European Commission Services | European Central Bank | Single Resolution Board

MONITORING REPORT ON RISK REDUCTION INDICATORS[1]

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1 Report prepared for the 30 November 2020 Eurogroup (inclusive format) meeting.

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Executive Summary

This is the seventh edition of the monitoring report on risk reduction indicators, produced at the request of the President of the Eurogroup, as expressed in his letter to the President of the Euro Summit of 25 June 2018. The aim of risk reduction monitoring reports is to provide a regular assessment of progress in risk reduction within the Banking Union (BU), so as to inform political decisions on how to further progress towards its completion. The report has been prepared jointly by the services of the European Commission, the European Central Bank (ECB) and the Single Resolution Board (SRB).[2]

One-off extended report. This edition of the risk reduction report informs the political decision on the possible early introduction of the common backstop to the Single Resolution Fund (SRF) by the European Stability Mechanism (ESM). In December 2018, the Eurogroup, in inclusive format, adopted the Terms of Reference (ToR) of the common backstop to the SRF, which laid out how risk reduction would be assessed in this context.[3] In line with these ToR, the structure of the risk reduction monitoring report has been extended to provide additional analyses regarding non-performing loans (NPLs) and minimum requirements for own funds and eligible liabilities (MREL) positions. In particular, this report also includes trend analyses of NPL and MREL positions against predefined benchmarks.[4] Where relevant, the assessment distinguishes two time periods: the period up to Q4 2019 (the "legacy position") and the period since the onset of the coronavirus (COVID-19) pandemic ("Q2 2020 position").

Key findings

Legacy position (up to Q4 2019). In aggregate, both gross and net NPL ratios of significant institutions (SIs) in the BU declined significantly between Q4 2014 and Q4 2019 and in Q4 2019 stood below the respective 5% gross and 2.5% net NPL benchmarks. As of Q4 2019, the weighted average gross mean and median NPL ratios stood at 3.2% (mean) and 2.4% (median) respectively, while the corresponding net NPL ratios stood at 1.8% (mean) and 1.4% (median). Between Q4 2014 and Q4 2019, the volume of gross NPLs decreased from approximately €1 trillion to €506 billion.

Banks in the bottom quartile (i.e. the 25% of banks which have the lowest NPL ratios) reduced their gross and net NPL ratios by 1.4 pp and 1.0 pp respectively and reported corresponding weighted average gross and net NPL ratios of 0.5% and 0.4% respectively in Q4 2019. Banks in the upper quartile (i.e. the 25% of banks with the highest NPL ratios) reduced their corresponding weighted average gross and net NPL ratios by 18.6 pp and 12.8 pp respectively in the same period and reported corresponding gross and net NPL ratios of 9.1% and 5.9% respectively as of Q4 2019.

With regard to Member States, four reported gross and net NPL ratios in excess of the 5% and 2.5% benchmarks as of Q4 2019: Greece (gross NPL ratio 35.2%, net NPL ratio 23.3%),

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2 European Commission, European Central Bank, Single Resolution Board (2017) Note presenting a stock-take of financial reforms and Annexes.

3 Eurogroup (2018) Terms of Reference of the common backstop to the Single Resolution Fund (SRF).

4 Gross and net NPL positions are benchmarked against 5% and 2.5% values respectively, while MREL positions are assessed against a statistical benchmark.

Cyprus (gross NPL ratio 16.9%, net NPL ratio 9.4%), Portugal (gross NPL ratio 7.2%, net NPL ratio 3.5%) and Italy (gross NPL ratio 6.7% and net NPL ratio 3.2%).

The gradual build-up of MREL-eligible instruments by the sector is confirmed, leading to a significant improvement in MREL compliance as of Q4 2019 when compared with Q4 2018. The decline in the aggregate shortfall (1.0% total risk exposure amount (TREA) or €74.0 billion in Q4 2019 compared with 1.8% TREA or €131.4 billion in Q4 2018) was the result of an increase in the stock of eligible liabilities which more than offset the increase in targets. In terms of geographical distribution, banks in the majority of BU Member States experienced some shortfalls, albeit on a downward trend compared with 2018. Indicatively and in absence of a fixed benchmark, the average shortfall appeared higher than 5% TREA in three Member States (Cyprus, Greece and Portugal).

Banks in the bottom quartile (i.e. the 25% of banks with the lowest MREL shortfall ratios) showed an overall MREL shortfall of zero across the reference dates. For banks up to the 75th percentile (i.e. all banks excluding the upper quartile) the weighted average MREL shortfall dropped to 0.5% TREA in 2019 from 1.0% TREA in 2017. For banks in the upper quartile (i.e. the 25% of banks with the highest MREL shortfall ratios), the weighted average shortfall remained stable at 7.9% TREA over the reference period (2017 to 2019).

On aggregate, banks' capital and liquidity positions have improved steadily since the end of 2014 and remained largely stable since 2018, while their overall leverage decreased during the same period. As of Q4 2019, the weighted average fully loaded CET1 ratio stood at 14.6% and the weighted average fully loaded leverage ratio at 5.6% and the weighted average reported liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) figures were 145.9% and 113.6% respectively.

Q2 2020 position. With respect to Q4 2019, mean and median gross and net NPL ratios of SIs in the BU continued to decline and continued to remain below the relevant benchmarks. The volume of gross NPLs declined further by €2.7 billion to €503 billion. The gross NPL ratio for banks in the upper quartile (i.e. the 25% of banks with the highest NPL ratios) remained largely unchanged at 9.2%, while their weighted average net NPL ratio decreased to 5.3% in Q2 2020.

Four Member States reported gross and net NPL ratios above the relevant benchmarks[5]: Greece (gross NPL ratio of 30.3%, net NPL ratio of 19.7%), Cyprus (gross NPL ratio of 13.4% and net NPL ratio of 7.7%), Portugal (gross NPL ratio of 6.5% and net NPL ratio of 3.2%) and Italy (gross NPL ratio of 6.1% and net NPL ratio of 3.0%).

Compared to Q4 2019 figures, all four Member States for which NPL ratios were above the benchmarks reported reductions in their gross and net NPL ratios in Q2 2020: Greece experienced gross and net NPL ratio reductions of 4.8 pp and 3.6 pp respectively, Cyprus' corresponding gross and net NPL ratios reduced by 3.4 pp and 1.7 pp respectively, while Portugal's ratios reduced by 0.7 pp and 0.4 pp respectively and Italy experienced gross and net NPL reductions of 0.6 pp and 0.2 pp respectively. In this context, the impact of COVID-19

[5] As of 12 August 2020, total planned divestments over the next 12 months amounted to €61.3 billion. 86% of these divestments related to jurisdictions with gross NPL ratios in excess of the 5% benchmark (GR, CY, PT and IT). Divestments are expected to continue to form an important part in future NPL reduction strategies. At the same time, the further evolution of NPL ratios is also influenced by other factors, such as potential new NPL inflows in the context of the COVID-19 pandemic. For an overview of the various factors impacting NPL reduction/increase, please see Graph 7.2 of this report.

is only partially reflected in Q2 2020 figures, in particular in view of public support measures adopted by Member States. In addition, and depending on the Member State in question, increases in cash balances may have contributed to declining ratios in Q2 2020.[6]

On the basis of the Bank Recovery and Resolution Directive (BRRD I)/Single Resolution Mechanism Regulation (SRMR I), the average MREL target rose to 27.9% TREA (€2025 billion) in Q2 2020 compared with 25.6% TREA (€1842 billion) in Q4 2019, driven by an increase in total liabilities and own funds (TLOF) (+9.9% on average), i.a. due to the participation of some banks in the ECB refinancing operations in the context of the COVID-19 crisis. While the MREL-eligible stock increased slightly in the first half of 2020, it did not meet the increase in targets; therefore the average MREL shortfall rose to 2.0% TREA (€146.5 billion) in Q2 2020 compared with 1.0% TREA (€73.7 billion) in Q4 2019. The geographical distribution of shortfalls remained stable and banks in the majority of the BU Member States continued to experience shortfalls. Overall, while MREL shortfalls declined in all Member States at the end of 2019, this trend reversed in the majority of Member States in the first six months of 2020, mainly due to an increase in MREL targets in euro amounts and subdued issuances of MREL-eligible instruments in the current market and economic environment. Indicatively, the Member States presenting average shortfalls exceeding 5% TREA remained the same in Q2 2020 as in Q4 2019.

Weighted average CET1 ratios experienced small reductions in Q1 2020, subsequently increased in Q2 2020 and closed at 14.5%. The Q1 2020 decrease in CET1 ratios was driven mostly by an increase in the risk environment, while the subsequent increase in Q2 2020 was largely driven by regulatory measures (most notably the impact of the Capital Requirements Regulation (CRR) ”quick fix” package). Weighted average fully loaded leverage ratios fell slightly in the first half of 2020 and closed at 5.2% in Q2 2020. Liquidity positions, as measured by the LCR and NSFR, decreased in Q1 2020 and subsequently increased to 165.5% and 118.6% respectively in Q2 2020. The Q2 2020 LCR and NSFR increases of 18.9 pp and 6.9 pp respectively are the largest quarterly increases since Q4 2014. The increase in the LCR and the NSFR, especially within Q2 2020, also reflects the effect of monetary policy measures taken in the light of the COVID-19 pandemic.

Outlook. While an increase in credit risk as a result of the economic shock triggered by the COVID-19 pandemic is very likely, its precise impact cannot be quantified at this time. Policymakers have adopted mitigating measures to help banks absorb the impact of the current downturn and to maintain correct risk identification practices.

The report presents statistics regarding the volume of loans currently benefiting from moratoria that comply with the European Banking Authority (EBA) provisions, other forbearance measures and state guarantees. These statistics aim to provide additional information on the possible impact of the pandemic on NPL figures after COVID-19 mitigating measures have expired.

The future development of NPLs is difficult to predict. While the total number of loans subject to COVID-19 related measures may provide an estimate of the proportion of loans that may be affected by the pandemic, it is difficult to gauge which proportion of performing loans is likely to be reclassified as non-performing in the future. The impact is likely to depend on

6 For further details regarding the impact of COVID-19 on stated NPL figures, please see Section 1.3 of this report.

macroeconomic factors, such as the severity of the pandemic, the extent to which economies can mitigate its adverse impact, the speed of economic recovery after the crisis, as well as bank-specific features, such as the quality and diversification of the loan book.

Going forward, MREL indicators will reflect the implementation of BRRD II/SRMR II policies (ongoing as part of the SRB's 2020 resolution planning cycle). At this point in time, a projection of MREL targets based on Q4 2019 data would show on average 22.5% TREA, or €1661 billion (25.5% TREA, equal to €1884 billion when the combined buffer requirement (CBR) is considered on top of the risk-based MREL requirement). The average MREL shortfall would be projected at 0.4% TREA, or €33.1 billion (1.1% TREA, or €82.7 billion when the CBR is taken into consideration). The draft intermediate MREL target for 2022 would correspond on average to 21.7% TREA, or €1603 billion (24.7% TREA or €1825 billion when taking into account the CBR). Banks in four Member States would present shortfalls for the 2022 intermediate target without considering the CBR, while banks in 16 Member States would do so when the CBR was taken into account on top of the MREL risk-based requirement.

In addition to BRRD II/SRMR II policy impacts, MREL indicators will also reflect the impact of the COVID-19 crisis. This applies in particular to changes in key metrics such as TLOF, total exposure measure (TEM) and TREA, as well as bank profitability prospects and the ability to roll over eligible liabilities in the short run. Although market access conditions continued to improve at the end of Q2 (as well as in Q3) 2020, enabling most banks to resume issuances, the precise impact of these factors cannot yet be quantified. While the report provides a preliminary projection of MREL indicators under BRRD II/SRMR II and an overview of MREL shortfalls up to Q2 2020, the overall outlook for their evolution, i.e. the combined effect of upcoming policies and the impact of the crisis is uncertain, mainly as a result of the potentially significant effect of the COVID-19 crisis on key metrics affecting these indicators.

Remedial actions

NPLs. With regard to bank-specific remedial actions, banks defined as "high-NPL banks"[7] were asked to submit NPL and foreclosed asset reduction strategies to the ECB and to define portfolio-level reduction targets over the medium term. Based on Q4 2019 data, the ECB assesses that these banks, on average, met or exceeded their reduction targets.

With regard to actions at national level, a significant number of Member States have implemented reforms to reduce NPLs. Measures relate, for example, to sales of NPLs (Cyprus, Denmark, Greece, Italy, Romania and Spain[8]), transfers of legacy assets to external asset management companies (AMCs) (Cyprus, Denmark, Ireland, Hungary and Spain), and improvements to arrears management and NPL workouts in banks (Bulgaria, Cyprus, Estonia, Germany, Latvia, Lithuania, Romania and Spain).

MREL. To enhance banks' resolvability, the SRB, in cooperation with the national resolution authorities (NRAs), is closely monitoring banks' compliance with the applicable MREL policy.

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7 "High-NPL banks" are defined as credit institutions with gross NPL ratios at a level of 5% or above (as defined in the EBA Guidelines). They should establish a strategy for their non-performing exposures as part of their overall strategy, with related governance and operational arrangements. The EBA guidelines also provide for supervisory discretion to ask banks to provide their strategies and associated NPL governance and operational aspects on the basis of their specific risk profile and/or bank-specific circumstances. For further details, see paragraphs 10 to 12 of the EBA Guidelines.

8 Member States outside of the BU are not currently subject to assessment in the risk reduction report.

The SRB has developed dedicated reporting to ensure the timely availability of key data for its monitoring purposes. Powers to remove impediments to resolvability and transitional periods are currently the primary tools to deal with the banks' shortfalls, and thus constitute possible effective remedial actions. Once BRRD II/SRMR II become fully applicable, resolution authorities will benefit from additional tools to address impediments to resolvability, including MREL-related ones.

Conclusion. Overall, and based on the available data, all risk reduction indicators have improved over the assessment period. Both gross and net NPL ratios declined significantly and stood below the relevant weighted average and median benchmarks in Q4 2019 and Q2 2020. Progress on MREL was marked by a continued build-up of MREL-eligible liabilities against the background of increasing average MREL targets, leading to a significant decline in shortfalls as of Q4 2019. While the outlook is subject to heightened levels of uncertainty in view of COVID-19, remedial actions are being taken at the appropriate level and by the appropriate authorities to address specific concerns.

The NPL ratios presented below are based on supervisory reporting for SIs, which uses harmonised definitions to allow for a direct comparison between entities on a like-for-like basis. As a result of these adjustments, reported figures may differ from publicly available information.[9] *In addition, confidentiality considerations apply; Member State specific information is only available if the sample consists of at least three SIs. Where this is not the case, Member State specific information has been excluded from the analysis. Finally, figures relating to the EBA's COVID-19 package are based on a cut-off date of 20 October 2020.*

9 For further information regarding the nature of these adjustments, please see the Implementing Technical Standards (ITS) on Supervisory Reporting (Forbearance and non-performing exposures).

Overview of main developments*

NPLs	• **Legacy position.** Since Q4 2014, the average gross NPL ratio decreased by 4.6 percentage points (pp) to 3.2% in Q4 2019. During the same period, the **volume of gross NPLs declined from approximately €1 trillion** in Q4 2014 **to €506 billion**. • **Q2 2020.** The average **gross NPL ratio** decreased further in H1 2020, **reaching 2.9% in Q2 2020.** The **impact of the COVID-19 pandemic is only partially reflected in Q2 figures**, also due to the fact that loans subject to ongoing COVID-19 measures are not automatically reclassified as forborne/defaulted. In addition, the days 'past due' counter for these loans is suspended until the end of the moratoria (although the obligation to assess unlikeliness to pay remains).
MREL	• **Legacy position.** Between 2017 and 2019, banks continued to build up their MREL capacity to reach SRB requirements. The **average MREL shortfall declined to 1.0% TREA in Q4 2019** from 1.8% TREA in Q4 2018. Aggregate **MREL funding needs** required for compliance **decreased to approximately 4% of the total consolidated MREL requirement in Q4 2019**, compared with 7.2% in Q4 2018. • **Q2 2020.** The **average aggregate MREL shortfalls increased between Q4 2019** and **Q2 2020**, reaching 2% TREA in Q2 2020 (€146.5 billion). The impact is explained mainly by **"TLOF inflation" (approx. +10%) due to the COVID-19 crisis**.
Capital position	• **Legacy position.** The average Common Equity Tier 1 (CET1) ratio **improved by 3.7 pp** to **14.6%** between Q4 2014 and Q4 2019. • **Q2 2020.** Between Q4 2019 and Q2 2020, the weighted average CET1 reduced slightly by **0.1 pp** to **14.5%.***
Leverage ratio	• **Legacy position.** Banks have, on average, **reduced their leverage by 1.6 pp** to **5.6%** between Q4 2014 and Q4 2019. • **Q2 2020.** Between Q4 2019 and Q2 2020, the ratio reduced by **41** basis points to **5.2**%, remaining above the forthcoming minimum 3% leverage requirement.
Liquidity and Net Stable Funding position	• **Legacy position.** The liquidity and funding position of banks, as measured by the Liquidity Coverage Ratio (**LCR**) and the Net Stable Funding Ratio (**NSFR**) improved between Q4 2014 and Q4 2019 to **145.9**% and **113.6**% in **Q4 2019 respectively**. Both the LCR and the NSFR remained consistently above the 100% minimum requirements. • **Q2 2020.** The LCR and the NSFR improved by, respectively, **19.6 pp** to **165.5%** and by **5.1 pp** to **118.6% in Q2 2020**, also as a consequence of policy measures taken as a result of the COVID-19 pandemic.

**Figures may not balance exactly due to the impact of rounding.*

1. NPLs

Background

In line with the 2018 ToR established by the Eurogroup, the November 2020 edition of the risk reduction report includes additional analyses with regard to NPLs. The extended NPL section is structured in three parts: 1. an evolution of NPLs in the Banking Union (BU), in line with the traditional semi-annual reporting, 2. a trend analysis of NPLs against predefined benchmarks, and 3. a COVID-19 section which sets Q2 2020 NPL figures in the context of the COVID-19 pandemic. Before moving to these NPL analyses, it is useful to review relevant NPL-related measures which have been introduced at both EU and national levels.

COVID-19 related measures

- On 2 April 2020 the EBA published Guidelines on legislative and non-legislative loan repayments moratoria[10] to ensure that banks would be able to grant payment holidays to customers while avoiding the automatic classification of exposures under the definition of forbearance or as defaulted under distressed restructuring. A further aim was to ensure that banks maintain comparable metrics. On 21 September 2020, the EBA announced that it would phase out its Guidelines on legislative and non-legislative payment moratoria in accordance with its end of September deadline. The Guidelines will continue to apply to all payment holidays which were granted by banks under eligible moratoria prior to 30 September 2020. If banks extend payment moratoria after 30 September 2020, the usual prudential framework applies and loans should be classified on a case-by-case basis in line with that framework.
- Together with a few other targeted temporary adjustments to the CRR, the Commission proposed[11] on 28 April 2020 to extend the transitional arrangements allowing banks to mitigate the impact from expected credit-loss provisioning under IFRS 9 on their regulatory capital, in line with the international agreement by the Basel Committee, to preserve banks' capacity to lend during the COVID-19 pandemic. In addition, the Commission proposed that the impact of public guarantees be taken into account in the context of the prudential backstop to non-performing exposures (NPEs) to ensure effective transmission of public support measures. The Regulation adopted by co-legislators on 24 June 2020[12] extends the transitional arrangements and broadens the preferential treatment for NPEs guaranteed by official export credit agencies to all public guarantees.
- As part of its measures announced on 20 March 2020,[13] the ECB introduced supervisory flexibility for the treatment of NPLs, particularly to allow banks to fully benefit from guarantees and moratoria put in place by public authorities to tackle the current distress. In addition, the ECB recommended, within its prudential remit, that all banks avoid procyclical assumptions in their models to determine provisions. It also recommended that banks that have not yet done so should opt for the IFRS 9

[10] EBA/GL/2020/02 Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis.

[11] COM(2020)310 (28 April 2020), Proposal for a Regulation of the European Parliament and of the Council amending Regulations (EU) No 575/2013 and (EU) 2019/876 as regards adjustments in response to the COVID-19 pandemic.

[12] Regulation (EU) 2020/873 of the European Parliament and of the Council of 24 June 2020 amending Regulations (EU) No 575/2013 and (EU) 2019/876 as regards certain adjustments in response to the COVID-19 pandemic.

[13] European Central Bank (20 March 2020), ECB Banking Supervision provides further flexibility to banks in reaction to coronavirus.

transitional rules. On 28 July 2020[14], the ECB sent a letter to all SIs reminding them to be prepared to deal with increased NPLs by ensuring that (i) they have adequate and clear policies for identifying and measuring credit risk, (ii) their staff has the knowledge and the tools to effectively manage the increase in work-out cases, (iii) strong governance is in place, with adequate and frequent monitoring of evolving risk and (iv) IT systems are fit for purpose. Adequate identification, monitoring, classification and measurement of credit risk are key to minimising and mitigating, where possible, any cliff-edge effect, while also limiting excessive pro-cyclicality. The ECB will closely monitor banks' practices in this regard. While the extensive application of moratoria measures to borrowers has made the identification of distressed borrowers more challenging, banks should enhance their credit risk assessment and classification approaches to ensure that they are fit for the current situation.

- To enhance banks' role in supporting the recovery, on 24 July 2020, the Commission also proposed **targeted permanent amendments to the securitisation framework**, in the context of its **Capital Markets Recovery Package[15]**, which should free up lending capacity and facilitate the disposal of NPEs.[16] Co-legislators are dealing with these proposals as a matter of priority with a view to their adoption before year end.
- To address a renewed build-up of NPLs on banks' balance sheets as early as possible, the Commission has been working towards the development of an effective strategy, which should focus on a mix of complementary policy actions. Key areas include: (i) the further development of secondary markets for distressed assets, which allow NPLs to be moved off bank balance sheets while ensuring adequate protection for debtors; and (ii) the reform of insolvency and debt recovery frameworks (in addition to the extra-judicial recovery of collateral), also ensuring an appropriate balance of interests between creditors and debtors. Measures in these areas should be taken at national and European Union (EU) level, as appropriate. These two areas also formed the basis of the 2017 Council Action Plan on NPLs, which, going forward, could serve as a foundation for further targeted policy action. By the end of the year the Commission will issue a Communication on tackling NPLs in the context of COVID-19.

Structural measures

- **EU-level legislative measures ("NPL package")** to speed up progress already made in reducing NPLs and preventing their renewed build-up.
    - The proposed **regulation introducing common minimum coverage levels for newly originated exposures that become non-performing ("Pillar 1 prudential backstop")** entered into application in April 2019[17]. It requires banks to set aside sufficient funds to cover the risks associated with future NPEs. To ensure legal certainty and consistency in the prudential framework,

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[14] European Central Bank (28 July 2020), Operational capacity to deal with distressed debtors in the context of the coronavirus (COVID-19) pandemic.

[15] European Commission (24 July 2020), Coronavirus response: How the Capital Markets Union can support Europe's recovery

[16] COM (2020) 282 final and COM (2020) 283 final.

[17] Regulation (EU) 2019/630 was published in the Official Journal of the EU (OJEU) on 25 April 2019 and entered into application one day later.

the Regulation also introduces a common definition of NPE, in line with the one already used for supervisory reporting purposes.
    - The proposal put forward by the Commission in March 2018 for a **directive on credit servicers, credit purchasers and the recovery of collateral** will provide banks with an efficient out-of-court value recovery mechanism for secured loans and encourage the development of secondary markets where banks can sell their NPLs to investors and make use of specialist credit servicers. Deliberations in the European Parliament are ongoing whereas the Council has already agreed on a general approach in April 2019.
- **National legislative measures**. Several EU Member States have adopted or amended legislation with the aim of reducing NPLs (see Annex III). A significant number of the Member States have implemented legal reforms relating to insolvency and foreclosure (CY, GR, ES, IT, IE, LV, HU, PT and SK), the cooperative or savings bank sectors (ES, IT and LT), legislation governing new sales of loans (CY and IE) or the introduction of a subsidy scheme (CY).

Other measures

- **Asset management companies (AMCs) blueprint**. As part of the March 2018 NPL package the Commission published a staff working document providing non-binding technical guidance (a so-called "blueprint") on how national AMCs can be set up. [18]
- **EU-wide NPE guidelines**. Also taking into account the ECB's guidance to significant banks on NPLs, in October 2018 the EBA issued guidelines on the management of non-performing and forborne exposures. The objective of these guidelines is to achieve effective and efficient management of exposures, as well as a sustainable reduction in the amount of NPLs on banks' balance sheets.
- **Supervisory expectations on NPL provisioning**. In March 2018, the ECB published an Addendum to its qualitative NPL guidance specifying its supervisory expectations as regards prudent levels of provisions for exposures becoming non-performing from 1 April 2018 onwards. The ECB also announced, in July 2018, that it would engage with each supervised institution to define supervisory expectations with regard to the stock of NPLs, the aim being to achieve consistent coverage of NPL stock and flow over the medium term. Following the adoption of the Pillar 1 prudential backstop, on 22 August 2019 the ECB revised its supervisory expectations for prudential provisioning for new NPEs (i.e. NPEs arising from loans originated before 26 April 2019) in order to enhance the consistency and simplicity of the overall approach taken.
- **Enhanced disclosure requirements on asset quality and NPEs for all EU banks**. Based on the ECB's NPL guidance, in December 2018 the EBA published guidelines specifying common content and uniform disclosure formats for information on NPEs, forborne exposures and foreclosed assets that banks should disclose.
- **Improved loan tape information**. To strengthen the infrastructure to ensure uniform and standardised NPL data, the EBA issued templates on loan tape monitoring in December 2017 and updated them in September 2018. These standardised NPL templates are not part of supervisory reporting, but banks and investors are encouraged to use them in their transactions.

[18] Commission Staff Working Document on AMC Blueprint (14 March 2018), COM (2018) 133 final.

- **EU-wide NPL transaction platforms**. The Commission is continuing to facilitate progress towards the emergence of EU-wide NPL transaction platforms, building on the existing private operators that are active in the market.
- **EU-wide guidelines on loan origination and monitoring**. As a follow-up to the ECOFIN Council's "Action plan to tackle non-performing loans in Europe"[19], the EBA issued guidelines on loan origination and monitoring in May 2020. Based on the experience of elevated levels of NPEs across the EU in recent years, the guidelines aim to ensure that institutions have robust and prudent standards for credit risk taking, management and monitoring, and that newly originated loans are of high credit quality. The guidelines also aim to ensure that the institutions' practices are aligned with consumer protection rules and anti-money laundering requirements. To address the current circumstances the new guidelines contain additional transition periods for recently renegotiated loans to help institutions focus more clearly on their immediate operational priorities.

Quantitative indicators

The analysis of NPL levels and trends in the remainder of the report is based on a number of quantitative indicators. These are:

- **Gross NPE ratio[20]:** Ratio of gross NPEs/total gross loans, advances and debt securities (**Indicator 1: Chart 1.1** and **Chart 1.2**)[21,22]
- **Gross NPL ratio[23]:** Ratio of gross NPLs and advances/total gross loans and advances (including cash balances held at central banks and other demand deposits) (**Indicator 2: Chart 2.1, Chart 2.2** and **Chart 6.1**)
- **Net NPL ratio:** Ratio of NPLs and advances net of allowances and credit risk adjustments to total net loans and advances (including cash balances held at central banks and other demand deposits) (**Indicator 3: Chart 3.1, Chart 3.2** and **Chart 6.2**)
- **NPL coverage ratio[24]:** Ratio of accumulated allowances and credit risk adjustments/total gross NPLs (including cash balances held at central banks and other demand deposits) (**Indicator 4: Chart 4.1** and **Chart 4.2**)
- **Collateral coverage ratio[25]:** Ratio of collateral received for non-performing loans and advances to total gross NPLs (including cash balances held at central banks and other demand deposits) (**Indicator 5: Chart 5.1** and **Chart 5.2**)

Commentary

The first part of the NPL analysis discusses developments in relation to NPE ratios, NPL ratios, NPL coverage ratios and collateral coverage ratios, while the second part discusses the progress in NPL reduction of SIs relative to thresholds specified in the ToR (i.e. 5% gross

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[19] The Action Plan was adopted in July 2017. See Council conclusions on Action plan to tackle non-performing loans in Europe.

[20] The gross NPE ratio indicates the credit risk arising from loans, advances and debt securities. Loans, advances and debt securities are reported gross of allowances and credit risk adjustments.

[21] For information regarding different NPL definitions, see a European Parliament briefing on the Minimum loss coverage for non-performing loans.

[22] NPE ratios always include cash balances as part of debt instruments in the denominator.

[23] The gross NPL ratio indicates the credit risk arising from loans and advances. NPLs and advances are reported gross of allowances and credit risk adjustments.

[24] The NPL coverage ratio indicates the extent to which losses on NPLs are covered by provisions.

[25] The collateral coverage ratio indicates the extent to which NPLs are secured by collateral such as movable and immovable property, amongst others.

NPL ratio and 2.5% net NPL ratio) and the supervisory expectations. The final subsection places NPL figures in the wider context of the COVID-19 pandemic.

The NPL analysis in all three sub-sections below should be read in conjunction as the impact of the COVID-19 pandemic may be only partially reflected in Q2 2020 NPL positions and developments in relation to COVID-19 may have an impact on the interpretation of the Q2 2020 figures shown.

There are two reasons for this: First, NPLs are commonly defined as more than 90 days past due or as unlikely to be fully repaid in the future. Given the onset of the crisis in February/ March 2020 and subsequent credit quality assessments by banks, loans may not have fulfilled the 90 day classification criterion for NPLs for Q2 2020. Second, the “days past due” criterion for the assessment of default for loans benefiting from COVID-19 moratoria is suspended until the end of the moratoria (although the obligation to assess the unlikeliness to pay remains). For further details regarding the COVID-19 impact on NPL figures, see Section 1.3.

The gross NPLs ratios, net NPL ratios and NPE ratios presented in Sections 1.1 and 1.2 below include cash balances at central banks and other demand deposits (or “cash balances” for short). This is in line with EBA practice and with previous versions of the risk reduction report. While the ratios in Sections 1.1 and 1.2 include cash balances at central banks, they are excluded from the Q2 2020 gross and net NPL figures shown in Section 1.3.

The inclusion or exclusion of cash balances at central banks is important in the context of the global COVID-19 pandemic. As banks’ cash balances continued to rise in H1 2020[26], also in response to the extraordinary monetary policy measures adopted in light of the pandemic, NPL ratios may also have been affected by this increase in cash balances. A material rise in cash balances inflates the denominator and results in a declining NPL ratio, even without a corresponding decrease in the stock of NPLs (numerator of the ratio). This point is further explored in Section 1.3 of this report, which adjusts gross NPL ratios for cash balances.

[26] For further details regarding Q2 2020 liquidity and funding positions of SIs within the BU, see the liquidity section of this report.

1.1 Recent evolution in NPLs

- **NPE, NPL and net NPL ratio of BU SIs**
  - **Legacy position (Q4 2014 to Q4 2019).** Between Q4 2014 and Q4 2019, NPE, NPL and net NPL ratios decreased both in weighted average terms and across the whole distribution.[27] The volume of NPLs decreased from around €1 trillion in Q4 2014 to €506 billion in Q4 2019.
  - **Q2 2020 position.** Between Q4 2019 and Q2 2020, the gross NPL ratio, the net NPL ratio and the NPE ratio showed small reductions of 0.3 pp, 0.1 pp and 0.2 pp respectively. The volume of NPLs decreased by approximately €2.7 billion in the same period.
- **Member State-specific developments for NPEs, NPLs and net NPL ratios**
  - **Legacy position (Q4 2014 to Q4 2019).** Between Q4 2014 and Q4 2019, all Member States reported reductions in their NPE, NPL and net NPL ratios, with the largest reductions recorded in CY, IE, IT and PT.
    - **Gross NPL ratio.** As of Q4 2019, the following four Member States reported gross NPL ratios above the 5% gross NPL benchmark: GR (35.2%), CY (16.9%), PT (7.2%) and IT (6.7%). Divestments formed an important part in overall NPL reduction strategies, also for Member States with gross NPL ratios in excess of 5%. Total divestments by the above four Member States corresponded to about 52% of total divestments between 2015 and 2019.[28]
    - **Net NPL ratio.** As of Q4 2019, four jurisdictions reported net NPL ratios above the 2.5% net NPL benchmark: GR (23.3%), CY (9.4%), PT (3.5%) and IT (3.2%). In addition, the following three Member States reported net NPL ratios between 2% and 2.5%: IE (2.4%) and MT (2.3%).
    - **NPE ratio.** NPE trends broadly mirror NPL trends. The following five Member States reported the largest NPE ratios as of Q4 2019: GR (32.1%), CY (14.7%), PT (5.7%), IT (5.4%) and LV (3.6%).
- **Q2 2020 trends**
  - **Gross NPLs.** NPL positions remained largely stable between Q4 2019 and Q2 2020: The largest gross NPL increase was reported by MT (+0.4 pp). NPL changes ranged from +0.1 pp to -0.1 pp for FI, EE, NL, DE, LU and SK. The largest gross NPL decreases were reported for GR (-4.8 pp), CY (-3.4 pp), PT (-0.7 pp), IT (-0.6 pp) and ES (-0.2 pp). In terms of Q2 2020 positions, four Member States reported gross NPL figures in excess of 5%: GR (30.3%), CY (13.4%), PT (6.5%) and IT (6.1%) as of Q2 2020. Divestments are expected to go on playing an important part in overall NPL reduction strategies. As of 12 August 2020, total planned divestments over the next 12 months amounted to €61.3 billion. 86% of these divestments related to jurisdictions with gross NPL ratios in excess of the 5% benchmark (GR, CY, PT and IT).

[27] In particular, the interquartile range (25th to 75th percentiles) narrowed for all three measures. This was mainly attributable to the large decrease observed for the 75th percentile (i.e. the entities with the highest NPL and NPE ratios).

[28] As highlighted in the executive summary, as of 12 August 2020, total planned divestments over the next 12 months amounted to €61.3billion. 86% of these divestments related to jurisdictions with gross NPL ratios in excess of the 5% benchmark (GR, CY, PT and IT). Divestments are expected to continue to form an important part in future NPL reduction strategies. At the same time, the further evolution of NPL ratios is also influenced by other factors, such as potential new NPL inflows in the context of the COVID-19 pandemic. For an overview of the factors impacting NPL reduction/increase, please see Graph 7.2 of this report.

- **Net NPLs.** Q2 2020 net NPL positions were largely stable, with all but four Member States reporting half-yearly changes of between -0.2 pp and +0.2 pp. The remaining three jurisdictions reported net NPL decreases of -3.6 pp (GR), -1.7 pp (CY), -0.4 pp (PT) and -0.2 pp (IT). In terms of Q2 2020 positions, four jurisdictions reported net NPL figures above 2.5%: GR (19.7%), CY (7.7%), PT (3.2%) and IT (3.0%). In addition, two Member States reported values of 2.4% (MT and IE).
- **NPE ratios.** NPE ratios largely mirrored the gross and net NPL trends. 11 jurisdictions (IE, FI, DE, NL, EE, LU, SK, BE, FR, AT and ES) reported half-yearly NPE changes between -0.2 pp and +0.2 pp with respect to Q4 2019. With +0.3 pp, MT was the only jurisdiction to report an NPE increase in excess of +0.2pp. The largest reported NPE decreases were reported in GR (-3.5 pp), CY (-1.9 pp), PT (-0.6 pp) and IT (-0.5 pp).

- **Weighted average NPL coverage ratio of BU SIs**
  - **Legacy position (Q4 2014 to Q4 2019).** Between Q4 2014 and Q4 2019, the mean weighted average NPL coverage ratio showed a small net increase of 1.7 pp and closed at 46.0% in Q4 2019.
  - **Q2 2020 position.** The weighted average NPL coverage ratio stayed unchanged in Q1 2020 and fell slightly in Q2 2020, to 45.5%.
- **Member State-specific developments for average NPL coverage ratio**
  - **Legacy position (Q4 2014 to Q4 2019).** Of the 14 Member States in the sample in Q4 2014, the largest increases in average NPL coverage ratio were reported for CY (+18.3 pp), PT (+16.4 pp), LV (+11.1 pp), IT (+8.3 pp) and SK (+7.9 pp), while the largest declines were reported for IE (-14.8 pp), NL (-12.4 pp) and ES (-2.6 pp).
  - **Q2 2020 position.** With respect to Q4 2019, seven Member States (MT, BE, NL, IE, AT, LU and FI) reported increases in the average NPL coverage ratio of between 1.1% (FI) and 4.8% (MT). Four Member States (PT, SK, ES, and GR) reported ratio changes of between -0.5 pp and +0.5 pp. The remaining five Member States for which the information is available reported NPL coverage ratios reductions of between 2.5% (CY) and 0.7% (FR). In terms of Q2 2020 positions, the largest ratios were reported for SK (63%), AT (54%), PT (54%), IT (53%) and FR (50%), while the lowest ratios were reported for NL (28%), IE (30%), MT (31%), LT (31%) and FI (33%).
- **Collateral coverage ratio**
  - **Legacy position (Q4 2014 to Q4 2019).** The percentage of NPLs covered by collateral declined from 40.0% in Q4 2014 to 34.7% in Q4 2019, which in turn led to a larger percentage of unsecured NPL exposures.
  - **Q2 2020 position.** The collateral coverage ratio decreased by -0.2 pp in Q1 2020 (with respect to Q4 2019) and by -1.4% in Q2 2020 (with respect to Q1 2020). The Q2 2020 decrease is the largest recorded since Q4 2014.
- **Member State-specific developments for the collateral coverage ratio**
  - **Legacy position (Q4 2014 to Q4 2019).** Of the 14 Member States in the sample in Q4 2014, three Member States had seen an increase in collateral coverage in excess of 10 pp: IE (+15.3 pp), NL (+10.8 pp) and FI (+10.0 pp), six Member States had seen declines in the collateral coverage ratio greater than 5 pp: ES (-23.4 pp), CY (-15.4 pp), SK (-15.2 pp), PT (-13.2 pp), LV (-7.0 pp) and GR (-6.4 pp). As of Q4 2019, the highest ratios were reported by FI (60.7%), IE (58.3%), EE

(55.1%), NL (52.8%) and MT (50.1%), while the lowest ratios were reported for FR (20.3%), SK (23.7%), AT (25.4%), IT (30.3%) and PT (30.5%).

- **Q2 2020 position.** Of the 17 jurisdictions in the sample, increases in collateral coverage ratios between Q4 2019 and Q2 2020 were observed for LU (+6.8 pp), EE (+3.6 pp), CY (+1.6 pp) and IT (+0.5 pp). The largest decreases in the ratio were observed for FI (-19 pp), SK (-6 pp), IE (-5.8 pp), MT (-4.3 pp) and ES (-3.7 pp). For the remaining Member States, ratios either remained broadly stable (GR, +0.1 pp) or reduced between -0.3 pp (DE) and -3 pp (NL, BE). As of Q2 2020, the five Member States with the highest collateral coverage ratios relate to EE (58.7%), LT (57.5%), LU (55.4%), IE (52.5%) and NL (49.8%), while the five jurisdictions with the lowest collateral coverage ratios relate to SK (17.6%), FR (19.1%), AT (24.0%), PT (29.5%) and IT (30.8%).

Qualitative assessment

- **NPL reduction initiatives.** A significant number of the Member States have implemented reforms in this area, with measures relating to, for example, sales of NPLs (DK, GR, ES, IT, CY and RO), transfers of legacy assets to external AMCs (CY, DK, ES, IE and HU), and improvements to arrears management and NPL workouts in banks (BG, DE, EE, ES, CY, LT, LV and RO). Since October 2019, work has been ongoing on an effective transfer of NPLs to a newly created AMC in CY, while in December 2019, the legal framework for the Greek Hercules asset protection scheme was adopted allowing banks to securitise and transfer NPLs from their balance sheets.
- **Secondary markets.** Activity on secondary markets for NPLs continued to grow in Member States with higher NPL levels (IT, IE, ES, GR, CY and PT) until the outbreak of the COVID-19 crisis. It remains to be seen to what extent the current crisis will affect secondary markets for NPLs.

Indicator 1: Gross NPE ratio

Chart 1.1: NPE ratio – evolution in the BU

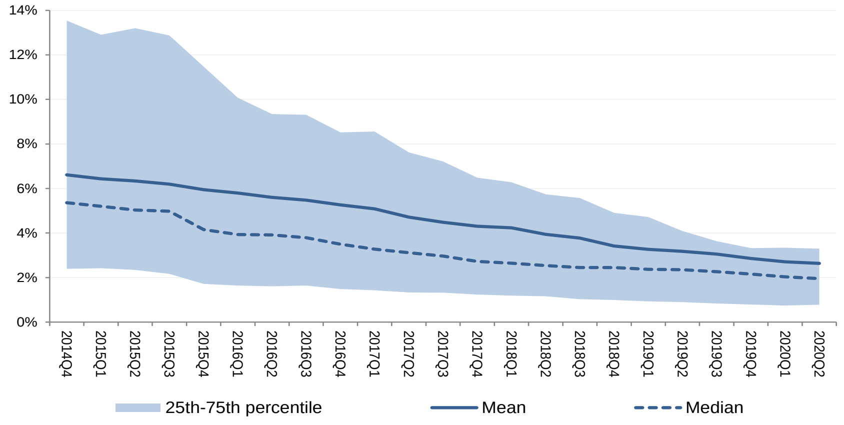
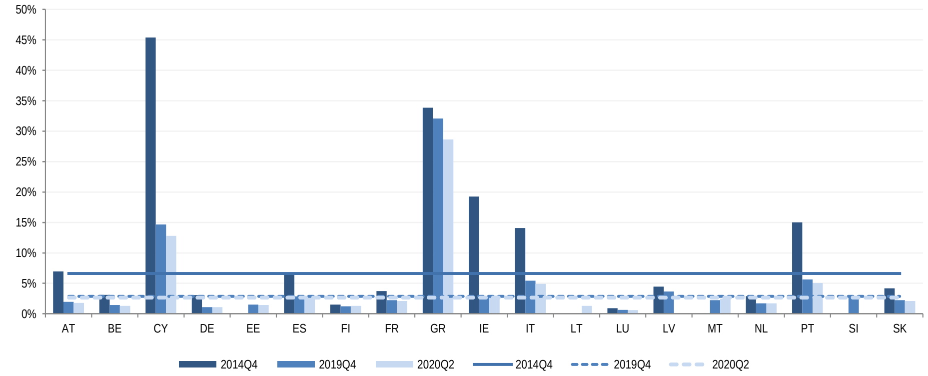


Chart 1.2: NPE ratio by Member State



Source: ECB staff contribution, FINREP and ECB calculations.

Indicator 2: Gross NPL ratio

Chart 2.1: NPL ratio – evolution in the BU

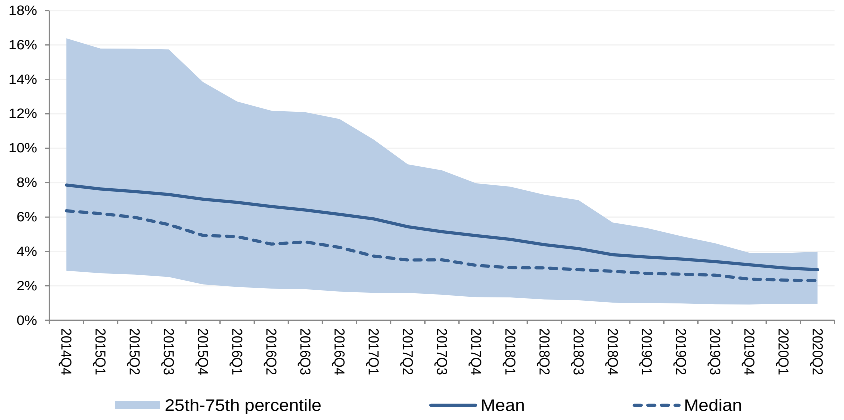
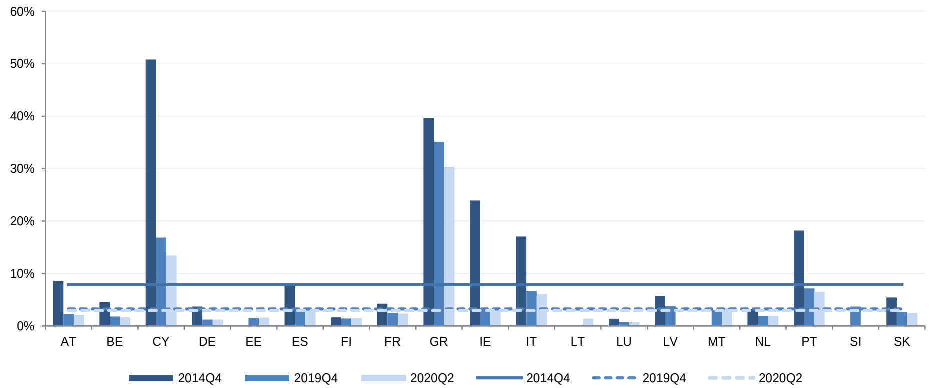


Chart 2.2: NPL ratio by Member State



Source: ECB staff contribution, FINREP and ECB calculations. NPLs and advances gross of allowances and credit risk adjustments to total gross loans and adjustments.

Indicator 3: Net NPL ratio

Chart 3.1: Net NPL ratio – evolution in the BU

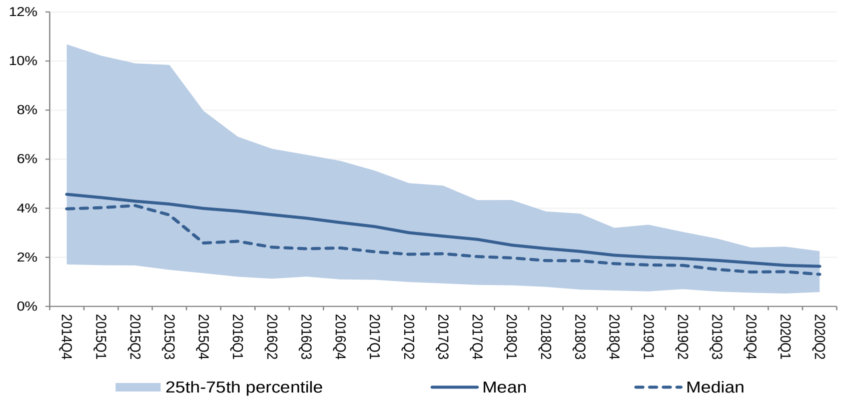
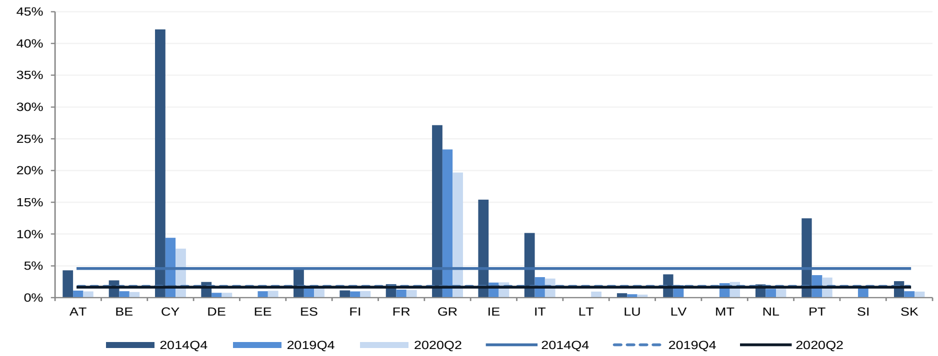


Chart 3.2: Net NPL ratio by Member State



Source: ECB staff contribution, FINREP and ECB calculations. Ratio of NPLs and advances net of allowances and other adjustments to total net loans and advances.

Indicator 4: NPL coverage ratio

Chart 4.1: NPL coverage ratio – evolution in the BU

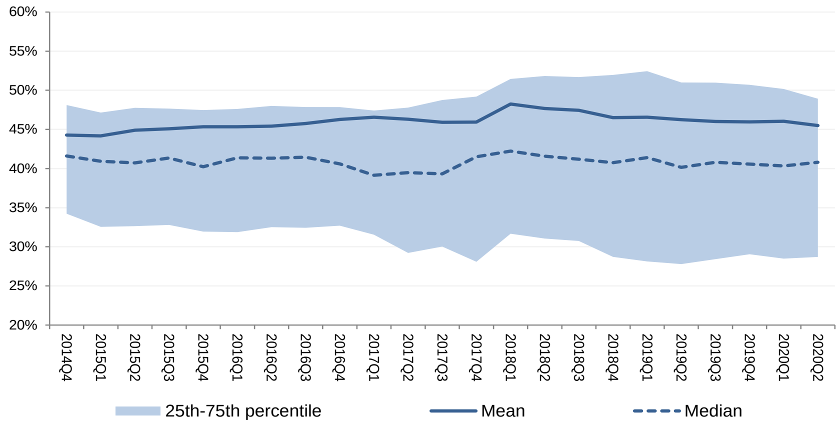
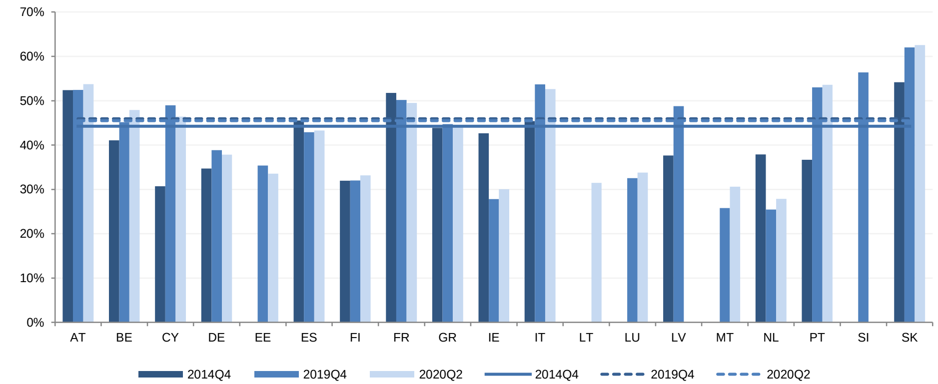


Chart 4.2: NPL coverage ratio by Member State



Source: ECB staff contribution, FINREP and ECB calculations. Accumulated allowances and credit risk adjustments to total gross NPLs. Source: FINREP, ECB calculations.

Indicator 5: Collateral coverage ratio

Chart 5.1: Collateral coverage ratio – evolution in the BU

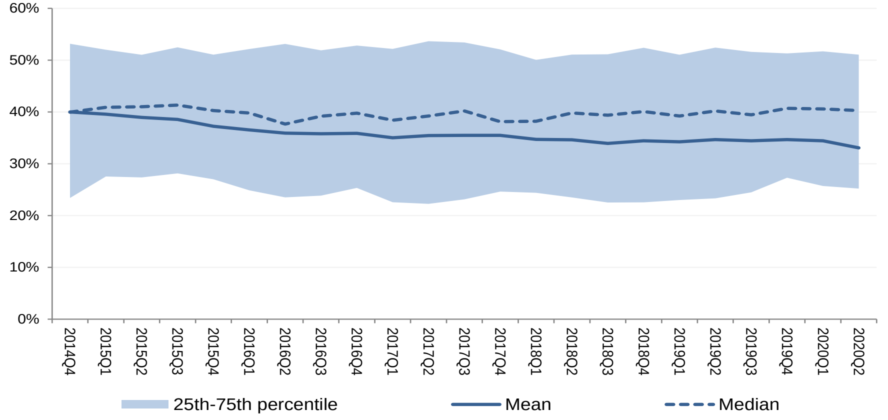
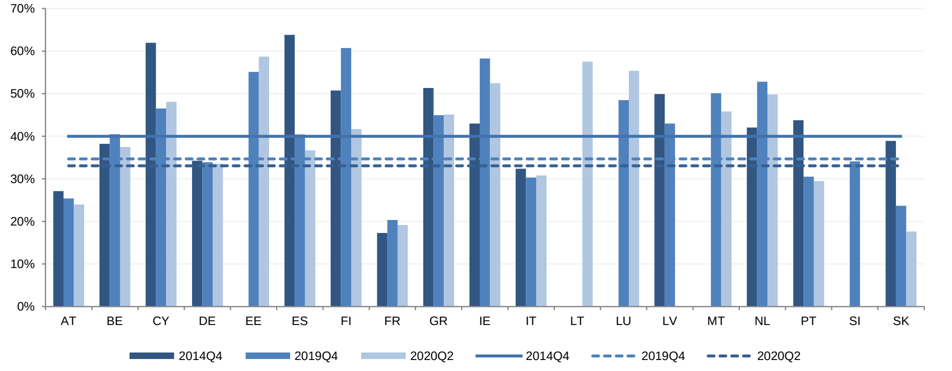


Chart 5.2: Collateral coverage ratio by Member State



Source: ECB staff contribution, FINREP and ECB calculations. Collateral received on NPLs and advances to total gross NPLs.

1.2 Analysis relative to ToR benchmarks and supervisory expectations

This section provides additional information on NPLs with regards to: 1. gross and net NPLs in the upper and lower quartiles against the respective 5% and 2.5% benchmarks and 2. NPL reduction for high-NPL banks with respect to supervisory expectations set out by the ECB in March 2019. Population means throughout the document have been compiled using weighted averages.

Quantitative indicators

- **Distribution around benchmark for gross NPL ratio:** Population mean, 25th/75th percentiles, weighted average of the banks in the top/bottom quartile (**Indicator 6: Chart 6.1)**
- **Distribution around benchmark for net NPL ratio:** Population mean, 25th/75th percentiles, weighted average of the banks in the top/bottom quartile (**Indicator 6: Chart 6.2)**
- **NPL reduction for high-NPL banks[29]:** Q4 2019 actual NPL positions in the household (HH) and non-financial corporate (NFC) sectors with respect to planned reductions for 2019 based on 2019 NPL strategy for high-NPL banks.(**Indicator 7: Chart 7.1)**[30,31]
- **Outstanding NPLs positions of high-NPL banks.** Gross NPLs relating to the household (HH) and non-financial corporations (NFC) sectors for the around 30 banks classified as high-NPL banks.

- **Legacy position of BU SIs (Q4 2014 to Q4 2019)**
  - **Mean gross NPL ratios.** On an aggregate level, the highest gross weighted average NPL ratio for BU SIs of 7.9% was recorded in Q4 2014. The mean ratio subsequently fell in each quarter and dropped below the 5% benchmark for the first time in Q4 2017, closing at 3.2% in Q4 2019.
  - **Mean net NPL ratio.** The highest weighted average net NPL ratio of 4.6% was recorded in Q4 2014. Since then, the mean ratio has decreased, dropping below the 2.5% benchmark for the first time in Q2 2018 and closing at 1.8% at Q4 2019.
  - **Comparison between weighted average gross and net NPL ratios.** Mean gross NPL benchmarks were reached before mean net NPL benchmarks. While mean gross NPL ratios had fallen below the 5% benchmark for the first time in Q4 2017, the corresponding net NPL benchmark of 2.5% was reached in Q2 2018.
  - **Comparison between mean and median NPL ratios.** A comparison between mean and median NPL ratios shows that the median was consistently lower than the mean for both gross and net NPL ratios. This indicates the presence of a number of outliers with high NPL ratios. The mean and the median started to

29 "High NPL bank" are defined as credit institutions with gross NPL ratios (as defined in the EBA Guidelines) at a level of 5% or above. They should establish an strategy for their NPEs as part of their overall strategy, with related governance and operational arrangements. In addition, the EBA guidelines also provide for supervisory discretion to request strategies and associated NPL governance and operational aspects from additional banks on the basis of their specific risk profile and/or bank-specific circumstances. For further details, see paragraphs 10 to 12 of the EBA Guidelines.

30 Projections based on Q1 2019 figures received as part of the annual Supervisory Review and Evaluation Process (SREP). 2020 data are not available due to the six-month postponement of the NPL reduction strategies in view of the COVID-19 pandemic.

31 The sample of high-NPL banks comprised approximately 30 entities as of Q4 2019; the total number of entities and sample composition may vary over time.

converge for gross NPL ratios from Q1 2017 and for net NPL ratios from Q4 2015. The recent convergence between the mean and the median NPL ratios points to outliers with high NPLs having brought their ratios more closely into line with peers.

- **Lower quartile.** Banks represented in the lower quartile have reported both gross and net NPL ratios below the 5% and 2.5% benchmarks since Q4 2014. In the period between Q4 2014 and Q4 2019, gross and net NPL ratios decreased by 1.4 pp and 1.0 pp respectively, closing at 0.5% and 0.3% in Q4 2019.
- **Upper quartile.** Banks represented in the upper quartile reported gross and net NPL ratios of 27.7% and 18.7% respectively in Q4 2014. While corresponding gross and net NPL ratios decreased respectively by 18.6 pp and 12.8 pp, gross and net NPL figures remained above the 5% and 2.5% benchmark in Q4 2019, closing at 9.1% and 5.9% respectively.
- **Member State view.** Benchmarks were not met by all Member States on a jurisdictional level for the corresponding period, i.e. from Q4 2014 to Q4 2019.
    - **Member State Q4 2019 gross NPL ratio positions with respect to benchmarks.** As described in the previous section, four Member States reported gross NPL values higher than the 5% benchmark specified in the ToR as of Q4 2019: GR (35.2%), CY (16.9%), PT (7.2%) and IT (6.7%). No Member States reported values between 4% and 5%.
    - **Member State Q4 2019 net NPL ratio positions with respect to benchmarks**. The following jurisdictions reported net NPL values above the 2.5% benchmark, as specified in the ToR: GR (23.3%), CY (9.4%), PT (3.5%), IT (3.2%). In addition, the following three Member States reported values between 2.0% and 2.5%: IE (2.4%), MT (2.3%) and LV (2%).

- **Q2 2020 position**
    - **Average for BU SIs.** The Q2 2020 mean and median gross and net NPL positions for BU SIs remained below the respective 5% and 2.5% benchmarks.
    - **Lower quartile.** Gross and net NPL ratios in the lower quartile stayed largely stable closing at 0.5% and 0.4% in Q2 2020.
    - **Upper quartile.** Gross NPL ratios in this segment stayed relatively stable at 9.2%, while net NPL ratios decreased by 0.6 pp to 5.3% in Q2 2020.
    - **Member State-level.** On a Member State-level, gross and net NPL positions remained broadly unchanged for a number of Member States and decreased for jurisdictions with NPL ratios higher than the 5% and 2.5% benchmarks specified in the ToR.
        - **Gross NPLs.** As highlighted in Section 1.1, the largest gross NPL decreases compared to Q4 2019 were reported for GR (-4.8 pp), CY (-3.4 pp) and PT (-0.7 pp). In terms of Q2 2020 positions, four jurisdictions continued to report gross NPL figures in excess of 5%: GR (30.3%), CY (13.4%), PT (6.5%) and IT (6.1%).
        - **Net NPLs.** As highlighted in Section 1.1, four Member States reported net NPL declines in excess of 0.2%: GR (-3.6 pp), CY (-1.7 pp), PT (-0.4 pp) and IT (-0.2 pp). In terms of Q2 2020 positions, four Member States remained above the net NPL threshold 2.5%: GR (19.7%), CY (7.7%), PT (3.2%) and IT (3.0%). In addition, two jurisdictions reported values close to the 2.5% threshold, MT (2.4%) and IE (2.4%).

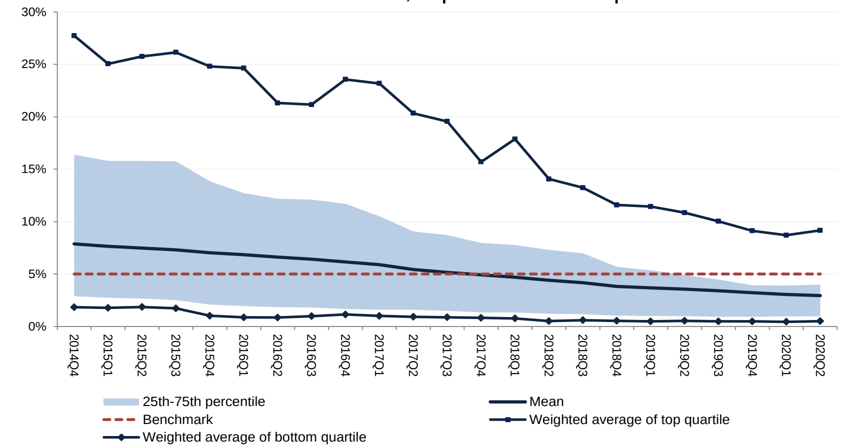
Bank-specific remedial action

- Addressing NPLs has been one of the key priorities for ECB Banking Supervision since its inception. The overall objective of developing the supervisory approach to NPLs was to help banks resolve their NPLs and to provide transparency in relation to the ECB's supervisory expectations regarding banks' treatment of NPLs.
- European banking supervision established an NPL Task Force in 2014 and, with the cooperation of national competent authorities, established and rolled out a comprehensive list of NPL-related tools and initiatives. These include the ECB's NPL guidance, NPL reporting, the NPL strategies framework and NPE coverage expectations.
- As a follow-up to that guidance, the ECB has asked SIs with higher levels of NPLs (high-NPL banks) to submit their NPL and foreclosed asset reduction strategies and to define their portfolio-level reduction targets over the medium-term. As part of this work, high-NPL banks have been asked to submit their NPL reduction strategies in relation to loans stemming from the HH and the NFC sectors. Taken together, these loans represent the majority of high-NPL banks' total NPLs. **Chart 7.2** represents approximately 30 high-NPL banks classified as SIs. It demonstrates the banks' non-performing HH and NFC loan reduction performance by end-2019 against their targets for that year, showing that high-NPL banks on average met or exceeded their planned reduction targets.[32] The largest reduction drivers came from sales, write-offs, cures and loan repayments. At the time of writing, Q2 2020 figures are not available, given the six-month postponement of the deadline to submit NPL reduction strategies in view of the COVID-19 pandemic. However, Joint Supervisory Teams (JSTs) are closely monitoring the potential reduction of NPL ratios and related activities such as NPL sales.
- The JSTs will continue to monitor banks' performance against their own targets as part of normal supervisory engagement. This supervisory engagement and associated actions are fully incorporated in the annual Supervisory Review and Evaluation Process (SREP).

[32] The latest available information dates to end-2019 as the ECB decided to postpone the deadline for submission of updated NPL reduction strategies to end-March 2021. This is intended to provide banks with additional time to better estimate the impact of the COVID-19 pandemic on asset quality, and should enable more accurate planning.

Indicator 6: Gross and net NPL trend analysis with respect to the 5% and 2.5% benchmarks

Chart 6.1: Gross NPL ratio – mean, top and bottom quartile distribution



Source: Footnotes applicable to Indicators 2 (gross NPL ratio) and 3 (net NPL ratio) apply.

Chart 6.2: Net NPL ratio – mean, top and bottom quartile distribution

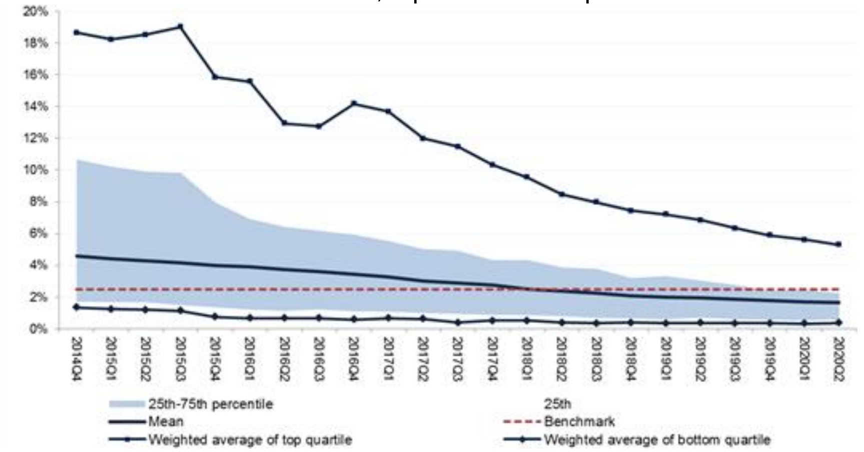
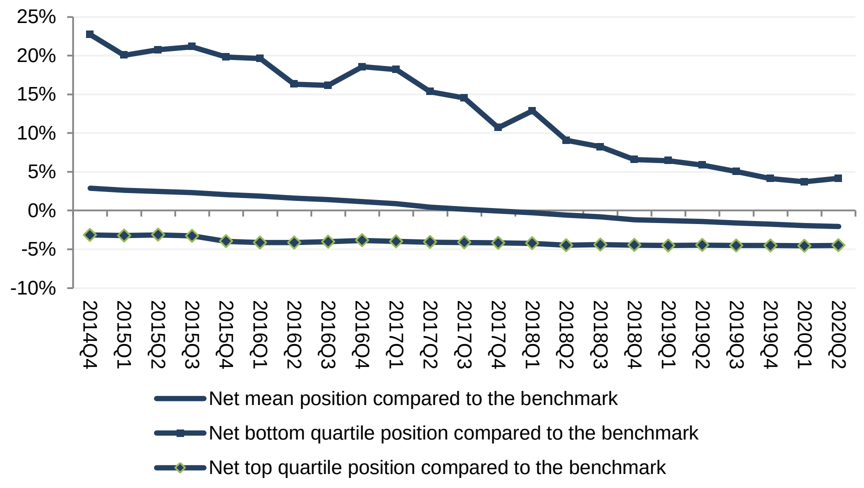


Chart 6.3: Gross NPL ratios for the mean as well as the top and bottom quartiles netted against the 5% benchmark (as specified in the ToR)



Source: Footnotes applicable to Indicators 2 (gross NPL ratio) and 3 (net NPL ratio) apply.

Chart 6.4: Net NPL ratios for the mean, the the top and bottom quartiles netted against the 5% benchmark (as specified in the ToR)

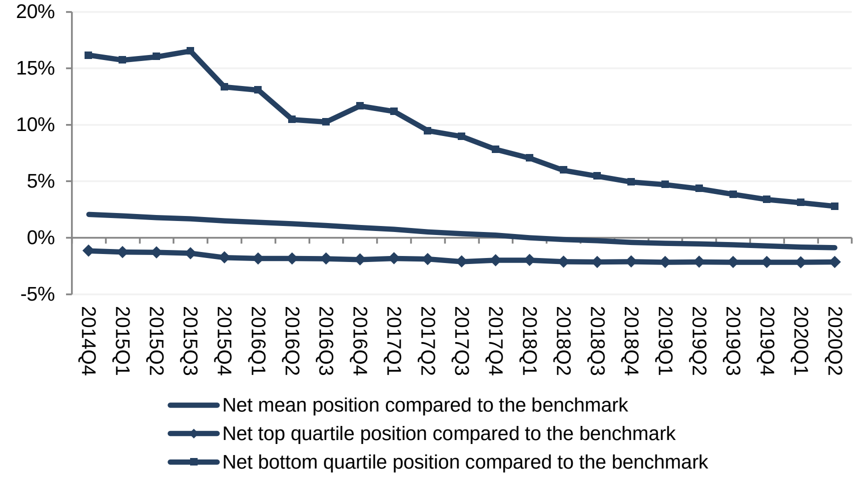


Chart 6.5: Net difference between the mean and median gross NPL position over time

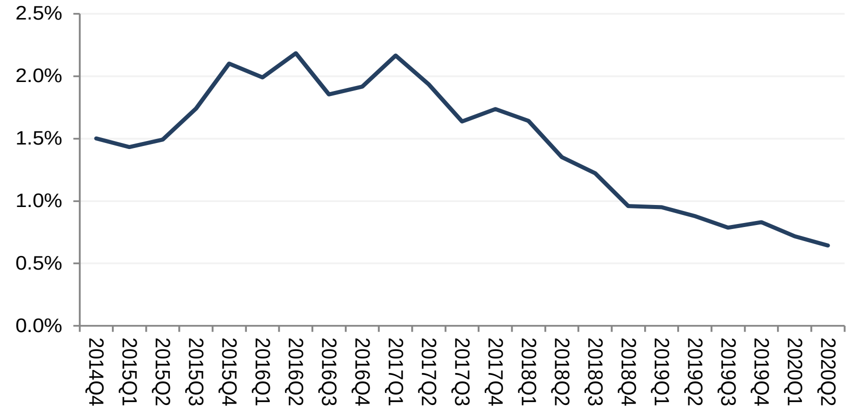
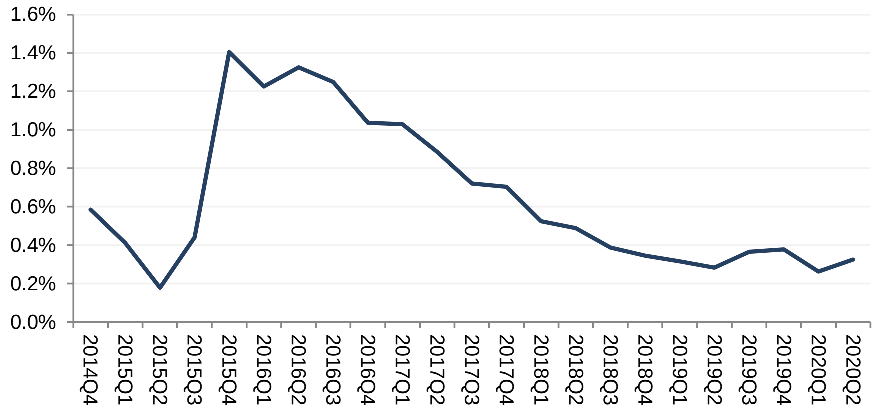


Chart 6.6: Net difference between the mean and median net NPL position over time



Source: Footnotes applicable to Indicators 2 (gross NPL ratio) and 3 (net NPL ratio) apply.

Indicator 7: NPL position of high-NPL banks

Chart 7.1: NPL sectoral composition for the high-NPL banks

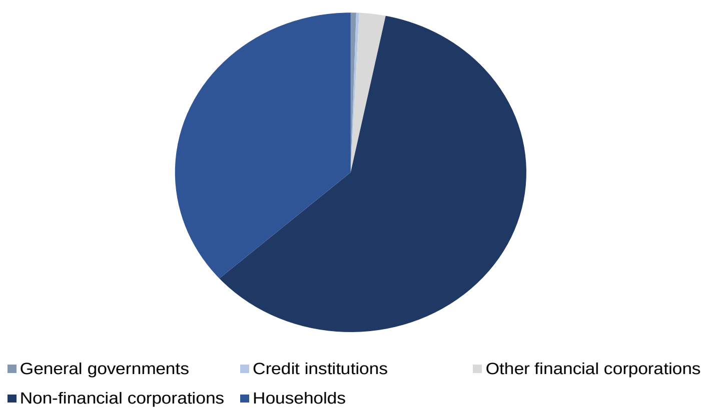
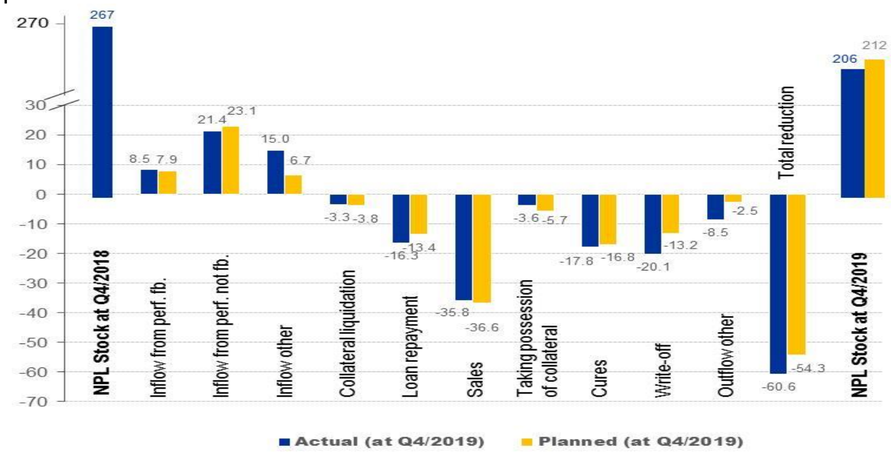


Chart 7.2: Planned NPL reduction (as of March 2019) vs. 2019 year-end actual positions



Source: "High-NPL banks" are defined as credit institutions with gross NPL ratios (as defined in the EBA Guidelines) at a level of 5% or above. The EBA guidelines on NPEs also provide for supervisory discretion to request strategies and associated NPL governance and operational aspects from additional banks on the basis of their specific risk profile and/or bank-specific circumstances. The sample of banks included can differ from the SIs shown in the top 75 percentile analysis.

1.3 Q2 2020 NPL figures in the context of the COVID-19 pandemic

As highlighted above, the impact of the COVID-19 pandemic is only partially reflected in Q2 2020 NPL positions. The following sections explain why this is the case and provide additional context on the proportion of loans and NPLs affected by COVID-19.

1.3.1. Role of cash inflows in NPL figures

Levels of central bank liquidity in the banking system continued to rise in the first half of 2020. From an accounting perspective, cash items received from central banks are booked as *cash, cash balances at central banks, other demand deposits ('cash balances')*. As this item is included in the denominator of the NPL ratio, a material increase in cash balances results in a corresponding decrease in the NPL ratio, all other factors being equal.

In line with EBA guidance, previous iterations of the risk reduction report have historically included cash balances for the calculation of NPL ratios. Given the increases in cash balances observed in H1 2020 (which are also visible in the Q2 2020 LCR and NSFR figures presented below), there is an argument to adjust NPL ratios for cash balances and examine the impact on the NPL ratios. Given the data constraints, such an assessment is only possible for Q2 2020. In addition, it is only possible to deduct cash balances in their entirety rather than just excluding the increase in cash balances in H1 2020.

Adjusting gross NPL ratios for cash balances results in the following changes to Q2 2020 ratios (**Chart 14.1** and **Chart 14.2**):

- **Aggregate position of BU SIs.** The position for BU SIs stood at 3.5%, 0.6 pp higher compared to the corresponding figure of 2.9% which included cash balances in the calculation.
- **Member State assessment.** On a Member States level, an exclusion of cash balances would result in increases in NPL ratios of between 0.1 pp and 5.7 pp. The highest differences were reported for CY (+5.7 pp), GR (+4 pp), MT (+1.4 pp) and IE (+1.0 pp) while the lowest increases were reported for SK (+0.1 pp), FI, LU, AT, NL and DE (+0.3 pp). The inclusion of cash balances would not have resulted in additional Member States reporting NPL figures above the 5% benchmark. Two Member States would have reported gross NPL ratios between 4% and 5%: MT (4.9%) and IE (4.3%).

The corresponding net NPL figures are as follows:

- **Aggregate position of BU SIs.** The aggregated position of BU SIs stood at 1.9%, 0.3 pp higher compared to the corresponding figure of 1.6% which included cash items.
- **Member State assessment.** On a Member State-level, an exclusion of cash items would have resulted in increases in NPL ratios between 0.1 pp and 3.6 pp. The highest differences were reported for CY (+3.6 pp), GR (+3.2 pp), MT (+1.0 pp) and IE (+0.7 pp) while the lowest increases being reported for SK and AT (+0.1 pp). The inclusion of cash balances would have resulted in one additional Member State (IE) reporting NPL figures above the 2.5% benchmark (3.1% compared to 2.4% on an unadjusted basis). In addition, one Member State (ES) reported a net NPL ratio of 2.0% (i.e. between 2% and 2.5%) on an adjusted basis.

1.3.2 Loans benefiting from COVID-19 related measures

The EBA's COVID-19 disclosure package[33] allows for a breakdown that distinguishes loans benefiting from COVID-19 related measures from those which do not. This breakdown makes it possible to assess the proportion of loans which have been affected by the COVID-19 pandemic as of Q2 2020. Information regarding loans benefiting from COVID-19 measures could be used to estimate the proportion of loans which may currently be exempt from the regular forbearance and default treatment.

The EBA disclosure package breaks down loans benefiting from COVID-19 measures into three categories: 1. EBA-compliant moratoria, 2. other COVID-19 forbearance measures and 3. state guarantees. In principle, all three types of measures may lead to similar outcomes (i.e. exposures are not automatically reclassified as forborne/defaults and the past due counter for these loans is suspended) until the measures in place expire, although the obligation to assess unlikeliness to pay remains.

A breakdown of total loans benefiting from COVID-19 related measures is available below (**Chart 8.1** and **Chart 8.2, Chart 9.1,** and **Chart 9.2, Chart 10.1** and **Chart 10.2, Chart 11.1** and **Chart 11.2, Chart 12.1** and **Chart 12.2, Chart 13.1** and **Chart 13.2**):

- **Aggregate level for BU SIs.** As of Q2 2020, the total number of loans benefiting from all three measures related to about €1004 billion or 7.0% of total gross loans of BU SIs. 5.3% of these loans related to loans benefiting from EBA-compliant moratoria, 1.3% to loans benefiting from state guarantees, and 0.4% to loans benefiting from other COVID-19 forbearance measures.
- **Member State-level**
    - **Aggregate figures across all types of COVID-19 support.** On a Member State-level, the percentage of total loans benefiting from COVID-19 measures as a percentage of total loans in that Member State ranged from 1.5% to 42.3%. As of Q2 2020, the Member States with the highest percentage of loans benefiting from COVID-19 measures over total loans were CY (42.3%), PT (20.7%), GR (12.5%), MT (11.9%) and SK (11.6%). Member States with the lowest proportion were DE (1.5%), LU (1.6%), NL (3.5%), LT (3.6%) and FI (6.6%).
    - **Breakdown by type of COVID-19 support.** The composition of COVID-19 related loans differed between Member States: While loans benefiting from EBA-compliant moratoria made up the largest category of loans benefiting from COVID-19 measures across all Member States, the composition of measures varied by jurisdiction. The Member States with the highest percentage of loans benefiting from EBA-compliant moratoria over total loans benefiting from COVID-19 measures were CY (99.8%), GR (99.7%), SK (98.5%), LU (97.4%) and AT (88.3%). Jurisdictions with the highest proportions of state guarantees were ES (32.5%), FR (23.4%), DE (12.2%), IT (11.1%) and PT (10.7%). Those with the highest proportions of other COVID-19 related forbearance measures[34] were FI (39.2%), DE (38.7%), LT (31.8%), EE (19.8%) and IE (16.3%).

[33] For further details, see the EBA's guidelines on the reporting and disclosure of COVID-19 measures.

[34] The EBA classifies loans benefiting from COVID-19 measures into three categories: 1. EBA-compliant moratoria, 2. other COVID-19 related forbearance measures and 3. state guarantees. Loans classified as 'other COVID-19 related forbearance measures relate to loans and advances with COVID-19-related measures which do not meet the requirements described in paragraph 10 of the EBA guidelines on moratoria.

1.3.3 Assessing the credit quality of loans benefiting from COVID-19 measures

NPLs are commonly defined as either more than 90 days past due or as unlikely to be fully repaid in the future. Given the onset of the crisis in February / March 2020 and the implementation of COVID-19 measures, defaults may have been contained thus far. As highlighted in the previous section, this is because days past due criterion is not applicable for loans under moratoria (although the obligation to assess the unlikeliness to pay has remained). As loans usually enter default only after they have been classified as past due for 90 days, loans affected by the suspension tend not to be reflected in Q2 2020 NPL figures.[35]

In this context, it might be worth providing further background on the impact of COVID-19 measures: loans subject to ongoing COVID-19 measures (i.e. EBA-compliant moratoria, other forbearance measures and state guarantees)[36] are not automatically reclassified as forborne/defaulted. In addition, the days past due criterion for the assessment of default for these loans is not applicable while the moratorium is in place and should be based on the revised schedule of payments after the application of the moratoria measures. As a result of these measures, NPL figures for Q2 2020 may only partially reflect the impact of the COVID-19 pandemic.

Nevertheless, NPLs for loans benefiting from COVID-19 measures did not stand at zero in Q2 2020 as loans subject to COVID-19 measures can still be classified as non-performing. An assessment of performing loans and NPLs subject to COVID-19 related measures is provided below. In this context, loans benefiting from COVID-19 measures are referred to as “COVID-19 loans” and non-performing loans subject to COVID-19 measures as “COVID-19 NPLs”. Ratios are shown for gross NPLs only.

Performing loans benefiting from COVID-19 measures

- **Aggregate level for BU SIs.** On an aggregate level for BU SIs, as of 30 June 2020 performing loans benefiting from COVID-19 related measures made up 97.3% of total loans benefiting from COVID-19 related measures and 6.8% of total loans of BU SIs.
- **Member State-level.** The amount of performing loans subject to COVID-19 measures as a percentage of all loans benefiting from COVID-19 measures ranged from 80.3% to 99%. The Member States with the highest percentage of performing loans benefiting from COVID-19 measures as a percentage of total loans benefiting from such measures were SK, IT, FR (99% each) and FI, BE and ES (98% each). Member States with the lowest ratios were GR (80%), IE (90%), CY (93%), EE, LU and PT (all 94%). EBA-compliant moratoria made up the largest share of total loans benefiting from COVID-19 measures across all Member States, while the composition of state guarantees and loans benefiting from other COVID-19 measures varied by jurisdiction.

[35] It should also be borne in mind that the effects of the pandemic varied by jurisdiction with some Member States experiencing its effects at a slightly earlier stage than others. These timing differences could also have an impact on NPL recognition for Q2 2020 figures.

[36] While the measures in place are similar across all three types of COVID-19 related measures, loans benefitting from state guarantees may be expected to show lower levels of NPLs in the long run.

Non-performing loan ratios benefiting from COVID-19 measures

- **Aggregate level for BU SIs**
    - **COVID-19 NPLs as a percentage of COVID-19 loans.** As of Q2 2020, gross NPL ratios in relation to loans benefiting from COVID-19 measures stood at 2.6% across BU SIs. NPLs relating to loans benefiting from EBA-compliant moratoria made up 1.9% of total loans benefiting from COVID-19 measures, while NPLs subject to other COVID-19 forbearance and state guarantees stood at 0.6% and 0.1% respectively.
    - **COVID-19 NPLs as a percentage of total loans.** As of Q2 2020, the overall ratio of 'COVID-19' NPLs as a percentage of total loans benefiting from COVID-19 measures stood at 0.2%. NPLs benefiting from EBA-compliant moratoria contributed 0.1%, to this total, while NPLs benefitting from other COVID-19 forbearance measures and state guarantees stood at 4 bps and 1 bp respectively.
- **Member State-level**
    - **COVID-19 NPLs as a percentage of COVID-19 loans.** COVID-19 NPLs as a percentage of total COVID-19 loans varied by Member State. As of Q2 2020, the highest ratios were reported by GR (19.7%), IE (10.1%), CY (6.9%), LU (5.9%) and PT (5.7%), while the lowest ratios were reported by SK (1.0%), IT (1.3%), FR (1.4%), FI (1.7%) and BE (1.8%).
    - **COVID-19 NPLs as a percentage of total loans.** Ratios varied by Member State. Member States reporting the highest overall ratios were CY (2.9%), GR (2.5%), PT (1.2%), IE (0.7%) and MT (0.6%). Member States reporting the lowest values were DE (7 bps) as well as LU, BE and FR (10 bps respectively).

Summary and outlook

Q2 2020 NPLs as a percentage of all BU SIs loans were below the relevant gross and net NPL benchmarks on an aggregate level. The future development of NPLs is difficult to predict. It is difficult to gauge which proportion of the performing loans is likely to be reclassified as non-performing in the future, as the total number of loans subject to COVID-19 related measures may provide only a rough estimate of the proportion of loans which may be affected by the COVID-19 pandemic.

The impact is likely to depend on macroeconomic factors, such as the severity of the COVID-19 pandemic, the extent to which economies can mitigate its impact, the speed of economic recovery after the crisis, as well as bank-specific features, such as diversification, large exposures and the quality of the loan book.

Indicator 8: Total outstanding loans benefiting from COVID-19 measures

Chart 8.1: Loans benefiting from COVID-19 measures as a percentage of total loans across the BU

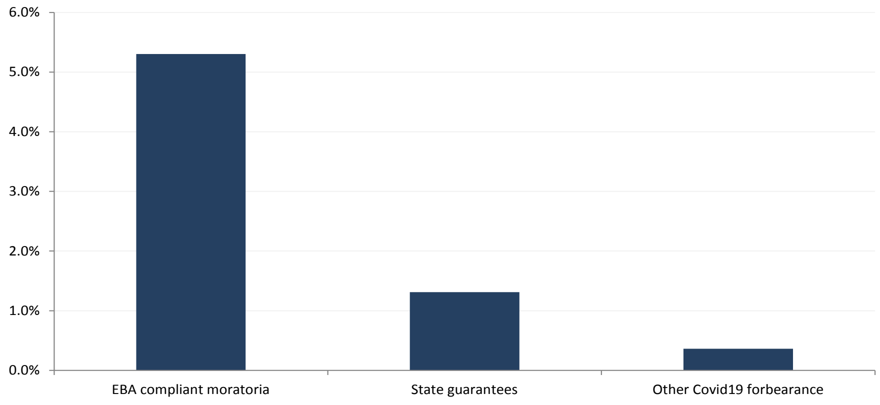
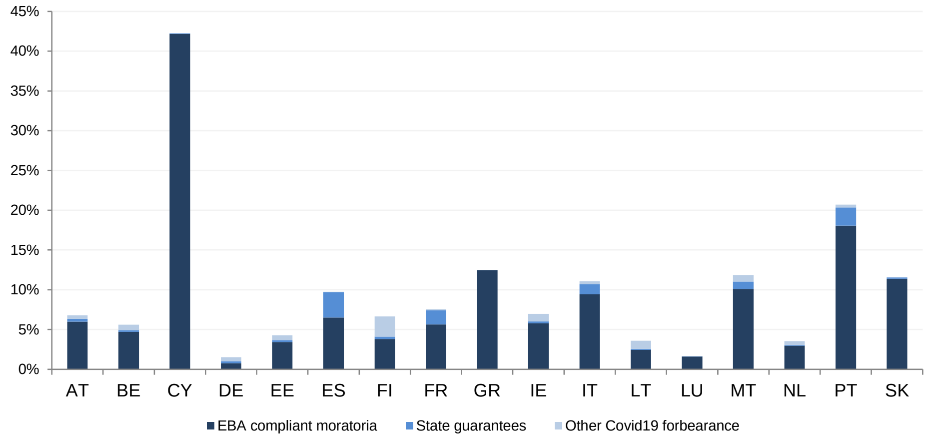


Chart 8.2: Loans benefiting from COVID-19 measures as a percentage of total loans by Member State



Source: ECB staff contribution, COREP-19, FINREP and ECB calculations.

Indicator 9: Performing loans benefiting from COVID-19 related measures as a percentage of total loans

Chart 9.1: Performing loans benefiting from COVID-19 related measures across the BU

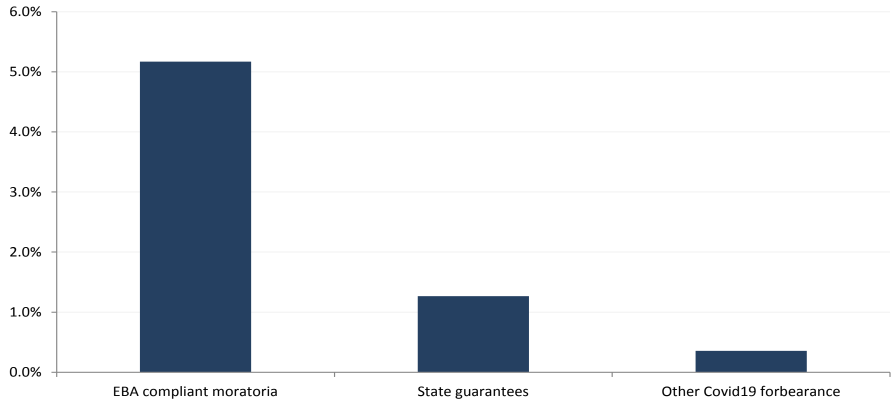
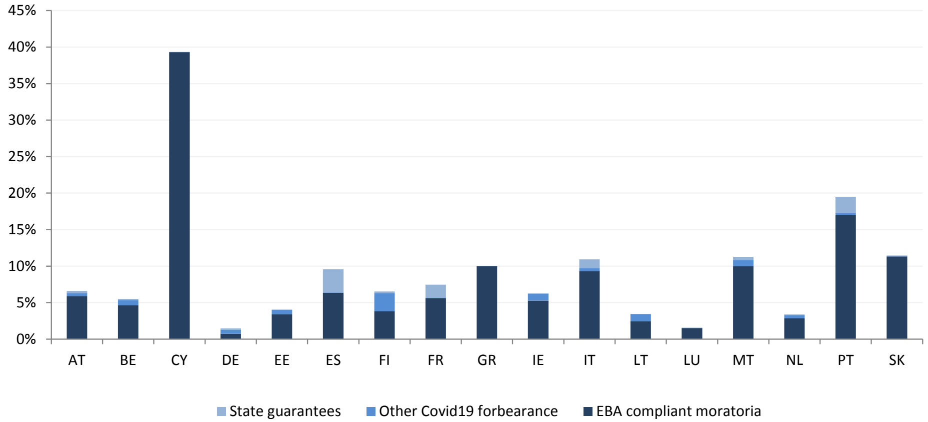


Chart 9.2: Performing loans benefiting from COVID-19 related measures by Member State



Source: ECB staff contribution, COREP-19, FINREP and ECB calculations.

Indicator 10: Non-performing loans in relation to loans benefiting from COVID-19 measures as a percentage of total loans

Chart 10.1: Non-performing loans benefiting from COVID-19 measures / total loans across the BU

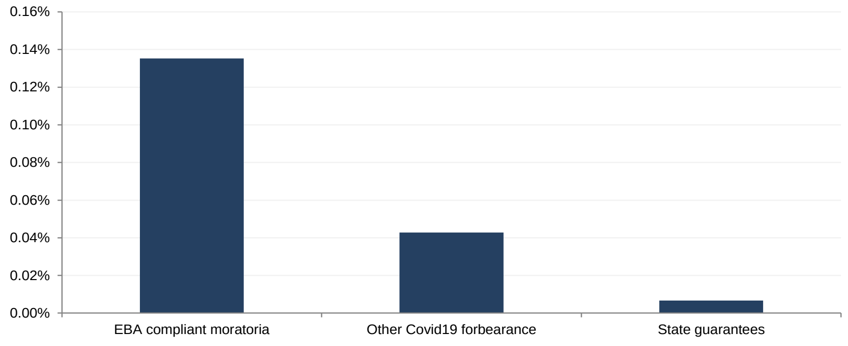
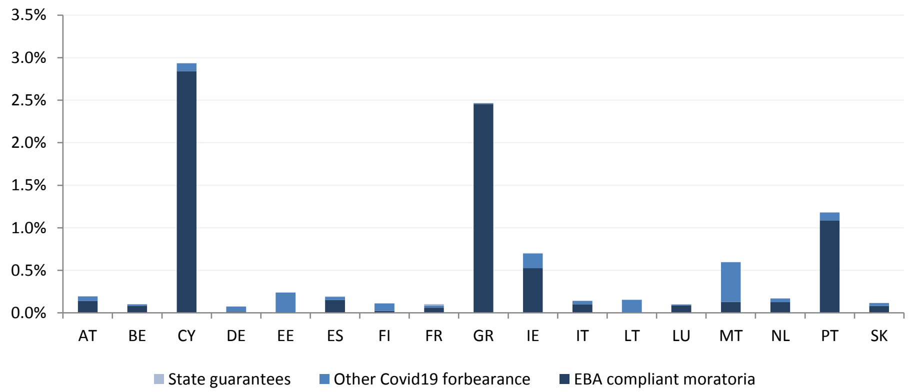


Chart 10.2: Non-performing loans in relation to loans benefiting from COVID-19 measures / total loans across the BU



Source: ECB staff contribution, COREP-19, FINREP and ECB calculations.

Indicator 11: Performing loans benefiting from COVID-19 measures as a percentage of total COVID-19 loans

Chart 11.1: Performing loans as a percentage of total COVID-19 loans across the BU

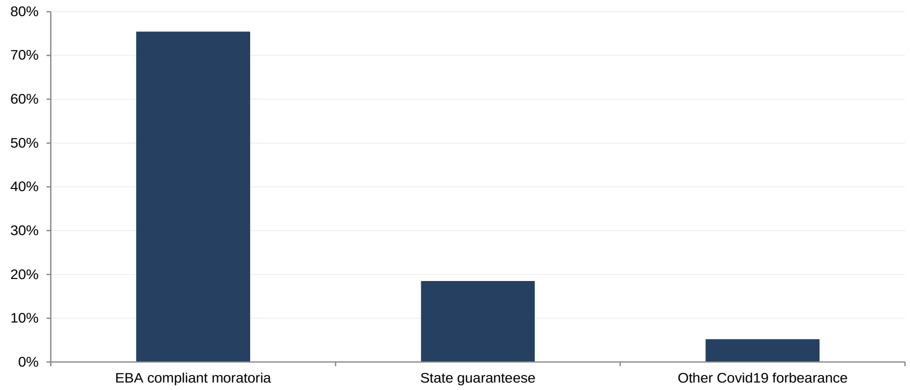
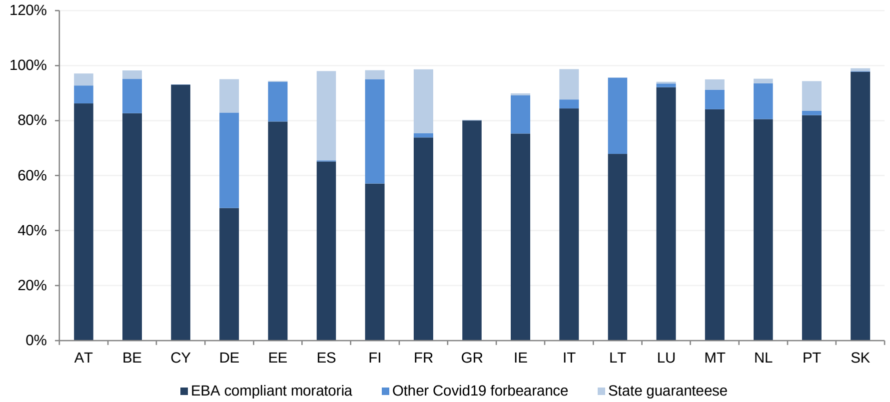


Chart 11.2: Performing loans as a percentage of total COVID-19 loans by Member State



Source: ECB staff contribution, COREP-19, FINREP and ECB calculations.

Indicator 12: NPLs in relation to loans benefiting from COVID-19 measures as a percentage of total COVID-19 loans

Chart 12.1: NPLs in relation to loans benefiting from COVID-19 measures as a percentage of total COVID-19 loans across the BU

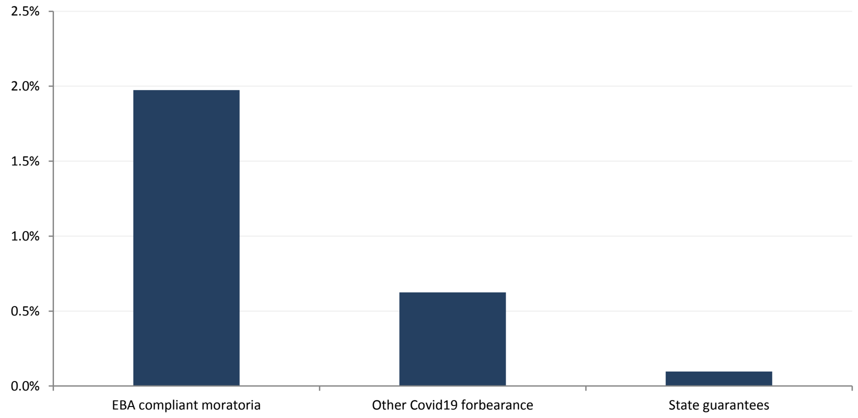
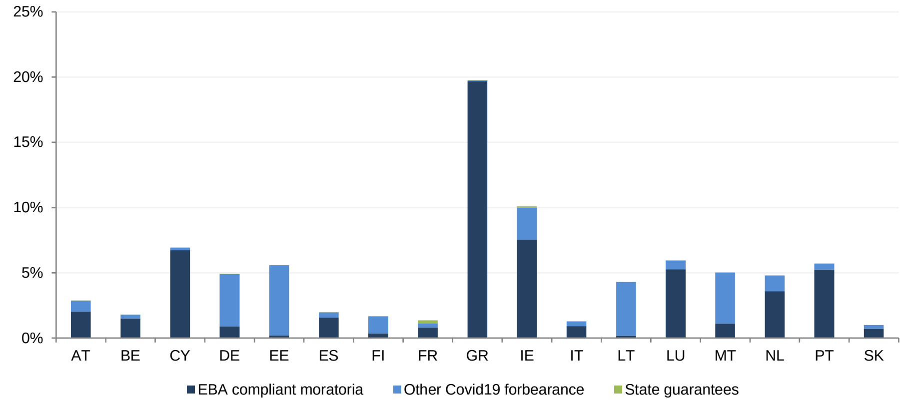


Chart 12.2: NPLs in relation to loans benefiting from COVID-19 loans as a percentage of total COVID-19 loans by Member State



Source: ECB staff contribution, COREP-19, FINREP and ECB calculations.

Indicator 13: Loans benefiting from COVID-19 measures

Chart 13.1: Percentage breakdown of total loans benefiting from COVID-19 measures

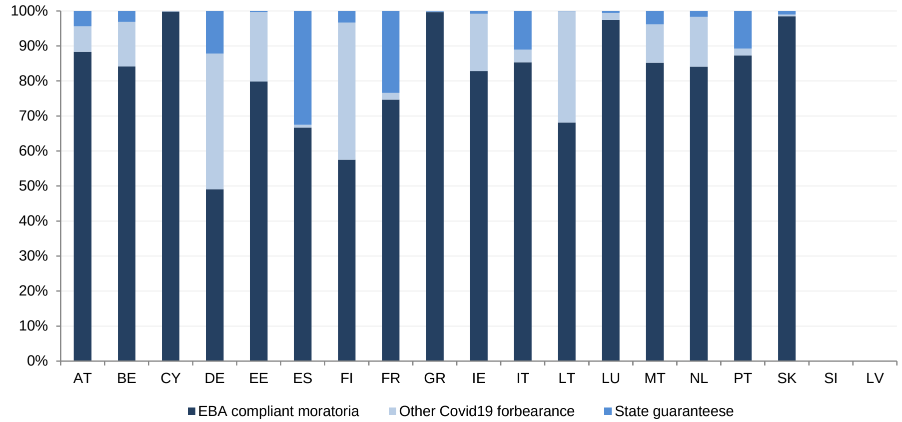
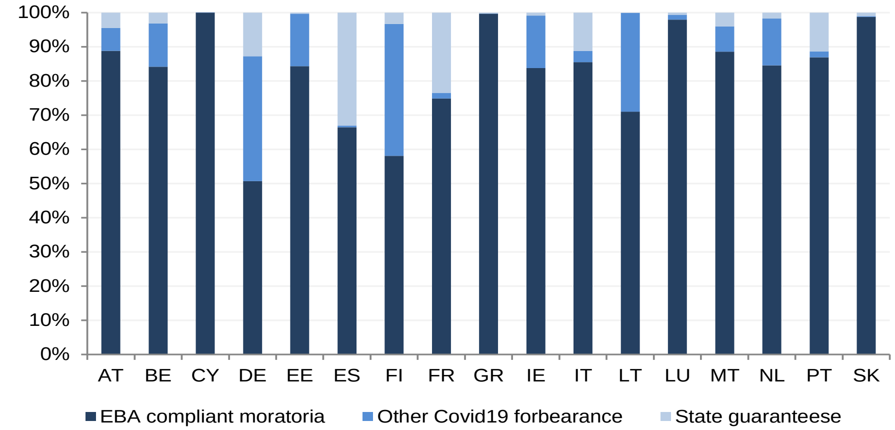


Chart 13.2: Percentage breakdown of performing loans benefiting from COVID-19 measures



Source: ECB staff contribution, COREP-19, FINREP and ECB calculations.

Indicator 14: Comparison of gross and net NPL ratios in and excluding cash balances

Chart 14.1: Comparison of gross NPL ratios including and excluding cash balances in Q2 2020

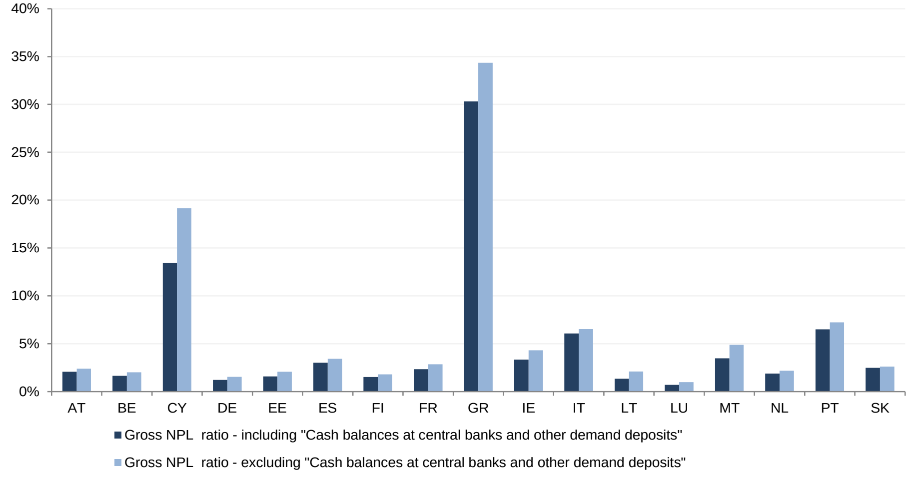
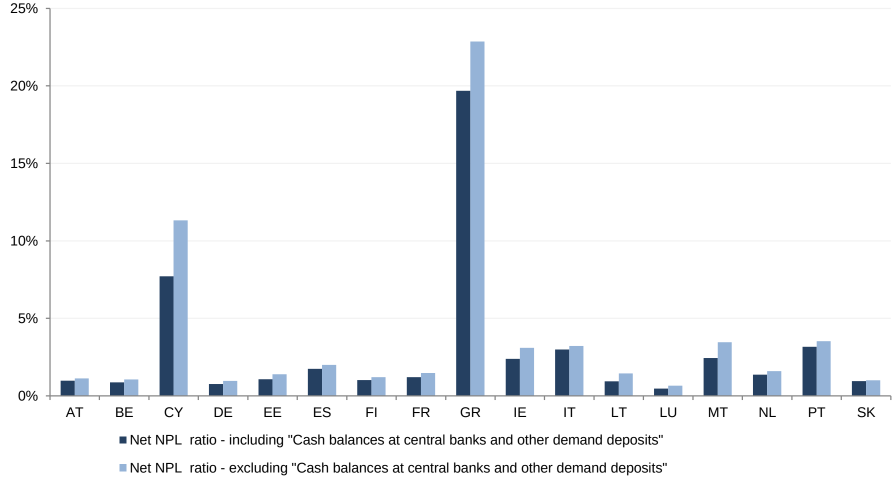


Chart 14.2: Comparison of net NPL ratios including and excluding cash balances in Q2 2020



Source: ECB staff contribution, FINREP and ECB calculations. Please note that the numerator of the gross and net NPL ratios may include NPLs relating to to loans extended to central banks.

2. MREL

Background

In line with the 2018 ToR established by the Eurogroup, the November 2020 edition of the risk reduction report includes additional analyses regarding the MREL build-up and shortfalls. The extended November 2020 MREL section is structured in five parts, including the traditional semi-annual reporting: 1. an evolution of MREL build-up corresponding to the standard risk reduction monitoring analysis, 2. a trend analysis of MREL shortfalls against predefined benchmarks, 3. an overview of MREL compliance considering transitional periods, 4. a projection of BRRD II/SRMR II MREL targets and shortfalls, and 5. an evolution of MREL build-up as of Q2 2020 (distinguishing between MREL positions up to Q4 2019 ("legacy position") and developments since the onset of the COVID-19 pandemic ("Q2 2020 position")).

2.1 Recent evolution of MREL build-up

Quantitative indicators[37]

The recent evolution in MREL build-up is analysed on the basis of the following quantitative indicators:

- **MREL targets:** MREL consolidated target and subordinated requirement, expressed as a percentage of TREA by Member State (**Indicator 15: Chart 15.1** and for global systemically important institutions (G-SIIs) **Chart 15.2**).
- **Outstanding MREL-eligible liabilities[38]:** Outstanding stock of MREL-eligible subordinated and non-subordinated liabilities, expressed as a percentage of TREA by Member State (**Indicator 16: Chart 16.1** and for G-SIIs **Chart 16.2**)**.**
- **MREL shortfalls:** Computed as the difference between the MREL target and the outstanding stock of MREL eligible liabilities and own funds, floored at zero, including the part of the shortfall to be met with subordinated eligible liabilities expressed both as a percentage of TREA and in EUR billion by Member State (**Indicators 17 and 18: Chart 17.1, Chart 17.2, Chart 18.1** and **Chart 18.2**).

Commentary

General remark: Unless otherwise stated, the cut-off date for the data presented in this section is 31 December 2019.

- **MREL targets.** The SRB finalised the adoption of MREL targets under the 2019 resolution planning cycle on the basis of SRMR I and is currently working on the 2020 cycle on the basis of SRMR II. Taking into account the decisions for banks under the 2018 and 2019 resolution planning cycles and based on Q4 2019 data for total risk exposure amount (TREA) and total liabilities and own funds (TLOF), the MREL targets represented on average 25.2% TREA, or €1869 billion in Q4 2019. This compares with 25.0% TREA, equal to €1824 billion in Q4 2018. The increase in the

[37] For further details on data composition, see Annex IV.
[38] For the purpose of this report MREL-eligible liabilities include own funds.

target is explained by the increase in TLOF (€430 billion or 2.4% year on year), which was higher than the increase in TREA (€138 billion, or 1.9% year on year) for the banks in the sample. The SRB also requires an average of 15.5% TREA to be met with subordinated instruments (€1147 billion in Q4 2019 compared with €1119 billion in Q4 2018). When considering G-SIIs only, the average MREL target was 26.1% TREA with an average subordination requirement of 20.2% TREA, i.e. higher than the average target of non-G-SII banking groups[39]**.**

- **Outstanding stock of MREL-eligible liabilities.** The stock of MREL-eligible liabilities for banks within the SRB's remit accounted for an average of 31.5% TREA (€2337 billion) in Q4 2019 compared with 29.3% TREA (€2132 billion) in Q4 2018[40]. The stock of eligible liabilities as a percentage of TREA increased in 16 Member States. Subordinated liabilities accounted for a substantial share of eligible liabilities, with an average of 24.7% TREA (€1834 billion in Q4 2019 compared with €1700 billion in Q4 2018). In some Member States, the share of subordinated MREL-eligible liabilities is significant, either due to the recognition of statutory or structural subordination, or the banks' funding model. When considering G-SIIs only, the average amount of MREL-eligible instruments was 28.3% TREA, and 24.6% TREA for subordinated MREL-eligible instruments.
- **MREL shortfalls.** Based on the data presented in this report, the majority of Member States presented a shortfall[41]. The average MREL shortfall was equated to 1.0% TREA in Q4 2019 compared with 1.8% TREA in Q4 2018. In absolute terms, the total shortfall was €74.0 billion in Q4 2019 reduced from €131.4 billion in Q4 2018. The decline in the shortfall was the result of an increase in the stock of eligible liabilities, which more than offsets the increase in targets due to the increased TLOF. The average shortfall was higher than 5% TREA in only a few Member States. The subordinated component of the MREL shortfall was also limited, accounting for 0.1% TREA. In Q4 2019, total MREL funding needs[42] represented approximately 4.0% of the total consolidated MREL target, down from 7.2% in Q4 2018.

For improved comparability of results, the shortfall would drop to 0.05% TREA in 2019 (from 0.12% TREA in 2017) if the build-up of MREL eligible liabilities were to be measured against a fixed target of 18%TREA[43]. This fixed target is inspired by the total loss absorbing capacity (TLAC) international standard, as a generic target for the entire sample of banks (not only G-SIIs). This shortfall would be significantly smaller than the shortfall against the final MREL target (1.0% TREA in 2019), mainly because MREL targets are on average higher than the 18%TREA target.

[39] For details on the scope and number of banks, see the methodological notes in Annex IV.
[40] For further details see the methodological notes in Annex IV.
[41] A Member State appears as having a shortfall if at least one of its banks presents a shortfall, even if the aggregate amount of eligible liabilities is higher than the aggregate MREL target in that Member State.
[42] Calculated as total MREL shortfall over total MREL target.
[43] Calculated also for entities for which normal insolvency proceedings is the preferred strategy.

Accompanying measures

- **Resolution planning.** The SRB has made progress in resolution planning, expanding the scope of the banks covered by plans and increasing the number of banks subject to MREL binding targets at consolidated and individual level.
- The impact of the introduction of the risk reduction package[44] has been factored into the SRB resolution planning cycles: already in 2019 with statutory requirements for G-SIIs, and through the SRB 2020 MREL policy for all banks.
- **Resolvability and preparedness**. In its Expectations for Banks[45] policy document, the SRB outlines best practice on key aspects of resolvability and sets out a roadmap with general phase-in dates for compliance with the various dimensions. Over the next four years, banks are expected to develop full capabilities in a number of areas, including governance, MREL capacity, development of bail-in playbooks, liquidity and funding in resolution, operational continuity and access to financial market infrastructures, updating management information systems for bail-in execution and valuation as well as communication plans, separability and restructuring, as appropriate.

44 As part of the Risk reduction package (also referred to as the 'banking package') published in the Official Journal of the EU (OJEU) in June 2019, Regulation (EU) 2019/876, Regulation (EU) 2019/877 and Directive (EU) 2019/879 implement a minimum TLAC requirement for EU G-SIBs (applicable as of 27 June 2019) and a revision of the MREL requirement for all banks with strengthened eligibility and subordination criteria (applicable upon transposition, from 28 December 2020).

45 SRB (April 2020), Expectations for banks.

Indicator 15: MREL targets – December 2019, December 2018

Chart 15.1: MREL targets (of which subordinated), % TREA

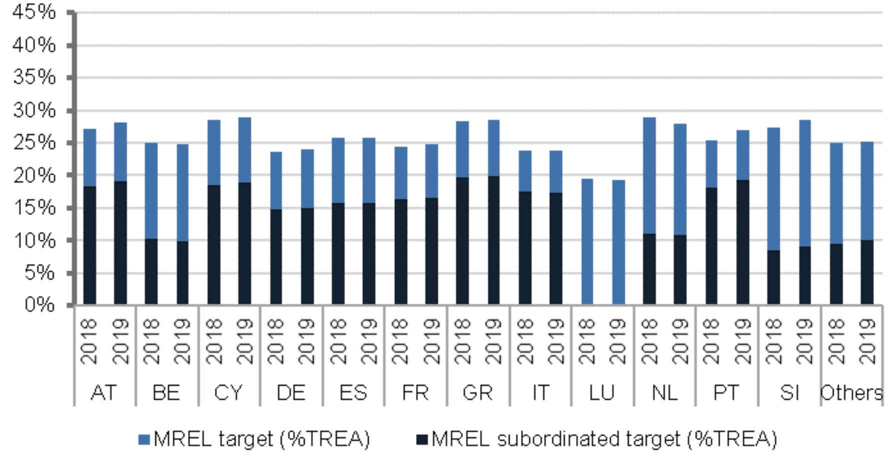
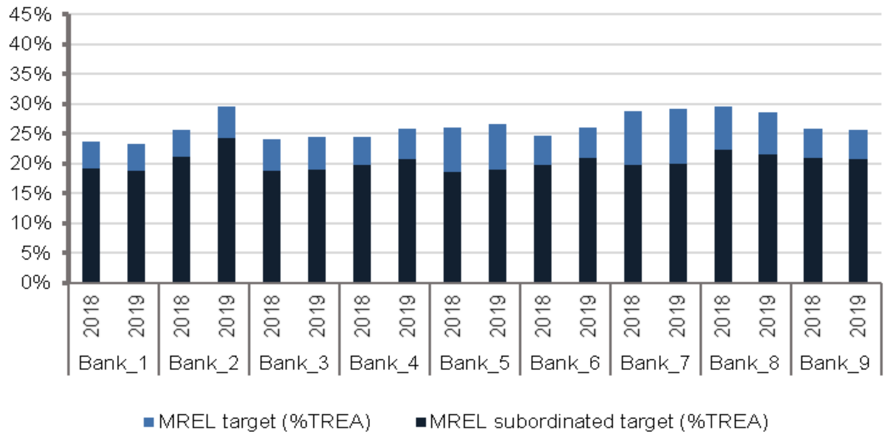


Chart 15.2: MREL targets (of which subordinated), % TREA – BU GSIIs



Source: SRB calculations. See methodological notes in Annex IV

Indicator 16: MREL-eligible liabilities – December 2019, December 2018

Chart 16.1: MREL-eligible liabilities (of which subordinated), % TREA

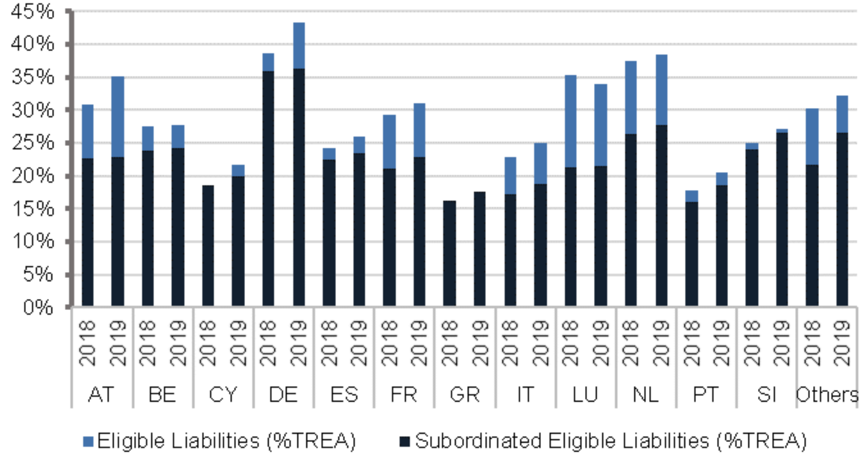
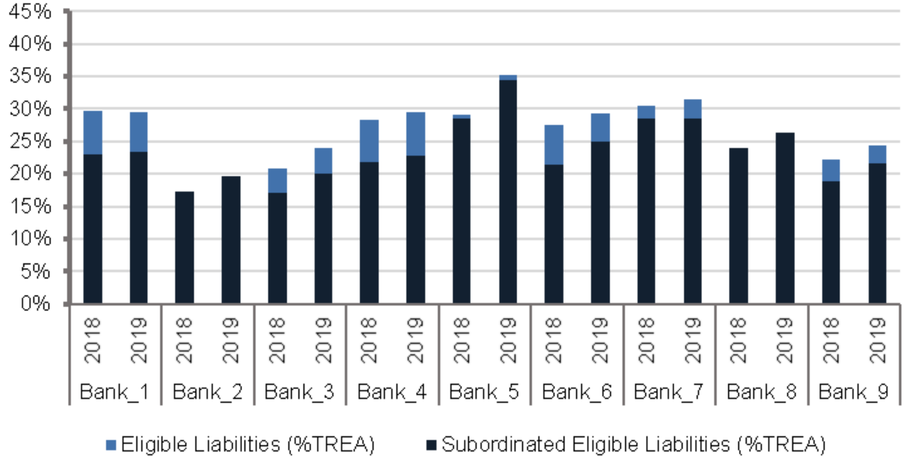


Chart 16.2:MREL-eligible liabilities (of which subordinated), % TREA– BU GSIIs



Source: SRB calculations. See methodological notes in Annex IV

Indicator 17: MREL Shortfall – December 2019, December 2018

Chart 17.1: MREL shortfall (%TREA)

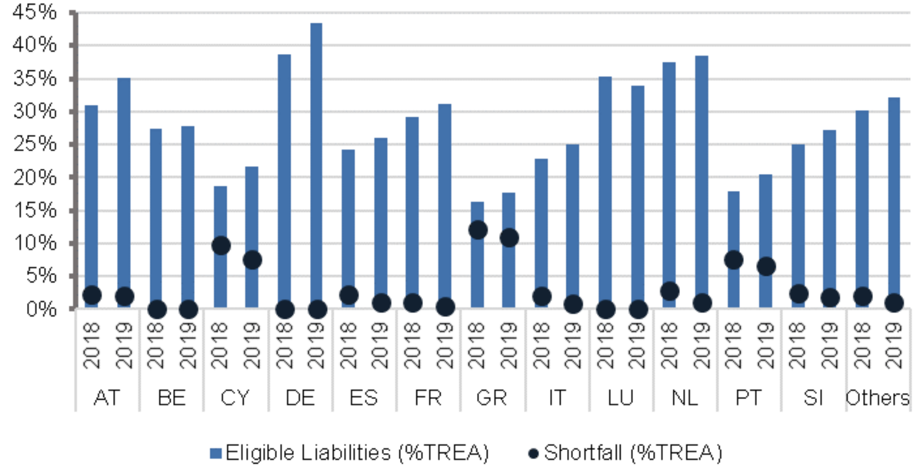
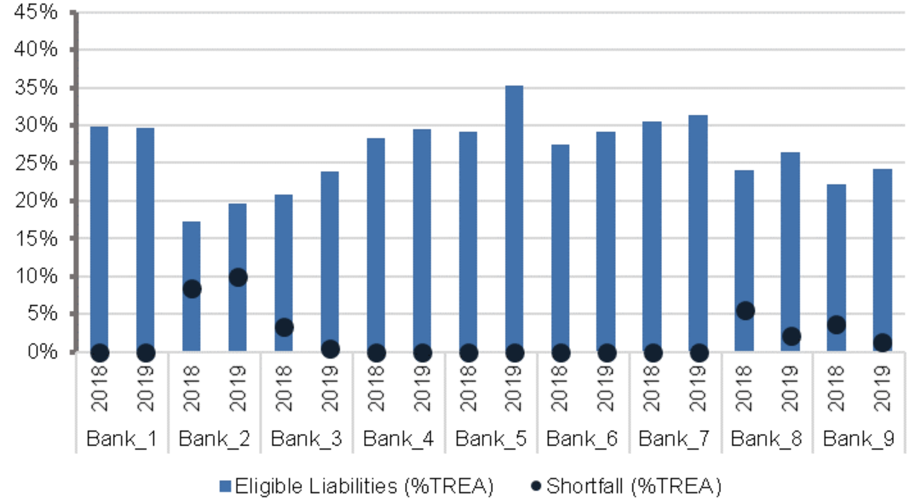


Chart 17.2: MREL shortfall, % TREA – BU G-SIIs



Source: SRB calculations. See methodological notes in Annex IV

Indicator 18: MREL Shortfall – December 2019, December 2018

Chart 18.1: MREL subordinated shortfalls, % TREA

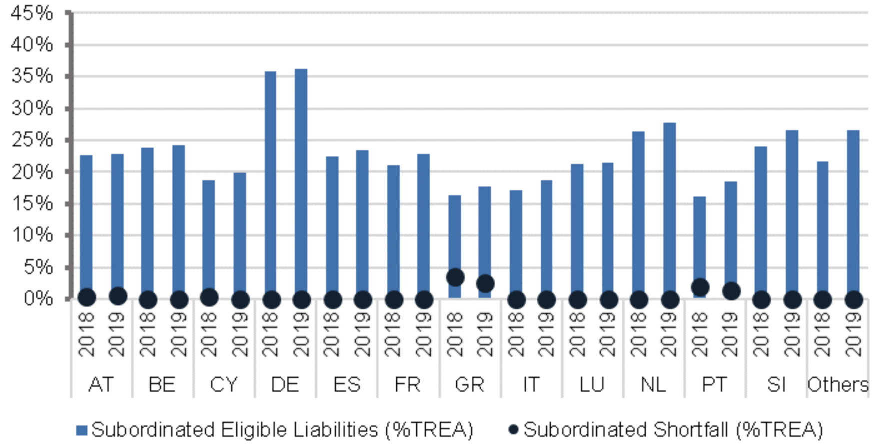
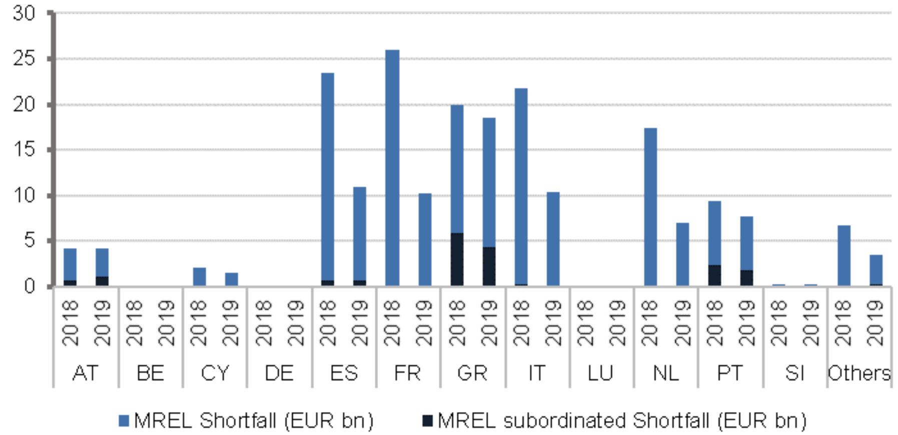


Chart 18.2: MREL shortfalls (of which subordinated), € billion



Source: SRB calculations. See methodological notes in Annex IV

2.2 Analysis relative to benchmarks

This section provides additional information on MREL with regard to total and subordinated shortfalls for banks in the upper and lower quartiles against the statistical benchmark for each indicator on the basis of BRRD I/SRMR I.

Quantitative indicators

- For the purpose of this chapter, the **benchmark has been defined as the weighted average shortfall (total and subordinated) expressed as a percentage of TREA**, i.e. the MREL target minus the outstanding stock of MREL-eligible liabilities and own funds, floored at zero, divided by TREA. The benchmark is a reading tool to provide a comparable view on progress and it should not be misunderstood as explicitly or implicitly introducing any target or requirement.
- **Distribution around benchmark for total MREL shortfall ratio**: Population median, 25th/75th percentiles, weighted average of the banks in the top/bottom quartile (**Indicator 19: Chart 19.1)**
- **Level and trend for total MREL shortfall ratio:** Difference between the weighted average shortfall in the top quartile and the benchmark, and between the 75th percentile and the benchmark (**Indicator 19: Chart 19.2**)
- **Distribution around benchmark for subordinated MREL shortfall ratio**: Population median, 25th/75th percentiles, weighted average of the banks in the top/bottom quartile (**Indicator 20: Chart 20.1)**
- **Level and trend for subordinated MREL shortfall ratio:** Difference between the weighted average subordinated shortfall in the top quartile and the benchmark and between the 75th percentile and the benchmark (**Indicator 20: Chart 20.2**).

Commentary

Total MREL shortfall: distribution, level and trend analysis

- The average shortfall declined by about 0.8 pp between 2017 and 2019, from 1.7% TREA to 1.0% TREA. The overall MREL shortfall in EUR amounts decreased by €47.7 billion from €121.7 to €74.0 billion. This was in spite of the increased size of the sample of banks (94 in 2018 and 2019 compared with 81 in 2017) and the incorporation of a more stringent methodology for recognising eligible liabilities[46] for a set of 24 banks under the 2019 resolution planning cycle (reference dates 2018 and 2019).
- At Member State level, three Member States did not experience any shortfall at any reference date, while the shortfall as a percentage of TREA decreased in 11 Member States[47] between Q4 2017 and Q4 2019. The shortfall as a percentage of TREA increased in four Member States, notwithstanding the increase in banks' MREL capacity, mainly as a result of the increase in TLOF.
- **Lower quartile.** Banks up to the 25th percentile show an overall MREL shortfall of zero across the reference dates. The median shortfall was zero in 2017, it rose in

[46] A more stringent methodology was also employed for setting the subordination requirement, in addition to recognising eligible liabilities, however the latter is relevant for the overall shortfall analysis.
[47] In one Member State, the shortfall decreased to zero in Q4 2019.

2018, mainly due to the introduction of ten banks with shortfalls to the sample, and dropped back to zero in 2019.

- **75th percentile.** The 75th percentile decreased by 1.4 pp from 5.4% TREA in 2017 to 4.1% TREA in 2019. Stated differently, the individual shortfall for three-quarters of the banks was less than 4.1% TREA in 2019 and less than 5.4% TREA in 2017. The weighted average MREL shortfall for these banks dropped to 0.5% TREA in 2019 from 1.0% TREA in 2017.
- **Upper quartile.** The weighted average total MREL shortfall for the banks in the top quartile remained stable at 7.9% TREA in 2019 compared with 2017. The distance between the weighted average shortfall as a percentage of TREA in the upper quartile and the benchmark increased by 0.7 pp from 6.2% in 2017 to 6.9% in 2019, due to the downward move of the benchmark.

Subordinated MREL shortfall: distribution, level and trend analysis

- The average subordinated MREL shortfall as a percentage of TREA decreased from 0.2% TREA in 2017 to 0.1% TREA in 2019. The subordinated shortfall decreased from €13.8 billion in 2017 to €9.8 billion in 2018 (notwithstanding the larger sample of banks, the incorporation of the more stringent methodology for one set of banks and the increase of TLOF) and subsequently declined to €8.1 billion in 2019.
- At Member State-level, for 11 Member States the subordinated shortfall was zero in 2019. By contrast, for seven Member States the shortfall in 2019 increased with respect to 2017, though for five out of these it remained at levels below 1% TREA.
- The 25th percentile, the median and the 75th percentile of the population is zero across the reference dates.
- **Upper quartile.** The weighted average MREL subordinated shortfall for the banks in the top quartile, increased by 1.6 pp, from 1.2% TREA in 2017 to 2.8% TREA in 2019. Only 12 banks in 2019 and eight in 2017 had a shortfall, i.e. less than one-quarter of the population; therefore only those 12 and eight banks respectively are taken into consideration in calculating the weighted average shortfall in the top quartile.

Qualitative assessment

- For the banks in the upper quartile, the distance between the benchmark and the total MREL shortfall as a percentage of TREA increased from 2017 to 2019 as the benchmark decreased by 0.7 pp, while the shortfall as a percentage of TREA remained stable. Stated differently, the shortfall for banks up to the 75th percentile decreased more than the shortfall for banks in the upper quartile.
- In 2017 the upper quartile was composed of 20 banking groups from ten Member States, whose TREA represents 24.8% of total TREA in those Member States (ES, IT, NL, GR, AT, PT, SI and three others with fewer than three banks in scope[48]) and 11.4% of the overall TREA in all Member States. In 2019, the upper quartile was composed of 24 banks[49] from nine jurisdictions, whose TREA represents 19.8% of total TREA in the Member States concerned (IT, ES, AT, GR, PT, CY and three

[48] Anonymisation criteria have been applied as explained in the methodological annex.

[49] The sample of the exercise increased to 94 groups in 2019 compared to 81 in 2017 (c.f. methodological notes), consequently the number of banks in the upper quartile is expected to increase.

others) and 7.2% of the overall TREA in all Member States. Out of 15 banks in six Member States, which were in the upper quartile both in 2017 and in 2019, 13 recorded an increase in the MREL target (mainly due to the increase in TLOF) and 13 recorded an increase in eligible liabilities.[50] For ten banks, an increase in the shortfall was recorded because the change in the target was larger than the change in eligible liabilities.

- The decline in the MREL shortfall, expressed both as a percentage of TREA and in EUR amounts, was greater for the nine G-SIIs than for the rest of the banks in the sample. In particular, G-SIIs accounted for 92% of the total decline in the shortfall, as calculated in EUR, between 2017 and 2019, and for 46% of TREA and 48% of TLOF in 2019. As shown in **Chart 20.4**, the shortfall expressed as a percentage of TREA was reduced by 1.3 pp for G-SIIs compared with 0.2 pp for non-G-SIIs.

[50] The set of 13 banks with an increase in the target is not the same as the set of 13 banks with an increase in eligible liabilities.

2.3 Overview of MREL compliance considering transitional periods

The analyses presented in previous sections reflect the fully-loaded total MREL and subordinated requirements and do not take into account bank-specific transitional periods that have been set under the current framework. In order to complement the picture of the shortfalls and allow for the effects of the transitional periods, an additional analysis has been conducted in order to estimate the shortfalls as of 31 December 2019.

As observed in **Chart 20.5**, when considering the informative intermediate targets and transition periods granted, the aggregate MREL shortfall drops to 0.05% TREA (€3.7 billion) compared with 1.0% TREA (€74.0 billion) when the final targets are taken into consideration.

Remedial actions on MREL

- MREL represents one of the key elements in enhancing banks' resolvability. The SRB, working closely with the NRAs, developed the MREL policy in 2016. It has continued to advance the policy by applying more demanding requirements from 2017 to 2019 and gradually setting binding requirements for a larger number of entities. Following the adoption of the risk reduction package[51], the SRB developed the 2020 MREL policy[52]. It has also developed dedicated reporting for MREL under both the BRRD I and BRRD II frameworks, while engaging in dialogue and maintaining cooperation with the banks to discuss the progress made towards resolvability.
- In line with the resolution framework, when setting the MREL targets the resolution authority also sets the compliance date, i.e. the date when the breach of requirement might result in an action under the provisions of the SRMR.[53] The period between the decision date and the compliance date is referred to as the transitional period, the purpose of which is to ensure that banks are given sufficient time to adapt their funding structure in order to meet the requirement. In line with the 2018 MREL policy, transitional periods that extend beyond two years may be accompanied by intermediate targets which are meant to help track the bank's progress towards the final target. Those transitional periods are currently the primary tool to deal with banks' shortfalls, as the SRB closely monitors their progress towards meeting the MREL target and hence towards resolvability.
- Under the BRRD II framework, transitional periods will be set to meet the final target in 2024, while binding intermediate targets will be set for all entities as of 1 January 2022. Banks will be required to submit frequent dedicated MREL reports to the resolution authorities, as set out by BRRD II and expected to be specified by the EBA Implementing Technical Standard (ITS) on reporting and disclosure on MREL.

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51 As part of the risk reduction package published in the OJEU in June 2019, Regulation (EU) 2019/876, Regulation (EU) 2019/877 and Directive (EU) 2019/879 implement a minimum TLAC requirement for EU G-SIIs (applicable as of 27 June 2019) and a revision of the MREL requirement for all banks with strengthened eligibility and subordination criteria (applicable upon transposition, from 28 December 2020).

52 SRB, (20 May 2020), 2020 MREL policy

53 For instance substantive impediment procedure under SRMR or Article 12j under SRMR II.

Indicator 19: Benchmark and trend total MREL shortfall ratio

Chart 19.1: Total MREL shortfall ratio – benchmark analysis

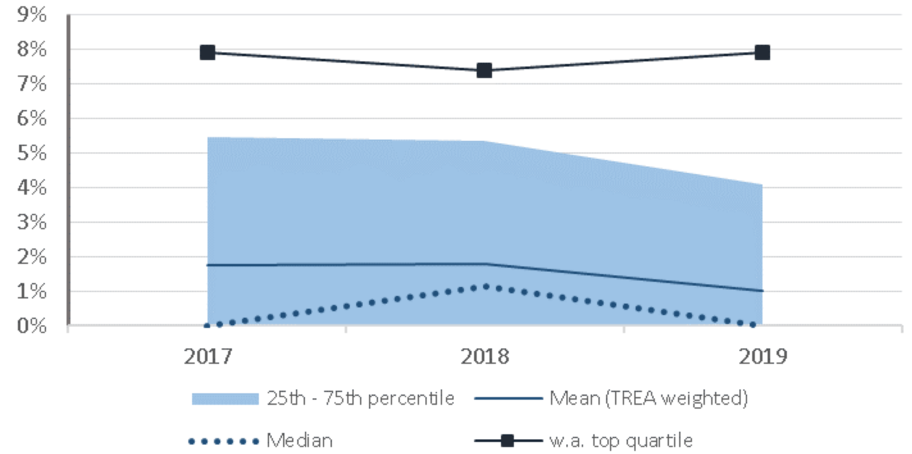


Chart 19.2: Total MREL shortfall ratio – level and trend

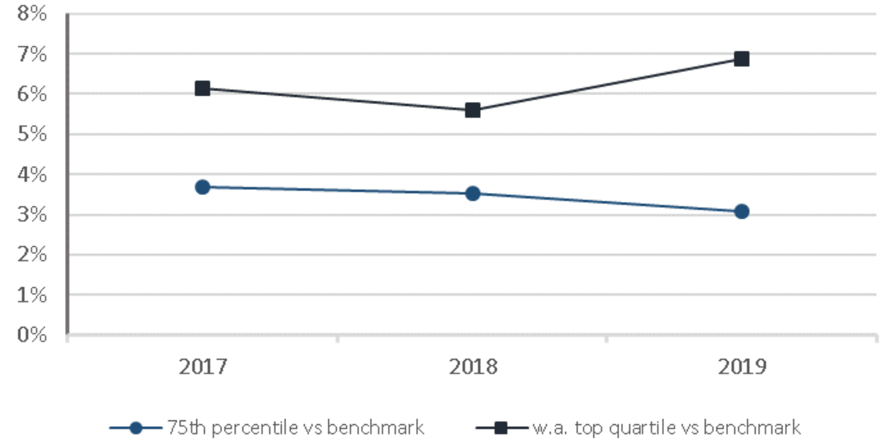
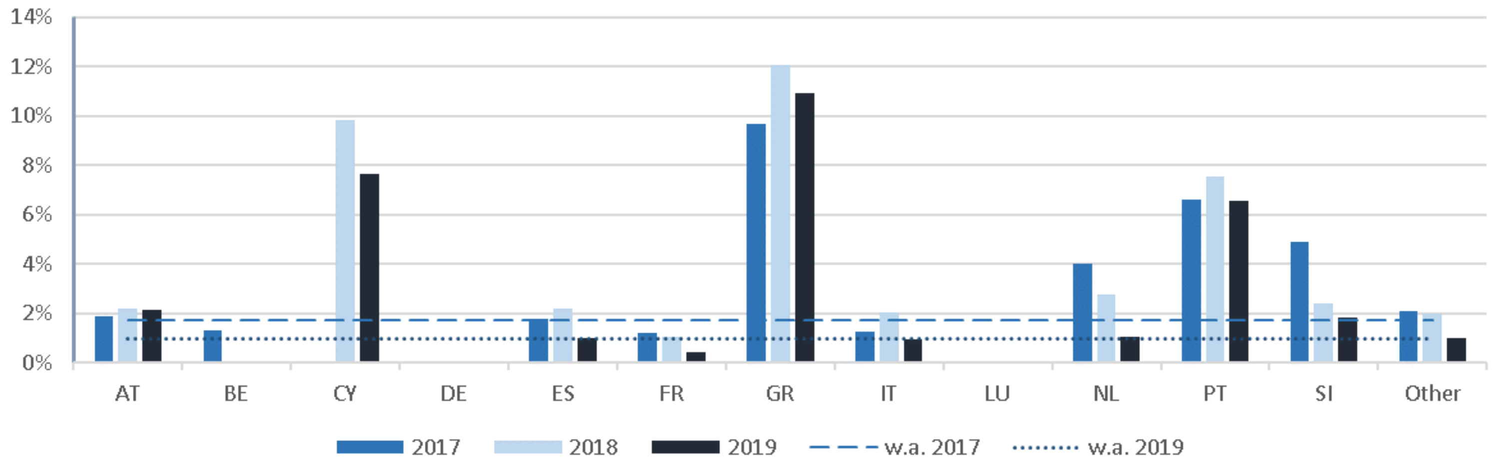


Chart 19.3: Total MREL shortfall ratio by Member State



Source: SRB calculations. See methodological notes in Annex IV.

Indicator 20: Benchmark and trend subordinated MREL shortfall ratio

Chart 20.1: Subordinated MREL shortfall ratio – benchmark analysis[54]

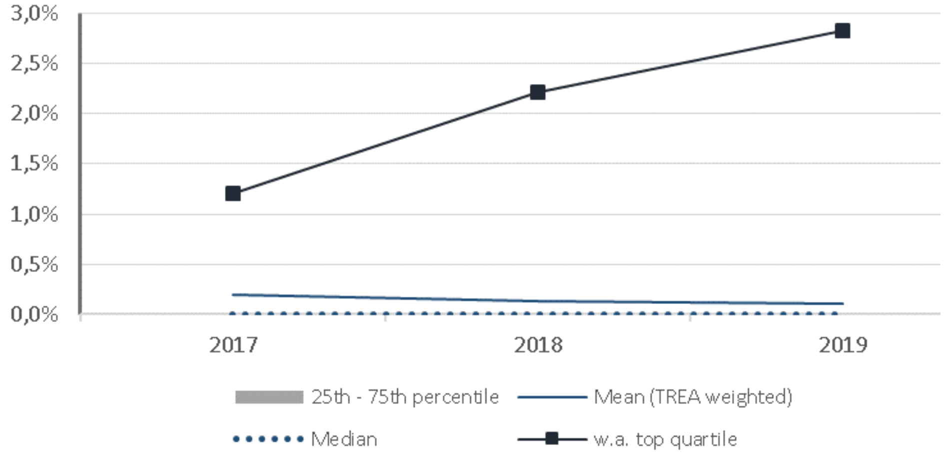


Chart 20.2: Subordinated MREL shortfall ratio – level and trend

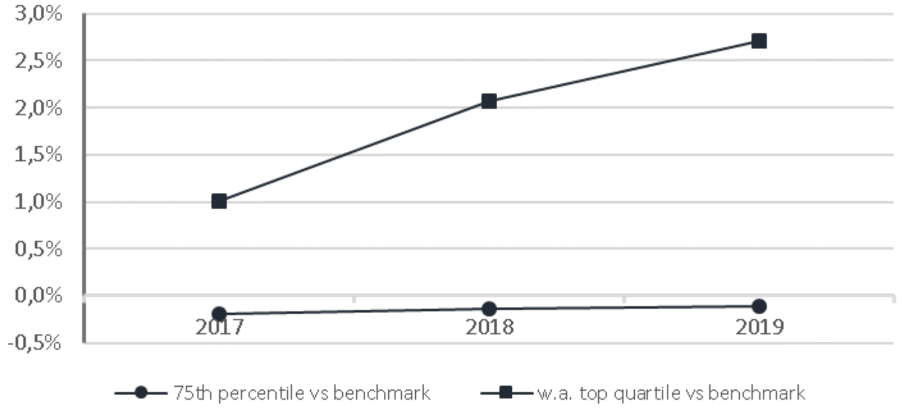
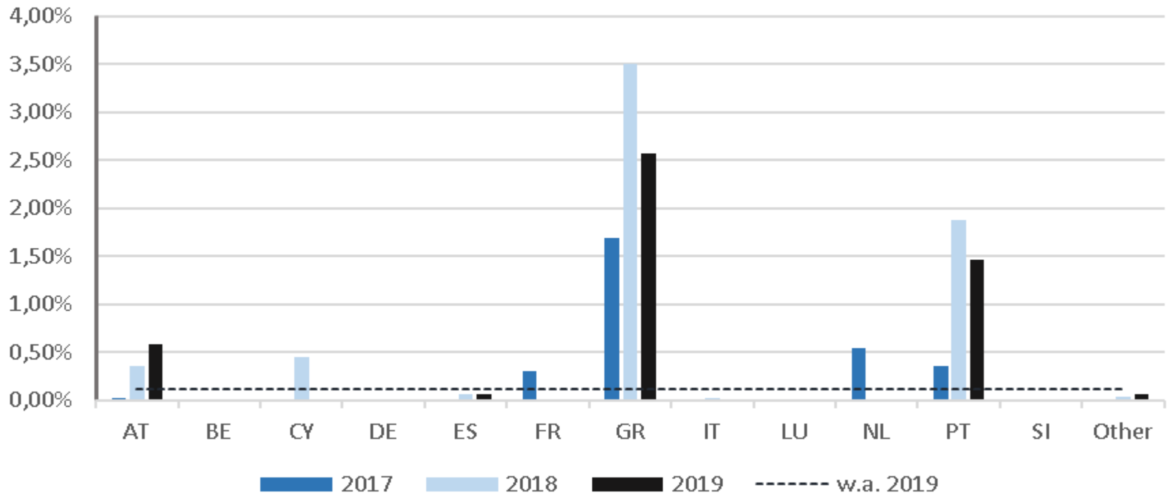


Chart 20.3: Subordinated MREL shortfall ratio by Member State



Source: SRB calculations See methodological notes in Annex IV.

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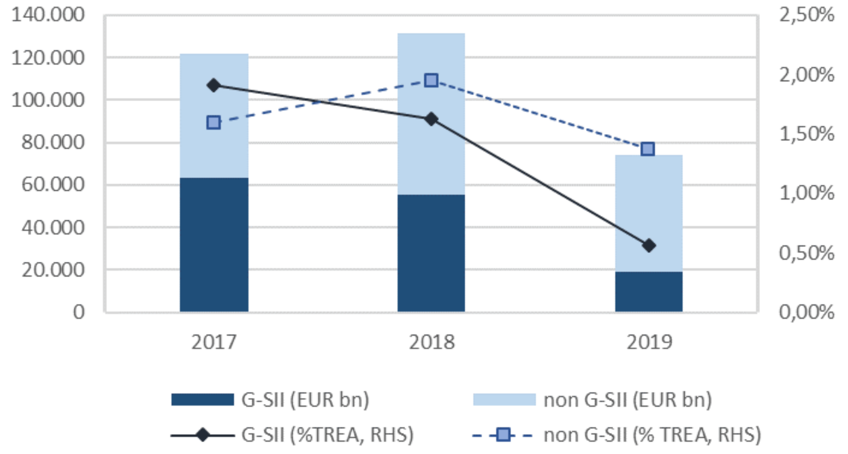
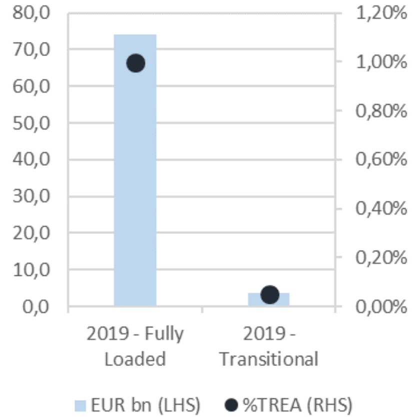
[54] The 75th percentile is zero across all reference dates.

Chart 20.4: Total MREL shortfall – breakdown into G-SIIs and non-G-SIIs



Source: SRB calculations.

Chart 20.5: Total MREL shortfall Q4 2019 – final and intermediate target



Source: SRB calculations, case-by-case transitional decisions (BRRD I framework).

2.4 Projection of BRRDII/SRMRII MREL targets and shortfalls

Quantitative indicators

The projection of BRRD II/SRMR II MREL targets and shortfalls in this section is based on the following quantitative indicators:

- **Final MREL targets:** The maximum MREL final targets and subordination requirements under BRRD II, expressed as a percentage of TREA by Member State (**Indicator 21: Chart 21.1** and for G-SIIs **Chart 21.2**).
- **Outstanding MREL-eligible liabilities**: Outstanding stock of MREL-eligible subordinated and non-subordinated liabilities under BRRD II, expressed as a percentage of TREA by Member State **(Indicator 22: Chart 22.1** and for G-SIIs **Chart 22.2**).
- **MREL shortfalls**: Computed as the difference between the maximum MREL target and the outstanding stock of MREL-eligible liabilities and own funds, floored at zero, including the part of the shortfall to be met with subordinated eligible liabilities, expressed as a percentage of the TREA and € billion by Member State (**Indicators 23 and 24**: **Chart 23.1, Chart 23.2, Chart 24.1** and **Chart 24.2**).

Commentary

- **General remarks.** The analysis in this section considers the provisions of the BRRD II, SRMR II, Capital Requirements Directive (CRD V) and CRR II as well as the 2020 SRB MREL policy under the banking package. The reference date for the data presented in this section is 31 December 2019, unless otherwise indicated (cf. methodological notes). It should be noted that the combined buffer requirement (CBR) stacks on top of the risk-based MREL target and does not constitute as such part of the MREL requirement. The consequences when the MREL targets are breached are different than those triggered when the CBR in addition to the risk-based MREL target is breached. More specifically, the breach of the CBR may result in certain restrictions to distributions, while the breach of MREL should be addressed with a variety of measures under SRMR II.
- **MREL targets.** For 74 of the 99 groups in the sample[55], the projected final MREL target on the basis of TREA would be higher than the MREL target on the basis of the total exposure measure (TEM).[56] For the purposes of this report, the higher of the risk based and non-risk-based final targets in EUR amount was considered for each bank (hereinafter MREL target) and then expressed as a percentage of TREA. On average, the MREL targets would represent 22.5% TREA or €1661 billion (25.5% TREA, equal to €1884 billion when the CBR would be considered on top of the MREL-TREA requirement).[57] The MREL subordinated targets would represent on average 15.7% TREA or €1156 billion (16.0% TREA, equal to €1185 billion when the CBR would be considered on top of the subordinated MREL-TREA requirement). When considering G-SIIs only, the average MREL target would be 23.2% TREA

[55] The sample of banks for the BRRD I analysis is not the same as for the BRRD II analysis (cf. methodological notes).
[56] Under BRRD II/ SRMR II, the MREL requirement is calculated on the basis of both TREA and TEM.
[57] An important change in the MREL calibration between BRRD I and II is related to the CBR. While in BRRD I the CBR was included in the MREL requirement, under BRRD II, it is no longer part of the MREL requirement and stacks on top.

(26.6% when the CBR is considered on top of the MREL-TREA), with an average subordination requirement[58] of 17.9%[59] TREA, i.e. higher than the average targets of non-G-SII banking groups.

- **Outstanding stock of MREL-eligible liabilities.** The stock of MREL-eligible liabilities of banks within the SRB's remit was estimated to be on average 32.8% TREA (€2420 billion). Subordinated liabilities accounted for a substantial share of eligible liabilities, with an average of 24.7% TREA (€1823 billion). In some Member States, the share of subordinated MREL-eligible liabilities was significant, either due to the recognition of statutory or structural subordination, or given the banks' specific funding model. When considering G-SIIs only, the average amount of MREL-eligible instruments would be equal to 28.3% TREA, and 24.6% TREA for subordinated MREL-eligible instruments.
- **MREL shortfalls.** In line with the projection of MREL targets, the maximum shortfall considering the risk-based and non-risk-based final target was taken into account for each bank (hereinafter MREL shortfall) and expressed in as a percentage of TREA. Based on the data presented in this report, the majority of the 19 Member States would present a shortfall[60]. The MREL shortfall with respect to the final 2024 average target would be on average 0.4% TREA or €33.1 billion (1.1% TREA, equal to €82.7 billion when the CBR is taken into consideration). The average shortfall would be higher than 5% TREA in only one jurisdiction, when only the MREL target is considered, and in five Member States when the CBR is considered in the calculation of the shortfall. The subordinated component of the MREL shortfall would also be limited, averaging 0.1% TREA.
- **Transitional period and intermediate targets.** According to SRMR II, the linear transition period for MREL build-up for banks in shortfall lasts three years (2020-2023). The SRB calibrates the binding intermediate MREL targets for 1 January 2022 considering one third of the shortfall (including the CBR in the risk-based MREL requirement). For banks without a shortfall, the SRB will set the binding intermediate targets equal to the final targets to be complied with by 1 January 2024.
- The draft intermediate MREL targets for 2022 would represent on average 21.7% TREA equal to €1603 billion (24.7% TREA or €1825 billion when the CBR was considered on top of the risk-based MREL requirement).
- Banks in four Member States present a shortfall for the 2022 intermediate MREL targets without considering the CBR in addition to the risk-based MREL requirement, while banks in 16 Member States would have a shortfall when the CBR is taken into account. The average MREL shortfall with respect to the 2022 intermediate target would be equal to 0.04% TREA (€3.0 billion) and 0.32% TREA (€23.4 billion) when the CBR is considered. Banks with an MREL shortfall for the 2022 intermediate target (not considering the CBR) would represent, on average, 3.3% of the TREA of the 26 banks established in these countries.

[58] The TLAC requirement is not considered in the MREL subordinated requirement. Please refer to the methodological notes.
[59] Not considering the CBR on top of the subordinated risk-based MREL.
[60] A Member State appears as having a shortfall if at least one of its banks presents a shortfall, even if the aggregate amount of eligible liabilities is higher than the aggregate MREL target in that Member State.

Assessment

- The MREL requirement under BRRD I is not directly comparable with the requirement under BRRD II, given the significant changes in the framework. Nevertheless, as a percentage of TREA, when a common sample of 89 banking groups is considered, the draft MREL targets under BRRD II would on average be 22.6% TREA (€1647 billion) compared with 25.2% TREA (€1852 billion) under BRRD I, i.e. 2.7 pp lower. When the CBR is considered in addition to the risk-based MREL to facilitate comparability, the draft BRRD II MREL targets would be 25.6% TREA (€1869 billion), i.e. 0.4 pp higher than under BRRD I. For the common sample of 89 banking groups, the draft BRRD II MREL aggregate shortfall not considering the CBR would be on average 0.5% TREA (€33.1 billion) compared with 1.0% TREA (€73.9 billion) under BRRD I, i.e. 0.6 pp lower. When the CBR is considered in addition to the risk-based MREL, the shortfall under BRRD II would be 1.1%TREA (€82.6 billion), i.e. 0.1 pp higher than under BRRD I.
- The level of compliance with the 2022 intermediate target could be estimated by extrapolating the average net quarterly MREL issuances at consolidated level[61] for the period Q4 2018–Q4 2019 to 1 January 2020–1 January 2022. On the basis of this estimate, banks in two Member States could be expected to reduce their shortfalls for the 2022 intermediate target to zero. However, it should be underlined that the banks were not informed of their new MREL requirements under BRRD II/SRMR II when they established their funding programmes at the beginning of this year. It is therefore expected that they will adapt their funding programmes in order to meet the intermediate target.
- Of the 79 banks in the sample, a total of seven did not issue any MREL-eligible liabilities in 2019; when only the first half of 2020 is considered, the number increased to 12. For the period 1 January 2019 to 30 June 2020, four banks in the sample did not issue any MREL-eligible liabilities.

[61] The analysis considers 77 banks in 18 Member States (out of the sample of 99 banks in 19 Member States) for which data on issuances at consolidated level are available. Groups whose preferred strategy is liquidation under normal insolvency proceedings are not included in the sample of 77 banks. When extrapolating the quarterly issuance rate, it is assumed that it remains the same for the period from Q4 2019 to Q4 2021.

Indicator 21: BRRD II draft MREL targets – December 2019

Chart 21.1: BRRD II draft MREL targets, % TREA

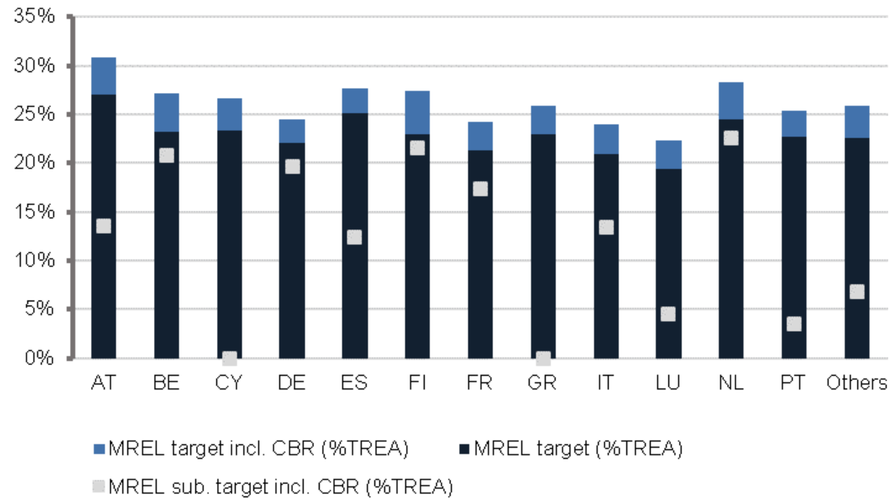
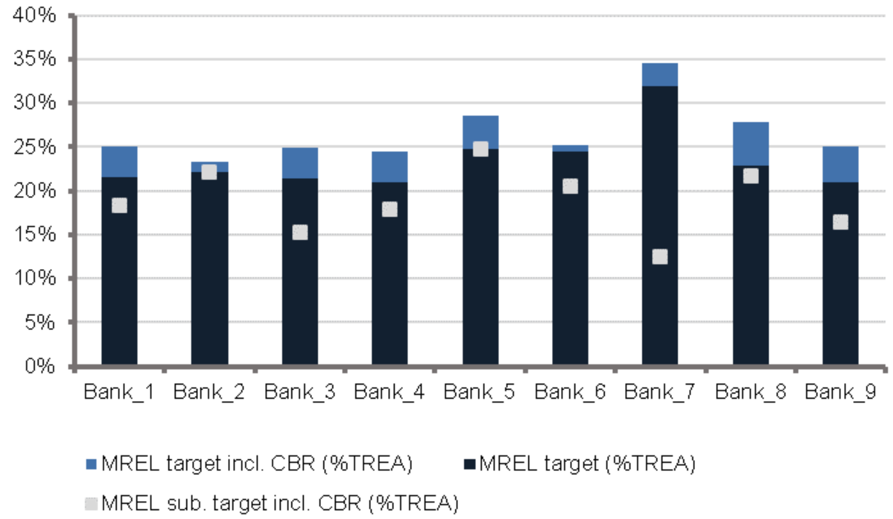


Chart 21.2: BRRD II draft MREL targets, % TREA – BU G-SIIs



Source: SRB calculations. See methodological notes in Annex IV.

Indicator 22: BRRD II MREL-eligible liabilities – December 2019

Chart 22.1: BRRD II MREL-eligible liabilities (of which subordinated), % TREA

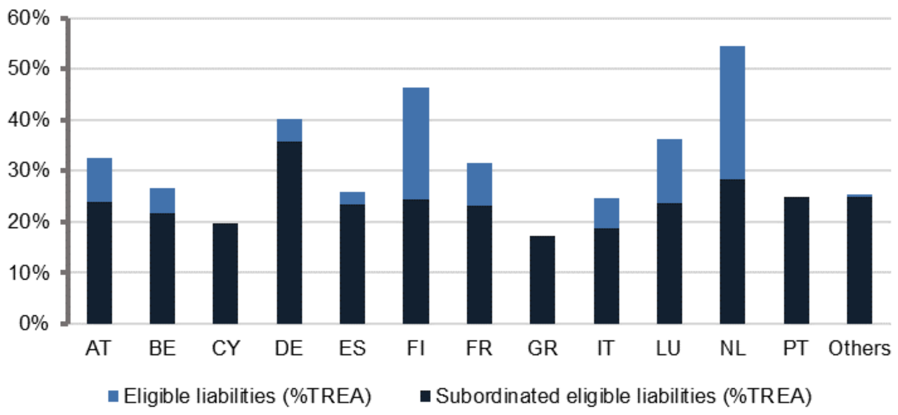
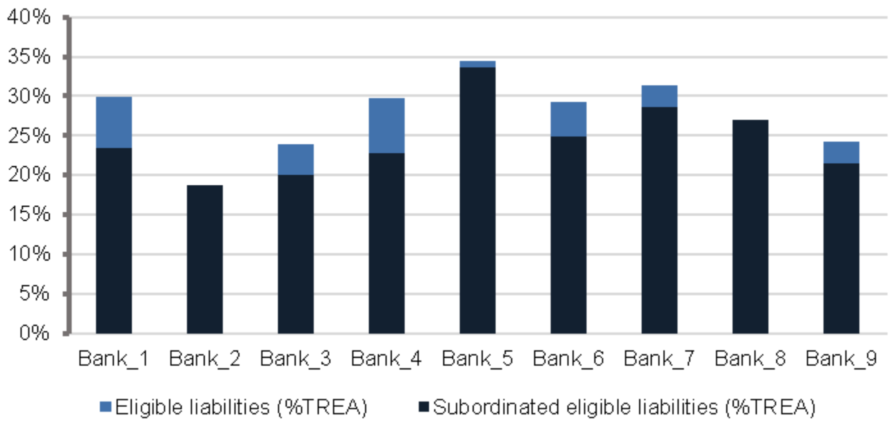


Chart 22.2: BRRD II MREL-eligible liabilities (of which subordinated), % TREA – BU G-SIIs



Source: SRB calculations. See methodological notes in Annex IV.

Indicator 23: BRRD II draft MREL shortfall – December 2019

Chart 23.1: BRRD II draft MREL shortfall, % TREA

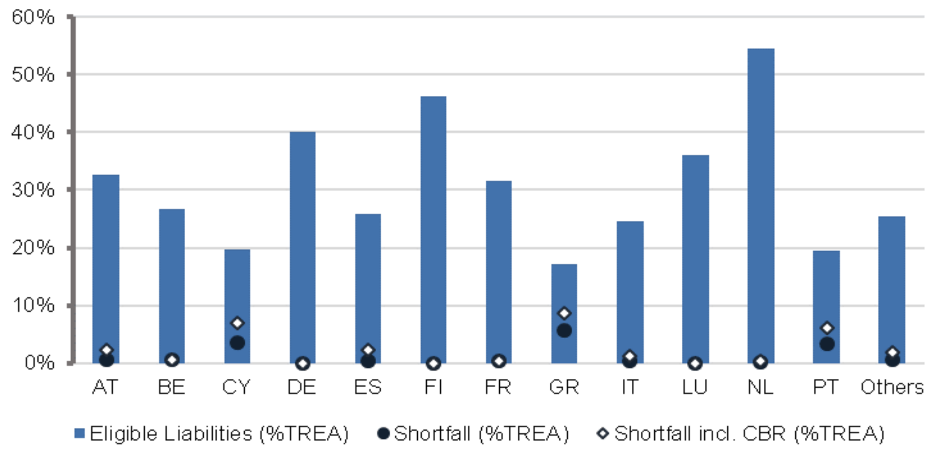
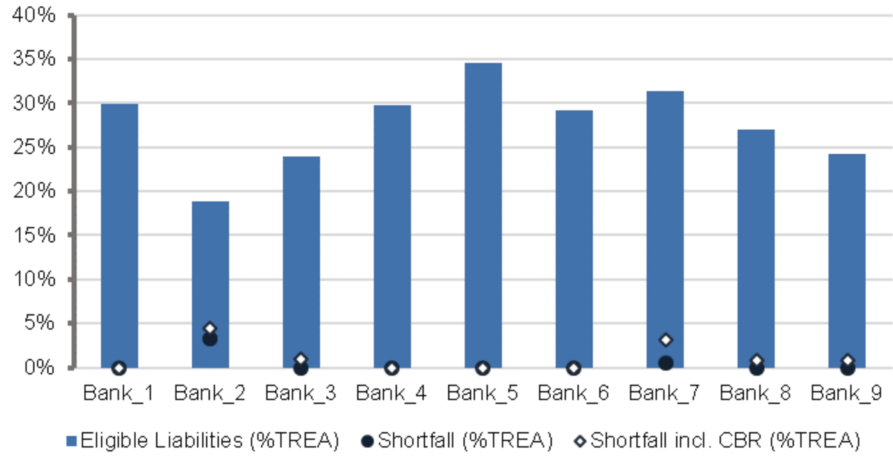


Chart 23.2: BRRD II draft MREL shortfall, % TREA – BU G-SIIs



Source: SRB calculations. See methodological notes in Annex IV.

Indicator 24: BRRD II draft MREL shortfall – December 2019

Chart 24.1: BRRD II MREL subordinated shortfall, % TREA

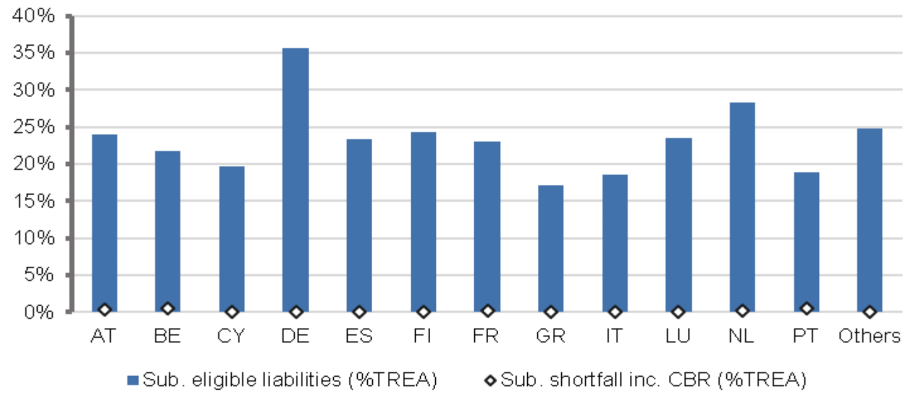
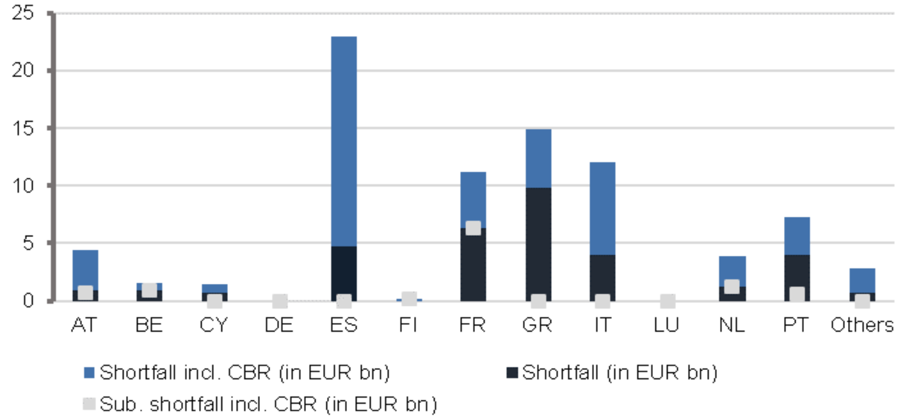


Chart 24.2: BRRD II MREL shortfalls (of which subordinated), € billion



Source: SRB calculations. See methodological notes in Annex IV.

2.5 Evolution of MREL build-up as of Q2 2020 (partial COVID-19 impact)

Commentary

- **General remarks.** This section presents the quantitative indicators of Section 2.1 (under the current framework) as of Q2 2020 and compares them with the indicators as of Q4 2019. The analysis does not consider banking groups whose preferred strategy is liquidation under normal insolvency proceedings. Therefore, the sample presented in this section is smaller than the one in Section 2.1. The comparison is based on the scope of Q2 2020.
  As regards existing binding targets (set in the 2018 and 2019 cycles), in the current crisis, the SRB has decided to take a forward-looking approach to banks that may face difficulties meeting those targets before new decisions under BRRD II/ SRMR II (with 2022 intermediate targets) take effect. The focus will be on the 2020 decisions and targets under the BRRD II framework.
- **MREL targets.** The average MREL target rose from 25.6% TREA (€1842 billion) in Q4 2019 to 27.9% (€2025 billion) in Q2 2020. The increase in MREL targets as a percentage of TREA was driven by the growth in TLOF, which was higher than the growth in TREA during the period. More specifically, TLOF increased by 9.9% on average (€1760 billion) between Q4 2019 and Q2 2020 as a result of the participation of some banks in ECB refinancing operations in the context of the COVID-19 crisis, while TREA increased by 0.7% (€47.4 billion). Similarly, in Q2 2020 the MREL subordinated target increased to 17.4% TREA (€1262 billion) from 15.9% TREA (€1147 billion) in Q4 2019. When considering G-SIIs only, the average MREL target increased over the same period from 26.1% to 28.7% TREA, with the average subordinated requirement increasing from 20.2% to 22.2% TREA.
- **Outstanding stock of MREL-eligible liabilities.** The stock of MREL-eligible liabilities increased slightly, from 31.1% TREA (€2236 billion) in Q4 2019 to 31.2% TREA (€2262 billion) in Q2 2020. The stock of eligible liabilities in EUR amounts increased in nine Member States, in spite of the negative impact of the COVID-19 pandemic on financial markets. The increase is more pronounced for subordinated liabilities: from €1761 billion in Q4 2019 to €1799 billion in Q2 2020. When considering G-SIIs only, over the same period, the average amount of MREL-eligible instruments increased from 28.3% TREA to 28.9% TREA, and from 24.6% TREA to 25.5% TREA for subordinated MREL-eligible instruments.
- **MREL shortfalls.** In Q2 2020 the majority of the 19 Member States presented a shortfall[62]. The average MREL shortfall was equal to 2.0% TREA in Q2 2020 compared with 1.0% TREA in Q4 2019. In absolute terms, the total shortfall rose from €73.7 billion to €146.5 billion over this same period. The increase in the shortfall was caused by the growth in the TLOF, which was not offset by the increase in MREL-eligible liabilities. The average shortfall was higher than 5% TREA in only few Member States. G-SIIs accounted for 38.3% of the total shortfall in EUR amount and for 50.6% of the overall increase of the shortfall in EUR amount in Q2 2020. The shortfall expressed as a percentage of TREA increased by 1.1 pp for G-SIIs and 0.9 pp for non-G-SIIs. The subordinated component of the MREL shortfall remained

[62] A Member State appears as having a shortfall if at least one of its banks presents a shortfall, even if the aggregate amount of eligible liabilities is higher than the aggregate MREL target in that Member State.

stable, at 0%. In Q2 2020, total MREL funding needs[63] represented approximately 7.2% of the total consolidated MREL target, up from 4.0% in Q4 2019.

63 Calculated as total MREL shortfall over total MREL target.

Indicator 25: MREL targets – June 2020, December 2019

Chart 25.1: MREL targets, % TREA

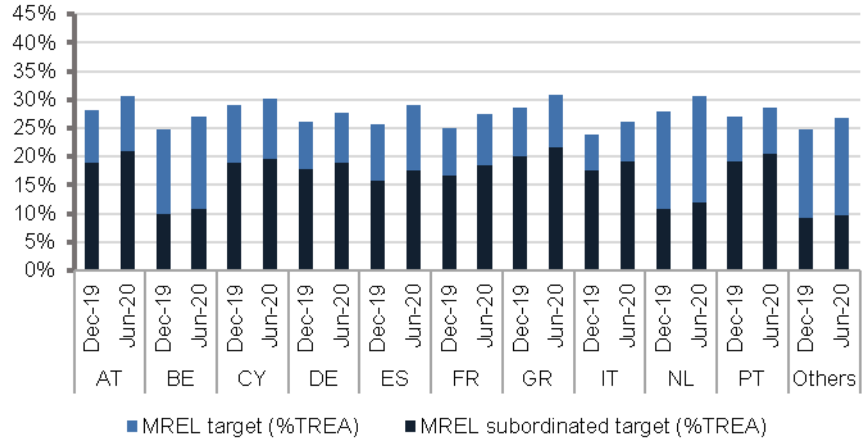
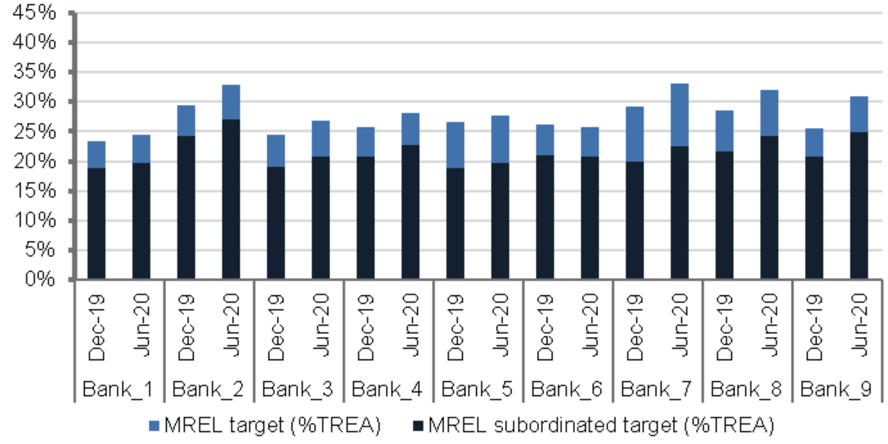


Chart 25.2: MREL targets, % TREA – BU G-SIIs



Source: SRB calculations. See methodological notes in Annex IV.

Indicator 26: MREL-eligible liabilities – June 2020, December 2019

Chart 26.1: MREL eligible liabilities (of which subordinated), % TREA

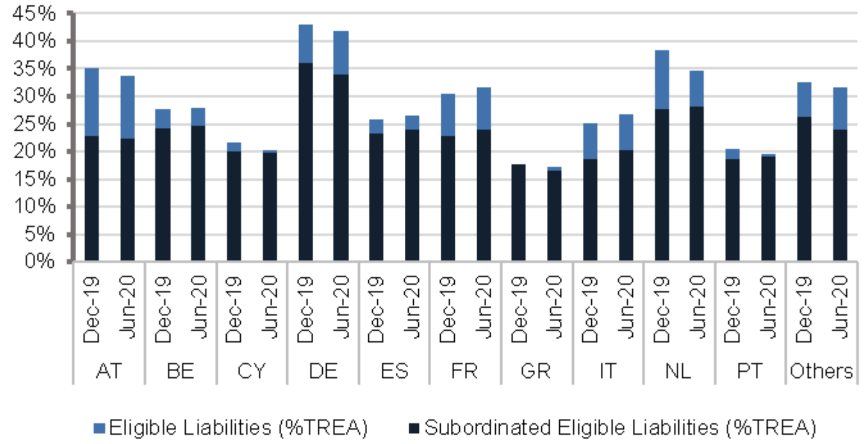
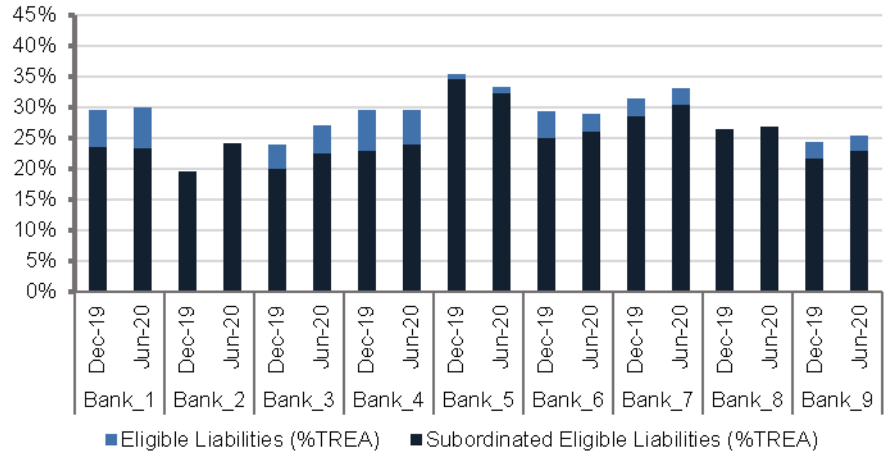


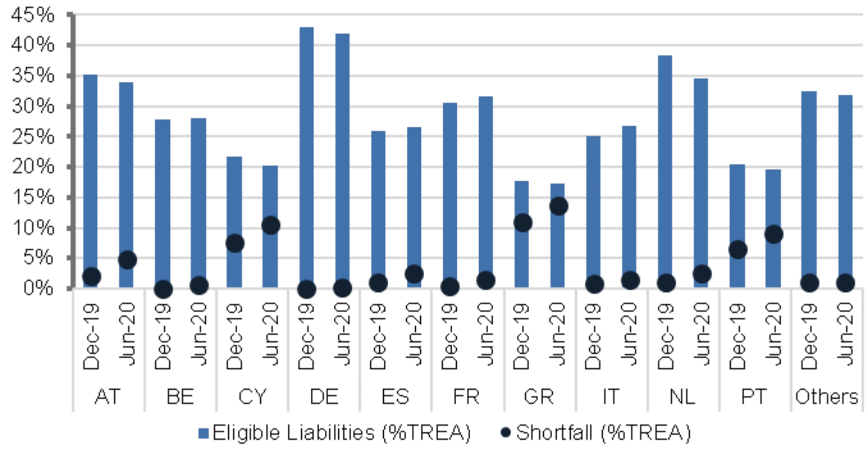
Chart 26.2: MREL-eligible liabilities (of which subordinated), % TREA – BU G-SIIs



Source: SRB calculations. See methodological notes in Annex IV.

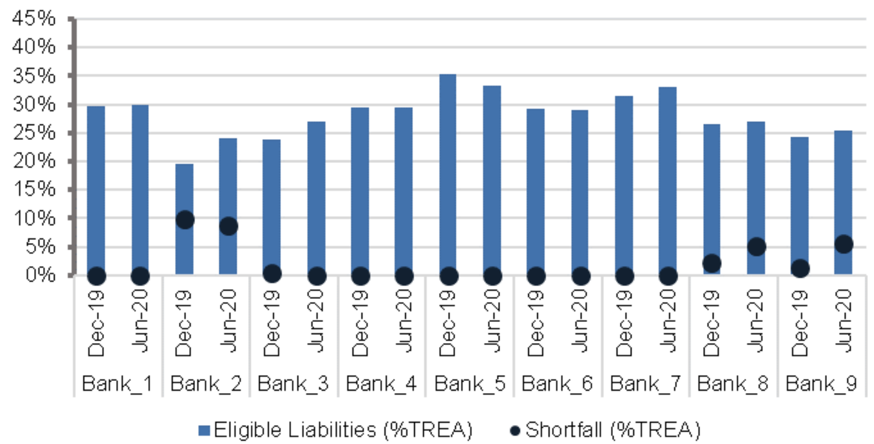
Indicator 27: MREL shortfall – June 2020, December 2019

Chart 27.1: MREL shortfall, % TREA



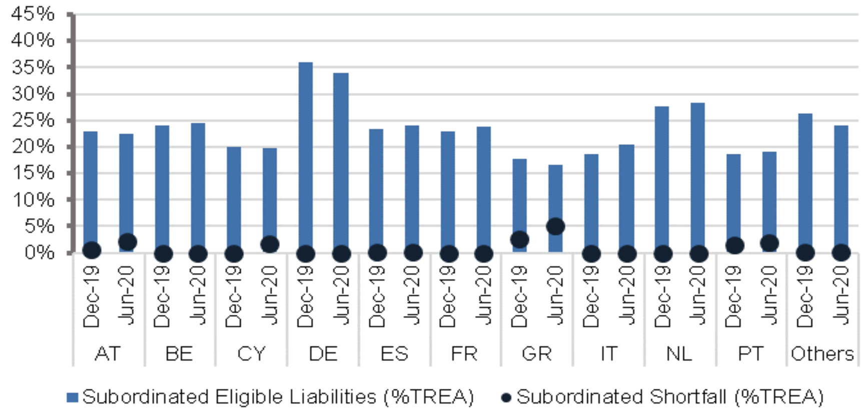
Source: SRB calculations. See methodological notes in Annex IV.

Chart 27.2: MREL shortfall, % TREA – BU G-SIIs



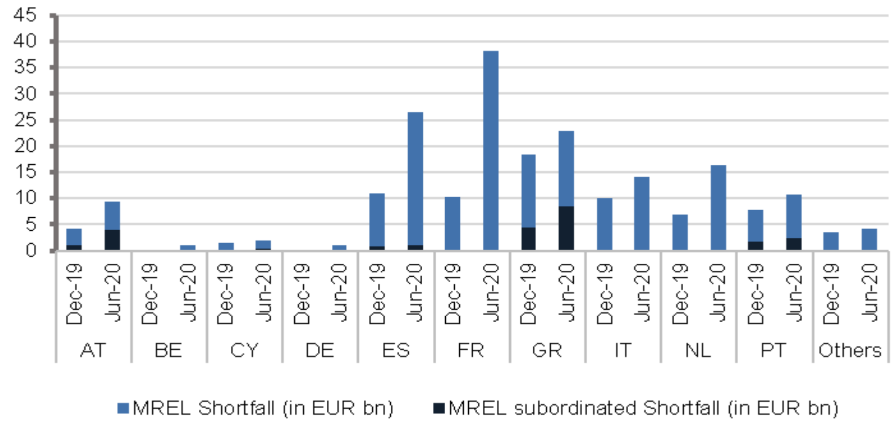
Indicator 28: MREL Shortfall – June 2020, December 2019

Chart 28.1: MREL subordinated shortfall, % TREA



Source: SRB calculations. See methodological notes in Annex IV.

Chart 28.2: MREL shortfalls (of which subordinated), € billion



Summary and outlook

The build-up of MREL-eligible instruments by the sector continued, leading to a significant improvement in MREL compliance as of Q4 2019 when compared with Q4 2018. The decline in the aggregate shortfall (1.0% TREA or €74.0 billion in Q4 2019 compared with 1.8% TREA or €131.4 billion in Q4 2018) was to the result of an increase in the stock of eligible liabilities, which more than offset the increase in targets.

The effect of the COVID-19 crisis on balance sheets (i.e. on TLOF, TEM and TREA), together with the impact of BRRD II/SRMR II and in the future, that of the Basel III implementation, may lead to further increases in MREL targets. Even with transitional periods, this could put pressure on the banking sector to continue issuing eligible instruments at a sustainable pace over the next years. For banks where further progress on MREL is warranted to meet their final 2024 MREL targets, the resolution authorities are taking remedial actions at the relevant level to effectively address the issues.

3. Capital position

COVID-19 measures

- The ECB adopted a number of **supervisory measures** on 12 March,[64] 20 March,[65] 27 March,[66] 16 April,[67] 28 July,[68] and 17 September 2020[69] to ensure that its directly supervised banks can continue to play their role in funding the real economy as the economic effects of the COVID-19 pandemic become apparent. Specifically, following those measures, banks are:
  - allowed to operate temporarily below the level of capital defined by the Pillar 2 Guidance (P2G) and the capital conservation buffer);
  - allowed to use capital instruments that do not qualify as CET1 capital, such as Additional Tier 1 or Tier 2 instruments, to meet the Pillar 2 Requirements (P2R), as long as they meet at least 56.25% of their P2R with CET1;[70;]
  - encouraged not to pay dividends for financial years 2019 and 2020 until January 2021, to refrain from share buybacks aimed at remunerating shareholders and to exercise extreme moderation on variable remuneration to conserve capital in crisis;
  - allowed to adjust the supervisory component of the capital requirements for market risk in response to the extraordinary levels of volatility recorded in financial markets since the outbreak of COVID-19.
- On 28 April 2020, the Commission presented a set of measures to facilitate bank lending and support households and businesses in the EU during the COVID-19 pandemic. The **COVID-19 Banking Package**[71] or CRR "quick fix" package includes an Interpretative Communication on the EU's accounting and prudential frameworks as well as a legislative proposal for targeted amendments to the CRR:
  - The **Interpretative Communication**[72] on the EU's accounting and prudential frameworks further clarifies how EU rules should be applied by banks and supervisors in a flexible but responsible manner in order to ensure continued lending to businesses and households in the current context.
  - The **legislation**[73] puts forward exceptional temporary measures in order to maximise the ability of EU banks to lend during the COVID-19 pandemic, while also

[64] European Central Bank (12 March 2020), ECB Banking Supervision provides temporary capital and operational relief in reaction to coronavirus
[65] European Central Bank (20 March), ECB Banking Supervision provides further flexibility to banks in reaction to coronavirus
[66] European Central Bank (27 March 2020), ECB asks banks not to pay dividends until at least October 2020
[67] European Central Bank (16 April 2020), ECB Banking Supervision provides temporary relief for capital requirements for market risk
[68] European Central Bank (28 July 2020), ECB extends recommendation not to pay dividends until January 2021 and clarifies timeline to restore buffers
[69] European Central Bank (17 September 2020), ECB allows temporary relief in banks' leverage ratio after declaring exceptional circumstances due to pandemic
[70] This brings forward a measure that was initially scheduled to come into effect in January 2021, as part of the latest revision of the CRD through Directive (EU) 2019/878 (CRD V) which was published in the Official Journal of the EU (OJEU) on 7 June 2019 and entered into force 20 days later.
[71] European Commission (28 April 2020), Coronavirus response: Banking Package to facilitate bank lending - Supporting households and businesses in the EU
[72] European Commission COM(2020)169, (28 April 2020), Communication from the Commission to the European Parliament and the Council: "Commission Interpretative Communication on the application of the accounting and prudential frameworks to facilitate EU bank lending - Supporting businesses and households amid COVID-19"
[73] COM(2020)310 (28 April 2020), Proposal for a Regulation of the European Parliament and of the Council amending Regulations (EU) No 575/2013 and (EU) 2019/876 as regards adjustments in response to the COVID-19 pandemic.

ensuring their continued resilience. With respect to banks' risk-based capital positions the proposed measures entail:

- adapting the transitional period for mitigating the impact of IFRS 9 provisions on CET1 capital;
- advancing the date of application of the revised supporting factor for small and medium-sized enterprises (SMEs) and the new infrastructure supporting factor, and the preferential treatment of loans backed by pensions or salaries and of certain software assets.

- In a significant number of Member States[74], **macroprudential buffers** such as the countercyclical capital buffer (CCyB) have been released or pending increases have been halted in order to safeguard the supply of credit to the real economy at the current juncture. Regarding the systemic risk buffer (SyRB), IE decided to defer the implementation of the SyRB and some Member States have decided to reduce the level of currently active SyRB (EE, FI, NL, HU and PL).[75]

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74 With the exception of BG (0.5%), CZ (0.5%), LU (0.25%) and SK (1%), all Member States had fully released their CCyB as of 26 October 2020. For an overview of all Member States, please see the ESRB's overview regarding CCyBs.

75 FI and NL also decided to reduce the buffer rate for two banks designated as other systemically important institutions (O-SIIs), for consistency with the SyRB reduction, as the SyRB was mainly applied to target systemic importance. Some Member States have extended, or are considering whether to extend, the phase-in period for the application of O-SII buffers (CY, GR, LT and PT).

Quantitative indicators

The analysis in this section is based on the following quantitative indicators:

- **Fully loaded Common Equity Tier 1 (CET1) capital ratio**: Ratio of fully loaded CET1 capital/total risk-weighted assets (RWAs) (**Indicator 29: Chart 29.1** and **Chart 29.2**)[76]

- **Fully loaded Tier 1 (Tier 1) capital ratio**: Fully loaded Tier 1 capital/total RWAs (**Indicator 30: Chart 30.1** and **Chart 30.2**)[77]

- **Fully loaded total capital ratio**: Fully loaded total capital/total RWAs (**Indicator 31: Chart 31.1** and **Chart 31.2**)[78]

Commentary

- **CET1 capital position of BU SIs**
  - **Legacy position (Q4 2014 to Q4 2019).** From the end of 2014 until Q4 2019, the BU weighted average CET1 ratio improved by 3.7 pp to 14.6%.
  - **Q2 2020 position.** CET1 levels showed a quarterly decrease of 0.4 pp in Q1 2020 and a subsequent increase of 0.3 pp in Q2 2020, resulting in a small net CET1 decrease of 0.1 pp overall.
  - **Q2 2020 position – underlying drivers.** The Q1 2020 decrease in CET1 ratios was driven mostly by an increase in credit risk and market risk related RWAs, stemming from increased lending and drawdowns on committed lines and from volatile market conditions. The subsequent increase in the CET1 ratio in Q2 2020 was largely driven by regulatory measures (most notably the impact of the CRR "quick fix" package[79]). These measures had a positive impact on both the numerator (IFRS 9 transitional arrangements) and the denominator (early application of the SME supporting factor). An additional factor affecting CET1 ratios of BU SIs was the accrual of half-year profits.
- **Tier 1 and total capital position of BU SIs**
  - **Legacy position (Q4 2014 – Q4 2019).** CET1, Tier 1 and total capital ratios increased between Q4 2014 and Q4 2019.[80] (**Chart 29.1, Chart 30.1** and **Chart 31.1**).

[76] The CET1 capital ratio indicates the extent to which an institution can absorb losses on a going concern basis using CET1 capital resources.
[77] The Tier 1 capital ratio indicates the extent to which an institution can absorb losses on a going concern basis using Tier 1 capital resources (i.e. CET1 and additional Tier 1 capital resources).
[78] The total capital ratio indicates the extent to which an institution can absorb losses on a going concern basis using total capital resources (i.e. CET1 and additional Tier 1 capital resources as well as Tier 2 capital).
[79] Key measures of the CRR quick fix package include: 1. Transitional arrangements regarding the capital impact of IFRS 9 Expected Credit Loss (ECL) accounting, 2. Acceleration of the date of application of a number of CRR II measures (originally scheduled for 28 June 2021) such as a) a revised small and medium-sized enterprises (SME) supporting factor, b) an infrastructure supporting factor and c) non-deduction of certain software assets from CET1 capital, and 3.) discretion to apply a temporary prudential filter to certain types of unrealised gains or losses measured at fair value through other comprehensive income. COM(2020)310 (28 April 2020), Proposal for a Regulation of the European Parliament and of the Council amending Regulations (EU) No 575/2013 and (EU) 2019/876 as regards adjustments in response to the COVID-19 pandemic.
[80] The drop in Q1 2018 capital figures was mainly due to a reduction in CET1 capital, which in turn was driven by "accumulated other comprehensive income" and "retained earnings" (and also linked to the IAS 39/IFRS 9 migration as a number of firms chose to take the full deduction rather than making use of the transitional arrangements).

  - **Q2 2020 position.** Tier 1 and total capital ratios also decreased in Q1 2020 and subsequently increased in Q2 2020. The Q2 2020 increase in Tier 1 and total capital ratios was also largely driven by the CRR quick fix package. An additional factor impacting total capital ratios of BU SIs was the reopening of the Additional Tier 1 and Tier 2 markets. Mean Tier 1 and total capital ratios were broadly in line with Q4 2019 levels, while median Q2 2020 ratios stood above Q4 2019 reported figures (by 0.6 pp and 0.2 pp respectively). The divergence between mean and median ratios suggests the presence of outliers in the mean which are excluded from the median.
- **Member State-specific developments**
  - **Legacy position (Q4 2014 to Q4 2019).** The BU SIs in the overwhelming majority of Member States increased their CET1 positions in the period between Q4 2014 and Q4 2019, with the greatest increases occurring in IE (+10.5 pp), BE (+9.6 pp), GR (+8.0 pp) and PT (+7.0 pp). BU SIs in LU, LV, SI and SK showed decreases in their CET1 ratios of 1.3 pp, 4.4 pp, 0.8 pp and 2.4 pp respectively. However, in Q4 2019, LU's and LV's ratios remained in the group of Member States with the top five highest CET1 ratios in the cohort despite these decreases (19.3% and 19.1% respectively)[81]. Tier 1 and total capital trends developments broadly mirrored CET1 trends.
  - **Q2 2020 position.** Four jurisdictions reported a CET1 capital increase in Q2 2020 with respect to Q4 2019: SK (+1.2%), EE (+0.7%), IT (0.6%), LU (0.4%). Two Member States reported largely stable values: NL (+0.1%) and ES (-0.1%). The largest reductions in CET1 ratios were reported by GR (-1.4%), BE (-0.9%), FI (-0.8%), IE (-0.7%) and PT (-0.5%). In absolute value terms, the lowest CET1 capital ratios were reported by ES (11.8%), GR (12.2%), PT (13.1%), AT (13.8%) and IT (13.8%) and the highest for EE (28.8%), LT (22.4%), LU (19.7%), BE (18.5%) and IE (17.9%). Tier 1 and total capital movements largely mirrored the absolute and relative trends of CET1 ratios.

[81] For confidentiality reasons, EE and LT have been excluded from this analysis.

Indicator 29: Fully loaded CET1 capital ratio

Chart 29.1: Fully loaded CET1 capital ratio – evolution in the BU

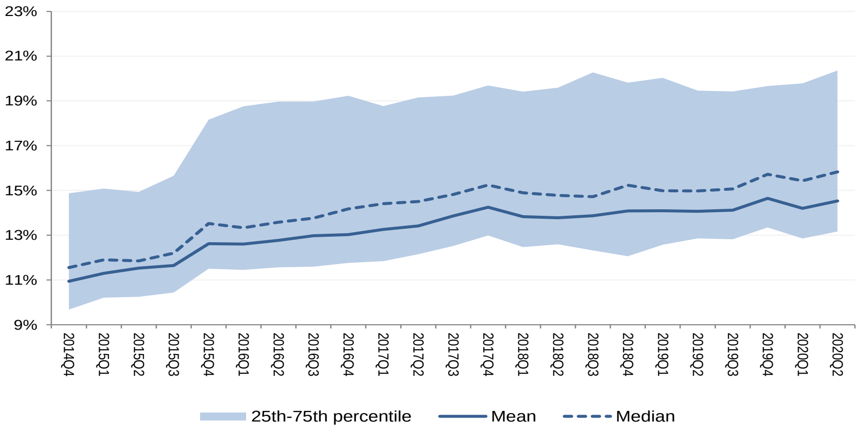
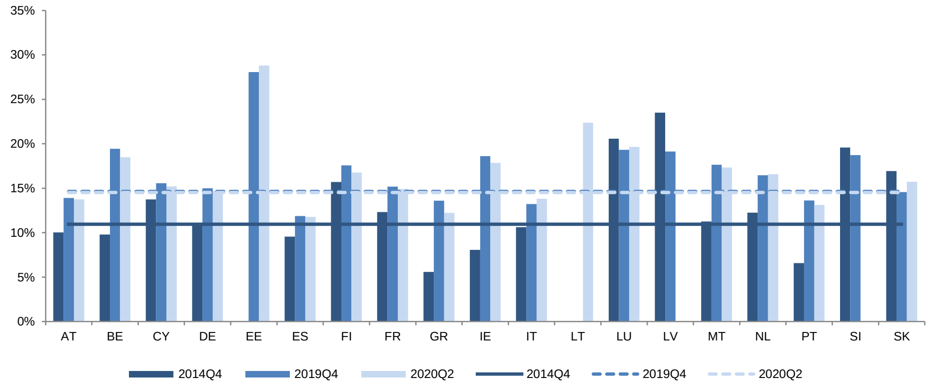


Chart 29.2: Fully loaded CET1 capital ratio by Member State



Source: ECB staff contribution, COREP and ECB calculations. See methodological notes in Annex IV.

Indicator 30: Fully loaded Tier 1 capital ratio

Chart 30.1: Fully loaded Tier 1 capital ratio – evolution in the BU

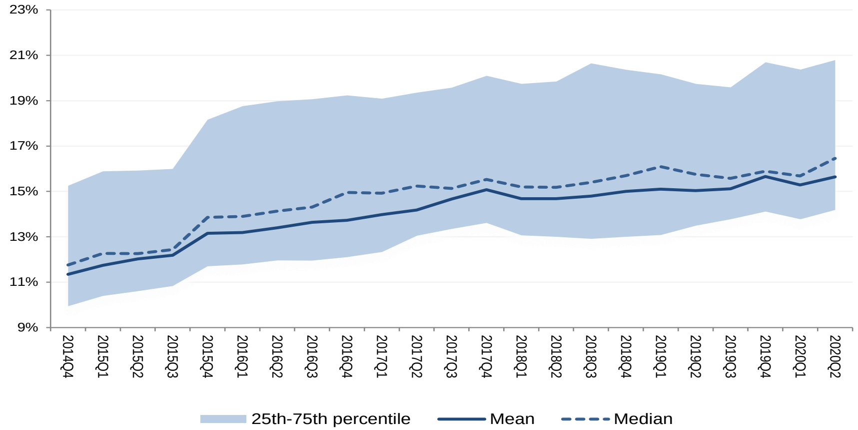
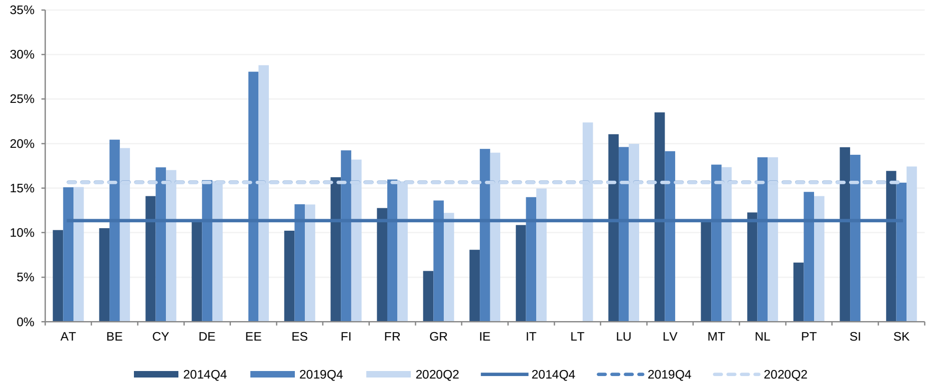


Chart 30.2: Fully loaded Tier 1 capital ratio by Member State



Source: ECB staff contribution, COREP and ECB calculations. See methodological notes in Annex IV.

Indicator 31: Fully loaded total capital ratio

Chart 31.1: Fully loaded total capital ratio – evolution in the BU

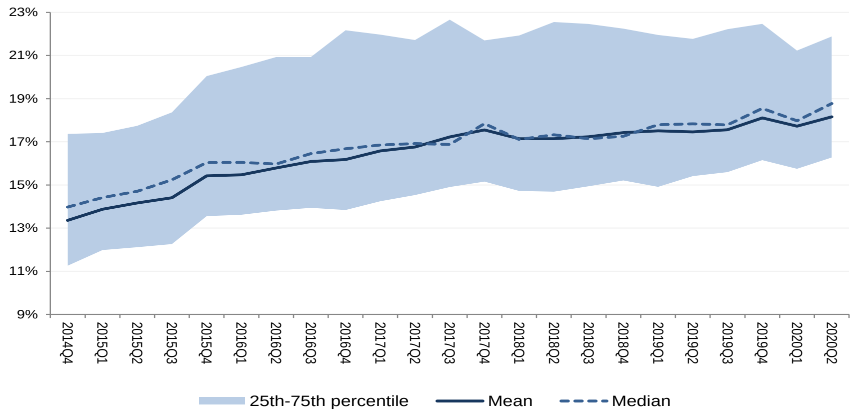
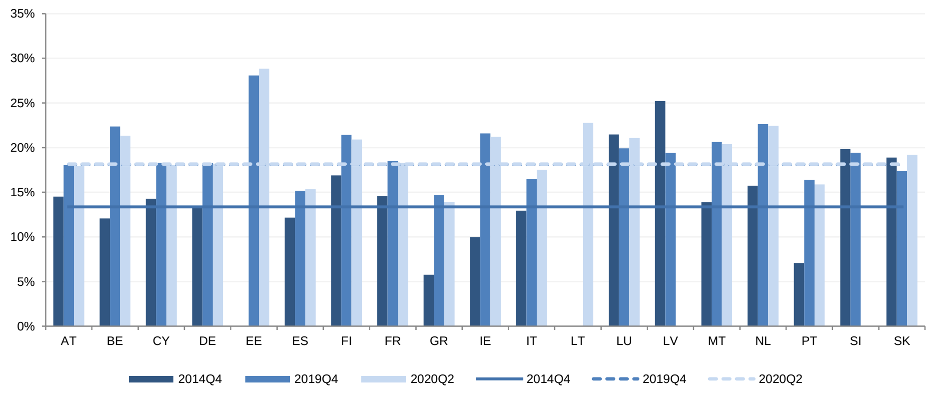


Chart 31.2: Fully loaded total capital ratio by Member State



Source: ECB staff contribution, COREP and ECB calculations. See methodological notes in Annex IV.

4. Leverage

COVID-19 measures

- The legislation[82] put forward by the Commission on 28 April 2020 to maximise the ability of EU banks to lend during the COVID-19 pandemic, while ensuring their continued resilience, includes the following amendments with respect to the leverage ratio:
  - postponing the date of application of the new leverage ratio buffer requirement that is part of the final elements of the Basel III reform;
  - adjusting the conditions for excluding certain exposures to central banks from the leverage ratio exposure measure.
- On 17 September 2020[83], the ECB announced that euro area banks under its direct supervision may exclude certain central bank exposures from the leverage ratio. Such assets include coins and banknotes as well as deposits held at the central bank.

Structural measures

- The risk reduction package[84], published in June 2019[85], introduces a binding leverage ratio to prevent institutions from accumulating excessive leverage as well as a leverage ratio buffer requirement for institutions qualifying as G-SIIs. The leverage ratio is intended to reinforce the risk-based capital requirements with a simple, non-risk-based backstop.

Quantitative indicator

- **Fully loaded leverage ratio**: Ratio of fully loaded Tier 1 capital/total leverage ratio exposure[86], as referred to in the CRR/ CRD definitions reported in the European Banking Authority (EBA) Implementing Technical Standards (ITS) on supervisory reporting (**Indicator 32: Chart 32.1** and **Chart 32.2**).

[82] COM(2020)310 (28 April 2020), Proposal for a Regulation of the European Parliament and of the Council amending Regulations (EU) No 575/2013 and (EU) 2019/876 as regards adjustments in response to the COVID-19 pandemic.

[83] European Central Bank (17 September 2020), ECB allows temporary relief in banks' leverage ratio after declaring exceptional circumstances due to pandemic.

[84] For an overview of the key elements of the risk reduction package, please see Annex I.

[85] Regulation (EU) 2019/876 was published in the Official Journal of the EU (OJEU) on 7 June 2019 and entered into force 20 days later.

[86] The exposure measure includes both on-balance sheet exposures and off-balance sheet items. On-balance sheet exposures are generally included at their accounting value, although exposures arising from derivative transactions and securities financing transactions are subject to separate treatment (in essence, amounts owed to a bank are excluded while any on-balance sheet collateral related to such transactions is included).

Commentary

- **Leverage position of BU SIs**
    - **Legacy position (Q4 2014 to Q4 2019).** On average, banks reduced their leverage by 1.6 pp, with the weighted average fully loaded leverage ratio improving from 4.0% in Q4 2014 to 5.6% in Q4 2019.
    - **Q2 2020 position.** Leverage ratios decreased by 0.3 pp in Q1 2020 and, with a decrease of 0.1 pp, stayed largely stable in Q2 2020. In contrast to Tier 1 ratios, leverage ratios did not increase in Q2 2020. Given that both ratios share the same numerator, this divergence may point to the fact that responses in relation to the COVID-19 pandemic resulted in greater reductions in RWAs (the Tier 1 ratio denominator) than those in total leverage ratio exposure (the leverage ratio denominator). As discussed in the section of this report on bank capital, a considerable proportion of the overall decrease in RWAs was a result of the recalibration of the SME supporting factor. The evolution of the leverage ratio denominator can be explained, in particular, by the increase in central bank exposures since the beginning of the COVID-19 pandemic.
- **Member State-specific developments**
    - **Legacy position (Q4 2014 to Q4 2019).** Between Q4 2014 and Q4 2019, the aggregate leverage ratio increased in most Member States. For the three jurisdictions where the leverage ratio decreased (CY, LV and SK), in Q4 2019 the corresponding absolute ratios of 8.1%, 8.3% and 7.0% respectively were above the BU SI average of 5.6%.
    - **Q2 2020 position.** With the exception of SK (which reported an increase of 0.5 pp compared to Q4 2019 in its leverage ratio), the leverage ratio decreased in all Member States. GR (-1.6 pp) and IE (-0.9 pp) showed the largest reductions. FR, AT, ES, MT, EE, PT and BE showed reductions of between 0.5 pp and 0.6 pp, while the remaining jurisdictions (IT, LU, DE, NL, CY and FI) showed reductions between 0.2 pp and 0.4 pp.

Indicator 32: Leverage ratio

Chart 32.1: Fully loaded leverage ratio – evolution in the BU

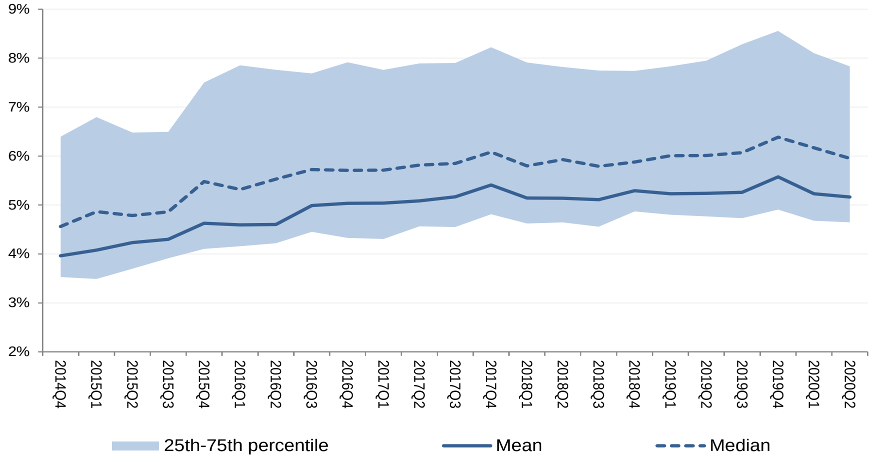
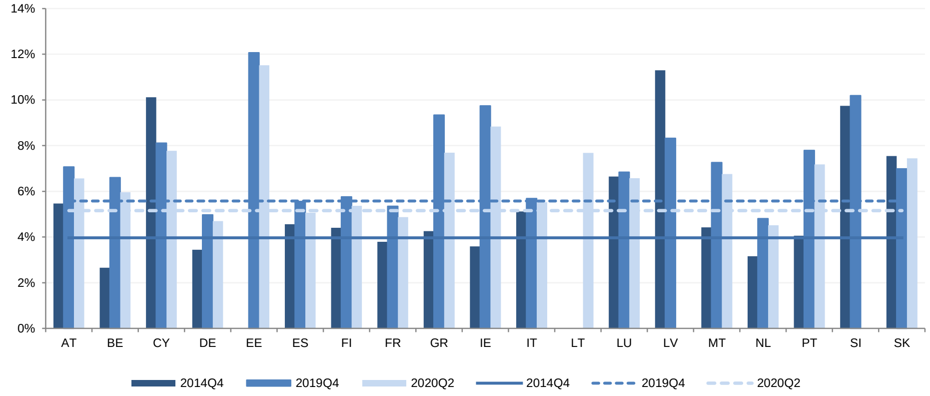


Chart 32.2: Fully loaded leverage ratio by Member State



Source: ECB staff contribution, COREP, ECB calculations. See methodological notes in Annex IV.

5. Liquidity and funding position

COVID-19 measures

As part of the measures it announced on 12 March 2020[87], to ensure continued funding of the real economy during the COVID-19 pandemic, the ECB encouraged its directly supervised banks to make use of the flexibility provided in the regulatory framework. This enables banks to use their liquid assets during times of stress, even if this could result in their LCR falling below 100%. On 28 July 2020[88] the ECB clarified that the ECB will allow banks to operate below the LCR until at least the end of 2021, without automatically triggering supervisory actions. The ECB will consider both bank-specific factors (e.g. access to funding markets) and market-specific factors (e.g. demand for liquidity from households, corporates and other market participants) when establishing the timeline for banks to rebuild liquidity buffers.

Structural measure

- The risk reduction package[89], published in June 2019[90], introduces a binding net stable funding ratio (NSFR) to address previous excessive reliance on short-term wholesale funding and to reduce long-term funding risk.

Quantitative indicators

- **LCR**: Ratio of liquidity buffer/net liquidity outflow (**Indicator 33: Chart 33.1** and **Chart 33.2**).[91]
- **Basel III NSFR**: Ratio of available stable funding (ASF)/required stable funding (RSF) (as reported in the European banking supervision's Short-Term Exercise (STE)) (**Indicator 34: Chart 34.1** and **Chart 34.2**).[92]

Commentary

- **LCR position of BU SIs**
  - **Legacy position (Q4 2014 to Q4 2019)**. On an SI aggregate level, the mean and median weighted average LCR figures have been above the minimum requirement of 100% since the start of the reporting period in Q4 2014.
  - **Q2 2020 position**. On an SI aggregated level, weighted average LCR figures increased slightly in Q1 2020 with respect to the previous quarter and saw a

[87] European Central Bank (12 March 2020), ECB Banking Supervision provides temporary capital and operational relief in reaction to coronavirus

[88] European Central Bank (28 July 2020), ECB extends recommendation not to pay dividends until January 2021 and clarifies timeline to restore buffers.

[89] For an overview of the key elements of the risk reduction package, please see Annex I.

[90] Regulation (EU) 2019/876 was published in the Official Journal of the EU on 7 June 2019 and entered into force 20 days later.

[91] The LCR indicates whether an institution has an adequate stock of unencumbered high-quality liquid assets (HQLA) that can be converted into cash with little or no loss of value in private markets, to meet its liquidity needs for a 30 calendar-day liquidity stress scenario.

[92] The NSFR indicates the ASF (calculated using liabilities) as a percentage of the RSF (calculated using assets). Numbers shown in this document reflect the calibration according to the Basel NSFR standards and do not consider the specificities of the NSFR implementation in the EU (e.g.: 0% required stable funding factor for Level 1 securities, lower required stable funding factors for short-term transactions with financial customers, broader set of assets recognised as received variation margin in relation to derivative assets).

noticeable increase of 18.9 pp to 165.5% between Q1 and Q2 2020 on BU aggregate level. This is the largest reported quarterly increase since Q4 2014.

- **NSFR position of BU SIs**
  - **Legacy position (Q4 2014 – Q4 2019).** On a BU aggregate level, both median and weighted average NSFR figures were above the forthcoming minimum requirement of 100% in the period between Q4 2014 and Q4 2019.
  - **Q2 2020 position.** The first quarter saw a slight decline of 1.9 pp in the weighted average NSFR figures on BU aggregate level, while the Q2 2020 figures showed an improvement of 6.9 pp to 118.6%, which is the largest quarterly increase since Q4 2014.
  - **Q2 2020 position – underlying drivers.** Among other factors, the increase in the LCR and the NSFR, especially in Q2 2020, may also reflect the effect of monetary policy measures. For instance, targeted longer-term refinancing operations (TLTRO) III may have resulted in a system-wide increase of withdrawable central bank reserves (which are eligible as Level 1 assets in the LCR) and available stable funding. The bank-specific impact of longer-term central bank transactions on the LCR and the NSFR, however, depends on a number of factors, such as the type of assets used as collateral as well as the uses of central bank funding.
- **Member State-specific LCR and NSFR developments**
  - **LCR legacy position (Q4 2014 to Q4 2019).** All Member States met the minimum LCR requirements of 100% in Q4 2019. As of Q4 2019, SI (355.1%), CY (297.7%) and PT (232.3%) reported the largest ratios, while the lowest ratios were reported for GR (130.8%), NL (132.1%) and FR (133.1%). With respect to Q4 2014, the jurisdictions with the greatest LCR increases were PT (+135 pp), CY (+103 pp), FI (+55 pp), DE (+38 pp) and IE (+37 pp). Jurisdictions with the largest reductions were SI (-218 pp), LU (-89 pp), NL (-8 pp).[93]
  - **LCR Q2 2020 position.** With respect to Q4 2019, all Member States continued to meet the 100% LCR requirement and reported LCR increases. FI, DE and IE reported the smallest LCR increases of 1.2 pp, 2.4 pp and 2.7 pp respectively, while PT (+37.5 pp), ES (+36.4 pp) and CY (+30.9 pp) reported the largest increases for the group.
  - **NSFR legacy position (Q4 2014 to Q4 2019).** All Member States would have met the forthcoming minimum NSFR requirements of 100% in Q4 2019. The jurisdictions with the highest reported NSFRs at that point were SI (167.1%), MT (152.8%), CY (147.5), LU (131.5%) and EE (129.8%). The Member States with the lowest reported ratios were FI (105.4%), GR (105.9%), FR (106.7%), DE (107.7%) and IT (114.7%).
  - **NSFR Q2 2020 position.** All Member States continued to meet the forthcoming NSFR ratio in Q2 2020. The highest NSFR ratios were reported for LT (182.3%), MT (153.2%), CY (146.2%), EE (136.2%) and LU (135.6%), while the lowest NSFR ratios were reported for FI (109.4%), GR (109.9%), DE (111.1%), FR (112.9%) and IT (120.7%).

[93] Comparative figures between Q4 2014 and Q4 2019 were only available for 13 of the 19 Member States participating in the banking union as EE, LT, LV, MT, SI and SK were excluded from the sample for confidentiality purposes.

Indicator 33: LCR

Chart 33.1: LCR – evolution in the BU

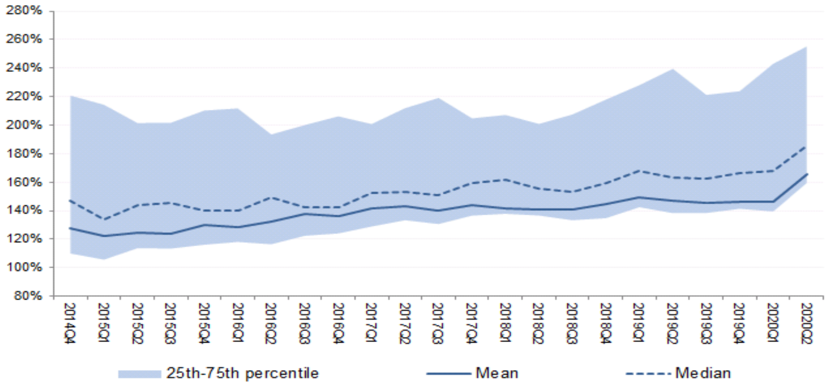
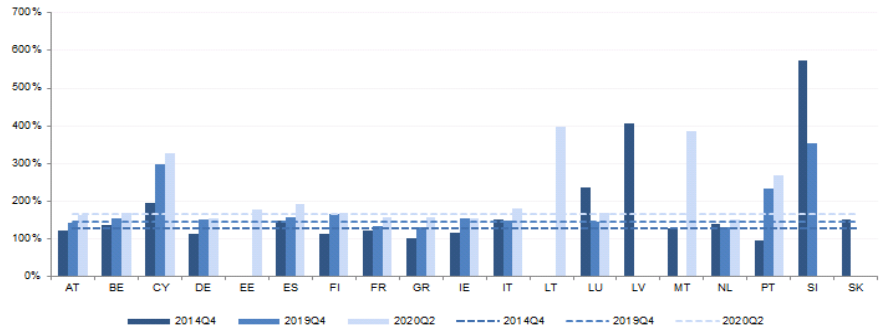


Chart 33.2: LCR by Member State



Source: ECB staff contribution, COREP, STE and ECB calculations. The figures for Greek banks should be interpreted carefully as external factors are hindering the use of the LCR as a measure of progress on risk reduction for these banks. See methodological notes in Annex IV.

Indicator 34: NSFR

Chart 34.1: NSFR – evolution in the BU

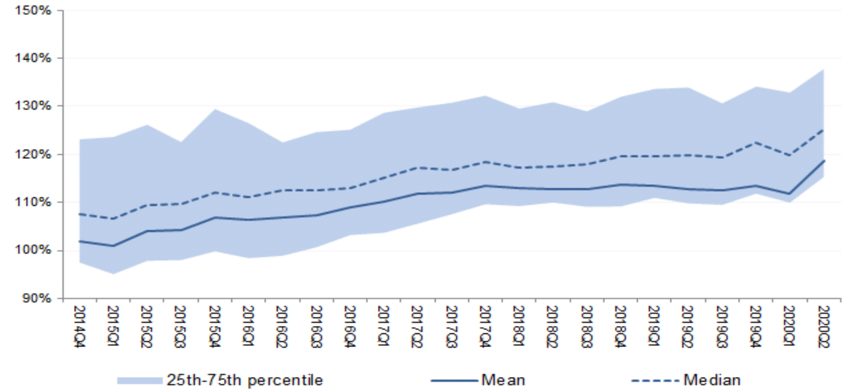
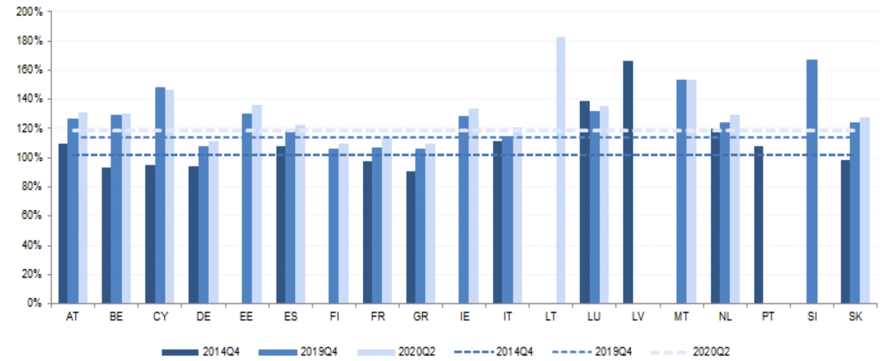


Chart 34.2: NSFR by Member State



Source: ECB staff contribution, STE, ECB calculations. The values for Austria, Belgium, Germany, Ireland, Italy, Malta and the Netherlands in Q4 2014 might be affected by missing data for a small number of banks. See methodological notes in Annex IV.

Overview of annexes

Annex I provides an overview of gross and net NPL ratios by Member State.

Annex II provides an update on relevant legislative measures. This list includes both risk reduction and risk-sharing measures which are already in force or under negotiation.

Annex III presents details of other national measures that have been adopted in addition to transposing agreed EU legislation. This list of national measures, which is not exhaustive, provides details on some of the key measures covered by the semester country surveillance reports. Where appropriate, Member States are invited to send suggested updates to this table to the following functional email address: FISMA-E2@ec.europa.eu.

Annex IV contains the methodological notes covering data sources, the scope of the analysis, time series samples, the metrics used, confidentiality criteria applied, the treatment of missing data and caveats applied to the charts displayed.

Annex V presents formulae with reference to the ITS data points used to compute the different indicators.

Annex I: Gross and net NPL positions by Member State as of Q4 2019 and Q2 2020

Member State	Q4 2019		Q2 2020	
	Gross NPL ratio	Net NPL ratio	Gross NPL ratio	Net NPL ratio
AT	2.3%	1.1%	2.1%	1.0%
BE	1.8%	1.0%	1.6%	0.9%
CY	16.9%	9.4%	13.4%	7.7%
DE	1.2%	0.7%	1.2%	0.8%
EE	1.5%	1.0%	1.6%	1.1%
ES	3.2%	1.9%	3.0%	1.7%
FI	1.4%	1.0%	1.5%	1.0%
FR	2.5%	1.3%	2.3%	1.2%
GR	35.2%	23.3%	30.3%	19.7%
IE	3.2%	2.4%	3.4%	2.4%
IT	6.7%	3.2%	6.1%	3.0%
LT	C	C	1.4%	0.9%
LU	0.8%	0.5%	0.7%	0.5%
LV	3.7%	2.0%	C	C
MT	3.0%	2.3%	3.5%	2.4%
NL	1.9%	1.4%	1.9%	1.4%
PT	7.2%	3.5%	6.5%	3.2%
SI	3.7%	1.7%	C	C
SK	2.6%	1.0%	2.5%	1.0%

Annex II: State of play as regards selected EU banking legislative measures relevant for risk reduction and risk sharing

Measure	Description
Already agreed and in force	
CRR/CRD IV including technical standards	Introduces new definition of capital, credit valuation adjustment surcharge, capital buffers, liquidity requirements, leverage ratio reporting and disclosure requirements, stricter governance requirements (including limits on bonuses) and benchmarking of internal models for calculating capital requirements.
Single Supervisory Mechanism Regulation (SSMR)	A single supervisory mechanism has been established, in order to (i) ensure supervision of the highest quality, (ii) implement EU policy on prudential supervision of credit institutions in a coherent and effective manner, and (iii) apply the single rulebook in a consistent manner.
Single Supervisory Mechanism (SSM)	The SSM became fully operational in 2014, with the ECB taking responsibility for supervising the most important banks in the euro area. The European banking supervision adopts measures aimed at addressing risks in the euro area banking system and seeks to further reduce financial fragmentation.
Bank Recovery and Resolution Directive (BRRD)	New rules to manage the orderly recovery and restructuring of banks that are failing or at risk of failing.
BRRD delegated acts (level 2 legislation)	Specifies the content of recovery plans, resolution plans and group resolution plans, critical functions and core business lines, exclusions from the application of write-down or conversion powers, MREL calibration methodology, methodologies and principles governing valuations, and minimum elements of a business reorganisation plan. Implementing Regulation on standardised formats and templates for reporting.
Single Resolution Mechanism Regulation (SRMR)	New rules to manage the orderly recovery and restructuring of banks that are failing or at risk of failing in the euro area. The legal provisions for the creation of a Single Resolution Fund are in place. The target date for the collection of contributions is 31 December 2023.
Deposit Guarantee Scheme Directive (DGSD)	New rules for the funding of deposit guarantee schemes.
CRR/CRD delegated acts on leverage ratio and LCR	Delegated acts amending the methodology for calculating the leverage ratio and introducing an LCR requirement.
Single Resolution Mechanism (SRM)	The SRM has become operational, with a new EU agency, the SRB, assuming responsibility for dealing with failing banks in the euro area.
Partial harmonisation of bank creditor hierarchy	Adopted in December 2017. Creation of a new class of senior non-preferred debt to facilitate compliance with subordinated requirements achieved through modifications to Article 108 of the BRRD.
Measures to address NPLs	Interpretation of existing supervisory powers aimed at addressing potential under-provisioning of NPLs.
	Blueprint on the setting-up of national AMCs.
	Fostering of transparency and improvements to data infrastructure on NPLs.
	Introduction of a statutory prudential backstop to prevent the build-up of future NPLs without sufficient loan loss coverage and a common definition of NPEs. The amending Regulation entered into application in April 2019.
Risk reduction	Amendments to the CRR implementing the TLAC standard entered into

Measure	Description
package – resolution (TLAC)	application in June 2019.
Risk reduction package – resolution (BRRD/SRMR review of MREL and other measures)	Publication in OJEU in June 2019; **BRRD transposition ongoing**. Amendments to the BRRD/SRMR to strengthen the level and quality of MREL and implement the MREL allocation within groups (internal MREL). Amendments to the BRRD with a view to harmonising moratorium tools and ensuring more proportionate recognition of bail-in powers in third countries.
Risk reduction package – prudential (CRR/CRD review)	Publication in OJEU in June 2019; **CRD transposition ongoing**. Amendments to the CRR/CRD to, inter alia, implement and finalise remaining Basel reforms, including the introduction of: - a binding leverage ratio; - a binding NSFR; - more risk-sensitive capital requirements, particularly in the area of market risk, counterparty credit risk and exposures to central counterparties; - more stringent large exposure limits for G-SIIs. Amendments to enhance consolidated supervision (requirement for third-country groups to set up an EU-based intermediate parent undertaking (IPU) or authorisation requirements for (mixed) financial holding companies).
Insolvency law	Publication in OJEU in June 2019; **transposition ongoing**. Directive on preventive restructuring framework, second chances and measures to increase the efficiency of restructuring, insolvency and discharge procedures.
Investment firms	Publication in OJEU forthcoming in December 2019. Prudential banking supervision for large investment firms.
COVID-19 Banking Package	Publication in OJEU in June 2020 - Amending Regulation on exceptional temporary and targeted adjustments to the CRR to maximise the ability of EU banks to lend during the COVID-19 pandemic, while ensuring their continued resilience.
Proposed by the Commission	
Measures to address NPLs	Proposal for a directive on credit servicers, credit purchasers and the recovery of collateral; negotiations ongoing.
	Benchmarking of national loan enforcement (including insolvency) systems from a bank creditor perspective.
Securitisation Regulation	Amendments to the Securitisation Regulation to facilitate the use of securitisation in the EU's recovery and free EU banks' balance sheets of NPEs.
CRR	Amendments to the CRR to make the capital treatment of securitisations more risk-sensitive.
Sovereign bond-backed securities (SBBSs)	An enabling framework for securities that allows for pooling and possibly tranching of sovereign bonds from different Member States.
European deposit insurance scheme (EDIS)	Proposal for a regulation to establish a European-wide deposit insurance scheme.

Annex III: Other national risk reducing initiatives

Disclaimer: The summary and the table below provide a non-exhaustive overview of the key national measures adopted by Member States, highlighting those implemented over the past 6 months in order to reduce risks on the basis of the semester country surveillance reports. Initiatives are grouped into four main categories: legal reforms, supervisory actions, NPL initiatives and macro-prudential measures. Where appropriate, Member States are invited to send comments to update the table to the following functional email address: FISMA-E2@ec.europa.eu*. For measures, initiatives and recommendations older than 6 months please refer to previous versions of the risk reduction report.*

Key points

- **Legal/judicial, tax or other reforms.** Over time, most Member States have implemented reforms decreasing risk in the financial sector in various ways. Some of the areas where initiatives were prevalent are improvements to legal frameworks governing insolvencies and foreclosures, increased robustness of cooperative and savings banks or enhanced protection of distressed borrowers and consumers. Furthermore, reforms have also strengthened loan sales frameworks, cryptocurrencies rules or governance of public institutions. During the COVID-19 pandemic, some measures were taken in order to prevent risks unfolding in the financial sector. Most recently, since the previous edition of this report 6 months ago, reforms took place in the following areas:
    - legal frameworks governing insolvency and foreclosure (GR, IT, SK);
    - aid or protection schemes for distressed borrowers (GR, PT);
    - policy rate and repo operations (CZ, HU, RO).

- **Prudential supervisory actions**. More than half of the Member States have undertaken reforms in relation to the implementation of banking sector asset quality reviews (AQRs)/stress tests and non-banking balance sheet reviews (BG) and other supervisory measures aimed at increasing provisioning for NPLs (IE, ES, HR, CY, RO, FI and SI), introducing bank-specific NPL reduction targets (GR, CY, IE, MT, PT and SI), and strengthening banking and non-banking supervision (BG, ES and PT). Since June 2020 additional supervisory measures were taken by SK and FI on the exposures located in Estonia and mortgage repayment rules.

- **NPL management initiatives**. Before the end of 2019, more than half of the Member States have implemented reforms in this area, with measures relating to, for example, sales of NPLs (DK, GR, ES, IT, CY and RO), transfers of legacy assets to external AMCs (CY, DK, ES, IE and HU), and improvements to arrears management and NPL workouts in banks (BG, DE, EE, ES, CY, LT, LV and RO).
  In 2020 there has been ongoing work on measures aiming at preventing the increase in NPLs that could be triggered by the COVID-19 pandemic. Except for CY, all Member States implemented various forms of guarantee schemes for non-financial corporations. All Member States have some form of moratorium on payments of credit obligations, but only 12 of them introduced jurisdiction-wide moratoria based on specific legislation (CZ, DE, ES, IT, CY, LT, HU, MT, PT, RO, SI and SK). The aim is to support the operational and liquidity challenges faced by borrowers (individuals, self-employed, SMEs and large corporations).

- **Macroprudential measures**[94]. All Member States have introduced macroprudential measures. At the end of 2019, a total of 12 Member States had set a non-zero CCyB rate to address aggregate credit growth or announced the setting of a non-zero CCyB rate for the first time. As a consequence of the challenges to the economy posed by the COVID-19 crisis, 10 Member States announced the release or reduction of their CCyB rates in 2020. Only one Member State (LU) announced an increase of the applicable CCyB rate as of January 2021. All Member States have identified systemically important institutions in their economy. 165 systemically important institutions (G-SIIs and other systemically important institutions (O-SIIs)) are currently identified in the EU. At the end of 2019, SyRB were used in 14 Member States for a wide range of purposes. As a consequence of the challenges to the economy posed by the COVID-19 crisis, in 2020, five Member States have released or reduced their SyRBs and one Member State decided to postpone the introduction of the SyRB. Six Member States resorted to temporary measures activated under Article 458 of the CRR with the main aim of addressing risks originating from the residential real estate sector. Given their potential negative impact on the single rulebook, these measures are subject to an EU non-objection procedure. 23 Member States introduced macroprudential measures based on national law to address vulnerabilities stemming from the real estate sector. The majority of these Member States (22) resorted to borrower-based measures.

[94] The cut-off date for the analysis of macroprudential measures adopted at national level is 15 September 2020.

	Overview of risk reducing measures adopted at national level			
	(i) legal/judicial, tax or other reforms	**(ii) prudential supervisory actions**	**(iii) NPL management initiatives**	**(iv) macroprudential measures**
BE	None	None	The Belgian government has set up a guarantee scheme on corporate loans, the take-up of which has been relatively low.	In June 2019 the National Bank of Belgium (NBB) announced an increase of the applicable CCyB rate from 0% to 0.5% as of July 2020. In March 2020, due to the challenges for the economy posed by the COVID-19 crisis, the NBB reduced the pending CCyB rate to 0%. Eight institutions were identified as O-SIIs in 2019. They are subject to O-SII buffer rates between 0.75% and 1.5%. A macroprudential measure based on Article 458 of the CRR was implemented in 2018 to address financial stability risks originating in the residential real estate sector. The measure, which entered into force in April 2018 and is applicable for two years, consists of a multiplier of 1.33 for mortgage risk weights and of an additional 5 pp risk weight add-on for IRB banks’ exposures to Belgian mortgage loans. The prolongation of this measure for another year beyond April 2020 has been authorised. In response to the growing medium term vulnerabilities on the residential real estate market, the HCSF decided on 12 December 2019 to activate a non-binding borrower-based measure consisting in a debt-service to income ratio limit of 33% combined with a cap of 25 years on the initial maturity of the loan, with a margin of tolerance of

	Overview of risk reducing measures adopted at national level			
	(i) legal/judicial, tax or other reforms	**(ii) prudential supervisory actions**	**(iii) NPL management initiatives**	**(iv) macroprudential measures**
				15%. The Belgian banking industry has accepted a voluntary moratorium on credit obligations for borrowers affected by the COVID-19 crisis until 31 October 2020.
BG	Stronger requirements for managing and reporting related-party transactions. Important legal amendments improving the independence and governance of the Financial Securities Commission were passed in 2017.	ECB Comprehensive Assessment (AQR and stress test) in 2018 covering 6 banks, out of which 2 domestically-owned institutions (First Investment Bank and Investbank): need to take follow-up measures to strengthen their capital position with an initial deadline at end-April, possibly subject to adjustments due to the current financial market developments. Several actions to strengthen banking and non-banking supervision. The Bulgarian National Bank (BNB) aligned its prudential guidance with the implementation of the EBA guidelines.	Strengthening of vulnerable bank capital buffers allowing better provisioning for NPLs. Improvement of risk management practices in banks. The Bulgarian authorities approved a guarantee scheme for SMEs. The BNB approved a voluntary private debt moratorium scheme allowing deferred debt servicing until end-2020. The Parliament approved a temporary suspension of foreclosures.	In Bulgaria, a 0.5% CCyB rate has been applicable since October 2019. In March 2019 the BNB announced an increase of the applicable CCyB rate from 0.5% to 1% as of April 2020. In December 2019, BNB announced a further increase of the applicable CCyB rate from 1% to 1.5% as of January 2021. In March 2020, due to the challenges for the economy posed by the COVID-19 crisis, the BNB reduced the applicable CCyB as of April 2020 to 0.5%. The countercyclical capital buffer increases for 2020 and 2021 have been cancelled. Eight institutions were identified as O-SIIs in 2019. They are subject to O-SII buffer rates between 0.5% and 1%. A SyRB of 3% has applied since October 2014 to the domestic exposures of all credit institutions in Bulgaria at individual, consolidated and sub-consolidated level. The measure was last reassessed in November 2017. As the SyRB is applied to domestic exposures, it is cumulated with the O-SII buffer for institutions subject to both

	Overview of risk reducing measures adopted at national level			
	(i) legal/judicial, tax or other reforms	**(ii) prudential supervisory actions**	**(iii) NPL management initiatives**	**(iv) macroprudential measures**
				buffers. The Bulgarian authorities adopted legislative amendments to the Law on Credit Institutions, introducing borrower-based requirements in addition to existing capital-based measures.
CZ	The Act on the Czech National Bank (CNB), was amended in April 2020. The current wording of the Act only allowed the CNB to conduct money market operations in securities with maturities of up to one year, while the transactions concerning securities with longer maturities were limited only to certain counterparties such as banks, foreign bank branches and credit unions. The CNB will be now allowed to trade on the financial market without restrictions in terms of possible instruments, maturity (> 1 year) and counterparties (such as insurance and pension companies, or other institutional investors). As a preventive measure, the CNB increased the weekly number of monetary policy operations providing liquidity to banks. The liquidity-providing repo operations are now announced three times instead of once a week.	None	Loan moratorium for 3 to 6 months, for both firms and households, were put in place. The moratorium is binding for all lenders (banks and non-banks) The CNB allowed banks to postpone loan instalments where clients temporarily lose their income due to the coronavirus epidemic or preventive measures. Several guarantee schemes were put in place by the public authorities, targeting SMEs, exporting companies or companies with up to 500 employees.	In the Czech Republic, a 1.75% CCyB rate has been applicable since January 2020. In March 2020, due to the challenges for the economy posed by the COVID-19 crisis, the CNB reduced the applicable CCyB as of July 2020 to 0.5%. Six institutions were identified as O-SIIs in 2019. They are not subject to positive O-SII buffer rate requirements. A SyRB was introduced in 2014 and last renewed in May 2018. It currently applies to five institutions that have been identified as O-SII, with rates up to 3%. The SyRB applies to all exposures. Draft legislation to empower the CNB to set legally binding loan-to-value (LTV), loan-to-income (LTI), debt-to-income (DTI) and debt-service-to-income (DSTI) limits failed to be approved by parliament in summer 2017 given the elections in October 2017. The CNB continues to make recommendations. On 1 April 2020, the CNB Bank Board has relaxed its recommendation for the assessment of new

	Overview of risk reducing measures adopted at national level			
	(i) legal/judicial, tax or other reforms	**(ii) prudential supervisory actions**	**(iii) NPL management initiatives**	**(iv) macroprudential measures**
				mortgages. The limit on the LTV ratio has been increased to 90% (from 80%). The previous option to provide a maximum of 15% of the total volume of mortgages with an LTV between 80% and 90% has been abolished. The limit on the DSTI ratio has been increased to 50% (from 45%). The current limit on the DTI ratio (debt relative to net income) has been cancelled. The CNB asked banks to withhold dividend payments or refrain from other steps which might affect their capital resilience.
DK	None	Slow reduction of NPLs in agribusiness, concentrated in small and midsized local banks, with support from the Danish Financial Supervisory Authority (Danish FSA). The Danish FSA has introduced guidelines (“Seven Best Practices”) on good mortgage lending in areas with large price increases: assessment of borrower’s repayment capacity under interest rate stress, amortisation requirement for negative net wealth customers, net wealth requirement for customers with high LTI ratios, etc.	Finansiel Stabilitet is a state-owned company set up in 2008 that is charged with winding up exposures and activities taken over from distressed banks, including by offering portfolios for sale at market price. In 2014 Finansiel Stabilitet carried out an open and transparent sales process targeting qualified investors with the aim of divesting a portfolio consisting of about 10,000 unsecured NPEs with a total outstanding debt of approximately DKK3 billion. The exposures in the offered portfolio were taken over under the bank rescue packages implemented in 2008-	In Denmark, a 1% CCyB rate has been applicable since September 2019. In June 2019 the Danish government announced an increase of the applicable CCyB rate from 1% to 1.5% as of September 2020. In July 2019 the date of applicability of the 1.5% CCyB rate was brought forward to June 2020. In October 2019 the Danish government announced a further increase of the applicable CCyB rate from 1.5% to 2% as of December 2020. In March 2020, due to the challenges for the economy posed by the COVID-19 crisis, the Danish Government has decided to release the CCyB and cancel the planned increases meant to take effect later. Seven institutions were identified as O-SIIs in 2019.

	Overview of risk reducing measures adopted at national level			
	(i) legal/judicial, tax or other reforms	**(ii) prudential supervisory actions**	**(iii) NPL management initiatives**	**(iv) macroprudential measures**
		The Danish FSA has also introduced a Supervisory Diamond for Mortgage Credit Institutions supplementing the existing Supervisory Diamond for Danish Banks. This is a supervisory tool covering key risk areas for Danish mortgage credit institutions: lending growth, borrower interest rate risk, interest-only lending, large exposures and short-term funding. The semi-annual stress test performed in H2 2019 showed that a few of the systemic banks fall short of their capital buffer requirements in a severe recession scenario and should consider whether they maintain a sufficient distance to their capital requirements. It also showed that in the severe recession scenario, banks need to issue new MREL-instruments in substantial amounts to satisfy their requirements.	11. To minimise the impact of COVID-19 pandemic, several guarantee schemes were put in place, covering non-financial corporations.	They are not subject to positive O-SII buffer rate requirements. A SyRB was introduced in 2014. It was last renewed in December 2018. It currently applies to seven institutions that have been identified as O-SII, with rates up to 3%. The SyRB applies to all exposures. Using a consumer protection clause, a 5% down payment requirement for residential real estate purchases has been implemented. The government has adopted lending restrictions for households with LTI ratios greater than 4 and LTV ratios in excess of 60%: (a) interest rate fixation for floating rate mortgages needs to last at least five years; and (b) deferred amortisation is only applicable on 30-year fixed rate loans.
DE	A tax moratorium started in mid-March 2020. They should last until the end of 2020.	None	Guarantee schemes were put in place by the German authorities to support the business environment. Moratorium on payments of credit obligations for households was approved.	In June 2019 BaFin announced an increase in the applicable CCyB rate from 0% to 0.25% as of July 2020. In March 2020, due to the challenges for the economy posed by the COVID-19 crisis, BaFin has decided to cancel the planned increase of the CCyB rate.

	Overview of risk reducing measures adopted at national level			
	(i) legal/judicial, tax or other reforms	**(ii) prudential supervisory actions**	**(iii) NPL management initiatives**	**(iv) macroprudential measures**
				Thirteen institutions were identified as O-SIIs in 2019. They are subject to O-SII buffer rates between 0.5% and 2%. One of these institutions was also identified as a G-SII, with a G-SII buffer rate of 1.5%. When an institution is subject to both an O-SII and a G-SII buffer, only the higher buffer rate applies.
EE	None	None	NPLs, which peaked after 2009, have been partially resolved and partially written-off, with substantial support from Scandinavian parent banks. A guarantee scheme on loans to businesses was approved by the government. Loans to companies to overcome liquidity issues as well as investment loans were made available.	Four institutions have been identified as O-SIIs in 2019. They are subject to O-SII buffer rates between 1% and 2%. A SyRB was introduced in 2014 with a 2% rate applicable to all banks. In April 2016 the SyRB rate was reduced to 1%. The measure was last renewed in April 2018. As the SyRB applied to domestic exposures, it has been cumulated with the O-SII buffer for institutions subject to both buffers. In March 2020, due to the challenges for the economy posed by the COVID-19 crisis, the Eesti Pank has decided to release the SyRB. A macroprudential measure based on Article 458 of the CRR was implemented in Estonia in August 2019 to address financial stability risks originating in the residential real estate sector. The measure, which entered into force in September 2019 and is applicable for two years, consists of a credit institution-specific minimum level of 15% for the exposure-weighted average of the risk weights applied to the portfolio of retail exposures secured

	Overview of risk reducing measures adopted at national level			
	(i) legal/judicial, tax or other reforms	**(ii) prudential supervisory actions**	**(iii) NPL management initiatives**	**(iv) macroprudential measures**
				by mortgages on immovable property to obligors residing in Estonia. The measure applies to the two credit institutions that have adopted the Internal Ratings Based Approach in Estonia (SEB and Swedbank).
IE	A mortgage-to-rent scheme has been announced, which allows qualifying homeowners in arrears to remain in their homes as social tenants of a housing association which buys the property from the lender. The Code of Conduct on Mortgage Arrears (CCMA) was established to provide statutory safeguards for financially distressed borrowers in arrears or at risk of falling into arrears. Personal insolvency legislation introduced in 2012 significantly modernised the regime by providing a range of debt resolution options which balance the rights of creditors and debtors. Enhanced money advice and budgeting service introduced for distressed borrowers. The Land and Conveyancing Law Reform Bill 2019 entered into force in August	Mortgage Arrears Restructuring Targets (MART) encouraged restructuring efforts by banks to move from a short-term forbearance model to one where longer-term sustainable restructuring products were offered to borrowers. Legislation designed to regulate credit servicing firms in 2015 introduced a new regulatory regime for credit servicing firms to clarify that consumers maintained the same protections when their loans are sold to an unregulated purchaser. Consumer Protection (Regulation of Credit Servicing Firms) Act 2018, which was adopted in December 2018, extends the scope of supervisory oversight for consumer protection purposes to credit acquiring companies. The original regulatory regime, introduced in 2015, was only applicable for credit servicing firms.	Centralised credit register introduced in 2017. AMC established (NAMA). Dedicated NPL work out units established by banks. Since April 2020: In collaboration with the banking industry body, the authorities have introduced non-legislative payment moratoria to all private borrowers affected by the COVID-19 crisis. Following an extension in June 2020, the moratoria allows personal and SME applicants payment breaks for up to a maximum of 6 months while corporate and other commercial borrowers can apply for payment breaks for up to 12 months. The moratoria is applicable to loans held by all credit institutions as well as non-banks, including credit acquiring companies. The Central Bank of Ireland is actively engaging with banks to clarify	In Ireland, a 1% CCyB rate has been applicable since July 2019. In March 2020, due to the challenges for the economy posed by the COVID-19 crisis, the Central Bank of Ireland has decided to release the CCyB as of April 2020. Six institutions were identified as O-SIIs in 2019. They are subject to O-SII buffer rates between 0.5% and 1.5%. Authorities introduced macroprudential measures to limit the high LTVs and LTIs on new residential mortgage loans in February 2015. The aims were to lower risks to vulnerable borrowers and to dampen cyclical dynamics between house prices and lending volumes. The rules were revised in 2016 (i.e. introduction of a sliding LTV limits) and in 2017 (i.e. stricter rules for second and subsequent buyers). The measures were reviewed and confirmed in 2019. The Department of Finance announced in July 2019 their intention to implement the SyRB into domestic law, which would further expand the Central Bank of Ireland's macroprudential toolkit. In March 2020, the

	Overview of risk reducing measures adopted at national level			
	(i) legal/judicial, tax or other reforms	**(ii) prudential supervisory actions**	**(iii) NPL management initiatives**	**(iv) macroprudential measures**
	2019. The bill sets out the considerations the courts must take into account when a lender is seeking an order for the repossession of lands. In particular, courts must consider a homeowner's personal circumstances before a repossession order can be issued.	Ongoing supervisory focus on addressing NPL levels in Irish banks.	the communication methods, alignment of payment breaks with EBA's April 2020 guidelines, supervisory expectations regarding deterioration of credit quality, and compliance with consumer protection requirements and expectations. The Irish government has also announced a credit guarantee scheme, providing up to 80% state guarantees for up to €2 billion to support SME lending. The scheme entered into force in September 2020.	authorities have decided to postpone the introduction of the SyRB to further support efforts to ensure adequate lending to households and businesses amidst the COVID-19 crisis.
GR	Reform of the insolvency regime for corporates and households in December 2016/May 2017 (corporates) and November 2015/June 2018 (households); Introduction of an out-of-court debt workout mechanism for restructuring arrears to both the Government and banks, from September 2017 till its expiry in end of April 2020; despite numerous improvements, the mechanism had limited success in fostering multilateral restructurings; Introduction of e-auctions; A primary residence protection scheme	Revision in March 2019 and extension to the end of 2021 of bank-specific operational NPL reduction targets, already in place since 2016 for the period Q2 2016 to Q4 2019. A planned update of the NPL reduction targets in March 2020 was postponed, potentially until March 2021, to take into account the COVID-19 impact.	Adoption of a new law on the sale of loans. Liberalisation of the licensing regime for NPL service providers in Q2 2017. In December 2019, the Hercules asset protection scheme was adopted. The scheme, which will run over an 18-month period with a planned envelope of maximum €12 billion of state guarantees, aims at allowing banks to securitise and transfer non-performing loans out of their balance sheets. Under the scheme, a state guarantee will be provided for the senior notes of the securitisations, against remuneration priced at market	Four institutions were identified as O-SIIs in 2019. They are subject to O-SII buffer rates between 0.75% and 1%, subject to a phasing in period until 2022. Since April 2020: On the 26th of June, the Bank of Greece decided to delay by 12 months the phase-in period of the O-SII buffers of the four systemic Greek banks, so as to provide further flexibility to credit institutions in reaction to coronavirus and mitigate the subsequent financial impact.

	Overview of risk reducing measures adopted at national level			
	(i) legal/judicial, tax or other reforms	**(ii) prudential supervisory actions**	**(iii) NPL management initiatives**	**(iv) macroprudential measures**
	was adopted in April 2019, which aimed to support the restructuring of NPLs, following the expiry of provisions on the protection of primary residences under the previous Household Insolvency (Katseli) law. The scheme has had limited uptake and was originally set to expire at the end of April 2020; Some progress has been recorded with respect to enhancing the case processing capacity of courts through new staff appointments and the training of judges on financial topics; Since April 2020: A 3-month extension of the primary residence protection scheme until July 2020 was legislated, to account for the disruption caused by the pandemic. The scheme has now expired; The authorities adopted a temporary instalment subsidy scheme for debtors financially affected by the coronavirus pandemic, covering mortgage, consumer and business loans secured by a primary residence. The scheme will operate for a limited period, up to nine months from the date of approval of the relevant request, which may be filed electronically in the		terms. The first transaction under the scheme, involving the securitisation of a €7.5 billion portfolio consisting mainly of non-performing exposures, was formally concluded in Q2 2020. It made use of €2.4 billion of state guarantees out of the total €12 billion envelope available. An amendment reinstating the favourable tax treatment of loan write-offs that had expired at the end of 2018 has been adopted in December 2019. Since April 2020: The conduct of e-auctions had been halted as a result of the closure of courts and notarial offices due to the coronavirus pandemic but has resumed in September 2020. The loan moratorium measures put in place by banks were extended until the 31 December 2020 for both legal entities and natural persons, subject to the same conditions as applied until now. The moratorium by banks, which is in effect since mid-March 2020, is applicable for debtors affected by the COVID-19 outbreak on their performing loans as of the end of 2019. It applies to interest payments for business and principal and	

	Overview of risk reducing measures adopted at national level			
	(i) legal/judicial, tax or other reforms	**(ii) prudential supervisory actions**	**(iii) NPL management initiatives**	**(iv) macroprudential measures**
	period August-September 2020; A major overhaul of the insolvency framework is to be submitted to Parliament in September 2020 and enter into force on 1 January 2021. Its overall aim is to accelerate debt discharge, allow for a faster reimbursement of creditors, as well as preserve viable businesses via a preventive restructuring framework; In parallel with the insolvency code, new social policy tools are introduced to support vulnerable debtors: (i) a loans subsidy scheme in the context of pre-bankruptcy restructuring proceedings and (ii) a special sale-and-leaseback regime in insolvency allowing eligible distressed debtors to remain in their primary residence as tenants, who may further benefit from a subsidy of the rent; The authorities intend to adopt measures (electronic rescheduling of distant hearings, procedural simplifications) aimed at accelerating the clearance of the household insolvency backlog; Work is ongoing on the adoption of targeted amendments to the Code of Civil Procedure, following the conclusion of the		interest for natural persons. NPL Servicers had also announced a similar 3-month suspension of any loan instalments. Greek companies benefited from two schemes implemented by the Hellenic Development Bank, i.e. a guarantee scheme and an interest subsidy scheme (TEPIX II) for new corporate loans, which attracted strong demand. The guarantee scheme consists of two tranches of €1 billion of guarantees each, aiming to leverage €7 billion of loans. The TEPIX II scheme has also been successful in attracting demand via a new sub-product (aimed at providing support to companies affected by the COVID-19 outbreak) offering a 2-year interest grace period, financed jointly by the commercial banks and an expanded total envelope of €838 million by the Hellenic Development Bank. Moreover, viable companies, mostly small and medium-sized enterprises, have benefitted from direct interest subsidies to existing performing loans.	

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	three-year implementation review; The authorities are expected to adopt shortly a number of measures aiming at enhancing the functionality and user-friendliness of the e-auctions platform.			
ES	Establishment of a new legal framework for savings banks and banking foundations. Introduction of new personal and company insolvency regimes. Enhancement of consumer protection legislation for financial instruments.	Spain implemented a financial assistance programme between July 2012 and January 2014 which resulted in former savings banks' legacy assets being cleaned up and transferred to an AMC, and to those entities being restructured and recapitalised.	NPLs remain on a solid downward trend, supported by the announcement of large portfolio disposals by the two largest banks, Santander and BBVA. In addition, smaller operations for the sale of NPLs and foreclosed assets have already been finalised or are ongoing. SAREB is an asset management company that was created to divest the assets transferred from the old savings banks and help the economy recover. SAREB has been accelerating the pace of foreclosures of non-performing loans to real estate companies in order to seize and sell the underlying property collateral. As a result, 2019 was the first year in which the share of SAREB's income from the sale of properties exceeded the income from its loan assets. Around 69.7% of the original €50.8 billion senior government guaranteed bonds with which SAREB's asset acquisitions were financed remains	Five institutions were identified as O-SIIs in 2019. They are subject to O-SII buffer rates between 0.25% and 1%. One of these institutions has been also identified as a G-SII, with a G-SII buffer rate of 1%. When an institution is subject to both an O-SII and a G-SII buffer, only the higher buffer rate applies. In March 2019 the Spanish Macroprudential Authority Financial Stability Board (*Autoridad Macroprudencial Consejo de Estabilidad Financiera* – AMCESFI) was created to help prevent and mitigate systemic risk to financial stability. The AMCESFI is tasked with the regular monitoring and analysis of sources of systemic risk. Within its powers, AMCESFI can issue warnings and recommendations on any matters pertaining to financial stability, as well as opinions on proposals of macroprudential measures previously notified to the AMCESFI by the sectoral authorities. On an annual basis, the new authority shall submit a public report to the Spanish Parliament, analysing the main risks to financial stability, the binding measures adopted and the recommendations and

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			to be repaid via asset sales before the end of the company's lifetime in 2027. Due to the COVID-19 pandemic the government has created new line of guarantees via the national development bank (Instituto de Crédito Oficial) of up to €100 billion to provide liquidity to firms and self-employed workers. The government has also adopted a payment moratoria of up to 3 months on bank mortgage loans and consumer loans to support vulnerable individuals affected by the crisis.	warnings issued.
FR	None	None	The French government set up a guarantee scheme on corporate loans, the take-up of which has been relatively high.	In France, a 0.25% CCyB rate has been applicable since July 2019. In April 2019 the High Council for Financial Stability (*Haut Conseil de Stabilité Financière* – HCSF) also announced an increase of the applicable CCyB rate from 0.25% to 0.5% as of April 2020. In March 2020, due to the challenges for the economy posed by the COVID-19 crisis, the HCSF has decided to release the CCyB and to cancel the planned increase of the CCyB rate. Six institutions were identified as O-SIIs in 2019. They are subject to O-SII buffer rates between 0.25% and 1.5%. Four of these institutions have been also identified as G-SIIs, with G-SII buffer rates between 1% and 1.5%. When an institution is subject to both an O-SII and a G-SII buffer, only the

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				higher buffer rate applies. A macroprudential measure based on Article 458 of the CRR was implemented in France in 2018 to address financial stability risks originating from highly indebted large non-financial corporations. The measure, which entered into force in July 2018 and is applicable for two years, consists in a tightening of large exposure limits applicable to highly indebted large non-financial corporations that are resident in France. French O-SIIs shall not incur an exposure that exceeds 5% of their eligible capital for NFCs or group of connected NFCs assessed to be highly indebted. The prolongation of this measure for another year beyond July 2020 has been authorised.
HR	In August 2017 the Government proposed amendments to the existing asset sales framework, requiring banks to inform borrowers about the details of a sale, including the owed amount, the maturity and the identity of the buyer. The amendments are currently on hold, awaiting the outcome of the proposed EU directive on credit servicers, credit purchasers and the recovery of collateral. In July 2018 the Government proposed legislation that would write off the debts of individuals with past-due obligations to	In 2013 Hrvatska narodna banka – the Croatian National Bank (HNB) introduced provisioning backstops for all domestic banks, with minimum coverage ratios progressively increasing with the number of delinquency days. In March 2017 the authorities introduced a cap of 80% on the maximum coverage ratio for any specific portfolio. In 2013 the central bank introduced rules to restrict the transformation of forborne NPLs to performing status,	Since April 2020: In close cooperation with the banking industry body, HNB announced that banks could provide non-legislative payment deferrals to all affected borrowers without resulting in automatic reclassification to non-performing status. Following HNB's recommendation, most banks adopted payment deferrals and suspension of forced collection activities until at least 30 June 2020. In addition, the Croatia government has	Seven institutions were identified as O-SIIs in 2019. They are subject to O-SII buffer rates between 0.5% and 2%. A SyRB was introduced in 2014 and renewed in August 2017 and again in September 2019. It currently applies to all institutions, with a rate up to a maximum of 3%. As the SyRB is applied on all exposures, institutions also subject to the O-SII buffer shall comply only with the higher of the two buffers. In February 2019 HNB issued a recommendation on

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	public authorities and state-owned enterprises. That measure applies to borrowers with bank accounts that were blocked due to their past-due debt as of end-2017, providing around HRK1.4 billion in relief.	requiring full payments to be made for a probation period of two or more years. These rules were amended in March 2017, aligning them with the uniform forbearance rules that are in place across the EU. In February 2019 HNB enacted two supervisory measures: - Potential losses arising from non-housing consumer loans should be accounted for in credit institutions' Internal Capital Adequacy Assessment Processes (ICAAPs). - Credit institutions are expected to define in their internal regulations clear return mechanisms ("clawback clause") with respect to management bonuses in the event of excessive losses on those exposures.	announced a number of credit guarantee schemes. These include guarantees to (i) export-oriented companies that are affected by the coronavirus outbreak with a maximum support of up to HRK6 billion (or, approximately €790 million), which entered into force in April 2020; (ii) affected firms to obtain new working capital with a maximum support of HRK2.1 billion (approx. €280 million), which entered into force in May 2020; and (iii) businesses active in the field of culture and creative industries with maximum guarantees of HRK300 million (approx. €40 million).	granting non-housing consumer loans: - In determining consumers' creditworthiness for all non-housing consumer loans with original maturities above 60 months, credit institutions should take into consideration minimum costs of living that may not be less than the amount prescribed by the act governing a part of salary exempted from foreclosure. - Credit institutions are recommended to establish records of all non-housing consumer loans with all the information on credit, collateral and consumer, and to calculate LTI, DTI, LSTI, DSTI and LTV (where applicable) for all housing and non-housing consumer loans. In April 2020, the Croatian Parliament adopted amendments to the Credit Institutions Act and the Croatian National Bank Act in order to explicitly empower the HNB with borrower-based measures. The set of available borrower-based measures includes limits to LTV, LTI and DSTI ratios, maturity limits, loan amortisation requirements and other requirements aimed to prevent and mitigate systemic risks.
IT	Reform of the insolvency and foreclosure frameworks in 2015 and 2016 to shorten the recovery period for collateral and	Enhanced reporting by all banks on NPEs and collateral – reporting template introduced in 2016 by the	Establishment of an NPL securitisation scheme with state guarantees (GACS) to support banks' resolution of NPLs. That scheme, which was introduced in 2016,	Four institutions were identified as O-SIIs in 2019. They are subject to O-SII buffer rates between 0.25% and 1% subject to a phasing in period until 2022. One of these institutions has also been

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	foster the repossession of collateral. Reform of large cooperative banks (*banche popolari*) and small mutual banks (*banche di credito cooperativo* – BCCs); the reform of small mutual banks has been largely completed following the setting up of the two cooperative banking groups (ICCREA and Cassa Centrale Banca). The BCCs (Raiffeisen banks) operating in the Bolzano and Trento provinces were provided with the option of setting up an institutional protection scheme; the full implementation of the large cooperative banks reform has been suspended due to a decision taken by the Italian State Council in late 2018, which referred several questions related to the reform to the Court of Justice of the European Union. The European Court of Justice rules earlier this year that the reform of the large cooperative banks does not infringe EU law. Introduction of immediate tax deductibility for loan loss provisions. Finalisation in early 2019 of the insolvency framework reform. On 10 January 2019, the Government approved the relevant Legislative Decree (14/2019), which was supposed to enter into force in	Banca d'Italia.	was extended in September 2018 for a period of 6 months, and further prolonged in March 2019 for a period of 2 years. The recent prolongation of the GACS was confirmed in May 2019 by the European Commission as not constituting State aid. Establishment of a private sector backstop facility to invest in NPLs sold or securitised by banks (i.e. Atlante II Fund, renamed the Italian Recovery Fund in 2017). To mitigate the impact of the COVID-19 pandemic, the Italian authorities have adopted several measures, including borrower relief measures, to support households and provide liquidity to companies. These measures include moratoria on loans granted by banks to households and small and medium size enterprises To support the provision of liquidity to companies, in particular small, medium and micro firms, the government granted guarantees on loans taken by companies and special guarantees for exporting companies, by also increasing the envelope of instruments existing before the outbreak of the COVID-19 pandemic.	identified as a G-SII, with a G-SII buffer rate of 1%. When an institution is subject to both an O-SII and a G-SII buffer, only the higher buffer rate applies. Based on the analysis of the reference indicators, the Bank of Italy decided in June 2020 to keep the CcyB at 0% for the third quarter of 2020. Using end-December 2019 data, the Bank of Italy identified, for the year 2020, Russia, Switzerland and the United States as material countries for Italy. These three countries are directly monitored by the ESRB, which has included them among material countries for the European Economic Area. Compared with 2019, Turkey was no longer identified as a third country, since the Italian banking system's exposures to it decreased drastically in the first months of 2019. The identification of the three countries was made in accordance with the criteria laid down in the ESRB Decision 2015/3. The assessment considered all the countries to which Italian banks are exposed and examined three indicators relating to original exposures (i.e. non-risk-weighted), risk-weighted exposures and defaulted exposures towards each country, all as shares of the corresponding total exposures of the Italian banking system.

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	August 2020, but was postponed to September 2021 due to the Covid-19 pandemic. The reform, *inter alia*, promotes out-of-court agreements between debtors and creditors, simplifies bankruptcy procedures and introduces a pre-emptive mechanism for corporate insolvencies. The Code also aims to harmonise Italian insolvency procedures with the EU Regulation 2015/848 by reducing the differences in the interpretation of the applicable law.			
CY	In July 2018, as part of a three-pillar NPL reduction strategy, the Cypriot authorities adopted a package of legal amendments. A number of amendments to the foreclosure framework, which were approved by Parliament in August 2019, were referred to the Supreme Court by the President. The Court upheld the amendments to the framework in August 2020 and they are now in effect. Work to improve the Insolvency Service of Cyprus' effectiveness and efficiency and strengthen the regulatory framework for insolvency practitioners is ongoing, although progress is slow.	Supervisory pressure in late 2016 and early 2017 through the Supervisory Review and Evaluation Process (SREP) led to an increase in levels of provisioning.	NPLs declined further, continuing the downward trend seen since end-2015. However, the reduction in the first nine months of 2019 was more marginal than in 2018 following the transfer of the Cooperative Bank's sizeable NPL portfolio from the banking system to Cyprus Asset Management Company (KEDIPES) and a number of NPL disposals by several Cypriot lenders. Hellenic Bank had expected to launch a NPL portfolio sale (*Project Tide*) by mid-2020 and Bank of Cyprus received binding bids for the Helix 2 portfolio. However, it was decided to delay the final negotiations on account of the crisis. In December 2018, following the agreement of 25 June 2018, the assets and liabilities	Six institutions were identified as O-SIIs in 2019. They are subject to O-SII buffer rates between 0.5% and 2%. On 6 April 2020, due to the challenges for the economy posed by the COVID-19 crisis, the CBC decided to lengthen the phase-in period by one year (until 2023). The CBC also introduced borrower-based measures in 2013, which were streamlined in March 2016. Those measures capped the total debt servicing amount at 80% of the borrower's net disposable income (65% for foreign currency loans) and capped the LTV ratio (first introduced in 2003) at 80% of financing for primary residences and 70% for all property financing.

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	A government-supported subsidy scheme (ESTIA) was launched with end-2019 application deadline and a lower-than-expected take-up. Due to the pandemic, the original submission of application documents was extended to end-July 2020. The authorities are to complete the approvals by end November 2020. The e-platform was launched in November 2019 and the first electronic auctions were held at end-2019, but the number of sold properties remains small. The authorities launched the Department of Insolvency in June 2020. A review of the regulations governing insolvency practitioners is underway. The integration of the supervisors of the pension funds and insurance companies is slowly progressing, The draft law was submitted to Parliament in late 2019, but is subject to extensive discussions.		of the Cooperative Bank were transferred to the acquirer, while the NPLs were transferred to KEDIPES. Progress in setting As of September 2020, key elements of the organisational set-up., and the revision of the service level agreement have not been finalised. Since April 2020: The Cypriot authorities have introduced a number of measures to counteract the negative impact of the COVID-19 outbreak on the financial system. The Central Bank of Cyprus (CBC) has relaxed loan underwriting standards for new short-term loans to affected viable businesses, including the use of overdrafts and bullet payments to cover current needs, including payroll, rent, and debt payments. In March 2020, a 9-month legislative (i.e. mandatory) moratorium was introduced by the government, covering all principal and interest payments of performing customers.	
LV	The government has strengthened the supervision of insolvency administrators. The Insolvency Policy Development Guidelines for 2016 to 2020 contain	None	NPLs, which peaked after 2009, have been partially resolved and partially written-off, with substantial support from	Four institutions were identified as O-SIIs in 2019. They are subject to O-SII buffer rates between 1.25% and 2%. There are no plans to revise them.

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	specific measures to improve the insolvency framework and the regulation of insolvency administrators. They aim to increase the number of restructurings and the insolvency recovery rate, and to strengthen trust in the profession. With regard to the latter, the profession's regulatory framework has been overhauled, with closer oversight, stricter conflict of interest provisions and harsher penalties for misconduct. The court system has also been reformed by reducing the number of courts; this should improve the overall quality of decisions and improve the functioning of random case allocation to judges.		Scandinavian parent banks. Several support measures were adopted: loans and guarantees for companies affected by coronavirus outbreak (a.o. ALTUM; guarantees at reduced fees for loans with limited maturity and size (the government bears up to 50% risks); a program for working capital loans at reduced interest rates.	The CCyB rate is set at 0% (has not changed since 2019). The SyRB is not set.
LT	None	A reform of credit unions – small financial cooperatives serving local people in rural areas – is under way. Many smaller credit unions were facing financial difficulties, which prompted Lietuvos bankas to launch a programme restructuring and consolidating the sector. In January 2018 two central credit unions took over the management of 20 and 14 small institutions respectively, thus improving the sector's viability. The remaining seven credit unions will	NPLs, which peaked after 2009, have been partially resolved and partially written-off, with substantial support from Scandinavian parent banks. To minimise the COVID-19 pandemic impact, guarantees were granted, with the state assuming the primary risk. Moratorium on payments of credit obligations for households was approved.	In Lithuania, a 1% CCyB rate was applicable since June 2019. In March 2020, due to the challenges for the economy posed by the COVID-19 crisis, the Bank of Lithuania has decided to release the CCyB as of April 2020. Three institutions were identified as O-SIIs in 2019. They are subject to O-SII buffer rates between 1% and 2%. In March 2020, as part of a set of other measures to mitigate the impact of the COVID-19 crisis, the Bank of Lithuania decided to postpone the phase-in period of a higher O-SII buffer for AB Šiaulių bankas.

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		become banks by 2023.		The Bank of Lithuania implemented the Recommendation ESRB/2016/4 on the recognition and reciprocation of Swedish macroprudential measures, and required Internal Ratings Based banks operating in Lithuania to apply as of 20 June 2019 a credit institution-specific floor of 25% for the exposure-weighted average of the risk weights applied to the portfolio of retail exposures to obligors residing in Sweden secured by immovable property.
LU	1. State guarantee scheme Due to the COVID-19 crisis, a state guarantee scheme for new bank loans has been made available, under certain conditions, to help businesses. New credit lines will be guaranteed up to 85% by the State and up to 15% by the participating banks. This scheme is aimed at companies that were viable on 18 March 2020. 2. Moratorium The six most important Luxembourg commercial banks have implemented measures in order to support the economy and their professional clients in the context of the current COVID-19 crisis. Companies affected financially by	The Commission de Surveillance du Secteur Financier (CSSF) intends to comply with the ECB recommendation on dividend distributions during the COVID-19 pandemic published on 27 July 2020. The CSSF also endorses the EBA “Statement on dividends distribution, share buybacks and variable remuneration” dated 31 March 2020 and remains committed to the aim of ensuring a globally coordinated response to the COVID-19 pandemic under the umbrella of the Basel Committee on Banking Supervision and the Financial Stability Board. The CSSF has also decided that delays for the submission of the documents listed below may, where necessary, be exceptionally granted, upon reasoned request. As regards significant banks,	Support measures put in place by the authorities to tackle COVID crisis impact: guarantee on new SME and corporate loans; loans granted to companies of any size for any reason (up to a total of EUR 600 million).	On 8 September 2020 the Comité du Risque Systémique (Systemic Risk Committee) announced an increase of the applicable CCyB rate from 0.25% to 0.5% as of January 2021. The Capital Conservation Buffer has been maintained at 2.5% since January 2014. Eight institutions were identified as O-SIIs in 2019. They are subject to O-SII buffer rates between 0.5% and 2%. In November 2019, the Luxembourgish Parliament passed a law on borrower-based measures (BBM). This law enables the CSSF to enact borrower-based measures such as LTV and DSTI. After an in-depth analysis of recent developments in the residential real estate market in Luxembourg, in November 2020 the Systemic Risk Committee has recommended that, subject to certain modalities, banks cap LTV ratios at 80%. The recommended

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	the crisis can be granted a moratorium on loans existing on 18 March 2020. The repayment of principal and interest of loans and of payments of lease contracts in force on 18 March 2020, can be postponed for a period not exceeding 6 months. The moratorium is granted for a maximum of 6 months and must take effect before 30 June 2020. 3. Suspension of the obligation to file for insolvency The obligation for commercial entrepreneurs who stop making payments to make a confession within one month to the clerk of the district court was suspended for 6 months from the date of the end of the state of crisis, namely 24 June 2020.	these requests will, if necessary, be dealt with in consultation with the ECB. Nevertheless, submission on time is encouraged, where the submission can be made within the usual time limits without compromising the quality of the reporting and in line with the health rules to contain the spread of COVID-19.		measures are scheduled to be activated from 1 January 2021.
HU	The annual percentage rate (APR) of new consumer loans and start-ups has been maximized at the central bank prime rate plus 5 per cent.	None	The National Asset Management Company (NAMA), which was set up by the Government in 2015, has the capacity to purchase a total of 35,000 dwellings and targets non-performing household debtors facing the most difficult financial situations. In 2019, NAMA started a buyback program for its customers.	Eight institutions were identified as O-SIIs in 2019. They are subject to O-SII buffer rates between 0.5% and 2%. On 1 April 2020, the Magyar National Bank (MNB), taking into account the exceptional circumstances caused by the COVID-19 pandemic, has decided to release capital buffer requirements set for domestic systemically important banks from 1 July 2020. The affected institutions will phase-in the buffers in three years from 2020.

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			Guarantees on loans to business amounting to EUR 1.5 billion in total were put in place during the Covid-19 pandemic. Moratoria on payments of credit obligations for households, self-employed and corporate sector were approved. Loan repayments are suspended until the end of 2020 (moratorium) for all private individuals and businesses who took loans out before 18 March.	A SyRB was introduced in 2015. The measure has been renewed yearly. It applies to the domestic exposures of all institutions. SyRB rates are set in a 0–2% range, calibrated on the basis of institutions' CRE exposures. In March 2020, the MNB announced that, taking into account the exceptional circumstances caused by the COVID-19 pandemic, it suspended the SyRB requirement until the end of 2020. In March 2020, due to the challenges for the economy posed by the COVID-19 crisis, MNB decided to inter alia modify the foreign exchange funding adequacy ratio (weighting of long-term funds will be differentiated by maturity) and the mortgage funding adequacy ratio requirement (cancellation of restriction of cross-ownership of mortgage bonds within the banking sector).
MT	Work is under way for the implementation of insolvency and debt recovery laws and amendments have been implemented in the Companies Act to expedite out-of-court settlements.	The amended Banking Act (December 2016) requires credit institutions with a two-year average NPL ratio above 6% to draw up a concrete plan to bring NPLs below this ceiling over a five-year period. When set targets are missed, automatic sanctions apply (including higher capital requirements) through retained profits.	To minimise the impact of COVID-19 pandemic, guarantee (€900 million) on loans to businesses for liquidity purposes were put in place by the authorities Moratoria on payments of credit obligations for households, self-employed and corporate sector were approved.	Three institutions were identified as O-SIIs in 2019. They are subject to O-SII buffer rates between 0.5% and 2%.

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NL	The tax deductibility of mortgage interest (MID) is gradually being reduced. It now stands at 50% and will be cut by 0.5 pp per year until 2020. From 2020 it will be reduced by 3 pp per year to reach a floor of 37% in 2023. MID is not available for interest-only mortgages. The announced acceleration of the reduction in MID between 2020 and 2023 has been turned into legislation (Belastingplan 2019). Nevertheless, the fiscal subsidy on home-ownership remains substantial. In 2019 a limitation on the deductibility of interest payments (“earnings stripping”) was introduced as part of the implementation of the Anti-Tax Avoidance Directive. This reduces the incentive to take on debt for tax optimisation purposes and could help reduce corporate debt. The recovery and resolution framework for insurance companies (the Act on Insurance Recovery and Resolution) was adopted on 27 November 2018 (in force from 1 January 2019), which should contribute to financial stability. In line with the AML V Directive, on 2 July 2019 the act implementing amendments to the fourth Anti-Money Laundering	Firms offering services for the exchange between virtual money (cryptoassets) and regular money, and crypto wallet providers became subject to Dutch National Bank integrity supervision as of January 2020.	To address the COVID-19 crisis risk, a 6-month deferral of interest and principal (re)payments on loans was granted by the banks, on voluntary basis. Several guarantee schemes covering non-financial corporations were put in place by the Dutch authorities.	Five institutions were identified as O-SIIs in 2019. They are subject to O-SII buffer rates between 1% and 2%. One of these institutions has been also identified as G-SII, with a G-SII buffer rate of 1 %. When an institution is subject to both an O-SII and a G-SII buffer, only the higher buffer rate applies. In March 2020, due to the challenges for the economy posed by the COVID-19 crisis, DNB decided to lower the O-SII buffer rate for one institution. A SyRB was introduced in 2014. It was last renewed in October 2018, applying to three institutions that have been identified as O-SIIs, with rates of 3%. In March 2020, due to the challenges for the economy posed by the COVID-19 crisis, DNB decided to lower the three applicable SyRB rates to 1.5-2.5%. As the SyRB is applied to all exposures, institutions also subject to the O-SII buffer shall comply only with the higher of the two. In March 2020, due to the challenges for the economy posed by the COVID-19 crisis, DNB decided to postpone the introduction of a risk-sensitive risk weight floor for Dutch mortgage loans of IRB banks under Article 458 CRR. The LTV ratio for new mortgages has been gradually lowered and reached 100% in 2018. There are no plans to further reduce it after 2018. The Financial Stability Committee advised to continue the gradual lowering of the LTV limit for

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	Directive and the Explanatory Memorandum were filed with the Dutch House of Representatives and on 3 September 2019 DNB released the guidelines for cryptocurrency exchanges and custodian wallet providers.			mortgage loans after 2018 to 90%. A cap on DSTI ratios for mortgage loans was also introduced in 2013. DSTI rules are based on the residual purchasing capacity of a household.
AT	None	None	Prudential standards for risk management and granting of foreign currency adopted since 2008 by banking supervisors (the Oesterreichische Nationalbank and Financial Market Authority) to curb foreign exchange lending to unhedged borrowers The Austrian government approved state guarantees (amounting to €9 billion) to support the flow of liquidity to the companies impacted by the COVID-19 pandemic and a statutory credit moratorium in April 2020. The moratorium gives households and small firms the opportunity to defer their repayments and interest/redemption payments without suffering any legal consequences. At the beginning of June 2020, the application period was extended from end-June until 31 October 2020. Private individuals and businesses with less than ten employees and an annual turnover or balance sheet of up to €2 million, which are currently unable to meet their repayment obligations due to	Seven institutions were identified as O-SIIs in 2019. They are subject to O-SII buffer rates between 1% and 2%. A SyRB was introduced in 2015 and renewed in December 2018. It currently applies to 11 institutions, ranging from 0.5% up to 2%. As the SyRB is applied to all exposures, institutions also subject to the O-SII buffer shall comply only with the higher of the two buffers. In June 2020, the Austrian Financial Market Stability Board (FMSB) completed the review of the other systemically important institution (O-SII) buffer and the systemic risk buffer (SyRB). The FMSB found that the application of these two capital buffers has strengthened investor confidence in the Austrian banking system. Making use of this capital might in part restrict profit distribution and bonus payments, but will not result in any immediate supervisory sanctioning. According to the revised CRD V, the O-SII buffer (Article 131 CRD V) and the SyRB (Article 133 CRD V) will be additive as of end-2020. The FMSB found that it will be best in the current circumstances to take a gradual approach to

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	(i) legal/judicial, tax or other reforms	**(ii) prudential supervisory actions**	**(iii) NPL management initiatives**	**(iv) macroprudential measures**
			the effects of the COVID-19 crisis, benefit from this moratorium.	implementing this provision, which implies completely recalibrating both buffers. Subject to the transposition of the CRD V into Austrian law, the FMSB recommended to adjust the size of the buffers in a manner that prevents effective buffer requirements from increasing between 29 December 2020 and end-2022 simply because of legal changes. The FMSB will evaluate the effects of the COVID-19 crisis at least annually. Regardless of the implementation of the CRD V in Austrian law, the FMSB recommended, in addition, to reduce the SyRB rate to 0.5% for four banks operating in the mortgage bank sector given that their contribution to systemic vulnerability has decreased, as government guarantees have declined markedly. The FMSB recommended to discontinue applying the SyRB to two banks (Sberbank and Denizbank), as their exposure to systemic cluster risk has declined significantly. To detect at an earlier stage potential vulnerabilities associated with the exposure of banks to the real estate sector, an enhanced reporting framework covering real estate exposures has been introduced in January 2020 as a binding requirement for banks.
PL	None	New security rules for touchless bank cards payments (to be implemented until end-2020) by Polish FSA. The new rules should limit card fraud.	To reduce the risks posed by the COVID-19 crisis, guarantee on SME loans were put in place by the Polish Development Bank, as well as extension of credit	Nine institutions were identified as O-SIIs in 2019. They are subject to O-SII buffer rates between 0.1% and 1%. A SyRB of 3% has applied since August 2017 to the

	Overview of risk reducing measures adopted at national level			
	(i) legal/judicial, tax or other reforms	**(ii) prudential supervisory actions**	**(iii) NPL management initiatives**	**(iv) macroprudential measures**
		Set of measures (introducing flexibility) in the areas of provisions and classification of credit exposures.	repayment up to 39 months. Polish FSA: banks may extend the maturity/restructure the working capital loans to the existing SME/micro enterprises, on the basis of previously made creditworthiness assessment.	domestic exposures of all credit institutions in Poland. As the SyRB has been applied to domestic exposures, it has been cumulated with the O-SII buffer for institutions subject to both buffers. In March 2020, due to the challenges for the economy posed by the COVID-19 crisis, the NBP Financial Stability Committee recommended to the PL Ministry of Finance the release of the SyRB, paving the way for its repeal. A risk weight of 150% continues to be applied to exposures secured by residential property where the principal or interest instalments depend on changes in exchange rates, provided the borrower's income is in a different currency. The updated Recommendation S (April 2019) by the Polish supervisor recommends that banks require mortgage borrowers to have a minimum 10% own equity for every mortgage.
PT	Tax deferrals amounting to 3% of GDP have been granted.		In line with SSM recommendations, Portuguese banks are in the process of executing five-year NPL reduction plans forecasting at least a 50% reduction in NPL stocks over the coming years. By March 2020, the NPL ratio had fallen to 5.9% from 17.7% in Q3 2016. Banks have ramped up impairments massively, but no June figures were yet	Six institutions were identified as O-SIIs in 2019. They are subject to O-SII buffer rates between 0.25% and 1%. The O-SII buffer full phasing in was delayed until January 2023 A recommendation on new credit agreements for consumers, which places limits on new credit relating to residential immovable property, credit

	Overview of risk reducing measures adopted at national level			
	(i) legal/judicial, tax or other reforms	**(ii) prudential supervisory actions**	**(iii) NPL management initiatives**	**(iv) macroprudential measures**
			communicated. A guarantee scheme (amounting to €13 billion) on credit lines to firms affected by the COVID-19 pandemic was approved. Moratoria on payments of credit obligations for households, self-employed and corporate sector were prolonged until March 2021.	secured by a mortgage or equivalent guarantee, and consumer credit agreements was introduced in 2018. This measure aims to promote the adoption of prudent credit standards in order to enhance the resilience of the financial sector and the sustainability of households' financing, thereby minimising defaults. The recommendation encompasses: maximum LTV ratios; maximum DSTI ratios; limits on the original maturity of loans. Due to the COVID-19 crisis, the supervisor decided to add some flexibility. Loans below ten times the monthly minimum wage (around €6400) do not have to respect those recommendations temporarily. 5% of the new credit could be granted to borrowers with a DSTI without limit.
RO	Measures regarding crypto-currency issuers have been published in December 2019. The monetary policy rate was cut to 1.5%.	Measures and recommendations adopted by the banking supervisor (the central bank) since 2013 to clean up bank balance sheets: - Removal of uncollectable NPLs fully covered by provisions; - Full coverage with provisions for all NPLs for which repayment of principal and/or interest is overdue by more than 360 days and no legal action has been taken against borrowers; - Up to 90% of NPLs covered with	Measures adopted by banks to improve their arrears management capacity and recovery of collateral. Moratoria for households and companies on loan instalments were approved a guarantee scheme for SMEs was approved by the national authorities.	Nine institutions were identified as O-SIIs in 2019. They are subject to O-SII buffer rates between 1% and 2%. A SyRB was introduced in 2018. It applies to all exposures of all institutions. SyRB rates are set in a 0–2% range, depending on the institutions' vulnerabilities related to non-performing loans. As the SyRB is applied to all exposures, institutions also subject to the O-SII buffer shall comply only with the higher of the two. In January 2019 the measures aimed at limiting household indebtedness adopted in October 2018 by the Banca Naţională a României (NBR) entered

	Overview of risk reducing measures adopted at national level			
	(i) legal/judicial, tax or other reforms	**(ii) prudential supervisory actions**	**(iii) NPL management initiatives**	**(iv) macroprudential measures**
		provisions for exposures to insolvent borrowers; - Enhanced collateral valuations – several valuations since 2013. Recommendation (adopted in 2016) calls for full coverage with provisions for unsecured NPLs where repayment of principal and/or interest is overdue by more than 180 days, followed by removal of exposure from balance sheet.		into force. Under those new provisions, the maximum level of indebtedness is 40% of net income for RON-denominated loans and 20% for foreign currency loans. The maximum level of indebtedness can be raised by 5 pp for first-time homebuyer loans for borrower-occupied dwellings. The total level of indebtedness is measured as the ratio of monthly debt service to monthly net income. Regarding bank resolution, the NBR announced a postponement of the deadline for the payment of contributions to the resolution fund, and granted some leeway regarding the submission of information for resolution planning purposes.
SI	None	In 2015 Banka Slovenije issued guidance asking banks to specify annual targets and strategies for NPL reduction, which are regularly revised. Since 2015 the central bank's guidelines have recommended that banks derecognise assets within a specific time frame (i.e. time-dependent write-offs), which in turn depends on the type of asset and exposure.	The Slovenian government introduced a moratorium for 12 months on credit obligations for borrowers affected by the COVID-19 crisis. The Slovenian government set up a guarantee scheme on corporate loans, the take-up of which has been relatively low because of its delayed implementation.	Seven institutions were identified as O-SIIs in 2019. They are subject to O-SII buffer rates between 0.25% and 1%. In November 2019, new binding instruments entered into force to tame the excessive growth in consumer lending. Commercial banks, savings banks and branches of foreign banks are required to uphold: - A cap on the ratio of annual debt servicing costs to the borrower's net annual income (DSTI): This ratio may not exceed: (a) 50% for borrowers whose income is less than twice the gross minimum wage; and (b) 67% for the part of the borrower's income

	Overview of risk reducing measures adopted at national level			
	(i) legal/judicial, tax or other reforms	(ii) prudential supervisory actions	(iii) NPL management initiatives	(iv) macroprudential measures
				in excess of this threshold. The borrower must be left with no less than the net minimum wage after servicing the debt. The amount is raised as appropriate for borrowers with dependent family members. - Limit on maturity: consumer loans may not be approved with a maturity of more than 7 years. The Bank of Slovenia is maintaining the cap of 80% on the LTV of the residential real estate collateral in the form of a (non-binding) recommendation. The Bank of Slovenia allows for the possibility of certain deviations from the binding requirements, although they may comprise no more than 10% of the value of new consumer loans or housing loans for the cap on DSTI, and no more than 15% of the value of new consumer loans for the limit on maturity. In May 2020 Bank of Slovenia slightly softened the macroprudential recommendation to take into account some consequences of the COVID-19 outbreak. In particular, the new recommendation recognizes that a temporary decrease in the borrower's income does not affect its long-term credit worthiness. Therefore, banks can exclude income for months when COVID-19 epidemic was declared, if the income was lower than before the epidemic. Banks may use the previously described flexibility only when they have at least one figure for

	Overview of risk reducing measures adopted at national level			
	(i) legal/judicial, tax or other reforms	**(ii) prudential supervisory actions**	**(iii) NPL management initiatives**	**(iv) macroprudential measures**
				accounted and paid monthly income that shows that the consumer's income is no longer affected by the epidemic. In response to the growing medium term vulnerabilities on the residential real estate market, the HCSF decided on 12 December 2019 to activate a non-binding borrower-based measure consisting in a debt-service to income ratio limit of 33% combined with a cap of 25 years on the initial maturity of the loan, with a margin of tolerance of 15%.
SK	Parliament discusses a debt moratorium of up to 9 months. The obligation to file for bankruptcy has been lifted until 1 October if the business was not bankrupt on 12 March 2020.	On 8 September 2020 Slovakia's National Bank decided to repeal its Decision No 21/2016 from 27 September 2016 on recognising the systemic risk buffer rate of 1% for all exposures located in Estonia.	Via 9 banks, the Slovak Investment Holding launched a 100m SME loan scheme to address the risks posed by the Covid-19 pandemic. Moratoria on payments of credit obligations for households, self-employed and SMEs were approved.	Five institutions were identified as O-SIIs in 2019. They are subject to O-SII buffer rates between 0.5% and 1%. On 14 July, Slovakia decreased the countercyclical capital buffer rate from 1.5% to 1.0 %, as of 1 August 2020. A 1% SyRB has been applicable since 2015. The measure is reassessed on a yearly basis. It currently applies to the domestic exposures of three institutions that have been identified as O-SIIs. As the SyRB is applied to domestic exposures, it is cumulated with the O-SII buffer. Národná banka Slovenska has legal powers to set borrower-based limits. A number of them are in place: 1) Maturity limits: new mortgages cannot have a

	Overview of risk reducing measures adopted at national level			
	(i) legal/judicial, tax or other reforms	**(ii) prudential supervisory actions**	**(iii) NPL management initiatives**	**(iv) macroprudential measures**
				maturity longer than 30 years; a maximum of 10% of new loans can have maturities longer than 30 years. Maturities on new consumer loans cannot exceed eight years; 2) Maximum LTV ratio of 90% with 20% of loans that can have an LTV in the 80%-90% range; 3) Maximum DTI ratio of 8The amount of loans that can exceed that threshold was kept at 10% in January 2020; 4) Maximum DSTI ratio of 60%.
FI	Work continues on the public comprehensive credit registry.	Amendment on the management of credit risk (addition of EBA guidelines of 30 October 2018 on the management of non-performing and forborne exposures to the regulations and guidelines). Clarification of lending practices related to housing company credit. April 2020: Recommendation to refrain from dividend payments – insurance and banking sector.	Finnvera guarantees aimed at risk sharing. The Finnish Financial Supervisory Authority (FIN-FSA): set of actions to increasing Finnish credit institutions lending capacity (by €30 billion) but also supporting banks' credit loss buffers. Guarantee scheme for businesses, where the government beard up to 80% of the risk, was approved.	Three institutions were identified as O-SIIs in 2019. They are subject to O-SII buffer rates between 0.5% and 2%. In March 2020, due to the challenges for the economy posed by the COVID-19 crisis, and in combination with the release of the SyRB, the FIN-FSA reduced by 1% the O-SII buffer for one institution, so that the structural buffer requirements of all credit institutions will fall by 1 percentage point overall. A SyRB was introduced in 2018 and renewed in May 2019. It currently applies to all institutions with a rate of 1%, except for three O-SIIs subject to higher rates up to 3%. As the SyRB is applied to all exposures, institutions also subject to the O-SII buffer shall comply only with the higher of the two. In March 2020, due to the challenges for the

	Overview of risk reducing measures adopted at national level			
	(i) legal/judicial, tax or other reforms	**(ii) prudential supervisory actions**	**(iii) NPL management initiatives**	**(iv) macroprudential measures**
				economy posed by the COVID-19 crisis, the FIN-FSA announced the release of the SyRB. A macroprudential measure based on Article 458 of the CRR was implemented in Finland in 2017 to address financial stability risks originating in the residential real estate sector. The measure, which entered into force in January 2018 and is applicable for two years, consists of a credit institution-specific minimum level of 15% for the average risk weight on housing loans of credit institutions that have adopted the Internal Ratings Based Approach. The proposed one-year extension of the measure until December 2020 was approved in August 2019. The FIN-FSA raised the maximum loan-to-collateral (LTC) ratio for loans (other than for first-time homebuyers) by 5 pp to 85%. The maximum LTC ratio for residential mortgage loans to first-time homebuyers remains unchanged at 95%.
SE	None	Finansinspektionen (the Swedish Financial Supervisory Authority) has suspended mortgage repayment rules until the end of June 2021.	Swedish banks benefit from high levels of asset quality. In recent years the average NPL ratio has been below 1%, making it one of the lowest in the EU. Borrowers' disposable income and payment discipline are not the only things that contribute to this phenomenon. A substantial role is also played by the very efficient public framework for debt enforcement, which centres around the	In Sweden, a 2.5% CCyB rate has been applicable since September 2019. In March 2020, due to the challenges for the economy posed by the COVID-19 crisis, the Finansinspektionen reduced the CCyB to 0%. Four institutions were identified as O-SIIs in 2019. They are subject to O-SII buffer rates between 0% and 2%.

	Overview of risk reducing measures adopted at national level			
	(i) legal/judicial, tax or other reforms	**(ii) prudential supervisory actions**	**(iii) NPL management initiatives**	**(iv) macroprudential measures**
			Swedish Enforcement Authority (Kronofogden). Most impaired loans are resolved in less than 12 months and do not pile up in banks' balance sheets. To address the risks of COVID-19 crisis, guarantee capacity of several government agencies was expended. Subsidized on-lending support was made available to banks from Riksbank (Sweden's central bank)	A SyRB of 3% has applied since 2014 to the four largest institutions (also identified as O-SIIs). As the SyRB is applied to all exposures, institutions also subject to the O-SII buffer shall comply only with the higher of the two. In this case, the four institutions shall comply with the 3% SyRB. A macroprudential measure based on Article 458 of the CRR was implemented in Sweden in 2018 to address financial stability risks originating in the residential real estate sector and to maintain a level playing field among banks in the domestic market after the redomiciliation abroad of one large banking group. The measure, which started to apply from December 2018 and is currently applicable, consists of a credit institution-specific minimum level of 25% for the average risk weight on Swedish housing loans applicable to credit institutions that have adopted the Internal Ratings Based Approach. The measure replaces a pre-existing measure introduced through Pillar 2. Macroprudential measures adopted to address the buoyancy in real estate markets and rising household debt include the introduction of a maximum LTV ratio of 85% for mortgages in 2010, the gradual raising of banks' risk weight floors for mortgages in 2013 and 2014, and the introduction of a formal mortgage amortisation requirement in June 2016. Additionally, at end-2017 Sweden adopted legislation to enhance the macroprudential authority's legal mandate. As of March 2018

	Overview of risk reducing measures adopted at national level			
	(i) legal/judicial, tax or other reforms	(ii) prudential supervisory actions	(iii) NPL management initiatives	(iv) macroprudential measures
				heightened amortisation requirements have applied to households with an LTV ratio in excess of 70% and/or a DTI ratio in excess of 4.5. While these steps have improved the resilience of the banking sector, they have not been sufficient to rein in household debt growth.

Annex IV: Methodological notes and caveats

ECB Banking Supervision indicators

Data sources

- The data used for the analysis in this report come from the EBA ITS on supervisory reporting (FINREP and COREP) and the European banking supervision's STE data collections.

Scope of the analysis

- The sample of institutions covered by this report (i) includes SIs at the highest level of consolidation within the BU, (ii) excludes SIs that are branches of non-SSM banks (because only a subset of information is reported for these institutions) and (iii) excludes SIs that are subsidiaries of other BU SIs to avoid double-counting.
- For the Member State-specific analysis, BU SIs that are subsidiaries of a BU parent are included.

Time series

- Time series cover the Q4 2014-Q2 2020 reporting period.
- Values for a specific quarter may change from one publication to another due to resubmissions of banks' supervisory data.
- **Full sample approach**: The sample includes all banks meeting the above criteria.[95]
  The number of entities per reference period is reported in the table below and reflects changes resulting from amendments to the list of SIs following assessments by ECB Banking Supervision, in addition to mergers and acquisitions.

Reference period	Full sample (BU charts)
Q2 2020	112
Q1 2020	112
Q4 2019	113
Q3 2019	113
Q2 2019	111
Q1 2019	114
Q4 2018	110
Q3 2018	109
Q2 2018	109
Q1 2018	109
Q4 2017	111
Q3 2017	114
Q2 2017	114
Q1 2017	118
Q4 2016	121

[95] Since Lithuania did not join the European banking supervision until January 2015, there are no country data for Lithuania for Q4 2014.

Reference period	Full sample (BU charts)
Q3 2016	122
Q2 2016	124
Q1 2016	123
Q4 2015	117
Q3 2015	102
Q2 2015	102
Q1 2015	104
Q4 2014	101

For the Member State-specific charts, which relate to Q4 2014, Q2 2018, Q4 2018, Q2 2019, Q4 2019 and Q2 2020, the number of entities is higher than for the BU SIs as a whole (full sample) owing to the inclusion of SIs that are subsidiaries of a BU SI parent. In those charts, data for Q4 2014 relate to 106 entities, for Q2 2018 to 114 entities, for Q4 2018 to 115 entities, for Q2 2019 to 114 entities, for Q4 2019 to 116 entities and for Q2 2020 to 115 entities.

Charts metric

For each indicator, two types of graph are produced:

- **BU aggregate time series:** These charts show the weighted-average indicators for all BU SIs as well as some measures of dispersion (the 25th, the 50th – median – and the 75th percentiles).
- **Member State evolution since Q4 2014:** These charts report weighted-average indicators for each Member State for the periods Q4 2014, Q4 2019 and Q2 2020.

Ratios are computed using a **composite bank approach**, meaning that numerators and denominators are summed before calculating the ratios.

Confidentiality criteria

To ensure the confidentiality of the data displayed, Member State-level data are only displayed when:

- There are at least three institutions in the Member State; and
- No institution represents more than 85% of both the numerator and the denominator of the ratio, irrespective of the number of institutions per data value.

Treatment of missing data

- For the **solvency and liquidity ratios**, both the numerator and the denominator need to have values for a bank to be included in the analysis. For **NPLs,** missing values are treated as zeros.
- For the **liquidity ratios**, some SIs are excluded from the aggregation in periods when they have not reported the relevant variables.

General caveats

- Changes in the indicators from one reference period to another can be influenced by the changes in the sample of reporting institutions.
- The analysis presented in this document reflects the availability and quality of reported data at the time the analysis was conducted.
- In 2015 the calculation methodology for the Basel III leverage ratio was changed in the EU through Commission Delegated Regulation (EU) 2015/62. The quantitative impact of these definitional changes is, however, considered to be moderate on aggregate, as assessed by the EBA in its “Report on impact of differences in leverage ratio definitions” (4 March 2014).
- For the NSFR, it should be noted that numbers reflect the calibration according to the Basel NSFR standards and do not consider the specificities of the NSFR implementation in the EU (e.g. 0% required stable funding factor for Level 1 securities, lower required stable funding factors for short-term transactions with financial customers, broader set of assets recognised as received variation margin in relation to derivative assets).

Definition of top and bottom quartiles

NPL ratios across the population of SIs are ranked from highest to lowest and split into four quartiles. For the computation of the weighted averages of banks in the top/bottom quartiles, only banks whose NPL ratio lie above/below the 75th/25th percentiles for the respective reference period are considered. The ratios are computed by summing the numerators and denominators before calculating the ratios. The methodology is repeated at each data point which means that sample composition can vary from one quarter to the next. The mean in these charts is computed based on NPL ratios across all SIs.

General caveats

- The MREL targets and shortfalls analysed in this report are considered at consolidated level only. Individual MREL targets are not included in this exercise;
- The provisions of the risk reduction package (BRRD II/SRMR II) are not yet applicable and, therefore, not yet reflected in the benchmark and trend analysis. Estimated draft targets based on the BRRD II/SRMR II framework are presented in Section 2.4.

Data sources

- All the MREL targets presented in the report reflect the decisions taken under the 2018 or 2019 resolution planning cycles. For entities without subordinated targets – i.e. where the target was set in line with the MREL 2018 policy for first wave banks or where normal insolvency proceedings is the preferred strategy – the subordinated target has been assumed to be equal to zero in all aggregations and comparisons.
- The MREL targets have been calibrated based on the Liability Data Report (LDR) data, with reference date 31 December 2017 or 31 December 2018 as applicable, except for a few banks for which a reference date different from year-end has been considered[96]. To obtain targets in EUR amounts as of 2017, 2018 and 2019, the target in the decision (expressed as % of TLOF) was applied on the TLOF amount at the respective date (pro-rata adjustment). The abovementioned amounts in EUR were expressed as percentages of TREA at the respective date. In order to ensure consistency across sections of this report, the reference dates 31 December 2017, 2018 and 2019 will be referenced as Q4 2017, Q4 2018 and Q4 2019 respectively.
- Data on own funds and eligible liabilities are retrieved either from the supplementary data collection performed on a quarterly basis or from LDRs as assessed by the internal resolution teams (IRTs). In order to determine the amount of MREL-eligible liabilities at each reference date for a given bank, the policy which was applied in the calculation of the targets at each respective reference date was considered. That is to say, MREL-eligible liabilities were considered under the consolidated scope, i.e. issued also by subsidiaries, where the MREL 2018 policy first wave banks was applied or where the conditions for cooperatives under the MREL 2018 policy second wave banks were met[97]. For the groups where the MREL 2018 policy for the second wave banks was applied, the computation was conducted taking into account own funds instruments eligible for the group's consolidated own funds requirement issued either by the resolution entity itself or by subsidiaries within the resolution group. Eligible liabilities – other than own funds – were only counted towards the MREL if issued by the resolution entity to entities outside the resolution group.

[96] In 2017, two entities with reference date Q2 2018 were included. In 2018, three entities with reference date Q1 2019 were included. In 2019, one entity with reference date Q2 2020 was included.
[97] In particular, this applies to 52 banks in 2017 and 28 banks in 2018 and 2019 (of which 2 cooperative banks).

Transitional periods

- In line with the SRB MREL policy, transitional periods were set in the respective MREL decisions for some entities. Where the transitional period is at least two years, informative transitional targets may have been incorporated in the resolution plans. These targets have been applied on TLOF as of December 2019 in order to calculate the MREL shortfall under Section 2.3.
- For the purpose of the analysis presented in Section 2.3, if for a given bank a transitional period is set and an intermediate informative target exists as of 31 December 2019, the shortfall is calculated based on this intermediate target[98]. Where a transition period is set but no intermediate target is applicable as at 31 December 2019, the shortfall is assumed to be zero. Where there is no transitional period set, the final target is taken into consideration.

Scope of the analysis

- The sample comprises banking groups and, where relevant, resolution groups in the case of multiple point of entry strategies.[99] In 2018 and 2019, 94 banking groups were included in the sample while in 2017 the sample comprised 81 groups. One Member State is not represented on the basis that no points of entry subject to external MREL are located in this jurisdiction. Six Member States have been grouped together for confidentiality purposes (i.e. each has less than three institutions in the sample).

MS	2017	2018	2019	Q2 2020
AT	6	8	8	8
BE	4	4	4	4
CY	-	3	3	3
DE	15	17	17	8
EE	-	1	1	1
ES	12	13	13	12
FI	2	2	2	2
FR	9	9	9	8
GR	4	4	4	4
IE	2	2	2	2
IT	9	12	12	11
LU	3	3	3	2
LV	1	1	1	1
MT	2	2	2	1
NL	4	4	4	4
PT	4	4	4	4
SI	3	3	3	2
SK	1	2	2	2
Total	**81**	**94**	**94**	**79**
o/w G-SIIs	*9*	*9*	*9*	*9*

[98] Transitional targets applicable as of 1 January 2020 were treated as if they were applicable at 31 December 2019.
[99] Within the report, both banking groups and resolution groups are referred to as banking groups.

- The data presented cover groups under the direct SRB remit that are either likely to go through resolution if they are declared to be failing or likely to fail, or may be subject to liquidation under national insolvency proceedings, for which an MREL decision at the consolidated level has been to be adopted as part of the 2018 or 2019 resolution planning cycles. Host cases as well as banks with a European resolution college are not in the scope of the analysis.
- Computations are based on the fully loaded TREA, in line with the 2018 and 2019 SRB MREL policy under the BRRD I framework, and take into account bank-specific adjustments to the target and the stock of eligible instruments to reflect the impact of the resolution strategy and the application of the SRB MREL policy (multiple point of entry strategy, resolution tools, liabilities governed by third-country law, structured notes, non-covered non-preferred deposits, etc.).
- MREL decisions are based on the applicable SRB MREL policy for each type of bank as part of 2018 and 2019 resolution planning cycles. With respect to the subordinated requirement the following applies:
    - For banking groups with a resolution college and for "priority banks": required subordination is set at a level of 16% TREA plus CBR for G-SIIs, and 14% TREA plus CBR for other banks;
    - For banking groups without resolution college not prioritised in the 2019 resolution planning cycle: subordination is not set and is assumed to be zero in the presented results. This is also the case for the liquidation banks, for which no subordinated target was set. This approach both reflects reality and ensures better alignment with the future regulatory framework;
    - The above-mentioned requirements may have been supplemented by an add-on to address the risk of breaching the no-creditor worse-off safeguard.
- For the purpose of the analysis under the BRRD I framework, the subordinated shortfall is considered a component of overall shortfall; therefore, the overall shortfall is the maximum between i) the MREL overall target minus own funds and eligible liabilities (capped at zero) and ii) the subordinated shortfall.
- All averages are weighted by TREA.

BRRD II/ SRMR II

For the purpose of Section 2.4, 99 banking groups are included in the scope of the analysis for which MREL targets are expected to be set under the 2020 resolution planning cycle. Internal MREL targets are not considered in the analysis.

MS	Scope of banks
AT	8
BE	4
CY	3
DE	17
EE	1
ES	12
FI	3
FR	11
GR	4
IE	2
IT	12
LU	3
LV	1
MT	2
NL	6
PT	5
SI	2
SK	2
LT	1
Total	**99**
o/w G-SIIs	*9*

- The underlying data for the calculation of the MREL targets are sourced from LDR. Data on Own Funds and Eligible Liabilities are retrieved either from the Additional Liability Report (ALR) or from the LDR – the latter in case of banks where the preferred strategy is liquidation under normal insolvency proceedings - and as assessed by the IRTs in line with the 2020 SRB policy under the banking package.
- The reference date of the data is 31 December 2019[100], except for the capital buffers where a dedicated approach has been adopted as a regulatory response to COVID-19 outbreak. For capital buffers, the 30 June 2020 rates were considered and were applied to 31 December 2019 exposures, as reported by the banks on an ad-hoc basis.
- For groups where the preferred strategy is liquidation under normal insolvency proceedings, the presented targets consider only the parent entity of the group[101].
- All indicators related to BRRD II/SRMR II MREL targets and eligible liabilities are based on the preliminary calculations conducted by the SRB, in line with the provisions of the banking package and the 2020 SRB MREL policy. The results may be subject to change as some assumptions were made with regard to resolution authority discretions, such as adjustments to TREA post resolution or deviations from default MREL formula, or further policy developments may occur. It has been assumed that several non-top-tier banks would be included in the scope of MREL Pillar 1 subordination requirement (6 "other Pillar 1" banks from 6 Member States).
- In line with the BRRD II/SRMR II framework, risk based (MREL-TREA) and non-risk based (MREL-TEM) final and intermediate MREL targets are calculated and expressed as percentages of TREA and TEM respectively for each group.

[100] For one entity the reference data was 31 March 2020.

[101] For one group, the operating company, at which consolidated supervision will takes place as of 1 July 2020, is considered when presenting the MREL target.

- With the aim of presenting a picture not only of the MREL targets/shortfalls, but also of the overall issuance needs of banks, both the targets and the shortfalls have been presented likewise including the CBR in addition to the risk based target.
- In order to maintain the consistent sample for all the graphs and calculations, the subordination target has been assumed to be zero for the entities for which no subordination requirement is foreseen, such as banks where liquidation is the preferred strategy or some non-Pillar 1 banks. This assumption also holds for the presentation of subordinated targets/shortfalls that include the CBR. Furthermore, the subordinated liabilities of banks with liquidation strategy are estimated as the sum or senior non-preferred and subordinated liabilities (not recognised as own funds) as reported in the LDR, since the ALR reports are not requested for those banks.
- For G-SIIs, the subordination targets are based only on the 8% TLOF subordination requirement and do not consider the TLAC requirement.

Confidentiality criteria

To ensure the confidentiality of the data displayed, Member State-level data are presented only when there are at least three institutions in the Member State. Member States subject to this criterion have been regrouped and labelled in graphs as “others”.

Annex V: Formulae of ECB supervisory banking indicators

Indicator	Formula	Taxonomy
Fully loaded Common Equity Tier 1 (CET1) capital ratio	sum(C_01_00_r020_c010,-C_05_01_r010_c010,-C_01_00_r440_c010,MIN(sum(C_01_00_r530_c010,-C_01_00_r740_c010,-C_05_01_r010_c020,-C_01_00_r720_c010,MIN(sum(C_01_00_r750_c010,-C_01_00_r970_c010,-C_05_01_r010_c030),0)),0))/sum(C_02_00_r010_c010,-C_05_01_r010_c040)	All
Fully loaded Tier 1 (Tier 1) capital ratio	sum(C_01_00_r020_c010,-C_05_01_r010_c010,-C_01_00_r440_c010,C_01_00_r530_c010,-C_01_00_r740_c010,-C_05_01_r010_c020,-C_01_00_r720_c010,MIN(sum(C_01_00_r750_c010,-C_01_00_r970_c010,-C_05_01_r010_c030),0))/sum(C_02_00_r010_c010,-C_05_01_r010_c040)	All
Fully loaded total capital ratio	sum(C_01_00_r020_c010,-C_05_01_r010_c010,-C_01_00_r440_c010,C_01_00_r530_c010,-C_01_00_r740_c010,-C_05_01_r010_c020,-C_01_00_r720_c010,C_01_00_r750_c010,-C_01_00_r970_c010,-C_05_01_r010_c030)/sum(C_02_00_r010_c010,-C_05_01_r010_c040)	All
Fully loaded liquidity coverage ratio (LCR)	Since Q3 2016: C7600a_r010_c010/C7600a_r020_c010	v2.4 onward
	Before Q3 2016: STE template	N/A
Fully loaded leverage ratio	Since Q3 2016: C4700_r310_c010/C4700_r290_c010	v2.4 onward
	Before Q3 2016: C4500a_r110_c030/ (sum (C4500a_r010_c030 to C4500a_r100_c030, C4500a_r130_c030, C4500a_r150_c030) - C4500_r160_c030)	v2.3 and earlier
Net stable funding ratio (NSFR)	STE template	N/A
Gross NPE ratio	F1800a_r330_c060/F1800a_r330_c010	v2.6 and earlier
	sum(F1800a_r330_c060, F1800a_r335_c060) /sum(F1800a_r330_c010, F1800a_r335_c010)	v2.7 onward
Gross NPL ratio	sum(F1800a_r070_c060, F1800a_r250_c060) /sum(F1800a_r070_c010, F1800a_r250_c010)	v2.6 and earlier
	sum(F1800a_r070_c060, F1800a_r191_c060, F1800a_r221_c060) / sum(F1800a_r070_c010, F1800a_r191_c010, F1800a_r221_c010)	v2.7 and v2.8
	sum(F1800a_r005_c060,F1800a_r070_c060, F1800a_r191_c060, F1800a_r221_c060) / sum(F1800a_r005_c010,F1800a_r070_c010, F1800a_r191_c010, F1800a_r221_c010)	v2.9 onward
Net NPL ratio	sum(F1800a_r070_c060, F1800a_r250_c060,F1800b_r070_c150, F1800b_r250_c150)/sum(F1800a_r070_c010, F1800a_r250_c010,F1800b_r070_c130, F1800b_r250_c130)	v2.6 and earlier
	sum(F1800a_r070_c060, F1800a_r191_c060, F1800a_r221_c060, F1800b_r070_c150, F1800b_r191_c150, F1800b_r221_c150) / sum(F1800a_r070_c010, F1800a_r191_c010, F1800a_r221_c010, F1800b_r070_c130, F1800b_r191_c130, F1800b_r221_c130)	v2.7 and v2.8
	sum(F1800a_r005_c060,F1800a_r070_c060, F1800a_r191_c060, F1800a_r221_c060, F1800b_r005_c150,F1800b_r070_c150, F1800b_r191_c150, F1800b_r221_c150) / sum(F1800a_r005_c010, F1800a_r070_c010, F1800a_r191_c010, F1800a_r221_c010, F1800b_r005_c130, F1800b_r070_c130, F1800b_r191_c130, F1800b_r221_c130)	v2.9 onward
NPL coverage ratio	-SUM(F1800b_r070_c150, F1800b_r250_c150) /SUM(F1800a_r070_c060, F1800a_r250_c060)	v2.6 and earlier

Indicator	Formula	Taxonomy
	-SUM(F1800b_r070_c150, F1800b_r191_c150, F1800b_r221_c150) / SUM(F1800a_r070_c060, F1800a_r191_c060, F1800a_r221_c060)	v2.7 and v2.8
	-SUM(F1800b_r005_c150, F1800b_r070_c150, F1800b_r191_c150, F1800b_r221_c150) / SUM(F1800a_r005_c060,F1800a_r070_c060, F1800a_r191_c060, F1800a_r221_c060)	v2.9 onward
Collateral coverage ratio	sum(F1800a_r070_c200,F1800a_r250_c200) /sum(F1800a_r070_c060, F1800a_r250_c060)	v2.6 and earlier
	sum(F1800a_r070_c200,F1800a_r191_c200,F1800a_r221_c200) / sum(F1800a_r070_c060, F1800a_r191_c060, F1800a_r221_c060)	v2.7 and v2.8
	sum(F1800d_r005_c200,F1800d_r070_c200,F1800d_r191_c200,F1800d_r221_c200) / sum(F1800a_r005_c060,F1800a_r070_c060, F1800a_r191_c060, F1800a_r221_c060)	v2.9 onward
Gross NPL ratio - excluding "Cash balances at central banks and Other demand deposits"	sum(F1800a_r070_c060, F1800a_r191_c060, F1800a_r221_c060)/sum(F1800a_r070_c010, F1800a_r191_c010, F1800a_r221_c010)	v2.9 onward
Net NPL ratio excluding "Cash balances at central banks and Other demand deposits"	sum(F1800a_r070_c060, F1800a_r191_c060, F1800a_r221_c060,F1800b_r070_c150, F1800b_r191_c150, F1800b_r221_c150)/sum(F1800a_r070_c010, F1800a_r191_c010, F1800a_r221_c010,F1800b_r070_c130, F1800b_r191_c130, F1800b_r221_c130)	v2.9 onward
Non-performing loans subject to EBA-compliant moratoria/Total loans	COV9101_r0010_c0060/sum(F1800a_r070_c010,F1800a_r191_c010, F1800a_r221_c010)	v2.9 onward and COVID-19 measures reporting
Non-performing loans subject to Other COVID-19-related forbearance measures/Total loans	COV9102_r0010_c0050/sum(F1800a_r070_c010,F1800a_r191_c010, F1800a_r221_c010)	v2.9 onward and COVID-19 measures reporting
Non-performing loans subject to newly originated loans subject to public guarantee schemes/Total loans	COV9105_r0010_c0050/sum(F1800a_r070_c010,F1800a_r191_c010, F1800a_r221_c010)	v2.9 onward and COVID-19 measures reporting
Non-performing loans subject to COVID-19 measures/Total loans	sum(COV9101_r0010_c0060, COV9102_r0010_c0050, COV9105_r0010_c0050)/sum(F1800a_r070_c010,F1800a_r191_c010, F1800a_r221_c010)	v2.9 onward and COVID-19 measures reporting
Performing loans subject to EBA-compliant moratoria/Total loans	COV9101_r0010_c0020/sum(F1800a_r070_c010,F1800a_r191_c010, F1800a_r221_c010)	v2.9 onward and COVID-19 measures reporting
Performing loans subject to Other COVID-19-related forbearance measures/Total loans	COV9102_r0010_c0020/sum(F1800a_r070_c010,F1800a_r191_c010, F1800a_r221_c010)	v2.9 onward and COVID-19 measures reporting
Performing loans subject to newly originated loans subject to public guarantee schemes/Total loans	COV9105_r0010_c0020/sum(F1800a_r070_c010,F1800a_r191_c010, F1800a_r221_c010)	v2.9 onward and COVID-19 measures reporting
Performing loans subject to COVID-19 measures/Total loans	sum(COV9101_r0010_c0020, COV9102_r0010_c0020, COV9105_r0010_c0020)/sum(F1800a_r070_c010,F1800a_r191_c010, F1800a_r221_c010)	v2.9 onward and COVID-19 measures reporting
Loans benefiting from COVID-19 measures/Total loans	sum(COV9101_r0010_c0020, COV9101_r0010_c0060, COV9102_r0010_c0020, COV9102_r0010_c0050, COV9105_r0010_c0020, COV9105_r0010_c0050)/sum(F1800a_r070_c010,F1800a_r1	v2.9 onward and COVID-19 measures reporting

Indicator	Formula	Taxonomy
	91_c010, F1800a_r221_c010)	
Performing loans subject to EBA-compliant moratoria / Loans benefiting from COVID-19 measures	COV9101_r0010_c0020/ sum(COV9101_r0010_c0020, COV9101_r0010_c0060, COV9102_r0010_c0020, COV9102_r0010_c0050, COV9105_r0010_c0020, COV9105_r0010_c0050)	COVID-19 measures reporting
Performing loans subject to Other COVID-19-related forbearance measures/Loans benefiting from COVID-19 measures	COV9102_r0010_c0020/ sum(COV9101_r0010_c0020, COV9101_r0010_c0060, COV9102_r0010_c0020, COV9102_r0010_c0050, COV9105_r0010_c0020, COV9105_r0010_c0050)	COVID-19 measures reporting
Performing loans subject to newly originated loans subject to public guarantee schemes/Loans benefiting from COVID-19 measures	COV9105_r0010_c0020/ sum(COV9101_r0010_c0020, COV9101_r0010_c0060, COV9102_r0010_c0020, COV9102_r0010_c0050, COV9105_r0010_c0020, COV9105_r0010_c0050)	COVID-19 measures reporting
Non-performing loans subject to EBA-compliant moratoria / Loans benefiting from COVID-19 measures	COV9101_r0010_c0060/ sum(COV9101_r0010_c0020, COV9101_r0010_c0060, COV9102_r0010_c0020, COV9102_r0010_c0050, COV9105_r0010_c0020, COV9105_r0010_c0050)	COVID-19 measures reporting
Non-performing loans subject to Other COVID-19-related forbearance measures/Loans benefiting from COVID-19 measures	COV9102_r0010_c0050/ sum(COV9101_r0010_c0020, COV9101_r0010_c0060, COV9102_r0010_c0020, COV9102_r0010_c0050, COV9105_r0010_c0020, COV9105_r0010_c0050)	COVID-19 measures reporting
Non-performing loans subject to newly originated loans subject to public guarantee schemes/Loans benefiting from COVID-19 measures	COV9105_r0010_c0050/ sum(COV9101_r0010_c0020, COV9101_r0010_c0060, COV9102_r0010_c0020, COV9102_r0010_c0050, COV9105_r0010_c0020, COV9105_r0010_c0050)	COVID-19 measures reporting
Performing loans subject to COVID-19 measures/Loans benefiting from COVID-19 measures	sum(COV9101_r0010_c0020, COV9102_r0010_c0020, COV9105_r0010_c0020)/sum(COV9101_r0010_c0020, COV9101_r0010_c0060, COV9102_r0010_c0020, COV9102_r0010_c0050, COV9105_r0010_c0020, COV9105_r0010_c0050)	COVID-19 measures reporting
Non-performing loans subject to COVID-19 measures/Loans benefiting from COVID-19 measures	sum(COV9101_r0010_c0060, COV9102_r0010_c0050, COV9105_r0010_c0050)/sum(COV9101_r0010_c0020, COV9101_r0010_c0060, COV9102_r0010_c0020, COV9102_r0010_c0050, COV9105_r0010_c0020, COV9105_r0010_c0050)	COVID-19 measures reporting