UniCredit Bank

PILLAR III DISCLOSURE REPORT

Report reference date: 31st December, 2019

CONTENT

Abbreviations

ALCO	Asset and Liability Management Committee
ALMM	Additional Liquidity Monitoring Metrics
AMA	Advanced Measurement Approach
AT1	Additional Tier 1 capital
AVA	Additional Value Adjustment
BB	Banking Book
BCBS	Basel Committee on Banking Supervision
BPV	Limits Basis Point Value
CCP	Central Counterparty
CCR	Counterparty Credit Risk
CCS	Cross Currency Swaps
CET1	Common Equity Tier 1
CPV	limits Credit Point Value
CRM	Credit Risk Mitigation
CRO	Credit Operations Division
CRR	Capital Requirement Regulation
CVA	Credit Valuation Adjustment
EAD	Exposure At Default
EBA	European Banking Authority
ECAI	External Credit Assessment Institution
EU	European Union
FS	Financial Statements
FV	Fair Value
FuVA	Funding Value Adjustment
FVA	Fair Value Adjustment
FX	Foreign Exchange
GL	Guideline
G-SII	Global Systemically Important Institution
HLA	High Liquidity Assets
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
IRB	Internal Rating based Approach

IRRBB	Interest rate risk in the banking book
IRS	Interest Rate Swap
KRI	Key Risk Indicators
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LR	Leverage Ratio
LWL	Limits Loss Warning Level
MB	Management Board
MDB	Multilateral Development Banks
MR	Market Risk
MtM	Mark to Market
NBR	National Bank of Romania
NII	Net Interest Income
NPL	Non-performing Loans
NSFR	Net Stable Funding Ratio
O-SII	Other Systemically Important Institutions
PD	Probability of Default
PSE	Public Sector Entities
REPO	Reverse Repo
RWA	Risk Weighted Assets
STA	Standardized Approach
SB	Supervisory Board
SFT	Securities Financing Transactions
SME	Small and medium sized enterprises
SREP	Supervisory Review and Evaluation Process
SVaR	Stressed VaR
T2	Tier 2 capital
TB	Trading Book
VaR	Value at Risk

1. 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 EBA/GL/2016/11 on disclosure requirements under Part Eight of Regulation (EU) No 575/2013 and with the dedicated Guidelines issued by European Banking Authority and Basel Committee:

- Regulation (EU) No 1423/2013 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 Text;
- Regulation (EU) 2295/2017 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for disclosure of encumbered and unencumbered assets;
- Regulation (EU) 200/2016, laying down implementing technical standards with regard to disclosure of the leverage ratio for institutions, according to Regulation (EU) No 575/2013 of the European Parliament and of the Council;
- EBA /GL/2014/14 Guideline on materiality, proprietary and confidentiality and on disclosure frequency under Articles 432(1), 432(2) and 433 of Regulation (EU) No 575/2013;
- Basel Committee Pillar 3. Requirements Disclosures- Consolidated and Updated March 2017;
- EBA/GL/2015/22 Guideline on sound remuneration policies;
- EBA/GL/2017/01 Guideline on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No 575/2013.
- Revisions to leverage ratio disclosure requirements June 2019 - Basel Committee on Banking Supervision
- Pillar 3 disclosure requirements-updated framework December 2019 - Basel Committee on Banking Supervision
- EBA/GL/2018/10 – Guidelines on disclosure of non-performing and forborne exposures

The document is available in electronic format at www.unicredit.ro, area Financial Reports, Basel II-Pillar III Disclosure, in the following location:

https://www.unicredit.ro/en/institutional/the-bank/financial-reports.html#baseliipillariiidisclosure

The quantitative data are presented on consolidated basis, except those flagged at individual level, in RON equivalent, except those flagged in other currencies.

As the UniCredit Bank Romania has been identified as “Other Systemically Important Credit Institution (O-SII)” from Romania, the Bank will provide the users with quarterly frequency a relevant bucket of information.

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

When assessing the disclosure requirements in accordance with Regulation (UE) No 575/2013 and EBA/GL/2016/11 Guideline regarding the disclosure requirements as the 8th part of Regulation (UE) No. 575/2013, the Bank considers the following requirements as not applicable:

Area	Regulation (EU) no 575/2013 article reference	Disclosure template	Reason for not disclosure
Use of Internal Market Risk Models	455	EU MR2-A – Market risk under the IMA (Internal Modal Approach)	UniCredit Bank does not apply an internal model approach for the calculation of market risk capital requirements
	445 & 455	EU MR2-B – RWA flow statements of market risk exposures under the IMA	UniCredit Bank does not apply an internal model approach for the calculation of market risk capital requirements
	445 & 455	EU MRB – Qualitative disclosure requirements for institutions using the IMA	UniCredit Bank does not apply an internal model approach for the calculation of market risk capital requirements
	445 & 455	EU MR3 – IMA values for trading portfolios	UniCredit Bank does not apply an internal model approach for the calculation of market risk capital requirements
	445 & 455	EU MR4 – Comparison of VaR estimates with gains/losses	UniCredit Bank does not apply an internal model approach for the calculation of market risk capital requirements
Capital requirements	438	EU INS1 – Non-deducted participations in insurance undertakings	As at December 31, 2019, UniCredit Bank does not have participations in insurance undertakings
Exposure to counterparty credit risk	439	EU CCR8 – Exposures to CCPs	As at December 31, 2019, UniCredit Bank does not have exposures to CCPs
		EU CCR6 – Credit derivatives exposures	As at December 31, 2019, UniCredit Bank does not have credit derivatives exposures
Use of credit risk mitigation techniques	453	EU CR7 – IRB approach – Effect on the RWAs of credit derivatives used as CRM techniques	As at December 31, 2019, UniCredit Bank does not use credit derivatives used as CRM techniques
Indicators of global systemic importance	441		UniCredit Bank has not been identified as global systemically important institutions (G-SIIs)
Securitization		SECA – Qualitative disclosure requirements related to securitization exposures	UniCredit Bank does not perform securitization transactions
		SEC1 – Securitization exposures in the banking book	UniCredit Bank does not perform securitization transactions
		SEC2 – Securitization exposures in the trading book	UniCredit Bank does not perform securitization transactions
		SEC3 – Securitization exposures in the banking book and associated regulatory capital requirements – bank acting as originator or as sponsor	UniCredit Bank does not perform securitization transactions
		SEC4 – Securitization exposures in the banking book and associated capital requirements – bank acting as investor	UniCredit Bank does not perform securitization transactions
Overview of risk management, key prudential metrics and RWA		KM2 – Key metrics – TLAC requirements (at resolution group level)	UniCredit Bank has not been identified as global systemically important institutions (G-SIIs)
Asset Encumbrance	443	Template B-Guarantee Received	UniCredit Bank does not have guarantees received as unencumbered or available for encumbrance

2. GENERAL INFORMATION RELATED TO RISK MANAGEMENT, OBJECTIVES AND POLICIES

2.1 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 unpredictability and uncertainty of the legal framework related to the financial-banking system;
- Identification of optimal solutions tailored to clients' financing needs;
- 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 in management and control of risks;
- Specific strategies and techniques for risk measuring, assessing, monitoring, diminishing and reporting.

One of the key risk management tool used by the Bank represents stress testing. The aim of stress testing is to assess the Bank's viability with respect to exceptional but plausible events. The impact of certain macro-or micro-economic scenarios is assessed on the capital position (solvency stress test) and/or the liquidity position (liquidity stress test) of the Bank.

The stress tests have both regulatory and managerial purpose. They are used as a managerial tool to assess the capital and liquidity soundness and set potential action plans or risk mitigation actions.

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 results as a diagnostic tool to set up their risk appetite 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 applied to all types of risk considered tangible and quantifiable within the Bank, such as: credit risk, operational risk, market risk, business risk and real estate 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 UniCredit Group level and is running based on scenarios defined at the Group level and adapted to the local conditions.

The 2019 stress tests were conducted over a 3-year horizon, based on three macroeconomic scenarios that took into account the systemic 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.

2.2 Structure and Risk Management organization

The risks management structure comprises 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 2019, both the Risk Management Committee at Supervisory Board level and the Operative Risk Management Committee had 4 meetings.

Also, Risk Division has an important role in risk management, operating as a permanent organizational structure, with roles and responsibilities related to the administration of the general framework of risk management, together with 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 responsibilities 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.

2.3 The internal control framework

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 assess, 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 regards 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

2.4 Risk management and internal control in UniCredit Bank subsidiaries

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 through regular assessment of the operational risk indicators and through the assessment and interpretation of the operational risk events. The internal control function has also the mission to strengthen the internal control system by continuous tests and verifications.

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

The Supervisory Board approves the company's credit risk strategy, which is monitored on a periodical basis.

The Board of Directors is responsible for implementing the strategy and the policies on risk management.

Risk Management Committee is a permanent committee and has the authority to make decisions in matters within its competence, in accordance with the Operational and Organizational Regulations, which manage significant risks, risks with significant impact on the patrimonial and/ or reputational situation of the company (credit risk, market risk, operational risk and reputational risk), as well as the risks associated with outsourced activities.

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 is responsible for financing granted by UCL and according to established levels of competence in the sense of ensuring the quality of the credit portfolio through the mitigation and limitation of credit risk according to credit granting policy and to specific regulation of the Credit Committee.

The Special Credit Committee is responsible for approval of restructuring and workout cases, IFRS provisioning level for individually assessed clients, according to competencies and the specific regulation

Operational Permanent Work Group Committee is primarily responsible for analysing the operational risk losses, Key Risk Indicators (KRIs) and scenarios in order to identify mitigation actions aiming at reducing operational risk in future.

Reputational Risk Committee represents a unique (non-permanent) forum which, when is the case, analyses and assesses all transaction/initiatives/projects related to specific reputational risk industries and all cases related to activity domains with relevant reputational risks from local perspective. It also ensures awareness and attention regarding the assessment and management of reputational risk.

2.5 Scope and type of reporting and risk measurement system

The aim of the Pillar 2 processes is to enhance the link between the institution's risk profile, its risk management and risk mitigation systems as well as its capital planning.

The Pillar 2 framework can be divided into two major components:

- The first is represented by the Internal Capital Adequacy Assessment Process (ICAAP), under which UniCredit and the Legal Entities;, belonging to the scope of application, evaluate their strategies and processes used to assess and maintain, on an ongoing basis, the amounts, types and distribution of internal capital commensurate to their risk profiles, as well as the robustness of internal control arrangements, in order to achieve and sustain a capital level that is adequate to the nature of the institution's business and risks;
- The second consists of the Supervisory Review and Evaluation Process (SREP), performed by the competent ultimate Regulatory Authority, whose key purpose is to ensure that institutions have adequate arrangements, strategies, processes and mechanisms as well as capital and liquidity to ensure a sound management and coverage of their risks to which they are or might be exposed, including those revealed by stress testing and risks institutions may pose to the financial 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 integrant 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 (CET1) 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 the 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, in 2019 UniCredit Bank S.A. identified the following significant risks, further described throughout this document:

1. Credit risk

2. Market risk and Interest Rate Risk in the Banking Book (IRRBB)
3. Liquidity risk
4. Operational risk
5. Reputational risk
6. Business risk
7. Real estate risk
8. Strategic risk
9. Risk of excessive leverage.
10. Inter-concentration risk

2.6 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.

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.

2.7 Risk coverage and mitigation policies

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.

3. SCOPE OF APPLICATION

3.1 Relevant scope of consolidation

The institution subject to disclosure is **UniCredit Bank SA.** ("the Bank" or "UCB"); the report includes Bank's information and also information regarding the entities integrated in the consolidated prudential perimeter of UniCredit Bank (further described as "the Group").

Starting August 2015, 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 ("UCLC"), having its headquarters in Ghetarilor Street no. 23-25, 1st, 2nd and 4th floors, Sector 1, Bucharest, Romania, provides financial leasing services to corporate clients and individuals. UCLC, the former associate, has become the Bank's subsidiary since April 2014 when the Bank gained indirect control of 99.95% (direct control: 99.90%). The Bank's indirect ownership rate as of 31 December 2019 is 99.98% (direct control: 99.96%) as a result of the merger by absorption of UniCredit Leasing Romania SA ("UCLRO") by UCLC finalized in June 2015, the date at which UCLRO was absorbed by UCLC.
- Debo Leasing S.R.L., having its current registered office in 23-25 Ghetarilor Street, 2nd floor, 1st district, Bucharest, Romania, is a real estate finance lease entity, that became a subsidiary of the Bank in April 2014. As of December 31, 2019 the Bank has indirect control interest of 99.970% out of which 99.963% through UCLC and 0.0069% through UCFIN. Debo Leasing S.R.L. is the new name of Debo Lesing IFN S.A. beginning with October 2018, when the company was erased from the General Register of Financial Non-banking Institutions.

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

This template presents the differences between the accounting and the prudential consolidation perimeter which applies for providing the required information in the eight part of CRR (UE Regulation nr. 575/2013).

	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items				
			Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitization 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	11,693,895,262	11,693,895,262	5,957,123,319	5,736,771,943	-	-	-
Of which: Reverse Repo*	5,736,771,943	5,736,771,943	-	5,736,771,943	-	-	-
Financial assets at fair value through profit or loss: Derivatives and Debt Securities	228,368,877	228,368,877	-	66,670,472	-	161,698,405	-
Financial assets at fair value through profit or loss: Capital Instruments	39,619,988	39,619,988	39,619,988	-	-	-	-
Derivatives assets designated as hedging instruments	-	-	-	-	-	-	-
Loans and advances to banks at amortized cost	572,566,205	572,566,205	572,566,205	-	-	-	-
Loans and advances to customers at amortized cost	29,337,321,977	29,337,321,977	29,337,321,977	-	-	-	-
Financial assets at fair value through other comprehensive income-Debt Instruments	8,606,782,485	8,606,782,485	8,606,782,485	-	-	-	-
Financial assets at fair value through other comprehensive income-Debt Instruments : Capital Instruments	7,856,519	7,856,519	7,856,519	-	-	-	-
Property and equipment	200,367,722	200,367,722	200,367,722	-	-	-	-
Right of use assets	174,235,161	174,235,161	174,235,161	-	-	-	-
Intangible assets	196,285,507	196,285,507	-	-	-	-	196,285,507
Current tax assets	2,847,975	2,847,975	2,847,975	-	-	-	-
Deferred tax assets	132,466,958	132,466,958	138,522,355	-	-	-	-6,055,397
Other assets **	333,995,275	333,995,275	333,995,275	-	-	-	-
Total assets * **	**51,526,609,911**	**51,526,609,911**	**45,371,238,981**	**5,803,442,415**	-	**161,698,405**	**190,230,110**

**The accounting value according to the prudential accounting perimeter represents repurchase agreements securities.*

***The Other Assets contain Other Assets and Other financial assets at amortized cost from IFRS Financial Statements.*

****The amounts are rounded to '000 RON in the IFRS Consolidated and Separate Financial Statements, leading to rounding differences as compared to the figures reported above.*

	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items				
			Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitization framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Liabilities							
Deposits from banks	1,666,287,056	1,666,287,056	-	-	-	-	1,666,287,056
Loans from banks and other financial institutions at amortized cost	6,483,235,521	6,483,235,521	-	-	-	-	6,483,235,521
Deposits from customers	33,938,950,270	33,938,950,270	-	-	-	-	33,938,950,270
Financial liabilities at fair value through profit or loss	73,970,751	73,970,751	-	-	-	-	73,970,751
Derivatives liabilities designated as hedging instruments	114,850,415	114,850,415	-	-	-	-	114,850,415
Debt securities issued	2,044,046,020	2,044,046,020	-	-	-	-	2,044,046,020
Subordinated liabilities	912,449,252	912,449,252	-	-	-	-	912,449,252
Lease liabilities	163,897,573	163,897,573	-	-	-	-	163,897,573
Current tax liabilities	2,698,826	2,698,826	-	-	-	-	2,698,826
Provisions	240,957,086	240,957,086	-	-	-	-	240,957,086
Other liabilities	642,471,935	642,471,935	-	-	-	-	642,471,935
Total liabilities	**46,283,814,705**	**46,283,814,705**	-	-	-	-	**46,283,814,705**
Total equity	**5,242,795,206**	**5,242,795,206**	-	-	-	-	**5,242,795,206**
Total liabilities and equity *	**51,526,609,911**	**46,283,814,705**	**-**	**-**	**-**	**-**	**46,283,814,705**

*The amounts are rounded to ‘000 RON in the IFRS Consolidated and Separate Financial Statements, leading to rounding differences as compared to the figures reported above.

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

The template provides information regarding the main sources of differences (other then those due to the consolidation perimeter which are presented in the templates UE LI1) between the accounting amounts from the Financial Statements and the exposure values used for regulatory purposes.

Regarding the point 1, the amounts disclosed in columns from b) to e) correspond to the accounting values according to the prudential consolidation perimeter of the balance sheet asset as they were reported in the column c)-f) in the template EU LI1 from the present document.

Regarding the point 2, the amounts disclosed in the columns b) and c) correspond to the accounting values according to the prudential consolidation perimeter of the balance sheet liabilities as they were reported in the column c), f) in the template EU LI1 from the present document.

According to the Article 429. (b) CRR, the Bank includes in the exposure amounts the deals SFT computed considering the Article 429 , point 5 and the Article 111, point 1 and an increase for the counterparty credit risc according to Article 429 (b), point 2.

		Total (a)	Items subject to			
			Credit risk framework (b)	CCR framework (c)	Securitization framework (d)	Market risk framework (e)
1	**Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)**	**51,526,609,911**	**45,362,127,946**	**5,803,442,415**	**-**	**161,698,405**
2	Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	-	-	-	-	-
3	Total net amount under the regulatory scope of consolidation	51,526,609,911	45,371,238,981	5,803,442,415	-	161,698,405
4	Off-balance-sheet amounts *	15,725,162,872	4,874,319,508	-	-	-
5	*Differences in valuations*	100,041,816	-	100,041,816	-	-
6	*Differences due to different netting rules, other than those already included in row 2*	-	-	-	-	-
7	*Differences due to Derivatives*	102,331,909	-	102,331,909	-	-
8	*Differences due to SFT*	33,811	-	33,811	-	-
9	**Exposure amounts considered for regulatory purposes**	**67,454,180,319**	**50,245,558,489**	**6,005,849,951**	**-**	**161,698,405**

** The amount under column b represents the off balance amounts after application of CCF.*

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				Non-Banking financial institution
UniCredit Leasing Corporation IFN S.A.	Full Consolidation	X				Financial Leasing company
Debo Leasing SRL	Full Consolidation	X				Real Estate Leasing company

3.2. Prudent valuation

The below table contains the additional evaluation adjustments (AVA). The most significant adjustments are related to early termination risk, concentration risk and the closeout cost uncertainty of the government bonds issued by the Romanian Ministry of Finance held in the bank's portfolio.

PV1: Prudent valuation adjustments (PVA)

		Equity	Interest rates	FX	Credit	Commodities	Total	Of which: In the trading book	Of which: In the banking book
1	Closeout uncertainty, of which:	-	487,498	6,568	1,568,885	-	2,062,951	595,723	1,467,228
2	Mid-market value	-	194,197	4,596	443,655	-	642,448	183,509	458,939
3	Closeout cost	-	293,302	1,972	1,125,230	-	1,420,504	412,214	1,008,290
4	Concentration	-			8,886,365		8,886,365	-	8,886,365
5	Early termination	-	-	-	-	-		-	
6	Model risk	-	-	-	-	-	-	-	-
7	Operational risk	-	-	-	-	-	96,839	87,155	9,684
8	Investing and funding costs						-	-	-
9	Unearned credit spreads						22,308	-	-
10	Future administrative costs	-	-	-	-	-	118,190	-	-
11	Other	-	-	-	-	-	-	-	-
12	**Total adjustment**	**-**	**487,498**	**6,568**	**10,455,250**	**-**	**11,186,653**		

3.3. 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 2019, UniCredit Bank doesn't hold at individual level significant investments in financial entities to be deducted from own funds according to the Article 48 from CRR.

3.4 Entities added to RWA

As at 31 December 2019, the significant investments in financial entities are shown at the individual level with a risk weight of 370% as they are not deducted from own funds, but are included in the consolidated perimeter.

3.5 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 responsibility of sending the applicable regulation to its subsidiaries, in order to be analyzed, approved/adopted and implemented. Subsequently, UniCredit Bank SA assesses and decides the applicability at the 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 the 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:

3.5.1 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 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 (99.977%), 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.

3.5.2. 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).

3.5.3 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.

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

The Budget for 2020 and the financial plan for the next 3 years of UCB and its subsidiaries outline the intention of ongoing business activity and to support 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.

3.5.5 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.

3.5.6 The historical and forecast flows of funds between UCB and its subsidiaries with potential impact on the 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.

3.5.7 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".

4. OWN FUNDS AND KEY METRICS

4.1 Regulatory capital - summary and changes over time

Starting with January 2014, the 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 the 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, as detailed below:

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.

The main characteristics of the Level 1 Capital Instruments are detailed below:

Capital Instruments Level 1		
1	**Issuer**	**UniCredit Bank Romania**
2	Unique identifier (e.g.: CUSIP, ISIN or Bloomberg identifier for private placement)	n/a
3	Governing law(s) of the instrument	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 recognized in regulatory capital (in RON thousands)	1,177,748,253
	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		
1	Issuer	UniCredit SPA	UniCredit SPA
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	n/a	n/a
3	Governing law(s) of the instrument	Government Emergency Ordinance no.99/2006	Government Emergency Ordinance no.99/2006
	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 recognized in regulatory capital (in RON)	48,500,000	120,000,000
	Currency of issue	EUR	EUR
9	Nominal amount of instrument (aggregate) - 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 amortized cost	liabilities at amortized 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	no	no
15	Optional call date, contingent call dates and redemption amount (s. 9b)	-	-
16	Subsequent call dates, if applicable	n/a	n/a
	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	-	-

The contractual terms and conditions of the Level 2 Own Funds – Subordinated Loans, according to Art. 437, point 1, C are presented below:

No. cr.	Counterparty	Currency	Amount (principal) original currency	Amount (principal) RON equivalents	Starting date	Maturity Date	Update interest frequency	Clauses	Payments
1	UniCredit SPA	EUR	48,500,000	231,796,050	27-Jul-2017	27-Jul-2027	3 months	without anticipated reimbursement	one
2	UniCredit SPA	EUR	120,000,000	573,516,000	29-Dec-2017	29-Dec-2027	3 months	without anticipated reimbursement	one
Total			**168,500,000**	**805,312,050**					

When IFRS9 standard was implemented, the Group decided not to apply the transitional treatment of expected credit losses.

Starting with the year 2018, the following transitional adjustments do not apply:

- intangible assets;
- unrealized gains and losses from assessing the assets and the liabilities at fair value;
- local filters set up by the National Bank of Romania;
- recognizing in Level 1 Consolidated Own Funds, the instruments and the elements which do not qualify as minority interest.

The structure of the Own Funds (individual and consolidated) as at 31 December 2019 is presented below:

Reference Annex IV	Item	Group	Bank	Reference for reconciliation with balance sheet
	Own Funds			
1	Capital instruments and the related share premium accounts	1,799,428,752	1,799,428,752	c+d
	of which: ordinary shares	1,177,748,253	1,177,748,253	c
2	Retained earnings	3,050,001,849	2,786,154,759	i
3	Accumulated other comprehensive income (and any other reserves, included unrealized gains and losses)	283,469,096	283,469,096	e+f+g+h
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	5,132,899,697	4,869,052,607	
	Common Equity Tier 1 (CET1) capital: regulatory adjustments	-	-	
7	Additional value adjustments	11,186,653	11,186,653	
8	Intangible assets (net of related tax liability)	190,230,107	180,461,312	a+b
11	Fair value reserves related to gains or losses on cash flow hedges	-47,832,935	-47,832,935	e
12	(-) IRB shortfall of credit risk adjustments to expected losses	79,050,382	74,357,803	
25b	Foreseeable tax charges relating to CET1 items	10,654,179	10,654,179	
26b	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	243,288,386	228,827,012	
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	243,288,386	228,827,012	
29	Common Equity Tier 1 (CET1) capital	4,889,611,311	4,640,225,595	
	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	-	-	
44	Additional Tier 1 (AT1) capital	-	-	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**4,889,611,311**	**4,640,225,595**	
	Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	805,312,050	805,312,050	
51	Tier 2 (T2) capital before regulatory adjustment	805,312,050	805,312,050	
	Tier 2 (T2) capital: regulatory adjustments	-	-	
57	Total regulatory adjustments to Tier 2 (T2) capital	-	-	
58	**Tier 2 (T2) capital**	**805,312,050**	**805,312,050**	
59	**Total capital (TC = T1 + T2)**	**5,694,923,361**	**5,445,537,645**	
60	**Total risk-weighted assets**	**31,082,322,515**	**24,996,992,717**	
	Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount	15.73%	18.56%	
62	Tier 1 (as a percentage of total risk exposure amount	15.73%	18.56%	
63	Total capital (as a percentage of total risk exposure amount	18.32%	21.78%	
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)	3,50%	2,50%	
65	of which: capital conservation buffer requirement	2,50%	2,50%	
66	of which: countercyclical buffer requirement	0.0005%	0.0006%	
67	of which: systemic risk buffer requirement	1,00%		
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer *			

***Art.277- If a credit institution at individual or sub -consolidated level makes the object of O-SII buffer and systemic risk buffer, according to the Art.288, the buffer with the highest value is used. Please see Chapter 5.4 for further details**

The reconciliation of the elements from Own Funds with the Financial Statements is presented below:

In RON thousands	Group	Bank	Reference
	31.12.2019	31.12.2019	
Assets			
Cash and cash equivalents	11,693,894	11,693,863	
Financial assets at fair value through profit or loss	267,990	267,990	
Derivatives assets designated as hedging instruments	-	-	
Loans and advances to customers at amortized cost	26,013,805	22,483,263	
Net Lease receivables	3,323,516	-	
Loans and advances to banks at amortized cost	572,567	572,567	
Other financial assets at amortized cost*	142,810	100,767	
Financial assets at fair value through other comprehensive income	8,614,640	8,612,294	
Investments in subsidiaries	-	143,116	
Right of use assets	174,235	160,445	
Property, plant and equipment	200,368	188,613	
Intangible assets	196,284	186,516	a
Current tax assets	2,848	2,848	
Deferred tax assets	132,466	60,809	
of which: Deferred tax regarding Intangible Assets	(6,055)	(6,055)	b
Other assets	191,185	68,066	
Non-current assets classified as held for sale	-	-	
Total assets	**51,526,608**	**44,541,157**	
Liabilities	-	-	
Financial liabilities at fair value through profit or loss	73,969	73,969	
Derivatives liabilities designated as hedging instruments	114,852	114,852	
Financial liabilities at amortized cost:	391,071	340,562	
Deposits from banks	1,666,287	1,666,287	
Loans from banks and other financial institutions at amortized cost	6,483,236	795,267	
Deposits from clients at amortized cost	33,938,950	34,706,764	
Debt securities issued	2,044,046	621,823	
Subordinated liabilities	912,449	807,304	
Other financial liabilities at amortized cost	163,898	158,752	
Other financial liabilities	-	-	
Current tax liabilities	2,699	-	
Deferred tax liabilities	-	-	
Provisions	240,959	218,819	
Other non-financial liabilities	251,401	167,708	
Total liabilities	**46,283,817**	**39,672,107**	
Shareholders' equity	-	-	
Share capital	1,177,748	1,177,748	c
Share premium	621,680	621,680	d
Cash flow hedge reserve	(47,833)	(47,833)	e
Reserve on financial assets at fair value through other comprehensive income	20,330	20,330	f
Revaluation reserve on property and equipment	12,682	12,682	g
Other reserves	298,289	298,289	h
Retained earnings	3,050,001	2,786,154	i
of which: Dividends	-	-	j
Total equity for parent company	**5,132,897**	**4,869,050**	
Non-controlling interest	109,894	-	
Total Equity	**5,242,791**	**4,869,050**	
Total liabilities and equity	**51,526,608**	**44,541,157**	

4.2 Summary of Key Prudential Metrics

KM1: Key metrics		31-Dec-19	30-Sep-19	30-Jun-19	31-Mar-19	31-Dec-18
Available capital (amounts)						
1	Common Equity Tier 1 (CET1)	4,889,611,311	4,283,560,000	4,232,688,025	4,200,331,494	4,171,575,004
1a	Fully loaded ECL accounting model	4,889,611,311	4,283,560,000	4,232,688,025	4,200,331,494	4,171,575,004
2	Tier 1	4,889,611,311	4,283,560,000	4,232,688,025	4,200,331,494	4,171,575,004
2a	Fully loaded accounting model Tier 1	4,889,611,311	4,283,560,000	4,232,688,025	4,200,331,494	4,171,575,004
3	Total capital	5,694,923,361	5,084,120,350	5,030,552,375	5,002,863,294	4,957,442,154
3a	Fully loaded ECL accounting model total capital	5,694,923,361	5,084,120,350	5,030,552,375	5,002,863,294	4,957,442,154
Risk-weighted assets (amounts)						
4	Total risk-weighted assets (RWA)	31,082,322,515	29,883,747,182	28,737,579,925	28,117,215,504	28,458,911,738
Risk-based capital ratios as a percentage of RWA						
5	Common Equity Tier 1 ratio (%)	15.73%	14.33%	14.73%	14.94%	14.66%
5a	Fully loaded ECL accounting model CET1 (%)	15.73%	14.33%	14.73%	14.94%	14.66%
6	Tier 1 ratio (%)	15.73%	14.33%	14.33%	14.33%	14.66%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	15.73%	14.33%	14.33%	14.33%	14.66%
7	Total capital ratio (%)	18.32%	17.01%	17.51%	17.79%	17.42%
7a	Fully loaded ECL accounting model total capital ratio (%)	18.32%	17.01%	17.51%	17.79%	17.42%
Additional CET1 buffer requirements as a percentage of RWA						
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.500%	2.500%	2.500%	2.500%	1.875%
9	Countercyclical buffer requirement (%)	0.0005%	-	-	-	-
10	Bank O-SIB additional requirements (%)	1.000%	1.000%	1.000%	1.000%	1.000%
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10)	3.500%	3.500%	3.500%	3.500%	2.875%
12	CET1 available after meeting the bank's minimum capital requirements (%)	11.231%	9.834%	10.230%	10.439%	10.158%
Basel III Leverage Ratio						
13	Total Basel III leverage ratio measure	56,279,881,553	51,958,705,486	50,252,623,825	50,050,474,726	52,371,283,957
14	Basel III leverage ratio (%) (row 2/row 13)	8.69%	8.24%	8.42%	8.39%	7.97%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2A/row 13)	8.69%	8.24%	8.42%	8.39%	7.97%
Liquidity Coverage Ratio						
15	Total HQLA	17,073,171,038	13,709,908,320	13,850,650,346	14.692.915.049	15,231,462,230
16	Total net cash outflow	10,244,390,684	9,598,338,028	9,140,475,462	9.192.395.856	9,472,995,928
17	LCR ratio (%)	166.66%	142.84%	151.53%	159,84%	160.79%
Net Stable Funding Ratio						
18	Total available stable funding	36,093,851,569	33,088,074,603	34,253,891,727	33.154.282.046	35,289,226,952
19	Total required stable funding	22,630,827,937	22,398,209,660	22,124,678,921	21.820.310.924	23,629,251,629
20	NSFR ratio (%)	159.49%	147.73%	154.82%	151,94%	149.35%

5. CAPITAL REQUIREMENTS

5.1 General comment

Capital Adequacy Assessment

During 2019, 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 was performed in accordance with National Bank of Romania Regulation no 5/2013, with subsequent amendments and changes, 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. 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, 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 Commission 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 Standardized 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 and forecasting.

EU OV1 – Overview of RWAs

		Group			Bank	
		RWA		Capital Requirements	RWA	Capital Requirements
		31.12.2019	30.09.2019	31.12.2019	31.12.2019	31.12.2019
1	**Credit risk (excluding CCR)**	**28,395,572,784**	**27,295,559,606**	**2,271,645,823**	**23,028,781,232**	**1,757,386,966**
2	Of which the standardized approach	11,572,311,211	11,553,426,386	925,784,897	5,616,300,100	450,844,773
3	Of which the foundation IRB (FIRB) approach*	16,823,261,573	15,742,133,220	1,345,860,926	17,412,481,132	1,306,542,193
4	Of which the advanced IRB (AIRB) approach	-	-	-	-	-
5	Of which equity IRB under the simple risk-weighted approach or the IMA	166,982,880	154,386,893	13,358,630	696,510,907	54,713,194
6	**CCR**	**159,154,282**	**155,139,246**	**12,732,343**	**159,169,506**	**12,411,140**
7	Of which mark to market	108,501,059	128,454,211	8,680,085	108,516,283	10,276,337
8	Of which original exposure	-	-	-	-	-
9	Of which the standardized approach	-	-	-	-	-
10	Of which internal model method (IMM)	27,916,097	20,297,616	2,233,288	27,916,097	1,623,809
11	Of which risk exposure amount for contributions to the default fund of a CCP	-	-	-	-	-
12	Of which CVA	22,737,126	6,387,419	1,818,970	22,737,126	510,994
13	**Settlement risk**	**-**	**-**	**-**	**-**	**-**
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	-	-	-	-	-
19	**Market risk**	**44,354,022**	**91,041,441**	**3,548,322**	**44,354,022**	**7,283,315**
20	Of which the standardized approach	44,354,022	91,041,441	3,548,322	44,354,022	7,283,315
21	Of which IMA	-	-	-	-	-
22	Large exposures	-	-	-	-	-
23	**Operational risk**	**2,483,241,428**	**2,342,006,889**	**198,659,314**	**1,764,687,956**	**129,739,391**
24	Of which basic indicator approach	718,553,471	720,264,501	57,484,278	-	-
25	Of which standardized approach	-	-	-	-	-
26	Of which advanced measurement approach	1,764,687,956	1,621,742,388	141,175,036	1,764,687,956	129,739,391
27	Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-	-	-
28	Floor adjustment	-	-	-	-	-
29	**Total**	**31,082,322,516**	**29,883,747,182**	**2,486,585,801**	**24,996,992,716**	**1,906,820,812**

**The row "Of which the foundation IRB approach" does not contain CCR exposures 74,391,521.94 RON (presented on the row "Of which mark to market"). The position includes also RWA for assets which are not loans in amount of 793,520,815.74 RON (166,982,879.64 Equity IRB and 626,537,936 Other non-credit obligation assets).*

5.2 Capital Planning

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 2019, 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 15.73%, significantly higher than the minimum regulatory requirement.

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

Based on common decision European Central Bank and National Bank of Romania (SREP process), UniCredit Bank must at all times satisfy the total capital ratio (solvency ratio) of 10.37% at individual level and 9.79% at consolidated level.

The total minimum capital requirements (including Pillar I and Pillar II buffers) is 12.87% at individual level and 13.29% at sub-consolidated level.

EU CR10 – IRB (specialized lending and equities)

The template presents quantitative information regarding the capital instruments exposures using standardised approach.

Specialized lending							
Regulatory categories		**On- balance-sheet amount**	**Off-balance-sheet amount**	**Risk weight**	**Exposure amount**	**RWAs**	**Expected losses**
	Remaining maturity						
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	45,130,508		370%	45,130,508	166,982,880	13,358,630
Total	**45,130,508**			**45,130,508**	**166,982,880**	**13,358,630**

5.3 Risk Management and business model - RWA segmentation

One of the Group'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 company-wide views on acceptable relationships between the risks and profitability at a Group's overall level and for each significant activity in order to ensure sustainability of sound and prudent operations.

UniCredit Bank targeted a balanced asset portfolio in order to diminish the exposures that have a high risk associated. Also, the Bank performs various processes for RWA optimization, on a regular basis.

5.4. 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, Order no 9/2018 and Order no 4/2018.

Capital requirements - Pillar I	**31.12.2019**	
Capital conservation buffer	2.5%	
Countercyclical capital buffer	0.0006% 0.0005%	at individual level at sub-consolidated level
O-SII buffer	1%	only at sub-consolidated level
Systemic risk buffer	1%, but supplementary requirement by set at 0%, according to art. 276 and 277 from NBR Reg. no 5/2013	only at sub-consolidated level
Combined buffer requirement	**2.5%**	**at individual level**
	3.5%	**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 total solvency ratio above 10.37% at individual level and 9.79% at sub-consolidated level.

Solvency ratio - minimum requirements including Pillar I & II buffers	**31.12.2019**		
	NBR Supervisory Report - SREP	**Capital buffers**	**TOTAL**
- individual level			
CET 1 ratio	5.83%	2.50%	8.33%
Tier 1 ratio	7.78%		10.28%
Total capital ratio	**10.37%**		**12.87%**
-sub-consolidated level			
CET 1 ratio	5.51%	3.50%	9.01%
Tier 1 ratio	7.34%		10.84%
Total capital ratio	**9.79%**		**13.29%**

Other Systemically Important Institutions buffer

As per National Bank of Romania Order no.9/2018, 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 sub-consolidated level, starting with 01.01.2019; this level this do change as compared to the percentage applied by the Bank throughout 2018.

Capital conservation buffer

As per National Bank of Romania Regulation no.5/ 2013 on prudential requirements for credit institutions, following the fully loaded approach, UniCredit Bank had to maintain during 2019 a capital conservation buffer of 2.5% 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 National Bank of Romania Order no.12/2015, during 2019, UniCredit Bank had to maintain a countercyclical capital buffer of 0% of the total risk weighted exposure on Romanian entities, calculated as per art. 92(3) of NBR Regulation no. 575/2013 on prudential requirements for credit institutions.

As of 31.12.2019, UniCredit Bank maintained an overall countercyclical buffer rate, expressed as a percentage of the total risk exposure amount under Article 92 paragraph (3) of Regulation (EU) No 575/2013, of 0.0006% at individual level and of 0.0005% sub-consolidated level, driven by the exposures on non – Romanian entities.

Systemic risk buffer

As per National Bank of Romania Order no. 8/2018 regarding systemic risk capital buffer and the notification of additional constant capital requirements in systemic risk amortization applicable from 1 January 2019, UniCredit Bank maintained, at sub-consolidated level, a systemic risk buffer of 1% of the total risk weighted exposure, calculated as per art. 92(3) of Regulation no. 575/2013 on prudential requirements for credit and investment institutions, and amending Regulation (EU) no. 648/2012.

This buffer is applicable starting 01.12.2019, with semi-annual review.

As per article 277 of NBR Regulation no 5/2013, "where a credit institution, at individual or sub-consolidated level, is subject to an O-SII buffer and a systemic risk buffer, the higher of the two shall apply", thus the capital requirement for structural buffers is determined as the maximum level between buffer value (O-SII) and the systemic risk buffer.

Therefore, in the case of UCB, the maximum combined requirement for the systemic risk buffer and O-SII buffer, is 1% starting with 01.01.2019.

5.5 RWA calculation method and models

The Bank calculates RWA according to the provisions of EU Regulation 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.

5.6 RWA changes over time

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, central banks and sovereigns and financial investment companies.

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

6. CREDIT RISK

6.1 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, but at least once a year and whenever significant changes occur in risk assessment factors, 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 assesses the credit risk in all activities affected by this kind of risk, no matter if the results of the respective activities are reflected in the balance sheet or off balance sheet.

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 loans 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 realized 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 realize 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 non-performing loans.

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

6.2 The structure and organization of the credit risk management and control function

Credit risk management processes within UniCredit Bank imply the following:

- Accurate 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 forborne loans and non-performing loans.
- 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.

6.3 Credit risk profile and concentrations

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

The template presents the total and the average net exposures during 2019 considering the exposure class.

The net amounts regarding the balance sheet and off balance exposures represent the carrying amounts (gross exposure after deduction of impairment and provisions).

The average exposure of the period represents the average exposures observed at the end of each quarter of 2019.

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

		Group		Bank
		Net value of exposures at the end of the period	**Average net exposures over the period**	**Net value of exposures at the end of the period**
1	Central governments or central banks	2,442,853,827	1,607,330,119	2,442,853,827
2	Institutions	8,920,345,515	8,217,596,648	8,969,674,251
3	Corporates	23,791,882,456	22,017,673,246	23,830,341,952
4	*Of which: Specialized lending*	-	-	-
5	*Of which: SMEs*	10,564,796,715	10,099,241,168	10,603,256,212
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	45,130,508	41,985,967	188,246,191
15	**Total IRB approach**	**35,200,212,306**	**31,884,585,979**	**35,431,116,222**
16	Central governments or central banks	10,489,181,135	9,037,214,387	10,416,431,775
17	Regional governments or local authorities	306,644,983	298,988,897	305,698,290
18	Public sector entities	180	45	180
19	Multilateral development banks	-	-	-
20	International organizations	-	-	-
21	Institutions	1,318,819	3,595,883	-
22	Corporates	4,684,445,245	4,596,199,497	2,575,024,456
23	*Of which: SMEs*	3,413,886,976	3,342,363,675	2,017,228,919
24	Retail	7,784,502,596	7,861,653,694	2,635,545,931
25	*Of which: SMEs*	4,188,236,060	4,063,546,611	1,753,434,556
26	Secured by mortgages on immovable property	5,747,355,331	5,304,093,893	5,516,214,735
27	*Of which: SMEs*	634,693,641	625,672,013	438,575,584
28	Exposures in default	336,576,388	340,735,441	207,195,601
29	Items associated with particularly high risk	98,080,679	118,754,048	98,080,679
30	Covered bonds	-	-	-
31	Claims on institutions and corporates with a short-term credit assessment	33,220	167,531	-
32	Collective investments undertakings	-	-	-
33	Equity exposures	2,345,998	2,345,998	-
34	Other exposures	193,964,413	217,235,133	-
35	**Total standardized approach**	**29,644,448,988**	**27,780,984,446**	**21,754,191,648**
36	**Total**	**64,844,661,294**	**59,665,570,425**	**57,185,307,869**

EU CRB-C – Geographical breakdown of exposures

		Net value of exposures					
		Austria	Germany	Spain	France	Ireland	Italy
1	Central governments or central banks	-	-	-	-	-	-
2	Institutions	187,141,416	293,745,880	118,571,900	659,993,910	144,787,345	6,020,932,491
3	Corporates	42,842,687	118,379,711	-	49,195,883	-	89,803,351
4	Retail	-	-	-	-	-	-
5	Equity	-	-	-	-	-	-
6	**Total IRB approach**	**229,984,103**	**412,125,592**	-	**709,189,794**	-	**6,110,735,842**
7	Central governments or central banks	-	-	-	-	-	24,178,462
8	Regional governments or local authorities	-	-	-	-	-	-
9	Public sector entities	-	-	-	-	-	-
10	Multilateral development banks	-	-	-	-	-	-
11	International organizations	-	-	-	-	-	-
12	Institutions	1,333	-	-	-	-	-
13	Corporates	-	-	-	-	-	2,475,719
14	Retail	201,141	398,076	98,979	109	81,867	494,283
15	Secured by mortgages on immovable property	-	8,545,479	-	-	-	581,095
16	Exposures in default	684	627	45	132	-	809
17	Items associated with particularly high risk	-	-	-	-	-	-
18	Covered bonds	-	-	-	-	-	-
19	Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
20	Collective investments undertakings	-	-	-	-	-	-
21	Equity exposures	-	-	-	-	-	-
22	Other exposures	-	-	-	-	-	140,081
23	**Total standardized approach**	**203,158**	**14,502,445**	**99,425**	**240**	**81,867**	**27,870,450**
24	**Total**	**230,187,261**	**426,628,036**	**118,671,324**	**709,190,034**	**144,869,212**	**6,138,606,292**

EU CRB-C – Geographical breakdown of exposures (continued)

		Net value of exposures					
		Japan	Nederland	Romania	United States	Other	Total
1	Central governments or central banks	-	-	2,442,405,672	-	448,155	2,442,853,827
2	Institutions	126,770,101	128,361,611	730,239,516	249,412,800	260,388,545	8,920,345,515
3	Corporates	-	329,627,246	22,978,346,711	-	183,686,866	23,791,882,456
4	Retail	-	-	-	-	-	-
5	Equity	-	-	5,510,520	39,619,988	0	45,130,508
6	**Total IRB approach**	**126,770,101**	**457,988,857**	**26,156,502,419**	**289,032,788**	**444,523,566**	**35,200,212,306**
7	Central governments or central banks	-	-	10,465,002,673	-	-	10,489,181,135
8	Regional governments or local authorities	-	-	306,644,983	-	-	306,644,983
9	Public sector entities	-	-	180	-	-	180
10	Multilateral development banks	-	-	-	-	-	-
11	International organizations	-	-	-	-	-	-
12	Institutions	-	-	1,317,486	-	-	1,318,819
13	Corporates	-	-	4,674,522,057	-	1,888,805	4,684,445,245
14	Retail	-	91,569	7,779,680,140	505,522	2,950,911	7,784,502,596
15	Secured by mortgages on immovable property	-	-	5,735,099,341	392,441	2,736,976	5,747,355,331
16	Exposures in default	-	-	335,710,016	56	864,019	336,576,388
17	Items associated with particularly high risk	-	-	98,080,679	-	-	98,080,679
18	Covered bonds	-	-	-	-	-	-
19	Claims on institutions and corporates with a short-term credit assessment	-	-	33,220	-	-	33,220
20	Collective investments undertakings	-	-	-	-	-	-
21	Equity exposures	-	-	2,345,998	-	-	2,345,998
22	Other exposures	-	-	193,824,332	-	-	193,964,413
23	**Total standardized approach**	-	**91,569**	**29,592,261,106**	**898,018**	**8,440,710**	**29,644,448,988**
24	**Total**	**126,770,101**	**458,080,426**	**55,748,763,525**	**289,930,806**	**452,964,276**	**64,844,661,294**

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

The template presents the details of the net exposure (balance sheet and off balance sheet) depending by the industry or by counterparty and the exposure classes.

The template does not contain CCR exposures (standardized approach 34,219,951.25, IRB approach 134,080,079.79) and SFT (IRB approach 5,736,771,942).

		Agriculture, forestry and fishing	Mining and quarrying	Manufacturing	Electricity, gas, steam and air conditioning supply	Water supply	Construction	Wholesale and retail trade
1	Central governments or central banks	-	-	-	-	995,664	-	-
2	Institutions	-	-	-	-	-	-	-
3	Corporates	1,235,994,106	74,043,361	7,219,663,275	2,274,908,835	159,406,992	1,375,905,356	7,081,953,746
4	Retail	-	-	-	-	-	-	-
5	Equity	-	-	-	-	-	-	-
6	**Total IRB approach**	**1,235,994,106**	**74,043,361**	**7,219,663,275**	**2,274,908,835**	**160,402,656**	**1,375,905,356**	**7,081,953,746**
7	Central governments or central banks	-	-	-	-	-	-	-
8	Regional governments or local authorities	-	-	-	-	-	-	-
9	Public sector entities	-	-	-	-	-	-	-
10	Multilateral development banks	-	-	-	-	-	-	-
11	International organizations	-	-	-	-	-	-	-
12	Institutions	-	-	-	-	-	-	-
13	Corporates	163,211,839	79,383,429	537,320,121	43,525,169	10,958,157	420,645,711	1,057,015,191
14	Retail	569,485,639	17,335,545	601,629,868	8,944,753	50,095,977	389,661,260	1,187,963,501
15	Secured by mortgages on immovable property	23,265,106	1,284,369	88,187,064	1,660,787	1,267,094	39,831,365	208,758,398
16	Exposures in default	8,988,628	497,689	33,758,674	49,582,519	3,147,463	20,655,442	45,671,652
17	Items associated with particularly high risk	-	-	-	-	-	93,787,767	-
18	Covered bonds	-	-	-	-	-	-	-
19	Claims on institutions and corporates with a short- term credit assessment	-	-	-	-	-	-	-
20	Collective investments undertakings	-	-	-	-	-	-	-
21	Equity exposures	-	-	-	-	-	-	-
22	Other exposures	-	-	-	-	-	-	-
23	**Total standardized approach**	**764,951,213**	**98,501,032**	**1,260,895,727**	**103,713,228**	**65,468,691**	**964,581,546**	**2,499,408,743**
24	**Total**	**2,000,945,319**	**172,544,393**	**8,480,559,001**	**2,378,622,063**	**225,871,347**	**2,340,486,901**	**9,581,362,488**

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

		Transport and storage	Accommodation and food service activities	Information and communication	Financial services and insurances	Real estate activities	Professional, scienti fic and technical activities	Administrative and support service activities
1	Central governments or central banks	-	-	-	1,008,789,099	-	-	-
2	Institutions	-	-	-	3,078,962,507	-	-	-
3	Corporates	940,420,172	161,858,717	1,211,828,305	700,140,997	394,311,618	545,906,306	271,391,423
4	Retail	-	-	-	-	-	-	-
5	Equity	-	-	-	45,130,508	-	-	-
6	**Total IRB approach**	**940,420,172**	**161,858,717**	**1,211,828,305**	**4,833,023,111**	**394,311,618**	**545,906,306**	**271,391,423**
7	Central governments or central banks	-	-	-	3,261,237,960	-	-	-
8	Regional governments or local authorities	-	-	-	-	-	-	-
9	Public sector entities	-	-	-	-	-	-	-
10	Multilateral development banks	-	-	-	-	-	-	-
11	International organizations	-	-	-	-	-	-	-
12	Institutions	-	-	-	1,318,819	-	-	-
13	Corporates	422,807,334	8,812,692	71,458,584	131,345,771	1,463,377,501	35,859,997	94,280,903
14	Retail	576,513,240	95,434,465	96,717,282	12,430,318	43,177,427	232,118,539	119,034,941
15	Secured by mortgages on immovable property	20,299,459	37,101,255	9,405,674	1,090,345	101,816,190	37,123,268	8,072,914
16	Exposures in default	9,096,097	2,788,859	1,968,972	4,266	6,190,022	4,110,898	4,188,224
17	Items associated with particularly high risk	-	-	-	-	51	-	-
18	Covered bonds	-	-	-	-	-	-	-
19	Claims on institutions and corporates with a short-term credit assessment	-	-	-	33,220	-	-	-
20	Collective investments undertakings	-	-	-	-	-	-	-
21	Equity exposures	-	-	-	2,345,998	-	-	-
22	Other exposures	-	-	-	-	-	-	-
23	**Total standardized approach**	**1,028,716,129**	**144,137,272**	**179,550,512**	**3,409,806,697**	**1,614,561,192**	**309,212,701**	**225,576,982**
24	**Total**	**1,969,136,301**	**305,995,989**	**1,391,378,817**	**8,242,829,809**	**2,008,872,809**	**855,119,007**	**496,968,405**

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

		Public administration and defense, compulsory social security	Education	Human health services and social work activities	Arts, entertainment and recreation	Other services	Households	Other	Total
1	Central governments or central banks	1,433,069,064	-	-	-	-	-	-	2,442,853,827
2	Institutions	-	-	-	-	-	-	-	3,078,962,507
3	Corporates	-	-	20,205,906	25,318,261	39,020,196	30,135,868	-	23,762,413,441
4	Retail	-	-	-	-	-	-	-	-
5	Equity	-	-	-	-	-	-	-	45,130,508
6	**Total IRB approach**	**1,433,069,064**	**-**	**20,205,906**	**25,318,261**	**39,020,196**	**30,135,868**	-	**29,329,360,283**
7	Central governments or central banks	7,184,684,790	-	-	-	44,408	-	43,213,977	10,489,181,135
8	Regional governments or local authorities	306,277,186	226,848	-	-	140,950	-	-	306,644,983
9	Public sector entities	-	180	-	-	-	-	-	180
10	Multilateral development banks	-	-	-	-	-	-	-	-
11	International organizations	-	-	-	-	-	-	-	-
12	Institutions	-	-	-	-	-	-	-	1,318,819
13	Corporates	-	520,148	38,263,673	2,598,473	2,016,750	67,090,757	4,573	4,650,496,774
14	Retail	5,173,717	19,914,265	100,020,527	11,040,457	27,045,848	3,595,970,302	24,523,242	7,784,231,115
15	Secured by mortgages on immovable property	-	699,165	7,174,727	1,100,289	2,945,009	5,056,591,537	99,681,316	5,747,355,331
16	Exposures in default	54,867	493,772	2,071,993	664,485	1,523,505	140,815,880	302,482	336,576,388
17	Items associated with particularly high risk	-	-	-	-	-	4,292,861	-	98,080,679
18	Covered bonds	-	-	-	-	-	-	-	-
19	Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	33,220
20	Collective investments undertakings	-	-	-	-	-	-	-	-
21	Equity exposures	-	-	-	-	-	-	-	2,345,998
22	Other exposures	-	-	-	-	-	-	193,964,413	193,964,413
23	**Total standardized approach**	**7,496,190,560**	**21,854,378**	**147,530,921**	**15,403,704**	**33,716,471**	**8,864,761,337**	**361,690,003**	**29,610,229,037**
24	**Total**	**8,929,259,624**	**21,854,378**	**167,736,827**	**40,721,965**	**72,736,667**	**8,894,897,206**	**361,690,003**	**58,939,589,320**

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

The template presents the credit quality for the balance sheet and for off balance sheet exposures.

The template does not contain CCR exposures (standardized approach 34,219,951.25 , IRB approach 134,080,079.79) and SFT (IRB approach 5,736,771,942 RON).

		Gross carrying values		Specific credit risk adjustment (c)	General credit risk adjustment (d)	Accumulated write-offs (e)	Credit risk adjustment charges of the period (f)	Net values
		Defaulted exposures (a)	Non-defaulted exposures (b)					(a+b-c-d)
1	Central governments or central banks	281,348,727	2,423,999,631	262,494,531	-	-	22,325,995	2,442,853,827
2	Institutions	-	3,080,303,156	1,340,648	-	-	499,034	3,078,962,507
3	Corporates	959,151,946	23,580,602,221	777,340,726	-	501,234,819	223,281,301	23,762,413,441
4	*Of which: Specialized lending*	-	-	-	-	-	-	-
5	*Of which: SMEs*	633,951,110	10,489,395,984	570,989,272	-	441,898,911	176,561,556	10,552,357,821
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	-	45,130,508	-	-	-	-	45,130,508
15	**Total IRB approach**	**1,240,500,673**	**29,130,035,516**	**1,041,175,906**	**-**	**501,234,819**	**246,106,330**	**29,329,360,283**
16	Central governments or central banks	-	10,492,150,782	2,969,647	-	-	813	10,489,181,135
17	Regional governments or local authorities	-	307,489,020	844,036	-	-	116,342	306,644,983
18	Public sector entities	-	182	2	-	-	2	180
19	Multilateral development banks	-	-	-	-	-	-	-
20	International organizations	-	-	-	-	-	-	-
21	Institutions	-	1,326,273	7,454	-	-	-	1,318,819
22	Corporates	286,002,149	4,712,401,918	286,488,827	-	29,238,958	22,947,718	4,711,915,240
23	*Of which: SMEs*	238,777,365	3,442,082,443	224,385,086	-	26,195,293	7,884,036	3,456,474,722
24	Retail	672,016,361	7,905,096,372	631,212,893	-	91,170,098	26,494,655	7,945,899,839
25	*Of which: SMEs*	294,264,176	4,224,637,280	254,549,512	-	73,180,809	22,001,783	4,264,351,944
26	Secured by mortgages on immovable property	171,515,584	5,761,096,066	71,767,120	-	-	4,986,424	5,860,844,529

		Gross carrying values		Specific credit risk adjustment (c)	General credit risk adjustment (d)	Accumulated write-offs (e)	Credit risk adjustment charges of the period (f)	Net values
		Defaulted exposures (a)	Non-defaulted exposures (b)					(a+b-c-d)
27	*Of which: SMEs*	80,328,618	637,150,776	57,289,291	-	-	1,542,371	660,190,104
28	Exposures in default	1,129,534,094	-	792,957,706	-	614,481,471	84,563,782	336,576,388
29	Items associated with particularly high risk	25,665,713	93,906,157	21,491,191	-	13,043,389	12,913,362	98,080,679
30	Covered bonds	-	-	-	-	-	-	-
31	Claims on institutions and corporates with a short-term credit assessment	-	33,220	-	-	-	-	33,220
32	Collective investments undertakings	-	-	-	-	-	-	-
33	Equity exposures	-	2,345,998	-	-	-	-	2,345,998
34	Other exposures	-	193,964,413	-	-	-	-	193,964,413
35	**Total standardized approach**	**1,155,199,807**	**29,469,810,401**	**1,014,781,171**	**-**	**747,933,916**	**152,023,098**	**29,610,229,037**
36	**Total**	**2,395,700,480**	**58,599,845,916**	**2,055,957,076**	**-**	**1,249,168,735**	**398,129,427**	**58,939,589,320**
37	Of which: Loans	2,204,196,733	33,990,866,195	1,900,517,649	-	-	147,973,427	34,294,545,278
38	Of which: Debt securities	-	8,606,782,485	-	-	-	-	8,606,782,485
39	Of which: Off- balance-sheet exposures	191,503,747	15,689,098,552	155,439,427	-	-	4,050,485	15,725,162,872

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

The template presents the credit quality for balance sheet and for off balance sheet by industry or counterparty types.

The template does not contain CCR exposures (standardized approach 34,219,951.25 RON, IRB approach 134,080,079.79 RON) and SFT (IRB approach 5,736,771,942 RON).

		Gross carrying values of		Specific credit risk adjustment (c)	General credit risk adjustment (d)	Accumulated write-offs (e)	Credit risk adjustment charges of the period (f)	Net values
		Defaulted exposures (a)	Non-defaulted exposures (b)					(a+b-c-d)
1	Agriculture, forestry and fishing	45,055,511	1,996,100,817	40,211,008	-	24,468,304	42,122,295	2,000,945,319
2	Mining and quarrying	12,631,457	172,216,534	12,303,598	-	405,223	319,078	172,544,393
3	Manufacturing	598,849,499	8,324,321,028	442,611,526	-	279,670,722	110,892,292	8,480,559,001
4	Electricity, gas, steam and air conditioning supply	116,188,797	2,345,464,507	83,031,241	-	-	5,503,695	2,378,622,063
5	Water supply	36,201,377	215,517,165	25,847,195	-	6,604,103	10,491,370	225,871,347
6	Construction	281,467,576	2,314,163,890	255,144,565	-	87,659,398	32,046,943	2,340,486,901
7	Wholesale and retail trade	213,231,318	9,553,958,625	185,827,454	-	310,477,254	61,909,219	9,581,362,488
8	Transport and storage	61,625,434	1,990,371,632	82,860,765	-	7,919,773	7,621,483	1,969,136,301
9	Accommodation and food service activities	11,399,108	304,689,498	10,092,617	-	2,506,504	2,548,781	305,995,989
10	Information and communication	35,750,251	1,392,210,222	36,581,656	-	1,975,246	8,646,499	1,391,378,817
11	Financial services and insurances	307,148	8,182,815,942	6,866,531	-	88,898,232	2,184,273	8,176,256,559
12	Real Estate	50,633,345	2,013,388,069	55,148,605	-	17,877,529	14,021,904	2,008,872,809
13	Professional, scientific and technical activities	71,837,216	840,213,235	56,931,444	-	9,853,598	10,879,824	855,119,007
14	Administrative and support service activities	14,406,542	493,193,459	10,631,597	-	9,909,474	4,195,915	496,968,405
15	Public administration and defense, compulsory social security	281,492,093	8,907,652,642	262,557,473	-	-	21,850,779	8,926,587,262
16	Education	763,208	21,660,498	569,328	-	32,150	253,274	21,854,378
17	Human health services and social work activities	13,735,249	166,733,480	12,731,893	-	4,509,257	330,401	167,736,835
18	Arts, entertainment and recreation	9,346,722	40,197,005	8,821,762	-	17,737	137,330	40,721,965
19	Other services	6,528,327	71,580,147	5,371,807	-	96,612,949	625,015	72,736,667
20	Households	533,597,690	8,889,899,875	461,173,178	-	203,101,546	61,093,037	8,962,324,388
21	Extraterritorial activities	-	-	-	-	-	-	-
22	Other activities	652,613	363,497,648	641,836	-	96,669,735	456,018	363,508,425
23	**Total**	**2,395,700,480**	**58,599,845,916**	**2,055,957,076**	-	**1,249,168,735**	**398,129,427**	**58,939,589,320**

EU CR1-C – Credit quality of exposures by geography

The template presents the credit quality for balance sheet and for off balance sheet by geography.

The template does not contain CCR exposures (standardized approach 34,219,951.25 RON, IRB approach 134,080,079.79 RON) and SFT (IRB approach 5,736,771,942 RON).

		Gross carrying values of		Specific credit risk adjustment (c)	General credit risk adjustment (d)	Accumulated write-offs (e)	Credit risk adjustment charges (f)	Net values
		Defaulted exposures (a)	Non-defaulted exposures (b)					(a+ b -c-d)
1	United Arab Emirates	-	22,326,681	8,108	-	-	8,108	22,318,573
2	Argentina	-	23,897	-	-	-	-	23,897
3	Austria	9,963	219,756,909	94,634	-	1,280,673	19,906	219,672,238
4	Australia	-	68,187	285	-	-	37	67,902
5	Belgium	-	21,406,710	1,948	-	-	1,598	21,404,762
6	Bulgaria	-	13,411,399	2,795	-	-	2,190	13,408,604
7	Canada	636	991,742	1,108	-	-	696	991,269
8	Congo	-	59	-	-	-	-	59
9	Switzerland	-	56,455,425	2,648	-	-	148	56,452,776
10	China	-	50,115,246	1,820	-	-	120	50,113,426
11	Cyprus	4,107,952	866	4,107,960	-	94,554,695	393,421	858
12	Czech	5,626	22,568,788	532	-	-	21	22,573,881
13	Germany	15,609	375,307,140	214,334	-	-	15,273	375,108,415
14	Denmark	-	1,093,680	116	-	-	115	1,093,565
15	Spain	563	118,687,014	16,253	-	-	7,351	118,671,324
16	Finland	-	14,995,423	1,357	-	-	79	14,994,067
17	France	1,388	700,490,823	167,527	-	-	74,719	700,324,684
18	United Kingdom	-	22,128,952	25,460	-	-	10,290	22,103,492
19	Greece	-	160	1	-	-	1	159
20	Hungary	-	23,013,674	7,637	-	-	61	23,006,038
21	Indonesia	-	23,030	260	-	-	253	22,770
22	Ireland	-	141,749,866	24,993	-	-	24,322	141,724,874
23	Israel	374	6,400,266	975	-	-	289	6,399,666
24	India	-	123,996	22	-	-	22	123,975
25	British Indian Ocean Territory	9,477	-	9,477	-	-	986	-
26	Italy	45,613	389,044,089	259,182	-	704,955	65,898	388,830,520
27	Japan	-	126,776,964	6,863	-	-	6,830	126,770,101
28	Kuwait	0	14	0	-	-	-	13
29	Lebanon	49,432	80,842	23,112	-	-	308	107,163
30	Luxemburg	-	7,659,725	558	-	-	33	7,659,167
31	Morocco	-	401,273	32	-	-	32	401,242
32	Monaco	837,576	289,933	1,293	-	-	-	1,126,215
33	Moldova Republic	-	279	4	-	-	1	275
34	Mongolia	-	22	-	-	-	-	21

		Gross carrying values of		Specific credit risk adjustment (c)	General credit risk adjustment (d)	Accumulated write-offs (e)	Credit risk adjustment charges (f)	Net values
		Defaulted exposures (a)	Non-defaulted exposures (b)					(a+ b -c-d)
35	Malta	-	1,887,960	-	-	-	-	1,887,960
36	Mexico	-	597,450	32	-	-	32	597,418
37	Nigeria	-	140,570	544	-	-	-	140,026
38	Nederland	-	455,589,567	498,452	-	-	496,246	455,091,115
39	Norway	-	12,000	43	-	-	13	11,957
40	Pakistan	-	52,500	91	-	-	-	52,409
41	Poland	-	1,438,266	501	-	-	196	1,437,766
42	Portugal	-	2,219,770	1,623	-	-	247	2,218,147
43	Reunion	-	2,683	13	-	-	6	2,671
44	Romania	2,390,601,639	55,340,296,074	2,050,150,348	-	1,152,628,130.99	396,764,776	55,680,747,365
45	Russian Federation	-	12,962,641	3,289	-	-	3,045	12,959,351
46	Sweden	-	50,010	1	-	-	1	50,009
47	Slovenia	-	114,946,737	89,114	-	-	44,041	114,857,623
48	Slovakia	-	47,040	102	-	-	-	46,938
49	Thailand	-	105,255	12	-	-	12	105,243
50	Turkey	14,169	35,833,584	66,499	-	282	36,258	35,781,254
51	Minor peripheral islands of the United States	-	10	-	-	-	-	10
52	United Stated	461	289,945,889	15,544	-	-	1,870	289,930,806
53	Uzbekistan	-	8,324,838	149,575	-	-	149,575	8,175,263
	Total	**2,395,700,480**	**58,599,845,916**	**2,055,957,076**	**-**	**1,249,168,735**	**398,129,427**	**58,939,589,320**

EU CRB-E–Maturity of exposures

The template presents the credit quality for balance sheet exposures by its maturity.

The template does not contain CCR exposures (standardized approach 34,219,951.25 RON, IRB approach 134,080,079.79 RON) and SFT (IRB approach 5,736,771,942 RON).

		Net exposure value					
		On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
1	Central governments or central banks	1,028,544,061	38,390,454	526,557,248	847,914,400	-	2,441,406,163
2	Institutions	48,484,684	461,302,168	537,997,722	78,412,759	-	1,126,197,333
3	Corporates	7,384,510	7,816,579,279	3,143,225,416	1,286,067,678	-	12,253,256,883
4	Retail	-	-	-	-	-	-
5	Equity	-	-	-	-	45,130,508	45,130,508
6	**Total IRB approach**	**1,084,413,255**	**8,316,271,902**	**4,207,780,386**	**2,212,394,837**	**45,130,508**	**15,865,990,889**
7	Central governments or central banks	3,282,970,062	983,065,233	4,844,886,732	1,354,080,646	-	10,465,002,673
8	Regional governments or local authorities	719	10,758,457	104,277,273	180,102,861	-	295,139,310
9	Public sector entities	180	-	-	-	-	180
10	Multilateral development banks	-	-	-	-	-	-
11	International organizations	-	-	-	-	-	-
12	Institutions	8	62,477	1,017,790	1,325	-	1,081,600
13	Corporates	2,311,920	880,284,350	1,476,214,441	1,215,678,123	-	3,574,488,834
14	Retail	128,007,081	996,169,892	4,706,928,292	896,008,778	-	6,727,114,043
15	Secured by mortgages on immovable property	2,472	155,241,422	279,999,505	5,226,514,916	-	5,661,758,315
16	Exposures in default	6,182,388	31,119,285	154,842,517	137,282,104	-	329,426,294
17	Items associated with particularly high risk	91	5,357,490	82,420,194	10,302,904	-	98,080,679
18	Covered bonds	-	-	-	-	-	-
19	Claims on institutions and corporates with a short-term credit assessment	-	33,220	-	-	-	33,220
20	Collective investments undertakings	-	-	-	-	-	-
21	Equity exposures	1,243,227	-	-	-	1,102,771	2,345,998
22	Other exposures	193,964,413	-	-	-	-	193,964,413
23	**Total standardized approach**	**3,614,682,562**	**3,062,091,827**	**11,650,586,745**	**9,019,971,656**	**1,102,771**	**27,348,435,561**
24	**Total**	**4,699,095,817**	**11,378,363,729**	**15,858,367,131**	**11,232,366,493**	**46,233,279**	**43,214,426,450**

6.4 Credit risk impairment/NLPs (non-performing loans) 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.

Non performing exposures means the cases in which, due to deterioration of the economic and financial situation of the borrower, they are neither capable, nor worthy of being restructured. Included in this category are also those companies whose business is about to end (e.g.: voluntary liquidation or similar situations).

Non-performing exposures (NPE) are considered the exposures which satisfy either or both of the following criteria:

(a) material exposures which are *more than 90 days past-due;*

(b) the debtor is assessed as *unlikely to pay its credit obligations* in full without realisation of collateral, regardless of the existence of any past-due amount or of the number of days past due;

(c) unpaid amount/instalments

During 2019 the significance threshold of the obligations from past due loans for retail exposures was aligned, both for the Bank and for UCFIN, at the level set up by Regulation no. 5/2018 amending and supplementing the Regulation of the National Bank of Romania no. 5/2013 regarding prudential requirements for credit institutions, as follows:

a) the level of the relative component of the significance threshold is 1%;

b) the level of the absolute component of the significance threshold is 150 RON.

Any replacement operation of an exposure granted to a debtor that is facing or about to face financial difficulties in meeting its financial commitments represents a concession granted to the borrower (**forbearance**), which would not have been granted if the debtor had not been in financial difficulties. Both conditions - the concession of a measure in favor of the debtor and the assessment of its financial difficulty - have to be met for an exposure in order to be considered as forborne.

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

The below template presents the changes in the stock of defaulted and impaired loans and debt securities.

		Gross carrying value defaulted exposures
1	**Opening balance (30.06.2019)**	**2,392,905,235**
2	Loans and debt securities that have defaulted or impaired since the last reporting period	521,612,074
3	Returned to non-defaulted status	-200,112,175
4	Amounts written off	-297,459,069
5	Other changes	-21,245,585
6	**Closing balance (31.12.2019)**	**2,395,700,480**

UE CR5 – Standardised approach

The template presents the split of the balance sheet and of the off balance sheet elements by asset class and by risk weighetd assets according to the standardised approach; exposures are presented after CCF and CRM.

The columns "Without Rating" concerns the exposures for which a credit assessment performed by an ECAI Institution is not available and risk weights are applied according to the articles 113-134 CRR.

		Risk Weight								
	Exposure classes	**0%**	**2%**	**4%**	**10%**	**20%**	**35%**	**50%**	**70%**	**75%**
1	Central governments or central banks	10,540,833,680	-	-	-	-	-	-	-	-
2	Regional government or local authorities	-	-	-	-	240,992,425	-	-	-	-
3	Public sector entities	-	-	-	-	-	-	-	-	-
4	Multilateral development banks	143,956,061	-	-	-	-	-	-	-	-
5	International organizations	-	-	-	-	-	-	-	-	-
6	Institutions	-	-	-	-	8	-	37,785,868	-	-
7	Corporates	-	-	-	-	-	-	51,955,108	-	-
8	Retail	-	-	-	-	-	-	-	-	6,780,794,367
9	Secured by mortgages on immovable property	-	-	-	-	-	5,386,209,087	-	-	-
10	Exposures in default	-	-	-	-	-	-	-	-	-
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-
12	Covered bonds	-	-	-	-	-	-	-	-	-
13	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-
14	Collective investment undertakings	-	-	-	-	-	-	-	-	-
15	Equity	-	-	-	-	-	-	-	-	-
16	Other items	6,629	-	-	-	-	-	-	-	-
17	**Total**	**10,684,796,370**	-	-	-	**240,992,433**	**5,386,209,087**	**89,740,976**	**-**	**6,780,794,367**

UE CR5 – Standardised approach (continued)

		Risk Weight							Total	Of which unrated
	Exposure classes	100%	150%	250%	370%	1250%	Others	Deducted		
1	Central governments or central banks	-	-	71,657,765	-	-	74,505,032	-	10,686,996,477	-
2	Regional government or local authorities	65,640,400	-	-	-	-	-	-	306,632,825	-
3	Public sector entities	180	-	-	-	-	-	-	180	-
4	Multilateral development banks	-	-	-	-	-	-	-	143,956,061	-
5	International organizations	-	-	-	-	-	-	-	-	-
6	Institutions	1,198,877	-	-	-	-	-	-	38,984,753	-
7	Corporates	3,848,226,438	-	-	-	-	-	-	3,900,181,546	-
8	Retail	-	-	-	-	-	-	-	6,780,794,367	-
9	Secured by mortgages on immovable property	282,816,426	-	-	-	-	-	-	5,669,025,513	-
10	Exposures in default	275,131,626	48,675,079	-	-	-	-	-	323,806,705	-
11	Exposures associated with particularly high risk	-	98,080,679	-	-	-	-	-	98,080,679	-
12	Covered bonds	-	-	-	-	-	-	-	-	-
13	Institutions and corporates with a short-term credit assessment	33,220	-	-	-	-	-	-	33,220	-
14	Collective investment undertakings	-	-	-	-	-	-	-	-	-
15	Equity	2,345,998	-	-	-	-	-	-	2,345,998	-
16	Other items	193,957,784	-	-	-	-	-	-	193,964,413	-
17	**Total**	**4,669,350,949**	**146,755,758**	**71,657,765**	-	-	**74,505,032**	-	**28,144,802,737**	**-**

Starting 31 December 2019 new Guidelines on disclosure of non-performing and forborne exposures (EBA/GL/2018/10) are in force. The templates 1-10 have been prepared in compliance with the above mentioned Guidelines and aligned with the information presented in the Group's FINREP prepared at consolidated level for December 31, 2019.

According to the UniCredit group approach, the non-performing exposures are equal to defaulted and impaired exposures.

The value of collaterals presented in the following tables from this chapter represents the market value capped at individual loan exposure level and further more adjusted (haircuts applied) as per internal procedure regarding loan impairment computation.

The loans and advances exposures from this chapter do not include the following types of exposures, considered in the other tables from Chapter 6: CCR for derivatives, participations, other assets & deferred tax of subsidiaries, other assets of the Bank in relationship with the Romanian state, however include other financial assets of the Bank.

Template 1: Credit quality of forborne exposures

		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
				Of which defaulted	Of which impaired				
1	**Loans and advances**	**330,038,747**	**1,150,246,107**	**1,150,246,106**	**1,150,246,106**	**(9,502,768)**	**(803,485,631)**	**449,529,109**	**208,851,835**
2	Central banks	-	-	-	-	-	-	-	-
3	General governments	-	-	-	-	-	-	-	-
4	Credit institutions	-	-	-	-	-	-	-	-
5	Other financial corporations	-	10,705	10,705	10,705	-	(10,328)	-	-
6	Non-financial corporations	282,261,193	950,844,018	950,844,018	950,844,018	(7,696,456)	(681,509,368)	357,563,729	140,428,117
7	Households	47,777,553	199,391,385	199,391,384	199,391,384	(1,806,312)	(121,965,935)	91,965,381	68,423,718
8	**Debt Securities**	-	-	-	-	-	-	-	-
9	**Loan commitments given**	**96,529,021**	**53,119,792**	**53,119,792**	**53,119,792**	**(201,760)**	**(36,307,736)**	**72,916,059**	**9,196,168**
10	**Total**	**426,567,768**	**1,203,365,899**	**1,203,365,898**	**1,203,365,898**	**(9,704,528)**	**(839,793,367)**	**522,445,168**	**218,048,003**

Template 2: Quality of forbearance

		Gross carrying amount of forborne exposures
1	Loans and advances that have been forborne more than twice	802,276,868
2	Non-performing forborne loans and advances that failed to meet the non-performing exit criteria	41,324,694

Template 3: Credit quality of performing and non-performing exposures by past due days

	Gross carrying amount/nominal amount					
	Performing exposures			Non-performing exposures		
		Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days
Loans and advances	**39,862,068,217**	**39,571,216,389**	**290,851,829**	**2,203,905,744**	**1,135,094,241**	**235,784,930**
Central banks	4,223,925,409	4,223,925,409	-	-	-	-
General governments	249,867,059	249,867,059	-	281,348,728	92,485	-
Credit institutions	6,485,214,413	6,462,887,732	22,326,681	-	-	-
Other financial corporations	561,377,069	561,355,367	21,702	322,821	50,322	49
Non-financial corporations	19,710,610,459	19,545,465,904	165,144,556	1,378,498,914	951,126,561	40,313,908
Of which SMEs	11,885,462,675	11,838,836,525	46,626,150	950,256,984	556,144,438	39,312,561
Households	8,631,073,808	8,527,714,918	103,358,890	543,735,281	183,824,873	195,470,973
Debt securities	**8,613,306,285**	**8,613,306,285**	**-**	**-**	**-**	**-**
General governments	8,613,306,285	8,613,306,285	-	-	-	-
Off-balance-sheet exposures	**15,689,097,086**			**191,505,221**		
General governments	37,486,037			-		
Credit institutions	1,819,995,250			-		
Other financial corporations	487,405,450			-		
Non-financial corporations	12,870,132,835			186,451,491		
Households	474,077,514			5,053,730		
Total	**64,164,471,588**	**48,184,522,674**	**290,851,829**	**2,395,410,965**	**1,135,094,241**	**235,784,930**

Template 3: Credit quality of performing and non-performing exposures by past due days (continued)

	Gross carrying amount/nominal amount					
	Non-performing exposures					
	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted*
Loans and advances	**98,708,248**	**109,409,534**	**514,647,636**	**58,282,451**	**51,978,704**	**2,203,905,725**
Central banks	-	-	-	-	-	-
General governments	-	-	281,256,243	-	-	281,348,728
Credit institutions	-	-	-	-	-	-
Other financial corporations	-	85,798	186,652	-	-	322,821
Non-financial corporations	78,948,669	61,696,105	168,120,655	40,950,528	37,342,488	1,378,498,914
Of which SMEs	77,778,367	60,612,747	156,875,120	28,716,219	30,817,532	950,256,984
Households	19,759,579	47,627,631	65,084,086	17,331,923	14,636,216	543,735,281
Debt securities	-	-	-	-	-	-
General governments	-	-	-	-	-	-
Off-balance-sheet exposures						**191,505,221**
General governments						-
Credit institutions						-
Other financial corporations						-
Non-financial corporations						186,451,491
Households						5,053,730
Total	**98,708,248**	**109,409,534**	**514,647,636**	**58,282,451**	**51,978,704**	**2,395,410,965**

Template 4: Performing and non-performing exposures and related provisions

	Gross carrying amount/nominal amount					
	Performing exposures			Non-performing exposures		
		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3
Loans and advances	**39,862,068,217**	**36,149,452,355**	**3,712,615,862**	**2,203,905,744**	**-**	**2,203,905,744**
Central banks	4,223,925,409	4,223,925,409	-	-	-	-
General governments	249,867,059	225,502,591	24,364,468	281,348,728	-	281,348,728
Credit institutions	6,485,214,413	6,485,214,413	-	-	-	-
Other financial corporations	561,377,069	561,285,116	91,953	322,821	-	322,821
Non-financial corporations	19,710,610,459	17,447,414,805	2,263,195,654	1,378,498,914	-	1,378,498,914
Of which SMEs	11,885,462,675	10,611,919,156	1,273,543,519	950,256,984	-	950,256,984
Households	8,631,073,808	7,206,110,021	1,424,963,787	543,735,281	-	543,735,281
Debt securities	**8,613,306,285**	**8,613,306,285**	**-**	**-**	**-**	**-**
Central banks	-	-	-	-	-	-
General governments	8,613,306,285	8,613,306,285	-	-	-	-
Off-balance-sheet exposures	**15,689,097,086**	**14,082,706,587**	**1,606,390,499**	**191,505,221**	**-**	**191,505,221**
General governments	37,486,037	23,051,486	14,434,551	-	-	-
Credit institutions	1,819,995,250	1,784,345,085	35,650,165	-	-	-
Other financial corporations	487,405,450	486,925,450	480,000	-	-	-
Non-financial corporations	12,870,132,835	11,403,830,679	1,466,302,156	186,451,491	-	186,451,491
Households	474,077,514	384,553,887	89,523,627	5,053,730	-	5,053,730
Total	**64,164,471,588**	**58,845,465,227**	**5,319,006,361**	**2,395,410,965**	**-**	**2,395,410,965**

Template 4: Performing and non-performing exposures and related provisions(continued)

	Accumulated impairment accumulated negative changes in fair value due to credit risk and provisions					
	Performing exposures–accumulated impairment			Non-performing exposures–accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3
Loans and advances	**(262,782,292)**	**(164,905,076)**	**(97,877,216)**	**(1,664,396,746)**	**-**	**(1,664,396,746)**
Central banks	(3,842,028)	(3,842,028)	-	-	-	-
General governments	(536,329)	(290,424)	(245,905)	(261,575,625)	-	(261,575,625)
Credit institutions	(697,344)	(697,344)	-	-	-	-
Other financial corporations	(1,155,566)	(1,154,042)	(1,524)	(318,888)	-	(318,888)
Non-financial corporations	(162,052,812)	(95,639,284)	(66,413,528)	(1,039,368,822)	-	(1,039,368,822)
Of which SMEs	(96,862,657)	(69,084,441)	(27,778,216)	(749,042,188)	-	(749,042,188)
Households	(94,498,213)	(63,281,954)	(31,216,259)	(363,133,411)	-	(363,133,411)
Debt securities	**(6,523,800)**	**(6,523,800)**	-	-	-	-
Central banks	-	-	-	-	-	-
General governments	**(6,523,800)**	**(6,523,800)**	-	-	-	-
Off-balance-sheet exposures	**(22,502,141)**	**(14,086,912)**	**(8,415,229)**	**(132,937,288)**	-	**(132,937,288)**
General governments	(354,237)	(28,823)	(325,414)	-	-	-
Credit institutions	(199,044)	(192,011)	(7,033)	-	-	-
Other financial corporations	(172,986)	(274,989)	(102,003)	-	-	-
Non-financial corporations	(19,568,276)	(11,471,617)	(8,096,659)	(132,509,979)	-	(132,509,979)
Households	(2,207,598)	(2,119,472)	(88,126)	(427,309)	-	(427,309)
Total	**(291,808,233)**	**(185,515,788)**	**(106,292,445)**	**(1,797,334,034)**	-	**(1,797,334,034)**

Template 4: Performing and non-performing exposures and related provisions (continued)

	Accumulated partial write-off	Collateral and financial guarantees received	
		On performing exposures	On non-performing exposures
Loans and advances	-	**23,175,163,087**	**352,898,298**
Central banks	-	-	-
General governments	-	-	-
Credit institutions	-	5,771,808,847	-
Other financial corporations	-	176,584,119	3,487
Non-financial corporations	-	12,269,942,911	209,425,315
Of which SMEs	-	5,026,832,587	167,493,150
Households	-	4,956,827,210	143,469,496
Debt securities	-	-	-
Central banks	-	-	-
General governments	-	-	-
Off-balance-sheet exposures	-	-	**34,702,738**
General governments	-	-	-
Credit institutions	-	-	-
Other financial corporations	-	-	-
Non-financial corporations	-	-	32,664,591
Households	-	-	2,038,147
Total	-	**23,175,163,087**	**387,601,036**

Template 5: Quality of non-performing exposures by geography

		Gross carrying/nominal amount				Accumulated impairment	Provisions on off-balance-sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing		Of which subject to impairment			
				Of which defaulted				
1	**On-balance-sheet exposures**	**42,065,973,962**	**2,203,905,744**	**2,203,905,725**	**42,065,973,962**	**(1,927,179,038)**		**-**
2	Romania	35,939,384,563	2,199,702,008	2,199,702,008	35,939,384,563	(1,922,209,171)		-
3	Italy	5,879,352,403	45,613	45,613	5,879,352,403	(410,183)		-
4	Germany	132,536,459	15,609	15,609	132,536,459	(205,832)		-
5	United Arab Emirates	22,326,681	-	-	22,326,681	(8,108)		-
6	Austria	19,008,125	-	-	19,008,125	(7,734)		-
7	France	18,627,475	1,426	1,426	18,627,475	(6,350)		-
8	Uzbekistan	8,324,838	-	-	8,324,838	(149,575)		-
9	United Kingdom	7,918,819	-	-	7,918,819	(25,029)		-
10	Luxembourg	7,659,725	-	-	7,659,725	(558)		-
11	Hungary	6,990,900	-	-	6,990,900	(7,324)		-
12	USA	6,344,297	461	461	6,344,297	(3,559)		-
13	Russia	6,062,664	-	-	6,062,664	(1,179)		-
14	Bulgaria	4,140,396	-	-	4,140,396	(2,766)		-
15	Cyprus	4,108,818	4,107,952	4,107,952	4,108,818	(4,107,959)		-
16	Switzerland	1,200,512	-	-	1,200,512	(942)		-
17	China	410,526	-	-	410,526	(195)		-
18	Poland	378,194	215	215	378,194	(639)		-
19	Canada	342,219	636	636	342,219	(1,103)		-
20	Israel	316,997	374	374	316,997	(666)		-
21	Other countries	539,351	31,450	31,431	539,351	(30,166)		-

Template 5: Quality of non-performing exposures by geography (continued)

		Gross carrying/nominal amount				Accumulated impairment	Provisions on off-balance-sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing		Of which subject to impairment			
				Of which defaulted				
22	**Off-balance-sheet exposures**	**15,880,602,307**	**191,505,221**	**191,505,221**			**(155,439,429)**	
23	Romania	13,737,864,423	190,667,645	190,667,645			(154,537,826)	
24	Italy	465,344,221	-	-			(168,233)	
25	USA	291,825,953	-	-			(15,885)	
26	Germany	272,722,501	-	-			(7,353)	
27	Netherlands	240,060,264	-	-			(492,616)	
28	Austria	185,893,594	-	-			(37,257)	
29	Japan	126,635,329	-	-			(6,830)	
30	Spain	119,437,750	-	-			(15,044)	
31	Slovenia	114,946,737	-	-			(89,114)	
32	Switzerland	64,221,652	-	-			(3,103)	
33	France	53,570,764	-	-			(3,077)	
34	China	49,704,720	-	-			(1,626)	
35	Turkey	35,790,130	-	-			(51,815)	
36	Czech Republic	22,512,689	-	-			(508)	
37	Belgium	21,285,015	-	-			(1,619)	
38	Hungary	16,547,108	-	-			(404)	
39	Denmark	16,095,423	-	-			(1,472)	
40	United Kingdom	15,478,424	-	-			(648)	
41	Bulgaria	9,271,003	-	-			(30)	
42	Russia	6,899,977	-	-			(2,110)	
43	Israel	6,083,643	-	-			(309)	
44	Portugal	2,135,021	-	-			(998)	
45	Malta	1,887,960	-	-			0	
46	Poland	1,453,740	-	-			(125)	
47	Monaco	1,089,817	837,576	837,576			(1,293)	
48	Canada	650,158	-	-			(5)	
49	Morocco	401,273	-	-			(32)	
50	Mexico	208,659	-	-			(21)	
51	Other countries	584,359	-	-			(76)	
52	**Total**	**57,946,576,269**	**2,395,410,965**	**2,395,410,946**	**42,065,973,962**	**(1,927,179,038)**	**(155,439,429)**	**-**

Template 6: Credit quality of loans and advances granted to non finacial corporations by industry

		Gross carrying amount				Accumulated impairment
			Of which non-performing		Of which loans and advances subject to impairment	
				Of which defaulted		
1	Agriculture, forestry and fishing	1,642,651,400	44,382,542	44,382,542	1,642,651,400	(40,530,295)
2	Mining and quarrying	84,774,730	12,693,379	12,693,379	84,774,730	(12,305,743)
3	Manufacturing	6,258,820,431	570,554,862	570,554,862	6,258,820,431	(415,724,329)
4	Electricity, gas, steam and air conditioning supply	446,590,623	106,485,208	106,485,208	446,590,623	(56,897,080)
5	Water supply	158,868,857	23,760,466	23,760,466	158,868,857	(20,420,294)
6	Construction	1,151,966,590	200,622,212	200,622,212	1,151,966,590	(177,479,808)
7	Wholesale and retail trade	5,768,133,901	170,340,282	170,340,282	5,768,133,901	(162,314,982)
8	Transport and storage	1,655,621,356	61,070,790	61,070,790	1,655,621,356	(84,716,935)
9	Accommodation and food service activities	272,405,489	11,164,136	11,164,136	272,405,489	(10,024,438)
10	Information and communication	660,163,231	27,225,662	27,225,662	660,163,231	(28,670,186)
11	Financial and insurance activities	52,364,439	33,363	33,363	52,364,439	(415,003)
12	Real estate activities	1,896,192,687	52,493,211	52,493,211	1,896,192,687	(57,278,371)
13	Professional, scientific and technical activities	397,546,942	59,373,067	59,373,067	397,546,942	(48,731,717)
14	Administrative and support service activities	294,194,214	10,646,392	10,646,392	294,194,214	(8,350,609)
15	Public administration and defense, compulsory social security	1,520,570	17,190	17,190	1,520,570	(16,697)
16	Education	14,932,616	669,551	669,551	14,932,616	(297,581)
17	Human health services and social work activities	151,589,929	13,721,618	13,721,618	151,589,929	(12,681,993)
18	Arts, entertainment and recreation	27,162,200	9,288,782	9,288,782	27,162,200	(8,846,042)
19	Other services	153,609,169	3,956,201	3,956,201	153,609,169	(55,719,531)
20	**Total**	**21,089,109,374**	**1,378,498,914**	**1,378,498,914**	**21,089,109,374**	**(1,201,421,634)**

Template 7: Collateral valuation-loans and advances

		Loans and advances					
			Performing		Non-performing		
				Of which past due>30 days≤90 days		Unlikely to pay that are not past due or are past due ≤90 days	Past due>90 days
1	**Gross carrying amount**	**42,065,973,971**	**39,862,068,218**	**290,851,833**	**2,203,905,753**	**1,135,094,240**	**1,068,811,513**
2	Of which secured	24,362,867,766	23,310,070,917	184,116,872	1,052,796,849	710,413,089	342,383,760
3	Of which secured with immovable property	14,947,140,587	14,235,454,279	52,630,220	711,686,308	470,704,935	240,981,373
4	Of which instruments with LTV higher than 60% and lower or equal to 80%	3,738,165,169	3,633,498,739	-	104,666,430	78,869,666	25,796,764
5	Of which instruments with LTV higher than 80% and lower or equal to 100%	2,005,426,728	1,937,116,068	-	68,310,660	55,835,527	12,475,133
6	Of which instruments with LTV higher than 100%	1,423,811,989	1,260,917,123	-	162,894,866	113,359,327	49,535,539
7	Accumulated impairment for secured assets	(1,011,279,796)	(194,814,799)	(15,135,547)	(816,464,997)	(437,515,461)	(378,949,536)
8	Collateral*						
9	Of which value capped the value of exposure	22,811,946,886	22,496,903,003	122,262,471	315,043,883	221,958,056	93,085,827
10	Of which immovable property	9,996,084,671	9,772,988,175	46,345,177	223,096,496	146,500,994	76,595,502
11	Of which value above the cap	1211,418,564	978,273,783	451,474	233,144,782	191,642,847	41,501,935
12	Of which immovable property	216,750,496	100,537,872	418,803	116,212,624	98,622,543	17,590,081
13	Financial guarantees received	716,114,499	678,273,134	1,555,116	37,841,365	36,416,248	1,425,117
14	Accumulated partial write-off	-	-	-	-	-	-

Template 7: Collateral valuation-loans and advances (continued)

		Loans and advances					
		Non-performing					
		Past due>90days					
		Of which past due>90days≤180days	Of which: past due>180days≤1year	Of which: past due>1years≤2years	Of which :past due>2years≤5years	Of which: past due>5years≤7years	Of which: past due>7years
1	**Gross carrying amount**	**235,784,936**	**98,708,248**	**109,409,548**	**514,647,620**	**58,282,456**	**51,978,705**
2	Of which secured	52,168,192	74,482,036	45,108,567	131,226,682	20,245,685	19,152,598
3	Of which secured with immovable property	31,793,472	34,948,263	31,874,138	109,353,107	17,306,105	15,706,288
4	Of which instruments with LTV higher than 60% and lower or equal to 80%	-	-	-	-	-	-
5	Of which instruments with LTV higher than 80% and lower or equal to 100%	-	-	-	-	-	-
6	Of which instruments with LTV higher than 100%	-	-	-	-	-	-
7	Accumulated impairment for secured assets	(165,489,423)	(49,178,403)	(26,779,108)	(107,878,219)	(14,210,573)	(15,413,810)
8	Collateral*						
9	Of which value capped the value of exposure	28,780,786	22,993,926	16,552,281	15,219,376	5,817,828	3,721,630
10	Of which immovable property	18,631,442	17,307,792	16,071,050	15,045,760	5,817,828	3,721,630
11	Of which value above the cap	16,303,605	18,285,059	1,082,545	5,496,864	333,508	354
12	Of which immovable property	2,410,489	8,291,335	1,082,541	5,471,854	333,508	354
13	Financial guarantees received	44,084	918,814	340,091	122,128	-	-
14	Accumulated partial write-off	-	-	-	-	-	-

* *The value of collaterals presented in the following tables from this chapter represents the market value capped at individual loan exposure level and further more adjusted (haircuts applied) as per internal procedure regarding loan impairment computation. The value of collaterals disclosed in the narrative disclosures under the above mentioned tables represents market value of collaterals before any haircuts applied.*

Template 8: Changes in the stock of non-performing loans and advances

		Gross carrying amount	Related net accumulated recoveries
1	**Initial stock of non-performing loans and advances**	**2,343,501,707**	**-**
2	Inflows to non-performing portfolios	940,259,648	-
3	Outflows from non-performing portfolios	(1,079,855,611)	-
4	Outflow to performing portfolio	(126,638,747)	-
5	Outflow due to loan repayment, partial or total	(136,392,380)	-
6	Outflow due to collateral liquidations	(120,823,500)	119,955,084
7	Outflow due to taking possession of collateral	(13,433,000)	328,274
8	Outflow due to sale of instruments	(7,318,490)	3,333,202
9	Outflow due to risk transfers	-	-
10	Outflows due to write-offs	(646,049,000)	-
11	Outflow due to other situations	(29,200,494)	-
12	Outflow due to reclassification as held for sale	-	-
13	**Final stock of non-performing loans and advances**	**2,203,905,744**	**-**

Template 9: Collateral obtained by taking possession and execution processes

		Collateral obtained by taking possession	
		Value at initial recognition	Accumulated negative changes
1	Property, plant and equipment (PP&E)	22,986,274	(13,627,572)
2	Other than PP&E	29,298,856	(16,869,692)
3	Residential immovable property	328,274	-
4	Commercial Immovable property	-	-
5	Movable property (auto, shipping, etc.)	28,970,582	(16,869,692)
6	Equity and debt instruments	-	-
7	Other	-	-
8	**Total**	**52,285,130**	**(30,497,264)**

Template 10: Collateral obtained by taking possession and execution processes – vintage breakdown

		Debt balance reduction		Total collateral obtained by taking possession							
						Foreclosed ≤ 2 years		Foreclosed > 2 years ≤ 5 years		Foreclosed > 5 years	
		Gross carrying amount	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes
1	Collateral obtained by taking possession classified as PP&E	22,986,274	(13,627,572)	22,986,274	(13,627,572)	-	-	-	-	-	-
2	Collateral obtained by taking possession other than that classified as PP&E	29,462,844	(17,154,079)	29,298,856	(16,869,692)	17,833,660	(13,626,428)	11,246,925	(3,026,017)	218,271	(217,247)
3	Residential immovable property	492,262	(284,387)	328,274	-	328,274	-	-	-	-	-
4	Commercial immovable property	-	-	-	-	-	-	-	-	-	-
5	Movable property (auto, shipping, etc.)	28,970,582	(16,869,692)	28,970,582	(16,869,692)	17,505,386	(13,626,428)	11,246,925	(3,026,017)	218,271	(217,247)
6	Equity and debt instruments	-	-	-	-	-	-	-	-	-	-
7	Other	-	-	-	-	-	-	-	-	-	-
8	**Total**	**52,449,118**	**(30,781,651)**	**52,285,130**	**(30,497,264)**	**17,833,660**	**(13,626,428)**	**11,246,925**	**(3,026,017)**	**218,271**	**(217,247)**

6.5 Expected Credit Loss – Approaches and Methods

For Expected Credit Loss (ECL) calculation there are applicable two different approaches: “collective” approach and “individual” approach.

The approach generic named “collective” (ECL calculated at the level of group financial assets), represented by expected credit losses for the next 12 months or / and expected losses for lifetime.

Through collective approach, the approach is applied to a portfolio through its division into risk groups with similar characteristics. This approach is used for both the Retail Loan portfolio and the Corporate Portfolio. Evaluation is made monthly by Credit Risk Management Department, according to internal regulations.

Individual approach is a process of measurement of exposure impairment at transaction level or for at the client level. According to IFRS9, individual assessment is mandatory for individually significant exposures and may also be used to assess insignificant exposures.

The individual assessment process has been divided into 2 steps:

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

Individually significant exposures are considered to be the following:

- all exposures to banks, countries and sovereigns;
- all exposures to corporate defaulted clients (clients with rating 8-, 9, 10) which exceed the amount of EUR 1.000.000;
- all exposures to SME defaulted clients (rating 8-, 9, 10), exposures which exceed the amount of EUR 250.000;
- all loans granted to private individuals & private banking defaulted clients (rating 8-, 9, 10) with exposures exceeding the amount of EUR 250.000, for which at least one default event has been identified ; in some particular situations, case by case, the individually analysis can be applied also for exposures over than EUR 50.000; all clients/transactions whose risk profile cannot be assessed based on statistical parameters at the portfolio level or for the cases that the individual assessment is necessary.

Thresholds mentioned above refer to current total exposure (considering bank balance sheet) for a client, including also off-balance exposure.

For each significant individual transaction where a default event was identified, based on objective evidence of impairment, the value of the future cash flows will be determined.

The estimated value to be recovered is represented by the value of the future cash flows and payments, considering within the analyses all available information about the transaction/client.

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

The template presents the changes in an institution's stock of general and specific credit risk adjustments held against loans and debt securities that are defaulted or impaired.

		Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment
1	**Opening balance (01.01.2019)**	**-1,858,281,081**	**-**
2	Increases due to amounts set aside for estimated loan losses during the period	-620,956,679	-
3	Decreases due to amounts reversed for estimated loan losses during the period	-27,402,832	-
4	Decreases due to amounts taken against accumulated credit risk adjustments	773,709,667	-
5	Transfers between credit risk adjustments	53,790,429	-
6	Impact of exchange rate differences	14,743,570	-
7	Business combinations, including acquisitions and disposals of subsidiaries	-	-
8	Other adjustments	-	-
9	**Closing balance (31.12.2019)**	**-1,664,396,746**	**-**
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	81,083,481	-
11	Specific credit risk adjustments directly recorded to the statement of profit or loss	187,041	-

6.6 Risk Weighted Asset (RWA) – Internal Ratings Based (IRB) by internal rating grade

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 million 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. The structure of internal ratings is presented below:

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 process, decision process, pricing, monitoring, reporting and portfolio management, stress testing.

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 presumes 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

The below template presents the exposure classes according to PD grades. Equity instruments are not included.

Exposure class	PD Scale	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
Central Governments or Central Bank							
	0.00 to <0.15	-	448,155	0.5000	224,077	0.0000	1
	0.15 to <0.25	-	-	-	-	-	-
	0.25 to <0.50	2,422,551,476	1,000,000	0.9996	2,422,551,476	0.0026	4
	0.50 to <0.75	-	-	-	-	-	-
	0.75 to <2.50	-	-	-	-	-	-
	2.50 to <10.00	-	-	-	-	-	-
	10.00 to <100.00	-	-	-	-	-	-
	100.00 (Default)	281,348,727	-	1.0000	281,348,727	1.0000	1
	Subtotal	**2,703,900,204**	**1,448,155**	**0.8332**	**2,704,124,281**	**0.5013**	**6**
Institutions							
	0.00 to <0.15	618,271,554	1,608,057,656	0.7222	1,607,877,566	0.0008	65
	0.15 to <0.25	8,450,201	46,125,548	0.5355	29,226,691	0.0020	4
	0.25 to <0.50	164,305,510	197,840,794	0.7347	266,083,575	0.0037	23
	0.50 to <0.75	-	16,086,245	0.5000	8,043,123	0.0061	3
	0.75 to <2.50	336,314,074	84,851,574	0.8631	363,523,406	0.0146	14
	2.50 to <10.00	-	-	-	393,903	0.0781	-
	10.00 to <100.00	-	-	-	-	-	-
	100.00 (Default)	-	-	-	-	-	-
	Subtotal	**1,127,341,339**	**1,952,961,816**	**0.7386**	**2,275,148,264**	**0.0150**	**109**
Retail - SME							
	0.00 to <0.15	48,131,181	89,079,723	0.5258	72,141,245	0.0008	21
	0.15 to <0.25	5,684,091	49,760,704	0.1217	6,748,149	0.0018	8
	0.25 to <0.50	137,249,711	311,362,834	0.4835	216,884,613	0.0036	88
	0.50 to <0.75	149,592,919	216,963,665	0.5680	208,193,857	0.0067	138
	0.75 to <2.50	3,313,963,929	1,991,469,512	0.6922	3,672,282,363	0.0156	1,636
	2.50 to <10.00	2,683,869,358	1,244,550,037	0.7161	2,813,168,991	0.0522	1,367
	10.00 to <100.00	173,317,571	74,400,749	0.7123	176,455,760	0.1507	79
	100.00 (Default)	491,756,362	142,194,747	0.8335	528,407,385	1.0000	242
	Subtotal	**7,003,565,122**	**4,119,781,971**	**0.6917**	**7,694,282,363**	**0.1539**	**3,579**
Corporate-Other							
	0.00 to <0.15	422,167,571	2,516,655,820	0.4049	1,189,949,832	0.0008	139
	0.15 to <0.25	238,519,171	900,547,195	0.5417	617,003,983	0.0019	25
	0.25 to <0.50	458,432,171	1,412,028,365	0.3868	723,521,465	0.0038	115
	0.50 to <0.75	490,950,980	806,461,394	0.5015	650,623,542	0.0067	68
	0.75 to <2.50	3,061,249,890	1,325,033,052	0.7463	3,273,380,288	0.0154	334
	2.50 to <10.00	923,292,341	518,273,902	0.6733	970,670,161	0.0522	187
	10.00 to <100.00	-	17,594,383	0.5000	8,797,192	0.1624	3
	100.00 (Default)	286,157,350	39,043,486	0.9004	292,821,329	1.0000	33
	Subtotal	**5,880,769,476**	**7,535,637,598**	**0.5759**	**7,726,767,793**	**0.1554**	**904**
Total (all portfolio)		**16,715,576,141**	**13,609,829,540**	**0.6727**	**20,400,322,701**	**0.2064**	**4,598**

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

The table below does not include amount classified as other assets (Right of Use, PPE, equity investments, deferred tax, etc.).

Exposure class	PD Scale	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Central Governments or Central Bank							
	0.00 to <0.15	0.45000	912.50	-	-	-	-
	0.15 to <0.25	-	-	-	-	-	-
	0.25 to <0.50	0.45000	912.50	1,284,008,744	0.530	2,781,190	-918,907
	0.50 to <0.75	-	-	-	-	-	-
	0.75 to <2.50	-	-	-	-	-	-
	2.50 to <10.00	-	-	-	-	-	-
	10.00 to <100.00	-	-	-	-	-	-
	100.00 (Default)	0.45000	912.50	-	-	126,606,927	-261,575,625
	Subtotal	**0.45000**	**912.50**	**1,284,008,744**	**0.475**	**129,388,118**	**-262,494,531**
Institutions							
	0.00 to <0.15	0.40984	912.50	559,332,387	0.348	636,958	-328,579
	0.15 to <0.25	0.45000	912.50	13,460,811	0.461	25,593	-8,241
	0.25 to <0.50	0.43890	912.50	159,952,248	0.601	406,026	-76,730
	0.50 to <0.75	0.37050	912.50	5,324,231	0.662	18,099	-1,915
	0.75 to <2.50	0.38510	912.50	388,861,489	1.070	2,022,493	-925,183
	2.50 to <10.00	-	912.50	888,075	2.255	13,843	-
	10.00 to <100.00	-	-	-	-	-	-
	100.00 (Default)	-	-	-	-	-	-
	Subtotal	**0.29348**	**782.14**	**1,127,819,242**	**0.496**	**3,123,013**	**-1,340,648**
Retail - SME							
	0.00 to <0.15	0.41333	912.50	16,824,562	0.233	24,419	-152,607
	0.15 to <0.25	0.45000	912.50	2,008,052	0.298	5,534	-24,633
	0.25 to <0.50	0.43783	912.50	109,136,099	0.503	396,718	-322,577
	0.50 to <0.75	0.44790	912.50	130,822,772	0.628	611,524	-341,814
	0.75 to <2.50	0.43450	912.50	3,278,785,127	0.893	27,191,267	-9,408,968
	2.50 to <10.00	0.42388	912.50	3,152,992,326	1.121	49,908,511	-18,734,435
	10.00 to <100.00	0.43730	912.50	284,910,382	1.615	8,693,883	-2,766,636
	100.00 (Default)	0.44100	912.50	-	-	233,009,209	-539,237,603
	Subtotal	**0.43572**	**912.50**	**6,975,479,320**	**0.907**	**319,841,064**	**-570,989,272**
Corporate-Other							
	0.00 to <0.15	0.44680	912.50	351,888,460	-	497,447	-1,937,341
	0.15 to <0.25	0.41610	912.50	256,921,536	-	483,443	-2,909,446
	0.25 to <0.50	0.43677	912.50	497,692,703	1	1,350,152	-1,547,832
	0.50 to <0.75	0.43060	912.50	521,303,310	1	1,860,372	-1,648,884
	0.75 to <2.50	0.44363	912.50	3,638,032,245	1	22,577,020	-10,063,951
	2.50 to <10.00	0.40458	912.50	1,376,595,196	1	16,250,772	-6,029,190
	10.00 to <100.00	-	912.50	-	-	-	-
	100.00 (Default)	0.44550	912.50	-	-	130,458,921	-182,214,810
	Subtotal	**0.37800**	**912.50**	**6,642,433,451**	**1**	**173,478,127**	**-206,351,454**
Total (all portfolio)		**0.38930**	**912.50**	**16,029,740,757**	**1**	**625,830,322**	**-1,041,175,906**

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

The template presents relevant parameters used for the calculation of CCR capital requirements for IRB models.

	PD scale	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
Retail								
	0.00 to <0.15	-	-	-	-	-	-	-
	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	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Corporate-Other								
	0.00 to <0.15	17,030,121	0.022	43	0.4500	912.50	16,574,287	0.9732
	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	**17,030,121**	**0.022**	**43**	**0.4500**	**912.50**	**16,574,287**	**0.9732**
Corporate-SME								
	0.00 to <0.15	12,438,894	0.081	84	0.4500	912.50	11,492,945	0.9240
	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	**12,438,894**	**0.081**	**84**	**0.4500**	**912.50**	**11,492,945**	**0.9240**
Institutions								
	0.00 to <0.15	104,611,064	0.001	15	0.4500	912.50	46,324,291	0.4428
	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	**104,611,064**	**0.001**	**15**	**0.4500**	**912.50**	**46,324,291**	**0.4428**
Total (all portfolio)		**134,080,080**	**0.035**	**142**	**0.4500**	**912.50**	**74,391,522**	**0.5548**

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

The template presents a flow statement explaining variations in the credit RWAs of exposures for which the risk-weighted amount is determined in accordance with IRB approach. The table does not contain CCR exposures amounted 27,916,096.71 RON and SFT amounted to 74,391,521.94 RON.

Consolidated

		RWA amounts	Capital requirements
1	**RWAs as at the end of the previous reporting period 30.09.2019**	**14,854,771,452**	**1,188,381,716**
2	Asset size	636,819,580	50,945,566
3	Asset quality	-236,508,047	-18,920,644
4	Model updates	-	-
5	Methodology and policy	-	-
6	Acquisitions and disposals	760,492,000	60,839,360
7	Foreign exchange movements	31,899,182	2,551,935
8	Other	-17,733,410	-1,418,673
9	**RWAs as at the end of the reporting period 31.12.2019**	**16,029,740,757**	**1,282,379,261**

Individual

		RWA amounts	Capital requirements
1	**RWAs as at the end of the previous reporting period 30.09.2019**	**14,911,463,991**	**1,192,917,119**
2	Asset size	636,819,580	50,945,566
3	Asset quality	-236,508,047	-18,920,644
4	Model updates	-	-
5	Methodology and policy	-	-
6	Acquisitions and disposals	760,492,000	60,839,360
7	Foreign exchange movements	31,899,182	2,551,935
8	Other	-17,993,282	-1,439,463
9	**RWAs as at the end of the reporting period 31.12.2019**	**16,086,173,424**	**1,286,893,874**

6.7 Risk Weighted Assets - Backtesting of PD per exposure class

The ex–post testing of the risk weighted assets is performed during the validation of the internal rating systems.

EU CR9 – IRB approach – Back testing of PD per exposure class

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 the year			
Central Governments or Central Banks	Class 03	From A+ to A-	0.0002569	-	-	-	-	-	-
Central Governments or Central Banks	Class 04	From BBB+ to BBB-	0.0025214	0.0025512	2	2	-	-	-
Central Governments or Central Banks	Class 10	Class 10	1	-	-	-	-	-	-
Corporate – other	Class 03	From A+ to A-	0.0007241	0.0006897	38	54	-	-	-
Corporate – other	Class 04	From BBB+ to BBB-	0.0027811	0.0023175	88	89	1	-	0.00232
Corporate – other	Class 05	From BB+ to BB-	0.0092164	0.0094008	102	100	1	-	0.014006
Corporate – other	Class 06	B+	0.0226972	0.0238407	124	161	3	-	0.014644
Corporate – other	Class 07	B	0.0495784	0.0462561	49	55		-	0.018265
Corporate – other	Class 08	B-	0.0854984	0.0887723	19	15	2	-	0.038462
Corporate – other	Class 09	From CCC to C	0.2165607	0.2165607	1	1	-	-	0.125
Corporate - other	Class 10	Class 10	1	1	16	21	-	-	-
Corporate - SME	Class 03	From A+ to A-	0.0006582	0.0007512	10	14	-	-	-
Corporate - SME	Class 04	From BBB+ to BBB-	0.0042464	0.0040683	60	63	1	-	0.008032
Corporate - SME	Class 05	From BB+ to BB-	0.0109638	0.0106568	400	424	4	-	0.007255
Corporate - SME	Class 06	B+	0.0240347	0.0242781	785	840	14	1	0.016748
Corporate - SME	Class 07	B	0.0467695	0.0461988	343	348	6	-	0.030414
Corporate - SME	Class 08	B-	0.0869414	0.0932451	151	126	13	-	0.077098
Corporate - SME	Class 09	From CCC to C	0.2165607	0.2165607	7	4	-	-	0.25
Corporate - SME	Class 10	Class 10	1	1	177	185	8	8	-
Institutions	Class 03	From A+ to A-	0.0008681	0.0008639	33	44	1		0.012195
Institutions	Class 04	From BBB+ to BBB-	0.0021324	0.0027939	25	23	-	-	-
Institutions	Class 05	From BB+ to BB-	0.0080577	0.0076108	12	9	-	-	-
Institutions	Class 06	B+	0.0166558	0.0172048	5	3	-	-	-
Institutions	Class 08	B-	0.0782678	0.080698	2	-	-	-	-
Institutions	Class 10	Class 10	1	1	1	1	-	-	-

6.8 Credit risk mitigation

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
- realized from collateral capitalization 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 and FIRB 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 insurance 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
Real Estate		First Rank Mortgage on Residential Real Estate occupied or rented by owner
		First rank mortgage on commercial real estate – offices and other commercial spaces
On Balance Sheet Netting		Not used in the Bank as credit risk mitigation technique

The tables provide information about collateralization of on and off balance credit exposure with the indication of the amount of the Collateral/Guarantees eligible for Credit Risk Mitigation purpose.

In detail, the table on Collaterals is broken down by collateral type, type of security with the indication of the rating (related to the client who is covered by the guarantee) and maturity (calculated as average of residual contractual maturities of payments, each weighted by the relative amount). The table on Guarantees is broken down by type of guarantee (Credit Derivatives and Personal Guarantees) and type of issuer.

Distribution of guarantees on credit exposures to banks and customers

	Type	Issuer with indication of the country where the collateral is booked	Rating	Stock 2019_12			
				with banks		with customers	
				fair value	o.w. eligible for CRM purposes	fair value	o.w. eligible for CRM purposes
Guarantees	Credit Derivatives	CLN		-	-	-	-
		Government and Central Banks	Investment grade	-	-	-	-
			Non-Investment grade	-	-	-	-
			Unrated / not available	-	-	-	-
		Other Public Entities	Investment grade	-	-	-	-
			Non-Investment grade	-	-	-	-
			Unrated / not available	-	-	-	-
		Banks	Investment grade	-	-	-	-
			Non-Investment grade	-	-	-	-
			Unrated / not available	-	-	-	-
		Other Entities	Investment grade	-	-	-	-
			Non-Investment grade	-	-	-	-
			Unrated / not available	-	-	-	-
	Personal Guarantees	Government and Central Banks	Investment grade	-	-	-	-
			Non-Investment grade	-	-	-	-
			Unrated / not available	-	-	-	-
		Other Public Entities	Investment grade	-	-	-	-
			Non-Investment grade	-	-	-	-
			Unrated / not available	-	-	-	-
		Banks	Investment grade	1,447,640,843	1,159,180,059	-	-
			Non-Investment grade	275,353,531	219,325,321	-	-
			Unrated / not available	-	-	-	-
		Corporate / SMEs	Investment grade	-	-	1,133,977,228	200,293,251
			Non-Investment grade	-	-	2,192,873,571	697,106,313
			Unrated / not available	-	-	25,437,863	6,494,968
		Physical persons		-	-	159,561,139	168,339,685

Distribution of collaterals on credit exposures to banks and customers (continued)

	Type of collateral	Type of security with indication of the country where the collateral is booked	Rating	Maturity	Stock 2019_12 with banks fair value	Stock 2019_12 with banks o.w. eligible for CRM purposes	Stock 2019_12 with customers fair value	Stock 2019_12 with customers o.w. eligible for CRM purposes
Collaterals	Pledge on Securities	Governments Bonds (Central Banks, MDB and International Organizations included)	Investment grade	Short term (<5 years)	5,736,771,943	5,624,640,641	-	-
				(>= 5 years)	-	-	-	-
			Non-Investment grade	Short term (<5 years)	-	-	15,662,739	10,179,340
				(>= 5 years)	-	-	-	-
			Unrated / not available	Short term (<5 years)	-	-	-	-
				(>= 5 years)	-	-	-	-
		Supervised Financial institution Bonds	Investment grade	Short term (<5 years)	-	-	-	-
				(>= 5 years)	-	-	-	-
			Non-Investment grade	Short term (<5 years)	-	-	-	-
				(>= 5 years)	-	-	-	-
			Unrated / not available	Short term (<5 years)	-	-	-	-
				(>= 5 years)	-	-	-	-
		Corporate Bonds	Investment grade	Short term (<5 years)	-	-	-	-
				(>= 5 years)	-	-	-	-
			Non-Investment grade	Short term (<5 years)	-	-	-	-
				(>= 5 years)	-	-	-	-
			Unrated / not available	Short term (<5 years)	-	-	-	-
				(>= 5 years)	-	-	-	-
		Other securities	Investment grade	Short term (<5 years)	-	-	-	-
				(>= 5 years)	-	-	-	-
			Non-Investment grade	Short term (<5 years)	-	-	-	-
				(>= 5 years)	-	-	-	-
			Unrated / not available	Short term (<5 years)	-	-	-	-
				(>= 5 years)	-	-	-	-
	Pledge on Cash deposits				4,779,300	4,779,300	655,213,029	603,144,653
	Other pledges				-	-	4,954,869,792	4,108,342,634
	Properties				-	-	11,656,201,937	10,293,298,462
	Other assets				-	-	2,000,277,009	1,285,948,569

Credit risk mitigation techniques: standardized approach

	AMOUNT AS AT 12.31.2019			AMOUNT AS AT 12.31.2018		
	FINANCIAL COLLATERALS	OTHER GUARANTEES	GUARANTEES AND CREDIT DERIVATIVES	FINANCIAL COLLATERALS	OTHER GUARANTEES	GUARANTEES AND CREDIT DERIVATIVES
Exposures to or secured by central governments or central banks	-	-	-	-	-	-
Exposures to or secured by regional governments or local authorities	12,159	-	-	-	-	-
Exposures to or secured by public-sector bodies	-	-	-	-	-	-
Exposures to or secured by multilateral development banks	-	-	-	-	-	-
Exposures to or secured by international organizations	-	-	-	-	-	-
Exposures to or secured by authorities	-	-	-	3,031,535	-	-
Exposures to or secured by corporates and other parties	162,191,589	106,379,000	-	55,744,490	62,418,807	-
Retail exposures	57,486,264	226,037,632	-	60,289,810	186,911,106	-
Exposures secured by real estate collateral	-	-	-	-	-	-
Defaulted exposures	3,473,732	3,254,835	-	1,410,041	1,504,980	-
High-risk exposures	-	-	-	1,173,171	-	-
Exposures in the form of guaranteed bank bonds (covered bonds)	-	-	-	-	-	-
Short-term exposures to corporates and other parties or authorities	-	-	-	-	-	-
Exposures to Undertakings for Collective Investment (UCI)	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-
Other exposures	-	-	-	-	-	-
Total	**223,163,743**	**335,671,466**	**-**	**121,649,048**	**250,834,893**	**-**

Risk mitigation techniques – IRB Approach

	AMOUNT AS AT 12.31.2019				AMOUNT AS AT 12.31.2018			
	FINANCIAL COLLATERALS	OTHER ELIGIBLE COLATERAL	OTHER GUARANTEES	GUARANTEES AND CREDIT DERIVATIVES	FINANCIAL COLLATERALS	OTHER ELIGIBLE COLATERAL	OTHER GUARANTEES	GUARANTEES AND CREDIT DERIVATIVES
IRB approach - foundation	**6,145,650,296**	**2,489,625,708**	**510,406,056**	**-**	**9,749,112,545**	**4,121,910,651**	**508,347,293**	**-**
Exposures to or secured by central governments or central banks	-	-	-	-	-	-	-	-
Exposures to or secured by institutions, public and territorial entities and other entities	5,746,476,845	1,027,567,395	-	-	9,436,300,833	611,004,646	-	-
Exposures to or secured by corporate - SME	200,569,191	998,071,989	273,082,494	-	188,718,454	2,017,557,429	302,911,878	-
Exposures to or secured by corporate - Specialized lending	-	-	-	-	-	-	-	-
Exposures to or secured by corporate - Others	198,604,261	463,986,325	237,323,562	-	124,093,257	1,493,348,575	205,435,415	-
IRB approach – advanced	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Exposures to or secured by central governments or central banks	-	-	-	-	-	-	-	-
Exposures to or secured by institutions, public and territorial entities and other entities	-	-	-	-	-	-	-	-
Exposures to or secured by corporate - SME	-	-	-	-	-	-	-	-
Exposures to or secured by corporate - Specialized lending	-	-	-	-	-	-	-	-
Exposures to or secured by corporate - Others	-	-	-	-	-	-	-	-
Exposures secured with residential real estate property: SME	-	-	-	-	-	-	-	-
Exposures secured with residential real estate property: Individual	-	-	-	-	-	-	-	-
Qualified revolving retail exposures	-	-	-	-	-	-	-	-
Other retail exposures	-	-	-	-	-	-	-	-
Other retail exposures: Individual	-	-	-	-	-	-	-	-
Total	**6,145,650,296**	**2,489,625,708**	**510,406,056**	**-**	**9,749,112,545**	**4,121,910,651**	**508,347,293**	**-**

Policies and processes applied for evaluating and administrating real collaterals

The internal valuation of collaterals 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 lifetime, the collaterals are periodically reassesed according to provisions of National Bank of Romania 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 – Standardized approach – Credit risk exposure and CRM effects

	Exposure classes*	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
		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	10,465,002,673	24,178,462	10,674,907,246	12,089,231	197,770,673	2%
2	Regional government or local authorities	295,139,310	11,505,673	295,139,310	11,493,514	113,838,885	37%
3	Public sector entities	180	-	180	-	180	100%
4	Multilateral development banks	-	-	128,823,015	15,133,046	-	-
5	International organizations	-	-	-	-	-	-
6	Institutions	1,081,600	237,219	37,915,450	1,069,302	19,936,776	51%
7	Corporates	3,574,488,835	1,076,007,939	3,503,869,744	362,363,331	3,777,048,316	98%
8	Retail	6,727,114,042	1,057,117,073	6,485,044,778	295,478,109	4,631,550,246	68%
9	Secured by mortgages on immovable property	5,661,758,315	85,597,016	5,661,758,315	7,267,198	2,140,563,869	38%
10	Exposures in default	329,426,294	7,150,094	322,641,455	1,165,250	348,144,245	108%
11	Exposures associated with particularly high risk	98,080,679	-	98,080,679	-	147,121,018	150%
12	Covered bonds	-	-	-	-	-	-
13	Institutions and corporates with a short-term credit assessment	33,220	-	33,220	-	33,220	100%
14	Collective investment undertakings	-	-	-	-	-	-
15	Equity	2,345,998	-	2,345,998	-	2,345,998	100%
16	Other items	193,964,413	-	193,964,413	-	193,957,784	100%
17	**Total**	**27,348,435,559**	**2,261,793,476**	**27,404,523,803**	**706,058,981**	**11,572,311,210**	**41%**

** The table does not include derivative exposures, in amount of 34,219,953 RON.*

EU CR3 – CRM techniques – Overview

The template presents the breakdown of the Group's carrying amount exposures by type of collateral held.

The guaranteed exposures are those exposures which have at least one mechanism of risk mitigation (real collaterals, financial guarantees, financial credit derivates) associated to those exposures.

	Instruments	Total exposures - Carrying amount, of which:	Unsecured exposures – Carrying Amount	Secured Exposures – Carrying amount, of which:	Secured Exposures by collateral	Secured Exposures by financial guarantees	Secured exposures by credit derivatives
1	Total loans	40,138,794,924	9,738,296,419	30,400,498,505	26,867,205,823	3,533,292,682	-
2	Total debt securities	8,606,782,485	8,606,782,485	-	-	-	-
3	**Total exposures**	**48,745,577,409**	**18,345,078,904**	**30,400,498,505**	**26,867,205,823**	**3,533,292,682**	**-**
4	Of which defaulted	539,508,998	152,364,976	387,144,022	325,845,528	61,298,495	-

7. EXPOSURE TO COUNTERPARTY RISK

7.1 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 - counterparty risk in connection with treasury transactions in which the counterparty defaults after entering into the transaction and remains in default until the settlement date and the transaction must be replaced at less favorable market conditions;
- Settlement risk - counterparty risk under treasury transactions in which the Bank performs a transaction (payment) on the settlement day, while the counterparty has not met its obligations yet.

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.

7.2 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:

EU CCR1 – Analysis of CCR exposure by approach

		Notional	Replacement cost/current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWA
1	Mark to market		65,968,122	102,331,909			168,300,031	108,501,059
2	Original exposure							-
3	Standardized approach							-
4	IMM (for derivatives and SFTs)							27,916,097
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**							**136,417,156**

EU CCR2 – CVA capital charge

		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	100,041,816	22,737,126
EU4	Based on the original exposure method	-	-
5	**Total subject to the CVA capital charge**	**100,041,816**	**22,737,126**

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

		Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
1	Derivatives	-	-	-	-	-
2	SFTs	5,736,771,943			5,624,942,775	27,916,097
3	Cross-product netting	-	-	-	-	-
4	**Total**	**5,736,771,943**			**5,624,942,775**	**27,916,097**

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

	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	-	-	-	-	5,624,942,775	-
Total	-	-	-	-	**5,624,942,775**	-

EU CCR3 - Standardized approach – CCR exposures by regulatory portfolio and risk

		RWA											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 organizations	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Institutions	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Corporates	-	-	-	-	-	-	-	-	33,948,471	-	-	33,948,471	-
8	Retail	-	-	-	-	-	-	-	271,481	-	-	-	271,481	-
9	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Other items	-	-	-	-	-	-	-	-	-	-	-	-	-
11	**Total**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**271,481**	**33,948,471**	**-**	**-**	**34,219,952**	**-**

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

The template presents the quarterly changes in the CCR RWAs determined under the IMM for CCR.

		RWA amounts	Capital requirements
1	**RWAs as at the end of the previous reporting period (30.09.2019)**	20,297,616	1,623,809
2	Asset size	7,618,481	609,478
3	Credit quality of counterparties	-	-
4	Model updates (IMM only)	-	-
5	Methodology and policy (IMM only)	-	-
6	Acquisitions and disposals	-	-
7	Foreign exchange movements	-	-
8	Other	-	-
9	**RWAs as at the end of the current reporting period (31.12.2019)**	**27,916,097**	**2,233,288**

8. MARKET RISK

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 management 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 prepared and implemented 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 Finance (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 evolution of the main market risk indicators for VaR (Value at Risk) in 2019 is presented in the table below:

EUR million	Total Var 99%	VaR Trading Book	SVaR Trading Book	IRC
Limit	**12.00**	**1.50**	**9.00**	**40.00**
End 2019	5.10	0.42	1.78	6.66
Average	5.58	0.62	2.79	16.46
Maximum	6.85	1.00	4.62	33.47
Minimum	4.69	0.12	0.90	4.73

** Stressed value at risk – value at risk in a crisis situation*
*** Incremental risk charge – capital requirement for additional risk*

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).

8.1 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:

- Derivatives exchange rate:
  - Outright Forwards and FX Swaps;
  - Plain Vanilla Options;
  - Exotic FX Options (Digitals and Barriers).
- Interest rate derivatives:
  - Interest Rate Swaps (IRS), Cross Currency Swaps (CCS);
  - Interest Rate Options (Caps, Floors, collars).
- Commodities derivatives
  - Swaps
  - Options
- 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 standardized method.

During 2019 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).

Exposures to interest rate risk on positions in the banking book

UniCredit Bank measures and monitors this risk according to the UniCredit Group methodology within the framework of a Banking Book interest rate risk policy that establishes consistent methodologies and models and limits or thresholds to focus on, with regard to the sensitivity of net interest income and the Bank's economic value.

The main sources of banking book interest rate risk can be classified as follows:

1) **Gap risk**: arises from the term structure of banking book instruments, and describes the risk arising from the timing of instrument rate changes. Gap risk also encompasses: Repricing risk, defined as the risk of changes in interest rate earned at the time a financial contract's rate is reset. Repricing risk also refers to the yield curve risk, occurring when a shift in the yield curve affects the values of interest rate sensitive assets and interest rate bearing liabilities;

2) **Basis risk** can be broken down in:

- **Tenor risk**: resulting from the imperfect correlation in the adjustment of the rates earned and paid on different instruments with otherwise similar rate change characteristics;
- **Currency risk**: defined as the risk of potentially offsetting interest rate sensitivities arising from interest rate exposures in several currencies;

3) **Option risk**: risk resulting from option derivative positions or from the optional elements embedded in many bank positions.

Interest rate risk measurement includes:

a) Net Interest Income analysis

This may involve a constant analysis of the balance sheet, the impact on interest income may be maintained or simulated, assuming that positions remain constant over the period.

The simulation analysis includes the analysis of the impact on income from different shocks for the interest rates. Reference shock for a rate rise scenario is an instantaneous and parallel shock of +100bp. The shocks for the rate fall scenario are applied in an asymmetric way. The currencies to which a shock of -30bp is applied are: EUR, BGN, JPY, CHF and BAM. For HUF, whose rates are only marginally negative, a shock of -60bp is be applied. For other currencies the shock is -100bp. Additional scenarios are performed to take into account basis risk and non-parallel shifts.

b) Economic Value analysis

This includes the calculation of duration measures, value sensitivities of the balance sheet for different points on the curve, as well as the impact on the Economic Value from larger shocks, e.g. a 200bp parallel shift and other parallel and non-parallels shocks, including the one required by the EBA guidelines (EBA/GL/2018/02).

In these analyses **behavioral assumptions** are included in order to cover **optional risk**, such as: **maturity profile for sight items** taking into account the stability of the volumes and the partial reaction of the customers to movements in market interest rates respect to the possibility to withdraw the volume of the current account – in the case of UCB the behavioral model refers to sight accounts in RON replicated for liquidity and interest rate risk. The assumptions are based on statistical techniques and analyses of historical observations of customer behavior.

IRRBB management is performed within Markets Risk and Finance departments.

UCB applies **hedge accounting** as follows:

- Fair value hedge in order to hedge fixed rate exposure from AFS government EUR denominated bonds investments
- Cash flow hedge in order to hedge the variability of cash flows from deposits

Interest rate risk measurement includes the following indicators:

A) RAF KPIs – measured on a monthly basis

A.1) Net Interest Income sensitivity

The outcome of the 2 scenarios as described above is measured as a percentage versus the Net Interest Income budget. The negative outcome is considered as the RAF KPI.

A.2) Economic Value sensitivity

The outcome of the +/-200 bp regulatory shock parallel shift is measured against Tier 1 Own funds.

The negative outcome is considered as the RAF KPI.

The RAF KPIs are monitored monthly by Financial Risk and reported to the relevant committees: ALCO, Risk Management Committee and Supervisory Board, as well as to the relevant Holding function.

The evolution of the IRRBB RAF KPIs during Q4 at standalone and consolidated level is presented in the table below:

RAF		2019					
Interest Rate Risk in the Banking Book KPIs	**UCB Standalone**	**Target**	**Trigger**	**Limit**	**31-Oct**	**30-Nov**	**31-Dec**
	NII Sensitivity (%)	**>-9%**	**-9%**	**-11%**	-6.25%	-7.53%	-8.12%
		>€ -18 mil	**€ -18 mil**	**€ -22 mil**	-12.48	-15.03	-16.21
	EV Sensitivity (% tier 1 OF)	**>-8%**	**-8%**	**-10%**	-4.62%	-5.01%	-4.26%
	RO Consolidated	**Target**	**Trigger**	**Limit**			
	NII Sensitivity (%)	**>-9%**	**-9%**	**-11%**	-5.80%	-7.12%	-7.66%
		>€ -20 mil	**€ -20 mil**	**€ -25 mil**	-12.98	-15.92	-17.13
	EV Sensitivity (% tier 1 OF)	**>-8%**	**-8%**	**-10%**	-3.94%	-4.30%	-3.40%

B) Granular indicators – measured on a daily basis

B.1) BP01 sensitivity for the Banking book positions per maturity buckets

This measures the changes in economic value due to a parallel shock of +/-1 bp of the interest rate term structure. The result is monitored daily by Financial Risk and reported to the Management and to the relevant Committees.

B.2) VaR for IRRBB

This indicator is monitored daily by Financial Risk and reported to the Management and to the relevant Committees.

As of 31.12.2019 the value of the granular indicators vs limits is as per tables below:

(EUR)	**0-3M**	**3M-1Y**	**1Y-3Y**	**3Y-10Y**	**10Y+**	**SUM**
Total	1,159	2,716	102,174	78,165	40,966	**222,861**
Limit	30,000	50,000	220,000	220,000	70,000	370,000
Usage	3.86%	5.43%	46.44%	35.53%	58.52%	**60.23%**
Maximum			**SUM**			**60.23%**

VaR IRRBB

value: EUR 1,432,828 versus limit: EUR 10,000,000

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.

Currency Risk Stress testing includes:

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%

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**:
- Re-pricing 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 1st level control) and Risk function (as 2nd 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).

Stress tests for IRRBB – measured on a monthly basis

The table below presents the outcome of the interest rate stress tests run on the Banking Book positions – according to Basel and to EBA requirements including supervisory outlier tests for UCB standalone and Romania Consolidated.

UCB - Standalone	Million EUR					
Period	31-Oct-19		30-Nov-19		31-Dec-19	
Own Funds Total / T1	1,033.70	865.2	1,014.90	846.4	1139.4	970.9

Regulatory IR Stress Test (BB)		**% Total OF**		**% Total OF**		**% total OF**
1 parallel shift + 200bps	-39.98	3.87%	-42.38	4.18%	-41.34	0.0363
2 parallel shift - 200bps	59.04	5.75%	59.67	5.88%	56.72	0.0498
IRRBB Basel definition (BB)		**% T1 OF**		**% T1 OF**		**% T1 OF**
1 parallel shift + 200bps	-39.98	4.62%	-42.38	5.01%	-41.34	4.26%
2 parallel shift - 200bps	59.04	6.82%	59.67	7.05%	56.72	5.84%
3 Basel Parallel shock up	-67.43	7.79%	-68.38	8.08%	-67.83	6.99%
4 Basel Parallel shock sown	101.52	11.73%	99.38	11.74%	102.83	10.59%
5 Basel Steepening (sr down, lr up)	5.39	0.62%	3.31	0.39%	1.8	0.19%
6 Basle Flattening (sr up, le down)	-16.75	1.94%	-15.25	1.80%	-13.22	1.36%
7 Basel Short rates up	-44.24	5.11%	-42.65	5.04%	-41.35	4.26%
8 Basel Short rates down	50.47	5.83%	47.71	5.64%	46.21	4.76%
Supervisory Outlier Test		**% T1 OF**		**% T1 OF**		**% T1 OF**
1 parallel shift + 200bps	-40.09	4.63%	-42.51	5.02%	-41.47	4.27%
1 parallel shift - 200bps	23.27	2.69%	22.17	2.62%	23.13	2.38%
3 Basel Parallel shock up	-67.54	7.81%	-68.51	8.09%	-67.96	7.00%
4 Basel Parallel shock sown	44.11	5.10%	41.72	4.93%	46.13	4.75%
5 Basel Steepening (sr down, lr up)	2.16	0.25%	1.09	0.13%	0.71	0.07%
6 Basle Flattening (sr up, le down)	-16.47	1.90%	-15.02	1.77%	-13.38	1.38%
7 Basel Short rates up	-44.39	5.13%	-42.83	5.06%	-41.54	4.28%
8 Basel Short rates down	23.98	2.77%	22.32	2.64%	22.58	2.33%
Maximum		**7.81%**		**8.09%**		**7.00%**

RO Group Consolidated	**Million EUR**					
Period	**31-Oct-19**		**30-Nov-19**		**31-Dec-19**	
Own Funds Total / T1	**1,068.63**	**900.13**	**1,064.05**	**895.55**	**1,191.58**	**1023.08**
Regulatory IR Stress Test (BB)		**% Total OF**		**% Total OF**		**% total OF**
1 parallel shift + 200bps	-35.45	3.32%	-38.54	3.62%	-34.8	2.92%
2 parallel shift - 200bps	59.2	5.54%	61.15	5.75%	55.26	4.64%
IRRBB Basel definition (BB)		**% T1 OF**		**% T1 OF**		**% T1 OF**
1 parallel shift + 200bps	-35.45	3.94%	-38.54	4.30%	-34.8	3.40%
2 parallel shift - 200bps	59.2	6.58%	61.15	6.83%	55.26	5.40%
3 Basel Parallel shock up	-61.75	6.86%	-63.69	7.11%	-60.1	5.87%
4 Basel Parallel shock sown	100.4	11.15%	99.95	11.16%	100.07	9.78%
5 Basel Steepening (sr down, lr up)	3.91	0.43%	0.68	0.08%	-2.29	0.22%
6 Basle Flattening (sr up, le down)	-13.7	1.52%	-11.14	1.24%	-7.08	0.69%

7 Basel Short rates up	-39.68	4.41%	-37.48	4.19%	-33.35	3.26%
8 Basel Short rates down	47.48	5.27%	44.48	4.97%	39.98	3.91%
Supervisory Outlier Test		**% T1 OF**		**% T1 OF**		**% T1 OF**
1 parallel shift + 200bps	-36.82	4.09%	-38.67	4.32%	-35.86	3.51%
1 parallel shift - 200bps	22.24	2.47%	21.38	2.39%	21.86	2.14%
3 Basel Parallel shock up	-63.13	7.01%	-63.82	7.13%	-61.16	5.98%
4 Basel Parallel shock sown	42.44	4.71%	40.47	4.52%	44.21	4.32%
5 Basel Steepening (sr down, lr up)	1.47	0.16%	0.13	0.01%	-1.41	0.14%
6 Basle Flattening (sr up, le down)	-14.21	1.58%	-11.85	1.32%	-9.44	0.92%
7 Basel Short rates up	-40.1	4.45%	-37.66	4.21%	-35.35	3.46%
8 Basel Short rates down	22.59	2.51%	21.16	2.36%	20.74	2.03%
Maximum		**7.01%**		**7.13%**		**5.98%**

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

Description of how the Bank covers its interest risk in the banking book as well as the associated accounting treatment

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.

Economic capital

Scenarios with different probabilities and severities as formalized 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.

8.2 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 standardized approach

		RWAs	Capital requirements
	Outright products		
1	Interest rate risk (general and specific)	44,354,022	3,548,322
2	Equity risk (general and specific)	-	-
3	Foreign exchange risk	-	-
4	Commodity risk	-	-
	Options		
5	Simplified approach	-	-
6	Delta-plus method	-	-
7	Scenario approach	-	-
8	Securitization (specific risk)	-	-
9	**Total**	**44,354,022**	**3,548,322**

8.3 Risk Management organization

Generally, a bank's 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 responsible 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.

9. OPERATIONAL RISK

9.1 Framework for organizing risk management

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 risks. Legal risk includes, but is not limited to, exposure to fines, penalties or punitive damages resulting from supervisory actions, as well as from 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), Banks' 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 favorable 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, 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 formal 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 in the management and control of operational risk within 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 analysis is aimed at providing a forward looking assessment of the Bank's risk profile for improving the understanding and 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 2019, scenario analysis was performed according to the 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 2019 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 operational risk 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 evolution 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 is 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 covers, according with terms and conditions specified in the policy, Financial Organization 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.

Starting March 2018 UniCredit Group (UniCredit Bank Romania included) concluded a new cyber insurance policy which provides coverage for cyber risks including damages to digital assets, business interruption impacts, cyber extortion and other types of damages caused by insured risks, liabilities and defense expenses related to security and confidentiality breaches, reputational expenses as a result of cyber risk incidents.

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

9.2 Stress testing disclosures

The stress testing exercise in UniCredit Bank Romania consists of calculating the stressed loss / conditional operational risk loss, centrally – at Group level, based on the advanced model for operational risk. The Group Operational and Reputational Risk Function is responsible for the assessment and review of the stress test methodology and approach.

9.3 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 2019 (EUR) – UniCredit Bank Consolidated Level	Capital Requirement for Operational Risk (EUR)	
	2019	2018
519,582,664	41,566,613	35,860,454

Operational Risk-RWA 2019 (EUR) – UniCredit Bank Individual Level	Capital Requirement for Operational Risk (EUR)	
	2019	2018
369,235,653	29,538,852	23,505,738

9.4 Other risks - Risk types and risk management

Fraud risk management is a prime responsibility for all employees steaming 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 represents a top priority for UniCredit Bank and its coordination is ensured by the Antifraud and Fraud Prevention Department 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).

9.5 Other risks - Publicly known risk events

During 2019, the fine received for violating GDPR was a public event with a negative impact on the reputation of UniCredit Bank Romania, in terms of covering the negative media generated.

10. 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;
    - Credit risk;
    - Liquidity risk.

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 system of values of UniCredit Bank is based on integrity as the mechanism for conversion of profits into sustainable value; this implies a greater clarity of the 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.

The 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 mass media interest.

Since each process/part of the banking activity may influence the 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, clients' right to be informed, 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 relevant representatives for the bank's image (top managers / high level management).

In crisis situations, 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.
- 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 Group has developed Special Reputational Risk Policies, which define the principles, rules and flow to be followed in activities with counterparties operating in certain industries, such as the arms / security industry, defense, nuclear energy industry, water infrastructure sector (dams), mining industry, coal-based electricity production sector.

11. 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 realized 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.

LrSum: Comparison between carrying amounts of assets and exposures for Leverage Effect calculation

The template LRSum presents the reconciliation between the total exposure considered for the computation of the Leverage report and the carrying amounts of the assets.

Summary comparison of accounting assets vs leverage ratio exposure measure		2019	2018
1	Total consolidated assets as per published financial statements	51,526,609,911	48,337,034,271
2	Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-	-
3	Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-	-
4	Adjustments for derivative financial instruments	102,331,909	98,700,741
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	33,811	2,139,508
6	Adjustment for off balance sheet items (ie conversion to credit equivalent amounts of off balance sheet exposures)	4,929,850,177	4,176,865,524
EU-6a	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	-	-
EU-6b	Adjustments for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	-	-
7	Other adjustments	(278,944,255)	(243,456,087)
8	**Leverage ratio exposure measure**	**56,279,881,553**	**52,371,283,957**

LRCom: Leverage Ratio Common Disclosure

The template presents Leverage Ratio as at 31 December 2019 and the split of the main exposures according with CRR Art. 429 and 451.

LR2: Leverage ratio presentation		2019 Q4	2018 Q4
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	45,723,167,496	41,421,852,854
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	-280,467,142	-243,456,087
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of row 1 and 2)**	**45,442,700,354**	**41,178,396,767**
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	68,193,359	67,205,816
5	Add-on amounts for PFE associated with all derivatives transactions	102,331,909	98,700,741
EU-5a	Exposure determined under Original Exposure Method	-	-
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)**	**170,525,268**	**165,906,557**
Securities Financing Transaction exposures			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	5,736,771,943	6,847,975,601
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
14	CCR exposure for SFT assets	33,811	2,139,508
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	-	-
15	Agent transaction exposures	-	-
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	-	-
16	**Total securities financing transaction exposures (sum of rows 12 to 15)**	**5,736,805,754**	**6,850,115,109**
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	15,880,602,299	13,292,233,559
18	(Adjustments for conversion to credit equivalent amounts)	-10,950,752,122	-9,115,368,035
19	**Off-balance sheet items (sum of rows 17 and 18)**	4,929,850,177	4,176,865,524
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	-	-
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-	-
Capital and total exposures			
20	**Tier 1 capital**	4,889,611,311	4,171,575,004
21	**Total exposures (sum of rows 3, 11, 16 and 19)**	56,279,881,553	52,371,283,957
Leverage ratio			
22	**Basel III leverage ratio**	**8.69%**	**7.97%**
EU-23	Choice on transitional arrangements for the definition of the capital measure	Fully phased in	Fully phased in
EU-24	Amount of derecognized fiduciary items in accordance with Article 429(11) of Regulation (EU) NO. 575/2013	-	-

Basel III stipulates the computation, the reporting and the disclosure of the Leverage Ratio and presents a requirement based on risks.

CRR Art. 429 defines the Leverage Ratio as the result of dividing the capital measurement indicator into the institution's total exposure measurement indicator. The indicator is expressed as a percentage between Tier 1 Own Funds and the total exposure calculated as the sum of the exposure value of all the assets and off-balance sheet items that have not been deducted from the Tier 1 Own Funds calculation.

LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

	Items	CRR leverage ratio exposures
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**45,723,167,496**
EU-2	Trading book exposures	161,698,405
EU-3	Banking book exposures, of which:	45,561,469,091
EU-4	Covered bonds	-
EU-5	Exposures treated as sovereigns	13,181,775,224
EU-6	Exposures to regional governments, MDB, international organizations and PSE not treated as sovereigns	-
EU-7	Institutions	1,127,278,934
EU-8	Secured by mortgages of immovable properties	5,661,758,315
EU-9	Retail exposures	6,727,114,042
EU-10	Corporate	15,641,462,699
EU-11	Exposures in default	535,482,416
EU-12	Other exposures (e.g. equity, securitizations, and other non-credit obligation assets)	2,686,597,462

12. LIQUIDITY RISK

12.1 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 honor 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/ALM, Markets, Financial 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). These 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 management (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, apart from the Liquidity Coverage Ratio, 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 Counterbalancing 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 through the 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 Net Stable Funding Ratio, along with managerial structural liquidity ratios/gaps.

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 a 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, Financial 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), NSFR (net stable funding ratio) and ALMM (additional liquidity monitoring metrics). In addition are the reports required by the national regulations.

The table below shows the detailed picture of the LCR as of 31 of December 2019:

Values in RON Million		Individual			Consolidated		
		Value	**Coeff.**	**Adjusted Value**	**Value**	**Coeff.**	**Adjusted Value**
C72							
Liquid Assets - HQLA							
Total	**10**	**17,080**	**-**	**17,073**	**17,080**	**-**	**17,073**
Level 1 assets	20	17,033	-	17,033	17,033	-	17,033
Cash	40	1,608	1.000	1,608	1,608	1.000	1,608
Withdrawable central bank reserves	50	1,375	1.000	1,375	1,375	1.000	1,375
Central government assets	70	14,050	1.000	14,050	14,050	1.000	14,050
Level 2 assets	220	47	-	40	47	-	40
Regional government / local authorities or Public Sector Entity assets	240	47	0.850	40	47	0.850	40
C73							
Outflows							
Total	**10**	**50,707**	**-**	**13,573**	**50,367**	**-**	**12,915**
Outflows from unsecured transactions / Deposits							
Retail deposits	30	12,689	-	1,225	12,689	-	1,225

Values in RON Million		Individual			Consolidated		
		Value	Coeff.	Adjusted Value	Value	Coeff.	Adjusted Value
C72							
Higher outflows	50	4,469	-	665	4,469	-	665
category 1	60	2,340	0.125	293	2,340	0.125	293
category 2	70	2,128	0.175	372	2,128	0.175	372
stable deposits	80	5,234	0.050	262	5,234	0.050	262
other retail deposits	110	2,986	0.100	299	2,986	0.100	299
Operational deposits	120	414	-	98	414	-	98
Non-operational deposits	210	20,148	-	9,385	19,455	-	8,691
deposits by financial customers	230	2,605	1.000	2,605	1,911	1.000	1,911
deposits by other customers	240	17,544	-	6,780	17,544	-	6,780
covered by DGS	250	1,188	0.200	238	1,188	0.200	238
not covered by DGS	260	16,355	0.400	6,542	16,355	0.400	6,542
Additional outflows	270	1,924	-	1,924	1,924	-	1,924
outflows from derivatives	340	1,924	1.000	1,924	1,924	1.000	1,924
Committed facilities	460	1,628	-	135	2,024	-	174
credit facilities	470	1,628	-	135	2,024	-	174
to retail customers	480	639	0.050	32	639	0.050	32
to non-financial customers other than retail customers	490	976	0.100	98	1,372	0.100	137
to credit institutions	500	-	-	-	-	-	-
to regulated institutions other than credit institutions	540	13	0.400	5	13	0.400	5
Other products and services	720	13,595	-	554	13,545	-	551
undrawn loans and advances to wholesale counterparties	740	36	0.120	4	36	0.120	4
Other liabilities	880	308	-	252	316	-	252
liabilities resulting from operating expenses	890	56	-	-	64	-	-
in the form of debt securities if not treated as retail deposits	900	13	1.000	13	13	1.000	13
others	910	239	1.000	239	239	1.000	239
Outflows From Secured Lending And Capital Market-Driven Transactions		-	-	-	-	-	-
Counterparty is central bank	930	-	-	-	-	-	-
Counterparty is non-central bank	1020	-	-	-	-	-	-
C74							
Inflows							
Total	**10**	**8,936**		**2,565**	**9,136**		**2,671**
Inflows from unsecured transactions/deposits		-	-	-	-	-	-
monies due from non-financial customers	30	789		382	977		476
monies due from financial customers	100	131		131	143		143
monies due from assets with an undefined contractual end date	200	285		57	285		57
inflows from derivatives	240	1,931		1,931	1,931		1,931
other inflows	260	63		63	63		63
Inflows from secured lending and capital market-driven transactions							
collateral that qualifies as a liquid asset	280	5,736		-	5,736		-
collateral that does not qualify as a liquid asset	370	-		-	-		-
Liquidity Coverage Ratio				**155.09%**			**166.66%**

The high quality liquid assets reserve consists of coins and banknotes, withdrawable reserves held at the National Bank and securities issued by the Romanian government and local public authorities. In addition, the high quality assets also include securities received as collateral in reverse repo transactions.

Liquidity outflows are influenced mostly by the evolution of non-operational deposits of corporate and sovereign customers, which is also the main source of funding for the bank.

Liquidity inflows are composed mainly of maturing deposits held at financial institutions and of instalments from clients' loans.

In 2019, the significant currencies for LCR reporting were RON and EUR. From a currency mismatch point of view, during last year there were some significant amounts in EUR reverse repo transactions, while the main funding sources are made up of deposits denominated mostly in the national currency from the retail and corporate customers, as well as deposits and credit facilities in EUR received from group entities (significantly decreased comparing to 2018) and supranational institutions. The mentioned reverse repo transactions had short maturities, under 30 days, and were collateralised by high quality level 1 government bonds.

The following table presents, on a consolidated level, the LCR average in RON equiv. for the second half of 2019. The number of observations for determining the average is 7, with figures coming from monthly reports from December 2019 and the previous months.

LIQ1: Liquidity Coverage Ratio (LCR – consolidated)

		Total unweighted value (average)	Total weighted value (average)
High-quality liquid assets			
1	**Total HQLA**		**14,539,328,736**
Cash outflows			
2	Retail deposits and deposits from small business customers, of which:	11,980,462,266	1,135,512,114
3	Stable deposits	5,424,823,580	271,241,179
4	Less stable deposits	6,555,638,686	864,270,935
5	Unsecured wholesale funding, of which:	18,047,940,369	7,916,458,274
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	113,374,526	26,845,142
7	Non-operational deposits (all counterparties)	17,931,088,545	7,886,135,834
8	Unsecured debt	3,477,298	3,477,298
9	Secured wholesale funding		-
10	Additional requirements, of which:	13,958,663,567	1,956,234,161
11	Outflows related to derivative exposures and other collateral requirements	785,114,091	785,114,091
12	Outflows related to loss of funding of debt products		
13	Credit and liquidity facilities	1,913,647,176	160,328,090
14	Other contractual funding obligations	562,942,431	503,632,490
15	Other contingent funding obligations	10,696,959,868	507,159,490
16	**TOTAL CASH OUTFLOWS**		**11,008,204,549**
Cash inflows			
17	inflows from central banks and other financial customers	5,258,066,438	3,451,260
18	Inflows from fully performing exposures	7,341,290,189	631,713,602
19	Other cash inflows	857,842,061	857,842,061
20	**TOTAL CASH INFLOWS**	13,457,198,688	1,493,006,923
			Total adjusted value
21	**Total HQLA**		**14,539,328,736**
22	**Total net cash outflows**		**9,515,197,626**
23	**Liquidity coverage ratio (%)**		**152.80%**

The evolution of the LCR indicator in 2019 at consolidated level is presented in the table below:

Liquidity Coverage Ratio UCB - consolidated (echiv. RON)					
Date	**Liquid assets**	**Outflows**	**Inflows**	**net outflows**	**Ratio**
31-Jan-19	14,280,179,609	9,743,312,158	870,214,471	8,873,097,687	160.94%
28-Feb-19	14,613,666,604	11,098,838,430	1,326,871,088	9,771,967,342	149.55%
31-Mar-19	14,692,915,049	9,681,976,314	489,580,458	9,192,395,856	159.84%
30-Apr-19	14,671,602,678	9,768,277,075	1,377,128,880	8,391,148,196	174.85%
31-May-19	13,925,816,216	9,756,642,537	392,825,738	9,363,816,798	148.72%
30-Jun-19	13,850,650,346	9,562,160,481	421,685,018	9,140,475,462	151.53%
31-Jul-19	13,274,198,470	9,235,948,711	593,140,064	8,642,808,647	153.59%
31-Aug-19	13,311,518,450	9,866,178,278	464,140,077	9,402,038,201	141.58%
30-Sep-19	13,709,908,320	10,280,034,994	681,696,966	9,598,338,028	142.84%
31-Oct-19	15,020,934,548	10,878,602,653	611,929,982	10,266,672,671	146.31%
30-Nov-19	15,534,919,981	14,319,061,914	5,007,402,222	9,311,659,692	166.83%
31-Dec-19	17,073,171,038	12,915,444,815	2,671,054,130	10,244,390,684	166.66%

In 2019, the LCR level was compliant with the regulatory requirements of a minimum of 100%, as well as exceeding the internally targeted level by the Bank which is above the regulated level. Furthermore, UniCredit Bank monitors the evolution of the indicator on a daily basis.

Regarding the evolution of liquid assets, there was a greater volatility of the reserves held at the National Bank compared to the previous year, during the Minimum Requirement Reserve maintenance period. The bank recorded an increase in the portfolio of government issued securities with a very high liquidity quality level, and a slight increase in coins and banknotes, especially towards the end of the year.

UniCredit Bank aimed to improve the liquidity coverage ratio by increasing the residual maturity of funding resources and through obtaining funding with low outflow rates. For achieving this goal, campaigns were launched to attract retail deposits with maturity over 6 months.

The next table presents the NSFR summary as of December 2019.

LIQ2: Net stable funding ratio (NSFR)

	RON equivalent	Unweighted value by residual maturity				Weighted value
		No maturity	**<6 months**	**6 months to <1 year**	**≥1 year**	
	Available stable funding (ASF) item					
1	**Capital:**	**-**	**-**	**-**	**5,694,923,361**	**5,694,923,361**
2	*Regulatory capital*	-	-	-	5,694,923,361	5,694,923,361
3	*Other capital instruments*	-	-	-	-	-
4	Retail deposits and deposits from small business customers:		13,390,174,491	-	-	12,312,848,342
5	*Stable deposits*	-	5,233,825,993	-	-	4,972,134,694
6	*Less stable deposits*	-	8,156,348,498	-	-	7,340,713,648
7	Wholesale funding:	-	22,453,873,547	1,885,359,066	5,085,116,631	15,613,273,868
8	*Operational deposits*	-	-	-	-	-
9	*Other wholesale funding*	-	22,453,873,547	1,885,359,066	5,085,116,631	15,613,273,868
10	Liabilities with matching interdependent assets	-	-	-	-	-
11	Other liabilities:	-	27,524,230	150,442,713	2,559,359,536	2,472,805,999
12	*NSFR derivative liabilities*		27,524,230	1,757,329	160,896,228	
13	*All other liabilities and equity not*		-	-	2,398,463,307	2,472,805,999

RON equivalent		Unweighted value by residual maturity				Weighted value
		No maturity	<6 months	6 months to <1 year	≥1 year	
	included in the above categories					
14	**Total ASF**					**36,093,851,569**
Required stable funding (RSF) item						
15	**Total NSFR high-quality liquid assets (HQLA)**					**834,305,321**
16	Deposits held at other financial institutions for operational purposes	-	6,260,083,237	405,834,700	803,720,538	1,945,650,374
17	Performing loans and securities:	-	7,658,022,612	5,217,180,156	15,451,946,837	17,693,603,970
18	*Performing loans to financial institutions secured by Level 1 HQLA*	-	-	-	-	-
19	*Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions*	-	-	-	-	-
20	*Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:*	-	-	-	-	-
21	*With a risk weight of less than or equal to 35% under the Basel II standardized approach for credit risk*	-	-	-	-	-
22	*Performing residential mortgages, of which:*	-	-	-	-	-
23	*With a risk weight of less than or equal to 35% under the Basel II standardized approach for credit risk*	-	-	-	-	-
24	*Securities that are not in default and do not qualify as HQLA, including exchange-traded equities*	-	-	-	-	-
25	Assets with matching interdependent liabilities	-	-	-	-	-
26	Other assets:	-	41,391,267	572,928,912	1,511,176,020	2,056,083,916
27	*Physical traded commodities, including gold*	-				-
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*		-	-	-	-
29	*NSFR derivative assets*		24,220,160	1,141,769	44,050,354	-
30	*NSFR derivative liabilities before deduction of variation margin posted*					
31	*All other assets not included in the above categories*		17,171,107	571,787,143	1,467,125,666	2,056,083,916
32	Off-balance sheet items		2,023,687,124	-	-	101,184,356
33	***Total RSF***					**22,630,827,937**
34	***Net Stable Funding Ratio (%)***					**159.49%**

During 2019 UniCredit Bank maintained an adequate level of the NSFR, with an average for the last trimester of 153%, stable funding covering the duration of long term assets.

The items requiring stable funding consisted of investments in securities, loans and credit lines, while stable funding was provided by items such as capital instruments, retail and corporate deposits, intragroup financing and facilities from supranational entities.

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 compliance 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 communication crisis.

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 and allow putting in place adequate actions aimed at restoring the business-as-usual state.

Concentration of funding and liquidity sources

In 2019 the customer deposits were on 87.92% of the total debt (on standalone level). Of the total resources from non-banking customers, 32.76% were deposits from retail customers, 58.98% from corporate customers, the difference being deposits from PB customers and other financial customers excluding banks. With regards to counterparties, the main fund providers of the bank are other entities from UniCredit Group, sovereign and non-financial corporate customers and supranational.

12.2 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 2019 are disclosed using the EBA templates as stipulated in the above mentioned regulation. Fair value of encumbered assets as at 31.12.2019 was RON 553,895,019.00, of which debts securities 484,828,632 and other financial assets 69,066,387.

Template A-Assets

The amounts in the templates below are median values on quarterly basis for the year 2019.

Total Assets of the credit institution, split by type of assets stood at RON billion 51.53 as at 31 December 2019 *(31 December2018: RON billion 46.60).*

In the bellow template HQLA represents high-quality liquid assets and EHQLA extremely high-quality liquid assets.

RON equivalents Median Values (2019, quarterly basis)		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
			of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
		010	030	040	050	060	080	090	100
010	**Assets of the reporting institution**	**609,170,866**	-			**46,383,249,427**	-		
030	Equity instruments	-	-			44,185,931	-		
040	Debt securities	536,268,851	536,268,851	536,268,851	536,268,851	7,423,315,677	7,423,315,677	7,423,315,677	7,423,315,677
050	of which: covered bonds	-	-	-	-	-	-	-	-
060	of which: asset-backed securities	-	-	-	-	-	-	-	-
070	of which: issued by general governments	536,268,851	536,268,851	536,268,851	536,268,851	7,423,315,677	7,423,315,677	7,423,315,677	7,423,315,677
080	of which: issued by financial corporations	-	-	-	-	-	-	-	-
090	of which: issued by non-financial corporations	-	-	-	-	-	-	-	-
120	Other assets	72,902,015	-			2,243,581,232	-		

Template B – Guarantees received

During the year 2019, collateral received by UniCredit Bank at consolidated level amounted to RON 74,935,344,736 RON and were not available for encumbrance.

Template C - Encumbered assets/collateral received and associated liabilities

-RON-

	Matching liabilities, 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 (Median value, 2019, quarterly basis)	-	609,170,866

Template D – Narrative information

During 2019, the encumbered assets of the Romanian UniCredit Group were approximately 1.30% of the 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 repo transactions with Central Bank.

During 2019, the value of the encumbered assets (computed as median values on quarterly basis) was in amount of RON 536,268,851, compared to RON 703,762,330 during 2018.

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 Clear stream. 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.

12.3 Liquidity Buffer and Funding strategy

Liquidity Buffer

In order to avoid that short-term liquidity crunch or other unexpected events that might 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 strategy is implemented in all management stages of liquidity and financing, from financial planning and monitoring to implementation and execution of the process.

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. Finance 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.

13.Equity exposures

13.1 Description of the equity participations and description of the method of accounting booking

UniCredit Bank Group has no equity positions in the trading book as of 31 December 2019.

The Group’s strategy is focused on investments in companies which represent 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 table below presents the equity exposures of the Group, including the accounting classification and the prudential treatment applied.

Participation	Accounting Method	Business activity	Prudential approach	Participation (%)	Amount (RON)
UniCredit Leasing Corporation IFN SA	Investments in subsidiaries	Financial Leasing	IRB	99.96%	78,349
UniCredit Consumer Financing IFN SA	Investments in subsidiaries	Financial services	IRB	50.10%	64,767
UniCredit Leasing Fleet Management	Financial assets at fair value through other comprehensive income	Operational Leasing	Standard	9.99%	2,346

Transfond SA	Financial assets at fair value through other comprehensive income	Financial services	IRB	8.04%	3,610
Biroul de Credit SA	Financial assets at fair value through other comprehensive income	Financial services	IRB	6.80%	1,160
Fondul Roman de Garantare a Creditelor pentru Intreprinzatorii Privati IFN SA	Financial assets at fair value through other comprehensive income	Financial services	IRB	3.10%	741
Visa Inc	Financial assets at fair value through other profit and loss	Financial services	IRB	n/a	39,620
Total equity exposures					**190,593**

14. OTHER RISKS

14.1 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 UCB, of the property ownership companies and its special purpose companies and shareholding companies. The real estate risk does consider the real estate property for loan collaterals.

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.

14.2 Business Risk

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

Business risk can result above all from: serious deterioration of the market environment, changes in the competitive situation or customer behavior, 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.

14.3 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.

15. REMUNERATION POLICY

15.1 Description of Remuneration Policy

The Bank's remuneration policies are represented by the Human Resources Policy, Compensation 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 2019, the Remuneration Committee had the following composition:

No	Remuneration Committee	Position	Period
1	CORNELIU – DAN PASCARIU	Chairman	Between January 2019 –> March, 3rd 2019
	HEINZ MEIDLINGER	Member	
	LUCA PIERLUIGI RUBAGA	Member	
2	CORNELIU – DAN PASCARIU	Chairman	Between March 5th 2019 –> December 31st 2019
	OZELGIN ZEYNEP NAZAN SOMER	Member	
	LUCA PIERLUIGI RUBAGA (pana la 01.11.2019)	Member	

In the 2019, the Remuneration Committee was convened in seven (7) ordinary and extraordinary sessions.

In accordance with the provisions of NBR Regulation no. 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 profile through policies that support risk management, through rigorous governance processes based on informed decisions taken by corporate bodies and by defining 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.

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, the performance bonus 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;

Variable remuneration can be adjusted and even reduced to zero (*malus* clause) if the Group and Bank benchmark performance criteria are not met. Performance remuneration takes into account both individual and collective performance, setting both individual and collective goals.

General rules for goal setting:

- Part of the goals should contribute to the sustainability of results;
- Business performance criteria is risk adjusted;
- Individual criteria for performance assessment include competency assessment, respecting the values of the Group and the goals set;
- There is at least one indicator pertaining to Risk;
- 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.

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 (Claw back clause) 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 million euro / financial year.

Information about the remuneration for the management body and Identified Staff for 2018 at consolidated level are presented in Annex bellow. The variable remuneration for 2018 was paid in April 2019.

The information related to the variable remuneration for 2019 will be available after the payment of the bonuses, estimated to be done in April 2020.

Information about the remuneration for the Bank's staff and its consolidated subsidiaries' 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
Number of members of personnel	3	17	-	-	-	-	-	-
Number of Identified Staff, in full time equivalent	-	-	35	2169	8	784	343	-
Total NET profit - RON	637,575,961							
Total Remuneration - RON	209,389	17,312,101	8,188,465	172,123,069	1,061,307	79,703,611	37,654,342	-
Of which Total Variable Remuneration - RON	-	5,304,706	1,523,718	14,242,841	57,889	3,814,248	3,338,171	-

Information related to remuneration of Identified Staff

RON equivalent	Senior management	Other material risk takers
Number of Identified Staff, in full time equivalent	20	32
Total fixed remuneration (lei), of which:	8,910,440	11,653,996
- cash	8,910,440	11,653,996
- shares and other share-linked instruments	-	-

- other type of instruments	-	-
Total variable remuneration (lei), of which:	4,952,527	1,862,003
- cash	2,476,261	931,002
- shares and other share-linked instruments	2,476,265	931,002
- other type of instruments	-	-
Total variable remuneration (lei) awarded in year N and postponed, of which:	3,673,367	939,977
- cash	1,234,792	372,397
- shares and other share-linked instruments	2,438,575	567,580
Total variable remuneration (lei) postponed, due and unpaid, awarding in previous years - art.450 (1) h) from EU Reg.no.575/2013, of which:	4,966,589	633,994
- cash	1,786,992	52,279
- shares and other share-linked instruments	3,179,597	581,715

See also Consolidated and Separate Financial Statements for December 2019 - Note 12 “PERSONNEL EXPENSES”

15.2 Description of the UniCredit Bank management 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

The number of mandates held by the members of management structures of UniCredit Bank S.A. is detailed below.

Members of the Management Board on 31 December 2019:

- 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);
- Philipp Gamauf 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);
- Nicola Longo Dente 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);
- Andrei Bratu 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 under the Emergency Ordinance no. 99/2006);
- Carlo Driussi held 1 executive mandate (Executive Vice President of UniCredit Bank S.A.);
- Marco Cravario held 1 executive mandate (First Executive Vice President of UniCredit Bank S.A.) and 2 non- executive mandates within the UniCreditGroup (counted as 1 mandate under the Emergency Ordinance no. 99/2006) and 1 non-executive mandate outside the UniCredit Group.

- Antoaneta Curteanu held 1 executive mandate (Executive Vice President of UniCredit Bank S.A).

Members of the Supervisory Board on 31 December 2019:

- 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);
- 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;
- 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);
- Jutta Liebenwein Schoffmann held 1 non-executive mandate (member of the Supervisory Board of UniCredit Bank S.A.);
- Nazan Somer Ozelgyn Zeynep held 4 non-executive mandates, 2 non-executive within the UniCredit Group (one as a member of the Supervisory Board of UniCredit Bank S.A counted as 1 mandate under Emergency Ordinance no. 99/2006) and 2 non-executive mandates outside the UniCredit Group;
- Pasquale Giamboi held 4 non-executive mandates within the UniCredit Group one as a member of the Supervisory Board of UniCredit Bank S.A, counted as 1 mandate under Emergency Ordinance no. 99/2006).

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 governance criteria: information about availability (time resources), information about relations to the credit institution and about relation with other entities.

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

At the end of 2019 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 2019, there were 3 women in the management of UniCredit Bank (one of 7 members of Management 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.

16. 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 Consolidated and Separate Financial Statements for year ended 2019, as follows:

- name, nature of activities by geographical area – Note 1 REPORTING ENTITY from Notes to the in Consolidated and Separate Financial Statements for the year ended 31 December 2019;
- turnover – Note 4. RISK MANAGEMENT – item k) Turnover - from Notes to the in Consolidated and Separate Financial Statements for the year ended 31 December 2019;
- number of employees – Note 12 PERSONNEL EXPENSES from Notes to the in Consolidated and Separate Financial Statements for the year ended 31 December 2019;
- profit or loss before taxation – CONSOLIDATED AND SEPARATE STATEMENT OF COMPREHENSIVE INCOME;
- public subsidies received - the Bank hasn't received subsidies during the financial year 2019.

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 1.33%. Information on the key indicators is presented in Chapter 2 " 2019 Activity Overview" from the Management Board's consolidated and separate report for the financial period ended 31 December 2019.

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 consolidated and separate report for the financial period ended 31 December 2019 on chapter 8 CORPORATE GOVERNANCE.

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

During 2019, the Supervisory Board's activity was carried out through 11 meetings. The attendance of the Supervisory Board Members at the meetings is reflected in the table below:

Supervisory Board Member	Number of 2019 meetings during mandate	Number of 2019 meetings attended
Corneliu Dan Pascariu	11	11
Heinz Meidlinger	11	11
Zeynep Nazan Somer Ozelgin	11	11
Stefano Porro	11	8
Jutta Liebenwein Schöffmann	11	8
Luca Pierluigi Rubaga	8	6
Pasquale Giamboi	6	6
Hüseyin Faik Açikalin	0	0

During the 11 meetings, the supervisory members discussed, critically analyzed, took decisions and / or evaluated in periodic information on the following topics and related activities:

- quarterly presentation of financial performance, including economic situation, financial market conditions, comparative analysis, financial and commercial performance of the Bank, detailed by business segments;
- the report on the Bank's performance in the business sectors: retail banking and corporate investments;
- presentation of the risk management approach, including the detailed assessment of credit risk, market and operational risks;
- aspects related to outsourced activities, including outsourcing of new activities;
- the report on transactions with related parties;
- granting loans;
- approval of internal regulations and policies;
- information about ongoing litigation;
- activity reports of the committees that support the activity of the Supervisory Board;
- continuous improvement of the internal control system; issues regarding internal audit, compliance and risk management were regularly discussed at the meetings of the Supervisory Board and including those of the Audit Committee, the Risk Committee and the Remuneration Committee.

In addition to the aforementioned topics, periodically displaying the overall picture of the Bank's performance, a number of specific topics were also discussed, thus ensuring a comprehensive framework for understanding the information for the Supervisory Board in relation to the most important aspects of the Bank's activity, such as:

- information on the topics, discussions, requests or proposals of the shareholders within the General Meetings of the shareholders;
- approval of the Bank's general strategy for 2019 and of the business risk strategy;
- taking into account the results of the simulation tests of the crisis situations in the UCB;
- evolution of the Bank's Board of Directors, as follows:
    - at the meeting on 11.09.2019, the Supervisory Board acknowledged the termination of the mandate of Member of the Executive Board of UCB, Executive Vice President, of Mr. Septimiu Postelnicu, starting with 01.11.2019;
    - at the meeting on 11.09.2019, the Supervisory Board approved the appointment of Mrs. Antoaneta Curteanu as Executive Vice President, Member of the UCB Board of Directors, starting with 01.11.2019. The exercise of the responsibilities by Mrs. Antoaneta Curteanu started after the prior approval by the National Bank of Romania (25.11.2019);
    - at the meeting on 12.11.2019, the Supervisory Board took note of the termination of the mandate of Member of the UCB Directorate, First Executive Vice President, of Mr. Marco Cravario, starting with 01.01.2020;
    - at the meeting on 26.02.2020, the Supervisory Board approved the appointment of Mrs. Tzvetanka Gueorguieva Mintcheva as a Member of the UCB Board of Directors, Executive Vice President of the Bank, (the appointment is in the approval process within the National Bank of Romania).

Also, as a result of the decision of the Supervisory Board from 05.12.2018, on 24.05.2019 was approved by the National Bank of Romania Mr. Carlo Driussi, appointed as Executive Vice President, Member of the UCB Board of Directors.

Regarding the composition of the Supervisory Board, in 2019 the following changes took place:

- at the meeting on 25.02.2019, the Ordinary General Meeting of the Bank's Shareholders approved the appointment of Mr. Pasquale Giamboi as a Member of the Supervisory Board of UCB. The exercise of the responsibilities by Mr. Pasquale Giamboi began after the prior approval of the National Bank of Romania (10.07.2019).
- at the meeting on 25.02.2019, the Ordinary General Meeting of the Bank's Shareholders approved the appointment of Mr. Hüseyin Faik Açikalin as a Member of the Supervisory Board of UCB. Mr. Hüseyin Faik Açikalin's exercise of responsibilities began with the prior approval of the National Bank of Romania (24.12.2019).
- at the meeting held on 25.02.2019, the Ordinary General Meeting of the Bank's Shareholders acknowledged the termination of the mandate of Member of the UCB Supervisory Board of Mr. Heinz Meidlinger, starting with the day following the day on which UCB received the prior approval of the National Bank of Romania for Mr. Hüseyin Faik Açikalin (08.01.2020). The approval of the National Bank of Romania for Mr. Acikalin has the date 24.12.2019 (since this date the mandate became active), but the date of receiving the approval in the Bank is 07.01.2020 – this date is considered the date when the mandate of Mr. Meidlinger ceased, according to the Ordinary General Meeting from 25.02.2019.
- during the meeting on 19.09.2019, the Ordinary General Meeting of the Bank's Shareholders acknowledged the termination of the mandate of Member of the UCB Supervisory Board of Mr. Luca Pierluigi Rubaga, starting with 01.11.2019.
- at the meeting on 19.09.2019, the Ordinary General Meeting of the Bank's Shareholders approved the appointment of Mrs. Luboslava Uram as Member of the Supervisory Board of UCB, starting with 01.11.2019; exercising the responsibilities will begin after receiving the approval from the National Bank of Romania (the approval process is in progress at the date of issuing this report).

The advisory committees subordinated to the Supervisory Board are the following:

- Audit Committee
- The Risk Management Committee
- Nominating Committee
- The Remuneration Committee

The composition of the advisory committees of the Supervisory Board was updated in the session of the Supervisory Board from 04.03.2019, respectively, in the meeting of 19.12.2019, in order to ensure their most appropriate structure, given the legal requirements, as well as those of specialization, expertise and independence of certain members.

17. COVID-19

In response to the global outbreak of the Corona virus (COVID-19 outbreak) and its spread in Europe particularly since February 2020, the European Banking Authority ("EBA") issued a statement on actions to mitigate the impact of COVID-19 outbreak on the EU banking sector in March 2020 (possible actions to be taken by institutions or competent and resolution authorities in this context). As the institutions may face increasingly difficult conditions in the immediate future, the EBA considers that they need to concentrate their efforts on monitoring and assessing the impact of the COVID-19 outbreak as well as ensuring business continuity.

The National Bank of Romania (NBR) adopted a package of measures aimed at mitigating the negative effects of the crisis generated by the coronavirus (COVID-19) epidemic on households and Romanian companies, including the following:

- monetary policy measures: (1) to cut the monetary policy rate by 0.50 percentage points, from 2.5 percent to 2.0 percent; (2) to narrow the symmetrical corridor defined by interest rates on standing facilities around the monetary policy rate to ±0.5 percentage points from ±1.0 percentage points. Thus, the deposit facility rate stays at 1.50 percent, while the lending (Lombard) facility rate is lowered to 2.50 percent from 3.50 percent. The expected effect is to reduce the interest rates on loans to companies and households. (3) to provide liquidity to credit institutions; (4) to purchase RON-denominated government securities on the secondary market to ensure the smooth financing of real economy and the public sector.
- measures to increase the flexibility of the legislative framework so that banks and non-bank financial institutions could help individuals and companies with outstanding loans. Lenders will be allowed to delay payments of the loans of any individual or company affected by the COVID-19 pandemic, without applying the conditions related to the level of indebtedness, the loan-to-value limit and the maximum maturity of consumer credit.
- measures regarding the bank resolution: to postpone the deadline for collecting the annual contributions to the bank resolution fund for 2020 by 3 months, with the possibility of extension to up to 6 months; to delay the reporting deadlines of some information on resolution planning.
- operational measures: to ensure the smooth functioning of payment and settlement systems underlying payments in the domestic currency, so that commercial and financial transactions can be performed under normal conditions; the NBR will provide banks with continuous cash flows for all operations, including liquidity for ATMs.

The Emergency Governmental Ordinance 37/2020 requiring banks to provide moratorium to all customers impacted by COVID 19 was passed on 30 March 2020, while its Application Norms were passed on 6 April 2020; it covers a maximum period of 9 months of payment postponement, but not later than 31 December 2020, upon request from customers

Interest accruing during the moratorium for all loans except mortgage loans to private individuals shall be capitalized and its payment will be spread over the duration of the loan. For private individuals' mortgage loans, the interest deemed during the suspension period will be treated as an individual claim, to be recovered in maximum 5 years after the suspension ends with no interest applied to it, having 100% guarantee from Ministry of Finance, while the principal will be spread over the extended duration of the loan.

Accounting wise, the Covid-19 related moratorium will not determine the derecognition of the credit exposures. Furthermore, considering that interests will accrue on the payment delayed, no modification loss is generally expected, with the possible exception of mortgage loans for individuals due to the different rules related to accrual of interest.

In accordance with ESMA and EBA statements and guidelines, the application of the moratorium has not determined an automatic reclassification of the customer from Stage 1 to Stage 2. However, appropriate credit processes have been activated by the Group in all the processes of credit risk assessment considering both qualitative and quantitative triggers in order to evaluate the classification of credit exposure in order to grant the proper classification in Stage 2 or Stage 3 (default) of those credit exposures for which the increase in credit risk is unrelated to Covid-19 outbreak.

Currently UniCredit Bank is assessing the impact of COVID-19 outbreak within its business, risk profile and its prudential and performance parameters/ratios. In this respect, the Bank assesses its performance based on stress tests scenarios on key performance and prudential indicators, strict monitoring of liquidity position and ratios (mainly LCR ratio and immediate liquidity ratio), monitoring of market evolution of debt securities interest rates due to high market volatility and its impact in capital base, and monitoring of solvency ratio simulations. The stress test results are comfortable; both in terms of solvency and in terms of liquidity UniCredit Romania Group expects to maintain a sound position as compared to regulatory minimum ratios.

Following the ECB press release on dividends distribution and share buybacks, issued on 27 March 2020, the Directorate of UniCredit Bank Romania resolved to withdraw - without modifying the agenda of the Shareholders' Meeting convened on 8 April 2020 - the proposal related to the distribution of a dividend. Consequently, the Common Equity Tier 1 Capital of UniCredit Group, has increased with 448.856.195,27 RON, not deducting anymore such amount.

ECB also recommended that institutions that had not already done, could implement the transitional IFRS 9 arrangements foreseen in the CRR. Starting from 1 January 2018, the IFRS9 accounting standard was adopted, envisaging a new framework for provisioning computation based on expected credit loss rather than on incurred loss. As of first time adoption, UniCredit Group decided not to apply the transitional arrangements for IFRS9, and for the time being - as of the date of publication of this report - such decision was not revised. Therefore, UniCredit Romania Group is still in the position to benefit from the possibility allowed by the Regulation to reverse - once during the transitional period - the choice made at the inception.

Other relief measures operated by some Supervision Authorities from EU during the first quarter 2020 refer to the lowering or reducing to nil of some countercyclical capital buffer measures, with a foreseen marginally positive impact in the Group's countercyclical capital buffer as of Q1 2020 and Q2 2020, due to limited exposures in these countries.

ANNEX 1: DISCLOSURE FOR UNICREDIT CONSUMER FINANCING SA

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, specialized 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.

In order to ensure an optimal credit and operational risk management at portfolio and individual level, at the time of making the loan decision for each loan application, Risk Division is structured in 4 departments for administrating and monitoring risks. 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

Sustains Risk Management Committee and the company's management through support offered within current monitoring process of the market and liquidity risk, process performed by relevant departments within UniCredit Bank.

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.).

2 RISK ADJUSTED EQUITY

For the calculation of regulatory equity requirements in 2019, 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 exposure 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

3 CREDIT RISK: GENERAL ASPECTS

3.1 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 capacity to apply, from legal point of view, the contractual commitments;
c) the financial commitments with persons having special relationship with the non-banking financial institution;
d) the purpose of the credit and the source of its repayment;
e) the debts service history for counterpart;
f) other specific characteristics of the customer and of the transaction that might affect the collection degree of the principal and the interests.

3.2 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.

3.3 Principles and practices used in credit risk management

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

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.

4. MARKET RISK

Market Risk is defined as the risk of incurring losses due to unfavorable 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 re-pricing 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 installments 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.

5 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 respect in time the obligations resulting from its contractual relations with customers and partners, or
- the risk of managing opportunity costs, if the cash available is too high and not invested with high 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.

UniCredit Bank is the principal bank for liquidity risk monitoring of UniCredit Consumer Financing. UCB monitors the liquidity position of UCFin and ensure that liquidity level is sufficient in order to cover the payment obligations which become due:

- o UCB coordinated financing strategy and placement of the liquidity excess;
- o UCFin needs to address directly and exclusively to UCB any liquidity gap (foreign or local currency) and eventual to Holding, if the liquidity gap is in foreign currency or if the legal or regulatory limits related to funds transfer are already met.

6 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, analyzes the exposure to operational risk, examines scenarios, establishes 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;
- Monitors the UCFin Operational risk exposure in accordance with the standards and policies defined at Group level;
- Controls 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);
- Provides support on risk appetite, budgeting and capital allocation, including operational risk mitigation costs;
- Proposes operational risk mitigation plans, including insurance, and inform the relevant structures at the institution level;
- Assures, 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;
- Identifies, in cooperation with relevant functions, operational risk indicators and scenario analyses, and ensure the quality of data collected, cooperate in analyzing the impact of operational risk when introducing significant new products and significant changes in activities or organizational structure of UCFin;
- Verifies and assures 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 signaling system of risk);
- suggestions for risk mitigation and control;
- effective measures to reduce operational risk.

Quarterly reports regarding the exposure to operational risk, which analyses 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 consists in applying a percent of 15% to the average of the relevant indicators of the last three ended financial years.

7 REPUTATIONAL RISK

7.1. 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.

7.2. 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.

7.3. Management of the reputational risk

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

1. Applying in a proper manner the internal norms regarding know your customer policies and the regulations regarding anti money laundering.
2. Selection, through a rigorous analysis, of the clients that require credit facilities;
3. Elaboration of security politics/plans/measure for certain activities/services of the Company;
4. Adopting 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.).

7.4. 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);
- Transmitting messages through media communicates, briefly and promptly, periodically updated (the success of the communication is assured by an adequate information flow from the Management Board and the business departments involved);
- Trainings with the call center personnel for establishing the methods/structures for answer providing, depending on specific cases;

- Establishing the procedures and competences of decision taking in case of crisis situation.

Usually, the Company 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.

8. MINIMUM CAPITAL REQUIREMENTS FOR CREDIT RISK

UniCredit Consumer Financing, as part of UniCredit Group, established as strategic objective the maintenance in 2019 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 2019 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).

9. 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;
- 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 valued 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: DISCLOSURE FOR UNICREDIT LEASING CORPORATION IFN SA

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.

The main organizational structures involved are:

- **The Supervisory Board (SB)** approves the company's credit risk strategy, which is monitored on a periodical basis.
- **The Board of Directors** is responsible for implementing the strategy and the policies on risk management.
- **Risk Management Committee** - is a permanent committee that has the authority to make decisions in matters within its competence, in accordance with the Operational and Organizational Regulations, which manage significant risks, risks with significant impact on the patrimonial and / or reputational situation of the company (credit risk, market risk, operational risk and reputational risk), as well as the risks associated with outsourced activities. The committee has the following powers / competencies: Consultancy and advisory functions, decision-making functions, information and reporting functions (including reports presented to the Supervisory Board of UCLC).
- **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** – had responsibilities regarding the approval of financing granted by UCL and according to established levels of competence in the sense of ensuring the quality of the credit portfolio through the mitigation and limitation of credit risk according to credit granting policy and to specific regulation of the Credit Committee. The Credit Committee also exercises decisions regarding the activity that generates the credit risk.
- **Special Credit Committee** - is responsible for approval of restructuring and workout cases, IFRS provisioning level for individually assessed clients, according to competencies and the specific regulation
- **Operational Permanent Work Group Committee** is primarily responsible for analyzing the operational risk losses, Key Risk Indicators (KRIs) and scenarios in order to identify mitigation actions aiming at reducing operational risk in future.
- **Reputational Risk Committee** represent a unique (non-permanent) forum which, when is the case, analyses and assesses all transaction/initiatives/projects related to specific reputational risk industries and all cases related to activity domains with relevant reputational risks from local perspective. It also ensures awareness and attention regarding the assessment and management of reputational risk.

Credit Operations Division (CRO)

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

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

- Financial Analysis & Approval (Underwriting 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. RISK CAPITAL ADEQUACY

For the calculation of regulatory capital, UCLC applied during 2019 the requirements of Regulation No. 20/13.10.2009 reviewed. In accordance with 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 2019 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:

- Budgeting
- Monitoring and analysis
- 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.

3. CREDIT RISK: GENERAL ASPECTS

3.1 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 the 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. Promoting and operating 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.

3.2 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.

3.3 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.

3.4 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.

4. 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 analyzed 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.

The monitoring of foreign exchange and interest rate positions is conducted by Treasury Team with Risk Strategies and Control Team, and the monitoring has been done by Market Risk department of UniCredit Bank.

5. 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;
- re-financing 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.

6. 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.

7. 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, client's 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:

- **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.
- **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.
- **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.
- **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.
- **Damage to physical assets** - losses resulting from deterioration of physical assets, caused by natural disaster or other similar event type.
- **Business disruption and system failures** are losses arising from interruptions or inadequate functioning of systems.
- **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.

8. 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 favor of the customer in a period etc.).

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

9. 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:

- Market or Book Value of equity holdings;
- 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:

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

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

10. 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:

- serious deterioration of the market environment;
- 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.

ANNEX 3: UniCredit Bank SA Xls Templates

Covered area	Template id	Template Name	Link to
Scope of application	EU LI1	Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories	EU_LI1
	EU LI2	Main sources of differences between regulatory exposure amounts and carrying values in financial statements	EU_LI2
	EU LI3	Outline of the differences in the scopes of consolidation (entity by entity)	EU_LI3
Regulatory capital		Composition of regulatory capital-Own Funds	Composition_of_capital
		Reconciliation of regulatory capital to Financial Statements	Capital_vs_FS_reconciliation
		Main features of regulatory capital instruments	Capital_instruments_features
		Features of tier 2 subordinated capital instruments	Tier_2_capital_features
	KM1	Key metrics (at consolidated group level)	KM1
Capital requirements	EU OV1	Overview of RWAs	EU_OV1
	EU CR8	RWA flow statements of credit risk exposures under the IRB approach	EU_CR8
	EU CR10	IRB (specialized lending and equities)	EU_CR10
	EU CCR7	RWA flow statements of CCR exposures under the IMM	EU_CCR7
Counterparty credit risk	EU CCR5-A	Impact of netting and collateral held on exposure values	EU_CCR5A
	EU CCR5-B	Composition of collateral for exposures to CCR	EU_CCR5B
	EU CCR1	Analysis of CCR exposure by approach	EU_CCR1
	EU CCR2	CVA capital charge	EU_CCR2
	EU CCR3	Standardized approach – CCR exposures by regulatory portfolio and risk	EU_CCR3
Capital buffers		Capital buffers	Capita_buffers
Credit risk adjustments	EU CR1-A	Credit quality of exposures by exposure class and instrument	EU_CR1_A
	EU CR1-B	Credit quality of exposures by industry or counterparty types	EU_CR1_B
	EU CR1-C	Credit quality of exposures by geography	EU_CR1_C
	EU CR2-A	Changes in the stock of general and specific credit risk adjustments	EU_CR2_A
	EU CR2-B	Changes in the stock of defaulted and impaired loans and debt securities	EU_CR2_B
	EU CRB-B	Total and average net amount of exposures	EU_CRB_B
	EU CRB-C	Geographical breakdown of exposures	EU_CRB_C
	EU CRB-D	Concentration of exposures by industry or counterparty types	EU_CRB_D
	EU CRB-E	Maturity of exposures	EU_CRB_E
	EU CR5	Standardized approach	UE_CR5
NPL	Template 1	Credit quality of forborne exposures	Template_1
	Template 2	Quality of forbearance	Template_2
	Template 3	Credit quality of performing and non-performing exposures by past due days	Template_3
	Template 4	Performing and non-performing exposures and related provisions	Template_4
	Template 5	Quality of non-performing exposures by geography	Template_5
	Template 6	Credit quality of loans and advances by industry	Template_6
	Template 7	Collateral valuation-loans and advances	Template_7
	Template 8	Changes in the stock of non-performing loans and advances	Template_8
	Template 9	Collateral obtained by taking possession and execution processes	Template_9

Covered area	Template id	Template Name	Link to
	Template 10	Collateral obtained by taking possession and execution processes – vintage breakdown	Template_10
Asset encumbrance	A	Assets	Template_A
	B	Encumbered assets/collateral received and associated liabilities	Template_C
Remuneration		Information about the remuneration for the Bank's staff	remuneration_1
		Information related to remuneration of Identified Staff	remuneration_2
Leverage	LRSum	Summary comparison of accounting assets vs leverage ratio exposure measure	LrSum
	LRCom	Leverage ratio common disclosure template	LRCom
	LR SPL	Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	LRSpl
IRB Approach to credit risk	EU CR9	IRB approach – Back-testing of PD per exposure class	EU_CR9
	EU CR6	IRB approach – Credit risk exposures by exposure class and PD range	EU_CR6
	EU CCR4	IRB approach – CCR exposures by portfolio and PD scale	EU_CCR4
Credit risk mitigation techniques	EU CR3	CRM techniques – Overview	EU_CR3
	EU CR4	Standardized approach – Credit risk exposure and CRM effects	EU_CR4
Liquidity	LIQ1	Liquidity Coverage Ratio (LCR)	LIQ1
	LIQ2	Net Stable Funding Ratio (NSFR)	LIQ2
Prudent valuation adjustments	PV1	Prudent valuation adjustments	PV1
Interest rate risk in the banking book	IRRBB1	Quantitative information on IRRBB	IRRBB
Market risk	EU MR1	Market risk under the standardized approach	EU_MR1
Operational risk		Operational risk	Operational_risk
Other disclosure requirements		Disclosure requirements according to National Bank of Romania Regulation no.5/2013 regarding prudential requirements for credit institutions.	Art_16_Reg_BNR_5_2013

UniCredit Bank

Declaration of the Management Body of UniCredit Bank

related to

adequacy of risk management system

dated on 24.04.2019

With respect to the requirements of National Bank of Romania Regulation no. 5/20.12.2013 on prudential requirements for credit institutions and, in particular, to the requirements stipulated in Article 435 letter e) of Regulation no. 575/2013 of the European Parliament and of the Council dated 26 June 2013 on prudential requirements for credit institutions and investment firms, by this statement, UniCredit Bank's Management Body guarantees that the existing risk management systems are adequate, given the risk profile and strategy of the institution.

Risk management framework is one of the core components of the Bank's business management, being adapted to the structure and activity of the institution, to the nature and complexity of the risks inherent to the business model. It assures effective and prudent management of the Bank's activity, including the separation of responsibilities within the organization, prevention of conflicts of interest and, at the same time, the fulfillment of strategic risk objectives and of the targeted risk profile of the Bank.

Catalin Rasvan Radu	Andrei Florin Bratu
Executive President	Executive Vice-President

Declaration of the Management Body of the credit institution UniCredit Bank

on 2019 year's overall risk profile of the Bank,

according to the requirements stipulated in Article 435 letter f) of Regulation no. 575/2013 of the European Parliament and of the Council dated 26 June 2013

Developing a strong risk management culture is one of the main strategic objectives of UniCredit Bank. Risk management culture is promoted within departments directly responsible with risk management, but also within operational structures and to each employee of the institution.

Risk management includes determining, for overall performed activity and for each significant activity, the risk tolerance, while ensuring business continuity on sound and prudent basis. The set-up of targeted risk profile is done on an yearly basis, by considering market and macroeconomic conditions, past performance (historical) and UniCredit Bank' strategy in the immediately timeframe following (12 months). In 2019, a moderate risk profile was assumed in UniCredit Bank.

In order to meet the strategic objectives regarding the Bank's risk appetite, its limits have been translated into operative limits regarding general and specific significant risks management related indicators, as well regarding limits on the distribution of the loan portfolio by zones/ geographical areas, sectors of activity, counterparty categories, type of products, residence, country and currency.

These general and specific indicators have been periodically monitored during 2019 - year, the bank fitting in the assumed risk profile.

For example, we present the following key indicators on consolidated level as of 31.12.2019:

Capital Adequacy (Regulation no. 575/2013 of the European Parliament and of the Council dated 26 June 2013):

- Core Tier 1 ratio (Tier1 Capital/ Risk Weighted Assets)	15.73%
- Total capital ratio (Own funds/ Risk Weighted Assets)	18.32%
- Leverage ratio	8.69%

Profitability & Risk

- Net Operating Profit/ Risk Weighted Assets	3.82%

Financing & Liquidity

- Liquidity Coverage Ratio	166.66%
- Net Stable Funding Ratio	159.49%

Catalin Razvan Radu	Philipp Gamauf	Andrei Florin Bratu
Executive President	Executive Vice-President	Executive Vice-President