



**UniCredit Bank S.A.**

**MANAGEMENT BOARD'S CONSOLIDATED REPORT**

for the financial year ended 31 December 2017

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## 1. 2017 activity overview

In 2017, UniCredit Bank S.A. (hereinafter, UCB or the Bank) focused its attention and resources on improving the market position, risk management, growth and development aimed at safeguarding the Bank's assets and capital, value creation for customers, society and shareholders, enhancing quality of products and services, strong management of credit, market and operational risks and internal controls in line with statutory and UniCredit Group regulations and best international practices.

In 2017, the main performance indicators of the UCB's Group evolved as follows:

- Total assets increased of 15.7%, up to RON 43.5 bn;
- Net profit: increase of 23.2% yoy;
- Customer loan portfolio increase of 12.08% compared with 2016.

A special attention was granted to ensuring prudent levels of liquidity and capital adequacy, in full compliance with the National Bank of Romanian's regulations. A particular emphasis was laid on overall risk management and especially on credit risk management in order to ensure proper assets quality and adequate provision coverage.

The UCB's Group records a strong and balanced financial position in 2017 despite of macroeconomic slowdown evolution:

Indicator *	%
ROE	11.67
ROA	1.00
Solvency ratio**	14.78
Cost/Income ratio	48.30
Cash coverage of deposits ratio	53.69
Loan portfolio provision coverage	6.19

\*The indicators include the minority interest.

\*\*Solvency ratio is calculated including H1 2017 net profit

As at 31 December 2017, the Group carried out its activity in Romania through Bank having 157 branches (in 2016: 160 branches).

As of 31 December 2017, the total assets of the Group are RON 43.5bn. The net profit for 2017 is RON 405.9mn, out of which non-controlling interest RON 21.2mn.

During 2017, the members of the Management Board acted in accordance with statutory laws and regulations in force and ruling UniCredit Group and Bank's regulations. The Supervisory Board and Management Board members also acted according to their responsibilities as defined in the Constitutive Act of the Bank and within the limits of their competences assigned by the General Shareholders Meeting. The Management Board has acted under the supervision and control of the Supervisory Board.

The activity of the Management Board as the main decision making corporate body in the Bank has been consistently and efficiently supported by staff of the Bank, in accordance with their responsibilities and competences operating in compliance with their authorities and set of responsibilities.

The Management Board has coordinated the Bank's activity and has taken all necessary measures for the proper management of the Bank in compliance with the Constitutive Act of UCB.

Bank's subsidiaries are non-banking financial institutions which are governed by 2 tier system by Management Board and Supervisory Board. The members of the Management Board acted in accordance with statutory laws and regulations in force and ruling UniCredit Group and Bank's regulations. The Supervisory Board and Management Board members also acted according to their responsibilities as defined in the Constitutive Act of the Bank and within the limits of their competences assigned by the General Shareholders Meeting. The Management Board has acted under the supervision and control of the Supervisory Board.

2017 was a year with many achievements for UniCredit in Romania in all its areas of activity.

Hence, in the corporate customer's business, in line with UniCredit plan Transform 2019, during 2017 we delivered results consistent with such a plan sticking to our five fundamentals. We showed our commitment to be a trusted partner for our corporate clients focusing on long-term relationships at the same time sustaining the growth of the real economy. Being the only bank in Romania with a nationwide network of Corporate Bankers, we accomplished our mission with a strong team of engaged and committed specialists in business areas strategic for us such as transactional services, working capital and investment solutions, structured finance, foreign exchange services and capital markets.

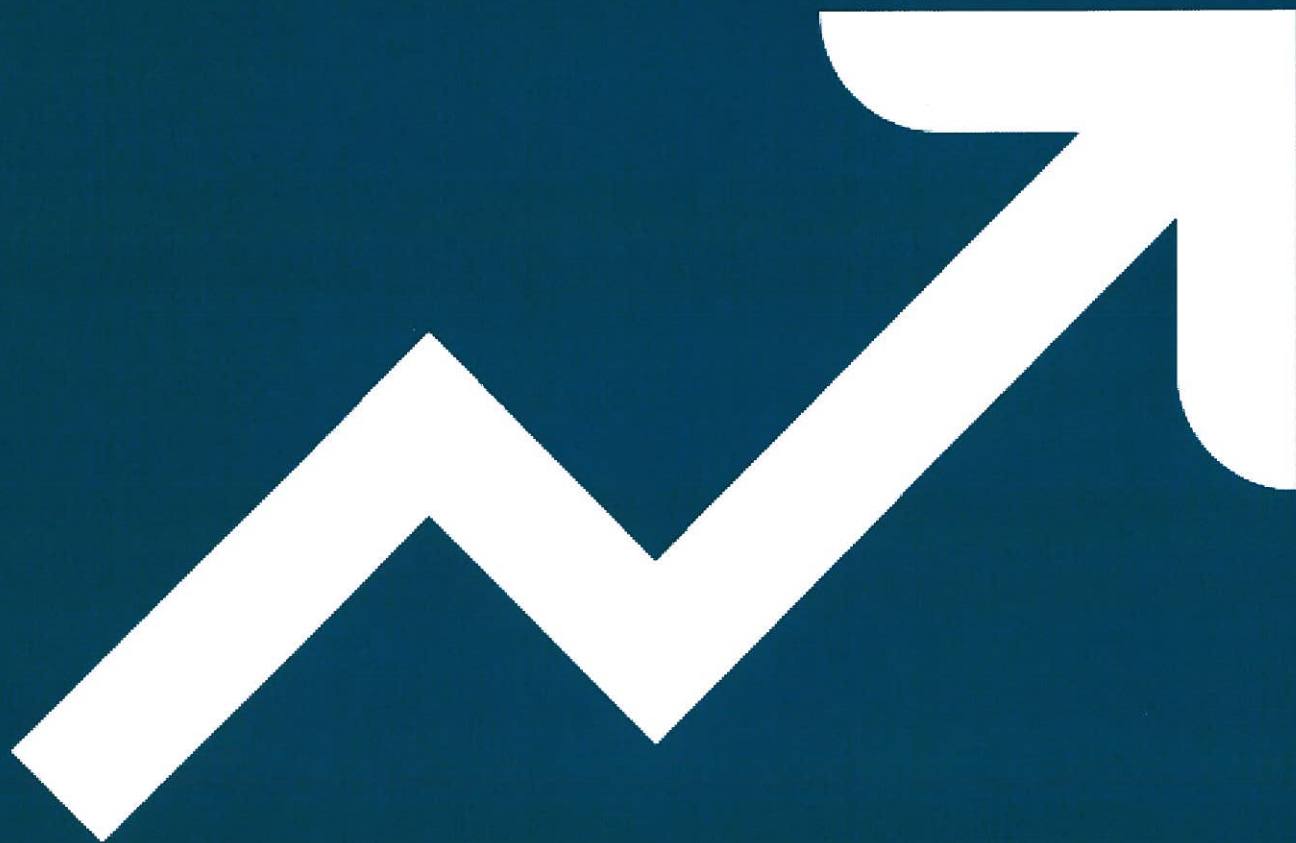
In the SME activity, in 2017 is relevant the aggregate financing of over 7 million Euros granted by UniCredit Bank and UniCredit Leasing to Medisprof, from Cluj Napoca, through which the company constructed a diagnostic and treatment centre and acquired the needed equipment. Also, in the area of small and medium enterprises, in the innovative field, the bank started at the end of the year the granting of facilities under the agreement signed with the European Investment Fund (EIF), through the InnovFin SME Guarantee Program - a program whose objective consists in facilitating access to finance for innovative businesses.

In the retail area, UniCredit's strategy is to become a stronger player, with a growing number of clients. For the development of the retail business, UniCredit aims to continuously innovate and develop personalized offers to help customers with simpler products, modern digital platforms and simplified processes to make their life and interaction with the bank easier. Thus, in September 2017, UniCredit Bank launched a new transactional offer addressed to individuals. The offer is meant to meet the financial needs of all young clients, employees, entrepreneurs, and retirees, giving them personalized benefits through six GeniusCont offers: Junior, iCont, Clasic, Pensionar, Gold or Platinum, some of which being unique on the Romanian market. At the same time, in 2017, the bank has continuously improved the Mobile Banking application, introducing new features, an improved interface and extra-options.

At the same time, UniCredit Consumer Financing continued to strengthen its position in the consumer loans segment, maintaining in 2017 an important growth rate of the portfolio and continuing to build a solid relationship with its clients. Adopting the latest trends in the card market and consumers' appetite for digitization as well as the mission to make their customers lives easier and to offer the right products and services at the right time and place were the main directions that guided the activity of the financial institution in 2017.

Last but not least, UniCredit Leasing Corporation's activity throughout 2017 confirms the company's market leadership position, but also the fact that the flexibility regarding the solutions offered to the clients and the concern to make their life easier constitute the approach in relationship with them. UniCredit Leasing continued to provide tailor-made solutions for a multitude of business projects across a variety of industries: from construction, agriculture, IT to medical, and transportation. In order to sustain its long-term expansion, the company continued to invest in the development of digital solutions in 2017 to simplify the evaluation, granting and fund management system. These were complemented by the further conclusion of new strategic partnerships with dealers to ensure long-term advantageous offers to customers.

# Strengthen and optimise capital.



Following a € 13 billion capital increase, we confirmed a 2019 fully loaded CET1 ratio target above 12.5 percent and an organic capital generation that will fully absorb the expected regulatory impacts: our capital position is stronger and in line with best in class G-SIFIs.

## **2. Consolidated Financial Statements of Group UniCredit Bank S.A. as at 31 December 2017**

### ***2.1. Legal framework***

The annual consolidated financial statements as at 31 December 2017 are prepared in accordance with International Financial Reporting Standards ("IFRS") adopted by EU, applicable to credit institutions by NBR Order no. 27/2010.

The annual consolidated financial statements have been prepared on the basis of the Bank's and UCB's subsidiaries trial balances which corresponds to documents and accounting records concerning the economic and financial operations for the period 1 January – 31 December 2017.

The duties stipulated by law, related to organization and management of accounting activity, accounting principles (prudence, permanence of methods, continuity, independence, intangibility, non-compensation, separate evaluation of assets and liabilities', materiality, substance over form) have been followed. The Accounting Law no. 82/1991 provisions, with subsequent changes and accounting regulations and methods stipulated by regulations in force, were abided by the Bank.

The annual consolidated financial statements provide a true and fair view on the assets and liabilities. The economic and financial position of UCB's Group and is audited by the external auditor Deloitte Audit SRL.

**2.2. The Consolidated Statement of financial position**

The IFRS Consolidated Statement of financial position of UniCredit Bank SA as of 31.12.2017 is presented below:

Items	ths RON	% in Total Assets/Liabilities
<b>Assets</b>		
Cash and cash equivalents	8,574,272	19.71
Financial assets at fair value through profit or loss	121,382	0.28
Derivatives assets designated as hedging instruments	4,197	0.01
Loans and advances to customers	22,950,823	52.76
Net lease receivables	3,712,963	8.54
Loans and advances to banks	1,446,780	3.33
Investment securities, available for sale	6,002,073	13.80
Property and equipment	188,033	0.43
Intangible assets	169,306	0.39
Deferred tax asset	96,999	0.22
Other assets	195,581	0.45
Non-current assets and disposal groups classified as held for sale	36,812	0.08
<b>Total assets</b>	<b>43,499,221</b>	<b>100.00</b>
<b>Liabilities</b>		
Derivative liabilities at fair value through profit or loss	80,020	0.18
Derivatives liabilities designated as hedging instruments	76,166	0.18
Deposits from banks	3,387,876	7.79
Loans from banks and other financial institutions	6,558,213	15.08
Deposits from customers	27,148,800	62.41
Debt securities issued	1,166,163	2.68
Subordinated liabilities	890,162	2.05
Provisions	148,268	0.34
Current tax liabilities	22,806	0.05
Other liabilities	309,647	0.71
<b>Total liabilities</b>	<b>39,788,122</b>	<b>91.47</b>
<b>Equity</b>		
Share capital	1,101,604	2.53
Share premium	0.055	0.00
Revaluation reserve on property and equipment	9,673	0.02
Cash flow hedging reserve	(48,923)	(0.11)
Reserve on available for sale financial assets	(53,503)	(0.12)
Other reserves	244,828	0.56
Retained earnings	2,307,202	5.30
<b>Total equity</b>	<b>3,560,881</b>	<b>8.19</b>
Non-controlling interest	150,218	0.35
<b>Total Group Equity</b>	<b>3,711,099</b>	<b>8.53</b>
<b>Total liabilities and equity</b>	<b>43,499,221</b>	<b>100.00</b>

A more detailed explanation on main Statement of financial position captions is presented below.

## 2.3. Assets

**Cash and due from Central Banks** – The balance of current accounts with the National Bank of Romania represents the minimum reserve maintained in accordance with the National Bank of Romania requirements. As at 31 December 2017, the minimum reserve level was settled as 8% (31 December 2016: 8%) for liabilities to customers in RON and 8% (31 December 2016: 10%) for liabilities to customers in foreign currency both with residual maturity less than 2 years from the end of reporting period and for liabilities with the residual maturity longer than 2 years with reimbursement, transfer and anticipated withdrawals clause or 0% for all the other liabilities included in the calculation base.

**Loans and advances to customers** - a total amount of RON 22.9bn which is 52.76% of total assets. The outstanding credit balance as at 31.12.2017 is distributed as follows:

- 64.28% to non-financial institutions;
- 32.13% to households, individuals;
- 3.59% to public administrations and other financial institutions.

Term loans granted to customers are classified, according to the remaining maturity, into the following time buckets: up to one year (49%), between 1 and 5 years (29.04%) and over 5 years (21.96%).

Loans are collateralized mainly by mortgages, assignments of receivables, pledges, corporate guarantees from parent company and letters of guarantee. The risk structure of total loan portfolio (including individuals and companies) at the end of 2017 is as follows:

- Neither past due nor impaired – 92.34%
- Past due but not impaired – 5.32%
- Other impaired loans – 0.65%
- Individually significant impaired loans – 1.69%

**Investments in subsidiaries** – Romanian UniCredit Bank Group is exerting direct and indirect control over the following subsidiaries, as of 31 December 2017:

- UniCredit Consumer Financing IFN S.A., having its current registered office at 23-25 Ghetarilor street, 1st and 3rd floor, District 1, Bucharest, Romania, provides consumer finance loans to individual clients. The Bank has a shareholding of 50.1% in UCFIN since January 2013.
- UniCredit Leasing Corporation IFN S.A. ("UCLC"), having its current registered office at 23-25 Ghetarilor Street, 1st, 2nd and 4th floor, District 1, Bucharest, Romania, provides financial lease services to corporate clients and individuals. UCLC, previously associate entity, has become a subsidiary of the Bank starting with April 2014 when the Bank obtained 99.95% indirect controlling interest (direct controlling interest: 99.90%). The Bank's shareholding has changed to an indirect controlling interest on 99.98% as of 31 December 2017 (direct controlling interest: 99.96%), as a result of the merger of UCLC with UniCredit Leasing Romania SA ("UCLRO") finalized by June 2015, where UCLRO was absorbed by UCLC.
- Debo Leasing IFN S.A., having its current registered office in 23-25 Ghetarilor Street, 2nd floor, 1st district, Bucharest, Romania, is a real estate finance lease entity, in which the Bank has an indirect controlling interest of 99.97% (31 December 2016: 99.97%) through UCLC.



- 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 has an indirect controlling interest of 99.98% (31 December 2016: 99.98%) through UCLC.

**Other assets** of RON 195.6mn (0.45% of total assets) include:

- RON 52.9mn - sundry debtors, net of impairment;
- RON 30.3mn - amounts receivable;
- RON 21.7mn - prepayments;
- RON 40.5mn - advances for suppliers;
- RON 27.9mn - inventories;
- RON 22.3mn - other assets.

## 2.4 Liabilities

**Deposits from banks** balance is RON 3,387.9mn, representing 7.79% of total liabilities and equity, and include mainly:

- RON 420.7mn sight deposits of credit institutions;
- RON 2,727.6mn term deposits;
- RON 236.9mn amounts in transit.

**Deposits from customer's** balance is RON 27.1bn, representing 62.41% of total liabilities, including:

- RON 9,124.9mn term deposits (33.61% of total deposits from customers);
- RON 15,941.8mn sight deposits (58.72% of total deposits from customers);
- RON 1,982.5mn collateral deposits (7.3% of total deposits from customers);
- RON 99.4mn other amounts due to customers (0.37% of total deposits from customers).

**Other liabilities** balance is RON 309.6mn, representing 0.71% of total liabilities and equity, including:

- RON 49.4mn accruals for third party services (15.95% of total other liabilities);
- RON 127.1mn amounts payable to suppliers (41.06% of total other liabilities);
- RON 49.1mn accrual of employee bonus (15.86% of total other liabilities);
- RON 10.91mn sundry creditors (3.55% of total other liabilities);
- RON 38.4mn deferred income (12.4% of total other liabilities);
- RON 32.1mn payable to state budget (10.38% of total other liabilities);
- RON 2.6mn other (0.80% of total other liabilities).

**Provisions** of RON 67.3mn (0.34% of total liabilities and equity) are split by type as presented below:

- RON 75.71mn provision for financial guarantees;
- RON 10.68mn provision for legal disputes;
- RON 48.19mn provision for off-balance commitments;
- RON 13.69mn other provisions.

**Subordinated liabilities** of RON 890.2mn (2.05% of total liabilities) represent the outstanding value of subordinated loans borrowed from UniCredit SPA.

## **2.5. Shareholders' equity**

At 31 December 2017, the value of shareholders' equity of the Group is RON 3,711mn, out of which non-controlling interest RON 150.2mn.

As of 31 December 2017, the shareholders' equity includes:

- **Subscribed share capital** is in total amount of RON 1,101.6mn of which RON 379.1mn represents the paid-in capital at nominal value divided into 40,760,784 ordinary shares of RON 9.3 par value each. The remaining difference represents the hyperinflation effect from application of IAS 29 — *Financial Reporting in Hyperinflationary Economies*.
- **Other reserves** of RON 244.8mn include:
  - Statutory general banking reserves of RON 115.8mn;
  - Statutory Legal reserves of RON 78.8mn;
  - Effect of hyperinflation due the application of IAS 29 of RON 19.1mn;
  - Other reserves of RON 31.19mn.
- **Issuance premium** of RON 55.
- **Revaluation reserve** related to land and buildings in amount of RON 9.7mn;
- **Other reserves related to hedge accounting and fair value of available for sale financial instruments**, in amount of RON -102.4mn;
- **Retained earnings** as of 31.12.2017 are in amount of RON 2,307.2mn.

**The 2017 consolidated net profit** is RON 405.9mn, out of which non-controlling interest RON 21.3mn. Without non-controlling interest, the 2017 consolidated net profit is RON 384.6mn.

## **2.6. Off-balance-sheet accounts**

The outstanding off-balance-sheet accounts at the end of 2017 amounts to RON 6,121.9mn which include:

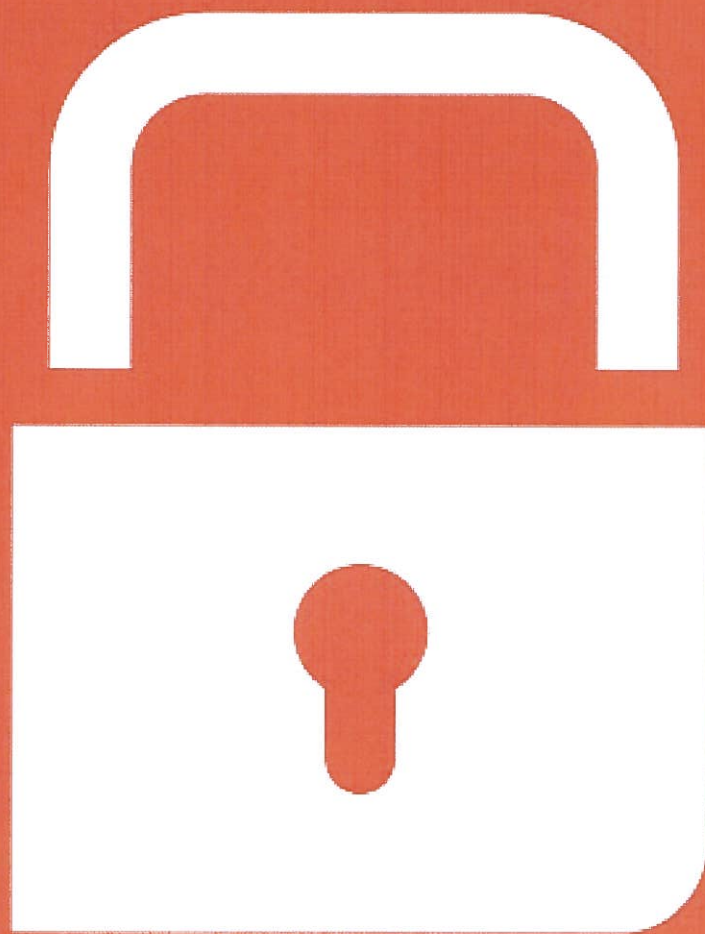
- RON 4,617.61mn guarantees issued;
- RON 1,310.5mn loan commitments;
- RON 193.8mn letters or credit.

**2.7. Consolidated Profit and loss account**

2017 Consolidated IFRS Income Statement of UniCredit Bank SA is presented below:

Items	31.12.2017
	THS RON
Interest income	1,352,558
Interest expense	(314,266)
<b>Net interest income</b>	<b>1,038,292</b>
Fee and commission income	461,957
Fee and commission expense	(89,753)
<b>Net fee and commission income</b>	<b>372,204</b>
Net income from trading and other financial instruments at fair value through profit and loss	264,549
Fair value adjustment in hedge accounting	(4,374)
Net income on disposal of financial assets and liabilities which are not at fair value through profit or loss	68,624
Dividends income	2,191
Other operating income	12,724
<b>Operating income</b>	<b>1,754,210</b>
Personnel expenses	(373,149)
Depreciation and impairment of tangible assets	(44,328)
Amortization and impairment of intangible assets	(50,086)
Other administrative costs	(356,263)
Other operating costs	(23,529)
<b>Operating expenses</b>	<b>(847,355)</b>
<b>Net operating income</b>	<b>906,855</b>
Net impairment losses on financial assets	(336,719)
Net provision losses	(80,131)
Net losses from other investment activities	(4,576)
<b>Profit before taxation</b>	<b>485,430</b>
Income tax	(79,557)
<b>Net profit for the year</b>	<b>405,873</b>
<b>Attributable to:</b>	
Equity holders of the parent	384,625
Non-controlling interests	21,248
<b>Net profit for the year</b>	<b>405,873</b>
<b>Other comprehensive income, net of tax</b>	
<b>Items that will not be reclassified to profit or loss</b>	
Revaluation of property, plant and equipment (net of deferred tax)	(1,220)
<b>Total items that will not be reclassified to profit or loss</b>	<b>(1,220)</b>
<b>Items that may be reclassified to profit or loss</b>	
Net change in revaluation reserve for available for sale financial assets (net of deferred tax)	(90,201)
Net change in cash flow hedging reserve (net of deferred tax)	2,018
<b>Total items that may be reclassified to profit or loss</b>	<b>(88,183)</b>

# Improve asset quality.



We addressed Italian legacy issues through the sale of a €17 billion portfolio (FINO) and proactive bad loans management. A more disciplined risk management strategy and underwriting processes are driving significant improvements in all our asset quality metrics.

<b>Other comprehensive income for the year, net of tax</b>	<b>(89,403)</b>
<b>Total comprehensive income for the year</b>	<b>316,470</b>
<b>Attributable to:</b>	
Equity holders of the parent	295,222
Non-controlling interests	21,248
<b>Total comprehensive income for the year</b>	<b>316,470</b>

### 3. Profit distribution

The net profit appropriation is approved by General Shareholders Meeting of each entity of UCB Group based on the net results recorded in the separate financial statements of the entities.

### 4. Forecast related to future evolution of the Group

The Romanian economy expanded by 8.8% year on year ("yoy") in the first 9 months of 2017, surpassing market expectations by 3pp. Private consumption continued to be the most important growth driver, accounting for 87% of the expansion, due to the double-digit growth of real wages, consumer optimism and strong lending in local currency. Annual economic growth is expected to slow to 4.6% in 2018 and 3.5% in 2019 from 6.6% in 2017. This could be the direct result of growth relying heavily on consumption and inventories, while investment is crowded out by populist measures or affected by fiscal uncertainty. Growth may slow even more if stealth fiscal tightening is used to keep the budget deficit below 3% of GDP.

The budget deficit is likely to be above 3% of GDP in 2018 unless the government increases the personal income tax on higher earners and cuts public investment again. Moreover, the aggressive program of wage and pension increases may have to be scaled back to keep the budget deficit below 3% of GDP in 2019. In the meantime, the structural budget deficit is likely to exceed 5% of GDP by the end of next year, a level not seen since 2008.

The National Bank of Romania ("NBR") maintained the monetary policy rate unchanged at 1.75% throughout 2017. The minimum reserve requirement (MRR) for FCY-denominated liabilities was cut by 2pp to 8% in May 2017, releasing EUR 0.5bn from reserves. The minimum reserve requirements for RON-denominated liabilities were kept unchanged at 8% since May 2015. After staying in negative territory since June 2015 due to several VAT cuts, annual inflation returned to positive territory in January 2017 and maintained an increasing path throughout the year. The excise tax for fuels reintroduced in the autumn of 2017, hikes to electricity and heating prices and the rise in oil prices lifted annual inflation to 3.3% in December 2017, 0.6pp above the level envisaged by the NBR in its November inflation report. Faced with the prospect of higher inflation, the NBR took the first step of policy normalization in 4Q2017 by narrowing the symmetric facility corridor around the key rate to  $\pm 1$ pp (from  $\pm 1.5$ pp previously). Moreover, higher uncertainties and risks surrounding the inflation outlook than in 2017 forced the NBR to deliver two interest rate increases on 8 January and 7 February 2018, totalling 0.5pp to 2.25%. The hikes were meant to restore confidence that NBR will meet its mandate of price stability and prevent a sell-off in the RON and Romanian government bonds. This is in contrast to the easing bias in the region and the gradual tightening announced by both the European Central Bank ("ECB") and the Federal Reserve ("Fed"). We envisage an overshooting of inflation above the 1.5%-3.5% targeted range already from January 2018, followed by a return close to the upper bound by year-end and levels close to 3% for 2019. Consequently, we expect an additional 0.75pp in hikes during 2018 to align interest rates to the 3% inflation rate expected in 2019.

Market liquidity faced a number of constraints in the second half of 2017, due to supplementary dividends paid by state-owned enterprises, lending dynamics and the Ministry of Finance net issuance. The tight liquidity conditions determined increases in ROBOR rates and prompted the NBR to act by organizing REPO operations in order to provide liquidity to market participants, as needed. Toward the end of the year, liquidity conditions improved, as the government stepped up spending in order to meet its announced budget deficit target.

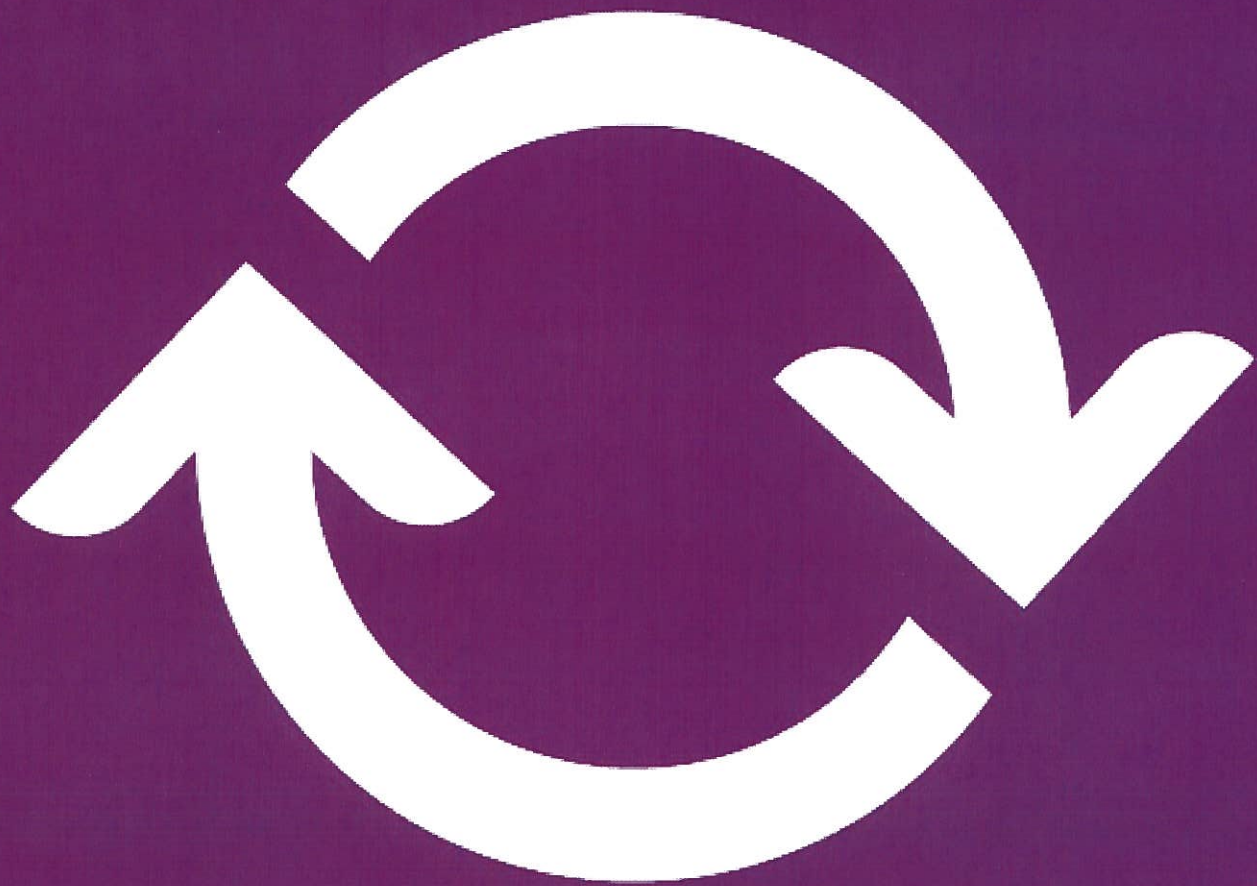
The EURRON traded within the 4.50-4.60 range for most of 2017 moving up from the 4.40-4.50 preferred interval in 2016 due to the weakening capital flows and rising unit labour costs. Encouraged by NBR's statement that the exchange rate will have more flexibility, the market tested the 4.60 resistance level at the beginning of November 2017 and was immediately able to cross above it. Although we cannot rule out temporary returns below 4.60, we expect this higher trading range of EURRON 4.60-70 to remain in place throughout 2018, as legislative, fiscal and political uncertainties persist. The RON could face temporary depreciation pressures due to local political instability episodes, risk of two stand-offs with the European Union (EU) (due to fiscal easing and the judicial changes) and external events which create volatility on global markets, such as the Brexit negotiations and monetary policy decisions by the ECB and the Fed.

Banks continued to clean up their portfolios in 2017 via sales of nonperforming loans, thus lowering the Non-Performing Loans ("NPL") ratio to 7.3% in November 2017 from 9.62% at the end of 2016. However, the evolution of the credit stock for companies improved and, starting April 2017, finally exited negative territory for the first time since February 2013. Lending to households picked up (+6.8%yoy in 2017; FCY-adjusted) and was accompanied by a return of the growth of the credit stock to companies in positive territory (+2.2%yoy in 2017; FCY-adjusted), as the drag from write-offs and NPL sales tempered visibly in 2017, allowing for a stronger positive impact of improved new lending.

New lending is done predominantly in LCY for both individuals and companies, enabling the stock of RON-denominated loans to continue to outstrip the stock in foreign currency, with a share of 62.8% in total private sector loans at the end of December 2017, up from 57.2% in December 2016 and a minimum of 35.6% in May 2012. In 2017, above 80% of the new loans granted were in local currency. The fact that the weight of the credit denominated in local currency has increased strengthens the transmission of the monetary policy, helps mitigate risks to financial stability and enhances the robustness of the economy. The main drivers for this change were the central bank's efforts and regulations to protect customers against depreciation risks, together with LCY interest rates slipping to historical lows. The loan-to-depo ratio is close to the minimum, at 76.7% at the end of December 2017. The portfolio clean-up had a limited impact on banks' profitability, with loan loss provisions of only RON 1.3bn in 9M2017, representing around 44% of those in the corresponding period of 2016. Consequently, although the low interest environment and keen competition continued to pressure revenue margins, banks registered RON 4.1bn profit in 9M2017 (up 10% yoy). The banking system remains well capitalized, with a solvency ratio of 19% in September 2017.

Business growth targets stay ambitious, focusing on proper servicing and supporting, risk management and profitability level. Quality improvement, process and cost optimization will continue. The Bank will also focus on systems enhancement as the main driver for high performance and efficiency.

# Transform operating model.



The transformation of our operating model is fully on track, including cost discipline and efficiency measures to reduce the cost income ratio. Our FTE and branch reductions are ahead of schedule – as we further improve on customer focus, services and products. The digital and IT transformation is fully on track, investments supporting the business transformation with digitalization as a key enabler.

The Management Board's members of the Bank firmly believe that due to the strong financial fundamentals of the Bank and the commitment for support from the main shareholders, the Bank has very good prospects to duly service its customers, comply with all ruling laws and regulations, and further improve its position at the market.

## **5. Research and development activity**

The research and development activity of UCB's Group, including the know-how received from UniCredit Group, was mainly directed to improvement of efficiency and productivity of:

- Products and services offered to customers;
- Risks management systems;
- Internal control systems and compliance;
- Financial accounting systems;
- Management information system;
- IT systems;
- Human resources management;
- Decision making systems.

## **6. Management**

The UCB's Group senior management has applied strictly all acting statutory and UniCredit Group regulations. The UCB's Group performance was strictly and regularly monitored and corrective or enhancement decisions were made in a timely manner. The Group maintained its solid financial standing, covering all potential risks.

The UCB's Group was properly represented on due managerial level in different bodies and forums in Romania and internationally at UniCredit Group level.

## **7. Risk Management**

### **7.1. The foreign exchange risk**

The UCB's Group is exposed to foreign exchange risk as a consequence of its foreign exchange transactions performed in RON and in foreign currencies, respectively of the mix of currencies in which the assets and the liabilities are denominated.

The main foreign currencies held by the Group are EUR and USD. The Bank strictly watches and manages the foreign currency position. It has strictly observed the regulatory limits set by the NBR and other internal regulations.

### **7.2. Interest risk**

The UCB's Group faces interest rate risk that could be a result of exposure to unfavourable fluctuations on the market. The change of the interest rates on the market directly influences the income and expenses related to the financial assets and liabilities bearing variable interests, as well as the effective value of those bearing fixed interest rate.



For the financial receivables and financial liabilities in RON, UCB's Group aim to correlate the current interest rates on the market and to obtain a positive interest margin.

For the financial assets and liabilities denominated in other currencies than RON, the Bank and its subsidiaries aim to maintain a positive net position. Most of the interest-earning assets and interest-bearing liabilities in foreign currencies have variable interest rates which could be exchanged at the Bank initiative or that are related to a reference variable interest rate on the inter-banking market.

### **7.3. Credit risk**

The UCB's Group is exposed to credit risk representing the risk of negative impact on revenues generated by debtors not fulfilling the contractual obligations of loans granted on short, medium or long run.

The UCB's Group manages this risk through a set of comprehensive measures, both at transaction and debtor, and at global level, related to:

- Strict evaluation of debtors' creditworthiness and of loan applications;
- Continuous monitoring of the exposures in order to identify any changes that may affect negative the overall risk status or generate the breach of risk limits set out by the internal procedures;
- Set up of general loan loss provisions in correlation with the estimated expected losses for all credit portfolio, as well as specific loan loss provisions for high risk or defaulted exposures;
- Capital allocation for credit risk unexpected losses in accordance with the regulatory and UniCredit Group regulations;
- Regular monitoring of the credit risk profile of the Bank in order to ensure compliance within the tolerance limits defined in accordance with the risk management strategy and the Bank risk appetite.

In respect of the assurance of prudent management for credit counterparty risk, the Bank deals with adequate ranking international banks following based on specific assessment criteria and strict internal rules. There are certain limits for the transactions with other banks, related to deposits and foreign currency exchange.

### **7.4. Liquidity risk**

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

Among the main potential generators of liquidity risk, UniCredit Group distinguishes between liquidity mismatch risk/refinancing risk; liquidity contingency Risk; market Liquidity Risk.

In line with the Group's liquidity framework, the main goal of Group's overall liquidity management is to keep the liquidity exposure at such a level that the bank is able to honour its payment obligations on an on-going basis, but also during a crisis without jeopardizing its franchise value or its brand's name. Hence, two main operating models for the liquidity management are defined: Going Concern Liquidity Management and the Contingent Liquidity Management.

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

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

- encouraging sticky client deposits;

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

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

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

- the daily short-term liquidity report, through which cash inflows and outflows mainly coming from inter-bank transactions are monitored;
- the structural liquidity gap –used to determine the gap between assets and liabilities with maturities over one year;
- regulatory indicators: the group has to comply with the limits imposed by National Bank of Romania, Liquidity covered ratio, Net stable funding ratio;
- other key indicators for the management of liquidity and funding needs used to assess the liquid assets, the concentration of funding, the immediate liabilities, the difference between the commercial funding and the commercial loans

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

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

### **7.5. Cash flow management**

The UCB's Group focused its attention to mitigate the exposure to cash flow risk within its regular course of business, but also for longer periods of time.

The main monitored areas in order to mitigate cash flow are: operational activity, investment activity and financing activity.

### **7.6. Derivative financial instruments**

The UCB's Group deals with certain types of derivatives, aiming to hedge underlying risk positions, such as interest rate swaps, exchange rate swaps, forward contracts, exchange rate options and interest rate options. The derivatives are traded on the OTC market.

On 31 December 2017, the UCB's Group had outstanding a number of FX swap contracts, as well as forward contracts, interest rate swaps, cross currency swaps, FX options and interest rate options. commodities options and swaps. FX and interest rate options, as well as IRS concluded with clients and closed back to back, mainly with the Group.

In designating financial instruments in qualifying hedge relationships, the Bank has determined that it expects the hedges to be highly effective over the period of the hedging relationship. The Bank designated certain interest rate swap and cross currency swap contracts as hedging instruments and

certain loans and deposits from customers of the Bank and foreign currency Romanian sovereign bonds as hedged items, within cash flows and fair value hedge relationships. For hedge accounting purposes, only instruments that involve an external party to the Bank (or intra-group transactions directly replicated with third parties outside the Group) are designated as hedging instruments.

### 7.7. Tax risk

The UCB's Group is committed to ensure sustainable performance of tax risk management by establishing and maintaining an efficient and effective tax function within the organization. The UCB Group strictly complies with the fiscal laws regarding taxes and duties.

Differences between IFRS accounting treatment and fiscal requirements have been carefully identified and analysed, resulting in proper recognition of deferred tax effects in the financial statements.

The UCB Group is focused on transfer pricing risk monitoring, including proper documentation of intra-group transactions upon a proactive approach.

### 7.8. Compliance risk

Within a complex legal framework, the UCB's Group is subject to the compliance risk, defined as the actual or future risk to impact the profits and capital, which may lead to fines, claims and/or cancellation of contracts or which may affect the reputation of a credit institution, as a result of breaching or non-compliance with the regulatory framework, agreements, recommended practices or ethical standards.

In this respect, compliance function in order to meet the requirements of the law, supported Management Board to manage the conformity risk. In this respect, the compliance risk function gives support to identify, evaluate, monitor and report the compliance risk associated to different activities, including consultancy to respect the legal and internal requirements and UniCredit Group's requirements.

## 8. Shareholders' equity

At 31 December 2017 the paid-in capital of the Bank was RON 379,075,291.20 split into 40,760,784 shares at RON 9.3 par value each.

The structure of the Bank's shareholders as at 31 December 2017 is the following:

<i>Shareholder</i>	<i>Shares' number</i>	<i>Value (RON)</i>	<i>%</i>
<i>UniCredit S.p.A.</i>	<i>40,079,109</i>	<i>372,735,713.70</i>	<i>98.328</i>
<i>Romanian Individuals</i>	<i>639,259</i>	<i>5,945,108.70</i>	<i>1.568</i>
<i>Romanian Legal Entities</i>	<i>25,048</i>	<i>232,946.40</i>	<i>0.061</i>
<i>Foreign Individuals</i>	<i>10,028</i>	<i>93,260.40</i>	<i>0.025</i>
<i>Foreign Legal Entities</i>	<i>7,340</i>	<i>68,262.00</i>	<i>0.018</i>
<b>TOTAL</b>	<b>40,760,784</b>	<b>379,075,291.20</b>	<b>100</b>

During 2017, there were no significant changes in the shareholding structure.

# Maximise commercial bank value.



We continue to maximise commercial bank value, with the ongoing transformation resulting in higher productivity. Our activities in Western Europe are benefitting from the revamped network with new service models for retail and SME customers as well as a strong multichannel strategy. We have further strengthened our leadership positions in CEE and CIB, while keeping a strong focus on risk.

## 9. Corporate Governance

UCB Group is responsible for the existence of a rigorous management framework designed to include at least the following aspects:

- organizational structure and organization;
- the Bank's Governing body: duties and responsibilities;
- composition and function, general framework for the activity;
- risk management;
- internal control;
- informational systems and business continuities;
- transparency requirements.

The Bank has internal regulations regarding management of the business, in the light of the Group's guidelines. The Bank adapted management framework depending on nature, scale and complexity of the inherent risks in the business model.

### 9.1. UCB's corporate governance

#### 9.1.1. General Shareholders' Meeting ('GSM')

The General Shareholders' Meeting is constituted as the **supreme authority** of the Bank.

The rights, responsibilities and working methods of the GSM are established in the Constitutive Act of the Bank and they are carried out in compliance with the applicable Romanian laws and regulations.

**The detailed tasks and responsibilities** are set forth in the Bank's Constitutive Act.

The General Shareholders' Meeting could delegate a part of its competences to Supervisory Board and Management Board in the cases mentioned in the Constitutive Act and in compliance with the applicable laws.

The roles and responsibilities are detailed in the specific regulation/rule of procedure

The **General Meetings of the Shareholders** shall be convened at least once a year, within 5 months since the financial year end in accordance with the legal requirements, and at any time it is needed to make decisions in its area of responsibility, in accordance with the provisions of law or the Constitutive Act.

**Extraordinary General Meeting of Shareholders** shall be convened whenever decisions in its responsibilities must be adopted.

The **Ordinary General Meeting of Shareholders** shall:

- discuss, approve or modify the annual financial statements, based upon the reports of the Management Board, Supervisory Board and financial auditor, and shall determine the dividends;
- appoint and revoke the Supervisory Board members;
- appoint and revoke the financial auditor and establish the minimum duration of the financial audit contract following the proposal of the Supervisory Board;
- approve the remuneration of the Bank's Supervisory Board' members;
- express its opinion about the Management Board's management;
- approve the budget of income and expenses, and the program of activity for the next financial year as established by the Management Board and after preapproval by the Supervisory Board.

### **9.1.2. Supervisory Board**

The Supervisory Board is the statutory body of the Bank which is responsible for supervision and control of the Bank, in particular shall supervise the exercise of powers by the Management Board and the conduct of the Bank's business activities. As of 31<sup>st</sup> December 2017, Supervisory Board has 6 members elected for a 3-year term, allowing reappointment.

The Supervisory Board shall supervise the financial and business activities of the Bank and shall control the observance of the provisions of the Constitutive Act and of any relevant legal provisions by the Bank's management bodies. The Supervisory Board shall further review the annual financial statements including the proposal for the distribution of profits, and the annual report prior to submitting them to the Ordinary General Meeting of Shareholders for approval.

The competences of the Supervisory Board are established by the Constitutive Act and the Romanian laws and regulations in force.

The Supervisory Board acts in 2017 through the Audit Committee, Remuneration Committee, Risk Administration Committee, Nomination Committee and any other consultative committee with the scope to assist the management in specific areas.

### **9.1.3. Management Board**

The Management Board is the statutory body responsible for current management of the Bank, has 6 members as of 31<sup>st</sup> of December 2017 elected for a 3-year term, allowing reappointment.

The Management Board is the statutory body of the Bank which is responsible for the management and execution of all activities of the Bank, including monitoring and control of the business objectives of the Bank. The Management Board takes decisions on any matters of the Bank, unless such decisions are reserved to other bodies according to legal regulations or this Constitutive Act.

The Management Board manages and coordinates collectively the Bank's activity in accordance with the competences assigned by the Constitutive Act and the Rules of Procedure of the Management Board.

The members of the Management Board are appointed and/or revoked by the Supervisory Board. The mechanism of the functioning of Management Board's meetings is described in the Rules of Procedure regarding the preparation and holding of the Management Board's meetings.

Both Supervisory Board and Management Board operate through specialized committees, whose role is to assist the management structure in specific areas.

### **9.1.4. Committees subordinated to Supervisory Board**

Committees subordinated to Supervisory Board are:

- Audit Committee
- Remuneration Committee
- Nomination Committee
- Risk Administration Committee

#### **9.1.4.1. Audit Committee**

The Audit Committee is directly subordinated to the Supervisory Board.

The Audit Committee is a consulting body of the Supervisory Board, with specialized attributions.

The Audit Committee will be composed of 3 elected non-executive members of the Supervisory Board.

The members of the Audit Committee and the Chairman will be elected by the Supervisory Board.

The roles, responsibilities and functioning mechanisms of the Audit Committee are detailed in the Audit Committee Regulation/rule of procedure.

#### **9.1.4.2. Remuneration Committee**

The Remuneration Committee is directly subordinated to the Supervisory Board.

The Remuneration Committee is set up to:

- determine the compensation (fixed and variable part) to be paid to each of the Bank's Management Board members, as well as Heads of Audit, Compliance and Risk Management;
- approve the terms and conditions of the management contracts to be concluded between the Bank and the members of the Management Board;
- Approve the goals of the Management Body and Head of Audit, Compliance and Risk Management.

The remuneration Committee is formed of three members selected from among the Supervisory Board members. The Chairman of the Remuneration Committee is appointed by the Supervisory Board. The Remuneration Committee members shall be appointed for the period of three years, reappointments being allowed.

The roles and responsibilities and functioning mechanisms of the Remuneration Committee are detailed in the Remuneration Committee Rules of Procedure.

#### **9.1.4.3. Nomination Committee**

The Nomination Committee is a permanent committee established by the Supervisory Board having as main duties:

- to identify and recommend to the Supervisory/Management Board, for approval, candidates to occupy the vacant seats within the management body;
- to assess the balance of knowledge, skills, diversity and experience within the management body;
- to assess on a regular basis, but at least once a year, the structure, size, composition and performance of the management body and to make recommendations to the management body with respect to any changes;
- to assess on a regular basis, but at least once a year, the knowledge, skills and experience of each member of the management body and of the management body as a whole and report to the management body accordingly;
- to decide with respect to a target concerning the representation of the male or female gender, poorly represented in the structure of the management body and draw up a policy concerning the means for increasing the number of these individuals in the structure of the management body in order to achieve the target concerned.

The nomination committee consists of minimum 3 (three) and maximum 5 (five) members selected from amongst the Supervisory Board members.

The roles and responsibilities and functioning mechanisms of the Committee are detailed in the specific regulation.

#### **9.1.4.4. Risk Management Committee**

Risk Management Committee is directly subordinated to the Supervisory Board. Risk Management Committee is a permanent committee of UniCredit Bank having a consultative and support function to the Management Body and carry out its duties in plenary session.

The RMC shall be composed of minimum 3 (three) and maximum 5 (five) members among of the SB's members.

The roles and responsibilities and functioning mechanisms of the Committee are detailed in the specific regulation/rule of procedure.

#### **9.1.5. Committees subordinated to Management Board**

Committees subordinated to Management Board are:

- Risk Management Operative Committee;
- Credit Committee;
- Assets and Liabilities Committee (ALCO);
- Disciplinary Committee;
- Norms and Procedures Committee;
- Projects Committee;
- Branch Network Committee;
- Security and Healthy Committee;
- Fraud Risk Management Committee;
- Special Credit Committee;
- Business Continuity & Crisis Management Crisis Committee;
- Conflict of Interest Committee;
- Professional Assessment Committee;
- Cost Committee;
- Internal Control Business Committee;
- Operational Permanent Work Group Committee.

Activities of the most important committees subordinated to the Management Board are presented below.

##### **9.1.5.1. Risk Management Operative Committee**

Risk Management Operative Committee is a permanent committee of UniCredit Bank SA.

The Committee shall exercise a consultative and proposing function and carry out its duties in plenary session. The Risk Management Operative Committee regulation will be reviewed periodically, if necessary.

The number of members of Risk Management Operative Committee with voting rights (permanent members) is 10.



The roles and responsibilities and functioning mechanism of the Risk Management Operative Committee are detailed in own regulation.

#### **9.1.5.2. Credit Committee**

The Credit Committee is a permanent committee responsible for making decisions regarding credit facilities under its area of competence in order to ensure an adequate quality of loans portfolio, according to the approved credit policy.

The number of members of Credit Committee is 4.

The roles and responsibilities and functioning mechanisms of the Credit Committee are detailed in the Credit Committee Regulation.

#### **9.1.5.3. Special Credit Committee**

The Special Credit Committee is organized with the purpose of advising, recommending, approving, rejecting loan applications and related memos for amendments to already approved transactions or other requests, for corporate clients (watch list 2), and all restructuring and workout clients (corporate clients, retail clients, private banking clients).

The roles and responsibilities and functioning mechanisms of the Special Credit Committee are detailed in the own regulation.

#### **9.1.5.4. Assets and Liabilities Committee (ALCO)**

The ALCO Committee is responsible for ensuring an adequate and sound management of the bank's Balance Sheet in a proactive manner. All members of the ALCO must be aware of all relevant business and market changes in order to ensure a balanced decision making process. The ALCO monitors and establishes limits for Liquidity and Market Risks. The ALCO evaluates regularly the market risk profiles of the bank with the aim of optimizing the profit of the bank within the boundaries of approved risk limits. Number of members is 10.

The roles and responsibilities and functioning mechanisms of the Assets and Liabilities Committee are detailed in the own regulation of the committee.

#### **9.1.5.5. Disciplinary Committee**

The Disciplinary Committee meets in order to investigate and analyze whether the employees subject to disciplinary and professional investigation procedure committed the types of violations regarding Code of Conduct, job description, Labor Contract. The number of members is 7.

The roles and responsibilities and functioning mechanisms of this committee are detailed in the Disciplinary Committee regulation.

#### **9.1.5.6. Norms and Procedures Committee**

The Norms and Procedures Committee analyzes and issues recommendation for approval/ rejecting or adjusting internal regulations before approval. Number of members is 10.

The roles and responsibilities and functioning mechanisms of the NPC are detailed in the Norms and Procedures Committee regulation.

#### **9.1.5.7. Projects Committee**

The Projects Committee creates the bases for easier and centralized management of the existing projects or identification of the new ones, in line with bank's strategy, for efficiently usage of resources participating in the projects. Number of members is 9.

The roles and responsibilities and functioning mechanisms of the PC are detailed in the Project Committee regulation.

#### **9.1.5.8. Branch Network Committee**

The Branch Network Committee analyzes and proposes actions for improvement of the activity of the branch network. Number of members is 6.

The roles and responsibilities and functioning mechanisms of the BNC are detailed in the Branch Network Committee regulation.

#### **9.1.5.9. Security and Healthy Committee**

The Security & Healthy Committee ensures a real secure and healthy working environment for the employees, in accordance with and with respecting of the specific local legislation in force and the Labour Code.

The Security & Healthy Committee functioning regulation establishes clear duties for both banks' management and employees, according to local specific legislation. Number of members is 8.

The roles and responsibilities and functioning mechanisms of the S&HC are detailed in the Security & Healthy Committee regulation.

#### **9.1.5.10. Fraud Risk Management Committee**

The main purpose of Fraud Risk Management Committee (hereby "The Committee"), is the evaluation, the monitoring and the control of the fraud risk, by its periodical evaluation with the aim of minimizing the loss produced by the possible frauds (where it is necessary, as the competences permit it).

In Committee mission (composed of 7 members) is included immediate mitigation of fraud risk, depended of situation.

The roles and responsibilities and functioning mechanisms are detailed in the committee's regulation.

#### **9.1.5.11. Business Continuity & Crisis Management Crisis Committee**

The Business Continuity & Crisis Management committee and work teams are established by the decision of the MB.

Decision-making, coordination and operational support during both the business as usual and crisis stage. The number of members is 14.

The roles and responsibilities and functioning mechanisms of the Crisis Committee are detailed in the specific regulation of the Committee.

#### **9.1.5.12. Professional Assessment Committee**

The Professional Assessment Committee meets in order to evaluate and analyze whether the employees subject to professional assessment procedure are professionally suitable for the job. The number of members is 3.

The roles and responsibilities and functioning mechanisms of the Committee are detailed in the specific regulation of the Committee.

#### **9.1.5.13. Cost Committee**

To be a management decision body responsible for the operational monitoring, forecasting and optimization of operational HR and non-HR and capital expenditure of the bank. The number of members is 7.

The roles and responsibilities and functioning mechanisms of the Committee are detailed in the specific regulation of the Committee.

#### **9.1.5.14. Internal Control Committee**

Internal Control Committee (10 members) has the role to support the President of the Bank in the assessment of the overall Internal Control adequacy at the Bank's level through the analysis of the critical topics, monitoring and prioritization of the corrective actions related to internal control, in order to contribute to the efficiency and effectiveness of the internal control.

The roles and responsibilities and functioning mechanisms of the Committee are detailed in the specific regulation of the Committee.

#### **9.1.5.15. Operational Permanent Work Group Committee**

Operational Permanent Work Group Committee is responsible for analysing the operational risk losses, events as well as Key Risk Indicators (KRIs) and scenarios, if case, in order to identify mitigation actions aiming at reducing operational risk and losses from operational risk in the future.

The roles, responsibilities and functioning mechanisms of the Committee are detailed in the specific rule of procedures.

#### **9.1.6. Internal Control**

The UCB's internal control is based on:

- the existence of the Internal Control framework
- the existence of the independent internal control function.

In the internal control functions, which must be independent, are included:

- risk management function, being composed by risk control function on each business line;
- compliance function and
- internal audit function.

The Internal Control framework represents the frame that ensures the deployment of efficient and effective operations, adequate risks control, prudent conduct of activity, credibility of the reported financial and non-financial information, both internally and externally. The Internal Control framework also represents the frame that ensures the compliance with legal and regulatory requirements, supervision requirements and Bank's internal rules and decisions.

The internal control frame covers all Bank's structures, as a whole, including activities of all operational units, of support and control functions.

The internal control functions periodically send official reports regarding major deficiencies identified to the management body. These reports include monitoring measures for the previous findings and for any new major deficiency identified involved relevant risks, an assessment of the impact and recommendation, per the case.

## **9.2. Corporate Governance UCB's subsidiaries (UCFIN and UCLC)**

The Bank, as a parent credit institution, takes into account and balances the interests of all its subsidiaries and analyses the way in which those interests concur to the common objective and interests of the whole UCB Group on long term.

### **9.2.1. UniCredit Consumer Financing IFN SA**

Committees subordinated to Supervisory Board are:

- Audit Committee ;
- Risk Management Committee.

Committees subordinated to Management Board are:

- Permanent Working Group for Operational Risk Management ;
- Credit Committee;
- Disciplinary Committee;
- Normes and Procedures Committee;
- Project Committee;
- Security and Health Committee;
- Business Continuity & Crisis Management Crisis Committee ;
- Price and Product Committee.

### **9.2.2. UniCredit Leasing Corporation**

Committees subordinated to Supervisory Board are:

- Audit Committee;
- Risk Management Committee.

Committees subordinated to Management Board are:

- Credit Committee;
- Special Credit Committee;
- Security and Health Committee;
- Business Continuity & Crisis Management Crisis Committee;
- Disciplinary Committee;
- Permanent Working Group for Operational Risk Management ;
- Anti-Fraud Committee

## 10. Relations with shareholders / investors

Conduct of General Meetings Shareholders is in accordance with legal requirements of the applicable laws regarding capital market with a special attention to meet the rights and obligations of the shareholders.

## 11. Non-financial declaration

Information on the development, performance and position of the Bank and the impact of Banks' activity on environmental, social and personnel, human rights and the fight against corruption and including bribe.

### 11.1. Short description of business strategy

In its activity Bank:

- Maintain a healthy organic growth via client acquisition through a further push on innovation and digitalization
- Sustain value through People by enabling the following pillars: Best place to work, Great people developer and Quality rewarder
- Capture synergies with the Group via cross-selling and international clients
- Keep current market positioning
- Maintain efficient risk management through good standard of new business and improve asset quality on existing business
- Maintain strong liquidity and capital position
- Focus on both sustainable revenues growth and optimizing collateralization
- Continue process optimization and maintain strict cost discipline

### 11.2. Protection of the environment

UniCredit Bank SA is compliant with the applicable legal framework regarding the environmental protection and is concerned to decrease the impact of its operational activities on environment.

### 11.3. Social and HR activity

#### **Learning & Development**

- Focus of training activity on developing the technical skills and knowledge of the employees from all divisions;
- Network employees had access to special training programs for developing technical knowledge as well as competencies needed in their daily activity. School branches were actively involved in delivering these trainings. There are the same numbers of School Branches in 2017 (6 in Bucharest and the main cities in the country). More than 800 colleagues participated at in-class trainings.

- The internal e-learning and testing platform, including that from UniCredit Group were actively used both for on-line education, as well as for periodical testing sessions, for topics as: AML Compliance, Information Security, Physical Security, Antifraud, market abuse, financial sanctions, transparency and consumer protection, MIFID, Volcker Rule. Using this platform were delivered also technical trainings for employees in the network;
- An improved format of the induction program was relaunched, including in class training, online as well as on the job training
- Continued development of the leadership pipeline, as one of our strategic objective, relying on UniCredit Group Talent Management Programs addressing executives and talents (Executive Development Program, Talent Management Review);
- The Managerial program - One Manager, One Team - was launched addressing to both managerial employees in the network and in headquarter. This program aimed at developing managerial skills and improving communication techniques within the teams. About 300 managers participated in this program;
- In 2017, we focused on improving the foreign languages knowledge, about 300 colleagues benefiting from English language courses, both in class and online;
- 120 colleagues included in the Growing Talents Program (started in 2017 in all UniCredit entities in Romania) are following a costumed development program according to their profile;
- Growing Talents, an internal talent program was launched and included 120 colleagues from all entities of UniCredit in Romania. Currently, these colleagues are undergoing a customized development program. The employees with managerial position had access to trainings and specialized programs: managerial trainings, business simulations, leadership events and conferences, coaching – in order to further developed managerial competencies and performance;
- Closer to the academic environment. In 2017, we continued to develop new partnerships, reaching a network of 21 partners, universities and students associations across the country, compared to 9 in 2016. Thanks to these collaboration protocols, we have extended our Internship programs national-wide, both on Retail and Corporate areas. In 2017 we had a number of 160 students in practical stage or internship.

### ***Integrity/Corporate Social Responsibility***

For over 10 years UniCredit Bank has supported creative industries, backing up the most important creative, design related, artistic and cultural events in Romania. Amongst them, Diploma (in collaboration with The Institute the bank endorse graduates from all creative disciplines), Romanian Design Week (Romania's biggest multidisciplinary event, dedicated to creative industries), Sibiu International Theater Festival (where the bank supports the new Fabric of Culture), Creative Mornings (a series of monthly conferences dedicated to the creative community), The Power of Storytelling, Teach for Romania (where the bank aids the Foreign Legion of Romanian education by financing 5 teachers from a local school in Fundeni, Calarasi), the third edition of The Creative Entrepreneur's Guide 24/7 (a publication about the life and work of creative entrepreneurs which is published in collaboration with Decat o Revista), ZAIN (the design festival in Cluj) and also The Creative Business Accelerator from ZAIN.

UniCredit Bank has aided and supported many important educational, entrepreneurial, social and cultural programs, in partnership with NGO's and other partners.

UniCredit Bank's mission is to be alongside the clients, colleagues, partners and support them in what they consider important. Thus, an important moment for the bank was the launch, during The Creative Minds Day, of a series of instruments dedicated to creative entrepreneurs:

- The first, The Academy of Creative Minds is a financial and entrepreneurial education program, a sort of "different school" for creative entrepreneurs.

- The Platform of Creative Minds also includes Romanian Stories, a site which promotes creative entrepreneurship as well as The Creative Package, a banking product consisting of services designed to fit the needs of creative entrepreneurs.
- As a result of the positive feedback received, the bank took a step forward and introduced the Barometer of Creative Minds – the first Romanian study which analyses the opportunities and perspectives of creative entrepreneurs. The bank also launched the Creative Minds Wednesday - a local shopping event dedicated to creative businesses in Bucharest.

### **Educational projects**

Last year the Bank launched The Creative Minds Academy, UniCredit Bank program for financial and entrepreneurial education, a kind of “exceptional school” for the creative entrepreneurs. The bank organized two editions and had 100 creative entrepreneurs that graduated the Academy, 50 mentors in the team both from the business sector, but also colleagues from the Bank.

The bank continued the partnership with Teach for Romania team by supporting 7 teachers – financially covering their wedges for the entire working year of 2017-2018 which are currently teaching in a school in Fundeni, Calarasi.

The bank remained the main partner of The Power of Storytelling 2017 conference, an event built around the idea that stories can change our worlds, connect people, move action and drive change. The only one in Eastern Europe of its kind, it brings together storytellers in all fields.

Continued to be partners of Creative Mornings Bucharest, a monthly lecture series for the creative community (100 participants on each session).

The bank continued the project launched in 2015 – together with the partners from Decat o Revista (DoR) – entitled 24/7 the social entrepreneurial guide, an inspirational and educational tool for the creative community in Romania offering them the documented stories and advice of different creative businesses across sectors.

The Bank was the main partner of DIPLOMA, an educational festival dedicated to the creative students in Romania, that are graduating from vocational universities, offering them tailored conferences, workshops and exhibitions.

It started a partnership with Visual Playgorund, an illustration and graphic design school for young professionals, where for 10 days internationally renowned illustrators and graphic designers come and teach.

### **Social projects**

15 philanthropic projects sustained by the Bank and co-sponsored by UniCredit Foundation, within the framework of the regular GIFT MATCHING campaign. The projects are driven and financially supported by its employees and UniCredit Foundation, matching individuals' donations.

As a part of GIFT MATCHING program, the Bank financially supported the fourth edition of the charity marathon between Bucharest and Sofia and back – 1000Balkan Charity Challenge - <http://1000balkan.com/>.

The bank supported Magicamp Association for the MagiHome Campaign, a house that is going to be finished and decorated for the parents of the children that suffer from cancer.

Like every year the Bank supported Regina Maria Foundation to organize their two charitable events, the Christmas Gala and Concert, where fundraising actions take place for the foundation.

The bank continued the partnership with Policy Center for Roma and Minorities and supported the dance and theatre band of the children from Ferentari.

### ***Cultural project***

UniCredit Bank become one of the two main official partners of the International Theatre Festival in Sibiu. In 2017 the bank continued to support Fabrica de Cultura performance venue, where together with the team from Radu Stanca Theatre is developing an educational, cultural and architectural platform.

### ***11.4. Anty-corruption and anti-bribery activity***

The Bank has implemented internal regulations, training programs and controls in the field of anti-corruption, the purpose of which is to:

- Define the principles and rules needed to identify and prevent potential corruption acts in order to ensure the integrity and reputation of the Bank and the Group;
- Provide general information to employees about the Bank's actions to identify, mitigate and manage the risks associated with corruption.

The implemented anticorruption program includes elements such as periodic assessment of corruption risk, relevant regulations in specific areas (eg gifts and protocol items, use of intermediaries, hiring, suppliers, etc.), providing a secure and accessible way for employees to report whistle-blowing violations of the anti-corruption principles, reporting to the management structure.

The Bank does not tolerate corruption. Corruption acts are forbidden regardless the way in which they are done and whether they are committed directly or indirectly. The Bank does not tolerate the involvement in Corrupt Acts of its Employees or third parties with whom it is in any kind of relationship. The Bank aims to implement an Anti-Corruption Program to counter the risks associated with Corruption and to ensure a culture that states that Corruption Acts are never accepted.

### ***11.5. Human rights***

Through the actions taken over time, through its set of values, principles, and compliance with laws, rules and regulations, UniCredit Bank constantly reaffirms its commitment to Human Rights. UniCredit treats with seriously all the aspects related to this topic, primarily aiming not to provoke or contribute to affecting human rights in any way through its own activity. Then, the bank commits itself to try to prevent or mitigate as much as possible the negative impact that the actions of its partners might have, even if it has not contributed directly to them. At the same time, UniCredit aims to maximize its positive impact with respect to human rights through activities such as: development of fair financial products and services, compliance with a Code of Conduct, support of philanthropic activities, etc. Last but not least, UniCredit maintains an open and continuous dialogue with all stakeholders to ensure that it takes into account their legitimate expectations.



# Adopt lean but steering center.



We have created a lean but steering center to drive Group-wide performance and ensure accountability. Through leaner support functions and transparent cost allocation, we focus on efficiency and simplification. We are positioned as best in class in terms of European corporate governance.

## 12. Communication calendar for 2018

Bank prepares every year a financial communication schedule, for information of their shareholders, this schedule will be published also on Bucharest Stock Market site.  
The schedule for 2018 is the following:

2017 local financial results	09.03.2018
Annual General Shareholders' Meeting (GSM) for 2017 local financial results approval	11.04.2018
Presentation of H1 2018 financial results	10.08.2018

## 13. Members of the Management Board of the Bank, UCFIN and UCLC during 2017

### *Members of the Management Board of the Bank, the parent company:*

- 1. Catalin Rasvan Radu**, Romanian citizen, Executive President (CEO), Chairman of the Management Board;
- 2. Marco Cravario**, Italian citizen, nominated as Executive First Vice-President (Deputy CEO), member of the Management Board;
- 3. Daniela Margareta Bodirca**, Romanian citizen, Executive Vice-President, member of the Management Board;
- 4. Alina Marinela Dragan**, Romanian citizen, Executive Vice-President, member of the Management Board;
- 5. Marco Giuseppe Esposito**, Italian citizen, Executive Vice-President, member of the Management Board;
- 6. Mihaela Alina Lupu**, Romanian citizen, Executive Vice-President, member of the Management Board until 01.09.2017;
- 7. Jakub Dusilek**, Czech citizen, Executive Vice-President, member of the Management Board.

### *Members of the Management Board of UCFIN, the subsidiary:*

- 1. Alberto Garbarino**, Italian citizen, President of the Management Board;
- 2. Ignat Bogdan Dumitru**, Romanian citizen, member of the Management Board;
- 3. Cezarina Morar**, Romanian citizen, member of the Management Board.

### *Members of the Management Board of UCLC, the subsidiary:*

- 1. Mircea-Marian Cotiga**, Romanian citizen, President of Management Board;
- 2. Simona Nicoleta Milosoiu**, Romanian citizen, Vice-President of the Management Board;
- 3. Serban-Mihai Tanasescu-Ienciu**, Romanian citizen, Vice-President of the Management Board;
- 4. Ramona Balasanian**, Romanian citizen, Vice-President of the Management Board;
- 5. Daniela Panaitescu**, Romanian citizen, Vice-President of the Management Board.

In their activity, the Management Board members acted in compliance with specific economic legislation in force, norms and regulations issued by National Bank of Romania, Group rules and internal rules and regulations of UniCredit Bank SA.

The Management Board members' activity had as primary goal effective and efficient management of the bank's patrimony in full compliance with the law and statutory regulations.

In conclusion, the main focus of the Management Board members was put on:

- Strong financial standing of the Bank, including solid capital base and liquidity;
- Prudent risk management, including credit, market and operational risks;
- Strict and effective internal control of activity and operations, carried out in accordance with the legal provisions in force;
- Value added of all types of businesses, geographies and operations;
- Completion of the targets set in the budget;
- Business sustainability;
- Corporate social responsibility;
- Increase the productivity and efficiently functioning organizational structure of the Bank, focused on rendering qualitative and competitive banking services and products to the clients of the Bank;
- Increased efficiency of logistical organization and infrastructure;
- Higher automation and systems development, through improvement of banking software performances, risk management and specialized applications in order to satisfy the bank's operating needs, acting accounting and legal requirements, and enhance decision making process;
- Continuous development and professional training of the bank's employees.

#### 14. Conclusion

Although the market conditions and the local and international economic environment continued to be challenging, in 2017 UCB Group had a strong financial position and a good performance.

The future development objectives will continue to focus on a more rapid growth of operations in retail, alongside with the strengthening of corporate activity. The Group continues to focus on delivering of value-added services, on risk management, profitability, productivity and strengthening of market position through higher service quality, enriching the range of products and services, as well as strict compliance with the acting laws and by-laws. Last but not least, the Group remains consistent with its mission of being close to its clients and supporting them in accomplishing the things that matter to them.

Catalin Rasvan Radu

Executive President

Banking that matters. |  **UniCredit**

[www.unicredit.ro](http://www.unicredit.ro)