



2025/2595

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GUIDELINE (EU) 2025/2595 OF THE EUROPEAN CENTRAL BANK

of 10 December 2025

on the supervisory approach by national competent authorities to coverage of non-performing exposures held by less significant supervised entities (ECB/2025/40)

THE GOVERNING COUNCIL OF THE EUROPEAN CENTRAL BANK,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions ⁽¹⁾, and in particular Article 6(1), and Article 6(5), points (a) and (c), thereof,

Whereas:

- (1) The European Central Bank (ECB) is responsible for the effective and consistent functioning of the Single Supervisory Mechanism (SSM). It oversees the functioning of the system and ensures the consistent application of high supervisory standards and the consistency of supervisory outcomes across the participating Member States. The ECB may issue guidelines to national competent authorities (NCAs), in accordance with which supervisory tasks are to be performed and supervisory decisions are to be adopted by NCAs.
- (2) The ECB ensures the consistent application of prudential requirements for credit institutions within the participating Member States, in accordance with Regulation (EU) No 1024/2013 and Regulation (EU) No 468/2014 of the European Central Bank (ECB/2014/17) ⁽²⁾.
- (3) While NCAs are primarily responsible for reviewing the arrangements, processes, mechanisms and strategies implemented by credit institutions that are classified as less significant to ensure a sound management and coverage of their risks – including their provisioning policies and treatment of assets in terms of own funds requirements – the ECB, in its oversight role within the SSM, should promote the consistent application of high supervisory standards in the execution of such reviews. In this context, a consistent application of high supervisory standards to the supervisory review of management and coverage of non-performing exposures (NPEs) for less significant supervised entities across the SSM contributes to the broader objectives of ensuring that: (a) a coherent and effective prudential supervisory approach is implemented with respect to all credit institutions in the participating Member States; (b) the single rulebook for financial services is applied consistently to all credit institutions in the participating Member States; and (c) all credit institutions in the participating Member States are subject to supervision of the highest quality.
- (4) Ensuring adequate management and coverage of NPEs has been an important priority within the SSM since its inception. The ECB has followed a supervisory approach to NPEs based on the framework devised by the Union legislator, and taking into account the interpretative guidelines adopted by the European Banking Authority. As part of this supervisory approach, the ECB has communicated supervisory coverage expectations for NPEs held by significant supervised entities. Those expectations refer to NPEs where the exposure was originated prior to 26 April 2019 and which are therefore not subject to the deduction requirement under Regulation (EU) No 575/2013 of the European Parliament and of the Council ⁽³⁾. For less significant supervised entities, coverage of such NPEs has to date not been subject to uniform supervisory practices across the SSM. Coverage of NPEs has been subject to the approaches defined by NCAs for their respective supervisory activities.

⁽¹⁾ OJ L 287, 29.10.2013, p. 63, ELI: <http://data.europa.eu/eli/reg/2013/1024/oj>.

⁽²⁾ Regulation (EU) No 468/2014 of the European Central Bank of 16 April 2014 establishing the framework for cooperation within the Single Supervisory Mechanism between the European Central Bank and national competent authorities and with national designated authorities (SSM Framework Regulation) (ECB/2014/17) (OJ L 141, 14.5.2014, p. 1, ELI: <http://data.europa.eu/eli/reg/2014/468/oj>).

⁽³⁾ Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p. 1, ELI: <http://data.europa.eu/eli/reg/2013/575/oj>).

- (5) As shown by the experience gained by the ECB in the context of the supervisory approach followed with respect to significant supervised entities, sufficient and timely coverage of NPEs promotes pro-active management of those exposures, the reduction of their stock, and provisioning levels that are commensurate with the risks associated with their vintage and the evolution of recoverable amounts.
- (6) Therefore, the supervisory approach of NCAs in relation to coverage of NPEs held by less significant supervised entities should cover the review of provisioning policies and treatment of assets in terms of own funds requirements of those supervised entities.
- (7) Such a supervisory approach to coverage of NPEs is considered to be an effective tool to mitigate two key risks. The first is the persistence of material stocks of NPEs with high vintages (also referred to as legacy NPEs) and limited provision coverage, which constitute lasting sources of potential further losses and restrict banks' capacity for new lending. The second is the possibility of inconsistencies in the prudential treatment of those NPEs which are subject to the deduction requirement under Regulation (EU) No 575/2013 and those which are not, where those inconsistencies are not justified by specific circumstances.
- (8) Those two key risks are material. The aggregated ratios of NPEs both for significant and for less significant supervised entities have in general exhibited a sustained downward trend since the inception of the SSM. This trend was more pronounced for significant supervised entities and came to an end in 2024. In light of potentially resurgent NPE ratios, it is considered that, given satisfactory overall levels of capital and the ample time less significant supervised entities have recently had to make progress on the reduction and coverage of legacy NPEs on their own initiative, a harmonised supervisory approach of NCAs in relation to coverage of NPEs held by less significant institutions is proportionate to the supervisory objective of addressing the two key risks related to those NPEs, in order to strengthen the resilience of less significant supervised entities to potential adverse developments in the macroeconomic environment and associated deteriorations in credit quality.
- (9) To assess the coverage by less significant supervised entities of non-performing exposures that are within the scope of this Guideline, it is necessary for NCAs to obtain detailed data in relation to coverage of such exposures. Such data is not currently included in the information that institutions are required to report under Commission Implementing Regulation (EU) 2021/451 ⁽⁴⁾, and therefore NCAs should require less significant supervised entities to report it for each relevant reporting reference date,

HAS ADOPTED THIS GUIDELINE:

Article 1

Subject matter and scope

This Guideline specifies the supervisory approach which NCAs shall use for reviewing the provisioning policies and treatment of assets in terms of own funds requirements of less significant supervised entities established in the same Member State as the relevant NCA.

Article 2

Definitions

For the purposes of this Guideline, the definitions contained in Article 4 of Regulation (EU) No 575/2013, Article 2 of Regulation (EU) 2017/2402 of the European Parliament and of the Council ⁽⁵⁾, Article 2 of Regulation (EU) No 1024/2013 and Article 2 of Regulation (EU) No 468/2014 (ECB/2014/17) apply. The following definitions also apply:

- (1) 'reporting reference date' means 31 December of a given calendar year;

⁽⁴⁾ Commission Implementing Regulation (EU) 2021/451 of 17 December 2020 laying down implementing technical standards for the application of Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to supervisory reporting of institutions and repealing Implementing Regulation (EU) No 680/2014 (OJ L 97, 19.3.2021, p. 1, ELI: http://data.europa.eu/eli/reg_impl/2021/451/oj).

⁽⁵⁾ Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) No 1060/2009 and (EU) No 648/2012 (OJ L 347, 28.12.2017, p. 35, ELI: <http://data.europa.eu/eli/reg/2017/2402/oj>).

- (2) 'non-performing exposure within the scope of this Guideline' means an exposure that meets the conditions for derogation from Article 36(1), point (m), of Regulation (EU) No 575/2013 as provided for in Article 469a of that Regulation;
- (3) 'technical guarantee' means in relation to an exposure a guarantee which guarantees the ability of the debtor to comply with contractual non-economic obligations such as the supply of goods or execution of works towards a third party and which does not have the character of a credit substitute.

Article 3

Institutions in scope

1. NCAs shall apply the supervisory approach set out in this Guideline with respect to all less significant supervised entities at the highest level of consolidation within the participating Member States.
2. By way of derogation from paragraph 1, an NCA may decide not to apply the supervisory approach set out in this Guideline to a less significant supervised entity for a given reporting reference date if this less significant supervised entity meets at least one of the following conditions at the highest level of consolidation:
 - (a) the less significant supervised entity's total gross carrying amount of non-performing loans and advances represents less than 5 % of the less significant supervised entity's total gross carrying amount of loans and advances. In calculating the sole ratio that is to be assessed against the threshold of 5 %, loans and advances classified as held for sale, cash balances at central banks and other demand deposits shall be excluded both from the denominator and the numerator;
 - (b) the less significant supervised entity's total amount of non-performing exposures within the scope of this Guideline as defined in Article 2(2) represents an insignificant share of the less significant supervised entity's total amount of non-performing exposures;
 - (c) the less significant supervised entity is subject to an ongoing orderly wind-down process;
 - (d) the less significant supervised entity is subject to an ongoing merger with another supervised entity, or is in the process of being acquired by another supervised entity;
 - (e) the less significant supervised entity is a 'specialised debt restructurer' as defined in Article 36(5) of Regulation (EU) No 575/2013;
 - (f) the less significant supervised entity is subject to specific and factual circumstances that, in the view of the relevant NCA, make the application of this Guideline inappropriate, taking into account the objectives and principles of Regulation (EU) No 1024/2013 and, in particular, the need to ensure the consistent application of high supervisory standards.
3. Following their assessment of paragraph 2, points (a) to (f), NCAs shall accordingly inform the less significant supervised entities established in their respective Member States to which the framework set out in this Guideline, and the associated reporting requirements defined in Article 7, apply for a given reporting reference date.
4. NCAs shall inform the ECB on a regular basis of the application of the exemptions applied pursuant to paragraph 2, including the underlying assessments of the NCAs concerned.

Article 4

Exposures in scope

1. NCAs shall apply the supervisory approach set out in this Guideline with respect to non-performing exposures within the scope of this Guideline.
2. Underlying exposures of traditional or synthetic securitisations shall remain outside of the scope of this Guideline if either one of the following conditions is met with respect to those exposures:
 - (a) the less significant supervised entity has achieved significant risk transfer (SRT) in accordance with Article 244(1), point (a), or Article 245(1), point (a) of Regulation (EU) No 575/2013;
 - (b) the less significant supervised entity follows the full deduction approach in accordance with Article 244(1), point (b), or Article 245(1), point (b), of Regulation (EU) No 575/2013.

3. Upon the request of a less significant supervised entity, NCAs may decide not to apply Article 5 to individual exposures or portfolios of exposures based on specific circumstances demonstrated by detailed and robust evidence submitted by the less significant supervised entity. On the basis of said evidence, NCAs shall assess and decide upon the less significant supervised entity's request.
4. For the purpose of paragraph 3, specific circumstances shall include any of the following situations:
 - (a) ongoing regular payments of principal and interest, based on the official debtor's cash flows, will lead to full repayment;
 - (b) the coverage of NPEs would, in combination with Pillar 1 capital requirements for credit risk, result in more than 100 % of the exposure being covered;
 - (c) the exposure relates to technical guarantees.

Article 5

Assessment of NPE coverage

1. NCAs shall assess less significant supervised entities' coverage of non-performing exposures within the scope of this Guideline on the basis of the amount determined in accordance with Article 47c(1), point (a), read in conjunction with Article 47c(2), (3), and (4) of Regulation (EU) No 575/2013.
2. In determining less significant supervised entities' amounts of coverage which are to be assessed against the amount specified in paragraph 1, NCAs shall take into account the items listed in Article 47c(1), points (b)(i) to (vi), of Regulation (EU) No 575/2013.

Article 6

Use in the supervisory process

1. NCAs shall use the outcomes of their assessments of less significant supervised entities' coverage of non-performing exposures within the scope of this Guideline as part of the supervisory review and evaluation process referred to in Article 97 of Directive 2013/36/EU of the European Parliament and of the Council ⁽⁶⁾.
2. If, after giving due consideration to the specific circumstances presented by a less significant supervised entity, an NCA finds that the coverage of non-performing exposures within the scope of this Guideline is insufficient, it shall consider adopting a supervisory measure based on the national legislation transposing Article 104 of Directive 2013/36/EU or equivalent supervisory powers available in national legislation.

Article 7

Reporting requirements

1. For the purpose of conducting the assessment described in Article 5, NCAs shall require less significant supervised entities to report detailed data on the coverage of their non-performing exposures within the scope of this Guideline for each reporting reference date.
2. The templates to be used for the reporting referred to in paragraph 1 shall be prepared by the ECB in cooperation with the NCAs.
3. NCAs shall share the information referred to in paragraph 1 and submitted to them by less significant supervised entities with the ECB for use as part of its oversight mandate.

⁽⁶⁾ Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (OJ L 176, 27.6.2013, p. 338, ELI: <http://data.europa.eu/eli/dir/2013/36/oj>).

*Article 8***Transitional arrangements**

1. NCAs shall assess coverage of NPEs in accordance with Article 5 of this Guideline as of the reporting reference date of 31 December 2028.
2. By way of derogation, for the first three reporting reference dates following the notification of this Guideline to the NCAs the following shall apply:
 - (a) for the purpose of assessing coverage of NPEs referred to in Article 5(1) for the reporting reference date of 31 December 2025
 - (i) the factor specified in Article 47c(2), point (b), of Regulation (EU) No 575/2013 shall be replaced by 0,60;
 - (ii) the factors specified in Article 47c(3), points (d) to (i), of Regulation (EU) No 575/2013 shall be replaced by 0,60;
 - (iii) the factor of 1 specified in Article 47c(4), point (b), of Regulation (EU) No 575/2013 shall be replaced by 0,60;
 - (b) For the purpose of assessing coverage of NPEs referred to in Article 5(1) for the reporting reference date of 31 December 2026
 - (i) the factor specified in Article 47c(2), point (b), of Regulation (EU) No 575/2013 shall be replaced by 0,70;
 - (ii) the factors specified in Article 47c(3), points (e) to (i), of Regulation (EU) No 575/2013 shall be replaced by 0,70;
 - (iii) the factor of 1 specified in Article 47c(4), point (b), of Regulation (EU) No 575/2013 shall be replaced by 0,70;
 - (c) For the purpose of assessing coverage of NPEs referred to in Article 5(1) for the reporting reference date of 31 December 2027
 - (i) the factor specified in Article 47c(2), point (b), of Regulation (EU) No 575/2013 shall be replaced by 0,80;
 - (ii) the factors specified in Article 47c(3), points (g) to (i), of Regulation (EU) No 575/2013 shall be replaced by 0,80;
 - (iii) the factor of 1 specified in Article 47c(4), point (b), of Regulation (EU) No 575/2013 shall be replaced by 0,80.
3. By way of derogation from Article 6 of this Guideline, for the first reporting reference date following the notification of this Guideline to the NCAs, an NCA may decide not to use the outcomes of the assessment of less significant supervised entities' coverage of non-performing exposures as part of the supervisory review and evaluation process.

*Article 9***Taking effect**

This Guideline shall take effect on the day of its notification to the NCAs of the participating Member States.

*Article 10***Addressees**

This Guideline is addressed to the NCAs of the participating Member States and the ECB.

Done at Frankfurt am Main, 10 December 2025.

For the Governing Council of the ECB
The President of the ECB
Christine LAGARDE