EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Andrea ENRIA

Chair of the Supervisory Board

COURTESY TRANSLATION

Mr Nuno Melo
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 1 July 2021

Re: Your letter (QZ-034/QZ-035)

Honourable Member of the European Parliament, dear Mr Melo,

Thank you for your letters on Novo Banco, which were passed on to me by Ms Irene Tinagli, Chair of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 3 June 2021.

With respect to the specific questions posed in your letters, please note that I cannot comment on the actions of individual credit institutions, as the ECB is subject to professional secrecy requirements under the Capital Requirements Directive.

I would therefore like to provide you with more general information on how the ECB assesses banks' non-performing loan (NPL) reduction strategies within its prudential supervision mandate. NPLs have been a supervisory priority for the ECB since the inception of European banking supervision in 2014, and continue to be today[1]. The level of NPLs is important for the broader economy as these loans weigh on banks' profitability and absorb valuable resources, restricting banks' ability to grant new loans. Problems in the banking sector can also quickly spread to other parts of the economy, harming the outlook for jobs and growth. The ECB's supervisory measures therefore aim to ensure that banks actively address NPLs, which in turn helps to protect the safety and soundness of the European banking system. The ECB regularly asks banks with elevated levels of NPLs to provide it with their plans to reduce their NPLs and foreclosed assets, and it then follows up on the implementation of these plans. The ECB can assess NPL reduction strategies and their implementation through off-site and on-site supervision. The latter can take the form of on-site inspections (OSIs) of specific portfolios covered by a bank's NPL reduction strategy, which can include NPLs and foreclosed assets.

[1] See the page on NPLs on the ECB's banking supervision website, available at: https://www.bankingsupervision.europa.eu/banking/priorities/npl/html/index.en.html

ECB Banking Supervision cannot assess issues beyond its prudential mandate, such as matters pertaining to European competition law. In addition, the ECB's assessment of a bank's NPL transactions can only focus on actual transactions. In their NPL reduction plans, banks often inform the ECB about the assets that will be included in the implementation of the reduction strategy. It is not uncommon for banks to plan for and then execute sales of NPLs at prices below the current book values. In the ECB's experience, banks often conduct such sales by inviting possible investors to make offers. Based on an assessment of the impact of the matter on the bank's risk profile, the ECB can decide to carry out an OSI covering specific areas that it deems relevant. Findings identified in the OSI are discussed with the bank and shared in a written report. The ECB then expects the bank to provide an action plan setting out how it will address the findings.

Yours sincerely,

[signed]

Andrea Enria