

Qualitative disclosure according Art.442 CRR

(Credit risk adjustments)

Definition of „Non-Performing Exposures”, impaired (IAS 39), past-due and forbearance measures

Non-performing exposures are divided into the following categories according to UniCredit Group rules:

- **Bad loans:** credit exposures, formally considered uncollectible, to insolvent borrowers, even if insolvency has not been judicially ascertained. A workout scenario is assumed in respect of borrowers in this category. The impairment loss assessment is performed in general on an analytical basis. Detailed information is given in the “Description of methodology applied to determine write-downs” section
- **Unlikely to pay:** on-balance sheet 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 fully repay his/her credit obligation (principal and/or interest), regardless of any days of default. 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 (unlikely to pay event). The impairment loss assessment is performed in general on an analytical basis. Detailed information is given in the “Description of methodology applied to determine write-downs” section
- **Past-due:** on-balance sheet exposures other than those classified among “bad loans” or “unlikely to pay”, which at the reference date have past due amounts or unauthorised overdrafts that are more than 90 days past due or over limits. Impaired past-due amounts can be determined by reference to the individual debtor.

Performing loans:

- **Past-due:** loans which are performing: exposures to borrowers where past-due amounts or unauthorised overdrafts at the reporting date were between 1 and 90 days overdue.
- **Other exposures:** borrowers not included in the other categories. These account for a large proportion of total loans.

Forborne exposure:

Forbearance measures are concessions made by a bank to a debtor facing or about to face difficulties in meeting its financial commitments. These may take the form of a modification of the terms and conditions of a contract that would not have been agreed if the debtor had not been in financial difficulties, or the form of total or partial refinancing. Debtors that are

classified as “forborne” are subject to special monitoring requirements and are to be clearly marked as such. Forbearance measures include, for example, a rescheduling agreement, renegotiated pricing at interest rates below the market level, the conversion of a partial amount of the loan into shares, or a reduction of the principal amount.

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.

Description of methodology applied to determine write-downs

Loan loss provisions are determined by reference to the amount and quality of loans granted. Bank Austria applies the following four methods of calculation, taking the special segment of foreign currency loans into account:

- Specific write-downs
- Portfolio-based specific write-downs
- Portfolio-based provision for foreign-currency loans
- Provisions for IBNR (incurred but not reported) losses

Specific write-downs:

Customers with a total exposure of over €2 million – on a GCC (group of connected customer) basis are transferred to Monitoring & Special Credit Corporate/CIB within Bank Austria. When taking over a specific case, Special Credit management has to review the requirement for recognizing an impairment loss on such exposures on a case by case analytical basis and subsequently carry out quarterly reviews. The amount of the impairment loss is the difference between the carrying amount of the loan and the present value of estimated future cash flows.

Portfolio-based specific provisioning method

UniCredit Bank Austria AG applies a parameter-based and portfolio-based provisioning method (“Pauschale Einzelwertberichtigung” – PEWB) for defaulted assets grouped by similar credit risk characteristics and with no significant exposure (lower than €2 million) at the GCC (group of connected customer) level. The provisioning requirement at individual customer level is determined and recognised automatically, depending on the customer segment, the amount of the exposure and collateral, the credit rating and the duration of the default. The parameters used to calculate the loss rate are monitored annually.

Portfolio-based provision for foreign currency loans and loans with repayment vehicles (performing assets)

This provision is determined for the performing portfolio and takes into account the potential risk associated with foreign currency loans and loans with repayment vehicles – most of which have a bullet maturity – which may arise from the forecast deficit between the repayable amount, determined by the exchange rate, and the repayment vehicle, which is also subject to currency risk. All relevant calculation parameters (including, for example, the annual performance of the repayment vehicles, exchange rate forecasts, underlying interest rate of the EUR and FX financing arrangements) are reviewed annually, reported to the management board and adjusted when required. The provision is reflected in the quantitative disclosure in the table “Breakdown of credit exposure by portfolio and credit quality” under “portfolio adjustments” for performing portfolio.

Provisions for IBNR losses (performing assets):

Such provisions for performing loans are made on the assumption that de facto losses incurred are taken into account too late, and to an extent that is too low, because of the lag between the time when the losses (incurred but not reported) are actually incurred and the time when the losses are identified. The loss is estimated on the basis of expected loss – which is determined using the parameters of PD (Probability of Default), EAD (Exposure at Default) and LGD (Loss Given Default) – weighted by a time factor (for the period during which the loss is not identified), the so-called LCP (Loss Confirmation Period) factor, at the level of various product and customer clusters. The various parameters used in the calculation are validated annually and the results are subjected to a backtesting procedure. The provision is reflected in the quantitative disclosure in the table “Breakdown of credit exposure by portfolio and credit quality” under “portfolio adjustments” for performing portfolio.

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30.06.2017

in EUR mn

(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

Breakdown of credit exposures by portfolio and credit quality (gross and net values)								(€ mn)	
Portfolio/Quality	Non-performing assets			Performing			30.06.2017	Average	
	Gross Exposure	Specific write-downs	Net exposure	Gross Exposure	Portfolio adjustments	Net exposure	Net exposure	Net exposure	
Available-for-sale financial assets	0.0	0.0	0.0	15,754.2	0.0	15,754.2	15,754.2	15,427.1	
Held-to-maturity financial instruments	8.4	1.7	6.7	214.0	0.0	214.0	220.7	226.1	
Loans and receivables with banks	3.9	3.8	0.0	19,464.3	0.0	19,464.3	19,464.3	19,698.0	
Loans and receivables with customers	2,643.6	1,455.6	1,188.0	59,360.2	390.3	58,969.8	60,157.8	60,022.8	
Financial assets at fair value through profit or loss	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Financial instruments classified as held for sale	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
TOTAL	2,655.9	1,461.1	1,194.8	94,792.6	390.3	94,402.2	95,597.0	95,374.1	

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(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

Banking Group - Distribution of BS and Off-BS exposures to banks by geographic area (IAS BS value) (€ mn)						
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						
Bad exposures	0.0	3.8	0.0	0.0	0.0	0.0
Unlikely to pay	0.0	0.0	0.0	0.0	0.0	0.0
Non performing past due exposures	0.0	0.0	0.0	0.0	0.0	0.0
Other exposures	11,401.9	0.0	7,586.2	0.0	1,098.9	0.0
TOTAL A	11,401.9	3.8	7,586.2	0.0	1,098.9	0.0
B. Off-balance sheet exposures						
Bad exposures	0.0	0.0	0.0	0.0	0.0	0.0
Unlikely to pay	0.0	0.0	0.0	0.0	0.0	0.0
Non performing past due exposures	0.0	0.0	0.0	0.0	0.0	0.0
Other exposures	5,282.5	0.0	591.7	0.0	194.8	0.0
TOTAL B	5,282.5	0.0	591.7	0.0	194.8	0.0
TOTAL A+B	16,684.4	3.8	8,177.9	0.0	1,293.7	0.0

Banking Group - Distribution of BS and Off-BS exposures to customers by geographic area (IAS BS value) (€ mn)						
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						
Bad exposures	147.1	1,022.2	6.0	30.8	0.0	11.7
Unlikely to pay	818.0	365.7	12.3	1.1	198.5	6.6
Non performing past due exposures	14.8	5.6	3.7	5.2	0.6	0.0
Other exposures	69,650.9	371.8	2,807.9	17.4	2,232.7	1.2
TOTAL A	70,630.7	1,765.2	2,829.9	54.5	2,431.8	19.5
B. Off-balance sheet exposures						
Bad exposures	5.8	15.7	0.0	0.0	0.0	0.0
Unlikely to pay	35.3	88.2	0.3	0.0	2.6	10.2
Non performing past due exposures	0.5	1.4	0.0	0.0	0.0	0.0
Other exposures	17,835.6	6.5	50.4	0.0	844.5	0.1
TOTAL B	17,877.2	111.8	50.7	0.0	847.1	10.3
TOTAL A+B	88,507.9	1,877.0	2,880.6	54.5	3,278.9	29.8

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in EUR mn

(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

Banking group – On-balance sheet and off-balance sheet credit exposure to customers by segment (€ mn)																		
Counterparts/Exposures	Governments			Other public entities			Financial companies			Insurance companies			Non-financial companies			Other entities		
	Net Exposure	Specific Write-Downs	Portfolio adjustments	Net Exposure	Specific Write-Downs	Portfolio adjustments	Net Exposure	Specific Write-Downs	Portfolio adjustments	Net Exposure	Specific Write-Downs	Portfolio adjustments	Net Exposure	Specific Write-Downs	Portfolio adjustments	Net Exposure	Specific Write-Downs	Portfolio adjustments
A. Balance sheet exposures																		
Bad exposures	0.0	0.0	X	0.5	0.8	X	53.1	26.5	X	0.0	0.0	X	96.8	1,019.0	X	2.7	18.5	X
- of which: forborne exposures	0.0	0.0	X	0.0	0.0	X	0.0	0.0	X	0.0	0.0	X	34.4	112.9	X	1.0	3.7	X
Unlikely to pay	165.9	4.8	X	6.7	1.7	X	38.5	26.2	X	0.0	0.0	X	816.3	332.5	X	1.4	8.2	X
- of which: forborne exposures	0.0	0.0	X	0.0	0.0	X	24.8	18.9	X	0.0	0.0	X	305.6	184.0	X	0.1	0.0	X
Non performing past due exposures	0.0	0.0	X	0.0	0.0	X	0.0	0.0	X	0.0	0.0	X	16.6	5.4	X	2.6	5.4	X
- of which: forborne exposures	0.0	0.0	X	0.0	0.0	X	0.0	0.0	X	0.0	0.0	X	0.7	0.2	X	0.0	0.0	X
Performing exposures	16,932.9	X	1.7	3,567.9	X	0.1	4,253.1	X	5.3	40.1	X	0.0	49,017.3	X	380.9	880.2	X	2.3
- of which: forborne exposures	0.0	X	0.0	0.0	X	0.0	0.0	X	0.0	0.0	X	0.0	258.2	X	8.5	8.1	X	0.1
TOTAL A	17,098.7	4.8	1.7	3,575.2	2.5	0.1	4,344.7	52.7	5.3	40.1	0.0	0.0	49,946.9	1,357.0	380.9	886.8	32.1	2.3
B. Off-balance sheet exposures																		
Bad exposures	0.0	0.0	X	0.0	0.0	X	0.0	0.0	X	0.0	0.0	X	5.8	15.7	X	0.0	0.0	X
Unlikely to pay	0.0	0.0	X	0.0	0.0	X	0.6	13.7	X	0.0	0.0	X	37.7	84.7	X	0.0	0.0	X
Other non-performing exposures	0.0	0.0	X	0.0	0.0	X	0.0	0.0	X	0.0	0.0	X	0.5	1.4	X	0.0	0.0	X
Performing exposures	407.5	X	0.1	386.6	X	0.0	1,479.9	X	0.1	11.1	X	0.0	16,424.3	X	6.4	21.1	X	0.0
TOTAL B	407.5	0.0	0.1	386.6	0.0	0.0	1,480.5	13.7	0.1	11.1	0.0	0.0	16,468.2	101.8	6.4	21.1	0.0	0.0
TOTAL A+B	17,506.2	4.8	1.8	3,961.8	2.5	0.1	5,825.2	66.3	5.4	51.3	0.0	0.0	66,415.1	1,458.7	387.3	907.9	32.1	2.3

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- (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.

Banking group – On-balance sheet exposure to banks and customers: changes in overall impairment (€ mn)						
Source/Categories	Exposures to banks			Exposures to customers		
	Bad exposures	Unlikely to pay	Non performing past due	Bad exposures	Unlikely to pay	Non performing past due
Opening balance (gross amount)	4.0	-	-	1,205.9	516.5	9.5
Sold but not derecognised	-	-	-	0.4	0.4	0.1
Increases	-	-	-	126.0	62.7	4.5
Writedowns	-	-	-	35.7	52.2	3.8
Losses on disposal	-	-	-	-	-	-
Transfers from other Non performing exposure	-	-	-	61.5	8.4	0.4
Other increases	-	-	-	28.7	2.1	0.2
Reductions	0.2	-	-	267.1	205.8	3.2
Write-backs from assessments	-	-	-	37.9	1.2	0.1
Write-backs from recoveries	0.2	-	-	71.5	67.1	0.2
Gains on disposal	-	-	-	-	-	-
Write-offs	-	-	-	144.9	11.9	0.0
Transfers to other Non performing exposures	-	-	-	7.8	61.5	1.0
Other decreases	0.0	-	-	5.0	64.0	1.9
Closing balance (gross amounts)	3.8	-	-	1,064.7	373.4	10.8
Sold but not derecognised	-	-	-	0.6	0.3	0.0

The table above excludes performing exposures.

The overall amount of net write-downs related to the Banking Group, performing exposures included, booked in the income statement 2017 amounts to:

Loans to banks	-0.2
Loans to customers	-88.6