UniCredit Bank

PILLAR III DISCLOSURE REPORT

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 dated 26.06.2013 regarding prudential requirements for credit institutions and investment companies and amending Regulation (UE) no.648 / 2012

Report reference date: 31st March, 2018

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 with quarterly frecquency a relevant bucket of information according to its internal policy related to disclosure.

When assesing the disclosure requirements, the Bank considers that the following requirements as not applicable.

Area	Regulation (EU) no 575/2013 article reference	Disclosure template	Reason for not disclosure
Capital requirements	438 (d)	EU CCR7 – RWA flow statements of CCR exposures under the IMM	UniCredit Bank does not use Internal Model Method (IMM) for measuring exposure at default of exposures subject to the counterparty credit risk framework in accordance with Part Three, Title II; Chapter 6 of above mentioned regulation
Use of Internal Market Risk Models	445 & 455	EU MR2-B – RWA flow statements of market risk exposures under the IMA (Internal Modal Approach)	UniCredit Bank does not apply an internal model approach for the calculation of market risk capital requirements

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

1. Own funds

Regulatory capital

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 UniCredit Group and Bank at 31.03.2018, as detailed below:

UniCredit Bank- consolidated view RON			
Reference Annex IV	**Item**	**March 31, 2018**	**Regulation (EU) no 575/2013 article reference**
	Common Equity Tier 1 (CET1) capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	1,799,428,752	26 (1), 27, 28, 29
	of which: ordinary shares	1,177,748,253	EBA list 26 (3)
2	Retained earnings	2,249,741,912	26 (1) (c)
3	Accumulated other comprehensive income (and any other reserves)	164,589,676	26 (1)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**4,213,760,340**	Sum of rows 1 to 5a
	Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amounts)	13,645,338	34, 105
8	Intangible assets (net of related tax liability) (negative amounts)	155,267,156	36 (1) (b), 37
11	Fair value reserves related to gains or losses on cash flow hedges	(45,646,510)	33 (1) (a)
12	Negative amounts resulting from the calculation of expected loss amounts	62,825,344	36 (1) (d), 40, 159
25b	Foreseeable tax charges relating to CET1 items (negative amounts)	10,654,179	36 (1) (l)
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**196,745,507**	Sum of rows 7 to 20a, 21, 22 and 25a to 27

UniCredit Bank- consolidated view RON			
Reference Annex IV	Item	March 31, 2018	Regulation (EU) no 575/2013 article reference
29	**Common Equity Tier 1 (CET1) capital**	**4,017,014,833**	Row 6 minus row 28
	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)**	**4,017,014,833**	Sum of row 29 and row 44
	Tier 2 (T2) capital: instruments and provisions		
46	Capital instruments and the related share premium accounts	784,805,600	62, 63
51	**Tier 2 (T2) capital before regulatory adjustment**	**784,805,600**	
	Tier 2 (T2) capital: regulatory adjustments		
57	**Total regulatory adjustments to Tier 2 (T2) capital**		Sum of rows 52 to 56
58	**Tier 2 (T2) capital**	**784,805,600**	Row 51 minus row 57
59	**Total capital (TC = T1 + T2)**	**4,801,820,433**	Sum of row 45 and row 58
60	**Total risk-weighted assets**	**28,340,880,032**	
	Capital ratios and buffers		
61	**Common Equity Tier 1 (as a percentage of total risk exposure amount)**	**14.17%**	92 (2) (a)
62	**Tier 1 (as a percentage of total risk exposure amount)**	**14.17%**	92 (2) (b)
63	**Total capital (as a percentage of total risk exposure amount)**	**16.94%**	92 (2) (c)

UniCredit Bank - standalone RON			
Reference Annex IV	Item	March 31, 2018	Regulation (EU) no 575/2013 article reference
	Common Equity Tier 1 (CET1) capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	1,799,428,752	26 (1), 27, 28, 29
	of which: ordinary shares	1,177,748,253	EBA list 26 (3)
2	Retained earnings	2,070,561,776	26 (1) (c)
3	Accumulated other comprehensive income (and any other reserves)	164,589,676	26 (1)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**4,034,580,204**	Sum of rows 1 to 5a
	Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amounts)	13,645,338	34, 105
8	Intangible assets (net of related tax liability) (negative amounts)	142,704,605	36 (1) (b), 37
11	Fair value reserves related to gains or losses on cash flow hedges	(45,646,510)	33 (1) (a)
12	Negative amounts resulting from the calculation of expected loss amounts	66,431,383	36 (1) (d), 40, 159
25b	Foreseeable tax charges relating to CET1 items (negative amounts)	10,654,179	36 (1) (l)
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**187,788,995**	Sum of rows 7 to 20a, 21, 22 and 25a to 27
29	**Common Equity Tier 1 (CET1) capital**	**3,846,791,209**	Row 6 minus row 28
	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)**	**3,846,791,209**	Sum of row 29 and row 44
	Tier 2 (T2) capital: instruments and provisions		
46	Capital instruments and the related share premium accounts	784,805,600	62, 63
51	**Tier 2 (T2) capital before regulatory adjustment**	**784,805,600**	
	Tier 2 (T2) capital: regulatory adjustments		

UniCredit Bank - standalone RON			
Reference Annex IV	**Item**	**March 31, 2018**	**Regulation (EU) no 575/2013 article reference**
57	**Total regulatory adjustments to Tier 2 (T2) capital**		Sum of rows 52 to 56
58	**Tier 2 (T2) capital**	**784,805,600**	Row 51 minus row 57
59	**Total capital (TC = T1 + T2)**	**4,631,596,809**	Sum of row 45 and row 58
60	**Total risk-weighted assets**	**22,929,359,116**	
	Capital ratios and buffers		
61	**Common Equity Tier 1 (as a percentage of total risk exposure amount**	**16.78%**	92 (2) (a)
62	**Tier 1 (as a percentage of total risk exposure amount**	**16.78%**	92 (2) (b)
63	**Total capital (as a percentage of total risk exposure amount**	**20.20%**	92 (2) (c)

KM1: Key metrics (at consolidated group level)

RON		**31-Mar-18**	**31-Dec-17**	**30-Sep-17**	**30-Jun-17**	**31-Mar-17**
Available capital (amounts)						
1	Common Equity Tier 1 (CET1)	4,017,014,833	3,379,971,273	3,207,341,848	3,237,106,499	3,102,431,643
1a	Fully loaded ECL accounting model	N/A	N/A	N/A	N/A	N/A
2	Tier 1	4,017,014,833	3,379,971,273	3,207,341,848	3,237,106,499	3,102,431,643
2a	Fully loaded accounting model Tier 1	N/A	N/A	N/A	N/A	N/A
3	Total capital	4,801,820,433	4,157,349,397	3,423,101,769	3,450,765,679	3,315,583,610
3a	Fully loaded ECL accounting model total capital	N/A	N/A	N/A	N/A	N/A
Risk-weighted assets (amounts)						
4	Total risk-weighted assets (RWA)	28,340,880,032	26,364,458,726	25,808,344,170	24,763,589,646	25,473,975,377
Risk-based capital ratios as a percentage of RWA						
5	Common Equity Tier 1 ratio (%)	14.17%	12.82%	12.43%	13.07%	12.18%
5a	Fully loaded ECL accounting model CET1 (%)	N/A	N/A	N/A	N/A	N/A
6	Tier 1 ratio (%)	14.17%	12.82%	12.43%	13.07%	12.18%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	N/A	N/A	N/A	N/A	N/A
7	Total capital ratio (%)	16.94%	15.77%	13.26%	13.93%	13.02%
7a	Fully loaded ECL accounting model total capital ratio (%)	N/A	N/A	N/A	N/A	N/A
Additional CET1 buffer requirements as a percentage of RWA						

	RON	31-Mar-18	31-Dec-17	30-Sep-17	30-Jun-17	31-Mar-17
8	Capital conservation buffer requirement (2.5% from 2019) (%)	1.875%	1.25%	1.25%	1.25%	1.25%
9	Countercyclical buffe requirement (%)					
10	Bank O-SIB additional requirements (%)	1.00%	1.00%	1.00%	1.00%	1.00%
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10)	2.88%	2.25%	2.16%	2.25%	2.25%
12	CET1 available after meeting the bank's minimum capital requirements (%)	9.67%	8.32%	7.93%	8.57%	7.68%
Basel III Leverage Ratio						
13	Total Basel III leverage ratio measure	49,396,422,145	47,318,802,526	43,094,005,875	41,597,273,415	39,960,231,725
14	Basel III leverage ratio (%) (row 2/row 13)	8.13%	7.14%	7.44%	7.78%	7.76%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2A/row 13)	N/A	N/A	N/A	N/A	N/A
Liquidity Coverage Ratio						
15	Total HQLA	10,121,174,907	10,624,243,714	7,707,420,256	6,790,531,216	5,961,612,001
16	Total net cash outflow	5,879,385,485	6,871,266,136	5,559,550,867	5,517,837,035	5,124,516,930
17	LCR ratio (%)	172%	155%	139%	123%	116%
Net Stable Funding Ratio						
18	Total available stable funding	32,294,848,445	30,382,697,906	27,910,927,645	24,775,671,007	24,641,229,964
19	Total required stable funding	22,162,737,461	20,762,184,694	20,299,366,497	19,891,114,008	20,116,541,625
20	NSFR ratio (%)	146%	146%	137%	125%	122%

UniCredit Bank decided not to apply the transitional arrangement for expected credit losses determined by IFRS 9 implementation.

Since December 2017 the Bank increase its core capital issuing a number of 8.187.547 ordinary shares with a nominal value of 9.30 RON per share (amounted RON 76.144.187) and related share premium of 75.93 RON per share (amounted 621.680.444 RON).

Starting with 2018 there are no longer applicable the transitional provisions related to:

- intangible assets;
- unrealised gains and losses from assets and liabilities measured at fair value;
- local filters imposed by NBR (exposure from loans granted to former employees in more favourable conditions than market, prudential filter – differences between RAS and IFRS provisions);
- recognition in consolidated Common Equity Tier 1 capital of instruments and items that do not qualify as minority interests.

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.*

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2. Capital requirements

2.1. General comment

Capital Adequacy Assessment

During first quarter of 2018, within the Bank it was continued the sustained process for completing the internal methodological framework with specific regulations, mainly as regards the 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, Financial Market Authorithy Austria - 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 (at consolidated group level)

	RON	RWA		Minimum capital requirements
		31.03.2018	31.12.2017	31.03.2018
1	Credit risk (excluding CCR)	26,024,377,559	24,162,020,571	2,081,950,205
2	Of which the standardised approach	10,756,717,909	10,465,843,948	860,537,433
3	Of which the foundation IRB (FIRB) approach	15,267,659,650	13,696,176,623	1,221,412,772
4	Of which the advanced IRB (AIRB) approach			
5	Of which equity IRB under the simple risk-weighted approach or the IMA			
6	CCR	153,235,130	131,503,058	12,258,810
7	Of which mark to market	148,076,291	125,839,383	11,846,103
8	Of which original exposure			
9	Of which the standardised approach			
10	Of which internal model method (IMM)			
11	Of which risk exposure amount for contributions to the default fund of a CCP			
12	Of which CVA	5,158,839	5,663,676	412,707
13	Settlement risk			
14	Securitisation 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 standardised approach			
19	Market risk	100,929,268	20,387,965	8,074,341
20	Of which the standardised approach	100,929,268	20,387,965	8,074,341
21	Of which IMA			
22	Large exposures			
23	Operational risk	2,062,338,074	2,050,547,132	164,987,046
24	Of which basic indicator approach	672,174,338	672,174,338	53,773,947
25	Of which standardised approach			
26	Of which advanced measurement approach	1,390,163,737	1,378,372,795	111,213,099
27	Amounts below the thresholds for deduction (subject to 250% risk weight)			
28	Floor adjustment			
29	**Total**	**28,340,880,032**	**26,364,458,726**	**2,267,270,403**

Most of the increase in RWA is the result of the changes brought starting with 2018 by art. 114 from Regulation no.575/2013 regarding risk weight for exposure to central governments and gentral banks.

2.2. 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:

Capital requirements - Pillar I	31.03.2018	
Capital conservation buffer (affecting CET1)	1.875%	
Countercyclical capital buffer (affecting CET1)	0%	
O-SII buffer (affecting CET1)	1%	only at sub-consolidated level, starting with 01.03.2017
Systemic risk buffer	0%	
Combined buffer requirement	1.875%	at standalone level
	2.875%	at sub-consolidated level

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 11.20% at individual level and 10.70% at sub-consolidated level.

Solvency ratio - minimum requirements including Pillar I & II buffers	31.03.2018		
	NBR Supervisory Report - SREP	Capital buffers in force starting with 01.03.2017 as per Order no 1/13.02.2017	TOTAL - in force starting with 01.01.2018
- individual level			
CET 1 ratio	6.30%	1.875%	8.18%
Tier 1 ratio	8.40%		10.28%
Total capital ratio	**11.20%**		**13.075%**
-sub-consolidated level			
CET 1 ratio	6.02%	2.875%	8.90%
Tier 1 ratio	8.03%		10.91%
Total capital ratio	**10.70%**		13.575%

Other Systemically Important Institutions buffer

Starting with 2015, UniCredit Bank was identified as O-SII (Other Systemically Important Institutions) by the NBR (National Bank of Romania) and consequently, had to maintain 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, 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 Q1 2018, UniCredit Bank had to maintain a capital conservation buffer of 1.875% 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 Q1 2018, 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 Q1 2018.

2.3. Capital planning- targeted level of capital

As per Regulation no.575/ 2013, the Minimum Capital Requirement is set to 8% of Risk Weighted Assets(RWA).

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 11.20% at individual level and 10.70% at sub-consolidated level.

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

RON		UniCredit Bank - standalone	
		RWA amounts	Capital requirements
1	**RWAs as at the end of the previous reporting period**	**13,054,009,472**	**1,044,320,758**
2	Asset size	(256,464,264)	(20,517,141)
3	Asset quality	(22,751,691)	(1,820,135)
4	Model updates	-	-
5	Methodology and policy	1,645,282,187	131,622,575
6	Acquisitions and disposals	174,430,416	13,954,433
7	Foreign exchange movements	608,913	48,713
8	Other	(1,541,105,561)	(123,288,445)
9	**RWAs as at the end of the reporting period**	**14,603,908,858**	**1,168,312,709**

3 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.

LR1: Summary comparison of accounting assets vs leverage ratio exposure

		31.03.2018
1	Total consolidated assets as per published financial statements	45,503,153,047
2	Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	0
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	0
4	Adjustments for derivative financial instruments	124,125,892
5	Adjustment for securities financing transactions (ie repos and similar secured lending)	0
6	Adjustments for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	3,955,234,534
7	Other adjustments	(186,091,328)
8	**Leverage ratio exposure measure**	**49,396,422,145**

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LR2: Leverage ratio common disclosure template

		31.03.2018	31.12.2017
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	44,271,475,312	43,231,880,701
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	-186,091,328	-200,699,559
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of row 1 and 2)**	44,085,383,984	43,031,181,142
Derivative exposures			
4	Replacement cost associated with *all* derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	82,376,460	73,421,938
5	Add-on amounts for PFE associated with *all* derivatives transactions	124,125,892	91,017,055
6	Gross-up for derivatives collateral provide where deducted from the balance sheet assets pursuant to the operative accounting framework		
7	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)		
8	(Exempted CCP leg of client-cleared trade exposures)		
9	Adjusted effective notional amount of written credit derivatives		
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)		
11	**Total derivative exposures (sum of rows 4 to 10)**	206,502,351.91	164,438,993.40
Securities financing transactions			
12	Gross SFT *assets* (with no recognition of netting), after adjusting for sale accounting transactions	1,149,301,275	206,365,590
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)		
14	CCR exposure for SFT assets		
15	Agent transaction exposures		
16	**Total securities financing transaction exposures (sum of rows 12 to 15)**	1,149,301,275	206,365,590
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	12,190,549,549	12,302,261,966
18	(Adjustments for conversion to credit equivalent amounts)	-8,235,315,015	-8,385,445,166
19	**Off-balance sheet items (sum of rows 17 and 18)**	3,955,234,534	3,916,816,800
Capital and total exposures			
20	**Tier 1 capital**	4,017,014,833	3,379,971,273
21	**Total exposures (sum of rows 3, 11, 16 and 19)**	49,396,422,145	47,318,802,526
Leverage ratio			
22	**Basel III leverage ratio**	8.13%	7.14%

The leverage ratio as of Q1 2018 reaches the level of 8.1%, increased as compared to Q4 2017 (7.1%) due to the following: increase of Tier 1 capital (new shareholders capital in amount of 150mn EUR), corroborated with the increase in total securities financing transaction exposures.

4 Liquidity risk

4.1 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: Finance, Markets, Financial Risk.

In particular, Finance Department 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). Financial 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.

UniCredit Bank

- **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 and the first quarter 2018 the LCR ratio evolution was as per table below:

LCR UCB *standalone*				***RON***
date	**liquid assets**	**outflows**	**inflows**	**ratio**
Dec-16	8,514,217,434	7,396,806,394	447,295,573	122.52%
Jan-17	7,916,238,516	6,283,634,185	410,555,735	134.79%
Feb-17	7,045,445,009	6,043,232,027	546,130,029	128.17%
Mar-17	5,961,605,067	7,355,530,813	2,472,069,513	122.08%
Apr-17	6,657,696,321	6,231,950,519	747,606,449	121.39%
May-17	6,545,037,989	6,411,644,215	1,196,170,953	125.49%
Jun-17	6,790,526,279	6,527,688,906	956,254,179	121.88%
Jul-17	7,066,964,842	7,263,441,997	1,866,463,016	130.94%
Aug-17	6,970,472,107	6,594,105,861	1,556,489,388	138.37%
Sep-17	7,707,412,699	6,729,850,225	1,070,067,424	136.18%
Oct-17	7,490,639,473	6,531,849,878	1,377,589,990	145.33%
Nov-17	8,559,280,734	7,240,571,444	1,057,849,561	138.44%
Dec-17	10,624,227,780	7,629,505,268	636,727,272	151.93%
Jan-18	10,643,383,144	6,947,174,106	811,738,237	173.47%
Feb-18	10,642,324,050	7,974,666,683	1,198,780,714	157.06%
Mar-18	10,121,159,067	8,378,099,800	2,399,108,111	169.28%

The table below shows the detailed picture of the LCR (HQLA and outflows) as of 31 March 2018 (values in RON equivalent - standalone basis).

C72		Value	Weight	Applicable weight	Adjusted value
Liquid assets - HQLA					
Total	010	**10,127,986,423**			**10,121,159,067**
Level 1 Assets	020	**10,082,470,713**			**10,082,470,713**
Cash	040	1,090,087,270	1.00	1.0000	1,090,087,270
Withdrawable central bank reserves	050	3,439,677,754	1.00	1.0000	3,439,677,754
Central governments assets (bonds)	070	5,552,705,689	1.00	1.0000	5,552,705,689
Level 2 Assets	220	**45,515,710**			**38,688,354**
Regional government assets	240	45,515,710	0.85	0.8500	38,688,354

C73					
Outflows	010	**32,016,323,997**			**8,378,099,800**
Retail dposits	030	10,523,299,054			1,045,816,980
Higher outflows	050	3,089,834,135			535,161,254
Category 1	060	1,656,111,451	0,10-0,15	0.1500	248,416,718
Category 2	070	1,433,722,684	0,15-0,20	0.2000	286,744,537
stable deposits	080	4,653,815,322	0,05	0.0500	232,690,766
other deposits	110	2,779,649,597	0,10	0.1000	277,964,960
Operational deposits	120	112,862,681			27,133,427
Maintain for clearing, custody, cash management or other comparable services in the context of long term operational relationship	130	112,862,681			27,133,427
covered by a Deposit Guarantee Scheme	140	5,411,214	0,05	0.0500	270,561
not covered by a Deposit Guarantee Scheme	150	107,451,467	0,25	0.2500	26,862,867
Non-operational deposits	210	13,650,300,015			6,295,394,913
correspondent banking and provisions of prime brokerage deposits	220	0	1,00		0
deposits by financial customers	230	1,543,786,083	1,00	1.0000	1,543,786,083
deposits by other customers	240	12,106,513,932			4,751,608,830
covered by a Deposit Guarantee Scheme	250	454,983,714	0,20	0.2000	90,996,743
not covered by a Deposit Guarantee Scheme	260	11,651,530,218	0,40	0.4000	4,660,612,087
Additional outflows	270	2,791,023			2,791,023
outflows from derivatives	340	2,791,023	1,00	1.0000	2,791,023
others	910	724,301,833	1,00	1.0000	724,301,833

The following table presents on consolidated basis the LCR average ratio in RON equivalent.

The number of data observations in order to calculate the average value of LCR is 4 and are represented by the values reported under mandatory reporting framework for Q1 2018.

LIQ1: Liquidity Coverage Ratio (LCR)

		RON	
		Total unweighted value (average)	**Total weighted value (average)**
High-quality liquid assets			
1	Total HQLA		**10,507,788,509**
Cash outflows			
2	**Retail deposits and deposits from small business customers, of which:**	10,539,384,282	1,129,663,317
3	Stable deposits	3,079,906,019	153,995,301
4	Less stable deposits	7,459,478,262	975,668,016
5	**Unsecured wholesale funding, of which:**	13,231,896,846	6,296,331,439
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	147,435,430	35,855,426
7	Non-operational deposits (all counterparties)	13,084,461,416	6,260,476,012
8	Unsecured debt		
9	**Secured wholesale funding**		
10	**Additional requirements, of which:**	7,574,825,020	608,015,240
11	Outflows related to derivative exposures and other collateral requirements	7,823,706	7,823,706
12	Outflows related to loss of funding of debt products		
13	Credit and liquidity facilities	1,606,193,123	138,342,174
14	**Other contractual funding obligations**	5,609,898,343	168,296,950
15	**Other contingent funding obligations**	350,909,848	293,552,409
16	**TOTAL CASH OUTFLOWS**		**8,034,009,995**
Cash inflows			
17	**Secured lending (eg reverse repo)**	795,120,708	795,120,708
18	**Inflows from fully performing exposures**	314,475,880	157,237,940
19	**Other cash inflows**	8,511,942,075	368,862,210
20	**TOTAL CASH INFLOWS**	9,621,538,662	**1,321,220,857**
			Total adjusted value
21	**Total HQLA**		10,507,788,509
22	**Total net cash outflows**		6,712,789,138
23	**Liquidity coverage ratio (%)**		156.53%

Total liquid assets are represented mainly by government bonds portfolio, but also the withdrawable reserves from NBR (including also deposit facility with NBR) and cash.

Adjusted outflows are mainly generated by non-operational deposits respectively 78%.

Main inflows are reverse repo transactions with banks and interbank money market deposits with residual maturity less than 30 days.

The value of LCR in EUR is higher than RON ratio but the deviation from the average is not significant. Therefore, based on end of March 2018 report, the consolidated level of LCR in RON equivalent was 172.15% while the level of LCR ratio for RON was 158.21% and for EUR 228.68%. No other significant currencies have been reported (excluding RON and EUR) during the analysis period.

Using intra-period information (25 data points - operative data) , the average of standalone LCR ratio was 162.48% during the period Q4 2017-Q1 2018.

During the analysis period (Q4 2017 – Q1 2018) the bank has gradually improved LCR ratio through growth of deposits base drawn fron nonbanking customers, increase of residual maturity of resources, weight increase of resources with low applicable weight coefficients. We mention that in december 2017 the bank drawn a subordinated loan in amount of 120 mio EUR.

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

During Q1 2018 the customer deposits continued to represents around 70% of total liabilities. Resources from corporate and public entities customers represents around 55% of total resources borrowed from nonbanking customers.

Mid of June 2018 will mature the bond **ROUCTBDBC014** in nominal amount of 550 mio RON issued in 2013. Outflows related to principal and coupon payment (6.35% - semi-annual payment) have been quantified accordingly.

At the end of 2017, the bank has drawn a subordinated loan in amount of 120 mio EUR.

The bank carries out am extensive process focused on diversification of financing resources as well as the extension of residual maturity of resources borrowed from private individuals but also from corporate and financial customers.

4.2 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.

The main tool through which the Bank implements its liquidity and funding strategy is the Funding Plan. Finance Department 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.