UniCredit Tiriac Bank

Basel II Pillar 3 Disclosure

according to
BNR and CNVM Regulation no.25/ 30 of 14.12.2006
regarding disclosure requirements for credit institutions and investment firms

Report reference date: 31.12.2009

CONTENTS:

Abbreviations

ALM – Assets and Liabilities Management

ALCO – Assets and Liabilities Management Committee

BANK - UniCredit Tiriac Bank

BA – Bank Austria

BNR / NBR – Romanian National Bank

CRM –Credit Risk Mitigation techniques

CRO –Risk Executive Vicepresident (Chief Risk Officer)

EAD – Exposure at Default

GBS –Operations Division

GROUP – UniCredit Group

IAS / IFRS – International Accounting Standards

LGD – Loss Given Default

MB – Management Board

OTC - Over-The-Counter

PD – Probability of Default

PI – Private Individuals

RAS – Romanian Accounting Standards

RWA – Risk Weighted Assets

RKM – Risk Manager

RM – Relationship Manager

RMC – Risk Management Committee

SB – Supervisory Board

SME / IMM – Small and Medium Enterprises

UCTB - UniCredit Tiriac Bank

Terms and definitions

Risk in banking activity refers to the possibility that an action or event can generate a negative impact, resulting either in a loss/capital decrease, or in BANK'S impossibility to achieve her objectives or continue her activity.

Credit risk is the risk of incurring losses as a consequence of a counterparty missing its credit obligations specified in the initial contractual terms.

Risk realization means the occurence of the action or event with negative impact on BANK's financial results.

The Default shall be considered to have occurred with regard to a particular obligor when either or both of the two following events has taken place:

- ✓ the BANK considers that the obligor is unlikely to pay in full its credit obligations to the BANK or its GROUP;
- ✓ the obligor is past due more than 90 days on any material credit obligation to the BANK or its GROUP.

Probability of default (PD) - the probability that a counterparty defaults within a one year period.

Loss Given Default (LGD) – means the ratio between the loss on an exposure due to the default of a counterparty, and the amount outstanding at default event occurrence.

Exposure at Default (EAD) **–** outstanding amount at default event occurrence.

Significant risks are those risks with significant potential impact on the assets value and/or reputation of the BANK.

Risk management is the process focused on the analysis of risk profile with the aim of minimizing the ratio between risk and profit in the different activities of a credit institution. It comprises all activities performed with the goal of identifying, measuring, monitoring and controlling of risks, such that the BANK's general policy principles are complied with.

Regulatory capital is defined as the minimum capital which the central banking supervisory authority requires to be held by the credit institution.

Credit Risk Mitigation (CRM) techniques comprises the instruments used by the BANK to reduce the credit risk associated with an exposure for minimum capital requirement calculation purposes, by using collaterals eligible under the chosen Basel II approach.

"Small Business" clients (also denoted SME or IMM) are small and medium size firms according to the BANK's internal definition.

"Corporate" clients are large size companies according to the BANK's internal definition.

Freelancers (PFA) are private individuals who undertake liberal activities according to the existing regulations.

Non-performing loans are loans classified in the „Loss" category, according to National Bank of Romania Regulation no.5/2002 with all subsequent ammendments.

Performing loans are loans classified in any category apart from „Loss", according to National Bank of Romania Regulation no.5/2002 with all subsequent ammendments.

Chapter 1 – General requirements

1. Strategy and general framework of risk management

Risk management is a priority for the BANK management, being accepted as an essential and mandatory condition in ensuring the bank stability and performance.

Risk management implies the prevention, limitation and monitoring of BANK's risk exposures, as well as determining the degree of assuming certain risks such that, in case of occurrence, the BANK has the capacity of balancing the potential negative financial impact.

The risks assessment and identification is a permanent process within the Bank, requiring risks identification and understanding at both individual level (transaction/debtor) and at global level (portfolio).

Risks identification and assessment is performed based on the analysis of internal and external factors that can negatively affect or endanger the accomplishment of BANKS's strategic objectives.

Internal factors include: the complexity and dimension of the organizational structure of the Bank, the range and specific of activities, level of professional training and moral quality of the personnel, the degree of adequacy of IT systems, etc.

External factors include: economical or financial crisis, as well as crisis linked to political and social environment, natural calamities and ecological disasters, changes in the banking system, legislative and regulatory framework, technical evolution, etc.

Thus, a part of the assessment process of identified risks refers to their classification as controllable or uncontrollable, depending on the Bank's possibility to intervene upon them and depending on the nature of risk (credit risk, market risk, operational risk, liquidity risk, etc.), in view of reducing the frequency of occurrence and/or their impact.

Considering the potential high impact on the Bank's profit and/or reputation, specific strategies and policies of risk management aim to cover mainly the following types of risks, in a non exhaustive manner:

1. Credit Risk
2. Market Risk
3. Liquidity Risk
4. Operational Risk
5. Reputation risk
6. Other risks considered to have an impact on Bank's activity: concentration risk, residual risk

The general objective of the Risk Management Strategy is that risk undertaking is consistent with the shareholders' expectations, with Bank's strategic plan and with the specific regulations in force, and also that a clear and comprehensive risk culture is promoted within the Bank.

According to the Bank's strategic objectives, as well as to the short-term policies for implementation of the general strategy, the Management Board sets the Bank's estimated risk profile on an annual basis. This may be low, moderate, average, or high, according to the value of the annual expected loss generated by the occurrence of certain significant risks, but also depending on the capital needed in order to cover unexpected losses.

In this context, UniCredit Tiriac Bank has set as a strategic risk objective to maintain in 2009 a moderate level of the risk profile.

The definition and measurement of the risk profile and the definition of risk tolerance is performed through specific procedures for the risk profile definition and assessment. The setting up and monitoring of risk ratios and limits is an integral part and a technical implementation tool of the Strategy of the Management of Significant Risks.

To achieve the strategic objectives regarding risk management, the Bank uses:

- Basic principles regarding risk management;
- An organizational structure specialized and with focus on risk management;
- Specific procedures and techniques for risk measurement and monitoring.

Risk management principles

A set of risk management principles lay the foundations of risk culture and processes in UniCredit Tiriac Bank. These principles cover all areas of risk management and are in line with international best practices.

Principle 1: **The Supervisory Board is responsible for approving the risk strategy and policies of the bank**.

The global policy related to management of risks and tolerance to risk should be determined on a comprehensive basis at the organizational level, reviewed and approved by Management Board and Supervisory Board. Policies and tolerance related to identification, measurement, monitoring and risks control will be clearly communicated to all that develop activities, within the institution, activities which can be affected by risks.

Principle 2: **The Risk management framework**
The establishment of a risk management framework that is efficient, comprehensive and consistent will be pursued at Bank level through the allocation of sufficient and adequate resources.

Principle 3: **Integration of risk management**

Certainty that interactions between risks are properly identified understood and managed and that risk assessment will not be performed separately. Necessary analysis for risks aggregation and signaling throughout the organization must be performed on an adequate level.

Principle 4: **Business strategy realization**
Business strategy must be aligned to the management of associated risks in line with the adopted risk tolerance and must be adequate from the point of view of results – positive and negative induced by risk taking.

Principle 5: **Independent review**

Risk assessment must be validated by independent review units which have sufficient resources, authority and expertise in risk assessment and testing the efficiency of risk management activity in order to allow them to make corrective proposals and recommendations.

Principle 6: **Corrective plans**

Risk management policies and procedures which regulate potential crisis situations and extraordinary circumstances must be adequately defined and tested.

2. Structure and organization of the risk management function

The risks control structure is based on several operational and control functions, defined as per the provisions of the bank Organizational and Functioning Regulation and the existent Group-level provisions.

The main responsibilities of the risk management structures are detailed below.

Supervisory Board (SB)

The SB is responsible for the set up and keeping of a proper and effective internal control system. In the context of internal control and significant risks management SB has at least the following responsibilities:

1. approves annually the bank overall strategy and the policies related to the credit institution's business, among which there is the specific policy on risk management and control, and requests their revision, if needed;
2. within the risk management strategy, SB has following tasks:
   - ✓ approves and reconsiders the bank risk profile;
   - ✓ in close connection to the objectives of the bank overall strategy, SB approves MB proposals which annually set the targeting a certain risk profile, the method for determining and the monitoring frequency of the bank business depending on the targeted risk profile;
   - ✓ approves the risk management policies, analyze them regularly, at least annually, and decide, if the case, their revision;
   - ✓ Supervises and controls the taking of the necessary measures by the managers for identifying, assessing, monitoring and controlling the respective risks, including the ones for outsourced activities and supervises the managers related to their way of monitoring the proper functioning and the efficiency of the internal control and risk management system;
   - ✓ Approved the activities tobe outsouced.

Management Board *(MB)*

<u>The Management Board,</u> made up of the executive management of the bank, is responsible for implementing the strategy and the policies on risk management as established and defined in the Article of Association and the Internal Governance Rules. For that, the MB:

1. ensures the communication of the bank strategy and policies on risk management;
2. is responsible for adequate control culture and the importance of a communication system of internal control and risk management;;
3. ensure a control system to take measures required for meeting the limits established

exposure;

4. approval of asigning the compenteces procedures in relation to risk management and internal control related activities;
5. analysis opportunity outsourcing of activities in accordance with internal policy on the outsourcing of activities;
6. definition of human resources policies to ensure observance of specialized personnel, with experience and knowledge in both departments whose work is generating risks, as well as Risk Management Departments.

Specialized committees with risk management responsibilities

- **Audit Committee**

The Audit Committee has responsibilities on the internal control and semnificative risk administration, as per the bank's Internal Governance Rules and its specific governance act, approved at bank level.

The Audit Committee evaluates the effectiveness of the risk management, as part of the internal control system and periodically analyzes information related to it.

- **Risk Management Commitee (RMC)**

The Risk Management Committee develops the identification activity, assessment and risk management as per the bank OFR and the own regulation, approved by the Management Board.

The Risk Management Committee (RMC) is a permanent committee of the Bank, constituted according to local legislation appliocable to the banks, having the following responsabilities: assists the bank management in fulfilling its responsibilities connected to strategic norms and Group policies for all types of risk;

1. to suport Bank management in fulfilling its responsibilities regarding risks identification, assessment and management;
2. to inform periodically the Supervisory Board regarding the situation of exposure to risks and immediately in case of occurrence of significant changes in current or future situation of exposure to risks;
3. to ensure proper development of policies and procedures for the identification, assessment, monitoring and control of significant risks, establishes competent parties and responsibilities related to risk control and management;
4. to establish risk exposure limits, including in crisis situations and the necessary procedures for approval of exceptions to internal limits established;
5. to approve the Bank's new activities, based on the significant risks associated with them;
6. to approve methodologies and adequate risk management models for risk assessment and monitoring of risk limits, as well as adequate risk reporting systems;
7. to monitor the implementing and applying of the internal policies and procedures for risk management and their compliance with the legal and internal provisions related to risks.

According to the Rules of Organization and Operation, Risk Management Committee meets at least trimestial and whenever the situation requires.The Bank periodically reviews the structure and functioning principles of the Risk Management Committee and other specialized committees with responsibilities related to managing significant risks; the responsibilities related to the set up of risk exposure limits can be transferred to the bank executive management, so that the responsibilities are properly separated in the organizational structure of the bank.

There are other **specialized committees** functioning at Bank level, with risk management responsibilities:

Assets and Liabilities' Committee (ALCO) – has responsibilities related to assets and liabilities' management on current and continuous basis as per the Bank Investment Policy. The Committee is responsible for setting up and monitoring the exposure limits for the Liquidity Risk and Market Risk at bank level.

ALCO is formed of the following members: Executive President (CEO); Finance Vicepresident (CFO), Retail Vicepresident, Corporate Vicepresident, Risk Vicepresident (CRO), Director of Market Risk and Operational Risk, Director of Strategic Planning and Control, Treasury Director, ALM Director.

ALCO has the following responsibilities for the risk management:

- ✓ ensures the maintaining of a proper liquidity as per the current and future necessities of the bank business lines and monitors the optimization of exposures implying market risk;
- ✓ sets up policies and limits related to the interest risk management and the foreign currency risk aligned with the UniCredit Group authorized policy;
- ✓ approves the competencies related to the trading activity, the new treasury and money market products, the policies regarding the activity of Treasury (Markets) and ALM departments;
- ✓ effectively manages the bank capital and the price of the offered products, so that it generates enough income as to belong to a risk group;
- ✓ sets the structure of market and liquidity risk management;
- ✓ submits to the MB approval the documents proposed by the Market Risk, Treasury (Markets) and ALM related to the following:
  - liquidity management
  - market risk profile, including the list and the maximum exposure of the trading instruments;
  - market and liquidity risk limits;
  - risk management principles and risk measurement models;
  - the new Treasury products;
  - Any decision that might affect the bank risk profile or the adopted risk management decisions.

The Credit Committee – has approval responsibilities of loan facilities as per the competencies set up with the purpose of ensuring the loan portfolio quality by diminishing and limiting the credit risk according to the lending policy and the specific regulation of the credit committee approved by the Management Board.

Risk Division (CRO)

Risk Division operates as a permanent organizational structure, with responsibilities related to the administration of the general framework of risk management.

The Risk Division offers support to the Risk Management Committee and the Bank management through the current monitoring of the risks related to Bank activity.

The responsibilities of the Risk Division are:

1. To ensure that the activity performed/coordinated by the other units of the Bank ranges within the limits of the risk profile set by the present Norm.
2. To this end, according to the decisions issued by Bank management (Supervisory Board, Management Board) and/or specialized committees (Risk Management Committee, ALCO, etc.), Risk Division will analyze all current activities as well as activities that are new or comport a risk element. On a case by case basis and according to its limits of competence, Risk Division will submit the result of its analysis and its proposals to specialized committees of the Bank, to Bank management and – if needed – to the Supervisory Board.
3. To draft and submit for approval to Risk Management Committee and Bank management: risk policies, methodologies, specific instruments and procedures for risk assessment and monitoring.
4. To monitor the Bank in view of the conformity to approved limits for credit risk, market risk, liquidity risk, operational and other risks in close cooperation with Bank units affected by these risks.
5. To assess risks taking into consideration: the implications of each significant risk if correlated to the other significant risks to which the Bank is exposed; forecast of own funds and profit based on different scenarios, including crisis situations and measurement of maximum loss that can be induced;
6. To review periodically the loan portfolio of the Bank to check that risks range within accepted limits.

Develop, test and implement systems and a specific risk management structure, such as: historical data bases, risk assessment models, scenarios, current reports, etc.

To ensure the compliance with the approved risk profile, the CRO together with the President of the Internal Norms and Procedures Committee coordinates the activity of issuing the internal procedures on identification, measurement and monitoring of significant risks.

To ensure optimum management of specific banking risks, at an individual level and at a portfolio level, Risk Division is structured in 7 departments for risk management and control. Their responsibilities are detailed in the Bank’s Organization and Functioning Regulation:

- Credit Risk Control
- Retail Underwriting
- Corporate Underwriting
- Credit Risk Support
- Recovery and Fraud Prevention
- Market Risk and Operational Risk
- Basel II Office

Other organizational structures with responsibilities related to risk management

Risk management function is supported at Bank level through other specialized committees (discipline committee, norms and procedures committee, projects committee, etc.) and also through all units directly involved in funds placement and funds attracting, who are responsible to assess individual positions, define procedures to identify inadequate situations and – as the case may be – propose and obtain approval for corrective measures.

Chapter 2 - Scope of application

The institution subject to disclosure is **Unicredit Tiriac Bank SA.**

Accounting consolidation

UniCredit Tiriac Bank SA does not prepare consolidated statements because it does not have subsidiaries and it does not control any entity in accordance with the provisions of IAS 27 “Consolidated and Separate Financial Statements”.

UniCredit Tiriac Bank SA does not have any subsidiary (does not control any entity) as of 31 December 2009.

In the statutory financial statements of UniCredit Tiriac Bank SA, these participations are recorded at cost.

Prudential consolidation

Taking into account the local requirements regarding the prudential oversight, UniCredit Tiriac Bank SA included in the prudential consolidation area the following non-banking financial institutions:

- UniCredit Leasing Corporation IFN SA (percentage held 20%);
- UniCredit Consumer Financing IFN SA (percentage held 35%).

UniCredit Tiriac Bank SA reported the minimum capital requirements using equity method in accordance with IAS 28 Investments in Associates.

UniCredit Tiriac Bank SA has a significant influence over the two institutions mentioned above for the following reasons:

- for each participation, UniCredit Tiriac Bank SA has 2 members out of a total of 5 members of the Supervisory Board, and
- the percentages held in these participations are in the range 20% - 50%.

Chapter 3 – Supervisory capital structure

The composition of the equity for the regulatory purposes is detailed by the own funds report of the Bank at the year end (all amounts are in RON):

Own Funds	Dec-09
1.1.1.1. Paid up capital	379,075,291.00
1.1.1.2. (-) Own Shares	
1.1.1.3. Share premium	55.00
1.1.1. Eligible capital	379,075,346.00
1.1.2.1.01.A. Gross reserves	1,293,762,579.00
1.1.2.1.01.B. Predictable tax liabilities	(30,707,098.00)
1.1.2.3.01 Audited result for current year	235,499,318.00
1.1.2. Eligible reserves	1,498,554,799.00
1.1.5.1.A. Intangible gross assets	(159,855,899.00)
1.1.5.1.B. Depreciation of Intangible assets	87,326,084.00
1.1.5.4 Other deductions specific to Romania (loans for ex-staff remaining in favourable conditions)	(2,850,125.00)
1.1.5. Others deduction from own funds	(75,379,940.00)
1.1. Level 1 own funds	1,802,250,205.00
1.2.1.3. Revaluation reserve	93,591,280.00
1.2.1. Basic level 2 own funds	93,591,279.00
1.2.2.3. Subordinated loans	274,844,597.00
1.2.2. Supplementary level 2 own funds	274,844,597.00
1.3.1.A. (-) Holdings in other credit and financial institutions amounting to more than 10% of their capital (gross value)	(25,579,451.00)
1.3.1.B. (-) Holdings in other credit and financial institutions amounting to more than 10% of their capital (provisions)	-
1.3.9.C. (-) Holdings in non-financial institutions amounting to more than 10% of their capital(gross value)	(363,541.00)
1.3.9.D. (-) Holdings in non-financial institutions amounting to more than 10% of their capital(provisions)	344,400.00
1.3. (-) Elements deductible from the level 1 and level 2 own funds, from which	(25,598,592.00)
1.3.T.1 From the level 1 own funds	(12,799,296.00)
1.3.T.2 From the level 2 own funds	(12,799,296.00)
1.4. Total 1 own funds level	1,789,450,909.00
1.5. Total 2 own funds level	355,636,580.00
1. TOTAL OWN FUNDS	2,145,087,489.00

Following the analysis of the own funds components, the only category which has contractual clauses is capital as subordinated loans, included in the 2nd level supplementary own funds.

In order to be included in the 2nd level own funds, subordinated loans must meet, according to National Bank of Romania regulations, the following requirements:

- only fully paid amounts can be taken into account;
- the initial maturity to be at least 5 year, the loans can be repaid only afterwards;
- the total amount taken into account for the calculation of the level 2 own funds must be diminished gradually at least by 5 years before the maturity, through the application of the

equal half-yearly percent such that for the reporting of the last semester before the final maturity the loan will not be considered anymore.

As of December 31st 2009, the total value of the subordinated loans received from UniCredit Bank Austria AG and UniCredit Ireland was 399,974,195 RON and is detailed below:

Amount	Currency	Rate of interest %	Maturity	Equivalent RON
3.517.824	EUR	EURIBOR + 0.50%	The interest is repayable quarterly (but the bank can choose 3,6,12 months for the year immediately following), and the principal becomes due in spetember 2012	14,874,062
3.407.155	EUR	EURIBOR + 0.50%	The interest is repayable quarterly (but the bank can choose 3,6,12 months for the year immediately following), and the principal becomes due in august 2012	14,406,133
5.000.000	EUR	EURIBOR + 0.50%	The interest is repayable quarterly (but the bank can choose 3,6,12 months for the year immediately following), and the principal becomes due in september 2012	21,141,000
215.730.000	RON	ROBOR 1M + 0.53%	The interest is repayable monthly and the principal becomes due in july 2013	215.730.000
70.400.000	RON	ROBOR 1M + 0.50%.	The interest is repayable monthly and the principal becomes due in august 2012	70.400.000
15.000.000	EUR	EURIBOR 3M + 0.81%	The interest is repayable quarterly and the principal becomes due in november 2015	63,423,000
Total				399,974,195

Chapter 4 – Capital adequacy

Qualitative disclosure

For calculating the regulatory capital requirements, the BANK uses the Standardized Approach for credit risk (according to Regulation 14/ 19/ 14.12.2006) and market risk (according to Regulation 22/ 27/ 14.12.2006) and the Standard Approach for operational risk (according to Regulation 24/ 29/ 14.12.2006).

All tasks related to the calculation and monitoring of capital requirements are performed by specialized units of Financial Division and Risk Division of the BANK.

For complying with capital adequacy requirements established by Emergency Ordinance 99/2006, the BANK is actively involved in an evaluation process of capital requirements, for sustaining current and future activity, which implies the following processes:

1) Budgeting
2) Monitoring and analysis
3) Stress Testing
4) Forecasting

For the **budgeting** process:

- The different business segments provide the forecasted volumes for the following year;
- Credit Risk Control Department estimates the credit risk provisions based on the above volumes;
- Inside Strategic Planning and Control Department, capital requirement is calculated and compared with the existing capital;
- In order to assure an adequate level of capitalization, RWA optimization actions are considered. Starting from the capitalization objective, the BANK establishes measures for optimizing the structure of its loan and collateral portfolio.

Monitoring and analysis process implies:

- Monthly calculation of capital requirement and solvency ratio for regulatory purposes;
- RWA optimization actions;
- Optimal capital allocation to obtain value added creation for shareholders.

Stress-Testing process:

- Appraises the capital requirement in various scenarios;
- In case of extreme scenarios, evaluates the necessity of capital increase and solutions to obtain the surplus of capital needed.

Forecasting process:

- During the entire year, several forecasting actions are performed in order to have estimations as accurate as possible of the capital requirement evolution.

The active capital management, by anticipating any situation that can occur and looking for solutions even for extreme cases, makes from UniCredit Tiriac Bank a reliable bank for both its clients and shareholders, with an adequate level of capitalization.

Quantitative disclosure (amounts in RON)

Nr. Crt	Items components	Dec-09
2	CAPITALIZATION REQUIREMENTS	1,308,803,203.00
2.1.	Standard approach	1,178,555,814.00
2.1.1	Central administrations or central banks	0.00
2.1.2	Regional administrations or local authorities	15,126,360.00
2.1.3	Administrative bodies and non commercial undertakings	0.00
2.1.4	Multilateral development banks	0.00
2.1.5	International organizations	0.00
2.1.6	Institutions	52,287,469.00
2.1.7	Companies	855,428,613.00
2.1.8	Retail exposure	127,687,075.00
2.1.9	Exposure secured on Real Estate Property	61,532,853.00
2.1.10	Past due items	21,865,330.00
2.1.11	Elements that belong to the categories regulated as high-risk ones	16,407,740.00
2.1.12	Obligation bonds	0.00
2.1.13	Short term receivables for institutions and companies	0.00
2.1.14	Receivables as investments held by the undertakings for collective investments	0.00
2.1.15	Other elements	28,220,374.00
2.2	SETTLEMENT/DELIVERY RISK	0.00
2.3	TOTAL CAPITALIZATION REQUIREMENTS FOR THE POSITION RISK, CURRENCY RISK AND THE RISK REGARDING THE GOODS	0.00
2.3.1	The position, currency risks and the risks regarding the goods, according to the standard approach	0.00
2.3.1.1	The position risk related to the securities resulted from transactions	0.00
2.3.1.2	The position risk related to the capital securities	0.00
2.3.1.3	Currency risk	0.00
2.3.1.4	The risk regarding the goods	0.00
2.4	TOTAL CAPITALIZATION REQUIREMENTS FOR THE OPERATIONAL RISKS	130,247,389.00
2.4.1	Standard approach	130,247,389.00
3.2	Own funds surplus (+) / deficit (-)	836,284,286.00
3.2.a	The solvency ratio (%)	13.11

Chapter 5 – Credit risk: general aspects

1. Objectives and policies regarding credit risk management

The Bank is exposed in particular to credit risk in lending activity; it is the most important type of risk the Bank is facing.

Credit risk encompasses risk derived from credit granting activity and from other transactions initiated for Bank clients, such as: issuance of Letters of Guarantee, opening/confirmation of Letters of Credit, availing, discounting of trade instruments presented by the clients, investments in stock and other financial assets, other facilities granted to clients.

The objective of credit risk management is to maximize profit by maintaining exposure to credit risk within acceptable limits.

In this context the Bank's credit risk management policy promotes a set of coherent principles and practices, oriented towards the following main directions:

- Establishment of a framework and adequate parameters of credit risk;
- Promotion and operation of a healthy and solid credit granting process;
- Promotion and maintenance of an adequate process for credit administration, measurement and monitoring;
- Permanent control over the quality of the loan portfolio.

1.1 Specific strategy for credit risk management

The management of the credit risk is a critical component of the unitary approach of the global risk policy, essential for the long-term success of the Bank.

In UCTB credit granting activity is performed on the basis of internal norms and procedures, approved by competent bodies. The Bank establishes steps and disposes of instruments both for identifying, measuring, monitoring and controlling the credit risk, and for being able to determine and render available the adequate capital for covering these risks.

The Supervisory Board approves the Bank's credit risk strategy, which is reviewed periodically, at least once a year.

The strategy regarding credit risk must reflect the tolerance to risk and the profitability level which the Bank intends to achieve in the conditions of the exposure to the assumed risks.

When establishing the strategy on the credit risk, all the Bank's activities which present a significant exposure from the credit risk perspective will be taken into consideration.

The Bank's strategy on the management of the credit risk establishes the following objectives:

- Unicredit Tiriac Bank was defined as a universal Bank, offering to individuals and companies lending products, such as:
  - ✓ loans for working capital and investment needs, for companies,
  - ✓ loans for investment and personal needs, for individuals

- ✓ bank letters of guarantee, and
- ✓ other types of facilities established through internal lending rules and procedures.

▪ The lending products are offered equally to the private and public sector, without having any specific limitation triggered the ownership type of the counterparties.

▪ Credit risk bearing exposures are subject to limitations determined by the general strategy of the Bank. Thus:

✓ The Bank undertakes exposures to Romanian resident clients; however, the Bank may also have exposures to non-resident clients within certain clearly defined limits;

✓ The credit and guarantee products are offered only in RON and in foreign currencies listed by the National Bank of Romania.

✓ Exposures are limited per: sectors of the national economy, geographic areas, currencies, types of clients, products, etc.,

✓ The price of loans is determined in close correlation with the financing cost and the risk margin related to the client internal rating.

- The credit risk margin is the spread in the composition of the loan interest rate which is established according to the debtor's credit rating. This margin is intended to cover the debtor's/counterparty's default risk. Thus, with loans belonging to lower categories/having lower ratings, higher spreads shall be collected, in order to align the price of the placement to the individual risk.
- The spread is calculated so that it may cover the financing cost, the corresponding share of the general and administrative expenses, a credit risk margin, and, as the case may be, a share of the profit.
- The credit risk margin and the profit margin shall be established according to the evolution of the structure of the loan book on categories of financial performance and risk degrees, as well as in accordance with the provisions regarding the bank's financial result included in the Business Plan, the General Strategic Plan, and/or the Revenue and Expense Budget.

<u>The threshold starting from which credit risk is considered significant</u> is reflected through maximum limits of exposure and significance thresholds (presented in detail in the Risk Profile), respectively through risk tolerance, as follows, per:

- ✓ *geographical areas;*
- ✓ *activity sectors;*
- ✓ *counterparty categories;*
- ✓ *product types;*
- ✓ *residence type;*
- ✓ *credit risk indicators.*

Maximum limits of exposure to credit risk, respectively the threshold starting from which a risk is considered as significant are described in detail in the Internal Procedure regarding the establishment and the monitoring of risk limits and of the Bank's risk profile, which is an annex and a technical implementation tool of the Risk Management Strategy.

These limits are monitored periodically or any time it is necessary by the Risk Division and they are submitted to the Risk Management Committee and the Supervisory Board, as the case may be.

1.2 Specific processes and procedures for credit risk management

In view of the optimization of internal management of credit granting process and of the associated credit risk, the Bank implemented automatic software to process and analyze credits. This software allows the Bank to control and monitor the entire credit granting process and to saveguard important information regarding decisive credit risk factors, to be used later in internal reportings and in the development and validation of internal rating models.

Specific processes and procedures for credit risk management defined at Bank level are differentiated depending on the main components of credit risk and the stage of the credit granting process, as follows:

A. Procedures of risk management in the stage of credit granting
B. Procedures to prevent and mitigate default risk
C. Procedures to prevent and mitigate riscului de decontare
D. Procedures to prevent and mitigate concentration risk
E. Procedures to prevent and mitigate residual risk
F. Specific processes to manage non-performing loans

A. Risk management procedures in the credit granting phase

Through procedures specific for the credit granting phase the Bank seeks to mitigate and limit default risk, concentration risk and residual risk.

The Bank grants loans and administers them through Head Office and through its branches in the country.

Credit requests, analysis and credit granting are performed by branches situated in the same region or closest to the place where the client is registered (with fiscal authority).

Credit proposals are submitted for analysis to each entity in the Credit Approval Flow and the decision is taken by the competent level of approval.

The process for the assessment and decision related to a Credit proposal includes two main stages:

- The first is related mainly to the Entity supporting/proposing the project and which collects the information, structures the proposal (including finalizing client and transaction assessment), collects opinions regarding the credit proposal from Headquarters units (amongst which legal opinion) and it is related mainly to the Entity which supports/proposes the credit application.
- The second is the phase of assessment and decision taking which involves mainly entities who give their opinion within Risk Division and entities who have the right to vote and approve according to internal regulations.

Credit risk assessment process and decision making process

The assessment of a feasibility of a project is performed on the basis of risk analysis related to: debtor, transaction, collateral supplied.

Clients' eligibility is determined by a set of minimum criteria:

- Existence of repayment source;
- Integrity and reputation of the client who requests the loan;

- Current risk profile of the debtor and the sensitivity of its payment capacity in the light of market evolution and conditions;
- History of debt service and current repayment capacity based on evolution of personal revenue for private individuals and based on financial ratios and forecasted cash-flow for companies;
- Debtor's legal capacity to undertake obligations;
- Debtor's experience in business;

Within the process of credit risk assessment , the Bank aims to identify, follow, classify and monitor each group of persons who represent a sole debtor, according to legal provisions in force and internal norms and procedures.

To avoid a situation where the Bank enters into a business relationship with persons involved in fraudulent activities and other criminal activities, the Bank applies strict 'know your customer' policies and procedures, according to internal specific norms issued according to the National Bank of Romania regulations.

Regarding the financed transaction the Bank seeks to check that the credit destination is compatible to the provisions of internal credit granting and credit risk norms and procedures.

With regard to the collateral supplied, the Bank analyzes:

- Legal possibility to enforce collaterals;
- Enforceability and recovery capacity of collaterals within a short period of time.

Collateral accepted by the Bank in the credit granting process are defined through internal specific norms according to National Bank of Romania regulations.

Credits will be granted according to the principle that the first repayment source of the loan originates in the borrower's capacity to generate liquidity; collateral is always the last source of repayment of the loan and payment of interests/fees.

<u>B. Procedures for the prevention and mitigation of default risk</u>

The d*efault risk* represents the risk that a counterparty that registers an exposure towards the Bank is not able to honor in time the payment of due amounts according to contract obligations. It is the most important component of credit risk.

For minimizing and preventing the default risk, the following will be considered:

- Contact with the borrower, including visits to the premises / place in which it operates;
- *Facilities will be reviewed periodicaly, until the loan maturity. The process of periodical review will be performed at group of clients' level and conducted by the Branch in relation with the most important company of the group;*
- *The process of periodical review will be performed even when the loan/ company risk classification has not changed during a year, or when it has improved and every time the loan main characteristics change;*
- *Constantly monitoring the fulfillment of obligations stipulated by contracts and credit conditions;*
- *Monitoring turnover of borrower accounts and compliance with conditions related contracts;*
- *Periodic analysis of reporting documents, financial statements and other documents of the*

borrower;

- *Periodical analysis of customer performance and qualitative information and compliance with the rating category and class appropriate classification in accordance with the laws in force, rules and internal procedures on the basis of financial information and qualitative.*
- *Classification into categories of risk exposures and specific provisioning for loan*
- *In the event of overdue payment, customers are notified and attempt recovery of amounts due.*
- *Improving the processes for monitoring and collecting outstanding loans.*
- *Other actions required for each case, including consulting the information provided by authorized entities in Romania, as well Banking Incident Cetral, the payment incidents., Etc. Credit Bureau*
- *Regularly check the guarantees in order to ensure: Quantity of guarantees, guarantees quality, storage conditions.*
- *When violations are discovered in terms of contracts or damage to the financial situation and solvency of borrowers, BANK borrower proposes a series of measures to eliminate the reasons which led to these violations/ damage. If the borrower does not take the measures recommended by the Bank and/ or do not appear favorable results, the Bank may:*

  • Change the terms of the contract by mutual consent with the client;

  • Limit or stop future uses temporary loan;

  • Take steps to reduce the amount borrowed to the amount used;

  • Start collecting receivables and their execution by enforcement, etc.

C. Procedures for prevention and reducing settlement risk

This credit risk component represents the possibility that a settlement or clearing of a transaction to fail, and can appear anytime the money exchange, bonds and/or other assets it is not simultaneous. In general, settlement risk it is inducted by counterparties that have the obligation to do a settlement or payment in favor of the BANK.

The factors that can determine the production of such risk are:

1.Temporary or total incapacity of the counterparty to make the payment/settlement;

2. Economical, political and social factors that can induce the blocking or interruption of the fulfillment of the settlement between different counterparties

3. Factors related to the informatic system and its security and which are not allowing the fulfillment of the settlement

The control measurements of this type of risk are, in principal, the following:

- Annual will be established global work limits for resident and non-resident institutions, considering the rating, quality and reputation of the counterparty
- The work limits are subject of approval of the Bank Management: specialized committee with dedicated responsibilities according to the internal Organizational and Functioning Regulation of the Bank’s.
- The work limits will be revised in the sense of their reduction/increase, anytime it is necessary, in a manner that will not affect in a negative way Bank’s activity.

- The counterparties exposures- banks and other institutions – will be monitored and quantified in order to diversify the exposures

D. Procedures for preventing and reducing concentration risk

Another component of credit risk, concentration risk is represented by BANK's exposure that exceeds the prudential thresholds for certain activity sectors, categories of debtors, credit products, geographic area, currencies etc.

Considering the BANK's strategy regarding the development of the credit activity, as well as the necessity of maintaining a well balanced credit portfolio, both corporate and retail, for the management of concentration risk the following must be considered:

- For preventing the concentration of the risk on a certain sector, exposure limits on credit risk as percent of total credit portfolio will be set and permanently monitored;
- Exposure limits on product categories will be set – for retail and/ or corporate, a well-balanced distribution in the structure of the total credit portfolio being followed
- Exposure limits on rating categories will be set based on the internal rating system for the clients;
- Exposures on counterparties that exceed the threshold of 10% from the BANK's own funds will be monitored and reported to the management and to the Supervision Division within the National Bank of Romania;
- Correlations between the sources and the placements in credits from the point of view of the currency and concentration of credits granted in a certain currency will be strictly monitored;
- The credit structure regarding tenor in close correlation with the maturity of the sources received will be monitored and analyzed;
- Regarding the concentration risk per regions, the BANK will aim minimization of the risk generated by *Country risk,* through the following:
  - ✓ Country rating (sovereign rating) – country rating set by recognized rating companies (as Moody's, Standard&Poor's, Fitch etc) will be applied
  - ✓ As part of the country risk, transfer risk is also analyzed as being comprised in the BANK's activities in which the counterparty obligation is not represented in local currency, as follows: confirmation of export Letters of Credit, confirmation of Letters of Guarantee issued by foreign banks, discounting/ forfeiting of debt documents, receiving and placing deposits in foreign currencies, exchanges etc/
  - ✓ In case exposures over foreign counterparties are registered, macroeconomic, politic, social and any other conditions from the counterparty's country of residence must be analyzed;
  - ✓ The results of these evaluations will be used both in the credit granting and collateralization activity and for other categories of operations with foreign counterparties (transactions with financial instruments, deposits receiving etc).

Also, regarding the geographic concentration risk, the Bank sets limits and monitors exposure by geographical areas/

E. Procedures of reduction of the residual risk

In the process of using the techniques of reduction the credit risk (CRM) in the scope of reduction the exposures to credit risk, inherent risks may appear that can determine a small grade of reducing the credit risk. In this way, this residual risks such as: documentation risk, legal or liquidity risk, can include, without being limited:

- impossibility to evaluate and execute in a reasonable time pledged collaterals – in case of default of the counterparties
- the refusal or delay in payment of the guarantor
- Inefficiency of the untested documentation

In the scope of minimizing the impact of our own techniques of credit risk will be utilized the fair value of the collaterals and adjustments factors of the collaterals corresponding to the risk of depreciation of their value, established trough specific procedures and norms of the Bank.

F. Procedures for the management of non-performing loans

Managementul, meaning recovery and reducing the losses due to non-performing loans, is performed in the Restructuring & Workout Department with Risk Division, this activity being driven though internal specific procedures that mainly aim the following:

- regulate the process of restructuring and workout of the non-performing loans for each type of client'
- Take decisions on the insolvency or litigation cases;
- Periodical reporting to different management levels regarding the non-performing portfolio, as well as the monthly recoveries;
- Allocation of reserves for the credit risk through the individual loan loss provisions.

1.3 Organizational structures with responsibilities related to credit risk management

A. Structure of the credit risk management function

Current activities of underwriting and prevention of the credit risk are performed within specialized departments within Risk Division, as follows:

- Credit Risk Control
- Retail Underwriting
- Corporate Underwriting
- Credit Risk Support
- Recovery and Fraud Prevention
- Market Risk and Operational Risk
- Basel II Office

B. Segregation of duties within the internal credit underwriting and administration of credit risk processes

A well-structured segregation of duties is considered within the organization and administration of credit risk in order to be complient with the Basel II requirements regarding the segregation of responsabilities in the credit underwriting process as well as regarding the avoidance of allocation of responsilibilities that might drive to conflict of interests.

Thus, responsibilities are allocated as follows:

- **Relationship Manager**: with responsibilities for keeping the interface with the client, collection of data and information, negotiation, preparation of the credit application and proposal (the structure of the transaction and the price);
- **Financial Analyst/Relationship Manager** with competences in calculating the rating based on the financial documents received from the client and on the qualitative information defines in the internal rating model;
- **Risk Manager** with competences in : evaluation of the transaction, evaluation of the client's performances (financial and commercial), evaluation of the collaterals (calculation the coverage ratio), verification of the credit application and approval of the final rating;
- **Loan Administrator**: responsible for registering the transactions into the BANK's IT system;
- **Monitoring Officer**: monitors fulfillment of the conditions set in the credit approval, payment of installments according to the repayment schedule, any early warning signals, takes actions and measures in case of identifications of the above, checks the credit usage;
- **Legal Officer**: responsible for evaluating the documentation necessary for drafting the credit contract and the complementary documents (for instance, collateral contract), for drafting the contracts and for issuing the legal opinion;
- **Risk Reporting Manager**: responsible for monitoring and evaluating the credit profolio performance form the credit risk point of view and for reporting the relevant credit risk information to internal and external structurals.
- **Strategic Risk Manager**: responsible for definying and implementing the strategies, the risk profile, the policies and procedures specific for the credit risk as well as the parameters of the credit products and of the credit processes; development and validation of the rating models for credit risk analysis, definition of the processes of capital adequacy to the credit risk, supporting the departments in definying the credit products/ services for the clients, as well as the control over the performance and efficiency of the credit process; approval of the procedures specific for the credit risk area.

1.4 Applicability and type of reporting systems and credit risk valuation

A. Treatment and valuation of risks

For a prudential valuation of the credit exposures, it is very important that the BANK has implemented the necessary systems for determining the credit classification based on credit risk analysis, based on a master scale for valuation the default risk.

Also, within the project for implementing the Advanced Approach regarding the minumim capital requirement for credit risk according to Basel II agreement, UCTB, under Holding ccordination, has started a set of initiatives regarding implementation on new systems for credit risk valuation, for estimation of risk parameters (PD, LGD and EAD), as well as regarding validation of the rating and scoring systems developed at BANK .

Internal ratings and default probability plays an essential role in the entire credit risk management process within Unicredit Tiriac Bank.

Rating valuation is an important part of the credit approval process. Credit risk tolerance takes into consideration credit granting limitation based on rating/ scoring classes. Thus, there will be no credit granting to the clients with a non-performing rating/ scoring (according to our internal classification).

Later on, during the credit tenor, the rating information is an important part of monitoring as well as of restructuring and of the progress of the non-performing credits.

Risk reporting and portfolio management framework is centered on the rating information (coming to complete the information of the debt service).

The ratings and the respective probabilities of default represent the base element of the IFRS provisions methodology for companies.

Internal rating systems used for estimating the debtor's probability of default, are differentiated according to the internal client segmentation of the portfolio, as follows:

- For clients **'corporate'** rating is determined based on internal rating models for each sub-segment specific significant risk.

  These valuation models for determining the rating by taking into account both quantitative factors (financial indicators) and qualitative factors (management information, company history, market position, etc.). Relevant for clients like multinational, corporate and middle large real estate transactions and the specific elements of such real estate if real estate financing specialist.

  During 2009 the Bank carried out the first validation of the model-specific rating for medium and large corporate clients on portfolio data from local, validation results are satisfactory.

  The rating for medium and large corporate clients is implemnetat in an automated rating system integrated with automated management solution and analysis of credit applications specific corporate clients, which not only facilitates the calculation of the rating, but the relevant data for the rating process .

  Also in 2009, the bank began to implement a rating system for automatic real-estate clients, which will be integrated with automated management solution and analysis of credit applications specific corporate clients.

  Last but not least, in 2009 the Bank started the implementation of automated interfaces to retrieve customer ratings-level multinational group (Group Wide Multinational Customers), which is assessed to ensure their Group level.

- For **"small business"** clients, an internal scoring system is used, system developed at Group level and used in Romania starting with 2008, that takes into consideration in valuating the default risk a set of quantitative factors, representative for this segment, as well as specific qualitative information. The scoring model is implemented ito an automated rating system that allows management of the credit applications and keeping the relevant data history.
- For **"private individuals"** clients, a specific scoring model is used, model that is integrated into an automated scoring system, that includes a module for administration of the workflow of the credit application approval. This scoring model takes ino consideration both qualitative

factors (such as age, marital status, properties owened, profession, work history, education etc) and quantitative factors regarding the client income.

Thus, for every credit application, a scoring is calculated for the private individual client, scoring that determines the associated risk zone.

The scoring is re-calculated (revised) every time the client requests a new credit product, but also when there are elements that indicate a depreciation/ appreciation of the associated rating.

The Bank will accept exposures from private individuals credits differentiated on the associated risk and on the type of transaction/ product.

The rating thus determined is periodically revised and updated m but also every time the Bank holds relevant information that might affect the correct valuation of the credit risk.

B. Internal credit risk reporting system

The BANK has implemented an internal system for periodical reporting of the aspects related to credit risk, both to the interanl entities of the bank, as well as to the external supervisory authority, thus:

- Reports to Bank Austria
  - Quarterly – Report with the information regarding exposures, loan loss provisions, provisions coverage ratio overall and per types of clients (Corporate, SME, PI), non-performing loans (NPL) per industries;
  - Monthly – report on the asset quality – pe classification categores, according to NBR stipulations and the international accounting standards (IFRS)
  - Monthly – report on the credit risk regarding the loan loss provisions for the losses generated by the expected credit risk (calculated according to IFRS standards).
- Reports to Supervisory Board
  - Quarterly – presentation on the portfolio structure from the point of view of associated credit risk, as wwll as the measures for reducing the credit risk, including also the amount of loan loss provisions per client categories;
- Reports to Risk Management Committee and Managemet Board
  - Semi-annually - Report on the bank's risk profile;
  - Quarterly – Report regarding the limits and the indicators specific for the credit risk (limits for the overdue loans, outstanding loans, total non-performing loans, for Corporate, SME, private individuals clients and for each branch)
- Reports to National Bank of Romania according to the specific legal requirements of reports on the credit risk.

With regard to the non-performing loans, the Restructuring & Workout Department of the risk division provides periodical:

- Reports regarding the off–balance non-performing loans portfolio and related monthly recoveries
- Monthly reports to the CRO and quarterly to the Credit Committee
- Monthly reports to the CRO regarding the first 10 restructured customers and related performed and future action measures;

- Quarterly reports to BA related to the fist 10 non-performing loans and the strategy to be adopted for these cases

In order to improve the internal control related to the reporting activities, during 2008 the Bank has started a complex interdepartmental project (Data Warehouse Implementation) for developing new IT platforms for reporting purposes.

The scope of this project is to create new automatic checks and controls over a wide reporting area such as considerably improving the access to information for optimization of the management decision process. The project is planned to be finalized during 2009.

1.5 Policies for hedging and mitigating credit risk (including strategies and processes for monitoring the continuing effectiveness of hedges and mitigants)

A. Credit risk hedging and mitigating

At bank level, the credit risk hedging and mitigating is assured through:

1. **Credit risk mitigation through adequate credit risk policies, procedures and credit risk management tools, as follows:**
   - ✓ Requesting from the customers, complete and adequate documentation correlated with the credit facility type and associated risks;
   - ✓ Assessment of customers' credit worthiness based on rating / scoring systems that consider the probability of default, respectively the exposure to be assumed over an internal materiality threshold related to the acceptable level of associated default risk. The assessment of the customers rating/ scoring is the basis for credit risk quantification;
   - ✓ Periodical review of credit facilities, including customer ratings review;
   - ✓ Continuous monitoring of the credit portfolio. In this respect the bank uses specific monitoring and collections systems for private individuals and companies customers;
   - ✓ Definition and implementation of complete and adequate policies and procedures, according to the legal requirements in force and to the risk appetite assumed by the Bank.
   - ✓ Approval of the standard credit products parameters by the credit risk control unit of the bank.

2. **Collateralization of exposures, as follows:**
   - ✓ Credit exposures will be collateralized, depending on each case, with personal and / or real guarantees;
   - ✓ Among the collaterals accepted by the Bank for credit risk mitigation we mention the following: pledge on goods, assignment of receivables, assignment of securities, financial collateral, etc;
   - ✓ The bank can also use other credit risk mitigates such as: credit derivatives, on balance sheet netting, agreements, master netting agreement;
   - ✓ Considering the approach applied for capital adequacy calculation, the Bank uses for credit risk mitigation in the risk weighted assets calculation, the eligible collaterals (CRM) according to the local relevant regulations currently in force;

- ✓ For the mitigation of the residual risk resulting from the collaterals utilization the Bank applies collateral adjustment factors (haircuts). These factors reflect:
    - potential fluctuations in collateral value determined by the market fluctuation;
    - the risk grade associated to the collateral considering the legal enforceability of the collateral, the liquidity of the collateral, etc.

3. In case the exposures (or part of the exposures) are not collateralized, the hedge and mitigation of the credit risk is realized through:

- ✓ Allocation of credit risk reserves:
    - ➢ On individual basis for non-performing loans in default status, based on the internal methodology;
    - ➢ On portfolio basis for the credit risk expected losses, based on the internal methodology;
    - ➢ Credit risk specific provisions according to the Romanian National Bank regulations in force;
- ✓ Allocation of general risk reserves for unexpected credit risk losses hedging and mitigation, according to the Basel II Standardized Approach capital adequacy rules, in alignment with the local NBR regulation BNR-CNVM no. 14/19/2006 regarding the credit risk treatment using the standardized approach
- ✓ Credit risk hedging through the credit risk margin which considers the customer specific risk as well as the transaction risk;
- ✓ Credit risk mitigation through credit risk market hedging techniques.

B. Internal control

In order to assure the efficiency and efficacy of the Bank activities, the internal control is performed through the all the different phases, both on single activity level, and on separate specialized entities within the bank.

The internal control at operational activities level, is realized usually before their registration in the bank informatics system as a preventive measure, according to the specific procedures, through the validation/ authorization by persons responsible for the transactions checking, but also after it, through checks on the reports stipulated in the specific procedures or processed by the system.

With regard to the control of the efficiency of the procedures, policies and credit risk management tools, this is assured through:

- periodical validation, at list annual, of the rating systems used for the credit risk assessment – including the related rating processes;
- periodical credit and collateral portfolio analysis;
- periodical review of credit and risk evaluation processes in order to adjust it to the dimension and complexity often activity, the developing strategy and to the legal regulations in force;
- in order to assure the control and to evaluate the efficiency of the risk administration processes the Bank can use at any time internal competent staff for internal control activities.

During 2009, at Bank level, under Credit Risk Control coordination, the Bank has performed several activities for the improvement of the internal control systems, as follows:

- Implementation of a new organizational structure with the specific responsibility for internal control activities – Internal Control unit within Credit Risk Control Department.
- Improved systems for data collection and proper reporting.
- Enhancement of the internal informatics systems, procedures and processes with respect to the application of the Basel II Standardized approach;
- Performing "stress test" simulations over the credit portfolio, tacking into account the macroeconomic conditions and the internal analysis available in the Bank.
- Improvement of the internal procedures related to the classification of the loans and validation by the NBR
- Review of the risk profile and strategy of the bank in relation to the current economic context;
- Review and improvement of the internal procedures regarding the specific conditions for collateral eligibility and acceptance
- Improvement of the periodical reporting processes and definition of working instructions for all reports, including information related to the technical processes, checks and corrections, in order to ensure a proper frame for internal control.

The improvement of the internal control system is still a priority of the Bank, the decisions, recommendations and observations of the bank Directorate being starting points for the consolidation of the internal control processes.

2. Determination of the value adjustments and provisions

Credit risk provisioning approach and methodology

In order to cover potential credit and investment losses, the bank calculates risk provisions according to the NBR regulations in force.

Consequently, for the determination of the provisioning level, the credit exposures are classified based on the following elements:

- ✓ obligor performance category;
- ✓ delinquency (number of overdue days);
- ✓ initiation of judicial procedures.

The financial performance reflects the economic potential and financial strengthens of an obligor, determined based on the analysis of a set of qualitative and quantitative factors.

The performance categories are qualified from A to E, in descending order.

The obligor performance category, used in the determination of the risk class in accordance to the NBR provisioning norms, is calculated based on the internal assessment systems, considering qualitative and quantitative factors, as follows:

1***) For legal entities (companies, public institutions and other legal entities)***

The financial performance category is set based on the internal rating systems described developed accordingly to Regulation 3/ 2009 issued by National Bank of Romania.

2***) For private individuals***

The financial performance category is set based on the score calculated with the internal model for the assessment of private individuals.

The allocation of the obligor into one of the performance categories will reflect the credit risk of the respective customer.

The delinquecy represents the capacity of the obligor to repay his obligation in time, at maturity, and is being expressed as number of days past due.

The initiation of judicial procedures represents at list one of the following workout (recovery) measures:

1. opening of the insolvency procedure
2. opening of forced execution procedures for private individuals or companies.

The specific risk provisions are determined by the application of the provisioning coefficients of each risk category to the exposure adjusted with the elligible collaterals that are available. The eligibility of the collaterals is considered in alignment with the provisions of the NBR norms regarding the calculation of the specific risk provisions.

3. Quantitative disclosure on credit risk

Geographical distribution of exposures, broken down by main classes of exposures

(RON thousand)

Exposures/ Geographical area	31.12.2009				
	Corporates	Retail	Real estate property	Regional governments and local authorities	Past due items
Banat	949,355	224,757	146,583	0	34,126
Bucuresti	7,572,647	896,591	1,072,611	131,500	298,698
Dobrogea	521,236	295,895	248,678	3,004	36,692
Moldova	921,159	233,299	167,125	54,190	52,674
Muntenia	346,176	205,483	114,296	41,859	68,740
Oltenia	641,013	169,256	127,905	0	43,528
Transilvania Nord	945,541	204,019	178,523	65,362	57,768
Transilvania Sud	795,406	210,989	181,337	24,439	55,095
TOTAL	12,692,533	2,440,291	2,237,058	320,355	647,322

Distribution of provisions, expenses related to provisions and past due items by business sector

(RON thousand)

Business sector	31.12.2009		
	Lending provisions	Provisions expenses related to period	Past due items
Agricultura, industria alimentara	84,964	51,885	68,470
Energie	9,280	(4,936)	6,820
Transporturi	45,621	32,703	12,131
Constructii	117,632	22,988	99,011
Telecomunicatii	95,657	68,619	13,421
Tranzactii imobiliare	63,348	27,953	108,050
institutii financiare	1,032	(3,579)	1,007
Holding	268	243	265
Persoane fizice	454,619	208,922	338,147
TOTAL	872,421	404,797	647,322

The total amount of exposures after accounting offsets, before taking into account the effects of credit risk mitigation, and risk weighted assets

(RON thousand)

CREDIT AND COUNTERPARTY RISK	31.12.2009	
	Non weighted amounts	**Weighted amounts**
ABORDAREA STANDARD		
1.Administratii centrale sau banci centrale	7,459,541	-
2.Administratii regionale sau autoritati locale	320,355	189,080
3. Organisme administrative si entitati fara scop lucrativ	-	-
4. Institutii	1,480,845	653,593
5. Societati	12,759,617	10,692,858
6. De tip retail	2,440,419	1,596,088
7. Garantate cu proprietati imobiliare	2,237,058	769,161
8. Elemente restante	647,322	273,317
9. Elemente ce apartin categoriilor reglementate ca avand risc ridicat	140,788	205,097
10. Alte elemente	670,620	352,755
TOTAL	28,156,565	14,731,948

Value adjustments and provisions broken down by exposure classes

(RON thousand)

RISC DE CREDIT SI CONTRAPARTIDA	31.12.2009		
	Expunere bruta	Ajustari de valoare si provizioane	Expunere neta de ajustari de valoare si provizioane
ABORDAREA STANDARD			
1.Administratii centrale sau banci centrale	7,459,541	36,046	7,423,495
2.Administratii regionale sau autoritati locale	320,355	10	320,345
3. Organisme administrative si entitati fara scop lucrativ	-	-	-
4. Institutii	1,480,845	117	1,480,728
5. Societati	12,759,617	261,479	12,498,138
6. De tip retail	2,440,419	156,465	2,283,953
7. Garantate cu proprietati imobiliare	2,237,058	33,940	2,203,118
8. Elemente restante	647,322	418,378	228,944
9. Elemente ce apartin categoriilor reglementate ca avand risc ridicat	140,788	2,041	138,747
10. Alte elemente	670,620	118,124	552,496
TOTAL	28,156,565	1,026,601	27,129,964

* Including all provisions related to the NBR COREP, not just the credit risk

Geographical distribution of exposures divided by performance

(RON thousand)

Exposures/ Geographical area	31.12.2008							
	Balance sheet exposures				Expuneri extrabilantiere			
	Non-performing loans		Performing loans		Non-performing loans		Performing loans	
	Gross exposure	Net exposure [1]	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
BANAT	90,285	30,397	756,475	743,497	95,935	95,935	416,266	416,266
BUCURESTI	511,140	220,207	5,416,519	5,336,515	763,407	763,407	3,919,158	3,919,158
DOBROGEA	54,863	15,005	948,194	933,650	1,946	1,946	102,161	102,161
MOLDOVA	74,719	21,867	923,197	892,481	1,952	1,952	432,198	432,198
MUNTENIA	122,976	53,030	598,807	588,974	6,414	6,414	52,331	52,331
OLTENIA	71,962	17,707	564,928	558,184	2,926	2,926	346,685	346,685
TRANSILVANIA NORD	122,991	50,627	1,033,997	1,019,686	210,777	210,777	98,353	98,353
TRANSILVANIA SUD	79,528	25,838	809,029	799,524	4,680	4,680	381,447	381,447
TOTAL	1,128,463	434,678	11,051,146	10,872,510	1,088,036	1,088,036	5,748,599	5,748,599

[1] Exposure net of provisions

Chapter 6 – Minimum capital requirement for credit risk

For regulatory purposes, the Bank calculates the minimum capital requirement according to the Basel II Standardized Approach, in alignment with the stipulation of BNR-CNVM Regulation no. 14/19/2006 on credit risk treatment according to the standardized approach for credit institutions and investment firms.

According to the above mentioned approach, the risk weighted assets value (RWA) is calculated based on the utilization of standard coefficients defined in the relevant regulations.

The coefficients are used for risk weighting the individual credit positions, considering also the possibility to use external ratings provided by eligible external credit assessment institutions.

The Bank uses for this purpose external ratings from the external credit assessment institutions recognized by NBR, according to the stipulations of BNR-CNVM Regulation no. 14/19/2006 on credit risk treatment according to the standardized approach for credit institutions and investment firms.

Depending on the external rating level, the respective exposures receive a risk coefficinet of 0%, 20%, 50%, 100% sau 150%, depending on the asset class they belong to and on the credit quality step defined by NBR. The credit exposures for which there is no external rating available are weighted acording to their specific asset class.

Chapter 7 – Credit Risk Mitigation Techniques

Qualitative disclosure

The goal of providing collateral is to minimize the loss given default by loss avoidance or risk transfer.

a) for real collateral, financial or physical, the risk exposure is reduced by the expected realization revenue and thus losses can be reduced;

b) for collateral provided by means of letters of guarantee or other personal guarantees, the risk is transfered to the protection provider.

For a better administration of all collateral instruments accepted in the credit process and for a better mitigation of associated risks, the Bank has implemented within its loan management system, a specific collateral module where all accepted collateral instruments are recorded and managed uniformly and in an adequate structure.

Adequate data quality is ensured by processes, controls and similar organizational measures supported by the system.

In particular, the **collateral management system** serves as a database for:

- monitoring and controlling of collaterals;
- estimation of collateral-specific recovery rates;
- calculation of collateral recovery rates;
- various portfolio analyses.

The allocation of material collateral value for the collateralized loans, where one or more collaterals are used for collateralization of one ore more exposures (loans) is controlled by parameters in the collateral system and calculated automatically.

Considering the mitigation of risk exposure for determining the minimum capital requirements, the BANK is using eligible collaterals according to regulation 19/24/14.12.2006 regarding the risk mitigation techniques (Basel II - standardized approach) used by credit institutions and investment companies to determine the minimum capital requirements.

According to the regulation mentioned above, the total bank exposure is divided into secured and unsecured as follows:

- unsecured exposure
- secured exposure with eligible financial collateral (e.g. cash collateral, gold)
- secured exposure with residential real estate
- secured exposure with personal collateral direct (e.g. Guaranteee form sovereigns / banks / public sector entities)

All collateral types accepted by the Bank as credit risk mitigation techniques for computing the minimum capital requirements according to the standardized approach Basel II, are presented below:

Collateral Category		Type of collateral
Direct Personal Guarantees		Guarantee / Surety
		Bill of exchange from third party
		Letter of comfort
		Risk Assumption
Credit Derivatives		Credit Derivatives Instruments
Life Insurance		Pledging of life assurance with non reducible surrender value
Financial collateral	**Own**	Pledging securities depots
		Pledging cash collateral
		Pledging gold
	Third Party	Pledging third party cash collateral
Residential Real Estate		First Rank Mortgage on RRE occupied or rented by owner.
On Balance Sheet Netting		Not used in the Bank as a credit risk mitigation teqnique.

Policies and processes applied for evaluating and administrating real collaterals

According to Group policy, at the bank level – Risk Division – was created a specific department whose primarily objective is to correctly evaluate the accepted collaterals during the credit process. This department is involved in the process of collaterals evaluation according to bank's regulations.

The internal bank value calculation is carried out by experts, who have the required qualifications, ability, experience and competence to carry out such a valuation and who are independent of the credit decision.

In the case of real collateral, existence and soundness will be checked on site. This must be carried out by specially authorized persons and also accepted by the Bank.

If collateral is accepted in a currency that differs from that of the credit and/or if the collateral is not available for the entire credit maturity, under certain conditions the collateral values are to be reduced further for minimum capital requirements calculation purpose, according to Basel II legal requirements.
Collaterals in other countries can be evaluated only if it can be estimated legal risk, risk of transfer, currency risk, evaluating risk and other risks concerning their liquidity and legal enforceability.

Risk concentration in credit risk mitigation techniques

The concentration risk arise from exposures to counterparties, groups of connected counterparties, and counterparties in the same economic sector, geographic region or from the same industry, the application of credit risk mitigation techniques, including in particular, risks associated with large indirect credit exposures (e.g. to a single collateral issuer).

In order to properly manage and control the concentration risk, Unicredit Tiriac Bank performs the following concentration risk analysis spread on the following exposure segments:

- By collateral type classification – Client/exposure level
- Mortgage collateral by property type
- Mortgage collateral (flat) – city classification (top 10)

Concentration and residual risk level is assessed by the completion of Gini-Struck Coefficient. The Gini – Struck Coefficient is defined by the expression:

$$G = \sqrt{\frac{n * \sum_{i=1}^{n} g_i^2 - 1}{n - 1}}$$, where:

n – stands for the number of units
g_i – stands for the relative weight of the analyzed unit in the analyzed portfolio exposure
i – stands for specific segments like geographical region, industry, rating, product type

Gini Struck Coefficient value ranges from 0 to 100%. The higher is the value of Gini Struck Coefficient, the higher is the portfolio concentration. When the value is 100% the totality of risk is concentrated in one unit.

In evaluating the concentration and residual risk level there will be used a traffic light, considering the level of Gini – Struck Coefficient.

In case the significance level is exceeded, appropriate measures will be taken:

- Reduction of credit financing for the specific portfolio area
- Reduction of specific type of collaterals accepted for credit financing
- Revision of accepted insurance policies from specific insurance companies
- Stricter monitoring of specific collateral types
- Stricter monitoring of the clients from the specific portfolio area
- Portfolio diversification towards other business lines
- Portfolio diversification towards other insurance companies
- Risk transfer by hedging/insurance

In order to reduce the concentration and residual risk, Unicredit Tiriac Bank is using a range of measures, both quantitative (e.g. limit structures) and qualitative (e.g. management actions such as reporting and escalation procedures).

Quantitative disclosure

Total amount of eligible collaterals in accordance with

NBR Reg. no. 19/ 24/ 14.12.2006 on credit risk mitigation techniques

(RON thousand)

Exposure with:	31.12.2009	
	Financial collaterals	Other guarantees
ABORDAREA STANDARD		
1.Administratii centrale sau banci centrale	-	-
2.Administratii regionale sau autoritati locale	786	-
3. Organisme administrative si entitati fara scop lucrativ	-	-
4. Institutii	31	-
5. Societati	178,037	1,071,789
6. De tip retail	48,078	26,252
7. Garantate cu proprietati imobiliare	-	-
8. Elemente restante	414	-
9. Elemente ce apartin categoriilor reglementate ca avand risc ridicat	2,016	-
10. Alte elemente	-	-
TOTAL	229,363	1,098,042

Chapter 8 - Counterparty risk

Qualitative disclosure

Counterparty risk is measured and monitored by an independent risk management unit using an internal model based on historical simulation approach to generate 1000 future value paths (replacement costs) for each derivative instrument using 500 days history, mirrored.
This model is used to calculate, with a 97.5% confidence level, the potential future exposure arising from OTC derivatives. The model takes into account the mitigation effect of the netting and collateral agreements entered into (if the case) with various counterparties as well as historical volatilities, correlation between risk factors and distribution of payments over time.

Counterparty credit risk is classified into two categories:

- *pre-settlement risk* (risk that a counterparty defaults prior to termination of the deal);
- *settlement risk* (risk that a counterparty defaults in the time when contractual payments are due whereby payments/deliveries to the counterparty already took place before counter value has been received.

Counterparty risk monitoring is based on a system of limits for individual counterparties and product groups (spot, derivatives, money market, securities and repo). Exposure and information related to the use of credit lines is made available by the central treasury system.

Quantitative disclosure

The table below presents the situation in terms of pre-settlement and settlement limits and utilizations as of 31st of December 2009, for transactions outstanding (in EUR millions):

Pre-settlement

Type of Clients	Approved Line	Utilisation
Banks	2,035	305
Clients	79	17
Total	2,114	323

Settlement

Type of Clients	Approved Line	Utilisation
Banks	1,054,706	3,893
Clients	1,298	144
Total	1,056,004	4,038

Mio eur

Chapter 9 – Market risk

1. General aspects – Definitions and Organisation

Generally speaking banks' market risks are due to price fluctuations or other market risk factors affecting the value of positions on its own books, both trading book and banking book, i.e. those arising from transactions and strategic investment decisions.

The Parent Company monitors risk positions at Group level. The individual Group companies monitor their own risk positions, within the scope of their specific responsibilities, in line with UniCredit Group supervision policies. The results of individual companies' monitoring activities are, in any event, shared with the Parent company.

UniCredit Tiriac Bank produces detailed reports on business trends and related risks on a daily basis, forwarding market risk documentation to local management, local authorities and the Parent company.

The Parent's Board of Directors lays down strategic guidelines for taking on market risks by calculating, depending on risk appetite and objectives of value creation in proportion to risks assumed, capital allocation for the Parent company and its subsidiaries.

The Parent company proposes limits and investment policies for the Group and its entities in harmony with the capital allocation process when the annual budget is drawn up. Group Headquarters' Asset and Liability Management unit, in coordination with other regional liquidity centers, manages strategic and operational ALM, with the objective of ensuring a balanced asset position and the operating and financial sustainability of the Group's growth policies on the loans market, optimizing the exchange rate, interest rate and liquidity risk.

Function of market risk management is organized centrally UniCredit Tiriac, in the Division Risk Management - Market Risk Department.
The activity of market risk management is carried out in accordance with legal regulations in Romania, rules and regulations issued by National Bank of Romania and the internal regulations of UniCredit Tiriac, correlating their practical application in compliance with Corporate Governance Rules of UniCredit Group.

Market risk management is performed, according to internal procedures and in accordance with regulations in force in the Department of Market Risk (Market Risk) (Division of Risk) and the ALM department through Markets Trading Department (Directorate of the Treasury).

Market Risk Department activity is regulated by a specific set of policies and procedures and aims:

• identifying, monitoring, analysis and control market risks: currency risk, interest rate and liquidity, according to Group standards and requirements of the National Bank of Romania through a system of limits for both the trading portfolio (trading book) and for positions outside the trading portfolio (banking book);
• implementing the strategy of market risk management through appropriate policies and processes;
• Ensuring profit and loss calculation for the departments of Treasury and ALM;
• reporting of market risk issues by bank management;

• providing support for the activities of the Assets and Liabilities Committee, Risk Management Committee and support for Markets and ALM activities.

Market risk management strategy is accomplished by applying the following principles:

• market risk management will be achieved through specific risk indicators and models such as VaR limits, limits BPV, Loss Warning Level limits, foreign exchange position limits (the limits that define the risk profile are described in detail below);
• Exposure to market risk will be generated only by the departments and ALM Markets. ALM will manage interest rate risk in the banking book;
• Trading positions will be held at current market value (mark-to-market). If specific revaluation models are used, they will be validated independently;
• All relevant risk factors will be identified and considered during the process of setting limits. . The identification of risk factors is the responsibility of Market Risk and business lines;
• Specific events will be considered in the stress scenarios, not as manual adjustment of volatility or correlations amoung risk factors;
• VAR calculation includes all bank activity, not only specific positions in the trading book;
• exposure to market risk (usage of limits, excesses) will be reported in time and regularly to the respective lines of business, the management and the Group. Risk reports will be generated separately for each generating unit risk (Markets and ALM).

ALM main responsibilities of the Department are:
• ensure bank liquidity in USD and other currencies by the Treasury Directorate (actual completion of transactions in the market);
• Execute transactions necessary for ALM purposes;
• Bank balance sheet management for compliance with the limits established in the liquidity indicators of UniCredit Group liquidity policy;
• management of assets and liabilities to ensure a maximum return BANK in terms of accepted risk and providing support for banking in general;
• return on investment income by portfolio management;
• setting prices for Internal Transfer System as required by the Group;
• structure and duration of the investment proposal of "free equity" as required by the Group;
• To maintain balance elements within the required limits and meeting legal requirements, eg. insurance reserve requirements and liquidity provision (through the Treasury Department);
• Assessment of financing opportunities and enable their implementation;
• support for the activities of the Management Committee of Assets and Liabilities by providing analysis and expertise;
• balance evolution analysis taking account of the evolution variables BANK / economic market.

2. Treatment, assessment and risk control

Trading book includes all positions in financial instruments owned by UniCredit Tiriac for trading or hedging the other elements of the trading book that are free from other restrictive clauses on trading opportunities that can be immunized.

Positions held for trading are those held for sale in the short term with the intent to benefit from the difference between purchase price and the sale or short-term fluctuations in interest rates or prices.

The term "position" includes both its own positions and those of its clients, and positions resulted from the market maker.

Trading of UniCredit Tiriac Bank Book contains all products traded as they were approved by the mother:
1. Derivatives exchange rate:
    a) Outright Forwards;
    b) Plain Vanilla Options;
    c) Exotic FX Options (Digitals and Barriers).
2. Interest rate derivatives:
    a) Interest Rate Swaps (IRS);
    b) Interest Rate Options (Caps, Floors, collars).

All other products are part of the **banking book**.

Derivatives are recorded at market value through the daily mark-to-market revaluation. Positive and negative revaluation differences are recorded separately for each instrument separately, in different accounts.

From the perspective of market risk, all derivatives transactions (except outright forwards) are closed back-to-back with another entity within the Group, in most cases, so not having open positions for UniCredit Tiriac trading activity.

Capital requirements for market risk is calculated using the standard method.the market maker.

A. Interest rate risk
Interest rate risk arising from trading book is insignificant because all interest rate derivative transactions are closed back-to-back with another entity owned by UniCredit Group.

B. Price Risk
Price risk results from the activity of capital markets, commodities and associated derivative is zero because UniCredit Tiriac has no position on these markets / instruments.

C. Exchange Rate Risk
Foreign exchange risk arising from positions taken by departments / traders specializing owning specific limits for market risk. This risk arising from trading activities conducted through negotiation on various market instruments and is constantly monitored and measured.

Given the structure of the banking book and trading book, in the standard method to calculate the capital requirement for foreign exchange based on open currency positions at the end of each month, and reported by the National Bank of Romania.

The amount of capital requirement is determined as follows:

- if the value of total net position in foreign currency and gold exceeds 2% of total equity, the capital requirement is 8% of its net foreign currency position and its net gold position;
- if the value of total net position in foreign currency and gold does not exceed 2% of total equity, the capital requirement is equal to 0.

Market Risk Department monitors these limits risk:

- fx net open position limits;
- BPV limits (basis point value);

- VaR limit (value at risk);
- LWL limit (Loss warning level);
- liquidity limits (trigger points / ratios);
- limits for investments in government securities.

Open foreign currency position is calculated as the difference between assets and liabilities (for spot and forward positions) and Euro-equivalent.

Basis Point Value (BPV) is calculated as profit / loss potential in case of fluctuations (parallel) 0.01% interest rate curve (yield curve), spread across currencies and maturities and Euro-equivalent. NoRisk system is calculated daily (internal risk model of UniCredit Bank Austria).

Value at Risk (VaR) is defined as potential loss of open risk position in a time horizon of 1 day at a 99% confidence interval. VaR methodology is based on historical simulation and Monte Carlo and takes into account the effect of correlation between the risk categories of interest, foreign exchange, equity and credit risk margin. VaR limit contains all relevant categories of risk. It is calculated daily through the NoRisk system.

Limit "Loss Warning Level" is calculated based on the cumulative profit / loss Directions Treasury and ALM for the past 60 days. It is calculated daily by UniCredit Bank Austria Erconis system.

Liquidity limits are allocated to short-term liquidity and structural liquidity.

Limits for investments in government securities refers to the total book value (book value).

Stress test / stress tesing

In order to market risk profile, is monitored for crisis scenarios:
- Currency risk - run locally and within the Norisk;
- Interest rate risk - run locally and within the Norisk.

D. Liquidity risk

Liquidity risk reflects the possibility that a bank to encounter difficulties in achieving expected or unexpected financial obligations when due, thereby affecting daily operations or financial condition.

UniCredit Tiriac defined in the following components of liquidity risk:

1. liquidity mismatch: the risk that the amounts and / or timing of cash inflows and outflows do not coincide;

2. liquidity contingency: future unexpected events that might require a larger amount of cash. This risk can be generated by events such as: unpaid loans, the need for future financing activities, difficulty obtaining financing or selling of liquid assets during a crisis;

3. market liquidity risk: the risk the bank to liquidate its assets at a loss due to market conditions;

4. operational liquidity risk: the risk that a counterparty fails to meet payment obligations due to errors, violations, failures or damage to internal processes, employees, systems, or due to external events, though the bank remains solvent;

5. Funding risk: the risk of potential cost increases due to changed funding rating (internal factor) and/ or increase the spread credit (external factor).

Basic principles of liquidity management model and the units responsible

BANK objective is to finance operations at the best possible interest rate in normal and to be in a position to honor all financial obligations in the event of a crisis.

The basic principles that highlighting the liquidity management at UniCredit Tiriac Bank are:

1. centralized liquidity management in one department;
2. diversification of funding sources depending on the counterparty, currency and instrument;
3. short-term liquidity management in accordance with regulatory requirements;
4. issuing financial instruments to maintain prudential requirements on capital rations, if necessary.

Both the bank and UniCredit Group is focused on managing liquidity following two components:

1. Short-term liquidity management, whose aim is to ensure the fulfillment of anticipated and unforeseen financial obligations by maintaining a balance between inflows and outflows of liquidity. Management in this area is essential to support daily activity;

2. Structural liquidity management, whose aim is to maintain a balance between total liabilities and assets and long term to avoid any pressure on current and future sources of liquidity.

Methods and tools

UniCredit Tiriac runs daily cash flow reports to measure short-term liquidity. These are compared with reserves of liquid assets, consisting primarily of securities issued by the Romanian Government. In addition, it simulates several stress scenarios starting from liquidity profile.

Structural liquidity management is to ensure financial balance in terms of maturities with a time horizon longer than one year.

Typical measures taken for this purpose are:

1. Extending the maturity profile of liabilities to reduce dependence on less stable sources of financing, while optimizing the cost of financing (cash management integrated tactical and strategic) and
2. Reconciling the needs of medium and long term financing costs by minimizing the need for diversification, markets, currencies and instruments for financing in accordance with the financing plan.

Risk Monitoring and Financial Planning

Responsibility for monitoring the Bank's liquidity position was given, based on their roles and functions, the departments of Treasury, Asset and Liabilities Management and Market Risk Department.

Short-term liquidity is monitored using a maturity scale showing all the ins and outs of liquidity, daily frequency, ranging from overnight up to 100 days. Structural liquidity is monitored by incorporating a dynamic growth projections expected by the Bank in respect of loans and deposits.

Stress Tests for Liquidity

Liquidity stress tests are used to evaluate potential effects on the financial institution condition caused by specific events and / or movements in a set of financial variables.

The results of this process are used for:
1. determining the adequacy of liquidity limits;
2. planning and implementation of alternative funding sources and solutions;
3. structure and liquidity profile modification of bank assets;
4. establish additional criteria with the objective of determining an appropriate structure of assets and liabilities;
5. the development and improvement in the liquidity plan.

Assumptions used for the various stress scenarios are closely related either to the market crisis, crisis or reputation.

Liquidity Plan Emergency / Crisis (Contingency) (PLC)

The objective of liquidity plan emergency / crisis / contingency is to protect the assets of the bank's liabilities or losses due to a liquidity crisis. In the event of a crisis, PLC aims to provide rapid intervention since its outbreak by identifying clearly the staff, powers, the responsibility and potential actions in order to increase the probability of successfully overcoming the critical period.

Chapter 10 - Operational risk

In UniCredit Tiriac Bank, Operational Risk Management complies with the regulations issued by the National Bank of Romania, Norm 17/ 2003 regarding organization and internal control of the activities and the management of significant risks (valid until 30.06.2010), Regulation No. 18/2009 on governance arrangements of the credit institutions, internal capital adequacy assessment process and the conditions for outsourcing their activities and Regulation 24/ 2006 regarding the calculation of the minimum capital requirements for operational risk. Operational Risk Management is performed according to the internal policies and procedures of UniCredit Tiriac Bank.
Operational Risk is considered a significant risk and is integrated into the Bank's policy and strategy regarding significant risks.

Operational risk means the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, and includes legal risk (Directive 2006/48/EC, Basel II and National Bank of Romania Regulation no. 24/29/2006 regarding operational risk).

UniCredit Group defines operational risk as the risk of loss due to errors, infringements, interruptions, damages caused by internal processes or personnel or systems or caused by external events.

Operational risk events are those resulting from inadequate or failed internal processes, personnel and systems or from external or systemic events (which impact the whole financial system): internal or external fraud, employment practices and workplace safety, clients claims, products distribution, fines and penalties due to regulation breaches, damage to Company's physical assets, business disruption and system failures, process management.

At the level of UniCredit Group there were defined rules applicable to all controlled entities, in order to ensure uniform guidance to the business model and global operations of the Group. The Group has defined Group governance rules ("Group Managerial Golden Rules") in order to implement a management system and set the rules for the key processes between the Group and the Group Entities.

The operational rules in the Group Managerial Golden Rules define requirements which have to be applied and complied with by UniCredit Tiriac, including for the purpose of operational risk control and measurement.

The Management Board and the Supervisory Board of UniCredit Tiriac have approved the Group Operational Risk Framework.

The Operational Risk Rulebook, approved by the Management Board and by the Supervisory Board, contains the framework and the basic principles in operational risk management and control, and complies with the Operational Risk Rulebook of the Group. The Rulebook defines the main roles and responsibilities as well as the standards for operational risk control and management.

The main roles and responsibilities in managing and controlling operational risk are attributed to the Supervisory Board, the Management Board, the Superior Management (Directors and Heads of Departments), the Committees with responsibilities regarding operational risk (Risk Management Committee, Fraud Investigations Committee, Audit Committee), Operational Risk Department.

The Management Board and Supervisory Board are responsible for the effective oversight of the operational risk exposure. The Management Board and Supervisory Board shall be informed about changes in the Bank's exposure to operational risk and about breaking of norms or risk limits and shall have an overall understanding of the operational risk control framework and of how operational risk affects the company.

The Management Board and Supervisory Board are responsible for approving all aspects regarding the structure of operational risk control, for ensuring a system of measurement and control of operational risk which is integrated into the day-to-day risk management processes of the bank, which is not limited to regulatory purposes, covers the control of operational risk and provides benefits to the Bank in the management of operational risk.

The Bank's senior management is responsible for ensuring that:

- the operational risk control process is sound and fully communicated and implemented in specific policies, process and procedures within the business units taking into account the appropriateness and effectiveness;
- the contact persons for operational risk issues are appointed for each relevant business line and given adequate support in order to perform their duties;
- the Management Board, Supervisory Board and relevant committees are informed of changes in risk profiles and exposure, supported by the Operational Risk Department;
- major operational risk drivers are identified, also examining reports from the Operational Risk Department, compliance and internal audit.

The Audit Committee, as a consulting body of the Supervisory Board, operates with assessment, consultative and proposing functions regarding operational risk:

- Evaluates the effectiveness of Internal Control Systems and analyzes periodic information on these evaluations;
- Evaluates potential findings arising from the Bank's Internal Auditing or from other third parties' examinations and/or investigations, in particular inspection reports from the National Bank of Romania.

The main responsibilities of the **Risk Management Committee** relevant for the management of operational risk are:

- to approve adequate methodologies and models for risk assessment and exposure limitation;
- to approve the involvement of the bank into new activities based on their significant risk analysis;
- to analyze the extent to which the alternative plans of the bank cover the unpredicted situations that the bank might encounter;
- to establish proper reporting systems for risk related issues;

The role of the **Fraud Investigations Committee** within the process of operational risk management is to:

- analyze and investigate the fraud suspicious cases;
- to ensure the minimization of potential losses from fraud;
- to propose solutions for risk mitigation.

Operational Risk Department has a leading role regarding the activities related to operational risk and has the following responsibilities:

- to ensure a comprehensive database containing operational risk relevant data and to report the operational risk events according to the legislation in force, to the internal policies and procedures and to the UniCredit Group standards;
- to cooperate with all departments of the bank in order to organize the collection of data into the operational risk application, ensuring the quality and completeness of data;
- to develop and implement processes, methods and systems for the control of operational risk;
- to analyze and evaluate operational risk and to develop alternatives for risk mitigation;
- to implement a process of monitoring operational risk using the operational risk indicators;
- to monitor the strategy of operational risk insurance policies: to collect relevant information regarding insurances, to analyze the operational risk events which are covered by insurance policies and the activities connected to insurance recoveries, according to the Group standards.

The main measures taken for operational risk management during 2009 include the completion of the framework with new procedures, updated the operational risk indicators and their critical thresholds, improvement of the operational risk reports, performing scenarios analisis, taking part in the Operational Risk Committee of Bank Austria, obtaining the Standardized Approach aproval from National Bank of Romania and the Advanced Measurement Approach from Bank of Italy for calculation of the capital requirement for operational risk, according to the milestones defined within the Group Basel II Project. Training programs took place in order to ensure the professional preparation of the staff and the compliance with the regulations and procedures in force.

The main instruments used for the management and control of operational risk in UniCredit Tiriac Bank are internal operational risk events collection, scenario analysis, monitoring of the operational risk indicators and operational risk reporting.

Collection of operational risk internal events is a main source for identification and quantification of operational risk. The process of collecting loss events is established through well defined rules for collection and validation of the data and for reconciliation of the loss data against the accounting bookings, in order to ensure completeness, accuracy and timeliness of data. The responsibilities regarding operational risk reporting are included also in the procedures specific to each area of activity.

Operational risk events are classified according to the requirements of the National Bank of Romania (Regulation 24/ 2006 regarding calculation of capital requirements for operational risk). The classification is described in detail in the Operational Risk Rulebook.
Operational risk events are classified exclusively in one of the following categories (event types):

1. Internal Fraud
2. External Fraud
3. Employment Practices and Workplace Safety
4. Clients, Products and Business Practices
5. Damage to Physical Assets
6. Business Disruption and System Failures
7. Execution, Delivery and Process Management

The completeness and correctness of the operational risk database is ensured through the analysis of internal accounts, according to the process described in the Rules regarding reconciliation of accounting bookings against operational risk events.

Every year, with respect to the operational risk events collected during the previous year, an accounting reconciliation is performed, in collaboration with the departments/ areas involved, in order to ensure that all events with an impact equal or higher than EUR 5,000 equivalent are booked into the relevant profit and loss accounts and that all relevant accounting bookings were included in the operational risk database (according to the Operational Risk Rulebook).

Scenario analysis has the role to evaluate the Bank's exposure to operational risk in case of low frequency and high impact events. Scenarios are used in order to evaluate the risk of internal processes taking into account not only the historical losses, but also the potential losses.

During 2009, 8 scenarios were analyzed in collaboration with various departments of the bank, covering aspects such as: data quality and operational errors, IT system functioning, external fraud, natural disasters, transitory accounts reconcilation, internal fraud.

Scenario analysis is an operational risk measurement instrument which allows the evaluation of the degree of risk of internal processes, as well as analysis of operational risk in crisis situations.

Operational risk indicators reflect the operational risk profile and are correlated to changes in the risk level. Monitoring operational risk indicators represents an early warning system for changes in the operational risk exposure.

During 2009 the operational risk indicators implemented in UniCredit Tiriac Bank were updated, based on the Procedure regarding operational risk indicators. The main indicators at the bank level were identified and historical values were collected, based on which there were established critical thresholds to signal potential increases of the exposure to operational risk. Indicators were also set to monitor the exposure to operational risk of the territorial units, based on the Procedure regarding monitoring significant risks at the level of the territorial units.

At the Bank's level there are **periodical reports** regarding the exposure to operational risk, which analyze the following aspects:

- operational risk losses, insurance recoveries;
- results of scenario analysis;
- trends of the operational risk indicators;
- relevant internal/ external events happened during the period under analysis;
- capital requirements for operational risk;
- proposals for diminishing/ transfer of operational risk, including through insurance;
- ad-hoc reports and results of special investigations;
- other aspects considered relevant.

The reporting system includes quarterly reports to the Risk Management Committee, at least bi-annual reports to the Supervisory Board and reports to the Operational Risk Committee of Bank Austria. The operational risk reports have a consistent structure and present an overall view of the exposure to operational risk.

The capital requirement for operational risk for the first months from 2009 was computed using the Basic Indicator Approach, according to the National Bank of Romania Regulation 24/2006 regarding calculation of the minimum capital requirements for operational risk. Starting with June 2009, the Bank received the National Bank of Romania aproval for using Standard Approach in order to calculate the operational risk capital requirement.

The capital requirement for the year 2009, computed according to the Standard Approach was of 130,247,389 RON.

During March 2008, UniCredit Group received the approval to use the Advanced Measurement Approach for computing the minimum capital requirements for operational risk. According to the plan approved at the Group level, on 30th of June 2009 UniCredit Tiriac Bank submited the request for validation for using the Advanced Measurement Approach for calculation of the minimum capital requirements for operational risk.

In February 2010, Bank of Italy authorised UniCredit Group to extend the application of the internal model for the calculation of the capital requirement for operational risk to UniCredit Tiriac Bank.

The framework for operational risk management in UniCredit Tiriac Bank is well structured and involves relevant factors in promoting a culture favorable to the communication and control of operational risk. The framework is sustained by the existence of a department dedicated to the control of operational risk, by the structure of the relevant committees and by the system of reporting operational risk to the Management of the Bank.

The Bank has a well formalized system of evaluation and management of operational risk, with clear and well defined responsibilities.

The elements which concern the operational risk measurement (collection of operational risk events, risk indicators and scenario analysis) are implemented in compliance with the quality and completeness criteria. In order to fulfill this aspects, Operational Risk Department performs control activities according to the Group standards: validation of operational risk events, reconciliation of operational risk events against the accounting bookings, including transitory accounts analysis, analysis of internal accounts.
Significant data needed for the operational risk management and control (loss events, indicators, scenarios) are collected and monitored with the support of an IT application.
The classification of loss events complies with the requirements of the National Bank of Romania and the Group standards.
The Scenario Analysis is an useful instrument for measuring operational risk, which allows to evaluate the level of risk for the internal processes as well as the analysis of operational risk in crisis situations.
The Analysis of Operational Risk Indicators contributes to the early identification of operational risk and to control operational risk at the level of processes, as well as at the level of the Bank.

In this way, the Bank ensures identification of exposures to operational risk and monitors the information and data regarding operational risk, including those regarding significant losses.

The system of operational risk management is integrated into the internal processes for management of significant risks, according to the internal procedures and regulations regarding the management of significant risks.

The reporting system ensures, at least quarterly, that reports regarding operational risk are communicated to the relevant structures and persons.

Chapter 11 - Equity exposures

UniCredit Tiriac Bank SA has no equity positions in the trading book as of 31 December 2009.

The Bank's strategy is focused on investments in companies which represent for UniCredit Group a long term development potential and with which mutual beneficial partnerships can be concluded, whereby the synergies of the partners can create value added for their shareholders.

The main participations as of 31st of December 2009 are:

Participation	Business type	Participation (%)
UniCredit Consumer Financing IFN SA	lending activities	35 %
Transfond SA	financial services	8.0357 %
Argus SA	food industry	1.1607 %
Fondul Roman de Garantare a Creditelor pentru Intreprinzatorii Privati IFN AS	financial services	3.1035 %
Biroul de Credit SA	financial services	4.2398 %
Pirelli Re Romania	real estate	20 %
Cibela Group SRL	food industry	19.627 %
Pioneer Asset Management (ex CAIB Asset Management S.A.I.)	financial services	3.967 %
UniCredit Leasing Corporation IFN SA	leasing	20%
CAIB Securities SA	financial services	19.9763 %
Bursa Romana de Marfuri SA	stock exchange activity	1.054 %
Romcard SA	cards processing	20 %
Casa de Compensare (ex SNCDD SA)	financial services	0.1192 %
Auto Mondo Company SA	auto spare parts	20 %
Centrul de Afaceri Romania SA (ex TAC SA)	tourism	0.3214 %
VISA EUROPE LIMITED	cards	0.01 %
UniCredit Leasing Romania SA	leasing	0.00002 %

The total net book value of the participations as of 31 December 2009 is RON 25,598,590.53.

UniCredit Tiriac Bank SA has equity investments (shares) in unlisted entities whose fair value cannot be determined reliably. As a result, these equity investments are booked as follows:

- in the statutory financial statements (RAS) in accordance with the local requirements: at cost;
- in the IFRS financial statements:
    - at cost (if they were purchased after 31 December 2003, moment when the Romanian economy ceased to be hyper-inflationary in accordance with the provision of IAS 29 "Financial Reporting in Hyperinflationary Economies"); and

at hyper-inflated cost (if purchased before 31 December 2003).

Chapter 12 - Interest rate risk on positions in the banking book

General aspects, Interest Rate Risk Management Processes and Measurement Methods

Interest rate risk consists of changes in interest rates that are reflected in:
- Interest income sources, and thus, the bank's earnings (cash flow risk);
- The net present value of assets and liabilities, due to their impact on the present value of future cash flows (fair value risk).

The Bank measures and monitors interest rate risk on a daily basis within the framework of its banking book interest rate risk policy which defines methods and corresponding limits or thresholds of interest margin sensitivity and economic value.
Interest rate risk affects all proprietary positions arising out of business operations and strategic investment decisions (banking book).

The main sources of interest rate risk can be classified as follows:
- re-pricing risk: the risk resulting from maturity and re-pricing mismatches of the bank's assets and liabilities. The main components of this risk are:
    - yield curve risk: risk resulting from exposure of the bank's positions to changes in the slope and shape of the yield curve;
    - basis risk: risk resulting from the imperfect correlation in lending and borrowing interest rate changes for different instruments that show similar re-pricing characteristics;
- optionality risk: risk resulting from implicit or explicit options in the institution's banking book positions.

The Banks has set limits to reflect the risk appetite consistent with the strategic guidelines issued by the Group and the Management Board. These limits are defined in terms of VaR, sensitivity or re-pricing gap.

Interest rate risk management of banking book is by ALM Department, which manages the sterilization of bank balance sheet risk in terms of national interest by meeting the limits set. ALM extract and transfer the surplus interest rate risk positions to Markets Trading, by internal transactions. Markets Trading close these transactions in the market.

At the bank level, ALM Department in cooperation with Market Risk Department undertakes the following activities:
- performs sensitivity analysis in order to measure any changes in the value of shareholders' equity based on parallel shocks to rate levels for all time buckets along the curve.
- uses static gap analysis (i.e. assuming that positions remain constant during the period), it performs an impact simulation on interest income for the current period by taking into account different elasticity assumptions for demand items.
- analyses interest income using parallel shocks on market interest rates.

In coordination with the ALM and Treasury Departments, the Market Risk Department sets interest rate risk limits and verifies compliance with these limits on a daily basis.

The table below shows the results (in EUR million equivalent) of parallel shifts in interest rates for the main currencies on the banks' balance sheet as of 31st of December 2009:

-Scenario 1: application of a parallel shock of 100 bp in all currencies;
-Scenario 2: application of a parallel shock of -100 bp in all currencies;
-Scenario 3: application of a parallel shock of 150 bp in all currencies;
-Scenario 4: application of a parallel shock of -150 bp in all currencies;
-Scenario 5: application of a parallel shock of 200 bp in all currencies;
-Scenario 6: application of a parallel shock of -200 bp in all currencies;
-Scenario 7: RON O/N to 1Week: -500bps
RON 1Week and above: +50bps
all other currencies: unchanged

-Scenario 8: RON O/N to 1Week: +500bps
RON 1Week and above: +50bps
all other currencies: unchanged

-Scenario 9, all currencies: O/N to 1Week: +50bpsbps
then up to 1Month: +100bps
then up to 6Months: +150bps
then up to 12Months: +200bps
then up to 36Months: +250bps
and the rest of the curve: +300bps

Exercise stress test result in millions

Dec-09	**mil eur**
Scenario 1:	-10.10
Scenario 2:	11.02
Scenario 3:	-15.02
Scenariol 4:	16.38
Scenario 5:	-19.86
Scenario 6:	21.51
Scenario 7:	-2.53
Scenario 8:	-3.07
Scenario 9:	-25.50