COVID-19 and the Treatment of Restructured Loans for Financial Soundness Indicators (FSI) Compilation

NOVEMBER 23, 2020

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Financial Institutions Division
Restructured loans

Cumulative confirmed COVID-19 cases, Oct 27, 2020
The number of confirmed cases is lower than the number of actual cases; the main reason for that is limited testing.

Moratorium period
Government guarantee schemes
Relaxation of IFRS9 rules
Revision of prudential standards on loan classification and provisioning requirements
Other fiscal measures
## Country examples

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Initiative</th>
<th>Scope</th>
<th>Duration</th>
<th>Eligibility criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>Banking association</td>
<td>Principal and interest</td>
<td>Up to six months</td>
<td>Affected individuals and SMEs not in arrears on 1 January 2020.</td>
</tr>
<tr>
<td>Canada</td>
<td>Banking association</td>
<td>Principal and interest</td>
<td>Up to six months</td>
<td>Affected mortgagors in good standing.</td>
</tr>
<tr>
<td>Hong Kong SAR</td>
<td>Centrally coordinated by financial sector authority</td>
<td>Principal only</td>
<td>Up to six months</td>
<td>SMEs not more than 30 days past due at the launch date of the relief programme and not in the process of ceasing operations or declaring bankruptcy or liquidation.</td>
</tr>
<tr>
<td>Italy</td>
<td>Legislative moratorium</td>
<td>Principal and interest</td>
<td>Up to 16 months</td>
<td>Affected mortgagors and SMEs. SMEs with loans that are more than 90 days past due are excluded.</td>
</tr>
<tr>
<td>Singapore</td>
<td>Centrally coordinated by financial sector authority</td>
<td>Principal and interest</td>
<td>Until 31 December 2020</td>
<td>SMEs not more than 90 days past due as of 6 April 2020.</td>
</tr>
<tr>
<td>South Africa</td>
<td>Banking association</td>
<td>Principal and interest</td>
<td>Up to three months</td>
<td>Individuals and SMEs who were up to date with their payments on 29 February 2020 and have a good track record of paying their debts on time.</td>
</tr>
<tr>
<td>Spain</td>
<td>Legislative moratorium</td>
<td>Principal and interest</td>
<td>Up to three months</td>
<td>Financially vulnerable mortgagors.</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>Centrally coordinated by financial sector authority</td>
<td>Principal and interest</td>
<td>Up to three months</td>
<td>Affected retail customers.</td>
</tr>
<tr>
<td>United States</td>
<td>Legislative moratorium</td>
<td>Principal and interest</td>
<td>Up to 180 days</td>
<td>Affected mortgagors.</td>
</tr>
</tbody>
</table>

Source: Financial Stability Institute/BIS
Go to www.menti.com and use the code 107747

Please tell us about the measures taken in your country to mitigate the impact of the effects of COVID-19 on the financial system:
Go to www.menti.com and use the code 107747

The code lets your audience join the presentation. It expires in 2 days.

Please tell us when the moratorium period on loans repayment will expire/have expired in your country after its introduction:

<p>| | | | | |</p>
<table>
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<tr>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>&lt;3 months</td>
<td>3-6 months</td>
<td>6-12 months</td>
<td>&gt;12 months</td>
<td>No expiration date announced</td>
</tr>
</tbody>
</table>
Outline

- Definition and treatment of NPLs in the 2019 FSI Guide
- Accounting and regulatory treatment of impaired loans and loan loss provisioning
- Covid-19 & restructured loans
- Country case studies
- Monitoring restructured loans
Definition and treatment of NPLs in the 2019 FSI Guide
**Definition of NPLs**

2019 FSI Guide defines Nonperforming loans (NPLs) as those loans for which

1. payments of interest or principal are past due by 90 days or more; or

2. interest payments equal to 90 days or more have been capitalized (reinvested into the principal amount), refinanced, or rolled over (payment delayed by agreement); or

3. evidence exists to reclassify them as nonperforming even in the absence of a 90-day past due payment, such as when the debtor files for bankruptcy.
Definition of Provisions

- 2019 FSI Guide differentiates between specific and general provisions

- Specific provisions are provisions on nonperforming loans only
  - In the balance sheet, specific provisions (Line 18.ii) are deducted from Gross loans (Line 18)

- General provisions are provisions on performing loans.
  - In the balance sheet, general provisions are reported in other liabilities (in the new report forms, general provisions are reported in line 50)
Treatment of accrued interest on nonperforming loans

- Interest costs accrue continuously on debt instruments
  - Increasing the principal amount outstanding until interest is paid

- Interest should accrue and be recorded in accordance with IFRS.

- However, stop accruing interest when loans become nonperforming.
  - Interest arrears should be recorded off-balance sheet.
Treatment of accrued interest on nonperforming loans

In the income and expense statement, interest arrears are deducted from interest income, and not from specific provisions.

In the balance sheet, interest arrears should not increase the carrying value of the loans.

Income/expense statement:

1. Interest income
   i. Gross interest income
   ii. Less provisions for accrued interest on nonperforming assets
2. Interest expense
3. Net interest income
4. Noninterest income
5. Gross income
6. Noninterest expenses
7. Provisions (net)
   i. Loan loss provisions
   7. Of which, accrued interest on nonperforming loans
   ii. Other financial asset provisions
8. Net income before taxes
9. Income tax
10. Net income after taxes

Assets
Gross loans
(Accrued interest on NPL is deducted from gross loans)
Less specific provisions
(Accrued interest on NPL is deducted from specific provision)

Liabilities

Interest arrears are recorded off-balance sheet in the memorandum items.
Treatment of accrued interest on nonperforming loans

In the income and expense statement, interest arrears are deducted from interest income, and not from specific provisions

<table>
<thead>
<tr>
<th>Income/expense statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Interest income</td>
</tr>
<tr>
<td>i. Gross interest income</td>
</tr>
<tr>
<td>ii. Less provisions for accrued interest on nonperforming assets</td>
</tr>
<tr>
<td>2. Interest expense</td>
</tr>
<tr>
<td>3. Net interest income</td>
</tr>
<tr>
<td>4. Noninterest income</td>
</tr>
<tr>
<td>5. Gross income</td>
</tr>
<tr>
<td>6. Noninterest expenses</td>
</tr>
<tr>
<td>7. Provisions (net)</td>
</tr>
<tr>
<td>i. Loan loss provisions</td>
</tr>
<tr>
<td>8. Net income before taxes</td>
</tr>
<tr>
<td>9. Income tax</td>
</tr>
<tr>
<td>10. Net income after taxes</td>
</tr>
</tbody>
</table>

In the balance sheet, interest arrears should not increase the carrying value of the loan

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross loans</td>
<td>Liabilities</td>
</tr>
<tr>
<td>(Accrued interest on NPL is deducted from gross loans)</td>
<td>Other liabilities Interest suspense on NPL is eliminated</td>
</tr>
<tr>
<td>Less specific provisions</td>
<td>Interest suspense on NPL is eliminated</td>
</tr>
</tbody>
</table>

Interest arrears are recorded off-balance sheet in the memorandum items.
Relations among asset quality, earnings and profitability and capital adequacy

The Guide defines restructured loans as loans arising from rescheduling and refinancing of the original loan.

Probation period

- Performing loans
  - Restructured loans continue to be classified as performing loans
  - Exit criteria are fulfilled

- Restructured loans are reclassified as nonperforming loans
  - Exit criteria are not fulfilled, loans remained classified as nonperforming loans

- Nonperforming loans
  - Nonperforming loans are restructured
  - Exit criteria are fulfilled
  - Exit criteria are not fulfilled, loans remained classified as nonperforming loans

Loans are reclassified as performing loans

- the counterparty does not have any material exposure more than 90 days past due;
- repayments have been made when due over a continuous repayment period as specified by the supervisor of at least three months;
- the counterparty’s situation has improved so that the full repayment of the exposure is likely; and
- the exposure is not “defaulted” according to the Basel II standard or “impaired” according to the applicable accounting framework.

Source: BCBS
Relations among asset quality, earnings and profitability and capital adequacy

when restructured loans are classified as performing loans

Deposit Taker: Balance Sheet (Stock data)                        Income Statement (Flow data)

Assets                                  Liabilities

Increase in general and other provisions
Reduce capital

No Change in total assets/liabilities

Income                                  Expense

Increase in general provisions
Reduce income
Relations among asset quality, earnings and profitability and capital adequacy

when restructured loans are classified as nonperforming loans

Deposit Taker: Balance Sheet (Stock data)       Income Statement (Flow data)

Assets                                      Liabilities                                      Income                                      Expense

NPLs:                                        Specific LLP (cumulative)
stop accruing interest                      Loans net of Sp. LLP
require provision (LLP)                     

Weaken capital                              Reduce profit

Reduce total assets/liabilities              New Loan Loss Provisions
Relations among asset quality, earnings and profitability and capital adequacy

Asset quality

- NPLs/Gross Loans
  - Measure asset quality of loan portfolio
- Provisions/NPLs
  - Measure coverage of NPLs
  - New NPLs from restructured loans/New NPLs
  - Provisioning rate for restructured loans
  - Restructured NPLs reclassified as performing/Total NPLs reclassified as performing

Earnings and profitability

- Interest margin/gross income
- Return on assets
- Return on equity
  - NPLs reduce interest income
  - NPLs reduce interest income and increase provisions
  - NPLs reduce interest income and increase provision

Capital

- Regulatory capital/ RWAs
  - Past due loans are assigned higher risk weights
- CET1 and Tier 1 capital/RWAs
  - Past due loans are assigned higher risk weights
- NPLs net of provisions/capital
  - Capacity to withstand loss on NPLs

Measure asset quality of loan portfolio
Measure coverage of NPLs
Measure the proportion of new restructured loans in total NPLs
Measure the provisioning trends in restructured loans
Measure the effectiveness of restructuring workout
Accounting and regulatory treatment of impaired loans and loan loss provisioning
IAS 39 to IFRS 9

- Incurred loss to Expected loss
  - effectively delays the recognition of credit losses on loans and could result in allowances that are considered “too little, too late.”
  - 2009 FSB report; incurred loss model restricted the ability to include future conditions when establishing credit loss allowances
    - increases volatility in the income statement
    - could result in allowances that are procyclical
  - Accordingly, the FSB recommended that accounting standard setters reconsider how institutions account for credit losses in the wake of the financial crisis.

<table>
<thead>
<tr>
<th>IAS 39</th>
<th>IFRS 9</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basis for measurement</td>
<td>Difference between asset’s carrying amount and the present value of estimated future cash flows discounted at the asset’s original effective interest rate</td>
</tr>
</tbody>
</table>
## Incurred Loss vs Expected Loss Model

<table>
<thead>
<tr>
<th>IAS 39 Incurred loss model</th>
<th>IFRS 9 Expected loss model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impairment loss only</td>
<td>Expected loss</td>
</tr>
<tr>
<td>Losses expected as a result of future events, no matter how likely are not recognised</td>
<td>Responsive to changes in information that impact credit expectations</td>
</tr>
<tr>
<td>recognised when: trigger (loss) event occurs and impact can be reliably estimated</td>
<td>Expected loss at recognition approach</td>
</tr>
<tr>
<td></td>
<td>Deterioration in credit quality leads to recognition of lifetime losses</td>
</tr>
<tr>
<td></td>
<td>Additional disclosures</td>
</tr>
</tbody>
</table>
Expected Credit Loss - ECL

IFRS 9 provides that in measuring expected credit losses an entity must reflect:

- An unbiased evaluation of a range of possible outcomes and their probabilities of occurrence.
- Discounting for the time value of money.
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

In practice;

- Individual assessment
- Collective assessment
Expected credit loss under IFRS9

**Stage 1**
- Allowance: 12 month Expected Loss
- Trigger: Initial recognition
- No. of days past due: Less 30 days
- Interest revenue: Gross carrying amount

**Stage 2**
- Lifetime Expected Loss
- Significant increase in credit risk since initial recognition
- 30 days (backstop*)
- Gross carrying amount

**Stage 3**
- Lifetime Expected Loss
- Objective evidence of impairment
- 90 days (backstop*)
- Net carrying amount

*Use backstop only if forward looking information is not available

Change in credit risk since initial recognition
Accounting treatment of loans loss provisions

IFRS 9

- Expected credit losses (ECL) are determined for all financial instruments that are classified at amortized cost or fair value through other comprehensive income, undrawn commitments and financial guarantees.

- ECL do not distinguish between general and specific provisions.

- ECL are calculated for financial instruments in stage 1 (initial recognition), stage 2 (significant increase in credit risk) and stage 3 (objective evidence of impairment).

- Under IFRS9, provisions for nonperforming loans are the portion of ECL that are associated with stage 3 loans.
Implications of COVID 19 measures on ECL calculation

**IFRS**
- Entities should not continue to apply their existing ECL methodology mechanically.
- Extension of payment holidays to all borrowers in particular classes of financial instruments should not automatically result in all those instruments being considered to have suffered an SICR.

**BCBS**
- Relief measures to respond to the adverse economic impact of Covid-19 should not automatically result in exposures moving from a 12-month ECL to a lifetime ECL measurement.
- ECL estimates to reflect the mitigating effect of the significant economic support and payment relief measures put in place by public authorities and the banking sector.
Implications of COVID 19 measures on ECL calculation

**Probability of default (PD)**
- Increase in credit risk may increase the PD and push a large portion of loans from stage 1 to stage 2.
- PD models need to be recalibrated to include current macroeconomic conditions
- Expectation around short-term and long impact of scenarios

**Loss given default (LGD)**
- Falling asset prices lower value of collateral which decrease recovery rates
- LGD models need to be recalibrated

**Exposure at default (EAD)**
- Payment holidays extend the length of the loans, resulting in greater amount at risk

**Staging**
- Application of payment holidays result in staging rules not being automatically applied
Regulatory of treatment of loans loss provisions

Basel I/II/III: Standardized approach to credit

- Distinguish between general and specific provisions
- Exposures are measured net of specific provisions
- General provisions:
  - Provisions are held against future, presently unidentified losses that are freely available to meet losses which subsequently materialize
  - Included in Tier 2 Capital (up to 1.25 percent of risk-weighted assets for credit risk)
- Specific provisions are held against impaired assets
Regulatory of treatment of loans loss provisions

Basel II/III: Advanced approach to credit

- No distinction is made between general and specific provisions
- Expected losses (EL) are calculated gross of loans loss provisions
- Banks are required to maintain adequate provisions to cover for expected losses
  - If expected losses are less than eligible provisions, the shortfalls are deducted 50 percent from Tier 1 and 50 percent from Tier 2 under Basel II, and 100 percent from CET1 under Basel III.
  - If expected losses are greater than eligible provisions, the excess may be included, at the discretion of the supervisor, in Tier 2 capital (up to 0.6 percent of risk-weighted assets for credit risk).
Treatment of provisions for compiling FSIs

- But national treatment varies—at least three approaches
  - All allowances for ECL considered to be specific provisions
  - Stage two and three ECL allowances; or stage three ECL allowances—for loans where there has been a significant increase in risk since origination—considered to be specific provisions
  - Supervisory reporting of provisions does not follow IFRS—this was also common under the previous accounting standard, IAS 39
Treatment of provisions for compiling FSIs

- The FSI Guide distinguishes between provisions on performing and nonperforming loans
  - BCBS recommends that supervisors provide guidance on how to separate EL provisions into general or specific provisions.
  - Under IFRS9, provisions for nonperforming loans are the portion of ECL that are associated with stage 3 loans

* For illustration only. Provisions on different approaches may not be equal.
Regulatory of treatment of past due loans

**Basel Committee (April 2020):** payment moratorium periods (public or granted by banks on a voluntary basis) relating to the Covid-19 outbreak can be excluded by banks from the counting of past due but banks need to consider that the borrower is unlikely to pay its credit obligations.

**Basel I/II/III: Standardized approach to credit**

<table>
<thead>
<tr>
<th></th>
<th>Basel 1*</th>
<th>Past due more than 90 days</th>
<th>Basel II/III</th>
<th>Past due more than 90 days</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Residential mortgage</strong></td>
<td>Specific provisions</td>
<td>Performing loans</td>
<td>Performing loans</td>
<td>Past due more than 90 days</td>
</tr>
<tr>
<td>&lt;20%</td>
<td>50%</td>
<td>50%</td>
<td>35%</td>
<td>50%</td>
</tr>
<tr>
<td>&gt;=20%</td>
<td>50%</td>
<td>50%</td>
<td>35%</td>
<td>100%</td>
</tr>
<tr>
<td><strong>All other claims</strong></td>
<td>&lt;20%</td>
<td>0-150%</td>
<td>0-150%</td>
<td>0-150%</td>
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<tr>
<td>&gt;=20%</td>
<td>0-150%</td>
<td>0-150%</td>
<td>0-150%</td>
<td>150%</td>
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</tbody>
</table>

*Under Basel I, the risk weights normally do not adjust when loans are classified as NPLs.
Regulatory of treatment of past due loans

Basel II/III: Advanced approach to credit

Calculation of RWA depends on three main variables

- PD: Probability of default
- LGD: Loss given default
- EAD: Exposure at default

Two schemes

- Foundation IRB
  - The institution estimates PD and the other two variables are defined by the supervisor
- Advanced IRB
  - The institution estimates the three variables

For banks operating under the IRB framework, the increase in nonperforming loans is reflected through higher provisions while the risk-weighted assets will increase as the probability of default increases (up to a certain level) to reflect the risk profile of the loans.
Covid-19 & Restructured Loans

Sources:
IMF – Covid-19 Special Series Note - Banking Sector Regulatory and Supervisory Response to Deal with Coronavirus Impact
IMF – Covid-19 Special Series Note – The Treatment of Restructured Loans for FSI Compilation
COVID-19 shock

- The COVID-19 outbreak represents a severe negative economic shock.
  - might translate into a sharp increase in banks’ NPLs and restructured loans.

- Supervisors and regulators should play an integral part and contribute to public policy responses to the COVID-19 pandemic.

- Countries need to be prepared: the economic impact of the coronavirus will affect borrowers’ capacity to service loans, and banks’ earnings will suffer.

Source: GFSR, October 2020
Restructured Loans

- Only looking at FSIs and NPL measures may not be sufficient. Look deeper!
  - NPLs may not be correctly classified (restructure instead of categorizing as NPL)
  - Provisioning may not be adequate

- Effect on FSIs highly dependent on the underlying regulatory structure
  - IFRS or National Rules (accounting and prudential)
  - Basel-I, Basel-II (standardized approach, IRB) or Basel-III
Countries have employed various mechanisms

To relieve the impact and sustain economic activity:

- **a range of financial and fiscal measures** to support distressed sectors or borrowers
  - direct measures such as tax cuts and subsidies to corporates and households that are the most affected,
  - indirect measures like credit guarantee schemes and subsidized bank lending arrangements, payment moratorium

- **measures to alleviate the strains on the banking system**
  - special liquidity lines, guarantees

- **monetary stimulus** to support economic activity and maintain adequate liquidity levels in the financial system.

Source: Telegraph.co.uk
How prepared were the financial institutions?

- Better prepared compared to Global Financial Crisis (GFC)
  - Capital and liquidity buffers and leverage constraints – thanks to Basel III rules
  - Data gaps are not as crucial as it was in GFC but still persists.
  - Risk management practices – lesson learnt from GFC – reduced incentives for excessive risk taking
    - i.e., remuneration practices should not be linked to short term profitability
    - This time financial institutions were more aligned to risk-off mode at a time lending to the economy was crucial
What to do to encourage maintain flow of credit to the economy and mitigate financial risks?

- Encourage restructuring - banks can help borrowers manage the temporary impact of the virus on their business and minimize their own losses.
  - a grace period or
  - adjusting the terms of the contract
- Restructurings could be an important tool for managing this shock
  - providing borrowers breathing room and
  - allowing them to resume loan repayments as the severe effects of the shock ease.
Key points in restructuring - I

- Banks should work constructively with affected borrowers; and

- Supervisors should encourage prudent loan restructuring where necessary to sectors or firms heavily impacted by the crisis.
  - The restructuring decision is a business decision by the bank
    - Based on the assessment of the borrower’s capacity to pay under the new terms.
  - Banks should not be encouraged to foreclose loans, cease and liquidate collateral, using out-of-court mechanisms and/or legal proceedings.
  - Instead, restructuring could take the form of renegotiated terms
    - Maturity, interest rates, fees,
    - Moratorium policies or
    - Grace periods/payment deferrals.
Key points in restructuring - II

- Minimize moral hazard
  - borrowers that were already highly unlikely to repay before the COVID-19 crisis do not unduly benefit from wide-ranging repayment holidays, and
  - borrowers facing temporary difficulties are not disincentivized to resume loan repayment at the end of the application of the moratorium.
  - Banks and supervisors should continue monitoring credit portfolios for signs of distress.
Concerns with restructuring

- Irrespective of whether the loans are restructured or not, banks may at some point face losses on their loan portfolios due the impact of the crisis.
  - A portion of loans may be identified as ‘defaulted’ at the end of the moratorium period.
  - Some performing loans may require higher provisioning due to Significant Increase in Credit Risk (SICR).
  - The overall impact will depend on the severity and spread of the COVID-19 pandemic as well as the magnitude of the economic and financial impact on the bank.
Importance of loan classification and provisioning rules

- It is critical to measure NPLs and potential losses as accurately as possible.

- Banks should not be encouraged to hide losses (creating moral hazard and transparency issues).

- The status of the exposures (performing vs. nonperforming) and the level of provisioning should be reassessed on a regular basis to account for the evolution of the situation.

- The unprecedented uncertainty about the impact on economic activity poses challenges to the reliable estimation of credit losses.

- **Transparency and accuracy of data are important to maintain the confidence in the banking sector.**
The Guide defines NPLs as loans for which
- payments of interest or principal are past due by 90 days or more; or
- interest payments equal to 90 days or more have been capitalized (reinvested into the principal amount), refinanced, or rolled over (payment delayed by agreement); or
- evidence exists to reclassify them as nonperforming even in the absence of a 90-day past due payment, such as when the debtor files for bankruptcy.

The Guide defines restructured loans as loans arising from rescheduling and refinancing of the original loan.

Forbearance (BCBS): a situation in which
- a counterparty is experiencing financial difficulty in meeting its financial commitments, and
- a bank grants a concession that it would not otherwise consider.
Importance of definitions

- Supervisory asset quality monitoring;
- Banks’ internal credit categorisation systems for credit risk management purposes;
- Pillar 3 disclosure on asset quality under Basel-II framework;
- Dissemination of data for asset quality indicators and international assessments of financial systems.
  - Financial Soundness Indicators
Actions Taken

- Several countries have started to implement payment moratorium or public guarantee schemes.

- Basel Committee (April 2020)
  - payment moratorium (public or granted by banks on a voluntary basis) or access to other relief measures such as public guarantees, may not automatically lead to the loan being categorized as forborne.
  - payment moratorium periods relating to the Covid-19 outbreak can be excluded by banks from the number of days past due.

- The International Accounting Standards Board (April 2020)
  - the extension of payment holidays to all borrowers should not automatically result in “a significant increase in credit risk”.
  - Current circumstances are difficult and create high levels of uncertainty, ECL frameworks are not designed to be applied mechanistically.

- Regardless, all loans under payment moratorium fall under the restructured loans definition of the Guide and should be closely monitored by the national supervisors.
Country case studies
Country case study: UAE

Summary of Covid 19 measures relating to restructured loans

- Payment deferral relief up to 31 December 2020 on principal and/or interest/profit to private sector corporates, SMEs and individuals affected by COVID-19
- Expectation that the IFRS 9 staging and classification remain unchanged during the period of the scheme.
- The capital conservation buffer stays at 2.5%, but banks may utilize up to a maximum of 60% from 15 March 2020 until 31 December 2021.
Summary of Covid 19 measures relating to restructured loans

• Relaxed loan classification and loan restructuring procedures for debtors who are affected by the COVID-19 outbreak
• Restructured loans should be classified as performing-loan after restructuring occurs and are exempted from the implementation of credit or financing restructuring accounting treatment.
• Implementation of moratorium measures are subject to individual own banks policy
• Other measures include relaxation of liquidity coverage ratio and net stable funding ratio requirements; and allowed the use of the capital conservation buffer.
Country case study: Spain

Summary of Covid 19 measures relating to restructured loans

- Three-month moratorium on mortgage payments for households, self-employed and homeowners;
- Moratorium on non-mortgage loans and credits, including consumer credits, for the most vulnerable;
- Suspension of interest and repayment of loans granted by the Secretariat of State for Tourism for one year with no need for prior request;
- Deferred repayment of loans granted to businesses by the Ministry of Industry, Trade, and Tourism.
How do you expect the Covid 19 pandemic to affect your banking system

- Capital adequacy
- Asset quality
- Provisioning requirements
- Profitability
Monitoring restructured loans
How to deal with restructured loans

- It would be challenging for banks to reliably estimate loan losses in the short term.

- As time passes, banks should be in a better position to gradually assess the impact on the financial situation of borrowers.

- Supervisors should review banks’ loan restructuring processes and loss estimates and their implications for banks’ financial and prudential situation.
Tracking restructured loans as early warning indicator

- Stock, flows and provisioning rate is important to follow.
  - Trends and stock of restructured loans could serve as early warning indicator.

- Given the risks posed by restructured loans, restructured loans could be an integral part of the stress testing program.
  - Stress tests and scenario analysis could put particular attention into restructured loans.
  - Past and current data on restructured loans could help us better understand the transition between performing and nonperforming loans for restructured loans (i.e., in scenario design)
## Stock of Restructured Loans

<table>
<thead>
<tr>
<th>Indicators for Restructured Loans</th>
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<tbody>
<tr>
<td>- Provisions for restructured loans (performing)/Total restructured loans (performing)</td>
</tr>
<tr>
<td>- Provisions for restructured loans (nonperforming)/Total restructured loans (nonperforming)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Stock of Restructured Loans</th>
<th>Principal amount</th>
<th>Accrued interest</th>
<th>Provisions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restructured loans classified as performing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- of which, granted due to COVID-19</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restructured loans classified as nonperforming</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- of which, granted due to COVID-19</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>
# Transition Matrix

<table>
<thead>
<tr>
<th>Nonperforming loans</th>
<th>Provisions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance</td>
<td></td>
</tr>
<tr>
<td>Increase in existing NPLs</td>
<td></td>
</tr>
<tr>
<td>-of which, restructured loans</td>
<td></td>
</tr>
<tr>
<td>Decrease in NPLs due to</td>
<td></td>
</tr>
<tr>
<td>-Write-off</td>
<td></td>
</tr>
<tr>
<td>-Reclassification as performing loans</td>
<td></td>
</tr>
<tr>
<td>-of which, restructured NPLs reclassified as performing loans</td>
<td></td>
</tr>
<tr>
<td>-NPLs transferred to asset management companies</td>
<td></td>
</tr>
<tr>
<td>-Others (e.g., Direct sale, etc.)</td>
<td></td>
</tr>
<tr>
<td>Closing balance</td>
<td></td>
</tr>
<tr>
<td>Memorandum item</td>
<td></td>
</tr>
<tr>
<td>Existing NPLs that have been restructured during the period</td>
<td></td>
</tr>
</tbody>
</table>

* Accrued interest on nonperforming loans reversed through provisions (only for relevant jurisdictions)
Go to www.menti.com and use the code 107747

Have you been collecting detailed data on restructured loans?

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>Partial</th>
<th>No response</th>
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</thead>
<tbody>
<tr>
<td>Count</td>
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<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>
Go to www.menti.com and use the code 10 77 47

Please indicate if you are following the indicators below to monitor banks.
Go to www.menti.com and use the code 107747

Are you planning to make any changes in the data collection process in the near future, regarding restructured loans?

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>No</td>
<td>No opinion</td>
</tr>
</tbody>
</table>

0 0 0
THANK YOU