#BankingUnion

REDUCING RISKS IN THE BANKING UNION

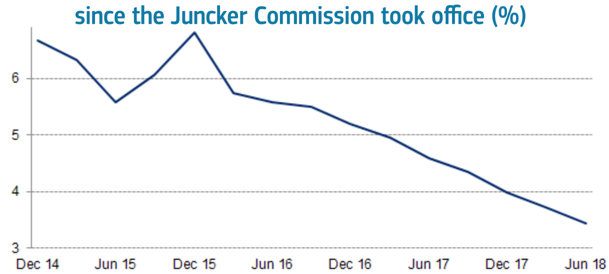
NPLs IN EUROPE CONTINUE TO DECLINE

Non-performing loans (NPLs) ratios in the EU continue to decline at a sustained pace, although challenges remain in some Member States. Addressing the remaining stock of NPLs and minimising their future accumulation is essential for the completion of the Banking Union and the reinforcement of the Economic and Monetary Union (EMU).

	Non-performing loans in % of total loans in selected countries		
	Q2 2017	Q2 2018	% change
Cyprus	33.4	28.1	-16.0%
Spain	5.3	4.1	-21.7%
Greece	46.9	44.9	-4.2%
Ireland	11.6	8.5	-27.0%
Italy	12.2	10.0	-18.3%
Portugal	15.5	11.7	-24.5%
Slovenia	11.4	7.4	-34.7%
European Union	4.6	3.4	-25.3%

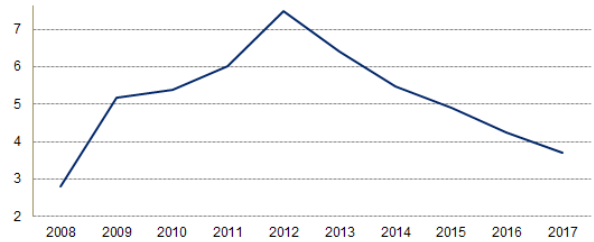
Source: European Central Bank

Non-performing loans in the EU since the Juncker Commission took office (%)



Source: European Central Bank

Non-performing loans in the EU since the outbreak of the crisis (%)



Source: World Bank

BANKS HAVE INCREASED THEIR RESILIENCE TO FINANCIAL SHOCKS

Over a decade on from the financial crisis, European banks are stronger, safer and more secure.

EUROPEAN BANKS

...are better capitalised

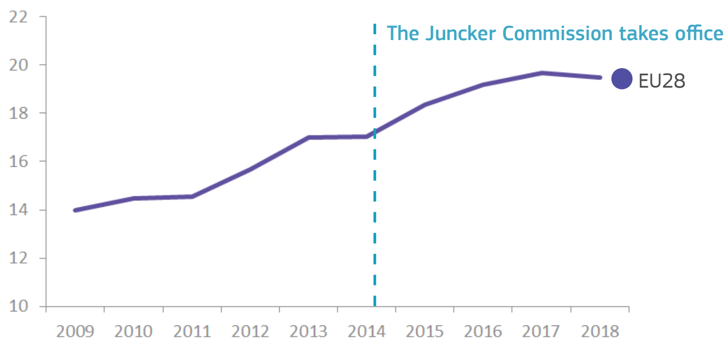
20% average total capital ratio for EU banks (Q2 2018)

...have higher liquidity buffers

Since 2014 the stock of liquid assets has increased by € 812 billion for euro area banks

...and therefore are better equipped to finance the real economy and withstand economic shocks

Banks' total capital ratio, in %



Source: European Commission

WHAT ARE NON-PERFORMING LOANS (NPLs)?

A loan is classified as non-performing when a borrower:

- has not made scheduled payments on interest or capital reimbursements for 90 days or more past the due date; or
- is still repaying the loan but is unlikely to do so in the near future.

WHY DO WE NEED TO TACKLE NPLs?

- ✓ Reduce risks to banks' stability and the financial system as a whole
- ✓ Enable banks to lend more to households and businesses
- ✓ Encourage economic growth by making funding available to viable companies

ACTIONS TO TACKLE NPLs

The Commission's NPL package

Address potential under-provisioning of newly originated loans	Enhance the protection of secured creditors	Develop secondary markets for NPLs	Develop an AMC Blueprint

Interpretation of existing supervisory powers on banks' provisioning policies	Benchmarking of national loan enforcement and insolvency frameworks	Develop the focus on insolvency issues in the European Semester	Consider NPL transaction platforms and strengthen NPL data infrastructure **TODAY**
Extend existing SSM guidance on NPLs to small banks	Adopt EU-wide NPE management guidelines	New guidelines on loan origination, monitoring and internal governance	Enhanced disclosure requirements for asset quality and NPLs for all banks
	Improving loan tape information required from banks	Develop macroprudential approaches to prevent the build-up of future NPLs	

GLOSSARY:
AMC *- Asset management companies,* ***NPL*** *- Non-performing loans,* ***NPE*** *- Non-Performing Exposure,* ***SSM*** *- Single Supervisory Mechanism*

"Working out the high stocks of non-performing loans is part of efforts to reduce risks in the European banking sector. We are also expecting swift agreements on the Banking and NPL packages. On the basis of the progress achieved on the risk-reduction side, I invite EU Finance Ministers and leaders to agree on concrete risk-sharing measures in December. Stronger Economic and Monetary Union is in the interest of each and every one."

VALDIS DOMBROVSKIS
Vice-President in charge of Financial Stability, Financial Services and Capital Markets Union

WHO WILL BENEFIT FROM LOWER LEVELS OF NPLs?

CITIZENS

- A more stable financial system
- Better access to bank credit and healthier economy with more growth

BUSINESSES

- Increased lending to economically viable companies
- Better access to credit for start-ups and small and medium-sized firms

INVESTORS

- New investment opportunities in NPL portfolios
- Easier to invest across borders

BANKS

- Healthier balance sheets
- Banks can lend more and hence improve their profitability

IMPROVING SECONDARY MARKETS FOR NPLs

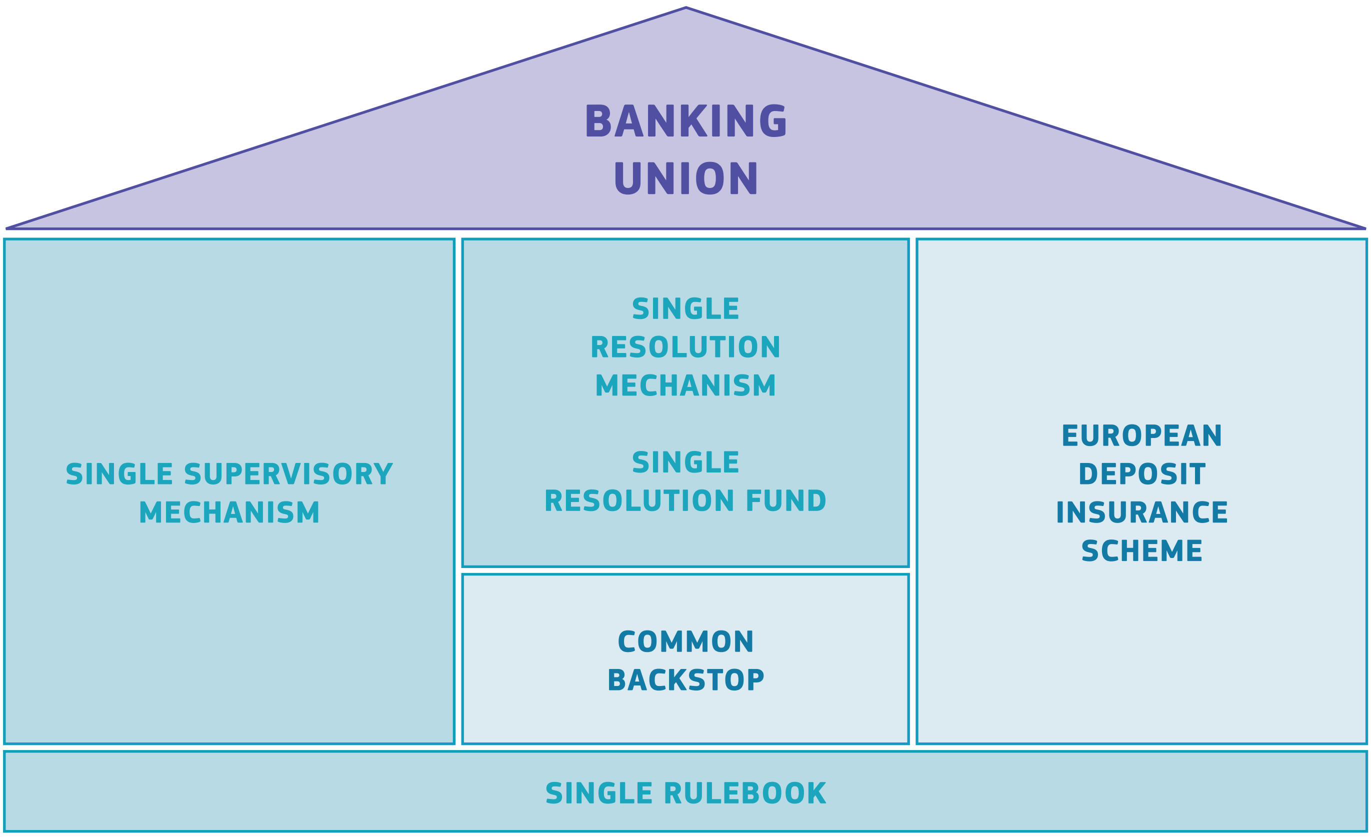
As markets for non-performing loans remain insufficiently developed, well-functioning transaction platforms could help create liquid and efficient secondary markets for NPLs in Europe. In the July 2017 Action Plan, Member States called on the European Central Bank, the European Banking Authority and the Commission to consider setting up a NPL transaction platform in order to stimulate the development of secondary markets.

Striving for the set-up of a European NPL transaction platform

A European platform for NPLs would be a privately owned electronic marketplace where banks and investors could trade NPLs and NPL portfolios. It could help deal with current stocks of NPLs and provide a permanent channel for the efficient disposal of future NPLs as they arise.

A European NPL platform could through its wide scope create active, liquid markets by:

- **Effectively matching sellers and buyers**
- **Improving data quality through standardisation**
- **Attracting more buyers by reducing their search costs**
- **Increasing price transparency**



COMPLETING THE BANKING UNION

POLICY DESCRIPTION	OBJECTIVE	European Parliament	Council of the European Union
European Deposit Insurance Scheme (EDIS)	*Further strengthening the protection of bank depositors across the Banking Union.*	🟠	🟠
November 2016 Banking Package	*Reinforcing the banking Single Rulebook with further risk-reducing measures and rules to foster banks' infrastructure investment.*	🟡	🟡
A backstop for the Banking Union	*Making the agreed backstop for the Single Resolution Fund part of the European Stability Mechanism.*	🟡	🟡
Further reduction of non-performing loans on EU banks' balance sheets	*Package of initiatives to further reduce non-performing loans, complementing previous actions.*	🟡	🟡

🟡 Swift agreement possible by following normal procedures

🟠 Agreement possible if strong political commitment from all EU institutions