NPLs after the COVID-19 crisis

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Standard disclaimers apply

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¿Sustainable? decrease in NPLs?

Source: EBA Risk Assessment of the European Banking System, Dec 2021
¿Sustainable? decrease in NPLs?

- Off-loading of NPLs from banks’ balance sheets
- Increased indebtedness (gross/net)?
- Zombies camouflaged under public support measures/stays on bankruptcy proceedings?
How bright is the future? – a story of Stage 2 ….

Share of Stage 2 loans and advances, EU

Loans with moratoria or PGS: share of Stage 2, EU

Source: EBA Risk Dashboard Q2 2021
... forbearance...

Forbearance ratio

**Numerator and denominator**

Note: 2018-12 = 100%

Source: EBA Risk Dashboard Q2 2021
...and a looming bankruptcy gap.

Source: Eurostat, BIS Bulletin No 40, 2021
How reliable is the thermometer?

- Divergence in accounting practices: flexibility of IFRS 9/limited experience.
- Limited use of collective assessment and/or SICR overlays.
- COVID-19 pushed models outside their „habitat”, more manual post-model adjustments with divergent results on the final ECL amount.
- Some discrepancies in the derecognition of financial assets e.g. high percentages of recoveries after write offs.

Source: IFRS 9 Implementation by EU Institutions Monitoring Report, EBA/Rep/2021/35 24 November 2021
How reliable is the thermometer?

<table>
<thead>
<tr>
<th>Implications of regulatory relief measures on key prudential metrics</th>
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<tr>
<td><strong>Applicable regulatory metric</strong></td>
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<tr>
<td>Stock of NPEs</td>
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<td>CET1 RBC ratio</td>
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Ensuring resilience of NFC exposures

**Leverage**
*How much the client puts at stake?*
- Debt/EBITDA
- Debt/Assets

**Debt repayment capacity**
*Is the client able to repay the debt?*
- Debt Service/EBITDA
- Interest Service/EBITDA

**Collateral**
*Am I protected?*
- Loan to Value

**Earnings**
*Is the client making anything from what (s)he does?*
- Profit margin
- Operating Cash Flow

**Potential Borrowed-Based Inst'nts**