One Bank One UniCredit

31 December 2018

Consolidated and Separate Financial Statements

Prepared in accordance with International Financial Reporting Standards as edorsed by European Union

Banking that matters. UniCredit

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
UniCredit Bank S.A.

Report on the Audit of the financial statements

Opinion

1. We have audited the separate and consolidated financial statements of UniCredit Bank S.A. (the "Bank") and its subsidiaries (together "the Group"), with registered office in 1F, Expozitiei Boulevard, District 1, Bucharest, Romania, identified by the unique tax registration code RO 361536 which comprise the separate and consolidated statement of financial position as at December 31, 2018, and the separate and consolidated statement of comprehensive income, statement of changes in equity and the separate and consolidated statement of cash flows for the year then ended, including a summary of significant accounting policies and notes to the financial statements.

2. The financial statements as at December 31, 2018 are identified as follows:

Separate financial statements	
• Separate financial statements/ Equity	4,548,411 RON thousand
• Net profit for the financial year	550,799 RON thousand
Consolidated financial statements	
• Equity	4,857,184 RON thousand
• Net profit for the financial year	535,071 RON thousand

3. In our opinion:

   - the accompanying separate financial statements present fairly, in all material respects, the separate financial position of the Bank as at December 31, 2018, and its separate financial performance and its separate cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and National Bank of Romania Order no. 27/2010 for the approval of Accounting regulation in accordance with International Financial Reporting Standards as adopted by the European Union, with subsequent amendments ("Order 27/2010").

   - the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS and Order 27/2010.

Basis for Opinion

4. We conducted our audit in accordance with International Standards on Auditing (ISAs), Regulation (EU) No. 537/2014 of the European Parliament and the Council (forth named The "Regulation") and Law 162/2017 ("the Law"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), in accordance with ethical requirements relevant for the audit of the financial statements in Romania including the Regulation and the Law, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Key Audit Matters

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

Nature of the area of focus	***How our audit addressed the key audit matter***
Collective impairment of loans and advances to customers	
The International Accounting Standards Board (IASB) issued IFRS 9 – "Financial Instruments" which replaces "IAS 39 – Financial Instruments" as of the date of its effectiveness on 1 January 2018. *The key change arising from adoption of IFRS 9 is that the Group's credit losses is now based on expected credit losses (ECL) rather than an incurred loss model, as detailed in impairment policy from Note 3(g) to the financial statements.* *As at 31 December 2018, the Group's key financial statements lines with significant impact from the adoption of IFRS 9 are Loans and advances to customers amounting to KRON 23,535,848 (net of the related impairment allowances amount to KRON 1,614,423) and Net lease receivables amounting to KRON 4,089,203 (net of the related impairment allowances amount to KRON 362,712).* *The Group exercises significant judgement using subjective assumptions over both when and how much to record as loan impairment, and estimation of the amount of the impairment allowances for loans and receivables. Because loans and receivables (including lease receivables) form a major portion of the Group's assets, and due to the significance of the Management professional judgments applied in classifying loans and receivables into various stages stipulated in IFRS 9 and determining related impairment requirements, this audit area is considered a key audit matter.* *Key areas of professional judgment exercised by the Management included:* • *The interpretation of the requirements to determine receivables impairment under application of IFRS 9, which is reflected in the expected credit loss model;* • *Assumptions used in the expected credit loss models to assess the credit risk related to the exposure and the expected future cash flows of the customers;* • *The identification of exposures with a significant deterioration in credit quality.*	*Based on our risk assessment and industry knowledge, with the support of our Credit risk experts, we have examined the impairment charges for loans and lease receivables and evaluated the methodology applied as well as the key assumptions made by the Management according to the description of the key audit matter.* *Our procedures included the following elements:* • *Testing of key controls in respect of:* • *quality assurance of the source data used in developing professional judgements and ECL related models;* • *timely identification of impairment triggers, including significant increase in credit risk;* • *debtors' financial performance assessment and estimation of future cash flow.* • *Obtaining and analysing the information to support the assumptions used in:* • *Development of the models for computation of the key risk parameters (12 month Probability of default, lifetime Probability of default and Loss given default), including procedures on the source data quality;* • *Development of the expected credit loss models;* • *Development of the stage allocation;* • *Development of models to reflect the potential impact of future economic conditions in the ECL computation.* • *Verifying the implementation of the new ECL computation methodology into the IT computation systems, including:* • *Test the general IT controls related to the data sources and computations of ECL;* • *Assessment on a sample basis of the credit quality and stage allocation;* • *Test on a sample basis the ECL computations.*

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Interest and Fee Income Recognition	
Refer to Note 7 and 8 of the consolidated financial statements *For the year ended 31 December 2018 the interest income represents 1.704 mil RON and fee and commission income represents 416 mil RON, the main source being loans to customers (including lease receivables). These are the main contributors to the operating income of the Group affecting the Group's profitability.* *While interest income is accrued over the expected life of the financial instrument using the effective interest rate, the recognition of fee income depends on the nature of the fees as follows:* • *Fees that are directly attributable to the financial instrument are part of the effective interest rate and accrued over the expected life of such an instrument and are presented as interest income;* • *Fees for services provided are recognized when service is provided and are presented as fee and commission income;* • *Fees for the execution of an act are recognized when the act has been completed and are presented as fee and commission income.* *Revenue recognition specifics, a high volume of individually small transactions which depends on data quality of interest and fee inputs and on IT solutions for their recording, resulted in this matter being identified as a key audit matter.*	*We have tested the design and operating effectiveness of the key internal controls and focused on:* • *Interest/fee inputs on customer loans, lease receivables and deposits from customers;* • *Recording/changes of fees and interest rates;* • *Management oversight and control on interest and fee income, including budget monitoring;* • *IT controls relating to access rights and change management of relevant automated controls with the assistance of our IT specialists.* *We performed also the following procedures with regard to interest and fees revenue recognition:* *- We evaluated the accounting treatment in respect of fees charged to clients to determine whether the methodology complies with the requirement of the relevant accounting standard (IFRS 9). We have focused our testing on challenging the correct classification of:* • *Fees that are identified as directly attributable to the financial instrument and are part of the effective interest rate;* • *Fees that are not identified as directly attributable to the financial instrument.* *- We assessed the completeness and accuracy of data used for the calculation of interest and fee income.* *- We evaluated the mathematical formula used for accruing the relevant income over expected life of the loan.* *- We have assessed the interest and fee income by building our own expectation on the revenue and compared with the actual results.*

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Other information- Administrator's Report

6. Management is responsible for preparation and presentation of the other information. The other information comprises the Administrator' report which includes the non-financial information declaration, but does not include the separate and consolidated financial statements and our auditors report thereon.

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

   In connection with our audit of the separate and consolidated financial statements for the year ended 31 December 2018, 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.

   With respect to the Administrator's report, we read and report if this has been prepared, in all material respects, in accordance with the provisions of the National Bank of Romania Order no. 27/2010, articles 11-13.

   On the sole basis of the procedures performed within the audit of the separate and consolidated financial statements, in our opinion:

   a) The information included in the administrators' report for the financial year for which the separate and consolidated financial statements have been prepared are consistent, in all material respects, with these separate and consolidated financial statements;

   b) The administrators' report has been prepared, in all material respects, in accordance with the provisions of the National Bank of Romania Order no. 27/2010, articles 11-13.

   Moreover, based on our knowledge and understanding concerning the Group and its environment gained during the audit on the separate and consolidated financial statements prepared as at 31 December 2018, we are required to report if we have identified a material misstatement of this Administrator's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

7. Management is responsible for the preparation and fair presentation of the separate and consolidated financial statements in accordance with Order 27/2010 and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

8. In preparing the financial statements, management is responsible for assessing the Group'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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

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Auditor's Responsibilities for the Audit of the Financial Statements

10. Our objectives 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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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.

11. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism 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 Group's internal control.

    - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

    - Conclude on the appropriateness of management'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report 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 auditor's report. However, future events or conditions may cause the Group 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.

12. 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.

13. 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.

14. 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 auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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Report on Other Legal and Regulatory Requirements

15. We have been appointed by the General Assembly of Shareholders on 11.04.2018 to audit the separate and consolidated financial statements of UniCredit Bank S.A. for the financial year ended December 31, 2018. The uninterrupted total duration of our commitment is 6 years, covering the financial years ended 31 December 2013 until the 31 December 2018.

We confirm that:

- Our audit opinion is consistent with the additional report submitted to the Audit Committee of the Bank that we issued the same date we issued this report. Also, in conducting our audit, we have retained our independence from the Group.

- No non-audit services referred to in Article 5 (1) of EU Regulation No.537 / 2014 were provided.

The engagement director on the audit resulting in this independent auditor's report is Claudiu Ghiurluc.

Claudiu Ghiurluc, Audit Director

For signature, please refer to the original Romanian version.

Registered with the Authority for the Public Oversight of the Statutory Audit Activity under number 3113

On behalf of:

DELOITTE AUDIT S.R.L.

Registered with the Authority for the Public Oversight of the Statutory Audit Activity under number 25

Sos. Nicolae Titulescu nr. 4- 8, America House, Intrarea de Est,
Etajul 2 - zona Deloitte şi Etajul 3, sector 1,
Bucharest, Romania
March 4, 2019

We are a simple, successful Pan European Commercial Bank, with a fully plugged-in CIB, delivering a unique Western, Central and Eastern European network to our extensive franchise of 25 million clients.
Our strategy is long-term. We are transforming the Group through decisive actions to lay the groundwork for the future, changing the way we work to anticipate our clients' medium-term evolution. Everything we do is designed to make UniCredit a true Pan European Winner.

UniCredit Bank S.A .

Consolidated and Separate Financial Statements
31 December 2018

Prepared in accordance with International Financial Reporting Standards as endorsed by European Union

Content

Independent auditor's report

Consolidated and Separate Statement of Comprehensive Income for the year ended 31 December 2018

		Group		Bank	
In RON thousands	**Note**	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Interest income *		1,704,394	1,309,852	1,258,876	959,284
Interest expense *		(476,770)	(287,013)	(350,856)	(209,716)
Net interest income	7	**1,227,624**	**1,022,839**	**908,020**	**749,568**
Fee and commission income		416,318	461,957	417,581	382,125
Fee and commission expense		(110,874)	(89,753)	(98,893)	(80,986)
Net fee and commission income	8	**305,444**	**372,204**	**318,688**	**301,139**
Net income from instruments at fair value through profit and loss*	9	304,901	211,658	304,901	212,542
Net FX Gains /(Losses)*		47,264	69,845	36,290	56,455
Fair value adjustments in hedge accounting		(2,576)	(4,374)	(2,576)	(4,375)
Net income from disposals of financial assets and liabilities which are not at fair value through profit and loss*	10	5,031	66,857	1,281	45,906
Dividends income	11	2,376	2,191	2,376	2,191
Other operating income		19,389	12,724	12,169	14,287
Operating income		**1,909,453**	**1,753,944**	**1,581,149**	**1,377,713**
Personnel expenses	12	(398,446)	(373,149)	(347,332)	(325,338)
Amortisation and impairment of tangible assets	13	(37,264)	(44,328)	(36,586)	(43,630)
Amortisation and impairment of intangible assets	13	(58,368)	(50,086)	(50,235)	(46,125)
Other administrative expenses	14	(326,289)	(356,263)	(289,016)	(315,715)
Other operating expenses*	15	(27,162)	(23,263)	(16,255)	(11,474)
Operating expenses		**(847,529)**	**(847,089)**	**(739,424)**	**(742,282)**
Net operating income		**1,061,924**	**906,855**	**841,725**	**635,431**
Net impairment losses on financial instruments	16	(355,056)	-	(148,209)	-
Net impairment losses according to IAS 39	16	-	(336,719)	-	(167,961)
Net provision losses	17	(68,791)	(80,131)	(47,445)	(79,733)
Net gains / (losses) from other investment activities	18	64	(4,575)	64	(4,576)
Profit before taxation		**638,141**	**485,430**	**646,135**	**383,161**
Income tax	19	(103,070)	(79,557)	(95,336)	(57,887)
Net profit for the period		**535,071**	**405,873**	**550,799**	**325,274**
Attributable to:					
Equity holders of the parent company		564,455	384,625	-	-
Non-controlling interests		(29,383)	21,248	-	-
Net profit for the period		**535,071**	**405,873**	**-**	**-**

** The comparative information has been restated as described in note 3*

Consolidated and Separate Statement of Comprehensive Income
for the year ended 31 December 2018

		Group		Bank	
In RON thousands	**Note**	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Other comprehensive income, net of tax **Items that will not be reclassified to profit or loss**					
Revaluation of property, plant and equipment (net of deferred tax)	29 iii	146	(1,220)	146	(1,220)
Net change in fair value of financial assets through other comprehensive income (net of deferred tax) - equity	29 i	1,887	-	1,887	-
Total items that will not be reclassified to profit or loss		**2,032**	**(1,220)**	**2,032**	**(1,220)**
Items that may be reclassified to profit or loss					
Net change in fair value of financial assets through other comprehensive income (net of deferred tax) -debt instruments	29 i	(35,502)	(90,201)	(35,502)	(90,201)
Net change in revaluation of cash flow hedge reserve (net of deferred tax)	29 ii	3,869	2,018	3,869	2,018
Total items that may be reclassified to other comprehensive income		**(31,633)**	**(88,183)**	**(31,633)**	**(88,183)**
Other comprehensive income for the reporting period, net of tax		**(29,601)**	**(89,403)**	**(29,601)**	**(89,403)**
Total comprehensive income for the reporting period		**505,470**	**316,470**	**521,198**	**235,871**
Attributable to:					
Shareholders of parent -company		534,854	295,222	521,198	235,871
Non-controlling interests		(29,383)	21,248	-	-
Other comprehensive income for the reporting period		**505,471**	**316,470**	**521,198**	**235,871**

The consolidated and separate financial statements were approved by the Management Board on February 26, 2019 and were signed on its behalf by:

Mr. Catalin Rasvan Radu
Chief Executive Officer

Mr. Philipp Gamauf
Chief Financial Officer

Consolidated and Separate Statement of Financial Position for the year ended 31 December 2018

		Group		Bank	
In RON thousands	**Note**	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Assets:					
Cash and cash equivalents*	20	10,282,258	8,824,908	10,282,174	8,824,887
Financial assets at fair value through profit or loss	21	296,785	-	296,785	-
Financial assets at fair value through profit and loss according to IAS39	21	-	121,382	-	121,413
Derivatives assets designated as hedging instruments	31	146	4,197	146	4,197
Loans and advances to customers at amortized cost	23	23,535,848	-	20,973,071	-
Net Lease receivables	24	4,089,203	-	-	-
Loans and advances to banks at amortized cost	22	1,897,602	-	1,897,602	-
Other financial assets at amortized cost*	30	190,151	104,533	143,332	118,194
Loans and advances to customers according to IAS 39*	23	-	22,954,543	-	20,750,502
Net Lease receivables*	24	-	3,696,609	-	-
Loans and advances to banks according to IAS 39*	22	-	1,125,134	-	1,125,134
Financial assets at fair value through other comprehensive income	25	7,330,621	-	7,328,275	-
Financial assets available for sale according to IAS 39	25	-	6,002,073	-	5,999,727
Investments in subsidiaries	26	-	-	143,116	143,116
Property and equipment	27	196,172	188,033	193,931	186,450
Intangible assets	28	165,876	169,306	153,618	156,393
Current tax assets		630	-	-	-
Deferred tax assets*	29	143,456	110,054	79,454	56,459
Other assets*	30	175,594	157,368	54,992	50,198
Non-current assets classified as held for sale	30	32,692	36,810	-	-
Total assets		**48,337,034**	**43,494,950**	**41,546,496**	**37,536,670**
Liabilities:					
Financial liabilities at fair value through profit or loss	21	69,809	80,020	69,829	80,020
Derivatives liabilities designated as hedging instruments	31	78,919	76,166	78,919	76,166
Deposits from banks*	32	3,757,657	3,148,300	3,757,657	3,148,300
Loans from banks and other financial institutions at amortized cost	33	7,591,301	6,558,213	1,073,065	868,424
Deposits from customers*	34	29,494,901	27,049,412	29,841,828	27,336,175
Debt securities issued	35	622,115	1,166,163	622,115	1,166,163
Subordinated liabilities	36	890,311	890,162	787,705	787,082
Other financial liabilities at amortized cost*	38	459,838	494,351	368,442	454,759
Current tax liabilities		44,889	22,806	43,705	14,388
Provisions*	37	205,454	131,914	202,412	144,600
Other non-financial liabilities*	38	264,656	166,344	152,408	95,189
Total liabilities		**43,479,850**	**39,783,851**	**36,998,085**	**34,171,266**

** The comparative information has been restated as described in note 3*

Consolidated and Separate Statement of Financial Position
for the year ended 31 December 2018

		Group		Bank	
In RON thousands	**Note**	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Equity					
Share capital	39	1,177,748	1,101,604	1,177,748	1,101,604
Share premium*	39	621,680	1	621,680	1
Cash flow hedge reserve		(45,054)	(48,923)	(45,054)	(48,923)
Reserve on financial assets at fair value through other comprehensive income		(88,570)	(53,503)	(88,570)	(53,503)
Revaluation reserve on property and equipment		9,819	9,673	9,819	9,673
Other reserves	40	271,031	244,828	271,031	244,828
Retained earnings		2,794,726	2,307,202	2,601,756	2,111,725
Total equity for parent company		**4,741,381**	**3,560,881**	**4,548,411**	**3,365,404**
Non-controlling interest		115,803	150,218	-	-
Total Equity		**4,857,184**	**3,711,099**	**4,548,411**	**3,365,404**
Total liabilities and equity		**48,337,034**	**43,494,950**	**41,546,496**	**37,536,670**

** the real value of Share premium in 2017 is RON 55; due to the presentation in thousands RON it is presented as 1.*

The consolidated and separate financial statements were approved by the Management Board on February 26, 2019 and were signed on its behalf by:

Mr. Catalin Rasvan Radu
Chief Executive Officer

Mr. Philipp Gamauf
Chief Financial Officer

Consolidated and Separate Statement of Changes in Equity
for the year ended 31 December 2018

	Group									
In RON thousands	**Share capital**	**Reserve on financial assets at FVTOCI**	**Cash flow hedging reserve**	**Revaluation of property, plant and equipment**	**Other reserves**	**Share premium****	**Retained earnings**	**Total**	**Non-controlling interest**	**Total**
Balance at 31 December 2017 previously reported	**1,101,604**	**(53,503)**	**(48,923)**	**9,673**	**244,828**	**1**	**2,307,202**	**3,560,881**	**150,218**	**3,711,099**
Effect of change in accounting policies	-	(1,452)	-	-	-	-	(57,324)	(58,776)	(5,032)	(63,808)
Balance at 31 December 2017	**1,101,604**	**(54,955)**	**(48,923)**	**9,673**	**244,828**	**1**	**2,249,878**	**3,502,105**	**145,185**	**3,647,291**
Total comprehensive income for the year										
Net profit for the year	-	-	-	-	-	-	564,455	564,455	(29,383)	535,071
Other comprehensive income, net of tax										
Revaluation of property, plant and equipment, net of tax	-	-	-	146	-	-	-	146	-	146
Net change of fair value through other comprehensive income, net of tax	-	(33,616)	-	-	-	-	-	(33,616)	-	(33,616)
Net change in cash flow hedge reserve, net of tax	-	-	3,869	-	-	-	-	3,869	-	3,869
Transfer to other reserves	-	-	-	-	26,204	-	(26,204)	-	-	-
Total other comprehensive income for the year	**-**	**(33,616)**	**3,869**	**146**	**26,204**	**-**	**538,251**	**534,854**	**(29,383)**	**505,470**
Other changes *	-	-	-	-	-	-	6,597	6,597	1	6,598
Share issue	76,144	-	-	-	-	621,680	-	697,825	-	697,825
Balance at 31 December 2018	**1,177,748**	**(88,570)**	**(45,054)**	**9,819**	**271,031**	**621,680**	**2,794,726**	**4,741,381**	**115,803**	**4,857,184**

** Represents mainly fiscal effect recorded during the year due to changes in accounting policies in the Bank.*
*** the real value of Share premium in 2017 is RON 55; due to the presentation in thousands RON it is presented as 1.*

The consolidated and separate financial statements were approved by the Management Board on February 26, 2019 and were signed on its behalf by:

Mr. Catalin Rasvan Radu
Chief Executive Officer

Mr. Philipp Gamauf
Chief Financial Officer

The accompanying notes form an integral part of these consolidated financial statement.
Convenience translation in English of the original Romanian version.

Consolidated and Separate Statement of Changes in Equity
for the year ended 31 December 2018

				Group						
In RON thousands	**Share capital**	**Reserve on available for sale financial assets**	**Cash flow hedging reserve**	**Revaluation of property, plant and equipment**	**Other reserve**	**Share premium***	**Retained earnings**	**Total**	**Non-Controlling Interest**	**Total**
Balance at 31 December 2016	**1,101,604**	**36,698**	**(50,940)**	**10,893**	**240,535**	**1**	**2,053,857**	**3,392,645**	**128,970**	**3,521,615**
Total comprehensive income for the year										
Net profit for the year							384,625	384,625	21,248	405,873
Other comprehensive income, net of tax										
Revaluation of property, plant and equipment, net of tax				(1,220)				(1,220)		(1,220)
Net change of available for sale fair value, net of tax		(90,201)						(90,201)		(90,201)
Net change in cash flow hedge reserve, net of tax			2,018					2,018		2,018
Transfer to other reserves					4,293		(4,293)			
Total other comprehensive income for the year	**-**	**(90,201)**	**2,018**	**(1,220)**	**-**	**-**	**384,625**	**295,222**	**21,248**	**316,470**
Dividends paid during the year							(126,986)	(126,986)		(126,986)
Balance at 31 December 2017	**1,101,604**	**(53,503)**	**(48,922)**	**9,673**	**244,828**	**1**	**2,307,203**	**3,560,881**	**150,218**	**3,711,099**

** the real value of Share premium in 2017 is RON 55; due to the presentation in thousands RON it is presented as 1.*

The consolidated and separate financial statements were approved by the Management Board on February 26, 2019 and were signed on its behalf by:

Mr. Catalin Rasvan Radu
Chief Executive Officer

Mr. Philipp Gamauf
Chief Financial Officer

The accompanying notes form an integral part of these consolidated financial statement.
Convenience translation in English of the original Romanian version.

Consolidated and Separate Statement of Changes in Equity
for the year ended 31 December 2018

				Bank				
In RON thousands	**Share capital**	**Reserve on available for sale financial assets**	**Cash flow hedging reserve**	**Revaluation of property, plant and equipment**	**Other reserves**	**Share premium****	**Retained earnings**	**Total**
Balance at 31 December 2017 previously reported	**1,101,604**	**(53,503)**	**(48,923)**	**9,673**	**244,828**	**1**	**2,111,725**	**3,365,404**
Effect of change in accounting policies	-	(1,452)	-	-	-	-	(41,163)	(42,615)
Balance at 31 December 2017	**1,101,604**	**(54,955)**	**(48,923)**	**9,673**	**244,828**	**1**	**2,070,562**	**3,322,789**
Total comprehensive income for the year								
Net profit for the year	-	-	-	-	-	-	550,799	550,799
Other comprehensive income, net of tax								
Net change of fair value through other comprehensive income, net of tax	-	(33,616)	-	-	-	-	-	(33,616)
Net change in cash flow hedge reserve, net of tax	-	-	3,869	-	-	-	-	3,869
Revaluation of property, plant and equipment, net of tax	-	-	-	146	-	-	-	146
Transfer to other reserves	-	-	-	-	26,204	-	(26,204)	-
Total other comprehensive income for the year	**-**	**(33,616)**	**3,869**	**146**	**-**	**-**	**524,595**	**521,198**
Other changes*	-	-	-	-	-	-	6,600	6,600
Share issue	76,144	-	-	-	-	621,680	-	697,825
Balance at 31 December 2018	**1,177,748**	**(88,570)**	**(45,054)**	**9,819**	**271,031**	**621,680**	**2,601,756**	**4,548,411**

** Fiscal effect recorded during the year due to changes in accounting policies in the Bank.*

*** the real value of Share premium in 2017 is RON 55; due to the presentation in thousands RON it is presented as 1.*

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Bank								
In RON thousands	**Share capital**	**Reserve on available for sale financial assets**	**Cash flow hedging reserve**	**Revaluation of property, plant and equipment**	**Other reserves**	**Share premium***	**Retained earnings**	**Total**
Balance at 31 December 2016	**1,101,604**	**36,698**	**(50,940)**	**10,893**	**240,535**	**1**	**1,917,730**	**3,256,519**
Total comprehensive income for the year								
Net profit for the year							325,274	325,274
Other comprehensive income, net of tax								
Transfer from revaluation reserve of property, plant and equipment to retained earnings								
Net change in available for sale financial assets, net of tax		(90,201)						(90,201)
Net change in cash flow hedging reserve, net of tax			2,018					2,018
Revaluation of property, plant and equipment, net of tax				(1,220)				(1,220)
Transfer to other reserves					4,293		(4,293)	
Total other comprehensive income for the year	**-**	**(90,201)**	**2,018**	**(1,220)**	**4,293**	**-**	**320,981**	**235,871**
Dividends paid during the year							(126,986)	(126,986)
Balance at 31 December 2017	**1,101,604**	**(53,503)**	**(48,922)**	**9,673**	**244,828**	**1**	**2,111,725**	**3,365,404**

** the real value of Share premium in 2017 is RON 55; due to the presentation in thousands RON it is presented as 1.*

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Mr. Philipp Gamauf
Chief Financial Officer

		Group		Bank	
In RON thousands	**Note**	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Operating activities					
Profit before taxation	19	638,141	485,430	646,135	383,161
Adjustments for non-cash items:					
Depreciation, amortisation and impairment on tangible and intangible assets		95,626	94,414	86,820	89,756
Net impairment losses on financial assets		398,380	380,883	177,949	212,296
Change in fair value of derivatives at fair value through profit or loss		(35,667)	17,930	(35,667)	17,930
Other items for which the cash effects are investing or financing		7,451	165,068	1,166	46,895
Other non–cash items		(135,559)	(96,694)	(158,226)	(75,211)
Operating profit before changes in operating assets and liabilities		**968,372**	**1,047,030**	**718,177**	**674,827**
Change in operating assets:					
(Increase) / Decrease in financial assets held for trading		(1,486,128)	529,704	(1,486,117)	529,704
Increase in loans and advances to banks		(769,261)	(387,048)	(768,993)	(387,048)
Increase in loans and advances to customers		(599,550)	(2,466,841)	(125,052)	(2,074,042)
Increase in lease investment		(493,750)	(584,659)	-	-
Increase in other assets		(106,084)	(378,035)	(37,878)	(85,289)
Change in operating liabilities:					
(Decrease) / Increase in deposits from banks		675,379	(15,417)	675,379	(15,417)
Increase in deposits from customers		2,390,546	5,053,454	2,471,397	4,892,053
(Decrease) / Increase in other liabilities		(10,829)	354,738	(91,942)	381,945
Income tax paid		(103,009)	(121,668)	(79,170)	(104,136)
Cash flows from / (used in) operating activities		**465,686**	**3,031,259**	**1,275,799**	**3,812,597**
Investment activities					
Acquisition of property and equipment and intangible assets		(100,102)	(83,293)	(91,526)	(80,371)
Proceeds from sale of property and equipment		1,257	12,626	1,257	1,713
Dividends received		2,466	2,191	2,466	2,191
Proceeds from sale of equity investments		13,148	656	-	656
Cash flows used in investment activities		**(83,231)**	**(67,820)**	**(87,803)**	**(75,810)**

Consolidated and Separate Statement of Cash Flows
for the year ended 31 December 2018

		Group		Bank	
In RON thousands	**Note**	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Financing activities					
Dividends paid		-	(125,881)	-	(125,881)
Payments/receivables from bonds		(550,000)	610,000	(550,000)	610,000
Increase in capital and share premium		697,825	-	697,825	-
Drawdowns/repayments from subordinated liabilities		-	559,164	-	559,164
Repayments of loans from financial institutions		(2,404,310)	(4,726,744)	(261,970)	(1,784,916)
Drawdowns from loans from financial institutions		3,334,490	3,738,500	386,532	68,786
Cash flows from financing activities		**1,078,005**	**55,040**	**272,387**	**(672,847)**
Net increase in cash and cash equivalents		1,460,460	3,018,479	1,460,385	3,063,939
Cash and cash equivalents at 1 January		**8,824,908**	**5,806,429**	**8,824,887**	**5,760,948**
IFRS9 impact at 01.01.2018		(3,110)	**-**	(3,098)	**-**
Cash and cash equivalents at 31 December 2018	**12**	**10,282,258**	**8,824,908**	**10,282,174**	**8,824,887**
Cash flow from operating activities include					
Interest received		1,258,545	1,078,022	920,013	1,078,022
Interest paid		(429,034)	(237,651)	(311,099)	(237,651)

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1. REPORTING ENTITY

UniCredit Group (the “Group”) consists of UniCredit Bank S.A. (the “Bank”) as mother company, and its subsidiaries UniCredit Consumer Financing IFN S.A. (“UCFIN”), UniCredit Leasing Corporation IFN S.A., Debo Leasing S.R.L. (“DEBO). These consolidated financial statements comprise the Bank and its subsidiaries.

UniCredit Bank S.A., (“Bank”) is the new brand of formerly UniCredit Tiriac Bank SA beginning with August 2015, having its current registered office at 1F, Expozitiei Boulevard, District 1, Bucharest, Romania, was established as a Romanian commercial bank on 1 June 2007 upon the merger by acquisition of the former UniCredit Romania S.A. (the absorbed bank) by Banca Comerciala HVB Tiriac S.A. (the absorbing bank) and is licensed by the National Bank of Romania to conduct banking activities.

The Bank provides retail and commercial banking services in Romanian Lei (“RON”) and foreign currency for companies and private individuals. These include: accounts opening, domestic and international payments, foreign exchange transactions, working capital finance, medium and long term facilities, retail loans, bank guarantees, letter of credits and documentary collections.

UniCredit Bank S.A. is directly controlled by UniCredit SpA (Italy), with registered office in Milano, Italy, Piazza Gae Aulenti, 3.

UniCredit Bank is exercising direct and indirect control over the following subsidiaries:

- UniCredit Consumer Financing IFN S.A., having its current registered office at 23-25 Ghetarilor street, 1st and 3rd floor, District 1, Bucharest, Romania, provides consumer finance loans to individual clients. The Bank has a shareholding of 50.1% in UCFIN since January 2013.
- UniCredit Leasing Corporation IFN S.A.(“UCLC”), having its current registered office at 23-25 Ghetarilor Street, 1st, 2nd and 4th floor, District 1, Bucharest, Romania, provides financial lease services to corporate clients and individuals. UCLC, previously associate entity, has become a subsidiary of the Bank starting with April 2014 when the Bank obtained 99.95% indirect controlling interest (direct controlling interest: 99.90%). The Bank has an indirect shareholding interest of 99.98% as of 31 December 2018 (direct controlling interest: 99.96%), as a result of the merger of UCLC with UniCredit Leasing Romania SA (“UCLRO”) finalized by June 2015, when UCLRO was absorbed by UCLC.
- Debo Leasing S.R.L., having its current registered office in 23-25 Ghetarilor Street, 2nd floor, 1st district, Bucharest, Romania, is a real estate finance lease entity and became a subsidiary of the Bank beginning with April 2014. The Bank has an indirect controlling interest of 99.97% through UCLC. Debo Leasing S.R.L. is the new name of Debo Lesing IFN S.A. beginning with October 2018, when the company was erased from the General Register of Financial Non-banking Institutions.

Beginning with 2018, the following company stopped being a subsidiary of the UniCredit Group:

- UniCredit Insurance Broker S.R.L., having its current registered office in 23-25 Ghetarilor Street, 2nd floor, 1st district, Bucharest, Romania, intermediates insurance policies related to leasing activities to legal entities and individuals, in which the Bank had an indirect controlling interest of 99.98% through UCLC. As a result of its sale by UCLC to two non-resident companies that are part of UniCredit SpA Group in August 2018, UniCredit Insurance Broker S.R.L. is no longer a subsidiary of the Group.

As at 31 December 2018, the Group carried out its activity in Romania through the network, having 150 branches (in 2017: 157 branches) located in Bucharest and in the country.

2. BASIS OF PREPARATION

a) Statement of compliance

The separate financial statements of the Bank and the consolidated financial statements of the UniCredit Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union and with provisions of Order 27/2010 issued by National Bank of Romania for approval of accounting regulations in accordance with Internatuional Financial Reporting Standards as endorsed by European Union, with subsequent measurements.

b) Basis of measurement

The consolidated and separate financial statements have been prepared as follows:

Items	Measurement basis
Financial instruments at fair value through profit or loss	Fair value
Loans and advances to customers	Amortized cost
Financial assets at fair value through other comprehensive income	Fair value
Lands and buildings	Fair value
Investment property	Fair value
Other fixed assets and intangible assets	Cost
Derivatives designated as hedging instruments	Fair value

c) Functional and presentation currency

The consolidated and separate financial statements are presented in Romanian Lei ("RON"), which is the functional and presentation currency, and all values are rounded to the nearest RON thousands, except when otherwise indicated. The tables in this report may contain rounding differences.

d) Use of estimates and judgements

The preparation of consolidated and separate financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation uncertainty and critical judgments made by management in applying accounting policies that have the most significant effect on the amount recognized in the consolidated and separate financial statements are described in notes 4 and 5.

e) Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the end of reporting period are translated to RON at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to RON at foreign exchange rates ruling at the dates when the fair value was determined.

2. BASIS OF PREPARATION *(continued)*

The exchange rates of major foreign currencies were:

Currencies	31 December 2018	31 December 2017	Variation
Euro (EUR)	1: RON 4,6639	1: RON 4,6597	0.09%
Dolar SUA (USD)	1: RON 4,0736	1: RON 3,8915	4.47%

f) Accounting for the effect of hyperinflation

Romania has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 *"Financial Reporting in Hyperinflationary Economies"* ("IAS 29"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy to be restated in terms of the measuring unit current at the end of reporting period (i.e. non-monetary items are restated using a general price index from the date of acquisition or contribution). As the characteristics of the economic environment of Romania indicate that hyperinflation has ceased, effective from 1 January 2004, the Group no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at 31 December 2003 are treated as the basis for the carrying amounts in these consolidated and separate financial statements.

g) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an investee if and only if the investor has all of the following elements:

- power over the investee, the investor has existing rights that give it the ability to direct the relevant activities (the activities that significantly affect the investee's returns);
- exposure, or rights, to variable returns from its involvement with the investee;
- the ability to use its power over the investee to affect the amount of the investor's returns.

In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

As of 31 December 2018, The Group consists of the Bank and its subsidiaries UCFIN, UCLC and DEBO (31 December 2017: the Group consists of the Bank and its subsidiaries UCFIN, UCLC, DEBO and UCIB). As a result of the sale of UCIB by UCLC to two non-resident companies that are part of UniCredit SpA Group in August 2018, UniCredit Insurance Broker S.R.L. is no longer a subsidiary of the Group.

The Group elected to measure non-controlling interest at its proportionate share of the recognised amount of the identifiable net assets at the acquisition date.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized gains arising from intra-group transactions have been eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with associates are eliminated to the extent of the Group's interest in the enterprise. Unrealized gains arising from transactions with associates are eliminated against the investment in the associate. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Group.

The Group reclassified certain amounts for the current year in respect of suspense accounts, repo transactions, provisions for off balance sheet commitments, interest on instruments at fair value through profit and loss and others. The Group presents on the statement of financial position separately other financial assets and other non financial assets, starting with 2018. The comparative information has been restated in accordance with current year presentation in order to ensure the comparability of data and information.

a. Financial instruments – initial recognition and initial measurement

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognized on the settlement date, i.e. the date on which the agreement is settled by delivery of assets that are subject of the agreement.

Any change in the fair value of the asset to be received during the period between the trade date and the settlement date is not recognized for assets carried at cost or amortized cost (other than impairment losses). For assets carried at fair value, however, the change in fair value shall be recognized in profit or loss or in other comprehensive income, as appropriate.

Derivatives are recognized on trade date basis, i.e. the date that the Group commits to purchase or sell the asset.

A financial asset or a financial liability is measured initially at fair value plus transaction costs that are directly attributable to its acquisition/issue (for an item which is not at fair value through profit or loss).

b. Financial instruments - Classification

As a result of the entry into force of IFRS 9 starting with 1st of January 2018 the Group has reclassified financial assets and liabilities as at 1st January 2018 into the new categories, based on the business model and the characteristics of the contractual cash flows.

The analysis of the business model was conducted by mapping the business areas that make up the Group and by allocating a specific business model to each of them.

In this regard, the business areas that compose the Group's banking portfolio have been assigned "held-to-collect" or "held-to-collect and sell" business models according to holding intentions and expected turnover of the financial instruments.

The business areas that compose the Group's trading portfolio have been assigned an "other" business model in order to reflect trading intentions.

For the purposes of classifying financial instruments in the new categories envisaged by IFRS9, the business model analysis must be complemented by an analysis of contractual flows ("SPPI Test").

In this regard, the Group has developed systems and processes to analyse the portfolio of debt securities and loans in place and assess whether the characteristics of contractual cash flows allow for measurement at amortized cost (“held-to-collect” portfolio) or at fair value with effect on comprehensive income (“held-to-collect and sell” portfolio). The analysis in question was carried out both by contract and by defining specific clusters based on the characteristics of the transactions and using a specific internally developed tool ("SPPI Tool") to analyse the contract features with respect to IFRS9 requirements.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b. Financial instruments - Classification *(continued)*

In application of the aforementioned rules, the Group's financial assets and liabilities have been classified as follows:

Financial assets

At inception date, a financial asset is classified in one of the following categories:

- at fair value through profit or loss - held for trading (see note 3.b1.i.);
- designated at fair value through profit or loss (see note 3.b1.i.);
- at fair value through Comprehensive income (see note 3.b4);
- at amortised cost (see note 3.b2.);

Financial liabilities

At inception date, a financial liability is classified in one of the following categories:

- measured at amortised cost (see note 3.b2)
- at fair value through profit or loss - held for trading (see note 3.b1.ii.)
- designated at fair value (see note 3.b1.iii).

The mapping of the new IFRS 9 categories versus the IAS 39 categories applicable under 31.12.2017 is described below. The reclassifications done as of 1 January 2018 are described in detail in Note 45 "Transition to IFRS 9". The accounting policies related to the classification of financial instruments under IAS 39 are presented in Note 3 b5.

Portfolio IFRS 9 versus Portfolio IAS39	
Fair value through profit and loss- held for trading	Held for trading
Designated at fair value through profit or loss	Financial assets at Fair Value through profit or loss
Fair value through other comprehensive income	Available for sale
Amortized cost	Held to maturity
	Loans and receivable

b1. Financial assets and financial liabilities at fair value through profit and loss account

i. Financial assets held for trading

A financial asset is classified as held for trading if it is:

- acquired or incurred principally for the purpose of selling or repurchasing it in the short term;
- 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;
- it is a derivative contract not designated under hedge accounting, including derivatives with positive fair value embedded in financial liabilities other than those valued at fair value with recognition of income effects through profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b. Financial instruments - Classification *(continued)*

b1. Financial assets and financial liabilities at fair value through profit and loss account *(continued)*

As other financial instruments, on initial recognition, at settlement date, a held-for-trading financial asset is measured at its fair value, usually equal to the amount paid, excluding transaction costs and revenue, which are recognized in profit and loss although directly attributable to the financial assets. Trading book derivatives are recognized at trade date. After initial recognition these financial assets are measured at their fair value through profit or loss.

A derivative is a financial instrument or other contract that has all three of the following characteristics:

- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable (usually called the 'underlying') provided that in case of non-financial variable, this is not specific of one of the parties to the contract;
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors;
- it is settled at a future date.

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative is separated from financial liabilities other than those measured at fair value through profit or loss and from non-financial instruments, and is recognized as a derivative, if:

- the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid (combined) instrument is not measured entirely at fair value through profit or loss.

When an embedded derivative is separated, the host contract is accounted for according to its accounting classification.

ii. Financial liabilities held for trading

Financial liabilities held for trading include:

- derivatives that are not designated as hedging instruments;
- obligations to deliver financial assets borrowed by a short seller (i.e. an entity that sells financial assets it does not yet own);
- financial liabilities issued with an intention to repurchase them in the near term;
- financial liabilities that are part of a portfolio of financial instruments considered as a unit and for which there is evidence of a recent pattern of trading.

Financial liabilities held for trading, including derivatives, are measured at fair value on initial recognition and during the life of the transaction.

The Group has trading instruments at 31 December 2018 held for trading financial instruments, derivative assets and derivative liabilities incurred in transactions with customers and economically covered with back - to - back transactions within UniCredit SpA Group.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b. Financial instruments - Classification *(continued)*

b1. Financial assets and financial liabilities at fair value through profit and loss account *(continued)*

iii. Financial assets and financial liabilities designated at fair value through profit and loss account

A non-derivative financial asset can be designated at fair value if the designation avoids accounting mismatches that arise from measuring assets and associated liabilities according to different measurement criteria. These assets are accounted for as "Financial assets held for trading".

Financial liabilities, like financial assets, may also be designated, according to IFRS9, on initial recognition as measured at fair value, provided that:

- this designation eliminates or considerably reduces an accounting or measurement inconsistency that would arise from the application of different methods of measurement to assets and liabilities and related gains or losses; or
- a group of financial assets, financial liabilities or both are managed and measured at fair value under risk management or investment strategy which is internally documented with the entity's key management personnel.

This category may also include financial liabilities represented by hybrid (combined) instruments containing embedded derivatives that otherwise should have been separated from the host contract. Financial assets and liabilities presented in this category are measured at fair value at initial recognition and for the life of the transaction. The changes in fair value are recognized in the income statement except for any changes in fair value arising from changes in their creditworthiness, which are shown under item Revaluation reserves of shareholders' equity unless such accounting results in an inconsistency that arises from the application of different methods of measuring assets and liabilities and related gains or losses, in which case also the changes in fair value deriving from changes in creditworthiness are recorded in the income statement.

The Group designates financial assets and liabilities at fair value through profit and loss when either:

- The assets and liabilities are managed, evaluated and reported internally on a fair value basis;
- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

As of 31 December 2018, the Group did not designate any assets or liabilities at fair value through profit and loss.

iv. Other financial assets mandatorily at fair value

A financial asset is classified as financial asset mandatorily at fair value if it does not meet the conditions, in terms of business model or cash flow characteristics, for being measured at amortized cost or at fair value through other comprehensive income.

The following type of assets can be classified in this portfolio:

- debt instruments, securities and loans for which the business model is neither held to collect nor held to collect and sell but which are not part of the trading book;
- debt instruments, securities and loans with cash flows that are not solely payment of principal and interest;
- units in investment funds.
- equity instruments for which the Group does not apply the option granted by the standard of valuing these instruments at fair value through other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b. Financial instruments - Classification *(continued)*

b2. Financial assets and financial liabilities at amortized cost

A financial asset is classified within the financial assets measured at amortized cost if:

- its business model is held to collect;
- its cash flows are solely the payment of principal and interest.

These items also include the net value of finance leases of assets under construction or awaiting lease, provided the leases have the characteristics of contracts entailing the transfer of risk.

Financial assets at amortised cost include loans and receivables with customers and banks, lease receivables and other financial assets such as sundry debtors, amounts in transit from customers and amounts in transit from banks.

On initial recognition, at settlement date, financial assets at amortized cost are measured at fair value, which is usually equal to the consideration paid, plus transaction costs and income directly attributable to the instrument.

After initial recognition at fair value, these assets are measured at amortized cost which requires the recognition of interest on an accrual basis by using the effective interest rate method over the term of the loan.

The carrying amount of financial assets at amortized cost is adjusted to take into account the reductions / write –backs resulting from the valuation process asset out in the specific section7.

Financial liabilities measured at amortized cost comprise financial instruments (other than liabilities held for trading or those designated at fair value) representing the various forms of third-party funding and other financial liabilities i.e. amounts in transit from customers and from other banks and amounts to be paid to suppliers.

These financial liabilities are recognized at settlement date initially at fair value, which is normally the consideration received less transaction costs directly attributable to the financial liability. Subsequently these instruments are measured at amortized cost using the effective interest method.

Hybrid debt instruments relating to equity instruments, foreign exchange, credit instruments or indexes, are treated as structured instruments. The embedded derivative is separated from the host contract and recognized as a derivative, provided that separation requirements are met, and recognized at fair value. The embedded derivative is recognized at its fair value, classified as financial assets or liabilities held for trading and subsequently measured at fair value through profit or loss.

The difference between the total amount received and the initial fair value of the embedded derivative is attributed to the host contract.

Securities in issue are recognized net of repurchased amounts; the difference between the carrying value of the liability and the amount paid to buy it in is recognized into profit and loss. Subsequent disposal by the issuer is considered as a new issue which doesn’t produce gains or losses.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b. Financial instruments - Classification *(continued)*

b3. Financial assets at fair value through comprehensive income

A financial asset is classified as at fair value through comprehensive income if:

- its business model is held to collect and sell;
- its cash flows are solely the payment of principal and interest.

This category also includes equity instruments for which the Group applies the option granted by the standard of valuing the instruments at fair value through other comprehensive income.

On initial recognition, at settlement date, a financial asset is measured at fair value, which is usually equal to the consideration paid, plus transaction costs and revenues directly attributable to the instrument.

After initial recognition, the interests accrued on interest-bearing instruments are recorded in the income statement according to the amortized cost criterion.

The gains and losses arising from changes in fair value are recognized in the Statement of comprehensive income and shown under Revaluation reserves in shareholders' equity.

Impairment losses are recorded in the income statement with contra-entry in the statement of comprehensive income and also shown under Revaluation reserves in shareholders' equity.

In the event of disposal, the accumulated profits and losses are recorded in the income statement. With regards to equity instruments, the gains and losses arising from changes in fair value are recognized in the Statement of comprehensive income and shown under Revaluation reserves in shareholders' equity. In the event of disposal, the accumulated profits and losses are recorded in Other Reserves.

In accordance with the provisions of IFRS9, no impairment losses on equity instruments are recognized in the income statement.

b4. Financial assets and liabilities under IAS 39 – classification & measurement

i. Financial assets held for trading

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing it in the near term, holds as part of a portfolio that is managed together for short term or position taking, or are derivatives.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position with transaction costs taken directly to profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss. Trading assets and liabilities are not reclassified subsequent to their initial recognition, except that non-derivative trading assets, other than those designated at fair value through profit or loss on initial recognition, may be reclassified out of the fair value through profit or loss if they are no longer held for the purpose of being sold or repurchased in the near term and the following conditions are met:

- if the financial asset would have met the definition of loans and receivables (if the financial asset had not been required to be classified as held for trading at initial recognition), then it may be reclassified if the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity;
- if the financial asset would not have met the definition of loans and receivables, then it may be reclassified out of the trading category only in rare circumstances.

If the fair value of financial instrument becomes less than zero, which may occur in case of derivative instruments, then those instruments are presented in the caption “Financial liabilities at fair value through profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b. Financial instruments - Classification *(continued)*

b4. Financial assets and liabilities under IAS 39 – classification & measurement *(continued)*

The Group has trading instruments at 31 December 2017 held for trading financial instruments, derivative assets and derivative liabilities incurred in transactions with customers and economically covered with back-to-back transactions within UniCredit Group.

ii. Available for sale

Available for sale investments are non-derivative investments that are designated as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available for sale investments are carried at fair value. Fair value changes are recognised directly in equity until the investment is sold or impaired and the balance in equity is recognised in profit or loss.

iii. Held-to-maturity

These are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity investments are carried at amortized cost using the effective interest method. Any sell or significant reclassification of held to maturity investments before maturity, the entire category would be reclassified as available for sale and for a two year period the Group would not use the held to maturity classification.

iv. Loans and advances and net lease receivables

- *Loans and advances* are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near future. Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.
- *Finance lease contracts* where the Group is lessor that substantially transfer all risks and benefits related to ownership over the leased asset to the lessee, are accounted for in accordance with IAS 17 Leases.

Net investments in leases are measured initially at fair value plus direct costs and subsequently measured at amortised cost and are presented net after impairment allowance. This is booked based on the net investments in leases identified as impaired based on the continuous evaluation, to bring these assets at their recoverable amount.

A lease receivable is recognized over the leasing period at present values of minimum lease payments which are to be made by the lessee to the Group, using the implicit interest rate and including the guaranteed residual value.

The resulted entire income from lease is included in the caption "Interest income" in the statement of comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

c. Financial assets and liabilities - de-recognition and modification

Renegotiations of financial instruments which cause a change in contractual conditions are accounted for depending on the significance of the contractual change itself.

In particular, when renegotiations are not considered significant the gross exposure is re-determined through the calculation of the present value of cash flows following the renegotiation at the original effective interest rate. The difference between the gross exposure before and after renegotiation, adjusted to consider changes in the related loan loss provision, is recognized in P&L as modification gain or loss.

In this regard, renegotiations achieved both by amending the original contract or by closing a new one, are considered significant when they determine the expiry of the right to receive cash flows accordingly to the original contract. In particular, rights to receive cash flows are considered as expired in case of renegotiations that introduce contractual clauses which determine a change in the financial instrument classification, which determine a change in the currency or which are carried out at market conditions therefore without causing credit concession.

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss. In addition, any cumulative gain or loss that had been recognised in other comprehensive income is also recognised in profit or loss.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all risks or rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the balance sheet.

Transfer of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

The Group entered into several transactions with UniCredit SpA and other entities within UniCredit Group whereby:

- either UniCredit SpA directly financed some corporate customers, while the Group undertook the role of agent or security agent and payment agent, or
- the Group transferred to UniCredit SpA by means of novation agreements the outstanding amount of certain loans already granted to Romanian corporate customers and also undertook the role of security agent and payment agent.

For most contracts concluded with UniCredit SpA, there is a risk participation agreement by which the Group is obliged to indemnify UniCredit SpA against costs, loss or liability suffered by UniCredit SpA in connection with the relevant contracts to the extent of an agreed percentage of the relevant amounts and up to a limit agreed on a case by case basis.

Loans financed by UniCredit SpA are not recognized in the Group's financial statements (see Note 42) because the Group has transferred the right to receive cash from these loans, has not retained substantially all the risks and rewards of ownership, and has relinquished control of the asset.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The direct decrease of loans value (*write-off)* represents the operation of diminishing directly the gross loan value fully covered by impairment allowances and their transfer in the off-balance sheet accounts, where they are monitored until recovered. At the moment of exhausting all activities to recover the loans and receivables, those are derecognized from the off balance accounts.

d. Purchased or Originated Credit Impaired - POCI

When on initial recognition an exposure, presented in “Financial assets at fair value through comprehensive income” or “Financial assets at amortized cost”, is non-performing, it is qualified as “Purchased Originated Credit Impaired- POCI”.

The amortized cost and the interest income generated by these assets are calculated by considering, in the estimate of future cash flows, the expected credit losses over the entire residual duration of the asset.

This expected credit loss is subject to periodic review thus determining the recognition of impairment or write- backs.

Purchased Originated Credit Impaired assets are conventionally classified on initial recognition in Stage 3.

If, as a result of an improvement in the creditworthiness of the counterparty, the assets become "performing" they are classified under Stage 2.

These assets are never classified under Stage 1 because the expected credit loss is always calculated considering a time horizon equal to their residual duration.

In addition to purchased impaired assets, the Group identifies as" Purchased Originated Credit Impaired those credit exposures that are originated in the case of restructuring of an impaired exposure which led to the provision of new finance which is deemed significant either in absolute terms or in relative terms compared with the amount of the original exposure.

e. Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

f. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm’s length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

f. Fair value measurement *(continued)*

The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all available factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments.

Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

The best evidence of fair value of financial instruments at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of the instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only observable data from the market.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

Where a fair value cannot be reliably estimated, unquoted equity instruments that do not have a quoted market price in an active market are measured at cost and periodically tested for impairment.

g. Identification and measurement of impairment

(i) General topics

Loans and debt securities classified as financial assets at amortized cost, financial assets at fair value through comprehensive income and relevant off-balance sheet exposures are tested for impairment as required by IFRS9.

In this regard, these instruments are classified in stage 1, stage 2 or stage 3 according to their absolute or relative credit quality with respect to initial disbursement. Specifically:

- Stage 1: includes(i) newly issued or acquired credit exposures, (ii) exposures for which credit risk has not significantly deteriorated since initial recognition, (iii) exposures having low credit risk (low credit risk exemption).
- Stage 2: includes credit exposures that, although performing, have seen their credit risk significantly deteriorating since initial recognition.
- Stage 3: includes impaired credit exposures.

For exposures in stage 1, impairment is equal to the expected loss calculated over a time horizon of up to one year. For exposures in stages 2 or 3, impairment is equal to the expected loss calculated over a time horizon corresponding to the entire life of the exposure.

In order to meet the requirements of the standard, the Group has developed specific models to calculate expected loss based on PD, LGD and EAD parameters, used for regulatory purposes and adjusted in order to ensure consistency with the accounting regulations.

In this context "forward looking" information was included through the elaboration of specific scenarios.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

g. Identification and measurement of impairment *(continued)*

The Stage Allocation model is a key aspect of the new accounting model required to calculate expected credit losses. The Stage Allocation model is based on a combination of relative and absolute elements. The main elements are:

- comparison, for each transaction, between PD as measured at the time of origination and PD as at the reporting date, both calculated according to internal models, through thresholds set in such a way as to consider all key variables of each transaction that can affect the bank's expectation of PD changes over time (e.g. age, maturity, PD level at the time of origination)
- absolute elements such as the backstops required by law (e.g. 30 days past-due)
- additional internal evidence (e.g. Forborne classification).

With regard to debt securities, the Group opted for application of the low credit risk exemption on investment grade securities in full compliance with IFRS 9 accounting standard.

Allowances for impairment of loans and receivables are based on the present value of expected cash flows of principal and interest. In determining the present value of future cash flows, the basic requirement is the identification of estimated collections, the timing of payments and the discount rate used.

The amount of the loss on impaired exposures classified as bad loans and unlikely to pay, according to the categories specified below, is the difference between the carrying amount and the present value of estimated cash flows discounted at the original interest rate of the financial asset.

For all fixed rate positions, the interest rate thus determined is kept constant in subsequent financial years, while for floating rate positions the interest rate is updated according to contractual terms.

If the original interest rate cannot be found, or if finding it would be excessively burdensome, the rate that best approximates it is applied, also recurring to “practical expedients” that do not alter the substance, and ensure consistency with the international accounting standards.

Recovery times are estimated on the basis of business plans or forecasts based on historical recovery experience observed for similar classes of loans, taking into account the customer segment, the type of loan, the type of security and any other factors considered relevant.

Also the impairment on impaired exposures was calculated as required by IFRS 9 to include (i) the adjustments necessary to arrive at the calculation of a point-in-time and forward-looking loss; and (ii) multiple scenarios applicable to this type of exposure

(ii) Parameters and risk definitions used for calculating value adjustments

As mentioned in the previous paragraph, the Group has developed specific models for calculating the expected loss; such models are based on the parameters of PD, LGD and EAD and on the effective interest rate. In particular:

- the PD (Probability of Default), represents the probability of occurrence of an event of default of the credit exposure, in a defined time lag (i.e. 1 year);
- the LGD (Loss Given Default), represents the percentage of the estimated loss, and thus the expected rate of recovery, at the date of occurrence of the default event of the credit exposure;
- the EAD (Exposure at Default), represents the measure of the exposure at the time of the event of default of the credit exposure;
- the Effective interest rate is the discount rate that expresses of the time value of money.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

g. Identification and measurement of impairment *(continued)*

Such parameters are calculated starting from the corresponding parameters used for regulatory purposes, with specific adjustments in order to ensure consistency between accounting and regulatory treatment despite different regulatory requirements. Main adjustments were aimed at:

- removing conservatism required for regulatory purposes;
- introducing "point-in-time" adjustments to replace "through-the-cycle" adjustments required for regulatory purposes;
- including "forward looking" information;
- extending credit risk parameters to a multi-year perspective.

With reference to lifetime PD, through-the-cycle PD curves obtained by adjusting observed cumulated default rates were calibrated in order to reflect point-in-time and forward-looking forecasts on portfolio default rates.

Recovery rate incorporated into through-the-cycle LGD was adjusted in order to remove conservatism and to reflect most updated trend of recovery rates as well as expectations about future trends discounted at effective interest rate or at its best proxy.

The lifetime EAD has been obtained by extending the 1 year regulatory or managerial model, removing margin of conservatism and including expectation about future drawing levels.

With reference to the qualitative component of the model for stage allocation, the Bank has adopted a statistical approach based on a quantiles regression whose objective is to define a threshold in terms of maximum variation acceptable between the PD at the time of origination and the PD assessed at the reporting date. The variable objective of the regressive model is thus the change between the PD at the reporting date compared to the one at the date of origination while the explicative variables are factors such as the age of the transaction, the PD at the date of origination, etc.

A key component of the model is the definition of the quantile that identifies the amount of Stage 2 expected on average in the long-run and that affects the determination of the threshold of change in PD after which the transaction is classified in Stage 2. The average quantile in the long run is determined based on the expected average of deterioration of the portfolio determined by the rate of defaults as in any other deterioration stage (i.e.: 30 days past due).

The amount of exposures classified in Stage 2 at each reporting date will be around the quantile identified for the long run based on the economic conditions at the time and on the future expectations about the evolution of the economic cycle.

With reference to stage 3, it should be noted that it includes impaired exposures corresponding to the aggregate Non-Performing Exposures as ITS EBA (EBA/ITS /2013/03/rev1 24/7/2014.

In particular, EBA has defined as "Non-Performing" exposures that meet one or both of the following criteria:

- material exposures more than 90 days past due;
- exposures for which the bank values that is unlikely that the debtor would pay in full his credit obligations without recurring to enforcement and realization of collaterals, regardless of past due exposures and the number of days the exposure is past due.
- unpaid amount/installments.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

g. Identification and measurement of impairment *(continued)*

(iii) Prospective information for the calculation of value adjustments

The expected credit loss deriving from the parameters described in the previous paragraph considers macroeconomic forecasts through the application of multiple scenarios to the "forward looking" components in order to compensate the partial non-linearity naturally present in the correlation between macroeconomic changes and credit risk. Specifically, the non-linearity effect was incorporated through the estimation of an overlay factor directly applied to the portfolio Expected Credit Loss.

The process defined to include macroeconomic multiple scenarios was fully consistent with macroeconomic forecast processes used by the Group for additional risk management objectives (as for example processes adopted to calculate expected credit losses from macroeconomic forecasts based on EBA stress test and ICAAP Framework) and also took advantage of independent Unicredit Research function. The starting point was therefore fully aligned while the application is differentiated in order to comply with different requirements using internal scenarios only.

In particular, UniCredit Group has selected three macroeconomic scenarios to determine the forward looking component, a baseline scenario, a positive scenario and a negative scenario.

The baseline scenario is the main scenario and indeed is expected to be the one with the highest likelihood of occurrence. The positive and the negative scenario represent alternative occurrences, either better or worse when compared to the baseline scenario in terms of evolution of the economies of the countries where the Group operates.

The **Base Scenario** ("Baseline") reflects the macroeconomic evolution expected from the Group and as such is coherent with the assumptions used by the Bank in the planning processes. The Baseline Scenario foresees a slowdown economic growth for Romania. Specifically, the annual growth of the real GDP is foreseen at +3,1% for 2019 and +2,2% for 2020.

The **Positive Scenario** is based on the hypothesis that the positive economic growth of 2018 both at global level and at European level might consolidate even in 2019, sustained by the trend in the global commerce and by accommodating economic policies. This would imply, for the biggest European countries, a maximum phase of the economic cycle prolonged by a year, that would reflect in a bigger growth of the annual real GDP (with respect to the baseline scenario). Specifically, the annual growth of the real GDP for Romania would grow to +4,1% for 2019 and +3,2% for 2020 in a context of short term rates (3 months Euribor) still negatives or close to zero.

The **Adverse Scenario** reflects one of the scenarios used in the evaluation processes of the capital adequacy (ICAAP). In coherence with the ICAAP framework, the scenario has been chosen to represent one of the macroeconomic and financial risks that the Groups foresees as most relevant in the context of the countries where the Group operates and for the Group's business activities. The scenario of Widespread Contagion is based on a hypothesis of intensification of political risks of the European Union, caused by an increased influence of populist parties in Italy, Germany and France alongside with, among others, the extension of tension between Spanish government and Catalonia Region. This context would lead to an increase of the risk premiums for different "asset class" and to a slowdown of the economic growth both of the Eurozone and of CEE countries. Specifically, the annual growth of the GDP in Romania would be +0,8% for 2019 and 0,0% for 2020 in a context of rates in the short run (3 months Euribor) that would stay negative in 2019, based on the hypothesis that the ECB would prolong in such a market context the liquidity support to markets. The likelihood of happening of such scenario, at the time of its definition, is foreseen probable and appropriate to quantify the adverse trend of the of the economy. In coherence with the scenario and with the magnitude of changes compared to the baseline scenario, it is assumed that the negative scenario is less likely than the positive scenario.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

g. Identification and measurement of impairment *(continued)*

The forecasts in terms of changes in the "Default rate" and in the "Recovery Rate" provided by the Stress Test functions are included within the PD and LGD parameters during calibration. Credit parameters indeed, are normally calibrated over a horizon that considers the entire economic cycle ("Through-the-cycle – TTC"), it is thus necessary a "Point-in-time – PIT" calibration and a "Forward-looking – FL" one that allows to reflect in those credit parameters the current situation and the expectations about the future evolution of the economic cycle.In this regard, the PD parameter is calculated through a normal calibration procedure, logistics or Bayesian, using as anchorage point an arithmetic average among the latest default rates observed on the portfolio and the insolvency rates foreseen by the Stress Test function. The PD determined in such way will lose his through the cycle nature in favor of a Point in time and Forward looking philosophy.

The LGD parameter is made Point in time through a scalar factor that allows to take into account the ratio between average recoveries throughout the period and recoveries achieved in previous years. The inclusion of forecast within the LGD parameter is performed by adjusting the yearly "recovery rate" implicit in this parameter to take into account the expectations of variations of recovery rates provided by the Stress Test function.

h. Derivatives held for risk management purposes and hedge accounting

Derivative financial instruments include interest rate options and exchange rate options, interest rate swaps, currency swaps and forward transactions. The positive fair value of the derivatives is carried as asset and the negative fair value is carried as liability.

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position. The treatment of changes in their fair value depends on their classification into the following categories:

(i) Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in fair values attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction that could affect profit or loss, the changes in the fair value of the derivative is recognized immediately in the profit or loss altogether with the changes in fair value of hedged item which are attributable to hedged risk, in the same line of the income statement and in "Other items of comprehensive income" as hedging items.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a central counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered as expired or terminated.

Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortized to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

The Group started to apply fair value hedge accounting starting with 2013. The Group designated interest rate swap contracts as hedging instruments and certain financial assets at fair value through other comprehensive income of the Group as hedged items.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

h. Derivatives held for risk management purposes and hedge accounting *(continued)*

(ii) Other non-trading derivatives

When a derivative is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognized immediately in profit or loss.

(iii) Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a "host contract"). The Group accounts for embedded derivatives separately from the host contract when the host contract is not itself carried at fair value through profit or loss, and the characteristics of the embedded derivative are not clearly and closely related to the host contract. Separated embedded derivatives are accounted for depending on their classification (i.e. at fair value through profit or loss), and are presented in the statement of financial position under Derivatives assets at fair value through profit or loss and Derivatives liabilities at fair value through profit or loss.

(iv) Cash flow hedges

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instruments are expected to be highly effective in offsetting the changes in the cash flows of the respective hedged items during the period for which the hedge is designated. The Group makes an assessment for a cash flow hedge of a forecast transaction, as to whether the transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in "Other comprehensive income". Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. In a discontinued hedge of a forecast transaction the cumulative amount recognized in "Other comprehensive income" from the period when the hedge was effective is reclassified from equity to profit or loss as a reclassification adjustment when the forecast transaction occurs and affects profit or loss. If the forecast transaction is no longer expected to occur, then the balance in "Other comprehensive income" is reclassified immediately to profit or loss as a reclassification adjustment.

The Group designated certain interest rate swaps as hedging instruments and deposits from banks and from customers of the Bank as hedged items.

For hedge accounting purposes, only instruments that involve an external party to the Group (or intra-group transactions directly replicated with third parties outside the Group) are designated as hedging instruments. The foreign exchange gains or losses from these financial instruments are directly recognized in profit or loss account.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

i. Non-current assets held for sale / discontinued operations

A non-current asset (or disposal group) is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations,
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or
- is a subsidiary acquired exclusively with a view to resale.

The Bank measures a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell. For the period the asset is classified as held for sale the depreciation ceases and is tested periodically for impairment.

The non-current asset is reclassified out of non-current assets held for sale when it is sold or the conditions to be recognized as held for sale are no longer met.

As at 31.12.2018, the Group has classified as held for sale repossessed assets.

j. Interest

Interest income and expense are recognized in profit or loss using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument.

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 thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss on the net loan. The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expenses presented in the Statement of comprehensive income include:

a) interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis;

b) effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period that the hedged cash flows affect interest income/expense.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

k. Fees and commissions

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income arising on the financial services provided by the Group, including account servicing fees, investment management fees, advisory fees and syndication fees are recognized in the income statement on the accrual basis, i.e. when the corresponding service is provided.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

l. Net income from trading and other financial instruments at fair value through profit and loss

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

These items are also impacted by valuation adjustments when using a certain valuation technique such as: fair value adjustments and additional valuation adjustments. Fair value adjustment is an adjustment that takes into account non-performance risk (the own credit risk – DVA or the credit risk of the counterparty to transaction – CVA OIS - expected difference from collateralised deals -). Additional value adjustment is an adjustment that takes into account measurement of uncertainty (e.g. when there has been a significant decrease in the volume or level of activity when compared to normal market activity for the asset or liability, or similar assets or liabilities, and the entity has determined that the transaction price or quoted price does not represent fair value).

The fair value movement on derivatives held for economic hedging where hedge accounting is not applied are presented in 'Net income from other financial instruments at FVTPL'. However, for designated and effective fair value hedge accounting relationships the gains and losses on the hedging instrument are presented in the line Gains or (-) losses from hedge accounting. For designated and effective cash flow and net investment hedge accounting relationships, the gains and losses of the hedging instrument, including any hedging ineffectiveness included in profit or loss, are presented in the line Gains or (-) losses from hedge accounting .

The effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows is recognized under "Gains or (-) losses from hedge accounting", in the same period that the hedged cash flows affect interest income/expense.

m. Dividends

Dividend income is recognised in the income statement on the date that the dividend is declared. Income from equity investments and other non-fixed income investments is recognised as dividend income when it accrues. Dividends are treated as an appropriation of profit in the period they are declared and approved by the General Assembly of Shareholders.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

n. Leases

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Finance lease contracts where the Group is lessor that substantially transfer all risks and benefits related to ownership over the leased asset to the lessee, are accounted for in accordance with IAS 17 Leases.

Net investments in leases are measured initially at fair value plus direct costs and subsequently measured at amortised cost and are presented net after impairment allowance. This is booked based on the net investments in leases identified as impaired based on the continuous evaluation, to bring these assets at their recoverable amount.

A lease receivable is recognized over the leasing period at present values of minimum lease payments which are to be made by the lessee to the Group, using the implicit interest rate and including the guaranteed residual value.

The resulted entire income from lease is included in the caption “Interest income” in the statement of comprehensive income.

o. Income tax

Income tax expense on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in “Other comprehensive income”, in which case it is recognised in “Other comprehensive income”. Current tax and deferred tax are recognized in the income statement in the caption “Income tax”, except for the tax related to items which are recognised within equity category, such as gains/losses from assets at fair value through other comprehensive income, changes in fair value of derivative hedging instruments used in cash flow hedge, of which changes are recognized, net of tax, directly in “Other comprehensive income”.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the end of reporting period, and any adjustment to tax payable in respect of prior periods.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of reporting period.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

The tax rate used to calculate the current and deferred tax position at 31 December 2018 is 16% (2017: 16%).

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

p. Offsetting

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 set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as the Group's trading activity.

q. Cash and cash equivalents

Cash and cash equivalents comprise notes and coins on hand, balances held with central banks, nostro accounts, placements with banks with less than 90 days original maturity and are carried at amortized cost in the statement of financial position.

Cash and cash equivalents are subject to insignificant risk of changes in their fair value and are used by the Group in the management of its short-term commitments.

r. Property and equipment

(i) Initial recognition and measurement

All items of property and equipment are initially recognized at cost.

Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

(ii) Subsequent measurement

Land and buildings are carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. The fair value of land and buildings is usually determined from market-based evidence by appraisal that is normally undertaken by professionally qualified valuators.

If an asset's carrying amount is increased as a result of a revaluation, the increase is recognized in other comprehensive income and accumulated in equity under "Other reserves".

However, the increase is recognized in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss.

If an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognized in profit or loss. However, the decrease is recognized in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognized in other comprehensive income reduces the amount accumulated in equity under "Other reserves".

For the other items of property, plant and equipment the cost model is used, in accordance with *IAS 16 Property, plant and equipment*. After initial recognition, computers and equipment, motor vehicles, furniture and other assets are carried at cost less any accumulated depreciation and any accumulated impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(iii) Subsequent costs

The Group recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognized in the income statement as an expense as incurred.

(iv) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. Leased assets are depreciated over the shorter of the lease term and their useful lives.

The estimated rates of depreciation are as follows:

Buildings:	
- property	2% per year
- improvements (rentals)	6.25% - 100% per year
Office equipment and furniture	6.00% - 25% per year
Computer equipment	25% per year

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

s. Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the supply of services or for administrative purposes. Investment property is initially measured at cost and subsequently, at fair value, with any change therein recognized in profit or loss within the "Other operating income" or "Other operating expenses" on a case by case basis.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in profit or loss within the "Other operating income" or "Other operating expenses".

When the use of a property changes such that it is reclassified as property, its fair value at the date of reclassification becomes its cost for subsequent accounting.

t. Intangible assets

(i) Recognition

An intangible asset is an identifiable non-monetary asset without physical substance which is expected to be used for a period longer than one year and from which economic benefits will flow to the entity.

Intangible assets are mainly goodwill, software, brands and intangibles as list of customers.

Intangible assets, other than goodwill, are carried at acquisition cost, including any costs incurred to put the respective asset into function, less accumulated amortization and related impairment loss.

The acquisition costs and those for put into operation of IT systems acquired are capitalized including all costs incurred to bring the respective systems fully operational.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Costs associated with developing or maintaining computer software programs are recognized as an expense when incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Bank, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

(ii) Subsequent expenditure

Subsequent expenditure on capitalized intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(iii) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful life of the software, from the date that it is available for use.

The estimated useful lives are:

- for software: 3-5 years;
- for list of customers: 5 years.
- for licenses: contractual lifetime, max 5 years

u. Impairment of non – financial assets

The carrying amount of the Group's assets, other than deferred tax assets, is reviewed at each reporting date to determine whether there is any objective indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in the income statement.

In case of intangible assets of "List of Customers", in case one of the customers, for which the intangible asset was recognised, closes the operations with the Bank, the net carrying amount if the "List of customers" related to that customer will be derecognized.

v. Provisions

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

w. Financial guarantees and loan commitments

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognized at their fair value, and the initial fair value is amortized over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are disclosed in the notes to the Consolidated Financial Statements.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

w. Financial guarantees and loan commitments *(continued)*

The Group entered into several transactions with UniCredit Group and other entities within UniCredit Group related to loans granted to non-banking customers financed by such entities within UniCredit Group (please refer to Note 3j(*iii*)). In accordance with risk participation agreements related to such loans, the Group was required to indemnify UniCredit Group and the other entities within UniCredit Group as set out in the Note 3j *(iii)*.

Such financial guarantees are carried at the end of reporting period at the amount determined in accordance with *IAS 37 "Provisions, Contingent Liabilities and Contingent Assets",* using an internal methodology consistent with the impairment assessment of loans and advances to customers (please refer to Note 3*j*), which is stated under Provisions in the Consolidated Statement of financial position.

x. Employee benefits

(i) Short term service benefits

Short-term employee benefits include wages, salaries, bonuses and social security contributions. Short-term employee benefits are recognised as expense when services are rendered. The Group includes in short-term benefits the accruals for the employees' current year profit sharing payable within following months after the end of the year.

(ii) Other long term employee benefits

On the basis of internal practice and policies, the Group has an obligation to pay to retiring employees a benefit equivalent of two salaries as at retirement date. The Group's net obligation in respect of the retirement benefit is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations.

(iii) Share - based payment transactions

The Group has in place incentive plans for its senior management, consisting in stock options and performance shares which provide that UniCredit SpA ("the Parent") shares will be settled to the grantees. The cost of this scheme is supported by the Group and not by its Parent, and as a consequence it is recognised as an employee benefit expense.

At Group level the expense is recognised against a liability which is measured at fair value.

The fair value of stock options is determined using the Hull and White Evaluation Model. Measurement inputs include share price on measurement date, exercise price, volatility (historical daily average volatility for a period equal to the duration of the vesting period), exit rate (annual percentage of Stock Options forfeited due to termination), dividend yield (last four years average dividend-yield, according to the duration of the vesting period).

The economic value (fair value) of Performance Shares, representing UniCredit SpA free ordinary shares to be granted on the achievement of performance targets set at Group and Division level in the Strategic Plan approved by the Board of UniCredit SpA, is measured considering the share market price at the grant date less the present value of the future dividends related to the period from the grant date to the share settlement date. Input parameters are market price (arithmetic mean of the official market price of UniCredit SpA ordinary shares during the month preceding the granting Board resolution) and economic value of vesting conditions (present value of the future dividends related to the period from the grant date to the share settlement date).

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

x. Employee benefits *(continued)*

(iv) Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancy are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, than they are discounted to their present value.

y. Segment reporting

An operating segment is a component of an entity:

(a) that engages in business activities from which it may earn revenues and incur expenses,

(b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and

(c) for which discrete financial information is available.

The main segment report format is based on the internal reporting structure of business segments, which reflects management responsibilities in the Group. The results on segments reported to the management include elements directly allocated to that segment and also other elements which can be allocated in a reasonable way.

Unallocated items mainly comprise tangible and intangible assets and tax liabilities or assets.

For the purpose of optimal management of activities, the Group is organized into the following operating segments:

- **Retail** segment ("Retail") – the Bank provides individuals (except Private Banking customers) and small and medium-sized enterprises a large range of financial products and services, including loans (mortgages, personal loans, overdrafts, credit card facility and funds transfer), savings, payment services and transactions with securities. UCFIN is also included under "Retail" segment.

- **Corporate and Investment Banking ("CIB") -** the product lines Global Transaction Banking (including payment transactions, trade finance, cash management), Financing (develop and offers financing products – classic and structured lending business, as well as Factoring, Real Estate, UE Funds – being also involved in initiation, structuring and promoting specialized financing transactions, syndications and other investment banking specialized transactions, managing overflow portfolio and financial analysis for complex transactions with high risk), Advisory (mergers and acquisitions and capital market advisory services) and Markets (Treasury). The services are provided to medium corporate, large corporate, international corporate, real estate, public sector and financial institutions.

- **Private Banking ("PB") -** this segment is focusing on private customers and families with significant investments and VIP. The segment provides customized banking products and services, including personalized assets under Management/Custody product solutions.

- **Leasing –** the Group, through UCLC and DEBO, grants finance leases to finance mainly purchases of cars, trucks and trailers, equipment and real estate. Lease contracts are mainly in EUR, USD and RON, and are offered for a period between 1 and 15 years, transferring the ownership on the leased assets at the end of lease contract.

- **Other** segment ("Other") comprises of all elements not assigned to above mentioned segments such as equity investments, taxes and Assets and Liabilities Management ("ALM") activities.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

z. New Standards and Interpretations

In 2018 the following standards, amendments or interpretations came into force:

- IFRS9 - Financial Instruments (EU Regulation 2016/2067);
- IFRS15 - Revenue from Contracts with Customers (EU Regulation 2016/1905);
- Amendments to IFRS4: Applying IFRS9 Financial Instruments with IFRS4 Insurance Contracts (EU Regulation 2017/1988);
- Clarifications to IFRS15 Revenue from Contracts with Customers (EU Regulation 2017/1987);
- IFRIC Interpretation 22: Foreign Currency Transactions and Advance Consideration (Reg. UE 2018/519);
- Amendments to IAS40: Transfers of Investment Property (Reg. UE 2018/400);
- Amendments to IFRS2: Classification and Measurement of Share-based Payment Transactions (Reg. UE 2018/289);
- Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014 -2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 7 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" – adopted by the EU on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018).

For further details on the impacts coming from IFRS9, please refer to Note 44. For further details on the impacts coming from IFRS15 adoption, refer to the specific paragraphs of the current section.

As of 31 December 2018 the European Commission endorsed the following accounting principles that will be applicable for reporting periods beginning on or after 1 January 2019:

- IFRS16 - Leasing (EU Regulation 2017/1986);
- IFRIC 23 Uncertainty over Income Tax Treatments (Reg. UE 2018/1595);
- Amendments to IFRS9: Prepayment Features with Negative Compensation (EU Regulation 2018/498).

The Group has elected not to adopt these new standards, amendments to existing standards and new interpretation in advance of their effective dates. The Group anticipates that the adoption of these standards, amendments to existing standards and new interpretations will have no material impact on the financial statements of the Group in the period of initial application, with the exception of IFRS 16 "Leases".

IFRS16, effective starting from 1 January 2019 and subject to the completion of the endorsement process by the European Union on 31 October 2017, modifies the current set of international accounting principles and interpretations on leases and, in particular, IAS17.

IFRS16 introduces a new definition for leases and confirms the current distinction between two types of leases (operating and finance) with reference to the accounting treatment to be applied by the lessor.

With reference to the accounting treatment to be applied by the lessee, the new accounting standard sets, for all the leasing typologies, the recognition as an asset, representing the right of use of the underlying asset and, at the same time, a liability for the future payments requested by the lease contract.

At the initial recognition such asset is measured on the basis of the lease contract cash flows. After the initial recognition the right-of-use will be measured on the basis of the rules set for the assets by IAS16, IAS 38 or by IAS40 and therefore applying the cost model, less any accumulated depreciation and any accumulated impairment losses, the revaluation model or the fair value model as applicable.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

z. New Standards and Interpretations *(continued)*

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate. As with IFRS 16's predecessor, IAS 17, lessors classify leases as operating or finance in nature. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise a lease is classified as an operating lease. For finance leases a lessor recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognises operating lease payments as income on a straight-line basis or, if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis.

In this context, the Group is performing the activities aimed to ensure compliance with this accounting principle, in particular with reference to the calculation and accounting for Right of Use and Lease Liability that represent the main discontinuity compared to the current accounting model required by IAS17.

The activities aimed to the development of rules, principles and IT systems to be used for the proper evaluation of new assets and liabilities and the subsequent calculation of the related economic effects are under finalization.

In this context the Group has decided, as allowed by the standard, not to apply IFRS 16 provisions to leases of intangible assets, short term leases, lower than 12 months, and low value assets leases.

In order to calculate the lease liability and the related right-of-use asset, the Group proceeds with discounting the future lease payments at a proper discount rate.

In this respect, future lease payments to discount are determined based on contractual provisions and net of VAT as the obligation to pay such a tax starts when the invoice is issued by the lessor and not at the starting date of the lease contract.

To perform the mentioned calculation lease payments have to be discounted at the interest rate implicit in the contract or, if it is not available, at the incremental borrowing rate. The latter is determined on the basis of the cost of funding for liabilities of similar duration and similar security of those implicit in the lease contract.

In determining the lease term it is necessary to consider the non-cancellable period, established in the contract, in which the lessee is entitled to use the underlying asset taking also into account potential renewal options if the lessee is reasonably certain to renew.

As of 31 December 2018 the IASB issued the following standards, amendments, interpretations or revisions, 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);
- Amendments to IAS28: Long-term Interests in Associates and Joint Ventures (October 2017);
- Annual Improvements to IFRS Standards 2015-2017 Cycle (December 2017);
- Amendments to IAS19: Plan Amendment, Curtailment or Settlement (February 2018);
- Amendments to the IFRS Conceptual Framework (March 2018);
- Amendments to IFRS3: Business combination (October 2018);
- Amendments to IAS1 and IAS8: Definition of Material (October 2018);

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

z. New Standards and Interpretations *(continued)*

IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard;

- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded).

The Group does not foresee a significant impact from the implementation of the above mentioned standards or amendments.

Transition to "IFRS15: Revenue from Contracts with Customers" of UniCredit Group

IFRS15, effective starting from 1 January 2018, endorsed by the European Union with Regulation EU 2016/1905 of 22 September 2016 (published on 29 October 2016), modifies the previous set of international accounting principles and interpretations on revenue recognition and, in particular, IAS18.

IFRS15 provides for:

- two approaches for the revenue recognition ("at point in time" or "over time");
- a new model for the analysis of the transactions ("Five steps model") focused on the transfer of control; and
- the request for a more detailed disclosure to be included in the explanatory notes to the financial statements.

The adoption of the new accounting standard could determine (i) the reclassification between lines of income statement used for presenting revenues, (ii) a change in the timing recognition of such revenue, when the contract with the customer contains several performance obligation that must be accounted for separately under the accounting standard, (iii) a different measure of the revenue in order to reflect their variability.

Based on the analysis performed, no major impacts have been detected by the adoption of IFRS15 on current economic and financial volumes.

4. RISK MANAGEMENT

a) Introduction and overview

The risks are managed through a continuous process of identification, measurement and monitoring, depending on the risk limits, segregation of duties and other controls.

The Group has exposure to the following significant risks:

- Credit risk (includes the risk for lease receivables)
- Liquidity risk
- Market risks, including interest rate risk in the banking book
- Operational risks
- Reputational risk
- Business risk
- Financial investment risk
- Real estate risk
- Strategic risk
- Risk of excessive leverage.
- Inter-concentration risk

The Group also gives a special attention to the conformity risk and fiscal risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

b) Risk management framework

Objectives regarding risk management are correlated with the overall strategic objectives of the Group:

- Adequate and prudent management of risks and in particular, of significant risks;
- Increase of loan portfolio in a selective manner and achievement of a balanced structure of customers segments;
- Diversification of products;
- Maintaining of sustainable profitability level;
- Decrease – as much as possible – of the negative impact generated by the economic crisis;
- Identify optimum solutions adapted to the clients' needs which are confronting with the negative effects of economic-financial crisis;
- Training the Group's employees such that to offer quality services to the clients;
- Integrating locally of the Group standards through internal regulations and procedures.

The risks management within the Group implies:

- the culture regarding the risk management;
- the framework regarding risk management;
- the policy for the approval of new products.

4. RISK MANAGEMENT *(continued)*

b) Risk management framework (*continued*)

The culture regarding the risks within the Group is integrated and defined overall, being based on complete understanding of risks the Group is confronting with and of the manner they are managed, having a tolerance/risk appetite of the Group.

The Groups' strategic objectives include also the development of sound culture regarding the management of risks, extended both at the management level and also to the business lines with responsibilities in risk management area, by identifying through the set of activities performed and for each significant activity, of the ratio between risks and profits which Group considers acceptable within the conditions of a prudent and healthy ongoing business performance.

The Group aims to develop a holistic framework for the management of significant risks – credit risk, market risk, operational risk, liquidity risk, reputational risk, business risk, financial investment risk, strategic risks and real estate investment risk – taking into account the correlations and interdependences between different risk types.

The framework for risk management is based on:

- definition and set up of basic principles, of policies, procedures, limits and related controls for managing the risks;
- an organized structure specialized in the management and control of risks;
- strategies and specific techniques for measurement, evaluation, monitoring, decrease and reporting the risks.

The framework for management of significant risks is transposed clearly and transparently in internal norms, procedures, including manuals and codes of conduct, making a distinction between the overall standards applicable to all employees and the rules applied specifically to certain categories of personnel.

The governing structures playing the role in risks' management are:

The Supervisory Board has overall responsibility for the establishment and oversight of the Bank's risk management framework and to approve the Bank's risk profile.

The Management Board implements the risk management strategy and policies approved by Supervisory Board regarding the management for significant risks.

The **Risk Management Committee set up by Supervisory Board** plays advisory role for the governing bodies' decisions regarding the risk appetite and overall strategy regarding the management of actual and future risks of the Bank, and ensures the support for the Supervisory Board in the oversight of the implementation by the top management of the overall strategy regarding actual and future risks of the Bank.

Implementation of the strategy for significant risks management at the Group level for the development and monitoring the policies for risks management is achieved through the following committees having responsibilities regarding risk management:

- Asset and Liabilities Committee
- Risk Management Operative Committee
- Special Credit Committee
- Credit Committee
- Fraud Risk Management Committee
- Operational Permanent Work Group Committee

4. RISK MANAGEMENT *(continued)*

b) Risk management framework (*continued)*

The Group's **Audit Committee** is responsible for monitoring compliance with Unicredit Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

c) Credit risk

(i) Credit risk management

The Bank's policies for risk management are set up to identify and analyze the risks faced by the Bank, to set up the adequate limits for risk and control, as well as to monitor the risks and respecting the limits. Policies and systems for risks management are periodically reviewed in order to present the changes in market conditions, products and services provided. The Group, through standards and procedures for management and training, is targeting to develop a constructive and disciplined environment within all employees to understand their roles and obligations.

Credit risk represents the risk that an unexpected change of the credit quality of counterparty might generate a change in the value of the credit exposure towards it. This change in the credit exposure value might be due to the default of the counterparty, that is not able to respect its contractual obligations or by the reduction of the credit quality of the counterparty: this latest case is more relevant in assets subject to mark to market and classified in the trading book.

The Group has set up processes for risk management and has tools for identification, measurement, monitoring and control the credit risk.

The Group's policy for the risk management promotes a set of principles and coherent practices, oriented toward the following objectives:

- Set up a framework and adequate parameters for credit risk;
- Promoting and operating a healthy and sound process for granting loans;
- Promoting and maitaining an adequate process for management, measurement and monitoring of loans;
- Ensuring a permanent control over the quality of granted loans portfolios.

Credit risk management is performed taking into account both individual loans and also entire portfolio and includes the quantitative and qualitative aspects related to risks.

The Group evaluates mainly the solvency of the entity/client which requests the loan facility. This evaluation is focused mainly on establishment of the manner in which the entity that is requesting the loan facility can respect its obligations by paying them autonomously, irrespective whether additional guarantees are provided or not (repayment capacity).

4. RISK MANAGEMENT *(continued)*

c) Credit risk *(continued)*

(ii) Forward looking information:

The Group applies probabilities to the forecast scenarios identified. The base case scenario is the single most – likely outcome and consists of information used by the Group for strategic planning and budgeting. The table below summarizes the main macroeconomic indicators included in the baseline economic scenarios used at 31 December 2018:

Macroeconomic scenario	Baseline			
	2018	2019	2020	2021
Real GDP, yoy % change	3.7	3.1	2.2	2.4
Inflation (CPI) yoy, eop	4.1	3.5	2.6	2.5
Unemployment rate, %	4.2	4.0	4.4	4.8
Short term rate, eop	3.0	3.3	3.0	2.8
Long-term interest rates 10y (%)	4.5	4.5	4.3	4.0
House Price Index, yoy % change	5.0	3.5	1.5	0.0

(iii) Exposure to credit risk

Throughout the ”Exposure to credit risk” notes and disclosures, “Group” includes UniCredit Bank S.A. and UniCredit Consumer Financing IFN S.A (“UCFIN”) for loans to customers, both for on balance sheet exposures and off balance sheet exposures. Lease receivables, belonging to UniCredit Leasing and Debo Leasing, are separately reported due to the fact that the business model and the related credit risk drivers are significantly different as compared to the Bank’s and UCFIN’s.

Throughout this chapter all the amounts contain the effect of Interest adjustments for impaired loans (IRC). As such, gross value of the loans and Allowance for impairment are presented net of IRC.

The table below present the structure of IRC for Gross exposure as of 31 December 2018:

Bank*				
In RON thousands		**Stage 3 Lifetime ECL IRC**		**Total Gross exposure**
Portfolio	**Gross exposure (net of IRC)**	**0-90 DPD**	**DPD 90+**	
Corporate	14,667,499	(1,228)	(125,627)	**14,540,644**
SME	2,225,400	(306)	(26,473)	**2,198,621**
Individuals	5,580,566	(516)	(18,804)	**5,561,246**
Individuals - private banking	102,854	(1)	-	**102,853**
Total	**22,576,319**	**(2,051)**	**(170,904)**	**22,403,364**

The table below present the structure of IRC for loss allowance as of 31 December 2018:

Bank*				
In RON thousands		**Stage 3 Lifetime ECL IRC**		**Total LLP**
Portfolio	**Allowance for impairment (net of IRC)**	**0-90 DPD**	**DPD 90+**	
Corporate	(1,100,399)	1,228	125,627	**(973,544)**
SME	(246,807)	306	26,473	**(220,028)**
Individuals	(252,471)	516	18,804	**(233,151)**
Individuals - private banking	(3,571)	1	-	**(3,570)**
Total	**(1,603,248)**	**2,051**	**170,904**	**(1,430,293)**

*The interest on impaired loans for subsidiaries is not sufficiently material in order to be necessary to calculate interest adjustments on impaired loans (IRC).

4. RISK MANAGEMENT *(continued)*

c) Credit risk *(continued)*

(iii) Exposure to credit risk *(continued)*

The table below presents the movements in interest adjustments for impaired loans as of 31 December 2018:

Interest adjustments for impaired loans	
In RON thousands	**2018**
Balance at 1 January 2018	**126,705**
Net impairement charge for the period	53,674
Foreign currency exchange effect	(7,424)
Final balance at 31 December 2018	**172,955**

- **Loans and advances to customers, on and off balance – Asset Quality**

	Group				
In RON thousands	**Stage 1 - 12 month ECL**	**Stage 2 - Lifetime ECL**	**Stage 3 - Lifetime ECL**	**Of which: POCI financial assets**	**Total**
As of 31st of December 2018					
Gross exposure	**28,299,608**	**6,249,552**	**1,981,079**	**32,662**	**36,530,239**
On balance	18,840,789	4,556,218	1,753,264	32,662	25,150,271
Off balance	9,458,819	1,693,334	227,815	-	11,379,968
Loss allowance	**(110,024)**	**(141,603)**	**(1,538,176)**	**(3,887)**	**(1,789,804)**
On balance	(102,758)	(116,008)	(1,395,657)	(3,887)	(1,614,423)
Off balance	(7,266)	(25,595)	(142,519)	-	(175,381)
Carrying value	**28,189,584**	**6,107,949**	**442,901**	**28,775**	**34,740,435**
On balance	18,738,032	4,440,210	357,606	28,775	23,535,848
Off balance*	9,451,552	1,667,739	85,295	-	11,204,587
As of 1st of January 2018					
Gross exposure	**26,655,951**	**5,884,976**	**2,093,040**	**41,276**	**34,633,968**
On balance	18,036,013	4,510,158	1,846,560	41,276	24,392,732
Off balance	8,619,938	1,374,818	246,480	-	10,241,236
Loss allowance	**(110,482)**	**(79,039)**	**(1,423,222)**	**(8,478)**	**(1,612,742)**
On balance	(101,755)	(65,927)	(1,312,061)	(8,478)	(1,479,743)
Off balance	(8,727)	(13,112)	(111,161)	-	(132,999)
Carrying value	**26,545,470**	**5,805,937**	**669,820**	**32,798**	**33,021,226**
On balance	17,934,259	4,444,231	534,500	32,798	22,912,989
Off balance *	8,611,211	1,361,706	135,320	-	10,108,237

*) Carrying value for off balance includes the provisions booked in balance sheet

4. RISK MANAGEMENT *(continued)*

d) Credit risk *(continued)*

(iii) Exposure to credit risk *(continued)*

Loans and advances to customers, on and off balance – Assets Quality (continued)

- **Loans and advances to banks at amortised cost** - from asset quality point of view are disclosed in note 22.
- **Financial assets at fair value through other comprehensive income** - from asset quality point of view are disclosed in note 25.

Bank					
In RON thousands	**Stage 1 - 12 month ECL**	**Stage 2 - Lifetime ECL**	**Stage 3 - Lifetime ECL**	**Of which: POCI financial assets**	**Total**
As of 31st of December 2018					
Gross exposure	**25,486,089**	**6,190,028**	**1,871,034**	**32,662**	**33,547,151**
On balance	16,262,728	4,497,417	1,643,219	32,662	22,403,364
Off balance	9,223,361	1,692,611	227,815	-	11,143,787
Loss allowance	**(41,533)**	**(125,502)**	**(1,438,638)**	**(3,887)**	**(1,605,674)**
On balance	(34,267)	(99,907)	(1,296,119)	(3,887)	(1,430,293)
Off balance	(7,266)	(25,595)	(142,519)	-	(175,381)
Carrying value	**25,444,556**	**6,064,526**	**432,396**	**28,775**	**31,941,477**
On balance	16,228,461	4,397,510	347,101	28,775	20,973,071
Off balance*	9,216,095	1,667,016	85,295	-	10,968,406
As of 1st of January 2018					
Gross exposure	**24,271,039**	**5,831,447**	**2,033,631**	**41,276**	**32,136,117**
On balance	15,842,663	4,457,131	1,787,151	41,276	22,086,945
Off balance	8,428,376	1,374,316	246,480	-	10,049,172
Loss allowance	**(48,305)**	**(77,704)**	**(1,375,875)**	**(8,478)**	**(1,501,883)**
On balance	(39,578)	(64,592)	(1,264,714)	(8,478)	(1,368,884)
Off balance	(8,727)	(13,112)	(111,161)	-	(132,999)
Carrying value	**24,222,733**	**5,753,743**	**657,758**	**32,798**	**30,634,235**
On balance	15,803,084	4,392,539	522,438	32,798	20,718,062
Off balance*	8,419,649	1,361,204	135,320	-	9,916,173

*) Carrying value for off balance includes the provisions booked in balance sheet

4. RISK MANAGEMENT *(continued)*

c) Credit risk *(continued)*

(iii) Exposure to credit risk *(continued)*

- **Lease receivables, on and off balance – Assets Quality**

In RON thousands	Stage 1 - 12 month ECL	Stage 2 - Lifetime ECL	Stage 3 - Lifetime ECL	Of which: POCI financial assets	Total
As of 31st of December 2018					
Gross exposure	**4,073,702**	**363,958**	**417,653**	**-**	**4,855,313**
On balance	3,670,674	363,958	417,283	-	4,451,915
Off balance	403,028	-	370	-	403,398
Loss allowance	**(52,149)**	**(16,789)**	**(295,307)**	**-**	**(364,245)**
On balance	(50,617)	(16,789)	(295,306)	-	(362,712)
Off balance	(1,532)	-	(1)	-	(1,533)
Carrying value	**4,021,553**	**347,169**	**122,346**	**-**	**4,491,068**
On balance	3,620,057	347,169	121,977	-	4,089,203
Off balance*	401,496	-	369	-	401,865
As of 1st of January 2018					
Gross exposure	**3,423,958**	**551,959**	**477,372**	**-**	**4,453,289**
On balance	3,025,441	533,423	474,533	-	4,033,397
Off balance	398,518	18,535	2,839	-	419,892
Loss allowance	**(26,201)**	**(11,858)**	**(313,336)**	**-**	**(351,396)**
On balance	(25,556)	(11,796)	(312,804)	-	(350,155)
Off balance	(646)	(63)	(532)	-	(1,240)
Carrying value	**3,397,757**	**540,100**	**164,036**	**-**	**4,101,894**
On balance	2,999,885	521,628	161,729	-	3,683,242
Off balance*	397,872	18,473	2,307	-	418,652

*) Carrying value for off balance includes the provisions booked in balance sheet

4. RISK MANAGEMENT *(continued)*

c) Credit risk *(continued)*

(iii) Exposure to credit risk *(continued)*

Loan portfolio is assessed for credit risk based on internal rating models. Customers are assigned with a certain rating notch which indicates the one-year probability of default. Rating notches are mapped to the UniCredit Group wide Master Scale. The Master Scale provides a standard rating scale for the entire UniCredit Group loan portfolio and also ensures comparability with rating scales from external rating agencies, based on the one-year probabilities of default assigned to each rating notch (calibration).

The Master Scale contains 10 rating classes, which are subdivided in 27 rating notches. Customers in the rating notches 1+ to 8 are expected to default only with a low probability and are defined as non-impaired customers. Rating notches 8-, 9 and 10 contains impaired customers in accordance with regulatory definitions for impaired clients.

The Group's overall risk exposure is disclosed according to the amount of identifiable impairment into four main categories: individually significant impaired, other impaired loans, past due but not impaired and neither past due nor individually impaired according to the internal rating of the Group and the past due status.

Impaired loans (including leasing receivables)

Loans and receivables are impaired and impairment adjustment incur whether an objective impairment evidence exist as a result of:

- one or many triggers which appeared after initial recognition of the investment (default events);
- that default event has an impact on estimated future cash flow of the asset which can be reliable measured.

Individually significant impaired loans

Individually significant impaired loans comprises significant private individuals (more than EUR 250,000) which have at least one default event, as defined in the Bank's internal procedures, and significant corporate clients (more than EUR 1 million) with grade 8-, 9 or 10, as defined in the internal rating of the Bank; these two categories are individually assessed by the Group.

For all of them, the collaterals are divided between property, goods, assignment of receivables and other. Other collateral includes pledge on stocks, machinery, cash and financial risk insurance.

Neither past due nor individually impaired

It includes all exposures not classified in the above categories and considered to be all performing.

Other impaired loans

Other impaired loans includes all private individuals exposures which are more than 90 days overdue and corporate and business clients exposures with grade 8-, 9 and 10 which are not individually significant.

4. RISK MANAGEMENT *(continued)*

c) Credit risk *(continued)*

(iii) Exposure to credit risk *(continued)*

Past due but not impaired loans

Loans for which contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available and / or the stage of collection of amounts owed to the Group.

Allowances for impairment

The Group establishes an allowance for impairment losses based on the internal methodology as described in note 3g (*i*).

Restructured exposures are loan contracts for which restructuring measures have been applied, these are closely monitored by the Group.

Any replacement operation of assets given to debtor that is facing or about to face financial difficulties in meeting financial commitments, represents a concession granted to the borrower (forbearance), which wouldn't have been granted if the debtor wouldn't be in financial dificulties.

A concession refers to one of the following actions:

- a change in previous terms and conditions of a contract under which it is considered that the debtor cannot meet due to the financial difficulties ("problem asset"), in order to allow a sufficient capacity to service the debt, which would have not been granted if the debtor had not been in financial difficulty;
- a total or partial refinancing of a contract related to a problem asset, which would have not been granted the debtor had not been in financial difficulty.

A concession may generate a loss for the lender.

The replacement operations of the performant assets, that have been found objective evidence of impairment, lead to consider these exposures as problem assets only if there is a negative impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Collateral

To a large degree, the Group's exposure is in the form of traditional loans to non-financial companies and households. These loans may be secured by collateral (e.g., a mortgage on property or a charge over securities, movable property or receivables) or guarantees (usually provided by individuals or legal entities).Any form of collateral serves only as additional security for the secured loan and as such is taken into account at the time the creditworthiness of the entity requesting the credit facility is assessed. In order to protect against fluctuations in the market value of assets assigned to the Group as collateral, the value of the collateral should generally provide an adequate margin in excess of the current value of such assets, and this margin is properly adjusted as a function of the intrinsic characteristics of these assets.

When assessing collateral, special emphasis is placed on the enforceability of the collateral and its appropriateness. With regard to the former, as required by the BIS III Capital Accord the collateral obtained must be valid, effective and binding for the collateral provider, and it must be enforceable with respect to third parties in all jurisdictions, including in the event of the insolvency or receivership of the borrower and/or the collateral provider.

4. RISK MANAGEMENT *(continued)*

c) Credit risk *(continued)*

(iii) Exposure to credit risk *(continued)*

Due to the importance of this requirement, including for the purposes of mitigating the capital requirement for credit risk, the application procedure and related processes governing this area are particularly strict, to ensure that the documents obtained are complete and according to the procedure at a standalone level.

With regard to appropriateness, security is said to be appropriate when it is qualitatively and quantitatively sufficient with respect to the amount and nature of the credit facility, provided there are no significant risk elements associated with the provider of security.

The tables below present for the Group the breakdown of loans to customers by **business segment** and **asset quality types**, including also the allocated **collaterals** for the respective asset quality classes, separately for on balance sheet exposures and off balance sheet exposures.

		Group			
		2018			
In RON thousands	Total out of which:	Corporate	SME	Private Individual	Private banking
Individually significant impaired loans					
Stage 3	1,465,308	1,027,685	179,819	255,131	2,674
Gross amount	**1,465,308**	**1,027,685**	**179,819**	**255,131**	**2,674**
Allowance for impairment	(1,238,537)	(862,000)	(145,606)	(228,548)	(2,383)
Net carrying amount	**226,772**	**165,685**	**34,213**	**26,583**	**291**
Fair value of collateral	**349,226**	**273,187**	**50,018**	**26,020**	**-**
Property	271,347	205,572	39,754	26,020	-
Goods	47,102	38,713	8,389	-	-
Assignment of receivables	17,313	17,313	-	-	-
Other collateral	13,464	11,589	1,875	-	-
Other impaired loans	**-**	**-**	**-**	**-**	**-**
Stage 3	**287,955**	**30,403**	**89,869**	**167,682**	**1**
Gross amount	**287,955**	**30,403**	**89,869**	**167,682**	**1**
Allowance for impairment	(157,121)	(22,146)	(64,814)	(70,159)	(1)
Net carrying amount	**130,835**	**8,257**	**25,055**	**97,523**	**0**
Fair value of collateral	**135,826**	**9,925**	**25,172**	**100,729**	**-**
Property	127,651	7,435	20,905	99,312	-
Goods	3,046	864	2,180	2	-
Assignment of receivables	500	500	-	-	-
Other collateral	4,629	1,126	2,088	1,415	-
Past due but not impaired	**-**	**-**	**-**	**-**	**-**
Stage 1	647,020	257,322	141,425	246,524	1,749
Stage 2	512,594	78,538	76,323	357,650	83
Gross amount	**1,159,614**	**335,860**	**217,748**	**604,174**	**1,831**
Allowance for impairment	(46,450)	(712)	(2,983)	(42,754)	(1)
Net carrying amount	**1,113,164**	**335,149**	**214,765**	**561,420**	**1,830**
Neither past due nor impaired					
Stage 1	18,193,772	10,415,824	1,541,543	6,170,508	65,896
Stage 2	4,043,624	2,665,621	169,642	1,175,910	32,450
Gross amount	**22,237,396**	**13,081,446**	**1,711,186**	**7,346,418**	**98,347**
Allowance for impairment	(172,315)	(88,686)	(6,625)	(75,820)	(1,184)
Net carrying amount	**22,065,080**	**12,992,759**	**1,704,561**	**7,270,598**	**97,163**
Total carrying amount	**23,535,850**	**13,501,850**	**1,978,593**	**7,956,124**	**99,284**

4. RISK MANAGEMENT *(continued)*

c) Credit risk *(continued)*

(iii) Exposure to credit risk *(continued)*

Group					
		2018			
In RON thousands	**Total out of which:**	**Corporate**	**SME**	**Private Individual**	**Private banking**
Off balance - Loan commitments					
Stage 1	7,026,025	6,082,475	613,751	328,245	1,554
Stage 2	977,986	808,586	74,697	90,696	4,007
Stage 3	80,287	79,168	751	229	138
Gross carrying amount	**8,084,297**	**6,970,229**	**689,199**	**419,170**	**5,699**
Allowance for impairment	(58,472)	(57,002)	(1,350)	(118)	(1)
Net carrying amount	**8,025,826**	**6,913,227**	**687,849**	**419,052**	**5,698**
Off balance - Letters of credit					
Stage 1	79,867	70,901	8,966	-	-
Stage 2	49,077	49,077	-	-	-
Stage 3	3,484	3,484	-	-	-
Gross carrying amount	**132,428**	**123,462**	**8,966**	**-**	**-**
Allowance for impairment	(2,516)	(2,499)	(17)	-	-
Net carrying amount	**129,912**	**120,963**	**8,949**	**-**	**-**
Off balance - Guarantees issued					
Stage 1	2,352,927	2,285,161	65,626	1,075	1,064
Stage 2	666,272	637,991	14,545	2,646	11,089
Stage 3	144,044	142,019	1,830	195	-
Gross carrying amount	**3,163,243**	**3,065,171**	**82,002**	**3,917**	**12,153**
Allowance for impairment	(114,393)	(113,333)	(964)	(83)	(13)
Net carrying amount*	**3,048,850**	**2,951,838**	**81,037**	**3,834**	**12,140**
Total carrying amount	**11,204,587**	**9,986,028**	**777,835**	**422,886**	**17,838**

*) Carrying value for off balance includes the provisions booked in balance sheet

4. RISK MANAGEMENT *(continued)*

c) Credit risk *(continued)*

(iii) Exposure to credit risk *(continued)*

The tables below present for the Bank the breakdown of loans to customers by business segment and asset quality types, including also the allocated collaterals for the respective asset quality classes, separately for on balance sheet exposures and off balance sheet exposures.

Bank					
		2018			
In RON thousands	**Total out of which:**	**Corporate**	**SME**	**Private Individual**	**Private banking**
Individually significant impaired loans					
Stage 3	1,355,264	1,027,685	179,819	145,087	2,674
Gross amount	**1,355,264**	**1,027,685**	**179,819**	**145,087**	**2,674**
Allowance for impairment	(1,138,998)	(862,000)	(145,606)	(129,010)	(2,383)
Net carrying amount	**216,266**	**165,685**	**34,213**	**16,077**	**291**
Fair value of collateral	**349,226**	**273,187**	**50,018**	**26,020**	**-**
Property	271,347	205,572	39,754	26,020	-
Goods	47,102	38,713	8,389	-	-
Assignment of receivables	17,313	17,313	-	-	-
Other collateral	13,464	11,589	1,875	-	-
Other impaired loans					
Stage 3	**287,955**	**30,403**	**89,869**	**167,682**	**1**
Gross amount	**287,955**	**30,403**	**89,869**	**167,682**	**1**
Allowance for impairment	(157,121)	(22,146)	(64,814)	(70,159)	(1)
Carrying amount	**130,835**	**8,257**	**25,055**	**97,523**	**0**
Fair value of collateral	**135,826**	**9,925**	**25,172**	**100,729**	**-**
Property	127,651	7,435	20,905	99,312	-
Goods	3,046	864	2,180	2	-
Assignment of receivables	500	500	-	-	-
Other collateral	4,629	1,126	2,088	1,415	-
Past due but not impaired					
Stage 1	553,781	257,322	141,425	153,285	1,749
Stage 2	453,945	78,538	76,323	299,001	83
Gross amount	**1,007,726**	**335,860**	**217,748**	**452,287**	**1,831**
Allowance for impairment	(17,543)	(712)	(2,983)	(13,847)	(1)
Carrying amount	**990,184**	**335,149**	**214,765**	**438,440**	**1,830**
Neither past due nor impaired					
Stage 1	15,708,947	10,481,074	1,541,543	3,620,434	65,896
Stage 2	4,043,471	2,665,621	169,642	1,175,758	32,450
Gross amount	**19,752,418**	**13,146,695**	**1,711,186**	**4,796,191**	**98,347**
Allowance for impairment	(116,632)	(88,686)	(6,625)	(20,136)	(1,184)
Net carrying amount	**19,635,787**	**13,058,009**	**1,704,561**	**4,776,055**	**97,163**
Total carrying amount	**20,973,071**	**13,567,100**	**1,978,593**	**5,328,095**	**99,284**

4. RISK MANAGEMENT *(continued)*

c) Credit risk *(continued)*

(iii) Exposure to credit risk *(continued)*

Bank					
	2018				
In RON thousands	**Total out of which:**	**Corporate**	**SME**	**Private Individual**	**Private banking**
Off balance - Loan commitments					
Stage 1	6,790,567	6,082,475	613,751	92,787	1,554
Stage 2	977,262	808,586	74,697	89,973	4,007
Stage 3	80,287	79,168	751	229	138
Gross carrying amount	**7,848,116**	**6,970,229**	**689,199**	**182,989**	**5,699**
Allowance for impairment	(58,472)	(57,002)	(1,350)	(118)	(1)
Net carrying amount	**7,789,645**	**6,913,227**	**687,849**	**182,871**	**5,698**
Off balance - Letters of credit					
Stage 1	79,867	70,901	8,966	-	-
Stage 2	49,077	49,077	-	-	-
Stage 3	3,484	3,484	-	-	-
Gross carrying amount	**132,428**	**123,462**	**8,966**	**-**	**-**
Allowance for impairment	(2,516)	(2,499)	(17)	-	-
Net carrying amount	**129,912**	**120,963**	**8,949**	**-**	**-**
Off balance - Guarantees issued					
Stage 1	2,352,927	2,285,161	65,626	1,075	1,064
Stage 2	666,272	637,991	14,545	2,646	11,089
Stage 3	144,044	142,019	1,830	195	-
Gross carrying amount	**3,163,243**	**3,065,171**	**82,002**	**3,917**	**12,153**
Allowance for impairment	(114,393)	(113,333)	(964)	(83)	(13)
Net carrying amount*	**3,048,850**	**2,951,838**	**81,037**	**3,834**	**12,140**
Total carrying amount	**10,968,406**	**9,986,028**	**777,835**	**186,705**	**17,838**

*) Carrying value for off balance includes the provisions booked in balance sheet

4. RISK MANAGEMENT *(continued)*

c) Credit risk *(continued)*

(iii) Exposure to credit risk *(continued)*

The tables below present the breakdown of **lease receivables** by business segment and asset quality types, including also the allocated collaterals for the respective asset quality classes, separately for on balance sheet exposures and off balance sheet exposures.

	2018			
In RON thousands	**Total out of which:**	**Corporate**	**SME**	**Private Individual**
Individually significant impaired loans				
Stage 3				
Gross amount	**356,404**	**12,528**	**342,909**	**967**
Allowance for impairment	(261,280)	(7,988)	(252,324)	(967)
Net carrying amount	**95,124**	**4,539**	**90,585**	**-**
Fair value of collateral	**191,949**	**4,286**	**187,600**	**64**
Property	14,442	-	14,442	-
Vehicles and equipment	98,838	3,821	94,953	64
Assignment of receivables	-	-	-	-
Other collateral	78,670	465	78,205	-
Other impaired loans	**-**	**-**	**-**	**-**
Stage 3	-	-	-	-
Gross amount	**60,879**	**-**	**59,783**	**1,096**
Allowance for impairment	**(34,034)**	**-**	**(33,350)**	**(685)**
Carrying amount	**26,845**	**-**	**26,433**	**412**
Fair value of collateral	**29,017**	**-**	**28,592**	**425**
Property	-	-	-	-
Vehicles and equipment	28,554	-	28,129	425
Assignment of receivables	-	-	-	-
Other collateral	463	-	463	-
Past due but not impaired				
Stage 1	191,731	3,481	187,136	1,114
Stage 2	231,575	3,170	228,266	139
Gross amount	**423,306**	**6,651**	**415,403**	**1,253**
Allowance for impairment	(8,918)	(160)	(8,724)	(34)
Carrying amount	**414,388**	**6,491**	**406,678**	**1,219**
Neither past due nor impaired				
Stage 1	3,478,943	278,819	3,165,397	34,728
Stage 2	132,383	-	132,383	-
Gross amount	**3,611,326**	**278,819**	**3,297,779**	**34,728**
Allowance for impairment	(58,480)	(5,501)	(51,842)	(1,137)
Net carrying amount	**3,552,846**	**273,318**	**3,245,937**	**33,591**
Total carrying amount	**4,089,203**	**284,348**	**3,791,412**	**35,221**

4. RISK MANAGEMENT *(continued)*

c) Credit risk *(continued)*

(iii) Exposure to credit risk *(continued)*

	2018			
In RON thousands	**Total out of which:**	**Corporate**	**SME**	**Private Individual**
Off balance - Loan commitments				
Stage 1	403,028	97,850	304,950	228
Stage 2				
Stage 3	370		370	
Gross carrying amount	**403,398**	**97,850**	**305,320**	**228**
Allowance for impairment	(1,533)	(353)	(1,180)	(1)
Net carrying amount*	**401,865**	**97,498**	**304,140**	**227**

The tables below present the breakdown of loans and advances to customers by risk grades, separately for on balance sheet exposures and off balance sheet exposures.

	Group				
In RON thousands	2018				
Loans and advances to customers at amortised cost (on balance)	**Stage 1 - 12 month ECL**	**Stage 2 - Lifetime ECL**	**Stage 3 - Lifetime ECL**	**Of which: POCI financial assets**	**Total**
Grades 1-3 : performing (low risk)	3,413,071	64,945	-	-	3,478,016
Grades 4-6 : performing (fair risk)	14,226,668	3,210,416	-	-	17,437,084
Grades 7-8 : performing (monitoring & substandard)	1,198,879	1,253,119	-	26,007	2,451,998
Grade 8 - : impaired	-	-	1,171,238	6,656	1,171,238
Grade 9: impaired	-	-	227,279	-	227,279
Grade 10: impaired	-	-	354,746	-	354,746
Unrated	2,172	27,738	-	-	29,910
Total gross carrying amount	**18,840,790**	**4,556,218**	**1,753,263**	**32,663**	**25,150,271**
Loss allowance	(102,758)	(116,008)	(1,395,657)	(3,887)	(1,614,423)
Net carrying amount	**18,738,032**	**4,440,210**	**357,606**	**28,776**	**23,535,848**

	Group				
In RON thousands	2018				
Loans and advances to customers at amortised cost (off balance)	**Stage 1 - 12 month ECL**	**Stage 2 - Lifetime ECL**	**Stage 3 - Lifetime ECL**	**Of which: POCI financial assets**	**Total**
Grades 1-3 : performing (low risk)	2,908,698	285,094	-	-	3,193,792
Grades 4-6 : performing (fair risk)	6,269,181	806,527	-	-	7,075,708
Grades 7-8 : performing (monitoring & substandard)	270,908	585,475	-	-	856,383
Grade 8 - : impaired	-	-	164,190	-	164,190
Grade 9: impaired	-	-	62,921	-	62,921
Grade 10: impaired	-	-	703	-	703
Unrated	10,032	16,238	-	-	26,270
Total gross carrying amount	**9,458,819**	**1,693,334**	**227,814**	**-**	**11,379,967**
Loss allowance	(7,266)	(25,595)	(142,519)	-	(175,380)
Net carrying amount*	**9,451,553**	**1,667,739**	**85,295**	**-**	**11,204,587**

*) Carrying value for off balance includes the provisions booked in balance sheet

4. RISK MANAGEMENT *(continued)*

c) Credit risk *(continued)*

(iii) Exposure to credit risk *(continued)*

	Bank				
In RON thousands	**2018**				
Loans and advances to customers at amortised cost (on balance)	**Stage 1 - 12 month ECL**	**Stage 2 - Lifetime ECL**	**Stage 3 - Lifetime ECL**	**Of which: POCI financial assets**	**Total**
Grades 1-3 : performing (low risk)	928,248	64,945	-	-	993,193
Grades 4-6 : performing (fair risk)	14,133,429	3,204,376	-	-	17,337,805
Grades 7-8 : performing (monitoring & substandard)	1,198,879	1,200,358	-	26,007	2,399,237
Grade 8 - : impaired	-	-	1,117,926	6,656	1,117,926
Grade 9: impaired	-	-	200,498	-	200,498
Grade 10: impaired	-	-	324,795	-	324,795
Unrated	2,172	27,738	-	-	29,910
Total gross carrying amount	**16,262,728**	**4,497,417**	**1,643,219**	**32,663**	**22,403,364**
Loss allowance	(34,267)	(99,907)	(1,296,119)	(3,887)	(1,430,293)
Net carrying amount	**16,228,461**	**4,397,510**	**347,100**	**28,776**	**20,973,071**

	Bank				
In RON thousands	**2018**				
Loans and advances to customers at amortised cost (off balance)	**Stage 1 - 12 month ECL**	**Stage 2 - Lifetime ECL**	**Stage 3 - Lifetime ECL**	**Of which: POCI financial assets**	**Total**
Grades 1-3 : performing (low risk)	2,673,241	285,094	-	-	2,958,335
Grades 4-6 : performing (fair risk)	6,269,181	806,043	-	-	7,075,224
Grades 7-8 : performing (monitoring & substandard)	270,908	585,235	-	-	856,143
Grade 8 - : impaired	-	-	164,190	-	164,190
Grade 9: impaired	-	-	62,921	-	62,921
Grade 10: impaired	-	-	703	-	703
Unrated	10,032	16,238	-	-	26,270
Total gross carrying amount	**9,223,362**	**1,692,610**	**227,814**	**-**	**11,143,786**
Loss allowance	(7,266)	(25,595)	(142,519)	-	(175,380)
Net carrying amount*	**9,216,096**	**1,667,015**	**85,295**	**-**	**10,968,406**

*) Carrying value for off balance includes the provisions booked in balance sheet

4. RISK MANAGEMENT *(continued)*

c) Credit risk *(continued)*

(iii) Exposure to credit risk *(continued)*

- **Loans and advances to customers, on and off balance – Assets Quality as reported under IAS 39 as at 31 December 2017**

	2017	
In RON thousands	**Group**	**Bank**
Individually significant impaired loans		
Grade 8-: Impaired	1,122,854	1,063,445
Grade 9: Impaired	151,437	151,437
Grade 10: Impaired	248,846	248,846
Gross amount	**1,523,137**	**1,463,728**
Allowance for impairment	(1,135,751)	(1,089,237)
Carrying amount	**387,386**	**374,491**
Fair value of collateral	**375,971**	**375,971**
Property	323,987	323,987
Goods	25,209	25,209
Assignment of receivables	21,084	21,083
Other collateral	5,691	5,691
Other impaired loans	**-**	-
Grade 8-: Impaired	207,136	207,136
Grade 9: Impaired	2,146	2,146
Grade 10: Impaired	113,998	113,998
Gross amount	**323,280**	**323,280**
Allowance for impairment	(174,799)	(174,799)
Carrying amount	**148,481**	**148,481**
Fair value of collateral	**135,639**	**135,639**
Property	127,143	127,143
Goods	2,521	2,521
Assignment of receivables	12	12
Other collateral	5,963	5,963
Past due but not impaired		-
Grade 1 - 7, out of which:	**963,122**	**818,883**
Less than 90 overdue days	960,403	816,644
More than 90 overdue days	2,719	2,239
Grade 8, out of which:	**287,596**	**287,596**
Less than 90 overdue days	273,377	273,377
More than 90 overdue days	14,219	14,219
Gross amount	**1,250,718**	**1,106,480**
Allowance for impairment	(30,305)	(15,190)
Carrying amount	**1,220,413**	**1,091,289**
Neither past due nor impaired	-	-
Grade 1-7	21,164,502	19,073,225
Grade 8	129,147	129,147
Gross amount	**21,293,649**	**19,202,371**
Allowance for impairment	(99,105)	(59,347)
Carrying amount	**21,194,544**	**19,143,024**
Total Carrying amount	**22,950,823**	**20,757,285**

4. RISK MANAGEMENT *(continued)*

c) Credit risk *(continued)*

(iii) Exposure to credit risk *(continued)*

In RON thousands			**2018**		
Lease receivables (on balance)	**Stage 1 - 12 month ECL**	**Stage 2 - Lifetime ECL**	**Stage 3 - Lifetime ECL**	**Of which: POCI financial assets**	**Total**
Grades 1-3 : performing (low risk)	43,262	369	-	-	43,631
Grades 4-6 : performing (fair risk)	2,721,343	272,219	-	-	2,993,562
Grades 7-8 : performing (monitoring & substandard)	906,070	91,369	-	-	997,439
Grade 8 - : impaired	-	-	28,539	-	28,539
Grade 9: impaired	-	-	175,334	-	175,334
Grade 10: impaired	-	-	213,410	-	213,410
Unrated	**3,670,675**	**363,957**	**417,283**	**-**	**4,451,915**
Total gross carrying amount	**(50,609)**	**(16,789)**	**(295,314)**	**-**	**(362,712)**
Loss allowance	**3,620,066**	**347,168**	**121,969**	**-**	**4,089,203**

In RON thousands			**2018**		
Lease receivables (off balance)	**Stage 1 - 12 month ECL**	**Stage 2 - Lifetime ECL**	**Stage 3 - Lifetime ECL**	**Of which: POCI financial assets**	**Total**
Grades 1-3 : performing (low risk)	9	-	-	-	9
Grades 4-6 : performing (fair risk)	371,909	-	-	-	371,909
Grades 7-8 : performing (monitoring & substandard)	31,110	-	-	-	31,110
Grade 8 - : impaired	-	-	370	-	370
Grade 9: impaired	-	-	-	-	-
Grade 10: impaired	-	-	-	-	-
Total gross carrying amount	**403,028**	**-**	**370**	**-**	**403,398**
Loss allowance	**(1,532)**	**-**	**(1)**	**-**	**(1,533)**
Net Carrying amount*	**401,496**	**-**	**369**	**-**	**401,865**

*) Carrying value for off balance includes the provisions booked in balance sheet

4. RISK MANAGEMENT *(continued)*

c) Credit risk *(continued)*

(iii) Exposure to credit risk *(continued)*

- **Lease receivables, on and off balance – Assets Quality as reported under IAS 39 as of 31 December 2017**

In RON thousands	2017
Finance leases individually impaired	
Grade 8-: Impaired	46,934
Grade 9: Impaired	171,405
Grade 10: Impaired	203,329
Gross amount	**421,668**
Allowance for impairment	(262,899)
Carrying amount	**158,769**
Fair value of collateral	**221,658**
Property	131,603
Other collateral	90,055
Other impaired finance leases	**-**
Grade 8-: Impaired	17,343
Grade 9: Impaired	2,842
Grade 10: Impaired	32,601
Other impaired	-
Gross amount	**52,786**
Allowance for impairment	(33,875)
Carrying amount	**18,911**
Fair value of collateral	**22,513**
Property	22,347
Other collateral	166
Finance lease past due but not impaired	**-**
Grade 1 - 7	**388,045**
Less than 90 overdue days	368,399
More than 90 overdue days	19,646
Grade 8	**12,796**
Less than 90 overdue days	12,796
More than 90 overdue days	-
Gross amount	**400,840**
Allowance for impairment	(2,774)
Carrying amount	**398,066**
Finance lease neither past due nor impaired	-
Grade 1 - 7	3,074,251
Grade 8	84,261
Gross amount	**3,158,512**
Allowance for impairment	(21,295)
Carrying amount	**3,137,217**
Total carrying amount	**3,712,963**

4. RISK MANAGEMENT *(continued)*

c) Credit risk *(continued)*

(iii) Exposure to credit risk *(continued)*

The tables below present the breakdown of loans and advances to banks by risk grades, separately for on balance sheet exposures and off balance sheet exposures.

	Group				
In RON thousands	**2018**				
Loans and advances to banks at amortised cost	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Of which: POCI financial assets**	**Total**
Grades 1-8 : performing	1,894,606	3,123	-	-	1,897,730
Grades 8- : impaired	-	-	-	-	-
Grade 9: impaired	-	-	-	-	-
Grade 10: impaired	-	-	-	-	-
Unrated	-	-	-	-	-
Total gross carrying amount	**1,894,606**	**3,123**	**-**	**-**	**1,897,730**
Loss allowance	(111)	(16)	-	-	(127)
Net carrying amount	**1,894,495**	**3,108**	**-**	**-**	**1,897,602**
Gross Carrying amount – off balance	**1,628,743**	-	-	-	**1,628,743**
Loss allowance	**(181)**	-	-	-	**(181)**

	Bank				
In RON thousands	**2018**				
Loans and advances to banks at amortised cost	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Of which: POCI financial assets**	**Total**
Grades 1-8 : performing	1,894,606	3,123	-	-	1,897,730
Grades 8- : impaired	-	-	-	-	-
Grade 9: impaired	-	-	-	-	-
Grade 10: impaired	-	-	-	-	-
Unrated	-	-	-	-	-
Total gross carrying amount	**1,894,606**	**3,123**	**-**	**-**	**1,897,730**
Loss allowance	**(111)**	**(16)**	**-**	**-**	**(127)**
Net carrying amount	**1,894,495**	**3,108**	**-**	**-**	**1,897,602**

4. RISK MANAGEMENT *(continued)*

c) Credit risk *(continued)*

(iii) Exposure to credit risk *(continued)*

The tables below present the breakdown of financial assets at fair value through other comprehensive income by risk grades, separately for on balance sheet exposures.

	Group				
In RON thousands	**2018**				
Financial assets at fair value through other comprehensive income	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Of which: POCI financial assets**	**Total**
Grades 1-8 : performing	7,330,621	-	-	-	7,330,621
Grades 8- : impaired	-	-	-	-	-
Grade 9: impaired	-	-	-	-	-
Grade 10: impaired	-	-	-	-	-
Unrated	-	-	-	-	-
Total gross carrying amount	**7,330,621**	**-**	**-**	**-**	**7,330,621**
Loss allowance	**-**	**-**	**-**	**-**	**-**
Net carrying amount	**7,330,621**	**-**	**-**	**-**	**7,330,621**

	Bank				
In RON thousands	**2018**				
Financial assets at fair value through other comprehensive income	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Of which: POCI financial assets**	**Total**
Grades 1-8 : performing	7,328,275	-	-	-	7,328,275
Grades 8- : impaired	-	-	-	-	-
Grade 9: impaired	-	-	-	-	-
Grade 10: impaired	-	-	-	-	-
Unrated	-	-	-	-	-
Total gross carrying amount	**7,328,275**	**-**	**-**	**-**	**7,328,275**
Loss allowance	**-**	**-**	**-**	**-**	**-**
Net carrying amount	**7,328,275**	**-**	**-**	**-**	**7,328,275**

4. RISK MANAGEMENT *(continued)*

c) Credit risk *(continued)*

(iii) Exposure to credit risk *(continued)*

- **Concentration of credit risk related to loans and advances to customers**

The Group monitors concentrations of credit risk by sector of activity, client segment, products, ratings, geographical area on a quarterly basis. An analysis of concentrations of credit risk by industry at the reporting date is shown below:

Group			
Loans to customers at amortised cost - ON balance		**2018**	**2017**
Private entities (including individuals)		**8,411,006**	**7,634,019**
SME	G Wholesale and retail trade	808,203	695,988
	C Manufacturing	495,115	443,039
	A Agriculture, forestry and fishing	249,473	222,851
	F Construction	170,848	180,714
	H Transport and storage	129,445	115,679
	Other industries	345,537	291,589
Total SME		**2,198,621**	**1,949,862**
Corporate	C Manufacturing	4,845,213	4,774,984
	G Wholesale and retail trade	3,455,397	3,255,451
	L Real estate activities	1,779,812	1,638,288
	A Agriculture, forestry and fishing	1,115,190	1,046,890
	H Transport and storage	629,715	554,058
	Other industries	2,715,317	3,540,948
Total Corporate		**14,540,644**	14,810,621
Total		**25,150,271**	**24,394,502**
Allowance for impairment		**(1,614,423)**	**(1,439,959)**
Net carrying amount		**23,535,848**	**22,954,543**

4. RISK MANAGEMENT *(continued)*

c) Credit risk *(continued)*

(iii) Exposure to credit risk *(continued)*

- **Concentration of credit risk related to loans and advances to customers *(continued)***

Group			
Loans to customers at amortised cost - OFF balance		**2018**	**2017**
Private entities (including individuals)		**440,939**	**418,996**
Loan commitments			
SME	G Wholesale and retail trade	217,944	186,260
	C Manufacturing	176,779	114,488
	A Agriculture, forestry and fishing	114,558	73,566
	F Construction	61,166	48,397
	H Transport and storage	22,806	25,349
	Other industries	95,946	71,009
Total SME		**689,199**	**519,069**
Corporate	A Agriculture, forestry and fishing	1,741,182	226,554
	B Mining and quarrying	1,688,099	50,161
	C Manufacturing	696,706	2,197,876
	D Electricity, gas, steam and air conditioning supply	685,672	316,203
	E Water supply	538,854	48,561
	Other industries	1,619,717	3,400,462
Total Corporate		**6,970,229**	**6,239,817**
Total loan commitments		**7,659,428**	**6,758,886**
Letters of credit			
SME	C Manufacturing	8,664	-
	G Wholesale and retail trade	302	128
Total SME		**8,966**	**128**
Corporate	G Wholesale and retail trade	68,119	68,574
	C Manufacturing	43,805	68,019
	K Financial and insurance activities	5,352	-
	M Professional, scientific and technical activities	2,079	-
	A Agriculture, forestry and fishing	1,983	1,034
	Other industries	2,125	4,469
Total Corporate		**123,462**	**142,097**
Total letters of credit		**132,428**	**142,225**
Financial guarantees			
SME	G Wholesale and retail trade	26,837	22,983
	L Real estate activities	11,013	8
	F Construction	8,495	8,532
	M Professional, scientific and technical activities	7,471	4,359
	N Administrative and support service activities	7,351	5,523
	Other industries	20,834	18,033
Total SME		**82,002**	**59,438**
Corporate	G Wholesale and retail trade	914,441	966,762
	D Electricity, gas, steam and air conditioning supply	649,012	410,521
	F Construction	591,365	571,715
	C Manufacturing	245,856	258,244
	J Information and communication	169,381	119,854
	Other industries	495,116	534,596
Total Corporate		**3,065,171**	**2,861,691**
Total financial guarantees		**3,147,173**	**2,921,129**
Total off balance sheet exposures for loans to customers		**11,379,968**	**10,241,236**
Loss allowance		**(175,381)**	**(132,758)**

4. RISK MANAGEMENT *(continued)*

c) Credit risk *(continued)*

(iii) Exposure to credit risk *(continued)*

- **Concentration of credit risk related to loans and advances to customers *(continued)***

Bank			
Loans to customers at amortised cost - ON balance		**2018**	**2017**
Private entities (including individuals)		**5,664,099**	**5,328,289**
SME	G Wholesale and retail trade	808,203	695,988
	C Manufacturing	495,115	443,039
	A Agriculture, forestry and fishing	249,473	222,851
	F Construction	170,848	180,714
	H Transport and storage	129,445	115,679
	Other industries	345,537	291,589
Total SME		**2,198,621**	**1,949,862**
Corporate	C Manufacturing	4,845,213	4,774,984
	G Wholesale and retail trade	3,455,397	3,255,451
	L Real estate activities	1,779,812	1,638,288
	A Agriculture, forestry and fishing	1,115,190	1,046,890
	H Transport and storage	629,715	554,058
	Other industries	2,715,317	3,541,248
Total Corporate		**14,540,644**	**14,810,921**
Total		**22,403,364**	**22,089,075**
Allowance for impairment		**(1,430,293)**	**(1,338,573)**
Net carrying amount		**20,973,071**	**20,750,502**

4. RISK MANAGEMENT *(continued)*

c) Credit risk *(continued)*

(iii) Exposure to credit risk *(continued)*

- **Concentration of credit risk related to loans and advances to customers *(continued)***

Bank			
Loans to customers at amortised cost - OFF balance		**2018**	**2017**
Private entities (including individuals)		**204,758**	**226,932**
Loan commitments			
SME	G Wholesale and retail trade	217,944	186,260
	C Manufacturing	176,779	114,488
	A Agriculture, forestry and fishing	114,558	73,566
	F Construction	61,166	48,397
	H Transport and storage	22,806	25,349
	Other industries	95,946	71,009
Total SME		**689,199**	**519,069**
Corporate	A Agriculture, forestry and fishing	1,741,182	226,554
	B Mining and quarrying	1,688,099	50,161
	C Manufacturing	696,706	2,197,876
	D Electricity, gas, steam and air conditioning supply	685,672	316,203
	E Water supply	538,854	48,561
	Other industries	1,619,717	3,400,462
Total Corporate		**6,970,229**	**6,239,817**
Total loan commitments		**7,659,428**	**6,758,886**
Letters of credit			
SME	C Manufacturing	8,664	-
	G Wholesale and retail trade	302	128
Total SME		**8,966**	**128**
Corporate	G Wholesale and retail trade	68,119	68,574
	C Manufacturing	43,805	68,019
	K Financial and insurance activities	5,352	-
	M Professional, scientific and technical activities	2,079	-
	A Agriculture, forestry and fishing	1,983	1,034
	Other industries	2,125	4,469
Total Corporate		**123,462**	**142,097**
Total letters of credit		**132,428**	**142,225**
Financial guarantees			
SME	G Wholesale and retail trade	26,837	22,983
	L Real estate activities	11,013	8
	F Construction	8,495	8,532
	M Professional, scientific and technical activities	7,471	4,359
	N Administrative and support service activities	7,351	5,523
	Other industries	20,834	18,033
Total SME		**82,002**	**59,438**
Corporate	G Wholesale and retail trade	914,441	966,762
	D Electricity, gas, steam and air conditioning supply	649,012	410,521
	F Construction	591,365	571,715
	C Manufacturing	245,856	258,244
	J Information and communication	169,381	119,854
	Other industries	495,116	534,596
Total Corporate		**3,065,171**	**2,861,691**
Total financial guarantees		**3,147,173**	**2,921,129**
TOTAL		**11,143,787**	**10,049,172**
Allowance for impairment		**(175,381)**	**(122,832)**
Net carrying amount		**10,968,406**	**9,926,340**

4. RISK MANAGEMENT *(continued)*

c) Credit risk *(continued)*

(iii) Exposure to credit risk *(continued)*

- **Concentration of credit risk related to lease receivables *(continued)***

Lease receivables - ON balance		2018	2017
Private entities (including individuals)		**38,044**	**34,558**
SME	G Wholesale and retail trade	1,049,032	882,309
	H Transport and storage	944,931	855,608
	C Manufacturing	501,139	479,392
	F Construction	333,745	300,729
	A Agriculture, forestry and fishing	317,913	250,302
	Other industries	969,115	900,389
Total SME		**4,115,875**	**3,668,729**
Corporate	C Manufacturing	130,061	113,922
	G Wholesale and retail trade	124,185	149,757
	H Transport and storage	21,665	49,957
	B Mining and quarrying	9,232	8,955
	J Information and communication	7,390	1,072
	Other industries	5,464	6,857
Total Corporate		**297,997**	**330,520**
Total		**4,451,915**	**4,033,807**
Allowance for impairment		**(362,712)**	**(337,198)**
Net carrying amount		**4,089,203**	**3,696,609**

Lease receivables - OFF balance		2018	2017
Private entities (including individuals)		**228**	**656**
Loan commitments			
SME	G Wholesale and retail trade	231,040	234,507
	C Manufacturing	29,096	42,947
	H Transport and storage	11,565	10,124
	F Construction	7,558	8,009
	L Real estate activities	6,675	808
	Other industries	19,386	29,982
Total SME		**305,320**	**326,377**
Corporate	G Wholesale and retail trade	88,690	66,103
	C Manufacturing	7,421	26,747
	F Construction	882	-
	J Information and communication	857	-
	H Transport and storage	-	9
	Other industries	-	-
Total Corporate		**97,850**	**92,859**
Total		**403,398**	**419,892**
Allowance for impairment		**(1,533)**	**(1,240)**
Net carrying amount		**401,865**	**418,652**

4. RISK MANAGEMENT *(continued)*

c) Credit risk *(continued)*

(iii) Exposure to credit risk *(continued)*

The movements of on balance exposures of the Group's financial assets are summarized as follows:

Group					
Loans and advances to customers at amortised cost (on balance)	**Stage 1 - 12 month ECL**	**Stage 2 - Lifetime ECL**	**Stage 3 - Lifetime ECL**	**Of which: POCI financial assets**	**Total**
Gross carrying amount as at 31 December 2017	**18,036,157**	**4,512,409**	**1,846,337**	**-**	**24,394,903**
FTA impact (Note 44)	**(6)**	**(2,388)**	**223**	**-**	**(2,171)**
Gross carrying amount as at 1 January 2018	**18,036,151**	**4,510,021**	**1,846,560**	**-**	**24,392,732**
Changes in the gross carrying amount	-	-	-	-	-
-Transfer to stage 1	295,025	(290,707)	(4,317)	-	1
-Transfer to stage 2	(923,067)	922,499	568	-	-
-Transfer to stage 3	(131,208)	(101,263)	232,471	-	-
Reimbursements or other closed loans	(4,857,574)	(962,878)	(221,544)	-	(6,041,996)
New financial assets originated or purchased	6,389,144	474,677	108,629	-	6,972,450
Financial assets that have been derecognised	(16)	(20)	(104,409)	-	(104,445)
Write-offs	-	-	(106,625)	(8,614)	(106,625)
Other changes	32,334	3,889	1,931	-	38,154
Gross carrying amount as at 31 December 2018	**18,840,789**	**4,556,218**	**1,753,264**	**32,662**	**25,150,271**
Loss allowance as at 31 December 2018	**(102,758)**	**(116,008)**	**(1,395,657)**	**(3,887)**	**(1,614,423)**
Net carrying amount as at 31 December 2018	**18,738,031**	**4,440,210**	**357,607**	**28,775**	**23,535,848**

The movements of the Group's loss allowances of financial assets are summarized as follows:

Group					
Loss allowance – Loans and advances to customers at amortised cost (on balance)	**Stage 1 - 12 month ECL**	**Stage 2 - Lifetime ECL**	**Stage 3 - Lifetime ECL**	**Of which: POCI financial assets**	**Total**
Loss allowance as at 31 December 2017	**(93,829)**	**(35,676)**	**(1,310,866)**	**-**	**(1,440,371)**
FTA impact (Note 44)	**(7,935)**	**(30,251)**	**(1,186)**	**-**	**(39,372)**
Loss allowance as at 1 January 2018	**(101,764)**	**(65,927)**	**(1,312,052)**	**(8,478)**	**(1,479,743)**
Changes in the loss allowance					
-Transfer to stage 1	(2,905)	841	2,062	-	-
-Transfer to stage 2	17,078	(18,252)	1,174	-	-
-Transfer to stage 3	41,571	60,842	(102,413)	-	-
-Increases due to change in credit risk	(135,153)	(182,508)	(586,675)	-	(904,338)
-Decreases due to change in credit risk	122,078	98,876	494,412	4,591	715,366
-Write-offs	-	-	104,864	-	104,864
New financial assets originated or purchased	(43,544)	(9,795)	(78,812)	-	(132,151)
Financial assets that have been derecognised	-	1	83,329	-	83,330
Foreign exchange and other movements	(27)	(86)	(1,638)	-	(1,751)
Loss allowance as at 31 December 2018	**(102,666)**	**(116,008)**	**(1,395,749)**	**(3,887)**	**(1,614,423)**

4. RISK MANAGEMENT *(continued)*

c) Credit risk *(continued)*

(iii) Exposure to credit risk *(continued)*

The movements, for Group, in loan commitments, letters of credit and financial guarantees of financial assets are summarized as follows:

Group					
Loan commitments, letters of credit and financial guarantees	**Stage 1 - 12 month ECL**	**Stage 2 - Lifetime ECL**	**Stage 3 - Lifetime ECL**	**Of which: POCI financial assets**	**Total**
Gross carrying amount as at 31 December 2017	**8,619,938**	**1,374,818**	**246,480**	**-**	**10,241,236**
FTA impact (Note 44)	**-**	**-**	**-**	**-**	**-**
Gross carrying amount as at 1 January 2018	**8,619,938**	**1,374,818**	**246,480**	**-**	**10,241,236**
Changes in the gross carrying amount					
-Transfer to stage 1	86,519	(83,224)	(3,294)	-	-
-Transfer to stage 2	(480,844)	481,221	(377)	-	-
-Transfer to stage 3	(10,200)	(1,842)	12,042	-	-
Reimbursements or other closed loans	(2,227,442)	(287,401)	(47,911)	-	(2,562,754)
New financial assets originated or purchased	3,456,810	204,176	20,639	-	3,681,625
Other changes	14,038	5,586	236	-	19,860
Gross carrying amount as at 31 December 2018	**9,458,819**	**1,693,334**	**227,815**	**-**	**11,379,967**
Loss allowance as at 31 December 2018	**(7,266)**	**(25,595)**	**(142,519)**	**-**	**(175,380)**

The movements, for Group, in loss allowances for off balance exposures is summarized as follows:

Group					
Loss allowance – Loan commitments, letters of credit si financial guarantees	**Stage 1 - 12 month ECL**	**Stage 2 - Lifetime ECL**	**Stage 3 - Lifetime ECL**	**Of which: POCI financial assets**	**Total**
Loss allowance as at 31 December 2017	**(8,676)**	**(2,326)**	**(111,830)**	**-**	**(122,832)**
FTA impact (Note 44)	**(50)**	**(10,786)**	**669**	**-**	**(10,167)**
Loss allowance as at 1 January 2018	**(8,726)**	**(13,112)**	**(111,161)**	-	**(132,999)**
Changes in the loss allowance					
-Transfer to stage 1	(38)	38	-	-	-
-Transfer to stage 2	5,346	(5,346)	-	-	-
-Transfer to stage 3	6,124	320	(6,444)	-	-
-Increases due to change in credit risk	(4,018)	(21,359)	(108,300)	-	(133,677)
-Decreases due to change in credit risk	(3,725)	14,488	97,596	-	108,359
New financial assets originated or purchased	(2,216)	(602)	(13,985)	-	(16,803)
Foreign exchange and other movements	(13)	(22)	(225)	-	(260)
Loss allowance as at 31 December 2018	**(7,266)**	**(25,595)**	**(142,519)**	-	**(175,380)**

4. RISK MANAGEMENT *(continued)*

c) Credit risk *(continued)*

(iii) Exposure to credit risk *(continued)*

The tables below presents, for Group and Bank, the analysis of the movements during the year per class of assets for banks and debt securities at FVTOCI.:

Group/Bank		
Stage 1 - 12 month ECL	**Loans and advances to banks**	**Debt investment securities at FVTOCI**
Gross carrying amount as at 31 December 2017	1,125,134	5,977,060
FTA impact (Note 44)	**-**	**2,031**
Visa reclassification	-	-
Gross carrying amount as at 1 January 2018	**1,125,134**	**5,979,091**
Changes in the gross carrying amount	743,671	-
Changes due to modifications that did not result in derecognition		-
New financial assets originated or purchased	28,243	1,352,889
Other changes	-	-
Gross carrying amount as at 31 December 2018	-	-
Loss allowance as at 31 December 2018	**681**	**651**
Net carrying amount as at 31 December 2018	**1,897,730**	**7,332,631**

Group/Bank		
Stage 1 - 12 month ECL	**Loss allowance – Loans and advances to banks**	**Debt investment securities at FVTOCI**
Loss allowance as at 31 December 2017	**-**	**-**
FTA impact (Note 44)	**(272)**	**(2,031)**
Loss allowance as at 1 January 2018	**(272)**	**(2,031)**
Changes in the loss allowance		
-Increases due to change in credit risk	-	-
-Decreases due to change in credit risk	144	(8,178)
New financial assets originated or purchased	-	-
Financial assets that have been derecognised	-	-
Foreign exchange and other movements	-	-
Loss allowance as at 31 December 2018	**(128)**	**(10,209)**

4. RISK MANAGEMENT *(continued)*

c) Credit risk *(continued)*

(iii) Exposure to credit risk *(continued)*

The movements of on balance exposures of the Bank's financial assets are summarized as follows:

Bank					
Loans and advances to customers at amortised cost (on balance)	**Stage 1 - 12 month ECL**	**Stage 2 - Lifetime ECL**	**Stage 3 - Lifetime ECL**	**Of which: POCI financial assets**	**Total**
Gross carrying amount as at 31 December 2017	**15,842,668**	**4,459,382**	**1,787,005**	**-**	**22,089,055**
FTA impact (Note 44)	**(6)**	**(2,251)**	**146**	**-**	**(2,111)**
Gross carrying amount as at 1 January 2018	**15,842,662**	**4,457,131**	**1,787,151**	**41,276**	**22,086,944**
Changes in the gross carrying amount					
-Transfer to stage 1	281,572	(279,786)	(1,783)	-	-
-Transfer to stage 2	(882,422)	893,330	(10,908)	-	-
-Transfer to stage 3	(70,645)	(88,161)	158,805	-	(1)
Reimbursements or other closed loans	(3,723,167)	(942,250)	(262,701)	-	(4,928,118)
New financial assets originated or purchased	4,782,340	453,280	78,457	-	5,314,077
Financial assets that have been derecognised	(16)	(20)	(1,108)	-	(1,144)
Write-offs	-	-	(106,625)	(8,614)	(106,625)
Other changes	32,404	3,893	1,931	-	38,228
Gross carrying amount as at 31 December 2018	**16,262,728**	**4,497,417**	**1,643,219**	**32,662**	**22,403,364**
Loss allowance as at 31 December 2018	**(34,267)**	**(99,907)**	**(1,296,119)**	**(3,887)**	**(1,430,293)**
Net carrying amount as at 31 December 2018	**16,228,461**	**4,397,510**	**347,101**	**28,775**	**20,973,072**

The movements, for Bank, in loss allowances of financial assets are summarized as follows:

Bank					
Loss allowance – Loans and advances to customers at amortised cost (on balance)	**Stage 1 - 12 month ECL**	**Stage 2 - Lifetime ECL**	**Stage 3 - Lifetime ECL**	**Of which: POCI financial assets**	**Total**
Loss allowance as at 31 December 2017	**(47,392)**	**(27,126)**	**(1,264,037)**	**-**	**(1,338,555)**
FTA impact (Note 44)	**7,813**	**(37,466)**	**(677)**	**-**	**(30,330)**
Loss allowance as at 1 January 2018	**(39,579)**	**(64,592)**	**(1,264,714)**	**(8,478)**	**(1,368,885)**
Changes in the loss allowance	-	-	-	-	-
-Transfer to stage 1	(623)	616	7	-	-
-Transfer to stage 2	14,473	(14,618)	145	-	-
-Transfer to stage 3	36,638	60,565	(97,203)	-	-
-Increases due to change in credit risk	(108,789)	(174,970)	(348,278)	-	(632,037)
-Decreases due to change in credit risk	74,917	98,409	362,968	4,591	536,294
-Write-offs	-	-	104,864	-	104,864
New financial assets originated or purchased	(11,185)	(5,231)	(53,261)	-	(69,677)
Financial assets that have been derecognised	-	1	900	-	901
Foreign exchange and other movements	(28)	(87)	(1,638)	-	(1,753)
Loss allowance as at 31 December 2018	**(34,176)**	**(99,907)**	**(1,296,210)**	**(3,887)**	**(1,430,293)**

4. RISK MANAGEMENT *(continued)*

c) Credit risk *(continued)*

(iii) Exposure to credit risk *(continued)*

The movements, for Bank, in loan commitments, letters of credit and financial guarantees of financial assets are summarized as follows:

	Bank				
Loan commitments, letters of credit and financial guarantees	**Stage 1 - 12 month ECL**	**Stage 2 - Lifetime ECL**	**Stage 3 - Lifetime ECL**	**Of which: POCI financial assets**	**Total**
Gross carrying amount as at 31 December 2017	**8,428,376**	**1,374,316**	**246,480**	**-**	**10,049,172**
FTA impact (Note 44)	**-**	**-**	**-**	**-**	**-**
Gross carrying amount as at 1 January 2018	**8,428,376**	**1,374,316**	**246,480**	**-**	**10,049,172**
Changes in the gross carrying amount					
-Transfer to stage 1	86,044	(82,748)	(3,294)	-	-
-Transfer to stage 2	(479,174)	479,550	(377)	-	-
-Transfer to stage 3	(10,200)	(1,842)	12,042	-	-
Reimbursements or other closed loans	(2,189,162)	(286,393)	(47,911)	-	(2,523,466)
New financial assets originated or purchased	3,373,439	204,142	20,639	-	3,598,220
Financial assets that have been derecognised	-	-	-	-	-
Write-offs	-	-	-	-	-
Other changes	14,038	5,586	236	-	19,861
Gross carrying amount as at 31 December 2018	**9,223,361**	**1,692,611**	**227,815**	**-**	**11,143,787**
Loss allowance as at 31 December 2018	**(7,266)**	**(25,595)**	**(142,519)**	**-**	**(175,381)**

The movements, for Bank, in loss allowances for off balance exposures is summarized as follows:

	Bank				
Loss allowance – Loan commitments, letters of credit si financial guarantees	**Stage 1 - 12 month ECL**	**Stage 2 - Lifetime ECL**	**Stage 3 - Lifetime ECL**	**Of which: POCI financial assets**	**Total**
Loss allowance as at 31 December 2017	**(8,676)**	**(2,326)**	**(111,830)**	**-**	**(122,832)**
FTA impact (Note 44)	**(50)**	**(10,786)**	**669**	**-**	**(10,167)**
Loss allowance as at 1 January 2018	**(8,727)**	**(13,112)**	**(111,161)**	-	**(132,999)**
Changes in the loss allowance	-	-	-	-	-
-Transfer to stage 1	(38)	38	-	-	-
-Transfer to stage 2	5,346	(5,346)	-	-	-
-Transfer to stage 3	6,124	320	(6,444)	-	-
-Increases due to change in credit risk	(4,018)	(21,359)	(108,300)	-	(133,677)
-Decreases due to change in credit risk	(3,724)	14,248	97,595	-	108,119
New financial assets originated or purchased	(2,216)	(602)	(13,985)	-	(16,804)
Foreign exchange and other movements	(13)	(22)	(225)	-	(260)
Loss allowance as at 31 December 2018	**(7,266)**	**(25,836)**	**(142,519)**	**-**	**(175,622)**

4. RISK MANAGEMENT *(continued)*

c) Credit risk *(continued)*

(iii) Exposure to credit risk *(continued)*

The movements of on balance exposures for the lease receivables are summarized as follows:

Lease receivables (on balance)	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at 1 January 2018	**3,025,441**	**533,423**	**474,533**	**4,033,807**
FTA impact (Note 44)	**-**	**-**	**-**	**-**
Gross carrying amount as at 1 January 2018	**3,025,441**	**533,423**	**474,533**	**4,033,807**
Changes in the gross carrying amount				
—Transfer to stage 1	272,730	(260,821)	(11,910)	-
—Transfer to stage 2	(210,771)	216,714	(5,943)	-
—Transfer to stage 3	(48,267)	(30,720)	78,987	-
- Reimbursements or other closed loans	(656,647)	(60,052)	(49,430)	(766,129)
New financial assets originated or purchased	1,505,109	55,380	12,799	1,573,288
Financial assets that have been derecognised	(242,786)	(64,513)	(31,377)	(338,675)
Write-offs	-	-	(50,376)	(50,376)
Other changes	25,456	(25,456)	-	-
Gross carrying amount as at 31 December 2018	**3,670,675**	**363,955**	**417,283**	**4,451,915**
Loss allowance as at 31 December 2018	(50,617)	(16,789)	(295,306)	(362,712)
Net carrying amount as at 31 December 2018	**3,620,058**	**347,166**	**121,977**	**4,089,203**

The movements in loss allowances for lease receivables are summarized as follows:

Loss allowance – Lease receivables (on balance)	Stage 1 - 12 month ECL	Stage 2 - Lifetime ECL	Stage 3 - Lifetime ECL	Of which: POCI financial assets	Total
Loss allowance as at 31 December 2017	**(19,960)**	**(4,014)**	**(312,804)**	**-**	**(336,778)**
FTA impact (Note 44)	**(5,595)**	**(7,782)**	**-**	**-**	**(13,377)**
Loss allowance as at 1 January 2018	**(25,555)**	**(11,796)**	**(312,804)**	**-**	**(350,155)**
Changes in the loss allowance	-	-	-	-	-
-Transfer to stage 1	(7,564)	5,187	2,377	-	-
-Transfer to stage 2	3,316	(4,816)	1,500	-	-
-Transfer to stage 3	366	463	(830)	-	-
-Increases due to change in credit risk	(9,835)	(10,328)	(51,217)	-	(71,380)
-Decreases due to change in credit risk	9,510	3,049	11,792	-	24,350
-Write-offs	-	-	50,376	-	50,376
New financial assets originated or purchased	(20,430)	(1,917)	(7,846)	-	(30,192)
Financial assets that have been derecognised	1,428	1,515	11,347	-	14,289
Foreign exchange and other movements	(1,854)	1,854	-	-	-
Loss allowance as at 31 December 2018	**(50,618)**	**(16,789)**	**(295,305)**	**-**	**(362,712)**

4. RISK MANAGEMENT *(continued)*

c) Credit risk *(continued)*

(iii) Exposure to credit risk *(continued)*

For Lease receivable, the financial assets held at FVTOCI representing equity investments available for sale in Unicredit Leasing Fleet Management are calssified entirely in Stage 1 - 12 month ECL and their gross carrying amount is 2,346 RON thousands as at 1 January 2018 and as at 31 December 2018, with no FTA impact.

The movements for off balance lease receivables are summarized as follows:

Lease receivables (off balance)	Stage 1 - 12 month ECL	Stage 2 - Lifetime ECL	Stage 3 - Lifetime ECL	Total
Gross carrying amount as at 31 December 2017	**398,518**	**18,535**	**2,839**	**419,892**
FTA impact (Note 44)	**-**	**-**	**-**	**-**
Gross carrying amount as at 1 January 2018	**398,518**	**18,535**	**2,839**	**419,892**
Changes in the gross carrying amount	-	-	-	-
-Transfer to stage 1	5,720	(5,720)	-	-
-Transfer to stage 2	-	-	-	-
-Transfer to stage 3	(229)	-	229	-
Reimbursements or other closed loans	11,803	-	-	11,803
New financial assets originated or purchased	97,281	-	92	97,373
Financial assets that have been derecognised	(110,065)	(12,815)	(2,790)	(125,671)
Gross carrying amount as at 31 December 2018	**403,028**	**-**	**370**	**403,398**
Loss allowance as at 31 December 2018	(1,532)	-	(1)	(1,533)

The movements for loss allowance of off balance lease receivables are summarized as follows:

Loss allowance – Lease receivables (off balance)	Stage 1 - 12 month ECL	Stage 2 - Lifetime ECL	Stage 3 - Lifetime ECL	Total
Loss allowance as at 31 December 2017	**(646)**	**(63)**	**(532)**	**(1,240)**
FTA impact (Note 44)	**-**	**-**	**-**	**-**
Loss allowance as at 1 January 2018	**(646)**	**(63)**	**(532)**	**(1,240)**
Changes in the loss allowance	-	-	-	-
-Transfer to stage 1	(27)	27	-	-
-Transfer to stage 2	-	-	-	-
-Transfer to stage 3	1	-	(1)	-
-Changes due to modifications that did not result in derecognition	(677)	-	7	(670)
New financial assets originated or purchased	(790)	-	-	(790)
Financial assets that have been derecognised	427	35	525	987
Foreign exchange and other movements	181	-	-	181
Loss allowance as at 31 December 2018	**(1,532)**	**-**	**(1)**	**(1,533)**

4. RISK MANAGEMENT *(continued)*

d) Liquidity risk

The liquidity risk is the probability of the bank falling short of its due payments resulting from its contractual relations with clients and third parties. Under normal conditions of market functioning, the liquidity risk may materialize also through the need for the bank to pay a premium over market rates to be able to access liquidity. Among the main potential generators of liquidity risk are liquidity mismatch risk, liquidity contingency risk, market liquidity risk.

In line with the Group's liquidity framework, the main goal of UCB's overall liquidity management is to keep the liquidity exposure at such a level that the bank is able to honor its payment obligations on an on-going basis, but also during a crisis without jeopardizing its franchise value or its brand's name.

Hence, two main operating models for the liquidity management are defined: Going Concern Liquidity Management and the Contingent Liquidity Management.

From a liquidity risk governance perspective UCB keeps two layers Managing Bodies acting as strategic decision taking functions and Operational units acting as operative liquidity management functions, i.e.ALM, Market Risk, Markets – Trading.

In accordance with the strategic goal of self-sufficient funding, Bank's medium and long term funding strategy is centered on:

- encouraging sticky client deposits
- development of strategic funding through own bonds issues, covered bonds issues.
- development of relations with various international financial institutions and foreign banks for special financing programs

The liquidity cost benefit allocation is an important part of the liquidity management framework. Liquidity is a scarce resource and accordingly a proper management of costs and benefits is essential in order to support sound and sustainable business models. Therefore, the Bank has put in place proper funds transfer pricing mechanism.

Key measures used by the Bank for measuring liquidity risk are:

- the daily short-term liquidity report, through which cash inflows and outflows mainly coming from inter-bank transactions are monitored;
- the structural liquidity gap –used to determine the gap between assets and liabilities with maturities over one year;
- regulatory indicators: the Bank has to comply with the limits imposed by National Bank of Romania, such as the liquidity indicator calculated according to NBR Regulation no. 25/2011, Liquidity coverage ratio, Net stable funding ratio, Additional liquidity monitoring metrics;
- other key indicators for the management of liquidity and funding needs used to assess the liquid assets, the concentration of funding, the way in which loans to customers are financed by commercial funding.

The Group sets the limit and triggers levels for the main indicators used to measure the liquidity risk and in case a breach is observed or anticipated, specific requested actions are taken for correcting the structure of the asset and liability mix of the Group.

A regular stress testing assessment is done in order to evaluate the liquidity position of the Bank. In case of a deteriorating position, liquidity stress tests are one of the main metrics in order to support management's decisions before and also during stress situations. In particular, liquidity stress test results are useful in order assess the "right" sizing and composition of a liquidity buffer on a regular basis. As such, liquidity stress testing serves as an essential tool of assessment of the liquidity risk in an on-going basis, rather than in a crisis situation only.

4. RISK MANAGEMENT *(continued)*

d) Liquidity risk *(continued)*

An analysis of assets and liabilities of the Group as at 31 December 2018 by residual contractual maturity at the reporting date is shown below:

In RON thousands	Up to 3 months	3 months to 1 Year	1 Year to 5 Years	Over 5 Years	No fixed maturity	Total contractual amount	Total carrying amount
Cash and cash equivalents	10,282,258	-	-	-	-	**10,282,258**	**10,282,258**
Financial assets held for trading	296,785	-	-	-	-	**296,785**	**296,785**
Derivatives assets designated as hedging instruments	146	-	-	-	-	**146**	**146**
Loans and advances to banks	116,553	618,968	1,162,082	-	-	**1,897,602**	**1,897,602**
Loans and advances to customers	3,192,623	7,406,486	7,452,576	5,433,659	-	**23,485,344**	**23,535,848**
Net Lease receivables	277,892	1,438,960	2,111,189	117,415	143,747	**4,089,203**	**4,089,203**
Financial assets at fair value through other comprehensive income	344,711	305,621	4,247,469	2,424,621	8,199	**7,330,622**	**7,330,621**
Total other financial assets, net value	190,151	-	-	-	-	**190,151**	**190,151**
Total financial assets	**14,701,119**	**9,770,035**	**14,973,316**	**7,975,695**	**151,946**	**47,572,111**	**47,622,614**
Financial liabilities at fair value through profit or loss	69,809	-	-	-	-	**69,809**	**69,809**
Derivatives liabilities designated as hedging instruments	78,919	-	-	-	-	**78,919**	**78,919**
Deposits from banks	3,276,306	481,351	-	-	-	**3,757,657**	**3,757,657**
Loans from banks and other financial institutions, including subordinated liabilities	888,495	1,954,182	4,363,463	1,275,371	-	**8,481,511**	**8,481,611**
Debt securities issued	-	-	434,978	187,303	-	**622,280**	**622,115**
Deposits from customers	27,320,344	1,979,475	176,881	1,010	14,736	**29,492,447**	**29,494,900**
Total other financial liabilities	**459,838**	**-**	**-**	**-**	**-**	**459,838**	**459,838**
Total financial liabilities	**32,093,711**	**4,415,008**	**4,975,322**	**1,463,684**	**14,736**	**42,962,461**	**42,964,849**
Liquidity surplus/ (shortfall)	**(17,392,592)**	**5,355,027**	**9,997,994**	**6,512,011**	**137,210**	**4,609,650**	**4,657,765**
Adjustment for investment securities available for refinancing*	6,977,712	(305,621)	(4,247,469)	(2,424,622)	-	**-**	**-**
Liquidity surplus/ (shortfall) adjusted	**(10,414,880)**	**5,049,406**	**5,750,525**	**4,087,389**	**137,210**	**4,609,650**	**4,657,765**

**) As part of its liquidity management the Bank holds treasury bills and bonds which can easily be converted into cash in case of increasing liquidity risk. Also, most of these securities are available for refinancing in order to ensure quick access to funds*

4. RISK MANAGEMENT *(continued)*

d) Liquidity risk *(continued)*

In RON thousands	Up to 3 months	3 months to 1 Year	1 Year to 5 Years	Over 5 Years	No fixed maturity	Gross nominal inflow/outflow
Irrevocable commitments given outflow	(2,530,045)	-	-	-	-	(2,530,045)
Irrevocable commitments taken inflow	2,244,513	-	-	-	-	2,244,513
Issued financial guarantees outflow	-	(4,645,515)	-	-	-	(4,645,515)
Contingent assets & liabilities surplus / (shortfall)	**(285,532)**	**(4,645,515)**	**-**	**-**	**-**	**(4,931,048)**

***) The table disclosed above shows the undiscounted cash flows of the Group, including financial guarantee contracts, and unrecognised loan commitments on the basis of their earliest possible contractual maturity, under a highly prudential approach. For issued financial guarantee contracts, the maximum amount of guarantee is allocated in the "3 Months to 1 Year" band.*

4. RISK MANAGEMENT *(continued)*

d) Liquidity risk *(continued)*

An analysis of assets and liabilities of the Group as at 31 December 2017 by residual contractual maturity at the reporting date is shown below:

In RON thousands	Up to 3 months	3 months to 1 Year	1 Year to 5 Years	Over 5 Years	No fixed maturity	Total contractual amount	Total carrying amount
Cash and cash equivalents	8,824,908	-	-	-	-	**8,824,908**	**8,824,908**
Financial assets held for trading	121,382	-	-	-	-	**121,382**	**121,382**
Derivatives assets designated as hedging instruments	4,197	-	-	-	-	**4,197**	**4,197**
Loans and advances to banks	90,253	274,936	759,945	-	-	**1,125,134**	**1,125,134**
Loans and advances to customers	4,009,169	7,292,422	6,697,032	5,063,757	-	**23,062,379**	**22,954,543**
Net Lease receivables	712,692	765,623	1,924,026	294,268	-	**3,696,608**	**3,696,608**
Available for sale financial assets	677,906	763,061	3,431,531	1,104,561	25,012	**6,002,073**	**6,002,073**
Total other financial assets, net value	104,533	-	-	-	-	**104,533**	**104,533**
Total financial assets	**14,545,040**	**9,096,042**	**12,812,534**	**6,462,586**	**25,012**	**42,941,214**	**42,833,378**
Financial liabilities at fair value through profit or loss	80,020	-	-	-	-	**80,020**	**80,020**
Derivatives liabilities designated as hedging instruments	76,166	-	-	-	-	**76,166**	**76,166**
Deposits from banks	707,292	638,002	1,463,717	339,289	-	**3,148,300**	**3,148,300**
Loans from banks and other financial institutions, including subordinated liabilities	2,568,002	1,085,038	2,703,133	1,092,173	-	**7,448,345**	**7,448,375**
Debt securities issued	1,627	554,997	426,500	183,500	-	**1,166,623**	**1,166,163**
Deposits from customers	26,483,588	535,957	28,872	994	-	**27,049,412**	**27,049,412**
Total other financial liabilities	494,351	-	-	-	-	**494,351**	**494,351**
Total financial liabilities	**30,411,046**	**2,813,994**	**4,622,222**	**1,615,956**	**-**	**39,463,218**	**39,462,787**
Liquidity surplus/ (shortfall)	**(15,866,005)**	**6,282,048**	**8,190,312**	**4,846,630**	**25,012**	**3,477,997**	**3,370,591**
Adjustment for investment securities available for refinancing*	5,299,154	(763,062)	(3,431,532)	(1,104,560)	-	**-**	**-**
Liquidity surplus/ (shortfall) adjusted	**(10,566,852)**	**5,518,986**	**4,758,780**	**3,742,070**	**25,012**	**3,477,997**	**3,370,591**

**) As part of its liquidity management the Bank holds treasury bills and bonds which can easily be converted into cash in case of increasing liquidity risk. Also, most of these securities are available for efinancing in order to ensure quick access to funds.*

4. RISK MANAGEMENT *(continued)*

d) Liquidity risk *(continued)*

In RON thousands	Up to 3 months	3 months to 1 Year	1 Year to 5 Years	Over 5 Years	No fixed maturity	Gross nominal inflow/outflow
Irrevocable commitments given outflow	(1,310,525)	-	-	-	-	(1,310,525)
Irrevocable commitments taken inflow	392,985	-	-	-	-	392,985
Issued financial guarantees outflow	-	(4,811,378)	-	-	-	(4,811,378)
Contingent assets & liabilities surplus / (shortfall)	**(917,540)**	**(4,811,378)**	**-**	**-**	**-**	**(5,728,919)**

***) The table disclosed above shows the undiscounted cash flows of the Group, including financial guarantee contracts, and unrecognised loan commitments on the basis of their earliest possible contractual maturity, under a highly prudential approach. For issued financial guarantee contracts, the maximum amount of guarantee is allocated in the "3 Months to 1 Year" band.*

4. RISK MANAGEMENT *(continued)*

d) Liquidity risk *(continued)*

An analysis of assets and liabilities of the Bank as at 31 December 2018 by residual contractual maturity at the reporting date is shown below:

In RON thousands	Up to 3 months	3 months to 1 Year	1 Year to 5 Years	Over 5 Years	No fixed maturity	Total contractual amount	Total carrying amount
Cash and cash equivalents	10,282,174	-	-	-	-	**10,282,174**	**10,282,174**
Financial assets held for trading	269,721	-	-	-	27,064	**296,785**	**296,785**
Derivatives assets designated as hedging instruments	146	-	-	-	-	**146**	**146**
Loans and advances to banks	116,553	618,968	1,162,082	-	-	**1,897,602**	**1,897,602**
Loans and advances to customers	3,040,450	7,300,107	5,165,305	5,416,705	-	**20,922,568**	**20,973,071**
Net Lease receivables	-	-	-	-	-	**-**	**-**
Financial assets at fair value through other comprehensive income	344,711	305,621	4,247,469	2,424,622	5,852	**7,328,275**	**7,328,275**
Investments in subsidaries and associates	-	-	-	-	143,116	**143,116**	**143,116**
Total other financial assets, net value	143,332	-	-	-	-	**143,332**	**143,332**
Total financial assets	**14,197,087**	**8,224,696**	**10,574,856**	**7,841,327**	**176,032**	**41,013,998**	**41,064,501**
Financial liabilities at fair value through profit or loss	69,829	-	-	-	-	**69,829**	**69,829**
Derivatives liabilities designated as hedging instruments	78,919	-	-	-	-	**78,919**	**78,919**
Deposits from banks	3,276,306	481,351	-	-	-	**3,757,657**	**3,757,657**
Loans from banks and other financial institutions, including subordinated liabilities	76,210	50,955	647,469	1,086,036	-	**1,860,669**	**1,860,769**
Debt securities issued	-	-	434,978	187,303	-	**622,280**	**622,115**
Deposits from customers	27,682,006	1,979,475	176,881	1,010	-	**29,839,374**	**29,841,828**
Total other financial liabilities	368,442	-	-	-	-	**368,442**	**368,442**
Total financial liabilities	**31,551,712**	**2,511,781**	**1,259,328**	**1,274,349**	**-**	**36,597,170**	**36,599,559**
Liquidity surplus/ (shortfall)	**(17,354,625)**	**5,712,915**	**9,315,528**	**6,566,978**	**176,032**	**4,416,828**	**4,464,942**
Adjustment for investment securities available for refinancing*	6,977,711	(305,621)	(4,247,469)	(2,424,622)	-	-	-
Liquidity surplus/ (shortfall) adjusted	**(10,376,914)**	**5,407,294**	**5,068,059**	**4,142,356**	**176,032**	**4,416,828**	**4,464,942**

** As part of its liquidity management the Bank holds treasury bills and bonds which can easily be converted into cash in case of increasing liquidity risk. Also, most of these securities are available for refinancing in order to ensure quick access to funds.*

4. RISK MANAGEMENT *(continued)*

d) Liquidity risk *(continued)*

In RON thousands	Up to 3 months	3 months to 1 Year	1 Year to 5 Years	Over 5 Years	No fixed maturity	Gross nominal inflow/outflow
Irrevocable commitments given outflow	(1,941,154)	-	-	-	-	(1,941,154)
Irrevocable commitments taken inflow	186,556	-	-	-	-	186,556
Issued financial guarantees outflow	-	(4,714,601)	-	-	-	(4,714,601)
Contingent assets & liabilities surplus / (shortfall)	**(1,754,598)**	**(4,714,601)**	**-**	**-**	**-**	**(6,469,199)**

***) The table disclosed above shows the undiscounted cash flows of the Group, including financial guarantee contracts, and unrecognised loan commitments on the basis of their earliest possible contractual maturity, under a highly prudential approach. For issued financial guarantee contracts, the maximum amount of guarantee is allocated in the "3 Months to 1 Year" band.*

4. RISK MANAGEMENT *(continued)*

d) Liquidity risk *(continued)*

An analysis of assets and liabilities of the Bank as at 31 December 2017 by residual contractual maturity at the reporting date is shown below:

In RON thousands	Up to 3 Months	3 Month to 1 Year	1 Year to 5 Years	Over 5 Years	No fixed maturity	Total contractual amount	Total carrying amount
Cash and cash equivalents	8,824,887	-	-	-	-	**8,824,887**	**8,824,887**
Financial assets at fair value through profit or loss	121,413	-	-	-	-	**121,413**	**121,413**
Derivatives assets designated as hedging instruments	4,197	-	-	-	-	**4,197**	**4,197**
Loans and advances to banks	90,253	274,936	759,945	-	-	**1,125,134**	**1,125,134**
Loans and advances to customers	3,143,556	7,268,066	5,347,940	5,098,777	-	**20,858,339**	**20,750,503**
Financial assets available for sale according to IAS 39	677,907	763,062	3,431,531	1,104,560	22,666	**5,999,726**	**5,999,726**
Investment in subsidiaries and in associates	-	-	-	-	143,116	**143,116**	**143,116**
Total other financial assets	118,193	-	-	-	-	**118,193**	**118,193**
Total financial assets	**12,980,406**	**8,306,064**	**9,539,416**	**6,203,337**	**165,782**	**37,195,005**	**37,087,169**
Financial liabilities at fair value through profit or loss	80,020	-	-	-	-	**80,020**	**80,020**
Derivatives liabilities designated as hedging instruments	76,166	-	-	-	-	**76,166**	**76,166**
Deposits from banks	707,292	638,002	1,463,717	339,289	-	**3,148,300**	**3,148,300**
Loans from banks and other financial institutions	47,374	218,175	536,278	853,649	-	**1,655,476**	**1,655,506**
Deposits from customers	26,770,352	535,957	28,873	994	-	**27,336,175**	**27,336,175**
Debt securities issued	1,626	554,997	426,500	183,500	-	**1,166,623**	**1,166,163**
Total other financial liabilities	454,759	-	-	-	-	**454,759**	**454,759**
Total financial liabilities	**28,137,589**	**1,947,131**	**2,455,367**	**1,377,432**	**-**	**33,917,519**	**33,917,088**
Liquidity surplus/ (shortfall)	**(15,157,183)**	**6,358,933**	**7,084,049**	**4,825,905**	**165,782**	**3,277,486**	**3,170,081**
Adjustment for investment securities available for refinancing *	5,299,154	(763,062)	(3,431,532)	(1,104,560)	-	**-**	**-**
Liquidity surplus/ (shortfall) adjusted	**(9,858,029)**	**5,595,871**	**3,652,517**	**3,721,345**	**165,782**	**3,277,486**	**3,170,081**

** As part of its liquidity management the Bank holds treasury bills and bonds which can easily be converted into cash in case of increasing liquidity risk. Also, most of these securities are available for efinancing in order to ensure quick access to funds.*

4. RISK MANAGEMENT *(continued)*

d) Liquidity risk *(continued)*

In RON thousands	Up to 3 months	3 months to 1 Year	1 Year to 5 Years	Over 5 Years	No fixed maturity	Gross nominal inflow/outflow
Irrevocable commitments given outflow	(1,310,525)	-	-	-	-	(1,310,525)
Irrevocable commitments taken inflow	392,985	-	-	-	-	392,985
Issued financial guarantees outflow	-	(4,811,378)	-	-	-	(4,811,378)
Contingent assets & liabilities surplus / (shortfall)	**(917,540)**	**(4,811,378)**	-	-	-	**(5,728,919)**

***) The table disclosed above shows the undiscounted cash flows of the Group, including financial guarantee contracts, and unrecognised loan commitments on the basis of their earliest possible contractual maturity, under a highly prudential approach. For issued financial guarantee contracts, the maximum amount of guarantee is allocated in the "3 Months to 1 Year" band.*

4. RISK MANAGEMENT *(continued)*

d) Liquidity risk *(continued)*

Future cash flows of financial liabilities

The maturity profile of the Group's financial liabilities at December 31, 2018 and 2017 which is based on contractual undiscounted future payments are listed below:

2018	**Group**				
In RON thousands	**Up to 3 months**	**3 months to 1 Year**	**1 Year to 5 Years**	**Over 5 Year**	**Total contractual amount**
Financial liabilities at fair value through profit or loss	18,502	6,843	46,409	12,672	**84,427**
Derivatives liabilities designated as hedging instruments	1,056	-	11,229	71,092	**83,376**
Deposits from banks	882,793	902,414	1,979,720	18,365	**3,783,291**
Loans from banks and other financial institutions, including subordinated liabilities	940,147	2,224,916	4,731,902	1,209,493	**9,106,458**
Deposits from customers	28,487,972	2,686,495	1,727,780	17,130	**32,919,378**
Debt securities issued	-	14,086	501,945	191,799	**707,829**
Total financial liabilities	**30,330,470**	**5,834,754**	**8,998,985**	**1,520,551**	**46,684,759**

2017	**Group**				
In RON thousands	**Up to 3 months**	**3 months to 1 Year**	**1 Year to 5 Years**	**Over 5 Year**	**Total contractual amount**
Financial liabilities at fair value through profit or loss	12,407	2,590	34,294	21,346	**70,637**
Derivatives liabilities designated as hedging instruments	1,191	7,423	11,609	57,897	**78,120**
Deposits from banks	951,324	664,040	1,526,410	413,380	**3,555,155**
Loans from banks and other financial institutions, including subordinated liabilities	1,484,855	1,547,033	3,731,136	1,253,950	**8,016,973**
Deposits from customers	27,499,889	951,430	771,159	15,143	**29,237,621**
Debt securities issued	-	571,955	467,798	191,144	**1,230,897**
Total financial liabilities	**29,949,666**	**3,744,471**	**6,542,406**	**1,952,860**	**42,189,403**

4. RISK MANAGEMENT *(continued)*

d) Liquidity risk *(continued)*

Future cash flows of financial liabilities (continued)

Maturity profile of financial liabilities at December 31, 2018 and 2017 which is based on contractual undiscounted future payments are listed below:

2018			**Bank**		
In RON thousands	**Up to 3 months**	**3 months to 1 Year**	**1 Year to 5 Years**	**Over 5 Year**	**Total contractual amount**
Financial liabilities at fair value through profit or loss	18,522	6,843	46,409	12,672	**84,446**
Derivatives liabilities designated as hedging instruments	1,056	-	11,229	71,092	**83,376**
Deposits from banks	882,793	902,414	1,979,720	18,365	**3,783,291**
Loans from banks and other financial institutions, including subordinated liabilities	136,898	230,520	867,026	999,632	**2,234,078**
Deposits from customers	28,834,900	2,686,495	1,727,780	17,130	**33,266,305**
Debt securities issued	-	14,086	501,945	191,799	**707,829**
Total financial liabilities	**29,874,169**	**3,840,358**	**5,134,109**	**1,310,690**	**40,159,325**

2017			**Bank**		
In RON thousands	**Up to 3 months**	**3 months to 1 Year**	**1 Year to 5 Years**	**Over 5 Year**	**Total contractual amount**
Financial liabilities at fair value through profit or loss	12,407	2,590	34,294	21,346	**70,637**
Derivatives liabilities designated as hedging instruments	1,191	7,423	11,609	57,897	**78,120**
Deposits from banks	951,324	664,040	1,526,410	413,380	**3,555,155**
Loans from banks and other financial institutions, including subordinated liabilities	56,804	248,833	673,739	1,010,913	**1,990,288**
Deposits from customers	27,482,552	951,430	771,159	15,143	**29,220,284**
Debt securities issued	-	571,955	467,798	191,144	**1,230,897**
Total financial liabilities	**28,504,278**	**2,446,271**	**3,485,009**	**1,709,823**	**36,145,381**

4. RISK MANAGEMENT *(continued)*

d) Liquidity risk *(continued)*

An analysis of notional amounts of the Group of derivative financial assets/liabilities by residual contractual maturity at the reporting date is shown below:

			Group				
2018 **In RON thousands**	**Carrying amount***	**Gross nominal inflow /(outflow)**	**Less than 1 month**	**1 to 3 Months**	**3 Months to 1 year**	**1-5 years**	**More than 5 years**
Derivative assets	**67,206**	**84,631**	**7,900**	**6,408**	**24,298**	**33,007**	**13,019**
Outflow		(2,449,058)	(1,102,268)	(670,911)	(700,500)	12,977	11,644
Inflow		2,533,689	1,110,168	677,319	724,798	20,030	1,375
Derivative liabilities	**(148,728)**	**(167,801)**	**(7,701)**	**(11,855)**	**(6,843)**	**(57,638)**	**(83,764)**
Outflow		**(1,331,468)**	**(1,749,951)**	**380,748**	**224,299**	**(49,440)**	**(137,124)**
Inflow		**1,163,667**	**1,742,251**	**(392,603)**	**(231,142)**	**(8,198)**	**53,360**

			Group				
2017 **In RON thousands**	**Carrying amount***	**Gross nominal inflow /(outflow)**	**Less than 1 month**	**1 to 3 Months**	**3 Months to 1 year**	**1-5 years**	**More than 5 years**
Derivative assets	**73,453**	**15,146**	**(2,879)**	**(2,233)**	**2,028**	**(3,485)**	**21,714**
Outflow		(1,424,505)	(508,214)	(279,234)	(532,402)	(102,669)	(1,987)
Inflow		1,439,651	505,334	277,001	534,430	99,185	23,701
Derivative liabilities	**(156,186)**	**(132,246)**	**(5,465)**	**(4,692)**	**4,923**	**(47,769)**	**(79,243)**
Outflow		**(3,580,002)**	**(1,236,563)**	**(875,775)**	**(1,108,104)**	**(253,181)**	**(106,379)**
Inflow		**3,447,756**	**1,231,099**	**871,083**	**1,113,027**	**205,412**	**27,136**

**) includes the derivatives for hedging*

4. RISK MANAGEMENT *(continued)*

d) Liquidity risk *(continued)*

An analysis of notional amounts of the Bank of derivative financial assets/liabilities by residual contractual maturity at the reporting date is shown below:

			Bank				
2018 **In RON thousands**	**Carrying amount***	**Gross nominal inflow /(outflow)**	**Less than 1 month**	**1 to 3 Months**	**3 Months to 1 year**	**1-5 years**	**More than 5 years**
Derivative assets	**67,206**	**84,631**	**7,900**	**6,408**	**24,298**	**33,007**	**13,019**
Outflow		(2,449,058)	(1,102,268)	(670,911)	(700,500)	12,977	11,644
Inflow		2,533,689	1,110,168	677,319	724,798	20,030	1,375
Derivative liabilities	**(148,748)**	**(167,823)**	**(7,722)**	**(11,855)**	**(6,843)**	**(57,638)**	**(83,764)**
Outflow		**(1,326,338)**	**(1,744,821)**	**380,748**	**224,299**	**(49,440)**	**(137,124)**
Inflow		**1,158,515**	**1,737,099**	**(392,603)**	**(231,142)**	**(8,198)**	**53,360**

			Bank				
2017 **In RON thousands**	**Carrying amount***	**Gross nominal inflow /(outflow)**	**Less than 1 month**	**1 to 3 Months**	**3 Months to 1 year**	**1-5 years**	**More than 5 years**
Derivative assets	**73,422**	**15,146**	**(2,879)**	**(2,233)**	**2,028**	**(3,485)**	**21,714**
Outflow		(1,424,505)	(508,214)	(279,234)	(532,402)	(102,669)	(1,987)
Inflow		1,439,651	505,334	277,001	534,430	99,185	23,701
Derivative liabilities	**(156,186)**	**(132,246)**	**(5,465)**	**(4,692)**	**4,923**	**(47,769)**	**(79,243)**
Outflow		**(3,580,002)**	**(1,236,563)**	**(875,775)**	**(1,108,104)**	**(253,181)**	**(106,379)**
Inflow		**3,447,756**	**1,231,099**	**871,083**	**1,113,027**	**205,412**	**27,136**

**) includes the derivatives for hedging*

4. RISK MANAGEMENT *(continued)*

e) Market Risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/ issuer's credit standing) will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Management of Market Risk

Organizational structure

The Supervisory Board lays down strategic guidelines for taking on market risks by calculating, depending on the propensity to risk and objectives of value creation in proportion to risks assumed, capital allocation for all business segments, in compliance with UniCredit Group strategies.

The Risk Management Committee provides advice and recommendations in respect of decisions taken by the Chief Executive Officer and in drawing up proposals made by the Chief Executive Officer to the Directorate or the Supervisory Board with regards to the following:

- guidance as to the methods to be used to realize models for the measurement and monitoring of Group risks;
- the Group's risk policies (identification of risk, analysis of the level of propensity to risk, definition of capital allocation objectives and the limits for each type of risk, assignment of related functional responsibilities to the relevant departments and divisions);
- corrective action aimed at rebalancing the Group's risk positions.

The overall authority for market risk is delegated towards Assets and Liability Committee. The Market Risk unit ensures the measurement and monitoring of risks assumed in accordance with the guidelines set out by UniCredit Group.

Asset and Liability Management unit, in coordination with Markets Trading manages strategic and operational Balance sheet management, with the objective of ensuring a balanced asset position and the operating and financial sustainability of the Group's growth policies on the loans market, optimizing the Group's exchange rate, interest rate and liquidity risk.

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolio is held by Markets Trading unit, and includes positions arising from market making and proprietary position taking, together with most financial assets that are managed on a fair value basis. Also all foreign exchange risk is transferred and sold down by Assets and Liability Management to the Markets Trading unit. Accordingly, the foreign exchange position is treated as part of the Group's trading portfolios for risk management purposes.

4. RISK MANAGEMENT *(continued)*

e) Market Risk *(continued)*

Exposure to market risks – Value at Risk Tool

The main tool used to measure and control market risk exposure is Value at Risk (VaR). VaR is the maximum estimated loss that will arise on the entire portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level).

The VaR model used by the Group is based upon a 99 percentage confidence level and assumes a 1 day holding period. Use of a 1-day time-horizon makes it possible to make an immediate comparison between profits/losses realized.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- A 1 day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.
- A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VaR.
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.
- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.
- The VaR measure is dependent upon the Group's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

The Group uses a VaR warning limit for total market risk and banking book and a limit for trading book; this limit is subject to review and approval by UniCredit Group and ALCO. VaR is measured daily by a common system throughout the UniCredit Group; data is automatically upload from the core banking system and other front office systems.

A summary of the VaR position of the Group and of the Bank is as follows:

2018								
In RON thousands	Group				Bank			
	31st of December	Average	Max	Min	31st of December	Average	Max	Min
Foreign currency risk	59	79	365	2	61	80	358	1
Interest rate risk	3,797	5,842	11,191	2,757	3,775	5,716	8,276	2,609
Credit spread risk	5,195	4,613	5,974	3,377	5,195	4,650	5,974	3,377
Overall	4,820	3,943	5,036	2,934	4,828	3,961	5,027	3,075

4. RISK MANAGEMENT *(continued)*

e) Market Risk *(continued)*

Exposure to market risks – Value at Risk Tool *(continued)*

2017								
In RON thousands	Group				Bank			
	31st of December	Average	Max	Min	31st of December	Average	Max	Min
Foreign currency risk	35	59	224	2	36	58	222	1
Interest rate risk	2,728	2,035	3,680	1,080	2,577	2,015	3,500	1,152
Credit spread risk	3,339	3,273	4,290	2,221	3,339	3,273	4,290	2,221
Overall	3,960	3,081	4,399	1,706	3,835	3,093	4,352	1,762

The limitations of the VaR methodology are recognized by supplementing VaR limits with other position and sensitivity limit analyses. The Group uses a range of stress tests to model the financial impact of a variety of exceptional market scenarios on the Group's positions.

Foreign exchange (FX) analysis

The FX net open position limits are assigned by the Group and are lower than the prudential limits imposed by the National Bank of Romania.

The limits are expressed in EUR equivalent and the exposure to the limits is monitored on a daily basis by Market Risk department.

The table shows the average usage of the limits during 2018 and 2017, which correlate also with the stable FX VaR figure.

Foreign exchange (FX) Open Position of the Bank is as follows:

Group				
	2018		2017	
	Limits (ths EUR equiv.)	Average usage	Limits (ths EUR equiv.)	Average usage
EUR	60,000	29.96%	60,000	28.10%
RON	60,000	30.17%	60,000	27.75%
USD	5,000	6.89%	5,000	6.48%

Bank				
	2018		2017	
	Limits (ths EUR equiv.)	Average usage	Limits (ths EUR equiv.)	Average usage
EUR	60,000	29.80%	60,000	26.98%
RON	60,000	29.86%	60,000	27.05%
USD	5,000	5.66%	5,000	4.07%

Exposure to market risks – Interest Rate Gap tool

Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. ALCO is the monitoring body for compliance with these limits and it is assisted by Market Risk in its day to day monitoring activities.

4. RISK MANAGEMENT *(continued)*

e) Market Risk *(continued)*

A summary of the Group's interest rate gap position on interest earning assets and liabilities, based on the earlier date between contractual maturity and repricing date, as at 31 December 2018, is presented below:

In RON thousands	Up to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total contractual amount	Total carrying amount
Cash and cash equivalents	10,282,258	-	-	-	**10,282,258**	**10,282,258**
Financial assets held for trading	11,713	15,326	180,059	89,688	**296,785**	**296,785**
Derivatives assets designated as hedging instruments	-	-	-	146	**146**	**146**
Loans and advances to banks	116,553	618,968	1,162,082	-	**1,897,602**	**1,897,602**
Loans and advances to customers	21,246,520	705,427	1,249,991	283,407	**23,485,344**	**23,535,848**
Net Lease receivables	2,671,408	799,217	598,841	19,737	**4,089,203**	**4,089,203**
Financial assets at fair value through other comprehensive income	344,711	305,621	4,247,469	2,432,820	**7,330,621**	**7,330,621**
Total other financial assets, net value	190,151	-	-	-	**190,151**	**190,151**
Total financial assets	**34,863,313**	**2,444,558**	**7,438,441**	**2,825,798**	**47,572,111**	**47,622,614**
Derivative liabilities at fair value through profit or loss	16,515	5,456	33,740	14,098	**69,809**	**69,809**
Derivatives liabilities designated as hedging instruments	1,505	-	10,760	66,654	**78,919**	**78,919**
Deposits from banks	3,384,545	373,112	-	-	**3,757,657**	**3,757,657**
Loans from banks and other financial institutions, including subordinated liabilities	7,309,649	319,168	829,448	23,246	**8,481,511**	**8,481,611**
Debt securities issued	-	622,280	-	-	**622,280**	**622,115**
Deposits from customers	27,320,340	1,979,474	176,881	15,751	**29,492,447**	**29,494,901**
Total other financial liabilities	459,838	-	-	-	**459,838**	**459,838**
Total financial liabilities	**38,492,393**	**3,299,490**	**1,050,829**	**119,749**	**42,962,461**	**42,964,849**
Interest sensitivity surplus / (shortfall)	**(3,629,080)**	**(854,932)**	**6,387,613**	**2,706,049**	**4,609,650**	**4,657,765**

4. RISK MANAGEMENT *(continued)*

e) Market Risk *(continued)*

A summary of the Group's interest rate gap position on interest earning assets and liabilities, based on the earlier date between contractual maturity and repricing date, as at 31 December 2017, is presented below:

In RON thousands	Up to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total contractual amount	Total carrying amount
Cash and cash equivalents	8,824,908	-	-	-	**8,824,908**	**8,824,908**
Financial assets at fair value through profit or loss	9,218	6,949	62,638	42,578	**121,382**	**121,382**
Derivatives assets designated as hedging instruments	-	330	-	3,867	**4,197**	**4,197**
Loans and advances to banks	90,253	274,936	759,945	-	**1,125,134**	**1,125,134**
Loans and advances to customers	20,457,897	907,384	1,576,458	120,640	**23,062,379**	**22,954,543**
Net Lease receivables	2,976,431	205,798	460,822	53,558	**3,696,608**	**3,696,608**
Financial assets available for sale	677,907	763,062	3,431,532	1,129,572	**6,002,073**	**6,002,073**
Total other financial assets	104,533	-	-	-	**104,533**	**104,533**
Total financial assets	**33,141,147**	**2,158,458**	**6,291,395**	**1,350,215**	**42,941,214**	**42,833,378**
Financial liabilities at fair value through profit or loss	16,108	9,027	33,804	21,081	**80,020**	**80,020**
Derivatives liabilities designated as hedging instruments	1,416	7,143	11,292	56,316	**76,166**	**76,166**
Deposits from banks	2,556,643	591,658	-	-	**3,148,300**	**3,148,300**
Loans from banks and other financial institutions, including subordinated liabilities	6,492,932	272,029	512,180	171,204	**7,448,345**	**7,448,375**
Debt securities issued	1,627	554,997	426,500	183,500	**1,166,623**	**1,166,163**
Deposits from customers	26,770,358	535,956	28,870	990	**27,336,174**	**27,336,174**
Total other financial liabilities	454,759	-	-	-	**454,759**	**454,759**
Total financial liabilities	**36,293,843**	**1,970,810**	**1,012,646**	**433,091**	**39,710,388**	**39,709,957**
Interest sensitivity surplus/ (shortfall)	**(3,152,696)**	**187,649**	**5,278,748**	**917,124**	**3,230,827**	**3,123,421**

4. RISK MANAGEMENT *(continued)*

e) Market Risk *(continued)*

A summary of the Bank's interest rate gap position on interest earning assets and liabilities, based on the earlier date between contractual maturity and repricing date, as at 31 December 2018, is presented below:

In RON thousands	Up to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total contractual amount	Total carrying amount
Cash and cash equivalents	10,282,174	-	-	-	**10,282,174**	**10,282,174**
Financial assets held for trading	11,713	15,326	180,059	89,688	**296,785**	**296,785**
Derivatives assets designated as hedging instruments	-	-	-	146	**146**	**146**
Loans and advances to banks	116,553	618,968	1,162,082	-	**1,897,602**	**1,897,602**
Loans and advances to customers	19,639,416	687,005	323,275	272,871	**20,922,568**	**20,973,071**
Financial assets at fair value through other comprehensive income	344,711	305,621	4,247,469	2,430,474	**7,328,275**	**7,328,275**
Investments in subsidiaries				143,116	**143,116**	**143,116**
Other financial assets, net value	143,332	-	-	-	**143,332**	**143,332**
Total financial assets	**30,537,899**	**1,626,919**	**5,912,885**	**2,936,295**	**41,013,998**	**41,064,501**
Derivative liabilities at fair value through profit or loss	16,535	5,456	33,740	14,098	**69,829**	**69,829**
Derivatives liabilities designated as hedging instruments	1,505	-	10,760	66,654	**78,919**	**78,919**
Deposits from banks	3,384,545	373,112	-	-	**3,757,657**	**3,757,657**
Loans from banks and other financial institutions, including subordinated liabilities	1,700,669	-	160,000	-	**1,860,669**	**1,860,769**
Debt securities issued	-	622,280	-	-	**622,280**	**622,115**
Deposits from customers	27,682,003	1,979,474	176,881	1,016	**29,839,374**	**29,841,828**
Other financial liabilities	368,442	-	-	-	**368,442**	**368,442**
Total financial liabilities	**33,153,700**	**2,980,322**	**381,380**	**81,768**	**36,597,170**	**36,599,559**
Interest sensitivity surplus / (shortfall)	**(2,615,801)**	**(1,353,403)**	**5,531,504**	**2,854,527**	**4,416,828**	**4,464,942**

4. RISK MANAGEMENT *(continued)*

e) Market Risk *(continued)*

A summary of the Bank's interest rate gap position on interest earning assets and liabilities, based on the earlier date between contractual maturity and repricing date, as at 31 December 2017, is presented below:

In RON thousands	Up to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total contractual amount	Total carrying amount
Cash and cash equivalents	8,824,887	-	-	-	**8,824,887**	**8,824,887**
Financial assets at fair value through profit or loss	9,249	6,949	62,638	42,578	**121,413**	**121,413**
Derivatives assets designated as hedging instruments	-	330	-	3,867	**4,197**	**4,197**
Loans and advances to banks	90,253	274,936	759,945	-	**1,125,134**	**1,125,134**
Loans and advances to customers	19,592,284	883,029	227,366	155,659	**20,858,339**	**20,750,502**
Financial assets available for sale	677,907	763,062	3,431,532	1,127,226	**5,999,727**	**5,999,727**
Investments in subsidiaries				143,116	**143,116**	**143,116**
Other financial assets	118,193	-	-	-	**118,193**	**118,193**
Total financial assets	**29,312,774**	**1,928,305**	**4,481,481**	**1,472,446**	**37,195,006**	**37,087,169**
Financial liabilities at fair value through profit or loss	16,108	9,027	33,804	21,081	**80,020**	**80,020**
Derivatives liabilities designated as hedging instruments	1,416	7,143	11,292	56,316	**76,166**	**76,166**
Deposits from banks	2,556,642	591,658	-	-	**3,148,300**	**3,148,300**
Loans from banks and other financial institutions, including subordinated liabilities	1,655,476	-	-	-	**1,655,476**	**1,655,506**
Deposits from customers	26,770,359	535,956	28,870	990	**27,336,175**	**27,336,175**
Debt securities issued	1,627	554,997	426,500	183,500	**1,166,623**	**1,166,163**
Other financial liabilities	454,759	-	-	-	**454,759**	**454,759**
Total financial liabilities	**31,456,386**	**1,698,781**	**500,466**	**261,887**	**33,917,519**	**33,917,089**
Interest sensitivity surplus/ (shortfall)	**(2,143,612)**	**229,524**	**3,981,015**	**1,210,559**	**3,277,486**	**3,170,081**

4. RISK MANAGEMENT *(continued)*

e) Market Risk *(continued)*

The following table shows the yearly average interest rates obtained or offered during 2018:

	Group			Bank		
In RON thousands	**RON Average**	**EUR Average**	**USD Average**	**RON Average**	**EUR Average**	**USD Average**
Assets						
Balances with National Bank of Romania	0.15%	0.02%		0.15%	0.02%	
Current accounts and placements with banks	3.13%	(0.43%)	1.86%	3.23%	(0.45%)	1.88%
Treasury bills and bonds	3.73%	2.58%		3.73%	2.58%	
Loans and advances to customers	5.66%	2.18%	4.48%	5.02%	2.91%	4.88%
Liabilities						
Deposits from banks	2.29%	0.62%	1.53%	2.29%	0.62%	1.53%
Deposits from customers	2.13%	0.31%	1.19%	2.13%	0.31%	1.19%
Loans from banks and other financial institutions	3.44%	0.90%	4.60%	3.55%	0.66%	3.82%
Subordinated loans		3.59%			3.73%	

The following table shows the yearly average interest rates obtained or offered during 2017:

	Group			Bank		
In RON thousands	**RON Average**	**EUR Average**	**USD Average**	**RON Average**	**EUR Average**	**USD Average**
Assets						
Balances with National Bank of Romania	0.09%	0.03%		0.09%	0.03%	
Current accounts and placements with banks	1.50%	(0.08%)	1.00%	1.56%	(0.26%)	1.00%
Treasury bills and bonds	3.36%	3.38%	4.45%	3.36%	3.38%	4.45%
Loans and advances to customers	4.29%	2.50%	3.81%	3.59%	3.30%	4.08%
Liabilities						
Deposits from banks	0.96%	0.94%	0.82%	0.96%	0.94%	0.82%
Deposits from customers	1.14%	0.73%	1.00%	1.14%	0.73%	1.00%
Loans from banks and other financial institutions	1.77%	1.97%	2.93%		1.58%	2.87%
Subordinated loans		5.02%			6.29%	

The interest rates related to the local currency and the major foreign currencies as at 31 December 2018 and 31 December 2017 were as follows:

Currency	**Interest rate**	**2018**	**2017**
RON	Robor 3 luni	3.02%	2.05%
RON	Robor 6 luni	3.30%	2.27%
EUR	Euribor 3 luni	(0.31%)	(0.33%)
EUR	Euribor 6 luni	(0.24%)	(0.27%)
USD	Libor 3 luni	2.80%	1.69%
USD	Libor 6 luni	2.88%	1.84%

4. RISK MANAGEMENT *(continued)*

e) Market Risk *(continued)*

The amounts of assets and liabilities held in RON and in foreign currencies for the Group as at 31 December 2018 are presented below:

In RON thousands	RON	USD	EUR	Other	Total
Financial assets					
Cash and cash equivalents	2,471,302	93,052	7,647,095	70,809	**10,282,258**
Financial assets at fair value through profit or loss	186,995	28,791	80,836	163	**296,785**
Derivatives assets designated as hedging instruments	-	22	124	-	**146**
Loans and advances to banks	1,776,013	32,016	89,573	-	**1,897,602**
Loans and advances to customers	14,012,943	484,614	9,034,733	3,557	**23,535,847**
Net Lease receivables	392,407	32,331	3,664,465	-	**4,089,203**
Other financial assets	103,911	1,311	84,910	19	**190,151**
Financial assets at fair value through other comprehensive income	6,392,195	(404)	938,830	-	**7,330,621**
Total financial assets	**25,335,766**	**671,733**	**21,540,566**	**74,548**	**47,622,613**
Financial liabilities					
Financial liabilities at fair value through profit or loss	26,882	1,729	41,035	163	**69,809**
Derivatives liabilities designated as hedging instruments	-	616	78,303	-	**78,919**
Deposits from banks	312,631	215,963	3,229,064	-	**3,757,658**
Loans from banks and other financial institutions	2,826,001	80,173	4,685,126	-	**7,591,300**
Deposits from customers	20,160,696	1,231,735	7,973,168	129,303	**29,494,902**
Debt securities issued	622,115	-	-	-	**622,115**
Other financial liabilities	306,328	21,916	127,333	4,261	**459,838**
Subordinated liabilities	-	-	890,311	-	**890,311**
Total financial liabilities	**24,254,653**	**1,552,132**	**17,024,340**	**133,727**	**42,964,852**
Net financial assets/(liabilities)	**1,081,113**	**(880,399)**	**4,516,226**	**(59,179)**	**4,657,761**

4. RISK MANAGEMENT *(continued)*

e) Market Risk *(continued)*

The amounts of assets and liabilities held in RON and in foreign currencies for the Group as at 31 December 2017 are presented below:

In RON thousands	RON	USD	EUR	Other	Total
Financial assets					
Cash and cash equivalents	3,897,129	82,383	4,765,476	79,920	**8,824,908**
Financial assets at fair value through profit or loss	78,792	1,363	41,064	163	**121,382**
Derivatives assets designated as hedging instruments	4,185	12	-	-	**4,197**
Loans and advances to banks	1,046,023	13,575	65,536	-	**1,125,134**
Loans and advances to customers	12,791,176	607,330	9,552,242	3,794	**22,954,542**
Net lease receivables	445,071	37,425	3,214,112	-	**3,696,608**
Financial assets available for sale	5,259,443	20,029	722,601	-	**6,002,073**
Total other financial assets	34,047	2,488	58,681	9,315	**104,532**
Total financial assets	**23,555,868**	**764,633**	**18,419,711**	**93,214**	**42,833,377**
Financial liabilities					
Financial liabilities at fair value through profit or loss	34,493	1,451	43,913	163	**80,020**
Derivatives liabilities designated as hedging instruments	-	765	75,401	-	**76,166**
Deposits from banks	260,018	117,530	2,770,752	-	**3,148,300**
Loans from banks and subordinated liabilities	2,264,651	144,378	5,038,373	973	**7,448,375**
Deposits from customers	17,796,172	1,167,455	7,988,219	97,566	**27,049,412**
Debt securities issued	1,166,163	-	-	-	**1,166,163**
Total other financial liabilities	266,995	23,461	200,499	3,396	**494,351**
Total financial liabilities	**21,788,493**	**1,455,039**	**16,117,157**	**102,098**	**39,462,787**
Net financial assets/(liabilities)	**1,872,803**	**(690,406)**	**2,324,925**	**(8,884)**	**3,370,589**

4. RISK MANAGEMENT *(continued)*

e) Market Risk *(continued)*

The amounts of assets and liabilities held in RON and in foreign currencies for the Bank as at 31 December 2018 can be analysed as follows:

In RON thousands	RON	USD	EUR	Other	Total
Financial assets					
Cash and cash equivalents	2,467,796	93,052	7,650,517	70,809	**10,282,174**
Financial assets at fair value through profit or loss	187,015	28,791	80,816	163	**296,785**
Derivatives assets designated as hedging instruments	-	22	124	-	**146**
Loans and advances to banks	1,776,013	32,016	89,573	-	**1,897,602**
Loans and advances to customers	11,473,923	484,614	9,010,977	3,557	**20,973,071**
Investments in subsidiaries	143,116	-	-	-	**143,116**
Other financial assets	57,636	1,311	84,366	19	**143,332**
Financial assets at fair value through other comprehensive income	6,389,849	(404)	938,830	-	**7,328,275**
Total financial assets	**22,495,347**	**639,402**	**17,855,204**	**74,548**	**41,064,501**
Financial liabilities					
Financial liabilities at fair value through profit or loss	26,902	1,729	41,035	163	69,829
Derivatives liabilities designated as hedging instruments	-	616	78,303	-	**78,919**
Deposits from banks	312,631	215,963	3,229,064	-	**3,757,657**
Loans from banks and other financial institutions	158,482	47,247	867,335	-	**1,073,065**
Deposits from customers	20,229,650	1,232,685	8,250,191	129,303	**29,841,828**
Debt securities issued	622,115	-	-	-	**622,115**
Other financial liabilities	231,407	21,916	110,858	4,261	**368,442**
Subordinated liabilities	-	-	787,705	-	**787,705**
Total financial liabilities	**21,581,186**	**1,520,156**	**13,364,490**	**133,726**	**36,599,559**
Net financial assets/(liabilities)	**914,161**	**(880,754)**	**4,490,714**	**(59,178)**	**4,464,942**

4. RISK MANAGEMENT *(continued)*

e) Market Risk *(continued)*

The amounts of assets and liabilities held in RON and in foreign currencies for the Bank as at 31 December 2017 can be analysed as follows:

In RON thousands	RON	USD	EUR	Other	Total
Financial assets					
Cash and cash equivalents	3,896,758	82,383	4,765,826	79,920	**8,824,887**
Financial assets at fair value through profit or loss	78,823	1,363	41,064	163	**121,413**
Derivatives assets designated as hedging instruments	4,185	12	-	-	**4,197**
Loans and advances to banks	1,046,023	13,575	65,536	-	**1,125,134**
Loans and advances to customers	10,633,620	607,330	9,505,759	3,794	**20,750,503**
Financial assets available for sale	5,257,097	20,029	722,601	-	**5,999,727**
Investments in subsidiaries	143,116	-	-	-	**143,116**
Other financial assets	90,684	2,488	25,014	7	**118,193**
Total financial assets	**21,150,306**	**727,180**	**15,125,799**	**83,885**	**37,087,170**
Financial liabilities at fair value through profit or loss	34,493	1,451	43,913	163	**80,020**
Derivatives liabilities designated as hedging instruments	-	765	75,401	-	**76,166**
Deposits from banks	260,018	117,530	2,770,752	-	**3,148,300**
Loans from banks and other financial institutions at amortized cost	-	105,153	1,549,381	973	**1,655,506**
Deposits from customers	17,898,485	1,172,231	8,167,893	97,566	**27,336,175**
Debt securities issued	1,166,163	-	-	-	**1,166,163**
Total other financial liabilities	232,205	23,401	195,757	3,396	**454,759**
Total financial liabilities	**19,591,364**	**1,420,531**	**12,803,096**	**102,098**	**33,917,089**
Net financial assets/(liabilities)	**1,558,942**	**(693,350)**	**2,322,702**	**(18,213)**	**3,170,081**

4. RISK MANAGEMENT *(continued)*

f) Strategic risk

Strategic risk is part of the risks which are evaluated qualitatively within the evaluation process of risks initiated by UniCredit Group and by the Bank.

Strategic risk is analysed taking into account the following:

- Risk of changes in the business environment
- Risk of unsatisfactory implementation of decision
- Risk of lack of reaction

The following three parameters are analysed for the above risks: probability, severity and exposure.

The Group has implemented internal regulations and specific mechanisms for managing strategic risk.

g) Compliance risk

In accordance with the legal provisions and UniCredit Group policies, the management of compliance risk is performed by Compliance Function within UniCredit Bank SA through:

- providing advice on the provisions of the legal and regulatory framework and on the standards the Bank needs to meet;
- assessing the possible impact of any changes of the legal and regulatory framework on the Bank's activities;
- verifying that new products and procedures are in compliance with the regulatory framework;
- performing second level controls in the areas under Compliance Function's competence, based on specific control methodologies;
- evaluating, measuring and monitoring of compliance risk in the areas under Compliance Function's competence, as well as through appropriate reporting to the governing bodies of the Bank
- evaluation, measurement and monitoring the compliance risk in the areas under the Compliance Function competence, as well as appropriate reporting to the governing body of the Bank;
- managing the relationship with regulatory authorities, either directly by Compliance Function, or together with other functions within the Bank.

4. RISK MANAGEMENT *(continued)*

h) Taxation risk

The Group is committed to ensure sustainable performance of tax risk management maintaining an efficient, effective and transparent tax function within the organization. The Group strictly complies with the legal norms regarding taxes and duties. Differences between IFRS accounting treatment and fiscal requirements have been carefully identified and analysed, resulting in proper recognition of deferred tax effects in the financial statements.

The Group is focused permanently on monitoring the price transfer risks, including the proper documentation of intragroup transactions, through a proactive approach. Tax liabilities of the Group are opened to a general tax inspection for a period of five years.

i) Operating environment

The Romanian economy grew by 4.2% year on year ("yoy") in the first 9 months of 2018, tapering the pace of the fiscal stimulus induced growth of the corresponding period of 2017. We expect economic growth to fall towards 3.1% in 2019 and below potential in 2020 (2.2%). Despite the government's ambitious plan to increase wages and pensions before the elections scheduled for autumn 2019, private consumption growth is likely to slow. Investment could fall further in 2019-20 after financial conditions tightened significantly in 2018 due to higher interest rates and credit constraints imposed by the central bank.

The budget deficit was close to 3% of GDP in 2018 (using EU accounting standards), with the risk of a slight overshoot. In 2019-20, the budget deficit is likely to widen further. Wage and pension hikes will increase spending in 2019, while revenues may be hit by cyclical factors. Thus, receipts from consumption and profit taxes may increase slower than nominal GDP. At the end of 2018, the government introduced a package of measures aimed at keeping the budget deficit below 3% of GDP in 2019. Sectoral taxes on banks, energy and telecom companies could cover most of the revenue shortfall stemming from the pension raise scheduled for September 2019. However, other handouts (especially subventions for gas prices) and higher wages for teachers could still push the budget deficit above 3% of GDP.

The National Bank of Romania ("NBR") hiked the monetary policy rate to 2.50% in 1H2018 from 1.75% in December 2017, operating three increases of 0.25 percentage points each. The minimum reserve requirement (MRR) for both LCY and FCY-denominated liabilities were kept unchanged at 8% since May 2015 and May 2017, respectively. Annual inflation exited NBR's 1.5%-3.5% target range in January 2018 and maintained an upward sloping pattern in 1H2018, touching 5.4% in June 2018. Subsequent base effects and NBR's tightening early in the year supported disinflation into the year-end In 2019, headline inflation could fluctuate around 3.5%, the top of the target range, falling closer to the central target in 2020. The target may be missed in 2019 if oil prices rise towards USD 70/bbl. Despite this outlook, we do not expect the NBR to hike this year or next. The central bank could use liquidity conditions (via FX interventions and repos) to keep interbank interest rates at 3-3.5%, thus delivering 2-4 implicit rate hikes.

Market liquidity management represented an important tool in NBR's monetary policy arsenal throughout 2018. The Central Bank organized both DEPO and REPO operations, as required by market needs, enabling market participants to place/borrow excess funds at/from the NBR at the monetary policy rate. The move made the monetary policy rate more relevant in terms of market reference, ensuring a better transmission of the monetary policy, in a bid to be more effective in fighting inflation.

The EURRON traded within the 4.62-4.67 range in 2018, with continued upside pressure from weakening capital flows. The external shortfall could remain close to 4% of GDP this year and next, too large to be covered by foreign direct investments and EU fund inflows. At the same time, the external sentiment might deteriorate, leading to outflows from the countries regarded as most vulnerable, among which is Romania due to its internal uncertainties and twin deficits in 2019-20 (budget and current account deficits). As a result, the RON could come under pressure whenever portfolio flows weaken. We expect the NBR to resume indirect FX interventions in such a scenario to prevent a rapid growth in EURRON.

4. RISK MANAGEMENT *(continued)*

i) Operating environment *(continued)*

The sales of non-performing loans no longer determines a decrease in the loan volumes, either for retail or for companies. The total NPL ratio of the banking system dropped to 5.56% at the end of September 2018 from 6.41% in December 2017. Given that most of the cleanup was already undertaken, we do not expect further cleanup to impact the stock as much as it did in the past years. Lending to households continued to expand strongly (+9.2%yoy in December 2018; FCY-adjusted), supported by mortgage loans (+11.1%yoy), while the stock of credit to companies picked up at the turn of the year (+6.6%yoy in December 2018; FCY-adjusted), with the appreciation equally split between the LCY and the FCY component.

New lending is done predominantly in LCY for both individuals and companies, enabling the stock of RON-denominated loans to continue to outstrip the stock in foreign currency, with a share of 65.7% in total private sector loans at the end of 2018, up from 61.6% in December 2017 and a minimum of 35.6% in May 2012. In 11M2018, 78.5% of the new loans granted were in local currency. The fact that the weight of the credit denominated in local currency has increased strengthens the transmission of the monetary policy, helps mitigate risks to financial stability and enhances the robustness of the economy. The main drivers for this change were the central bank's efforts and regulations to protect customers against depreciation risks, together with LCY interest rates slipping to historical lows. The loan-to-depo ratio was 76.2% at the end of December 2018.

j) Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Group recognizes the need to maintain a balance between the higher returns that may be possible with greater gearing and the advantages and security afforded by a sound capital position.

Regulatory capital

Starting with January 2014, Romanian banking system has applied the provisions of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 and the provisions of Regulation no.5/2013 regarding prudential requirements for the credit institutions issued by National Bank of Romania.

By application of the above mentioned requirements, the structure of own funds is redefined, as well as the eligibility criteria for the equity instruments must met in order to be included in the Level 1 Own Funds – Base, Supplementary and Level 2 Own funds. New liquidity and capital indicators are defined which have to be monitored above the minimum capital requirements specified by the respective regulations.

Credit Risk

In July 2012, National Bank of Romania ("NBR") authorized the Bank to calculate the credit risk capital requirement under Foundation IRB Approach for the following categories of clients: corporate (except for real estate clients), multinationals, banks and securities industries. For the rest of the portfolios, the Group is still applying the Standardized Approach.

Market Risk

The Bank calculates the capital requirements for market risk for the held for trading portfolio using the standard method in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

4. RISK MANAGEMENT *(continued)*

j) Capital management *(continued)*

Operational Risk

UniCredit Group developed an internal model for measuring capital requirements for operational risk. The model uses internal and external loss data (consortium and public data), risk indicators and estimated losses through scenario analyses. Capital at Risk is calculated for a confidence level of 99.90% based on global loss distribution according legal requirements.

In 2013, UniCredit Group has updated, based on the Bank of Italy recommendations, the internal model for capital requirements for operational risk. The model enhancement has consisted in:

- the increase of model granularity for the calculus of operational risk;
- review of the allocation method of capital for operational risk among the UniCredit Group entities;
- emphasis on forward-looking component by high weight of operational risk scenarios within the internal calculation model for capital requirements;
- the extension from 5 to 10 years of the operational risk data base perimeter for UniCredit Bank in respect of using the new internal model has been approved by National Bank of Romania in June 2014.

Own Funds

Level 1 own funds includes: equity instruments, share premiums,retained earnings, other items of comprehensive income, other reserves and a serie of deductions (losses of the financial period, intangible assets, deferred tax asset which is based on future profits, negative amounts which results from the calculus of expected values and other adjustments required by laws). Level 2 own funds includes subordinated loans.

The solvency position of the Group and of the bank is summarised below:

In RON thousands	Group		Bank	
	2018	**2017**	**2018**	**2017**
Tier 1 capital*	3,961,150	3,120,506	3,789,261	3,071,009
Tier 2 capital	785,867	777,378	785,867	752,853
Total own funds	**4,747,017**	**3,897,884**	**4,575,128**	**3,823,862**
Total own funds requirements, of which:	**28,458,912**	**26,364,459**	**22,536,865**	**20,867,026**
Risk exposure amounts for credit risk, counterparty risk and receivables value decrease risk and free deliveries	26,177,994	24,287,860	20,981,180	19,462,601
Total risk exposure amount for position, foreign exchange and commodities' risks	181,876	20,388	176,907	20,388
Total risk exposure amount for operational risk	2,090,620	2,050,547	1,370,355	1,378,373
Total risk exposure amount for credit value adjustment	8,422	5,664	8,422	5,664
Capital indicators				
Total capital ratio	16.68%	14.78%	20.30%	18.32%
Tier 1 capital ratio	13.92%	11.84%	16.81%	14.72%

** In accordance with local regulations, net profit for the year is not included in the own funds calculations until it is distributed in accordance with General Shareholders' Meeting decision. For comparative purposes net profit for the year is not included in the own funds for both reporting periods.*

4. RISK MANAGEMENT *(continued)*

j) Capital management *(continued)*

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimization of the return achieved on the capital allocated. The amount of capital allocated to each business segment is determined as a percentage established by the UniCredit Group of the risk weighted assets.

k) Turnover

The Group has started to apply the requirements of NBR Regulation No 5/2013 regarding prudential requirements for credit institutions since January 2014.

The Group turnover at 2018 is RON thousands 2,497,096 (2017: RON thousands 2,093,813), which is computed and presented in accordance with provisions of art. 644 of the above mentioned Regulation no 5/2013 and consists of Operating income items excluding interest expense and fee expense.

The Bank turnover at 2018 is RON thousands 2,030,898 (2017: RON thousands 1,700,309), which is computed and presented in accordance with provisions of art. 644 of the above mentioned Regulation no 5/2013 and consists of Operating income items excluding interest expense and fee expense.

5. USE OF ESTIMATES AND JUDGEMENTS

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

a) Key sources of estimation uncertainty

Allowances for loan losses

The Group reviews its loan portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

The loan impairment assessment considers the visible effects on current market conditions on the individual/ collective assessment of loans and advances to customers' impairment. The Group has estimated the impairment loss provision for loans and advances to customers based on the internal methodology harmonized with UniCredit SpA policies. Because of the uncertainties on the local financial markets regarding assets valuation and operating environment of the borrowers, that Group's estimate could be revised after the date of the approval of the consolidated financial statements.

The impact of increasing/decreasing by +/-10 percent of the probability of default and collateral recognition parameters for collective assessment is presented below:

Entity / Impact RON thousands	Impact PD up 10%	Impact PD down 10%	Impact Collateral up 10%	Impact Collateral down 10%
UCL	6,074	(6,412)	(6,749)	6,142
UCFIN	8,406	(8,406)	-	-
UCB	18,039	(18,039)	(21,622)	36,084
Consolidated	**32,519**	**(32,857)**	**(28,371)**	**42,226**

Sensitivity analysis for assets at fair value through other comprehensive income (2018)/ available for sale financial assets (2017)

The fair value of financial assets at fair value through other comprehensive income is directly dependant on the market yield variable and its changes impact the financial position and the net assets of the Group.

In case the market yield varies by +/-10 percent, the negative reserve recorded as at 31 December 2018 on financial assets at fair value through other comprehensive income would vary as follows:

2018 In RON thousands	Market Yield -10%	Market Yield +10%
Financial assets at FVTOCI denominated in RON	90,553	(88,029)
Financial assets at FVTOCI denominated in EUR	17,803	(17,281)
Total financial assets available for sale	**108,357**	**(105,310)**

5. USE OF ESTIMATES AND JUDGEMENTS *(continued)*

a) Key sources of estimation uncertainty *(continued)*

In case of the market yield varies by +/-10 percent, the negative reserve recorded as at 31 December 2017 on available for sale financial assets would vary as follows:

2017 **In RON thousands**	**Market Yield -10%**	**Market Yield +10%**
Available for sale denominated in RON	45,746	(44,887)
Available for sale denominated in EUR	9,262	(9,065)
Total financial assets available for sale	**55,008**	**(53,953)**

b) Critical accounting judgments in applying the Group's accounting policies

Financial assets and liabilities classification

The Group's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories.

The classification and measurement of financial assets depends on the results of the SPPI and the business model test (please see financial assets sections of note 3). The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated.

Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

When classifying financial assets or liabilities as "derivative assets / liabilities held for risk management", the Group has determined that it meets the description set out in accounting policy 3 m).

Qualifying hedge relationships

In designating financial instruments in qualifying hedge relationships, the Group has determined that it expects the hedges to be highly effective over the period of the hedging relationship.

In accounting for derivatives as cash flow hedges, the Group has determined that the hedged cash flow exposure relates to highly probable future cash flows.

Determining fair values

The fair value of financial instruments that are not traded in an active market (for example, unlisted treasury securities and certificates of deposit) is determined by using valuation techniques. The Group uses its judgment to select the valuation method and make assumptions that are mainly based on market conditions existing at each reporting date.

5. USE OF ESTIMATES AND JUDGEMENTS *(continued)*

b) Critical accounting judgments in applying the Group's accounting policies *(continued)*

The classification of FVTOCI assets between quoted and unquoted financial instruments is presented below:

2018 In RON thousands	Group Listed *	 Unlisted	 Total	Bank Listed	 Unlisted	 Total
Debt instruments	6,767,243	555,179	7,322,422	6,767,243	555,179	7,322,422
Equity investments, available for sale	0	5,855	5,855	0	5,853	5,853
Total assets at fair value through other comprehensive income	**6,767,243**	**561,034**	**7,328,277**	**6,767,243**	**561,032**	**7,328,275**

**) Listed financial instruments are those quoted on organized and regulated capital market*

2017 In RON thousands	Group Listed	 Unlisted	 Total	Bank Listed	 Unlisted	 Total
Investment securities, available for sale	5,406,021	571,040	5,977,061	5,406,021	571,040	5,977,061
Equity investments, available for sale	-	25,012	25,012	-	22,666	22,666
Total assets at fair value through other comprehensive income	**5,406,021**	**596,052**	**6,002,073**	**5,406,021**	**593,706**	**5,999,727**

**) Listed financial instruments are those quoted on organized and regulated capital market*

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- **Level 1:** Quoted market price (unadjusted) in an active market for an identical instrument to which the Bank has access at the measurement date.

  A quoted price on an active market provides the most reliable evidence (as for example the price) or indirect without other adjustments in determining the fair value anytime available.

- **Level 2:** Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

- **Level 3:** Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category is for instruments that are valued based on unobservable assumptions.

5. USE OF ESTIMATES AND JUDGEMENTS *(continued)*

b) Critical accounting judgments in applying the Group's accounting policies *(continued)*

Determining fair values *(continued)*

The table below presents the fair value of financial instruments (measured at fair value) by the level in the fair value hierarchy into which the fair value measurement is categorized as of 31 December 2018:

			Group		
In RON thousands	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Total book value**
Assets held for trading and for hedging					
Financial assets held for trading at fair value through profit or loss	180,005	89,657	59	**269,721**	**269,721**
Derivatives financial instruments designated as hedging instruments	-	146	-	**146**	**146**
Total assets held for trading and hedging	**180,005**	**89,803**	**59**	**269,867**	**269,867**
Financial assets at fair value throgh other comprehensive income					
Debt Securities	6,926,748	395,675	-	**7,322,422**	**7,322,422**
Equity instruments	-	-	8,199	**8,199**	**8,199**
Total assets at fair value through other comprehensive income	**6,926,748**	**395,675**	**8,199**	**7,330,621**	**7,330,621**
Non-transactional financial assets at fair value throgh profit or loss					
Equity instruments	-	27,064	-	**27,064**	**27,064**
Total assets at fair value through profit or loss	**-**	**27,064**	**-**	**27,064**	**27,064**
Liabilities designated for trading and for hedging					
Financial liabilities at fair value through profit or loss	-	69,754	55	**69,809**	**69,809**
Derivatives financial instruments designated as hedging instruments	-	78,918	-	**78,919**	**78,919**
Total liabilities designated for trading and hedging	**-**	**148,672**	**55**	**148,728**	**148,728**

5. USE OF ESTIMATES AND JUDGEMENTS *(continued)*

b) Critical accounting judgments in applying the Group's accounting policies *(continued)*

Determining fair values *(continued)*

The table below presents the fair value of financial instruments (measured at fair value) by the level in the fair value hierarchy into which the fair value measurement is categorized as of 31 December 2017:

			Group		
In RON thousands	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Total book value**
Assets held for trading and for hedging					
Financial assets held for trading at fair value through profit or loss	52,157	67,238	2,018	**121,413**	**121,382**
Derivatives financial instruments designated as hedging instruments	-	4,197	-	**4,197**	**4,197**
Total assets held for trading and hedging	**52,157**	**71,435**	**2,018**	**125,610**	**125,610**
Available for sale assets					
Investment securities, available for sale	5,343,368	633,693	22,666	**5,999,727**	**5,999,727**
	-	**-**	**-**	**-**	**-**
Total available for sale assets	**5,343,368**	**633,693**	**22,666**	**5,999,727**	**5,999,727**
Liabilities designated for trading and for hedging					
Financial liabilities at fair value through profit or loss	-	78,188	1,832	**80,020**	**80,020**
Derivatives financial instruments designated as hedging instruments	-	76,166	-	**76,166**	**76,166**
Total liabilities designated for trading and hedging	-	**154,354**	**1,832**	**156,186**	**156,186**

5. USE OF ESTIMATES AND JUDGEMENTS *(continued)*

b) Critical accounting judgments in applying the Group's accounting policies *(continued)*

Determining fair values *(continued)*

The table below presents the fair value of financial instruments (measured at fair value) by the level in the fair value hierarchy into which the fair value measurement is categorized as of 31 December 2018:

			Bank		
In RON thousands	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Total book value**
Assets held for trading and for hedging					
Financial assets held for trading at fair value through profit or loss	180,005	89,657	59	**269,721**	**269,721**
Derivatives financial instruments designated as hedging instruments	-	146	-	**146**	**146**
Total assets held for trading and hedging	**180,005**	**89,803**	**59**	**269,867**	**269,867**
Financial assets at fair value throgh other comprehensive income					
Debt Securities	6,926,748	395,675	-	**7,322,422**	**7,322,422**
Equity instruments	-	-	5,853	**5,853**	**5,853**
Total assets at fair value through other comprehensive income	**6,926,748**	**395,675**	**5,853**	**7,328,275**	**7,328,275**
Non-transactional financial assets at fair value throgh profit or loss					
Equity instruments	-	27,064	-	**27,064**	**27,064**
Total assets at fair value through profit or loss	**-**	**27,064**	**-**	**27,064**	**27,064**
Liabilities designated for trading and for hedging					
Financial liabilities at fair value through profit or loss	-	69,773	55	**69,829**	**69,829**
Derivatives financial instruments designated as hedging instruments	**-**	**78,919**	**-**	**78,919**	**78,919**
Total liabilities designated for trading and hedging	**-**	**148,692**	**55**	**148,748**	**148,748**

5. USE OF ESTIMATES AND JUDGEMENTS *(continued)*

b) Critical accounting judgments in applying the Group's accounting policies *(continued)*

Determining fair values *(continued)*

The table below presents the fair value of financial instruments (measured at fair value) by the level in the fair value hierarchy into which the fair value measurement is categorized as of 31 December 2017:

In RON thousands	Level 1	Level 2	Bank Level 3	Total fair value	Total book value
Assets held for trading and for hedging					
Financial assets held for trading at fair value through profit or loss	52,157	67,207	2,018	**121,382**	**121,382**
Derivatives financial instruments designated as hedging instruments	-	4,197	-	**4,197**	**4,197**
Total assets held for trading and hedging	**52,157**	**71,404**	**2,018**	**125,579**	**125,579**
Available for sale assets					
Investment securities, available for sale	5,343,368	633,693	25,012	**6,002,073**	**6,002,073**
Total available for sale assets	**5,343,368**	**633,693**	**25,012**	**6,002,073**	**6,002,073**
Liabilities designated for trading and for hedging					
Financial liabilities at fair value through profit or loss	-	78,188	1,832	**80,020**	**80,020**
Derivatives financial instruments designated as hedging instruments	-	76,166	-	**76,166**	**76,166**
Total liabilities designated for trading and hedging	-	**154,354**	**1,832**	**156,186**	**156,186**

6. ACCOUNTING CLASSIFICATION AND FAIR VALUE OF FINANCIAL ASSETS/LIABILITIES

The table below sets out the Group's carrying amounts of each class of financial assets and liabilities, and their fair values.

2018 In RON thousands	At fair value through profit or loss - held for trading	At amortised cost	At fair value through Comprehensive income	Designated at fair value through profit or loss	Total carrying amount	Fair value
Cash and cash equivalents	-	10,282,258	-	-	**10,282,258**	**10,282,258**
Financial assets at fair value through profit or loss	296,785	-	-	-	**296,785**	**296,785**
Derivatives assets designated as hedging instruments	146	-	-	-	**146**	**146**
Loans and advances to banks	-	1,897,602	-	-	**1,897,602**	**1,880,062**
Loans and advances to customers	-	23,535,848	-	-	**23,535,848**	**23,207,047**
Lease receivables	-	4,089,203	-	-	**4,089,203**	**4,089,203**
Financial assets held at fair value through other comprehensive income	-	-	7,330,621	-	**7,330,621**	**7,330,621**
Other financial assets	-	190,151	-	-	**190,151**	**190,151**
Total financial assets	**296,931**	**39,995,062**	**7,330,621**	**-**	**47,622,614**	**47,276,273**
Financial liabilities at fair value through profit or loss	69,809	-	-	-	**69,809**	**69,809**
Derivatives liabilities designated as hedging instruments	78,919	-	-	-	**78,919**	**78,919**
Deposits from banks	-	3,757,657	-	-	**3,757,657**	**3,731,594**
Loans from banks and other financial institutions, including subordinated liabilities	-	8,481,611	-	-	**8,481,611**	**8,468,705**
Debt securities issued at amortized cost	-	622,115	-	-	**622,115**	**622,115**
Deposits from customers	-	29,494,901	-	-	**29,494,901**	**29,125,097**
Other financial liabilities	-	459,837	-	-	**459,837**	**459,837**
Total financial liabilities	**148,728**	**42,816,121**	**-**	**-**	**42,964,849**	**42,556,076**

**)In respect of the comparison of fair value against carrying value of the loans and advances to clients as of 31 December 2018, we briefly present below the factors that have led to a slightly lower fair value (98.60%), almost similar to the carrying value:*

- both for fixed and variable interest rate loans, the margins are almost similar to those loans granted in present moment, which has led to only a small difference in fair value for the loans granted in the past.;

- moreover, due to competition in the banking market, the margins are on a decreasing trend, while reference rates are increasing for RON so for the new production of 2018 the fair value decreased, which triggered an overall decrease of the percentage versus December 2017.

6. ACCOUNTING CLASSIFICATION AND FAIR VALUE OF FINANCIAL ASSETS/LIABILITIES *(continued)*

In RON thousands 2017	Financial instruments at fair value through profit or loss	Loans and receivables	Available for sale	Other amounts	Total carrying amount	Fair value
Cash and cash equivalents	-	8,574,272	-	-	**8,574,272**	**8,574,272**
Financial assets at fair value through profit or loss	121,382	-	-	-	**121,382**	**121,382**
Derivatives assets designated as hedging instruments	-	-	-	4,197	**4,197**	**4,197**
Loans and advances to banks	-	1,446,780	-	-	**1,446,780**	**1,443,031**
Loans and advances to customers *	-	26,663,786	-	-	**26,663,786**	**26,188,982**
Investment securities, available for sale	-	-	6,002,073	-	**6,002,073**	**6,002,073**
Total financial assets	**121,382**	**36,684,838**	**6,002,073**	**4,197**	**42,812,490**	**42,333,938**
Financial liabilities at fair value through profit or loss	80,020	-	-	-	**80,020**	**80,020**
Derivatives liabilities designated as hedging instruments	-	-	-	76,166	**76,166**	**76,166**
Deposits from banks	-	-	-	3,387,876	**3,387,876**	**3,165,499**
Loans from banks and other financial institutions	-	2,024,812	-	4,533,401	**6,658,213**	**6,579,161**
Subordinated loans	-	-	-	890,162	**890,162**	**898,552**
Loans from banks and other financial institutions, including subordinated liabilities	0	2,024,907	-	5,423,563	**7,448,375**	**7,477,808**
Debt securities issued	-	-	-	1,166,163	**1,166,163**	**1,205,170**
Deposits from customers	-	-	-	27,148,800	**27,148,800**	**27,457,151**
Total financial liabilities	**80,020**	**2,024,907**	**-**	**37,202,568**	**39,307,400**	**39,461,814**

6. ACCOUNTING CLASSIFICATION AND FAIR VALUE OF FINANCIAL ASSETS/LIABILITIES *(continued)*

The table below sets out the Bank's carrying amounts of each class of financial assets and liabilities, and their fair values.

2018 In RON thousands	At fair value through profit or loss - held for trading	At amortised cost	At fair value through Comprehensive income	Designated at fair value through profit or loss	Total carrying amount	Fair value
Cash and cash equivalents	-	10,282,174	-	-	**10,282,174**	**10,282,174**
Financial assets at fair value through profit or loss	296,785	-	-	-	**296,785**	**296,785**
Derivatives assets designated as hedging instruments	146	-	-	-	**146**	**146**
Financial assets at amortized cost ,to banks	-	1,897,602	-	-	**1,897,602**	**1,880,062**
Loans and advances to customers	-	20,973,071	-	-	**20,973,071**	**20,644,270**
Financial assets held at fair value through other comprehensive income	-	-	7,328,275	-	**7,328,275**	**7,328,275**
Investments in subsidiaries	143,116	-	-	-	**143,116**	**143,116**
Other financial assets	-	143,332	-	-	**143,332**	**143,332**
Total financial assets	**440,047**	**33,296,179**	**7,328,275**	**-**	**41,064,501**	**40,718,160**
Financial liabilities at fair value through profit or loss	69,829	-	-	-	**69,829**	**69,829**
Derivatives liabilities designated as hedging instruments	78,919	-	-	-	**78,919**	**78,919**
Deposits from banks	-	3,757,657	-	-	**3,757,657**	**3,731,594**
Loans from banks and other financial institutions, including subordinated liabilities	-	1,860,769	-	-	**1,860,769**	**1,847,863**
Debt securities issued at amortized cost	-	622,115	-	-	**622,115**	**622,115**
Deposits from customers	-	29,841,828	-	-	**29,841,828**	**29,472,024**
Other financial liabilities	-	368,442	-	-	**368,442**	**368,441**
Total financial liabilities	**148,748**	**36,450,811**	**-**	**-**	**36,599,559**	**36,190,785**

6. ACCOUNTING CLASSIFICATION AND FAIR VALUE OF FINANCIAL ASSETS/LIABILITIES *(continued)*

The table below sets out the Bank's carrying amounts of each class of financial assets and liabilities, and their fair values.

In RON thousands **2017**	**Financial instruments at fair value through profit or loss**	**Loans and receivables**	**Available for sale**	**Other amounts**	**Total carrying amount**	**Fair value**
Cash and cash equivalents	-	8,574	-	-	**8,574,251**	**8,574,251**
Financial assets at fair value through profit or loss	121,413	-	-	-	**121,413**	**121,413**
Derivatives assets designated as hedging instruments	-	-	-	4,197	**4,197**	**4,197**
Loans and advances to banks	-	1,446,780	-	-	**1,446,780**	**1,443,031**
Loans and advances to customers	-	20,757,285	-	-	**20,757,285**	**20,229,738**
Financial assets available for sale	-	-	5,999,727	-	**5,999,727**	**5,999,727**
Investment in subsidiaries	-	-	-	143,116	**143,116**	**143,116****
Total financial assets	**121,413**	**30,778,316**	**5,999,727**	**147,312**	**37,046,769**	**36,515,474**
Financial liabilities at fair value through profit or loss	80,020	-	-	-	**80,020**	**80,020**
Derivatives liabilities designated as hedging instruments	-	-	-	76,166	**76,166**	**76,166**
Deposits from banks	-	-	-	3,387,876	**3,387,876**	**3,469,598**
Loans from banks and other financial institutions, including subordinated liabilities	-	-	-	1,655,506	**1,655,506**	**1,684,844**
Debt securities issued	-	-	-	1,166,163	**1,166,163**	**1,205,170**
Deposits from customers	-	-	-	27,435,563	**27,435,563**	**27,439,816**
Total financial liabilities	**80,020**	-	-	**33,721,274**	**33,801,294**	**33,955,613**

7. NET INTEREST INCOME

In RON thousands	Group 2018	Group 2017	Bank 2018	Bank 2017
Interest income				
Interest and similar income arising from:				
Loans and advances to customers *	1,240,917	994,550	967,932	795,170
Net Lease receivables	173,503	151,188		
Treasury bills and bonds	190,508	127,249	190,508	127,249
Current accounts and placements with banks	99,466	36,864	100,436	36,864
Total interest income	**1,704,394**	**1,309,852**	**1,258,876**	**959,284**
Interest expense				
Interest expense and similar charges arising from:				
Deposits from customers	224,351	94,432	224,776	94,668
Loans from banks and other financial institutions	166,485	121,865	40,146	44,333
Deposits from banks	35,587	30,076	35,587	30,076
Repurchase agreements	12,200	297	12,200	297
Interest related to the bonds issued	38,147	40,342	38,147	40,342
Total interest expense	**476,769**	**287,012**	**350,856**	**209,716**
Net interest income	**1,227,624**	**1,022,839**	**908,020**	**749,568**

*) Interest income as at December 2018 includes interest income on impaired loans of RON thousands 54,509 (31 December 2017: RON thousands 70,154) for the Group and RON thousands 53,529 (31 December 2017: RON thousands 69,083) for the Bank.

8. NET FEES AND COMMISSIONS INCOME

In RON thousands	Group 2018	Group 2017	Bank 2018	Bank 2017
Fees and commissions income				
Payments transactions	278,876	232,074	251,607	231,819
Risk participation fee (refer to Note 40)	298	1,194	298	1,194
Guarantees and letters of credit	27,795	28,178	27,795	28,178
Loan administration fee	10,727	15,174	8,629	10,730
Other	98,622	185,338	129,252	110,205
Total fees and commission income	**416,318**	**461,957**	**417,581**	**382,125**
Fees and commission expense				
Inter-banking fees	49,182	36,105	49,288	36,412
Payments transactions	44,026	35,469	36,674	29,962
Commitments and similar fees	592	2,515	592	2,515
Intermediary agents fees	6,818	5,123	3,112	3,702
Other	10,256	10,542	9,226	8,396
Total fees and commissions expense	**110,874**	**89,753**	**98,893**	**80,987**
Net fees and commissions income	**305,444**	**372,204**	**318,688**	**301,139**

9. NET INCOME FROM TRADING AND OTHER FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS

In RON thousands	Group 2018	Group 2017	Bank 2018	Bank 2017
Net gains from foreign exchange operations (including FX derivatives)	294,850	201,777	294,527	202,633
Net gains /(losses) from interest derivatives	(8,423)	1,276	(8,100)	1,304
Net income from trading bonds	12,553	8,519	12,553	8,519
Net gains /(losses) from commodities derivatives	111	86	111	86
Net income from trading and other financial instruments at fair value through profit or loss	**299,091**	**211,658**	**299,091**	**212,542**
Net gains /(losses) from non-transactional financial instruments at fair value through P&L	**5,810**	-	**5,810**	**-**
Net income from financial instruments held at fair value through profit or loss	**304,901**	**211,658**	**304,901**	**212,542**

10. NET INCOME ON DISPOSALS OF FINANCIAL ASSETS AND LIABILITIES WHICH ARE NOT AT FAIR VALUE THROUGH PROFIT OR LOSS

In RON thousands	Group 2018	Group 2017	Bank 2018	Bank 2017
Net income from sale of assets at fair value through other comprehensive income	(311)	26,402	3,844	26,402
Net Proft / (Loss) from disposal of assets measured at amortised cost	5,342	40,456	(2,563)	19,504
Net income on disposal of financial assets and liabilities which are not at fair value through profit or loss	**5,031**	**66,857**	**1,281**	**45,906**

11. DIVIDENDS INCOME

The Group received dividends from the following companies:

In RON thousands	Group 2018	Group 2017	Bank 2018	Bank 2017
Transfond SA	1,960	1,629	1,960	1,629
Biroul de Credit SA	416	407	416	407
Fondul Roman de Garantare a Creditelor ptr Intreprinzatori Privati IFN SA	-	6	-	6
Visa Inc preference shares series C*	-	149	-	149
Total dividens income	**2,376**	**2,191**	**2,376**	**2,191**

*)Revenue from dividends on Visa shares has been reclassified to net earnings on non-trading financial assets, measured at fair value through profit or loss.

12. PERSONNEL EXPENSES

In RON thousands	Group 2018	Group 2017	Bank 2018	Bank 2017
Wages and salaries	389,164	304,834	340,316	266,606
Social security charges, unemployment fund and health fund	10,798	66,822	9,939	58,643
Other (income)/costs	(1,516)	1,493	(2,923)	89
Total	**398,446**	**373,149**	**347,332**	**325,338**

The number of employees of the Group at 31 December 2018 was 3,312 (31 December 2017: 3,348). Remuneration of Board's members for 2018 was RON thousands 13,076 (2017: RON thousands 11,919).

The number of employees of the Bank at 31 December 2018 was 2,952 (31 December 2017: 2,965). The Group has in place incentive plans for its senior management, consisting in stock options and performance shares which provide that UniCredit SpA ("the Parent") shares will be settled to the grantees. The cost of this scheme is incurred by the Group and not by its Parent, and as a consequence, it is recognised as an employee benefit expense (please refer to Note *3 x (iv))*. In 2018 the Bank paid in RON thousands equivalent 3,289 (2017: RON thousands equivalent 437,709), related to these benefits.

13. DEPRECIATION AND AMORTISATION

	Group		Bank	
	2018	**2017**	**2018**	**2017**
Depreciation on property and equipment	36,612	43,664	35,933	42,967
Write-off of property and equipment	652	664	652	664
Amortisation on intangible assets	58,368	50,086	50,235	46,125
Total	**95,632**	**94,414**	**86,820**	**89,756**

14. OTHER ADMINISTRATIVE COSTS

	Group		Bank	
In RON thousands	**2018**	**2017**	**2018**	**2017**
Office space expenses (rental, maintenance, other)	105,635	108,027	97,549	100,115
IT services	87,311	83,626	82,054	77,707
Other taxes and duties	33,331	68,433	33,331	68,433
Communication expenses	19,793	18,932	16,269	15,075
Advertising and promotional expenses	29,316	28,257	20,543	18,721
Consultancy, legal and other professional services	14,026	11,788	8,066	4,692
Materials and consumables	11,506	10,769	9,688	8,932
Personnel training and recruiting	4,608	4,070	3,716	3,131
Insurance expenses	3,447	3,651	3,074	2,804
Other	17,316	18,711	14,726	16,105
Total	**326,289**	**356,263**	**289,016**	**315,715**

The fees paid by the Group to the auditing firm Deloitte were as follows:

- audit of annual accounts (including the audit of the first half financial report): RON thousands 3,102 (31 December 2017:RON thousands 2,039);
- tax services related to transfer price matters: RON thousands 594 (31 December 2017:RON thousands 388).

The above amounts do not include VAT.

The fees paid by UniCredit Bank SA to the auditing firm and other companies from their group were as follows:

- audit of annual accounts (including the audit of the first half financial report): RON thousands 2,430 RON (31 December 2017: RON thousands 1,278)
- tax services related to transfer price matters: RON thousands 455 RON (31 December 2017: RON thousands 151).

The above amounts do not include VAT.

15. OTHER OPERATING EXPENSES

In RON thousands	Group 2018	2017	Bank 2018	2017
Expenses related to revaluation of tangible assets	-	285	-	285
Losses from sundry debtors	4,251	8,940	14	20
(Net gain) / losses on impairment of inventories	(3,875)	(6,731)	-	-
Other operating expenses	26,785	20,770	16,242	11,169
Total	**27,161**	**23,264**	**16,256**	**11,474**

16. NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS

In RON thousands	Group 2018	2017	Bank 2018	2017
Net provision charges for loans and advances to customers	316,187	338,771	165,550	208,743
Net provision charges for banks	(484)	-	(484)	-
Net provision charges for securities	8,178	-	8,178	-
Provision charges for loans written-off	994	616	994	616
Net provision charges for lease receivables	56,211	38,730	-	-
Recoveries from loans previously written-off	(30,734)	(42,291)	(30,734)	(42,291)
Net provisions charges for other financial instruments	4,704	893	4,705	893
Net impairment losses on financial assets	**355,056**	**336,719**	**148,209**	**167,961**

17. NET PROVISIONS LOSSES

In RON thousands	Group 2018	2017	Bank 2018	2017
Net provision charges/ (release) for off-balance loan commitments and contingencies	48,079	66,285	42,362	65,760
Net provision charges/ (release) for litigations	6,911	1,953	4,782	2,080
Other net charges of provisions	13,801	11,893	301	11,893
Net provision losses	**68,791**	**80,131**	**47,445**	**79,733**

18. NET GAINS / (LOSSES) ON OTHER INVESTMENTS

In RON thousands	Group 2018	2017	Bank 2018	2017
Gains/ (losses) on disposals groups held for sale assets	64	(4,576)	64	(4,576)
Net gains/ (losses) on other investments	**64**	**(4,576)**	**64**	**(4,576)**

19. INCOME TAX

The reconciliation of profit before tax to income tax expense in the income statement is presented below:

In RON thousands	Group 2018	2017	Bank 2018	2017
Profit before tax	**638,141**	**485,430**	**646,135**	**383,161**
Direct taxes at 16% (2017: 16%) of taxable profits determined in accordance with Romanian law	(132,282)	(100,997)	(108,487)	(77,585)
Correction of current income tax arising from previous year	-	64	-	64
Deferred tax income/ (loss)	29,212	21,376	13,151	19,634
Income tax	**(103,070)**	**(79,557)**	**(95,336)**	**(57,887)**
Profit/ (Loss) before tax	**638,141**	**485,430**	**646,135**	**383,161**
Taxation at statutory rate of 16%	**(102,103)**	**(77,669)**	**(103,382)**	**(61,306)**
Non-deductible expenses	(36,616)	(21,507)	(7,332)	(22,758)
Non-taxable revenues	18,276	4,170	8,386	9,851
Origination and reversal of temporary differences	8,430	9,680	(2,718)	10,012
Fiscal credit	8,942	5,768	9,710	6,314
Income tax in the income statement	**(103,070)**	**(79,557)**	**(95,336)**	**(57,887)**

20. CASH AND CASH EQUIVALENTS

In RON thousands	Group 2018	2017	Bank 2018	2017
Balances with National Bank of Romania	1,457,688	6,926,636	1,457,688	6,926,636
Cash (including cash in ATMs)	1,515,542	1,185,225	1,515,534	1,185,209
Short term Money Market placements	7,256,906	680,267	7,256,906	680,267
Current balances with other banks	52,122	32,780	52,046	32,775
Total	**10,282,258**	**8,824,908**	**10,282,174**	**8,824,887**

The balance of current accounts with the National Bank of Romania represents the minimum reserve maintained in accordance with the National Bank of Romania requirements. As at 31 December 2018, the minimum reserve level was settled as 8% (31 December 2017: 8%) for liabilities to customers in RON and 8% (31 December 2017: 8%) for liabilities to customers in foreign currency both with residual maturity less than 2 years from the end of reporting period and for liabilities with the residual maturity greater than 2 years with reimbursement, transfer and anticipated withdrawals clause or 0% for all the other liabilities included in the calculation base.

21. DERIVATIVE ASSETS/LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

- *Financial assets at fair value through profit or loss*

In RON thousands	Group 2018	Group 2017	Bank 2018	Bank 2017
Derivatives	67,060	69,225	67,060	69,256
Investment securities held for trading	202,661	52,157	202,661	52,157
Equity instruments *)	27,064	-	27,064	-
Total	**296,785**	**121,382**	**296,785**	**121,413**

**) Until 31 December 2017, equity investments for VISA Inc were classified as "Equity investments available for sale" (as described in Note 25)*

- *Derivative assets/ liabilities*

In RON thousands	Group 2018 Notional value	Group 2018 Present value Assets	Group 2018 Present value Liabilities	Bank 2018 Notional value	Bank 2018 Present value Assets	Bank 2018 Present value Liabilities
Foreign currency derivatives						
Forward contracts	6,154,343	23,250	20,596	6,159,473	23,250	20,616
Purchased options	219,905	93	53	219,905	93	53
Sold options	219,905	-	88	219,905	-	88
Total foreign currency derivatives	**6,594,153**	**23,343**	**20,737**	**6,599,283**	**23,343**	**20,757**
Interest rates derivatives						
Interest Rate Swaps	4,905,314	27,181	31,689	4,905,314	27,181	31,689
Purchased options	687,287	16,457	-	687,287	16,457	-
Sold options	687,287	-	17,309	687,287	-	17,309
Total interest rate derivatives	**6,279,888**	**43,638**	**48,998**	**6,279,888**	**43,638**	**48,998**
Other purchased derivatives	592	79	-	592	79	-
Other sold derivatives	592	-	74	592	-	74
Total derivatives – merchandise	**1,185**	**79**	**74**	**1,185**	**79**	**74**
Total	**12,875,226**	**67,060**	**69,809**	**12,880,356**	**67,060**	**69,829**

21. DERIVATIVE ASSETS/LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS *(continued)*

	Group			Bank		
In RON thousands	2017					
	Notional value	Present value Assets	Present value Liabilities	Notional value	Present value Assets	Present value Liabilities
Foreign currency derivatives						
Forward contracts	4,622,935	14,205	23,113	4,622,935	14,205	23,113
Purchased options	47,611	19	7	47,611	19	7
Sold options	47,611	-	18	47,611	-	18
Total foreign currency derivatives	**4,718,157**	**14,224**	**23,138**	**4,718,157**	**14,224**	**23,138**
Interest rates derivatives						
Interest Rate Swaps	3,335,749	31,271	32,696	3,335,749	31,302	32,696
Purchased options	992,371	22,842	-	992,371	22,842	-
Sold options	992,371	-	23,320	992,371	-	23,320
Total interest rate derivatives	**5,320,490**	**54,113**	**56,016**	**5,320,490**	**54,144**	**56,016**
Other purchased derivatives	6,088	888		6,088	888	
Other sold derivatives	6,088		866	6,088		866
Total derivatives – merchandise	**12,176**	**888**	**866**	**12,176**	**888**	**866**
Total	**10,050,824**	**69,225**	**80,020**	**10,050,824**	**69,256**	**80,020**

As at 31 December 2018, the Bank has non-matured SPOT foreign currency transactions, as follows: assets notional amount RON thousands 2,462,290 (as at 31 December 2017: RON thousands 3,678,898) and liabilities notional amount RON thousands 2,462,252 (as at 31 December 2017: RON thousands 3,676,965). The net present value for SPOT transactions amounted to RON thousands 38 (asset) (as at 31 December 2017: RON thousands 1,933 (asset)).

22. LOANS AND ADVANCES TO BANKS

	Group		Bank	
In RON thousands	**2018**	**2017**	**2018**	**2017**
Loans to banks	1,897,602	1,125,134	1,897,602	1,125,134
Total	**1,897,602**	**1,125,134**	**1,897,602**	**1,125,134**

Loans to banks include money market deposits to domestic and foreign commercial banks. These exposures with grade from 1 to 7 (31 December 2017: 1 to 7) are assessed as performing according with Bank's internal rating as at 31 December 2018 and 31 December 2017.

For the asset quality portofolio please see Note 4.c.(iii) – Loans and advances to banks.

23. LOANS AND ADVANCES TO CUSTOMERS

The Group's (including the Bank and its subsidiary UCFIN) commercial lending is concentrated on companies and individuals located in Romania mainly. The below amounts show gross book value and provision for impairment after net of IRC (see details in note 4 C III). The breakdown of loan portfolio by type of loan was as follows:

Group					
In RON thousands	**Stage 1 and stage 2**	**Stage 3**	**Of which: POCI financial assets**	**2018**	**2017**
Mortgages to private individuals	5,148,553	298,900	-	5,447,452	5,069,902
Personal loans and car loan	2,699,641	117,124	-	2,816,765	2,417,921
Credit cards and overdraft	137,324	9,464	-	146,788	145,893
Corporate loans	12,806,791	869,332	32,662	13,676,123	13,625,564
SME loans	1,890,956	268,534	-	2,159,490	1,731,415
Factoring, Dicounting, Forfainting	713,742	189,910	-	903,651	1,403,807
Loans and advances to customers before provisions	**23,397,007**	**1,753,264**	**32,662**	**25,150,271**	**24,394,502**
Less provision for impairment losses on loans	(218,766)	(1,395,657)	(3,887)	(1,614,423)	(1,439,959)
Net loans and advances to customers	**23,178,241**	**357,606**	**28,775**	**23,535,848**	**22,954,543**

The Bank's commercial lending is concentrated on companies and individuals located in Romania mainly. The breakdown of loan portfolio by type of loan was as follows:

Bank					
In RON thousands	**Stage 1 and stage 2**	**Stage 3**	**Of which: POCI financial assets**	**2018**	**2017**
Mortgages to private individuals	5,148,553	298,900	-	5,447,452	5,069,902
Personal loans and car loan	62,779	7,080	-	69,859	112,494
Credit cards and overdraft	137,324	9,464	-	146,788	145,893
Corporate loans	12,806,791	869,332	32,662	13,676,123	13,625,564
SME loans	1,890,956	268,534	-	2,159,490	1,731,415
Factoring, Dicounting, Forfaiting	713,742	189,910	-	903,651	1,403,807
Loans and advances to customers before provisions	**20,760,145**	**1,643,219**	**32,662**	**22,403,364**	**22,089,075**
Less provision for impairment losses on loans	(134,174)	(1,296,119)	(3,887)	(1,430,293)	(1,338,573)
Net loans and advances to customers	**20,625,970**	**347,101**	**28,775**	**20,973,071**	**20,750,502**

23. LOANS AND ADVANCES TO CUSTOMERS *(continued)*

The movements in loan allowances for impairment are summarized as follows:

Group		
In RON thousands	**2018**	**2017**
Balance at the 31st of December	**1,439,961**	**1,472,250**
IFRS9 implementation impact at the 1st of January 2018	39,293	-
Balance at the 1st of January	**1,479,253**	**1,472,250**
Net impairement charge for the period	321,551	338,772
Foreign currency exchange effect	1,812	25,608
Release of allowances for impairement of loans written-off and loans sold	(188,193)	(396,669)
Final balance at December	**1,614,423**	**1,439,959**

Bank		
In RON thousands	**2018**	**2017**
Balance at the 31st of December	**1,338,574**	**1,405,678**
IFRS9 implementation impact at the 1st of January 2018	30,180	-
Balance at the 1st of January	**1,368,754**	**1,405,678**
Net impairement charge for the period	165,550	208,743
Foreign currency exchange effect	1,754	24,132
Release of allowances for impairement of loans written-off and loans sold	(105,764)	(299,979)
Final balance at December	**1,430,293**	**1,338,573**

24. NET FINANCIAL LEASE RECEIVABLES

The Group acts as lessor for the finance lease granted mainly to finance purchases of cars, trucks and trailers, equipment and real estate. Lease contracts are mainly in EUR, USD and RON, and are offered for a period between 1 and 15 years, transferring the ownership on the leased assets at the end of lease contract. The interest is invoiced over the lease period using equal instalments. Lease receivables are guaranteed by the goods leased and other guarantees.

24. NET FINANCIAL LEASE RECEIVABLES *(continued)*

The split of net lease receivable by stages and by time buckets is presented in the following table below:

In RON thousands	2018				2017
	Total, out of which:	Stage 1	Stage 2	Stage 3	
Lease receivales up to one year, gross	2,416,569	2,002,844	148,373	265,352	2,236,616
Lease receivables up to one to five years, gross	1,876,381	1,609,706	156,885	109,790	1,591,628
Lease receivables over five years, gross	158,965	58,125	58,700	42,141	205,562
Total lease receivables, gross	**4,451,915**	**3,670,675**	**363,958**	**417,283**	**4,033,807**
Total lease receivables, net of future interest	4,451,915	3,670,675	363,958	417,283	4,033,807
Impairment allowance for lease receivables	(362,712)	(50,609)	(16,789)	(295,314)	(337,198)
Total net lease receivables	**4,089,203**	**3,620,065**	**347,169**	**121,969**	**3,696,609**

The movements in impairment allowances for lease receivables are summarized as follows:

Lease receivables - impairment		
In RON thousands	**2018**	**2017**
Balance at the 31st of December	**336,778**	**322,276**
IFRS9 implementation impact at the 1st of January 2018	13,377	-
Balance at the 1st of January	**350,579**	**322,276**
Net impairement charge for the period	61,634	38,730
Foreign currency exchange effect and other adjustments	875	9,287
Release of allowances for impairement of loans written-off and loans sold	(50,376)	(49,450)
Reclassification of provisions for risk participation agreements from provisions (liabilities) to lease receivable	-	15,935
Final balance at December	**362,712**	**336,778**

25. FINANCIAL ASSETS HELD AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/ (2017 – Available for sale financial assets)

The Group held the following financial assets at fair value through other comprehensive income:

	Group		Bank	
In RON thousands	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Investment securities held at fair value through other comprehensive income	7,322,422	5,977,060	7,322,422	5,977,060
Equity investments	8,199	25,013	5,853	22,667
Total	**7,330,621**	**6,002,073**	**7,328,275**	**5,999,727**

Investment securities held at fair value through other comprehensive income

As at 31 December 2018, the Group included in investment securities held at fair value through other comprehensive income bonds, Romanian Government T-bills, bonds issued by the municipality of Bucharest and bonds issued by the Ministry of Public Finance in amount of RON thousands 7,322,422 (31 December 2017: RON thousands 5,977,060).

As at 31 December 2018, the investment securities held at fair value through other comprehensive income are pledged in amount of RON thousands 653,036 (31 December 2017: RON thousands 732,191).

The Group transferred to profit or loss during 2018 an amount of RON thousands 3,843 (2017: RON thousands 26,401) representing net gain from disposal of financial assets at fair value through other comprehensive income/ (2017- available for sale) investment securities.

Equity investments available for sale

The Group held the following unlisted equity investments, financial assets held at fair value through other comprehensive income as at 31 December 2018 and 31 December 2017:

Group			
2018 In RON thousands	Nature of business	% interest held	Fair value
Unicredit Leasing Fleet Management	Operational leasing	9.99%	2,346
Transfond SA	Other financial services	8.04%	3,742
Biroul de Credit SA	Financial activities	6.80%	1,210
Fondul Roman de Garantare a Creditelor pentru Intreprinzatorii Privati IFN SA	Other credit activities	3.10%	897
Casa de Compensare Bucuresti SA	Other financial services	0.91%	4
Total			**8,199**

25. FINANCIAL ASSETS HELD AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/ (2017 – Available for sale financial assets) *(continued)*

The above mentioned companies are incorporated in Romania, except VISA Inc (USA).

2017 In RON thousands	Nature of business	% interest held	Gross carrying amount	Impairment	Net carrying amount
Unicredit Leasing Fleet Management	Operational leasing	9.99%	2,346		2,346
Transfond SA	Other financial services	8.04%	1,165		1,165
Biroul de Credit SA	Financial activities	6.80%	646		646
Fondul Roman de Garantare a Creditelor pentru Intreprinzatorii Privati IFN SA	Other credit activities	3.10%	1,786	961	826
Casa de Compensare Bucuresti SA	Other financial services	0.91%	10	9	0.46
VISA Inc	Cards	0.01%	20,029		20,029
Total			**25,982**	**970**	**25,012**

The Bank held the following unlisted equity investments classified as FVTOCI/ (2017 – AFS) as at 31 December 2018 and 31 December 2017:

2018 In RON thousands	Bank Nature of business	% interest held	Fair value
Transfond SA	Other financial services	8.04%	3,742
Biroul de Credit SA	Financial activities	6.80%	1,210
Fondul Roman de Garantare a Creditelor pentru Intreprinzatorii Privati IFN SA	Other credit activities	3.10%	897
Casa de Compensare Bucuresti SA	Other financial services	0.91%	4
Total			**5,853**

2017 In RON thousands	Nature of business	% interest held	Gross carrying amount	Impairment	Net carrying amount
Transfond SA	Other financial services	8.04%	1,165		1,165
Biroul de Credit SA	Financial activities	6.80%	646		646
Fondul Roman de Garantare a Creditelor pentru Intreprinzatorii Privati IFN SA	Other credit activities	3.10%	1,786	961	826
Casa de Compensare Bucuresti SA	Other financial services	0.91%	10	9	0.46
VISA Inc *	Cards	0.01%	20,029		20,029
Total			**23,636**	**970**	**22,666**

**) Following the implementation of IFRS9, starting with 1st of January 2018, equity investments for VISA Inc are classified as "Financial Assets held at fair value through profit and loss"(as described in Note 44).*

Entities mentioned above are incorporated in Romania, except for VISA Inc. (USA)

26. INVESTMENTS IN SUBSIDIARIES

In RON thousands	Nature of business	Country of incorporation	2018 % interest held	2018 Carrying amount	2017 % interest held	2017 Carrying amount
UniCredit Consumer Financing IFN S.A	Loans to private indivuduals	Romania	50.10%	64,767	50.10%	64,767
UniCredit Leasing Corporation IFN S.A.	Leasing financiar	Romania	99.98%	78,349	99.98%	78,349
Total				**143,116**		**143,116**

In RON thousands	% interest held	Total Assets	Total Liabilities	Operational incomes	Profit /(Loss)
2018					
UniCredit Consumer Financing IFN S.A.	50.10%	2,748,731	2,516,804	168,843	(58,906)
UniCredit Leasing Corporation IFN S.A	99.98%	4,627,956	4,344,889	154,787	40,697
2017					
UniCredit Consumer Financing IFN S.A.	50.10%	2,367,180	2,066,269	236,073	42,557
UniCredit Leasing Corporation IFN S.A	99.98%	4,096,133	3,842,537	149,230	51,086

27. PROPERTY AND EQUIPMENT

	Group					
In RON thousands	**Land and buildings**	**Computers and equipment**	**Motor vehicles**	**Furniture and other assets**	**Assets in course of production**	**Total**
Cost						
Balance at 1 January 2018	**79,937**	**157,044**	**58**	**107,129**	**32,035**	**376,203**
Additions	9,972	16,480	79	15,244	45,583	87,358
Disposals	(444)	(6,222)	-	(12,724)	(37,549)	(56,939)
Reclassification to investment properties	(1,142)	-	-	-	-	(1,142)
Balance at 31 December 2018	**88,323**	**167,302**	**137**	**109,649**	**40,069**	**405,480**
Depreciation and impairment losses						
Balance at 1 January 2018	**(266)**	**(113,638)**	**(9)**	**(74,257)**	**-**	**(188,170)**
Charge for the year	**(11,012)**	**(20,943)**	**(16)**	**(9,130)**	**-**	(41,101)
Disposals	**448**	**6,629**	**-**	**12,868**	**-**	19,945
Reclassification to investment property	**18**	**-**	**-**	**-**	**-**	18
Balance at 31 December 2018	**(10,811)**	**(127,952)**	**(26)**	**(70,519)**	**-**	**(209,308)**
Net carrying amount						
Balance at 1 January 2018	**79,671**	**43,407**	**48**	**32,871**	**32,035**	**188,033**
Balance at 31 December 2018	**77,511**	**39,351**	**111**	**39,130**	**40,069**	**196,172**

The most recent revaluation for the land and builings class was performed by Coldwell Banker Research and Valuation Advisors as of 31 December 2017. In accordance with the International Standards for Valuation, the estimation of fair value was perfomed by the valuator using two alternative aprroaches, income approach and market approach, using the most appoapriate one depending on the nature and purpose of each element.

27. PROPERTY AND EQUIPMENT (continued)

	Group					
In RON thousands	**Land and buildings**	**Computers and equipment**	**Motor vehicles**	**Furniture and other assets**	**Assets in course of production**	**Total**
Cost						
Balance at 1 January 2017	**125,711**	**185,913**	**253**	**111,885**	**45,112**	**468,874**
Additions	2,909	29,374	(154)	6,126	26,075	**64,330**
Revaluation	(31,071)	-	-	-	-	**(31,071)**
Disposals	(1,172)	(18,822)	(349)	(11,004)	(39,152)	**(70,499)**
Reclassification to investment property	(1,661)	-	-	-	-	**(1,661)**
Balance at 31 December 2017	**79,937**	**157,044**	**58**	**107,129**	**32,035**	**376,203**
	-	-	-	-	-	-
Depreciation and impairment losses	-	-	-	-	-	-
Balance at 1 January 2017	**(20,323)**	**(108,613)**	**(174)**	**(75,900)**	**-**	**(205,010)**
Charge for the year	(11,217)	(23,421)	(81)	(8,830)	-	**(43,549)**
Revaluation	30,543	-	-	-	-	**30,543**
Disposals	619	18,391	(246)	10,473	-	**29,237**
Reclassification to investment property	113	-	-	-	-	**113**
Balance at 31 December 2016	**(266)**	**(113,638)**	**(9)**	**(74,257)**	**-**	**(188,170)**
	-	-	-	-	-	-
Net carrying amount	-	-	-	-	-	-
At 1 January 2017	**105,387**	**77,300**	**79**	**35,984**	**45,112**	**263,864**
At 31 December 2017	**79,671**	**43,407**	**48**	**32,871**	**32,035**	**188,033**

27. PROPERTY AND EQUIPMENT (continued)

Bank						
In RON thousands	**Land and buildings**	**Computers and equipment**	**Motor vehicles**	**Furniture and other assets**	**Assets in course of production**	**Total**
Cost						
Balance at 1 January 2018	**79,709**	**151,313**	**-**	**106,019**	**32,035**	**369,077**
Additions	6,429	15,853	-	15,254	45,175	82,712
Disposals	(188)	(6,448)	-	(13,011)	(37,524)	(57,173)
Reclassification to investment properties	(1,141)	-	-	-	-	(1,142)
Balance at 31 December 2018	**84,809**	**160,718**	**-**	**108,262**	**39,686**	**393,474**
	-	**-**	**-**	**-**	**-**	**-**
Depreciation and impairment losses	**-**	**-**	**-**	**-**	**-**	**-**
Balance at 1 January 2018	**-**	**(109,410)**	**-**	**(73,216)**	**-**	**(182,626)**
Charge for the year	(7,706)	(19,691)	-	(8,538)	-	(35,934)
Disposals	154	6,313	-	12,533	-	18,999
Reclassification to investment property	18	-	-	-	-	18
Balance at 31 December 2018	**(7,534)**	**(122,788)**	**-**	**(69,221)**	**-**	**(199,543)**
	-	**-**	**-**	**-**	**-**	**-**
Net carrying amount	**-**	**-**	**-**	**-**	**-**	**-**
Balance at 1 January 2018	**79,709**	**41,903**	**-**	**32,804**	**32,035**	**186,450**
Balance at 31 December 2018	**77,275**	**37,930**	**-**	**39,040**	**39,686**	**193,931**

27. PROPERTY AND EQUIPMENT (continued)

			Bank			
In RON thousands	**Land and buildings**	**Computers and equipment**	**Motor vehicles**	**Furniture and other assets**	**Assets in course of production**	**Total**
Cost						
Balance at 1 January 2017	**110,717**	**139,855**	**-**	**110,841**	**45,084**	**406,497**
Additions	2,895	30,046	-	6,182	26,075	65,198
Revaluation	(31,071)	-	-	-	-	(31,071)
Disposals	(1,172)	(18,587)	-	(11,004)	(39,123)	(69,887)
Reclassification to investment property	(1,661)	-	-	-	-	(1,661)
Balance at 31 December 2017	79,709	151,313	-	106,019	32,035	369,077
Depreciation and impairment losses						
Balance at 1 January 2017	**(20,058)**	**(104,955)**	**-**	**(74,902)**	-	**(199,915)**
Charge for the year	(11,217)	(22,959)	-	(8,791)	-	(42,966)
Revaluation	30,543	-	-	-	-	30,543
Disposals	619	18,504	-	10,477	-	29,599
Reclassification to investment property	113	-	-	-	-	113
Balance at 31 December 2016	-	**(109,410)**	**-**	**(73,216)**	-	**(182,626)**
Carrying amounts						
At 1 January 2017	**90,659**	**34,900**	**-**	**35,939**	**45,084**	**206,582**
At 31 December 2017	**79,709**	**41,903**	**-**	**32,804**	**32,035**	**186,450**

The most recent revaluation for the land and builings class was performed by Coldwell Banker Research and Valuation Advisors as of 31 December 2017. In accordance with the International Standards for Valuation, the estimation of fair value was perfomed by the valuator using two alternative aprroaches, income approach and market approach, using the most approapriate one depending on the nature and purpose of each element.

27. PROPERTY AND EQUIPMENT *(continued)*

Contingent operating lease (rentals)

	Group		Bank	
In RON thousands	**2018**	**2017**	**2018**	**2017**
Amounts payable under operational leases				
Up to twelve months	60,850	58,393	58,951	58,393
1-5 years	142,321	150,105	137,500	150,105
Over 5 years	3,232	6,169	3,232	6,170
Total future lease obligations	**206,403**	**214,668**	**199,683**	**214,668**

28. INTANGIBLE ASSETS

	Group, 2018		
In RON thousands	**Intangible assets**	**Assets in course of production**	**Total**
Balance at 1 January 2018	390,806	66,215	457,021
Additions	58,473	49,055	107,528
Disposals	(1,710)	(52,361)	(54,071)
Balance at 31 December 2018	**447,569**	**62,909**	**510,478**
Depreciation and impairment losses			
Balance at 1 January 2018	**(287,715)**	**-**	**(287,715)**
Charge for the year	(58,061)	-	(58,061)
Disposals	1,174	-	1,174
Balance at 31 December 2018	**(344,602)**	**-**	**(344,602)**
Net carrying amount	**-**	**-**	**-**
Balance at 1 January 2018	**103,090**	**66,215**	**169,306**
Balance at 31 December 2018	**102,967**	**62,909**	**165,876**

	Group, 2017		
In RON thousands	**Intangible assets**	**Assets in course of production**	**Total**
Balance at 1 January 2017	**339,892**	**66,724**	**406,616**
Additions	3,321	-	3,321
Disposals	(728)	-	(728)
Balance at 31 December 2017	**390,806**	**66,215**	**457,021**
Balance at 1 January 2017	**(248,206)**	-	**(248,206)**
Charge for the year	(47,029)	-	(47,029)
Disposals	-	-	-
Balance at 31 December 2017	**(287,715)**	-	**(287,715)**
Net carrying amount	-	-	-
Balance at 1 January 2017	**91,685**	**66,724**	**158,409**
Balance at 31 December 2017	**103,090**	**66,215**	**169,306**

28. INTANGIBLE ASSETS *(continued)*

In RON thousands	Bank, 2018 Intangible assets	Assets in course of production	Total
Balance at 1 January 2018	349,928	65,003	414,932
Additions	51,002	47,459	98,461
Disposals	(1,088)	(51,002)	(52,090)
Balance at 31 December 2018	**399,842**	**61,461**	**461,303**
Depreciation and impairment losses			
Balance at 1 January 2018	(258,538)	-	(258,538)
Charge for the year	(49,985)	-	(49,985)
Disposals	838	-	838
Balance at 31 December 2018	**(307,685)**	**-**	**(307,685)**
Net carrying amount			
Balance at 1 January 2018	**91,390**	**65,003**	**156,393**
Balance at 31 December 2018	**92,157**	**61,461**	**153,618**

In RON thousands	Bank, 2017 Intangible assets	Assets in course of production	Total
Balance at 1 January 2017	**304,765**	**65,001**	**369,765**
Additions	55,578	55,581	111,160
Disposals	(10,415)	(55,578)	(65,993)
Balance at 31 December 2017	**349,928**	**65,003**	**414,932**
Depreciation and impairment losses			
Balance at 1 January 2017	**(222,828)**	-	**(222,828)**
Charge for the year	(45,445)	-	(45,445)
Disposals	9,734	-	9,734
Balance at 31 December 2017	**(258,538)**	-	**(258,538)**
Net carrying amount	-	-	-
Balance at 1 January 2017	**81,937**	**65,001**	**146,937**
Balance at 31 December 2017	**91,390**	**65,003**	**156,393**

29. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and deferred tax liabilities at 31 December 2018 are attributable to the items detailed in the table below:

	Group			Bank		
In RON thousands	**Assets**	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Net lease receivables	35,518	-	35,518	-	-	-
Property, equipment and intangible assets	915	7,790	(6,875)	915	7,790	(6,875)
Other assets	20,396	155	20,241	-	-	-
Provisions, other liabilities, accruals	66,947	-	66,947	58,704	-	58,704
Deferred tax asset/ (liability) at 16% through profit and loss	**123,776**	**7,945**	**115,831**	**59,619**	**7,790**	**51,830**
FVTOCI instruments	20,951	658	20,294	20,951	658	20,294
Derivative financial instruments held for hedging	8,582	-	8,582	8,582	-	8,582
Tangible fixed assets revaluation reserve	-	1,251	(1,251)	-	1,251	(1,251)
Deferred tax asset/ (liability) at 16% through equity	**29,533**	**1,909**	**27,624**	**29,533**	**1,909**	**27,624**
Deferred tax at 16%	**153,309**	**9,854**	**143,455**	**89,152**	**9,699**	**79,454**

Deferred tax assets and deferred tax liabilities at 31 December 2017 are attributable to the items detailed in the table below:

	Group			Bank		
In RON thousands	**Assets**	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Net lease receivables	44,019	-	44,019	-	-	-
Property, equipment and intangible assets	1,422	8,051	(6,629)	1,422	8,051	(6,629)
Provisions, other liabilities, accruals	55,148	583	54,565	44,989	-	44,989
Deferred tax asset/ (liability) at 16% through profit and loss	**100,589**	**8,634**	**91,955**	**46,411**	**8,051**	**38,360**
Available for sale investment securities	12,377	2,186	10,191	12,377	2,186	10,191
Derivative financial instruments held for hedging	9,536	218	9,319	9,536	218	9,319
Tangible fixed assets revaluation reserve	-	1,410	(1,410)	-	1,410	(1,410)
Deferred tax asset/ (liability) at 16% through equity	**21,913**	**3,814**	**18,099**	**21,913**	**3,814**	**18,099**
Deferred tax at 16%	**122,502**	**12,448**	**110,054**	**68,324**	**11,865**	**56,459**

29. DEFERRED TAX ASSETS AND LIABILITIES *(continued)*

Taxes recognised in other comprehensive income at 31 December 2018 are presented in the table below:

In RON thousands	Group Before tax	 Deferred Tax	 Net of tax	Bank Before taxation	 Deferred tax	 Net of tax
FVTOCI reserve (i)	(108,864)	(20,294)	(88,570)	(108,864)	(20,294)	(88,570)
Cash flow hedging reserve (ii)	(53,636)	(8,582)	(45,054)	(53,636)	(8,582)	(45,054)
Revaluation reserve on property and equipment (iii)	11,070	1,251	9,819	11,070	1,251	9,819

Taxes recognised in other comprehensive income at 31 December 2017 are presented in the table below:

In RON thousands	Group Before tax	 Deferred Tax	 Net of tax	Bank Before taxation	 Deferred tax	 Net of tax
Available for sale financial assets (i)	(63,694)	10,191	(54,955)	(63,694)	10,191	(54,955)
Cash flow hedging reserve (ii)	(58,241)	9,319	(48,923)	(58,241)	9,319	(48,923)
Revaluation reserve on property and equipment (iii)	11,083	(1,410)	9,673	11,083	(1,410)	9,673

Taxes recognised in other comprehensive income at 31 December 2016 are presented in the table below:

	Group			Bank		
In RON thousands	2016	2016	2016	2016	2016	2016
	Before taxation	Deferred tax	Net of tax	Before taxation	Deferred tax	Net of tax
Available for sale financial assets (i)	43,688	(6,990)	36,698	43,688	(6,990)	36,698
Cash flow hedging reserve (ii)	(60,643)	9,703	(50,940)	(60,643)	9,703	(50,940)
Revaluation reserve on property and equipment (iii)	12,600	(1,707)	10,893	12,600	(1,707)	10,893

The movements in the Reserve for financial assets at fair value through other comprehensive income at 31 December 2018 are presented below:

In RON thousands	Group Before tax	 Deferred Tax	 Net of tax	Bank Before taxation	 Deferred tax	 Net of tax
1-Jan	**(65,146)**	**10,191**	**(54,955)**	**(65,146)**	**10,191**	**(54,955)**
Transfer to profit and loss	3,844	615	4,459	3,844	615	4,459
Net change in OCI	(47,562)	(31,100)	(38,074)	(47,562)	(31,100)	(38,074)
31-Dec	**(108,864)**	**(20,294)**	**(88,570)**	**(108,864)**	**(20,294)**	**(88,570)**

29. DEFERRED TAX ASSETS AND LIABILITIES *(continued)*

The movements in the Reserve on available for sale financial assets at 31 December 2017 are presented below:

In RON thousands	Group Before tax	Group Deferred Tax	Group Net of tax	Bank Before taxation	Bank Deferred tax	Bank Net of tax
1-Jan	**43,688**	**(6,990)**	**36,698**	**43,688**	**(6,990)**	**36,698**
Transfer to profit and loss	(26,402)	4,224	(22,177)	(26,402)	4,224	(22,177)
Net change in OCI	(80,980)	12,957	(68,023)	(80,980)	12,957	(68,023)
31-Dec	**(63,694)**	**10,191**	**(53,503)**	**(63,694)**	**10,191**	**(53,503)**

The movements in the Reserve on available for sale financial assets at 31 December 2016 are presented below:

In RON thousands		Group			Bank	
	Before taxation	Deferred tax	Net of tax	Before taxation	Deferred tax	Net of tax
1-Jan	**96,180**	**(15,389)**	**80,791**	**96,180**	**(15,389)**	**80,791**
Transfer to profit and loss	(123,601)	19,776	(103,825)	(123,601)	19,776	(103,825)
Net change in OCI	71,108	(11,377)	59,731	71,108	(11,377)	59,731
31-Dec	**43,688**	**(6,990)**	**36,698**	**43,688**	**(6,990)**	**36,698**

The movements in the Cash flow hedging reserve at 31 December 2018 are presented below:

In RON thousands	Group Before tax	Group Deferred Tax	Group Net of tax	Bank Before tax	Bank Deferred Tax	Bank Net of tax
1-Jan	**(58,241)**	**9,319**	**(48,923)**	**(58,241)**	**9,319**	**(48,923)**
Transfer to profit and loss	848	(136)	712	848	(136)	712
Net change in OCI	3,758	(601)	3,156	3,758	(601)	3,156
31-Dec	**(53,636)**	**8,582**	**(45,054)**	**(53,636)**	**8,582**	**(45,054)**

The movements in the Cash flow hedging reserve at 31 December 2017 are presented below:

In RON thousands	Group Before tax	Group Deferred Tax	Group Net of tax	Bank Before tax	Bank Deferred Tax	Bank Net of tax
1-Jan	**(60,643)**	**9,703**	**(50,940)**	**(60,643)**	**9,703**	**(50,940)**
Transfer to profit and loss	7,733	(1,237)	6,495	7,733	(1,237)	6,495
Net change in OCI	(5,331)	853	(4,478)	(5,331)	853	(4,478)
31-Dec	**(58,241)**	**9,319**	**(48,923)**	**(58,241)**	**9,319**	**(48,923)**

30. OTHER FINANCIAL AND NON-FINANCIAL ASSETS

In RON thousands	Group 2018	Group 2017	Bank 2018	Bank 2017
Other financial assets				
Suspense accounts - banks	40,740	71,010	40,740	71,010
Suspense accounts - non-banks	61,173	6,787	61,173	6,787
Sundry debtors	80,059	17,327	29,589	27,820
Collateral deposits (derivatives) - non-banks	3,460	2,431	3,460	2,431
Amounts receivables	25,806	23,647	29,457	26,814
Total gross amount	**211,238**	**121,202**	**164,419**	**134,862**
Less impairment for sundry debtors	(21,087)	(16,669)	(21,087)	(16,669)
Total other financial assets	**190,151**	**104,533**	**143,332**	**118,193**
Other non-financial assets				
Sundry debtors	72,425	53,471	34,084	22,623
Prepayments	78,466	64,949	17,684	21,531
Inventories (includes repossessed assets*)	24,241	27,983	2,278	2,014
Other	463	10,964	946	4,029
Total other non-financial assets	**175,594**	**157,367**	**54,992**	**50,198**
Total other assets	**365,746**	**261,900**	**198,324**	**168,391**

The Group booked as prepayments, during 2018 and 2017: prepaid rents, local taxes, insurance for premises and bankers' blanket bond (insurance).

In RON thousands	Repossessed assets*	Repossessed assets clasified as available for sale	Total
Balance at the 31st of December 2017	25,543	36,812	62,355
Additions	15,589	-	15,589
Disposals	(23,949)	-	(23,949)
Other adjustments	3,875	(4,119)	(244)
Balance at the 31st of December 2018	**21,058**	**32,693**	**53,751**

31. DERIVATIVES ASSETS/LIABILITIES DESIGNATED AS HEDGING INSTRUMENTS

The Group uses interest rate and cross-currency swaps to hedge the foreign currency and interest rate risks arising from customers' deposits and loans.

The fair values of derivatives designated as cash flow hedges ("CFH") and fair value hedges ("FVH") are:

In RON thousands	2018			2017		
CFH	**Notional amount**	**Assets**	**Liabilities**	**Notional amount**	**Assets**	**Liabilities**
Interest rate swap	296,018	-	(59,720)	303,812	-	68,776
Cross currency swap				334,223	330	7,143
Total	**296,018**	**-**	**(59,720)**	**638,035**	**330**	**75,918**

In RON thousands	2018			2017		
FVH	**Notional amount**	**Assets**	**Liabilities**	**Notional amount**	**Assets**	**Liabilities**
Interest rate swap	573,660	146	(19,199)	172,409	4,331	248
Total	**573,660**	**146**	**(19,199)**	**172,409**	**4,331**	**248**

The time periods in which the hedged cash flows are expected to occur and affect the statement of comprehensive income are as follows:

In RON thousands	2018			2017		
	Within 1 year	**1-5 years**	**Over 5 years**	**Within 1 year**	**1-5 years**	**Over 5 years**
Cash inflow	-	-	349	(407)	-	4,331
Cash outflow	(1,056)	(11,229)	(71,092)	8,614	11,609	57,897

As 31 December 2018, all cash flow and fair value hedge relationships have been assessed as effective.

During 2018 the Group transferred from cash flow hedge reserve an amount of RON thousands 848 (31 December 2017:RON thousands 7,733) to profit or loss representing credit value adjustment and foreign currency difference for the hedge items.

32. DEPOSITS FROM BANKS

In RON thousands	Group 2018	Group 2017	Bank 2018	Bank 2017
Term deposits	3,484,356	2,727,606	3,484,356	2,727,606
Sight deposits	273,301	420,694	273,301	420,694
Total	**3,757,657**	**3,148,300**	**3,757,657**	**3,148,300**

33. LOANS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

In RON thousands	Group 2018	2017	Bank 2018	2017
Commercial Banks	6,488,536	5,956,798	221,657	267,009
Multilateral development banks	870,495	466,993	770,689	466,993
International financial institutions	232,270	134,422	80,719	134,422
Total	**7,591,301**	**6,558,213**	**1,073,065**	**868,424**

As at 31 December 2018, the final maturity of loans varies from from January 2019 to December 2024.

34. DEPOSITS FROM CUSTOMERS

In RON thousands	Group 2018	2017	Bank 2018	2017
Term deposits	11,009,576	9,124,955	11,009,576	9,125,328
Payable on demand	17,507,809	15,941,796	17,863,158	16,238,216
Collateral deposits	977,356	1,982,525	968,934	1,972,495
Certificates of deposits	160	136	160	136
Total	**29,494,901**	**27,049,412**	**29,841,828**	**27,336,175**

As of 31 December 2018, retail clients (individuals and small and medium companies) represents 33% of the portfolio, corporate accounts for 62% of the portfolio, while private banking clients represents 5% (31 December 2017: retail clients 28%, corporate clients 65%, private banking clients 6%).

35. DEBT SECURITIES ISSUED

In RON thousands	Group 2018	2017	Bank 2018	2017
Debt securities issued	622,115	1,166,163	622,115	1,166,163
Total	**622,115**	**1,166,163**	**622,115**	**1,166,163**

In June 2018, RON denominated bonds in amount of RON thousands 550,000, issued by the Group, have matured.

35. DEBT SECURITIES ISSUED *(continued)*

In July 2017, the Group issued RON denominated bonds in amount of RON thousands 610,000 with semi-annual coupon payments and the following maturities: 3,5 and 7 years.

The bonds are listed on Bucharest Stock Exchange (date of listing: 07.08.2017), having the following characteristics:

ISIN	Cod BVB	Maturity	Notional amount in RON thousands	Interest rate
ROUCTBDBC022	UCB20	15-Jul-20	146,000	ROBOR6M+ 0.65%p.a.
ROUCTBDBC030	UCB22	15-Jul-22	280,500	ROBOR6M+ 0.85%p.a.
ROUCTBDBC048	UCB24	15-Jul-24	183,500	ROBOR6M+ 1.05%p.a.

The debt issuance from July 2017 was aderred to by classified investors. The initial nominal amount was oversubscribed, and 61,000 debt instruments for the maturities listed above were issued.

36. SUBORDINATED LIABILITIES

	Group		Bank	
In RON thousands	**2018**	**2017**	**2018**	**2017**
UniCredit SPA (i)	787,705	787,082	787,705	787,082
UniCredit Bank Austria AG (i)	102,606	103,080		
Total	**890,311**	**890,162**	**787,705**	**787,082**

As of December 31, 2018, the following agreements were in place:

- subordinated debt from UniCredit SPA, Italy, in amount of RON thousands 226,199 (EUR thousands 48,500), with maturity in July 2027.
- subordinated debt from UniCredit SPA, Italy, in amount of RON thousands 559,668 thousands (EUR thousands 120,000), with maturity in December 2027.
- subordinated debt from UniCredit Bank Austria AG, in amount of RON thousands 102,606 (EUR thousands 22,000)

The repayment of outstanding principal and accrued interest of the above-mentioned loans is subordinated to all other obligations of the Group.

37. PROVISIONS

In RON thousands	Group 2018	2017	Bank 2018	2017
Provision for financial guarantees	92,795	59,354	114,573	75,708
Provision for legal disputes	36,317	10,678	13,031	8,079
Provision for off-balance commitments	62,523	48,193	60,990	47,124
Other provisions	13,819	13,689	13,818	13,689
Total	**205,454**	**131,914**	**202,412**	**144,600**

The movements in provisions during the year were as follows:

In RON thousands	Group 2018	2017	Bank 2018	2017
Balance at 1 January	**131,914**	**67,301**	**144,600**	**64,106**
IFRS 9 Impact	10,167		10,167	
Provision set up during the year	188,578	159,760	158,168	159,168
Provision used during the year	799	(252)	(1,576)	(125)
Provision reversed during the year	(120,784)	(79,243)	(109,151)	(79,251)
FX effect related to off-balance exposure (financial guarantees and commitments)	203	702	203	702
Reclassification of provisions from off balance sheet to on balance sheet *	(5,423)	(16,355)		
Balance at 31 December	**205,454**	**131,914**	**202,412**	**144,600**

** The Bank has reclassified the off balance sheet provisions built for the risk participation amounts for UniC redit Leasing clients, towards on balance sheet provisions for lease receivables. The net lease receivables position therefore includes the entire amount of risk provisions for the respective clients.*

38. OTHER LIABILITIES

	Group		Bank	
In RON thousands	**2018**	**2017**	**2018**	**2017**
Other financial liabilities				
Suspense accounts - banks	137,590	239,576	137,590	239,576
Suspense accounts - non-banks	167,537	99,386	129,730	99,386
Accruals for third party services	37,547	33,160	37,547	33,160
Amounts payable to suppliers	44,063	69,948	15,571	43,277
Sundry creditors	73,101	52,281	48,004	39,360
Total other financial liabilities	**459,838**	**494,351**	**368,442**	**454,759**
Other non-financial liabilities				
Deferred income	123,988	38,385	77,011	28,256
Payable to state budget	49,616	32,035	23,064	23,920
Payable to employees	56,280	49,120	49,937	39,936
Other	34,773	46,804	2,397	3,077
Total other non-financial liabilities	**264,657**	**166,344**	**152,409**	**95,189**
Total other liabilities	**724,495**	**660,695**	**520,851**	**549,948**

39. ISSUED CAPITAL

The statutory share capital of the Bank as at 31 December 2018 is represented by 48,948,331 ordinary shares (31 December 2017: 40,760,784 ordinary shares) having a face value of RON 9.30 each and a share premium of 75.93 per share. The total value of the share premium is RON thousands 621,680.

In 2018 in March the share capital of the Bank increased from the amount of RON 379,075 to the amount of RON 455,220, by issuing a number of 8,187,547 new shares with a nominal value of RON 9.30 / share. The increase took place as a result of the General Assembly of Shareholders' decision of February 2018.

Also, UniCredit Bank SpA, the majority shareholder of the Bank, increased its stake in the share capital from 98.328% held on December 31, 2017 to 98.630% as at 31.12.2018, by buying shares from minority shareholders.

The shareholders of the Bank are as follows:

	31 December 2018	**31 December 2017**
	%	**%**
UniCredit SpA *	98,6297	98,3276
Other shareholders	1,3703	1,6724
Total	**100,00**	**100,00**

**) UniCredit SpA has taken over the CEE operations and subsidiaries from UniCredit Bank Austria AG since 1st of October 2016*

The share capital comprises of the following:

In RON thousands	**31 December 2018**	**31 December 2017**
Statutory share capital	455,219	379,075
Hyperinflation effect – IAS 29	722,529	722,529
Restated share capital as per IFRS	**1,177,748**	**1,101,604**

40. OTHER RESERVES

The breakdown of other reserves is presented below:

	Group		Bank	
In RON thousands	**2018**	**2017**	**2018**	**2017**
Statutory general banking risks	115,785	115,785	115,785	115,785
Statutory legal reserve *	91,044	78,724	91,044	78,724
Effect of hyperinflation – IAS 29	19,064	19,064	19,064	19,064
Other reserves **	45,138	31,255	45,138	31,255
Total	**271,031**	**244,828**	**271,031**	**244,828**

** Local legislation requires 5% of the net profit of the Group to be transferred to a non-distributable statutory reserve until such time this reserve represents 20% of the statutory share capital of the group. Given the fact that share capital was increased in 2018, we have the legal obligation to increase also the legal reserve. Therefore, also in accordance with NBR Order 27/2010, this operation was already booked for the year ended 31 December 2018, in amount of RON 12,320,215.*

*** The General Meeting of the Shareholders decided on April 11, 2018 the creation of a reserve in amount of RON 13,883,651 corresponding to the reinvested profit of the year 2017 exempt from the payment of the profit tax according to art. 22 of Law 227/2015.*

Reserves for general banking risks include amounts set aside for future losses and other unforeseen risks or contingencies. These reserves are not distributable.

Statutory reserves represent the accumulated transfers from retained earnings in accordance with relevant local banking regulations. These reserves are not distributable.

41. RELATED PARTY TRANSACTIONS

The Group entered into a number of banking transactions with UniCredit S.p.A and with members of the UniCredit Group in the normal course of business. These transactions were carried out on commercial terms and conditions and at market rate.

	Group			
	2018		2017	
In RON thousands	**Parent Company**	**Other related parties**	**Parent Company**	**Other related parties**
Derivative assets at fair value through profit or loss	964	4,916	1,028	4,072
Derivatives assets designated as hedging instruments	-	146	-	4,661
Current accounts and deposits at banks	8,943,057	25,981	1,227,223	-
Loans and advances to banks	94,876	16,280	-	35,996
Loans and advances to customers	-	51,592	-	50,309
Other assets	22,317	10,833	21,458	27,754
Outstanding receivables	**9,061,214**	**109,748**	**1,249,709**	**122,792**
Derivative liabilities at fair value through profit or loss	12,156	38,746	9,098	52,187
Derivatives liabilities designated as hedging instruments	18,164	60,755	2,320	73,845
Current accounts	8,155	107,756	21,893	69,594
Deposits attracted	2,341,303	952,434	2,828,278	1,968,343
Loans received	5,192,539	1,143,581	2,287,150	1,280,836
Debts securities issued	-	-	-	21,331
Subordinated liabilities	787,605	102,606	787,052	103,080
Other liabilities	5,525	4,712	8,838	6,708
Outstanding payables	**8,365,447**	**2,410,590**	**5,944,629**	**3,575,924**
Interest income	65,912	1,070	27,165	3,067
Interest expense	(133,404)	(84,285)	(38,374)	(128,141)
Fee and commission income	1,803	3,153	1,592	3,430
Fee and commission expense	(17,525)	(7,844)	(18,606)	(6,339)
Operating income	-	467	65	1,739
Operating expenses	(637)	(51,402)	460	(52,391)
Net operating income / (expenses)	**(83,851)**	**(138,841)**	**(27,698)**	**(178,635)**
Total commitments	**334,226**	**1,003,256**	**189,708**	**655,296**

41. RELATED PARTY TRANSACTIONS *(continued)*

	Bank					
	2018			2017		
In RON thousands	Parent Company	Subsidiaries	Other related parties	Parent Company	Subsidiaries	Other related parties
Derivative assets at fair value through profit or loss	964	-	4,916	1,028	31	4,072
Derivatives assets designated as hedging instruments	-	-	146	-	-	4,661
Current accounts and deposits at banks	8,943,057	-	25,981	1,183,379	-	27,594
Loans and advances to banks	94,876	-	16,280	43,844	-	8,402
Loans and advances to customers	-	1	48,456	-	-	50,309
Other assets	19,863	3,581	8,391	21,148	3,168	23,661
Outstanding receivables	**9,058,760**	**3,581**	**104,169**	**1,249,399**	**3,199**	**118,699**
Derivative liabilities at fair value through profit or loss	12,156	20	38,746	9,098	-	52,187
Derivatives liabilities designated as hedging instruments	18,164	-	60,755	2,320	-	73,845
Current accounts	8,155	58,533	106,116	21,893	75,349	69,594
Deposits attracted	2,341,303	303,265	950,162	1,237,786	229,061	1,533,928
Loans received	-	-	211,589	-	-	266,036
Debts securities issued	-	-	-	-	-	21,331
Subordinated liabilities	787,605	-	-	787,052	-	-
Other liabilities	5,526	-	4,712	8,779	-	5,717
Outstanding payables	**3,172,909**	**361,817**	**1,372,080**	**2,066,928**	**304,410**	**2,022,638**
Interest income	65,912	39	950	27,165	13	3,067
Interest expense	(56,636)	(457)	(43,603)	(9,360)	(235)	(74,171)
Fee and commission income	1,803	64,118	3,153	1,592	60,363	3,430
Fee and commission expense	(17,525)	(0)	(7,833)	(18,606)		(6,329)
Operating income	-	2,021	467	65	2,686	549
Operating expenses	(636)	-	(50,645)	(458)		(49,804)
Net operating income / (expenses)	**(7,083)**	**65,721**	**(97,510)**	**398**	**62,827**	**(123,258)**
Total commitments	**334,226**	**97,965**	**1,003,256**	**189,708**	**128,719**	**655,296**

41. RELATED PARTY TRANSACTIONS *(continued)*

Transactions with key management personnel

A number of banking transactions are entered into with key management personnel (executive management, administrators and managers of the Group) in the normal course of business. These mainly include loans, current accounts and deposits. The volumes of related-party transactions as of year ends are presented in the below tables:

In RON thousands	**2018**	**2017**
Loans	18,389	7,857
Current accounts and deposits	29,618	19,029
Interest and similar income	477	62
Interest expenses and similar charges	(65)	(16)

42. COMMITMENTS AND CONTINGENCIES

i) Off-balance-sheet commitments

At any time the Group has outstanding commitments to extend credit. These commitments take the form of approved loans and credit card limits and overdraft facilities. Outstanding loan commitments have a commitment period that does not extend beyond the normal underwriting and settlement period of one month to one year.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to one year. Maturities are not concentrated in any period.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the end of reporting period if counterparties failed completely to perform as contracted.

42. COMMITMENTS AND CONTINGENCIES *(continued)*

i) Off-balance-sheet commitments (continued)

The breakdown for off balance sheet exposures by IFRS 9 stages is presented below:

Group					
In RON thousands	**Stage 1 and stage 2**	**Stage 3**	**Of which: POCI financial assets**	**2018**	**2017**
Loan commitments, of which	8,004,011	80,287	-	8,084,297	7,148,457
- committed	2,022,398	592	-	2,022,990	1,502,590
- uncommitted	5,981,612	79,695	-	6,061,307	5,645,867
Letters of credit	128,944	3,484	-	132,428	142,225
Guarantees issued	3,019,199	144,044	-	3,163,243	2,950,554
Gross carrying amount	**11,152,153**	**227,815**	-	**11,379,968**	**10,241,236**
Allowance for impairment - Loan commitments	(10,128)	(48,343)	-	(58,472)	(46,297)
Allowance for impairment - Letters of credit	(673)	(1,843)	-	(2,516)	(827)
Allowance for impairment - Guarantees issued	(22,060)	(92,333)	-	(114,393)	(75,708)
Total loss allowance	**(32,862)**	**(142,519)**	-	**(175,381)**	**(122,832)**

Bank					
In RON thousands	**Stage 1 and stage 2**	**Stage 3**	**Of which: POCI financial assets**	**2018**	**2017**
Loan commitments, of wich:	7,767,829	80,287	-	7,848,116	6,956,393
- committed	1,786,217	592	-	1,786,809	1,310,525
- uncommitted	5,981,612	79,695	-	6,061,307	5,645,867
Letters of credit	128,944	3,484	-	132,428	142,225
Guarantees issued	3,019,199	144,044	-	3,163,243	2,950,554
Gross carrying amount	**10,915,972**	**227,815**	**-**	**11,143,787**	**10,049,172**
Allowance for impairment - Loan commitments	(10,128)	(48,343)	-	(58,472)	(46,297)
Allowance for impairment - Letters of credit	(673)	(1,843)	-	(2,516)	(827)
Allowance for impairment - Guarantees issued	(22,060)	(92,333)	-	(114,393)	(75,708)
Total loss allowance	**(32,862)**	**(142,519)**	**-**	**(175,381)**	**(122,832)**

The Group acts as a security agent, payment agent and hedging agent for a series of loan contracts between UniCredit Bank SpA and other entities within UniCredit Group as lender and Romanian companies as borrowers. For each of these contracts there is a risk participation agreement by which the Bank is obliged to indemnify UniCredit SpA or the other entities within UniCredit Group. The total amount of such risk participation agreements in force as at 31 December 2018 is EUR 33,750,616 (31 December 2017: EUR 7,439,447).

42. COMMITMENTS AND CONTINGENCIES *(continued)*

i) Off-balance-sheet commitments (continued)

As compensation for the financial guarantees assumed by the risk participation agreements and for providing security and payment agent services to UniCredit SpA, the Bank receives the commissions paid by the borrowers plus a portion of the interest margin collected from the borrowers. The Bank defers the commissions collected upfront from the risk participation agreements over the time period that remains until the maturity of the facilities.

The Bank concluded with UniCredit SpA a series of novation contracts through which loan contracts initially concluded by the Bank with Romanian companies were transferred to UniCredit SpA in exchange for full reimbursement of borrowers' exposure towards the Bank. According to these novation contracts, the Bank is still involved as guarantor and payment agent when the debtor performs its payments.

ii) Litigations

As at 31 December 2018, the Group was involved in several litigations (as a defendant) for which the estimated debts of lawyers amounted to a total of RON thousands 27,193 and a provision amounting to RON thousands 18,967.

As at 31 December 2018, the Bank was involved in several litigations (as a defendant) for which the estimated debts of lawyers amounted to a total of RON thousands 16,556.

The Bank, based upon legal advice, has assessed that a provision amounting to RON thousands 9,181 is necessary to be booked for these claims. In addition, in 2016, a general provision of RON thousands 3,850 was set, being maintained in 2018 to ensure a conservative approach to the related provisions.

43. OPERATING SEGMENTS

The segment report format is based on the internal reporting structure of business segments, which reflects management responsibilities in the Bank. (Please refer to Note 3y).

43. OPERATING SEGMENTS *(continued)*

Segment reporting on Group's income statements as of 31 December 2018:

	Group				
In RON thousands	**CIB and PB**	**Leasing**	**Retail**	**Other**	**Total**
Net interest income	459,208	121,205	499,719	147,492	1,227,624
Net fee and commission income	141,591	13,828	127,365	22,660	305,444
Net income from trading and other financial instruments at fair value through profit and loss	275,230	11,050	62,863	445	349,588
Net gains on disposal of financial assets and liabilities not measured at fair value through profit or loss	1,102	(30,015)	7,905	26,039	5,031
Dividend income	-	-	-	2,376	2,376
Other operating income	332	10,339	5,899	2,819	19,389
Operating income	**877,463**	**154,787**	**703,751**	**173,451**	**1,909,453**
Operating expenses	(280,603)	(52,961)	(515,133)	1,169	(847,529)
Net operating income	**596,860**	**101,826**	**188,618**	**174,620**	**1,061,924**
Net impairment losses on financial assets	(130,808)	(56,133)	(173,333)	5,218	(355,056)
Net provision charges	-	(2,620)	(13,651)	(52,520)	(68,791)
Net impairment losses on non-financial assets	-	-	-	64	64
Profit before taxation	**466,052**	**43,073**	**1,634**	**127,382**	**638,141**
Income tax	-	(2,376)	(1,979)	(98,714)	(103,070)
Net profit for the year	**466,052**	**40,697**	**(345)**	**28,668**	**535,071**

43. OPERATING SEGMENTS *(continued)*

Segment reporting on income statements as of 31 December 2017:

	Group				
In RON thousands	**CIB and PB**	**Leasing**	**Retail**	**Other**	**Total**
Net interest income	459,872	98,694	430,875	33,399	1,022,839
Net fee and commission income	135,125	39,470	196,330	1,278	372,204
Net income from trading and other financial instruments	251,941	12,846	56,294	(43,953)	277,128
Net gains on financial assets available for sale	26,641	-	20,952	19,265	66,857
Dividend income	-	-	-	2,191	2,191
Other operating income	220	1,386	1,959	9,159	12,724
Venituri operationale	**873,799**	**152,396**	**706,410**	**21,339**	**1,753,944**
Operating income	(269,785)	(52,373)	(494,638)	(30,292)	(847,089)
Net operating income	**604,014**	**100,023**	**211,772**	**(8,953)**	**906,855**
Net impairment losses on financial assets	(129,045)	(38,730)	(167,436)	(1,509)	(336,719)
Net impairment losses and provision charges	-	(329)	(240)	(79,561)	(80,131)
Gains on disposals of equity investments	-	-	-	(4,576)	(4,576)
Profit before taxation	**474,969**	**60,964**	**44,096**	**(94,599)**	**485,430**
Income tax	-	(13,824)	(7,846)	(57,887)	(79,557)
Net profit for the year	**474,969**	**47,140**	**36,250**	**(152,486)**	**405,873**

43. OPERATING SEGMENTS *(continued)*

Segment reporting on Bank's income statements as of 31 December 2018:

	Bank			
In RON thousands	**CIB and PB**	**Retail**	**Other**	**Total**
Net interest income	459,208	302,540	146,272	908,020
Net fee and commission income	141,591	177,487	(390)	318,688
Net income from trading and other financial instruments at fair value through profit and loss	275,230	62,217	1,167	338,614
Net gains on disposal of financial assets and liabilities not measured at fair value through profit or loss	1,102	-	180	1,281
Dividend income	-	-	2,376	2,376
Other operating income	332	8,991	2,847	12,170
Operating income	**877,463**	**551,235**	**152,452**	**1,581,149**
Operating expenses	(280,603)	(459,016)	194	(739,424)
Net operating income	**596,860**	**92,219**	**152,646**	**841,725**
Net impairment losses on financial assets	(130,808)	(17,332)	(69)	(148,209)
Net provision charges	-	-	(47,445)	(47,445)
Net impairment losses on non-financial assets	-	-	64	64
Profit before taxation	**466,052**	**74,887**	**105,196**	**646,135**
Income tax	-	-	(95,336)	(95,336)
Net profit for the year	**466,052**	**74,887**	**9,860**	**550,799**

43. OPERATING SEGMENTS (continued)

Segment reporting on income statements as of 31 December 2017:

	Bank			
In RON thousands	**CIB and PB**	**Retail**	**Other**	**Total**
Net interest income	459,872	259,219	30,476	749,568
Net fee and commission income	135,125	169,886	(3,872)	301,139
Net income from trading and other financial instruments	251,941	56,321	(43,639)	264,623
Net gains on financial assets available for sale	26,641	-	19,265	45,906
Dividend income	-		2,191	2,191
Other operating income	220	4,586	9,481	14,287
Venituri operationale	**873,799**	**490,012**	**13,902**	**1,377,713**
Operating income	(269,786)	(439,039)	(33,457)	(742,282)
Net operating income	**604,013**	**50,972**	**(19,555)**	**635,430**
Net impairment losses on financial assets	(129,045)	(37,408)	(1,509)	(167,961)
Net impairment losses and provision charges	-		(79,733)	(79,733)
Gains on disposals of equity investments	-		(4,576)	(4,576)
Profit before taxation	**474,968**	**13,565**	**(105,373)**	**383,161**
Income tax	-		(57,887)	(57,887)
Net profit for the year	**474,968**	**13,565**	**(163,260)**	**325,274**

43. OPERATING SEGMENTS *(continued)*

Segment reporting on consolidated statement of financial position as of 31 December 2018:

In RON thousands	CIB	Leasing	Retail	Other	Total
Total assets	**25,935,287**	**4,299,047**	**9,985,134**	**8,117,566**	**48,337,034**
Total liabilities	21,938,267	4,352,170	9,754,387	7,435,027	**43,479,850**
Total equity	-	-	-	4,857,184	**4,857,184**
Total liabilities and equity	**21,938,267**	**4,352,170**	**9,754,387**	**12,292,211**	**48,337,034**

Segment reporting on consolidated statement of financial position as of 31 December 2017:

In RON thousands	CIB and PB	Leasing	Retail	Other	Total
Total assets	**18,999,565**	**3,889,794**	**8,930,433**	**11,675,158**	**43,494,950**
Total liabilities	22,146,647	3,854,139	7,780,677	6,002,388	**39,783,851**
Total equity	-	-	-	3,711,099	**3,711,099**
Total liabilities and equity	**22,146,647**	**3,854,139**	**7,780,677**	**9,713,487**	**43,494,950**

43. OPERATING SEGMENTS *(continued)*

Segment reporting on separate statement of financial position as of 31 December 2018:

In RON thousands	CIB and PB	Retail	Other	Total
Total assets	**25,935,287**	**7,306,688**	**8,304,521**	**41,546,496**
Total liabilities	21,938,267	9,662,214	5,397,604	**36,998,085**
Total equity	-	-	4,548,411	**4,548,411**
Total liabilities and equity	**21,938,267**	**9,662,214**	**9,946,015**	**41,546,496**

Segment reporting on separate statement of financial position as of 31 December 2017:

In RON thousands	CIB si PB	Retail	Other	Total
Total assets	**18,999,565**	**6,684,143**	**11,852,961**	**37,536,670**
Total liabilities	22,146,647	7,742,768	4,281,851	**34,171,266**
Total equity	-	-	3,365,404	**3,365,404**
Total liabilities and equity	**22,146,647**	**7,742,768**	**7,647,255**	**37,536,670**

44. TRANSITION TO IFRS 9

The adoption of IFRS9 at the 1st of January 2018 has determined:

- an overall negative effect on consolidated net equity for an amount of RON 63,808,165, representing 189 bps of the CET1;
- an overall negative effect on CET1 ratio equal to -21 bps;
- the increase of loan loss provisions to an amount equal to RON 56,151,086.

The Group's and Bank's Balance Sheet as at 1.1.2018 and 31.12.2017 is presented below:

In RON thousands	Group		Bank	
	01.01.2018	**31.12.2017**	**01.01.2018**	**31.12.2017**
Assets	**IFRS 9**	**IAS 39**	**IFRS 9**	**IAS 39**
Cash and cash equivalents	8,821,786	8,824,908	8,821,789	8,824,887
Financial assets at fair value through profit and loss	141,411		141,442	
Financial assets at fair value through profit and loss according to IAS 39 (a)		121,382		121,413
Derivative financial assets designed as hedging instruments	4,197	4,197	4,197	4,197
Financial assets at amortized cost (b):				
Loans and advances to clients	22,912,989		20,718,061	
Net Lease receivables	3,683,242			
Loans and advances to banks	1,124,862		1,124,862	
Other financial assets	104,533	104,533	118,194	118,194
Loans and advances to clients according to IAS 39		22,954,543		20,750,502
Net Lease receivables		3,696,609		-
Loans and advances to banks according to IAS 39		1,125,134		1,125,134
Financial assets at fair value through other comprehensive income	5,985,404		5,983,058	
Financial assets available for sale according to IAS 39 (c)		6,002,073		5,999,727
Investments in subsidiaries			143,116	143,116
Property and equipment	188,033	188,033	186,450	186,450
Intangible assets	169,306	169,306	156,393	156,393
Deferred tax assets	111,340	110,054	56,459	56,459
Other assets	157,311	157,368	50,198	50,198
Non-current assets classified as held for sale	36,810	36,810		
Total assets	**43,441,224**	**43,494,950**	**37,504,219**	**37,536,670**

44. TRANSITION TO IFRS 9 *(continued)*

	Group		Bank	
In RON thousands	**01.01.2018**	**31.12.2017**	**01.01.2018**	**31.12.2017**
Liabilities:	**IFRS 9**	**IAS 39**	**IFRS 9**	**IAS 39**
Financial liabilities at fair value through profit or loss	80,629	80,020	80,628	80,020
Derivatives liabilities designated as hedging instruments	75,558	76,166	75,558	76,166
Financial liabilities at amortized cost:	-	-	-	-
Deposits from banks	3,148,300	3,148,300	3,148,300	3,148,300
Loans from banks and other financial institutions at amortized cost	6,558,213	6,558,213	868,424	868,424
Deposits from clients	27,049,412	27,049,412	27,336,175	27,336,175
Debt securities issued	1,166,163	1,166,163	1,166,163	1,166,163
Subordinated liabilities	890,162	890,162	787,082	787,082
Other financial liabilities	494,351	494,351	454,759	454,759
Current tax liabilities	22,806	22,806	14,388	14,388
Provisions	142,081	131,914	154,767	144,600
Other liabilities	166,395	166,344	95,189	95,189
Total liabilities	**39,794,070**	**39,783,851**	**34,181,433**	**34,171,266**
Equity				
Share capital	1,101,604	1,101,604	1,101,604	1,101,604
Share premium	1	1	1	1
Cash flow hedge reserve	(48,923)	(48,923)	(48,923)	(48,923)
Reserve on financial assets at fair value through other comprehensive income	(54,955)	(53,503)	(54,955)	(53,503)
Revaluation reserve on property and equipment	9,673	9,673	9,673	9,673
Other reserves	244,828	244,828	244,828	244,828
Retained earnings	2,249,742	2,307,202	2,070,560	2,111,725
Total equity for parent company	**3,501,969**	**3,560,881**	**3,322,787**	**3,365,404**
Non-controlling interest	145,186	150,218	-	-
Total liabilities and equity	**43,441,225**	**43,494,950**	**37,504,220**	**37,536,670**

a. the item “Financial assets at fair value through profit and loss according to IAS 39”, containing derivative assets held for trading purposes, was completely reclassified into the new position “Financial assets held for trading”

b. the new item “ Financial Assets at amortised cost” contains the previous positions of Loans and advances to Banks, Net Lease receivables and Loans to customers – all 3 positions fully reclassified at amortised cost, but adjusted due to the application of the new impairment rules and due to the impact from modification accounting, as detailed in the table below

c. The item “Financial assets available for sale according to IAS 39” was classified as follows:

   i. The complete reclassification of the debt securities in item Financial assets at fair value through comprehensive income

   ii. The reclassification of the equity participation in VISA as “Non-tradable financial assets mandatory at fair value through profit and loss”, as also presented in Note 25

44. TRANSITION TO IFRS 9 *(continued)*

IFRS 9 implementation impact:

In RON thousands	Group	Bank
Provisions from on-balance exposures (including banks)	(56,151)	(33,572)
Modifications related to re-negotiated exposures according to IFRS 9.5.4.3	(2,263)	(2,263)
Intercompany transactions	100	-
Financial assets at fair value through other comprehensive income	3,360	3,360
Provisions from off-balance exposures	(10,167)	(10,167)
Other adjustments	1,313	27
TOTAL	**(63,808)**	**(42,615)**

Reclassification of financial assets

A: Reclassification of former IAS39 book value

B: Change in measurement

C: New book value as per IFRS9

44. TRANSITION TO IFRS 9 *(continued)*

The tables below presents the IFRS 9 transition for Group:

IAS 39 Category		New IFRS 9 Category																	
In RON thousands	Book value at 31/12/2017 IAS39	Financial assets held for trading			Financial assets designated at fair value			Financial assets mandatory at fair value			Financial assets at fair value through comprehensive income			Financial assets at amortized cost			Total		
		A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C
Financial assets held for trading	121,382	121,382	-	121,382	-	-	-	-	-	-	-	-	-	-	-	-	121,382	-	121,382
Financial assets at Fair Value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Available for sale financial assets	6,002,073	-	-	-	-	-	-	20,029	-	20,029	5,982,044	3,360	5,985,404	-	-	-	6,002,073	3,360	6,005,433
Held to Maturity Investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans to Banks*	8,764,828	-	-	-	-	-	-	-	-	-	-	-	-	8,764,828	(3,394)	8,761,434	8,764,828	(3,394)	8,761,433
Loans to Customers	26,651,151	-	-	-	-	-	-	-	-	-	-	-	-	26,651,151	(54,920)	26,596,231	26,651,151	(54,920)	26,596,231
IFRS 9 total	**41,539,434**	**-**	**-**	**121,382**	**-**	**-**	**-**	**-**	**-**	**20,029**	**-**	**-**	**5,985,404**	**-**	**-**	**35,357,665**	**-**	**-**	**41,484,479**

*represents cash and cash equivalents and loans and advances to banks minus cash in hand

44. TRANSITION TO IFRS 9 *(continued)*

With reference to impairment, the following table shows, for Group, as at 01.01.2018, the gross exposure and value adjustments broken down by accounting portfolio and by classification stage:

In RON thousands	Gross Amount						
	IFRS 9			IAS 39		IFRS 9 versus IAS 39	
	S1	S2	S3	Performing	Non - perfoming	Performing	Non - perfoming
Financial assets at fair value through other comprehensive income	**5,987,435**	**-**	**-**	**5,983,014**	**-**	**4,421**	**-**
- Equity instruments	8,344			5,954*		2,390	-
- Debt securities	5,979,091	-	-	5,977,060	-	2,031	-
- Loans and advances with banks	-	-	-	-	-	-	-
- Loans and advances with customers	-	-	-	-	-	-	-
Financial assets measured at amortized cost	**29,796,795**	**5,073,043**	**2,321,094**	**34,872,258**	**2,320,870**	**(2,420)**	**224**
- Debt securities	-	-	-	-	-	-	-
- Loans and advances with banks	8,735,341	29,462	-	8,764,828	-	(25)	-
- Loans and advances with customers	21,061,454	5,043,581	2,321,094	26,107,430	2,320,870	(2,395)	224

**Visa holdings was reclassified from Available for sale financial assets portfolio to Financial assets mandatory at fair value portfolio, therefore it was not included in this amount*

In RON thousands	Loan Loss Provisions						
	IFRS 9			IAS 39		IFRS 9 versus IAS 39	
	S1	S2	S3	Performing	Non - perfoming	Performing	Non - perfoming
Financial assets at fair value through other comprehensive income	**(2,031)**	**-**	**-**	**(970)**	**-**	**(1,061)**	**-**
- Equity instruments	-			(970)		970	-
- Debt securities	(2,031)	-	-	-	-	(2,031)	-
- Loans and advances with banks	-	-	-	-	-	-	-
- Loans and advances with customers	-	-	-	-	-	-	-
Financial assets measured at amortized cost	**(130,676)**	**(77,727)**	**(1,624,865)**	**(153,479)**	**(1,623,670)**	**(54,924)**	**(1,195)**
- Debt securities	-	-	-	-	-	-	-
- Loans and advances with banks	(3,365)	(4)	-	-	-	(3,369)	-
- Loans and advances with customers	(127,311)	(77,723)	(1,624,865)	(153,479)	(1,623,670)	(51,555)	(1,195)

44. TRANSITION TO IFRS 9 (continued)

In RON thousands	Net exposure						
	IFRS 9			IAS 39		IFRS 9 versus IAS 39	
	S1	S2	S3	Performing	Non - perfoming	Performing	Non - perfoming
Financial assets at fair value through other comprehensive income	**5,985,404**	**-**	**-**	**5,982,044**	**-**	**3,360**	**-**
- Equity instruments	8,344			4,984		3,360	-
- Debt securities	5,977,060	-	-	5,977,060	-	-	-
- Loans and advances with banks	-	-	-	-	-	-	-
- Loans and advances with customers	-	-	-	-	-	-	-
Financial assets measured at amortized cost	**29,666,119**	**4,995,316**	**696,229**	**34,718,779**	**697,200**	**(57,344)**	**(971)**
- Debt securities	-	-	-	-	-	-	-
- Loans and advances with banks	8,731,976	29,458	-	8,764,828	-	(3,394)	-
- Loans and advances with customers	20,934,143	4,965,858	696,229	25,953,951	697,200	(53,950)	(971)

44. TRANSITION TO IFRS 9 *(continued)*

The tables below presents the IFRS 9 transition for Bank:

IAS 39 Category		New IFRS 9 Category																	
In RON thousands	**Book value at 31/12/2017 IAS39**	**Financial assets held for trading**			**Financial assets designated at fair value**			**Financial assets mandatory at fair value**			**Financial assets at fair value through comprehensive income**			**Financial assets at amortized cost**			**Total**		
		A	**B**	**C**	**A**	**B**	**C**	**A**	**B**	**C**	**A**	**B**	**C**	**A**	**B**	**C**	**A**	**B**	**C**
Financial assets held for trading	121,413	121,413	-	121,413	-	-	-	-	-	-	-	-	-	-	-	-	121,413	-	121,413
Financial assets at Fair Value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Available for sale financial assets	5,999,727	-	-	-	-	-	-	20,029	-	20,029	5,979,698	3,360	5,983,058	-	-	-	5,999,727	3,360	6,003,087
Held to Maturity Investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans to Banks*	8,764,828	-	-	-	-	-	-	-	-	-	-	-	-	8,764,828	-3,394	8,761,434	8,764,828	-3,394	8,761,434
Loans to Customers	20,750,502	-	-	-	-	-	-	-	-	-	-	-	-	20,750,502	-32,441	20,718,061	20,750,502	-32,441	20,718,061
IFRS 9 total	**35,636,470**	-	-	**121,413**	-	-	-	-	-	**20,029**	-	-	**5,983,058**	-	-	**29,479,495**	**-**	**-**	**35,603,995**

*represents cash and cash equivalents and loans and advances to banks minus cash in hand

44. TRANSITION TO IFRS 9 *(continued)*

With reference to impairment, the following table shows, for Bank, as at 01.01.2018, the gross exposure and value adjustments broken down by accounting portfolio and by classification stage:

In RON thousands	Gross Amount						
	IFRS 9			IAS 39		IFRS 9 versus IAS 39	
	S1	S2	S3	Performing	Non - perfoming	Performing	Non - perfoming
Financial assets at fair value through other comprehensive income	**5,985,089**	**-**	**-**	**5,980,667**	**-**	**4,422**	**-**
- Equity instruments	5,998			3,607 *	-	2,391	-
- Debt securities	5,979,091	-	-	5,977,060	-	2,031	-
- Loans and advances with banks	-	-	-	-	-	-	-
- Loans and advances with customers	-	-	-	-	-	-	-
Financial assets measured at amortized cost	**24,578,004**	**4,486,593**	**1,787,151**	**29,066,879**	**1,787,005**	**(2,282)**	**146**
- Debt securities	-	-	-	-	-	-	-
- Loans and advances with banks	8,735,341	29,462	-	8,764,828	-	(25)	-
- Loans and advances with customers	15,842,663	4,457,131	1,787,151	20,302,051	1,787,005	(2,257)	146

**Visa holdings was reclassified from Available for sale financial assets portfolio to Financial assets mandatory at fair value portfolio, therefore it was not included in this amount*

In RON thousands	Loan LossProvisions						
	IFRS 9			IAS 39		IFRS 9 versus IAS 39	
	S1	S2	S3	Performing	Non - perfoming	Performing	Non - perfoming
Financial assets at fair value through other comprehensive income	**(2,031)**	**-**	**-**	**(970)**	**-**	**(1,061)**	**-**
- Equity instruments	-			(970)		970	-
- Debt securities	(2,031)	-	-	-	-	(2,031)	-
- Loans and advances with banks	-	-	-	-	-	-	-
- Loans and advances with customers	-	-	-	-	-	-	-
Financial assets measured at amortized cost	**(42,943)**	**(64,596)**	**(1,264,714)**	**(74,517)**	**(1,264,037)**	**(33,022)**	**(677)**
- Debt securities	-	-	-	-	-	-	-
- Loans and advances with banks	(3,365)	(4)	-	-	-	(3,369)	-
- Loans and advances with customers	(39,578)	(64,592)	(1,264,714)	(74,517)	(1,264,037)	(29,653)	(677)

44. TRANSITION TO IFRS 9 *(continued)*

In RON thousands	Net exposure						
	IFRS 9			IAS 39		IFRS 9 versus IAS 39	
	S1	S2	S3	Performing	Non - perfoming	Performing	Non - perfoming
Financial assets at fair value through other comprehensive income	**5,983,058**	**-**	**-**	**5,979,697**	**-**	**3,360**	**-**
- Equity instruments	5,998	-	-	2,637	-	3,360	-
- Debt securities	5,977,060	-	-	5,977,060	-	-	-
- Loans and advances with banks	-	-	-	-	-	-	-
- Loans and advances with customers	-	-	-	-	-	-	-
Financial assets measured at amortized cost	**24,535,061**	**4,421,997**	**522,437**	**28,992,362**	**522,968**	**(35,304)**	**(531)**
- Debt securities	-	-	-	-	-	-	-
- Loans and advances with banks	8,731,976	29,458	-	8,764,828	-	(3,394)	-
- Loans and advances with customers	15,803,085	4,392,539	522,437	20,227,534	522,968	(31,910)	(531)

45. SUBSEQUENT EVENTS

There is no significant subsequent event after the end of reporting period.

The consolidated and separate financial statements were approved by the Management Board on 26 February 2019 and were signed on its behalf by:

Mr. Catalin Rasvan Radu
Chief Executive Officer

Mr. Philipp Gamauf
Chief Financial Officer

UniCredit Bank S.A.

Management Board's report

Consolidated and Separate

for the financial year ended 31 December 2018

Content

1. General presentation

UniCredit Bank S.A. (the „Bank") is the new brand name of UniCredit Tiriac Bank SA starting with August 2015, having its current registered office at 1F, Expozitiei Boulevard, District 1, Bucharest, Romania. The bank was established as a Romanian commercial bank as Banca Comerciala Ion Tiriac S.A. in 1991, which merged with HVB Bank Romania SA on 01.09.2006, resulting Banca Comerciala HVB Tiriac S.A.

As a result of the merger by absorption of the former UniCredit Romania S.A. (the absorbed bank) by Banca Comerciala HVB Tiriac S.A. (the absorbing bank), the Bank is licensed by the National Bank of Romania to conduct banking activities. The Bank provides banking services in local currency („RON") and in foreign currency to individuals and companies. UniCredit Bank is part of UniCredit, the European financial group with the most extensive network in Central and Eastern Europe and one of the most important in Europe. UniCredit Bank is a "one-stop-shop" for financial services, serving approximately 600,000 customers.

UniCredit Group (the "Group") consists of UniCredit Bank S.A. (the "Bank") as mother company, and its subsidiaries UniCredit Consumer Financing IFN S.A. ("UCFIN"), UniCredit Leasing Corporation IFN S.A., Debo Leasing S.R.L. ("DEBO). The consolidated financial statements comprise the Bank and its subsidiaries.

The Bank provides retail and commercial banking services in Romanian Lei ("RON") and foreign currency for companies and private individuals. These include: accounts opening, domestic and international payments, foreign exchange transactions, working capital finance, medium and long term facilities, retail loans, bank guarantees, letter of credits and documentary collections.

UniCredit Bank S.A. is directly controlled by UniCredit SpA (Italy), with registered office in Milano, Italy, Piazza Gae Aulenti, 3.

UniCredit Bank Group is exercising direct and indirect control over the following subsidiaries:

- UniCredit Consumer Financing IFN S.A., having its current registered office at 23-25 Ghetarilor street, 1st and 3rd floor, District 1, Bucharest, Romania, provides consumer finance loans to individual clients. The Bank has a shareholding of 50.1% in UCFIN since January 2013.

- UniCredit Leasing Corporation IFN S.A.("UCLC"), having its current registered office at 23-25 Ghetarilor Street, 1st, 2nd and 4th floor, District 1, Bucharest, Romania, provides financial lease services to corporate clients and individuals. UCLC, previously associate entity, has become a subsidiary of the Bank starting with April 2014 when the Bank obtained 99.95% indirect controlling interest (direct controlling interest: 99.90%). The Bank has an indirect shareholding interest of 99.98% as of 31 December 2018 (direct controlling interest: 99.96%), as a result of the merger of UCLC with UniCredit Leasing Romania SA ("UCLRO") finalized by June 2015, where UCLRO was absorbed by UCLC.

- Debo Leasing S.R.L., having its current registered office in 23-25 Ghetarilor Street, 2nd floor, 1st district, Bucharest, Romania, is a real estate finance lease entity and became a subsidiary of the Bank beginning with April 2014. The Bank has an indirect controlling interest of 99.97% (31 December 2017: 99.94%) through UCLC. Debo Leasing S.R.L. is the new name of Debo Lesing IFN S.A. beginning with October 2018, when the company was unregistered from the General Register of Financial Non-banking Institutions.

Beginning with 2018, the following company stopped being a subsidiary of the UniCredit Group:

- UniCredit Insurance Broker S.R.L., having its current registered office in 23-25 Ghetarilor Street, 2nd floor, 1st district, Bucharest, Romania, intermediates insurance policies related to leasing activities to legal entities and individuals, in which the Bank had an indirect controlling interest of 99.98%, through UCLC. As a result of its sale by UCLC to two non-resident companies that are part of UniCredit SpA Group in August 2018, UniCredit Insurance Broker S.R.L. is no longer a subsidiary of the Group.

As at 31 December 2018, the Group carried out its activity in Romania through the Bank, having 150 branches (in 2017: 157 branches) located in Bucharest and in the country.

Strengthen and optimise capital.

Following a € 13 billion capital increase, we confirmed a 2019 fully loaded CET1 ratio target above 12.5 percent and an organic capital generation that will fully absorb the expected regulatory impacts: our capital position is stronger and in line with best in class G-SIFIs.

2. 2018 activity overview

2018 was a fruitful year for UniCredit in Romania, in all of its lines of business.

In 2018 UniCredit signed two exclusive agreements of strategic partnership with Allianz and Generali for the distribution of insurance products for individuals and SMEs in multiple countries, including Romania.

As a recognition of the high-quality banking services offered by the Corporate Clients Area, UniCredit Bank has won several distinctions in 2018, including: "Market Leader for Trade Finance Services" - Euromoney Trade Finance 2018 Survey, as well as the "Issuer with the highest value of BVB Bonds" from the Bucharest Stock Exchange. Also, in 2018, UniCredit maintained its leading position in the Customer Satisfaction Survey.

Similar to previous years, in 2018 the Bank offered its corporate clients special funding conditions in the context of the various agreements it signed. Thus, following the agreements with the Agency for Payments and Intervention in Agriculture and the Guarantee Funds, UniCredit provided its large and medium companies clients funding in special conditions for agricultural works. Moreover, for small and medium enterprises, the bank provided loans with a 50% guarantee provided by the European Investment Fund, SME clients being able to access funding without other guarantees with material coverage and without guarantee commission. Based on an agreement between UniCredit and the European Investment Fund as part of the European Union Programme for the Competitiveness of Small and Medium Enterprises (COSME, 2014 -2020), this funding is possible with the guarantee provided by COSME and the European Fund for Strategic Investment (EFSI) established within the Investment Plan for Europe. The purpose of EFSI is to support the funding and implementation of productive investments in the European Union and to provide enhanced access to funding. UniCredit Bank also continued to support small and medium companies and mid-caps in Romanian according to the agreement signed with the European Investment Fund, by the Guarantee Facility for SMEs - InnovFin.

In the retail area, 2018 was a very fruitful year for UniCredit. As it kept its goals of becoming an increasingly stronger player in the retail area, the Bank continued to innovate and develop the offer, proposing its clients with simpler products, modern digital platforms and simplified processes.

Thus, in 2018 UniCredit Bank inaugurated a new branch format, starting the transformation from the opinions shared by its clients, and providing multiple improvements (such as customised consulting from the entrance for orientation towards points of interest, streamlining the flow of customers with automated systems, the creation of open one-to-one spaces, with mobile banking solutions).

Also, for clients who meet particular conditions related to revenues and consumption behavior, the bank launched the UniCredit Upgrade service, by means of which clients may benefit from enhanced and customised support in the management of financial resources. This service has been launched in a particularly special event, where UniCredit marked another special moment, offering the first credit card to an Artificial Intelligence user - Sophia the Robot, the humanoid robot created by Hanson Robotics.

UniCredit Bank was also the first bank in Romania which, in partnership with Visa, launched the Visa Infinite Miles & More credit card. It provides clients with special benefits, including: free limo transfers to and from the airport in the main cities of the country (Bucharest, Timișoara, Cluj Napoca, Iași, Constanța, Brașov, Sibiu, Galați, Bacău, Suceava, Craiova, and Arad); the VIP protocol service; 24/7 concierge services for numerous services; unlimited access with LoungeKey to more than 1,000 lounges in 550 airports around the world; travel insurance, as well as many special offers. Not the least, the card also includes the Miles & More loyalty program.

The list of special benefits provided by the Bank in 2018 includes the Green Loan, respectively mortgage agreement for the purchase of real estate with high energy efficiency, which proposed important advantages in the management of costs, with a simple and transparent funding solution designed for the acquisition of apartments built after 1 January 2000 with A or B+ energy efficiency certificates.

Retail clients also benefited from the elimination of the subscription fee charged for the investments by means of the bank in international investment funds denominated in EUR and USD managed by Amundi. This facility has been applicable for all investments in mutual funds in EUR and USD until 31 December 2018.

Moreover, the bank ran until 31 December 2018 a campaign to remunerate RON deposits for six months, exclusively made by digital means, with 3.5% per year, a highly attractive interest for the products of this class. Concretely, in this campaign, private individuals could benefit from 3.5% interest rate per annum for any new deposit with UniCredit Bank for a minimum amount of RON 10,000 and established exclusively using the Online Banking or Mobile Banking applications. The annual interest rate of 3.5% was granted for a maximum of RON 1,000,000 per client.

Not the least, UniCredit ran a unique Black Friday campaign, available exclusively online, which included a current account trading offer and enclosed services for the first 1,000 new clients registered on www.unicredit.ro in the conditions specified by the regulation of the campaign. The clients of this campaign will enjoy, among others, a lifetime of zero fees for withdrawals in RON, EUR and USD at the ATMs of any bank in the world and for withdrawals in RON, EUR and USD at any UniCredit branch in Romania as well as for all payments to be performed in RON, EUR or USD.

Digitalisation continued to represent in 2018 a strategic direction. Thus, the bank took the most important step to eliminate paper documentation in its relationship with its clients, being the first banking group in Romania to use to that end a qualified electronic signature issued by a Certification Authority in Romania. Adopting the electronic signature, UniCredit provides its clients with the possibility to choose how to interact with the bank, in the bank office or remotely, with alternative channels (for those products with regard to which the possibility of electronic signature has been implemented for the contractual documentation).

At the same time, the Bank continued to improve the Mobile Banking application, implementing new functionalities and developing the visual interface to provide customers with the best user experience. Among the novelties of 2018 there are the simplification of the activation process, now offering the customers the possibility to activate the application without interacting with the contact center or branch, adding the e-wallet for an easier way to manage the cards, simplifying the payments through a new and intuitive design, introducing foreign currency payments and quick reimbursement for credit cards, expanding the number of utilities providers, authentication with FaceID, and optimizing the application for iPhone X phones as well as the possibility to receive free push alerts for all transactions made with the card or in the account.

At the same time, **UniCredit Consumer Financing** continued to consolidate its position in the consumer loans sector, maintaining an important portfolio growth rate in 2018 and continuing to build a solid relationship with its clients. The adoption of the newest trends on the card market and the consumers' appetite for digitalisation, as well as the mission to make the clients' life easier and provide them with the appropriate products and services, at the right time and place, have been the main directions to guide the activity of the financial institution in 2018. UniCredit Consumer Financing registered in the field of consumer loans in 2018 a growth of the sales volume due to the improvement of products, flow rates, as well as due to new partnerships signed.

In 2018, **UniCredit Leasing** continued to be the number one leasing player in Romania. Through the large range of financed products and projects, from the auto segment to medical, construction equipment, agricultural machinery or IT equipment, UniCredit Leasing continued to supports the development of the Romanian economy, as well as the local entrepreneurship. Moreover, one of the company's main development directions remained the continuous innovation and optimization of its product portfolio through the permanent digitalization of its solutions and services.

In 2018, **UniCredit Bank S.A**. (hereinafter, UCB or the Bank) focused its attention and resources on improving the market position, risk management, growth and development aimed at safeguarding the Bank's assets and capital, value creation for customers, society and shareholders, enhancing quality of products and services, strong management of credit, market and operational risks and internal controls in line with statutory and UniCredit Group regulations and best international practices.

In 2018, the main performance indicators of UCB Group evolved as follows:

- Total assets increased by 11.1%, up to RON 48.3 bn;
- Net profit: increased by 31.8% yoy;
- Customer loan portfolio (including also lease receivables) slightly increased by 3.7% compared with 2017.

A special attention was granted to ensuring prudent levels of liquidity and capital adequacy, in full compliance with the National Bank of Romanian's regulations. A particular emphasis was laid on overall risk management and especially on credit risk management in order to ensure proper assets quality and adequate provision coverage.

UniCredit Group had a strong and balanced financial position in 2018 despite the beginning of the macroeconomic slowdown:

Indicator* (%)	Group		Bank	
	2018	2017	2018	2017
ROE	12.5	11.7	13.9	9.8
ROA	1.2	1.0	1.4	0.9
Solvency ratio*	16.7	14.8	20.3	18.3
Cost/Income ratio	44.4	48.3	46.8	53.9
Loans to deposits	93.7	98.5	70.3	75.9
Loan portfolio provision coverage	6.7	6.2	6.4	6.1

**The indicators include the minority interest.*

As of 31 December 2018, the total assets of the Group are RON 48.3bn (Bank: RON 41.5 bn). The net profit for 2018 is RON 535.1 mn (Bank: RON 550.8 mn), out of which non-controlling interest amounts to RON -29.4 mn.

During 2018, the members of the Management Board acted in accordance with statutory laws and regulations in force and ruling UniCredit Group and Bank's regulations. The Supervisory Board and Management Board members also acted according to their responsibilities as defined in the Constitutive Act of the Bank and within the limits of their competences assigned by the General Shareholders Meeting. The Management Board has acted under the supervision and control of the Supervisory Board.

The activity of the Management Board as the main decision making corporate body in the Bank has been consistently and efficiently supported by staff of the Bank, in accordance with their responsibilities and competences operating in compliance with their authorities and set of responsibilities.

The Management Board has coordinated the Bank's activity and has taken all necessary measures for the proper management of the Bank in compliance with the Constitutive Act of UCB.

The Bank's main subsidiaries are non-banking financial institutions which are governed in a two tiered system by Management Board and Supervisory Board. The members of the Management Board acted in accordance with statutory laws and regulations in force and ruling UniCredit Group and Bank's regulations. The Supervisory Board and Management Board members also acted according to their responsibilities as defined in the Constitutive Act of the Bank and within the limits of their competences assigned by the General Shareholders Meeting. The Management Board has acted under the supervision and control of the Supervisory Board.

3. Consolidated and separate financial statements of UniCredit Bank S.A. as at 31 December 2018

3.1. Legal framework

The separate financial statements of the Bank and the consolidated financial statements of the UniCredit Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union and with the provisions of Order 27/2010 issued by National Bank of Romania for approval of accounting regulations in accordance with International Financial Reporting Standards as endorsed by European Union, with subsequent measurements.

The duties stipulated by law, related to the organization and management of the accounting activity, including the accounting principles (prudence, permanence of methods, continuity, independence, intangibility, non-compensation, separate evaluation of assets and liabilities', materiality, substance over form) have been followed. The provisions of the Accounting Law no. 82/1991, with subsequent changes, the accounting regulations and the methods stipulated by regulations in force, were abided by the Bank.

The annual consolidated and separate financial statements provide a true and fair view on the assets and liabilities. The economic and financial position of UCB's Group is audited by the external auditor Deloitte Audit SRL.

Improve asset quality.

We addressed Italian legacy issues through the sale of a € 17 billion portfolio (FINO) and proactive bad loans management. A more disciplined risk management strategy and underwriting processes are driving significant improvements in all our asset quality metrics.

3.2. The Consolidated Statement of financial position

The IFRS Consolidated Statement of financial position of UniCredit Bank SA as of 31.12.2018 is presented below:

In RON thousands	Group			Bank		
	2018	2017[1]	2018/2017 (%)	2018	2017[1]	2018/2017 (%)
Assets						
Cash and cash equivalents	10,282,258	8,824,908	16.5%	10,282,174	8,824,887	16.5%
Financial assets at fair value through profit or loss	296,785	121,382	144.5%	296,785	121,413	144.4%
Derivatives assets designated as hedging instruments	146	4,197	(96.5%)	146	4,197	(96.5%)
Loans and advances to customers at amortized cost	23,535,848	22,954,543	2.5%	20,973,071	20,750,502	1.1%
Net Lease receivables	4,089,203	3,696,609	10.6%	-	-	-
Loans and advances to banks at amortized cost	1,897,602	1,125,134	68.7%	1,897,602	1,125,134	68.7%
Other financial assets	190,151	104,533	81.9%	143,332	118,194	21.3%
Financial assets at fair value through other comprehensive income	7,330,621	6,002,073	22.1%	7,328,275	5,999,727	22.1%
Investments in subsidiaries	-	-	-	143,116	143,116	0.0%
Property and equipment	196,172	188,033	4.3%	193,931	186,450	4.0%
Intangible assets	165,876	169,306	(2.0%)	153,618	156,393	(1.8%)
Current tax assets	630	-	-	-	-	
Deferred tax assets	143,456	110,054	30.3%	79,454	56,459	40.7%
Other non-financial assets	175,594	157,368	11.6%	54,992	50,198	9.6%
Non-current assets classified as held for sale	32,692	36,810	(11.2%)	-	-	-
Total assets	**48,337,034**	**43,494,950**	**11.1%**	**41,546,496**	**37,536,670**	**10.7%**
Liabilities						
Financial liabilities at fair value through profit or loss	69,809	80,020	(12.8%)	69,829	80,020	(12.7%)
Derivatives liabilities designated as hedging instruments	78,919	76,166	3.6%	78,919	76,166	3.6%
Deposits from banks	3,757,657	3,148,300	19.4%	3,757,657	3,148,300	19.4%
Loans from banks and other financial institutions at amortized cost	7,591,301	6,558,213	15.8%	1,073,065	868,424	23.6%
Deposits from clients	29,494,901	27,049,412	9.0%	29,841,828	27,336,175	9.2%
Debt securities issued	622,115	1,166,163	(46.7%)	622,115	1,166,163	(46.7%)
Subordinated liabilities	890,311	890,162	0.0%	787,705	787,082	0.1%
Other financial liabilities	459,838	494,351	(7.0%)	368,442	454,759	(19.0%)
Current tax liabilities	44,889	22,806	96.8%	43,705	14,388	203.8%
Provisions	205,454	131,914	55.7%	202,412	144,600	40.0%
Other non-financial liabilities	264,656	166,344	59.1%	152,408	95,189	60.1%
Total liabilities	**43,479,850**	**39,783,851**	**9.3%**	**36,998,085**	**34,171,266**	**8.3%**

1. Several positions have been restated, as described in the Note 3 to the financial statements. The positions impacted by IFRS 9 were also updated, for comparability purposes.

Equity						
Share capital	1,177,748	1,101,604	6.9%	1,177,748	1,101,604	6.9%
Share premium	621,680	1	>100%	621,680	1	>100%
Cash flow hedge reserve	(45,054)	(48,923)	(7.9%)	(45,054)	(48,923)	(7.9%)
Reserve on financial assets at fair value through other comprehensive income	(88,570)	(53,503)	65.5%	(88,570)	(53,503)	65.5%
Revaluation reserve on property and equipment	9,819	9,673	1.5%	9,819	9,673	1.5%
Other reserves	271,031	244,828	10.7%	271,031	244,828	10.7%
Retained earnings	2,794,726	2,307,202	21.1%	2,601,756	2,111,725	23.2%
Total equity for parent company	**4,741,381**	**3,560,881**	**33.2%**	**4,548,411**	**3,365,404**	**35.2%**
Non-controlling interest	115,803	150,218	(22.9%)	-	-	-
Total liabilities and equity	**48,337,034**	**43,494,950**	**11.1%**	**41,546,496**	**37,536,670**	**10.7%**

A more detailed explanation on several Statements of financial position captions is presented below.

3.3. Assets

Cash and due from Central Banks - The balance of current accounts with the National Bank of Romania represents the minimum reserve maintained in accordance with the National Bank of Romania requirements. As at 31 December 2018, the minimum reserve level was at the level of as 8% (31 December 2017: 8%) for liabilities to customers in RON and 8% (31 December 2017: 8%) for liabilities to customers in foreign currency both with residual maturity less than 2 years from the end of reporting period and for liabilities with the residual maturity longer than 2 years with reimbursement, transfer and anticipated withdrawals clause or 0% for all the other liabilities included in the calculation base.

Loans and advances to customers and net lease receivables are in amount of RON 27.6 bn for the Group (Bank: RON 21 bn), corresponding to 57.2% of total assets (Bank: 50.5%). The outstanding credit balance as at 31.12.2018 is distributed by business segments as follows:

	Group	Bank
	2018	2018
Corporate	49.8%	64.7%
SME	20.9%	9.4%
Private Individual	28.9%	25.4%
Private banking	0.4%	0.5%

Term loans granted to customers are classified according to the remaining maturity into the following time buckets:

		Up to 1 Year	1 Year to 5 Years	Over 5 Years
Group	**2018**	44.7%	34.7%	20.7%
	2017	47.8%	32.2%	20.0%
Bank	**2018**	49.4%	24.7%	25.9%
	2017	49.9%	25.6%	24.4%

Loans are collateralized mainly by mortgages, assignments of receivables, pledges, corporate guarantees from parent company and letters of guarantee.

The high level risk structure of the loan portfolio (including individuals and companies) at the end of 2018 and 2017 is as follows:

	Group		Bank	
	2018	2017	2018	2017
Neither past due nor impaired	92.7%	92.3%	93.6%	92.2%
Past due but not impaired	5.5%	5.3%	4.7%	5.3%
Other impaired loans	0.6%	0.7%	0.6%	0.7%
Individually significant impaired loans	1.2%	1.7%	1.0%	1.8%

Other assets of RON 175.6 mn (0.36% of total assets) increased by 11.6% compared with December 2017 (Group level).

In RON mn	Group		Bank	
	2018	2017	2018	2017
Sundry debtors	72.4	53.5	34.1	22.6
Prepayments	78.5	64.9	17.7	21.5
Inventories	24.2	28.0	2.3	2.0
Other	0.5	11.0	0.9	4.0
Total other non-financial assets	**175.6**	**157.4**	**55.0**	**50.2**

3.4 Liabilities

Deposits and loans from banks balance is RON 11,349 mn (Bank RON 4,831 mn), representing 23.5% of total liabilities and equity.

In RON mn		Group		Bank	
		2018	2017	2018	2017
Deposits	Term deposits	3,484.4	2,727.6	3,484.4	2,727.6
	Sight deposits	273.3	420.7	273.3	420.7
	Total deposits	**3,757.7**	**3,148.3**	**3,757.7**	**3,148.3**
Loans	Commercial Banks	6,488.5	5,956.8	221.7	267.0
	Multilateral development banks	870.5	467.0	770.7	467.0
	International financial institutions	232.3	134.4	80.7	134.4
	Total loans	**7,591.3**	**6,558.2**	**1,073.1**	**868.4**
Total		**11,349.0**	**9,706.5**	**4,830.7**	**4,016.7**

Deposits from customer's balance is RON 29.5 bn at Group level (Bank RON 29.8 bn), representing 61% of total liabilities, At the end of 2018 almost 60% of deposits are payable on demand.

In RON mn	Group		Bank	
	2018	2017	2018	2017
Term deposits	11,009.6	9,125.0	11,009.6	9,125.3
Payable on demand	17,507.8	15,941.8	17,863.2	16,238.2
Collateral deposits	977.4	1,982.5	968.9	1,972.5
Certificates of deposits	0.2	0.1	0.2	0.1
Total	**29,494.9**	**27,049.4**	**29,841.8**	**27,336.2**

Other non-financial liabilities balance is RON 264.7 mn, representing 0.55% of total liabilities and equity, including:

In RON mn	Group		Bank	
	2018	2017	2018	2017
Deferred income	124.0	38.4	77.0	28.3
Payable to state budget	49.6	32.0	23.1	23.9
Payable to employees	56.3	49.1	49.9	39.9
Other	34.8	46.8	2.4	3.1
Total other non-financial liabilities	**264.7**	**166.3**	**152.4**	**95.2**

Provisions of RON 205.5mn (0.43% of total liabilities and equity) are split by type as presented below:

In RON mn	Group		Bank	
	2018	2017	2018	2017
Provision for financial guarantees	92.8	59.4	114.6	75.7
Provision for legal disputes	36.3	10.7	13.0	8.1
Provision for off-balance commitments	62.5	48.2	61.0	47.1
Other provisions	13.8	13.7	13.8	13.7
Total	**205.5**	**118.2**	**202.4**	**144.6**

Subordinated liabilities of RON 890.3mn (1.84% of total liabilities) represent the outstanding value of subordinated loans borrowed from UniCredit SPA (88.5%) and UniCredit Bank Austria AG (11.5%).

In RON mn	Group		Bank	
	2018	2017	2018	2017
UniCredit SPA (i)	787.7	787.1	787.7	787.1
UniCredit Bank Austria AG (i)	102.6	103.1	-	-
Total	**890.3**	**890.2**	**787.7**	**787.1**

3.5. Off-balance-sheet exposures

The outstanding off-balance-sheet gross exposure at Group level at the end of 2018 is in amount of RON 11,380 mn out of which 53% represent uncommitted exposures (Bank: RON 11,144 mn).

3.6. Consolidated Profit and loss account

2018 Consolidated IFRS Income Statement of UniCredit Bank is presented below:

In RON thousands	Group			Bank		
	2018	**2017**	**2018/2017 (%)**	**2018**	**2017**	**2018/2017 (%)**
Interest income	1,704,394	1,309,852	30.1%	1,258,876	959,284	31.2%
Interest expense	(476,770)	(287,013)	66.1%	(350,856)	(209,716)	67.3%
Net interest income	**1,227,624**	**1,022,839**	**20.0%**	**908,020**	**749,568**	**21.1%**
Fee and commission income	416,318	461,957	(9.9%)	417,581	382,125	9.3%
Fee and commission expense	(110,874)	(89,753)	23.5%	(98,893)	(80,986)	22.1%
Net fee and commission income	**305,444**	**372,204**	**(17.9%)**	**318,688**	**301,139**	**5.8%**
Net income from instruments at fair value through profit and loss	304,901	211,658	44.1%	304,901	212,542	43.5%
FX Gains /(Losses)	47,264	69,845	(32.3%)	36,290	56,455	(35.7%)
Fair value adjustments in hedge accounting	(2,576)	(4,374)	(41.1%)	(2,576)	(4,375)	(41.1%)
Net income from disposals of financial assets and liabilities which are not at FV through PL	5,031	66,857	(92.5%)	1,281	45,906	(97.2%)
Dividends income	2,376	2,191	8.4%	2,376	2,191	8.4%
Other operating income	19,389	12,724	52.4%	12,169	14,287	(14.8%)
Operating income	**1,909,453**	**1,753,944**	**8.9%**	**1,581,149**	**1,377,713**	**14.8%**
Personnel expenses	(398,446)	(373,149)	6.8%	(347,332)	(325,338)	6.8%
Amortisation and impairment of tangible assets	(37,264)	(44,328)	(15.9%)	(36,586)	(43,630)	(16.1%)
Amortisation and impairment of intangible assets	(58,368)	(50,086)	16.5%	(50,235)	(46,125)	8.9%
Other administrative expenses	(326,289)	(356,263)	(8.4%)	(289,016)	(315,715)	(8.5%)
Other operating expenses	(27,162)	(23,263)	16.8%	(16,255)	(11,474)	41.7%
Operating expenses	**(847,529)**	**(847,089)**	**0.1%**	**(739,424)**	**(742,282)**	**(0.4%)**
Net operating income	**1,061,924**	**906,855**	**17.1%**	**841,725**	**635,431**	**32.5%**
Net impairment losses from assets on amortised cost	(355,056)	(336,719)	5.4%	(148,209)	(167,961)	(11.8%)
Net provision losses	(68,791)	(80,131)	(14.2%)	(47,445)	(79,733)	(40.5%)
Net gains / (losses) from other investment activities	64	(4,575)	(101.4%)	64	(4,576)	(101.4%)
Profit before taxation	**638,141**	**485,430**	**31.5%**	**646,135**	**383,161**	**68.6%**
Income tax	(103,070)	(79,557)	29.6%	(95,336)	(57,887)	64.7%
Net profit for the period- continued operations	**535,071**	**405,873**	**31.8%**	**550,799**	**325,274**	**69.3%**
Net profit for the period	**535,071**	**405,873**	**31.8%**	**550,799**	**325,274**	**69.3%**
Attributable to:						
Equity holders of the parent company	564,455	384,625	46.8%	-	-	-
Non-controlling interests	(29,383)	21,248	(238.3%)	-	-	-
Net profit for the period	**535,071**	**405,873**	**31.8%**	**-**	**-**	**-**

4. Equity accounts and profit distribution

4.1. Equity accounts of the Bank as of 31 December 2018

As of 31 December 2018, the Bank's equity is in amount of RON 4,548,411 thousands.

In RON thousands	Bank
Paid-in capital	455,219
Hyperinflation effect – IAS 29	722,529
Subscribed Share capital	**1,177,748**
Share premium	**621,680**
Cash flow hedge reserve	**(45,054)**
Reserve on financial assets at fair value through other comprehensive income	**(88,570)**
Revaluation reserve on property and equipment	**9,819**
Other reserves	**271,031**
- Statutory general banking risks	*115,785*
- Statutory legal reserve	*91,044*
- Effect of hyperinflation – IAS 29	*19,064*
- Other reserves	*45,138*
Retained earnings	**2,050,957**
Net profit for the period	**550,799**
Total equity of the Bank	**4,548,411**

At 31 December 2018 the paid-in capital of the Bank was RON 455,219,478.30, split into 48,948,331 shares at RON 9.3 par value each.

The structure of the Bank's shareholders as at 31 December 2018 is the following:

Shareholder	Shares' number	Value (RON)	%
UniCredit S.p.A.	48,277,621	448,981,875.30	98.63
Romanian Individuals	631,989	5,877,497.70	1.291
Romanian Legal Entities	21,606	200,935.80	0.044
Foreign Individuals	9,775	90,907.50	0.2
Foreign Legal Entities	7,340	68,262.00	0.015
TOTAL	48,948,331	455,219,478.30	100

In 2018 in March the share capital of the Bank increased from the amount of RON 379,075,291.20 to the amount of RON 455,219,478.30, by issuing a number of 8,187,547 new shares with a nominal value of RON 9.30 / share. The increase took place as a result of the General Assembly of Shareholders' decision of February 2018.

Also, UniCredit Bank SpA, the majority shareholder of the Bank, increased its stake in the share capital from 98.328% held on December 31, 2017 to 98.630% as at 31.12.2018, by buying shares from minority shareholders.

Transform operating model.

The transformation of our operating model is fully on track, including cost discipline and efficiency measures to reduce the cost income ratio. Our FTE and branch reductions are ahead of schedule – as we further improve on customer focus, services and products. The digital and IT transformation is fully on track, investments supporting the business transformation with digitalization as a key enabler.

4.2. Profit distribution

The net profit of the Bank for the financial exercise ended at 31 December 2018, in amount of RON 550,798,718 will be distributed according to the law.

The Supervisory Board proposes to the General Meeting of Shareholders the distribution of 2018 net profit as follows:

In RON	Bank
Legal reserve *	12,320,215
Reserve related to the reinvested profit of the year 2018	27,774,194
Dividend distribution	360,749,199
Reinvestment of the remaining net profit	149,955,109
Total	**550,798,718**

* *Please note that in accordance with Companies' Law 31/1990, the legal reserve has to be distributed from the profit if the Company has a profit, up to 20% of share capital, in amount of at least 5% of net profit. Given the fact that share capital was increased in 2018, we have the legal obligation to increase also the legal reserve. Therefore, also in accordance with NBR Order 27/2010, this operation was already booked for the year ended 31 December 2018.*

5. Forecast related to the future evolution of the Group

The Romanian economy grew by 4.2% year on year ("yoy") in the first 9 months of 2018, tapering the pace of the fiscal stimulus induced growth of the corresponding period of 2017. We expect economic growth to fall to 3.0% in 2019 and to 2.1% (below potential) in 2020. Despite the government's ambitious plan to increase wages and pensions before the elections scheduled for autumn 2019, private consumption growth is likely to slow. Investment could fall further in 2019-20 after financial conditions tightened significantly in 2018 due to higher interest rates and credit constraints imposed by the central bank.

The budget deficit was close to 3% of GDP in 2018 (using EU accounting standards), with the risk of a slight overshoot. In 2019-20, the budget deficit is likely to widen further. Wage and pension hikes will increase spending in 2019, while revenues may be hit by cyclical factors. Thus, receipts from consumption and profit taxes may increase slower than nominal GDP. At the end of 2018, the government introduced a package of measures aimed at keeping the budget deficit below 3% of GDP in 2019. Sectorial taxes on banks, energy and telecom companies could cover most of the revenue shortfall stemming from the pension raise scheduled for September 2019. However, other handouts (especially subventions for gas prices) and higher wages for teachers could still push the budget deficit above 3% of GDP.

The National Bank of Romania ("NBR") hiked the monetary policy rate to 2.50% in 1H2018 from 1.75% in December 2017, operating three increases of 0.25 percentage points each. The minimum reserve requirement (MRR) for both LCY and FCY-denominated liabilities were kept unchanged at 8% since May 2015 and May 2017, respectively. Annual inflation exited NBR's 1.5%-3.5% target range in January 2018 and maintained an upward sloping pattern in 1H2018, touching 5.4% in June 2018. Subsequent base effects and NBR's tightening early in the year helped inflation return inside the target range in November 2018. In 2019, headline inflation could fluctuate around 3.5%, the top of the target range, falling closer to the central target in 2020. The target may be missed in 2019 if oil prices rise towards USD 70/bbl. Despite this outlook, we do not expect the NBR to hike this year or next. The central bank could use liquidity conditions (via FX interventions and repos) to keep interbank interest rates at 3-3.5%, thus delivering 2-4 implicit rate hikes.

Market liquidity management represented an important tool in NBR's monetary policy arsenal throughout 2018. The Central Bank organized both DEPO and REPO operations, as required by market needs, enabling market participants to place/borrow excess funds at/from the NBR at the monetary policy rate. The move made the monetary policy rate more relevant in terms of market reference, ensuring a better transmission of the monetary policy, in a bid to be more effective in fighting inflation.

The EUR/RON traded within the 4.62-4.67 range in 2018, with continued upside pressure from weakening capital flows. The external shortfall could remain close to 4% of GDP this year and next, too large to be covered by FDI and EU fund inflows. At the same time, the external sentiment might deteriorate, leading to outflows from the countries regarded as most vulnerable, among which is Romania due to its internal uncertainties and twin deficits in 2019-20 (budget and current account deficits). As a result, the RON could come under pressure whenever portfolio flows weaken. We expect the NBR to resume indirect FX interventions in such a scenario to prevent a rapid growth in EURRON.

The sales of non-performing loans no longer determines a decrease in the loan volumes, either for retail or for companies. The total NPL ratio dropped to 5.56% at the end of September 2018 from 6.41% in December 2017. Given that most of the cleanup was already undertaken, we do not expect further cleanup to impact the stock as much as it did in the past years. Lending to households continued to expand strongly (+9.2%yoy in December 2018; FCY-adjusted), supported by mortgage loans (+11.1%yoy), while the stock of credit to companies picked up at the turn of the year (+6.6%yoy in December 2018; FCY-adjusted), with the appreciation equally split between the LCY and the FCY component.

New lending is done predominantly in LCY for both individuals and companies, enabling the stock of RON-denominated loans to continue to outstrip the stock in foreign currency, with a share of 65.7% in total private sector loans at the end of 2018, up from 61.6% in December 2017 and a minimum of 35.6% in May 2012. In 11M2018, 78.5% of the new loans granted were in local currency. The fact that the weight of the credit denominated in local currency has increased strengthens the transmission of the monetary policy, helps mitigate risks to financial stability and enhances the robustness of the economy. The main drivers for this change were the central bank's efforts and regulations to protect customers against depreciation risks, together with LCY interest rates slipping to historical lows. The loan-to-depo ratio was 76.2% at the end of December 2018.

Business growth targets stay ambitious, focusing on proper servicing and supporting, risk management and profitability level. Quality improvement, process and cost optimization will continue. The Bank will also focus on systems enhancement as the main driver for high performance and efficiency.

The Management Board's members of the Bank firmly believe that due to the strong financial fundamentals of the Bank and the commitment for support from the main shareholders, the Bank has very good prospects to duly service its customers, comply with all ruling laws and regulations, and further improve its position at the market.

6. Research and development activity

The research and development activity of UCB's Group, including the know-how received from UniCredit Spa, was mainly directed to improvement of efficiency and productivity of:

- Products and services offered to customers;
- Risks management systems;
- Internal control systems and compliance;
- Financial accounting systems;
- Management information system;

- IT systems;
- Human resources management;
- Decision making systems.

7. Risk Management

The Internal Capital Adequacy Assessment Process ("ICAAP") focuses on the development and maintenance of sound internal procedures and systems which allow the evaluation of the bank capital adequacy, i.e. the balance between the assumed risk (measured in terms of Internal Capital – "IC") and the available capital (Available Financial Resources – "AFR"), both related to the current situation and in a forward looking perspective, as represented by the budget and strategic plan.

The comparison between AFR and IC is the Risk Taking Capacity (RTC), a key metric included in the Risk Appetite framework.

ICAAP is an integral part of management and decision-making processes. In this context, the main impacts are related to the risk awareness embedding in the strategic planning and budgeting processes, limit setting and performance evaluation according to a backward and forward-looking perspectives. Setting up an appropriate capital adequacy process means not only using internally developed metrics, but also setting the appropriate capital levels corresponding to the Pillar 1 metrics, such as the Core Tier 1 (CT1) and Total capital ratios as banks are expected to operate with a capital level higher than minimum requirements (i.e. Regulatory Capital).

The process consists of following phases:

- Perimeter definition and risk identification and mapping
- Risk profile assessment and stress testing
- Risk appetite setting and Capital allocation
- Monitoring and reporting

The internal Capital Adequacy Assessment Process is based on sound risk governance, and UniCredit Bank and Legal Entities belonging to Local UniCredit Bank Group have to ensure senior management involvement, identifying the proper decision-making bodies, attributing relevant role/ responsibilities and reviewing the overall process.

The primary responsibility for effectiveness and monitoring of the ICAAP and Pillar 2 risks management and control processes lays within UCB and Legal Entities belonging to UCB Group Governing Bodies.

The process of identification and assessment of significant risks is an element of internal control and aims to ensure that internal control objectives are met (efficiency, information and conformity objectives).

UniCredit Bank carries out an analysis by selecting which risks are relevant with reference to its perimeter of activities.

The risk definition and mapping is not a one-off process, but it is done on an on-going basis to improve the risk management framework.

UCB reviews the risk map and classification according to the proportionality principle, at least on an annual base and in case of relevant changes. The risk map is the basis for the risk evaluation and measurement.

Based on the Group's approach and on the internal analysis performed with the Group guidance, in 2018 UniCredit Bank S.A. identified the following significant risks:

- Credit risk
- Market risk and Interest Rate Risk in the Banking Book (IRRBB)
- Liquidity risk
- Operational risk
- Reputational risk
- Business risk
- Real estate risk
- Strategic risk
- Risk of excessive leverage.
- Inter-concentration risk

Other risks considered to have major impact on the bank patrimony are the risks associated with outsourcing activities.

The final responsibility for risks assessment belongs exclusively to the Bank, that critically assesses its risks without relying solely on external valuations.

The strategy and the significant risk management policies, established at the Bank level, are reviewed periodically.

The Bank has implemented a well-defined and documented reporting framework, including regular and transparent reporting mechanisms, so that the management body and all relevant units within the institution benefit on time by accurate and concise reports, through risk management advisory committees, established by the Bank.

The reports to be submitted to the management body and to the relevant units, and other relevant information related to the identification, measurement or evaluation and monitoring of risks are summarized in the implemented reporting framework.

The Bank defines periodically the risk appetite, respectively the level of risk that UniCredit Bank is prepared to accept in pursuit of its strategic objectives and business plan, taking into account the interest of its customers (e.g. depositors, policyholders) and shareholders as well as capital and other requirements.

The Management structure reviews and approves the risk appetite on a yearly basis to ensure its consistency with the Group's Strategy, business environment and stakeholder requirements, as defined in the budget process.

The Management body reviews and approves the risk appetite on an annual basis to ensure its consistency with the Group's Strategy, business environment and stakeholder requirements, as defined in the budget process.

The Bank regularly monitors the actual risk profile and examines it in relation to the credit institution's strategic objectives and tolerance / risk appetite for assessing the effectiveness of the risk management framework. Evaluation and monitoring of the risk profile is done through indicators established within risk appetite.

7.1. The foreign exchange risk

UCB Group is exposed to foreign exchange risk as a consequence of its foreign exchange transactions performed in RON and in foreign currencies, respectively of the mix of currencies in which the assets and the liabilities are denominated.

The main foreign currencies held by the Group are EUR and USD. The Group strictly monitors and manages the foreign currency position and monitors the exposure to the internal limits set by internal procedures.

7.2. Interest risk

UCB Group faces interest rate risk that could be a result of exposure to unfavorable fluctuations on the market. The change of the interest rates on the market directly influences the income and expenses related to the financial assets and liabilities bearing variable interests, as well as the effective value of those bearing fixed interest rate.

For the financial receivables and financial liabilities in RON, UCB Group aims to correlate the current interest rates on the market and to obtain a positive interest margin.

For the financial assets and liabilities denominated in other currencies than RON, the Bank and its subsidiaries aim to maintain a positive net position. Most of the interest-earning assets and interest-bearing liabilities in foreign currencies have variable interest rates which could be exchanged at the Bank initiative or that are related to a reference variable interest rate on the inter-banking market.

The Group monitors the exposure to interest rate risk by using a system of indicators and associated limits: duration gap, basis point value, VaR component for the interest rate risk in the banking book, net interest income sensitivity and economic value sensitivity.

7.3. Credit risk

UCB Group is exposed to credit risk representing the risk of negative impact on revenues generated by debtors not fulfilling the contractual obligations of loans granted on short, medium or long run.

UCB Group manages this risk through a set of comprehensive measures, both at transaction and debtor, and at global level, related to:

- Strict evaluation of debtors' creditworthiness and of loan applications;
- Continuous monitoring of the exposures in order to identify any changes that may affect negative the overall risk status or generate the breach of risk limits set out by the internal procedures;
- Set up of the flow of expected credit loss (ECL) under IFRS9 (credit risk provisions) in UniCredit Bank in accordance with the legislation in force on international financial reporting standards and in conjunction with the provisions contained in the policies of UniCredit Group;
- Capital allocation for credit risk unexpected losses in accordance with the regulatory and UniCredit Group regulations;
- Regular monitoring of the credit risk profile of the Bank in order to ensure compliance within the tolerance limits defined in accordance with the risk management strategy and the Bank risk appetite.

In respect of the assurance of prudent management for credit counterparty risk, the Bank deals with international banks using an adequate ranking based on specific assessment criteria and strict internal rules. There are certain limits for the transactions with other banks related to deposits and foreign currency exchange.

7.4. Liquidity risk

The liquidity risk is the probability of the bank falling short of its due payments resulting from its contractual relations with clients and third parties. Under normal conditions of market functioning, the liquidity risk may materialize also through the need for the bank to pay a premium over market rates to be able to access liquidity.

Among the main potential generators of liquidity risk, the Bank distinguishes between liquidity mismatch risk/refinancing risk; liquidity contingency Risk; market Liquidity Risk.

Management of liquidity risk

In line with the Group's liquidity framework, the main goal of the overall liquidity management is to keep the liquidity exposure at such a level that the bank is able to honor its payment obligations on an on-going basis, but also during a crisis without jeopardizing its franchise value or its brand's name.

Hence, two main operating models for the liquidity management are defined: Going Concern Liquidity Management and the Contingent Liquidity Management.

From a liquidity risk governance perspective, the Bank has two layers of governance bodies: Managing Bodies acting as strategic decision taking functions and Operational units acting as operative liquidity management functions, i.e. Finance, Financial Risk, Markets – Trading.

The liquidity and funding strategy of the Bank is defined / reviewed at least on a yearly basis by considering the strategy and business model of the Bank, the actual and expected macroeconomic/financial conditions and the funding capacity of the Bank, as well as the overall risk tolerance as reflected by the Risk Appetite Framework.

In accordance with the strategic goal of self-sufficient funding, the Group's liquidity and funding strategy is centered on:

- achieving a well-diversified customer funding base;
- development of strategic funding through own bonds issues and covered bonds issues;
- development of relations with various international financial institutions and foreign banks for special financing programs.

The liquidity cost benefit allocation is an important part of the liquidity management framework. Liquidity is a scarce resource and accordingly a proper management of costs and benefits is essential in order to support sound and sustainable business models. Therefore, the Bank has put in place a proper funds transfer pricing mechanism.

Exposure to liquidity risk

Key indicators used by the Bank for measuring liquidity risk are:

- intraday liquidity requirements;
- the daily short-term liquidity report, through which cash inflows and outflows mainly coming from inter-bank transactions are monitored;
- the structural liquidity ratios/gaps, used to assess the proportion of medium-long term assets sustained with stable funding;
- regulatory indicators: the Bank has to comply with the limits imposed by National Bank of Romania, such as the liquidity indicator calculated according to NBR Regulation no. 25/2011 and the, Liquidity coverage ratio; calculated according with to the provisions of Regulation 575/2013 and Regulation no. 61/2015.
- other key indicators for the management of liquidity and funding needs used to assess the concentration of funding and the way in which loans to customers are sustained by commercial funds

The Bank sets the limit and triggers levels for the main indicators used to measure the liquidity risk and in case a breach is observed or anticipated, specific requested actions are taken for correcting the structure of the asset and liability mix of the Bank.

Regular stress testing assessments are performed in order to evaluate the liquidity position of the Bank In case of a deteriorating position, liquidity stress tests are one of the main metrics in order to support management's decisions before and also during stress situations. In particular, liquidity stress test results are useful in order assess the "right" sizing and composition of a liquidity buffer on a regular basis. As such, liquidity stress testing serves as an essential tool of assessment of the liquidity risk in an on-going basis, rather than in a crisis situation only.

7.5. Operational risk

Exposure to operational risk is generated by the probability of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk, but excludes strategic and reputational risks. Legal risk includes, but is not limited to, exposure to fines, penalties or punitive damages resulting from supervisory actions, as well as from private settlements.

The operational risk management framework within UniCredit Bank is well structured and involves relevant factors in promoting a culture favorable to communication, management and control of operational risk. The framework is supported by the existence of a dedicated independent function for the control of operational risk, by a structure of relevant committees and by a system of reporting operational risk to the Management of the Bank.

The operational risk management system is integrated into the internal processes defined for the management of significant risks. The main tools employed in the management and control of operational risk, are: collection of operational risk events, scenario analysis, operational risk indicators, mitigation actions and operational risk reporting.

The main objective of the operational risk management consists of implementing effective processes for the early identification of risk exposures as well as the definition and maintenance of a complex system of controls with proved efficiency in preventing risks' materialization and mitigating their effects.

7.6. Derivative financial instruments

The Group deals with certain types of derivatives, aiming to hedge underlying risk positions, as well as for clients' business such as interest rate swaps, exchange rate swaps, commodity swaps, forward contracts, exchange rate options, interest rate options and commodity options. The derivatives are traded on the OTC market.

On 31 December 2018, UCB Group had outstanding a number of FX swap contracts, as well as forward contracts, interest rate swaps, cross currency swaps, FX options and interest rate options. commodities options and swaps. FX and interest rate options, as well as IRS concluded with clients and closed back to back, mainly with the Group.

In designating financial instruments in qualifying hedge relationships, the Group has determined that it expects the hedges to be highly effective over the period of the hedging relationship.

In accounting for derivatives as cash flow hedges, the Group has determined that the hedged cash flow exposure relates to highly probable future cash flows.

7.7. Tax risk

UCB Group is committed to ensure sustainable performance of tax risk management by establishing and maintaining an efficient and effective tax function within the organization. UCB Group strictly complies with the fiscal laws regarding taxes and duties.

Maximise commercial bank value.

We continue to maximise commercial bank value, with the ongoing transformation resulting in higher productivity. Our activities in Western Europe are benefitting from the revamped network with new service models for retail and SME customers as well as a strong multichannel strategy. We have further strengthened our leadership positions in CEE and CIB, while keeping a strong focus on risk.

Differences between IFRS accounting treatment and fiscal requirements have been carefully identified and analysed, resulting in proper recognition of deferred tax effects in the financial statements.

UCB Group is focused on transfer pricing risk monitoring, including proper documentation of intra-group transactions upon a proactive approach.

7.8. Compliance risk

Within a complex legal framework, UCB Group is subject also to compliance risk, defined as the actual or future risk to impact the profits and capital, which may lead to fines, claims and/or cancellation of contracts or which may affect the reputation of a credit institution, as a result of breaching or non-compliance with the regulatory framework, agreements, recommended practices or ethical standards.

In order to meet the legal requirements compliance function, supported Management Board to manage the conformity risk. In this respect, the compliance risk function gives support to identify, evaluate, monitor and report the compliance risk associated to different activities, including consultancy regarding compliance with legal internal and UniCredit SPA requirements.

8. Corporate Governance

UCB Group is responsible for the existence of a rigorous management framework designed to include at least the following aspects:

- organizational structure and organization;
- the Bank’s Governing body: duties and responsibilities;
- composition and function, general framework for the activity;
- risk management;
- internal control;
- informational systems and business continuities;
- transparency requirements.

The Group has a comprehensive range of internal regulations regarding management of the business.

8.1. UCB’s corporate governance

Corporate governance statement

UniCredit Bank SA, as a two tier governed bank, operates in a corporate governance framework that respects all the legal and regulatory requirements of the Romanian legal framework, UniCredit Group rules, and the best international practices in the field.

Corporate governance of the bank is the set of rules and processes that establish the relationship between shareholders, management, clients, employees, suppliers and other parties involved in defining the bank's objectives, how they are met, and monitoring the performance of the bank. This highlights the efficiency of management systems, namely the role of the Supervisory Board and the Management Board, the responsibilities and remuneration of the members of these structures, the credibility of the financial statements and the efficiency of the control functions.

The governance principles are defined in the:

- Constitutive Act;

- Internal functioning and organization regulation of the bank;
- The Bank's management framework;
- Management Board regulation;
- Supervisory Board regulation;
- Regulations of the Committees subordinated to the Supervisory Board;
- Regulations of the Committees subordinated the Management Board.

The sections below include details of the main features of internal control, risk management systems in relation to the financial reporting process, the manner in which the general meeting of shareholders or associates takes place and its key attributions, the rights of shareholders or associates and the structure and how to operate the administrative, management and supervisory bodies and their committees.

8.1.1. General Shareholders' Meeting ('GSM')

The General Shareholders' Meeting is constituted as the **supreme authority** of the Bank.

The rights, responsibilities and working methods of the GSM are established in the Constitutive Act of the Bank and they are carried out in compliance with the applicable Romanian laws and regulations.

The detailed tasks and responsibilities are set forth in the Bank's Constitutive Act.

The General Shareholders' Meeting could delegate a part of its competences to Supervisory Board and Management Board in the cases mentioned in the Constitutive Act and in compliance with the applicable laws.

The roles and responsibilities are detailed in the specific regulation/rule of procedure.

The **General Meetings of the Shareholders** shall be convened at least once a year, within maximum 5 months since the financial year end in accordance with the legal requirements, and at any time it is needed to make decisions in its area of responsibility, in accordance with the provisions of law or the Constitutive Act.

Extraordinary General Meeting of Shareholders shall be convened whenever decisions in its responsibilities must be adopted.

The **Ordinary General Meeting of Shareholders** shall:

- discuss, approve or modify the annual financial statements, based upon the reports of the Management Board, Supervisory Board and financial auditor, and shall determine the dividends;
- appoint and revoke the Supervisory Board members;
- appoint and revoke the financial auditor and establish the minimum duration of the financial audit contract following the proposal of the Supervisory Board;
- approve the remuneration of the Bank's Supervisory Board' members;
- express its opinion about the Management Board's activity;
- approve the budget of income and expenses, and the program of activity for the next financial year as established by the Management Board and after preapproval by the Supervisory Board.

The conduct of General Meetings Shareholders is in accordance with legal requirements of the applicable laws regarding capital market, with a special attention to meet the rights and obligations of the shareholders.

8.1.2. Supervisory Board

The Supervisory Board is the statutory body of the Bank responsible for supervision and control of the Bank, in supervising the exercise of powers by the Management Board and the conduct of the Bank's business activities.

The Supervisory Board shall supervise the financial and business activities of the Bank and shall control the observance of the provisions of the Constitutive Act and of any relevant legal provisions by the Bank's management bodies. The Supervisory Board shall further review the annual financial statements including the proposal for the distribution of profits, and the annual report prior to submitting them to the Ordinary General Meeting of Shareholders for approval.

The competences of the Supervisory Board are established by the Constitutive Act and the Romanian laws and regulations in force.

The Supervisory Board acted in 2018 through the Audit Committee, Remuneration Committee, Risk Administration Committee, Nomination Committee and any other consultative committee with the scope to assist the management in specific areas.

8.1.3. Management Board

The Management Board is the statutory body responsible for current management of the Bank.

The Management Board is the statutory body of the Bank which is responsible for the management and execution of all activities of the Bank, including monitoring and control of the business objectives of the Bank. The Management Board takes decisions on any matters of the Bank, unless such decisions are reserved to other bodies according to legal regulations or this Constitutive Act.

The Management Board manages and coordinates collectively the Bank's activity in accordance with the competences assigned by the Constitutive Act and the Rules of Procedure of the Management Board.

The members of the Management Board are appointed and/or revoked by the Supervisory Board.

The mechanism of the functioning of Management Board's meetings is described in the Rules of Procedure regarding the preparation and holding of the Management Board's meetings.

Both Supervisory Board and Management Board operate through specialized committees, whose role is to assist the management structure in specific areas.

8.1.4. Committees subordinated to Supervisory Board

Committees subordinated to Supervisory Board are:

- Audit Committee
- Remuneration Committee
- Nomination Committee
- Risk Administration Committee

8.1.4.1. Audit Committee

The Audit Committee is directly subordinated to the Supervisory Board.

The Audit Committee is a consulting body of the Supervisory Board, with specialized attributions.

The Audit Committee will be composed of 3 elected non-executive members of the Supervisory Board. The members of the Audit Committee and the Chairman will be elected by the Supervisory Board.

The roles, responsibilities and functioning mechanisms of the Audit Committee are detailed in the Audit Committee Regulation/rule of procedure.

8.1.4.2. Remuneration Committee

The Remuneration Committee is directly subordinated to the Supervisory Board.

The Remuneration Committee is set up to:

- determine the compensation (fixed and variable part) to be paid to each of the Bank's Management Board members, as well as Heads of Audit, Compliance and Risk Management;
- approve the terms and conditions of the management contracts to be concluded between the Bank and the members of the Management Board;
- Approve the goals of the Management Body and Head of Audit, Compliance and Risk Management.

The remuneration Committee is formed of three members selected from the Supervisory Board members. The Chairman of the Remuneration Committee is appointed by the Supervisory Board. The Remuneration Committee members shall be appointed for the period of three years, reappointments being allowed.

The roles and responsibilities and functioning mechanisms of the Remuneration Committee are detailed in the Remuneration Committee Rules of Procedure.

8.1.4.3. Nomination Committee

The Nomination Committee is a permanent committee established by the Supervisory Board having as main duties:

- to identify and recommend to the Supervisory/Management Board, for approval, candidates to occupy the vacant seats within the management body;
- to assess the balance of knowledge, skills, diversity and experience within the management body;
- to assess on a regular basis, but at least once a year, the structure, size, composition and performance of the management body and to make recommendations to the management body with respect to any changes;
- to assess on a regular basis, but at least once a year, the knowledge, skills and experience of each member of the management body and of the management body as a whole and report to the management body accordingly;
- to decide with respect to a target concerning the representation of the male or female gender, poorly represented in the structure of the management body and draw up a policy concerning the means for increasing the number of these individuals in the structure of the management body in order to achieve the target concerned.

The nomination committee consists of minimum 3 (three) and maximum 5 (five) members selected from amongst the Supervisory Board members. The roles and responsibilities and functioning mechanisms of the Committee are detailed in the specific regulation.

8.1.4.4. Risk Management Committee

Risk Management Committee is directly subordinated to the Supervisory Board. Risk Management Committee is a permanent committee of UniCredit Bank having a consultative and support function to the Management Body.

The RMC shall be composed of minimum 3 (three) and maximum 5 (five) members among of the SB's members.

The roles, responsibilities and functioning mechanisms of the Committee are detailed in the specific regulation/rule of procedure.

8.1.5. Committees subordinated to Management Board

Committees subordinated to Management Board are:

- Risk Management Operative Committee;
- Credit Committee;
- Assets and Liabilities Committee (ALCO);
- Disciplinary Committee;
- Projects Committee;
- Customer Experience Committee;
- Security and Healthy Committee;
- Fraud Risk Management Committee;
- Special Credit Committee;
- Business Continuity & Crisis Management Crisis Committee;
- Conflict of Interest Committee;
- Professional Assessment Committee;
- Cost Committee;
- Internal Control Business Committee;
- Operational Permanent Work Group Committee.
- FATCA/CRS Permanent Work Group Committee
- Security Management Committee

Activities of the most important committees subordinated to the Management Board are bellow.

8.1.5.1 Risk Management Operative Committee

Risk Management Operative Committee is a permanent committee of UniCredit Bank SA.

The Committee shall exercise a consultative and proposing function and carry out its duties in plenary session. The Risk Management Operative Committee regulation will be reviewed periodically, if necessary.

The number of members of Risk Management Operative Committee with voting rights (permanent members) is 10. The roles and responsibilities and functioning mechanism of the Risk Management Operative Committee are detailed in a specific regulation.

8.1.5.2 Credit Committee

The Credit Committee is a permanent committee responsible for making decisions regarding credit facilities under its area of competence in order to ensure an adequate quality of loans portfolio, according to the approved credit policy.

The number of members of Credit Committee is 4.

The roles and responsibilities and functioning mechanisms of the Credit Committee are detailed in the Credit Committee Regulation.

8.1.5.3 Special Credit Committee

The Special Credit Committee is organized with the purpose of advising, recommending, approving, rejecting loan applications and related memos for amendments to already approved transactions or other requests, for corporate clients (watch list 2), and all restructuring and workout clients (corporate clients, retail clients, private banking clients).

The roles and responsibilities and functioning mechanisms of the Special Credit Committee are detailed in the own regulation.

8.1.5.4 Assets and Liabilities Committee (ALCO)

The ALCO Committee is responsible for ensuring an adequate and sound management of the bank's Balance Sheet in a proactive manner. All members of the ALCO must be aware of all relevant business and market changes in order to ensure a balanced decision making process. The ALCO monitors and establishes limits for Liquidity and Market Risks. The ALCO evaluates regularly the market risk profiles of the bank with the aim of optimizing the profit of the bank within the boundaries of approved risk limits. The number of members of ALCO Committee is 10.

The roles and responsibilities and functioning mechanisms of the Assets and Liabilities Committee are detailed in the own regulation of the committee.

8.1.5.5 Disciplinary Committee

The Disciplinary Committee meets in order to investigate and analyze whether the employees subject to disciplinary and professional investigation procedure committed the types of violations regarding Code of Conduct, job description, Labor Contract. The number of members is 7.

The roles and responsibilities and functioning mechanisms of this committee are detailed in the Disciplinary Committee regulation.

8.1.5.6 Projects Committee

The Projects Committee ensures the centralized management of the existing projects or of the identification of the new ones, in line with the bank's strategy, for efficient usage of resources participating in the projects. The number of members is 9.

The roles and responsibilities and functioning mechanisms of the PC are detailed in the Project Committee regulation.

8.1.5.7 Customer Experience Committee

The Customer Experience Committee analyses and issues recommendations or proposes actions for improvement of the customer experience. The Customer Experience Committee analyzes and proposes actions for improvement of the activity of the branch network. The number of members is 6 and there is also a Permanent guest who attends to the Committee's meetings.

The roles and responsibilities and functioning mechanisms are detailed in the Customer Experience Branch Network Committee regulation.

8.1.5.8. Security and Health Committee

The Security & Health Committee ensures a secure and healthy working environment for the employees, in accordance with and with respecting the specific local legislation in force and the Labour Code.

The Security & Health Committee functioning regulation establishes clear duties for both banks' management and employees, according to local specific legislation. The number of members is 8.

The roles and responsibilities and functioning mechanisms of the S&HC are detailed in the Security & Health Committee regulation.

8.1.5.9. Fraud Risk Management Committee

The main purpose of Fraud Risk Management Committee, is the evaluation, the monitoring and the control of the fraud risk, by its periodical evaluation with the aim of minimizing the loss produced by the possible frauds (where it is necessary, as the competences permit it).

The Committee missions includes the immediate mitigation of fraud risk, depended of situation.

The roles and responsibilities and functioning mechanisms are detailed in the committee's regulation. The number of members is 7.

8.1.5.10. Business Continuity & Crisis Management Crisis Committee

The Business Continuity & Crisis Management committee and work teams are established by the decision of the Management Board.

Decision-making, coordination and operational support during both the business as usual and crisis stage. The number of members is 14.

The roles, responsibilities and functioning mechanisms of the Crisis Committee are detailed in the specific regulation of the Committee.

8.1.5.11. Professional Assessment Committee

The Professional Assessment Committee meets in order to evaluate and analyze whether the employees subject to professional assessment procedure are professionally suitable for the job.

The number of members is 3.

The roles, responsibilities and functioning mechanisms of the Committee are detailed in the specific regulation of the Committee.

8.1.5.12 Cost Committee

The Cost Committee is the management decision body, responsible for the operational monitoring, forecasting and optimization of operational HR, non-HR and capital expenditure of the bank. The number of members is 7.

The roles, responsibilities and functioning mechanisms of the Committee are detailed in the specific regulation of the Committee.

8.1.5.13. Internal Control Committee

The Internal Control Committee (10 members) has the role to support the President of the Bank in the assessment of the overall internal control adequacy at the Bank's level through the analysis of the critical topics, monitoring and prioritization of the corrective actions related to internal control, in order to contribute to the efficiency and effectiveness of the internal control.

The roles, responsibilities and functioning mechanisms of the Committee are detailed in the specific regulation of the Committee.

8.1.5.14 Operational Permanent Work Group Committee

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

The roles, responsibilities and functioning mechanisms of the Committee are detailed in the specific rule of procedures.

8.1.5.15. FATCA/CRS Permanent Work Group Committee

FATCA/CRS Permanent Work Group Committee is primarily responsible for analyzing FATCA/CRS specific activities and especially non-standard related cases, in order to identify proper measures aiming at ensuring compliance of the bank with FATCA / CRS legislation.

The number of members is 6 and the roles and responsibilities and functioning mechanisms of the Committee are detailed in the specific regulation of the Committee.

8.1.5.16 Security Management Committee

The Security Management Committee is established in order to define and complete an appropriate management framework with the implementation of information security in all areas defined by the Group policy.

The committee is composed by 9 permanent members and 4 permanent guests, and the functioning mechanisms of the Committee are detailed in the specific regulation of the Committee.

8.1.6 Internal Control

The UCB's internal control is based on:

- the existence of the Internal Control framework
- the existence of the independent internal control function.

In the internal control functions, which must be independent, are included:

- risk management function, being composed by risk control function on each business line;
- compliance function and
- internal audit function.

The Internal Control framework represents the frame that ensures the deployment of efficient and effective operations, adequate risks control, prudent conduct of activity, credibility of the reported financial and non-financial information, both internally and externally. The Internal Control framework also represents the frame that ensures the compliance with legal and regulatory requirements, supervision requirements and Bank's internal rules and decisions.

The internal control framework covers all Bank's structures, as a whole, including activities of all operational units, of support and control functions.

The internal control functions periodically send official reports regarding major deficiencies identified to the management body. These reports include monitoring measures for the previous findings and for any new major deficiency identified involving relevant risks, an assessment of the impact and the recommendation, for each case.

8.2. Corporate Governance UCB's subsidiaries (UCFIN and UCLC)

The Bank, as a parent credit institution, takes into account and balances the interests of all its subsidiaries and analyses the way in which those interests concur to the common objective and interests of the whole UCB Group, on long term.

8.2.1. UniCredit Consumer Financing IFN SA

Committees subordinated to Supervisory Board are:

- Audit Committee;
- Risk Management Committee.

Committees subordinated to Management Board are:

- Permanent Working Group for Operational Risk Management;
- Credit Committee;
- Disciplinary Committee;
- Norms and Procedures Committee;
- Project Committee;
- Security and Health Committee;
- Business Continuity & Crisis Management Crisis Committee;
- Price and Product Committee.

8.2.2. UniCredit Leasing Corporation

Committees subordinated to Supervisory Board are:

- Audit Committee;
- Risk Management Committee.

Committees subordinated to Management Board are:

- Credit Committee;
- Special Credit Committee;
- Security and Health Committee;

- Business Continuity & Crisis Management Crisis Committee;
- Disciplinary Committee;
- Permanent Working Group for Operational Risk Management;
- Anti-Fraud Committee

9. Non-financial declaration

In this chapter we present information on the development, performance and position of the Group and the impact of Group's activity on aspects related to environment protection, social and personnel, human rights, the fight against corruption and against bribe.

9.1. Short description of business strategy

In its activity, the Bank continues to rely on its priorities: Develop resilient business, Simplify & Digitize, and Focus on People. More specifically, it will actively target following areas:

- Profitability: revenues, net profit and ROAC, through an adequate mix of business actions;
- Customers: net active customer growth and customer experience;
- Cost discipline: continuous attention to efficiency, simplification and digitization; being even more disciplined with respect to cost management is crucial for the sustainability of our current business model;
- Risk discipline: constant focus on risk management and mitigation of high risk exposures;
- Maintain strong capital position and improve funding self-sufficiency, by achievement of a well-diversified commercial base;
- Compliance and compliance culture, as a prerequisite to maintain high reputation;
- Our People, on which the Bank keeps investing, also by ensuring continuous trainings and career growth opportunities.

9.2. Protection of the environment

The Group is compliant with the applicable legal framework regarding the environmental protection and is concerned to decrease the impact of its operational activities on environment.

9.3. Social and HR activity

Learning & Development

The Group aims to:

- Increase employee engagement level and ensure quality of human capital that enables sustainable growth of the bank;
- Foster sense of belonging and relevance of people by providing unique, clear and sustainable sense of purpose and meaningful experiences that matter to them, supported with open, respectful and two ways communication;
- Provide relevant learning and development as well as career progression opportunities ensuring coverage of both business needs and people development needs therefore attracting and retaining Learners in the Group;

- Ensure consistent, non - biased and fact based differentiation of performance in accomplishing our internal culture, linked to recognition and reward (financial and non-financial);
- Provide solutions that will ensure flexibility of work place, time and engagement/hiring conditions to enable employees to improve their work life balance (i.e. remote work);
- Enhance learning offer & development initiatives by intensifying the training delivery through more structured offers & targeted programs;
- Employer branding – leveraging on social media, presence in job fairs, collaboration with universities, benchmarking and measuring of Employer of choice rating;
- Enhance onboarding experience that will make the employee feel welcomed, impressed and engaged within a structured frame;
- Design and implement structured approach to increase recognition and visibility of the real life examples;
- Fine tune of the performance management process, ensuring alignment with our Common Purpose and Goals & common approach in the process across all teams focusing on differentiation based on performance and quality of feedback.

Throughout 2018, various actions were implemented in line with the above HR strategy:

- Social team buildings: Every team had the chance to get together in social team buildings or special gatherings;
- Off-site Management Boards: 4 of our management board meetings were organized outside the HO, in Bacau, Constanta, Iasi and Brasov;
- Common Purpose and Goals: we brought clarity to the next level by defining our Common Purpose and Goals and we widely spread it among all our colleagues via special events and dedicated workshops;
- Seniority Gifts: We gladly celebrated loyalty of 577 colleagues that reached 5, 10, 15, 20 and 25 years in the Group;

  4U Concept: fairs, discounts, blood donation campaigns, sports & Our Kids, Our future - a traditional concept that bring work-life to life through multiple initiatives: Dedicated Spring, Easter and Christmas fairs, special offers and discounts, blood donation campaigns and special bonuses for our children. Moreover, in 2018 we enriched our initiatives with a new one: Back 2 School - were we gave a special Elkette bag full of school items to our little children when school started;
- Referral management + Jobs on Friday: We changed our recruitment approach and we created a referral management process: a new and easy way to apply for a job or recommend others. More visibility was brought via our weekly newsletter – Jobs On Friday. 406 colleagues took advantage of the development opportunities inside our company and changed their jobs, during 2018;
- MarketPlace: an online solution available for ALL that helps us to get things done. In 2018 we were no 2 within CEE related to no of assignments and no 5 related to skills owners;
- Boost Your Future: we started our first edition of the Talent Management program Boost Your Future. A learning experience for 67 colleagues that had the chance to develop themselves via various blended learning initiatives;
- Leadership Program: also 78 leaders started their 1,5 years' development journey and had their first experiences focusing on Common Purpose and Goals and Discovering their Authentic Leadership style;

- Specific trainings for Retail and Corporate: we organized specific trainings for Retail and Corporate: Risk Academy, Vanzari la inaltime, Esign, Genius Cont, Customer Profiling for Corporate RMs, Lean Six Sigma, MIFID;
- Enhanced performance management process: we extended the calibration sessions to the middle management in all LEs. It was our way to make sure that we have a common approach when evaluating all colleagues;
- Bonus allocation methodology: clear and consistent principles, unified across all legal entities. We had a bonus budget increased with 45% comparing with 2017. There was a 46% increase in the number of employees that took bonus in 2018;
- Salary review process: based on predefined criteria we run a full review of the salaries. In July 2018 20% of population got a salary increase;
- Individual Remuneration Statement letters: we listened to our colleagues' feedback and for bringing more clarity, we introduced the individual remuneration statement letters, presented as a dashboard including total remuneration package and bonus methodology;
- Closer to the academic environment. In 2018, we continued to develop new partnerships, reaching a network of 16 partners, universities and students associations across the country, compared to 9 in 2017. Thanks to these collaboration protocols, we have extended our Internship programs national-wide, both on Retail and Corporate areas. In 2018 we had a number of 200 students in practical stage or internship.

Integrity/Corporate Social Responsibility

For over 11 years UniCredit Bank has supported creative industries, backing up the most important financial education and entrepreneurial projects, creative, design related, and cultural events in Romania.

Amongst them, Diploma (in collaboration with The Institute the bank endorse graduates from all creative disciplines), Romanian Design Week (Romania's biggest multidisciplinary event, dedicated to creative industries), Sibiu International Theater Festival (where the bank supports the new Fabric of Culture), Creative Mornings (a series of monthly conferences dedicated to the creative community), The Power of Storytelling, Teach for Romania (where the bank aids the Foreign Legion of Romanian education by financing 3 teachers from a local school in Fundeni, Calarasi), the third edition of The Creative Entrepreneur's Guide 24/7 (a publication about the life and work of creative entrepreneurs which is published in collaboration with Decat o Revista), ZAIN (the design festival in Cluj).

UniCredit Bank has aided and supported many important educational, entrepreneurial, social and cultural programs, in partnership with NGO's and other partners.

UniCredit Bank's mission is to be alongside the clients, colleagues, partners and support them in what they consider important. Thus, the bank carried forward The Platform of Creative Minds program, which consists of a series of instruments dedicated to Romanian entrepreneurs with creative ways of doing business:

- Extended The Academy of Creative Minds (the financial and entrepreneurial educational program, a sort of "different school" for creative entrepreneurs) up to 4 editions (2 in Bucharest, 1 in Timisoara & 1 in Cluj-Napoca)
- As a result of the positive feedback received, the bank maintained the Barometer of Creative Minds – the first Romanian study which analyses the opportunities and perspectives of creative entrepreneurs – and also The Creative Minds Wednesday (a local shopping event dedicated to creative businesses in Bucharest) which had its second edition.

Educational projects

Last year the Bank extended The Creative Minds Academy, UniCredit Bank's program for financial and entrepreneurial education, a kind of "exceptional school" for the creative entrepreneurs. The bank organized four editions and had 180 Romanian entrepreneurs that graduated the Academy, 50 mentors in the team both from the business sector, but also colleagues from the Bank.

The bank continued the partnership with Teach for Romania team by supporting 3 teachers – financially covering their wages for the entire working year of 2018-2019 which are currently teaching in a school in Fundeni, Calarasi.

The bank remained the main partner of The Power of Storytelling 2018 conference, an event built around the idea that stories can change our worlds, connect people, move action and drive change. The only one in Eastern Europe of its kind, it brings together storytellers in all fields.

The Bank continued to be a partner of Creative Mornings Bucharest, a monthly lecture series for the creative community (100 participants on each session); it also supported Creative Mornings in Timisoara & Cluj-Napoca.

The bank continued the project launched in 2015 – together with the partners from Decat o Revista (DoR) – entitled 24/7 the social entrepreneurial guide, an inspirational and educational tool for the creative community in Romania offering them the documented stories and advice of different creative businesses across sectors.

The Bank was the main partner of DIPLOMA, an educational festival dedicated to the creative students in Romania, that are graduating from vocational universities, offering them tailored conferences, workshops and exhibitions.

Social projects

3 philanthropic projects (Asociatia Faborisa, Asociatia Coloreaza Viata si Asociatia Merci Charity Boutique) sustained by the Bank and co-sponsored by UniCredit Foundation, within the framework of the regular GIFT MATCHING campaign. The projects are driven and financially supported by its employees and UniCredit Foundation, matching individuals' donations.

Like every year the Bank supported Regina Maria Foundation to organize their two charitable events, the Christmas Gala and Concert, where fundraising actions take place for the foundation.

The bank continued the partnership with Policy Center for Roma and Minorities and supported the dance and theatre band of the children from Ferentari.

Cultural projects

UniCredit Bank is one of the two main official partners of the International Theatre Festival in Sibiu. In 2018 the bank continued to support Fabrica de Cultura performance venue, where together with the team from Radu Stanca Theatre is developing an educational, cultural and architectural platform.

9.4. Anti-corruption and anti-bribery activity

The Bank has implemented internal regulations, training programs and controls in the field of anti-corruption, the purpose of which is to:

- Define the principles and rules needed to identify and prevent potential corruption acts in order to ensure the integrity and reputation of the Bank and the Group;
- Provide general information to employees about the Bank's actions to identify, mitigate and manage the risks associated with corruption.

Adopt lean but steering center.

We have created a lean but steering center to drive Group-wide performance and ensure accountability. Through leaner support functions and transparent cost allocation, we focus on efficiency and simplification. We are positioned as best in class in terms of European corporate governance.

The implemented anticorruption program includes elements such as periodic assessment of corruption risk, relevant regulations in specific areas (eg gifts and protocol items, use of intermediaries, hiring, suppliers, etc.), providing a secure and accessible way for employees to report whistle-blowing violations of the anti-corruption principles, reporting to the management structure.

The Bank does not tolerate corruption. Corruption acts are forbidden regardless the way in which they are done and whether they are committed directly or indirectly. The Bank does not tolerate the involvement in Corrupt Acts of its Employees or third parties with whom it is in any kind of relationship. The Bank aims to implement an Anti-Corruption Program to counter the risks associated with Corruption and to ensure a culture that states that Corruption Acts are never accepted.

10. Communication calendar for 2019

The Bank prepares every year a financial communication schedule, for information of their shareholders; this schedule will be published also on Bucharest Stock Market site.

The schedule for 2019 is the following:

Annual General Shareholders' Meeting (GSM) for 2018 local financial results approval	08.04.2019
2Q19 & 1H19 Group Results Presentation (publication and conference call)	07.08.2019

11. Members of the Management Board of the Bank, UCFIN and UCLC during 2018

Members of the Management Board of the Bank, the parent company:

- **Cătălin Răsvan Radu**, Romanian citizen, Executive President (CEO), Chairman of the Management Board;
- **Marco Cravario**, Italian citizen, Executive First Vice-President (Deputy CEO), member of the Management Board;
- **Daniela Margareta Bodîrcă**, Romanian citizen, Executive Vice-President, member of the Management Board;
- **Jakub Dusilek**, Czech citizen, Executive Vice-President, member of the Management Board;
- **Philipp Gamauf**, Austrian citizen, Executive Vice-President, member of the Management Board;
- **Septimiu Postelnicu**, Romanian citizen, Executive Vice-President, member of the Management Board starting 13.07.2018;
- **Nicola Longo Dente**, Italian citizen, Executive Vice-President, member of the Management Board starting 03.12.2018
- **Alina Marinela Drăgan**, Romanian citizen, Executive Vice-president, member of the Management Board until 01.05.2018.

Members of the Management Board of UCFIN, the subsidiary:

- **Borislav Petrov Guenov**, Bulgarian citizen, President of the Management Board, starting with 01.01.2018;

- **Ana Maria Duțu**, Romanian citizen, member of the Management Board, starting with 01.07.2018;
- **Marinela Doruleț Mihalcea**, Romanian citizen, member of the Management Board, starting with 01.06.2018;
- **Gergana Taseva**, Bulgarian citizen, member of the Management Board, starting with 15.03.2018;
- **Daniel Ghiulea**, Romanian citizen, member of the Management Board, starting with 01.06.2018;
- **Ignat Bogdan Dumitru**, Romanian citizen, member of the Management Board until 15.03.2018;
- **Cezarina Morar**, Romanian citizen, member of the Management Board until 01.07.2018.

Members of the Management Board of UCLC, the subsidiary:

- **Mircea-Marian Cotigă**, Romanian citizen, President of Management Board;
- **Simona Nicoleta Miloșoiu**, Romanian citizen, Vice-President of the Management Board;
- **Șerban-Mihai Tănăsescu-Ienciu**, Romanian citizen, Vice-President of the Management Board;
- **Ramona Balasanian**, Romanian citizen, Vice-President of the Management Board;
- **Daniela Panaitescu**, Romanian citizen, Vice-President of the Management Board.

In their activity, the Management Board members acted in compliance with specific economic legislation in force, norms and regulations issued by National Bank of Romania, Group rules and internal rules and regulations of UniCredit Bank SA.

The Management Board members' activity had as primary goal the effective and efficient management of the bank's patrimony in full compliance with the law and statutory regulations.

In conclusion, the main focus of the Management Board members was on:

- Strong financial standing of the Group, including solid capital base and liquidity;
- Prudent risk management, including credit, market and operational risks;
- Strict and effective internal control of activity and operations, carried out in accordance with the legal provisions in force;
- Value added of all types of businesses, geographies and operations;
- Completion of the targets set in the budget;
- Business sustainability;
- Corporate social responsibility;
- Increase the productivity and efficiently functioning organizational structure of the Bank, focused on rendering qualitative and competitive banking services and products to the clients of the Bank;
- Increased efficiency of logistical organization and infrastructure;
- Higher automation and systems development, through improvement of banking software performances, risk management and specialized applications in order to satisfy the bank's operating needs, acting accounting and legal requirements, and enhance decision making process;
- Continuous development and professional training of the bank's employees.

12. Conclusion

Although the market conditions and the local and international economic environment continued to be challenging, in 2018 UCB Group had a strong financial position and a good performance.

The future development objectives will continue to focus on a more rapid growth of operations in retail, alongside with the strengthening of corporate activity. The Group continues to focus on delivering of value-added services, on risk management, profitability, productivity and strengthening of market position through higher service quality, enriching the range of products and services, as well as strict compliance with the acting laws and by-laws. Last but not least, the Group remains consistent with its mission of being close to its clients and supporting them in accomplishing the things that matter to them.

Catalin Rasvan Radu

Executive President