

19 January 2023

Circular to Credit Institutions on the Update to Banking Rule BR/09 on Measures Addressing Non-Performing Exposures and Forborne Exposures

The Malta Financial Services Authority is hereby issuing an updated Banking Rule BR/09 on **Measures Addressing Non-Performing Exposures and Forborne Exposures (the 'Rule')**. The update to the Rule includes the following:

- 1) Amendments to the quantitative requirements for non-performing exposures (NPEs), and;
- 2) the implementation of the relevant Guidelines issued by the European Banking Authority (EBA).

1) Quantitative Requirements for Non-Performing Exposures

Part 1 of the Rule provides requirements for loans that originated before 26 April 2019 as follows:

- loans that were classified as NPEs *before* 26 April 2019, referred to as 'Stock NPEs', and;
- loans that were classified as NPEs *after* 26 April 2019, referred to as 'Flow NPEs'.

The minimum coverage expectation paths are specified for both Stock NPEs and Flow NPEs since such loans are not covered by Regulation (EU) 2019/630, amending the Capital Requirements Regulation.

2) Implementation of EBA Guidelines

The sections covering Part Two to Part Five of the Rule implement the following EBA Guidelines:

- The Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013 ([EBA/GL/2016/07](#)),

- The Guidelines on credit institutions' credit risk management practices and accounting for expected credit losses ([EBA/GL/2017/06](#)),
- The Guidelines on management of non-performing and forborne exposures ([EBA/GL/2018/06](#)),
- The Guidelines on disclosure of non-performing and forborne exposures (consolidated version) ([EBA/GL/2018/10](#)).

Unless otherwise stated within the Rule, the requirements shall come into force with immediate effect.

This Circular shall not be construed as a replacement of the provisions of the new Rule, and the new Rule shall prevail in case of any conflict. Kindly direct any queries on the new Rule to the Policy & Legal Team or the LSI Team within Banking Supervision on bsupolicy@mfsa.mt and/or lsisupervision@mfsa.mt.