EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Press release

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ECB consults on managing legacy NPEs in less significant institutions

- ECB invites comments from banks and other stakeholders on draft Guideline for harmonising supervisory approach on non-performing exposures at less significant institutions
- Guideline addresses longstanding NPE challenges in harmonised and proportionate manner across euro area
- Consultation runs from 15 September to 27 October 2025.

The European Central Bank (ECB) today launches a public consultation on a draft Guideline for a harmonised supervisory approach to the coverage of non-performing exposures (NPEs) held by less significant institutions (LSIs). LSIs are banks that are directly supervised by their national competent authorities (NCAs); and which are typically smaller than significant institution (SIs), which are directly supervised by the ECB.

While NPE ratios have significantly declined over the past decade, thanks in part to the common supervisory approach for SIs, some LSIs continue to face challenges in managing their legacy NPEs. This is reflected in NPE stocks which have remained on their balance sheets for longer and have lower coverage ratios compared with those held by SIs. Legacy NPEs constitute lasting sources of potential further losses and restrict banks' capacity for new lending.

The draft Guideline addresses NCAs as the direct supervisors of LSIs. It focuses on ensuring sound risk management and consistent supervisory standards, while allowing NCAs to exercise supervisory discretion within the Pillar 2 framework. The ECB supports this through oversight, collaboration and information exchange to foster consistency across European banking supervision.

Developed in collaboration with NCAs, the draft Guideline sets out a common supervisory approach. It provides supervisory coverage expectations for the stock of legacy NPEs that were originated before

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26 April 2019. These exposures fall outside the scope of the deduction requirement under the CRR[1] (covering NPEs originated after that date), which already applies to LSIs as well as to SIs.

The supervisory expectations for the stock of legacy NPEs in LSIs follow the successful application of a similar approach to NPEs at SIs since 2018[2], while accounting for the specific features of LSIs. In fact, the draft Guideline allows NCAs to annually determine which LSIs fall within its scope based on specific risk and contextual criteria. This enables NCAs to follow a risk-based approach and avoids distortive effects. Moreover, NCAs will assess the follow-up for the banks identified on a case-by-case basis, considering specificities of each individual bank.

On the basis of a detailed impact study, the overall impact of the common approach on LSIs is expected to be manageable. The gradual phase-in of the approach over the period from 31 December 2025 to 31 December 2028 will cushion its effects. In addition, relevant reporting requirements will be based on a concise template that is closely aligned with existing common reporting (COREP) data submissions. The final impact will nonetheless depend on the outcome of NCAs' supervisory dialogues with the identified banks.

By introducing the approach set out in the draft Guideline, the ECB aims to make LSIs more resilient to potential adverse developments in the macroeconomic environment and associated deteriorations in credit quality.

The public consultation on the draft Guideline starts on 15 September and will close on 27 October 2025. The ECB will subsequently publish the comments received, along with a feedback statement on the public consultation and the final Guideline.

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1 Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p. 1).

2 ECB (2018), "ECB announces further steps in supervisory approach to stock of NPLs", 11 July.

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