One Bank
One
UniCredit

30 June 2019

Interim Condensed Consolidated Financial Statements

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

Banking that matters. | UniCredit

Content

One Bank,
One UniCredit.

UniCredit is and will remain 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 client franchise.

We meet real client needs with real solutions which harness synergies between our business divisions: **CIB, Commercial Banking and Wealth Management**. The way in which these solutions are developed and provided is as important as the solution itself, which is why everything we do is based on **ethics and respect**.

By focusing on banking that matters, we offer local and international expertise, providing unparalleled access to market leading products and services in 14 core markets through our European banking network. Through sustainable business growth, we ensure UniCredit remains a **pan-European winner**.

Interim condensed consolidated financial statement of Comprehensive income for the six months period ended 30 June 2019

RON thousands	Note	30.06.2019	30.06.2018
Interest income*		913,011	776,431
Interest expense*		(279,969)	(202,027)
Net interest income	**6**	**633,042**	**574,404**
Fee and commission income		212,881	186,913
Fee and commission expense		(61,948)	(48,188)
Net fee and commission income	**7**	**150,933**	**138,725**
Net income from instruments at fair value through profit and loss*	8	183,788	121,343
FX Gains / (Losses)*		57,353	32,943
Fair value adjustments in hedge accounting		3,405	(1,778)
Net income from disposals of financial assets and liabilities which are not at fair value through profit and loss*		24,162	(13,568)
Dividends income*		1,971	2,376
Other operating income*		5,464	11,146
Operating income		**1,060,118**	**865,591**
Personnel expenses	9	(206,067)	(192,717)
Amortisation and impairment of tangible assets		(46,274)	(18,751)
Amortisation and impairment of intangible assets		(27,214)	(26,782)
Other administration expenses	10	(174,424)	(176,206)
Other operating expenses*		(10,488)	(12,134)
Operating expenses		**(464,467)**	**(426,590)**
Net operating income		**595,651**	**439,001**
Net impairment losses from financial instruments*	11	(162,748)	(114,296)
Net provision losses		(7,250)	(7,948)
Profit before taxation		**425,653**	**316,757**
Income tax	12	(73,473)	(63,326)
Net profit for the period - continued operations		**352,180**	**253,431**
Net profit for the period - discontinued operations	27	**-**	**8,569**
Net profit for the period		**352,180**	**262,000**
Attributable to:			
Equity holders of the parent company		345,696	281,001
Non-controlling interests		6,484	(19,001)
Net profit for the period		**352,180**	**262,000**

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

Interim condensed consolidated financial statement of Comprehensive income for the six months period ended 30 June 2019

In RON thousands	Nota	30.06.2019	30.06.2018
Other comprehensive income, net of tax			
Items that will not be reclassified to the profit or loss			
Revaluation of property, plant and equipment (net of deferred tax)		21	34
Net change in fair value of financial assets through other comprehensive income – equity (net of deferred tax)		5	1,062
Total items that will not be reclassified to profit or loss		**26**	**1,096**
Items that may be reclassified to profit or loss			
Net change in fair value of financial assets through other comprehensive income – debt instruments (net of deferred tax)		77,074	(117,529)
Net change in revaluation of cash flow hedge reserve (net of deferred tax)		(7,099)	1,892
Total items that may be reclassified to profit or loss		**69,975**	**(115,637)**
Other comprehensive income, net of tax		**70,001**	**(114,541)**
Total comprehensive income		**422,181**	**147,459**
Attributable to:			
Shareholders of parent – company		415,697	166,460
Non-controlling interests		6,484	(19,001)
Other comprehensive income		**422,181**	**147,459**

The interim condensed consolidated financial statements were approved by the Management Board on 30 July 2019 and were signed on its behalf by:

Mr. Rasvan Catalin Radu
Chief Executive Officer

Mr Philipp Gamauf
Chief Financial Officer

Interim condensed consolidated financial statement of Financial Position for the six months period ended 30 June 2019

RON thousands	Nota	30.06.2019	31.12.2018
Assets:			
Cash and cash equivalents	13	9,443,695	10,282,256
Financial assets at fair value through profit or loss	14	280,024	296,786
Derivatives assets designated as hedging instruments		-	146
Loans and advances to customers*	15	24,780,691	24,622,313
Net Lease receivables*	16	3,153,547	3,002,737
Loans and advances to banks at amortized cost		364,072	1,897,603
Other financial assets		161,087	190,153
Financial assets at fair value through other comprehensive income	17	7,193,453	7,330,621
Property and equipment		177,285	196,175
Right of use	28	176,820	-
Intangible assets		166,462	165,877
Current tax assets		-	630
Deferred tax assets		126,800	143,455
Other assets		180,693	175,592
Non-current assets classified as held for sale		32,693	32,693
Total assets		**46,237,322**	**48,337,037**
Liabilities:			
Financial liabilities at fair value through profit or loss		92,973	69,809
Derivatives liabilities designated as hedging instruments		114,077	78,919
Deposits from banks	18	1,339,706	3,757,658
Loans from the banks and other financial institutions at amortized cost	19	7,428,090	7,591,300
Deposits from clients	20	29,410,217	29,494,902
Debt securities issued		621,280	622,114
Other financial liabilities at amortized cost		757,980	459,836
Subordinated liabilities	21	904,044	890,311
Leasing liabilities	28	162,423	-
Current tax liabilities		40,907	44,889
Provisions	22	206,785	205,454
Other non-financial liabilities		240,233	264,661
Total liabilities		**41,318,715**	**43,479,853**

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

Interim condensed consolidated financial statement of Financial Position for the six months period ended 30 June 2019

RON thousands	Nota	30.06.2019	31.12.2018
Equity			
Share capital	23	1,177,748	1,177,748
Share premium		621,680	621,680
Cash flow hedge reserve		(52,152)	(45,054)
Reserve on financial assets at fair value through other comprehensive income		(11,491)	(88,570)
Revaluation reserve on property and equipment		9,840	9,819
Other reserves		298,289	271,031
Retained earnings		2,752,406	2,794,727
Total equity for parent company		**4,796,320**	**4,741,381**
Non-controlling interest		122,287	155,803
Total equity		**4,918,607**	**4,857,184**
Total liabilities and equity		**46,237,322**	**48,337,037**

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Mr Philipp Gamauf
Chief Financial Officer

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Interim condensed consolidated financial statement of Changes in Equity for the six months period ended 30 June 2019

	30.06.2019									
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 2018	**1,177,748**	**(88,570)**	**(45,054)**	**9,819**	**271,031**	**621,680**	**2,794,727**	**4,741,381**	**115,803**	**4,857,184**
Comprehensive income										
Net profit for the year	-	-	-	-	-	-	345,696	345,696	6,484	352,180
Other comprehensive income										
Revaluation of property, plant and equipment, net of tax	-	-	-	21	-	-	-	21	-	21
Net change in fair value of financial assets through other comprehensive income, net of tax	-	77,079	-	-	-	-	-	77,079	-	77,079
Net change in cash flow hedging reserve, net of tax	-	-	(7,098)	-	-	-	-	(7,098)	-	(7,098)
Transfer to other reserves*	-	-	-	-	27,258	-	(27,258)	-	-	-
Total Other comprehensive income	-	**77,079**	**(7,098)**	**21**	**27,258**	-	**(27,258)**	**70,001**	-	**70,001**
Total comprehensive income	-	**77,079**	**(7,098)**	**21**	**27,258**	-	**318,437**	**415,697**	**6,484**	**422,181**
Dividends paid during the year*	-	-	-	-	-	-	(360,749)	(360,749)	-	(360,749)
Other changes**	-	-	-	-	-	-	(9)	(9)	-	(9)
Balance at 30 June 2019	**1,177,748**	**(11,491)**	**(52,152)**	**9,840**	**298,289**	**621,680**	**2,752,406**	**4,796,320**	**122,287**	**4,918,607**

* According to the decision of the General Meeting of Shareholders of 8 April 2019, it was decided to allocate a part of the Bank's net profit for 2018 (550,799 RON thousands) in the form of dividends amounting to RON 360,749 thousand and to set up a reserve amounting to RON 27,258 thousand;
** The amount represents the impact of the derecognition of the participation in Casa de Compensare Bucuresti following the liquidation of this company.

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Mr. Philipp Gamauf
Chief Financial Officer

Interim condensed consolidated financial statement of Changes in Equity for the six months period ended 30 June 2019

				30.06.2018						
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**	**2,307,204**	**3,560,883**	**150,218**	**3,711,101**
Effect of change in accounting policies	-	(1,451)	-	-	-	-	(57,336)	(58,787)	(5,031)	(63,818)
Balance at 31 December 2017	**1,101,604**	**(54,954)**	**(48,923)**	**9,673**	**244,828**	**1**	**2,249,868**	**3,502,096**	**145,187**	**3,647,284**
Comprehensive income										
Net profit for the year	-	-	-	-	-	-	281,001	281,001	(19,001)	262,000
Other comprehensive income										
Revaluation of property, plant and equipment, net of tax	-	-	-	34	-	-	-	34	-	34
Net change in financial assets at fair value through other comprehensive income, net of tax	-	(115,016)	-	-	-	-	-	(115,016)	-	(115,016)
Net change in cash flow hedging reserve, net of tax	-	-	1,892	-	-	-	-	1,892	-	1,892
Transfer to other reserves	-	-	-	-	13,884	-	(13,884)	-	-	-
Total Other comprehensive income	-	**(115,016)**	**1,892**	**34**	**13,884**	**-**	**(13,884)**	**(113,090)**	**-**	**(113,090)**
Total comprehensive income	**-**	**(115,016)**	**1,892**	**34**	**13,884**	**-**	**267,117**	**167,911**	**(19,001)**	**148,910**
Other changes*	-	-	-	-	-	-	6,597	6,597	-	6,597
Share issued	76,144	-	-	-	-	621,680	-	697,824	-	697,824
Balance at 30 June 2019	**1,177,748**	**(169,969)**	**(47,031)**	**9,707**	**258,712**	**621,680**	**2,523,582**	**4,374,429**	**126,186**	**4,500,615**

** 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 interim condensed consolidated financial statements were approved by the Management Board on 30 July 2019 and were signed on its behalf by:

Mr. Rasvan Catalin 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.

In RON thousands	Note	30.06.2019	30.06.2018
Operating activities			
Profit before taxation	12	425,653	327,739
Adjustments for non-cash items:			
Depreciation, amortization and impairment on tangible and intangible assets		73,488	45,533
Net impairment losses on financial assets		194,584	138,664
Change in fair value of derivatives at fair value through profit or loss		39,925	(38,497)
Other items for which the cash effects are investing or financing		24,146	926
Other non-cash items		192,064	(24,520)
Operating profit before changes in operating assets and liabilities		**949,860**	**449,845**
Change in operating assets:			
(Increase) / Decrease in financial assets held for trading		161,613	(277,850)
(Increase) / Decrease in loans and advances to banks		1,525,746	(863,243)
(Increase) / Decrease in loans and advances to customers		(375,259)	(411,014)
(Increase) / Decrease in lease investment		(161,258)	(203,446)
(Increase) / Decrease in other assets		2,091	(41,494)
Change in operating liabilities:			
(Decrease) / Increase in deposits from banks		(2,418,290)	1,530,798
(Decrease) / Increase in deposits from customers		(118,684)	349,066
(Decrease) / Increase in other liabilities		244,163	91,614
Income tax paid		(80,015)	(39,713)
Cash flows from / (used in) operating activities		**(270,033)**	**584,563**
Investment activities			
Acquisition of property and equipment and intangible assets		(33,373)	(8,256)
Dividends received		2,169	2,465
Cash flows used in investment activities		**(31,204)**	**(5,791)**

Interim condensed consolidated financial statement of Cash Flow for the six months period ended 30 June 2019

In RON thousands	Note	30.06.2019	30.06.2018
Financing activities			
Dividends paid		(356,875)	-
(Payments) / receivables from bonds		-	(550,000)
Increase in capital and share premium		-	697,825
Repayments of loans from financial institutions		(1,208,034)	(1,026,075)
Receipts from loans from financial institutions		1,052,702	1,383,743
Repayment of the lease liabilities		(25,118)	-
Cash flows from / (used in) financing activities		**(537,325)**	**505,493**
Net (Decrease) / increase in cash and cash equivalents		(838,562)	1,084,265
Cash and cash equivalents at 1 January		**10,282,257**	**8,824,908**
IFRS9 impact at 01.01.2018		-	(3,098)
Cash and cash equivalents at 30 June 2019	**13**	**9,443,695**	**9,906,075**

In RON thousands	Note	30.06.2019	30.06.2018
Cash flow from operating activities include:			
Interest received		1,019,082	672,287
Interest paid		(303,907)	(195,722)

The interim condensed consolidated financial statements were approved by the Management Board on July 30, 2019 and were signed on its behalf by:

Mr. Rasvan Catalin Radu
Chief Executive Officer

Mr Philipp Gamauf
Chief Financial Officer

1. REPORTING ENTITY

The UniCredit Group (the “Group”) consists of UniCredit Bank S.A. (the “Bank”) as parent company and its subsidiaries, UniCredit Consumer Financing IFN S.A. (“UCFIN”), UniCredit Leasing Corporation IFN S.A (“UCLC”), Debo Leasing IFN SA (“DEBO”) and UniCredit Insurance Broker SRL (“UCIB”). These consolidated financial statements comprise the Bank and its subsidiaries.

UniCredit Bank S.A. (the “Bank”), 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 private individuals and companies. 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 with in Milano, Piazza Gae Aulenti, 3.

The Group is exercising direct and indirect control over the following subsidiaries:

- UniCredit Consumer Financing IFN S.A., having its current registered office at 23-25 Ghetarilor Street, 1st and 3rd floor, District 1, Bucharest, Romania, provides consumer finance loans to individual clients. The Bank has a shareholding of 50.1% in UCFIN since January 2013.

- UniCredit Leasing Corporation IFN ("UCLC"), having its headquarters in Ghetarilor Street no. 23-25, 1st, 2nd and 4th floors, Sector 1, Bucharest, Romania, provides financial leasing services to corporate clients and individuals. UCLC, the former associate, has become the Bank's subsidiary since April 2014 when the Bank gained indirect control of 99.95% (direct control: 99.90%). The Bank's indirect interest rate on June 30, 2019 is 99.98% (direct control: 99.96%) as a result of the merger by the merger of UniCredit Leasing Romania SA ("UCLRO") by UCLC finalized in June 2015, the date at which UCLRO was absorbed by UCLC.

- Debo Leasing S.R.L., having its current registered office in 23-25 Ghetarilor Street, 2nd floor, 1st district, Bucharest, Romania, is a real estate finance lease entity 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 30 June 2019 the Group carried out its activity in Romania through the network, having 146 branches (31 December 2018: 149) located in Bucharest and in the country.

2. BASIS OF PREPARATION

a) Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), IAS 34 – Interim Financial Reporting. These financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2017.

b) Basis of measurement

The condensed consolidated 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 interim condensed consolidated financial statements are presented in Romanian Lei ("RON"), which is the functional and presentation currency. 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 the interim condensed consolidated 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.

2. BASIS OF PREPARATION *(continued)*

e. Foreign currency *(continued)*

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.

The exchange rates of major foreign currencies were:

Currencies	30 June 2019	31 December 2018	Variation
Euro (EUR)	1: RON 4.7351	1: RON 4.6639	1.50%
Dolar SUA (USD)	1: RON 4.1587	1: RON 4.0736	2.05%

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 interim condensed consolidated financial statements from the date that control commences until the date that control ceases.

As of 30 June 2019 and 31 December 2018, The Group consists of the Bank and its subsidiaries UCFIN, UCLC and DEBO.

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.

2. BASIS OF PREPARATION *(continued)*

g. Basis of consolidation *(continued)*

The Group decided 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 interim condensed 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 described below have been applied consistently over the periods presented in these consolidated condensed interim consolidated financial statements and have been consistently applied within the Group.

The Group reclassified certain amounts in 2018, after publishing the condensed consolidated condensed financial statements as at 30 June 2018, in respect of settlements under clarification accounts, repo transactions, provisions for off-balance sheet commitments, interest for instruments at fair through the profit and loss account and others.

Starting with 2018, the Group presents separately other financial assets and other non-financial assets in the condensed consolidated condensed interim financial position. Comparative data for 30 June 2018 were restated in this year's presentation to ensure the comparability of the data and information presented.

Starting with 2019, the Group reclassified its portfolio of loans granted by the UniCredit Leasing Corporation subsidiary to its clients, which were previously presented in the balance sheet item "Net finance leases" in the balance sheet item "Net lease receivables". The comparative data for 31 December 2018 were restated in the current year presentation in order to ensure the comparability of the data and information presented.

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).

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b. Financial instruments - Classification

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

Business model analysis was performed by mapping the areas of activity of the Group and the allocation of each particular business model. In this respect, the business fields that make up the Group's banking portfolio have been attributed business models "owned to collect" or "held to collect and sell", depending on the ownership intentions and the expected turnover 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 IFRS 9 requirements.

In application of the 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.ii);
- at fair value through Comprehensive income (see note 3.b3);
- 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).

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;
- 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 short 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 30 June 2019 and 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 IFRS 9, 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 30 June 2019 and 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b1. Financial instruments - Classification *(continued)*

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 portfolio;
- 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.

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;and
- its cash flows are solely the payment of principal and interest.

These items also include the net value of finance lease contracts for assets under construction or to be leased, provided that such contracts have the characteristics of contracts involving 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 duration of the loan.

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

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, if 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b. Financial instruments - Classification *(continued)*

b2. Financial assets and financial liabilities at amortized cost *(continued)*

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.

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 amount 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 counterparty 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 the income statement.

With respect to equity instruments, earnings and losses arising from changes in fair value are recognized in the statement of comprehensive income and are presented in the revaluation reserves in equity. In the case 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.

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

c. Financial assets and liabilities – modification and de-recognition *(continued)*

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.

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.

Asset transfers with the retention of all or most significant risks and benefits are, for example, securities lending or sale transactions with a redemption clause.

The Group entered into several transactions with UniCredit SpA and other entities within UniCredit Group SpA 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 25 – "COMMITMENTS AND CONTINGENCIES") 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.

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 time of depletion the legal actions for recovery of receivables, the off-balance sheet is removed.

3. POLITICI CONTABILE SEMNIFICATIVE *(continued)*

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 loss of credit is subject to a periodic review, resulting in recognition of impairment or provisioning.

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.

Besides impaired assets acquired, the Group identified as POCI those credit exposures that arise from restructuring impaired exposures that led to the provision of new funding as significant either in absolute terms or in relative terms compared to 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.

The chosen valuation method should consider as much as possible the available market information, rely less on the Group's estimates, include all factors that market participants take into account in pricing and be in in line with the accepted economic methodologies used to determine the prices of financial instruments.

The data on which valuation techniques are based should reasonably reflect market expectations and assess the intrinsic risk-benefit factors of the rated financial instrument.

3. POLITICI CONTABILE SEMNIFICATIVE *(continued)*

f. Fair value measurement *(continued)*

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.

When the 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 period corresponding to the entire duration 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.

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 law requirements (e.g. 30 days past-due);
- additional internal evidence (e.g. Forborne classification).

Regarding debt securities, the Group choose the application of the low credit risk exemption on investment grade securities in full compliance with IFRS 9 accounting standard.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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 non-performing 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 based on business plans or forecasts based on historical recovery experience observed for similar classes of loans, considering 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.

Such parameters are calculated based on 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 in regard of:

- 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;
- expanding credit risk parameters to a multiannual 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.

The recovery rate incorporated in LGD over the cycle has been adjusted to eliminate conservatism and to reflect the current trend in recovery rates as well as expectations of future discounted rates at the effective interest rate or best approximation.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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).

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/instalments.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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 +2.8% for 2019 and +1.8% for 2020.

The **Positive Scenario** is based on the assumption that positive economic growth in 2019, supported by the global trade trend and the adjustment of economic policies. This would imply, for the largest European countries, a maximum phase of the one-year prolonged economic cycle, reflecting a higher real GDP growth over the baseline scenario.

Specifically, the annual growth of real GDP is projected at 3.8% for 2019 and + 2.8% for 2020 in a context of negative or close to zero short-term (EURIBOR to 3 months) rates.

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 in risk premiums for different "classes of assets" and a slowdown in economic growth in the Eurozone and Central and Eastern European countries. Specifically, annual GDP growth for The Euro zone would be + 0.5% for 2019 and -0.4% for 2020, in the context of short-term rates (3 months EURIBOR) that would remain negative even in 2019, on the assumption that the ECB would extend into such a market context support for market liquidities. The likelihood of such a scenario at the time of its definition is possible and appropriate to quantify the adverse trend of the economy. In line with the scenario and the magnitude of the changes compared to the baseline scenario, the negative scenario is less likely than the positive scenario.

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 favour of a point in time and "Forward-looking" philosophy.

The LGD parameter is achieved "at a point in time" by a scalar factor that allows to take into account the ratio between average recoveries over the period and recoveries obtained in previous years. Inclusion of the forecast within the LGD is done by adjusting the default annual recovery rate in this parameter to take into account the expectations of the variance of the recovery rates offered by the stress test function.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 hedging within a fair value hedge relationship for an asset or liability or firm commitment that may affect the income statement, changes in the fair value of the financial instrument derivative are recognized immediately in the income statement together with changes in the fair value of the hedged instrument that are attributable to the hedged risk in the same position in the income statement and other 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 because 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 until the discontinuity of the hedged item for which the effective interest rate method is used is recorded in the income statement as part of its effective interest rate recalculated over the remaining lifetime.

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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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.

i. Assets Held for Sale / Discontinued Operations

An asset is classified as held for sale if its carrying amount will be recovered principally from the sale rather than from continuing use.

For this case to be valid the asset (or disposal group) must be available for immediate sale in its current state only under the normal conditions for the sale of those assets (or disposal groups) and the sale is highly probable.

In order for the sale to be highly probable, the Group's management must be engaged in a plan to sell the asset (or disposal group), and an active program to find a buyer is launched and the plan must be completed. In addition, the asset (or disposal group) must be actively promoted for sale at a reasonable price 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

i. Fixed Assets Held for Sale / Discontinued Operations *(continued)*

The Group measures a non-current asset (or disposal group) classified as held for sale at the lower of it 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 30 June 2019 and 31 December 2018, the Group has classified as held for sale repossessed assets.

On 30 June 2018, the Group also classified the operations of the UniCredit Insurance Broker as discontinued operations. The sale took place with 2 entities belonging to the UniCredit SpA Group and was determined by a reorganization of the Group's holdings.

j. Interest

Interest income and expenses 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.

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 relate mainly to transaction and service fees, which are expensed as the services are received.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 chosen to present all fair value changes of trade assets and liabilities, including any income or expense with interest 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 considers non-performance risk (the own credit risk – DVA or the credit risk of the counterparty to transaction – CVA OIS -expected difference from collateralized deals-).The additional value adjustments are adjustments that take 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).

m. Dividends

Dividend income is recognized in the income statement on the date that the dividend is declared. Dividends are treated as an appropriation of profit in the period they are declared and approved by the General Assembly of Shareholders.

n. Leases

For the year 2018, operating lease payments are recognized in the income statement on a straight-line basis over the lease term. Leasing facilities received are recognized as an integral part of the total lease expense over the lease term.

Finance lease contracts where the Group is the 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, are 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.

Starting with 2019, the Group applies IFRS 16 Leases that replaced IAS 17. IFRS 16 introduces a new definition of leases and confirms the current classification of the two types of leasing (financial and operational) in the accounting treatment applied by the lessor.

Regarding the accounting treatment applied by the lessee, the new accounting standard provides for all types of leases the recognition of an asset representing the right of use of the underlying asset, at the same time as recognizing a liability for future payments resulting from the lease contract.

At initial recognition, this asset is measured based on the cash flows associated with the lease. After initial recognition, the right of use will be measured based on the rules on assets regulated by IAS 16, IAS 38 or IAS 40 and hence applying the cost model, less accumulated depreciation and any accumulated impairment losses.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, using the default rate in the lease if it is readily determinable. If this rate cannot be easily determined, the lessee will use its incremental burrowing rate.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

n. Leases *(continued)*

As previously under IAS 17, lessors classify leases as operating or financial. A lease is classified as a finance lease if it substantially transfers all the risks and rewards incidental to the ownership of an underlying asset. Otherwise, a lease is classified as an operating lease. For finance leases, a lessor recognizes financial income over the lease term, based on a pattern that reflects a constant periodic rate of return on net investment. The lessor recognizes operating lease payments as income on a straight-line basis or, if more representative of the pattern in which the profit from the use of the underlying asset is diminished, another systematic basis.

The Group has decided, as permitted by the standard, not to apply the provisions of IFRS 16 for intangible assets, short term lease agreements with a term of less than 1 year and those with a low value of the asset (less than EUR 5,000).

As a result, the Standard applies to contracts for the lease of tangible assets other than short-term assets and/or for which the underlying asset is of low value, such as property/office space, machinery, office equipment and other assets.

In order to calculate the lease liability related to the right to use the asset, the Group updates the future lease payments at an appropriate discount rate. In order to estimate the relevant incremental borrowing rate to be used for discounting purposes, the Group considers the UniCredit Group SpA secured funding curve, adjusted for country risk premium (the Country Funding Adjustment (CFA)). The CFA considers the differential cost of funding linked to the country funding market perception. In order to determine the fixed interest rate, for the relevant tenor, the Group applies the Cross Currency Swap (fixed vs floating) between EURO and that currency for non-EUR denominated cash flows, while for EUR-denominated cash flows, the Group applies the IRS for EURIBOR 3M.

In this respect, the future leasing payments to be updated are determined on the basis of the net VAT provisions as a result of the obligation to pay the tax at the moment the invoice is issued by the lessor and not when the contract is entered into leasing.

In order to make this calculation, lease payments must be discounted using an implicit interest rate of the contract, or, if this is not available, at an incremental borrowing rate. The latter is established based on the cost of financing the liabilities of a similar duration and a guarantee similar to those implied in the lease.

In order to determine the lease term it is necessary to consider the periods that cannot be cancelled in the contract, the period when the lessee has the right to use the asset support, also taking into account the renewal of the options if the tenant is reasonably entitled to renewal.

o. Income tax

The income tax expense for the year comprises current tax and deferred tax. Income tax is recognized in the income statement or in "Other comprehensive income" if the tax relates to "Other comprehensive income". Current income tax and deferred tax are recognized in profit or loss in the income statement except for tax on items that are recognized in the current period directly in equity accounts, such as earnings / losses on available-for-sale assets, changes in the fair value of cash flows for hedging instruments whose net change is recognized net of tax directly in 'Other comprehensive income'.

Current tax is the tax payable on the profit for the period, determined on the basis of the percentages applied at the balance sheet date and all adjustments relating to the previous periods.

Deferred tax is calculated using the balance sheet liability method for those temporary differences that arise between the tax base for the calculation of tax on assets and liabilities and their carrying amount used for reporting in the financial statements. Deferred tax is calculated on the basis of the expected manner of realization or settlement of the carrying amount of assets and liabilities using the tax rates provided by the applicable legislation that is applicable at the reporting date.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

o. Income tax *(continued)*

The deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available to allow for the asset to be offset. The deferred tax asset is reviewed at each reporting date and is diminished to the extent that the related tax benefit is unlikely to occur.

Additional taxes arising from the distribution of dividends are recognized on the same date as the dividend payment obligation.

The corporate tax rate used to calculate the current and deferred tax was 16% at 30 June 2019 (2018: 16%).

p. Offsetting

Financial assets and liabilities are offset and the net amount is 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 include cash, current accounts with central banks, nostro accounts, placements with other banks with an original maturity of less than 90 days and are recorded at amortized cost in the statement of financial position.

Cash and cash equivalents do not have a significant risk of change in fair value and are used by the Group to manage its short-term liabilities.

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 costs

Land and buildings are carried at a revaluated 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 enough 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

r. Property and equipment *(continued)*

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.

(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. 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)*

s. Intangible assets *(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

Amortization 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.

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.

t. 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 yearly income statement.

u. 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.

v. 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.

The liability for financial guarantees is initially recognized at fair value and is amortized over the life of the financial guarantee. The liability for financial collateral is then measured at the highest of the amortized amount and the current value of the payments (when the payment became probable). Financial guarantees are disclosed in note 25 from the interim condensed consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

The Group has entered into transactions with the UniCredit SpA Group and other entities within the UniCredit SpA Group for loans to non-bank clients funded by such entities within the UniCredit SpA Group (see Note 25). In accordance with the risk-sharing arrangements related to such loans, the Group shall indemnify the UniCredit Group SpA and the other entities within the UniCredit Group SpA as set out in Note 3 (c).

These financial guarantees are determined at the date of the financial statements at the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets using the Group's internal methodology for assessing impairment of loans and advances to customers (see Note 22) and are presented in the Provisions category within the interim condensed consolidated financial position.

w. 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

Based on 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)*

w. 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.

x. 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 reporting format for operational segmentation is based on the internal reporting structure of business segments, which reflects management responsibilities in the Group. Segment results that are reported to Group management include items directly attributable to a segment and items that can reasonably be allocated to that segment.

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** - 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 Investment Banking(“CIB”)** - The Group provide services and products through the Global Banking Transactions Division (including payment services, trade finance, liquidity management), Finance Direction (develops and offers financing products - Factoring, Real Estate Investments, European Funds - is also actively involved in initiating, structuring and promotion of specialized financing transactions, syndications and other specialized investment banking transactions, overflow portfolio management and financial analysis for complex and high-risk transactions), Corporate Financial Consulting Corporation (management consulting for merger and acquisition companies, to finance capital markets or other financial advisory services) and the Treasury Department;
  The services are provided to corporate clients, medium-sized companies, large companies, international companies, real estate companies, public sector and financial institutions.
- **Private Banking („PB”) –** It focuses on individual clients and families with significant investments and / or VIP (VIP). The segment offers personalized banking products and services, including Asset Management and Custody solutions;
- **Leasing** - The Group, through UCLC and Debo, provides financial leasing contracts mainly for financing purchases of cars, transport vehicles, equipments and real estate. Rental contracts are mainly concluded in EUR, USD and RON, and are granted for a period of between 1 and 15 years, the transfer of ownership of the leased assets being made at the end of the lease;
- **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)

y. New Standards and Interpretations

During 2019, the following standards, amendments and interpretations became applicable:

- **IFRS 16** "Leases" (effective for annual periods beginning on or after 1 January 2019);
- Amendments to **IFRS 9** "Financial Instruments" - Prepayment characteristics with negative netting (effective for annual periods beginning on or after 1 January 2019);
- Amendments to **IAS 19** Employee Benefits - Change, reduction or settlement of the plan (effective for annual periods beginning on or after 1 January 2019);
- Amendments to **IAS 28** "Investments in Joint Ventures and Joint Ventures" - Long-term Interests in Associations and Joint Ventures (effective for annual periods beginning on or after 1 January 2019);
- Changes to the different standards due to the "Improvements to **IFRSs** (Cycle 2015-2017)" resulting from the **IFRS 3** (**IFRS 11, IAS 12 and IAS 23**) Annual Improvements Project, mainly to eliminate inconsistencies and clarify the wording (in force for periods beginning on 1 January 2019);
- **IFRIC 23** "Uncertainty concerning Income Taxes" (effective for annual periods beginning on or after 1 January 2019).

The Group has decided not to adopt these new standards in advance before the date of entry into force. The Group estimates that the adoption of these new standards and new interpretations will have no material impact on the Group's financial statements at the date of the initial application, except for IFRS 16 "Leases".

Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective

At the date of authorization of these financial statements, there are no new standards, amendments to the existing standards or interpretations which are issued by IASB and adopted by the EU and which are not yet effective.

New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards and amendments to the existing standards, which were not endorsed for use in EU as at publishing date of those financial statements:

- 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;
- IFRS 17 “Insurance Contracts” (effective for annual periods beginning on or after 1 January 2021);
- Amendments to IFRS 3 “Business Combinations” - Definition of a Business (effective for business combinations for which the acquisition date is on or for the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period);
- 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);
- Amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” - Definition of Material (effective for annual periods beginning on or after 1 January 2020);

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

y. New Standards and Interpretations *(continued)*

- Amendments to References to the Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after 1 January 2020).

The Group anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the financial statements of the Group in the period of initial application.

4. RISK MANAGEMENT

There were no significant changes in the Group's financial risk management policies compared to those presented in the annual IFRS consolidated financial statements prepared for the financial year ended 31 December 2018.

Credit risk

Exposure to credit risk

In this chapter, the "Group" includes UniCredit Bank S.A. and UniCredit Consumer Financing IFN SA ("UCFIN") for loans to customers for balance sheet exposures and for off-balance sheet exposures. The net finance receivables belonging to UniCredit Leasing are reported separately due to the fact that the business model and the related credit risk factors are significantly different from those related to the loans granted to the clients.

4. RISK MANAGEMENT *(continued)*

Credit risk *(continued)*

Exposure to credit risk *(continued)*

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

In RON thousands	Stage 1 – ECL 12 months	Stage 2 – ECL until maturity	Stage 3 – ECL lifetime	Of which financial assets POCI	Total
As of 31 December 2018					
Gross exposure	**29,546,595**	**6,292,506**	**2,174,575**	**32,662**	**38,013,676**
On balance *	19,892,477	4,599,202	1,946,760	32,662	26,438,439
Off balance	9,654,118	1,693,304	227,815	-	11,575,237
Allowance for impairment	**(123,755)**	**(142,595)**	**(1,725,805)**	**(3,887)**	**(1,992,155)**
On balance	(115,840)	(117,000)	(1,583,286)	(3,887)	(1,816,126)
Off balance	(7,915)	(25,595)	(142,519)	-	(176,029)
Net carrying value	**29,422,840**	**6,149,911**	**448,770**	**28,775**	**36,021,521**
On balance	19,776,637	4,482,202	363,474	28,775	24,622,313
Off balance**	9,646,203	1,667,709	85,296	-	11,399,208
As of 30 June 2019					
Gross exposure	**31,345,768**	**4,754,178**	**2,040,578**	**29,052**	**38,140,524**
On balance	21,223,582	3,318,315	1,809,071	29,052	26,350,968
Off balance	10,122,186	1,435,863	231,507	-	11,789,556
Allowance for impairment	**(123,764)**	**(80,402)**	**(1,542,882)**	**(3,954)**	**(1,747,048)**
On balance	(113,543)	(63,156)	(1,393,578)	(3,954)	(1,570,277)
Off balance	(10,221)	(17,246)	(149,304)	-	(176,771)
Net carrying value	**31,222,004**	**4,673,776**	**497,696**	**25,098**	**36,393,476**
On balance	21,110,039	3,255,159	415,493	25,098	24,780,691
Off balance**	10,111,965	1,418,617	82,203	-	11,612,785

** Within this chapter, the gross value of loans and provisions includes the effect of interest rate adjustments for impaired loans (IRCs), therefore the gross amount of credits is presented gross of IRC, unlike the financial statements prepared for the financial year ended 31.12.2018, when gross value was reported net of IRC. The related data 31.12.2018 and 30.06.2018 were amended accordingly for comparability with data presented on 30.06.2019.*

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

4. RISK MANAGEMENT *(continued)*

Credit risk *(continued)*

Exposure to credit risk *(continued)*

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

in RON thousands	Stage 1 – ECL 12 months	Stage 2 – ECL until maturity	Stage 3 – ECL lifetime	Of which financial assets POCI	Total
As of 31 December 2018					
Gross exposure	**2,723,957**	**320,974**	**397,111**	**-**	**3,442,042**
On balance	2,618,988	320,974	396,741	-	3,336,703
Off balance	104,969	-	370	-	105,339
Allowance for impairment	**(38,379)**	**(21,497)**	**(274,943)**	**-**	**(334,819)**
On balance	(37,527)	(21,497)	(274,942)	-	(333,966)
Off balance	(852)	-	(1)	-	(853)
Net carrying value	**2,685,578**	**299,477**	**122,168**	**-**	**3,107,222**
On balance	2,581,461	299,477	121,800	-	3,002,737
Off balance	104,117	-	368	-	104,485
As of 30 June 2019					
Gross exposure	**2,921,722**	**359,799**	**379,678**	**-**	**3,661,198**
On balance	2,723,953	359,799	378,908	-	3,462,661
Off balance	197,769	-	769	-	198,538
Allowance for impairment	**(36,562)**	**(19,964)**	**(254,559)**	**-**	**(311,083)**
On balance	(34,699)	(19,964)	(254,451)	-	(309,113)
Off balance	(1,862)	-	(108)	-	(1,970)
Net carrying value	**2,885,161**	**339,835**	**125,120**	**-**	**3,350,115**
On balance	2,689,254	339,835	124,458	-	3,153,547
Off balance	195,907	-	661	-	196,568

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

The credit portfolio is rated for credit risk based on internal rating models. Clients are divided into certain rating classes according to the probability of non-fulfilment of contractual obligations over a one-year period. Rating classes are set according to the Master Scale used by the UniCredit Group SpA. Scale Master provides a standard rating scale for the entire UniCredit SpA Group's credit portfolio and also ensures comparability with rating ratings of external rating agencies based on the probability of non-fulfilment of contractual obligations over a one year period attributable to each class rating (calibration).

The Master Scale contains 10 main rating classes, which are divided into 27 rating degrees. Customers rated in grades 1 to 8 have a probability of failing to comply with their low contractual obligations and fall into the category of unsecured clients. Grade 8, 9, and 10 contain customers depreciable in accordance with the regulated definitions for depreciable customers.

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.

4. RISK MANAGEMENT *(continued)*

Credit risk *(continued)*

Exposure to credit risk *(continued)*

Impaired loans (including leasing receivables)

Loans and receivables are impaired and impairment adjustments are booked when objective impairment evidences exist as a result of:

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

Individually significant impaired loans

Individually significant impaired loans comprises significant loans granted to 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, and assignment of receivables and other. Other collateral includes pledge on stocks, machinery, cash and financial risk insurance.

Other impaired loans

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

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 based on the level of security/collateral available and / or the stage of collection of amounts owed to the Group.

Neither past due nor impaired

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

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 and these are closely monitored by the Group.

Any replacement operation of assets given to a 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 difficulties.

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.

4. RISK MANAGEMENT *(continued)*

Credit risk *(continued)*

Exposure to credit risk *(continued)*

The replacement operations of performing assets, for which objective evidence of impairment was found, leads 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 extent, Group exposure is represented by traditional loans to non-financial corporations and households. These loans can be secured by making a pledge (e.g. a mortgage on a good / property or securities, movable assets or receivables) or guarantees (usually provided by natural or legal persons). Any form of guarantee serves only as an additional guarantee of the guaranteed loan and is thus taken into account when the Group assesses the creditworthiness of the customer / entity requesting the credit facility. For the Group to be protected against fluctuations in the market value of the collateral, its value must generally provide an adequate margin in excess of the present value of the pledged assets and this margin is adjusted accordingly to the intrinsic characteristics of these assets.

At the time of the assessment of the guarantees, a particular emphasis is placed on the enforceability of the guarantee and the appropriateness of the guarantee in relation to the loan requested. In accordance with the foregoing, the Basel III Capital Agreement stipulates that the guarantee obtained must be valid, effective and restrictive for its supplier and must also be enforceable to third parties irrespective of jurisdiction, including insolvency or administration of the debtor and / or the guarantee provider.

Given the importance of this requirement, including the reduction of capital requirements for credit risk, the enforcement procedure as well as the processes related to the governance of this area of activity are particularly stringent in order to ensure that the documentation obtained is complete and in accordance with the procedure at the individual level.

As far as the sufficiency is concerned, the guarantee is considered to be appropriate when it is both qualitatively and quantitatively sufficient in relation to the value and nature of the credit facility granted, provided that there are no significant risk items associated with the guarantee provider.

4. RISK MANAGEMENT *(continued)*

Credit risk *(continued)*

Exposure to credit risk *(continued)*

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.

	30.06.2019				
In RON thousands	**Total out of which:**	**Corporate**	**SME**	**Private Individual**	**Private banking**
Individually significant impaired loans					
Stage 3	1,370,497	1,098,410	127,578	141,737	2,772
Gross amount	**1,370,497**	**1,098,410**	**127,578**	**141,737**	**2,772**
Allowance for impairment	(1,114,352)	(878,766)	(102,687)	(130,508)	(2,391)
Net carrying amount	**256,145**	**219,644**	**24,891**	**11,229**	**381**
Fair value of collateral	**1,601,058**	**1,213,634**	**221,827**	**163,213**	**2,384**
Property	271,346	205,572	39,754	26,020	-
Goods	21,359	2,701	18,653	5	-
Assignment of receivables	18,082	17,313	769	-	-
Other collateral	1,290,271	988,048	162,651	137,188	2,384
Other impaired loans					
Stage 3	438,582	56,308	108,978	273,237	59
Gross amount	**438,582**	**56,308**	**108,978**	**273,237**	**59**
Allowance for impairment	(279,226)	(37,142)	(81,584)	(160,499)	(1)
Carrying amount	**159,356**	**19,166**	**27,394**	**112,738**	**58**
Fair value of collateral	**314,435**	**32,839**	**100,845**	**180,750**	**1**
Property	127,652	7,435	20,905	99,312	-
Goods	4,332	-	4,263	69	-
Assignment of receivables	500	500	-	-	-
Other collateral	181,951	24,904	75,677	81,369	1
Past due but not impaired					
Stage 1	1,081,541	572,901	222,386	286,254	-
Stage 2	634,898	99,484	142,925	391,556	933
Gross amount	**1,716,439**	**672,385**	**365,311**	**677,810**	**933**
Allowance for impairment	(56,973)	(1,455)	(6,226)	(49,268)	(24)
Carrying amount	**1,659,466**	**670,930**	**359,085**	**628,542**	**909**
Neither past due nor impaired					
Stage 1	20,142,032	11,279,319	2,581,612	6,216,909	64,192
Stage 2	2,683,418	1,311,330	229,182	1,109,860	33,046
Gross amount	**22,825,450**	**12,590,649**	**2,810,794**	**7,326,769**	**97,238**
Allowance for impairment	(119,727)	(27,318)	(21,308)	(70,420)	(681)
Net carrying Amount	**22,705,731**	**12,563,331**	**2,789,486**	**7,256,349**	**96,557**
Total carrying amount	**24,780,691**	**13,473,072**	**3,200,856**	**8,008,858**	**97,905**
Total carrying amount	**24,780,691**	**13,473,072**	**3,200,856**	**8,008,858**	**97,905**

4. RISK MANAGEMENT *(continued)*

Credit risk *(continued)*

Exposure to credit risk *(continued)*

	31.12.2018				
In RON thousands	Total out of which:	Corporate	SME	Private Individuals	Private banking
Individually significant impaired loans					
Stage 3	1,518,253	1,152,195	210,118	153,265	2,675
Gross amount	**1,518,253**	**1,152,195**	**210,118**	**153,265**	**2,675**
Allowance for impairment	(1,300,664)	(986,509)	(174,583)	(137,188)	(2,384)
Net carrying amount	**217,589**	**165,686**	**35,535**	**16,077**	**291**
Fair value of collateral	**352,667**	**273,187**	**53,460**	**26,020**	**-**
Property	271,346	205,572	39,754	26,020	-
Goods	50,544	38,713	11,831	-	-
Assignment of receivables	17,313	17,313	-	-	-
Other collateral	13,464	11,589	1,875	-	-
Other impaired loans					
Stage 3	428,507	32,748	106,891	288,867	1
Gross amount	**428,507**	**32,748**	**106,891**	**288,867**	**1**
Allowance for impairment	(282,622)	(24,492)	(77,290)	(180,839)	(1)
Carrying amount	**145,885**	**8,256**	**29,601**	**108,028**	**-**
Fair value of collateral	**138,921**	**9,925**	**28,267**	**100,729**	**-**
Property	127,652	7,435	20,905	99,312	-
Goods	6,140	864	5,274	2	-
Assignment of receivables	500	500	-	-	-
Other collateral	4,629	1,126	2,088	1,415	-
Past due but not impaired					
Stage 1	629,461	192,070	203,348	232,294	1,749
Stage 2	537,282	78,539	114,590	344,070	83
Gross amount	**1,166,743**	**270,609**	**317,938**	**576,364**	**1,832**
Allowance for impairment	(46,129)	(712)	(4,463)	(40,953)	(1)
Carrying amount	**1,120,614**	**269,897**	**313,475**	**535,411**	**1,831**
Neither past due nor impaired					
Stage 1	19,263,016	10,545,844	2,466,545	6,184,751	65,896
Stage 2	4,061,920	2,665,621	174,359	1,189,490	32,450
Gross amount	**23,324,936**	**13,211,465**	**2,640,904**	**7,374,241**	**98,346**
Allowance for impairment	(186,712)	(89,309)	(18,598)	(77,621)	(1,184)
Net carrying Amount	**23,138,224**	**13,122,156**	**2,622,306**	**7,296,620**	**97,162**
Total carrying amount	**24,622,313**	**13,565,996**	**3,000,917**	**7,956,136**	**99,284**

4. RISK MANAGEMENT *(continued)*

Credit risk *(continued)*

Exposure to credit risk *(continued)*

In RON thousands	30.06.2019 Total out of which:	Corporate	SME	Private Individual	Private banking
Off balance – Loan commitments					
Stage 1	7,329,515	6,039,348	990,915	296,741	2,511
Stage 2	765,519	616,903	62,702	81,680	4,234
Stage 3	91,919	87,648	3,849	376	47
Gross carrying amount	**8,186,953**	**6,743,899**	**1,057,466**	**378,797**	**6,792**
Allowance for impairment	(65,906)	(61,152)	(2,621)	(2,132)	(1)
Carrying amount	**8,121,047**	**6,682,747**	**1,054,845**	**376,665**	**6,791**
Off balance - Letters of credit					
Stage 1	156,698	148,005	8,693	-	-
Stage 2	23,792	23,792	-	-	-
Stage 3	1,887	1,887	-	-	-
Gross carrying amount	**182,377**	**173,684**	**8,693**	**-**	**-**
Allowance for impairment	(2,323)	(2,309)	(14)	-	-
Net carrying Amount	**180,054**	**171,375**	**8,679**	**-**	**-**
Off balance - Guarantees issued					
Stage 1	2,635,973	2,566,321	67,868	1,160	624
Stage 2	646,552	617,829	17,742	2,631	8,350
Stage 3	137,700	135,378	2,144	178	-
Gross carrying amount	**3,420,225**	**3,319,528**	**87,754**	**3,969**	**8,974**
Allowance for impairment	(108,541)	(107,328)	(1,118)	(85)	(11)
Carrying amount	**3,311,684**	**3,212,200**	**86,636**	**3,884**	**8,963**
Total carrying amount	**11,612,785**	**10,066,322**	**1,150,160**	**380,549**	**15,754**

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

4. RISK MANAGEMENT *(continued)*

Credit risk *(continued)*

Exposure to credit risk *(continued)*

In RON thousands	31.12.2018 Total out of which:	Corporate	SME	Private Individual	Private banking
Off balance – Loan commitments					
Stage 1	7,221,430	6,113,863	833,783	272,230	1,554
Stage 2	977,956	808,587	74,697	90,665	4,007
Stage 3	80,287	79,169	751	229	138
Gross carrying amount	**8,279,673**	**7,001,619**	**909,231**	**363,124**	**5,699**
Allowance for impairment	(59,151)	(57,157)	(1,875)	(118)	(1)
Carrying amount	**8,220,522**	**6,944,462**	**907,356**	**363,006**	**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	2,352,821	2,285,056	65,626	1,075	1,064
Stage 2	666,271	637,991	14,545	2,646	11,089
Stage 3	144,044	142,019	1,830	195	-
Gross carrying amount	**3,163,136**	**3,065,066**	**82,001**	**3,916**	**12,153**
Allowance for impairment	(114,362)	(113,302)	(964)	(83)	(13)
Carrying amount	**3,048,774**	**2,951,764**	**81,037**	**3,833**	**12,140**
Total carrying amount	**11,399,208**	**10,017,189**	**997,342**	**366,839**	**17,838**

4. RISK MANAGEMENT *(continued)*

Credit risk *(continued)*

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.

	30.06.2019				
In RON thousands	**Total out of which:**	**Corporate**	**SME**	**Private Individual**	**Private banking**
Individually significant impaired loans					
Stage 3	337,638	42,458	294,285	895	
Gross amount	**337,638**	**42,458**	**294,285**	**895**	**-**
Allowance for impairment	(231,132)	(25,393)	(204,844)	(895)	
Net carrying amount	**106,506**	**17,065**	**89,441**	**-**	**-**
Fair value of collateral	**37,830**	**2,801**	**35,024**	**5**	**-**
Property	1,716	-	1,716	-	
Vehicles and equipment	21,539	2,701	18,653	5	-
Assignment of receivables	-	-	-	-	-
Other collateral	14,755	100	114,655	-	-
Other impaired loans					
Stage 3	41,271	4	40,247	1,021	-
Gross amount	**41,271**	**4**	**40,247**	**1,021**	**-**
Allowance for impairment	(23,280)	(4)	(22,735)	(642)	-
Carrying amount	**17,891**	**-**	**17,512**	**379**	**-**
Fair value of collateral	**4,332**	**-**	**4,263**	**69**	**-**
Property	-	-	-	-	-
Vehicles and equipment	4,332	-	4,263	69	-
Other collateral	-	-	-	-	-
Past due but not impaired					
Stage 1	111,762	1,500	109,565	696	-
Stage 2	248,158	5,555	241,687	916	-
Gross amount	**359,920**	**7,055**	**351,252**	**1,612**	**-**
Allowance for impairment	(13,918)	(164)	(13,718)	(35)	-
Carrying amount	**346,002**	**6,891**	**337,534**	**1,577**	**-**
Neither past due nor impaired					
Stage 1	2,612,192	169,438	2,400,076	42,678	-
Stage 2	111,641	8,243	102,890	508	-
Gross amount	**2,723,833**	**177,681**	**2,502,966**	**43,186**	**-**
Allowance for impairment	(40,683)	(2,998)	(36,973)	(837)	-
Net carrying Amount	**2,683,150**	**174,809**	**2,465,993**	**42,349**	**-**
Total carrying amount	**3,153,547**	**198,765**	**2,910,480**	**44,305**	**-**

4. RISK MANAGEMENT *(continued)*

Credit risk *(continued)*

Exposure to credit risk *(continued)*

In RON thousands	31.12.2018 Total out of which:	Corporate	SME	Private Individual	Private banking
Individually significant impaired loans					
Stage 3	342,704	12,528	329,209	967	-
Gross amount	**342,704**	**12,528**	**329,209**	**967**	**-**
Allowance for impairment	(243,257)	(7,988)	(234,301)	(967)	
Net carrying amount	**99,447**	**4,540**	**94,908**	**-**	**-**
Fair value of collateral	**188,508**	**4,286**	**184,158**	**64**	**-**
Property	14,442	-	14,442	-	
Vehicles and equipment	95,396	3,821	91,511	64	-
Assignment of receivables	-	-	-	-	-
Other collateral	78,670	465	78,205	-	-
Other impaired loans					
Stage 3	54,037	-	52,941	1,096	-
Gross amount	**54,037**	**-**	**52,941**	**1,096**	**-**
Allowance for impairment	(31,738)	-	(31,054)	(685)	-
Carrying amount	**22,299**	**-**	**21,887**	**411**	**-**
Fair value of collateral	**25,922**	**-**	**25,497**	**425**	**-**
Property	-	-	-	-	-
Vehicles and equipment	25,459	-	25,034	425	-
Other collateral	463	-	463	-	-
Past due but not impaired					
Stage 1	129,809	3,481	125,214	1,114	-
Stage 2	193,307	3,170	189,999	139	-
Gross amount	**323,116**	**6,651**	**315,213**	**1,253**	**-**
Allowance for impairment	(7,438)	(160)	(7,244)	(34)	-
Carrying amount	**315,678**	**6,491**	**307,969**	**1,219**	**-**
Neither past due nor impaired					
Stage 1	2,489,227	219,146	2,235,352	34,728	-
Stage 2	127,666	-	127,666	-	-
Gross amount	**2,616,893**	**219,146**	**2,363,019**	**34,728**	**-**
Allowance for impairment	(51,580)	(4,874)	(45,569)	(1,137)	-
Net carrying Amount	**2,565,313**	**214,272**	**2,317,449**	**33,591**	**-**
Total carrying amount	**3,002,737**	**225,303**	**2,742,313**	**35,221**	**-**

4. RISK MANAGEMENT *(continued)*

Credit risk *(continued)*

Exposure to credit risk *(continued)*

In RON thousands	30.06.2019 Total out of which:	Corporate	SME	Private Individual
Off balance - Loan commitments				
Stage 1	197,769	27,226	169,034	1,508
Stage 2	-	-	-	-
Stage 3	769	110	660	-
Gross carrying amount	**198,538**	**27,336**	**169,694**	**1,508**
Allowance for impairment	(1,970)	(311)	(1,652)	(8)
Net Carrying amount*	**196,568**	**27,025**	**168,042**	**1,500**

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

In RON thousands	31.12.2018 Total out of which:	Corporate	SME	Private Individual
Off balance - Loan commitments				
Stage 1	104,968	19,821	84,919	228
Stage 2	-	-	-	-
Stage 3	370	-	370	-
Gross carrying amount	**105,338**	**19,821**	**85,289**	**228**
Loss allowance	(853)	(198)	(654)	(1)
Net Carrying amount*	**104,485**	**19,623**	**84,635**	**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.

In RON thousands Loans and advances to customers at amortised cost (on balance)	30.06.2019 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)	3,508,119	76,296	-	-	3,584,415
Grades 4-6: performing (medium risk)	16,774,851	2,136,781	-	23,388	18,911,632
Grades 7-8 : performing (in observation & substandard)	935,649	1,077,317	-	-	2,012,967
Grade 8 : impaired	-	-	1,337,294	5,664	1,337,294
Grade 9: impaired	-	-	229,300	-	229,300
Grade 10: impaired	-	-	242,477	-	242,477
Unrated	4,963	27,921	-	-	32,884
Total gross carrying amount	**21,223,582**	**3,318,316**	**1,809,071**	**29,052**	**26,350,969**
Loss allowance	(113,544)	(63,156)	(1,393,578)	(3,954)	(1,570,277)
Net carrying amount	**21,110,038**	**3,255,160**	**415,493**	**25,098**	**24,780,691**

4. RISK MANAGEMENT *(continued)*

Credit risk *(continued)*

Exposure to credit risk *(continued)*

In RON thousands		31.12.2018			
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)	3,530,434	78,713	-	-	3,609,147
Grades 4-6: performing (medium risk)	15,036,779	3,282,479	-	26,006	18,319,258
Grades 7-8 : performing (in observation & substandard)	1,323,092	1,210,272	-	-	2,533,364
Grade 8 : impaired	-	-	1,294,140	6,656	1,294,140
Grade 9: impaired	-	-	237,097	-	237,097
Grade 10: impaired	-	-	415,523	-	415,523
Unrated	2,172	27,738	-	-	29,910
Total gross carrying amount	**19,892,477**	**4,599,202**	**1,946,760**	**32,662**	**26,438,439**
Loss allowance	(115,840)	(117,000)	(1,583,286)	(3,887)	(1,816,126)
Net carrying amount	**19,776,637**	**4,482,202**	**363,474**	**28,775**	**24,622,313**

In RON thousands		30.06.2019			
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)	3,286,678	426,142	-	-	3,712,820
Grades 4-6: performing (medium risk)	6,558,979	551,319	-	-	7,110,298
Grades 7-8 : performing (in observation & substandard)	266,410	444,075	-	-	710,485
Grade 8 : impaired	-	-	169,238	-	169,238
Grade 9: impaired	-	-	62,037	-	62,037
Grade 10: impaired	-	-	232	-	232
Unrated	10,119	14,327	-	-	24,446
Total gross carrying amount	**10,122,186**	**1,435,863**	**231,507**	**-**	**11,789,556**
Loss allowance	(10,221)	(17,246)	(149,304)		(176,771)
Net carrying amount	**10,111,965**	**1,418,617**	**82,203**	**-**	**11,612,785**

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

4. RISK MANAGEMENT *(continued)*

Credit risk *(continued)*

Exposure to credit risk *(continued)*

In RON thousands	31.12.2018				
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)	2,852,570	285,738	-	-	3,138,308
Grades 4-6: performing (medium risk)	6,504,657	806,093	-	-	7,310,750
Grades 7-8 : performing (in observation & substandard)	286,859	585,235	-	-	872.094
Grade 8 : impaired	-	-	164,191	-	164,191
Grade 9: impaired	-	-	62,921	-	62,921
Grade 10: impaired	-	-	703	-	703
Unrated	10,032	16,238	-	-	26,270
Total gross carrying amount	**9,654,118**	**1,693,304**	**227,815**	**-**	**11,575,237**
Loss allowance	(7,915)	(25,595)	(142,519)	-	(176,029)
Net carrying amount	**9,646,203**	**1,667,709**	**85,296**	**-**	**11,399,208**

In RON thousands	30.06.2019				
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)	13,625	3,266	-	-	16,892
Grades 4-6: performing (medium risk)	2,095,034	245,280	-	-	2,340,314
Grades 7-8 : performing (in observation & substandard)	615,294	111,253	-	-	726,547
Grade 8 : impaired	-	-	12,814	-	12,814
Grade 9: impaired	-	-	210,164	-	210,164
Grade 10: impaired	-	-	155,930	-	155,930
Unrated	-	-	-	-	-
Total gross carrying amount	**2,723,953**	**359,799**	**378,908**	**-**	**3,462,661**
Loss allowance	(34,699)	(19,964)	(254,450)		(309,114)
Net carrying amount	**2,689,254**	**339,835**	**124,458**	**-**	**3,153,547**

4. RISK MANAGEMENT *(continued)*

Credit risk *(continued)*

Exposure to credit risk *(continued)*

In RON thousands			31.12.2018		
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)	43,189	369	-	-	43,558
Grades 4-6: performing (medium risk)	1,793,988	239,150	-	-	2,033,138
Grades 7-8 : performing (in observation & substandard)	781,859	81,455	-	-	863,314
Grade 8 : impaired	-	-	22,696	-	22,696
Grade 9: impaired	-	-	172,676	-	172,676
Grade 10: impaired	-	-	201,370	-	201,370
Unrated	-	-	-	-	-
Total gross carrying amount	**2,619,036**	**320,974**	**396,741**	**-**	**3,336,751**
Loss allowance	(37,527)	(21,497)	(274,989)	-	(334,014)
Net carrying amount	**2,581,509**	**299,477**	**121,752**	**-**	**3,002,737**

In RON thousands			30.06.2019		
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)	8,632	-	-	-	8,632
Grades 4-6: performing (medium risk)	139,797	-	-	-	139,797
Grades 7-8 : performing (in observation & substandard)	49,339	-	-	-	49,339
Grade 8 : impaired	-	-	245	-	245
Grade 9: impaired	-	-	110	-	110
Grade 10: impaired	-	-	414	-	414
Unrated	-	-	-	-	-
Total gross carrying amount	**197,768**	**-**	**769**	**-**	**198,537**
Loss allowance	(1,863)	-	(106)	-	(1,969)
Net carrying amount	**195,905**	**-**	**663**	**-**	**196,568**

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

4. RISK MANAGEMENT *(continued)*

Credit risk *(continued)*

Exposure to credit risk *(continued)*

In RON thousands	31.12.2018				
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 (medium risk)	89,431	-	-	-	89,431
Grades 7-8 : performing (in observation & substandard)	15,528	-	-	-	15,528
Grade 8 : impaired	-	-	370	-	370
Grade 9: impaired	-	-	-	-	-
Grade 10: impaired	-	-	-	-	-
Unrated	-	-	-	-	-
Total gross carrying amount	**104,969**	**-**	**370**	**-**	**105,339**
Loss allowance	(852)	-	(1)	-	(853)
Net carrying amount	**104,117**	**-**	**369**	**-**	**104,485**

4. RISK MANAGEMENT *(continued)*

Credit risk *(continued)*

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.

In RON thousands			**30.06.2019**		
Placements with banks	**Stage 1 12-month ECL**	**Stage 2 - Lifetime ECL**	**Stage 3 - Lifetime ECL**	**OF WHICH: POCI FINANCIAL ASSETS**	**Total**
Grades 1-8 : performing	364,290	-	-	-	364,290
Grade 8 : impaired	-	-	-	-	-
Grade 9: impaired	-	-	-	-	-
Grade 10: impaired	-	-	-	-	-
Unrated	-	-	-	-	-
Total gross carrying amount	**364,290**	**-**	**-**	**-**	**364,290**
Loss allowance	(218)	-	-	-	(218)
Net carrying amount - on balance	**364,072**	**-**	**-**	**-**	**364,072**
Gross carrying amount - off balance	**1.410.312**	**35.521**	**-**	**-**	**1,445,833**
Loss allowance - off balance	**(240)**	**-**	**-**	**-**	**(240)**

In RON thousands			**31.12.2018**		
Placements with banks	**Stage 1 12-month ECL**	**Stage 2 - Lifetime ECL**	**Stage 3 - Lifetime ECL**	**OF WHICH: POCI FINANCIAL ASSETS**	**Total**
Grades 1-8 : performing	1,894,608	3,123	-	-	1,897,731
Grade 8 : impaired	-	-	-	-	-
Grade 9: impaired	-	-	-	-	-
Grade 10: impaired	-	-	-	-	-
Unrated	-	-	-	-	-
Total gross carrying amount	**1,894,608**	**3,123**	**-**	**-**	**1,897,731**
Loss allowance	(112)	(16)	-	-	(128)
Net carrying amount - on balance	**1,894,496**	**3,107**	**-**	**-**	**1,897,603**
Gross carrying amount - off balance	**1,587,025**	**41,718**	**-**	**-**	**1,628,743**
Loss allowance - off balance	**(175)**	**(6)**	**-**	**-**	**(181)**

4. RISK MANAGEMENT *(continued)*

Credit risk *(continued)*

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.

In RON thousands	**30.06.2019**					
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**	**31.12.2018 Total Stage1 12-month ECL**
Grades 1-8 : performing	7,193,453	-	-	-	7,193,453	7,330,621
Grade 8 : impaired	-	-	-	-	-	-
Grade 9: impaired	-	-	-	-	-	-
Grade 10: impaired	-	-	-	-	-	-
Unrated	-	-	-	-	-	-
Total gross carrying amount	**7,193,453**	**-**	**-**	**-**	**7,193,453**	**7,330,621**
Loss allowance	-	-	-	-	-	-
Net carrying amount	**7,193,453**	**-**	**-**	**-**	**7,193,453**	**7,330,621**

4. RISK MANAGEMENT *(continued)*

Credit risk *(continued)*

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 presented below:

Loans to customers at amortized cost – On balance		30.06.2019	31.12.2018
Private entities (including individuals)		8,520,475	8,430,309
SME	G Commerce - wholesale and retail	1,370,839	1,287,337
	C Manufacturing	548,561	542,167
	A Agriculture - forestry - fisheries	405,255	359,040
	F Construction and civil engineering	179,274	185,190
	H Transport and storage services	556,790	533,734
	Other services	351,945	368,382
Total SME		**3,412,664**	**3,275,851**
Corporate	C Manufacturing	4,821,884	4,852,330
	G Commerce - wholesale and retail	3,465,801	3,528,156
	L Real estate	1,722,660	1,786,026
	A Agriculture - forestry - fisheries	990,353	1,116,060
	H Transport and storage services	606,095	629,741
	Other services	2,811,036	2,819,967
Total Corporate		**14,417,829**	**14,732,279**
Total		**26,350,968**	**26,438,439**
Allowance for impairment		(1,570,277)	(1,816,126)
Net carrying amount		**24,780,961**	**24,622,313**

4. RISK MANAGEMENT *(continued)*

Credit risk *(continued)*

Exposure to credit risk *(continued)*

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

Loans to customers at amortised cost - OFF balance		30.06.2019	31.12.2018
Private entities (including individuals)		398,531	384,893
Loan commitments			
SME	F Construction and civil engineering	628,989	61,166
	G Commerce - wholesale and retail	380,683	436,791
	Q Medical and social activities	12,167	16,992
	M Professional, scientific and technical activities	4,981	22,798
	J Information and communication	4,864	18,566
	Other services	25,799	352,916
Total SME		**1,057,483**	**909,230**
Corporate	F Construction and civil engineering	6,334,122	492,215
	G Commerce - wholesale and retail	146,094	1,766,127
	K Financial and insurance institutions	77,317	677,082
	L Real estate	67,483	131,412
	H Transport and storage services	51,107	237,138
	Other services	67,758	3,697,817
Total Corporate		**6,743,881**	**7,001,791**
Total loan commitments credit		**7,801,364**	**7,911,022**
Letters of credit			
SME	C Manufacturing	8,015	8,461
	F Construction and civil engineering	678	-
	Other services	-	302
Total SME		**8,693**	**8,763**
Corporate	F Construction and civil engineering	112,340	1,969
	C Manufacturing	60,336	43,805
	A Agriculture - forestry - fisheries	1,009	1,983
	Other services	-	75,705
Total Corporate		**173,685**	**123,462**
Total letters of credit		**182,378**	**132,225**
Financial guarantees			
SME	F Construction and civil engineering	75,466	8,388
	C Manufacturing	9,419	7,151
	A Agriculture - forestry - fisheries	1,559	1,702
	D Production and supply of electricity, gas,	1,296	403
	E Water supply	6	37
	Other services	9	64,213
Total SME		**87,755**	**81,895**
Corporate	F Construction and civil engineering	2,214,943	914,441
	D Production and supply of electricity, gas,	786,992	649,012
	C Manufacturing	229,003	591,396
	B Extractive industry (mining and quarrying)	37,409	245,856
	E Water supply	26,807	169,381
	Other services	24,374	495,116
Total Corporate		**3,319,528**	**3,065,202**
Total financial guarantees		**3,407,283**	**3,147,097**
Total off balance sheet exposures for loans to customers		**11,789,556**	**11,575,237**
Loss allowance		(176,771)	(176,029)
Net carrying amount		**11,612,785**	**11,399,208**

4. RISK MANAGEMENT *(continued)*

Credit risk *(continued)*

Exposure to credit risk *(continued)*

- **Concentration of credit risk related to lease receivables**

Lease receivables - ON balance		30.06.2019	31.12.2018
Private entities (including individuals)		46,712	43,148
SME	G Commerce - wholesale and retail	588,059	576,745
	H Transport and storage services	543,598	541,671
	C Manufacturing	479,558	459,436
	F Construction and civil engineering	365,416	323,316
	A Agriculture - forestry - fisheries	223,651	208,943
	Other services	988,471	945,119
Total SME		**3,188,752**	**3,055,231**
Corporate	C Manufacturing	117,872	130,061
	G Commerce - wholesale and retail	66,831	64,514
	H Transport and storage services	23,619	21,665
	Q Medical and social activities	5,865	-
	J Information and communication	4,202	7,390
	Other services	8,808	14,696
Total Corporate		**227,197**	**233,325**
Total		**3,462,661**	**3,336,703**
Allowance for impairment		(309,113)	(333,966)
Net carrying amount		**3,153,548**	**3,002,737**

Lease receivables - OFF balance		30.06.2019	31.12.2018
Private entities (including individuals)		1,508	228
Loan commitments			
SME	H Transport and storage services	56,980	11,565
	C Manufacturing	36,818	28,777
	A Agriculture - forestry - fisheries	13,823	2,992
	G Commerce - wholesale and retail	12,767	12,193
	F Construction and civil engineering	12,542	7,558
	Other services	36,765	22,204
Total SME		**169,694**	**85,289**
Corporate	C Manufacturing	14,865	7,421
	A Agriculture - forestry - fisheries	6,187	-
	G Commerce - wholesale and retail	5,688	10,662
	J Information and communication	580	857
	I Hotels and public commercial concern	17	-
	Other services	-	882
Total Corporate		**27,336**	**19,822**
Total		**198,538**	**105,339**
Allowance for impairment		(1,970)	(853)
Net carrying amount		**196,568**	**104,485**

5. USE OF ESTIMATES AND JUDGEMENTS

The preparation of condensed consolidated interim financial statements requires management to use judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses.

With the exception of the elements introduced by the implementation of IFRS 16 and presented in the "Accounting Policies" section 3.n, the condensed consolidated interim financial statements prepared by management in applying the Group's accounting policies and the main sources of estimation of uncertainties were the same as those have been applied for the consolidated financial statements for the year ended 31 December 2018.

Determining fair values

The fair value of financial instruments that are not traded on an active market (e.g. unlisted government securities and deposit certificates) is determined using valuation techniques. The Group uses its judgment in selecting valuation methods and in issuing assumptions that mainly base market conditions on each reporting date.

The Group determines the fair value using the following hierarchy that reflects the importance of the input data used in the measurement (see note 26 "Financial Instruments - Hierarchy of Fair Value"):

- **Tier 1**: Quoted market price (unadjusted) in active markets for an identical instrument to which the Bank has access to the measurement date; A quoted price on an active market provides the most credible evidence for fair value and is applied without further adjustments in determining fair value whenever available.

- **Tier 2**: Assessment techniques based on observable data, either directly (e.g. prices) or indirect (eg, price derived items). This category includes valued instruments using: market prices listed on active markets for similar instruments; quoted prices for identical or similar instruments on markets that are considered less active; or other valuation techniques where all significant inputs are directly or indirectly observable on the market;

- **Tier 3**: Assessment techniques that use significant data inputs that can not be seen in the market. This category includes all the tools for which the rating technique includes data that is not based on observable information, and these entries have a significant effect on the instrument evaluation. This category is for instruments that are valued based on unobservable assumption.

6. NET INTEREST INCOME

In RON thousands	30.06.2019	30.06.2018
Interest income		
Interest and similar income arising from:		
Loans and advances to customers*	663,156	560,146
Net Lease receivables	88,641	84,255
Treasury bills and bonds	120,984	82,245
Current accounts and placements with banks	40,060	49,785
Negative interest from financial liabilities	170	-
Total interest income	**913,011**	**776,431**
Interest expense		
Interest expense and similar charges arising from:		
Deposits from customers	129,012	92,353
Loans from banks and other financial institutions	93,105	61,014
Deposits from banks	34,217	20,188
Repurchase agreements	124	3,359
Interest related to the bonds issued	12,461	25,113
Negative interest in financial assets	9,889	-
Debts from leasing operations (note 28)	1,161	-
Total interest expense	**279,969**	**202,027**
Net interest income	**633,042**	**574,404**

*) Interest income in amount of RON thousands 40,315 (30 June 2018: RON thousands 25,215) includes interest income on impaired loans. Interest expenses and income for assets and liabilities, other than those carried at fair value through profit or loss are calculated using the effective interest rate method.

7. FEES AND COMMISSIONS INCOME

In RON thousands	30.06.2019	30.06.2018
Fees and commissions income		
Payments transactions	136,859	120,794
Risk participation fee (refer to Note 25)	171	100
Guarantees and letters of credit	14,196	13,765
Loan administration fee	4,573	5,661
Other	57,082	46,593
Total fees and commission income	**212,881**	**186,913**
Fees and commission expense		
Inter-banking fees	28,322	21,389
Payments transactions fees	25,250	20,617
Commitments and similar fees	236	258
Intermediary agents fees	2,446	2,477
Other	5,694	3,447
Total fees and commissions expense	**61,948**	**48,188**
Net fees and commissions income	**150,933**	**138,725**

8. NET INCOME FROM TRANSACTION AND FROM INSTRUMENTS HELD ON THE VALUE UNDER THE PROFIT OR LOSS ACCOUNT

In RON thousands	30.06.2019	30.06.2018
Net gains from foreign exchange operations (including FX derivatives)	164,806	116,916
Net gains / (losses) from interest derivatives	(8,891)	540
Net income / (losses) from trading bonds	11,663	(1,987)
Net gains / (losses) from other derivatives	7,574	119
Net income from trading for financial instruments held at fair value through profit or loss	**175,152**	**115,588**
Net gains from non-transactional financial instruments held at fair value through profit or loss	**8,636**	**5,755**
Net income from financial instruments held at fair value through profit or loss	**183,788**	**121,343**

9. PERSONNEL EXPENSE

In RON thousands	30.06.2019	30.06.2018
Wages and salaries	200,224	188,562
Social security charges, unemployment fund and health fund	5,952	5,242
Other (income)/ expenses	(109)	(1,087)
Total	**206,067**	**192,717**

The number of employees of the Group at 30 June 2019 was 3,282 (31 December 2018: 3,312).

10. OTHER ADMINISTRATIVE COSTS

In RON thousands	30.06.2019	30.06.2018
Administrative expenses	24,868	57,632
IT services	51,270	43,463
Other taxes and duties	53,561	32,986
Postal and telecommunication	12,862	11,174
Advertising and promotional expenses	9,535	13,863
Consultancy, legal and other professional services	5,168	4,700
Materials and consumables	5,777	6,337
Personnel training and recruiting	2,334	2,064
Insurance expenses	1,596	1,498
Other	7,453	2,489
Total	**174,424**	**176,206**

11. NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS

In RON thousands	30.06.2019	30.06.2018
Net provision charges for loans and advances to customers	167,409	105,225
Net provision charges for loans and advances to banks	3,246	(1,087)
Net provision charges for debt securities	2,241	4,197
Loans written-off	1,035	1,735
Net provision charges for lease receivables	10,431	14,046
Recoveries from loans previously written-off	(23,968)	(12,491)
Net provisions charges for other financial instruments	2,354	2,671
Net impairment losses on financial assets	**162,748**	**114,296**

12. INCOME TAX

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

In RON thousands	30.06.2019	30.06.2018
Profit before tax - continuous activities	**425,653**	**316,757**
Direct taxes at 16% (2018: 16%) of taxable profits determined in accordance with Romanian law	(71,167)	(73,804)
Deferred tax income / (loss)	(2,306)	10,478
Income tax	**(73,473)**	**(63,326)**
Profit / (Loss) before tax - continuous activities	**425,653**	**316,757**
Taxation at statutory rate of 16%	**(68,104)**	**(50,681)**
Non-deductible expenses	(12,624)	(20,110)
Non-taxable revenues	6,652	1,471
Origination and reversal of temporary differences	(3,366)	2,781
Fiscal credit	3,948	3,213
Income tax in the income statement	**(73,473)**	**(63,326)**

The reconciliation of profit before tax for the Interim condensed consolidated statement of cash flows as of 30.06.2018 is presented below:

In RON thousands	Nota	30.06.2018
Profit before tax - continuous activities		316,758
Profit before tax - discontinued activities*	27	15,080
Provision for discontinued activity	27	(4,098)
Total		**327,739**

**At 30 June 2018 UniCredit Insurance Broker was included in discontinued activities (see note 27 "Discontinued Activities").*

13. CASH AND CASH EQUIVALENTS

In RON thousands	30.06.2019	31.12.2018
Balances with National Bank of Romania	2,315,376	1,457,688
Cash (including cash in ATMs)	1,279,685	1,515,541
Short term Money Market placements	5,799,454	7,256,905
Current balances with other banks	49,180	52,122
Total	**9,443,695**	**10,282,256**

The cash maintained at the National Bank of Romania ensures compliance with minimum reserve requirements. On 30 June 2019, the minimum required reserve ratio was 8% (31 December 2018: 8%) for funds attracted from clients in lei and 8% (31 December 2018: 8%) for funds attracted in foreign currency, both with residual maturity less than 2 years from the end of the reporting period and for liabilities with residual maturity greater than 2 years with the repayment, transfer and early withdrawal clauses, and 0% for the other liabilities included in the basis of calculation.

14. ASSETS/LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

(i) Financial assets at fair value through profit or loss

In RON thousands	30.06.2019	31.12.2018
Derivatives	104,328	67,061
Investment securities held for trading	139,591	202,661
Capital instruments	36,105	27,064
Total	**280,024**	**296,786**

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

(ii) Derivative assets/ liabilities

Financial assets and liabilities at fair value through profit or loss at 30 June 2019 are summarized as follows:

30.06.2019			
		Present value	
In RON thousands	**Notional amount**	**Assets**	**Liabilities**
Foreign currency derivatives			
Forward contracts	7,348,847	48,474	28,886
Purchased options	739,457	1,669	33
Sold options	739,457	-	1,669
Total foreign currency derivatives	**8,827,761**	**50,143**	**30,588**
Interest rates derivatives			
Interest Rate Swaps	4,643,436	37,336	44,012
Purchased options	605,624	16,849	-
Sold options	605,624	-	18,373
Total interest rate derivatives	**5,854,684**	**54,185**	**62,385**
Total	**14,682,445**	**104,328**	**92,973**

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

(ii) Derivative assets/ liabilities (continued)

Financial assets and liabilities at fair value through profit or loss at 31 December 2018 are summarized as follows:

31.12.2018			
		Present value	
In RON thousands	**Notional amount**	**Assets**	**Liabilities**
Foreign currency derivatives			
Forward contracts	6,154,343	23,250	20,596
Purchased options	219,905	93	53
Sold options	219,905	-	88
Total foreign currency derivatives	**6,594,153**	**23,343**	**20,737**
Interest rates derivatives			
Interest Rate Swaps	4,905,314	27,181	31,689
Purchased options	687,287	16,457	-
Sold options	687,287	-	17,309
Total interest rate derivatives	**6,279,888**	**43,638**	**48,998**
Other derivatives on purchased merchandise	592	79	-
Other derivatives on sold merchandise	592	-	74
Total derivatives – merchandise	**1,185**	**79**	**74**
Total	**12,875,226**	**67,061**	**69,809**

15. LOANS AND ADVANCES TO CUSTOMERS

The Group'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:

	30.06.2019			
In RON thousands	**Stage 1 and Stage 2**	**Stage 3**	**Of which: POCI financial assets**	**Total**
Mortgages	5,334,425	303,674	-	5,638,099
Personal loans and car loan	2,470,572	97,606	-	2,568,179
Credit cards and overdraft	297,670	16,525	-	314,195
Corporate loans	13,318,430	891,937	29,074	14,210,367
SME loans	1,991,271	215,498	-	2,206,770
Factoring, Discounting, Forfaiting	1,129,527	283,831	-	1,413,359
Loans and advances to customers before provisions *	**24,541,895**	**1,809,073**	**29,074**	**26,350,964**
Less provision for impairment losses on loans*	(176,697)	(1,393,579)	(3,976)	(1,570,276)
Net loans and advances to customers	**24,365,198**	**415,493**	**25,098**	**24,780,691**

	31.12.2018			
In RON thousands	**Stage 1 and Stage 2**	**Stage 3**	**Of which: POCI financial assets**	**Total**
Mortgages	5,083,283	316,073	-	5,399,356
Personal loans and car loan	2,588,299	103,994	-	2,692,293
Credit cards and overdraft	313,931	24,742	-	338,673
Corporate loans	13,361,250	916,888	32,662	14,278,138
SME loans	1,890,956	295,313	-	2,186,269
Factoring, Discounting, Forfaiting	1,253,960	289,750	-	1,543,710
Loans and advances to customers before provisions*	**24,491,679**	**1,946,760**	**32,662**	**26,438,439**
Less provision for impairment losses on loans*	(232,840)	(1,583,286)	(3,887)	(1,816,126)
Net loans and advances to customers	**24,258,839**	**363,474**	**28,775**	**24,622,313**

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

In RON thousands	**30.06.2019**	**30.06.2018**
Balance at 31 December*	**1,816,126**	**1,884,722**
IFRS 9 implementation impact at 1 January 2018	-	41,191
Balance at 1 January	**1,816,126**	**1,925,913**
Net impairment charge for the year	167,409	105,225
Foreign currency exchange effect	15,104	452
Release of allowance for impairment of loans written-off and loans sold	(428,363)	(84,079)
Balance at 30 June*	**1,570,276**	**1,947,511**

** Within this chapter, the gross value of loans and provisions includes the effect of interest rate adjustments for impaired loans (IRCs), therefore the gross amount of credits is presented gross of IRC, unlike the financial statements prepared for the financial year ended 31.12.2018, when gross value was reported net of IRC. The related data 31.12.2018 and 30.06.2018 were amended accordingly for comparability with data presented on 30.06.2019.*

16. NET FINANCIAL LEASE RECEIVABLES

The Group acts as a lessor in financial leasing contracts mainly for the financing of vehicles and equipment. Leases are denominated mainly in EUR, USD, and RON and are offered over a period of between 1 and 15 years, with the transfer of ownership of the assets financed at the end of the lease. Interest is invoiced for the lease period through fixed rates. Leasing receivables are secured by the assets that are subject to leases and other warranties.

The distribution of the net lease on maturity buckets is presented in the following table:

	30.06.2019			
In RON thousands	**Total, out of which**	**Stage 1**	**Stage 2**	**Stage 3**
Lease receivables up to one year, gross	1,356,463	962,082	169,021	225,358
Lease receivables between one and five years, gross	1,970,563	1,687,561	157,941	125,061
Lease receivables over five years, gross	135,636	74,310	32,837	28,489
Total lease receivables, gross	**3,462,660**	**2,723,953**	**359,799**	**378,908**
Total lease receivables, net of future interest	**3,462,660**	**2,723,953**	**359,799**	**378,908**
Impairment allowance for lease receivables	(309,113)	(34,699)	(19,964)	(254,450)
Total net lease receivables	**3,153,547**	**2,689,254**	**339,835**	**124,458**

	31.12.2018			
In RON thousands	**Total, out of which**	**Stage 1**	**Stage 2**	**Stage 3**
Lease receivables up to one year, gross	1,288,716	938,517	105,389	244,810
Lease receivables between one and five years, gross	1,882,701	1,616,026	156,885	109,790
Lease receivables over five years, gross	165,285	64,445	58,700	42,141
Total lease receivables, gross	**3,336,703**	**2,618,988**	**320,974**	**396,741**
Total lease receivables, net of future interest	3,336,703	2,618,988	320,974	396,741
Impairment allowance for lease receivables	(333,966)	(37,527)	(21,497)	(274,942)
Total net lease receivables	**3,002,737**	**2,581,461**	**299,477**	**121,799**

16. NET FINANCIAL LEASE RECEIVABLES (continued)

Changes in depreciation adjustments for lease receivables can be summarized as follows:

	30.06.2019	30.06.2018
Balance at 31 December*	**333,966**	**322,787**
IFRS 9 Implementation Impact at 01 January 2018	-	11,479
Balance at 1 January	**333,966**	**334,266**
Net impairment charge for the year	10,431	14,046
Foreign currency exchange effect	4,766	96
Release of allowance for impairment of loans written-off and loans sold	(40,049)	(8,399)
Unwinding effect of provisions	-	(415)
Balance at 30 June*	**309,113**	**339,594**

** Within this chapter, the gross value of loans and provisions includes the effect of interest rate adjustments for impaired loans (IRCs), therefore the gross amount of credits is presented gross of IRC, unlike the financial statements prepared for the financial year ended 31.12.2018, when gross value was reported net of IRC. The related data 31.12.2018 and 30.06.2018 were amended accordingly for comparability with data presented on 30.06.2019.*

17. FINANCIAL ASSETS HELD AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

In RON thousands	30.06.2019	31.12.2018
Investment securities held at fair value through other comprehensive income	7,185,258	7,322,422
Equity investments	8,195	8,199
Total	**7,193,453**	**7,330,621**

a) Securities held at fair value through other items of comprehensive income

As at 30 June 2019 the Group included in the securities category held at fair value through other comprehensive income bonds, government securities issued by the Government of Romania, municipal bonds issued by the Bucharest City Hall and bonds issued by the Ministry of Public Finance worth RON 7,185,258 thousand RON (31 December, 2018: RON 7,322,422 thousand).

On June 30, 2019, the securities held at fair value through other items of the comprehensive income are pledged in the amount of RON 578,878 thousand (31 December 2018: RON 653,036 thousand).

The Group transferred to the income statement in the year 2019 the amount of RON 13,001 thousand (31 December 2018: RON 3,843 thousand) representing a net gain from the sale of the securities held at fair value through other items of the comprehensive income.

17. FINANCIAL ASSETS HELD AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME *(continued)*

b) Participation securities available for sale

The Group held the following participation securities available for sale on 30 June 2019 and 31 December 2018:

		30.06.2019	
	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 services	6.80%	1,210
Fondul Roman de Garantare a Creditelor pentru Intreprinzatorii Privati IFN SA	Financial services	3.10%	897
Total			**8,195**

		31.12.2018	
	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 services	6.80%	1,210
Fondul Roman de Garantare a Creditelor pentru Intreprinzatorii Privati IFN SA	Financial services	3.10%	897
Casa de Compensare Bucuresti SA	Other financial services	0.91%	4
Total			**8,199**

18. DEPOSITS FROM BANKS

In RON thousands	**30.06.2019**	**31.12.2018**
Term deposits	847,064	3,484,357
Sight deposits	492,642	273,301
Total	**1,339,706**	**3,757,658**

19. LOANS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS AT AMORTISED COST

In RON thousands	30.06.2019	31.12.2018
Commercial Banks	6,648,675	6,488,536
Multilateral development banks	724,772	870,495
International financial institutions	54,643	232,270
Total	**7,428,090**	**7,591,301**

On 30 June 2019, the final maturity of the loans varies between August 2019 and March 2028.

20. DEPOSITS FROM CUSTOMERS

In RON thousands	30.06.2019	31.12.2018
Term deposits	10,208,645	11,009,576
Payable on demand	18,272,143	17,507,809
Collateral deposits	929,247	977,357
Certificates of deposits	182	160
Total	**29,410,217**	**29,494,902**

On 30 June 2019, retail clients (individuals and small and medium-sized enterprises) account for 34% of the portfolio, while corporate clients account for 60% and private banking clients 6% of the portfolio (31 December 2018: retail 33% legal entities 62%, private banking clients 5%).

21. SUBORDINATED LIABILITIES

In RON thousands	30.06.2019	31.12.2018
UniCredit SpA	799,872	787,705
UniCredit Bank Austria AG	104,172	102,606
Total	**904,044**	**890,311**

As of 30 June 2019, the following agreements were in place:

- subordinated debt from UniCredit SPA, Italy, in amount of EUR 48,500 thousands, with maturity in July 2027;
- subordinated debt from UniCredit SPA, Italy, in amount of EUR 120,000 thousands, with maturity in December 2027;
- subordinated debt from UniCredit Bank Austria AG, in amount of EUR 22,000 thousands.

The repayment of outstanding principal and accrued interest of the above-mentioned loans is subordinated to all other obligations of the Group.

22. PROVISIONS

In RON thousands	30.06.2019	31.12.2018
Provision for financial guarantees	88,390	92,795
Provision for litigations	36,980	36,317
Provision for off-balance sheet commitments	68,243	62,523
Other provisions*	13,172	13,819
Total	**206,785**	**205,454**

** Under other provisions for risk and charges, UCFIN recorded a provision for tax losses that may arise in the future during the ordinary process of sale of non-performing loans.*

The movements in provisions during the year were as follows:

In RON thousands	30.06.2019	30.06.2018
Balance at 1 January	**205,454**	**131,914**
IFRS 9 Impact	-	10,167
Provision set up during the reporting period	85,035	55,525
Provision used during the reporting period	1,905	606
Provision reversed during the reporting period	(85,656)	(47,579)
FX effect related to off-balance exposure (financial guarantees and commitments)	1,234	28
Reclassification of provisions from off balance sheet to on balance	(1,187)	(3,683)
Balance at 30 June	**206,785**	**146,978**

** The Bank has reclassified the off-balance sheet provisions built for the risk participation amounts for UniCredit 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.*

23. ISSUED CAPITAL

The statutory share capital of the Bank as at 30 June 2019, is represented by 48,948,331 ordinary shares (31 December 2018: 48,948,331 ordinary shares) having a face value of RON 9.30 each and a share premium of RON 75.93 per share. The total value of the share premium is RON 621,680 thousands.

UniCredit SpA, the majority shareholder of the Bank, has a stake in the share capital of 98.630% (31 December 2018 98.630%).

The shareholders of the Bank are as follows:

	30.06.2019	31.12.2018
	%	%
UniCredit SpA*)	98.6297	98.6297
Other shareholders	1.3703	1.3703
Total	**100**	**100**

*) UniCredit SpA has taken over operations in CEE and its subsidiaries from UniCredit Bank Austria AG on 1 October 2016.

23. ISSUED CAPITAL *(continued)*

The share capital comprises of the following:

In RON thousands	30.06.2019	31.12.2018
Statutory share capital	455,219	455,219
Effect of hyperinflation – IAS 29	722,529	722,529
Share capital under IFRS	**1,177,748**	**1,177,748**

24. RELATED PARTY TRANSACTIONS

The Group entered into several banking transactions with UniCredit SpA (Italy) 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 rates.

The following transactions took place between the Group, UniCredit SpA and its subsidiaries:

In RON thousands	30.06.2019 Parent Company	30.06.2019 Other related entities	31.12.2018 Parent Company	31.12.2018 Other related entities
Derivative assets at fair value through profit or loss	797	24,766	964	4,916
Derivatives assets designated as hedging instruments	-	-	-	146
Current accounts and deposits at banks	5,764,589	16,485	8,943,057	25,981
Loans and advances to banks	69,058	8,510	94,876	16,280
Loans and advances to customers	-	45,784	-	43,456
Other assets	33,980	27,585	22,317	10,833
Outstanding receivables	**5,868,424**	**123,130**	**9,061,214**	**109,748**
Derivative liabilities at fair value through profit or loss	22,793	50,933	12,156	38,746
Derivatives liabilities designated as hedging	48,192	65,885	18,164	60,755
Current accounts	25,018	133,206	8,155	107,756
Deposit attracted	101,090	894,855	2,341,303	952,434
Loans received	5,420,824	939,918	5,192,539	1,143,581
Subordinated liabilities	799,872	104,172	787,605	102,606
Other liabilities	3,394	5,885	5,525	4,712
Outstanding payables	**6,421,183**	**2,194,854**	**8,365,447**	**2,410,590**
Interest income	23,475	297	65,912	1,070
Interest expense	(99,720)	(40,913)	(133,404)	(84,285)
Fee and commission income	7,726	6,319	1,803	3,153
Fee and commission expense	(62)	(684)	(17,525)	(7,844)
Other operating income	-	1,264	-	467
Operating expenses	(546)	(28,878)	(637)	(51,402)
Net revenue / (expense)	**(69,127)**	**(62,595)**	**(83,851)**	**(138,841)**
Total commitments	**288,692**	**397,838**	**334,226**	**1,003,256**

24. RELATED PARTY TRANSACTIONS *(continued)*

Transactions with key management personnel

Several banking transactions are performed 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	30.06.2019	31.12.2018
Loans	17,187	18,389
Current accounts and deposits	29,920	29,618
Interest and similar income	212	477
Interest expenses and similar charges	(81)	(65)

In addition to wages, the Bank provides executive directors and executives with non-monetary benefits and participation in the UniCredit Group's options scheme. The UniCredit Group's Scheme of Compliance fully complies with the Group's legal provisions and Compensation Policy.

25. COMMITMENTS AND CONTINGENCIES

(i) Off-balance sheet commitements

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.

25. COMMITMENTS AND CONTINGENCIES *(continued)*

(i) Off-balance commitments (continued)

In RON thousands	Stage 1 and Stage 2	Stage 3	Of which: financial assets POCI	30.06.2019
Loan commitments, of which:	**8,095,034**	**91,919**	**-**	**8,186,953**
- committed	2,150,243	5,051	-	2,155,294
- uncommitted	5,944,791	86,868	-	6,031,659
Letters of credit	180,490	1,887	-	182,377
Guarantees issued	3,282,525	137,700	-	3,420,225
Gross carrying amount	**11,558,049**	**231,507**	**-**	**11,789,555**
Allowance for impairment - Loan commitments	(12,467)	(53,440)	-	(65,907)
Allowance for impairment - Letters of credit	(1,257)	(1,066)	-	(2,323)
Allowance for impairment - Guarantees issued	(13,742)	(94,798)	-	(108,540)
Total loss adjustment	**(27,466)**	**(149,304)**	**-**	**(176,771)**

In RON thousands	Stage 1 and Stage 2	Stage 3	Of which: financial assets POCI	31.12.2018
Loan commitments, of which:	**8,199,388**	**80,287**	**-**	**8,279,673**
- committed	2,217,776	592	-	2,218,366
- uncommitted	5,981,612	79,695	-	6,061,307
Letters of credit	128,944	3,484	-	132,428
Guarantees issued	3,019,090	144,044	-	3,163,136
Gross carrying amount	**11,347,422**	**227,815**	**-**	**11,575,237**
Allowance for impairment - Loan commitments	(10,777)	(48,343)	-	(59,120)
Allowance for impairment - Letters of credit	(673)	(1,843)	-	(2,516)
Allowance for impairment - Guarantees issued	(22,060)	(92,333)	-	(114,393)
Total loss adjustment	**(33,510)**	**(142,519)**	**-**	**(176,029)**

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 SpA as lender and Romanian companies as borrowers. For each of these contracts there is a risk participation agreement by which the Group 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 30 June 2019 is EUR 30,591 thousand (31 December 2018: EUR 33,751 thousands).

As compensation for the financial guarantees assumed by the risk participation agreements and for providing security and payment agent services to UniCredit SpA, the Group receives the commissions paid by the borrowers plus a portion of the interest margin collected from the borrowers. The Group defers the commissions collected upfront from the risk participation agreements over the time period that remains until the maturity of the facilities.

25. COMMITMENTS AND CONTINGENCIES *(continued)*

The Group 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) Contingent liabilities

As at 30 June 2019, the Group was involved in several litigations (as a defendant) for which the potential claims estimated by lawyers amounted to a total of RON 22,643 thousands for which a provision of RON 16,556 thousands was recorded.

26. FINANCIAL INSTRUMENTS – FAIR VALUE HIERARCHY

The following table presents an analysis of fair value instruments at the fair value hierarchical level at the end of the reporting period 30 June 2019:

30.06.2019					
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	135,603	108,215	103	243,921	243,921
Total assets held for trading and hedging	**135,603**	**108,215**	**103**	**243,921**	**243,921**
Financial assets at fair value through other comprehensive income					
Capital instruments	-	-	8,195	8,195	8,195
Securities	6,452,252	733,006	-	7,185,258	7,185,258
Total assets at fair value through other comprehensive income	**6,452,252**	**733,006**	**8,195**	**7,193,453**	**7,193,453**
Non-transactional financial assets at fair value through profit or loss					
Capital instruments	-	-	36,103	36,103	36,103
Total non-transactional financial assets at fair value through profit or loss	**-**	**-**	**36,103**	**36,103**	**36,103**
Liabilities designated for trading and for hedging					
Financial liabilities at fair value through profit or loss	-	92,872	101	92,973	92,973
Derivatives financial instruments designated as hedging instruments	-	114,077	-	114,077	114,077
Total liabilities designated for trading and hedging	**-**	**206,949**	**101**	**207,050**	**207,050**

26. FINANCIAL INSTRUMENTS – FAIR VALUE HIERARCHY *(continued)*

The following table presents an analysis of fair value instruments at the fair value hierarchical level at the end of the reporting period 31 December 2018:

	31.12.2018				
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 through other comprehensive income					
Capital instruments	6,926,748	395,675	-	7,322,422	7,322,422
Securities	-	-	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 through profit or loss					
Capital instruments	-	-	27,064	27,064	27,064
Total non-transactional financial 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	-	78,919	-	78,919	78,919
Total liabilities designated for trading and hedging	**-**	**148,673**	**55**	**148,728**	**148,728**

27. DISCONTINUED ACTIVITIES

As at 30 June 2018, the Group classified the operations of the UniCredit Insurance Broker as discontinued activities. The participation was held for sale on 30 June 2018 because it was available for immediate sale in its current state and a sale transaction was estimated to take place in less than 12 months.

UniCredit Insurance Broker S.R.L. has ceased to be a subsidiary of the Group since August 2018 as a result of its sale by UCLC, its parent, to two non-resident companies' part of the UniCredit SpA Group.

The amounts below are presented gross of intragroup transactions, as this subsidiary was expected to no longer be part of the consolidation perimeter following its sale.

Statement of Comprehensive Income:

In RON thousands	**30.06.2018**
Interest income	95
Income from commissions	16,495
Other operating revenues	349
Operating income	**16,940**
Staff expenses	(779)
Expenses with amortization and depreciation of property,plant and equipment	(5)
Other administrative expenses	(247)
Other operating expenses	(829)
Operating expenses	**(1,860)**
Net result of operating activity	**15,080**
Profit / (Lose) before tax	**15,080**
Profit tax	(2,413)
Net result of the reporting period	**12,667**
Situation of the overall result of the reporting period from discontinued activities	**12,667**
Depreciation provision*	**(4,098)**
Net profit from discontinued activities	**8,569**

** For the difference between the net asset of UniCredit Insurance Broker on 30 June 2018 and the estimated net sale price to be cashed after the sale by UniCredit Leasing Corporation, a consolidated provision of RON 4,098 thousand was established. Depreciation charge expense is presented in the statement of comprehensive income on the line "Net profit for the period of reporting - discontinued operations".*

28. IFRS 16 - „LEASE" (GROUP AS LESSOR)

The Group acts as the lessor in operating lease agreements for motor vehicles and rental of spaces.

Leases are denominated in EUR, USD and RON and are signed for a period between 1 and 15 years.

Right of use

In RON thousands	Buildings	Cars	Total
Book value			
1 January 2019	193,437	3,482	196,919
30 June 2019	173,872	2,948	176,820
Depreciation expense			
30 June 2019	(28,549)	(613)	(29,162)

Amounts recognized in the income statement

In RON thousands	30.06.2019
Expenses with depreciation related to the rights of use	(29,162)
Expenses with interest on lease liabilities (note 6)	(1.161)

Maturity analysis of the lease liability

In RON thousands	30.06.2019
< 1 year	49,575
1 year -5 years	108,690
> 5 years	4,158
Total	**162,423**

29. TAX ON ASSETS

Starting with the financial year 2019, according to the Government Emergency Ordinance no. 114/2018 regarding the establishment of measures in the field of public investments and fiscal-budgetary measures, the modification and completion of some normative acts and the extension of certain terms, hereinafter referred to as "the Ordinance", the banking institutions are obliged to pay the net financial tax on assets, further referred as "tax on assets".

Methodological considerations on tax on assets

The Bank is required to calculate the tax on assets at the end of the year by applying the tax rates provided for by the law on the taxable base.

The basis for calculating the tax on assets (the taxable base) is the net financial assets of the bank, existing at the end of the semester, or at the end of the year for which the tax on assets is due.

The following items are excluded from the tax base:

- cash;
- cash balances with central banks at net value (only performing exposures);
- nonperforming exposures, net of loan loss provisions;
- debt securities issued by general government, at net value (only performing exposures);
- loans and advances to public administrations, at net value (only performing exposures);
- loans granted to the non-governmental sector holding guarantees received from the central public administration, at net value (only the performing exposures);
- loan and placements to credit institutions at net value (only performing exposures);
- correspondent accounts and deposits with credit institutions at net value (only performing exposures);
- reverse repo operations with credit institutions at net value (only performing exposures).

If the Bank records an accounting loss before calculating the tax on assets at the end of the semester or the year for which the tax is due, the tax on assets is not due.

If the tax on assets owed by the Bank is above the accounting profit, before calculating the tax on assets recorded at the end of the semester or the year, for which the tax is due, the tax payable is limited to the registered profit, without influencing the tax on assets due for the coming years.

The tax rates on assets applied on the taxable base are at the level of:

- 0.4% per annum if the Bank holds a market share of 1% or more;
- 0.2% per annum if the Bank holds a market share of less than 1%.

The market share of a credit institution is calculated as the ratio between the total net assets of the credit institution and the aggregate net aggregate assets for the banking system, including the branches of credit institutions of foreign legal entities in Romania.

The tax on assets, related to the first semester of 2019, is declared and paid until 25 August 2019 inclusive.

For the first semester of the year, the Bank has the option not to pay and declare the tax if the following conditions are met:

- if it has met 100% the credit growth target; or
- if it has met 100% the interest rate reduction target; or
- if the aggregate percentage of credit growth and interest margin reduction is at least 100%.

29. TAX ON ASSETS *(continued)*

For each tax assessment period (semester / year), the Bank has the option to reduce the fee due if the following conditions are met:

- to diminish the interest margin:
  - with 50% if the target for diminishing the interest margin set by the Ordinance is met, or the interest margin is below the reference margin also set by the Ordinance;
  - with less than 50%, depending on the extent to which the interest margin has diminished.
- to increase financial intermediation (lending):
  - with 50% if the credit growth target established by the Ordinance is met;
  - with less than 50%, depending on the proportion of the credits increased.

The 2019 tax on assets is declared until 25 August 2020. The differences in excess of the amounts paid and declared by 25 August 2019 for the first semester of 2019 shall be paid by 25 August 2020 inclusive. The minus differences are refunded / compensated according to the provisions of Law no. 207/2015 regarding the Fiscal Procedure Code, with subsequent amendments and updates.

The tax on assets expense is the deductible expense when determining the tax result regulated by Title II of Law no. 227/2015 regarding the Fiscal Code, with subsequent amendments and updates.

Determination of tax on assets related to the first semester of 2019

For UniCredit Bank the applicable tax rate is 0.4% per year.

For the semester ended 30 June 2019, UniCredit Bank did not meet the conditions for lowering the tax on assets. The level of the tax on assets calculated on the basis of the results registered as at 30 June 2019 is RON 82.092 thousands that will be paid until 25 August 2019.

In accordance with IFRIC 21, paragraph 8, "the obligating event that gives rise to a liability to pay a contribution is the activity that triggers the payment of the contribution as identified by law" contribution, UniCredit Bank will book a prepayment for the tax on assets calculated on the basis of the information from 30 June 2019 until 25 August 2019, as the "obligating event" will be certain only on 31 December 2019, at which time the Bank will calculate the difference to be registered, therefore the impact on the Statement of Comprehensive Income will be captured on 31 December 2019.

30. 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 30 July 2019 and were signed on its behalf by:

Mr. Rasvan Catalin Radu
Chief Executive Officer

Mr. Philipp Gamauf
Chief Financial Officer

Banking that matters. UniCredit

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