

## Disclosure § 17 OffV (Credit Risk Mitigation Techniques)

The Austrian Financial Market Authority (FMA) and Oesterreichische Nationalbank (OeNB) have assessed UniCredit Bank Austria AG for the use of own estimates for volatility adjustments (comprehensive method) for credit risk mitigation techniques.

With the FMA decree dated 12 June 2008, UniCredit Bank Austria AG has been authorized to use its own volatility estimates (comprehensive method) for credit risk mitigation techniques. The permission was given without limitation.

### Qualitative disclosure (UniCredit Bank Austria AG – 31 December 2009)

UniCredit Group, consistent with the Revised Framework of International Convergence of Capital Measures and Rules (Basel 2), is firmly committed to satisfying the requirements for recognition of Credit Risk Mitigation techniques for regulatory purposes, according to the different approaches adopted (Standardized or IRB-A).

In this regard, specific projects have been completed and actions have been carried out for implementing the Group's internal regulations and for bringing processes and IT systems into compliance. Considering Unicredit Group's presence in different countries (both European and non-European), implementation measures have been made in accordance with local regulations and requirements of the oversight authorities in the countries to which the individual entities belong.

Special policies, embedding the reference regulations on this topic (Guidelines for the Group and for the Italian Legal Entities), represent the Group's transposition, interpretation and the internalization of the regulatory requirements concerning Credit Risk Mitigation. In particular the requirements set out by the "International Convergence of Capital Measurement and Capital Standards" and "Directive 2006/48/EC of the European Parliament and of the Council", the Bank of Italy circular letter No. 263/2006 and following updates, have been translated into internal guidelines, pursuing several objectives:

- to encourage optimal management of collateral and guarantees;
- to maximize the credit protections' mitigating effect on credit losses;
- to attain a positive effect on Group Capital Requirements, ensuring that Local CRM practices meet minimum Basel 2 requirements;

- to define general rules for eligibility, valuation, monitoring and management of collateral (funded protection) and guarantees (unfunded protection) and to detail special rules and requirements for specific collaterals/guarantees.

Collateral / guarantee is accepted only to support loans and they cannot serve as a substitute for the borrower's ability to meet obligations. For this reason they have to be evaluated in the credit application along with the assessment of the creditworthiness and the repayment capacity of the borrower.

In the credit risk mitigation technique assessment, UniCredit Group emphasizes the importance of the legal certainty requirement for all the funded and unfunded credit protection techniques, as well as their suitability. Legal Entities put in place all necessary actions in order to:

- fulfill any contractual and legal requirements in respect of, and take all steps necessary to ensure the enforceability of the collateral/guarantee arrangements under the applicable law;
- conduct sufficient legal review confirming the enforceability of the collateral/guarantee arrangements on all parties and in all relevant jurisdictions.

Legal Entities conduct such review as necessary to ensure enforceability for the whole life of the underlying collateralized credit exposure. On the other hand, suitability has always to be granted. Any collateral / guarantee can be considered adequate if it is consistent with the underlying credit exposure and when there are no relevant risks towards the protection provider.

In general operative instructions and related processes are particularly severe, aiming at granting the perfection of each collateral/guarantee acquired. They have been extended to the entities recently entered in the Group, programming specific contingency plans aimed at complying with the minimum supervisory and managerial requirements provided by the group policies on collaterals/guarantees.

During the first half of 2009, the Group's main Legal Entities within the Italian market extended to unfunded mutual guarantees the strict legal certification processes and checks of regulatory requirements already in place for other guarantees and for financial/physical collateral. Moreover, a minimum set of controls has been defined, which will be implemented by the banks during 2009, in order to diversify the use of guarantees within the regulatory capital calculation process.

#### **a) Policies and processes for, and an indication of the extent to which the Group makes use of, on- and off-balance sheet netting**

In general netting agreements are considered eligible if they are legally effective and enforceable in all relevant jurisdictions, including in the event of insolvency or bankruptcy of the counterparty.

Specifically, master netting agreements must meet the following minimum operational conditions:

- provide for the netting of gains and losses on transactions cleared under the master agreement so that a single net amount is owed by one party to the other;
- fulfill the minimum requirements for recognition of financial collateral (valuation requirements and monitoring).

Legal Entities can use netting agreements only if they are able at any time to determine the position netting value (assets and liabilities with the same counterparty that are subject to netting), monitoring and controlling debts, credit and netting value.

#### **b) Policies and processes for collateral evaluation and management**

UniCredit Group has implemented a clear and robust system for managing the credit risk mitigation techniques, governing the entire process for evaluation, monitoring and management.

The collateral value is based on the current market price or the estimated amount which the underlying asset could reasonably be liquidated for (i.e. financial instrument or real estate Fair Value).

In detail, for financial instruments, valuation methods are different depending on their type:

- securities listed on a recognized stock exchange are evaluated according to the market price (the price at the most recent trading session);
- securities not listed on a recognized stock exchange have to be based on pricing models based on market data;
- undertakings for collective investments and mutual funds are based on the price for the units that are publicly quoted daily.

Market prices of pledged securities are adjusted by applying haircuts for market price and foreign exchange volatility according to Basel 2 regulation requirements.

In case of currency mismatch between the credit facility and the collateral, an additional haircut is applied.

Possible mismatches between the maturity of the exposure and that of the collateral are also considered in the adjusted collateral value.

The current models in place within the Group are mainly based on pre-defined prudential haircuts. Internally estimated haircuts, based on Value at Risk methodology and an estimated volatility adjustment approach, are being adopted throughout the Group for the assessment of the risk of the financial collateral. They

are already in use at some of the Group's Legal Entities. The methodological approach provides that the hedging value has to be estimated for each financial instrument on the basis of its market value (s.c. marked-to-market) adjusted with a haircut that has to consider the intrinsic riskiness according to the different factors (market, time of ownership and liquidity risk).

The main Legal Entities of the Group are also provided with tools for the automatic evaluation of the marking to market of the pledged securities, granting the constant monitoring of the financial collateral values.

For the valuation of real estate collateral, specific processes and procedures ensure that the property is valued by an independent expert at or less than the market value.

For the Legal Entities operating in Austria, Germany and Italy, systems for the periodic monitoring and revaluation of the real estate serving as collateral, based on statistical methods and internal databases or provided by external information providers, are in place.

The other types of collateral (such as movable assets) are subject to thorough evaluation and specific prudential haircuts are applied. Monitoring activities strictly depend on the collateral characteristics. In general pledges on goods are treated with caution.

### **c) A description of the main types of collateral taken by the Group**

The collateral accepted in support of credit lines granted by the Group's Legal Entities primarily includes real estate, both residential and commercial, financial collaterals (including cash deposits, debt securities, equities, Undertakings for Collective Investments in Transferable Securities (UCITS)). Other types of collateral (pledged goods or pledged loans and life insurance policies) are less common.

However, in order to be considered eligible for risk mitigation, the general requirements according to Supervisory Regulations must be met, along with the specific requirements for the approach adopted for the purpose of calculating regulatory requirements for the individual counterparty / exposure (Standardized, IRB-A) in accordance with the legal framework of the country in question.

The Holding Company provides specific guidelines for the eligibility of all kinds of collaterals and each Legal Entity defines the list of eligible collaterals according to uniform Group methods and procedures and in compliance with all domestic legal and supervisory requirements and local peculiarities.

#### **d) The main types of guarantor and credit derivative counterparty and their creditworthiness**

Personal guarantees can be accepted as elements complementary and accessory to the granting of loans, for which the risk mitigation element is the additional security for repayment. Their use is widespread within the Group, though their characteristics differ among the local markets.

Within the Italian market, personal guarantees provided by one or more individuals are very common. Less frequently, the risk of insolvency is covered by guarantees provided by other legal entities, usually the holding company or other companies belonging to the same economic group as the borrower, or by financial institutions and insurance companies.

Credit derivative providers are mainly banks and institutional counterparties.

The list of eligible protection providers depends on the specific approach adopted by each single Legal Entity. Specifically, under the Standardized approach, eligible protection providers pertain to a restricted list of counterparts, such as central government and central banks, public sector entities and regional and local authorities, multilateral development banks, supervised institutions and corporate entities that have a credit assessment by an eligible ECAI associated with credit quality step 2 or above). Legal Entities adopting IRB-A may recognize guarantees provided that the relevant minimum requirements are satisfied and, particularly, provided that the Legal Entity can evaluate the protection provider risk profile at the time that the guarantee is established and over its entire duration.

Before a personal guarantee is acquired, the protection provider (or the protection seller in case of credit default swap) has to be assessed in order to measure his/her solvency and risk profile. The hedging effect of guarantees / credit derivatives for the purpose of credit protection depends basically on the protector's creditworthiness and the protected amount must be reasonably proportionate to the economic performance capabilities of the protection provider.

#### **e) Information about market or credit risk concentrations under the credit risk mitigation instruments used**

There is concentration risk when the major part of Group-wide collateral assets (at portfolio level) are concentrated in a small number of collateral types, instruments, special providers of collaterals or sectors or when there is lack of proportion in the volume of collateral taken.

Such concentration is monitored and controlled by the following processes / mechanisms:

- In case of personal guarantees / credit derivatives, a contingent liability (indirect risk) is charged to the protection provider. In the evaluation of the credit application, the secondary commitment is added to the guarantor and it is reflected in the guarantor's total credit exposure as deemed competent and approved in accordance with the bank's system of authority.
- In case the protection provider, directly or indirectly, is a bank or a sovereign, a specific credit limit has to be instructed and, if the guarantor is a foreign subject, a country limit must be obtained, if necessary.
- For all the collateral / guarantee types, both credit and market risk, specific reporting and monitoring activities at consolidated level have to be implemented.

## Quantitative disclosure UniCredit Bank Austria AG (31 December 2009):

<b>IRB Approach</b>			
Exposures with	Amounts as at December 31, 2009		
	Financial collaterals	Other collaterals	Guarantees and credit derivatives
	€	€	€
Central administration and central banks	977	0	1,163,805
Supervised institutions	96,303	144,819	590,701
Public Entities	0	0	0
Corporates and specialized lendings	1,518,185	9,481,211	4,797,568
<i>Specialized lendings</i>	224,505	3,335,464	12,050
<i>Others</i>	1,293,680	6,145,747	4,785,518
Retail exposures	446,481	8,744,019	50,043
<i>Exposures secured with residential real estate property</i>	102,868	8,153,826	7,047
<i>Qualified revolving retail exposures</i>	0	0	0
<i>Other retail exposures</i>	343,613	590,193	42,996
Equities	0	0	0
<b>Total</b>	<b>2,061,946</b>	<b>18,370,049</b>	<b>6,602,117</b>
<b>Standard Approach</b>			
Exposures with	Amounts as at December 31, 2009		
	Financial collaterals	Other collaterals	Guarantees and credit derivatives
	€	€	€
Central governments and central banks	145	0	0
Supervised institutions	7,650	0	9,410
Regional administrations and local authorities	18,069	0	6,022
Administrative bodies and non-commercial undertakings	4,151	0	680,641
Multilateral development banks	0	0	0
International Organisations	0	0	0
Corporates	878,500	2,542	529,944
Retail exposures	3,290	3,703	764
Short term exposures with corporate	0	0	0
Exposures in the form of Collective Investment Undertakings	0	0	0
Exposures secured by real estate property	1,744	0	0
Exposures in the form of covered bonds	0	0	0
Past due exposures	10,068	0	1,859
Item belonging to regulatory high risk exposures	0	0	0
Other exposures	0	0	26,960
<b>Total</b>	<b>923,617</b>	<b>6,245</b>	<b>1,255,600</b>