



EUROPEAN CENTRAL BANK

BANKING SUPERVISION

**Andrea Enria**

Chair of the Supervisory  
Board of the ECB

# 6<sup>th</sup> anniversary of ECB Banking Supervision

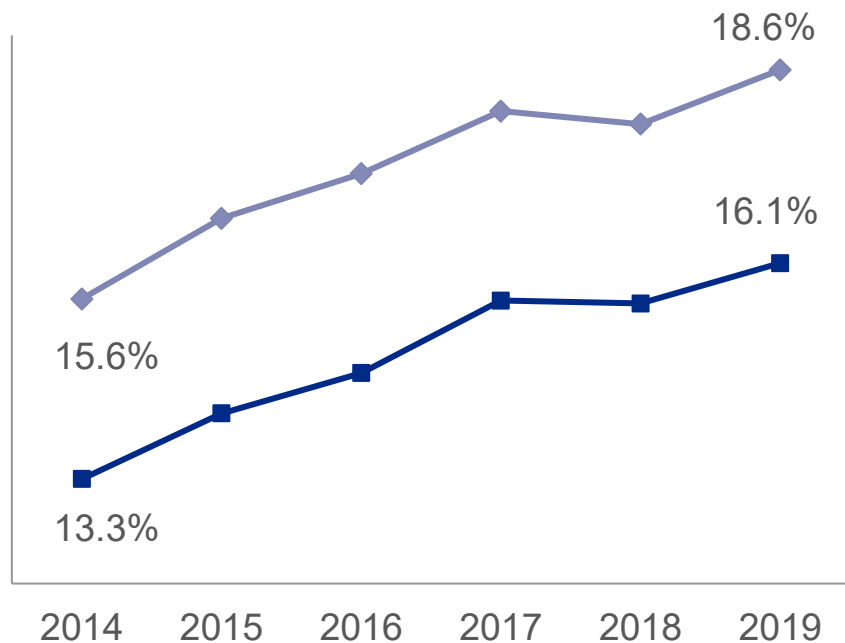
Peterson Institute for International Economics

9 November 2020

## Euro area bank resilience has increased

### Capital ratios

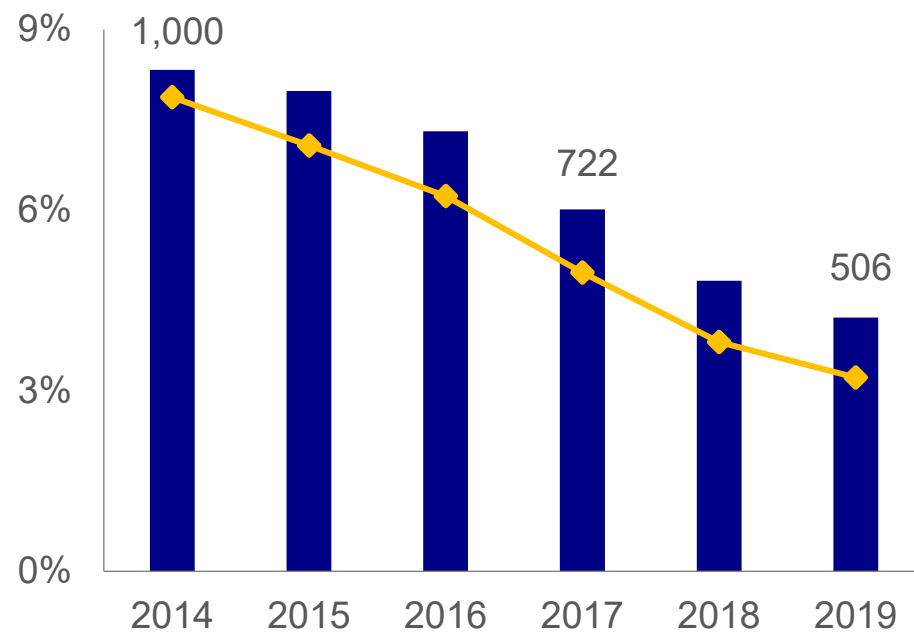
- Tier 1 capital ratio
- ◆ Total capital ratio



Source: ECB, Supervisory banking statistics

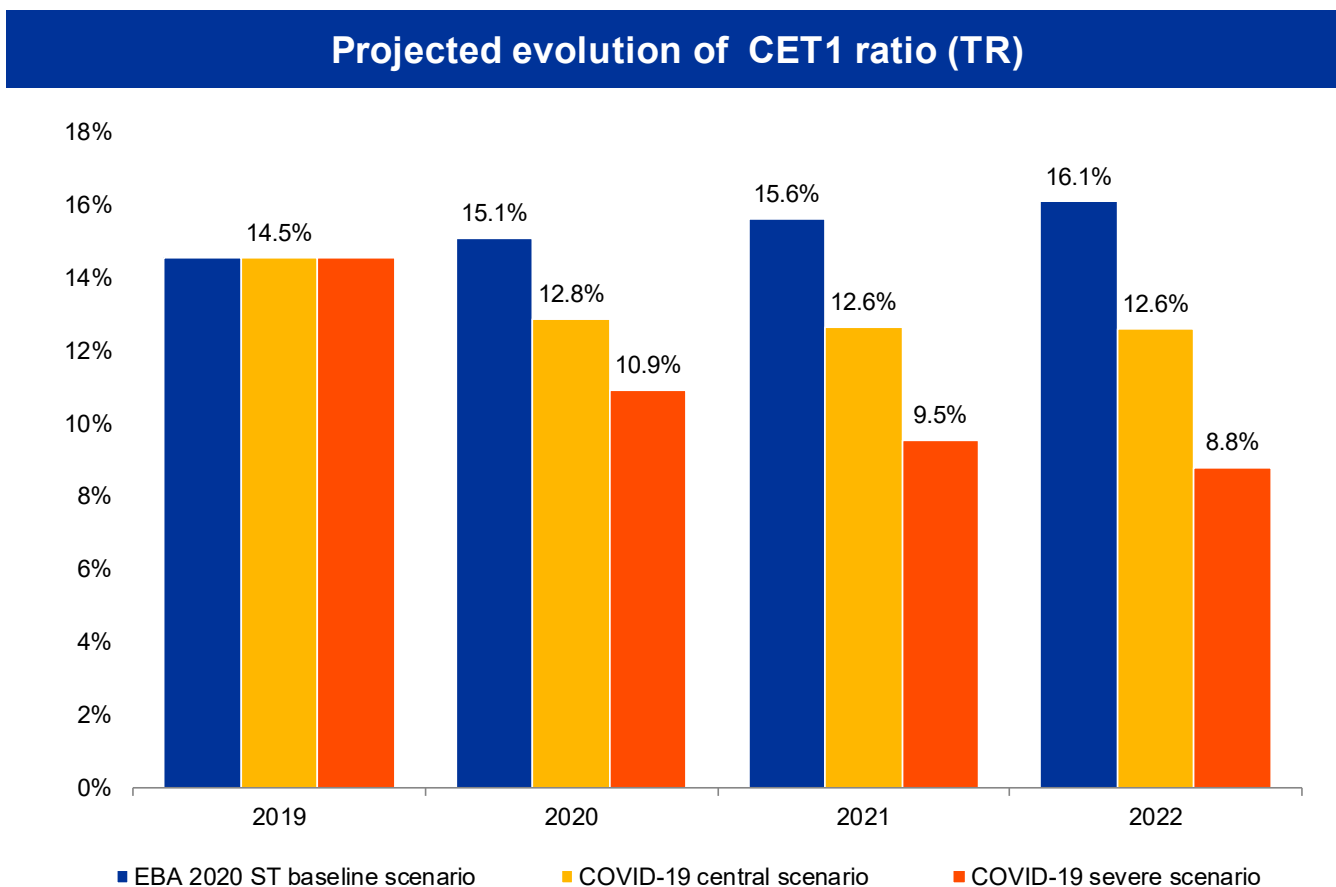
### NPL evolution for SIs

- Gross NPLs (bn€)
- ◆ Gross NPL ratio



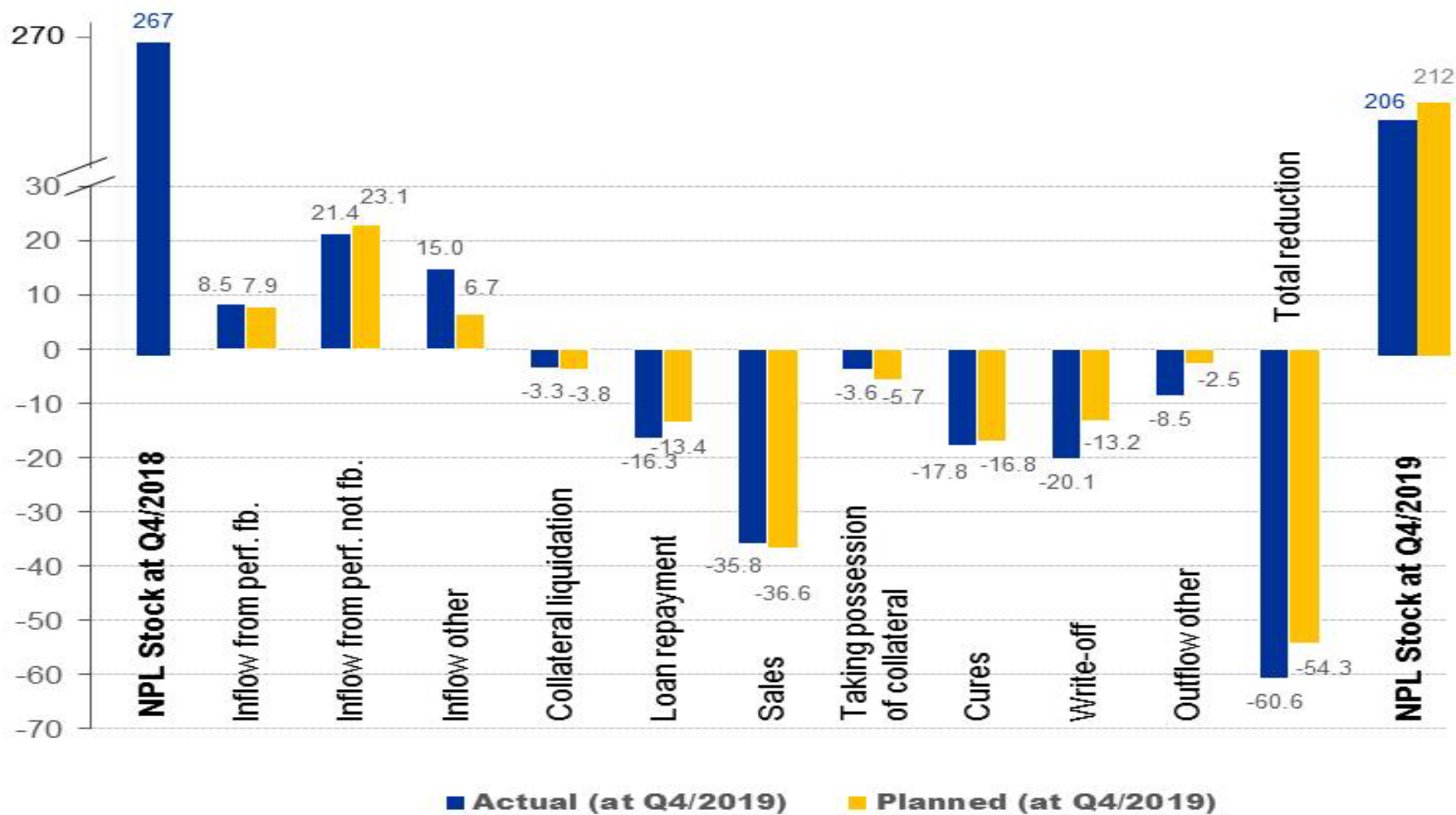
Source: ECB, Supervisory banking statistics

## COVID-19 vulnerability analysis confirms increased resilience, but need to avoid complacency



**Note:** Average CET1R (TR) is calculated by weighting bank level data by total risk exposure amount as of 2019 actual.

## Close monitoring of NPL reduction is proving effective



### **Progress in ensuring reliability and consistency of RWAs**

- Analysis conducted by ECB and EBA led to proposal to significantly redesign the scope for regulatory recognition of internal models, taken up by the Basel Committee on Banking Supervision
- Tighter and more harmonised regulatory framework put in place via EBA standards and guidelines
- ECB's targeted review of internal models (TRIM): 200 on-site investigation on internal models

### **More transparent and more predictable supervision – work in progress**

- First time ever publication of bank-specific P2R for all SIs on the ECB website (January 2020)
- Publication of more detailed documents explaining the ECB's supervisory approach
  - SREP methodology
  - NPLs reduction targets
- Predictable supervisory approach to bank consolidation – the ECB Guide

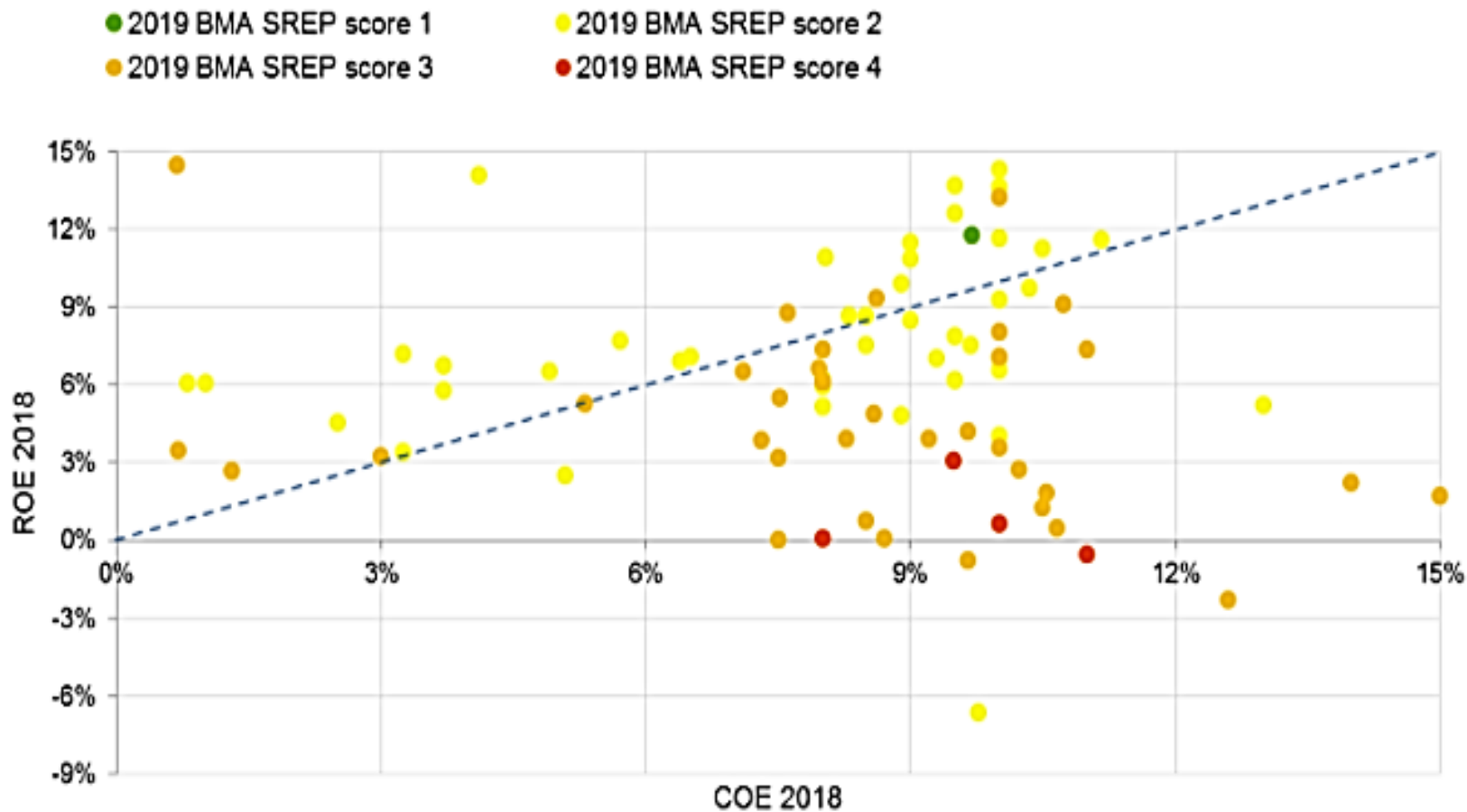
### **Fast and unified supervisory response to COVID-19, for the first time**

- Synergy with monetary policy measures
- Providing temporary capital, liquidity and operational relief to banks to enable them to absorb losses and keep lending to the economy
  - Banks allowed to temporarily operate below the level of capital and liquidity buffers
  - Relief in the composition of P2R capital (anticipation of change in regulation)
  - Operational flexibility in implementation of bank-specific supervisory measures
  - Flexibility on timelines for NPL reduction strategies of high-NPL banks
  - Recommendation not to pay dividends or buy back capital

- **Next steps in the response to the COVID-19 crisis**
  - Pressure for appropriate credit risk management and swift recognition of asset quality deterioration
  - Forward guidance on path to normality, with sufficient flexibility (already started)
  - Preparation for tail risk of severe drop in asset quality and strong hit to capital
- **Addressing weak profitability and structural inefficiency**
  - Encourage banks to focus on BM sustainability, strategic steering and robust governance
  - Accompany well designed, sustainable business combinations
- **Fostering greater integration of banking groups' operations in the BU**
  - Incentivize intra-group support guarantees in group recovery plans
  - Supporting the completion of the Banking Union



## Weak profitability in the European banking sector



Source: 2019 SREP aggregate results