

SUPERVISORY BOARD MEMBERS' REPORT

based on the activity carried out during 2017 and related to the Financial Statements prepared in accordance with IFRS as endorsed by EU, applicable for Romanian credit institutions through NBR Order no. 27/2010 and further amendments

1. General Considerations upon the Activity of the Supervisory Board Members for 2017

During 2017, the activity of the Supervisory Board of UniCredit Bank S.A. (herein referred to as 'the Bank' or 'UCB') was conducted in full compliance with statutory laws regulating the banking activity, as well as internal regulations. The Supervisory Board Members acted according with their responsibilities as defined in the Constitutive Act of the Bank and within the limits of their competences assigned by the General Shareholders Meeting. Acting upon its role, as provided for by legal provisions, the Supervisory Board controlled and supervised the management activity as conducted by the Management Board.

The Bank has successfully identified and used the appropriate tools needed in order to achieve sustainable development, mainly due to its robust business model based on customer centricity and observance of customer's real life banking needs. In a difficult economic environment, the Bank's very good performance during the year proves its fast adjusting capability, adapting business strategy and adequate operational management, setting solid grounds for future challenges.

The Supervisory Board Members have analyzed the main aspects occurred in the Bank's activity that could have only been performed with the approval of the Supervisory Board, according to the Constitutive Act of the Bank, and took the necessary measures for ensuring an adequate running of the Bank's specific activities.

During 2017, the Supervisory Board's activity was carried out through 8 meetings, of which 5 were Ordinary ones and 3 were Extraordinary. The attendance of the Supervisory Board Members at the meetings is reflected in the table below:

Supervisory Board Member	Number of 2017 meetings during mandate	Number of 2017 meetings attended	Beginning of mandate during 2017	Termination of mandate during 2017
Dan Pascariu	8	8		
Heinz Meidlinger	8	8		
Zeynep Nazan Somer Ozelgin	2	2	19.10.2017	
Stefano Cotini	4	4		28.07.2017
Stefano Porro	4	3	27.07.2017	
Jutta Liebenwein Schoffmann	4	3	27.07.2017	
Luca Pierluigi Rubaga	2	2	05.10.2017	

Throughout the 8 meetings, the Members of the Supervisory Board discussed, critically analyzed and/or assessed periodically information on the following subjects and related activities:

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- quarterly presentation of the financial performance, including economic situation, financial market conditions, benchmarking analyses, financial and commercial performance, detailed by business segments
- report on Bank's performance in the business divisions: Retail and Corporate Investment Banking
- Risk Management presentation, including detailed assessment of credit, market and operational risks as well as information on the outsourced activities
- report on related party transactions
- proposals related to strategic and non-strategic participations
- information on pending litigation
- granting of loan facilities
- approval of internal regulations and policies
- activity reports of the committees assisting the Supervisory Board
- continuing improvement of the internal control system; Internal Audit, Compliance and Risk Management matters were discussed on regular basis in the Supervisory Board meetings, usually through Audit Committee, as well as Risk Committee

Apart from the above-mentioned subjects depicting periodically the image of the Bank's performance, several other specific topics were discussed, thus being ensured a comprehensive level of information for the Supervisory Board on the most important aspects in the Bank's activity, such as:

- information on General Shareholders Meetings' topics, discussions and Shareholders requests or proposals
- approval of the Bank's overall 2017 Strategy and business risk strategy
- acknowledgement of the results of the stress testing in UCB
- evolution of the composition of the Bank's Management Board, as follows:
 - In the meeting dated July 26th, 2017, the Supervisory Board acknowledged the cessation of the mandate of Mrs. Mihaela Lupu as Executive Vice-President of UCB Management Board, effective as of September 1st, 2017.
 - In the meeting dated September 8th, 2017, the Supervisory Board approved the appointment of Mr. Philipp Gamauf as Executive Vice-President of UCB Management Board, starting with September 8th, 2017, subject to the NBR prior approval.

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- In the meeting dated December 18th, 2017, the Supervisory Board acknowledged the cessation of the mandate of Mr. Marco Giuseppe Esposito as Executive Vice-President of UCB Management Board effective as of January 1st, 2018.

In terms of Supervisory Board Members composition in 2017, during the Ordinary General Meeting of Shareholders held on February 20th, 2017, the appointment of new Supervisory Board Members was approved as follows:

- Mrs. Jutta Liebenwein Schoeffmann's appointment as Member of the Supervisory Board of the Bank, for a mandate of 3 years, respectively until 20.02.2020;
- Mr. Stefano Porro's appointment as Member of the Supervisory Board of the Bank for a mandate of 3 years, respectively until 20.02.2020;
- Mr. Luca Pierluigi Rubaga's appointment as Member of the Supervisory Board of the Bank for a mandate of 3 years, respectively until 20.02.2020;
- Mrs. Zeynep Nazan Somer Ozelgin's appointment as Member of the Supervisory Board of the Bank for a mandate of 3 years, respectively until 20.02.2020.

The Committees subordinated to the Supervisory Board are:

- Audit Committee
- Risk Management Committee
- Nomination Committee
- Remuneration Committee

The composition of all Supervisory Board Committees was reviewed during 2017 so as to ensure the most adequate composition of such, given the requirements for specialization, expertise and independency of certain members.

1.1. Audit Committee

The Audit Committee is a consultative committee set-up by the Supervisory Board with specialized attributions, overseeing the effectiveness of the internal control system of the Bank. The Audit Committee is composed of 3 elected Members of the Supervisory Board, for a 3 years term, allowing reappointment.

The roles, responsibilities and functioning mechanisms of the Audit Committee are detailed in the Rules of Procedure for the Audit Committee, which have been revised and a new version of such was approved by the Supervisory Board during 2017.

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The activity of the Supervisory Board Members has been constantly and efficiently supported by the Members of the Audit Committee which conducted its activity in 2017 through 5 meetings. Subjects submitted to the Audit Committee were also presented to the Supervisory Board together with Audit Committee recommendations, for instance:

- internal audit reports;
- risk management reports;
- compliance topics;
- financial statement audit;
- data quality report;
- update on Anti Money Laundering matters;
- update on litigations status;
- IFRS9 implementation;
- results of the Financial Supervisory inspection;
- conflicts of interest and Code of Conduct related matters.

1.2. Risk Management Committee

The Risk Management Committee is a consultative committee set-up by the Supervisory Board with specialized attributions, composed of 3 elected Members of the Supervisory Board, for a 3 years term, allowing reappointment.

The roles, responsibilities and functioning mechanisms of the Risk Management Committee are detailed in the related Rules of Procedure for the Risk Management Committee, which have been revised and a new version of such was approved by the Supervisory Board during 2017.

Among the specific attributes in the field of risk management there can be enumerated: advising the Supervisory Board with regards to the risk appetite and the current and future global strategy on risk management of the Bank; checking the prices of assets and liabilities products offered to clients by fully considering the business model and strategy on the risks management; reviewing, evaluating and releasing recommendations to the Supervisory Board with regard to the Bank's risk policies; checking incentives offered by the retribution system consider the risks, capital, liquidity, as well as the probability and schedule of profits.

The Risk Management Committee conducted its activity in 2017 through 2 meetings, during which the following aspects were assessed:

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- Credit Risk Strategies for 2017 (Corporate and Retail);
- Overview of the remuneration policies and practices 2017;
- Profitability analysis;
- Information related to Risk Appetite Framework 2017;
- Information related to Stress Test based on December 2016 figures;
- Information related to Annual Reports sent to National Bank of Romania;
- Information about significant risks management related policies changes.

1.3. Nomination Committee

The Nomination Committee is a consultative committee set-up by the Supervisory Board, with specialized attributions, composed of 3 elected Members of the Supervisory Board, for a 3 years term, allowing reappointment, supporting the Members of the Supervisory Board to develop and implement a solid framework for internal governance in terms of:

- identifying and recommending to the Shareholders/Supervisory/Management Board for approval, candidates to occupy the vacant seats within the Supervisory Board, Management Board as well as the position as Head of Internal Audit;
- assessing the balance of knowledge, skills, diversity and experience within the management body;
- assessing the structure, size, composition and performance of the management body;
- assessing the knowledge, skills and experience of each Members of the management body and of the management body as a whole;

The roles, responsibilities and functioning mechanisms of the Nomination Committee are detailed in the Rules of Procedure for the Nomination Committee, which have been revised and a new version of such was approved by the Supervisory Board during 2017.

The Nomination Committee conducted its activity in 2017 through 3 meetings, during which:

- the Management Board Members and the Supervisory Board Members (existing and newly proposed ones) and Head of Audit were assessed as fit and proper;
- the knowledge, skills and experience of individual Members of the management body and of the management body collectively, based on previous 'fit and proper documents' and considerations of previous professional experience were assessed as adequate;
- the structure, size, composition and performance of the Management Body were assessed as adequate;

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- there was reviewed the policy of the Management Body for selection and appointment of senior management.

1.4. Remuneration Committee

The Remuneration Committee is a consultative committee set-up by the Supervisory Board, with specialized attributions related to sound governance on remuneration and remuneration policies, composed of 3 Members appointed by the Supervisory Board, for a 3 years term, allowing reappointment.

The roles, responsibilities and functioning mechanisms of the Remuneration Committee are detailed in the Rule of Procedure for Remuneration Committee, which have been revised and a new version of such was approved by the Supervisory Board during 2017.

The Remuneration Committee conducted its activity in 2017 through 5 meetings, handling subjects such as:

- Establishment of goals for Management Board, Head of Audit, Head of Compliance;
- Revision of the Rules on Remuneration and the Rules of Procedure for Remuneration Committee;
- Establishment of remuneration package for Head of Compliance;
- Review of Group Incentive System Rules for EVP, SVP and local incentive system for FVP, LTI plan, share-ownership guidelines.

In the light of the above, the Bank succeeded in improving its professional environment, implementing UniCredit Group best standards, mainly by approving internal regulations for various banking areas and granting recommendations for the activity of various divisions/departments.

2. Financial Statements of UniCredit Bank S.A. as at December 31st, 2017

The annual financial statements as at December 31st, 2017 were drawn up in accordance with the Order no. 27/2010 of the Governor of the National Bank of Romania for the approval of accounting regulations in conformity with IFRS as endorsed by European Union, applicable for credit institutions.

Following thorough analysis, the Supervisory Board approved:

- a. 2017 Separate Financial Statements prepared in accordance with IFRS as endorsed by EU and applicable to credit institutions in accordance with the NBR Order no. 27/2010 and further amendments, and the discharge of directors for the financial year 2017, along with the Directorate Report and Supervisory Board Report related to Separate Financial Statements;
- b. 2017 Separate Financial Statements prepared for Group consolidation purposes of UniCredit S.p.A;

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c. 2017 regulatory reports, such as:

- FINREP report on individual basis in accordance with NBR's regulatory requirements and Commission implementing Regulation (EU) no. 680/2014;
- FINREP report on individual basis in accordance with Group accounting principles;
- Own funds and Own funds' requirements on individual basis in accordance with NBR's regulatory requirements, European Parliament and Council Regulation (EU) no 575/2013 and Commission implementing Regulation (EU) No 680/2014;
- Individual Own funds and Own funds' requirements for Group's consolidation purpose in accordance with Group accounting principles, European Parliament and Council Regulation (EU) no 575/2013 and Commission implementing Regulation (EU) No 680/2014.

3. Distribution of 2017 Net Profit

The Supervisory Board approved the Management Board's proposal to be submitted to the approval of the General Shareholders' Meeting regarding the profit distribution for year end 2017 in total amount of RON 325,273,817, as presented in the Separate Financial Statements prepared in accordance with IFRS as endorsed by EU and applicable to credit institutions in accordance with NBR Order 27/2010 and further amendments, as follows:

- set-up of a reserve for the amount of RON 13,883,651 related to the reinvested profit of the year 2017, for which the Bank applied the income tax exemption according to art. 22 of Law no. 227/2015;
- reinvestment of the net profit in total amount of RON 311,390,166 in order to support the capital base and solvency ratio of the Bank.

4. Conclusions

The Supervisory Board considers that, due to the strong financial fundamentals of the Bank and the commitment of the Shareholders, Management and employees, the Bank has very good prospects to reach its full potential on sustainable development, in compliance with applicable ruling laws and regulations, and further improve its position on the market.

DAN PASCARIU

Chairman of the Supervisory Board



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