



# NPL reduction in some EU countries lessons for Cyprus

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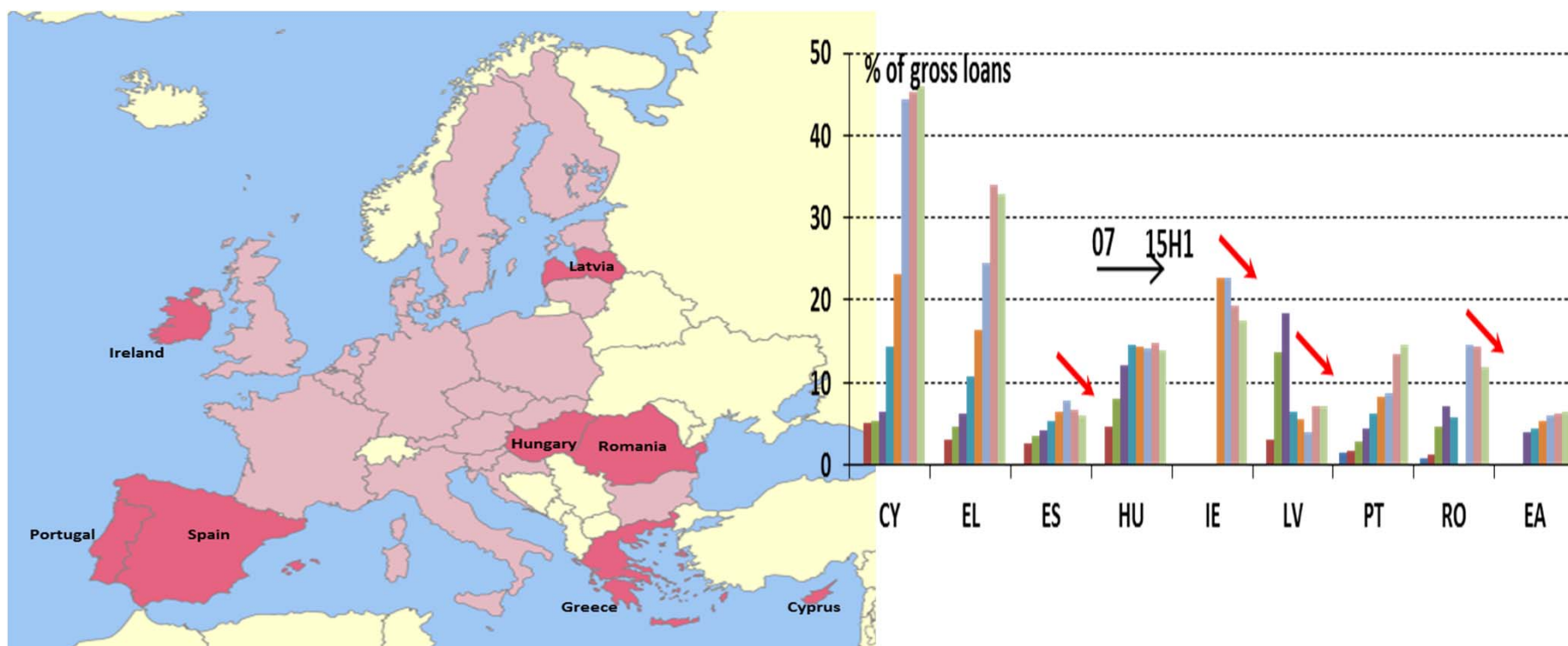
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Conference: solving NPLs  
through innovative solutions

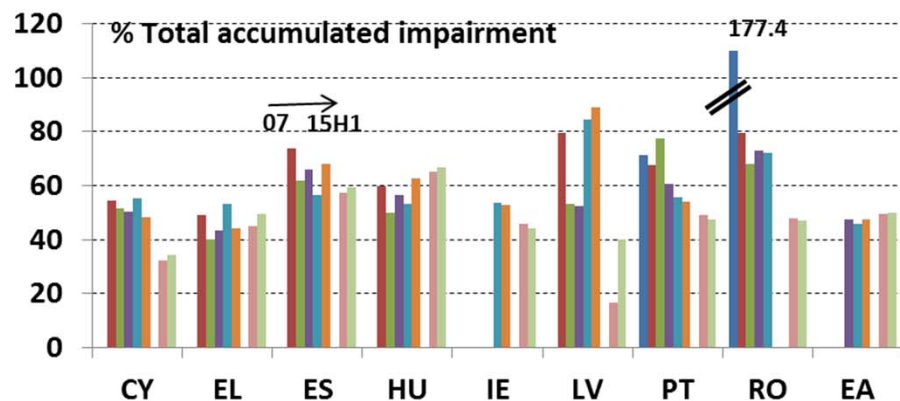
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\*Charts prepared with the help of Rajko Vodovnik

## In some of the eight programme countries, NPLs are declining, but not yet in Cyprus in a decisive way



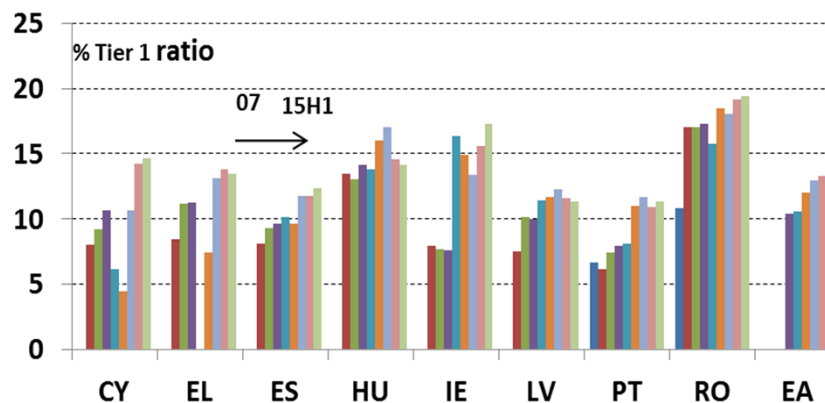
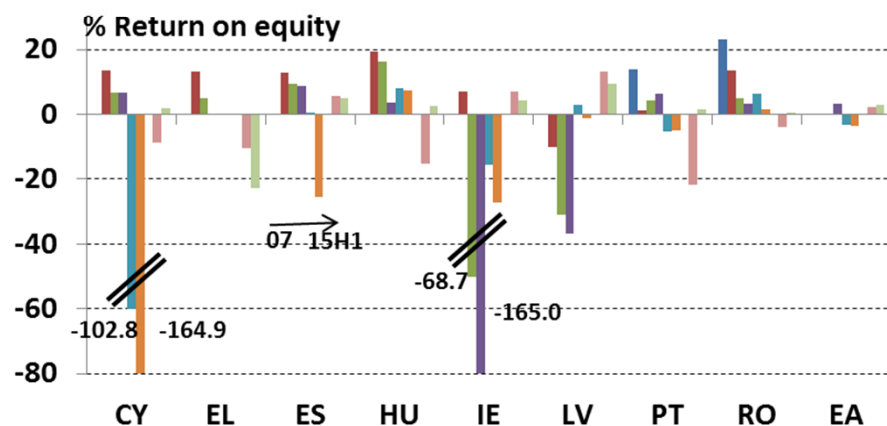
# Increase provisions to encourage NPL work-out: profitable and well capitalised banks required



## Example: Romania

If not possible:

- targets for NPL and debt restructuring
- bank internal restructuring with focus on NPL





**Key performance indicators for BoC and Coops, which were subject to ELA or restructuring plans, were introduced in 2014 including medium-term targets for loans 90 days past due and provisions.**

**Since end-2015, debt restructuring targets for all banks, recalibrated and checked against performance on a quarterly basis with publication of the aggregate numbers.**

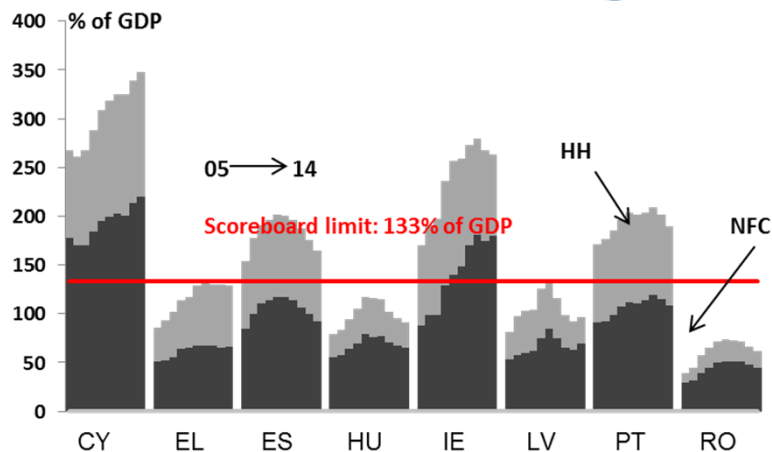
**Bank of Cyprus and Coops have centralised their NPL management.**

Category	Key performance indicators	Bank of Cyprus			Cooperative Group		
		Dec 2014	Sep 2015	Medium-term (2017)	Dec 2014	Sep 2015	Medium-term (2017)
Asset quality	90 days past due coverage	41%	41%	40 - 50%	44.3%	49.9%	> 45%
	Provisioning charge	3.6%	2.1%	<1.0%	1.3%	3.8%	< 2.0%
	90 days past due loans (bn EUR)	12.7	12.0	< 10	6.2	6.0	< 4.5
Funding	Loans to deposit ratio	141%	132%	< 150%	81.6%	74.3%	< 85.0%
Capital	Common equity tier 1	14.0%	15.6%	> 10%	13.6%	12.0%	> 15%
	Leverage ratio (assets/equity)	7.7x	6.9x	< 12x	11.3x	13.6	< 10x
Efficiency	Net interest margin	3.9%	3.9%	> 2.5%	2.7%	2.5%	> 2.5%
	Cost-to-income ratio	36.0%	38.0%	< 45%	37.4%	41.2%	< 42%
	Number of branches (target is for Dec 2015)	130	129	125	292	253	258
	Number of employees	4,334	4,341	< 4 100	2,703	2,659	2,580

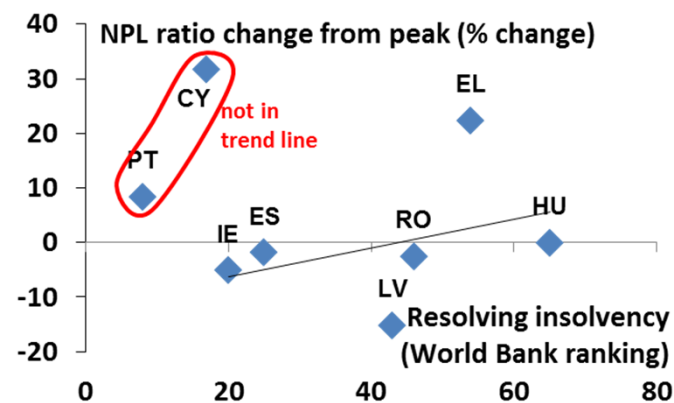
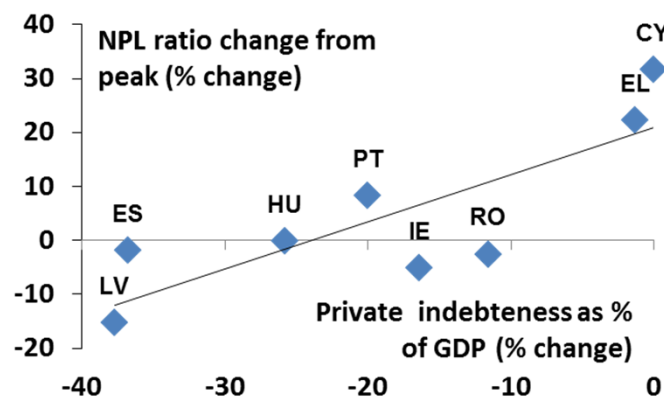
## Debt restructuring targets

Indicators	June	September	December		March	
	achieved	target	achieved	June target	September target	December target
(1) Proposed solutions (%) (non-cumulative)	6.1	9.4	6.2	11.5	12.5	11.1
(2) Concluded solutions (%) (non-cumulative)	4.7	7.4	6.5	10.1	11.6	10.7
(3) Terms-being-met (%) (cumulative since Jan 2014)	65.8	66.5	68.2	70.7	72.9	71.7
(4) Early-arrears cured (%) (non-cumulative)	28.1	27.8	31.2	40.0	40.0	43.1

# Private indebtedness needs to decline: a functioning insolvency is required



## Example: Ireland





On 18 April 2015 the reform of corporate and personal insolvency framework was adopted.

The new personal insolvency framework included a *Personal Repayment Plan*, which establishes a procedure whereby an insolvent debtor can, with the mandatory help of an insolvency practitioner, propose a restructuring plan which, where possible, should avoid the sale of the debtor's primary residence. In case of failure, a *compulsory element* allows the debtor to apply to the court for the imposition, subject to certain criteria, of a restructuring plan on creditors.

Debt discharge and relief, the establishment of an Insolvency Service, the development of reasonable living expenses guidelines and the regulation of insolvency practitioners have also been addressed.

The corporate insolvency regime was modernised to provide for swift liquidation for unviable companies or rescue with the help of an insolvency practitioner.

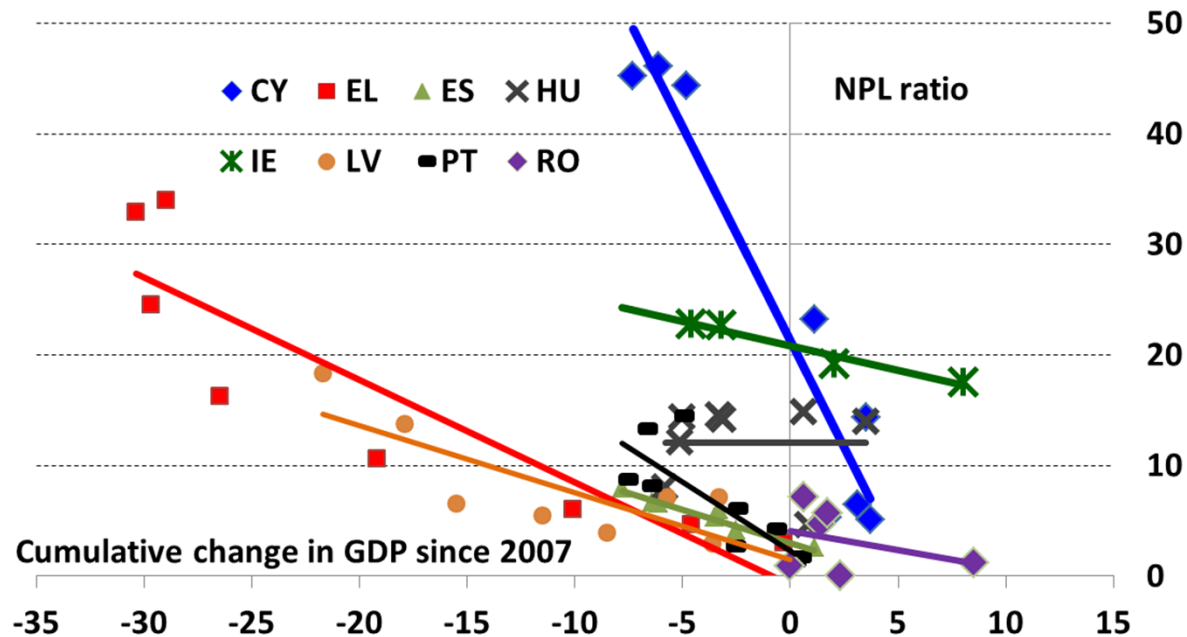




# Asset Management Company

	In operation		In preparation		pro memori
	<b>Ireland NAMA</b> Dec 2009	<b>Spain Sareb</b> Nov 2012	<b>Hungary MARK</b> Nov 2014	<b>Italy SPV</b> Securitisation	<b>Cyprus</b>
<b>NPL, bn EUR</b>	138.1	203.4	6.7 (Dec 2014)	337 (June 2015)	27.4 (Nov 2015)
<b>Gross value, bn EUR</b>	74.4	97.5			
% of GDP	44%	9%			
<b>Transfer value, bn EUR</b>	31.8	50.7			
discount	57.3%	48.0%	small	small	
<b>Nature of transfer</b>	obligatory	obligatory	voluntary	voluntary	
<b>Cover of bank losses</b>	public capital injection			bank provisions	
<b>Pubic debt as % of GDP, start date</b>	61.8%	85.4%	76.2%		
peak	120.2% (2012)	100.8% (2015)	80.8% (2011)	133.0% (2015)	108.2% (2014)
2015	99.8%	100.8%	75.8%	133.0%	106.7%
<b>Sovereign rating (S&amp;P), start date</b>	AA	BBB-	BB		
trough	BBB+ (2011/14)	BBB- (2013/14)	BB (2013/14)	BBB- (2015)	CCC (2013)
Dec 2015	A+	BBB+	BB+	BBB-	BB-
<b>Funding</b>	State guaranteed Bonds		Central Bank	Senior (state guaranteed)/junior bonds	
<b>Eligible collateral</b>	yes	yes			

## Particularly rapid increase in NPLs given decline in GDP in Cyprus, only partially explained by bail-in and capital controls



**Addressing strategic default:**

- Foreclosure law
- Information and access to borrowers' accounts, income and assets



The foreclosure law was adopted in September 2014, but suspended. Following the adoption of the insolvency framework on 18 April 2015, the Law is now in force. It became applicable when the accompanying regulation on the procedural rules for sale by auction was adopted on 14 May 2015 and will become fully effective when the auction locations are selected and are operational in the 5 districts.

The banks intend to pursue about 40 first cases at foreclosure. Compared to the outstanding amount of NPLs (EUR 27.4 bn or 160% of GDP), the non-performing loans where the underlying collateral is to be auctioned, represent only a small amount of a about EUR 100 million. The signal is to strengthen payment discipline rather than collect outstanding debts.

Following a study on access of information on financial assets and earnings of delinquent borrowers as well as on impediments on attachments, Civil Procedure Code and Court Rules have been adapted end-2015, but more may be needed to enhance the availability of financial information to Courts and enforcement agents.

## Conclusions

- A multi-dimensional approach is needed requiring the concerted action by Central Bank, Ministry of Finance and the banks
- In Cyprus great progress has been achieved in implementing a new regulatory and supervisory framework and banks have reorganised to deal better with NPLs.
- As a result of these efforts, NPLs are stabilising, but a decisive downward trend still has to set in.
- Aggressive increase in provisions is hampered by poor profitability of banks. In such a context, banks' internal reorganisation and the setting of targets for debt restructuring have a relatively greater role to play.
- Similarly, strategic default behaviour is to be addressed by making effective use of the foreclosure tool and developing greater access to information on income and wealth of borrowers.
- AMC's involving large losses for banks to be covered by capital in the new BRRD world has bail-in consequences if private markets are not available and large state guarantees weigh on public finances.
- SPVs with the state guarantee limited to a part of its liabilities (senior tranche) and transferring well provisioned NPLs avoids these drawbacks, but it needs to remain attractive to banks.