

New European rules on the Definition of Default

From the 1 January 2021 BPER Bank Luxembourg S.A. has adopted the **new European guidelines on the classification of customers and counterparties not compliant with their obligations towards the bank**, the so-called "default exposures", introduced by the European Banking Authority (EBA).

The new guidelines, known as the "**New Definition of Default**", establish **more restrictive criteria and methods** than those previously in use, with the aim of **aligning the rules among the countries of the European Union**.

Knowing the new rules is fundamental

Main changes to know in order to reduce the risk of being classified as defaulted customer for overdrafts or arrears of payment even for small amount

	With the previous rules	With the new rules
Overdraft / Overdue Materiality threshold	The company is classified to a defaulted status if for over 90 consecutive days it has accrued a "significant" payment arrear (at least 5%) on the total debt owed to the bank	The new European rules introduce more restrictive materiality thresholds , exceeding which the company will be classified automatically to a defaulted status
Compensation between the different exposures towards the bank	To avoid being classified as a defaulted customer , the regulation allows the compensation of overdue amounts with the available funds on other credit lines not used by the company	The legislation no longer allows this compensation . The bank will be required to classify the company to a defaulted status even if unused funds are available on other credit lines
Return to a non- defaulted status	The return to a non-defaulted status is effective from the moment in which the client regularizes the payment arrears towards the Bank or repays the overdrawn amounts from the current account	The counterparty will remain in the defaulted status for at least 90 additional days from the moment in which the customer regularizes the payment arrears towards the Bank or repays the overdrawn amounts from the current account

The materiality thresholds for overdue and overdraft exposures: what are the new limits?

The bank will be required to classify the entire exposure of the company as Past Due *if the unpaid amount of principal, interests and/or fees as of the date in which it was due:*

 <p>lasts for more than 90 consecutive days</p>	 <p>amounts to more than 500 euros for Corporates and 200 euros for individuals (referring in general to all exposures, such as arrears on loans, draft beyond the granted credit line or overdraft on the</p>	 <p>represents more than 1% of the total exposure of the Bank towards the company</p>
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The 500 euros threshold for Corporates is **reduced to 100 euros** for the **Corporates** that, identified as such by the Industry classification (Settore di Attività Economica – SAE), feature a **dimensional indicator⁽¹⁾ lower than 2,5 million euros** and **exposures towards the Bank of less than 1 million euros**.

⁽¹⁾ The "dimensional indicator" is represented by the turnover or total assets based on the client's balance sheet type

Finally, the new regulation obliges Banks to classify a company to a defaulted status if, in the event of restructuring of a counterparty's loan, the loss for the Bank exceeds 1% in terms of Net Present Value.

References:

- **Regulation of the European Union of 26 June 2013– n° 575 – art. 178**
introduces specific provisions on the default of a debtor
- **Commission delegated regulation of the European Union n. 171 of 19 October 2017**
defines the criteria for setting the materiality thresholds to comply with
- **Commission Recommendation (2003/361/EC) of 6 May 2003**
Defines micro, small and medium-sized enterprises

WHY IS IT IMPORTANT TO RESPECT THE NEW DEFAULT RULES?

To avoid classification as customer in "default" and the related reporting to the supervisory authorities. The new classification, in fact, could make the relationship with the Bank as well as the access to credit and the granting of new loans more difficult.

We therefore recommend all our Customers to frequently check their current account balances and respect the contractual payment deadlines and the repayment plan their loans.