One Bank One UniCredit

31 December 2017

Separate Financial Statements

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

Banking that matters. | UniCredit

One Bank, One UniCredit.

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

CONTENT

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of UniCredit Bank S.A.
Bucharest, Romania

Report on the Audit of the Separate Financial Statements

Opinion

1. We have audited the separate financial statements of UniCredit Bank S.A. (the "Bank"), with registered office in 1F, Expozitiei Boulevard, District 1, Bucharest, Romania, identified by the unique tax registration code RO 361536 which comprise the separate statement of financial position as at December 31, 2017, and the separate statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, including a summary of significant accounting policies and notes to the separate financial statements.

2. The separate financial statements as at December 31, 2017 are identified as follows:

• Equity	RON 3,365,403,639
• Net profit for the financial year	RON 325,273,817

3. In our opinion, the accompanying separate financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and National Bank of Romania Order no. 27/2010 for the approval of Accounting regulation in accordance with International Financial Reporting Standards as adopted by the European Union, with subsequent amendments, ("Order 27/2010").

Basis for Opinion

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

Key Audit Matters

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

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Impairment of loans and advances to customers	
Nature of the area of focus	***How our audit addressed the key audit matter***
As described in note 23 from separate financial statements the Bank has booked as at 31 December 2017 Impairment allowances of 1,339 mil RON for the Loan and advances to customers in gross amount of 22,096 mil RON. Impairment allowances represent management's estimate of the losses incurred within the loan portfolio at the balance sheet date built on complex assumptions and professional judgements with significant impact in the financial position of the Bank. As detailed in the Accounting Policies section of the separate financial statements, the impairment allowances are calculated on a collective basis for portfolios of loans of a similar nature and on an individual basis for significant loans or loans with impairment triggers. Collective impairment allowances are calculated based on risk parameters like probability of default (PD), loss given default (LGD) and loss confirmation period (LCP) which are derived from internal models and historical data of the Bank. For specific impairment, professional judgement is required first to timely determine when an impairment event has occurred and then to estimate the expected future cash flows to repay the loan exposure at default. Valuation of collateral is often used to determine expected future cash flows that support recoverable amounts. Such recoveries from collaterals require assumptions and data that with high degree of professional judgement. Because of the significance of these professional judgements and the size of loans and advances to customers, the audit of impairment of loans and advances to customers is a key area of focus.	We have reviewed of the provisioning methodology applied by the Bank and assessed its consistency with requirements of IFRS and National Bank of Romania. <u>Testing of internal controls</u> We have challenged the appropriateness of key processes and related controls management has established to support their collective and specific impairment calculations, including: • controls for quality assurance of the source data used in developing professional judgements; • controls related to timely identification of impairment triggers; • controls related to debtors financial performance assessment and estimation of future cash flows. For the controls identified to be relevant in addressing the risks, we have tested the design and operating effectiveness of these controls. <u>Collective impairment</u> In case of collective allowances, we were assessing for selected internal models, in cooperation with our credit risk specialists, the model methodology, the internal validation reports and results of the models back-testing. We have also reviewed the quality of the historical data used in the computation of the risk parameters and recomputed the collective provision based on the risk parameters resulted from the models and loan portfolio at the balance sheet date. The appropriateness of management's estimates was also independently considered in respect of calculation methodologies and economic factors used by the Bank for valuation of collaterals, hair-cut factors for expected recoveries. <u>Identification of impaired loans</u> For a sample of loans selected from the Watch List portfolio (performing clients under close monitoring), we have performed procedures to identify whether loss events exist and have been captured on a timely basis. In reviewing the sample, we understood the latest developments at the borrower and considered whether key professional judgments were appropriate given the borrowers' circumstances. We have independently searched for any indicators of potential financial difficulty, such as breach of covenants and defaults on timely payments. <u>Specific impairment</u> For a sample of loans selected from the non-performing portfolio we have challenged the management expected recoveries and developed our own expectations of a range of reasonable outcomes for the impairment loss allowance based on the detailed loan and counterparty information.

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Interest and Fee Income Recognition	
Refer to Note 7 and 8 of the separate financial statements For the year ended 31 December 2017 the interest income represents RON 1,002 mil RON and fee and commission income represents 382 mil RON, the main source being loans to customers. These are the main contributors to the operating income of the Bank affecting the Bank's profitability. While interest income is accrued over the expected life of the financial instrument using the effective interest rate, the recognition of fee income depends on the nature of the fees as follows: • Fees that are directly attributable to the financial instrument are part of the effective interest rate and accrued over the expected life of such an instrument and are presented as interest income. • Fees for services provided are recognized when service is provided and are presented as fee and commission income. • Fees for the execution of an act are recognized when the act has been completed and are presented as fee and commission income. Revenue recognition specifics, a high volume of individually small transactions which depends on data quality of interest and fee inputs and on IT solutions for their recording, resulted in this matter being identified as a key audit matter.	We have tested the design and operating effectiveness of the key internal controls and focused on: • Interest/fee inputs on customer loans and deposits; • Recording/ changes of fees and interest rates; • Management oversight and control on interest and fee income, including budget monitoring; • IT controls relating to access rights and change management of relevant automated controls with the assistance of our IT specialists. We performed also the following procedures with regard to interest and fees revenue recognition: - We evaluated the accounting treatment performed by the Bank in respect of fees charged to clients to determine whether the methodology complies with the requirement of the relevant accounting standard (IAS 39). We have focused our testing on challenging the correct classification of: • Fees that are identified as directly attributable to the financial instrument and are part of the effective interest rate; • Fees that are not identified as directly attributable to the financial instrument. - We assessed the completeness and accuracy of data used for the calculation of interest and fee income. - We evaluated the mathematical formula used for accruing the relevant income over expected life of the loan. - We have assessed the interest and fee income by building our own expectation on the revenue and compared with the actual results of the Bank.

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Other information – Administrator's Report

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

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

   In connection with our audit of the separate financial statements for the year ended 31 December 2017, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

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

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

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

   Based on our knowledge and understanding concerning the Bank and its environment gained during the audit on the separate financial statements prepared as at 31 December 2017, we are required to report if we have identified a material misstatement of this Administrator's report. We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Separate Financial Statements

10. Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

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11. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

14. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

15. We have been appointed by the General Assembly of Shareholders on 28.01.2013 to audit the separate financial statements of UniCredit Bank S.A. for the financial year ended December 31, 2017. The uninterrupted total duration of our commitment is 5 years, covering the financial years ended 31 December 2013 until the 31 December 2017.

We confirm that:

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

- We have not provided for the Bank the non-audit services referred to in Article 5 (1) of EU Regulation no. 537/2014.

The engagement partner on the audit resulting in this independent auditor's report is Ahmed Hassan.

Ahmed Hassan, Audit Partner

For signature, please refer to the original Romanian version.

Registered with the Romanian Chamber of Financial Auditors under no. 1529/25.11.2003

On behalf of:

DELOITTE AUDIT S.R.L.

Registered with the Romanian Chamber of Financial Auditors under no. 25/25.06.2001

Sos. Nicolae Titulescu nr. 4- 8, America House, Intrarea de Est,
Etajul 2 - zona Deloitte și Etajul 3, sector 1,
Bucharest, Romania
March 7, 2018

Separate statement of comprehensive income for the year ended 31 December 2017

	Nota	2017 RON	2016 RON
Interest income		1,002,018,013	989,664,922
Interest expense		(236,969,702)	(257,417,348)
Net interest income	**7**	**765,048,311**	**732,247,574**
Fee and commission income		382,125,286	356,175,141
Fee and commission expense		(80,986,741)	(74,067,581)
Net fee and commission income	**8**	**301,138,545**	**282,107,560**
Net income from trading and other financial instruments at fair value through profit or loss	**9**	252,015,843	236,185,185
Fair value adjustments in hedge accounting		(4,374,290)	(3,811,455)
Net income on disposals of financial assets and liabilities which are not at fair value through profit or loss	**10**	47,672,155	121,913,534
Dividend income	**11**	2,191,269	1,913,613
Other operating income		14,286,584	7,818,686
Operating income		**1,377,978,417**	**1,378,374,697**
Personnel expenses	**12**	(325,337,972)	(303,711,515)
Depreciation and impairment of tangible assets	**13**	(43,630,463)	(42,712,432)
Amortisation and impairment of intangible assets	**13**	(46,125,313)	(46,699,368)
Other administrative costs	**14**	(315,715,065)	(283,673,235)
Other operating expenses	**15**	(11,739,175)	(9,135,623)
Operating expenses		**(742,547,988)**	**(685,932,173)**
Net operating expenses		**635,430,429**	**692,442,524**
Net impairment losses on financial assets	**16**	(167,960,625)	(324,099,223)
Net provision losses	**17**	(79,732,992)	(39,579,048)
Net gains/(loss) from other investment activities	**18**	(4,575,855)	(2,375,006)
Profit / (Loss) before taxation		**383,160,957**	**326,389,247**

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

Separate statement of comprehensive income for the year ended 31 December 2017

	Nota	2017 RON	2016 RON
Income tax	**19**	(57,887,140)	(59,834,799)
Net profit for the year		**325,273,817**	**266,554,448**
Other comprehensive income, net of tax			
Items that will not be reclassified to profit or loss			
Revaluation of property, plant and equipment (net of defferred tax)	**28**	(1,220,083)	48,021
Total items that will not be reclassified to profit or loss		**(1,220,083)**	**48,021**
Items that may be reclassified to profit or loss			
Net change in revaluation reserve for available for sale financial assets (net of deferred tax)	**28, 25**	(90,200,509)	(44,093,725)
Net change in cash flow hedging reserve (net of deferred tax)	**28**	2,017,748	(4,311,701)
Total items that may be reclassified to profit or loss		**(88,182,761)**	**(48,405,426)**
Other comprehensive income for the year, net of tax		**(89,402,844)**	**(48,357,405)**
Total comprehensive income for the year		**235,870,973**	**218,197,043**

The separate financial statements were approved by the Management Board on 27 February 2018 and were signed on its behalf by:

Mr. Catalin Rasvan Radu
Chief Executive Officer

Mr. Philipp Gamauf
Chief Financial Officer

	Nota	2017 RON	2016 RON
Assets			
Cash and cash equivalents	20	8,574,251,009	5,760,947,655
Financial assets at fair value through profit or loss	21	121,413,399	393,210,237
Derivatives assets designed as hedging instruments	30	4,196,748	17,325,503
Loans and advances to banks	22	1,446,780,104	737,782,299
Loans and advances to customers	23	20,757,284,583	18,826,508,130
Financial assets available for sale	25	5,999,727,015	6,369,107,583
Investment in subsidiaries	24	143,115,683	143,115,683
Property and equipment	26	186,450,287	206,581,764
Intangible assets	27	156,393,096	146,937,296
Deferred tax assets	28	56,459,358	19,732,413
Other assets	29	90,598,382	63,070,064
Non-current assets and disposal groups classified as held for sale		-	2,913,821
Total assets		**37,536,669,664**	**32,687,232,448**
Liabilities			
Financial liabilities at fair value through profit or loss	21	80,019,912	99,362,520
Derivatives liabilities designated as hedging	30	76,165,933	98,684,522
Deposits from banks	31	3,387,875,738	3,173,396,014
Loans from banks and other financial institutions	32	868,424,067	2,545,617,646
Deposits from customers	33	27,435,563,108	22,443,450,800
Debt securities issued	34	1,166,162,751	551,024,752
Subordinated liabilities	35	787,082,141	223,356,340
Current tax liabilities		14,388,017	41,002,820
Provisions	36	144,599,932	64,105,688
Other liabilities	37	210,984,426	190,712,385
Total liabilities		**34,171,266,025**	**29,430,713,487**

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

Separate statement of financial position for the year ended 31 December 2017

	Nota	2017 RON	2016 RON
Equity			
Share capital	**38**	1,101,604,066	1,101,604,066
Share premium		55	55
Reserve on available for sale financial assets	**28**	(53,502,857)	36,697,652
Cash flow hedging reserve	**28**	(48,922,704)	(50,940,452)
Revaluation reserve on property and equipment	**28**	9,672,847	10,892,930
Other reserves	**39**	244,827,555	240,534,612
Retained earnings		2,111,724,677	1,917,730,098
Total equity		**3,365,403,639**	**3,256,518,961**
Total liabilities and equity		**37,536,669,664**	**32,687,232,448**

The separate financial statements were approved by the Management Board on 27 February 2018 and were signed on its behalf by:

Mr. Catalin Rasvan Radu
Chief Executive Officer

Mr. Philipp Gamauf
Chief Financial Officer

Separate statement of changes in equity for the year ended 31 December 2017

In RON	Share capital	Reserve on available for sale financial assets	Cash flow hedging reserve	Revaluation of property, plant and equipment	Other reserves	Share premium	Retained earnings	Total
Balance at 31 December 2016	**1,101,604,066**	**36,697,652**	**(50,940,452)**	**10,892,930**	**240,534,612**	**55**	**1,917,730,098**	**3,256,518,961**
Total comprehensive income for the year								
Net profit for the year	-	-	-	-	-	-	325,273,817	325,273,817
Other comprehensive income, net of tax								
Transfer to other reserves	-	-	-	-	4,292,943	-	(4,292,943)	-
Dividends paid during the year	-	-	-	-	-	-	(126,986,295)	(126,986,295)
Transfer from revaluation reserve of property, plant and equipment to retained earnings	-	-	-	-	-	-	-	-
Net change in available for sale financial assets, net of tax	-	(90,200,509)	-	-	-	-	-	(90,200,509)
Net change in cash flow hedging reserve, net of tax	-	-	2,017,748	-	-	-	-	2,017,748
Revaluation of property, plant and equipment, net of tax	-	-	-	(1,220,083)	-	-	-	(1,220,083)
Total other comprehensive income for the year	**-**	**(90,200,509)**	**2,017,748**	**(1,220,083)**	**4,292,943**	**-**	**(131,279,238)**	**(216,389,139)**
Total comprehensive income for the year	**-**	**(90,200,509)**	**2,017,748**	**(1,220,083)**	**4,292,943**	**-**	**193,994,579**	**108,884,678**
Balance at 31 December 2017	**1,101,604,066**	**(53,502,857)**	**(48,922,704)**	**9,672,847**	**244,827,555**	**55**	**2,111,724,677**	**3,365,403,639**

The separate financial statements were approved by the Management Board on 27 February 2018 and were signed on its behalf by:

Mr. Catalin Rasvan Radu
Chief Executive Officer

Mr. Philipp Gamauf
Chief Financial Officer

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

Separate statement of changes in equity for the year ended 31 December 2017

In RON	Share capital	Reserve on available for sale financial assets	Cash flow hedging reserve	Revaluation of property, plant and equipment	Other reserves	Share premium	Retained earnings	Total
Balance at 31 December 2016	**1,101,604,066**	**80,791,377**	**(46,628,751)**	**10,844,909**	**240,534,612**	**55**	**1,762,196,423**	**3,149,342,691**
Total comprehensive income for the year								
Net profit for the year	-	-	-	-	-	-	266,554,448	**266,554,448**
Situatia altor elemente ale rezultatului global, neta de impozit								
Transfer to other reserves								
Dividends paid during the year	-	-	-	-	-	-	(111,027,489)	**(111,027,489)**
Transfer from revaluation reserve of property, plant and equipment to retained earnings	-	-	-	(6,716)	-	-	(6,716)	-
Net change in available for sale financial assets, net of tax	-	(44,093,725)	-	-	-	-	-	**(44,093,725)**
Net change in cash flow hedging reserve, net of tax	-	-	(4,311,701)	-	-	-	-	**(4,311,701)**
Revaluation of property, plant and equipment, net of tax	-	-	-	54,737	-	-	-	**54,737**
Total other comprehensive income for the year		**(44,093,725)**	**(4,311,701)**	**54,737**	-	-	**(111,020,773)**	**(159,378,178)**
Total comprehensive income for the year	-	**(44,093,725)**	**(4,311,701)**	**48,021**	-	-	**155,533,675**	**107,176,270**
Balance at 31 December 2016	**1,101,604,066**	**36,697,652**	**(50,940,452)**	**10,892,930**	**240,534,612**	**55**	**1,917,730,098**	**3,256,518,961**

The separate financial statements were approved by the Management Board on 27 February 2018 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 statements.
Convenience translation in English of the original Romanian version.

Separate statement of cash flow as at 31 December 2017

	Note	2017 RON	2016 RON
Operating activities			
Profit / (Loss) before taxation		383,160,957	326,389,247
Adjustments for non-cash items:			
Depreciation, amortisation and impairment on tangible and intangible assets	**13**	89,755,776	89,411,800
Net impairment losses on financial assets		212,295,996	283,295,266
Change in fair value of derivatives at fair value through profit or loss		17,321,766	(3,119,545)
Other items for which the cash effects are investing or financing		46,895,190	6,470,771
Other non–cash items		(66,313,063)	(124,103,879)
Operating profit before changes in operating assets and liabilities		**683,116,622**	**578,343,660**
Change in operating assets:			
Increase in investment securities held for trading		235,132,464	(84,185,586)
Increase in investment securities available for sale		296,421,227	-55,299,227
Increase in loans and advances to banks		(708,694,464)	112,168,502
Increase in loans and advances to customers		(2,080,824,413)	(1,064,257,289)
((Increase) / Decrease in other assets		(7,496,514)	(12,383,853)
Change in operating liabilities:			
(Decrease) / Increase in deposits from banks		214,018,704	(1,574,944,468)
Increase in deposits from customers		4,991,441,557	4,337,787,839
Increase in other liabilities		42,981,384	3,652,365
Income tax paid		(104,135,891)	(30,881,574)
Cash flows from / (used in) operating activities		**3,561,960,676**	**2,210,000,369**
Investing activities			
Proceeds from sale of property and equipment		1,713,203	1,049,772
Acquisition of property and equipment and intangible assets		(80,371,088)	(79,159,794)
Proceeds from sale of equity investments		656,258	45,263,082
Dividends received	**11**	2,191,269	1,913,613
Cash flows used in investing activities		**(75,810,358)**	**(30,933,327)**

	Note	2017 RON	2016 RON
Financing activities			
Dividends paid		(125,881,283)	(107,021,635)
Receipts from debt securities issued		610,000,000	-
Repayment of loans from financial institutions		(1,784,915,728)	(1,041,238,550)
Drawdowns from loans from financial institutions		68,786,048	135,582,000
		785,159,447	
Repayment of subordinated liabilities		(225,995,450)	-
Cash flows from financing activities		**(672,846,966)**	**(1,012,678,185)**
Net increase in cash and cash equivalents		2,813,303,352	1,166,388,857
Cash and cash equivalents at 1 January	**20**	**5,760,947,655**	**4,594,558,795**
Cash and cash equivalents at 31 December	**20**	**8,574,251,009**	**5,760,947,655**
Cash flow from operating activities include:			
Interest received		1,078,021,788	914,791,023
Interest paid		(237,650,918)	(259,580,331)

The separate financial statements were approved by the Management Board on 27 February 2018 and were signed on its behalf by:

Mr. Rasvan Catalin Radu
Chief Executive Officer

Mr. Philipp Gamauf
Chief Financial Officer

1. REPORTING ENTITY

Starting with August 2015, UniCredit Bank S.A. (the "Bank") is the new brand name of formerly UniCredit Tiriac Bank SA, established as a Romanian commercial bank on 1 June 2007 upon the merger by acquisition of the former UniCredit Romania S.A. (the absorbed bank) by Banca Comerciala HVB Tiriac S.A. (the absorbing bank) and is licensed by the National Bank of Romania ("NBR") to conduct banking activities.

The Bank's current registered office is 1F, Expozitiei Boulevard, District 1, Bucharest, Romania.

At 31 December 2017, the Bank is member of the UniCredit Group, being directly controlled by UniCredit S.p.A, with registered office in Milano, Piazza Gae Aulenti, 3 – Tower A.

The management of the Bank is governed by a two-tier system, by the Management Board and respectively by the Supervisory Board, in accordance with the prerogatives provided by the Constitutive Deed of the Bank and within the authority levels given by the General Assembly of Shareholders. The members of the Management Board exercise their responsibilities under the oversight of the Supervisory Board.

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

The Bank has the following directly controlled subsidiaries:

•UniCredit Consumer Financing IFN S.A. ("UCFIN"), 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 50.1% controlling interest in UCFIN starting with 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% direct and indirect controlling interest (direct controlling interest: 99.90%). The Bank's shareholding has an indirect controlling interest 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.

The Bank operates through the Head Office located in Bucharest and through its network of 156 branches (31 December 2016: 159) located in Bucharest and in the country.

2. BASIS OF PREPARATION

a) Statement of compliance

At 31 December 2017 and 31 December 2016, the separate financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union.

According to provisions of Order 27/2010 issued by National Bank of Romania, starting with 1 January 2012 the Bank applies IFRS as endorsed by European Union as statutory financial reporting framework. Transition from financial statements prepared based on Romanian Accounting standards in place until 31 December 2011 to IFRS was based on the information from financial statements as at 31 December 2011 prepared by the Bank in accordance with IFRS as endorsed by the European Union.

Additionally, the Bank prepares a set of consolidated financial statements in accordance with IFRS 10 "Consolidated Financial Statements".

b) Basis of measurement

The separate financial statements have been prepared, as follows:

Items	**Measurement basis**
Financial instruments at fair value through profit or loss	Fair value
Loans and advances	Amortized cost
Available for sale financial assets	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 separate financial statements are presented in Romanian Lei ("RON"), which is the functional and presentation currency. Except as indicated, the financial information presented in RON has been rounded to the nearest unit.

d) Use of estimates and judgements

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised 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.

2. BASIS OF PREPARATION (continued)

d) Use of estimates and judgements (continued)

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

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these separate financial statements, and have been applied consistently by the Bank. Where it has been considered necessary, the comparative amounts have been reclassified in order to ensure the conformity with the changes in presentation for the current reporting period and their appropriate specific disclosures have been presented in the corresponding notes to the financial statements.

a) Foreign currency

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

Monetary assets and liabilities denominated in foreign currencies at the end of reporting period are translated to RON at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to RON at foreign exchange rates ruling at the dates the fair value was determined.

The exchange rates of major foreign currencies were:

Currency	31 december 2017	31 december 2016	Variation
Euro (EUR)	1: RON 4.6597	1: RON 4.5411	2.61%
Dolar SUA (USD)	1: RON 3.8915	1: RON 4.3033	-9.57%

b) 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 are 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 Bank no longer applied 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 separate financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Interest

Interest income and expense are recognized in profit or loss using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank 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 recognised 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 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 expense presented in the statement of comprehensive income include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest related effect of swap transactions regarding refinancing lines with UniCredit Group Companies. The related interest effect of these swap transactions on the Bank's income statement is recognized in net interest income while the effect of exchange rate revaluation is recognized in net income on foreign exchange and on derivatives held for risk management;
- interest on financial assets and financial liabilities measured at fair value, calculated on an effective interest basis (derivative financial instruments, securities available for sale);
- 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.

d) Fees and commission

Fees and commission income and expense that are integral part of 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 Bank, including account servicing fees, investment management fees, advisory fees and syndication fees are recognized in the income statement on the accrual basis, i.e. when the corresponding service is provided.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Dividends

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

f) Net income from other financial instruments at fair value through profit or loss

This comprises gains less losses related to trading assets and liabilities and derivatives held for risk management, and includes all realised and unrealised fair value changes and foreign exchange differences.

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

g) Income tax

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

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

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

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

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

The tax rate used to calculate the current and deferred tax at 31 December 2017 is 16% (2016: 16%).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Financial assets and financial liabilities

(i) Initial recognition and Classification

The Bank initially recognises loans and receivables, deposits, debt securities issued and subordinated liabilities on the date that they are originated. All other financial assets and liabilities are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the financial instrument.

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

Financial assets

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

•Loans and receivables;

•Held to maturity;

•Available for sale;

•At fair value through profit or loss;

•Equity investments.

See accounting policies 3 (i), (j), (k), (l), (m), (n) and (o).

Financial liabilities

The Bank classified a financial liability in one of the following categories: amortised cost or fair value through profit or loss. See accounting policies 3 (j), (k) and (u).

The Bank designates financial assets and liabilities at fair value through profit or 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Financial assets and financial liabilities (continued)

(ii) 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 rate method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(iii) 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 market or, in its absence the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of a financial 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 Bank establishes fair value using various valuation techniques. 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 technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all available factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent to the financial instrument.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Financial assets and financial liabilities (continued)

(iv) Identification and measurement of impairment

The Bank assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

It may not be possible to identify a single, discrete event that caused the impairment. Rather the combined effect of several events may have caused the impairment. Losses expected as a result of future events, no matter how likely, are not recognized. If there is objective evidence that an impairment loss on a financial asset has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). If a loan, receivable or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the interest rate for: fixed interest rate loans when loan is originated and floating interest rate loans when the loan was found impaired. The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease is related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed either directly or by adjusting an allowance account. The amount of the reversal is recognized in profit or loss.

Loans and advances to customers

The Bank uses based on its internal impairment assessment methodology amongst other factors, the following main impairment indicators for loans to customers or groups of loans to customers:

(a) significant financial difficulty of the borrower determined in accordance with the Bank's internal rating system;

(b) a breach of contract, such as a default or delinquency in interest or principal payments of the borrowers (individually or in the same group of borrowers);

(c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider such as the rescheduling of the interest or principal payments;

(d it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;

(e) observable data indicating that there are economic or social conditions that can influence adversely the industry in which the borrower operates and that affect these borrowers.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Financial assets and financial liabilities (continued)

(v) Identification and measurement of impairment (continued)

The Bank first assesses whether objective evidence of impairment exists individually for loans to customers that are individually significant or collectively for loans that are not individually significant. Loans to customers that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. The calculation of the present value of the estimated future cash flows of a collateralized loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Individual assessment

Based on the Bank's internal criteria an exposure may qualify as individually significant. The client whose risk profile is not, according to expert judgement, reflected by portfolio based parameters is individually significant. The individual impairment is determined on a case by case basis taking into account the estimated future cash flows.

The main criteria for determining whether a specific exposure is individually significant is a threshold estimated based on UniCredit Group experience or the specific risk profile (in terms of potential credit loss), but validated by the Bank depending on local economic environment. The threshold for determining whether a specific exposure is significant or not, is locally established at the amount of EUR 0.25 million for retail loans and SMEs and respectively at the amount of EUR 1 million for corporate loans.

The above mentioned exposures are individually assessed and the Bank decides whether an objective evidence of impairment exists individually for these financial assets or not. If this is the case, these assets will be subject to provisions calculation based on individually determined future cash flows related to the respective transaction.

Collective assessment

For the purpose of a collective evaluation of impairment, loans to customers are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms.

The criteria used to divide exposures into buckets are based on the Bank's rating system, expert judgement and experience of the Bank's employees (e.g. the Bank uses credit risk grading, past due status, product type).

Management considers that the characteristics chosen are the best estimate of similar credit risk characteristics relevant to the estimation of future cash flows for groups of such loans by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Financial assets and financial liabilities (continued)

(vi) Identification and measurement of impairment (continued)

Collective assessment (continued)

For every type of credit risk exposure, the rating scores were determined on the basis of the past experience of the Bank, based on the UniCredit Group methodology and the professional judgment of the Bank's specialized employees.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

For loans and advances to banks please see note 22.

Available for sale financial assets

For financial assets classified as available for sale, when a decline in the fair value of an available for sale financial asset has been recognized directly in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized directly in other comprehensive income shall be removed from other comprehensive income and recognized in profit or loss even though the financial asset has not been derecognized. The amount of the cumulative loss that is removed from other comprehensive income and recognized in profit or loss shall be the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss.

Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed through profit or loss.

(v) Derecognition

The Bank 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 Bank is recognised as a separate asset or liability.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Financial assets and financial liabilities (continued)

(v) Derecognition (continued)

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

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

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

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

•Either UniCredit SpA directly financed some corporate customers, while the Bank undertook the role of agent or security agent and payment agent, or

•The Bank 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 each contract concluded with UniCredit SpA, there is a risk participation agreement by which the Bank 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.

The loans financed by UniCredit SpA are not recognized in the Bank's balance sheet (refer also to note 41) as the Bank has transferred all risks and rewards of ownership.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Financial assets and financial liabilities (continued)

(vi) Offsetting

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

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

i) Cash and cash equivalents

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

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

j) Assets and liabilities held for trading

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

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

(i) if the financial asset would have met the definition of loans and receivables (if the financial asset had not been required to be classified as held for trading at initial recognition), then it may be reclassified if the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity;

(ii) if the financial asset would not have met the definition of loans and receivables, then it may be reclassified out of the trading category only in rare circumstances.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Assets and liabilities held for trading (continued)

If the fair value of a financial instrument becomes smaller than zero, which might happen in case of derivative financial instruments, then those instruments are presented in the position "Derivative financial liabilities at fair value through profit or loss".

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

k) 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) Other non-trading derivatives which are not held for trading

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

(ii) Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a "host contract"). The Bank 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Derivatives held for risk management purposes and hedge accounting (continued)

(iii) Cash flow hedges

On initial designation of the hedge, the Bank 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 Bank 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 Bank makes an assessment for a cash flow hedge of a forecast transaction, as to whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised 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 recognised in "Other comprehensive income" in the hedging reserve. Any ineffective portion of changes in the fair value of the derivative is recognised 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 recognised 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 Bank designated certain interest rate swap and cross currency swap contracts as hedging instruments and certain loans and deposits from customers of the Bank as hedged items.

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. The foreign exchange gains or losses from these financial instruments are directly recognized in profit or loss account.

(iv) Fair value hedges

On initial designation of the hedge, the Bank 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 Bank 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 fair value of the respective hedged items during the period for which the hedge is designated.

Bank adopts micro fair value hedge (one or more derivatives linked in hedge relationship to one or more hedged items) of interest rate risk in financial instruments which otherwise are not carried at fair value through profit or loss. Hedge of interest rate risk minimizes variability in fair value due to changes in market interest rate curves.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Derivatives held for risk management purposes and hedge accounting (continued)

(iv) Fair value hedges (continued)

The Bank designated certain interest rate swap as hedging instruments and certain bond instruments classified in Available for sale portfolio with residual maturity above 1 year at the inception of the hedge, bearing fixed interest rates of the Bank as hedged items.

A fair value hedge shall be accounted for as follows: the gain or loss from re-measuring the hedging instrument at fair value (for a derivative hedging instrument) or the foreign currency component of its carrying amount measured in accordance with IAS 21 (for a non-derivative hedging instrument) shall be recognized in profit or loss; and the gain or loss on the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedged item and be recognized in profit or loss. This applies if the hedged item is otherwise measured at cost. Recognition of the gain or loss attributable to the hedged risk in profit or loss applies if the hedged item is an available-for-sale financial asset.

The fair value hedge (FVH) relationship is discontinued prospectively when: the hedging instrument expires or is sold, terminated or exercised; the hedge no longer meets the criteria for hedge accounting the Bank revokes the designation. When the hedge relationship is terminated, and the hedging instrument is not closed out, it is removed from the fair value hedge (FVH) specific portfolio and recorded as a standalone derivative in another portfolio. Any adjustment arising to the carrying amount of a hedged financial instrument for which the effective interest method is used shall be amortized to profit or loss.

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.

l) Loans and advances to customers

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near future. Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

m) Held to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank's management has the positive intention and ability to hold to maturity. Held-to-maturity investments are carried at amortized cost using the effective interest method. If the Bank were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity, the entire category would be reclassified as available for sale and for a two year period the Bank would not use the held to maturity classification. The Bank has no Held-to-maturity investments as of 31 December 2017.

n) Available for sale

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Equity investments

(i) Subsidiaries

Subsidiaries are entities which are controlled directly or indirectly by the Bank, through subsidiaries, by holding more than half of the voting rights, unless in exceptional circumstances, it can be proved that such ownership does not represent control.

Subsidiaries are entities in which the Bank holds half or less of voting rights and:

•The power over the majority of voting rights based on agreements concluded with the other shareholders;

•The power to govern the operational and financial policies of an entity based on its articles of association or other agreement;

•The power to appoint or to revoke the majority of board members or equivalent governing body, and the control over the entity is exercised by that body;

•The power to control the majority of voting rights in the board of directors or equivalent governing body and the control over the entity is exercised by that body.

Starting January 2013, the Bank owns 50.1% from UniCredit Consumer Financing IFN S.A., control over the company being transferred to the Bank after the transfer of an additional 4.4% stake. Previously, before the acquisition, UCFin was an associate.

In the 1st semester of 2014, the Bank has taken over the direct controlling stake in the following leasing entities: UCLC (99.90%) and UCLRO (99.99%) from the previous parent leasing company controlled by UniCredit Group. The merger process of UCLC and UCLRO started in 2014 has been finalized by June 2015 when UCLRO was fully absorbed by UCLC.

The Bank has accounted for all its subsidiaries at cost in its separate financial statements in accordance with *IAS 27, Separate financial statements.*

UCLC is also a parent company which has direct control over the following subsidiaries:

•Debo Leasing IFN S.A.("DEBO"), real estate leasing entity, directly controlled by UCLC, holding 99.99% starting with April 2014;

•UniCredit Insurance Broker S.R.L.("UCIB"), insurance broker for insurance activities related to leasing activity for retail and corporate clients, directly controlled by UCLC, holding 100.00% starting with June 2014.

(i) Investment in associate

Associates are those entities in which the Bank has significant influence, but no control, over the financial and operating policies.

The Bank has no investment in associate as of 31 December 2017 and as of 31 December 2016.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Equity investments (continued)

(ii) Equity instruments

The Bank holds minor shareholdings in other entities providing auxiliary financial services and are classified as available for sale. Unquoted equity securities whose fair value cannot be reliably measured, are carried at cost. Whenever new information is available on the market regarding the fair value of these equity instruments and the respective fair values can be measured reliably, these financial instruments are measured at fair value, recognising the changes in their fair values in appropriate item within other comprehensive income. For impairment policy please refer to note 3 h) (iv).

Investment in subsidiaries and associated are carried at cost in the separate financial statements of the Bank.

For the VISA In Series C preferred shares, the fair value is estimated using the methodology provided by the parent company UniCredit SpA and is based on the closing price of VISA Inc. common shares quoted on New York Stock Exchange. Please see note 25 b) for presentation and additional details.

p) Property and equipment

I. Initial recognition and measurement

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

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

II. Subsequent measurement

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

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

If an asset's carrying amount is increased as a result of a revaluation, the increase is recognized in "Other comprehensive income" and accumulated in equity under "Other reserves". However, the increase is recognized in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss.

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

The decrease recognized in "Other comprehensive income" reduces the amount accumulated in equity under "Other reserves".

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Property and equipment (continued)

(ii) Subsequent measurement (coninued)

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 Bank 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 Bank 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% - 25% per year
Computer equipment	25% per year

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

q) Investment property

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

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in profit or loss within “Other operating income” or “Other operating expense” on a case by case basis.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

r) Intangible assets

(i) Recognition

An intangible assets is 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.

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

(ii) Subsequent expenditure

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

(iii) Amortisation

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

The estimate useful life is:

•for software:	5 years;
•for list of customers:	5 years;
•for licenses:	contractual life time, max 5 years

s) Business combinations

In accordance with IFRS 3 *Business combination*, a business is defined as "an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors of other owners, members or participants".

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

t) Impairment of non – financial assets

The carrying amount of the Bank'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 profit or loss.

In case of intangible assets of "List of Customers", in case of 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.

u) Deposits, debt securities issued, loans from banks and subordinated liabilities

Deposits, debt securities issued loans from banks and subordinated liabilities are the Bank's sources of debt funding.

When the Bank sells a financial asset and simultaneously enters into a "repo" or "sell buy back" agreement to repurchase the asset (or a similar asset) at a fixed price on a future date, the arrangement is accounted for as deposit, and the underlying asset continues to be recognized in the Bank's separate financial statements.

Deposits and borrowings such as loans from banks and other financial institutions are recognized initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs occurred. Borrowings and other liabilities evidenced by paper are subsequently stated at amortized cost.

Debt securities issued include bonds issued by the Bank and not held for trading or designated at fair value through profit or loss. Debt securities in issue are recognized when the Bank becomes part of the contract.

On initial recognition debt securities are measured at fair value, including issuing cost.

Debt securities in issue are measured at amortized cost. Application of amortized costs determines that transaction cost capitalized in the initial recognition amount, premium and discount are recognized in the income statement along the life of the instrument.

v) Provisions

A provision is recognised in the statement of financial position when the Bank 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

w) Non-current assets held for sale

A non-current asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The Bank measures a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell. For the period the asset is classified as held for sale the depreciation ceases and is tested periodically for impairment.

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

x) Financial guarantees and loan commitments

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

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

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

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

y) 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 Bank 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) Defined contribution plans

The Bank, in the normal course of business makes payments to the Romanian State funds on behalf of its Romanian employees for pension, health care and unemployment benefit. All employees of the Bank are members and are also legally obliged to make defined contributions (included in the social security contributions) to the Romanian State pension plan (a State defined contribution plan).

Obligations for contributions to defined benefit plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

y) Employee benefits (continued)

(iii) Other long term employee benefits

On the basis of internal practice and policies, the Bank has an obligation to pay to retiring employees a benefit equivalent of two salaries as at retirement date. The Bank'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 Bank's obligations.

(iv) Share - based payment transactions

The Bank 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 Bank and not by its Parent, and as a consequence it is recognised as an employee benefit expense.

At Bank 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 granting date less the present value of the future dividends related to the period from the granting 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 granting date to the share settlement date).

(v) Termination benefits

Termination benefits are recognised as an expense when the Bank 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, then they are discounted to their present value.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

z) 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 distinct financial information is available.

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

Unallocated items mainly comprise tangible and intangible assets and tax liabilities or assets. In order to manage, the Bank is organized into the following operating segments:

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

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

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

•**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)

aa) New Standards and Interpretations

In 2017 the following standards, amendments or interpretations have become effective:

- Amendments to IAS7: Disclosure Initiative (EU Regulation 2017/1990);
- Amendments to IAS12: Recognition of Deferred Tax Assets for Unrealised Losses (EU Regulation 2017/1989).
- Amendments to IFRS 12 following "IFRS Improvements (Cycle 2012-2014)" resulting from the annual IFRS Improvement Project (IFRS 1, IFRS 12 and IAS 28) with the primary objective of eliminating inconsistencies and clarifying certain formulations - adopted by the EU on 7 February 2018 (amendments to IFRS 12 are applicable for annual periods beginning on or after 1 January 2017).

The application of the principles and amendments mentioned above did not have substantial impact on balance sheet and income statement.

As of December 31, 2017 the European Commission endorsed the following accounting principles that will be applicable for reporting periods beginning on or after 1 January 2018:

- Amendments to IFRS4: Applying IFRS9 Financial Instruments with IFRS4 Insurance Contracts (EU Regulation 2017/1988);
- Clarifications to IFRS15 Revenue from Contracts with Customers (EU Regulation 2017/1987);
- IFRS 16 - Leases (EU Regulation 2017/1986);
- IFRS 9 - Financial Instruments (EU Regulation 2016/2067);
- IFRS 15 - Revenue from Contracts with Customers (EU Regulation 2016/1905);
- Amendments to IFRS 1 and IAS 28 "Improvements to IFRS (Cycle 2014-2016)" resulting from the annual IFRS Improvement Project (IFRS 1, IFRS 12 and IAS 28) with the primary objective of eliminating inconsistencies and clarifying certain formulations - adopted by the EU on 7 February 2018 (amendments to IFRS 1 and IAS 28 are applicable for annual periods beginning on or after 1 January 2018).

As of 31 December 2017 the IASB issued the following standards, amendments, interpretations or revisions their application is subject to completion of the endorsement process by the competent bodies of the European Commission which is still ongoing:

- IFRS 17: Insurance Contracts (May 2017);
- IFRIC Interpretation 22: Foreign Currency Transactions and Advance Consideration (December 2016);
- IFRIC Interpretation 23: Uncertainty over Income Tax Treatments (June 2017);
- Amendments to IFRS2: Classification and Measurement of Share-based Payment Transactions (June 2016);
- Annual Improvements to IFRS Standards 2014-2016 Cycle (December 2016);
- Amendments to IAS40: Transfers of Investment Property (December 2016);
- Amendments to IFRS 9: Prepayment Features with Negative Compensation (October 2017);
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (October 2017);
- Annual Improvements to IFRS Standards 2015-2017 Cycle (December 2017).
- 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 associates or joint ventures and subsequent amendments (effective date has been postponed indefinitely until the research project on the equivalence method is completed)
- Amendments to IAS 19 Employee Benefits - Modification, Reduction or Settlement of a Plan (applicable for annual periods beginning on or after January 1, 2019).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

aa) New Standards and Interpretations (continued)

With particular reference to IFRS 9 we highlight the following:

i) will introduce significant changes, compared to IAS39, to classification and measurement of loans and debt instruments based on the "business model" and on the characteristics of the cash flows of the financial instrument (SPPI - Solely Payments of Principal and Interests criteria);
ii) requires the classification of the equity instruments at fair value either through profit or loss or through "other comprehensive income". In this second case, unlike previous requirements for available for sale assets set by IAS39, IFRS9 has eliminated the request to recognize impairment losses and provide for, in case of disposal of the instruments, the gain or losses from disposal shall be recycled to other equity reserve and not to profit and loss accounts;
iii) will introduce a new accounting model for impairment, based on (i) expected losses approach substituting the current approach based on the incurred losses, and (ii) will introduce the concept of "lifetime" expected losses, and consequently an anticipation and a structural increase of the provisioning with particular reference to credit losses;
iv) works on the hedge accounting model rewriting the rules for the designation of a hedge accounting relationship and for the verification of its effectiveness in order to achieve a stronger alignment between the hedge accounting treatment and the underlying risk management logic. It should be noted that the principle allows the entity to make use of the possibility to continue to apply IAS39 hedge accounting rules until the IASB has completed the project on definition of macro-hedging rules; and
v) changes the accounting treatment of "own credit risk", in other words changes in the fair value of issued debt liabilities that are designated at fair value not attributable to changes of the own credit price. The new accounting standard requires these changes shall be recognized in a specific equity reserve, rather than to the income statement, as requested under IAS39, therefore removing a volatility source from the economic results.

In order to grant the prompt compliance with the requirements set by the accounting principles, the Bank has activated a project, that is in its final phase, with the aim at creating accounting and risk monitoring methodologies harmonized with the requirements of the local legislation integrating the provisions of IFRS 9.

Mirroring the main changes required by IFRS9, the Bank wide project has been organized through work-streams specifically:

- Classification and Measurement work-stream, aimed at reviewing the classification of the financial instruments according to new IFRS9 criteria,
- Impairment work-stream, aimed at developing and implementing models and methodologies for impairment calculation.

These work-streams are further integrated by a specific work-stream dedicated to adapting the models and methodologies developed to the peculiarities of Corporate & Investment Banking (CIB).
The whole project is being developed with the involvement of all the relevant departments of the Bank and with an active involvement of Board of Directors.

With reference to "Classification and Measurement" work-stream, the Bank has:

- identified the criteria, based on the new business model and on the features of the associated contractual cash flows, for the classification of financial instruments in the new categories foreseen by the accounting standard;
- applied the criteria identified for the classification of the existing portfolio.

The analysis of the business model has been performed by mapping the business areas and by attributing them a specific business model.

In this regard, a "held to collect" or "held to collect and sell" business model has been attributed to the business areas composing the banking portfolio in relation to the reasons why the instrument has been acquired or originated and to the expected turnover of financial instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

aa) New Standards and Interpretations (continued)

In this context, possible sales of financial instruments are considered as compliant with a "held to collect" business model in case of (i) securitization transactions that do not achieve the derecognition of the underlying loans, (ii) sales determined by adverse change in the credit risk of the counterparty, (iii) sales that are infrequent or not significant to be evaluated case by base.

For the classification of financial assets in the new IFRS 9 categories, the analysis of the business model is complemented by the analysis of the contractual cash flows ("SPPI Test").

In this regard, the Bank has developed processes and systems aimed at analyzing the portfolio of securities and loans so to assess whether the features of their contractual cash flows allows their measurement at amortized cost ("held to collect" portfolio) or at fair value through comprehensive income ("held to collect and sell" portfolio).

This analysis is performed either contract by contract or by clusters, defined on the basis of the features of the asset, and using a specific tool internally developed (SPPI Tool) in order to analyze the feature of the contracts in comparison with IFRS 9 requirements or making use of an external data provider.

In this context the result of the SPPI test is not affected by prepayment features with negative compensation embedded in the contract.

Equity instruments will be measured at fair value through profit or loss or comprehensive income depending on their features and the reasons for which they have been acquired.

With reference to the "Impairment" work-stream, the Bank's impairment models have been adapted to comply with the new accounting requirements, also following the "Guidelines on credit institutions' credit risk management practices and accounting for expected credit losses" issued by EBA.

The applicable asset perimeter subject to expected losses calculation have been extended in order to include, in addition to financial assets at Amortized Cost and the applicable off balance sheet exposures, all credit exposures assets classified at Fair Value through Other Comprehensive Income.

Furthermore, specific adjustments have been developed on Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD) parameters to compound the Expected Credit Loss (ECL), and a new model has been developed to assess the Stage Allocation on assets not impaired, at transaction level, between Stage 1 and Stage 2.

The main difference between the two stages is referred to the time horizon upon which the ECL is expected to be calculated on. As a matter of fact, for Stage 1 transactions a "1 year" ECL is required, while on Stage 2 transactions a "Lifetime" ECL applies.

On PD, LGD and EAD specific adjustments are applied to parameters already calculated for "regulatory" purposes, in order to ensure full consistency, net of different regulatory requirements, between regulatory and accounting treatment. The main adjustments are such to:

•remove the conservatism required for regulatory purposes only

•introduce a "point in time" adjustment, instead of the "through the cycle" adjustment embedded in the regulatory parameters

•include forward-looking information;

•extend the credit risk parameters in a multiyear perspective.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

aa) New Standards and Interpretations (continued)

As for what concerns the lifetime PDs, the through-the-cycle PD curves, obtained by fitting the observed cumulated default rates, have been calibrated to reflect a point in time and forward-looking expectation about the portfolio default rates.

Recovery rates embedded in the through-the-cycle LGD have been adjusted to remove the margin of conservatism and to reflect the most recent recovery rate trend as well as expectation about future trend and discounted at the effective interest rate or its best approximation.

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

The Expected Credit Loss derived from such adjusted parameters has been compounded also taking into consideration macroeconomic forecasts and applying multiple scenarios to the forward looking component so to offset the partial non linearity naturally embedded in the correlation between macroeconomic changes and the key components of the ECL. Specifically, the non-linearity effect has been incorporated by estimating an overlay factor to be directly applied to the portfolio ECL

The process set up to include such macroeconomic multiple scenario is fully consistent with macroeconomic forecasts processes used in UniCredit Group for other risk relevant purposes (i.e. processes adopted for translating macro-economic forecasts into Expected Credit Losses within both EBA Stress Test and ICAAP framework) and leverages on UniCredit Research independent function as well. The starting point will be therefore fully aligned, while the application will differentiate, to comply with different requirements, by using internally defined scenarios only.

A key aspect deriving from the new model in compounding the final Expected Credit Loss is represented by the Stage allocation model, aimed to allocate credit transactions between Stage 1 and Stage 2 (Stage 3 being equivalent to Impaired assets), whereas Stage 1 mainly includes (i) newly originated exposures, (iii) exposures with "no significant deterioration in credit quality since initial recognition" or (iii) "low credit risk" exposures at the reporting date.

In the Bank the stage allocation assessment includes a combination of relative and absolute triggers. Main triggers include

•the relative comparison, at transaction level, between the PD at origination and the PD at each reporting date, both calculated through internal models, with thresholds set in such a way to consider all the key variables of each transaction that could affect the Bank's expectation about PD changes over time (e.g. age, maturity, level of PD at origination).

•absolute triggers such as backstops required by the regulation (i.e. 30 days past due)

•other internal relevant triggers (e.g. classifications to Forborne or introduction in the watch list).

For assets represented by Securities, UniCredit has opted, fully in compliance with applicable standard, to apply the "low credit risk exemption" on investment grade securities.

Also impairment calculated on "Impaired Assets" has been adjusted as required by the new regulation, in order to include (i) adjustments on both collectively and individually assessed transactions, in terms of „point in time", forward looking adjustments and (ii) multiple scenarios applicable to this class of assets.

In this evaluation, also expected disposal scenarios are considered as far as Bank's Non-Performing Assets Strategy foresees the recovery of defaulted assets also through their transfer. For this purpose the recoverable amount of credit exposures will be determined at portfolio level by calculating a weighted average of the recoveries expected through the internal work-out process and the expected sale prices; both scenarios are weighted in accordance with the level of sales anticipated for the specific portfolio by strategy regarding non-performing..

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

aa) New Standards and Interpretations (continued)

In defining the perimeter of impaired assets, the definition of „Default" currently applied within Unicredit Group has been adopted, already incorporating some of the key principles embedded in the Definition of Default guidelines issued by EBA, such as the assessment of impairment or default, in vast majority of group entities, by considering the overall exposure to a given debtor (so called "debtor approach").

With reference to hedge accounting the Bank opted to keep applying the existing hedge accounting requirements as per IAS39 for all hedge accounting until the IASB will complete its project on accounting for macro hedging.

With reference to the implementation of the methodological framework and tools described above in the daily operations the Bank, in line with the project timeline, has designed the final IT architecture, and is finalizing the development of the organizational processes and procedures.

The Bank plans to use the transitional relief allowed by the standard and will not publish comparatives figures in the 2018 financial reports.

The UniCredit group IFRS9 project is part of European Central Bank Thematic Review.

In addition the methodological approaches adopted by the Bank in the context of IFRS 9 project have been subject to structured review by External Auditors which are currently performing a review of the implementations.

In this regard, we highlight that from the analysis performed so far no criticalities have arisen that may cast doubts on the overall adequacy of the mentioned methodological approaches, pursuant to the requirements of the new principle.

At the date of first time application, the main impacts of IFRS9 on the Bank are expected to come from the application of the new model for impairment based on an expected losses approach, which is expected to cause an increase of write-downs made on financial assets (especially loans and receivables with customers), as well as the application of the new transfer logic between the different Stages provided for by the new standard. In particular, a greater volatility is expected to be generated in the financial results between different reporting periods due to the dynamic changes between different "Stages" of the financial assets recognized in the financial statements (especially between "Stage1", which will include the new positions originated as well as all performing loans, and "Stage2" which will include positions in financial instruments that have suffered a significant credit risk deterioration since initial recognition).

Adjustments to the carrying value of financial instruments due to IFRS9 transition will be accounted for through Equity as of January 1, 2018 and they will have an estimated impact on CET 1 in the range of 100-150bps.

With reference to "Classification and Measurement", no significant reclassifications of loans and debt instruments at fair value through profit or loss due to the characteristics of the cash flows (SPPI criterion) are expected. Consequently the effect on CET 1 can be preliminarily estimated in the range of 3-10 bps on CET 1, gross of tax effects.

Further to entering into force of IFRS9, a review of the regulatory treatment for the calculation of the capital absorption of expected credit losses (CRD/CRR) is foreseen.

In that regard, the EU Regulation n. 2017-2395, issued on 27 December 2017, allows, as an option that financial institutions adopt a transitional regime where the additional Loan Loss Provisions could be included in CET1 with a "phase-in" mechanism over 5 years starting from 2018. The Bank will not adopt this transitional regime.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

aa) New Standards and Interpretations (continued)

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

IFRS15 provides for:

• two approaches for the revenue recognition ("at point in time" or "over time");

• a new model for the analysis of the transactions ("Five steps model") focused on the transfer of control; and

• the request for a more detailed disclosure to be included in the explanatory notes to the financial statements.

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

Based on the analysis performed so far no major impacts are foreseen by the adoption of IFRS 15.

IFRS16, effective starting from January 1, 2019, has been endorsed by the European Union with Regulation EU 2017/1986 of October 31, 2017 (published on November 9, 2017), modifies the current set of international accounting principles and interpretations on leases and, in particular, IAS17.

IFRS16 introduces a new definition for leases and confirms the current distinction between two types of leases (operating and finance) with reference to the accounting treatment to be applied by the lessor. With reference to the accounting treatment to be applied by the lessee, the new accounting standard sets, for all the leasing typologies, the recognition as an asset, representing the right of use of the underlying asset and, at the same time, a liability reflecting the future payments of the lease contract.

At the initial recognition such asset is measured on the basis of the lease contract cash flows, which include in addition to the present value of lease payments, any initial direct cost attributable to the lease and any other costs required for the dismantling/removing the underlying asset at the end of the contract. After the initial recognition the right-of-use will be measured on the basis of the previsions set for tangible assets applying the cost model less any accumulated depreciation and any eventual accumulated impairment losses, the revaluation model or the fair value model set by IAS16 or by IAS40.

Activities aimed at assessing the impacts of the adoption of the new accounting principles and ensuring the compliance with it are currently ongoing.

4. RISK MANAGEMENT

a) Introduction and overview

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

The Bank has exposure to the following significant risks:
- Credit risk
- Liquidity risk
- Market risks
- Operational risks
- Reputational risk
- Business risk
- Financial investment risk
- Real estate risk
- Strategic risk
- Risk of excessive leverage.
- Inter-concentration risk.

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

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

b) Risk management framework

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

The risks management within the Bank implies:
•the culture regarding the risk management;
•the framework regarding risk management;
•the policy for the approval of new products.

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

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

4. RISK MANAGEMENT (continued)

b) Risk management framework (continued)

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

The framework for risks management is based on:

•definition and set up of basic principles, of policies, procedures, limits and related controls for managing the risks;

•an organize structure specialized in the management and control of risks;

•strategies and specific techniques for measurement, evaluation, monitoring, decrease and reporting the risks.

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

The governing structures playing the role in risks management are:

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

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

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

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

•Asset and Liabilities Committee

•Risk Management Operative Committee

•Special Credit Committee

•Credit Committee

•Fraud Risk Management Committee

•Operational Permanent Work Group Committee

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

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

4. RISK MANAGEMENT (continued)

c) Credit risk

(i) Management of credit risk

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

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

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

•Set up a framework and adequate parameters for credit risk;

•Promoting and operating a healthy and sound process for granting loans;

•Promoting and maintaining an adequate process for management, measurement and monitoring of loans;

•Ensuring a permanent control over the quality of granted loans portfolios.

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

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

(ii) Exposure to credit risk

In RON	**31 December 2017**	**31 December 2016**
Individually significant impaired loans		
Grade 8-: Impaired	1,063,445,463	1,886,544,143
Grade 9: Impaired	151,436,435	168,916,181
Grade 10: Impaired	248,846,021	316,910,232
Gross amount	**1,463,727,919**	**2,372,370,556**
Allowance for impairment	(1,089,237,138)	(1,105,692,318)
Carrying amount	**374,490,781**	**1,266,678,238**

4. RISK MANAGEMENT (continued)

c) Credit risk (continued)

(iii) Exposure to credit risk (continued)

In RON	31 December 2017	31 December 2016
Fair value of collateral	**375,970,638**	**1,234,486,711**
Property	323,987,473	873,223,888
Goods	25,209,235	40,744,386
Assignment of receivables	21,082,634	18,220,112
Other collateral	5,691,296	302,298,325
Other impaired loans		
Grade 8- Impaired	207,136,132	233,392,238
Grade 9 - Impaired	2,145,093	4,640,032
Grade 10 - Impaired	113,998,312	164,492,799
Gross amount	**323,279,537**	**402,525,069**
Allowance for impairment	(174,798,872)	(210,965,802)
Carrying amount	**148,480,665**	**191,559,267**
Fair value of collateral	**135,638,696**	**184,123,165**
Property	127,143,148	166,683,696
Goods	2,520,495	3,119,346
Assignment of receivables	12,032	686,516
Other collateral	5,963,021	13,633,607
Past due but not impaired		
Grade 1 - 7, out of which:	**818,883,256**	**609,719,593**
Less than 90 overdue days	816,643,841	606,426,057
More than 90 overdue days	2,239,415	3,293,536
Grade 8, out of which:	**287,596,481**	**301,717,397**
Less than 90 overdue days	273,377,298	288,896,277
More than 90 overdue days	14,219,183	12,821,120
Gross amount	**1,106,479,737**	**911,436,990**
Allowance for impairment	(15,190,355)	(15,016,051)
Carrying amount	**1,091,289,382**	**896,420,939**

4. RISK MANAGEMENT (continued)

c) Credit risk (continued)

(ii) Exposure to credit risk (continued)

In RON	**31 December 2017**	**31 December 2016**
Neither past due nor impaired		
Grade 1-7	19,073,224,610	16,252,209,931
Grade 8	129,146,569	293,643,487
Gross amount	**19,202,371,179**	**16,545,853,418**
Allowance for impairment	(59,347,424)	(74,003,732)
Carrying amount	**19,143,023,755**	**16,471,849,686**
Total carrying amount	**20,757,284,583**	**18,826,508,130**

* *Other collateral includes cash and financial risk insurance.*

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

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

The Bank'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 Bank and the past due status.

Impaired loans

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

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

Individually significant impaired loans

Individually significant impaired loans comprises significant private individuals (more than EUR 250,000) which have at least one default event, as defined in the Bank's internal procedures, and significant corporate clients (more than EUR 1 million) with grade 8-, 9 or 10, as defined in the internal rating of the Bank; these two categories are individually assessed by the Bank.
For all of them, the collaterals are divided between property, goods, assignment of receivables and other. Other collateral includes pledge on stocks, machinery, cash and financial risk insurance.

4. RISK MANAGEMENT (continued)

c) Credit risk (continued)

(ii) Exposure to credit risk (continued)

Other impaired loans
Other impaired loans include all loans to individuals with more than 90 days late and credits to businesses with grades 8-, 9 and 10 that are not individually significant.

Past due but not impaired loans
Loans with overdue contractual interest or principal cash flows which are not considered impaired due to the level of guarantees available or/and the stage of the collection of the amounts by the Bank.

Neither past due nor individually impaired
It includes all exposures not classified in the above categories and considered to be all performing.

Allowances for impairment
The Bank establishes an allowance for impairment losses based on the internal methodology as described in note 3h (vii).

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets by risk grade:

31 December 2017	**Gross amounts**	**Net amounts**
In RON		
Grade 8-: Impaired	1,270,581,595	429,998,601
Gradae 9: Impaired	153,581,528	23,983,853
Grade 10: Impaired	362,844,333	68,988,992
Total	**1,787,007,456**	**522,971,446**

31 December 2016	**Gross amounts**	**Net amounts**
In RON		
Grade 8-: Impaired	2,119,936,381	1,301,555,801
Grade 9: Impaired	173,556,213	32,606,631
Grade 10: Impaired	481,403,031	124,075,073
Total	**2,774,895,625**	**1,458,237,505**

Restructured loans are as follows:

In RON	**31 December 2017**	**31 December 2016**
Gross amount	**1,420,083,645**	**1,496,398,395**
Allowance for impairment	(746,801,451)	(716,208,956)
Carrying amount	**673,282,194**	**780,189,439**

Restructured exposures are loan contracts for which restructuring measures have been applied and which are still under closed monitoring.

4. RISK MANAGEMENT (continued)

c) Credit risk (continued)

Any replacement operation of assets given to debtor that is facing or about to face financial difficulties in meeting financial commitments, represents a concession granted to the borrower (forbearance), which wouldn't have been granted if the debtor wouldn't be in financial 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 the debtor had not been in financial difficulty;
- •a total or partial refinancing of a contract related to a problem asset, which would have not been granted the debtor had not been in financial difficulty.

A concession may generate a loss for the lender.

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

Collateral

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

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

Due to the importance of this requirement, including for the purposes of mitigating the capital requirement for credit risk, the application procedure and related processes governing this area are particularly strict, to ensure that the documents obtained are completely in order from a formal and substantive standpoint.

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

4. RISK MANAGEMENT (continued)

c) Credit risk (continued)

(ii) Exposure to credit risk (continued)

Concentration of credit risk

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

In RON	31 December 2017	31 December 2016
Private entities (including individuals)	5,139,413,904	4,661,992,758
Manufacturing	4,897,096,997	4,552,772,353
Commerce - wholesale and retail	3,746,224,490	3,177,233,947
Real estate	1,578,003,598	1,246,734,199
Agriculture - forestry - fisheries	1,227,433,540	1,109,327,613
Construction and civil engineering	708,952,243	695,886,394
Information and communication	611,491,988	618,966,395
Transport and storage services	603,128,341	517,267,503
Administrative and support service activities	545,638,498	402,874,065
Financial and insurance institutions	518,888,586	476,189,541
Public administration and defence; social security insurance	363,324,438	502,948,310
Production and supply of electricity, gas, steam and air conditioning	291,804,248	383,955,326
Hotels and public commercial concern	161,703,277	104,015,194
Administrative and support service activities	131,301,610	114,548,582
Water supply	104,736,852	145,079,396
Extractive industry (mining and quarrying)	43,081,263	31,270,224
Medical and social activities	36,665,500	36,012,694
Arts, entertainment and recreation	7,017,250	10,261,234
Education	6,090,141	4,167,711
Other services	35,287,819	35,004,691
Total	**20,757,284,583**	**18,826,508,130**

In RON	2017	2016
Loans and advances to customers	20,757,284,583	18,826,508,130
Loan related commitments and contingencies	6,121,903,672	5,691,289,900
Total	**26,879,188,255**	**24,517,798,030**

The amounts reflected in the table above represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted and any collateral or security proved to be of no value. The amounts of credit risk shown, therefore, greatly exceed expected losses, which are included in the allowance for performing and non-performing loans.

4. RISK MANAGEMENT (continued)

c) Credit risk (continued)

Other credit risk exposures

Cash and cash equivalents, loans and advances to banks and investment securities were neither impaired nor past due. Please also refer to Note 20, Note 21, Note 22 and Note 25.

Placement with banks includes deposits with local and international commercial banks. These exposures with rating grades from 1 to 7 (31 December 2016: from 1 to 7) are considered performing in accordance with internal rating models of the Bank as of 31 December 2017 and 31 December 2016.

d) Liquidity risk

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

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

Management of liquidity risk

In line with the Group's liquidity framework, the main goal of Bank'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 Bank 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 Bank has put in place proper funds transfer pricing mechanism.

4. RISK MANAGEMENT (continued)

d) Liquidity risk (continued)

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

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

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

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

4. RISK MANAGEMENT (continued)

d) Liquidity risk *(continued)*

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

31 December 2017 - *In RON*	**Up to 3 Months**	**3 Month to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**	**No fixed maturity**	**Total contractual amount**	**Total carrying amount**
Cash and cash equivalents	8,574,251,009	-	-	-	-	8,574,251,009	8,574,251,009
Financial assets at fair value through profit or loss	121,413,399	-	-	-	-	121,413,399	121,413,399
Derivatives assets designated as hedging instruments	4,196,748	-	-	-	-	4,196,748	4,196,748
Loans and advances to banks	411,899,415	274,935,827	759,944,861	-	-	1,446,780,103	1,446,780,104
Loans and advances to customers	3,150,338,354	7,268,066,166	5,347,939,509	5,098,776,862	-	20,865,120,891	20,757,284,583
Net Lease receivables	677,906,973	763,062,029	3,431,531,710	1,104,560,118	22,666,185	5,999,727,015	5,999,727,015
Investment in subsidiaries and in associates	-	-	-	-	143,115,683	143,115,683	143,115,683
Total other financial assets	56,604,566	-	-	-	-	56,604,566	56,604,566
Total financial assets	**12,996,610,465**	**8,306,064,022**	**9,539,416,080**	**6,203,336,980**	**165,781,868**	**37,211,209,414**	**37,103,373,107**
Financial liabilities at fair value through profit or loss	80,019,912	-	-	-	-	80,019,912	80,019,912
Derivatives liabilities designated as hedging instruments	76,165,933	-	-	-	-	76,165,933	76,165,933
Deposits from banks	946,867,930	638,002,457	1,463,716,693	339,288,658	-	3,387,875,738	3,387,875,738
Loans from banks and other financial institutions	47,374,399	218,174,874	536,277,747	853,649,284	-	1,655,476,304	1,655,506,208
Deposits from customers	26,869,739,518	535,956,646	28,872,881	994,063	-	27,435,563,108	27,435,563,108
Debt securities issued	1,626,644	554,996,697	426,500,000	183,500,000	-	1,166,623,341	1,166,162,751
Total other financial liabilities	155,864,826	-	-	-	-	155,864,826	155,864,826
Total financial liabilities	**28,177,659,162**	**1,947,130,674**	**2,455,367,321**	**1,377,432,005**	**-**	**33,957,589,162**	**33,957,158,476**
Liquidity surplus/ (shortfall)	**(15,181,048,696)**	**6,358,933,348**	**7,084,048,759**	**4,825,904,975**	**165,781,868**	**3,253,620,252**	**3,146,214,631**
Adjustment for investment securities available for refinancing *	5,299,153,857	(763,062,029)	(3,431,531,710)	(1,104,560,118)	-	-	-
Liquidity surplus/ (shortfall) adjusted	**(9,881,894,839)**	**5,595,871,319**	**3,652,517,049**	**3,721,344,857**	**165,781,868**	**3,253,620,252**	**3,146,214,631**

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

Convenience translation in English of the original Romanian version.

4. Risk Management *(continued)*

d) Liquidity risk *(continued)*

31 December 2017 - *In RON*	**Up to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**	**No fixed maturity**	**Gross nominal inflow/ (outflow)**
Commitments **						
Irrevocable commitments given outflow	(1,310,525,468)	-	-	-	-	(1,310,525,468)
Irrevocable commitments taken inflow	392,985,000	-	-	-	-	392,985,000
Issued financial guarantees outflow	-	(4,811,378,205)	-	-	-	(4,811,378,205)
Commitments surplus/ (shortfall)	**(917,540,468)**	**(4,811,378,205)**	-	-	-	**(5,728,918,673)**

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

4. Risk Management *(continued)*

d) Liquidity risk *(continued)*

31 December 2016 - *In RON*	**Up to 3 Months**	**3 Month to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**	**No fixed maturity**	**Total contractual amount**	**Total carrying amount**
Cash and cash equivalents	5,760,947,655	-	-	-	-	5,760,947,655	5,760,947,655
Financial assets at fair value through profit or loss	393,210,237	-	-	-	-	393,210,237	393,210,237
Derivatives assets designated as hedging instruments	17,325,503	-	-	-	-	17,325,503	17,325,503
Loans and advances to banks	213,669,687	102,073,745	422,038,867	-	-	737,782,299	737,782,299
Loans and advances to customers	3,252,395,534	6,347,669,506	4,891,006,103	4,503,934,938	-	18,995,006,081	18,826,508,130
Net Lease receivables	209,098,993	893,514,457	3,051,248,205	2,197,311,406	17,934,522	6,369,107,583	6,369,107,583
Investment in subsidiaries and in associates	-	-	-	-	143,115,683	143,115,683	143,115,683
Total other financial assets	35,949,451	-	-	-	-	35,949,451	35,949,451
Total financial assets	**9,882,597,060**	**7,343,257,708**	**8,364,293,175**	**6,701,246,344**	**161,050,205**	**32,452,444,492**	**32,283,946,541**
Financial liabilities at fair value through profit or loss	99,362,520	-	-	-	-	99,362,520	99,362,520
Derivatives liabilities designated as hedging instruments	98,684,522	-	-	-	-	98,684,522	98,684,522
Deposits from banks	1,355,136,103	113,529,518	1,164,204,928	540,525,465	-	3,173,396,014	3,173,396,014
Loans from banks and other financial institutions	1,810,258	1,609,330,397	1,023,946,311	136,235,543	-	2,771,322,509	2,768,973,986
Deposits from customers	21,158,887,139	1,116,130,264	168,720,339	25,062	-	22,443,762,804	22,443,450,800
Debt securities issued	-	1,626,644	550,000,000	-	-	551,626,644	551,024,752
Total other financial liabilities	145,720,464	-	-	-	-	145,720,464	145,720,464
Total financial liabilities	**22,859,601,006**	**2,840,616,823**	**2,906,871,578**	**676,786,070**	-	**29,283,875,477**	**29,280,613,058**
Liquidity surplus/ (shortfall)	**(12,977,003,946)**	**4,502,640,885**	**5,457,421,597**	**6,024,460,274**	**161,050,205**	**3,168,569,015**	**3,003,333,483**
Adjustment for investment securities available for refinancing *	6,142,074,068	(893,514,457)	(3,051,248,205)	(2,197,311,406)	-	-	-
Liquidity surplus/ (shortfall) adjusted	**(6,834,929,878)**	**3,609,126,428**	**2,406,173,392**	**3,827,148,868**	**161,050,205**	**3,168,569,015**	**3,003,333,483**

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

4. Risk Management *(continued)*

d) Liquidity risk *(continued)*

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

31 December 2016 – *In RON*	Up to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	No fixed maturity	Gross nominal inflow/ (outflow)
Commitments **						
Irrevocable commitments given outflow	(1,883,949,446)	-	-	-	-	(1,883,949,446)
Irrevocable commitments taken inflow	1,893,638,700	-	-	-	-	1,893,638,700
Issued financial guarantees outflow	-	(3,807,340,454)	-	-	-	(3,807,340,454)
Commitments surplus/ (shortfall)	**9,689,254**	**(3,807,340,454)**	-	-	-	**(3,797,651,200)**

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

4. Risk Management *(continued)*

d) Liquidity risk *(continued)*

Future cash flows of financial liabilities

Maturity profile of financial liabilities at December 31, 2017 and 2016 which is based on contractual undiscounted future liabilities of payment are listed below:

31 December 2017 - *In RON*	**Up to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**	**Total contractual amount**
Financial liabilities at fair value through profit or loss	12,406,685	2,590,399	34,293,928	21,345,930	70,636,942
Derivatives liabilities designated as hedging instruments	1,191,179	7,422,810	11,608,965	57,897,080	78,120,034
Deposits from banks	951,323,832	664,040,313	1,526,410,451	413,380,225	3,555,154,821
Loans from banks and other financial institutions, including subordinated liabilities	56,804,047	248,832,542	673,738,403	1,010,913,050	1,990,288,042
Deposits from customers	27,482,551,943	951,430,351	771,159,159	15,143,016	29,220,284,469
Debt securities issued	-	571,954,822	467,798,025	191,144,057	1,230,896,904
Total financial liabilities	**28,504,277,686**	**2,446,271,237**	**3,485,008,931**	**1,709,823,358**	**36,145,381,212**

31 December 2016 - *In RON*	**Up to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**	**Total contractual amount**
Financial liabilities at fair value through profit or loss	12,218,351	17,235,760	26,210,447	52,733,580	108,398,138
Derivatives liabilities designated as hedging instruments	1,119,855	-	11,482,031	87,754,850	100,356,736
Deposits from banks	1,365,591,109	155,113,666	1,238,228,512	615,031,816	3,373,965,103
Loans from banks and other financial institutions, including subordinated liabilities	72,185,055	1,806,106,681	722,736,771	317,277,300	2,918,305,807
Deposits from customers	21,062,678,815	1,254,079,202	420,734,771	6,200,599	22,743,693,025
Obligatiuni emise	-	34,925,000	567,414,658	-	602,339,658
Total datorii financiare	**22,513,793,185**	**3,267,460,309**	**2,986,806,828**	**1,078,998,145**	**29,847,058,467**

4. Risk Management *(continued)*

d) Liquidity risk *(continued)*

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

31 December 2017 *In RON*	Carrying Amount*	Gross nominal	Carrying Amount*	1 to 3 Months	3 months to 1 year	1-5 years	More than 5 years
Derivative assets	**73,453,067**	**15,161,561**	**(2,879,316)**	**(2,217,061)**	**2,028,335**	**(3,484,522)**	**21,714,125**
Outflow		(1,450,599,785)	(508,213,561)	(305,328,255)	(532,401,530)	(102,669,269)	(1,987,170)
Inflow		1,465,761,346	505,334,245	303,111,194	534,429,865	99,184,747	23,701,295
Derivative liabilities	**(156,185,845)**	**(132,246,031)**	**(5,464,574)**	**(4,692,421)**	**4,922,867**	**(47,768,893)**	**(79,243,010)**
Outflow		(3,580,001,844)	(1,236,563,178)	(875,775,196)	(1,108,103,717)	(253,180,696)	(106,379,057)
Inflow		3,447,755,813	1,231,098,604	871,082,775	1,113,026,584	205,411,803	27,136,047

31 December 2016 *In RON*	Carrying Amount*	Gross nominal	Carrying Amount*	1 to 3 Months	3 months to 1 year	1-5 years	More than 5 years
Derivative assets	**123,246,196**	**83,519,486**	**3,964,690**	**(4,720,645)**	**(8,921,083)**	**33,139,564**	**60,056,960**
Outflow		(1,363,567,525)	(242,539,795)	(286,262,077)	(374,526,671)	(414,980,174)	(45,258,808)
Inflow		1,447,087,011	246,504,485	281,541,432	365,605,588	448,119,738	105,315,768
Derivative liabilities	**(198,047,042)**	**(147,671,673)**	**(5,272,014)**	**(5,933,943)**	**3,895,520**	**(40,443)**	**(140,320,793)**
Outflow		(2,873,083,202)	(1,060,268,816)	(488,905,239)	(810,346,652)	(328,904,156)	(184,658,339)
Inflow		2,725,411,529	1,054,996,802	482,971,296	814,242,172	328,863,713	44,337,546

4. Risk Management *(continued)*

d) Market risk

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

Management of market risks

Organizational structure

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

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

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

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

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

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

4. Risk Management *(continued)*

d) Market risk

Exposure to market risks – Value at Risk Tool

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

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

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

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

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

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

In EUR	31 December 2017	Average 2017	Maximum 2017	Minimum 2017
Foreign currency risk	35,949	57,680	221,929	1,144
Interest rate risk	2,576,946	2,014,911	3,499,790	1,152,192
Credit spread risk	3,339,057	3,273,085	4,290,051	2,221,033
Overall	3,835,137	3,093,117	4,351,940	1,762,484

In EUR	31 December 2016	Average 2016	Maximum 2016	Minimum 2016
Foreign currency risk	76,367	47,538	200,131	1,466
Interest rate risk	1,912,567	2,352,458	3,507,701	1,615,910
Credit spread risk	4,218,639	4,467,880	4,941,281	3,249,837
Overall	4,121,242	4,774,701	5,575,181	3,093,162

4. Risk Management *(continued)*

d) Market risk (continued)

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

Foreign exchange (FX) sensitivity analysis

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

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

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

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

Currency	Limits (EUR equiv.) 2017	Average usage 2017	Limits (EUR equiv.) 2016	Average usage 2016
EUR	60,000,000	26.98%	40,000,000	20.67%
RON	60,000,000	27.05%	40,000,000	19.76%
USD	5,000,000	4.07%	5,000,000	6.86%

Exposure to market risks – Interest Rate Gap tool

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

4. Risk Management *(continued)*

e) Market Risk *(continued)*

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

31 December 2017 - *In RON*	Up to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total contractual amount	Total carrying amount
Cash and cash equivalents	8,574,251,009				8,574,251,009	8,574,251,009
Financial assets at fair value through profit or loss	9,248,634	6,948,623	62,638,305	42,577,836	121,413,398	121,413,399
Derivatives assets designated as hedging instruments		329,619		3,867,129	4,196,748	4,196,748
Loans and advances to banks	411,899,415	274,935,827	759,944,861		1,446,780,103	1,446,780,104
Loans and advances to customers *	19,599,066,690	883,028,693	227,366,049	155,659,458	20,865,120,890	20,757,284,583
Financial assets available for sale **	677,906,973	763,062,029	3,431,531,710	1,104,560,118	5,977,060,831	5,977,060,830
Total other financial assets	56,604,566				56,604,566	56,604,566
Total financial assets	**29,328,977,287**	**1,928,304,792**	**4,481,480,926**	**1,306,664,541**	**37,045,427,545**	**36,937,591,239**
Financial liabilities at fair value through profit or loss	16,107,520	9,027,397	33,803,946	21,081,048	80,019,911	80,019,912
Derivatives liabilities designated as hedging instruments	1,415,530	7,142,536	11,292,262	56,315,605	76,165,933	76,165,933
Deposits from banks	2,796,218,097	591,657,641			3,387,875,738	3,387,875,738
Loans from banks and other financial institutions, including subordinated liabilities *	1,655,476,304	-	-	-	1,655,476,304	1,655,506,208
Deposits from customers *	26,869,746,691	535,956,351	28,869,804	990,262	27,435,563,108	27,435,563,108
Debt securities issued *	1,626,644	554,996,696	426,500,000	183,500,000	1,166,623,340	1,166,162,751
Total other financial liabilities	155,864,826				155,864,826	155,864,826
Total financial liabilities	**31,496,455,612**	**1,698,780,621**	**500,466,012**	**261,886,915**	**33,957,589,160**	**33,957,158,476**
Interest senzitivity surplus/ (shortfall) adjusted	**-2,167,478,324**	**229,524,170**	**3,981,014,913**	**1,044,777,626**	**3,087,838,385**	**2,980,432,763**

* Total contractul amounts exclude any costs/revenues that are being deffered during the lifetime of the contracts

** The amount of RON 22,666,185 representing equity investments are not included as they are not bearing interest. (See details for "Investment securities, available for sale" in Note 25).

4. Management Risk *(continued)*

e) Market Risk *(continuare)*

A summary of the Bank's interest rate gap position on interest earnings assets and liabilities based on earlier date between contractual maturity and repricing date is as at 31 December 2016:

31 December 2016 - *In RON*	**Up to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**	**Total contractual amount**	**Total carrying amount**
Cash and cash equivalents	5,760,947,655	-	-	-	5,760,947,655	5,760,947,655
Financial assets at fair value through profit or loss	11,125,333	18,083,473	102,910,718	261,090,713	393,210,237	393,210,237
Derivatives assets designated as hedging instruments	-	17,325,503	-	-	17,325,503	17,325,503
Loans and advances to banks	679,029,303	58,752,996	-	-	737,782,299	737,782,299
Loans and advances to customers *	17,706,628,493	966,219,106	169,215,109	152,943,372	18,995,006,080	18,826,508,130
Financial assets available for sale **	209,098,993	893,514,457	3,051,248,205	2,197,311,406	6,351,173,062	6,351,173,062
Total other financial assets	35,949,451	-	-	-	35,949,451	35,949,451
Total financial assets	**24,402,779,228**	**1,953,895,535**	**3,323,374,032**	**2,611,345,491**	**32,291,394,287**	**32,122,896,337**
Financial liabilities at fair value through profit or loss	12,472,708	18,389,542	16,192,542	52,307,728	99,362,520	99,362,520
Derivatives liabilities designated as hedging instruments	98,684,522	-	-	-	98,684,522	98,684,522
Deposits from banks	2,473,968,113	699,427,901	-	-	3,173,396,014	3,173,396,014
Loans from banks and other financial institutions, including subordinated liabilities *	2,444,429,088	326,893,420	-	-	2,771,322,508	2,768,973,986
Deposits from customers *	21,110,088,015	1,116,130,264	168,720,339	48,824,186	22,443,762,804	22,443,450,800
Debt securities issued *	-	1,626,644	550,000,000	-	551,626,644	551,024,752
Total other financial liabilities	145,720,464	-	-	-	145,720,464	145,720,464
Total financial liabilities	**26,285,362,910**	**2,162,467,772**	**734,912,881**	**101,131,914**	**29,283,875,476**	**29,280,613,058**
Interest senzitivity surplus/ (shortfall) adjusted	**(1,882,583,681)**	**(208,572,236)**	**2,588,461,151**	**2,510,213,577**	**3,007,518,811**	**2,842,283,279**

* Total contractul amounts exclude any costs/revenues that are being deffered during the lifetime of the contracts
** The amount of RON 17,934,521 representing equity investments are not included as they are not bearing interest. (See details for "Investment securities, available for sale" in Note 25).

4. Risk Management *(continued)*

e) Market Risk *(continued)*

The following table shows the yearly average interest rates obtained or offered by the Bank during 2017, for interest bearing assets and liabilities:

	RON Average	EUR Average	USD Average
Assets			
Balances with National Bank of Romania	0.09%	0.03%	-
Current accounts and placements with banks	1.56%	-0.26%	1.00%
Treasury bills and bonds	3.36%	3.38%	4.45%
Loans and advances to customers	3.59%	3.30%	4.08%
Liabilities			
Deposits from banks	0.96%	0.94%	0.82%
Deposits from customers	1.14%	0.73%	1.00%
Loans from banks and other financial institutions	-	1.58%	2.87%
Subordinated loans	-	6.29%	-

The following table shows the yearly average interest rates obtained or offered by the Bank during 2016, for interest bearing assets and liabilities:

	RON Average	EUR Average	USD Average
Assets			
Balances with National Bank of Romania	0.12%	0.07%	-
Current accounts and placements with banks	1.09%	(0.02%)	0.13%
Treasury bills and bonds	3.75%	3.27%	5.55%
Loans and advances to customers	3.51%	3.67%	3.74%
Liabilities			
Deposits from banks	0.22%	0.61%	0.49%
Deposits from customers	1.12%	0.39%	0.99%
Loans from banks and other financial institutions	-	1.86%	2.39%
Subordinated loans	-	7.83%	-

The interest rates related to the local currency and the major foreign currencies as at 31 December 2017 and 31 December 2016 were as follows:

Currencies	Interest rate	31 December 2017	31 December 2016
RON	Robor 3 Months	2.05%	0.90%
RON	Robor 6 Months	2.27%	1.11%
EUR	Euribor 3 Months	(0.33%)	(0.32%)
EUR	Euribor 6 Months	(0.27%)	(0.22%)
USD	Libor 3 Months	1.69%	1.00%
USD	Libor 6 Months	1.84%	1.32%

4. Risk Management *(continued)*

e) Market Risk *(continued)*

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

	RON	USD	EUR	Other	Total
Active financiare					
Cash and cash equivalents	3,646,122,383	82,382,665	4,765,825,774	79,920,187	8,574,251,009
Financial assets at fair value through profit or loss	78,823,359	1,363,023	41,064,274	162,743	121,413,399
Derivatives assets designated as hedging instruments	4,185,239	11,509	-	-	4,196,748
Loans and advances to banks	1,363,320,492	13,618,383	69,840,356	873	1,446,780,104
Loans and advances to customers	10,636,676,831	609,560,109	9,507,247,250	3,800,393	20,757,284,583
Financial assets available for sale	5,257,097,040	20,029,027	722,600,948	-	5,999,727,015
Total other financial assets	143,115,683	-	-	-	143,115,683
	14,747,299	243,542	41,591,798	21,927	56,604,566
Total financial assets	**21,144,088,326**	**727,208,258**	**15,148,170,400**	**83,906,123**	**37,103,373,107**
Financial liabilities at fair value through profit or loss					
Derivatives liabilities designated as hedging instruments	34,493,328	1,450,756	43,913,085	162,743	80,019,912
Deposits from banks	-	765,178	75,400,755	-	76,165,933
Loans from banks and other financial institutions, including subordinated liabilities	314,173,158	134,928,405	2,936,557,199	2,216,976	3,387,875,738
Deposits from customers	-	105,152,753	1,549,380,552	972,903	1,655,506,208
Debt securities issued	17,984,256,258	1,177,560,752	8,175,002,444	98,743,654	27,435,563,108
Total other financial liabilities	1,166,162,751	-	-	-	1,166,162,751
	132,346,323	673,853	22,842,748	1,902	155,864,826
Total financial liabilities	**19,631,431,818**	**1,420,531,697**	**12,803,096,783**	**102,098,178**	**33,957,158,476**
Net financial assets/(liabilities)	**1,512,656,507**	**(693,323,438)**	**2,345,073,617**	**(18,192,055)**	**3,146,214,631**

4. Risk Management *(continued)*

e) Market Risk *(continued)*

The amounts of assets and liabilities held in RON and in foreign currencies as at 31 December 2016 can be analysed as follows:

	RON	USD	EUR	Other	Total
Active financiare					
Cash and cash equivalents	2,416,533,878	44,691,915	3,194,705,967	105,015,895	5,760,947,655
Financial assets at fair value through profit or loss	165,100,277	1,191,134	226,859,557	59,269	393,210,237
Derivatives assets designated as hedging instruments	1,816,661	6,227,211	9,281,631	-	17,325,503
Loans and advances to banks	702,237,086	9,332,034	26,212,474	706	737,782,300
Loans and advances to customers	8,985,371,262	664,677,266	9,174,564,461	1,895,141	18,826,508,130
Financial assets available for sale	4,328,681,244	831,616,223	1,208,810,116	-	6,369,107,583
Total other financial assets	143,115,683	-	-	-	143,115,683
	10,405,658	144,786	25,372,063	26,944	35,949,451
Total financial assets	**16,753,261,749**	**1,557,880,569**	**13,865,806,269**	**106,997,955**	**32,283,946,542**
Financial liabilities at fair value through profit or loss					
Derivatives liabilities designated as hedging instruments	100,722	1,257,080	97,945,451	59,269	99,362,521
Deposits from banks	-	3,924,326	94,760,196	-	98,684,522
Loans from banks and other financial institutions, including subordinated liabilities	578,061,132	42,960,617	2,550,470,134	1,904,131	3,173,396,014
Deposits from customers	-	184,148,024	2,584,559,602	266,360	2,768,973,986
Debt securities issued	15,062,693,855	968,159,868	6,315,894,408	96,702,669	22,443,450,800
Total other financial liabilities	551,024,752	-	-	-	551,024,752
	126,815,779	1,338,950	17,527,208	38,527	145,720,464
Total financial liabilities	**16,318,696,239**	**1,201,788,864**	**11,661,156,999**	**98,970,956**	**29,280,613,059**
Net financial assets/(liabilities)	**434,565,510**	**356,091,704**	**2,204,649,270**	**8,026,999**	**3,003,333,483**

4. Risk Management *(continued)*

f) Strategic risk

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

Strategic risk is analysed taking into account the following:

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

g) Compliance risk

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

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

h) Taxation risk

The Bank is committed to ensure sustainable performance of tax risk management maintaining an efficient, effective and transparent tax function within the organization. The Bank strictly complies with the legal norms regarding taxes and duties.

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

The Bank is focused permanently on monitoring the price transfer risks, including on proper documentation of intragroup transactions through a proactive approach.

Tax liabilities of the Bank are opened to a general tax inspection for a period of five years.

i) Operating environment

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.

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 National Bank of Romania ("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 ± 1pp (from ±1.5pp previously).

4. Risk Management *(continued)*

i) Operating environment (continued)

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, totaling 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 January2018, 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.

The credit stock continued to change its currency structure, with the stock of RON-denominated loans continuing to outstrip the stock in foreign currency and reaching a share of 62.8% in total private sector loans at the end of 2017, up from 57.2% at the end of 2016 and 42% at the end of 2018. During 2016, above 80% of the new loans granted were in local currency. This change makes the transmission of monetary policy through the interest-rate channel stronger and prompted the NBR to announce the intention to switch to fully fledged inflation targeting, implying "firm" liquidity management from now on, in contrast with "adequate" until now. In light of that, the NBR stands ready to intervene through all the available instruments to keep interbank rates close to the key rate, while allowing higher flexibility to the exchange rate.

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 labor 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 uncertainty 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.

In May 2017, the NBR cut the minimum reserve requirements for FCY-denominated liabilities by 2pp to 10%, releasing around RON 2.2bn of liquidity in the interbank market and kept the minimum reserve requirements for RON-denominated liabilities unchanged at 8%.

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, similar to 2015 and 2016, 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.

The local currency component of total private credit registered a 15.8% yoy growth at the end of 2017, while the foreign currency component registered a decline of -10.5% yoy (FCY-adjusted). 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. The stock of deposits was 9.5%yoy higher at the end of 2017 (FX-adjusted), as liquidity remained favorable for most of the year. However, money market rates experienced a jump during September due to lower interbank liquidity as the Ministry of Finance registered higher revenues than expenditure and the higher inflationary expectations which increased the probability of NBR action. Similar to the previous years, the government spent around RON 14bn in net terms in December, resulting to improved liquidity. The loans-to-deposits ratio continued to decrease slightly, touching 76.7% at the end of 2017, down 3.5pp in comparison to end-2016. The level of interest rates in 2018 will depend on whether the NBR will undertake closer liquidity management.

4. Risk Management *(continued)*

j) Capital management

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

By application of the above mentioned requirements, the structure of own funds is redefined, as well as the eligibility criteria for the equity instruments must met in order to be included in the Level 1 Own Funds – Base, Supplementary and Level 2 Own funds. New liquidity and capital indicators are defined which have to be monitored above the minimum capital requirements specified by the respective regulations.
The application of capital buffer is made gradually, starting with 2016.

Risk capital measurement
(i) Regulatory capital

Credit Risk

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

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

Operational Risk
UniCredit Group developed an internal model for measuring capital requirements for operational risk. The model uses internal and external loss data (consortium and public data), risk indicators and estimated losses through scenario analyses.
Capital at Risk is calculated for a confidence level of 99.90% based on global loss distribution according legal requirements.
In 2013, UniCredit Group has updated, based on the Bank of Italy recommendations, the internal model for capital requirements for operational risk. The model enhancement has consisted in:

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

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

4. Risk Management *(continued)*

j) Capital management (continued)

The Bank's capital position was:

In RON	**31 December 2017**	**31 December 2016**
Tier 1 capital	3,071,008,638	2,741,674,470
Tier 2 capital	752,853,392	147,915,378
Total own funds	**3,823,862,030**	**2,889,589,848**
Risk exposure amounts for credit risk, counterparty risk and receivables value decrease risk and free deliveries	19,462,601,064	18,937,928,834
Total risk exposure amount for position, foreign exchange and commodities' risks	20,387,965	183,998,793
Total risk exposure amount for operational risk	1,378,372,795	1,560,518,820
Total risk exposure amount for credit value adjustment	5,663,676	2,687,594
Total requirements for own funds	**20,867,025,500**	**20,685,134,041**
Capital indicators		
Total capital ratio	18.32%	13.97%
Tier 1 capital ratio	14.72%	13.25%

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

(ii) Capital allocation

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

k) Capital management

Starting with 1st January 2014, the Bank applies the provisions of NBR Regulation 5/2013 on prudential requirments for credit institutions. The Bank's turnover for the year 2017 is of 1,700,309,150 RON (2016: 1,713,671,081 RON), calculated in accordance with the provisions of article 644 from Regulation 5/2013.

5. USE OF ESTIMATES AND JUDGEMENTS

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

5. USE OF ESTIMATES AND JUDGEMENTS (continued)

a) Key sources of estimation uncertainty

Adjustments for loan losses

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

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

To the extent that the probability of default parameter for the collective assessment differs by +/-10 percent, the provision for impairment losses on loans for the Bank would be estimated RON 8,554 thousand higher (31 December 2016: 10,347 thousand) or RON 8,554 thousand lower (31 December 2016: RON 10,347 thousand). To the extent that the degree of collateral recognition parameter for the collective assessment differs by +/-10 percent, the provision for impairment losses on loans for the Bank would be estimated RON 26,349 thousand higher (31 December 2016: RON 31,309 thousand) or RON 15,854 thousand lower (31 December 2016: RON 20,599 thousand).

5. USE OF ESTIMATES AND JUDGEMENTS (continued)

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

Sensitivity analysis for assets available for sale

The fair value of available for sale financial assets is directly dependent on the market yield variable and its changes impact the financial position and the net assets of the Bank.
In case of the market yield varies by +/-10 percent, the negative reserve recorded as at 31 December 2017 on available for sale financial assets would vary as follows:

In RON	**Market Yield – 10%**	**Market Yield + 10%**
Available for sale denominated in RON	45,746,033	(44,887,274)
Available for sale denominated in EUR	9,261,895	(9,065,312)
Available for sale Total	**55,007,928**	**(53,952,586)**

In case of the market yield varies by +/-10 percent, the negative reserve recorded as at 31 December 2016 on available for sale financial assets would vary as follows:

In RON	**Market Yield – 10%**	**Market Yield + 10%**
Available for sale denominated in RON	24,702,643	(24,338,162)
Available for sale denominated in EUR	17,614,384	(17,212,464)
Available for sale denominated in USD	17,014,184	(16,552,423)
Available for sale Total	**59,331,211**	**(58,103,049)**

5. USE OF ESTIMATES AND JUDGEMENTS (continued)

b) Critical accounting judgments in applying the Bank's accounting polices

Financial assets and liabilities classification

The Bank's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories. When classifying financial assets or liabilities as "derivative assets / liabilities held for risk management", the Bank has determined that it meets the description set out in accounting policy 3(k).

Qualifying hedge relationships

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

Determining fair value

The fair value of financial instruments that are not traded in an active market (for example, unlisted treasury securities and certificates of deposit) is determined by using valuation techniques. The Bank uses its judgment to select the valuation method and make assumptions that are mainly based on market conditions existing at each statement of financial position date. In case of available for sale and their classification in quoted and unquoted financial instruments is presented below:

31 December 2017	Listed*	Unlisted	Total
Investment securities, available for sale	5,406,020,652	571,219,037	5,977,239,689
Equity investments, available for sale	-	22,666,185	22,666,185

31 December 2016	Listed*	Unlisted	Total
Investment securities, available for sale	5,539,250,834	811,922,228	6,351,173,062
Equity investments, available for sale	-	17,934,522	17,934,522

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

5. USE OF ESTIMATES AND JUDGEMENTS (continued)

c) Critical accounting judgments in applying the Bank's accounting polices (continued)

Determining fair value (continued)

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

•**Level 1:** Quoted market price (unadjusted) in an active market for an identical instrument to which the Bank has access at the measurement date.
A quoted price on an active market provides the most reliable evidence (as for example the price) or indirect without other adjustments in determining the fair value anytime available.

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

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

5. USE OF ESTIMATES AND JUDGEMENTS (continued)

b) Critical accounting judgments in applying the Bank's accounting polices (continued)

Determining fair value (continued)

The table below present the fair value of financial instruments by the level in the fair value hierarchy into which the fair value measurement is categorised as of 31 December 2017:

In RON	Level 1	Level 2	Level 3	Total Fair value	Total Book value
Assets held for trading and for hedging					
Financial assets held for trading at fair value through profit or loss	52,157,080	67,238,065	2,018,254	121,413,399	121,413,399
Derivatives financial instruments designated as hedging instruments	-	4,196,748	-	4,196,748	4,196,748
Total assets held for trading and hedging	**52,157,080**	**71,434,813**	**2,018,254**	**125,610,147**	**125,610,147**
Available for sale assets					
Investment available for sale	5,343,368,046	633,692,784	22,666,185	5,999,727,015	5,999,727,015
Total available for sale assets	**5,343,368,046**	**633,692,784**	**22,666,185**	**5,999,727,015**	**5,999,727,015**
Liabilities designated for trading and for hedging					
Derivative liabilities at fair value through profit or loss	-	78,187,889	1,832,023	80,019,912	80,019,912
Derivative liabilities designated as hedging instruments	-	76,165,933	-	76,165,933	76,165,933
Total liabilities designated for trading and hedging	-	**154,353,822**	**1,832,023**	**156,185,845**	**156,185,845**

5. USE OF ESTIMATES AND JUDGEMENTS (continued)

b) Critical accounting judgments in applying the Bank's accounting polices (continued)

Determining fair value (continued)

The table below present the fair value of financial instruments by the level in the fair value hierarchy into which the fair value measurement is categorised as of 31 December 2016:

In RON	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	287,289,544	100,428,185	5,492,508	393,210,237	393,210,237
Derivatives financial instruments designated as hedging instruments	-	17,325,503	-	17,325,503	17,325,503
Total assets held for trading and hedging	**287,289,544**	**117,753,688**	**5,492,508**	**410,535,740**	**410,535,740**
Available for sale assets					
Investment available for sale	5,433,371,375	917,801,687	17,934,522	6,369,107,584	6,369,107,583
Total available for sale assets	**5,433,371,375**	**917,801,687**	**17,934,522**	**6,369,107,584**	**6,369,107,583**
Liabilities designated for trading and for hedging					
Derivative liabilities at fair value through profit or loss	-	92,739,499	6,623,021	99,362,520	99,362,520
Derivative liabilities designated as hedging instruments	-	98,684,522	-	98,684,522	98,684,522
Total liabilities designated for trading and hedging	-	**191,424,021**	**6,623,021**	**198,047,042**	**198,047,042**

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

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

In RON **31 December 2017**	**Note**	**Financial instruments at fair value through profit or loss**	**Loans and receivables**	**Available for sale**	**Other amounts**	**Total carrying amount**	**Fair value**
Cash and cash equivalents	**20**	-	8,574,251,009	-	-	8,574,251,009	8,574,251,009
Financial assets at fair value through profit or loss	**21**	121,413,399	-	-	-	121,413,399	121,413,399
Derivatives assets designated as hedging instruments	**30**	-	-	-	4,196,748	4,196,748	4,196,748
Loans and advances to banks	**22**	-	1,446,780,104	-	-	1,446,780,104	1,443,031,497
Loans and advances to customers	**23**	-	20,757,284,583	-	-	20,757,284,583	20,229,738,195
Financial assets available for sale	**25**	-	-	5,999,727,015	-	5,999,727,015	5,999,727,015
Investment in subsidiaries	**24**	-	-	-	143,115,683	143,115,683	143,115,683**
Total financial assets		**121,413,399**	**30,778,315,696**	**5,999,727,015**	**147,312,431**	**37,046,768,541**	**36,515,473,546**
Financial liabilities at fair value through profit or loss	**21**	80,019,912	-	-	-	80,019,912	80,019,912
Derivatives liabilities designated as hedging instruments	**30**	-	-	-	76,165,933	76,165,933	76,165,933
Deposits from banks	**31**	-	-	-	3,387,875,738	3,387,875,738	3,469,598,077
Loans from banks and other financial institutions, including subordinated liabilities	**32,35**	-	-	-	1,655,506,208	1,655,506,208	1,684,843,842
Debt securities issued	**34**	-	-	-	1,166,162,751	1,166,162,751	1,205,169,729
Deposits from customers	**33**	-	-	-	27,435,563,108	27,435,563,108	27,439,815,620
Total financial liabilities		**80,019,912**	-	-	**33,721,273,738**	**33,801,293,650**	**33,955,613,113**

** In respect of the comparison of fair value against carrying value of the loans and advances to clients as of 31 December 2017, we briefly present below the factors that have led to a very slight lower fair value (97.46%), almost similar to carrying value*

- *for both fixed interest rate loans and variable interest rate loans, margins are almost similar to the ones of the current loans (31 December 2017), which leads to small differences as compared to the fair value of the loans granted in the past;*

Moeover, due to the competition in the banking sector, margins incur a decreasing trend so that the fair value of the loans granted in 2017 decreased, leading to a decrease of the percentage as compared to the previous year.

*** Investments in subsidiaries are at acquisition cost and not at fair value*

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

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

In RON 31 December 2016	Note	Financial instruments at fair value through profit or loss	Loans and receivables	Available for sale	Other amounts	Total carrying amount	Fair value
Cash and cash equivalents	**20**	-	5,760,947,655	-	-	5,760,947,655	5,760,947,655
Financial assets at fair value through profit or loss	**21**	393,210,237	-	-	-	393,210,237	393,210,237
Derivatives assets designated as hedging instruments	**30**	-	-	-	17,325,503	17,325,503	17,325,503
Loans and advances to banks	**22**	-	737,782,299	-	-	737,782,299	741,223,860
Loans and advances to customers	**23**	-	18,826,508,130	-	-	18,826,508,130	18,779,674,518
Financial assets available for sale	**25**	-	-	6,369,107,583	-	6,369,107,583	6,369,107,583
Investment in subsidiaries	**24**	-	-	-	143,115,683	143,115,683	143,115,683**
Total financial assets		**393,210,237**	**25,325,238,084**	**6,369,107,583**	**160,441,186**	**32,247,997,090**	**32,204,605,039**
Financial liabilities at fair value through profit or loss	**21**	99,362,520	-	-	-	99,362,520	99,362,520
Derivatives liabilities designated as hedging instruments	**30**	-	-	-	98,684,522	98,684,522	98,684,522
Deposits from banks	**31**	-	-	-	3,173,396,014	3,173,396,014	3,217,155,133
Loans from banks and other financial institutions	**32,35**	-	-	-	2,768,973,986	2,768,973,986	2,808,367,248
Subordinated liabilities	**34**	-	-	-	551,024,752	551,024,752	604,290,649
Loans from banks and other financial institutions, including subordinated liabilities	**33**	-	-	-	22,443,450,800	22,443,450,800	22,479,732,927
Debt securities issued		**99,362,520**	**-**	**-**	**29,035,530,074**	**29,134,892,594**	**29,307,593,000**

**) In respect of the comparison of fair value against carrying value of the loans and advances to clients as of 31 December 2016,we briefly present below the factors that have led to such a slight difference (99.75%):*

- *for both fixed interest rate loans and variable interest rate loans, margins are almost similar to the ones of the current loans (31 December 2016), which leads to small differences as compared to the fair value of the loans granted in the past;*

Moeover, due to the competition in the banking sector, margins incur a decreasing trend so that the fair value of the loans granted in 2016 decreased, leading to a decrease of the percentage as compared to the previous year.

*** Investments in subsidiaries are at acquisition cost and not at fair value*

7. NET INTEREST INCOME

In RON	2017	2016
Interest income		
Interest and similar income arising from:		
Loans and advances to customers *	793,669,553	768,484,339
Treasury bills and bonds	127,249,263	145,575,156
Current accounts and placements with banks	36,864,215	30,217,037
Others (including derivatives)	44,234,982	45,388,390
Total interest income	**1,002,018,013**	**989,664,922**
Interest expense		
Interest expense and similar charges, arising from:		
Deposits from customers	94,667,583	82,536,013
Loans from banks and other financial institutions	44,333,195	67,638,853
Deposits from banks	30,076,440	33,173,655
Interest related to the bonds issued	40,341,955	35,295,568
Repurchase agreements	296,870	5,686
Others (including derivatives)	27,085,309	30,589,180
Hedging derivatives	168,350	8,178,393
Total interest expense	**236,969,702**	**257,417,348**
Net interest income	**765,048,311**	**732,247,574**

*) Interest income as at December 2017 includes interest income on impaired loans of RON 69,082,533 RON (31 December 2016: 57,193,269 RON) .Interest income and expense for financial assets and financial liabilities other than those carried at fair value through profit or loss are calculated using the effective interest rate method.

8. NET FEES AND COMMISSIONS INCOME

In RON	2017	2016
Fees and commissions income		
Payments transactions	231,819,368	226,446,232
Risk participation fee (refer to Note 41)	1,193,840	6,195,141
Guarantees and letters of credit	28,177,610	27,068,333
Loan administration	10,729,819	10,344,674
Other	110,204,649	86,120,761
Total fees and commission income	**382,125,286**	**356,175,141**
Fees and commission expense		
Inter-banking fees	36,411,732	36,576,187
Payments transactions	29,961,521	21,759,902
Commitments and similar fees	2,514,706	7,288,015
Intermediary agents fees	3,702,364	2,990,097
Other	8,396,418	5,453,380
Total fees and commissions expense	**80,986,741**	**74,067,581**
Net fees and commissions income	**301,138,545**	**282,107,560**

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

In RON	2017	2016
Net gains from foreign exchange operations (including FX derivatives)	259,088,544	239,674,718
Net gains /(losses) from interest derivatives	(5,421,021)	(13,524,328)
Net income from trading bonds	(1,737,420)	9,757,972
Net gains /(losses) from commodities derivatives	85,740	276,823
Net income from trading and other financial instruments at fair value through profit or loss	**252,015,843**	**236,185,185**

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

In RON	2017	2016
Net income from sale of assets available for	26,401,708	123,600,809
Net Proft / (Loss) from derecognition of assets measured at amortised cost	21,270,447	(1,687,275)
Net income on disposal of financial assets and liabilities which are not at fair value through profit or	**47,672,155**	**121,913,534**

11. DIVIDENDS INCOME

The Bank received dividends from the following companies

In RON	2017	2016
Transfond SA	1,628,587	1,494,098
Biroul de Credit SA	407,273	341,579
Fondul Roman de Garantare a Creditelor ptr Intreprinzatori Privati IFN SA	5,920	7,105
Visa Inc actiuni preferentiale seria C	149,489	70,831
Total dividend income	**2,191,269**	**1,913,613**

12. CHELTUIELI CU PERSONALUL

In RON	2017	2016
Wages and salaries	266,605,803	254,025,924
Social security charges, unemployment fund and health fund	58,642,676	57,689,864
Other (income)/costs	89,493	(8,004,273)
Total	**325,337,972**	**303,711,515**

The number of employees at 31 December 2017 was 2,965 (31 December 2016: 2,929). Remuneration of Board's members for 2017 was RON 11,919,023 RON (2016: 11,965,287 RON).

The Bank has in place incentive plans for its senior management, consisting in stock options and performance shares which provide that UniCredit SpA ("the Parent") shares will be settled to the grantees. The cost of this scheme is incurred by the Bank and not by its Parent, and as a consequence, it is recognised as an employee benefit expense (please refer to Note 3 x (iv)). In 2017 the Bank paid in RON equivalent 437,709 (2016: RON equivalent 1,057,784).

13. DEPRECIATION AND AMORTISATION

In RON	2017	2016
Depreciation on property and equipment	42,966,488	38,824,492
Write-off of property and equipment	663,975	3,887,940
Amortisation on intangible assets	46,125,313	46,699,368
Total	**89,755,776**	**89,411,800**

14. OTHER ADMINISTRATIVE COSTS

In RON	2017	2016
Office space expenses (rental, maintenance, other)	100,114,696	97,012,956
IT services	77,706,626	71,391,974
Other taxes and duties	68,432,545	31,925,585
Communication expenses	15,074,504	18,603,739
Advertising and promotional expenses	18,721,410	21,396,096
Consultancy, legal and other professional services	4,692,259	4,297,009
Materials and consumables	8,932,018	14,240,138
Personnel training and recruiting	3,131,461	2,834,683
Insurance expenses	2,804,375	2,958,265
Other	16,105,171	19,012,790
Total	**315,715,065**	**283,673,235**

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

- legal audit of annual accounts (including the audit of the first half financial report): RON 1,277,699 RON (31 December 2016: 1,302,265 RON)
- tax services related to transfer price matters: RON 151,482 RON (31 December 2016: 184,993 RON.

The above amounts are net of VAT.

15. OTHER OPERATING COSTS

In RON	2017	2016
Expenses related to revaluation of tangible assets	284,969	110,816
Losses from sundry debtors	19,614	551,542
Other operating expenses	11,434,592	8,473,265
Total	**11,739,175**	**9,135,623**

16. NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS

In RON	2017	2016
Net provision charges for loans and advances to customers	208,743,244	339,374,113
Loans written-off	615,683	5,176,261
Recoveries from loans previously written-off	(42,291,310)	(27,935,446)
Net provisions charges for other financial instruments	893,008	7,484,295
Net impairment loss on financial assets	**167,960,625**	**324,099,223**

17. NET PROVISIONS LOSSES

In RON	2017	2016
Net provision charges for off-balance loan commitments and contingencies	65,759,554	34,876,726
Net provision (charges)/ release for litigations	2,080,367	4,785,175
Other net charges of provisions	11,893,071	(82,853)
Net provision losses	**79,732,992**	**39,579,048**

18. NET GAINS / (LOSSES) ON OTHER INVESTME

In RON	2017	2016
Gains/ (losses) on disposals groups held for sale	(4,575,855)	(2,375,006)
Net gains/ (losses) on other investments	**(4,575,855)**	**(2,375,006)**

19. TAXATION

In RON	2017	2016
Direct taxes at 16% (2014: 16%) of taxable profits determined in accordance with Romanian law	(77,584,761)	(60,351,820)
Correction of current income tax arising from previous year	63,673	(356,799)
Deferred tax income/ (loss)	19,633,948	873,820
Total tax expense	**(57,887,140)**	**(59,834,799)**
Profit/ (Loss) before tax	**383,160,957**	**326,389,247**
Taxation at statutory rate of 16%	**(61,305,753)**	**(52,222,280)**
Non-deductible expenses	(22,757,931)	(32,488,623)
Non-taxable revenues	9,851,007	21,221,560
Origination and reversal of temporary differences	10,011,921	873,820
Fiscal credit	6,313,616	2,780,724
Taxation in the income statement	**(57,887,140)**	**(59,834,799)**

20. CASH AND CASH EQUIVALENTS

In RON	2017	2016
Balances with National Bank of Romania	6,926,636,417	4,471,752,828
Cash (including cash in ATMs)	1,185,209,005	871,572,822
Short term Money Market placements	429,631,203	373,328,816
Current balances with other banks	32,774,384	44,293,189
Total	**8,574,251,009**	**5,760,947,655**

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 greater than 2 years with reimbursement, transfer and anticipated withdrawals clause or 0% for all the other liabilities included in the calculation base.

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

(i) Financial assets at fair value through profit or

In RON	31 December 2017	31 December 2016
Derivatives	69,256,319	105,920,693
Investment securities held for trading *	52,157,080	287,289,544
Total	**121,413,399**	**393,210,237**

**) bonds issued by Ministry of Public Finance of Romania and local Romanian authorities*

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

ii) Derivative assets / liabilities

		31 December 2017	
	Notional		**Present value**
In RON		**Active**	**Datorii**
Foreign currency derivatives			
Forward contracts	4,622,934,594	14,236,255	23,112,965
Purchased options	47,611,383	18,674	7,281
Sold options	47,611,383	-	18,165
Total foreign currency derivatives	**4,718,157,360**	**14,254,929**	**23,138,411**
Interest rates derivatives			
Interest Rate Swaps	3,335,748,527	31,270,914	32,695,735
Purchased options	992,370,740	22,842,240	-
Sold options	992,370,744	-	23,319,924
Total interest rate derivatives	**5,320,490,011**	**54,113,154**	**56,015,659**
Other (Precious metals and Commodities)	12,176,496	888,236	865,842
Total	**10,050,823,867**	**69,256,319**	**80,019,912**

		31 December 2016	
	Notional		**Present value**
In RON		**Active**	
Foreign currency derivatives			
Forward contracts	3,875,007,445	34,080,178	34,155,088
Purchased options	124,218,536	275,828	25,312
Sold options	124,218,536	-	362,846
Total foreign currency derivatives	**4,123,444,517**	**34,356,006**	**34,543,246**
Interest rates derivatives			
Interest Rate Swaps	3,261,675,334	45,680,689	38,816,084
Purchased options	118,068,600	779,793	568,516
Sold options	703,784,673	25,408,269	-
Total interest rate derivatives	703,784,675	-	25,527,951
Other (Precious metals and Commodities)	**4,669,244,682**	**71,088,958**	**64,344,035**
Total	4,326,397	475,729	475,239
Foreign currency derivatives	**8,797,015,596**	**105,920,693**	**99,362,520**

As at 31 December 2017, the Bank has non-matured SPOT foreign currency transactions, as follows: assets notional amount RON 3,678,898,393 RON (2,162,452,921 RON as at 31 December 2016), asset present value RON 3,725,203 (as at 31 December 2016: RON 1,349,219) and liabilities notional amount RON 3,676,965,118 (as at 31 December 2016: RON 2,162,272,253), liability present value RON 1,791,928 (as at 31 December 2016: RON 1,168,552).

22. LOANS AND ADVANCES TO BANK

In RON	31 December 2017	31 December 2016
Loans to banks	1,169,404,579	710,649,377
Suspense accounts	277,375,525	27,132,922
Total	**1,446,780,104**	**737,782,299**

Placement with banks includes deposits with local and international commercial banks. These exposures with rating grades from 1 to 7 (31 December 2016: from 1 to 7) are considered performing in accordance with internal rating models of the Bank as of 31 December 2017 and 31 December 2016

23. LOANS AND ADVANCES TO CUSTOM

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

In RON	31 December 2017	31 December 2016
Mortgages	11,253,647,987	9,128,661,032
Corporate loans	6,249,516,042	5,743,673,535
Revolving credit lines	2,073,542,573	1,889,734,158
Factoring	573,110,721	469,899,123
Credit cards and personal loans	159,033,593	225,320,524
Impaired assets *	1,787,007,456	2,774,897,660
Loans and advances to customers before provisions	**22,095,858,372**	**20,232,186,032**
Less provision for impairment losses on loans	(1,338,573,789)	(1,405,677,902)
Net loans and advances to customers	**20,757,284,583**	**18,826,508,130**

* *Impaired assets are defined in the Note4c*

23. LOANS AND ADVANCES TO CUSTOMERS (continued)

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

Specific adjustments for impaired assets

In RON	2017	2016
Balance at 1 January	**1,316, 676,455**	**1,654,045,102**
Net impairment charge for the year	223,923,285	381,442,655
Foreign currency exchange effect	23,430,196	5,686,453
Release of allowance for impairment of loans written-off and loans sold	(299, 978,607)	(724,497,755)
Balance at 31 December	**1,264,051,329**	**1,316,676,455**
Collective allowances for incurred but not reported losses		
	2017	**2016**
Balance at 1 January	**89,001,447**	**86,526,953**
Net impairment charge / (release) for the year	(15,180,041)	1,397,013
Foreign Currency Exchange Effect and other adjustments	701,054	1,077,481
Balance at 31 December	**74,522,460**	**89,001,447**
Total opening balance	**1,405,677,902**	**1,740,572,055**
Total closing balance	**1,338,573,789**	**1,405,677,902**

24. INVESTMENT IN SUBSIDIARIES

In RON	Nature of business	Country of incorporation	31 December 2017 % interest held	31 December 2017 Carrying amount	31 December 2016 % interest held	31 December 2016 Carrying amount
UniCredit Consumer Financing IFN S.A	Loans to private indivuduals	Romania	50.10%	64,767,136	50.10%	64,767,136
UniCredit Leasing Corporation IFN S.A.	Financial leasing	Romania	99.98%	78,348,547	99.98%	78,348,547
Total				**143,115,683**		**143,115,683**

The following information is taken from the individual financial statements of the associates, prepared in accordance with UniCredit Group accounting policies, which are based on IFRS as endorsed by the European Union:

In RON	Investments in associates	Total Assets	Total Liabilities	Operational incomes	Profit /(Loss)
2017					
UniCredit Consumer Financing IFN S.A.	50.10%	2,367,180,074	2,066,269,047	236,073,139	42,556,868
UniCredit Leasing Corporation IFN S.A	99.98%	4,096,132,695	3,842,536,633	149,230,088	51,085,651
2016					
UniCredit Consumer Financing IFN S.A.	50.10%	1,851,160,090	1,592,805,932	156,121,488	42,575,396
UniCredit Leasing Corporation IFN S.A	99.98%	3,714,510,371	3,511,999,959	122,941,730	17,840,904

25. FINANCIAL ASSETS AVAILABLE FOR SALE

a) Investment securities available for sale

As at 31 December 2017, the Bank included in investment securities available for sale bonds issued by the Ministry of Public Finance and bonds issued by the municipality of Bucharest in amount of RON 5,977,060,831 RON (31 December 2016: 6,351,173,062 RON)

As at 31 December 2016, the investment securities available for sale are pledged in amount of RON 732,191,326 RON (31 December 2016: 684,670,104 RON).

The Bank transferred to profit or loss during 2017 an amount of RON 26,401,708 RON (2016: de 123,600,810 RON) representing net gain from disposal of available for sale investment securities. Net change in fair value booked in other comprehensive income was a decrease of RON 107,381,557 before tax (31 December 2016: RON 52,492,530), respective RON 90,200,509 net of tax (31 December 2016: RON 44,093,725)

b) Equity investments available for sale

The Bank held the following unlisted equity investments, available for sale as at 31 December 2017:

31 December 2017	Nature of business	% Interest held	Gross carrying amount	Impairment	Net carrying amount
Transfond SA	Other financial services	8.04%	1,164,862	-	1,164,862
Biroul de Credit SA	Financial activities	6.80%	645,525	-	645,525
Fondul Roman de Garantare a Creditelor pentru Intreprinzatorii Privati IFN SA	Other credit activities	3.10%	1,786,564	960,253	826,311
Casa de Compensare Bucuresti SA**	Market studies & researches	0.91%	9,727	9,267	460
VISA Inc – actiuni prefentiale Seria C***	Cards	0.01%	20,029,027	-	20,029,027
Total			**23,635,705**	**969,520**	**22,666,185**

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

25. FINANCIAL ASSETS AVAILABLE FOR SALE (continued

b) Equity investments available for sale (continued)

The Bank held the following unlisted equity investments, available for sale as at 31 December 2016:

31 December 2016	Nature of business	% Interest held	Gross carrying amount	Impairment	Net carrying amount
Transfond SA	Other financial services	8.04%	1,164,862	-	1,164,862
Biroul de Credit SA	Financial activities	6.80%	645,525	-	645,525
Fondul Roman de Garantare a Creditelor pentru Intreprinzatorii Privati IFN SA	Other credit activities	3.10%	1,786,564	960,253	826,311
Pioneer Asset Management S.A.I. SA *)	Financial activities	2.57%	194,560	155,496	39,064
Casa de Compensare Bucuresti SA**)	Market studies & researches	0.91%	9,727	2,230	7,497
VISA Inc – actiuni prefentiale Seria C***)	Cards	0.01%	15,251,263	-	15,251,263
Total			**19,052,501**	**1,117,979**	**17,934,521**

The below mentioned companies are incorporated in Romania, except VISA Europe Limited (U.K.)
**) In September 2017 the Bank sold its share in Pioneer Asset Management S.A.I. SA to Amundi Group*

***) The decrease from 2016 was due to the decrease in the company's share capital as a result of the General Assembly decision. The major shareholder of Casa de Compensare Bucuresti SA is Bursa de Valori Bucuresti*

****) Following to the closing of the purchase of Visa Europe Limited ("Visa Europe") by Visa Inc. on 21st of June 2016, in accordance with the terms and conditions of the respective transaction agreement, the Bank has received in exchange for the one Visa Europe Ltd share held a total consideration consisting of immediate cash payment, a deferred payment (to be received in 3 years' time from VISA Inc from closing date) and a number of 3,868 VISA In Series C preferred shares resulting in total net impact of RON 66,635,475 captured in the position Net income on disposal of financial assets and liabilities wich are not at fair value through profit or loss .*

26. PROPERTY AND EQUIPMENT

In RON	Land and buildings	Computers and Equipment	Furniture and other assets	Assets in course of construction	Total
Cost					
Balance at 1 January 2017	**110,717,048**	**139,854,704**	**110,841,173**	**45,083,958**	**406,496,883**
Additions	2,895,302	30,045,755	6,182,351	26,074,663	65,198,071
Revaluation	(31,071,196)	-	-	-	(31,071,196)
Disposals	(1,171,846)	(18,587,246)	(11,004,108)	(39,123,408)	(69,886,608)
Reclassification to investment property	(1,660,638)	-	-	-	(1,660,638)
Balance at 31 December 2017	79,708,670	151,313,213	106,019,416	32,035,213	369,076,512
Depreciation and impairment losses					
Balance at 1 January 2017	**(20,057,913)**	**(104,954,974)**	**(74,902,232)**	-	**(199,915,119)**
Charge for the year	(11,216,541)	(22,959,295)	(8,790,652)	-	(42,966,488)
Revaluation	30,543,339	-	-	-	30,543,339
Disposals	618,530	18,503,958	10,476,970	-	29,599,458
Reclassification to investment property	112,585	-	-	-	112,585
Balance at 31 December 2016	-	**(109,410,311)**	**(73,215,914)**	-	**(182,626,225)**
Carrying amounts					
At 1 January 2017	**90,659,135**	**34,899,730**	**35,938,941**	**45,083,958**	**206,581,764**
At 31 December 2017	**79,708,670**	**41,902,902**	**32,803,502**	**32,035,213**	**186,450,287**

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

26. PROPERTY AND EQUIPMENT (continued)

In RON	Land and buildings	Computers and Equipment	Motor vehicles	Furniture and other assets	Assets in course of construction	Total
Cost						
Balance at 1 January 2016	**111,893,637**	**108,625,517**	**258,296**	**104,532,267**	**67,529,297**	**392,839,014**
Additions	14,916,434	34,178,275	-	16,014,558	50,122,894	**115,232,162**
Revaluation	66,480	-	-	-	-	66,480
Disposals	(11,891,333)	(2,949,088)	(258,296)	(9,705,652)	(72,568,233)	**(97,372,603)**
Reclassification to investment property	(4,268,170)	-	-	-	-	**(4,268,170)**
Balance at 31 December 2016	**110,717,048**	**139,854,704**	**-**	**110,841,173**	**45,083,958**	**406,496,883**
Depreciation and impairment losses						
Balance at 1 January 2016	**(10,930,440)**	**(91,633,095)**	**(258,296)**	**(72,244,882)**	**-**	**(175,066,713)**
Charge for the year	(11,879,465)	(16,040,650)	-	(10,904,378)		**(38,824,493)**
Disposals	2,498,073	2,718,771	258,296	8,247,029	-	**13,722,169**
Reclassification to investment property	253,918	-	-	-	-	**253,918**
Balance at 31 December 2016	**(20,057,914)**	**(104,954,974)**	**-**	**(74,902,231)**	**-**	**(199,915,119)**
Carrying amounts						
At 1 January 2016	**100,963,198**	**16,992,422**	**-**	**32,287,385**	**67,529,297**	**217,772,302**
At 31 December 2016	**90,659,134**	**34,899,730**	**-**	**35,938,942**	**45,083,958**	**206,581,764**

26. PROPERTY AND EQUIPMENT (continued)

Contingent operating lease (rentals)

In RON	31 December 2017	31 December 2016
Amounts payable under operational leases		
Up to twelve months	58,393,284	65,231,000
1-5 years	150,105,064	152,300,740
Over 5 years	6,169,311	14,460,842
Total future lease obligations	**214,667,659**	**231,992,582**

27. INTANGIBLE ASSETS

In RON	Intangible assets	Intangible assets in progress	Total
Cost			
Balance at 1 January 2017	**304,764,502**	**65,000,624**	**369,765,126**
Additions	55,578,478	55,581,113	111,159,591
Disposals	(10,414,693)	(55,578,478)	(65,993,171)
Balance at 31 December 2017	**349,928,287**	**65,003,259**	**414,931,546**
Depreciation and impairment losses			
Balance at 1 January 2017	**(222,827,830)**	**-**	**(222,827,830)**
Charge for the year	(45,444,750)	-	(45,444,750)
Disposals	9,734,130	-	9,734,130
Balance at 31 December 2017	**(258,538,450)**	**-**	**(258,538,450)**
Carrying amounts			
At 1 January 2017	**81,936,672**	**65,000,624**	**146,937,296**
At 31 December 2017	**91,389,837**	**65,003,259**	**156,393,096**

27. INTANGIBLE ASSETS (continued)

In RON	Intangible assets	Intangible assets in progress	Total
Balance at 1 January 2016	**265,045,761**	**60,584,767**	**325,630,528**
Additions	51,752,257	81,049,154	132,801,411
Disposals	(12,033,516)	(76,633,297)	(88,666,813)
Balance at 31 December 2016	**304,764,502**	**65,000,624**	**369,765,126**
Depreciation and impairment losses			
Balance at 1 January 2016	**(177,113,692)**	**-**	**(177,113,692)**
Charge for the year	(45,867,407)	-	(45,867,407)
Disposals	153,269	-	153,269
Balance at 31 December 2016	**(222,827,830)**	**-**	**(222,827,830)**
Carrying amounts			
At 1 January 2016	**87,932,069**	**60,584,767**	**148,516,836**
At 31 December 2016	**81,936,672**	**65,000,624**	**146,937,296**

28. DEFERRED TAX ASSETS AND LIABILIT

Deferred tax assets and deferred tax liabilities at 31 December 2017 are attributable to the items detailed in the table below::

In RON	31 December 2017 Assets	31 December 2017 Liabilities	31 December 2017 Net
Property, equipment and intangible assets	1,421,746	8,050,752	(6,629,006)
Available for sale equity investments	-	-	-
Provisions, other debts, forecasted expenses	44,989,052	-	44,989,052
Deferred tax asset/ (liability) at 16% through profit and loss account	**46,410,798**	**8,050,752**	**38,360,046**
Available for sale investment securities	12,376,891	2,185,870	10,191,021
Derivative financial instruments held for hedging	9,536,344	217,733	9,318,611
Tangible fixed assets revaluation reserve	-	1,410,320	(1,410,320)
Deferred tax asset/ (liability) at 16% through equity	**21,913,235**	**3,813,923**	**18,099,312**
Deferred tax asset/ (liability) at 16%	**68,324,033**	**11,864,675**	**56,459,358**

Deferred tax assets and deferred tax liabilities at 31 December 2016 are attributable to the items detailed in the table below:

In RON	31 December 2016 Assets	31 December 2016 Liabilities	31 December 2016 Net
Property, equipment and intangible assets	-	7,237,293	(7,237,293)
Available for sale equity investments	-	24,518	(24,518)
Provisions, other debts, forecasted expenses	25,987,910	-	25,987,910
Deferred tax asset/ (liability) at 16% through profit and loss account	**25,987,910**	**7,261,811**	**18,726,099**
Available for sale investment securities	-	6,990,029	(6,990,029)
Derivative financial instruments held for hedging	11,564,198	1,861,255	9,702,943
Tangible fixed assets revaluation reserve	-	1,706,600	(1,706,600)
Deferred tax asset/ (liability) at 16% through equity	**11,564,198**	**10,557,884**	**1,006,314**
Deferred tax asset/ (liability) at 16%	**37,552,108**	**17,819,695**	**19,732,413**

28. DEFERRED TAX ASSETS AND LIABILITIES (continued)

Taxes recognised in other comprehensive income are presented in the table

In RON	2017	2017	2017
	Before taxation	**Deferred tax**	**Net of tax**
Available for sale financial assets	(63,693,877)	10,191,020	(53,502,857)
Cash flow hedging reserve	(58,241,314)	9,318,610	(48,922,704)
Revaluation reserve on property and equipment	11,083,166	(1,410,319)	9,672,847

In RON	2016	2016	2016
	Before taxation	**Deferred tax**	**Net of tax**
Available for sale financial assets	43,687,681	(6,990,029)	36,697,652
Cash flow hedging reserve	(60,643,395)	9,702,943	(50,940,452)
Revaluation reserve on property and equipment	12,599,530	(1,706,600)	10,892,930

The movements in the Cash flow hedging reserve is presented below:

In RON	2017	2017	2017
	Before taxation	**Deferred tax**	**Net of tax**
1 January	**43,687,681**	**(6,990,029)**	**36,697,652**
Transfer to profit and loss	(26,401,708)	4,224,273	(22,177,435)
Net change in OCI	(80,979,850)	12,956,776	(68,023,074)
31 December	**(63,693,877)**	**10,191,020**	**(53,502,857)**

In RON	2016	2016	2016
	Before taxation	**Deferred tax**	**Net of tax**
1 January	**96,180,211**	**(15,388,834)**	**80,791,377**
Transfer to profit and loss	(123,600,809)	19,776,130	(103,824,680)
Net change in OCI	71,108,279	(11,377,325)	59,730,955
31 December	**43,687,681**	**(6,990,029)**	**36,697,652**

28. DEFERRED TAX ASSETS AND LIABILITIES (continued)

The movements in the Cash flow hedging reserve is presented below:

In RON	2017 Before taxation	2017 Deferred tax	2017 Net of tax
1 January	**(60,643,395)**	**9,702,943**	**(50,940,452)**
Transfer to profit and loss	7,732,720	(1,237,235)	6,495,485
Net change in OCI	(5,330,639)	852,902	(4,477,737)
31 December	**(58,241,314)**	**9,318,610**	**(48,922,704)**

In RON	2016 Before taxation	2016 Deferred tax	2016 Net of tax
1 January	**(55,510,418)**	**8,881,667**	**(46,628,751)**
Transfer to profit and loss	1,082,320	(173,171)	909,149
Net change in OCI	(6,215,297)	994,448	(5,220,849)
31 December	**(60,643,395)**	**9,702,943**	**(50,940,452)**

29. OTHER ASSETS

In RON	31 December 2017	31 December 2016
Other financial assets		
Sundry debtors (gross amounts)	48,660,613	48,823,005
Amounts receivable	26,813,988	5,251,660
Total gross amounts	**75,474,601**	**54,074,665**
Less impairment for sundry debtors		
Total other financial assets	(18,870,035)	(18,125,218)
Other financial assets		
Sundry debtors (gross amounts)	**56,604,566**	**35,949,447**
Other non-financial assets		
Prepayments	21,531,336	18,231,291
Inventories	2,013,789	1,908,912
Other	10,448,691	6,980,414
Total other non-financial assets	**33,993,816**	**27,120,617**
Total other assets	**90,598,382**	**63,070,064**

The Bank booked as prepayments, during 2017 and 2016: premises rents, local taxes, premises insurance and bankers blanket bond.

30. DERIVATIVES ASSETS/LIABILITIES DESIGNATED AS HEDGING INSTRUMENTS

The Bank uses interest rate and cross-currency swaps to hedge the foreign currency and interest rate risks arising from customers' deposits and loans.

The fair values of derivatives designated as cash flow hedges and respectively for fair value hedge (portfolio and micro hedge) are:

In RON **CFH**	**Notional amount 2017**	**Assets 2017**	**Liabilities 2017**	**Notional amount 2016**	**Assets 2016**	**Liabilities 2016**
Instrument type:						
Interest rate swap	303,812,440	-	68,725,900	367,170,827	-	81,460,827
Cross currency swap	334,222,737	329,619	7,142,536	296,079,720	10,326,089	-
Total	**638,035,177**	**329,619**	**75,868,436**	**663,250,547**	**10,326,089**	**81,460,827**

In RON **FVH**	**Notional amount 2017**	**Assets 2017**	**Liabilities 2017**	**Notional amount 2016**	**Assets 2016**	**Liabilities 2016**
Instrument type:						
Interest rate swap	172,408,900	4,331,226	247,500	993,834,394	6,999,414	17,223,695
Total	**172,408,900**	**4,331,226**	**247,500**	**993,834,394**	**6,999,414**	**17,223,695**

The time periods in which the hedged cash flows are expected to occur and affect the statement of comprehensive income are as follows:

	31 December 2017	**31 December 2017**	**31 December 2017**	**31 December 2016**	**31 December 2016**	**31 December 2016**
In RON	**In RON**	**Below 1 Year**	**1-5 Years**	**Over 5 Years**	**Below 1 Year**	**1-5 Years**
Cash inflow	-406,755	-	4,331,226	32,596	668,142	46,476,133
Cash outflow	8,613,989	11,608,965	57,897,080	-1,152,451	-12,150,173	-134,215,874

As at 31 December 2016, all cash flow hedge relationships have been assessed as highly effective.

During 2016 the Bank transferred from cash flow hedge reserve an amount of RON 7,732,720 (31 December 2016: RON 1,082,320) to profit or loss representing credit value adjustment and foreign currency difference for the hedging items.

31. DEPOSITS FROM BANKS

In RON	**31 December 2017**	**31 December 2016**
Term deposits	2,727,606,057	2,314,018,490
Sight deposits	420,693,932	690,748,059
Amounts in transit	239,575,749	168,629,465
Total	**3,387,875,738**	**3,173,396,014**

32. IMPRUMUTURI DE LA BANCI SI ALTE INSTITUTII FINANCIARE

In RON	31 December 2017	31 December 2016
Commercial Banks	267,009,346	2,011,811,201
Multilateral development banks	11,350,761	25,855,079
International financial institutions	590,063,960	507,951,366
Total	**868,424,067**	**2,545,617,646**

As at 31 December 2017, the final maturity of loans varies from September 2018 to June 2024.

33. DEPOSITS FROM CUSTOM

In RON	31 December 2017	31 December 2016
Term deposits	9,125,328,073	5,774,189,864
Payable on demand	16,238,216,403	15,821,617,560
Collateral deposits	1,972,494,750	746,782,058
Amounts in transit	99,388,291	100,757,423
Certificates of deposits	135,591	103,895
Total	**27,435,563,108**	**22,443,450,800**

As of 31 December 2017, retail clients (individuals and small and medium companies) represents 28% of the portfolio, corporate represent 66% of the portfolio, while private banking clients represents 6% (31 December 2016: retail clients 30%, corporate clients 64%, private banking clients 6%).

34. DEBT SECURITIES ISSUED

In RON	31 December 2017	31 December 2016
Debt securities issued	1,166,162,751	551,024,752
Total	**1,166,162,751**	**551,024,752**

In July 2017, the Group issued RON denominated bonds in amount of RON 610,000,000 with semi-annual coupon payments and the following maturities: 3,5 and 7 years. The debts are listed on Bucharest Stock Exchange (date of listing: 07.08.2017), having the following characteristics:

ISIN	Cod BVB	Maturity	Nominal amonut in RON	Interest rate
ROUCTBDBC022	UCB20	15-Jul-20	146,000,000	ROBOR6M+ 0.65%p.a.
ROUCTBDBC030	UCB22	15-Jul-22	280,500,000	ROBOR6M+ 0.85%p.a.
ROUCTBDBC048	UCB24	15-Jul-24	183,500,000	ROBOR6M+ 1.05%p.a.

The debt issuance from July 2017 was adrred to qulified investors. The initial nominal amount was oversubscribed, 61,000 debt instruments for the maturities listed above were issued.

35. SUBORDINATED LOANS

In RON	31 December 2017 *	31 December 2016*
UniCredit Bank Austria AG	-	223,356,340
UniCredit SpA	787,082,141	-
Total	**787,082,141**	**223,356,340**

**) including accrued interest and deferred expenses*

As of December 31, 2017, the following agreements were in place:
- subordinated debt from UniCredit SPA, Italy, in amount of RON 225,995,450 (EUR 48,500,000), with maturity in July 2027.
- subordinated loan from UniCredit SPA, Italy, in amount of RON 559,164,000 (EUR 120,000,000), with maturity in December 2027.

In July 2017, the Bank repaid the subordinated loan received from UniCredit Bank Austria AG for EUR 48,500,000.

The repayment of the principal in the balance and the interest attached to the aforementioned loans is subordinated to all other liabilities of the Bank.

36. PROVISIONS

In RON	31 December 2017	31 December 2016
Provisions for the finacial gurantees	75,708,162	38,431,523
Provisions for litigations	8,078,600	5,939,096
Provisions for off-balance sheet commitments	47,124,319	17,939,290
Others provisions	13,688,851	1,795,779
Total	**144,599,932**	**64,105,688**

The movements in provisions during the year were as follows:

In RON	31 December 2017	31 December 2016
Balance at 1 January	**64,105,688**	**68,041,236**
Provision set up during the year	159,167,658	78,733,902
Provision used during the year	(183,959)	(2,040,963)
Provision reversed during the year	(79,250,707)	(80,218,920)
FX effect related to off-balance exposure (financial guarantees and commitments)	761,252	(409,567)
Balance at 31 December	**144,599,932**	**64,105,688**

37. OTHER LIABILITIES

	31 December 2017	31 December 2016
Other financial liabilities		
Accruals for third party services	32,859,378	50,356,413
Amounts payable to suppliers	72,114,855	59,599,817
Accrual of employee bonus	39,913,090	28,647,414
Sundry creditors	10,977,503	7,116,820
Total other financial liabilities	**155,864,826**	**145,720,464**
Other non-financial liabilities		
Deferred income	28,256,120	24,140,619
Payable to state budget	24,240,718	19,663,431
Other	2,622,762	1,187,871
Total other non-financial liabilities	**55,119,600**	**44,991,921**
Other liabilities	**210,984,426**	**190,712,385**

38. ISSUED CAPITAL

The statutory share capital of the Bank as at 31 December 2017 is represented by 40,760,784 ordinary shares (31 December 2016: 40,760,784 ordinary shares) having a face value of RON 9.30 each. The shareholders of the Bank are as follows:

	31 December 2017
	%
UniCredit SpA	98,328
Other shareholders	1,672
Total	**100,00**

	31 December 2016
	%
UniCredit SpA*)	98,328
Other shareholders	1,672
Total	**100,00**

**) UniCredit SpA has taken over the CEE operations and subsidiaries from UniCredit Bank Austria AG since 1st of October 2016*

The share capital comprises of the following:

In RON	31 December 2017	31 December 2016
Statutory share capital	379,075,291	379,075,291
Hyperinflation effect – IAS 29	722,528,775	722,528,775
Retreated share equity as per IFRS	**1,101,604,066**	**1,101,604,066**

39. OTHER RESERVES

The breakdown of other reserves is presented below:

In RON	31 December 2017	31 December 2016
Statutory general banking risks	115,785,348	115,785,348
Statutory legal reserve	78,723,679	78,723,679
Effect of hyperinflation – IAS 29	19,064,495	19,064,495
Other reserves	31,254,033	26,961,090
Total	**244,827,555**	**240,534,612**

Reserves for general banking risks include amounts set aside for future losses and other unforeseen risks or contingencies. These reserves are not distributable to sharholders.

Statutory reserves represent accumulated transfers from retained earnings in accordance with relevant local banking regulations. These reserves are not distributable to shareholders.

Local legislation requires 5% of the Bank's net profit to be transferred to a non-distributable statutory reserve until such time this reserve represents 20% of the Bank's statutory share.

The General Meeting of the Shareholders decided on April 13, 2017 the creation of a reserve in amount of RON 4,292,943 corresponding to the reinvested profit of the year 2016 exempt from the payment of the profit tax according to art. 22 of Law 227/2015.

40. RELATED PARTY TRANSACTIONS

The Bank entered into a number of 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 price.

40. RELATED PARTY TRANSACTIONS (continued)

The following transactions were carried out between the Bank and UniCredit S.p.A and its subsidiaries:

	31 December 2017		
In RON	**Parent Company**	**Subsidiaries**	**Other related parties**
Derivative assets at fair value through profit or loss	1,028,185	31,128	4,072,145
Derivatives assets designated as hedging instruments	-	-	4,660,844
Current accounts and deposits at banks	1,183,378,600	-	27,594,375
Loans and advances to banks	43,844,417	-	8,401,783
Loans and advances to customers	-	-	50,309,379
Other assets	21,148,384	3,167,744	23,660,592
Outstanding receivables	**1,249,399,586**	**3,198,872**	**118,699,118**
Derivative liabilities at fair value through profit or loss	9,098,336	-	52,186,771
Derivatives liabilities designated as hedging instruments	2,320,450	-	73,845,484
Current accounts	21,893,047	75,349,138	69,593,715
Deposit attracted	1,237,785,995	229,061,075	1,533,928,181
Loans received	-	-	266,036,442
Debts securities issued	-	-	21,330,716
Subordinated debt	787,052,237		
Other liabilities	8,778,589	-	5,717,301
Outstanding payables	**2,066,928,654**	**304,410,213**	**2,022,638,610**
Interest income	27,165,487	12,804	3,066,976
Interest expense	(9,360,210)	(234,894)	(74,171,499)
Fee and commission income	1,592,343	60,363,231	3,429,834
Fee and commission expense	(18,606,087)		(6,329,462)
Other operating income	65,078	2,685,606	549,304
Operating expenses	-	-	(56,854)
	(458,462)		(49,747,159)
Net revenue / (expense	**398,149**	**62,826,747**	**(123,258,860)**
Commitments	**189,708,021**	**128,719,020**	**655,296,154**

40. RELATED PARTY TRANSACTIONS (continued)

	31 December 2016		
In RON	Parent Company	Subsidiaries	Other related parties
Derivative assets at fair value through profit or loss	-	90,972	10,733,093
Derivatives assets designated as hedging instruments	3,045,827	-	14,279,676
Current accounts and deposits at banks	106,357,151	-	84,686,096
Loans and advances to banks	662,234,223	-	8,488,054
Loans and advances to customers	-	5,240	39,520,416
Other assets	4,606,525	3,041,808	39,399,724
Outstanding receivables	**776,243,726**	**3,138,020**	**197,107,059**
Derivative liabilities at fair value through profit or loss	5,537,570	-	78,607,590
Derivatives liabilities designated as hedging instruments	14,695	-	98,669,827
Current accounts	2,970,916	23,379,566	294,293,701
Deposit attracted	635,882,521	447,598,582	1,659,689,265
Loans received	-	-	2,010,267,302
Debts securities issued	-	-	20,648,400
Other liabilities	-	-	223,404,943
	7,490,529	-	47,406,445
Outstanding payables	**651,896,231**	**470,978,148**	**4,432,987,473**
Interest income	25,886,211	1,569,558	683,267
Interest expense	1,793,397	(222,139)	(119,524,829)
Fee and commission income	204,816	39,335,104	9,058,912
Fee and commission expense	(3,662,181)	2,261,887	(1,854,257)
Other operating income	17,470,531	1,346,502	1,875,017
Operating expenses	-	-	(45,789,493)
Net revenue / (expense	**41,692,774**	**44,290,912**	**(155,551,383)**
Commitments	**189,708,021**	**205,728,194**	**859,436,475**

40. RELATED PARTY TRANSACTIONS (continued)

Transactions with key management personnel

A number of banking transactions are entered into with key management personnel (executive management, administrators and managers of the Bank) 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	31 December 2017	31 December 2016
Loans	3,873,108	4,525,320
Current accounts and deposits	16,006,275	6,269,062
Interest and similar income	33,678	154,118
Interest expenses and similar charges	(11,672)	(14,244)

	2017	2016
In RON		
Key management compensation	11,919,023	11,965,287
Total	**11,919,023**	**11,965,287**

41. COMMITMENTS AND CONTINGENCIES

i) Off balance sheet commitments

At any time the Bank 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 Bank 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 contractual obligations.

	31 December 2017	31 December 2016
In RON		
Loan commitments	1,310,525,468	1,883,949,446
Letters of credit	193,764,422	189,849,695
Guarantees issued	4,617,613,782	3,617,490,759
Total	**6,121,903,672**	**5,691,289,900**

41. COMMITMENTS AND CONTINGENCIES (continued)

l) Off balance sheet commitments (continued)

The Bank acts as a security agent, payment agent and hedging agent for a series of loan contracts between UniCredit SpA and other entities within UniCredit Group as lender and Romanian companies as borrowers. For each of these contracts there is a risk participation agreement by which the Bank is obliged to indemnify UniCredit SpA or the other entities within UniCredit Group. The total amount of such risk participation agreements in force as at 31 December 2017 is EUR 37,439,447 (31 December 2016: EUR 118,373,681 and CHF 885,039).

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

The Bank concluded with UniCredit SpA a series of novation contracts through which loan contracts initially concluded by the Bank with Romanian companies were transferred to UniCredit SpA in exchange for full reimbursement of borrowers' exposure towards the Bank. According to these novation contracts, the Bank is still involved as guarantor and payment agent when the debtor performs its payments.

ii) Contingent liabilities

As at 31 December 2017, the Bank was involved in several litigations for which the probable total claims estimated by the Bank's lawyers amounted to RON 11,133,472. The Bank, based upon legal advice, has assessed that a provision amounting to RON 4,228,600 as at 31 December 2017 is necessary to be booked for these claims. Additionally, in 2016, a bulk provision in amount of RON 3,850,000 has been set-up and maintained in 2017 so as to ensure a conservative approach on provisions for litigations.

42. OPERATING SEGMENTS

The segment report format is based on the internal reporting structure of business segments, which reflects management responsibilities in the Bank. (Please refer to Note *3y*).

42. OPERATING SEGMENTS

Segment reporting on income statements as of 31 December 2017:

	CIB si PB	Retail	Others	Total
Net interest income	475,352,891	259,219,197	30,476,221	765,048,309
Net fee and commission income	135,125,076	169,885,757	(3,872,289)	301,138,544
Net income from trading and other financial instruments	235,298,422	56,320,970	(43,977,840)	247,641,552
Net gains on financial assets available for sale	28,407,389	-	19,264,766	47,672,155
Dividend income	-	2,191,269	-	2,191,269
Other operating income	219,779	4,585,582	9,481,227	14,286,588
Venituri operationale	**874,403,557**	**492,202,775**	**11,372,085**	**1,377,978,417**
Operating income	(269,795,315)	(439,236,138)	(33,516,535)	(742,547,988)
Net operating income	**604,608,242**	**52,966,637**	**(22,144,450)**	**635,430,429**
Net impairment losses on financial assets	(129,044,888)	(37,407,048)	(1,508,691)	(167,960,627)
Net impairment losses and provision charges	-	(79,732,990)	-	(79,732,990)
Gains on disposals of equity investments	-	(4,575,855)	-	(4,575,855)
Profit before taxation	**475,563,354**	**(68,749,256)**	**(23,653,141)**	**383,160,957**
Income tax	-	(57,887,140)	-	(57,887,140)
Net profit for the year	**475,563,354**	**(126,636,396)**	**(23,653,141)**	**325,273,817**

42. OPERATING SEGMENTS (continued)

Segment reporting on income statements as of 31 December 2016:

	CIB si PB	Retail	Others	Total
Net interest income	474,204,974	260,819,302	(2,776,702)	732,247,574
Net fee and commission income	137,542,605	149,409,471	(4,844,516)	282,107,560
Net income from trading and other financial instruments	182,102,041	51,455,646	(1,183,957)	232,373,730
Net gains on financial assets available for sale	49,966,636	-	71,946,898	121,913,534
Dividend income	-	-	1,913,613	1,913,613
Other operating income	328,409	43,389	7,446,887	7,818,685
Venituri operationale	**844,144,666**	**461,727,808**	**72,502,223**	**1,378,374,697**
Operating income	(259,659,243)	(407,146,496)	(19,126,434)	(685,932,173)
Net operating income	**584,485,423**	**54,581,312**	**53,375,789**	**692,442,524**
Net impairment losses on financial assets	(260,833,990)	(50,712,582)	(12,552,651)	(324,099,223)
Net impairment losses and provision charges	-	-	(39,579,048)	(39,579,048)
Gains on disposals of equity investments	-	-	(2,375,006)	(2,375,006)
Profit before taxation	**323,651,433**	**3,868,730**	**(1,130,916)**	**326,389,247**
Income tax	-	-	(59,834,799)	(59,834,799)
Net profit for the year	**323,651,433**	**3,868,730**	**(60,965,715)**	**266,554,448**

42. OPERATING SEGMENTS (continued)

Segment reporting on statement of financial position as of 31 December 2017

	CIB si PB	Retail	Others	Total
Total assets	**19,203,018,302**	**6,684,143,072**	**11,649,508,290**	**37,536,669,664**
Total liabilities	21,931,463,618	7,742,767,520	4,497,034,887	34,171,266,025
Total equity	-	-	3,365,403,639	3,365,403,639
Total liabilities and equity	**21,931,463,618**	**7,742,767,520**	**7,862,438,526**	**37,536,669,664**

Segment reporting on statement of financial position as of 31 December 2016:

	CIB si PB	Retail	Others	Total
Total assets	**16,427,138,914**	**6,088,961,326**	**10,171,132,208**	**32,687,232,448**
Total liabilities	17,639,682,422	6,728,205,784	5,062,825,281	29,430,713,487
Total equity	-	-	3,256,518,961	3,256,518,961
Total liabilities and equity	**17,639,682,422**	**6,728,205,784**	**8,319,344,242**	**32,687,232,448**

43. SUBSEQUENT EVENTS

The Extraordinary General Meeting of Shareholders dated January 29, 2018 approved the increase of the Bank's share capital by the maximum amount of RON 76,144,187.10, by cash contribution, from the amount of RON 379,075,291.20 to the maximum amount of 455,219,478.30 RON, by issuing a number of 8,187,547 new shares at a subscription price of 85.23 RON / share, out of which 9.30 RON represents nominal value and 75.93 RON represents the issue premium. Shares may be subscribed by shareholders from February 6 to March 6, 2018.

There is no other significant subsequent event after the end of reporting period.

The separate financial statements were approved by the Management Board on 27 February 2018 and were signed on its behalf by:

Mr. Rasvan Catalin Radu
Chief Executive Officer

Mr. Philipp Gamauf
Chief Financial Officer