



BANCA D'ITALIA
EUROSISTEMA

Instructions for compiling bad loan reports

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1. FOREWORD

The purpose of this survey is to gather detailed information on bad loan exposures, collateral or other guarantees mitigating their credit risk, and the status of credit recovery procedures.

Its introduction should improve the availability of electronically processed data on bad loans held by intermediaries, also with a view to fostering the development of a non-performing loan market in Italy, which amongst other things is predicated on the capacity of banks to provide potential buyers with adequate and reliable information. These data are also of specific interest for supervisory activities, in view of the need to encourage intermediaries to improve the management of non-performing loans and to verify progress.

2. SCOPE

Reporting entities:

- a) On a consolidated basis, the parent companies of banking groups as per the Register referred to in Article 64 of the Consolidated Law on Banking; reference banks as per Circular No. 285 dated 17 December 2013; or individual banks;¹
- b) On a stand-alone basis, banks authorized to operate in Italy entered in the Register referred to in Article 13 of the Consolidated Law on Banking and not belonging to banking groups. Italian branches of EU banks are not included in the scope of the reporting entities.

¹ The expression ‘individual bank’ refers to a bank not belonging to a banking group that controls, together with other entities and on the basis of specific agreements, banks, financial institutions and financial auxiliaries with a participating interest of at least 20 per cent of voting rights or capital.

3. CONTENT OF THE SURVEY

The purpose of this survey is to collect detailed information on bad loan exposures, collateral or other guarantees mitigating their credit risk, and the status of credit recovery procedures.

Reporting focuses exclusively on gross bad loans (including partial write-offs), for amounts greater than €100,000 at the reporting date and with counterparties resident in Italy. The thresholds are set on a consolidated basis.

Reporting refers to on-balance-sheet exposures only.

Reporting shall indicate which component of a group the exposure refers to.

Italian counterparties of foreign components of banking groups shall normally be included in the scope of the reporting. This, however, is optional because of regulatory constraints in some foreign countries. Intermediaries shall indicate whether they intend to avail themselves of this option.

The survey contains 3 sets of information:

- Individual credit facilities: this includes all the relevant information at the individual credit facility level, such as the vintage, duration, number and type of guarantees assisting the credit facility.

- Type of collateral: this includes all the relevant information on each type of collateral securing each credit facility, such as its classification, location, last appraisal, methodology (i.e. reference to comparable market transactions or appraisal models), date of last appraisal, grade of privilege (i.e. first lien or higher), and the status of credit recovery procedures;

- Personal guarantees: this includes all the relevant information on each guarantee securing the credit facility, such as the type of guarantor (i.e. bank, credit consortia, natural person), its rating, classification (non-performing or performing), and the guaranteed amount.

4. REPORTING REQUIREMENTS

Reporting is made on a half-yearly basis (reference dates: 31 December and 30 June) and the reports must be transmitted to the Bank of Italy no later than 25 April and 25 October after the reference dates.

5. REPORTING CURRENCY AND ROUNDING

The amounts are reported in euros.

Foreign exchange shall be translated at end-of-period exchange rates communicated by the ECB for the basket of currencies it considers. For the other currencies, the exchange rates that are periodically and electronically made available by the Bank of Italy shall apply.²

Data in euros shall be rounded down to the nearest whole number for decimals equal to or less than 50 cents and rounded up for decimals greater than 50 cents.

² Reuters, Telerate, etc..

6. SURVEY STRUCTURE

The survey contains 3 sets of information, corresponding to individual credit facilities and the collateral and guarantees securing them.

For each level there is an ID facility, representing the unique identifier of the credit facility assigned by the reporting banking group or stand-alone bank and an ID instrument, representing the unique identifier of an individual instrument identifying the technical form of the relationship within the reporting banking group or stand-alone bank.

If no information is reported, the value '1' shall be assigned the 'negative reporting' field (section I, individual credit facility).

7. SECTION 1: INDIVIDUAL CREDIT FACILITY

Facility ID

Unique identifier of the credit facility assigned by the reporting banking group or stand-alone bank. In the event of objective difficulties, the ID facility can take the same value as the ID instrument.

Instrument ID³

Unique identifier of an individual instrument that identifies the technical form of the relationship within the reporting banking group or stand-alone bank.

Credit register ID

Unique ID code assigned to the debtor in the Italian banking system according to Circular No. 139 of 11 February 1991.

Bank code

Unique identifier of the component of the banking group (as per the Bank of Italy's register).

Syndicated loan

Information about participation of the credit facility in a 'syndicated loan'.

Attributes:

- Yes
- No

Default status

Classification of the debtor according to Bank of Italy Circular No. 272 of 30 July 2008.

Attributes:

- Bad loans

Forborne status

Presence of forborne exposures pursuant to Bank of Italy Circular No. 272 of 30 July 2008.

Attributes:

- Yes
- No

RWA calculation

Calculation method for risk weighted assets of the facility. If an instrument comprises several tranches based on different methods, the one covering the largest tranche shall normally be reported. The calculation method used before credit risk mitigation (CRM) shall be reported.

³ Together with other instruments, this can represent a single credit facility (for instance a mixed commitment or *fido promiscuo*). Vice versa, several credit facilities can together represent a single instrument (i.e. subject to payment transactions on an ordinary bank account).

Attributes:

- Standard
- Internal Model

Type of instrument

The type of contract that represents the instrument

Attributes:

- Deposits
- Current accounts
- Credit cards
- Other revolving instruments aside from credit cards and current accounts
- REPOs
- Commercial credits and advances
- Financial leasing
- Real estate mortgages
- Other loans
- Credit derivatives (with and without financial and non-financial guarantees)
- Other derivatives (financial derivatives)
- Other accounts receivable/payable

Effective interest rate (default classification)

The effective interest rate is the rate used for accounting purposes, at the reporting date, to calculate bad loans' carrying amount.

Date of first classification of default

End day of the month in which the debt was first classified by the bank as 'non-performing' (for the most recent default cycle only). In the event of objective difficulties, and for positions classified as being in default before 1 January 2004, the date of 31 January 2004 can conventionally be reported.

Exposure at the date of first classification of default

Overall gross exposure at the date of first classification of default (for the most recent default cycle only).

Date of first classification as a bad loan

End day of the month in which the debt was classified by the bank for the first time as a bad loan.

Exposure at the date of classification as a bad loan

Overall gross exposure at the date of classification as a bad loan. If non-performing loans (other than those purchased by other institutions belonging to the same banking group) have been purchased, the value shall be entered in the balance sheet at the purchase price (net of later partial write-offs, if any). In the latter case, the threshold shall be calculated with reference to the purchase price.

Overall gross exposure

The current book value (including accrued interest) gross of provisions, but net of partial write-offs to this facility.

Cumulative partial write-offs

Cumulative up to date partial write-offs in the recorded amount of the facility when the bank considers that part of the credit cannot be collected.

For counterparties with several connected facilities, facilities that have been fully written-off shall also be reported.

Specific provisions

Total value of cumulative provisions associated with the facility.

Overall net exposure (net of write-offs and provisions)

‘Overall gross exposure net of ‘write-offs’ and ‘specific provisions’.

Recovery procedure status

What action has been performed and what procedure is ongoing at the reporting date in order to recover the outstanding amount.

Attributes:

- No action
- Formal notice
- Negotiating repayment plan
- Ongoing repayment plan
- Starting legal proceedings⁴
- Pending the definition of legal proceedings⁵
- Legal proceedings execution⁶
- Waiting for cash collection⁷

Type of recovery procedure⁸

⁴ ‘Starting legal proceedings’ means the phase immediately after formal notice, if there has been no positive outcome. It is usually accompanied by a ‘cease-and-desist’ letter and an injunction to pay.

⁵ ‘Pending the definition of legal proceedings’ means, for example, a confiscation request.

⁶ ‘Legal proceedings execution’ means, for example, the phase between the approval of confiscation and the auction.

⁷ The phase following the auction shall be reported as ‘waiting for cash collection’; this category usually also covers the attachment of salary, if any.

⁸ Consistency is requested between the fields ‘recovery procedure status’ and ‘type of recovery procedure’. Specifically, if ‘type of recovery procedure’ has a different attribute to ‘not applicable’, the field ‘recovery procedure status’ shall not be reported as ‘no action’ or ‘formal notice’. The field ‘recovery procedure status’ disregards the action of individual institutions: for example, in the event of bankruptcy, even if started by another entity, the field shall be reported either as ‘legal proceedings execution’ or ‘waiting for cash collection’.

Type of recovery procedure (judicial or extra-judicial) on-going at the reporting date.

Attributes:

- *Fallimento* (bankruptcy)
- *Liquidazione giudiziale o liquidazione coatta amministrativa* (compulsory administrative liquidation)
- *Concordato preventivo* (ordinary arrangement with creditors)
- *Concordato fallimentare* (arrangement with creditors without restructuring plan)
- Voluntary liquidation
- Procedures foreseen for non-defaultable institutions
- Other⁹
- Extra-judicial procedure
- Not applicable

If several recovery procedures are being performed with respect to the same debtor, the attribute should be referred to the procedure with the highest gross exposures reported.

Date of Bankruptcy¹⁰

Date of filing for bankruptcy (if any).

Judicial court¹¹

Location of the judicial court responsible for the bankruptcy procedure (if any).

⁹ 'Other' refers to collective procedures. If there is neither a collective nor an extra-judicial procedure, the field shall be reported as 'not applicable'. 'Other' also covers 'extraordinary administrations', which in the field 'recovery procedure status' shall be reported as 'pending the definition of legal proceedings' or 'legal proceedings execution', depending on the actual phase of the procedure.

¹⁰ A date of bankruptcy later than the reporting reference date will be accepted.

¹¹ The field 'judicial court' is compulsory if the type of recovery procedure indicated foresees its existence (i.e. bankruptcy, ordinary arrangement with creditors, arrangement with creditors without restructuring plan, compulsory administrative liquidation).

8. SECTION 2: TYPE OF COLLATERAL

Facility ID

Unique identifier of the credit facility assigned by the reporting banking group or stand-alone bank.

In the event of objective difficulties, the Facility ID can take the same value as the Instrument ID.

Instrument ID¹²

Unique identifier of an individual instrument that identifies the technical form of the relationship within the reporting banking group or stand-alone bank.

Collateral ID

Unique identifier of the collateral assigned by the reporting banking group or stand-alone bank.

Privilege of the facility on the collateral (lien)¹³

Priority of satisfaction of the rights claimed on the present collateral by the credit corresponding to the Facility ID.

Attributes:

- 1
- > 1
- Leasing
- Not applicable

Estimate of privileged exposures

Estimated amount of credits with a higher claiming priority than the one corresponding to the Facility ID (optional field).

Location of real estate collateral

Attributes:

- Collateral not located in a member state (country)
- Collateral located in a member state but not in Italy (NUTS3)
- Collateral located in Italy (city)
- Not applicable (if the collateral is not real estate)

¹² Together with other instruments, this can represent a single credit facility (for instance a mixed commitment or *fido promiscuo*). Vice versa, several credit facilities can together represent a single instrument (i.e. subject to payment transactions on an ordinary bank account).

¹³ The attribute 'not applicable' is meant as residual. The field 'privilege of the facility on the collateral (lien)' means the actual privilege of the collateral. For example, in the case of a pledge '1' is expected to be reported. Similarly, if, for example, an institution has a second lien mortgage on a collateral and the first lien has already been reimbursed and cancelled (or belongs to another institution in the same banking group), '1' is expected to be reported.

Type of collateral

Attributes:

- Real estate: residential
- Real estate: commercial
- Real estate: industrial
- Real estate: land
- Real estate: other
- Instrumental goods: industrial
- Instrumental goods: automotive
- Instrumental goods: aviation
- Instrumental goods: shipping
- Cash
- Equity
- Bonds
- Commodities
- Other financial instruments
- Other

Mortgage share on the property

Portion of the property securing the credit, in the case of shared ownership. If the property belongs to a single owner, the reported portion shall be 10000.

Type of right¹⁴

Type of right that is subject to mortgage.

Attributes:

- Full ownership
- Bare ownership
- Usufruct
- Other
- Not Applicable

Value of collateral

Last available estimated amount of the collateral at fair value. If there is a pool of assets securing the same credit facility, the overall value can be reported as a single type of collateral (see field below: 'pool of assets'), provided that all the assets have the same lien.

Exposure covered by collateral

Contractually guaranteed exposure amount.

¹⁴ Leasing is considered as full ownership and therefore has to be reported as such.

Pool of assets

Presence of a number of assets that were pledged as collateral for the same credit facility, reported as a single type of collateral.

Attributes:

- Yes
- No

Share in the pool of the reporting institution

Value of the participation of the banking group or stand-alone bank in the credit pooling, if there is a credit pool. For non-syndicated loans, the overall collateral value shall be reported.

Date of appraisal¹⁵

End day of the month on which the last appraisal of the collateral evaluation was performed. Appraisal means a certification from an entity belonging or not to the institution.

If there is a periodical statistical or market (i.e. real estate) update of the collateral value, the date shall refer to the last analytical appraisal of the entity belonging or not to the institution.

In the case of auction, last based auction value

Entry price of the last auction for the type of collateral. For credit pools, the overall collateral value shall be reported.

Type of appraisal¹⁶

Type of the last available appraisal on the collateral.

Attributes:

- Counterparty estimation
- Creditor estimation
- Third-party estimation
- Other type of estimation¹⁷
- Not applicable

¹⁵ A date of appraisal later than the reporting reference date is accepted.

¹⁶ If a real estate appraisal is reported as 'expert judgment' in the field 'mode of appraisal', then it shall have the following alternative attributes in the field 'type of appraisal': 'counterparty estimation', 'creditor estimation', 'third party estimation', according to the author of the judgment.

¹⁷ Exposures reported as 'Indexation/Market parameters', 'exchange market', 'OTC market', 'model', 'other' in the field 'mode of appraisal' shall be reported as 'other type of estimation' in the field 'type of appraisal'.

Mode of appraisal¹⁸

Process used in the last available appraisal in order to calculate the estimated collateral value.

Attributes:

- Exchange market
- OTC market
- Indexation/market parameters
- Model
- Expert judgment
- Other
- Not applicable

On site visit

Physical on-site access to the collateral, in case of real estate collateral.

Attributes:

- Yes
- No
- Not applicable

State of enforcement of collateral

What action has been performed at the reporting date in order to serve and liquidate the collateral.

Attributes:

- No action
- Pending foreclosure
- Pending auction
- Waiting for cash collection

For auctions, the number of failed auctions

Number of auctions in which the collateral was been sold.

For auctions, date of first auction¹⁹

End day of the month in which the first auction was held in order to sell the collateral.

¹⁸ It is worth clarifying that if a new judgment was expressed by an expert after the appraisal during the procedure of credit granting, 'expert judgment' shall be reported in the field 'mode of appraisal', even if there was an update on the basis of indexation/market parameters. The latter shall be reported only in the absence of non-statistical updates. By contrast, as for collateral fair value, the institution shall report the last available value, also taking account of eventual statistical updates.

¹⁹ A date of first auction later than the reporting reference date is accepted.

9. SECTION 3: PERSONAL GUARANTEES

Facility ID

Unique identifier of the credit facility assigned by the reporting banking group or stand-alone bank. In the event of objective difficulties, the Facility ID can take the same value as the instrument ID.

Instrument ID²⁰

Unique identifier of an individual instrument that identifies the technical form of the relationship within the reporting banking group or stand-alone bank.

Value of the guarantee

Contractual value of the guarantee.

Exposure guaranteed

Exposure value contractually guaranteed.

Credit register ID of the guarantor

Unique ID code given to the guarantor in the entire Italian banking system according to Circular No. 139 of 11 February 1991.

Type of guarantee

Type of guarantee by guarantor.

Attributes:

- Guarantee from government and public sector
- Guarantee from banks
- Guarantee from financial intermediaries: Confidi
- Guarantee from financial intermediaries: other
- Guarantee from non-financial companies
- Other personal guarantees
- Other

State of enforcement of guarantee

What action has been performed at the reporting date in order to serve and liquidate the guarantee. Optional field.

Attributes:

- No action
- Waiting for cash collection
- Not available

²⁰ Together with other instruments, this can represent a single credit facility (for instance a mixed commitment or *fido promiscuo*). Vice versa, several credit facilities can together represent a single instrument (i.e. subject to payment transactions on an ordinary bank account).

When the guarantor is a client of the bank, guarantor classification status

Classification of the guarantor according to Bank of Italy Circular No. 272 of 30 July 2008.

Attributes:

- Performing exposures
- Non-performing past-due
- Unlikely to pay (Bank of Italy definition)
- Bad loans
- Not applicable

Forborne status

Presence of forborne exposures pursuant to Bank of Italy Circular No. 272 of 30 July 2008

To be reported when there are guarantor clients of the bank. If the guarantor has both forborne and non-forborne exposures, the criterion of prevalence shall apply.

Attributes:

- Yes
- No
- Not applicable

Credit rating of the guarantor

Credit quality step based on the external rating of the guarantor. Optional field.

Attributes:

- AAA
- AA
- A
- BBB
- BB
- B
- CCC
- D
- Not applicable (for guarantors not subject to rating)
- Not available

Probability of default

The probability of default associated with the guarantor – as per the treatment prescribed in Article 178 of the Capital Requirements Regulation (CRR). This field has been designed for IRB/RBA banks, which should have this information in their systems. Optional field.

Estimate of unpledged assets

The present value of estimated recoveries from the liquidation of non-pledged assets of the guarantor. Optional field.