Overview of Progress in Achieving Risk Reduction Measures (RRMs)

A Follow-up Note to the February 2018 discussions on EMU deepening

European leaders re-affirmed their commitment in the December 2017 and March 2018 summits to strengthening the Banking Union (BU) and giving priority to discussing how the roadmap to achieve this objective could be further developed.

This note follows up on the request by the President of the Eurogroup of 16 May 2018 to the European Commission (EC), the European Central Bank in view of its tasks within the Single Supervisory Mechanism (ECB-SSM) and the Single Resolution Board (SRB) to support the Member States (MSs) in their discussion on the further development of the June 2016 roadmap on the completion of the BU. It has two main objectives:

1. To provide **more detailed information on the progress already achieved** with respect to **risk reduction measures (RRMs)**;
2. To present the **impact of RRMs already implemented** (at EU and MS levels) with quantitative evidence where available. Notwithstanding a number of technical caveats, the note also sets such an impact analysis which could be useful in elaborating the roadmap to complete the BU, including measures to enhance risk sharing.

This note is an update of an earlier report presented to the ECOFIN on 29 November 2017 and builds on the staff note provided to the EFC and the FSC in February 2018, reflecting the latest developments in recent months.

Overview of Risk Reduction and Risk Sharing measures to date

Since the onset of the financial crisis, the EU has adopted **over fifty legislative proposals to increase the resilience** of the financial sector. The agreement in Council on the Banking Package of November 2016, achieved on 25 May 2018, is instrumental in significantly enhancing the regulatory landscape in the EU, both in terms of prudential supervision as well as in terms of recovery and resolution of institutions. Since February 2018, the Commission has published a comprehensive package fostering financial stability in the EU by focusing on a mix of complementary policy actions in four areas as set out in the ECOFIN Action Plan on NPLs: (i) bank supervision and regulation, (ii) recommending further reforms of national restructuring, insolvency and debt recovery frameworks, (iii) developing secondary markets for distressed assets, and (iv) fostering, as appropriate and necessary, the restructuring of banks. These measures together with the actions taken and guidelines published by the ECB-SSM and the European Banking Authority (EBA) delivering on the Action Plan will enable banks, supervisors and MSs to address NPLs in an even more determined way than before and avoid excessive build-up of NPLs in the future.

More specifically, the updated measures to strengthen the bank prudential and resolution frameworks after the crisis are described in the overview of legislative measures in Annex I.

No further progress was made in recent months in relation to proposals on the creation of a European Deposit Insurance Scheme (EDIS), which was adopted by the Commission already in

November 2015 and on which the Commission proposed in October 2017 a way forward to enable its gradual implementation.

No decisions have been made yet on the implementation of a backstop to the Single Resolution Fund (SRF).

Annex I offers a granular view of all legislative measures relevant for the banking sector (starting 2012). This list includes both risk reduction and risk sharing measures which are already in force or under negotiation. Updates have been included notably on the finalisation and adoption of the Directive amending the BRRD as regards the ranking of unsecured debt instruments in the insolvency hierarchy[1] as well as on the publication of Commission's NPL package, the supervision of investments firms and the sovereign bond-backed securities. Importantly, a General Approach has been adopted by the Council on 25 May 2018 on the Banking Package, after more than a year and a half of negotiations in the Council. This agreement is an important milestone in enabling further significant risk reduction measures expected to enhance the resilience of the EU banking sector.

Annex II focuses on the actual legislative transposition of the most important Directives by MS, which is a critical starting point when talking about implementation progress. All MSs have **transposed** the relevant legislation. Compared to the situation presented in February, the newly adopted amendment to the BRRD regarding the ranking of unsecured debt instruments in the insolvency hierarchy has been added to the list.

Since not all the risk reduction is enabled through EU-wide measures and actions, but a lot of these are initiated at national level, **Annex III** presents other national measures taken in addition to transposing EU agreed legislation. This list of national measures is not exhaustive but presents some of the key measures from the country surveillance reports. Annex III has been updated to reflect new developments regarding national risk reducing measures in 6 MSs (BG, ES, AT, PT, FI, SE).

Impact of Risk Reducing Measures

In the overview report presented to the Eurogroup on 29 November 2017 and the staff note to the EFC and the FSC in February 2018, **five key risk indicators (capital, leverage, liquidity, net stable funding, non-performing loans ratio)** were used to measure the reduction in risks across MSs on the prudential side and a **sixth indicator on the resolution side** (the minimum requirements on own funds and eligible liabilities or the **MREL buffer**)**.** The current report provides updated information by the ECB-SSM and the SRB on this list of indicators.

Annex IV presents a quantitative analysis of the evolution of certain indicators per MS and how these evolutions contributed to reducing risks (e.g. capital ratio, liquidity, leverage, NPLs (gross and net) and MREL). The respective charts and narratives have been slightly updated to reflect the latest available set of data. The conclusions on the progress made and trends presented in February 2018 remain largely valid and are further strengthened by the updated data provided by the ECB-SSM and the SRB.

[1] Directive (EU) 2017/2399 published in the OJ on 12 December 2017

The figures provided in Annex IV show that for **four out of the six indicators (capital, leverage, liquidity, net stable funding) both EU and national averages are well above not only the requirements** set by current EU legislation (capital ratio, liquidity coverage ratio) but also the future requirements proposed in the bank risk reduction package which are not yet adopted (leverage ratio, net stable funding ratio). Compared to the last report submitted to EFC/FSC in February 2018 (which was based on data relating to Q2 2017), the latest available data (relating to Q4 2017) show for example:

- a further increase in the tier 1 capital ratio (fully-loaded) of 0.8pp reaching an average level in the euro area of 14.2% at the end of 2017;
- a further increase in the leverage ratio (fully-loaded) of 0.3pp reaching a level of 5.3% on average in the euro area at the end of 2017; and
- a further decrease in the average NPL ratio of 0.2pp for EU banks over one quarter, reaching 4.4% of total gross loans and advances in Q3 2017 – preliminary results for Q4 2017 indicate a continuation of this downward trend of the average NPL ratio.

While no criteria have been set in legislation for legacy assets such as NPLs or level 3 assets, NPLs are on a significant downward trend, having fallen by a third since the peak of the crisis and being on a steady decline, especially in those MSs that hold the largest stock of NPLs. In order to cement and continue this positive development, the Commission has put forward an ambitious package of legislative proposals to further reduce NPLs and prevent their future accumulation.

Finally, the MREL requirement is being defined by the SRB at consolidated level for the largest institutions on the basis of the BRRD (see Annex IV, section 1.3.).

	Risk reduction indicators	Current or envisaged requirements fulfilled at EU and national level
1	Capital ratio	Yes
2	Leverage	Yes
3	Liquidity	Yes
4	Stable Funding	Yes
5	Non-performing loans	n/a
6	MREL	Transition period for compliance ongoing, good progress by the SRB in setting the bank-specific requirements

Conclusion

This note provides supplementary information on the progress achieved on risk reduction at EU level and in individual MSs. It confirms the sustained trend in risk reduction in the BU across the board. In light of the progress made, it is now important to embark on more concrete and committed discussions on risk sharing.

Annex I: Updated overview of critical EU banking legislative measures on risk reduction

This section has been updated to include the newly published Commission proposals on addressing NPLs and sovereign bond-back securities. It also reflects the progress on the partial harmonisation of the creditor hierarchy for senior unsecured debt which was adopted and published in the OJ in December 2017 as an amendment to the BRRD and the publication of the proposal on the supervision of investment firms. The General Approach adopted by the Council in May 2018 on the Banking Package is also reflected.

Measure	Description
Already agreed and in force	
CRR/CRDIV including technical standards	Introducing new definition of capital, CVA surcharge, capital buffers, liquidity requirements, leverage ratio reporting and disclosure requirements, stricter governance requirements (including limits on bonuses), benchmarking of internal models for calculating capital requirements
Single Supervisory Mechanism Regulation (SSMR)	A single supervisory mechanism was established, in order to ensure supervision of the highest quality, to implement the EU's policy related to prudential supervision of credit institutions in a coherent and effective manner, and to apply consistently the single rulebook.
Single Supervisory Mechanism (SSM) becomes operational	SSM becomes operational. The ECB takes over supervision of the most important banks in the euro area. From 2014 onwards, the SSM takes up fully its supervisory role and sets measures to address risks in the euro area banking system and to further reduce financial fragmentation.
Bank recovery and resolution Directive (BRRD)	New rules to prevent and manage the orderly recovery and restructuring of banks that are failing or at risk of failing
BRRD Delegated acts (level 2 legislation)	Specifying the content of recovery plans, resolution plans and group resolution plans, critical functions and core business lines / ex-post contributions, exclusions from the application of write-down or conversion powers, MREL calibration methodology, methodologies and principles on the valuation, minimum elements of a business reorganisation plan. Implementing Regulation on standardised formats and templates for reporting.
Single Resolution Mechanism Regulation (SRMR)	New rules to prevent and 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. So far, EUR 17.3 bn have been collected in contributions from the banking industry (expected target level is EUR 55 bn in December 2013). In 2018, 67% of the funds in all national compartments are mutualized; the compartments will be progressively merged until 2023
Deposit Guarantee Scheme Directive (DGSD)	New rules proposed for the funding of deposit guarantee schemes
CRR/CRD delegated acts on leverage ratio and liquidity coverage ratio (LCR)	Delegated act amending the methodology for calculating the leverage ratio and introducing a liquidity coverage ratio (LCR) requirement
Single Resolution Mechanism (SRM) becomes operational.	A new EU Agency, the Single Resolution Board (SRB), assumes responsibility for dealing with failing banks in the euro area.
Partial harmonisation of bank creditor hierarchy – (BRRD Art 108)	Adopted in December 2017, not yet transposed by all MSs. Creation of a new class of senior non-preferred debt to facilitate the compliance with subordinated TLAC/MREL requirements achieved through modifications to BRRD Article 108..

Measure	Description
Proposed by the Commission	
Risk reduction package – Resolution (TLAC/MREL)	Amendments to the BRRD/SRMR/ CRR/CRD in view of implementing the Total Loss Absorbing Capacity (TLAC) standard and reviewing the minimum requirement for own funds and eligible liabilities (MREL), implementing the MREL allocation within groups (internal MREL). General Approach achieved in Council in May 2018 Ecofin.
Risk reduction package – Prudential framework (CRR/CRD Review)	Amendments to the CRR/CRDIV to, inter alia, implement and finalise remaining Basel reforms including the introduction of - a binding leverage ratio; - a binding net stable funding ratio; - more risk-sensitive capital requirements, in particular 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 on third country groups to set up an EU intermediate parent undertaking (IPU) and authorisation requirements on (mixed) financial holding companies). Amendments to allow for cross-border capital and liquidity waivers subject to safeguards. Proportionality-enhancing amendments, which are intended to reduce undue administrative burden and improve banks' lending capacity. General Approach achieved in Council in May 2018 Ecofin.
Insolvency law	Proposal for a Directive on preventive restructuring framework, second chance and measures to increase the efficiency of restructuring, insolvency and discharge procedures
Risk reduction package – (Moratorium tool)	Amendments to the BRRD in view of harmonisation of moratoria tools and more proportionate recognition of bail-in powers in third countries. General Approach achieved in Council in May 2018 Ecofin.
Non-performing loans (NPLs)	Proposal for a directive on credit servicers, credit purchasers and the recovery of collateral;
	Proposal for a regulation amending the capital requirement regulation, which introduces statutory prudential backstops to prevent the build-up of future NPLs without sufficient loan loss coverage;
	A Commission services' staff working document containing a blueprint on the set-up of national asset management companies (AMCs).
	Interpretation on existing supervisory powers to address potential under-provisioning of NPLs
Sovereign Bond-Backed Securities (SBBS)	An enabling framework for securities that allows for pooling and possibly tranching sovereign bonds from different Member States
Investment firms	SSM supervision of large investment firms

Annex II: Transposition Overview of EU Directives per MS

The newly adopted amendment to the BRRD regarding the ranking of unsecured debt instruments in insolvency hierarchy has also been added to the list of relevant Directives to monitor in terms of transposition.

Transposition of the BRRD and the DGSD

All MSs have fully transposed the BRRD[2] and the DGSD. The national legal frameworks on the recovery and resolution of the financial institutions and protection of the depositors in all MSs are operational and, in case of a need, would ensure that authorities are equipped with the necessary powers, tools, funding arrangements and cooperative mechanisms as provided for in the Directives.

CP = partially notified
NC = no notification received
EX = notification to be examined by the service
OK = notification received and completeness checked

Date: 7 June 2018

	Unit	Directive	Transposition deadline	AT	BE	BG	CY	CZ	DE	DK	EE	EL	ES	FI	FR	HR	HU	IE	IT	LT	LU	LV	MT	NL	PL	PT	RO	SE	SI	SK	UK
1	FISM/D/01	2013/36/EU CRDIV	31/12/2013	OK	EX	OK	OK	OK	EX	OK	OK	OK	EX	OK	OK	EX	OK	OK	OK	OK	OK	OK	OK	OK	EX	OK	OK	OK	OK	OK	OK
2	FISM/E/04	2014/59/EU BRRD	31/12/2014	OK	EX	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	EX	OK	OK	OK	OK	OK	OK	EX	OK	OK
3	FISM/E/04	2014/49/EU DGS	03/07/2015 31/05/2016	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
4	FISM/E/04	2017/2399/EU amending 2014/59/EU BRRD (ranking of unsecured debt instruments in insolvency hierarchy)	29/12/2018	NC	NC	NC	NC	NC	NC	NC	NC	NC	EX	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC

[2] BE, SI and LV have declared full transposition of the BRRD. The Commission services are finalising the assessment of the transposition.

Annex III: Update on Other National Risk Reducing Initiatives

Note: the table provides a non-exhaustive view of the key national measures taken to reduce risks based on the Semester country surveillance reports. Where appropriate we invite Member States to provide us with comments to update the table.

This section has been updated to reflect the latest development in 6 MSs based on two sources of information: MS input and recent developments from the country surveillance reports.

	National NPL and balance sheet risk reducing measures			
	(i) legal/judicial, tax or other reforms	**(ii) prudential supervisory actions**	**(iii) NPL management initiatives**	**(iv) macro-prudential measures**
BE	None	None	None	A macro-prudential measure addressing financial stability risks originating in the residential real estate (RRE) was implemented in Belgium in 2014. The measure was based on Article 458 of the CRR and consisted of a general 5 percentage points add-on on risk weights for mortgage exposures. In the light of increasing RRE risks (see ESRB 2016), the NBB proposed to replace that measure, following its expiration in May 2017, by a more stringent measure. The latter was rejected by the Belgian government, effectively resulting in the absence of a formal macroprudential measure to address RRE risk. The NBB proposed a new macroprudential measure in November 2017, consisting of a flat 5 percentage points add-on (prolongation of the original measure) and a multiplier of 1.33 on mortgage risk weights. This measure has been approved by the government and should enter into force in March 2018.
BG	- Extending the scope of article 45 of the Law on Credit Institutions, which sets limits to related-party exposures; - Requirements for managing and reporting related-party transactions have been strengthened; - Important legal amendments to improve the	- Independent banking sector AQR/ST in 2016; - Independent balance sheet review of the insurance and pension funds sectors in 2016; - Several actions to strengthen banking and non-banking supervision;	- Strengthening of vulnerable bank capital buffers allowing better provisioning of NPLs; - Improvement of risk management practices in vulnerable banks;	- The BNB Governing Council set the countercyclical capital buffer rate applicable to credit risk exposures in the Republic of Bulgaria at 0% for the second quarter of 2018.

	National NPL and balance sheet risk reducing measures			
	(i) legal/judicial, tax or other reforms	**(ii) prudential supervisory actions**	**(iii) NPL management initiatives**	**(iv) macro-prudential measures**
	independence and governance of the Financial Securities Commission were passed in 2017; - The insolvency regime was amended and improved.	- The BNB Governing Council adopted a decision on applying as of 1 January 2019 the *Guidelines on Connected Clients* issued by EBA and setting out the appropriate banking practices in the area of large exposures and establishing connectedness between a bank's clients.		
CZ	None.	None.	None.	The Czech National Bank would like to be enabled by law to set LTV, LTI, DTI, and DSTI. The draft failed to pass Parliament in summer 2017 given the elections in October. The CNB will represent this draft once CZ has a stable government.
DK	None	Progressing reduction of NPLs in agri-business, concentrated in small and mid-sized local banks, with support from the Danish FSA.	Finansiel Stabilitet is a state-owned company set up in 2008 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 non-performing exposures with a total outstanding debt of approximately DKK 3 billion. The exposures in the offered portfolio were taken over under the rescue Bank Packages in 2008-2011.	None
DE	None	None	The NPL ratio in the shipping segment increased to 37% in 2016. The lenders concerned have reacted and the volume of shipping loans of the top five German lenders significantly declined in 2016 by about EUR 12 billion to EUR 59 billion – down from about EUR 84 billion in 2012.	Since June 2017 a law enables supervisors to impose minimum standards and thresholds on mortgage granting institutions if they see financial stability endangered. (BGBl. I S. 1495)

	National NPL and balance sheet risk reducing measures			
	(i) legal/judicial, tax or other reforms	**(ii) prudential supervisory actions**	**(iii) NPL management initiatives**	**(iv) macro-prudential measures**
EE	None	None	NPLs that peaked after 2009 were partially cured and partially written-off with substantial support from Scandinavian parent banks.	None
IE	- The Abhaile Aid and Advice scheme was launched in the second half of 2016 to provide distressed and lower-income borrowers legal and financial advice to resolve their arrears. - A revision of the mortgage-to-rent scheme has been announced in the media. Much like its predecessor, the scheme will allow qualifying homeowners in arrears to remain in their homes by turning in their keys in exchange for a rent to be paid to the bank, which will remove the debt from the banks' books, thereby facilitating voluntary collateral enforcement.	Improved provisioning in 2017 and H1 2018 (expected) as a results of recent onsite assessments revealing sizeable NPL classification and provisioning problems.	None	Authorities introduced macro-prudential measures to limit the high LTVs and LTIs on new residential mortgage loans in February 2015. The aim was to lower risks to vulnerable borrowers and dampen cyclical dynamics between house prices and lending volumes. The rules have been revised in 2016 (i.e. introduction of a sliding LTV limits) and in 2017 (i.e. stricter rules for second and subsequent buyers).
EL	- Reform of the insolvency regime for corporates and households from December 2016/May 2017 (corporates) and November 2015 (households); - Introduction of an Out-of-Court Debt Workout mechanism for restructuring arrears to both the government and banks, operational since September 2017.	- Introduction of bank-specific operational NPL reduction targets for the period Q2 2016 - Q4 2019, implemented since Q3 2016.	- Adoption of a new law on the sale of loans; 2) liberalisation of the licencing regime for NPL service providers in Q2 2017;	- Increasing creditors' preferential claim on secured collateral to 70% in 2015 and to 90% in 2018.

	National NPL and balance sheet risk reducing measures			
	(i) legal/judicial, tax or other reforms	**(ii) prudential supervisory actions**	**(iii) NPL management initiatives**	**(iv) macro-prudential measures**
ES	- A new legal framework for the savings banks and banking foundations was put into place; - New personal and company insolvency regimes were adopted; - The consumer protection legislation for financial instruments was enhanced.	- Spain implemented a financial assistance programme during July 2012-January 2014 which resulted in the clean-up and transfer to an AMC of legacy assets of former savings banks and their restructuring and recapitalisation.	- NPLs are 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 finalized or are ongoing; - Following the resolution of Banco Popular, other banks accelerated the clean-up of balance sheets. - The restructuring and cleaning-up of the banking sector progressed with the conclusion of the merger between Bankia and BMN in January 2018.	- As required by Law 10/2014, the BdE is applying the countercyclical capital buffer (CCyB) since January 2016. As a result of the evolution of various indicators, the BdE continued to set the buffer rate at 0% in March 2018 for the second quarter of 2018.
FR	None	None	None	The Haut Conseil de Stabilité Financière announced on 15 December 2017 its intention to introduce a macro-prudential measure under Article 458(d)(ii) CRR. The measure would lower the large exposure limit set out in Article 395(1) to 5% of bank's eligible capital for exposures incurred by systemically important French credit institutions on the highest level of consolidation to large resident highly indebted non-financial companies (NFC). The objective is to limit the exposure of the systemic French banks to highly indebted NFCs, hereby enhancing the resilience of the financial system and to limit the increase of excessive NFC debt in a forward-looking and preventive way, i.e. by limiting their bank funding opportunities and sending a signal to the markets regarding the increased leverage of large French NFCs.

	National NPL and balance sheet risk reducing measures			
	(i) legal/judicial, tax or other reforms	**(ii) prudential supervisory actions**	**(iii) NPL management initiatives**	**(iv) macro-prudential measures**
HR	- Authorities introduced in January 2017 a temporary rule to allow banks to deduct losses from NPL write-offs from the tax base, which was not possible. - The government has adopted in August 2017 amendments to the existing asset sales framework, requiring banks to inform the borrowers on the details of the sale, including the owed amount, maturity, and identity of the buyer. The amendments are currently under parliamentary vetting.	- The Croatian National Bank (CNB) has introduced in 2013 to all domestic banks provisioning backstops, with minimum coverage ratios progressively increasing with the number of delinquency days. The authorities introduced in March 2017 a cap of 80% on the maximum coverage ratio for any specific portfolio. - CNB introduced in 2013 rules to restrict the transformation of forborne NPLs to performing status, 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.	None	None
IT	-Reform of the insolvency and foreclosure frameworks in 2015 and 2016 to shorten the recovery period of collateral and foster the repossession of collateral; -Reform of the large cooperative banks (*banche popolari*) and reform of the small mutual banks (*banche di credito cooperativo – BCCs*); once fully implemented, these reforms are expected to also impact positively the arrears management capacity of these banks; -Introduction of the immediate tax deductibility of loan-loss provisions;	Enhanced reporting by all banks on non-performing exposures and collateral - reporting template introduced in 2016 by Bank of Italy	-Setting-up of a NPL securitisation scheme with support of state guarantees (GACS) to support the NPL resolution by banks; -Setting up of a private sector backstop facility to invest in NPLs sold or securitised by banks (i.e. Atlante Fund II, recently renamed the Italian Recovery Fund)	None

	National NPL and balance sheet risk reducing measures			
	(i) legal/judicial, tax or other reforms	**(ii) prudential supervisory actions**	**(iii) NPL management initiatives**	**(iv) macro-prudential measures**
CY	- New insolvency rules were adopted in 2015. Due to relatively low take-up, authorities set up a working group in July 2017 to review the legislation and its application, expected to deliver results in late-2018. - New foreclosure rules were adopted in 2015 but they are still not used adequately. A recent draft bill that is currently under legal vetting is addressing some inherent flaws. - Measures were taken in early 2017 to improve the issuance of title deeds, including those built and sold before 2015. - A sale of loans legislation was adopted in 2015. - The authorities aim to adopt a legislative framework for loan securitisation, which remains under discussion and is not expected to be adopted before mid-2018.	- Supervisory pressure in late-2016 and early-2017 through the Single Supervisory Mechanism (SSM) Supervisory Review and Evaluation Processes (SREP) led to an increase in the provisioning levels. - In July 2017, the Central Bank of Cyprus set up an NPL task force to implement an revised NPL targeting framework to encompass a broader array of NPL workout solutions. The current targeting framework focuses only on loan restructurings.	- Two major banks have hired external NPL servicing companies to accelerate NPL workouts. - One major bank sold a portfolio of NPLs worth EUR 145 mln in January 2018.	- In 2017, the CBC designated six credit institutions and four investment firms as O-SIIs and the imposed capital buffers (to be phased-in over 2019-2022) range from 0.5% to 2%. - The countercyclical capital buffer requirement was introduced as of 1 January 2016 and is currently set at 0%. CBC introduced also borrower based measures in 2013, which were streamlined in March 2016, i.e. capping the total debt servicing amount to 80% of the borrower's net disposable income (65% for foreign currency loans) and the LTV ratio (first introduced in 2003) to 80% of financing for primary residences and 70% for all property financing.
LV	The government has strengthened the supervision of insolvency administrators. The Insolvency Policy Development Guidelines for 2016 to 2020 contain specific measures to improve the insolvency framework and the regulation of the insolvency administrators' profession. The goals are to increase the number of restructurings and the insolvency recovery rate, and to strengthen the 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	None	NPLs that peaked after 2009 were partially cured and partially written-off with substantial support from Scandinavian parent banks	None

	National NPL and balance sheet risk reducing measures			
	(i) legal/judicial, tax or other reforms	(ii) prudential supervisory actions	(iii) NPL management initiatives	(iv) macro-prudential measures
	judges.			
LT	None	The reform of credit unions, small financial cooperatives serving local people in rural areas, is under way. As many smaller credit unions were facing financial difficulties, which prompted the Bank of Lithuania to launched a programme of restructuring and consolidation of the sector. From January 2018, two central credit unions will take over management of 20 and 14 small institutions respectively, thus improving the sector’s viability. The remaining seven credit unions will have time to become banks in the run-up to 2023.	NPLs that peaked after 2009 were partially cured and partially written-off with substantial support from Scandinavian parent banks	None
LU	None.	None.	None.	Parliament currently debates threshold for LTV, LTI, DTI, DSTI and mortgage maturity limits.
HU	- Personal Bankruptcy Act adopted in 2015 providing for a debt settlement procedure for over-indebted households.	- Central Bank recommendation for credit institutions, determining the expected minimum framework of cooperation between debtors and creditors. - Central Bank recommendation setting out best practice guidelines on out-of-court restructuring and consensual settlement of NPLs in the corporate sector.	- The asset management company established in 2016 by the central bank (MARK) tackles the sizeable commercial real estate distressed loans. It cleans up the banks' balance sheets through selling their non-performing bank portfolios on the market. - The National Asset Management Company (NAMA), set up by the government in 2015, has a capacity of purchasing in total 35 000 dwellings and	- The systemic risks generated by the considerable stock of loans denominated in foreign currencies (mainly Swiss franc) on the banks' balance sheets were tackled by converting FX credit into local forints in 2015. - In 2016, the Central Bank identified nine domestic systemically important financial institutions and introduced relevant risk buffers, applicable from 2017. - It also introduced institution-specific systemic risk buffers linked to the risk of their commercial real

	National NPL and balance sheet risk reducing measures			
	(i) legal/judicial, tax or other reforms	**(ii) prudential supervisory actions**	**(iii) NPL management initiatives**	**(iv) macro-prudential measures**
			it targets non-performing household debtors in the most difficult financial situation.	estate NPLs.
MT	None	-The amendment Banking Act (December 2016), requires credit institutions with a two-year average NPL above 6%, to draw up a concrete targeting plan to bring their level of NPLs below this ceiling over a five-year period. When missing the set targets, automatic sanctions apply, including higher capital requirements, through retained profits.	None	None
NL	- The mortgage interest tax deductibility (MID) is gradually reduced. It now stands at the level of 50% and is cut by 0.5 pp per year until 2020. From 2020 it will be reduced by 3 pps onwards to reach the floor of 37 % in 2023. MID is not available for interest-only mortgages.	None	None	- The LTV ratio for new mortgages has been gradually lowered and reached 100 % in 2018 (it will not be reduced further after 2018). - A cap on LTI ratio for mortgage loans was also introduced in 2013. LTI rules are based on the residual purchasing capacity of a household, making the maximum LTI equal to about 400% of yearly gross income, excluding the MID.
AT	None	None	- Prudential standards for risk management and granting of foreign currency adopted since 2008 by the banking supervisors (Austrian Central Bank and Financial Market Authority) to curb foreign exchange lending to unhedged borrowers.	- Through a law adopted in 2017, banking supervisors have been equipped with a macro-prudential toolkit for containing risks stemming from real estate financing. The toolkit enables supervisors to set minimum requirements for lending standards in terms of LTV ratios, debt service-to-income ratios and debt-to-income ratios or loan maturities. Currently though, supervisors do not see a need for using any of these available new instruments.

	National NPL and balance sheet risk reducing measures			
	(i) legal/judicial, tax or other reforms	**(ii) prudential supervisory actions**	**(iii) NPL management initiatives**	**(iv) macro-prudential measures**
				However, compliance with sustainable lending standards is closely monitored.
PL	None	None	None	None
PT	- Expediting insolvency proceedings – improvements through use of technology to (i) accelerate proceedings and (ii) ensure transparency in the judicial sales' procedures - Flexibility for tax credit to be restructured and creating a common decision body between social security and tax authority to participate in company restructuring negotiations - Creation of an early warning mechanism for entrepreneurs – compares various indicators to past levels and industry benchmarks to create awareness and promote preventive approach - Facilitating the transfer of NPL portfolios – regime allowing mass registration of the transfer of collateral and the mass communication to courts in insolvency proceedings - Creation of new insolvency practitioners acting as mediators for companies in "recovery" mode and assisting the debtor in both in court and out-of-court restructuring procedures - Framework allowing majority creditors (holding at least 2/3rds of debtor's liabilities)	- In line with SSM recommendations, Portuguese banks submitted 5-year NPL reductions plans forecasting at least 50% NPL stock reduction over the coming years - On-site and off-site inspection to segment banks' NPL portfolios by type, vintage, size and sector of activity	- Initiatives to promote coordination between creditors to accelerate credit restructuring and/or NPL sale; the flagship measure is called "coordination platform" - Financing lines/guarantees dedicated to viable companies that go through the restructuring process - Boosting the secondary market for bad assets through creating Credit Recovery Funds which allow for the disposal of bad assets by banks through dedicated marketable investment funds - Creating incentives for developing the secondary market for NPLs by enabling new servicing companies to enter the market	**Recommendation on new credit agreements for consumers**, introducing limits on new credit relating to residential immovable property, credit secured by a mortgage or equivalent guarantee, and consumer credit agreements concluded as of July 2018. The measure aim at promoting the adoption of prudent credit standards, in order enhance the resilience of the financial sector and the sustainability of households' financing, thereby, minimizing defaults. This measure introduces: i. LTV ratio below a) 90% for credit for own and permanent residence; b) of 80% for credit for purposes other than own and permanent residence; c) of 100% for credit for purchasing immovable property held by the credit institutions and for property financial leasing agreements. ii. DSTI below 50%, with the following exceptions of the total amount of credit granted by institution/year: a) up to 20% with a DSTI below 60%; b) up to 5% may exceed the limit. For variable and mixed interest rate agreements the impact of an interest rate rise should be considered, as well as a reduction of the borrower's net income when the borrower will be aged 70 or over at contract end. iii. Original maturity of the loans: a) below 40 years for new agreements for credit secured by a

	National NPL and balance sheet risk reducing measures			
	(i) legal/judicial, tax or other reforms	**(ii) prudential supervisory actions**	**(iii) NPL management initiatives**	**(iv) macro-prudential measures**
	to convert their credits into share capital without the consent of shareholders, outside of an insolvency proceeding (in certain strictly specified conditions) - Framework for voluntary out-of-court restructurings for companies' recovery (RERE) - Ability for banks to fiscally recognise write-offs (to a larger extent than previously)			mortgage; b) average maturity of new credit agreements should converge to 30 years by 2022; c) of 10 years for new consumer credit agreements. All credit agreements must have regular principal and interest payments. The limits must be observed simultaneously. The Recommendation follows the principle of comply or explain and its implementation will be monitored at least on an annual basis.
RO	None	- Measures and recommendations adopted by the banking supervisor (NBR) since 2013 for actions to clean-up bank balance sheets: - Removal of uncollectable NPLs fully covered with provisions - Full coverage with provisions for all NPLs for which repayment of principal and/or interest was overdue by more than 360 days and no legal procedures where taken against borrowers - Coverage of NPLs with provisions up to 90% for exposures towards insolvent borrowers - Enhanced collateral valuations – several valuations since 2013 - Recommendation (adopted in 2016) for full coverage with provisions of unsecured NPLs for which repayment of principal and/or interest was overdue by more than 180 days, followed by the removal of exposure from on-balance sheet.	Measures adopted by banks to improve their arrears management capacity and recovery of collateral	None

	National NPL and balance sheet risk reducing measures			
	(i) legal/judicial, tax or other reforms	**(ii) prudential supervisory actions**	**(iii) NPL management initiatives**	**(iv) macro-prudential measures**
SI	None	- BoS issued in 2015 guidance asking banks to specify annual targets and strategies for NPL reduction, which are being regularly revised. - Since 2015, BoS guidelines recommend banks to derecognise assets within a specific timeline (i.e. time-dependent write-offs), which in turn depends on the type of the asset and the exposures.	None	None
SK	In 2017 Slovakia's government took steps to improve the deficient insolvency framework. In Slovakia the insolvency regime is one of the slowest of all EU Member States, and one of the costliest in relation to the insolvency estate.	None.	None	The Slovak National Bank has the legal powers to set borrower-based limits and used them already: since March 2017 DSTI and LTV ratios are phased-in.
FI	None	FIN-FSA made a conditional decision on raising the minimum risk weight level for residential mortgage loans to 15%. The decision is applicable to banks that have adopted the Internal Ratings Based Approach for the calculation of capital requirements.	None	The Board of the FIN-FSA decided to lower the binding maximum loan-to-collateral (LTC) ratio by 5 percentage points to 85% for residential mortgage loans other than those taken for first home purchases. The measure cannot be viewed as NPL reducing measure (which in Finland is very low) but rather targeting the increasing household indebtedness. FIN-FSA gave the following justifications for the decision: 1. to address high and increasing household indebtedness (128.3% of annual disposable income end 2017) 2. clear risks of further increase in indebtedness (interest rate environment, strong consumer confidence, easing of the terms of new housing loan) 3. while house price developments moderate at aggregate level, divergence by region and type of housing

	National NPL and balance sheet risk reducing measures			
	(i) legal/judicial, tax or other reforms	**(ii) prudential supervisory actions**	**(iii) NPL management initiatives**	**(iv) macro-prudential measures**
SE	None	None	Swedish banks benefit from high asset quality. In recent years, the average non-performing loan ratio stayed below one percent, which was one of the lowest levels in the EU. Not only the disposable income of borrowers and their payment discipline contribute to this phenomenon. Substantial role is played by the very efficient public framework for debt enforcement, based on the Swedish Enforcement Authority (Kronofogden). Most of impaired loans are resolved in less than twelve months and do not pile up in banks' book.	Sweden activated capital buffers (CCyB, SRB) as well as specific pillar requirements, notably for real estate. Macroprudential measures taken to address the buoyancy in real estate markets and rising household debt include the introduction of a loan-to-value ceiling 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 has adopted legislation to enhance the macroprudential authority's legal mandate. As of march 2018, heightened amortisation requirements will apply to households with an LTV > 70% and/or a debt-to income ration > 4.5. While these steps have improved the resilience of the banking sector (see 4.2.1), they have not been sufficient to rein in household debt growth (see 4.2.3). Sweden intends to take a new macroprudential measure shifting the requirement of a 25% risk weight floor on mortgage loans issued by IRB banks from Pillar 2 to Pillar 1. The FSA has shared an informal draft notification and is planning to formally notify the measure at the end of May 2018. The measure is triggered by the decision of Nordea Bank AB (the largest Swedish bank and a GSIB) to move its headquarters from Sweden to Finland in the autumn of 2018 (conditional on receiving a licensing approval from the ECB and a merger approval from the competition authorities).

	National NPL and balance sheet risk reducing measures			
	(i) legal/judicial, tax or other reforms	**(ii) prudential supervisory actions**	**(iii) NPL management initiatives**	**(iv) macro-prudential measures**
UK	- The Bank of England (BoE) and other regulators are working closely with banks and other financial sector institutions in order to ensure adequate contingency planning in relation to the UK's withdrawal from the EU. - The UK Government plans to ensure an adequate legal and regulatory framework for financial services via the EU Withdrawal Bill and related secondary legislation.	- Regular bank stress-tests performed by BoE since 2014 which reinforced banks' capital buffers and provisioning levels; - In 2017, the Financial Policy Committee (FPC) announced measures to prevent excessive growth in the number of highly-indebted households with mortgage loans; - The Bank of England implemented further the bank resolution framework by publishing in May 2017 estimates of the amount of minimum requirements for own funds and eligible liabilities for bail-in, the so-called MREL for the largest UK banks.	- The two systemically important banks: Royal Bank of Scotland and Lloyds Banking Group, where the State acquired major participations in the aftermath of the financial crisis were restructured and cleaned -up of legacy assets.	- In 2017, the Bank of England's FPC increased the countercyclical buffer rate from 0 % to 1 %.

Annex IV: Quantification of RRMs

Updated summary of findings – aggregate and with particular elements per country

The charts and narratives in this section have been slightly updated (compared to the version presented in the EFC in February 2018) with the latest available data points. The interpretation of the updated charts and figures follows the same trends as described in the previous version of this note, which is a sustained positive path to reducing risks.

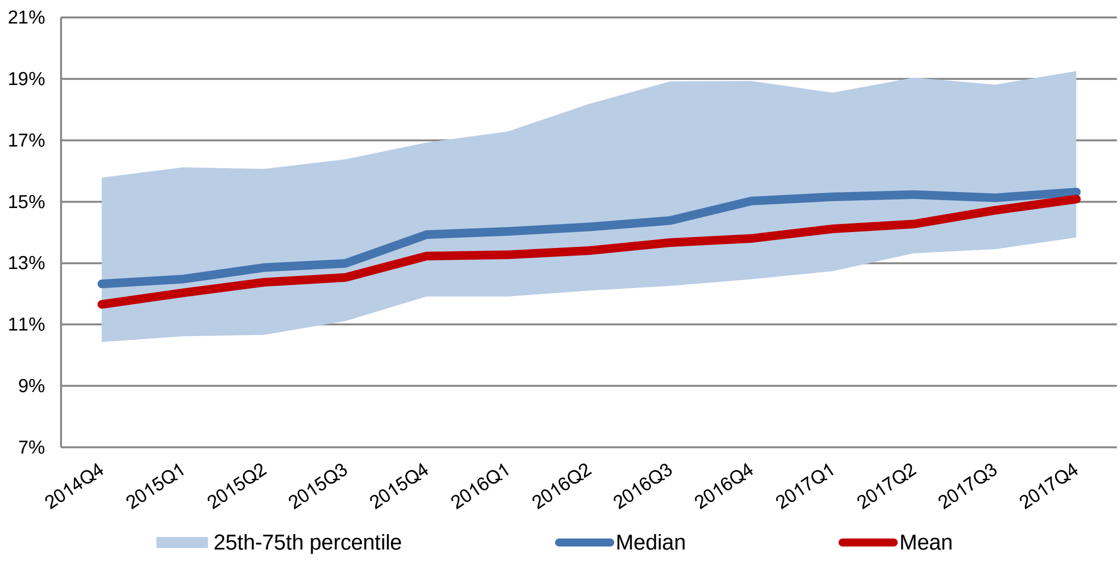
1.1. Quantification of prudential RRMs[3]

Banks across the euro area (EA) have taken significant steps to enhance their resilience and reduce risks. Significant progress can be observed in virtually all EA MSs on the key risk measures that have been introduced and strengthened by post-crisis regulatory reforms agenda, such as the quantity and quality of bank capital, leverage and liquidity.

Charts 1(a)-4(b) below illustrate the substantial progress that has been achieved in the period 2014-2017 across EA MSs. In addition to improved resilience overall, evidenced by a higher EA averages for these indicators, there have been also marked improvements in those national banking systems most affected by the crisis and ensuing recessions. As a result of determined action on risk reduction, remaining risks are more effectively and evenly addressed in the EA today than they were 3 years ago.

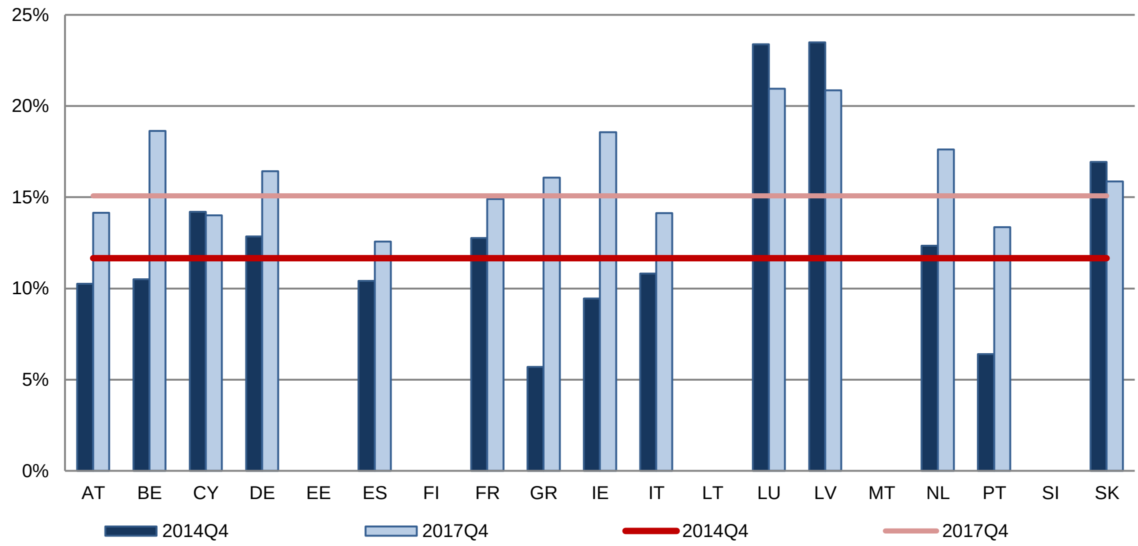
Since the February edition of this note, new data shows that risk reduction has progressed further. Aggregate capital ratios, leverage ratios, and liquidity ratios of SIs all improved in Q4 2017 in comparison to the last report to the EFC/FSC (which was based on data for Q2 2017).

Chart 1(a): Evolution of fully loaded Tier 1 capital ratios across the euro area:



[3] Details on the data sources, scope of the analysis, time series sample, metric used, confidentiality criteria applied, treatment of missing data and caveats applying to Charts 1 a) to 4 b) are listed in the methodological notes.

Chart 1(b): **Evolution of fully loaded Tier 1 capital ratios across Member States and euro area average:**



Source: COREP, ECB calculations. See section on "Methodological notes and caveats".

EA banks' Tier 1 capital ratios have improved across the sample (with an average increase of 3.4 pp in the EA since Q4/2014 out of which an increase of 0.8 pp was observed since the last reporting to the EFC/FSC, i.e. for the period Q2 2017 - Q4 2017). The biggest increases in Tier 1 capital ratios since 2014 were observed in GR, IE and PT where the Tier 1 capital ratio doubled or almost tripled. Small decreases were only observed in MSs with very high average starting points (LU, LV, SK and to a very marginal extent CY).

Chart 2(a): **Evolution of fully loaded Basel III leverage ratio across the euro area**

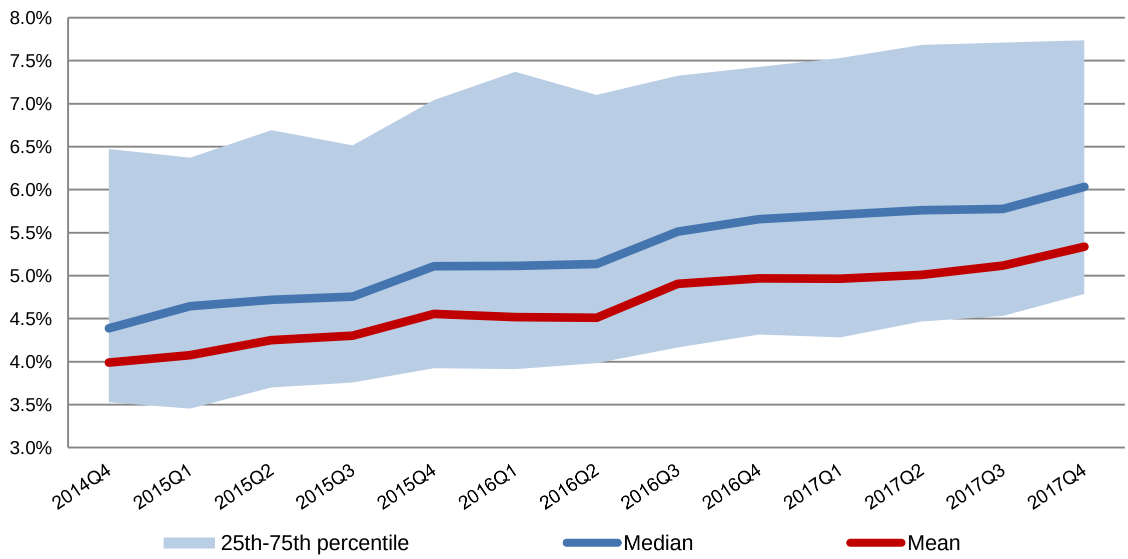
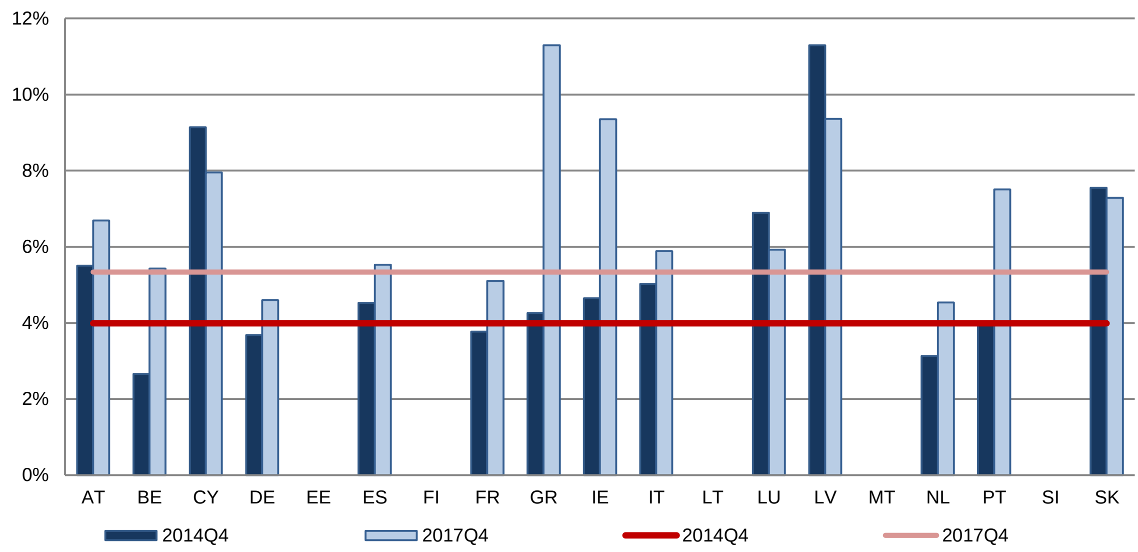


Chart 2(b): Evolution of fully loaded Basel III leverage ratio across Member States and euro area average



Source: COREP, ECB calculations. See section on “Methodological notes and caveats”.[4]

The strengthening in capital positions of EA banks can also be observed based on their leverage ratios. Overall leverage has fallen by more than a quarter during the observation period, with the weighted average fully-loaded leverage ratio increasing from 4% to 5.3%. Since the last report to the EFC/FSC in February 2018 (with data as of Q2 2017) an increase of 0.3 pp was observed. There has been a consistent improvement in leverage ratio across the EA, both for banks at the top and bottom of distribution. The most significant improvements took place in GR, IE, PT and BE, while decreases were only observed in MSs where leverage ratios stood and remain at very high levels (LV, CY, SK and LU). In Q4 2017, average leverage ratios stood above the internationally agreed 3% in all EA MSs.

[4] To note that the calculation methodology of the Basel III leverage ratio was changed in the European Union via Commission Delegated Regulation (EU) 2015/62 in 2015. The quantitative impact of these definitional changes is, however, considered moderate on aggregate, as assessed by the EBA in its “Report on impact of differences in leverage ratio definitions” (4 March 2014).

Chart 3(a): **Evolution of Liquidity Coverage Ratio (LCR) across the euro area**

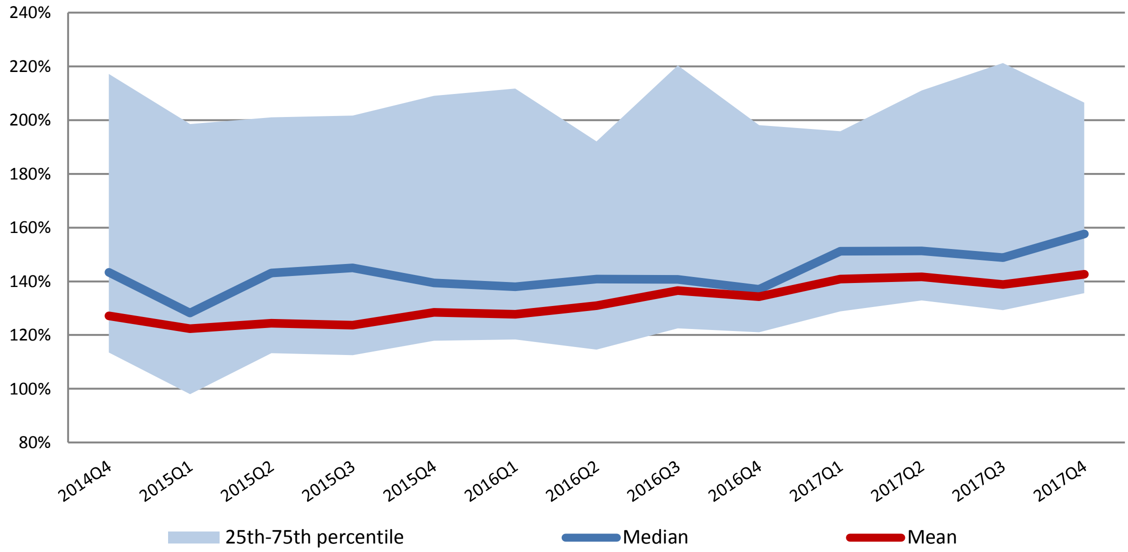
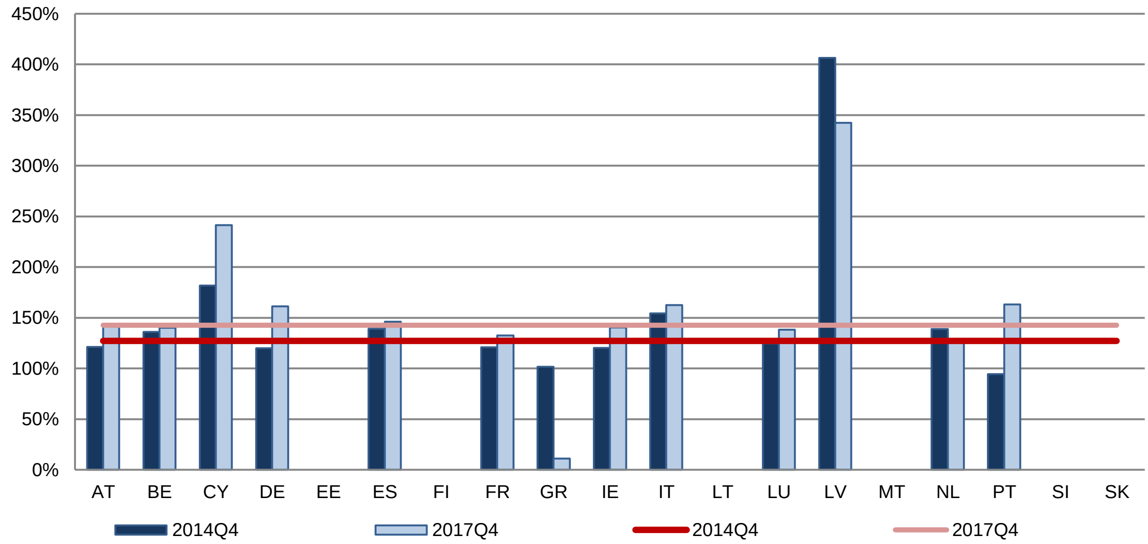


Chart 3(b): **Evolution of Liquidity Coverage Ratio (LCR) across Member States and euro area average**



Source: COREP, ECB calculations. See section on "Methodological notes and caveats". The figures for GR 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.

EA banks also improved their resilience to liquidity shocks. The Liquidity Coverage Ratio (LCR), which measures banks' ability to withstand a 30 day liquidity stress, has increased by more than a tenth since Q4 2014 and stood at 143% coverage as of Q4 2017 (no changes since the last report to the EFC/FSC in February 2018 with data as of Q2 2017). Notably, there has been material improvement for the bottom of the distribution, with the 25th percentile across the EA increasing by 22 pp to 136% in Q4 2017. The positive trend in the evolution of the LCR is also reflected in the increase in the proportion of banks with an LCR above the required 100%: as of Q4 2017 the average LCR was higher than 100% in all EA MSs (with the exception of GR). The biggest improvements in LCR during the

2014-2017 period were observed in CY, PT and DE with increases ranging from approximately 30 to more than 50 pp.

Chart 4(a): Evolution of Net Stable Funding Ratio (NSFR) across the euro area

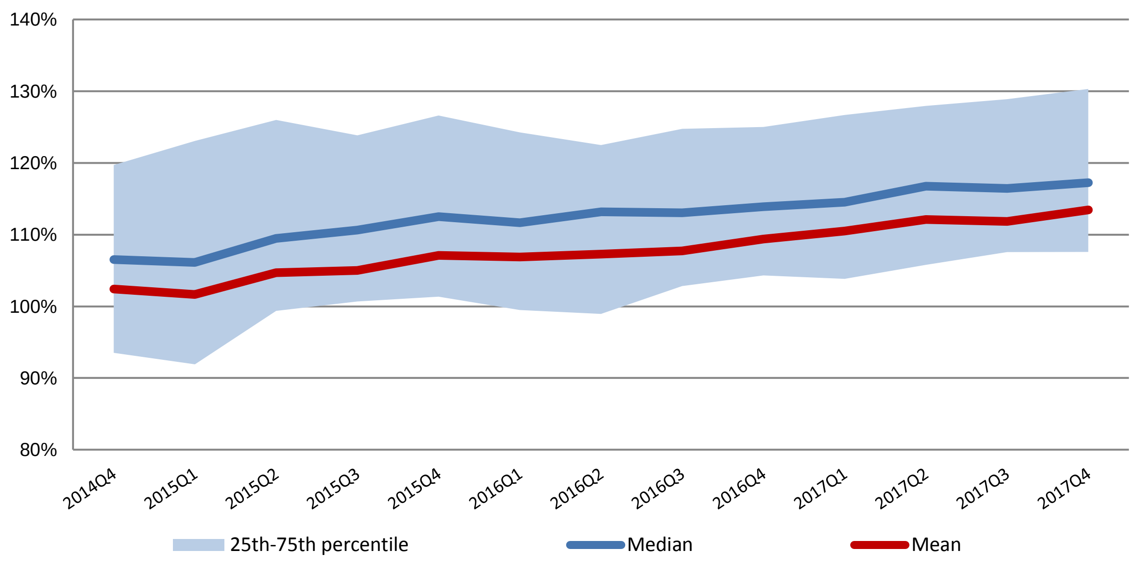
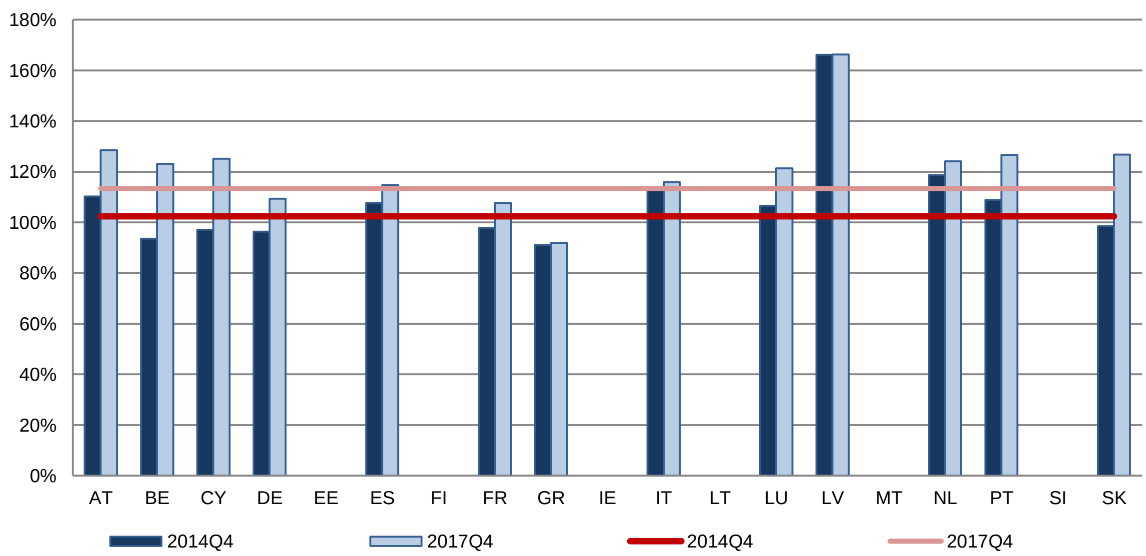


Chart 4(b): Evolution of Net Stable Funding Ratio (NSFR) across Member States and euro area average



Source: STE, ECB calculations based on Basel III NSFR calibration. Countries are excluded where fewer than three banks are available in this sample (EE, FI, GR, MT and SI). The values for AT, BE, DE, IE and NL in 2014 Q4 might be affected by missing data for a small number of banks.

Banks' reliance on short-term, more volatile sources of funding also decreased since 2014. Long-term funding positions as measured by the Net Stable Funding Ratio (NSFR) have increased across almost all EA MSs and on average by 11% since Q4 2014. Compared to the last report to the EFC/FSC in February 2018 (with data as of Q2 2017) an increase of 1.3 pp was observed. Significant improvements (of around 20 pp) can be observed for BE, SK and CY and – to a lesser extent (around

10 pp) – for AT and PT. Importantly, as of Q4 2017 the average NSFR in all but one EA MS stood above the internationally agreed requirement of 100%. The dispersion across MSs has further decreased and almost narrowed down to a historical low.

Methodological notes and caveats

Data sources

- EBA ITS (version 2.6) on supervisory reporting (FINREP and COREP) and the SSM Short Term Exercise (STE) reporting.

Scope of the analysis

- Institutions covered (i) includes Significant Institutions (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 SSM SIs to avoid double counting.

- For the MSspecific analyses, SSM SIs that are subsidiaries of an SSM parent are included. This only impacts Slovakia where the MS-specific data is displayed but not accounted in the SSM aggregate as Slovakian SIs are all subsidiaries of a parent SI located in another MS within SSM.

Time series sample

- Time series cover the 2014Q4-2017Q4 reporting period.

- **Constant sample approach**: The sample includes all banks meeting the above criteria that reported total RWA for all the periods (2014Q4-2017Q4).

- The 2014Q4-2017Q4 time series sample includes 98 SIs at the highest level of consolidations (compared to 112 in the full SSM sample of Q4 2017 (not counting subsidiaries and branches)). This sample accounts for 95% of the total assets of all SSM SIs in Q4 2017.

Metric

- Ratios are computed as weighted-average indicators using a **composite bank approach**, meaning that numerators and denominators are summed up before calculating the ratios.

Confidentiality criteria

To ensure confidentiality of the data displayed, MS-level data is displayed only when:

- There are at least 3 institutions in the MS; and

- Irrespective of the number of institutions per data value, no institution represents more than 85% of the aggregate value.

Treatment of missing data

- For the **solvency and liquidity ratios**, both the numerator and the denominator need to have non-missing values for a bank to be included in the analysis.

- **Non-constant samples:** For the **liquidity ratios**, some SIs are excluded from the aggregation in the periods when they have not reported these variables (lower data quality at the beginning of the period).

General caveats

- The analyses disclosed in this document reflect the availability and quality of the reported data at the time the analyses were produced.

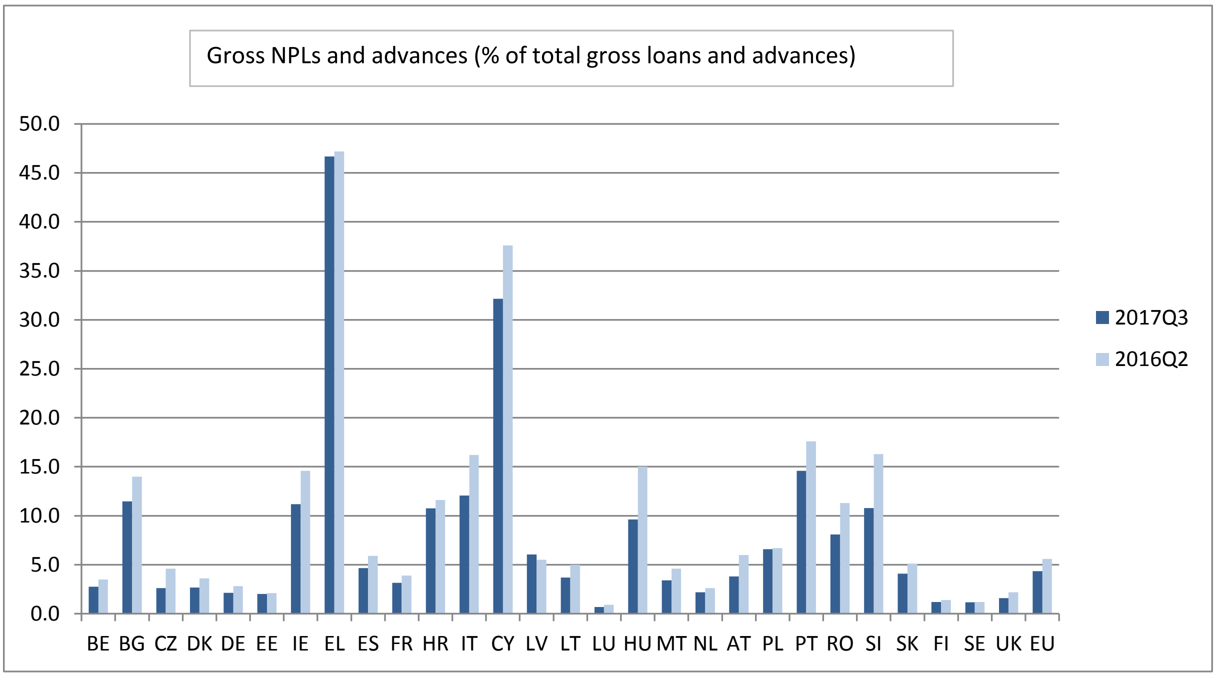
- These analyses are operational statistics in the sense that they reflect the information used by the SSM for the purpose of their horizontal analyses. Discrepancies might exist with publicly available statistics because of methodological (e.g. definition of specific indicators (e.g. fully-loaded vs. phased-in indicators), aggregation methodology, treatment of missing value) and reporting timing differences.

1.2. Evolution of NPLs[5]

The total volume of NPLs has continued its steady decline. However, despite the ongoing downward trend, the total volume remains at an elevated level (EUR 910 billion, as of 30/09/2017[6]). The quality of banks' loans portfolios continued to improve. The latest figures confirm the downward trend of the NPL ratio for the EU average, which decreased further to 4.4% of total gross loans and advances in Q3 2017 (it was 4.6% in Q2 2017), down by roughly 0.2 pp within one quarter. As a result, the ratio reached its lowest level since Q4 2014. Preliminary results for Q4 2017 (which are still subject to data validation and not yet publicly available) indicate a continuation of this downward trend of the NPL ratio.

More details on the evolution of reduction in NPLs as well as on challenges ahead are provided in the Commission's second progress report on the reduction of NPLs.[7]

Chart 5: Non-performing loans, gross by MS



Source: ECB, Consolidated Banking Data (CBD2)

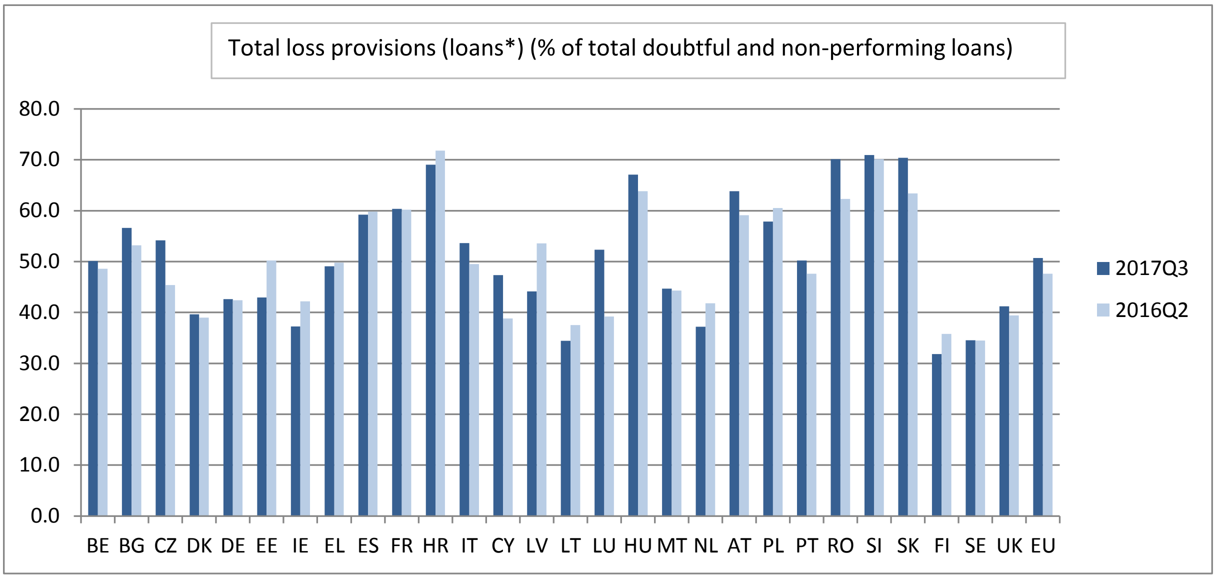
Notes: Figures correspond to domestic credit institutions as well as foreign-controlled subsidiaries and branches. The composition of the underlying sample of banks differs from the one in the previous section 1.1.

[5] The exhibits have been prepared by the EC based on the Consolidated Banking Data.

[6] Source: ECB Consolidated Banking Data (CBD2)

[7] COM(2018) 133 final, Brussels, 14.3.2018.

Chart 6: Total loan loss provisioning by MS



Source: ECB, Consolidated Banking Data (CBD2)

Notes: Figures correspond to domestic credit institutions as well as foreign-controlled subsidiaries and branches. The composition of the underlying sample of banks differs from the one in the previous section 1.1.

** Due to the unavailability of provisioning data for loans, the provisioning ratios for Bulgaria, Germany, Hungary, Spain, and the EU were calculated by considering impairments and NPLs for all debt instruments, including both loans and debt securities.*

1.3. Quantification of resolution RRMs

Progress achieved and ongoing under the current framework

The work conducted by the Single Resolution Board (SRB) since its set-up two and a half years ago contributed significantly to reducing risks in the system by increasing the preparedness of banks and authorities for orderly resolution, bringing structure and methodology into the process of assessing resolvability, setting the minimum requirement for own funds and eligible liabilities (MREL) targets and deadlines to ensure a satisfactory build-up of levels of loss absorption in an appropriate timeframe.

In 2017 the SRB, together with the contribution of the national resolution authorities (NRAs) have drafted 106 resolution plans (at consolidated level) for the institutions under its remit and contributed as a host to 5 resolution plans drafted by other EU group level resolution authorities outside of the Banking Union. This means that 93% of the banking groups and subsidiaries under the SRB remit (there were 119 groups under the SRB remit at the end of 2017) are now covered by a resolution plan, even if in differing stages of maturity of the content. The resolution plans are continuously being revised and improved as part of the yearly iterative resolution planning process, with the objective set by the SRB in its Multi-Annual Work Programme to reach a full coverage with complete resolution plans by 2020. Regarding the loss absorbing capacity, the SRB has set binding MREL targets at consolidated level (beyond capital requirements) during the 2017 resolution planning cycle for the largest banks representing 82.5% of the total banking assets in the BU. For those banks 43% have no transition period as they already meet their consolidated MREL target; 25% have a transition period set between 1-2 years; 11% have a transition period between 2-4 years; for 20% of the banks a transition period has not been set at this stage. Most of the other banks under the remit of the SRB are subject to informative MREL targets, paving the way for future requirements.

Chart 7(a): Overview of MREL shortfalls (% TREA) for 16 out of 19 MSs in the EA (at 31/12/2016)

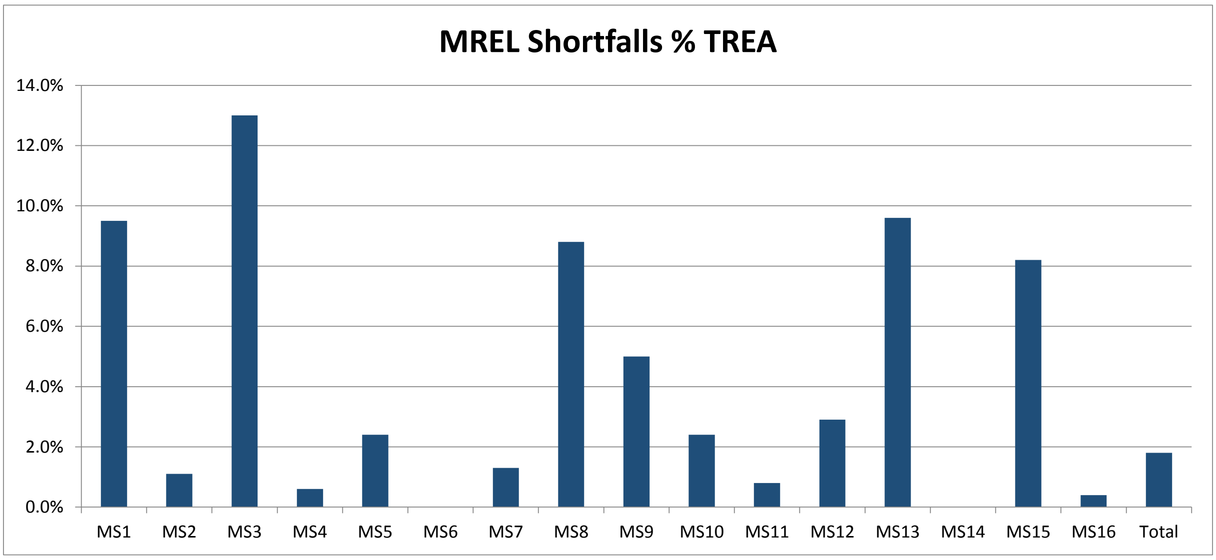
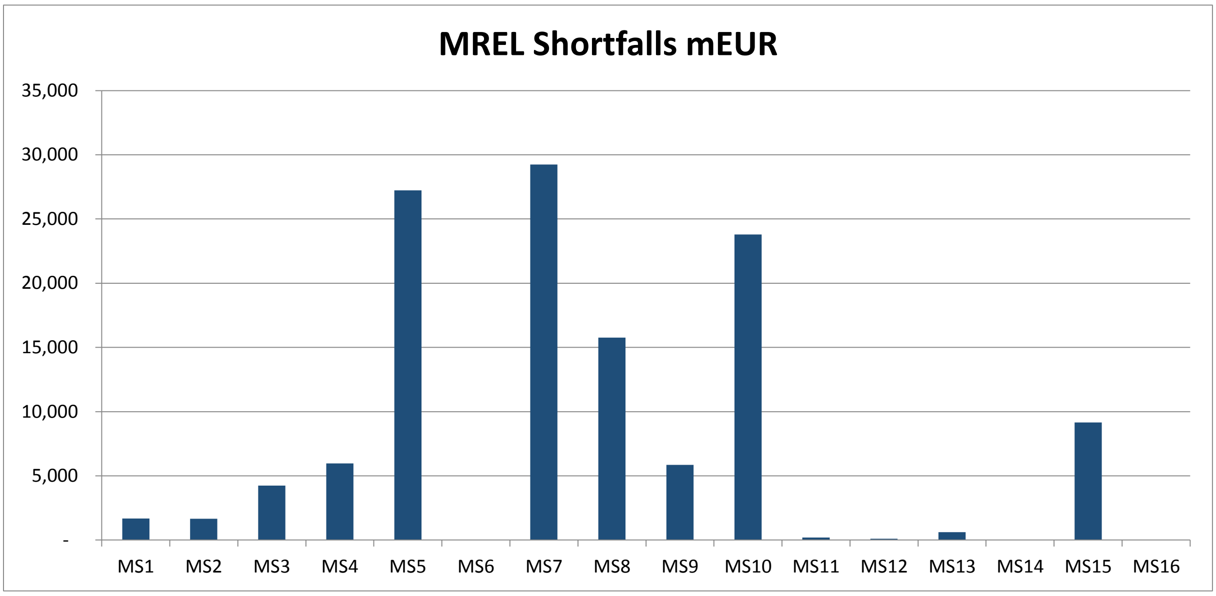


Chart 7(b): Overview of MREL shortfalls (mEUR) for 16 out of 19 MSs in the EA (at 31/12/2016)



Source: SRB (January 2018), data as of December 31, 2016

Disclaimers:

- Computations are based on data reported by banks as of 31 December 2016. The data includes binding and informative MREL targets and it is reflecting the issuances done up to the end of year 2016. Many institutions in the EA have issued significant amounts of MREL during 2017. The data excludes institutions under liquidation strategy, subsidiaries of groups outside of the EA, institutions with transitional resolution plans or under restructuring. Given these data caveats, the presentation of the MREL shortfalls is done on an anonymised basis.

- No update in the charts with new data points possible at this stage, as the 2017 data is in process of being collected and analysed. The charts were however updated to reflect the shortfalls and the targets in terms of percentage of total risk exposure amount (TREA) as well as in absolute amounts (mEUR).

Subject to the limitations expressed in the disclaimer above, the total MREL target set for the largest banks across 16 Member States from the Banking Union as of 31 December 2016 reaches on average a solid level of approx. 26% of RWA and 10.9% of total liabilities and own funds (TLOF). This calibration includes the combined capital buffer in the MREL requirement as required by the current legislative framework (i.e. the Delegated Regulation on MREL) which is subject to change (among other things) with the new Banking Package. The subordination requirement has been set for certain banks (G-SIIs and O-SIIs) and the SRB is further developing its assessment of "no creditor worse off" risks.

Chart 8(a): Overview of MREL targets and subordination level (%TREA) for 16 out of 19 MSs in the EA (at 31/12/2016)

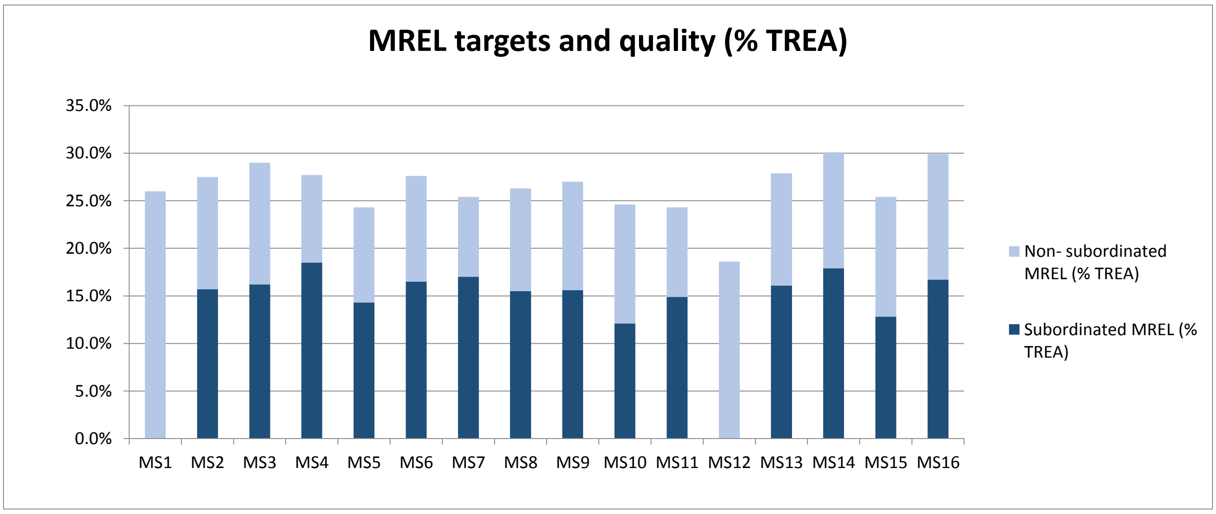
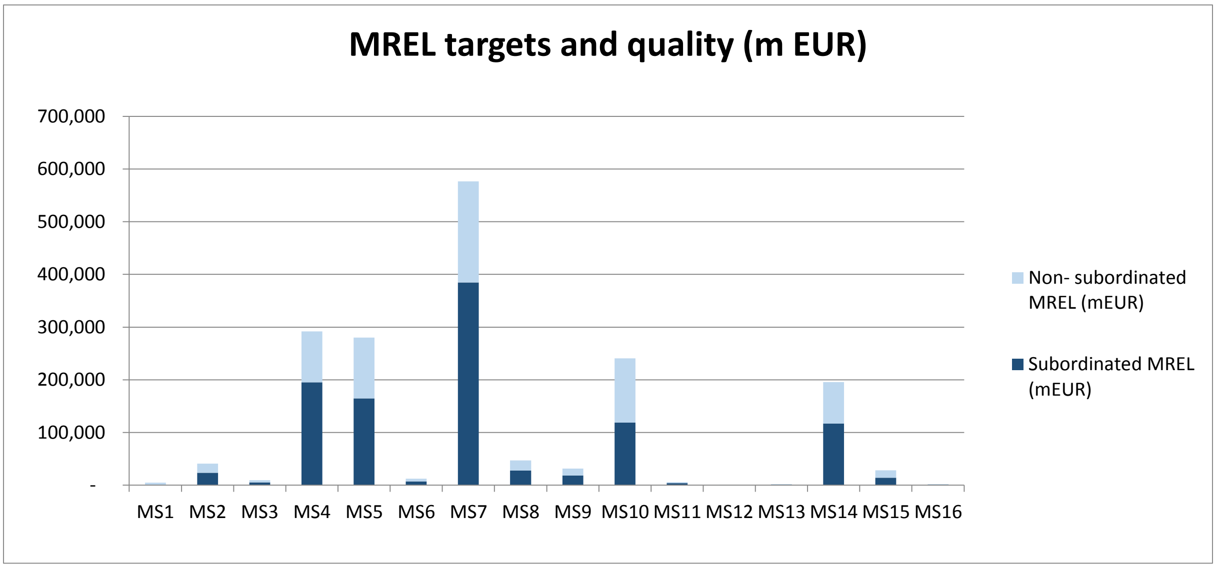


Chart 8(b): Overview of MREL targets and subordination level (mEUR) for 16 out of 19 MSs in the EA (at 31/12/2016)



Source: SRB (January 2018), data as of December 31, 2016. Same disclaimers as for the above charts apply.

Looking at 2018, work on resolution planning continues and deepens under the current legislative framework, in light of SRB Multi-Annual Work Programme. The SRB is expanding its scope of banks subject to resolution planning, as well as the content of resolution plans, focusing on their operationalization to make banks truly resolvable, including more analytical work on internal MREL, subordination and NCWO assessments, the operationalisation of resolution tools, critical functions and the identification and removal of material impediments to resolvability.

With the adoption of the Banking Risk Reduction Package expected still in 2018, the SRB and NRAs are expected to adapt MREL policies, resolution plans as well as the eligibility criteria and the binding MREL requirements, which will further contribute to reducing risks in the banking sector.

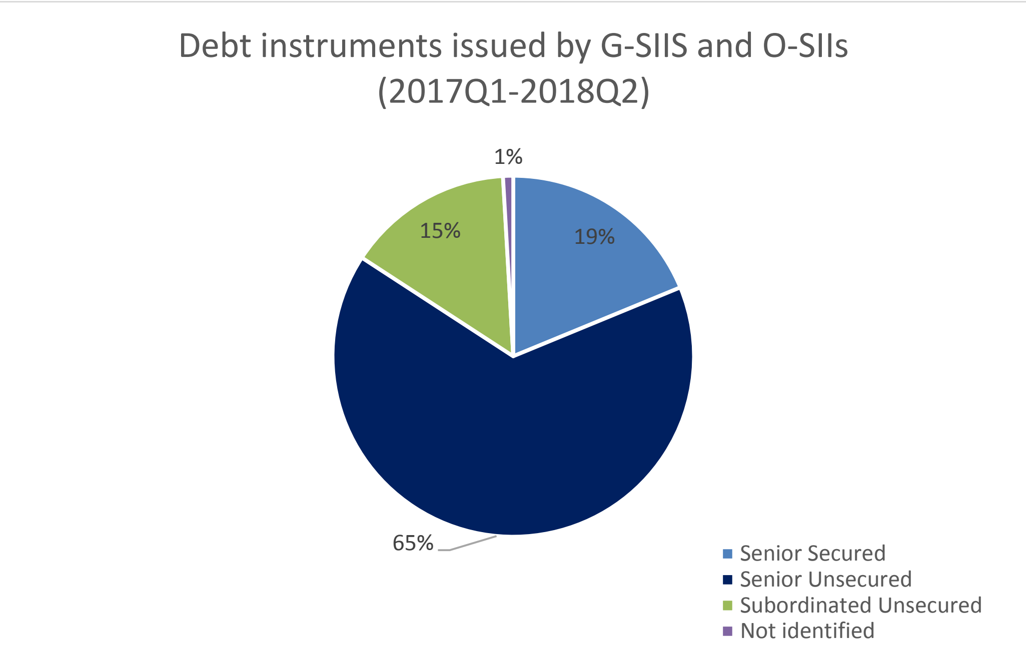
State of play on debt issuances by European banks

The year 2017 and the first half of 2018 have seen an important increase in the issuance of debt instruments by European banks, across the whole spectre of debt instruments.

Overall, this period saw G-SIIs and O-SIIs in 13 Euro area MSs issue around EUR 226bn of debt including senior and subordinated contracts. Around 15% of that amount has been issued in the form of subordinated debt, 65% as senior unsecured debt and 19% as senior secured debt (not MREL eligible)[8].

The adoption of the Senior Non-Preferred (SNP) laws in France (December 2016), Spain and Belgium (throughout 2017) created a new asset class in the debt market. As a result, supply increased towards senior non-preferred/senior HoldCo issuance from senior preferred bonds as banks focussed on fulfilling their TLAC (Total Loss- Absorbing Capacity) and MREL requirements. Volatility in the debt capital market remained contained throughout 2017 and 2018, despite idiosyncratic risks such as the bank resolution case of Banco Popular and other interventions. Investors considered these cases as a successful test of the resolution and liquidation frameworks. For the newly created senior unsecured debt class, the absolute differential versus senior preferred and the relative positioning between senior preferred and Tier 2 were the most commonly used methods to price the new issues, which in all cases could rely on strong investor reception[9].

Chart 9(a): **Issuances by banks in 13 MSs by instrument type**



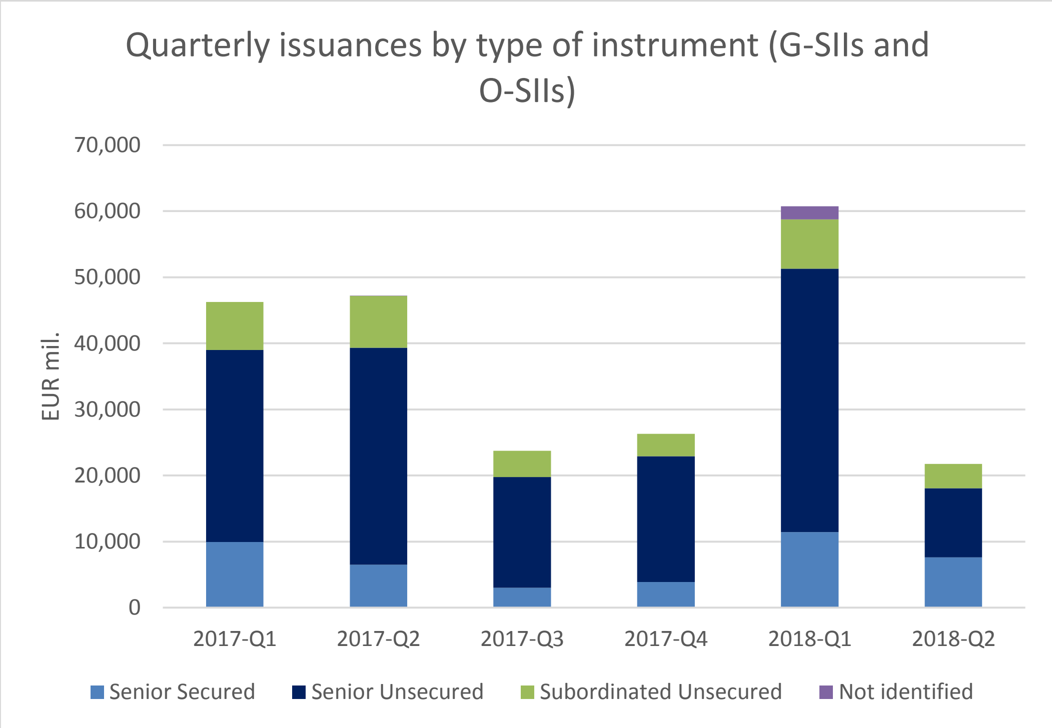
Source: Dealogic, data as of May 2018 (coverage: 51 banks in 13 Euro area MSs)

[8] Coverage: debt issuances extracted from the Dealogic database, as of 23 May 2018. Sample: 51 G-SIIS and O-SIIs for which issuances have been recorded by Dealogic. All issuances are at the point of entry level identified in Dealogic based on matching names (the database does not rely on LEI codes but on a proprietary ID convention).

[9] Source: Societe Generale Debt Capital Markets 2017 Review and 2018 Forecast.

The first half of 2017 and the first quarter of 2018 have been particularly active with good market conditions for issuance.

Chart 9(b): Issuances by quarter and instrument type



Source: Dealogic, data as of May 2018 (coverage: 51 banks in 13 Euro area MSs)

2018 continues to be a transition year for European banks. Crucially, 2018 will be the last year that G-SIIs have to comply with the TLAC rule that is expected to become effective under EU law from 1 Jan 2019.