INTRODUCTORY STATEMENT

Sharon Donnery, Deputy Governor of the Central Bank of Ireland and Chair of the ECB's High Level Group on NPLs, Frankfurt am Main, 15 March 2018

Good morning and welcome to this media call.

The aim of today's call is to announce the publication of the finalised addendum to the ECB Guidance to banks on non-performing loans (NPLs). The addendum is published with the aim of bringing transparency to the ECB's expectations so that firms know the starting point for the supervisory dialogue and, similar to our earlier guidance and guidance on other topics, is non-binding.

First, however, let me start by providing you with some context to today's announcement.

Despite nearly a decade since the start of the crisis, we are still dealing with its legacies. NPLs represent one of the key challenges that need to be addressed for some banks. NPLs act as a drag on profits, tie up capital and they divert resources that could be used more efficiently. For this reason, NPLs have been one of ECB Banking Supervision's top priorities since its inception.

Following the comprehensive assessment in 2014, it was clear that different banks across the euro area were taking a very different approach to NPL workout and resolution and had been subject to a diverse set of supervisory practices. For this reason, in 2015 the Supervisory Board established a High Level Group to develop a consistent supervisory approach to the treatment of NPLs.

We have come a long way in the last few years.

As part of our work, and in the interests of transparency, in September 2016 we published a stocktake of qualitative practices of NPL workout and resolution in eight jurisdictions. This stocktake informed our policy response.

On 20 March 2017, following a public consultation, we published our guidance on NPLs. The guidance outlines measures, processes and best practices which banks are expected to incorporate when tackling NPLs. The guidance expects banks to implement credible and ambitious strategies to work towards a holistic approach regarding the problem of NPLs. This includes areas such as governance and risk management which should be closely monitored by their management bodies.

The guidance now forms part of the day-to-day supervisory dialogue with individual banks. Joint Supervisory Teams are engaging intensely with banks regarding the implementation of the guidance and our work has started to bear fruit. However the problem remains significant, as of the third quarter of 2017, NPLs of significant institutions in the euro area amounted to €759 billion. This has fallen from €950 billion in Q1 2016.

On 30 June 2017, we published a second stocktake of national supervisory practices and legal frameworks related NPLs, covering all euro area countries.

These were all important steps on the journey towards a deliberate and determined reduction in NPLs. However, banks not only need to address existing NPLs, they also need to deal with potential new ones. Therefore, today represents an important next step.

The addendum which we are publishing today lays out how we expect banks to provision for new NPLs going forward. It supplements the NPL guidance in that it specifies the ECB's supervisory expectations when assessing a bank's levels of prudential provisions for new NPLs. The supervisory expectations take into account how long an exposure has been classified as non-performing and whether the exposure is secured or not.

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

The addendum outlines our expectations that from 1 April 2018 new unsecured NPLs will be fully covered after a period of two years from the date of classification. For new secured NPLs, a certain level of provisioning is expected after three years of NPL vintage and then increasing over time until year seven.

In developing the addendum, we launched a public consultation on the addendum on 4 October 2017. The consultation ran until 8 December last year. In addition to soliciting written comments, we also gave an opportunity for industry participants and interested parties to provide additional input at a public hearing on 30 November 2017. In total, 35 written responses were received involving almost 500 individual comments. The comments from the public hearing were also taken into account in the final document. We have also reviewed the different legal opinions from the European Parliament and Council legal services and believe that the revised addendum addresses the points raised. In conjunction with the publication of the addendum, we are also publishing a feedback statement detailing the associated amendments.

The addendum is non-binding and will serve as the basis for the supervisory dialogue between the significant banks and ECB Banking Supervision. The supervisory dialogue is part of the annual Supervisory Review and Evaluation Process (SREP). During the supervisory dialogue, the Joint Supervisory Teams (JSTs) will regularly discuss any divergences between the banks' provisioning practices and the prudential provisioning expectations laid out in this addendum. The ECB will then assess whether any supervisory measures under the Pillar 2 framework may be needed.

The result of the supervisory dialogue will be incorporated, for the first time, in the 2021 Supervisory Review and Evaluation Process (SREP).

You will have seen that yesterday the European Commission published a proposal for a statutory back-stop.

The addendum is complementary to the European Commission's proposal and we are liaising closely in this regard. We have also been liaising closely with the European Banking Authority, and we have greatly valued the continuous and fruitful cooperation that we have had with both the EC and the EBA on this issue.

The Commission's statutory provisioning back-stop proposal is a binding Pillar 1 requirement. It will become part of the capital requirements regulation (CRR) after it has gone through the legislative process and will apply to all institutions in the EU.

The addendum, by comparison, expresses supervisory expectations as a starting point for the supervisory dialogue to assess the risk to which an individual institution is, or might be, exposed.

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.

The ECB continues to engage with all high NPL banks on their strategies for NPL resolution. These strategies were requested as part of the Guidance published on 20 March 2017.

The JSTs have provided feedback to banks on their strategies as part of the supervisory dialogue. ECB Banking Supervision expects banks' strategies to be credible and ambitious in their implementation and JSTs will continue to monitor the progress.

We are now at your disposal for questions.

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