



National Bank  
of Ukraine

# The NPL situation in Ukraine

**Vitaliy Vavryshchuk**

26 April 2018, Kyiv, EBRD conference



## NPLs – one of systemic risks to banking sector

---

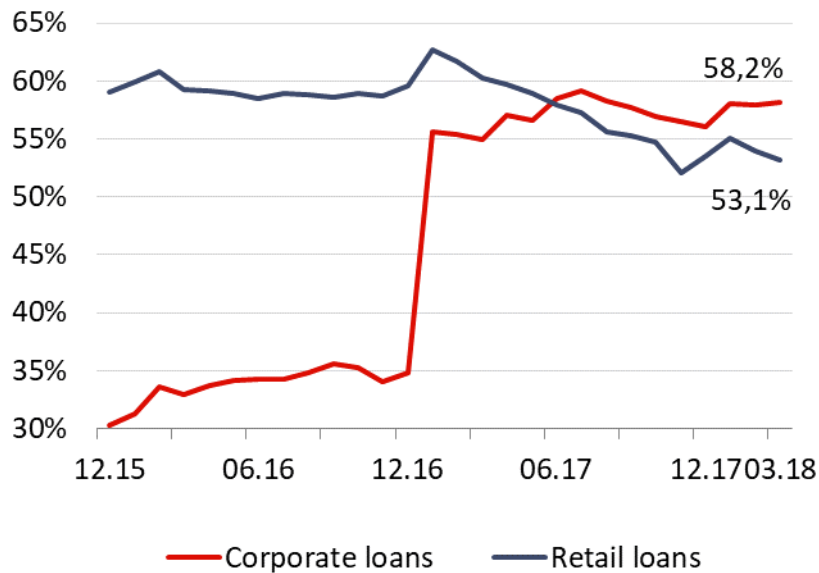
Three key systemic risks for Ukraine's financial sector remain as highlighted in NBU's Financial stability report:

- Extensive presence of government in the banking sector, weak operational efficiency and inadequate credit risk management at state-owned banks.
- High NPL stock.
- Insufficient creditor protection.

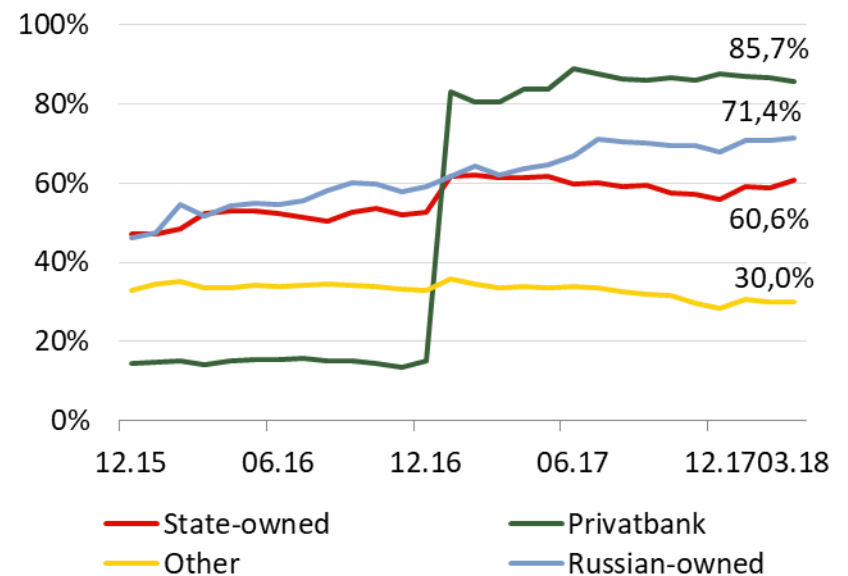
The progress with NPL resolution has been unimpressive so far and the NBU doesn't expect a material improvement over the next 12-18 months.

# NPLs continue hovering above 50%

Share of NPLs



Share of NPLs by groups of banks

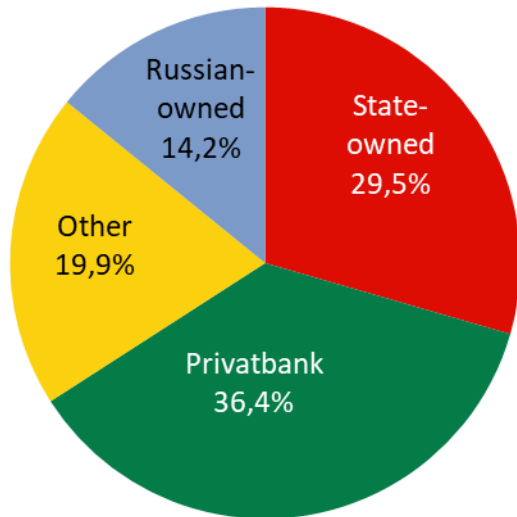


Source: NBU

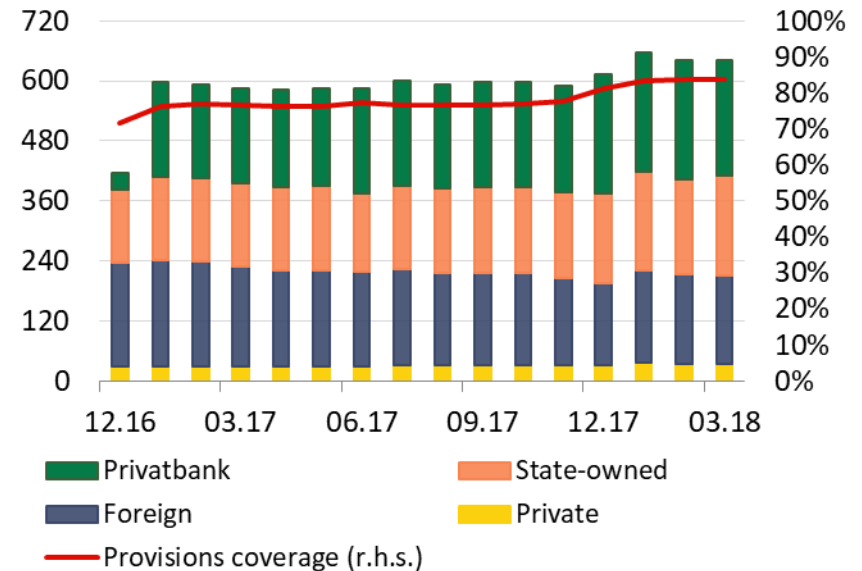
- The share of non-performing loans is decreasing due to growth in the loan portfolio...
- ... but no improvement in money terms: USD 24 bln (equiv) of NPLs remain in the banking sector.
- State-owned banks have the worst loan quality. Workout of NPLs at state-owned banks is not efficient.
- At private banks and banks of international groups NPL rate is high, but not critical.

# Most of the NPL stock is with the state-owned banks

Non-performing loans by bank groups as of 01.04.18



Non-performing exposures and provisions, UAH billion



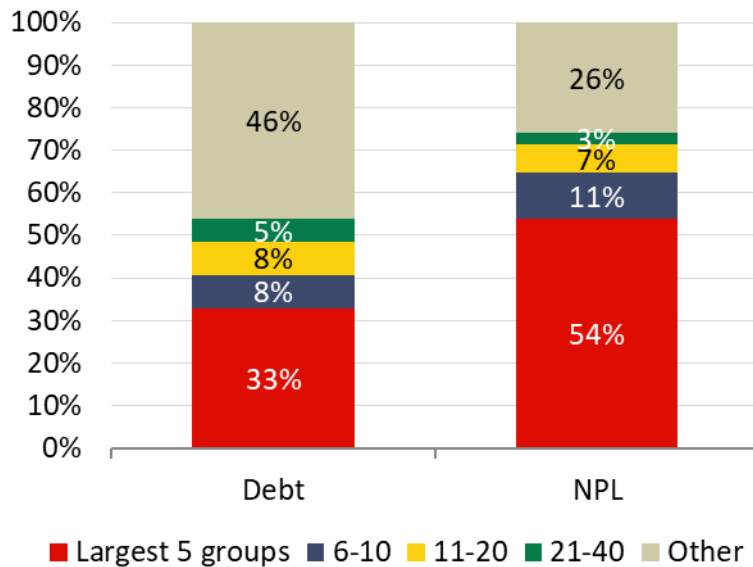
Source: NBU

- Two thirds of total NPLs are with the state-owned banks, most of those are legacy loans issued years ago.
- The vast majority of NPLs have already been recognized and properly provisioned for.

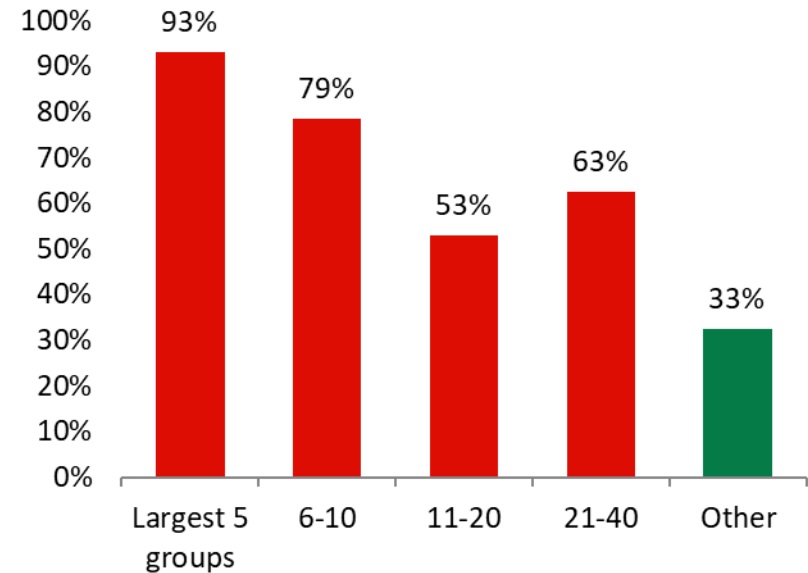
# Concentration risk fully materialized during the crisis



Loan and NPL structure, Mar. 2018



NPLs as % of banks' exposure to the largest business groups, Mar. 2018



Source: NBU

- The weak payment discipline is specific to large business groups: more than 90% of loans to the top-5 business groups are NPLs, far higher than the system average.
- Going forward, the NBU will be vigilant in monitoring high concentration risks in the banking sector.

## Regulatory treatment of restructurings is very favorable

---



Restructurings are a fact of life due to huge borrower losses following macroeconomic shock and military conflict in eastern territories. Given this, the NBU maintains very favorable treatment of restructured loans:

- in case of a viable restructuring (even if restructuring was necessitated by borrower's financial difficulties) bank can take a decision not to assign a default status to a borrower;
- cure period for defaulted loans (if a default status assigned following a restructuring) is just 6 months.

If a restructuring is implemented under financial (out-of-court) restructuring law, default is not recognized even if:

- debt is partially written off;
- overdue interest payments (more than 90 days) are capitalized;
- debt converted to equity.

According to recent amendments to the NBU regulations, NPLs can be lifted to performing categories immediately if restructuring was based on "Kyiv approach".

# Overcoming obstacles and creating incentives for NPL resolution

---



## Already done:

- NPL definition brought in line with international practice since early 2017, banks were forced to show real asset quality following the NBU diagnostics study. As a result, NPL statistics is currently reliable and widely available.
- Favorable regulatory regime for loan restructurings introduced.
- Centralized Credit Registry operated by the NBU ready to be launched.
- The bulk of tax impediments to NPL write-offs removed.
- Financial restructuring law (Kyiv approach) has been operational for more than one year.

## To be done:

- Adoption of the Law on Debt Management Activities.
- Adoption of the NBU resolution that sets a framework for NPL management and recovery at banks (a local version of the EBA's «Guidance to banks on non-performing loans»).
- Incorporation of Credit Registry data into loan underwriting practices and risk assessment by banks (obligatory loan downgrade if a borrower is not current on loans at other banks).
- New bankruptcy legislation.
- Continuation of the judicial system reform.