



ANNEX VII

INSTRUCTIONS FOR REPORTING ON LOSSES STEMMING FROM LENDING COLLATERALISED BY IMMOVABLE PROPERTY

1. This Annex contains instructions in relation to the templates included in Annex VI to PRA Rulebook, Reporting (CRR) Part, Chapter 6. For the purposes of this Annex, references to the CRR should be interpreted to include a reference to the relevant CRR rule, where appropriate.
2. All the general instructions included in Part I of Annex II to this rule shall also apply.

Reporting scope

3. Institutions that use immovable property in accordance with Part Three, Title II of CRR shall report the data specified in Article 430a(1) CRR.
4. The template covers all national markets an institution/group of institutions is exposed to (see Article 430a(1) CRR). In accordance with Article 430a(2) the data shall be reported separately for the immovable property market within the standards of the United Kingdom to which the relevant institution is exposed.

Definitions

5. 'Loss' shall mean the loss defined in point (2) of Article 5 CRR, including losses stemming from leased property. The recovery flows stemming from other sources (e.g. bank guarantees, life insurance, etc.) shall not be recognised as reducing the losses when calculating losses stemming from immovable property. Losses of one position shall not be netted with the profit of a successful recovery of another position.
6. For exposures secured by residential and commercial property the calculation of economic loss shall start from outstanding exposure value at the reporting date and shall include at least: (i) proceeds from collateral realisation; (ii) direct costs (including interest rates payments and recovery costs linked to the liquidation of the collateral); and (iii) indirect costs (including operating costs of the recovery unit). All components shall be discounted to the reporting reference date.
7. The exposure value shall be determined in accordance with the rules stipulated in Title II of Part Three CRR (see Chapter 2 for institutions using the standardised approach, and Chapter 3 for institutions using the IRB approach).
8. The property value shall be determined in accordance with the rules stipulated in Title II of Part Three CRR.
9. F/X effect: Amounts shall be converted to the reporting currency using the exchange rate at the reporting date. Moreover, the estimates of the economic losses should consider the F/X effect if the exposure or collateral is denominated in a different currency.

Geographical breakdown

10. Institutions shall report the following templates:

- a) one total template;
- b) one template for the immovable property market within the standards of the United Kingdom to which the institution is exposed to, and;
- c) one template aggregating the data for all national markets outside the United Kingdom to which the institution is exposed to.

Reporting of exposures and losses

11. Exposures: All exposures that are subject to requirements in Title II of Part Three CRR and where the collateral is used to reduce the risk-weighted exposure amount shall be reported in template C 15.00. This also means that the exposures and losses concerned must not be reported if the risk mitigation effect of the immovable property is only used for internal purposes (i.e. under Pillar 2) or for large exposures (see Part Four CRR).

12. Losses: The institution which has the exposure by the end of the reporting period shall report the losses. Losses shall be reported as soon as provisions are to be booked in accordance with accounting rules. The estimated losses shall also be reported. Losses from exposures collateralised by immovable property shall be calculated on a loan-by-loan basis and aggregated for reporting purposes.

13. Reference date: The exposure value at default shall be used.

- a) Losses shall be reported for all defaults on loans secured by real estate property that occur during the reporting period and irrespective of whether the recovery has been completed. Losses to be reported as of 31 December shall refer to the whole calendar year. Since there may be a long time lag between default and the recognition of losses (which includes incomplete recovery process), loss estimates shall be reported in cases where the recovery has not been completed within the reporting period.
- b) For all defaults observed within the reporting period, there are three scenarios: (i) defaulted loan can be restructured so that it is no longer treated as in default (no loss observed); (ii) realisation of all collateral is completed (completed recovery, actual loss known); or (iii) incomplete recovery (loss estimates to be used). Loss reporting shall include only losses stemming from scenario (ii) realisation of collateral (observed losses) and scenario (iii) incomplete recovery (estimates of losses).
- c) As losses shall be reported only for exposures having defaulted during the reporting period, changes to losses of exposures having defaulted during previous reporting periods will not be reflected in the reported data, i.e. proceeds from the realisation of the collateral at a later reporting period or lower realised costs than previously estimated shall not be reported.

14. Role of the valuation of the property: The latest valuation of the property before the default date of the exposure is needed as reference for reporting the part of exposure secured by mortgages on immovable property. After default, the property might be revalued. This new value should however not be relevant for identifying the part of the exposure which was originally fully (and completely) secured by the mortgages on immovable property. However, the new value of the property shall be considered in economic loss reporting (a reduced property value is part of economic costs). In other

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words, the latest valuation of the property before the default date shall be used to determine which part of the loss shall be reported in column 0010 (identification of exposure values which is fully and completely secured) and the re-valued property value for the amount to be reported (estimation of a possible recovery from collateral) in columns 0010 and 0030.

15. Treatment of loan sales during the reporting period: The institution which has the exposure by the end of the reporting period shall report losses, but only if a default for that exposure was identified.

Instructions concerning specific positions

Columns	
0010	<p><u>Sum of losses stemming from lending up to the reference percentages</u></p> <p>Points (a) and (d) of Article 430a(1) CRR respectively, Market value and mortgage lending value in accordance with points (74) and (76) of Article 4(1) CRR</p> <p>This column collects all losses stemming from lending collateralised by residential property or by commercial immovable property up to the part of exposure treated as fully and completely secured in accordance with Article 124(1) CRR.</p>
0020	<p><u>Of which: immovable property valued with mortgage lending value</u></p> <p>Reporting of those losses, where the value of the collateral has been calculated as mortgage lending value.</p>
0030	<p><u>Sum of overall losses</u></p> <p>Points (b) and (e) of Article 430a(1) CRR respectively; market value and mortgage lending value in accordance with points (74) and (76) of Article 4(1) CRR</p> <p>This column collects all losses stemming from lending collateralised by residential property or by commercial immovable property up to the part of exposure treated as fully secured in accordance with Article 124(1) CRR.</p>
0040	<p><u>Of which: immovable property valued with mortgage lending value</u></p> <p>Institutions shall report losses, where the value of the collateral has been calculated as mortgage lending value</p>
0050	<p><u>Sum of the exposures</u></p> <p>Points (c) and (f) of Article 430a(1) CRR</p>
	<p>The value to be reported is only that part of the exposure value which is treated as fully secured by immovable property, i.e. the part that is treated as unsecured is not relevant for the loss reporting.</p> <p>In the event of default, the reported exposure value shall be the exposure value just before the default.</p>

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Rows	
0010	<u>Residential property</u> Residential property as defined in point (75) of Article 4(1) CRR
0020	<u>Commercial immovable property</u>