

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 – 30 June 2011)

The 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 capital purposes, according to the different approaches adopted (Standardized, Foundation/F-IRB or Advanced/A-IRB Approach).

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 the UniCredit Group's presence in different countries, implementation measures have been made in accordance with local regulations and the 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 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 (also reflected in § 17 OffV, i.e. the Austrian Disclosure Regulation), have been translated into internal guidelines, pursuing several objectives:

- to encourage collateral and guarantees optimal management;
- to maximize the credit protections' mitigating effect on credit losses;

- to attain 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 collateral/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 collateral and guarantees, as well as their suitability. Legal Entities put in place all necessary actions in order to:

- fulfil the respect of any contractual and legal requirements, 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, for guarantees, when there are no relevant risks towards the protection provider.

In general operative instructions and related processes are particularly severe, aiming at granting the formal perfection of each collateral/guarantee acquired.

Collateral management assessments and Credit Risk Mitigation compliance verifications are performed by the Legal Entities, specifically as part of the wider process of internal validation on Rating Systems and of IRB methods roll-out activities.

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 on balance sheet of reciprocal credit exposures between the Bank and its counterparty are considered eligible if they are legally effective and enforceable in all relevant jurisdictions, including in the event of insolvency or bankruptcy of 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;
- fulfil the minimum requirements for recognition of financial collateral (valuation requirements and monitoring).

Group Entities can use netting agreement 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 the 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 assessment of 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. pledged financial instrument or mortgaged 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 of 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 price of pledged securities is 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 based both on pre-defined prudential haircuts and internally estimated haircuts. 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. mark-to-market) adjusted with an haircut that has to consider the intrinsic riskiness according to the different factors (price risk, time of ownership and liquidity risk).

The main Legal Entities of the Group are also provided with tools for the automatic evaluation of the mark 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 info-providers, are in place.

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

c) 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 collateral (including cash deposits, debt securities, equities, and units of Undertakings for Collective Investment 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 purposes of calculating regulatory capital for the individual counterparty / exposure (Standardized, Foundation/F-IRB or Advanced/A-IRB Approach), in accordance with the legal framework of the country in question.

The Parent Company provides specific guidelines for the eligibility of all kind 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) Main types of guarantors and credit derivative counterparties 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 different 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 personal 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 financial assets (at portfolio level) are concentrated in a small number of collateral types, protection instruments, or special providers of collaterals or sectors or when there is lack of proportion in the volume of collaterals 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 country, 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 (30 June 2011):

(In EUR thsd)

IRB Approach			
Exposures with	Amounts as at June 30, 2011		
	Financial collaterals	Other collaterals	Guarantees and credit derivatives
	EUR	EUR	EUR
Central administration and central banks	1,447	0	1,092,710
Supervised institutions	45,746	92,175	540,589
Public Entities	2,474	28,305	72,441
Corporates and specialized lendings	1,875,518	9,520,912	4,837,068
<i>Specialized lendings</i>	60,249	4,870,182	32,734
<i>Others</i>	1,815,269	4,650,730	4,804,334
Retail exposures	455,530	6,721,704	42,438
<i>Exposures secured with residential real estate property</i>	83,120	6,025,240	3,677
<i>Qualified revolving retail exposures</i>	0	0	0
<i>Other retail exposures</i>	372,410	696,464	38,761
Equities	0	0	0
Total	2,380,715	16,363,096	6,585,246

(In EUR thsd)

Standard Approach			
Exposures with	Amounts as at June 30, 2011		
	Financial collaterals	Other collaterals	Guarantees and credit derivatives
	EUR	EUR	EUR
Central governments and central banks	42	0	4,204
Supervised institutions	544	0	5,503
Regional administrations and local authorities	69,730	0	6,430
Administrative bodies and non-commercial undertakings	292	0	1,060,597
Multilateral development banks	0	0	0
International Organisations	0	0	0
Corporates	117,203	9,235	798,963
Retail exposures	0	0	0
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	0	0	0
Exposures in the form of covered bonds	0	0	0
Past due exposures	119	95	3,987
Item belonging to regulatory high risk exposures	0	0	0
Other exposures	0	0	13,046
Total	187,930	9,330	1,892,730