UniCredit International Bank
Luxembourg

# Financial Statements and Report of the Réviseur d'Entreprises Agréé 31 December 2020

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UniCredit International Bank
Luxembourg

# 2020

# Report of the Management Board

# of UniCredit International Bank (Luxembourg) S.A.

**2020 Report of the Management Board**

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## Content

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## I. Macroeconomic environment[1]

### The global economy

In the year 2020, financial markets were characterized by great uncertainty and high volatility. Although largely dominated by the Covid-19 pandemic, financial markets were also influenced by the impact of the US-China trade war and of the U.S. presidential elections. This situation will lead to an expected 7.5% contraction of the GDP at the EMU level. This is the worst peacetime recession since the Great Depression about 90 years ago.

2020 can be divided into four phases.

The year began with some concerns for the markets. Macroeconomic data showed a general slowdown and at the end of January there was already talk of the epidemic in Wuhan and the negative effects on the economics.

In March, the pandemic declared by the World Health Organisation (WHO) and the subsequent business closures on a global scale triggered an unprecedented fall in stock exchanges across the world. In particular, bond markets suffered a liquidity crisis as many investors were forced to generate cash to hedge margin calls.
Starting from April, the fiscal and monetary response of the Authorities, the reduction in the infection rate and the partial reopening of businesses favoured a rebound in the markets. The Federal Reserve (Fed) cut rates to zero and launched unlimited Quantitative Easing (QE), while the European Central Bank (ECB) introduced an emergency bond purchase program. On the other hand, the governments, for their part, had to provide substantial tax packages. However, in October, the second wave of the virus led to significant drops on the main financial markets.

The success of vaccine testing in early November was a turning point for markets, favouring a rotation towards cyclical stocks.

### Equity markets

Equity markets were characterized by a high volatility.

The VIX Index, the SP500's volatility index constructed through the options market, was at 12.47 at the start of the year. It recorded its high on 16 March, hitting 82.69 or + 563% before dropping to 22.75 at the year end. This level has never been reached during any previous economic / financial crisis.

Taking as reference the most important stock index in the world, the S&P 500 Index, in mid-February began its decline until it reached its all-time low point of the year.

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[1] All the macroeconomic data are provided by UniCredit Research MIB (Market & Investment Banking)

The best performing index in America was the Nasdaq Technology Index.
The Nasdaq Index started the year at 9,092 and then hit an all-time low on 23 March at 6,860 (-25%) and quickly recovered all losses in June to close the year at 12,888 with a year-to-date performance of +43.64%.

After hitting an all-time low of 252.89 on 16 March, the Eurostoxx index closed the year at 397.56 with a year-to-date loss of -1.23%. The Ftse Mib Italian Index went back to 22,233 points at the end of the year, marking a loss of 4.6%. A similar trend was registered for the Frankfurt Dax 30 Index.

The Covid-19 virus initially hit the Asian markets which, favored by substantial investments in healthcare and aid from the Authorities, were able to stem the pandemic quickly. Furthermore, vaccinations started earlier than the vaccination campaign in the western countries. All this fostered the rapid recovery of investments on the Asian markets.

Below is the trend of the main indices in the period 06/01/2020 - 30/12/2020:

| Indices | Price Change in € | Price change in LC |
|---|---|---|
| Standard&Poors | 4.73% | 14.96% |
| Eurostoxx50 | -1.23% | -1.23 |
| Nikkey 225 | 13.06% | 18.27% |
| Hang Seng | -12.20% | -3.82% |

The sectors (MSCI World Sectors) that drove the performance of the main stock exchanges are: technology, basic resources, industrial, health care.

**Forex**

Differently from the previous years, in 2020 the Euro currency strengthened against US Dollar. The rise of the Euro against the Dollar totalled approximately + 8.9% since the beginning of the year. The massive credit lines of the Fed, which are likely to be extended throughout 2021 for the emergency, together with the securities purchase program, have led to a weakening of the dollar.

## Fixed income and interest rates

Differently from the expectations, 2020 was another record year for the fixed income, thanks to the expansionary attitude of central Banks in favor of the economic growth impacted by the pandemic.
Central Bank bond purchases - Corporate Sector Purchase Program (CSPP) and Pandemic Emergency Purchase Program (PEPP) led bonds to lower and lower yields.

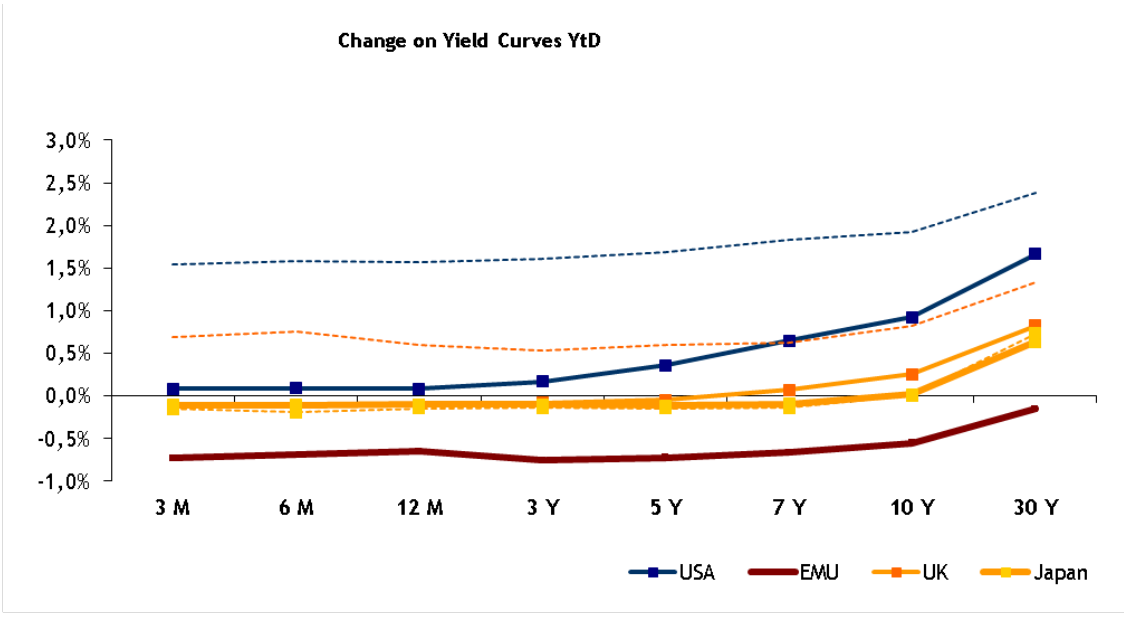
Bonds with negative yields rose to $ 16.5 trillion globally which accounts for a quarter of the bond market as a whole.

The lower rates are motivated by low inflation. The main structural factors behind the low inflation environment refer to a variety of aspects:

- Demographic trend,
- Globalization and delocalization,
- Robotics and technological revolution,
- Lower commodity prices (dematerialization of the economy),
- Central Banks: quantitative easing policies after the Great Financial Crisis.

The 10-year German Bund remained in negative territory, reaching -0.86% in March 2020.

The Euribor (interBank indices) also fell to unprecedented levels,
namely -0.546%, at the end of the year. This movement is a direct consequence of the decision of the ECB, at the beginning of the pandemic, to increase Quantitative Easing (QE).



## Outlook for 2021

The hope for a gradual return to normal will grow with rising temperatures in the spring and an increasing number of people being vaccinated against Covid-19. In Europe, it is highly likely that the alternation of lockdowns and eased restrictions will continue until summer, considering that virologists already predict a third wave.
The close correlation between GDP and blocking measures is likely to lead to a contraction in the overall economic output in the first part of 2021. The recent decline in mobility data, as well as that of business and consumer confidence indices, is a strong indication of this.

France and Spain are once again the most affected regions and also those that have imposed the toughest restrictive measures. Italy and Germany follow.
As of next spring, however, things should start to improve again, when warmer temperatures and the initial impact of mass vaccination campaigns will allow for the significant easing of the restrictive measures implemented by governments.

Consumer spending is set to grow significantly, while the massive increase in the saving rate due to the crisis is expected to decline again (see Figure 4), thus helping to increase private consumption.

At the same time, investments are also expected to increase.

After all, the liquidity reserves of companies, i.e. their deposits in the European Banking system, have grown significantly this year. This in addition to the sustained recovery of the global economy, will be especially beneficial for export-oriented European economies. However, it will be necessary to closely monitor the services sector which has been hit hard by the pandemic and therefore risks a wave of Bankruptcies starting next year.

European economies will benefit from the support of fiscal and monetary policies. The European Central Bank (ECB) increased its pandemic emergency purchase program (PEPP) by € 500 billion and it will make the macroeconomic context even more favorable, making the targeted longer-term refinancing operations (TLTRO III) more attractive and extending their time horizon. Given that the inflation rate will remain well below the 2% target for several years to come, no increase in interest rates before 2023 is conceivable.

Fiscal policies also maintain an expansionary orientation, with governments continuously increasing their aid programs with each lockdown. In any case, European citizens have a particular advantage (see Figure 5), as they benefit from the fact that the common tax rules will remain suspended throughout 2021.

In addition to national aid, there are extensive EU programs in place.
In particular, we expect impulses from the European Recovery Fund (€ 750 billion).

As in Europe, from spring onwards, however, the economic environment should improve significantly in the United States as well, especially as the second pandemic aid program (possibly even increased) is due.
The US economy should thus return to its pre-pandemic levels before the euro zone.

In China, however, the trend is very different and it is likely to be featured in textbooks as a prime example of a V-shaped economic recovery. Faced with strict, even totalitarian interventions, combined with Asian discipline, the country was able to quickly bring the pandemic under control. Combined with monetary and fiscal stimulus measures, this has ensured that growth increases have continued to be above average since the spring.
The Chinese economy is therefore the only economy to have grown in real terms (2%) in 2020.

Moreover, considering that the accompanying measures of economic policy are still producing their effects and private consumption is gradually recovering, in 2021 the Chinese economy will continue to grow significantly above potential.

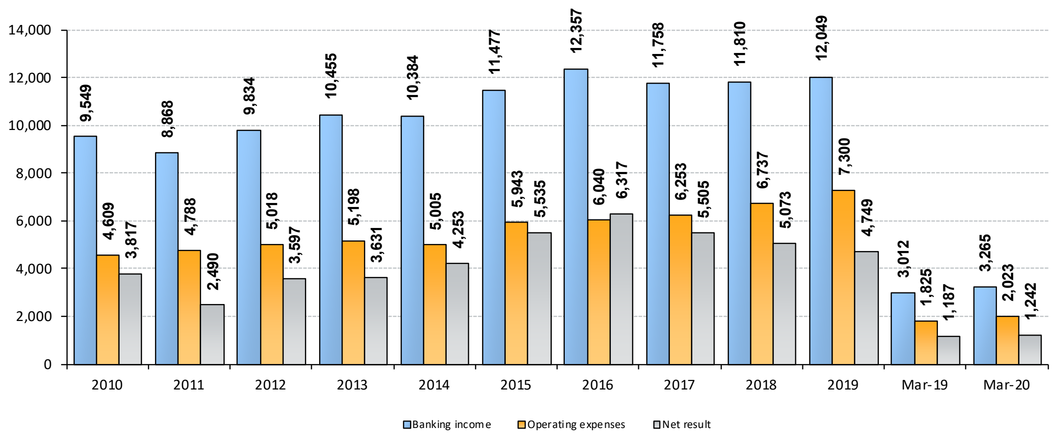
The recovery of the global economy is also helping. We expect the Chinese GDP to grow by 8.5%, the largest increase since 2011. Given the significant role that China plays in the global economy, it will be mainly thanks to this country that real GDP worldwide is likely to return to pre-pandemic levels at the beginning of next year and will grow at an above average rate of 4.5% - 4.75% in the next two years, a stronger and longer growth than in the period following the financial crisis.

## II. Luxembourg’s financial centre

In 2020, as in previous years, Luxembourg’s financial centre coped better than other European countries with challenges in the European environment with regard to investment and economic governance. In Luxembourg, GDP in 2020 is expected to drop by -3.5% due to the negative effects of Covid 19 on the real economy. This decrease compares to the 2.3% growth achieved in 2019 and represents a significantly better result than the average of the European Union. The inflation should reach 0.9%, with a decrease of 47% compared to the previous year[2].

Despite the disruptions resulting from Covid-19 outbreak, the profitability of the Luxembourg Banking sector slightly improved. Income in the Banking industry as of March 2020 amounted to € 3.3 billion, increasing versus March 2019.

**Luxembourg banking income, operating expenses, net result (€ million)**




Source: CSSF

In the latest figures published by the *Commission de Surveillance du Secteur Financier* (CSSF) in December 2020, the balance sheet total of the Banking system in Luxembourg amounted around € 847 billion[3](September 2020), revealing an increase compared to the previous year (September 2019). In 2020, the Luxembourg Banking system continued to cope with increased regulatory requirements. The number of Banks totalled 129[4] as of November 2020 remained at the same level compared to the previous year. In the Banking labour market the number of employees decreased by -1.1%, from 26,438 in September 2019 to 26,154 in September 2020.

[2] Source: Statec, December 2020
[3] Source: CSSF, September 2020
[4] Source: CSSF, November 2020

# III. Report on operations

## Key performance indicators

| Statement of comprehensive income | | | | (€ thousands and %) |
|---|---|---|---|---|
| | 31/12/2020 | 31/12/2019 | Δ 2020 vs 2019% | 2020 vs 2019 |
| Operating income | **25,585** | 25,866 | -1% | -281 |
| Operating costs | **17,079** | 14,184 | 20% | 2,894 |
| Operating profit | **8,549** | 11,645 | -27% | -3,096 |
| Profit before tax | **8,558** | 11,674 | -27% | -3,116 |
| Cost/income | **66.8%** | 54.8% | 22% | 11.8% |

| Statement of financial position | | | | (€ thousands) |
|---|---|---|---|---|
| | 31/12/2020 | 31/12/2019 | Δ 2020 vs 2019% | 2020 vs 2019 |
| Total assets | **2,470,335** | 2,736,688 | -10% | -266,353 |
| Loans and receivables with customers | **1,291,609** | 1,347,532 | -4% | -55,923 |
| Deposits from customers | **574,279** | 687,033 | -16% | -112,755 |
| Shareholders´equity | **306,305** | 305,768 | 0% | 538 |

| Ratios | | | | (%) |
|---|---|---|---|---|
| | 31/12/2020 | 31/12/2019 | Δ 2020 vs 2019% | 2020 vs 2019 |
| Core Tier 1/total risk-weighted assets | **58.6%** | 66.8% | -12.4% | -8.3% |
| Total capital ratio | **58.6%** | 66.8% | -12.4% | -8.3% |
| LCR ratio | **226.1%** | 629.1% | -64.1% | -403.0% |
| Leverage ratio | **10.9%** | 9.8% | 11.1% | 1.1% |
| ROA | **0.2%** | 0.3% | -17.9% | -0.1% |

**2020 Report of the Management Board**

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**The Bank's operations**

In 2020 the Bank continued in its effort to develop the business transferred in 2017 and in 2018, namely the Global Family Office ("GFO"), the Wealth Management ("WM") and the Fund Management ("FM").

The Bank is directly involved in the Group strategic funding activity and in the future, the Bank will continue to issue notes under the € 1bn Equity Linked Notes Programme.

The Bank Governance Model foresees a clear segregation between the day-to-day management and the control/supervision of the Bank. The Bank is managed by a Management Board, which exercises its functions under the control of a Supervisory Board. The Management Board is in charge of taking all actions necessary or useful to fulfil the Company's corporate objectives, with the exception of the actions reserved by Luxembourg law or by the Articles of Association to the General Meeting or the Supervisory Board. The Supervisory Board is in charge of the supervision and control of UCInt's administration by the Management Board.

From an organizational point of view, the Bank continued the efforts in order to optimize all the processes formalize them in Operating Guidelines and implement Group guidelines in relation to its Business model. A permanent monitoring of strategies, guiding principles, policies and internal procedures in force is in place, in order to ensure the compliance with the applicable external regulations as well as with the Group Global Rules issued by UC and adopted by the Bank.

In 2020, ICT infrastructure and Disaster Recovery remained outsourced to HVB Luxembourg branch ("UBL").

Combined teams composed by employees of the Bank and of UBL are covering the following areas in order to leverage on the existing know-how and expertise:

- Human Resources
- Compliance
- ICT Applications

In compliance with the applicable regulations, the outsourcing activities and the combined teams are governed by Service Level Agreements (hereinafter: the "SLA"), which specifies all details in relation with the involved activities.

In the projects area the Bank continued to improve efficiency and automation of the Back-Office processes, implemented an automated Market Abuse detection solution and finalized the integration of the local network into the Group one. In the general framework of GDPR regulation, several activities were finalised and the most relevant applications of the Bank are compliant with the regulation.

The upgrade of the Front Office tool Equalizer has started during the year with the aim to enhance new functionalities for the Asset Management and to install a brand new web portal for the clients to access their accounts and communicate with the Bank. The new portal will be released at the end 2021 and be available as well on the mobile devices.

Several investments have been done as well in the infrastructure perimeter in order to renew the hardware which would have become outdated in the near future.

After implementing in 2019 the system SAP with the SAP modules FI Financials (including asset management and accounts payable) and CO Controlling as a satellite system of the core system of the Bank (OLYMPIC) in 2020 the Bank introduced a fully digitalised electronic validation and approval workflow for the invoice handling within SAP. With this project the Bank was able to achieve several targets: enlarging the 4-eyes principles within SAP, defining a full Bankwide electronic, paperless process from scanning of incoming invoices into SAP, parking of the booking, validation of budget and tax parameters, approval of the responsible following the approval authorities of the Bank to the final booking of the bill.

In 2020 the Bank kept investing in enhancing its Compliance Programme with main focus on anti-financial crime topics, i.e. anti-money laundering and counter terrorism financing as well as compliance to financial sanctions and embargoes. In particular the Bank reviewed and enhanced its KYC (Know Your Customer), Transaction monitoring, Financial Sanction Screening processes and procedures and further strengthened Second Level of Controls and Risk Assessment execution. Furthermore, the Bank reinforced the compliance team in order to ensure consistent coverage of Non-Anti Financial Crime Compliance regulatory frameworks, among others: MIFID II, MAR, CoI, GDPR, Anti-Corruption, etc.

Coherently with the processes and procedures changes mentioned above, the Bank launched several initiatives focusing on data quality and consistency review for both Anti-money Laundering transactions monitoring as well as Financial Sanction screening IT tools. The Bank also decided to upgrade one of the key compliance IT tools used for transaction monitoring with an expected implementation in the second quarter of 2021.

In 2018 the Bank started a project aimed to deliver its Credit risk data into the Group tool Aramis. This project is still ongoing and it will allow the Bank to deliver in a single feeding process detailed data on its credit portfolio to the Group. This information is used by the Group for managerial as well as for regulatory purposes. The integration to the group tool Aramis will allow the Bank to leverage on Aramis also to produce Corep for local regulatory purposes and to get access to the internal models used by the Group to measure credit risk.

Since the end of 2018, the Bank is connected with the Group Management Information System ("GMIS") used to centrally monitor the commercial performance of Group customers assisted by several legal entities. In a first step only commercial and risk data related to GFO customers have been included in GMIS.

The FATCA is a US law applicable to foreign financial institutions (FFIs) and other financial intermediaries to prevent and avoid tax evasion by US citizens and residents through the use of offshore accounts and/or other structures. The Bank is FATCA-compliant and implemented the necessary new IT tools and processes to file FATCA reporting.

On 14 October 2014 the European Council established a draft directive extending the scope of the Automatic Exchange of Information (AEoI) for tax purposes among EU member states. This Directive includes Automatic Exchange of Information obligations based on the OECD CRS, which represents another important step for tax transparency and a global agreement to disclose certain incomes earned by individuals and enterprises. The Bank performs the necessary activities related to CRS and QI reporting.

Furthermore, on 25 May 2018 the Economic and Financial Affairs Council formally adopted the Council Directive amending the existing Directive 2011/16/EU on administrative cooperation in the field of taxation, as regards mandatory automatic exchange of information in relation to reportable cross-border arrangements to disclose potential aggressive tax planning. A dedicate project DAC 6 has been established by UniCredit Group and the Bank will implement the new regulatory requirements in cooperation with the Group. Any transaction involving two countries where at least one is in an EU country will need to be reported where it meets certain criteria that could indicate aggressive tax planning. The obligation to disclose is on all EU-based intermediaries involved in the arrangement. Under certain conditions the taxpayer may be obliged to disclose as well. The update of the local Transfer Pricing File has been postponed to 2021.

The safety of the employees and the continuity of the activities of the Bank ("UCInt") continued to be a top priority, especially in consideration of the pandemic Coronavirus. During the crisis, the Bank activated health and safety protocols and constantly monitored the situation.
In order to manage the Covid-19, the Pandemic plan has been activated successfully in February 2020 in coordination with the Group. In particular, the Bank activated all the Business Continuity plans ("BCP") for critical and not critical processes as well as Crisis Committee held on daily basis.

The following main contingency measures were immediately defined and activated according with Group guidelines:

- Wearing masks,
- Taking distance,
- Avoiding physical meetings,
- Business Travel ban.

In addition, the Bank communicated to all employees related to pandemic measures performed and activated the secondary recovery site in order to split critical teams avoiding direct contact and the home office solution through secured VPN protocols in order to enable continuity of the business.
Starting from the second half of March, in line with CSSF's recommendations all staff has been requested to work remotely. The possibility to access the Bank premises was allowed only after authorization of the crisis coordination team.
Since the pandemic started until end of 2020, the Bank registered a very limited number of positive cases fully recovered and no major incident on availability of the business has been recorded. In addition, during 2020 the Group performed a flash Audit regarding the Covid-19 measures putted in place by the Bank with no findings.

**Risk management and internal control systems in relation to the financial reporting process**

Risk Management process refers to the strategic management, identification and assessment of risks as well as the assumption or avoidance of risk. In 2020 a special focus was on Risk Management and internal control systems in consideration of the financial crisis following the COVID19 contagion. At any time the Bank continued to be fully operational and had no operational disruptions and no losses due to collateral deterioration, counterparty defaults or credit losses. With regard to liquidity risk management, LCR was always far above the regulatory limit. The Bank performed a stress test and examined the robustness of its liability structure in case of crisis. The results of the stress test showed that the Bank had sufficient liquidity for more than 3 months.

The Bank also performed a wider risk assessment and implemented mitigation actions.

The biggest risk the Bank identified was that the unavailability of key staff due to the contagion. At the beginning of the crisis, the Bank mitigated this risk by defining key staff; segregating staff in separate areas of the building; splitting of each department in two teams and activating home-working.

New operational risks were managed in consideration of the activation of the BCP and to changes in the processes when working from home. This is the consequence of the actions needed to mitigate contagion risk. The Management Board decided to temporarily adapt some processes (via work around and limitations) to meet the requirements of office@home. The new processes have been analysed in detail and additional controls have been implemented to mitigate operational risks as much as possible. As soon as that the contingency will be over, the normal processes will be reactivated. The Bank also faced higher market risk and business risk in consideration of the increased volatility in the markets and of the reduced business activities especially in Italy due to the lockdown.

The Bank has defined an Internal Capital Adequacy Assessment Process (ICAAP) as the central cornerstone of the Risk Management process. The risk types are described in detail in the ICAAP Report for 2020. The risk is monitored using various risk management methods and risk systems that are appropriate for the risk type and its exposure level.

The central risk measure is the internally determined risk capital (Economic Capital) which is equal to the Economic Capital plus a cushion of € 25 million. Risk capital is compared to the Available Financial Resources (AFR). The risk-taking capacity is the ratio of AFR over Economic Capital. It expresses the coverage of the actual economic capital used. As at the end of 2020, the AFR was € 297 million. Risk-bearing capacity (coverage of calculated economic capital by the AFR) was always well above the limit of 100% in the course of 2020.

The control of the identified risks is centralised in Risk Management. By monitoring of the Bank's activities, Risk Management is not only tasked to control actual compliance of the Bank's activities with the risk appetite but also to look forward on the impact of the business strategies as defined at Group level and approved by the Bank, so that the Bank remains compliant within the risk framework and proactively propose risk mitigating solutions when required. In the European Union the Single Supervisory Mechanism (SSM) is applied to Banks with assets in excess of € 30 billion or 20% of domestic GDP. The ECB is the competent authority commissioned for this supervision. The SSM is applicable to UniCredit Group, thus UniCredit S.p.A. and the relevant subsidiaries in the Eurozone are supervised by the ECB. In 2020, the ECB carried out an assessment of the Banks, which fall under its direct supervision. The Bank received the results of this supervisory review, SREP, in December 2020 and was informed that no additional supervisory requirements are set to the Bank's Prudential Capital and Liquidity ratios.

The steering and management of liquidity risk remained a major topic in 2020. In line with the local liquidity policy, the Bank continued to maintain a positive cumulative liquidity gap on the liquidity ladder up to the three-month, monitored and forecasted on a daily basis its liquidity coverage ratio (LCR).

As part of the Bank's risk appetite, the Bank defined for the LCR, in addition to the regulatory minimum requirement of 100%, two other managerial restrictions: an internal limit of 110% and an internal trigger level at 109% aligned with the Group's Risk appetite. The Bank has escalation procedures in case of activation of the trigger or overdraft of the internal limit.

In order to manage the assets and liabilities stemming from its business model in a proactive manner, the Bank established an Asset & Liability Committee (ALCO). The adherence to the earlier mentioned liquidity metrics put constrains on the balance sheet. Therefore, the focus of the ALCO in 2020 was on strategies to adhere to the liquidity targets and the Funding Plan.

The liquidity management is the responsibility of the department Strategic Funding and Treasury. It operates within the limits approved, which are fully aligned with the Group's Liquidity Risk appetite. Risk Management is responsible for the second level control of the Bank's adherence to these limits and also for escalating limit breaches to the Management Board and relevant Group functions.

In order to manage unforeseen liquidity demands the Bank has an unencumbered Government bond portfolio that can be liquidated in case of necessity. In 2018 the Bank started implementing a free capital investment model in line with the methodology defined by UniCredit Group.
It should be noted that the Bank does not have independent access to the Money Market. The Bank executes its Money Market Transactions with its parent company.
The main methodologies to manage the liquidity risk are Short Term Gap analysis, Stress test and Structural liquidity analysis.

At 31 December 2020 the Bank's LCR was:

| | |
|---|---|
| Liquidity buffer | € 488 million |
| Net liquidity outflow | € 216 million |
| Liquidity coverage ratio (%) | 226.1% |

The Internal Regulations, approved by the Management Board, define one decision making body to grant credits: Credit Committee. The committee can authorize, suspend or revoke loans or investments, within the scope of the powers assigned to it. Depending on the characteristics of the transaction, a non-binding credit opinion of UC S.p.A. can be necessary.

The Risk Management Department monitors the credit portfolio on a daily basis, controlling the adherence to credit limits including assessment of the value of the collateral pledged. It gives its independent advice to the Credit Committee on credit proposals. The renewal requests and the annual reviews are submitted, according to the nature and duration of the transaction, to the Credit Committee.
The Bank continued to use the Standard Approach for the measurement of its regulatory Capital adequacy and with the support of the Group started an assessment to evaluate the possible extension to UniCredit International of the usage of internal rating models.

With regard to its credit exposure, the Bank has to adhere to two regulatory limits. The credit exposures to each single group are required to fall within the large exposure limit, which is set at 25% of the Bank's own funds. This mitigates the concentration risk. The Bank's large exposure limit was € 74 million in December 2020. The Bank obtained a credit guarantee for one Group customer to ensure that the Bank continuously meets the large exposure limit. The second constraint is the Total Capital Ratio. The Bank's TCR was 58.6 % as at 31 December 2020 much higher than the minimum requirement and leaving room for growth in full compliance with minimum capital requirements.

The Bank is exposed to market risks through Credit Spread Risk in its Investment portfolio, interest rate and foreign exchange risks. Risk Management daily monitors the limits defined and approved. In case of a breach the Risk management is responsible for the defined escalation process. The Bank manages interest rate risk by setting limits, amongst other, on the value sensitivity per bucket and the one year Net Interest Income sensitivity under a parallel shift scenario. Securities activities are controlled by securities portfolio global limits.

FX limits are set on the basis of the Banks accounting positions in foreign currencies. The Bank adopts the Basic Indicator method to measure its operational risk. As at 31 December 2020, the amount of capital absorbed by operational risk calculated according to the Capital Requirements Regulation (“CRR”) was € 2.8 million.

As part of its BCM (Business Continuity Management), the Bank implemented BIA (Business Impact Analysis) and risk analysis procedures aimed at identifying and breaking down the critical processes either to identify elements of vulnerability presented by the processes involved in Banking activity in the various business segments with the potential to result in operational loss events, or to ensure the continuity of the critical processes in case of disaster or any event that could put at risk the Bank functioning.

The Internal Control System (ICS) relates to the operational monitoring and management of risk.

In conformity with the regulations in force, and in particular with the CSSF Circulars 12/552 as amended by Circulars CSSF 13/563, 14/597, 16/642, 16/647, 17/655, 20/750 and 20/759 the internal control system of the Bank comprises regulations on the management of corporate activities (internal management system) and regulations on the monitoring of adherence to these regulations (internal monitoring system). The internal monitoring system is organised in a three-lines-of-defence model and allows for process integrated and process independent controls that, in general, take place on the following levels:

- First Line of Defence:
    - Daily controls by the responsible personnel (4-eyes principle);
    - Hierarchical controls as integral part of a leadership function;
    - Controls by members of the Management Board with regard to the activities that fall in their area of responsibility.

- Second Line of Defence.

In addition to the first level controls being integrated in the business processes, there are controls by support functions in place which are independent from the actual processes in particular Risk Control and Compliance.

Compliance monitors the following Compliance Perimeter unless activities are internally delegated:

- Anti-Money Laundering (AML) and Counter Terrorist Financing (CTF);
- Compliance with national and international Financial Sanctions and Embargos;
- Prevention of Market Abuse and Insider Trading;
- Appropriate implementation of compliance related CSSF-Circulars;
- Compliance with MIFID policies and procedures;
- Review of compliance with ICAAP policies and procedures;
- Conflicts of Interest;
- Customer Complaints Management;
- Anti-bribery & Corruption;
- Antitrust and Unfair Commercial Practices;
- Privacy/ Data Protection and Observance of Professional Banking Secrecy.

The second level control functions provide for an additional surveillance of the first level controls and at the same time support third level controls.

- Third Line of Defence

The third level controls are covered by Internal Audit with objectives as follows:

- Assess whether necessary internal controls have been implemented within business processes;
- Assess whether controls in place are effective and support adequately to achieve control targets;
- Risk assessment in case of divergence.

For support in the performance of its duties, including those relating to the financial reporting process, the Supervisory Board has set up an Audit Committee made up of three members of the Supervisory Board. The Audit Committee, effective as from 1 January 2018, provides assistance in fulfilling the oversight responsibilities to shareholders relating to the reliability and integrity of corporate accounting and financial reporting practices, compliance with laws, regulations and company policies and maintenance of a sound system of internal controls. Two meetings of the Audit Committee were held in 2020.

The Bank has implemented several policies with respect to Risk Control, Compliance and Internal Audit. These policies describe the fields of intervention directly related to each internal control function and clearly define the responsibilities for the common fields of intervention and objectives as well as the independence, objectivity and performance of the internal control functions. The policies are regularly reviewed, either in case of major changes or annually.

Furthermore, value systems such as the Code of Conduct and compliance rules have been applied by the Group in all countries for many years and all employees have to adhere to them while performing their activities. These value systems are key-elements for an effective risk management process and are the basis for responsible action by all staff members including those directly involved in the financial reporting process.

The purpose of the RMS (Risk Management System) and the ICS (Internal Control System) in the financial reporting process is to implement controls that ensure, with an adequate degree of certainty, that annual financial statements together with the management report and management's discussion and analysis are prepared in compliance with regulations despite the identified risks. They ensure that the internal and external financial reporting is correct and reliable and that assets, liabilities and equity are classified, recognised and measured.

The Management Board determines the scope and orientation of the RMS and the ICS specifically in line with the Bank's requirements and subject to the approval of the Supervisory Board, taking measures for the ongoing development of the systems and their adaptation to changing conditions. With regard in particular to the financial reporting process, the internal control system encompasses the policies, processes and measures needed to ensure the effectiveness of financial reporting and the compliance with applicable regulations.

The responsibility for the financial reporting process and, in particular, for the annual financial statements and consolidated financial statements remains with the Management Board who is also responsible for adopting the annual report and proposing the financial statements and consolidated financial statement for the Shareholders approval.

According to the Policy on 262 Law certification process the Management Board is requested to approve the adequacy of the administrative and accounting procedures and actually applied in relation to the Legal Entity features and the actual application of the procedures employed to draw up the economic and financial situation, the assets and liabilities and reporting packages towards UniCredit Holding.

Moreover, the Management Board is requested to attest that the economic and financial situation, the assets and liabilities and reporting packages towards UniCredit S.p.A. correspond to the results of the accounting books and records are suitable to provide a true and correct representation of the assets and liabilities, and the economic and financial situation of the Legal Entity.

The Bank uses Olympic software as a general ledger. The Bank integrated the accounting and reporting tools with a new middleware based on an Oracle technology: Advance Management Information System (AMIS). AMIS is based on the mainly automated uploading of individual transaction data from the upstream systems relevant to financial reporting (sub-ledger). SAP Business Warehouse is automatically supplied with data by the AMIS. This solution allows to fulfil the new internal analytical reporting needs related to the business by enriching accounting data with information for analytical controlling purposes and to ensure the consistency of accounting and controlling data.

AMIS DB allows the collection, integration and harmonisation of data coming from several data sources. With the SAP BW Business Warehouse reporting layer an ad-hoc multidimensional analysis is available to easily extract data and to provide flexible managerial reporting.

Explore and SAP Business Warehouse are used for reporting and data retrieval. Explore is the data source used for FINREP reporting to the local regulator.

The COO is responsible for the IT systems required for the financial reporting process. The figures for the UC Group consolidated financial statements and the subsequent consolidated bookings are collected and reported using the TAGETIK CPM consolidation system used in the entire UC Group and network across all UC Group companies. TAGETIK is automatically supplied with data by AMIS.

The law dated 18 December 2015 transposed into Luxembourg law EU Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms (“BRRD”) and EU Directive 2014/49/EU on deposit guarantee schemes (“DGSD”). The Bank’s contribution to the national resolution fund in 2020 amounted to € 0.7 million.

## Employees

Below are the staff figures as at 31 December 2020:

| Bank's staff | 2020 | 2019 |
|---|---|---|
| Top management | 3 | 3 |
| Employees | 65 | 59 |
| **Total** | **68** | **62** |

As of 31 December 2020, the Bank employed 20 female and 48 male staff members. In the current challenging environment well-trained employees with special advisory qualities are the necessary prerequisites for meeting the high expectations of our clients. In this respect, a permanent commitment to outstanding performance in connection with the five fundamentals of the Group is reflected in the day-to-day work of our staff.

In order to allow “young talents” gaining experience in the Bank, the Bank has developed cooperative arrangements with universities and is offering several traineeships.

The Management Board wishes to express its sincere thanks to all of the Bank’s employees for their contribution to the Bank’s performance over the past year. The success of the Bank would not have been possible without their personal efforts and commitment.

## IV. Report on Internal Profit Centers

### GFO (Global Family Office)

GFO is part of a global initiative aimed at enhancing UniCredit Group value proposition towards family financial holdings and family offices. Being part of the CIB Division, GFO's mission is to fulfil holding companies and family offices financial needs by providing corporate and investment Banking solutions. In order to achieve its targets in the best and most efficient way, GFO has a specific coverage network of specialists fully dedicated to its clients and strengthened by a dedicated Risk Officer - to ensure proper credit evaluation - and a dedicated Planning and Control support to proper monitor the results through a specific set of KPIs.

In cooperation with the relevant CIB product units, the Bank offers to its clients investment Banking products and services - financing capital markets, M&A and hedging solutions - to support them in corporate finance and capital markets transactions and fulfil their financial needs.

The main goal of this focused and strategic client approach is to attract new clients and maximize the overall profitability of the relationship by means of collateralized transactions with reduced capital absorption and by optimising the management of customers' liabilities while creating cross-selling opportunities.

Customer on-boarding activities are fulfilled in close cooperation with the Bank Compliance and, when necessary, Group Compliance. Initiation of business activities has to be aligned with the Global head of GFO and account opening is dependent on the approval of the internal acceptance committee.
A key success factor is the cooperation with the relevant CIB product units. In order to ensure a proper delivery of the required services, a tri-party service agreement is being drafted (between UniCredit Bank AG, UniCredit S.p.A. and the Bank).
Due to the available equity in UCI, credit lines above € 70.0 million require a financial guarantee issued by UniCredit S.p.A. in order to respect local Large Exposure requirements.

### Wealth Management & GIS

The mission of the Wealth Management business is threefold:
- To provide Private Banking services, focusing exclusively on fully transparent International activities aiming at providing our customers with a high level of efficiency,
- To provide services to insurance companies (investment management of insurance funds and custody services),
- To provide investment management services to funds.

All three activities are meant to be closely linked to client generation from Italian Group entities (Cordusio SIM and UniCredit S.p.A. Private Banking) or Luxembourgish Group entities (Structured Invest, a UniCredit Bank AG fully owned Management company).

Leveraging on Luxembourg financial centre characteristics, the Bank Wealth Management benefits from:

- a flexible legislation aimed at continuously promoting cross-border businesses, with a track record of efficient and reliable solutions in a most stable financial centre (AAA rating);
- a proactive, business-friendly government as well as accessible regulators who are implementing the appropriate legal framework to offer an attractive environment for innovative products and to promote Luxembourg as a world-class financial centre;
- fully compliant solutions, offered within the European Union.

The activities of UCI do not overlap with the ones of the on-shore networks but complement their offering through products and services designed to meet the needs of selected customers in a unique way.
In line with Group guidelines, financial assets are managed accordingly to the independent Global Investment Strategy (GIS) view. To further strengthen this link with the Group, an advisory agreement is in place with Cordusio SIM for the provision of investment models and its scope will be further enlarged to cover other advisory activities to be offered by the Bank.

In compliance with the ICMA Private Wealth Management Charter of Quality and Group Policies, the Bank provides its customers with a spectrum of exclusive, high level products and services.

## Strategic Funding & Treasury (SF&T)

SF&T is predominantly a client driven business. The activities of SF&T form an integral part of the CIB value chain. Consistently with the mission decided by the Holding Company, the business of the Strategic Funding & Treasury is based on the following activities:

- The Bank performs selective investments for its own portfolio. The investments are usually carried out in fixed rate European Government Bonds. The Investment Strategy is related to instruments purchased either for liquidity purpose or for capital Investment.
- The Bank issues Structured Notes.
- The Bank manages the WM & GFO clients orders (bonds, equities, funds) through an automated solution to route the orders to the standard UniCredit market platform used within CIB.

## V. Statement of financial position

(€ '000)

| ASSETS | AMOUNTS AS AT 31.12.2020 | AMOUNTS AS AT 31.12.2019 |
|---|---|---|
| Cash and cash balances and Other demand deposits | 8.879 | 10.872 |
| Financial assets at fair value through profit or loss: | 3.782 | 5.302 |
| a) financial assets held for trading | 3.782 | 5.302 |
| b) other financial assets mandatorily at fair value | - | - |
| Financial assets at fair value through other comprehensive income | 608.660 | 801.632 |
| Financial assets at amortised cost: | 1.825.485 | 1.896.742 |
| a) loans and advances to banks | 322.552 | 439.111 |
| b) loans and advances to customers | 1.291.609 | 1.347.532 |
| c) loans and advances to customers - Debt securities | 211.324 | 110.099 |
| Hedging derivatives | 218 | 19 |
| Property, plant and equipment | 2.146 | 2.395 |
| Intangible assets | 4.655 | 3.184 |
| Tax assets: | 13.228 | 12.821 |
| a) current | - | 1.189 |
| b) deferred | 13.228 | 11.632 |
| Other assets | 3.271 | 3.721 |
| **Total assets** | **2.470.335** | **2.736.688** |

| LIABILITIES | AMOUNTS AS AT 31.12.2020 | AMOUNTS AS AT 31.12.2019 |
|---|---|---|
| Financial liabilities at amortised cost: | 2.085.882 | 2.360.622 |
| a) deposits from banks | 1.305.030 | 1.469.185 |
| b) deposits from customers | 574.279 | 687.033 |
| c) debt securities in issue | 204.687 | 202.169 |
| d) other liabilities | 1.887 | 2.235 |
| Financial liabilities held for trading | 4.231 | 6.381 |
| Financial liabilities designated at fair value | - | - |
| Hedging derivatives | 43.883 | 37.553 |
| Tax liabilities: | 17.141 | 14.419 |
| a) current | 234 | - |
| b) deferred | 16.907 | 14.419 |
| Other liabilities | 9.814 | 10.834 |
| Provisions for risks and charges: | 3.079 | 1.111 |
| a) committments and guarantees given | 54 | 11 |
| b) post-retirement benefit obligations | 3.025 | 1.100 |
| c) other provisions for risks and charges | - | - |
| Valuation reserves | 12.281 | 9.558 |
| Reserves | 68.559 | 68.400 |
| Share premium | 205.644 | 205.644 |
| Share capital | 13.407 | 13.407 |
| Profit (Loss) of the year (+/-) | 6.415 | 8.759 |
| **Total liabilities and shareholders' equity** | **2.470.335** | **2.736.688** |

The balance sheet total of € 2.5 billion at 31 December 2020 showed a decrease of € 0.3 billion, or 9.7%, compared to the previous year-end. The evolution of total assets can be explained by the decrease of financial assets at fair value through other comprehensive income, and also by the decrease of loans to banks and loans to customers.

The Bank's total committed volume for loans with customers was € 2.0 billion (of which € 1.3 billion consisted of unused off-balance-sheet credit lines).

Overall, in 2020, the very good quality of the Bank's assets portfolio was maintained. More than 95% of the Bank's commitments were to borrowers with group internal ratings of 1- or better, whereas the securities portfolio was fully composed of European government bonds.

Client deposits at year-end 2020 amounted to € 0.6 billion mainly composed of deposits with GFO and WM clients.

# VI. Income Statement

(€ '000)

| ITEMS | YEAR 2020 | YEAR 2019 |
|---|---|---|
| Interest income and similar revenues | 38,727 | 73,509 |
| Interest expenses and similar charges | (20,793) | (60,798) |
| **Net interest margin** | **17,933** | **12,712** |
| Fees and commissions income | 12,034 | 11,922 |
| Fees and commissions expenses | (7,280) | (7,118) |
| **Net fees and commissions** | **4,754** | **4,804** |
| Net gains (losses) on trading | 1,027 | 1,368 |
| Net gains (losses) on hedge accounting | (46) | 38 |
| Gains (Losses) on disposal of securities at FV/OCI | 1,917 | 6,944 |
| Net gains (losses) on other financial assets/liabilities at fair value through profit or loss | - | - |
| **Operating income** | **25,585** | **25,866** |
| Net losses/recoveries on credit impairment | 52 | (7) |
| **Net profit from financial activities** | **25,637** | **25,859** |
| Administrative expenses: | (16,203) | (13,774) |
| a) staff costs | (8,679) | (7,425) |
| b) other administrative expenses | (7,524) | (6,349) |
| Net provisions for risks and charges: | (43) | 37 |
| Net value adjustments/write-backs on property, plant and equipment | (828) | (736) |
| Net value adjustments/write-backs on intangible assets | (623) | (582) |
| Other operating expenses/income | 617 | 871 |
| **Operating costs** | **(17,079)** | **(14,184)** |
| Gains (Losses) of equity investments | - | - |
| **Profit (Loss) before tax from continuing operations** | **8,558** | **11,674** |
| Tax expenses (income) of the year from continuing operations | (2,143) | (2,915) |
| **Profit (Loss) of the year** | **6,415** | **8,759** |

## Revenues

Net interest income amounted to € 17.9 million at the end of 2020 with an increase of 41.1%, or € 5.2 million, compared to the previous year. The new investments in debt securities performed by the Bank and the positive development in lending to Wealth Management clients contributed to this favourable evolution.

Net commission income amounted to € 4.8 million in 2020, substantially in line with 2019 figure mainly due to both increasing commissions in asset management and higher guarantee fees paid by the Bank.

At the end of 2020 net gains on trading and on disposal of financial assets at fair value through other comprehensive income amounted to € 1.9 million. This is mainly explained by one-off revenues from disposal of a minor part of the bond portfolio.

Operating income amounted to € 25.6 million at the end of 2020. This represents a decrease of € 0.3 million or 1.1% compared with the previous year's figure.

## Operating costs

Operating costs summed up to € 17.1 million in 2020 compared to € 14.2 million in 2019. This evolution is mainly explained by the extraordinary expenses related to COVID emergency, higher staff expenses and increasing regulatory costs.

Staff costs increased by € 1.3 million as a result of the new hiring plan implemented both to support the business evolution and to strengthen furthermore the control functions. Depreciation on tangible and intangible assets amounted to € 1.5 million as of 31 December 2020, as compared with € 1.3 million in 2019 mainly due to new investments to enhance the IT infrastructure and to digitalize and automatize most of the processes of the Bank.

In 2020 the profit from continuous operations was € 8.6 million. This represents a € 3.1 million decrease versus the 2019 result of € 11.7 million.

After accounting for provisions, depreciation, amortisation and taxes, the Bank's net profit of € 6.4 million was € 2.3 million lower compared to the € 8.8 million reported in 2019.

The Bank’s net profit of € 6.4 million is to be appropriated as follows, subject to the approval of the Extraordinary General Shareholders’ Meeting:

| | | |
|---|---|---|
| Retained earnings: | € | 6.4 million |
| Dividend: | € | 0 million |

Furthermore, in the interest of continuing to be eligible for the benefits provided under the amended Law of 23 December 1997 concerning the exemption from the net wealth tax (”Impôt sur la Fortune”), it will be proposed to the General Meeting of Shareholders to dissolve the reserve created in 2016 for 2016 amounting to € 7,408,925, to increase the reserve created in 2020 for 2020 by € 93,750 and to create a new net wealth tax reserve for 2021 amounting to € 7,700,000. The total amount of this non-distributable reserve will amount to € 26,972,870, which corresponds to five times the net wealth tax due for the financial years 2017 to 2021.

## VII. Outlook for 2021

Under its current and future strategy, the Bank will continue to place its clients at the centre of its endeavours. The Bank takes its clients' needs as a starting point, with the aim of accompanying them and fostering their wealth over decades.

The main goal of this client approach is to attract new clients and maximize the overall profitability of the relationship by means of collateralized transactions with reduced capital absorption and by optimising the management of customers' liabilities while creating cross-selling opportunities.

With regard to the Wealth Management business the Bank plans to continue develop it within the framework of a Cooperation Agreement signed with the Italian legal entities covering the same segment (Cordusio SIM) and UniCredit S.p.A. for its Private Banking activities in Italy.

A further driver of growth will be the offer of tailor-made fund solutions in partnership with Structured Invest (SI), a Management Company 100% owned by UniCredit Group. For both SI and the Bank a strict cooperation is a key success factor. A distribution agreement is already in place and will be updated.
A strong cross-selling effort (jointly with SI and Group CIB network) is planned for the next years, aiming at:

- increasing mandates with corporate clients;
- greatly increasing business with external institutional clients (e.g. insurance companies);

Given the specific nature of an investment management mandate in all the above-mentioned cases long term, sticky revenues are foreseen.

The Bank acts as investment manager for funds managed by Structured Invest (SI) and as sub-investment manager for funds where Si acts as investment manager. SI funds (with active management to be provided by UCI) are distributed in various Group business areas among them Markets, Corporate Banking and GFO. In 2021, it is foreseen to enlarge the scope of the cooperation with CIB network from Germany to Italy.

With regard to the Treasury business, in 2021, the Bank will continue to carry out and develop the activities related to investments for its own portfolio, to the implementation of the capital investment model and eventually to the issuance of notes. These activities will be performed in compliance with the Group policies and strategies. The Bank will have to cope with persisting low yields environment and negative short-term interest rates. The low interest rate environment will lead to continuing pressure on interest rate margins.

The Bank will continue to invest into the digitalization and automatizing of the processes especially for what concerns the Operations department where the volume of transactions is continuously growing.

The project portfolio is as well very ambitious for next year and, in addition to the regulatory projects mainly related to DAC6, to the residual activities stemming from GDPR requirements on some IT systems and to Compliance driven initiatives, the Bank will upgrade some key IT applications:

- MDS used for transactions monitoring in Compliance;
- TLM used by Operations and Accounting for Nostro reconciliation;
- Equalizer used by the Business for portfolio management.

Another key project which will start in the first half of 2021 is the transfer of the ICT infrastructure to UniCredit Services. This will not only have an impact on the hosting of the applications but as well on the full integration of the Bank into the Group network and the use of some global applications, as for Compliance tools, to ensure full alignment with the Group standards.

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# REPORT OF THE *RÉVISEUR D'ENTREPRISES AGRÉÉ*

## Report on the Audit of the financial statements

### Opinion

We have audited the financial statements of UniCredit International Bank (Luxembourg) S.A. (the "Bank"), which comprise the statement of financial position as at December 31, 2020, the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at December 31, 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

### Basis for Opinion

We conducted our audit in accordance with the EU Regulation № 537/2014, the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the *"Commission de Surveillance du Secteur Financier"* (CSSF). Our responsibilities under the EU Regulation № 537/2014, the Law of 23 July 2016 and ISAs as adopted for Luxembourg by the CSSF are further described in the "Responsibilities of the *"réviseur d'entreprises agréé"* for the Audit of the financial statements" section of our report. We are also independent of the Bank in accordance with the International Code of Ethics for Professional Accountants, including International Independence Standards, issued by the International Ethics Standards Board for Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Deloitte.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Valuation of embedded derivative instruments**

*Key audit matter description*

As described in note 2.8, note 6 and note 16, the Bank set up a Medium Term Note (MTN) program including Equity Linked Notes (ELN) containing embedded derivatives.

The positive fair value of the embedded derivatives amounts to EUR 3,781,615 and is recorded in the caption "Financial assets held for trading" and negative fair value of EUR 4,230,630 is recorded in the position "Financial liabilities held for trading".

The valuation of the embedded derivatives is performed through the application of complex valuation techniques based on internal models which involve the exercise of significant management judgement in relation to

- valuation models used for the specific instruments, and
- market inputs used in these models.

*How the matter was addressed in the audit?*

Our audit procedures included:

- understanding the policies and procedures for the valuation of these embedded derivatives;
- assessment of the design and implementation of relevant key controls over the valuation process; and
- testing, on a sample basis, the valuation of the embedded derivative instruments by involving internal specialists in order to challenge the valuation model used by the Bank and to determine an independent valuation based on the contractual documents and market parameters. The objective was to use a valuation technique consistent with the generally accepted valuation methodologies for pricing financial instruments and which incorporates all factors and assumptions that knowledgeable willing market participants would consider in setting the price.

Deloitte.

**Other Information**

The Management Board of the Bank is responsible for the other information. The other information comprises the information stated in the management report but does not include the financial statements and our report of the *"réviseur d'entreprises agréé"* thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

ln connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information we are required to report this fact. We have nothing to report in this regard.

**Responsibilities of the Management Board of the Bank and Those Charged with Governance for the financial statements**

The Management Board of the Bank is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs as adopted by the European Union, and for such internal control as the Management Board of the Bank determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Management Board of the Bank is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board of the Bank either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

**Responsibilities of the *"réviseur d'entreprises agréé"* for the Audit of the financial statements**

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of the *"réviseur d'entreprises agréé"* that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation Nº 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the EU Regulation Nº 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board of the Bank.
- Conclude on the appropriateness of the Management Board of the Bank's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the *"réviseur d'entreprises agréé"* to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of the *"réviseur d'entreprises agréé"*. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter.

Deloitte.

**Report on Other Legal and Regulatory Requirements**

We have been appointed as *"réviseur d'entreprises agréé"* by the Management Board on March 6, 2013 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 8 years.
The management report is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

We confirm that the audit opinion is consistent with the additional report to the audit committee or equivalent.
We confirm that the prohibited non-audit services referred to in the EU Regulation N° 537/2014, on the audit profession were not provided and that we remain independent of the Bank in conducting the audit.

For Deloitte Audit, *Cabinet de révision agréé*

Ekaterina Volotovskaya

Ekaterina Volotovskaya, *Réviseur d'entreprises agréé*
Partner

Luxembourg, March 4, 2021

## UniCredit International Bank (Luxembourg) S.A.

## Statement of financial position

### As of 31 December 2020 (EUR)

| ASSETS | NOTES | AMOUNTS AS AT 31.12.2020 | 31.12.2019 |
|---|---|---|---|
| Cash and cash balances with central banks | 5 | **8.878.833** | **10.871.965** |
| Financial assets at fair value through profit or loss: | 6 | **3.781.615** | **5.301.507** |
| a) financial assets held for trading | 6 | 3.781.615 | 5.301.507 |
| Financial assets at fair value through other comprehensive income | 7 | **608.660.192** | **801.631.596** |
| Financial assets at amortised cost: | 8, 9 | **1.825.484.796** | **1.896.742.275** |
| a) loans and advances to banks | 8 | 322.552.265 | 439.111.358 |
| b) loans and advances to customers | 9 | 1.291.608.720 | 1.347.532.186 |
| c) loans and advances to customers - debt securities | 9 | 211.323.810 | 110.098.731 |
| Hedging derivatives | 3.2.2 | **218.428** | **18.855** |
| Equity investments | 13.2 | **12.000** | - |
| Property, plant and equipment | 11 | **2.145.537** | **2.395.274** |
| Intangible assets | 12 | **4.654.661** | **3.183.819** |
| Tax assets: | 10 | **13.228.097** | **12.821.288** |
| a) current | | - | 1.189.479 |
| b) deferred | 10 | 13.228.097 | 11.631.809 |
| Other assets | 13.1 | **3.270.662** | **3.721.421** |
| **Total assets** | | **2.470.334.822** | **2.736.688.000** |

| LIABILITIES & SHAREHOLDERS' EQUITY | NOTES | AMOUNTS AS AT 31.12.2020 | 31.12.2019 |
|---|---|---|---|
| Financial liabilities at amortised cost: | 14, 15, 16 | **2.085.882.373** | **2.360.622.040** |
| a) deposits from banks | 14 | 1.305.030.280 | 1.469.184.546 |
| b) deposits from customers | 15 | 574.278.693 | 687.033.424 |
| c) debt securities in issue | 16 | 204.686.516 | 202.169.346 |
| d) other liabilities | 3.3.2 | 1.886.884 | 2.234.724 |
| Financial liabilities held for trading | 3.2.2 | **4.230.630** | **6.380.927** |
| Financial liabilities designated at fair value | 16 | - | - |
| Hedging derivatives | 3.2.2 | **43.882.603** | **37.553.139** |
| Tax liabilities: | | **17.141.185** | **14.418.728** |
| a) current | | 234.441 | - |
| b) deferred | 18 | 16.906.744 | 14.418.728 |
| Other liabilities | 19 | **9.813.757** | **10.834.414** |
| Provisions for risks and charges: | 17 | **3.079.060** | **1.111.238** |
| a) commitments and guarantees given | 17 | 54.008 | 11.395 |
| b) post-retirement benefit obligations | 17 | 3.025.052 | 1.099.843 |
| Valuation reserves | 21.4 | **12.280.608** | **9.557.656** |
| Reserves | 21.5 | **68.558.796** | **68.399.836** |
| Share premium | 21.3 | **205.644.462** | **205.644.462** |
| Share capital | 20 | **13.406.600** | **13.406.600** |
| Profit (Loss) of the year | | **6.414.748** | **8.758.960** |
| **Total liabilities and shareholders' equity** | | **2.470.334.822** | **2.736.688.000** |

The accompanying notes form an integral part of these financial statements.

## UniCredit International Bank (Luxembourg) S.A.

## Income Statement

**For the year ended 31 December 2020** **(EUR)**

| | NOTES | YEAR 2020 | 2019 |
|---|---|---|---|
| Interest income and similar revenues | 22.1 | 38.726.623 | 73.509.456 |
| Interest expense and similar charges | 22.2 | (20.793.428) | (60.797.839) |
| **Net interest income** | **22** | **17.933.195** | **12.711.617** |
| Fees and commission income | 23.1 | 12.033.766 | 11.921.724 |
| Fees and commission expense | 23.2 | (7.280.195) | (7.117.509) |
| **Net fees and commission income** | **23** | **4.753.571** | **4.804.215** |
| Net gains on trading | 24 | 1.027.495 | 1.368.230 |
| Net gains on hedge accounting | 25.2 | (45.546) | 37.895 |
| Gains on disposal of securities at FV/OCI | 25.1 | 1.916.770 | 6.944.171 |
| **Operating income** | | **25.585.486** | **25.866.127** |
| Net (losses)/recoveries on credit impairment | 30 | 51.905 | (7.487) |
| **Net profit from financial activities** | | **25.637.392** | **25.858.640** |
| Administrative expenses: | | (16.202.702) | (13.773.962) |
| a) staff costs | 26 | (8.678.772) | (7.424.751) |
| b) other administrative expenses | 27 | (7.523.929) | (6.349.211) |
| Net provisions for risks and charges | 29 | (42.614) | 36.701 |
| Net value adjustments/write-backs on property, plant and equipment | 11 | (827.930) | (735.984) |
| Net value adjustments/write-backs on intangible assets | 12 | (623.087) | (582.098) |
| Other operating income/expense | 25.4 | 616.880 | 870.885 |
| **Operating costs** | | **(17.079.452)** | **(14.184.458)** |
| **Profit before tax from continuing operations** | | **8.557.940** | **11.674.182** |
| Tax expenses of the year from continuing operations | 28 | (2.143.191) | (2.915.222) |
| **Profit of the year** | | **6.414.748** | **8.758.960** |
| **Parent Company's profit of the year** | | **6.414.748** | **8.758.960** |

The accompanying notes form an integral part of these financial statements.

## UniCredit International Bank (Luxembourg) S.A.

## Statement of comprehensive income

## For the year ended 31 December 2020 (EUR)

| | YEAR | |
|---|---|---|
| | 2020 | 2019 |
| | | |
| **Profit of the year** | **6.414.748** | **8.758.960** |
| Movement in Defined benefit Plans | (1.469.630) | (70.642) |
| Fair value reserve- net change in fair value | 6.149.775 | 16.296.119 |
| Other changes in FV reserve | (1.957.194) | 130.372 |
| **Total other comprehensive income/(loss)** | **2.722.951** | **16.355.849** |
| | | |
| **Total comprehensive income/(loss) of the year** | **9.137.700** | **25.114.809** |
| | | |
| **Total comprehensive income/(loss) of the year attribuable to the parent** | **9.137.700** | **25.114.809** |

The accompanying notes form an integral part of these financial statements.

## UniCredit International Bank (Luxembourg) S.A.

## Statement of changes in equity

### As of 31 December 2020

### Amounts in EUR

| | Share capital | Share premium | Revaluation reserve | Restricted reserve | Retained earnings | Profit for the year | Total |
|---|---|---|---|---|---|---|---|
| | | | | | | | |
| At 1 January 2020 | 13.406.600 | 205.644.462 | 9.557.656 | 1.340.660 | 67.059.176 | 8.758.960 | **305.767.514** |
| | | | | | | | |
| Profit for the year | - | - | - | - | - | 6.414.748 | - |
| | | | | | | | |
| **Total comprehensive income for the year** | **-** | **-** | **2.722.951** | **-** | **-** | **6.414.748** | **9.137.700** |
| | | | | | | | |
| **Contributions by and distributions to equity holders** | | | | | | | |
| Allocation to retained earnings | - | - | - | - | 158.960 | (158.960) | - |
| Dividends to equity holders | - | - | - | - | - | **(8.600.000)** | **(8.600.000)** |
| | | | | | | | |
| **At 31 December 2020** | **13.406.600** | **205.644.462** | **12.280.607** | **1.340.660** | **67.218.136** | **6.414.748** | **306.305.214** |

The accompanying notes form an integral part of these financial statements.

**UniCredit International Bank (Luxembourg) S.A.**

**Statement of changes in equity**

**As of 31 December 2019**

**Amounts in EUR**

**(continued)**

| | Share capital | Share premium | Revaluation reserve | Restricted reserve | Retained earnings | Profit for the year | Total |
|---|---|---|---|---|---|---|---|
| | | | | | | | |
| At 1 January 2019 | 13.406.600 | 205.644.462 | (6.798.193) | 1.340.660 | 60.609.213 | 6.449.963 | **280.652.705** |
| | | | | | | | |
| Profit for the year | - | - | - | - | - | 8.758.960 | - |
| | | | | | | | |
| **Total comprehensive income for the year** | **-** | **-** | **16.355.849** | **-** | **-** | **8.758.960** | **25.114.809** |
| | | | | | | | |
| **Contributions by and distributions to equity holders** | | | | | | | |
| Allocation to retained earnings | - | - | - | - | 6.449.963 | (6.449.963) | - |
| Dividends to equity holders | - | - | - | - | - | - | - |
| | | | | | | | |
| **At 31 December 2019** | **13.406.600** | **205.644.462** | **9.557.656** | **1.340.660** | **67.059.176** | **8.758.960** | **305.767.514** |

## UniCredit International Bank (Luxembourg) S.A.

## Statement of cash flows

### As of 31 December 2020

### Amounts in EUR

| | Notes | 2020 | 2019 |
|---|---|---|---|
| | | EUR | EUR |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit for the year | | 6.414.748 | 8.758.960 |
| Income tax expense | 28 | 2.143.191 | 2.915.222 |
| **Profit before income tax** | | **8.557.940** | **11.674.182** |
| | | | |
| **Adjustments for:** | | | |
| Depreciation and amortisation | 11,12 | 1.451.017 | 1.318.082 |
| Net provisions for risks and charges | 17 | 42.614 | (36.701) |
| Reversal of loan impairment | 0 | (51.905) | 7.487 |
| Defined benefit expense | 17.1 | 86.892 | 129.527 |
| Net (gain)/(loss on derivatives | 7,16 | (4.281.484) | (38.501.468) |
| Net interest income | 7,16,22 | (7.663.246) | (4.692.235) |
| Recycling effect OCI reserve | 7 | (5.585.638) | (22.037.148) |
| | | | |
| **Changes in operating assets and liabilities:** | | | |
| Net (increase)/decrease in deposit with central banks | 5,8 | 2.829.000 | (2.336.300) |
| Net (increase)/decrease in derivative financial instruments | 3.2.2 | 6.129.891 | (5.041.200) |
| Net (increase)/decrease in loans and advances to banks | 5,8 | 25.686.499 | 856.052.924 |
| Net (increase)/decrease in loans and advances to customers | 9 | (45.301.614) | (694.552.750) |
| Net (increase)/decrease in other assets | 10,13 | 43.950 | 12.066.032 |
| Net increase/(decrease) in deposits from banks | 14 | (164.603.629) | 759.827.099 |
| Net increase/(decrease) in amounts due to customers | 15 | (112.653.207) | (72.997.020) |
| Net increase/(decrease) in other liabilities | 3.3.2, 18, 19 | 3.844.991 | (2.883.659) |
| Net increase/(decrease) in defined benefit plan | 17 | 1.838.317 | (319.604) |
| Foreign exchange on debt securities and assets classified as FV/OCI | 7,16 | - | - |
| | | | |
| **Net cash provided (used) by operating activities** | | **(289.629.613)** | **797.677.247** |

**UniCredit International Bank (Luxembourg) S.A.**

**Statement of cash flows**

**As of 31 December 2020**

**Amounts in EUR**

**(continued)**

| | Notes | 2020 | 2019 |
|---|---|---|---|
| | | EUR | EUR |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchase of securities classified as FV/OCI | 7 | (105.273.000) | - |
| Purchase of property plant and equipment | 11 | (467.506) | (2.929.059) |
| Purchase of intangible assets | 12 | (2.112.986) | (338.564) |
| Proceeds from sale and redemption of securities classified as FV/OCI | 7 | 300.358.745 | 119.993.500 |
| **Net cash (used) provided by investing activities** | | **192.505.253** | **116.725.877** |
| | | | |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Redemption of debt securities | 16 | - | (812.274.644) |
| Dividend paid | 0 | (8.600.000) | - |
| **Net cash (used) provided by financing activities** | | **(8.600.000)** | **(812.274.644)** |
| | | | |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | | **(105.724.359)** | **102.128.480** |
| | | | |
| **Cash and cash equivalents at beginning of year** | | **183.982.382** | **81.853.902** |
| | | | |
| **Cash and cash equivalents end of year** | | **78.258.022** | **183.982.382** |

Please refer to note 2.23 for the definition of cash and cash equivalents.

Any discrepancies in this table and between data shown are solely due to the effect of rounding.

**Notes to the financial statements**

## 1 General information

UniCredit International Bank (Luxembourg) S.A. (the "Bank") was incorporated in the Grand-Duchy of Luxembourg on 30 September 2004 as a limited liability company ("Société Anonyme"). Since 1 February 2008, the registered office of the Bank is: 8-10, rue Jean Monnet, L-2180 Luxembourg. On 1 July 2008 and following the extraordinary meeting of shareholders held on 16 June 2008, the Bank merged by absorption with Capitalia Luxembourg S.A. with a retroactive accounting effect as at 1 January 2008.

The object of the Bank is to perform for its own account, as well as for the account of third parties, or on joint account with third parties, either within or outside the Grand-Duchy of Luxembourg, any banking or financial operations, including (but not limited to): receipt of sight or term deposits, granting of and taking of participation in credits, safekeeping and managing securities, administration and collection of coupons, the activity of asset manager, financial adviser, broker and commissioner, the provision of fiduciary services. Lastly, the Bank can perform all other operations, in order to facilitate the accomplishment of its purpose.

In the context of the UniCredit Group strategic project "Transform 2019" and of the subsequent internal reorganisation of the activities performed by the Group in the Grand-Duchy of Luxembourg, the Board of Directors of UniCredit S.p.A. ("UC or The Parent Company"), sole shareholder of the Bank, approved on 11 July 2016 a project aiming to create in Luxembourg a Global Family Office hub (hereinafter: "GFO") under the responsibility of the Head of CIB Division, for serving Family Offices and Holding Companies offering them Investment Banking Products to fulfil their increasing financial needs.

In this context, it was proposed, and the Board of Directors of UC approved, the transfer of the Italian Private Banking Business from UniCredit Luxembourg S.A. ("UCL") to the Bank.

UniCredit International Bank (Luxembourg) is a multi-divisional entity with revenue generation by 3 different business lines: Wealth Management ("WM"), Global Family Office ("GFO"), Strategic Funding & Treasury ("SF&T"). The mission of WM is to provide Private Banking services, to provide services to insurance companies and to provide investment management services to funds. The mission of GFO is aimed at offering holding companies and family offices a broad range of solutions to support them in structured financial operations. SF&T is predominantly a client driven business whose activities forms an integral part of the CIB value chain.

The Bank is included in the consolidated financial statements of UniCredit S.p.A.. The consolidated financial statements of the Parent Company may be obtained from its registered office: Piazza Gae Aulenti, 3 Tower A, 20154 Milan (Italy).

In its meeting on 9 February 2021, the Management Board has approved the financial statements and the Supervisory Board has reviewed them on 3 March 2021. At the same date, the Supervisory Board has approved the proposal of the appropriation of profits to the Annual General Meeting of Shareholders.

Except otherwise indicated, all figures included in these financial statements are presented in euros (EUR).

## 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to each year presented, unless otherwise stated. Rounding differences may occur.

### 2.1 Basis of preparation

#### 2.1.1 Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union ("EU"). Additional information is included in the financial statements in order to comply with Luxembourg legal requirements.

#### 2.1.2 Basis of measurement

In accordance with the framework of IFRS and the IAS standards 1 and 8, the Bank is consistent in the use of recognition, measurement and presentation methods. Where errors of recognition or measurement in prior periods need to be corrected, the effects (if material) are recognised retrospectively in the first set of financial statements authorised for issue after their discovery in accordance with the requirements of IAS 8.41 - IAS 8.49.

The financial statements have been prepared on the historical cost basis except for the following:

- Financial instruments at fair value through profit or loss (FV/P&L) are measured at fair value;
- Financial assets at fair value through other comprehensive income (FV/OCI) are measured at fair value;
- Recognised financial assets and financial liabilities designated as hedged items in qualifying fair value hedge relationships are adjusted for the changes in fair value attributable to the risk being hedged;
- The liability for defined benefit obligations is recognised at the present value of the defined benefit obligation less the net total of the plan assets, plus unrecognised actuarial gains, less unrecognised past service cost and unrecognised actuarial losses.

The Management has, at the time of approving the financial statements, a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. Thus the Management continues to adopt the going concern basis of accounting in preparing the financial statements.

### 2.1.3 Foreign currency translation

*(a) Functional and presentation currency*

The financial statements are presented in euros, which is the Bank's functional currency.

*(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

Changes in the fair value of monetary securities denominated in foreign currency classified as financial assets at fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary items, such as equities, are reported as part of the fair value gain or loss.

### 2.1.4 Use of estimates and judgments

The preparation of financial statements in conformity with IFRS as adopted by the EU requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

Use of available information and application of judgement are inherent in the formation of estimates. Actual results in the future could differ from such estimates and the differences may be material to the financial statements.

### 2.1.5 Changes in accounting policies and presentation

**New and amended IFRS Standards that are effective for the current year**

Impact of the initial application of Interest Rate Benchmark Reform amendments to IFRS 9 and IFRS 7. In September 2019, the IASB issued Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7). These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms. The amendments also introduce new disclosure requirements to IFRS 7 for hedging relationships that are subject to the exceptions introduced by the amendments to IFRS 9.

**New and revised IFRS Standards in issue but not yet effective**

In 2020 the following standards, amendments or interpretations came into force:

• Amendments to IFRS3 Business Combinations (EU Regulation 2020/551);

• Amendments to IFRS9, IAS39 and IFRS7: Interest Rate Benchmark Reform (EU Regulation 2020/34);

• Amendments to IAS1 and IAS8: Definition of Material (EU Regulation 2019/2104);

• Amendments to References to the Conceptual Framework in IFRS Standards (EU Regulation 2019/2075).

As at 31 December 2020, no accounting standards applicable to reporting starting from or after 1 January 2021 have been endorsed by the European Commission.

As at 31 December 2020 the IASB issued the following accounting standards whose application is subject to completion of the endorsement process by the competent bodies of the European Commission, which is still ongoing:

• IFRS17 Insurance Contracts (May 2017) including Amendments to IFRS17 (June 2020);

• Amendments to IAS1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (January 2020);

• Amendments to IFRS3 Business Combinations; IAS16 Property, Plant and Equipment; IAS37 Provisions, Contingent Liabilities and Contingent;

Assets as well as Annual Improvements (May 2020);

• Amendments to IFRS16 Leases Covid-19-Related Rent Concessions (May 2020);

• Amendments to IFRS4 Insurance Contracts - deferral of IFRS9 (June 2020).

The Management does not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Bank in future periods.

## IFRS17 Insurance Contracts

The new Standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS4 Insurance Contracts.

The Standard outlines a General Model, which is modified for insurance contracts with direct participation features, described as the Variable Fee Approach. The General Model is simplified if certain criteria are met by measuring the liability for remaining coverage using the Premium Allocation Approach.

The General Model will use current assumptions to estimate the amount, timing and uncertainty of future cash flows and it will explicitly measure the cost of that uncertainty, it takes into account market interest rates and the impact of policyholders' options and guarantees.

The implementation of the Standard is likely to bring significant changes to an entity's processes and systems, and will require much greater coordination between many functions of the business, including finance, actuarial and IT.

The Standard is effective for annual reporting periods beginning on or after 1 January 2021, with early application permitted. It is applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied.

For the purpose of the transition requirements, the date of initial application is the start if the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application.

The Management of the Bank does not anticipate that the application of the Standard in the future will have an impact on the financial statements.

## Amendments to IFRS9 Prepayment Features with Negative Compensation

The amendments to IFRS9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.

The amendment applies to annual periods beginning on or after 1 January 2019, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS9.

The Management of the Bank does not anticipate that the application of the amendments in the future will have an impact on the financial statements.

**Amendments to IAS28 Long term Interests in Associates and Joint Ventures**

The amendment clarifies that IFRS9, including its impairment requirements, applies to long term interests. Furthermore, in applying IFRS9 to long term interests, an entity does not take into account adjustments to their carrying amount required by IAS28 (i.e., adjustments to the carrying amount of long term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS28).

The amendments apply retrospectively to annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. Specific transition provisions apply depending on whether the first time application of the amendments coincides with that of IFRS9.

The Management of the Bank does not anticipate that the application of the amendments in the future will have an impact on the financial statements.

**Annual Improvements to IFRS Standards 2018-2020 Cycle to update**

The Annual Improvements include amendments to four Standards IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation differences. As a result of the amendment, a subsidiary that uses the exemption in IFRS 1:D16(a) can now also elect to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRS Standards, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. A similar election is available to an associate or joint venture that uses the exemption in IFRS 1: D16(a). The amendment is effective for annual periods beginning on or after 1 January 2022, with early application permitted.

**IFRS 9 Financial Instruments**

The amendment clarifies that in applying the "10 per cent" test to assess whether to derecognise a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf. The amendment is applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022, with early application permitted.

**IFRS 16 Leases**

The amendment removes the illustration of the reimbursement of leasehold improvements. As the amendment to IFRS 16 only regards an illustrative example, no effective date is stated.

**IAS 41 Agriculture**

The amendment removes the requirement in IAS 41 for entities to exclude cash flows for taxation when measuring fair value. This aligns the fair value measurement in IAS 41 with the requirements of IFRS 13 Fair Value Measurement to use internally consistent cash flows and discount rates and enables preparers to determine whether to use pretax or post-tax cash flows and discount rates for the most appropriate fair value measurement. The amendment is applied prospectively, i.e. for fair value measurements on or after the date an entity initially applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022, with early application permitted.

The Management of the Bank does not anticipate that the application of the amendments in the future will have an impact on the financial statements.

### 2.2 Operating segments

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Bank's Management to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. Starting from 2020 the Bank reports segmented figures into the Group financial reporting. Revenue generation is entrusted to 3 different profit centers: Wealth Management (WM), Global Family Office (GFO), Strategic Funding & Treasury (SF&T). Revenues generated by the 3 profit centers are regularly reported to the Management Board.

Segment reporting, defined in the Bank as internal financial reporting, is based on the before mentioned internal organisational and Management structure. In accordance with IFRS8 (Operating Segments), segment reporting thus follows the Management Approach, which requires segment information to be presented externally in the same way as regularly used by the Management Board as the responsible Management body when allocating resources to the business segments and assessing profitability. In this context, the segment data is determined in accordance with International Financial Reporting Standards (IFRS).

The total revenues shown in the segments, such as net fees and commissions and net trading profit, are based almost exclusively on transactions involving external customers. Net interest income is assigned to the segments in accordance with the market interest calculation method on the basis of the external interest income and interest expenses.

Operating costs, which contain staff expenses, other operating costs, amortization, depreciation and impairment losses on intangible and tangible assets, are split between the divisions according to where they have incurred. For costs that are not directly allocable, overheads allocation keys are set for each division in the budgeting process and applied on the direct and indirect costs for the financial year in question.

### 2.3 Business combination and common control transactions

A business combination is the bringing together of separate entities or businesses into one reporting entity. A business combination may result in a Parent-subsidiary relationship in which the acquirer is the Parent and the acquiree a subsidiary of the acquirer.

A business combination may involve the purchase of the net assets, including any goodwill, of another entity rather than the purchase of the other comprehensive income of the other entity (mergers).

IFRS3 requires that all business combinations shall be accounted for by applying the purchase method that involves the following steps:

- Identifying an acquirer;
- Measuring the cost of the business combination; and
- Allocating, at the acquisition date, the cost of the business combination to the assets acquired and liabilities and contingent liabilities assumed.

The cost of a business combination is the aggregate of the fair value, at the date of exchange, of assets given, liabilities incurred or assumed and other comprehensive income instruments issued by the acquirer, in exchange for control of the acquiree, plus any costs directly attributable to the business combination.

The acquisition date is the date on which the acquirer effectively obtains control of the acquiree. When this is achieved through a single exchange transaction, the date of exchange coincides with the acquisition date.

The acquirer shall, at the acquisition date, allocate the cost of a business combination by recognising the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria.

The acquirer shall recognise the acquiree's identifiable assets, liabilities and contingent liabilities separately at the acquisition date only if they satisfy the following criteria at that date:

- In the case of an asset other than an intangible asset, it is probable that any associated future economic benefits will flow to the acquirer, and its fair value can be measured reliably;
- In the case of a liability other than a contingent liability, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and its fair value can be measured reliably;
- In the case of an intangible asset or a contingent liability, its fair value can be measured reliably.

After initial recognition, goodwill is measured at cost and tested for impairment at least annually.

If the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the acquirer shall reassess the fair values and recognise immediately any excess remaining after that reassessment in profit or loss.
In relation to common control transactions, IFRS3 defines a "business combination involving entities under common control" as a transaction in which all of the combining entities are controlled by the same party or parties before and after the transaction and that control is not transitory. IFRS principles do not identify specific accounting treatment that should be applied to business combinations involving entities under common control.

The two basic methods of accounting for business combinations involving entities under common controls are:

- The purchase method;
- The predecessor values method.

The Bank has elected to apply the predecessor values method to a business combination involving entities under common control.

Applying the predecessor values method, an entity should record:

- The transaction as if it had taken place at the beginning of the earliest period presented (or the date that the entities were first under common control, if later);
- The assets and liabilities of the acquiree using book values;

- The difference between the consideration given and the aggregate book value of the assets and liabilities (as of the date of the transaction) of the acquired entity as an adjustment to other comprehensive income (recorded in retained earnings or as a separate reserve). No additional goodwill is created by the transaction.

The predecessor values method does not restate the assets and liabilities of the acquirer to fair value. The financial statements are a continuation of amounts that have been reported previously.

### 2.4 Trade date and settlement date of accounting

All regular transactions on non-derivative financial instruments are recognised and derecognised at “value date” which is the date that an asset is delivered to or by the Bank. Derivative hedging instruments and hedged items that form part of a hedge relationship are also recognised at value date. Derivative instruments held for trading are recognised on trade date.

### 2.5 Recognition of financial assets and financial liabilities

In accordance with the framework of IFRS and the IAS standards 1 and 8, the Bank is consistent in the use of recognition, measurement and presentation methods. Where errors of recognition or measurement in prior periods need to be corrected, the effects (if material) are recognised retrospectively in the first set of financial statements authorised for issue after their discovery in accordance with the requirements of IAS 8.41 - IAS 8.49. The Bank classifies its financial assets and liabilities in the following categories:

*(a) Financial assets/liabilities at fair value through profit or loss*

This category has two sub-categories: financial assets or financial liabilities held for trading, including derivatives that do not qualify for hedge accounting and those mandatorily at fair value through profit or loss.

A financial asset or a financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

Financial assets and financial liabilities are designated at fair value through profit or loss when:

- doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost for loans and advances to customers or banks and debt securities in issue;
- certain investments, such as other comprehensive income investments, are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis;
- financial instruments, such as debt securities held, contain one or more embedded derivatives that significantly modify the cash flows.

  The Bank classifies Loans and Receivables which initially are concluded to fail SPPI criteria into FVP&L category.

*(b) Financial assets at fair value through other comprehensive income*

The business model of government securities within the bond portfolio is achieved by both collecting contractual cash flows and by selling the financial assets. The Bank can sell financial assets to optimize liquidity or in case of changes in the market conditions. For the classification of financial assets in the FVOCI category, the analysis of the business model is complemented by the analysis of the contractual cash flows ("SPPI Test"). As a result of the business model defined, in case of positive SPPI test, government securities are accounted for at FVOCI.

*(c) Financial assets at amortised cost*

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the entity upon initial recognition designates as held to collect and sell; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration. The Bank operates primarily based on a "Hold to collect Business Model", which is one of the prerequisites for measuring financial instruments at amortised cost, for the following instruments: loans to banks and loans to clients. In addition, the Bank uses the Group model for investing the free funds of the Bank. The Group model foresees that own funds are equally invested in assets with tenors up to 10 years on a rolling basis. In consideration of the specificities of the Banks structure, Government bonds have been selected as the appropriate assets to be used for the free funds investment model. The portfolio of bonds used for free funds investment is segregated from the remaining bond portfolio and as it is maintained with the aim to keep it until maturity it is also measured at amortised cost.

*(d) Other financial liabilities*

Other financial liabilities are those non-derivative financial liabilities that are not classified as financial liabilities held for trading.

## 2.6 Financial assets and financial liabilities measurement

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the profit or loss.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished - that is, when the obligation is discharged, cancelled or expired.

Financial assets at fair value through profit or loss are subsequently measured at fair value. Loans and advances are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the ‘financial assets held for trading’ category are included in the profit or loss in the period in which they arise. Gains and losses arising from changes in the fair value of assets (only debt instruments) measured at FVOCI are recognised directly in other comprehensive income, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in other comprehensive income is recognised in the profit or loss. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as financial assets at fair value through other comprehensive income are recognised in the profit or loss. Dividends on other comprehensive income instruments are recognised in the profit or loss when the entity’s right to receive payment is established. In case of premium/discounts on purchased securities, the Bank is linearly amortizing the premium/discounts according to the maturity of the related financial asset.

The fair values of quoted investments in active markets are based on current mid prices. If there is no active market for a financial asset, the Bank establishes fair value using valuation techniques. These include the use of recent arm’s length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.
A simplified assumption is used to estimate the fair value of financial assets and liabilities carried at amortised cost at initial recognition: the cash flows of financial assets and liabilities maturing within a short term period are not discounted if the effect of discounting is immaterial.

The Bank measures all financial liabilities at amortised cost using the effective interest method, except for:

- Financial liabilities held for trading. Such liabilities, including derivatives that are liabilities, are measured at fair value except for a derivative liability that is linked to and must be settled by delivery of an unquoted other comprehensive income instrument whose fair value cannot be reliably measured, which shall be measured at cost;
- Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;
- Financial guarantee contracts that are measured at the higher of:
  - The amount determined in accordance with IAS37 *Provisions, Contingent Liabilities and Contingent Assets*; and
  - The amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IFRS15;
- Commitments to provide a loan at a below-market interest rate. After initial recognition, an issuer of such a commitment shall measure it at the higher of:
  - The amount determined in accordance with IAS37; and
  - The amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IFRS15.

Financial liabilities that are designated as hedged items are subject to the hedge accounting requirements (Note 2.8).

### 2.7 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

### 2.8 Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values of derivatives with optionality are obtained from Group systems, whereas the linear derivatives are valued via financial software to ensure the same discount curves for the hedging instrument and the hedged item. Both tools use observable market curves and implied curves for its valuation techniques, including discounted cash flow models, as appropriate. The Group tool uses also option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments, such as pay-out based on an equity index (in an equity linked note), are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the profit or loss unless the Bank chooses to designate the hybrid contracts at fair value through profit or loss.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Bank may designate certain derivatives as either:
(a) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge);
(b) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge); or
(c) hedges of a net investment in a foreign operation (net investment hedge).

The Bank continues to apply IAS39 for Hedge Accounting. A hedging relationship qualifies for hedge accounting if there is formal designation and documentation of the hedging relationship including the risk management objective, the strategy for undertaking the hedge, and how the hedging instrument's effectiveness will be assessed. It is necessary to assess the hedge effectiveness, at inception and in subsequent periods. In offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. A hedge is regarded as highly effective if, at the inception of the hedge and in subsequent periods, it is determined prospectively to remain highly effective, i.e. that the hedge ratio is within a range of 80 - 125 per cent.

The hedge is assessed on an ongoing basis and thus must prospectively remain highly effective throughout the financial reporting periods for which the hedge was designated.

The assessment of effectiveness is made at each balance sheet date or other reporting date.

If the assessment does not confirm the effectiveness of the hedge, from that time on hedge accounting is discontinued in respect of the hedge and the hedging derivative is reclassified as a held-for-trading instrument.
Hedge accounting is discontinued prospectively if the hedge is terminated or no longer highly effective; the hedging instrument expires or is sold, terminated or exercised; the hedged item is sold, expires or is repaid; or it is no longer highly probable that the forecast transaction will occur.

*Fair value hedge*

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Effective changes in fair value of interest rate swaps and related hedged items are reflected in "net interest income - net gains/losses on hedging instruments". Any ineffectiveness is recorded in "net trading income".

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is prospectively discontinued. Any adjustment up to that point to a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity. The adjustment to the carrying amount of a hedged other comprehensive income security remains other comprehensive income until the disposal of the other comprehensive income security.

Certain derivative instruments are used for economical hedging purposes without applying hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the profit or loss under net trading income.

The Bank entered into a micro fair value hedge relationship to protect itself against changes in the fair value of financial liabilities due to movement in interest rates. The Bank designates the benchmark rate as the hedged risk and accordingly enters into interest rate swaps whereby the fixed leg represents the economic risk of the hedged item.

During the reporting period the Bank did not apply cash flow and net investment hedge.
EIR includes all fees that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts.

### 2.9 Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading (Note 2.12), are recognised within “interest and similar income” and “interest and similar charges” in the profit or loss using the effective interest method.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

### 2.10 Fee and commission

Fee and commission income which are not part of the effective interest rate of a financial instrument and other operating income are accounted for in P&L as the entity satisfies the performance obligation embedded in the contract, according to “IFRS15 Revenue from Contracts with Customers” rules.

In particular:
- if the performance obligation is satisfied at a specific moment (“point in time”), the related revenue is recognized in P&L when the service is provided;
- if the performance obligation is satisfied over-time, the related revenue is recognized in P&L in order to reflect the progress of satisfaction of such obligation.

Due to the above mentioned rules, transaction fees coming from trading in securities are typically booked in the moment when the service is provided while fees related to portfolios management, consulting or fund management are normally recognized during the term of the contract (input method).
For this second type of fees, in fact, it is deemed that the input which are necessary to provide the service incorporated in the performance obligation are evenly distributed during the term of the contract.

If the timing of cash-in is not aligned to the way the performance obligation is satisfied, the Bank accounts for a contract asset or a contract liability for the portion of revenue accrued in the period or to defer in the following periods.

The amount of revenues linked to fees and commissions income and other operating income is measured based on contractual provisions.
If the amount contractually foreseen is subject, totally or partially, to variability, a revenue has to be booked based on the most probable amount that the Bank expects to receive.
Such amount is determined on the basis of all facts and circumstances considered relevant for the evaluation, that depend on the type of service provided and, in particular, on the presumption that it is not highly probable that the revenue recognized will not be significantly reversed.
Please note, nevertheless, that for the services provided by the Bank such a variability is not usually foreseen.

Finally, if a contract regards different services whose performance obligations are not satisfied at the same time, the revenue is allocated among the different obligation proportionally to the stand-alone price of the single item delivered. These amounts will be accounted for in the P&L on the basis of the timing of satisfaction of each obligation.
Fee and commission are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are accrued over the life of the loan using the effective interest rate (EIR) methodology.

Commission and fees arising from negotiating a transaction for a third party are recognised on completion of the underlying transaction. Management and other service fees are recognised based on the applicable service contracts and are accrued over the time. Asset management fees related to investment funds are recognised pro-rata over the period in which the service is provided. The same principle is applied for wealth management, and custody services.

### 2.11 Dividend income

Dividend income is recognised in the profit when the Bank's right to receive the payment is established.

### 2.12 Net trading income

Net trading income includes all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading. The Bank selected to present the full fair value movement of trading assets and liabilities in trading income, including any related interest income, expense and dividends.

## 2.13 Sale and repurchase agreements

Securities sold subject to repurchase agreements (“repos”) remain in the statement of financial position, the counterparty liability is included in deposits from banks. Securities purchased under agreements to resell (“reverse repos”) are recorded as loans and advances to banks. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements.

## 2.14 Impairment of financial assets

The Bank assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. In line with the IFRS9 standard, all financial assets that are measured at amortised cost (AC) or debt instruments at fair value through other comprehensive income (FVOCI) and off-balance sheet exposures shall be considered as exposures subject to impairment.

The impairment requirements under IFRS9, are significantly different from those under IAS39:

1. A credit event does not have to occur in order for a credit loss to be recognized (i.e. Expected Credit Losses (ECLs) are recognized also for non-impaired financial assets).
2. ECLs are recalculated at each reporting date in order to reflect changes in credit risk since initial recognition of a financial instrument.
3. Forward-looking information and macro-economic factors are used for the determination of ECLs.

Stage allocation acts as the determinant for the appropriate ECL time horizon to be used.

For the purpose of IFRS9 Expected Credit Loss estimation the Bank is required to appropriately allocate exposures into Stages, where:

Stage 1 - To this stage the Bank will allocate all exposures for which the Bank concludes that no significant increase in credit risk occurred since inception of the loan.

Stage 2 - To this stage the Bank would classify financial assets which exhibited significant increase in credit risk since initial recognition.

Stage 3 - To this stage the Bank would classify assets which are considered to be credit impaired.

### Group model

The Bank uses the transfer logic of UniCredit Group for stage allocation between Stage 1 and Stage 2 for all the exposures with the only exception of Private Banking exposures. The Stage 1 and 2 allocation for these clients requires approval of the Bank’s Credit Committee. Risk Management proposes the allocation based on 30 days past due and/or significant credit deterioration. A loan to collateral (LtV) ratio at or above 80%, is a quantitative indicator for a SICR for stage 2 allocation.

For the purpose of identifying default of borrowers the Bank uses the rebuttable presumption as stipulated in IFRS 9.B5.5.37 as well as in Article 178 1(b) of REGULATION (EU) No 575/2013 of 90 days past due as an indicator of the default. It should be noted, that for the purpose of meeting the past due criterion, the Bank will assess whether the identified past due situation does not comprise a technical past due situation.

**Provisioning for Stage 3**

In line with UC Group guidelines, provisions have to be recognized whenever the estimated recoverable amount of an exposure is lower than its carrying amount. For a financial asset that is credit-impaired at the reporting date and that is not a purchased or originated credit-impaired financial asset, the estimated recoverable amount is the present value of future cash flows expected to be recovered, discounted at the original effective interest rate of the exposure.
Therefore the main determinants of this value are:

- the expected cash flows;
- the expected timing of payments of these cash flows;
- the effective interest rate used for discounting.

**ECL model application**

For the purpose of estimating ECL, the Bank has established 2 separate models which would be applicable to all its exposures subject to impairment, including both balance sheet and off-balance exposures. These models could be summarized as follows:

- Private Banking Model (“PB Model”)

The PB Model is determined by entity’s key management personnel i.e. those persons having authority and responsibility for planning, directing and controlling the activities of the Bank and it is concluded to be hold to collect contractual cash flows. In the PB Model collateral is deemed as key driver of credit risk. The expected future losses are mostly determined by the “Loan To Collateral” LtC ratio. This ratio is managed actively by the Bank to ensure that there is always surplus collateral available to offset the loan exposure. In case the ratio increases either the client tops up the collateral, or the Bank has the right to liquidate a part of the portfolio, thereby reducing the LtC ratio.

- Score-based model (based on group methodology and inputs) (“Group Model”)

A significant portion of Bank’s exposures consists of loans and bonds with sovereigns, supranational institutions and banks. Application of such statistical model established by the Group is deemed appropriate in the Banks circumstances for counterparties like sovereigns and banks since such exposures would be homogeneous with the Group wide exposures within the same category and therefore Group-wide statistics are an appropriate measure of credit risk given limited default history observed locally. Group model is based on internal Group scores assigned to the counterparty and statistical methods applied in determination of risk parameters. The Bank would obtain credit risk parameters from the group which would then be applied locally in order to quantify the ECL.

<table>
<tr><th>Balance type</th><th>Counterparty type</th><th>Product type</th><th>Model type</th></tr>
<tr><td rowspan="6">On balance</td><td rowspan="3">Private Banking Clients</td><td>Lombard Loans</td><td rowspan="3">PB model (except for one client with Group Model)</td></tr>
<tr><td>Term deposits</td></tr>
<tr><td>Current account/Credit Facility</td></tr>
<tr><td rowspan="3">Rated entities (Banks, Sovereigns and Supranational)</td><td>Bonds purchased</td><td>Group Model</td></tr>
<tr><td>Balances with Central Bank</td><td>Group Model</td></tr>
<tr><td>Balances with other banks</td><td>Group Model</td></tr>
<tr><td rowspan="2">Off-balance sheet</td><td rowspan="2">Private Banking Clients</td><td>Guarantees given</td><td>PB Model</td></tr>
<tr><td>Loan commitments</td><td>PB Model</td></tr>
</table>

### 2.15 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance, controlled by the Bank and from which future economic benefits are probable.

Intangible assets include software, brands, patents and assets used by the Bank as lessee under finance leases or as lessor under operating leases (rental/hire).

Intangible assets other than goodwill are recognised at purchase cost, i.e. including any cost incurred to bring the asset into use, less accumulated amortisation and impairment losses. An intangible asset with a finite life is subject to straight-line amortisation over its estimated useful life. An intangible asset with indefinite life is not amortised. Software are amortised over 3-8 years.

If there is objective evidence that an asset has been impaired, the carrying amount of the asset is compared with its recoverable value, equal to the greater of its fair value less selling cost and its value in use, i.e. the present value of future cash flows expected to originate from the asset. Any impairment loss is recognised in the profit or loss.

An intangible asset with indefinite life is not amortised. Even if there are no indications of impairment, each intangible asset's carrying amount is compared annually with its recoverable value. If the carrying amount is greater than the recoverable value, the difference is recognised in the profit or loss.

If the value of a previously impaired intangible asset, other than goodwill is restored, its increased carrying amount cannot exceed the net carrying amount it would have had if there were no losses recognised on the prior year impairment.

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use or sale in the future and any difference between sale proceeds and carrying value is recognised in the profit or loss.

### 2.16 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| Office equipment and machines | 3 - 8 years |
| Other fixtures and fittings | 3 - 8 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating income or other operating expenses in the profit or loss.
In line with IFRS 16, the Bank books within this balance sheet item the right to use assets. Please also refer to Note 2.18.

### 2.17 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### 2.18 Leases

(a) The Bank is the lessee

The leases entered into by the Bank are operating leases. The total payments made under operating leases are charged to other operating expenses in the profit or loss over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

IFRS 16 is applied to lease contracts of tangible assets, different from short term and/or including low value assets. The Bank calculate the initial recognition amount of the lease liability by discounting at the incremental borrowing rate, the future lease payments. The incremental borrowing rate is determined by considering its cost of funding for liabilities similar, in terms of duration and security, to the one implicit in the lease contract. The Bank recognises a right of use asset as the sum of the lease liability, the lease payments made at or before the commencement date and the initial direct costs.

Subsequent to initial recognition the lease liability shall be subject to the calculation of amortized cost and subject to remeasurement so to consider changes in lease term, lease payments or contractual modification. Subsequent to initial recognition the right of use asset shall be subject to amortization along the lease term as well as assessment of the need to calculate impairment loss.

(b) The Bank is the lessor

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. The Bank is currently not acting as lessor.

**2.19 Defined Benefit pension plan**

The Bank operates four defined benefit pension plans in favour of some employees. The pension plans are all funded through payments to an insurance company, determined by periodic actuarial calculations.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past- service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. The remeasurements of the net defined benefit obligation are recognized immediately in Other Comprehensive Income.

### 2.20 Contribution pension plan

In addition to the defined benefit pension plans, the Bank maintains also two defined contribution pension plans, under which the Bank pays fixed contributions into the fund “LaLux” and will have no legal or constructive obligation to pay further amounts. The contributions payable are recognized in the statement of comprehensive income when they are due in respect of services rendered before the end of the reporting period.

### 2.21 Other liabilities

Compliant with IAS37, accruals and other items are shown under other liabilities. These reflect future expenditure of uncertain timing or amount, but the uncertainty is much less than for provisions. Accruals are carried at the amount likely to be used. Accruals are liabilities for goods and services received that have been neither paid for nor invoiced by the supplier, nor formally agreed. This also includes current liabilities to employees, such as flexi-time credits and outstanding vacation. Accruals are carried at the amount likely to be used.

### 2.22 Share-based payments

UC Group Medium & Long Term Incentive Plans for selected employees include the following category:

Equity-Settled Share Based Payments;

This category includes the following:
Group Executive Incentive System (Bonus Pool) that offer to eligible Group Executives and relevant employees identified following regulatory rules, a bonus structure composed by upfront (following the moment of performance evaluation) and deferred payments in cash and in shares, to be paid over a period of ranging from 1 to 6 years. This payment structure will guarantee the alignment to shareholder interest and will be subjected to malus (which applies in case specific profitability, capital and liquidity thresholds are not met at both Group and Country/Division level) and claw back conditions (as legally enforceable) as defined in Plan Rules (both non-market vesting conditions).

**Group Executive Incentive System (Bonus Pool)**

Group Executive Incentive System (Bonus Pool) is offered to eligible Executives of the Bank.
The economic value of Performance Shares is measured considering the share market price at the grant date less the present value of the future dividends during the vesting period.

Economic and Net Equity effects will be accrued on basis of instruments' vesting period.

The new Group Incentive System is based on a bonus pool approach, aligned with regulatory requirements and market practices, which defines:

- sustainability, through direct link with entity results and alignment with relevant risk categories, utilizing specific indicators linked to risk-appetite framework;
- link between bonuses and organization structure, defining the pool at country/division level with further review at Group level;
- bonuses allocated to executives and other relevant employee, identified on a basis of European Bank Authority (EBA) rules, according to local regulations;
- payment structure has been defined in accordance with regulatory provisions qualified by Directive 2013/36/EU (CRD IV) and will be distributed in a period of six years by using a mix of shares and cash.

All profit and loss and net equity effects related to the plan will be booked during the vesting period.

### 2.23 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents include balances with less than three months' maturity from the date of acquisition. Please refer to note 5.

### 2.24 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

## 2.25 Financial guarantee contracts

Financial guarantee contracts are contracts that require the Bank to indemnify the beneficiary of such guarantee for a loss he incurred because a specified debtor failed to make payments when due, in accordance with the terms of such debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are subject to ECL calculation as described in section 2.14.

## 2.26 Income taxes

Income taxes include the current and deferred income taxes.

Current income tax is recognised as the expected tax payable on the taxable profit for the year using the enacted or substantively enacted tax rate at the statement of financial position date including adjustments to tax payable in respect of previous years.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from revaluation of certain financial assets and liabilities including derivative contracts, provisions for pensions. The rates enacted or substantively enacted at the statement of financial position date are used to determine deferred income tax. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. The tax effects of income tax losses available for carry-forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax related to fair value re-measurement of FVOCI investments, which are charged or credited directly to other comprehensive income, is also credited or charged directly to other comprehensive income and subsequently (once the asset at FVOCI has been derecognised) recognised in the profit or loss together with the deferred gain or loss.

### 2.27 Share issue costs

Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

## 3 Credit & Financial risk management

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

At Group level risk management is carried out by a central Risk management department of the Parent Company ("The Parent Risk Management department") under policies approved by its Board of Directors. The Parent Risk Management department identifies, evaluates and monitors financial risks in close co-operation with other operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments.

The Bank's risk management is operated by the Risk Management department which reports to the Chief Risk Officer. The objective of Risk Management is to ensure that the Bank's financial activity remains within the guidelines established by Management Board. The Bank follows the Parent Company's policy and acts locally with a low risk appetite. Generally, its customers are already Parent Company customers. The Bank is mainly exposed to credit risk and to liquidity risk.

### 3.1 Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to meet their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

In its banking business the Bank is exposed to the risk that its loans, regardless of their purpose, may not be repaid by debtors at maturity, and then must be fully or partially written off due to the deterioration of the debtor's financial conditions. The main reasons for default lie in the borrower's lacking the autonomous ability to repay the loan (due to a lack of liquidity, insolvency, etc.) or the occurrence of events that are unrelated to the debtor's operating and financial condition, such as country risk (defined as the inability of a borrower in another country to honour its obligations due, for example, to a deterioration in the country's economic situation or the local Government's adoption of restrictive measures). Defaults in relation to a large number of transactions, or one or more large transactions, could have a material adverse impact on the Bank's operations, financial condition and operating results.
The Bank monitors and manages credit quality, any specific risk relating to every counterparty and the overall risk of loan portfolios. The Bank established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

In 2020 the Covid-19 pandemic led to a deteriorating economic environment. Im most countries governments took measures to support their economies and prevent a severe recession. The government of Luxembourg facilitates a support scheme to all companies, except those active in the promotion, renting and sale of building as well as holding of investments. Under this scheme the Government can issue guarantees on loans at favourable terms to help businesses to cover immediate working capital and investment needs. The Bank did not receive any requests from our clients to provide a credit facility with a supporting state guarantee.

The pandemic did not lead to an observable credit deterioration in the Bank's loan portfolio. All loans remain performing.

### 3.1.1 Credit risk measurement

*(a) Loans and advances*

According to the nature and duration of the transaction, Risk Management formulates its recommendations for credit proposals / annual reviews submitted by the relationship managers and submits them subsequently to the competent bodies of the Bank as defined by the Supervisory Board and in accordance with the Operating Guidelines ("OG's") and Approval Matrix in place.

The measurement and follow-up of credit risk exposure is performed on a daily basis by control on each loan and related guarantees. Each customer credit line with a maturity over one year is subject to an annual review. This review includes a detailed analysis of the customer's financial situation, the associated country risk and adherence to repayment requirements. The Bank also reviews the risk associated with all credit provided to a single customer.

Collateral received on customers' credit lines is monitored on a daily basis for each individual position.

In order to avoid a too high concentration of risks, the Bank has to respect the following criteria: the total risk exposure towards a single client or group of connected clients must not exceed 25% of the own funds of the Bank. The Bank has received an exemption to this rule on its risk exposure towards the Parent undertaking and Group entities.

*(b) Debt securities and other bills*

The Bank defines and yearly review limits for debt securities in order to limit the credit risk linked to its securities portfolio.

### 3.1.2 Risk limit control and mitigation policies

The Bank manages, limits and controls concentrations of credit risk wherever they are identified - in particular, to individual counterparties and groups and to industries and geographical.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers and industry segments. The exposure to any borrower including banks is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts.

The Bank monitors compliance with such limits on a daily basis. This monitoring is reviewed by the Risk Management department. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations. Some other specific control and mitigation measures are outlined below.

*(a) Collateral*

The Bank employs a range of policies and practices to mitigate credit risk. With regard to the Lombard Loans, the Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Cash deposit to the Bank;
- Securities portfolio;
- Financial guarantees received from the Parent Company or related entity.

Collateral is followed up on a daily basis, and in order to minimise the exposure the Bank will seek additional collateral from the counterparty as soon as thresholds are broken for the relevant individual loans and advances.

*(b) Derivatives*

All derivatives have to be executed with a counterpart of the Group. In this context, the Bank maintains strict control limits on Counterparty Credit Risk Exposure. At any time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (i.e. derivatives where their fair value is positive), which in relation to derivatives is only a small fraction of the notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall obligor limits with customers, together with potential exposures from market movements. Collateral in the form of cash or government bonds are usually exchanged for credit risk exposures on these instruments.

*(c) Credit-related commitments*

The primary purpose of these instruments is to ensure that credit is available to a customer as required subject to certain conditions in the form of loans, overdraft facilities and guarantees. With respect to credit risk on commitments, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

### 3.1.3 Impairment and provisioning policies

The Bank reviews regularly credit risk exposures and computes quarterly Expected Credit Losses (ECL) related to those exposures. The daily controls performed allow the Bank to react quickly to an upcoming potential issue. In case of past due loans and subsequent to an analysis of the reasons leading to such event, the Bank, after consultation with the customer, impairs, renegotiates or starts legal procedures / collection of the loan with such customer, as the case may be.

Objective evidence of impairment is based on the following criteria:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delays in interest or principal payments;
- The lender, for economic or legal reasons relating to the borrower's financial difficulty, grants concessions to the borrower, which the lender would not otherwise consider;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; the disappearance though of an active market due to the fact that a company's financial instruments are no longer traded publicly is no evidence of impairment;
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - Adverse changes in the payment status of borrowers in the group; or
  - National or local economic conditions that correlate with defaults on the assets.

### 3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements

| | Maximum exposure | |
|---|---|---|
| | 2020 | 2019 |
| | EUR | EUR |
| Credit risk exposures relating to the statement of financial position are as follows: | | |
| **Loans and advances** | **1,825,484,796** | **1,896,742,275** |
| Loans and advances to banks | 322,552,265 | 439,111,358 |
| Loans and advances to customers | 1,502,932,531 | 1,457,630,916 |
| of which Loans and advances to corporate entities | 1,291,608,720 | 1,347,532,186 |
| of which debt securities | 211,323,810 | 110,098,731 |
| **Derivative financial instruments including trading assets** | **4,000,043** | **5,320,362** |
| **Other comprehensive income - Debt securities** | **608,660,192** | **801,631,596** |
| Listed securities | 608,660,192 | 801,631,596 |
| **Other assets** | **3,270,662** | **3,721,421** |
| | 2,441,415,694 | 2,707,415,654 |
| Credit risk exposures relating to off-balance sheet items are as follows: | | |
| **Financial guarantees** | **4,252,750** | **4,422,000** |
| **Loan commitments and other credit related liabilities** | **1,332,449,345** | **1,212,334,554** |
| **As at 31 December** | **3,778,117,789** | **3,924,172,208** |

The above table represents the worst case scenario of credit risk exposure to the Bank at 31 December 2020 and 2019, without taking account of any collateral held or other credit enhancements attached. For assets included in the statement of financial position, the exposures set out above are based on net carrying amounts as reported in the statement of financial position. As shown above, the main part of the credit risk, before collateral held or other credit risk enhancement, is located within the loans and advances.

Loans to customers are secured by collateral (cash, listed securities and financial guarantees). Please see note 3.1.7.

### 3.1.5 Loans and advances

ECL for loans and advances are summarised as follows:

| in EUR | Opening balance 2020 | Increases due to origination and acquisition | Decreases due to derecognition | Changes due to change in credit risk (net) | Other adjustments | Closing balance 2020 |
|---|---|---|---|---|---|---|
| **Allowances for financial assets without increase in credit risk since initial recognition (Stage 1)** | **366,784** | **18,037** | **- 31,635** | **- 38,307** | **7** | **314,886** |
| ***Debt securities*** | ***52,930*** | ***15,961*** | ***- 8,972*** | ***39,493*** | ***7*** | ***99,419*** |
| ***Loans and advances*** | ***313,854*** | ***2,076*** | ***- 22,663*** | ***- 77,801*** | ***-*** | ***215,467*** |
| of which: individually measured allowances | 366,784 | 18,037 | - 31,635 | - 38,307 | 7 | 314,886 |
| **Allowances for credit-impaired debt instruments (Stage 3)** | - | - | - | - | - | - |
| **Total allowance for debt instruments** | **366,784** | **18,037** | **- 31,635** | **- 38,307** | **7** | **314,886** |
| Commitments and financial guarantees given (Stage 1) | 11,395 | 47,955 | - 244 | - 5,097 | - 1 | 54,008 |
| **Total provisions on commitments and financial guarantees given** | **11,395** | **47,955** | **- 244** | **- 5,097** | **-** | **54,009** |

*(a) Impaired loans and advances*

The total allowance for loans and advances as of December 31, 2020 EUR 314.886 (2019 EUR 366.784) and all of them are individually provisioned. The Bank has no loans and advances classified in stage 2 or in stage 3 as past due or non-performing as of 31 December 2020.

*(b) Loans and advances renegotiated*

Restructuring activities include the negotiation by the Bank and the customer of amended/deferred payment arrangements and the fixing of covenants to be observed by the customer. Once restructured, a previously overdue customer loan is reset to a normal status renegotiated loan that would otherwise be past due or impaired. Loans and advances renegotiated totalled zero as at 31 December 2020 and 31 December 2019.

### 3.1.6 Financial assets at fair value through other comprehensive income

The table below presents an analysis of financial assets at fair value through other comprehensive income by rating agency designation based on Standard & Poor's ratings or equivalent:

| | 2020<br>EUR<br>FV/OCI | 2019<br>EUR<br>FV/OCI |
|---|---|---|
| AA | - | - |
| A | - | - |
| A- | 56,515,702 | 284,465,131 |
| BBB+ | 140,302,951 | - |
| BBB | - | 517,166,465 |
| BBB- | 411,841,538 | - |
| BB | - | - |
| B+ | - | - |
| Not rated | - | - |
| | **608,660,192** | **801,631,596** |

### 3.1.7 Seized collateral

In 2020 collateral held on Private Banking Lombard loans was mainly composed by cash, equities and investment grade securities with no significant change in the quality of the collateral compared to the previous year. Loan to Value and Loan to Collateral indicators were regularly monitored during the year. During 2020 and 2019, the Bank did not use its right to seize collateral as no impaired loans required the Bank to do so.

### 3.1.8 Concentration of risks of financial assets with credit risk exposure

*(a) Geographical sectors*

The Bank's main credit exposure can be split between Luxembourg and Italy as majority of bank counterparties are based in Italy for banks and in Luxembourg for the customers.

| In EUR | 2020 | | | | | 2019 |
|---|---|---|---|---|---|---|
| | Italy | Luxembourg | Spain | Other | Total | Total |
| Financial assets at amortised cost: loans to banks | 275,752,408 | - | - | 46,799,857 | **322,552,265** | 439,111,358 |
| Financial assets at amortised cost: loans to customers | 21,445,438 | 1,266,268,712 | - | 3,894,570 | **1,291,608,720** | 1,347,532,186 |
| Financial assets at amortsed cost: debt securities | 211,323,810 | - | - | - | **211,323,810** | 110,098,731 |
| Financial assets at FV/OCI - Debt securities | 411,841,538 | - | 140,302,951 | 56,515,702 | **608,660,192** | 801,631,596 |
| Financial assets mandatorily at fair value | - | - | - | - | **-** | - |
| **Total** | **920,363,195** | **1,266,268,712** | **140,302,951** | **107,210,130** | **2,434,144,988** | **2,698,373,871** |

*(b) Industry sectors*

The Bank's main credit exposure can be split between banks, governments and other financial corporations. The following table breaks down the Bank's main credit exposure at its carrying amount, as categorised by the industry sectors of the counterparties.

| In EUR | Banks | Government | Other financial corporations | Total |
|---|---|---|---|---|
| **As at 31 December 2019** | **455.284.829** | **911.730.327** | **1.347.532.186** | **2.714.547.342** |
| Cash and balances at central banks | 5.421.000 | - | - | 5.421.000 |
| Financial assets at FV/PL | 3.781.615 | - | - | 3.781.615 |
| Financial assets at FV/OCI | - | 608.660.192 | - | 608.660.192 |
| Financial assets at amortised cost | 322.552.265 | 211.323.810 | 1.291.608.720 | 1.825.484.796 |
| **As at 31 December 2020** | **331.754.880** | **819.984.003** | **1.291.608.720** | **2.443.347.603** |

### 3.1.9 Financial guarantees & commitments

The total ECL on commitments and financial guarantees is EUR 54.009 (2019: EUR 11.395) and each of them is individually provisioned. There were no changes between the stages during the year.

## 3.2 Market risk

The Bank takes market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market variables (interest rates, prices, exchange rates). Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads and foreign exchange rates.

### 3.2.1 Market risk measurement techniques

The Bank is primarily exposed to market risks through interest rate and foreign currency risks. The market risks are followed by the Bank on a daily basis by ways of reporting prepared by the Risk Management department. The Bank manages interest rate risk by setting value sensitivity limits per bucket. The choice of the instruments best suited to managing risk within the assigned limits is delegated to the treasury function. Securities activities are controlled by means of securities portfolio global limits. In the interest of improving and complementing the various risk management and treasury tools, the Bank uses an integrated Risk management tool that is used by the Group, to measure, manage and simulate its liquidity and interest rate risk position.

Risk Management ensures that the exposure of the Bank is not above the limits defined by the Parent Company. With a monthly frequency, specific sensitivity analyses on capital and interest margins are produced. The parametric analysis, considering duration and convexity is used to evaluate the impact on the value of shareholders' equity of parallel shifts in the yield curve (change is identical for all nodes along the curve).

Shifts in the yield curve are almost never parallel:

- Monetary policy signals (restrictive or expansionary) are first transmitted to the money market, via open market operations, and only later to the financial market;
- The expectations of operators about yields over the short and long term affect the rates applying in different segments of the curve.

Therefore sensitivity analysis by bucket is used to calculate the impact on the present value of each cashflow using the rates from two yield curves (the current curve at the analysis date and the shifted curve) and then comparing the two amounts (full valuation method).

### 3.2.2 Foreign currency exchange rate risk

Foreign exchange rate risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is exposed to this risk when the amount of assets and liabilities per currency is not zero. The Management Board of the Bank sets limits on the level of exposure in aggregate which are monitored daily by the Risk Management department. The table below summarizes the Bank's exposure to foreign currency exchange rate risk at 31 December. Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency.

| As at 31 December 2020 | EUR | USD | Other | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash balances | 5.421.000 | - | - | **5.421.000** |
| Other demand deposits | 1.785.443 | 621.983 | 1.050.408 | **3.457.833** |
| Financial assets at fair value through profit or loss | 3.781.615 | - | - | **3.781.615** |
| Financial assets at fair value through OCI | 608.660.192 | - | - | **608.660.192** |
| Financial assets at amortised cost | 1.791.852.654 | 32.800.561 | 831.581 | **1.825.484.796** |
| Hedging derivatives | 218.428 | - | - | **218.428** |
| Property, plant and equipment | 2.145.537 | - | - | **2.145.537** |
| Intangible assets | 4.654.661 | - | - | **4.654.661** |
| Tax assets | 13.228.097 | - | - | **13.228.097** |
| Other assets | 3.263.223 | 5.435 | 2.005 | **3.270.662** |
| **Total Assets** | **2.435.010.850** | **33.427.978** | **1.883.994** | **2.470.322.822** |

| As at 31 December 2020 | EUR | USD | Other | Total |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Financial liabilities at amortised cost | 2.051.240.234 | 33.154.332 | 1.487.807 | **2.085.882.373** |
| Financial liabilities held for trading | 4.230.630 | - | - | **4.230.630** |
| Hedging derivatives | 43.882.603 | - | - | **43.882.603** |
| Tax liabilities | 17.141.185 | - | - | **17.141.185** |
| Other liabilities | 9.794.088 | - | 19.669 | **9.813.757** |
| Provisions for risks and charges | 3.079.060 | - | - | **3.079.060** |
| **Total Liabilities** | **2.129.367.801** | **33.154.332** | **1.507.476** | **2.164.029.608** |

| | | | | |
|---|---|---|---|---|
| **Net on-balance sheet financial position** | 305.643.050 | 273.646 | 376.518 | **306.293.214** |
| **Loan commitments and other credit related liabilities** | 1.332.449.345 | - | - | **1.332.449.345** |
| **Financial Guarantees** | 4.252.750 | - | - | **4.252.750** |

| **As at 31 December 2019** | | | | |
|---|---|---|---|---|
| Total financial assets | 2.702.349.914 | 31.246.615 | 3.091.470 | **2.736.688.000** |
| Total financial liabilities | 2.396.200.623 | 31.855.342 | 2.864.520 | **2.430.920.485** |
| **Net on-balance sheet financial position** | 306.149.291 | (608.727) | 226.950 | **305.767.514** |
| **Loan commitments and other credit related liabilities** | 1.212.334.554 | - | - | **1.212.334.554** |

### Concentrations of currency risk – on- and off-balance sheet instruments

Under the assumptions, as defined here above, taking into account assets and liabilities as at 31 December 2020 (respectively 2019), a 10% strengthening in EUR to USD would influence income before tax by EUR +35,166 (2019 EUR -60.873) and a 10% weakening in EUR to USD would influence income before tax by EUR -35.166 (2019 EUR +60.873).

### 3.2.3 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposures to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value risks. Interest margins may increase as a result of such changes but may reduce in the- event that unexpected movements arise. The Bank sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily by the Risk Management department.

The table below summarises the Bank's exposure to interest rate risks. It includes the financial instruments at carrying amounts (including accrued interest), categorised by contractual date, taking into account repricing dates.

| | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | over 5 years | Non-interest | Total |
|---|---|---|---|---|---|---|---|
| **As at 31 December 2020** | | | | | | | |
| **In EUR** | | | | | | | |
| **Assets** | | | | | | | |
| Cash and cash balances and Other demand deposits | 3.457.833 | 5.421.000 | - | - | - | - | **8.878.833** |
| Financial assets at amortised cost - Banks | 72.218.734 | 8.213.221 | - | 242.120.311 | - | - | **322.552.265** |
| Financial assets at amortised cost - Customer | 1.283.387.810 | 3.592.579 | - | - | 4.628.331 | - | **1.291.608.720** |
| Financial assets at amortised cost Customer - Debt securitie | - | - | 25.476.522 | 100.662.197 | 85.185.091 | - | **211.323.810** |
| Financial assets at FV/OCI | - | - | - | 447.141.872 | 161.518.321 | - | **608.660.192** |
| Derivative financial instruments | - | - | - | 4.000.043 | - | - | **4.000.043** |
| Other assets | - | - | - | - | - | 3.270.662 | **3.270.662** |
| **Total financial assets** | **1.359.064.377** | **17.226.800** | **25.476.522** | **793.924.422** | **251.331.743** | **3.270.662** | **2.450.294.527** |
| | | | | | | | |
| **Liabilities** | | | | | | | |
| Deposits from banks | 1.760.636 | 346.302.598 | 958.109.668 | - | - | - | **1.306.172.902** |
| Deposits from customers | 522.184.705 | 48.214.721 | - | - | 4.623.529 | - | **575.022.955** |
| Debt securities in issue | - | - | - | 204.686.516 | - | - | **204.686.516** |
| Derivative financial instruments | - | - | - | 29.012.596 | 19.100.638 | - | **48.113.234** |
| Other liabilities | 9.806.718 | - | 7.039 | - | - | - | **9.813.757** |
| **Total financial liabilities** | **533.752.060** | **394.517.318** | **958.116.707** | **233.699.112** | **23.724.167** | - | **2.143.809.365** |
| **Total interest repricing gap** | **825.312.317** | **(377.290.519)** | **(932.640.184)** | **560.225.310** | **227.607.576** | **3.270.662** | **306.485.162** |
| | | | | | | | |
| **As at 31 December 2019** | | | | | | | |
| **Total financial assets** | **1.525.527.155** | **12.042.249** | **172.773.213** | **649.935.783** | **354.287.796** | **3.721.421** | **2.718.287.618** |
| **Total financial liabilities** | **625.906.916** | **419.314.703** | **757.070.091** | **594.859.203** | **18.239.606** | - | **2.415.390.519** |
| **Total interest repricing gap** | **899.620.239** | **(407.272.454)** | **(584.296.878)** | **55.076.580** | **336.048.191** | **3.721.421** | **302.897.099** |

Under the assumptions, as defined here above, taking into account assets and liabilities as at 31 December 2020 and 2019, respectively a 100 basis points increase or decrease in market interest rates would influence the net interest income before tax by EUR 2,462 mln (2019 EUR 4,399 mln) and by EUR 1,255 mln (2019 EUR -0,761 mln) respectively.

## 3.3 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

### 3.3.1 Liquidity risk management process

The Bank's policies for liquidity risk establish the responsibility of the Parent Company concerning both the observance of the consolidated limits and the strategic decisions for funding allocation. The Group's objective consists into maintaining a constant level of liquidity in order to carry out the normal business and to comply with international regulations and rules defined by the national central banks.

The Group liquidity risk is managed within a centralized location on behalf of all group entities. Liquidity risk is mitigated by various funding sources, by investing in readily marketable securities and closely monitoring maturities and limits related to asset and liability management.

The management of liquidity risk is not limited to cash management but also includes analysis of the strategic and long-term liquidity forecast, in order to determine possible surplus or shortage of liquidity. On a daily basis the Risk Management department of the Bank measures and monitors the exposure of the Bank to liquidity risk; it also ensures the Bank remains within the limits imposed by the Parent Company and applicable regulations.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

### 3.3.2 Cash flows on non-derivative financial assets and liabilities

The table below presents the initial contractual cash flows receivable/payable (interest not included) by the Bank under non-derivative financial assets and liabilities and other assets/liabilities and by remaining contractual maturities at the statement of financial position date. The amounts disclosed in the table are categorised by contractual maturity dates.

| As at 31 December 2020<br>In EUR | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | over 5 years | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash equivalents | 3,457,833 | 5,421,000 | - | - | - | **8,878,833** |
| Loans and advances to banks | 72,218,734 | 8,213,221 | - | 242,120,311 | - | **322,552,265** |
| Loans and advances to customers | 1,283,387,807 | 3,592,579 | 25,476,522 | 100,662,200 | 89,813,422 | **1,502,932,470** |
| Non-trading financial assets mandatorily at fair value through profit or loss | - | - | - | - | - | - |
| Financial assets mandatory at FV/P&L | - | - | - | - | - | - |
| Financial assets at fair value through OCI | - | - | - | 447,141,872 | 161,518,321 | **608,660,192** |
| **Financial assets at fair value through OCI** | **1,359,064,374** | **17,226,800** | **25,476,522** | **789,924,382** | **251,331,743** | **2,443,023,824** |
| | | | | | | |
| **Liabilities** | | | | | | |
| Deposits from banks | 618,015 | 346,302,598 | 958,109,668 | - | - | **1,305,030,280** |
| Deposits from customers | 521,440,442 | 48,214,721 | - | - | 4,623,529 | **574,278,693** |
| Debt securities in issue | - | - | - | 204,686,516 | - | **204,686,516** |
| Financial liabilities designed at FV | - | - | - | - | - | - |
| other liabilities (IFRS 16) - no maturity breakdown | - | - | - | - | - | **1,886,885** |
| **Total liabilities** | **522,058,457** | **394,517,318** | **958,109,668** | **204,686,516** | **4,623,529** | **2,085,882,374** |

| As at 31 December 2019<br>In EUR | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | over 5 years | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash equivalents | - | - | - | - | - | - |
| Loans and advances to banks | 177,666,053 | 15,382,424 | 14,868,463 | 242,066,382 | - | **449,983,323** |
| Loans and advances to customers | 1,336,776,448 | 7,744,480 | - | - | 113,109,989 | **1,457,630,916** |
| Non-trading financial assets mandatorily at fair value through profit or loss | - | - | - | - | 110,098,731 | **110,098,731** |
| Financial assets mandatory at FV/P&L | - | - | - | - | - | - |
| Financial assets at fair value through OCI | - | - | - | 504,163,872 | 297,467,724 | **801,631,596** |
| **Financial assets at fair value through OCI** | **1,514,442,500** | **23,126,904** | **14,868,463** | **746,230,255** | **520,676,444** | **2,819,344,566** |
| | | | | | | |
| **Liabilities** | | | | | | |
| Deposits from banks | 515,000 | 368,188,293 | 50,011,399 | 1,050,469,855 | - | **1,469,184,546** |
| Deposits from customers | 556,351,352 | 107,104,915 | 8,013,152 | 12,564,005 | 3,000,000 | **687,033,424** |
| Debt securities in issue | - | - | - | 166,646,948 | 35,522,398 | **202,169,346** |
| Financial liabilities designed at FV | - | - | - | - | - | - |
| other liabilities (IFRS 16) - no maturity breakdown | - | - | - | - | - | **2,234,724** |
| **Total liabilities** | **556,866,352** | **475,293,208** | **58,024,551** | **1,229,680,808** | **38,522,398** | **2,360,622,040** |

The Bank is integrated in the liquidity's risk management processes of UniCredit S.p.A.. In case of liquidity shortfall, the liquidity contingency plan, which foresees a dedicated support from UniCredit S.p.A., will be activated.

### 3.3.3 Cash flows on derivative financial instruments

The table below analyses the Bank's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| **At 31 December 2020**<br>**In EUR** | **Up to 3 month** | **3-12 months** | **1-5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|
| Derivatives: | | | | | |
| Interest rate derivatives | | | | | |
| – Outflow | (3.664.782) | (1.474.522) | (14.829.006) | (8.502.763) | **(28.471.071)** |
| – Inflow | - | 481.615 | 1.387.338 | 854.364 | **2.723.317** |
| **Total outflow** | (3.664.782) | (1.474.522) | (14.829.006) | (8.502.763) | **(28.471.072)** |
| **Total inflow** | - | 481.615 | 1.387.338 | 854.364 | **2.723.317** |

| **At 31 December 2019**<br>**In EUR** | **Up to 3 month** | **3-12 months** | **1-5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|
| Derivatives: | | | | | |
| Interest rate derivatives | | | | | |
| – Outflow | (2.565.998) | (9.012.261) | (15.447.043) | (2.034.450) | **(29.059.750)** |
| – Inflow | - | 1.607.161 | 3.168.992 | 1.065.734 | **5.841.887** |
| **Total outflow** | (2.565.998) | (9.012.261) | (15.447.043) | (2.034.450) | **(29.059.751)** |
| **Total inflow** | - | 1.607.161 | 3.168.992 | 1.065.734 | **5.841.887** |

### 3.3.4 Off-balance sheet items

The details of the contractual amounts of the Bank's off-balance sheet financial instruments are summarised in the table below:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Nominal amount of off-balance sheet commitments and financial guarantees | Provisions on off-balance sheet commitments and financial guarantees | Nominal amount of off-balance sheet commitments and financial guarantees | Provisions on off-balance sheet commitments and financial guarantees |
| Type of transactions/Value | Instruments without significant increase in credit risk since initial recognition (Stage 1) | Instruments without significant increase in credit risk since initial recognition (Stage 1) | Instruments without significant increase in credit risk since initial recognition (Stage 1) | Instruments without significant increase in credit risk since initial recognition (Stage 1) |
| **Loan commitments given** | **1,332,449,345** | **53,549** | **1,216,756,554** | **11,395** |
| Other financial corporations | 1,282,847,368 | 11,109 | 1,199,976,719 | 10,321 |
| Non-financial corporations | 40,485,824 | 22,217 | - | - |
| Households | 9,116,153 | 20,223 | 12,357,835 | - |
| **Financial guarantees given** | **4,252,750** | **460** | **4,422,000** | **1,074** |
| **Other financial corporations** | 2,986,750 | 21 | 3,136,000 | **557** |
| **Non-financial corporations** | 146,000 | 43 | 146,000 | **39** |
| **Households** | 1,120,000 | 396 | 1,140,000 | **478** |

## 3.4 Fair value of financial assets and liabilities

### 3.4.1 Fair value versus carrying amounts

The carrying amounts of the financial assets and financial liabilities measured at amortised cost are deemed to be a reasonable estimate of their fair value considering their short-term maturity.

### 3.4.2 Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices within level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There were no changes between the different stages during the year.

| In EUR | Level 1 | Level 2 | Total |
|---|---|---|---|
| **31 December 2020** | | | |
| **Financial assets** | | | |
| Financial assets at FV/PL | - | 3,781,615 | **3,781,615** |
| Financial assets at FV/OCI | 608,660,192 | - | **608,660,192** |
| Hedging derivatives | - | 218,428 | **218,428** |
| | **608,660,192** | **4,000,043** | **612,660,236** |
| | | | |
| **Financial liabilities** | | | |
| Financial liabilities held for trading | - | 4,230,630 | **4,230,630** |
| Financial liabilities designated at FV | - | - | **-** |
| Hedging derivatives | - | 43,882,603 | **43,882,603** |
| | - | **48,113,233** | **48,113,233** |

| In EUR | Level 1 | Level 2 | Total |
|---|---|---|---|
| **31 December 2019** | | | |
| **Financial assets** | | | |
| Financial assets at FV/PL | - | 5,301,507 | **5,301,507** |
| Financial assets at FV/OCI | 801,631,596 | - | **801,631,596** |
| Hedging derivatives | - | 18,855 | 18,855- |
| | **801,631,596** | **5,320,362** | **806,951,958** |
| | | | |
| **Financial liabilities** | | | |
| Financial liabilities held for trading | - | 6,380,927 | **6,380,927** |
| Financial liabilities designated at FV | 0 | - | **0** |
| Hedging derivatives | - | 37,553,139 | **37,553,139** |
| | **0** | **43,934,066** | **43,934,066** |

## 3.5 Capital management

The Bank's objectives when managing capital, which is a broader concept than the "equity" on the face of the statement of financial positions, are:

- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored monthly by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and set as Regulatory Directive and Regulation by the European Parliament and Councel. The required information is filed with the ECB and CSSF on a quarterly basis.

In 2020 the ECB, after finalization of the SREP process, has set for the Bank a Minimum Total Capital ratio of 8% plus capital conservation buffer of 2,5%. The Bank's regulatory capital is composed of subscribed capital, reserves and retained earnings.

The risk-weighted assets are measured by means of risk weights classified according to the nature of - and reflecting an estimate of credit, market and other risks associated with - each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarises the composition of regulatory capital and the ratios of the Bank for the year ended 31 December. During those two years, the Bank complied with all externally imposed capital requirements to which it is subject.

| | **2020**<br>**EUR** | **2019**<br>**EUR** |
|---|---|---|
| | | |
| **Global Regulatory Capital** | **297,034,302** | **291,967,326** |
| | | |
| Capital requirements | | |
| Capital requirement for the credit risk | 471,273,253 | 399,259,449 |
| Capital requirements for position,<br>foreign exchange and commodities | 684,578 | 611,704 |
| Capital requirement for operational risk | 35,250,478 | 36,972,432 |
| **Total capital requirement** | **507,208,309** | **436,843,585** |
| | | |
| **Core Tier 1 (minimum being 8,00%)** | **58.56%** | **66.84%** |

## 4 Critical accounting estimates and judgments

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

*(a) Fair value of unquoted financial instruments*

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example models) are used to determine fair value, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. The Bank uses Group models for these calculations.

*(b) Income taxes*

The Bank is subject to income tax in Luxembourg. Estimates are required in determining the provision for income taxes. The provision has been calculated taking into account the applicable rate of 24,94% for the financial year.

*(c) Defined benefit plan*

The present value of the pension obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions used in determining the net cost/income for pensions include demographic assumptions, the discount rate, the inflation rate, expected rates of wage costs increase and expected cash flow linked to pension increases. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Bank determines the appropriate discount rate at the end of each year. This rate is used to determine the present value of estimated future cash flows expected to settle the pension obligations. In determining the discount rate, the Bank considers the interest rate of high-quality corporate bonds denominated in EUR and that have terms to maturity approximating the terms of the related pension liability. Assumptions and estimations are provided by an external insurance company. Additional information is disclosed in Note 17.1.

*(d) Provisions*

All provisions and potential litigations that the Bank could be involved in are analysed at each reporting date and adjusted to reflect the current best estimate. When necessary, legal advice is sought and provisions are recorded.

## 5 Cash and balances with central banks

| | 2020<br>EUR | 2019<br>EUR |
|---|---|---|
| a) Cash | 3.457.833 | 2.621.965 |
| b) Balances with central banks | 5.421.000 | 8.250.000 |
| **Total** | **8.878.833** | **10.871.965** |

Cash and cash equivalents of the year as reported in the Cash Flow Statement also includes loans with banks below 3 months and overall sum up to EUR 78.258.021 (2019: EUR 183.982.381).

## 6 Financial assets at fair value through profit or loss

The Bank trades mainly in the following types of derivatives:

- Interest rate Swaps;
- Equity linked swaps;
- Equity linked options.

No exchange of principal takes place. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms.

The aggregate contractual or notional amount of derivative financial instruments, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair value of derivative financial assets and liabilities, can fluctuate significantly from time to time. The fair values of derivative instruments held are set out below.

There were no changes in the level classification during the year.

| | AMOUNTS AS AT | | 31.12.2020 | AMOUNTS AS AT | | 31.12.2019 |
|---|---|---|---|---|---|---|
| | LEVEL 1 | LEVEL 2 | LEVEL 3 | LEVEL 1 | LEVEL 2 | LEVEL 3 |
| **A. Financial assets (non-derivatives)** | - | - | - | - | - | - |
| **Debt securities** | **-** | **-** | **-** | **-** | **-** | **-** |
| Structured securities | - | - | - | - | - | - |
| Other debt securities | - | - | - | - | - | - |
| **Equity instruments** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Units in investment funds** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Loans** | **-** | **-** | **-** | **-** | **-** | **-** |
| Reverse Repos | - | - | - | - | - | - |
| Other | - | - | - | - | - | - |
| **Total (A)** | **-** | **-** | **-** | **-** | **-** | **-** |
| **B. Derivative instruments** | - | - | - | - | - | - |
| **Financial derivatives** | **-** | **3.781.615** | **-** | **-** | **5.301.507** | **-** |
| Trading | - | - | - | - | - | - |
| Linked to fair value option | - | - | - | - | - | - |
| Other | - | 3.781.615 | - | - | 5.301.507 | - |
| **Credit derivatives** | **-** | **-** | **-** | **-** | **-** | **-** |
| Trading | - | - | - | - | - | - |
| Linked to fair value option | - | - | - | - | - | - |
| Other | - | - | - | - | - | - |
| **Total (B)** | **-** | **3.781.615** | **-** | **-** | **5.301.507** | **-** |
| **Total (A+B)** | **-** | **3.781.615** | **-** | **-** | **5.301.507** | **-** |

| **At 31 December 2020** | **Contract/ notional amount** | **Fair value** | |
|---|---|---|---|
| **In EUR** | | **Assets** | **Liabilities** |
| **Equity linked note** -Trading | 414.600.000 | 3.781.615 | 4.230.630 |
| **Interest rate Swaps** - Hedging | 699.800.000 | 218.428 | 43.882.604 |
| **Cross currency swap** -Hedging | - | - | - |
| **Total derivatives** | | **4.000.043** | **48.113.234** |
| | | | |
| Maturity >1 year | 1.114.400.000 | 4.000.043 | 48.113.234 |
| Maturity < 1 year | 0 | - | 0 |
| | | **4.000.043** | **48.113.234** |

| **At 31 December 2019** | **Contract/ notional amount** | **Fair value** | |
|---|---|---|---|
| **In EUR** | | **Assets** | **Liabilities** |
| **Equity linked note** -Trading | 414.600.000 | 5.301.507 | 6.380.927 |
| **Interest rate Swaps** - Hedging | 704.600.000 | 18.855- | 37.553.139 |
| **Cross currency swap** -Hedging | 0 | - | 0 |
| **Total derivatives** | | **5.320.362** | **43.934.066** |
| | | | |
| Maturity >1 year | 969.200.000 | 5.320.362 | 37.912.888 |
| Maturity < 1 year | 150.000.000 | - | 6.021.179 |
| | | **5.320.362** | **43.934.066** |

## 7 Financial assets at fair value through other comprehensive income

| | 2020<br>EUR |
|---|---|
| **Securities at FV/OCI** | |
| Listed debt securities | 608.660.192 |
| **Total securities at FV/OCI** | **608.660.192** |

| | 2020<br>EUR |
|---|---|
| **At 1 January** | 801.631.596 |
| Additions | 105.273.000 |
| Disposals (sale and redemption) | (300.358.745) |
| Changes in fair value allocated to profit or loss | 4.581.745 |
| Changes in fair value allocated to other comprehensive income | 5.585.638 |
| Change in accrued interest | (8.053.042) |
| **At 31 December** | **608.660.192** |

| | 2020<br>EUR |
|---|---|
| **At 1 January** | 8.502.958 |
| (Increase) decrease in unrealised gains/losses on FV/OCI portfolio | 5.585.638 |
| Deferred taxes | (1.393.058) |
| **At 31 December** | **12.695.538** |

| | 2019<br>EUR |
|---|---|
| **Securities at FV/OCI** | |
| Listed debt securities | 801.631.596 |
| **Total securities at FV/OCI** | **801.631.596** |

| | 2019<br>EUR |
|---|---|
| **At 1 January** | 895.897.410 |
| Additions | - |
| Disposals (sale and redemption) | (119.993.500) |
| Changes in fair value allocated to profit or loss | 13.836.519 |
| Changes in fair value allocated to other comprehensive income | 22.037.148 |
| Change in accrued interest | (10.145.981) |
| **At 31 December** | **801.631.596** |

| | 2019<br>EUR |
|---|---|
| **At 1 January** | (7.923.536) |
| (Increase) decrease in unrealised losses on FV/OCI portfolio | 22.037.148 |
| Deferred taxes | (5.610.655) |
| **At 31 December** | **8.502.958** |

During the year, EUR 150 million Spanish Government Bonds matured.

## 8 Financial assets at amortised cost: Loans and advances to banks

| | AMOUNTS AS AT 31.12.2020 | |
|---|---|---|
| | BOOK VALUE | |
| | STAGE 1 | STAGE 2 AND 3 |
| **Loans and advances to Central Banks** | **5.421.000** | **-** |
| Other | 5.421.000 | - |
| **Loans and advances to banks** | **326.010.099** | **-** |
| Current accounts and demand deposits | 3.457.833 | - |
| Time deposits | 33.632.097 | - |
| Other loans | 288.920.167 | - |
| **Total** | **331.431.099** | **-** |
| Loans to banks net of cash and loans to cental banks (note 5) | 322.552.265 | - |

| | AMOUNTS AS AT 31.12.2019 | |
|---|---|---|
| | BOOK VALUE | |
| | STAGE 1 | STAGE 2 AND 3 |
| **Loans and advances to Central Banks** | **8.250.000** | **-** |
| Other | 8.250.000 | - |
| **Loans and advances to banks** | **441.733.323** | **-** |
| Current accounts and demand deposits | 2.621.965 | - |
| Time deposits | 163.045.125 | - |
| Other loans | 276.066.233 | - |
| **Total** | **449.983.323** | **-** |
| Loans to banks net of cash and loans to cental banks (note 5) | 439.111.358 | - |

There were no changes between the stages during the year.

## 9 Financial assets at amortised cost: Loans and advances to customers

| | AMOUNTS AS AT 31.12.2020 BOOK VALUE | |
|---|---|---|
| | STAGE 1 | STAGE 2 AND 3 |
| **Loans** | **1.291.608.720** | **-** |
| Current accounts | 1.279.896.679 | - |
| Other loans | 11.712.041 | - |
| **Debt securities** | **211.323.810** | **-** |
| Structured securities | - | - |
| Other debt securities | 211.323.810 | - |
| **Total** | **1.502.932.530** | **-** |

| | AMOUNTS AS AT 31.12.2019 BOOK VALUE | |
|---|---|---|
| | STAGE 1 | STAGE 2 AND 3 |
| **Loans** | **1.347.532.186** | **-** |
| Current accounts | 1.336.776.448 | - |
| Other loans | 10.755.738 | - |
| **Debt securities** | **110.098.731** | **-** |
| Structured securities | - | - |
| Other debt securities | 110.098.731 | - |
| **Total** | **1.457.630.917** | **-** |

## 10 Deferred tax assets

| EUR | Tax asset 2020 | | Tax asset 2019 | |
|---|---|---|---|---|
| | Posted to P&L | Posted to Net Equity | Posted to P&L | Posted to Net Equity |
| **Breakdown** | | | | |
| Financial assets and liabilities (different from Loans and Depos | 1.838.359 | - | 1.463.360 | 330.920 |
| Loans and advances to and deposits from banks and customers | 53.737 | - | 78.275 | - |
| Financial liabilities designated at fair value through profit or lo | - | - | - | - |
| Hedging and hedged item revaluation | 10.430.214 | - | 9.131.670 | - |
| Other assets and Other liabilities | - | 137.869 | - | 350.442 |
| Provisions, pension funds and similar | 767.918 | - | 277.143 | - |
| | - | - | - | - |
| Total | **13.090.229** | **137.869** | **10.950.448** | **681.362** |
| TOTAL | | **13.228.097** | | **11.631.809** |
| **Change** | - | - | - | - |
| Opening balance | **10.950.448** | **681.362** | **19.737.108** | **4.923.160** |
| Financial assets and liabilities (different from Loans and Depos | 375.000 | (330.920) | (1.153.588) | (4.196.645) |
| Loans and advances to and deposits from banks and customers | (24.538) | - | 18.498 | - |
| Financial liabilities designated at fair value through profit or lo | - | - | (8.348.235) | - |
| Hedging and hedged item revaluation | 1.298.544 | - | 668.662 | - |
| Retirement benefit obligations | - | - | - | - |
| Other assets and Other liabilities | - | (212.573) | - | (45.154) |
| Provisions, pension funds and similar | 490.775 | - | 28.003 | - |
| Closing balance | **13.090.229** | **137.869** | **10.950.448** | **681.362** |
| TOTAL | | **13.228.097** | | **11.631.809** |

## 11 Property, plant and equipment

| | Changes in 2020 | | |
|---|---|---|---|
| | Office furniture and fittings | Electronic systems | Total |
| Gross opening balance | 294.411 | 258.100 | 552.511 |
| Total net reduction in value | (234.827) | (146.692) | (381.519) |
| **Net opening balance** | **59.584** | **111.408** | **170.991** |
| **Increases** | **-** | **147.738** | **147.738** |
| Purchases | - | 147.738 | 147.738 |
| **Reductions** | **8.936** | **37.679** | **46.615** |
| Depreciation | 8.936 | 37.679 | 46.615 |
| **Net final balance** | **50.648** | **221.467** | **272.115** |
| Total net reduction in value | (243.763) | (184.371) | (428.134) |
| Gross closing balance | 294.411 | 405.838 | 700.248 |

**IFRS 16 effects**

| | Changes in 2020 | | |
|---|---|---|---|
| | Right to use | Right to use - other | Total |
| **Gross opening balance** | **2.681.132** | **247.928** | **2.929.059** |
| Total net reduction in value | (642.680) | (62.098) | (704.777) |
| Net opening balance | 2.038.452 | 185.830 | 2.224.282 |
| **Increases** | **403.866** | **167.102** | **570.968** |
| Purchases | 351.709 | 115.797 | 467.506 |
| **Reductions** | **747.710** | **174.118** | **921.828** |
| Depreciation | 695.553 | 85.763 | 781.316 |
| **Net final balance** | **1.694.608** | **178.815** | **1.873.422** |
| Total net reduction in value | (1.286.075) | (96.555) | (1.382.630) |
| Gross closing balance | 2.980.683 | 275.370 | 3.256.053 |

## 12 Intangible assets

| | CHANGES IN 2020 | | | | | |
|---|---|---|---|---|---|---|
| | OTHER INTANGIBLE ASSETS | | | | | |
| | | GENERATED INTERNALLY | | OTHER | | |
| | GOODWILL | FINITE LIFE | INDEFINITE LIFE | FINITE LIFE | INDEFINITE LIFE | TOTAL |
| **Gross opening balance** | **-** | **-** | **-** | **5.319.357** | **-** | **5.319.357** |
| Total net reduction in value | - | - | - | (2.135.538) | - | (2.135.538) |
| **Net opening balance** | **-** | **-** | **-** | **3.183.819** | **-** | **3.183.819** |
| **Increases** | **-** | **-** | **-** | **2.112.986** | **-** | **2.112.986** |
| Purchases | - | - | - | 2.112.986 | - | 2.112.986 |
| **Reduction** | **-** | **-** | **-** | **642.145** | **-** | **642.145** |
| Write-downs | - | - | - | 623.087 | - | 623.087 |
| - Amortisation | - | - | - | 623.087 | - | 623.087 |
| **Net closing balance** | **-** | **-** | **-** | **4.654.661** | **-** | **4.654.661** |
| Total net write-down | - | - | - | (2.758.625) | - | (2.758.625) |
| **Gross closing balance** | **-** | **-** | **-** | **7.413.286** | **-** | **7.413.286** |

**Intangible assets: breakdown by asset type**

| | AMOUNTS AS AT 31.12.2020 | | AMOUNTS AS AT 31.12.2019 | |
|---|---|---|---|---|
| | Finite life | Indefinite life | Finite life | Indefinite life |
| **Other intangible assets** | **4.654.661** | **-** | **3.183.819** | **-** |
| Assets carried at cost | 4.654.661 | - | 3.183.819 | - |
| Assets measured at fair value | - | - | - | - |
| **Total** | **4.654.661** | **-** | **3.183.819** | **-** |

| | | |
|---|---|---|
| **Total finite and indefinite life** | **4.654.661** | **3.183.819** |

Intangible assets are mainly related to software used by the Bank.

| | AMOUNTS AS AT | |
|---|---|---|
| | **31.12.2020** | **31.12.2019** |
| Provisions for credit risk on commitments and financial guarantees give | 54,008 | 11,395 |
| Pensions and other post-retirement benefit obligations | 3,025,052 | 1,099,843 |
| Other provisions for risks and charges | - | - |
| **Total** | **3,079,060** | **1,111,238** |

## 13 Other assets

### 13.1 Participation

In 2020 the Bank, with the aim to support UniCredit Group Wealth Management, established a participation in UC Group Wealth Management Investments S.à r.l., ("GP S.à r.l.") which acts as General Partner of GWM Opportunities SCS-SICAV-SIF ("GWM Opportunities") with its principal place of business in Luxembourg. The Bank holds a 100% proportion of ownership interest. With this new set-up UniCredit Group Wealth Management will offer alternativ investments to its clients. The GWM Opportunities (in the legal form of a "société en commandite simple") will allow to create different sub-funds (funds which invest solely in one or more closed-ended funds) that can be distributed in the countries covered by GWM Opportunities.

### 13.2 Other assets

| | AMOUNTS AS AT | |
|---|---|---|
| | **31.12.2020** | **31.12.2019** |
| Accrued income other than capitalised income | 3.000.274 | 3.186.860 |
| Items in processing | 241.588 | 336.500 |
| Tax items | - | 178.261 |
| Other assets | 28.800 | 19.800 |
| **Total** | **3.270.662** | **3.721.421** |

## 14 Financial liabilities at amortised cost: Deposits from banks

| | AMOUNTS AS AT 31.12.2020 | AMOUNTS AS AT 31.12.2019 |
|---|---|---|
| | BOOK VALUE | BOOK VALUE |
| **Deposits from central banks** | - | - |
| **Deposits from banks** | **1.305.030.280** | **1.469.184.546** |
| a) Current accounts and demand deposits | 78.015 | - |
| b) Time deposits | 958.649.668 | 1.100.481.253 |
| c) Loans | 346.302.598 | 368.188.293 |
| Repos | 346.302.598 | 368.188.293 |
| **Total** | **1.305.030.280** | **1.469.184.546** |

## 15 Financial liabilities at amortised cost: Deposits from customers

| | AMOUNTS AS AT 31.12.2020 | AMOUNTS AS AT 31.12.2019 |
|---|---|---|
| Current accounts and demand deposits | 510,430,852 | 548,965,953 |
| Time deposits | 63,847,841 | 138,067,470 |
| **Total** | **574,278,693** | **687,033,424** |

## 16 Debt securities in issue & Financial liabilities designed at fair value

| | 2020<br>EUR | 2019<br>EUR |
|---|---|---|
| Non - cumulative Step-up Fixed/Floating Rate Subordinated notes (re-classified to FV/PL) | - | - |
| Equity linked notes | 204.686.516 | 202.169.346 |
| Senior notes | - | - |
| | **204.686.516** | **202.169.346** |

| | 2020<br>EUR | 2019<br>EUR |
|---|---|---|
| **At 1 January** | 202.169.346 | 1.062.489.672 |
| Redemption | - | (812.274.644) |
| Change in fair value allocated to profit or loss | 300.261 | (24.664.949) |
| Change in accrued interest | 2.216.907 | (23.380.733) |
| Foreign exchange movements | - | - |
| **At 31 December** | **204.686.515** | **202.169.346** |

The Bank issued the following debt instruments (not yet arrived at maturity as at 31/12/2020):

| Issuance Date | Debt Instruments | Stock Exchange | Nominal | Guaranteed by | Interest rate | Maturity Date |
|---|---|---|---|---|---|---|
| 2016 | 10 Equity Linked Notes | N/A | EUR 37.0 million | Unicredit S.p.A. | N/A | 2024 |
| 2015 | 12 Equity Linked Notes | N/A | EUR 79.4 million | Unicredit S.p.A. | N/A | 2023 |
| 2017 | 7 Equity Linked Notes | N/A | EUR 60.9 million | Unicredit S.p.A. | N/A | 2023 |
| 2017 | 2 Equity Linked Notes | N/A | EUR 30.0 million | Unicredit S.p.A. | N/A | 2022 |

All debt issued by the Bank are guaranteed by the Parent company. Therefore a change in the Bank's own credit risk does not change the value of the issued debt and no entries are reported into OCI related to Own Credit Risk.

## 17 Provisions for risks and charges

| | AMOUNTS AS AT | |
|---|---|---|
| | 31.12.2020 | 31.12.2019 |
| Provisions for credit risk on commitments and financial guarantees give | 54,008 | 11,395 |
| Pensions and other post-retirement benefit obligations | 3,025,052 | 1,099,843 |
| Other provisions for risks and charges | - | - |
| **Total** | **3,079,060** | **1,111,238** |

### 17.1 Post Retirement benefit obligations

9 employees of the Bank (2019: 9) participate in four defined benefit plans set up and operated in accordance with Luxembourg law and regulations. The Bank has also two defined contribution plans for 56 employees.

| | 2020<br>EUR | 2019<br>EUR |
|---|---|---|
| | | |
| Balance sheet obligations for pension benefits | 3.025.052 | 1.099.843 |
| Income statement charged for pension benefits | 86.892 | 129.527 |

*The amounts recognised in the balance sheet are determined as follows:*

| | 2020<br>EUR | 2019<br>EUR |
|---|---|---|
| Present value of defined benefit obligations | 3.618.279 | 1.605.726 |
| Fair value of plan assets | (593.227) | (505.883) |
| | **3.025.052** | **1.099.843** |
| Unrecognised gains and losses | - | - |
| Liability in the balance sheet | **3.025.052** | **1.099.843** |

*The movement in the defined benefit obligation is as follows:*

| | 2020<br>EUR | 2019<br>EUR |
|---|---|---|
| **Beginning of year** | 1.605.726 | 1.258.481 |
| Transfer of liabilites | - | 140.086 |
| Interest cost | 18.131 | 25.846 |
| Current service cost | 75.159 | 112.295 |
| Actual benefit payments by the fund | (45.589) | (50.946) |
| (Gain) or loss on change of financial assumptions | 1.920.828 | 275.440 |
| (Gain) or loss on experience adjustment | 44.025 | (155.476) |
| **End of year** | **3.618.279** | **1.605.726** |

*The movement in the fair value of plan assets of the year is as follows:*

| | 2020<br>EUR | 2019<br>EUR |
|---|---|---|
| Beginning of year | 505.883 | 348.715 |
| Transfer of assets | - | 39.198 |
| Actual total benefit payments | (45.589) | (50.946) |
| Actual Bank contributions (including benefits paid directly by the Ban | 119.622 | 156.135 |
| Interest income | 6.398 | 8.614 |
| Return on plan assets | 6.913 | 4.167 |
| | **593.227** | **505.883** |

*The charges recognised in the statement of comprehensive income are as follows:*

| | 2020<br>EUR | 2019<br>EUR |
|---|---|---|
| Current service cost | 75.159 | 112.295 |
| Net interest cost: | 11.733 | 34.460 |
| *- Interest cost on defined benefit plan* | 18.131 | 25.846 |
| *- Interest income on plan assets* | (6.398) | 8.614 |
| Total charges recognised and included in staff costs | **86.892** | **146.755** |

*The movement recognised in Other Comprehensive income is as follows:*

| | 2020<br>EUR | 2019<br>EUR |
|---|---|---|
| **Beginning of year** | 1.405.139 | 1.520.936 |
| (Gain) or loss on experience adjustment | 44.025 | 155.476 |
| (Gain) or loss on change of financial assumptions | 1.920.828 | (275.440) |
| Return on plan assets | 6.913 | 4.167 |
| | **3.363.079** | **1.405.139** |

(Gain) or loss due to change on Demographic assumption is nil as at 31 December 2020 (2019: nil).

*The actuarial assumptions used are as follows:*

| | 2020<br>% p.a. | 2019<br>% p.a. |
|---|---|---|
| Inflation rate | 1,40 | 1,60 |
| Discount rate | 0,90 | 1,15 |
| Expected rate of salary increases | 3,40 | 2,00 |
| Expected rate of social security increases | 1,40 | 1,60 |
| Longevity at age 65 (in years): | | |
| -Male | 19,65 | 19,65 |
| -Female | 22,41 | 22,41 |

The mortality table is ERM90 for males and ERF90 for females.

*As of 31 December 2020, sensitivity analysis is as follows:*

| | Increase | Increase |
|---|---|---|
| Discount rate (0,25% movement) | 134.831 | 62.268 |
| Future salary growth (0,25% movement) | 359.355 | 252.931 |
| Inflation rate growth (0,25% movement) | 249.503 | 133.469 |
| Future mortality (1 year movement) | 12.092 | 6.168 |

*Expected cash flow and other information as of 31 December 2020 are as follows:*

| | | |
|---|---|---|
| Employer contributions to plan assets | 123.689 | 159.257 |
| Benefit payments from plan assets | 57.052 | 58.298 |

As of 31 December 2020, the duration of the Defined benefit plan (liabilities) is 14,73 years.

## 18 Deferred income tax liabilities

Deferred income tax assets and liabilities are disclosed separately in the statement of financial positions. Applicable income tax rate is 24,94%. More details regarding the deferred tax assets is provided in the note 10 of these financial statements.

| | Tax liabilities 2020 | | Tax liabilities 2019 | |
|---|---|---|---|---|
| | Posted to P&L | Posted to Net Equity | Posted to P&L | Posted to Net Equity |
| **Breakdown** | | | | |
| Financial assets and liabilities (different from Loans and advances and Deposits) | 3.026.894 | 4.218.316 | 2.508.132 | 3.156.178 |
| Financial assets mandatorily at fair value through profit or loss | - | - | - | - |
| Hedging and hedged item revaluation | 9.523.665 | - | 8.403.976 | - |
| Other assets and Other liabilities | - | 137.869 | - | 350.442 |
| Total | **12.550.559** | **4.356.185** | **10.912.108** | **3.506.620** |
| TOTAL | | **16.906.744** | | **14.418.728** |
| **Change** | | | | |
| Opening balance | **10.912.108** | **3.506.620** | **19.626.930** | **2.137.768** |
| Financial assets and liabilities (different from Loans and advances and Deposits) | 518.762 | 1.062.138 | - 904.434 | 1.414.005 |
| Financial assets mandatorily at fair value through profit or loss | - | - | - 8.348.235 | - |
| Hedging and hedged item revaluation | 1.119.689 | - | 537.847 | - |
| Other assets and Other liabilities | - | - 212.573 | - | - 45.154 |
| Total | **12.550.559** | **4.356.185** | **10.912.108** | **3.506.620** |
| TOTAL | | **16.906.744** | | **14.418.728** |

## 19 Other liabilities

| | AMOUNTS AS AT | |
|---|---|---|
| | **31.12.2020** | **31.12.2019** |
| Accrued expenses other than those to be capitalised for the financial liabilities concerned | 1.517.740 | 4.554.497 |
| Other liabilities due to employees | 591.045 | 2.509.299 |
| Other liabilities due to other staff | 1.311.261 | - |
| Interest and amounts to be credited to Banks | 2.058.251 | 1.405.793 |
| Items in processing | 268.413 | 240.994 |
| Other liabilities | 3.630.513 | 943.680 |
| Other Tax items | 436.534 | 1.180.143 |
| **Total** | **9.813.757** | **10.834.414** |

Other liabilities to employees are mainly composed by salary and social charges payable.

## 20 Share capital

The total number of ordinary shares in issue at year-end was 134.066 (2019: 134.066) with a par value of EUR 100 per share (2019: EUR 100 per share). All issued shares are fully paid.

## 21 Restricted reserves and other reserves

### 21.1 Restricted reserve

| | AMOUNTS AS AT | |
|---|---|---|
| | 31.12.2020 | 31.12.2019 |
| Legal Reserve | 1.340.660 | 1.340.660 |
| Statutory Reserve | - | - |
| Other Reserves | - | - |
| **Total** | **1.340.660** | **1.340.660** |

Under the Luxembourg Law, the Bank must book into a restricted reserve an amount equivalent to at least 5% of the annual net profit until such reserve is equal to 10% of the share capital. This booking is made in the following year. Distribution of the restricted reserve is restricted for the proportion equal to 10% of the share capital.

### 21.2 Net wealth tax reserve

In accordance with paragraph 8a of the Luxembourg tax law, the Bank uses the possibility to reduce net wealth tax incurred during the financial year up to the amount of the tax on profit of the precedent year. Such a deduction is subject to the allocation of an amount equal to five times the reduced net wealth tax to a non-distributable reserve. The respective decision is taken at the Annual General Meeting of shareholders. Such a reserve is required to be maintained during 5 years.

The net wealth tax reserve for 2020 is EUR 26.588.045 (2019: EUR 26.548.645).

### 21.3 Share premium

The total share premium as at 31 December 2020 is EUR 205.644.462 (2019: EUR 205.644.462).

### 21.4 Revaluation Reserve

The change in revaluation reserve comes mainly from sold and matured securities in 2020 and from the change in market value between 2020 and 2019 on the FVOCI portfolio (more details are provided in the Statement of changes in equity).

| | AMOUNTS AS AT | |
|---|---|---|
| | **31.12.2020** | **31.12.2019** |
| Financial Assets (other than equity instruments) at fair value through other comprehensive income | 12.695.538 | 8.502.959 |
| Actuarial gains (losses) on defined-benefit plans | (414.932) | 1.054.697 |
| **Total** | **12.280.606** | **9.557.656** |

### 21.5 Other reserves

The change is due to the profit brought forward in previous years.

## 22 Net interest income

### 22.1 Interest income and similar revenues: breakdown

| | YEAR 2020 | | | |
|---|---|---|---|---|
| | DEBT SECURITIES | LOANS | OTHER TRANSACTIONS | TOTAL |
| **Financial assets at fair value through profit or loss** | **-** | **-** | **-** | **-** |
| Financial assets held for trading | - | - | - | - |
| Other financial assets mandatorily at fair value | - | - | - | - |
| **Financial assets at FV/OCI** | **12,201,524** | **-** | **-** | **12,201,524** |
| **Financial assets at amortised cost** | **3,086,751** | **11,820,099** | **-** | **14,906,850** |
| Loans and advances to banks | - | 2,842,693 | - | 2,842,693 |
| Loans and advances to customers | 3,086,751 | 8,977,406 | - | 12,064,157 |
| **Hedging derivatives** | **-** | **-** | **8,298,724** | **8,298,724** |
| **Financial liabilities (negative interest rates)** | **-** | **-** | **3,319,525** | **3,319,525** |
| **Total** | **15,288,275** | **11,820,099** | **11,618,249** | **38,726,623** |
| *of which: interest income on impaired financial assets* | - | - | - | - |

| | YEAR 2019 | | | |
|---|---|---|---|---|
| | DEBT SECURITIES | LOANS | OTHER TRANSACTIONS | TOTAL |
| **Financial assets at fair value through profit or loss** | **-** | **31,539,957** | **-** | **31,539,957** |
| Financial assets held for trading | - | - | - | - |
| Other financial assets mandatorily at fair value | - | 31,539,957 | - | 31,539,957 |
| **Financial assets at FV/OCI** | **13,920,889** | **-** | **-** | **13,920,889** |
| **Financial assets at amortised cost** | **2,437,412** | **13,746,740** | **-** | **16,184,152** |
| Loans and advances to banks | - | 4,028,594 | - | 4,028,594 |
| Loans and advances to customers | 2,437,412 | 9,718,146 | - | 12,155,558 |
| **Hedging derivatives** | **-** | **-** | **9,485,002** | **9,485,002** |
| **Financial liabilities (negative interest rates)** | **-** | **-** | **2,379,455** | **2,379,455** |
| **Total** | **16,358,301** | **45,286,697** | **11,864,457** | **73,509,455** |
| *of which: interest income on impaired financial assets* | - | - | - | - |

## 22.2 Interest expense and similar charges: breakdown

| | YEAR 2020 | | | |
|---|---|---|---|---|
| | DEBTS | SECURITIES | OTHER TRANSACTIONS | TOTAL |
| **Financial liabilities at amortised cost** | **(1.165.427)** | **(2.675.679)** | **(28.119)** | **(3.869.225)** |
| Deposits from banks | (711.381) | - | - | (711.381) |
| Deposits from customers | (454.045) | - | - | (454.045) |
| Debt securities in issue | - | (2.675.679) | - | (2.675.679) |
| Other liabilities (IFRS 16) | - | - | (28.119) | (28.119) |
| **Financial liabilities held for trading** | - | - | **(190.710)** | **(190.710)** |
| **Financial liabilities designated at fair value** | - | - | - | - |
| **Hedging derivatives** | - | - | **(16.239.593)** | **(16.239.593)** |
| **Financial assets (negative interest rates)** | - | - | **(493.899)** | **(493.899)** |
| **Total** | **(1.165.427)** | **(2.675.679)** | **(16.952.322)** | **(20.793.428)** |

| | YEAR 2019 | | | |
|---|---|---|---|---|
| | DEBTS | SECURITIES | OTHER TRANSACTIONS | TOTAL |
| **Financial liabilities at amortised cost** | **(2.489.277)** | **(4.243.954)** | **(36.124)** | **(6.769.355)** |
| Deposits from banks | (1.033.211) | - | - | (1.033.211) |
| Deposits from customers | (1.456.065) | - | - | (1.456.065) |
| Debt securities in issue | - | (4.243.954) | - | (4.243.954) |
| Other liabilities (IFRS 16) | - | - | (36.124) | (36.124) |
| **Financial liabilities held for trading** | - | - | **(274.609)** | **(274.609)** |
| **Financial liabilities designated at fair value** | - | **(31.464.031)** | - | **(31.464.031)** |
| **Hedging derivatives** | - | - | **(21.771.988)** | **(21.771.988)** |
| **Financial assets (negative interest rates)** | - | - | **(517.857)** | **(517.857)** |
| **Total** | **(2.489.277)** | **(35.707.985)** | **(22.600.578)** | **(60.797.839)** |

## 23 Net fee and commission income

### 23.1 Fee and commission income: breakdown

| | YEAR 2020 | YEAR 2019 |
|---|---|---|
| Guarantees given | 14.233 | 14.156 |
| Management, brokerage and consultancy services | 11.918.622 | 11.826.324 |
| Securities trading | 109.805 | 952.512 |
| Currency trading | 95.675 | 69.532 |
| Portfolio management | 5.226.094 | 894.786 |
| Individual | 415.671 | 143.325 |
| Collective | 4.810.423 | 751.461 |
| Custody and administration of securities | 2.627.230 | 2.534.870 |
| Placement of securities | 6.430 | 895 |
| Reception and transmission of orders | 1.150.271 | 658.576 |
| Other investment services | - | 4.394.696 |
| Relating to investments | - | 4.394.696 |
| Insurance products | 2.703.117 | 2.320.457 |
| Management of current accounts | 86.362 | 78.144 |
| Other services | 14.550 | 3.100 |
| **Total** | **12.033.766** | **11.921.724** |

In 2020 the Bank amended the classification of the commission income related to the fund management business to match classification criteria used by the Group. Consequently, starting from 2020 fee income which was previously reported in the item “ Other investment services” is included in item “ Portfolio management - Collective”.

### 23.2 Fee and commission expense: breakdown

| | YEAR 2020 | YEAR 2019 |
|---|---|---|
| Guarantees received | (1.186.861) | (915.606) |
| Management, brokerage and consultancy services | (5.715.762) | (5.804.398) |
| Trading financial instruments | - | (63.351) |
| Portfolio management | (4.546.017) | (4.329.513) |
| Own portfolio | (4.546.017) | (4.329.513) |
| Custody and administration of securities | (831.295) | (985.808) |
| Off-site distribution of financial instruments, products and service | (338.450) | (425.727) |
| Collection and payment services | (104.544) | (43.716) |
| Other services | (273.028) | (353.789) |
| **Total** | **(7.280.195)** | **(7.117.509)** |

## 24 Net gains on trading income

| | 2020<br>EUR | 2019<br>EUR |
|---|---|---|
| Net gain(loss) on derivatives equity linked notes | 1.027.495 | 1.053.767 |
| Gain(loss) on foreign exchange transactions | 404.586 | 314.463 |
| | **1.027.495** | **1.368.230** |

## 25 Other operating income/expense

The position includes:

a) Gains (losses) on disposal of financial assets at fair value through other comprehensive income;
b) Net gains (losses) on hedge accounting;
c) Net gains (losses) on other financial assets/liabilities at FV/PL;
d) Other operating income/expense.

### 25.1 Gains on disposal of financial assets at fair value through other comprehensive income

During the year, the Bank sold EUR 110 million of Italian BTP and EUR 30 million Spanish Government bonds, realizing a gain of EUR 1.916.770 which compares to a gain of EUR 6.944.171 realized in 2019.

### 25.2 Net gains (losses) on hedge accounting

The Bank hedges part of its existing interest rate risk resulting from any potential decrease in the fair value of fixed rate assets and liabilities using interest rate swaps. As at 31 December 2020, the impact on the P/L coming from hedge accounting was EUR -45.546 which compares to a gain of EUR 37.895 booked in 2019.

### 25.3 Net gains (losses) on other financial assets/liabilities at FV/PL

During 2020, the Bank did not account any net gains (losses) on other financial assets/liabilities at fair value through profit or loss. In 2019, the Bank accounted EUR 32.096.250 net gain on other financial liabilities at fair value through profit or loss which were entirely offset by a corresponding net loss on other financial assets mandatorily at fair value trough profit or loss.

### 25.4 Other operating income/expense

Other operating income/expense mainly includes expenses recoveries with other companies belonging to UniCredit Group (2020: EUR 617 thousand).

## 26 Staff costs

| | YEAR 2020 | YEAR 2019 |
|---|---|---|
| **Employees** | **(7.940.546)** | **(7.139.359)** |
| Wages and salaries | (7.075.655) | (5.919.911) |
| Social charges | (740.198) | (750.183) |
| Provision for retirements and similar provisions | (86.891) | (74.281) |
| - Defined benefit | (86.891) | (74.281) |
| Payments to external pension funds | (95.809) | (270.827) |
| - Defined contribution | (95.809) | (270.827) |
| Costs arising from share-based payments | 58.007 | (124.156) |
| Other employee benefits | (0) | (0) |
| **Other staff** | **(898.361)** | **(396.743)** |
| **Supervisory Board Members** | **(60.000)** | **(60.000)** |
| **Recoveries of payments for second employees to other companies** | **220.135** | **171.351** |
| **Total** | **(8.678.772)** | **(7.424.751)** |

In 2020, the increase of personnel expenses is due to the completion of the staff-plan after the re-insourcing of activities previously performed by UniCredit Bank AG Luxembourg branch.

| | AMOUNTS AS AT | |
|---|---|---|
| | 31.12.2020 | 31.12.2019 |
| **Employees** | **68** | **62** |
| Senior managers | 3 | 3 |
| Managers | 17 | 16 |
| Remaining employees staff | 48 | 43 |
| **Other Staff** | **-** | **-** |
| **Total** | **68** | **62** |

Remuneration paid during the year 2020 to Management and other executives of the Bank (overall 23 persons during 2020 amounted to EUR 3.643.668 (2019: overall 23 persons, EUR 3.491.318). Remuneration paid during the year 2020 to members of the Supervisory Board amounted to EUR 60.000 (2019: EUR 60.000).

The Shareholders General Meeting appointed on 5 April 2020 (with effect as from the receipts by the Bank of the approval of the ECB on 20th and 26th August 2020) two new members of the Supervisory Board:

- Mr. Alfredo Maria DE FALCO, Vice-President; and
- Mr. Stefano VECCHI, member.

The Shareholders General Meeting also resolved to renew the mandates of the following members of the Supervisory Board:

- Mr Patrick SANTER President of the Supervisory Board
- Ms Michaela EHRHARDT member
- Mr Ivan TARDIVO member

The Supervisory Board approved the renewal of the mandates of the three members of the Management Board:

- Dr Joachim BECKERT President of the Management Board, Chief Executive Officer
- Mr Luigi COLAVOLPE Chief Financial Officer and General Manager
- Mr Pietro GAVAZZONI Head of GFO&WM and General Manager

## 27 Other administrative expenses

| | YEAR 2020 | YEAR 2019 |
|---|---|---|
| **Contributions to Resolution Fund and FGDL** | **(684,574)** | **(626,222)** |
| **Miscellaneous costs and expenses** | **(6,839,356)** | **(5,722,989)** |
| Advertising marketing and communication | (4,761) | (13,269) |
| Indirect expenses relating to personnel | (119,120) | (73,762) |
| Information & Communication Technology expenses | (2,253,583) | (1,955,962) |
| Lease of ICT equipment and software | (4,567) | (19,570) |
| Software expenses: lease and maintenance | (1,552,451) | (1,467,517) |
| ICT communication systems | (41,903) | (23,020) |
| Services ICT in outsourcing | (125,912) | - |
| Financial information providers | (528,749) | (445,855) |
| Consulting and professionals services | (1,842,186) | (679,357) |
| Consulting | (1,601,158) | (547,099) |
| Legal expenses | (241,028) | (132,258) |
| Real estate expenses | (233,164) | (6,114) |
| Premises rentals | (147,636) | - |
| Utilities | (85,528) | (4,367) |
| Operating costs | (2,386,543) | (2,994,526) |
| Surveillance and security services | (1,468) | - |
| Printing and stationery | (56,079) | (166,935) |
| Postage and transport of documents | (57,974) | (69,849) |
| Administrative and logistic services | (1,591,427) | (1,888,350) |
| Insurance | (106,631) | (41,156) |
| Association dues and fees and contributions to the administrative expenses deposit guarantee funds | (572,964) | (551,150) |
| Other administrative expenses - other | - | (277,086) |
| **Total** | **(7,523,929)** | **(6,349,211)** |

## 28 Income tax expense

The effect of deductible differences is due to diverging tax valuation and depreciation rules. The income tax rate of the Bank for current and deferred taxes in 2020 was 24,94% (2019: 24,94%).

| | 2020<br>EUR | 2019<br>EUR |
|---|---|---|
| Current tax | (2.156.211) | (2.798.230) |
| Deferred tax | 13.020 | (116.992) |
| | **(2.143.191)** | **(2.915.222)** |

| | 2020<br>EUR | 2019<br>EUR |
|---|---|---|
| Profit before tax | 8.557.940 | 11.674.182 |
| Tax effect of deductible differences | (2.134.350) | (2.911.541) |
| Change on rate for Deferred taxes (from 26,01% to 24,94%) | - | 20.807 |
| Other Tax effects of deductible differences | (8.841) | (24.488) |
| | **(2.143.191)** | **(2.915.222)** |

## 29 Segment reporting

Starting from 2020 the Bank reports segmented figures into the Group financial reporting in the following divisions: Commercial Banking and Corporate & Investment Banking. Revenue generation is entrusted to three different profit centers: Wealth Management (WM) which is included in the division division Commercial Banking, Global Family Office (GFO) and Strategic Funding & Treasury (SF&T) which are part of the division Corporate & Investment Banking. Revenues generated by the profit centers are regularly reported to the Management Board.

### *(a) Segment reporting methodology*

The total revenues shown in the segments, such as net fees and commissions and net trading profit, are based almost exclusively on transactions involving external customers. Net interest income is assigned to the segments in accordance with the market interest calculation method on the basis of the external interest income and interest expenses.

Operating costs, which contain staff expenses, other operating costs, amortization, depreciation and impairment losses on intangible and tangible assets, are split between the divisions according to where they have incurred. For costs that are not directly allocable, overheads allocation keys are set for each division in the budgeting process and applied on the direct and indirect costs for the financial year in question.

Corporate & Investment Banking - GFO Clients

GFO is part of a global initiative aimed at enhancing UniCredit Group value proposition towards family financial holdings and family offices. Being part of the CIB Division, GFO’s mission is to fulfil holding companies and family offices financial needs by providing corporate and investment Banking solutions.

In cooperation with the relevant CIB product units, the Bank offers to its clients investment Banking products and services - financing capital markets, M&A and hedging solutions - to support them in corporate finance and capital markets transactions and fulfil their financial needs. The main goal of this focused and strategic client approach is to attract new clients and maximize the overall profitability of the relationship by means of collateralized transactions with reduced capital absorption and by optimising the management of customers’ liabilities while creating cross-selling opportunities. Customer on boarding activities are fulfilled in close cooperation with the Bank Compliance and, when necessary, Group Compliance.

Corporate & Investment Banking - Strategic Funding and Treasury

SF&T is predominantly a client driven business. The activities of SF&T form an integral part of the CIB value chain. Consistently with the mission decided by the Holding Company, the business of the Strategic Funding & Treasury is based on the following activities.

• The Bank performs selective investments for its own portfolio. The investments are usually carried out in fixed rate European Government Bonds. The Investment Strategy is related to instruments purchased either for liquidity purpose or for capital Investment.

• The Bank issues Structured Notes.

• The Bank manages the WM & GFO clients orders (bonds, equities, funds) through an automated solution to route the orders to the standard UniCredit market platform used within CIB.

Commercial Banking - Wealth Management Clients

The mission of the Wealth Management business is threefold:

• To provide Private Banking services, focusing exclusively on fully transparent International activities aiming at providing our customers with a high level of efficiency,

• To provide services to insurance companies (investment management of insurance funds and custody services),

• To provide investment management services to funds.

## (b) *Income statement by division*

| Income Statement by division | | | | |
|---|---|---|---|---|
| in EUR | CORPORATE & INVESTMENT BANKING | | COMMERCIAL BANKING | TOTAL |
| | GFO Clients | Strategic Funding & Treasury | Wealth Management Clients | |
| **OPERATING INCOME** | | | | |
| 2020 | 8.793.499 | 10.460.468 | 6.331.520 | 25.585.486 |
| 2019 | 8.733.914 | 11.566.865 | 5.565.348 | 25.866.127 |
| **OPERATING COSTS** | | | | |
| 2020 | (3.534.415) | (7.225.406) | (6.277.017) | (17.036.839) |
| 2019 | (3.016.334) | (6.711.748) | (4.493.077) | (14.221.158) |
| **OPERATING PROFIT** | | | | |
| 2020 | 5.259.084 | 3.235.062 | 54.503 | 8.548.648 |
| 2019 | 5.717.580 | 4.855.117 | 1.072.271 | 11.644.968 |
| **Write-downs on loans and provisions for guarantees and commitments** | | | | |
| 2020 | - | 51.905 | - | 51.905 |
| 2019 | - | (7.487) | - | (7.487) |
| **Net provisions for risks and charges** | | | | |
| 2020 | - | (42.614) | - | (42.614) |
| 2019 | - | 36.701 | - | 36.701 |
| **PROFIT BEFORE TAXES** | | | | |
| 2020 | 5.259.084 | 3.244.353 | 54.503 | 8.557.940 |
| 2019 | 5.717.580 | 4.884.331 | 1.072.271 | 11.674.182 |
| **TAXES** | | | | |
| 2020 | (1.314.771) | (814.795) | (13.626) | (2.143.191) |
| 2019 | (1.429.395) | (1.217.759) | (268.068) | (2.915.222) |
| **NET PROFIT** | | | | |
| 2020 | 3.944.313 | 2.429.559 | 40.877 | 6.414.748 |
| 2019 | 4.288.185 | 3.666.572 | 804.203 | 8.758.960 |

## (c) *Income statement for “Corporate & Investment Banking - GFO Clients”*

| in EUR | YEAR | |
|---|---|---|
| | 2020 | 2019 |
| **Net interest margin** | **9.584.465** | **8.919.242** |
| Net fees and commissions | (798.078) | (188.794) |
| Dividend income and similar revenues | - | - |
| Net trading income | 7.112 | 3.466 |
| Net other expenses/ income | - | - |
| **Net non-interest income** | **(790.966)** | **(185.328)** |
| **OPERATING INCOME** | **8.793.499** | **8.733.914** |
| Staff expenses | (251.847) | (212.174) |
| Other operating costs, amortisation, and impairment | (517.674) | (458.042) |
| Cost allocation | (2.764.895) | (2.346.117) |
| **Operating expenses** | **(3.534.415)** | **(3.016.334)** |
| **OPERATING PROFIT** | **5.259.084** | **5.717.580** |
| Net provisions for risks and charges | - | - |
| Net write-downs on loans and provisions for guarantees and commit | - | - |
| **PROFIT BEFORE TAXES** | **5.259.084** | **5.717.580** |
| TAXES | (1.314.771) | (1.429.395) |
| **NET PROFIT** | **3.944.313** | **4.288.185** |

*(d) Income statement for “Corporate & Investment Banking - Strategic Funding and Treasury”*

| in EUR | YEAR | |
|---|---|---|
| | 2020 | 2019 |
| **Net interest margin** | **7.844.000** | **3.471.422** |
| Net fees and commissions | (260.448) | (245.102) |
| Dividend income and similar revenues | - | - |
| Net trading income | 2.876.915 | 8.340.546 |
| Net other expenses/ income | - | - |
| **Net non-interest income** | **2.616.467** | **8.095.444** |
| **OPERATING INCOME** | **10.460.468** | **11.566.865** |
| Staff expenses | (6.327.222) | (5.717.774) |
| Other operating costs, amortisation, and impairment | (7.198.090) | (5.602.719) |
| Cost allocation | 6.299.906 | 4.608.745 |
| **Operating expenses** | **(7.225.406)** | **(6.711.748)** |
| **OPERATING PROFIT** | **3.235.062** | **4.855.117** |
| Net provisions for risks and charges | (42.614) | 36.701 |
| Net write-downs on loans and provisions for guarantees and commitments | 51.905 | (7.487) |
| **PROFIT BEFORE TAXES** | **3.244.353** | **4.884.331** |
| TAXES | (814.795) | (1.217.759) |
| **NET PROFIT** | **2.429.559** | **3.666.572** |

## (e) Income statement for “Commercial Banking – Wealth Management Clients”

| in EUR | YEAR | |
|---|---|---|
| | **2020** | **2019** |
| **Net interest margin** | **504.729** | **320.953** |
| Net fees and commissions | 5.812.097 | 5.238.111 |
| Dividend income and similar revenues | - | - |
| Net trading income | 14.693 | 6.283 |
| Net other expenses/income | - | - |
| **Net non-interest income** | **5.826.790** | **5.244.395** |
| **OPERATING INCOME** | **6.331.520** | **5.565.348** |
| Staff expenses | (2.084.676) | (1.493.850) |
| Other operating costs, amortisation, and impairment | (657.330) | (736.599) |
| Cost allocation | (3.535.012) | (2.262.628) |
| **Operating expenses** | **(6.277.017)** | **(4.493.077)** |
| **OPERATING PROFIT** | **54.503** | **1.072.271** |
| Net provisions for risks and charges | - | - |
| Net write-downs on loans and provisions for guarantees and commitments | - | - |
| **PROFIT BEFORE TAXES** | **54.503** | **1.072.271** |
| TAXES | (13.626) | (268.068) |
| **NET PROFIT** | **40.877** | **804.203** |

## (f) Volumes figures by division

| in EUR | CORPORATE & INVESTMENT BANKING | | COMMERCIAL BANKING | TOTAL |
|---|---|---|---|---|
| | GFO Clients | Strategic Funding & Treasury | Wealth Management Clients | |
| **Loans and receivables to banks** | | | | |
| 2020 | - | 322.552.265 | - | 322.552.265 |
| 2019 | - | 449.983.323 | - | 449.983.323 |
| **Loans and receivables to customers** | | | | |
| 2020 | 1.249.608.404 | - | 42.000.317 | 1.291.608.720 |
| 2019 | 1.318.619.030 | - | 28.913.156 | 1.347.532.186 |
| **Deposits from banks** | | | | |
| 2020 | - | 1.306.172.902 | - | 1.306.172.902 |
| 2019 | - | 1.470.776.531 | - | 1.470.776.531 |
| **Deposits from customers** | | | | |
| 2020 | 107.665.470 | - | 467.357.485 | 575.022.955 |
| 2019 | 123.239.327 | - | 564.436.836 | 687.676.162 |
| **Risk-weighted assets** | | | | |
| 2020 | 96.378.047 | 331.141.437 | 43.754.819 | 471.274.303 |
| 2019 | 112.217.750 | 253.423.677 | 33.618.021 | 399.259.448 |

## 30 Related party transactions

The Bank is controlled by UniCredit S.p.A., which owns 100% of the ordinary shares. Related parties of UniCredit Banking Group (UC Group) are:

- Controlled companies, joint ventures, associated companies of UC group and UC group managers with strategic responsibilities (those include: UC BoD, Executive Management Committee, Head of Internal Audit and Board of Statutory Auditors);
- Close relatives which might influence the manager of a company by his/her relation with UniCredit (those could be spouses and live-in partners, own children and children of spouses and live-in partners);
- Companies which are controlled by people out of the UC group who may have significant influence;
- Pension funds of UniCredit S.p.A..

Transactions with related parties are always conducted at market rates. A number of banking transactions are entered into with the related parties in the normal course of business. These include loans, deposits and derivative instruments.

The outstanding balances at year-end and related expense and income for the year are as follows:

| Related-party transactions: profit and loss items<br>In EUR | 2020<br>TOTAL P&L ITEM | 2019<br>TOTAL P&L ITEM |
|---|---|---|
| Operating income | 19.576.988 | 59.663.508 |
| Operating costs | (25.992.976) | (62.015.237) |

| Related-party transactions: balance sheet items<br>In EUR | 2020<br>TOTAL BS ITEM | 2019<br>TOTAL BS ITEM |
|---|---|---|
| Total - Assets | 329.797.771 | 446.912.683 |
| Total - Liabilities | 1.391.582.390 | 1.536.306.131 |

## 31 Fees billed by the *Réviseur d'Entreprises Agréé*

The fees (VAT included) recorded in the financial year under other administrative expenses for the independent statutory auditor Deloitte Audit S.à r.l., Luxembourg breaks down as follows:

| | 2020 | 2019 |
|---|---|---|
| Statutory audit of financial statements | 246,051 | 237,264 |
| Other audit services | - | - |
| | **246,051** | **237,264** |

## 32 Deposit guarantee scheme

The Bank is a member of the "Fonds de garantie des dépôts Luxembourg" (FGDL), introduced by the law of 18 December 2015 to enact in national law the EU Directive of the European Parliament 2014/49/EU, which established a Deposit Guarantee Scheme (DGSD).

FGDL will cover eligible deposits of each depositor up to an amount of EUR 100.000. The Law also provides that deposits resulting from specific transactions or fulfilling a specific social or other purpose are covered for an amount above EUR 100.000 for a period of 12 months. To be funded until a target level of 0,8% of covered deposits, as defined in article 163 number 8 of the Law, FGDL is collecting annual contributions of the relevant credit institutions until end of 2018. When the level of 0,8% is reached, the Luxembourgish credit institutions should continue to contribute for 8 additional years in order to constitute an additional safety buffer of 0,8% of covered deposits as defined in article 163 number 8 of the Law.

Covered deposits at year end summed up to EUR 10,7 million. In 2020 the Bank contributed with EUR 23 thousands to FGDL for DGSD.

The Bank is reporting yearly to *Système d'indemnisation des investisseurs Luxembourg* (SIIL).

## 33 Single Resolution Mechanism

The law of 18 December 2015 Luxembourg transposed EU Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms ("BRRD") into local law. With the directive authorities should be provided with comprehensive and effective arrangements to deal with failing banks at national level and to be able to handle in cooperation cross-border banking failures. One measure is the setup of national resolution funds funded by the contribution of all financial institutions based on their size and risk profile.

The Bank's contribution to the national resolution fund in 2020 amounted to EUR 0,66 million.

## 34 Advances and loans granted to the members of the administrative, managerial and supervisory bodies

There were no advances nor loans granted to the members of the administrative, managerial and supervisory bodies.

## 35 Events after the reporting period

No events which could have a material influence on the financial position, results of operations or cash flows occurred between the balance sheet date and the date on which the financial statements were drawn up. After the year-end the Bank restructured the revolving credit facility of one of its clients. In the new set-up, part of the exposure has been transferred to another legal entity of the Group via a funded silent sub-participation.