



**Non-Performing Loans (NPLs)**

ECB guidance on dealing  
with non-performing loans

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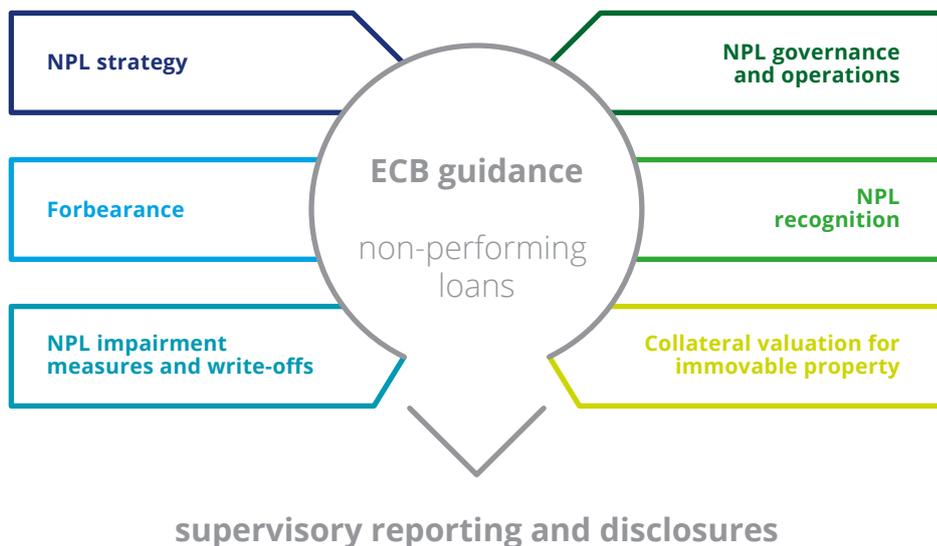
## ECB guidance on dealing with non-performing loans

### Background information

Some banks in the euro area currently have sizable portfolios of non-performing loans (NPLs). This has a detrimental impact on bank lending to businesses and is the key risk for banks in the euro area.

A planned and sustainable reduction in non-performing loans is essential on banks' balance sheets because, in conjunction with a general recovery in the economy, this has a positive effect on lending policies and the economy as a result. With a view to decreasing the number of non-performing loans, the ECB published guidance to banks on non-performing loans on 20 March 2017 that presents its expectations and best practices in dealing with NPLs. The requirements published call for a reduction in the banks' NPL-portfolios by using a standardised approach and definition, therefore improving the quality of banks' assets.

Fig. 1 – Overview over the content of the ECB guidance



The guidance is directed at all significant CRR institutions supervised directly by the ECB including their domestic and foreign subsidiaries. The primarily qualitative elements of the guidance on the NPL strategy or governance are the first steps towards ongoing steering and NPL monitoring. These are complemented by, for instance, accounting and valuation aspects including the recognition of impairments and write-offs in a timely manner.

The guidance is not legally binding, but any departures from it must be explained adequately to the supervisor. Compliance with the expectations, defined in detail in the guidance, is to be considered in the Supervisory Review and Evaluation Process (SREP) and steps by the supervisory authority are to be taken should expectations not be complied with.

The guidance came into force on the day it was published. The expected enhanced disclosure requirements on NPLs will probably apply from the end of 2018.



### Scope and content

The guidance applies to all non-performing exposures (NPEs) based on the European Banking Authority's definition, to foreclosed assets and to exposures with enhanced risks to become non-performing in future.

The NPL requirements specified have an impact on various areas of the banks. In addition to the demand to develop and ultimately implement a realistic and ambitious NPL strategy, the goal is to adequately take into account the various aspects associated with NPLs in terms of governance, forbearance, provisioning as well as collateral valuation. Along with the expected organisational and procedural changes, the guidance also lists comprehensive data requirements that significantly exceed the already familiar duties of disclosure.

### Challenges

Even if new stipulations on NPLs have already been implemented over the past few years, the publication of the ECB guidance creates numerous new NPL requirements for banks. The key challenges in putting these into practice are as follows:

- Ensuring a consistent definition of NPLs as a term in all the bank's regulations
- Checking and changing lending processes in the front and back office
- An increase in the reporting requirements due to extra templates requiring submission
- An increase in the data granularity of existing reporting requirements
- Changing existing or drawing up new guidelines (e.g. early risk detection, provisions)
- Quantitative presentation of processes (by tracking the dunning process)

### How Deloitte can help

We have developed a comprehensive tool-based solution to assess the impact on your bank efficiently. In a joint workshop, we will present the key requirements by the supervisory authority, identify the key areas for action and lay the groundwork for the next steps required on this basis. After the impact analysis, we will provide all-encompassing advice on how to take the steps required. Make use of our in-depth experience of NPLs in order to discuss implications and challenges in a targeted manner and come up with appropriate solutions.

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