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ANNEX VII

**INSTRUCTIONS FOR REPORTING ON LOSSES STEMMING FROM LENDING COLLATERALISED BY IMMOVABLE PROPERTY**

1. This Annex contains instructions in relation to the templates included in Annex VI to this Regulation.

2. All the general instructions included in Part I of Annex II to this Regulation shall also apply.

1. Reporting scope

3. Institutions that use immovable property in accordance with Part Three, Title II of Reglation (EU) No 575/2013 shall report the data specified in Article 430a(1) of Regulation (EU) No 575/2013.

4. The template covers all national markets an institution/group of institutions is exposed to (see Article 430a(1) of Regulation (EU) No 575/2013). In accordance with the third sentence of Article 430a(2) the data shall be reported for each property market within the Union separately.

2. Definitions

5. ‘Loss’ shall mean the loss defined in point (2) of Article 5 of Regulation (EU) No 575/2013, including losses stemming from leased property. The recovery flows stemming from other sources (e.g. bank guarantees, life insurance, etc) shall not be recognised as reducing the losses when calculating losses stemming from immovable property. Losses of one position shall not be netted with the profit of a successful recovery of another position.

6. The calculation of economic loss shall start from outstanding exposure value at the reporting date and shall include at least: (i) proceeds from collateral realisation; (ii) direct costs (including interest rates payments and recovery costs linked to the liquidation of the collateral); and (iii) indirect costs (including operating costs of the recovery unit). All components shall be discounted to the reporting reference date.

7. The exposure value shall be determined in accordance with the rules stipulated in Title II of Part Three of Regulation (EU) No 575/2013 (see Chapter 2 for institutions using the standardised approach, and Chapter 3 for institutions using the IRB approach).

8. The property value shall be determined in accordance with point (74a) of Article 4(1) of Regulation (EU) No 575/2013.

9. F/X effect: Amounts shall be converted to the reporting currency using the exchange rate at the reporting date. Moreover, the estimates of the economic losses should consider the F/X effect if the exposure or collateral is denominated in a different currency.

3. Geographical breakdown

10. Institutions shall report the following templates:

a) one total template;

b) one template for each national market in the Union the institution is exposed to, and;

c) one template aggregating the data for all national markets outside the Union the institution is exposed to.

4. Reporting of exposures and losses

11. The exposures and losses shall be reported as follows:

1. Col. 0010: Losses reported according to Article 430a(1), points (a) and (d), are losses stemming from exposures for which an institution has recognised residential or commercial property as collateral, in each case, up to the lower of the pledged amount and 55% of the property value, unless otherwise decided under Article 124(9), where applicable. The losses stem from exposures determined in accordance with the rules stipulated in Title II of Part Three of Regulation (EU) No 575/2013.
2. Col. 0030: Losses reported according to Article 430a(1), points (b) and (e), are losses stemming from exposures for which an institution has recognised residential or commercial property as collateral, in each case, up to the lower of the pledged amount and 100% of the property value. The losses stem from exposures determined in accordance with the rules stipulated in Title II of Part Three of Regulation (EU) No 575/2013.
3. Col. 0050: Exposure values of outstanding exposures reported according to Article 430a(1), points (c) and (f), are exposures for which the bank has recognised residential or commercial property as collateral, in each case, up to the lower of the pledged amount and 100% of the property value. The exposure values are determined in accordance with the rules stipulated in Title II of Part Three of Regulation (EU) No 575/2013.
4. All exposures secured by residential and commercial immovable property that are subject to requirements in Title II of Part Three of Regulation (EU) No 575/2013 and where recognizing the collateral would lead to a reduction of the risk-weighted exposure amount, even if this reduction is overridden by a decision of the competent or designated authority where Article 124(9) is used, shall be reported in template C 15.00. This also means that the exposures and losses concerned must not be reported if the risk mitigation effect of the immovable property is only used for internal purposes (i.e. under Pillar 2) or for large exposures (see Part Four of Regulation (EU) No 575/2013). In particular, exposures pursuant under Art. 124 (1) of Regulation (EU) No 575/2013 shall not be reported. The exposure shall still be reported even if it has defaulted.
5. In accordance with Article 430a(1), points (a) and (d) of Regulation (EU) No 575/2013, where Article 124(9) is used, the data shall be reported in column 0010 in accordance with the adjusted reference percentages, where applicable. The data shall be reported in columns 0030-0050 in accordance with Article 430a(1), points (b), (c), (e) and (f).

12. Losses: The institution which has the exposure by the end of the reporting period shall report the losses. Losses shall be reported as soon as provisions are to be booked in accordance with accounting rules. The estimated losses shall also be reported. Losses from exposures collateralised by immovable property shall be calculated on a loan-by-loan basis and aggregated for reporting purposes.

13. Reference date: The exposure value at the reference date shall be used. For exposures having defaulted during the period, the exposure value at default shall be used. For exposures having defaulted during past periods, the exposure value at the reference date shall be used.

a) Losses shall be reported for all defaults on loans secured by real estate property that occur during the reporting period and irrespective of whether the recovery has been completed. Losses to be reported as of 31 December shall refer to the whole calendar year.

b) For all defaults observed within the reporting period, there are three scenarios: (i) defaulted loan can be restructured so that it is no longer treated as in default (no loss observed); (ii) realization of all collateral is completed (completed recovery, actual loss known); or (iii) incomplete recovery (loss estimates to be used). Loss reporting shall include only losses stemming from scenario (ii) realisation of collateral (observed losses) and scenario (iii) incomplete recovery (estimates of losses).

c) As losses shall be reported only for exposures having defaulted during the reporting period, changes to losses of exposures having defaulted during previous reporting periods will not be reflected in the reported data, i.e. proceeds from the realisation of the collateral at a later reporting period or lower realised costs than previously estimated shall not be reported.

14. Role of the valuation of the property: The latest valuation of the property before the default date of the exposure is needed as reference for reporting the part of exposure secured by mortgages on immovable property. After default, the property might be re-valued. This new value should however not be relevant for identifying the part of the exposure which was originally secured up to the part of the exposure value that is secured up to the lower of the pledged amount and 55% of the property value, unless otherwise decided under Article 124(9) of Regulation (EU) No 575/2013. However, the new value of the property shall be considered in economic loss reporting (a reduced property value is part of economic costs). In other words, the latest valuation of the property before the default date shall be used to determine which part of the loss shall be reported in column 0010 and the re-valued property value for the amount to be reported (estimation of a possible recovery from collateral) in columns 0010 and 0030.

15. Treatment of loan sales during the reporting period: The institution which has the exposure by the end of the reporting period shall report losses, but only if a default for that exposure was identified.

5. Instructions concerning specific positions

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| **Columns** | |
| 0010 | Sum of losses stemming from lending up to the reference percentages  Points (a) and (d) of Article 430a(1) of Regulation (EU) No 575/2013 respectively,  Property value in accordance with point (74a) of Article 4(1) of Regulation (EU) No 575/2013.  This column collects all losses stemming from exposures for which an institution has recognised residential or commercial immovable property as collateral, in each case, up to the part of the exposure value that is secured up to the lower of the pledged amount and 55% of the property value, unless otherwise decided under Article 124(9), where applicable. |
| 0030 | Sum of overall losses  Points (b) and (e) of Article 430a(1) of Regulation (EU) No 575/2013 respectively; Property value in accordance with point (74a) of Regulation (EU) No 575/2013.  This column collects all losses stemming from exposures for which an institution has recognised residential or commercial immovable property as collateral, in each case, up to the part of the exposure value that is secured up to the lower of the pledged amount and 100% of the property value. |
| 0050 | Sum of the exposures  Points (c) and (f) of Article 430a(1) of Regulation (EU) No 575/2013.  Exposure value of exposures for which the bank has recognised residential or commercial immovable property, in each case, up to the part of the exposure value that is secured up to the lower of the pledged amount and 100% of the property value.  In the event of default, for exposures having defaulted during the period the reported exposure value shall be the exposure value just before the default, for exposures having defaulted during past periods, the reported exposure value shall be the exposure value at the reference date. |

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| **Rows** | |
| 0010 | Residential property  Residential property as defined in point (75) of Article 4(1) of Regulation (EU) No 575/2013. |
| 0020 | Commercial immovable property  Commercial immovable property as defined in point (75a) of Article 4(1) of Regulation (EU) No 575/2013. |