
MODEL ANALYSIS OF THE FINANCIAL PERFORMANCE OF THE LOAN AND THE BORROWER

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Abstract

In order to assess the financial performance of borrowers are using a number of financial indicators, specific to each bank, including: degree of liquidity, capital adequacy, leverage and profit rate. It is necessary to use a larger number of indicators resulting in increased time required to substantiate the credit decision and determining the borrower's creditworthiness.

Based on these considerations, we present a model of the article analysis of the financial performance of the loan and the borrower.

Key words: *financial performance, model, analysis, loan, loan, portfolio, non-performing loans.*

1. Presentation of the general

Determining the quality of the borrower is assessed by banks through employment in one of the categories listed below and is based on a classification system portfolio risk lending, through the evaluation agencies as matrix bidimensionela of quantifying the probability of risk and the impact of its production on bank profitability, as shown in the following table.

Framing loan portfolio by risk categories, according to two-dimensional matrix, as follows:

- Low risk area represented by Class A, AA and BBB
- Moderate risk area represented by Class BB
- Medium risk area represented by Class B
- High risk area represented by classes C, CC and CCC

"Framing loan portfolio risk categories"

Risk weight according to the determination of capital requirements Classification Category	0%	20-35%	50-75%	≥100%	Borrower category
Standard	AA	A	BBB	BB	on loan categ. A
In observation	A	BB	BB	B	on loan categ. B
Substandard	BB	BB	B	B	on loan categ. C
Doubtful	BB	B	B	CC	on loan categ. D
Loss	B	CCC	CC	C	on loan categ. E

Source: Data processed by the NBR regulations on how to frame the borrowers by Veneto Banca Group

Category A: Borrowers with financial-economic activity profitable, having secured all the conditions for purchasing, sales, technology, organizational and staff rise to the repayment of term loans outstanding contractual rates and the bank interest.

Category B: good economic and financial situation currently makes its indicators of creditworthiness at a higher level, but for the next period are not prospects for continued financial performance at the same level, there are problems of organizational, technological, personnel or related the nature and purpose of the activity.

Category C: financial and economic situation currently satisfactory, with the trend of worsening indicators of production, efficiency of work, organizational and personnel.

Category D: financial and economic situation characterized by lower indicators, ranging in relatively short periods of time between a poor performance and a satisfactory one.

Category E: unprofitable business incurred losses involving uncertainty regarding the ability to repay the loan and interest.

Economic inclusion in either category of the 5 must be made based on analysis of economic and financial performance according to a set of criteria, namely: the organization of businesses; the sector in which it operates and the position in the branch or unit subramurii; patrimonial liquidity; financial autonomy rate; financial and economic structure; rotation of current assets; guarantees insurers; seasonal activity; dependence on market supply and delivery; the level of government support; quality management; economic and financial outlook of the unit.

Of all these criteria the most important are:

• **Liquidity heritage.**

It is, as I mentioned, a key criterion in assessing credit quality through the possibility of repayment by borrowers based on their rapid change in current assets and receivables in cash.

In the structure of current assets that can be readily converted into cash include: availability and house accounts; other funds; receivables and other accounts receivable; Bonds and other securities; other assets (except for inventories and fixed costs and no prospect of recovery).

The structure is outstanding obligations include liabilities due to staff, suppliers, budget etc; Current short-term loans falling due or will become due in the next three months; outstanding loans.

• **The rate of financial autonomy**

The degree to which operators are forced to seek bank loans due to insufficient own resources.

• **Economic and financial situation.**

This important criterion in turn be divided into 3 sub-criteria, namely: the average turnover; monthly gross profit; rate of return.

The best economic-financial situation is one in which these three indicators recorded normal averages. Operators that accomplished the average value for these indicators show a higher guarantee than those to which these indicators are far above or below average. Those businesses are more mobile, more adaptable to the changes taking place in the structure of production, profile manufacturing, supply sources and markets. Operators that losses fall into the category E.

- **Guarantees.**

The essential criteria in lending, collateral in a bank to recoup placed in them. Their particular importance within the presents that can quickly be converted to cash. Lack of guarantees within certain economic operators in category E.

Verification of loan guarantees is both factual, the findings on site, as well as scripted, based on data from the records of the customer and the bank, at least annually to all operators and whenever it is necessary for the companies that recorded credit and / or unpaid interest due.

2. Profile NPL portfolio

Following the merger with the former Intra Group profile as consolidated total assets fell, as expected, so the trend is increasing significantly and non-performing loan ratio / performance.

Total non-performing loans was approximately 307 million euros, representing 8.77% of aggregate loans to customers compared to 10.51% in December 2006.

At year end 2008, the net exposure to bad loans on a consolidated basis reached 794 million euros, which shows the influence inevitably sudden deterioration of the situation macroeconomic. Expunerea net restructured loans, worth € 33 million, not change significant in terms end of the last financial year.

Regarding coverage of impaired loans at the end of December 2008, the total represents 27.3% of gross exposure, much lower than that reported at the end of December 2007, when it was declared a value of approximately 39%.

In 2009, the recession has hit hard the main world economies had inevitable repercussions on the quality of the loan portfolio.

At the end, as was predictable, moreover, doubtful loans have increased significantly, both in terms of gross exposure, which was about 1.6 billion euros, representing 48.6 points procentuale. Această trend is reflected in total loan portfolio, which increased during the 12 months from 4.84% to 7.13%.

Referring to reducing credit risk through policies applied NPL coverage ratios, at 21.69%, was considerably less than at the end of December 2008.

End of financial year 2010, showing a gradual improvement of the economic outlook, which involved, but also our country is only partially mitigates the effects of the crisis in bank accounts, since the deterioration of the loan.

In late 2011, the loans deteriorated, both in terms of exposure gross and net, gross exposure remained constant 2.66 billion euros and net exposure was high all the value of 1.96 billion euros, virtually the same level as the end of 2010.

In relative terms, ie in terms of net credit portfolio, the incidence of doubtful debts in exchange showed a significant reduction, going from 7.26% to 7.62% at the end of December 2010.

With reference to net non-performing loans was established a volume of 922 million euros, showing a level of incidence in the loan portfolio growth of 3.41% compared to 3.20% at the end of 2010.

In terms of reducing credit risk through policies implemented at the end of 2011, the coverage ratio of non-performing loans was 26.25%, showing a slight increase compared with the rate of coverage at the end of 2010.

Immediate effects on quality profiles of the loan portfolio of the Group, noticeable effects in the dynamics of impaired assets are:

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- the end of December 2012 the total gross impaired loans was 3.7 billion showing an increase of 38.7% in the balance at December 2011;
 - gross balance of non-performing loans were set at about 2.1 billion euros, an increase of 605 million over 12 months (+ 39.7%).

As anticipated, the situation remains negative and the high degree of uncertainty, as the prospects for change in the macroeconomic induced group decides to adopt a highly a rigorous policy and prudent in evaluating loans, especially regarding real estate loans guarantees in the context of the pending enforcement and asset recovery.

Conclusions

In 2007 the total amount of non-performing loans was approximately 307 million euros, representing 8.77% of aggregate loans to customers compared to 10.51% in December 2006.

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The situation continues to be negative and the high degree of uncertainty as prospects of change is envisaged adopting a highly a rigorous policy and prudent in evaluating loans, especially regarding real estate loans, guarantees in the context of enforcement proceedings and aşteptarea recovery.

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