

21 June 2023

Circular to Credit Institutions on the Non-Performing Loans Ratio Calculation

Further to the [Circular to Credit Institutions on the Update to Banking Rule BR/09 on Measures Addressing Non-Performing Exposures and Forborne Exposures](#), dated 19 January 2023, the Authority is hereby providing clarification on the calculation of the “NPL ratio” in accordance with the NPE definition, as outlined in Banking Rule BR/09 (the “Rule”).

In calculating the NPL ratio in accordance with the NPE definition for the purpose of paragraphs 11 and 12 of the Rule, institutions are advised to follow the approach as outlined by the EBA through the Single Rulebook, [Q&A 2020_5170](#). More specifically, institutions shall exclude cash balances at central banks and other demand deposits from both the numerator and denominator of the ratio.

This is aimed at aligning the ratio and threshold used in the Rule with the approach used in Supervisory Reporting and in Pillar 3 disclosures, already and ahead of the EBA amendments to the EBA Guidelines on management of non-performing and forborne exposures ([EBA/GL/2018/06](#)).

Institutions are reminded that, as outlined in paragraph 9 to BR/09, all sections of the Rule apply to all exposures subject to non-performing and forbearance definitions.