

Qualitative disclosure

Definition of non-performing, impaired (IAS 39) and past-due exposures

With effective date 1 January 2015, the Bank of Italy revised the classification criteria for non-performing exposures (7th update of Circular 272 of 30 July 2008, issued on 20 January 2015) in order to align them with the new definitions of non-performing exposures and forbearance as defined in the Implementing Regulation (EU) No. 680/20134 of the Commission, and subsequent amendments and additions (*“Final Draft Implementing Technical Standards on Supervisory reporting on forbearance and non-performing exposures”* – EBA/ITS/2013/03/rev1 24/7/2014).

In particular the above-mentioned EBA standards have introduced the definition of forborne exposures, i.e. debt contracts in respect of which forbearance measures have been extended. Forbearance measures consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments (*“financial difficulties”*). According to the EBA templates, a concession refers to either of the following actions:

- a modification of the previous terms and conditions of a contract the debtor is considered unable to comply with due to its financial difficulties (*“troubled debt”*) to allow for sufficient debt service ability, that would not have been granted had the debtor not been in financial difficulties;
- a total or partial refinancing of a troubled debt contract, that would not have been granted had the debtor not been in financial difficulties.

Forborne exposures can be classified in the categories *“non-performing exposures”* and *“performing exposures”* as defined by the same EBA standards. With reference to the assessments of impairment and provisions for forborne exposures, the accounting policies applied are the general criteria in accordance with IAS 39 requirements.

The same Circular 272 classifies *“non-performing”* exposures, in other words those with the characteristics listed in paragraphs 58-62 of IAS 39, in the following categories:

- **Bad loans:** credit exposures, formally considered as uncollectable, towards borrowers that are in insolvency (even not judicially ascertained) or an equivalent situation. The impairment loss assessment is performed in general on an analytical basis (including the validation of the provision with coverage levels statistically defined for certain loan portfolios below a set threshold). In case of not significant amounts, the assessment of impairment loss is performed on a collective basis aggregating similar exposures;
- **Unlikely to pay:** *“on-balance”* and *“off-balance sheet”* exposures, which do not meet the conditions to be classified as *“bad loans”*. The classification as *“unlikely to pay”* derives from the assessment of the debtor’s unlikeliness (without actions such as realisation of collateral) to repay fully his credit obligation (principal and/or interest). The classification within the *“unlikely to pay”* category is not necessarily related to the explicit presence of anomalies (repayment failure) but rather is tied to the existence of evidence of a debtor’s risk of default. The impairment loss assessment is performed in general on an analytical basis (also checking the coverage level which is statistically defined for certain loan

portfolios below a set threshold) or on a collective basis aggregating similar exposures.

- **Material past-due:** on-balance-sheet exposures, other than those classified among bad loans or unlikely to pay, which, at the reference date, have amounts that are past-due or over limits. Impaired past-due amounts can be determined making reference, alternatively, to the individual debtor or to the individual transaction. Impaired past-due exposures are assessed with a collective approach on a historical/statistical basis, applying, where available, the risk level determined by the corresponding risk factor used for regulatory purposes (EU Regulation No. 575/2013 – CRR) and related to the prudential requirements for lending institutions and investment firms ("Loss Given Default" or LGD).

Description of methodology applied to determine write-downs

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognised on the date of contract signing, which normally coincides with the date of disbursement to the borrower.

These items include debt instruments with the above characteristics (including host contracts of hybrid instruments from which an embedded derivative has been bifurcated) or those subject to portfolio reclassification in accordance with the rules of IAS 39 and the net value of finance leases of assets under construction or awaiting lease, provided the leases have the characteristics of contracts entailing the transfer of risk.

After initial recognition at fair value, which usually is the price paid including transaction costs and income directly attributable to the acquisition or issuance of the financial asset (even if not paid), a loan or receivable is measured at amortised cost, which can be adjusted to take account of any write-downs/write-backs resulting from the valuation process..

A gain or loss on loans and receivables is recognised in profit or loss:

- when a loan or receivable is derecognised: in the item *"Gains (losses) on disposal of: a) loans"*;

or:

- when a loan or receivable is impaired: in the item *"Impairment losses on: a) loans"*.

Interest on loans and receivables is recognised in profit or loss on an accrual basis by using the effective interest rate method under the item *"Interest income and similar revenues"*.

Delay interest is taken to the income statement on collection or receipt.

Loans and receivables are reviewed in order to identify those that, following events occurring after initial recognition, show objective evidence of possible impairment. These impaired loans are reviewed and analysed periodically at least once a year.

A loan or receivable is deemed impaired when it is considered that it will probably not be possible to recover all the amounts due according to the contractual terms, or equivalent value.

Allowances for impairment of loans and receivables are based on the present value of expected cash flows of principal and interest; in determining the present value of future cash flows, the basic requirement is the identification of estimated collections, the timing of payments and the rate used.

The amount of the loss on impaired exposures classified as Bad and Unlikely to pay according to the categories specified above, is the difference between the carrying value and the present value of estimated cash flows discounted at the original interest rate of the financial asset.

If the original rate is not directly available, or if obtaining it is too burdensome, its best approximation will be applied.

For all fixed rate positions the interest rate so determined is kept constant also in subsequent financial years, while for floating rate positions the interest rate is updated with respect to the floating component used as a reference while keeping the spread originally set constant.

Recovery times are estimated on the basis of business plans or forecasts based on historical recovery experience observed for similar classes of loans, taking into account the segment of the customers, the type of loan, the type of security and any other factors considered relevant.

Any subsequent change vis-à-vis initial expectations of the amount or timing of expected cash flows of principal and interest causes a change in allowances for impairment and is recognised in profit or loss in the item "*Impairment losses on loans*".

Write-downs of impaired loans are classified as specific in the relevant income statement item even when the calculation is portfolio-based or based on statistical data, as indicated below.

When the reasons for the impairment no longer exist, and this assessment is objectively attributable to an event such as an improvement in the debtor's credit worthiness occurred after the impairment, a reversal is made in the same profit or loss item, within the amount of the amortised cost that there would have been if there had been no impairments.

Derecognition of a loan or receivable in its entirety (write-off) is made when the legal rights on the loan have failed or the loan or receivable is deemed to be irrecoverable or is written off. Write-offs are recognised directly in profit or loss under the item "*Impairment losses on: a) loans*" and reduce the amount of the principal of the loan or receivable. Reversals of all or part of amounts previously written off are recognised in the same item.

Loans under renegotiation involving a debt/equity swap are valued, pending swap finalisation, on the basis of the conversion agreements entered into on the balance-sheet date.

Any negative differences between the value of the loans and the fair value of the shares are taken to profit or loss as write-downs.

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(c) the total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigation, and the average amount of the exposures over the period broken down by different types of exposure classes

A.1.1 Breakdown of credit exposures by portfolio and credit quality (carrying value) - Net exposure *)								
Portfolio/Quality	Banking group					Other companies		Total
	Non-performing loans	Unlikely to pay	Impaired past due	Not impaired past due	Other assets	Impaired	Others	
1. Financial assets held for trading	-	-	922	-	2.952.991	-	31	2.953.944
2. Available-for-sale financial assets	306	-	-	-	24.478.046	-	24	24.478.376
3. Held-to-maturity financial instruments	240	6.295	-	-	294.747	-	-	301.282
4. Loans and receivables with banks	2.209	952	-	439	28.132.559	-	5.953	28.142.112
5. Loans and receivables with customers	1.784.059	2.893.379	262.791	2.553.491	109.714.558	2.848	14.564	117.225.690
6. Financial assets at fair value through profit or loss	-	-	-	-	85.303	-	-	85.303
7. Financial instruments classified as held for sale	489.860	398.891	54.818	-	757.183	-	-	1.700.752
8. Hedging instruments	-	-	-	-	3.345.486	-	-	3.345.486
Total	2.276.674	3.299.517	318.531	2.553.930	169.760.873	2.848	20.572	178.232.945

A.1.1 Breakdown of credit exposures by portfolio and credit quality (carrying value) - Average exposure *)								
Portfolio/Quality	Banking group					Other companies		Total
	Non-performing loans	Unlikely to pay	Impaired past due	Not impaired past due	Other assets	Impaired	Others	
1. Financial assets held for trading	284	213	907	-	3.612.456	-	44	3.613.904
2. Available-for-sale financial assets	304	-	-	-	23.675.874	-	24	23.676.202
3. Held-to-maturity financial instruments	239	5.242	-	-	420.268	-	-	425.749
4. Loans and receivables with banks	3.593	1.111	-	110	29.708.025	-	5.886	29.718.724
5. Loans and receivables with customers	1.873.473	2.424.558	266.863	2.388.896	109.048.526	3.305	13.664	116.019.286
6. Financial assets at fair value through profit or loss	-	-	-	-	86.763	-	-	86.763
7. Financial instruments classified as held for sale	468.858	284.499	157.417	-	891.472	-	-	1.802.245
8. Hedging instruments	-	-	-	-	3.938.526	-	-	3.938.526
Total	2.346.751	2.715.622	425.187	2.389.006	171.381.909	3.305	19.619	179.281.398

*) includes only items in the banking group's statement of financial position which are referred to as credit exposures, excluding equity investments and investment funds and other items such as investments in associates and joint ventures, tangible/intangible assets, tax assets, etc.

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30.06.2015

in EUR '000

(d) the geographic distribution of the exposures, broken down in significant areas by material exposure classes, and further detailed if appropriate;

(h) the amount of the impaired exposures and past due exposures, provided separately, broken down by significant geographical areas including, if practical, the amounts of specific and general credit risk adjustments related to each geographical area

B.3 Banking Group - Distribution of BS and Off-BS exposures to banks by geographic area (IAS BS value) *)						
Banks	Austria		Other European Countries		Rest of the World	
	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs
A. Balance sheet exposures						
A.1 Bad exposures	1.003	4.288	5	10.973	1.201	2.698
A.2 Unlikely to pay	929	0	0	0	23	0
A.3 Non performing past due exposures	0	0	0	0	0	0
A.4 Other exposures	11.311.111	0	15.891.524	6	2.457.917	0
TOTAL A	11.313.043	4.288	15.891.529	10.979	2.459.141	2.698
B. Off-balance sheet exposures						
B.1 Bad exposures	6.169	563.984	0	0	0	0
B.2 Unlikely to pay	98.771	0	0	0	0	0
B.3 Other Non performing exposures	8.951	0	0	0	0	0
B.4 Other exposures	5.890.453	0	2.388.558	94	1.311.726	0
TOTAL B	6.004.344	563.984	2.388.558	94	1.311.726	0
TOTAL A+B	17.317.387	568.272	18.280.087	11.073	3.770.867	2.698

B.2 Banking Group - Distribution of BS and Off-BS exposures to customers by geographic area (IAS BS value) *)						
Customers	Austria		Other European Countries		Rest of the World	
	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs
A. Balance sheet exposures						
A.1 Bad exposures	380.606	1.875.724	1.892.615	3.402.364	1.244	15.536
A.2 Unlikely to pay	1.365.726	806.956	1.983.529	786.070	3.013	4.926
A.3 Non performing past due exposures	43.936	5.580	259.481	124.080	14.192	213
A.4 Other exposures	71.506.089	343.906	62.361.747	346.113	3.577.631	3.326
TOTAL A	73.296.357	3.032.166	66.497.372	4.658.627	3.596.080	24.001
B. Off-balance sheet exposures						
B.1 Bad exposures	10.595	35.080	102.185	26.095	6	0
B.2 Unlikely to pay	28.609	86.638	77.072	5.645	3.914	7.511
B.3 Other Non performing exposures	30.212	7.818	17.994	1.558	32	0
B.4 Other exposures	16.483.495	17.728	17.131.392	19.938	10.10.305	11
TOTAL B	16.552.911	147.264	17.328.643	53.236	1.014.257	7.522
TOTAL A+B	89.849.268	3.179.430	83.826.015	4.711.863	4.610.337	31.523

*) includes only items in the banking group's statement of financial position which are referred to as credit exposures, excluding equity investments and investment funds and other items such as investments in associates and joint ventures, tangible/intangible assets, tax assets, etc.; the banking group's scope of consolidation differs from that in the IFRS financial statements

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(e) the distribution of the exposures by industry or counterparty type, broken down by exposure classes;

(g) by significant industry or counterparty type, the amount of:

(i) impaired exposures and past due exposures, provided separately;

(ii) specific and general credit risk adjustments;

(iii) charges for specific and general credit risk adjustments during the reporting period

B.1 Banking Group - Distribution by segment of BS and off-BS exposure to customers (IAS BS value) *																		
Counterparts/Exposures	Governments			Other public entities			Financial companies			Insurance companies			Non-financial companies			Other entities		
	Net Exposure	Specific credit risk adjustments	General adjustments	Net Exposure	Specific credit risk adjustments	General adjustments	Net Exposure	Specific credit risk adjustments	General adjustments	Net Exposure	Specific credit risk adjustments	General adjustments	Net Exposure	Specific credit risk adjustments	General adjustments	Net Exposure	Specific credit risk adjustments	General adjustments
A. Balance sheet exposures																		
A.1 Bad exposures	0	8		44.593	11.890		26.656	66.785		5	59		1517.027	4.094.061		686.184	1.120.821	
A.2 Unlikely to pay	57	616		6.590	3.105		46.439	27.127		1	4		3.012.617	1.397.461		286.564	169.639	
A.3 Non performing past-due exposures	11.591	0		718	606		260	13		0	0		205.509	89.578		99.531	39.676	
A.4 Other exposures	25.899.895		2.464	6.643.807		4.758	9.559.074		30.201	65.631		12.411	82.384.694		557.330	12.892.366		86.266
TOTAL A	25.911.543	624	2.464	6.695.708	15.601	4.758	9.632.429	93.925	30.201	65.637	63	12.411	87.119.847	5.581.100	557.330	13.964.645	1.330.136	86.266
B. Off-balance sheet exposures																		
B.1 Bad exposures	0	0		0	217		4	0		0	0		106.084	26.955		6.698	34.001	
B.2 Unlikely to pay	0	0		0	0		662	0		0	0		92.767	71.591		16.166	28.205	
B.3 Other Non performing exposures	32	0		10	0		0	0		0	0		44.940	6.754		3.257	2.622	
B.4 Other exposures	680.119		213	192.080		53	3.398.605		402	31.726		1	28.449.403		36.314	1873.258		694
TOTAL B	680.151	0	213	192.090	217	53	3.399.271	0	402	31.726	0	1	28.693.194	105.300	36.314	1.899.379	64.828	694
TOTAL A+B	26.591.694	624	2.677	6.887.798	15.818	4.811	13.031.700	93.925	30.603	97.363	63	12.412	115.813.041	5.686.400	593.644	15.864.024	1.394.964	86.960

*) includes only items in the banking group's statement of financial position which are referred to as credit exposures, excluding equity investments and investment funds and other items such as investments in associates and joint ventures, tangible/intangible assets, tax assets, etc.; the banking group's scope of consolidation differs from that in the IFRS financial statements

(f) the residual maturity breakdown of all the exposures, broken down by exposure classes, and further detailed if appropriate

1. Banking portfolio: distribution by maturity (repricing date) of financial assets and liabilities*)									
Type / Residual maturity	On demand	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	over 10 years	Unspecified maturity	Total
1. Balance-sheet assets	-58.978.955	-52.069.786	-16.393.215	-10.136.550	-19.306.759	-11.623.783	-3.807.544	-43.441	-172.360.033
1.1 Debt securities	-179.364	-5.528.917	-2.170.037	-2.570.329	-9.229.192	-7.594.084	-1281.755	-18.611	-28.572.289
- With prepayment option	-21.399	-3.882.989	-92.175	-78.280	-123.589	-45.581	0	0	-4.244.013
- Other	-157.965	-1.645.928	-2.077.862	-2.492.049	-9.105.603	-7.548.503	-1281.755	-18.611	-24.328.276
1.2 Loans to banks	-7.659.118	-11.976.249	-1.975.529	-795.884	-1.295.663	-748.715	-318.763	0	-24.769.921
1.3 Loans to customers	-51.140.473	-34.564.620	-12.247.649	-6.770.337	-8.781.904	-3.280.984	-2.207.026	-24.830	-119.017.823
- Current accounts	-10.107.545	-515.581	-125.939	-84.792	-17.135	-901	-6.907	0	-10.858.800
- Other loans	-41.032.928	-34.049.039	-12.121.710	-6.685.545	-8.764.769	-3.280.083	-2.200.119	-24.830	-108.169.023
- With prepayment option	-648.813	-1.076.148	-501.869	-380.829	-342.829	-124.661	-138.785	0	-3.213.934
- Other	-40.384.115	-32.972.891	-11.619.841	-6.304.716	-8.421.940	-3.155.422	-2.061.334	-24.830	-104.945.089
2. Balance-sheet liabilities	69.806.703	33.444.135	10.579.232	14.930.082	24.272.980	5.359.748	2.334.777	159.373	160.887.030
2.1 Due to customers	62.231.657	18.401.774	7.998.449	9.519.296	10.695.473	98.301	69.937	2.736	109.017.623
- Current accounts	59.503.171	1.569.986	268.382	109.418	94.170	1.354	1.222	0	61.547.703
- Other loans	2.728.486	16.831.788	7.730.067	9.409.878	10.601.303	96.947	68.715	2.736	47.469.920
- With prepayment option	251.145	333.756	89.949	70.252	8.513	1.451	2	0	755.068
- Other	2.477.341	16.498.032	7.640.118	9.339.626	10.592.790	95.496	68.713	2.736	46.714.852
2.2 Due to banks	7.554.545	6.697.285	1.362.044	1.215.520	4.538.619	553.538	748.395	7.691	22.677.637
- Current accounts	1.737.193	484.158	96.451	44.520	176.101	0	0	7.691	2.546.114
- Other loans	5.817.352	6.213.127	1.265.593	1.171.000	4.362.518	553.538	748.395	0	20.131.523
2.3 Debt securities in issue	20.501	8.345.076	1.218.739	4.195.266	9.038.888	4.707.909	1.516.445	148.946	29.191.770
- With prepayment option	0	1.317.475	66.811	135.142	3.191.998	3.486.751	805.111	0	9.003.288
- Other	20.501	7.027.601	1.151.928	4.060.124	5.846.890	1.221.158	711.334	148.946	20.188.482
3. Financial derivatives	36.770.168	-3.077.148	-11.687.556	-6.000.599	-14.417.441	-1.798.750	761.460	-487.149	62.985
3.1 Physically settled Fin. derivatives	0	0	-23.254	1.453	11.627	10.174	0	0	0
- Option	0	0	0	0	0	0	0	0	0
- + Long positions	0	0	0	0	0	0	0	0	0
- + Short positions	0	0	0	0	0	0	0	0	0
- Other derivatives	0	0	-23.254	1.453	11.627	10.174	0	0	0
- + Long positions	-1.158.947	-1.036.191	-44.045	0	0	0	0	0	-2.239.183
- + Short positions	1.158.947	1.036.191	20.791	1.453	11.627	10.174	0	0	2.239.183
3.2 Cash settled Fin. derivatives	36.770.168	-3.077.148	-11.664.302	-6.002.052	-14.429.068	-1.808.924	761.460	-487.149	62.985
- Options	0	5.000	0	0	0	0	-5.000	0	0
- + Long positions	-37.710	-65.000	-10.000	-629.540	-556.848	-314.775	-1.844.422	0	-3.458.295
- + Short positions	37.710	70.000	10.000	629.540	556.848	314.775	1.839.422	0	3.458.295
- Other derivatives	36.770.168	-3.082.148	-11.664.302	-6.002.052	-14.429.068	-1.808.924	766.460	-487.149	62.985
- + Long positions	-524.791	-54.756.334	-19.091.011	-12.029.912	-26.290.059	-9.823.905	-4.023.943	-1.523.982	-128.063.937
- + Short positions	37.294.959	51.674.186	7.426.709	6.027.860	11.860.991	8.014.981	4.790.403	1.036.833	128.126.922
4. Other Off-Balance Sheet exposures	-661	2.1840	-4.784	-9.939	-6.456	0	0	0	0
- + Long positions	-1.354.726	-1.490.063	-1.445.782	-2.595.724	-7.790.159	-1.162.287	-2.585.842	-142.861	-18.567.444
- + Short positions	1.354.065	1.511.903	1.440.998	2.585.785	7.783.703	1.162.287	2.585.842	142.861	18.567.444

*) including items classified as held for sale

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in EUR '000

(i) the reconciliation of changes in the specific and general credit risk adjustments for impaired exposures, shown separately. The information shall comprise:

(i) a description of the type of specific and general credit risk adjustments;

(ii) the opening balances;

(iii) the amounts taken against the credit risk adjustments during the reporting period;

(iv) the amounts set aside or reversed for estimated probable losses on exposures during the reporting period, any other adjustments including those determined by exchange rate differences, business combinations, acquisitions and disposals of subsidiaries, and transfers between credit risk adjustments;

(v) the closing balances.

A.1.5 Banking group - Balance-sheet credit exposures: change in overall impairments ^{*)}								
Source/Categories	Changes in banks 2015				Changes in customers 2015			
	Non-performing loans	Unlikely to pay	Past due exposures	Total	Non-performing loans	Unlikely to pay	Past due exposures	Total
A. Opening gross writedowns	17.113	-	-	17.113	5.209.197	1.474.819	137.027	6.821.043
B. Increases	928	-	-	928	1.292.904	616.605	105.081	2.014.590
B.1 Writedowns	-	-	-	-	422.171	401.499	73.934	897.604
B.1a. Losses on disposal (+)	-	-	-	-	4.079	86	65	4.230
B.2 Transfers from other impaired exposure	-	-	-	-	193.624	74.553	4.203	272.380
B.3 Other increases	928	-	-	928	673.030	140.467	26.879	840.376
C. Reductions	82	-	-	82	1.208.477	493.472	112.235	1.814.184
C.1 Write-backs from assessments	-	-	-	-	62.637	37.219	10.990	110.846
C.2 Write-backs from recoveries	-	-	-	-	210.157	91.332	5.928	307.417
C.2a Gains on disposal (-)	-	-	-	-	4.159	31	-	4.190
C.3 Write-offs	-	-	-	-	276.276	49.101	2.914	328.291
C.4 Transfers to other impaired exposure	-	-	-	-	15.494	185.311	71.538	272.343
C.5 Other reductions	82	-	-	82	639.754	130.478	20.865	791.097
D. Final gross writedowns	17.959	-	-	17.959	5.293.624	1.597.952	129.873	7.021.449

^{*)} the banking group's scope of consolidation differs from that in the IFRS financial statements