

NON-PERFORMING LOANS

For the Intesa Sanpaolo Group the definitions of the various categories of “non-performing” loans (past due and/or overdrawn, substandard, restructured and doubtful exposures) correspond to the Regulatory definitions adopted by Banca d’Italia in accordance with IAS/IFRS. The Regulatory instructions are supplemented by internal provisions that establish the criteria and automatic rules for the transfer of loans between the different risk categories. In brief:

- Doubtful loans: on- and off-balance sheet exposures to borrowers in a state of insolvency (even when not recognised in the court of law) or in an essentially similar situation, regardless of any loss forecasts made by the bank, irrespective, therefore, of whether any (secured or personal) guarantees have been established to cover the exposures. Also included are exposures to Italian local authorities (municipal and provincial) in a state of financial distress for the amount subject to the associated liquidation procedure. On the basis of a prudent classification, doubtful loans include those loans - even if the Regulatory instructions require their classification under substandard loans - granted to natural persons fully secured by a mortgage on residential property bought to live in or be leased out by the borrower where the borrower has received foreclosure notice;
- Substandard loans: on- and off-balance sheet exposures to borrowers in a temporary situation of objective difficulty, which may be expected to be remedied within a reasonable period of time; irrespective of whether any (secured or personal) guarantees have been established to cover the exposures. Substandard loans should include exposures to issuers who have not regularly honoured their repayment obligations (in terms of capital or interest) relating to quoted debt securities, unless they meet the conditions for classification as doubtful loans. To this end the “grace period” established by the contract is recognised or, in its absence, the period recognised by the market listing the security. In any case substandard loans comprise exposures (other than those: a) categorised as doubtful; b) comprised in “Central Governments and Central Banks”, “Regional governments and local authorities”, “Public sector entities” for the purposes of calculating capital requirements for credit and counterparty risk) which meet both the conditions detailed below:
 - i. have been past due consecutively:
 - 1) by more than 150 days in the case of consumer credits with an original life of less than 36 months;
 - 2) by more than 180 days in the case of consumer credits with an original life of 36 months or more;
 - 3) by more than 270 days, for loans other than those under points 1) and 2) above;
 - ii. the total amount of exposures past due under i) and other exposures past due by less than 150, 180 or 270 days (excluding overdue interests), depending on the kind of exposure past due, to the same borrower is equal to at least 10 per cent of the total exposure to this borrower (excluding overdue interests). For the purposes of calculating the denominator, securities at their carrying value and on-balance sheet exposures are taken into account; moreover, mortgages are not taken into account in the calculation of both the denominator and numerator;
- Restructured exposures: on- and off-balance sheet exposures for which a bank (or a pool of banks), as a result of the deterioration of the borrower’s financial situation, agrees to amendments to the original terms and conditions (for example, rescheduling of deadlines, reduction of the debt and/or the interest) that give rise to a loss. These do not include exposures to corporates where the termination of the business is expected (for example in cases of voluntary liquidation or similar situations). The requirements relating to the “deterioration in the borrower’s financial situation” and the presence of a “loss” are assumed to be met when the restructuring involves exposures already classified under the classes of substandard positions or past due/overdrawn exposures. If the restructuring relates to exposures to borrowers classified as “performing” or to unimpaired past due/overdrawn exposures, the requirement relating to the “deterioration in the borrower’s financial situation” is assumed to be met when the restructuring involves a pool of banks. This is irrespective of whether any (secured or personal) guarantees have been established to cover the exposures.
- Past due and/or overdrawn exposures: on- and off-balance sheet exposures, other than those classified as doubtful, substandard or restructured exposures that, as at the reporting date, are past due or overdrawn by over 180 days on a continuous basis. For certain types of exposure (essentially banks and central governments and non-resident customers as well as loans secured by property) the Regulatory provisions have set a period of 90 days instead of 180 days. This is irrespective of whether any (secured or personal) guarantees have been established to cover the exposures.

In addition to the types of non-performing exposures referred to above, the Intesa Sanpaolo Group also monitors and periodically reports its past due loans over 90 days to the Bank of Italy (still included under performing loans), defined as past due and/or overdrawn exposures over 90 days not already classified under one of the classes of non-performing loans.