

Classification of Loans According to Quality
Bad Loans
Methodical guide.

To the data and time series published on web-page:

<http://www.nbs.sk/en/statistics/money-and-banking-statistics/source-statistical-data-of-monetary-financial-institutions/loans>,

folder:

Loans granted - sector break-down

Outstanding amounts of loans provided and their average interest rates

Year 2005²

For statistical purposes, loans were classified into the following categories:

- a) standard loans;
- b) standard loans with qualification;
- c) non-standard loans;
- d) doubtful loans;
- e) loss-making loans;
- f) unclassified loans
 1. up to 30 days overdue,
 2. 31 to 90 days overdue,
 3. 91 to 180 days overdue,
 4. 181 to 360 days overdue,
 5. more than 360 days overdue.

Standard claims – defined as claims where:

- repayment is up to 30 days overdue, the debtor meets his other commitments pursuant to the contract, and an analysis of the debtor's economic situation indicates that the claim will be repaid in full and on time;

Standard claims with qualification – defined as claims where:

- repayment is more than 30, but not more than 90 days overdue;
- the debtor fails to meet another commitment arising from the contract, for example he fails to provide information as required under the contract, or based on an analysis of the debtor's economic situation a loss is expected for the bank as a result of overdue repayment;
- provisions are created in the amount of at least 1%, but less than 20%, of the unsecured value of a standard claim with qualification.

Non-standard claims – defined as claims where:

- repayment is more than 90, but not more than 180 days overdue;

² Until 2005, claims had been classified as standard loans, standard loans with qualification, non-standard loans, doubtful loans, and loss-making loans. Standard loans with qualification, non-standard loans, doubtful loans, and loss-making loans were also marked as **classified claims**.

- the debtor is in liquidation;
- the claim arises from the realization of a guarantee provided for the debtor, or based on an analysis of the debtor's economic situation it is assumed that the claim will in large part be repaid;
- provisions are created in the amount of at least 20%, but less than 50%, of the unsecured value of the non-standard claim concerned.

Doubtful claims – defined as claims where:

- repayment is more than 180, but not more than 360 days overdue;
- the debtor is undergoing composition proceedings;
- a bankruptcy petition is filed and a temporary conservator is appointed for the debtor's property, or based on an analysis of the debtor's economic situation it is assumed that only a smaller part of the claim will be repaid;
- provisions are created in the amount of at least 50%, but less than 95%, of the unsecured value of the doubtful claim.

Loss-making claims – defined as claims where:

- repayment is more than 360 days overdue;
- a bankruptcy petition for the debtor's property is rejected for lack of assets;
- bankruptcy is declared for the debtor's property;
- bankruptcy proceedings for the debtor's property are terminated, since there are not enough assets to cover the costs of bankruptcy proceedings;
- this is a claim against a person with a special relationship to the bank, or a person having control over the bank, and repayment of the claim is more than 90 days overdue, or an analysis of the debtor's economic situation indicates that the claim will not be repaid, even in part;
- provisions are created for 100% of the unsecured value of the loss-making claim concerned.

Unclassified loans were defined as loans in the portfolio of claims.

Year 2006

On the basis of changes in accounting practices for banks according to international accounting standards, the method of valuation of financial assets has been substantially modified. Selected financial assets are classified for the purposes of banking supervision as follows:

Claims valued **on an individual basis** vis-à-vis corporate entities:

- claims with no identifiable depreciation;
- claims with reduced value:
 - depreciated by not more than 20%;
 - depreciated by more than 20%, but no more than 50%;
 - depreciated by more than 50%, but no more than 95%;
 - depreciated by more than 95%;
- failed claims.

Claims valued **on a portfolio basis** vis-à-vis corporate entities:

- significant and
- insignificant.

For statistical purposes (monetary and financial statistics), the individual claims are categorized as follows:

Category I covers property valued on an individual basis with no identifiable depreciation.

Category II covers property valued on a portfolio basis (with no identifiable depreciation on an individual basis).

Category III covers property valued on an individual basis with identifiable depreciation.

Under **bad or failed claims** are reported assets, where the bank identifies 50% or higher drop in the value or where repayment by the debtor is more than 90 days overdue.

Since January 2009

Data on **bad loans** are presented within the framework of loans in the separate sheet (with more details on loan type and sector),

e.g.: <http://www.nbs.sk/img/Documents/STATIST/ZSU/v33-12/v33-12a@200902.xls>

According to legal framework for supervisory purposes **loans are considered as “bad loans”, when they fulfil following criteria for the origination of failure:**

1. probability of the failure without execution of security,
2. overdue of debtor repayment more than 90 days.