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

modified and completed with BNR and CNVM Regulation no.21/ 26 of
30.09.2010

Report reference date: 31.12.2011

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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

UCT - UniCredit Tiriac Bank

ICAAP – Internal Capital Adequacy Assessment Process

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.3/2009 with all subsequent ammendments.

Performing loans are loans classified in any category apart from „Loss", according to National Bank of Romania Regulation no. 3/2009 with all subsequent ammendments.

Overdue items represent items not reimbursed and not collected by the BANK at at their maturity.

Chapter 1 – General requirements

1.1. 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 (including the analysis method):

1. Credit Risk (including other credit asimilated risks: concentration risk, residual risk etc)
2. Market Risk
3. Liquidity Risk
4. Operational Risk
5. Reputation risk
6. Business Risk
7. Financial Investment Risk
8. Real Estate Risk
9. Strategic Risk

Type of risk	Analysis Type	Measurement measures
Credit Risk	Quantitative	Economic Capital
Market Risk	Quantitative	Economic Capital
Operational Risk	Quantitative	Economic Capital
Business Risk	Quantitative	Economic Capital
Financial Investment Risk	Quantitative	Economic Capital
Real Estate Risk	Quantitative	Economic Capital
Liquidity Risk	Quantitative	Gap Analysis
Reputational Risk	Qualitative	Indicators, questionnaires
Strategic Risk	Qualitative	Indicators, questionnaires

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 2011 a moderate/ medium 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.

1.2. 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 Supervisory Board is responsible for the set up and keeping of a proper and effective internal control system. The responsibilities of the Supervisory Board are largely presented in the internal functioning regulation.

Management Board *(MB)*

The Management Board, made up of the executive management of the BANK, implements the strategy and the policies on risk management as established and defined in the Article of Association and in the internal functioning regulation.

In order to ensure employment in the chosen risk profile, Management Board members set a well defined process for current issuing and implementation of internal procedures regarding identification, quantification and monitoring of significant risks.

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's Internal Functioning Regulation and the own regulation.

The Risk Management Committee (RMC) is a permanent organizational structure, constituted according to local legislation appliocable to the banks, its responsibilities being detailed in the nternal functioning regulation

According to this regulation , Risk Management Committee meets at least trimestial and whenever the situation requires.

The BANK's governance body 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 and divisions** 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. As regards to the risk management, its responsibilities are detailed in the internal functioning regulation.

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 CRO responsibilities on this line being detailed in the BANKS's internal functioning regulation.

The BANK's CRO, together with the President of the Internal Norms and Procedures Committee has followed the activity of issuing the internal procedures on identification, measurement and monitoring of significant risks, in order to the compliance with the approved risk profile,

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 Management
- Risk Control
- Retail Underwriting
- Corporate Underwriting
- Credit Risk Support
- Recovery and Fraud Prevention
- Market Risk and Operational Risk

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 2011.

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 20.00%);
- UniCredit Consumer Financing IFN SA (percentage held 46.06%).

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%.

At individual level, the participation the BANK holds in UniCredit Leasing Corporation IFN SA and UniCredit Consumer Financing IFN SA are deducted from own funds.
At consolidated level, the participation held by the BANK in UniCredit Leasing Corporation IFN SA is deducted form own funds, and UniCredit Consumer Financing IFN SA company is included in the consolidation area (through the proportionally consolidation method).

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 and presented at consolidated level):

Own Funds	Dec-10
1.1.1.1. Paid up capital	1,101,604,066
1.1.1.2. (-) Own Shares	-
1.1.1.3. Share premium	0.00
1.1.1. Eligible capital	1,101,604,066
1.1.2.1.01.A. Gross reserves	1,249,673,178
1.1.2.1.01.B. Predictable tax liabilities	-32,118,095
1.1.2.3.01 Audited result for current year	155,608,916
1.1.2. Eligible reserves	1,373,163,999
1.1.5.1.A. Intangible gross assets	-112,155,591
1.1.5.1.B. Depreciation of Intangible assets	-565,350
1.1.5.4 Other deductions specific to Romania (loans for ex-staff remaining in favourable conditions)	-2,467,388
1.1.5. Others deduction from own funds	-115,188,329
1.1. Level 1 own funds	2,359,579,736
1.2.1.3. Revaluation reserve	16,123,210
1.2.1. Basic level 2 own funds	16,123,210
1.2.2.3. Subordinated loans	165,413,083
1.2.2. Supplementary level 2 own funds	165,413,083
1.3.1.A. (-) Holdings in other credit and financial institutions amounting to more than 10% of their capital (gross value)	-9,475,326
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)	0
1.3.9.D. (-) Holdings in non-financial institutions amounting to more than 10% of their capital(provisions)	0
1.3. (-) Elements deductible from the level 1 and level 2 own funds, from which	-9,475,326
1.3.T.1 From the level 1 own funds	-4,737,663
1.3.T.2 From the level 2 own funds	-4,737,663
1.4. Total 1 own funds level	2,354,842,073
1.5. Total 2 own funds level	176,798,630
1. TOTAL OWN FUNDS	2,531,640,703

Following the analysis of the own funds components, the only category which has contractual clauses is capital as subordinated loans, included in the supplementary 2nd level of 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 2011, the total value of the subordinated loans received from UniCredit Bank Austria AG and UniCredit Ireland was in amount of 402,437,830 RON and is detailed below:

Amount	Currency	Rate of interest %	Maturity	Equivalent RON
3,517,824	EUR	EURIBOR + 1.28%	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	15,195,943
3,407,155	EUR	EURIBOR + 1.28%	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	14,717,888
5,000,000	EUR	EURIBOR + 1.28%	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	21,598,500
215,730,000	RON	ROBOR 1M + 0.8%	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	64,795,500
Total				**402,437,830**

Chapter 4 – Basel II, Pillar II

4.1 Corporate Governance Basel II, Pillar II

During 2011, within the bank, a sustained and continuous process for completing the internal methodological framework with specific Basel II Pillar II regulations, mainly as regards to ICAAP general framework, credit risk stress tests, risk appetite, capital management rules, rules regarding the new risks identified by the BANK as significant.

Pillar II deals with the Internal Capital Adequacy Assessment Process ("ICAAP"), the process under which the BANK performs an independent assessment of its current and prospective capital adequacy with regard to the risks they face and their corporate strategies. That is to say that UCTB assesses the balance between the assumed risk and the available capital consistently with the Group strategy and target. That means comparing the available capital to the risk embedded in the BANK's activities according to both a current and a forward-looking perspective.

The ultimate mission of the capital adequacy is to ensure it forms an integral part of day-to-day management and decision-making processes such as embedding risk and implied capital measures in strategic planning, limit setting and business line performance evaluation processes according to current and forward-looking perspectives.

In this context the main impacts deriving from the Pillar II requirements are related to the embedding of risk logics in the strategic planning and budgeting processes as well as the set – up of internal controls and activities under the responsibility of the relevant competent functions.

Moreover a correct capital adequacy assessment implies sound risk governance, that is to say Corporate Governing Bodies involvement and definition of decision-making bodies, structures, relevant role/responsibilities and overall process.

The BANK, thus, owns, developes and manages its risk management processes, respectively to implements processes and tools (the internal capital adequacy assessment process, ICAAP) to assess the level of internal capital adequate to support each type of risk, including those not captured by the total capital requirement (i.e. Pillar I risks), within the scope of an assessment of the Legal BANK's current and future exposure, taking account of its strategies and developments in its business environment.

The ICAAP process must comply with the following principles:

- the BANK has a process for assessing its capital adequacy relative to its risk profile (an ICAAP) and it's responsible for the relevant definition
- ICAAP's design is fully specified, the BANK's capital policy is fully documented, and the management body takes responsibility for the ICAAP.
- ICAAP forms an integral part of the management process and decision – making culture of the BANK,
- ICAAP is risk - based.
- ICAAP is comprehensive
- ICAAP is forward - looking
- ICAAP is based on adequate measurement and assessment processes
- ICAAP produces a reasonable outcome

4.2 Internal capital adequacy

Qualitative disclosure

For calculating the regulatory capital requirements, the BANK used, during 2011, 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 Advanced Approach for operational risk (according to Regulation 24/ 29/ 14.12.2006 with further modifications).

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 Management 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 at consolidated level (amounts in RON)

Nr. Crt	Items components	Dec-10
2	CAPITALIZATION REQUIREMENTS	**1,473,615,156**
2.1.	Standard approach	**1,272,886,379**
2.1.1	Central administrations or central banks	-
2.1.2	Regional administrations or local authorities	16,775,111
2.1.3	Administrative bodies and non commercial undertakings	34,658
2.1.4	Multilateral development banks	-
2.1.5	International organizations	-
2.1.6	Institutions	86,833,581
2.1.7	Companies	856,730,125
2.1.8	Retail exposure	105,938,834
2.1.9	Exposure secured on Real Estate Property	81,359,831
2.1.10	Past due items	55,109,746
2.1.11	Elements that belong to the categories regulated as high-risk ones	28,700,902
2.1.12	Obligation bonds	-
2.1.13	Short term receivables for institutions and companies	13,919,719
2.1.14	Receivables as investments held by the undertakings for collective investments	-
2.1.15	Other elements	27,483,872
2.2	SETTLEMENT/DELIVERY RISK	**-**
2.3	TOTAL CAPITALIZATION REQUIREMENTS FOR THE POSITION RISK, CURRENCY RISK AND THE RISK REGARDING THE GOODS	**22,687,418**
2.3.1	The position, currency risks and the risks regarding the goods, according to the standard approach	22,687,418
2.3.1.1	The position risk related to the securities resulted from transactions	-
2.3.1.2	The position risk related to the capital securities	-
2.3.1.3	Currency risk	22,687,418
2.3.1.4	The risk regarding the goods	-
2.4	TOTAL CAPITALIZATION REQUIREMENTS FOR THE OPERATIONAL RISKS	**178,041,359**
2.4.1	Standard approach	1,520,947
2.4.2	Standard approach / Alternative Standard approach	-
2.4.3	Advanced Approach	176,520,412
3.2	Own funds surplus (+) / deficit (-)	1,058,025,547
3.2.a	The solvency ratio (%)	**13.74%**

Chapter 5 – Credit risk

5.1 - General aspects

5.1.1 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.

5.1.2 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 is 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.

The threshold starting from which credit risk is considered significant 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, Management Board and the Supervisory Board, as the case may be.

5.1.3 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.

Credit risk management policies and procedures are set and implemented based on the allocated roles and responsibilities, oriented towards the following main directions:

- Maintaining of healthy and solid credit granting standards;
- Monitoring and control of the credit risk
- Appropriate evaluation of new business opportunities
- Identification and management of the “problem” assets

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 the settlement risk
D. Procedures to prevent and mitigate concentration risk
E. Procedures to prevent and mitigate residual risk
F. Specific processes to manage „problem” assets
G. Specific processes to manage non-performing assets

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 are 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.

B. Procedures for the prevention and mitigation of default risk

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 are 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, such as Credit Risk Data Base, The Payment Incidents Data Base., Credit Bureau etc;
- 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.

<u>C.</u> <u>Procedures for prevention and reducing settlement risk</u>

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.

If issues of potential malfunctions are identified by the monitoring activity, the bodies having management function of a credit institution shall take at least one of the following measures:

a) proceeding to a more detailed review of the risk environment in a particular sector;

b) applying additional stress tests and scenario analyses;

c) reviewing with greater intensity the economic performance of borrowers;

d) reviewing approval levels for new business or

e) regularly reviewing risk mitigation techniques, their value and their legal enforceability.

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 problem assets

The BANK periodically revises the problem assets, both at individual level, and at portfolio level for loans with homogeneous characteristics.

Management of problem assets is performed through:

- Activities of customer analysis and proposal of action plan (where applicable). The purpose of the analysis and action plan is to reduce bank risk in an early stage and prevent, if possible, new adverse events
- replacement operations of existing exposure activities, exclusively when the BANK considers that the debtor's default event can be avoided.

The scope of the replacement operations of existing exposures are:

- Avoidance of BANK's total or partial loss determined by loan's not repayment;
- Applying of a treatment that should allow transfer of the loan back to standard management.

G. Procedures for the management of non-performing assets

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.

5.1.4 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 Management
- Risk Control
- Retail Underwriting
- Corporate Underwriting
- Credit Risk Support
- Recovery and Fraud Prevention

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.

5.1.5 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 coordination, has finished a the process regarding implementation of new systems for credit risk valuation (including default risk), for estimation of risk parameters (PD, LGD and EAD), as well as the process of development and implementation of new behavioural scoring models, applicable to provate individuals and business customers.

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 2011, the BANK carried out the third validation of the model-specific rating for medium and large corporate clients on portfolio data from local, validation results leading to a refinement and recalibration process of the model.

  The rating model thus refined and recalibrated as per the local portfolio, for medium and large corporate clients, is implemnetat in an automated rating system integrated with automated solution for the management and analysis of credit applications specific corporate clients, which not only facilitates the calculation of the rating, but also the storage of the relevant data for the rating process. Also in this automated solution for the management and analysis of credit applications specific corporate clients, during 2011 a process for re-rating the medium and large corporate clients portfolio through the new version of the rating model, specific for medium and large corporate clients,, took place..

  Also in 2011, the BANK finished the process validation regarding the functioning and utilization of the automated rating system for real-estate clients, system which is integrated with the automated solution for the management and analysis of credit applications specific for corporate clients.

  Last but not least, in 2011, the BANK has developed the processes regarding the utilization of the group's unique "Group wide" rating systems, both for the analysis of banks, sovereigns and central banks, as well as of corporate clients - Group Wide Multinational Customers with a turnover over EUR 500 mio .

  Starting from the prior activities since 2009, during 2011, all activities necessary for obtaining the validation for using internal rating based approach were initiated.

- For **"small business"** clients, an internal scoring system is used, system developed based on the local portfolio, which, starting with 2011, takes into consideration in valuating the default risk both a set of quantitative factors, representative for this segment, and specific qualitative information, as well a behavioural scoring component. 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 (with two separate components: for revolving financing and for non-revolving financing), 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, starting with 2011, both qualitative factors (such as age, marital status, properties owened, profession, work history, education etc) and quantitative factors regarding the client income, as well a behavioural scoring component.

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 internal entities of the BANK, as well as to the external supervisory authority, thus:

- Reports to Group
  - Monthly – 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; the portfolio is clasified per categories, according to group definition and international accounting standards (IFRS).
  - Quarterly – report on the credit risk exposures individually analysed for the calculation of loan loss provisions according to IFRS standards, with further details (ex. collateral, rating, segment).
- Reports to Supervisory Board
  - Semi-annually – 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 Management Board:
  - Quarterly - Report on the BANK’s risk profile; 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 department and Workout department of the risk division provides periodical:

- ➢ Monthly reports regarding the off–balance non-performing loans portfolio and related recoveries encountered within the reporting period
- ➢ Monthly portfolio reports and related recoveries encountered within the reporting period

In order to improve the internal control related to the reporting activities, during 2011 the BANK has continuously improved the implementation plan of 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.

5.1.6 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.
   - ✓ Validation of the standard credit products parameters by the Credit Risk management area 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

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.

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 2011, the Risk Control department has performed an activity specific for credit risk internal control , on independent and continuous basis, as part of the risk management process. This is ment to ensure the conformity of the credit process with the credit risk policies and procedures and the fulfillment of the quality parameters of the BANK's credit portfolio. The credit risk control is concentrated on the verification of each business line process: approval, credit disbursement and post approval monitoring until fully reimbursement of the loans, according to the following flow:

a) Activity Planning, including ad-hoc verifications;
b) Examination and evaluation of the relevant information
c) Proposal of the corrective measures and follow-up on their implementation;
d) Information of the units/managers involved about the control result – site-visit reports;
e) Proposal of the preventive measures and follow-up on their implementation;
f) Monitoring of the daily activity of the internal credit risk control (as level 1 of control of own activity)

The objectives of the internal credit risk control activity are focused on the improvement of the credit activity quality, including process and flows, as well as providing a professional assessment of the risk profile of each branch. Besides the periodical analysis of the credit risk management ratios, the assessment performed by Risk Control department in the credit risk control aims to offer, for each branch, an objective measurement instrument based on the principles of total quality management approach. Through the reports on the internal control of the credit risk, each branch in presented based on the credit risk classification resulted from the verifications performed by the risk control team.

During 2011, at BANK level, under Credit Risk Management coordination, the BANK has performed several activities for the improvement of the activity of internal control, as follows:

- Improved systems for data collection and proper data 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, taking 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;

- 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.

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/ methodologies, 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 methodology, based on the data from the client’s financial statements.

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* at individual level

(RON)

Exposures/ Geographical area	31.12.2011				
	Corporates	Retail	Real estate property	Regional governments and local authorities	Past due items
Commercial Group 1	2,575,231,442	485,600,697	529,652,666	39,252,880	279,795,422
Commercial Group 2	2,597,050,830	367,352,961	490,529,094	219,829,439	255,818,033
Commercial Group 3	2,866,542,110	574,211,223	631,936,946	91,788,143	383,387,894
Commercial Group 4	8,993,011,039	742,442,250	1,334,355,511	282,201,705	787,700,062
TOTAL	**17,031,835,420**	**2,169,607,131**	**2,986,474,217**	**633,072,167**	**1,706,701,411**

***derivatives, corporate and retail classes, are not included**

Commercial Group 1 – South
Commercial Group 2 – North
Commercial Group 3 – East
Commercial Group 4 - Bucharest

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

(RON)

Industry	31.12.2011		
	Provisions	Expenses related to provisions	Overdue exposures
Agriculture, food	194,103,684	32,356,960	182,361,900
Energy	63,403,580	24,575,584	60,204,357
Transportation	119,241,458	62,118,893	109,530,420
Construction	392,558,367	151,923,344	387,610,059
Telecomunication	228,458,990	89,089,553	159,053,139
Real estate	237,594,920	45,294,639	238,692,881
Financial Institutions	2,217,515	(6,732,338)	1,436,649
Holding	367,682	92,850	365,241
Individuals	758,182,592	120,472,531	567,446,767
TOTAL	**1,996,128,789**	**519,192,016**	**1,706,701,411**

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

(RON)

CREDIT AND COUNTERPARTY RISK	31.12.2011	
	Gross exposure	Risk weighted exposure
STANDARD APPROACH		
1. Central administrations or central banks	6,481,290,165	0
2. Regional administrations or local authorities	633,072,167	209,688,886
3. Administrative bodies and non commercial undertakings	865,323	433,224
4. Multilateral development banks	0	0
5. Institutions	3,130,531,017	1,085,419,759
6. Companies	17,027,412,032	10,709,126,557
7. Retail exposure	2,495,426,458	1,324,235,420
8. Exposure secured on Real Estate Property	2,986,474,217	1,016,997,887
9. Past due items	1,721,330,818	688,871,828
10. Elements that belong to high- risk categories	304,516,746	358,761,271
11. Short term debt towards institutions and companies	171,200,448	173,996,493
12. Other elements	787,921,616	343,548,404
TOTAL	**35,740,041,007**	**15,911,079,728**

Value adjustments and provisions broken down by exposure classes at consolidated level

(RON thousand)

CREDIT AND COUNTERPARTY RISK	31.12.2011		
	Gross Exposure	Value and provisions adjustments	Net exposure of value and provisions adjustments
STANDARD APPROACH			
1.Central administrations or central banks	6,481,290,165	87,163	6,481,203,002
2.Regional administrations or local authorities	633,072,167	993,506	632,078,661
3. Administrative bodies and non commercial undertakings	865,323	129	865,194
4. Multilateral development banks	0	0	0
5. Institutions	3,130,531,017	870,495	3,129,660,522
6. Companies	17,027,412,032	392,882,166	16,634,529,866
7. Retail exposure	2,495,426,458	177,212,350	2,318,214,108
8. Exposure secured on Real Estate Property	2,986,474,217	71,733,922	2,914,740,295
9. Past due items	1,721,330,818	1,002,478,940	718,851,878
10. Elements that belong to the categories regulated as high-risk ones	304,516,746	36,307,580	268,209,166
11. Short term debt towards institutions and companies	171,200,448	0	171,200,448
12. Other elements	787,921,616	152,097,021	635,824,595
TOTAL	**35,740,041,007**	**1,834,663,272**	**33,905,377,734**

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

Geographical distribution of exposures divided by performance at individual level

(RON thousand)

Exposure/ geographical area	31.12.2011											
	On balance sheet exposures						Off balance sheet exposures					
	Non-performing loans exposure		Problem loans exppsure		Performing loans exppsure		Non-performing loans exposure		Problem loans exppsure		Performing loans exppsure	
	gross	net	gross	net	gross	net	gross	net	gross	net	gross	net
Commercial Group 1	331.90	68.04	336.84	293.77	1,873.49	1,848.36	12.22	12.22	137.09	137.09	1,228.77	1,228.77
Commercial Group 2	296.46	80.83	388.90	340.26	2,207.05	2,156.08	0.47	0.47	139.67	139.67	919.26	919.26
Commercial Group 3	362.49	86.84	898.79	824.63	2,111.30	2,073.92	8.32	8.32	313.02	313.02	854.04	854.04
Commercial Group 4	860.78	177.93	1,098.41	988.75	5,280.56	5,111.44	573.64	573.64	817.99	817.99	6,100.65	6,100.65
TOTAL	1,851.63	413.64	2,722.95	2,447.41	11,472.40	11,189.80	594.65	594.65	1,407.76	1,407.76	9,102.72	9,102.72

5.2 – 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.

5.3 - Credit Risk Mitigation Techniques and residual risk

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 or 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:

<table>
<tr><th colspan="2">Collateral Category</th><th>Type of collateral</th></tr>
<tr><td colspan="2" rowspan="4">Direct Personal Guarantees</td><td>Guarantee / Surety</td></tr>
<tr><td>Bill of exchange from third party</td></tr>
<tr><td>Letter of comfort</td></tr>
<tr><td>Risk Assumption</td></tr>
<tr><td colspan="2">Credit Derivatives</td><td>Credit Derivatives Instruments</td></tr>
<tr><td colspan="2">Life Insurance</td><td>Pledging of life assurance with non reducible surrender value</td></tr>
<tr><td rowspan="4">Financial collateral</td><td rowspan="3">Own</td><td>Pledging securities depots</td></tr>
<tr><td>Pledging cash collateral</td></tr>
<tr><td>Pledging gold</td></tr>
<tr><td>Third Party</td><td>Pledging third party cash collateral</td></tr>
<tr><td colspan="2">Residential Real Estate</td><td>First Rank Mortgage on RRE occupied or rented by owner.</td></tr>
<tr><td colspan="2">On Balance Sheet Netting</td><td>Not used in the Bank as a credit risk mitigation teqnique.</td></tr>
</table>

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.

The BANK calculates and allocates economic capital for residual risk within the capital allocation for credit risk.

Quantitative disclosure

Total amount of eligible collaterals in accordance with

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

at consolidated level

(RON thousand)

Clase de risc	31.12.2011	
	Financial collaterals	Personal collaterals
STANDARD APPROACH		
1.Central administrations or central banks	-	-
2. Regional administrations or local authorities	254,783	-
3. Administrative bodies and non commercial undertakings	-	-
4. Institutions	288,542	-
5. Companies	718,801,774	906,833,547
6. Retail exposure	53,414,700	271,163,368
7. Exposure secured on Real Estate Property	-	-
8. Past due items	951,323	8,184,780
9. Elements that belong to the categories regulated as high-risk ones	2,796,102	-
10. Other elements	-	-
TOTAL	**776,507,224**	**1,186,181,695**

5.4 - Concentration Risk

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, the BANK performs the following concentration risk analysis spread on the following exposure segments:

1. **corporate clients**
   - by geographical region – client exposure level
   - by industries – client exposure level
   - by rating – client exposure level
2. **“small business” clients**

- by geographical region – client exposure level
- by industries – client exposure level
- by rating – client exposure level

3. private individuals clients

- by geographical region – client exposure level
- by product type
- by maturities

4. Collateral management

- By collateral type – client exposure level
- Real estate collateral per property type
- Real estate collateral (flats) – per cities (top 10)

5. insurance companies

Concentration and residual risk level is assessed by the completion of Gini-Struck Coefficient. 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
- Stricter monitoring of specific collateral types
- A deep review on the client's economic performance
- Stricter monitoring of the clients from the specific portfolio area
- Portfolio diversification towards other business lines
- Periodical review of the credit risk mitigation techniques, of their value and of its enforceability

In order to reduce the concentration and residual risk, the 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).

Chapter 6 - 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 1.000 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 December 2011, for transactions outstanding (in EUR millions):

Pre-settlement

Type of Clients	Approved Line	Utilisation
Banks	1,369	314
Clients	97	16
Total	1,466	330

Settlement

Type of Clients	Approved Line	Utilisation
Banks	1,003,984	332
Clients	1,077	88
Total	1,005,061	420

Mio eur

Chapter 7 – 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 Bank, 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 Bank, 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 BANK's risk profile);

• exposure to market risk will be generated only by the departments ALM and 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; also, VaR Banking Book and VaR Trading Book is calculated and monitored separately, inclusive per risk factors;

• 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 RON 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;
- implementation and management of the replication portfolio;
- 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, including the assessment of supranational financing (BEI, BERD);
- 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;
- Support of the financing planning process and set up of the bank's financing plan, monitoring of the evolution of the financial plan, financing measures.

2. Treatment, assessment and risk control

Trading book includes all positions in financial instruments owned by UniCredit Tiriac Bank 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 group:

1. Derivatives exchange rate:

    a) Outright Forwards and FX Swaps;

    b) Plain Vanilla Options;

    c) Exotic FX Options (Digitals and Barriers).

2. Interest rate derivatives:

    a) Interest Rate Swaps (IRS), Cross Currency Swaps (CCS);

    b) Interest Rate Options (Caps, Floors, collars).

3. Fixed income financial instruments

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 Bank 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 results from positions in interest rate swaps of UniCredit Tiriac Bank. All client 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 Bank 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 interva (2.326 standard deviation). 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/ Imod 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).

During 2011, the following levels of VaR (in EUR) were registered:

VaR in 2011 (EUR)	Value	Limit utilisation	Limit as of 31.12.2011
Average	3,116,384	33.12%	7,000,000
Maximum	4,602,047	65.74%	
Minimum	2,142,806	12.99%	

No limit exceed was registered during 2011.

Stress test / stress tesing

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

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 Bank 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 Bank 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 mainly to the market crisis, and/ or 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 8 - Operational risk

In UniCredit Tiriac Bank, Operational Risk Management complies with the regulations issued by the 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 with subsequent amendaments and completions 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 Bank, including for the purpose of operational risk control and measurement.

The Management Board and the Supervisory Board of UniCredit Tiriac Bank 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 Operational Risk Department ensures regular control on operational risks. Operational Risk Department is an independent function in charge with operational risk control, within the Risk Division and reporting directly to the Market & Operational Risk Director, who is subordinate it to the Chief Risk Officer (CRO).

The main measures taken for operational risk management during 2011 include the development of a new application for operational risk events collection for a more standardised and efficient reporting flow, revision of operational risk indicators and limits set, increasing the level of awereness towards operational risk across the entire bank making it more visible by dedicated trainings adressed to contact persons of operatioanl risk, preparing reports and presenting them to the relevant committees, testing all the employees to determine the level of knowledge's regarding operational risk, achieve internal validation report to continuously assess the quality of the management system and measurement of the operational risk and its compliance with regulatory requirements with internal requirements and with the development of its own activities, involvement in developing and implementing a new application for centralizing and monitoring of all the litigation cases in which the bank is involved, approval of new policies, internal rules on operational risk, operational risk assessment on the introduction of new products, procedures and activities.

For UniCredit Tiriac Bank, the following insurance policies were signed in 2011:

✓ Financial institutions insurance (BBB - Bankers Blanket Bond). This is an assurance on various aspects of banking activity: infidelity employees (embezzlement, theft of values, fraud), robbberies, thefts, conterfeiting currency, fraud at the bank level or in transit, including losses resulting from forgery of backnotes and documents, computer crime (electronic and computer fraud), profesional indemnity.

✓ Property insurances for al Bank's premises against the risk of fire, natural disaster (eartquakes, floods), falling objects and other accidental damage.

Regarding insurances, at the end of 2011 all insurance policies available at the bank level were renewed. The amount recovered from insurer during 2011 was RON 102,148.

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).

In terms of operational risk events for UniCredit Tiriac Bank, a maximum severity limit of € 250,000 is set per individual event. This limit wasn't breach during 2011.

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 2011, a total of 7 scenarios were conducted and analyzed in collaboration with key departments of the Bank and presented to Risk Management Committee, at least one scenario for each type of operational risk event. The measures established or proposed are monitored for implementation (or considering implementation).

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 2011 the operational risk indicators system and the critical monitoring thresholds were revised in order to give up at thouse indicators which are no longer relevant in terms of operational risk. Procedures for operational risk indicators were updated in accordance with amendments.

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

- operational risk losses on each category type and business line insurance recoveries;
- operational risk provisions set up;
- operational risk events concentration (how much represent the top 10 events in total losses registered);
- operational risk limit (established and approved for the current year) usage;
- capital requirements for operational risk;
- operational risk events related to credit risk identified;
- trends of the operational risk indicators;
- results of scenario analysis;
- relevant internal/ external events happened during the period under analysis;
- proposals for diminishing/ transfer of operational risk, including through insurance;
- operational risk profile evolution and fraiming it within the limits set;
- 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.

As regards to the capital requirement for operational risk, it has been calculated and reported in 2011 to National Bank of Romania under Advance Measurement Aproach (AMA), following approval received in the same year by National 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 9 - Equity exposures

UniCredit Tiriac Bank SA has no equity positions in the trading book as of 31 December 2011.

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 31 December 2011 are:

Participation	Business type	Participation (%)
UniCredit Consumer Financing IFN SA	lending activities	46.06%
UniCredit Leasing Corporation IFN SA	leasing	20.00%
Transfond SA	financial services	8.04%
Fondul Roman de Garantare a Creditelor pentru Intreprinzatorii Privati IFN AS	financial services	3.10%
Biroul de Credit SA	financial services	4.23%
Pioneer Asset Management (ex CAIB Asset Management S.A.I.)	financial services	2.57%
UniCredit CAIB Securities Romania SA	financial services	19.97%
Casa de Compensare (ex SNCDD SA)	financial services	0.11%
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 2011 is RON 57,036,716.

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

Chapter 10 - 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 31 December 2011:

-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 EUR millions as of 31.12.2011:

	mil eur
Scenario 1:	-4.57
Scenario 2:	4.64
Scenario 3:	-6.81
Scenariol 4:	6.95
Scenario 5:	-9.03
Scenario 6:	9.08
Scenario 7:	-2.47
Scenario 8:	-2.38
Scenario 9:	-12.03

The results for scenarios 5 and 6 are run for the entire balance of the BANK as well as for banking book positions, the latter being compared with the amount of own funds and reported as required by Regulation No.18/2009.
Other stress test scenarios / shock of interest can be considered in order to quantify the impact on economic value, as needed

Chapter 11 – Financial Investment Risk

Financial Investment Risk stems from equity holdings in companies not belonging to the Group and not included in the trading book.

Management of financial investment risk is performed through the following:

- Identification, monitoring, analysis and control of the financial investment risk based on group standards and NBR's requirements;
- Implementing the strategy for the management of financial investment risk through adequate policies and processes;
- Timely and correct reporting to the group of the aspects related to finanacial investment risk;
- Ensuring the necessary support for the activity of Risk Management Committee.

The strategy for the management of financial investment risk is performed by applying the following basic principles:

- The management of financial investment risk is performed though indicators and specific risk models like: impact on own funds, the market value of the participations, detailed figures within specific reports;
- All relevant risk factors will be identified and considered within the process for setting the limits;
- Specific events will be considered within the stress scenarios;
- Exposure of financial investment risk (limit usage, excesses) will be reported in time and regularly to the BANK's management and to the group.

Chapter 12 – Real Estate Risk

Real Estate Risk is defined as the potential losses resulting from market value fluctuations of the BANK's own real estate portfolios. This includes the portfolio of UCT, of the property ownership companies and its special purpose companies and shareholding companies. The real estate risk does not take in the property as collateral.

The management of the real estate risk is performed through the following:

- Identification, monitoring, analysis and control of the real estate risk based on group standards and NBR's requirements;
- Implementing the strategy for the management of real estate risk through adequate policies and processes;
- Timely and correct reporting to the group of the aspects related to real estate risk;
- Ensuring the necessary support for the activity of Risk Management Committee.

The strategy for the management of real estate risk is performed by applying the following basic principles:

- The management of real estate risk is performed though indicators and specific risk models like: total real estate vs total assets, essential figures in the quarterly reporting, detailed figures within specific reports;
- All relevant risk factors will be identified and considered within the process for setting the limits;
- Specific events will be considered within the stress scenarios;
- Exposure of real estate risk (limit usage, excesses) will be reported in time and regularly to the BANK's management and to the group.

Chapter 13 – Business Risk

Business Risk is defined as representing the adverse, unexpected changes in business volume and/or margins. It can lead to serious losses in earnings, thereby diminishing the market value of a company.

Business risk can result above all from

- serious deterioration of the market environment
- changes in the competitive situation or customer behavior
- changes in the expense structure

Management of Business Risk is performed through the following:

- monitoring of the figures of the internal capital for business risk calculated at group level;
- informing the group regarding any disparity on the parameters used for calculating the necessary internal capital for business risk
- collaborating with the group in order to establish the best practices in case major fluctuations of the internal capital for business risk are encountered.

The BANK has implemented internal regulations and specific mechanisms in order to manage the Business Risk.

Chapter 14 – Strategic Risk

Strategic risk is one of the risks that are qualitatively assessed within the group risk assessment process.

The strategic risk is analyzed from the following perspectives:

- The risk of business changes
- The risk of vicious implementation of the decisions
- The risk of lack of reactivity.

For the above risks, three parameters are analyzed: probability, severity and exposure.

Probability can be defined as the likelihood that a sequence of events will occur and result in a specific consequence

Severity can be defined as the measurement of the impact of the consequence of the sequence of events.

Exposure can be defined as the total impact (that can be material or not) to the sequence of events.

One of the below qualifying marks can be granted to the above parameters:

1 Low

2 Medium

1. High

The BANK implemented internal regulations and specific mechanisms in order to manage the Strategic Risk.

Chapter 15 – Reputational Risk

Reputational risk is present or future risk of adverse effects on profits and capital as a result of negative perception of the credit institution's image to customers, counterparties, shareholders, investors or regulatory authorities.

Reputational risk can be triggered by negative publicity, true or not, relating to:

- Bank's reputation, respectively, the Bank's top management or their members
- The practices, tools, bank liquidity or solvency

or

- Other risks arising in the Bank's activity, usually components of operational risk (fraud, inadequate internal processes, failures of IT systems, security incidents, human errors etc).

Impact of reputational risk can affect the ability of the Bank to operate in accordance with the business plan, to establish new business relationships or continue existing partnerships with customers.

Managing reputational risk

The value system of UniCredit Tiriac Bank is based on integrity as mechanism for conversion of profits into sustainable value, this implies a greater clarity to forward messages on relevant issues to employees, clients, financial community, regulators, nongovernmental organizations and general public. Thus, communication is a key factor in management of the reputational risk.

Bank's strategy, internal processes, important structural changes require special attention because of complex legal requirements, monitoring carried out by rating institutions and regulatory bodies and media interest.

Since each process/part of the banking activity may influence organization's reputation, in the reputational risk management process will take into account:

- each process/ operations banking segment;

- relationships with clients, especially in sensitive areas (confidentiality of information, respect for contracts, right to inform of clients, crisis management situations, the negative publicity, etc)

In crisis situations case with impact in reputational risk appearence (potentially negative situations), it is envisaged:

- Establish communication strategy (defining transmitted and promoted key messages; defining transmitted messaging channels)
- Sending messages through timely and succinct press releases, periodically updated (success of communications is assured of an adequate flow of information from the Directorate and business departments involved by Identity and Communication Department)
- Training of call centers staff for determining patterns/responses to be answered in specific situations;
- Establishment of procedures and making decisions in case of crisis situations;
- Regularly updating web site or intranet of the bank to ensure an adequate information flow.

Permanently, the Bank will try to limit the reputational risk procedures, rules and feeds especially designed for this purpose and supported by a proactive, transparent and efficient communication.

Chapter 16 - Remuneration Policy

The BANK's remuneration policies are represented by the Human Resources Policy and Policy for compensation and benefits, which set the remuneration framework; these are available to all employees and are approved by the Management Board and Supervisory Board. The assessment process is subject to separate regulation setting out the steps of this process, the valuation criteria and creates a standardized framework for ongoing assessments. The BANK has a Remuneration Committee consisting of members of the Supervisory Board, which approves the remuneration of members of the Management Board.

According to the Human Resources Policy, chapter “Premiums/bonuses”:

“The BANK may offer annual premiums for accomplishments. Their granting is completely at the Management Board’s discretion and depends on the overall result of the entire group and BANK in the previous year, as well as on the employee’s individual performance.

From this reason, the payment of a premium in one year does not represent a BANK’s obligation to pay premiums in the following years. Implementation of the remuneration policy will be evaluated independently once a year at the beginning of each year and will consider financial compensation in terms of the allocation on the basis of complex criteria to prevent excessive risk taking and adverse situations. These criteria will be reviewed annually and will be included in individual and collective targets.”

The remuneration of Supervisory Board members is not directly correlated with the BANK’s performance, as this is not established at the Management Board level. Also, neither the remuneration of the coordinators of the audit and compliance functions is correlated with the BANK’s performance.

The BANK has established "Internal rules for the selection and appointment of persons with leading positions in UniCredit Tiriac Bank", a document that presents the criteria for selection of successors

to persons occupying key executive positions, sets quality standards for the activity of selection and appointment of persons occupying key executive positions, and the minimum employment requirements applied to occupants of these positions in terms of qualification and experience.

Annex 1

Basel II Pillar 3 Disclosure
UniCredit Consumer Financing SA
for 2011

Chapter 1 – General requirements

1.1 Strategy and general framework of risk management

UniCredit Consumer Financing defines specific strategies amd policies of risk management for 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

1.2 Structure and organization of the risk management function in UniCredit Consumer Financing SA

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

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 Company's annual general strategy and policies regarding the Company's activity, including specific policy on control and risk management;

2. Within the risk management strategy, SB has following tasks:

- ✓ approves and reconsiders the company's risk profile;
- ✓ in close connection to the objectives of the company's 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 company's 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;

Management Board *(MB)*

The Management Board 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 company's 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 the departments whose work is generating risks.

Specialized committees with risk management responsibilities

- **Audit Committee**

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

Comitetul de Audit are responsabilitati cu privire la controlul intern si administrarea riscurilor

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 company OFR and the own regulation, approved by the Management Board.

The Risk Management Committee (RMC) is a permanent committee of the comapany.

In assisting the company management in fulfilling its responsibilities connected to strategic norms

and Group policies for the types of risk, it acts in order to:

1. 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;
2. 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;
3. establish risk exposure limits, including in crisis situations and the necessary procedures for approval of exceptions to internal limits established;
4. approve the company's 's new activities, based on the significant risks associated with them;
5. 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 quaterly and and whenever the situation requires.

There are other **specialized committees** functioning at Company's level, with risk management responsibilities:

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 company's management through the current monitoring of the credit risk.

The responsibilities of the Risk Division are:

1. To draft and submit for approval to Risk Management Committee and company management: risk policies, methodologies, specific instruments and procedures for credit risk assessment and monitoring.
2. To review periodically the loan portfolio of the company to check that risks range within accepted limits.
3. Develop, test and implement systems and a specific credit risk management structure, such as: historical data bases, risk assessment models, current reports, etc.
4. To ensure the compliance with the approved risk profile, the Risk Division (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.

5. To ensure optimum management of credit risks, at an individual level and at a portfolio level, Risk Division is structured in 5 departments for risk management and control. Their responsibilities are detailed in the Company's Organization and Functioning Regulation:
   - Risk Modeling
   - Decision Systems Department
   - Credit Department
   - Collection
   - Car loans risk Department

Finance and Planning Division

The Finance and Planning Division offers support to the Risk Management Committee and the company's management through the current monitoring of the market and liquidity risk.

Marketing and Product Development Department

Marketing and Product Development Department offers support to Risk Management Committee and the company's management through the current monitoring of the reputation risk.

Operational risk is managed by all the departments whose activities incur operational risks. The monitoring is ensured by regular verification of the limits of operational risk indicatros.

Other organizational structures with responsibilities related to risk management

Risk management function is supported at company level through other specialized committees (discipline committee, norms and procedures committee, projects committee, product and pricing committee, business continuity and crisis management committee, etc.) .

Chapter 2 – Own funds structure

The structure of regulatory equity is detailed by own funds statement of the credit institution at each financial year end (amounts are expressed in RON):

Own funds (ron)	31-Dec-2011
1.1.1.1. Paid up Capital	103,269,200
1.1.1.2. (-) Own shares	-
1.1.1.3. Capital premiums	
1.1.1. Eligible capital	103,269,200
1.1.2.1.01.A. Gross reserves	(20,501,169)
1.1.2.1.01.B. Predictable tax liabilities	
1.1.2.3.01 Audited result for current year	
1.1.2. Eligible reserves	(20,501,169)
1.1.5.1.A. Intangible gross assets	(3,672,201)
1.1.5.1.B. Depreciation of Intangible assets	
1.1.5.4 other Romanian specific deductions from level 1 own funds	
1.1.5. Other deductions from own funds	
1.1. Level 1 Own funds	79,095,830
1.2.1.3. Revaluation reserve	
1.2.1. Basic level 2 own funds	79,095,830
1.2.2.3. Subordinated loans	
1.2.2. Suplimentary level 2 own funds (specific for Romania)	
1.3.1.A. (-) Holdings in other credit and financial institutions amounting to more than 10% of their capital (gross value)	
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)	
1.3.9.D. (-) Holdings in non-financial institutions amounting to more than 10% of their capital(provisions)	
1.3. (-) Elements deductible from the level 1 and level 2 own funds, from which	
1.3.T.1 From the level 1 own funds	
1.3.T.2 From the level 2 own funds	
1.4. Total 1 own funds level	79,095,830
1.5. Total 2 own funds level	79,095,830
1. TOTAL OWN FUNDS	79,095,830

According to the analysis of the elements taken into account for the calculation of own funds, there is no category with contractual clauses.

Chapter 3 – Risk adjusted equity

Qualitative informations

For the calculation of regulatory equity requirements in 2011, UCFIN followed the requirements of Regulation No.20/13.10.2009. According to this Regulation non banking financial institutions must keep own funds at least at the level of minimum required subscribed capital and the aggregated eposure of the institution should not exceed 1500% of the own funds. In order to calculate the needed capital according to Group rules during year 2011 UCFin used the standard aprroach for credit risk.

Within UCFin the tasks related to the calculation and monitoring of needed capital are performed by the specialized departments of Financial Division and Risk Division.

For complying with capital adequacy requirements established by Regulation No. 20/13.10.2009 and Group rules, UCFin is involved in a permanent 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 Division 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, UCFin establishes measures for optimizing the structure of its loans and guarantees.

Monitoring and analysis process implies:

- Monthly calculation of capital requirement and solvency ratio for regulatory purposes;
- RWA optimization actions;
- Optimal capital allocation in order to add value to the shareholders.

Stress-Testing process:

- Appraises the capital requirement in various extreme 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.

Quantitative informations (amounts in RON)

2	CAPITALIZATION REQUIREMENTS	52,205,984
2.1.	STANDARD APPROACH	52,205,984
2.1.1	Central administrations or Central Banks	0
2.1.2	Regional administrations or local authorities	
2.1.3	Administrative bodies and non commercial undertakings	0
2.1.4	Multilateral development banks	0
2.1.5	International organizations	0
2.1.6	Institutions	7,175,664
2.1.7	Companies	
2.1.8	Retail exposure	43,628,104
2.1.9	Exposure secured on Real Estate Property	
2.1.10	Past due items	787,798
2.1.11	Elements that belong to the categories regulated as high-risk ones	
2.1.12	Obligation bonds	0
2.1.13	Short term receivables for institutions and companies	0
2.1.14	Receivables as investments held by the undertakings for collective investments	0
2.1.15	Other elements	614,418
2.2	SETTLEMENT/DELIVERY RISK	0
2.3	TOTAL CAPITALIZATION REQUIREMENTS FOR THE POSITION RISK, CURRENCY RISK AND THE RISK REGARDING THE GOODS	0
2.3.1	The position, currency risks and the risks regarding the goods, according to the standard approach	0
2.3.1.1	The position risk related to the securities resulted from transactions	0
2.3.1.2	The position risk related to the capital securities	0
2.3.1.3	Currency risk	0
2.3.1.4	The risk regarding the goods	0
2.4	TOTAL CAPITALIZATION REQUIREMENTS FOR THE OPERATIONAL RISKS	
2.4.1	Standard approach	
3.2	Own funds surplus (+) / deficit (-)	26,889,846
3.2.a	The solvency ratio (%)	12.12%

Chapter 4 – Credit risk: general aspects

4.1 Assessment and identification of the credit risk

In determining the risk, the following elements are considered:

a) the current financial situation of the customers and their repayment capacity;

b) the exposures concentration over the counterparts and the economic areas

c) the capacity to apply, from legal point of view, the contractual commitments;

d) the financial commitments with persons having special relationship with the non-banking financial institutions;

e) the purpose credit and the source of its repayment;

f) the debts service history for counterpart;

g) other specific characteristics of the customer and of the transaction that might affect the collection degree of the principal and the interests.

4.2 Credit risk management

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

The credit risk management is performed taking into consideration the credits both at individual level and at whole portfolio level and includes the consideration of the qualitative and quantitative aspects related to risks.

4.3 Principles and practices used in credit risk management

Credit risk management supposes a set of coherent principles and practices, oriented towards the following main directions:

a. Establishment of a framework and adequate parameters of credit risk;

b. Promotion and operation of a healthy and solid credit granting process;

c. Promotion and maintenance of an adequate process for credits administration, measurement and monitoring;

d. Permanent control over the quality of the loan portfolio.

a. The establishment of a framework and adequate credit risk parameters is performed on the basis of the following sub - principles:

a.1. Review by competent decision bodies at least once a year of credit risk strategy and risk policies of the Company;

a.2. Policies and procedures take into consideration and cover credit risk identified in all Company's activities, at the level of an individual credit and at portfolio level.

b. The promotion and operation of a healthy and solid credit granting process based on the following sub - principles:

b.1. The Company operates on the basis of well defined risk criteria, indicating the targeted market for each customer category, the destination and structure of credits and the repayment source;

b.2. The Company establishes a clear and coherent process for credit approval and for the modification, renewal, refinancing of granted credits.

c. The promotion and maintenance of an adequate process for credit management, measurement and monitoring takes place on the basis of the following principles:

c.1. The Company has a system for credits monitoring and collection;

c.2. The Company uses rating and scoring systems to assess customers' solvency;

c.3. The Company uses applications for automated credit processing

d. The permanent control over the quality of the loan portfolio is performed on the basis of the following principles:

d.1. The Company can control the entire credit granting process through processing applications (e. g. in the case of loans granted to individuals all parameters, conditions, stages of approval, users of application, persons involved in approval and disbursement, etc. can be visualized);

d.2. The Company can involve at any time competent persons to perform internal controls in order to check that all procedure and individual conditions per credit facility are met.

d.3. Use of specific reports relative to exposures, overdue, provisions, etc.

4.4 ***Specific credit risk management procedures***

Also, the credit risk management is performed depending on the stage of the credit granting process, as follow:

A. Credit risk management in the credit granting phase

Specific credit risk management procedures in the credit granting stage are the following:

a. The Company grants loans and manages them through Head Office. Receiving of credit requests is performed by UniCredit Tiriac Bank branches, selling points and agreed and authorized partners.

b. Credit proposals are analyzed according to Credit Approval Flow and the decision is taken at the set level of approval authority.

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

    - The first is related mainly to the Entity proposing the credit and within which are performed a number of activities such as: collecting the information, structuring the proposal (proposal structuring includes also the finalizing customer assessment);

- <u>The second</u> is the phase of decision taking which involves mainly entities who have the right to analyze and approve.

d. The assessment of a feasibility of a credit proposal is performed on the basis of risk analysis related to:

   1. Debtor: eligibility
   2. Financed transaction
   3. Collateral supplied (in case of auto loans)

e. In order to assess the risk degree, the debtor has assigned an internal rating according to the Company's credit procedures.

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

- Compatibility of credit destination with the provisions of internal norms;
- Existence of repayment source;
- Integrity and reputation of the customer 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;
- Debtor's legal capacity to undertake obligations.

Credits are 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.

Once met the credits granting criteria, the Company ensures that the received information are enough for taking the crediting decision. This information is used to establish the internal rating of the debtor, according to the existing procedures for credit activities.

B. Credit risk management in the loan administration phase

The credit risk management in this phase pursues the mitigation of default risk and concentration risk.

The d*efault risk* represents the risk that a counterparty that registers an exposure towards the Company 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 are considered:

- Risk Management area monitors and develops data bases referring to non-performing loans and overdue loans.
- Client analysis is performed based on financial and qualitative information, allocation to the corresponding rating category being done following the legal stipulations in force and the internal norms and procedures.
- In case default is registered, the customers are notified and a solution is found for the incident.
- Information offered by Romanian authorized legal entities, like: Credit Bureau, etc. are consulted.

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

For minimizing and preventing the concentration risk, the following are considered:

- For preventing the concentration of the risk on a certain sector, exposure limits on credit risk as percent of total credit portfolio are established and permanently monitored;
- Exposure limits on rating categories are set based on the internal rating system for the customers.

The monitoring system of credit risk contains at least:

a) the financial analysis of the counterparty;

b) the conformity following of how the counterpart respects the contractual clauses;

c) the assessment of the covering degree with collaterals of exposure in relation to counterpart current situation;

d) the updating of the relevant information from the credit file.

CHAPTER 5 – MARKET RISK

Market Risk is defined as risk of losses registering or estimated profits not performing, which appears at as a consequence of prices, interest rate and exchange rate fluctuations on the market, equities, promissory notes price and traded goods prices.

In case of UniCredit Consumer Financing, the market risk has the following two components:

- FX risk
- Interest rate risk

The main sources of the interest rate risk are: the poor correlation between maturity (for fix interest rate) and reestablishment prices date (for variable interest rate) for interest bearing assets and liabilities, negative evolution of the inclination and the shape of the yield curve (unparallel evolution of the interest rate performance of incomes generating assets and interest bearing liabilities), poor correlation regarding the adjustments of collected and paid installments for different financial products having similar characteristics of prices reestablishment.

The market risk management is performed through:

- identification, monitoring, analysis and control of market risks: FX risk, interest rate risk, according to group standards and NBR requirements;
- development and implementation of risk management strategy;
- calculation of profit and loss for Treasury department;
- reporting of market risk issues to the management of the Company.

The departments responsible for the management and monitoring of the market risk are the following: Finance and Planning Division, Marketing and Product Development Division, Sales Divisions.

CHAPTER 6 – LIQUIDITY RISK

The liquidity risk is the probability of the Company falling short of its due payments resulting from its contractual relations with costumers and third parties.

In case of UniCredit Consumer Financing, the liquidity risk has the following two components:

- the risk to not honor in time the obligations resulting from its contractual relations with customers and partners, or
- the risk to handle opportunity costs, in case the cash keeping is not to big and are not invested with bigger performance (in credit activity).

Liquidity risk management has to be done in conjunction with other major banking risks, which may influence the liquidity position: credit risk, operational risk, reputation risk, interest rate risk, foreign exchange risk etc.

For the liquidity risk management, various specific reports are used, according to the *"Strategy, defining and assessment of the risk profile of UCFin"*, as follow:

1. For the short-term liquidity management, the following report is produced:

   - Daily short-term liquidity report, in which, starting from maturities of Company's assets and liabilities, a daily liquidity profile is estimated for the coming 12 months. The limits checked in this report are the ones imposed through the Group short-term liquidity strategy, and represent the arithmetical difference between inflows and outflows generated by operations, in all currencies.

2. Structural liquidity and funding needs:

   - In the second half of every year, during the budget process, Finance and Planning Division draws the annual funding plan, starting from the forecast dynamics in assets and liabilities.
   - The Company also uses monthly reports for determining the structural liquidity position, according to the regulations in force and to UniCredit Group policies.
   - Therefore, the Company uses models to estimate:
     - ✓ probability of customers to anticipate repay the granted credit;
     - ✓ probability of balance sheet item to generate cash outflows across various time bands;
     - ✓ liquidity of each asset class.

The models are used for current reporting purposes, as well as for the estimation of funding needs.

The models are usually used in normal conditions activity development. For crisis situations, exceptional scenarios are used ("stress scenarios"). Finance and Planning Division is responsible for management and monitoring of liquidity risk.

CHAPTER 7 – OPERATIONAL RISK

7.1 Operational risk events

The Group defines the 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 systemic and other external events: internal or external fraud, employment practices and workplace safety, customers' claims, products distribution, fines and penalties due to regulations breaches, damage to Company's physical assets, business disruption and system failures, process management.

Identification and collection of operational risk losses is based on the following categories:

1. **Internal frauds** – losses resulting from actions intended to defraud, misappropriate property of goods (in legal way) or circumvent regulations, the law or Company's policy (excluding diversity or discrimination events), involving at least one internal party and excluding malicious damage. The internal fraud is originated inside the Company and the internal nature of the event must be definitely ascertained, otherwise it should be considered as external fraud.

2. **External frauds** – losses resulting from actions intended to defraud, misappropriate property or circumvent the law committed by a third party, without the assistance of an employee and excluding malicious damage.

3. **Employment relationship and safety at work** - losses from violating employment or health or safety laws and agreements, personal injury claims or diversity discrimination events/practices.

4. **Clients, products and business practices** are unintentional or negligent failure to meet obligations to clients (including fiduciary and suitability requirements) or from the features of a product. The events where the Company committed an improper business act fall into this category, likewise when it has been the victim of similar practices by other Company.

5. **Damage to physical assets** - losses resulting from deterioration of physical assets, caused by natural disaster or other similar event type.

6. **Business disruption and system failures** are losses arising from interruptions or inadequate functioning of systems.

7. **Execution, delivery and process management** are failed transactions processing or process management, or losses coming from relations with counterparties and vendors.

These events are not intentional and involve documenting or completing business transactions (typically, operational risk events that occur in back office areas fall in this category).

7.2 Operational risk indicators and specific reports

Indicators represent data reflecting the operational risk profile: the value of an indicator should be correlated to changes in risk levels. Monitoring operational risk using indicators gives persons that manage the risk in the daily activities and persons directly in charge for the risk management, early warning signals. The choice of processes, activities and risks to be controlled using operational risk

indicators system depend on available loss data because of operational risk, on risk assessment by the processes owners or on the audit reports.

The processes selection monitored in this way, also depend on the operational risks, priorities, critical reported issues, on the way the data are available (an automated procedure is preferred than one manual), on the chosen indicators efficiency over the registered losses and errors, on the changes from the business methods and from the processes.

The identification of operational risk indicators must be periodically repeated: the variables which express the each process risks is established by the owner of the respective processes.

The directions followed by the losses from operational risk and by the risk indicators considering that composed a test of the operational risk prevention system. Setting, updating and management of the operational risks indicators is the responsibility of risk managers and also the responsibilities for reporting of risk within the processes.

The losses types that may appear because of operational risk events occurring are the following:

- Payment of compensation to customers and staff established by the courts, as a consequences of disputes triggered by them;
- Payment of penalties, etc;
- Payment of legal charges;
- Affecting of Company's reputation , by involving it in different lawsuits and disputes, and making them public;
- Lacks in inventory;
- Material and financial losses, appeared as a consequence of events generation which prejudice the status and value of Company's assets;
- Damages paid by the Company, following the incorrect or wrong processing of the transactions ordered by the Company's customers.

The events, from which losses are resulting, are collected in first phase at the departments' level. The different special reports, publications or informal may represent information sources.

All the departments within UCFin are responsible for management and monitoring of operational risk.

CHAPTER 8 – REPUTATIONAL RISK

8.1. Assessment and identification of reputational risk

Identification and assessment of reputational risk is performed at the overall level of Company and also at all organizational level of the Company and taking into account all the Company's activities, the outsourced activities, and the occurrence of some new activities.

From the point of view of reputational risk potential, a special attention must be granted to the following aspects:

1. Reaching or exceeding the limits established for the significant risks;
2. Reaching or exceeding some limits of the financial indicators (liquidity, solvability, etc);

3. Electronic mail – risk potential due to sending, by error or with intention, of some confidential/wrong information from the inside of Company to outside by e-mail, containing identification data from Company side;
4. External communication through unauthorized staff – risk potential by presenting partial data, personal points of view or breaking the confidentiality norms;
5. Staff fluctuations – pressure from the information confidentiality point of view, and also risk from procedures acquirement point of view regarding the Company's processes and especially of internal and external communication rules;
6. Negative media campaigns – risk potential by unilateral presentation of some aspects from Company's activity;
7. Focusing on specific sites of some opinion exclusive from unsatisfied customers, argued or not, aspects in question and notified to the responsible divisions/departments by the Company's staff;

8.2. Reputational risk monitoring

The reputational risk monitoring is performed through:

- daily monitoring of all the publications related to UniCredit Consumer Financing;
- daily evaluation of articles which may represent a potential reputational risk for UniCredit Consumer Financing; establishment, together with the management of the communication strategy for each case;
- IT system monitoring and establishment of clear and restrictive procedures regarding the using ways of e-mail during the relation with the customers and in the external communication.

8.3. Management of the reputational risk

The general strategy in administrating this category of risk is realized, without being limited to this, at:

1. Applying tin a proper manner the internal norms regarding the know your customer policies and the regulations regarding anti money laundering.
2. Selection, through a rigorous analysis, of the clients that require credit facilities;
3. Elaboration of security politics/plans/measure for certain activities/services of the Company;
4. Adopting necessary measure for properly administration and diminishing the negative consequences by the unit in which the element generator of reputational risk occurred.
5. Adopting an adequate form of presentation/communication of informative materials and of the ones for the promotion of the activity and the products of the Company;
6. Establishing working instructions and competencies for decision taken in case of crisis situation;
7. Other measure for administration of reputational risks that the Company considers necessary;
8. Evaluation of the reputational risk, qualitative or quantitative (to be taken into consideration the losses produced by the negative publicity, litigations, etc.)

8.4. Diminishing the reputational risk

In crisis situations, with impact for the appearance of the reputational risk, the following aspects are to be considered:

- Establishing the communication strategy (definition of the key messages transmitted and promoted; definition of the channels used for communications);
- Messages transmitting through media communicates, briefly and promptly, periodically updated (the success of the communication is assured by an adequate information flow from the Management Board and the business departments involved).
- Trainings with the call center personnel for establishing the methods/structures for answer providing, depending on specific cases;
- Establishing the procedures and competences of decision taking in case of crisis situation.

Usually, the Company tries to limit the reputational risk through procedures, rules and flows specially created in this respect and through a continuous and sustained communication, transparent and efficient.

For the administration and monitoring of the reputational risk all the departments within UCFin are responsible.

Chapter 9 – Minimum capital requirement for credit risk

UniCredit Consumer Financing, as part of UniCredit Group, established as strategic objective the maintenance in 2011 of a moderate risk profile. Even so, having in mind the present characteristics of the market and the financial crisis, it is possible that independently of the adopted measures, the limit set for the risk profile indicators to be exceeded. In this respect, the exceeding of the indicators of moderate risk is taken as trigger point.

Thus, from the strategic point of view, the targeted risk profile for 2011 is the moderate risk, but the institution is prepared for a medium risk profile, reaching this limit not being an objective by itself.

Required capital for coverage of unexpected losses

According to the Strategy for management of significant risks in UniCredit Consumer Financing, the institution must calculate the capital necessities for covering the significant risks.

The required capital is calculated at least on a quarterly basis, based on the financial results obtained at the end of each quarter.

Normally, this required capital (economic capital) is different from the minimum capital calculated according to the regulations in force regarding capital adequacy.

Still, due to the short history of the institution (approximately 1 year) and due to the irrelevance of the series of historical data, and to the complexity of the transactions and of the portfolio structure, the necessary of capital is calculated based on the present regulations of National Bank of Romania. In case the database and the portfolio's structure is more relevant, the method of economic capital could be adopted as a method of calculation of the necessary capital.

The required capital for coverage of the significant risks is formed mainly from the necessary capital for covering the credit risk.

In this manner, the total of exposures, weighted to risk (balance and off balance) is multiplied by 6.67 %, the result being the necessary capital for the credit risk. The required capital calculated in such a manner covers the unexpected loss from credit risk.

Chapter 10 – Credit Risk Mitigation Techniques

The Company diminishes the credit risk through:

- ✓ assumption of credit exposure towards counterparties with performing rating;
- ✓ the customer rating is periodically reviewed, at least annually;
- ✓ for concentration risk limitation, thresholds on exposures of certain industries, regions, financing currencies, categories of debtors and rating is set;
- ✓ the credit granting and valuation of credit risk process is periodically reviewed with the aim of its adequacy to the size and complexity of the activity, to the development strategy etc and not least, to the legal regulations in force;
- ✓ detailed analysis on the entire loans portfolio is periodically performed;
- ✓ identification of the credits to be valuated in view of calculating provisions on individual basis and segmentation of the credit portfolio on buckets with similar credit risk characteristics for the analysis and valuation on collective basis;
- ✓ judgments on the quality of the credit risk of the credit portfolio takes into consideration relevant internal and external factors that might affect the collection level of the credits (such as political, geographical, economical and industrial factors);
- ✓ implementing a systemic and logical method of consolidating the estimated losses and ensuring that the registered provisions are aligned with the applicable accountancy environment and with the relevant prudential regulations;

Considering the development of the Company's activity and the modifications registered in the general strategy, the limits regarding credit risk is reviewed and modified whenever necessary, in order for an adequate correlation of the Company's risk profile with the targeted profitability to be reached.

The credit Norms and Procedure must be established and implemented by the non-banking financial institutions so that the following to be considered:

a) keeping the high level of credit granting standards;

b) monitoring and controlling credit risk;

c) proper evaluation of new business opportunities;

d) identification and administration of nonperforming loans;

e) evaluation of conditions need to be fulfilled by the customers in order to start a business relationship with the non-banking financial institution;

f) establishment of collaterals that may be accepted by the non-banking financial institution.

A well-structured segregation of duties is considered in order that responsibilities that might drive to conflicts are to be allocated.

The Company has IT systems due to which the credit risk issues are reported on time (for instance: monthly close monitoring of the credit portfolio, presented to the Company's portfolio, can help identifying certain risk concentrations).

A rating system or scoring is used in credit risk valuation, system that facilitates the analysis of the information and elements presented in the financial documents of the customer (private individual).

With the aim of preventing the losses due to non-payment of delayed payment within a credit transaction, UCFin monitors the fulfillment of the client's obligations through:

✓ constant monitoring of the turnover through the customer's accounts – this must be relevant in relation with the granted loan amount;

✓ constant monitoring of the fulfilling of the credit contract stipulations (including the conditions);

✓ classification and allocation of loan loss provisions;

If deviations from the contractual conditions or deterioration of the customers' financial situation and solvency are identified, the Company must come with a written proposal to the customer in order for him to take some specific steps to eliminate the reasons that lead to these deviations.

The Company accepts exposures from the credits granted to private individuals differentiated according to the customer's associated risk and to the type of transaction/product. The correlation of the credit risk classes with rating classes is established through internal specific procedures regarding the provisions calculation and determination.

As the credit activity is permanently growing, the credit portfolio structure might suffer modifications, considering the Company's development strategy.

The departments responsible for identification, assessment, management and monitoring of the credit risk are the following: departments within the Risk and Collection Division, Operations Department, IT&C Department and Accounting Department.

Annex 2

Basel II Pillar 3 Disclosure
UniCredit Leasing IFN
for 2011

Chapter 1 – General requirements

1.1. Strategy and general framework of risk management

Unicredit Leasing Corporation IFN S.A. defines its strategies and general framework for the following risk types, without being restrictive:

1. Credit risk
2. Market risk
3. Liquidity risk
4. Operational risk
5. Reputational risk
6.

1. .2. Structure and organization of the risk management function

The risk control structure is based on a multitude of operational and control functions, defined in accordance with the Regulation of Organization and Operation of UniCredit Leasing Corporation IFN SA (UCLC), but also with the rules existing at group level.

The Supervisory Board (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 the SB has at least the following responsibilities:

1. Approves the Strategy for significant risks management
2. Approves the regulation of Risk Management Committee
3. Approves the annual report on Internal Control, Significant risks management and Internal Audit.
4. Analyzes the semestrial reports on the activity of the Risk Management Committee
5. Analyzes at least quarterly, the reports regarding the monitoring on credit activity and credit risk management.
6. Analyzes the problems and significant evolutions which could influence the risk profile and the results of UCLC.
7. Analyzes the detailed information that allow SB to aknowledge and evaluate performance management in monitoring and control of significant risks, according to approved procedures and the overall performance of the Non Financial Institution.
8. Analyzes the information on the company's risk exposure on a regular basis or immediately, in case there are significant changes in the current or future exposure of the company.

The Board of Directors is responsible for implementing the strategy and the policies on risk management. For that, the Board of Directors (BoD):

1. Monitors and insures control of significant risks
2. Ensures the communication of the company's strategy and policies on risk management.
3. Is responsible for an adequate control culture and the importance of a proper communication system regarding the internal control and risk management
4. Ensures a control system for framing in the established exposure limits
5. Analyzes the activities externalization opportunity in accordance with the internal policy on activities externalization
6. Defines the Human resources polices to ensure the hiring of specialized personnel, with experience and knowledge in the departments whose work generate risks.

Special committees for risk management

Risk Management Committee - is a permanent organizational structure which manages the significant risks, with significant impact on the economic situation and/or reputational of UCLC, and has the following responsibilities:

1. Supports the Board of Directors in the fulfillment of its responsibilities in connection with the identification, assessment and management of risks;
2. Informs the Supervisory Board about: the problems and significant evolutions that will be able to influence the risk profile and the results of UCLC; detailed information to facilitate the understanding of the management performance in monitoring and control of significant risks, as approved in the procedures; periodical information about the UCLC exposure to risks; approval of the management of significant risks strategy of the company.
3. Ensures the adequate development of the policies and procedures for the identification, assessment, monitoring and control of significant risks, it also establishes the competences and responsibilities on the line of risk control and management;
4. Follows up the reports for each risk category and the implementation of the recommended measures for risk management
5. Analyze the provisioning level both specific and general, from prudentially point of view
6. Establishes the limits of exposure to risk, including in situations of crisis, and the necessary procedures for approving the exceptions to the established internal limits;
7. Approves adequate methodologies and models of risk management for assessing the risks and monitoring the risk limits, as well as appropriate systems of risk reporting;
8. Follows up the implementation and the application of the risk management internal policies and procedures, and their conformity with the legal and internal provisions regarding risks and assure that the risk is prevented or at least that the impact is limited

At the company level there are established also the following committees with responsibility in the risk management activity

Audit Committee is a permanent Committee established according to local legislation and according to National Bank of Romania regulations. The Audit Committee assists the Company's Board of Directors in defining the principles and guidelines governing the entity's entire internal control system, on the basis of a risk-oriented approach, and assessing its effectiveness and efficiency, so that the main risks are properly identified, then measured, managed and monitored, subject to the Board's responsibility for all decisions on this matter.

The Audit Committee is represented by three members being subordinated to the Supervisory Board and having a consultative function.

Credit Committee – with responsibilities of approving the leasing/credit facilities according to its established competences in the sense of ensuring the quality of the clients portfolio by mitigating and limiting the credit risk according to the lending policies of the Group and of the company and in line with the National Bank regulations.

Credit Operations Division (CRO)
CRO Division works like a permanent organizational structure, with reponsabilities related to management of the general framework of risk management.
CRO division supports the Risk Management Committee and the Board of Directors through significant risks management monitoring systems.

Significant risks management activity is achieved through dedicated departments within the Credit Operations Division, as follows:

- Financial Analysis & Approval (Underwriting Dpt.)
- Risk Strategies and Control Dpt.
    - Strategic Risk and portfolio management
    - Risk Reporting
- Collection & WorkOut
- Restructuring

The dedicated departments for the risk control area have the following responsabilities:

- *Underwriting Department*:
    - Ensures integration of group lending policies, both through developing new internal regulations and amending existing ones according to the group policies;
    - Endorses the new product proposals or changes of the existing products;
    - Monitors and reviews periodically the company’s non-retail customers’ portfolio performance;
    - Defines operational policies and procedures related to financing activities;
    - Defines the credit risk strategy for the company's customer segments, industries and goods financed categories;
    - Regularly monitors indicators established in the company credit risk strategy and propose corrective measures in case their values have reached thresholds;
    - Regularly monitors concentration risk for the company customers’ portfolio;

- *Risk Strategies and Control Department:*
    - Monitors the implementation of projects in progress according to deadlines set by the Group, in correlation with the Basel II regulations;
    - Monitors the fulfillment of all quality conditions regarding the development, validation and implementation of projects related to PD, LGD, EAD, in order to achieve the ultimate goal: the advanced approach implementation based on internal rating models;

- Monitors the company customers' portfolio based on specific indicators and reports;
- Regularly prepares reports for the use of the company management (Risk Management Committee, Supervisory Board) and to other departments within the company;
- Prepares reports on the company customers' portfolio according to the Group requirements;
- Monitors indicators established in the company risk profile;
- Estabilishes the provisioning process by preparing and reviewing the specific internal regulations (for provisions calculated in accordance with the IFRS requirements)
- Monitors the customers' portfolio evolution (on customer segments, default types, industries, types of financed goods, sales channels, etc.)
- Monitors the quality of loan portfolio in terms of Group requirements.

- *Collection & WorkOut Department:*
  - Defines the strategies of recovering the debts
  - Realizes internally soft collection activity for clients with higher exposure and monitors and support the external partners in the collection activity
  - Decides and realizes the cancelation of the contracts for bad debts
  - Manages the repossession activity (externalized) and the relation with the Police and other institutions; the assets recovered are cashed in by rearketing activity developed in Leased Asset Management Department.
  - Monitors the new insolvency cases
  - Manages the relation with the lawyers (external) on insolvency cases, penal charges and legal execution files
  - Regularly sends reports to the company management and to other departments within the company
- *Restructuring Department*:
  - Defines the restructuring strategies, negociates, approves, implements and monitors the restructuring cases
  - Coordinates with UniCredit Tiriac Bank when the case is common
  - Monitors the clients with risk of default and take pro-active measures
  - Coordinates with the Collection and WorkOut Department regarding the strategies for customers
  - Monitor the rescheduled cases for provisioning impact and further developemnt
  - Regularly sends reports to the company management and to other departments within the company

Chapter 2 – Own funds structure

The structure of regulatory capital is detailed by own funds statement of the credit institution at the end of the financial year 31.12.2011 (amounts are expressed in RON):

Elements taken into account	No. row	Amount
Subscribed capital paid / endowment capital	1	40,930,730
Premium related to capital	2	
Legal reserve	3	1,252,843
Statutory or contractual reserves	4	
Other reserves from net profit	5	
Net profit carried forward	6	11,224,584
Interim net profit recorded until determination of own funds, net of any foreseeable liabilities and verified by the individuals involved in the field of non-bank financial institutions, according to the accounting and valuation principles and rules in force	7	
Total (row 1 to row. 7)	**8**	**53,408,157**
The amounts of net profit of the previous financial year consisting in dividends	9	
Loss carried forward	10	
Current financial year result representing loss	11	
Profit appropriation	12	
Depreciated value of set-up costs	13	
Depreciated value of other intangible assets	14	4,529,773
Depreciated value of goodwill	15	
Value of intangible assets in progress and advances granted for intangible assets	16	
Own shares repurchased to reduce capital	17	
Value of transactions on terms of favor (if applicable)	18	
Total (row 9 to row. 18)	**19**	**4,529,773**
Equity (row 8 - row 19)	**20**	**48,878,384**
Reserves and special funds created under special regulations	21	
Reserves from revaluation of tangible assets and other revaluations according to the law	22	
Subordinated loans received, including funds made available to non-bank financial institutions, treated by law as subordinated loans	23	95,033,400
Other elements of nature of funds and / or stocks that meet the requirements of Art. 62, para. (2) of Regulation *)	24	
Additional capital (total row. 21 to row. 24)	**25**	**95,033,400**
Amounts representing interests in other entities, which exceed 10% of the share capital of the latter, subordinated loans and other receivables of a similar nature to those entities	26	
Own funds (row 20 + row 25 - row 26)	**27**	**143,911,784**

Chapter 3 – Risk capital adequacy

Qualitative informations

For the calculation of regulatory capital, UCLC applied during 2011 the requirements of Regulation No.20/13.10.2009. According to this Regulation non banking financial institutions must keep own funds at least at the level of minimum required subscribed capital and the aggregated exposure of the institution should not exceed 1500% of the own funds. In order to calculate the needed capital according to Group rules, UCLC used during the year 2011 the standard aprroach for credit risk.

Within UCLC the tasks related to the calculation and monitoring of needed capital are performed by the specialized departments of Financial Division and CRO Division.

For complying with capital adequacy requirements established by Regulation No. 20/13.10.2009 and Group rules, UCLC is involved in a permanent evaluation process of capital requirements, for sustaining current and future activity, which implies the following processes:

1. Budgeting
2. Monitoring and analysis
3. Forecasting

For the **budgeting** process:

- The different business segments provide the budgeted volumes for the following year;
- Risk Strategies and 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 objectives, UCLC establishes measures for optimizing the structure of its loans and guarantees.

Monitoring and analysis process implies:

- Monthly calculation of capital requirement;
- RWA optimization actions;
- Optimal capital allocation in order to add value to the shareholders.

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.

Chapter 4 – Credit risk: general aspects

Assessment, identification and credit risk management

UCLC is exposed mainly to credit risk in financing activities. Credit risk is the most important type of risk the company is facing. Thus, the most important risk generating activity is financing, but any other activity of the company may be generating potential credit risk (extra balance sheet commitments, the formation of deposits and so on).
The following types of risks are considered components of credit risk in our company:

A. The risk of default;
B. The concentration risk;
C. The residual risk.

Credit risk management involves a set of principles and practices oriented towards the following directions:

1. Establishing an adequate framework and parameters for credit risk based on the following sub - principles:

- Reviewing the credit risk strategy and UCLC risk policies by competent decision makers, at least annually;
- Policies and procedures take into consideration and cover credit risk identified in all UCLC activities, both at individual financing and at portfolio level;

2. Promote and operate a healthy and robust process to grant funding under the following sub – principles:

- Operating on the basis of clearly defined risk criteria, indicating the target market for each client category, purpose and structure of funding and repayment source;
- Establishing a clear and consistent process for financing approval and renewal for already granted financing (Specific procedures for financing) ;

3. Promoting and maintaining an adequate management, measurement and monitoring financing process, based on the following principles:

- Having in place a monitoring and collection system (debt collection procedure);
- Using a rating and scoring system for assessing clients' creditworthiness (credit scoring for individuals and entrepreneurs, but also for companies with standard products, rating for corporate clients and public institutions);
- Using certain applications for automated credit processing.

4. Providing a permanent control on loan portfolio based on the following principles:

- UCLC has the opportunity to control the process of financing by using processing application (e.g. you can view the parameters, financing conditions, application users, etc.). This process is completed by the Contract Validation Department from Global Business Services (GBS) Division;
- UCLC can mobilize at any time responsible people for internal checks in order to check whether all procedural and individual / per funding requirements are in place;
- Using specific reports on exposures, outstanding, provisions, etc.

Specific procedures for credit risk management and mitigation

Policies and procedures related to lending and credit risk are established and implemented according to assigned roles and responsibilities so as to ensure the following:

- maintaining healthy financing standards;
- monitoring and controlling credit risk;
- identifying and managing non-performing loans.

The entities involved in financing and monitoring activities ensure credit risk management both at each financing level and on an aggregate level across the whole portfolio, credit risk elements are analyzed in correlation with other risk types that are in a close relationship of interdependence, considering the following main coordinates:

- concentration risk;
- default risk;
- residual risk

Measures taken by UCLC in the direction of credit risk mitigation are focused on:

- assessing the debtors' reimbursement capacity at individual level;
- establishing specific credit risk provisions to absorb expected losses;
- avoiding concentration of loans on: sectors, geographical areas, categories of debtors, financing products;
- spreading the credit risk by diversifying customer database and product types financed;
- consulting credit risk information - CRB;
- consulting information regarding payments incidents – CIP;
- monitoring the exposure undertaken by the company from "a single debtor" and / or persons in special relationship, to which UCLC has large exposures;
- monitoring the quality of the database from the company computer system;
- monitoring the performance of the company customers' portfolio;
- periodically reviewing the customer's analysis system (scoring system);

Credit risk mitigation techniques

In order to mitigate *credit risk*, credit risk activity in Unicredit Leasing Corporation was based on the following elements:

- ✓ Taking credit exposure of counterparties with a performing rating
- ✓ The rating of borrowers is subject to regular review at least annually, according to internal rules
- ✓ In order to limit concentration risk, exposure limits are set by activity sector, category of borrowers and ratings, etc.
- ✓ To reduce risk exposure UCLC finances standard objects and uses eligible collateral according to the law, but also in line with the approach chosen for implementation of Basel II and relevant rules and internal procedures;
- ✓ The process of financing and credit risk assessment is subject to regular review in order to be adequate to the size, complexity, strategy development, etc., and last but not least the legal regulations

- ✓ Detailed analysis of the entire portfolio of financing and collateral, are performed regularly
- ✓ Implementation of a systematic and logical method to condolidate the estimated loss and ensurance that provisions are recorded in accordance with applicable accounting framework (national standards and IFRS) and relevant prudential regulations;
- ✓ Continuous monitoring of the clients portfolio.

In order to minimize and prevent the *default risk*, activities in Unicredit Leasing Corporation were based on the following elements:

- ✓ All grants needs to be reviewed at least once a year to the significance threshold defined and approved by UCLC. The periodical verification process is conducted at group debtors' level and it is conducted by the working point in business relations to the largest company within the Group.
- ✓ Periodic review process is conducted even when the classification of risk financing / company has not changed in a year, or it improved and whenever the main features of a funding change.
- ✓ Credit Operations Division monitors and develop data bases of non-performing loans and incidence of overdue loans.
- ✓ Client performance analysis is based on the financial and qualitative information and the assignment to a proper rating class is made in accordance with the laws in force and the internal rules and procedures.
- ✓ All departments and branches involved in financing activity monitor continuously, or, if necessary, periodically the financial status of the debtor and its ability to meet its outstanding obligations.
- ✓ In the event of overdue payment, customers are notified and it is tried to resolve the incidents.
- ✓ When overdue loans exceed the limits imposed by law or have exceptional character, local legislation and internal rules and regulations are applied.
- ✓ Information about debtors comes from independent sources, allowing cross-checking;
- ✓ Consultation of information provided by authorized entities in Romania, such as CRB, CIP, etc.
- ✓ UCLC does not engage in financing relationships with these categories of borrowers:
  - Bad paying customers;
  - Customers who are involved in legal processes which may affect the moral reputation of the institution or affect the debtor's ability to pay;
  - Customers with successive financial losses and further deterioration in financial situation, with no prospect of recovery;
  - Customers who appear in police records for cases of false documents and statements, fraud, theft, etc.
  - Customers who are involved in money laundering or terrorism activities
  - other categories of clients that can induce significant business risks to UCLC

In order to minimize and prevent the *concentration risk*, the activities in Unicredit Leasing Corporation are based on the following items:

- ✓ To prevent risk concentration in one activity sector, credit risk exposure limits have been established and continuously monitored, as a percentage of the total portfolio;

- ✓ Exposure limits have been set by product category - for retail customers and / or corporate, aiming at a balanced distribution in the structure of the total portfolio of UCLC
- ✓ Exposures to counterparties that exceed the limit of 10% of UCLC's own funds are monitored monthly and reported to top management and Supervision Department of the National Bank of Romania.

CHAPTER 5 – Market Risk

Market Risk is defined as risk of losses registering or estimated profits not performing, which appears at as a consequence of prices, interest rate and exchange rate fluctuations.

In case of UCLC, the market risk has the following two components:

- Foreign exchange risk (FX)
- Interest rate risk

Market risk is monitored through quarterly analysis by the Planning Department together with the Treasury Department. The analysis is made on interest type and currency type but also on each maturity in order to find the gaps between assets (portfolio) and liabilities (refinancing) with regards to the above mentioned factors that could influence market risk. All data presented in the quarterly market risk report are verified and reconciled with balance sheet data sent by the Finance Department. The data are being analysed by Management and by the Group and measures are proposed and also taken in order to reduce the gaps between financing and refinancing with regards to interest types, currency types and also maturity classes.

The main sources of risk associated with interest rate is poor correlation between the maturity (for fixed interest rates) or the date of repricing (for floating interest rate) for interest bearing assets and liabilities, the negative evolution of the slope and shape of the yield curve (evolution of interest rate yields unparalleled income generating assets and interest bearing liabilities).

Market Risk management is achieved through:

- Identifying, monitoring, analysis and market risks control: currency risk, interest rate and liquidity, according to group guidelines and requirements of the National Bank of Romania;
- Reporting of market risk issues to UCLC management;
- Ensuring liquidity in RON and other currencies by the Treasury team (effective completion of the transactions in the market);
- Assessment of financing opportunities and active implementation;
- Analyzing the evolution of UCLC balance sheet considering the evolution of economic variables / market.
- Analysis of foreign exchange position in each currency (RON, EUR, USD)
- Analysis of interest rate position on each type of interest (fixed, variable)
- Liquidity analysis separately for each maturity (short, long)

In order to mitigate market risk, the company, during 2011:

- applied the principle of financing, "back to back" (the same interest and same currency for both financing and refinancing)

- transferred the currency risk for the period between invoicing and cash in, to the client, by reinvoicing these exchange rate differences (contractual conditions are adjusted accordingly)

CHAPTER 6 – Liquidity Risk

Liquidity risk reflects the possibility that UCLC can have difficulties in making expected or unexpected cash payments when due, thus affecting daily operations or financial condition of the company.

Liquidity risk is managed by Finance Department, Treasury team which reports to the Chief Financial Officer (CFO) and is managed on a consolidated basis as defined by Group Policy liquidity.

In the liquidity risk, the following risks are taken into account:
- discrepancies in liquidity risk
- market liquidity risk
- refinancing risk

UCLC makes a clear distinction between short-term liquidity management (day-to-day management) and the management of medium and long term financing needs, avoiding the possible liquidity problems.

To manage short term liquidity risk, the company monitors the daily cash flow forecasts compared with the total liquidity position and the position of the exchange rate. UniCredit Group supports the company with necessary funds for refinancing and flexible repayment terms, so the risks of liquidity in all other forms are eliminated.

The company uses as an alternative to the refinancings obtained from UniCredit group, long-term cooperation with several international financial institutions.

In order to identify, quantify and report the liquidity risk, the following are taken into consideration:

- Liquidity is calculated and monitored daily
- The Board of Directors of UCLC is notified weekly about the situation of liquidity and its evolution over time
- Department responsible for managing liquidity risk prepares reports for
  - size / amount and structure of future operations
  - volume and maturity of assets and liabilities
- Policies and internal regulations of UCLC, and experience and qualifications of personnel involved in liquidity monitoring.

Liquidity risk management is seen in correlation with other major risks that may influence liquidity situation: credit risk, operational risk, reputational risk and interest rate risk, etc.

Among the main causes resulting in liquidity risk, can be distinguished:
1. Mismatch in time flows between in / out of cash (liquidity mismatch risk), this risk depends on the maturities structure of the balance sheet.

2. Failures in financial markets, especially money market (market liquidity risk) may occur as a result of events that most authorised market participants did not expect or because of lack of development and maturation of the market.

To manage liquidity risk UCLC is using specific reports as follows:

1. For short term liquidity risk management, the following reports are produced:

• Weekly liquidity ratio (cash position) that includes all available money in bank accounts held by the company

• A quarterly report on liquidity maturity which presents the assets situation (lease portfolio) and liabilities (refinancing lines) taking into account their maturity.

2. Structural liquidity management and funding needs

• In the second part of the year, in the budgeting process, Planning & Control team prepares annual financing plan, based on estimates of the evolution of assets and liabilities.

CHAPTER 7 – Operational Risk

Operational risk exposure

Operational risk exposure of UCLC results from the possibility of occurrence of operational risk events due to 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, fines and penalties due to regulation breaches, damage to company's physical assets, business disruption and system failures, process management.

Identification and collection of operational risk losses is based on the following categories:

4. **Internal frauds** – losses resulting from actions intended to defraud, misappropriate property of goods (in legal way) or circumvent regulations, the law or Company's policy, involving at least one party inside the Company and excluding malicious damage. The internal fraud is originated inside the Company and the internal nature of the event must be definitely ascertained, otherwise it should be considered as external fraud.

5. **External frauds** – losses resulting from actions intended to defraud, misappropriate property or circumvent the law committed by a third party, without the assistance of an employee and excluding malicious damage.

6. **Employment relationship and safety at work** - losses from violating employment or health or safety laws and agreements, personal injury claims or diversity discrimination events/practices.

7. **Clients, products and business practices** - unintentional or negligent failure to meet obligations to clients (including fiduciary and suitability requirements) or from the features of a product. The events where the Company committed an improper business act fall into this category, likewise when it has been the victim of similar practices by other Company.

8. **Damage to physical assets** - losses resulting from deterioration of physical assets, caused by natural disaster or other similar event type.

9. **Business disruption and system failures** are losses arising from interruptions or inadequate functioning of systems.

10. **Execution, delivery and process management** are failed transactions processing or process management, or losses coming from relations with counterparties and vendors. These events are not intentional and involve documenting or completing business transactions.

The strategic objective in terms of operational risk is to significantly reduce losses due to the production of operational risk, respectively losses due to inadequate internal processes, human error and errors of various automated systems and those due to factors external to the company.

Risk Strategies and Control department in Credit Operations Division interact with all departments in order to collect and validate data, operational risk exposure analysis, for scenario analysis, defining action plans and monitoring operational risk indicators.

In order to mitigate operational risk UCLC performs periodical activities as follows:

Monthly activities related to operational risk:

1. Operational risk losses collection and reporting.

Monthly email is sent by the Operational Risk Manager (ORM) to all heads of departments in order to collect information and updates about operational risk events. Following the responses received, information is collected and key information is recorded in the Operational Risk Database by the reporting officer. As a second level control, the ORM verifies the completeness of records by generating a monthly report which is compared to the data received from all the heads of departments.

2. Operational risk indicators

Operational risk relevant indicators were chosen following discussions with managers of several departments. Eventually a number of 10 indicators have been chosen and they are computed monthly or quarterly based on data from the following departments: Human Resources, Sales, Customer Operations, Credit Operations. For each indicator there is a calculation formula and several thresholds of significance which have been established in collaboration with the departments' managers.

Quarterly activities related to operational risk:

ORM reports quarterly to the Board of Directors and also to all the Heads of Departments company losses caused by all operational risk categories from the last quarter. Following the presentation, the Board takes the necessary decisions to optimize the measures to reduce future recurrence of the same events. To monitor recurrence, ORM has the obligation to track and report on possible future events caused by the same factors.

Annual activities related to operational risk:

1. Accounting reconciliation

After a preliminary general ledger analysis, operational risk relevant accounts are identified by ORM

in cooperation with Head of Finance and reconciliation is performed once a year. Verifications are made in a double way: all the operational risk events reported in ARGO database are checked to be booked in accounting and all general ledger accounts (profit and loss) higher than a certain threshold are verified in order to see if they represent operational risk losses. If they are identified as operational risk events they are checked to be booked in ARGO database.

2. Operational risk scenarios

In order to identify measures to avoid losses associated to operational risks, a certain number (agreed with the Board of Directors) of scenarios are presented every year (some operational risks are chosen for which some scenarios are simulated e.g. Internal fraud, External fraud, Employment practices and workplace safety, Clients products and business practices, Damage to physical assets, Business disruption and system failures, Execution, delivery and process management)

CHAPTER 8 – Reputational Risk

Reputational Risk Identification

Reputational risk refers to the potential risk to profits and capital arising from negative perception of the image of UCLC from customers, third parties, shareholders, investors or regulators. This impact could affect the company's ability to establish new business relationships or continue existing partnerships with customers.

Reputational risk is defined by the possibility of negative publicity (media), true or not, regarding company practices could cause a decrease in the customer database, sales revenue and / or costly actions in court.

From the point of view of reputational risk potential, a special attention must be granted to the following aspects:

11. Reaching or exceeding the limits established for the significant risks;
12. Reaching or exceeding some limits of the financial indicators (liquidity, solvability, etc);
13. Electronic mail – risk potential due to sending, by error or with intention, of some confidential/wrong information from the inside of Company to outside by e-mail, containing identification data from Company side;
14. External communication through unauthorized staff – risk potential by presenting partial data, personal points of view or breaking the confidentiality norms;
15. Staff fluctuations – pressure from the information confidentiality point of view, and also risk from procedures acquirement point of view regarding the Company's processes and especially of internal and external communication rules;
16. Negative media campaigns – risk potential by unilateral presentation of some aspects from Company's activity;
17. Focusing on specific sites of some opinion exclusive from unsatisfied customers, argued or not, aspects in question and notified to the responsible divisions/departments by the Company's staff;

Reputational Risk management and monitoring

In order to prevent reputational risk, UCLC considers:

- Highlighting the overall corporate communications strategy for each year, which includes a component of crisis management
- External communications (interviews with members of management) – should be prepared in collaboration with the Department of Marketing and Communication.
- Based on information from publications and from each of the operational segments of the company, Marketing and Communication Department establishes communication strategy for each action identified as possible reputational risk.
- Investing in processes, procedures and controls (e.g. periodic questionnaires, internal trainings, etc.).

Reputational risk management is carried out through:

- Appropriate application of KYC (know-your-customers) rules and regulations in force relating to the prevention and combating money laundering
- Selecting customers who request financing, through a rigorous analysis,
- Adequate training of staff in charge with customer relationship management, including topics related to banking secrecy;
- Taking appropriate measures to manage and mitigate the extension of negative consequences by the internal structure within which the reputational risk generating element appears
- Development of appropriate forms of presentation / communication and information materials to promote the company's activities.
- Reputational risk assessment may be qualitative or quantitative (taking into consideration: the number of suspected money laundering cases reported to the authorities, the number of new disputes in a period that can generate losses for the company, the number of customer complaints and resolved customer complaints in favor of the customer in a period etc.).

A specific compliance activity does not eliminate reputational risk, but reduces the frequency and severity of incidents as well as the severity of reactions from regulatory bodies.

UCLC permanently attempts to limit reputational risk through a transparent and effective communication.