PRESS RELEASE

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ECB revises supervisory expectations for prudential provisioning for new non-performing loans to account for new EU regulation

- ECB revises supervisory expectations for prudential provisioning for new non-performing loans (NPLs) to account for new Pillar 1 requirements
- Supervisory expectations for coverage of stock of NPLs remain unchanged
- NPLs arising from loans originated after 26 April 2019 in principle subject solely to Pillar 1 treatment

The European Central Bank (ECB) has decided to revise its supervisory expectations for prudential provisioning of new non-performing exposures (NPEs) specified in the "Addendum to the ECB Guidance to banks on non-performing loans" (hereafter the "Addendum"). The decision was made after taking into account the adoption of a new EU regulation that outlines the Pillar 1 treatment for NPEs. The new regulation, which entered into force on 26 April 2019, complements existing prudential rules and requires a deduction from own funds when NPEs are not sufficiently covered by provisions or other adjustments.

The revision follows the ECB's commitment to reconsider supervisory expectations for new NPEs once the new legislation on the Pillar 1 treatment of NPEs had been finalised. In order to make the treatment of NPEs more consistent, the following changes have been made to the supervisory expectations communicated in the Addendum.

First, the scope of the ECB's supervisory expectations for new NPEs will be limited to NPEs arising from loans originated before 26 April 2019, which are not subject to Pillar 1 NPE treatment. NPEs arising from loans originated from 26 April 2019 onwards will be subject to Pillar 1 treatment, with the ECB paying close attention to the risks arising from them.

Second, the relevant prudential provisioning time frames, the progressive path to full implementation and the split of secured exposures, as well as the treatment of NPEs guaranteed or insured by an official export credit agency, have been aligned with the Pillar 1 treatment of NPEs set out in the new EU regulation.

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All other aspects, including specific circumstances, which may make prudential provisioning expectations inappropriate for a specific portfolio/exposure, remain as described in the Addendum.

Supervisory expectations for the stock of NPEs (i.e. loans classified as NPEs on 31 March 2018) remain unchanged, as communicated in the Supervisory Review and Evaluation Process letters sent to banks and in the press release in July 2018.

At the start of ECB Banking Supervision, in November 2014, the volume of NPLs held by significant institutions stood at around €1 trillion. This had fallen almost by half by the end of March 2019, to €587 billion (an NPL ratio of 3.7%). Despite recent progress, the ECB considers it of the utmost importance that the level of NPLs is further reduced, thereby resolving them in a swift manner while economic conditions are still favourable.

Further details can be found in the technical document released today, which is available on the ECB's website.

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Notes:

- The terms NPLs and NPEs are used interchangeably in this document. However, the EU regulation, as well as the ECB's expectations, address NPEs, which are broader and include debt instruments.
- Pillar 1 refers to minimum capital that all banks are legally required to hold under the Capital Requirements Regulation. By contrast, Pillar 2 refers to additional capital requirements that institutions may be required to comply with to support any firm-specific risks that are not or not adequately covered under Pillar 1.
- The new EU regulation, which outlines the Pillar 1 treatment for NPEs, is Regulation (EU) 2019/630 of the European Parliament and of the Council of 17 April 2019 amending Regulation (EU) No 575/2013 as regards minimum loss coverage for non-performing exposures, OJ L 111, 25.4.2019, p. 4–12. It entered into force on 26 April 2019.
- The existing prudential rules outlining the treatment of NPEs are covered by Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, OJ L 176, 27.6.2013, p. 1–337.
- Press Release of 11/07/2018, ECB announces further steps in supervisory approach to stock of NPLs.
- Press Release of 15/3/2018, ECB sets out its supervisory expectations for new NPLs.
- Addendum to the ECB Guidance to banks on non-performing loans: supervisory expectations for prudential provisioning of non-performing exposures.

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