

### Figure 1.3.1. Euro Area Capital Relief from Nonperforming Loans

(Percentage of total regulatory capital as a function of foreclosure time and investors' return expectations)

		Years									
		1	2	3	4	5	6	7	8	9	10
IRR	1	12	11	11	11	11	10	10	10	10	10
	2	11	11	11	10	10	9	9	8	8	8
	4	11	10	9	8	8	7	6	5	5	4
	6	11	9	8	7	6	5	4	3	2	1
	8	10	8	7	5	4	3	2	1	0	-1
	10	10	8	6	4	3	1	0	-1	-2	-3
	12	9	7	5	3	1	0	-1	-3	-4	-5
	14	9	6	4	2	0	-1	-3	-4	-5	-6
	16	9	6	3	1	-1	-2	-4	-5	-6	-7
	18	8	5	2	0	-2	-3	-5	-6	-7	-8
20	8	4	2	-1	-3	-4	-6	-7	-8	-8	

Sources: European Banking Authority, European Central Bank; Haver Analytics; IMF, Financial Soundness Indicators; national central banks; SNL Financial; and IMF staff calculations.

Note: Investor price derived from foreclosure time and internal rate of return; assumes 80 percent collateralization, usual servicing fees, 5 percent additional loss, actual risk-weighted assets and coverage ratios at end-2014, and 16 percent capital asset ratio. IRR = internal rate of return. Green shading indicates that the percentage of regulatory capital (when rounded to whole numbers) is 8% or larger, orange is between 0% and 7%, pink is between -7% and 0%, and red indicates below -8%.