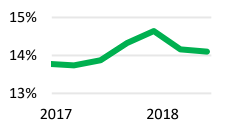
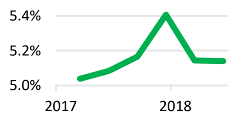
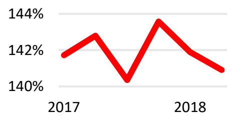
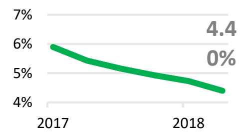
BRIEFING

Banking Union Indicators

This briefing provides an overview on the key risk indicators that have been selected so far by the Euro-group to assess progress in risk reduction in the Banking Union. Those indicators form part of the ongoing discussions to find an overall agreement ahead of the Euro Summit planned for December 2018. This briefing will be updated regularly, based on publically available information, with a view to highlighting trends in risk reduction.

A Banking Union Progress Dashboard

Indicator	Q1 2017	Q2 2018	Variation	Graph	
CET1 ratio	13.7%	14.1%	+0.4%		⇧
Leverage ratio (fully phased-in definition)	5.0%	5.1%	+0.1%		⇧
Liquidity Coverage ratio	141.7%	140.9%	-0.8%		⇩
NPL ratio	5.9%	4.4%	-1.5%		⇧
Net stable funding ratio	No regular information available *				
MREL					

Source: SSM supervisory banking statistics. Note: the starting point Q1 2017 was chosen to reflect that the Council's "Presidency progress report on measures for strengthening the banking union", published in November 2016, links the work on the European Deposit Insurance Scheme to progress made on risk reduction measures; (*) absent other available public data, data on MREL and NSFR are taken from a Commission, SSM and SRB report on risk reduction. The indicators shown in this briefing refer to the group of large banks called "Significant Institutions" (SIs) in the terminology of the Council Regulation (EU) No 1024/2013 of 15 October 2013, if not explicitly specified otherwise. Significant Institutions make up for more than 80% of all euro area banking assets and can hence be considered to give a fair approximation of the situation in the whole banking sector in the euro area, the ultimate

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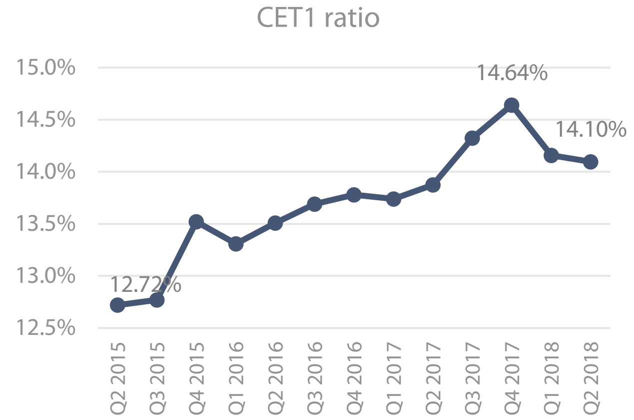
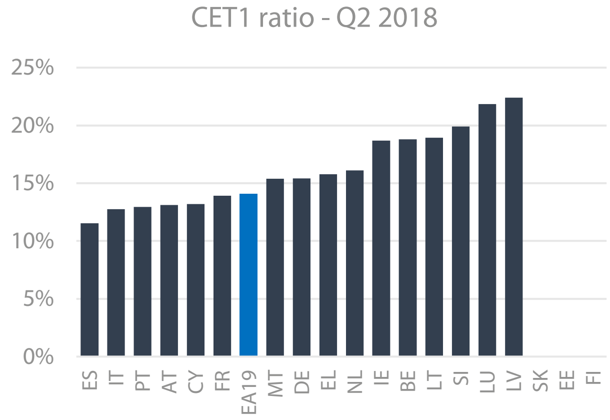
aim for risk reduction; SIs included in the sample range from 118 banks in Q1 2017 to 109 banks in Q2 2018.

CET1 ratio

Common equity Tier 1 (CET1) is the capital of a credit institution with the best loss-absorbing capacity. It essentially corresponds to the reported equity of a company. The CET1 ratio is expressed as a percentage of the total risk exposure amount. Since 2014, the minimum CET1 ratio is set at 4.5% (notwithstanding additional CET1 requirements including the Capital Conservation Buffer, systemic buffers and Pillar 2 requirements).

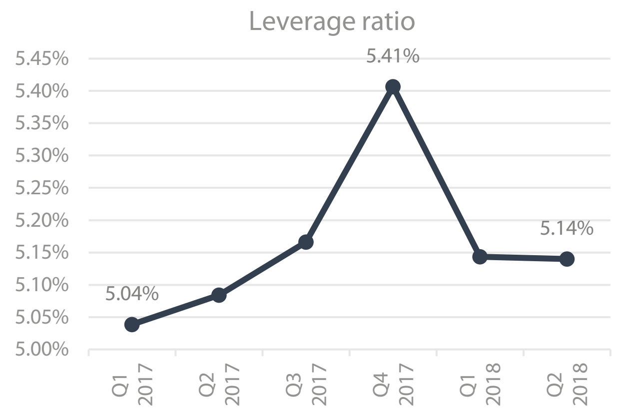


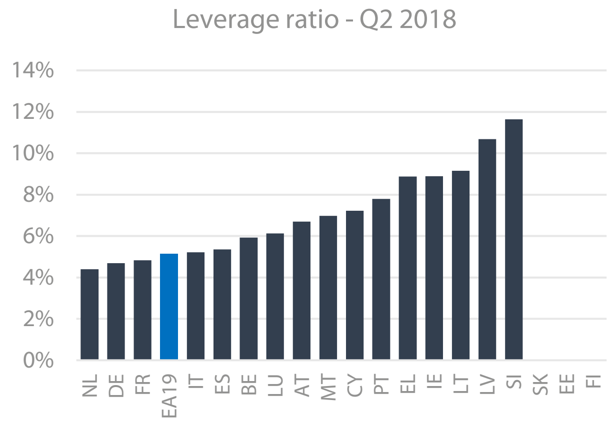


Source: SSM Tables: Total capital ratio and its components, T03.01.1 and T03.01.2 for all 2015-18 quarters. Values not shown are suppressed by the ECB for confidentiality reasons.

Leverage ratio

The leverage ratio of a credit institution is calculated as the ratio between its Tier 1 capital over its total exposures (assets, derivatives, add-ons for counterparty credit risks, and notably off-balance sheet items). Introduced as a reporting requirement since 2014 and subject to disclosure, the leverage ratio would only become 'binding' when the 'Banking Package' - currently being negotiated - will enter into force. The minimum leverage ratio is set at 3% while global SIFIs are subject to an additional leverage ratio buffer.

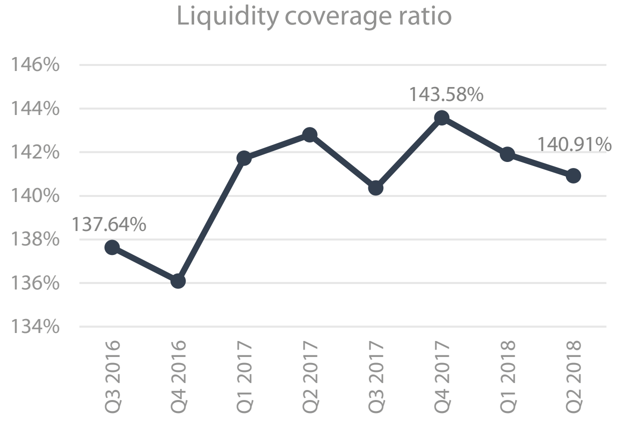


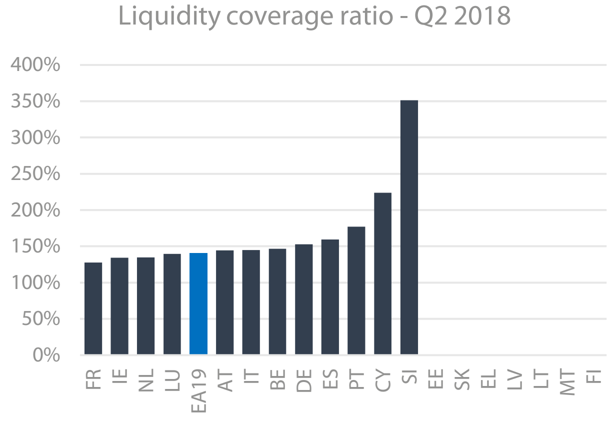


Source: SSM Tables: Total leverage ratio and its components, T03.03.1 and T03.03.2 for all 2015-18 quarters. Values not shown are suppressed by the ECB for confidentiality reasons.

Liquidity Coverage ratio

The liquidity coverage ratio (LCR) of a credit institution is calculated as the ratio between its stock of high-quality liquid assets (HQLA) and hypothetical net cash outflows in a stress situation. The LCR is designed to ensure that banks hold a sufficient reserve of high-quality liquid assets (HQLA) to allow them to survive a period of significant liquidity stress lasting 30 calendar days. The minimum LCR is set at 100%.



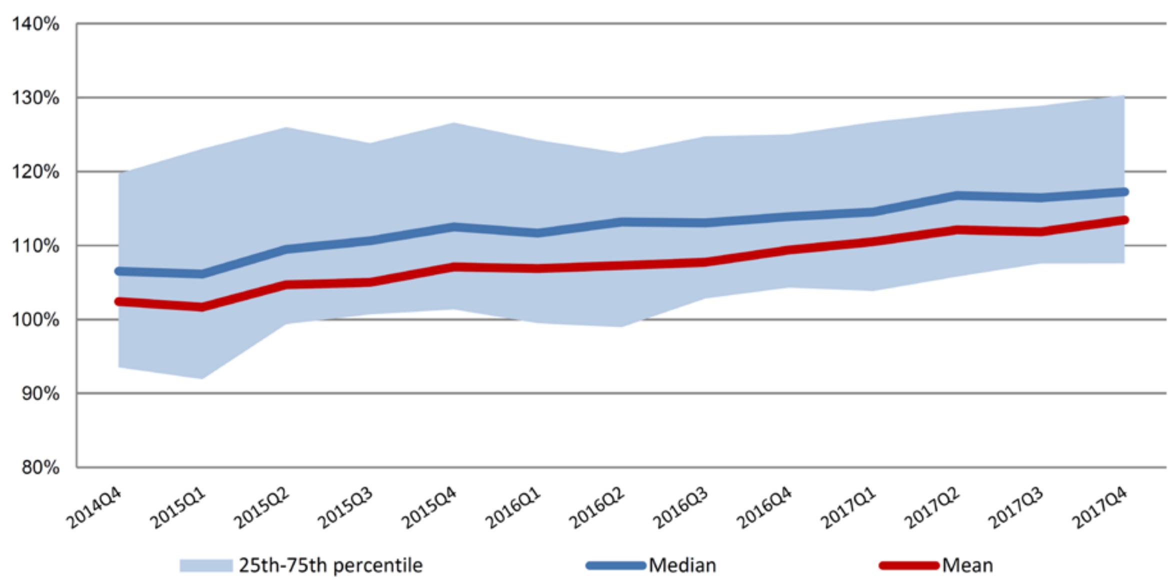


Source: SSM Tables: Total liquidity coverage ratio and its components, T05.01.1 and T05.01.2 for all 2015-18 quarters. Values not shown are suppressed by the ECB for confidentiality reasons.

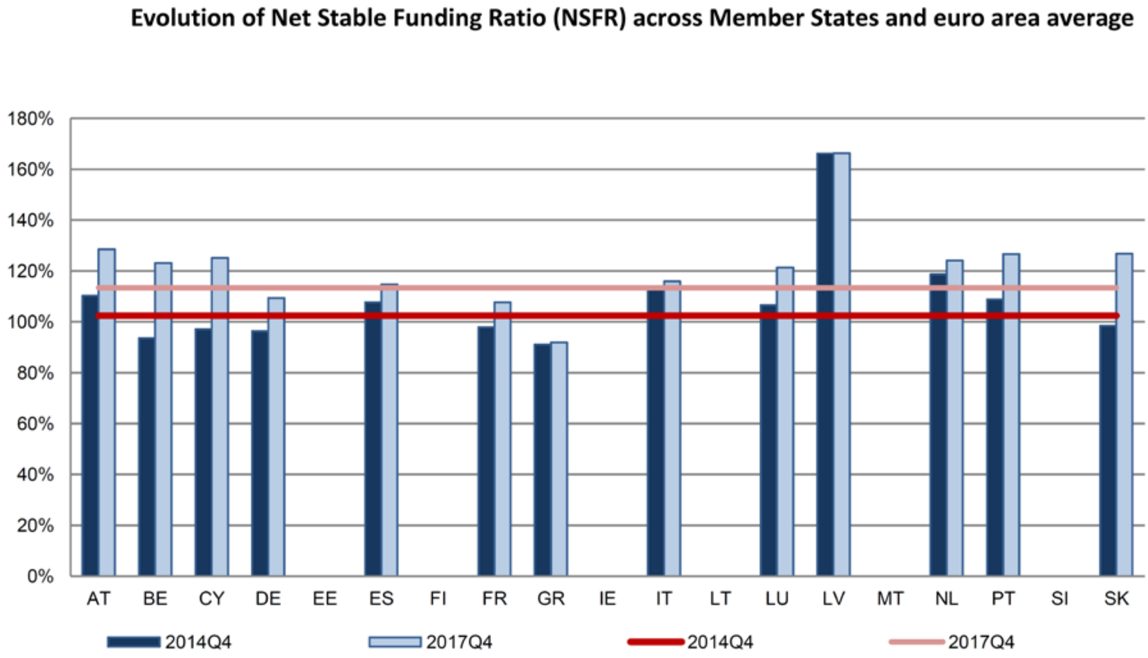
Net Stable Funding ratio

The Net Stable Funding ratio (NSFR) of a credit institution is defined as the amount of available stable funding relative to the amount of required stable funding. This ratio should be equal to at least 100% on an ongoing basis. Subject to reporting requirements since 2014, the NSFR will enter into force as part of the Banking Package that is being negotiated.

Evolution of Net Stable Funding Ratio (NSFR) across the euro area



Source: Commission, SSM and SRB report on risk reduction

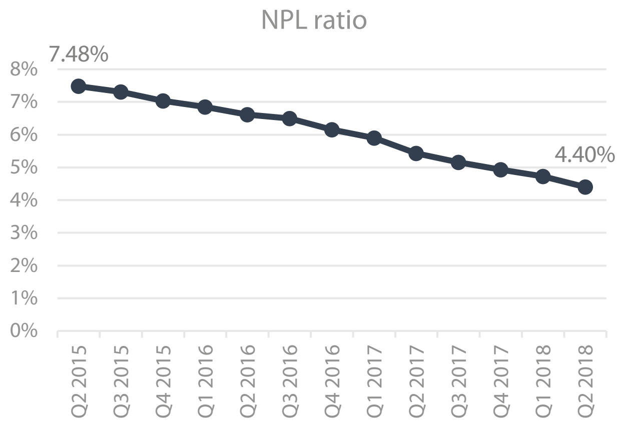


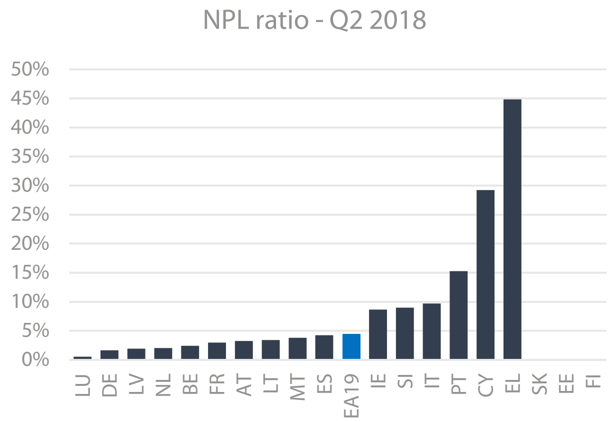
Source: Commission, SSM and SRB report on risk reduction

NPL ratio

The NPL ratio of a credit institution is calculated as the ratio between non-performing and total loans and advances. Non-performing loans and advances are defined as more than 90 days past-due, or unlikely to be repaid in full, regardless of the existence of any past due sums, days, and collateral[1]. For further background information on NPL, see EGOV Briefing.

The methodology to assess NPL is being further worked out.





Source: SSM Tables: Asset quality and its components, T03.07.1 and T03.07.2 for all 2015-18 quarters. Values not shown are suppressed by the ECB for confidentiality reasons.

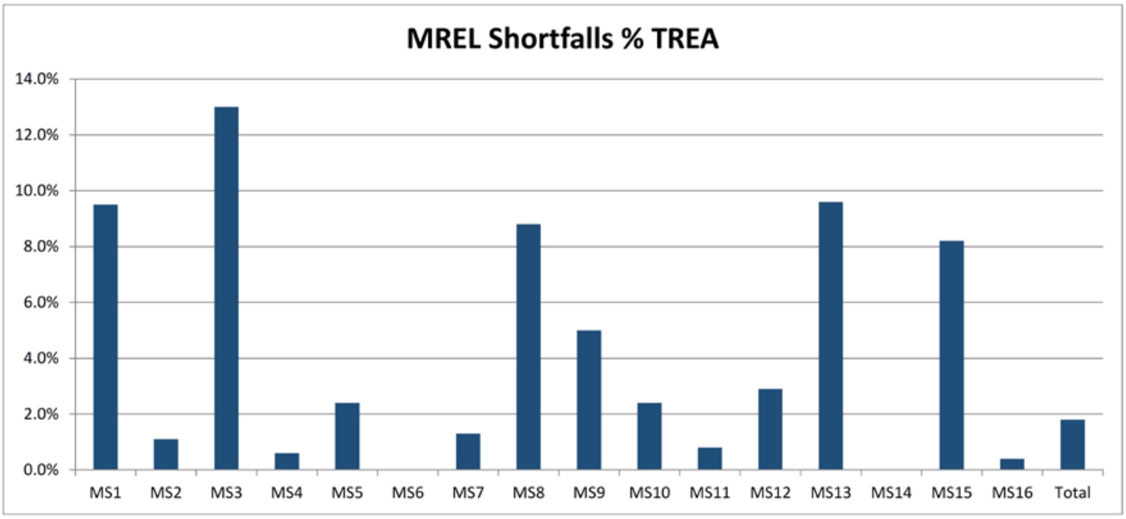
[1]According to paragraph 148 of Commission Implementing Regulation (EU) No 680/2014, the classification of exposures as non-performing should be done **without** taking into account the existence of any collateral. Consequently, all exposures, even fully collateralised ones, in unlikely-to-pay situations should always be classified as non-performing.

MREL

Banks shall hold a Minimum Requirement for Own Funds and Eligible Liabilities ('MREL') to ensure a credible and feasible 'bail-in' in a resolution scenario. Implementation of MREL as a Pillar 1 measure is being discussed as part of the Banking Package. The SRB does not publish data on MREL on a regular basis. In the context of the institutions' report on risk reduction, the following statistics have been provided, based on 2016 data. MREL shortfalls in terms of both binding and informative MREL targets are expressed below as percentage of the total risk exposure amount (TREA) as well as in absolute amounts (mEUR).

The methodology to assess MREL is being further worked out.

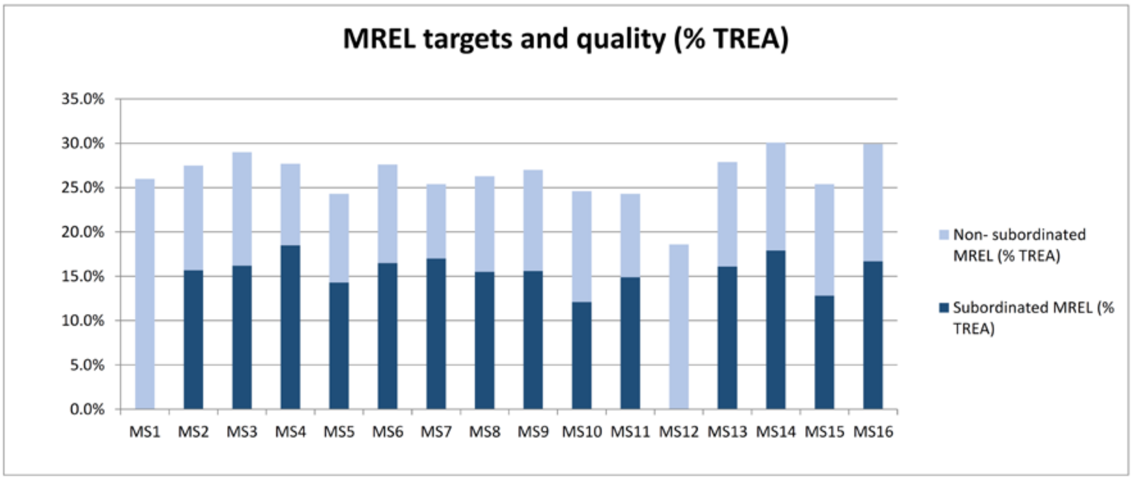
Overview of MREL shortfalls (% TREA) for 16 out of 19 MSs in the EA (at 31/12/2016)



Source: Commission, SSM and SRB report on risk reduction

The graph on "MREL quality" refers to the level of subordination of bail-in able debt (i.e. debt that ranks just below the most senior debt and other senior liabilities) expressed as a percentage of risk-weighted assets. The TLAC standard (Total Loss Absorption Capacity) that is being negotiated as part of the Banking Package requires the build-up of a buffer of subordinated debt.

Overview of MREL targets and subordination level (%TREA) for 16 out of 19 MSs in the EA (at 31/12/2016)



Source: Commission, SSM and SRB report on risk reduction

Annex

Six indicators have met with a broad agreement of Member States, according to the President of the Eurogroup (Capital ratio, leverage ratio, Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR), Non-Performing Loan (NPL) ratio, and Minimum Requirement of Eligible Liabilities (MREL).

In its June 2018 roadmap for the euro area, France and Germany further specified some risk reduction indicators outlined in the Eurogroup letter. In its communication of 11 October 2017 on completing the Banking Union, the Commission also referred to additional indicators (e.g. level III assets).

Indicators	Eurogroup	FR/DE roadmap	Commission
NPL	Yes	5% gross NPLs and 2.5% net NPLs	AQR - Thresholds to be determined
Level III assets	Not mentioned	Not mentioned	AQR - Thresholds to be determined
Sovereign risk	Split views	Proper consideration of international standards by 31 December 2023	Not mentioned but SBBS as a first step
Liquidity ratios	Yes	Yes, as part of the Banking package	
Solvency ratios (capital and leverage)	Yes	Yes, as part of the Banking package	
TLAC/MREL	Yes	Subordinated bail-in buffers in line with Council position on the Banking Package	

Source: Eurogroup, FR/DE roadmap, Commission

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