EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Andrea ENRIA
Chair of the Supervisory Board

COURTESY TRANSLATION

Mr Valentino Grant
Mr Antonio Maria Rinaldi
Mr Marco Zanni
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 15 December 2021

Re: Your letter (QZ-046)

Honourable Members of the European Parliament, dear Mr Grant, Mr Rinaldi, Mr Zanni,

Thank you for your letter on the impact of banking rules on bankruptcies caused by the coronavirus (COVID-19) pandemic, which was passed on to me by Ms Irene Tinagli, Chair of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 11 November 2021.

It is still difficult to estimate the impact of the pandemic on the amount of non-performing loans (NPLs) for euro area banks in general, or for Italian banks specifically, as the loan moratoria are gradually removed. At the end of the second quarter of this year, the vast majority of moratoria had expired and no marked increase in NPLs could be seen. This can be explained by the improved macroeconomic conditions as well as the extraordinary support provided by the combination of supervisory measures, monetary policy and fiscal policies. Still, with reference to the second quarter of this year, increasing inflows of loans classified as underperforming (i.e. so-called stage 2) could be observed in some vulnerable sectors of the economy and an overall higher risk profile could be observed among loans subject to expired coronavirus measures when compared to total loans.

Against this backdrop and as communicated to all CEOs of directly supervised institutions in our letter to banks of 4 December 2020[1], it is important for significant institutions to ensure that risks are adequately assessed, classified and measured, and reflected on their balance sheets. As already mentioned in my letters to you and your colleagues of 4 December 2020 and 28 April 2021[2], history has taught us that addressing NPLs once they have materialised is simply not enough. Banks need to be proactive and

[1] See ECB letter to banks of 4 December 2020.

[2] See ECB responses to MEPs of 4 December 2020 and 28 April 2021.

address asset quality deterioration in a timely fashion. The longer a bank takes to clean its balance sheet, the higher the cost. Delay ultimately leads to these costs being passed on to borrowers, and acts as a drag on the overall economy.

With regard to your second question, we therefore do not think it is appropriate to ease credit assessments, as this would delay not only the correct representation of risk in the financial statements, but also the adequate and timely management of these exposures and the provision of adequate solutions to viable distressed debtors. This would in turn result in higher losses for the banks and reduce their capacity to support economic recovery, thus adversely affecting all European citizens.

As for your question on the impact of the application of calendar provisioning rules, it is also important to note that banks successfully continued to decrease legacy NPLs, and their NPL ratios, even during the pandemic and the recession. As already communicated in our letters of 4 December 2020 and 28 April 2021, we believe it is very important that NPL coverage expectations remain in place. They ensure that banks build up the provisioning buffers that are required to reduce NPLs and provide a strong incentive for banks to address them in a timely manner. As for your question on the impact of coverage expectations in the current situation, it should be noted that these only require 100% coverage for loans that have been classified as NPLs for a certain period of time (two years for unsecured loans and seven or nine years in the case of secured loans), and therefore currently have no impact on loans becoming non-performing as a result of the pandemic.

Yours sincerely,

[signed]

Andrea Enria