



PRESS RELEASE

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ECB sets out its supervisory expectations for new NPLs

- ECB publishes addendum to ECB Guidance to banks on non-performing loans
- Addendum specifies supervisory expectations for provisioning of new NPLs
- Expectations serve as starting point for supervisory dialogue
- Final text reflects comments received during public consultation

The European Central Bank (ECB) has today published the addendum to the ECB Guidance to banks on non-performing loans (NPLs). The addendum supplements the qualitative NPL guidance, published on 20 March 2017, and specifies the ECB's supervisory expectations for prudent levels of provisions for new NPLs. The addendum is non-binding and will serve as the basis for the supervisory dialogue between the significant banks and ECB Banking Supervision.

It is the ECB Banking Supervision's obligation to address key vulnerabilities in banks in a consistent manner that ensures fair and equal treatment. In line with the Capital Requirements Directive, supervisors have to assess and address institution-specific risks which are not already covered or which are insufficiently covered by the mandatory prudential requirements in the Capital Requirements Regulation (often referred to as the Pillar 1 rules). In particular, the existing prudential framework requires supervisors to assess and decide whether banks' provisions are adequate and timely from a prudential perspective. ECB Banking Supervision publishes its expectations to allow banks to know the starting point for the supervisory dialogue.

ECB Banking Supervision has been treating credit risk as a priority since the 2014 comprehensive assessment and has intensified its work on credit risk over the last two years. High levels of NPLs affect banks' capital and funding, reduce their profitability, divert resources that could be put to more effective

use, and inhibit the supply of credit to households and companies. Addressing NPLs is therefore important for both bank viability and macroeconomic performance.

The addendum addresses loans classified as NPLs in line with the European Banking Authority's definition after 1 April 2018.

During the supervisory dialogue, the ECB will discuss with each bank divergences from the prudential provisioning expectations laid out in the addendum. After this dialogue and taking into account the bank's specific situation, ECB Banking Supervision will decide, on a case-by-case basis, whether and which supervisory measures are appropriate. The result of this dialogue will be incorporated, for the first time, in the 2021 Supervisory Review and Evaluation Process (SREP). Banks should use the time to prepare themselves and also to review their credit underwriting policies and criteria to reduce the production of new NPLs, in particular during the current benign economic conditions.

The addendum is complementary to any future EU legislation based on the European Commission's proposal to address NPLs under Pillar 1. The Commission's proposal for a statutory provisioning backstop is conceived as a binding requirement that applies to all credit institutions.

The ECB finalised the document, entitled "Addendum to the ECB Guidance to banks on non-performing loans: supervisory expectations for prudential provisioning of non-performing exposures", following a public consultation which ran from 4 October to 8 December 2017. The ECB has also published the detailed comments submitted by stakeholders and a feedback statement setting out the ECB's consideration of those comments.

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Notes:

- [Link to addendum](#)
- [Link to feedback statement](#)
- [Link to FAQs on addendum to NPL Guidance](#)
- [Link to comments received](#)
- [Link to What is an NPL explainer](#)
- *European Commission: [Reducing Risk in the Banking Union](#)*
- *On SREP, Pillar 1 and Pillar 2, see [What is the SREP?](#)*

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