UniCredit Bank

PILLAR III DISCLOSURE REPORT

ACCORDING TO NBR Regulation no. 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 institutions and investment companies and amending Regulation (UE) no.648 / 2012

Report reference date: 31st December, 2017

UniCredit Bank

CONTENT

Overview on disclosures

The Report is prepared in accordance with National Bank of Romania Regulation no. 5/2013 regarding prudential requirements for credit institutions, 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.

The disclosed information is compliant with the Guideline on disclosure requirements under Part Eight of Regulation (EU) No 575/2013 and other dedicated Guidelines issued by European Banking Authority and Basel Committee.

The document is available in electronic format at www.unicredit.ro.

The cantitative data are presented on consolidated basis, except those flagged at individual level.

As the UniCredit Bank Romania has been identified as Other Systemically Important credit Institution (O-SII) from Romania, the Bank will provide to the users, more frecquently than annually, a relevant bucket of informations according to its internal policy related to discolsure.

When assesseing the disclosure requirements, the Bank does not identify confidential, non material or proprietary informations required by EU Regulation no. 575/2013 not to comply on.

The Pillar III Report is approved by the Supervisory Board of Unicredit Bank Romania.

1. General information related to Risk management, objectives and policies

1.1. Strategies and processes of risk management

Risk management objectives are correlated with the Banks' general strategic objectives:

- Adequate and prudent management of risks and in particular of significant risks;
- Selective enlargement of the loan book, by achieving a balanced structure on client segments;
- Products' diversification;
- Conservation of a sustainable profitability threshold;
- Mitigation – to the possible extent – of the negative impact generated by the economic crisis;
- Identification of optimal solutions for the clients who are confronted with the negative effects of the financial crisis;
- Adequate training of the personnel, so that they may offer high quality services to customers;
- Local integration of the existent standards at the group's level under the form of internal regulations and procedures.

The strategic objectives on significant risk management are achieved through the following:

- Definition and setting of basic principles and respective limits regarding risk management;
- An organizational structure specialized and with focus on risk management;
- Specific strategies and techniques for risk measuring and monitoring.

Stress testing program is an integrated part of the Bank's risk management framework, being supported by an effective infrastructure to perform stress tests depending on the nature, scale and complexity of the activities and also depending on the Bank risk profile.

The management body has the final responsibility for the credit institution's overall stress testing program.

The Bank uses stress testing as a diagnostic tool to understand their risk profile and as a forward-looking tool within the internal capital adequacy assessment process - for example, to assess how the profits are affected by crisis situations, for internal assessment of capital adequacy, or for risk assessment in an anticipatory measure.

In general a capital stress test assumes possible but uncertain scenarios, based on assumptions of the development of the capital market. This leads to different effects and impact on the Capital components. It shows whether the bank is able to stay over the regulatory minimum of Capital requirement under adverse conditions.

The stress tests are applying to all types of risk considered tangible and quantifiable within the Bank, such as: credit risk, operational risk, market risk, business risk, real estate risk and financial investment risk. The purpose of these simulations is to assess the Bank's vulnerability to exceptional, but plausible crisis events that could influence the Bank's performance.

The methodology for stress tests is established centralized at the Bank group level and is running based on scenarios defined at the group level and adapted to the local conditions.

The 2017 stress tests were conducted over a 2-year horizon, based on three macroeconomic scenarios that took into account the systematic and specific changes that might materialize, both presently and in the near future. Thus, crisis simulations provide a perspective picture of a possible evolution of the Bank.

1.2. Structure and Risk Management organization

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

The risk management framework in the Bank is based on the following components:

- The risk management processes established in the Bank in order to identify, measure or assesses, monitor, manage and report risks. Risk management responsibilities are not confined to risk specialists or control functions, as each Bank's employee has to be fully aware of his/her own responsibilities with regard to risk management. Business units are primarily responsible for managing risks on a day-to-day basis, taking into account the Bank's risk tolerance/appetite and in line with internal policies, procedures and controls.
- The risk management and compliance functions, that ensure effective and efficient operations, adequate control of risks, prudent conduct of business, reliability of financial and non-financial information reported, both internally and externally, and compliance with laws, regulations, supervisory requirements and the Bank's internal policies and procedures.
- The internal audit function, which ensures an independent assessment regarding the compliance of all activities and business units of the Bank (including the risk management function and compliance

function) with policies and procedures of the Bank. The internal audit function also assesses whether existing policies and procedures remain adequate and comply with legal and regulatory requirements.

On the risk management line there are two committees that exercise advisory functions and have specific responsibilities in order to monitor the implementation of the risk management strategy:

- The Risk Management Committee organized at Supervisory Board level has a consultative function for the decisions of the management body regarding the risk appetite and global strategy for the management of the current and future risks the Bank is exposed to and assist the Supervisory Board in overseeing the implementation of that strategy by senior management.
- The Operative Risk Management Committee organized at Management Board level has a consultative function for Management Board with regard to any actions to ensure a rigorous and adequate risk management framework.

During 2017, the Risk Management Committee at Supervisory Board level had 2 meetings, and the Operative Risk Management Committee had 4 meetings.

Also, an important role in risk management is played by Risk Division, which operates as a permanent organizational structure, with roles and responsibilities related to the administration of the general framework of risk management and by Finance and Planning / Financial Management Division. These Divisions offer support to the Risk Management Committees and to the management of the Bank through the continuous monitoring of the risks related to the Bank activity.

The risk management framework is clearly and transparently transposed in internal norms, procedures, manuals and codes of conduct, distinctively mentioning the standards applicable for all employees and those applicable only to specific categories of employees.

The operational activity is running based on codes of conduct, specific manuals of each activity area, procedures and internal instructions, which include the main tasks and responsabilities in identifying, transmitting, monitoring, approving and reporting risks. Also, the internal regulations governing the Bank's activity include specific limits for different types of risks, significance thresholds, target values, alarm signals and modalities for addressing deviations in order to ensure high standards of professional conduct and integrity of the activity within the Bank.

The internal control framework is based on the 3 lines of defence model:

- The first line of defense is represented by the risk management processes established in the Bank in order to identify, measure or assesses, monitor, manage and report risks. Risk management responsibilities are not confined to risk specialists or control functions, as each Bank's employee has to be fully aware of his/her own responsibilities with regard to risk management. Business units are primarily responsible for managing risks on a day-to-day basis, taking into account the Bank's risk tolerance/appetite and in line with internal policies, procedures and controls.

- The second line of defense is represented by risk management and compliance functions, that ensure effective and efficient operations, adequate control of risks, prudent conduct of business, reliability of financial and non-financial information reported, both internally and externally, and compliance with laws, regulations, supervisory requirements and the Bank's internal policies and procedures.
- The third line of defense is represented by internal audit function, which ensures an independent assessment of the compliance of all activities and business units of the Bank (including the risk management function and compliance function) with its policies and procedures. The internal audit function also assesses whether existing policies and procedures remain adequate and comply with legal and regulatory requirements.

Internal control framework covers the overall Bank organization, including the activities of all business, support and control units.

Internal control function within the Bank includes the following independent specific control functions:

- Risk management function
- Compliance function
- Internal audit function

1.3. Scope and type of reporting and risk measurement system

The Internal Capital Adequacy Assessment Process ("ICAAP") focuses on the development and maintenance of sound internal procedures and systems which allow the evaluation of the bank capital adequacy, i.e. the balance between the assumed risk (measured in terms of Internal Capital – "IC") and the available capital (Available Financial Resources – "AFR"), both related to the current situation and in a forward looking perspective, as represented by the budget and strategic plan.

The comparison between AFR and IC is the Risk Taking Capacity (RTC), a key metric included in the Risk Appetite framework.

ICAAP is an integral part of management and decision-making processes. In this context, the main impacts are related to the risk awareness embedding in the strategic planning and budgeting processes, limit setting and performance evaluation according to a backward and forward-looking perspectives. Setting up an appropriate capital adequacy process means not only using internally developed metrics, but also setting the appropriate capital levels corresponding to the Pillar 1 metrics, such as the Core Tier 1 (CT1) and Total capital ratios as banks are expected to operate with a capital level higher than minimum requirements (i.e. Regulatory Capital).

The process consists of following phases:

- Perimeter definition and risk identification and mapping
- Risk profile assessment and stress testing
- Risk appetite setting and Capital allocation
- Monitoring and reporting

The process of identification and assessment of significant risks is an element of internal control and aims to ensure that internal control objectives are met (efficiency, information and conformity objectives).

UniCredit Bank carries out an analysis by selecting which risks are relevant with reference to its perimeter of activities.

The risk definition and mapping is not a one-off process, but it is done on an on-going basis to improve the risk management framework.

UCB reviews the risk map and classification according to the proportionality principle, at least on an annual base and in case of relevant changes. The risk map is the basis for the risk evaluation and measurement.

Based on the Group's approach and on the internal analysis performed with the Group guidance, UniCredit Bank S.A. identified the following significant risks:

1. Credit risk

2. Market risk

3. Liquidity risk

4. Operational risk

5. Reputational risk

6. Business risk

7. Financial investment risk

8. Real estate risk

9. Strategic risk

10. Risk of excessive leverage.

11. Inter-concentration risk

1.4. Other risks

Other risks considered to have major impact on the bank patrimony are the risks associated with outsourcing activities.

The management of outsourcing activities risk takes into consideration, in a non exhaustive form:

1. Reputation, operational and financial impact on the Bank that can be generated by the execution/failure to execute accordingly the contract obligations by the supplier;
2. Consequences of outsourcing and their impact upon the assurance of the respect by the Bank of the legal framework and internal regulations framework;
3. Impact upon Bank's clients or upon counterparties in case of default in the execution of contract obligations by the supplier;
4. Analysis of supplier's solvency taking into consideration: reputation, previous experience in the field, quality of services, internal control framework regarding their activities and performance, quality and quantity of resources at the disposal of the supplier for the execution of activities subject to contract, confidentiality of data/ processed transactions etc.;
5. Outsourcing relationships will be governed by contracts; the contracts will include clear provisions regarding the nature of the outsourced activity, the responsibilities of the Bank and of the supplier, as well as activities control tools etc.;
6. For each activity proposed for outsourcing an analysis and opinion will be required from the departments directly involved in risk analysis, such as: Risk Division, Legal and Compliance Department, as well as other units in case the outsourced activity represents their work area;
7. A cost-benefit analysis on outsourced activities is assessed;

8. Degree to which the Bank and the control authorities have access to information, files and databases of the supplier that are a result of the contractual obligations;
9. Back-up plans or measures to remediate crisis situations; they must take into consideration any event that can impose/ force the termination of the contractual relationship and – as the case may be the transfer under optimal circumstances of the activity to another supplier or its takeover by the Bank.

The final responsability for risks assesment belongs exclusively to the Bank that critically assesses its risks without relying solely on external valuations.

Both, the strategy and significant risk management policies, established at the Bank level, are reviewed periodically.

The Bank has implemented a well-defined and documented reporting framework, including regular and transparent reporting mechanisms, so that the management body and all relevant units within the institution benefit on time by accurate and concise reports, through risk management advisory committees, established by the Bank.

The reports to be submitted to the management body and to the relevant units, and other relevant information related to the identification, measurement or evaluation and monitoring of risks are summarized in the implemented reporting framework.

Bank defines periodically **the risk appetite,** respectively the level of risk that UniCredit Bank is prepared to accept in pursuit of its strategic objectives and business plan, taking into account the interest of its customers (e.g. depositors, policyholders) and shareholders as well as capital and other requirements.

The Management structure reviews and approves the risk appetite on a yearly basis to ensure its consistency with the Group's Strategy, business environment and stakeholder requirements, as defined in the budget process.

The Management body reviews and approves the risk appetite on an annual basis to ensure its consistency with the Group's Strategy, business environment and stakeholder requirements, as defined in the budget process.

Bank regularly monitors the actual risk profile and examines it in relation to the credit institution's strategic objectives and tolerance / risk appetite for assessing the effectiveness of the risk management framework. Evaluation and monitoring of the risk profile is done through indicators established within risk appetite.

UniCredit Bank

1.5. Risk coverage and mitigation policies

The risk management function assesses and reviews annually the results in relation with back testing in order to improve the accuracy and effectiveness of the risk management process.

The risk mitigation techniques implemented at the Bank level are aimed to reducing the identified risks and limiting their impact on the Bank's performance. Periodically, at the Bank level is monitored the effectiveness of the hedging and mitigating features of risks in order to updating and improving of these techniques to ensure that the objectives set up for each activity are fulfilled as high as possible.

UniCredit Consumer Financing

The Supervisory Board is responsible for the set up and keeping of a proper and effective internal control system.

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 and Collection Division operates as a permanent organizational structure, with responsibilities related to the administration of the general framework of risk management. The Risk Division offers support to the Risk Management Committee and the company's management through the current monitoring of the credit risk.

The 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 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 operational risk function by regular verification of the limits of operational risk indicators.

Risk management function is supported at company level by other specialized committees (Discipline Committee, Norms and Procedures Committee, Projects Committee, Product and Pricing Committee, Business Continuity and Crisis Management Committee, etc.).

UniCredit Leasing Corporation

Organizational structures responsible for risk management:

The Supervisory Board 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 strategic committee and has the responsibility of identification, evaluation and management of significant risks and has to meet at least quarterly or any time when required.

Audit Committee is responsible to assist the Company's Board in defining and preparing the principles and guidelines governing the entity's entire internal control system, on the basis of a risk-oriented approach, and assessing its effectiveness and efficiency, so that the main risks are properly identified, then measured, managed and monitored, subject to the Board's responsibility for all decisions on this matter.

Credit Committee has responsibilities of approval of the new transactions and credit reviews as per competences framework in order to assure the required quality of the portfolio and to limit the credit risk as required by the credit policies.

The Special Credit Committee is responsible for approval of restructured cases, IFRS provisioning level for individually assessed clients, according to competencies and specific Regulation.

Permanent Workgroup Committee for Operational Risks is responsible for operational risk identification, mitigation actions proposed and monitoring of the mitigation actions in place.

Credit Operations Division functions as a permanent organizational structure, with responsibilities related to management of general framework for risk management and supports Risk Management Committee and the Board of Directors by ensuring the monitoring systems for the management of significant risks.

2. Scope of application

2.1. Relevant scope of consolidation

The institution subject to disclosure is **UniCredit Bank SA.** (“the Bank”), the report includes Bank information and also information regarding the entities integrated in the consolidated prudential perimeter of UniCredit Bank.

Starting with August 2016, UniCredit Bank S.A. (the “Bank”) is the new brand name of formerly UniCredit Tiriac Bank SA that was established as a Romanian commercial bank on 1 June 2007 upon the merger by acquisition of the former UniCredit Romania S.A. (the absorbed bank) by Banca Comerciala HVB Tiriac S.A. (the absorbing bank) and is licensed by the National Bank of Romania (“NBR”) to conduct banking activities.

The Bank’s current registered office is 1F, Expozitiei Boulevard, District 1, Bucharest, Romania.

UniCredit Bank S.A. is controlled by UniCredit SpA (Italy), with registered office in Milano (Mi), Italia Piazza Gae Aulenti 3 Cap 20154 Tower A.
The Bank provides retail and commercial banking services in Romanian Lei (“RON”) and foreign currency for individuals and legal entities. These include: accounts opening, domestic and international payments, foreign exchange transactions, working capital finance, medium and long term facilities, retail loans, bank guarantees, letter of credits and documentary collections, derivative financial instruments.

UniCredit Bank Group is exercising direct and indirect control over the following subsidiaries:

- UniCredit Consumer Financing IFN S.A., having its current registered office at 23-25 Ghetarilor street, 1st and 3rd floor, District 1, Bucharest, Romania, provides consumer finance loans to individual clients. The Bank has a shareholding of 50.1% in UCFIN since January 2013.

- UniCredit Leasing Corporation IFN S.A.(“UCLC”), having its current registered office at 23-25 Ghetarilor Street, 1st, 2nd and 4th floor, District 1, Bucharest, Romania, provides financial lease services to corporate clients and individuals. UCLC, previously associate entity, has become a subsidiary of the Bank starting with April 2014 when the Bank obtained 99.95% direct and indirect controlling interest (direct controlling interest: 99.90%). The Bank’s shareholding has changed to an indirect controlling interest 99.98% (direct controlling interest: 99.96%), as a result of the merger of UCLC with UniCredit Leasing Romania SA (“UCLRO”) finalized in June 2015, where UCLRO was absorbed by UCLC.

- Debo Leasing IFN S.A., having its current registered office in 23-25 Ghetarilor Street, 2nd floor, 1st district, Bucharest, Romania, is a real estate finance lease entity, in which the Bank has an indirect controlling interest of 99.97% (31 December 2016: 99.97%) through UCLC.

- UniCredit Insurance Broker S.R.L., having its current registered office in 23-25 Ghetarilor Street, 2nd floor, 1st district, Bucharest, Romania, intermediates insurance policies related to leasing activities to legal entities and individuals, in which the Bank has an indirect controlling interest of 99.98% (31 December 2016: 99.98%) through UCLC.

EU LI1 – Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories

	a	b	c	d	e	f	g
			Carrying values of items				
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets							
Cash and balances at central banks	8,574,271,776	8,574,271,776	8,574,271,776	-	-	-	-
Items in the course of collection from other banks	-	-	-	-	-	-	-
Trading portfolio assets	121,382,271	121,382,271	-	69,225,191	-	52,157,080	-
Financial assets designated at fair value	-	-	-	-	-	-	-
Derivative hedging instruments	4,196,748	4,196,748	-	4,196,748	-	-	-
Loans and advances to banks	1,240,414,514	1,240,414,514	1,240,414,514	-	-	-	-
Loans and advances to customers	26,663,786,284	26,663,786,284	26,663,786,284	-	-	-	-
Reverse repurchase agreements and other similar secured lending	206,365,590	206,365,590	206,365,590	-	-	-	-
Available-for-sale financial investments	6,002,073,050	6,002,073,050	6,002,073,050	-	-	-	-
Intangible assets	169,305,871	-	-	-	-	-	-
Receivables on deferred tax	96,999,353	101,810,035	101,810,035	-	-	-	-
Other	420,425,094	420,425,094	420,425,094	-	-	-	-
Total assets	**43,499,220,551**	**43,334,725,362**	**43,209,146,343**	**73,421,939**	**-**	**52,157,080**	**-**
Liabilities							
Deposits from banks	3,387,875,738	3,387,875,738	-	-	-	-	-
Items in the course of collection due to other banks	-	-	-	-	-	-	-
Customer accounts	27,148,800,322	27,148,800,322	-	-	-	-	-
Repurchase agreements and other similar secured borrowings	-	-	-	-	-	-	-
Trading portfolio liabilities	80,019,912	80,019,912	-	-	-	-	-
Financial liabilities designated at fair value	-	-	-	-	-	-	-
Derivative financial instruments	76,165,933	76,165,933	-	-	-	-	-
Other	9,095,259,889	9,095,259,889	-	-	-	-	-
Total liabilities	**39,788,121,794**	**39,788,121,794**	**-**	**-**	**-**	**-**	**-**

EU LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements

		a	b	c	d	e
		Total	Items subject to			
			Credit risk framework	CCR framework	Securitisation framework	Market risk framework
1	**Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)**	43,334,725,362	43,209,146,343	73,421,939	-	52,157,080
2	Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	39,788,121,794	-	-	-	-
3	Total net amount under the regulatory scope of consolidation	3,546,603,568	-	-	-	-
4	Off-balance-sheet amounts	12,392,144,991	12,300,866,836	91,278,155	-	-
5	*Differences in valuations*	-	-	-	-	-
6	*Differences due to different netting rules, other than those already included in row 2*	-	-	-	-	-
7	*Differences due to consideration of provisions*	-	-	-	-	-
8	*Differences due to prudential filters*	-	-	-	-	-
9	Other	-	-	-	-	-
10	**Exposure amounts considered for regulatory purposes**	**55,726,870,353**	-	-	-	-

EU LI3 – Outline of the differences in the scopes of consolidation (entity by entity)

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
UniCredit Consumer Financing IFN S.A.	Full consolidation	X				Credit institution
UniCredit Leasing Corporation IFN S.A.	Full consolidation	X				Leasing company
Debo Leasing IFN S.A	Full consolidation	X				Leasing company
UniCredit Insurance Broker S.R.L	Full consolidation	X				Insurance entity

2.2. Entities deducted from Own Funds

According to Regulation no. 575/2013 of European Parliament and Council dated 26.06.2013 regarding prudential requirements for credit institutions and investment companies, the holdings in Common Equity Tier 1 (CET1) that are classified as significant investments should be deducted from own funds if the CET1-threshold for deduction is exceeded.

As at 31 December 2017, UniCredit Bank holds at individual level significant investments in financial entities which were not deducted from own funds as the CET1-threshold was not exceeded.

2.3. Entities added to RWA

As at 31 December 2017, the significant investments in financial entities are shown at the individual level with a risk weight of 100% as they are not deducted from own funds, but are included in the consolidated perimeter.

2.4. Substantial or legal impediments that hinder the rapid transfer of capital resources within the Group

At UniCredit Group level, an integrated analysis is done to identify the significant risks. The processes for management, monitoring and reporting of risks are formalized in the Group regulations, aligned and integrated at the local group at UniCredit Bank SA level. In accordance with the rules regarding the analysis process, calibration, approval, adoption, implementation, monitoring and reporting of the Group regulations, UniCredit Bank SA has the responsability of transmiting of the applicable regulation to its subsidiaries, in order to be analized, approved/adopted and implemented. Subsequently, UniCredit Bank SA assesses and decides the aplicability at its subsidiaries level taking into account the nature, dimension and complexity of their activities.

In order to ensure the control over implementation of the Group requirements at level of direct controlled entities, there is a frequent reporting process regarding the status of local implementation under the Internal Control Committee of UniCredit Bank SA.

The main potential impediments regarding the rapid transfer of capital resources are addressed below:

2.4.1. The impact of legal status of subsidiaries regarding the prompt transfer of funds and/or debt reimbursement

UniCredit Consumer Finance IFN SA

UniCredit Bank SA (UCB) controls UniCredit Consumer Financing (UCFin) through majority of voting rights held (50.1%), which implies the approval of development plan and strategy of UCFIN in accordance with Bank and UniCredit Group's strategy.

The control exercised over UCFIN is strengthened by the fact that UCB appoints 4 out of 5 members of UCFIN Supervisory Board in accordance with UCFIN Articles of Association („AoA" or Constitutive Act). In Accordance with AoA, the UCFIN Supervisory Board has the authority to check the Board Member's activity in respect of the implementation of the Bank's strategy, aligned with those of UniCredit Group.

As a result, there is no impediment which could adversely impact the prompt transfer of funds from UCFIN to UCB and/or the UCFIN capacity for fast reimbursement of debts to UCB.

UniCredit Leasing Corporation IFN SA

UniCredit Bank SA (UCB) controls UniCredit Leasing Corporation IFN S.A. (UCLC) through majority of voting rights held (99.98%), which implies the approval of development plan and strategy of UCLC in accordance with Bank and UniCredit Group's strategy.

The control exercised over UCLC is strengthened by the fact that UCB appoints all 5 members of UCLC Supervisory Board in accordance with UCLC Articles of Association („AoA" or Constitutive Act). In Accordance with AoA, the UCLC Supervisory Board has the authority to check the Board Member's activity in respect of the implementation of the Bank's strategy, aligned with those of UniCredit Group.

As a result, there is no impediment which could adversely impact the prompt transfer of funds from UCLC to UCB and/or the UCLC capacity for fast reimbursement of debts to UCB.

The Articles of Associations of UCFIN and UCLC do no include limitations, restrictions regarding the transfer of own funds and/or debt reimbursement.

2.4.2.Assessment of the other interests, different from those (controlling interests) of UCB and of their impact. UCB capacity to ask for the funds transfers or debt reimbursements

No other interests were identified except the UCB controlling interests as the control is defined in the Articles of Associations of the 2 subsidiaries.

Meanwhile, we mention that the financing agreements concluded between UCB and their subsidiaries contain contractual clauses regarding the situations where repayments in advance can appear and where collateral guarantees are in place, where all actual and future cash amounts are pledged in the bank's favour. (credit balances in the bank accounts open at UCB).

2.4.3. Potential unfavorable fiscal impact for UCB or its subsidiaries in case of funds transfer or debt reimbursement

At UniCredit Bank SA level there is no adverse fiscal impact as a result of the potential prompt transfer of funds or debt repayment in advance in accordance with the Fiscal Code provisions in force starting with 1st of January 2017.

At subsidiaries level, in hypothethical case of share capital distribution, there is no effect that could generate a fiscal impact.

2.4.4. Eventual prejudices could result from the business strategies of subsidiaries regarding the prompt transfer of funds and/or debt reimbursement

Multi-year financial plan of UCB and its subsidiaries outline the intention of ongoing business activity and to support for the implementation of the subsidiaries strategies. In normal conditions of ongoing business activity, there has not been forecasted any prompt transfer of funds and/or debt repayments in advance in the financial plans.

2.4.5. Analysis of the impact of contractual relationships between the subsidiaries and UCB/other third parties regarding the prompt transfer of funds and/or debts repayment

The contractual relationships between UCB and its subsidiaries are approved and monitored in accordance with the provisions of Articles of Association of subsidiaries and internal procedures which regulates the competencies levels for approval set up by managements and their shareholders.

Taking into account the shareholders structure, there is no negative risk that could impact the contractual business relationships of subsidiaries.

2.4.6. The historical and forecast flows of funds between UCB and its subsidiaries with potential impact on capacity of prompt transfer of funds and/or debt reimbursement

The loan agreements concluded by UniCredit Bank with its subsidiaries include the calculation of penalty interest in case the loans' payments obligations are not met. The penalty interest is applied at the maturity date, until the full payment date and it is applied to outstanding amount. There have been no cases in the past of penalty interest being applied for the credit lines granted to subsidiaries of UCB.

Meanwhile, we have to mention that, in accordance with the provisions of article 26 of NBR Regulation no.5/2013, UCB, as parent credit institution, takes into account and balance the interests of its subsidiaries and analyzes them continuously in the way those interests contributes to the objectives and interests of UCB Group and respectively of UniCredit Group, taken together as one objective/interest, on a long term basis.

2.4.7.Intragroup Liquidity Transfers

Intra-group liquidity transfers are subject to restrictions due to legal and regulatory constraints.

With reference to regulatory requirements, it should be noted that UniCredit Bank is subject to rules provided by The Regulation (EU) No 575/2013 on “prudential requirements for credit institutions and investment firms”.

3. Own funds

Regulatory capital - summary reconciliation and changes over time

Starting with January 2014, Romanian Banking System is applying the Basel III norms, in accordance with Regulation no. 575/2013 of European Parliament and Council dated 26.06.2013 regarding prudential requirements for credit institutions and investment companies, amended by Regulation (UE) no.648 / 2012 and by Regulation no. 5/2013 regarding prudential requirements for credit institutions issued by National Bank of Romania and Commission Implementing Regulation (EU) No 1423/2013 of 20 December 2013 laying down implementing technical standards with regard to disclosure of own funds requirements for institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council.

The prudential requirements define the eligibility criteria for capital instruments which shall be included in Own Funds – Common Equity Tier 1 Capital, Additional Tier 1 Capital or Own Funds – Tier 2 Capital.

The composition of the equity for the regulatory purpose is detailed by the own funds report of the Group and Bank at 31.12.2017, as detailed below:

UniCredit Bank- consolidated view			
Reference ANNEX VI	**Item**	**CRD IV 31 December 2017 in RON**	**Reference for reconciliation with balance sheet**
	OWN FUNDS		
1	Capital instruments and the related share premium accounts	1,101,604,121	c+d
	of which: ordinary shares	1,101,604,066	c+d
2	Retained earnings	2,048,611,601	g
3	Accumulated other comprehensive income (and any other reserves, included unrealised gains and losses)	152,074,841	e+f
5	Minority Interest	29,168,573	
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**3,331,459,136**	
	Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments	(7,313,813)	
8	Intangible assets (net of related tax liability)	(164,495,189)	a+b
11	Fair value reserves related to gains or losses on cash flow hedges	48,922,704	
12	(-) IRB shortfall of credit risk adjustments to expected losses	(77,813,261)	
25b	Foreseeable tax charges relating to CET1 items	(10,654,179)	
26b	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	42,285,704	
	Of which Intangible assets (net of related tax liability)	32,899,038	(a+b)*20%
27	Qualifying AT1 deductions that exceeds the AT1 capital of the institution	(41,885,266)	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(210,953,300)**	
29	**Common Equity Tier 1 (CET1) capital**	**3,120,505,836**	
	Additional Tier 1 (AT1) capital: instruments		

36	**Additional Tier 1 (AT1) capital before regulatory adjustments**		
	Additional Tier 1 (AT1) capital: regulatory adjustments		
41	Regulatory adjustments applied to Additional Tier 1 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 585/2013 (ie. CRR residual amounts)	(63,865,426)	
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	(30,316,483)	
	Of which Intangible assets (net of related tax liability)	(30,316,483)	(a+b)*20%
41c	Amounts to be deducted from added to Additional Tier 1 capital with regard to additional filters and deductions required pre- CRR	(25,762,472)	
	Of which Local prudential filter - diferente between IFS provisions and RAS provisions	(24,557,570)	
	Of which Local filter - exposure from loans granted to former employees in more favourable conditions than market	(1,204,902)	
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	(63,865,426)	
	Excess of deduction from AT1 items over AT1	63,865,426	
44	**Additional Tier 1 (AT1) capital**	0	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**3,120,505,836**	
	Tier 2 (T2) capital: instruments and provisions	**0**	
46	Capital instruments and the related share premium accounts	785,159,450	
51	**Tier 2 (T2) capital before regulatory adjustment**	**785,159,450**	
	Tier 2 (T2) capital: regulatory adjustments		
56	Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	(7,781,326)	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**(7,781,326)**	
58	**Tier 2 (T2) capital**	**777,378,124**	
59	**Total capital (TC = T1 + T2)**	**3,897,883,960**	
60	**Total risk-weighted assets**	**26,364,458,726**	
	Capital ratios and buffers		
61	**Common Equity Tier 1 (as a percentage of total risk exposure amount**	**11.84%**	
62	**Tier 1 (as a percentage of total risk exposure amount**	**11.84%**	
63	**Total capital (as a percentage of total risk exposure amount**	**14.78%**	
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	592,830,837	
65	of which: capital conservation buffer requirement	329,350,465	
66	of which: countercyclical buffer requirement	0	
67	of which: systemic risk buffer requirement	0	
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	263,480,372	
	Amounts below the thresholds for deduction (before risk-weighting)	**0**	

UniCredit Bank - individual view			
Reference Annex VI	Item	CRD IV 31 December 2017 in RON	Reference for reconciliation with balance sheet
	Own Funds		
1	Capital instruments and the related share premium accounts	1,101,604,121	c+d
	of which: ordinary shares	1,101,604,121	c+d
2	Retained earnings	2,039,632,224	g
3	Accumulated other comprehensive income (and any other reserves, included unrealised gains and losses)	152,074,841	e+f
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**3,293,311,186**	
	Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments	(7,313,813)	
8	Intangible assets (net of related tax liability)	(151,582,415)	a+b
11	Fair value reserves related to gains or losses on cash flow hedges	48,922,704	
12	(-) IRB shortfall of credit risk adjustments to expected losses	(77,864,707)	
25b	Foreseeable tax charges relating to CET1 items	(10,654,179)	
26b	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	39,713,438	
	Of which Intangible assets (net of related tax liability)	30,316,483	(a+b)*20%
27	Qualifying AT1 deductions that exceeds the AT1 capital of the institution	(63,865,426)	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(222,644,398)**	
29	**Common Equity Tier 1 (CET1) capital**	**3,070,666,788**	
	Additional Tier 1 (AT1) capital: instruments		
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**		
	Additional Tier 1 (AT1) capital: regulatory adjustments		
41	Regulatory adjustments applied to Additional Tier 1 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 585/2013 (ie. CRR residual amounts)	(63,865,426)	
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	(30,316,483)	
	Of which Intangible assets (net of related tax liability)	(30,316,483)	(a+b)*20%
41c	Amounts to be deducted from added to Additional Tier 1 capital with regard to additional filters and deductions required pre- CRR	(25,762,472)	
	Of which Local prudential filter - diferente between IFS provisions and RAS provisions	(24,557,570)	
	Of which Local filter - exposure from loans granted to former employees in more favourable conditions than market	(1,204,902)	
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	(63,865,426)	
	Excess of deduction from AT1 items over AT1	63,865,426	
44	**Additional Tier 1 (AT1) capital**	0	

45	**Tier 1 capital (T1 = CET1 + AT1)**	**3,070,666,788**	
	Tier 2 (T2) capital: instruments and provisions	**0**	
46	Capital instruments and the related share premium accounts	785,159,450	
51	**Tier 2 (T2) capital before regulatory adjustment**	**785,159,450**	
	Tier 2 (T2) capital: regulatory adjustments		
56	Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	(32,344,041)	
56c	Amounts to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre- CRR	(24,557,570)	
	Of which Local prudential filter - diferente between IFS provisions and RAS provisions	(24,557,570)	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**(32,344,041)**	
58	**Tier 2 (T2) capital**	**752,815,409**	
59	**Total capital (TC = T1 + T2)**	**3,823,482,197**	
60	**Total risk-weighted assets**	**20,867,025,499**	
	Capital ratios and buffers		
61	**Common Equity Tier 1 (as a percentage of total risk exposure amount**	**14.72%**	
62	**Tier 1 (as a percentage of total risk exposure amount**	**14.72%**	
63	**Total capital (as a percentage of total risk exposure amount**	**18.32%**	
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	260,837,819	
65	of which: capital conservation buffer requirement	260,837,819	
66	of which: countercyclical buffer requirement	0	
67	of which: systemic risk buffer requirement	0	
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0	
	Amounts below the thresholds for deduction (before risk-weighting)	**0**	
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions		
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions	143,115,683	
74	Empty set in the EU	0	
75	Deferred tax assets arising from temporary difference (amount below 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met)	68,324,033	

Capital instruments qualify as equity instruments Level 1 basic eligibility if the conditions listed below are fulfilled:

- *Instruments are issued directly by the institution with the prior approval of shareholders institution or, where permitted under applicable national legislation governing body of the institution;*
- *Instruments are paid, and their purchase is not funded directly or indirectly by the institution; are classified as equity within the meaning of applicable accounting framework;*
- *Instruments are presented clearly and distinctly in the balance sheet in the financial statements of the institution;*
- *Instruments are perpetual*
- *The instruments meet the following conditions in terms of distributions:*
    - *No preferential treatment in terms of distribution order to perform distributions, including in relation to other instruments Tier 1 instruments and the conditions governing the instruments do not provide preferential rights to making distributions;*
    - *Distributions to holders of the instruments may be made only items that can be distributed;*
    - *The conditions governing the instruments do not include a cap or other restriction on the maximum level of distributions;*
    - *The level of distributions is not determined based on the purchase price of the instruments at issue.*
- *The conditions governing the instruments do not include any obligation for the institution to make distributions to their owners, and the institution is not otherwise subject to such obligations;*
    - *Failure distributions is not an event of default for the institution;*
    - *Annual distributions do not impose restrictions on the institution.*

Capital instruments qualify as equity instruments Level 2 if the conditions for eligibility listed below are fulfilled:

- *Subordinated loans are obtained and fully paid;*
- *Subordinated loans are not issued by a subsidiary or an associate;*
- *Providing subordinated loans is not funded directly or indirectly by the institution; the principal debt subordinated loans under the provisions governing subordinated loans, is entirely subordinated to the claims of all unsubordinated creditors;*
- *Subordinated loans have an original maturity of at least five years;*
- *Provisions governing, subordinated loans do not include any incentive for their principal amount to be refunded or, if applicable, returned by the institution before maturity;*
- *Subordinated loans can be recognized in the category of Tier 2 items if in the opinion of the National Bank of Romania meet the eligibility conditions listed above.*

Own funds reconciliation with balance sheet:

UniCredit Bank

BALANCE SHEET - consolidated view				
Ind. Item	**Code**	**31.12.2017**	**31.12.2016**	**Reconciliation Reference**
Assets				
Cash and cash equivalents	A.100	8,574,271,776	5,806,429,168	
Financial assets at fair value through profit or loss	A.110	121,382,271	393,119,265	
Derivatives assets designated as hedging instruments	A.120	4,196,748	17,325,503	
Fair value changes of the hedged items in portfolio hedge	A.200	0	26,783	
Loans and advances to banks	A.150	1,446,780,104	737,782,299	
Loans and advances to customers	A.140	22,950,823,080	20,476,755,183	
Net Lease receivables	A.145	3,712,963,204	3,157,684,553	
Financial assets available for sale	A.160	6,002,073,050	6,371,453,618	
Property and equipment	A.220	188,032,627	263,863,595	
Intangible assets	A.230	169,305,871	158,409,354	a
Deferred tax asset	A.250	96,999,353	58,521,224	
Of which: deffered tax liabilities for intangible assets		4,810,682		b
Of which: other liabilities from deffered tax		7,636,995		
OF which: deferred tax receivables that rely on future profitability and result from temporary differences from which deferred tax related liabilities are reduced		109,447,031		
Other assets	A.260	195,580,837	161,416,898	
Non-current assets and disposal groups classified as held for sale	A.270	36,811,630	2,913,821	
Total assets	**A.300**	**43,499,220,551**	**37,605,701,264**	
Liabilities				
Derivative liabilities at fair value through profit or loss	L.100	80,019,912	99,316,461	
Derivatives liabilities designated as hedging instruments	L.110	76,165,933	98,730,581	
Deposits from banks	L.130	3,387,875,738	3,173,396,014	
Loans from banks and other financial institutions	L.140	6,558,213,059	7,433,468,355	
Deposits from customers	L.150	27,148,800,322	21,995,286,812	
Debt securities issued	L.160	1,166,162,751	551,024,752	
Subordinated liabilities	L.190	890,162,269	323,260,540	
Provisions	L.200	148,268,479	67,301,041	
Current tax liabilities	L.210	22,806,393	49,968,517	
Deferred tax liabilities	L.220	0	0	
Other liabilities	L.230	309,646,935	292,333,298	
Total liabilities	**L.300**	**39,788,121,791**	**34,084,086,371**	
Equity				
Share capital	EQ.100	1,101,604,066	1,101,604,066	c
Share premium	EQ.110	55	55	d
Accumulated other comprehensive income	EQ.170	(92,752,714)	(3,349,870)	e
Items that will not be reclassified to profit or loss	***EQ.180***	***9,672,847***	***10,892,930***	
Revaluation reserve on property and equipment	*EQ.190*	*9,672,847*	*10,892,930*	
Items that may be reclassified to profit or loss	***EQ.240***	***(102,425,561)***	***(14,242,800)***	
Cash flow hedging reserve	*EQ.270*	*(48,922,704)*	*(50,940,452)*	
Reserve on available for sale financial assets	*EQ.280*	*(53,502,857)*	*36,697,652*	
Other reserves	EQ.320	244,827,555	240,534,612	f
Retained earnings	EQ.350	2,307,202,067	2,053,856,522	g
Total equity	**EQ.360**	**3,560,881,029**	**3,392,645,385**	
Non-controlling interest		*150,217,731*	*128,969,508*	
Total Group Equity		**3,711,098,760**	**3,521,614,893**	
Total liabilities and equity	**EQ.400**	**43,499,220,551**	**37,605,701,264**	

BALANCE SHEET - Bank individual view				
Ind. Item	**Code**	**31.12.2017**	**31.12.2016**	**Reconciliation Reference**
Assets				
Cash and cash equivalents	A.100	8,574,251,009	5,760,947,655	
Financial assets at fair value through profit or loss	A.110	121,413,399	393,210,237	
Derivatives assets designated as hedging instruments	A.120	4,196,748	17,325,503	
Loans and advances to customers	A.140	20,757,284,583	18,826,508,130	
Loans and advances to banks	A.150	1,446,780,104	737,782,299	
Financial assets available for sale	A.160	5,999,727,015	6,369,107,583	
Fair value changes of the hedged items in portfolio hedge	A.200	0	0	
Investment in subsidiaries and in associates	A.210	143,115,683	143,115,683	
Property and equipment	A.220	186,450,287	206,581,764	
Intangible assets	A.230	156,393,096	146,937,296	a
Deferred tax assets	A.250	56,459,358	19,732,413	
Of which: deffered tax liabilities for intangible assets		4,810,682	0	b
Of which: other liabilities from deffered tax		7,053,992	0	
OF which: deferred tax receivables that rely on future profitability and result from temporary differences from which deferred tax related liabilities are reduced		68,324,033	0	
Other assets	A.260	90,598,382	63,070,064	
Non-current assets and disposal groups classified as held for sale	A.270	0	2,913,821	
Total assets	**A.300**	**37,536,669,664**	**32,687,232,448**	
Liabilities				
Derivative liabilities at fair value through profit or loss	L.100	80,019,912	99,362,520	
Derivatives liabilities designated as hedging instruments	L.110	76,165,933	98,684,522	
Deposits from banks	L.130	3,387,875,738	3,173,396,014	
Loans from banks and other financial institutions	L.140	868,424,067	2,545,617,646	
Deposits from customers	L.150	27,435,563,108	22,443,450,800	
Debt securities issued	L.160	1,166,162,751	551,024,752	
Subordinated liabilities	L.190	787,082,141	223,356,340	
Provisions	L.200	144,599,932	64,105,688	
Current tax liabilities	L.210	14,388,017	41,002,820	
Deferred tax liabilities	L.220	0	0	
Other liabilities	L.230	210,984,426	190,712,385	
Total liabilities	**L.300**	**34,171,266,025**	**29,430,713,487**	
Equity				
Share capital	EQ.100	1,101,604,066	1,101,604,066	c
Share premium	EQ.110	55	55	d
Accumulated other comprehensive income	EQ.170	(92,752,714)	(3,349,870)	e
Items that will not be reclassified to profit or loss	***EQ.180***	***9,672,847***	***10,892,930***	
Revaluation reserve on property and equipment	*EQ.190*	*9,672,847*	*10,892,930*	
Items that may be reclassified to profit or loss	***EQ.240***	***(102,425,561)***	***(14,242,800)***	
Cash flow hedging reserve	*EQ.270*	*(48,922,704)*	*(50,940,452)*	
Reserve on available for sale financial assets	*EQ.280*	*(52,834,808)*	*36,697,652*	
Other reserves	EQ.320	244,827,555	240,534,612	f
Retained earnings	EQ.350	2,111,724,677	1,917,730,098	g
Total equity	**EQ.360**	**3,365,403,639**	**3,256,518,961**	
Total liabilities and equity	**EQ.400**	**37,536,669,664**	**32,687,232,448**	

CET 1 – Capital instruments-shares

CET 1 Capital Instruments - shares -		
1	Issuer	UniCredit Bank Romania
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	n/a
3	Governing law(s) of the instrument	Romanian Law-no.31/1990
	Regulatory treatment	
4	Transitional CRR rules	CET1
5	Post-transitional CRR rules	CET1
6	Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated	solo and consolidated
7	Instrument type (types to be specified by each jurisdiction)	ordinary shares
8	Amount recognised in regulatory capital	1,101,604,066
	Currency of issue	RON
9	Nominal amount of instrument - in currency of issue	9.3
10	Accounting classification	shareholder's equity
12	Perpetual or dated	perpetual
13	Original maturity date	no maturity
14	Issuer call subject to prior supervisory approval	no
15	Optional call date, contingent call dates and redemption amount (s. 9b)	-
16	Subsequent call dates, if applicable	-
	Coupons / dividends	
17	Fixed or floating dividend/coupon	floating
18	Coupon rate and any related index	n/a
19	Existence of a dividend stopper	no
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	discretionary
21	Existence of step up or other incentive to redeem	no
22	Noncumulative or cumulative	non-cumulative
23	Convertible or non-convertible	no
24	If convertible, conversion trigger(s)	-
25	If convertible, fully or partially	-
26	If convertible, conversion rate	-
27	If convertible, mandatory or optional conversion	-
28	If convertible, specify instrument type convertible into	-
29	If convertible, specify issuer of instrument it converts into	-
30	Write-down features	no
31	If write-down, write-down trigger(s)	-
32	If write-down, full or partial	-
33	If write-down, permanent or temporary	-
34	If temporary write-down, description of write-up mechanism	-
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	subordinated
36	Non-compliant transitioned features	no
37	If yes, specify non-compliant features	-

Tier 2 – Capital instruments features

	Tier 2 - Capital Instruments features		
1	Issuer	UniCredit SPA	UniCredit SPA
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	n/a	n/a
3	Governing law(s) of the instrument	English Law	English Law
	Regulatory treatment		
4	Transitional CRR rules	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated	solo and consolidated	solo and consolidated
7	Instrument type (types to be specified by each jurisdiction)	subordinated loan	subordinated loan
8	Amount recognised in regulatory capital	48,500,000	120,000,000
	Currency of issue	EUR	EUR
9	Nominal amount of instrument (agregate) - in currency of issue	48,500,000	120,000,000
9a	Issue price	48,500,000	120,000,000
9b	Redemption price - in currency of issue	48,500,000	120,000,000
10	Accounting classification	liabilities at amortised cost	liabilities at amortised cost
11	Original date of issuance	27/07/2017	29/12/2017
12	Perpetual or dated	dated	dated
13	Original maturity date	27/07/2027	29/12/2027
14	Issuer call subject to prior supervisory approval	yes	yes
16	Subsequent call dates, if applicable	27/07/2022	29/12/2022
	Coupons / dividends		
17	Fixed or floating dividend/coupon	floating	floating
18	Coupon rate and any related index	4.5%+3M EURIBOR	3.88%+3M EURIBOR
19	Existence of a dividend stopper	n/a	n/a
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	n/a	n/a
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	n/a	n/a
21	Existence of step up or other incentive to redeem	n/a	n/a
22	Noncumulative or cumulative	n/a	n/a
23	Convertible or non-convertible	no	no
24	If convertible, conversion trigger(s)	n/a	n/a
25	If convertible, fully or partially	n/a	n/a
26	If convertible, conversion rate	n/a	n/a
27	If convertible, mandatory or optional conversion	n/a	n/a
28	If convertible, specify instrument type convertible into	n/a	n/a
29	If convertible, specify issuer of instrument it converts into	n/a	n/a
30	Write-down features	no	no
31	If write-down, write-down trigger(s)		
32	If write-down, full or partial		
33	If write-down, permanent or temporary		
34	If temporary write-down, description of write-up mechanism		
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	to all other non subordinated liabilities	to all other non subordinated liabilities
36	Non-compliant transitioned features	no	no
37	If yes, specify non-compliant features	-	-

4. Capital requirements

4.1. General comment

Capital Adequacy Assessment

During 2017, within the Bank it was continued the sustained process for completing the internal methodological framework with specific 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.

The Internal Capital Adequacy Assessment Process ("ICAAP") was performed in accordance with National Bank of Romania Regulation no 5/2013, 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 UCB 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: credit risk, market risk, operational risk, business risk, financial investments risk, real estate investments 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 develops and manages its risk management processes, respectively implements processes and tools to assess the level of internal capital adequate to support each type of risk, including those risks not captured by the total capital requirement (i.e. Pillar I risks), within the scope of an assessment of the Bank's Legal current and future exposure, taking account its strategies and developments in its business environment.

Necessary regulated own funds requirements at consolidated level

For calculating the regulatory capital requirements for credit risk, the Bank applies the Foundation Internal Rating Based Approach, according to Regulation no. 575/2013 of European Parliament and Council dated 26.06.2013 regarding prudential requirements for credit institutions and investment companies and amending Regulation (UE) no. 648/2012 of the Comission for establishing technical standards for reporting for supervisory purposes and by Regulation no. 5/2013 regarding prudential requirements for credit institutions issued by National Bank of Romania (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, sovereigns and central 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 uses the Standardised Approach, while, for operational risk, it is used advanced approach in accordance the above mentioned regulations. All tasks related to the calculation and monitoring of capital requirements are performed by specialized units of Finance 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:

- Budgeting
- Monitoring and analysis
- Stress testing
- Forecasting

EU OV1 – Overview of RWAs

		RWAs		Minimum capital requirements
		T	T-1	T
1	Credit risk (excluding CCR)	24,162,020,571	23,386,998,369	1,932,961,646
2	Of which the standardised approach	10,465,843,948	10,164,649,762	837,267,516
3	Of which the foundation IRB (FIRB) approach	13,696,176,623	13,222,348,607	1,095,694,130
4	Of which the advanced IRB (AIRB) approach	0	0	0
5	Of which equity IRB under the simple risk-weighted approach or the IMA	0	0	0
6	CCR	131,503,058	136,086,152	10,520,245
7	Of which mark to market	125,839,383	131,316,188	10,067,151
8	Of which original exposure	0	0	0
9	Of which the standardised approach	0	0	0
10	Of which internal model method (IMM)	0	0	0
11	Of which risk exposure amount for contributions to the default fund of a CCP	0	0	0
12	Of which CVA	5,663,676	4,769,964	453,094
13	Settlement risk	0	0	0
14	Securitisation exposures in the banking book (after the cap)	0	0	0
15	Of which IRB approach	0	0	0
16	Of which IRB supervisory formula approach (SFA)	0	0	0
17	Of which internal assessment approach (IAA)	0	0	0
18	Of which standardised approach	0	0	0
19	Market risk	20,387,965	41,991,886	1,631,037
20	Of which the standardised approach	20,387,965	41,991,886	1,631,037
21	Of which IMA			
22	Large exposures			
23	Operational risk	2,050,547,132	2,243,267,763	164,043,771
24	Of which basic indicator approach	672,174,338	605,173,878	53,773,947
25	Of which standardised approach			
26	Of which advanced measurement approach	1,378,372,795	1,638,093,886	110,269,824
27	Amounts below the thresholds for deduction (subject to 250% risk weight)			
28	Floor adjustment			
29	**Total**	**26,364,458,726**	**25,808,344,170**	**2,109,156,698**

4.2. Capital Strengthening

From the bank’s perspective, Tier 1 capital is the core measure of its financial health and is assessed from the view of its capacity to absorb losses without ceasing business operations. Under Basel III, the minimum tier 1 capital ratio is 6%, which is calculated by dividing the bank's tier 1 capital by its total risk-weighted assets.

As at December 2017, the bank did not hold additional Tier 1 instruments, therefore Core Tier 1 ratio was calculated at the level of tier 1 ratio, with a consolidated level of 11.84%, significantly higher than the minimum regulatory requirement.

4.3. Reclassification of financial assets table

As at December 2017, Visa Inc (USA) preferred shares series C (resulting from the VISA Europe Ltd acquisition by VISA Inc) were recognized as equity investment available for sale at fair value.
The fair value of VISA Inc share have been estimated based on the methodology and approach developed by parent company UniCredit SpA and distributed within the UniCredit Group to all it subsidiaries.

EU CR10 – IRB (specialized lending and equities)

Specialised lending							
Regulatory categories	**Remaining maturity**	**On- balance-sheet amount**	**Off-balance-sheet amount**	**Risk weight**	**Exposure amount**	**RWAs**	**Expected losses**
Category 1	Less than 2.5 years	-	-	50%	-	-	-
	Equal to or more than 2.5 years	-	-	70%	-	-	-
Category 2	Less than 2.5 years	-	-	70%	-	-	-
	Equal to or more than 2.5 years	-	-	90%	-	-	-
Category 3	Less than 2.5 years	-	-	115%	-	-	-
	Equal to or more than 2.5 years	-	-	115%	-	-	-
Category 4	Less than 2.5 years	-	-	250%	-	-	-
	Equal to or more than 2.5 years	-	-	250%	-	-	-
Category 5	Less than 2.5 years	-	-	-	-	-	-
	Equal to or more than 2.5 years	-	-	-	-	-	-
Total	Less than 2.5 years	-	-		-	-	-
	Equal to or more than 2.5 years	-	-		-	-	-
Equities under the simple risk-weighted approach							
Categories		On- balance-sheet amount	Off-balance-sheet amount	Risk weight	Exposure amount	RWAs	Capital requirements
Private equity exposures		-	-	190%	-	-	-
Exchange-traded equity exposures		-	-	290%	-	-	-
Other equity exposures		20,029,027	-	370%	20,029,027	74,107,402	5,928,592
Total		20,029,027	-		20,029,027	74,107,402	5,928,592

The Group doesn't have holdings of own funds instruments of a financial sector entity where the institution has a significant investment not deducted from own funds (before risk-weighting).

4.4. *Risk Management and business model - RWA segmentation*

One of the Bank's strategic objectives was the development of a sound risk culture extended both at management level and at the level of all business units with risk management responsibilities, by determining firm-wide views on acceptable relationships between the risks and profitability at a Bank's overall level and for each significant activity in order to ensure sustainability of sound and prudent operations.

UniCredit Bank targeted a balanced asset in order to diminish the exposures that have a high risk associated. Also, the bank performed processes for RWA optimization.

4.5. *RWAs and business activities*

According to Basel III framework, the total RWA are the sum of:

- RWA Credit Risk (RWA Banking book + RWA Counterparty Risk+ RWA Securitisation)
- RWA equivalent Market Risk
- RWA equivalent Operational Risk

4.6. *Capital surcharges & buffers*

Regulation no. 5/2013 issued by National Bank of Romania includes specific provisions for capital buffers that may be applicable on top of minimum capital requirements. The following buffers were imposed by the National Bank of Romania through Order no 12/ 2015 and Order no 1/2017:

Additionally, College of Supervisors of European Central Bank (ECB), in line with the local Supervisory Review and Evaluation Process (SREP) assessment carried out by the National Bank of Romania, decided that UniCredit Bank S.A. shall maintain a solvency ratio above 10.44% at individual level and 10.08% at sub-consolidated level.

Solvency ratio - minimum requirements including Pillar II buffers	2017				
	NBR Order no 149/29.12.2016 - including Pillar II buffers	Capital buffers in force till 01.03.2017	TOTAL - in force till 01.03.2017	Capital buffers in force starting with 01.03.2017 as per Order no 1/13.02.2017	TOTAL - in force starting with 01.03.2017
- individual level					
CET 1 ratio	5.85%	2.25%	8.10%	1.25%	7.10%
Tier 1 ratio	7.83%		10.08%		9.08%
Total capital ratio	**10.44%**		**12.69%**		**11.69%**
-sub-consolidated level					
CET 1 ratio	5.64%	2.25%	7.89%	2.25%	7.89%
Tier 1 ratio	7.56%		9.81%		9.81%
Total capital ratio	**10.08%**		**12.33%**		12.33%

Other Systemically Important Institutions buffer

As per NBR Order no 11/ 2015, UniCredit Bank was identified as O-SII (Other Systemically Important Institutions) by the NBR (National Bank of Romania) and consequently, an O-SII buffer of 1% of the total risk weighted exposure, calculated as per art 92(3) of NBR Regulation no 575/ 2013 on prudential requirements for credit institutions, had to be maintained by the bank at both individual and sub-consolidated level. Starting with 1st of March 2017, as per NBR Order no 1/ 13.02.2017, UniCredit Bank S.A. had to maintain this O-SII buffer of 1% of the total risk weighted exposure, calculated as per art 92(3) of NBR Regulation no 575/ 2013, only at sub-consolidated level.

Capital conservation buffer

As per NBR Order no.12/2015, during 2017, UniCredit Bank had to maintain a capital conservation buffer of 1.25% of the total risk weighted exposure, calculated in accordance with Article 92(3) of Regulation (EU) No 575/2013, at both individual and sub-consolidated level.

Countercyclical capital buffer

As per NBR Order no.12/2015, during 2017, UniCredit Bank had to maintain a countercyclical capital buffer of 0% of the total risk weighted exposure, calculated as per art 92(3) of NBR Regulation no 575/ 2013 on prudential requirements for credit institutions.

Systemic risk buffer

As per NBR Order no 2/ 2017, UniCredit Bank should not maintain any systemic risk buffer during 2017.

4.7. Capital planning- targeted level of capital

As per Regulation 575/ 2013, the Minimum Capital Requirement is set to 8% of Risk Weighted Assets.

Based on common decision European Central Bank and National Bank of Romania, UniCredit Bank must at all times satisfy the total capital ratio (solvency ratio) of 10.44% at individual level and 10.08% at sub-consolidated level.

4.8. RWA calculation method and models

The bank calculates RWA according to the stipulations of Regulation EU no 575/2013 of the European Parliament and of the Council, using the following approaches:

Standardized Approach:

Risk-weighted exposure amount is calculated by using Fixed Regulatory Risk Weights (RW) and depends on the obligor type (Corporate/ Retail) and external rating (if available)

Internal Rating Base (IRB) Approach:

Risk-weighted exposure is calculated by using Calculated Risk Weights (RW) based on internally built credit risk parameters: Probability of default (PD), Loss given default (LGD), Exposure at default (EAD), M (Maturity).

In **Internal Rating Base** approach, Capital Reserve is adequate to the specific risk profile of the portfolio.

4.9. RWA changes overtime

In July 2012, the Bank has obtained the joint approval of Bank of Italy, Financial Market Authority and National Bank of Romania to use the Foundation – Internal Rating Based approach for the calculation of minimum capital requirements for the following client segments: corporate clients (except for real estate clients and specialized financing), multinational companies, banks, sovereigns and central bank and securities industries clients.

Further, for the rest of the portfolio, the Bank continued to apply the Standardized approach.

5. Credit risk

5.1. Strategies, policies 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 credit risk strategy 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.

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 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.

Credit risk management is realised by limiting credit risk exposures setting limits established in accordance with general strategy of the Bank (limits established by sectors of activity, zones / geographical areas, counterparty categories, type of products, residence, country and currency, etc.).These limits are monitored and periodically reported to relevant committees.

The Bank is exposed in particular to credit risk in credit granting activity, this being the most common type of risk the Bank is confronted with.

The most important activity generating risk is financing, but any other banking activity can potentially generate credit risk (off balance commitments and debts, deposits constitution and other transaction on inter-banking market, hedging on stock/interbank market, etc.)

The Bank has a credit risk management process that takes into account its risk appetite, risk profile and market and macroeconomic conditions.

This process includes policies and processes to identify, measure, evaluate, monitor, report, control and mitigate credit risk - including counterparty credit risk and potential future exposure, policies and processes aiming to capture the material risks inherent in individual products or transactions.

Credit risk includes risk derived from credit granting activity and from other transactions initiated for Bank clients, such as: issuance of LGs, opening / confirmation of LC's, availing, discounting of trade instruments presented by the clients, investments in stocks and other financial assets, other facilities granted to clients.

The scope and type of reporting and measuring systems for credit risk

In order to evaluate the basis of prudential exposure to credit risk, in the Bank implemented rating systems (through consideration of quantitative factors, qualitative factors and payment behavior related factors), for all categories of clients in order to realise the classification of exposures based on the assessment borrowers' credit risk throughout the entire loan life cycle, by reference to a general scale assessment of default risk.

In UniCredit Bank internal ratings and default probability plays an essential role in the entire process of credit risk management. Rating assessment is an important part of the credit approval process. Credit risk tolerance is considering limits for granting credit exposures on rating classes. During the credit life cycle, the rating information is an important part of monitoring as well as of restructuring and of the progress of the problem credits.

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

5.2. The structure and organization of the credit risk management and control function

Credit risk management processes within UniCredit Bank imply the following:

- Acurate definition of specific processes and procedures for credit risk management differentiated depending on the main components of credit risk and the stage of the credit granting process, as follows:
  - Procedures of risk management at credit granting stage;
  - Procedures to prevent and mitigate default risk, settlement risk, concentration risk and residual risk;
  - Procedures for the prevention and mitigation of the risk related to foreign currency lending for debtors exposed to currency risk;
  - Specific procedures for identification and management of „problem" assets.

- Adequacy of credit risk procedures, policies and management tools, in line with the strategy:
  - Identification of the risk associated to the customer by applying 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 associated risk;
  - Approval of the standard parameters of lending products by taking into account the analysis of the associated risks;
  - Continuous monitoring of the loan portfolio;
- Exposure collateralization with eligible collaterals according to the legal stipulations in force, and also based on the Basel III implementation approach and relevant internal norms and procedures;
- Other credit risk mitigation techniques.

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

The credit facilities are approved in accordance with the internal lending rules and procedures, set up in accordance with the provisions of the National Bank of Romania regulations, specific for each category of customers.

The Bank has implemented policies and processes for monitoring the total indebtedness of the customers, as well as any risk factor that may lead to a default, including uncovered foreign exchange risk.

5.3 Credit risk profile and concentrations

Credit risk - Quantitative Information

EU CRB-B – Total and average net amount of exposures

		a	b
		Net value of exposures at the end of the period December 2017	Average net exposures over the period
1	Central governments or central banks	19,717,539	26,962,969
2	Institutions	3,994,003,761	3,882,807,347
3	Corporates	19,514,458,249	19,212,979,255
4	*Of which: Specialised lending*	-	-
5	*Of which: SMEs*	9,941,558,501	9,679,645,509
6	Retail	-	-
7	*Secured by real estate property*	-	-
8	*SMEs*	-	-
9	*Non-SMEs*	-	-
10	*Qualifying revolving*	-	-
11	*Other retail*	-	-
12	*SMEs*	-	-
13	*Non-SMEs*	-	-
14	Equity	74,107,403	67,322,297
15	***Total IRB approach***	23,602,286,951	23,190,071,869
16	Central governments or central banks	12,996,747,676	9,957,136,931
17	Regional governments or local authorities	445,333,472	489,267,178
18	Public sector entities	-	728
19	Multilateral development banks	-	-
20	International organisations	-	-
21	Institutions	732,477	2,765,683
22	Corporates	5,203,994,265	4,833,249,634
23	*Of which: SMEs*	3,069,606,405	3,361,775,031
24	Retail	7,327,329,228	6,785,030,783
25	*Of which: SMEs*	3,373,754,492	3,337,653,990
26	Secured by mortgages on immovable property	3,747,031,613	3,920,510,366
27	*Of which: SMEs*	336,386,307	351,759,389
28	Exposures in default	489,319,357	739,420,058
29	Items associated with particularly high risk	24,802,530	32,118,541
30	Covered bonds	-	-
31	Claims on institutions and corporates with a short-term credit assessment	-	19,995
32	Collective investments undertakings	-	-
33	Equity exposures	4,983,156	4,703,817
34	Other exposures	154,802,995	400,819,815
35	**Total standardised approach**	30,395,076,769	27,165,043,530
36	**Total**	**53,997,363,720**	**50,355,115,398**

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EU CRB-C – Geographical breakdown of exposures

		a	b	c	d	e	f	g	h	i	j
		Net value									
		Romania	**Italy**	**Germany**	**Netherlands**	**Austria**	**Spain**	**France**	**Hungary**	**United States**	**Other**
1	Central governments or central banks	220,119,625	-	-	-	-	-	-	-	-	218,470
2	Institutions	760,730,807	1,424,650,704	539,270,360	10,613,100	137,321,391	74,272,913	53,735,677	66,558,940	41,059,336	215,573,186
3	Corporates	13,029,113,008	46,672,667	27,790,384	483,989,715	1,616,793	-	15,389,968	-	-	70,994,229
4	Retail	-	-	-	-	-	-	-	-	-	-
5	Equity	-	-	-	-	-	-	-	-	20,029,028	-
6	***Total IRB approach***	**14,009,963,440**	**1,471,323,371**	**567,060,744**	**494,602,815**	**138,938,184**	**74,272,913**	**69,125,645**	**66,558,940**	**61,088,363**	**286,785,886**
7	Central governments or central banks	13,160,905,629	46,238,767	-	-	-	-	-	-	-	-
8	Regional governments or local authorities	384,616,509	-	-	-	-	-	-	-	-	-
9	Public sector entities	-	-	-	-	-	-	-	-	-	-
10	Multilateral development banks	-	-	-	-	-	-	-	-	-	6,188,542
11	International organisations	-	-	-	-	-	-	-	-	-	-
12	Institutions	31,572,477	10,070,488	-	-	-	-	-	-	-	55,276
13	Corporates	3,973,223,057	59	45,782,628	5	-	63	-	-	-	284,825
14	Retail	6,407,510,547	828,125	324,903	1,979	168,509	335	531	34	1,053,964	1,783,107
15	Secured by mortgages on immovable property	3,734,350,770	487,492	1,578,866	-	-	-	-	14,819	-	3,619,403
16	Exposures in default	470,640,321	18,360	568	-	99,630	-	-	-	538	25,662
17	Items associated with particularly high risk	24,723,888	-	-	-	-	-	-	-	-	-
18	Covered bonds	-	-	-	-	-	-	-	-	-	-
19	Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-
20	Collective investments undertakings	-	-	-	-	-	-	-	-	-	-
21	Equity exposures	4,983,156	-	-	-	-	-	-	-	-	-
22	Other exposures	154,802,995	-	-	-	-	-	-	-	-	-
23	***Total standardised approach***	**28,347,329,352**	**57,643,290**	**47,686,965**	**1,984**	**268,139**	**398**	**531**	**14,853**	**1,054,502**	**11,956,815**
24	***Total***	**42,357,292,791**	**1,528,966,661**	**614,747,709**	**494,604,799**	**139,206,323**	**74,273,311**	**69,126,176**	**66,573,793**	**62,142,865**	**298,742,701**

EU CRB-D – Concentration of exposures by industry or counterparty types

	UniCredit Bank Individual view Loan Portofolio	Agriculture, forestry and fishing	Mining and quarrying	Manufacturing	Electricity, gas, steam and air conditioning supply	Water supply; sewerage, waste management and remediation activities	Construction	Wholesale and retail trade; repair of motor vehicles and motorcycles	Transport and storage	Accommodation and food service activities	Information and communication	Financial and insurance activities
1	Central governments or central banks	0	0	0	0	0	0	0	0	0	0	0
2	Institutions	0	0	0	0	0	0	0	0	0	0	3,778,662,557
3	Corporates	1,264,608,829	180,468,300	6,566,588,601	962,271,054	181,588,660	1,249,840,994	5,582,949,504	774,797,408	139,672,257	898,948,970	317,116,588
4	Retail	0	0	0	0	0	0	0	0	0	0	0
5	Equity	0	0	0	0	0	0	0	0	0	0	20,029,028
6	***Total IRB approach***	1,264,608,829	180,468,300	6,566,588,601	962,271,054	181,588,660	1,249,840,994	5,582,949,504	774,797,408	139,672,257	898,948,970	4,115,808,173
7	Central governments or central banks	0	0	0	0	0	0	0	0	0	0	7,019,113,952
8	Regional governments or local authorities	0	0	0	0	0	0	0	0	0	0	0
9	Public sector entities	0	0	0	0	0	0	0	0	0	0	0
10	Multilateral development banks	0	0	0	0	0	0	0	0	0	0	0
11	International organisations	0	0	0	0	0	0	0	0	0	0	0
12	Institutions	0	0	0	0	0	0	0	0	0	0	0
13	Corporates	66,750,740	33,187,943	456,595,528	23,293,006	524	511,418,064	157,332,554	33,901,816	38,023,170	8,530,510	64,648,132
14	Retail	207,675,181	3,935,709	375,009,910	447,143	14,078,855	117,368,841	545,794,869	80,555,007	19,659,256	34,429,138	960,574
15	Secured by mortgages on immovable property	16,958,528	1,871,800	30,548,705	0	655,232	60,489,405	100,874,934	15,441,309	4,617,846	5,854,123	216,482
16	Exposures in default	5,961,948	16,342	13,916,422	154,362	820,057	17,356,379	19,293,096	2,384,484	2,829,535	1,620,428	7,869
17	Items associated with particularly high risk	0	0	0	0	0	4,400,538	2,878,389	0	0	0	0
18	Covered bonds	0	0	0	0	0	0	0	0	0	0	0
19	Claims on institutions and corporates with a short- term credit assessment	0	0	0	0	0	0	0	0	0	0	0
20	Collective investments undertakings	0	0	0	0	0	0	0	0	0	0	0
21	Equity exposures	0	0	0	0	0	0	0	0	0	0	145,752,841
22	Other exposures	0	0	0	0	0	0	0	0	0	0	0
23	***Total standardised approach***	297,346,398	39,011,794	876,070,565	23,894,512	15,554,669	711,033,226	826,173,842	132,282,616	65,129,808	50,434,199	7,230,699,850
24	***Total***	1,561,955,226	219,480,094	7,442,659,165	986,165,566	197,143,329	1,960,874,221	6,409,123,346	907,080,024	204,802,065	949,383,169	11,346,508,023

EU CRB-D – Concentration of exposures by industry or counterparty types

	UniCredit Bank Individual view Loan Portofolio	Real estate activities	Professional, scientific and technical activities	Administrative and support service activities	Public administration and defence, compulsory social security	Education	Human health and social work activities	Arts, entertainment and recreation	Other services activities	Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use	Activities of extraterritorial organisations and bodies	Other
1	Central governments or central banks	0	0	0	19,280,599	0	0	0	0	0	436,940	0
2	Institutions	0	0	0	0	0	0	0	0	0	0	0
3	Corporates	179,072,454	905,653,272	192,323,119	192,991	0	28,666,156	31,336,699	35,026,310	32,915,387	0	0
4	Retail	0	0	0	0	0	0	0	0	0	0	0
5	Equity	0	0	0	0	0	0	0	0	0	0	0
6	***Total IRB approach***	179,072,454	905,653,272	192,323,119	19,473,590	0	28,666,156	31,336,699	35,026,310	32,915,387	436,940	0
7	Central governments or central banks	0	0	0	5,935,191,370	0	0	0	0	0	0	0
8	Regional governments or local authorities	0	0	0	443,694,704	0	0	0	0	0	0	0
9	Public sector entities	0	0	0	0	0	0	0	0	0	0	0
10	Multilateral development banks	0	0	0	0	0	0	0	0	0	0	0
11	International organisations	0	0	0	0	0	0	0	0	0	0	0
12	Institutions	0	0	0	0	0	0	0	0	0	0	0
13	Corporates	1,536,182,240	21,437,593	42,316,548	21,849	1,199	13,435,553	1,936,511	415,968	167,244,189	46	0
14	Retail	10,414,171	66,402,033	22,187,998	32,894	5,426,637	18,413,687	1,105,943	7,242,869	1,557,212,232	0	1,947,198
15	Secured by mortgages on immovable property	1,308,427	9,974,989	4,061,426	0	991,769	6,637,106	1,198,214	2,609,642	3,457,037,113	0	5,846,581
16	Exposures in default	57,174,895	1,629,241	1,099,379	0	586	216,106	19,354	1,175,920	128,373,744	0	0
17	Items associated with particularly high risk	805,558	0	0	0	0	0	0	0	16,718,045	0	0
18	Covered bonds	0	0	0	0	0	0	0	0	0	0	0
19	Claims on institutions and corporates with a short- term credit assessment	0	0	0	0	0	0	0	0	0	0	0
20	Collective investments undertakings	0	0	0	0	0	0	0	0	0	0	0
21	Equity exposures	0	0	0	0	0	0	0	0	0	0	0
22	Other exposures	0	0	0	0	0	0	0	0	0	0	0
23	***Total standardised approach***	1,605,885,292	99,443,857	69,665,351	6,378,940,817	6,420,192	38,702,452	4,260,021	11,444,399	5,326,585,324	46	7,793,779
24	***Total***	1,784,957,746	1,005,097,129	261,988,470	6,398,414,407	6,420,192	67,368,608	35,596,720	46,470,709	5,359,500,710	436,986	7,793,779

UniCredit Bank

EU CR1-A – Credit quality of exposures by exposure class and instrument

UniCredit Bank Individual view Loan Portofolio		a	b	c	d	e	f	g
		Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
		Defaulted exposures	Non-defaulted exposures					(a+b-c-d)20
1	Central governments or central banks	220,119,625	436,940	200,839,026	-	-	27,057,935	19,717,539
2	Institutions	-	3,779,308,703	646,145	-	-	13,343	3,778,662,558
3	Corporates	1,119,658,249	19,188,324,387	783,945,085	-	212,377,972	185,851,332	19,524,037,551
4	*Of which: Specialised lending*	-	-	-	-	-	-	-
5	*Of which: SMEs*	1,035,023,787	9,639,381,185	704,229,891	-	94,912,077	170,951,698	9,970,175,081
6	Retail	-	-	-	-	-	-	-
7	*Secured by real estate property*	-	-	-	-	-	-	-
8	*SMEs*	-	-	-	-	-	-	-
9	*Non-SMEs*	-	-	-	-	-	-	-
10	*Qualifying revolving*	-	-	-	-	-	-	-
11	*Other retail*	-	-	-	-	-	-	-
12	*SMEs*	-	-	-	-	-	-	-
13	*Non-SMEs*	-	-	-	-	-	-	-
14	Equity	-	20,029,028		-	-	-	20,029,028
15	***Total IRB approach***	**1,339,777,873**	**22,988,099,058**	**985,430,256**	-	**212,377,972**	**212,922,610**	**23,342,446,675**
16	Central governments or central banks	-	12,954,853,388	548,066	-	-	331,419	12,954,305,322
17	Regional governments or local authorities	-	443,925,243	230,539	-	-	20,819	443,694,704
18	Public sector entities	-	-	-	-	-	-	-
19	Multilateral development banks	-	-	-	-	-	-	-
20	International organisations	-	-	-	-	-	-	-
21	Institutions	-	-	-	-	-	-	-
22	Corporates	-	3,184,922,345	8,248,662	-	-	2,715,815	3,176,673,683
23	*Of which: SMEs*	-	1,716,742,623	5,724,160	-	-	2,135,304	1,711,018,462
24	Retail	-	3,112,490,796	22,190,648	-	3,423,202	8,202,864	3,090,300,148
25	*Of which: SMEs*	-	1,544,961,359	8,283,991	-	-	1,943,426	1,536,677,367
26	Secured by mortgages on immovable property	-	3,734,903,754	7,710,120	-	-	1,939,816	3,727,193,634
27	*Of which: SMEs*	-	317,556,970	1,008,642	-	-	394,863	316,548,328
28	Exposures in default	804,434,777		550,384,632	-	444,729,357	68,279,895	254,050,145
29	Items associated with particularly high risk	16,711,981	21,604,204	13,513,655	-	-	319,596	24,802,530
30	Covered bonds	-	-	-	-	-	-	-
31	Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-
32	Collective investments undertakings	-	-	-	-	-	-	-
33	Equity exposures	-	146,722,361	969,520	-	-	-	145,752,841
34	Other exposures	-	-	-	-	-	-	-
35	***Total standardised approach***	821,146,759	23,599,422,092	603,795,843	-	448,152,559	81,810,222	23,816,773,008
36	***Total***	**2,160,924,632**	**46,587,521,150**	**1,589,226,099**	-	**660,530,531**	**294,732,833**	**47,159,219,683**
37	Of which: Loans	1,914,414,458	29,019,224,875	1,466,393,619	-	-	231,887,875	29,447,216,676
38	Of which: Debt securities	-	5,977,060,831	-	-	-	-	5,977,060,831
39	Of which: Off- balance-sheet exposures	246,510,174	11,591,235,444	122,832,480	-	-	62,844,957	11,714,913,138

EU CR1-B – *Credit quality of exposures by industry or counterparty types*

	UniCredit Bank Individual view Loan Portofolio	a	b	c	d	e	f	g
		Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
		Defaulted exposures	Non-defaulted exposures					(a+b-c-d)20
1	Agriculture, forestry and fishing	28,134,478	1,561,303,003	27,482,255	0	9,108,508	4,177,277	1,561,955,226
2	Mining and quarrying	1,155,563	219,240,916	916,384	0	400,224	66,697	219,480,094
3	Manufacturing	456,368,891	7,330,039,438	343,749,163	0	163,982,177	95,444,916	7,442,659,165
4	Electricity, gas, steam and air conditioning supply	80,632,916	954,638,796	49,106,146	0	0	14,822,306	986,165,566
5	Water supply; sewerage, waste management and remediation activities	64,765,112	166,260,675	33,882,458	0	2,910,350	11,115,675	197,143,329
6	Construction	328,925,498	1,863,715,331	231,766,609	0	35,713,435	55,542,528	1,960,874,221
7	Wholesale and retail trade; repair of motor vehicles and	313,662,108	6,332,083,135	236,621,897	0	159,883,754	20,814,068	6,409,123,346
8	Transport and storage	21,563,441	907,034,343	21,517,761	0	4,589,071	1,436,930	907,080,024
9	Accommodation and food service activities	5,848,496	202,007,964	3,054,395	0	3,202,298	1,208,240	204,802,065
10	Information and communication	39,690,560	938,808,823	29,116,214	0	62,296	4,882,887	949,383,169
11	Financial and insurance activities	224,957	11,348,888,565	2,605,498	0	1,580,100	382,625	11,346,508,023
12	Real estate activities	159,094,331	1,719,700,727	93,837,312	0	10,545,256	13,146,324	1,784,957,746
13	Professional, scientific and technical activities	64,829,252	992,780,255	52,512,379	0	9,023,846	5,121,872	1,005,097,129
14	Administrative and support service activities	13,265,578	258,750,169	10,027,277	0	1,456,427	671,009	261,988,470
15	Public administration and defence, compulsory social	220,119,625	6,379,366,315	201,071,533	0	0	27,078,995	6,398,414,407
16	Education	7,699	6,438,069	25,577	0	64,057	9,961	6,420,192
17	Human health and social work activities	596,517	67,286,652	514,562	0	6,628,732	62,139	67,368,608
18	Arts, entertainment and recreation	9,145,399	31,930,137	5,478,816	0	17,737	345,854	35,596,720
19	Other services activities	2,885,788	45,423,704	1,838,782	0	94,465,336	281,702	46,470,709
20	Activities of households as employers; undifferentiated goods- and services-producing activities of households	350,008,423	5,253,570,247	244,077,959	0	156,803,066	38,120,298	5,359,500,710
21	Activities of extraterritorial organisations and bodies	0	436,987	1	0	0	0	436,986
22	Other	0	7,816,899	23,120	0	93,861	530	7,793,779
23	**Total**	**2,160,924,632**	**46,587,521,150**	**1,589,226,109**	**0**	**660,530,531**	**294,732,833**	**47,159,219,683**

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EU CR1-C – Credit quality of exposures by geography

		a	b	c	d	e	f	g
		Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Net values (a+ b -c-d) 22
		Defaulted exposures	Non-defaulted exposures					
1	Romania	2,679,698,219	48,367,453,978	2,006,414,959	0	567,611,147	293,928,490	49,040,737,238
2	Italy	45,250	1,662,297,182	704,920	0	687,314	426,464	1,661,637,512
3	Germany	6,893	1,227,531,246	126,095	0		14,397	1,227,412,045
4	Netherland	0	485,402,560	195,772	0		3,112	485,206,787
5	Austria	1,353,089	297,602,226	1,396,586	0		103,126	297,558,729
6	Great Britain	0	45,148,358	8,210	0		1,442	45,140,148
7	France	0	107,484,138	9,826	0		58	107,474,312
8	USA	10,208	68,643,417	10,906	0		1,240	68,642,718
9	Slovenia	0	64,778,889	20,212	0		0	64,758,677
10	Other	3,082,631	574,031,626	3,201,663	0	92,232,070	254,506	573,912,594
11	**Total**	**2,684,196,290**	**52,900,373,621**	**2,012,089,149**	**0**	**660,530,531**	**294,732,833**	**53,572,480,762**

EU CRB-E – Maturity of exposure

		Net exposure value					
		On demand	<=1 year	>1 year <= 5 years	> 5 years	Not stated	Total
1	Central governments of central banks	19,280,599					19,280,599
2	Institutions	21	896,821,962	759,944,861	274,946,598		1,931,713,442
3	Corporates	61,527,228	6,283,772,249	3,478,232,839	1,525,304,807		11,348,837,123
4	Retail						
5	Equity					20,029,027	20,029,027
6	**Total IRB approach**	**80,807,848**	**7,180,594,211**	**4,238,177,700**	**1,800,251,405**	**20,029,027**	**13,319,860,191**
7	Central governments or central banks	6,968,043,007	1,440,969,003	3,627,796,424	866,425,943		12,903,234,377
8	Regional governments or local authorities	324	1,745,437	91,714,781	251,968,689		345,429,231
9	Public sector entities						
10	Multilateral development banks						
11	International organisations						
12	Institutions		9,989	722,488			732,477
13	Corporates	1,853,442	1,120,832,147	1,436,560,286	1,515,738,907		4,074,984,782
14	Retail	112,021,187	2,142,411,740	2,707,837,834	1,387,678,136		6,349,948,897
15	Secured by mortgages on immovable property	99,101	187,004,700	137,540,856	3,408,431,818		3,733,076,476
16	Exposures in default	58,580,748	34,736,259	107,990,331	281,036,154		482,343,492
17	Items associated with particularly high risk	53	4,321,896		20,401,939		24,723,888
18	Covered bonds						
19	Claims on institutions and corporates with a short-term						
20	Collective investments undertakings						
21	Equity exposures					4,983,156	4,983,156
22	Other exposures	154,802,996					154,802,996
23	**Total standardised approach**	**7,295,400,857**	**4,932,031,173**	**8,110,163,000**	**7,731,681,587**	**4,983,156**	**28,074,259,772**
24	**Total**	**7,376,208,705**	**12,112,625,384**	**12,348,340,700**	**9,531,932,992**	**25,012,183**	**41,394,119,963**

5.4 Credit risk impaired/NLPs policies

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future CF of the financial asset or group of financial assets that can be reliably estimated. It may not be possible to identify a single, discrete event that caused the impairment. Rather the combined effect of several events may have caused the impairment.

At the end of each reporting period the Bank evaluates whether there is any objective evidence that a financial asset or group of financial assets is impaired.

EU CR2-B – Changes in the stock of defaulted and impaired loans and debt securities – Bank individual view

UniCredit Bank Individual view Loan Portofolio		a Gross carrying value defaulted exposures
1	**Opening balance**	**2,384,419,506**
2	Loans and debt securities that have defaulted or impaired since the last reporting period	126,531,226
3	Returned to non-defaulted status	(68,054,117)
4	Amounts written off	(63,938,939)
5	Other changes	(218,033,044)
6	**Closing balance**	**2,160,924,632**

EU CR1-E – Non-performing and forborne exposures

		a	b	c	d	e	f	g	h	i	j	k
		Valorile contabile brute ale expunerilor performante și neperformante							Deprecieri, provizioane și ajustări de valoare justă cumulate negative determinate de riscul de credit			
			Din care performante, dar restante > 30 zile și <= 90 zile	Din care expuneri performante restructurate	Din care neperformante				Asupra expunerilor performante		Asupra expunerilor neperformante	
						Din care în stare de nerambursare	Din care depreciate	Din care restructurate		Din care restructurate		Din care restructurate
010	Titluri de creanță	5,977,060,830	-	-	-	-	-	-	-	-	-	-
020	Credite și avansuri	37,259,982,187	136,370,626	441,991,594	2,320,870,443	2,320,867,997	2,320,870,443	1,298,047,305	153,477,845	6,369,960	1,607,325,884	823,135,790
030	Expuneri extrabilanțiere	12,320,173,389	12,067,888,307	39,668,359	252,285,082	252,285,082	252,285,082	77,299,532	11,533,485	89,078	112,367,683	29,041,560

5.5 Credit Risk Adjustments – Approaches and Methods

Approaches and methods applied for the calculation of prudential adjustments of value - for the credit portfolio under the Standardised Approach.

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

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

- Obligor financial performance category;
- Delinquency (number of overdue days);
- Initiation of judicial procedures.

The obligor financial performance category, used for establishing the risk class in accordance with National Bank of Romania regulations for determining credit risk adjustments, is determined based on 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 National Bank of Romania norms regarding the calculation of the specific risk value adjustments.

EU CR2-A – Changes in the stock of general and specific credit risk adjustments

		a	b
		Accumulated specific credit risk adjustment	**Accumulated general credit risk adjustment**
1	**Opening balance**	**1,647,767,720**	**146,741,813**
2	Increases due to amounts set aside for estimated loan losses during the period	1,054,380,106	6,613,410
3	Decreases due to amounts reversed for estimated loan losses during the period	(681,215,178)	(767,859)
4	Decreases due to amounts taken against accumulated credit risk adjustments	(446,118,744)	0
5	Transfers between credit risk adjustments	0	0
6	Impact of exchange rate differences	31,269,248	77,698
7	Business combinations, including acquisitions and disposals of subsidiaries	0	0
8	Other adjustments	1,356,233	699,282
9	**Closing balance**	**1,607,439,385**	**153,364,344**
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	42,291,310	0
11	Specific credit risk adjustments directly recorded to the statement of profit or loss	0	0

Approaches and methods applied for the calculation of value adjustments

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

In collective assessment, the provisions are calculated at portfolio level by dividing it into buckets with similar credit risk characteristics. The performing portfolio is entirely subject to collective assessment, irrespective if the exposures are considered significant or not. The non-performing portfolio is subject to collective assessment only in the in case the exposures are not considered significant.

In individual assessment, the provisions are individually calculated for each individually significant exposure. Individual assessment is a process of measurement of impaired exposure for an individual client. According to IAS39, individual assessment is required for individually significant exposures and may also be used to assess exposures not considered significant.

The individual assessment process is divided into two 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.

Individually significant impaired loans

Individually significant impaired loans comprises significant private individuals (more than EUR 250,000) which have at least one default event, as defined in the Bank's internal procedures, and significant corporate clients (more than EUR 1 million) with grade 8-, 9 or 10, as defined in the internal rating of the Bank; these two categories are individually assessed by the Bank.

For all of them, the collaterals are divided between property, goods, assignment of receivables and other. Other collateral includes pledge on stocks, machinery, cash and financial risk insurance.

Other impaired loans

Other impaired loans include all loans to individuals with more than 90 days late and credits to businesses with grades -8, 9 and 10 that are not individually significant.

Past due but not impaired loans

Loans with overdue contractual interest or principal cash flows which are not considered impaired due to the level of guarantees available or/and the stage of the collection of the amounts by the Bank.

EU CR1-D – Ageing of past-due exposures

		a	b	c	d	e	f
		Gross carrying values					
		≤ 30 days	**> 30 days ≤ 60 days**	**> 60 days ≤ 90 days**	**> 90 days ≤ 180 days**	**> 180 days ≤ 1 year**	**> 1 year**
1	Loans	1,290,778,865	162,974,632	17,505,075	30,438,947	1,860,907	3,804,799
2	Debt securities	-	-	-	-	-	-
3	***Total exposures***	**1,290,778,865**	**162,974,632**	**17,505,075**	**30,438,947**	**1,860,907**	**3,804,799**

Neither past due nor individually impaired

It includes all exposures not classified in the above categories and considered to be all performing.

5.6 RWA calculation method and models

For calculating the RWA for credit risk, the Bank applies the Foundation Internal Rating Based Approach, according to Regulation no. 575/ 2013 of European Parliament and Council dated 26.06.2013 regarding prudential requirements for credit institutions and investment companies and amending Regulation (UE) no.648/ 2012 of the Comission for establishing technical standards for reporting for supervisory purposes and by Regulation no. 5/ 2013 regarding prudential requirements for credit institutions issued by National Bank of Romania (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.

EU CR5 – Standardized approach (Breakdown of regulatory exposure values by risk weights after applying conversion factor and risk mitigation techniques)

		Risk weight																Total
	Exposure classes	**0%**	**2%**	**4%**	**10%**	**20%**	**35%**	**50%**	**70%**	**75%**	**100%**	**150%**	**250%**	**370%**	**1250%**	**Others**	**Deducted**	
1	Central governments or central banks	13,166,604,404	-	-	-	-	-	-	-	-	-	-	40,539,992	-	-	-	-	13,207,144,396
2	Regional government or local authorities	-	-	-	-	295,294,710	-	-	-	-	89,321,799	-	-	-	-	-	-	384,616,509
3	Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4	Multilateral development banks	6,188,542	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,188,542
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Institutions	-	-	-	-	17,990	-	40,878,726	-	-	801,525	-	-	-	-	-	-	41,698,241
7	Corporates	-	-	-	-	284,825	-	11,183,280	-	-	4,007,821,833	699	-	-	-	-	-	4,019,290,637
8	Retail	-	-	-	-	-	-	-	-	6,411,672,035	-	-	-	-	-	-	-	6,411,672,035
9	Secured by mortgages on immovable property	-	-	-	-	-	3,740,051,351	-	-	-	-	-	-	-	-	-	-	3,740,051,351
10	Exposures in default	-	-	-	-	-	-	-	-	-	314,266,782	156,518,297	-	-	-	-	-	470,785,079
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	24,723,888	-	-	-	-	-	24,723,888
12	Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	Collective investment undertakings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	Equity	-	-	-	-	-	-	-	-	-	4,983,156	-	-	-	-	-	-	4,983,156
16	Other items	5,497	-	-	-	-	-	-	-	-	154,797,498	-	-	-	-	-	-	154,802,995
17	**Total**	**13,166,609,902**	**-**	**-**	**-**	**295,597,525**	**3,740,051,351**	**52,062,006**	**-**	**6,411,672,035**	**4,571,992,593**	**181,242,884**	**40,539,992**	**-**	**-**	**-**	**-**	**28,459,768,287**

UniCredit Bank

EU CCR3 – Standardised approach – CCR exposures by regulatory portfolio and risk

		Risk weight											Total	Of which unrated
	Exposure classes	**0%**	**2%**	**4%**	**10%**	**20%**	**50%**	**70%**	**75%**	**100%**	**150%**	**Others**		
1	Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-	-	-
2	Regional government or local authorities	-	-	-	-	-	-	-	-	-	-	-	-	-
3	Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-	-
4	Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Institutions	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Corporates	-	-	-	-	-	-	-	-	54,173,298	-	-	54,173,298	-
8	Retail	-	-	-	-	-	-	-	48,098	-	-	-	48,098	-
9	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Other items	-	-	-	-	-	-	-	-	-	-	-	-	-
11	**Total**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**48,098**	**54,173,298**	**-**	**-**	**54,221,396**	-

5.7 RWA - IRB by internal rating grade

In July 2012, Bank received the joint approval from Bank of Italy, FMA and National Bank of Romania for Bank to calculate the credit risk capital requirement under Foundation IRB Approach for the following categories of clients: corporate (except for real estate clients), multinationals, banks and securities industries.

The internal models used in the IRB approach, for which the Bank has obtained approval, are the following:

- local rating model used for Corporate clients or small and medium companies with yearly turnover over than EUR 3 mil at individual or group level, but not more than EUR 500 million for two consecutive reporting dates;
- group rating model for multinational companies with yearly turnover over than EUR 500 million;
- group rating model for banks;
- group rating model for sovereign and central banks.

The Bank uses internal rating models for estimation of probability of default.

Structure of internal ratings:

Exposure Class	Rating System	Type
Central governments and central banks	Sovereign (PD)	Group Model
Institutions	Banks (PD)	Group Model
Corporate - Multinationals	Multinational (PD)	Group Model
Corporate (excluding Real Estate)	Mid Corporate (PD)	Local Model

Rating Scale – relationship between internal and external ratings

Rating Class	Rating Notch	S&P	Moody's	Fitch
1		AAA/AA+...AA	Aaa/Aa1...Aa3	AAA / AA+
2		A+ ... A-	A1 ... A3	A+ ...A-
3		BBB+/BBB	Baa1/Baa2	BBB+/BBB
4		BBB-/ BB+	Baa3... Ba1	BBB-/BB+
5		BB	Ba2	BB
6		BB/B+	Ba3/B1	BB/B+
7		B	B2	B
8	8+	B-	B3	B-
	8	CCC/CC	Caa/Ca	CCC/CC
	8-			
9	9			
10	10			

Internal rating models and risk estimates are used for calculating risk-weighted exposure and also for other purposes related to credit risk management: strategies definition, budgeting process, assessment proces, decision process, pricing, monitoring, reporting and portfolio management, stress testing and process for identification of problem assets.

The inputs for risk parameters estimates should be essentially the same both, for credit management purposes and for regulatory capital requirement calculation purposes. Any differences between the ratings and risk parameter estimates used in calculating capital requirements and the final parameters used internally shall rely on a well documented rationale.

In accordance with internal regulation and taking into account Group guidelines, the Bank implemented processes for the development of internal rating models, and also processes that ensure a periodical cycle for internal model validation, that include monitoring of model performance and stability, review of model specification, and testing of model outputs against outcomes.

Any rating model supposes the following stages:

- rating model development
- initial validation
- monitoring of the rating model
- rating model refinement

- on-going validation

At the Bank level, there are in place robust systems for validation of the accuracy and consistency of rating systems and processes, as well as estimation of all relevant risk parameters, both by verifying on a regular basis the performance of the internal rating models used to calculate the weighted assets at risk assessment in order to determine the minimum capital requirements for credit risk, as well as, by ensuring the independence of the credit rating validation function from the rating system modeling function.

EU CR6 – IRB approach – Credit risk exposures by exposure class and PD range

		a	b	c	d	e	f	g	h	i	j	k	l
	Average	Original on-balance- sheet gross exposures	Off- balance- sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjust-ments and provisions
Central governments or central banks													
	0.00 to <0.15	-	-	-	-	-	-	-	-	-	-	0	-
	0.15 to <0.25	-	-	-	-	-	-	-	-	-	-	0	-
	0.25 to <0.50	-	-	-	-	-	-	-	-	-	-	0	-
	0.50 to <0.75	-	-	-	-	-	-	-	-	-	-	0	-
	0.75 to <2.50	-	-	-	-	-	-	-	-	-	-	0	-
	2.50 to <10.00	-	436,940	0.50	218,470	0.08	1	0.45	912.50	409,228	1.87	7,767	-
	10.00 to <100.00	-	-	-	-	-	-	-	-	-	-	0	-
	100.00 (Default)	220,119,625	-		220,119,625	1.00	1	0.45	912.50	-	-	99,053,831	200,839,026
	Subtotal	**220,119,625**	**436,940**	**0.25**	**220,338,095**	**0.36**	**2**	**0.30**	**608.33**	**409,228**	**0.00**	**99,061,598**	200,839,026
Institutions													
	0.00 to <0.15	1,432,868,796	1,574,632,633	0.79	2,386,794,906	0.06	73	0.34	824.97	588,730,861	0.25	765,815	-
	0.15 to <0.25	25,732,815	32,467,363	0.72	41,966,496	0.19	7	0.43	912.50	18,355,972	0.44	34,501	-
	0.25 to <0.50	282,003,164	105,329,112	1.07	413,008,800	0.38	27	0.42	756.86	216,371,752	0.52	684,241	-
	0.50 to <0.75	138,470,505	7,172,575	0.98	142,056,793	0.70	5	0.45	912.50	120,969,440	0.85	445,302	-
	0.75 to <2.50	332,867,653	60,114,978	0.86	338,328,262	1.32	11	0.38	912.50	291,139,035	0.86	1,567,546	474,600
	2.50 to <10.00	756,956	313,410	0.71	756,956	8.18	2	0.35	912.50	1,128,232	1.49	21,884	-
	10.00 to <100.00	-	1,748,400	0.50	874,200	27.47	1	0.37	912.50	1,892,358	2.16	88,867	-
	100.00 (Default)	-	-	-	-	-	-	-	-	-	-	0	-
	Subtotal	**2,212,699,889**	**1,781,778,472**	0.83	**3,323,786,413**	**5.47**	**126**	**0.34**	**877.76**	**1,238,587,650**	**0.37**	**3,608,156**	474,600
Corporate - SME													
	0.00 to <0.15	3,834,449	8,418,161	0.42	5,121,322	0.09	8	0.33	912.50	989,613	0.19	2,031	1,477
	0.15 to <0.25	19,306,291	14,685,402	0.59	19,989,366	0.18	11	0.45	912.50	7,612,117	0.38	13,329	5,057
	0.25 to <0.50	151,498,855	224,924,850	0.47	176,492,744	0.35	99	0.43	912.50	94,367,947	0.53	298,146	172,645
	0.50 to <0.75	221,773,440	244,902,898	0.60	281,270,359	0.62	164	0.42	912.50	173,126,833	0.62	785,012	309,749
	0.75 to <2.50	3,096,588,282	1,978,156,772	0.69	3,503,520,865	1.56	1,540	0.41	912.50	3,084,215,044	0.88	26,109,892	10,526,531
	2.50 to <10.00	2,438,756,208	1,052,654,863	0.73	2,542,353,110	5.22	1,344	0.40	912.50	2,798,051,132	1.10	45,577,329	17,126,863
	10.00 to <100.00	168,452,744	23,008,307	0.68	129,239,518	14.42	101	0.40	912.50	192,593,903	1.49	5,723,960	1,626,293
	100.00 (Default)	809,830,900	188,995,970	0.86	860,268,566	100.00	210	0.43	912.50	-	-	372,957,604	674,461,277
	Subtotal	**6,910,041,170**	**3,735,747,222**	0.71	**7,518,255,849**	**15.30**	**3,477**	**0.41**	**912.50**	**6,350,956,589**	**0.84**	**451,467,304**	**704,229,891**
Corporate Others													
	0.00 to <0.15	49,229,162	1,469,943,907	0.33	504,423,746	0.08	68	0.25	912.50	121,574,339	0.24	150,901	94,541
	0.15 to <0.25	91,642,873	583,593,461	0.45	304,438,117	0.17	50	0.43	912.50	120,156,737	0.39	211,594	111,257
	0.25 to <0.50	862,194,921	548,278,381	0.70	983,086,190	0.33	68	0.28	912.50	493,427,003	0.50	1,128,522	425,922
	0.50 to <0.75	516,566,939	320,053,297	0.68	569,460,430	0.66	50	0.41	912.50	456,076,177	0.80	1,626,022	653,477
	0.75 to <2.50	2,612,699,019	1,090,602,784	0.76	2,809,002,169	1.38	257	0.36	912.50	3,113,761,715	1.11	20,405,674	8,682,167
	2.50 to <10.00	935,436,908	446,217,910	0.65	901,968,648	4.34	146	0.37	912.50	1,273,657,660	1.41	15,979,659	5,045,308
	10.00 to <100.00	4,493,255	37,026,835	0.33	13,566,066	17.93	11	0.14	912.50	33,031,813	2.43	1,645,765	685,308
	100.00 (Default)	66,321,121	18,314,169	0.84	71,365,549	100.00	25	0.44	912.50	-	-	31,218,193	64,017,213
	Subtotal	**5,138,584,198**	**4,514,030,744**	0.64	**6,157,310,915**	**15.61**	**675**	**0.33**	**912.50**	**5,611,685,444**	**0.91**	**72,366,329**	**79,715,193**
Total		**14,481,444,881**	**10,031,993,378**	0.70	**17,219,691,272**	**9.19**	**4,280**	**0.35**	**827.77**	**13,201,638,911**	**0.77**	**626,503,387**	**985,258,711**

EU CCR4 – IRB approach – CCR exposures by portfolio and PD scale

	PD scale	a	b	c	d	e	f	g
		EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
Institutions								
	0.00 to <0.15	74,146,257	0.00	10	0.45	912.50	35,566,403	0.48
	0.15 to <0.25	-	-	-	-	-	-	-
	0.25 to <0.50	-	-	-	-	-	-	-
	0.50 to <0.75	-	-	-	-	-	-	-
	0.75 to <2.50	-	-	-	-	-	-	-
	2.50 to <10.00	-	-	-	-	-	-	-
	10.00 to <100.00	-	-	-	-	-	-	-
	100.00 (Default)	-	-	-	-	-	-	-
	Subtotal	74,146,257	0.00	10	0.45	912.50	35,566,403	0.48
Corporate Others								
	0.00 to <0.15	19,539,593	0.00	35	0.45	912.50	19,479,103	1.00
	0.15 to <0.25	-	-	-	-	-	-	-
	0.25 to <0.50	-	-	-	-	-	-	-
	0.50 to <0.75	-	-	-	-	-	-	-
	0.75 to <2.50	-	-	-	-	-	-	-
	2.50 to <10.00	-	-	-	-	-	-	-
	10.00 to <100.00	-	-	-	-	-	-	-
	100.00 (Default)	-	-	-	-	-	-	-
	Subtotal	19,539,593	0.00	35	0.45	912.50	19,479,103	1.00
Corporate - SME								
	0.00 to <0.15	16,531,747	0.06	110	0.45	912.50	16,584,505	1.00
	0.15 to <0.25	-	-	-	-	-	-	-
	0.25 to <0.50	-	-	-	-	-	-	-
	0.50 to <0.75	-	-	-	-	-	-	-
	0.75 to <2.50	-	-	-	-	-	-	-
	2.50 to <10.00	-	-	-	-	-	-	-
	10.00 to <100.00	-	-	-	-	-	-	-
	100.00 (Default)	-	-	-	-	-	-	-
	Subtotal	16,531,747	0.06	110	0.45	912.50	16,584,505	1.00
Total (all portfolios)		**110,217,597**	**0.02**	**155**	**0.45**	**912.50**	**71,630,011**	**0.65**

EU CR8 – RWA flow statements of credit risk exposures under the IRB approach

		a	b
		RWA amounts	**Capital requirements**
1	**RWAs as at the end of the previous reporting period**	12,705,122,152	1,016,409,772
2	Asset size	431,292,956	34,503,436
3	Asset quality	(18,719,881)	(1,497,591)
4	Model updates	-	-
5	Methodology and policy	-	-
6	Acquisitions and disposals	(62,451,137)	(4,996,091)
7	Foreign exchange movements	16,728,294	1,338,264
8	Other	(17,962,912)	(1,437,033)
9	**RWAs as at the end of the reporting period**	**13,054,009,472**	**1,044,320,758**

EU CR9 – IRB approach – Backtesting of PD per exposure class

a	b	c	d	e	f		g	h	i
Exposure class	PD range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	Number of obligors		Defaulted obligors in the year	Of which new obligors	Average historical annual default rate
					End of previous year	End of year			
Central governments or central banks	Class 03	From A+ to A-	0.0002569	0	0				
Central governments or central banks	Class 04	From BBB+ to BBB-	0.0025512	0.0025512	1				0
Central governments or central banks	Class 10	Class 10	1	0	0	0			
Corporates - Other	Class 03	From A+ to A-	0.000652	0.000549388	34	39			0
Corporates - Other	Class 04	From BBB+ to BBB-	0.00349164	0.002300283	98	96			0.005128
Corporates - Other	Class 05	From BB+ to BB-	0.0091538	0.010324802	58	72	1		0.013889
Corporates - Other	Class 06	B+	0.02579447	0.02536224	95	111			0.016018
Corporates - Other	Class 07	B	0.05142517	0.046883287	58	52			0.057471
Corporates - Other	Class 08	B-	0.10045093	0.097516583	25	13			0.068627
Corporates - Other	Class 09	From CCC to C	0.23025289	0.270804371	3	3	1		0.142857
Corporates - Other	Class 10	Class 10	1	1	30	18	1	1	
Corporates - SME	Class 03	From A+ to A-	0.00042487	0.000403793	7	5			0.01005
Corporates - SME	Class 04	From BBB+ to BBB-	0.00357668	0.003742471	61	71			0.013301
Corporates - SME	Class 05	From BB+ to BB-	0.01035854	0.010257872	296	312	3		0.010877
Corporates - SME	Class 06	B+	0.02379229	0.023886243	708	801	6		0.023432
Corporates - SME	Class 07	B	0.04786564	0.046751289	317	337	8	1	0.047722
Corporates - SME	Class 08	B-	0.09243704	0.092555249	171	142	14		0.106335
Corporates - SME	Class 09	From CCC to C	0.21648884	0.216264971	14	8	3		0.302632
Corporates - SME	Class 10	Class 10	1	1	151	149	14	14	
Institutions	Class 03	From A+ to A-	0.00070844	0.00063443	37	32			0
Institutions	Class 04	From BBB+ to BBB-	0.00290481	0.002481791	23	32			0
Institutions	Class 05	From BB+ to BB-	0.01085735	0.011249486	7	9			0
Institutions	Class 06	B+	0.0188073	0.027153863	3	3			0
Institutions	Class 08	B-	0.07817015	0.1071088	1	1			0

5.8 RWA – Back testing

RWA back testing is covered by validation activities with regard to internal Rating systems.

5.9 Credit risk mitigation

Qualitative Information

The goal of providing collateral is to minimize the loss given default (credit risk) by diminishing the loss or risk transfer, as follows:

- For real collateral, financial or physical, the risk exposure is reduced by the expected revenue to be realised from collateral valorification and, thus, losses can be reduced;
- For collateral provided by means of letters of guarantee or other personal guarantees, the risk is transferred to the protection provider.

The Bank established the accepted collateral types and also the conditions for the collateral acceptance.

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 internal credit management system, a specific collateral module where all accepted collateral instruments are adequately, uniformly recorded and managed in a structured manner. Adequate data quality is ensured by processes and controls supported by the system.

Collateral management system ensures:

- Monitoring and controlling of collaterals;
- Estimation of loss given default;
- Calculation of collateral recovery rates;
- Production of various portfolio analyses.

Considering the mitigation of risk exposure for determining the minimum capital requirements, the Bank is using eligible collaterals according to National Bank of Romania Regulation no. 5/20.12.2013 regarding prudential requirements for credit institutions and Regulation no. 575/2013 of European Parliament and Council regarding prudential requirements for credit institutions and investment companies and amending Regulation (UE) no.648 / 2012.

Collateral types accepted by the Bank as credit risk mitigation techniques for calculating the minimum capital requirements according to the standardized approach Basel III, are presented below:

Collateral Category		Type of collateral
Direct Personal Guarantees		Guarantee / Surety
		Bill of exchange from third party
		Letter of comfort
		Risk sharing
Credit Derivatives		Credit Derivatives Instruments
Life Insurance		Pledge on life inssurance with non reducible surrender value
Financial collateral	Own	Pledge on securities deposits
		Pledge on cash collateral
		Pledge on gold
	Third Party	Pledge on 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 credit risk mitigation technique

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 III, 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 credit risk mitigation techniques

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 perform such a valuation and who are independent of the credit decision.

The valuation of the goods proposed as collateral shall be made by independent valuators approved by UniCredit Bank or by the Bank's internal valuators.

The internal and independent valuators must be certified by A.N.E.V.A.R. and the valuation reports need to comply with relevant Valuation Standards in force.

The valuation report is the document that attests the valuation result, namely the material value of the collateral depending on which the collateral coverage corresponding to a lending operation is calculated.

The valuation value of the collateral accepted by the Bank is the market value.

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, for minimum capital requirements calculation purpose, the collateral values are to be reduced accordingly as per Basel III legal requirements.

During loans period, the collaterals are periodically reassesed according to provisions of NBR Regulation no.5/2013 on prudential requirements for credit institutions and Regulation (EU) no 575/ 2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

The reassesment process of the collaterals is periodically monitored, the report related to the status of this process is submit quarterly to the Operative Risk Management Committee.

Where the collaterals are not reassessed according to the already set up terms depending on collateral type, these collaterals are not considered eligible from credit risk mitigation techniques perspective.

EU CR4 – Standardised approach – Credit risk exposure and CRM effects

		a		c	d	e	f
		Exposures before CCF and CRM		**Exposures post CCF and CRM**		**RWAs and RWA density**	
	Exposure classes	**On-balance-sheet amount**	**Off-balance-sheet amount**	**On-balance-sheet amount**	**Off-balance-sheet amount**	**RWAs**	**RWA density**
1	Central governments or central banks	12,903,234,377	93,513,298	13,160,387,747	46,756,649	101,349,981	0.77%
2	Regional government or local authorities	345,429,231	99,904,241	345,429,231	39,187,278	148,380,741	38.58%
3	Public sector entities	-	-	-	-	-	0%
4	Multilateral development banks	-	-	3,401,192	2,787,350	-	0.00%
5	International organisations	-	-	-	-	-	0.00%
6	Institutions	21,259,381	-	49,734,629	12,490,516	23,908,999	38.42%
7	Corporates	4,074,984,782	1,074,836,185	3,673,347,216	291,770,122	3,851,128,102	97.13%
8	Retail	6,349,948,897	977,332,232	6,145,276,718	266,347,219	4,309,376,236	67.21%
9	Secured by mortgages on immovable property	3,733,076,476	13,955,137	3,733,076,476	6,974,875	1,289,894,556	34.49%
10	Exposures in default	482,343,492	6,975,865	469,383,534	1,401,545	549,044,227	116.62%
11	Exposures associated with particularly high risk	24,723,888	78,642	24,723,888	-	37,085,833	150.00%
12	Covered bonds	-	-	-	-	-	0.00%
13	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	0.00%
14	Collective investment undertakings	-	-	-	-	-	0.00%
15	Equity	4,983,156	-	4,983,156	-	4,983,156	100.00%
16	Other items	134,276,091	-	134,276,091	-	134,270,594	100.00%
17	**Total**	**28,074,259,771**	**2,266,595,600**	**27,744,019,878**	**667,715,554**	**10,449,422,425**	**36.78%**

EU CR3 – CRM techniques – Overview

		a	b	C	d	e
		Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivative s
1	Total loans	9,553,552,772	17,110,233,512	15,960,475,155	1,149,758,357	-
2	Total debt securities	-	-	-	-	-
3	**Total exposures**	**9,553,552,772**	**17,110,233,512**	**15,960,475,155**	**1,149,758,357**	**-**
4	Of which defaulted	713,544,559	360,186,228	360,186,228	85,275,606	-

6 Exposure to counterparty risk

6.1 Limits on exposures, policies for assessing counterparty credit risk and guarantee risk, management of wrong - way risk etc.

Counterparty credit risk is measured and monitored by an independent risk management unit using an internal model based on historical simulation.

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).

The Bank does not hold credit derivatives hedges.

6.2 Positive fair value of financial and credit derivatives, collateral held, value of CCF etc.

Details regarding the fair value of derivatives, notional value of trading contracts and notional value of hedging contracts that are taken into account in own funds requirements at consolidated level, are presented below:

UniCredit Bank

EU CCR1 – Analysis of CCR exposure by approach

		a	b	c	d	e	f	g
		Notional	Replacement cost/current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWA
1	Mark to market		73,191,966	91,247,027			164,438,993	125,839,382
2	Original exposure	-					-	-
3	Standardised approach		-			-	-	-
4	IMM (for derivatives and SFTs)				-	-	-	-
5	*Of which securities financing transactions*				-	-	-	-
6	*Of which derivatives and long settlement transactions*				-	-	-	-
7	*Of which from contractual cross-product netting*				-	-	-	-
8	Financial collateral simple method (for SFTs)						-	-
9	Financial collateral comprehensive method (for SFTs)						-	-
10	VaR for SFTs						-	-
11	**Total**							**125,839,382**

EU CCR2 – CVA capital charge

		a	b
		Exposure value	RWAs
1	Total portfolios subject to the advanced method	-	-
2	(i) VaR component (including the 3× multiplier)		-
3	(ii) SVaR component (including the 3× multiplier)		-
4	All portfolios subject to the standardised method	239,585,238	5,663,676
EU4	Based on the original exposure method	-	-
5	Total subject to the CVA capital charge	239,585,238	5,663,676

EU CCR5-A – Impact of netting and collateral held on exposure values

		a	b	c	d	e
		Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
1	**Derivatives**	-	-	-	-	-
2	**SFTs**	206,325,471	-	-	-	206,325,471
3	Cross-product netting	-	-	-	-	-
4	Total	**206,325,471**	**-**	**-**	**-**	206,325,471

EU CCR5-B – Composition of collateral for exposures to CCR

	a	b	c	d	e	f
	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
SFT	-	-	-	-	206,372,016	-
Total	-	-	-	-	206,372,016	-

EU CCR7 – RWA flow statements of CCR exposures under the IMM

		a	b
		RWA amounts	Capital requirements
1	**RWAs as at the end of the previous reporting period**	185,157,804	14,812,624
2	Asset size	(36,707,992)	(2,936,639)
3	Credit quality of counterparties	(33,106,471)	(2,648,518)
4	Model updates (IMM only)	-	-
5	Methodology and policy (IMM only)	-	-
6	Acquisitions and disposals	9,378,461	750,277
7	Foreign exchange movements	1,554,808	124,385
8	Other	-	-
9	**RWAs as at the end of the current reporting period**	**126,276,610**	**10,102,129**

7 Market risks

In UniCredit Bank, Market Risk management function is organized at centralized level in the Risk Division – Market Risk department.

According to Regulation no 5/2013 on prudential requirements for credit institutions, the following definitions are presented:

- Market risk is the risk of incurring on-balance and off-balance sheet losses due to adverse market movements in prices (such as, for example, the share prices, the interest rates, the foreign-exchange rates)
- Interest rate risk is the current or future risk of negative impact on profits and capital as a consequence of certain adverse changes of the interest rates
- Liquidity risk is the current or future risk of negative impact on profits and capital, determined by the credit institution's inability to meet its liabilities when they become due

The market risk mangement activity is regulated by a specific set of policies and procedures for the purpose of:

- Identifying, monitoring, analysis and controling 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;
- Reporting of market risk issues to Bank's management.

Market Risk Management activity is performed according to legal regulations in force in Romania, norms and regulations issued by the National Bank of Romania (NBR) and internal regulations of UniCredit Bank, while the application of these regulations is harmonized with the Group Rules of UniCredit.

The market risk management strategy is done by applying the following **basic principles**:

- **Market risk management** is done through specific risk indicators and models: Value at risk (VaR) limits, Basis Point Value and Credit Point Value limits, fx position limits, as well as monitoring risk appetite framework defined according to internal policies and procedures;
- **Exposure to market risk** is generated only by Treasury and ALM departments;

- **Trading positions** are held at current market value (mark-to-market). If specific revaluation models are used, they are validated independently;
- All relevant **risk factors** are 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 are considered in the stress scenarios, not as manual adjustments of volatilities of correlations among risk factors;
- **Total VaR** refers to the whole activity of the bank, not only to trading book positions, nevertheless Banking Book VaR and Trading Book VaR are calculated and monitored separately as well as per risk factors;
- **Exposure to market risk** (usage of limits, excesses) are reported in time and with regularity to the respective business lines, to the Management and the Group. Risk reports are generated for the total bank and separately for each risk generating unit. Exposure to market risk limits are monitored for the UniCredit Group in Romania, as well as for UniCredit Consumer Financing (UCFIN) and UniCredit Leasing (UCL), according to internal regulations.

The main market risk indicators in 2017 related to VaR were:

EUR mio	**Total VaR 99%**	**VaR Trading Book**	**SVaR Trading Book**	**IRC**
Limit	**12.00**	**2.00**	**10.00**	**50.00**
End 2017	3.84	0.21	1.22	4.51
Average	3.09	0.33	2.56	20.60
Maximum	4.35	0.65	5.15	34.78
Minimum	1.76	0.16	1.22	4.51

The Bank considers the following adjustments:

- on a monthly basis: CVA (Credit Value Adjustment), FuVA (Funding Value Adjustment) and AVA (Additional Value Adjustment);
- on a quarterly basis: FVA (Fair Value Adjustment).

7.1 Price risk, Interest rate risk, exchange rate risk and credit spread - Trading book

Trading Book includes all positions in financial instruments owned by UniCredit 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 Book of UniCredit Bank 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. Commodities derivatives
    a) Swaps
    b) Options
4. 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.

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

Capital requirement for market risk is calculated using the standardardized method. During 2017 the following components were relevant – trading debt instruments (general risk) and foreign exchange risk.

A. Interest Rate Risk

Interest rate risk arising from Trading Book results from positions in derivative products or fixed income financial instruments of UniCredit Bank. All derivative client transactions (except FX Swaps and FX FWD Outright) are closed back-to-back with another entity owned by UniCredit Group.

Interest rate risk in Banking book is separately measured and monitored by VaR and BPV indicators, as well as Economic Value Sensitivity (measured against own funds tier 1) and Net Interest Income Sensitivity (measured against the NII budget).

B. Price Risk

Price risk results from the activity of capital markets, commodities and associated derivative is zero because UniCredit 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.

The following risk limits are also monitored:

- FX net open position limits;
- BPV limits (Basis Point Value);
- CPV limits (Credit Point Value);
- VaR limits (Value at Risk);
- LWL limits (Loss Warning Level);
- Liquidity limits (Trigger points / Ratios);
- Limits for investments in government securities.

Stress Tesing

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

- Currency risk - run locally and within market risk management system;
- Interest rate risk - run locally and within market risk management system;
- Credit spread risk – run within market risk management system;
- Short term liquidity – run locally and within the liquidity system;
- Economic capital – run quarterly at local level and in the market risk system.

UniCredit Bank

7.2 Price risk, interest rate risk, exchange rate risk - Banking book

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).

Definition of IRRBB for purpose of risk control and measurement

Interest rate risk in the banking book is defined as **actual or future risk of negative impact on the Bank's earnings and capital**, **due to adverse movements in interest rates on its banking book**.
Changing interest rates influence the level of earnings by changing interest income and expenses as well as other interest-sensitive income and operating expenses; they also impact the bank's underlying value by generating variations in the net present value of assets, liabilities and off balance sheet instruments.
The banking book regards the traditional commercial activity of the bank, which consists of lending and borrowing funds to and from customers. Per definition, **banking book positions are the ones not held for trading purposes**.
The IRRBB control and measurement system implemented by of the Bank addresses **material sources of interest rate risk** including repricing, yield curve, basis and option risk exposures, in compliance with biding regulatory requirements.

Description of overall IRRBB management and mitigation strategies

The management of IRRBB aims to **optimize, in an on-going scenario, the risk-return profile and long term value creation while reducing adverse impacts on bank's earnings and regulatory capital coming from interest rates volatility**, in accordance with the strategy set by the Board in coherence with the UniCredit Group overall IRRBB strategy.
In order to take into account short and long term effects of interest rate volatility on future net interest income, **the IRRBB management is performed within a set of limitations (limits, targets and triggers) defined in the risk appetite framework and in a set of granular restrictions approved by relevant bodies**.
Limitations are defined in terms of earnings sensitivity and economic value sensitivity envisaging also thresholds per time buckets. The limits are linked to specific scenarios of interest rates movements such an increase or decrease of a particular magnitude (interest rate shocks), as well as to measures derived from underlying statistical distribution of interest rates (value at risk).

Specific measures that the bank uses to gauge its sensitivity to IRRBB

The main metrics used for IRRBB risk control and measurement are defined from both economic value and earnings perspective as follows:

- **Economic Value Perspective**:
  - Repricing Gap analysis
  - Economic Value Sensitivity: Basis Point Value (BP01) and time bucket sensitivity
  - Economic Value Sensitivity: EVE Supervisory standardized shocks
  - Basis Risk, captured in the Bank's Value at risk (VaR)
- **Net Interest Income perspective**
  - Net Interest Income (NII) sensitivity for parallel shocks (standard shocks)

Monitoring of EVE and NII in relation to established limits

The monitoring of the interest rate risk exposures is the responsibility of the risk taking functions (as 1^{st} level control) and Risk function (as 2^{nd} level control) , which performs an independent and continuous monitoring of the risk indicators and metrics, a regular check of the limit compliance and an assessment of the effectiveness of market transactions executed by business functions. The Risk function is also responsible for updating Senior Management and/or relevant bodies (Management Board, Risk Management Committee, ALCO) with regard to relevant interest rate risk exposure on a regular basis and compliance with the limits and warning levels set.

In case of a limit breach, a specific escalation process is defined, varying on the nature of the limit or warning level. The actions to taken by relevant function in the event of a breach also depend on the nature of the limit. As a general rule in the event of a limit breach, every effort is made in order to bring the exposure within the approved limit (by closing the positions that caused the breach or hedging them).

Conduct of stress testing, outcomes analysis

A **regular stress testing assessment** is performed in order to measure the vulnerability to loss under stressful market conditions. Depending on the vulnerabilities identified in case of extreme market conditions, measures to improve interest rate risk management, to review current limits, to reduce risk and/or conserve capital are implemented. Stress scenarios include:

- abrupt changes in the general level of interest rates;
- parallel interest rate shock;
- economic environment, and their possible development;

- specific scenarios that relate to the individual business model and profile of the institution.

Role and practice of ALCO

ALCO acts as **operative body for monitoring, discussing and deciding on interest rate risk relevant topics and activities** within the Bank, having the following responsibilities:

- Approves, as first instance, the IRRBB strategy and overall interest rate risk framework of the Bank and regularly reviews them
- Approves the interest rate risk restrictions at local level, set in coherence with the UniCredit Group overall ones;
- Analyzes the evolution net interest income
- Analyzes the sensitivity of the balance sheet to changes in interest rates
- Receives information regarding risk indicators and evidence of conformity with the interest rate risk restrictions
- Defines corrective actions for balancing UCB interest rate risk position in accordance with the IRRBB strategy and system of restrictions in place

Hedging IRRBB

In accordance with prevailing accounting standards, the Bank values its banking book items at “amortised” (or “historical”) cost and at “fair” (or “market”) value.

In order to achieve the financial stability of the balance sheet despite the effects of interest rate changes on both earnings and economic value, consistently with the risk appetite parameters and approved IRRBB strategy, the Bank uses derivatives that allow to optimize the risk/return profile that arises from mismatches in terms of tenor and interest rate characteristics of assets and liabilities. Consequently, hedging the banking book interest rate risk encompasses two aspects:

- ➢ Minimization of the variability in banking book’s present value due to changes in market interest rate curves
- ➢ Minimization of the variability in interest cash flows sensitive to changes in market interest rates that could negatively impact future profit and loss.

In order to ensure a consistency between the accounting perspective and business consideration, especially when interest rate derivatives are used for managing banking book interest rate risk, the Bank adopted Fair

Value Hedge (FVH) and Cash Flow Hedge (CFH) accounting procedures for the hedge of the interest rate risk run in its banking book.

Modelling assumptions

Behavioural assumptions (about banking book items without specific repricing dates) for the purposes of IRR risk control metrics **undergo an independent control and validation process** by competent risk functions and are approved by the competent body (e.g. ALCO). Behavioral assumptions are back-tested in accordance with regulatory requirements and overall UniCredit Group standards.

Non-maturity deposits (sight deposits) are modelled based on a statistical analysis of customer behavior. The analysis identifies the stable and non-stable part of such deposits, as well as the core part insensitive to interest rate changes. The outcome is a fix maturity profile ("modelled profile") that reflects the likelihood of repricing of the sight deposits, based on which these products are slotted on time buckets for purposes of calculating ΔEVE and ΔNII. This "modelled profile" is also used as a benchmark for a hedging strategy ("Replicating portfolio") put in place to stabilize the Bank's net interest income.

The average repricing maturity assigned to NMDs as of December 31st, 2017 is 0.5Y, whilst the longest repricing maturity assigned 5Y. The average maturity assigned to the core part is 2.5Y.

Main IRRBB indicators are as per table below:

EUR mio	**VaR IRRBB**	**BPV BB**
Limit	**6.50**	**0.32**
End 2017	0.25	0.17
Average	1.82	0.18
Maximum	3.37	0.23
Minimum	0.98	0.10

Economic Value Sensitivity	**NII Sensitivity**
% of Own funds Tier 1	% of NII budget
End 2017	End 2017
6.25%	9.6% / -4.9%

7.3 Stress testing disclosures

Market Risk performs the following stress tests, which are presented in the Risk Management Operative Committee, Assets & Liabilities Committe and Supervisory Board:

<u>**Currency Risk**</u>:

a) Daily calculation of the impact of +/- 10% change of the fx rate
b) Monthly calculation of the impact of the following scenarios:
   - depreciation EUR vs all other currencies with -15%
   - appreciation EUR vs all other currencies with +15%
   - depreciation EUR vs all other currencies with -10%

- appreciation EUR vs all other currencies with +10%

- depreciation RON vs EUR with -15%
- appreciation RON vs EUR with +15%
- depreciation RON vs EUR with -10%
- appreciation RON vs EUR with +10%

- depreciation USD vs EUR with -15%
- appreciation USD vs EUR with +15%
- depreciation USD vs EUR with -10%
- appreciation USD vs EUR with +10%

Interest rate risk

In order to quantify the potential modification of economic value as a result of shifts in interest rate curves, the following aspects are taken into account:

a) daily calculation by Market Risk department of the sensitivity of 1 bp on FX Forward *(DV01)
b) daily analysis of the impact of 1 bp shift for bonds portfolio
c) using the following scenarios for quantifying the modification of economic value in extreme conditions (stress tests) –calculation in the market risk system of the impact of the following scenarios:
    - scenario 1: parallel shift +100bps, all currencies
    - scenario 2: parallel shift -100bps, all currencies
    - scenario 3: parallel shift +200bps, all currencies
    - scenario 4: parallel shift -200bps, all currencies
    - scenario 5: RON O/N to 1Week: -500bps
RON 1Week and above: +50bps
all other currencies: unchanged
    - scenario 6: RON O/N to 1Week: +500bps
RON 1Week and above: +50bps
all other currencies: unchanged
    - other stress scenarios

Credit spread risk

- scenario 1: parallel shift +50bps for the bonds portfolio;
- scenario 2: parallel shift +100bps for the bonds portfolio;
- scenario 3: parallel shift +200bps for tghe bonds portfolio

Economic capital

Scenarios with different probabilities and severities as fromalized in internal procedures.

The economic capital for Market Risk is computed based on the Group developed IMOD Model, which is based on the Value at Risk (VaR) methodology.

Liquidity Risk

Scenarios developed by the Group as well as internal developed scenarios which consider several degrees of liquidity crisis, as formalized in internal procedures.

7.4 RWA calculation method and models

For calculating the RWA for market risk, the Bank applies the Standardized Approach, according to Regulation no. 575/ 2013 of European Parliament and Council dated 26.06.2013 regarding prudential requirements for credit institutions and investment companies.

EU MR1 – Market risk under the standardised approach

		a	b
		RWAs	**Capital requirements**
	Outright products		
1	Interest rate risk (general and specific)	-	-
2	Equity risk (general and specific)	-	-
3	Foreign exchange risk	20,387,965	1,631,037
4	Commodity risk	-	-
	Options		
5	Simplified approach	-	-
6	Delta-plus method	-	-
7	Scenario approach	-	-
8	Securitisation (specific risk)	-	-
9	**Total**	20,387,965	1,631,037

7.5 Risk Management organization

Generally, a 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.

UniCredit Bank produces detailed reports on business trends and related risks on a daily basis, forwarding market risk documentation to local management, local authorities and relevant structures in the Group.

The relevant structures at Group level lay 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 relevant structures at Group level propose 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 Asset and Liability Management unit, in coordination with other regional liquidity centers, manages strategic and operational activities, 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 risk, interest rate risk and liquidity risk.

Market Risk Management activity is performed according to legal regulations in force in Romania, norms and regulations issued by the National Bank of Romania (NBR) and internal regulations of UniCredit Bank, while the application of these regulations is harmonized with the Group Rules of UniCredit.

8 Operational risk

8.1 Risk Management organization

The management of operational risk within UniCredit Bank is conducted in line with the internal regulation framework, Group policies and instructions and in compliance with the legal provisions in force.

Operational Risk is considered a significant risk and it is integrated into the Bank's policy and strategy regarding significant risks.

Operational risk is 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.

The main roles and responsibilities in managing and controlling operational risk are assigned to the Supervisory Board, the Management Board, the Superior Management (Directors and Heads of Departments), Bank's committees with responsibilities regarding operational risk, Operational and Reputational Risk function.

Operational and Reputational Risk function is an independent structure in charge with operational risk control, within the Risk Division and reporting directly to the Financial Risk, Operational & Reputational Risk Director, who is subordinated to the Chief Risk Officer.

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

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

The Bank has implemented a formalized system for the assessment and management of operational risk with clearly defined roles and responsibilities.

The operational risk management system is integrated into the internal processes defined for the management of significant risks, in line with the internal procedures and regulations regarding the management of significant risks.

The main tools employed for the management and control of operational risk in UniCredit Bank are collection of operational risk events, scenario analysis, operational risk indicators, mitigation actions and operational risk reporting.

Collection of operational risk events is one of the main sources for the identification and measurement of operational risks. The process of collecting operational risk events /losses is established through well defined rules for collection, validation and reconciliation of loss data against accounting bookings and other sources of information, in order to ensure completeness, accuracy and timeliness of reported data. The reporting responsibilities in respect of operational risk are included in the operational risk framework and as well in the procedures specific to each area of activity.

The completeness and accuracy of the operational risk database is ensured by the defined data quality processes, periodical reconciliations against multiple sources of information, various types of analyses of carried out in respect of accounts and bookings – processes described within operational risk specific regulations.

Scenario analysis is a core element of the operational risk assessment and control methodology implemented both at local and Group level, as the scenario anlysis is aimed at providing a forward looking assessment of the Bank's risk profile for improving the understanding foand management of the risk profile by: assessing the impact on the business of hypothetical, yet foreseeable, extreme operational loss events; assessing how bad things could get across a range of stressed conditions; identifying the best responses to serious threats; identifying 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/indicators derived from scenarios are used as input into the model, supporting the assessment of the Group risk profile on an aggregate basis.

In 2017, scenario analysis was performed according to internal regulations, Group instructions and legal provisions in force.

Operational risk indicators assess the operational risk profile and are in correlation with the changes in the risk environment. The monitoring of the operational risk indicators plays the role of an early warning system for changes in the operational risk exposure.

During 2017 the operational risk indicators system and the monitoring thresholds were revised in order to: identify and set up new indicators relevant for operational risk reporting, align existing thresholds with changing risk levels and remove the indicators which are no longer relevant in terms of operational risk. To increase the efficiency of operationalrisk monitoring activities, there were defined fixed thresholds for all the indicators relevant for operational risk capital calculation.

At the Bank's level there are implemented **periodical reports** regarding the exposure to and evoluton of the operational risk, with a focus on: financial losses (including provisions) detailed on event types/model risk categories 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, Operational Risk Indicators, thresholds breaches and actions taken, scenario analysis.

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

The reporting system includes quarterly reports to the Risk Management Operative Committee set up at the level of Management Board, at least bi-annually reports to the Supervisory Board and reports to the Operational Risk Committee of the UniCredit Group. The operational risk reports have a consistent structure and present an overall picture of the exposure to operational risk. Apart of the regular reporting, ad hoc information regarding operational risk are submitted to the Bank's management and relevant structures at the Group level.

The **capital requirement for operational risk** for UniCredit Bank is determined using the new Advance Measurement Approach (AMA) model adopted in 2014. New AMA model has higher model granularity & risk sensitivity, increased underlying data and stronger focus on forward-looking risk analyses.

The calculation model was applied to the perimeter composed by the Legal Entities authorized to adopt the Advanced Measurement Approach, including UniCredit Bank.

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

The calculation of economic capital for operational risk is also based on the AMA model.

8.2 Stress testing disclosures

The stress testing exercise in UniCredit Bank Romania consists of:

1. Stressed Economic Capital for Operational risk: calculated by applying a 15% add-on to the baseline Value-at-Risk at the applicable confidence level according to the method suggested for the EBA stress testing.

Since there is still a lack of profound empirical evidence, proving a correlation between macro-economic parameters and occurrence of operational risk events/losses, the effect of changes in macroeconomic parameters and their influence on operational risk loss frequency and severity currently remains in the unknown. Thus, the calculation of stress scenario loss contribution of operational risk to the Pillar 2 Overall Stress Testing process is conducted annually, irrespective of changes of the underlying macro-economic stress scenario.

2. Stressed loss/ Conditional Loss: Operational & Reputational Risk Function is in charge of evaluating and reviewing the operational risk stress testing methodology and approach. An annual calculation based on a quantitative as well as a qualitative component is conducted:

- Quantitative loss component: takes into account the historical operational risk losses for 10 years - time frame.
- Qualitative loss component: which is based on scenario analysis process, taking into account different scenarios for each operational risk event type and losses are evaluated for different probabilities of occurrence.

8.3 RWA calculation method and models

The capital calculation within UniCredit Bank Romania is performed according to the AMA model and the figures are as follows:

Operational Risk RWA 2017 (EUR) – UniCredit Group Consolidated Level	Capital Requirement for Operational Risk (EUR)	
	2017	2016
440,059,903	35,204,792	38,152,742

Operational Risk RWA 2017 (EUR) – UniCredit Bank Individual Level	Capital Requirement for Operational Risk (EUR)	
	2017	2016
295,807,197	23,664,576	27,491,468

8.4 Other risks - Risk types and risk management

Fraud risk management is a prime responsibility for all employees steming from the necessity of protecting UniCredit Bank and its assets / activities from being target to fraudulent activities. The internal framework is aimed at creating an appropriate level of awareness to all employees and partners and to ensure an efficient system of controls to prevent this risk in all aspects included in the circuit of fraud: prevention, detection, investigation and settlement of high risk events, recovery of fraud related losses and the implementation of the necessary corrections.

The fraud risk management was set as a top priority for UniCredit Bank and its coordination is ensured by the Fraud Prevention, Antifraud Departments and Fraud Management Committee. An ongoing four steps program covering methodology, training, activities' review from a fraud risk perspective and monitoring was implemented to mitigate the likelihood and impact of this risk.

One of the main topics for the Operational Risk strategy is **cybercrime risk** with an enhanced focus on the area of online banking fraud with the related topics phishing/hacking/malware etc. and how the bank can decrease risks in current and upcoming online banking processes.

The **legal risk management** within UniCredit Bank Romania is ensured by all employees with the appropriate assistance and support of the Legal function. The aim of the legal framework is to ensure the adequacy of legal and corporate fulfilments, the examination of the evolution of laws and their consistent interpretation, as well as the identification, assessment and monitoring of the overall legal risks.

Outsourcing risk is managed by the competent / involved structures coordinated by the Outsourcing Management function and with the appropriate support and oversight of the Risk Management function and dedicated Risk Management Committee. The management of the risks associated with the outsourced activities covers all the outsourcing stages (new initiatives and modifications of existing ones, supplier selection, contract terms and conditions, monitoring of existing outsourced activities, unexpected situations and continuity plans, relation with authorities).

Business continuity management represents a critical factor for UniCredit Bank and it takes a central role in the overall company strategy/goals. The constantly changing potential of threats requires a systematic, flexible, integrated and business oriented treatment of business continuity management in UniCredit Bank

The management of the business continuity risk is an ongoing process being the responsibility of management at all levels and of each employee. It is carried out in line with the local UniCredit Bank policies and procedures compliant with Group policies, local legal framework and internationally accepted best practices and standards (ISO 22301).

8.5 Other risks - Publicly known risk events

During 2017 there were no publicly known events which to adversely impact the activity or the reputation of the UniCredit Bank Romania.

UniCredit Bank

9 Equity exposures

9.1 Description of the bank's participations and description of the method of booking

UniCredit Bank SA has no equity positions in the trading book as of 31 December 2017.

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 2017 are:

Participation	Business Activity	Participation (%)
UniCredit Leasing Corporation IFN SA	Leasing	99.98%
UniCredit Consumer Financing IFN SA	Financial services	50.10%
Transfond SA	Financial services	8.04%
Biroul de Credit SA	Financial services	6.80%
Fondul Roman de Garantare a Creditelor pentru Intreprinzatorii Privati IFN SA	Financial services	3.10%
Casa de Compensare Bucuresti SA	Financial services	0.91%
Visa Inc (USA) – preferred shares Series C	Cards	0.01%

The total net book value of the participations as of 31 December 2017 is RON 165,781,868 out of which RON 143,115,683 represent investment in subsidiaries.

See also Consolidated Financial Statements for 31.12.2017 - Note 25.UniCredit Bank SA has equity investments (shares) in unlisted entities, these participations are booked in the individual financial statements IFRS in accordance with the requirements in force, at cost.

9.2 Scenarios used to measure and manage interest rate risk, quantification of the impact on the banking book of an interest rate shock

Indicators to measure this risk are included in the risk profile.

Please see Market Risk chapter – the +/- 200 bp shock is run on the positions of the banking book separately and reported quarterly to the National Bank of Romania.

10 Financial Investment Risk

Description of 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.

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;
- Specific events will be considered within the stress scenarios.

11 Real Estate Risk

Description of Real Estate Risk

Real Estate Investment 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 UC B, 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 loan collateral.

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.

12 Business Risk

Description of 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, as well as changes in the expense structure.

The Bank has implemented internal regulations and specific mechanisms in order to manage the Business Risk, and the capital requirements for this risk are included in the economic capital of the Bank.

13 Strategic Risk

Description of Strategic Risk

The strategic risk is analyzed from the following perspectives:

- Risk of business changes;
- Risk of vicious implementation of the decisions;
- Risk of lack of reactivity;
- Regulatory risk.

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

14 Reputational Risk

Description of Reputational Risk

Reputational risk is the current or prospective risk to incomes 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, like for example being component of:
    - Operational risk (fraud, inadequate internal processes, failures of IT systems, security incidents, human errors etc);
    - Market risk - for example: sensitive positions and transactions (high market betting, dominant positions);
    - Credit risk – for example: sensitive sectors, sensitive client categories;
    - Liquidity risk – for example: market crises (massive withdrawals which could adversely impact bank's liquidity profile).

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 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, 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, modalities to setlle / reduce clients' dissatisfaction etc)
- Relationship with shareholders, other counterparties, investors, employees or regulatory authorities ("stakeholders");
- General performance of the decisive instruments for the bank's image (top managers / high level management).

In crisis situation cases with impact in reputational risk occurrence, it is envisaged:

- Establishing communication strategy (defining transmitted and promoted key messages; defining channels for messages transmission)
- Sending messages through timely and brief press releases or other types of communication, updated – if case, when new elements/news appear (success of communication is assured by an adequate flow of information from the Management Board and the concerned business units towards the representatives of the Identity and Communication Department)
- Informing, whenever deemed necessary in crisis situations, by the competent departments in line with the specific internal regulations, of the call center staff members and from other structures with communication related responsibilities, regarding response models / structures which need to be submitted / provided in the respective situations. This information and response models are established and submitted in line with the provisions of the specific internal crisis regulations.Establishment of procedures and the competences for decisions making 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 by a transparent and efficient communication.

At UniCredit Group level, a set of regulations regarding reputational risk were implemented. The purpose of these regulations is to define a set of rules and principles for the identification, assessment and control of the reputational risk, assessment methodology in relation to reputational risk cases related to sensitive industries, in relation to the new product processes and in relation to relevant transactions, immediat information and escalation flows (where the case might be) including for the situation / event which might have a significant reputational impact („reputational risk material cases"), in order to be able to promptly react in managing potential consequences.

Considering the prevention pillar of reputational risk management framework, the reputational risk governance is completed by other reputational risk specific policies. In force at the bank's level, defining principles and rules to be considered and the process to be applied in the case of counterparties engaged in sensitive sectors / industries related to specific industries like: weapons/defence industry, nuclear energy industry, water infrastructure (dam) sector, mining industry, coal-fired power generation sector.

15 Excessive Leverage Risk

Description of Excessive Leverage Risk

Risk of excessive leverage represents the risk resulting from the Bank's vulnerability due to leverage or contingent leverage that may require unintended corrective measures to its business plan, including distressed selling of assets which might result in losses or in valuation adjustments to its remaining assets.

The monitoring of risk of excessive leverage is realised based on specific instructions received from the Group and by taking into account the legal provisions in force.

Thus, the Leverage Ratio indicator, calculated according to instructions received from Group is included in the Risk Appetite Framework of the Bank. A system of limits comprising a Target level, a Trigger and a Limit is applied. Monitoring is done on a quarterly basis.

ITEM	LR Exposure
SFTs: Exposure in accordance with Article 429 (5) and 429 (8) of the CRR	206,365,590
SFTs: Add-on for counterparty credit risk	-
Derogation for SFTs: Add-on in accordance with Article 429b (4) and 222 of the CRR	-
Counterparty credit risk of SFT agent transactions in accordance with Article 429b (6) of the CRR	-
(-) Exempted CCP leg of client-cleared SFT exposures	-
Derivatives: Current replacement cost	73,421,938
(-) Eligible cash variation margin received offset against derivatives market value	-
(-) Exempted CCP leg of client-cleared trade exposures (replacement costs)	-
Derivatives: Add-on Mark-to-Market Method	91,017,055
(-) Exempted CCP leg of client-cleared trade exposures (potential future exposure)	-
Derogation for derivatives: Original Exposure Method	-
(-) Exempted CCP leg of client-cleared trade exposures (Original Exposure Method)	-
Capped notional amount of written credit derivatives	-
(-) Eligible purchased credit derivatives offset against written credit derivatives	-
Off-balance sheet items with a 10% CCF in accordance with Article 429 (10) of the CRR	565,125,995
Off-balance sheet items with a 20% CCF in accordance with Article 429 (10) of the CRR	40,692,332
Off-balance sheet items with a 50% CCF in accordance with Article 429 (10) of the CRR	3,136,541,881
Off-balance sheet items with a 100% CCF in accordance with Article 429 (10) of the CRR	174,456,593
Other assets	43,231,880,701
Gross up for derivatives collateral provided	-
(-) Receivables for cash variation margin provided in derivatives transactions	-
(-) Exempted CCP leg of client-cleared trade exposures (initial margin)	-
Adjustments for SFT sales accounting transactions	-
(-) Fiduciary assets	-
(-) Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of the CRR	-
(-) Exposures exempted in accordance with Article 429(14) of the CRR	-
(-) Asset amount deducted - Tier 1 - fully phased-in definition	(200,699,559)
(-) Asset amount deducted - Tier 1 - transitional definition	(200,299,121)
Total Leverage Ratio exposure - using a fully phased-in definition of Tier 1 capital	47,318,802,526
Total Leverage Ratio exposure - using a transitional definition of Tier 1 capital	47,319,202,964
Capital	-
Tier 1 capital - fully phased-in definition	3,090,936,825
Tier 1 capital - transitional definition	3,120,505,836
Leverage Ratio	-
Leverage Ratio - using a fully phased-in definition of Tier 1 capital	0.07
Leverage Ratio - using a transitional definition of Tier 1 capital	0.07

16 Liquidity risk

16.1 Liquidity

The liquidity risk is defined as the risk that the Bank may not be able to fulfill its expected or unexpected financial obligations, without affecting its daily operations or its financial condition.

Among the main potential generators of liquidity risk, UniCredit Bank distinguishes between:

- **Liquidity Mismatch Risk/Refinancing Risk:** the risk of a mismatch between either the amounts and/or the timing of cash inflows and outflows;
- **Liquidity Contingency Risk**: the risk that future events may require a materially larger amount of liquidity than the bank currently requires. This might be due to the loss of liabilities, requirements to fund new assets, difficulty in selling liquid assets or difficulty obtaining needed new liabilities in the case of a liquidity crisis.
- **Market liquidity risk**: the risk that the institution cannot easily unwind or offset specific exposures, such as investments held as liquidity reserves, without incurring a loss because of inadequate market depth or market disruptions;

The Bank's **liquidity and funding strategy** is centered on the following strategic principles and goals set in coherence with the risk appetite:

- **Strategic Principles:**

  - Liquidity and funding management is based on clear and strict risk management principles set according to the Risk Appetite Framework (RAF).
  - The definition of the desired liquidity profile is fully integrated within the Risk Appetite Framework, in order to drive the evolution of the lending activity consistently with the desired funding profile.
  - The self-sufficiency funding strategy is based on a well-diversified funding base due to its commercial banking model, with priority given on the growth of local funding sources out of customer business with a variety of products (sight, savings, term deposits), as well as capital market transactions (e.g. medium- and long-term placements of own issues).

- The strict principle of self-sufficient funding ensures that the proceeds are used primarily for business development, enabling UCB and the Group to calculate funding costs according to own risk profile.
- All strategic goals must be in compliance with UniCredit Group Strategy and Regulatory requirements.

➢ **Strategic Goals**

- optimization of the liquidity profile in line with liquidity limits in place and local regulatory framework, maximizing cost savings without sacrificing funding diversification
- self-sufficiency target fulfillment by achieving a sound commercial funding base and creating a foundation for full compliance with the relevant Risk Appetite Framework metrics
- achievement of main KPIs for each year in accordance with the Risk Appetite Framework, designed as quantitative targets defined in the yearly Funding Plan for, among others, the Liquidity Coverage Ratio and the Funding Gap
- achievement of the necessary resilience towards stress scenario through building sufficient stock of the Counter Balancing Capacity
- exploring the advantage of cheaper sources like Covered Bond or Supranational Funding and evaluating the relevant maturities of medium/long term issuances
- keeping the funding dependency on short term wholesale external funding to a reasonable level necessary for reciprocity
- efficient management of the trading/investment book financing (mitigating the use of intragroup funding) in compliance with intragroup rules for bond investments, as well as market risk and credit risk limits.

The main objective of the Funding Strategy is defined with the purpose of covering possible structural funding needs, whilst ensuring compliance on going concern and according to a forward looking perspective with limits and triggers of liquidity and balance sheet metrics, both regulatory and internal as defined in the Banks's liquidity risk framework/ Risk Appetite framework.

Key Principles:

Liquidity management is performed by UniCredit Bank in accordance with local binding laws and regulations and UniCredit Group Liquidity Management Framework. Clear and strict risk management principles are set according to the Bank's Risk Appetite Framework.

The main goal of Unicredit Bank's overall liquidity management is to keep the liquidity exposure at such a level that the Bank is able to honour its payment obligations on an on-going basis, but also during a crisis without jeopardizing its franchise value or its brand's name.

Roles and Responsibilities

A clear separation of duties and responsibilities is implemented in UniCredit Bank for an efficient and effective management of liquidity risk. Accordingly, the Bank keeps two governance layers:

- Managing Bodies acting as strategic decision-taking functions (as the Board of Directors, Supervisory Board, Assets and Liabilities Committee)
- Operational units acting as operative liquidity management functions, each being assigned different roles and responsibilities: ALM, Markets, Market Risk.

In particular, ALM provides strategic planning, management and supervision of the Bank's overall liquidity position, whilst Markets ensures operational short-term liquidity management (up to 1 year). Market Risk has the responsibilities of independent controls and reporting of liquidity risk.

Risk Measurement and Reporting

Techniques for risk measurement

Liquidity risk, for its particular nature, is addressed by means of gap analyses, liquidity stress testing, and complementary measures (mainly through a set of indicators: e.g. loan to deposit ratio, liquidity coverage ratio). This tools allow the measurement of liquidity risk over different time horizons and by currencies.

Liquidity Framework

UniCredit Bank's liquidity framework encompasses: short term liquidity risk mangagement (operational liquidity, up to 1Y) and structural liquidity risk management (liquidity position over 1y).

- **intraday liquidity management**,
  - The focus of intraday liquidity management is on actively managing the Bank's intraday liquidity obligations by timely meeting payments and keeping a sustainable intraday liquidity buffer.

- **Short-term liquidity risk management** (operational liquidity):

  Short term liquidity management and reporting focuses on the Bank's liquidity profile from 1 day up to one year.
  The aim of short term liquidity management is to maintain a sustainable equilibrium between cash inflows and cash outflows for the purpose of ensuring the normal operational continuity of the UniCredit bank's commercial business. The main activities for attaining such purpose are:
  - managing the access to the payment systems and of the cash payments (operational liquidity management)
  - monitoring the level of the liquidity reserves and the extent of their utilization over time, with the objective of maintaining the liquidity reserves at appropriate levels in order to meet potential outflows.

  As indicator of the short term liquidity risk, UniCredit Bank adopted the Operative Maturity Ladder (OML) by currency, whose main components are the net contractual cash flows (in/outflows) affecting the cash position of Bank, thus impacting directly the "core liquidity" of the bank over pre-defined time buckets, and the Counterbalacing capacity.

- **Medium and long-term liquidity risk management** (structural risk):

  Structural liquidity management (over 1 year) aims at ensuring the financial stability of the balance sheet, with the objective of avoiding excessive and unexpected pressures on the funding requirements over the short term, whilst optimizing the funding sources and related costs. This is achieved maintenance of an adequate balance between the medium- long term and sticky assets and the respective stable sources of funding.

The main metric used to measure medium-long term liquidity risk is the Structural Ratio, which is calculated as the ratio between liabilities and assets with maturity above one year or more (i.e. contractual or modelled maturity, depending on their specific nature).

Liquidity Stress Testing

Stress testing is a risk management technique used to evaluate the potential effects on an institution's financial condition of a specific event and/or movement in a set of financial variables.

UniCredit Bank performs regular liquidity stress tests in order to diagnose the Bank's liquidity risk. The main scenarios of potential liquidity crisis identified are:

- Name Crisis - defined as a factual or market-hypothesized problem specific to the Bank, expected to cause a substantial reduction in counterparty limits by rating-sensitive costumers and inter-bank markets and possible withdrawal of Sight and Saving Deposits
- Market Downturn - defined as a generally negative development in the market's environment (e.g. broad sector, market or economic events) causing an increased stretch on available liquidity
- Combined - highlights the interconnections that stem from the happening of both economic turmoil and Bank's specific issues

In particular the results of the stress tests are useful for:

- assessing the adequacy of liquidity limits
- assessing the right size of the counterbalancing capacity/liquidity buffer to withstand a given scenario within a defined timeframe
- providing support to the development of the contingency plan.

Monitoring and Reporting

UniCredit Bank measures and manages liquidity based on monitoring system that envisages different types of restrictions – managerial and regulatory – embedded in risk metrics limits or warning/trigger levels.

In case of limit breach or warning level activation, Market Risk function investigates the rationale of the events, triggering the proper escalation and reporting them to the relevant committees.

Regulatory reports refer to LCR (liquidity coverage ratio) and NSFR (net stable funding ratio).

During 2017 the **LCR ratio** evolution was as per table below:

LCR UCB standalone RON				
Date	liquid assets	outflows	inflows	Ratio
31-Dec-16	8,514,217,434	7,396,806,394	447,295,573	122.52%
31-Jan-17	7,916,238,516	6,283,634,185	410,555,735	134.79%
28-Feb-17	7,045,445,009	6,043,232,027	546,130,029	128.17%
31-Mar-17	5,961,605,067	7,355,530,813	2,472,069,513	122.08%
30-Apr-17	6,657,696,321	6,231,950,519	747,606,449	121.39%
31-May-17	6,545,037,989	6,411,644,215	1,196,170,953	125.49%
30-Jun-17	6,790,526,279	6,527,688,906	956,254,179	121.88%
31-Jul-17	7,066,964,842	7,263,441,997	1,866,463,016	130.94%
31-Aug-17	6,970,472,107	6,594,105,861	1,556,489,388	138.37%
30-Sep-17	7,707,412,699	6,729,850,225	1,070,067,424	136.18%
31-Oct-17	7,490,639,473	6,531,849,878	1,377,589,990	145.33%
30-Nov-17	8,559,280,734	7,240,571,444	1,057,849,561	138.44%
31-Dec-17	10,624,227,780	7,629,505,268	636,727,272	151.93%

The table below shows the detailed picture of the LCR as of 31 of December 2017 (values in RON).

C72		Value	Weight	Adjusted value	%Total
Liquide assets - HQLA					
Total	**010**	**10,631,508,492**		**10,624,227,780**	
Level 1 Assets	**020**	**10,582,970,413**		**10,582,970,413**	**99.61%**
Cash	040	1,185,198,305	1.00	1,185,198,305	11.16%
Reserves to central banks that can be withdrawn	050	4,149,083,804	1.00	4,149,083,804	39.05%
Central goverments assets (bonds)	070	5,248,688,304	1.00	5,248,688,304	49.40%
Level 2 Assets	**220**	**48,538,079**		**41,527,367**	**0.39%**
Regional goverments assets	240	48,538,079	0.85	41,257,367	0.39%

C73					
Outputs	010	**31,108,627,673**		**7,629,505,268**	
Total					
Outgoing transactions/unsecured deposits					
Retail deposits	030	**10,593,600,402**		**1,211,219,374**	**15.88%**
Higher outflowa	050	3,183,129,138		548,006,350	7.18%
Category 1	060	1,772,389,549	0.15	265,858,432	3.48%
Category 2	070	1,410,739,589	0.20	282,147,918	3.70%
Stable deposits	080	1,556,682,043	0.05	77,834,102	1.02%
Other deposits	110	5,853,789,221	0.10	585,378,922	7.67%
Operational deposits	120	**169,749,083**		**41,583,605**	**0.55%**
Maintained to obtain compensation, custody, cash management or other comparable services in the context of a long-term operational relationship	130	169,749,083		41,583,605	0.55%
covered by a deposit guarantee scheme	140	4,268,327	0.05	213,416	0.00%
not covered by a deposit guarantee scheme	150	165,480,756	0.25	41,370,189	0.54%
Non-operational warehouses	210	**13,260,886,199**		**6,077,879,476**	**79.66%**
deposits constituted of financial clients	230	1,441,324,066	1.00	1,441,324,066	18.89%
deposits constituted of other clients	240	11,819,562,133		4,636,555,410	60.77%
covered by a deposit guarantee scheme	250	456,347,218	0.20	91,269,444	1.20%
not covered by a deposit guarantee scheme	260	11,363,214,915	0.40	4,545,285,966	59.58%
Additional outputs	270	**17,369,267**		**17,369,267**	**0.23%**
outputs derived from derivatives	340	17,369,267	1.00	17,369,267	0.23%

Risk Mitigation

The main liquidity mitigation factors for UniCredit Bank are:

- planning and monitoring of the short-term and medium to long-term liquidity needs;
- an effective Contingency Liquidity Policy (CLP), including a Contingency Action Plan to be executed in case of market crisis
- a liquidity buffer to face unexpected outflows;
- liquidity stress testing performed on a regular basis.
- a system of early warning indicators to anticipate increased risk or vulnerabilities in the liquidity position or potential funding needs.

Funding Plan

The Funding Plan plays a fundamental role in overall liquidity management, influencing both the short term and long term liquidity position. It includes the set of the medium long term instruments (with relevant amount, maturity, timing, cost) to be realized in order to cover the expected funding deriving from the planned evolution of the liquidity uses and, avoiding pressure on the short term and ensuring complying with regulatory and managerial limits.

The Funding Plan is updated at least on a yearly basis and is aligned with the Financial Planning (Budgeting) process and the Risk Appetite Framework.

Contingency Liquidity Management

Contingency Liqudity Management has the objective of ensuring the availability of an effective organizational model in order to manage effectively the negative effects of a liquidity crisis situation, which is achieved through:

- setup of an extraordinary liquidity crisis governance model, linked to a set of early warning indicators, that can be activated in case of a crisis
- pre-definition of a set of available standby mitigating liquidity actions in order to be able to proceed timely
- consistent internal and external communicationcrisis.

A relevant part of the contingency liquidity management is the **Contingency Funding Plan**, which describes potential, but concrete actions the Bank can take in order to obtain additional funding in contingency situations and is complementary to the yearly Funding Plan. The measures foreseen are described in terms of a menu of actions together with sizes, instruments, and timing of execution aimed at improving the Bank's liquidity position during times of name or systemic crisis.

Early warning indicators

In order to identify emerging vulnerabilities in its liquidity risk position or potential funding needs, UniCredit Bank employs a set of early warning indicators linked to macroeconomic or market indicators and specific internal metrics. A specific activation mechanism is adopted in order to have sufficient time to inform senior management of a deteriorating situation situation and allow putting in place adequate actions aimed at restoring the business-as-usual state.

Concentration of funding and liquidity sources

In 2017 the customer deposits was in average 70% of total liabilities, out of which funds from Corporate clients in proportion of 67%.

During 2017, the Bank has issued unsecured bonds in amount of RON 610mn with an average maturity of 5.1 years, in order to diversify the funding sources.. In accordance with the liquidity self-sufficiency strategy pursued, the funding dependency on intragroup sources further decreased in 2017 (e.g. net intragroup funding was reduced by aproximately 30% at Bank stand-alone level and 5% at country level).

16.2 Funding (Asset Encumbrance)

In accordance with the EU Regulation no.575/2013 as stipulated in the article 433 and EBA Guideline on disclosure of asset encumbrance (EBA/GL/2014/03), the Romanian UniCredit Group's encumbered and unencumbered assets, at consolidated level, for the year 2017 are disclosed using the EBA templates as stipulated in the above mentioned regulation.
Fair value of encumbered assets for the year ended 2017 (as presented in the Consolidated Financial Statement 31 December 2017) was RON 749,300,875.

The amounts in the templates bellow are median values on quarterly basis for the year 2017.

Template A - Assets

Assets of the credit institution, split by type of assets stood at RON billion 38.94 *(as at 31.12.2016: RON billion 33.79).*

- RON -

	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of the reporting institution, out of which:	741,108,446		38,194,445,204	-
Equity instruments			22,900,206	22,900,206
Debt securities	731,724,028	731,724,028	5,587,580,694	5,587,580,694
Other assets	9,384,418		1,581,211,450	-

During the year 2017, collateral received by the Romanian UniCredit Group amounted to RON 61,633,870,553 and were not available for encumbrance.

Template B - Encumbered assets/collateral received and associated liabilities

- RON -

	Matching lialibities, contingent liabilities or securities lent	Assets, collateral received or own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected liabilities	-	741,108,446

Template C – Narrative information

The encumbered assets are approximate 1.90% of the Romanian UniCredit Group's total assets.

The Romanian UniCredit Group encumbered assets' portfolio and the sources of encumbrance includes:

- Government bonds placed as collateral in the clearing systems;
- Government bonds used by the Bank and its subsidiary UniCredit Leasing as guarantees for financing from the European Investment Bank.
- Government bonds used as collateral for repos transactions with Central Bank

Versus 2016, no significant changes were registered in the value of the encumbered assets.

Bank's liabilities from the financing contract with the European Investment Bank should be covered at any time with eligible assets in the clearing system managed by Clearstream Banking SA Luxembourg. The collateral expressed as net market value of the accrued interest must be at least 103% applied to the maximum between the present value of the financing and the carrying amount of the financing.

Subsequent to the reporting period, the value of the assets encumbered has remained relatively constant

16.3 Liquidity Buffer and Funding strategy

Liquidity Buffer

In order to avoid that short-term liquidity crunch or other unexpected events lead to potentially serious consequences, the Bank constantly maintains a liquidity reserve. This is a cushion represented by an ample amount of cash and other highly liquid assets to be promptly converted in cash (either through sale or collateralized funding) in case of ordinary or unexpected needs of liquidity, in accordance with regulatory and internal liquidity rules.

Stress testing (regulatory or internal stress scenarios) ensures that there is adequate liquidity both during normal economic cycles, as well as periods of sustained stress and that appropriate excess liquidity buffer is in place.

The major category in the Bank's liquidity buffer is represented by high quality bonds issued by the Government of Romania, eligible at Central Bank.

Liquidity and Funding strategy

UniCredit Bank reviews annualy its liquidity and funding strategy by considering the desired business model, the actual and expected macroeconomic/financial conditions and the funding capacity of the Bank, as well as the overall risk tolerance as reflected by the Risk Appetite Framework.

The strategic principle of "self-sufficiency" governs the liquidity and funding strategy of the Bank, which targets to achieve a well-diversified funding base, with priority given on the growth of local funding sources out of customer business with a variety of products (sight, savings, term deposits), as well as medium- and long-term placements of own issues. In accordance with this principle, the main strategic goals the liquidity and funding strategy encompasses are:

- optimization of the liquidity profile in line with liquidity limits in place and local regulatory framework
- self-sufficiency target fulfillment by achieving a sound commercial funding base and creating a foundation for full compliance with the relevant Risk Appetite Framework metrics
- achievement of main KPIs for each year in accordance with the Risk Appetite Framework, designed as quantitative targets defined in the yearly Funding Plan for, among others, the Liquidity Coverage Ratio and the Core Banking Book Funding Gap
- achievement of the necessary resilience towards stress scenario through building sufficient stock of the Counter Balancing Capacity, as targeted in the yearly Funding Plan

- exploring the advantage of cheaper sources like Covered Bond or Supranational Funding and evaluating the relevant maturities of medium/long term issuances
- keeping the funding dependency on short term wholesale external funding to a reasonable level necessary for reciprocity.

The main tool through which the Bank implements its liquidity and funding strategy is the Funding Plan. ALM is responsible for the execution of the Funding Plan, accessing the markets for medium and long term funding, in order to increase Bank's self-sufficiency, exploit market opportunities and optimize the cost of funds.

17 Remuneration Policy

17.1 Description of Remuneration Policy

The Bank's remuneration policies are represented by the Human Resources Policy and the Rules on Remuneration – Compensation and Benefits.

The Bank's remuneration policies are approved by the Supervisory Board, upon the recommendation of the Remuneration Committee and are accessible to all employees. The Remuneration Committee has a consultative role and is responsible for preparing the decisions on remuneration topics that need to be taken

by the management body.

The Remuneration Committee of the Bank was set up by the Supervisory Board and is composed of 3 members chosen from amongst the members of the Supervisory Board. The Chairman of the Remuneration Committee is appointed by the Supervisory Board.

In 2017, the Remuneration Committee had the following composition:

- Mr. Corneliu - Dan Pascariu – Chairman
- Mr. Heinz Meidlinger – Member
- Mr. Jutta Liebenwein Schoffmann - Member

In the year 2017, the Remuneration Committee convened in four (4) ordinary and extraordinary sessions.

In accordance with the provisions of NBR Regulation nr. 5 / 2013, the remuneration practices for the members of the management body and identified staff are presented in a separate policy – i.e. Policy regarding the structure, composition, assessment of suitability and remuneration of management body and assessment of suitability for key function holders.

UniCredit ensures the alignment between remuneration and risk through policies that support risk management, rigorous governance processes based on informed decisions taken by corporate bodies and the definition of compensation plans that include the strategic risk appetite defined by the Risk Appetite Framework, the time horizon and the individual behaviors.

UniCredit uses a compensation mix formed of fixed and variable remuneration, as well as benefits.

The performance assessment process is subject to separate regulation setting out the steps of this process, the evaluation criteria and provides for a standardized framework for ongoing assessments.

According to the Rules on Remuneration – Compensation and Benefits:

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

General rules for goal setting:

1. Part of the goals should contribute to the sustainability of results
2. Business performance criteria is risk adjusted
3. Individual criteria for performance assessment include competency assessment, respecting the values of the Group and the goals set
4. There is at least one indicator pertaining to Risk
5. There is a balance between financial and non financial goals

Economic goals must be avoided for Company Control Functions – Internal Audit, Risk Management and Compliance – and individual goals set for employees in these functions shall reflect primarily the performance of their own function and be independent of results of monitored areas.

Variable remuneration can be adjusted and reduced to zero (Malus) if the performance criteria at Group and Bank level are not fulfilled.

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.

In accordance with NBR Regulation 5 / 2013 the variable remuneration offered to an employee will not be higher than 100% of the fixed total remuneration of each employee.

Remuneration policy and structure of compensation packages for persons with executive responsibilities are subject to annual approval of the Supervisory Board, based on the consultative opinion issued by the Remuneration Committee.

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:

- Approves remuneration policies
- Approves, after consultation with the Remuneration Committee constituted for this purpose, the remuneration practice for the Board members
- Approves the remuneration practices for the coordinators of the risk functions, for the directors of Internal Audit and Compliance departments

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.

For Management Board members, at least 50% of variable remuneration consists in non cash instruments and at least 40% of variable remuneration is deferred for a period of at least 3-5 years.

The Bank applies a performance adjustment practice, which enables the adjustment of the part (up to 100%) from an employee's bonus (Clawback) if:

- there is reasonable evidence that the employee participated in or was responsible for conduct which resulted in significant losses to the credit institution;

- there is reasonable evidence that the employee failed to meet appropriate standards of fitness and propriety;
- the Bank or the relevant operational unit suffers a material downturn in its financial performance; or
- the Bank or the relevant operational unit suffers a material failure of risk management.

The remuneration policies and practices of the Group are also implemented at level of the directly controlled entities.

The bank did not have any employee who benefited from a total remuneration of at least 1 milion euro / financial year.

Unicredit Bank – Quantitative Information

December 2017

		Members of the Management board	Investment banking	Retail Banking	Asset Mgmt.	Support functions	Independent Control functions	All other
Number of members of personnel	0	4						
Total number of full time employees			32	2,036	8	626	220	0
Total net profit (euro)	58,698,211							
Total remuneration (euro)	0	2,570,239	1,858,554	32,308,215	234,686	12,133,717	6,047,756	0
Of which total Variable Remuneration (euro)	0	998,540	304,511	1,784,625	9,076	368,896	449,938	0

Information about the remuneration for the management body and Identified Staff for 2017 are presented in Annex bellow. The variable remuneration for 2016 was paid in April 2017.

The information related to the variable remuneration for 2017 will be available after the payment of the bonuses, estimated to be done in April 2018.

Annex

Information related to remuneration of management body and Identified Staff

	Members of the management body in its Supervisory function	Members of the Management Board	Investment Banking	Retail Banking	Asset Management	Support functions	Independent Control Functions	All others
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Number of personnel	0	4						
Number of Identified Staff, in full time equivalent			3	10	0	8	8	0
Number of Identified Staff in senior management positions			0	0	0	0	0	0
Total remuneration (fixed and variable)	0	2,559,472	251,543	1,070,372	0	351,136	684,763	0
Total number of beneficiaries of guaranteed variable remuneration (sign-on bonus)	0	0	0	0	0	0	0	0
Total amount of guaranteed variable remuneration (sign-on bonus) in euro	0	0	0	0	0	0	0	0
Number of beneficiaries of severance payments	0	0	0	0	0	0	0	0
Total amount of severance given (euro)	0	0	0	0	0	0	0	0

See also Consolidated Financial Statements for 31.12.2017 - Note 12.

17.2 Description of the UniCredit Bank composition in Romania

The management of the entities in the UniCredit Group is governed by a two-tier system, by the Management Board and respectively by the Supervisory Board, in accordance with the prerogatives provided by the Constitutive Deed and within the authority levels given by the General Assembly of Shareholders. The members of the Management Board exercise their responsibilities under the oversight of the Supervisory Board.

UniCredit Bank

Number of mandates held by members of management structure of UniCredit Bank S.A.:

Members of the Management Board on 31 December 2017:

•**Mr. Catalin Rasvan Radu** held 1 executive mandate (Executive President of UniCredit Bank S.A.) and 2 non-executive mandates within the UniCredit Group (counted as 1 mandate as per Emergency Ordinance no 99/2006), 1 non-executive mandate outside the UniCredit Group and 1 mandate within a non-profit organization (countless according to GEO No. 99/2006);

•**Mr. Marco Cravario** held 1 executive mandate (First Executive Vice President of UniCredit Bank S.A.) and 2 non-executive mandates within the UniCredit Group (counted as 1 mandate as per Emergency Ordinance 99/2006) and 1 non-executive mandate outside the UniCredit Group;

•**Mr. Marco Giuseppe Esposito** held 1 executive mandate (Executive Vice President of UniCredit Bank S.A.);

•**Ms. Daniela - Margareta Bodîrcă** held 1 executive mandate (Executive Vice President of UniCredit Bank S.A.) and 2 non-executive mandates within the UniCredit Group (counted as 1 mandate according to the Emergency Ordinance no 99/2006);

•**Ms. Marinela - Alina Drăgan** held 1 executive mandate (Executive Vice President of UniCredit Bank S.A.);

•**Mr. Jakub Dusilek** held 1 executive mandate (Executive Vice President of UniCredit Bank S.A.) and 1 non-executive mandate within the UniCredit Group (counted as 1 mandate under the Emergency Ordinance no 99/2006).

Members of the Supervisory Board on 31 December 2017:

•**Mr. Corneliu - Dan Pascariu** held 4 non-executive mandates (one as Chairman of the Supervisory Board of UniCredit Bank S.A. and 3 mandates outside the UniCredit Group);

•**Mr. Heinz Meidlinger** held 4 non-executive mandates (one as Vice-Chairman of the Supervisory Board of UniCredit Bank S.A., 2 mandates within the UniCredit Group, counted as 1 mandate under Emergency Ordinance no 99/2006) and 1 mandate outside the UniCredit Group;

•**Mr. Stefano Porro** held 1 non-executive mandate (member of the Supervisory Board of UniCredit Bank S.A.) and 1 mandate within the UniCredit Group (countless according to GEO No. 99/2006);

•**Ms. Jutta Liebenwein Schoffmann** held 1 non-executive mandate (member of the Supervisory Board of UniCredit Bank S.A.);

•**Mr. Luca Pierluigi Rubaga** held 1 non-executive mandate (member of the Supervisory Board of UniCredit Bank S.A.);

•**Ms. Nazan Somer Ozelgyn Zeynep** held 1 executive mandate within the UniCredit Group and 2 non-executive mandates (one as a member of the Supervisory Board of UniCredit Bank S.A.). counted all 3 mandates as 1 mandate according to the Emergency Ordinance no. 99/2006, and 3 non-executive mandates outside the UniCredit Group, of which 2 mandates (countless according to GEO No. 99/2006)

UniCredit Bank

Policy regarding the selection and appointment of board members

The Nomination Committee (CN) is a permanent committee established by the Supervisory Board of UniCredit Bank. It is responsible, among others, to identify and recommend to the Supervisory/Management Board, for approval, candidates to occupy the vacant seats within the management body and to assess the balance of knowledge, skills, diversity and experience within the management body.

Once the Nomination Committee has identified a candidate for Supervisory/Management Board position, it assesses the respective candidate according to a “Fit & Proper” internal procedure (Rules for the selection and assessment of Management Board and Supervisory Board members and for assessing the suitability of key function holders) based on at least the following documents: Curriculum Vitae, information about job-specific expertise, personal reliability and good repute, extract from criminal records, and two governance criteria: information about availability (time resources) and information about relations to the credit institution.

A revaluation is done once a year for every member of the Management Body (Management Board and Supervisory Board).

At the end of 2017 the Nomination Committee had 3 members.

The Policy regarding Diversity in the Selection of People in the Management Structures

As of the year end of 2017, there were 4 women in the management of UniCredit Bank (2 out of 6 members of Management Board and 2 out of 6 members of Supervisory Board).

The Group Policy on the structure, composition and remuneration of the Corporate Bodies of Group Companies states that, for the purpose of increasing the number of women on the Corporate Bodies of leading Group Companies and with the aim of reaching at least one third of the members of the Management Board (Supervisory Board and Management Board), the Parent Company has adopted the promotion of women to Corporate Bodies as best practice within the Group.

18 Other disclosure requirements

Disclosure requirements according to article 644 of National Bank of Romania Regulation no.5/2013 regarding prudential requirements for credit institutions.

Information related to name, nature of activities by geographical area, turnover, number of employees, profit of the year before taxation, profit tax, are available in Separate/Consolidated Financial Statements for year ended 2017, as follows:

1. name, nature of activities by geographical area – NOTE 1 REPORTING ENTITY from Notes to the Financial Statements for the year ended December 2017
2. turnover – chapter RISK MANAGEMENT – item k) Capital Management - from Notes to the Financial Statements for the year ended December 2017
3. number of employees – Note 12 PERSONNEL EXPENSES from Notes to the Financial Statements for the year ended December 2017

The Bank hasn't received subsidies during the financial year 2017.

Disclosure requirements according to article 645 of National Bank of Romania Regulation no.5/2013 regarding prudential requirements for credit institutions.

Unicredit Bank registered a good profitability with annualized ROA (return of assets) at 1.0% better than previous year (app.25 bp).

Disclosure requirements according to article 67 of National Bank of Romania Regulation no.5/2013 regarding prudential requirements for credit institutions.

Bank's Committees are presented in the Management Board's Report for the financial period ended 31 December 2017 on chapter 9 CORPORATE GOVERNANCE item COMMITEES SUBORDINATED TO SUPERVISORY BOARD.

Disclosure requirements according to article 16 of National Bank of Romania Regulation no.5/2013 regarding prudential requirements for credit institutions.

During 2017, the Supervisory Board's activity was carried out through 8 meetings. The attendance of the Supervisory Board Members at the meetings is reflected in the table below:

Supervisory Board Member	Number of 2017 meetings during mandate	Number of 2017 meetings attended
Dan Pascariu	8	8
Heinz Meidlinger	8	8
Zeynep Nazan Somer Ozelgin	2	2
Stefano Cotini	4	4
Stefano Porro	4	3
Jutta Liebenwein Schoffmann	4	3
Luca Pierluigi Rubaga	2	2

In each of the 8 meetings, the Members of the Supervisory Board discussed, controlled and/or assessed periodically information on the following subjects and related activities:

- quarterly presentation of the financial performance, including economic situation, financial market conditions, benchmarking analyses, financial and commercial performance, detailed by business segments
- report on Bank's performance in the business divisions: Retail and Corporate Investment Banking
- Risk Management presentation, including detailed assessment of credit, market and operational risks, as well as information on the outsourced activities
- report on related party transactions
- proposals related to strategic and non-strategic participations
- information on pending litigation
- granting of loan facilities
- approval of internal regulations and policies
- activity reports of the committees assisting the management structure

- continuing improvement of the internal control system; Internal Audit, Compliance and Risk Management matters were discussed on regular basis in the Supervisory Board meetings, usually through Audit Committee, as well as Risk Committee

Apart from the above-mentioned subject depicting a periodically image of the Bank's performance, several other specific topics were discussed, thus being ensured a comprehensive level of information for the Supervisory Board on the most important aspects in the Bank's activity, such as:

- information on General Shareholders Meetings' topics, discussions and Shareholders requests or proposals
- approval of the Bank's overall 2017 Strategy and business risk strategy
- acknowledgement of the results of the stress testing in UniCredit Bank
- evolution of the composition of the Bank's Management Board, as follows:
  - In the meeting dated May 5th, 2017, the Supervisory Board acknowledged the cessation of the mandate of Mrs. Mihaela Lupu as Executive Vice-President of UCB Management Board, effective as of September 1st, 2017.
  - In the meeting dated August 31st, 2017, the Supervisory Board acknowledged the cessation of the mandate of Mr. Marco Giuseppe Esposito as Executive Vice-President of UCB Management Board effective as of January 1st, 2018.
  - In the meeting dated September 8th, 2017, the Supervisory Board approved the appointment of Mr. Philipp Gamauf as Executive Vice-President of UCB Management Board, starting with September 8th, 2017, subject to the NBR prior approval.

In terms of Supervisory Board Members composition in 2017, during the Ordinary General Meeting of Shareholders held on February 20th, 2017, the appointment of new Supervisory Board Members was approved as follows:

- Mrs. Jutta Liebenwein Schoeffmann's appointment as Member of the Supervisory Board of the Bank, for a mandate of 3 years, respectively until 20.02.2020;
- Mr. Stefano Porro's appointment as Member of the Supervisory Board of the Bank for a mandate of 3 years, respectively until 20.02.2020;
- Mr. Luca Pierluigi Rubaga's appointment as Member of the Supervisory Board of the Bank for a mandate of 3 years, respectively until 20.02.2020;
- Mrs. Zeynep Nazan Somer Ozelgin's appointment as Member of the Supervisory Board of the Bank for a mandate of 3 years, respectively until 20.02.2020.

The Committees subordinated to the Supervisory Board are:

- Audit Committee
- Remuneration Committee
- Nomination Committee
- Risk Management Committee

Annex 1: Basel II Pillar 3 Disclosure for UniCredit Consumer Financing SA

Chapter 1 – General requirements

1.1 Strategy and general framework of risk management

UniCredit Consumer Financing (UCFIN) 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 is responsible for the approval of the risk strategy. In connection with the strategic objectives of UCFIN, the Supervisory Board establishes a certain risk profile on an annual basis, the way to determine this profile and the frequency of monitoring.

Management Board (MB)

The Management Board is responsible to implement the strategy for defining the risk profile of the company, drafted by the Risk Division together with the GBS Division and approved by the Supervisory Board.

In this respect, the management implements/ensures: policies for measurement, monitoring and control of risk, reporting system for the measurement of exposures and of other aspects related to risks, in order to be reported to the proper management levels.

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.

Audit Committee, according with the Internal Governance Manual of UCFIN and with its own rules of functioning, as approved by UCFIN, monitors the performance of the internal control system.

Risk Management Committee performs the activity related to risks identification, assessment and management according to the provisions of Organization and Operation Regulation of UCFin and to the provisions of its own approved regulation.

Risk Management Committee is a permanent organizational structure, constituted according to the legislation in force (NBR Regulation no 20/2009 regarding the non-banking financial institutions), having at least the following responsibilities, according to the NBR Regulation:

- to ensure the informing of Supervisory Board about the issues and the significant evolutions which may influence the non-banking financial institution results and its risk profile;
- to develop adequate procedures for the identification, evaluation, monitoring and control of the significant risks;
- to provide Supervisory Board sufficiently detailed and timely information, which will allow it to know and evaluate the management performance regarding the significant risks control and monitoring, according to the approved procedures, and the overview performance of the non-banking financial institution;
- to regularly inform Supervisory Board about the non-banking financial institution exposure to risks, and immediately if significant modifications are occurring in the current or future exposure of the institution to the identified risks.

Risk and Collection

It operates as a permanent organizational structure, with responsibilities related to the administration of the general framework of credit risk and operational 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 and operational risk.

To ensure optimum management of credit and operational risk at a portfolio level and at individual level when the lending decision for each loan application, Risk Division is structured in 4 departments for risk management and monitoring. . Their responsibilities are detailed in the Company's Organization and Functioning Regulation:

- Decision – Risk Management Department
- Underwriting Department
- Collection Department
- Operational Risk&Fraud investigations

Finance and Planning Area

It 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 indicators.

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:

RON

	Own Funds Structure	
	Common Equity Tier 1 capital: instruments and reserves	
1	Capital instruments and the related share premium accounts	103,269,200
	of which: ordinary shares	103,269,200
2	Retained earnings	155,084,959
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**258,354,159**
	Common Equity Tier 1 (CET1) capital: regulatory adjustments	
7	Additional value adjustments	
8	Intangible assets (net of related tax liability)	(6,525,585)
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(6,525,585)**
29	**Common Equity Tier 1 (CET1) capital**	**251,828,574**
	Additional Tier 1 (AT1) capital: instruments	
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	
	Additional Tier 1 (AT1) capital: regulatory adjustments	
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	
	Excess of deduction from AT1 items over AT1	
44	**Additional Tier 1 (AT1) capital**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**251,828,574**
	Tier 2 (T2) capital: instruments and provisions	
46	Capital instruments and the related share premium accounts	
51	**Tier 2 (T2) capital before regulatory adjustment**	
	Tier 2 (T2) capital: regulatory adjustments	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	
58	**Tier 2 (T2) capital**	
59	**Total capital (TC = T1 + T2)**	**251,828,574**
60	**Total risk-weighted assets**	**1,801,144,377**
	Capital ratios and buffers	
61	**Common Equity Tier 1 (as a percentage of total risk exposure amount**	**11.98%**
62	**Tier 1 (as a percentage of total risk exposure amount**	**11.98%**
63	**Total capital (as a percentage of total risk exposure amount**	**11.98%**

Chapter 3 – Risk adjusted equity

For the calculation of regulatory equity requirements in 2017, 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. Within UCFin the tasks related to the calculation and monitoring of needed capital are performed by the specialized departments of Financial and Risk areas.

For complying with capital adequacy requirements established by NBR 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

			RWAs	Minimum capital requirements
			T	T
	1	Credit risk (excluding CCR)		
Article 438(c)(d)	2	Of which the standardized approach	1,801,144,377	144,091,550
Article 438(c)(d)	3	Of which the foundation IRB (FIRB) approach		
Article 438(c)(d)	4	Of which the advanced IRB (AIRB) approach		
Article 438(d)	5	Of which equity IRB under the simple risk-weighted approach or the IMA		
Article 107 Article 438(c)(d)	6	CCR		
Article 438(c)(d)	7	Of which mark to market		
Article 438(c)(d)	8	Of which original exposure		
	9	Of which the standardized approach		
	10	Of which internal model method (IMM)		
Article 438(c)(d)	11	Of which risk exposure amount for contributions to the default fund of a CCP		
Article 438(c)(d)	12	Of which CVA		
Article 438(e)	13	Settlement risk		
Article 449(o)(i)	14	Securitization exposures in the banking book (after the cap)		
	15	Of which IRB approach		
	16	Of which IRB supervisory formula approach (SFA)		
	17	Of which internal assessment approach (IAA)		
	18	Of which standardized approach		
Article 438 (e)	19	Market risk		
	20	Of which the standardized approach		
	21	Of which IMA		
Article 438(e)	22	Large exposures		
Article 438(f)	23	Operational risk	301,448,624	
	24	Of which basic indicator approach	301,448,624	
	25	Of which standardized approach		
	26	Of which advanced measurement approach		
Article 437(2), Article 48 and Article 60	27	Amounts below the thresholds for deduction (subject to 250% risk weight)		
Article 500	28	Floor adjustment		
	29	Total	2,102,593,001	

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.

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 the risk of incurring losses due to unfavourable fluctuations of market prices (i.e. prices of shares, interest rates and exchange rates)

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 repricing date (for variable interest rate) for interest bearing assets and liabilities, negative evolution of the slope and the shape of the yield curve (unparalleled 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 interest reset.

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 department responsible for monitoring market risk is UniCredit Bank's Market Risk Department.

The roles and responsibilities of market risk management are detailed in the Market Risk Rulebook for UCFIN.

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 significant risks, which may influence the liquidity position: credit risk, operational risk, reputation risk, interest rate risk, foreign exchange risk etc.

Chapter 7 – Operational Risk

UniCredit Consumer Financing 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 UCFin'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.

Operational Risk Team is an independent function in charge with operational risk control, within the Risk and Collection Area and reporting directly to Chief Risk Officer (CRO).

The Operational Risk Team promotes the actions related to operational risk area and its responsibilities are:

- Manages the collection and validation of the operational risk events, analysing exposure to operational risk, examines scenarios, establish action plans based on the results of the operational risk indicators;
- Provides training and interact with all UCFin departments in order to achieve the above responsibilities;
- Monitoring the UCFin Operational risk exposure in accordance with the standards and policies defined at Group level;
- Control the quality of operational risk loss data and, periodically, provide data on operational risk (internal losses, risk indicators, scenario analysis, risk mitigation measures, reports to management);
- Provide support on risk appetite, budgeting and capital allocation, including operational risk mitigation costs;
- Propose operational risk mitigation plans, including insurance, and inform the relevant structures at the institution level;
- Assure, in collaboration with the Organization and Project Management Department, the implementation of mitigation actions proposed in the Permanent Working Group and escalates to the competent bodies, if case;
- Identify, in cooperation with relevant functions, operational risk indicators and scenario analyses, and ensure the quality of data collected, cooperate in analysing the impact of operational risk when

introducing significant new products and significant changes in activities or organizational structure of UCFin;

- Verify and assure that the company has plans for business continuity in force and that they are regularly updated and tested.

The main instruments used for the management and control of operational risk in UniCredit Consumer Financing are internal operational risk events collection, monitoring of the operational risk indicators and operational risk reporting.

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

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.

At the institution level, there are implemented a number of **operational risk indicators**. The risk indicators are quantitative values that reflect the operational risk profile of a process or product. The value of an indicator should be correlated to changes in the level of risk. The process of monitoring the operational risk using indicators will help the responsible for operational risk management processes and responsibilities with:

- preventive control of the identified risk at the institution level (early signalling system risk);
- suggestions for risk mitigation and control;
- effective measures to reduce operational risk.

Quarterly reports regarding the exposure to operational risk, which analyse the aspects such as: financial losses detailed on event types, operational risk losses limit usage, capital requirement for operational risk, cross credit events, mitigation actions regarding operational risk are discussed in the Risk Management Committee. The reporting system includes at least bi-annual reports to the Supervisory Board.

The **capital requirement for operational risk** for UniCredit Consumer Financing is determined by the Group using the Basic Indicator Approach (BIA). The minimum capital requirement for operational risk according to BIA approach consist in applying a percent of 15% to the average of the relevant indicators of the last three ended financial years.

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:

- monitoring of all the publications related to UniCredit Consumer Financing;

- 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 a proper manner the internal norms regarding the know your customer policies and the regulations regarding anti money laundering.
2. Selection, through a rigorous analysis, of the clients that require credit facilities;
3. Elaboration of security politics/plans/measure for certain activities/services of the Company;
4. Adopting 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;
5. Establishing working instructions and competencies for decision taken in case of crisis situation;
6. Other measure for administration of reputational risks that the Society considers necessary;
7. 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 Company 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 2017 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 2017 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 requirements 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:

- granting credit exposures towards counterparties with performing rating;
- the customer rating is periodically reviewed, at least annually;
- for concentration risk limitation, thresholds on exposures on certain industries, regions, financing currencies, categories of debtors and rating are 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 loan portfolio is periodically performed;
- identification of the credits to be valuated in view of calculating provisions on individual basis and segmentation of the credit portfolio on buckets with similar credit risk characteristics for the analysis and valuation on collective basis;

- judgments on the quality of the credit risk of the credit portfolio takes into consideration relevant internal and external factors that might affect the collection level of the credits (such as political, geographical, economical and industrial factors);
- implementing a systemic and logical method of consolidating the estimated losses and ensuring that the registered provisions are aligned with the applicable accountancy environment and with the relevant prudential regulations;

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

A well-structured segregation of duties is considered in order to ensure that responsibilities that might drive to conflicts of interests are to be allocated to different departments/divisions.

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 can help identify 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 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/or 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 of the 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 for UniCredit Leasing IFN

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, financial investment risk, business 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 strategic committee and has the responsibility of identification, evaluation and management of significant risks and has to meet at least quarterly or any time when required. This committee has the following main responsibilities:
  - Consultancy and advisory functions,
  - Decision functions
  - Information and reporting functions (including reports to be presented to the UCLC Supervisory Board)
- *Audit Committee* is responsible to assist the Company's Board in defining and preparing the principles and guidelines governing the entity's entire internal control system, on the basis of a risk-oriented approach, and assessing its effectiveness and efficiency, so that the main risks are properly identified, then measured, managed and monitored, subject to the Board's responsibility for all decisions on this matter.

- *Credit Committee* – has responsibilities of approval of the new transactions and credit reviews as per competences framework in order to assure the required quality of the portfolio and to limit the credit risk as required by the credit policies.
- *Special Credit Committee* - is responsible for approval of restructured cases, IFRS provisioning level for individually assessed clients, according to competencies and specific Regulation.
- *Permanent Workgroup Committee for Operational Risks* is responsible for operational risk identification, mitigation actions proposed and monitoring of the mitigation actions in place.

Credit Operations Division (CRO)

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

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

- Financial Analysis & Approval (Underwriting Department)
- Risk Strategies and Control Team
    - Risk Strategies and portfolio management
    - Risk Control
- Collection & Restructuring Department
- Financed Asset Management Department (both, financed and repossessed assets).

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 31.12.2017:

Thousands RON

	Own Funds Structure	
	Common Equity Tier 1 capital: instruments and reserves	
1	Capital instruments and the related share premium accounts	91,863
	of which: ordinary shares	91,863
2	Retained earnings	131,832
3	Accumulated other comprehensive income (and any other reserves, included unrealized gains and losses)	87,966
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**311,661**
	Common Equity Tier 1 (CET1) capital: regulatory adjustments	
7	Additional value adjustments	
8	Intangible assets (net of related tax liability)	(6,387)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met)	(37,835)
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(44,223)**
29	**Common Equity Tier 1 (CET1) capital**	**267,438**
	Additional Tier 1 (AT1) capital: instruments	**44,183**
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	
	Additional Tier 1 (AT1) capital: regulatory adjustments	
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	
	Excess of deduction from AT1 items over AT1	
44	**Additional Tier 1 (AT1) capital**	**44,183**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**311,622**
	Tier 2 (T2) capital: instruments and provisions	
46	Capital instruments and the related share premium accounts	103,080
51	**Tier 2 (T2) capital before regulatory adjustment**	**103,080**
	Tier 2 (T2) capital: regulatory adjustments	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	
58	**Tier 2 (T2) capital**	**103,080**
59	**Total capital (TC = T1 + T2)**	**414,702**
60	**Total risk-weighted assets**	**3,479,857**
	Capital ratios and buffers	
61	**Common Equity Tier 1 (as a percentage of total risk exposure amount**	**9%**
62	**Tier 1 (as a percentage of total risk exposure amount**	**9%**
63	**Total capital (as a percentage of total risk exposure amount**	**12%**

3 – Risk capital adequacy

For the calculation of regulatory capital, UCLC applied during 2017 the requirements of Regulation No. 20/13.10.2009 reviewed. 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 2017 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:

1) Budgeting
2) Monitoring and analysis
3) Forecasting

For the **budgeting** process:

- The different business segments provide the budgeted volumes for the following year;
- Risk Strategies and Control department estimates the credit risk provisions based on the above volumes;
- Strategic Planning and Control Department calculates the capital requirement and compares it with the existing capital;
- In order to assure an adequate level of capitalization, RWA optimization actions are considered. Starting from the capitalization objectives, UCLC establishes measures for optimizing the structure of its loans and guarantees.

Monitoring and analysis process implies:

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

Forecasting process:

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

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 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 Standardized 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.

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 Team. 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 Unicredit Bank and Market Risk 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 is conducted by Treasury Team with Risk Strategies and Control Team, and monitoring has been done by Market Risk department of UniCredit Bank.

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 Bank.

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 Collection and Restructuring Department (CRO line) to see if there is any case of repossessed real estate assets during the last quarter.

8 – Operational Risk

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:

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, 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.
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** - 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.

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.

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.

9 – Reputational Risk

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:

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

10 – Financial Investment Risk

Financial Investment Risk is defined as the potential losses resulting from market value fluctuations of equity holdings. Financial Investment Risk is defined as follows.

1. Market or Book Value of equity holdings;
2. Volatilities and correlations of the relevant stock price or market indices.

Financial Investment Risk can be measured under two points of view consistently with different goals:

3. retrospective for monitoring purposes;
4. forward-looking for capital planning purposes within the budget;

For monitoring purposes, Financial Investment risk is measured on a quarterly basis by CFO line.

11 – Business Risk

Business risk is defined as 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:

5. serious deterioration of the market environment;
6. changes in the competitive situation or customer behavior.

Because of its nature, the business risk cannot be subject to mitigating actions, given that most of the key underlying drivers (e.g. regulatory changes, competitive changes, etc.) could suffer from external impacts with effects that could not be properly or entirely mitigated in advance by managerial actions. Although, the company is continuously trying to diversify the range of products offered, to monitor and reduce if the case, the limits on industries that are facing difficulties.