



EUROPEAN CENTRAL BANK
BANKING SUPERVISION

Danièle NOUY

Chair of the Supervisory Board

COURTESY TRANSLATION

Mr Mario Borghezio
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 18 May 2018

Re: Your letter (QZ038)

Honourable Member of the European Parliament, dear Mr Borghezio,

Thank you for your letter concerning the Addendum to the ECB Guidance to banks on non-performing loans (NPLs), which was passed on to me by Mr Roberto Gualtieri, Chairman of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 24 April 2018.

On 15 March 2018 the European Central Bank (ECB) published the Addendum to the ECB Guidance to banks on non-performing loans. The Addendum supplements the qualitative NPL guidance, published on 20 March 2017, and specifies the ECB's supervisory expectations for prudent levels of provisions for new NPLs. These expectations address the net exposure of NPLs, i.e. the supervisor is not encouraging banks to sell their NPLs or related collateral but expects NPLs to be sufficiently covered in terms of provisions. The Addendum is non-binding and serves as the basis for the supervisory dialogue between ECB Banking Supervision and the significant banks under our supervision.

Regarding your question on the potential impact of the Addendum on lending behaviour and conditions, it should be noted that it is the responsibility of credit institutions to implement proper lending policies that take into account the risk profile of the individual counterparty. Therefore, when making lending decisions and establishing lending conditions, credit institutions are making assumptions about the likelihood of a debtor defaulting and the loss the institution would incur in the event of such a default. Neither of these elements is directly impacted by the Addendum. If a credit institution does in fact recover part or all of an exposure at a stage when, for instance, full prudential provisioning has already been established, this recovery will offset the prudential provisions made and thus not imply a loss.

As regards your concern about a possible tightening of lending conditions, bank lending conditions for euro area enterprises have eased substantially since mid-2014, as indicated by the euro area bank lending survey and monetary financial institution interest rate statistics. Specifically, euro area banks indicated a broad-

based considerable net easing of credit standards for the first quarter of 2018. Bank lending rates for firms are currently around historically low levels. Improvements in the economic situation and in the creditworthiness of borrowers as well as competition between market participants and sounder bank balance sheets have all contributed to this development. In fact, only well-capitalised and well-provisioned banks are able to ensure constant lending to households and productive firms over the cycle. Moreover, ECB Banking Supervision regularly examines whether its policies lead to undesired side effects and takes any findings into account in its supervisory approach.

Yours sincerely,

[signed]

Danièle Nouy