

the level of exposure classes, or exposure classes can be identified separately), should be provided to supervisors at least on an annual basis (unless requested more frequently by the supervisor) as indicated in the table below.

Table 6

Additional supervisory reporting on the use of different types of forbearance options

For forbearance options multiple options can apply for a single exposure and amounts should be included for each relevant option; thus "Total" is not expected to be the sum of all options granted

		Year t		Year t-1	
		All forborne exposures (million €)		All forborne exposures (million €)	
		of which non-performing		of which non-performing	
Short-term options granted					
of which	Interest only				
	Reduced payments				
	Grace period/payment moratorium				
	Arrears/interest capitalisation				
	Other (providing detail if significant)				
Long-term options granted					
of which	Interest rate reduction				
	Term extension				
	Additional security				
	Rescheduled payments				
	Debt forgiveness				
	Voluntary sale				
	Other (providing detail if significant)				
Total					

Chapters 5 and 6: NPEs, impairment and write-off

Public disclosures

ESMA has encouraged financial institutions to use the definitions of NPE and forbearance in Commission Implementing Regulation (EU) No 680/2014 for their financial statement disclosures and to explain the relationship between NPLs, defaulted and impaired loans applied in the institution.⁶⁶ On disclosures, banks should consider the EBA ITS supervisory reporting requirements as established in Commission Implementing Regulation (EU) No 680/2014 as a benchmark.

Information that banks are expected to disclose in accordance with Part Eight CRR and with appropriate cross-reference to their financial statements are as follows:

- The assumptions underlying the definition of non-performing exposures and how they compare with the assumptions used for identifying impaired financial assets and defaulted exposures, including:

⁶⁶ See ESMA PS and ESMA, Review of Accounting Practices – Comparability of IFRS Financial Statements of Financial Institutions in Europe (2013).

- materiality thresholds for the identification of non-performing exposures on the basis of the 90 days past due criterion;
- methods used for days past due counting;
- indicators of unlikelihood to pay used;
- effective average duration of the cure period and probation period;
- the impairment policy for non-performing exposures:
 - impairment triggers and thresholds considered when assessing whether a loss event has occurred;
 - key management judgements, estimates and assumptions used in the determination of collective provisions;
 - policy on the reversal of impairment;
 - sensitivity analysis on changes to key assumptions.
- Information on whether collective and individual impairment on performing and non-performing exposures are treated as specific credit risk adjustments or as general credit risk adjustments.
- A reconciliation of the definitions of non-performing, impaired, defaulted, restructured/modified assets and forbore exposures. This reconciliation should comprise both a conceptual explanation of the differences and quantitative information on the effects of these conceptual differences.
- Performing, performing past due, and non-performing exposures, with separate identification of exposures more than 90 days past due, exposures unlikely to pay, impaired and defaulted exposures by exposure classes.
- Ageing of performing and non-performing exposures that are past due.
- The individual and collective impairment allowance raised against performing and non-performing exposures by exposure class, sector and geography, where relevant distinguishing between impairment that qualifies as specific credit risk adjustment and as general credit risk adjustments.
- The individual and collective impairment charges recognised on performing and non-performing exposures by exposure class, sector and geography.
- When the accounting standards recognise impairment on all assets based on an expected loss model, a breakdown of performing and non-performing exposures as well as their associated accumulated impairment and impairment charges by stages, where relevant distinguishing between impairment that qualifies as specific credit risk adjustment and as general credit risk adjustments. The breakdown by stages should be performed by exposure class, sectors and geography.

Write-offs

- The amount of accumulated written-off NPEs, as well as the amount of NPEs written off during the reporting period, with the impact of these write-offs on the amount of impairment and the P&L by exposure class, sector and geography. The amount of NPEs written off during the reporting period should simultaneously be broken down by ageing.

Cash collections

- Payments collected on NPEs and their attribution to P&L:
 - cash collected on non-performing exposures, separately for cash stemming from repayments by the borrower and cash stemming from collateral recoveries (sale of repossessed collateral);
 - the split of cash payments between amounts allocated to the repayment of interest and amounts allocated to the repayment of principal;
 - the amount of interest accrued on non-performing exposures;
 - a comparison between the amount of interest accrued and the amount of cash collected on non-performing exposures.
- A breakdown of the payments received and accounted for into exposure classes, credit segments, sectors or geography may be useful in the case of a particular concentration of asset quality issues.

Supervisory reporting

In relation to the estimation of allowances on a collective basis, banks should, at a minimum, be able to provide the data in Table 7 on the models they use to calculate impairment allowances for NPEs on a collective basis. The data should be provided on an annual basis or more regularly if requested by supervisors. Elements in columns C, D and E should be reported at the level of the segments described in column B (further details below).

Table 7

Supervisory reporting on the estimation of allowances on a collective basis

A. Portfolio		B. Segment	C. LGD				D. Cure rate				E. NPE exposure at default
A.1 Sector of the counter-party	A.2 Residence of the counter-party		C.1 Rate in %	C.2 Calibration period	C.3 Adj. for current conditions	C.4 Alt. approach applied	D.1 Rate in %	D.2 Calibration period	D.3 Adj. for current conditions	D.4 Alt. approach applied	

Explanation of table content:

A. Description of the NPE portfolios to which the segments described in B pertain to:

- A.1 Sector of the counterparty as per FINREP 20.4;
- A.2 Country of residence of the counterparty.

B. Description of each granular group of exposures with shared credit risk characteristics created for the purpose of the collective estimation of provisions. This should specify the segmentation criteria (e.g. product type, collateralisation, client segment, etc.) applied.

C. Description of loss given default as applied at the level of the segment described in B:

- C.1 LGD applied in %;
- C.2 Calibration period for historical data used (e.g. “2010-2015”) to estimate C.1;
- C.3 If applicable, description of adjustments made to historical data used in estimation (e.g. to reflect current conditions);
- C.4 If C.1 has not been estimated based on historical data (i.e. C.2/C.3 are not applicable), description of the alternative approach applied.

D. Cure rate for NPLs as applied at the level of the segment described in B:

- D.1 Cure rate applied in %;
- D.2 Calibration period for historical data used (e.g. “2010-2015”) to estimate D.1
- D.3 If applicable, description of adjustments made to historical data used in estimation (e.g. to reflect current conditions);
- D.3 If D.1 has not been estimated based on historical data (i.e. D.2/D.3 are not applicable), description of the alternative approach applied.

E. Aggregated NPE exposure at default in € million at the level of the segment described in B

Interest Accrued – NPLs

Regarding the interest accrued on NPLs, on an annual basis or more regularly if requested by supervisors banks should, at a minimum, be able to provide the data in Table 8 below in respect of interest accrued on NPLs.

Table 8

Supervisory reporting on interest accrued on NPEs

€m	Original effective interest income in Profit & Loss (before impairment)	Accrued effective interest income after consideration of impairment and unwinding	Cash collected (only Interest-related)
Total loans			
Performing loans			
Specifically/individually assessed NPLs, of which			
- impaired			
- not impaired			
- forborne			
Restructured unimpaired NPLs			
≤90 dpd			
>90 dpd			
Non-restructured unimpaired NPLs			
≤90 dpd			
>90 dpd			
Collectively assessed NPLs			
Impaired NPLs			
Unimpaired NPLs			
Restructured unimpaired NPLs			
≤90 dpd			
>90 dpd			
Non-restructured unimpaired NPLs			
≤90 dpd			
>90 dpd			

Chapter 7: Collateral valuation

As part of their public disclosures, institutions should provide, ideally by cross reference to the disclosures in their financial statements, quantitative information on the following:

1. The collateral and guarantees held against performing and non-performing exposures by exposure class, sector and geography.
2. For the most relevant collateralised NPE portfolios and for total NPEs, a breakdown of collateral (latest updated valuation (in accordance with chapter 7)), NPV expected taking into account the disposal time and costs until disposal as well as provisions by type of asset and different NPE vintages (i.e. time since NPE classification in years).
3. Foreclosed asset values by type of assets and vintage as well as related provisions. A breakdown of regulatory exposure classes into credit segments may be useful to present meaningful results.

Annex 8

Risk transfer of NPLs

When securitising or otherwise transferring their NPLs in a un-tranched form, it is essential that banks pay attention to the following elements:

- a realistic estimation of cash flows used to repay the resulting securitisation liabilities, which in the case of NPLs are generally not regular;
- the valuation of associated collateral securing the NPLs (in line with chapter 7 of this guidance);
- all structuring costs involved in the transaction;
- the associated regulatory requirements.

Securitisation transactions require a significant risk transfer assessment, additional reporting and disclosures, and a retention of at least 5% of the economic interest. The junior tranches, at least, generally have an associated risk weight of 1250%. In addition, the institution should reflect the securitisation in its ICAAP and ILAAP, and should also consider operational risk (e.g. legal risk associated with the transfer of the NPLs), reputational and other risks which might increase with the transaction. The significant risk transfer should be approached in accordance with the ECB Public Guidance on the recognition of significant credit risk transfer of 24 March 2016⁶⁷.

Risk weights for specialised lending might be applicable in some cases to risk-transfer transactions (for instance those transactions where the underlying exposures are physical assets over which the lender has substantial control, provided that the conditions listed in Article 147(8) of the CRR are met). Therefore the prudential treatment of transactions should always be determined on a case-by-case basis.

Risk transfers not classified as prudential securitisations⁶⁸ might also require authorisation by the competent authorities or other bodies, depending on national law (for instance for the divestment of assets or for substantial changes in a bank's risk profile).

Although a significant risk transfer cannot be achieved in such cases, NPL risk transfers other than securitisations can still lead to derecognition and deconsolidation from a regulatory point of view under certain conditions. These are generally linked to the accounting treatment of the transactions. In this context, it

⁶⁷ https://www.bankingsupervision.europa.eu/ecb/pub/pdf/guidance_significant_risk_transfer.en.pdf

⁶⁸ As defined in Article 4(1)(61) of the CRR, i.e. involving credit risk tranching, repayments being performance linked to the underlying exposures, and an allocation of losses during the life of the transaction

should be noted that the ECB expects to be consulted on all risk transfer transactions at an early stage.

When assessing whether such NPL risk transfer transactions (other than securitisations) meet the conditions for regulatory deconsolidation/derecognition, the ECB will consider whether the residual risks retained are appropriately covered. If not, the regulatory treatment it adopts for the transactions could deviate from the accounting treatment and lead to additional capital charges being imposed. This could apply, for example, if the originating bank is also providing funding in any form to the investing vehicle, resulting in a potential delay of loss recognition for the transferring bank, or if the transferring bank is expected to provide support, beyond its contractual obligations, to the risk transfer transaction.

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