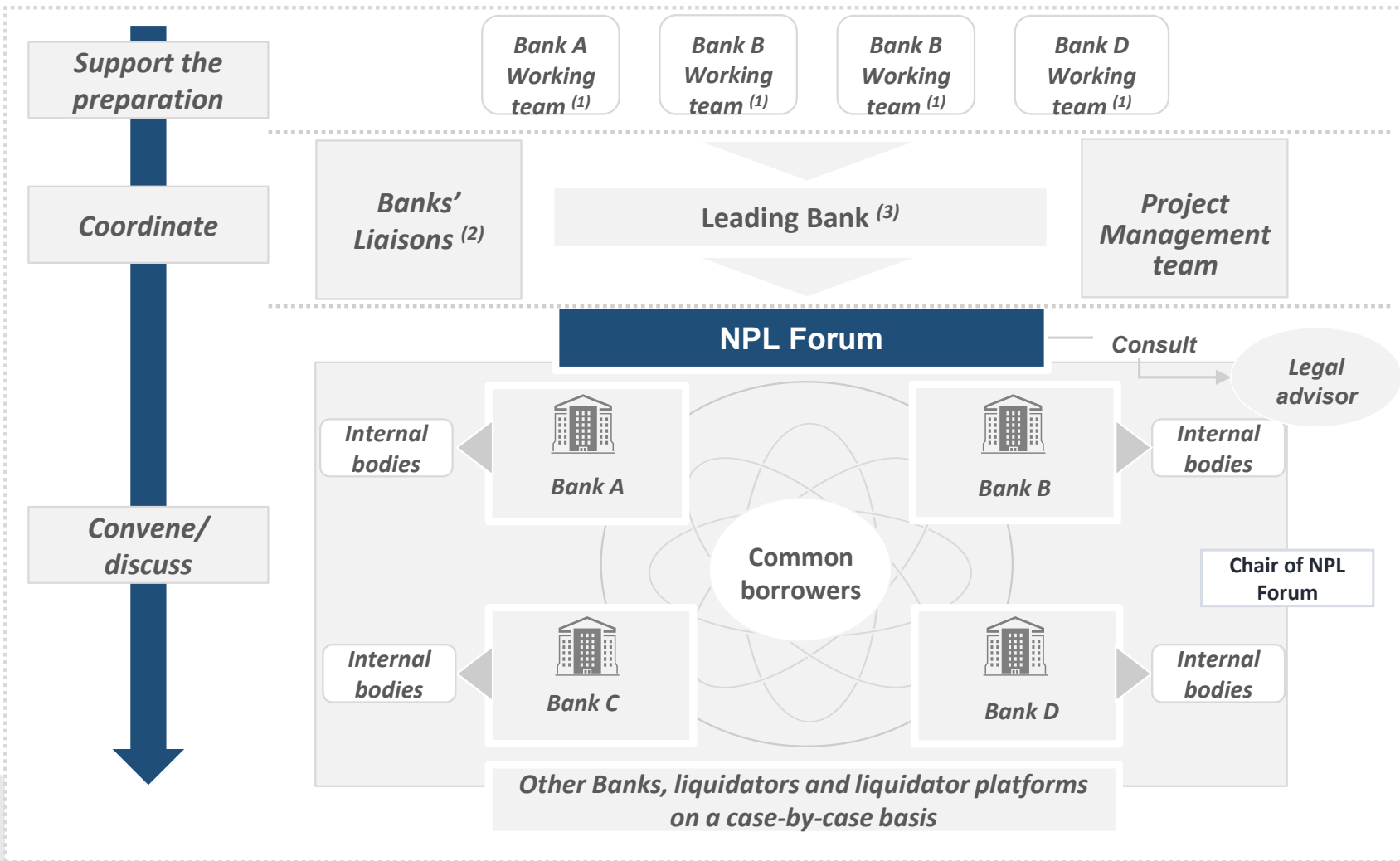
**Ensure the alignment of interests amongst the Banks** with regards to the negotiation strategy with the borrower

**Monitor the performance of the Troubled Corporate resolution process** in order to ensure targets accomplishment

## Principles

- 1 Treat equally all common borrowers**
- 2 Consult with each other on issues concerning their common borrowers**
- 3 Follow the existing Principles of Restructurings and the Code of Best Practice**
- 4 Operate transparently**, while all Banks have the opportunity to provide meaningful input into decisions that significantly affect them
- 5 Support timely disclosure** of all material developments as well as **report relevant material** or required information to all members
- 6 Retain full and independent credit decision authority** to approve and validate the proposed solutions, while no majority rules apply
- 7 Provide sufficient time to the borrower** for information compilation and evaluation as well as for proposals formulation and assessment
- 8 Refrain from taking any steps to enforce their claims against or assign lower lien prenotations to other Banks' collateralized assets**
- 9 Coordinate their response** to borrowers in financial difficulty, since their **interests are best served by their cooperation**
- 10 Encourage the borrowers to reveal timely information** about the company's difficulties so that a consensual solution can be found

# NPL Forum: Governance framework



The NPL Forum is **constituted of four Executives** from each of the participating Banks. They are appointed by and serve at the discretion of each Bank's Executive Committee.

The framework of the NPL Forum is **compliant with competition rules**, allowing the participation, when necessary, of other credit institutions established in Greece to the extent relevant

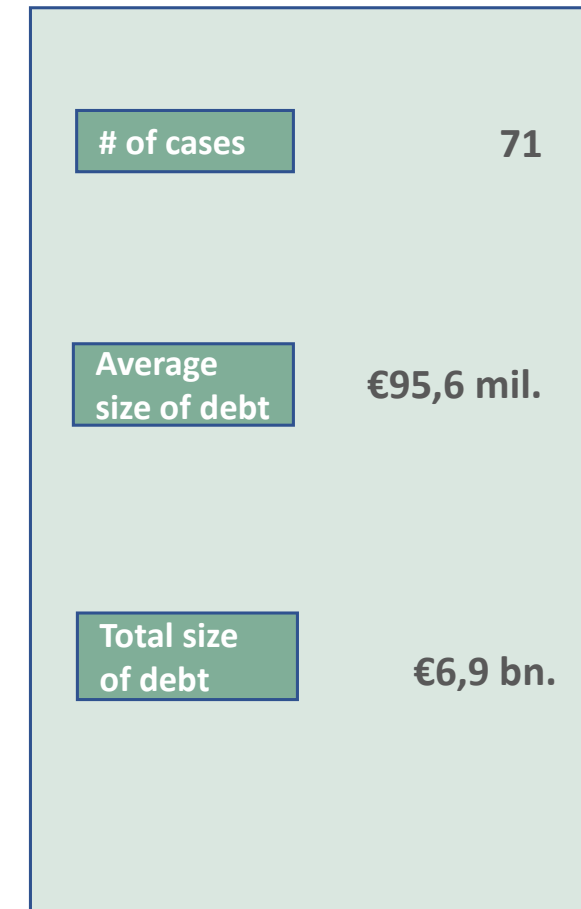
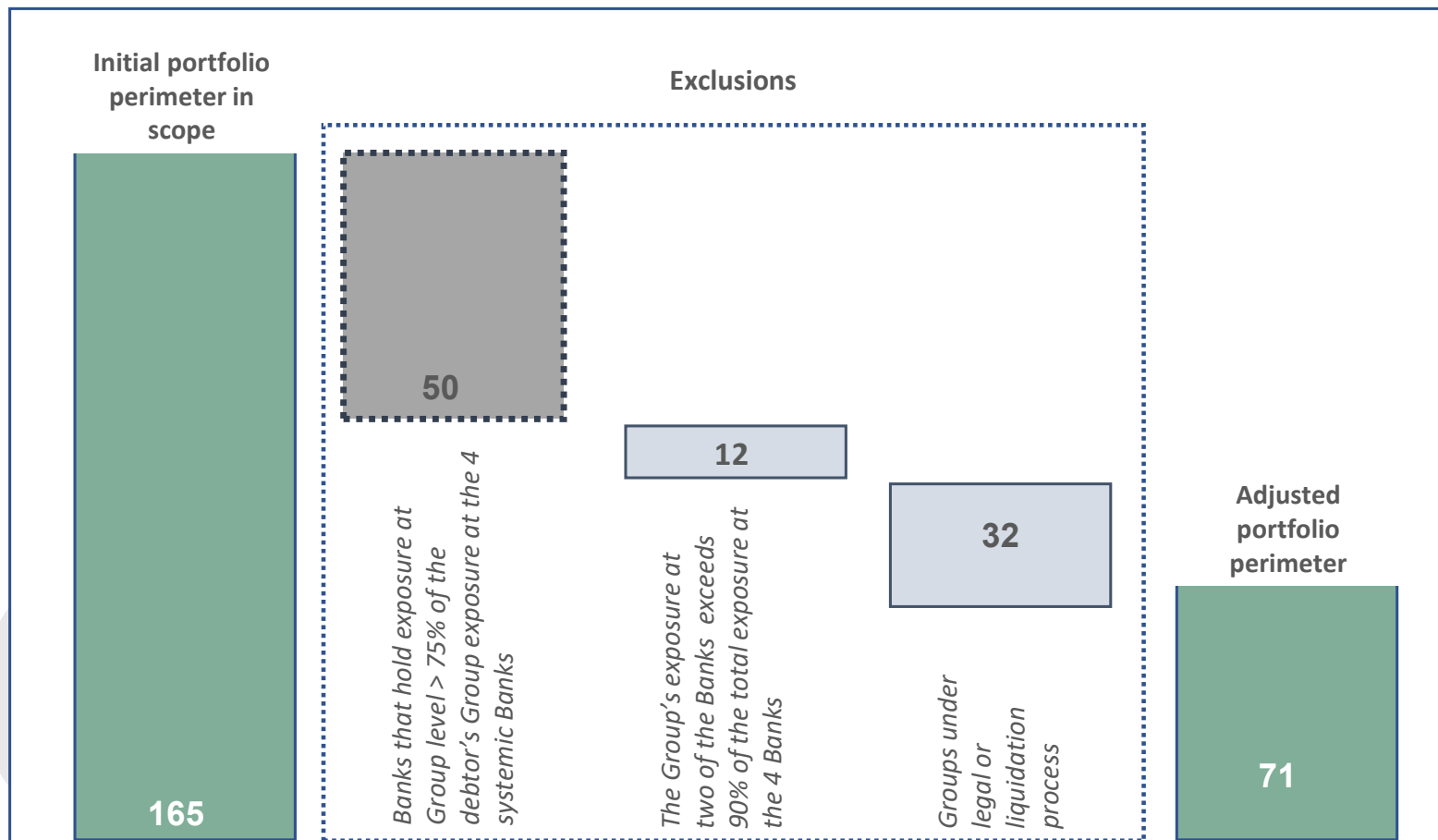
The NPL Forum **convenes twice on a monthly basis**, by invitation of the Chair of the NPL Forum at each Bank's premises in turn, while additional meetings could be scheduled in case there are delays in the pipeline of the cases to be assessed, or urgent issues arise.

- (1) Consists of the respective Managers and Relationship Managers of each case under consideration
- (2) Supports the efficient cooperation among the Banks and the Project Management team, the liaison is appointed by each Bank
- (3) Presents the case to the NPL Forum. It is the Bank that has the largest exposure to the borrower under consideration. Exceptions may apply and another Bank may undertake the role, irrespective of its exposure level (upon approval from the Bank with the largest exposure).

# NPL Forum: Initial Portfolio Perimeter

The initial portfolio perimeter in scope of the NPL Forum, was defined based the following criteria:

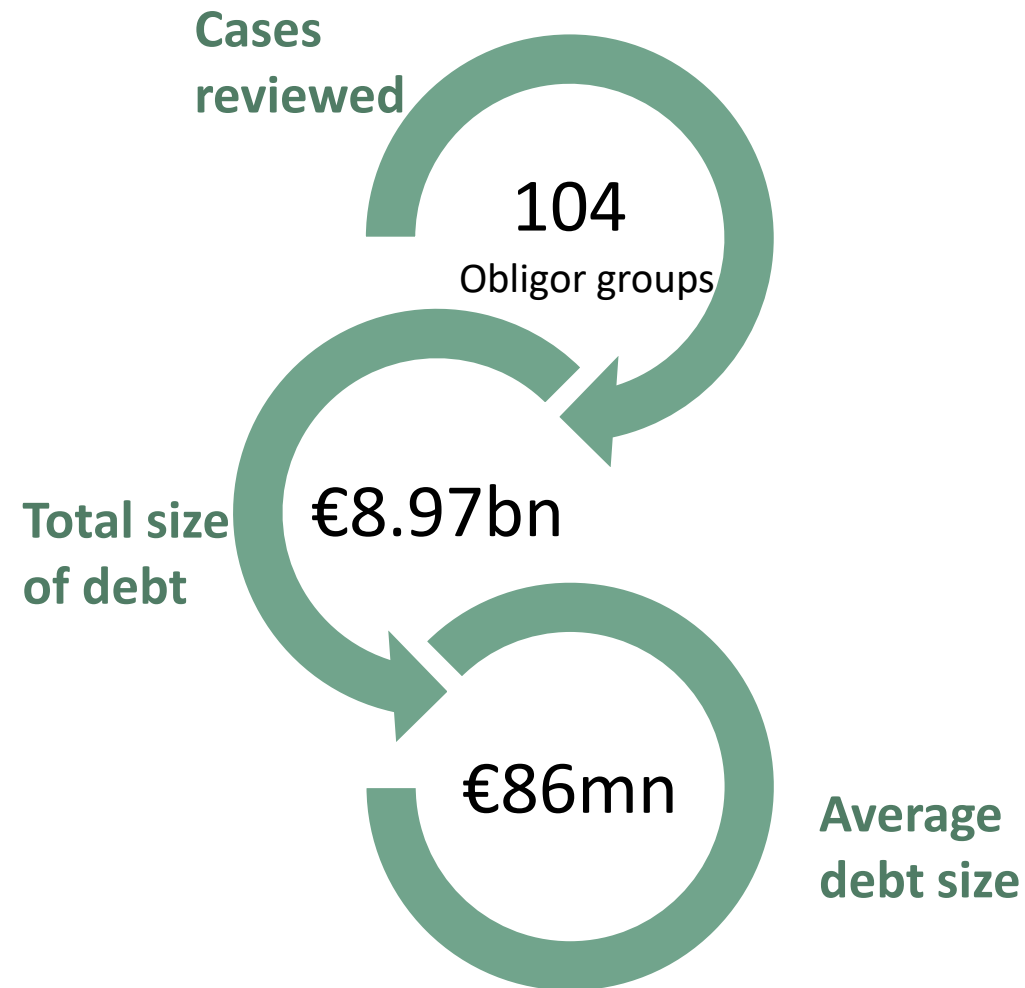
- **SME or Corporate exposures**, excluding Shipping portfolios, with **total Group exposure** which **exceeds €15mIn** at the systemic Banks.
- **At least 3 out of the 4 systemic Banks** have exposure to the Obligor’s Group, which is classified as Non-Performing according to EBA rules
- The Obligor Group’s exposure at 1 Bank **does not exceed 75%** of the Total exposure to the 4 Banks.
- The Obligor Group’s exposure at 2 of the Banks **does not exceed 90%** of the Total exposure to the 4 Banks.
- The Obligor Group is not under **bankruptcy procedure**.







# NPL Forum's Key Performance Figures (Jan. 2016 – Dec. 2019)



Total reviewed cases  
104 cases - €8.97 bn

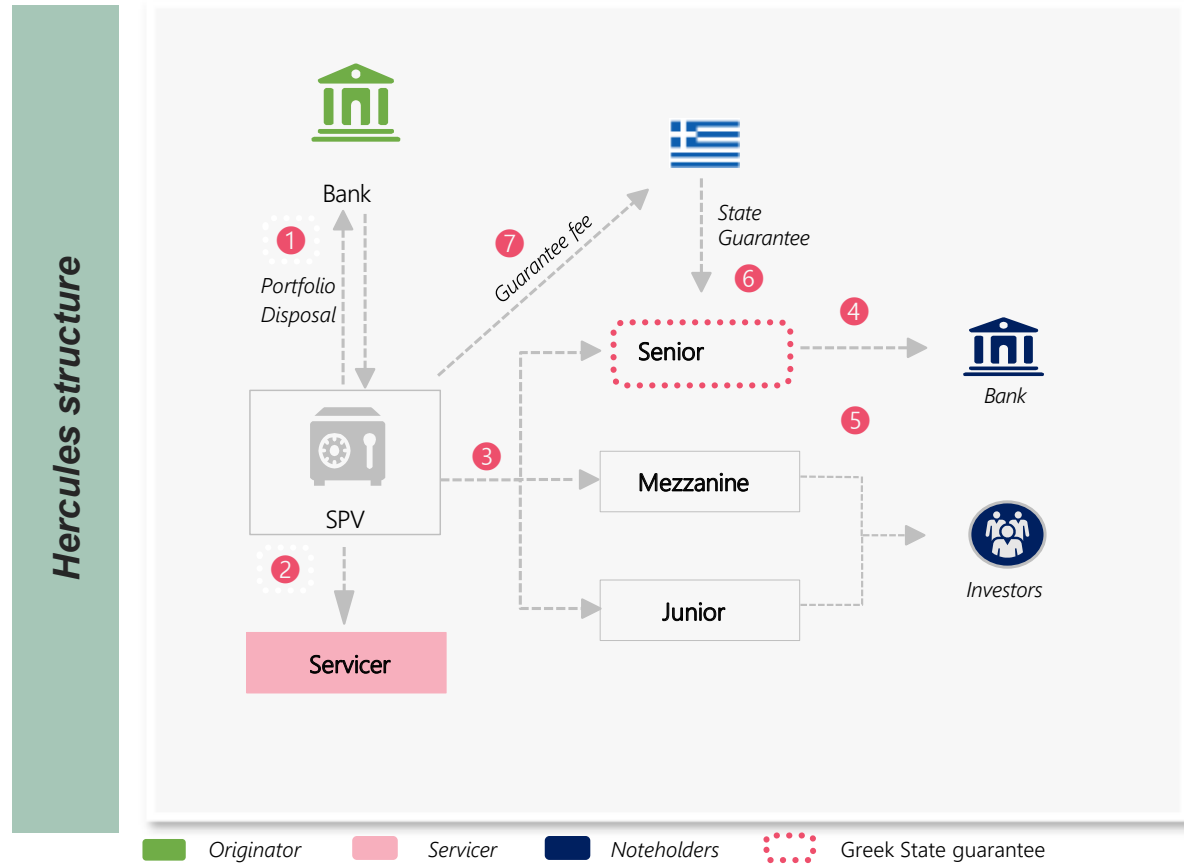
Cases with approved solutions and commenced implementation  
82 cases - €7 bn

Cases with agreed common approach  
15 cases - €1.41 bn

Cases with bilateral Banks' discussions/different strategies  
7 cases - €0.56 bn

# APPENDIX

# The “Hercules” Asset Protection Scheme – Overview



## Objectives

1. Accelerate NPE reduction & minimize capital impact
2. Avoid classification as “State Aid”
3. Align the interests of the main parties (i.e., Originator, Investors and Servicer)

## Key-features

- Transfer of the NPE portfolio to an SPV
2. Appointment of an independent servicer to manage the portfolio (subject to pre-defined triggers)
  3. Issuance of notes (Senior / Mezz & Junior)
  4. Senior note to be rated at least BB- by an External Credit Rating Agency
  5. Bank/ Seller retains the senior note & 5% of mezz & junior (risk retention requirement)
  6. Investors acquire mezz & junior notes. Mezz coupon is deferred in case of underperformance with a 2yr grace period
  7. The State guarantee apply to the senior note and is paid by the SPV - the premium is defined at the inception for the whole life of the protection

### HAPS I

- ✓ Introduction: Dec 2019
- ✓ Up to € 12bn guarantee budget
- ✓ Expiration: April 2021



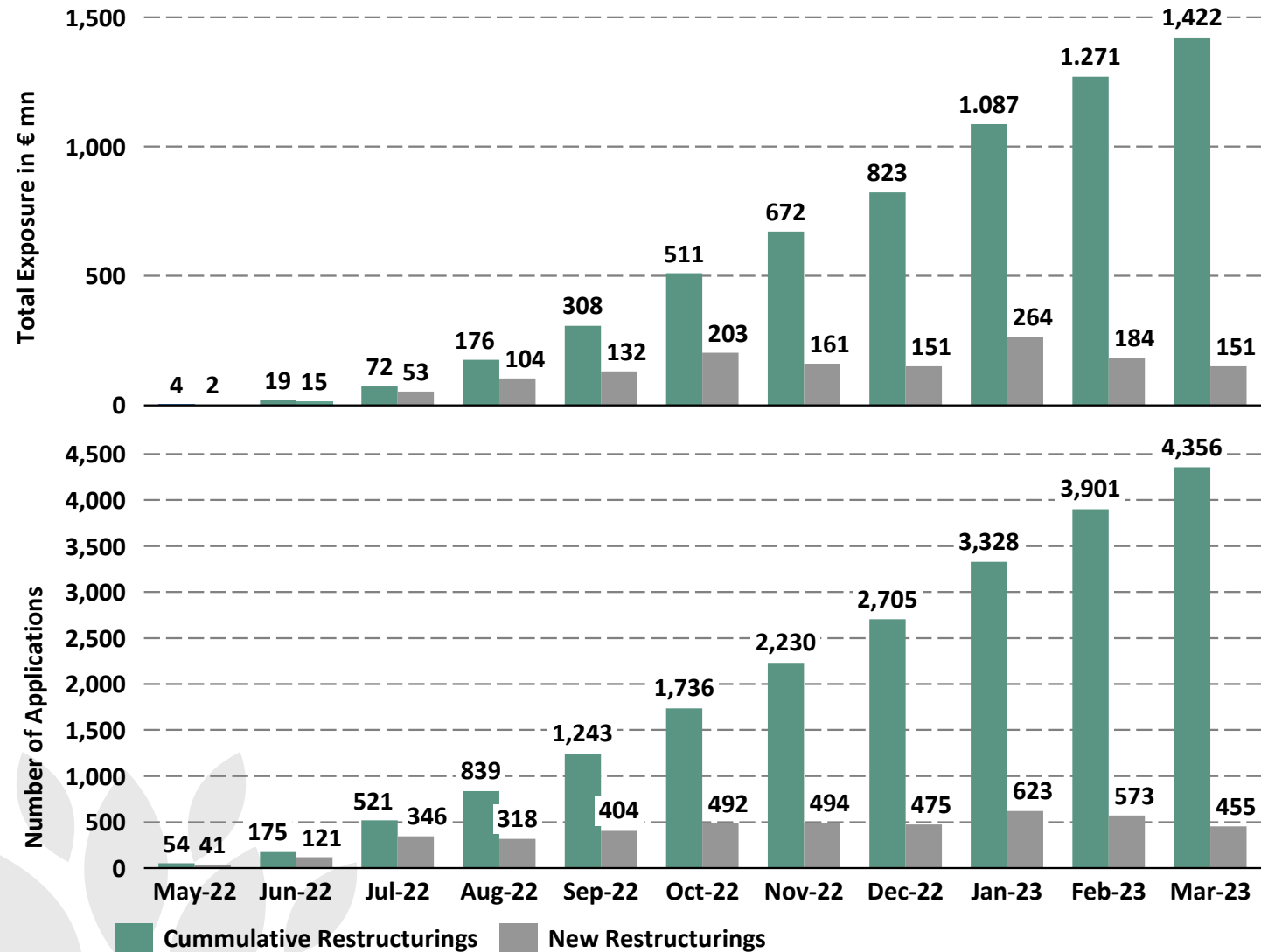
### HAPS II

- ✓ Introduction: April 2021
- ✓ Up to € 12bn guarantee budget
- ✓ Expiration: October 2022

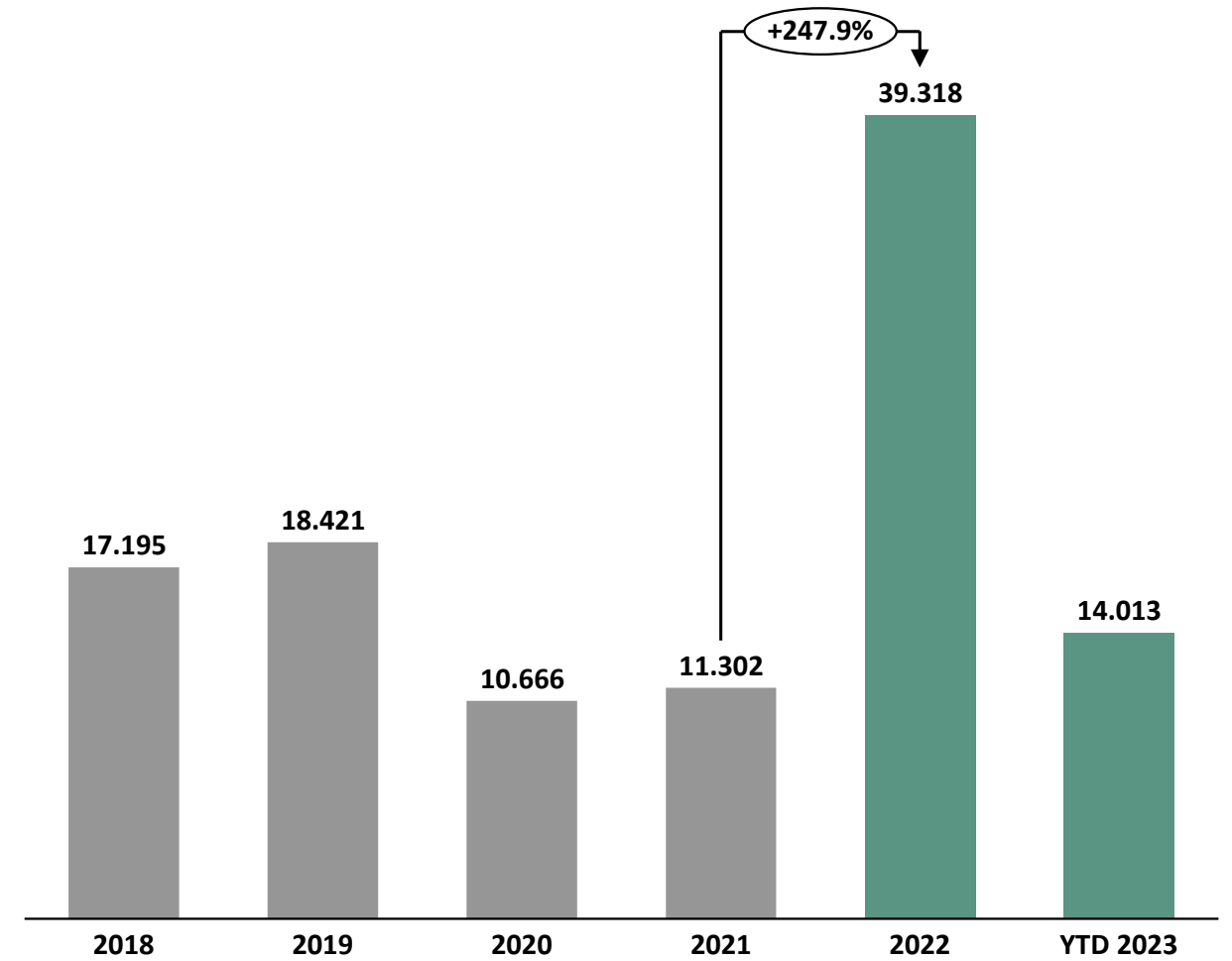


# Insolvency Law: Out-of-Court-Workouts (OCW) & E-auctions progress update

Out-of-court-workouts (OCW)<sup>1</sup>



Number (#) of successful E-auctions<sup>2</sup>



Source: 1 Special Secretariat for Private Debt Management <http://www.keyd.gov.gr/>. 2 E-auctions platform <https://www.eauction.gr> as of 28.4.2023

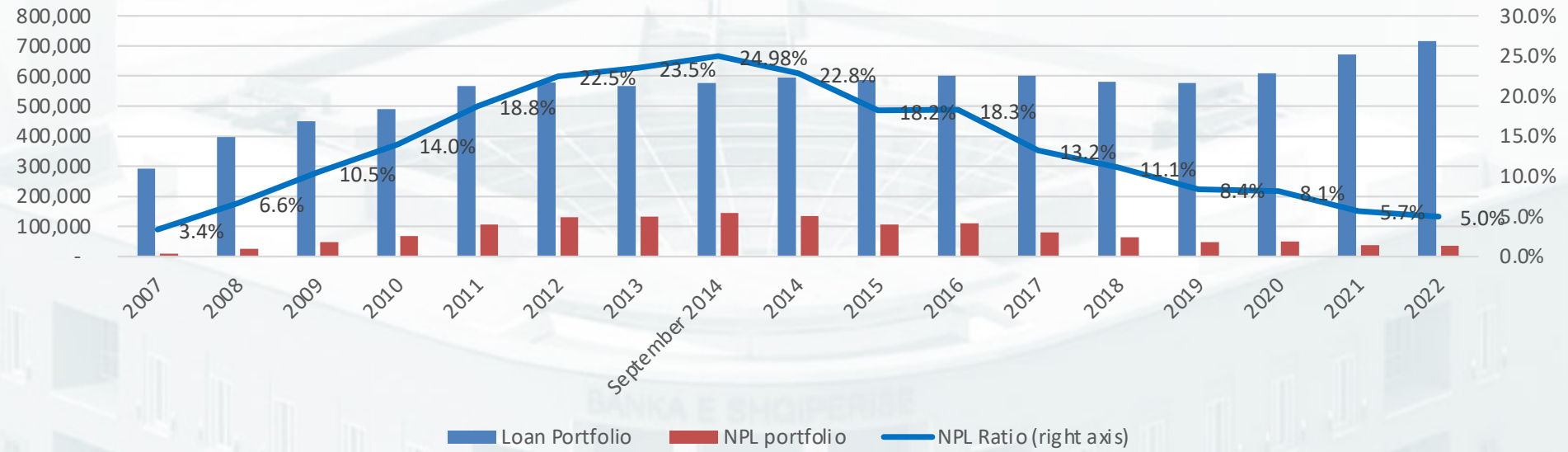


# ***NPLs Resolution – Tirana Approach***

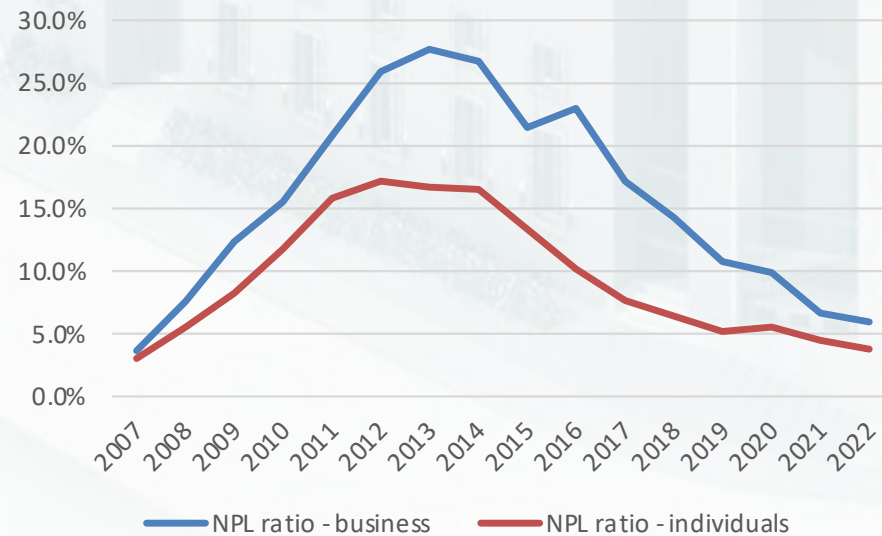
***Jonida Kaçani – Bank of Albania, Supervision  
Department***

# NPLs evolution

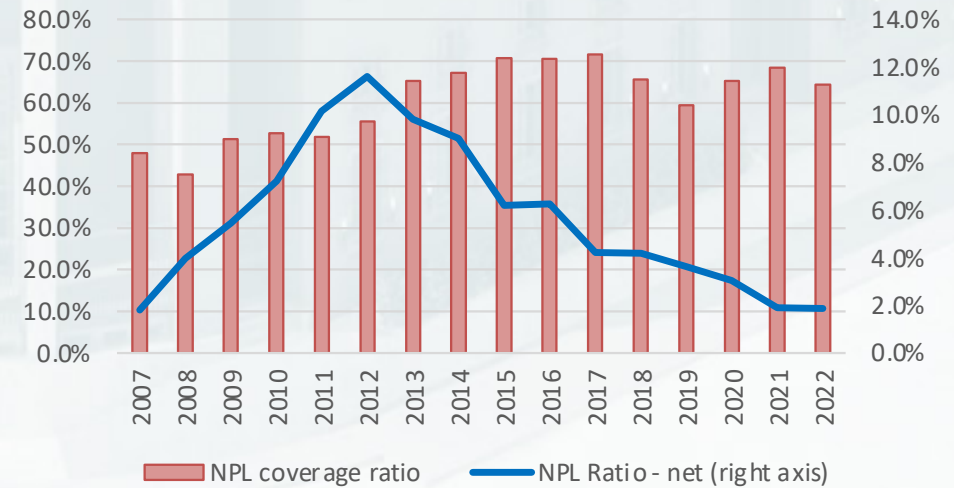
## Portfolio and its quality evolution



## NPL ratio per borrower type

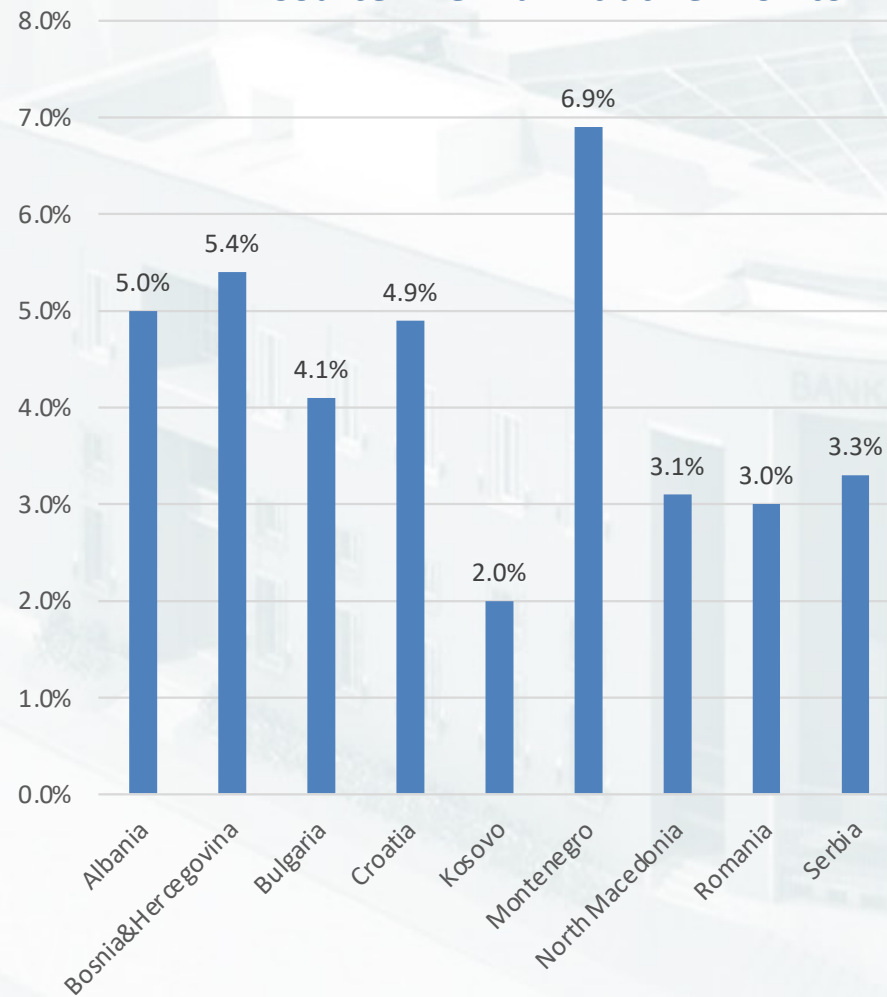


## NPL coverage and net exposure



## ***Non-performing loans in Albania, where we stand ....***

***NPL in the region (Y/E 2022)***  
***source: Vienna Initiative Monitor***



- ***To reduce NPLs was complex and there was need for initiatives from different stakeholders (regulators, government and banks);***
- ***A national NPL strategy and an action plan was signed in 2015 with the involvement of key stakeholders;***
- ***Most NPLs were and remain to be corporate;***
- ***NPLs gradually declined. With an NPL ratio of 5% we remain among countries with high NPLs in the region;***

## Measures undertaken

### Improving legal framework

- New bankruptcy law and by-laws;
- Enhanced civil code procedures for collateral executions;
- Review and clarification of tax treatments for bad debts and write-offs loans;
- BRRD transposition and approval of the new law on banks' recovery and resolution

### Improving regulatory and supervisory framework

- Mandatory write-offs of loans older than 3 years (reduced later in 2 years)
- New guidelines for loan restructuring and collateral appraisal;
- Large borrowers RRP – for customers exposed in more than one bank;
- Incentivize NPLs sale;
- Strong monitoring of banks' behavior on NPLs files (frequent on-site inspection on individual files classification and provisioning);
- Assets reposition linear provisioning within 7 years;
- **Out-of-court resolution of corporate exposures**

**TIRANA  
APPROACH**

### Banks internal initiatives

- Improving internal EWS;
- Dedicated work-out units;
- Forbearance strategies and NPLs exit strategies with board of directors involvement;
- Review of credit policies and exposures to different sectors and portfolios;



## ***Tirana Approach***

- Due to the high level of NPLs an active approach has been pursued on multi - lender problematic exposures;
- There were identified a list of the most problematic largest borrowers exposed in more than one bank contributing in accumulated NPLs stock;

**2013 -2018**

- Several meetings with BoA and individual banks; between banks; between banks and BoA; for reaching a coordinated solution or restructuring of viable exposures. Banks recognized the advantage of the cooperation at the industry level; BoA could control NPLs that potentially give rise to systemic risk.

**2019 - on**

- Formalization of the cooperation framework by approving the regulation *“On out-of-court treatment of distressed borrowers by banks”*. Banks signed an agreement of cooperation. Bank of Albania assisted in the signing of interbank cooperation agreement.

## Tirana Approach

- The regulation\* defined: the eligible borrower/group of borrowers, interbank cooperation agreement; debtor - creditor banks agreement; information sharing and decision making process; restrictions etc.;
- Regulation was in force for limited time (extended during *covid*);
- A study was done in 2018 by Deloitte to analyze Albanian companies performance in terms of debts' sustainability, profitability, growth. This contributed to analyze the overall financial health of top Albanian companies considered viable that might be part of out-of-court multi-lender NPL resolution;
- Some statistics (TA in figures):
  - 50 % of the groups of related persons that met the Tirana Approach criteria were soon out of the framework, due to the pressure, by either reducing their total exposures or partial payments;
  - In Sep-19, Tirana Approach NPL portfolio was almost 22 % of total NPL portfolio:

	Sep -19	Dec-21
TA portfolio change from Sep-19	-	-42.4%
TA NPL portfolio change from Sep-19	-	-62.3%

\* The regulation can be found in BoA web;

[https://www.bankofalbania.org/Supervision/Regulatory\\_Framework/Supervision\\_regulations/Regulation\\_51\\_2019\\_On\\_out-of-court\\_treatment\\_of\\_distressed\\_borrowers\\_by\\_banks.html](https://www.bankofalbania.org/Supervision/Regulatory_Framework/Supervision_regulations/Regulation_51_2019_On_out-of-court_treatment_of_distressed_borrowers_by_banks.html)



***Thank you***