Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Interest Rate Return (MR1)

Notes on Compilation

Version 1.7

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APPENDIX 31

Version	Date	Comment
V1.1	7 July 2014	Original document
V1.2	11 December 2014	Improved guidance on treatment of bad loans and general editing
V1.3	7 January 2015	Further clarity on bad loan decision trees
V1.4	23 December 2015	Further clarity on treatment of holiday/second homes on RMR
V1.5	29 February 2016	Guidance on the treatment of loans coming to an interest rate reset period - ORM.
V1.6	30 August 2017	Guidance on the treatment of cash-back incentives (FAQ Section)
V1.7	30 September 2022	Update to reflect RS2 to RS3 references and guidance, FAQ section update Guidance on treatment of recourse and non-recourse factoring lending, credit card number of contracts

1. Introduction

These notes on compilation set out the statistical reporting requirements for credit institutions reporting the Interest Rate Return (MR1) to the Central Bank of Ireland and are designed to help reporting agents complete the return. The primary aim of the data collected in this return is to inform national and euro-area policy making. The MR1 return satisfies reporting requirements as laid down in *Regulation (EC) No 1072/2013 of 24 September 2013 (ECB/2013/34)*[1] *as amended by Regulation of the ECB of 8 July 2014 (ECB/2014/30),* concerning statistics on interest rates applied by monetary financial institutions (MFIs) to deposits and loans vis-à-vis households and non-financial corporations.

Whilst the requirements and rules underpinning this document are fixed, the document can be updated and refined as required, including taking on board views of reporting agents. Comments on the document are welcomed, and can be sent to creditinst@centralbank.ie.

Reporting institutions should complete the MR1 in respect of resident offices only, as defined in Section 1.1 of the Notes on Compilation for the Resident Offices Return (RS3)[2].

Households are defined as individuals or groups of individuals acting as (i) consumers; (ii) producers of goods and non-financial services exclusively intended for their own final consumption; and (iii) small-scale market producers (such as sole proprietorships and partnerships without independent legal status, usually drawing on their own labour and financial resources). Non-profit institutions serving households (NPISHs) are indistinguishably included in the household sector.These are defined as separate legal institutional units which are principally engaged in serving particular groups of households and the main resources of which are derived from occasional sales, voluntary contributions, occasional financing by general government and property income.

Non-financial corporations (NFCs) are all private and public institutional units which are not classified as financial corporations but rather in the production of goods and non-financial services with the object of generating profit. NFC sector also includes non-financial quasi-corporations and head offices whose subsidiaries are all or mostly non-financial corporations

A Medium Sized Enterprise is any entity engaged in an economic activity, irrespective of its legal form (corporation, partnership, sole trader etc.), which employs fewer than 250 persons and whose annual turnover is greater than €10 million and less than or equal to €50 million or whose annual balance sheet is greater than €10 million and less than or equal to €43 million. Small enterprises are those engaged in an economic activity, irrespective of their legal form (corporation, partnership, sole trader etc.), which employs fewer than 50 persons and whose annual turnover or annual balance sheet is less than or equal to €10 million. If there are any instances where border-line cases exist using these definitions of small and medium sized enterprises (SMEs), the employee number threshold is to take precedence[3].

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[1] http://www.ecb.europa.eu/ecb/legal/pdf/en_l_29720131107en00510072.pdf

[2] Compilation notes for the RS3 return are available to download at the following link: http://www.centralbank.ie/polstats/stats/reporting/Pages/CreditInstitutionsu.aspx

[3] https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2003:124:0036:0041:en:PDF

1.1 Reporting Deadline

The reporting deadline for the MR1 return is the close of business of the 12th working day after the last working day of the reference period (T+12). Working days exclude weekends and Irish public holidays. A schedule of reporting deadlines for returns is available on the website of the Central Bank of Ireland.

The MR1 return contains a mixture of both monthly and quarterly reporting formats. The list below outlines the respective formats that must be reported either monthly or quarterly:

Monthly	**Quarterly**
Outstanding Amounts (OIR)	Small & Medium Sized Enterprises (SM1)
New Business (NIR)	Lending to Irish Households for house purchase (RMR)
Residual Maturity (ORM)	
Renegotiations (RNG)	

1.2 Method of Reporting

The MR1 return must be submitted via the Central Bank of Ireland's Online Reporting System. Credit institutions may supply the data by inputting the data into a customised excel reporting template and uploading this excel reporting template onto the Online Reporting System, or by uploading the data onto the system in an XML format. Details on transmitting the return via the Online Reporting System, and specifications for uploading data onto the system, may be found in separate documents which will be available on the Central Bank's website:

http://www.centralbank.ie/polstats/stats/reporting/Pages/CreditInstitutionsu.aspx

1.3 Counterpart Residency and Currency

Monthly Formats: OIR, NIR, ORM and RNG

For the four monthly formats of the MR1 return, the interest rates and volumes should refer to euro-denominated deposits and loans vis-à-vis household and NFC customers resident in the euro area[4]. No distinction is required between domestic residents and residents of the other euro area member states. For example, the Central Bank of Ireland shall collect interest rate data referring to the banking business of the credit institutions resident in Ireland vis-à-vis customers resident in the whole euro area, i.e., residents of the Republic of Ireland and of other euro area countries. The banking business of customers resident outside the euro area should be excluded.

Quarterly Formats: SM1 and RMR

For the two quarterly formats of the MR1 return, interest rates and volumes should refer to loans to Irish resident households and SMEs only. No distinction is required between euro and non-euro denominated loans, i.e. all currencies should be included.

[4] https://www.ecb.europa.eu/euro/intro/html/index.en.html

- A person is considered to be an Irish resident if he/she is currently living in the Republic of Ireland (the State) and has been so for at least one year. A person who is newly arrived in the State is considered to be an Irish resident if he/she intends to live in the Republic of Ireland for an indefinite period, or for a period of not less than one year. The same applies to euro area residents. A list of the member states of the Economic and Monetary Union can be viewed at http://www.ecb.int/euro/intro/html/map.en.html.
- Any business operating in the State is regarded as Irish resident irrespective of whether it is owned or controlled by Irish residents or by non-residents. The same applies to any business operations in the euro area.

Table 1: Summary of Residency and Currency Coverage per Format

	Format					
	OIR	**NIR**	**ORM**	**RNG**	**SM1**	**RMR**
Irish residents	YES	YES	YES	YES	YES	YES
Other Monetary Union Member Residents	YES	YES	YES	YES	NO	NO
Rest of World Residents	NO	NO	NO	NO	NO	NO
Euro Currency	YES	YES	YES	YES	YES	YES
Non-Euro Currency	NO	NO	NO	NO	YES	YES

Note: For each instrument category that exists in the banking business of credit institutions the interest rate should be compiled based on *all* interest rates applied to *all* the products that fit this category. For example, if an instrument category comprises three products, the reporting agent is required to report one interest rate for that instrument category, computed as a weighted average of the interest rates applied to the three products. In addition, the total amount of business for the category has to be submitted, i.e., the sum of the three products in this instance.[5]

Interest rate data should be provided with an accuracy of **<u>two</u>** decimal places.

[5] The only exception to this treatment is in the case of the existence of bad loans in the instrument category in question. Bad loans are dealt with in Section 8.

Periods of initial rate fixation or original maturity of ‘up to X years’ means ‘up to *and including* X years’.

Unless otherwise specified, all outstanding amounts should be recorded at the value standing in the reporting institution’s books (i.e., book value) on the reference date. Loans should be reported at their **principal amount outstanding on the reporting date**. This should include any interest arrears which have been recapitalised, but exclude accrued interest payable.

2. Outstanding Amounts (OIR)

Outstanding amounts are defined as the stock of all deposits placed by customers, i.e., households and NFCs, with credit institutions and the stock of all loans granted by credit institutions to their customers. The interest rate on outstanding amounts should reflect the weighted average interest rate level applied to the stock of deposits or loans in the relevant instrument category as at the time reference point (i.e. the last working day of the month). It covers all outstanding contracts that have been agreed in all periods prior to the reporting date.

The following loans should not be included in *the calculation of the interest rates* reported on outstanding amounts:

- **Bad loans; and**
- **loans for debt restructuring at rates below market conditions.**

As these loans receive very low interest payments, or no interest payments at all, their inclusion would distort the results of MFI interest rate statistics. Therefore, data on non-accrual loans or loans that have been restructured at rates below market conditions should be excluded from the interest rate statistics. The interest rate agreed for a loan for debt restructuring is not the result of the general demand and supply conditions in the loan market at the time of the agreement, but rather what the indebted customer is able to pay. Hence, interest rates on loans for debt restructuring at rates below market conditions are, like other bad loans, not the type of interest rate that is supposed to be covered as an *agreed rate* by MFI interest rate statistics (MIR).

However, while these loans should be excluded from the calculation of the weighted average interest rate for that instrument category, the *outstanding amounts of these loans should be included on the OIR format*. The outstanding volume figures should be equal to the corresponding volume figures in the balance sheet statistics, as reported on the Resident Offices return (RS3 return, IES and OES formats). The treatment of bad loans is covered in more detail in Section 8.

The OIR format includes euro-denominated deposits and loans vis-à-vis household and NFC customers resident in the euro area.

The OIR columns are as follows:

Outstanding Amount (€ 000)

The outstanding amount of euro-denominated business vis-à-vis households or NFCs resident in the euro area at the reporting date. The total amount of business should only cover those contracts that are still outstanding on the last working day of the month. Business denominated in non-euro currencies (e.g. sterling, US dollar, and yen) should not be included in the OIR/NIR/ORM/RNG formats of this return. Also, business with non-euro area residents should not be included in the return. It is not necessary to provide a breakdown between business with Irish residents and business with other residents of the monetary union member states.

The amount of business recorded in the 'outstanding amount' column should relate to those accounts used in the computation of the annualised agreed rate (AAR) in the 'interest rate' column. In addition to these accounts, bad loans or loans for debt restructuring which are excluded from the computation of the weighted average interest rate should be *included* in the 'outstanding amount' column, as indicated above. **The figures included in this column should be equal to the corresponding figures provided on the RS3 return (IES and OES formats).**

Corresponding Number of Contracts

This item relates to the number of loan agreements that comprise a given instrument category. This includes bad loans and restructured loans at below market rates and should equate to all loans included in the outstanding amounts volume. In terms of credit cards and revolving loans, individual balances should be counted as individual contracts.

Interest Rate (%)

The annualised agreed rate (AAR) is the interest rate that is individually agreed between a credit institution and its customer, converted to an annual basis and quoted in percentages per annum. Annualised agreed rates are distinct from advertised nominal rates, as households and NFCs might be able to negotiate with the credit institution better terms than those which are advertised. Annualised agreed rates reflect the demand and supply conditions in the deposit and loan markets at the time of the agreement, including competition with other types of financial institution and product. They also reflect the creditworthiness and other qualities of the customer (in respect of loans), the solvency and other qualities of the credit institution as viewed by the customer (in respect of deposits), and the budget, capital or other constraints faced by the credit institution in the exercise of their loan-granting and deposit-taking activities.

Please consult the Appendix to this document or Paragraphs 1 to 3 of Annex I to the Regulation for further details on how to calculate an annualised agreed rate.

A weighted average interest rate should be compiled for each instrument category specified, based on the total amounts outstanding at the reporting date, *excluding any bad loans or loans for debt restructuring at rates below market conditions*. The interest rate should be reported with an accuracy of two decimal places.

Equity-Linked Deposits or 'Tracker' Deposits (€ 000)

Due to certain features of this product (including capital certainty, the lack of any secondary market and the imposition of penalties if liquidated prior to an agreed date), tracker bonds are recorded as deposits (and not as debt securities) on the balance sheet and so should also be included in the MIR statistics. As the actual return on tracker bonds is only determined at maturity, the interest rate that should be included in Outstanding Amounts and New Business formats is the minimum guaranteed return, which is generally zero or near-zero per cent. The only exception is when a bond matures on the reporting date; then the actual return should be included.

Outstanding volumes of equity-linked or ‘tracker’ deposits that have been included in column 10 of the OIR format should be recorded here as an ‘of which’ item. No separate interest rate is requested for these ‘of which’ volumes.

The OIR rows/instrument categories are as follows:

Deposits from Households and NFCs with Agreed Maturity

Deposits from households (and NPISHs) and NFCs denominated in euro with an agreed maturity. They are non-transferable deposits which cannot be converted into currency before an agreed fixed term or which can only be converted into currency before that agreed fixed term, provided that the account holder is charged some kind of penalty.

Note that deposits with rollover provisions must be classified according to the earliest maturity.

Repos: Funds Received under Repurchase Agreements (households and NFCs combined)

Funds, denominated in euro, received from households and/or NFCs in exchange for securities/gold sold by the reporting institution at a given price under a firm commitment to repurchase the same (or similar) securities/gold at a fixed price on a specified future date. Amounts received by reporting MFIs in exchange for securities/gold transferred to a third party (‘temporary acquirer’) should be classified under ‘repurchase agreements’ where there is a firm commitment to reverse the operation and not merely an option to do so. This implies that reporting MFIs retain effective (economic) ownership of the underlying securities/gold during the operation.

Loans to Households for House Purchases

Loans, denominated in euro, extended to households (including NPISHs) for the purpose of investing in housing, including building and home improvements. Lending for house purchase comprises loans secured on residential property that are used for the purpose of house purchase and, where identifiable, other loans for house purchase made on a personal basis or secured against other forms of assets. MFI interest rate statistics cover indistinguishably secured and unsecured loans to households for house purchase.

Loans to Households for Consumer Credit and Other Loans

Loans, denominated in euro, granted to households (including NPISHs) for the purpose of personal use in the consumption of goods and services as well as loans granted for such purposes as business, debt consolidation, education, etc. In other words, this category includes all loans to households, denominated in euro, for non-housing purposes.

Revolving loans, overdrafts, and (convenience or extended) credit card debt granted to households should be recorded as loans to households for consumer credit and other loans. With regard to the maturity of these loans, the following applies:

- Overdrafts and (convenience or extended) credit card debt should be reported with an original maturity of up to one year, i.e. row 90.
- Revolving loans should be reported according to the expected maturity, based on the agreement with the customer.

Reporting of households revolving loans, overdrafts and (convenience or extended) credit card debt should be consistent across the MR1 and RS3 returns. Further details on the treatment of these instrument categories are included in the Frequently Asked Questions section of this document.

Loans to NFCs

Euro-denominated loans to NFCs. Loans are defined as funds advanced by the reporting MFI to NFCs which are not evidenced by negotiable documents or are represented by a single document (even if it has become negotiable).

Revolving loans, overdrafts, and (convenience or extended) credit card debt granted to NFCs should be recorded as loans to NFCs. With regard to the maturity of these loans, the following applies:

- Overdrafts and (convenience or extended) credit card debt should be reported with an original maturity of up to one year, i.e. row 120.
- Revolving loans should be reported according to the expected maturity, based on the agreement with the customer.

Reporting of NFCs revolving loans, overdrafts and (convenience or extended) credit card debt should be consistent across the MR1 and RS3 returns. Further details on the treatment of these instrument categories are included in the Frequently Asked Questions section of this document.

3. New Business (NIR)

New Business on *Overnight Deposits, Deposits Redeemable at Notice, Extended Credit Card Debt* and *Revolving Loans and Overdrafts* (See paragraphs 16 to 18 of Annex I to the Regulation)

For defining new business on overnight deposits, deposits redeemable at notice, extended credit card debt and revolving loans and overdrafts, a different approach is taken than the one applied to other new business categories. Overnight deposits, deposits redeemable at notice, extended credit card debt and revolving loans and overdrafts experience a large number of in- and out-flows throughout the month. The increases and decreases in the amount on these accounts arise from receipts and payments related to the customer's economic activity, and are hence related to transactions rather than to the autonomous investment decisions of the customer. Furthermore, it is usual for the greater part of the deposit, overdraft or extended credit card balance to be turned over during the period. For these reasons, *the outstanding balance at the reporting date is deemed to be the appropriate indicator for new business*[6][7].

The interest rates for overnight deposits, deposits redeemable at notice, extended credit card debt and revolving loans and overdrafts should reflect the weighted average interest rate applied to the stock on these accounts at the reporting date. They cover the current balance sheet positions of all outstanding contracts that have been agreed in all periods prior to the reference date.

New Business in Instrument Categories other than *Overnight Deposits, Deposits Redeemable at Notice, Extended Credit Card Debt* and *Revolving Loans and Overdrafts* (See paragraphs 19 to 27 of Annex I to the Regulation)

New business for deposits with agreed maturity, repos, loans to households for consumption, for house purchases and for other purposes, and for loans to NFCs (other than revolving loans and overdrafts and extended credit card debt), is defined as any *new agreement* between the customer and the credit institution. New agreements comprise:

- All financial contracts, that specify for the first time the interest rate of the deposit or loan; and
- All new negotiations of existing deposits and loans.

Prolongations of existing deposit and loan contracts that are carried out automatically, i.e. *without any active involvement of the customer*, and do not involve any renegotiations of the terms and conditions of the contract, including the interest rate, are *not* new business. (The overall treatment of maturing deposits on the MR1 return is discussed further in the *Frequently Asked Questions* section below.)

Please note that a loan sanction is not new business. New business only arises when, on the basis of the loan sanction, the final legal contract is signed by both parties. A 'cooling-off' period has no influence on the MIR statistics on new business, even if the customer has the right to step back from the signed contract during this period. The new business statistics should reflect the business conditions as specified in the contract at the time of signing. The actual date of drawdown of funds is irrelevant for the new business statistics on the NIR format.

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[6] By leaving a balance on the overnight deposit, deposits redeemable at notice, extended credit card, or overdraft facility, the customer has implicitly agreed to the terms and conditions of the account, which is a precondition for new business.
[7] The business volumes reported on the NIR format for these instrument categories should be equal to the corresponding outstanding amounts reported on the RS3 return (IES and OES formats).

Bad loans and loans for debt restructuring at rates below market conditions should not be included in the weighted average interest rates nor in the volumes of new business reported on the NIR format. The only exception to this is in the case of overdrafts, revolving loans and credit card debt. The weighted average interest rate for these instrument categories should exclude any bad loans. However, the reported business volumes should include any bad loans, as these will match the volumes reported on the RS3 return. Section 8 covers bad loans in more detail.

3.1 Treatment of Credit Card Balances

For the purposes of this return, only interest-bearing balances, i.e. *extended credit card debt*, should be included in the amount of new business reported on the NIR format. (The overall treatment of credit card balances on the MR1 return is discussed further in the *Frequently Asked Questions* section below.)

3.2 Defining New Business for Maturing Deposits

In principle, the definition of new business in the case of maturing deposits should be the same as for any other business, i.e., *the key should be the active involvement of the customer*. In this way it can be ensured that the MIR statistics on new business reflect 'current market conditions'. In practice, it might be necessary to define certain indications of when the customer has been actively involved in placing the money at the rollover date. It is proposed by the ECB that in the absence of any better knowledge, it should be assumed that the customer has been actively involved at the rollover date if the terms and conditions of the deposit change at the rollover date and/or if a notification letter has been sent to the customer prior to the rollover date. (The overall treatment of maturing deposits on the MR1 return is discussed further in the *Frequently Asked Questions* section below.) If the terms of a deposit are changed and the deposit is consequently classified as 'new business', the maturity of this deposit should be counted as commencing at the point of the 'new business' classification.

3.3 Recording the Interest Rate on New Business Agreements

The new business rates on MFI interest rate statistics should cover the actual rate agreed in the individual contract. The value of a variable rate contract should be determined based on the value of the external index at the time of the acceptance of the contract. If the customer signs first and then the bank signs, the acceptance is when the bank signs (and vice versa). There might be a transmission time before the contract is returned to the bank and the new business might be recorded with a delay of a few days.

3.4 Moratorium on a Loan

A restart of a loan after a moratorium per se is not new business. **New business occurs only if the customer signs a new agreement.**

3.5 Renegotiation of a Contract

If it transpired that a customer renegotiated the terms/conditions of his contract for a second time within the same month then *both* contracts should be regarded as new business. It should be noted that only a final binding contract is considered new business and not any loan promise/loan sanction made by the bank.

3.6 Treatment of EURIBOR-Related Loans

New negotiations between the customer and the credit institution are necessary in order to have new business. Whether the interest rate changes as a consequence of the negotiations is irrelevant. Furthermore, whatever is foreseen in the original contract is not new business once it occurs. For example, if it is outlined in the contract that the EURIBOR reset periods and rates will be implemented, the fact that the interest rate changes subsequently is *not* new business.

3.7 Opening and Closing an Account within the Same Month

If a customer opens a new deposit account during the month but closes the account before the month-end, this account should be captured in the new business statistics. All new business conducted during the entire month should be included in the new business statistics. This account, however, would not be captured in the data on outstanding amounts as it was no longer in existence at the month-end reporting date.

The NIR columns are as follows:

Amount of New Business (€ 000)

Categories other than *Overnight Deposits, Deposits Redeemable at Notice, Extended Credit Card Debt* and *Revolving Loans and Overdrafts*

The amount of euro-denominated new business agreed vis-à-vis households or NFCs resident in the euro area, during the reference period. Reporting agents need to take into account the new business operations conducted during the entire month, rather than just a selected period during the month. Business denominated in non-euro currencies (e.g. sterling, US dollar, yen) *should not* be included in this format. Also, new business with non-euro area residents should not be included in this return. It is not necessary to provide a breakdown between business with Irish residents and new business with other residents of the monetary union member states.

Overnight Deposits, Deposits Redeemable at Notice, Extended Credit Card Debt* and *Revolving Loans and Overdrafts

As the concept of new business is extended to the whole stock for these instruments, the compilation procedure and the time reference point (i.e. last working day of the month) are the same as for the outstanding business format (OIR). Therefore, MFI interest rates on overnight deposits, deposits redeemable at notice, extended credit card debt and revolving loans and overdrafts should be compiled as a snap-shot of end-month observations, i.e. they should be calculated as weighted averages of the interest rates applied to the stock of these instruments on the last working day of the month. The total amount of business should only include those contracts that are still outstanding at the time of data collection.

Corresponding Number of Contracts

This item relates to the number of loan agreements that comprise a given instrument category. This includes restructured loans at below market rates and should equate to all loans included in the outstanding amounts volume. In terms of credit cards and revolving loans, individual balances should be counted as individual contracts.

Interest Rate (%)

The annualised agreed rate (AAR) is the interest rate that is individually agreed between a credit institution and its customer, converted to an annual basis and quoted in percentages per annum. Annualised agreed rates are distinct from advertised nominal rates, as households and NFCs might be able to negotiate with the credit institution better terms than those which are advertised. Annualised agreed rates reflect the demand and supply conditions in the deposit and loan markets at the time of the agreement, including competition with other types of financial institutions and products. They also reflect the creditworthiness and other qualities of the customer (in respect of loans), the solvency and other qualities of the credit institution as viewed by the customer (in respect of deposits), and the budget, capital or other constraints faced by the credit institution in the exercise of their loan-granting and deposit-taking activities.

Please consult the Appendix to this document or Paragraphs 1 to 3 of Annex I to the Regulation for further details on how to calculate an annualised agreed rate.

For overnight deposits, deposits redeemable at notice, extended credit card debt and revolving loans and overdrafts, the MFI needs to compile a weighted average interest rate based on all contracts outstanding for these categories on the last working day of the month, including contracts agreed in all periods prior to the reporting date. The interest rate should reflect the weighted average interest rate level applied to the stock of deposits or loans in the relevant instrument category as at the time reference point (i.e. the last working day of the month). It covers all outstanding contracts that have been agreed in all periods prior to that reporting date.

1. For the remaining instrument categories, the reporting agents need to calculate the new business interest rate as a weighted average of *all* interest rates on new business operations in the instrument category *during* the reference month.
2. *A Narrowly Defined Effective Rate (NDER) should be calculated for Loans to Households for House Purchase instead of an AAR. Further details are specified in the Appendix.*

Amount of New Business which is Collateralised/Guaranteed (€ 000)

Loans to households and NFCs secured with collateral and/or guarantees are additionally separately reported for all MFI interest rate statistics new business categories except extended credit card debt, revolving loans and overdrafts, and lending to households for other purposes.

For the purpose of MFI interest rate statistics, the breakdown of loans according to collateral/guarantees includes the total amount of new business loans which are collateralised using the ‘funded’ credit protection technique as defined in Article 4(31) and Annex VIII, Part 1, Sections 6-25 of Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions (recast) (1) and/or guaranteed using the ‘unfunded credit protection’ technique as defined in Article 4(32) and Annex VIII, Part 1 Sections 26-29 of Directive 2006/48/EC, in such a way that the value of the collateral and/or guarantee is higher than or equal to the total amount of the loan. If an MFI applies a system different from the 'standardised approach' as defined in Directive 2006/48/EC for supervisory purposes, it may also apply the same treatment in the reporting of loans included under this breakdown.

Interest Rate on Collateralised/Guaranteed Lending (%)

The annualised agreed rate on the total volume of collateralised business which is recorded in column 40 of the NIR.

Equity-Linked Deposits or 'Tracker' Deposits (€ 000)

Due to certain features of this product (including capital certainty, the lack of any secondary market and the imposition of penalties if liquidated prior to an agreed date), tracker bonds are recorded as deposits (and not as debt securities) on the balance sheet and so should also be included in the MIR statistics. As the actual return on tracker bonds is only determined at maturity, the interest rate that should be recorded in Outstanding Amounts and New Business formats is the minimum guaranteed return, which is generally zero or near-zero per cent. New business volumes of equity-linked or 'tracker' deposits that have been included in column 10 of the NIR format should be recorded here as an 'of which' item. No separate interest rate is requested for the 'of which' volumes.

The NIR rows /instrument categories are as follows:

Household Overnight Deposits

Euro-denominated deposits from households (and NPISHs) which are convertible into currency and/or which are transferable on demand by cheque, banker's order, debit entry or similar means, without significant delay, restriction or penalty. Balances representing prepaid amounts in the context of electronic money issued by MFIs are also included under this item. This item excludes non-transferable deposits which are withdrawable on demand but which are subject to significant penalties. MFI interest rates on overnight deposits should cover all overnight deposits, whether or not they are interest-bearing.

Please note that for overnight deposits the concept of new business is extended to the whole stock, i.e., outstanding amounts.

Deposits from Households with Agreed Maturity

Deposits from households (and NPISHs) denominated in euro with agreed maturity. They are non-transferable deposits which cannot be converted into currency before an agreed fixed term or which can only be converted into currency before that agreed fixed term provided that the account holder is charged some kind of penalty.

Deposits Redeemable at Notice from Households and NFCs

Non-transferable deposits from households (and NPISHs) and NFCs, denominated in euro, which are without any agreed maturity and cannot be converted into currency without a period of notice; before the expiry, the conversion into cash is not possible or possible only with a penalty.

For this category, the concept of new business should be extended to the whole stock. In addition, for this instrument category households and NFCs should be merged and allocated to the household sector.

NFC Overnight Deposits

Euro-denominated deposits from NFCs which are convertible into currency and/or which are transferable on demand by cheque, banker's order, debit entry or similar means, without significant delay, restriction or penalty. Balances representing prepaid amounts in the context of electronic money issued by MFIs are also included under this item. This item excludes non-transferable deposits which are withdrawable on demand but which are subject to significant penalties. MFI interest rates on overnight deposits should cover all overnight deposits, whether or not they are interest-bearing.

Please note that for overnight deposits the concept of new business is extended to the whole stock, i.e., outstanding amounts.

Deposits from NFCs with Agreed Maturity

Deposits from NFCs denominated in euro with an agreed maturity. They are non-transferable deposits which cannot be converted into currency before an agreed fixed term or which can only be converted into currency before that agreed fixed term provided that the account holder is charged some kind of penalty.

Repos: Funds Received under Repurchase Agreements (households and NFCs combined)

Funds, denominated in euro, received from households and/or NFCs in exchange for securities/gold sold by the reporting institution at a given price under a firm commitment to repurchase the same (or similar) securities/gold at a fixed price on a specified future date. Amounts received by reporting MFIs in exchange for securities/gold transferred to a third party ('temporary acquirer') should be classified under 'repurchase agreements' where there is a firm commitment to reverse the operation and not merely an option to do so. This implies that reporting MFIs retain effective (economic) ownership of the underlying securities/gold during the operation.

Loans to Households

Revolving Loans and Overdrafts

Revolving loans are loans that have all the following features:

- The borrower may use or withdraw funds to a pre-approved credit limit without giving prior notice;

- The amount of available credit can increase and decrease as funds are borrowed and repaid;
- Credit may be used repeatedly;
- There is no obligation of regular repayment of funds.

Revolving loans include the amounts obtained through a line of credit and not yet repaid (outstanding amount). A line of credit is an agreement between a lender and borrower that allows a borrower to take advances, during a defined period and up to a certain limit, and repay the advances, at his discretion before a defined date. Overdrafts are debit balances on current accounts. Both revolving loans and overdrafts exclude loans provided through credit cards. The total amount owed by the borrower is to be reported, irrespective of whether it is within or beyond any limit agreed beforehand between the lender and the borrower, with regards to size and/or maximum period of the loan.

For this category, the concept of new business is extended to the whole stock outstanding at the reporting date.

Extended Credit Card Debt

Credit card debt is recorded on dedicated card accounts and therefore is not captured in current or overdraft accounts. Extended credit is defined as the credit granted after the due date(s) of the previous billing cycle(s) has/have passed, i.e. debit amounts on the card account that have not been settled when this was first possible, for which an interest rate or tiered interest rates usually greater than zero per cent are charged. Often minimum instalments per month have to be made, to at least partially repay extended credit.

For this category, the concept of new business is extended to the whole stock outstanding at the reporting date.

Loans to Households for Consumption

Euro-denominated loans granted to households (and NPISHs) for the purpose of personal use in the consumption of goods and services.

Loans to Households for Consumption, Annual Percentage Rate of Charge (APRC)

The APRC covers the ‘total costs of the credit to the consumer’, as defined in Article 3(g) of Directive 2008/48/EC. These total costs comprise an interest rate component and a component of other (related) charges, such as the cost of inquiries, administration, preparation of the documents, guarantees, credit insurance, etc. Please note that the APRC should be greater than or equal to the weighted average of the rates provided in rows 140, 150 and 160.

Loans to Households for House Purchase

Euro-denominated loans to households (and NPISHs) for the purpose of investing in housing, including building and home improvements. Lending for house purchase comprises loans secured on residential property that are used for the purpose of house purchase and, where identifiable, other loans for house purchases made on a personal basis or secured against other forms of assets. MFI interest rate statistics cover indistinguishably secured and unsecured loans to households for house purchases.

A *narrowly defined effective rate (NDER)* should be calculated, instead of an AAR, for loans to households for house purchase. The NDER is equivalent to the interest rate component of the APRC but does not take into account the component of other charges. Please refer to the Appendix to this document or Paragraphs 1 to 3 of Annex II to the Regulation for further information.

Loans to Households for House Purchase, Annual Percentage Rate of Charge (APRC)

The APRC covers the ‘total costs of the credit to the consumer’, as defined in Article 3(g) of Directive 2008/48/EC. These total costs comprise an interest rate component and a component of other (related) charges, such as the cost of inquiries, administration, preparation of the documents, guarantees, credit insurance, etc.

Please note that the APRC should be greater than or equal to the weighted average of the rates provided in rows 180, 190, 200 and 210.

Loans to Households for Other Purposes

Other euro-denominated loans granted to households (and NPISHs) which have not been recorded in the previous two categories (consumption or housing purposes).

Loans to NFCs

Revolving Loans and Overdrafts

Please refer to the section on households revolving loans and overdrafts (page 16).

For this category, the concept of new business in extended to the whole stock outstanding at the reporting date.

Extended Credit Card Debt

Please refer to the section on household extended credit card debt (page 17).

For this category, the concept of new business in extended to the whole stock outstanding at the reporting date.

4. Outstanding Amounts – Residual Maturity (ORM)

The breakdown by original and residual maturity as well as periods of notice and interest rate reset follow the definitions set out in Part 2 of Annex II to Regulation (EC) No 25/2009 (ECB/2008/32).

An interest rate reset period is defined as a change in the interest rate of a loan which is foreseen in the current loan contract. Loans subject to reset include loans with interest rates which are periodically revised in accordance with evolution of an index (e.g. Euribor), loans with interest rates which are revised on a continuous basis (floating rates); and loans which are revisable at the MFIs' discretion. They include:

- Variable rate loans
- Tracker rate loans
- Loans with a fixation period that is coming to an end within the requested period are to be considered due for reset. For example, a loan with a three-year fixed-interest rate, where the fixation period is due to finish in six months, is considered to have an interest rate reset within the next 12 months.

Residual Maturity

Maturity at issue (original maturity) refers to the fixed period of life of a financial instrument before which it cannot be redeemed, or before which it can be redeemed only with some kind of penalty. The residual maturity corresponds to the difference of the original maturity period and the amount of time that has expired since the original agreement was put in place, i.e. the remaining life of the financial instrument at the originally agreed terms.

Note that the volumes of business reported on the ORM format should be consistent with those reported on the OIR format. Any bad loans included in the outstanding amounts reported on the ORM should be excluded from the calculation of the weighted average interest rate for that instrument category. The treatment of bad loans is covered in more detail in Section 8.

Outstanding volumes reported on the IRR format of the RS3 return should equal the On-quarter outstanding volumes from the ORM format in the following manner:

Data from ORM rows 10 to 120 inclusive must equal the sum of rows 10 to 60 in the IRR, respectively. However, the data from the IRR is broken down into residency, which is a non-issue for the MR1, therefore it is advised that for the Household cohort (ORM Rows 10 to 60 inclusive), Columns 20 and 40 on the IRR should be added together to equate with Column 10 on the ORM. The same is advised for the NFC cohort (ORM Rows 70 to 120 inclusive), Columns 10 and 30 should be added together to equate with Column 10 on the ORM.

5. Renegotiated Loans (RNG)

For the purpose of MFI interest rate statistics, renegotiated loans to households and non-financial corporations comprise all new business loans other than revolving loans and overdrafts and credit card debt that were already on the balance sheet of the reporting agent at the end of the month preceding the reference month.

The 'total' interest rate figures (household consumption, household for house purchase, household other purposes and NFCs) are to be calculated as a weighted average interest rate of the applicable instrument categories.

5.1 Definition of Renegotiation

As defined in paragraph 21 of Annex I to the Regulation, renegotiation refers to the ***active involvement*** of the household or non-financial corporation in adjusting the terms and conditions of an *existing loan or deposit contract,* including the interest rate. Prolongations of existing contracts that occur automatically, i.e. without any active involvement of the customer, and do not involve any renegotiations of the terms and conditions of the contract, including the interest rate, are not new business.

The Regulation requires the compilation of the amounts of renegotiated loans separately from the new business amounts for the instrument categories included in Table 6 of the Appendix. The purpose is the possibility to distinguish the 'true new loans' in the sense of gross 'fresh money' arriving at the credit market from renegotiated loans where, by definition, no new money is arriving at the credit market

5.2 Active Involvement

Based on the above definition of renegotiation, there is a requirement to identify how 'active' the involvement of the customer has to be to consider a change in the prevailing conditions of a loan or of a deposit a 'renegotiation'. To use an example to clarify the required conditions, let us consider the case of a deposit contract which stipulates that, at maturity, the deposit will be renewed automatically with the same terms and conditions as the previous one unless the customer or the bank decides not to renew the deposit or to change the corresponding terms. In one of these periods for renewal, the bank informs the customer on its willingness to renew the deposit but at a different interest rate and gives the customer a period to cancel the deposit in case of disagreement. The customer does not respond and the bank applies the new conditions.

There are two conflicting views of this event. On the one hand, the 'passive' attitude of the customer could potentially be considered 'active involvement'. This would imply that the change in the terms of the deposit should be recorded as a renegotiation. However, on the other hand, the deposits' terms have changed and the corresponding new conditions were not agreed beforehand when the contract was signed, implying only a new business operation has to be recorded. However in this scenario, there is no 'new money' coming to the deposits market, indicating the event should also be regarded as a renegotiation.

In cases similar to the above example, the correct view to adopt is that the tacit agreement by the customer by not opposing to the new proposal of the bank is, in fact, active involvement, because the customer could have opted for other alternatives. Therefore, a new business and a renegotiation item should be recorded in MFI interest rate statistics

Bad loans and loans for debt restructuring at rates below market conditions should not be included in the weighted average interest rates nor in the volumes of new business reported on the RNG format. More information on the treatment of bad loans is provided in Section 8.

6. Lending to Irish Resident Small and Medium Sized Enterprises – Sectoral (SM1)

A Medium Sized Enterprise is any entity engaged in an economic activity, irrespective of its legal form (corporation, partnership, sole trader etc.), which employs fewer than 250 persons and whose annual turnover is greater than €10 million and less than or equal to €50 million or whose annual balance sheet is greater than €10 million and less than or equal to €43 million. Small enterprises are those engaged in an economic activity, irrespective of their legal form (corporation, partnership, sole trader etc.), which employs fewer than 50 persons and whose annual turnover or annual balance sheet is less than or equal to €10 million. If there are any instances where border-line cases exist using these definitions of small and medium sized enterprises, the employee number threshold is to take precedence.

Enterprise category	Headcount: Annual Work Unit (AWU)	Annual turnover	or	Annual balance sheet total
Medium-sized	< 250	≤ €50 million	or	≤ €43 million
Small	< 50	≤ €10 million	or	≤ €10 million

If an SME counterparty is not a corporation, it is particularly important to differentiate accurately between lending for the purposes of the economic activity of the SME counterparty and lending for the personal use of the counterparty. This format should only include lending for the purpose of the economic activity of the SME counterparty.

Outstanding balances of loans held with respect to SME counterparties, should be reported in euro at book value, gross of any provisions for bad and doubtful debts. All loans should refer to actual amounts drawn down and not 'agreed contracts' in principal.

For the purposes of this format, both euro and non-euro denominated lending to SME counterparties should be reported together. All non-euro balances should be reported in euro using the appropriate exchange rate for the reporting date as on the Central Bank website, and included in the reported amounts on the return. Only loans to Irish resident SME counterparties should be reported here.

Note that all loans should be included in the business volumes and the calculation of the weighted average interest rate, regardless of whether they are bad loans or loans for debt restructuring at rates below market conditions.

The SM1 columns are as follows:

Outstanding Amount (€ 000)

The outstanding amount of loans held with respect to SME counterparties. These should be reported in euro at book value, gross of any provisions for bad and doubtful debts.

Amounts reported here should equal amounts reported in the corresponding cells on the SMQ format of the SQ2 return.

Interest Rate (%)

Annualised Agreed Rate (AAR), as defined above.

New Lending (€ 000)

Any drawdown of loans (excluding increased use of overdraft facilities or revolving credit facilities) to SME counterparties that took place between the current and previous reporting date, which was not already part of closing stock of lending at the previous reference period. Capitalisation of interest is included in this figure. Renegotiations of existing loans, or renewals of overdraft facilities are not to be included here.

Amounts reported here should equal amounts reported in the corresponding cells on the SMQ format of the SQ2 return.

Interest Rate (%)

Annualised Agreed Rate (AAR), as defined above.

Counterparties are identified according to their functional sector classification in accordance with the "Nomenclature générale des Activités économiques dans les Communautés Européennes" (Statistical classification of economic activities in the European Communities), or NACE Rev. 2. The functional sector classification, which is primarily based on NACE Rev. 2[8], allows funds to be analysed on the basis of the primary economic activity of the counterparty (for lending and deposits) and/or the purpose of the loan. The NACE category definitions of the required sectoral breakdowns in the SM1 format are outlined in the SQ2 compilation notes[9]. Reporting agents should use this list and refer to the NACE Rev. 2 documentation from Eurostat to compile the data required in the SM1.

[8] NACE Rev. 2 is the official statistical classification of economic activities in the European Community, which is maintained by Eurostat. Details are available at https://ec.europa.eu/eurostat/documents/3859598/5902521/KS-RA-07-015-EN.PDF.pdf/dd5443f5-b886-40e4-920d-9df03590ff91?t=1414781457000

[9] SQ2 compilation notes can be sourced here - https://www.centralbank.ie/statistics/statistical-reporting-requirements/credit-institutions/analysis-of-lending-and-deposits-return-(sq2)

7. Lending to Irish Resident Households for House Purchase (RMR)

This format should include all euro and non-euro denominated loans to households for house purchase. Only loans to Irish resident households should be included here. Items should be recorded at the value standing in the reporting institution's books (i.e., book value) on the reference date.

Outstanding amounts should be consistent with those reported on the RMQ format of the SQ2 return, once split mortgage products are excluded. In practice the only cells that should always fully reconcile between the RMR format of the MR1 return, excluding split mortgages, and RMQ format of the SQ2 return are the totals. The reasons for discrepancies between the figures reported in individual cells should relate to the following only:

1. Second homes/holiday homes are included with BTLs on the MR1 return.
2. Mortgages to staff at preferential rates are not separately identified on the RMR format of the MR1. These mortgages should be included in the applicable category of interest rate fixation.

The following should hold where split mortgages are not employed: MR1 RMR row 70 column 50 + MR1 RMR row 70 column 70 = SQ2 RMQ row 100 column 10.

New business on the RMR should refer to actual amounts drawn down (i.e. not contractual agreements), gross of any provisions for bad and doubtful debts.

PDH – Principal Dwelling House

Lending to private individuals for house or apartment purchase, renovation, improvements or own construction of housing fully and completed secured by mortgage on the residential property which is or will be occupied by the borrower.

BTL – Buy to-Let

Lending to private individuals for house or apartment purchase, renovation, improvements or own construction of housing fully and completed secured by mortgage on the residential property which the borrower will let for residential purposes. This includes mortgages for holiday and/or second homes.

Top-up mortgages or equity release mortgages whereby a mortgage is increased to allow funds to be used for purposes other than purchase of residential property are recorded here provided the purpose of such borrowing is home improvement or renovation.

Maturity bands refer to the term over which the interest rate is fixed, i.e., not the term of the mortgage.

i. *Floating Rate Including Fixed Rates 1 Year or Less* - Residential mortgages, as defined above, on which the interest rate is floating or fixed for up to one year.

   a. Standard or LTV variable rates are those which the credit institution can change at any time and are not explicitly anchored to the ECB main refinancing rate, or any other policy rate set by the relevant monetary authority.

b. Tracker mortgages are those whose rate is explicitly anchored to the ECB main refinancing rate, or any other policy rate set by the relevant monetary authority.
c. Fixed rate mortgages up to 1 year are those whose rate is fixed and cannot change up to and including 1 year

ii. *Fixed rate* mortgages - Residential mortgages, as defined above, on which the interest rate is fixed for over one year.

a. Fixed Rate over 1 and up to 3 Years are residential mortgages, as defined above, on which the interest rate is fixed for over one and up to and including three years.
b. Fixed Rate over 3 and up to 5 Years are residential mortgages, as defined above, on which the interest rate is fixed for over three and up to and including five years.
c. Fixed Rate over 5 Years are residential mortgages, as defined above, on which the interest rate is fixed for over five years.

Note that all loans should be included in the business volumes and the calculation of the weighted average interest rate. This includes bad loans and loans for debt restructuring, other that split mortgages, at rates below market conditions.

Split mortgages can be employed as part of mortgage arrears resolutions, resulting in part of the initial mortgage being warehoused at a preferential or below market interest rate (including zero). The warehoused portion of the loan at below normal market conditions is to be excluded from the interest rate and volumes on the RMR. Note, this treatment of warehoused loans volumes is only applicable to the RMR.

Note that all loans should be included in the business volumes and the calculation of the weighted average interest rate, regardless of whether they are bad loans or loans for debt restructuring at rates below market conditions.

In terms of mortgage arrears resolutions, where a split mortgage solution is employed resulting in part of the initial mortgage being warehoused at a preferential or below market interest rate (including zero), the warehoused portion of the loan is to be excluded from the RMR. The interest rate and volume of loans warehoused below normal market conditions should not appear on the RMR. Note, this treatment of warehoused loans is only applicable to the RMR.

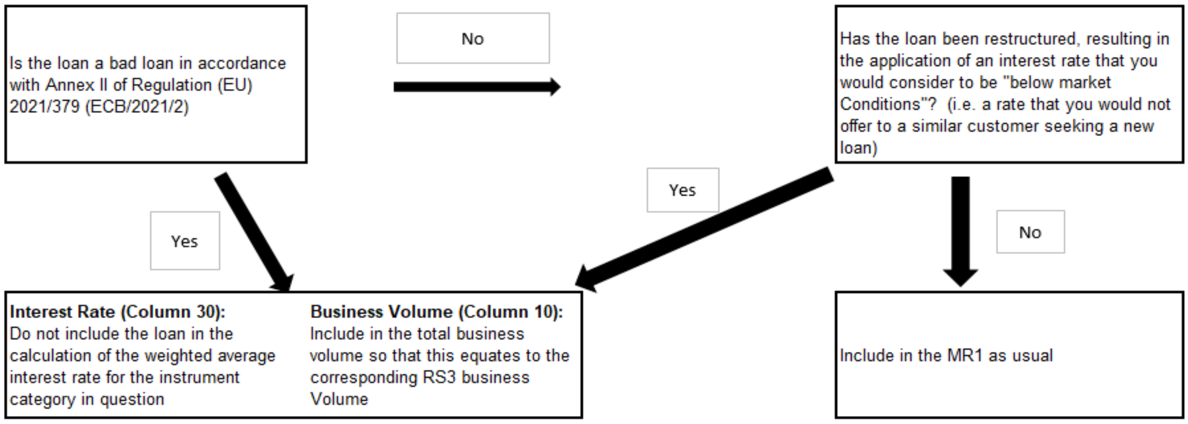
8. Treatment of Bad Loans

For the OIR, NIR, ORM and RNG formats, interest rates on bad loans and loans for debt restructuring below market conditions are not collected. This is because the data in these formats are collected for the purpose of monitoring the transmission of monetary policy by the ECB. The reason that bad loans are excluded is that the interest rate agreed for a loan for debt restructuring does not reflect the general demand and supply conditions in the loan market at the time of the agreement, but rather what the indebted customer is able to pay, and the agreement the customer is able to reach with creditor MFIs.

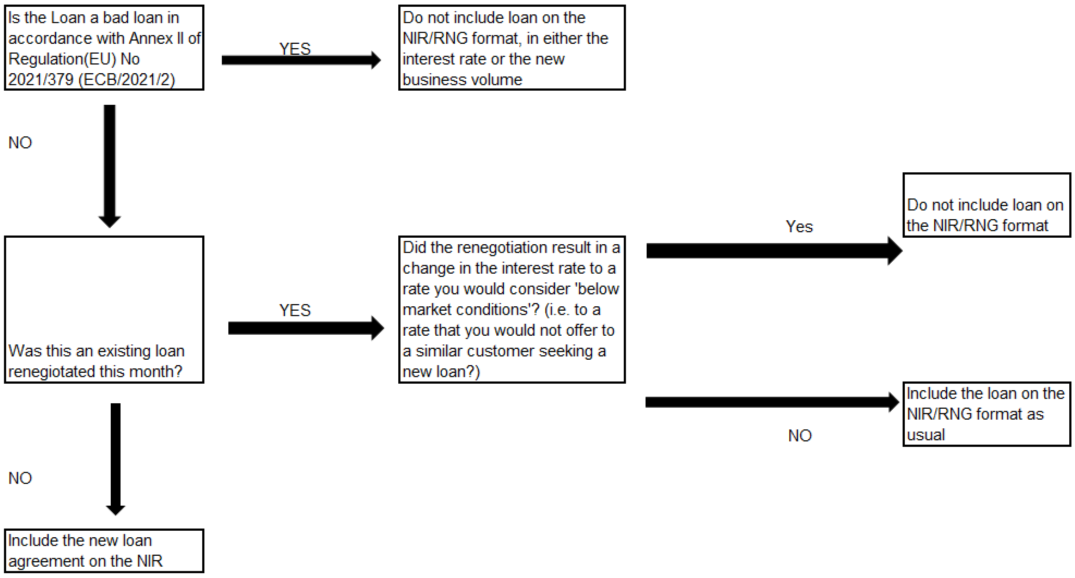
Bad loans are defined in accordance with Annex II to Regulation (EU) No 2021/379 (ECB/2021/2) which, in turn, remits to Article 178 of Regulation (EU) No 575/2013. A bad loan is automatically excluded. A restructured loan should be excluded if the restructure/renegotiation involves a change in the rate of interest to a rate that is considered to be ‘below market conditions’. A useful consideration in this regard is whether or not that interest rate would be offered to a similar customer seeking a new loan.

The precise treatment of bad loans varies slightly across the OIR/ORM and NIR/RNG formats. The following decision trees should be used for assessing whether or not to include a loan in these formats:

1. Treatment of bad loans for <u>all items on the OIR and ORM formats</u>, as well as the following items on the <u>NIR format: Revolving loans and overdrafts; Extended credit card debt</u>



2. Treatment of bad loans for all remaining items on the NIR format and for all items on the RNG format



9. Frequently Asked Questions

1. How should credit card balances be treated on the OIR and NIR?

OIR

All euro-denominated credit card debt should be reported on the OIR format. Both convenience and extended credit card balances should be included among the loans series. While the Regulation does not explicitly state in which instrument or maturity category credit card debt should be reported, the ECB has acknowledged that from its correspondence with all euro area Central Banks, credit card debt is most frequently reported in the 'consumer credit and other loans' category for households, and in the maturity category 'up to one year'. Therefore we suggest that all credit card balances and their corresponding interest rates (which are zero per cent in the case of convenience credit) be included in Rows 90 and 120 for households and NFCs, respectively.

NIR

According to the Regulation, data on volumes and rates are reported *separately* only in respect of *extended credit card debt,* in rows 130 and 300 on the NIR format. The concept of new business extends to the entire stock, i.e. the outstanding amount of extended credit card debt at the reporting date. The interest rate on convenience credit is not reported separately, as it is by definition zero per cent.

The volume of business recorded in respect of extended credit card debt should match the volume recorded on the RS3 return (IES + OES formats).

1.1 OIR reporting of Number of Contracts – Credit Cards Examples

Lost or stolen cards – Expectation is that only the new card is included in the computation of the balances and thus also in the counting of contacts, the balance is also moved to the new card
Extended and Convenience card – Ensure that the same contract is not double counted
Closed or Revoked Credit Card Accounts – If there is a remaining balance outstanding at the relevant reporting date, the corresponding account should be included in the associated number of contracts reported

2. How should revolving loans and overdrafts be treated on the OIR and NIR?

OIR

Revolving loans and overdrafts should be included among the loans series. While the Regulation does not explicitly state in which instrument or maturity category revolving loans and overdrafts should be reported, the ECB has acknowledged that from its correspondence with all euro area Central Banks, revolving loans and overdrafts are most frequently reported in the 'consumer credit and other loans' category for households, and in the maturity category 'up to one year'. We ask that all overdrafts and their corresponding interest rates be included in Rows 90 and 120 for households and NFCs, respectively. Revolving loans to households should also be reported in the ‘consumer credit and other loans’ category. In relation to the maturity of revolving loans to households or NFCs, it is expected that the reporting agent knows the maturity of any revolving facilities granted, and we would ask that these are reported accordingly. Revolving loans should be reported in the same maturity category on the MR1 and RS3 returns.

NIR

Revolving loans and overdrafts should be reported on the NIR format, in Rows 120 and 290. The concept of new business extends to the entire stock, i.e. the outstanding amount of revolving loans and overdrafts at the reporting date.

The volume of business recorded in respect of revolving loans should match the volume recorded on the RS3 return (IES + OES formats) in row 550 and columns 230 and 250 for NFCs and households, respectively.

3. Should interest rates be reported as averages over the month, or as at end-month?

OIR

The interest rate on outstanding amounts should reflect the weighted average interest rate applied to the stock of deposits or loans in the relevant instrument category *on the last working day of the month*. It covers all outstanding contracts that have been agreed in all periods prior to that reporting date.

NIR

Interest rates on new business should reflect the weighted average of *all* interest rates on new business operations in the instrument category *during* the reference month. The exception to this is for those instrument categories for which the concept of new business is extended to the whole stock, i.e. overnight deposits, deposits redeemable at notice, revolving loans and overdrafts, and extended credit card debt. For these instrument categories, the weighted average interest rates on outstanding amounts on the last working day of the month are reported on the NIR format.

4. How should volumes that are securitised/transferred to NAMA be handled?

As a result of an update to the ECB Regulation on the balance sheet items of credit institutions and of the monetary financial institutions sector (recast) (ECB/2021/2), securitised loans should now be reported within the overall MR1 statistics to align with their RS3 counterparts

5. How should deposits that are rolled over at maturity be treated?

If a term deposit is rolled over at maturity, there are two issues to consider when reporting on the MR1 return:

a) Does the rolled-over deposit constitute new business and therefore require reporting on the NIR format?
b) Regardless of the outcome in (a), should there be any change to how this deposit is classified on the OIR format, in terms of original maturity?

In relation to (a), the definition of new business in the case of maturing deposits should be the same as for any other business, i.e. *the key should be the active involvement of the customer*. If the deposit is automatically prolonged, without any engagement between the institution and the customer, then this does not constitute new business. If the customer has been actively involved at the maturity/rollover date, regardless of whether or not this resulted in a change in terms and conditions, then this does constitute new business and should therefore be reflected on the NIR format. The maturity of this deposit should be counted as commencing at the point of the "new business" classification.

Regardless of the outcome in (a), the treatment of the deposit on the OIR format should be identical to its treatment on the RS3 return. The prolongation of a contract, whether occurring automatically or as a result of engagement with the customer, should be treated on the RS3 return as if it were a new deposit. Therefore, the new conditions may imply a different classification in terms of original maturity. For example, if a three-year term deposit reaches maturity and is rolled over for one additional year, this should now be reflected as a deposit with agreed maturity up to one year on both the RS3 return and on the OIR format of the MR1 return.

6. Renegotiations within a month

A loan of EUR 1.000 was conducted on 03.02.2014 for the first time. This loan was renegotiated on 10.02.2014 and on 17.02.2014. What should be reported in February under new business and under renegotiations?

In February, this loan has been granted for the first time and then, renegotiated twice during the same month. As renegotiations are also new business, EUR 3.000 should be reported in February as new business and EUR 2.000 as renegotiations. Therefore, the "new money" arriving at the credit market in February is EUR 1.000 which is the difference between the gross new business (EUR 3.000) and the amount of renegotiated loans (EUR 2.000).

7. Renegotiations of loans not yet fully withdrawn (loans taken out in tranches)

Considering an example where a loan of EUR 10,000 is granted at time t0 (January 2014) for 10 years fixed at 8%. The customer takes out the first tranche of EUR 1,000 in February and then, further tranches of EUR in each of the following nine months, but before the first tranche is taken a renegotiation between the credit institution and the customer takes places and the interest rate is then fixed at 7.5%. How should be the reporting in MFI interest rates statistics of this loan in January and in February?

As the contract is signed in January 2014, this month a new business amount will be recorded for EUR 10,000 at 8%. In February 2014 as a renegotiation takes place a new business amount will be recorded for EUR 10,000 at 7.5% and the same amount will be recorded also as renegotiation. The subsequent nine months nothing will be recorded either as new business or as renegotiations. In terms of interest rates on outstanding amounts, the reporting agent will record nothing in January, EUR 1,000 in February at 7.5% and the same amount and interest rate the following nine months.

8. **How should cash-back incentives (at loan origination and on an ongoing basis), be treated in the MR1?**

Cashback offers should not be deducted from the loan outstanding amount or new business volume. For example, if a mortgage of EUR 300,000 is extended & EUR 3,000 is given as a cashback incentive, the EUR 300,000 mortgage is recorded on the MR1, while the EUR 3,000 cashback is recorded as a remaining liability on the RS3.

With respect to interest rates, the cashback incentive should not be reflected in the APRC figures, as the APRC should include charges but not incentives.

9. **Defining non-recourse factoring and reporting in the MR1 treatment?**

Recourse Factoring is where the factoring company (may be an MFI) buys the receivables at a price which is lower than the face value of the invoice, thereby effectively charging the applicable fees and interest

Non-Recourse factoring, the factoring company (MFI) assumes the full risk of default by the customer and fees and interest are therefore charged immediately to the factoring client who receives the full amount of the trade credit net of charges. Fees and interest charges of non-recourse factoring are usually higher than those of recourse factoring, owing to the different service provided and risk borne by the factoring company.

MFIs acting as factoring companies should record their factoring operations as loans. It is recommended to include these loans in the calculation of national aggregated interest rates and to annualise the interest rates charged using the standard formulae.

APPENDIX

Annualised Agreed Rate (AAR)

The AAR is the interest rate that is individually agreed between a credit institution and its customer, converted to an annual basis and quoted in percentages per annum. Annualised agreed rates are distinct from advertised nominal rates, as households and NFCs might be able to negotiate with the credit institution better terms than those which are advertised. Annualised agreed rates reflect the demand and supply conditions in the deposit and loan markets at the time of the agreement, including competition with other types of financial institution and product. They also reflect the creditworthiness and other qualities of the customer (in respect of loans), the solvency and other qualities of the credit institution as viewed by the customer (in respect of deposits), and the budget, capital or other constraints faced by the credit institution in the exercise of their loan-granting and deposit-taking activities.

The AAR is applied in cases where the interest payments that are agreed between the credit institution and the customer are capitalised at regular intervals within a year, for example per month or per quarter:

$$x = \left(1 + \frac{r_{ag}}{n}\right)^n - 1$$

<u>Meaning of letters and symbols:</u>

x = AAR

r_{ag} = Interest rate per annum that is agreed between the reporting agent and the household or non-financial corporation for a deposit or loan, where the dates of the interest capitalisation of the deposit and all the payments and repayments of the loan are at regular intervals in the year.

n = Number of interest capitalisation periods for the deposit and (re)payment periods for the loan per year, i.e. 1 for yearly payments, 2 for semi-annual payments, 4 for quarterly payments and 12 for monthly payments.

Narrowly Defined Effective Rate (NDER)

The NDER is defined as the interest rate, on an annual basis, that equalises the present value of all commitments other than charges (deposits or loans, payments or repayments, interest payments), future or existing, agreed by the reporting agents and the household or non-financial corporation. The NDER is equivalent to the interest rate component of the *annual percentage rate of charge* (APRC).

Please note that a narrowly defined effective rate should be calculated, instead of an AAR, for loans to households for house purchase on the NIR format.

In the case when years are presumed to have 365 days and the amount of the deposit or loan is placed or paid out in one amount, the following applies:

$$A = \sum_{n=1}^{N} \frac{CF_n}{(1+i)^{\frac{D_n}{365}}} = \sum_{n=1}^{N} \left(CF_n * (1+i)^{\frac{-D_n}{365}} \right)$$

Meaning of letters and symbols:

i = Interest rate (NDER rate which we wish to calculate)

CF_n = Cash flow n, from the perspective of the investor in the case of deposits and from the perspective of the credit institution in the case of loans

N = Number of cash flows associated with the financial instrument

A = Amount of the deposit (loan) initially placed (paid out)

D_n = Timing of the cash flow n, expressed in days after the first cash flow (in general, the date of investment of the deposit or valuation of the loan).

The only difference between the NDER and the AAR is the underlying method for annualising interest payments. The NDER uses successive approximation and can therefore be applied to any type of deposit or loan, whereas the AAR uses the algebraic formula defined above and is therefore only applicable to deposits and loans with regular capitalisation of interest payments. For products with regular capitalisation periods, where interest payments occur more frequently or equally frequently than the repayments of the principal, including all cases where the principal is repaid in full at the end of the contract, the AAR and the NDER coincide. This applies also to products with irregular or exceptional repayments of the principal, as long as these do no occur more frequently than the interest payments. Hence, for the majority of retail products the NDER and the annualised agreed rate lead to the same result. For products with complex cash flow, however, only the NDER gives the mathematically correct result. The AAR provides a close approximation, which is in line with the ECB Regulation.