UniCredit Țiriac Bank

BASEL II PILLAR 3 DISCLOSURE REPORT

according to

NBR Regulation nr.5/ 20.12.2013
regarding prudential requirements for credit institutions

and

Regulation no.575/ 2013 of European Parliament and Council dated 26.06.2013
regarding prudential requirements for credit institution and investment companies
and amending Regulation (UE) no.648/ 2012

Report reference date: 31st of December, 2013

Chapter 1 – Objectives and policies of risk management

A. Objectives and policies of risk management

1.1.Strategies and processes of risk management

Risk management is a priority of UniCredit Tiriac Bank (the Bank) management, being considered as an essential and mandatory condition in ensuring the Bank stability and performance. Risk management is involved actively in the development of significant risk strategy of the Bank and decisions regarding their management, providing a complete picture of the full range of risks to which the credit institution is exposed.

Risk management implies the prevention, limitation and monitoring of Bank’s risk exposures, as well as determining the level 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 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 UniCredit Tiriac Bank’s strategic objectives.

Risk management processes involve techniques for quantifying and monitoring risks which are based on a set of principles for risk management harmonized with the best international practices.

UniCredit Tiriac Bank has a risk management framework that takes into account the specific risk profile of the bank's activity consisting of specific policies and processes for identifying, measuring, monitoring and control of all risks identified by the bank, including those related to off-balance sheet transactions that could adversely affect banks objectives. So, for all activities and for each significant activity it is set up a level of risk and profit ratio that the Bank considers acceptable in terms of ensuring business continuity on sound and prudent basis.

The regulations and processes that the Bank has implemented correspond to the overall strategy being correlated with the level of own funds and the Bank's experience in risk management, as well as with the level of risk adjusted exposure set by the Bank management.

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.

Among the committees with risk management responsibilities there are included the following: Supervisory Board, Management Board, Audit Committee, Risk Management Committee, Credit Committee, whose responsibilities being set out in the UniCredit Tiriac Bank Annual Report.

Also, an important role in risk management is played by Risk Management Division, which operates as a permanent organizational structure, with roles and 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 continuous monitoring of the risks related to the Bank activity.

1.3 The scope and type of systems for reporting and risk measurement

The Bank's risk management framework includes policies, procedures, limits and controls in order to ensure the identification, assessment, monitoring, mitigation and reporting of the risks related to its activities, at business lines and overall level of the credit institution.

During 2013, the following significant risks were identified: credit risk, market risk, operational risk, business risk, financial investment risk, real estate risk, liquidity risk, reputational risk and strategic risk.

The risk management responsibility is not limited to the risks or specialists in internal control functions. Thus, business units are primarily responsible for the daily management of risk, given the tolerance / risk appetite of the Bank and in accordance with the policies, procedures and controls set out in the Bank.

Risk management policies are formulated based on a comprehensive assessment of the activities in the bank structures. These policies establish a system for reporting risk exposures and a clear framework for risk management. Reporting lines and allocated responsibilities and powers within the Bank are clear, well defined, consistent and effectively implemented.

The Bank has regular and transparent reporting mechanisms so that the management and all relevant units receiving reports timely, accurate, concise, understandable and meaningful and can exchange relevant information on the identification, measurement, monitoring and controlling risks. Reporting framework is well defined, documented and approved by the management.

Reporting systems and measurement of risks are implemented, on each business line, but also on credit institution overall level.

The specific indicators for monitoring of significant risks and the limits of exposure to significant risks are monitored at least quarterly and reported to the Risk Management Committee and, where appropriate, to the executive management of the Bank.

Relevant departments within Risk Division and Planning Division/ Financial Management prepare periodically quarterly reports related to the relevant indicators for the Bank's risk profile.

B. Administration framework

1. The policy regarding the selection and appointment of board members

The policy regarding the selection and appointment of board members of the management structure process stipulates that:

- equal treatment for all applicants: no matter they have applied internally or externally;
- the vacant positions are listed internally or externally;
- the eligible candidates are selected based on the job profile and the job description of the vacant position;
- the Bank requests from the candidates 3 contact persons that can give references regarding their former activity.

Also, when selecting the candidates for the management positions, for the following skills are considered:
- good abilities of conflict management; the ability of not taking any decision when a conflict of interests appears;
- relevant experience, taking into consideration the dimensions and complexity of the Bank;
- to evaluate periodicaly, the activity administration procedures and to modify them when necessary;
- to promote procedures and activities with no negative impact on the Bank, to understand the regulatory frameworkand to make sure that mantains an afficient relationship with the Supervisors Authorities.

Within the recruitment process, the skills and competencies that are evaluated follow the Group competencies model and the job specific requirements.

2. The Policy regading Diversity in the selection of people in the management structures reffers to:

- the continuous concern regarding the non-discrimination of the candidates by different criteria acoording to the legislation (race, sex, religion, sexual orientation, political beliefs etc);
- the recruitment process to be developed and held without any internal or external pressures;
- the concern for the recruitment process to be uniform and nondiscriminatory (for this one or more business managerial levels and an HR representative are involved in selecting the most suitable candidate);
- the concern that for the managerial positions both genders will be present in the short-list no matter the candidates are internal or external ones.

When an external provider is involved in the recruitment process the Bank assures that they know about the commitment in implementing the agreed targets and follow the ‘’The Gender Equality Global Policy’’.

3. Number of mandates held by board members

MB Members	Other mandates in MB/ Board of Directors	Other mandates in SB/ Board of Directors	Other mandates in MBs/ Board of Directors
CEO	3 additional mandates	Chairman	3 additional mandates
Deputy CEO	2 additional mandates	Member	3 additional mandates
Member	2 additional mandates	Member	2 additional mandates
Member	n/a	Member	6 additional mandates
Member	n/a	Member	2 additional mandates
Member	n/a	Member	3 additional mandates
Member	2 additional mandates	Member	6 additional mandates
		Member	6 additional mandates
		Member	n/a
		Member	n/a

Chapter 2 - Scope of application

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

Accounting consolidation

In January 2013, the Bank (UniCredit Tiriac Bank SA) acquired 417,208 shares of UniCredit Consumer Financing IFN SA (hereinafter UCFIN) from UniCredit SpA, which resulted in increasing stake in UCFIN from 46.06 % to 50.10 %. Simultaneously, the Shareholders Agreement and UCFIN's Statute were changed to reflect the transfer of control of UniCredit SpA on UCFIN to the Bank, including the Bank's right to appoint the majority of members of the Supervisory Board of UCFIN. Therefore, previously being an associate entity, UCFIN became a subsidiary of the Bank. The acquisition was accounted at book value, given that both entities are under the common control of UniCredit SpA, the final parent company.

Bank holds a 20% stake in UniCredit Leasing Corporation IFN SA (hereinafter UCLC), an entity that provides financial leasing services to local and foreign clients. Bank accounted for the interest in accordance with IAS 28 "Investments in associates and joint ventures" and deducted this exposure form own funds in the consolidated statements.

At the individual level, the stakes held in companies UCFIN and UCLC are deducted from own UniCredit Tiriac Bank SA.

Chapter 3 – Supervisory consolidated capital structure

The composition of the equity for the regulatory purposes is detailed by the own funds report of the Bank at yearend (all amounts are in RON and presented at consolidated level):

Own Funds	31 December 2013
1.1.1.1. Paid up capital	1,101,604,066
1.1.1.2. (-) Own Shares	-
1.1.1.3. Share premium	55
1.1.1. Eligible capital	1,101,604,121
1.1.2.1.01.A. Gross reserves	1,582,284,399
1.1.2.1.01.B. Predictable tax liabilities	-28,352,744
1.1.2.2 Minority interest	64,566,860
1.1.2.3.01 Audited result for current year	87,670,880
1.1.2. Eligible reserves	1,706,169,395
1.1.5.1.A. Intangible gross assets	-126,566,889
1.1.5.4 Other deductions specific to Romania (loans for ex-staff remaining in favourable conditions)	-1,787,683
1.1.5. Others deduction from own funds	-128,354,572
1.1. Level 1 own funds	2,679,418,944
1.2.1.3. Revaluation reserve	14,966,066
1.2.1. Basic level 2 own funds	14,966,066
1.2.2.3. Subordinated loans	259,262,100
1.2.2. Supplementary level 2 own funds	259,262,100
1.3.1.A. (-) Holdings in other credit and financial institutions amounting to more than 10% of their capital (gross value)	-823,800
1.3.8.(-) In case of internal rating based approach, the provisions minus and the expected loss value of the receivables coming from equity	0
1.3. (-) Elements deductible from the level 1 and level 2 own funds, from which	-823,800
1.3.T.1 From the level 1 own funds	-411,900
1.3.T.2 From the level 2 own funds	-411,900
1.4. Total 1 own funds level	2,679,007,044
1.5. Total 2 own funds level	273,816,266
1. TOTAL OWN FUNDS	2,952,823,310

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.

- the loan agreement shall not include any clause providing that, in specified circumstances, other than the winding-up of the credit institution, the debt shall become repayable before the agreed repayment date.

Chapter 4 – Capital adequacy

4.1 Capital adequacy assessement

During 2013, within the bank, was continued the sustained process for completing the internal methodological framework with specific Basel II Pillar II regulations, mainly as regards to ICAAP general framework, stress tests, setting and monitoring of risk appetite, capital management rules, rules regarding the new risks identified by the Bank as significant.

During 2013 the Internal Capital Adequacy Assessment Process ("ICAAP") was made in accordance with Regulation no 18/200, with subsequent amendments and modifications, representing an independent assessment of the current and future internal capital, related to the risks the bank is facing and in line with the Bank's strategy. That is to say that UCTB assesses the balance between the assumed risk and the available capital consistently with the strategy and assumed objectives, respectively the internal capital and the available financial resources.

The internal capital is represented by the sum of the economic capitals calculated for each risk based on internal models (ex. CVaR, VaR, etc.).

The ultimate mission of the capital adequacy is to ensure that it forms an integral part of day-to-day management and decision-making processes such as: embedding risk management measures and the capital needed in strategic planning, introduction of risk analysis in strategic planning and budgetary processes.

Thus, the Bank, owns, develops and manages its risk management processes, respectively to implements processes and tools to assess the level of internal capital adequate to support each type of risk, including for 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.

4.2 Internal capital adequacy

Qualitative disclosure

For calculating the regulatory capital requirements for credit risk, the Bank applied, till June 2012, the Standardized Approach (according to NBR and NSC Regulation 14/ 19/ 14.12.2006). Starting with July 2012, the bank applied, for the calculation of the regulatory capital requirements for credit risk, the Foundation Internal Rating Based Approach, according to NBR and NSC Regulation 15/ 20/ 14.12.2006 (due to the joint approval received from bank of Italy, FMA and National Bank of Romania) for the following segments of clients: corporate (except for real estate clients and specialized financing), multinational companies, banks and securities industries. For the rest of the portfolio, the Bank continued to use the standardized approach.

For calculating the regulatory capital requirements for market risk, the Bank used the Standard Approach (according to NBR and NSC Regulation no. 22/ 27/ 14.12.2006), while for operational risk the Bank used the

Advanced Evaluation Approach (according to NBR and NSC Regulation no. 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

Quantitative disclosure at consolidated level (amounts in RON)

No	Items components	**December 2013**
2	CAPITALIZATION REQUIREMENTS	**1,482,819,511**
2.1.	Total capital requirements for credit risk, counterparty credit risk, dilution risk and incomplete transactions	**1,281,085,946**
2.1.1	Standard approach	**577,682,851**
2.1.1.1b.01	Central administrations or central banks	-
2.1.1.1b.02	Institutions	14,969,471
2.1.1.1b.03	Companies	248,112,170
2.1.1.1b.04	Retail	286,596,517
2.1.1.1b.05	Equity	214,662
2.1.1.1b.06	Assets, other than credits	27,790,031
2.1.2	Internal rating based approach	**703,403,084**
2.1.2.1	Internal rating based approaches when there are not used own estimations for loan losses or conversion factors	374,039
2.1.2.1.01	Central administrations or central banks	46,908,703
2.1.2.1.02	Institutions	656,120,342
2.1.2.1.03	Companies	**11**
2.2	SETTLEMENT/DELIVERY RISK	**-**
2.3	TOTAL CAPITALIZATION REQUIREMENTS FOR THE POSITION RISK, CURRENCY RISK AND THE RISK REGARDING THE GOODS	**208,512**
2.3.1	The position, currency risks and the risks regarding the goods, according to the standard approach	208,512
2.3.1.1	The position risk related to the securities resulted from transactions	208,512
2.3.1.2	The position risk related to the capital securities	-
2.3.1.3	Currency risk	-
2.3.1.4	The risk regarding the goods	-
2.4	TOTAL CAPITALIZATION REQUIREMENTS FOR THE OPERATIONAL RISKS	**201,525,053**
2.4.1	Standard approach	9,920,021
2.4.2	Standard approach / Alternative Standard approach	-
2.4.3	Advanced Approach	191,605,032
3.2	Own funds surplus (+) / deficit (-)	1,470,003,799
3.2.a	The solvency ratio (%)	**15.93%**

Chapter 5 – Credit risk

5.1 Objectives and policies related to credit risk management

5.1.1 Strategies and processes for credit risk management

Credit risk strategy is established by all the Bank's activities that present a significant exposure to credit risk. The BANK's credit risk strategy is reviewed periodically, at least once a year and is approved by the Bank's management structure. The strategy regarding credit risk reflects the tolerance to risk and the profitability level which the BANK intends to achieve in the conditions of the exposure to the assumed risks.

The Bank has established risk management processes and has tools in order to identify, measure, monitor and control the credit risk.

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.

The exposures related to credit risk are limited to specific thresholds set in the Bank's general strategy.

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 credit risk margin related to the client internal rating.

The threshold starting from which credit risk is considered significant is reflected through maximum limits of exposure and significance thresholds, respectively through risk tolerance. These limits are monitored periodically and they are submitted to relevant committees.

5.1.2. Organizational structures with responsibilities related to credit risk management

Credit risk management is provided by the Credit Risk Management Department, whose mission is to:

- Provide a qualitative and quantitative view on credit risk management by providing an operative and efficient framework for credit risk management, an essential element in supporting credit decision-making;
- Implementing policies and strategic guidelines for credit risk;
- Implementing strategies and risk profile / risk appetite;
- Implementing the Basel II requirements;
- Ensuring internal control in the credit risk area;
- Drafting of credit risk reports and internal reports to the group, local authorities and other counterparties

The credit process is developed based on the specific procedures for granting / approval and loan administration.

In the credit risk management process is considering the appropriate allocation of duties are clearly defined in specific lending procedures so as not to be assigned responsibilities that lead to conflicts of interest.

5.1.3. The scope and type of reporting systems and measuring credit

In order to evaluate the basis of prudential exposure to credit risk, in the Bank were implemented rating and scoring systems (through consideration of quantitative factors, qualitative factors payment behaviour and related factors), from all categories of clients with which the classification is done based on the assessment of exposures credit risk borrowers throughout the loan life cycle, by reference to a general scale assessment of default risk.

Internal ratings and default probability plays an essential role in the whole process of credit risk management in UniCredit Tiriac Bank. Rating assessment is an important part of the credit approval process. Credit risk tolerance is considering granting credit limit class rating / scoring. The clients do not lend rating / scoring underperforming as internal classification.

In addition, the risk reporting and portfolio management focuses on rating (in addition to information on debt service).

5.1.4 Specific processes and procedures for credit risk management

- Credit Risk Mitigation Techniques within UniCredit Tiriac Bank imply the following: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:

- Procedures of risk management in the stage of credit granting
- Procedures to prevent and mitigate default risk
- Procedures to prevent and mitigate the settlement risk
- Procedures to prevent and mitigate concentration risk
- Procedures to prevent and mitigate residual risk
- Procedures for the prevention and diminish of the risk related to foreign currency lending of the debtors exposed to currency risk
- Specific processes to manage „problem” assets
- Specific processes to manage non-performing assets

- Adequacy of credit risk procedures, policies and management tools, in line with the strategy thus:

  - The identification of the risk associated to the customer by applying scoring or internal rating specific for each client category; the analysis of the customer’s rating, which is achieved by an internal assessment system;
  - Requesting complete and adequate proving documents from customers according to the type of financing and to the risk associated to it;
  - The approval of the standard parameters of lending products by the Bank’s Credit Risk Management Division;
  - The continuous monitoring of the loan book.

- Exposure Collateralization through eligible collaterals according to the legal stipulations in force, but also based on the chosen approach for Basel II implementation and relevant internal norms and procedures:
- Other credit risk mitigation techniques, such as: credit derivative instruments; on-balance-sheet netting, master netting agreements);

5.2. Determination of value adjustments/ provisions

5.2.1 Approaches and methods applied for the calculation of value adjustments - for the credit portfolio under the Standard Approach

In order to cover potential credit and investment losses, the Bank calculates value adjustments according to the NBR regulations in force.

Consequently, for the determination of the adjustments value 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 adjustment values norms, is calculated based on the internal assessment systems/ methodologies, considering qualitative and quantitative factors.

The specific value adjustments are determined by applying the coefficients of each risk category to the exposure adjusted with the available eligible collaterals. The eligibility of the collaterals is considered in alignment with the provisions of the NBR norms regarding the calculation of the specific risk value adjustments.

Approaches and methods applied for the calculation of value adjustments - for the credit portfolio under the Foundation – Internal Rating Based Approach

Provisions represent the loss amount estimated by the bank based on impairment models. The bank uses two approaches for this estimation:

- Individual assessment
- Collective assessment

Through **collective assessment**, the provisions are calculated on a portfolio level basis by dividing it into similar credit risk characteristics buckets.

The performing portfolio is subject of collective assessment entirely, no matter if the exposures are considered significant or not.

The non-performing portfolio is subject of collective assessment only in the in case the exposures are not considered significant.

Through **individual assessment**, the provisions are individually calculated for each individually significant exposure.

Individual assessment is a process of measurement of exposure impairment for an individual client. According to IAS39, individual assessment is required for individually significant exposures and may also be used to assess insignificant exposures. The individual assessment process has been divided into 2 steps:

- Identification of individually significant exposures and/or exposures of clients which may be individually assessed;
- Individual loss estimation for provisioning purpose for the respective exposures.

5.2.2 Quantitative information on credit risk and diminishing of the receivable value

Geographical distribution of exposures, broken down by main classes of exposures at individual level*

(RON)

Geographic area	31.12.2013			
	STANDARD APPROACH		INTERNAL RATING BASED APPROACH	
	Companies	Retail	Central administrations or central banks	Companies
Commercial Group 1	513,751,864	1,615,265,087	-	2,848,275,736
Commercial Group 2	305,110,233	1,316,094,122	-	2,849,389,724
Commercial Group 3	1,181,987,716	1,930,929,439	-	2,146,392,162
Commercial Group 4	2,690,744,379	3,538,818,774	8,422,724	7,716,190,111
TOTAL	**4,691,594,192**	**8,401,107,422**	**8,422,724**	**15,560,247,733**

*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	31.12.2013				
	Provisions from credits	Expenses related to provisions	Gross credit exposure	Depreciated exposure	Past due exposure
Agriculture, food	253,966,723	75,234,617	4,816,995,336	424,088,746	262,826,017
Energy	71,386,905	18,883,508	4,202,038,099	144,744,485	152,054,880
Transportation	152,010,476	17,548,240	2,028,541,231	246,077,373	101,725,323
Construction	441,225,530	149,958,282	5,145,763,127	683,105,661	199,666,907
Telecomunication	137,991,146	52,837,517	2,264,035,040	228,311,951	109,875,858
Real estate	645,145,777	187,752,182	3,690,888,061	2,159,856,493	29,680,064
Financial Institutions	3,084,632	660,644	1,837,433,097	2,484,960	406,764
Holding	268,011	4,410	817,436	268,297	-
Individuals	590,520,953	110,026,078	6,451,111,525	810,326,629	530,050,075
TOTAL	**2,295,600,154**	**612,905,479**	**30,437,622,954**	**4,699,264,597**	**1,386,285,888**

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	31.12.2013	
	Gross exposure	Risk weighted exposure
STANDARD APPROACH		
1. Central administrations or central banks	9,710,833,213.00	-
2. Institutions	589,510,145.00	187,118,389.00
3. Companies	4,760,836,161.00	3,101,402,136.00
4. Retail	8,401,266,359.00	3,582,456,466.00
5. Equity	3,838,505.00	2,683,273.00
6. Assets, other than credit related ones	1,125,035,750.00	347,375,384.00
INTERNAL RATING BASED APPROACH		
1. Central administrations or central banks	8,422,724.00	4,675,487.00
2. Institutions	2,054,789,722.00	586,358,797.00
3. Companies	15,576,242,238.00	8,201,504,258.00
EQUITY EXPOSURES ACCORDING TO INTERNAL RATING BASED APPROACH	37.00	136.00
TOTAL	**42,230,774,854.00**	**16,013,574,326.00**

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

(RON)

CREDIT AND COUNTERPARTY RISK	31.12.2013		
	Gross Exposure	Value and provisions adjustments	Net exposure of value and provisions adjustments
STANDARD APPROACH			
1. Central administrations or central banks	9,710,833,213.00	55,916.00	9,710,777,297.00
2. Institutions	589,510,145.00	1,722,007.00	587,788,138.00
3. Companies	4,760,836,161.00	823,357,048.00	3,937,479,113.00
4. Retail	8,401,266,359.00	825,774,243.00	7,575,492,116.00
5. Equity	3,838,505.00	1,155,232.00	2,683,273.00
6. Assets, other than credit related ones	1,125,035,750.00	189,946,841.00	935,088,909.00
INTERNAL RATING BASED APPROACH			
1. Central administrations or central banks	8,422,724.00	-	
2. Institutions	2,054,789,722.00	1,101.00	
3. Companies	15,576,242,238.00	644,689,841.00	
EQUITY EXPOSURES ACCORDING TO INTERNAL RATING BASED APPROACH	37.00	-	
TOTAL	**42,230,774,854.00**	**2,486,702,229.00**	**22,749,308,846.00**

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

Geographical distribution of exposures divided by performance at individual level

(RON)

Exposure/ geographical area	31.12.2013					
	On balance sheet exposures			Off balance sheet exposures		
	Non-performing loans	Problem loans	Performing loans	Non-performing loans	Problem loans	Performing loans
	gross exposure	gross exppsure	gross exppsure	gross exposure	gross exppsure	gross exppsure
Commercial Group 1	434,323,436	241,979,779	2,898,281,486	1,790,317	112,292,184	1,353,425,431
Commercial Group 2	294,535,346	276,815,435	2,587,258,475	200,159	32,061,081	1,529,192,228
Commercial Group 3	473,527,985	1,082,200,463	2,521,695,295	9,849,605	240,445,274	968,611,336
Commercial Group 4	865,917,850	1,537,113,481	5,723,207,039	220,764,419	691,681,762	6,340,453,089
TOTAL	**2,068,304,617**	**3,138,109,157**	**13,730,442,295**	**232,604,500**	**1,076,480,301**	**10,191,682,084**

Geographical distribution of past due exposures and of depreciated exposures at consolidated level

(RON)

Geographical area	31.12.2013			
	Past due exposure*		Depreciated exposure**	
	Gross Exposure	Value adjustments and provisions	Gross Exposure	Value adjustments and provisions
Commercial Group 1	306,654,253	19,117,815	601,551,487	256,394,906
Commercial Group 2	339,956,940	13,479,015	441,951,407	206,868,607
Commercial Group 3	350,890,834	19,034,477	1,576,809,439	446,711,146
Commercial Group 4	388,783,862	24,087,066	2,078,952,265	1,058,220,109
TOTAL	**1,386,285,889**	**75,718,373**	**4,699,264,597**	**1,968,194,768**

*) Past due items are those receivables that register overdues (number of days of payment delay), but they are not depreciated – definition taken from Order no 27

**) Depreciated item = a financial asset or a group of financial assets are depreciated and there are losses from this depreciation only if there is objective evidence of this depreciation as a result of one or more events that occurred after the initial recognition of the asset and if that event (or events) that generates losses has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated – definition taken form IAS 39.

5.2 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, thus:

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 transferred 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.

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 and internal rating based approach) used by credit institutions and investment companies to determine the minimum capital requirements.

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

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

All collateral types accepted by the Bank as credit risk mitigation techniques for computing the minimum capital requirements according to the internal rating based approach Basel II, are those considered under standardized approach and the ones that are presented below:

Collateral Category	Type of collateral
Commercial Real Estate	First rank mortgage on commercial real estate – offices and other commercial spaces
Moveable collateral	Receivables on commercial transactions or transactions with initial maturity less or equal to one year
Other categories of tangible goods	Not used in the Bank as a credit risk mitigation technique

Policies and processes applied for evaluating and administrating real collaterals

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.

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)

Risk classes	31.12.2013			
	Financial collaterals	Personal collaterals	Receivables	Commercial real estate
STANDARD APPROACH				
1.Central administrations or central banks	-	-	-	-
2. Institutions	89,694	-	-	-
3. Companies	526,096,555	38,570,069	-	-
4. Retail exposure	181,420,981	610,385,148	-	-
5. Equity	-	-	-	-
6. Assets, other than credit related ones	-	-	-	-
INTERNAL RATING BASED APPROACH				
1. Central administrations or central banks	420,530	-	-	-
2. Institutions	445,236,662	-	18,937,886	67,271
3. Companies	243,358,035	518,167,291	1,944,836,262	1,728,436,388
TOTAL	**1,396,622,457**	**1,167,122,508**	**1,963,774,148**	**1,728,503,659**

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, 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 2013

Pre-settlement Mio eur

Type of Clients	Approved Line	Utilisation
Banks	1,329	85
Clients	114	22
Total	1,443	107

Settlement Mio eur

Type of Clients	Approved Line	Utilisation
Banks	3,665	309
Clients	1,118	57
Total	4,783	366

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 centres, 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 definitions according to Regulation no.18/ 2009 on governance arrangement of the credit institution, internal capital adequacy assessment process and the conditions for outsourcing their activities:

- **Market risk** is the current or prospective risk to earnings and capital arrising from adverse market movementsin equities prices and interest rates concerning to trading book, as well as from movements in foreign exchange rates and commodities prices for the whole businesss of the credit institusion
- **Interest rate risk** is the current or prospective risk to earnings and capital arrising from adverse movements in interest rates.
- **Liquidity risk is defined** is the current or prospective risk to earnings and capital arrising from a credit institution's inability to meet its liabilities when they come due, without endangering daily operations or financial condition and could be caused by a number of internal and external factors.

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 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 and may decide to transfer it to Markets Trading;
• 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 among 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 regarding liquidity;
- 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;
- participating in the financing planning process and defining, implementing, monitoring and amending (if necessary) set up of the bank's financing plan.

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.

A. Interest rate risk

Interest rate risk arising from trading book results from positions in derivative products or fixed income financial instruments of UniCredit Tiriac Bank. All derivative client transactions (except fx swaps and fx fwd outright) 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 position risk (MKR SA TDI form) and for foreign exchange (MKR SA FX form) 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 based on regulations in force.

Market Risk Department monitors these limits risk:

- fx net open position limits;
- BPV limits (basis point value);
- CPV limit (credit 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). Credit Point value is calculated similar as Basis Point value but only for bonds portfolio.

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 refer to the total book value (book value).

During 2013, the following levels of VaR (in EUR) at Total Bank level were registered:

VaR in 2013(EUR)	Value	Limit utilisation	Limit as of 31.12.2013
Average	5,501,063	61.50%	12,000,000
Maximum	7,637,046	98.81%	
Minimum	3,660,992	30.51%	

No limit exceed was registered during 2013.

Stress test / stress testing

The market risk profile is monitored for the following crisis scenarios:

- Currency risk - run locally and within the Norisk/ Imod;

- Interest rate risk - run locally and within the Norisk/ Imod.

- Credit Spread risk – run within Norisk/ Imod system

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 honour 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 aims is to ensure the fulfilment 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 aims 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, to the departments of Treasury, Asset and Liabilities Management and Market Risk Department.

Short-term liquidity is monitored using a report showing all inflows and outflows of liquid funds (cash, nostro, bonds and interbank deposits) on a time horizon of three month is used daily for monitoring the short term liquidity profile.

The structural liquidity profile is assessed based on a weekly report in which assets and liabilities broken down in potential cash-flows that will be most likely generated at each time horizon (based on contractual maturity or behavioural maturity derived from the statistical models applied by the Bank).

The Funding Plan defined within the financial planning process of the Bank based on the expected dynamics of assets and liabilities plays a fundamental role in overall liquidity management, influencing both the short term and long term liquidity position.

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

The UniCredit Tiriac Bank Operational Risk Management complies with legal and Group regulations in force, and it is performed according to the internal policies and procedures.

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.

Operational risk includes legal risk, but excludes strategic and reputational risk. Legal risk includes, but is not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements.

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

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

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 Risk Management Committee, Audit Committee, Operational Permanent Work Group Committee, Norms and Procedures Committee, Projects Committee), Operational Risk Department.

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 Operational Risk Department promotes the actions related to operational risk area and its responsibilities include:

- Ensuring complete operational risk data collection and reporting operational risk events according to the local legislation in force, internal policies, procedures and UniCredit Group standards;
- Co-operating with all departments of the Bank in order to organize the input of data in operational risk internal application, quality checking of entered loss data, completeness cross-check of loss data; perform periodical activities in order to assure the completeness
- Developing and implementing operational risk controlling processes, methods and systems;

- Analyzing and evaluating of operational risks and development of alternatives for an appropriate risk limitation;
- Establishing an effective database and monitoring process by the method of risk indicators;
- Performing operational risk scenarios, in accordance with internal and legal regulations in force;
- Participate in the process of establishing critical activities in order to include them in the business continuity process;
- Monitoring of insurance strategy: collection of all insurances relevant information, analysis and controlling of insurance procedures and activities, as per Group standards;
- Monitoring the implementation of operational risk mitigation actions established in the Operational Permanent Work Group Committee.

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, mitigation actions 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 exclusively in one of the following categories (12 Model Risk Categories in order to achieve more granularities on the risk categories where the highest Operational Risk is experienced):

1. Internal Fraud
2. External Fraud
   a. External frauds – Payments
   b. External frauds – Others
3. Employment Practices and Workplace Safety
4. Clients, Products and Business Practices
   a. Clients, products and business practices – Derivatives.
   b. Clients, products and business practices - Financial Instruments
   c. Clients, products and business practices – Others
5. Damage to Physical Assets
6. Business Disruption and System Failures
7. Execution, Delivery and Process Management
   a. Execution, delivery and process management – Financial Instruments
   b. Execution, delivery and process management – Payments
   c. Execution, delivery and process management – Others

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.

A maximum severity limit of € 250,000 is set per individual event.

Scenario analysis is a core element of the Group operational risk control methodology since scenarios aim at providing a forward looking evaluation of Bank's risk profile and improving the Bank to understand and manage their risk profile: to assess the impact on the business of hypothetical, yet foreseeable, extreme operational loss events; to assess how bad things could get across a range of stressed conditions; to identify the best responses to serious threats; to identify areas where controls are missing or could be enhanced.
Scenarios are also used as one of the primary inputs to estimate the Bank's overall risk profile and, whether it has adequate amounts of capital to cushion, the impact of unexpected operational loss events. The metrics derived from the scenarios will be used as input into the model, which will help to define the Group risk profile on aggregate basis.

In 2013, a new methodology for performing scenario analyses was implemented accordingly with Group instructions. The relative weight of scenarios has been increased within the refinement of the new AMA model. As more emphasis was put on this component of the model, it was crucial to set up proper scenarios for every MRC. Two storylines for each of 12 MRC were defined (24 storylines as outcome). Each storyline was evaluated both for 1:10 and 1:40 year's frequency (48 values as outcome).

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 2013 the operational risk indicators system and the critical monitoring thresholds were revised in order to set up new indicators, to change existing thresholds (if necessary) and to give up at those indicators which are no longer relevant in terms of operational risk.

At the Bank's level there are **periodical reports** regarding the exposure to operational risk, which analyze the aspects such as: financial losses (including provisions) detailed on event types and business lines, operational risk losses limit usage, capital requirement for operational risk, cross credit events, mitigation actions regarding operational risk discussed in the Permanent Work Group Committees, Key Risk indicators, thresholds breaches and actions taken, scenarios performed.

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

The **capital requirement for operational risk** for UniCredit Tiriac Bank was determined using the Advance Measurement Approach (AMA). Under the Advanced Measurement Approach, the capital for operational risk was obtained by modelling internal loss data, integrated with external loss data, scenario generated data and key operational risk indicators and proceeding as follows:

1. determination of the calculation data set in terms of data sources selection (internal data, external data, scenario calculation, risk indicators), data inflation adjustment and perimeter changes;
2. selection of the model risk categories;
3. calculation of loss distribution and Value at Risk for each model risk category:

a) data set pre-analysis;
b) estimation of the severity distribution on internal loss data, external loss data and scenario data;
c) estimation of the frequency distribution on internal data;
d) determination of the annual loss distribution considering insurance effect;
e) adjustment for key operational risk indicators.

4. calculation of the overall Capital at Risk as high quintile of the overall aggregated loss distribution, obtained by applying a copula function to the aggregated loss distributions of the model risk categories:
   a) deduction of expected loss.

The calculation model was applied to the perimeter composed by the Legal Entities authorized to adopt the Advanced Measurement Approach, including UniCredit Tiriac Bank. Capital at Risk calculation was performed quarterly.

As risk transfer mechanisms, UniCredit Tiriac Bank use a Banker's Blanket Bond policy (part of UniCredit Group BBB Policy) that covered, according with terms and conditions specified in the policy, Financial Organisation Crime, Electronic and Computer Crime, Professional Indemnity. The BBB Policy complained with the international requirements regarding using of policies as risk transfer mechanism in order to reduce the capital requirement for operational risk calculated according with AMA.

The framework for operational risk management in UniCredit Tiriac Bank is well structured and involves relevant factors in promoting a culture favourable 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 classification of loss events complies with the requirements of the National Bank of Romania and the Group standards.

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 2013.

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 2013 are:

Participation	Business type	Participation (%)
UniCredit Consumer Financing IFN SA	lending activities	50,10%
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	6,80%
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	0,91%
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 2013 is RON 68.274.246.

UniCredit Tiriac Bank SA has equity investments (shares) in unlisted entities whose fair value cannot be determined reliably; these participations are booked in the financial statements IFRS in accordance with the requirements in force, at cost.

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 Bank 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 in cooperation with Treasury – Cash Polling function, which manages the sterilization of BANK balance sheet risk in terms of national interest by meeting the limits set. The open interest rate risk positions of the banking boook are extracted and transferred to Markets Trading, by internal transactions. Markets Trading close these transactions in the market.

At the Bank level, 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 2013:

-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 31.12.2013:

	mil eur
Scenario 1:	-10,78
Scenario 2:	12,06
Scenario 3:	-15,84
Scenariol 4:	18,49
Scenario 5:	-20,71
Scenario 6:	24,72
Scenario 7:	-4,47
Scenario 8:	-4,48
Scenario 9:	-29,67

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.
The results of the stress tests are compared with the level of own funds.

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 is defined as the potential losses resulting from market value fluctuations of the Bank's own financial investment portfolio.

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 financial 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;

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 consider the real estate property that is collateral loan.

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, detailed figures within specific reports;
- Specific events will be considered within the stress scenarios;

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 behaviour
- changes in the expense structure

Management of Business Risk is performed through the following:

- Quarterly calculation of economic capital for Business Risk
- Monitoring of the evolution of economic capital for Business Risk
- Collaborating with the Group in order to establish the best practices in case of major fluctuations of economic capital requirements 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 the current or prospective risk to earnings and capital arising from adverse perception of the image of the financial institution on the part of customers, counterparties, shareholders/investors, regulators or employees (stakeholders).

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 appearance (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 centres 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.

At UniCredit Group level, a set of policies regarding reputational risk were implemented. The purpose of these documents is to provide rules and principles for reputational risk assessment and management to apply to the working environment and relationships with clients, colleagues, suppliers, investors and local communities with reference to the Nuclear Energy Industry and Defence/Weapons Policy.

Other policies on reputational risk are under development and implementation (Mining, Water Infrastructure/Dam and Coal-fired power plants).These policies applies to all lending and other form of financial assistance (debt and equity capital market activities, project finance, advisory work, asset management and transaction banking involving in the specific industries) in order to minimize the reputation event impact of the general financing.

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”:

“Performance bonus award is approved by the management Board considering the following criteria:

- The financial performance of UniCredit Group
- The overall outcome of the whole group activity and of the bank considered
- The performance of the group/ department the employee belongs to
- The sustainable individual performance of the employee

Performance remuneration will consider both individual and collective performance, thus settling both individual and collective objectives.

At individual level, evaluation criteria include qualitative and quantitative elements. Among the qualitative ones, there are included qualifications obtained by employee, compliance with systems and regulatory framework represented by the Bank's internal procedures, involvement in actions or significant projects and contribution to team’s performance.
In addition to the above criteria, there are also used prudential criteria for risk adjustment, such as cost of capital and the income obtained after provisioning.

Remuneration package of persons with key management functions includes both fixed and variable elements, in order to achieve a balance and a motivation and retention tool:

- Fixed remuneration component compensates the role of the person and reflects the experience and skills needed for the respective position, as well as the demonstrated excellence level and overall contribution to the objectives of the organization.
- Variable remuneration component is designed to reward results and is correlated with both short-term goals and the long-term goals. Performance measurements consider both the overall performance of the Group and of the Bank, of the Business Area / Competence Line in which the person operates, as well as the individual sustainable results.

Remuneration policy and structure of compensation packages for persons with executive responsibilities are subject to annual approval of the Compensation Committee and of the Supervisory Board.

Supervisory Board ensures that remuneration policies are compliant to the culture, goals and long-term strategy of the bank and to its control environment, through the following actions:

1. approves remuneration policies
2. approves, through the Remuneration Committee constituted for this purpose, the remuneration practice for the Board members
3. Approves the remuneration practices for the coordinators of the control functions, for the directors of Internal Audit and Compliance depts.

Remuneration of the persons that carry out the internal control system function is not linked to the performance of activities that the internal control system aims to monitor or control.

For the Management Board members, the performance measurement used to calculate the variable remuneration component includes an adjustment for all current and potential risk types and also considers the cost of capital and required liquidity.

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.

Employees No la 31.12.2013	2.912
1. Total remuneration out of which	302.814.410
1.1.Corporate	67.167.350
1.2 Retail	114.927.500
1.3. Others	120.719.560
2. Management Remuneration (7 employees)	10.900.559

Annex 1

Basel II Pillar 3 Disclosure

UniCredit Consumer Financing SA

for 2013

Chapter 1 – General requirements

1.1 Strategy and general framework of risk management

UniCredit Consumer Financing defines specific strategies and 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

The risks control structure is based on several operational and control functions, defined as per the provisions of the Organizational and Functioning Regulation, as well as with 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 the Supervisory Board has at least the following responsibilities:

1. Annually approves the Company's general strategy and policies regarding the Company's activity, including specific policy on control and risk management;

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

- ✓ Supervises and controls the taking of the necessary measures for identifying, assessing, monitoring and controlling the respective risks

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 the support of the risk management activities, specialised committees are set-up within the financial institution: Audit Committee, Risk Management Committee and Credit Committee.

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.

To ensure optimum management of credit risks, at an individual level and at a portfolio level, Risk Division is structured in 3 departments for risk management and control. Their responsibilities are detailed in the Company's Organization and Functioning Regulation:

- Decision – Risk Management Department
- Underwriting Department
- Collection 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	31 December 2013
1.1.1.1. Paid up capital	103,269,200
1.1.1. Eligible capital	103,269,200
1.1.2.1.01.A. Gross reserves	783,722
1.1.2.3.01 Audited result for current year	25,339,583
1.1.2. Eligible reserves	26,123,305
1.1.5.1.A. Intangible assets	2,644,928
1.1.5. Others deduction from own funds	2,644,928
1.1. Level 1 own funds	126,747,577
1.2.1. Basic level 2 own funds	0
1.2.2. Supplementary level 2 own funds	0
1.4. Total 1 own funds level	126,747,577
1.5. Total 2 own funds level	0
1. TOTAL OWN FUNDS	126,747,577

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 2013, 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 2013 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) Forecasting

Quantitative informations (amounts in RON)

2	CAPITALIZATION REQUIREMENTS	**77,427,188**
2.1.	STANDARD APPROACH	**77,427,188**
2.1.1	Central administrations or Central Banks	
2.1.2	Regional administrations or local authorities	
2.1.3	Administrative bodies and non commercial undertakings	
2.1.4	Multilateral development banks	
2.1.5	International organizations	
2.1.6	Institutions	2,343,369
2.1.7	Companies	
2.1.8	Retail exposure	73,190,100
2.1.9	Exposure secured on Real Estate Property	
2.1.10	Past due items	1,168,263
2.1.11	Elements that belong to the categories regulated as high-risk ones	
2.1.12	Obligation bonds	
2.1.13	Short term receivables for institutions and companies	
2.1.14	Receivables as investments held by the undertakings for collective investments	
2.1.15	Other elements	725,457
2.2	SETTLEMENT/DELIVERY RISK	
2.3	TOTAL CAPITALIZATION REQUIREMENTS FOR THE POSITION RISK, CURRENCY RISK AND THE RISK REGARDING THE GOODS	
2.3.1	The position, currency risks and the risks regarding the goods, according to the standard approach	
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	
2.3.1.4	The risk regarding the goods	
2.4	TOTAL CAPITALIZATION REQUIREMENTS FOR THE OPERATIONAL RISKS	
2.4.1	Standard approach	
3.2	Own funds surplus (+) / deficit (-)	49,320,389
3.2.a	The solvency ratio (%)	**13,10%**

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 institution;
e) the purpose of the 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.

Specific credit risk management procedures

Also, the credit risk management is performed depending on the stage of the credit granting process, as ***well as in the monitoring phase of the loans granted to customers, taking into account the development of the contractual relations.***

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 instalments 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;
- 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.

The monitoring of fx positions and interest rate risk has been done by Market Risk department of UniCredit Tiriac Bank.

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 honour 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 too 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.

Monitoring of liquidity limits has been done by Market Risk department of UniCredit Tiriac Bank.

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 depends 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 are 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.
- Operational losses due to IT systems deficiencies, regarding the administration of the loans granted or taken over;
- Operational losses based on business decisions having as main scope to maintain a high level of customer satisfaction

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. Development of an adequate internal control system for supervising and performing of activities within the Society or for outsourced activities.

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 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 Society 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 centre 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 Society will try 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 2013 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 2013 is a 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.

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

For local consolidation purposes, the economic capital for UCFin, calculated through the Financial Investment Risk method is received from the Group twice a year. The method is applied for “small legal entities” and covers all significant risks (credit, operational and market).

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 evaluated 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.

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 fulfilment 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 Corporation IFN S.A.

31.12.2013

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: credit risk, market risk, liquidity risk, real estate risk, operational risk, reputational risk.

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.

Some organizational structures are:

- *The Supervisory Board (SB)* is responsible for the set up and keeping of a proper and effective internal control system.
- *The Board of Directors* is responsible for implementing the strategy and the policies on 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. The Risk Management Committee meets whenever necessary, at least quarterly, based on a predetermined agenda This committee has the following main responsibilities:
    - Consultancy and advisory functions,
    - Decision functions (supported by NBO issued by the International Risk Committee of the Group when applicable):
    - Information and reporting functions (including reports to be presented to the UCLC Supervisory Board)
- *Audit Committee* is a permanent Committee established according to local legislation and according to National Bank of Romania regulations. It assists the Company's Board of Directors in defining the principles and guidelines governing the entity's entire internal control system.
- *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.

- *Special Credit Committee* - with responsibilities of decision on rescheduling, enforcement and insolvency cases for clients with exposures exceeding the materiality threshold set by national regulations and approval of provisions calculated in accordance with IFRS for customers with late payments.

Credit Operations Division (CRO)

CRO Division works like a permanent organizational structure, with responsibilities 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
- Restructuring & Workout
- Asset Management

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 31.12.2013 (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	1,564,631
Statutory or contractual reserves	4	
Other reserves from net profit	5	
Net profit carried forward	6	16,917,759
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**	**59,413,120**
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	2,327,742
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 favour (if applicable)	18	
Total (row 9 to row. 18)	**19**	**2,327,742**
Equity (row 8 - row 19)	**20**	**57,085,378**
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	98,663,400
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**	**98,663,400**
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**	**155,748,778**

Chapter 3 – Risk capital adequacy

Qualitative information

For the calculation of regulatory capital, UCLC applied during 2013 the requirements of Regulation No. 20/13.10.2009. According to this Regulation the 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 regulatory capital, UCLC used during the year 2013 the approach imposed by local regulations (NBR) 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:

4) Budgeting
5) Monitoring and analysis
6) 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;
- Strategic Planning and Control Department calculates the capital requirement and compares it with the existing capital;
- In order t006F 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 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.
2. Promote and operate a healthy and robust process to grant funding.
3. Promoting and maintaining an adequate management, measurement and monitoring financing process
4. Providing a permanent control on loan portfolio.

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.

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, 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, using UniCredit Tiriac Bank resources;

- 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);

Also, UCLC uses credit risk mitigation techniques through specific activities and procedures that monitor the default risk and the concentration risk.

Treatment and valuation of credit risk

For a prudential valuation of the credit exposures, there were implemented rating systems based on which the exposures are classified considering the related credit risk assessment for each debtor, through a general scale of default risk assessment.

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

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

Determination of value adjustments/ provisions

Approaches and methods applied for the calculation of NBR value adjustments

In order to cover potential credit and investment losses, the company calculates value adjustments according to the NBR regulations in force.

Consequently, for the determination of the adjustments value 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.

Approaches and methods applied for the calculation of value adjustments - for the credit portfolio under the Foundation – Internal Rating Based Approach

Provisions represent the loss amount estimated by the company based on impairment models. The company uses two approaches for this estimation:

- Individual assessment
- Collective assessment

Through **collective assessment**, the provisions are calculated on a portfolio level basis by dividing it into similar credit risk characteristics buckets. The performing portfolio is subject of collective assessment entirely, no matter if the exposures are considered significant or not.

The non-performing portfolio is subject of collective assessment only in the in case the exposures are not considered significant.

Through **individual assessment**, the provisions are individually calculated for each individually significant exposure. Individual assessment is a process of measurement of exposure impairment for an individual client.

The individual assessment process has been divided into 2 steps:

- Identification of individually significant exposures and/or exposures of clients which may be individually assessed
- Individual loss estimation for provisioning purpose for the respective exposures.

CHAPTER 5 – Market Risk

Market Risk is defined as risk of registering losses or non achievement of expected profits, 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. Second level control activity is provided by Risk Strategies and Control Team. 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 re-pricing (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 specific procedures and techniques, based on continuous monitoring and analysis of several indicators.

Currencies and interest rate positions monitoring were conducted by Treasury Team with Risk Strategies and Control Team, and monitoring has been done by Market Risk department of UniCredit Tiriac Bank.

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. Second level control activity is provided by Risk Strategies and Control Team.

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 refinancing obtained from UniCredit group, long-term cooperation with several international financial institutions.

Monitoring of liquidity limits has been done by Market Risk department of UniCredit Tiriac Bank.

CHAPTER 7 – Real Estate Risk

The real estate risk is caused by the potential losses resulting from market value fluctuations for the company's real estate assets: offices / buildings owned directly or recovered, when the collection process is completed.

Reporting process for real estate risk is subject to the UniCredit Group Policy "Pillar II - Methodological Manual on Internal Capital" along with further instructions received from the Group (Risk Integration and Control Team), and is made by Risk Strategies and Control Team, from Credit Operations Department - CRO line.

Real estate risk is monitored quarterly by analyzing the existence or absence of each and every case of real estate risk:
- Directly owned real estate assets (not part of the leasing contract) are checked, along with the Finance Department (CFO line) to see if any new acquisitions of real estate assets have been made during the last quarter;
- Recovered assets (if the contract is closed and the collection and legal proceedings have been concluded) are checked with The Workout Department (CRO line) to see if there is any case of repossessed real estate assets during the last quarter.

CHAPTER 8 – 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:

8. **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.
9. **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.
10. **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.
11. **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.

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

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

14. 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.

Scenario analysis has the role to evaluate the company'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.

Until now there were conducted and analysed in collaboration with key departments of the company a total of 13 scenarios and they were presented to the Risk Management Committee. Initially, 7 scenarios were prepared, one scenario for each type of operational risk event, but starting 2011, 2 new scenarios were prepared each year. The measures established or proposed are monitored for implementation (or considering implementation).

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 and it is conducted on a monthly basis by the Risk Strategies and Control Dep. The indicators and their thresholds are reviewed at least annually or when changes occur in their composition.

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.

CHAPTER 9 – 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:

9. Reaching or exceeding the limits established for the significant risks;
10. Reaching or exceeding some limits of the financial indicators (liquidity, solvability, etc.);
11. 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;
12. External communication through unauthorized staff – risk potential by presenting partial data, personal points of view or breaking the confidentiality norms;
13. 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;
14. Negative media campaigns – risk potential by unilateral presentation of some aspects from Company's activity;
15. 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 is carried out through:

- Appropriate application of KYC (know-your-customer) 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 favour 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.