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PRESS RELEASE

20 March 2017

ECB publishes guidance to banks on tackling non-performing loans

- Guidance outlines measures, processes and best practices for banks when tackling NPLs
- Guidance calls on banks to implement realistic and ambitious strategies for NPL reduction
- Guidance to serve as basis for ongoing supervisory dialogue with banks; also looks at issues such as governance

The ECB has today published its final guidance on non-performing loans (NPLs). The guidance marks an important step in addressing NPLs across the euro area. It outlines measures, processes and best practices which banks should incorporate when tackling NPLs, an issue which should be a priority for banks. The ECB expects banks to fully adhere to the guidance in line with the severity and scale of NPLs in their portfolios.

The guidance calls on banks to implement realistic and ambitious strategies to work towards a holistic approach regarding the problem of NPLs. This includes areas such as governance and risk management. For instance, banks should ensure that managers are incentivised to carry out NPL reduction strategies. This should also be closely managed by their management bodies.

The ECB does not stipulate quantitative targets to reduce NPLs. Instead, it asks banks to devise a strategy that could include a range of policy options such as NPL work-out, servicing, and portfolio sales.

The guidance will now form part of the day-to-day supervisory dialogue with individual banks. The ECB will apply the principle of proportionality and adjust its level of intrusiveness depending on the scale and severity of the NPLs in the banks' portfolios. The supervisors have already commenced their engagement with banks with elevated levels of NPLs. This engagement now continues following the publication of the final guidance document and will include letters being sent to banks with elevated levels of NPLs in the near future as part of normal supervisory activities. The NPL letters will contain qualitative elements and will be focused on ensuring that banks are managing and addressing NPLs in line with supervisory expectations.

As of the third quarter of 2016, NPLs of significant institutions in the euro area amounted to €921 billion. High levels of NPLs inhibit the capacity of banks to lend to the economy and take up valuable bank management time. Therefore, deliberate and determined action on NPLs is required but the ECB

recognises that reducing high levels of NPLs will take time. The ECB is also calling on governments to act decisively and adapt their legal and judicial frameworks to make it easier for banks to reduce their NPLs.

The publication of the guidance follows a consultation process that took place between September and November 2016. A feedback statement published on the ECB's website reflects the comments received and indicates where changes to the draft guidance have been reflected in the final published guidance.

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