

BANQUE PSA FINANCE – IMPAIRMENT OF FINANCE RECEIVABLES

Current Accounting Practice

Banque PSA Finance's outstanding balance of receivables includes both sound finance receivables - corresponding to receivables on which repayments are up to date or less than 90 days past due- and bad debts (corresponding to receivables where at least one installment is over 90 days past-due). Allowances for credit losses are recognized as follows:

- Retail financing:
 - A statistical allowance is recorded on total sound finance receivables, based on historical loss data;
 - Specific allowances are recorded on bad debts, based on the estimated risk of non-recovery.

Bad debts are written off in full when the outstanding balance is more than 150 days past due.

- Wholesale financing:
 - A statistical allowance is recorded for an amount equal to 0.5% of all outstanding balances;
 - Specific bad debt allowances are recorded on a case-by-case basis.

IFRS

Under IAS 39 – Financial Instruments: Recognition and Measurement, the system of allowances has been replaced by the recognition of impairment losses. An impairment loss adjusts the carrying value of a receivable to its fair value or recoverable amount and may be recognized only as a result of the occurrence of a loss event. The amount of the loss is the difference between the receivable's carrying amount and the present value of expected future cash flows discounted at the receivable's effective interest rate (recoverable amount).

Impact On The Group Accounts

Reversal of statistical allowances for credit losses on sound loans with no past-due installments

Under IAS 39, no impairment loss may be recognized for loans on which repayments are fully up to date. Therefore, the statistical allowances recognized in the French GAAP accounts – on both retail and wholesale financing – at December 31, 2003 is canceled in the opening IFRS balance sheet at January 1, 2004 by adjusting opening retained earnings.

- **Retail financing impairment losses**

Bad debts for which at least one installment is over 150 days past-due, which were written off in the French GAAP accounts, are reinstated in the opening IFRS balance sheet at January 1, 2004 by adjusting opening retained earnings.

Recognition of an impairment loss as soon as a loss event occurs

Failure by the retail financing customer to pay a single installment constitutes a loss event under IFRS, triggering the immediate recognition of an impairment loss based on the probability of the loan being reclassified as bad debt and the estimated final loss.

Recognition of impairment losses on bad debts

Banque PSA Finance's retail financing database includes historical loss data for bad debts (corresponding to receivables where at least one installment is over 90 days past-due). These historical data is used to estimate the recoverable amount serving as the basis for estimating the impairment loss.

The difference between the impairment loss recognized under IFRS and the allowance previously recognized under French GAAP is recorded as an adjustment to retained earnings in the opening IFRS balance sheet at January 1, 2004.

- **Wholesale financing impairment losses**

Under IFRS, impairment losses are measured on a case-by-case basis in the same way as allowances for credit losses under French GAAP.

These changes of method, the effects of which are recognized as an adjustment to retained earnings in the opening IFRS balance sheet at January 1, 2004, also apply in the French GAAP financial statements:

Statistical credit loss data have been collected to permit the measurement of the estimated final loss by type of receivable as required under Basel II (capital adequacy rules). The use of estimated final loss data to measure credit risks enhances the quality of financial information, leading to the reinstatement of non-performing loans written off in prior periods and the recognition of an impairment loss covering the estimated final loss.