



Overview of the NPLs and EU policy response

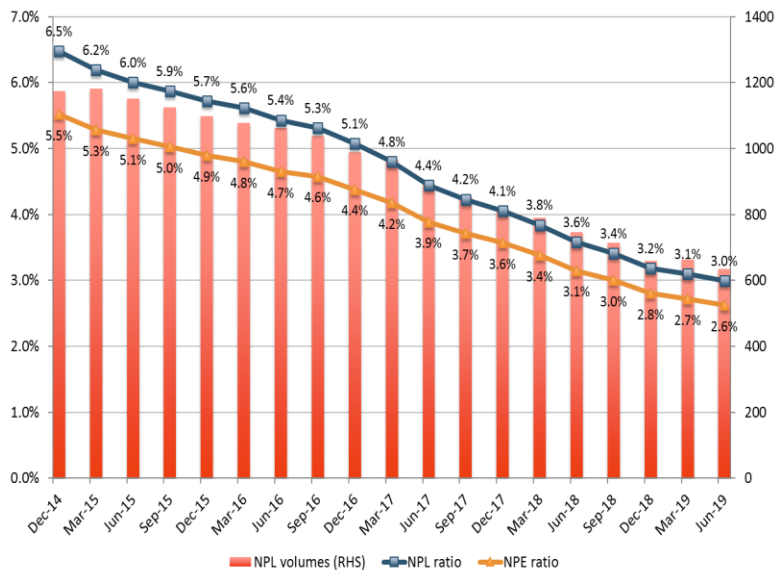
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03 December 2019 | EIFR Atelier on NPLs

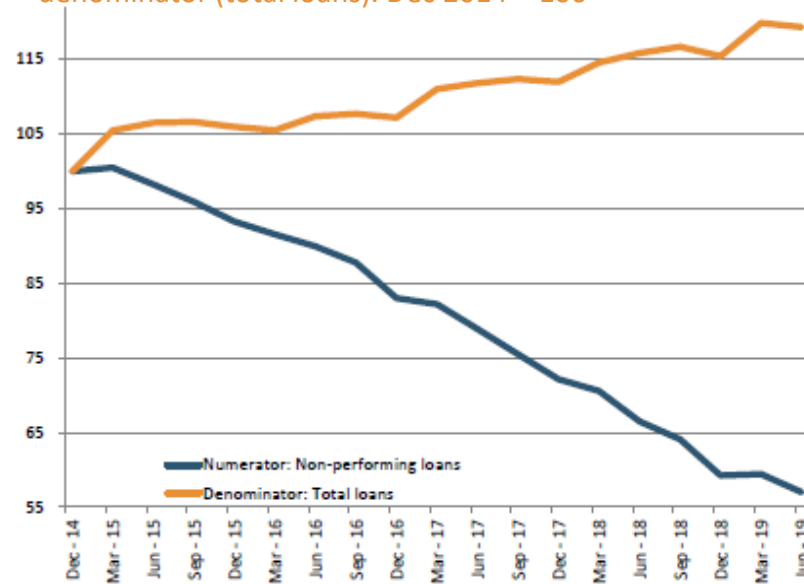
Significant improvements in asset quality (1/2)

- NPL ratio at all time low (since the common definition) – 3% → average improvement each year of 80 bps
- Total NPLs as of June 2019 – EUR 636 Billion (50% down compared to June 2015)

Quarterly trend in NPL and NPE ratios (%) and NPL volumes (EUR billion)



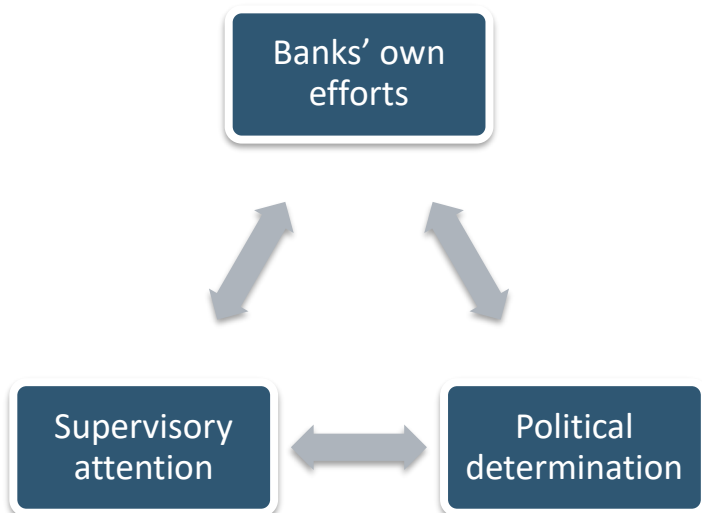
Quarterly trend in NPL ratio numerator (NPLs) and denominator (total loans). Dec 2014 = 100



- Reductions were observed across all countries, countries with high NPL ratios have led the de-risking process
- Coverage ratios have largely remained constant (average coverage ratio of NPLs in June 2019 – 44.9%)
- Forbearance ratio has improved in line with NPL ratio improvements (1.9% down from 3.7%, decrease of forbore loans from EUR 700bn to 400 billion)

Significant improvements in asset quality (2/2)

Three pillars determining the reduction of NPLs



Contributing factors

- positive economic growth
- low interest rates
- decreasing unemployment

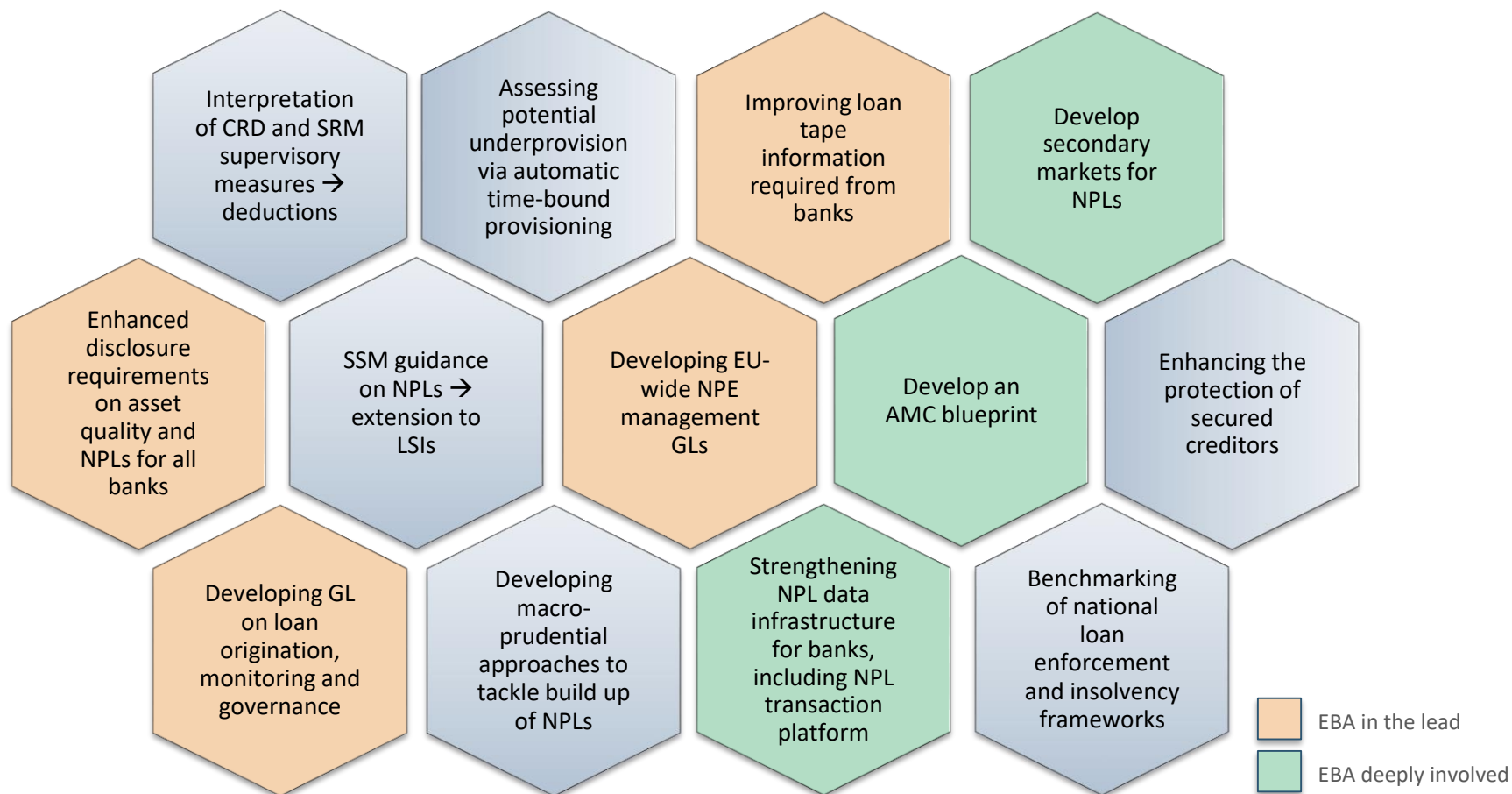
No room for complacency:

- SMEs and CREs remain the riskiest lending segments – NPL ratio for SMEs is 8.5% and for CREs – 8.1% as of June 2019
- Legacy assets remain material and concentrated → NPL ratios are 39% (EL), 22% (CY), 9% (PT), 8%(IT)
- Impediments to resolving NPLs, as identified by the banks, remain significant in a few countries, and in particular in those with higher NPL ratios
- The differences in the speed recovery procedures across countries, caused by an inefficient legal framework and the lack of a market for NPLs, are the responses most often cited by the banks as impediments to the further resolution of NPLs

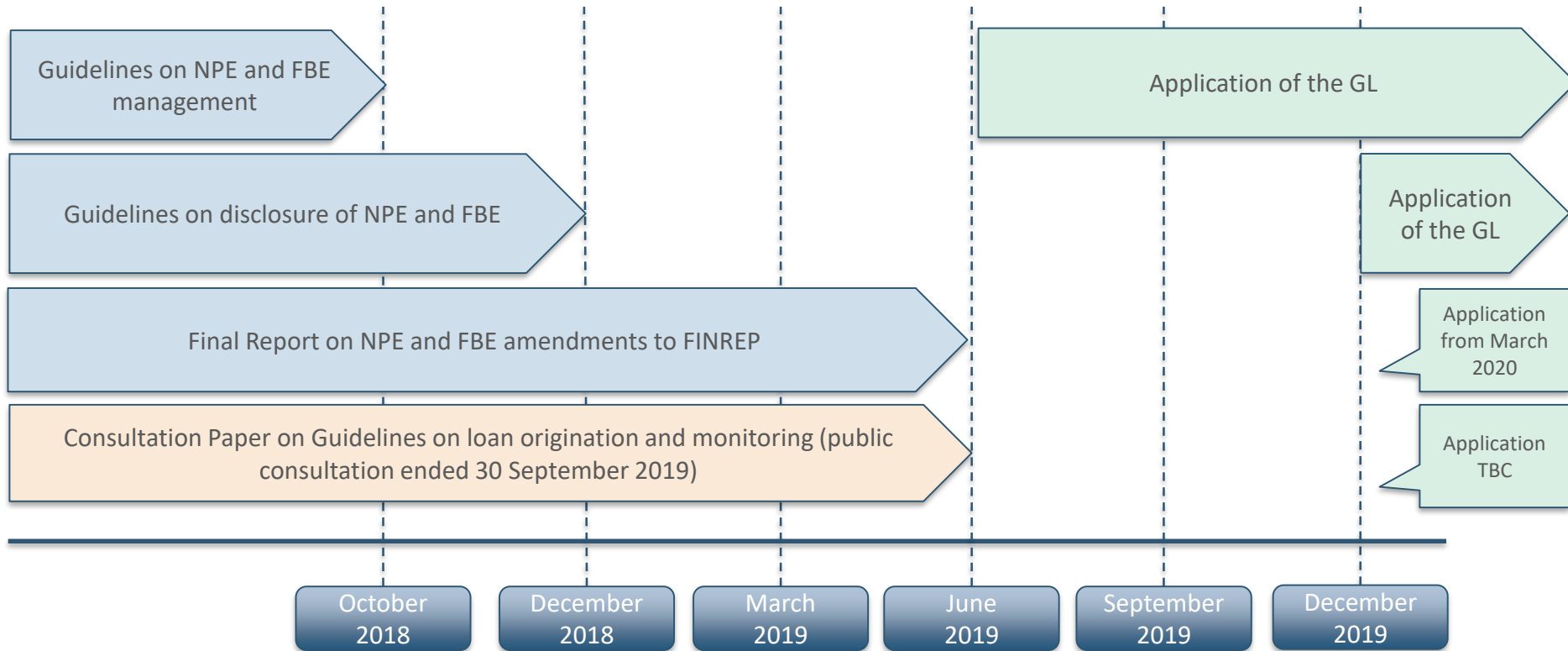
Council Action Plan to tackle NPLs in EU (July 2017)

- Comprehensive EU-wide package of policy measures aimed at reduction and prevention of emergence of NPLs
- Actions required from the Commission, EBA, ESRB, ECB/SSM and Member States

Weighted average NPL ratio – 4.4%



EBA policy work under the Council Action Plan



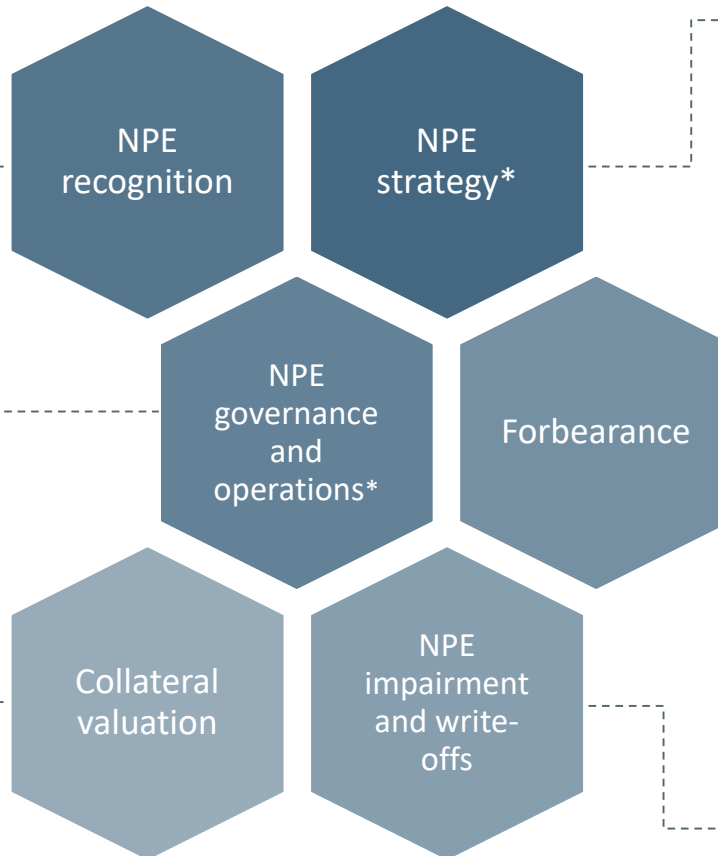
In addition to the above, institutions are subject to additional Pillar 1 measure - Pillar 1 measure entered into force in April 2019 and will apply to loans originated after 26 April 2019

Guidelines on NPE and FBE management

EBA definition of NPEs in risk management, disclosure as well as supervisory reporting

Banks with significant NPEs to have governance structure and operational arrangements to operate the NPE reduction effectively – through sales, securitisation, workout and adequate decision-making, controls and monitoring

Adequate and accurate valuation of collateral, and optimal frequency of monitoring and revaluation



Banks with significant NPEs to set clear targets and plans for the reduction of NPE

Measures to prevent non-performing status or to return non-performing status to sustainable repayment schedule – no misrepresentation of asset quality or delaying recognition

Adequate and consistent procedures for the identification of the need for provisioning and making adequate provisioning

*Banks with gross NPL ratios $\geq 5\%$ (consolidated, sub-consolidated and individual levels)

Guidelines on disclosure of NPE and FBE

- The guidelines seek to **foster transparency, address any potential asymmetries of information and promote comparability of credit institutions' risk profile** and, in the end, **market discipline**
- **Integration of Pillar 3 disclosures with the EBA reporting framework** to the extent possible:
 - Full alignment with reporting requirements to increase efficiency and reduce burden
 - Standardisation of formats and definitions

Templates applicable to all institutions

credit quality of forborne exposures

credit quality of non-performing exposures by past due days

performing and non-performing exposures and related provisions by exposures class

collaterals obtained by taking possession and execution processes

Templates applicable to significant institutions with elevated levels on NPLs (gross NPL ratios $\geq 5\%$)

quality of forbearance

quality of non-performing exposures by geography

quality of loans and advances by industry

loans and advances at cost or amortised cost, and collaterals

changes in the stock of non-performing exposures

Breakdown of collaterals obtained by taking possession and execution processes

2.3 Main features of changes to FINREP with regard to NPEs

Module 1 All institutions

- Information on selected types of exposures (CRE loans, loans by LTV ratio, NPE/forborne exposures to SMEs, etc.)
- NPEs by accounting stages
- NPE inflows and outflows
- Enhanced information on collateral and guarantees received

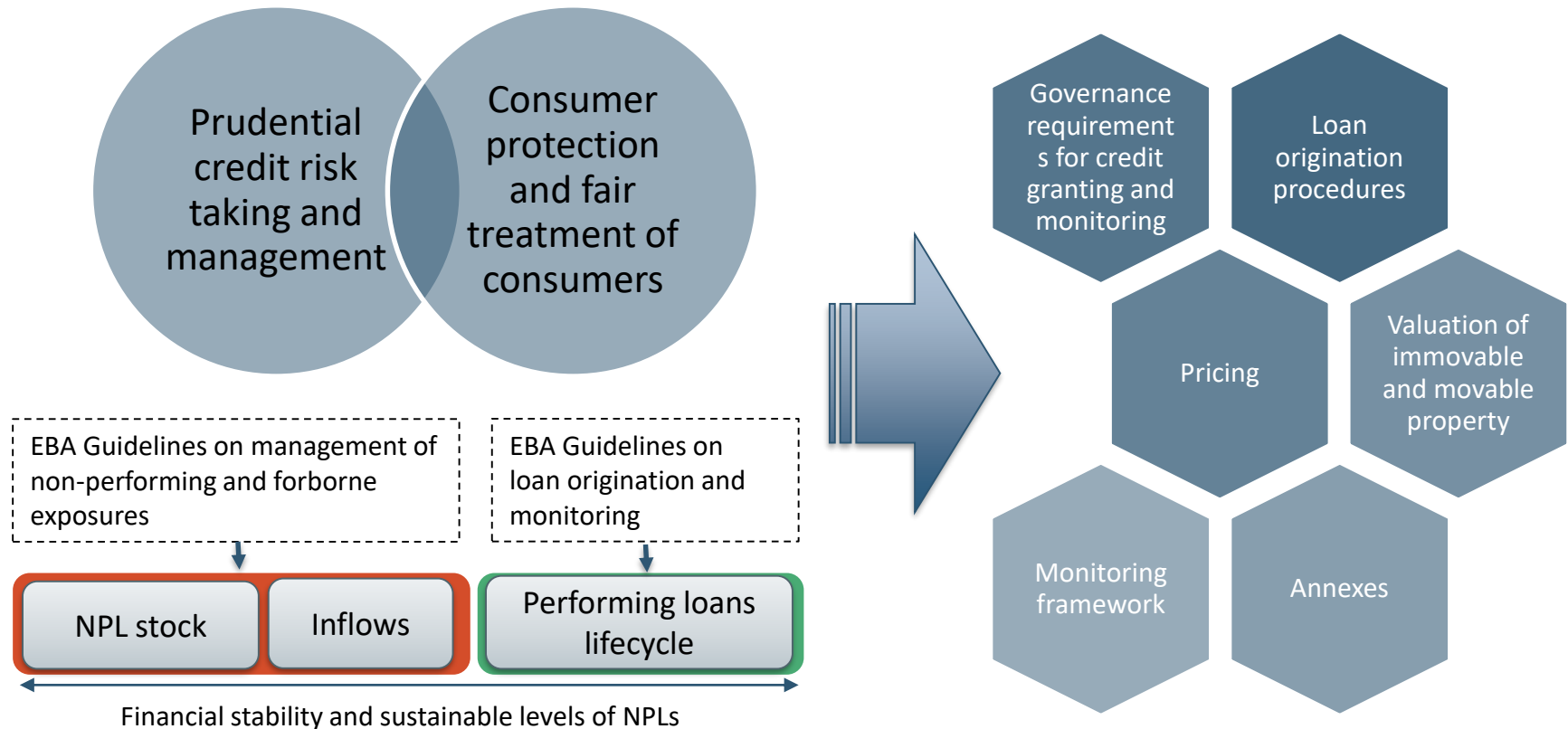
Amendments to existing templates

Module 2 Institutions with elevated level of NPEs ($\geq 5\%$)

- Supplementary information on NPEs (e.g. litigation)
- Drivers for NPE inflows and outflows
- Collateral inflows and outflows, vintage
- Details on forbearance management and quality of forbearance

New templates with granular information

Draft Guidelines on loan origination and monitoring



- Legal basis: the draft guidelines build on the requirements under CRR/CRD, MCD and CCD
- The draft Guidelines address also key policy areas and future proofing: **ESG** factors (environmental, social and governance), AML/CTF, IT and data infrastructure, FinTech

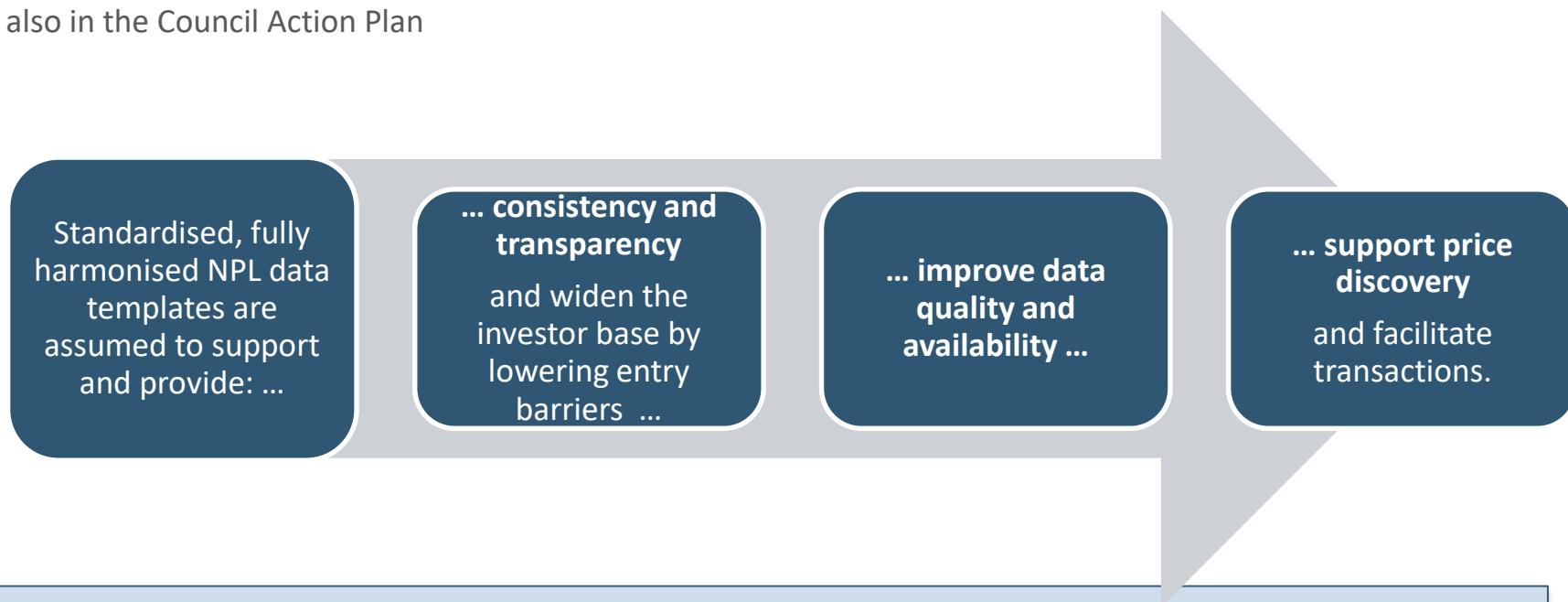
References

- EBA Guidelines on management of non-performing and forborne exposures (<https://eba.europa.eu/regulation-and-policy/credit-risk/guidelines-on-management-of-non-performing-and-forborne-exposures>)
- EBA Guidelines on disclosure of non-performing and forborne exposures (<https://eba.europa.eu/regulation-and-policy/transparency-and-pillar-3/guidelines-on-disclosure-of-non-performing-and-forborne-exposures>)
- Consultation paper on Draft EBA Guidelines on loan origination and monitoring (<https://eba.europa.eu/regulation-and-policy/credit-risk/guidelines-on-loan-origination-and-monitoring/-/regulatory-activity/consultation-paper>)
- EBA NPL data templates (<https://eba.europa.eu/-/eba-revises-standardised-npl-data-templates>)
- EBA Risk Dashboard (<https://eba.europa.eu/risk-analysis-and-data/risk-dashboard>)
- EBA NPL reports (<https://eba.europa.eu/risk-analysis-and-data/eba-work-on-npls>)

Appendix

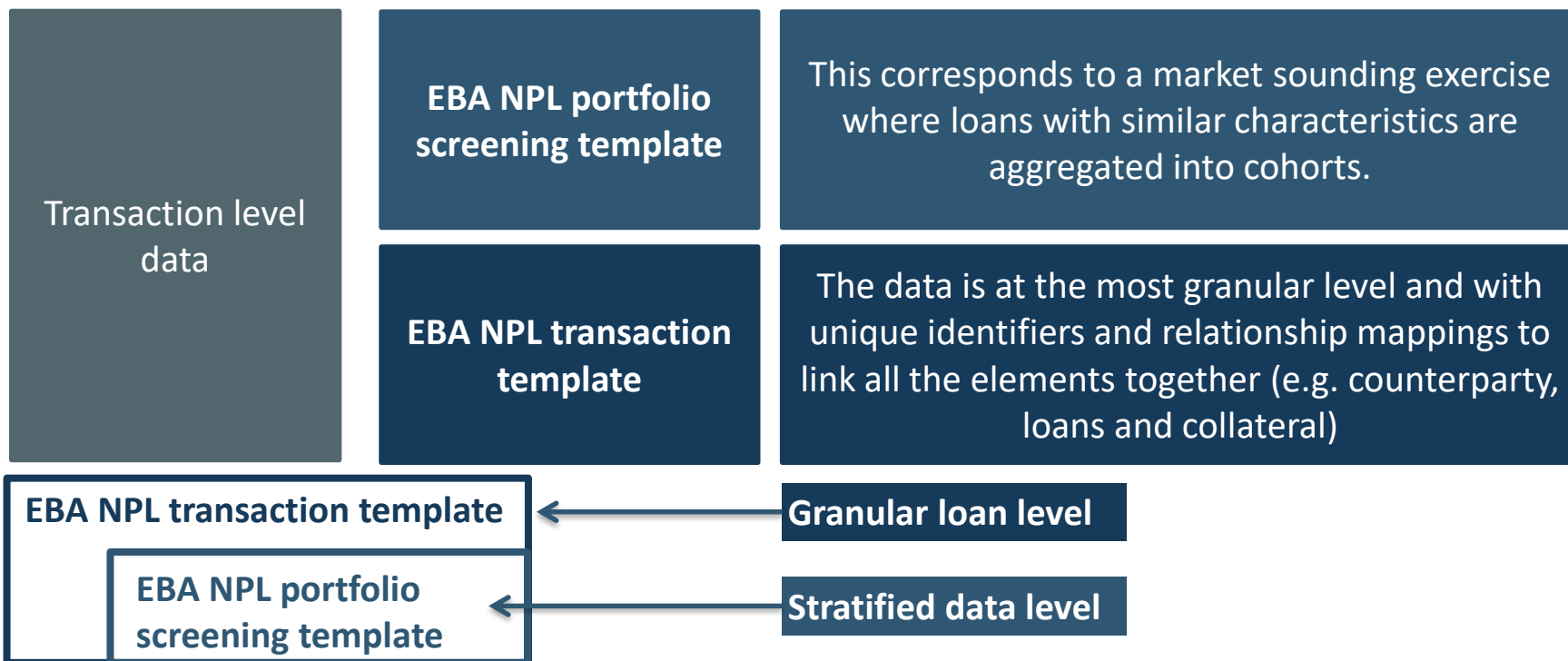
EBA work on secondary markets: EBA NPL templates

- On 29 March 2017 the **Vice President of the European Commission** asked the EBA to develop **data templates** to reduce information asymmetries between potential buyers and sellers of NPLs → referenced also in the Council Action Plan



- The EBA NPL templates are based on **data needs for investors**, and as such include e.g. very granular info about **collaterals and status in the enforcement process**.
- From a banks' perspective**, filling the templates should **not result in major additional costs**: **data anyhow needs to be readily available** for NPL transaction and other purposes, e.g. **collateral and borrower related** data that shifts into focus for non-performing exposures.

EBA work on secondary markets: EBA NPL templates



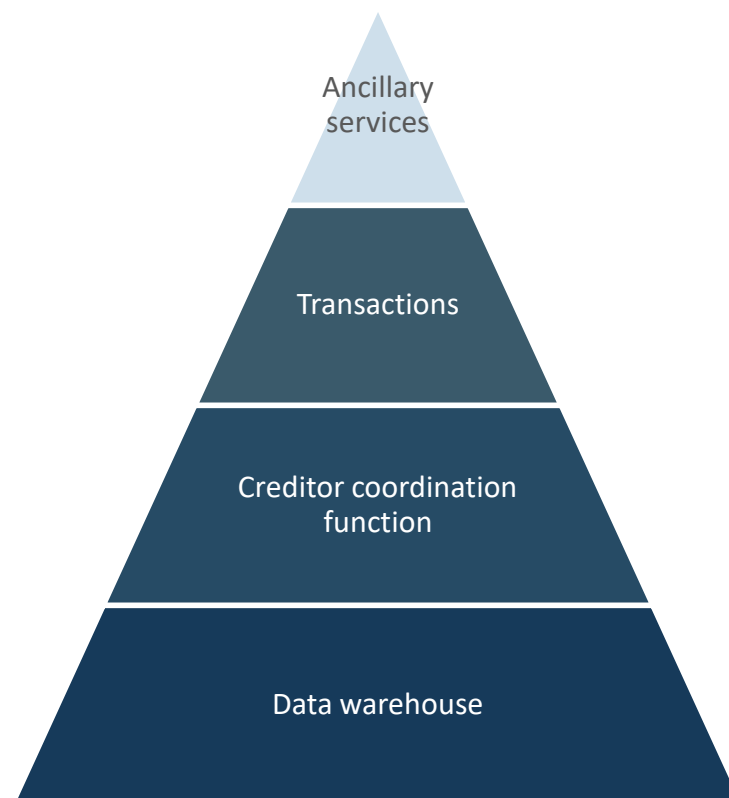
Criticality summary								
	Total	Residential	CRE	SME/ Corporate	Unsecured	Auto	Leasing / ABF	Specialised
Critical	155	154	149	149	121	121	119	152
Important	199	157	180	166	124	130	153	197
Moderate	76	61	60	57	58	60	59	74
Identifier	32	30	32	30	22	24	28	32
Total	462	402	421	402	325	335	359	455

EBA work on secondary markets: NPL transaction platform

Joint initiative by the COM-EBA-ECB stemming from the EU Council Action Plan aiming at promoting NPL secondary markets → proposal published as the Commission Staff Working Paper in November 2018

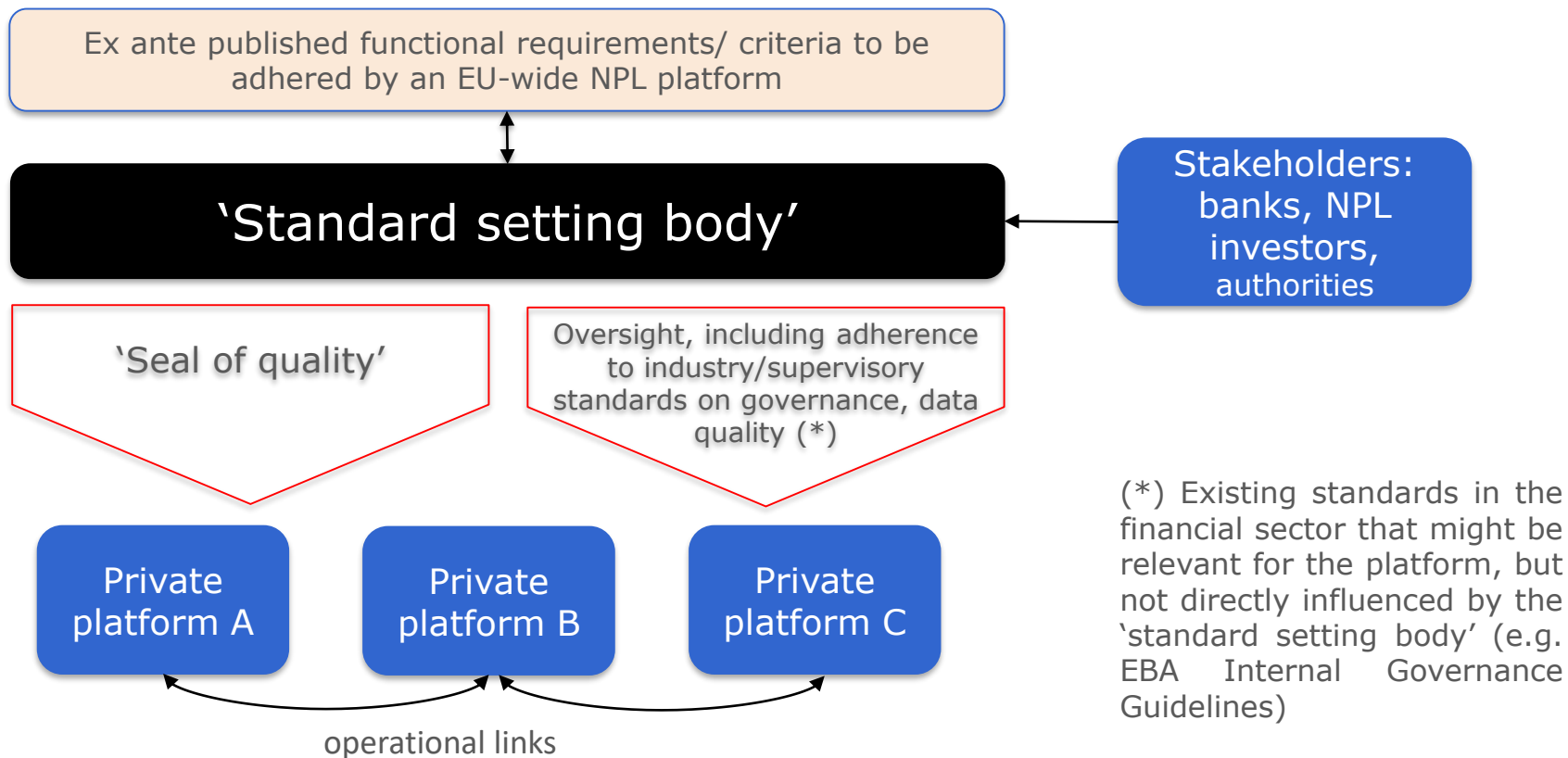
- An **electronic marketplace** where sellers and professional buyers exchange information and transact loans → platform act as an intermediary matching sellers (banks) and professional investors
- The platform **does not trade on own account**, does not take possession of assets and does not offer settlement/delivery services
- The platform **stimulates the development of NPL secondary markets** by mitigating market failures
- **High-quality data** attracts more potential buyers and reduces information asymmetry and search/transaction costs → high-quality data also stimulates matching/bundling of loans stimulating smaller banks and smaller investors, as wells as identification of same borrowers across different banks
- The platform should offer **European reach**, including through giving access to third-party ancillary service providers
- The platform would offer **economies of scale** due to lower transaction cost, price discovery and transparency, and higher market confidence due to accreditation and oversight of the platform

Possible functions of the platform



EBA work on secondary markets: NPL transaction platform

Possible governance and operational arrangements of NPL Platform





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