UniCredit International Bank
Luxembourg

Financial Statements and Report of the Réviseur d'Entreprises Agréé 31 December 2018

8-10, rue Jean Monnet
L-2180 Luxembourg
R.C.S. Luxembourg: B 103 341

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UniCredit International Bank
Luxembourg

Luxembourg, March 8th 2019

Statement by the Management

In accordance with Article 3(2) of the law of January 11th 2008 relating to the transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market, the undersigned confirm that to the best of their knowledge, the financial statements of UniCredit International Bank (Luxembourg) S.A. prepared in accordance with International Financial Reporting Standards give a true and fair view of its assets, liabilities, financial position and profit or loss as at December 31st 2018, its financial performance and its cash flows for the year then ended.

Furthermore, the undersigned declare that the management report includes a fair review of the development and performance of the business and the position of UniCredit International Bank (Luxembourg) S.A. together with a description of the principal risks and uncertainties to which it is exposed.

Dr. Joachim Beckert
CEO

Luigi Colavolpe
CFO/General Manager

UniCredit International Bank (Luxembourg) S.A.
8-10, Rue Jean Monnet L-2180 Luxembourg
BP 770 - L-2017 Luxembourg
R.C.S. B103341

Société Anonyme
Téléphone: +352 22 08 42-1
Fax: +352 46 90 26
Swift: UNCRLULL

UniCredit International Bank
Luxembourg

2018

Report of the Management Board

of UniCredit International Bank (Luxembourg) S.A.

2018 Report of the Management Board

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2018 Report of the Management Board

I. Macroeconomic environment[1]

The global economy

2018 was a year to forget for the markets: the worst from the big crisis of 2008 for Wall Street and, very rare circumstance, both the bonds and the shares recorded negative performances. Following 2017, which saw strong gains in asset prices and record low volatility, 2018 was characterized by several geopolitical concerns impacting markets and sentiment: China trade wars, a pending Brexit vote about the nature of the UK's exit from the European Union ("EU") and a partial government shutdown in United States ("US"). The other events influencing the markets in 2018 were: the rise of European populism (the most important European political development of the 21st century), the collapse of the oil price, the protest movement in France from the "gilets jaunes", the normalization of monetary policy of central banks, the outcome from Italian budgetary negotiations with EU.

Despite the economic slowdown and rising geopolitical risks, the European Central Bank ("ECB") announced the end of its asset purchase program at its December 13th policy meeting. A week later, the Federal Market Open Committee ("FOMC") hiked rates a fourth time in 2018 and the eighth time since December 2016. The rise was widely expected despite the 4th quarter market turmoil and decreasing inflation. The US central bank continued to raise the cost of money, ignoring the growth that has been revised down from 2,5% to 2,3% in 2019.

In similar fashion to the ECB, the move was anticipated and not hiking rates would have arguably caused more concern. However, markets did not respond favourably to the accompanying statement.

The FOMC reiterated its willingness to hike rates above neutral as long as economic data permits, and at the same time lowered its 2019 rate hike forecast to two from three.

Financial market trends

In Europe, the key stories were the slowdown in economic growth and the victory for populist parties in Italy, who subsequently formed a coalition government.

The pan-European EuroStoxx 50 index lost 16% (-14,4% in euro).

Emerging market decreased significantly in 2018. They performed worse than Wall Street, with some assets losing over 30% for the year. China technology and India small caps led the field.

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[1] All the macroeconomic data are provided by UniCredit Research MIB (Market & Investment Banking)

Before 2018, all emerging markets benefited from low US interest rates, which helped capital inflows to emerging market economies, through the carry-trade, i.e. borrowing funds in the US where interest rates were low and buying assets in emerging markets where interest rates were high. But during 2018, Modi's market reforms in India have been replaced by populism, with the country being heading for elections in the spring of 2019. Interest rate hikes in the US have undermined, and in some cases, reversed capital flows to emerging markets.

The 3 Month Euribor was substantially unchanged 0,32%.

Equity markets

In 2018 the largest global equity markets performed negatively, with Europe losing -13,96% and the US with a loss of -6,92% or the worst annual performance since 2008.
2018 started with a positive evolution of the S&P 500 registering its strongest January performance (+5,6%) in 21 years. Volatility came roaring back in early February with a double-digit declines in all major equity indices. Over the next quarters, indices recovered the losses and this despite a backdrop of slowing global growth.
2018 marked the first time since 1978 that the Dow finished with an annual loss after rising in the first three quarters, and the first for the S&P 500 since 1948. Only the performance of two of eleven Global Industry Classification Standard ("GIC") sectors, healthcare and utilities, was positive in 2018. Utilities and health care are the only two sectors in positive territory approaching the end of 2018. They are traditionally referred to as "defensive" sectors because the goods and services they supply should remain in demand even if the economic outlook is not positive.

Forex

The US dollar recovered from its worst annual performance in the last 13 years by gaining 4,33% in 2018 (from 1,2012 to 1,1467 against euro) compared to 2017's decline of 9,9%. The strong US economy, diverging central bank policy, wide rate differentials, and safe haven status helped attract flows to the detriment of large multi-national corporations as well as economies with high levels of dollar denominated debt.

Fixed income and interest rates

The EUR bond market in 2018 was strongly influenced by headlines like Brexit, ongoing discussions regarding Italy's budget as well as the ECB's announcement to discontinue the ultra-supportive monetary policy. This caused higher market volatility leading to decreasing volumes (-4% in All EMEA Bonds).

In this context, the German 10-year yield fell from 0,467% to 0,242%; The Italian rate closed the year up by 65bps, with the 10-year which rose at 2,742% from 2.095% of the previous year. The same movement was observed on the yield of the Treasury, which increased to 2,684% from 2,463% at the beginning of 2018. US financial markets entered a late stage of the economic cycle in 2018, characterized by rising interest rates combined with a flattening yield curve. The US curve realized an upward shift as a result of the decisions taken by the Federal Reserve ("FED"): four rates hikes, quantitative tightening. The curve has made a flattening movement if compared to the one of the previous year. This movement on the short part of the curve was influenced by the rise in the US official rate band, having the FED raised the band by 0,25% (2,25% and 2,50%).
While the rate hike raised short-term yields, expectations of slowing growth and controlled inflation influenced long rates. As a result of interest rate movements, the 10-year spread between US Treasuries and the German Bund stood at 283 basis points.

On the European markets, the German two-year bond yield, even with some volatility, closed at -0,61% exactly on the same level than at the beginning of the year. The spread between the Italian 10-year yield and the German Bund stood at the end of the year, upwards, in the 250bps area, from the 162bps of last year (even as the European Central Bank announced the end of monetary stimulus).
In the last weeks of the year, the tensions on the Italian budget contributed to increase the volatility of the markets.

Outlook for 2019

Global economic growth is expected to slow down in 2019 as tighter monetary policy, weaker earnings growth and political challenges confront the world's major economies. Global growth is likely to moderate further to 3,4% in 2019, with the slowdown set to intensify in 2020 as the US slips into a mild recession. The 2019 is expected to be a volatile, and mostly unattractive, year for equities. Among the biggest challenges facing the world's largest economies is a new era of tighter monetary policy following a decade of stimulus after the financial crisis of 2008. Investors should prepare for considerable spread widening in 2019 as there will be a slowdown in earnings alongside an economic deceleration. Euro/USD is likely to further decrease, reflecting the risk picture and the US-Eurozone growth differential.

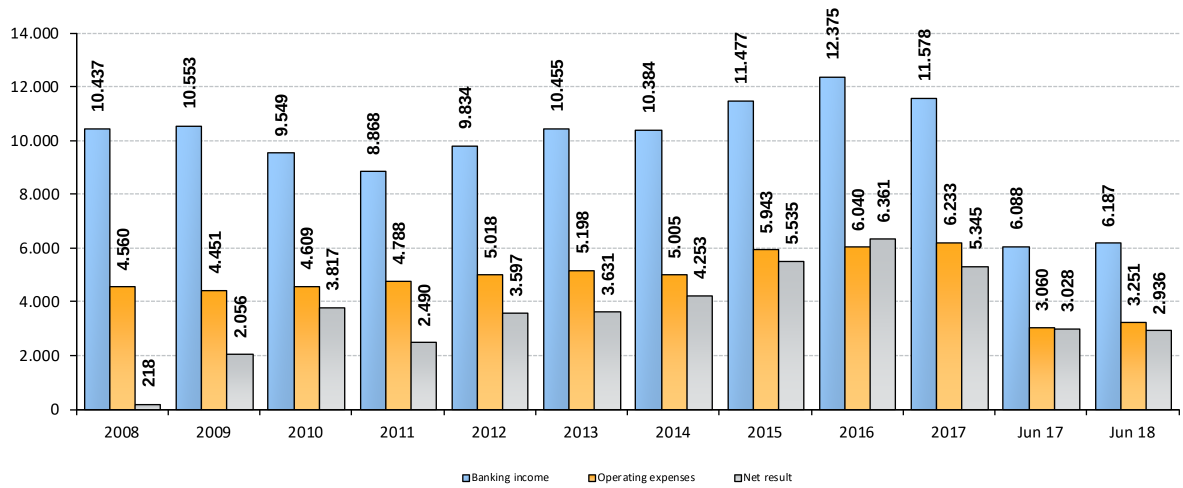
2018 Report of the Management Board

II. Luxembourg's financial centre

In 2018, as in previous years, Luxembourg's financial centre coped better than other European countries with challenges in the European environment with regard to investment and economic governance. In Luxembourg, GDP growth in 2018 is expected to reach 3,0%. This shows an increase compared to the 1,5% achieved in 2017 and a stronger result than the average European GDP growth. The inflation should reach the highest level since 2014 at 2,3%, with an increase of 0,6% compared to the previous year[2].

The profitability of the Luxembourg banking sector improved. Income in the banking industry as of June 2018 amounted to € 6,2 billion, increasing versus June 2017.

Luxembourg banking income, operating expenses, net result (€ million)

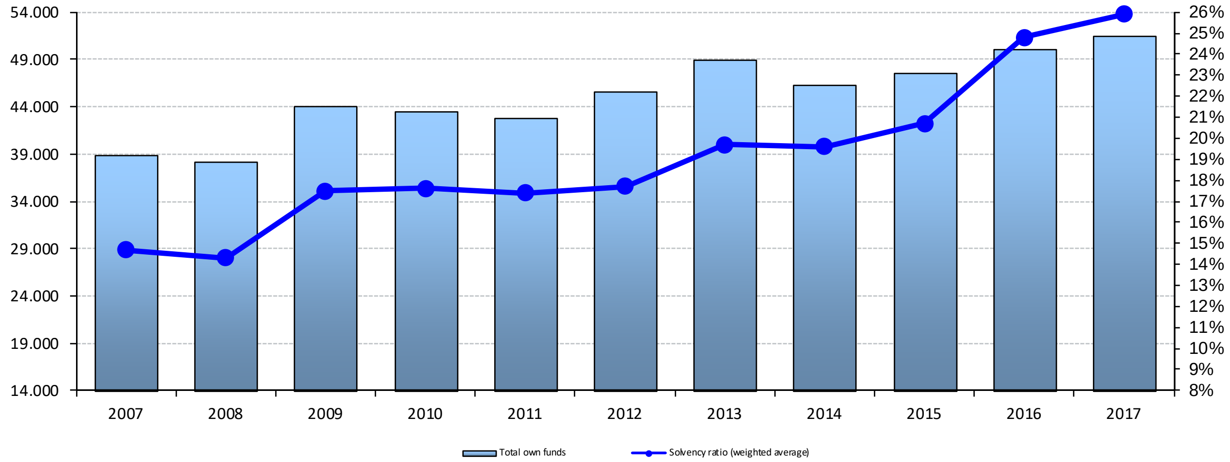


Source: CSSF

Concerning Basel III capital requirements, in recent years the average total capital ratio of the Luxembourg banking system has remained above 20% confirming the solidity of the financial industry. This positive outcome is explained by the better capitalisation of banks, the actions undertaken by banks to comply with the stricter Basel III rules and the nature of the financial industry in Luxembourg. Businesses such as private banking, depositary banking and asset management have low levels of risk-weighted assets.

[2] Source: Statec, December 2018

Total capital ratio of Luxembourg banking system (€ million)



Source: CSSF

In the latest figures published by the Commission de Surveillance du Secteur Financier (CSSF) in December 2018, the balance sheet total of the banking system in Luxembourg amounted around € 783 billion[3] (June 2018), revealing a little increase compared to the previous year (June 2017). In 2018, the Luxembourg banking system had to cope with increased regulation as the implementation of the new IFRS9 and of the AnaCredit Reporting. As a result, several banks adapted their business model and others consolidated their operations or departed from Luxembourg. The number of banks totalled 136[4] as of November 2018 decreasing by 5 entities in comparison with the previous year.

In the banking labour market the number of employees increased by 1,2%, from 26.030 in September 2017 to 26.336 in September 2018.

[3] Source: CSSF, November 2018
[4] Source: CSSF, November 2018

III. Report on operations

Key performance indicators

Statement of comprehensive income (€ thousands and %)

	31.12.2018	31.12.2017	Δ 2018 vs 2017%	2018 vs 2017
Operating income	**23.875**	17.780	34%	6.096
Operating costs	**14.769**	16.686	-11%	-1.917
Operating profit	**9.153**	2.143	327%	7.009
Profit before tax	**9.205**	2.127	333%	7.078
Cost/income	**61,9%**	93,9%	-34%	-32,0%

Statement of financial position (€ thousands)

	31.12.2018	31.12.2017	Δ 2018 vs 2017%	2018 vs 2017
Total assets	**2.894.151**	3.556.999	-19%	-662.848
Loans and receivables with customers	**763.078**	966.561	-21%	-203.483
Deposits from customers	**760.030**	694.577	9%	65.453
Shareholders´equity	**280.653**	293.692	-4%	-13.039

Ratios (%)

	31.12.2018	31.12.2017	Δ 2018 vs 2017%	2018 vs 2017
Core Tier 1/total risk-weighted assets	**29,74%**	26,7%	11,4%	3,0%
Total capital ratio	**29,74%**	26,7%	11,4%	3,0%
LCR ratio	**172,5%**	233,0%	-26,0%	-60,5%
Leverage ratio	**7,4%**	7,1%	4,7%	0,3%
ROA	**0,20%**	0,0%	ns	0,2%

The Bank's operations

In 2018, in addition to GFO project executed already in 2017, parts of the remaining Private Banking business were transferred from UniCredit Luxembourg S.A. ("UCL") via partial demerger into the Bank ("UCInt) within the "FMINS project".
The closing of the demerger was on 1 January 2018; one logical second after the demerger, UCB AG sold the received shares in UCInt to UniCredit S.p.A. ("UC"). This solution ensures for the existing customers continuity in the high quality services from a Luxembourgish Bank. The transaction included:

• the Investment Management business;
• the Insurance business for German clients;
• two additional clients which needed a Luxembourgish bank for their business.

The valuation of the scope of the transferred business has been entrusted to PwC (jointly mandated by the Bank, UCL, UCB AG and UniCredit S.p.A.) and, as of 1 January 2018, resulted in € 1,1 mn.

The Bank proceeded in its effort to develop the business transferred in 2017, namely the GFO business and the Wealth Management business. In 2018, the Bank started the implementation of a staffing plan in order to reinforce the workforce allocated to the business and to re-insource activities from UCL.
In the last quarter of the year, a new Head of GFO and Wealth Management has joined the Bank. The new Head of Private Banking International was appointed in January 2019 and it is foreseen to reinforce the business team with a new Head of GIS & Insurance department in the first months of 2019.

Directly involved in the Group strategic funding activity, the Bank is one of the issuers together with UC and UniCredit Bank Ireland P.l.c., of the UniCredit S.p.A. 60 billion € EMTN Programme, the notes issued by the Bank being fully guaranteed by UC. In addition the Bank issues, under its Credit Linked Securities Programme and Debt Issuance Programme, credit linked securities, fund linked securities and single underlying and multi underlying linked securities, all fully guaranteed by UC.

In 2018 a £ 350mn non-cumulative step-up Fixed/Floating rate note issued by the Bank and € 20mn Credit Linked Notes expired. Also, in 2018 the Group reorganised its strategic funding activities and decided to centralize all the future issues of the €60 billion EMTN Programme in UC. In the future, the Bank will continue to issue notes under the € 1bn Equity Linked Notes Programme.

The Bank Governance Model foresees a clear segregation between the day-to-day management and the control/supervision of the Bank. The Bank is managed by a Management Board, which exercises its functions under the control of a Supervisory Board. The Management Board is in charge of taking all actions necessary or useful to fulfil the Company's corporate objectives, with the exception of the actions reserved by Luxembourg law or by the Articles of Association to the General Meeting or the Supervisory Board. The Supervisory Board is in charge of the supervision and control of UCInt's administration by the Management Board. An updated Bank strategy has been approved by the Supervisory Board on 31 May 2018.

From an organizational point of view, the Bank continued the efforts in order to optimize all the processes, formalize them in Operating Guidelines and implement Group guidelines in relation to the new Business model. A permanent monitoring of strategies, guiding principles, policies and internal procedures in force is in place, in order to ensure their compliance with the applicable external regulations as well as with the Group Global Rules issued by UC and adopted by the Bank.

In 2018, the following activities remained outsourced, as in the previous years, to UCL:

- Back Office;
- ICT;
- Human Resources.

The function of Internal Audit has been re-insourced at the beginning of 2018.

In compliance with the applicable regulations, the outsourcing is governed by a Service Level Agreement (hereinafter: the “SLA”), which specifies all details in relation with the outsourced activities.

From a project management perspective, the Bank had several challenges to deal with. The most remarkable achievement has been to build the automated routing process of the securities orders to our broker counterparties. This new process enabled the Bank to automatically route via a Fix protocol nearly all the Equities and Bonds orders to UniCredit Milano trading desk and to route via Swift all the funds orders to IFSAM.

The preparation of the re-insourcing after the termination of the SLA with UCL as of end of 2018 took also a lot of energies and several months of handover were necessary in order to train the colleagues which took over these activities. All the re-insourced departments were adequately staffed also thanks to several hirings.

In order to meet new regulatory requirements, in 2018 the Bank was involved in residual activities related to the regulatory projects MiFID II and PRIIPs. With the support of external consultants specific measures related to Investor Protection, General Organization, Reporting Regulation and Trading Regulation were identified and implemented including some manual workarounds.

Enhancements related to certain (additional) MiFID II processes were implemented in 2018, especially for the ex-post reporting to the clients.

Regarding Financial Reporting Standards ("IFRS"), an IFRS Conversion Project was re-launched at UC Group level in 2015 with the primary goal of replacing IAS39 with IFRS9. The mandatory effective date for IFRS9 is 1 January 2018. The Bank's IFRS project was integrated into the UC Group's project. In 2017 and in 2018 in close cooperation with UC Group and with the support of external consultants the Bank defined the methodological framework for the application of IFRS9, the hypothesis and the structure of the LLP model, checked the output of the LLP model for the First Time Application ("FTA") and defined a process for the migration from IAS39 set-up to IFRS9. The IFRS9 framework and the result of the FTA was reviewed by the Bank's auditor Deloitte. The AUP Report was sent to CSSF in July 2018.

In 2018 the Bank started a project aimed to deliver its liquidity data into the Group Liquidity Data Base tool ("GLDB"). This project was completed in July 2018 and allowed the Bank to align its measurement process of regulatory risk metrics such as LCR, NSFR and Additional Liquidity Monitoring Metrics (ALMM) along with managerial risk metrics[5] with the ones defined by the Group.

In 2018, the Bank took part in a Group-wide project launched to fulfil ECB requirements regarding the implementation of a central credit register in the Eurosystem, named Analytical Credit Dataset ("AnaCredit"). The first AnaCredit data set was submitted to the BCL in October 2018. The reporting was based on data from a group database module, which were further processed in order to obtain input files to be submitted to the Group tool and afterwards produce the final reporting datasets.

Since the end of 2018 the Bank is connected with the Group Management Information System ("GMIS") used to centrally monitor the commercial performance of Group customers assisted by several legal entities. In 2017, the Bank performed a feasibility analysis and starting from 2018 GMIS could be integrated with data of Luxembourgish customers. In a first step only commercial and risk data related to GFO customers have been included in GMIS.

[5] e.g. Adjusted NSFR, Structural liquidity, FX gap.

The FATCA is a US law applicable to foreign financial institutions (FFIs) and other financial intermediaries to prevent and avoid tax evasion by US citizens and residents through the use of offshore accounts and/or other structures. The Bank is FATCA-compliant and implemented the necessary new processes. The Bank has registered on the relevant FATCA portal and received its GIIN number from the IRS. The bank has a FATCA-compliant account-opening process and performs initial client due diligence.

Furthermore, on 14 October 2014 the European Council established a draft directive extending the scope of the Automatic Exchange of Information (AEoI) for tax purposes among EU member states. This Directive includes Automatic Exchange of Information obligations based on the OECD CRS, which represents another important step for tax transparency and a global agreement to disclose certain incomes earned by individuals and enterprises. More than 80 jurisdictions will participate in this OECD initiative. Luxembourg applies CRS reporting as from 2017 (reporting on calendar year 2016). The Bank is ready to perform the necessary activities related to CRS.

Risk management and internal control systems in relation to the financial reporting process

Risk Management process refers to the strategic management, identification and assessment of risks as well as the assumption or avoidance of risk. The Bank has defined an Internal Capital Adequacy Assessment Process (ICAAP) as the central cornerstone of the Risk Management process. The risk types are described in detail in the ICAAP Report for 2018. The risk is monitored using various risk management methods and risk systems that are appropriate for the risk type and its exposure level.

The central risk measure is the internally determined risk capital (Economic Capital) which is equal to the Economic Capital plus a cushion of 15%. Risk capital is compared to the Available Financial Resources (AFR). The risk taking capacity is the ratio of AFR over Economic Capital. It expresses the coverage of the actual economic capital used. As at the end of 2018, the AFR was € 259 million. Risk-bearing capacity (coverage of calculated economic capital by the AFR) was always well above the limit of 100% in the course of 2018.

The control of the identified risks is centralised in Risk Management. By monitoring of the bank’s activities, Risk Management is not only tasked to control actual compliance of the bank’s activities with the risk appetite but also to look forward on the impact of the business strategies as defined at Group level and approved by the Bank, so that the Bank remains compliant within the risk framework and proactively propose risk mitigating solutions when required.

In the European Union the Single Supervisory Mechanism (SSM) is applied to banks with assets in excess of € 30 billion or 20% of domestic GDP. The ECB is the competent authority commissioned for this supervision. The SSM is applicable to UniCredit Group, thus UC and the relevant subsidiaries in the Eurozone are supervised by the ECB. In 2018, the ECB carried out an assessment of the banks, which fall under its direct supervision. The Bank received the results of this supervisory review in December 2018 and was informed that no additional supervisory requirements are set to the Bank's Prudential Capital and Liquidity ratios.

The steering and management of liquidity risk remained a major topic in 2018. In line with the local liquidity policy, the Bank continued to maintain a positive cumulative liquidity gap on the liquidity ladder up to the three-month bucket; monitored its liquidity coverage ratio (LCR) and consistently adhered to the regulatory limit for the LCR over the course of the year. The last mentioned liquidity metric was object of a monitoring process aimed to track the liquidity coverage position on a daily basis coherently with business and treasury purposes.

As part of the Bank's risk appetite, the Bank defined for the LCR, in addition to the regulatory minimum requirement of 100%, two other managerial restrictions: an internal limit of 101% and an internal trigger level at 105% aligned with the Group's Risk appetite. The Bank has escalation procedures in case of activation of the trigger or overdraft of the internal limit.

In order to manage the assets and liabilities stemming from the business transfer related to the GFO project in a proactive manner, the Bank established an Asset & Liability Committee (ALCO). The adherence to the earlier mentioned liquidity metrics put constrains on the balance sheet. Therefore, the focus of the ALCO in 2018 was on strategies to adhere to the liquidity targets and the Funding Plan.

The liquidity management is the responsibility of the department Strategic Funding and Treasury. It operates within the limits approved, which are fully aligned with the Group's Liquidity Risk appetite. Risk Management is responsible for the second level control of the bank's adherence to these limits and also for escalating limit breaches to the Management Board and relevant Group functions.

In order to manage unforeseen liquidity demands the Bank has an unencumbered Government bond portfolio that can be liquidated in case of necessity. In 2018 the Bank started implementing an own capital investment model in line with the methodology defined by UniCredit Group.
It should be noted that the Bank does not have independent access to the Money Market. The Bank executes its Money Market Transactions with its parent company.
The main methodologies to manage the liquidity risk are Short Term Gap analysis, Stress test and Structural liquidity analysis.

At 31 December 2018 the Bank's LCR was:

Liquidity buffer	€ 568 mn
Net liquidity outflow	€ 329 mn
Liquidity coverage ratio (%)	172,5%

The Internal Regulations, approved by the Management Board, define one decision making body to grant credits: Credit Committee. The committee can authorize, suspend or revoke loans or investments, within the scope of the powers assigned to it. Depending on the characteristics of the transaction, the non-binding credit opinion of UC S.p.A. can be necessary.

The Risk Management Department monitors the credit portfolio on a daily basis, controlling the adherence to credit limit including assessment of the value of the collateral pledged. It gives its independent advice to the Credit Committee on credit proposals. The renewal requests and the annual reviews are submitted, according to the nature and duration of the transaction, to the Credit Committee.
The Bank continued to use the Standard Approach for the measurement of its regulatory Capital adequacy.

With regard to its credit exposure, the Bank has to adhere to two regulatory limits. The credit exposures to each single group are required to fall within the large exposure limit, which is set at 25% of the Bank's own funds. This mitigates the concentration risk. The Bank's large exposure limit was € 67 million in December 2018. The Bank obtained a credit guarantee for one Group customer to ensure that the Bank continuously meets the large exposure limit. The second constraint is the Total Capital Ratio. The Bank's TCR was 29% as at 31 December 2018; higher than the minimum requirement and leaving room for growth in full compliance with minimum capital requirements. On the 8 February 2019 the Bank was communicated the result of the supervisory review and evaluation process (SREP) conducted by ECB. No additional capital requirements coming from SREP have been imposed to the Bank.

The Bank is exposed to market risks through interest rate and foreign exchange risks. Risk Management daily monitors the limits defined and approved by the Management Board. In case of a breach the Risk management is responsible for the defined escalation process. The Bank manages interest rate risk by setting limits, amongst other, on the value sensitivity per bucket and the one year Net Interest Income sensitivity under a parallel shift scenario. Securities activities are controlled by securities portfolio global limits.

FX limits are set on the basis of the Banks accounting positions in foreign currencies. The Bank adopts the Basic Indicator method to manage its operational risk. As at 31 December 2018, the amount absorbed by operational risk calculated according to the CRR was € 3,3 million.

As part of its BCM (Business Continuity Management), the Bank implemented BIA (Business Impact Analysis) and risk analysis procedures aimed at identifying and breaking down processes to permit identification of elements of vulnerability presented by the processes involved in banking activity in the various business segments with the potential to result in operational loss events. Furthermore, the Bank is integrated in the BCP (Business Continuity Plan) already operative for UCL.

The Internal Control System (ICS) relates to the operational monitoring and management of risk.

In conformity with the regulations in force, and in particular with the CSSF Circulars 12/552 as amended, 07/301, 07/307, the internal control system of the Bank comprises regulations on the management of corporate activities (internal management system) and regulations on the monitoring of adherence to these regulations (internal monitoring system). The internal monitoring system is organised in a three-lines-of-defence model and allows for process integrated and process independent controls that, in general, take place on the following levels:

- First Line of Defence
    - Daily controls by the responsible personnel (4-eyes principle);
    - Hierarchical controls as integral part of a leadership function;
    - Controls by members of the Management Board with regard to the activities that fall in their area of responsibility.

- Second Line of Defence

In addition to the first level controls being integrated in the business processes, there are controls by support functions in place which are independent from the actual processes in particular Risk Control and Compliance (hereinafter: "CPL").

CPL monitors the following Compliance Perimeter unless activities are internally delegated:

- Anti-Money Laundering (AML) and Counter Terrorist Financing (CTF);
- Compliance with national and international Financial Sanctions and Embargos;
- Prevention of Market Abuse and Insider Trading;
- Appropriate implementation of compliance related CSSF-Circulars;
- Compliance with MiFID policies and procedures;
- Compliance with ICAAP policies and procedures;
- Conflicts of Interest;
- Customer Complaints Management;
- Fraud Prevention;
- Anti-bribery & Corruption;
- Antitrust and Unfair Commercial Practices;
- Privacy/ Data Protection and Observance of Professional Banking Secrecy (the function of the Information Security Officer pursuant to

Section 86 of CSSF Circular 12/552 is located within the Organisation Department of the Bank).

The second level control functions provide for an additional surveillance of the first level controls and at the same time support third level controls.

- Third Line of Defence

The third level controls are covered by Internal Audit with objectives as follows:

- Assess whether necessary internal controls have been implemented within business processes;
- Assess whether controls in place are effective and support adequately to achieve control targets;
- Risk assessment in case of divergence.

For support in the performance of its duties, including those relating to the financial reporting process, the Supervisory Board has set up an Audit Committee made up of three members of the Supervisory Board.
The Audit Committee, effective as from 1 January 2018, provides assistance in fulfilling the oversight responsibilities to shareholders relating to the reliability and integrity of corporate accounting and financial reporting practices, compliance with laws, regulations and company policies and maintenance of a sound system of internal controls. Two meetings of the Audit Committee were held in 2018.

The Bank has implemented several policies with respect to Risk Control, Compliance and Internal Audit. These policies describe the fields of intervention directly related to each internal control function and clearly define the responsibilities for the common fields of intervention and objectives as well as the independence, objectivity and performance of the internal control functions. The policies are regularly reviewed, either in case of major changes or annually.

Furthermore, value systems such as the Integrity Charter, the Code of Conduct and compliance rules have been applied by the Group in all countries for many years and all employees have to adhere to them while performing their activities. These value systems are key-elements for an effective risk management process and are the basis for responsible action by all staff members including those directly involved in the financial reporting process.

The purpose of the RMS (Risk Management System) and the ICS (Internal Control System) in the financial reporting process is to implement controls that ensure, with an adequate degree of certainty, that annual financial statements together with the management report and management’s discussion and analysis are prepared in compliance with regulations despite the identified risks. They ensure that the internal and external financial reporting is correct and reliable and that assets, liabilities and equity are classified, recognised and measured.

The Management Board determines the scope and orientation of the RMS and the ICS specifically in line with the Bank's requirements and subject to the approval of the Supervisory Board, taking measures for the ongoing development of the systems and their adaptation to changing conditions. With regard in particular to the financial reporting process, the internal control system encompasses the policies, processes and measures needed to ensure the effectiveness of financial reporting and the compliance with applicable regulations. Its purpose is to implement controls that ensure with an adequate degree of certainty that the annual financial statements and consolidated financial statements, the annual management report and all documents submitted to the Management Board and to the Supervisory Board comply with relevant regulations despite the identified risks.
The responsibility for the financial reporting process and, in particular, for the annual financial statements and consolidated financial statements remains with the Management Board who is also responsible for adopting the annual report and proposing the financial statements and consolidated financial statement for the Shareholders approval.

The Bank uses Olympic software as a general ledger. In the general framework of the GFO project, the Bank integrated the accounting and reporting tools with a new middleware based on an Oracle technology: Advance Management Information System (AMIS). AMIS is based on the mainly automated uploading of individual transaction data from the upstream systems relevant to financial reporting (sub-ledger). SAP Business Warehouse is automatically supplied with data by the AMIS. This solution allows to fulfil the new internal analytical reporting needs related to the GFO business by enriching accounting data with information for analytical controlling purposes and to ensure the consistency of accounting and controlling data.

AMIS DB allows the collection, integration and harmonisation of data coming from several data sources. With the SAP BW Business Warehouse reporting layer an ad-hoc multidimensional analysis is available to easily extract data and to provide flexible managerial reporting.

Explore and SAP Business Warehouse are used for reporting and data retrieval. Explore is the data source used for FINREP reporting to the local regulator.

The COO is responsible for the IT systems required for the financial reporting process. The figures for the UC Group consolidated financial statements and the subsequent consolidated bookings are collected and reported using the TAGETIK CPM consolidation system used in the entire UC Group and network across all UC Group companies. TAGETIK is automatically supplied with data by AMIS.

The law dated 18 December 2015 transposed into Luxembourg law EU Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms ("BRRD") and EU Directive 2014/49/EU on deposit guarantee schemes ("DGSD"). The Bank's contribution to the national resolution fund in 2018 amounted to € 0,5 million.

Employees

Below are the staff figures as at 31 December 2018:

Bank's staff	2018	2017
Top management	3	3
Employees	49	34
Total	**52**	**37**

As of 31 December 2018, the Bank employed 17 female and 35 male staff members. The main focus during this year was on finding the right new employees for our Bank and the transfer of know-how to the quite high number of new colleagues hired. At the end of 2018, the Bank almost reached the targeted goal regarding the knowledgeable and experienced staffing for all departments.

In order to allow "young talents" gaining experience in the Bank, the Bank has developed cooperative arrangements with universities and are offering several traineeships.

The Management Board wishes to express its sincere thanks to all of the Bank's employees for their contribution to the Bank's performance over the past year. The success of the Bank would not have been possible without their personal efforts and commitment.

IV. Report on Internal Profit Centers

GFO (Global Family Office)

GFO is part of a global initiative aimed at enhancing UniCredit Group value proposition towards family financial holdings and family offices. Being part of the CIB Division, it serves clients with a minimum threshold of € 500 million of Assets under Management or an active presence in the financial markets. In order to achieve its targets in the best and most efficient way, GFO has a specific coverage network of specialists fully dedicated to its clients and strengthened by a dedicated Risk Officer – to ensure proper credit evaluation – and a dedicated Planning and Control support to proper monitor the results through a specific set of KPIs.

In cooperation with the relevant CIB product units, the Bank offers to its clients investment banking products and services – financing capital markets, M&A and hedging solutions – to support them in corporate finance and capital markets transactions and fulfil their financial needs.

The main goal of this focused and strategic client approach is to attract new clients and maximize the overall profitability of the relationship by means of collateralized transactions with reduced capital absorption and by optimising the management of customers' liabilities while creating cross-selling opportunities.

Customer on boarding activities are fulfilled in close cooperation with the Bank Compliance and, when necessary, Group Compliance. Initiation of business activities has to be aligned with the Global head of GFO and account opening is dependent on the approval of the internal acceptance committee.
A key success factor is the cooperation with the relevant CIB product units. In order to ensure a proper delivery of the required services, a tri-party service agreement is being drafted (between UniCredit Bank AG, UniCredit S.p.A. and the Bank).
The range of products/services in scope is the following:

Financing and Advisory:

- Lombard loan and Structured financing solutions
- Wide range of collaterals: concentrated single stock positions, securities portfolios, pre-IPO financing, non-listed shares financing
- Acquisition financing
- Real estate financing
- Commodity and Trading Financing
- Buy-side, sell-side and Corporate Finance Advisory

Capital Markets:

- IPOs
- Divestitures (block trades, ABB, rights issue)
- Convertible, exchangeable and mandatory convertible Bonds / Loans
- Investment Grade Debt issuance
- Leveraged Finance Loans and Bonds

Global Markets Solutions:

- Strategic equity solutions to build, divest and hedge equity stakes
- Yield enhancement and optimization
- Interest rate and FX hedging solutions
- Total return swaps
- Securitizations

Due to the available equity in UCI, credit lines above € 60.0 million require a financial guarantee issued by UniCredit S.p.A. in order to respect local Large Exposure requirements.

The structure development has been hindered by the resignation, on April 2018, of the Global Group Head of GFO. The new Head has been appointed in March 2019. Locally, in October 2018 a new responsible has been appointed who will take care of aligning at Group level the future development of the department.

Wealth Management & FMINS

The mission of the Wealth Management business is threefold:

- to provide Private Banking services, focusing exclusively on fully transparent International activities aiming at providing our customers with a high level of efficiency,
- to provide services to insurance companies (investment management of insurance funds and custody services),
- to provide investment management services to funds.

All three activities are meant to be closely linked to client generation from Italian Group entities (Cordusio SIM and UniCredit S.p.A. Private Banking) or Luxembourgish Group entities (Structured Invest, a UniCredit Bank AG fully owned Management company).

Leveraging on Luxembourg financial centre characteristics, the Bank Wealth Management benefits from:

- a flexible legislation aimed at continuously promoting cross-border businesses, with a track record of efficient and reliable solutions in a most stable financial centre (AAA rating);
- a proactive, business-friendly government as well as accessible regulators who are implementing the appropriate legal framework to offer an attractive environment for innovative products and to promote Luxembourg as a world-class financial centre;
- fully compliant solutions, offered within the European Union.

The activities of UCI do not overlap with the ones of the on-shore networks but complement their offering through products and services designed to meet the needs of selected customers in a unique way.
In line with Group guidelines, financial assets are managed accordingly to the independent Global Investment Strategy (GIS) view. To further strengthen this link with the Group, an advisory agreement is in place with Cordusio SIM for the provision of investment models and its scope will be further enlarged to cover other advisory activities to be offered by the Bank.

In compliance with the ICMA Private Wealth Management Charter of Quality and Group Policies, the Bank provides its customers with a spectrum of exclusive, high level products and services delivered with world-class efficiency.
With regard to the advice to be provided to the clients, and in the framework of the MiFID II project, it has been decided that the Bank will provide it on a non-independent basis.

A new Head of Private Banking International has been appointed in January 2019; the search for the new Head of the GIS & Insurance is ongoing and the interim for this position is at the moment taken by the new Head of GFO & Wealth Management, who joined the Bank on October 2018.

Strategic Funding & Treasury (SF&T)

SF&T is predominantly a client driven business. The activities of SF&T form an integral part of the CIB value chain. Consistently with the mission decided by the Holding Company, the business of the Strategic Funding & Treasury is based on the following activities:

- The Bank performs selective investments for its own portfolio. The investments are usually carried out in fixed rate European Government Bonds.
- The Bank issues Structured Notes.
- The Bank supports institutional and large-corporate counterparties already customers of UniCredit Group or linked to important customers of UniCredit Group for managing their treasury needs.
- The Bank manages the WM & GFO clients orders (bonds, equities, funds) through an automated solution to route the orders to the standard UniCredit market platform used within CIB.

Statement of financial position

(€ '000)

ASSETS	AMOUNTS AS AT 31.12.2018	AMOUNTS AS AT 31.12.2017
Cash and cash balances and Other demand deposits	8.346	8.996
Financial assets at fair value through profit or loss:	802.783	-
a) financial assets held for trading	1.983	-
b) other financial assets mandatorily at fair value	800.800	-
Trading assets (ex IAS39)	-	5.777
Financial assets at fair value through other comprehensive income	895.897	-
Available for sale financial assets (ex IAS39)	-	549.626
Financial assets at amortised cost:	1.154.886	-
loans and advances to banks	391.808	-
loans and advances to customers	763.078	-
Loans and receivables with banks (ex IAS39)	-	2.009.702
Loans and receivables with customers (ex IAS39)	-	966.561
Hedging derivatives	-	508
Property, plant and equipment	202	225
Intangible assets	3.427	3.536
Tax assets:	26.107	9.996
a) current	1.446	1.687
b) deferred	24.660	8.309
Other assets	2.502	2.072
Total assets	2.894.151	3.556.999

LIABILITIES	AMOUNTS AS AT 31.12.2018	AMOUNTS AS AT 31.12.2017
Financial liabilities at amortised cost:	1.731.123	-
deposits from banks	709.357	-
deposits from customers	760.030	-
debt securities in issue	261.735	-
Deposits from banks (ex IAS39)	-	1.036.689
Deposits from customers (ex IAS39)	-	694.577
Debt securities in issue (ex IAS39)	-	1.446.066
Financial liabilities held for trading	4.123	-
Trading liabilities (ex IAS39)	-	9.027
Financial liabilities designated at fair value	800.754	-
Hedging derivatives	42.575	56.360
Tax liabilities:	21.765	12.136
current	-	-
deferred	21.765	12.136
Other liabilities	11.522	6.419
Provisions for risks and charges:	1.636	2.033
committments and guarantees given	48	-
post-retirement benefit obligations	910	983
other provisions for risks and charges	678	1.050
Valuation reserves	(6.798)	12.424
Reserves	61.950	61.199
Share premium	205.644	205.644
Share capital	13.407	13.333
Profit (Loss) of the year (+/-)	6.450	1.091
Total liabilities and shareholders' equity	2.894.151	3.556.999

The balance sheet total of € 2,9 billion at 31 December 2018 showed a decrease of € 0,7 billion, or 18,7%, compared to the previous year-end. The decrease of total assets is mainly due to the drop in intercompany loans to banks and decreasing loans to customers.

A significant portion of the Loans to Banks and Deposits from Banks is composed of inter-Group loans and deposits.

The Bank's total committed volume for loans with customers was € 2,0 billion (of which € 1,8 billion consisted of unused off-balance-sheet credit lines).

Overall, in 2018, the very good quality of the Bank’s assets portfolio was maintained. More than 98% of the Bank’s commitments were to borrowers with group internal ratings of 1- or better, whereas the securities portfolio was mainly composed of European government bonds.

Client deposits at year-end 2018 amounted to € 0,8 billion mainly composed by deposits with GFO and WM clients.

Income Statement

(€ '000)

ITEMS	YEAR 2018	2017
Interest income and similar revenues	80.615	128.362
Interest expenses and similar charges	(68.817)	(112.020)
Net interest margin	11.798	16.342
Fees and commissions income	8.318	4.902
Fees and commissions expenses	(4.704)	(3.708)
Net fees and commissions	3.614	1.193
Net gains (losses) on trading	1.194	244
Net gains (losses) on hedge accounting	35	-
Gains (Losses) on disposal of securities at FV/OCI	7.212	-
Net gains (losses) on other financial assets/liabilities at fair value through profit or loss	23	-
Operating income	23.875	17.780
Net losses/recoveries on credit impairment	98	-
Net profit from financial activities	23.974	17.780
Administrative expenses:	(13.287)	(15.202)
a) staff costs	(5.330)	(5.096)
b) other administrative expenses	(7.957)	(10.106)
Net provisions for risks and charges:	(46)	(1.050)
Net value adjustments/write-backs on property, plant and equipment	(31)	(26)
Net value adjustments/write-backs on intangible assets	(538)	(423)
Other operating expenses/income	(866)	14
Operating costs	(14.769)	(16.686)
Gains (Losses) of equity investments	-	1.034
Profit (Loss) before tax from continuing operations	9.205	2.127
Tax expenses (income) of the year from continuing operations	(2.755)	(1.036)
Profit (Loss) of the year	6.450	1.091

Revenues

Net interest income amounted to € 11,8 million at the end of 2018 with a decrease of 27,6%, or € 4,5 million, compared to the previous year. This drop is mainly due to the reduced contribution from GFO customers, expiring or disposed high yield securities and the negative interest rates scenario.

Net commission income amounted to a total of € 3,6 million in 2018, showing a € 2,4 million increase compared to the 2017 figure mainly due to the FMINS business on boarded at the beginning of the year.

At the end of 2018 net gains on trading and disposal of financial assets at fair value through other comprehensive income amounted to € 7,2 million. This is mainly explained by one-off revenues from disposal of a minor part of the bond portfolio.

Operating income amounted to € 23,9 million at the end of 2018. This represents an increase of € 6,1 million or 34,3% compared with the previous year's figure.

Operating costs

Operating costs decreased from € 16,7 million in 2017 to € 14,8 million at the end of 2018. This decrease is mainly explained by a drop in consulting expenses and legal costs.

Staff costs increased by € 0,2 million compared to the previous year which included one-off restructuring costs. Staff costs increased in the second half of 2018; this evolution was almost entirely driven by the staffing plan implemented for the re-insource of activities from UCL. Depreciation on tangible/intangible assets amounted to € 0,6 million as of 31 December 2018, as compared with € 0,4 million in 2017 mainly due to new IT investments.

In 2018 the profit from continuous operations was € 9,2 million. This represents a € 7,1 million increase versus the 2017 result of € 2,1 million.

After accounting for provisions, depreciation, amortisation and taxes, the Bank’s net profit of € 6,4 million was significantly higher compared to the € 1,1 million reported in 2017.

The Bank’s net profit of € 6,45 million is to be appropriated as follows, subject to the approval of the Extraordinary General Shareholders’ Meeting:

Retained earnings: € 6,45 million

Furthermore, in the interest of continuing to be eligible for the benefits provided under the amended Law of 23 December 1997 concerning the exemption from the net wealth tax (”Impôt sur la Fortune”), it will be proposed to the General Meeting of Shareholders to dissolve the reserve created in 2014 for 2013 amounting to € 6.963.825,- and to create a net wealth tax reserve for 2019 amounting to € 7.500.000,-. The total amount of this non-distributable reserve will amount to € 26.548.645,-, which corresponds to five times the net wealth tax due for the financial years 2014 to 2019.

V. Outlook for 2019

Under its current and future strategy, the Bank will continue to place its clients at the centre of its endeavours. The Bank takes its clients' needs as a starting point, with the aim of accompanying them and fostering their wealth over decades.

The main goal of this client approach is to attract new clients and maximize the overall profitability of the relationship by means of collateralized transactions with reduced capital absorption and by optimising the management of customers' liabilities while creating cross-selling opportunities.

With regard to the Wealth Management business the Bank plans to develop it within the framework of a Cooperation Agreement signed with the Italian legal entities covering the same segment (Cordusio SIM). The same agreement is currently being discussed also with UniCredit S.p.A. for its Private Banking activities, with the assistance of the International Taxation department. The same department is also carefully analysing the potential tax impact of the origination activities performed in Italy.

A further driver of growth will be the offer of tailor-made fund solutions in partnership with Structured Invest (SI), a Management Company 100% owned by UniCredit Group. For both SI and the Bank a strict cooperation is a key success factor. A distribution agreement is already in place and will be updated.
A strong cross-selling effort (jointly with SI and Group CIB network) is planned for the next two years, aiming at:

- increasing mandates with corporate clients;
- greatly increasing business with external institutional clients (e.g. insurance companies);
- evaluating the opportunity to establish a cooperation with UniCredit CEE Private Banking.

Given the specific nature of an investment management mandate in all the above mentioned cases long term, sticky revenues are foreseen.
The Head of GFO and Wealth Management will discuss the strategy for the developing of the coverage with the new Global Head.

In 2019, the Bank will continue to carry out and develop the activities related to investments for its own portfolio to the implementation of the equity investment model and eventually to the issuance of notes. These activities will be performed in compliance with the Group policies and strategies. Relationship with institutional corporate and counterparties will be strengthened. The Bank will have to cope with persisting low yield environment.

After the implementation of FMINS project, the German Insurance business and the Fund Management activities previously carried on by UCL for UCITS funds and for Specialized Investment Funds (SIF, both German and Luxembourgish) have been transferred to the Bank. The Bank therefore acts as investment manager for funds managed by Structured Invest (SI) and as sub-investment manager for funds where SI acts as investment manager. SI funds (with active management to be provided by UCI) are distributed in various Group business areas among them Markets, Corporate Banking and GFO. In 2019, it is foreseen to enlarge the scope of the cooperation with CIB network from Germany to Italy.

The biggest priority for 2019 is that, following the re-insourcing project, the Bank is able to ensure the continuity of the business. The second step will be to optimize the processes especially in the Back Office and in the ICT area by increasing the standardization of the processes and by concentrating the effort in the quality of the service delivered.

Following a preliminary study, which has been performed in 2018 together with UniCredit Services, the Bank has decided to proceed in 2019 with the implementation of several synergies with the UC Group in ICT infrastructure especially in the Internet security and network administration framework. It is planned to continue in 2020 with several actions more oriented to the banking applications landscape.

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Deloitte Audit
Société à responsabilité limitée
560, rue de Neudorf
L-2220 Luxembourg
B.P. 1173
L-1011 Luxembourg
Tel: +352 451 451
www.deloitte.lu

To the sole shareholder of

UniCredit International Bank (Luxembourg) S.A

8-10, rue Jean Monnet

L-2180 Luxembourg

REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of UniCredit International Bank (Luxembourg) S.A. (the "Bank") which comprise the statement of financial position as at December 31, 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at December 31, 2018, and of 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.

Basis for Opinion

We conducted our audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" (CSSF). Our responsibilities under those Regulation, Law and standards are further described in the "Responsibilities of the "Réviseur d'Entreprises Agréé" for the Audit of the Financial Statements" section of our report. We are also independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Key Audit Matter	***How the matter was addressed in our audit***
Valuation of embedded derivative instruments	
As described in note 2.8, note 6 and note 16, the Bank set up a Medium Term Note (MTN) program including Equity Linked Notes (ELN) containing embedded derivatives. As of December 31, 2018 the positive fair value of the embedded derivatives amounts to EUR 1.983.232 and is recorded in the caption "Financial assets held for trading" and the negative fair value of EUR 4.122.641 is recorded in the position "Financial liabilities held for trading". The valuation of the embedded derivatives is calculated through the application of complex valuation techniques based on non-observable inputs and internal models, which involve the exercise of significant management judgement in relation to: - valuation models used for the specific instruments - market inputs used in these models. Given the complexity and potential Management judgment on the valuation of these instruments, we believe that the valuation of the embedded derivatives is a key matter in our audit.	To obtain reasonable assurance that the embedded derivatives have been fairly valued. Our audit procedures included, but were not limited to: – we obtained an understanding of the controls in place around the valuation of these embedded derivatives; – we conducted audit procedures aimed at assessing the appropriateness of the relevant controls and their implementation; – we obtained the relevant agreements of the embedded derivative instruments and performed an independent valuation of the embedded derivatives as at December 31, 2018 with the assistance of our internal specialist (with specific expertise in derivatives valuation). The independent valuation was based on industry norms and valuation techniques commonly applied to value derivatives, and used external data sources; – We assessed the appropriateness of the disclosures in the financial statements.

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Other information

The Management Board is responsible for the other information. The other information comprises the information stated in the financial statement including the management report but does not include the financial statements and our report of the "Réviseur d'Entreprises Agréé" thereon.

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

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

The Management Board is responsible for the preparation and fair presentation of these financial statements in accordance with IFRSs as adopted by the European Union, and for such internal control as the Management Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Responsibilities of the "Réviseur d'Entreprises Agréé" for the Audit of the Financial Statements

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of the "Réviseur d'Entreprises Agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Conclude on the appropriateness of Management Board 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 report of the "Réviseur d'Entreprises Agréé" 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 report of the "Réviseur d'Entreprises Agréé". However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter.

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Report on Other Legal and Regulatory Requirements

We have been appointed as "Réviseur d'Entreprises Agréé" by the Management Board on December 12, 2018 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 6 years.

The management report is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

We confirm that the prohibited non-audit services referred to in the EU Regulation N° 537/2014, on the audit profession were not provided and that we remain independent of the Company in conducting the audit.

For Deloitte Audit, *Cabinet de Révision Agréé*

Ekaterina Volotovskaya, *Réviseur d'Entreprises Agréé*
Partner

March 8, 2019

UniCredit International Bank (Luxembourg) S.A.

Statement of financial position

As of 31 December 2018 (€)

ASSETS	NOTES	AMOUNTS AS AT 31.12.2018	AMOUNTS AS AT 31.12.2017
Cash and cash balances	5	8.346.023	8.995.735
Financial assets at fair value through profit or loss:	6	802.783.420	-
a) financial assets held for trading	6	1.983.232	-
b) other financial assets mandatorily at fair value	6	800.800.188	-
Trading assets (ex IAS39)	6	-	5.777.455
Financial assets at fair value through other comprehensive income	7	895.897.410	-
Available for sale financial assets (ex IAS39)	7	-	549.626.437
Financial assets at amortised cost:	8,9	1.154.885.856	-
loans and advances to banks	8	391.807.690	-
loans and advances to customers	9	763.078.166	-
loans and receivables with banks (ex IAS39)	8	-	2.009.701.518
loans and receivables with customers (ex IAS39)	9	-	966.561.253
Hedging derivatives	3.2.2	-	508.078
Property, plant and equipment	11	202.198	224.891
Intangible assets	12	3.427.352	3.535.716
Tax assets:	10	26.106.537	9.995.936
a) current		1.446.269	1.686.932
b) deferred	10	24.660.268	8.309.004
Other assets	13	2.502.205	2.072.318
Total assets		**2.894.151.001**	**3.556.999.337**

LIABILITIES & SHAREHOLDERS' EQUITY	NOTES	AMOUNTS AS AT 31.12.2018	AMOUNTS AS AT 31.12.2017
Financial liabilities at amortised cost:	14,15,16	1.731.123.312	-
deposits from banks	14	709.357.447	-
deposits from customers	15	760.030.444	-
debt securities in issue	16	261.735.421	-
Deposits from banks (ex IAS39)	14	-	1.036.689.066
Deposits from customers (ex IAS39)	15	-	694.577.289
Debt securities in issue (ex IAS39)	16	-	1.446.065.548
Financial liabilities held for trading	6	4.122.641	-
Trading liabilities (ex IAS39)	6	-	9.027.273
Financial liabilities designated at fair value	16	800.754.251	-
Hedging derivatives	3.2.2	42.575.484	56.359.611
Tax liabilities:		21.764.698	12.135.987
current		-	-
deferred	18	21.764.698	12.135.987
Other liabilities	19	11.522.049	6.419.312
Provisions for risks and charges:	17	1.635.861	2.033.488
committments and guarantees given	17.1	48.095	-
post-retirement benefit obligations	17.2	909.766	983.488
other provisions for risks and charges	17.3	678.000	1.050.000
Valuation reserves	21.4	(6.798.193)	12.424.123
Reserves	21.5	61.949.873	61.199.147
Share premium	21.3	205.644.462	205.644.362
Share capital	20	13.406.600	13.333.300
Profit (Loss) of the year		6.449.963	1.090.831
Total liabilities and shareholders' equity		**2.894.151.001**	**3.556.999.337**

The accompanying notes form an integral part of these financial statements.

UniCredit International Bank (Luxembourg) S.A.

Income Statement

For the year ended 31 December 2018 (€)

	NOTES	YEAR	
		2018	2017
Interest income and similar revenues	22.1	80.615.010	128.362.095
Interest expenses and similar charges	22.2	(68.816.719)	(112.020.441)
Net interest margin	**22**	**11.798.291**	**16.341.654**
Fees and commissions income	23.1	8.317.959	4.901.695
Fees and commissions expenses	23.2	(4.704.049)	(3.708.246)
Net fees and commissions	**23**	**3.613.910**	**1.193.449**
Net gains (losses) on trading	24	1.193.842	244.408
Net gains (losses) on hedge accounting	25.2	34.813	-
Gains (Losses) on disposals of securities at FV/OCI	25.1	7.211.977	-
Net gains (losses) on other financial assets/liabilities at fair value through profit or loss	25.3	22.611	-
Operating income		**23.875.444**	**17.779.511**
Net losses/recoveries on credit impairment	31	98.195	-
Net profit from financial activities		**23.973.639**	**17.779.511**
Administrative expenses:		(13.287.253)	(15.202.310)
a) staff costs	27	(5.330.403)	(5.096.016)
b) other administrative expenses	28	(7.956.850)	(10.106.294)
Net provisions for risks and charges	30	(46.019)	(1.050.000)
Net value adjustments/write-backs on property, plant and equipment	11,12	(31.131)	(25.640)
Net value adjustments/write-backs on intangible assets	12	(537.898)	(422.702)
Other operating expenses/income	25.4	(866.404)	14.477
Operating costs		**(14.768.706)**	**(16.686.175)**
Gains (Losses) on equity investments	26	-	1.033.784
Profit (Loss) before tax from continuing operations		**9.204.933**	**2.127.120**
Tax expenses (income) of the year from continuing operations	29	(2.754.970)	(1.036.289)
Profit (Loss) of the year		**6.449.963**	**1.090.831**
Parent Company's profit (loss) of the year		**6.449.963**	**1.090.831**

UniCredit International Bank (Luxembourg) S.A.

Statement of comprehensive income

For the year ended 31 December 2018 **(€)**

	YEAR	
	2018	**2017**
Profit of the year	**6.449.963**	**1.090.831**
Movement in Defined benefit Plans	19.349	(278.584)
Fair value reserve- net change in fair value	(19.319.198)	(6.417.721)
Other changes in FV reserve	-	(25.959.049)
Total other comprehensive income	**(19.299.849)**	**(32.655.354)**
Total comprehensive income of the year	**(12.849.886)**	**(31.564.523)**
Total C.I. of the year attribuable to the parent	**(12.849.886)**	**(31.564.523)**

UniCredit International Bank (Luxembourg) S.A.

Statement of changes in equity

As of 31 December 2017

Amounts in euros (EUR)

	Share capital	Share premium	Revaluation reserve	Restricted reserves	Retained earnings	Profit for the year	Total
At 1 January 2017	10.000.000	170.094.662	45.079.477	1.000.000	56.477.284	3.721.864	**286.373.287**
Profit for the year	-	-	-	-	-	1.090.831	**-**
Total comprehensive income for the year	**-**	**-**	**(32.655.354)**	**-**	**-**	**1.090.831**	**(31.564.523)**
Capital increase	**3.333.300**	**35.549.700**					**38.883.000**
							-
Contributions by and distributions to equity holders							**-**
Allocation to retained earnings	**-**	**-**	**-**	**-**	**3.721.864**	**(3.721.864)**	**-**
Dividends to equity holders	**-**	**-**	**-**	**-**	**-**	**-**	**-**
At 31 December 2017	**13.333.300**	**205.644.362**	**12.424.123**	**1.000.000**	**60.199.147**	**1.090.831**	**293.691.763**

UniCredit International Bank (Luxembourg) S.A.

Statement of changes in equity

As of 31 December 2018

Amounts in euros (EUR)

(continued)

	Share capital	Share premium	Revaluation reserve	Restricted reserves	Retained earnings	Profit for the year	Total
At 1 January 2018	13.333.300	205.644.362	12.424.123	1.000.000	60.199.147	1.090.831	**293.691.763**
Profit for the year	-	-	-	-	-	6.449.963	**-**
Total comprehensive income for the year	**-**	**-**	**(19.299.849)**	**-**	**-**	**6.449.963**	**(12.849.886)**
Capital increase	73.300	100					**73.400**
First Time Adoption of IFRS9	-	-	104.787	-	(459.667)	-	**(354.880)**
Deferred Taxes for FTA IFRS9	-	-	(27.255)	-	119.562	-	**92.307**
							-
Contributions by and distributions to equity holders							**-**
Allocation to retained earnings/reserves	-	-	-	340.660	750.171	(1.090.831)	**-**
Dividends to equity holders	-	-	-	-	-	-	-
At 31 December 2018	**13.406.600**	**205.644.462**	**(6.798.193)**	**1.340.660**	**60.609.213**	**6.449.963**	**280.652.705**

The statement of changes in Equity includes the effect of the restatement of the opening balances due to the implementation of IFRS9.

The lines “First Time adoption of IFRS9” and “Deferred Taxes for FTA IFRS9” show changes in opening balances related to the reclassification and remeasurement effects resulting from the first time adoption of IFRS9. It should be noted that these effects include a negative impact for 460 thousands of loan loss allowance. Refer to “Transition to IFRS9 Financial Instruments”‘ in Note 2.1.5 for further details.

Any discrepancies in this table and between data shown are solely due to the effect of rounding.

UniCredit International Bank (Luxembourg) S.A.

Statement of cash flows
As of 31 December 2018

Amounts in euros (EUR)

	Notes	2018	2017
		EUR	EUR
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		6.449.963	1.090.831
Income tax expense	29	2.754.970	1.036.289
Profit before income tax		**9.204.933**	**2.127.120**
Adjustments for:			
Depreciation and amortisation	11,12	569.029	448.344
Net provisions for risks and charges	30	46.019	1.050.000
Reversal of loan impairment - loans and advances to banks	31	(98.195)	-
Reversal of loan impairment - loans and advances to customers	31	-	-
Net impairement loss in investment securities	7	-	-
Defined benefit expense	17	97.048	75.853
Net gain/loss on derivatives	7,16	18.136.668	1.896.420
Net interest income	7,16,22	(12.057.724)	(50.326.694)
Recycling effect OCI reserve	7	26.005.770	(11.132.133)
Changes in operating assets and liabilities:			
Net (increase) / decrease in deposit with central banks	5,8	2.084.301	(2.882.000)
Net (increase) / decrease in derivative financial instruments	6	(16.525.869)	(22.099.749)
Net (increase) / decrease in loans and advances to banks	5,8	516.564.394	1.085.309.721
Net (increase) / decrease in loans and advances to customers	9	203.483.087	(933.854.346)
Net (increase) / decrease in other assets	10,13	(15.763.983)	(10.926.870)
Net increase / (decrease) in deposits from banks	14	(327.331.619)	458.068.107
Net increase / (decrease) in amounts due to customers	15	65.453.155	(563.733.339)
Net increase / (decrease) in other liabilities	18,19	16.709.916	(2.137.789)
Net increase / (decrease) in defined benefit plan	17	(23.326)	362.935
Foreign exchange on debt securities and assets classified as FV/OCI	7,16	(3.489.741)	(17.634.266)
Net cash provided (used) by operating activities		**483.063.863**	**(65.388.686)**

UniCredit International Bank (Luxembourg) S.A.

Statement of cash flows

As of 31 December 2018

Amounts in euros (EUR)

(continued)

	Notes	2018	2017
		EUR	EUR
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of securities classified as classified as FV/OCI	7	(549.542.005)	-
Purchase of property plant and equipment	11,12	(8.439)	(115.865)
Purchase of intangible assets	12	(429.534)	(1.761.532)
Proceeds from sale and redemption of securities classified as FV/OCI	7	182.735.250	202.264.718
Net cash (used) provided by investing activities		**(367.244.728)**	**200.387.321**
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of debt securities (net of redemption)	16	-	86.654.000
Redemption of debt securities	16	(415.112.322)	(30.996.769)
Net cash (used) provided by financing activities		**(415.112.322)**	**55.657.231**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(299.293.186)**	**190.655.866**
Cash and cash equivalents at beginning of year	7	**381.147.088**	**190.491.222**
Cash and cash equivalents end of year	7	**81.853.902**	**381.147.088**

Please refer to note 2.22 for the definition of cash and cash equivalents.

Any discrepancies in this table and between data shown are solely due to the effect of rounding.

Notes to the financial statements

1 General information

UniCredit International Bank (Luxembourg) S.A. (the “Bank”) was incorporated in the Grand-Duchy of Luxembourg on 30 September 2004 as a limited liability company (“Société Anonyme”). Since 1 February 2008, the registered office of the Bank is: 8-10, rue Jean Monnet, L-2180 Luxembourg. On 1 July 2008 and following the extraordinary meeting of shareholders held on 16 June 2008, the Bank merged by absorption with Capitalia Luxembourg S.A. with a retroactive accounting effect as at 1 January 2008.

The object of the Bank is to perform for its own account, as well as for the account of third parties, or on joint account with third parties, either within or outside the Grand-Duchy of Luxembourg, any banking or financial operations, including (but not limited to): receipt of sight or term deposits, granting of and taking of participation in credits, safekeeping and managing securities, administration and collection of coupons, the activity of asset manager, financial adviser, broker and commissioner, the provision of fiduciary and domiciliation services. Lastly, the Bank can perform all other operations, in order to facilitate the accomplishment of its purpose.

In the context of the UniCredit Group strategic project “Transform 2019” and of the subsequent internal reorganisation of the activities performed by the Group in the Grand-Duchy of Luxembourg, the Board of Directors of UniCredit S.p.A. (“UC or The Parent Company”), sole shareholder of the Bank, approved on 11 July 2016 a project aiming to create in Luxembourg a Global Family Office hub (hereinafter: “GFO”) under the responsibility of the Head of CIB Division, for serving Family Offices and Holding Companies offering them Investment Banking Products to fulfil their increasing financial needs. Additional disclosures about the transfer are provided in the Management Report.

In this context, it was proposed, and the Board of Directors of UC approved, the transfer of the Italian Private Banking Business from UniCredit Luxembourg S.A. (“UCL”) to the Bank.

The overall project (hereinafter: the “GFO Project”) was approved by the Board of Directors of the Bank on 28 July 2016.
In particular, the Board of Directors approved:

- a change in strategy through a partial reorganisation of the business by creating a set-up for the GFO;
- the transfer of the Italian Private Banking Business from UCL to the Bank;

- the change in the governance model of the Bank from One Tier Bank to Two Tier Bank Model organised via a Management Board and a Supervisory Board. In this respect, the former Management Committee has been endowed of the power to define the new text of the articles of association, to be then approved by the Board of Directors and submitted to the General Meeting of Shareholders.

The transfer took place on 1 July 2017.

The new Governance Model allows to have a clear segregation between the day-to-day management and the control/supervision of the Bank. The Bank is managed by a Management Board which shall exercise its functions under the control of a Supervisory Board. The Management Board is in charge of taking any actions necessary or useful to fulfill the Company's corporate objectives, with the exception of the actions reserved by Luxembourg law or by the Articles of Association for the General Meeting or the Supervisory Board. The Supervisory Board will be in charge of the supervision and control of UniCredit International Bank (Luxembourg) S.A..

UniCredit International Bank (Luxembourg) is a mono-divisional entity, but revenue generation is entrusted to 3 different business lines: Wealth Management (WM), Global Family Office (GFO), Strategic Funding & Treasury (SF&T).
WM mission is to provide Private Banking services, to provide services to insurance companies and to provide investment management services to funds. GFO is aimed at offering participation holding companies and family offices a broad range of solutions to support them in structured financial operations. SF&T is predominantly a client driven business whose activities forms an integral part of the CIB value chain.

In December 2017, the Bank dissolved without liquidation (simplified liquidation) UniCredit Luxembourg Finance S.A. ("UCF"), a fully-owned subsidiary of the Bank, incorporated under Luxembourg laws on 5 April 2005 in connection with the establishment by UniCredit Group of a 10 billion USD Medium-term Note Programme.

The Bank is included in the consolidated financial statements of UniCredit S.p.A.. The consolidated financial statements of the Parent Company may be obtained from its registered office: Piazza Gae Aulenti, 3 Tower A, 20154 Milan (Italy).

Except as otherwise noted, all figures included in these financial statements are presented in euros (EUR).

In its meeting on 5 February 2019, the Management Board has approved the annual financial statements and the Supervisory Board has reviewed them on 8 March 2019. At the same date, the Supervisory Board has approved the proposal of the appropriation of profits to the Annual General Meeting of Shareholders.

2 Summary of significant accounting policies

Starting from 2018, the Bank is presenting Financial Statements in line with the new IFRS9 standard. 2017 balances have not been restated. For the purpose of comparability between the balances of 2018, 2017 balances are shown separately. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to each year presented, unless otherwise stated.

2.1 Basis of preparation

2.1.1 Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union ("EU"). Additional information is included in the accompanying financial statements in order to comply with Luxembourg legal requirements.

2.1.2 Basis of measurement

In accordance with the framework of IFRS and the IAS standards 1 and 8, the Bank is consistent in the use of recognition, measurement and presentation methods. Where errors of recognition or measurement in prior periods need to be corrected, the effects (if material) are recognised retrospectively in the first set of financial statements authorised for issue after their discovery in accordance with the requirements of IAS 8.41 – IAS 8.49.

The financial statements have been prepared on the historical cost basis except for the following:

- Financial instruments at fair value through profit or loss (FV/P&L) are measured at fair value;
- Financial assets at fair value through other comprehensive income (FV/OCI) are measured at fair value;
- Recognised financial assets and financial liabilities designated as hedged items in qualifying fair value hedge relationships are adjusted for the changes in fair value attributable to the risk being hedged;

- The liability for defined benefit obligations is recognised at the present value of the defined benefit obligation less the net total of the plan assets, plus unrecognised actuarial gains, less unrecognised past service cost and unrecognised actuarial losses.

2.1.3 Foreign currency translation

(a) Functional and presentation currency

The financial statements are presented in euros, which is the Bank's functional currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

Changes in the fair value of monetary securities denominated in foreign currency classified as financial assets at fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary items, such as equities, are reported as part of the fair value gain or loss.

2.1.4 Use of estimates and judgments

The preparation of financial statements in conformity with IFRS as adopted by the EU requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

Use of available information and application of judgement are inherent in the formation of estimates. Actual results in the future could differ from such estimates and the differences may be material to the financial statements.

2.1.5 Changes in accounting policies and presentation

<u>Transition to “IFRS9: Financial Instruments”</u>

As at 1 January 2018, UniCredit Group has adopted the accounting standard “IFRS9: Financial instruments”. The adoption of the standard is the result of a long-time project aimed at creating reporting and risk monitoring methods, harmonised between Group’s Legal Entities, that ensure full compliance with the standard and at updating governance and monitoring processes in light of the new rules.

This project was organised at Group level through specific work-streams:

• work-stream “Classification and Measurement” aimed at reviewing financial instruments classification in line with new IFRS9 criteria;

• work-stream “Impairment” aimed at developing and implementing models and methods for calculating impairment.

These work-streams go together with a specific process aimed at adapting models and methods to the specific characteristics of Corporate & Investment Banking (CIB). The entire project was developed actively involving Bank’s structures, Board of Directors and Top Management.

The new accounting standard introduced significant changes in the rules for classifying and measuring financial instruments as compared to IAS39.

With reference to loans and debt securities, the classification and consequent measurement of these instruments is based on the "business model” and on the characteristics of the financial instrument contractual cash flows (SPPI criterion - Solely Payments of Principal and Interests). With reference to equity instruments, they will be classified as financial instruments at fair value, with differences recognised through profit or loss or in other comprehensive income. In the latter case, unlike the requirements of IAS39 for available-for-sale equity instruments, IFRS9 no longer requires to recognise impairment losses and provides that, in the event of sale of the instrument, the profits and losses on disposal must be reclassified to other shareholders' equity reserve and not to profit or loss.

With reference to financial liabilities designated at fair value, it modified the accounting of "own credit risk", i.e. the changes in the value of liabilities at fair value that are due to fluctuations in their creditworthiness. According to the new standard, these changes must be recognised in an equity reserve, rather than in the income statement as per IAS39, thus eliminating a source of volatility in economic results.

IFRS9 has introduced a new accounting model of impairment for credit exposures based on (i) an "expected losses" approach replacing the current one based on the recognition of "incurred losses" and (ii) on the concept of "lifetime" expected loss. It has also introduced guidelines that clarify when financial instruments shall be written off by specifying that the write-off constitutes an event of accounting derecognition.

Lastly it has also modified the rules applicable to "hedge accounting" with regard to designating a hedging relationship and verifying its effectiveness with the aim of ensuring greater alignment between the accounting recognition of hedges and the underlying management rationale.

The Group has exercised the option to continue applying the existing IAS39 hedge accounting requirements for all its hedging relationships until the IASB completes the project on accounting for macro-hedging. The Group has decided to exploit the option provided by the accounting standard not to restate comparative figures of previous years, consequently, for UniCredit Group, the first time adoption of the new standard is 1 January 2018.

Here below are shown the effects related to the transition from IAS39 to IFRS9.

	Per IAS39		Per IFRS9								
	Classification	Carrying amount *(gross carrying amount net of impairment loss or fair value)*	Cash on hand	Cash balances at central banks	Other demand deposits	FV P&L [HFT]	FV P&L [mandatory]	FV OCI	Amortised cost	Derivatives Hedge Accounting	Other assets
Cash on hand		-									
Cash balances at central banks		7.998.000		7.998.000							
Demand deposits with credit institutions		997.735			997.735						
Loans & Advances	FV P&L - HFT	-									
	FV P&L - FVO	-									
	AFS	-									
	L&R	2.876.168.263					1.274.164.127		1.712.264.000		
	HTM	-									
Debt securities	FV P&L - HFT	-									
	FV P&L - FVO	-									
	AFS	549.626.437						549.626.437			
	L&R	100.094.508							100.086.958		
	HTM	-									
Equity instruments (excluding participating interests and funds)	FV P&L - HFT	-									
	FV P&L - FVO	-									
	AFS	-									
Derivatives - Hedge Accounting		508.078								508.078	
Other assets		2.072.318									2.072.318
Total		3.543.242.794	-	7.998.000	997.735	5.777.455	1.274.164.127	549.626.437	1.812.350.958	508.078	2.072.318

	Per IAS39		Per IFRS9			
	Classification	Carrying amount	FV P&L [HFT]	FV P&L [FVO]	Amortised cost	Derivatives Hedge Accounting
Deposits	FV P&L - HFT	-				
	FV P&L - FVO	-				
	Amortised cost	1.731.266.355			1.731.266.355	
Debt securities issued	FV P&L - HFT	-				
	FV P&L - FVO	-				
	Amortised cost	1.446.065.548		1.273.907.593	282.763.072	
Other financial liabilities	FV P&L - HFT	-				
	FV P&L - FVO	-				
	Amortised cost	-				
Derivatives - Trading	FV P&L - HFT	9.027.273	9.027.273			
Short positions	FV P&L - HFT	-				
Derivatives - Hedge Accounting		56.359.611				56.359.611
Total		3.242.718.787	9.027.273	1.273.907.593	2.014.029.427	56.359.611

Debt instruments and commitments given subject to impairment per IFRS 9	Exposure as per IAS 39 *Carrying amount (gross carrying amount net of impairment loss or fair value)*	Loss allowance as per IAS 39 / IAS 37	Exposure as per IFRS 9 *Carrying amount (gross carrying amount net of impairment loss or fair value)*	Loss allowance Stage 1	Total loss allowance IFRS 9
Balance-sheet exposures					
Cash balances at central banks	7.998.000	-	7.998.000	-	-
Demand deposits with credit institutions which are related parties	494.760		494.760		-
Demand deposits with credit institutions which are not related parties	502.975	-	502.975	-	-
Debt securities at amortised cost	100.094.508	-	100.086.958	7.550	7.550
Central banks and general governments					-
Credit institutions which are related parties	100.094.508	-	100.086.958	7.550	7.550
Credit institutions which are not related parties					-
Other					-
Debt securities at fair value through OCI	549.626.437	-	549.626.437	104.787	104.787
Central banks and central governments	549.626.437	-	549.626.437	104.787	104.787
Credit institutions which are related parties					-
Credit institutions which are not related parties					-
Other					-
Loans and advances at amortised cost	2.875.957.951	-	1.712.264.000	345.254	345.254
Interbank placements (other than demand deposits) with related parties	1.909.448.581	-	745.756.613	343.271	343.271
Interbank placements (other than demand deposits) with non-related parties	-	-	-		-
Mortgage loans	-	-			-
Other collateralised loans	966.509.370	-	-		-
Credit for consumption	-	-			-
Credit card debt	-	-			-
Other loans	-	-	966.507.387	1.983	1.983
Loans and advances at fair value through OCI	-	-			-
Other assets (if subject to impairment requirements)	2.072.318	-			-
Other debt instruments which used to be subject to impairment requirements under IAS 39 but which are no longer subject to impairment requirements under IFRS 9 (i.e instruments reclassified from AFS, L&R and HTM to FVPL)	4.658.459	4.448.147			
sub-total (balance-sheet)	**3.541.405.408**	**4.448.147**	**2.370.973.130**	**457.588**	**457.588**
	Nominal amount		*Nominal amount*		
Off balance-sheet exposures					
Loan commitments given	1.574.839.362	-	1.574.839.362	2.077	2.077
Financial guarantees given	3.599.978	-	3.599.978	-	-
Other commitments given	20.100.000	-	20.100.000	-	-
sub-total (off-balance-sheet)	**1.598.539.340**	**-**	**1.598.539.340**	**2.077**	**2.077**
Total	**5.139.944.748**	**4.448.147**	**3.969.512.470**	**459.665**	**459.665**

	CET1	**AT1**	**T2**	**Total Capital**	**Total RWA**	**CET1 ratio %**	**T1 ratio %**	**Total Capital Ratio %**
As per IAS 39 (WITHOUT the prudential filters applicable up to 31.12.2017)	**275.535.106**	**-**	**-**	**275.535.106**	**1.030.708.197**	**26,7%**	**26,7%**	**26,7%**
IFRS 9 impact								
- due to changes in classification and measurement basis (gross of tax)				-	29.395.646			
- due to changes in the loss allowance amount (gross of tax)	- 354.881			- 354.881	- 74.223			
- due to increase/decrease of the regulatory shortfall				-				
- due to increase/decrease of the regulatory excess				-				
- due to other changes from IFRS 9 (e.g. hedging) (gross of tax)				-				
Tax effect - Current tax expense (liability)				-				
Tax effect - Current tax income (asset)				-				
Tax effect - Deferred tax expense (liability)				-				
Tax effect - Deferred tax income (asset)	92.304			92.304				
Other (e.g. consequential effects)				-				
As per IFRS 9 (WITHOUT the prudential filters applicable up to 31.12.2017)	**275.272.530**	**-**	**-**	**275.272.530**	**1.060.029.620**	**26,0%**	**26,0%**	**26,0%**

Transition to “IFRS15: Revenue from Contracts with Customers”

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

- two approaches for the revenue recognition (“at point in time” or “over time”);
- a new model for the analysis of the transactions (“Five steps model”) focused on the transfer of control; and

The adoption of the new accounting standard could determine (i) the reclassification between lines of income statement used for presenting revenues, (ii) a change in the timing recognition of such revenue, when the contract with the customer contains several performance obligation that must be accounted for separately under the accounting standard, (iii) a different measure of the revenue in order to reflect their variability.
Based on the implementation performed, no impacts have been detected coming from the adoption of IFRS15.

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2018 and have not been applied in preparing these financial statements.

New and revised IFRS Standards in issue but not yet effective

At the date of authorisation of these financial statements, The Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective and in some cases had not yet been adopted by the EU:

- IFRS16 Leases
- IFRS17 Insurance Contracts
- Amendments to IFRS9 Prepayment Features with Negative Compensation
- Amendments to IAS28 Long term Interests in Associates and Joint Ventures
- Annual Improvements to IFRS
- Standards 2015–2017 Cycle
- Amendments to IFRS3 Business Combinations, IFRS11 Joint Arrangements, IAS12 Income Taxes and IAS23 Borrowing Costs
- Amendments to IAS19 Employee Benefits, Plan Amendment, Curtailment or Settlement
- IFRS10 Consolidated Financial Statements and IAS28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- IFRIC23 Uncertainty over Income Tax Treatments

The Management does not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods, except as noted below:

IFRS16 Leases

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

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

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

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

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

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

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

In order to calculate the lease liability and the related right-of-use asset, the Group proceeds with discounting the future lease payments at a proper discount rate. In this respect, future lease payments to discount are determined based on contractual provisions and net of VAT as the obligation to pay such a tax starts when the invoice is issued by the lessor and not at the starting date of the lease contract.

To perform the mentioned calculation lease payments have to be discounted at the interest rate implicit in the contract or, if it is not available, at the incremental borrowing rate. The latter is determined on the basis of the cost of funding for liabilities of similar duration and similar security of those implicit in the lease contract. In determining the lease term it is necessary to consider the non-cancellable period, established in the contract, in which the lessee is entitled to use the underlying asset taking also into account potential renewal options if the lessee is reasonably certain to renew.

In particular, with regard to those contracts that allows the lessee to tacitly renew the lease contract after a first set of years, the lease term is determined taking into account factors such as the length of the first period, the existence of dismissal plans for the asset leased and any other circumstance indicating the reasonably certainty of the renewal.
The Group has decided not restate comparatives and has chosen, for First Time Adoption purposes, to put the value of right of use equal to the lease liability.
In particular, the effect on total balance sheet coming from IFRS16 adoption, in terms of application of the new rules from the lessee's perspective, can be preliminarily estimated in the range of +0,1%.

IFRS17 Insurance Contracts

The new Standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS4 Insurance Contracts.
The Standard outlines a General Model, which is modified for insurance contracts with direct participation features, described as the Variable Fee Approach. The General Model is simplified if certain criteria are met by measuring the liability for remaining coverage using the Premium Allocation Approach.
The General Model will use current assumptions to estimate the amount, timing and uncertainty of future cash flows and it will explicitly measure the cost of that uncertainty, it takes into account market interest rates and the impact of policyholders' options and guarantees.
The implementation of the Standard is likely to bring significant changes to an entity's processes and systems, and will require much greater co ordination between many functions of the business, including finance, actuarial and IT.
The Standard is effective for annual reporting periods beginning on or after 1 January 2021, with early application permitted. It is applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied.
For the purpose of the transition requirements, the date of initial application is the start if the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application. The Management of the Bank does not anticipate that the application of the Standard in the future will have an impact on the financial statements.

Amendments to IFRS9 Prepayment Features with Negative Compensation

The amendments to IFRS9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.

The amendment applies to annual periods beginning on or after 1 January 2019, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS9.

The Management of the Bank does not anticipate that the application of the amendments in the future will have an impact on the financial statements.

Amendments to IAS28 Long term Interests in Associates and Joint Ventures

The amendment clarifies that IFRS9, including its impairment requirements, applies to long term interests. Furthermore, in applying IFRS9 to long term interests, an entity does not take into account adjustments to their carrying amount required by IAS28 (i.e., adjustments to the carrying amount of long term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS28).

The amendments apply retrospectively to annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. Specific transition provisions apply depending on whether the first time application of the amendments coincides with that of IFRS9.

The Management of the Bank does not anticipate that the application of the amendments in the future will have an impact on the financial statements.

Annual Improvements to IFRS Standards 2015–2017 Cycle Amendments to IFRS3 Business Combinations,

IFRS11 Joint Arrangements, IAS12 Income Taxes and IAS23 Borrowing Costs

The Annual Improvements include amendments to four Standards.

IAS12 Income Taxes

The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

IAS23 Borrowing Costs

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

IFRS3 Business Combinations

The amendments to IFRS3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognised assets, liabilities and goodwill relating to the joint operation.

IFRS11 Joint Arrangements

The amendments to IFRS11 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not remeasure its PHI in the joint operation.
All the amendments are effective for annual periods beginning on or after 1 January 2019 and generally require prospective application. Earlier application is permitted. The Management of the Bank does not anticipate that the application of the amendments in the future will have an impact on the financial statements.

Amendments to IAS19 Employee Benefits Plan Amendment, Curtailment or Settlement

The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognised in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. An entity will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19.99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

The amendments are applied prospectively. They apply only to plan amendments, curtailments or settlements that occur on or after the beginning of the annual period in which the amendments to IAS19 are first applied.

The amendments to IAS19 must be applied to annual periods beginning on or after 1 January 2019, but they can be applied earlier if an entity elects to do so. The Management of the Bank does not anticipate that the application of the amendments in the future will have an impact on the financial statements.

IFRS10 Consolidated Financial Statements and IAS28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS10 and IAS28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture. The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted.

The Management of the Bank does not anticipate that the application of the amendments in the future will have an impact on the financial statements.

IFRIC23 Uncertainty over Income Tax Treatments

IFRIC23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- determine whether uncertain tax positions are assessed separately or as a group; and

- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
  - If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings,
  - If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation is effective for annual periods beginning on or after 1 January 2019. Entities can apply the Interpretation with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prospectively.
The Management of the Bank does not anticipate that the application of the amendments in the future will have an impact on the financial statements.

2.2 Operating segments

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Bank's management to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. The Bank is a mono-divisional entity and, as such, it doesn't report segmented figures into the Group financial reporting. Revenue generation is entrusted to 3 different profit centers: Wealth Management (WM), Global Family Office (GFO), Strategic Funding & Treasury (SF&T). Revenues generated by the 3 profit centers are regularly reported to the Management Board.

2.3 Business combination and common control transactions

A business combination is the bringing together of separate entities or businesses into one reporting entity.
A business combination may result in a Parent-subsidiary relationship in which the acquirer is the Parent and the acquiree a subsidiary of the acquirer.

A business combination may involve the purchase of the net assets, including any goodwill, of another entity rather than the purchase of the other comprehensive income of the other entity (mergers).
During 2017, as a consequence of the internal reorganisation of the activities performed by the Group in the Grand-Duchy of Luxembourg, the Italian Private Banking Business was transferred from UCL to the Bank.

IFRS3 requires that all business combinations shall be accounted for by applying the purchase method that involves the following steps:

- Identifying an acquirer;
- Measuring the cost of the business combination; and
- Allocating, at the acquisition date, the cost of the business combination to the assets acquired and liabilities and contingent liabilities assumed.

The cost of a business combination is the aggregate of the fair value, at the date of exchange, of assets given, liabilities incurred or assumed and other comprehensive income instruments issued by the acquirer, in exchange for control of the acquiree, plus any costs directly attributable to the business combination.

The acquisition date is the date on which the acquirer effectively obtains control of the acquiree. When this is achieved through a single exchange transaction, the date of exchange coincides with the acquisition date.

The acquirer shall, at the acquisition date, allocate the cost of a business combination by recognising the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria.

The acquirer shall recognise the acquiree's identifiable assets, liabilities and contingent liabilities separately at the acquisition date only if they satisfy the following criteria at that date:

- In the case of an asset other than an intangible asset, it is probable that any associated future economic benefits will flow to the acquirer, and its fair value can be measured reliably;
- In the case of a liability other than a contingent liability, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and its fair value can be measured reliably;
- In the case of an intangible asset or a contingent liability, its fair value can be measured reliably.

After initial recognition, goodwill is measured at cost and tested for impairment at least annually.

If the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the acquirer shall reassess the fair values and recognise immediately any excess remaining after that reassessment in profit or loss.

In relation to common control transactions, IFRS3 defines a “business combination involving entities under common control” as a transaction in which all of the combining entities are controlled by the same party or parties before and after the transaction and that control is not transitory. IFRS principles do not identify specific accounting treatment that should be applied to business combinations involving entities under common control.

The two basic methods of accounting for business combinations involving entities under common controls are:

- The purchase method;
- The predecessor values method.

The Bank has elected to apply the predecessor values method to a business combination involving entities under common control.

Applying the predecessor values method, an entity should record:

- The transaction as if it had taken place at the beginning of the earliest period presented (or the date that the entities were first under common control, if later);
- The assets and liabilities of the acquiree using book values;
- The difference between the consideration given and the aggregate book value of the assets and liabilities (as of the date of the transaction) of the acquired entity as an adjustment to other comprehensive income (recorded in retained earnings or as a separate reserve). No additional goodwill is created by the transaction.

The predecessor values method does not restate the assets and liabilities of the acquirer to fair value. The financial statements are a continuation of amounts that have been reported previously.

2.4 Trade date and settlement date of accounting

All regular transactions on non-derivative financial instruments are recognised and derecognised at “value date” which is the date that an asset is delivered to or by the Bank. Derivative hedging instruments and hedged items that form part of a hedge relationship are also recognised at value date. Derivative instruments held for trading are recognised on trade date.

2.5 Recognition of financial assets and financial liabilities

In accordance with the framework of IFRS and the IAS standards 1 and 8, the Bank is consistent in the use of recognition, measurement and presentation methods. Where errors of recognition or measurement in prior periods need to be corrected, the effects (if material) are recognised retrospectively in the first set of financial statements authorised for issue after their discovery in accordance with the requirements of IAS 8.41 – IAS 8.49. The Bank classifies its financial assets and liabilities in the following categories:

(a) Financial assets/liabilities at fair value through profit or loss

This category has two sub-categories: financial assets or financial liabilities held for trading, including derivatives that do not qualify for hedge accounting and those mandatorily at fair value through profit or loss.

A financial asset or a financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

Financial assets and financial liabilities are designated at fair value through profit or loss when:

- doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost for loans and advances to customers or banks and debt securities in issue;
- certain investments, such as other comprehensive income investments, are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis;
- financial instruments, such as debt securities held, contain one or more embedded derivatives that significantly modify the cash flows.

The Bank classifies Loans and Receivables which initially are concluded to fail SPPI criteria into FV P&L category.

(b) Financial assets at fair value through other comprehensive income

The business model of government securities within the bond portfolio, formerly accounted in the AFS portfolio, is achieved by both collecting contractual cash flows and by selling the financial assets. The Bank can sell financial assets to optimize liquidity or in case of changes in the market conditions. For the classification of financial assets in the FV/OCI category, the analysis of the business model is complemented by the analysis of the contractual cash flows ("SPPI Test"). As a result of the business model defined, in case of positive SPPI test, government securities are accounted for at fair value through OCI.

(c) Financial assets at amortised cost

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the entity upon initial recognition designates as held to collect and sell; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration. The Bank operated primarily based on a "Hold to collect - Business Model", which is one of the prerequisites for measuring financial instruments at amortized cost, for the following instruments: loans to banks and loans to clients. In addition, in 2018 the Bank started implementing the Group model for investing the Free Funds of the bank. The Group model foresees that own funds are equally invested in assets with tenors up to 10 years on a rolling basis. In consideration of the specificities of the Banks structure, Government bonds have been selected as the appropriate assets to be used for the implementation of the free funds investment model. The portfolio of bonds used for free funds investment is segregated from the remaining bond portfolio and as it is maintained with the aim to keep it until maturity it is also measured at amortized cost.

(d) Other financial liabilities

Other financial liabilities are those non-derivative financial liabilities that are not classified as financial liabilities held for trading.

2.6 Financial assets and financial liabilities measurement

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the profit or loss.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished - that is, when the obligation is discharged, cancelled or expired.

Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and advances are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the ‘financial assets held for trading’ category are included in the profit or loss in the period in which they arise. Gains and losses arising from changes in the fair value of assets (only debt instruments) measured at FV/OCI are recognised directly in other comprehensive income, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in other comprehensive income is recognised in the profit or loss. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as Financial assets at fair value through other comprehensive income are recognised in the profit or loss. Dividends on other comprehensive income instruments are recognised in the profit or loss when the entity’s right to receive payment is established. In case of premium/discounts on purchased securities, the Bank is linearly amortizing the premium/discounts according to the maturity of the related financial asset.

The fair values of quoted investments in active markets are based on current mid prices. If there is no active market for a financial asset, the Bank establishes fair value using valuation techniques. These include the use of recent arm’s length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

A simplified assumption is used to estimate the fair value of financial assets and liabilities carried at amortised cost at initial recognition: the cash flows of financial assets and liabilities maturing within a short term period are not discounted if the effect of discounting is immaterial.

The Bank measures all financial liabilities at amortised cost using the effective interest method, except for:

- Financial liabilities held for trading. Such liabilities, including derivatives that are liabilities, are measured at fair value except for a derivative liability that is linked to and must be settled by delivery of an unquoted other comprehensive income instrument whose fair value cannot be reliably measured, which shall be measured at cost;
- Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;
- Financial guarantee contracts that are measured at the higher of:
  - The amount determined in accordance with IAS37 *Provisions, Contingent Liabilities and Contingent Assets*; and
  - The amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IFRS15;
- Commitments to provide a loan at a below-market interest rate. After initial recognition, an issuer of such a commitment shall measure it at the higher of:
  - The amount determined in accordance with IAS37; and
  - The amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IFRS15.

Financial liabilities that are designated as hedged items are subject to the hedge accounting requirements (Note 2.8).

2.7 Offsetting financial instruments

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 offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.8 Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values of derivatives with optionality are obtained from Group systems, whereas the linear derivatives are valued via financial software to ensure the same discount curves for the hedging instrument and the hedged item. Both tools use observable market curves and implied curves for its valuation techniques, including discounted cash flow models, as appropriate. The Group tool uses also option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the profit or loss unless the Bank chooses to designate the hybrid contacts at fair value through profit or loss.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Bank may designate certain derivatives as either:
(a) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge);
(b) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge); or
(c) hedges of a net investment in a foreign operation (net investment hedge).

The Bank continue to apply IAS39 for Hedge Accounting. A hedging relationship qualifies for hedge accounting if there is formal designation and documentation of the hedging relationship including the risk management objective, the strategy for undertaking the hedge, and how the hedging instrument's effectiveness will be assessed. It is necessary to assess the hedge effectiveness, at inception and in subsequent periods. In offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. A hedge is regarded as highly effective if, at the inception of the hedge and in subsequent periods, it is determined prospectively to remain highly effective, i.e. that the hedge ratio is within a range of 80-125 per cent.

The hedge is assessed on an ongoing basis and thus must prospectively remain highly effective throughout the financial reporting periods for which the hedge was designated.

The assessment of effectiveness is made at each balance-sheet date or other reporting date.

If the assessment does not confirm the effectiveness of the hedge, from that time on hedge accounting is discontinued in respect of the hedge and the hedging derivative is reclassified as a held-for-trading instrument.

Hedge accounting is discontinued prospectively if the hedge is terminated or no longer highly effective; the hedging instrument expires or is sold, terminated or exercised; the hedged item is sold, expires or is repaid; or it is no longer highly probable that the forecast transaction will occur.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Effective changes in fair value of interest rate swaps and related hedged items are reflected in “net interest income – net gains/losses on hedging instruments”. Any ineffectiveness is recorded in “net trading income”.

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is prospectively discontinued. Any adjustment up to that point to a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity. The adjustment to the carrying amount of a hedged other comprehensive income security remains other comprehensive income until the disposal of the other comprehensive income security.

Certain derivative instruments are used for economical hedging purposes without applying hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the profit or loss under net trading income.

The Bank entered into a micro fair value hedge relationship to protect itself against changes in the fair value of financial liabilities due to movement in interest rates. The Bank designates the benchmark rate as the hedged risk and accordingly enters into interest rate swaps whereby the fixed leg represents the economic risk of the hedged item.

The Bank doesn’t apply cash flow and net investment hedge.

2.9 Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading, are recognised within “interest and similar income” and “interest and similar charges” in the profit or loss using the effective interest method.

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 recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.10 Fees and commissions

Fees and commissions income and other operating income are accounted for in P&L as the entity satisfies the performance obligation embedded in the contract, according to “IFRS15 Revenue from Contracts with Customers” rules.

In particular:

- if the performance obligation is satisfied at a specific moment (“point in time”), the related revenue is recognized in P&L when the service is provided;
- if the performance obligation is satisfied over-time, the related revenue is recognized in P&L in order to reflect the progress of satisfaction of such obligation.

Due to the above mentioned rules, transaction fees coming from trading in securities are typically booked in the moment when the service is provided while fees related to portfolios management, consulting or fund management are normally recognized during the term of the contract (input method).

For this second type of fees, in fact, it is deemed that the input which are necessary to provide the service incorporated in the performance obligation are evenly distributed during the term of the contract.

If the timing of cash-in is not aligned to the way the performance obligation is satisfied, the Group accounts for a contract asset or a contract liability for the portion of revenue accrued in the period or to defer in the following periods.

The amount of revenues linked to fees and commissions income and other operating income is measured based on contractual provisions.

If the amount contractually foreseen is subject, totally or partially, to variability, a revenue has to be booked based on the most probable amount that the Bank expects to receive.

Such amount is determined on the basis of all facts and circumstances considered relevant for the evaluation, that depend on the type of service provided and, in particular, on the presumption that it is not highly probable that the revenue recognized will not be significantly reversed.

Please note, nevertheless, that for the services provided by the Bank such a variability is not usually foreseen.

Finally, if a contract regards different goods/services whose performance obligations are not satisfied at the same time, the revenue is allocated among the different obligation proportionally to the stand-alone price of the single item delivered. These amounts will therefore accounted for in P&L on the basis of the timing of satisfaction of each obligation.
This circumstance, which is not significant, might happen in case of customer loyalty programs that require to provide goods or services for free, or by cashing-in a price not at market condition, if the client reaches a specific volume of fees, or in case of programs to acquire new customers that assign a bonus to the target (in the form of a product or a service) when it becomes a new client.
Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are accrued over the life of the loan using the effective interest rate (EIR) methodology.

Commission and fees arising from negotiating a transaction for a third party are recognised on completion of the underlying transaction. Management and other service fees are recognised based on the applicable service contracts and are accrued over the time. Asset management fees related to investment funds are recognised rateably over the period in which the service is provided. The same principle is applied for wealth management, and custody services.

2.11 Dividend income

Dividend income is recognised in the profit or loss when the entity's right to receive the payment is established.

2.12 Sale and repurchase agreements

Securities sold subject to repurchase agreements ("repos") remain in the balance-sheet; the counterparty liability is included in deposits from banks. Securities purchased under agreements to resell ("reverse repos") are recorded as loans and advances to banks. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements.

2.13 Impairment of financial assets

The Bank assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In line with the IFRS9 standard, all financial assets that are measured at amortised cost (AC) or debt instruments at fair value through other comprehensive income (FVOCI) and off-balance sheet exposures shall be considered as exposures subject to impairment.

The impairment requirements under IFRS9, are significantly different from those under IAS39:

1. A credit event does not have to occur in order for a credit loss to be recognized (i.e. Expected Credit Losses (ECLs) are recognized also for non-impaired financial assets).
2. ECLs are recalculated at each reporting date in order to reflect changes in credit risk since initial recognition of a financial instrument.
3. Forward-looking information and macro-economic factors are used for the determination of ECLs.

The Bank identified the following instruments to be in scope of IFRS9 impairment:

<table>
<tr><th>Balance type</th><th>Counterparty type</th><th>Product type</th></tr>
<tr><td rowspan="6">On balance</td><td rowspan="3">Private Banking Clients</td><td>Lombard Loans</td></tr>
<tr><td>Term deposits</td></tr>
<tr><td>Credit Facility</td></tr>
<tr><td rowspan="3">Rated/scored entities (Banks, Sovereigns and Supranational)</td><td>Bonds purchased</td></tr>
<tr><td>Balances with Central Bank</td></tr>
<tr><td>Balances with other banks</td></tr>
<tr><td rowspan="2">Off-balance sheet</td><td rowspan="2">Private Banking Clients</td><td>Guarantees given</td></tr>
<tr><td>Loan commitments</td></tr>
</table>

Stage allocation acts as the determinant for the appropriate ECL time horizon to be used.

For the purpose of IFRS9 Expected Credit Loss estimation the Bank is required to appropriately allocate exposures into Stages, where:

Stage 1 – To this stage the Bank will allocate all exposures for which the Bank concludes that no significant increase in credit risk occurred since inception of the loan

Stage 2 – To this stage the Bank would classify financial assets which exhibited significant increase in credit risk since initial recognition

Stage 3 – To this stage the Bank would classify assets which are considered to be credit impaired.

Group model

The Bank uses the transfer logic of UniCredit Group for stage allocation between Stage 1 and Stage 2 for all the exposures with the only exception of Private Banking exposures. The Stage 1 and 2 allocation for these clients requires approval of the Bank's Credit Committee. Risk Management proposes the allocation based on 30 days past due and/or significant Credit Deterioration. A Loan to Collateral ratio at or above 80%, is a quantitative indicator for a SICR for stage 2 allocation.

For the purpose of identifying default of borrowers the Bank uses the rebuttable presumption as stipulated in IFRS 9.B5.5.37 as well as in Article 178 1(b) of REGULATION (EU) No 575/2013 of 90 days past due as an indicator of the default.

It should be noted, that for the purpose of meeting the past due criterion, the Bank will assess whether the identified past due situation does not comprise a technical past due situation.

Provisioning for Stage 3

In line with UC Group guidelines, Provisions have to be recognized whenever the estimated recoverable amount of an exposure is lower than its carrying amount.

For a financial asset that is credit-impaired at the reporting date and that is not a purchased or originated credit-impaired financial asset, the estimated recoverable amount is the present value of future cash flows expected to be recovered, discounted at the original effective interest rate of the exposure.

Therefore the main determinants of this value are:

- the expected cash flows
- the expected timing of payments of these cash flows
- the effective interest rate used for discounting

ECL model application

For the purpose of estimating ECL, the Bank had established 2 separate models which would be applicable to all its exposures subject to impairment, including both balance sheet and off balance exposures. These models could be summarized as follows:

Private Banking Model (“PB Model”)

Score-based model (based on group methodology and inputs) (“Group Model”)

<table>
<tr><th>Balance type</th><th>Counterparty type</th><th>Product type</th><th>Model type</th></tr>
<tr><td rowspan="6">On balance</td><td rowspan="3">Private Banking Clients</td><td>Lombard Loans</td><td rowspan="3">PB model (except for one client with Group score)</td></tr>
<tr><td>Term deposits</td></tr>
<tr><td>Credit Facility</td></tr>
<tr><td rowspan="3">Rated entities (Banks, Sovereigns and Supranational)</td><td>Bonds purchased</td><td>Group Model</td></tr>
<tr><td>Balances with Central Bank</td><td>Group Model</td></tr>
<tr><td>Balances with other banks</td><td>Group Model</td></tr>
<tr><td rowspan="2">Off-balance sheet</td><td rowspan="2">Private Banking Clients</td><td>Guarantees given</td><td>PB Model</td></tr>
<tr><td>Loan commitments</td><td>PB Model</td></tr>
</table>

2.14 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance, controlled by the Bank and from which future economic benefits are probable.

Intangible assets include software, brands, patents and assets used by the Bank as lessee under finance leases or as lessor under operating leases (rental/hire).

Intangible assets other than goodwill are recognised at purchase cost, i.e. including any cost incurred to bring the asset into use, less accumulated amortisation and impairment losses.

An intangible asset with a finite life is subject to straight-line amortisation over its estimated useful life. An intangible asset with indefinite life is not amortised. Software are amortised over 3-8 years.

If there is objective evidence that an asset has been impaired, the carrying amount of the asset is compared with its recoverable value, equal to the greater of its fair value less selling cost and its value in use, i.e. the present value of future cash flows expected to originate from the asset. Any impairment loss is recognised in the profit or loss.

An intangible asset with indefinite life is not amortised. Even if there are no indications of impairment, each intangible asset's carrying amount is compared annually with its recoverable value. If the carrying amount is greater than the recoverable value, the difference is recognised in the profit or loss.

If the value of a previously impaired intangible asset, other than goodwill is restored, its increased carrying amount cannot exceed the net carrying amount it would have had if there were no losses recognised on the prior year impairment.

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use or sale in the future and any difference between sale proceeds and carrying value is recognised in the profit or loss.

2.15 Property and equipment

All property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Office equipment and machines	3-8 years
Other fixtures and fittings	3-8 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating income or other operating expenses in the profit or loss.

2.16 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.17 Leases

(a) The Bank is the lessee

The leases entered into by the Bank are operating leases. The total payments made under operating leases are charged to other operating expenses in the profit or loss on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(b) The Bank is the lessor

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.

2.18 Defined Benefit pension plan

The Bank operates three defined benefit pension plans in favour of some employees. The pension plans are all funded through payments to an insurance company, determined by periodic actuarial calculations.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past- service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. From 2013 on the remeasurements of the net defined benefit obligation are recognized immediately in Other Comprehensive Income.

2.19 Contribution pension plan

In addition to the defined benefit pension plans, the Bank maintains also a defined contribution pension plan, under which the bank pays fixed contributions into the fund “PensionInvest” and will have no legal or constructive obligation to pay further amounts. The contributions payable are recognized in the statement of comprehensive income when they are due in respect of services rendered before the end of the reporting period.

2.20 Other liabilities

Compliant with IAS37, accruals and other items are shown under other liabilities. These reflect future expenditure of uncertain timing or amount, but the uncertainty is much less than for provisions. Accruals are carried at the amount likely to be used. Accruals are liabilities for goods and services received that have been neither paid for nor invoiced by the supplier, nor formally agreed. This also includes current liabilities to employees, such as flexi-time credits and outstanding vacation. Accruals are carried at the amount likely to be used.

2.21 Shared based payments

UC Group Medium & Long Term Incentive Plans for selected employees include the following category:

Equity-Settled Share Based Payments;

This category includes the following:

a) Stock Options allocated to selected Top & Senior Managers and Key Talents of the Group;
b) Group Executive Incentive System that offer to eligible Group Executive a variable remuneration for which payment will be made within five years. The beneficiary will receive the payment by cash and/or by UniCredit shares; the payment are related to the achievement of performance condition (other than marked conditions) stated in the Plan Rules;
c) Group Executive Incentive System (Bonus Pool) that offer to eligible Group Executives and relevant employees identified following regulatory rules, a bonus structure composed by upfront (following the moment of performance evaluation) and deferred payments in cash and in shares, to be paid over a period of ranging from 1 to 6 years (first year upfront and 4 or 5 years deferred). This payment structure will guarantee the alignment to shareholder interest and will be subjected to malus (which applies in case specific profitability, capital and liquidity thresholds are not met at both Group and Country/Division level) and claw back conditions (as legally enforceable) as defined in Plan Rules (both non-market vesting conditions).

Stock Options

The Hull and White Evaluation Model has been adopted to measure the economic value of Stock Options.

This model is based on a trinomial tree price distribution using the Boyle's algorithm and estimates the early exercise probability on the basis of a deterministic model connected to:

- reaching a Market Share Value equals to an exercise price-multiple (M);
- probability of beneficiaries' early exit (E) after the end of the Vesting Period.

Economic and Equity effects will be recognized on a basis of instrument vesting period.

Group Executive Incentive System

The amount of the incentive is determined on a basis of the achievement of quantitative and qualitative goals stated by the plan. In particular, the overall evaluation of the Employee's relevant Manager expresses as a percentage, from a minimum of 0% to a maximum of 150% (non-market vesting conditions).

This percentage, adjusted by the application of a risk/opportunity factor - Group Gate - at first payment multiplied by the Bonus Opportunity, determines the effective amount that will be paid to the beneficiary.

Economic and Net Equity effects will be accrued on a basis of instruments' vesting period.

Group Executive Incentive System (Bonus Pool)

The economic value of Performance Shares is measured considering the share market price at the grant date less the present value of the future dividends during the vesting period.

Economic and Net Equity effects will be accrued on basis of instruments' vesting period.

2.22 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents include balances with less than three months' maturity from the date of acquisition. Please refer to note 5.

2.23 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.24 Financial guarantee contracts

Financial guarantee contracts are contracts that require the Bank to indemnify the beneficiary of such guarantee for a loss he incured because a specified debtor failed to make payments when due, in accordance with the terms of such debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are subject to ECL calculation as described in section 2.13.

2.25 Retirement benefit plan

The Bank operates a defined benefit pension plan in favour of some employees. The pension plan is funded through payments to an insurance company, determined by periodic actuarial calculations.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation. The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the statement of financial position date less the net total of the plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

2.26 Income taxes

Income taxes include the current and deferred income taxes.

Current income tax is recognised as the expected tax payable on the taxable profit for the year using the enacted or substantively enacted tax rate at the statement of financial position date including adjustments to tax payable in respect of previous years.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from revaluation of certain financial assets and liabilities including derivative contracts, provisions for pensions. The rates enacted or substantively enacted at the statement of financial position date are used to determine deferred income tax. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. The tax effects of income tax losses available for carry-forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax related to fair value re-measurement of FV/OCI investments, which are charged or credited directly to other comprehensive income, is also credited or charged directly to other comprehensive income and subsequently (once the asset at FV/OCI has been derecognised) recognised in the profit or loss together with the deferred gain or loss.

2.27 Share issue costs

Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

3 Credit & Financial risk management

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

At Group level Risk management is carried out by a central Risk Management department of the Parent Company ("The Parent Risk management Department") under policies approved by its Board of Directors. The Parent Risk Management Department identifies, evaluates and monitors financial risks in close co-operation with other operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments.

The Bank's risk management is operated by the Risk Management department which report to Chief Risk Officer. The objective of Risk Management is to ensure that the Bank's financial activity remains within the guidelines established by Management. The Bank follows the Parent Company's policy and acts locally with a low risk appetite. Generally, its customers are already Parent Company customers. The Bank is mainly exposed to credit risk and to liquidity risk.

3.1 Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

In its banking business the Bank is exposed to the risk that its loans, regardless of their purpose, may not be repaid by debtors at maturity, and then must be fully or partially written off due to the deterioration of the debtor's financial conditions. The main reasons for default lie in the borrower's lacking the autonomous ability to repay the loan (due to a lack of liquidity, insolvency, etc.), the occurrence of events that are unrelated to the debtor's operating and financial condition, such as country risk (defined as the inability of a borrower in another country to honour its obligations due, for example, to a deterioration in the country's economic situation or the local Government's adoption of restrictive measures). Defaults in relation to a large number of transactions, or one or more large transactions, could have a material adverse impact on the Bank's operations, financial condition and operating results.

The Bank monitors and manages credit quality, any specific risk relating to every counterparty and the overall risk of loan portfolios.

The Bank established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

3.1.1 Credit risk measurement

(a) Loans and advances

According to the nature and duration of the transaction, Risk Management formulates its recommendations for credit proposals / annual reviews submitted by the relationship managers and submits them subsequently to the competent bodies of the Bank as defined by the Supervisory Board and in accordance with the Operating Guidelines ("OG's") and Approval Matrix in place.

The measurement and follow-up of credit risk exposure is performed on a daily basis by control on each loan and related guarantees.

Each customer credit line with a maturity over one year is subject to an annual review. This review includes a detailed analysis of the customer's financial situation, the associated country risk and adherence to repayment requirements. The Bank also reviews the risk associated with all credit provided to a single customer.

Collateral received on customers' credit lines is monitored on a daily basis for each individual position.

In order to avoid a too high concentration of risks, the Bank has to respect the following criteria: the total risk exposure towards a single client or group of connected clients must not exceed 25% of the own funds of the Bank. The Bank has received an exemption to this rule on its risk exposure towards the Parent undertaking and Group entities.

(b) Debt securities and other bills

The Bank defines and yearly review limits for debt securities in order to reduce the credit risk linked to its securities portfolio.

3.1.2 Risk limit control and mitigation policies

The Bank manages, limits and controls concentrations of credit risk wherever they are identified − in particular, to individual counterparties and groups and to industries.

No specific focus is performed on the geographical exposition as the majority of customers are Italian and introduced by the Parent Company.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers and industry segments.

The exposure to any borrower including banks is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts.

The Bank monitors compliance with such limits on a daily basis. This monitoring is reviewed by the Risk Management department.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations.

Some other specific control and mitigation measures are outlined below.

(a) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. With regard to the Lombard Loans, the Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Cash deposit to the Bank;
- Securities portfolio;
- Financial guarantees received from the Parent Company or related entity.

Collateral is followed up on a daily basis, and in order to minimise the exposure the Bank will seek additional collateral from the counterparty as soon as thresholds are broken for the relevant individual loans and advances.

(b) Derivatives

All Derivatives have to be executed with a counterpart of the Group. In this context, the Bank maintains strict control limits on net open derivative positions (i.e. the difference between purchase and sale contracts), by both amount and term. At any time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (i.e. assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is usually obtained for credit risk exposures on these instruments.

(c) Credit-related commitments

The primary purpose of these instruments is to ensure that credit is available to a customer as required subject to certain conditions in the form of loans, overdraft facilities and guarantees. With respect to credit risk on commitments, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

3.1.3 Impairment and provisioning policies

The Bank reviews regularly credit risk exposures and computes quarterly ECL related to those exposures.The daily controls performed allow the Bank to react quickly to such potential issue. In case of past due loans and subsequent to an analysis of the reasons leading to such event, the Bank, after consultation with the customer, impairs, renegotiates or starts legal procedures / collection of the loan with such customer, as the case may be.
Objective evidence of impairment is based on the following criteria:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delays in interest or principal payments;
- The lender, for economic or legal reasons relating to the borrower's financial difficulty, grants concessions to the borrower, which the lender would not otherwise consider;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; the disappearance though of an active market due to the fact that a company's financial instruments are no longer traded publicly is no evidence of impairment;
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - Adverse changes in the payment status of borrowers in the group; or
  - National or local economic conditions that correlate with defaults on the assets in the group.

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements

	Maximum exposure	
	2018	2017
	EUR	EUR
Credit risk exposures relating to the statement of financial position are as follows:		
Loans and advances	**1.154.885.856**	**2.976.262.771**
Loans and advances to banks	391.807.690	2.009.701.518
Loans and advances to customers	763.078.166	966.561.253
of which Loans and advances to corporate entities	704.895.552	961.386.785
Derivative financial instruments including trading assets	**1.983.232**	**6.285.533**
Available-for-sale financial assets (ex IAS39)	-	**549.626.437**
Listed securities	-	549.626.437
Other comprehensive income - Debt securities	**895.897.410**	-
Listed securities	895.897.410	-
Financial assets mandatorily at FV/PL	**800.800.188**	-
Other assets	**2.502.205**	**12.068.254**
	2.856.068.891	3.544.242.995
Credit risk exposures relating to off-balance sheet items are as follows:		
Financial guarantees	**2.853.511**	**23.699.978**
Loan commitments and other credit related liabilities	**1.834.458.051**	**1.574.839.361**
As at 31 December	**4.693.380.453**	**5.142.782.334**

The above table represents the worst case scenario of credit risk exposure to the Bank at 31 December 2018 and 2017, without taking account of any collateral held or other credit enhancements attached. For assets included in the statement of financial position, the exposures set out above are based on net carrying amounts as reported in the statement of financial position. As shown above, the main part of the credit risk, before collateral held or other credit risk enhancement, is located within the loans and advances.

Loans to customers are secured by collateral (cash, listed securities and financial guarantees). Please see note 3.1.9.

3.1.5 Loans and advances

Loans and advances are summarised as follows:

In EUR	Opening balance 2018 (*)	Increases due to origination and acquisition	Decreases due to derecognition	Changes due to change in credit risk (net)	Closing balance 2018
Allowances for financial assets without increase in credit risk since initial recognition (Stage 1)	**457.588**	**723.485**	**- 641.571**	**- 180.204**	**359.298**
Debt securities	112.336	90.906	- 23.610	- 50.153	129.479
Loans and advances	345.252	632.579	- 617.961	- 130.051	229.819
of which: individually measured allowances	457.589	723.485	- 641.572	- 180.205	359.297
Allowances for debt instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)	**4.448.147**	**-**	**- 4.448.147**	**-**	**-**
Loans and advances	4.448.147	-	- 4.448.147	-	-
Credit institutions	2.903.641	-	- 2.903.641	-	-
Non-financial corporations	1.544.506	-	- 1.544.506	-	-
of which: individually measured allowances	4.448.147	-	- 4.448.147	-	-
of which: non-performing	-		-	-	-
Total allowance for debt instruments	**4.905.735**	**723.485**	**- 5.089.718**	**- 180.204**	**359.298**
Commitments and financial guarantees given (Stage 1)	2.077	-	- 1.717	47.736	48.096
Total provisions on commitments and financial guarantees given	**2.077**	**-**	**- 1.717**	**47.736**	**48.096**

(*) Opening balance has been restated in consideration of IFRS9 effect (please refer to note 2.1.5)

(a) Impaired loans and advances

The total allowance for loans and advances is EUR 686.035 (2017: EUR 4.905.735) and all of them are individually provisioned. The decrease in allowance is due to the disposal of a non performing exposure. The Bank has no other loans and advances classified in Stage 3 as past due or non-performing as of 31 December 2018.

(b) Loans and advances renegotiated

Restructuring activities include the negotiation by the Bank and the customer of amended / deferred payment arrangements and the fixing of covenants to be observed by the customer. Once restructured, a previously overdue customer loan is reset to a normal status renegotiated loan that would otherwise be past due or impaired. Loans and advances renegotiated totalled zero as at 31 December 2018 and 31 December 2017.

3.1.6 Financial assets at fair value through other comprehensive income

The table below presents an analysis of Financial assets at fair value through other comprehensive income by rating agency designation based on Standard & Poor’s ratings or their equivalent:

	2018 EUR FV/OCI	2017 EUR AFS
AA	28.013.476	56.958.202
A	58.182.164	-
A-	232.228.379	-
BBB+	-	354.034.263
BBB	577.473.391	138.633.972
BBB-	-	
BB	-	-
B+	-	-
Not rated	-	-
	895.897.410	**549.626.437**

3.1.7 Seized collateral

In 2018 collateral held on Private Banking Lombard loans was mainly composed by cash, equities and investment grade securities with no significant change in the quality of the collateral during the year. Loan to Value and Loan to Collateral indicators were regularly monitored during the year. During 2018 and 2017, the Bank did not use its right to seize collateral as no impaired loans required the Bank to do so.

3.1.8 Concentration of risks of financial assets with credit risk exposure

(a) Geographical sectors

The Bank's main credit exposure can be split between Luxembourg and Italy as majority of bank counterparties are based in Italy for banks and in Luxembourg for the customers.

In EUR	2018						2017
	Italy	Luxembourg	Ireland	Spain	Other	Total	Total
Financial assets at amortised cost: loans to banks	348.850.328	85.243			42.872.119	**391.807.690**	
Loans and receivables with banks (IAS39)							2.009.701.518
Financial assets at amortised cost: loans to customers	55.833.517	701.904.738			5.339.911	**763.078.166**	
Loans and receivables with customers (IAS39)							966.561.253
Financial assets at FV/OCI - Debt securities	577.473.390	28.013.476		232.228.379	58.182.164	**895.897.410**	
Available for sale financial assets (IAS39)							549.626.437
Financial assets mandatorily at fair value	261.955.041		538.845.137			**800.800.178**	
Total	1.244.112.276	730.003.457	538.845.137	232.228.379	106.394.194	**2.851.583.444**	3.525.889.208

(b) Industry sectors

The Bank's main credit exposure can be split between financial institutions, governments and corporates. The following table breaks down the Bank's main credit exposure at its carrying amount, as categorised by the industry sectors of the counterparties.

In EUR	Financial institutions	Government	Corporates	Total
As at 31 December 2017	**2.015.828.622**	**560.886.062**	**967.528.311**	**3.544.242.995**
Cash and balances at central banks	-	8.346.023	-	8.346.023
Financial assets at FV/PL	802.783.420	-	-	802.783.420
Financial assets at FV/OCI	-	895.897.410	-	895.897.410
Financial assets at amortised cost	391.807.690	49.871.796	713.206.370	1.154.885.856
Tax assets	26.106.537	-	-	26.106.537
As at 31 December 2018	**1.220.697.646**	**954.115.229**	**713.206.370**	**2.888.019.246**

3.1.9 Financial guarantees & Commitments

The total provision on commitments and financial guarantees is EUR 48.096 (2017: EUR 2.077) and each of them is individually provisioned. There were no changes between the stages during the year.

3.2 Market risk

The Bank takes market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market variables (interest rates, prices, exchange rates). Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads and foreign exchange rates.

3.2.1 Market risk measurement techniques

The Bank is primarily exposed to market risks through interest rate and foreign currency risks. The market risks are followed by the Bank on a daily basis by ways of reporting prepared by the Financial Risk Management department. The Bank manages interest rate risk by setting value sensitivity limits per bucket. The choice of the instruments best suited to managing risk within the assigned limits is delegated to the treasury function. Securities activities are controlled by means of securities portfolio global limits. In the interest of improving and complementing the various risk management and treasury tools, the Bank uses an integrated Risk management tool that is used by the Group, to measure manage and simulate its liquidity and interest rate risk position.
Risk Management ensures that the exposure of the Bank is not above the limits defined by the Parent Company. With a monthly frequency, specific sensitivity analyses on capital and interest margins are produced.

The parametric analysis, considering duration and convexity is used to evaluate the impact on the value of shareholders' equity of parallel shifts in the yield curve (change is identical for all nodes along the curve).

Shifts in the yield curve are almost never parallel:

- Monetary policy signals (restrictive or expansionary) are first transmitted to the money market, via open market operations, and only later to the financial market;
- The expectations of operators about yields over the short and long term affect the rates applying in different segments of the curve.

Therefore sensitivity analysis by bucket is used to calculate the impact on the present value of each cashflow using the rates from two yield curves (the current curve at the analysis date and the shifted curve) and then comparing the two amounts (full valuation method).

3.2.2 Foreign currency exchange rate risk

Foreign exchange rate risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is exposed to this risk when the amount of assets and liabilities per currency is not zero. The Board of the Bank sets limits on the level of exposure in aggregate which are monitored daily by the Risk Management department. The table below summarizes the Bank's exposure to foreign currency exchange rate risk at 31 December. Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency.

As at 31 December 2018	EUR	USD	Other	Total
Assets				
Cash and cash balances	5.913.700	-	-	**5.913.700**
Other demand deposits	1.028.612	335.890	1.067.822	**2.432.324**
Financial assets at fair value through profit or loss	802.783.420	-	-	**802.783.420**
Financial assets at fair value through OCI	895.897.410	-	-	**895.897.410**
Financial assets at amortised cost	1.114.910.495	38.780.473	1.194.888	**1.154.885.856**
Property, plant and equipment	202.198	-	-	**202.198**
Intangible assets	3.427.352	-	-	**3.427.352**
Tax assets	26.106.537	-	-	**26.106.537**
Other assets	2.502.205	-	-	**2.502.205**
Total Assets	**2.852.771.929**	**39.116.363**	**2.262.710**	**2.894.151.002**

As at 31 December 2018	EUR	USD	Other	Total
Liabilities				
Financial liabilities at amortised cost	1.626.438.450	39.225.782	65.459.080	**1.731.123.312**
Financial liabilities held for trading	4.122.641	-	-	**4.122.641**
Financial liabilities designated at fair value	800.754.251	-	-	**800.754.251**
Hedging derivatives	42.575.484	-	-	**42.575.484**
Value adjustment of hedged financial liabilities (+/-)	-	-	-	-
Tax liabilities	21.764.698	-	-	**21.764.698**
Liabilities associated with assets classified as held for sale	-	-	-	-
Other liabilities	11.522.049	-	-	**11.522.049**
Provisions for risks and charges	1.635.861	-	-	**1.635.861**
Total Liabilities	**2.508.813.434**	**39.225.782**	**65.459.080**	**2.613.498.296**

Net on-balance sheet financial position	343.958.495	(109.419)	(63.196.370)	**280.652.706**
Loan commitments and other credit related liabilities	1.834.458.051	-	-	**1.834.458.051**
Financial Guarantees	2.853.511	-	-	**2.853.511**

As at 31 December 2017				
Total financial assets	3.126.924.146	30.125.900	396.188.684	**3.553.238.730**
Total financial liabilities	2.755.140.177	30.149.088	463.848.834	**3.249.138.099**
Net on-balance sheet financial position	371.783.967	(23.188)	(67.660.149)	**304.100.630**
Loan commitments and other credit related liabilities	1.574.839.361	-	-	**1.574.839.361**

Concentrations of currency risk – on- and off-balance sheet instruments

Under the assumptions, as defined here above, taking into account assets and liabilities as at 31 December 2018 (respectively 2017), a 10% strengthening in EUR to USD would influence income before tax by EUR -11 thousand (2017: EUR -2 thousand) and a 10% weakening in EUR to USD would influence income before tax by EUR 11 thousand (2017: EUR 2 thousand). Within the line item "financial liabilities at amortised cost" and column "Other", EUR 63.337.372 is presented that is fully denominated in AUD.

3.2.3 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce in the event that unexpected movements arise. The Bank sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily by the Risk Management department.

The table below summarises the Bank's exposure to interest rate risks. It includes the financial instruments at carrying amounts (including accrued interest), categorised by contractual date, taking into account repricing dates.

	Up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years	Non-interest bearing	Total
As at 31 December 2018							
In EUR							
Assets							
Cash, balances with central banks	8.346.023	-	-	-	-	-	**8.346.023**
Financial assets at amortised cost Banks	63.966.648	15.658.156	312.182.886	-	-	-	**391.807.690**
Financial assets at amortised cost Custome	701.255.049	6.891.100	614.242	-	54.317.774	-	**763.078.166**
Financial assets mandatorily at FV/P&L	14.513.078	-	786.287.110	-	-	-	**800.800.188**
Financial assets at FV/OCI	-	-	-	457.943.211	437.954.199	-	**895.897.410**
Derivative financial instruments	-	-	-	1.274.389	708.843	-	**1.983.232**
Other assets	-	-	-	-	-	2.502.205	**2.502.205**
Total financial assets	**788.080.798**	**22.549.256**	**1.099.084.239**	**459.217.600**	**492.980.817**	**2.502.205**	**2.864.414.913**
Liabilities							
Deposits from banks	107.468.998	-	311.370.615	290.517.833	-	-	**709.357.447**
Deposits from customers	501.990.699	116.311.899	141.727.845	-	-	-	**760.030.443**
Debt securities in issue	-	-	63.337.372	164.053.353	34.344.688	-	**261.735.412**
Financial liabilities designed at FV	-	-	800.754.260	-	-	-	**800.754.260**
Derivative financial instruments	2.556.407	-	4.512.996	20.012.830	19.615.892	-	**46.698.125**
Other liabilities	-	-	-	-	-	11.522.049	**11.522.049**
Total financial liabilities	**612.016.105**	**116.311.899**	**1.321.703.088**	**474.584.016**	**53.960.579**	**11.522.049**	**2.590.097.736**
Total interest repricing gap	**176.064.693**	**(93.762.643)**	**(222.618.850)**	**(15.366.416)**	**439.020.238**	**(9.019.844)**	**274.317.177**
As at 31 December 2017							
Total financial assets	**1.344.278.592**	**7.514.839**	**550.759.915**	**1.180.652.277**	**457.039.842**	**12.993.265**	**3.553.238.730**
Total financial liabilities	**1.073.861.045**	**524.589.142**	**50.717.607**	**217.285.473**	**1.376.265.520**	**6.419.312**	**3.249.138.099**
Total interest repricing gap	**270.417.547**	**(517.074.304)**	**500.042.310**	**963.366.804**	**(919.225.678)**	**6.573.953**	**304.100.632**

Under the assumptions, as defined here above, taking into account assets and liabilities as at 31 December 2018 (resp. 2017), a 100 basis points increase or decrease in market interest rates would influence the net interest income before tax by EUR 2.166 thousand (2017: EUR 3.460 thousand) and EUR -1.900 thousand (2017: EUR -3.943 thousand) respectively.

3.3 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

3.3.1 Liquidity risk management process

The Bank's policies for liquidity risk establish the responsibility of the Parent Company concerning both the observance of the consolidated limits and the strategic decisions for funding allocation. The Group's objective consists into maintaining a constant level of liquidity in order to carry out the normal business and to comply with international regulations and rules defined by the national central banks.

The Group liquidity risk is managed within a centralized location on behalf of all group entities. Liquidity risk is mitigated by various funding sources, by investing in readily marketable securities and closely monitoring maturities and limits related to asset and liability management.

The management of liquidity risk is not limited to cash management but also includes analysis of the strategic and long term liquidity forecast, in order to determine possible surplus or shortage of liquidity. On a daily basis the Financial Risk Management department of the Bank measures and monitors the exposure of the Bank to liquidity risk; it also ensures the Bank remains within the limits imposed by the Parent Company.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

3.3.2 Cash flows on non-derivative financial assets and liabilities

The table below presents the initial contractual cash flows receivable/payable (interest not included) by the Bank under non-derivative financial assets and liabilities and other assets/liabilities and by remaining contractual maturities at the statement of financial position date. The amounts disclosed in the table are categorised by contractual maturity dates.

As at 31 December 2018 In EUR	Up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years	Total
Assets						
Loans and advances to banks	63.966.649	15.658.156	69.995.186	205.111.556	37.076.144	**391.807.690**
Loans and advances to customers	701.255.050	6.891.100	614.242	-	54.317.774	**763.078.166**
Financial assets mandatorily at FV/P&L	14.513.078	-	786.287.110	-	-	**800.800.188**
Financial assets at FV/OCI	-	-	-	457.943.211	437.954.199	**895.897.410**
Total assets	**779.734.776**	**22.549.256**	**856.896.538**	**663.054.767**	**529.348.117**	**2.851.583.454**
Liabilities						
Deposits from banks	107.468.998	-	311.370.615	290.517.833	-	**709.357.447**
Deposits from customers	501.990.699	116.311.899	137.336.146	-	4.391.699	**760.030.444**
Debt securities in issue	-	-	63.337.372	164.053.353	34.344.696	**261.735.421**
Financial liabilities designed at FV	-	-	-	-	800.754.251	**800.754.251**
Total liabilities	**609.459.698**	**116.311.899**	**512.044.133**	**454.571.186**	**839.490.647**	**2.531.877.563**

As at 31 December 2017 In EUR	Up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years	Total
Assets						
Loans and advances to banks	380.149.353	-	550.173.036	867.038.947	212.340.182	**2.009.701.518**
Loans and advances to customers	956.058.515	7.514.839	-	1.280.368	1.707.531	**966.561.253**
Available for sale financial assets	-	-	-	310.889.554	238.736.883	**549.626.437**
Total assets	**1.336.207.868**	**7.514.839**	**550.173.036**	**1.179.208.869**	**452.784.596**	**3.525.889.209**
Liabilities						
Deposits from banks	512.099.924	524.589.142	-	-	-	**1.036.689.066**
Deposits from customers	561.761.121	-	29.972.285	101.136.883	1.707.000	**694.577.289**
Debt securities in issue	-	-	20.382.890	96.241.380	1.329.441.278	**1.446.065.548**
Total liabilities	**1.073.861.045**	**524.589.142**	**50.355.175**	**197.378.263**	**1.331.148.278**	**3.177.331.903**

The Bank is integrated in the liquidity's risk management processes of UniCredit S.p.A.. In case of liquidity shortfall the Bank will look to UniCredit S.p.A. for additional liquidity.

3.3.3 Cash flows on derivative financial instruments

The table below analyses the Bank's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

At 31 December 2018 In EUR	Up to 3 month	3-12 months	1-5 years	Over 5 years	Total
Derivatives:					
Foreign exchange derivatives					**-**
– Outflow	-	-	-	-	**-**
– Inflow	-	-	-	-	**-**
Interest rate derivatives:					
– Outflow	(2.494.042)	(10.005.664)	(37.533.327)	(2.723.256)	**(52.756.287)**
– Inflow	(320.313)	1.286.559	18.025.601	4.800.631	**23.792.479**
Cross currency swap					
– Outflow	55.044	(68.036.075)	-	-	**(67.981.031)**
– Inflow	-	64.734.895	-	-	**64.734.895**
Total outflow	(2.438.998)	(78.041.739)	(37.533.327)	(2.723.256)	**(120.737.320)**
Total inflow	(320.313)	66.021.454	18.025.601	4.800.631	**88.527.374**

At 31 December 2017 In EUR	Up to 3 month	3-12 months	1-5 years	Over 5 years	Total
Derivatives:					
Foreign exchange derivatives					**-**
– Outflow	-	-	-	-	**-**
– Inflow	-	-	-	-	**-**
Interest rate derivatives:					
– Outflow	(2.964.437)	(11.962.769)	(51.397.172)	(15.643.192)	**(81.967.570)**
– Inflow	(395.347)	3.134.908	15.225.269	5.357.040	**23.321.870**
Cross currency swap					
– Outflow	56.948	(458.766)	(68.192.890)	-	**(68.594.708)**
– Inflow	-	3.258.178	68.421.739	-	**71.679.917**
Total outflow	(2.907.489)	(12.421.535)	(119.590.063)	(15.643.192)	**(150.562.279)**
Total inflow	(395.347)	6.393.086	83.647.007	5.357.040	**95.001.786**

3.3.4 Off-balance sheet items

The dates of the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities, are summarised in the table below:

	2018		2017	
	Nominal amount of off-balance sheet commitments and financial guarantees under IFRS 9 impairment	Provisions on off-balance sheet commitments and financial guarantees under IFRS 9	Nominal amount of off-balance sheet commitments and financial guarantees under IFRS 9 impairment	Provisions on off-balance sheet commitments and financial guarantees under IFRS 9
Type of transactions/Value	Instruments without significant increase in credit risk since initial recognition (Stage 1)	Instruments without significant increase in credit risk since initial recognition (Stage 1)	Instruments without significant increase in credit risk since initial recognition (Stage 1)	Instruments without significant increase in credit risk since initial recognition (Stage 1)
Loan commitments given	**1.834.458.051**	**48.095**	**1.574.839.361**	**-**
Other financial corporations	1.826.848.404	30.880	1.561.198.613	-
Non-financial corporations	9.000	-	-	-
Households	7.600.647	17.215	13.640.748	-
Financial guarantees given	**2.853.511**	-	**3.599.978**	-
Other financial corporations	2.840.350	-	2.815.150	-
Non-financial corporations	3.861	-	775.528	-
Households	9.300	-	9.300	-
Commercial guarantees given	-	-	-	-

3.4 Fair value of financial assets and liabilities

3.4.1 Fair values versus carrying amounts

The carrying amounts of the financial assets and financial liabilities measured at amortised cost are deemed to be a reasonable estimate of their fair value considering short term maturity.

3.4.2 Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices within level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There were no changes between the different stages during the year.

In EUR	Level 1	Level 2	Total
31 December 2018			
Financial assets			
Financial assets at FV/PL	-	802.783.420	**802.783.420**
Financial assets at FV/OCI	895.897.410	-	**895.897.410**
Hedging derivatives	-	-	-
	895.897.410	**802.783.420**	**1.698.680.830**
Financial liabilities			
Financial liabilities held for trading	-	**4.122.641**	**4.122.641**
Financial liabilities designated at FV	**800.754.251**	-	**800.754.251**
Hedging derivatives	-	**42.575.484**	**42.575.484**
	800.754.251	**46.698.125**	**847.452.375**

In EUR	Level 1	Level 2	Total
31 December 2017			
Financial assets			
Available-for-sale financial assets	549.626.437	-	**549.626.437**
Derivative financial assets	-	6.285.533	**6.285.533**
	549.626.437	**6.285.533**	**555.911.970**
Financial liabilities			
Derivative financial liabilities	-	65.386.884	**65.386.884**
		65.386.884	**65.386.884**

3.5 Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial positions, are:

- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored monthly by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and set as Regulatory Directive and Regulation by the European Parliament and Councel. The required information is filed with the ECB and CSSF on a quarterly basis.

In 2018 the ECB, after finalization of the SREP process, has set for the Bank a Minimum Total Capital ratio of 8% plus capital conservation buffer of 2,5%. The Bank's regulatory capital is composed of subscribed capital, reserves and retained earnings.

The risk-weighted assets are measured by means of risk weights classified according to the nature of − and reflecting an estimate of credit, market and other risks associated with − each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarises the composition of regulatory capital and the ratios of the Bank for the years ended 31 December. During those two years, the Bank complied with all of the externally imposed capital requirements to which it is subject.

	2018 EUR	2017 EUR
Global Regulatory Capital	**267.626.675**	**275.535.106**
Capital requirements	-	-
Capital requirement for the credit risk	858.039.577	985.217.998
Capital requirements for position, foreign exchange and commodities	141.751	293.282
Capital requirement for operational risk	41.687.506	45.196.916
Total capital requirement	**899.868.834**	**1.030.708.196**
Core Tier 1 (minimum being 8,00%)	**29,74%**	**26,73%**

4 Critical accounting estimates and judgments

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

(a) Fair value of unquoted financial instruments

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. The bank uses Group models for these calculations.

(b) Income taxes

The Bank is subject to income tax in Luxembourg. Estimates are required in determining the provision for income taxes. The provision has been calculated taking into account the applicable rate of 26,01% for the financial year.

(c) Defined benefit plan

The present value of the pension obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions used in determining the net cost/income for pensions include demographic assumptions, the discount rate, the inflation rate, expected rates of wage costs increase and expected cash flow linked to pension increases. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Bank determines the appropriate discount rate at the end of each year. This rate is used to determine the present value of estimated future cash flows expected to settle the pension obligations. In determining the discount rate, the Bank considers the interest rate of high-quality corporate bonds denominated in EUR and that have terms to maturity approximating the terms of the related pension liability. Assumptions and estimations are provided by an external insurance company. Additional information is disclosed in Note 17.1.

(d) Provisions

All provisions and potential litigations that the Bank could be involved in are analysed at each reporting date and adjusted to reflect the current best estimate. When necessary, legal advice is sought and provisions are recorded.

5 Cash, balances with central banks and other demand deposits

	AMOUNTS AS AT	
	31.12.2018	31.12.2017
a) Cash	2.432.323	997.735
b) Demand deposits with Central banks	5.913.700	7.998.000
Total	8.346.023	8.995.735

Cash and cash equivalent of the year as reported in the Cash Flow Statement also includes loans with banks below 3 months and overall sum up to EUR 81.853.902 (2017 EUR 381.147.088).

6 Derivative and Other Financial Assets at Fair Value through P&L

The Bank trades mainly in four types of derivatives:

- Credit Default Swap (which expired in 2018);
- Interest rate swaps;
- Cross currency Swap;
- Equity linked options.

No exchange of principal takes place, except for certain currency swaps. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms.

The aggregate contractual or notional amount of derivative financial instruments, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair value of derivative financial assets and liabilities, can fluctuate significantly from time to time. The fair values of derivative instruments held are set out below.

There were no changes in the level classification during the year.

The subordinated loans are mirroring the issued sub-ordinated debt issued in the market. As basis of the valuation of the loans, the Bank used the observed prices of this subordinated debt.

Financial assets held for trading: breakdown by product

(€)

ITEMS/VALUES	AMOUNTS AS AT 31.12.2018			AMOUNTS AS AT 31.12.2017		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
A. Financial assets (non-derivatives)						
Debt securities	**-**	**-**	**-**	**-**	**-**	**-**
Structured securities	-	-	-	-	-	-
Other debt securities	-	-	-	-	-	-
Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**
Units in investment funds	**-**	**-**	**-**	**-**	**-**	**-**
Loans	**-**	**-**	**-**	**-**	**-**	**-**
Reverse Repos	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total (A)	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivative instruments						
Financial derivatives	**-**	**1.983.232**	**-**	**-**	**5.777.455**	**-**
Trading	-	-	-	-	-	-
Linked to fair value option	-	-	-	-	-	-
Other	-	1.983.232	-	-	-	-
Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**
Trading	-	-	-	-	-	-
Linked to fair value option	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total (B)	**-**	**1.983.232**	**-**	**-**	**5.777.455**	**-**
Total (A+B)	**-**	**1.983.232**	**-**	**-**	**5.777.455**	**-**

At 31 December 2018 In EUR	Contract/ notional amount	Fair value	
		Assets	Liabilities
Equity linked note -Trading	414.600.000	1.983.232	4.122.641
Credit Default Swap -Trading	-	- -	- -
Interest rate Swaps - Hedging	959.800.000	- -	- 38.062.487
Cross currency swap -Hedging	67.732.322	- -	- 4.512.996
Total derivatives		**1.983.232**	**46.698.124**
Maturity >1 year	1.374.400.000	1.983.232	42.185.128
Maturity < 1 year	67.732.322	-	4.512.996
		1.983.232	**46.698.124**

At 31 December 2017 In EUR	Contract/ notional amount	Fair value	
		Assets	Liabilities
Equity linked note -Trading	414.600.000	5.415.021	8.664.839
Credit Default Swap -Trading	40.200.000	362.434	362.434
Interest rate Swaps - Hedging	644.900.000	432.844	56.359.611
Cross currency swap -Hedging	67.732.322	75.234	-
Total derivatives		**6.285.533**	**65.386.884**
Maturity >1 year	1.107.132.322	5.698.654	65.024.452
Maturity < 1 year	60.300.000	586.879	362.432
		6.285.533	**65.386.884**

In 2018 in consideration of the perfect matching of terms of assets and the corresponding issued subordinated liability, the Bank classified Loans which initially are concluded to fail SPPI criteria into FV P&L category. During 2018 the following issue securities expired: GBP 350 million non cumulative step-up Fixed/Floating rate subordinated notes.

Other financial assets mandatorily at fair value: breakdown by product

ITEMS/VALUES	AMOUNTS AS AT 31.12.2018			AMOUNTS AS AT 31.12.2017		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
Debt securities	-	-	-	-	-	-
Equity instruments	-	-	-	-	-	-
Units in investment funds	-	-	-	-	-	-
Loans	-	-	**800.800.188**	-	-	-
Subordinated loans	-	-	800.800.188	-	-	-
Total	-	-	**800.800.188**	-	-	-

7 Financial assets at fair value through other comprehensive income

	2018 EUR
Securities at FV/OCI	
Listed debt securities	895.897.410
Total securities at FV/OCI	**895.897.410**

	2018 EUR
At 1 January	549.626.437
Additions	549.542.005
Disposals (sale and redemption)	(182.735.250)
Changes in fair value allocated to profit or loss	11.050.041
Changes in fair value allocated to other comprehensive income	(26.005.770)
Change in accrued interest	(5.580.053)
At 31 December	**895.897.410**

	2018 EUR
At 1 January	11.318.133
(Increase) decrease in unrealised losses on FV/OCI portfolio	(26.005.770)
Deferred taxes	6.764.101
At 31 December	**(7.923.536)**

	2017 EUR
AFS Securities	
Listed debt securities	549.626.437
Total securities available for sale	**549.626.437**

	2017 EUR
At 1 January	788.801.688
Additions	-
Disposals (sale and redemption)	(202.264.718)
Changes in fair value allocated to profit or loss	(4.463.032)
Changes in fair value allocated to other comprehensive income	(47.008.142)
Change in accrued interest	(10.924.280)
Other Effect	25.484.921
At 31 December	**549.626.437**

	2017 EUR
At 1 January	44.099.467
(Increase) decrease in unrealised losses on FV/OCI portfolio	(47.008.142)
Change on rate for Deferred taxes (from 29,22% to 26,01%)	1.999.990
Deferred taxes	12.226.818
At 31 December	**11.318.133**

Please note that due to IFRS9 introduction, the above table was under the caption “Available for sale Financial Assets” (page 91 of 2017 F.S.).

8 Financial assets at amortised costs: Loans and advances to banks

Financial assets at amortised cost: breakdown by product of loans and advances to banks

	AMOUNTS AS AT 31.12.2018 BOOK VALUE	
	STAGE 1	STAGE 2 AND 3
Loans and advances to Central Banks	**5.913.700**	**-**
Other	5.913.700	-
Loans and advances to banks	**394.240.013**	**-**
Loans	394.240.013	-
Current accounts and demand deposits	2.486.902	-
Time deposits	391.753.111	-
Total	**400.153.713**	**-**
Loans to banks net of cash and loans to Cental Banks (note 5)	391.807.690	-

	AMOUNT AS at 31.12.2017 BOOK VALUE	
	STAGE 1	STAGE 2 AND 3
Loans and advances to Central Banks	**7.998.000**	**-**
Other	-	-
Loans and advances to banks	**2.010.699.253**	**-**
Loans	1.910.612.295	-
Current accounts and demand deposits	997.735	-
Time deposits	1.909.614.560	-
Debt securities	100.086.958	-
Structured	-	-
Other	100.086.958	-
Total	**2.018.697.253**	**-**
Loans to banks net of cash and loans to Cental Banks (note 5)	2.009.701.518	**-**

There were no changes between the stages during the year. For comparability purpose, in relation to IFRS9 transition, Loans to banks have been put in IFRS9 stage categories. Please refer also to note 2.1.5.

9 Financial assets at amortised costs: Loans and advances to customers

Financial assets at amortised cost:
breakdown by product of loans and advances to customers

	AMOUNTS AS AT 31.12.2018	
	BOOK VALUE	
	STAGE 1	STAGE 2 AND 3
Loans	**713.206.369**	**-**
Current accounts	700.855.276	-
Other loans	12.351.093	-
Debt securities	**49.871.798**	**-**
Structured securities	-	-
Other debt securities	49.871.798	-
Total	**763.078.166**	**-**

	AMOUNTS AS AT 31.12.2017	
	BOOK VALUE	
	STAGE 1	STAGE 2 AND 3
Loans	**966.561.253**	**-**
Current accounts	966.561.253	-
Other loans	-	-
Debt securities	-	-
Structured securities	-	-
Other debt securities	-	-
Total	**966.561.253**	-

For comparability purpose, in relation to IFRS9 transition, Loans to customers have been put in IFRS9 stage categories. Please refer also to note 2.1.5.

10 Tax assets

	Tax asset 2018		Tax asset 2017 (*)	
	Posted to P&L	Posted to Net Equity	Posted to P&L	Posted to Net Equity
Breakdown				
Financial assets and liabilities (different from Loans and Deposits)	2.616.947	4.527.565	1.778.569	-
Loans and advances to and deposits from banks and customers	59.778	-	89.800	-
Financial liabilities designated at FV/PL	8.348.235	-	28.768.391	-
Hedging and hedged item revaluation	8.463.008	-	5.915.056	-
Other assets and Other liabilities	-	395.595	-	388.793
Provisions, pension funds and similar	249.140	-	256.345	-
Total	**19.737.108**	**4.923.160**	**36.808.162**	**388.793**
TOTAL		**24.660.268**		**37.196.955**
Change				
Opening balance	**36.808.162**	**388.793**	**11.329.479**	**1.463.116**
Financial assets and liabilities (different from Loans and Deposits)	838.379	4.527.565	189.966	- 1.303.955
Financial liabilities designated at FV/PL	-20.420.157	-	28.768.391	-
Loans and advances to and deposits from banks and customers	- 30.023	-	89.800	-
Hedging and hedged item revaluation	2.547.952	-	- 3.825.819	-
Other assets and Other liabilities	-	6.802	256.345	229.632
Provisions, pension funds and similar	- 7.206	-	-	-
Closing balance	**19.737.108**	**4.923.160**	**36.808.162**	**388.793**
TOTAL		**24.660.268**		**37.196.955**

(*) 2017 balances have been recasted for comparative purpose

11 Property, plant and equipment

Property, plant and equipment used in the business: annual changes

	Changes in 2018		
	Office furniture and fittings	Electronic systems	Total
Gross opening balance	**287.417**	**256.655**	**544.072**
Total net reduction in value	(217.264)	(101.917)	(319.181)
Net opening balance	70.153	154.738	224.891
Increases	**6.993**	**1.446**	**8.439**
Purchases	6.993	1.446	8.439
Reductions	**8.627**	**22.504**	**31.131**
Depreciation	8.627	22.504	31.131
Net final balance	**68.519**	**133.680**	**202.198**
Total net reduction in value	(225.892)	(124.420)	(350.312)
Gross closing balance	294.411	258.100	552.511

12 Intangible assets

Intangible assets: annual changes

	CHANGES IN 2018					
	OTHER INTANGIBLE ASSETS					
	GENERATED INTERNALLY			OTHER		
	GOODWILL	FINITE LIFE	INDEFINITE LIFE	FINITE LIFE	INDEFINITE LIFE	TOTAL
Gross opening balance	**-**	**-**	**-**	**4.551.259**	**-**	**4.551.259**
Total net reduction in value	-	-	-	(1.015.543)	-	(1.015.543)
Net opening balance	**-**	**-**	**-**	**3.535.716**	**-**	**3.535.716**
Increases	**-**	**-**	**-**	**429.534**	**-**	**429.534**
Purchases	-	-	-	429.534	-	429.534
Reduction	**-**	**-**	**-**	**537.898**	**-**	**537.898**
Write-downs	-	-	-	537.898	-	537.898
- Amortisation	-	-	-	537.898	-	537.898
Net closing balance	-	**-**	**-**	**3.427.352**	**-**	**3.427.352**
Total net write-down	-	-	-	(1.553.441)	-	(1.553.441)
Gross closing balance	**-**	**-**	**-**	**4.980.793**	**-**	**4.980.793**

Intangible assets: breakdown by asset type

ASSETS/VALUES	AMOUNTS AS AT 31.12.2018		AMOUNTS AS AT 31.12.2017	
	Finite life	Indefinite life	Finite life	Indefinite life
Other intangible assets	**3.427.352**	**-**	**3.535.716**	**-**
Assets carried at cost	3.427.352	-	3.535.716	-
Assets measured at fair value	-	-	-	-
Total	**3.427.352**	**-**	**3.535.716**	**-**

Intangible assets are mainly related to software used by the Bank.

13 Other assets

	AMOUNTS AS AT	
	31.12.2018	**31.12.2017**
Accrued income other than capitalised income	2.502.181	959.462
Items in processing	24	7.531
Tax items	-	1.105.325
Total	**2.502.205**	**2.072.318**

14 Financial liabilities at amortised cost: Deposits from banks

	AMOUNTS AS AT 31.12.2018	AMOUNTS AS AT 31.12.2017
Deposits from banks	**709.357.447**	**1.036.689.066**
Time deposits	348.669.833	1.036.689.066
Loans	360.687.614	-
Repos	360.687.614	-
Total	**709.357.447**	**1.036.689.066**

15 Financial liabilities at amortised cost: Deposits from customers

	AMOUNTS AS AT 31.12.2018	AMOUNTS AS AT 31.12.2017
Current accounts and demand deposits	488.151.771	552.731.567
Time deposits	271.878.673	141.845.722
Total	**760.030.444**	**694.577.289**

16 Debt securities in issue & Financial liabilities designed at FV

	2018 EUR	2017 EUR
Non - cumulative Step-up Fixed/Floating Rate Subordinated notes (re-classified to FV/PL)	800.754.251	1.163.302.476
Credit linked notes	-	20.382.815
Equity linked notes	198.398.049	194.565.406
Senior notes	63.337.372	67.814.851
	1.062.489.672	**1.446.065.548**

	2018 EUR	2017 EUR
At 1 January	1.446.065.548	1.409.533.906
FTA IFRS 9	110.605.118	-
Issuance	-	86.654.000
Redemption	(415.112.322)	(30.996.769)
Change in fair value allocated to profit or loss	(81.418.409)	(2.566.537)
Change in accrued interest	5.839.487	1.075.289
Foreign exchange movements	(3.489.750)	(17.634.341)
At 31 December	**1.062.489.673**	**1.446.065.548**

In 2018, the Bank classified EUR 750 million Non-cumulative step-up Fixed/Floating rate subordinated notes in the category “Financial liabilities designed at fair value”. The Bank issued the following debt instruments (not yet arrived at maturity as at 31/12/2018):

Issuance Date	Debt Instruments	Stock Exchange	Nominal	Guaranteed by	Interest rate	Maturity Date
2016	10 Equity Linked Notes	N/A	EUR 37.0 million	Unicredit S.p.A.	N/A	2024
2015	12 Equity Linked Notes	N/A	EUR 79.4 million	Unicredit S.p.A.	N/A	2023
2017	7 Equity Linked Notes	N/A	EUR 60.9 million	Unicredit S.p.A.	N/A	2023
2017	2 Equity Linked Notes	N/A	EUR 30.0 million	Unicredit S.p.A.	N/A	2022
2014	Senior Note	Luxembourg	AUD 100.0 million	Unicredit S.p.A.	Fixed Rate	2019
2009	Non-cumulative step-up Fixed/Floating Rate Subordinated Notes	Luxembourg	EUR 750.0 million	Unicredit S.p.A.	Fixed Rate	Callable 2019

During 2018 the following debt securities expired:

- EUR 20,1 mn Credit Linked Notes
- GBP 350 mn Non cumulative step-up Fixed/Floating Rate subordinated notes

As per December 31, 2018 an amount of EUR 800.754.251 is shown in financial liabilities designed at FV.

All debt issued by the Bank are guaranteed by the parent company. Therefore a change in the Bank's own credit risk does not change the value of the issued debt and no entries are reported into OCI related to Own Credit Risk.

17 Provisions for risks and charges

ITEMS/COMPONENTS	AMOUNTS AS AT 31.12.2018	AMOUNTS AS AT 31.12.2017
Provisions for credit risk on commitments and financial guarantees given	48.095	-
Pensions and other post-retirement benefit obligations	909.766	983.488
Other provisions for risks and charges	678.000	1.050.000
Total	**1.635.861**	**2.033.488**

17.1 Commitments and guarantees given

In accordance with the new IFRS9 principles, in 2018 the Bank computed a EUR 48.095 loan loss provision related to customers' unused credit lines. There were no changes between the stages during the year.

17.2 Post Retirement benefit obligations

10 employees of the Bank (2017: 11) participate in four defined benefit plans set up and operated in accordance with Luxembourg law and regulations. The Bank has also two defined contribution plan for 36 employees.

	2018 EUR	2017 EUR
Balance sheet obligations for pension benefits	909.766	983.488
Income statement charged for pension benefits	97.048	75.853

The amounts recognised in the balance sheet are determined as follows:

	2018 EUR	2017 EUR
Present value of defined benefit obligations	1.258.481	1.223.746
Fair value of plan assets	(348.715)	(240.258)
	909.766	**983.488**
Unrecognised gains and losses	-	-
Liability in the balance sheet	**909.766**	**983.488**

The movement in the defined benefit obligation is as follows:

	2018 EUR	2017 EUR
Beginning of year	1.223.747	706.740
Integration of GFO	-	574.171
Interest cost	25.981	18.420
Current service cost	76.497	60.978
Actual benefit payments by the fund	(45.056)	(19.863)
(Gain) or loss on change of financial assumptions	10.707	(56.091)
(Gain) or loss on experience adjustment	(33.393)	(60.608)
End of year	**1.258.481**	**1.223.747**

The movement in the fair value of plan assets of the year is as follows:

	2018 EUR	2017 EUR
Beginning of year	240.258	162.042
Integration of GFO	-	61.738
Actual total benefit payments	(45.056)	(19.863)
Actual Bank contributions (including benefits paid directly	144.619	39.285
Interest income	5.430	3.545
Return on plan assets	3.465	(6.489)
Expected return on plan assets	-	-
Actuarial gain or (loss)	-	-
	348.715	**240.258**

The charges recognised in the statement of comprehensive income are as follows:

	2018 EUR	2017 EUR
Current service cost	76.497	60.978
Net interest cost:	31.411	21.965
- Interest cost on defined benefit plan	25.981	18.420
- Interest income on plan assets	5.430	3.545
Expected return on plan assets	-	-
Net actuarial losses recognised during the year	-	-
Total charges recognised and included in staff costs	**107.908**	**82.943**

The movement recognised in Other Comprehensive income is as follows:

	2018 EUR	2017 EUR
Beginning of year	1.494.785	1.384.575
Unrecognised gains and losses	-	-
(Gain) or loss on experience adjustment	33.393	60.608
(Gain) or loss on change of financial assumptions	(10.707)	56.091
Return on plan assets	3.465	(6.489)
	1.520.936	**1.494.785**

(Gain) or loss due to change on Demographic assumption is nil as at 31 December 2018 (2017: nil).

The actuarial assumptions used are as follows:

	2018 % p.a.	2017 % p.a.
Inflation rate	1,75	1,75
Discount rate	2,10	2,15
Expected rate of salary increases	2,00	2,00
Expected rate of social security increases	1,75	1,75
Longevity at age 65 (in years):	-	-
-Male	19,65	19,65
-Female	22,41	22,41

The mortality table is ERM90 for males and ERF90 for females.

As of 31 December 2018, sensitivity analysis is as follows:

	Increase	Increase
Discount rate (0,25% movement)	55.028	49.128
Future salary growth (0,25% movement)	217.258	143.836
Inflation rate growth (0,25% movement)	114.426	109.526
Future mortality (1 year movement)	4.819	7.101

Expected cash flow and other information as of 31 December 2018 are as follows:

Employer contributions to plan assets	178.341	55.222
Benefit payments from plan assets	55.412	30.663

As of 31 December 2018, the duration of the Defined benefit plan (liabilities) is 17,09.

17.3 Other provisions

Other provisions are mainly related to the restructuring of the activities of the Bank which were partially implemented in 2018.

18 Deferred income tax liabilities

Deferred income tax assets and liabilities are disclosed separately in the statement of financial positions. Applicable income tax rate is 26,01%. More details regarding the deferred tax assets is provided in the note 7 of these financial statements.

In EUR	Tax liabilities 2018		Tax liabilities 2017 (*)	
	Posted to P&L	Posted to Net Equity	Posted to P&L	Posted to Net Equity
Breakdown				
Financial assets and liabilities (different from Loans and Deposits)	3.412.566	1.742.173	2.289.748	4.005.964
Financial assets mandatorily at FV/PL	8.348.235	-	28.768.391	-
Hedging and hedged item revaluation	7.866.130	-	5.478.736	-
Other assets and Other liabilities	-	395.595	-	388.793
Total	**19.626.930**	**2.137.768**	**36.536.875**	**4.394.757**
TOTAL		**21.764.698**		**40.931.632**
Change				
Opening balance	**36.536.875**	**4.394.757**	**11.489.881**	**19.509.474**
Financial assets and liabilities (different from Loans and Deposits)	1.122.817	- 2.263.791	28.874.386	- 15.503.511
Financial assets mandatorily at FV/PL	-20.420.157	-	-	-
Hedging and hedged item revaluation	2.387.394	-	- 3.827.391	-
Retirement benefit obligations	-	-	-	388.793
Other	-	6.802	-	-
Closing balance	**19.626.930**	**2.137.768**	**36.536.875**	**4.394.757**
TOTAL		**21.764.698**		**40.931.632**

(*) 2017 balances have been recasted for comparative purpose

19 Other liabilities

	AMOUNTS AS AT	
	31.12.2018	**31.12.2017**
Accrued expenses other than those to be capitalised for the financial liabilities concerned	4.908.069	1.193.605
Payment agreements based on the value of own capital instruments classified as deposits pursuant to IFRS2	80.073	1.544
Other liabilities due to employees	2.416.315	2.313.819
Other liabilities due to other staff	792.437	1.742
Interest and amounts to be credited to Banks	809.165	521.265
Items in processing	133.274	122.402
Accounts payable / suppliers	1.431.371	1.420.966
Other Tax items	951.345	843.969
Total	**11.522.049**	**6.419.312**

Other liabilities to employees are mainly composed by salary and social charges payable and integration costs.

20 Share capital

The total number of ordinary shares in issue at year-end was 134.066 (2017: 133.333) with a par value of EUR 100 per share (2017: EUR 100 per share). The increase in the share capital is related to the FMINS project. All issued shares are fully paid.

21 Restricted reserves and other reserves

21.1 Restricted reserve

	AMOUNTS AS AT	
	31.12.2018	**31.12.2017**
Legal Reserve	1.340.660	1.000.000
Statutory Reserve	-	-
Other Reserves	-	-
Total	**1.340.660**	**1.000.000**

Under the Luxembourg Law, the Bank must appropriate to a restricted reserve an amount equivalent to at least 5% of the annual net profit until such reserve is equal to 10% of the share capital. This appropriation is made in the following year. Distribution of the restricted reserve is restricted for the proportion equal to 10% of the share capital.

21.2 Net wealth tax reserve

In accordance with paragraph 8a of the net wealth tax law, the Bank uses the possibility to reduce net wealth tax incurred during the financial year up to the amount of the tax on profit of the precedent year. Such a deduction is subject to the allocation of an amount equal to five times the reduced net wealth tax to a non-distributable reserve. The respective decision is taken at the Annual General Meeting of shareholders. Such a reserve is required to be maintained during 5 years.

The net wealth tax reserve for 2018 is EUR 26.012.470 (2017: EUR 35.695.123).

21.3 Share premium

The total share premium as at 31 December 2018 is EUR 205.644.462 and increased by EUR 100 compared to 2017 (EUR 205.644.362) following the partial demerge of the Fund Management and German Insurance business from UniCredit Luxembourg S.A..

21.4 Revaluation Reserve

The change in revaluation reserve comes from purchased and matured securities in 2018 and from the change in market value between 2018 and 2017 on the FV/OCI portfolio (more details are provided in the Statement of changes in equity).

	AMOUNTS AS AT	
	31.12.2018	**31.12.2017**
Financial Assets (other than equity instruments) at fair value through other comprehensive income	(7.923.532)	11.318.133
Actuarial gains (losses) on defined-benefit plans	1.125.339	1.105.990
Total	**(6.798.193)**	**12.424.123**

21.5 Other reserves

The change is due to the profit brought forward in previous years results and to the FTA for IFRS9.

22 Net interest income

22.1 Interest income and similar revenues: breakdown

	YEAR 2018			
	DEBT SECURITIES	LOANS	OTHER TRANSACTIONS	TOTAL
Financial assets at fair value through profit or loss	**-**	**40.636.939**	**220.069**	**40.857.008**
Financial assets held for trading	-	-	220.069	220.069
Other financial assets mandatorily at fair value	-	40.636.939	-	40.636.939
Financial assets at FV/OCI	**13.027.494**	**-**	-	**13.027.494**
Financial assets at amortised cost	**319.174**	**12.336.473**	-	**12.655.647**
Loans and advances to banks	168.969	3.644.485	-	3.813.454
Loans and advances to customers	150.205	8.691.988	-	8.842.192
Hedging derivatives	**-**	**-**	**12.172.786**	**12.172.786**
Financial liabilities (negative interest rates)	**-**	**-**	**1.902.075**	**1.902.075**
Total	**13.346.668**	**52.973.412**	**14.294.930**	**80.615.010**
of which: interest income on impaired financial assets	-	-	-	-

	YEAR 2017			
	DEBT SECURITIES	LOANS	OTHER TRANSACTIONS	TOTAL
Financial assets at fair value through profit or loss	-	-	554.947	**554.947**
Financial assets held for trading	-	-	554.947	**554.947**
Other financial assets mandatorily at fair value	-	-	-	**-**
Financial assets at FV/OCI	**12.735.332**	**-**	**-**	**12.735.332**
Financial assets at amortised cost	**1.056.009**	**98.842.584**	**-**	**99.898.593**
Loans and advances to banks	1.056.009	86.319.977	-	87.375.986
Loans and advances to customers	-	12.522.607	-	12.522.607
Hedging derivatives	**-**	**-**	**15.173.223**	**15.173.223**
Financial liabilities	**-**	**-**	**-**	**-**
Total	**-**	**-**	**-**	**128.362.095**
of which: interest income on impaired financial assets	-	-	-	-

22.2 Interest expenses and similar charges: breakdown

22.2 Interest expenses and similar charges: breakdown

	YEAR 2018			
	DEBTS	SECURITIES	OTHER	TOTAL
Financial liabilities at amortised cost	**(789.571)**	**(6.350.978)**	**-**	**(7.140.549)**
Deposits from banks	(206.051)	-	-	(206.051)
Deposits from customers	(583.520)	-	-	(583.520)
Debt securities in issue	-	(6.350.978)	-	(6.350.978)
Financial liabilities held for trading	**-**	**-**	**(231.143)**	**(231.143)**
Financial liabilities designated at fair value	**-**	**(40.490.588)**	**-**	**(40.490.588)**
Hedging derivatives	**-**	**-**	**(19.885.189)**	**(19.885.189)**
Financial assets (negative interest rates)	**-**	**-**	**(1.069.250)**	**(1.069.250)**
Total	**(789.571)**	**(46.841.566)**	**(21.185.582)**	**(68.816.719)**

	YEAR 2017			
	DEBTS	SECURITIES	OTHER	TOTAL
Financial liabilities at amortised cost	**(35.818.924)**	**(55.201.278)**	**-**	**(91.020.202)**
Deposits from banks	**(1.555.011)**	-	-	(1.555.011)
Deposits from customers	**(34.263.913)**	-	-	(34.263.913)
Debt securities in issue	-	**(55.201.278)**	-	(55.201.278)
Financial liabilities held for trading	**-**	**-**	**(107.000)**	**(107.000)**
Financial liabilities designated at fair value	**-**	**(1.299.608)**	**-**	**(1.299.608)**
Hedging derivatives	**-**	**-**	**(19.593.631)**	**(19.593.631)**
Financial assets	**-**	**-**	**-**	**-**
Total	**(35.818.924)**	**(56.500.886)**	**(19.700.631)**	**(112.020.441)**

23 Net fee and commission income

23.1 Fees and commissions income: breakdown

	YEAR 2018	YEAR 2017
Management, brokerage and consultancy services	8.240.127	4.657.609
Securities trading	896.818	486.204
Currency trading	72.021	91.382
Portfolio management	729.699	611.647
Individual	160.286	458.364
Collective	569.413	153.283
Custody and administration of securities	1.473.684	1.661.975
Placement of securities	459.726	-
Reception and transmission of orders	327.436	157
Advisory services	1.693.019	1.069.397
Relating to investments	1.693.019	1.069.397
Distribution of third party services	2.587.724	736.847
Insurance products	2.587.724	1.195.211
Management of current accounts	75.531	95.799
Other services	2.300	148.287
Total	**8.317.959**	**4.901.695**

23.2 Fees and commissions expenses: breakdown

	YEAR 2018	YEAR 2017
Guarantees received	(1.397.422)	(1.629.169)
Management, brokerage and consultancy services	(2.251.298)	(2.023.176)
Trading financial instruments	(11.125)	(78.633)
Portfolio management	(922.199)	(791.480)
Own portfolio	(922.199)	(791.480)
Custody and administration of securities	(803.867)	(1.153.063)
Off-site distribution of financial instruments, products and services	(514.108)	-
Collection and payment services	(52.306)	-
Other services	(1.003.023)	(55.901)
Total	**(4.704.049)**	**(3.708.246)**

24 Net gain on trading income

	2018 EUR	2017 EUR
Net gain(loss) on derivatives equity linked notes	1.238.587	142.417
Gain(loss) on foreign exchange transactions	(44.745)	101.991
	1.193.842	**244.408**

25 Other operating income/expense

The position includes:

a) Gains on disposal of financial assets at fair value through profit and loss
b) Net gains (losses) on hedge accounting
c) Net gains (losses) on other financial assets/liabilities at FV/PL
d) Other operating expenses/income

25.1 Gains on disposal of financial assets at fair value through profit and loss

During the year the Bank sold EUR 90 million of Spain Government Securities, EUR 50 million of Italian BOT and EUR 25 million EFSF, realizing a gain of EUR 7.211.977.

25.2 Net gains (losses) on hedge accounting

The Bank hedges part of its existing interest rate risk resulting from any potential decrease in the fair value of fixed rate assets and liabilities using interest rate swaps. As at 31 December 2018, the impact on the P/L coming from hedge accounting was EUR 34.813.

25.3 Net gains (losses) on other financial assets/liabilities at FV/PL

During 2018 the Bank accounted for the following net gains (losses) on other financial assets/liabilities at fair value through profit or loss:

	YEAR	
	2018	2017
Net gains (losses) on other financial assets/liabilities at fair value through profit or loss:	22.611	-
financial assets/liabilities designated at fair value	78.508.859	-
other financial assets mandatorily at fair value	(78.486.248)	-

25.4 Other operating expenses/income

Other operating income/expenses mainly includes net wealth tax for the year 2018 (EUR 1.284 thousand).

26 Gains of Equity investments

The 2017 result was mainly related to the dissolution of the Bank's subsidiary UniCredit Finance (UCF). During 2017 the Bank also sold two non-performing loans with a result of EUR 7.668.

	YEAR 2018	YEAR 2017
Net revenues UCF	-	163.932
Net expenses UCF	-	(214.256)
Pre-tax profit UCF	-	(50.324)
Tax UCF	-	(4.962)
Profit/Loss of the year UCF	-	(55.286)
Retained earnings UCF	-	1.081.402
Gain reconised on measurement to fair value	-	**1.026.116**

27 Staff costs

	YEAR 2018	YEAR 2017
Employees	**(5.269.702)**	**(4.953.610)**
Wages and salaries	(4.168.536)	(2.377.749)
Social charges	(189.809)	(232.597)
Payments to external pension funds	(621.799)	(270.284)
- Defined contribution	(621.799)	(270.284)
Costs arising from share-based payments	(78.529)	-
Other employee benefits	(211.029)	(2.072.980)
Other staff	**(701)**	**(87.406)**
Supervisory Board Members	**(60.000)**	**(55.000)**
Total	**(5.330.403)**	**(5.096.016)**

In 2018, the increase of personnel expenses is due to the implementation of the staff-plan needed for the re-insource of activities previously performed by UCL. In 2017, other staff costs were mainly related to the restructuring of the activities of the bank, following the GFO project.

	AMOUNTS AS AT	
	31.12.2018	31.12.2017
Employees	**52**	**37**
Senior managers	3	3
Managers	15	11
Remaining employees staff	34	23
Other Staff	**-**	**-**
Total	**52**	**37**

Remuneration paid during the year 2018 to Management and other executives of the Bank (overall 18 persons during 2018) amounted to EUR 2.727.359 (2017: overall 16 persons, EUR 1.429.566). Remuneration paid during the year 2018 to members of the Supervisory Board amounted to EUR 60.000 (2017: EUR 55.000).

The Shareholders General Meeting appointed on 21 June 2017 (with effect as from 1 July 2017) six members of the Supervisory Board:

- Mr Patrick SANTER — President of the Supervisory Board, Lawyer and member of the Conseil d'Etat of the Grand-Duchy of Luxembourg
- Mr Olivier KHAYAT — Vice-President of the Supervisory Board, Co-Head of CIB Division at UniCredit S.p.A.
- Mr Stefano CECCACCI — Head of Tax Affairs at UniCredit S.p.A.
- Ms Michaela EHRHARDT — CEO at UniCredit Luxembourg S.A. until September 2018, Head of Group Rating Desk, Group Credit Risk Governance at UniCredit S.p.A. as from October 2018

- Mr Davide MEREGHETTI Head of Global Family Office at UniCredit S.p.A.
- Mr Ivan TARDIVO Head of CIB HR at UniCredit S.p.A.

Mr Davide MEREGHETTI resigned from his functions of member of the Supervisory Board of our Bank on 8 May 2018.

The Supervisory Board appointed on 1 July 2017 three members of the Management Board, who were in office from 1 January to 31 December 2018:

- Dr Joachim BECKERT President of the Management Board, Chief Executive Officer
- Mr Flavio BONOMO Head of GFO&WM and General Manager
- Mr Luigi COLAVOLPE Chief Financial Officer and General Manager

28 Other administrative expenses

	YEAR 2018	YEAR 2017
Contributions to Resolution Fund and FGDL	**(518.483)**	**(378.871)**
Miscellaneous costs and expenses	**(7.438.367)**	**(9.727.423)**
Advertising marketing and communication	(21.044)	(82.267)
Indirect expenses relating to personnel	(304.763)	(148.142)
Information & Communication Technology expenses	(1.568.320)	(1.819.470)
Lease of ICT equipment and software	(16.059)	(14.940)
Software expenses: lease and maintenance	(1.194.194)	(1.541.843)
ICT communication systems	(43.794)	(28.938)
Financial information providers	(314.273)	(233.749)
Consulting and professionals services	(509.245)	(2.253.088)
Consulting	(394.737)	(1.569.735)
Legal expenses	(114.508)	(683.353)
Real estate expenses	(629.973)	(453.457)
Premises rentals	(615.394)	(442.778)
Utilities	(4.779)	(10.679)
Other real estate expenses	(9.800)	-
Operating costs	(4.405.021)	(4.970.999)
Money counting services and transport	-	(2.098)
Printing and stationery	(216.594)	(56.270)
Postage and transport of documents	(61.814)	-
Administrative and logistic services	(3.514.164)	(4.580.954)
Insurance	(33.630)	(9.134)
Association dues and fees and contributions to the administrative expenses deposit guarantee funds	(578.042)	(229.037)
Other administrative expenses - other	(778)	(93.506)
Total	**(7.956.850)**	**(10.106.294)**

29 Income tax expense

	2018 EUR	2017 EUR
Current tax	(2.600.663)	(1.173.478)
Deferred tax	(154.307)	137.189
	(2.754.970)	**(1.036.289)**

	2018 EUR	2017 EUR
Profit before tax	9.204.933	2.127.089
Net Wealth tax	(1.284.000)	(811.416)
Tax calculated at the Luxembourg tax rate	(2.728.171)	(795.747)
Tax effect of deductible differences	(26.799)	(240.542)
	(2.754.970)	**(1.036.289)**

The effect of deductible differences is due to diverging tax valuation and depreciation rules leading to increased deductions for the current period. The income tax rate of the Bank for current and deffered taxes in 2018 was 26,01% (2017: 27,08%).

30 Net provisions for risks and charges

	YEAR	
	2018	**2017**
Net provisions for risks and charges:	(46.019)	(1.050.000)
commitments and financial guarantees given	(46.019)	-
other net provisions	-	(1.050.000)

31 Net recoveries on credit impairments

	YEAR	
	2018	**2017**
Net losses/recoveries on credit impairment relating to:	98.195	-
financial assets at amortised cost	113.977	-
financial assets at fair value through other comprehensive income	(15.782)	-

32 Related party transactions

The Bank is controlled by UniCredit S.p.A., which owns 100% of the ordinary shares. Related parties of UniCredit Banking Group (UC group) are:

- Controlled companies, joint ventures and associated companies of UC group managers with strategic responsibilities (those include: UC BoD, Executive Management Committee, Head of Internal Audit and Board of Statutory Auditors);
- Close relatives which might influence the manager of a company by his/her relation with UniCredit (those could be spouses and live-in partners, own children and children of spouses and live-in partners);
- Companies which are controlled by people out of the UC group who may have significant influence;
- Pension funds of UniCredit S.p.A..

Transactions with related parties are always conducted at market rates. A number of banking transactions are entered into with the related parties in the normal course of business. These include loans, deposits and derivative instruments.

The outstanding balances at year-end and related expense and income for the year are as follows:

Related-party transactions: profit and loss items In EUR	2018 TOTAL P&L ITEM	2017 TOTAL P&L ITEM
Operating income	23.875.450	84.965.477
Operating costs	(14.199.682)	(55.224.572)

Related-party transactions: balance sheet items In EUR	2018 TOTAL BS ITEM	2017 TOTAL BS ITEM
Total - Assets	842.455.726	1.450.869.970
Total - Liabilities	794.196.089	1.166.348.128

33 Fees billed by the *Réviseur d'Entreprises Agréé* and its network

The fees (VAT included) recorded in the financial year under other administrative expenses for the independent statutory auditor Deloitte Audit S.à r.I., Luxembourg and for the affiliated companies of its international associations breaks down as follows:

	2018	**2017**
Statutory audit of financial statements	227.858	199.106
Other audit services	-	157.950
	227.858	**357.056**

34 Deposit guarantee scheme

The Bank is member of the "Fonds de garantie des dépôts Luxembourg" (FGDL), introduced by the law of 18 December 2015 to enact in national law the EU Directive of the European Parliament 2014/49/EU, which established a Deposit Guarantee Scheme (DGSD).

FGDL will cover eligible deposits of each depositor up to an amount of EUR 100.000. The Law also provides that deposits resulting from specific transactions or fulfilling a specific social or other purpose are covered for an amount above EUR 100.000 for a period of 12 months. To be funded until a target level of 0,8% of covered deposits, as defined in article 163 number 8 of the Law, FGDL is collecting annual contributions of the relevant credit institutions until end of 2018. When the level of 0,8% is reached, the Luxembourgish credit institutions should continue to contribute for 8 additional years in order to constitute an additional safety buffer of 0,8% of covered deposits as defined in article 163 number 8 of the Law.

Covered deposits at year end summed up to EUR 8,6 million In 2018 the Bank contributed with EUR 25 thousands to FGDL for DGSD.

The Bank is reporting yearly to *Système d'indemnisation des investisseurs Luxembourg* (SIIL).

35 Single Resolution Mechanism

The law of 18 December 2015 Luxembourg transposed EU Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms ("BRRD") into local law. With the directive authorities should be provided with comprehensive and effective arrangements to deal with failing banks at national level and to be able to handle in cooperation cross-border banking failures. One measure is the setup of national resolution funds funded by the contribution of all financial institutions based on their size and risk profile.

The Bank's contribution to the national resolution fund in 2018 amounted to EUR 0,5 million.

36 Advances and loans granted to the members of the administrative, managerial and supervisory bodies

There were no advances nor loans granted to the members of the administrative, managerial and supervisory bodies.

37 Events after the reporting period

No events which could have a material influence on the financial position, results of operations or cash flows occurred between the balance sheet date and the date on which the financial statements were drawn up. Mr Favio Bonomo informed about his resignation from the function of Management Board member, effective as from 28 February 2019.