



Conference "Banking Union and Basel 3"

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What's the value of NPLs?

Table 2 - Main differences between banks' and investors' methods of valuing bad loans

Bad loan valuation		Bank	Bank with con indirect costs	Investor's IRR 15%	Investor's IRR 25%
Assumptions		(1)	(2)	(3)	(4)
Gross book value (GBV)	(a)	100	100	100	100
Expected value collected at maturity (from sale of guarantee and other)	(b)	47	47	47	47
Time remaining to collection of cash flow (years)	(c)	4	4	4	4
Average weighted cost of liabilities (investor's IRR)	(d)	Not applicable	Not applicable	15%	25%
Indirect costs	(e)	0%	6%	6%	6%
Average cash flow discounting rate	(i)	4%	4%	15%	25%
Results					
Discounted cash flow	$(j=b/(1+i)^c)$	40.2	40.2	26.9	19.3
Indirect costs	$(k=e*b)$	0	2.8	2.8	2.8
Book value (bank's NBV); price (for investor)	$(l=j-k)$	40.2	37.4	24.1	16.4
Expected loss on position (coverage ratio)	$(m=a-l)$	59.8	62.6	-	-

What's the impact of time on the value of NPLs?

Tav. 3 - Sensitivity of bad loan prices to recovery times⁽¹⁾
(per cent of GBV)

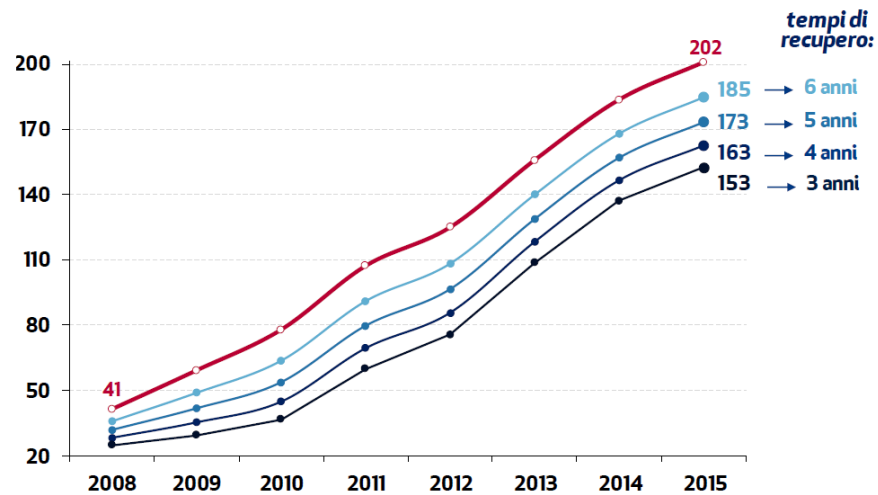
Recovery time (years)*	Price
1	36.3
2	29.8
3	24.4
4	19.8
5	16.1
6	12.9

(1) Assuming 20 per cent IRR.

The impact of time on NPLs stock

sofferenze | l'effetto dei tempi lunghi di recupero

stock di sofferenze - Italia
miliardi di €



fonte: elaborazioni e stime Prometeia su dati Banca d'Italia;
prometeia

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