UniCredit Bank

PILLAR III DISCLOSURE REPORT

Report reference date: 30 September, 2020

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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 institutions 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;
- Regulation (EU) 2015/1555 of 28 May 2015 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the disclosure of information in relation to the compliance of institutions with the requirement for a countercyclical capital buffer in accordance with Article 440;
- 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;
- EBA Guidelines EBA/GL/2020/07 on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis.

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 provides its users with quarterly frequency the relevant 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
	445 & 455	EU MR2-B – RWA flow statements of market risk exposures under the IMA ((Internal Modal Approach)	UniCredit Bank does not apply an internal model approach for the calculation of market risk capital requirements

2. SCOPE OF APPLICATION

2.1 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.

2.2 Entities deducted from Own Funds or added to RWA

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 30 September 2020, UniCredit Bank does not hold at individual level significant investments in financial entities to be deducted from own funds according to the Article 48 from CRR. 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.

2.3 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:

2.3.1 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.

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

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

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

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

At UniCredit Bank SA level there is no adverse fiscal impact as a result of the potential prompt transfer of funds or debt repayment in advance in accordance with the Fiscal Code provisions in force starting with 1st of January 2017. At subsidiaries level, in hypothethical case of share capital distribution, there is no effect that could generate a fiscal impact.

2.3.4 Eventual prejudices that 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.

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

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

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

2.3.6 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.

2.3.7 Intragroup Liquidity Transfers

Intra-group liquidity transfers are subject to restrictions due to legal and regulatory constraints. With reference to regulatory requirements, it should be noted that UniCredit Bank is subject to rules provided by the Regulation (EU) No 575/2013 on "prudential requirements for credit institutions and investment firms".

3. OWN FUNDS AND KEY METRICS

3.1 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 of 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 of the 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 structure of the Own Funds (individual and consolidated) as at 30 September 2020 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	3,022,204,914	2,758,330,193	i-j
3	Accumulated other comprehensive income (and any other reserves, included unrealized gains and losses)	333,363,643	333,363,643	e+f+g+h+k
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	5,154,997,309	4,891,122,588	
	Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments	2,110,172	2,110,172	
8	Intangible assets (net of related tax liability)	218,088,079	206,561,596	a+b
11	Fair value reserves related to gains or losses on cash flow hedges	(48,312,755)	(48,312,755)	
12	(-) IRB shortfall of credit risk adjustments to expected losses	19,190,433	17,888,709	
25b	Foreseeable tax charges relating to CET1 items	10,654,179	10,654,179	
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	201,730,108	188,901,901	
29	**Common Equity Tier 1 (CET1) capital**	**4,953,267,201**	**4,702,220,687**	
	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)**	**4,953,267,201**	**4,702,220,687**	
	Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	820,561,300	820,561,300	
50	Credit risk adjustments**	90,448,421	93,810,624	
51	Tier 2 (T2) capital before regulatory adjustment	-	-	
	Tier 2 (T2) capital: regulatory adjustments			
57	Total regulatory adjustments to Tier 2 (T2) capital	-	-	
58	**Tier 2 (T2) capital**	**911,009,721**	**914,371,924**	
59	**Total capital (TC = T1 + T2)**	**5,864,276,922**	**5,616,592,610**	
60	**Total risk-weighted assets**	**28,605,180,128**	**23,049,446,530**	
	Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount	17.32%	20.40%	
62	Tier 1 (as a percentage of total risk exposure amount	17.32%	20.40%	
63	Total capital (as a percentage of total risk exposure amount	20.50%	24.37%	
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 4.4 for further details*

***IRB Excess of provisions over expected losses eligible*

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

In RON thousands	Group	Bank	Reference
	30/09/2020	30/09/2020	
Assets			
Cash and cash equivalents	11,318,045,663	11,317,964,642	
Financial assets at fair value through profit or loss	314,868,143	314,868,143	
Derivatives assets designated as hedging instruments	-	-	
Loans and advances to customers at amortized cost	25,370,266,831	22,275,247,317	
Net lease receivables	3,519,182,665	-	
Debt securities at amortized cost	5,449,024,813	5,449,024,813	
Placements with banks at amortized cost	348,536,442	348,536,438	
Other financial assets at amortized cost	110,767,644	99,679,158	
Financial assets at fair value through OCI	3,846,854,651	3,844,508,653	
Investment in subsidiaries	-	143,115,683	
Property, plant and equipment	204,557,904	193,712,226	
Right of use assets	201,662,964	191,606,080	
Intangible assets	224,690,080	213,163,597	a
Current tax assets	-	-	
Deferred tax assets	147,413,128	65,875,399	
of which: Deferred tax regarding Intangible Assets	(6,602,001)	(6,602,001)	b
Other assets	148,080,004	63,516,718	
Total assets	**51,203,950,932**	**44,520,818,867**	
Liabilities			
Financial liabilities at fair value through profit or loss	69,855,776	69,855,776	
Derivatives liabilities designated as hedging instruments	123,828,519	123,828,519	
Deposits from banks	1,068,173,906	1,068,173,906	
Loans from banks and other financial institutions at amortized cost	5,939,360,350	883,669,698	
Deposits from customers	33,910,301,885	34,490,295,668	
Debt securities issued	1,930,463,783	467,035,569	
Other financial liabilities at amortized cost	793,320,064	720,237,085	
Subordinated liabilities	929,722,077	822,586,477	
Lease liabilities	197,959,606	193,872,296	
Current tax liabilities	49,431,324	35,450,044	
Deferred tax liabilities	-	-	
Provisions	242,999,495	215,770,344	
Other non-financial liabilities	256,201,149	165,505,863	
Total liabilities	**45,511,617,934**	**39,256,281,245**	
Equity			
Share capital	1,177,748,253	1,177,748,253	c
Share premium	621,680,499	621,680,499	d
Revaluation reserve on property, plant and equipment	11,913,102	11,913,102	k
Fair value changes of equity instruments measured at fair value through OCI	851,751	851,751	e
Cash flow hedging reserve	(48,312,755)	(48,312,755)	f
Reserve on financial assets at fair value through other comprehensive income	42,441,906	42,441,906	g
Other reserves	326,469,639	326,469,639	h
Retained earnings	3,454,583,441	3,131,745,229	i
of which: Profit	432,378,527	373,415,036	j
Total equity for parent company	**5,587,375,837**	**5,264,537,622**	
Non-controlling interest	104,957,161	-	
Total equity	**5,692,332,998**	**5,264,537,622**	
Total liabilities and equity	**51,203,950,932**	**44,520,818,867**	

3.2 Summary of Key Prudential Metrics

KM1: Key metrics		30-Sep-20	30-Jun-20	31-Mar-20	31-Dec-19	30-Sep-19
Available capital (amounts)						
1	Common Equity Tier 1 (CET1)	4,953,267,201	4,863,105,622	4,599,614,894	4,889,611,311	4,283,560,000
1a	Fully loaded ECL accounting model	4,953,267,201	4,863,105,622	4,599,614,894	4,889,611,311	4,283,560,000
2	Tier 1	4,953,267,201	4,863,105,622	4,599,614,894	4,889,611,311	4,283,560,000
2a	Fully loaded accounting model Tier 1	4,953,267,201	4,863,105,622	4,599,614,894	4,889,611,311	4,283,560,000
3	Total capital	5,864,276,922	5,771,675,761	5,412,694,794	5,694,923,361	5,084,120,350
3a	Fully loaded ECL accounting model total capital	5,864,276,922	5,771,675,761	5,412,694,794	5,694,923,361	5,084,120,350
4	Total risk-weighted assets (RWA)	28,605,180,128	29,071,933,672	31,071,694,880	31,082,322,515	29,883,747,182
5	Common Equity Tier 1 ratio (%)	17.32%	16.73%	14.80%	15.73%	14.33%
5a	Fully loaded ECL accounting model CET1 (%)	17.32%	16.73%	14.80%	15.73%	14.33%
6	Tier 1 ratio (%)	17.32%	16.73%	14.80%	15.73%	14.33%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	17.32%	16.73%	14.80%	15.73%	14.33%
7	Total capital ratio (%)	20.50%	19.85%	17.42%	18.32%	17.01%
7a	Fully loaded ECL accounting model total capital ratio (%)	20.50%	19.85%	17.42%	18.32%	17.01%
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%	2.500%
9	Countercyclical buffer requirement (%)	0.0005%	0.0002%	0.0002%	0.0005%	0.0000%
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%	3.500%
12	CET1 available after meeting the bank's minimum capital requirements (%)	12.816%	12.228%	10.303%	11.231%	9.834%
Basel III Leverage Ratio						
13	Total Basel III leverage ratio measure	55,803,961,367	54,978,720,518	54,422,489,752	56,279,881,553	51,958,705,486
14	Basel III leverage ratio (%) (row 2/row 13)	8.88%	8.85%	8.45%	8.69%	8.24%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2A/row 13)	8.88%	8.85%	8.45%	8.69%	8.24%
Liquidity Coverage Ratio						
15	Total HQLA	17,503,201,695	16,490,787,089	16,023,457,945	17,073,171,038	13,709,908,320
16	Total net cash outflow	9,244,539,793	9,278,309,869	9,122,080,598	10,244,390,684	9,598,338,028
17	LCR ratio (%)	189.34%	177.73%	175.66%	166.66%	142.84%
Net Stable Funding Ratio						
18	Total available stable funding	36,255,277,123	35,658,673,433	36,129,829,067	36,093,851,569	33,088,074,603
19	Total required stable funding	21,151,131,613	20,576,147,125	22,485,120,639	22,630,827,937	22,398,209,660
20	NSFR ratio (%)	171.41%	173.30%	160.68%	159.49%	147.73%

4. CAPITAL REQUIREMENTS

4.1 General comment

Capital Adequacy Assessment

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
		30-Sep-20	30-Jun-20	30-Sep-20	30-Sep-20	30-Sep-20
1	**Credit risk (excluding CCR)**	**25,870,586,626**	**26,275,388,279**	**2,069,646,930**	**21,033,406,499**	**1,682,672,520**
2	Of which the standardized approach	10,877,224,915	10,919,856,377	870,177,993	5,479,677,642	438,374,211
3	Of which the foundation IRB (FIRB) approach*	14,993,361,711	15,355,531,902	1,199,468,937	15,553,728,857	1,244,298,309
4	Of which the advanced IRB (AIRB) approach	-	-	-	-	-
5	Of which equity IRB under the simple risk-weighted approach or the IMA**	170,475,913	166,453,857	13,638,073	700,003,941	56,000,315
6	**CCR**	**136,854,139**	**135,485,314**	**10,948,331**	**136,854,139**	**10,948,331**
7	Of which mark to market	99,092,952	106,203,547	7,927,436	99,092,952	7,927,436
8	Of which original exposure	-	-	-	-	-
9	Of which the standardized approach	-	-	-	-	-
10	Of which internal model method (IMM)	8,865,595	7,057,578	709,248	8,865,595	709,248
11	Of which risk exposure amount for contributions to the default fund of a CCP	-	-	-	-	-
12	Of which CVA	28,895,592	22,224,189	2,311,647	28,895,592	2,311,647
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**	**37,961,954**	**105,047,277**	**3,036,956**	**37,961,954**	**3,036,956**
20	Of which the standardized approach	37,961,954	105,047,277	3,036,956	37,961,954	3,036,956
21	Of which IMA	-	-	-	-	-
22	Large exposures	-	-	-	-	-
23	**Operational risk**	**2,559,777,409**	**2,556,012,802**	**204,782,193**	**1,841,223,938**	**147,297,915**
24	Of which basic indicator approach	718,553,471	718,553,471	57,484,278	-	-
25	Of which standardized approach	-	-	-	-	-
26	Of which advanced measurement approach	1,841,223,938	1,837,459,331	147,297,915	1,841,223,938	147,297,915
27	Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-	-	-
28	Floor adjustment	-	-	-	-	-
29	**Total**	**28,605,180,128**	**29,071,933,672**	**2,288,414,410**	**23,049,446,530**	**1,843,955,722**

The row "Of which the foundation IRB approach" does not contain CCR exposures presented on the row "Of which mark to market") and CCR exposures presented on line 10 in amount of 8,865,594.95 RON. The position includes also RWA for assets which are not loans in amount of 844,035,550.45 RON (170,475,913.48 Equity IRB and 673,559,636.97 Other non-credit obligation assets).*

4.2 Capital Planning

Tier 1 capital is the core measure of the Group's 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 September 2020, 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 17.32%, 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 11.15% at individual level and 10.10% at consolidated level.

The total minimum capital requirements (including Pillar I and Pillar II buffers) is 13.65% at individual level and 13.60% at sub-consolidated level.

4.3 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. 10/2019 and Order no. 8/2018:

Capital requirements - Pillar I	30.09.2020	
Capital conservation buffer	2.50%	
Countercyclical capital buffer	0.0005% 0.0006%	at individual level at sub-consolidated level
O-SII buffer	1%	only at sub-consolidated level
Systemic risk buffer	1%, but supplementary requirement 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 11.15% at individual level and 10.10% at sub-consolidated level.

Solvency ratio - minimum requirements including Pillar I & II buffers	30.09.2020		
	NBR Supervisory Report – SREP	Capital buffers	TOTAL
- individual level			
CET 1 ratio	6.27%	2.50%	8.77%
Tier 1 ratio	8.36%		10.86%
Total capital ratio	**11.15%**		**13.65%**
-sub-consolidated level			
CET 1 ratio	5.68%	3.50%	9.18%
Tier 1 ratio	7.58%		11.08%
Total capital ratio	**10.10%**		**13.60%**

Other Systemically Important Institutions buffer

As per National Bank of Romania Order no. 10/2019, 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 EU 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 did not change as compared to the percentage applied by the Bank throughout 2019.

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 the first semester of 2020 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.

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 2020, 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 01.01.2020, 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 01.01.2020.

Countercyclical capital buffer

As per National Bank of Romania Order no.12/2015, during the first three quarters of 2020, UniCredit Bank applied a countercyclical capital buffer between 0% and 0.0006% of the total risk weighted exposure on Romanian entities, calculated as per art. 92(3) of EU Regulation no. 575/2013 on prudential requirements for credit institutions.

As of 30.09.2020, 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.

5. CREDIT RISK

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).

According to Joint Decision ECB / NBR received during Q2 2020, the Bank received the permission to implement material changes to the Romanian probability of default model for the Mid-Corporate portfolio of UniCredit Bank SA and to apply the permanent partial use of the standardized approach to the non-banking financial institutions portfolio, real estate companies and foreign clients' portfolios.

This Decision is adopted pursuant to Articles 20(1)(a), 143(3), 149(1)(a), 150(1)(b) and (c) of Regulation (EU) No 575/2013 of the European Parliament and of the Council3, Article 13 of Commission Implementing Regulation (EU) 2016/1004 in conjunction with Article 4(1)(e), Article 9(1) and Article 10(1) of Regulation (EU) No 1024/2013.

The approach has been implemented and the impact is to be seen gradually within a period of several months corroborated with the rerating process on all clients within the perimeter. The impact coming from mid corporate model update in September YTD is of approximately 199 Mio RON improvement in RWA (including also the effect of updated clients' financial statements within the rerating process).

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 RWA for CCR exposures (72,509,492.12 RON), RWA for SFT (8,865,594.95 RON), RWA for Other Assets (673,559,636.97 RON) and RWA for Equity investments (170,475,913.48 RON).

		RWA amounts	Capital requirements
1	**RWAs as at the end of the previous reporting period 30.06.2020**	**14,486,700,874**	**1,158,936,070**
2	Asset size	(181,559,995)	(14,524,800)
3	Asset quality	18,536,820	1,482,946
4	Model updates*	(139,450,640)	(11,156,051)
5	Methodology and policy **	(53,050,006)	(4,244,000)
6	Acquisitions and disposals	-	-
7	Foreign exchange movements	18,149,107	1,451,929
8	Other	-	-
9	**RWAs as at the end of the reporting period 30.09.2020**	**14,149,326,161**	**1,131,946,093**

** Mid Corporate updates, as described above in the text*

*** Non-Banking Financial Institutions impact is 99 mn; the total amount presents the changes between IRB approach and standardized approach.*

EU CCR7 – RWA flow statements of CCR exposures under the IMM (internal models method)

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 (30.06.2020)**	**7,057,577**	**564,606**
2	Asset size	1,808,017	144,641
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 (30.09.2020)**	8,865,595	709,248

6. 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		Q3 2020	Q2 2020
1	Total consolidated assets as per published financial statements	51,203,950,932	50,468,840,856
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	72,662,508	99,518,787
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	-	-
6	Adjustment for off balance sheet items (i.e. conversion to credit equivalent amounts of off balance sheet exposures)	4,766,736,611	4,670,346,843
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	(239,388,684)	(259,985,968)
8	**Leverage ratio exposure measure**	**55,803,961,367**	**54,978,720,518**

LRCom: Leverage Ratio Common Disclosure

The template presents Leverage Ratio as at 30 September 2020 and the split of the main exposures according with CRR Art. 429 and 451.

LR2: Leverage ratio presentation		Q3 2020	Q2 2020
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	45,720,467,877	45,903,207,703
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(239,388,684)	(261,662,662)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of row 1 and 2)**	**45,481,079,193**	**45,641,545,041**
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	75,971,666	88,557,690
5	Add-on amounts for PFE (Potential Future Exposure) associated with all derivatives transactions	72,012,998	99,518,787
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)**	**147,984,664**	**188,076,478**
Securities Financing Transaction exposures			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	5,408,160,899	4,478,752,156
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
14	CCR exposure for SFT assets	-	-
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)**	**5,408,160,899**	**4,478,752,156**
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	16,646,867,754	16,038,696,568
18	(Adjustments for conversion to credit equivalent amounts)	(11,880,131,143)	(11,368,349,724)
19	**Off-balance sheet items (sum of rows 17 and 18)**	**4,766,736,611**	**4,670,346,844**
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**	4,953,267,201	4,863,105,622
21	**Total exposures (sum of rows 3, 11, 16 and 19)**	55,803,961,367	54,978,720,518
Leverage ratio			
22	**Basel III leverage ratio**	**8.88%**	**8.85%**
EU-23	Choice on transitional arrangements for the definition of the capital measure	Fully applied	Fully applied
EU-24	Amount of derecognized fiduciary items in accordance with Article 429(11) of Regulation (EU) NO. 575/2013	-	-

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:**	**45,720,467,877**
EU-2	Trading book exposures	198,082,367
EU-3	Banking book exposures, of which:	45,522,385,510
EU-4	Covered bonds	-
EU-5	Exposures treated as sovereigns	13,818,312,625
EU-6	Exposures to regional governments, MDB, international organizations and PSE not treated as sovereigns	-
EU-7	Institutions	771,987,901
EU-8	Secured by mortgages of immovable properties	6,015,015,526
EU-9	Retail exposures	6,166,169,913
EU-10	Corporate	15,445,691,553
EU-11	Exposures in default	686,867,509
EU-12	Other exposures (e.g. equity, securitizations, and other non-credit obligation assets)	2,618,340,483

7. LIQUIDITY RISK

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 30 of September 2020:

Values in RON Million		Individual			Consolidated		
		Value	**Coeff.**	**Adjusted Value**	**Value**	**Coeff.**	**Adjusted Value**
C72							
Liquid Assets – HQLA							
Total	**10**	**17,510**	**-**	**17,503**	**17,510**	**-**	**17,503**
Level 1 assets	20	17,464	-	17,464	17,464	-	17,464
Cashok	40	1,522	1.0000	1,522	1,522	1.0000	1,522
Withdrawable central bank reserves	50	1,564	1.0000	1,564	1,564	1.0000	1,564
Central government assets	70	14,378	1.0000	14,378	14,378	1.0000	14,378
Level 2 assets	220	47	-	40	47	-	40
Regional government / local authorities or Public Sector Entity assets	240	47	0.8500	40	47	0.8500	40
C73							
Outflows							
Total	**10**	**53,509**	-	**14,473**	**53,304**	-	**14,029**
Outflows from unsecured transactions / Deposits	-	53,409	-	14,473	53,304	-	14,029

Values in RON Million		Individual			Consolidated		
		Value	Coeff.	Adjusted Value	Value	Coeff.	Adjusted Value
C72							
Retail deposits	30	14,925	-	1,305	14,925	-	1,305
Higher outflows	50	4,875	-	732	4,875	-	732
category 1	60	2,427	0.1300	303	2,427	0.1300	303
category 2	70	2,448	0.1800	428	2,448	0.1800	428
stable deposits	80	7,564	0.0500	378	7,564	0.0500	378
other retail deposits	110	1,946	0.1000	195	1,946	0.1000	195
Operational deposits	120	426	-	97	426	-	97
Non-operational deposits	210	17,848	-	17,848	17,366	-	7,834
deposits by financial customers	230	2,096	1.0000	2,096	1,614	1.0000	1,614
deposits by other customers	240	15,752	-	6,220	15,752	-	6,220
covered by DGS	250	404	0.2000	81	404	0.2000	81
not covered by DGS	260	15,348	0.4000	6,139	15,348	0.4000	6,139
Additional outflows	270	3,469		3,469	3,469		3,469
outflows from derivatives	340	3,469	1.0000	3,469	3,469	1.0000	3,469
Committed facilities	460	1,669	-	129	2,079	-	170
credit facilities	470	1,669	-	129	2,079	-	170
to retail customers	480	766	0.0500	38	766	0.0500	38
to non-financial customers other than retail customers	490	903	0.1000	90	1,313	0.1000	131
to credit institutions	500	-	-	-	-	-	-
to regulated institutions other than credit institutions	540	-	0.4000	-	-	0.4000	-
Other products and services	720	14,467	-	596	14,418	-	593
undrawn loans and advances to wholesale counterparties	740	37	0.1200	4	37	0.1200	4
Other liabilities	880	606	-	562	621	-	562
liabilities resulting from operating expenses	890	45	-	-	59	-	-
in the form of debt securities if not treated as retail deposits	900	-	-	-	-	-	-
others	910	562	1.0000	562	562	1.0000	562
Outflows From Secured Lending And Capital Market-Driven Transactions	-	99	-	-	-	-	-
Counterparty is central bank	930	-	-	-	-	-	-
Counterparty is non-central bank	1020	99	-	-	-	-	-
C74							
Inflows							
Total	**10**	**10,904**	-	**4,686**	**11,100**	**-**	**4,784**
Inflows from unsecured transactions/deposits	-	5,495	-	4,686	5,692	-	4,784
monies due from non-financial customers	30	1,653	-	869	1,849	-	967
monies due from financial customers	100	263	-	263	263	-	263
monies due from assets with an undefined contractual end date	200	32	0.2000	6	32	0.2000	6
inflows from derivatives	240	3,473	1.0000	3,473	3,473	1.0000	3,473
other inflows	260	74	1.0000	74	74	1.0000	74
Inflows from secured lending and capital market-driven transactions	-	5,408	-	-	5,408	-	-
collateral that qualifies as a liquid asset	307	5,408	-	-	5,408	-	-
collateral that does not qualify as a liquid asset	339	-	-	-	-	-	-
Liquidity Coverage Ratio				**178,84%**			**189.34%**

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.

During the third quarter of 2020, the significant currencies for LCR reporting were RON and EUR. From a currency mismatch point of view, during last quarter 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 (however the resources borrowed from group entities significantly decreased in 2020 comparing to 2019) and supranational institutions. The mentioned reverse repo transactions had short maturities, under 30 days, and were collateralised by high quality level 1 government bonds and interbank deposits

The main funding sources are deposits from corporate and retail customers (denominated mostly in the national currency), as well as financing in EUR received from group entities and supranational institutions and senior unsecured bonds issued on the local market.

During Q3 the bank reimbursed the amount of 146 million RON to the own issued bonds holders, as ISIN ROUCTBDBC022 matured on July 15th.

LIQ1: Liquidity Coverage Ratio (LCR – consolidated)

The following table presents, on a consolidated level, the LCR average in RON equiv. for the first three quarters of 2020. The number of observations for determining the average is 7, with figures coming from monthly reports from September 2020 and the previous months.

		Total unweighted value (average)	Total weighted value (average)
High-quality liquid assets			
1	**Total HQLA**		**16,714,732,771**
Cash outflows			
2	Retail deposits and deposits from small business customers, of which:	14,297,395,341	1,244,064,139
3	Stable deposits	7,312,043,616	365,602,181
4	Less stable deposits	6,434,791,869	878,461,958
5	Unsecured wholesale funding, of which:	18,162,810,444	8,117,052,697
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	434,072,455	99,332,597
7	Non-operational deposits (all counterparties)	17,702,309,156	7,991,291,267
8	Unsecured debt	26,428,833	26,428,833
9	Secured wholesale funding		
10	Additional requirements, of which:	5,018,710,904	3,218,601,715
11	Outflows related to derivative exposures and other collateral requirements	3,056,786,818	3,056,786,818
12	Outflows related to loss of funding of debt products	-	-
13	Credit and liquidity facilities	1,961,924,086	161,814,897
14	Other contractual funding obligations	568,435,621	511,063,268
15	Other contingent funding obligations	13,929,915,388	573,968,937
16	**TOTAL CASH OUTFLOWS**		**13,664,750,757**
Cash inflows			
17	Inflows from central banks and other financial customers	5,573,231,148	-
18	Inflows from fully performing exposures	2,068,092,153	1,205,814,043
19	Other cash inflows	3,156,941,316	3,133,265,557

20	**TOTAL CASH INFLOWS**	**10,798,264,617**	**4,339,079,600**
			Total adjusted value
21	**Total HQLA**		**16,714,732,771**
22	**Total net cash outflows**		**9,325,671,157**
23	**Liquidity coverage ratio (%)**		**179.22%**

The evolution of the LCR indicator during January 30, 2020 and September 30, 2020 at consolidated level is presented in the table below:

Liquidity Coverage Ratio UCB - consolidated (RON equivalent)					
Date	**Liquid -assets**	**Outflows**	**Inflows**	**net outflows**	**Ratio**
31-Jan-20	15,742,729,916	12,598,692,762	3,291,937,017	9,306,755,745	169.15%
29-Feb-20	14,212,819,414	13,193,250,179	3,883,350,168	9,309,900,011	152.66%
31-Mar-20	16,023,457,945	13,685,460,190	4,563,379,592	9,122,080,598	175.66%
30-Apr-20	15,259,739,070	14,183,525,153	5,011,853,781	9,171,671,372	166.38%
31-May-20	17,579,892,597	12,972,889,065	3,351,656,490	9,621,232,575	182.72%
30-Jun-20	16,490,787,089	13,801,778,242	4,523,468,373	9,278,309,869	177.73%
31-Jul-20	16,503,663,916	12,724,667,135	3,667,683,722	9,056,983,412	182.22%
31-Aug-20	16,951,112,260	14,276,711,803	4,695,421,883	9,581,289,920	176.92%
30-Sep-20	17,503,201,695	14,028,933,143	4,784,393,350	9,244,539,793	189.34%

During Q3 2020, 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.

Regarding the evolution of liquid assets, the volatility was driven by the management of the excess liquidity via different available instruments (bonds, reverse repo, cash). Temporary fluctuations in net outflows could be observed mainly due to deposits of non-financial corporate customers, although there were no significant differences between the volumes at the end of the period compared to those at the beginning of the year.

The next table presents the NSFR summary during last quarters, at consolidated level. The amounts are in RON equivalent.

Data	Total ASF	Total RSF	Ratio	Exchange Rate
30-Sep-19	33,088,074,603	22,398,209,660	147.73%	4.7511
31-Dec-19	36,093,851,569	22,630,827,937	159.49%	4.7793
31-Mar-20	36,129,829,067	22,485,120,639	160.68%	4.8254
30-Jun-20	35,658,673,433	20,576,147,125	173.30%	4.8423
30-Sep-20	36,255,277,123	21,151,131,613	171.41%	4.8698

During March 2019 – March 2020, UniCredit Bank maintained an adequate level of the NSFR, with an average for the last 4 quarters over 150%, stable funding covering the medium-long term assets. At consolidated level the average NSFR for the last 4 quarters was 166.22%

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.

Concentration of funding and liquidity sources

At the end of Q3 2020 the customer deposits were ~90%% of the total debt (on standalone level). Of the total resources from non-banking customers, 32% were deposits from retail customers, 61% from corporate customers, the difference being deposits from PB customers and other financial customers excluding banks.

Is important to be underlined that the share of retail customers continuously increased in total resources from non-banking customers due to the measures taken by the bank to decrease its resources dependency on wholesale customers. 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. On 15.07.2020 the bank paid the principal and last coupon of the own issue listed on Bucharest Stock Exchange on 07.08.2017 under symbol UCB20 (ISIN - ROUCTBDBC02).

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.

8. MARKET RISK

Interest Rate Risk - 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 also to EUR, and was implemented during August 2020. 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 worst outcome of the Supervisory Outlier Tests - which in the case of UCB Romania is the "parallel up" scenario - is measured against Tier 1 Own funds.

The RAF KPIs are monitored monthly by Financial Risk and reported to the relevant committees: ALCO, Risk Management Operative Committee and Supervisory Board, as well as to the relevant Holding function. The evolution of the IRRBB RAF KPIs during Q3/2020 at standalone and consolidated level is presented in the table below:

RAF		2020					
Interest Rate Risk in the Banking Book KPIs	RO Consolidated	Target	Trigger	Limit	31-Jul	31-Aug	30-Sep
	NII Sensitivity (% of budget)	>-9.5%	>-9.5%	-12%	-6.72%	-6.29%	-5.08%
	EV Sensitivity (% tier 1 cap)	>-11%	-11%	-15%	-8.14%	-7.24%	-7.29%
	UCB Standalone	Target	Trigger	Limit			
	NII Sensitivity (% of budget)	>-9.5%	>-9.5%	-12%	-8.61%	-7.94%	-6.18%
	EV Sensitivity (% of tier 1 cap)	>-11%	-11%	-15%	-8.80%	-7.25%	-7.28%

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 30.09.2020 the value of the granular indicators versus limits is as per tables below:

sBP01 Bank Book UCB	*(EUR)*	0-3M	3M-1Y	1Y-3Y	3Y-10Y	10Y+	SUM
	Total ccys	2,102	13,829	107,720	45,252	46,396	97,137
	Limit	25,000	50,000	140,000	240,000	60,000	310,000
	Usage	8.41%	27.66%	76.94%	18.85%	77.33%	31.33%

	SUM	
	SUM	**no limit breach**
EUR	183,095	
Limit	250,000	
Usage	73.24%	

VaR	*(EUR mio)*	Exposure	Limit	Usage	Exposure	Limit	Usage
		UCB			RO Group		
	Bank Book	18.82	21.00	**89.60%**	18.99	21.00	**90.41%**
	IRR	3.25	10.00	32.53%	3.41		

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-Jul-20**		**31-Aug-20**		**30-Sep-20**	
Own Funds Total / T1	**1,146.73**	**957.97**	**1,148.32**	**959.97**	**1,153.35**	**965.59**
Regulatory IR Stress Test (BB)		**% Total OF**		**% Total OF**		**% total OF**
1 parallel shift + 200bps	(48.26)	4.21%	(16.24)	1.41%	(16.11)	1.40%
2 parallel shift - 200bps	74.09	6.46%	33.75	2.94%	35.72	3.10%
IRRBB Basel definition (BB)		**% T1 OF**		**% T1 OF**		**% T1 OF**
1 parallel shift + 200bps	(48.26)	5.04%	(16.24)	1.69%	(16.11)	1.67%
2 parallel shift - 200bps	74.09	7.73%	33.75	3.52%	35.72	3.70%
3 Basel Parallel shock up	(82.80)	8.64%	(51.58)	5.37%	(51.88)	5.37%
4 Basel Parallel shock down	139.40	14.55%	95.85	9.98%	101.08	10.47%
5 Basel Steepening (sr down, lr up)	(12.12)	1.27%	(3.86)	0.40%	(2.91)	0.30%
6 Basle Flattening (sr up, le down)	(1.48)	0.15%	(5.40)	0.56%	(5.61)	0.58%

7 Basel Short rates up	(39.44)	4.12%	(33.51)	3.49%	(34.23)	3.54%
8 Basel Short rates down	49.15	5.13%	39.10	4.07%	40.31	4.17%
Maximum	**14.55%**		**9.98%**		**10.47%**	
Supervisory Outlier Test		**% T1 OF**		**% T1 OF**		**% T1 OF**
1 parallel shift + 200bps	(49.76)	5.19%	(34.28)	3.57%	(34.48)	3.57%
1 parallel shift - 200bps	31.33	3.27%	25.83	2.69%	27.96	2.90%
3 Basel Parallel shock up	(84.31)	8.80%	(69.62)	7.25%	(70.25)	7.28%
4 Basel Parallel shock down	45.46	4.75%	36.88	3.84%	40.62	4.21%
5 Basel Steepening (sr down, lr up)	(12.93)	1.35%	(8.13)	0.85%	(6.37)	0.66%
6 Basle Flattening (sr up, le down)	(2.13)	0.22%	(5.46)	0.57%	(5.46)	0.57%
7 Basel Short rates up	(39.84)	4.16%	(37.92)	3.95%	(39.38)	4.08%
8 Basel Short rates down	24.19	2.53%	18.63	1.94%	20.63	2.14%
Maximum		**8.80%**		**7.25%**		**7.28%**

RO Group Consolidated	**Million EUR**					
Period	**31-Jul-20**		**31-Aug-20**		**30-Sep-20**	
Own Funds Total / T1	**1,194.57**	**1,006.94**	**1,192.40**	**1,004.76**	**1,204.21**	**1,017.14**
Regulatory IR Stress Test (BB)		**% Total OF**		**% Total OF**		**% Total OF**
1 parallel shift + 200bps	(46.23)	3.87%	(17.98)	1.51%	(18.30)	1.52%
2 parallel shift - 200bps	78.89	6.60%	43.39	3.64%	46.31	3.85%
IRRBB Basel definition (BB)		**% T1 OF**		**% T1 OF**		**% T1 OF**
1 parallel shift + 200bps	(46.23)	4.59%	(17.98)	1.79%	(18.30)	1.80%
2 parallel shift - 200bps	78.89	7.84%	43.39	4.32%	46.31	4.55%
3 Basel Parallel shock up	(79.98)	7.94%	(54.46)	5.42%	(55.54)	5.46%
4 Basel Parallel shock down	143.48	14.25%	108.57	10.81%	115.29	11.33%
5 Basel Steepening (sr down, lr up)	(13.47)	1.34%	(8.00)	0.80%	(8.03)	0.79%
6 Basle Flattening (sr up, le down)	0.92	0.09%	(0.95)	0.09%	(0.38)	0.04%
7 Basel Short rates up	(36.61)	3.64%	(31.40)	3.13%	(31.65)	3.11%
8 Basel Short rates down	48.17	4.78%	39.39	3.92%	40.25	3.96%
Maximum		**14.25%**		**10.81%**		**11.33%**
Supervisory Outlier Test		**% T1 OF**		**% T1 OF**		**% T1 OF**
1 parallel shift + 200bps	(48.23)	4.79%	(36.22)	3.60%	(36.90)	3.63%
1 parallel shift - 200bps	30.84	3.06%	27.52	2.74%	29.92	2.94%
3 Basel Parallel shock up	(81.98)	8.14%	(72.70)	7.24%	(74.14)	7.29%
4 Basel Parallel shock sown	44.73	4.44%	39.06	3.89%	42.91	4.22%
5 Basel Steepening (sr down, lr up)	(14.06)	1.40%	(11.87)	1.18%	(10.94)	1.08%
6 Basle Flattening (sr up, le down)	(0.31)	0.03%	(1.09)	0.11%	(1.04)	0.10%
7 Basel Short rates up	(37.34)	3.71%	(36.42)	3.62%	(37.58)	3.69%
8 Basel Short rates down	23.13	2.30%	18.12	1.80%	20.08	1.97%
Maximum		**8.14%**		**7.24%**		**7.29%**

9. COVID-19 OUTBREAK CONTEXT

9.1 Overview of the measures from European Central Bank and European Banking Authority

During the first three quarters of 2020, the **Governing Council of the European Central Bank** (ECB) has decided a number of measures to ensure that its directly supervised banks can continue to fulfil their role in funding the real economy given the economic effects of the Covid-19.

As well, the **European Banking Authority** (EBA) issued several statements to explain a number of interpretative aspects on the functioning of the prudential framework in relation to the classification of loans in default, the identification of forborne exposures, and their accounting treatment. These clarifications help ensure consistency and comparability in risk metrics across the whole EU banking sector, which are crucial to monitor the effects of the current crisis.

Among the measures above outlined, the following ones can be mentioned:

- **ECB measures issued on 12 March 2020:**
  - **Capital & Liquidity buffers**: banks can fully use capital and liquidity buffers; specifically, banks can operate temporarily below:
    - Pillar 2 Guidance requirements,
    - Capital conservation buffer (however National authorities might revise the Countercyclical Buffer rates)
    - Liquidity Coverage Ratio (LCR) threshold
  - **Pillar 2 requirement:** banks are allowed to partially use capital instruments that do not qualify as CET1 capital (e.g. Additional Tier 1 or Tier 2 instruments) to meet the Pillar 2 Requirements (P2R); this brings forward a measure initially scheduled to come into effect in January 2021, as part of the revision of the Capital Requirements Directive (CRD V)
  - **Other relief measures**: discussion with banks on individual measures, such as adjusting timetables, processes and deadlines (e.g., the ECB will consider rescheduling on-site inspections and extending deadlines for the remediation actions stemming from recent on-site inspections and internal model investigations). Later, ECB also communicated the postponement, by six months, of the issuance of TRIM[1] decisions, On-Site follow up letters and internal model decisions not yet communicated to institutions, unless the bank explicitly asks for a decision.
- **EBA measures issued on 12 March 2020:**
  - **Flexibility embedded in the regulatory framework to support the banking sector**: coordination between EBA and national competent authorities for a joint effort to alleviate the immediate operational burden for banks at this challenging juncture
  - **EBA Stress Test**: the EBA has decided to postpone the EU-wide stress test exercise to 2021; this will allow banks to focus on and ensure continuity of their core operations, including support for their customers.
- **ECB measures issued on 20 March 2020**:
  - **Pro-cyclicality in Expected Credit Loss (IFRS9):** within the international accounting standards framework, ECB recommended institutions to give a greater weight to long-term stable outlook evidenced by past experience when estimating long-term expected credit losses for the purposes of

[1] Targeted review of internal models

IFRS9 provisioning policies; this appears particularly important where banks face uncertainty in generating reasonable and supportable forecasts

- **Moratorium and public guarantee:** flexibility (within the ECB Guidance on NPL[2] and the Addendum[3]) regarding the classification of obligors as unlikely to pay, when institutions call on the Covid-19 related public guarantees; the ECB also extended flexibility to the unlikely-to-pay classification of exposures covered by legally imposed payment moratoriums related to Covid-19 in regard to timing and scope of the assessment. With regards to public guarantees, the FAQs indicate that ECB will apply a 0% minimum coverage expectation on new non-performing exposures that have public guarantees, for the first seven years of the NPE vintage count
- **Transitional IFRS9:** ECB recommended that institutions that had not already done, to implement the transitional IFRS 9 arrangements foreseen in the European Regulation No.575/2013 - Capital Requirements Regulation (CRR). As of first-time adoption, UniCredit Group decided not to apply the transitional arrangements for IFRS9, and for the time being - as of 1Q2020 - such decision was not revised. Therefore, UniCredit 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

- **EBA measures issued on 25 March 2020** (on this topic, refer also to the EBA measures issued on 2 April 2020):
  - **Flexibility in prudential framework**: the EBA called for flexibility and pragmatism in the application of the prudential framework and clarified that, in case of debt moratoria, there is no automatic classification in default, *forborne*, stage 3 IFRS9
  - **Risk measurement:** the EBA, nonetheless, insisted on the importance of adequate risk measurement and expected institutions to prioritise individual assessments of obligors' likeliness to pay when possible
- **ECB measures issued on 27 March 2020**:
  - **ECB asked banks not to pay dividends until at least October 2020**: the ECB updated its recommendation to banks on dividend distributions. To boost the capacity to absorb losses and support lending to households, small businesses and corporates, the banks should not pay dividends for the financial years 2019 and 2020 until at least 1 October 2020. Banks should also refrain from share buy-backs aimed at remunerating shareholders
- **EBA measures issued on 31 March 2020**:
  - **Sound capital base**: the EBA supported all the measures taken so far to ensure banks maintain a sound capital base and provide the needed support to the economy; in this respect, the EBA reiterated and expanded its call to institutions to refrain from the distribution of dividends or share buybacks for the purpose of remunerating shareholders and assess their remuneration policies in line with the risks stemming from the economic situation
- **ECB measures issued on 1 April 2020**:
  - **Guidance on and references to the use of forecasts**: avoid excessively procyclical assumptions in expected credit loss (ECL) estimations during the COVID-19 pandemic; in particular, the guidance

[2] European Central Bank: "*Guidance to banks on non-performing loans*", issued in March 2017
[3] European Central Bank: "*Addendum to the ECB Guidance to banks on non-performing loans: supervisory expectations for prudential provisioning of non-performing exposures*", issued in March 2018

covered: i) the collective assessment of the significant increase in credit risk (SICR); ii) the use of long-term macroeconomic forecasts; iii) the use of macroeconomic forecasts for specific years.

The statements issued by IASB and ECB were interpreted by UniCredit Group (UniCredit SPA) in the sense of executing an update of the macro-economic scenarios, especially considering: (I) the usage of data coming from institutions' macroeconomic research and reliable external sources; (II) the application of post-model overlays or adjustments when changes cannot be reflected in models.

Thus, UniCredit SPA executed further analyses, including the update of macroeconomic forecasts by its internal Research Unit. As a result, UniCredit SPA decided to review the macroeconomic ratios for all the regions.

The outlook, which was basically negative for 2020 with a recovery in economic growth in 2021, led to recognise - with reference to the 1Q 2020 - an amount of Loan Loss Provisions related to credit positions for approx. 99 million RON (gross of tax) at Group level (of which 43mn RON in the Bank's books).

- **EBA guidelines issued on 2 April 2020**:
  - **Guidelines on the treatment of legislative and non-legislative moratoria applied before 30 June 2020**: clarified which legislative and non-legislative payment moratoria could trigger forbearance classification; in particular, the guidelines supplemented the EBA Guidelines on the application of the definition of default as regards the treatment of distressed restructuring (in particular, they clarified that the payment moratoria do not trigger forbearance classification and the assessment of distressed restructuring if they are based on the applicable national law or on an industry- or sector-wide private initiative agreed and applied broadly by relevant credit institutions)
- **ECB statement issued on 14 April 2020**:
  - **ECB supported the action taken by Euro area macro prudential authorities to address the financial sector impact of the coronavirus outbreak by releasing or reducing capital buffers**: the ECB has assessed the notifications submitted by national macro prudential authorities for each proposed measure provided for in the CRR and CRD, and has issued a non-objection decision, thereby endorsing the measures taken to reduce capital requirements, including the countercyclical capital buffer
- **ECB press release issued on 16 April 2020**:
  - **ECB Banking Supervision announced a temporary relief for capital requirements for market risk**, by allowing banks to reduce the market risk multiplier by its qualitative component, if any; the market risk multiplier is used to compensate the possible underestimation by banks of their capital requirements for market risk. The reduction of the market risk multiplier by its qualitative component aims at compensating for the quantitative multiplier which can rise when market volatility has been higher than predicted by the bank's internal model. This measure does not impact UniCredit Romania as we apply standardised approach.
- **EBA statements issued on 22 April 2020** on further measures and guidance on the use of flexibility in relation to Covid-19:
  - Market Risk - Prudent Valuation: draft regulatory standards to mitigate the excessive procyclical effect of the current framework (effects should materialize not before second quarter 2020, and transitorily applicable till 31 December 2020);
  - Market Risk - VaR: clarification of the existing flexibility in the CRR regarding back-testing multipliers and indication that the review of the stressed VaR window could be postponed to the end of 2020;

  - Market Risk - Fundamental Review of the Trading Book (FRTB) - Standardised Approach (SA): postponement to 30 September 2021 (as reference date) of the first reporting related to FRTB-SA figures under CRR2;
  - Supervisory Review and Evaluation Process 2020: clarification that this year's supervisory assessment is focused on material risks and vulnerabilities driven by the current crisis, and the banks' ability to respond;
- **EBA press release issued on 18 June 2020:** EBA extends the deadline for the application of its Guidelines on payment moratoria to 30 September 2020.
  - Acknowledging the crucial role played by banks in providing financing to European businesses and citizens during the ongoing COVID-19 pandemic, the EBA has decided to extend the application date of its Guidelines on payment moratoria (legislative and non-legislative) by 3 months, thus till 30 September 2020 (ref."EBA guidelines issued on 2 April 2020").
- **ECB press release issued on 28 July 2020:** ECB extends recommendation not to pay dividends until January 2021 and clarifies timeline to restore buffers.
  - The ECB extended its recommendation to banks on dividend distributions and share buy-backs until 1 January 2021, and asked banks to be extremely moderate with regard to variable remuneration. It also clarified that it will give enough time for banks to replenish their capital and liquidity buffers in order not to act pro-cyclically.
  - This updated recommendation on dividend distributions remains temporary and exceptional and is aimed at preserving banks' capacity to absorb losses and support the economy in this environment of exceptional uncertainty.
  - The ECB will review whether this stance remains necessary in the fourth quarter of 2020, taking into account the economic environment, the stability of the financial system and the reliability of capital planning.
  - For the same purpose, i.e. preserving banks' capacity to absorb losses and support lending to the real economy, the ECB also issued a letter to banks asking them to be extremely moderate with regard to variable remuneration payments, for example by reducing the overall amount of variable pay, deferring a larger part of the variable remuneration and consider payments in instruments, e.g. own shares.
  - The same applies for replenishing the liquidity coverage ratio (LCR), which will be assessed by the ECB considering both bank-specific (e.g. access to funding markets) and market-specific factors (e.g. demand for liquidity from households, corporates and other market participants).
  - In any case, the ECB commits to allow banks to operate below the P2G and the combined buffer requirement until at least end-2022, and below the LCR until at least end-2021, without automatically triggering supervisory actions
- **On 26 June 2020 was published in the Official Journal of the EU the Regulation (EU) 2020/873 (CRR "Quick fix") making targeted amendments to the Capital Requirements Regulation (EU) 575/2013 (CRR) and the revised Capital Requirements Regulation (EU) 2019/876 (CRR2) and entered into force and was applicable starting from 27 June 2020.** Starting from the 2Q 2020 reporting date, the following changes were applied:
  - application of the SME supporting factor according to the art. 501 of CRR2, concerning the adjustment of own funds requirements for non-defaulted SME exposures. The impact in RWA as at 30 June when the new methodology was first applied was -1,3bn RON at consolidated level;

- application of a more favorable prudential treatment of loans to pensioners or employees with a permanent contract that are backed by the borrower's pension or salary according to the art. 123 of the CRR2 (not applied by UniCredit Romania);
- application of a temporary treatment of public debt issued in the currency of another Member State according to the new art. 500a of the CRR2. Until 31 December 2022 the risk weight applied to the exposure values evaluated according to the Standardized methodology shall be 0 % of the risk weight assigned to these exposures in accordance with paragraph 2 of Article 114;
- extension by 2 years of transitional arrangements for mitigating the impact on Own Funds from the introduction of IFRS 9 (Article 473a (8) of Regulation (EU) No.575/2013) (not applied by UniCredit Romania);
- introduction of temporary prudential filter for unrealized gains and losses measured at fair value through other comprehensive income, corresponding to exposures to central governments, to regional governments or to local authorities referred, during the period from 1 January 2020 to 31 December 2022 (not applied by UniCredit Romania).

- **ECB press release issued on 17 September 2020:**
  - **ECB allows temporary relief in banks' leverage ratio after declaring exceptional circumstances due to pandemic (Decision (EU) 2020/1306).**

    The ECB announced the decision on the temporary exclusion of certain exposures to central banks from the total exposure measure in view of the Covid-19 pandemic in order to facilitate the implementation of monetary policies, and confirmed that there are exceptional circumstances due to the Covid-19 pandemic (for the purposes of Article 500b(2) of the Regulation (EU) 2020/873 – "CRR Quick Fix" amending Regulations (EU) No.575/2013 and (EU) No.2019/876). Banks will benefit from the relief measure until 27 June 2021.

- **EBA press release issued on 21 September 2020:**
  - **EBA phases out its Guidelines on legislative and non-legislative loan repayments moratoria.**

    EBA will phase out its Guidelines on legislative and non-legislative payment moratoria in accordance with its end of September deadline (ref. "EBA guidelines issued on 2 April 2020" and "EBA press release issued on 18 June 2020"). The regulatory treatment set out in the Guidelines will continue to apply to all payment holidays granted under eligible payment moratoria prior to 30 September 2020. Banks can continue supporting their customers with extended payment moratoria also after 30 September 2020; such loans should be classified on a case-by-case basis according to the usual prudential framework.

9.2 Measures taken by the National Bank of Romania and by the Romanian State

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 (as at the date of preparing this report i.e. 4.12.2020):

- monetary policy measures: (1) to cut the monetary policy rate in three steps (as of 23 March, 3 June and 6 August), by a cumulated 1 percentage point, from 2.5% in mid-March to 1.5% on 6 August; (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 as of 23 March 2020. Thus, the deposit facility rate was lowered to 1%, while the lending (Lombard) facility rate was lowered to 2% from 3.50%. The effect was a reduction of the interest rates on loans to companies and households; (3) to provide liquidity to credit institutions via repo transactions; (4) to purchase RON-denominated government securities on the secondary market to ensure the smooth financing of real economy and the public sector. At the same time, due to the elevated uncertainty surrounding economic and financial developments, the NBR Board also suspended the previously announced calendar of monetary policy meetings and held monetary policy meetings whenever necessary.

- 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 were 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.
- on 24 March 2020, NBR decided to allow banks to temporarily use the capital buffer previously set up, while also keeping in place the legal requirements for such flexibilities. Adapting capital buffers to the new conditions helps banks preserve their support role for the real economy. Furthermore, according to the regulatory framework, banks built and maintained liquidity reserves that may be used to deal with an increased demand for liquidity during times of crisis. Thus, in line with the actions taken to this end at European level, the NBR allows banks not to comply with the minimum liquidity ratio, for the purpose of using these reserves to contribute to the smooth functioning of the banking sector and to help banks ensure sufficient liquidity to firms and households.
- 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 in order to correlate the terms and conditions on the minimum requirements for own funds and eligible liabilities (MREL) with the decisions adopted by the Supervisory Committee in the meeting of 20 March 2020.
- 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 committed to provide banks with continuous cash flows for all operations, including liquidity for ATMs, in case of increased household demand.

Government measures as per OUG 37/2020 regarding the postponement of loan repayments

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. The moratorium could be extended beyond the end of 2020, although the details regarding the conditions and beneficiaries are still under debate.

Interest accruing during the moratorium for all loans except mortgage loans to private individuals is capitalized and its payment is 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 did not determine the derecognition of the credit exposures, due to the fact that the net present value of the loan is not materially impact by this restructuring. Furthermore, considering that interests will accrue on the payment delayed, no modification loss is generally expected, with the 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.

IMM Invest Romania program

UniCredit Bank applied for the state guarantee under **IMM Invest Romania program,** where the legislation has been updated in 2020 in order to allow the SMEs affected by COVID-19 outbreak to cover their liquidity needs for current operations or investments needs by accessing financing solutions (both working capital or investment loans) from the banks under FNGCIMM guarantee scheme (on behalf of Ministry of Public Finance). The initial amount approved was RON 15 billion, amount which was increased to RON 20 billion after the approval from the European Commission at the beginning of August 2020.

Under this guarantee scheme, the loans' guarantee coverage ranges between 80-90%, depending on the type of company (IMM or Micro Company) and the loan type.

The maximum loan exposure toward a single beneficiary is RON 10mn with a maximum tenor of 72 months for investment loans and RON 5mn with a maximum tenor of 36 months for working capital loans.

EximBank Guarantees under the Covid-19 state aid scheme

The guarantee's main traits are as follows:

- the guarantee is to be addressed to Corporate segment, i.e. Large Companies & SMEs (according to EU definition) with 2019 turnover exceeding RON 20 mn and requesting Working Capital Lines of more than RON 5 mn or Investment Loans of more than RON 10 mn (otherwise they will be routed to IMM Invest described above, for zero interest rate for 8 months and no guarantee fee);
- Eligible facilities: investment loans and working capital term loans (revolving & non-cash not allowed); applicable for new loans and/or existing facilities;
- Guarantee rate (covering only loan principal, excluding interest): up to 90% for new loans, 50% for existing facilities.

9.3 COVID 19 measures taken by UniCredit Group in Romania

The main actions taken by UniCredit Group in the context of COVID-19 pandemic are described below:

- All Group Business Continuity Management scenarios have been fully implemented (all critical processes with BCM alternatives are now in place, with a special focus on work from home for most head office employees), materials for employee's protection were ordered and sent to branches, weekly sanitization takes place in all branches and head office with special antiviral materials (gas, liquid);
- The Group preserved Customer Experience during the emergency state, by ensuring basic services continuity (e.g.: ATMs real time status and availability with prompt intervention, constant communication with the external providers) and accelerated the digital onboarding (e.g.: Digital signature for SME deployment, daily Mobile Banking activation campaign in Contact Center, Mobile Banking sales campaign in Contact Center);
- Tight tracking of liquidity & solvency evolution covering strict monitoring of capital position and isolation of potential elements with high volatility or impact, while actively observing market and liquidity developments, as well as clients' behavior;
- Other than the public moratorium measures (classified as non – forbearance, as described above), UniCredit Group decided to support its clients also by means of other dedicated loan restructurings, in line with the clients' specific necessities; such restructurings are classified as forbearance.

9.4 Impact of COVID 19 outbreak on the financial & prudential position of the Group

UniCredit Group had a strong start of the year, however starting from March, we witnessed a slowdown due to COVID-19 which impacted the entire economy. Due to the resilient business and to the results obtained during the past years, the Group managed to maintain a good position even in this context.

During March, the Group embedded in the LLP's result the effect of the new macroeconomic scenario into the forward looking information indicator. Potential financial difficulties faced by companies in the current financial crisis can lead to a deterioration of the portfolio level and to a cost of risk higher than in recent years.

In terms of expected Revenues, non-net interest income positions are the most affected by the slow-down of the commercial activities. Net Interest Income is expected to be impacted by the ROBOR evolution which might affect the profitability, considering on one hand our focus in maintaining the liquidity and on the other hand, the reduced income on loans driven by the variable component in the price.

However, given our resilient business and the very good results obtained so far, at this moment we do not expect revenues to significantly deviate from initial targets.

UniCredit Group is assessing the impact of COVID-19 outbreak within its business, risk profile and its prudential and performance parameters/ratios on a regular basis. 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.

On 29 July 2020, following the ECB's recommendation issued on 28 July 2020, UniCredit SPA confirmed it will not pay dividends nor do share buybacks in 2020.

The Group has comfortable levels on both liquidity and solvency positions, the first three quarters showing a stable trend, not impacted by a high volatility. Also, the Bank performed static and dynamic simulation for end of year 2020, the results showing a good position, the levels of the related KPIs (LCR, NSFR, total capital solvency ratio) being above the NBR minimum requirements.

Liquidity position

During the first three quarters of 2020, the following actions were put in place:

- Liquidity related meetings were held on a weekly basis, with the involvement of local Board members (with main focus on actively observing market developments and clients' behavior, monitoring closely the evolution of liquidity and its drivers, assessing the adequacy of the liquidity buffers through various static and dynamic liquidity simulations);
- Strict monitoring of the evolution of commercial volumes (deposits, loans, undrawn facilities);
- Strict monitoring of the liquidity indicators (actual and forecasts) under various static and dynamic scenarios);
- Managing funding initiatives in order to address liquidity needs of the clients affected by the virus outbreak;
- Keeping sufficient stock of liquid assets in order to offset potential liquidity outflows in case of stress.

Capital position

The Bank adopted measures for capital preservation due to the unanticipated COVID outbreak such as:

- Strict monitoring of capital position and isolation of potential elements with high volatility;
- 2019 Dividend distribution currently fully retained in equity base (643mn RON), integrated in Own Funds
- Regular simulations by using stress test methodologies for increasing exchange rate, increase in interest rate and of the PD.

ANNEX 3: UniCredit Bank SA Xls Templates

Covered area	Template id	Template Name	Link to
Regulatory capital		Composition of regulatory capital-Own Funds	Composition of capital'!A1
	KM1	Key metrics (at consolidated group level)	KM1!A1
Capital requirements	EU OV1	Overview of RWAs	EU OV1'!A1
	EU CR8	RWA flow statements of credit risk exposures under the IRB approach	EU CR8'!A1
	EU CCR7	RWA flow statements of CCR exposures under the IMM	EU CCR7'!A1
Leverage	LRSum	Summary comparison of accounting assets vs leverage ratio exposure measure	LRSum!A1
	LRCom	Leverage ratio common disclosure template	LRCom!A1
	LR SPL	Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	LRSPL!A1
Liquidity	LIQ1	Liquidity Coverage Ratio (LCR)	LIQ1!A1