

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 2011)

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

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 Group’s presence in different countries, implementation measures have been made in accordance with local regulations and the requirements of the supervising authorities in the countries to which the individual entities belong.

The Group has acknowledged the regulatory requirement with specific internal Guidelines issued by UniCredit, the Holding Company, in compliance with the “International Convergence of Capital Measurement and Capital Standards”, “Directive 2006/48/EC and 2006/49/CE of the European Parliament and of the Council”, and “Bank of Italy circular letter No. 263/2006” and following updates (also reflected in § 17 OffV, i.e. the Austrian Disclosure Regulation).

Such Guidelines pursue several objectives:

- to encourage optimal management of collateral and guarantees
- 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 II" 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 collaterals and guarantees, as well as their suitability. Banks of UniCredit Group (UCG) put in place all necessary actions in order to:

- fulfill 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.

Banks of UCG 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 banks of UCG, specifically as part of the wider process of internal validation on rating systems and of IRB methods roll-out activities.

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, and if they meet the following 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).

In general, banks of UCG 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.

But the Group makes use of netting instruments mainly with OTC derivatives, repos and securities lending transactions where the counterparties are – generally – Financial Institutions. The primary objective of the bank is to cover as many as possible transactions in order to reduce utilization of credit lines and to release the amount of required regulatory capital. In this regard, a special policy ("Collateral Management for OTC derivatives and Repo and securities lending business") has been issued aiming at defining an efficient and comprehensive framework for collateral management in order to safeguard the bank from avoidable risk-taking.

The effectiveness of a collateral agreement of each individual counterparty relationship depends on the selection of appropriate assets qualifying as eligible collateral. Certain collateral types may present inherent risks related to the price volatility, the liquidity and the settlement of the asset. In addition, the collateral assets must be assessed in the context of the collateral providing counterparty (double default risk). The mentioned policy details the eligibility criteria for both OTC derivatives and Repo/Securities Lending Transactions, and defines the requirements in terms of documentations, requiring on a general base market standard agreements such as ISDA Master Agreement, Global Master Repurchase Agreement or European Master Agreement.

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 of collaterals.

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 publicly quoted daily price of the units.

Market price of pledged securities is adjusted by applying haircuts for market price and foreign exchange volatility according to regulatory 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 by a haircut that has to consider the intrinsic riskiness according to the different factors (price risk, time of ownership and liquidity risk).

The main banks of UCG 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 banks of UCG operating in Austria, Germany and Italy, systems for the periodic monitoring and revaluation of the real estate serving as collateral, based on statistical methods, adopting internal databases or provided by external information 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.

Description of the main types of collateral taken by the banks of UCG

Collaterals accepted in support of credit lines granted by banks of UCG, primarily include real estate, both residential and commercial (around 76% of the stock) and financial instruments collateral (around 5%), (including debt securities, equities and units of Undertakings for Collective Investment in Transferable Securities (UCITS)). The remaining part includes pledges on other assets (e.g. pledged goods) and other collaterals (e.g. movable properties).

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, A-IRB), in accordance with the legal framework of the country in question.

UniCredit provides specific guidelines for the eligibility of all kind of collaterals and each bank of UCG 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.

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, even if they are not considered eligible for credit risk mitigation purpose. Less frequently, the risk of insolvency is covered by personal guarantees provided by other banks of UCG (usually the holding company or other companies belonging to the same economic group as the borrower), or by financial institutions and insurance companies.

At consolidated level, guarantees are provided by banks (20% of the stock), government/central banks (around 15%) and other subjects (65%). The last category includes guarantees provided by physical persons, whose eligibility for CRM depends on the approach used by the different banks of UCG.

Credit derivative protection providers are almost exclusively banks and institutional counterparties. The list of eligible protection providers depends on the specific approach adopted by each single bank of UCG. Specifically, under the Standardized approach, eligible protection providers pertain to a restricted list of counterparties, 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. Banks of UCG adopting IRB-A may recognize guarantees provided that the relevant minimum requirements are satisfied and, particularly, provided that the bank of UCG can evaluate the protection provider's 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, during the underwriting phase, the economic capabilities of the protection provider have to be evaluated.

Information about market or credit risk concentrations under the credit risk mitigation instruments used

There is a 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, a 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 Central 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.

Quantitative disclosure
UniCredit Bank Austria AG (31 December 2011):

IRB Approach			
Exposures with	Amounts as at 31 December 2011		
	Financial collaterals	Other collaterals	Guarantees and credit derivatives
	in EUR '000	in EUR '000	in EUR '000
Central administration and central banks	1,837	0	1,068,418
Supervised institutions	45,891	92,744	1,536,237
Public Entities	4,355	26,978	223,035
Corporates and specialized lendings	1,821,383	12,078,765	4,703,726
<i>Specialized lendings</i>	73,001	5,562,014	102,853
<i>Others</i>	1,748,382	6,516,751	4,600,873
Retail exposures	478,884	8,433,588	47,624
<i>Exposures secured with residential real estate property</i>	117,396	7,814,852	8,845
<i>Qualified revolving retail exposures</i>	0	0	0
<i>Other retail exposures</i>	361,488	618,736	38,779
Total	2,352,350	20,632,075	7,579,040

Standard Approach			
Exposures with	Amounts as at 31 December 2011		
	Financial collaterals	Other collaterals	Guarantees and credit derivatives
	in EUR '000	in EUR '000	in EUR '000
Central governments and central banks	380	0	0
Supervised institutions	116	0	6
Regional administrations and local authorities	74,700	0	36,008
Administrative bodies and non-commercial undertakings	4,481	0	1,148,399
Multilateral development banks	0	0	0
International Organisations	0	0	0
Corporates	104,986	9,397	1,001,812
Retail exposures	0	15	52
Short-term exposures with corporates	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	59	89	4,055
Items belonging to regulatory high risk exposures	0	0	0
Other exposures	0	0	12,701
Total	184,722	9,501	2,203,033