



DEEPENING EUROPE'S ECONOMIC AND MONETARY UNION

Taking stock four years after the Five Presidents' Report

#FutureofEurope #DeepeningEMU

BANKING UNION

FURTHER REDUCING RISKS IN THE FINANCIAL SYSTEM

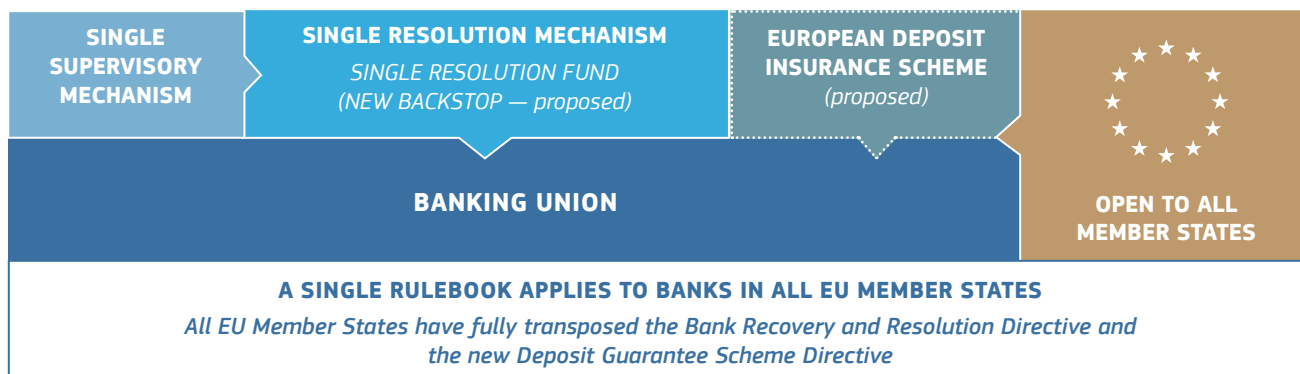
The global financial crisis demonstrated that when many banks get into trouble at the same time, this can put the entire financial system and economy in danger. The Union and its Member States have made **substantial efforts to reduce risk in the banking sector**. Overall, banks are better capitalised and less leveraged, making them better prepared to withstand economic shocks. The European Parliament and the Member States recently agreed to a more robust framework to regulate and supervise banks. Substantial progress has been made in reducing the existing stock of non-performing loans (NPLs), the ratio of NPLs in EU banks has come down by more than half since 2014 and is approaching pre-crisis levels.

The time has now come to complete the Banking Union. In December 2018, the Leaders called for the work on the Banking Union to advance. They agreed to establish a common backstop and they defined a roadmap for starting political negotiations on the European Deposit Insurance Scheme, the third and still missing pillar of the Banking Union. This is essential to ensuring that the Economic and Monetary Union becomes more resilient to future adverse economic shocks by enabling more risk sharing across borders, and it would significantly boost confidence in the euro area banking sector.

Since 2014, banks directly supervised by the European Central Bank have increased their capital by €234 billion, and are also now much more resilient to liquidity shocks, with an increase of €812 billion in additional liquid assets.

STRONGER BANKS: THE STORY SO FAR

We have established a new regulatory framework and institutional set-up to effectively address remaining vulnerabilities in the Banking Union. These measures have delivered a strong improvement in banks' capital and liquidity positions, ensured better monitoring of banks' health and a more efficient process of dealing with banks in difficulties.



RISK REDUCTION: NPLS IN EUROPE CONTINUE TO DECLINE

WHAT ARE NON-PERFORMING LOANS (NPLs)?

A loan is classified as non-performing when a borrower:

- has not made scheduled payments on interest or capital reimbursements for 90 days or more past the due date; or
- is still repaying the loan but is unlikely to do so in the near future.

WHY DO WE NEED TO TACKLE NPLs?

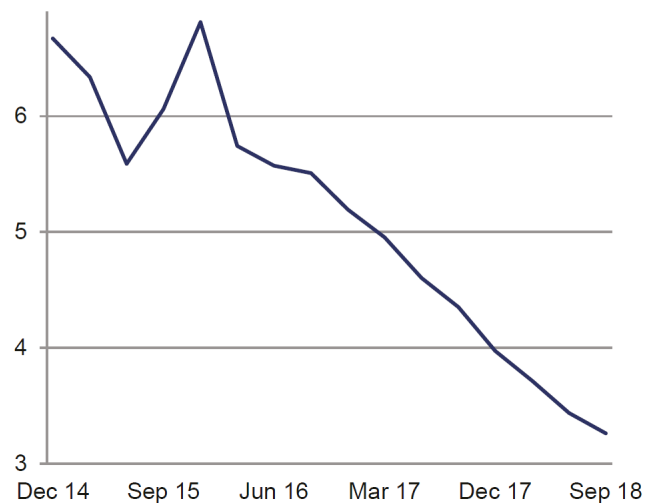
- ✓ Reduce risks to banks' stability and the financial system as a whole
- ✓ Enable banks to lend more to households and businesses
- ✓ Encourage economic growth by making funding available to viable companies

NPLs in % of total loans in selected countries

	Q3 2017	Q3 2018	% change
Cyprus	32.1	21.8	-32.02%
Spain	4.7	4.0	-15.09%
Greece	46.7	43.5	-6.7%
Ireland	11.2	7.8	-30.21%
Italy	12.1	9.5	-21.54%
Portugal	14.6	11.3	-22.42%
Slovenia	10.8	6.9	-35.92%

Source: European Central Bank

EU total gross NPLs and advances in % of total gross loans and advances, end-of-quarter values



Source: European Central Bank

BANKS HAVE INCREASED THEIR RESILIENCE TO FINANCIAL SHOCKS

Over a decade on from the financial crisis, European banks are stronger, safer and more secure.

EUROPEAN BANKS

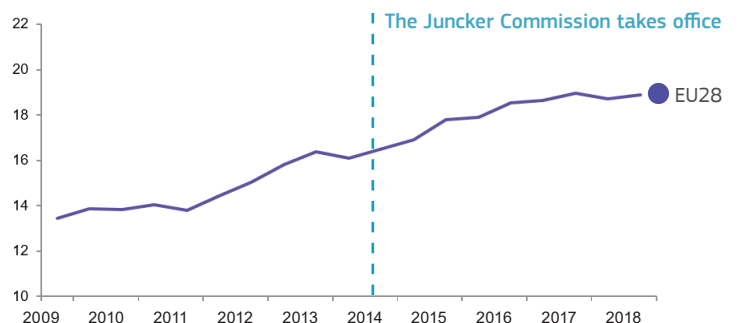
...are better capitalised approaching **20%** average total capital ratio for EU banks (Q3 2018)

...have higher liquidity buffers

Since 2014 the stock of liquid assets has increased by € 812 billion for euro area banks

...and therefore are better equipped to finance the real economy and withstand economic shocks

Banks' total capital ratio, in %



Source: European Central Bank