

# EBA REPORT ON THE PEER REVIEW ON SUPERVISION OF NPE MANAGEMENT

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**EBA**

EUROPEAN  
BANKING  
AUTHORITY

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# List of abbreviations

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CA(s)	Competent Authorities
CCD	Consumer Credit Directive (Directive 2008/48/EC)
CI	Credit Institution
CRD	Capital Requirements Directive (Directive 2013/36/EU)
DoD	Definition of default
EBA	European Banking Authority
ECB	European Central Bank
EEA	European Economic Area
EQS	Environmental Quality Standards
ESAs	European Supervisory Authorities
FAQ	Frequently Asked Questions
FBE	Forborne exposure(s)
FTE	Full-time equivalent
ICAAP	Internal capital adequacy assessment process
ITS	Implementing technical standards
JC	Joint Committee of the ESAs
JST	Joint supervisory teams
LSI	Less significant institution
MCD	Mortgage Credit Directive (Directive 2014/17/EU)
MS	Member State
N/A	Not applicable
NPE	Non-performing exposure(s)
NPL	Non-performing loan(s)
PRC	Ad hoc Peer Review Committee
PSD2	Payment Services Directive
RAF	Risk appetite framework
RTS	Regulatory Technical Standards
SAQ	Self-Assessment Questionnaire
SI	Significant institution
SNCI	Small and Non-Complex Institutions
SREP	Supervisory Review and Evaluation Process
UTP	Unlikely to pay

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# Executive Summary

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**The findings from the EBA peer review of the supervision of NPE management suggest that the CAs across the EU have applied a risk-based approach to the supervision of NPE management by the institutions, where the rigour and comprehensiveness of the supervisory review and supervisory resources allocated to these tasks by the CAs correlates with the magnitude of the NPE level in the jurisdiction or institutions. The CAs from jurisdictions with a higher NPE level and involved in the supervision of a large share of institutions with elevated NPE levels, have implemented more sophisticated supervisory processes for NPE supervision and are more engaged with credit institutions under their supervision on the topics of NPE management. The peer review findings also suggest that the EBA Guidelines on management of non-performing and forborne exposures have been largely implemented by the CAs and applied in their supervisory practices. No significant concerns regarding NPE supervision practices have been identified in the course of peer review, but the EBA makes a number of recommendations for further improvements of supervisory practices.**

The financial crisis of 2008 to 2009 followed by the European debt crisis negatively affected the European banking sector and has manifested in a build-up of non-performing exposures (NPE) on many credit institutions' balance sheets. In some jurisdictions and for credit institutions in those most-affected jurisdictions the NPE level was high by historical standards affecting the ability of credit institutions to lend to the real economy. As part of concerted efforts by credit institutions, supervisors, regulators and macroprudential authorities to reduce the stock of NPE and improve the framework for the NPE management and resolution, the EBA has developed [EBA Guidelines on the management of non-performing and forborne exposures](#) (EBA/GL/2018/06, 'the Guidelines') in response to the 2017 [EU Council Action plan](#) on tackling NPE.

The objective of the Guidelines that apply from 30 June 2019 is to provide supervisory guidance to ensure that credit institutions effectively manage their non-performing and forborne exposures on their balance sheets aiming at sustainable reduction of NPE on the credit institutions' balance sheet through the application of their own NPE strategies.

Since the application of the Guidelines, credit institutions, supported by the regulatory actions in response to the EU Council Action Plan and favourable macroeconomic conditions, have managed to significantly reduce their NPE on their balance sheets and improve their NPE management practices. The aggregate ratio of non-performing loans (NPL ratio) according to the [EBA Risk Dashboard](#) has been steadily decreasing across the EU from its peak of 6.5% at the end of 2014 to a level of 2.7% in December 2020, when the COVID-19 pandemic emerged, and reduced further to 2.3% as of Q2 2021, the reference date of the peer-review.

With the concerns of the impact of the COVID-19 pandemic on the quality of credit institutions' credit portfolios and longer-term implications for the NPE level in the EU financial sector, in 2021,

the EBA launched a peer review of the supervision by the competent authorities of the NPE management by institutions. The objectives of this peer review are threefold:

- (1) obtaining an overview and understanding of the current policy framework for NPE management available in MS, including supervisory approaches to incorporating consumer protection objectives (and by doing so, also assessing the implementation of the Guidelines by the CAs);
- (2) understanding and comparing the readiness of CAs for dealing with the potential increases in the NPE level post COVID-19 (including what preparations have been made by CAs); and
- (3) to the extent possible given the focus of the peer review being on the CAs, obtaining an overview and understanding of the NPE management toolkit actively pursued/preferred by most-affected institutions and their readiness for managing the potential increases in the NPE level post COVID-19 (i.e., what preparations have been made by the institutions).

Since the topic of NPE management and its supervision is of importance both from prudential and consumer protection perspectives, and also considering that the Guidelines incorporate provisions for the institutions to respect applicable consumer protection requirements stemming from the relevant EU Directives, the peer review addressed the implementation of the Guidelines by both prudential and consumer protection authorities, as applicable.

The peer review has been performed by the EBA's Ad hoc Peer Review Committee's (PRC) following the process in Article 30 of the [EBA Regulation](#) and the [EBA peer review methodology](#). This report summarises the conclusions of the peer review mostly focusing on objective (1) and (2) – implementation and application of the Guidelines by the prudential and consumer protection authorities and the practices of the authorities in relation to supervision of NPE management by credit institutions, and the preparedness of the CAs for dealing with potential post-COVID-19 NPE increases. Institutions' NPE management practices and their post-COVID-19 NPE strategies are not fully analysed but just summarised in Annex 3 to this report due to differences in available information across MS and 'best efforts' for the CAs to provide data for the peer review objective (3).

The report also identifies some good supervisory practices observed during the analysis that are recommended for consideration by CAs with a view to fulfilling the EBA's statutory task of fostering convergence of supervisory practices across the EU. The report also indicates areas where relevant authorities should consider improving their practices. The PRC reserves the right to request updates on implementation of these recommendations.

Based on the outcomes of the peer review, the PRC concludes that despite some delays in the implementation of the Guidelines by a small number of CAs primarily in relation to smaller and less complex institutions, the Guidelines have been implemented by the CAs and applied in their respective supervisory practices.

The approach to the supervision of NPE management by the institutions across the EU can be described as risk-based, where the rigour and comprehensiveness of the supervisory review of NPE management and supervisory resources allocated to these tasks by the CAs correlates with the magnitude of the NPE level in a given jurisdiction or individual credit institutions. Supervisory resources that are largely considered to be adequate by the CAs allocated to the NPE supervisor tasks by the CAs are in direct correlation with the magnitude of the NPE level in a given jurisdiction or individual credit institutions. For most of the CAs, NPE supervision is covered by the same staff looking at wider aspects of credit risk management, with some specialists' support through dedicated expert groups formed in some larger CAs.

The PRC also notes that the authorities from jurisdictions with a higher NPE level that spend a significant part of their supervisory activities on the supervision of a large share of institutions with elevated NPE levels, have developed more sophisticated supervisory processes for NPE supervision and are more engaged with credit institutions under their supervision on NPE management topics when compared to the authorities based in jurisdictions with lower NPE levels. Nevertheless, the PRC has found evidence that all CAs, including those from the jurisdiction with low NPE levels, factor aspects of NPE management into their ongoing credit-risk supervisory activities, sometimes on a thematic or horizontal basis. On this basis, the PRC does not have any significant concerns regarding the implementation of the Guidelines by the CAs and their supervisory approaches towards the supervision of NPE management.

To help with the resolution of NPE and facilitate the execution of credit institutions' NPE strategies, many MS are benefiting from the established frameworks for dealing with NPE, including the presence of active secondary and securitisation markets to help offload NPE from the credit institutions' balance sheets.

With respect to the readiness of the CAs for dealing with potential increases of NPE post COVID-19, the PRC did not identify significant concerns among CAs that the post-COVID-19 pandemic will cause a 'cliff-edge' impact following the expiration of various public-support measures put forward by the governments in many jurisdictions.

The worsening impact on the credit quality will be slower over time and largely limited to specific economic sectors most affected by the COVID-19 pandemic. This slower and less pronounced than initially expected impact of COVID-19 on the worsening of credit quality and increases in NPE allow CAs to adjust their existing supervision and adapt already existing tools set up for NPE management (and supervision) to deal with post-COVID-19 NPE increases. Notwithstanding this more muted COVID-19 impact, the PRC did identify some CAs where preparedness for COVID-19 has been at a more advanced stage.

The PRC has also identified a number of good practices that it recommends that the CAs consider applying in their work in relation to NPE management, in particular paying due attention to the assessment of the operational capabilities at institutions for the management of NPE and forbearance, which is also important in the context of the exit from the COVID-19 pandemic. The

PRC also encourages enhancement of the cooperation between prudential and consumer protection functions (and authorities) in the supervision of NPE and forbearance management.

The PRC also recommends that the EBA, as part of its future review of Guidelines on management of non-performing and forborne exposures, consider including in the review the good practices identified in this peer review.

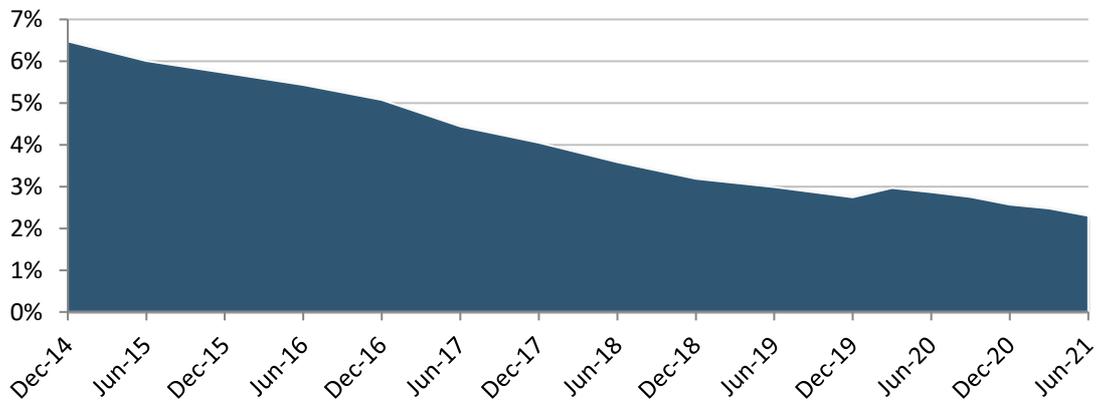
# 1. Background

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## 1.1 Economic context to the peer review

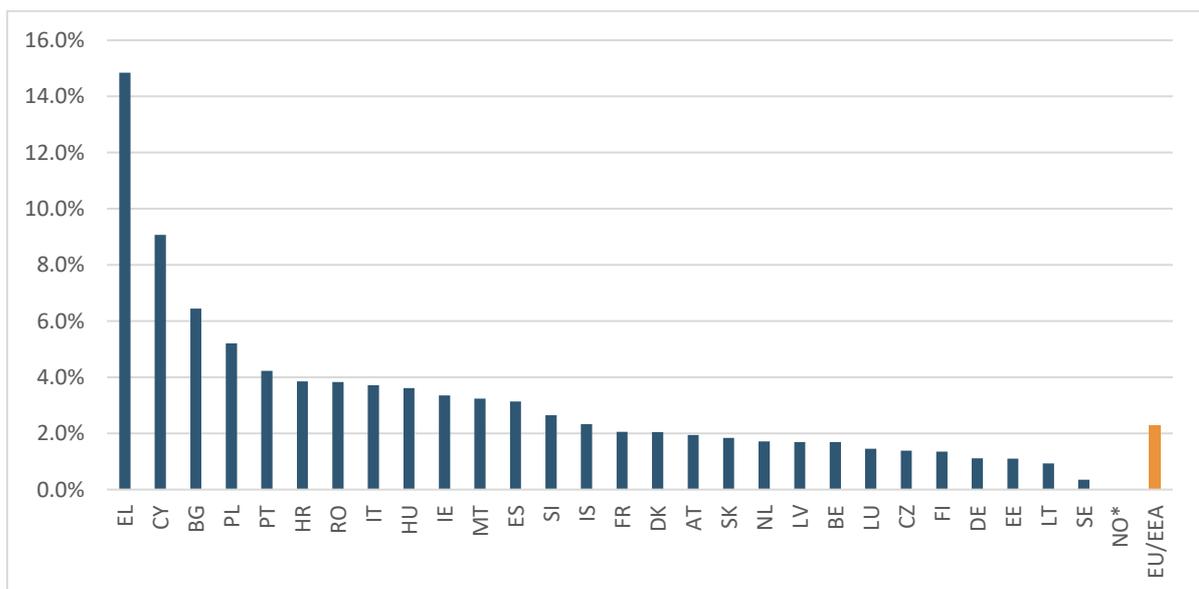
1. As set out in Article 30 of the EBA Regulation, the EBA shall periodically conduct peer reviews of some or all the activities of CAs within its remit, to further strengthen consistency and effectiveness in supervisory outcomes. The topics of the peer review are selected by the EBA Board of Supervisors in relation to the supervisory and strategic priorities and also relative importance of certain topics for (or concerned with) supervisory convergence.
2. The crucial importance of credit institutions' ability to manage NPE on their balance sheets and the supervisory frameworks and practices in this area came to the fore in the wake of the financial crisis of 2008-2009 and the European debt crisis. Both of these crises negatively affected the European banking sector and contributed to a build-up of NPE on many credit institutions' balance sheets. In some jurisdictions and for credit institutions in those most-affected jurisdictions the level of NPE was significantly high by historical standards, affecting the ability of credit institutions to lend to real economy.
3. As part of concerted efforts by credit institutions, supervisors, regulators and macroprudential authorities to reduce the stock of NPE and improve the framework for NPE management and resolution, the EBA has developed [EBA Guidelines on the management of non-performing and forborne exposures](#) (EBA/GL/2018/06, 'the Guidelines') in response to the 2017 EU Council Action plan on tackling NPE.
4. Since the application of the Guidelines, credit institutions supported by the regulatory actions in response to the EU Council Action Plan and favourable macroeconomic conditions have managed to significantly reduce their NPE on their balance sheets and improve their NPE management practices. The aggregate NPL ratio according to the [EBA Risk Dashboard](#) has been steadily decreasing across the EU from its peak of 6.5% at the end of 2014 to a level of 2.7% in December 2020 before the COVID-19 pandemic (reducing further to 2.3% as of Q2 2021, which is the reference date for the peer review). Despite the overall improvements, significant differences in the level of NPL across the countries remain (see figures below).

Figure 1. EU weighted average NPL ratio (December 2014–June 2021)



Source: [EBA Risk Dashboard](#)

Figure 2. NPL ratio per MS (June 2021)



\*Norwegian banks have not yet implemented the reporting framework based on CRR2/CRD5. Therefore, Norwegian figures are included in the EBA Risk dashboard only until March 2021.

Source: [EBA Risk Dashboard](#)

- With the concerns of the impact of the COVID-19 pandemic on the quality of credit institutions' credit portfolios and longer-term implications for the NPE level in the EU financial sector, the EBA launched a peer review of the supervision of NPE management by institutions in 2021. The review focuses on the assessment of CAs' supervisory approaches regarding the management of NPE by the institutions, including supervisory approaches to incorporating consumer protection objectives. In practice, this is the assessment of how CAs apply the Guidelines.

6. The peer review has been performed by the PRC established in accordance with the EBA Regulation and the EBA peer review methodology based on the CA responses to the SAQ that has been reviewed and analysed by the PRC, and additional input received from the CAs in a form of responses to written follow-up questions and interviews. The findings collated in this report follow the EBA PRC engagement and challenge of the results of the SAQ with CAs and do not represent a full review of the implementation of the Guidelines, as only certain aspects have been considered in the SAQ and discussed with the CAs.
7. This report summarises the outcomes of the peer review, including observed best practices, and identifies a number of general recommendations addressed with the CAs and the EBA. The report is structured around two sections, where Section 2 provides a summary of the peer review outcomes, including observations of good practices and set out the recommendation of the PRC, and Section 3 provides the assessment of practices of CAs based on their responses to the SAQ. The report is also supported by a number of annexes that provide an overview of the methodological aspects relevant to this particular exercise (Annex 1) and summarise NPE management practices by institutions based on the CAs' responses to the SAQ (Annex 3).

## 1.2 EBA Guidelines on management of non-performing and forborne exposures

8. The Guidelines were developed in accordance with the [July 2017 EU Council Action Plan on tackling non-performing loans in Europe](#). The Guidelines were published on 31 October 2018 and entered into force from 30 June 2019. They aim to ensure that credit institutions have adequate tools and frameworks in place to effectively manage their NPE and to achieve a sustainable reduction of NPE on their balance sheets. To this end, the Guidelines that are addressed to credit institutions and CAs require institutions to set out NPE management strategies and introduce governance and operational requirements to support the implementation of these strategies.
9. The Guidelines specify sound risk management practices for credit institutions in their management of NPE and FBE, including requirements on NPE reduction strategies, governance and operations of NPE workout framework, internal control framework and monitoring.
10. According to the Guidelines, the development and operationalisation of NPE management strategies is the core element in credit institutions' NPE management. To help institutions with determining needs for deciding on such strategies the Guidelines apply a threshold of 5% of gross NPL ratio<sup>1</sup> as one of the triggers for developing NPE strategies and applying associated governance and operational arrangements. This threshold does not indicate an optimal level for NPLs and should not be considered as an automatic target to be used in credit institutions' NPE strategies, but sets a prudential framework for stricter supervisory monitoring to guard against rising NPE levels.

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<sup>1</sup> As defined in the Guidelines.

11. The Guidelines also set out requirements for processes to recognise NPE and FBE, as well as a forbearance-granting process with a focus on the viability of forbearance measures. In particular, the Guidelines specify that institutions should grant forbearance measures only to return the borrower to a sustainable performing repayment status and are thus in the borrower's interest.
12. While the Guidelines are written from a prudential perspective, they also incorporate consumer protection provisions to ensure that consumers are treated fairly by drawing attention specifically to provisions under the EU directives and relevant EBA guidelines related to consumers, of which credit institutions need to be cognisant when managing NPE.
13. The Guidelines outline requirements for CAs' assessment of credit institutions' NPE management activity as part of the SREP.
14. The Guidelines take into account the proportionality aspects in their implementation and, where applicable, provide concrete examples of how such proportionality can be applied in relation to small and less complex institutions.

### 1.3 Compliance notifications received from CAs

15. Article 16 of the EBA Regulation requires the CAs and financial institutions to make every effort to comply with the EBA guidelines and recommendations that are being issued under this Article ('comply or explain' procedure).
16. Under the 'comply or explain' procedure, within 2 months of publication of the EBA guidelines and recommendations in all official EU languages, each CA must inform the EBA whether it complies or intends to comply with the guidelines or recommendations. Where a CA does not comply or does not intend to comply, it must inform the EBA of this and state reasons for non-compliance.
17. For each guideline, the EBA publishes a table that summarises the compliance status and lists the feedback received from each CA across the EU. This information is also published in the [EBA Annual Report](#) so that the European Parliament, Council and Commission are informed of the guidelines and recommendations that were published over the course of the year, as well as which CAs are complying or intend to comply.
18. Relevant to this peer review, the EBA published the compliance table for the Guidelines, based on feedback, including updates, received from the CAs (see Annex 7).

## 2. Peer review outcomes and recommendations

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### 2.1 Summary of the assessment of benchmark questions for prudential authorities

19. All EEA CAs that are responsible for prudential supervision of credit institutions and the ECB-SSM as the addressees of the Guidelines have responded to the benchmark questions identified in the prudential part of the SAQ (see Annex 1 for methodological aspects applicable to this peer review). The responses provided by the CAs are summarised in the figure below and suggest that the Guidelines with some exceptions have been either fully or partially applied by the CAs in their jurisdictions.

20. The responses to SAQ reflect the situation at the cut-off date for the peer review (June 2021) and cover the period of June 2019 to June 2021. Therefore, the analysis does not include any more recent developments or changes in the CAs' methodologies or supervisory practices since June 2021.

Figure 3. Summary of CAs responses to benchmark questions before PRC assessment

	Application the Guidelines	Incorporated into SREP methodology	Incorporated into supervisory manuals or similar tools for on-site examinations	Challenged criteria set out in paragraph 240 of the Guidelines	Assessed the implementation of forbearance measures	Assessed the early warning mechanisms implemented in the CI' internal procedures	Assessed if CI have policies and methodologies to ensure the measurement of impairments and write-offs	Performed regular reviews of the implementation criteria	Findings regarding the supervisory evaluation of the management of NPEs and forbearances
Country code	Q1	Q3	Q4	Q21	Q22	Q23	Q24	Q25	Q26
AT	FA	FA	FA	PA	FA	FA	FA	PA	FA
BE	FA	FA	FA	PA	FA	FA	FA	FA	FA
BG	PA	FA	FA	FA	FA	FA	FA	FA	FA
CY	FA	FA	FA	FA	FA	FA	FA	PA	FA
CZ	FA	FA	FA	FA	FA	FA	FA	FA	FA
DE	FA	FA	FA	NP	FA	FA	FA	FA	PA
DK	FA	FA	NP	FA	FA	FA	FA	NP	PA
ECB/SSM	FA	FA	FA	FA	FA	FA	FA	FA	FA
EE	FA	FA	FA	FA	FA	FA	FA	FA	FA
ES	FA	FA	FA	FA	FA	FA	FA	FA	FA
FI	FA	FA	FA	FA	FA	FA	FA	FA	FA
FR	FA	FA	FA	NP	PA	PA	NP	FA	FA
EL	FA	NO	FA	FA	FA	FA	FA	FA	FA
HR	FA	NP	FA	PA	FA	FA	FA	FA	FA
HU	FA	FA	FA	FA	FA	FA	FA	FA	FA
IE	FA	FA	FA	FA	FA	FA	FA	FA	FA
IS	FA	FA	PA	NP	FA	PA	PA	FA	FA
IT	PA	FA	FA	FA	FA	FA	FA	FA	FA
LI	FA	FA	FA	FA	FA	FA	FA	FA	FA
LT	FA	FA	FA	PA	FA	FA	FA	PA	FA
LU	FA	PA	PA	FA	FA	FA	FA	FA	FA
LV	FA	FA	FA	PA	FA	FA	FA	FA	FA
MT	PA	PA	FA	PA	FA	FA	FA	FA	FA
NL	FA	FA	FA	FA	FA	FA	FA	PA	FA
NO	PA	PA	FA	FA	FA	FA	FA	FA	FA
PL	FA	FA	FA	FA	FA	FA	FA	FA	FA
PT	FA	FA	FA	FA	FA	FA	FA	FA	FA
RO	FA	FA	NP	FA	FA	FA	FA	FA	FA
SE	FA	FA	PA	PA	FA	FA	FA	FA	PA
SI	FA	FA	FA	PA	FA	FA	FA	FA	FA
SK	PA	PA	PA	PA	FA	PA	PA	PA	FA

Key: green: yes-fully (FA); yellow: yes-partially (PA); orange: not yet, but planning (NP); red: no (NO); pink: not applicable (N/A); white: non-contributing (NC)

21. The PRC reviewed the self-assessments provided by the CAs with a view to ensuring consistency of the responses and benchmarks and also reflect the additional details provided by the CAs in responses to follow-up questions and during the interviews.

22. Based on the review of responses to the SAQ and additional information obtained, the PRC has updated the assessment of the authorities vis-à-vis benchmarked questions and the results of the final assessment are summarised in the figure below.

Figure 4. Summary of the assessment of benchmark questions by the PRC

	Application the Guidelines	Incorporated into SREP methodology	Incorporated into supervisory manuals or similar tools for on-site examinations	Challenged criteria set out in paragraph 240 of the Guidelines	Assessed the implementation of forbearance measures	Assessed the early warning mechanisms implemented in the CI' internal procedures	Assessed if CI have policies and methodologies to ensure the measurement of impairments and write-offs	Performed regular reviews of the implementation criteria	Findings regarding the supervisory evaluation of the management of NPEs and forbearances
Country code	Q1	Q3	Q4	Q21	Q22	Q23	Q24	Q25	Q26
AT	FA	FA	FA	PA	FA	FA	FA	PA	FA
BE	FA	FA	FA	PA	FA	FA	FA	FA	FA
BG	PA	FA	FA	FA	FA	FA	FA	FA	FA
CY	FA	FA	FA	FA	FA	FA	FA	PA	FA
CZ	FA	FA	FA	FA	FA	FA	FA	FA	FA
DE	FA	FA	FA	NP	FA	FA	FA	FA	PA
DK	FA	FA	NP	FA	FA	FA	FA	NP	PA
ECB/SSM	FA	FA	FA	FA	FA	FA	FA	FA	FA
EE	FA	FA	FA	FA	FA	FA	FA	FA	FA
ES	FA	FA	FA	FA	FA	FA	FA	FA	FA
FI	FA	FA	FA	FA	FA	FA	FA	FA	FA
FR	FA	FA	FA	NP	PA	PA	NP	FA	FA
EL	FA	NP	FA	FA	FA	FA	FA	FA	FA
HR	FA	NP	FA	PA	FA	FA	FA	FA	FA
HU	FA	FA	FA	FA	FA	FA	FA	FA	FA
IE	FA	FA	FA	FA	FA	FA	FA	FA	FA
IS	FA	FA	PA	NP	FA	PA	PA	FA	FA
IT	PA	FA	FA	FA	FA	FA	FA	FA	FA
LI	FA	FA	FA	FA	FA	FA	FA	FA	FA
LT	FA	PA	PA	PA	FA	FA	FA	PA	FA
LU	FA	PA	PA	FA	FA	FA	FA	FA	FA
LV	FA	FA	FA	PA	FA	FA	FA	FA	FA
MT	PA	PA	FA	PA	FA	FA	FA	FA	FA
NL	FA	FA	FA	FA	FA	FA	FA	PA	FA
NO	PA	PA	FA	FA	FA	FA	FA	FA	FA
PL	FA	FA	FA	FA	FA	FA	FA	FA	FA
PT	FA	FA	FA	FA	FA	FA	FA	FA	FA
RO	FA	FA	NP	FA	FA	FA	FA	FA	FA
SE	FA	FA	PA	PA	FA	FA	FA	FA	PA
SI	FA	FA	FA	PA	FA	FA	FA	FA	FA
SK	PA	PA	PA	PA	FA	PA	PA	PA	PA

Key: green: fully applied (FA); yellow: partially applied (PA); orange: intend to apply (NP); red: not applied (NO); pink: not applicable (N/A); white: non-contributing (NC)

23. Compared to the self-assessment responses, the following notable changes have been introduced by the PRC based on the review of all available information:

- a. EL has been upgraded from 'not applied' to 'intend to apply' in the response to Question 3 of the prudential SAQ. The PRC was of the view that the CA was planning to incorporate provisions of the Guidelines into its SREP methodology after the ECB-SSM updates its own SREP manual for the less significant institutions;
- b. LT has been downgraded from 'fully applied' to 'partially applied' in Questions 3 and 4 of the prudential SAQ. The PRC concluded that the Guidelines are not fully incorporated in the SREP methodology and manuals or similar for on-site

examination as the Guidelines were only incorporated as practice for credit institutions (credit institutions are required to follow the Guidelines) rather than for supervisors as there was no clear evidence on how the supervisory part of the Guidelines is included in the supervisory evaluation process;

- c. SK has been downgraded from 'fully applied' to 'partially applied' in their response to Question 26 of the prudential SAQ. The PRC has concluded that as the CA has not requested credit institutions under their direct supervision to prepare NPE strategies, there is no formal supervisory review of NPE management strategies, but only NPE management practices are being assessed by the supervisors. To this end, there is no assessment of forward-looking aspects (e.g. NPE reduction targets, etc.) for 'high NPL credit institutions'. It was also clarified by the SK authorities that the volume of NPE above the 5% threshold is immaterial (less than 0.1% of the overall loan portfolio) in SK and is concentrated to a limited number of less significant institutions. The NPE strategy submission and assessment will be provided within the SREP 2022 cycle.

## 2.2 Overall summary of the peer review

### 2.2.1 Prudential supervision

24. Based on the outcomes of the assessment of the CAs' responses to the SAQ and additional information provided in relation to benchmark questions, and other questions that are discussed in sections below, the PRC concludes that despite some delays in the implementation of the Guidelines by a small number of CAs primarily in relation to the application to smaller and less complex institutions and national specificities, the Guidelines have been largely implemented by the CAs and applied in their supervisory practices. Most CAs have fully applied the Guidelines in their jurisdictions, with the requirements provided in the Guidelines also being incorporated in both SREP methodologies/manuals and in supervisory documents and tools for on-site examinations.

25. The approach to the supervision of NPE management by the institutions across the EU can be described as risk-based, where the rigour and comprehensiveness of the supervisory review of NPE management correlates with the magnitude of the NPE level in the jurisdiction or institutions. Supervisory resources allocated to these tasks by the CAs directly correlates with the magnitude of the NPE level in a given jurisdiction or individual credit institutions.

26. The PRC also notes that the authorities from jurisdictions with a higher NPE level and involved in the supervision of a large share of institutions with elevated NPE levels, have implemented more sophisticated supervisory processes for NPE supervision. They are more engaged with credit institutions under their supervision of NPE management topics compared to the authorities from jurisdictions with lower NPE levels. Nevertheless, the PRC has found evidence that all CAs, including those from the jurisdiction with low NPE levels, factor aspects of NPE management into their ongoing credit-risk supervisory activities, sometimes on a thematic or

horizontal basis. The PRC also noted that some CAs have launched thematic reviews or on-site examinations of NPE management in 2021 with the outcomes of these exercises being available after the cut-off date for this peer review and are therefore not reflected in the analysis.

27. On this basis, the PRC has not identified any significant issues on the implementation of the Guidelines by the CAs and their supervisory approaches towards supervision of NPE management.
28. Looking at more specific aspects, the PRC notes that with some minor exceptions, most of the CAs have been requesting credit institutions with elevated NPE levels ('high NPL credit institutions') to draw and put in place NPE management strategies in line with the requirements stipulated in the Guidelines. In the assessment, the PRC observed only two authorities responsible for supervision of credit institutions exceeding the 5% NPL ratio threshold that followed a different approach, where one authority did not require such credit institutions to put a NPE management strategy in place, although it noted that the submission and assessment of NPE strategies was planned for the SREP 2022 cycle. Another authority while indicating that some such institutions do have NPE strategies, they did not require their submission for review by the CA. However, in both cases, the PRC established that supervisors have assessed NPE management practices in those institutions.
29. Most CAs have reviewed NPE strategies, regularly monitored them and actively intervened in cases of deficiencies by requesting additional information or resubmissions. The main challenges in the implementation of the strategies are related to COVID-19 and economic uncertainties, NPE and UTP recognition and capital implications of the clean-up of credit institutions' balance sheet.
30. All CAs have reviewed credit institutions NPE management practices in the last 2 years although the scope and intensity of the reviews has varied significantly among the jurisdictions (ranging from broad thematic horizontal reviews to in-depth institution-specific on-site examinations). As part of the assessment of NPE management practices, most of the CAs also assessed the implementation of forbearance measures.
31. Despite the COVID-19 pandemic, most CAs also performed on-site examinations of NPE management and NPE-related practices as part of credit risk assessment, although the scope varies among the countries depending on the NPE level and the size and complexity of the institutions.
32. In response to the COVID-19 pandemic and growing concerns over potential impacts on the quality of credit portfolios and NPE levels, the CAs enhanced credit-risk monitoring from the beginning of the pandemic by means of intensification of the supervisory dialogue with institutions and more frequent and ad hoc reporting (for some CAs the PRC noted daily interaction with the most affected credit institutions in the first months of the pandemic). Additionally, several CAs have performed targeted reviews to assess institutions' preparedness for dealing with increased post-COVID-19 NPE inflows, although the CAs in most of the

jurisdictions reported that there are no signals yet of a high growth of NPE, among others, because of the prolonged effects of the established public support measures. It should also be noted that credit institutions on average entered into the COVID-19 pandemic with a relatively good quality of their credit portfolios and have been more prepared compared to previous crises.

33. Most CAs have carried out specific sensitivity/quantitative analyses or similar assessments to understand the potential impact of post-COVID-19 NPE increases. Approaches vary among the countries, the most common being stress test and quantitative analysis using the monthly regulatory COVID-19 reports or other ad hoc reporting. Furthermore, most CAs have identified the most-affected economic sectors which are likely to face increases in a post-COVID-19 NPE, and are following the credit risk developments in those sectors more closely.

### **2.2.2 Consumer protection supervision**

34. Although in most jurisdictions there are no explicit references made to the national implementation of the Guidelines in the respective national consumer protection legislation, the practical implementation and application of the consumer protection provisions provided in the Guidelines is widely spread among the authorities, and in several cases were put in place ahead of the publication of the Guidelines (in such cases focusing more on arrears-management).

35. The PRC has identified that most CAs either fully, partially or plan in the near future to follow consumer protection obligations when resolving NPE. However, many have noted that they do not address the NPE management matter per se, but as part of a specific focus on arrears management or work with over-indebted borrowers, which is closer to the topics with which consumer protection authorities are dealing. To this end, a large majority of CAs have not conducted reviews on NPE management from a consumer protection perspective and only a few CAs plan to do it from 2022.

36. The PRC notes the responsibilities for complaints are differently allocated across MS and that where prudential supervisors are not responsible in this area, often no supervisory action has followed. For those with remit over this area, the majority generally assess a sample of types of complaints mostly prioritised by their frequency and risk.

### **2.2.3 Cooperation between prudential and consumer protection authorities**

37. In general, the degree of interaction between prudential and consumer protection functions within the same authorities or between the authorities is naturally more intense within the integrated authorities. However, the cooperation arrangements are not necessarily NPE- or forbearance-specific. Instead, such authorities have regular cooperation arrangements and communication channels between the two functions that enable sharing information of mutual interest on any relevant developments that may also include NPE- and forbearance-related topics.

38. A similar approach to utilising general communication channels rather than having any NPE- or forbearance-specific exchanges can also be observed for non-integrated authorities. Although less intense as in the case of integrated authorities and more on an ad hoc basis, most of the non-integrated authorities stressed that if they do not see any obstacles in sharing information or setting up NPE-related or forbearance-related dialogues between prudential and consumer protection authorities should the findings from their supervisory activities necessitate so. Although there has been no such experience/precedent to date, CAs note that they may share findings from their supervisory activities should they consider them of relevance for other authorities (e.g. systematic issues identified in the course of handling consumer complaints) or seek advice from their counterparts.

## 2.3 Observations of good practices for prudential and consumer protection authorities

39. When setting the requirements for credit institutions to develop NPE strategies and in particular defining thresholds to identify credit institutions that should put in place NPE management strategies, in addition to the criteria and thresholds set in the Guidelines (5% gross NPL ratio threshold), some CAs included additional metrics. In particular, some CAs, in addition to the 5% gross NPL ratio threshold as identified in the Guidelines, applied the amended NPL ratio threshold excluding cash balances held with central banks from the calculation of the ratio, thus being more conservative.

40. Some CAs have developed supervisory tools and standardised templates to help with the assessment and monitoring of NPE strategies put forward by the credit institutions. The use of such templates helps supervisors to ensure that NPE strategies have all the necessary aspects specified in the Guidelines, and allows the supervisors to track the development of the strategies over time, benchmark them across institutions (perform a horizontal analysis) and monitor the implementation. To this end, the templates for NPE strategies have been seen as a practical and useful tool complementing the Guidelines.

41. While not explicitly required by the Guidelines, in the assessment of NPE management practices in addition to supervisory sources of information (e.g. input from on-site examinations, supervisory reporting, credit registers (and similar), NPE strategies templates received from the credit institutions etc.), some CAs also used input from various third parties like external auditors who were tasked with incorporating NPE management aspects into their reports.

42. Regarding the best practices adopted, most CAs adopted at minimum the criteria of the Guidelines in order to require institutions to develop NPE strategies. Additional criteria, requested to focus on specific national topics, have helped CAs in the monitoring of NPE strategies.

43. In relation to preparedness for COVID-19 increases in distressed credit, CAs should continue to focus their efforts on encouraging credit institutions' preparedness for the rolling out of public-support measures. While many CAs advised that a good level of preparedness was observed, in

some jurisdictions no credit institutions had undertaken any work on this issue. While the impact of the COVID-19 pandemic may be more muted than originally planned, it remains imperative that credit institutions factor in a potential rise in distressed credit into their credit-risk management.

44. The peer review also included understanding what lessons prudential authorities could learn from the enhanced supervisory tools applied in COVID-19-related work to enhance their supervisory approaches to NPE and in general, more credit risk management supervisions. In this regard the PRC has the following observations:

- a. focus more on loan origination practices and the assessment of the credit portfolio diversification in line with the [EBA Guidelines on Loan origination and monitoring](#);
- b. strengthen cooperation between authorities and coordination of their actions at national and EU level;
- c. move more towards a data-driven model and exploit new sources of granular and microprudential data for supervisory and monitoring (e.g. AnaCredit data) in cooperation with macroprudential functions;
- d. be more versed in sector-specific analyses, as the COVID-19 crisis was linked to some sectors and therefore some specific analyses should be done more to understand the overall problems and trends in the credit portfolio.

45. For the interaction between the prudential and consumer protection authorities/functions, the PRC has identified the following examples of good practices of information exchange and cooperation in the field of supervision of NPE and forbearance management:

- a. Having formal regular meetings (e.g. internal committees) involving representatives of prudential and consumer protection functions within the integrated authorities, where planning and scoping of supervisory activities is discussed and coordinated (e.g. coordination of the supervisory examination programme). In some authorities, such formal structures/committees in addition to planning of the supervisory activities also focused on discussing key findings from the supervisory activities, including on-site examinations. Some authorities have introduced different levels to such communication/coordination forums with, for example, quarterly or monthly meetings at the level of senior managements supplemented by more frequent (e.g. weekly operational management meetings, where both prudential and consumer protection topics, including findings from the supervisory activities, are discussed.
- b. Some integrated authorities have conducted joint supervisory activities covering prudential and consumer protection aspects in relation to NPE and forbearance management. One particular example of such activities includes joint thematic review of NPE sales. Another example of joint activities is the establishment of joint multi-functionary topical groups, e.g. Distressed Debt Working Group.

- c. Establishing a procedure and regular practice for informing prudential supervisors, if consumer protection supervisors identify through the assessment of consumer complaints or other supervisory activities, common/systemic issues or patterns of internal governance practices of particular institutions or groups of institutions.
- d. Some authorities have formalised their cooperation and coordination arrangements in a form of a Memorandum of Understanding (MoU). One such MoU sets out the procedures to be followed for collaboration and coordination of the two prudential and consumer protection functions on the following issues: regulation and methodologies; ongoing activities (information and document exchanges between functions, periodic meetings between the functions and between operational structures); inspection activity; IT and logistics support (databases, statistical processing, IT procedures); external relations (e.g. relations with judicial authorities, investigative bodies and other authorities); management of corporate and private complaints).

## 2.4 PRC recommendations

46. Considering the outcomes of the overall assessment and the observations of good supervisory practices, the PRC makes several recommendations addressed to the CAs and the EBA that are driven by the good supervisory practices observed.

### 2.4.1 Recommendations to CAs

47. CAs should continue to focus their supervisory efforts on timely risk classification and institutions' implementation of the prudential requirements with respect to UTP classification. This topic could be incorporated into the supervisory dialogue with the institutions in the area of prudential risk classification/credit risk management.

48. The PRC recommends that CAs as part of their supervision of NPE management and credit-risk management practices pay specific attention to the assessment of the adequacy of the operational capabilities, including management oversight, human resources and data infrastructure, for dealing with potential NPE increases.

49. The PRC recommends that the integrated authorities with prudential and consumer protection responsibilities set out forums for regular exchange of information and coordination of supervisory activities, including a supervisory examination programme. Where such forums already exist, authorities are recommended to ensure that these forums handle not only planning of the supervisory activities, but discuss key findings/observations from such activities, in particular in the areas of potentially mutual interest.

50. It is recommended that non-integrated authorities set out formalised cooperation arrangements (e.g. a MoU) outlining a procedure for sharing key findings from the supervisory activities that may be of mutual interest for prudential and consumer protection authorities.

51. Considering the operational challenges the PRC has faced in identifying CAs in some jurisdictions that are responsible for consumer protection aspects of NPE supervision, the PRC recommends that the CA from the jurisdictions where responsibilities for the implementation of different aspects of the Guidelines are split between several authorities, e.g. in the area of the supervision of consumer protection, ensures that all such authorities notify the EBA in the 'comply or explain' procedure. In their notification, authorities should also explain the implementation/application of which provisions of the Guidelines or recommendation for which they are responsible.

#### **2.4.2 Recommendations to the EBA**

52. It is recommended that the EBA, as part of its future review of *Guidelines on management of non-performing and forborne exposures*, consider the following<sup>2</sup>:

- a. reviewing the definition of NPL ratio used in a threshold to determine the need for institutions to develop NPE strategies and align the ratio and the threshold with the approach used in supervisory reporting and Pillar 3 disclosures and in practice by a number of CAs;
- b. including examples of practical tools to help supervisors with the assessment and monitoring of NPE management strategies building on the experience of CAs from using similar tools and their proportionate application;
- c. including specific provisions and examples of the areas for the information exchange and cooperation between prudential and consumer protection authorities/functions in the field of supervision of NPE and forbearance management by institutions. These provisions should reflect examples of good practices identified in this report.

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<sup>2</sup> These specific areas are in addition to the updates related to ensuring consistency of the Guidelines with other related legislation, and, in particular, revised EBA Guidelines on common procedures and methodologies for SREP.

## 3. Assessment of practices of competent authorities

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53. This section provides a detailed overview and a PRC analysis of the CAs responses to the prudential and consumer protection parts of the SAQ. The analysis follows the structure of the SAQ which is organised into the following main blocks (1) implementation of the Guidelines by the CAs; (2) supervisory practices in NPE management differentiating between the practices of prudential and consumer protection authorities and (3) interaction between prudential and consumer protection authorities.

54. Furthermore, this section provides a snapshot into the NPE management frameworks implemented in MS and COVID-19-related activities of the CAs in the field of NPE supervision.

### 3.1 Implementation of the EBA Guidelines on management of non-performing and forborne exposures

#### 3.1.1 Implementation by prudential CAs

55. In response to Question 1 of the prudential SAQ, 26 CAs considered that they ‘fully applied’ the Guidelines in their jurisdiction, while 5 CAs ‘partially applied’ the Guidelines in their jurisdiction.

56. Of the five CAs that responded that they ‘partially apply’, some CAs explained that this was due to different approaches adopted, also justified by national specificities. The most common approaches adopted by CAs are ‘Integrated within a non-binding regulatory framework’, ‘Communication to the institutions or publicly that the Guidelines are considered as coming under the framework of the SREP’ and ‘Alternative forms of implementation’.

57. Regarding the comments, one CA stated that while the Guidelines are not legally binding, they are aligned with existing implemented national binding regulation and have a clear legal status which follows the ‘comply or explain’ principle. One CA mentioned that the Guidelines are applied only for significant institutions and not for LSIs. Finally, one CA stated that its document on NPL is fully aligned with the Guidelines, but also considers the differences between the two.

58. The PRC followed up with 4 CAs on the response to this question in order to clarify the grounds for the answer. One CA, after a first request for information, decided to resubmit their responses to SAQ, where, among others, a new reply for this question has been addressed. In the new text, the CA provided additional details and also a reference to a public document declaring full alignment with the Guidelines, notwithstanding some differences. According to the CA, these differences are justified by more detailed provisions in comparison with the Guidelines. Therefore, from a practical perspective, supervisors continue to apply only the CA’s document

in their supervisory activity, but when offering support to credit institutions, both the Guidelines and the additional details are mentioned.

59. In terms of practices adopted for the implementation of the Guidelines and tools used, CAs have applied a mix of approaches. In particular: 14 (12 'yes-fully' and 2 'yes-partially') have applied the Guidelines through 'Integrated within a non-binding regulatory framework'; 13 (11 'yes-fully' and two 'yes-partially') have applied the Guidelines through 'Communication to the institutions or publicly that the Guidelines are considered as coming under the framework of the SREP'; 10 (9 'yes-fully', 1 'yes-partially') used 'Integrated within a binding regulatory framework' as an implementation tool.
60. The PRC also looked at whether the CAs have incorporated the Guidelines into SREP methodologies (Question 3 of the prudential SAQ) that is specified in Section 10 of the Guidelines. Moreover, reference to SREP methodologies has been incorporated in the legal basis and application paragraph in the background. In this regard, 25 CAs considered that they 'yes-fully' apply them, 4 CAs 'yes-partially', 2 CAs 'not yet, but plan to apply'.
61. Some of the 6 CAs that answered 'yes-partially' explained that this was due to a partial application of the Guidelines into national SREP methodology. In particular, according to the replies, even if it is common that the SSM-participating CAs have aligned their SREP methodology to ECB supervisory manuals for LSIs, they have applied dedicated parts of the Guidelines into the SREP methodology, like for example the sections on governance.
62. In terms of issues, for those CAs that replied 'yes-partially', the alignment of the Guidelines to their SREP manual seems linked to the alignment towards ECB LSI SREP manual.
63. Question 4 of the prudential SAQ asks CAs whether they have incorporated the Guidelines into their Supervisory manuals of tools for on-site examinations. As a general overview, based on the responses provided, 24 CAs considered that they 'yes-fully' apply them, five CAs 'yes-partially', two CAs 'not yet, but planning'.
64. Of the CAs answering 'partially applied', they explained that it was due to a non-explicit reference or cross-reference to the Guidelines, as well as the SSM manual for on-site inspections and to all relevant regulations. Of the 3 CAs answering 'not yet, but planning', they explained that it was due to missing formalisation in the supervisory manual about the tools for checking how credit institutions are applying the Guidelines, but also to some lack of experience in the dialogue with the institutions. For the CA that answered 'no', it was explained that this is due to the fact that they rely directly on the SSM on-site inspection guidance for the purposes of LSI on-site work.
65. Regarding the comments, some CAs indicated that the Guidelines are incorporated into on-site supervisory manuals, considering them an additional layer of guidance. One CA explained that the Guidelines are incorporated in practice (credit institutions are required to follow the Guidelines), but not in the methodology as a document.

66. A set of questions (Questions 5 and 6 of the prudential SAQ) is focused on the approach used by CAs in the (i) assessment of compliance of institutions with the Guidelines if there is divergence of implementation by credit institutions and the development of the consequent supervisory dialogue; and (ii) the use of inputs from third parties in the supervisory assessment.

67. In the event of non-compliance with the Guidelines, most CAs commonly intervene in the manner deemed more appropriate based on the severity of the deficiency (e.g. meetings, launch of on-site inspections, formal recommendation/requests). The degree of compliance with the Guidelines is reflected in the SREP assessments. Generally, based on the findings, a supervisory dialogue is established, ranging from recommendations to requirements.

68. In addition, they have used other methods such as on-site examinations, 'deep dives' and the use of input from third parties. For this last tool, 14 CAs did not use it, while for 13 CAs, they partially used it and, in this case, the most common practice is to contact the auditors. Two CAs fully used third-party inputs, while 2 CAs were planning to use it for the assessment of the institutions' compliance with the Guidelines.

69. In Question 6 of the prudential SAQ, some of the 13 CAs that answered 'yes-partially' explained that this is based on the interaction between internal and external auditors and ordinary supervisory activity for the assessment of NPE strategies and NPL management.

#### a. Requirements for NPE strategies and NPE management

70. Section 4 of the Guidelines provides requirements for the credit institutions on developing and implementing NPE strategies. Section 10, in particular paragraphs 235 and 240 of the Guidelines, provide instructions to CAs for the assessment of NPE strategies within the SREP.

71. Question 12 of the prudential SAQ asks CAs whether they have adopted additional criteria, beyond those set out in the Guidelines, in order to require institutions to develop NPE strategies.

72. In response, 4 CAs considered that they 'yes -fully' apply, 4 CAs indicated 'yes -partially', while 23 CAs answered 'no'. Of the 4 CAs that informed they partially applied, some CAs explained that this was due to assessment based on the level of NPL ratios, also noting that in practice they are using not only the gross NPL ratio as provided in the Guidelines, but a more conservative interpretation of the ratio disregarding cash balances held at central banks from the calculation of the ratio.

73. For flexibility around 5% of NPL ratio, for the 8 CAs that did not reply 'no', some credit institutions adopted indicators according to national specificities (for example, the inclusion of foreclosed assets, the exclusion of NPE specialised business), but also specifications in terms of NPL buckets, coverage ratio and NPL inflows.

74. For differentiation between types of institutions, most CAs do not differentiate according to institution type. Another 2 CAs differentiate by proportionality and depending on the business model of the credit institutions.

75. For the proportionate approach on the type and nature of portfolio, only 2 CAs use a proportionate approach and consider the type of portfolio (type of exposure portfolio in NPE).

76. Most CAs (23 out of 31) have not defined any additional criteria for requiring institutions to develop NPE strategies, beyond those already specified in the Guidelines.

#### b. Requirements for forbearance management

77. Section 6 of the Guidelines provides guidance to credit institutions in relation to the granting of forbearance measures. The Guidelines require that credit institutions consider using a broad range of forbearance measures including both short- and long-term options. Credit institutions should also assess the viability of forbearance measures and monitor the quality of measures to ensure that they are not used to delay an assessment that the exposure is uncollectable. Credit institutions must have adequate policies and processes in place with a range of sustainable and effective solutions for the borrower when granting forbearance.

78. Section 7 of the Guidelines also prescribes requirements with respect to forbearance in the context of NPE recognition. Credit institutions are required to identify signs of possible future financial difficulties at an early stage. Exposures should be classified as forborne where borrowers are identified as experiencing financial difficulties. The Guidelines give additional guidance on the classification of forborne exposures as non-performing, in line with the requirements of the CRR. The Guidelines also provide additional guidance on reclassification of exposures as performing in relation to cure/exit requirements. Finally, it also includes details in relation to the identification of exposures as performing forborne exposures.

79. Against this backdrop, Question 13 of the prudential SAQ asks CAs whether they have set out specific requirements for forbearance from a prudential perspective, in addition to the requirements set down within the CRR and the Guidelines. Based on the responses provided, no CAs have set down requirements in relation to forbearance from a prudential perspective. Some CAs noted that they had issued guidance in relation to forbearance requirements in the context of COVID-19, specifically in relation to the treatment of payment moratoria. However, such guidance built upon the existing guidance contained within the [EBA Guidelines on legislative and non-legislative moratoria](#).

#### 3.1.2 Implementation by consumer protection CAs

80. While the Guidelines are not formally addressed to the consumer protection CAs as they have been developed mostly from the prudential perspective, the Guidelines contain references to the consumer protection obligations in sectoral legislation like the MCD and CCD and the [EBA Guidelines on arrears and foreclosure](#) that need to be respected by the credit institutions in their NPE management and forbearance-granting activities.

81. In particular, pursuant to Section 4.2.2 of the Guidelines, the impact of consumer protection issues on legal decisions when listing the external factors should be taken into account by credit institutions when setting the NPE strategy includes.

82. In accordance with Section 5.4.3 of the Guidelines, the main objective of forbearance measures should be the return of the borrower to a sustainable performing repayment status, taking into account the amount due and minimising expected losses. These objectives should take into account the importance of ensuring the fair treatment of consumers and compliance with any consumer protection requirements that may be applicable.
83. Pursuant to Section 6 of the Guidelines, when deciding on which steps or forbearance measures to take, credit institutions should take into account the interests of consumers and comply with consumer protection requirements, including those set out in Article 28 of Directive 2014/17/EU and in the [EBA Guidelines on arrears and foreclosure](#).
84. In response to Question 1 of the consumer protection SAQ on the approach taken by the CAs to the implementation of the relevant provisions of the Guidelines, 4 CAs noted that relevant consumer protection provisions were identified and referenced in the implementation of the Guidelines in the national regulatory and/or supervisory frameworks and that there are references to the Guidelines added in said frameworks. One CA noted that relevant consumer protection provisions are incorporated into their supervisory practices in the course of its general supervisory mandate and another one noted that they are considering this possibility.
85. Seventeen CAs indicated that concerning the implementation of the Guidelines, there are no explicit references made to consumer protection and that there are no references to the Guidelines added in the consumer protection legislation. One CA explained that no explicit reference to consumer protection was included because the authority is responsible for the protection of consumers as a whole in the field of financial services, and its main responsibility in this area is to pursue irregularities mainly via analysis of consumer complaints as part of general market conduct supervision.
86. Furthermore, 1 CA noted the Guidelines have not yet been implemented, but that it remains a top priority for them. Another CA noted that the consumer credit directive is implemented in its national law, but that the MCD will only be implemented in its law in 2022 and that therefore any references to the Guidelines regarding the MCD is for this reason not yet in place. Eight CAs did not provide a response.
87. Question 2 of the consumer protection SAQ focused on the approach of CAs to the implementation of the relevant consumer protection aspects of the Guidelines in their supervisory practices.
88. CAs provided a wide range of responses including the incorporation of the Guidelines into their supervisory practices via an audit manual, on-site and off-site inspections. For the specific issue of creditworthiness assessment from a consumer protection perspective, in 2019, 1 CA carried out a specific on-site thematic review, publication of the Guidelines on the CA's website with a statement indicating that the CA expects credit institutions to comply with them; incorporation of the Guidelines into the national supervisory practices through amendments to a CRD notice issued by the CA and to the framework of credit institutions' internal control report; and

integration of the Guidelines within a binding regulatory framework. This CA further noted that they conduct a risk-based supervision based on inquiries from consumers.

89. Several CAs noted that the specific provision on consumer protection referred to in the Guidelines already existed in their national legislation or that their national framework already contained requirements considered as having a binary nature or as conduct-of-business rules (e.g. assessment of repayment capacity, provision of appropriate and viable long-term solutions).

90. One CA noted that the relevant consumer protection aspects are considered when analysing consumer complaints or initiating surveys. Two CAs explained that the required consumer protection aspects of the Guidelines (e.g. fair treatment of consumers) fall under monitoring under continuous consumer protection supervision in their jurisdictions. One CA noted that they had established a licensing procedure for consumer creditors and debt-recovery service providers.

## 3.2 Supervisory practices of prudential CAs

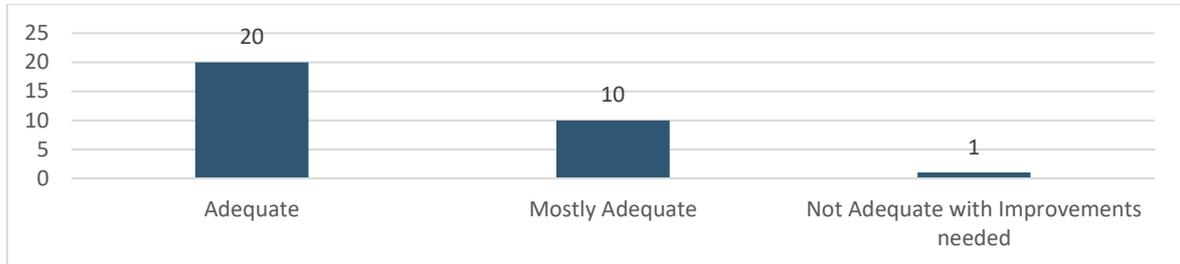
### 3.2.1 Supervisory resources allocated to NPE supervision

91. A set of questions (Questions 7, 8, 10 and 11 of the prudential SAQ) asked the CAs to assess their resource allocation (number of full-time equivalent (FTE) staff and time allocated) to NPE management, and to understand the roles performed by such staff and their interactions with other staff within the CA. Further, a question was asked on the dedicated staff's NPE expertise.

92. Most CAs advised that their banking supervisory staff are experienced in reviewing credit risk, and that NPE management is incorporated into their supervisors' regular credit-risk work. Most CAs divided their supervisory staff among those who go on-site and those who work off-site. Fifteen CAs advised that they have supervisory experts and/or teams dedicated to supervision of NPE management. For example, 3 CAs advised that they have a dedicated NPE Project Team who deals with specific projects or horizontal analysis on NPLs, from different supervisory units/departments (macroprudential supervision, regulation, methodologies, line supervision).

93. Twenty CAs considered that their supervisory resources allocated to NPE management as adequate considering potential post-COVID-19 NPE increases (see figure below); 10 CAs considered their supervisory resources as allocated to NPE management as mostly adequate whereas 1 CA viewed their resource levels as inadequate and viewed that it needed 2 to 3 more FTEs with credit-risk expertise. The breakdown of responses provided by CAs is indicated in the figure below.

Figure 5. Breakdown of responses for Question 11 (allocation of supervisory resources to NPE considering COVID-19)

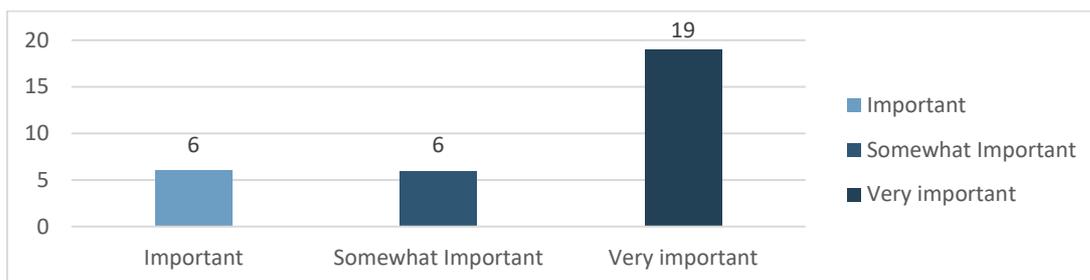


### 3.2.2 Prioritisation of NPE management

94. With respect to the prioritisation of NPE management in a risk-based supervisory model, 22 CAs considered the supervision of NPE management a high priority; 9 CAs considered it a medium priority and no CAs considered it a low priority. Most of the CAs that see supervision of NPE management as medium priority advised that in their jurisdiction there is currently a low NPE level.

95. The peer review assessed how CAs viewed the importance of the supervision of NPE management in their jurisdiction considering a risk-based approach to allocation of supervisory resources as either 'very important', 'important' or 'somewhat important' (see figure below).

Figure 6. Breakdown of responses for Question 9 (importance of NPE management considering risk-based approach)



96. Nineteen CAs stated that the supervision of NPE management considering a risk-based approach to allocation of supervisory resources as 'very important', whereas 6 CAs considered this as 'important', and 6 CAs considered this as 'somewhat important'. The most common reason mentioned for the NPE management issue being considered 'important' or 'somewhat important' is low levels of NPL in credit institutions in the MS in general.

### 3.2.3 Supervisory assessment of NPE strategies

97. Two questions of the prudential SAQ (18 and 19) asked the CAs to assess if the MS have reviewed NPE strategies in the last 2 years (covering the period June 2019 to June 2021) and if they have

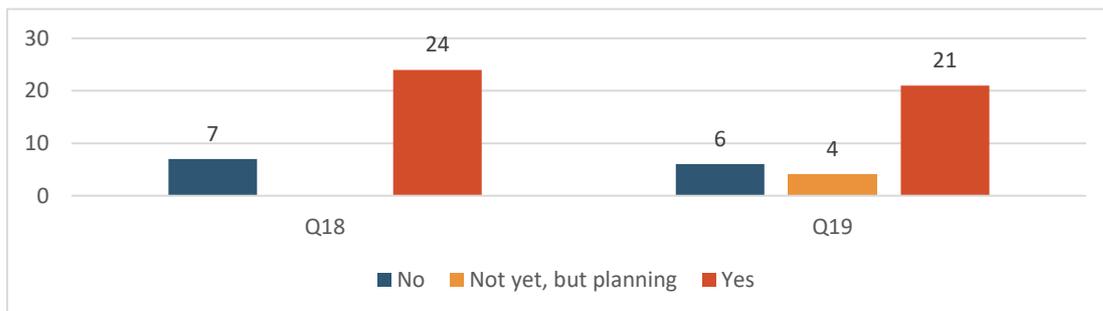
performed their regular monitoring and implementation. In particular, questions also focused on the supervisory agreement with or requesting changes to strategies, also in light of paragraph 235 of the Guidelines, on the identification of deficiencies, resubmission requests and challenges in implementation.

98. Most CAs confirmed that they have reviewed NPE strategies proposed by credit institutions in the last 2 years. For those CAs that have not reviewed strategies, they stated that their jurisdictions have experienced low NPL ratios or that only some parts (UTP, forbearance) have been assessed in detail. Other reviews of NPE strategies were conducted before 2019 as the institutions submitted their strategies in that period, and the subsequent assessment is done on a case-by-case basis supported by a horizontal analysis and benchmarking (see figure below).

99. In 2020, 1 CA did not review NPE strategies because it prioritised COVID-19 matters. Most CAs stated that they agreed or requested changes to strategy with revisions or a resubmission to be done by credit institutions. One CA stated that the assessment of NPE strategies is under current review and not yet finalised.

100. The main challenges identified for the implementation of NPE strategies by institutions are the economic and financial situation resulting from the COVID-19 pandemic, recognition of non-performance due to UTP criteria, proper recognition of impairment adjustments and the cost to capital associated with the clean-up of the credit institutions' balance sheet.

Figure 7. Breakdown of responses for Question 18 (revision of NPE strategies proposed by credit institutions in last 2 years) and Question 19 (regular monitoring of the implementation of the NPE strategies submitted by credit institutions)



101. Based on the above findings, it may be concluded that most CAs have reviewed NPE strategies, they regularly monitor them and actively intervene if there are deficiencies by requesting additional information or resubmissions. The main challenges in the implementation of the strategies are related to COVID-19 and economic uncertainties, NPE and UTP recognition, and the capital impact when implementing the clean-up of credit institutions' balance sheet.

### 3.2.4 Supervisory assessment of NPE management practices

102. Question 20 of the prudential SAQ asks CAs whether they had reviewed NPE management practices in the last 2 years. Further detail of the scope of management practices is included in questions 21 to 27.
103. All CAs except 1 reported that they have reviewed credit institutions' NPE management practices in the last 2 years. However, the CA that replied 'no' commented that some parts (UTP, forbearance) had been assessed in detail.
104. One CA informed that the reviews commenced in 2021 and the results were not available by the cut-off date of the peer review and another CA noted that formal reviews had not taken place, although a part of an on-site project inquired about the credit institutions' progress in establishing NPE strategies.
105. One CA advised that aside from regular on-site visits, an external audit under the banking law is performed annually and the supervisor has the power to define specific audit fields on a risk-approach basis. Due to its importance, on an annual basis different parts of credit institutions' credit risk management practices are assessed.
106. Based on the above findings, it may be concluded that all CAs had reviewed credit institutions NPE management practices in last 2 years although the scope and intensity of the reviews varies among the countries.
107. Section 10, paragraph 240, of the Guidelines provides to CAs a list of important topics in NPE management (e.g. operational plan and organisational arrangements, NPE strategies, capital plan and performance appraisal system) that should be assessed thoroughly in the common SREP assessment.
108. To this end, in Question 21 of the prudential SAQ, the PRC focused on whether the CAs have applied these criteria and challenged credit institutions as to how they have satisfied the criteria set out in paragraph 240. In response, 19 CAs considered that they 'fully apply' this section, while 9 CAs indicated they 'partially apply' it and 3 CAs indicated 'not yet but planned to apply' it.
109. Of the 9 CAs that informed they 'partially applied' it, for 1 CA, no formal submission of NPE strategies has been deemed necessary. However, when NPE management processes, strategies and frameworks do not seem to be in line with the supervisory expectations, the matter is given a higher priority in the supervisory dialogue. The other 7 CAs have indicated that not all aspects of paragraph 240 of the Guidelines have been considered in supervisory assessment. For example, 1 CA declared that point (b) of paragraph 240 has not been taken into account, given the low level for NPL ratio of the banking system. Another CA applied only points (a) to (c) noting that their assessment system did not consider point (d). Of the 3 CAs that informed they have yet to apply paragraph 240 of the Guidelines in practice, this was due to alignment to a new risk document or to a broader revision of the NPE strategies that goes beyond points (a) to (d).

110. Question 22 of the prudential SAQ asks CAs whether they have assessed the implementation of forbearance measures as provided in Section 10 of the Guidelines (including policies and practices). In response, 30 CAs considered that they ‘fully apply’ this section, while 1 CA indicated ‘partially apply’. The CA that ‘partially apply’ these provisions explained that this was due to a broader review of credit risk practices requested of credit institutions and to the inclusion of the forbearance assessment within overall SREP.
111. Regarding the comments, most CAs stated that the implementation of forbearance measures, including forbearance policies and practices are assessed by on/off-site examinations. One CA stated that the assessment of the implementation of forbearance measures, including forbearance policies and practices is part of the overall SREP and it is conducted with a risk-based approach and applying proportionality principles.
112. Question 23 of the prudential SAQ asks CAs whether they assess, when supervising NPE management, if the early warning mechanisms are implemented in the credit institutions’ internal procedures for the early detection and prevention of deteriorating credit quality. Based on the responses provided, 28 CAs considered that they ‘fully applied’ this section, while 3 CAs indicated ‘partially apply’.
113. Of the 3 CAs that informed they ‘partially apply’, 1 CA explained that this was due to the application of a risk-based approach and proportionality principles, and another CA indicated that in many cases the recovery planning includes indicators on NPE ratios and additionally, early warning indicators are included and monitored by the institutions and thus by the supervisors.
114. Regarding the comments, some CAs indicated that the review of the early warning mechanisms was part of ordinary credit inspections, supervisory teams’ assessments, or credit-risk thematic reviews. Another CA indicated that due to low NPL ratios in that jurisdiction, credit institutions base their effectiveness assessment on expert judgement rather than on model-based approaches.
115. The PRC followed up with 1 CA on its response to this question in order to clarify the grounds for its answer as partially applied. The CA explained that the assessment of early warning mechanisms was applied for larger institutions, and not yet performed but planning for smaller and less complex institutions.
116. In response to Question 24 of the prudential SAQ asking CAs whether they assess, when supervising NPE management, if credit institutions have in place policies and methodologies to ensure the measurement of impairments and write-offs for timely recognition of impairments and write-offs, 28 CAs considered that they ‘fully apply’ this section, while 2 CAs indicated ‘partially apply’, and one CA indicated ‘not yet but planned to apply’.
117. Of the 2 CAs that informed they ‘partially apply’, 1 CA explained that this was due to the application of a risk-based approach and proportionality principles. Another CA indicated that

formal review has not taken place however, a part of an on-site project inquired about the credit institutions progress in establishing NPE strategies.

118. Regarding the comments, some CAs indicated that the review of the policies and methodologies for impairments and write-offs is part of credit inspections, supervisory teams' assessments or credit-risk thematic reviews.
119. The PRC followed up with 1 CA on its response to this question, in order to clarify the grounds for its answer as 'not yet, but planning'. The CA explained that in most of the entities concerned by the Guidelines, the assessment of the overall strategy submitted demonstrates areas for improvements. The CA asked for an overall review of these strategies, and did not specifically link the analysis to the criteria indicated in paragraph 240 of the Guidelines, forbearance measures, and methodologies to ensure the measurement of impairments and write-offs (considering also the scope of its competence). Actions were planned to assess the responsiveness of credit institutions on these matters.
120. Question 25 of the prudential SAQ focused on whether CAs perform regular reviews of the implementation criteria for the NPE and forbearance definitions applied by credit institutions in practice. In response, 25 CAs considered that they 'fully apply' this section, while 5 CAs indicated they 'partially apply' and one CA indicated 'not yet but planned to apply'.
121. Of the 5 CAs that informed they 'partially apply', some CAs explained that this was due to the fact that the reviews are ad hoc and not regular. Another CA indicated that it was due to the application of a risk-based approach and proportionality principles. The CA that answered 'not yet, but planning' indicated that it will be reviewed as relevant going forward and necessitated also by CRR2 (the revised Capital Requirements Regulation).
122. Regarding the comments, some CAs indicated that the reviews of the implementation criteria for the NPE and forbearance definitions applied by credit institutions is part of credit inspections, supervisory teams' assessments and the SREP. One CA indicated that additionally they request loan tapes and perform IT reviews to check the automatic processes to recognise and classify NPE and forbearances, including entry and exit criteria. Other CAs indicated that the compliance is part of the annual audit report, which assesses whether the institutions meet the requirements. Some CAs indicated that they apply a risk-based approach, covering the most relevant institutions or the ones with a high NPE ratio.
123. The PRC followed up with 1 CA on its response to this question, in order to clarify the grounds for its answer as 'partially'. The CA explained that these are carried out as part of the reviews as per Question 27 (performing on-site examination of NPE management). However, that question is answered as 'no'.
124. Question 26 of the prudential SAQ asks CAs whether the findings regarding the supervisory evaluation of the management of NPE and forbearance feed into the assessment of credit risk under Title 6.2 of the Guidelines on common procedures and methodologies for the SREP, and

inform credit risk scores. Twenty-seven CAs confirmed that they ‘fully apply’ this criterion, while 4 CAs indicated they ‘partially apply’ it.

125. Of the 3 CAs that ‘partially apply’, 1 CA explained that this depends on the nature of the findings; if the findings are procedural, they are incorporated into the SREP decisions. Another CA answered that known weaknesses are always considered.

126. Regarding the comments, some CAs indicated that the findings related to the supervisory evaluation of the management of NPE and forbearance are taken into account together with all the relevant information in order to produce the credit-risk scores. Another CA indicated that it incorporates NPE and forbearance supervision findings into the SREP credit-risk score fully for larger institutions, and was being prepared for application to the smaller and less complex credit institutions.

127. The PRC followed up with 1 CA on its response to this question, in order to clarify the grounds for its answer as ‘partially’. The CA explained that NPE management and risk strategy is assessed as part of the overall assessment of the credit risk management framework and the level and provisioning of NPEs also impact the credit risk scores.

128. For performing on-site examinations in the NPE management domain, in response to Question 27 of the prudential SAQ, most CAs advised that they had performed on-site examinations of NPE management in last 2 years in the credit institutions most affected by NPE. Three CAs stated they had not performed on-site examinations covering NPE management topics in some cases explaining that due to general materiality reasons, tighter off-site supervision was considered sufficient. In general, NPE management is part of the areas reviewed during on-site inspections.

129. During the follow-up with some CAs on their responses to this question, one CA that answered negatively to Question 27 explained that due to the small size and lack of complexity of the SNCI under their supervision, on-site inspections generally covered more than one area including credit risk, therefore the area of NPE management is covered as part of this.

### 3.3 Supervisory practices of consumer protection CAs

130. Two areas explored in the peer review from the consumer protection point of view were (1) forbearance management and (2) NPE management, where the PRC looked at how supervisors are assessing whether the credit institutions meet their consumer protection obligations in these two areas noting that these requirements themselves do not come specifically from the Guidelines, but from the underlying legislation – MCD and CCD.

#### 3.3.1 Forbearance management

131. Question 3 of the consumer protection SAQ focused on understanding whether the CAs have set out any specific requirements for forbearance from a consumer protection perspective. The question was linked to Section 5.4.3. of the Guidelines that stipulates that the main

objective of forbearance measures should be the return of the borrower to a sustainable performing repayment status, taking into account the amount due and minimising expected losses. These objectives should take into account the importance of ensuring the fair treatment of consumers and compliance with any consumer protection requirements that may be applicable. When deciding on which steps or forbearance measures to take, credit institutions should take into account the interests of consumers and comply with consumer protection requirements, including those set out in Article 28 of MCD and in the EBA Guidelines on arrears and foreclosure. Article 28 requires that MS shall adopt measures to encourage creditors to exercise reasonable forbearance before foreclosure proceedings are initiated.

132. In response to this question, 10 CAs have confirmed that they have put in place additional specific requirements for forbearance from a consumer protection perspective. One other CA has advised that it has not put in place such requirements to date but will do in the future. Fifteen CAs do not have such requirements in place. One CA has incorporated the requirements of the Guidelines into national law. One CA has in place a national law on consumer credits, granting credits and services to the borrower, but has not introduced bespoke requirements on forbearance. Another CA has also put in place national requirements which specifically relate to the offering of forbearance measures in the context of foreclosure proceedings. Another CA stated that before granting any forbearance measures, credit institutions should make a thorough assessment of the consumer's financial situation, taking into account prescribed factors, with a view to return the borrower to a sustainable repayment status and minimise expected losses.
133. Among those CAs that stated they had such requirements in place, such requirements ranged from supervisory guidelines/memorandums to domestic regulatory requirements, including both consumer protection and prudential guidance to specific domestic regulation including national charters and consumer protection codes.
134. Of the CAs that do not have in place requirements for the granting of forbearance options, 1 CA indicated that it has introduced guidance for firms in relation to other aspects of the credit origination/credit granting process and mortgage lending more broadly. One CA has in place requirements with respect to debt restructuring in a general sense. Another CA has issued a legal opinion in relation to consumer protection.
135. The PRC followed up with some CAs on their responses to this question. One CA advised that they assess how credit institutions take into account their duty of care to borrowers, which goes beyond legislative requirements. These expectations are communicated publicly in the form of national guidelines. Specific provisions include guidance on the allocation of costs in the default management process, and on information flow between the credit institution and defaulted debtor. This soft law and guidance are applied through moral suasion. One CA also advised that there is a national framework for dealing with over-indebtedness. Over-indebted borrowers can approach the CA and assess their circumstances and renegotiate their credit with all creditors and get debt relief.

136. Question 4 from the consumer protection SAQ asked CAs whether they assess how credit institutions meet their consumer protection obligations when granting forbearance measures to borrowers. In response, 5 CAs advised that they carry out assessments in relation to this issue using a risk-based/complaint-based approach. Six CAs indicated that they do not carry out such assessments. Four CAs are planning to undertake work in this area in the future. Three CAs indicated that they have undertaken some supervisory engagement/review in the recent past, which includes on-site inspections. One CA indicated that they have undertaken supervisory monitoring in relation to this issue while another CA has undertaken on-site inspection work.
137. Seven CAs advised that assessments of whether credit institutions meet their consumer protection obligations formed part of their on- and off-site inspection work as well as part of their ongoing monitoring activities. In this context, one CA carried out a thematic review in 2019 while another CA carried out a review in 2020 and 2021. Also in this context, and as good practice, one CA noted that they employ a preventative approach to this issue and have established a surveillance structure to assess daily reports required from supervised institutions under the national law, complaints received from customers, queries received and information published on credit institutions' websites, and their internal procedures for applying COVID-19 measures.
138. One CA also noted that they undertake policy review exercises in the context of their work as well as desk-based reviews in the context of ongoing supervisory dialogue with institutions. Of the CAs that employ a risk-based approach, 1 CA has issued an invitation to institutions to be receptive to customers in the context of COVID-19 in relation to the execution of contracts and fair commercial practice.
139. The PRC followed up with some CAs on their responses to this question. One CA advised that next year there will be an extensive arrears management survey carried out across the consumer lending space. Another CA advised that they operate on the basis of a complaints-based system whereby complaints are made and then information is shared with another unit within the CA that decides on corrective measures. Another CA advised that they also operate based on a complaints-based review system, but that the number of complaints is very low. One CA also advised that they operate a joint supervisory committee which can meet on an ad hoc basis when needed to resolve an issue.

### **3.3.2 NPE management**

140. Section 4 of the Guidelines among other requirements set out that in the development and implementation of their NPE strategies, credit institutions should take into account relevant consumer protection considerations and requirements, and ensure fair treatment of consumers.
141. To this end, Question 5 of the consumer protection SAQ focused on how CAs assess how credit institutions meet their consumer protection obligations when developing NPE strategies. The PRC noted that 12 CAs responded saying that they do not assess how credit institutions do this when developing NPE strategies. Two CAs conduct their assessments based on consumer

complaints, while in 1 case, issues may be brought to the attention of the CA conducting it by the prudential CA. Five CAs indicated that they have not yet undertaken a supervisory review on this issue, but plan to in the future. In this context, one CA noted that as only a small number of credit institutions have reached the threshold of 5% NPL ratio and therefore the topic is not yet relevant for them. Three CAs indicated that they have undertaken some supervisory work in this area, however few details were provided to the PRC. One CA indicated that they undertake additional monitoring in this area while for 6 CAs, this issue forms part of ongoing on- and off-site supervisory engagement. In this respect, 1 CA outlined that such reviews also form part of desk-based reviews, as well as ongoing supervisory engagement with lenders.

142. Question 6 of the consumer protection SAQ focused on whether CAs assess how credit institutions meet their consumer protection obligations when resolving NPE. Based on the responses provided, 8 CAs considered that they ‘fully’ conducted the referred assessment, while 9 CAs noted they ‘partially’ did it and 6 CAs replied ‘not yet but planned to’ with some clarifying that they plan to do so in a mid-term horizon of 1 to 3 years. Seven CAs reported that they have not assessed how credit institutions meet their consumer protection obligations when resolving NPE.
143. Question 7 of the consumer protection SAQ asks whether CAs have performed reviews of NPE management in the last 2 years in the credit institutions that are most affected by NPE from a consumer protection perspective. In response, four CAs considered that they ‘fully’ performed the referred review, while 2 CAs noted they ‘partially’ did it and 6 CAs replied ‘not yet but planned to’ do it. Sixteen CAs reported that they have not conducted the referred reviews from a consumer protection perspective.
144. One of the 2 CAs that informed they ‘partially’ conduct the referred reviews from a consumer protection perspective explained that the focus of these reviews has been on considerations of loan origination rather than on NPE management. Of the 6 CAs that reported they have yet to do so, but planned to apply, 2 CAs indicated they would do so in 2022; another mentioned this would be included in their supervision annual plan; another referred to the near future and another CA mentioned there is not a planned time frame. None of the 16 CAs that did not conduct reviews from a consumer protection perspective provided any further comments/reasons for not having done so.
145. The PRC followed up with some CAs on their responses to this question. One CA specified that the reviews from a consumer protection perspective would become part of its supervision annual plan for 2022. One CA noted that from 2022 they will start supervisory work starting with the credit institutions with the highest NPE by conducting desktop reviews where requested documentation will have to be submitted to the CA and as a second step, on-site inspections will be held.
146. Furthermore, 1 CA noted that its responsibility includes raising consumer awareness as regards debt management, the supervision of services advertised by credit institutions, the enforcement of the legal provisions related to pre-contractual information that should be

provided to consumers and the provisions of the law related to early repayment of loan provisions. This CA also noted they have procedures in place to ensure that the rights of consumers are protected. As regards this CA, no additional measures are needed at this stage. Therefore, they are not currently doing reviews on NPE management from a consumer protection perspective, nor were they planned in the near future.

147. Although the Guidelines do not refer to consumer complaints, they do refer to the MCD and to the EBA Guidelines under the relevant Directive, and to the CCD. Moreover, in 2020, the EBA extended the Joint Committee [Guidelines on complaints handling \(JC 2018 35\)](#) have been extended to apply to and cover the activities of legal entities and CAs defined in the MCD and the PSD2. The above-mentioned Joint Committee Guidelines seek to: (i) clarify expectations on firms' organisation of complaints-handling; (ii) provide guidance on providing information to complainants; (iii) provide guidance on procedures for responding to complaints; (iv) harmonise the arrangements of firms for the handling of all complaints they receive; and (v) ensure that firms' arrangements for complaints-handling are subject to a minimum level of supervisory convergence across the EU.
148. Against this background, consumer complaints in the area of NPE management or forbearance, may be good indicators of malpractice at credit institutions. To this end, Question 8 of the consumer protection SAQ sought to investigate whether CAs have taken any supervisory actions as a result of consumer complaints CAs have received from consumers that are in arrears on their loans. Ten CAs considered that they 'fully' took supervisory actions as a result of consumer complaints received from consumers who are in arrears of loans, while 9 CAs noted they 'partially' did it and 9 CAs replied they did not take any supervisory action as a result of the referred consumer complaints.
149. Of the 9 CAs that informed they 'partially' took supervisory actions as a result of consumer complaints, 1 CA explained that they have a very low number of consumer complaints that relate to forbearance or consumer defaults on a loan. One CA further mentioned they were not aware of any complaints in this area, and that therefore no investigations had resulted. Another CA mentioned that they assess individual complaints. Another CA specified that they conduct on-site inspections and supervisory surveys as a result of the complaints received. None of the 9 CAs that did not conduct reviews from a consumer protection perspective provided any further comments/reasons for not having done so.
150. During the follow-up with some CAs on their responses to this question, one CA specified that in order to prioritise complaints they take into account the frequency of the complaints received on a specific matter. One CA indicated that they are not aware of any complaint from consumers in arrears of their loans, but that in their view this does not mean that there are no issues. This CA noted that the lack of complaints received may be due to the less-active nature of the consumer in this area, and that supervisory actions are thus needed and are currently being undertaken. This same CA noted that when assessing complaints, they monitor the threat, and more specifically, they use a coding of low, medium and high risk. Complaints received are used in order develop the supervision work programme for the upcoming years. One CA

indicated that as a follow-up to complaints they have three streams of potential action: recommendations; inform the consumer protection authority; and penalty.

### 3.4 Cooperation between prudential and consumer protection authorities

151. Since the topic of NPE management and its supervision is of importance both from prudential and consumer protection perspectives, and also considering that the Guidelines incorporate consumer protection obligations, the peer review covers both prudential and consumer protection authorities and looks among other things at the interaction between the two authorities (or two functions in the case of the integrated supervisors) when dealing with supervision of NPE management and forbearance practices by institutions.
152. To this end, both prudential and consumer protection authorities were asked in the SAQ similar questions: whether (1) prudential authorities discuss NPE management issues and findings from the NPE management supervision with consumer protection authorities (Question 61 in the SAQ for prudential authorities, and Question 9 in the SAQ for consumer protection authorities), and (2) consumer protection authorities discuss with prudential authorities findings related to NPE management identified in their work (Question 62 in the SAQ from prudential authorities, and Question 10 in the SAQ for consumer protection authorities).
153. In order to understand the degree of interaction between consumer protection authorities, it is important to consider that in many MS prudential and consumer protection functions are integrated into the same CA, which provides an easier basis for more smooth operational interaction between the two functions. Twenty-one out of 30 jurisdictions have prudential and consumer protection supervisory functions integrated into a single CA, whereas in 9 jurisdictions, it is split between different authorities.
154. Although the degree of interaction between prudential and consumer protection functions is naturally more intense within the integrated authorities (all 21 integrated supervisors have been assessed as having ‘fully applied’ cooperation arrangements between the two functions), there are not necessarily any NPE- or forbearance-specific cooperation arrangements between the two functions. Instead, such authorities have regular cooperation arrangements and communication channels between the two functions that allow for sharing information of mutual interest on any relevant developments that may also include NPE- and forbearance-related topics.
155. A similar approach to utilising general communication channels rather than having any NPE- or forbearance-specific exchanges can also be observed for non-integrated authorities. Although less intense and more on an ad hoc basis, most of the non-integrated authorities stressed that they do not see any obstacles in sharing information or establishing NPE-related or forbearance-related dialogues between prudential and consumer protection authorities should the findings from their supervisory activities necessitate this. Although there has been no such experience/precedent to date, CAs noted that they may share findings from their

supervisory activities should they consider them of relevance for other authorities (e.g. systematic issues identified in the course of handling consumer complaints) or seek advice from their counterparts.

### 3.5 Preparedness for dealing with potential post-COVID-19 NPE increases

156. The PRC also looked into understanding the readiness of the CAs and institutions for dealing with the potential increased NPE level in a post-COVID-19 economic environment. Accordingly, CAs were requested to provide details on Questions 28, 29 and 30 of the prudential questionnaire.

157. In response, most CAs (29 out of 31) noted that they have performed or are planning to perform focus reviews and sensitivity analysis on the COVID-19 impact on institutions. Only 2 CAs indicated that they had not carried out any focused reviews of institutions' preparedness for dealing with increased post-COVID-19 NPE inflows neither had they performed a sensitivity analysis on the COVID-19 impact, although 1 of them stated that they are planning to do so.

158. Some CAs explained that they had not carried out focus reviews on institutions' preparedness because they had regular interactions and information exchange with the institutions and there were no indications yet that an exponential growth of post-COVID-19 NPE increase would take place. Another CA advised that they focused on certain institutions, but did not carry out full coverage.

159. Approaches taken by the CAs to carry out focused reviews of institutions' preparedness for dealing with potential NPE increases post-COVID-19 NPE focusing on:

- a. understanding the operational capacity in credit institutions for dealing with COVID-19-related issues and distressed borrowers in general, and with management for forbearance (and NPE);
- b. capabilities and practices in identification and measurement of credit risk in the context of the COVID-19;
- c. detailed assessment of exposures to sectors that proved to be more vulnerable to COVID-19 impacts, including but not limited to hospitality, food and accommodation.

160. Some CAs advised they had implemented, in addition to the general COVID-19 reporting based on the dedicated EBA guidelines, more frequent and ad hoc reporting. Another CA reported that it had requested most institutions under its supervision to draft a self-assessment report on the resilience of their business models in the pandemic scenario, outlining the main measures identified to strengthen the technical situation and providing information on the expected dynamics of the main risk/capital/P&L indicators. Specific focus was dedicated to the credit profile, for which credit institutions were asked to carefully assess the loan portfolio and

the possible increase of risks, focusing on the exposures subject to moratoria and those classified as 'forborne performing' and 'stage 2' loans. Another CA commented it had requested credit institutions to report about changes in the lending standards.

161. Finally, several CAs advised that they had more frequent interaction with institutions and had strengthened the monitoring of post moratoria and public state guarantee loans, indicators of UTP and provisioning. Also, and related to the internal governance of the CAs, some CAs mentioned that they had set out central COVID-19 project teams and a more frequent report to the management body.
162. Only 3 CAs out of 31 stated that they had not carried out specific sensitivity/quantitative analyses or similar assessments to understand the potential impact of post-COVID-19 NPE increases. Also, a CA that answered 'Not yet, but planning' in the follow-up meeting clarified that they performed the annual stress-test and biannual sensitivity sectoral analyses.
163. Approaches CAs advised to carry out specific sensitivity/quantitative analyses or similar assessments to understand the potential impact of post-COVID-19 NPE increases are commented in the following paragraphs.
164. Most CAs stated that they carried out stress test exercises although the methodology differs among countries. Another common practice to quantify and monitor the potential impact of the pandemic was to perform quantitative analysis using the monthly COVID-19 reports or other ad hoc reporting to anticipate the course of credit impairment. For example, a CA mentioned it had defined and monitored early warning indicators based on broader definitions of risk that factored in the information received on exposures subject to various forms of public support measures.
165. Some CAs had performed sensitivity analysis based on credit portfolio sectors ranked by level of vulnerability to the COVID-19 crisis also leveraging the information from domestic credit registers and granular dataset from AnaCredit.
166. Since the outbreak of the pandemic, some economic sectors have suffered from particularly severe contractions in operating revenues and despite the public support, their reported NPL ratios have increased and can be a source of concern.
167. Most CAs stated they had identified the most-affected economic sectors which are likely to face increases in post-COVID-19 NPE. Only 1 CA answered 'no' and 2 CAs advised that they had not identified a clear tendency towards a specific sector although 1 of them reported that analysis was in progress.
168. Most of the CAs agreed on the economic sectors most affected by the pandemic were accommodation and food, transportation and storage, and arts, entertainment and recreation. Some CAs also clarified that within some main sectors, only some sub-sectors are in fact being affected by the crisis.

# Annex 1. Methodological aspects applicable to this peer review

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This peer review was performed by following the process outlined in Article 30 of the EBA Regulation and EBA peer review methodology, requiring first a self-assessment of the application of the relevant regulatory act to be performed by the CAs, to be followed by a review by peers.

The EBA Regulation in Article 30(3) requires EBA peer reviews to include an assessment of, but not be limited to the following aspects that have been taken into account when performing this peer review:

- a. the adequacy of resources, the degree of independence, and governance arrangements of the competent authority, with particular regard to the effective application of the legislative acts referred to in Article 1(2) and the capacity to respond to market developments;
- b. the effectiveness and the degree of convergence reached in the application of Union law and in supervisory practice, including regulatory technical standards and implementing technical standards, guidelines and recommendations adopted pursuant to Articles 10 to 16, and the extent to which the supervisory practice achieves the objectives set out in Union law;
- c. the application of best practices developed by CAs for which adoption might be of benefit to other CAs;
- d. the effectiveness and the degree of convergence reached about the enforcement of the provisions adopted in the implementation of Union law, including the administrative sanctions and other administrative measures imposed against persons responsible where those provisions have not been complied with.

In terms of scope, the peer review focuses on the review of CAs' approaches to supervision of NPE management by institutions and, in particular, aims at:

- a. obtaining an overview and understanding of the current policy framework for NPE management available in MS, including supervisory approaches to incorporating consumer protection objectives (and by doing so, also assessing the implementation of the Guidelines by the CAs);
- b. understanding and comparing the readiness of CAs for dealing with the potentially increased level of post-COVID-19 NPE (including what preparations have been made by CAs); and

- c. to the extent possible given the focus of the peer review being on the CAs, obtaining an overview and understanding of the NPE management toolkit actively pursued / preferred by most-affected institutions and their readiness for managing the potentially increased level of post-COVID-19 NPE (i.e. what preparations have been made by the institutions).

The peer review has been performed by the PRC, comprising three representatives from CAs and three EBA staff members.

## Self-assessment questionnaire and its review

The basis for the peer review assessment in accordance with the EBA peer-review methodology is a SAQ that is reviewed by the PRC. The SAQ covered a period of 2 years (June 2019 to June 2021) and does not reflect any relevant developments since the cut-off date of June 2021.

Given the prudential and the consumer protection focus of the peer review, the questionnaire is split into two parts (practically meaning two separate questionnaires in the online survey tool):

- a. The questionnaire to be completed by CAs that are competent to supervise credit institutions authorised in accordance with the CRD, to enable an assessment of the CAs' supervisory approach on the management of NPE by credit institutions from a prudential perspective;
- b. The questionnaire to be completed by the CAs that have been designated as competent to protect consumers under the MCD and CCD.

Both parts of the questionnaire that can be found in Annex 4 and 5 have been designed to reflect the different competencies of prudential and consumer protection authorities, but also have some overlapping questions (e.g. regarding the tools used for the implementation of the Guidelines, interaction and cooperation between different authorities). The rationale for the overlapping questions was to understand the approaches and any differences in such approaches used by the CA in transposing the Guidelines into the national legal frameworks, to understand whether there may be differences in the same jurisdictions in practices applied by the prudential or consumer protection authorities. Furthermore, the overlapping questions on cooperation between two types of authorities are aimed at better understanding views on the cooperation and interaction from the two different perspectives.

The PRC received responses to SAQ from prudential and consumer protection authorities from all EEA MS, with the ECB-SSM providing a response only to the prudential part of the SAQ given the lack of consumer protection responsibilities. All authorities responding to the SAQ are listed in Annex 2.

For those MS included in the SSM, national CAs were requested to provide responses in relation to their MS and credit institutions under their direct supervision (small and non-complex institutions and relevant medium-sized institutions considered less significant institutions), whereas the ECB-SSM was expected to provide responses for credit institutions under its direct supervision (large

and medium-sized credit institutions considered significant institutions). In addition, the ECB was requested to highlight any key differences between the countries, where relevant, for their answers to the question. This approach has affected the availability of information for the assessment of NPE management practices of institutions in each of the categories, with such a breakdown not being available for most of the MS (Section 5 of this Report).

For some jurisdictions where consumer protection responsibilities are split among several authorities, the PRC received responses to the consumer protection part of the SAQ from several authorities in the jurisdiction.

The results of the SAQs have been analysed and reviewed by the PRC. Where deemed necessary, the PRC has followed up with the CAs in writing seeking further clarifications and explanations. In addition to the round of follow-up written questions, the PRC has conducted interviews with 9 CAs (8 prudential and integrated CAs and one purely consumer protection CA) with a view to better understand supervisory practices.

The SAQ has included a number of 'benchmark questions' used for the assessment of the implementation of the Guidelines by the CAs. These questions were addressed only to prudential CAs (as the Guidelines did not include any specific requirements addressed to the consumer protection CAs) and included the following questions:

- a. Have you applied the Guidelines in your jurisdiction to make them binding for credit institutions? (Question 1 of the prudential SAQ.)
- b. Have you incorporated the Guidelines into your SREP methodology? (Question 3 of the prudential SAQ.)
- c. Have you incorporated the Guidelines into your supervisory manuals or similar tools for on-site examinations? (Question 4 of the prudential SAQ.)
- d. When supervising NPE management, do you challenge credit institutions as to how they have satisfied the criteria set out in paragraph 240 of the Guidelines? (Question 21 of the prudential SAQ.)
- e. When supervising NPE management, do you assess the implementation of forbearance measures, including forbearance policies and practices? (Question 22 of the prudential SAQ.)
- f. When supervising NPE management, do you assess whether the early warning mechanisms are implemented in the credit institutions' internal procedures for the early detection and prevention of deteriorating credit quality? (Question 23 of the prudential SAQ.)

- g. When supervising NPE management do you assess if credit institutions have in place policies and methodologies to ensure the measurement of impairments and write-offs for timely recognition of impairments and write-offs? (Question 24 of the prudential SAQ.)
- h. When supervising NPE management, do you perform regular reviews of the implementation criteria for the NPE and forbearance definitions applied by credit institutions in practice? (Question 25 of the prudential SAQ.)
- i. Do the findings on the supervisory evaluation of the management of NPE and forbearances feed into the assessment of credit risk under Title 6.2 of the EBA Guidelines on common procedures and methodologies for the SREP, and inform credit risk scores? (Question 26 of the prudential SAQ.)

Responses to the benchmark questions in the SAQ were assessed against the benchmarks devised to assess the supervisory practice followed by each CA, in accordance with Article 19 of the EBA Peer Review Methodology Decision ([EBA DC 2020 327](#)), which was adopted for the purposes of this peer review. For benchmarking purposes, the following grade-scales were used:

- **Fully Applied:** a provision is considered to be ‘fully applied’ when all assessment criteria as specified in the benchmarks are met without any significant deficiencies (the question in the SAQ is answered as ‘yes-fully’).
- **Partially Applied:** a provision is considered to be ‘partially applied’ when some of the assessment criteria are met with deficiencies affecting the overall effectiveness of the competent authority, resulting in a situation where some material risks are partially addressed (the question in the SAQ is answered as ‘yes-partially’).
- **Intend to apply:** a provision is not currently applied by the CA, but the CA has provided an explanation of its intention to apply the provision in the future and explain conditions and circumstances of its intention (the question in the SAQ is answered as ‘not yet, but planning’).
- **Not Applied:** a provision is considered to be ‘not applied’ when the assessment criteria are not met at all or not met to a significant degree, resulting in a significant deficiency in the application of the provision (the question in the SAQ is answered as ‘no’).
- **Not Applicable:** a competent authority shall be classified by the PRC as ‘not applicable’ if it has no role.
- **Non-contributing:** a competent authority shall be classified by the PRC as ‘non-contributing’ if it has not provided its contribution within the prescribed deadline.

## Annex 2. List of competent authorities who have responded to the SAQ

Country Code	Country	Competent Authority
AT	Austria	Finanzmarktaufsicht (Financial Market Authority, Oesterreichische Nationalbank (OeNB))
BE	Belgium	National Bank of Belgium (NBB)
BE	Belgium	(Federal Public Service of Belgium for SMEs, Middle Classes, and Energy) FPS Economy
BG	Bulgaria	Българска народна банка (Bulgarian National Bank)
BG	Bulgaria	Комисия за защита на потребителите (Commission for Consumer Protection)
CY	Cyprus	Κεντρική Τράπεζα της Κύπρου (Central Bank of Cyprus)
CZ	Czech Republic	Ceska Narodni Banka (Czech National Bank (CNB))
DE	Germany	Bundesanstalt für Finanzdienstleistungsaufsicht (Federal Financial Supervisory Authority, BaFin), Deutsche Bundesbank
DK	Denmark	Finanstilsynet (Danish Financial Supervisory Authority (Danish FSA))
<b>ECB-SSM</b>		European Central Bank – Single Supervisory Mechanism
EE	Estonia	Finantsinspektsioon (Estonian Financial Supervision and Resolution Authority)
ES	Spain	Banco de España (Bank of Spain)
FI	Finland	Finanssivalvonta (Finnish Financial Supervisory Authority)
FR	France	Autorité de Contrôle Prudentiel et de Résolution (Prudential Supervisory & Resolution Authority (ACPR))
EL	Greece	Τράπεζα της Ελλάδος (Bank of Greece)
HR	Croatia	Hrvatska Narodna Banka (Croatian National Bank)
HU	Hungary	Magyar Nemzeti Bank (The Central Bank of Hungary)
IE	Ireland	Central Bank of Ireland
IT	Italy	Banca d'Italia (Bank of Italy)
IS	Iceland	Fjármálaeftirlitið (Icelandic Financial Supervisory Authority (FME))
LI	Liechtenstein	Finanzmarktaufsicht – FMA (Financial Market Authority)
LI	Liechtenstein	Amt für Volkswirtschaft (AVW) – Government Office of National Economy
LT	Lithuania	Lietuvos Bankas (Bank of Lithuania)

<b>Country Code</b>	<b>Country</b>	<b>Competent Authority</b>
<b>LU</b>	Luxembourg	Commission de Surveillance du Secteur Financier (Commission for the Supervision of the Financial Sector (CSSF))
<b>LV</b>	Latvia	Finansu un Kapitala Tirgus Komisija (Financial and Capital Market Commission)
<b>LV</b>	Latvia	Consumer Rights Protection Centre (CRPC)
<b>MT</b>	Malta	Malta Financial Services Authority (MFSA)
<b>MT</b>	Malta	Malta Competition and Consumer Affairs Authority (MCCAA)
<b>NL</b>	Netherlands	De Nederlandsche Bank (Dutch Central Bank (DNB))
<b>NL</b>	Netherlands	Dutch Authority for the Financial Markets (AFM)
<b>NO</b>	Norway	Finanstilsynet (Norwegian Financial Supervisory Authority)
<b>PL</b>	Poland	Komisja Nadzoru Finansowego (Polish Financial Supervision Authority (KNF))
<b>PT</b>	Portugal	Banco de Portugal (Bank of Portugal)
<b>RO</b>	Romania	Banca Națională a României (National Bank of Romania)
		Autoritatea Nationala pentru Protectia Consumatorilor (National Authority for Consumer Protection)
<b>SE</b>	Sweden	Finansinspektionen (Swedish Financial Supervisory Authority)
<b>SI</b>	Slovenia	Banka Slovenije (Bank of Slovenia)
<b>SK</b>	Slovakia	Narodna Banka Slovenska (National Bank of Slovakia)

## Annex 3. Overview of credit institutions' practices in NPE management

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The objective of this Annex is to provide an overview of the institutions' practices in NPE and forbearance management based on the CAs' responses to the voluntary part of the prudential SAQ. As the responses to these questions were provided on a 'best efforts' basis and the information is not available for all MS on a consistent basis, the PRC was not able to draw consistent conclusions regarding credit institutions' practices and therefore this overview cannot be considered complete or accurate.

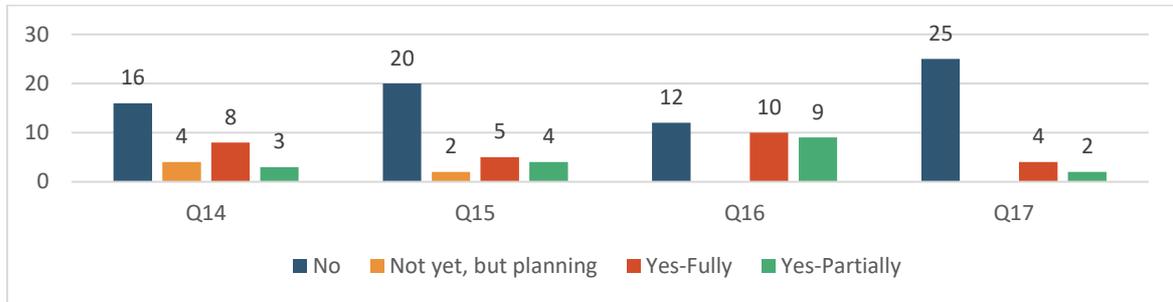
### NPE management framework in Member States

A set of questions (14, 15, 16 and 17 of the prudential SAQ) were asked to assess if Member States have credit/loan servicing market experience, if there is an established framework for NPE securitisation, if there is an active secondary market for non-performing/performing credit and if there is an asset management company (AMC).

Most CAs advised that in their Member States there were no established frameworks for external loan servicing and NPE securitisation, neither is there any asset management companies. In those Member States where one of the above-mentioned frameworks exist, there were no specific regulatory framework for external loan servicing, or the servicing activity is reserved to credit institutions or supervised financial intermediaries and is subject to specific regulatory provisions. Moreover, NPE securitisation schemes follow EU regulations were established after the financial crisis for only two Member States.

Finally, for most Member States there is an active secondary market for non-performing/performing credit, at least partially established in the jurisdictions, irrespective of the NPE level.

Figure 8. Breakdown of responses for Question 14 (established regulatory framework for external loan servicing); Question 15 (established regulatory framework for NPE securitisation); Question 16 (active secondary market for non-performing/performing credit); and Question 17 (existence of an asset management company).



## Credit institutions' NPE Strategies

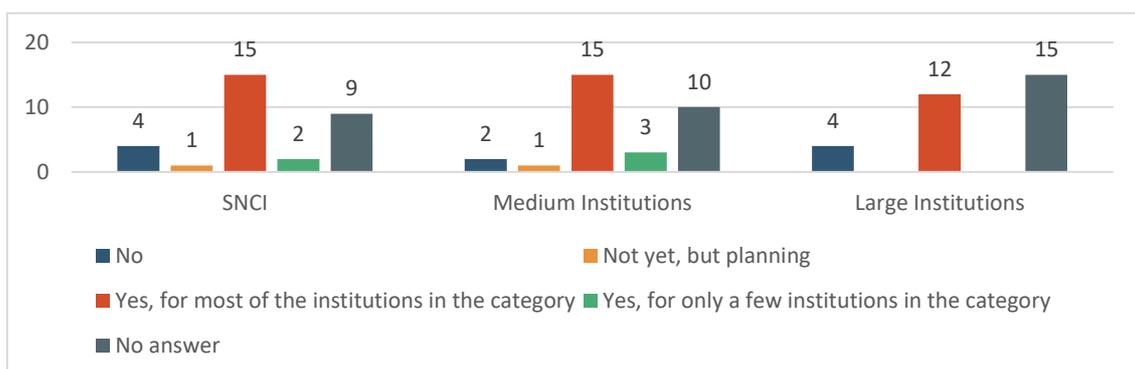
### Setting out NPE strategies and their governance

Section 2 of the Guidelines indicates that credit institutions with a gross NPL ratio equal to or greater than 5% on a consolidated, sub-consolidated or solo level should apply Sections 4 (NPE strategy) and 5 (NPE governance and operations) of the Guidelines to the entities that have NPL ratios exceeding the set threshold. Section 4 of the Guidelines requires credit institutions to implement a NPE strategy to target a time-bound reduction of NPE over a realistic but sufficiently ambitious time horizon (NPE reduction targets).

Question 31 of the prudential SAQ asks CAs whether credit institutions have developed NPE strategies, based on the criteria provided through the supervisory requirements applicable to SNCIs, medium and large institutions.

Most CAs answered that most credit institutions in the categories which they supervise, have developed NPE strategies based on the criteria provided through the supervisory requirements (see figure below).

Figure 9. Breakdown of responses for Question 31 (NPE strategies based on the criteria provided

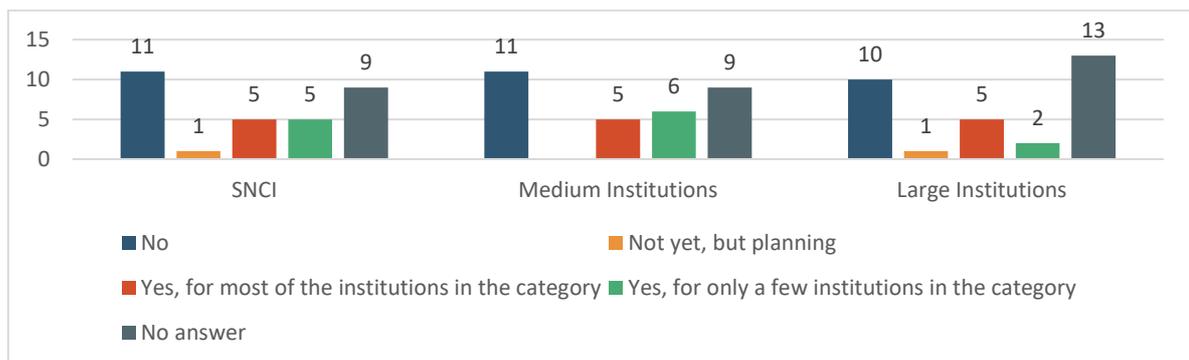


through the supervisory requirements)

The PRC followed up with 2 CAs on their response to this question. One CA explained next steps in developing NPE strategies. The other CA indicated that it expected institutions to have started the implementation of NPE strategies, although currently they do not have information to answer this question. Also, in the meeting with the PRC, a CA with a very low NPE advised that their main priority was for institutions to have robust loan origination practices.

Question 32 of the prudential SAQ asks whether credit institutions have developed NPE strategies voluntarily even if not required to do so by the supervisory requirements. A majority of CAs answered that most credit institutions in the categories which they supervise, have not developed NPE strategies voluntarily and have done so only when instructed by the CAs (see figure below).

Figure 10. Breakdown of responses for Question 32 (voluntary NPE strategies)



The PRC followed up with 4 CAs on their response to this question, to ask if the strategies voluntarily developed by their institutions complied with the requirements of Section 4 and 5 of the Guidelines. Two CAs stated they expect to do so, another CA reported that it was mandatory and the other CA advised that institutions only developed light strategies because the NPE are very low.

Question 33 of the prudential SAQ asks CAs, for the institutions that have NPE strategies, how these strategies are established: mostly institution-wide, or targeted at specific subsidiaries, business lines, portfolios etc.

As a general overview, a majority of CAs answered that the NPE strategies developed by credit institutions are established mostly at institution-wide level:

- Twenty-five CAs replied that NPE strategies developed by credit institutions are established mostly at institution-wide level.
- Two CAs replied ‘no’, on the grounds that NPL levels are generally below the 5% threshold, therefore the requirement to develop NPE strategies does not apply. One CA further specified that they follow up with the institutions by performing semi-annual reporting where the NPE trend is an important indicator.

- One CA answered that there are only a few smaller credit institutions with elevated level of NPLs, which is often related to their business model. Their NPE strategies are typically tailored to these specific portfolios or individual customers. Large credit institutions keep the level of NPLs relatively low and do not develop general strategies, but rather focus on the workout management of individual files.
- One CA indicated that credit institutions under its supervision are mostly subsidiaries of foreign groups and have individual NPE strategies (at sub-consolidated level if they have other subsidiaries). Local credit institutions also have NPE strategies at institution-wide level. NPE strategies were set mostly on portfolios with similar characteristics.

Regarding the implementation of NPE strategies, the most common units/functions that are responsible for the implementation of the NPE strategies (Question 36 of the prudential SAQ) are risk management, credit and the management board, while some CAs advised that NPL units, first and second line of defence workout functions, and more generally, workout and collection departments are responsible.

For the institutions that have NPE strategies, most of the CAs that answered this question stated that these strategies are supported by and aligned to internal policies and procedures, ICAAP, RAF and recovery plans for most of the institutions (Question 37 of the prudential SAQ). The cases for few institutions with NPE strategies aligned to internal policies and procedures, ICAAP, RAF and recovery plans decreases when we move from SNCI to large institutions. One CA advised that NPE strategies are not yet supported but planned to be aligned with internal policies and procedures, ICAAP, RAF and recovery plans due to the low value of NPE. Six CAs did not provide any answer for the institutions, but stated that for their jurisdictions NPE values are low and therefore the requirement to develop NPE strategies does not apply.

In response to Question 38 of the prudential SAQ focusing on the management oversight for the NPE strategies, most CAs indicated that there was sufficient senior management / management body oversight and steer of the implementation of NPE strategy.

Figure 11. Breakdown of responses for Question 37 (integration of NPE strategies) and 38 (managerial oversight of NPE strategies) for SNCI

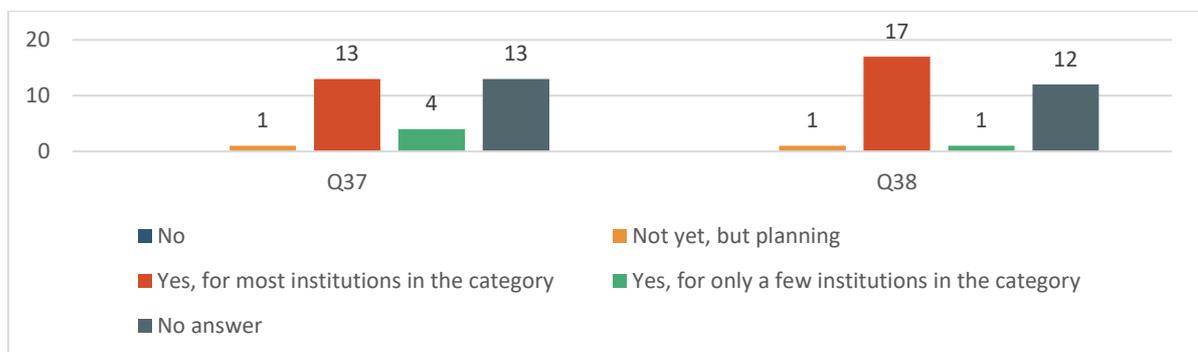


Figure 12. Breakdown of responses for Question 37 (integration of NPE strategies) and 38 (managerial oversight of NPE strategies) for medium-sized institutions

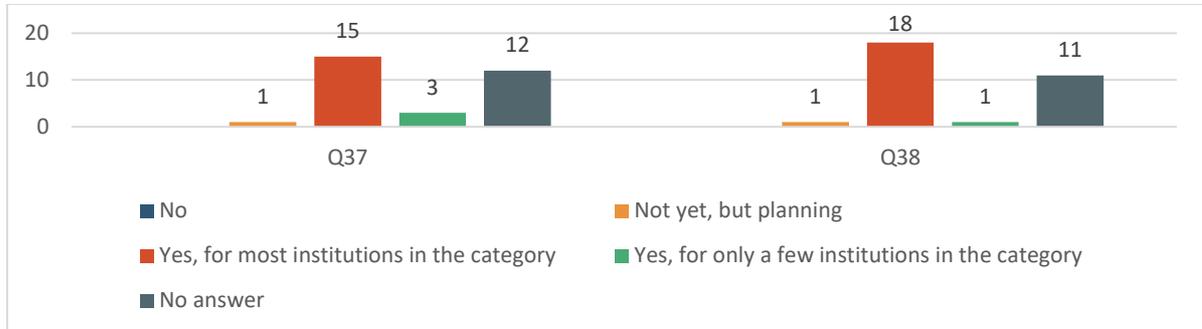
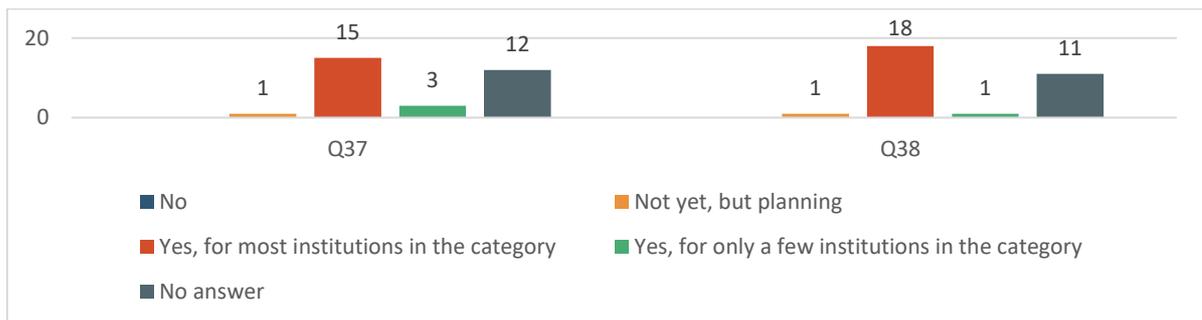


Figure 13. Breakdown of responses for Question 37 (integration of NPE strategies) and 38 (managerial oversight of NPE strategies) for large institutions

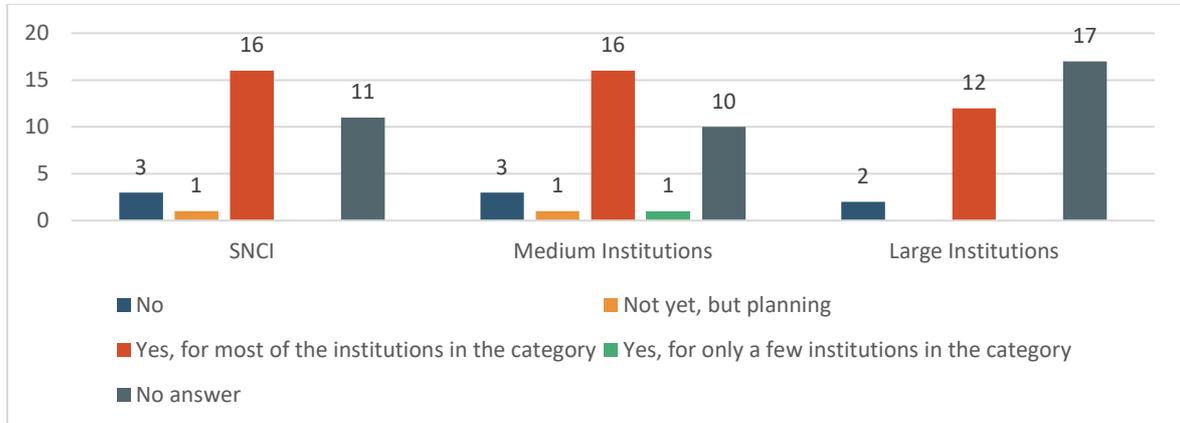


### NPE management targets

Section 4.3 of the Guidelines indicates that the NPE strategy should encompass, at minimum, time-bound quantitative NPE targets and foreclosed asset targets, supported, where appropriate, by a corresponding comprehensive operational plan.

Question 34 of the prudential SAQ asked CAs whether, for the institutions that have NPE strategies, strategies set out NPE reduction targets. As a general overview, a majority of CAs answered that NPE strategies set out reduction targets (see figure below).

Figure 14. Breakdown of responses for Question 34 (setting out NPE reduction targets in NPE strategies)



CAs were also asked for the NPL ratio target (on average across the institutions) being considered a final reduction target, distinguishing individual responses for SNCIs, medium and large institutions. Responses have been varied, and the range of NPL ratio target differs depending on the starting point of the NPL ratio, the business model, etc.

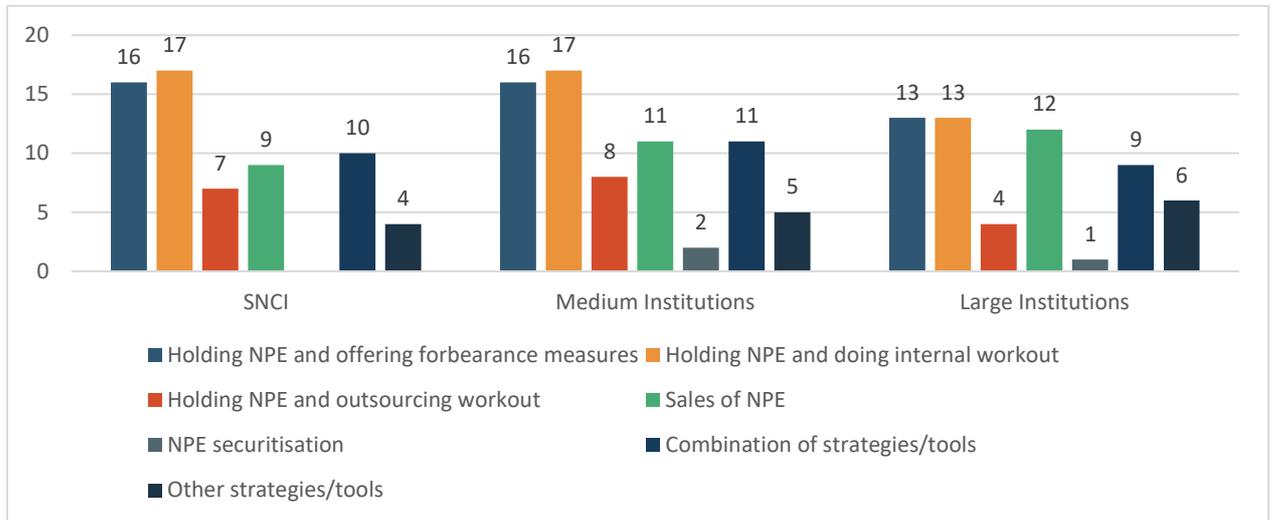
Ten CAs answered that the NPL ratio target pursued in the NPE strategies on average equals or is below 5%, 6 CAs replied that the NPL ratio target is above 5% and up to 10%, 1 CA indicated that the NPL ratio target is above 10%, and 1 CA replied that for some credit institutions it is expressed in terms of volume rather than ratio. Regarding the time horizon, 6 CAs indicated that the reduction plans have a three-year time horizon, and 1 CA answered an average time horizon of 3 to 5 years.

### Actions considered in NPE strategies

Section 4.3.1 of the Guidelines indicates that credit institutions should consider including a combination of strategies and options in the NPE strategy to achieve their objectives over the short-medium- and long-term.

Question 35 of the prudential SAQ asks CAs, for the institutions that have NPE strategies, what actions are being commonly pursued by the institutions in these strategies. As a general overview, the actions most commonly pursued by the institutions in the NPE strategies are holding NPE and offering forbearance measures, holding NPE and doing internal workout, and a combination of strategies/tools, with the following breakdown by type of institution (see figure below).

Figure 15. Breakdown of responses for Question 35 (actions commonly pursued in NPE strategies)



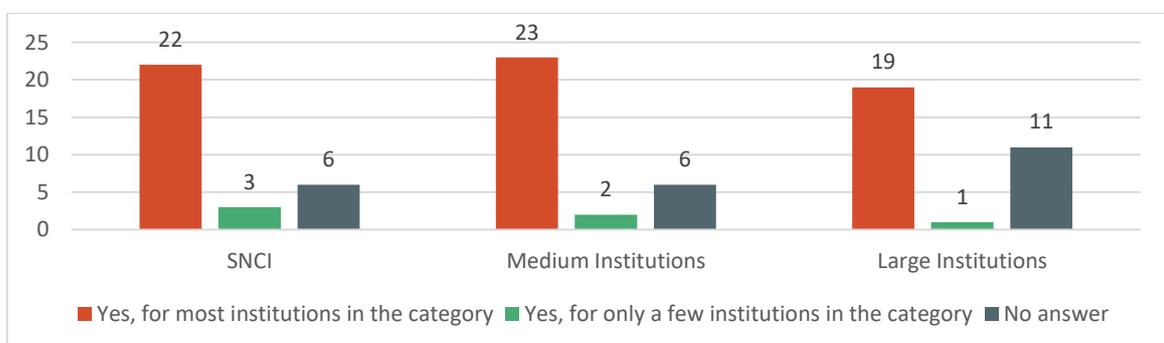
## NPE recognition and classification

### Classification of NPE and forbearance

Question 40 of the prudential SAQ asks CAs whether credit institutions recognise and classify NPE and forbearance, including entry and exit criteria, consistently across the group and based on the definitions in Annex V to Commission Implementing Regulation (EU) No 680/2014.

As a general overview, based on the responses provided, most CAs advised that most institutions, apply the entry and exit criteria mentioned. Six CAs which reported that most credit institutions are applying the criteria as prescribed in the ITS noted that for certain cohorts of credit institutions some deficiencies have been identified through ongoing supervision/on-site inspections and these are currently being addressed by the institutions (see figure below).

Figure 16. Breakdown of responses for Question 40 (recognition and classification of NPE)



During the follow-up to this question, 1 CA advised that they have focused on prudential classification and issued a recommendation to firms on appropriate classification in asset stages

(including UTP classification, credit loss reporting and credit risk management). The recommendation will be applicable from January 2022.

One CA advised that, in terms of challenges to recognise and classify NPE, credit institutions sometimes did not have access to sufficient credit information. However, they have since gained access to a credit platform created by FinTech so this information is more readily available. One CA advised that there are some deficiencies noted in the frequency of UTP assessments and deficiencies in the implementing triggers for the UTP assessment. Supervisors continue monitoring practices and criteria. This concern was echoed by another CA that advised that while the NPL level is low, the consistent application of UTP criteria is challenging for credit institutions. The early identification of customers is also quite difficult for this CA due to a lack of other indicators other than late payments (particularly for corporate and transport borrowers). A 'deep dive' assessment in the area of management of NPE is planned.

Section 7 of the Guidelines sets out the requirements with respect to NPE recognition. This includes guidance to firms on the identification and assessment of financial difficulty in the content of granting forbearance measures.

Question 41 of the prudential SAQ asks what are the most commonly criteria used by credit institutions for the assessment of any debtors' financial difficulties and differentiating between forbearance measures and renegotiations or rollovers.

The most common criteria employed by credit institutions are those set out within the Level 1 legislation and the [EBA Guidelines on DoD](#). Most commonly, credit institutions across each of the cohorts assess the financial difficulties facing borrowers. Credit institutions also assess whether borrowers are past due on material credit obligations, borrowers' payment history, rating downgrades and default history:

- **SNCI:** the most common criteria for differentiating between forbearance measures and renegotiations/rollovers are the following:
  - criteria employed in Level 1 legislation;
  - criteria contained within the EBA Guidelines on DoD;
  - assessment of the financial difficulty of the debtor/credit quality assessment of the borrower or possible changes in risk indicators when assessing contract amendments;
  - days past due or specifically 30 days past due;
  - rating downgrades or an increase in Probability of Default;
  - default history/payment history;
  - repayment capacity of the borrower;
  - watch list.
  
- **Medium credit institutions:** the key criteria used here are broadly similar to the criteria employed by SNCIs:
  - criteria employed in the Level 1 legislation;

- criteria contained within the EBA Guidelines on DoD;
  - assessment of the financial difficulty of the debtor/credit quality assessment of the borrower or possible changes in risk indicators when assessing contract amendments;
  - whether the borrower is classified as Unlikely to Pay;
  - days past due or specifically 30 days past due;
  - whether there has been a significant increase in credit risk;
  - rating downgrades or increase in Probability of Default;
  - default history/payment history or whether there are payments overdue;
  - repayment capacity of the borrower; and
  - watch list.
- **Large credit institutions:** the most commonly used criteria by large credit institutions are the following:
    - criteria as specified in the Level 1 legislation;
    - an assessment of the financial difficulty of the borrower; or an assessment of their behaviour;
    - default history;
    - days past due or specifically 30 days past due;
    - rating downgrades;
    - assessing possible changes in risk indicators when assessing contract amendments; or assessment of the borrowers' ability to repay;
    - a significant increase in credit risk; and
    - an increase in probability of default.

The PRC followed up with some CAs on their responses to this question. One CA advised that credit institutions use data from the central credit register (one for retail and one for corporate clients). For retail customers, the criteria usually represent monitoring of the recurring income, development of expenditures, development of other debts, etc. and for corporate customers, monitoring of industry prospects and outlook, cash flows, financial statements, etc.

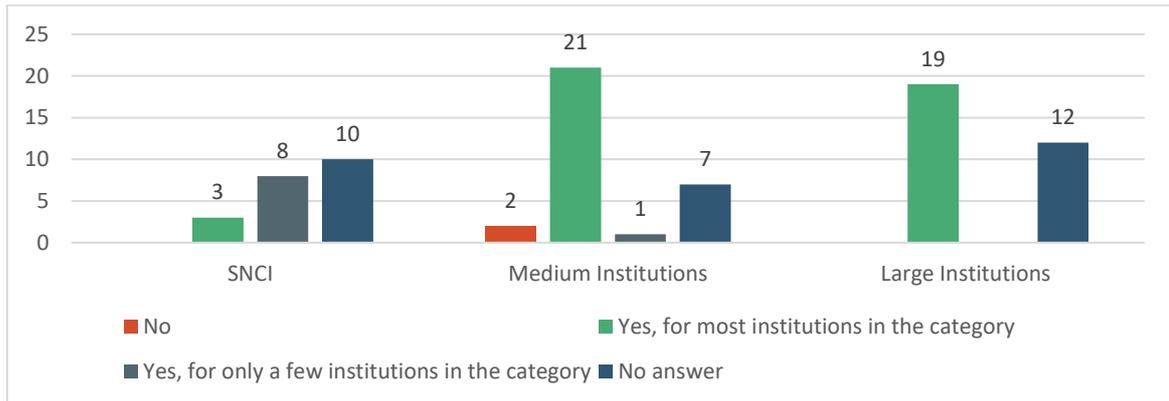
Section 7.4 of the Guidelines requires that credit institutions have in place adequate mechanisms and procedures in accordance with the requirements of Section 8 of the EBA Guidelines on the DoD, for the harmonised implementation of the definition in all subsidiaries and branches.

Question 42 of the prudential SAQ asks CAs whether credit institutions adopted mechanisms and procedures for consistent application of the definition of 'non-performing' in all subsidiaries and branches for SNCIs, medium and large credit institutions.

As a general overview, based on the responses provided, most CAs reported that most credit institutions have adopted mechanisms and procedures for consistent application of the definition of 'non-performing' across subsidiaries and branches. This was the case for SNCI, medium and large institutions where CAs supervise firms within each respective cohort.

In some cases, the question was not relevant as credit institutions in a given jurisdiction do not operate subsidiaries and/or branches. In one case, a CA identified some areas where full implementation has not been achieved across all subsidiaries (see figure below).

Figure 17. Breakdown of responses for Question 42 (consistent application of NPE definition across subsidiaries and branches)



During the follow-up to this question, one CA advised that the application of the definition of NPE is standardised and they do not observe any significant differences among credit institutions although differences in provisioning are observed and are dealt with as part of the SREP process. In one case, the CA advised that the definition itself is not problematic, but there are some limited issues with implementation by the credit institutions.

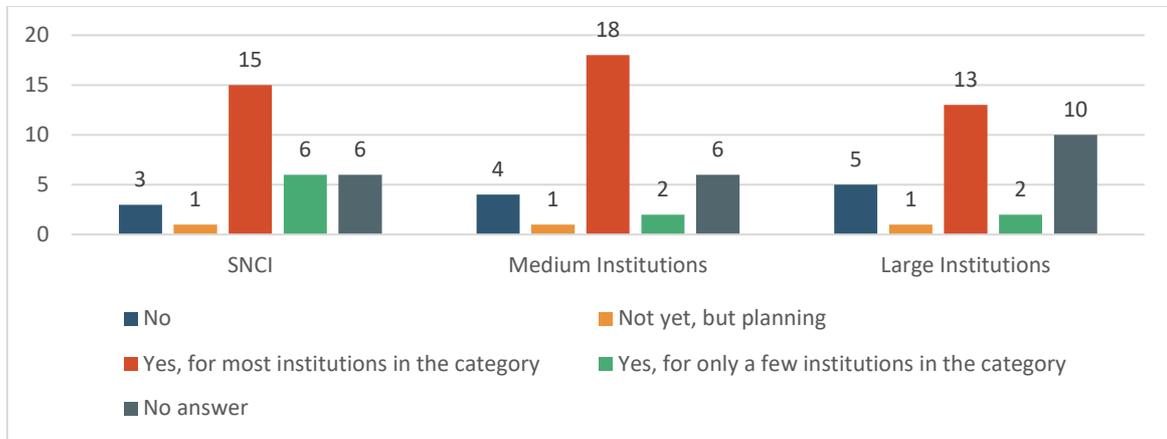
### Application of classification in the context of COVID-19

As part of the SREP, CAs should monitor the compliance of credit institutions with the Guidelines as well as assess whether early warning mechanisms are implemented in credit institutions' internal procedures. The Guidelines do not specifically give guidance in relation to the management of NPE in the context of the COVID-19 pandemic, however the scope of the peer review has been extended to include information in relation to institutions' preparedness for a potential increase in NPLs post COVID-19. Early warning mechanisms are crucial in the prudent management of credit risk to ensure early detection and prevention of deteriorating credit quality.

Question 43 of the prudential SAQ asked CAs to consider whether in the context of COVID-19, credit institutions have improved their early warning mechanisms including alternative and updated sources of information for the identification of financial distress and the unlikely-to-pay debtors.

Based on the responses provided, many CAs have observed most credit institutions which they supervise improving their early warning mechanisms in the context of COVID-19.

Figure 18. Breakdown of responses for Question 43 (improvements of early warning mechanisms for identification of NPE in the context of COVID-19)



Of the CAs that have observed institutions putting in place such mechanisms, 1 CA has advised of credit institutions using alternative sources including recognition and flagging of government support measures and probability of default overlays on vulnerable borrowers.

During the follow-up with some CAs on their responses to this question, 1 CA advised that so far, there does not appear to be a considerable increase in NPL flow, however credit institutions are actively approaching clients whose moratoria are due to expire to grant further support measures where needed. They also advised that the non-relaxed EQS criteria accompanied by a new/improved behavioural analysis and pre-workout units with an active approach to clients are an example of best practice in this regard. Credit institutions have also developed behavioural models to identify clients that may have payment issues post COVID-19.

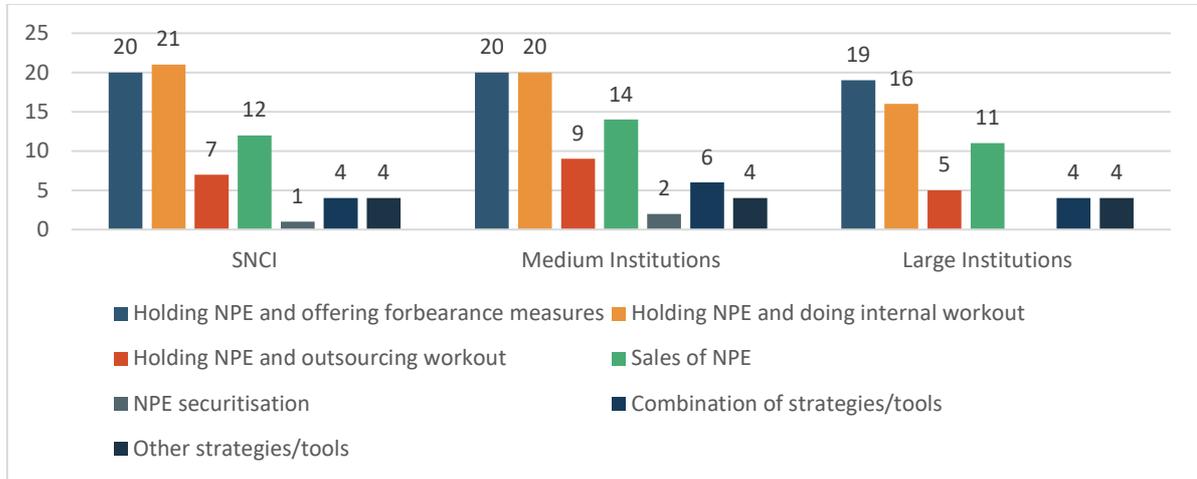
One CA advised that all credit institutions implemented closer monitoring of creditors that had decided to use moratoria and clients from particular industries that could be severely affected by pandemic conditions (commercial real estate, hotels, restaurants, retailers). One CA advised that, with regard to lessons learned in this area, better use of microdata to identify early warning indicators and the possibility of building early warning indicators and ongoing monitoring would be useful going forward. This CA will be investing more in data collection going forward.

## NPE management practices

### Tools/actions used in active NPE management (comparison vis-à-vis NPE strategies, where relevant)

Question 44 of the prudential SAQ asks CAs about the predominant way for credit institutions to actually deal with the NPE in practice (as opposed to that stated in the NPE strategy, where applicable). As a general overview, the actions most commonly used in practice by credit institutions to deal with NPE are holding NPE and offering forbearance measures, holding NPE and doing internal workout, and sales of NPE (see figure below).

Figure 19. Breakdown of responses for Question 44 (predominant actions in NPE management compared to NPE strategy)



Comparing the actions commonly pursued by credit institutions in NPE strategies (Question 35) to the way that they actually deal with the NPE in practice, should be noted that most of the combination of strategies were materialised in holding NPE and offering forbearance measures, holding NPE and doing internal workout, and, to a lesser extent, sales of NPE.

The PRC followed up with some CA on their response to this question in follow-up meetings. A CA mentioned that significant institutions were successful in resolving NPE because of the governmental asset protection scheme securitisations and the removal of the impediments to develop an active NPE secondary market; however, these tools are difficult to apply by smaller and less complex institutions due to the costs involved.

Another CA pointed out that as the local regulation already before the application of the Guidelines required institutions to have robust internal workout units, this is the most common approach used by smaller and medium-sized credit institutions. There is also a specialised credit institution in the cooperative sector offering services regarding cooperative banks; NPL management, including consulting or acquisition/processing of problem loans. Another CA pointed out that provisions are fully recognised as an expense for tax purposes after 3 years (more specifically 1080 days past due) which explains lower concentration in the buckets 5 to 7 years and 7+years). Another CA indicated that, as there is no dedicated AMC company and credit institutions rather not perform NPE securitisation, the most common approaches used by credit institutions in their NPE management are sales of NPE to credit servicing firms / specialised investment funds and internal NPE management – mostly by offering forbearance measures and doing internal workout.

Another CA indicated that there are problems with collateral realisation. From the day the liquidation until it is finished, it takes up to a year to get the collateral transferred, so there is room for improvement. Liquidation is the only tool that non-cooperative credit institutions can use when they have exceeded the capacity to deal with NPE.

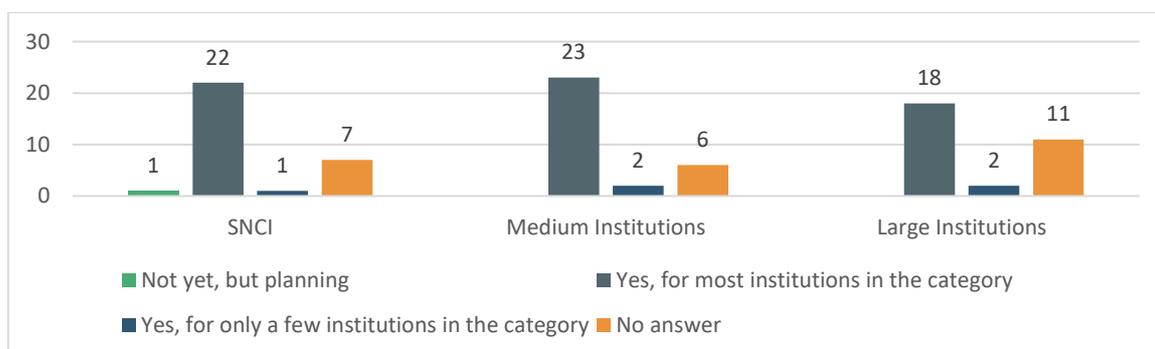
## Operational capabilities

Section 4.2 of the Guidelines indicates that credit institutions should complete an assessment of the internal capabilities to effectively manage and reduce NPE as a first phase in the formulation and execution of an appropriate NPE strategy. Credit institutions should perform a comprehensive self-assessment to evaluate the actual situation and the steps to be taken internally to address any gaps in the internal capabilities to manage NPE.

Question 45 of the prudential SAQ asked CAs whether credit institutions have sufficient operational capabilities (processes, tools, staff) for dealing with identification of NPE. Within the questionnaire, CAs were asked to provide individual responses for SNCIs, medium and large institutions.

As a general overview, most CAs answered that most credit institutions in the categories which they supervise, have sufficient operational capabilities for dealing with the identification of NPE (see figure below).

Figure 20. Breakdown of responses for Question 45 (operational capabilities for dealing with identification of NPE)

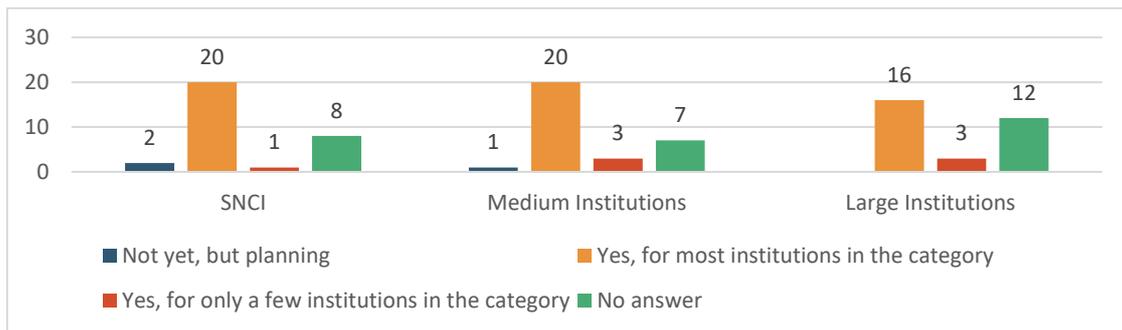


The PRC followed up with some CAs on their response to this question. One CA mentioned that a weakness identified is that due to low NPE levels credit sometimes institutions have manual NPE and forbearance processes and these institutions should improve their IT infrastructures. In the cooperative sector there is also had a specialised institution, which can take over bad loans and offer centralised loan servicing for credit institutions in the sector.

Another CA mentioned that some credit institutions regularly perform individual in-depth analyses of each significant corporate client in order to identify early signals of financial distress or automated shifting of clients from problematic sector to Stage 2. For retail clients, credit institutions fine tuned the behavioural analyses. Clients with expiring moratoria are contacted with reminders about the approaching expiration in order to propose the right measures to prevent defaults if needed. Furthermore, a more intensive monitoring of clients connected with the most-affected sectors was introduced, both for retail and corporate sectors.

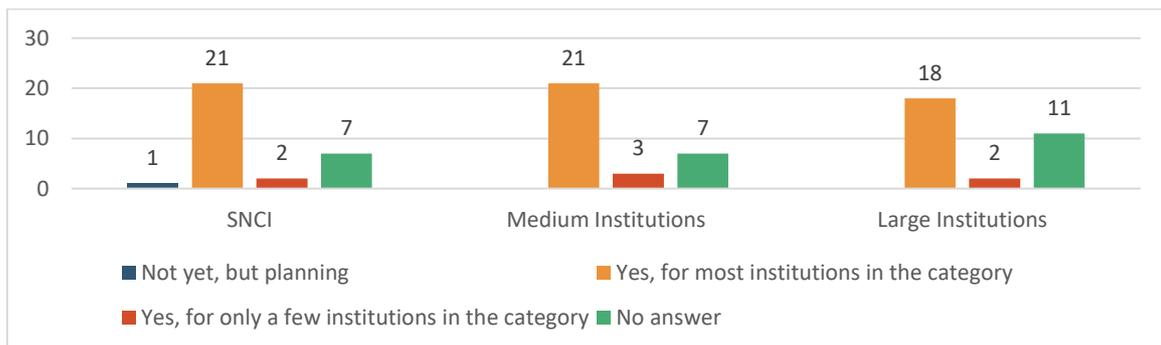
Question 46 of the prudential SAQ asks CAs whether credit institutions have sufficient operational capabilities (processes, tools, staff) for dealing with forbearance activities. As a general overview, most CAs answered that most credit institutions in the categories which they supervise, have sufficient operational capabilities for dealing with forbearance activities (see figure below).

Figure 21. Breakdown of responses for Question 46 (operational capabilities for dealing with forbearance)



Question 47 of the prudential SAQ asks CAs whether credit institutions have sufficient operational capabilities (processes, tools, staff) for dealing with NPL management. As a general overview, most CAs answered that most credit institutions in the categories which they supervise, have sufficient operational capabilities for dealing with the NPE management (see figure below).

Figure 22. Breakdown of responses for Question 47 (operational capabilities for dealing with NPE management)

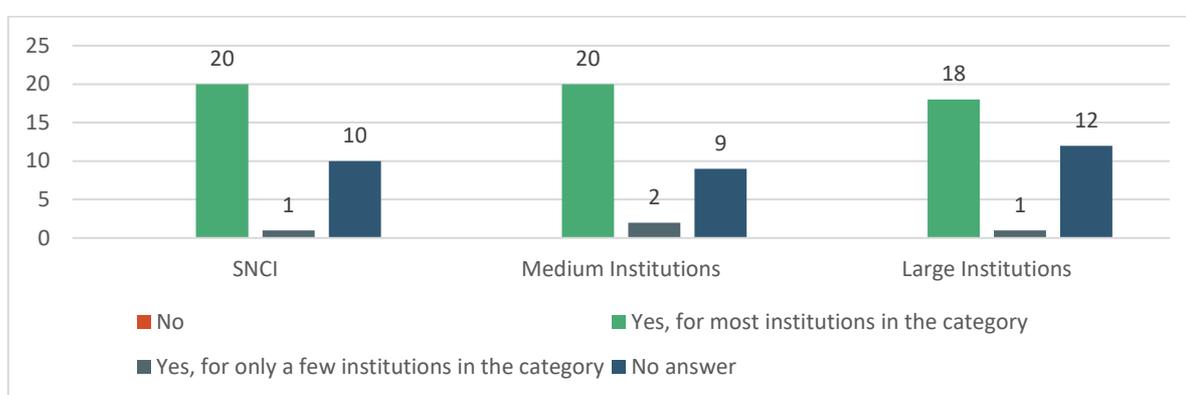


The PRC followed up with some CAs on their responses to this question. One CA mentioned during the most acute phase of the pandemic, the banks swiftly reallocated their resources to the busiest areas as call centres, back office, affected branches. The resource reallocation was supported by trainings. As for the NPEs identification, the banks introduced new more detailed loan monitoring with increased frequency focussing on those loans where potential worsening of credit quality could have been expected.

Other CAs advised that some small institutions lacked human resources and had IT problems. Another CA indicated that credit institutions are expected to have some form of process and order of things to manage complex credits.

Question 48 of the prudential SAQ asks CAs whether credit institutions have sufficient operational capabilities (processes, tools, staff) for dealing with management of foreclosed assets, where relevant. Most CAs answered that most credit institutions in the categories which they supervise, have sufficient operational capabilities for dealing with the management of foreclosed assets (see figure below).

Figure 23. Breakdown of responses for Question 48 (operational capabilities for dealing with foreclosed assets)



### Organisational arrangements and workout units

A set of questions (Questions 49, 50, 51 and 52 of the prudential SAQ) asked to CAs to assess if the credit institutions have established NPE workout units, what functions in the credit institutions’ organisation are responsible for the management of NPE, if there is sufficient senior management / management body oversight and steer of the NPE management and what are the NPE management tasks outsourced and retained/performed by the credit institutions.

In general, the structure and the organisational placement of these units depends on the size and characteristics of the individual credit institutions. Most CAs advised that the workouts are typically adequately staffed by appropriately trained and experience staff even if the level depend on the characteristics of the credit institutions. In particular, cases with only few institutions with adequately staffed FTEs could arise for SNCI and medium-sized institutions, one CA stated that it has considered the number of FTEs insufficient for a large institution under supervision. Most CAs advised that these workout units are able to effectively deal with the increased NPLs in the most affected sectors.

Regarding the units/function responsible for the NPE management, most CAs advised that risk management, credit and special units for NPE and FE are generally responsible for the management of NPE. At the same time, CAs indicated the same functions/units responsible among different

categories (SNCI, medium, large institutions). Most CAs indicated that, for the most-affected institutions under their supervision, there is sufficient senior management / management body oversight and steer of the NPE management. Only 2 CAs advised that this holds true only for a few institutions.

Regarding the NPE management tasks that CIs have outsourced, while generally NPE management task outsourcing is very limited, the most commonly outsourced activities are those related to collateral management and legal services in foreclosure proceedings, but it depends on the type of credit institutions involved.

Figure 24. Breakdown of responses for Question 49 (establishment of NPE workout units)

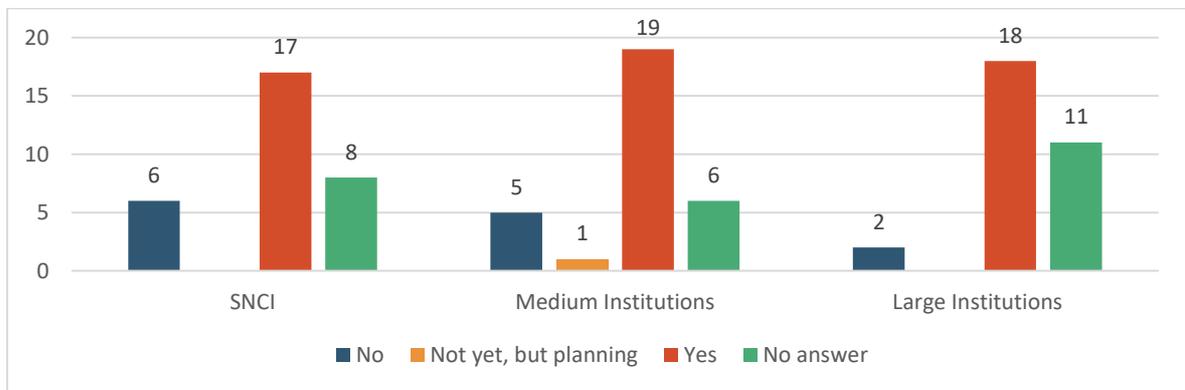
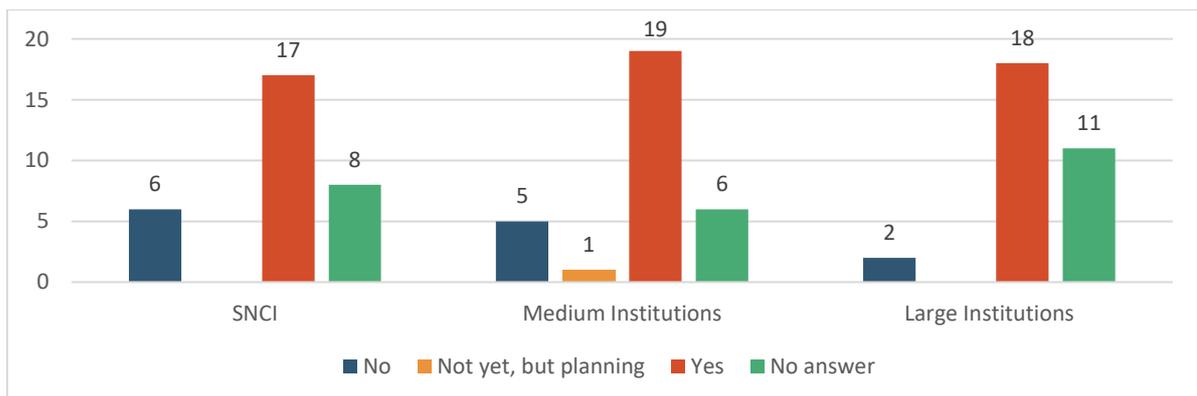


Figure 25. Breakdown of responses for Question 51 (managerial oversight and steer of NPE management)



## Forbearance management

### Forbearance policies and procedures

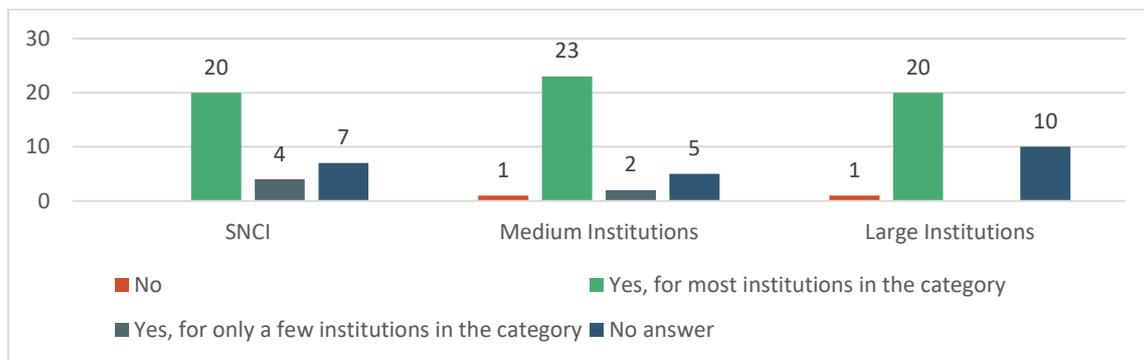
Section 6 of the Guidelines sets out the requirements which credit institutions are required to meet with respect to forbearance. Credit institutions should regularly review their forbearance policies

and options based on the collective monitoring of the performance of different forbearance measures, including the examination of potential causes and instances of re-defaults.

Question 53 of prudential SAQ asks CAs whether credit institutions have a strategy/policy for timely offering of forbearance measures and restructuring options for distressed debtors. Based on the responses provided, most SNCIs, medium and large credit institutions have in place such policies.

In the case of one CA, they advised that there was very little forbearance activity among their credit institutions prior to the onset of COVID-19 and for another CA, they have advised that while there are no specific forbearance policies established, there are documented criteria on when to offer such measures within other policies (see figure below).

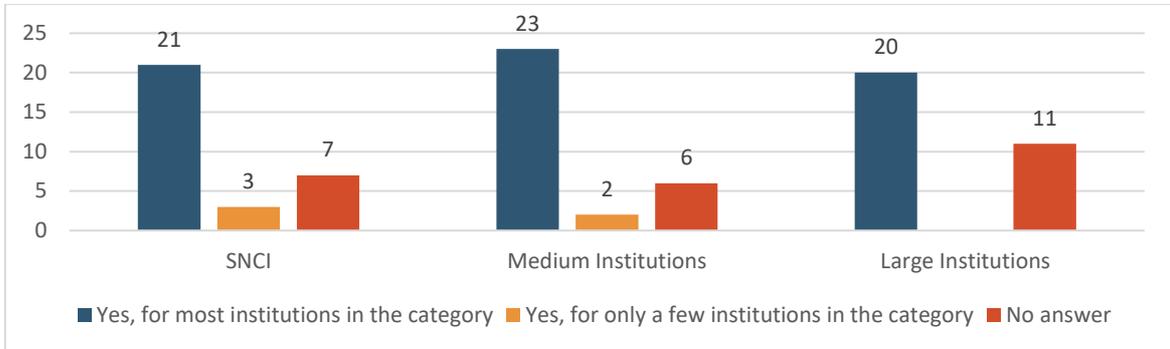
Figure 26. Breakdown of responses for Question 53 (presence of forbearance strategy/policy)



In accordance with Section 5.2 of the Guidelines, credit institutions should have in place arrears-management policies which include details in relation to, at least, the structure and responsibility of NPE workout units. Such policies should also include the procedure to be followed for handover criteria for each stage of arrears and procedures to be followed where a borrower is classified as non-cooperating and/or non-viable and the criteria for a borrower to be classified as such.

Question 56 of the prudential SAQ asks whether credit institutions have in place policies and procedures to ensure that non-viable debtors are addressed. Based on the responses provided, most credit institutions which they supervise have in place such policies to ensure that non-viable borrowers are addressed. One CA advised that such procedures were typically included in more general procedures for NPE management, while another one flagged that in their view, the existence of formal policies may not guarantee that non-viable exposures were adequately addressed (see figure below).

Figure 27. Breakdown of responses for Question 56 (policies and procedures for addressing non-viable borrowers)

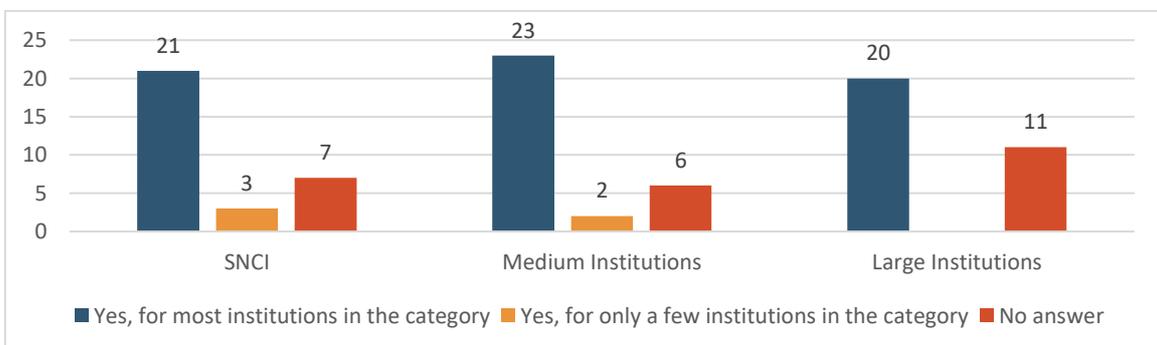


### Analysis when granting forbearance measures

Section 6 of the Guidelines stresses the importance of credit institutions offering viable forbearance measures to borrowers in financial difficulty. Section 6.1.1. requires that credit institutions distinguish between viable forbearance measures contributing to reducing the borrower’s exposure and non-viable forbearance measures.

Question 54 of prudential SAQ asks CAs if credit institutions perform a viability assessment of forbearance measures when choosing the most appropriate measures to a borrower. Most CAs have advised that most credit institutions supervised within their jurisdictions perform viability assessment of forbearance measures when choosing the most appropriate measures for a borrower. However, 3 CAs identified that not all SNCI may perform such an assessment, and 2 CAs reported that not all medium-sized institutions do so (see figure below).

Figure 28. Breakdown of responses for Question 54 (viability assessment of forbearance measures)

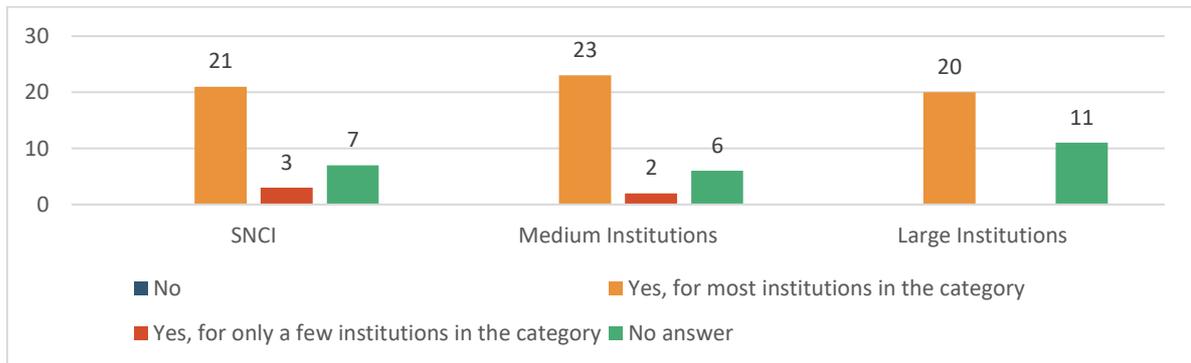


For 1 CA, credit institutions’ forbearance policies have deficiencies which are addressed during the SREP or on-site inspections, while in another case the CA has observed an absence of a financial difficulty test being performed by the institutions. In one other case, while most credit institutions have in place such policies, some shortcomings have been identified.

Section 6.2.3 of the Guidelines prescribes that before granting any forbearance measures, credit institutions should assess the borrower’s repayment capacity. This should include an adequate assessment of the borrower’s financial situation, based on sufficient information and taking into account relevant factors such as the debt-servicing capacity and overall indebtedness of the borrower or the property/project. Such assessments are of pivotal importance in ensuring the success of the forbearance measure in question and enabling borrowers to return to performing status.

Question 55 of prudential SAQ asks whether credit institutions assess borrowers’ repayment capacity before granting the forbearance measures to understand whether borrowers can afford the forbearance measures. Most CAs advised that most credit institutions across the categories of institutions they supervise carry out such assessments. In some cases, such information was not yet available for SNCIs, SNCIs and medium credit institutions, or the adequacy of the assessment of the borrower’s repayment capacity is still to be confirmed. In one case, some shortcomings in the assessments had been identified (see figure below).

Figure 29. Breakdown of responses for Question 55 (assessment of borrowers’ repayment capacity before granting forbearance)



### Forbearance measures offered (short term)

Section 6.1 of the Guidelines speaks about forbearance measures and their viability. In order to ensure that forbearance measures are fit for purpose, credit institutions should consider using a combination of different forbearance measures, including both short-term and long-term options, in line with the nature and maturity of credit facilities.

Question 57 of the prudential SAQ asks CAs what are the most commonly offered forbearance measures with short-term time horizons (shorter than 2 years). In response, CAs noted that credit institutions currently offer a number of different options to customers. Noting that 1 CA could not distinguish between short- and long-term options, the most common options granted include:

- true suspension/ reduction of redemption payments or reduction of capital instalments;
- interest only payments or a change in interest rate and interest capitalisation;
- covenant waivers;

- grace periods/moratoria; or payment moratoria for interest payments only;
- forbearance on interest and repayments; interest rate reduction or capital and interest roll ups;
- maturity extension or postponement of payments;
- refining or consolidation;
- arrears capitalisation;
- relaxation of affordability assessment criteria or of minimum loan-to-value thresholds;
- waiver of claims/waiver of contract breaches;
- overdrafts.

Question 58 asks CAs what are the most commonly offered forbearance measures with long-term time horizon (longer than 2 years) and the following measures were noted:

- rescheduling of payments, restructuring, restructuring and refinancing or reduced instalments;
- covenant or contract amendments;
- interest rate reduction;
- long-term moratoria or short-term moratoria/grace periods;
- arrears capitalisation;
- comprehensive settlement of existing arrears;
- partial capital and interest repayment with a bullet at end of term; conversion to a bullet loan;
- collateral liquidation;
- actual reduction of exposure balance;
- maturity extension;
- partial waiver of interest and repayments;
- additional security or collateral;
- sale by agreement or assisted sale;
- debt forgiveness;
- refinancing or offering new credit facilities;
- debt consolidation or partial forgiveness;
- relaxation of affordability assessment criteria or of minimum loan-to-value thresholds;
- waiver of claims/waiver of contract breaches;
- overdraft.

Some CAs noted that certain cohorts of credit institutions do not offer long-term forbearance options or such measures are provided very rarely.

During the follow-up with some CAs on their responses to this question, 1 CA advised that both long-term and short-term measures are applied equally by credit institutions.

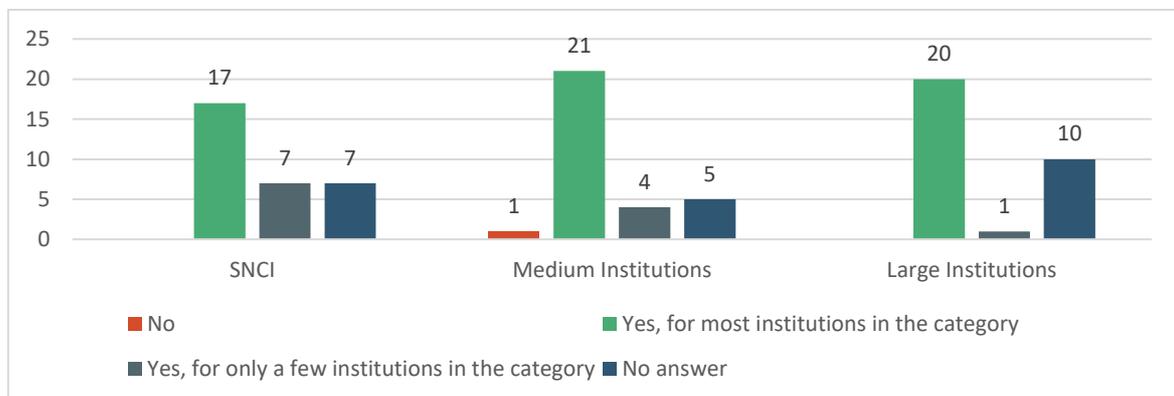
## Forbearance measures monitoring

Section 6 of the Guidelines requires that credit institutions monitor the quality of forbearance activities to make sure they are not sued to delay an assessment that the exposure is uncollectible. Credit institutions should also measure the efficiency of the process for granting forbearance measures and monitor the duration of the decision-making process.

Question 59 of prudential SAQ asks CAs whether credit institutions have adequate technical infrastructure to flag and monitor forbearances. Most credit institutions have in place adequate technical infrastructure to flag and monitor forbearance. One of the 4 CAs that informed that only some credit institutions have in place such warning systems was due to a lack of automation in credit institutions. Another CA noted that forbearance flagging is generally based on expert input to determine the appropriate concessions however, all credit institutions have in place frameworks to report forbearance as this is a mandatory field in COREP/FINREP.

Some institutions do have automated processes. If there is a credit event concerning a credit concession, the first and/or second line of defence can check whether this also concerns financial deterioration (significant increase in credit risk, other UTP-triggers hit) to assess whether forbearance is applicable. This mainly concerns institutions with a corporate portfolio.

Figure 30. Breakdown of responses for Question 59 (technical infrastructure to flag and monitor forbearance)

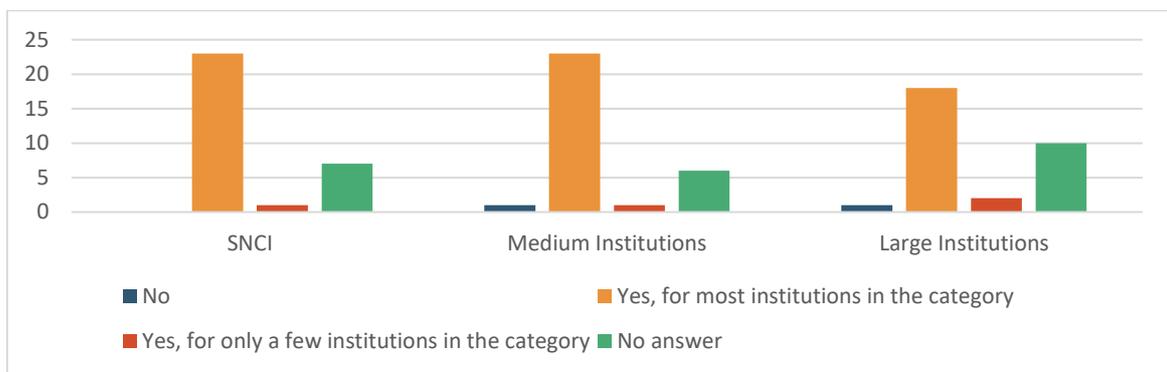


## Application of forbearance in the context of COVID-19

The Guidelines require that forbearance measures should be defined in accordance with the Commission ITS. From a prudential classification perspective, credit institutions should classify forbearance measures in accordance with the [EBA Guidelines on the DoD](#). Furthermore, when deciding on which steps or forbearance measures to take, credit institutions should take into account the interests of consumers and comply with consumer protection requirements, including those set out in [Article 28 of Directive 2014/17/EU32](#) and in the [EBA Guidelines on arrears and foreclosure](#).

Question 60 of the prudential SAQ asks whether in the context of the COVID-19 pandemic, credit institutions continue applying forbearance measures in accordance with the existing regulations, including the Guidelines, or whether there have been a relaxation of the approaches. Based on the responses provided, most credit institutions continue to apply forbearance measures in accordance with existing regulations. On three occasions, CAs noted that their responses were subject to the [EBA Guidelines on legislative and non-legislative moratoria](#). One CA also identified deficiencies in the early phase of the pandemic (see figure below).

Figure 31. Breakdown of responses for Question 60 (relaxation of application of forbearance in the COVID-19 context)



During follow-up to this question, 1 CA noted that the post-COVID-19 NPL increase that had been planned previously, had not materialised. Forbearance measures that have been granted to date are typically short term. Supervisory concerns are stemming from forbearance measures that continue to be classified as performing although there has been an improvement in classification following the interaction with the credit institutions. This CA has also planned ‘deep dive’ assessments for 2022 in the area of forbearance (and UTP) classification.

CAs advised that moratoria were granted to borrowers in the context of the pandemic and such moratoria were not classified as forbearance in line with the [EBA Guidelines on legislative and non-legislative moratoria](#). However, borrowers who have requested additional support since the ending of the moratoria are classified as forborne in line with existing regulations.

Another CA advised that forbearance measures are being offered by the retail credit institutions and some credit institutions have been extending moratoria, however such measures are voluntary and are classified as forbearance. In another instance, credit institutions are offering additional measures to borrowers with expired COVID-19 moratoria. In some instances, such measures are classified as forbearance but not in others.

# Annex 4. Self-Assessment Questionnaire for prudential CAs

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## Implementation of the EBA Guidelines on NPE Management, EBA/GL/2018/06 ('the Guidelines')

1. Have you applied the Guidelines in your jurisdiction to make them binding to credit institutions? [Yes-fully/ yes-partially/ not yet, but planning/ no]
  - If so, please explain how you have done it and what tools did you use
    - Integrated within a binding regulatory framework (e.g. Regulations) [Yes/No]
    - Integrated within a non-binding regulatory framework (e.g. Instructions, Circulars or other non-binding instruments) [Yes/No]
    - Implemented through a mix of binding and non-binding regulatory provisions [Yes/No]
    - communication to the institutions or publicly that the Guidelines are considered as coming under the framework of the SREP [Yes/No]
    - Alternative forms of implementation (e.g. locally developed guidelines/ rules which have a similar objective) [Comment box]
2. As the Guidelines contain a series of consumer protection provisions, what is the approach taken with regard to the implementation of the relevant/ corresponding provisions:
  - Relevant consumer protection provisions are identified and referenced in the transposition of the Guidelines [Comment box];
  - references to the Guidelines added in the consumer protection legislation [Comment box]
  - How the national consumer protection authorities have been involved in the implementation of the Guidelines? [Comment box]
3. Have you incorporated the Guidelines into your SREP methodology? [Comment box]
4. Have you incorporated the Guidelines into your supervisory manuals or similar tools for on-site examinations? [yes-fully/ yes-partially/ not yet, but planning/ no]
5. How do you handle the compliance assessment when you observe divergence in implementation by credit institutions and how does the supervisory dialogue with the credit institutions evolve in such cases? [Comment box]
6. In your assessment of the institutions' compliance with the Guidelines do you use input from third parties, such as auditors, for certain provisions of the guidelines? [yes-fully/ yes-partially/ not yet, but planning/ no]
  - If so, please indicate the relevant areas/ components. [Comment box]

## Supervisory practices in NPE supervision and activities in preparation for the increase of NPE

### General supervision, prioritisation and resources

7. How many supervisors (on- and off-site) do you have in your competent authority (i.e. number of FTEs)? [comment box]
8. How do you see the importance of the supervision of NPE management in your jurisdiction in terms of supervisory priorities? [High, medium or low priority]

- Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]
9. How do you see the importance of the supervision of NPE management in your jurisdiction considering risk-based approach to allocation of supervisory resources? [Very important, Important, Somewhat important, not important]
- Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]
10. Do you have supervisory experts and/or teams dedicated to supervision of NPE management? [Yes/no]
- If yes, what is the level of staffing of such teams (i.e. how many FTEs)? / how many experts/specialists compared to the overall supervisory staff? [Comment box]
  - If no, how many FTE are assigned to the supervision of NPE management (from other teams, e.g. credit risk team, governance team), and please describe their supervisory expertise?. [Comment box]
11. Would you consider supervisory resources allocated to NPE management as adequate considering potential post-COVID-19 increases in NPE? [Adequate, mostly adequate, not adequate with improvements needed]
- If no, what additional resource(s) does your competent authority seek? With what expertise/specialist skills? [Comment box]
  - Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]

#### Supervisory requirements and framework

12. Have you set out criteria for requiring institutions to develop NPE strategies in your jurisdiction, beyond those criteria already set out in the Guidelines? [yes-fully/ yes-partially/ not yet, but planning/ no]
- If so, what criteria are used and how they are applied (all flexibility around 5% NPL ratio threshold)? [Comment box]
  - If so, do you differentiate criteria considering the type of institutions (large, medium, SNCI)? [Yes/no] If yes, please elaborate [Comment box]
  - If so, do you differentiate criteria considering the type and nature of a credit institution's loan portfolio? [Yes/no] If yes, please elaborate [Comment box]
13. Have you set out any specific requirements for forbearance from prudential perspective (in addition to the requirements set out in CRR and the Guidelines)? [yes-fully/ yes-partially/ not yet, but planning/ no] [Comment box]
- If so, how do these requirements interact with consumer protection requirements? [Comment box]
  - Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]
14. Within your Member State, is there an established regulatory framework for external loan servicing (Member State has credit/loan servicing market / experience)? [yes-fully/ yes-partially/ not yet, but planning/ no]
15. Within your Member State, is there an already established regulatory framework for NPE securitisation (Member State has effective NPE securitisation market / experience)? [yes-fully/ yes-partially/ not yet, but planning/ no]
16. Within your Member State, Is there an active secondary market for non-performing/performing credit in your jurisdiction NPE(Member State has effective NPE secondary market experience)? [yes-fully/ yes-partially/ not yet, but planning/ no]
17. Within you Member State, is there an asset management company (AMC)? [yes-fully/ yes-partially/ not yet, but planning/ no] [Comment box]

## Supervisory practices

18. Have you reviewed NPE strategies proposed by credit institutions in last two-years? [Yes/ No]
- If so, have you agreed with the proposed strategies or required modifications to them? [Yes/ No/ not yet, but planning]
  - Have you applied the criteria referred to in paragraph 235 of the Guidelines in your assessment of NPE strategies? [Yes/ No/ not yet, but planning]
  - Where any deficiencies in NPE strategies have been identified, have you requested revision/resubmission of the NPE strategy by credit institutions? [Yes/ No/ not yet, but planning]
  - Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]
19. Are you performing regular monitoring of the implementation of the NPE strategies submitted by credit institutions? [Yes/ No/ not yet, but planning]
- If so, what challenges do you see for credit institutions in the implementation of NPE strategies? [Comment box]
  - Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]
20. Have you reviewed credit institutions NPE management practices in last two years? [Yes/ No]
- Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]
21. When supervising NPE management, do you challenge credit institutions as to how they have satisfied the criteria set out in paragraph 240 of the Guidelines? [Yes-Fully/Yes-Partially/ Not yet, but planning/No]
22. When supervising NPE management, do you assess the implementation of forbearance measures, including forbearance policies and practices? [Yes-Fully/Yes-Partially/ Not yet, but planning/No]
23. When supervising NPE management, do you assess whether the early warning mechanisms are implemented in the credit institutions' internal procedures for the early detection and prevention of deteriorating credit quality? [Yes-Fully/Yes-Partially/ Not yet, but planning/No]
24. When supervising NPE management do you assess if credit institutions have in place policies and methodologies to ensure the measurement of impairments and write-offs for timely recognition of impairments and write-off? [Yes-Fully/Yes-Partially/ Not yet, but planning/No]
25. When supervision NPE management, do you perform regular reviews of the implementation criteria for the NPE and forbearance definitions applied by credit institutions in practice? [[Yes-Fully/Yes-Partially/ Not yet, but planning/No]
26. Do the findings regarding the supervisory evaluation of the management of NPE and forbearances feed into the assessment of credit risk under Title 6.2 of the EBA Guidelines on common procedures and methodologies for the SREP, and inform credit risk scores? [Yes-Fully/Yes-Partially/ Not yet, but planning/No]
27. Have you performed on-site examination of NPE management in last two-years in the credit institutions most affected by NPE? [Yes/ No]
- Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]
28. Have you carried out any focused reviews of institutions' preparedness for dealing with increased post-COVID NPE inflows? [Yes/ No/ not yet, but planning]
- Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]
29. Have you carried out specific sensitivity/quantitative analyses or similar assessments to understand the potential impact of post-COVID NPE increases? [Yes/ No/ not yet, but planning]

- Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]

30. Have you identified the most affected economic sectors which are likely to face increase in post-COVID NPE? If so, what are they? [comment box]

- Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]

**NPE management by most affected institutions**

31. Have credit institutions developed NPE strategies, based on the criteria provided through the supervisory requirements applicable to them [Yes, for most of the institutions in the category/Yes, for only a few institutions in the category / not yet, but planning/ no]

SNCI	Medium-sized institutions	Large institutions

- Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]

32. Have credit institutions developed NPE strategies voluntary even if not required to do so by the supervisory requirements. [Yes, for most of the institutions in the category/Yes, for only a few institutions in the category / not yet, but planning/ no]

SNCI	Medium-sized institutions	Large institutions

- Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]

33. For the institutions that have NPE strategies, are these strategies mostly institution-wide, or targeted for specific subsidiaries, business lines, portfolios etc.? [Comment box]

- Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]

34. For the institutions that have NPE strategies, do the strategies set out NPE reduction targets? [Yes, for most of the institutions in the category/Yes, for only a few institutions in the category / not yet, but planning/ no]

SNCI	Medium-sized institutions	Large institutions

- If so, what is the NPL ratio target (on average across the institutions being considered) being considered as a final reduction target? [Comment box]

SNCI	Medium-sized institutions	Large institutions

- Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]

- If so, what is the time horizon (on average across the institutions being considered) for achieving those reduction targets? [Comment box]

SNCI	Medium-sized institutions	Large institutions

- Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]

35. For the institutions that have NPE strategies, what actions are being commonly pursued by the institutions in these strategies:

- Holding NPE and offering forbearance measures? [Yes/ No/ not yet, but planning]

SNCI	Medium-sized institutions	Large institutions

- Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]
- sales of NPE? [Yes/ No/ not yet, but planning]

SNCI	Medium-sized institutions	Large institutions

- Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]
- NPE securitisation? [Yes/ No/ not yet, but planning]

SNCI	Medium-sized institutions	Large institutions

- Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]
- Holding NPE and doing internal workout? [Yes/ No/ not yet, but planning]

SNCI	Medium-sized institutions	Large institutions

- Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]
- Holding NPE and outsourcing workout? [Yes/ No/ not yet, but planning]

SNCI	Medium-sized institutions	Large institutions

- Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]
- Other? [Comment box]

SNCI	Medium-sized institutions	Large institutions

- Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]
- A combination of measures [comment box]

SNCI	Medium-sized institutions	Large institutions

- Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]

36. For the institutions that have NPE strategies, what units/functions in the organisation are generally responsible for the implementation of the NPE strategies (e.g. risk management/control, finance, credit, etc.) [Comment box]

SNCI	Medium-sized institutions	Large institutions

- Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]

37. For the institutions that have NPE strategies, are these strategies supported by internal policies and procedures, ICAAP, risk appetite framework, recovery plan? [Yes, for most of the institutions in the category/Yes, for only a few institutions in the category / not yet, but planning/ no]

SNCI	Medium-sized institutions	Large institutions

- Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]

38. For the institutions that have NPE strategies, is there sufficient senior management / management body oversight and steer for the NPE strategies? [Yes, for most of the institutions in the category/Yes, for only a few institutions in the category / not yet, but planning/ no]

SNCI	Medium-sized institutions	Large institutions

- Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]

39. Have the credit institutions established a strategy to deal with the increased risk as a result of Covid-19? [Yes, for most of the institutions in the category/Yes, for only a few institutions in the category / not yet, but planning/ no]?

SNCI	Medium-sized institutions	Large institutions

- Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]

40. Do credit institutions credit institutions recognise and classify NPE and forbearance, including entry and exit criteria, consistently across the group and based on the definitions in Annex V to Commission Implementing Regulation (EU) No 680/2014? [Yes, for most of the institutions in the category/Yes, for only a few institutions in the category / not yet, but planning/ no]

SNCI	Medium-sized institutions	Large institutions

- Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]

41. What are the most commonly criteria used by credit institutions for the assessment of any debtors' financial difficulties and differentiating between forbearance measures and renegotiations or rollovers? [Comment box]

SNCI	Medium-sized institutions	Large institutions

- Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]

42. Have credit institutions adopted mechanisms and procedures for a consistent application of the definition of non-performing in all subsidiaries and branches? [Yes, for most of the institutions in the category/Yes, for only a few institutions in the category / not yet, but planning/ no]

SNCI	Medium-sized institutions	Large institutions

- Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]

43. In the context of the COVID-19, have credit institutions improved their early warning mechanisms including alternative and updated sources of information for the identification of financial distress and

the unlikely-to-pay debtors? [Yes, for most of the institutions in the category/Yes, for only a few institutions in the category / not yet, but planning/ no].

SNCI	Medium-sized institutions	Large institutions

- Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]
- If yes, please provide some examples [Comment box]

44. What is the predominant way for the credit institutions to actually deal with the NPE in practice (as opposed to stated in the NPE strategy, where applicable)?

- Holding NPE and offering forbearance? [Yes/ No/ not yet, but planning]

SNCI	Medium-sized institutions	Large institutions

- Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]
- sales of NPE? [Yes/ No/ not yet, but planning]

SNCI	Medium-sized institutions	Large institutions

- Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]
- NPE securitisation? [Yes/ No/ not yet, but planning]

SNCI	Medium-sized institutions	Large institutions

- Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]
- Holding NPE and doing internal workout? [Yes/ No/ not yet, but planning]

SNCI	Medium-sized institutions	Large institutions

- Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]
- Holding NPE and outsourcing workout? [Yes/ No/ not yet, but planning]

SNCI	Medium-sized institutions	Large institutions

- Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]
- Other? [Comment box]

SNCI	Medium-sized institutions	Large institutions

- Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]

45. Do credit institutions have sufficient operational capabilities (processes, tools, staff) for dealing with identification of NPE? [Yes, for most of the institutions in the category/Yes, for only a few institutions in the category / not yet, but planning/ no]



50. What units/functions in the credit institutions' organisation are generally responsible for the management of NPE (e.g. risk management/control, finance, credit, etc.)? [Comment box]

SNCI	Medium-sized institutions	Large institutions

- Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]

51. Is there sufficient senior management / management body oversight and steer of the NPE management within the credit institutions? [Yes, for most of the institutions in the category/Yes, for only a few institutions in the category / not yet, but planning/ no]

SNCI	Medium-sized institutions	Large institutions

- Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]

52. In the case where credit institutions are outsourcing of certain NPE management tasks (e.g. collections, collateral management) what tasks are being retained/performed by the credit institutions themselves and what tasks are usually outsourced? [Comment box]

SNCI	Medium-sized institutions	Large institutions

- Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]

53. Do credit institutions have a strategy/policy for timely offering forbearance measures and restructuring options to distressed debtors? [Yes, for most of the institutions in the category/Yes, for only a few institutions in the category / not yet, but planning/ no]

SNCI	Medium-sized institutions	Large institutions

- Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]

54. Do credit institutions perform viability assessment of forbearance measures when choosing the most appropriate measures to a borrower? [Yes, for most of the institutions in the category/Yes, for only a few institutions in the category / not yet, but planning/ no]

SNCI	Medium-sized institutions	Large institutions

- Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]

55. Do credit institutions perform assessment of the borrower's repayment capacity before granting the forbearance measures to understand whether borrower can afford the forbearance measures? [Yes, for most of the institutions in the category/Yes, for only a few institutions in the category / not yet, but planning/ no]

SNCI	Medium-sized institutions	Large institutions

- Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]

56. Do credit institutions have policies and procedures to ensure that non-viable debtors are addressed? [Yes, for most of the institutions in the category/Yes, for only a few institutions in the category / not yet, but planning/ no]

SNCI	Medium-sized institutions	Large institutions

- Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]

57. What are the most commonly offered forbearance measures with short-term time horizon (shorter than two years)? [Comment box]

SNCI	Medium-sized institutions	Large institutions

- Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]

58. What are the most commonly offered forbearance measures with long-term time horizon (longer than two years)? [Comment box]

SNCI	Medium-sized institutions	Large institutions

- Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]

59. Do credit institutions have adequate technical infrastructures to flag and monitor forbearances? [Yes, for most of the institutions in the category/Yes, for only a few institutions in the category / not yet, but planning/ no]

SNCI	Medium-sized institutions	Large institutions

- Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]

60. In the context of the COVID-19 pandemic, do credit institutions continue applying forbearance measures in accordance with the existing regulations, including the Guidelines, or there have been relaxation of the approaches? [Yes, for most of the institutions in the category/Yes, for only a few institutions in the category / not yet, but planning/ no]

SNCI	Medium-sized institutions	Large institutions

- Follow up question for ECB: Are there any country-specific differences, please explain [Comment box]

#### **Cooperation between prudential and consumer protection competent authorities**

61. Do prudential authorities discuss NPE management issues and findings from the NPE management supervision with consumer protection authorities in your jurisdictions? [Yes-fully/ yes-partially/ not yet, but planning/ no]

- Please explain? [Comment box]

62. Do consumer protection authorities in your jurisdiction discuss with prudential authorities issues and findings related to NPE management identified in their work? [Yes-fully/ yes-partially/ not yet, but planning/ no]

- Please explain? [Comment box]

# Annex 5. Self-Assessment Questionnaire for consumer protection CAs

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## **Implementation of the EBA Guidelines on NPE Management, EBA/GL/2018/06 ('the Guidelines')**

1. As the Guidelines contain a series of consumer protection provisions, what is the approach taken with regard to the implementation of the relevant/ corresponding provisions:
  - Relevant consumer protection provisions are identified and referenced in the transposition of the Guidelines [Comment box];
  - References to the Guidelines added in the consumer protection legislation [Comment box]
  - How the national consumer protection authorities have been involved in the implementation of the Guidelines? [Comment box]
2. Please explain your approach to the implementing the relevant consumer protection elements from the Guidelines in your supervisory practices? [Comment box]

## **Supervisory activities**

3. Have you set out any specific requirements for forbearance from a consumer protection perspective? [yes-fully/ yes-partially/ not yet, but planning/ no]
  - If yes, do these requirements interact with prudential requirements and if so, how do they interact? [Comment box]
4. Do you assess how credit institutions meet their consumer protection obligations when granting forbearance measures to borrowers? [Yes-fully/ yes-partially/ not yet, but planning/ no]
  - Please briefly explain your approach to such assessments [comment box]
5. Do you assess how credit institutions meet their consumer protection obligations when developing NPE strategies? [Yes-fully/ yes-partially/ not yet, but planning/ no]
  - Please briefly explain your approach to such assessments [comment box]
6. Do you assess how credit institutions meet their consumer protection obligations when resolving NPE? [Yes-fully/ yes-partially/ not yet, but planning/ no]
  - Please briefly explain your approach to such assessments [comment box]
7. Have you performed reviews of NPE management in last two-years in the credit institutions most affected by NPE from consumer protection perspective? [Yes-fully/ yes-partially/ not yet, but planning/ no]
  - Please explain what was the focus of such reviews [Comment box]
8. Have you taken any supervisory actions as a result of consumer complaints you have received from consumers that are in arrears on their loans? [Yes-fully/ yes-partially/ not yet, but planning/ no]
  - If yes, please provide some examples of actions taken [Comment box]

## **Cooperation between prudential and consumer protection competent authorities**

9. Do prudential authorities discuss NPE management issues and findings from the NPE management supervision with consumer protection authorities in your jurisdictions? [Yes-fully/ yes-partially/ not yet, but planning/ no]
  - Please explain? [Comment box]
10. Do consumer protection authorities in your jurisdiction discuss with prudential authorities issues and findings related to NPE management identified in their work? [Yes-fully/ yes-partially/ not yet, but planning/ no]
  - Please explain? [Comment box]

## Annex 6. EBA Guidelines (EBA/GL/2018/06)

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The EBA Guidelines on the management of non-performing and forborne exposures (EBA/GL/2018/06) can be accessed through the link below:

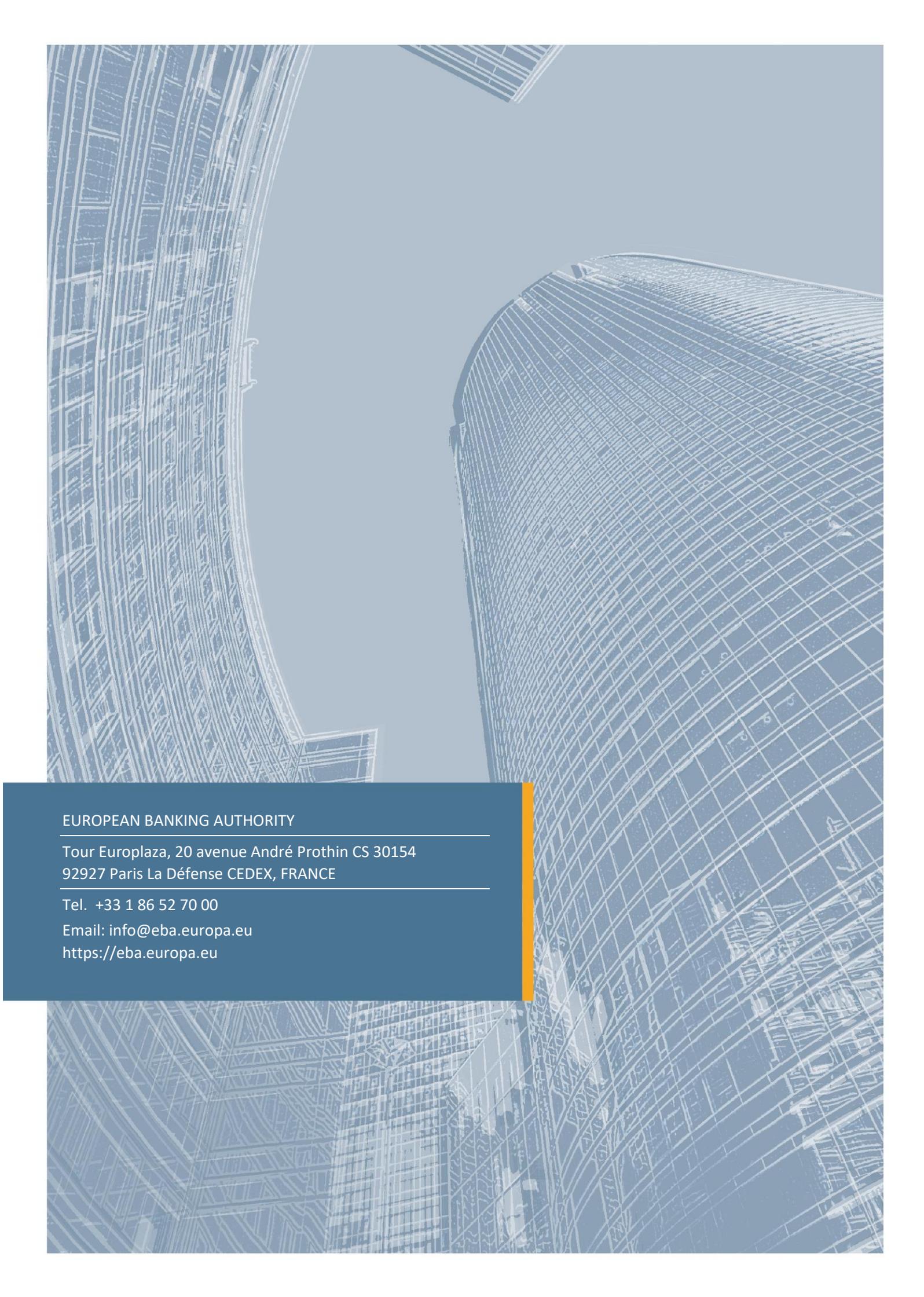
<https://www.eba.europa.eu/eba-publishes-final-guidance-on-management-of-non-performing-and-forborne-exposures>

## Annex 7. Compliance Table of the EBA Guidelines (EBA/GL/2018/06)

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On 20 December 2021, the EBA published an updated compliance table for the EBA Guidelines on the management of non-performing and forborne exposures (EBA/GL/2018/06), showing CAs' intention to comply with the Guidelines. This Compliance Table can be accessed through the link below:

<https://www.eba.europa.eu/sites/default/documents/files/EBA%20GL%202018%2006-CT%20GLs%20on%20management%20of%20non-performing%20and%20forborne%20exposures.pdf>



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