UniCredit Bank

PILLAR III DISCLOSURE REPORT

Report reference date: 31 March, 2020

CONTENT

1. OVERVIEW ON DISCLOSURES

The Report is prepared in accordance with National Bank of Romania Regulation no. 5/2013 regarding prudential requirements for credit institutions, Regulation no. 575/2013 of European Parliament and Council dated 26.06.2013 regarding prudential requirements for credit institution and investment companies and amending Regulation (UE) no.648/2012.

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

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

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

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

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

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

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

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

Area	Regulation (EU) no 575/2013 article reference	Disclosure template	Reason for not disclosure
	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"), the report includes Bank information and also information regarding the entities integrated in the consolidated prudential perimeter of UniCredit Bank.

Starting with 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 in 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 March 2020 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 March 31, 2020 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 Nonbanking Institutions.

2.2 Entities deducted from Own Funds

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

As at 31 March 2020, UniCredit Bank doesn't hold at individual level significant investments in financial entities to be deducted from own funds according to the Article 48 from CRR.

2.3 Entities added to RWA

As at 31 March 2020, 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.

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

At UniCredit Group level, an integrated analysis is done to identify the significant risks. The processes for management, monitoring and reporting of risks are formalized in the Group regulations, aligned and integrated at the local group at UniCredit Bank SA level. In accordance with the rules regarding the analysis process, calibration, approval, adoption, implementation, monitoring and reporting of the Group regulations, UniCredit Bank SA has the 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 level of direct controlled entities, there is a frequent reporting process regarding the status of local implementation under the Internal Control Committee of UniCredit Bank SA.

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

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

UniCredit Consumer Finance IFN SA

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

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

As 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.

Constitutive documents of UCFIN and UCLC do not include limits or restrictions related to the own funds transfer and/or debts reimbursments.

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

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

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

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

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

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

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

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 for the implementation of the subsidiaries strategies. In normal conditions of ongoing business activity, there has not been forecasted any prompt transfer of funds and/or debt repayments in advance in the financial plans.

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

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

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

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

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

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

2.4.7 Intragroup Liquidity Transfers

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

3. OWN FUNDS AND KEY METRICS

3.1 Regulatory capital - summary and changes over time

Starting with January 2014, Romanian Banking System is applying the Basel III norms, in accordance with Regulation no. 575/2013 of European Parliament and Council dated 26.06.2013 regarding prudential requirements for credit institutions and investment companies, amended by Regulation (UE) no.648 / 2012 and by Regulation no. 5/2013 regarding prudential requirements for credit institutions issued by National Bank of Romania and Commission Implementing Regulation (EU) No 1423/2013 of 20 December 2013 laying down implementing technical standards with regard to 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 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 area in the financial statements of the institution;
- Instruments are perpetual;
- The instruments meet the following conditions in terms of distributions:
    - No preferential treatment in terms of distribution order to perform distributions, including in relation to other instruments Tier 1 instruments and the conditions governing the instruments do not provide preferential rights to making distributions;
    - Distributions to holders of the instruments may be made only items that can be distributed;
    - The conditions governing the instruments do not include a cap or other restriction on the maximum level of distributions;
    - The level of distributions is not determined based on the purchase price of the instruments at issue;
    - The conditions governing the instruments do not include any obligation for the institution to make distributions to their owners, and the institution is not otherwise subject to such obligations;
    - Failure distributions is not an event of default for the institution;
    - Annual distributions do not impose restrictions on the institution.

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

- Subordinated loans are obtained and fully paid;
- Subordinated loans are not issued by a subsidiary or an associate;
- Providing subordinated loans is not funded directly or indirectly by the institution; the principal debt subordinated loans under the provisions governing subordinated loans, is entirely subordinated to the claims of all unsubordinated creditors;

- Subordinated loans have an original maturity of at least five years;
- Provisions governing, subordinated loans do not include any incentive for their principal amount to be refunded or, if applicable, returned by the institution before maturity;
- Subordinated loans can be recognized in the category of Tier 2 items if in the opinion of the National Bank of Romania meet the eligibility conditions listed above.

The structure of the Own Funds (individual and consolidated) as at 31 March 2020 is presented below:

31-March-20				
Reference Annex IV	**Item**	**Group**	**Bank**	**Reference for reconciliation with balance sheet**
	Own Funds			
1	Capital instruments and the related share premium accounts	1,799,428,752	1,799,428,752	c+d
	of which: ordinary shares	1,177,748,253	1,177,748,253	c
2	Retained earnings	3,050,070,325	2,786,275,050	j-k
3	Accumulated other comprehensive income (and any other reserves, included unrealised gains and losses)	163,695,824	163,695,824	e+f+g+h+i
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	5,013,194,901	4,749,399,626	
	Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments	15,956,010	15,956,010	
8	Intangible assets (net of related tax liability)	194,251,158	183,072,222	a+b
11	Fair value reserves related to gains or losses on cash flow hedges	-49,207,666	-49,207,666	e
12	(-) IRB shortfall of credit risk adjustments to expected losses	45,984,625	40,879,348	
25b	Foreseeable tax charges relating to CET1 items	10,654,179	10,654,179	
	Other deductions	195,941,701	104,633,717	
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	413,580,007	305,987,810	
29	**Common Equity Tier 1 (CET1) capital**	**4,599,614,894**	**4,443,411,816**	
	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)**	**4,599,614,894**	**4,443,411,816**	
	Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	813,079,900	813,079,900	
51	Tier 2 (T2) capital before regulatory adjustment	813,079,900	813,079,900	
	Tier 2 (T2) capital: regulatory adjustments			
57	Total regulatory adjustments to Tier 2 (T2) capital	-	-	
58	**Tier 2 (T2) capital**	**813,079,900**	**813,079,900**	
59	**Total capital (TC = T1 + T2)**	**5,412,694,794**	**5,256,491,716**	
60	**Total risk-weighted assets**	**31,071,694,880**	**24,902,892,842**	
	Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount	14.80%	17.84%	
62	Tier 1 (as a percentage of total risk exposure amount	14.80%	17.84%	
63	Total capital (as a percentage of total risk exposure amount	17.42%	21.11%	
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements + systemic risk buffer + 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	0.0002%	0.0002%	
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.*

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

In RON thousands	Group 31/03/2020	Bank 31/03/2020	Reference
Assets			
Cash and cash equivalents	10,505,391,953	10,505,327,290	
Financial assets at fair value through profit or loss	244,996,997	244,996,997	
Derivatives assets designated as hedging instruments	-	-	
Loans and advances to customers at amortized cost	26,057,653,318	22,518,035,341	
Net lease receivables	3,459,039,736	-	
Placements with banks at amortized cost	576,774,632	576,774,628	
Other financial assets at amortized cost	85,089,068	46,848,701	
Financial assets at fair value through other comprehensive income	7,918,422,574	7,916,076,576	
Investment in subsidiaries	-	143,115,683	
Property, plant and equipment	201,917,393	189,547,516	
Right of use assets	165,132,599	152,578,041	
Intangible assets	200,748,207	189,569,271	a
Current tax assets	-	-	
Deferred tax assets	168,420,236	88,912,170	
of which: Deferred tax regarding Intangible Assets	-6,497,049	-6,497,049	b
Other assets	200,978,764	96,928,806	
Total assets	**49,784,565,478**	**42,668,711,021**	
Liabilities			
Financial liabilities at fair value through profit or loss	63,909,293	63,909,293	
Derivatives liabilities designated as hedging instruments	111,523,643	111,523,643	
Deposits from banks	1,046,598,162	1,046,598,162	
Loans from banks and other financial institutions at amortized cost	6,352,986,007	767,219,349	
Deposits from customers	32,660,201,097	33,225,730,831	
Debt securities issued	2,055,533,096	615,179,415	
Other financial liabilities at amortized cost	613,087,409	549,483,929	
Subordinated liabilities	921,245,960	815,087,160	
Lease liabilities	155,311,564	150,569,135	
Current tax liabilities	29,870,059	19,684,833	
Deferred tax liabilities	-	-	
Provisions	254,823,906	233,005,121	
Other non-financial liabilities	321,357,929	232,576,063	
Total liabilities	**44,586,448,125**	**37,830,566,934**	
Equity			
Share capital	1,177,748,253	1,177,748,253	c
Share premium	621,680,499	621,680,499	d
Fair value changes of equity instruments measured at fair value through OCI	1,607,399	1,607,399	i
Cash flow hedging reserve	-49,207,666	-49,207,666	e
Reserve on financial assets at fair value through other comprehensive income	-99,566,103	-99,566,103	f
Revaluation reserve on property, plant and equipment	12,572,198	12,572,198	g
Other reserves	298,289,998	298,289,998	h
Retained earnings	3,137,449,219	2,875,019,510	j
of which: Profit	87,378,891	88,744,462	k
Total equity for parent company	**5,100,573,796**	**4,838,144,087**	
Non-controlling interest	97,543,557	-	
Total equity	**5,198,117,353**	**4,838,144,087**	
Total liabilities and equity	**49,784,565,478**	**42,668,711,021**	

3.2 Summary of Key Prudential Metrics

		31-Mar-20	31-Dec-19	30-Sep-19	30-Jun-19	31-Mar-19
Available capital (amounts)						
1	Common Equity Tier 1 (CET1)	4,599,614,894	4,889,611,311	4,283,560,000	4,232,688,025	4,200,331,494
1a	Fully loaded ECL accounting model	4,599,614,894	4,889,611,311	4,283,560,000	4,232,688,025	4,200,331,494
2	Tier 1	4,599,614,894	4,889,611,311	4,283,560,000	4,232,688,025	4,200,331,494
2a	Fully loaded accounting model Tier 1	4,599,614,894	4,889,611,311	4,283,560,000	4,232,688,025	4,200,331,494
3	Total capital	5,412,694,794	5,694,923,361	5,084,120,350	5,030,552,375	5,002,863,294
3a	Fully loaded ECL accounting model total capital	5,412,694,794	5,694,923,361	5,084,120,350	5,030,552,375	5,002,863,294
Risk-weighted assets (amounts)						
4	Total risk-weighted assets (RWA)	31,071,694,880	31,082,322,515	29,883,747,182	28,737,579,925	28,117,215,504
Risk-based capital ratios as a percentage of RWA						
5	Common Equity Tier 1 ratio (%)	14.80%	15.73%	14.33%	14.73%	14.94%
5a	Fully loaded ECL accounting model CET1 (%)	14.80%	15.73%	14.33%	14.73%	14.94%
6	Tier 1 ratio (%)	14.80%	15.73%	14.33%	14.33%	14.33%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	14.80%	15.73%	14.33%	14.33%	14.33%
7	Total capital ratio (%)	17.42%	18.32%	17.01%	17.51%	17.79%
7a	Fully loaded ECL accounting model total capital ratio (%)	17.42%	18.32%	17.01%	17.51%	17.79%
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 (%)*	0.0002%	0.0005%			
10	Bank O-SIB additional requirements (%)	1.000%	1.000%	1.000%	1.000%	1.000%
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	3.500%	3.500%	3.500%	3.500%	3.500%
12	CET1 available after meeting the bank's minimum capital requirements (%)	10.303%	11.231%	9.834%	10.229%	10.440%
Basel III Leverage Ratio						
13	Total Basel III leverage ratio measure	54,422,489,752	56,279,881,553	51,958,705,486	50,252,623,825	50,050,474,726
14	Basel III leverage ratio (%) (row 2/row 13)	8.45%	8.69%	8.24%	8.42%	8.39%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2A/row 13)	8.45%	8.69%	8.24%	8.42%	8.39%
Liquidity Coverage Ratio						
15	Total HQLA	16,023,457,945	17,073,171,038	13,709,908,320	13,850,650,346	14.692.915.049
16	Total net cash outflow	9,122,080,598	10,244,390,684	9,598,338,028	9,140,475,462	9.192.395.856
17	LCR ratio (%)	175.66%	166.66%	142.84%	151.53%	159,84%
Net Stable Funding Ratio						
18	Total available stable funding	36,129,829,067	36,093,851,569	33,088,074,603	34,253,891,727	33.154.282.046
19	Total required stable funding	22,485,120,639	22,630,827,937	22,398,209,660	22,124,678,921	21.820.310.924
20	NSFR ratio (%)	160.68%	159.49%	147.73%	154.82%	151,94%

** Dropping of some countercyclical capital buffer measures operated by the Authorities during the first quarter 2020*

4. OWN FUNDS REQUIREMENTS

4.1 General comment

Capital Adequacy Assessment

During first quarter of 2020, within the Bank it was continued the sustained process for completing the internal methodological framework with specific regulations, mainly as regards to ICAAP general framework, stress tests, setting and monitoring of risk appetite, capital management rules, rules regarding the new risks identified by the Bank as significant.

The Internal Capital Adequacy Assessment Process was performed in accordance with National Bank of Romania Regulation no 5/2013, with subsequent amendments and changes, representing an independent assessment of the current and future internal capital, related to the risks the bank is facing and in line with the Bank's strategy. That is to say that UCB assesses the balance between the assumed risk and the available capital consistently with the strategy and assumed objectives, respectively the internal capital and the available financial resources.

The internal capital is represented by the sum of the economic capitals calculated for each risk: credit risk, market risk, operational risk, business risk, and 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 into 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 financial investments companies. For the rest of the portfolio, the Bank and the subsidiaries continued to use the standardized approach.

For calculating the regulatory capital requirements for market risk, the Bank uses the Standardized Approach, while, for operational risk, it is used advanced approach in accordance the above mentioned regulations. All tasks related to the calculation and monitoring of capital requirements are performed by specialized units of Finance Division and Risk Division of the Bank.

For complying with capital adequacy requirements established by Emergency Ordinance 99/2006, the Bank is actively involved in an evaluation process of capital requirements, for sustaining current and future activity, which implies the following processes: budgeting, monitoring and analysis, stress testing, and forecasting.

EU OV1 – Overview of RWAs

		Group			Bank	
		RWA		Capital Requirements	RWA	Capital Requirements
		31-Mar-20	31-Dec-19	31-Mar-20	31-Mar-20	31-Mar-20
1	**Credit risk (excluding CCR)**	**28,367,108,482**	**28,395,572,784**	**2,269,368,679**	**22,916,820,271**	**1,833,345,622**
2	Of which the standardised approach	11,768,447,505	11,572,311,211	941,475,800	5,730,686,352	458,454,908
3	Of which the foundation IRB (FIRB) approach*	16,598,660,977	16,823,261,573	1,327,892,878	17,186,133,920	1,374,890,714
4	Of which the advanced IRB (AIRB) approach	-	-	-	-	-
5	Of which equity IRB under the simple risk-weighted approach or the IMA	149,414,197	166,982,880	11,953,136	678,942,224	54,315,378
6	**CCR**	**150,234,741**	**159,154,282**	**12,018,779**	**150,274,384**	**12,021,951**
7	Of which mark to market	105,006,765	108,501,059	8,400,541	105,046,408	8,403,713
8	Of which original exposure	-	-	-	-	-
9	Of which the standardised approach	-	-	-	-	-
10	Of which internal model method (IMM)	20,283,676	27,916,097	1,622,694	20,283,676	1,622,694
11	Of which risk exposure amount for contributions to the default fund of a CCP	-	-	-	-	-
12	Of which CVA	24,944,299	22,737,126	1,995,544	24,944,299	1,995,544
13	**Settlement risk**	**-**	**-**	**-**	**-**	**-**
14	Securitisation exposures in the banking book (after the cap)	-	-	-	-	-
15	Of which IRB approach	-	-	-	-	-
16	Of which IRB supervisory formula approach (SFA)	-	-	-	-	-
17	Of which internal assessment approach (IAA)	-	-	-	-	-
18	Of which standardised approach	-	-	-	-	-
19	**Market risk**	51,045,810	44,354,022	4,083,665	51,045,810	4,083,665
20	Of which the standardised approach	51,045,810	44,354,022	4,083,665	51,045,810	4,083,665
21	Of which IMA	-	-	-	-	-
22	Large exposures	-	-	-	-	-
23	**Operational risk**	**2,503,305,848**	**2,483,241,428**	**200,264,468**	**1,784,752,377**	**142,780,190**
24	Of which basic indicator approach	718,553,471	718,553,471	57,484,278	-	-
25	Of which standardised approach	-	-	-	-	-
26	Of which advanced measurement approach	1,784,752,377	1,764,687,956	142,780,190	1,784,752,377	142,780,190
27	Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-	-	-
28	Floor adjustment	-	-	-	-	-
29	**Total**	**31,071,694,881**	**31,082,322,516**	**2,485,735,590**	**24,902,892,842**	**1,992,231,427**

**The row "Of which the foundation IRB approach" does not contain CCR exposures 71,965,418 RON (presented on the row "Of which mark to market"). The consolidated position includes also RWA for assets which are not loans in amount of 815,142,225 RON (149,414,197 Equity IRB and 665,728,028 Other non-credit obligation assets) and the individual position includes 1,348,183,426 RON (678,942,224 Equity IRB and 669,241,201 Other non-credit obligation assets)*

4.2 Capital Strengthening

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

As of March 2020 Total Capital Ratio ratio calculated at the consolidated level is 17.42% (21.11% at Individual level), significantly higher than the minimum regulatory requirement.

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 through the methodology stated in Order no 8/2018.

Capital requirements - Pillar I	31.03.2020	
Capital conservation buffer	2.50%	
Countercyclical capital buffer	0.000262% 0.000219%	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 solvency ratio above 11.15% at individual level and 10.10% at sub-consolidated level.

Solvency ratio - minimum requirements including Pillar I & II buffers	31.03.2020		
	NBR Supervisory Report - SREP	Capital buffers	TOTAL
- individual level			
CET 1 ratio	6.27%	2.500%	8.77%
Tier 1 ratio	8.36%		10.86%
Total capital ratio	**11.15%**		**13.65%**
'-sub-consolidated level			
CET 1 ratio	5.68%	3.500%	9.18%
Tier 1 ratio	7.58%		11.08%
Total capital ratio	**10.10%**		**13.60%**

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.

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

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 line "Acquisitions and disposals" contains the amounts for the exposures which existed in the previous reporting date but they ceased to exist in the current reporting date.

Individual *		RWA amounts	Capital requirements
1	**RWAs as at the end of the previous reporting period (31.12.2019)**	**16,086,173,424**	**1,286,893,874**
2	Asset size	-487,874,580	-39,029,966
3	Asset quality	202,942,873	16,235,430
4	Model updates	-	-
5	Methodology and policy	-	-
6	Acquisitions and disposals	-40,855,483	-3,268,439
7	Foreign exchange movements	77,211,846	6,176,948
8	Other	352,414	28,193
9	**RWAs as at the end of the reporting period (31.03.2020)**	**15,837,950,494**	**1,267,036,039**

** The table does not contain Equity exposures in amount of 678,942,224.31 and Other Assets in amount of 669,241,201.6 RON*

Consolidated*		RWA amounts	Capital requirements
1	**RWAs as at the end of the previous reporting period (31.12.2019)**	**16,029,740,757**	**1,282,379,261**
2	Asset size	-487,874,580	-39,029,966
3	Asset quality	202,942,873	16,235,430
4	Model updates	-	-
5	Methodology and policy	-	-
6	Acquisitions and disposals	-40,855,483	-3,268,439
7	Foreign exchange movements	77,211,846	6,176,948
8	Other	2,353,338	188,267
9	**RWAs as at the end of the reporting period (31.03.2020)**	**15,783,518,751**	**1,262,681,500**

***** *The table does not contain Equity exposures in amount of 149,414,197 and Other Assets in amount of 665,728,028.60 RON.*

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

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

In the first quarter of 2020, CCR risk weighted assets under IMM Approach decreased by RON 7.6 million compared with the fourth quarter of 2019, presented primarily in the position "Other" which are explained by a better coverage of received collaterals in the reverse repo transactions.

		RWA amounts	Capital requirements
1	**RWAs as at the end of the previous reporting period (31.12.2019)**	**27,916,097**	**2,233,288**
2	Asset size	2,849,693	227,975
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	-10,482,113	-838,569
9	**RWAs as at the end of the current reporting period (31.03.2020)**	**20,283,677**	**1,622,694**

Non - Financial corporation exposures by industries

		Gross carrying amount	Of which: Non-performing	Accumulated impairment
1	Agriculture, forestry and fishing	1,642,841,464	42,550,762	-41,552,050
2	Mining and quarrying	118,994,663	11,859,757	-12,088,374
3	Manufacturing	6,275,305,735	621,753,455	-476,049,746
4	Electricity, gas, steam and air conditioning supply	473,867,855	104,581,839	-59,412,703
5	Water supply	155,411,621	22,536,262	-20,209,728
6	Construction	1,308,443,753	192,476,283	-179,748,221
7	Wholesale and retail trade	5,778,937,347	159,307,421	-161,736,652
8	Transport and storage	1,668,428,123	61,130,043	-92,581,808
9	Accommodation and food service activities	295,390,016	13,740,080	-12,803,353
10	Information and communication	539,749,775	26,257,257	-31,567,077
11	Financial and insurance activities	80,853,637	24,124	-549,307
12	Real estate activities	1,897,121,750	47,020,700	-52,605,945
13	Professional, scientific and technical activities	381,519,527	58,181,300	-49,293,063
14	Administrative and support service activities	294,209,543	9,102,047	-8,238,298
15	Public administration and defense, compulsory social security	1,556,869	31,780	-24,279
16	Education	14,862,773	649,808	-438,553
17	Human health services and social work activities	148,456,348	12,162,720	-11,808,279
18	Arts, entertainment and recreation	18,921,972	1,025,805	-654,389
19	Other services	144,952,164	2,147,821	-58,554,324
20	**LOANS AND ADVANCES**	**21,239,824,935**	**1,386,539,264**	**-1,269,916,149**

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 accounting assets and exposure for Leverage Effect calculation

LrSum presents the reconciliation between the total exposure considered for the computation of the Leverage reporting and the accounting amounts of the assets.

	Summary comparison of accounting assets versus leverage ratio exposure measure	Q1 2020	Q4 2019
1	**Total consolidated assets as per published financial statements**	**49,784,565,478**	**51,526,609,911**
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 recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-	-
4	Adjustments for derivative financial instruments	101,979,158	102,331,909
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	192,548	33,811
6	Adjustment for off balance sheet items (ie conversion to credit equivalent amounts of off balance sheet exposures)	4,790,128,518	4,929,850,177
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	(254,375,949)	(278,944,255)
8	**Leverage ratio exposure measure**	**54,422,489,752**	**56,279,881,553**

LRCom: Leverage Ratio Common Disclosure

LRCom template presents Leverage Ratio as at 31 March 2020 and the split of the main exposures according with CRR Art. 429 and 451.

	LR2: Leverage ratio common disclosure template	2020 Q1	2019 Q4
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	42,892,843,780	45,723,167,496
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(256,191,793)	(280,467,142)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of row 1 and 2)**	**42,636,651,987**	**45,442,700,354**
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	65,028,765	68,193,359
5	Add-on amounts for PFE associated with all derivatives transactions	101,979,158	102,331,909
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)**	**167,007,923**	**170,525,268**
SFT Securities Financing Transaction exposures			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	6,828,508,777	5,736,771,943
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
14	CCR exposure for SFT assets	192,548	33,811
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)**	**6,828,701,324**	**5,736,805,754**
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	15,759,749,005	15,880,602,299
18	(Adjustments for conversion to credit equivalent amounts)	(10,969,620,487)	(10,950,752,122)

19	Off-balance sheet items (sum of rows 17 and 18)	4,790,128,518	4,929,850,177
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**	**4,599,614,894**	**4,889,611,311**
21	**Total exposures (sum of rows 3, 11, 16, 19)**	**54,422,489,752**	**56,279,881,553**
Leverage ratio			
22	**Basel III leverage ratio**	**8.45%**	**8.69%**
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	-	-

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

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

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

Items		CRR leverage ratio exposures
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**42,892,843,780**
EU-2	Trading book exposures	146,912,381
EU-3	Banking book exposures, of which:	42,745,931,399
EU-4	Covered bonds	-
EU-5	Exposures treated as sovereigns	10,261,190,605
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	-
EU-7	Institutions	1,260,921,113
EU-8	Secured by mortgages of immovable properties	6,101,990,484
EU-9	Retail exposures	6,581,720,438
EU-10	Corporate	15,454,193,413
EU-11	Exposures in default	545,028,582
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	2,540,886,765

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 Scenario - 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 Scenario - 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 Scenario - highlights the interconnections that stem from the happening of both economic turmoil and Bank's specific issues

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

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

Monitoring and Reporting

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

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

Regulatory reports refer to LCR (liquidity coverage ratio), NSFR (net stable funding ratio) and ALMM (additional liquidity monitoring metrics). In addition are the reports required by the national regulations.

The table below shows the detailed picture of the LCR as of 31 March 2020 (values in RON million):

		Standalone			Consolidated		
		Value	Coeff.	Adjusted Value	Value	Coeff.	Adjusted Value
C72							
Liquid Assets - HQLA							
Total	**10**	**16,031**		**16,023**	**16,031**		**16,023**
Level 1 assets	**20**	**15,983**		**15,983**	**15,983**		**15,983**
Cash	40	1,458	1.00	1,458	1,458	1.00	1,458
Withdrawable central bank reserves	50	57	1.00	57	57	1.00	57
Central government assets	70	14,468	1.00	14,468	14,468	1.00	14,468
Level 2 assets	**220**	**47**		**40**	**47**		**40**
Regional government / local authorities or Public Sector Entity assets	**240**	**47**	**0,85**	**40**	**47**	**0,85**	**40**
C73							
Outflows							
Total	**10**	**50,829**		**14,221**	**50,492**		**13,685**
Outflows from unsecured transactions / Deposits	20	50,804		14,221	50,467		13,685
Retail deposits	30	13,411		1,246	13,411		1,246
Higher outflows	50	4,793		726	4,793		726
category 1	60	2,266	0,15	283	2,266	0,15	283
category 2	70	2,528	0,2	442	2,528	0,2	442
stable deposits	80	6,825	0,05	341	6,825	0,05	341
other retail deposits	110	1,792	0,1	179	1,792	0,1	179
Operational deposits	120	431		99	431		99
Non-operational deposits	210	17,766		8,253	17,208		7,695
deposits by financial customers	230	2,037	1.00	2,037	1,479	1.00	1,479
deposits by other customers	240	15,729		6,216	15,729		6,216
covered by DGS	250	379	0,2	76	379	0,2	76
not covered by DGS	260	15,350	0,4	6,140	15,350	0,4	6,140
Additional outflows	270	3,511		3,511	3,511		3,511
outflows from derivatives	340	3,511	1.00	3,511	3,511	1.00	3,511
Committed facilities	460	1,557		122	1,819		149
credit facilities	470	1,557		122	1,819		149

to retail customers	480	691	0,05	35	691	0,05	35
to non-financial customers other than retail customers	490	862	0,1	86	1,124	0,1	112
to credit institutions	500	-		-	-		-
to regulated institutions other than credit institutions	540	4	0,4	2	4	0,4	2
Other products and services	720	13,652		563	13,604		559
other off-balance sheet and contingent funding obligations	730	2,923	0.07	205	2,877	0.07	201
undrawn loans and advances to wholesale counterparties	740	39	0.12	5	39	0.12	5
mortgages that have been agreed but not yet drawn down	750	-		-	-	-	-
credit cards	760	48	-	-	48	-	-
overdrafts	770	4,542	0.03	136	4,542	0.03	136
trade finance off-balance sheet related products	860	4,343	0.05	217	4,341	0.05	217
others	870	1,758	0.00	-	1,758	0.00	-
Other liabilities	880	475		426	483		426
liabilities resulting from operating expenses	890	49	0.00	-	57	0.00	-
in the form of debt securities if not treated as retail deposits	900	-	1.00	-	-	1.00	-
others	910	426	1.00	426	426	1.00	426
Outflows From Secured Lending And Capital Market-Driven Transactions	920	25		-	25		-
Counterparty is central bank	930	-		-	-		-
Counterparty is non-central bank	1,020	25		-	25		-
C74							
Inflows							
Total	**10**	**12,328**		**4,628**	**12,159**		**4,563**
Inflows from unsecured transactions/deposits	**20**	**5,481**		**4,628**	**5,312**		**4,563**
monies due from non-financial customers	30	1,703		863	1,494		758
monies due from financial customers	100	214		214	254		254
monies due from assets with an undefined contractual end date	200	16	0.20	3	16	0.20	3
inflows from derivatives	240	3,517	1.00	3,517	3,517	1.00	3,517
other inflows	260	31	1.00	31	31	1.00	31
Inflows from secured lending and capital market-driven transactions	**270**	**6,848**		**-**	**6,848**		**-**
collateral that qualifies as a liquid asset	280	6,848	-	-	6,848	-	-
collateral that does not qualify as a liquid asset	370	-	-	-	-	-	-
Liquidity Coverage Ratio				**167.04%**			**175.66%**

The high quality liquid assets reserve consists of coins and banknotes, withdraw able 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 customers, which is also a main source of funding for the bank.

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

During 1st quarter 2020, the significant currencies relevant for LCR reporting were RON and EUR.

From a currency mismatch point of view, during Q1 2020 the bank had structural excess liquidity in all currencies.

The main instruments for placing the excess liquidity are EUR reverse repo transactions (typically with short maturities, under 30 days, and 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.

The following table presents, on a consolidated level, the LCR average in RON equiv. for the period September 2019 – March 2020. The number of observations for determining the average is 6, with figures coming from monthly reports from September 2019 - March 2020.

LIQ1: Liquidity Coverage Ratio (LCR – consolidated)

		Total unweighted value (average)	Total weighted value (average)
High-quality liquid assets			
1	**Total HQLA**		**15,601,338,807**
Cash outflows			
2	Retail deposits and deposits from small business customers, of which:	12,645,275,391	1,175,036,207
3	Stable deposits	6,070,364,483	303,518,224
4	Less stable deposits	6,574,910,908	871,517,983
5	Unsecured wholesale funding, of which:	18,515,528,867	8,275,510,678
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	340,845,341	79,058,506
7	Non-operational deposits (all counterparties)	18,172,530,250	8,194,298,896
8	Unsecured debt	2,153,276	2,153,276
9	Secured wholesale funding		
10	Additional requirements, of which:	4,159,768,038	2,437,984,374
11	Outflows related to derivative exposures and other collateral requirements	2,280,221,453	2,280,221,453
12	Outflows related to loss of funding of debt products	-	-
13	Credit and liquidity facilities	1,879,546,585	157,762,921
14	Other contractual funding obligations	556,485,582	498,549,909
15	Other contingent funding obligations	13,340,603,027	544,670,917
16	**TOTAL CASH OUTFLOWS**		**12,931,752,085**
17	Secured lending (eg reverse repo)	5,768,199,901	331,574
18	Inflows from fully performing exposures	1,577,822,498	958,115,982
19	Other cash inflows	4,011,136,766	2,379,727,962
20	**TOTAL CASH INFLOWS**	**11,357,159,165**	**3,338,175,519**
			Total adjusted value
21	**Total HQLA**		**15,601,338,807**
22	**Total net cash outflows**		**9,593,576,567**
23	**Liquidity coverage ratio (%)**		**162.88%**

The evolution of the LCR ratio during December 2018 – March 2020 on consolidated basis is presented in the table below:

Liquidity Coverage Ratio UCB - Consolidated (eq. RON)					
Date	**Liquid assets**	**Outflows**	**Inflows**	**NetOutflows**	**Ratio**
31-Dec-18	15,231,462,230	10,000,737,630	527,741,702	9,472,995,928	160.79%
31-Jan-19	14,280,179,609	9,743,312,158	870,214,471	8,873,097,687	160.94%
28-Feb-19	14,613,666,604	11,098,838,430	1,326,871,088	9,771,967,342	149.55%
31-Mar-19	14,692,915,049	9,681,976,314	489,580,458	9,192,395,856	159.84%
30-Apr-19	14,671,602,678	9,768,277,075	1,377,128,880	8,391,148,196	174.85%
31-May-19	13,925,816,216	9,756,642,537	392,825,739	9,363,816,798	148.72%
30-Jun-19	13,850,650,346	9,562,160,481	421,685,019	9,140,475,462	151.53%
31-Jul-19	13,274,198,470	9,235,948,711	593,140,064	8,642,808,647	153.59%
31-Aug-19	13,311,518,450	9,866,178,278	464,140,077	9,402,038,201	141.58%
30-Sep-19	13,709,908,320	10,280,034,994	681,696,966	9,598,338,028	142.84%
31-Oct-19	15,020,934,548	10,878,602,653	611,929,982	10,266,672,671	146.31%
30-Nov-19	15,534,919,981	14,319,061,914	5,007,402,222	9,311,659,692	166.83%

31-Dec-19	17,073,171,038	12,915,444,815	2,671,054,130	10,244,390,684	166.66%
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%

During Q1 2020, LCR was compliant with the regulatory requirements (level of minimum100%), as well as with internally target interval set by the bank which is above the regulatory 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); moreover, the withdrawable reserves held at the National Bank improved compared to the previous year, due to Minimum Requirement Reserve reduction for EUR. Another driver of the temporary fluctuations of the LCR ratio was the variation of the net liquidity outflows, mainly triggered by the evolution of sources from non-financial customers.

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-18	33,805,525,436	23,842,931,492	141.78%	4.6637
31-Dec-18	35,289,226,952	23,629,251,629	149.35%	4.6639
31-Mar-19	33,154,282,046	21,820,310,924	151.94%	4.7628
30-Jun-19	34,253,891,727	22,124,678,921	154.82%	4.7351
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

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 155.68%

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 March 2020 the customer deposits generated ~79% of the total liabilities (on standalone level). Out of total resources from non-banking customers, 45% were deposits from retail customers. A funding diversification strategy has been pursued by the bank, leading to an improvement in the value of retail customer deposits in Q1.

With regard to non-commercial counterparties, the main funding providers of the bank are entities from UniCredit Group, (via deposits and subordinated loans) and international financial institutions (supra-nationals), as well as investors through the senior unsecured bonds issued on the local market.

Liquidity Buffer

In order to avoid that short-term liquidity crunch or other unexpected events that 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.

Another significant part of liquidity buffer is generated by bonds received as colateral for reverse repo transactions, qualifiable as extremely high liquidity and credit quality assets.

8. MARKET 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:

Net Interest Income analysis

This involves a constant balance sheet analysis (i.e. assuming that positions remain constant during the period), an impact simulation on interest income for the current period is performed.

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.

Economic Value analysis

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

In these analyses **behavioral assumptions** are included in order to cover **optional risk**, such as:

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

IRRBB management is performed within Markets 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 Q1 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-Jan	29-Feb	31-Mar
	NII Sensitivity (% of budget)	>-9.5%	>-9.5%	-12%	-6.53%	-6.16%	-6.31%
	EV Sensitivity (% tier 1 cap)	>-11%	-11%	-15%	-3.93%	-4.80%	-4.58%
	UCB Standalone	Target	Trigger	Limit	31-Jan	29-Feb	31-Mar
	NII Sensitivity (% of budget)	>-9.5%	>-9.5%	-12%	-8.48%	-8.23%	-7.85%
	EV Sensitivity (% of tier 1 cap)	>-11%	-11%	-15%	-6.18%	-6.08%	-5.04%

B) Granular indicators – measured on a daily basis

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

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

B.2) VaR for IRRBB

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

As of 31.03.2020 the value of the granular indicators vs limits is as per tables below:

BP01 Bank Book UCB	*(EUR)*	0-3M	3M-1Y	1Y-3Y	3Y-10Y	10Y+	SUM
	Total ccys	4,373	11,284	98,954	4,515	40,168	150,548
	Limit	25,000	50,000	140,000	240,000	60,000	310,000
	Usage	17.49%	22.57%	70.68%	1.88%	66.95%	48.56%
	(EUR)	SUM	**no limit breach**				
	EUR	7,320					
	Limit	100,000					
	Usage	7.32%					

VaR IRRBB

value: EUR 1,669,458 versus limit: EUR 10,000,000

C) 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.

	Stress Tests Scenarios	**31-Jan-20**		**29-Feb-20**		**31-Mar-20**	
	UCB - Standalone	Million EUR					
	Own Funds Total / T1	**1,023.78**	**855.28**	**1,025.02**	**856.52**	**1,089.34**	**920.84**
	Regulatory IR Stress Tests (BB)	% total OF		% total OF		% total OF	
1	parallel shift +200bps	(31.56)	3.08%	(30.95)	3.02%	(27.14)	2.49%
2	parallel shift -200bps	47.88	4.68%	48.80	4.76%	44.45	4.08%
	IRRBB Basel definition (BB)	% T1 OF		% T1 OF		% T1 OF	
1	Parallel shift +200bps	(31.56)	3.69%	(30.95)	3.61%	(27.14)	2.95%
2	Parallel shift -200bps	47.88	5.60%	48.80	5.70%	44.45	4.83%
3	Basel Parallel shock up	(52.66)	6.16%	(51.87)	6.06%	(46.24)	5.02%
4	Basel Parallel shock down	80.59	9.42%	80.53	9.40%	77.04	8.37%
5	Basel Steepening (sr down, lr up)	6.23	0.73%	8.25	0.96%	9.56	1.04%
6	Basel Flattening (sr up, lr down)	(15.14)	1.77%	(16.97)	1.98%	(16.35)	1.78%
7	Basel Short rates up	(36.36)	4.25%	(37.80)	4.41%	(35.55)	3.86%
8	Basel Short rates down	40.54	4.74%	42.14	4.92%	40.07	4.35%
	Maximum		**9.42%**		**9.40%**		**8.37%**
	Supervisory Outlier Test	% T1 OF		% T1 OF		% T1 OF	
1	Parallel shift +200bps	(31.71)	3.71%	(31.14)	3.64%	(27.27)	2.96%
2	Parallel shift -200bps	17.16	2.01%	17.38	2.03%	16.80	1.82%
3	Basel Parallel shock up	(52.82)	6.18%	(52.06)	6.08%	(46.38)	5.04%
4	Basel Parallel shock down	33.41	3.91%	32.17	3.76%	29.11	3.16%
5	Basel Steepening (sr down, lr up)	2.85	0.33%	3.72	0.43%	4.57	0.50%
6	Basel Flattening (sr up, lr down)	(15.57)	1.82%	(17.18)	2.01%	(16.02)	1.74%
7	Basel Short rates up	(36.58)	4.28%	(38.06)	4.44%	(35.75)	3.88%
8	Basel Short rates down	19.40	2.27%	20.35	2.38%	19.71	2.14%
	Maximum		**6.18%**		**6.08%**		**5.04%**

	Stress Tests Scenarios	31-Jan-20		29-Feb-20		31-Mar-20	
	RO Group - Consolidated	Million EUR					
	Own Funds Total / T1	**1,191.93**	**1,023.43**	**1,183.31**	**1,014.81**	**1,121.71**	**953.21**
	Regulatory IR Stress Tests (BB)	% total OF		% total OF		% total OF	
1	parallel shift +200bps	(10.29)	0.86%	(28.10)	2.37%	(23.33)	2.08%
2	parallel shift -200bps	30.74	2.58%	51.89	4.39%	46.42	4.14%
	IRRBB Basel definition (BB)	% T1 OF		% T1 OF		% T1 OF	
1	Parallel shift +200bps	(10.29)	1.01%	(28.10)	2.77%	(23.33)	2.45%
2	Parallel shift -200bps	30.74	3.00%	51.89	5.11%	46.42	4.87%
3	Basel Parallel shock up	(30.67)	3.00%	(48.27)	4.76%	(41.43)	4.35%
4	Basel Parallel shock down	62.66	6.12%	82.83	8.16%	77.99	8.18%
5	Basel Steepening (sr down, lr up)	2.19	0.21%	5.57	0.55%	5.16	0.54%
6	Basel Flattening (sr up, lr down)	(6.84)	0.67%	(12.99)	1.28%	(10.46)	1.10%
7	Basel Short rates up	(22.14)	2.16%	(33.14)	3.27%	(28.77)	3.02%
8	Basel Short rates down	27.64	2.70%	39.65	3.91%	35.17	3.69%
	Maximum		**6.12%**		**8.16%**		**8.18%**
	Supervisory Outlier Test	% T1 OF		% T1 OF		% T1 OF	
1	Parallel shift +200bps	(19.84)	1.94%	(28.48)	2.81%	(24.66)	2.59%
2	Parallel shift -200bps	12.76	1.25%	16.71	1.65%	15.87	1.66%
3	Basel Parallel shock up	(40.23)	3.93%	(48.66)	4.80%	(43.63)	4.58%
4	Basel Parallel shock down	28.62	2.80%	31.11	3.07%	28.88	3.03%
5	Basel Steepening (sr down, lr up)	(0.53)	0.05%	2.86	0.28%	3.35	0.35%
6	Basel Flattening (sr up, lr down)	(10.82)	1.06%	(14.27)	1.41%	(12.26)	1.29%
7	Basel Short rates up	(27.91)	2.73%	(33.64)	3.31%	(32.39)	3.40%
8	Basel Short rates down	14.70	1.44%	19.25	1.90%	19.23	2.02%
	Maximum		**3.93%**		**4.80%**		**4.58%**

9. COVID-19 OUTBREAK CONTEXT

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

During the first quarter 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 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

[1] Targeted review of internal models
[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

- **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 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 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;

For the sake of completeness, it is worth mentioning that the **Basel Committee on Banking Supervision (BCBS)**, through the document issued on **3 April 2020**, **reported its guidance about the measures introduced by Governments and Authorities to reflect the impact of Covid-19**; specifically, the Committee agreed that the risk-reducing effects of the various extraordinary support measures taken in its member jurisdictions should be fully recognised in risk-based capital requirements. As well, the Committee agreed that the extraordinary support measures should be taken into account by banks when they calculate their Expected Credit Losses.

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:

- monetary policy measures: (1) to cut the monetary policy rate by 0.75 percentage points, from 2.5 percent to 1.75 percent; (2) to narrow the symmetrical corridor defined by interest rates on standing facilities around the monetary policy rate to ±0.5 percentage points from ±1.0 percentage points. Thus, the deposit facility rate stays at 1.25 percent, while the lending (Lombard) facility rate is lowered to 2.25 percent from 3.50 percent. The expected effect is to reduce the interest rates on loans to companies and households.

(3) to provide liquidity to credit institutions; (4) to purchase RON-denominated government securities on the secondary market to ensure the smooth financing of real economy and the public sector.

- measures to increase the flexibility of the legislative framework so that banks and non-bank financial institutions could help individuals and companies with outstanding loans. Lenders will be allowed to delay payments of the loans of any individual or company affected by the COVID-19 pandemic, without applying the conditions related to the level of indebtedness, the loan-to-value limit and the maximum maturity of consumer credit.
- on 24 March 2020, NBR decided to allow banks to temporarily use the capital buffer previously set up, while maintaining compliance with the requirements provided by the legal framework for these flexibility measures and the non-compliance with the minimum level of the liquidity indicator in order to use these reserves for a better functioning of the banking sector.
- measures regarding the bank resolution: to postpone the deadline for collecting the annual contributions to the bank resolution fund for 2020 by 3 months, with the possibility of extension to up to 6 months; to delay the reporting deadlines of some information on resolution planning.
- operational measures: to ensure the smooth functioning of payment and settlement systems underlying payments in the domestic currency, so that commercial and financial transactions can be performed under normal conditions; the NBR will provide banks with continuous cash flows for all operations, including liquidity for ATMs.

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.

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 will 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 overall amount approved to date is 15 billion, while there is also a proposal from the Parliament of increasing it to 30 billion, to be approved by the European Commission.

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

The maximum loan exposure toward a single beneficiary is 10Mn RON with a maximum tenor up to 36 months for working capital and up to 72 months for investment loans. Similar to the rest of the banking system, the bank is expected to leverage on this program during 2020 for the SME clients lending.

9.3 COVID 19 measures taken by UniCredit Group in Romania

The main actions already taken by UniCredit Group in the context of COVID-19 crisis 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, as presented in chapter 9.4.
- Starting 15 May 2020, based on internal assessment performed by the Group and following the exit from national urgency phase, new measures were gradually implemented for returning to normal working conditions but still posing restrictions as per new adopted legislation;
- Other than the public moratorium measures (classified as non – forbearance, as described above in chapter 9.1), 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.

The Bank has comfortable levels on both liquidity and solvency positions, the first semester 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 semester 2020, the following actions were put in place:

- Liquidity Attention Meeting was held on 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 1: 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